

## NEW ZEALAND ECONOMICS MARKET FOCUS

19 December 2011

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## ENDING IN THE BLACK

### ECONOMIC OVERVIEW

The latest nationwide saving statistics show progress, but signal challenges ahead for the New Zealand economy. The need to boost nationwide savings further will continue to cap the spending side of the economy and the magnitude of future current account deficits. Against a fickle and uncertain global scene, NZ's Q3 GDP figures are expected to confirm some base momentum in the economy, which, while historical and somewhat one-off in nature, is still good to have heading into increasing global headwinds.

### ANZ TRUCKOMETER UPDATE

The November ANZ Truckometer partly unwound its October fall, but the trend is flat.

### FINANCIAL CONDITIONS UPDATE

Respectable growth is signalled for the US and New Zealand, albeit not the pace that seemed evident a few months ago. A more pronounced slowdown is in prospect for China and Australia, and the outlook for the Eurozone implied by our FCIs remains grim.

### DATA PREVIEW

Driven by a rising investment income deficit, we expect the current account deficit to widen to 4.0 percent of GDP. Q3 GDP data is expected to confirm a Rugby World Cup boost and show some recoil after an oddly flat Q2 result, but the real test will come in early 2012.

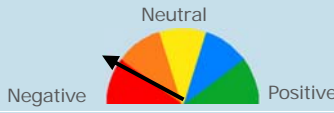
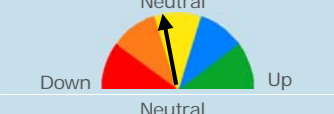

### INTEREST RATE STRATEGY

The relief rally post the EU summit was short-lived and while the agreement has managed to avoid an immediate financial meltdown, scepticism remains high. Even with fairly successful German, Spanish and Italian debt auctions during the week and improving US data, markets are not prepared to take much risk over the Christmas break. This has seen NZ interest rate markets rally hard into the years end and the curve flatten amongst thin liquidity.

### CURRENCY STRATEGY

There is a sense that the markets have had enough of the 2011 year and are looking forward to a break, but this week's focus will likely be on the ratings agencies. Locally we watch for the seasonality effect to push the NZD higher.

### THE ANZ HEATMAP

Variable	12 mth view	Comment	Risk profile
GDP	2.5%	Respectable but grumpy growth. Downside risks.	
OCR	No change	OCR low for longer as opposed to outright lower	
CPI	2.6%	Benign but some medium-term inflation drivers remain sticky.	



This is our last *Market Focus* of 2011. Our first edition for 2012 will be on January 16, in which we discuss the key themes for 2012. Have a safe and enjoyable festive season.

## ECONOMIC OVERVIEW

### SUMMARY

The latest nationwide saving statistics show progress, but signal challenges ahead for the New Zealand economy. The need to boost nationwide savings further – a structural prerequisite to a decent upswing – will continue to cap the spending side of the economy and the magnitude of future current account deficits. Against a fickle and uncertain global scene, NZ's Q3 GDP figures are expected to confirm some base momentum in the economy, which, while historical and somewhat one-off in nature, is still good to have heading into increasing global headwinds.

### FORTHCOMING EVENTS

**National Bank Business Outlook - December**  
(Monday, 19 December, 1:00pm).

**SNZ Current Account Balance – Q3** (Wednesday, 21 December, 10:45am). We expect a quarterly current account deficit of \$3.9bn (4.0 percent of GDP in the September 2011 year), with the investment income deficit widening.

**SNZ International Travel and Migration - November** (Wednesday, 21 December, 10:45am). We expect a net PLT outflow of 500 persons. A 15 percent seasonally adjusted monthly fall in visitor arrivals is forecast.

**RBNZ Credit Card Billings – November**  
(Wednesday, 21 December, 3:00pm). A 1.5 percent fall in billings, led by a sizeable drop in spending on overseas cards, is envisaged. Spending funded on domestic cards should also fall.

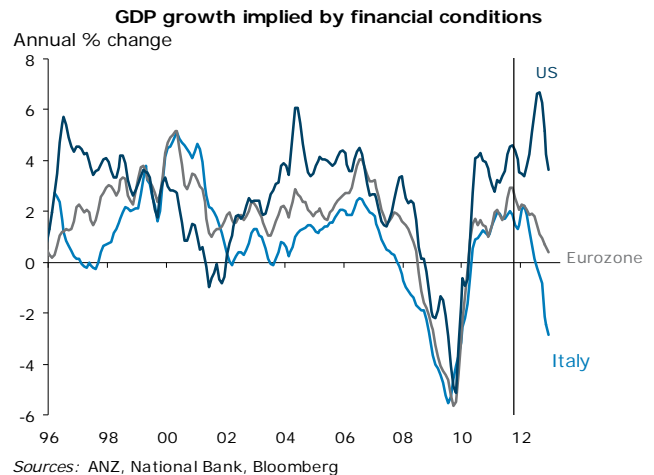
**SNZ Gross Domestic Product – Q3** (Thursday, 22 December, 10:45am). A 0.9 percent increase is forecast, with a lift in services sector and manufacturing activity offsetting weakness in construction sector activity.

**RBNZ Credit Aggregates - November** (Friday, 23 December, 12:00pm). Annual growth rates of around 1 percent for household and business credit are expected, with agricultural credit down 1 percent.

### WHAT'S THE VIEW

**Against an increasingly unsettled and fickle global backdrop, we continue to focus on big picture structural issues.** What we noted last week is overarching: *“the deleveraging dynamic nations are now facing must be matched by a drop in living standards. All policymakers have the power to do is determine whether the adjustment is voluntary and orderly, or disorderly. There are no easy choices.”* With this in mind it was somewhat comforting to at least see some signs of stability towards the end of last week, and some better data, a far cry from what was looking like carnage mid-week, with interest rates

hitting all-time lows and equities nigh on capitulating. Restoring confidence to markets must remain a key focal point for global policymakers. Our financial conditions measures (page 5 has an update) show that while growth outlooks vary widely, and some regions look better placed than others, the growth outlook for most has generally deteriorated over the last few months.



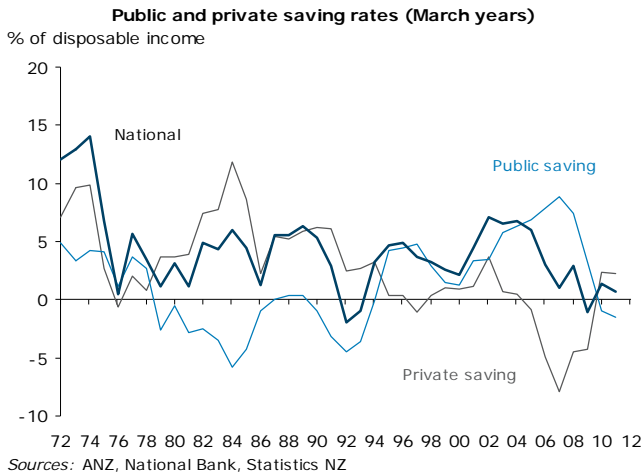
The Managing Director of the IMF summed it up nicely, noting that a failure for all countries to act constructively and show leadership could imperil us all: *“the risk from an economic point of view is that of retraction, rising protectionism, isolation, and this is exactly the description of what happened in the 1930's...”* Ouch! Of course providing the necessary solutions is easier said than done, for we are in the realms of politics. So for now the game of brinkmanship and chicken continues, with markets demanding solutions (or the sugar pill antidote in the form of more Quantitative Easing from the ECB while the ECB is rightly standing its ground saying it's not our job to bail out our governments), and self-interest (politics) being a barrier to group decisions and true strategic leadership.

We're not getting too caught up in the rip of intra-weekly market movements. Markets will be markets. The spirit is clear: a sustained period of growth penance beckons as society “adjusts”. There will be huge amounts of volatility and more downside risk than up.

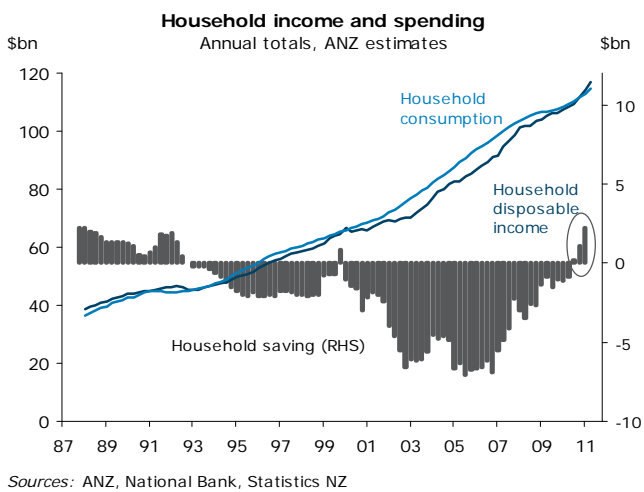
We noted in last week's *Market Focus* that we'd be paying particular attention to the institutional accounts and March 2011 estimates for household and government saving. **They are an historical backdrop, but an important one for monitoring areas of structural progress for the economy, and points of vulnerability.** Saving has never been one of our strong points and the report highlighted progress but also future challenges:

# ECONOMIC OVERVIEW

- A fall in nationwide saving driven largely by a further deterioration in general government saving. Undoubtedly fiscal support has helped us get through a rough patch. However, this is a luxury not many governments can count on in the future, including our own. A period of public saving is now needed to reinforce the steps made by the private sector towards improving balance sheets.



- Households are continuing the journey towards lifting savings, but we are only about two-thirds of the way through. If the events of the last few years have taught us anything it is that investing in housing and counting on capital gains as a way to boosting the balance sheet is not a one-way bet. A stubbornly high domestic unemployment rate is likely to keep the precautionary saving motive front and centre for most consumers.

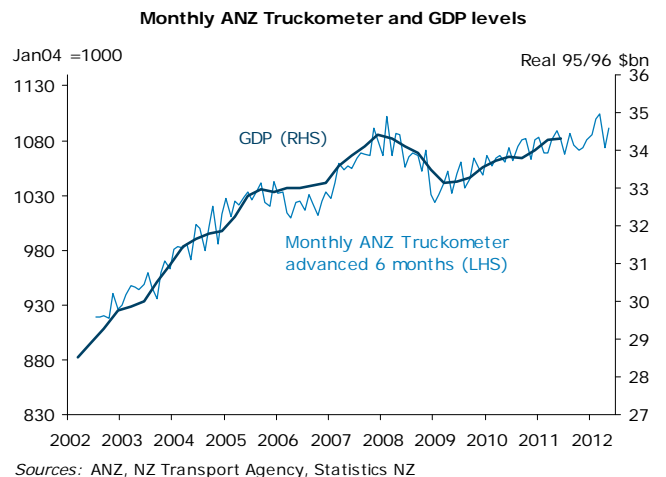


- In a nationwide sense our level of saving remains too low to accommodate our investment needs. Either we continue to borrow, cut back on investment, or alter our investment mix. Cutting back productive investment may be an option in the short-term, but there are longer-term

consequences. With external debt already at 70 percent of GDP, there is limited scope to continue to finance our investment needs through borrowing. Either we change voluntarily, or changes will be imposed upon us.

Collectively we take encouragement from the general trends in the data. They tell us the structural journey is continuing but highlight future tensions. Note in particular the inverse relationship between public and private saving on the chart. Improving our nationwide saving position and balance sheet will require a concerted effort from both the public and private sectors. This will leave more of the heavy lifting over the cycle to monetary policy but will also place ongoing discipline on borrowers.

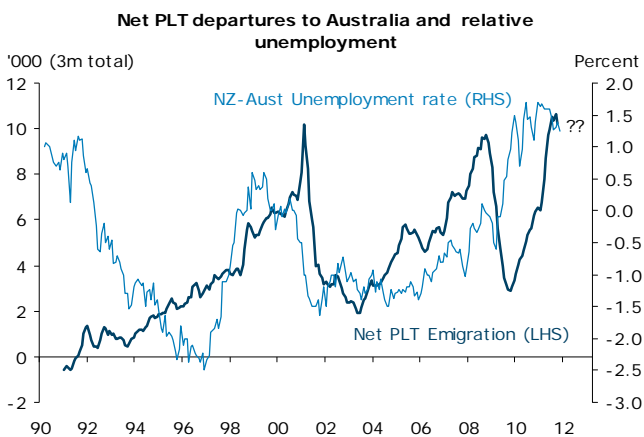
**Looking to the week ahead, the Q3 activity and current account data is the highlight of the domestic data calendar.** The big unknown is the extent of Rugby World Cup impact. We are expecting an above-consensus print for Q3 GDP, part of which is attributable to a tangible Rugby World Cup boost. There are a few anecdotes that the tournament failed to deliver the expected windfall and that it displaced economic activity in other areas. However, given our suspicion that part of the 0.9 percent growth we are forecasting may end up in an upward revision to Q2's 0.1 percent, our expectation of average quarterly growth of 0.5 percent in the midst of 2011 does not seem particularly outlandish. We still expect growth in the first half of next year to be somewhat weaker given the likelihood of Rugby World Cup payback and the weaker global backdrop. Our November Truckometer partly offset the sizeable October fall, but the key message is one of slow base momentum over early 2012. The NZ growth outlook implied by financial conditions remains respectable but not as upbeat as a few months ago.



## ECONOMIC OVERVIEW

The National Bank Business Outlook for December will provide important insights regarding the degree to which global events are starting to weigh on domestic firms' activity, investment and employment plans. Last week's Manufacturing PMI showed sentiment in the sector has failed to rebound from the October fall as concerns over the global economy grow and activity in the construction sector remains lacklustre. However, last week's geotechnical report on ground conditions in the Christchurch City centre, while not an automatic green light for the rebuild, confirmed that progress is being made. There are still issues to work through and the rebuild is a multi-year (or decade) undertaking, but it is a key factor that will place pressure on domestic resources and a reason why the OCR will eventually have to move up rather than down.

International Travel and Migration data is likely to show a continuing net permanent and long-term outflow, especially to Australia. **Key to this remains the labour market outlook, both here and abroad.** With the domestic labour market recovery failing to kick on, our relative attractiveness as a migration destination has taken a hit. Not only will there be demand side implications from population outflows; there are crucial impacts on the supply side of the economy as well. Despite our stubbornly high unemployment rate, skill shortages exacerbated by migration trends will crimp growth in some sectors. We expect the return to positive PLT inflows by next year, driven by the weakening European labour market.



November credit card billings are expected to confirm a post-Rugby World Cup hangover, with a pullback in overseas card spending. Spending on domestic cards is expected to take a breather as households attempt to consolidate their finances ahead of the Christmas spend-up. **We believe the structural saving message is starting to sink in and expect the Christmas shopping season to have a more restrained tone,** with today's fall in the Westpac

Consumer Confidence Index even larger than suggested by the fall in the earlier ANZ-Roy Morgan measure.

The RBNZ credit aggregates for November round off the year. A pick-up in November house sales point to a strengthening in housing credit, but from modest levels. Agricultural credit levels will be closely watched for signs of ongoing progress towards reducing debt levels. However, we do note that the rural property market is starting to pick up, with Fonterra's upward revision for their 2011/12 payout forecast likely to help at the margin. Hopefully the rural sector will heed the lessons of the past few years.

### RECENT LOCAL DATA

**Westpac Consumer Confidence – Q4.** Headline confidence fell 10.7 points to 101.3. Present conditions fell -9.4 points (to 96.2), whereas future conditions fell 11.5 points to 104.7

**SNZ Food Price Index – November.** Food prices rose 0.2 percent m/m (+1.9 percent y/y).

**BNZ Business NZ Manufacturing PMI.** Headline confidence eased 1 point to 45.7. Four of the 5 sub-components were below 50, with finished stocks rising to 51.7.

**2008/09 Institutional Accounts and Government and Household saving for 2010/11.** Nationwide saving in the March 2011 year fell to \$1.1bn (0.7 percent of national disposable income (NDI)). Household saving lifted to \$200m (0.2 percent of NDI), with general government dis-saving of \$2.4bn (-1.5 percent of NDI).

**ANZ Job Ads – November.** The number of job advertisements rose 0.9 percent seasonally adjusted. Internet advertising rose 1.1 percent s.a., with a 0.1 percent s.a. increase in newspaper advertising.

# ANZ TRUCKOMETER UPDATE

## SUMMARY

The ANZ Truckometer is a new monthly economic indicator using traffic volumes data. It has a 6 month lead to GDP growth. In November it partly unwound its October fall, but the trend is flat.

## ABOUT THE TRUCKOMETER

The ANZ Truckometer is a new economic indicator derived using traffic volumes data. It represents a timely barometer of momentum in the economy, with a six month lead to GDP. Because the monthly data is volatile, we tend to focus on the 3-month moving average in the index.

The fit of the Truckometer against GDP growth over coming periods will be adversely impacted by two events. Traffic flows will not fully capture the Christchurch rebuilding impact, and while the visitors for the Rugby World Cup (RWC) will be captured to some extent in the traffic data, it will also not provide the index's usual six month lead to measured activity. **The ANZ Truckometer should be interpreted as an indicator of base momentum in the economy rather than a precise predictor of GDP outturns.**

Technical notes on the Truckometer were published in the Market Focus on November 14, a copy of which is available on request. The ANZ Truckometer remains experimental and is subject to revision.

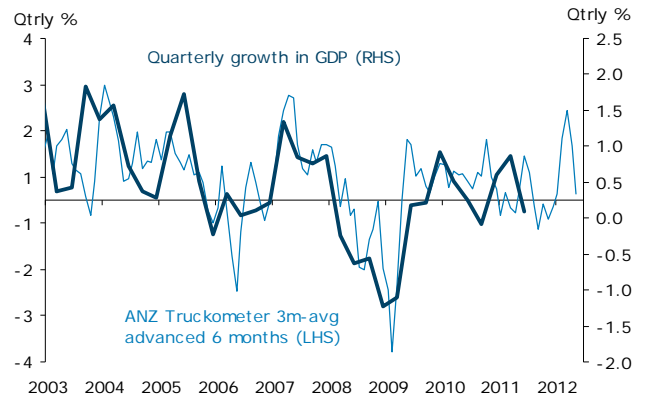
## RESULTS

The ANZ Truckometer has been volatile in recent months. **A short-lived spike up in August and September** on the face of it bodes well for GDP in Q1, but because the second half of 2011 will be boosted by the RWC, quarterly GDP growth in the early part of next year is likely to be lower than the Truckometer suggests (not to mention the potential impact of all the recent negative headlines from abroad).

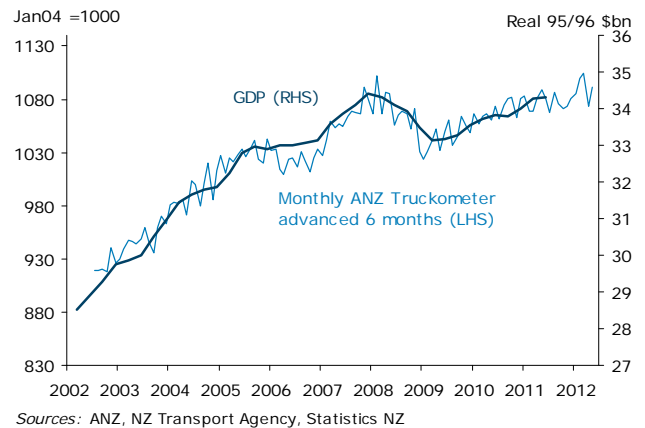
**A subsequent sharp fall in the Truckometer in October (-2.8 percent) was only partly unwound in November (+1.6 percent), meaning that the three-month average that we match to GDP growth has fallen sharply.** Unless we see a strong lift in December, this metric will drop into negative territory, pointing to a negative GDP outturn by mid next year.

**The unsmoothed levels of the Truckometer** appear to be flattening out in a trend sense, suggesting very little growth over the next three GDP outturns (abstracting from Rugby World Cup volatility). However, we are not yet looking at a re-run of 2008, when traffic volumes fell markedly.

ANZ Truckometer (3-month avg) and GDP growth



Monthly ANZ Truckometer and GDP levels



**The ANZ Truckometer suggests we can expect data outturns to be fairly mediocre over coming months.** It will give a timely indication regarding whether the stresses in the global economy are going to see the wheels fall off the New Zealand economy.

## ANZ TRUCKOMETER

	Index (Jan 04 = 1000)	3-month average	Qtrly % chg, 3m avg
Nov-10	1089	1080	0.2
Dec-10	1081	1083	0.9
Jan-11	1067	1079	0.6
Feb-11	1087	1078	-0.1
Mar-11	1076	1077	-0.6
Apr-11	1071	1078	-0.1
May-11	1074	1074	-0.4
Jun-11	1080	1075	-0.1
Jul-11	1085	1080	0.1
Aug-11	1099	1088	1.3
Sep-11	1104	1096	2.0
Oct-11	1074	1092	1.2
Nov-11	1091	1090	0.1

# FINANCIAL CONDITIONS UPDATE

## SUMMARY

Our financial conditions measures are flagging marked differences across growth outlooks. Respectable growth is signalled for the US and New Zealand, albeit not the pace that seemed evident a few months ago. A more pronounced slowdown is in prospect for China and Australia, although helpful one-offs not captured in our FCIs are likely to provide support. The outlook for the Eurozone implied by our FCIs remains grim, with economic momentum set to stall, and recession looming for economies on the Eurozone periphery and Italy. While financial conditions measures have their limitations, the collective spirit is consistent with a loss of optimism over future prospects.

## FINANCIAL CONDITIONS

We track financial conditions across an array of countries.<sup>1</sup> While they do not track perfectly, we generally find that the **historical relationship between financial conditions and GDP has been quite good for the countries we monitor.** Our financial conditions measures also tend to give a reasonable lead on turning points in the cycle. An added advantage of our approach is that it is not a “black box”. It can help quantify the impact of each potential channel on base momentum.

**Indicators such as financial conditions have limitations.** Our FCI measures are a reduced form and do not capture all of the many influences on growth. However, with the financial system playing an increasingly important role in the economy, our approach has advantages over traditional macroeconomic modelling approaches. We have been careful not to over-fit our FCIs, and continue to use them to identify trends in momentum and potential turning points rather than as a forecasting tool. **As such, our FCI measures should be interpreted as an indicator of the level of base momentum within an economy.**

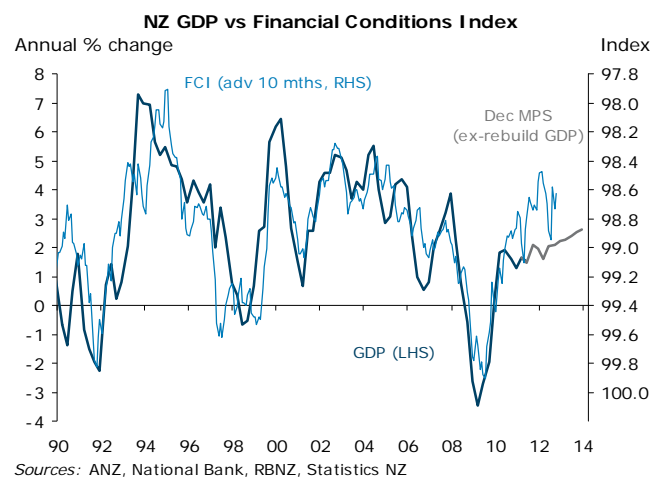
## MOMENTUM STILL BUILDING IN NZ

**Our proprietary Financial Conditions Index (FCI) for NZ is supportive of a continued recovery over the next 12 months.** Very low interest rates and strong commodity prices form the basis of support.

<sup>1</sup> A financial conditions index summarises a range of financial variables into a single series that can be used to predict the future path of the economy. Where available, our FCI includes the currency adjusted for commodity prices or terms of trade movements, interest rates, asset prices, credit growth and proxies for the cost and availability of credit.

**Financial conditions in New Zealand relaxed slightly in December.** A narrowing in CDS spreads for the big 4 Australasian banks (which still remain well above historical averages) and a pick-up in credit were offset by marginally less generous lending standards and falls for equity values.

Our FCI is pointing to 3½ percent growth by mid 2012, which is considerably higher than most OECD peers. This is also considerably above the sub 3 percent annual rate published in the December *Monetary Policy Statement*. **While our FCI incorporates many growth channels, it cannot fully account for them all.** It is quite likely the impacts of downside risks, notably structural deleveraging and global risks, are not being fully captured. By the same token, growth enhancing earthquake reconstruction will not be picked up.

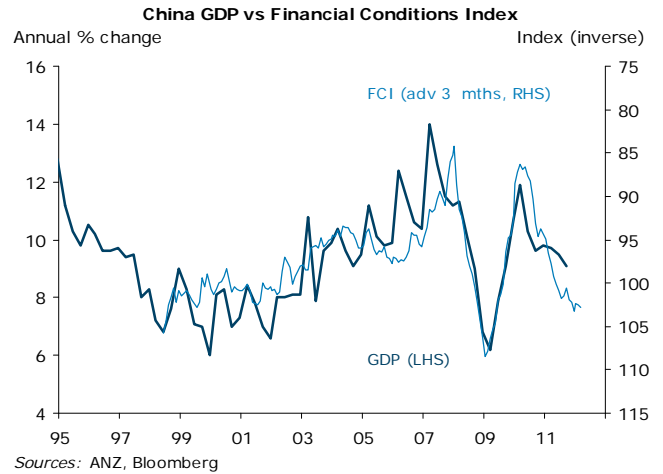
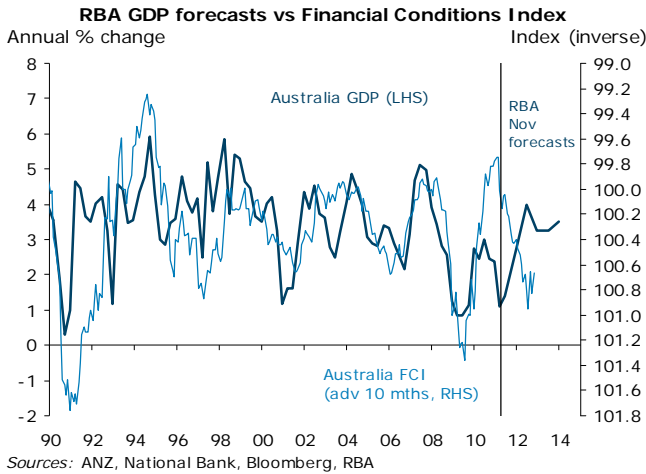


## MODEST OUTLOOK FOR AUSTRALIA

Australian financial conditions also relaxed in December, driven by a fall in CDS spreads and rising equity values, which offset a stronger AUD, weaker commodity prices, a widening in swap spreads, slower credit growth and less relaxed lending standards.

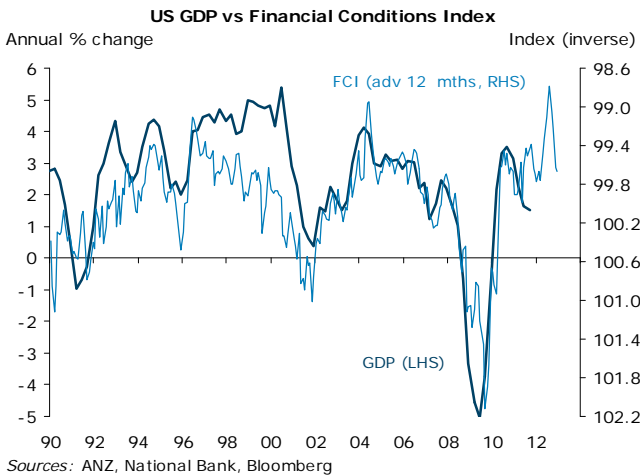
Our Australian FCI is flagging around 2 percent annual growth in GDP by mid 2012. **The projected surge in mining investment is not directly captured by our measure, with strong investment a key contributor to the stronger than expected Q3 GDP result.** However, as the 25bp cut by the RBA in December suggested, they are concerned that the combined headwinds of a weaker global outlook, cautious household sector, the high AUD and lower commodity prices will slow growth momentum.

# FINANCIAL CONDITIONS UPDATE



## US GROWTH TO STRENGTHEN DESPITE TIGHTENING FINANCIAL CONDITIONS

US financial conditions were unchanged in December. A stronger USD, a widening in swap spreads, and lower real M2 growth offset an increase in real equity values.



Overall financial conditions remain consistent with a respectable pace of growth (about 3 percent in 12 months time), but this is well below what the indicator was suggesting a few months ago.

Rather than focus on the implied rate of growth we focus on the trend. The message here is that growth in the US economy is still projected to pick up. Partial indicators support this. The key will be whether the string of positive US data will be affected by signs of weakness in Europe.

## CHINA SLOWDOWN LOOMING?

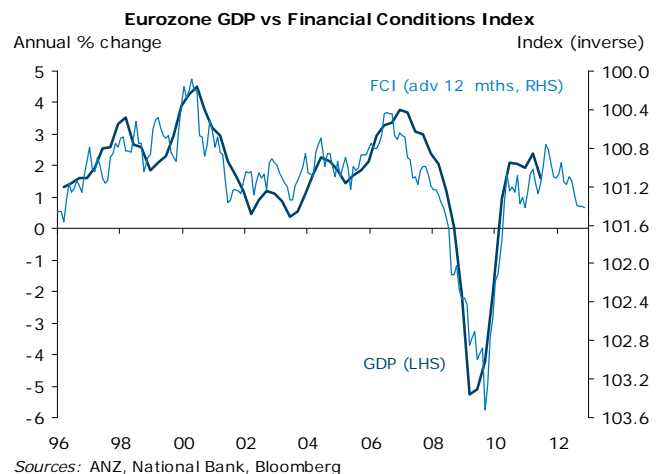
Chinese financial conditions tightened in December. Driving the tightening was an increase in the real lending interest rate, which offset a lower real exchange rate and a pick-up in real credit growth.

Our Chinese FCI points to around 7 percent growth by early next year, which is a marked slowdown from recently observed growth rates and the consensus view. It is consistent with the observed slide in manufacturing sentiment, with the December RBA statement noting that trade in Asia is starting to see the effects of slowing economic activity in Europe.

Our FCI does not directly incorporate the impact of pending fiscal support, with infrastructure spending projects able to be quickly bought onstream.

## HARD LANDING FOR THE EUROZONE IN PROSPECT BUT WITH COUNTRY DIVERGENCES

Financial conditions in the Eurozone eased ever so slightly in December but the level remains "tight". A rise in equity values and lower government bond yields were the major drivers, which offset a tightening in lending standards.



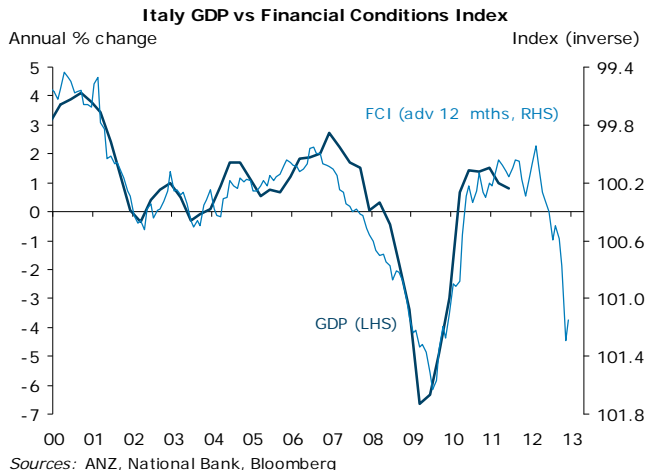
Our FCI implies a further slowdown in annual growth in the region, with the economy effectively stalling. This is particularly concerning considering our FCIs do not fully capture the headwinds to



## FINANCIAL CONDITIONS UPDATE

growth resulting from the planned fiscal austerity measures.

Against this weak Eurozone backdrop, there are strong country differences. The lower euro (of late) and low short- and long-term interest rates have kept German and French financial conditions accommodative, with FCIs pointing to a pick-up in growth in both economies.



However, growth prospects for other Eurozone economies remain shaky. While Italian, Spanish and Greek government bond yields of late have eased, they remain at restrictive levels. Our FCIs are suggesting a looming (or continuing) recession for Greece, Italy and Spain. The Italian growth outlook is particularly worrying.

### OTHER REGIONS

Financial conditions for other regions are pointing to disparate growth rates over 2012:

- United Kingdom – financial conditions were unchanged and still point towards 3 percent growth by the end of next year.
- Canada – easing financial conditions suggest 4 percent growth by the end of next year.
- Hong Kong – financial conditions eased back towards September levels, but are still pointing to only 2 percent growth by early next year.
- South Korea – tightening financial conditions suggest a slowdown in growth to around 1 percent by the first half of next year.
- Singapore – financial conditions were broadly unchanged and point to 5 percent growth by early next year.
- Malaysia – tightening financial conditions point to low growth in early 2012.

### THE UPSHOT

Every economic indicator has limitations and financial conditions are no different. **One of the advantages of our approach is that it can quantify the impact of various financial market channels that conventional macroeconomic models struggle to capture.** Signs of financial market stress can provide important early warning sign of a pending slowdown in economic momentum.

Rather than discuss the point “forecasts” produced by our FCIs, we choose to focus on the **underlying themes. In the current instance, there are four.**

- **The global economy is delicately poised,** with our FCIs suggesting a slowing in economic momentum.
- While less evident than a few months ago, financial conditions continue to flag a **growing divergence between US and European growth prospects.**
- **Financial conditions continue to flag the potential for slower growth in China.** Recent policy action by the Chinese authorities illustrates their determination to deliver a soft (versus hard) landing. While our approach misses important support factors for the Chinese economy, the mix of growth is likely to be more spending-centric if the Chinese authorities employ more policy stimulus, which will have important considerations for New Zealand and our major trading partners.
- **Prospects for full-blown recessions in highly indebted Eurozone economies, particularly Italy, suggest growing challenges in containing current difficulties.** Heavily indebted countries need respectable nominal GDP growth to avoid the debt trap and this is far from the case.

## DATA PREVIEW

## SUMMARY

Driven by a rising investment income deficit, we expect the current account deficit to widen to 4.0 percent of GDP. Ongoing household and future government deleveraging is likely to cap the magnitude of future deficits, but the high NZD, weak global outlook and the unbalanced nature of domestic expansion going forward suggest our external debt levels will remain elevated. September quarter GDP data is expected to confirm a Rugby World Cup boost and show some recoil after an oddly flat Q2 result. This will be welcome, as it will portend momentum that can help the NZ economy ride through shocks, though the real test will come in early 2012.

## CURRENT ACCOUNT –2011Q3

(due Wednesday 21 December, 10.45am)

Current Account	ANZ	Market
Quarter	-\$3.89b	-\$3.82b
Annual	-\$8.0b	-\$7.9b
% of GDP	-4.0%	-3.9%

We are expecting a quarterly current account deficit of approximately \$3.9bn (from \$0.9bn in June), which takes the annual deficit to 4.0 percent of GDP (3.7 percent in June). In seasonally adjusted terms this equates to a September quarter deficit of about \$2.0b.

Courtesy of a strengthening in imports, we expect a return to a goods trade deficit of around \$500m. The fall in the goods terms of trade from a 37-year high also has an impact at the margin. While exports of services will benefit from an increase in visitor arrivals for the Rugby World Cup, imports of services are expected to be boosted by licensing and royalty payments associated with hosting the tournament.

Another driver of the deterioration in the deficit is a projected increase in the investment income deficit to \$2.8bn from \$2.5bn in June, with the annual deficit climbing above \$10bn for the first time since mid 2009. The fall in global equity values in August and September is likely to lower investment income credits, whereas investment income debits will be lifted by the reported increase in bank profits.

Our core view assumes the private sector deleveraging process has further to run, with the magnitude of future current account deficits also expected to be capped by a structural tightening in fiscal policy. Looking forward, we expect the annual deficit to gradually drift higher, before settling around the 5 percent of GDP range from late 2013. Anything more than this will see our

external debt to GDP ratio move higher (it is currently around 70 percent), which would not be greeted favourably by overseas creditors in the current environment.

GROSS DOMESTIC PRODUCT – 2011Q3  
(due Thursday 22 December, 10.45am)

GDP	ANZ	RBNZ	Market
QoQ	+0.9%	+0.6%	+0.6%
YoY	+2.5%	+2.2%	+2.2%
Ann. Ave.	+1.7%	+1.7%	+1.7%

## We expect headline production GDP to increase by 0.9 percent in the September quarter.

Primary sector output is expected to increase 0.7 percent, with much of the growth coming from higher gas and coal production. Goods production is expected to expand around 1.1 percent, with increasing primary and ex-primary manufacturing activity offsetting a close to 2 percent fall in construction activity and lower electricity value added. The greatest area of uncertainty around our pick is for services sector activity (+0.7 percent), where we are counting on a rebound from the very weak Q2 government, communications and personal services components, and some Rugby World Cup activity. Upward revisions to the weak Q2 outturn (+0.1 percent q/q) are a distinct possibility, and may contribute to a weaker Q3 outturn than our pick.

## Led by a sizeable contribution from inventory accumulation, a 0.9 percent quarterly increase is expected for the expenditure GDP measure.

Private consumption expenditure growth will be boosted by an increase in discretionary retail spending, with durable and services consumption expected to benefit from a RWC lift. While residential investment activity is expected to be flat, a close to 4 percent increase in business investment will be supported by a sizeable lift in plant and machinery and transport investment. Inventory accumulation is expected to contribute close to 1 percentage point to GDP, with net exports set to make another negative quarterly contribution, despite a RWC-induced lift in services exports.

## FINANCIAL MARKET IMPLICATIONS

NZ's GDP figures are notoriously lagging so we are not getting overly excited by Q3's prospects. However, we expect recoil from an oddly flat Q2 result, which will confirm reasonable momentum, even if we average out quarterly "noise". With the global scene deteriorating, positive momentum is welcome, for it means greater ability to "ride" through challenges.

# INTEREST RATE STRATEGY

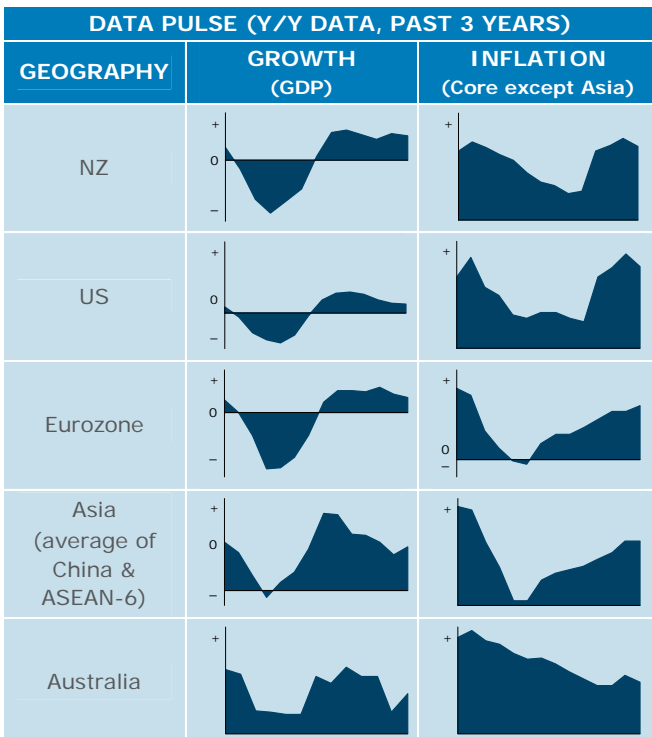
## SUMMARY

The relief rally post the EU summit was short-lived, and while the agreement has managed to avoid an immediate financial meltdown, scepticism remains high. Even with fairly successful German, Spanish and Italian debt auctions during the week and improving US data, markets are not prepared to take on much risk over the Christmas break. This has seen NZ interest rate markets rally hard into the year's end and the curve flatten amongst thin liquidity.

## THEMES

- **The Euro debt crisis dictates.** A mountain of Italian debt issuance in 2012 and the likelihood of further rating downgrades by the ratings agencies has seen markets pricing in even more bad news.
- **Q3 GDP rounds off the final major NZ data release for the year.** Whatever the result, markets will soon focus back on offshore headlines.
- **US data continues to print during the break.** US releases are constant during the break with ISM, Factory Orders and Non-Farm payrolls likely to maintain volatility in long end global rates.

## DATA PULSE



## PREFERRED STRATEGIES – INVESTORS

The relief rally we expected after the European summit did not last long and instead markets have rallied hard on lingering concerns. We recommend preparing to lighten up on long duration positions, particularly in the mid curve which has seen significant out-performance driven by flow.

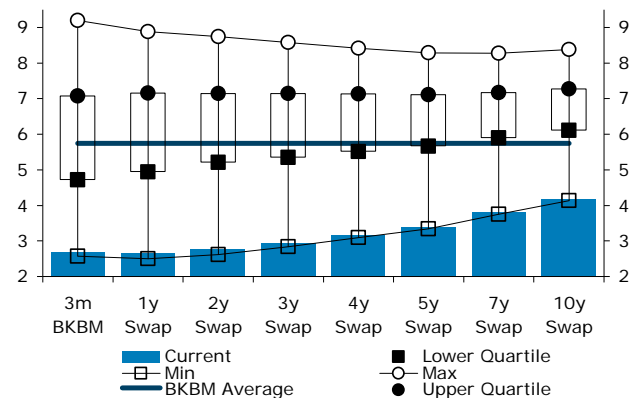
KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral/long	Maintain long but look to reduce mid curve positions
Curve	Neutral	Continues to flatten but currently overdone in the mid curve.
NZ-US 10y spread	Neutral	Bond spreads still looking tight, but are largely the result of large receive swap flows.
Swap spreads	Negative	Bonds should outperform swaps.

## PREFERRED STRATEGIES – BORROWERS

**We maintain our preference for keeping the duration of hedges short.** Prepare for risk-off rallies and use these to average into hedge positions and extend small shorts into mid curve, as carry is not overly prohibitive and rates are at historic lows. While we consider the risk of negative shocks to be high, it is also prudent to increase some cover at these levels.

KEY VIEWS – FOR BORROWERS		
GAUGE	DIRECTION	COMMENT
Hedge ratio	Mostly floating	Be careful using swaps with margins at risk of rising
Value	Extreme	Rates at historically low levels.
Uncertainty	Extreme	Still cautious despite better global sentiment.

NZ Swap Rate History (since the OCR introduction)



Sources: ANZ, National Bank, Bloomberg



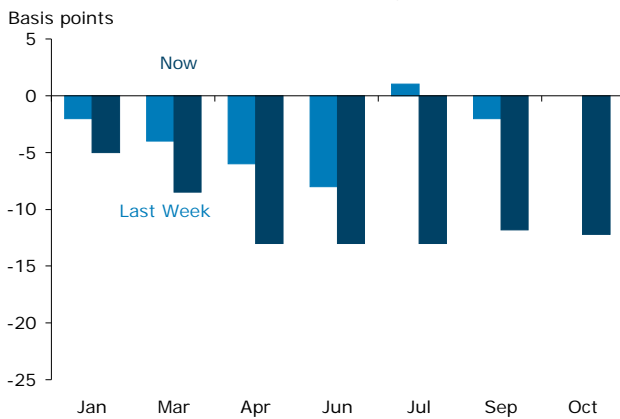
# INTEREST RATE STRATEGY

## GLOBAL SCENE

**Domestic data this week will be useful, but global themes will override.** Business confidence will provide a good check on local reaction to the latest European concerns and the services sector survey may provide colour regarding the state of play post the Rugby World Cup. GDP is the final big data release for the year, with the RBNZ picking 0.6 percent and ANZ 0.9 percent. While an important read, any initial reaction is unlikely to last long while the European situation holds so much potential to affect growth through 2012.

## MONETARY POLICY AND MARKET PRICING

What's Priced In - Today vs. Last Week



Sources: ANZ, National Bank, Bloomberg

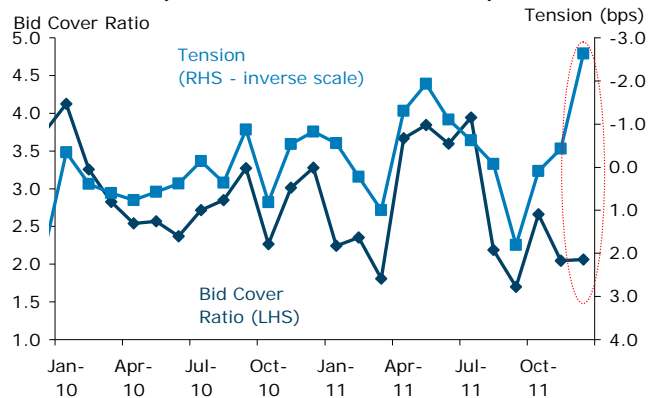
## DOMESTIC TRADING

The market has experienced abrupt moves over the week, which we attribute largely to squaring out of positions before Christmas, combined with some stopping out of speculative flows. We have seen the 4y trade below 3 percent and the 10y below 4 percent. Even with the carry providing marginal benefit, nobody wants to be short, and reducing risk and taking a holiday seems to be the favoured game plan. Corporate and mortgage flows remain light and risk tolerance low, leading to large receive-side pressure testing new lows in kiwi rates.

## BONDS, SWAPS, AND SWAP SPREADS

Given the reduced DMO issuance we expect bonds to be well supported here despite the historically low yields. The majority of all issuance will be in the long end so we expect the curve steepening pressure to remain.

NZGS Tender Statistics  
(month to date for current month)



Sources: ANZ, NZDMO

We are likely to see continued volatility in swap spreads, but with the reduced issuance over the Christmas period we expect demand to outweigh supply. This should see bonds outperforming over the holiday period. The significant rally in swaps has seen bonds underperform, but with limited bond supply and offshore sovereign downgrades we still see potential for bonds to outperform over the medium term as well.

## RELATIVE VALUE

NZGS continues to offer good expected returns across the dollar bloc as market participants search for high yield and a solid sovereign rating. NZ offers both of these in a relative sense and we continue to expect further outperformance of the NZGS curve relative to the swaps curve.

# CURRENCY STRATEGY

## SUMMARY

While there is a sense that the markets have had enough of the 2011 year and are looking forward to a break, the focus for this week will likely be on the ratings agencies. In particular we will be keeping a watchful eye on France, with the potential credit downgrade likely to weigh on the EUR. Locally we watch for the seasonality effect to push the NZD higher (see last week's *Market Focus*). We see a chance of a positive NZ GDP surprise underpinning this move. NZDAUD has turned upwards with the end-of-year effect likely to assist a further move up.

## MARKET THEMES

- European credit ratings a focus this week.
- Watch for positive NZ GDP surprise.
- Markets to go very quiet from Thursday.

## REVIEW AND OUTLOOK

**The EU remains the market's central focus with the ratings agencies now front and centre.** The renewed ratings pressure could see France lose its AAA rating as soon as this week, following a two notch downgrade of Belgium, along with negative reviews for many other EU fringe states. Despite this negative news the EUR has proven remarkably stable again, although with CFTC positioning showing record levels of EUR shorts, there is little appetite for further selling at this time of the year. Indeed, we could see a short-covering rally later in the week. We get the sense that the markets are well and truly "over" 2011, but maybe players will return in 2012 with renewed vigour to push the powerbrokers around. Expect the political side of the EU debate to be the central focus for 2012.

**The NZD end of year seasonal rally seems to have begun and may get an extra lift later in the week from potentially stronger GDP data on Thursday.** That said, the NZD will still be pushed around by EU headlines for the foreseeable future.

**The NZDAUD has finally shown some signs of life and there is evidence that this cross benefits from the end of year effect as well.** The technical picture for NZDAUD is particularly promising now with an initial target of 0.80 for Q2 2012, possibly setting up a target around 0.89 for the end of 2012.

**The AUD is now suffering from confidence issues related to the growth slowdown in China.** In this environment the soft vs. hard commodity story will tend to favour the NZD over the AUD.

**On Friday we have the third Q3 US GDP data reading.** Expectations are for 2 percent annualised growth but given the date of the announcement any USD reaction may be quite muted. We expect most US data to continue to be positive, although we could see a lull in activity during early 2012. We expect the EU situation to provide default support for the USD in 2012 as investors seek a more stable political environment than the EU will be able to offer.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued on a near-term cyclical basis.
Yield	↔	RBA narrows interest rate differential but still large.
Commodities	↔	Commodities lower.
Partial indicators	↔	Leading indicators are slowing.
Technicals	↑	Turned up, positive outlook.
Sentiment	↑	See NZD undervalued vs. AUD.
Other	↔	Global sentiment big driver.
<b>On balance</b>	↔/↑	<b>Sentiment sees lazy buyers coming forward.</b>

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above revised structural fair value estimate of 0.70.
Fair value – short-term	↔	Closer to short-term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↔	Softs not bad.
Risk aversion	↔	Positive US data and short covering leads to risk on.
Partial indicators	↔	NZ data now mixed. US data improving.
Technicals	↔↓	Technical bounce done.
AUD	↔↓	Bullish correction has run its course?
Sentiment	↔	Nothing special.
Other	↔	Nothing apparent.
<b>On balance</b>	↔↑	<b>Holiday mode, end of year seasonal effects may take hold.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
19-Dec	NZ	Westpac NZ Consumer Confidence - 4Q	--	101.3(a)	10:00
	NZ	Performance Services Index - NOV	--	56.6(a)	10:30
	NZ	NBNZ Activity Outlook - DEC	--	28.8	13:00
	NZ	NBNZ Business Confidence - DEC	--	18.3	13:00
	UK	Rightmove House Prices (MoM) - DEC	--	-3.1%	13:01
	UK	Rightmove House Prices (YoY) - DEC	--	1.2%	13:01
	EC	Eurozone Current Account nsa - OCT	--	-€2.5B	22:00
	EC	ECB Eurozone Current Account SA - OCT	--	€0.5B	22:00
	EC	Construction Output SA MoM - OCT	--	-1.3%	23:00
	EC	Construction Output WDA YoY - OCT	--	0.4%	23:00
20-Dec	US	NAHB Housing Market Index - DEC	20	20	04:00
	AU	Conference Board Leading Index - OCT	--	0.1%	12:00
	UK	GfK Consumer Confidence Survey - DEC	-32	-31	13:01
	UK	Nationwide Consumer Confidence - NOV	36	36	13:01
	AU	Reserve Bank's Board December Minutes - DEC	--	--	13:30
	JN	All Industry Activity Index (MoM) - OCT	1.0%	-0.9%	17:30
	GE	GfK Consumer Confidence Survey - JAN	5.5	5.6	20:00
	GE	Producer Prices (MoM) - NOV	0.1%	0.2%	20:00
	GE	Producer Prices (YoY) - NOV	5.2%	5.3%	20:00
	GE	IFO - Business Climate - DEC	106.0	106.6	22:00
	GE	IFO - Current Assessment - DEC	116.0	116.7	22:00
	GE	IFO - Expectations - DEC	97.0	97.3	22:00
21-Dec	US	Housing Starts - NOV	635K	628K	02:30
	US	Housing Starts MOM% - NOV	1.1%	-0.3%	02:30
	US	Building Permits - NOV	635K	653K	02:30
	US	Building Permits MOM% - NOV	-1.4%	9.3%	02:30
	NZ	Current Account Balance - 3Q	-\$3.78B	-\$0.92B	10:45
	NZ	Current Account to GDP Ratio YTD - 3Q	-3.9%	-3.7%	10:45
	NZ	Net Migration SA - NOV	--	-650	10:45
	AU	Westpac Leading Index (MoM) - OCT	--	-0.3%	12:30
	JN	Merchandise Trade Balance Total - NOV	-¥484.7B	-¥280.2B	12:50
	JN	Adjusted Merchandise Trade Balance - NOV	-¥305.7B	-¥457.9B	12:50
	JN	Merchandise Trade Exports YoY - NOV	-4.3	-3.8	12:50
	JN	Merchandise Trade Imports YoY - NOV	8.3	17.9	12:50
	NZ	Credit Card Spending SA (MoM) - NOV	--	2.6%	15:00
	NZ	Credit Card Spending (YoY) - NOV	--	7.9%	15:00
	GE	Import Price Index (MoM) - NOV	--	-0.3%	20:00
	GE	Import Price Index (YoY) - NOV	5.3%	6.8%	20:00
	UK	Bank of England Minutes - DEC	--	--	22:30
	UK	Public Finances (PSNCR) - NOV	£10.3B	-£0.6B	22:30
	UK	PSNB ex Interventions - NOV	£19.7B	£6.5B	22:30
	UK	Public Sector Net Borrowing - NOV	£16.6B	£3.4B	22:30
	JN	BOJ Target Rate - 21-Dec	0.10%	0.10%	UNSPECIFIED
22-Dec	US	MBA Mortgage Applications - 16-Dec	--	4.1%	01:00
	EC	Eurozone Consumer Confidence - DEC A	-21.0	-20.4	04:00
	US	Existing Home Sales - NOV	5.09M	4.97M	04:00
	US	Existing Home Sales MoM - NOV	2.6%	1.4%	04:00
	NZ	GDP (QoQ) - 3Q	0.6%	0.1%	10:45

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
22-Dec	NZ	GDP YoY - 3Q	2.2%	1.5%	10:45
	JN	Bank of Japan Monthly Economic Report - DEC	- -	- -	18:00
	UK	GDP (QoQ) - 3Q F	0.5%	0.5%	22:30
	UK	GDP (YoY) - 3Q F	0.5%	0.5%	22:30
	UK	Current Account (BP) - 3Q	-\$6.1B	-\$2.0B	22:30
	UK	Total Business Investment(QoQ) - 3Q F	-1.4%	-1.4%	22:30
	UK	Total Business Investment(YoY) - 3Q F	0.3%	0.3%	22:30
23-Dec	US	Chicago Fed Nat Activity Index - NOV	-0.1	-0.13	02:30
	US	GDP QoQ (Annualized) - 3Q T	2.0%	2.0%	02:30
	US	Personal Consumption - 3Q T	2.3%	2.3%	02:30
	US	GDP Price Index - 3Q T	2.5%	2.5%	02:30
	US	Core PCE QoQ - 3Q T	2.0%	2.0%	02:30
	US	Initial Jobless Claims - 17-Dec	378K	366K	02:30
	US	Continuing Claims - 10-Dec	3600K	3603K	02:30
	US	U. of Michigan Confidence - DEC F	68.0	67.7	03:55
	US	Leading Indicators - NOV	0.3%	0.9%	04:00
	US	House Price Index MoM - OCT	0.2%	0.9%	04:00
	CH	MNI Flash Business Sentiment Survey - DEC	- -	- -	14:35
	UK	BBA Loans for House Purchase - NOV	35400	35295	22:30
	UK	Index of Services (MoM) - OCT	-0.1%	0.1%	22:30
	UK	Index of Services (3mth/3mth) - OCT	0.3%	0.6%	22:30
24-Dec	US	Durable Goods Orders - NOV	2.0%	-0.5%	02:30
	US	Durables Ex Transportation - NOV	0.4%	1.1%	02:30
	US	Cap Goods Orders Nondef Ex Air - NOV	0.9%	-1.8%	02:30
	US	Cap Goods Ship Nondef Ex Air - NOV	- -	-1.1%	02:30
	US	Personal Income - NOV	0.2%	0.4%	02:30
	US	Personal Spending - NOV	0.3%	0.1%	02:30
	US	PCE Deflator (YoY) - NOV	2.7%	2.7%	02:30
	US	PCE Core (MoM) - NOV	0.1%	0.1%	02:30
	US	PCE Core (YoY) - NOV	1.7%	1.7%	02:30
	US	New Home Sales - NOV	315K	307K	04:00
	US	New Home Sales MoM - NOV	2.6%	1.3%	04:00

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:** A return to a positive household saving rate for the first time in a decade was the highlight of last week's data. Our national saving remains too low to service our investment needs, and now is the time for the Government to join households in knuckling down. Global developments continue to dominate local markets. Today's business confidence data and lagging Q3 GDP data dominate this week. We expect signs of a Rugby World Cup boost to be evident, but the counter to this will be a period of weak activity early next year as the boost subsides. With this occurring against a fickle backdrop, and with ongoing uncertainty over the timing of the Canterbury rebuild, the upshot is likely to be the OCR on hold for most of 2012. We expect a December 2012 start to the tightening cycle, but the spirit of our assessment is a low OCR endpoint, as ongoing private and public sector deleveraging, the high NZD and global frailties necessitate the RBNZ taking a patient approach.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 19 Dec (1:00pm)	National Bank Business Outlook	- -	- -
Wed 21 Dec (10:45am)	International Travel and Migration - Nov	Soft	We expect a net PLT outflow of 500 persons. With no Rugby World Cup visitors a 15 percent s.a. fall in visitor arrivals is expected.
Wed 21 Dec (10:45am)	Balance of Payments – Q3	Widening	We expect an annual deficit of around \$8.0bn (4.0 percent of GDP), with the investment income deficit widening.
Wed 21 Dec (3:00pm)	RBNZ Credit Card Billings - Nov	Down	We expect a 1.5 percent fall in billings, led by a sizeable drop in spending on overseas cards.
Thur 22 Dec (10:45am)	Gross Domestic Product – Q3	RWC boost	A 0.9 percent increase is expected, with higher services and manufacturing activity offsetting weakness in construction sector activity.
Fri 23 Dec (12:00pm)	RBNZ Credit Aggregates – Nov	Deleveraging	Annual credit growth of around 1 percent is expected for households and businesses, with agricultural credit down 1 percent.
Wed 4 Jan (early am)	GlobalDairyTrade auction	High	Strong Chinese demand will support prices, with no change in the average price expected.
Mon 9 Jan (10:45am)	Overseas Merchandise Trade - Nov	In the red	A monthly deficit of about \$250m is expected, with the annual trade surplus shrinking to about \$550m.
Tue 10 Jan (10:45am)	Building Consents - Nov	Climbing	Strengthening house sales suggest a 2 to 3 percent increase in residential issuance. Non-residential consent values are expected to approach \$300m.
Thur 12 Jan (1:00pm)	ANZ Commodity Price Index - Dec	- -	- -
Mon 16 Jan (10:45am)	Food Price Index - Dec	Seasonal fall	A 0.2 percent fall is expected, led by cuts to grocery prices.
Tue 17 Jan (10:00am)	REINZ housing market report - Dec	Rising	Sales volumes are expected to rise 2 percent, with prices to be underpinned by a low stock of properties on the market.
Tue 17 Jan (10:45am)	Electronic Card Transactions - Dec	Crunch time	A 0.5 percent increase in retail card spending is forecast, with core spending up 0.7 percent.
Thur 17 Jan (10:45am)	Consumers Price Index – Q4	Benign	A 0.3 quarterly increase is expected, with annual CPI inflation falling to 2.5 percent.
<b>On Balance</b>		<b>Local vs global</b>	<b>Domestic gauges for H2 should remain positive but global concerns suggest caution for early 2012.</b>

## 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	<b>0.9</b>	<b>1.1</b>	<b>0.2</b>	<b>0.5</b>	<b>0.7</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>
GDP (% yoy)	1.7	1.5	<b>2.5</b>	<b>2.9</b>	<b>2.2</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>3.1</b>	<b>3.3</b>
CPI (% qoq)	0.8	1.0	0.4	<b>0.3</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>
CPI (% yoy)	4.5	5.3	4.6	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>
Employment (% qoq)	1.2	0.0	0.2	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	1.8	2.0	1.1	<b>1.8</b>	<b>0.8</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.3</b>
Unemployment Rate (% sa)	6.5	6.5	6.6	<b>6.4</b>	<b>6.4</b>	<b>6.2</b>	<b>6.1</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Current Account (% GDP)	-3.6	-3.7	<b>-4.0</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-3.7</b>	<b>-4.0</b>	<b>-4.3</b>	<b>-4.4</b>	<b>-4.6</b>
Terms of Trade (% qoq)	0.8	2.4	-0.6	<b>-0.4</b>	<b>-0.9</b>	<b>-0.9</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.6</b>
Terms of Trade (% yoy)	6.7	7.1	3.4	<b>2.1</b>	<b>0.5</b>	<b>-2.7</b>	<b>-2.9</b>	<b>-3.3</b>	<b>-3.2</b>	<b>-3.0</b>

	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Retail ECT (% mom)	1.5	1.4	-0.7	1.1	0.3	-0.5	0.5	1.6	-0.5	..
Retail ECT (% yoy)	6.6	10.0	6.8	9.0	8.0	8.4	7.5	7.4	6.0	..
Credit Card Billings (% mom)	-1.0	1.9	0.5	0.5	1.1	-1.2	1.3	2.6	..	..
Credit Card Billings (% yoy)	2.1	6.5	5.6	4.6	7.4	4.8	5.3	7.9	..	..
Car Registrations (% mom)	-0.2	-5.4	3.4	-2.2	-1.8	8.4	-11.3	0.8	6.6	..
Car Registrations (% yoy)	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	-8.8	-7.9	..
Building Consents (% mom)	2.5	-1.1	3.2	-1.1	13.7	16.8	-17.1	11.2	..	..
Building Consents (% yoy)	-26.0	-32.5	-21.8	-25.4	-15.6	18.7	-3.8	11.8	..	..
REINZ House Price Index (% yoy)	-1.8	-0.4	-0.7	0.0	0.5	0.7	2.7	3.4	2.6	..
Household Lending Growth (% mom)	-0.1	0.2	0.1	0.1	0.2	0.1	0.1	0.1	..	..
Household Lending Growth (% yoy)	1.3	1.3	1.2	1.2	1.2	1.2	1.1	1.1	..	..
ANZ Roy Morgan Consumer Confidence	101.4	101.4	103.3	112.5	109.4	113.3	112.6	112.2	109.0	108.4
NBNZ Business Confidence	-8.7	14.2	38.3	46.5	47.6	34.4	30.3	13.2	18.3	..
NBNZ Own Activity Outlook	14.7	29.5	39.7	38.7	43.7	43.3	35.4	26.1	28.8	..
Trade Balance (\$m)	583	1158	550	201	103	-695	-789	-282	..	..
Trade Balance (\$m ann)	741	1238	1019	999	1288	1023	689	627	..	..
ANZ World Commodity Price Index (% mom)	4.7	1.6	0.4	-1.2	-0.2	-1.4	-2.0	-3.5	-1.0	..
ANZ World Commodity Price Index (% yoy)	23.5	19.8	19.6	20.6	22.2	22.0	16.5	9.1	5.8	..
Net Migration (sa)	-510	-90	-270	-260	-200	110	-690	-640	..	..
Net Migration (annual)	6554	5508	4625	3867	2867	2257	773	-103	..	..

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

## KEY MARKET FORECASTS AND RATES

FX RATES	ACTUAL			Forecast (end month)						
	Oct-11	Nov-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.807	0.810	0.763	0.77	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.766	0.768	0.763	0.79	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.582	0.583	0.584	0.57	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	63.06	62.73	59.38	57.8	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.502	0.504	0.491	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ\$ TWI	70.4	70.3	68.5	68.4	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Oct-11	Nov-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	2.50	2.50	2.75	3.25	3.50
NZ 90 day bill	2.73	2.73	2.72	2.70	2.70	2.80	2.80	3.20	3.70	3.80
NZ 10-yr bond	4.50	4.02	3.78	4.10	4.10	4.10	4.20	4.40	4.40	4.60
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	0.43	0.53	0.56	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.50	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00
AU 3-mth	4.71	4.60	4.42	4.60	4.20	4.20	4.20	4.20	4.20	4.20

Forecasts finalised as at 28 November 2011

	16 Nov	12 Dec	13 Dec	14 Dec	15 Dec	16 Dec
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.67	2.70	2.70	2.69	2.70	2.70
NZGB 04/13	2.48	2.43	2.42	2.42	2.39	2.43
NZGB 04/15	2.85	2.78	2.76	2.76	2.69	2.73
NZGB 03/19	3.65	3.66	3.61	3.61	3.49	3.55
NZGB 05/21	3.88	3.92	3.87	3.87	3.74	3.81
2 year swap	2.79	2.76	2.73	2.71	2.63	2.69
5 year swap	3.53	3.37	3.31	3.29	3.16	3.24
RBNZ TWI	67.8	68.5	68.1	67.9	67.3	68.1
NZD/USD	0.7666	0.7727	0.7635	0.7572	0.7483	0.7596
NZD/AUD	0.7598	0.7596	0.7579	0.7553	0.7560	0.7614
NZD/JPY	59.10	60.00	59.48	59.01	58.42	59.17
NZD/GBP	0.4859	0.4941	0.4892	0.4890	0.4836	0.4890
NZD/EUR	0.5699	0.5788	0.5789	0.5807	0.5758	0.5826
AUD/USD	1.0089	1.0172	1.0074	1.0025	0.9898	0.9977
EUR/USD	1.3451	1.3350	1.3189	1.3040	1.2996	1.3038
USD/JPY	77.09	77.65	77.90	77.93	78.07	77.89
GBP/USD	1.5776	1.5637	1.5608	1.5486	1.5475	1.5534
Oil (US\$/bbl)	99.37	99.40	97.77	100.24	94.92	93.84
Gold (US\$/oz)	1768.50	1695.75	1654.75	1639.90	1572.60	1587.55
Electricity (Haywards)	6.37	7.35	24.09	7.95	7.28	6.93
Baltic Dry Freight Index	1884	1930	1922	1912	1889	1888
Milk futures (USD)	143	141	141	142	143	143

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