

THE CLOBBERING

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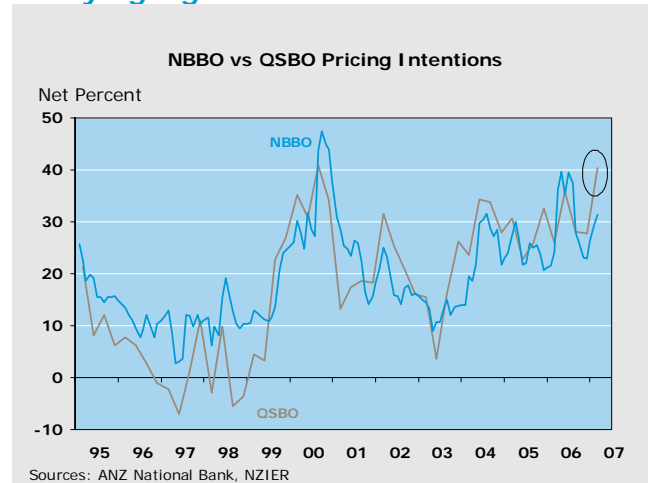
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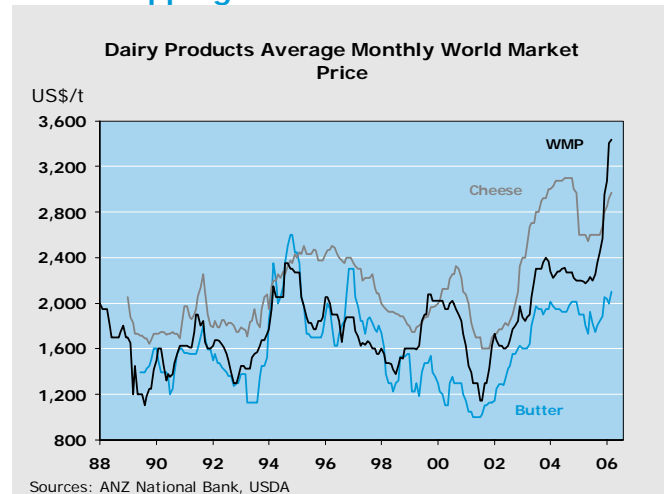
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Upward trend in pricing intentions a worrying sign for the Reserve Bank.



Cream toppings.



ECONOMIC OVERVIEW

Data continues to highlight economic resilience and pressure on medium-term inflation trends. The week ahead is expected to be more of the same. In the absence of recent rises in fixed lending rates, an OCR hike in April would be a *fait accompli*.

What's ahead...

- NZ March REINZ housing report (circa 16 April) is expected to again print strongly. Expect house sales to remain high and the number of days to sell a house to stay at historic lows.
- NZ March quarter CPI (Wednesday 1045 NZST) is expected to increase by 0.4 percent in the quarter, (refer page 5 for our preview).
- NZ March External Migration (Friday 1045 NZST). We expect annual migration to stabilise at around 13,000 per annum.

What's the view

The economy is a country mile from the moderating trend required by the RBNZ to quell inflation. Last week's data provided no comfort with the QSBO depicting continued strength into mid-year and pricing pressure intensifying. February retail sales came in huge. REINZ figures for March (due this week) are not expected to provide any comfort. Our forecast is at the bottom-end of market expectations on the CPI. Yet we expect the composition to print ugly.

Rising inflation trends are disconcerting. Capacity constraints remain tight. Unit labour costs are rising. Firms' margins are under pressure. Pricing intentions in the QSBO rose to a 6½ year high. Everywhere we travel we see evidence of higher prices, with commercial rents the latest starting to move. Strength in soft commodity prices portend of rising costs across core staples. Curbing such cost-push inflation ultimately requires a greater growth sacrifice to ensure limited inflation seepage.

In such an environment, a further interest rate hike would be a lay-down misère. But one hike has already been delivered, and movements up in fixed lending rates have delivered the equivalent of another two via the credit channel of monetary policy. The market is divided over whether we see another move in April but the consensus is warming towards the Bank having little choice but to clobber the consumer. There is no other word for it when you consider that a further hike will mean the equivalent of four 25 basis point moves in the OCR over six weeks. While there is no doubting the housing market and pockets of the economy need to be sent a clear message, such a clobbering – 100 basis points of late cycle moves – is massive.

With the average effective mortgage rate rolling off over the coming six months below 7.8 percent, there is a sizeable interest rate hit still to emerge.

Yet borrowers have proven to be insensitive to interest rate movements given a backdrop of job security. Nonetheless, financial conditions have tightened considerably. The rising NZD will place considerable placing pressure on the export sector. Business profits are facing pressure from rising costs. But this is not broadening to a material change in sentiment towards hiring - yet.

The Reserve Bank is facing a delicate balancing act. They should have hiked last year. They are now playing catch-up. The science to monetary policy provides no clear guidance on the magnitude of the catch-up required. Dynamics such as the saving-spending life-cycle of the baby-boomer generation, changed microeconomic dynamics across the finance industry, the disentangling of structural versus cyclical trends (notably for commodity prices) etc are complicating conventional macroeconomic pictures.

This places the Reserve Bank in a bind. The longer the current (housing) cycle runs unchecked, the higher the probability of a mess down the track. Better a hard landing now than a crash landing later. Conversely, the economy and housing market in particular are in uncharted territory, notably with regard to leverage and the debt servicing burden households are under. At some stage, monetary policy will pack some punch. Bubbles do burst. The popping of the US equity market coincided with one last marginal 25 basis point move from the Fed. But no-one knows how close or far from the tipping point we are.

Of course a bubble-popping scenario is not the central case. Positives for the economy are abundant. We believe we are on the cusp of a rising price trend for food based commodities. Water will become increasingly valuable, and its relative scarcity will present challenges to some of our competitors. New Zealand is rich in natural resources. Tourism and lifestyle are becoming increasingly cherished as the global population ages. Infrastructure deficits are being addressed. Fiscal policy is expansionary. Such tailwinds will lean against tight financial conditions.

Ultimately we suspect the real challenges to the NZ economy are two years away, and will coincide with some sort of global event. Previous periods of economic dislocation have coincided with something from offshore. Global productivity and inflation trends are key in this regard, with the former easing and the latter rising. Both spell trouble for asset valuations down the track. In the meantime it looks like it will remain a case of keeping your fingers, toes, and ankles crossed.

Recent data...

- **NZ IER QSBO (Mar qtr).** Headline business confidence fell, but the CUBO and difficulty in finding labour increased.
- **NZ Retail Sales (Feb).** Total sales rose 1.9 percent, while core sales were up 2.3 percent.

CREAM TOPPINGS?

The 18 month outlook for milk protein appears good. The forecast Fonterra payout for milk supplied in the 2006/07 season is \$4.25/kilogram milk solids (milk plus added value).

The most probable range for the Fonterra milk payout for 2007/08 is \$4.50 to \$4.80/kg ms as a bundled payout and with the usual caveat re the absence of economic shocks.

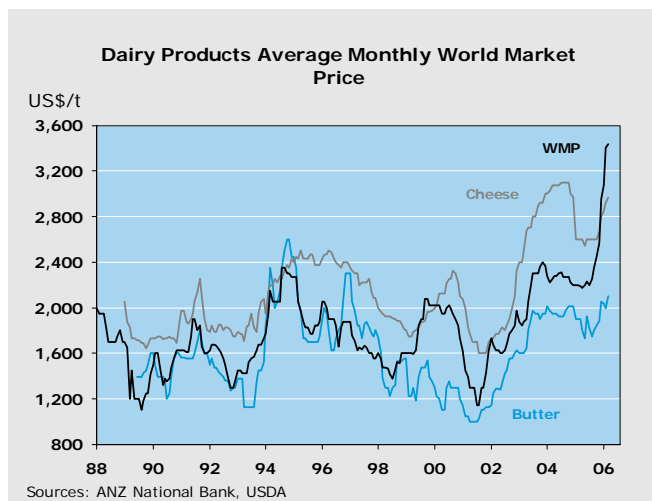
Our forecast for milk supplied in the 2007/08 season is \$4.65/kg ms.

An increase in the milk price from \$4.25 to \$4.65/kg ms will improve the economics of farming but still leave the economic return far less than the weighted average cost of capital.

The Dairy Commodity Situation

Much is being made of the increase in the price of dairy commodities but there is more smoke than light in most commentaries. That said *the 18 month outlook does look quite positive.*

Yes the spot price of milk powders has increased very rapidly in 2007. But the price increase for cheese has left the indicative average USD/t season to date at \$150/t less than last season. The same calculation for butter shows no change! Cheese and butter are approximately one third of the product mix from New Zealand.



Why the rapid increase in the price of powders? The classic situation exists of a shortage in supply combined with good demand. Near static milk production in Europe (quota controlled) and a growing population take an increasing proportion of milk as liquid milk and other liquid products (flavoured milk, ice-cream, yoghurts etc). At the same time, there has also been an increase in the proportion of milk going to cheese. End result: around five percent less butter, skim and whole milk powder has been produced. European demand

for milk powder is steady. Second end result: less European milk powder available for export.

A similar product switch is apparent in the US. Australian production is down 10 percent on three years ago. Milk production in New Zealand and South America has not increased sufficiently to offset the above trends. Global demand for protein is strong. Third end result: increase in price. In conjunction with all the above, demand for soy as a bio fuel stock has lifted the price of alternative soy protein products, helping underpin price increases for milk powders.

Why such a large increase? One theory is that buyers are averaging the cost of product. They are able to pay very high prices for short periods if they have purchased the bulk of their annual requirements at much lower prices. They then do not need to increase prices for end goods (or only by small amounts).

Speculators/hedge funds are not thought to be an influence. They have reputedly been investing in the hard commodities and grains but no mention has been made of an involvement in dairy products. The short shelf life of dairy products and integrated supply chains probably precludes speculative involvement.

Are the current prices of milk powders sustainable? History would say no. Large jumps in commodity prices are eventually followed by a correction. Perhaps the question should be "how long will current prices last" or even "will they last for the 2007/08 season?". However, the real question is "will the consumer pay and buy the same volume when the price has to reflect the current spot price?" One would think not but the price for powders can now fall quite a way and still be better than the past three or five year averages.

Will the price of milk fat rise? Fat is a dirty food word and a large jump in the price of milk fat is considered unlikely. There may be a muted secondary positive effect for butter oil if the price of soya oil remains high (the substitution effect).

The short answer is that the 18 month outlook for milk protein appears good. The Fonterra story is that demand will continue, supply will not catch up and the price of alternative protein (soy) will remain high because of the bio fuel processing boom. The caveat is an absence of an economic shock.

We agree with the first two points above and the caveat. Increases in grain prices suggest slower growth in the amount of animal protein produced in the Northern Hemisphere and firm prices. The product mix produced from milk can be changed back towards powders but it would take some time to get sufficient increase in volume to push prices down at present demand.

The bio fuel processing boom may get quickly dented at current grain prices. Ethanol plants in the US required a subsidy to get started when grain prices were around US\$50/t less than current. On the other hand, a sharp increase in the grain/soya area grown for bio fuel will potentially boost supply and take some of the heat out of grain prices (subject to yields).

Longer term – it depends. Supply-demand balance does look positive, and food is undervalued as an international commodity. Asia's move towards consumerism is significant. Dairy protein prices appeared to have settled at a new higher level over 2005 and 2006 but no where near current prices. The consumer will have quite a say. Several dairy products are discretionary rather than essential expenditure items. Consumer resistance might be expected if the cost jumps up to 50 percent! The nature of a perishable commodity market is that it does not take much of a shift in demand to go from a shortage in supply to a surplus with a larger associated negative price adjustment. But as above the current price of powder can fall a long way.

The Currency

Every cent gain/fall in the NZD against the USD is quoted as being minus/plus 8 to 10 cents a kg of milk solids at the farm gate.

Our exchange rate forecast is for the NZD/USD to fall from 0.71 in June 2007 to 0.60 by June 2008 i.e. average 0.65 for the 2007/08 milk season.

This is one of the more aggressive currency easings across forecasters and largely reflects our view that the Reserve Bank will slow the housing market, and when such a turn occurs, the currency will ease – and aggressively. We remain attuned to the NZ experience internationally where interest rates end up rising far higher than the consensus expects in response to inflation pressure, thereby closing the yield gap from the foreign side. A global backdrop of rising inflation and declining productivity suggests risk appetites will come under pressure at some stage. We are already seeing heightened volatility.

While we agree the positive impact that sustained high commodity prices will likely have on currency strength, there are caveats to this. Hard commodity prices (what we import) have also risen, dampening the wealth gain to the economy. New Zealand's productivity growth is flat-negative, and has been deteriorating for six years. Unit labour costs are rising. The prices we receive for our exports may be rising, but we have become less competitive on other fronts.

Forecast 2006/07

The forecast payout for milk supplied in the 2006/07 season is \$4.25 (milk plus added value). Not as high as the current milk powder prices might suggest.

High commodity prices do not help the profitability of Fonterra's added value business. Early season forward sales at what was good money at the time weigh heavily on the season average. Payout is also influenced by changes in the volume/value of opening/closing inventory.

Fonterra are saying that \$4.15 (milk plus added value) is a certainty. Our analysis suggests that the payout could be higher. We expect that a further 10 cents (to \$4.25) is highly likely and any residual profit after that will end up in reserves. The comparable figure for 2005/06 was \$4.10.

Forecast 2007/08

The most probable range for the Fonterra payout is \$4.50 to \$4.80/kg ms (as a bundled Fonterra payout and with the usual shocks caveat).

There are nine scenarios based on combinations of increases, no change or falls in the exchange rate and international prices. There is a greater probability that the NZD/USD will depreciate rather than appreciate. There is a higher probability that the price of milk powder and hence the average product mix price will ease from current levels rather than increase.

There is a low probability that average prices will fall to the past three year average. That leaves a forecast of \$4.50 to \$4.80 as the most probable outcome. Our forecast of the payment for milk supplied in the 2007/08 season is \$4.65/kg ms (milk plus added value).

An increase of \$0.40/kg milk solids in 2007/08 (\$4.65 c.f. \$4.25) will add approximately \$500m directly into the New Zealand economy. Adding on multiplier effects the impetus is in the order of 0.4 percent of GDP.

New Economics Principles?

An increase in the milk price from \$4.25 to \$4.65/kg ms will improve the economics of farming but still leave the economic return at less than the weighted average cost of capital.

The current average cash return on assets on a fully costed farm sits in the range of 1 to 2 percent (farm working expenses, depreciation and wages of management at \$3.90/kg ms).

The forecast milk price for 2007/08 would lift the average cash return on capital to a range of 2 to 3.5 percent *provided* the increase in milk price is not capitalised into the value of land.

In both instances the returns are well short of the traditional calculation of the weighted average cost of capital and land prices already have more than their fair share of cream topping factored in.

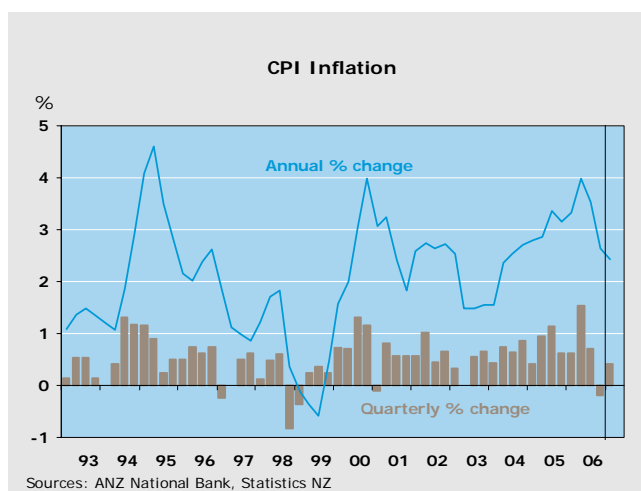
DATA PREVIEW

March Qtr Consumers Price Index (due Wednesday 18 April 10:45am)

	ANZ National	RBNZ	Market
Q1 CPI	0.4% qoq	0.3% qoq	0.6% qoq
Forecast	2.4% yoy	2.3% yoy	2.6% yoy

Key points

- **Headline inflation to continue edging lower on the back of seasonal factors and one-offs.**
- **Non-tradable inflation and other core measures to remain sticky and elevated.**
- **The CPI to show inflation still broad-based and persistent inflation theme building.**
- **April's decision looks set to be tight.**



CPI Components	Quarterly % change	%-point contrib.	Annual % change
Food	1.2	0.2	4.0
Alcohol and Tobacco	0.9	0.1	3.5
Clothing and Footwear	-0.8	0.0	-0.8
Housing and Household Utilities	0.9	0.2	5.1
Household Contents and Services	-0.7	0.0	0.5
Health	1.2	0.1	1.5
Transport	-1.0	-0.2	-0.3
Communication	-0.2	0.0	1.2
Recreation and Culture	-0.1	0.0	1.3
Education	4.3	0.1	5.1
Miscellaneous Goods and Services	1.1	0.1	3.2
All Groups	0.4	0.4	2.4
Tradables	-0.1	-0.1	1.2
Non-tradables	0.9	0.5	3.8

We expect headline CPI to rise by 0.4 percent in the March quarter, taking annual inflation lower to 2.4 percent. We find ourselves at the bottom end of the range of market forecasts (0.4 to 0.8 percent), and slightly above the RBNZ's March MPS forecast of 0.3 percent.

Seasonality will play a part in holding the March quarter CPI low, with a number of one-offs helping. Tradable inflation normally falls in

the March quarter due to a seasonal reduction in international airfares and discounting by retailers post the Christmas shopping season. This year will be no exception, but the reduction in domestic airfares by Air New Zealand will add further to the fall in the transport group. Supermarket voucher discounting, which was introduced part way through the December quarter last year, will be fully reflected in the March quarter, leading to a smaller increase in petrol prices than the advertised pump price suggests.

Stepping back from the headline number, core measures of inflation will still be elevated. We expect the non-tradable CPI to rise 0.9 percent in Q1, leaving annual non-tradable inflation unchanged at 3.8 percent. The various core measures of inflation the RBNZ monitors (trimmed mean, exponentially smoothed, weighted median) will print around 0.7 percent for the quarter and around 3 percent year-on-year. These numbers are still uncomfortably high considering economic growth has slowed quite markedly over the past two years. Housing related inflation will once again dominate non-tradable inflation, with few signs of easing inflationary pressure from the housing sector expected.

We anticipate further signs of a broad-based and persistent inflation theme building in the CPI report. There are signs that businesses are more willing to increase their prices to recover lost margins. We will continue to watch out for signs of a build-up in cost-push (wage-inflation) pressure in the services sector.

Market Implications

The market is now erring towards an additional late cycle move, and we suspect the CPI result will merely reinforce the bias. A weaker headline will provide no comfort given the likely unfavourable composition. Any pull-back in the currency is likely to be short-lived once details emerge.

All the data is consistent with monetary policy needing to be tightened further. The only debate is whether this has occurred sufficiently via the credit channel of monetary policy or the Reserve Bank needs to deliver more via the conventional monetary policy channel.

The Reserve Bank has shown a tendency to look through near-term CPI prints, focusing on medium-term inflation trends. Strength in Q3 2006, and signs of softening core inflation was glossed over in Q4 2006. But for the market, any strength is likely to be a red-rag to a bull, and with the curve already pricing in close to a 70 percent chance of a hike in April, it may be too tempting for the RBNZ to step away from.

INTEREST RATE STRATEGY

A strong REINZ housing market report and the composition of Q1 CPI this week is likely to reinforce the market's bias towards a further rate hike, following the unfriendly reading from the *QSBO* survey and retail sales last week.

Market themes...

- Continued payside pressure as strong data sees market looking for a hike.
- REINZ data and Q1 CPI composition to reinforce current market pricing.
- Swaps curve to hold higher across the board, helped by higher offshore yields.

Outlook...

The composition of Tuesday's *QSBO* survey and strength in February retail sales data made for unfriendly reading for the RBNZ. Despite a sharp fall in headline business confidence, indicators of resource pressure intensified and pricing intentions jumped. A strong print for February retail sales confirms that momentum in the economy from the end of last year continued into early this year, with Q1 GDP looking to be robust. Indications are that the March REINZ housing market report due early in the week will show strong activity.

Wednesday's Q1 CPI is key heading into the RBNZ's April decision. Despite a benign near-term inflation profile, core measures of inflation are expected to pick-up and stay at elevated levels. With the *QSBO* survey pointing to momentum in domestic demand being maintained into mid-this year and an inflationary undercurrent building, the April decision is looking to be a tight one. While our core economic view is that the RBNZ will hold in April, the market has put more weight on the recent run of data, with close to a 70 percent chance of an April hike priced in and a full hike by July fully priced in.

Offshore, the key developments were centered on the ECB and Fed. Despite the ECB leaving their key policy rate unchanged at 3.75 percent, comments by ECB President Trichet hinted that a rate rise in June is on the cards. The market is now contemplating the likelihood of ECB interest rates going past 4 percent given strong growth in the Euro area. The Fed's March FOMC minutes reveal that further interest rate increases is a possibility to bring inflation lower from current uncomfortable levels. Market reaction on Friday, which glossed over a better core PPI and focused on a rise in inflation expectations, show the Fed's unease over inflation is starting to be noticed. US March CPI data this week will be closely watched. With the global tightening cycle yet to end, higher offshore yields will hold NZ yields higher at the long end.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	Higher mortgage rates ease the pressure on April. Q1 CPI will be key.
NZ data	↔/↑	Signs of growing resource pressure and ongoing momentum in domestic demand to keep RBNZ on alert.
Fed Funds/front end	↔	Downside risk to growth but upside risk to inflation. Fed's predominant concern is inflation so no prospects for easing yet.
RBA	↑	Strong Aussie data mean case for RBA hike building.
US 10 year	↔/↑	US bond market caught between growth and inflation bind. Inflation fear to dominate in the end.
NZ swap spreads	↔/↓	Correction of EFPs still expected.
Flow	↔	Lack of liquidity an issue once again with investors on the sidelines.
Technicals	↔/↓	Local data to dictate this week.

Borrowing strategies we recommend at present

NZ retail sales for February put further strong upward pressure over the short end of the curve. Better outright levels can be achieved paying fixed out 4-10 years on the yield curve. However, on a relative value basis the short part of the curve presents better value. We expect the curve to invert as yields rise. As NZ yields are elevated above historical averages borrowers should look seriously at introducing some optionality to their strategy on new debt.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Apr-07	36	68
Thu 7-Jun-07	56	92
Thu 26-Jul-07	68	104
Thu 13-Sep-	68	104
Thu 25-Oct-07	68	104
Thu 6-Dec-07	64	100
Thu 24-Jan-08	60	84

Trading themes we favour at present

We favour paying the 1 or 2 year vs receiving the 4 to 5 year, but lack of liquidity will exaggerate moves.

CURRENCY STRATEGY

G7 meeting gives green light to carry trade. With no reason to sell NZD, sellers are absent, and the up-trend is set to continue over the week ahead.

Market themes...

- M&A activity supporting AUD, NZD riding higher in kanga's pouch and on the back of strong data.
- USD weakness as growth concerns weigh, despite Fed inflation rhetoric.
- G7 meeting.
- Rate hike expectations boost carry-related demand for NZD.

Outlook...

The G7 meeting delivered nothing new, continuing to focus on economic imbalances, and ignoring the carry trade. Euro zone members were generally happy with the strong euro, and comments about economic imbalances suggest that the G7 are comfortable with the weakening of the USD. By not mentioning the carry trade, the G7 has effectively given a green light to remain on it.

It is hard to see anything domestically this week to upset the NZD's upward trend. Wednesday's NZ CPI data and the REINZ's housing market data due in the first half of the week will be the major focus. The housing market data is expected to be very strong given mortgage lending data and an "extra" Friday in the month of March. Reserve Bank (and our own) expectations for the CPI are at the bottom end of the range of market picks, but a soft CPI result is likely to mask an unfriendly composition. Certainly nothing to cause the Bank to step back from its hawkish rhetoric, although a soft headline result should give the RBNZ room to pause and assess "post- March OCR hike data" which will become available towards the end of May. In such an environment, and when the G7 has effectively given a green light to buy NZD and AUD, there really doesn't appear to be any reason to sell.

US core CPI data is key this week for the USD. The Minutes of the Fed's 21 March meeting emphasised that while the Fed sees downside risks to economic growth, upside risks to inflation remain the prevailing concern. Core CPI data due on Tuesday night is expected to record a modest 0.2 percent increase over the month. With the market continuing to oscillate between two main views on the US economy – either it is slowly slipping towards a recession, or the inflation problem is greater than currently priced in, and interest rate cuts won't be delivered. While any significant upside surprise may lend support to the USD, sentiment is leaning towards the former, and major

support of the USD index at 84.40 is likely to be tested.

Technically, the NZD's upward trend looks set to continue this week. There is very good support around 0.7310/20 which will be the base for the week. Topside resistance is in the low/mid 0.74 area. The NZD/AUD remains caught in a sideways channel and will remain in this over the week.

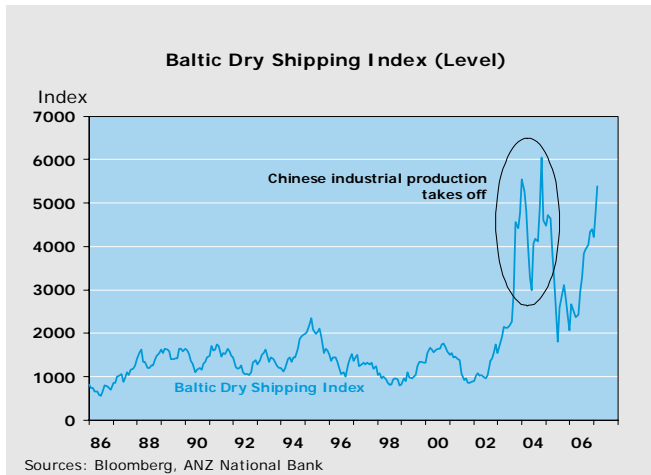
NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Above the 0.85-0.88 zone.
Yield	↔	Evenly balanced with both central banks the focus.
Commodities	↔	Still supportive of both.
Partial indicators	↔	Both showing strong data last week... focus now on NZ CPI.
Technicals	↔/↓	Still within consolidation pattern – technically a break seems imminent.
Sentiment	↔	Sentiment universally against USD, with NZD and AUD main benefactors.
Other	↓	M&A supportive of AUD.
On balance	↔/↓	Fundamentals down but increased risk of RBNZ hike means downside limited for now.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 given a structural shift in commodity prices.
Fair value – short-term	↓	Starting to look expensive even on a commodity basis.
Yield	↔	Yield gap widened but fully reflected at these levels.
Commodities	↔	Higher commodity prices continue to lend support but largely reflected already.
Risk aversion	↔/↑	Risk appetites appear to have returned.
Partial indicators	↔	NZ's are robust. A lot depends on core US CPI.
Technicals	↔/↑	Sideways to up – trend is your friend.
AUD	↔/↑	Up – equity market strength and good fundamentals.
Sentiment	↑	Positive by default.
Other	↔	Players looking for a reason to sell but non apparent.
On balance	↔/↑	USD weakness and yield support combine to give upside risk.

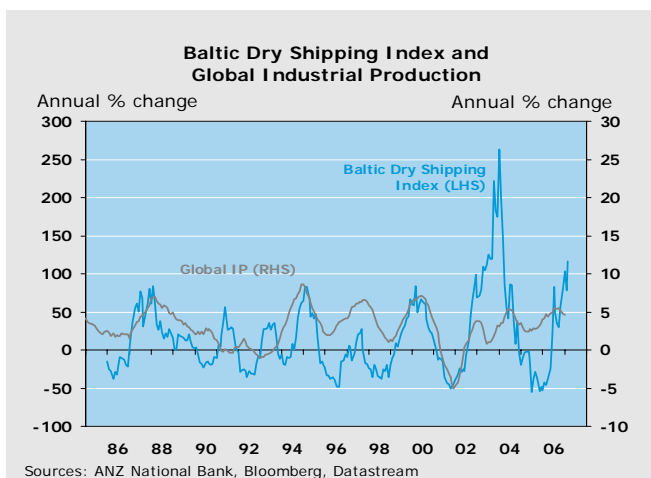
BALTIC SHIPPING COSTS

Recent strength in shipping prices reinforces that global demand, excluding the US, remains strong. With demand strong, there is no sign of a turn for commodity prices or the NZD.

The Baltic Dry Shipping Index (BDSI) provides an indication of the price of moving major raw materials by sea. Because the supply of bulk freighters is inelastic (with a typical time to build in excess of 2 years, and the considerable expense of mothballing ships), changes in demand can have marked effects on shipping prices.



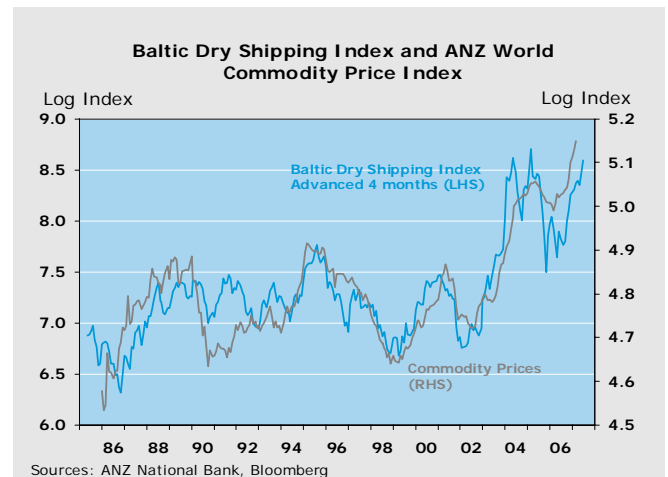
Over the year to March 2007, the BDSI has increased by 115 percent. Much of this increase can be laid at the feet of strong underlying demand for commodities. Chinese demand for iron ore (iron ore accounts for around 25 percent of dry-bulk shipments according to Drewry Shipping Consultants) and Indian demand for coal have been cited for the increased shipping demand. Port congestion (reportedly more than 100 of the world's capesize fleet of 700 is anchored off the Australian coast waiting to load) has added upward pressure on shipping costs.



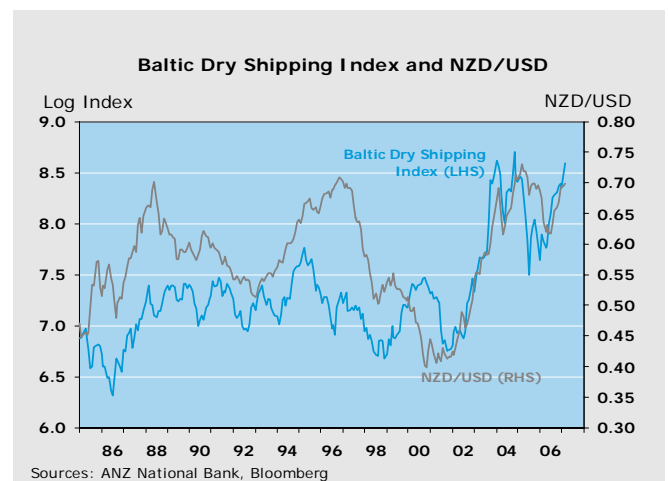
The link between global demand and the BDSI (along with the timeliness of the shipping index) makes it a reasonable indicator of the state of global activity. Certainly, the recent increases in

the BDSI are consistent with a period of solid Industrial Production growth, and well above the rate recorded when global industrial production was last in "recession".

From a New Zealand perspective, the state of global demand is an important bell-wether for our export performance. The following chart illustrates the relationship between the BDSI and the ANZ world commodity price index (the correlation between the two is greater than 80 percent). The shipping index appears to lead commodity prices by around 4 months. This makes the BDSI worthy of keeping an eye on as a directional indicator for commodity prices.



Given the important role that commodity prices play in determining the direction of the NZ dollar, we have also looked at the relationship between the NZD/USD and the BDSI. The relationship between the two has been particularly good over the past 5 years.



Implications

Strength in the BDSI suggests that, excluding the US, global demand remains strong. Demand has been a key source of support for NZ's commodity prices in world markets, and there are no signs of this turning. Similarly, the BDSI is not suggesting that the NZD will weaken anytime soon.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
16 Apr	NZ	QV House Prices (Mar)	-		-
		Non-Resident Bond Holdings (Mar)	-	65.7%	15:00
	UK	Rightmove House Prices (Apr) – mom	-	1.5%	11:01
		PPI Input (Mar) – mom	0.9%	1.3%	20:30
		PPI Output (Mar) – mom	0.3%	0.3%	20:30
		PPI Output Core (Mar) – mom	0.3%	0.5%	20:30
	JN	Industrial Production (Feb F) – mom	-0.2%	-0.2%	16:30
		Capacity Utilisation (Feb F)	-	106.1	16:30
		BoJ Governor Fukui Speaks to Trust Banks' Meeting	-	-	18:00
		Cabinet Office April Monthly Economic Report	-	-	-
	GE	Consumer Price Index (Mar F) – mom	0.3%	0.4%	18:00
		CPI – EU Harmonised (Mar F) – mom	0.3%	0.3%	18:00
	US	Fed's Poole Speaks on Demographics, Trade in Brussels	-	-	22:30
17 Apr	US	Advance Retail Sales (Mar)	0.6%	0.1%	00:30
		Retail Sales Less Autos (Mar)	0.9%	-0.1%	00:30
		Empire Manufacturing (Apr)	7.5%	1.9%	00:30
		Fed's Plosser, ECB's Noyer Speak on European Union Expansion	-	-	00:45
		Net Long-term TIC Flows (Feb)	\$75.0B	\$97.4B	01:00
		Total Net TIC Flows (Feb)	-	\$74.6B	01:00
		Fed's Fisher Speaks in Texas on Fiscal Issues, Economy	-	-	01:45
		Business Inventories (Feb)	0.3%	0.2%	02:00
		ECB's Trichet Holds a Speech in New York	-	-	04:00
		NAHB Housing Market Index (Apr)	35	36	05:00
	JN	Consumer Confidence (Mar)	47.8	48.6	17:00
		Consumer Confidence Households (Mar)	46.4	48.4	17:00
	UK	CPI (Mar) – mom	0.3%	0.4%	20:30
		RPI (Mar) – mom	0.5%	0.7%	20:30
	GE	ZEW Survey (Economic Sentiment) (Apr)	10.0	5.8	21:00
		ZEW Survey (Current Situation) (Apr)	-	69.2	21:00
	EU	ZEW Survey (Economic Sentiment) (Apr)	8.0	5.1	21:00
		Euro-Zone Trade Balance (Feb) s.a.	0.6	1.3B	21:00
18 Apr	US	Fed's Plosser Speaks on Economic Outlook in New Jersey	-	-	00:30
		Consumer Price Index (Mar) – mom	0.6%	0.4%	00:30
		CPI Ex Food & Energy (Mar) – mom	0.2%	0.2%	00:30
		Housing Starts (Mar)	1,495k	1,525k	00:30
		Building Permits (Mar)	1,500k	1,532k	00:30
		Fed's Geithner Gives Welcome Remarks at Conference	-	-	01:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
18 Apr cont.	US	Industrial Production (Mar)	0.0%	1.0%	01:15
		Capacity Utilisation (Mar)	81.9%	82.0%	01:15
		Treasury's Kimmitt Speaks on US-Japan Economic Relationship	-	-	04:00
		Fed's Geithner Gives Keynote Speech on Euro, Dollar	-	-	04:30
	EU	ECB's Trichet Holds a Speech in New York	-	-	03:00
		ECB's Mersch Holds Briefing in Luxembourg	-	-	19:00
		Construction Output (Feb) – mom	-	0.6%	21:00
	NZ	Consumer Price Index (1Q) – qoq	0.6%	-0.2%	10:45
		Consumer Price Index (1Q) – yoy	-	2.6%	10:45
		Food Price Index (Mar) – mom	-	0.1%	10:45
	AU	Westpac Consumer Confidence (Apr)	-	3.7%	12:30
	UK	BoE Minutes	-	-	20:30
		Claimant Count Rate (Mar)	-	2.9%	20:30
		Jobless Claims Change (Mar)	-5.0k	-3.8k	20:30
		Average Earnings ex Bonus (Feb) - 3m/yoy	3.6%	3.6%	20:30
		ILO Unemployment Rate (Feb) - 3mths	5.5%	5.5%	20:30
19 Apr	EU	ECB's Trichet Holds a Speech in Boston	-	-	02:00
		ECB's Gonzalez-Paramo Holds Speech in Monterrey	-	-	20:00
		ECB Publishes April Monthly Report	-	-	20:00
		ECB's Smaghi Holds Speech in Budapest	-	-	21:30
	AU	Consumer Inflation Expectation (Apr)	-	21.0%	12:30
	JN	BoJ to Release Monthly Economic Survey	-	-	12:40
		BoJ to Hold Quarterly Branch Managers Meeting in Tokyo	-	-	12:40
	GE	Producer Prices (Mar) – mom		0.3%	18:00
20 Apr	US	Leading Indicators (Mar)	0.1%	-0.5%	02:00
		Philadelphia Fed (Apr)	2.0	0.2	04:00
		Fed's Yellen Gives Brief Remarks on Economic Development	-	-	07:50
		Fed's Fisher Speaks on Japan at Dallas Awards Dinner	-	-	12:30
	NZ	Visitor Arrivals (Mar)	-	6.5%	10:45
	JN	All Industry Activity Index (Feb) – mom	-0.3%	0.7%	11:50
	AU	Conference Board Leading Index (Feb)	-	-0.2%	12:00
		Import Price Index (1Q) – qoq	-1.0%	-3.2%	13:30
		Export Price Index (1Q) – qoq	-0.3%	0.2%	13:30
	UK	Retail Sales (Mar) – mom	0.5%	1.4%	20:30
21 Apr	US	Treasury's Paulson Gives Keynote Speech at a China Conference in New York	-	-	04:00
		Fed's Mishkin Speaks on Economic Outlook at Bard College	-	-	04:15

Key: AU: Australia, CA: Canada, EU: European Union, GE: Germany, JP: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.

Source: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. Na= not available. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over next four weeks: March quarter data has followed on strongly from the December quarter. The economy has reflatd strongly, with growth running around 2.5 percent, and broadly in line with the available resource capacity of the economy. Inflation and capacity gauges remain elevated as a consequence. The June quarter is where all the action is likely to occur and when we should start to see some of the downstream impact of the high currency and tighter monetary policy. But there is scant data on the horizon for June yet.

Date	Data/Event	Economic Signal	Comment
Circa 16 Apr	REINZ Housing Report (Mar)	Resilient	Judging by our own book, March credit growth is looking strong and suggests the REINZ March report will also print strongly. Expect house sales to remain elevated and the median number of days to sell a house to stay at historically low levels.
Wed 18 Apr (10.45)	Consumer Price Index (Mar qtr)	Easing	The headline CPI is expected to increase by 0.4 percent, taking the annual inflation rate to 2.4 percent. Non-tradables inflation will remain elevated, increasing by 0.9 percent (annual 3.8 percent), while tradables inflation is expected to fall by 0.1 percent in the quarter.
Fri 20 Apr (10.45)	External Migration	Steady	After an easing in recent migration gains, we expect annual migration to stabilise at around 13,000 per annum.
Tue 24 Apr (15.00)	Credit Card Billings (Mar)	Steady	A small technical pull-back is expected given the strong increase in February.
Thu 26 Apr (09.00)	Reserve Bank OCR Review	On hold but tightening bias to remain	The April OCR Review will be another close call with signs of resource pressures intensifying. However, we believe recent increases in fixed mortgage rates have bought the RBNZ some time, but rates are likely to remain at current levels for a long time.
Thu 26 Apr (10.45)	Merchandise Trade (Mar)	Small surplus	We expect the monthly trade balance to record a small surplus with high export commodity prices being offset by an increase in oil import prices.
Thu 26 Apr (15.00)	National Bank <i>Business Outlook</i> (Mar)	-	-
Fri 27 Apr (15.00)	Credit Growth (Mar)	Strong	Credit growth continues to show limited evidence of slowing. We expect a 1.0 plus percent month.
Mon 30 Apr (10.45)	Building Consents (Mar)	Easing	The trend decline in consent issuance is expected to continue, although the speed of this decline is expected to have eased.
Fri 4 May (15.00)	ANZ Commodity Price Index (Apr)	-	-
Mon 7 May (10.45)	QES and LCI Surveys (Mar qtr)	Elevated	The labour market remains tight and difficulty in finding labour indicators suggest wage pressures will remain elevated for some time.
Thu 10 May (10.45)	Household Labour Force Survey (Mar qtr)	Tight	Pent-up demand rebound likely following 2 negative quarters. Employment growth is likely to be solid in the quarter given the pick-up in employment intentions. A large fall in the participation rate in December is expected to reverse slightly and leave the unemployment rate near historic lows.
On Balance		A firm base	Strong momentum end of last year carrying over into Q1.

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SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Feb 07	Mar 07	16 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
NZD/USD	0.694	0.699	0.739	0.710	0.660	0.630	0.620	0.600	0.580	0.560
NZD/AUD	0.887	0.882	0.886	0.877	0.846	0.829	0.827	0.822	0.806	0.812
NZD/EUR	0.530	0.528	0.545	0.530	0.500	0.485	0.484	0.472	0.464	0.455
NZD/JPY	83.7	82.0	88.2	83.1	75.9	70.6	68.2	64.8	62.6	61.6
NZD/GBP	0.354	0.359	0.372	0.360	0.340	0.330	0.328	0.323	0.315	0.308
NZ\$ TWI	68.9	68.7	71.6	69.2	64.9	62.3	61.5	59.8	58.3	57.2
NZ interest rates	Feb 07	Mar 07	16 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
OCR	7.25	7.44	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.25
90 day bill	7.74	7.88	8.00	7.90	7.60	7.60	7.60	7.60	7.60	7.20
10 year bond	5.96	5.89	6.09	6.40	6.50	6.40	6.40	6.20	6.00	6.00
International	Feb 07	Mar 07	16 Apr 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25
US 3-mth	5.35	5.35	5.36	5.40	5.00	4.60	4.75	4.90	5.25	5.40
AU cash	6.25	6.25	6.25	6.50	6.50	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.35	6.52	6.52	6.80	6.80	7.00	7.00	7.00	7.00	7.00

KEY RATES

	13 Mar	9 Apr	10 Apr	11 Apr	12 Apr	13 Apr
Official Cash Rate	7.50	n/a	7.50	7.50	7.50	7.50
30 day bank bill	7.76	n/a	7.81	7.81	7.81	7.85
90 day bank bill	7.89	n/a	7.89	7.90	7.91	7.98
NZGB 07/09	6.77	n/a	6.95	6.95	6.98	7.09
NZGB 11/11	6.49	n/a	6.60	6.60	6.62	6.73
NZGB 04/13	6.21	n/a	6.31	6.31	6.34	6.43
NZGB 12/17	5.86	n/a	5.94	5.94	5.97	6.06
1 year swap	7.98	n/a	8.04	8.04	8.05	8.15
2 year swap	7.83	n/a	7.93	7.92	7.95	8.06
5 year swap	7.48	n/a	7.65	7.65	7.68	7.79
RBNZ TWI	68.5	n/a	70.6	70.8	70.7	71.2
NZD/USD	0.6948	n/a	0.7248	0.7265	0.7267	0.7343
NZD/AUD	0.8845	n/a	0.8807	0.8816	0.8810	0.8829
NZD/JPY	81.62	n/a	86.26	86.55	86.78	87.25
NZD/GBP	0.3597	n/a	0.3683	0.3680	0.3680	0.3704
NZD/EUR	0.5270	n/a	0.5403	0.5415	0.5399	0.5434
AUD/USD	0.7855	n/a	0.8230	0.8241	0.8249	0.8317
EUR/USD	1.3185	n/a	1.3416	1.3417	1.3460	1.3513
USD/JPY	117.47	n/a	119.01	119.13	119.42	118.82
GBP/USD	1.9315	n/a	1.9677	1.9741	1.9746	1.9827
Oil	58.94	n/a	61.51	61.92	61.98	63.87
Gold	650.60	n/a	675.00	677.50	677.15	677.55
Electricity Price Index	6.47	5.39	5.58	5.86	6.00	6.34

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