

NEW ZEALAND ECONOMICS MARKET FOCUS

21 October 2011

INSIDE

Economic Overview	2
2011Q3 CPI Preview	5
PREFU 2011 Preview	6
October OCR Preview	7
Interest Rate Strategy	8
Currency Strategy	9
Data Event Calendar	10
Data Watch	12
Key Forecasts	13

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com

Khoon Goh
Head of Market Economics and Strategy
Telephone: +64 4 802 2357
E-mail: Khoon.Goh@anz.com

David Croy
Senior Interest Rate Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 4 576 1062
E-mail: Sharon.Zollner@anz.com

Mark Smith
Economist
Telephone: +64 4 802 2199
E-mail: Mark.Smith2@anz.com

Steve Edwards
Economist
Telephone: +64 9 357 4065
E-mail: Steve.Edwards@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

CRUNCH TIME

ECONOMIC OVERVIEW

Looking at the global scene we are becoming increasingly sceptical about prospects for a sustainable and credible plan for Europe. While US data is taking on a better tone, the reality is that the risk profile internationally is down as opposed to up, and we continue to closely monitor key transmission mechanisms to New Zealand. Next week will show the need for fiscal austerity, how businesses are assessing prospects and a repeat of September's "kick for touch" strategy by the RBNZ.

CPI PREVIEW

We expect a 0.8 percent quarterly increase in the CPI, which is marginally above the median market and September *MPS* pick. Cost-push factors contribute the bulk of inflation, with the food and housing groups accounting for half of the quarterly increase. Annual underlying core inflation measures are expected to average around 2.5 percent. Their annual rate of core inflation is enough to leave the RBNZ somewhat watchful, but not so much as to diminish their flexibility to maintain a cautious OCR line – for now. The challenge here may come with the Q4 figures.

PRE-ELECTION ECONOMIC AND FISCAL UPDATE PREVIEW

Tuesday's PREFU will show that Government remains committed to returning to surplus, but we suspect at least a year later than envisaged in May. This is unlikely to unduly concern markets or ratings agencies. Heading into the election all political parties are in a fiscal straitjacket.

OCR PREVIEW

We expect the RBNZ to leave the OCR unchanged at 2.5 percent next Thursday. With "tail risks" of a global downturn remaining, the RBNZ will continue to proceed cautiously, with policy set to remain on hold until global risks recede. However, we expect the statement to remind the market that the OCR is extraordinarily low, and that in the absence of a global slump impacting New Zealand in a non-mild manner, it will still need to move higher. The precise timing of this remains fluid.

INTEREST RATE STRATEGY

Global markets are pinning high hopes on this weekend's European debt summit. There is no doubt that a plan is in the making, but will it provide a solution? We'd be surprised if it did. Closer to home, inflation data here and in Australia will set the scene. The key surprise of the week may be a CPI result in Australia that is insufficiently low to ratify a market gunning for a cut by the RBA.

CURRENCY STRATEGY

FX markets continue to be driven by headlines, and this weekend's EU summit is providing the focus for the next week. There is a sense of déjà vu as we expect the summit communiqué to be full of talk, but it may once again prove to be a mirage by the end of next week. US data is turning positive, but these releases continue to be overshadowed by the European situation. Australian and NZ CPI releases next week will set the tone down under.

ECONOMIC OVERVIEW

SUMMARY

Looking at the global scene we are becoming increasingly sceptical about prospects for a sustainable and credible plan for Europe. While US data is taking on a better tone, the reality is that the risk profile internationally is down as opposed to up, and we continue to closely monitor key transmission mechanisms to New Zealand. Next week will show the need for fiscal austerity, how businesses are assessing prospects and a repeat of September's "kick for touch" strategy by the RBNZ.

FORTHCOMING EVENTS

SNZ Consumers Price Index – Q3 (Tuesday, October 25, 10:45am). We expect a 0.8 percent increase (5.0 percent y/y). See our preview on page 5.

Pre-Election Economic and Fiscal Update (Tuesday, October 25, 2.30pm). A return to surplus by 2015/16, courtesy of expenditure restraint. See our preview on page 6.

National Bank Business Outlook – October (Wednesday, October 26, 1:00pm).

RBNZ OCR Review (Thursday, October 27, 9:00am). Holding the OCR at 2.5 percent is almost a done deal. See our preview on page 7.

SNZ Merchandise Trade – September (Thursday, October 27, 10:45am). A monthly deficit of \$430m is expected, with the annual trade surplus holding up at \$1.1bn.

WHAT'S THE VIEW

Crunch time is looming over the next week, and we are not just talking about the Rugby World Cup. This weekend's EU summit has been talked up (and down by some), yet it is crucial that talk be backed up by resolute action to show that policymakers are going to "walk the walk". As the realities of trying to push through politically challenging reforms in a consensus-driven environment have become more apparent, so too have the inevitable delays, with a second summit to now be held next week.

We are in no doubt a plan of sorts is pending. The status quo and doing nothing is untenable. The critical elements of any plan include bank recapitalisation, ring-fencing the periphery from the core, and an expanded European Financial Stability Facility (EFSF). Realistically, we think the latter means quantitative easing. The ECB also needs to cut rates as a symbolic gesture.

The challenges are four-fold. We've been harping on about these issues for a while so this may read like a broken record, but they are still critical.

- **Will we see a political consensus?** Game theory tells us self interest is likely to dominate the wider group interest. Or put another way, it's Eurozone interest versus individual country interest. Good luck getting a consensus.
- **How do you block adverse feedback effects?** These include the potential for scaled-up relief packages to cause sovereign downgrades, as well as the impact of necessary fiscal retrenchment on growth.
- There is a silver bullet to fix the crisis: it is called sustained growth. **Insufficient growth (relative to borrowing costs) can be ruinous when public debt levels are high.** Pockets of Europe are heading down this route. For example, the table below shows what the primary surplus would need to be for Italy to deliver a sustainable government debt to GDP ratio (arbitrarily defined as 60 percent of GDP) in 10 years, under different assumptions for average GDP growth and bond rates. It's pretty clear that growth needs to be high and interest rates need to be low. Yet both look like challenges for Italy right now. The chart overleaf shows what our financial conditions measure is implying for Italian GDP. Years of harsh austerity lie ahead, even under a best-case scenario. The greater the GDP-yield "gap" the greater the risk of the debt trap unfolding.
- **How do you instigate fiscal union in Europe,** which implicitly involves ceding democratically elected sovereign power to some centralised function?

ITALY					
REAL 10 YR YIELDS	REAL GDP GROWTH				
	0.00	0.50	1.00	1.50	2.00
5.00	8.3	7.8	7.4	7.0	6.6
4.00	7.4	7.0	6.6	6.1	5.7
3.00	6.6	6.1	5.7	5.3	4.9
2.00	5.7	5.3	4.9	4.5	4.1
1.00	4.9	4.5	4.1	3.6	3.2
0.00	4.1	3.6	3.2	2.8	2.4

% of GDP: primary balance 2011: +2.3%. Net govt debt 2011: 100.6%

ECONOMIC OVERVIEW



These factors leave us sceptical over the ability of any package to be both enduring and sustainable. We'll see something but are dubious whether it is feasible in practice to be enough.

To be fair, global developments have been far from one-way traffic, though watching the business news has been about as uplifting as a coroner's retirement speech. The tenor of US data is looking better. Chinese GDP growth (9.1 percent y/y) was lower than expected, but is still remarkably strong. However, there are growing anecdotes emerging from China about real tensions, pressure on the manufacturing sector, and a receding property market. Hard commodity prices are under a lot of pressure, with the extent of this only starting to emerge in areas such as copper (down 31 percent since July), iron ore and coal. Recall that part of China's response to the GFC was a massive uplift in credit growth (of around 50 percent). One wonders how much ended up as white elephants. We're secular bulls on the China / Asia story but are also in the "coupled" as opposed to "decoupled" camp on how the region can perform in the absence of decent domestic demand in the west.

New Zealand has been remarkably resilient to global events. We can eye the leading gauges such as confidence, which are holding up for now, and real-time indicators such dairy prices, which actually increased at last week's GlobalDairyTrade auction. Such dynamics give us a lot of encouragement regarding where New Zealand is placed in a relative sense (emphasis on the word relative for we are not immune). However, when you are seeing developments moving quickly, you need to increasingly turn to anecdotes to get a feel for what is occurring. On that front, **we're detecting more scratchiness and signs of negative flow-through from the global scene.**

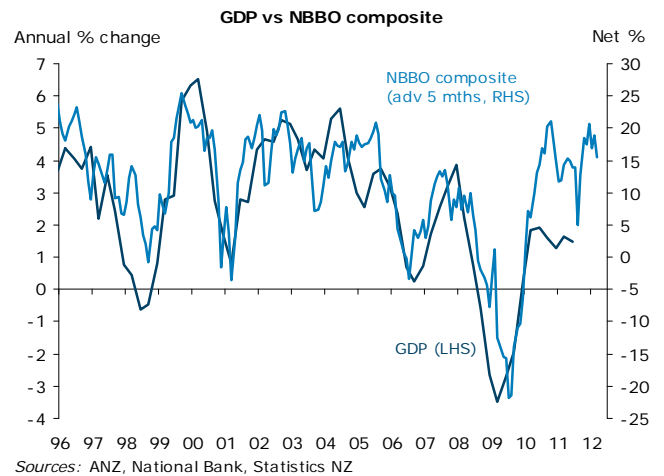
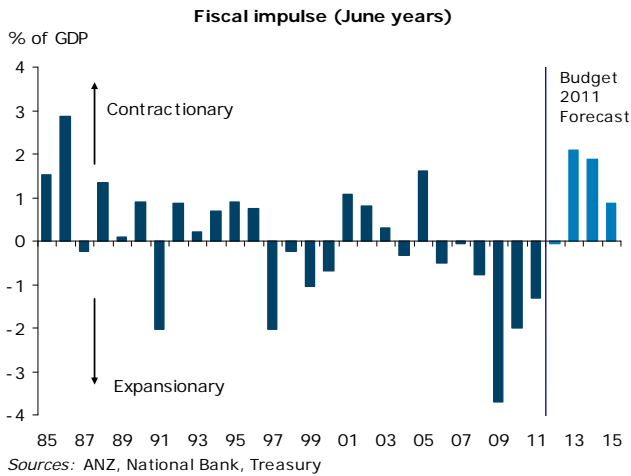
In such an environment, this week's OCR Review will provide an indication as to how much credence the RBNZ are giving to global concerns. We expect it's a lot! On domestic considerations alone there is certainly a case for moving the OCR higher, but not just yet, with the global economy remaining centre stage.

There was a time when the release of local quarterly inflation data would dominate market attention. **Next week's Q3 CPI print is expected to play second fiddle to global concerns, though it will influence to some degree how much flexibility the RBNZ has going forward.** The worst possible scenario for the RBNZ would be reasonably strong headline inflation numbers for Q3 and Q4 2011, meaning inflation does not swiftly fall back inside the 1-3 percent band after the October 2010 lift in GST falls out of the headline measure. We see some risk of this.

We expect a 0.8 percent increase in the Q3 CPI, with downside risks around our pick. Rather than quibble over the exact magnitude of the CPI, the spirit of our assessment is that the mix of demand, supply and expectations-based factors is likely to contribute to a sticky element to inflation. We say sticky because in a soft growth environment core inflation is still above the middle of the policy band. Inflation is not front of brain for policymakers at present, but looks set to become an issue that the RBNZ will have to resolve in 2012.

With a general election more than one month away, this weekend's pre-election economic and fiscal update is expected to show that the menu of options is limited. Both sides of the political spectrum will find themselves in a fiscal straightjacket for years to come. Returning the books to surplus is probably the quickest way of narrowing the nationwide saving and investment gap, but it will need to be delivered in such a way that monetary policy will help cushion the economic impact. This is a luxury that not all OECD countries have at present.

ECONOMIC OVERVIEW



There is a lot of speculation we may see another credit downgrade over the coming weeks. Moody's currently have New Zealand on a AAA rating, compared to S&P and Fitch who have us two notches lower on AA. In our view, New Zealand is still triple A on the fiscal side, but out of sorts with that group purely on account of our net external liability position which, given the global scene at present, is under the spotlight. **Moody's playing catch-up and lowering us a notch seems more than likely.** Will we be concerned? No. Rating agencies are taking a firmer line. Moving a notch is no big deal when you see other nations moving a couple at a time and remaining on a negative outlook! However, the message conveyed by a downgrade should not be overlooked. New Zealand has to get its house in order. Savings, real productive investment and rebalancing are the hallmarks of where we are headed.

One of the phrases we have recently used to characterise the New Zealand outlook has been "relative resilience". Wednesday's National Bank Business Outlook will show whether firms remain resolutely upbeat, or if global grumbles and the looming end of the Rugby World Cup are starting to chip away at this bravado. **We will pay close attention to the medium-term building blocks for growth, namely employment and investment intentions.**

Merchandise Trade data will confirm another large annual trade surplus, but cracks are starting to appear in the facade. We continue to look for signs of strengthening capital goods imports, as this will confirm the process of capacity building is continuing. The flipside will be a decline in the share of consumption goods. This is the counter to the sort of adjustment that the Chinese economy needs to make for the sake of the global economy.

RECENT LOCAL DATA

GlobalDairyTrade auction. Dairy prices rose 1.7 percent to an average of US \$3,540/tonne. Wholemilk powder prices rose 5.7 percent, with skim milk powder prices up 3 percent.

SNZ International Travel and Migration - September. A net permanent and long-term outflow of 660 persons s.a. was seen. Overseas visitor arrivals surged 18.1 percent s.a., underpinned by the arrival of 74,400 Rugby World Cup visitors.

RBNZ Credit Card Billings – September. Credit card billings rose a seasonally adjusted 1.6 percent m/m (5.2 percent y/y) underpinned by a 70.6 percent m/m increase in overseas card spending.

2011Q3 CPI PREVIEW

SUMMARY

We expect a 0.8 percent quarterly increase in the CPI, which is marginally above the median market and September MPS pick. Cost-push factors contribute the bulk of inflation, with the food and housing groups accounting for half of the quarterly increase. Annual underlying core inflation measures are expected to average around 2.5 percent. Their annual rate of core inflation is enough to leave the RBNZ somewhat watchful, but not so much as to diminish their flexibility to maintain a cautious OCR line – for now. The challenge here may come with the Q4 figures.

CONSUMERS PRICE INDEX – SEPTEMBER 2011 QUARTER

(Due Tuesday, 25 October, 10:45am)

	Headline CPI		Tradable		Non-tradable	
	Qtrly % chg	Ann % chg	Qtrly % chg	Ann % chg	Qtrly % chg	Ann % chg
Mar-10	0.4	2.0	0.1	2.0	0.5	2.1
Jun-10	0.2	1.7	-0.3	1.0	0.6	2.2
Sep-10	1.1	1.5	0.9	0.3	1.2	2.5
Dec-10	2.3	4.0	2.5	3.3	2.2	4.6
Mar-11	0.8	4.5	0.5	3.7	1.1	5.2
Jun-11	1.0	5.3	1.5	5.5	0.6	5.2
ANZ	0.8	5.0	0.6	5.2	1.0	5.0
Market	0.7	4.9	-	-	-	-
RBNZ	0.7	4.9	-	-	-	-

We expect a 0.8 percent quarterly increase in the Q3 CPI index, taking annual CPI inflation to 5.0 percent. This compares with a 0.7 percent increase forecast in the September MPS (4.9 percent y/y).

A number of cost push elements underlie our Q3 pick:

- The usual seasonal pattern plus unseasonably bad weather are behind the 1.8 percent increase in food prices. This will contribute 0.3 percentage points to quarterly CPI inflation.
- Higher construction costs, local authority rates and a further modest lift in rents are expected to deliver a 1.2 percent increase in the housing group. Rising raw material and labour costs look set to push up construction costs at a time when the capacity of the sector looks set to be sorely tested by earthquake reconstruction work.
- The CPI indexation for excise duty from July would, all else equal, add 4.5 percent to alcohol prices. We expect retail prices to move by about one-third of that, given retail discounting.

Other cost increases (including sizeable increases for dwelling insurance) will not flow through until Q4. Abstracting from these cost push influences, a key

judgement we have made is that the soft demand environment will exert downward pressure on prices, particularly for consumer durables and apparel. There will also be other price falls, notably for petrol (which will contribute -0.1 percentage points), a sign that not all is well in the global economy.

We also expect the Q3 CPI to show little evidence of a “Rugby World Cup” premium being charged. Accommodation services and package holidays, as well as domestic and international airfares, are expected to show only modest increases.

The Q3 CPI will be based on the new CPI regimen weights. While the new weights are broadly as expected given relative price movements, we would not rule out the possibility of statistical quirks delivering the odd surprise. The rebase has delivered the RBNZ an early Christmas present by reducing the weight on CPI construction costs, thereby mitigating a key source of upside medium-term inflation risk.

We expect quarterly Q3 core inflation measures to range from 0.5 to 0.7 percent. Our own estimates suggest annual underlying inflation of around 2.5 percent in Q3. The fact that the OCR is still at 2.5 percent despite inflation metrics suggesting persistently above-target core inflation tells us that the RBNZ is not solely focused on inflation itself.

The risks around our 0.8 percent pick for the Q3 CPI are on the downside, given the signal provided by our Monthly Inflation Gauge (0.3 percent), and the possibility of more retail discounting than assumed. However, looking over the next 12 to 18 months there are upside inflation risks from a combination of cost, demand, and inflation expectations angles. The next move in the OCR will be up.

THE UPSHOT

With global concerns front and centre, next week’s inflation data is unlikely to generate as much market reaction as usual. Even a higher than expected number is likely to be brushed off. The focus of policymakers is likely to remain on medium-term inflation drivers, with the pace of economic activity and inflation expectations the key factors determining the timing and magnitude of future OCR moves.

However, we suspect there will be enough in the composition of the Q3 inflation figures to leave the RBNZ somewhat watchful but not so much as to diminish their flexibility to maintain a cautious OCR line – for now.

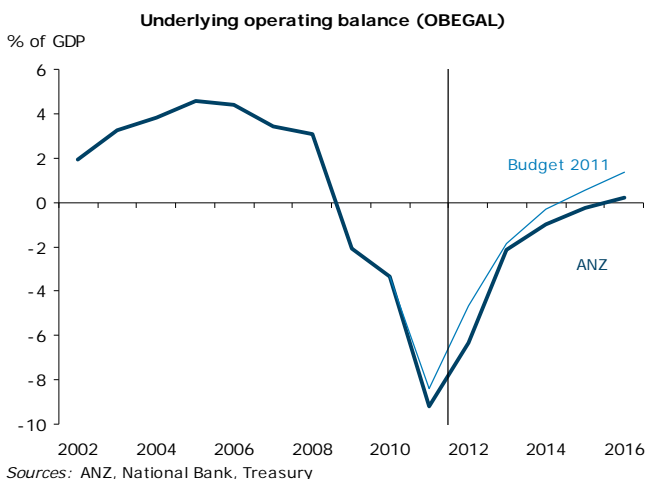
PREFU 2011 PREVIEW

SUMMARY

Tuesday's PREFU will show that Government remains committed to returning to surplus, but we suspect at least a year later than envisaged in May. This is unlikely to unduly concern markets or ratings agencies. Heading into the election all political parties are in a fiscal straitjacket.

THE CUPBOARD CONTAINS AN IOU

The Government will remain committed to returning to surplus in Tuesday's Pre-election Fiscal Update (PREFU). However, **the return to surplus may well be forecast to occur in 2015/16, a year later** than envisaged in May. Attaining a surplus position in 2014/15 is now a big ask, due to both likely lower growth forecasts, and a worse starting position, as outlined in the recent Crown accounts. These showed an underlying deficit of 9.2 percent of GDP in 2010/11, versus 8.4 percent forecast in Budget 2011. This was expected, as much of it was due to changing liabilities for the Christchurch earthquakes.



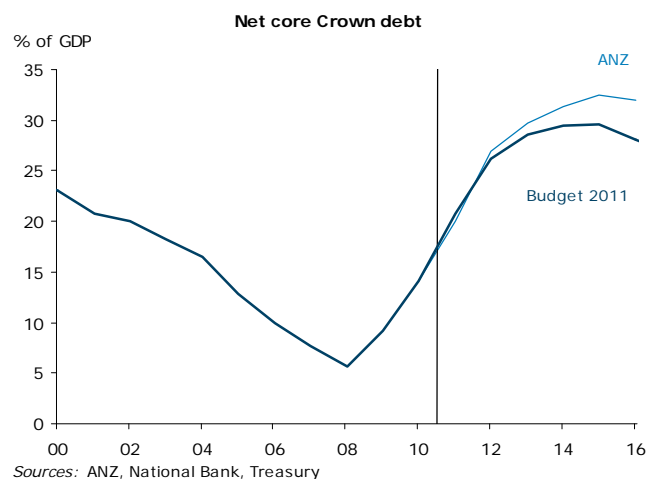
The PREFU is not the place for new announcements on policy, with the main interest rather being the change in the economic forecasts and its implications for the fiscal position. Most forecasters have been revising down their expectations of New Zealand growth, based both on a delay to the Christchurch rebuild and the worsening global situation. **Treasury produces independent forecasts, and it is highly likely these will also be revised down.** This is not just cyclical: one thing to watch for will be the implied trend rate of real GDP growth Treasury assumes. In the Budget this looked to be around 3 percent, a figure we struggle with, given global and deleveraging headwinds. The forecast level of nominal GDP translates directly into forecast tax revenue.

Heading into the election, all political parties are in a fiscal straitjacket. The kitty is bare. Reversing core structural deficits (of around 4 percent of GDP)

will be achieved only by multiple years of spending restraint. This is never easy to deliver but we believe we are seeing a fundamental change across society, where borrow-and-spend style policies are now questioned, as opposed to accepted. Moreover, a failure to rein in deficits will surely see further credit downgrades.

Implementing such restraint over time will present challenges. Abstracting from the "king hit" to the fiscal accounts in 2010/11 from the Christchurch earthquakes, the Government looked to be making better progress reining in discretionary spending. However, sustaining this trend over time will be increasingly difficult. The trimming of fat is underway in areas such as health; the next leg involves cutting into muscle. Hence, the risk is actually of an even later return to surplus.

Larger deficits will result in a higher net debt profile. We expect net debt to peak at 32.5 percent of GDP in 2014/15, compared to 29.6 percent in Budget 2011. The Government has expressed the aim of keeping net debt below 30 percent of GDP. This will be very difficult. But 30 is just a number, and even with the earthquakes, NZ's fiscal position still looks good relative to other sovereigns. Average net public debt across the OECD is in excess of 60 percent of GDP. But given the upcoming wave of baby-boomer retirees, NZ cannot afford to be complacent. The days of accidental large surpluses year after year are, sadly, over. It's hard graft from here.



IMPLICATIONS

We are not expecting anything market-moving out of the PREFU. The Government looks set to run a tight ship, and whether the return to surplus is a year either side is unlikely to be of great import to the market or the ratings agencies. But there is clearly no capacity for lolly scrambles.

OCTOBER OCR PREVIEW

SUMMARY

We expect the RBNZ to leave the OCR unchanged at 2.5 percent next Thursday. With “tail risks” of a global downturn remaining, the RBNZ will continue to proceed cautiously, with policy set to remain on hold until global risks recede. However, we expect the statement to remind the market that the OCR is extraordinarily low, and that in the absence of a global slump impacting New Zealand in a non-mild manner, it will still need to move higher. The precise timing of this remains fluid.

GLOBALLY FOCUSED

In the September MPS the spirit behind the RBNZ’s decision to leave the OCR at 2.5 percent was to provide an offset in case the global economy took a turn for the worse. Domestic considerations at the time provided a strong case for moving the OCR up from extraordinarily low levels, but these were superseded by downward global risks. This forward-looking strategy was not without risk. However, clearly the RBNZ was very confident they have the necessary policy traction to quickly rein in the economy if the need arose, with minimal damage to the economy.

Since the September MPS we’ve had the usual array of mixed messages, but the general tone has been consistent with the caution regarding the global situation evident in September.

- The world economy is still very fragile, with increasing likelihood of a protracted slowdown in Europe. The US economy is slowly picking up, but it will be a long journey back to full health. The spectre of a slowdown in the Chinese economy remains, with speculative excesses in need of purging.
- Risks of contagion from a sovereign debt crisis to a banking crisis remain elevated. While local major banks currently have sufficient funding, the longer that implied funding costs remain high, the more likely there will be an impact at the retail level.

Despite this concerning global backdrop, the domestic economy continues to display “relative resilience”. Commodity export prices remain at historically high levels, even if the direction of risks around them is clear. Business and consumer sentiment has held up well, but cracks may start to appear after the Rugby World Cup ends.

The starting point for the economy is weaker than the RBNZ assumed in September MPS. The data has generally been positive, but it has not been “one way traffic”. GDP in Q2 undershot the RBNZ pick, and a

weaker fiscal position will require a tighter fiscal stance over the horizon relevant to monetary policy.

The NZD has strengthened since the September MPS, which will compound the woes of a tradable sector already facing a volatile global demand picture. It will be interesting to see if the RBNZ mention the currency in the OCR statement.

We see little reason for the RBNZ to materially shift their September stance. It still seems prudent to watch, worry and wait, with the OCR set to remain at 2.5 percent. Provided the global scene has only a mild impact on New Zealand – which appears the case at present – the OCR will soon need to move higher, with a 4-4.5 percent OCR endgame likely, though a number of years out. Hence we’d expect a soft tightening bias to remain. But the timing of when the OCR could move up is fluid and of course the assumed “mild” impact from global ructions are probably an optimistic assessment. Suffice to say we think the optimal strategy is to repeat September’s message and kick for touch. “Some time” in 2012 is about all we can conclude at present in terms of when the OCR could move up.

If there is a hook in Thursday’s statement, it may well be provided by next Tuesday’s CPI release. The RBNZ is banking on a benign underlying inflation trajectory, affording them the luxury of playing a waiting game. Even on an unwelcome high CPI result the RBNZ will have some time on its side, but its patience may well be tested early next year. The onus will increasingly be on the global scene to show a material negative impact on NZ to prevent the OCR moving up.

FINANCIAL MARKET IMPLICATIONS

The current global environment should encourage a cautious RBNZ statement. The global scene still contains a huge downside risk profile, and with the RBA opening the door on easing policy it is difficult to imagine anything even remotely hawkish, or the RBNZ overtly flagging the OCR moving up anytime soon. But there are risks on the upside too – namely the outlook for inflation and the remarkable resilience of New Zealand’s commodity prices (so far) – that will mean the Reserve Bank will not want to commit to keeping the OCR at this level for too long. We continue to expect a June 2012 start to the tightening cycle, but you would not want to tie your hands to anything in this environment. With the market looking set for a cautious assessment, we suspect this statement will provide market pricing and the NZD will little trend information. If the RBNZ achieves this on the day they should probably view it as a success.

INTEREST RATE STRATEGY

SUMMARY

Global markets are pinning high hopes on this weekend's European debt summit. There is no doubt that a plan is in the making, but will it provide a solution? We'd be surprised if it did. Closer to home, inflation data here and in Australia will set the scene. The key surprise of the week may be a CPI result in Australia insufficiently low to ratify a market gunning for a cut by the RBA.

MARKET THEMES

- Europe remains the key focus for markets, which continue to hang their hats on a comprehensive plan.
- US activity data and forward-looking indicators have surprised on the strong side. But it's a stretch to pin the rise in US rates on the data alone.
- Although global overtones will dominate price action, don't lose sight of significant local events – the RWC final, CPI data, the PREFU and OCR Review.

REVIEW AND OUTLOOK

We continue to be surprised by the apparent state of optimism in global markets. Although many markets have largely moved sideways this week, when we consider where key equity indices, the so-called risk currencies and bond yields are travelling relative to recent levels, it seems clear to us that **markets are pinning high hopes on a credible and workable plan for Europe**. In that regard, recent signs have not been encouraging. This weekend's summit has already been delayed once, and we have just had word that a final agreement may not be reached till Wednesday. What we need to see is a large, decisive, credible and timely plan – and pardon the pun – but all we have now is a plan to have a plan. It's better than no plan at all but the hurdles – as mentioned on page 2, are material.

The pulse of US data flow also appears to be stabilising or – at a stretch – even improving. For instance, weekly jobless claims have started to stabilise, and it now seems clear that forward-looking leading indicators like the Philly Fed overshoot to the downside. In our view, the improvement in the data flow goes some way to justify higher yields. **But we are also mindful that Operation Twist is still underway, and was put in place precisely to drive long end rates lower. Yet US 10 year bond yields have risen by almost 50 points off their lows, which is strongly suggestive of an overshoot.**

Although we are mindful of the scope for global disappointment to drive rates lower here, let's not lose sight of domestic data releases – starting with Q3 CPI and the PREFU on Tuesday, and the OCR Review on Thursday. We see downside risks to Tuesday's CPI data (our inflation gauge has started to

moderate), and we suspect most of the "bad" fiscal news is priced in (we have been downgraded and EQC's liabilities have been revised higher). The OCR Review is also likely to be circumspect, and as such, **we strongly believe local factors will keep calls for a higher OCR in check**. That said, Australian CPI data could throw a spanner in the works. The market is gunning for cuts, and **with a 22bp RBA cut priced in for next month, the risk is the data disappoints. This would have a knock-on effect here.**

PREFERRED BORROWING STRATEGIES

Much depends on global market moves, and with risky markets towards the "top" end of recent trading ranges, interest rates are likely to moderate from here. With local factors pushing in the same direction and the OCR likely to be on hold till the middle of 2012, we see no urgency to add to fixed cover. Global liquidity conditions remain volatile, and we would emphasise the importance of liquidity risk over interest rate risk. As has been the case for a while, time remains on the borrower's side.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	We expect the OCR Review to be cautious and guarded.
NZ data	↔/↓	Q3 CPI in focus. Our inflation gauge has moderated.
Fed Funds / front end	↔/↓	Mostly cautious and dovish overtones in Beige Book.
RBA	↔	CPI data holds the key. Hard to see market satisfied.
US 10 year	↔/↓	We can't reconcile yield rise with fundamental backdrop.
NZ swap curve	↔/↓	Curve has steepened considerably – too far?
Flow	↔	Has been light as markets focus on global scene.
Technicals	↔/↓	Momentum behind sell-off has ground to a halt.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 15-Sep-11	0	0
Thu 27-Oct-11	+2	+1
Thu 8-Dec-11	+3	+4
Thu 26-Jan-12	+8	+10
Thu 8-Mar-12	+15	+17
Thu 26-Apr-12	+19	+19
Thu 14-Jun-12	+23	+22

TRADING THEMES WE FAVOUR AT PRESENT

Although this is a very directional view (and highly dependent on global yields moderating) we continue to favour curve flatteners. With most of the bad news priced into NZGS yields, and safe-haven buying of US bonds likely to emerge, we prefer to be long NZGS asset swap spreads.

CURRENCY STRATEGY

SUMMARY

FX markets continue to be driven by headlines, and this weekend's EU summit is providing the focus for the next week. There is a sense of déjà vu as we expect the summit communiqué to be full of talk, but it may once again prove to be a mirage by the end of next week. US data is turning positive, but these releases continue to be overshadowed by the European situation. Australian and NZ CPI releases next week will set the tone down under.

MARKET THEMES

- European situation continues to dominate FX markets with headlines causing overreactions.
- US data showing improvement but overshadowed by Europe.
- NZ CPI data next week will influence the tone of the RBNZ's OCR Review, but comparable Australian CPI data will be make-or-break for the RBA.

REVIEW AND OUTLOOK

The European debt crisis continues to drive erratic trading in FX markets. Sadly, this is a theme we might just have to get used to. Hopes of a meaningful resolution are high, but we remain sceptical. Comments from European officials seem only to cement this view, such as this comment from Angela Merkel's spokesperson Steffen Siebert *"...the dreams that are once again cropping up, that by Monday this package will have solved everything and it will all be over, once again cannot be fulfilled. These are important working steps on a long path. This is a path that with certainty runs far into next year and also additional working steps will have to follow..."*. As noted, FX markets are focussed on seeing a solution delivered. We expect the EU summit to deliver a very positive statement over the weekend but expect the cracks in the process to become visible again towards the end of next week. **In essence next week will likely be "risk on" early, followed by "risk off"**.

CPI releases in NZ and Australia will provide some event risk for the Antipodean currencies. The NZ release on Tuesday will set the tone for the NZD as the market extrapolates the result to Thursday's OCR Review. We don't expect anything new from the RBNZ, with them continuing to monitor onshore and offshore developments. The Australian release will be keenly watched as the interest rate market has a cut of 17 bps priced. A CPI of 0.7% or above will likely see this pricing removed and provide strong support for AUD. In this event expect a dip in

NZDAUD to sub .7700 providing excellent levels to buy NZD and sell AUD.

US data surprised positively this week but the USD remains out of focus for FX markets. In particular, the Philadelphia Fed Business Outlook well exceeded expectations, moving into positive territory. Despite this it seems that reserves diversification continues to keep a cap on USD for now.

The key theme we've been noting for the past few weeks remains. **The only clear trend in FX is the lack of one.** This will remain the case until the four major hooks to a sustainable package as detailed on page 2 are addressed.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔	Close to our fair value estimates.
Yield	↓	Outright favours AUD.
Commodities	↔	All commodities softening.
Partial indicators	↓	CPI risk in Australia could challenge cut expectations
Technicals	↔↑	Rangebound 0.7700 - .8050.
Sentiment	↑	See NZD undervalued vs AUD.
Other	↔	Global sentiment big driver.
On balance	↔	Supported by yield and technicals, but beware of event risk.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔	Close to short term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↔	Commodities softening.
Risk aversion	↔↑	Positive US data & short covering leads to risk on.
Partial indicators	↔	NZ data now mixed. US same.
Technicals	↔	Looking topy.
AUD	↔	AUD employment stabilises and risk-seeking returns.
Sentiment	↑↔↓	EU debt crisis sentiment driving currencies in all directions.
Other	↔	N/a.
On balance	↔	EU situation causing nervous and skittish moves.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Oct	AU	Import price index (QoQ) - 3Q	--	0.0%(a)	13:30
	AU	Export price index (QoQ) - 3Q	--	4.0%(a)	13:30
	NZ	Credit Card Spending SA (MoM) - SEP	--	1.6%(a)	15:00
	GE	IFO - Business Climate - OCT	106.2	107.5	21:00
	GE	IFO - Current Assessment - OCT	116.5	117.9	21:00
	GE	IFO - Expectations - OCT	97	98	21:00
	UK	Public Finances (PSNCR) - SEP	£18.0B	£11.8B	21:30
	UK	PSNB ex Interventions - SEP	£15.0B	£15.9B	21:30
	UK	Public Sector Net Borrowing - SEP	£11.8B	£13.2B	21:30
	EC	Eurozone Govt Debt/GDP Ratio - 2010	--	85.1%	22:00
24-Oct	NZ	Labour Day Public Holiday - markets closed	--	--	--
	JN	Merchandise Trade Balance Total - SEP	¥200.4B	-¥777.2B	12:50
	JN	Merchandise Trade Exports YoY - SEP	1.1	2.8	12:50
	JN	Merchandise Trade Imports YoY - SEP	12.6	19.2	12:50
	AU	Producer Price Index (QoQ) - 3Q	--	0.8%	13:30
	AU	Producer Price Index (YoY) - 3Q	--	3.4%	13:30
	GE	PMI Manufacturing - OCT A	50.0	50.3	20:30
	GE	PMI Services - OCT A	50.0	49.7	20:30
	EC	PMI Composite - OCT A	--	49.1	21:00
	EC	PMI Manufacturing - OCT A	48.2	48.5	21:00
	EC	PMI Services - OCT A	48.5	48.8	21:00
	EC	Industrial New Orders NSA (YoY) - AUG	--	8.4%	22:00
	EC	Industrial New Orders SA (MoM) - AUG	-0.1%	-2.0%	22:00
25-Oct	US	Chicago Fed Nat Activity Index - SEP	--	-0.43	01:30
	NZ	Consumer Prices (QoQ) - 3Q	--	1.0%	10:45
	NZ	Consumer Prices (YoY) - 3Q	--	5.3%	10:45
	AU	Conference Board Leading Index - AUG	--	-0.1%	12:00
	NZ	2011 Pre-Election Economic and Fiscal Update	--	--	14:30
	GE	GfK Consumer Confidence Survey - NOV	5.1	5.2	19:00
	UK	BBA Loans for House Purchase - SEP	--	35226	21:30
	UK	Current Account (BP) - 2Q	-10.8B	-9.4B	21:30
26-Oct	US	S&P/CS Composite-20 YoY - AUG	-3.7%	-4.1%	02:00
	US	Consumer Confidence - OCT	46.0	45.4	03:00
	US	House Price Index MoM - AUG	--	0.8%	03:00
	JN	Corp Service Price Index (YoY) - SEP	-0.4%	-0.4%	12:50
	NZ	NBNZ Activity Outlook - OCT	--	35.4	13:00
	NZ	NBNZ Business Confidence - OCT	--	30.3	13:00
	AU	Consumer Prices (QoQ) - 3Q	--	0.9%	13:30
	AU	Consumer Prices (YoY) - 3Q	--	3.6%	13:30
	AU	RBA Trimmed Mean (QoQ) - 3Q	--	0.7%	13:30
	AU	RBA Trimmed Mean (YoY) - 3Q	--	2.5%	13:30
	AU	RBA Weighted Median (QoQ) - 3Q	--	0.5%	13:30
	AU	RBA Weighted Median (YoY) - 3Q	--	2.6%	13:30
	UK	CBI Trends Total Orders - OCT	-7	-9	23:00
	UK	CBI Trends Selling Prices - OCT	--	13	23:00
	UK	CBI Business Optimism - OCT	--	-16	23:00
	GE	Retail Sales (MoM) - SEP	1.0%	-2.7%	26 Oct - 3 Nov
	GE	Retail Sales (YoY) - SEP	--	2.2%	26 Oct - 3 Nov

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
27-Oct	US	MBA Mortgage Applications - 21-Oct	- -	-14.9%	00:00
	US	Durable Goods Orders - SEP	-0.7%	-0.1%	01:30
	US	Durables Ex Transportation - SEP	0.5%	-0.1%	01:30
	US	New Home Sales - SEP	300K	295K	03:00
	US	New Home Sales MoM - SEP	1.7%	-2.3%	03:00
	NZ	RBNZ Official Cash Rate - OCT	2.5%	2.5%	09:00
	NZ	Trade Balance - SEP	- -	-641M	10:45
	NZ	Exports - SEP	- -	3.44B	10:45
	NZ	Imports - SEP	- -	4.08B	10:45
	JN	Retail Trade MoM SA - SEP	-0.3%	-1.7%	12:50
	JN	Large Retailers' Sales - SEP	- -	-2.6%	12:50
	EC	Eurozone M3 s.a. 3 mth ave. - SEP	2.6%	2.3%	21:00
	EC	Eurozone M3 s.a. (YoY) - SEP	2.8%	2.8%	21:00
	EC	Business Climate Indicator - OCT	-0.15	-0.06	22:00
	EC	Eurozone Consumer Confidence - OCT F	- -	-19.9	22:00
	EC	Eurozone Economic Confidence - OCT	94.1	95.0	22:00
	EC	Eurozone Indust. Confidence - OCT	-6.5	-5.9	22:00
	EC	Eurozone Services Confidence - OCT	-1.3	0	22:00
	UK	CBI Reported Sales - OCT	- -	-15	23:00
	JN	BOJ Target Rate - OCT	0.1%	0.1%	UNSPECIFIED
	CH	Leading Index - SEP	- -	101.83	27-29 Oct
	GE	Consumer Price Index (MoM) - OCT P	0.1%	0.1%	27-28 Oct
	GE	Consumer Price Index (YoY) - OCT P	2.6%	2.6%	27-28 Oct
	GE	Import Price Index (MoM) - SEP	0.8%	-0.7%	27 Oct - 5 Nov
	GE	Import Price Index (YoY) - SEP	7.0%	6.6%	27 Oct - 5 Nov
28-Oct	US	GDP QoQ (Annualized) - 3Q A	2.3%	1.3%	01:30
	US	Personal Consumption - 3Q A	1.9%	0.7%	01:30
	US	GDP Price Index - 3Q A	2.4%	2.5%	01:30
	US	Core PCE QoQ - 3Q A	2.2%	2.3%	01:30
	US	Initial Jobless Claims - 22-OCT	- -	403K	01:30
	US	Continuing Claims - 15-OCT	- -	3719K	01:30
	US	Pending Home Sales MoM - SEP	0.3%	-1.2%	03:00
	US	Kansas City Fed Manf. Activity - OCT	- -	- -	04:00
	UK	GfK Consumer Confidence Survey - OCT	-30	-30	12:01
	JN	Jobless Rate - SEP	4.5%	4.3%	12:30
	JN	Tokyo CPI YoY - OCT	-0.4%	-0.2%	12:30
	JN	Natl CPI YoY - SEP	0.2%	0.2%	12:30
	JN	Industrial Production (MoM) - SEP P	-2.8%	0.8%	12:50
	JN	Industrial Production YOY% - SEP P	-2.8%	0.4%	12:50
29-Oct	US	Employment Cost Index - 3Q	0.6%	0.7%	01:30
	US	Personal Income - SEP	0.3%	-0.1%	01:30
	US	Personal Spending - SEP	0.6%	0.2%	01:30
	US	PCE Deflator (YoY) - SEP	- -	2.9%	01:30
	US	PCE Core (MoM) - SEP	0.2%	0.1%	01:30
	US	PCE Core (YoY) - SEP	1.7%	1.6%	01:30
	US	U. of Michigan Confidence - OCT F	58	57.5	02:55
	UK	Nat'wide House prices sa (MoM) - OCT	- -	0.1%	29 Oct - 1 Nov

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All \$ values in local currency

Note: All surveys are preliminary and subject to change



LOCAL DATA WATCH

Key focus over the next few weeks: Global events remain a key influence, with this weekend's events in Europe expected to set the short-term direction for markets. Next week's fiscal and monetary policy updates are likely to show local policymakers are acutely aware of global challenges, with fiscal policy in an effective straitjacket as efforts are made to move to surplus without inflicting collateral damage to the economy. This week's business confidence release will show the extent to which the business sector is being spooked by global ructions. In such an environment the release of the CPI data is almost an afterthought, but the inflation outlook is likely to weigh on the RBNZ's deliberations more heavily next year. We expect the first OCR hike in June 2012, but this is conditional on the global outlook improving. The spirit of our assessment is for a gradual path of policy tightening and a historically low OCR endpoint.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 25 Oct (10:45am)	Consumers Price Index – 2011Q3	Still high	We expect a 0.8 percent quarterly increase (5.0 percent y/y). Core annual underlying inflation looks to set to remain around 2.5 percent.
Tue 25 Oct (2:30pm)	Pre-Election Economic and Fiscal Update	Fiscal straitjacket	Expect the blowtorch to be directed towards expenditure, with the aim of returning to surplus by 2015/16.
Wed 26 Oct (1:00pm)	National Bank Business Outlook – Oct	- -	- -
Thur 27 Oct (9:00am)	RBNZ October OCR Review	On hold	The RBNZ will remain on hold given the weaker global outlook. We don't expect a RBNZ move before mid-2012.
Thur 27 Oct (10:45am)	Overseas Merchandise Trade – Sep	Supported	A monthly deficit of \$430m is expected, with the annual trade surplus holding up at \$1.1bn.
Mon 31 Oct (10:45am)	Building Consents – Sep	Up	A 2 percent climb in residential issuance is expected. Non-residential consent values of \$300m are expected.
Tue 1 Nov (10:45am)	Labour Cost Index – 2011Q3	Contained	A 0.5 percent quarterly increase is expected for salary and ordinary time wage rates (2.0 percent y/y).
Tue 1 Nov (1:00pm)	ANZ Commodity Price Index – Oct	- -	- -
Tue 1 Nov (10:45am)	Quarterly Employment Survey – 2011Q3	Firming	Filled jobs and paid hours are expected to rise 0.5 percent s.a. Average hourly earnings should increase 0.6 percent q/q.
Wed 2 Nov (early am)	<i>GlobalDairyTrade</i> auction	Holding	We expect USD dairy prices to stabilise at historically high levels.
Thur 3 Nov (10:45am)	Household Labour Force Survey – 2011Q3	Firming	A 0.5 percent in employment is expected (1.5 percent y/y). The unemployment rate is forecast to ease to 6.4 percent.
Wed 9 Nov (10:45am)	Electronic Card Transactions - Oct	Up	We expect a 0.6 percent increase in retail ECT spending. A bigger GDP impact is in store than suggested by the ECT data.
Thur 10 Nov (1:00pm)	ANZ Consumer Confidence - Nov	- -	- -
Fri 11 th Nov (10:45am)	Food Price Index- Oct	Up	We expect a 0.4 percent monthly increase, underpinned by higher prices for meat and groceries.
Mon 14 Nov (10:45am)	Retail Trade Survey – 2011Q3	RWC boost	A 0.8 and 1.4 percent quarterly increase is expected for total and core values. Core volumes are expected to rise 0.9 percent.
Thur 17 Nov (10:45am)	Capital Goods Price Index – 2011Q3	Rising	A 0.5 percent increase is expected, underpinned by higher construction costs.
Thur 17 Nov (10:45am)	Producer Price Index – 2011Q3	Cost-push	Higher electricity prices contribute to a 1.2 percent increase in input prices and a 0.8 percent increase in output prices.
On Balance		Local vs global	Domestic gauges for H2 should remain positive but global concerns suggest caution for 2012.

KEY FORECASTS AND RATES

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
GDP (% qoq)	0.9	0.1	0.8	1.2	0.2	0.5	1.0	1.0	0.9	0.7
GDP (% yoy)	1.7	1.5	2.4	3.0	2.3	2.7	2.9	2.7	3.4	3.7
CPI (% qoq)	0.8	1.0	0.8	0.3	0.6	0.7	1.0	0.3	0.7	0.8
CPI (% yoy)	4.5	5.3	5.0	2.9	2.7	2.5	2.7	2.7	2.8	2.9
Employment (% qoq)	1.3	0.0	0.5	0.2	0.2	0.6	0.6	0.2	0.3	0.3
Employment (% yoy)	1.8	2.0	1.5	2.0	0.9	1.4	1.5	1.6	1.7	1.4
Unemployment Rate (% sa)	6.5	6.5	6.4	6.4	6.4	6.1	5.8	5.8	5.8	5.7
Current Account (% GDP)	-3.6	-3.7	-3.9	-3.3	-3.5	-3.6	-4.0	-4.4	-4.5	-4.5
Terms of Trade (% qoq)	0.8	2.3	3.0	1.0	-0.9	-0.8	-0.8	-0.8	-0.8	-0.7
Terms of Trade (% yoy)	6.7	7.0	7.1	7.3	5.5	2.3	-1.4	-3.3	-3.1	-3.0

	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11
Retail ECT (% mom)	2.5	-0.2	1.6	1.4	-0.7	1.1	0.3	-0.5	0.4	..
Retail ECT (% yoy)	5.7	6.2	6.6	10.0	6.8	9.0	8.0	8.4	7.5	..
Credit Card Billings (% mom)	3.1	-0.2	0.1	1.2	0.5	0.6	0.7	-1.2	..	..
Credit Card Billings (% yoy)	5.8	5.1	2.9	6.2	5.9	5.8	7.9	4.9	..	..
Car registrations (% mom)	1.3	-2.0	0.0	-5.5	3.6	-2.0	-1.0	6.5	-10.8	..
Car registrations (% yoy)	6.8	2.8	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	..
Building consents (% mom)	9.1	-9.8	2.4	-1.1	3.8	-0.5	14.3	12.5	..	..
Building consents (% yoy)	-14.9	-28.9	-25.9	-32.4	-21.8	-25.2	-15.2	18.1	..	..
REINZ House Price Index (% yoy)	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	0.5	0.7	2.7	..
Household Lending Growth (% mom)	0.1	0.1	-0.1	0.2	0.1	0.1	0.2	0.1	..	..
Household Lending Growth (% yoy)	1.5	1.5	1.2	1.2	1.2	1.2	1.2	1.1	..	..
ANZ Roy Morgan Consumer Confidence	117.1	108.1	101.4	101.4	103.3	112.5	109.4	113.3	112.6	112.2
NBNZ Business Confidence	..	34.5	-8.7	14.2	38.3	46.5	47.6	34.4	30.3	..
NBNZ Own Activity Outlook	..	36.6	14.7	29.5	39.7	38.7	43.7	43.3	35.4	..
Trade Balance (\$m)	9	184	583	1158	550	200	111	-641	..	..
Trade Balance (\$m ann)	909	765	741	1238	1019	998	1295	1084	..	..
ANZ World Commodity Price Index (% mom)	4.3	2.7	4.7	1.6	0.4	-1.2	-0.2	-1.4	-1.3	..
ANZ World Commodity Price Index (% yoy)	16.2	20.3	23.5	19.8	19.6	20.6	22.2	22.0	17.3	..
Net migration (sa)	420	440	-540	-120	-290	-280	-210	120	-660	..
Net migration (annual)	8689	8249	6554	5508	4625	3867	2867	2257	773	..

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.854	0.767	0.793	0.77	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.798	0.784	0.775	0.79	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.594	0.566	0.576	0.57	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	65.48	58.74	60.93	57.8	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.526	0.492	0.502	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ\$ TWI	73.0	68.2	69.5	68.4	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Aug-11	Sep-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.25	3.50	3.75
NZ 90 day bill	2.99	2.86	2.76	2.80	2.80	3.20	3.50	3.50	3.90	4.00
NZ 10-yr bond	4.52	4.42	4.64	4.40	4.50	4.60	4.80	4.90	5.00	5.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.33	0.37	0.42	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
AU 3-mth	4.87	4.92	4.70	4.90	4.90	4.90	4.90	4.90	4.90	4.90

Forecasts finalised as at 7 October 2011

	21 Sep	17 Oct	18 Oct	19 Oct	20 Oct	21 Oct
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.80	2.70	2.71	2.72	2.72	2.74
NZGB 04/13	2.99	2.91	2.88	2.90	2.90	2.85
NZGB 04/15	3.49	3.49	3.46	3.48	3.48	3.43
NZGB 03/19	4.23	4.46	4.43	4.45	4.45	4.41
NZGB 05/21	4.42	4.70	4.67	4.69	4.69	4.64
2 year swap	3.22	3.19	3.16	3.17	3.17	3.17
5 year swap	3.85	4.04	3.99	4.01	4.01	4.00
RBNZ TWI	72.0	70.1	69.5	69.6	69.6	69.5
NZD/USD	0.8234	0.8019	0.7921	0.7955	0.7955	0.7937
NZD/AUD	0.8005	0.7790	0.7775	0.7742	0.7742	0.7754
NZD/JPY	62.87	61.92	60.86	61.01	61.01	60.98
NZD/GBP	0.5235	0.5077	0.5016	0.5056	0.5056	0.5026
NZD/EUR	0.6001	0.5794	0.5751	0.5768	0.5768	0.5762
AUD/USD	1.0286	1.0294	1.0188	1.0275	1.0275	1.0229
EUR/USD	1.3720	1.3839	1.3773	1.3791	1.3791	1.3772
USD/JPY	76.36	77.22	76.83	76.69	76.69	76.86
GBP/USD	1.5729	1.5795	1.5791	1.5734	1.5734	1.5789
Oil (US\$/bbl)	86.76	86.94	86.43	88.21	86.05	85.98
Gold (US\$/oz)	1812.25	1681.05	1674.75	1660.60	1644.20	1616.55
Electricity (Haywards)	12.41	10.19	9.67	11.87	10.93	9.42
Baltic Dry Freight Index	1811	2160	2136	2140	2161	..
Milk futures (USD)	149	146	146	146	146	..

IMPORTANT NOTICE

NEW ZEALAND DISCLAIMER

This publication is for information purposes only. Its content is intended to be of general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008. It is recommended you seek advice from a financial adviser which takes into account your individual circumstances before you acquire a financial product. This publication does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this publication can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of ANZ National Bank Limited (the "Bank").

This publication is a necessarily brief and general summary of the subjects covered. The information contained in this publication is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this publication. To the extent permitted by law, neither the Bank nor any other person involved in the preparation of this publication accepts any liability for the content of this publication (including the accuracy or completeness thereof) or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This publication is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and registered with the SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this publication and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 277 Park Avenue, 31st Floor, New York, NY 10172 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This publication is issued on the basis that it is only for the information of the particular person to whom it is provided. This publication may not be reproduced, distributed or published by any recipient for any purpose. This publication does not take into account your personal needs and financial circumstances. Under no circumstances is this publication to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this publication (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this publication. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this publication accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this publication and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this publication. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

This document has been prepared by ANZ National Bank Limited. ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2217 Fax 64-4-496 8639 <http://www.anz.co.nz> email nzeconomics@anz.com