

THE FRENCH CONNECTION

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Page 2: Economic overview

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Page 4: Economic comment – leading indicators

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Page 5: Economic comment – global watch

- > The dataflow was generally mixed last week. In the US, retail sales and industrial production data confirms that the US economy remains very weak, despite some leading indicators showing improvement. Chinese GDP was weaker than expected, although solid retail spending and industrial production results suggest the economy may rebound in the second quarter.

Page 6: Interest rate strategy

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Page 7: Currency strategy

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ECONOMIC OVERVIEW

Most commentators now expect a 50bp cut from the RBNZ at the end of this month. Consequently, wholesale interest rates have started to correct lower, while the NZD looks to have unhinged from its close correlation with equities. The latter development is welcome, but further moves lower are required to assist the much needed rebalancing process in the NZ economy.

What's ahead?

- > **March International Travel and Migration** (Tuesday 1045 NZST). Monthly net migration inflows are expected to continue as fewer New Zealanders choose to leave. The weak global backdrop suggests visitor arrivals will continue to trend lower.
- > **March Credit Card Spending** (Thursday 1500 NZST). The data is volatile on a monthly basis. However, we expect the general level of spending to remain subdued, although potentially showing signs of a base forming.

What's the view?

And we thought we were downbeat on the NZ economy's prospects! The OECD's latest annual *Economic Survey of New Zealand* released last week was quite clear in stating the considerable challenges the economy faces over the coming 24 months. The impact of the biggest financial crisis in a generation and sharply weaker trading partner growth is going to be felt for some time. They have noted that *"The economy was already in recession during 2008 and is likely to remain so throughout 2009, before recovering only hesitantly in 2010, as major deleveraging continues."* Furthermore they are forecasting a contraction in economic growth of 2.8 percent this year (in line with our expectations), and a subdued recovery of only 0.5 percent for 2010 (well below our expectations). This is a very "soup bowl" shaped cycle indeed!

But putting the numbers aside, the broad themes of the OECD's views are very similar to our own. In fact, we could just about repeat the key messages from our latest *Quarterly Economic forecasts* released at the end of March. Like us, the OECD sees the economy going through a current account deficit adjustment and household de-leveraging process that will see growth being the sacrificial lamb. With the fiscal accounts set to deteriorate, the risk to the sovereign credit rating, and the heavy reliance on foreign debt funding, there is limited ability for further fiscal policy support to be delivered and that *"...monetary policy should be the primary tool used to provide further stimulus."* Along with further interest rate cuts, hikes are not envisaged before 2011. Finally, the OECD also see

the NZD as being a key relative price that must adjust which *"should over time encourage a much needed shift of resources away from housing and consumption into tradables production."*

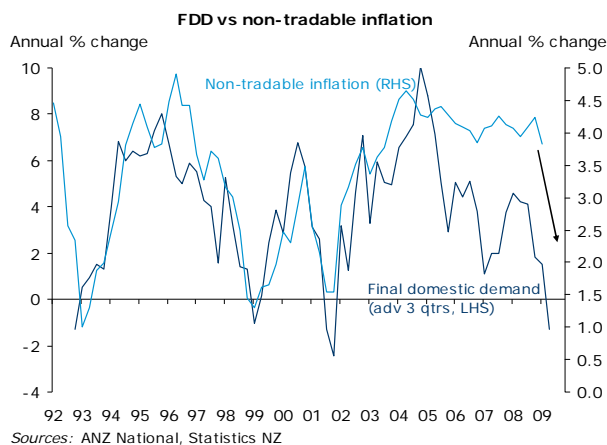
Regular readers will be well aware of the similarities in this message above, and particularly our views on the currency. In fact, the NZ dollar holding around its historical average level despite the economy being incredibly weak, risks the adjustment process the economy requires taking significantly longer. It does appear to have unhinged from its close correlation with equities of late, but there is a long way to go. Without a lower currency, a very low growth result that the OECD envisages over 2010 cannot be ruled out.

However for now, we continue to expect the economy to recovery from the second half of this year (albeit at a pretty tepid rate and on our expectations that the NZD will eventually adjust). We have already seen signs of stabilisation (and improvement) in the housing market and there is some evidence of a base developing for retail spending. The key uncertainty, or course, centres on how households respond to the rapidly deteriorating labour market. But we do suspect that the bungy-cord will kick in over 2010, as pent up demand takes hold.

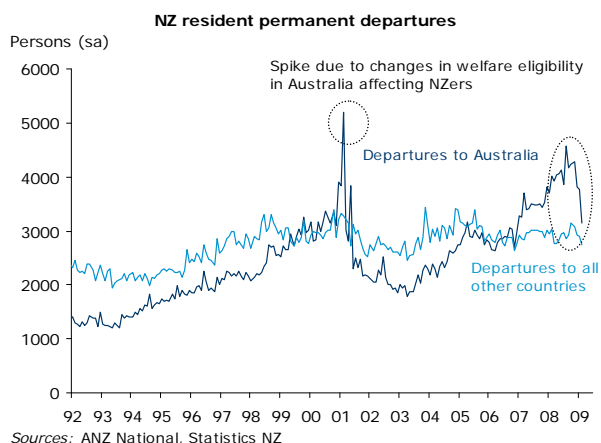
Moving to the other big development last week was the release of the March quarter CPI. As expected, the headline CPI rose by 0.3 percent in the quarter, taking annual inflation to 3.0 percent. This is the first time inflation has been within the RBNZ's target band (of 1 to 3 percent) since June 2007. Inflation may not be the main focus right now, but it is encouraging to see spare capacity in many sectors of the economy translating to lower inflation pressures. This isn't just evident in obvious sectors like retailing, but also in services sectors where labour is a major component (with services inflation falling 0.5 percent), and in housing-related sectors like construction, which were flat in the quarter. The so-called "core" measures of inflation also showed encouraging signs. Indeed, non-tradable inflation only rose by 0.7 percent (well below the 1.0 percent average quarterly increase since 2002), the weighted median rose 0.3 percent and the 10 percent trimmed mean by 0.6 percent. The rise in the weighted median is the smallest quarterly increase since June 2003.

There is little doubt that the medium-term inflation outlook has vastly improved. We expect the headline CPI inflation to head towards the bottom of the RBNZ's target band later this year. Inflation is no longer an immediate concern and this paves the way for more monetary policy relief. Signs of easing in underlying inflation pressures will give the RBNZ some confidence that the move to cut interest rates aggressively when inflation was still above their target band was the correct one. With

inflation not a problem for the immediate future, it will not stand in the way of the RBNZ delivering a 50bp cut in the OCR at their next *Review* on 30 April and the market is slowly moving to this view also.



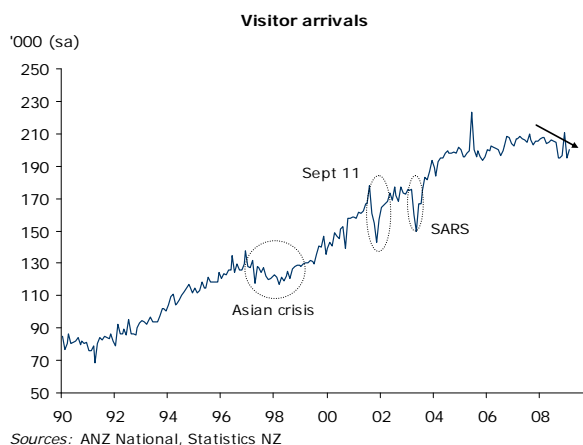
Turning to the local data this week, there is not really a lot to discuss. March international travel and migration statistics on Tuesday should get some attention, particularly as net migration has shown signs of improvement over the past few months. This is largely on the back of less New Zealanders choosing to leave. However, there is a considerable level of uncertainty for migration over the medium-term. Historically, migration flows have tended to deteriorate during times of economic weakness or rising unemployment. In that situation it is only natural to pack your bags and look overseas, as was the case over the 1980s. This has tended to make migration a consequence and accelerant of the cycle, as opposed to the determinant.



Based on the traditional relationship and prospects for fewer job opportunities in NZ, we may well see migration numbers slide. Yet this economic cycle is also different. It's a deep global downturn. NZ is suffering, but looks better than most, particularly those in the Northern Hemisphere. Hence, it is possible that migration will hold up better than it has in the past. There is also the possibility that ex-pat New Zealanders will return home as

prospects remain weak offshore. These sorts of conflicting dynamics leave us musing over prospects for migration over 2009.

However, there is less uncertainty with the outlook for tourism. Visitor arrivals have already begun to be impacted by the global downturn and are down 9 percent on a year ago. We fully expect this theme to continue as de-leveraging households around the globe pare back on "big-ticket" items. This will particularly be the case from countries that are typically high spenders such as the US and Europe. If anything, we may end up seeing more visitors from Australia, as they choose to travel closer to home.



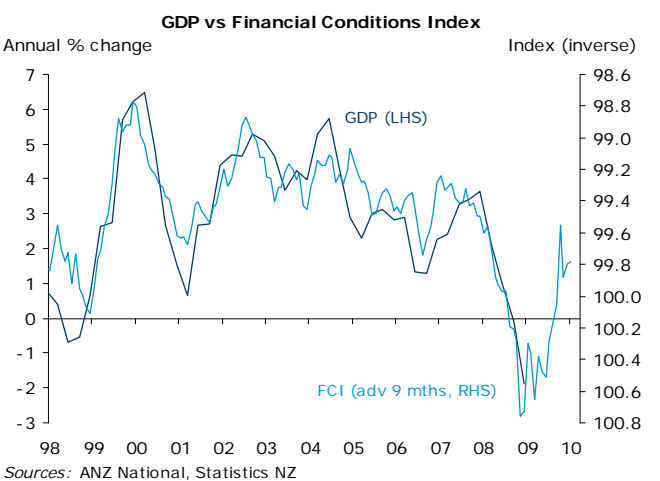
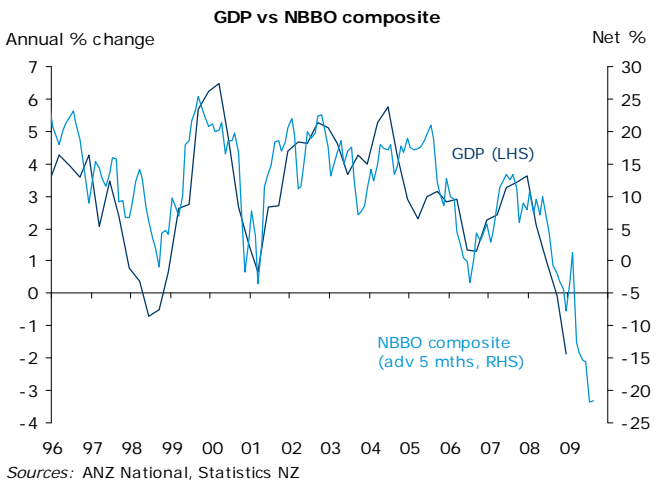
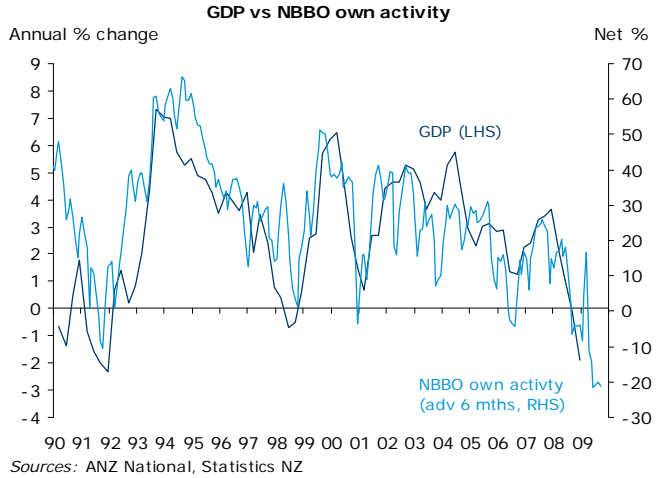
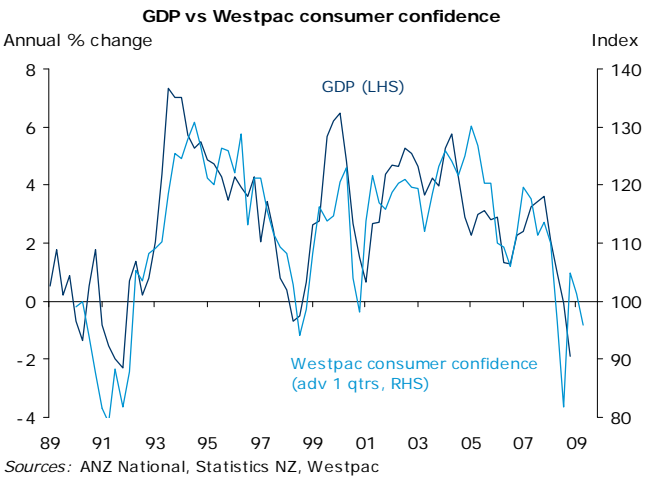
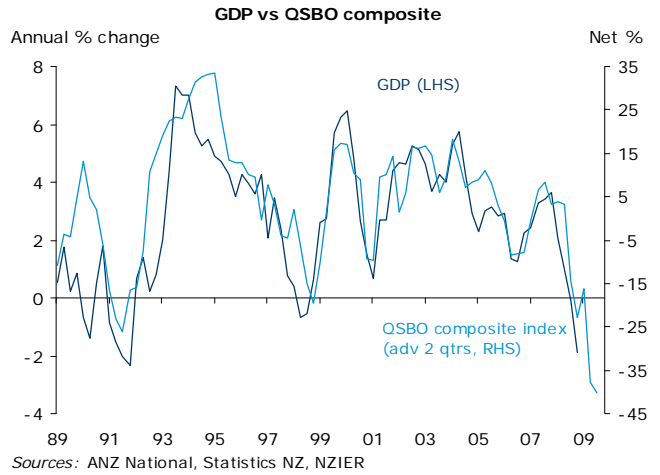
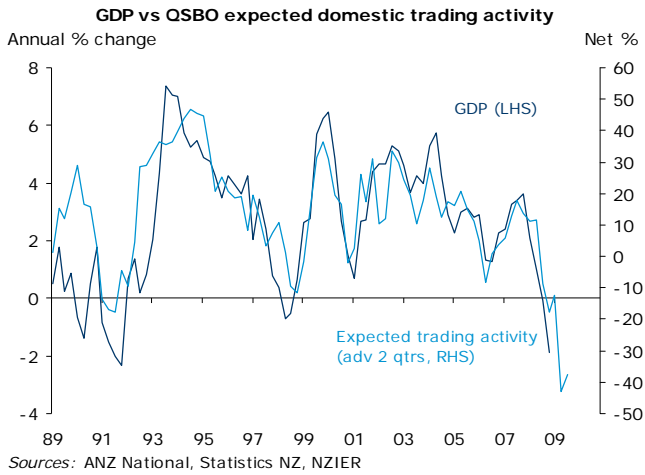
Internationally, the focus this week will remain on the US earnings reporting session. It has a way to go yet, but thus far at least, financial institutions have reported better than expected numbers. The real test, however, will be how other sectors fare. After all, in the midst of the worse recession since the 1930s, earnings will be under tremendous pressure. The data has taken somewhat of a backseat of late, or the market is being selective with what it focuses on. Nonetheless, the major data releases include the German IFO, and CPI and GDP data in the UK. In the US, durable goods will be important as will existing and new homes sales. CPI data is also released in Australia. Of significant interest will also be the RBA minutes from their latest meeting to see how close the decision to cut by 25bps was. A speech by RBA Governor Stevens tomorrow will also be closely watched.

Recent local data...

- > **Retail Sales (February):** Total retail spending rose by 0.2 percent, while core spending fell 0.1 percent.
- > **BNZ-Business NZ PMI (March):** The seasonally adjusted index rose by 2.1 points to 40.7.
- > **CPI (March quarter):** The CPI rose by 0.3 percent in the quarter, taking annual inflation to from 3.4 percent in the September quarter, to 3.0 percent.

LEADING INDICATORS

Most of the leading indicators we monitor are pointing towards a deeper downturn in the economy in the near-term. Perhaps more alarmingly is that many of the indicators are yet to show signs of bottoming out – particularly those relating to business sentiment. Indeed, consumers appear to be relatively more optimistic about prospects, but this could change if the tough business climate translates to rapid job loss as the year progresses. At this stage, the leading indicators suggest Q1 GDP faring worse than the -0.9 percent outturn in Q4 last year. And the string of negative quarterly contractions has a good chance of extending into six quarters. A glimmer of optimism is our Financial Conditions Index, which is pointing to a rebound early next year. But even then it will be a rather tepid one, particularly if the NZD and swap rates don't correct lower quickly.



GLOBAL DATA WATCH

The dataflow was generally mixed last week. In the US, retail sales and industrial production data confirms that the US economy remains very weak, despite some leading indicators showing improvement. Chinese GDP was weaker than expected, although solid retail spending and industrial production results suggest the economy may rebound in the second quarter.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
Australia	NAB Business Conditions (Mar)	-	17	-20	-
	Westpac Leading Index (Feb)	-	-0.3%	-0.7%	-
	Import Price Index (1Q) – qoq	-0.4%	-2.8%	10.8%	Weaker
	Export Price Index (1Q) – qoq	-3.5%	-4.6%	15.9%	Weaker
US	PPI (Mar) – mom	0.0%	-1.2%	0.1%	Weaker
	Advance Retail Sales (Mar)	0.3%	-1.1%	0.3%	Weaker
	Business Inventories (Feb)	-1.2%	-1.3%	-1.3%	In-line
	CPI (Mar) – mom	0.1%	-0.1%	0.4%	Weaker
	Empire Manufacturing (Apr)	-35.0	-14.7	-38.2	Stronger
	Industrial Production (Mar)	-0.9%	-1.5%	-1.5%	Weaker
	Housing Starts (Mar)	540K	510K	572K	Weaker
	Continuing Claims (w/e Apr 5)	5893K	6022K	5850K	Weaker
	University of Michigan Confidence (Apr P)	58.5	61.9	57.7	Stronger
Euro-zone	CPI (Mar) – mom	0.4%	0.4%	0.4%	In-line
	Industrial Production (Feb) – mom	-2.5%	-2.3%	-2.4%	In-line
	Trade Balance s.a. (Feb)	-4.9B	-4.0B	-5.4B	Stronger
Japan	Tertiary Industry Index (Feb) – mom	-0.8%	-0.8%	0.4%	In-line
	Consumer Confidence (Mar)	30.0	29.6	27.6	Weaker
Asia Ex-Japan					
<i>China</i>	Real GDP (1Q) – yoy	6.2%	6.1%	6.8%	Weaker
	CPI (Mar) – yoy	-1.3%	-1.2%	-1.6%	In-line
	Retail Sales (Mar) – yoy	14.6%	14.7%	11.6%	In-line
	Industrial Production (Mar) – yoy	6.3%	8.3%	11.0%	Stronger
<i>South Korea</i>	Export Price Index (Mar) – mom	-	1.6%	4.8%	-
	Import Price Index (Mar) – mom	-	1.3%	3.9%	-
<i>Malaysia</i>	Unemployment Rate (Mar)	-	3.7%	3.5%	-
	Manufacturing Sales (Feb) – yoy	-	-26.1%	-29.1%	-
<i>Philippines</i>	Total Exports (Feb P) – yoy	-38.5%	-39.1%	-40.6%	Weaker
	Overnight Borrowing Rate	4.50%	4.50%	4.75%	In-line

INTEREST RATE STRATEGY

Interest rates have fallen sharply over the past week as the market has gravitated to the view that the RBNZ will cut by 50bps next week. The next step is likely to be the pricing out of the turn in the OCR, currently assumed from mid year. As this occurs, rates will fall, especially at the short end. This is good news for borrowers, and for steepening trades.

Market themes...

- > Global data is showing signs of forming a base – or in popular jargon – the second derivative is turning. If sustained, this is good news, but it won't absolve NZ of its obligation to rebalance.
- > Most commentators are now calling for a 50bp cut from the RBNZ next week. The market is slowly gravitating to this view, but there is more work to be done.
- > However, the pricing out of the turn in the cycle is what will really deliver the goods. This may not occur until after the *OCR Review*, spurred on by pointed comments from the RBNZ.
- > Borrowers are likely to be rewarded with lower short term rates after the *OCR Review*. As such, we favour holding off paying fixed.

Review and outlook...

Regular readers will be aware that we believe the need to rebalance is at the heart of our medium term economic view. The stabilisation of global economic data is very much a positive in that regard, but it isn't a cure-all, and we need to be careful about how we interpret this news. Being able to export into a healthier global economy will be helpful, and may speed the recovery. But in level terms, the global economy remains weak, and if consumers continue to de-leverage, there is little to alter prospects for the domestic economy. As such, we continue to expect the OCR to remain low for an extended period. Once this reality slowly sinks in, we would expect to see a large adjustment to forward yield expectations. As the turn in the cycle gets priced out, we expect to see a large move in short end rates, which may well take the bellwether 2 year swap to a new low.

The recent decline in the NZD also rates a mention. We haven't been surprised by the kiwi's slide, which has coincided with the downward shift in OCR expectations. While at the margin a lower NZD suggests that interest rates have less scope to fall, we have to distinguish between cause and effect. Delivering a cut of less than 50bps would probably give the NZD a boost, which wouldn't be helpful, and hence we don't see this as an argument for less easing. One thing seems sure – the RBNZ will back its words with actions next week.

Borrowing strategies we favour at present

Swap rates continue to drift lower, and are down around 15 to 20bps over the past week. This is an encouraging sign, and we expect it to continue as the market "prices out" the turn in the easing cycle, which is currently assumed to occur in a few months. If the market fully embraces the RBNZ's message, the entire term structure of interest rates will adjust lower, especially at the short end. It is difficult to envisage new lows at the long end (at least in the next few weeks), but the same can't be said for the short end. Indeed, our fair value analysis suggests that 1 and 2 year swap rates will make new record lows in coming weeks. Given this, we favour holding off fixing for now.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓↓	Majority of economists now calling for 50bp cut next, yet market pricing in much less.
NZ data	↓↓	CPI showed signs of waning price pressures. Supportive of a 50bp RBNZ cut.
Fed Funds/ front end	↔/↓	LIBOR continues to fall, suggests liquidity improving.
RBA	↔/↓	April Minutes may give some clues. Recent data weak.
US 10 year	↔	The tug of war between supply/inflation and safe-haven/QE continues.
NZ swap curve	↔/↑	50bp cut will force radical re-pricing of short end.
Flow	↔/↑	Progress lower in yield still choppy. Still payers around.
Technicals	↔/↑	Downward progress slow.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Apr-09	-31	-36
Thu 11-Jun-09	-52	-52
Thu 30-Jul-09	-56	-56
Thu 10-Sep-09	-54	-60
Thu 29-Oct-09	-48	-55
Thu 10-Dec-09	-42	-54
Thu 21-Jan-10	-26	-57

Trading themes we favour at present

The substantial rally we were looking for in the 1yr swap last week has occurred, and we expect it to continue as we edge closer to the April 30th *OCR Review*. The long end remains a difficult trade (and is where we'd expect rising country risk premiums to be most sternly expressed). In contrast, the short end is reasonably mathematical, and we expect to see a large rally as the late 2009/early 2010 hikes get priced out. The 2yr will benefit from this, and has excellent roll/carry characteristics.

CURRENCY STRATEGY

The expectation of a 50bp RBNZ rate cut at the end of the month saw the NZD struggle last week. This was particularly the case against the AUD, where the market remains unconvinced whether any more rate cuts are on offer. The correlation with equity supporting high yielders still exists. The question has to be asked how much of a high yielder is the NZD given the OECD's call for 2 percent rates in NZ until 2011.

Market themes...

- > Rates differential versus AUD to widen in Australia's favour!
- > US financial news better than expected – is the US first in and first out?
- > Equity markets – is risk appetite returning?

Review and outlook...

The NZD traded heavy last week as the market began to focus more and more on the RBNZ OCR decision at the end of the month. The realisation that a lower currency is the perfect result for NZ to weather the financial storm has long been agreed by economists. It lowers the borrowing programmes and helps reduce the current account deficit, which is the Achilles heel of the NZ economy. Our medium-term view on the currency remains bearish. But our view remains a case of what needs to happen as opposed to what will happen.

The US must be pleased with a lot of the data last week as their financial institutions showed some black ink for the first time in 15 months. Consumer confidence rebounded probably on continued equity strength, but this is a leading indicator, and it's looking up. The question still remains who will buy Treasuries as Japan hasn't increased its holdings for four years and China has made plenty of noises that diversification of reserves are the future. It is interesting to note that the US couldn't join the Euro given its current financial position. US rates again began to drift higher on waning demand, even as the Fed purchased billions of Treasuries through its QE programme. Conversely the NZD rallied as mortgage paying continued to decline. The tipping point regarding what premium NZ rates have to maintain over US rates to support the currency at current levels has been reached. If our yield differential continues to narrow in the 2 year part of the curve, the NZD will trade lower. It's not that the world isn't yield seeking. It's that the NZD doesn't have the yield.

The AUD has maintained its strength over the last week as diversification into other reserves has clearly benefited the AUD. 0.7130 is the key

downside support and 0.7330 the key upside level. The break below 0.8000 in NZDAUD terms occurred as the market shifted to a 50bp cut from the RBNZ. This yield differential, if it can last, can propel the NZDAUD towards 0.7700 support

For this week, it's a case of trading the yield differentials. The NZD has support at 0.5550 and 0.5460; and resistance at 0.5770 and 0.5830.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Lower end of fair value range.
Yield	↓	RBNZ set to head below RBA.
Commodities	↔	Commodity base in place.
Partial indicators	↔	CPI heading lower and not a major concern.
Technicals	↓	0.7700 to 0.8000 range.
Sentiment	↔	Risk appetites improving.
Other	↓	AUD benefiting from Asian reserves diversification.
On balance	↔/↓	Decline should extend, but AUD trajectory key.

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Around long term average.
Fair value – short-term	↔	Close to fair value range.
Yield	↓	Differential narrowing.
Commodities	↔	Dairy prices stabilising.
Risk aversion	↔/↑	VIX still falling, equities still rising.
Partial indicators	↔	Still focusing on the second derivative.
Technicals	↔/↓	0.5550-0.5770 key this week.
AUD	↔/↑	AUD in demand.
Sentiment	↔/↑	Risk appetites improving.
Other	↔/↓	Correlation with equities appears to be waning.
On balance	↔/↓	Big trend is still lower.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
20-Apr	UK	Rightmove House Prices (Apr) - mom	-	0.9%	11:01
	AU	Producer Price Index (1Q) - qoq	0.6%	1.3%	13:30
	JN	Leading Index CI (Feb F)	75.2	75.2	17:00
		Coincident Index CI (Feb F)	86.0	86.8	17:00
		BoJ Governor Shirakawa to Speak at Trust Banks' Meeting	-	-	18:00
21-Apr	US	Fed's Evans Speaks at Money Smart Week Events in Chicago	-	-	01:00
		Leading Indicators (Mar)	-0.2%	-0.4%	02:00
	NZ	Visitor Arrivals (Mar) - mom	-	2.9%	10:45
	AU	RBA Board's April Minutes	-	-	13:30
		RBA Governor Stevens Speaks in Adelaide	-	-	15:30
	GE	Producer Prices (Mar) - mom	-0.3%	-0.5%	18:00
		ZEW Survey (Econ. Sentiment) (Apr)	2.0	-3.5	21:00
		ZEW Survey (Current Situation) (Apr)	-90.0	-89.4	21:00
	EC	ECB's Ordonez, Santander's Saenz Speak in Madrid	-	-	19:30
		ZEW Survey (Econ. Sentiment) (Apr)	0.0	-6.5	21:00
	UK	CPI (Mar) - mom	0.2%	0.9%	20:30
		CPI (Mar) - yoy	2.9%	3.2%	20:30
		Core CPI (Mar) - yoy	1.5%	1.6%	20:30
		RPI (Mar) - mom	-0.2%	0.6%	20:30
22-Apr	EC	ECB's Papademos Presents Report to Parliament in Strasbourg	-	-	05:00
	JN	Adjusted Merchandise Trade Balance (Mar)	-¥252.2B	-¥43.3B	11:50
		Merchandise Trade Exports (Mar) - yoy	-46.6	-49.4	11:50
		Merchandise Trade Imports (Mar) - yoy	-37.3	-43.0	11:50
	AU	DEWR Skilled Vacancies (Apr) - mom	-	-10.8%	13:00
		Consumer Prices (1Q) - qoq	0.5%	-0.3%	13:30
		Consumer Prices (1Q) - yoy	2.8%	3.7%	13:30
		RBA Trimmed Mean (1Q) - qoq	0.8%	0.6%	13:30
		RBA Trimmed Mean (1Q) - yoy	3.8%	4.2%	13:30
		RBA Weighted Median (1Q) - qoq	0.8%	0.9%	13:30
		RBA Weighted Median (1Q) - yoy	4.0%	4.5%	13:30
	UK	Bank of England Minutes	-	-	20:30
		Claimant Count Rate (Mar)	4.6%	4.3%	20:30
		Jobless Claims Change (Mar)	116.0K	138.4K	20:30
		Average Earnings inc bonus 3M/YoY (Feb)	1.4%	1.8%	20:30
		ILO Unemployment Rate (3mths) (Feb)	6.7%	6.5%	20:30
		Public Finances (PSNCR) (Mar)	18.0B	4.4B	20:30
		Public Sector Net Borrowing	15.5B	9.0B	20:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
21-Apr cont.	UK	M4 Money Supply (Mar P) - mom	1.2%	1.4%	20:30
23-Apr	US	House Price Index (Feb) - mom	-0.7%	1.7%	02:00
	AU	New Motor Vehicle Sales (Mar) - mom	-	-3.5%	13:30
	NZ	Credit Card Spending (Mar) - yoy	-	-1.9%	15:00
	JN	BOJ Governor Shirakawa to Speak at Japan Society in New York	-	-	16:00
	GE	PMI Manufacturing (Apr A)	33.0	32.4	19:30
		PMI Services (Apr A)	42.4	42.3	19:30
	EC	Current Account (Feb)	-10.7B	-12.7B	20:00
		PMI Manufacturing (Apr A)	34.7	33.9	20:00
		PMI Services (Apr A)	41.3	40.9	20:00
		Industrial New Orders (Feb)	-2.2%	-3.4%	21:00
14-Apr	US	Initial Jobless Claims (w/e Apr 19)	640K	610K	00:30
		Continuing Claims (w/e Apr 12)	6120K	6022K	00:30
		Existing Home Sales (Mar) - mom	-0.9%	5.1%	02:00
		Treasury's Geithner to Host G-7 Finance Ministers	-	-	16:00
	JN	Corp Service Price (Mar) - yoy	-2.6%	-2.6%	11:50
		All Industry Activity Index (Feb) - mom	-2.1%	-1.7%	11:50
	GE	IFO - Business Climate (Apr)	82.3	82.1	20:00
		IFO - Current Assessment (Apr)	82.1	82.7	20:00
		IFO - Expectations (Apr)	82.6	81.6	20:00
	UK	GDP (1Q A) - qoq	-1.5%	-1.6%	20:30
		GDP (1Q A) - yoy	-3.8%	-2.0%	20:30
		Retail Sales (Mar) - mom	-0.3%	-1.9%	20:30
25-Apr	US	Durable Goods Orders (Mar)	-1.5%	3.4%	00:30
		Durables Ex Transportation (Mar)	-1.2%	3.9%	00:30
		New Home Sales (Mar) - mom	0.9%	4.7%	02:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.
Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The next big event is the RBNZ's *OCR Review* next week. We expect a 50bp cut and for the rhetoric to be reasonably dovish. Looking forward, there are signs of a base beginning to form. The big uncertainty is whether this can be sustained with the labour market turning rapidly.

Date	Data/Event	Economic Signal	Comment
Tue 21 Apr (10.45)	International Travel and Migration (Mar)	Positive migration, but less visitors	Net migration inflows are likely to remain positive as less NZer's choose to leave. We are also watching for an influx of ex-pats returning home, although there is little evidence of this yet. Tourism inflows will remain under pressure.
Wed 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Signs of rebalancing	While the weak global backdrop is impacting export growth, import growth is slowing faster as the domestic economy de-leverages. We expect another monthly trade surplus.
Wed 29 Apr (15.00)	Credit Growth (Mar)	Temporary pick-up in mortgage lending	Some pick-up in mortgage lending from the rush of people to take advantage of low fixed rates. This is unlikely to be sustained.
Wed 29 Apr (15.00)	NBNZ <i>Business Outlook</i> (Apr)	-	-
Thu 30 Apr (09.00)	RBNZ <i>OCR Review</i>	50bp cut	The weak QSBO survey suggests the economy continues to contract into Q2. On top of this, monetary conditions are tighter now than what the RBNZ forecast in March. We now expect the Bank to cut by 50bps.
Thu 30 Apr (10.45)	Building Consents Issued (Mar)	A base?	We expect a base to begin to form around current depressed levels.
Mon 4 May (10.45)	LCI & QES (Mar qtr)	Past the peak	On an annual sense, wage growth will remain elevated, but there will be increasing evidence that wage pressures are easing.
Thu 7 May (10.45)	Household Labour Force Survey (Mar qtr)	Reversing the surprise	Following last quarter's surprise on employment, we expect a sharp unwind in the quarter. The unemployment rate will continue to head rapidly higher.
Fri 15 May (10.45)	Retail Sales (Mar)	Stabilising?	It has been clear that households have been largely saving the benefits of recent tax cuts and lower mortgage payments. However, we are expected to see signs now that a base to spending is beginning to form.
Mon 18 May (10.45)	Producer Price Index (Mar qtr)	Slight improvement in margins	Lower oil and wholesale electricity prices are expected to see input prices fall slightly in the quarter. Output prices should hold relatively steady.
Thu 21 May (10.45)	International Travel and Migration (Apr)	Net inflow	Less NZer's choosing to leave will see net migration remain positive. Visitor arrivals are likely to continue to trend lower.
On Balance		Flow-on from the global scene in the dataflow.	We are detecting a base effect in some data, which suggests the June quarter is the nadir in the cycle. But the jury is out on the speed of recovery.

SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
GDP (% qoq)	-0.3	-0.2	-0.5	-0.9	-1.5	-0.5	0.0	0.1	0.5	1.2
GDP (% yoy)	2.1	1.0	-0.1	-1.9	-3.1	-3.3	-2.9	-1.9	0.1	1.8
CPI (% qoq)	0.7	1.6	1.5	-0.5	0.3	0.7	0.6	0.6	0.5	0.5
CPI (% yoy)	3.4	4.0	5.1	3.4	3.0	2.1	1.1	2.2	2.4	2.2
Employment (% qoq)	-1.3	1.2	0.1	0.9	-1.5	-1.0	-0.8	-0.4	0.0	0.1
Employment (% yoy)	-0.2	0.7	1.0	0.9	0.7	-1.5	-2.4	-3.7	-2.2	-1.1
Unemployment Rate (% sa)	3.7	3.9	4.2	4.6	5.1	6.1	6.8	7.3	7.7	7.8
Current Account (% GDP)	-8.0	-8.4	-8.7	-8.9	-8.6	-7.3	-6.5	-5.8	-6.0	-6.3
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-0.9	-3.0	-3.1	-3.0	-2.2	-1.6	-0.9
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	-5.2	-7.8	-9.7	-10.8	-9.5	-7.4

KEY ECONOMIC INDICATORS

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Retail Sales (% mom)	-0.7	0.3	0.3	-1.3	0.0	-0.6	-1.2	..	..	..
Retail Sales (% yoy)	2.5	-0.9	2.2	0.7	-4.1	-0.9	-3.7	..	..	..
Credit Card Billings (% mom)	0.2	-0.4	1.3	-1.6	-0.9	-2.3	1.8	0.5	..	..
Credit Card Billings (% yoy)	4.2	2.4	2.5	1.1	-0.9	-3.9	-2.2	-1.9	..	..
Car Registrations (% mom)	-7.1	-3.5	10.7	-0.6	-20.0	12.8	-13.8	-15.1	6.8	..
Car Registrations (% yoy)	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9	..
Building Consents (% mom)	-1.0	-6.9	8.2	-19.5	3.6	-7.0	-13.1	11.7	..	..
Building Consents (% yoy)	-34.4	-43.2	-28.4	-42.8	-39.7	-41.4	-51.7	-40.0	..	..
REINZ House Price (% yoy)	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0	..
Household Lending Growth (% mom)	0.3	0.4	0.3	0.2	-0.1	0.1	0.2	0.2	..	..
Household Lending Growth (% yoy)	7.7	7.2	6.6	5.9	4.8	4.2	3.8	3.1	..	..
Roy Morgan Consumer Confidence	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7	97.6
NBNZ Business Confidence	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	-39.3	..
NBNZ Own Activity Outlook	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2	..
Trade Balance (\$m)	-797	-848	-1252	-994	-594	-342	-104	489	..	..
Trade Balance (\$m annual)	-4468	-4369	-5048	-5269	-5234	-5614	-5408	-5161	..	..
ANZ World Commodity Price Index (% mom)	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	1.0	..
ANZ World Commodity Price Index (% yoy)	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4	..
Net Migration (sa)	740	320	-40	10	-310	280	740	1670	..	..
Net Migration (annual)	5201	4938	4403	4329	3569	3814	4538	6160	..	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Feb-09	Mar-09	20-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.515	0.530	0.566	0.540	0.510	0.480	0.470	0.470	0.480	0.490
NZD/AUD	0.794	0.797	0.783	0.818	0.810	0.814	0.824	0.819	0.822	0.817
NZD/EUR	0.402	0.406	0.434	0.422	0.408	0.400	0.404	0.420	0.429	0.434
NZD/JPY	47.6	51.8	56.2	54.0	50.5	47.0	45.6	46.5	48.0	50.0
NZD/GBP	0.358	0.373	0.383	0.372	0.357	0.338	0.327	0.324	0.327	0.329
NZ\$ TWI	52.3	53.8	56.5	55.2	52.9	50.9	50.5	51.0	52.0	52.8
NZ interest rates	Feb-09	Mar-09	20-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	3.71	3.00	3.00	2.25	2.25	2.25	2.25	2.25	2.75	3.75
90 day bill	3.40	3.25	3.06	2.70	2.70	2.70	2.70	2.70	3.50	4.40
10 year bond	4.53	4.78	5.27	4.20	4.00	4.10	4.40	4.60	5.50	5.70
International	Feb-09	Mar-09	20-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
US 3-mth	1.26	1.19	1.10	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	3.25	3.25	3.00	2.75	2.50	2.00	2.00	2.00	2.00	2.75
AU 3-mth	3.16	3.14	3.06	2.70	2.30	2.30	2.30	2.40	2.60	3.30

KEY RATES

	17 Mar	13 Apr	14 Apr	15 Apr	16 Apr	17 Apr
Official Cash Rate	3.00	n/a	3.00	3.00	3.00	3.00
90 day bank bill	3.27	n/a	3.19	3.17	3.11	3.06
NZGB 07/09	3.20	n/a	3.01	2.98	2.96	2.96
NZGB 11/11	3.51	n/a	3.82	3.74	3.66	3.66
NZGB 04/13	4.01	n/a	4.44	4.39	4.34	4.34
NZGB 12/17	4.82	n/a	5.33	5.28	5.24	5.24
2 year swap	3.50	n/a	3.83	3.78	3.66	3.68
5 year swap	4.49	n/a	5.01	4.95	4.81	4.83
RBNZ TWI	54.1	n/a	58.4	57.3	57.3	57.0
NZD/USD	0.5311	n/a	0.5906	0.5770	0.5779	0.5713
NZD/AUD	0.8037	n/a	0.8105	0.8056	0.7940	0.7962
NZD/JPY	52.19	n/a	58.99	56.74	57.30	56.80
NZD/GBP	0.3762	n/a	0.3969	0.3881	0.3850	0.3846
NZD/EUR	0.4085	n/a	0.4426	0.4358	0.4373	0.4369
AUD/USD	0.6608	n/a	0.7287	0.7162	0.7278	0.7175
EUR/USD	1.3001	n/a	1.3344	1.3240	1.3214	1.3076
USD/JPY	98.27	n/a	99.88	98.33	99.16	99.42
GBP/USD	1.4118	n/a	1.4879	1.4869	1.5010	1.4856
Oil	47.33	n/a	50.22	49.51	49.26	49.97
Gold	920.85	n/a	897.70	892.30	891.20	873.55
Electricity (Haywards)	5.09	3.10	4.76	4.52	3.32	4.27
Milk futures (US\$/contract)	83	86	85	85	85	85
Baltic Dry Freight Index	1974	n/a	1492	1534	1604	1682

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing

Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

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Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

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