

# Market Focus

## New Zealand

2 June 2009

### COUNTERBALANCING?

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#### Page 2: Economic overview

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#### Page 5: Economic comment – Fonterra 2009/10 dairy payout

- > Fonterra announced last Wednesday that the forecast payout for the 2009/10 season is \$4.55 per kilogram milk solids (/kg ms), \$0.65 down on the forecast 2008/09 payout and a whopping \$3.08 below the extraordinary \$7.63 paid in 2007/08. The direct negative impact on the dairy industry is large with a very significant flow on to the rest of the economy. Time wise, this will be felt particularly from the September quarter. The value of the Fair value share for 2009/10 was set at \$4.52, down \$1.05 from \$5.57 last season.

#### Page 8: Economic comment – NBNZ *Business Outlook* update

- > The May National Bank *Business Outlook* survey showed continued improvement in sentiment, giving more credence to the “green shoots” thesis. Encouragingly, both headline business confidence and own activity readings have turned positive. Our NBBO composite indicator (which has a strong correlation with GDP growth) continues to point to an improvement, though is still flagging contractions ahead.

#### Page 10: Economic comment – global watch

- > There has been plenty of data released around the globe over the past week, although it was mixed. Manufacturing surveys continue to recover from their lows, although generally still signal contraction. However, the Chicago PMI bucked the trend and deteriorated. Australian data was weak and all but confirms they are in recession. Asian trade flows remain very weak.

#### Page 12: Interest rate strategy

- > NZ’s stable credit rating opens the door for foreign investors who had been cautiously holding off buying NZ assets. This is good news for interest rates, especially with liquidity and credit thawing, and the RBNZ likely to reiterate their “OCR to remain low” message at next week’s MPS. But beware of rapidly rising global long term interest rates.

#### Page 13: Currency strategy

- > The world is punishing the USD, as green shoots, improving risk sentiment and diversification trends dominate. With the USD heading lower, it is hard for the NZD to do anything but move higher. Fundamentally, the NZD is not justified at current levels and positioning data points to the rubber band getting taut.

#### Page 14: Data and event calendar

#### Page 16: Data watch

#### Page 17: Key forecasts

## ECONOMIC OVERVIEW

The economy is showing signs of counterbalancing, as opposed to rebalancing. Domestic indicators are stabilising or picking up (off lows), while prospects for the external sector are deteriorating. A stronger NZ dollar only exacerbates this. We struggle to see how recent strength in the currency can be sustained, despite the removal last week of the risk of a sovereign credit downgrade.

### What's ahead?

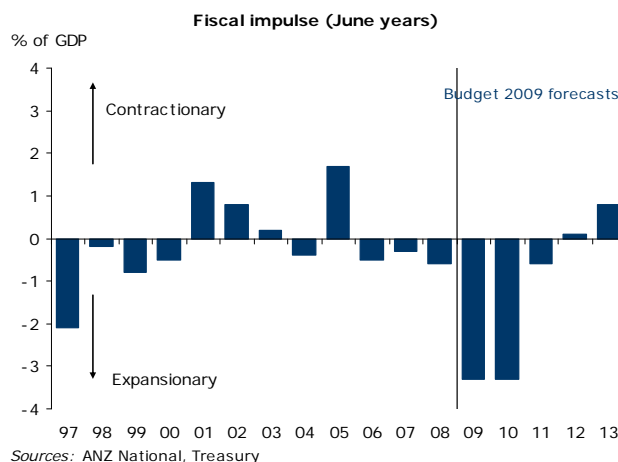
- > **Financial Statements of Government for 10 months to April** (Wednesday 1000 NZST). Tax revenue still under pressure but better returns in the month from Crown Financial Institutions will help stop the headline operating balance from deteriorating further.
- > **May ANZ Commodity Price Index** (Thursday 1500 NZST).
- > **March quarter Wholesale Trade Survey** (Friday 1045 NZST). Following the sharp contraction in retail activity in the quarter, we expect this survey to mirror those results.

### What's the view?

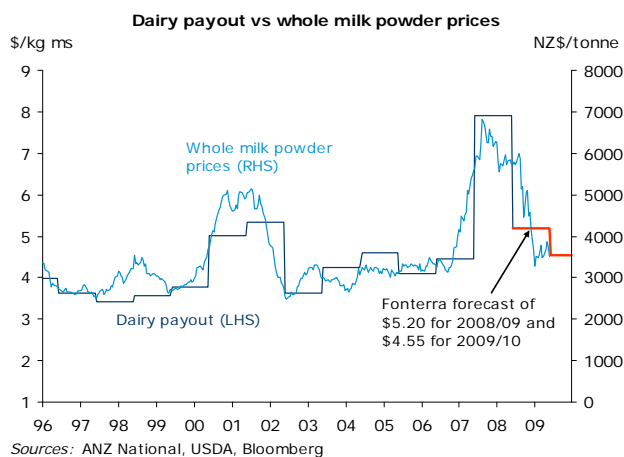
First up, great news that both Moody's and Standard & Poor's affirmed NZ's sovereign credit rating, with the latter implicitly delivering an upgrade by removing its negative outlook. Like most, we were somewhat surprised by the upgrade, with the *Budget* numbers themselves showing a sustained period of fiscal deficits – and that is assuming considerable fiscal restraint from this point on. It leaves us wondering why we were placed on negative outlook in the first place. Our modelling work on the fiscal position still suggests actually delivering on the strategy of fiscal consolidation is likely to prove challenging, particularly given the economic and political backdrop. But hey, let's not get into that. For the sake of NZ.Inc, the decision itself is good news, and obviously some detailed work had gone on behind the scenes to give the "plan" credibility. However, given the obvious flow-on to the NZ dollar, "good news" depends on whether you are on the export or import side of the ledger. Nonetheless, the fact that the DMO's latest bond tender was met with strong demand, following some mixed results in the past month, shows that the market has taken the credit rating news favourably. This is encouraging given the swathe of pending issuance.

In terms of the data-flow from last week, regular themes were apparent. A host of indicators are showing improvement including confidence and building consents, and the "green shoots" story continues to flourish. Clearly there is a base effect at work that we need to be mindful of, although we

are now closely watching how far the bounce extends. Well flagged prospects for fiscal consolidation (the *Budget* showed fiscal policy turning to a restrictive stance from 2011/12) will place more burden on monetary policy and the currency to do more of the adjustment.



Apart from the *Budget*, the other showstopper last week was news on the 2009/10 dairy payout, with the preliminary estimate set at \$4.55/kg ms. And this critically assumed a NZD average of 59 cents. This is historically still the sixth highest on record in nominal terms. The problem is how far cost structures have moved and how much has been capitalised into the land values from past high payouts. Anecdotally, farm prices are down 20 percent (on limited transactions), and a lower dairy payout will only pressure this further. If the penny had been slow to drop into the rural regions in terms of the flow-on from the global scene, then this is surely a wakeup call. Watch rural land prices, and the same for rural house prices, as a closed dairy chequebook flows through. A lot of people fail to appreciate that rural house prices outperformed those in urban areas during the previous cycle, and booming commodity prices were a key factor in this.

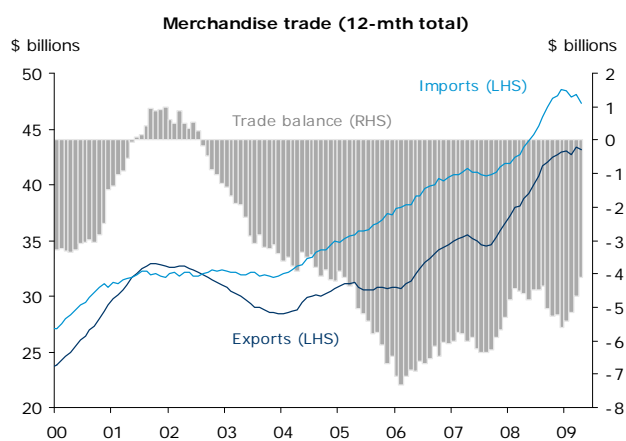


The historical experience has been for rural (or heartland NZ) to under-perform during global recessions such as 1991/92 and 1997/98, and we

doubt this time will be any different. For sure, it's not a generic rural story and lamb has seldom had it better. But after years of losses, any profits are likely to be recycled into debt reduction, particularly with land prices under pressure. And last week also saw the national carrier Air New Zealand cut more capacity. Not a good sign in terms of forward bookings for the tourism industry. Remember, tourism and dairy are our top two export earners.

When we dissect the National Bank *Business Outlook* survey, you can already detect domestic orientated regions such as Auckland showing FIFO characteristics. This is naturally the base effect forming in combination with domestic policy support measures such as low interest rates. Conversely, rural aligned regions and those more centred around exports look to be weakening. This is a trend we expect to extend further.

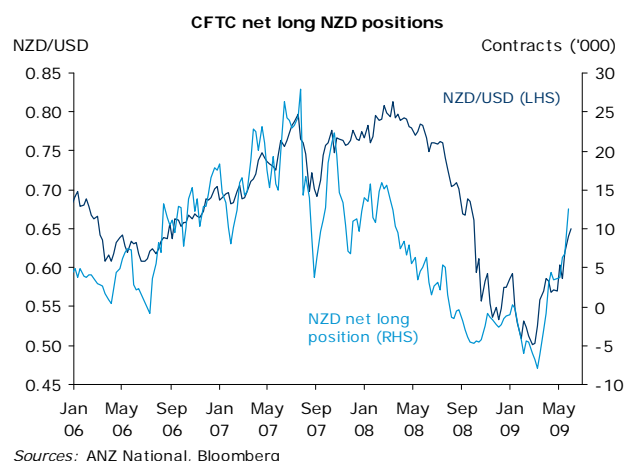
Collectively, we are now starting to monitor how far the economy moves towards counterbalancing – that is, relying on the domestic economy when the going gets tough for the tradable sector – as opposed to rebalancing. For sure, an economy such as NZ is supposed to counterbalance when the tradable sector is facing headwinds. But these are not ordinary times, nor is it an ordinary global recession. It's credit centric for a start! In our eyes there is a limit in terms of how far such counterbalancing can extend. While we've noted improvements in the trade balance, household savings remain poor. And the idea of domestic generated growth or recovery just doesn't fit with running a current account deficit of 8.9 percent of GDP.



The current situation is being even more complicated by the rising NZD, which as a relative price is simply exacerbating the counterbalancing theme by favouring spending over savings and earning. With the USD now under serious pressure, there seems no point banging our heads against a brick wall and we've raised our profile for the NZD over the coming six months. Despite this, we struggle to see the NZD being able to maintain recent gains, despite obvious support from the likes

of having our credit rating reaffirmed (and receiving an implicit upgrade). Bungy-cord or not, the higher the NZD springs (and the bounce has been impressive) the bigger the potential correction. But the key debate we are having at present is not the reality of the NZD needing to fall (and our expectations an adjustment is still pending), rather it is how this is achieved on a TWI basis. The spirit of our view is built around low savings nations (or those running excess consumption models) needing weaker currencies over time, and the converse for the higher savings nations (or consumption repressed models) such as in Asia. This is complicated by the USD's strategic importance, and challenges we see in the Euro-zone, which we see as the next time bomb to go off. But cobbling this into a sensible set of forecasts is easier said than done. And while we've made some changes this week, we'll be having a further look over the week ahead! Stepping back, the spirit is still one of weakness, it's just that a lot more uncertainty surrounds timing.

We note that the latest currency positioning data shows a sharp rise in the amount of net long positions in the NZD. The level of net longs is the highest since early March 2008, when the NZD was hovering around 80 cents. Such positioning clearly shows huge interest in the NZD. But equally, we also know that when the NZD eventually turns, there will be a mass stampede as these long positions rush out through a narrow exit door. While we have to respect the near-term price action, the risk is pointing to a big downward correction ahead.



Of course the obvious question given recent NZD strength and associated tightening in monetary conditions is whether it has any bearing on our RBNZ view for June. The answer is no. Trying to set monetary policy with regard to the currency is not a robust way to run policy.

Looking towards this week, it is much quieter on the data-front. The Government will once again be in the headlines, this time with the release of their financial statements for the 10 months to April

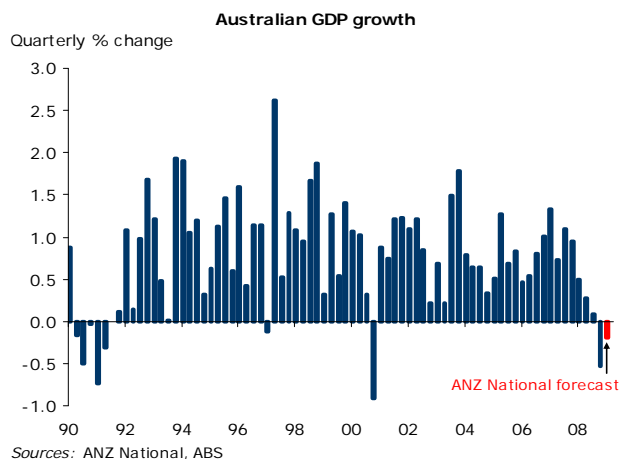
2009. Given that the *Budget* forecasts are still rather fresh, we expect (and hope!) that the April numbers will be in line with Treasury's expectation.

Other data this week is the ANZ Commodity Price Index for May and the Wholesale Trade Survey for the March quarter. The interest in the former will be whether the gains in world prices over the past two months can be maintained, although the NZD index will also be watched closely. The wholesale trade survey is one partial indicator we use for our GDP expectations. It is expected to go the way of the retail sales result in the quarter and print a reasonably large contraction.

Internationally this week there are a couple of big events. A number of central banks are meeting, with the RBA, BoE, and ECB all due to announce policy decisions. All are expected to keep interest rates unchanged, although the latter will be watched closely for whether they are going to begin an asset purchasing programme that they discussed was a possibility at their last meeting. Our Australian colleagues expect the RBA to remain on hold and to repeat recent rhetoric from the latest minutes and speeches. Also in Australia this week is the release of March quarter GDP. Our Australian colleagues have a 0.2 percent contraction pencilled in. This will mean that the Australian economy has entered its first technical recession since 1991. Other key international releases this week include the ISM surveys and non-farm payrolls data in the US.

improve. Own activity expectations and other activity indicators posted increases in the month.

- > **Budget Economic and Fiscal Update:** In 2010, the underlying operating balance is forecast at -4.4 percent of GDP and gross debt at 29.1 percent of GDP.
- > **Credit Growth (April):** Lending to households rose by a modest 0.2 percent in April. Total private sector credit was flat in the month.
- > **Building Consents Issued (April):** Total residential consents rose by 11.2 percent in the month, while ex-apartment issuance rose by 4.5 percent.



### Recent local data...

- > **Overseas Merchandise Trade (April):** A trade surplus of \$276 million was recorded in the month, contributing to a reduction in the annual deficit to \$4,108 million.
- > **RBNZ Survey of Expectations (June quarter):** Two-year ahead inflation expectations fell from 2.3 percent to 2.2 percent.
- > **NBNZ Business Outlook (May):** A net 2 percent expect general business conditions to

## FORECAST 2009/10 DAIRY PAYOUT

Fonterra announced last Wednesday that the forecast payout for the 2009/10 season is \$4.55 per kilogram milk solids (/kg ms), \$0.65 down on the forecast 2008/09 payout and a whopping \$3.08 below the extraordinary \$7.63 paid in 2007/08. The direct negative impact on the dairy industry is large with a very significant flow on to the rest of the economy. In terms of timing, this will be felt particularly from the September quarter. The value of the Fair value share for 2009/10 was set at \$4.52, down \$1.05 from \$5.57 last season.

### Background

Understanding the mechanics of the dairy payout is a challenge. There are forecasts, advance payments, retrospective top ups and a final announcement. In the middle are milk years or the season (1 June to 31 May), the financial year of milk processors (1 August to 31 July) and farmer financial years, which usually end 31 March or 31 May. An explanation of the payout system was provided in our 9 February edition of *Market Focus* and is provided again as a footnote to this article.

The initial advance is about 60 percent of the final expected season payout. At \$4.55, this means \$2.90 on opening production compared with \$3.50 in 2007/08 and \$4.30 in 2008/09. This puts pressure on cash-flow up front. Pressure on opening season cash-flow can be mitigated by strong previous season top ups. This is where 2009/10 is going to hurt. The 2009/10 payout is sub \$5, and unlike 2007/08 (with top ups rolling into the 08/09 season) there is not big cash kicker to end the season. To be fair, the payout flagged is still one of the largest on record. But the complicating factors are land prices (debt), and costs.

### Is the Fonterra forecast reasonable?

Yes if the focus is on the immediate international prices, the value of the NZD and the re-emergence of subsidies by the EU and the US. Fonterra did say that the forecast might have been over \$5 if the NZD/USD was at 0.50. This is a long way away at present.

At present we are more optimistic, but this is strongly contingent on a weak NZD view. The rate of growth in EU and USA milk production has slowed with falling farm gate milk prices and high feed costs putting a big squeeze on profitability of producers and creating losses for many.

The size of inventories held by the European Commission and the US Commodity Credit Corporation, while building, are still low against

historic levels. There are also suggestions that some dairy companies have higher inventories than they normally have. Increased buyer inquiry indicates that their inventory levels are low. Consumer prices are reported as being lower than 12 to 18 months ago. It all starts to look like the imbalance between supply and demand are correcting but it is early days. A correction usually reflects quite quickly in price and payout.

The EU and the US have re-introduced subsidy programmes that had been parked during the period of high prices. That is disappointing for dairy exporting countries. The subsidies are capped by the last world trade agreement at lower levels than the past but their existence sets the tone for the market. It is anticipated that both countries will stay within the trade agreement volumes and dollar subsidies.

Our forecast payout for 2009/10 (\$5.20/kg ms) may appear high against current prices for dairy commodities and the NZD although the opening expectation and final payout have diverged massively over the previous few seasons. A forecast payout is very sensitive to the assumptions made about the NZD and world dairy prices. The heightened volatility in commodity and currency markets mean that a lot can happen between now and September/October 2010 when the forecast is finally crystallised. Our judgement is that the current value of the NZD will not persist and until we see how recent events settle down, we are coy about making sweeping changes. High debt, a large and ongoing current account deficit and low (no) economic growth mean that the NZD should, and will, eventually depreciate further.

But even if we hold our \$5.20 expectation (which is a long way off) there will still be a lot of disappointed farmers and the message would remain one of battening down the hatches and getting cost structures under control, with the latter growing at double-digit rates, and easing land prices.

### Farm gate impact of lower forecast

The difference between the Fonterra advance this year and last (minus \$1.15/kg ms) is large. The forecast is similar to the 2006 actual result but is now on 2009 costs. Our feeling is that costs have been rising at more than 10 percent per annum for at least the past three years. The proposal to move back to a more traditional profile in 2009/10 does soften the cash flow implications marginally compared to the 2008/09 profile. But some farmers are going to be highly stressed in the interim, both personally and financially.

Most farmers have already planned to severely cut discretionary expenditure. They will be even more vigilant now. All farm expenditure is discretionary

at one level. The reality is that not spending on many farm working expenditure items quickly jeopardises production and hence revenue, exacerbating an already difficult position. There will be some that may find their position untenable and exit the industry. This will place added pressure on a downward trending land market.

### Wider effect

The direct impact on farm revenue is a further \$800m reduction in dairy farm income from the already lower 2008/09 year. And we estimate the multiplier effect on the wider economy is two to three times that amount. The staggered payment for milk means the effects of a low payout in 2009/10 will extend into early 2011. The impact on urban centres reliant on servicing the dairy industry is obvious. It is the flow on effect that people need to appreciate. Heartland in the 2008/09 season was still being buoyed by the top-ups from 2007/08. No more.

### Fair Value Share

The value of the Fair value share for 2009/10 was set by the Fonterra board at \$4.52, down \$1.05 from \$5.57 last season. The set price is the mid point of a range suggested by Duff and Phelps, an independent valuer. The final price was \$0.05 above the estimate provided in December 2008.

The price of the Fair Value share determines the cost of entry or exit from the Fonterra co-operative. The lower price will be welcomed by new entrants who did not buy shares but now have to. It will be less welcomed by those exiting or remaining. It represents a loss in equity of around \$120,000 for the average dairy farmer. The overall 33 percent fall in the value of the fair value shares from their peak compares favourably with falls of 40 to 55 percent in local and global equity markets. Not that this is much consolation to either party.

### The 2008/09 forecast payout

Fonterra also confirmed the forecast for the 2008/09 year was unchanged at \$5.20 with anything available above that figure likely to be retained by the company. The 2008/09 forecast crystallises in October 2009.

### The bottom line

Lower cash-flow to the dairy sector is a key channel through which the global financial crisis and recession transmits to the NZ economy, via lower commodity prices. The hinterland has typically underperformed in global recessions and we expect this cycle to be no different. In terms of the real impact on cash-flow, we expect this to be felt from the September quarter and to last for longer.

Advance Dairy Payment Profile			
Forecast Date (Paid 20 <sup>th</sup> )	2007/08	2008/09E	2009/10F
	<b>\$7.63</b>	<b>\$5.20</b>	<b>\$4.55</b>
Jul	3.50	4.30	2.90
Aug	3.50	4.30	2.90
Sep	3.60	4.30	2.90
Oct	4.20	4.05	2.90
Nov	4.35	4.05	2.90
Dec	4.35	4.05	3.00
Jan	5.05	4.05	3.00
Feb	5.55	4.05	3.05
Mar	5.70	4.05	3.05
Apr	5.90	4.05	3.30
May	6.30	4.05	3.50
Jun	6.55	4.15	3.60
Jul	6.80	4.30	3.70
Aug	7.15	4.40	3.90
Sep	7.40	4.50	4.00
Oct	7.55	4.75	4.10
<b>Value-add</b>			
	0.10 (Feb)	0.20 (Aug)	0.20 (Apr)
	0.25 (Oct)	0.25 (Oct)	0.25 (Oct)
<b>Total Available</b>	7.55+0.10+0.25	4.75+0.20+0.25	4.10+0.20+0.25
	7.90	5.20	4.55
<b>Less retained</b>	0.27		
<b>PAID</b>	7.63	5.20	4.55

**Footnote****The Mechanics of the Payout**

Simplistically, the co-operative turns the milk into a saleable product, deducts costs and pays the residual to shareholder suppliers. The farmer supplier to a co-operative receives a proportional share (based on milk supplied) of a pooled annual net profit from the co-operative.

The co-operative announces a forecast payout for the coming financial year prior to the start of the season. A profile of advance payments is established with the forecast. The advance profile extends beyond the end of the financial year of the co-operative because it takes a couple of months to close off and prepare the annual accounts and hence determine the final profit available to pay suppliers.

The initial advance is about 60 percent of the forecast annual price. At this point, the co-operative only pays an advance and not the full forecast price for cash flow and risk reasons. The forecast payout is increased if market returns are better than expected. The advance rates are

also increased. Privately owned dairy companies (Open Country Cheese, Synlait etc) run the same payment policy for the same reasons.

The converse also applies. If the market does not deliver and the forecast has to be reduced then the advance payments will not increase as fast, not at all, or in a worst case scenario, clawed back (e.g. as Fonterra is likely to have done for milk supplied in July, August and September and as Westland announced in December 2008).

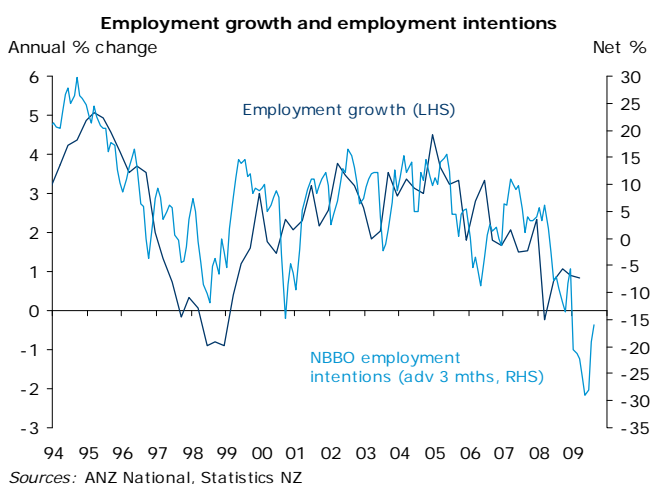
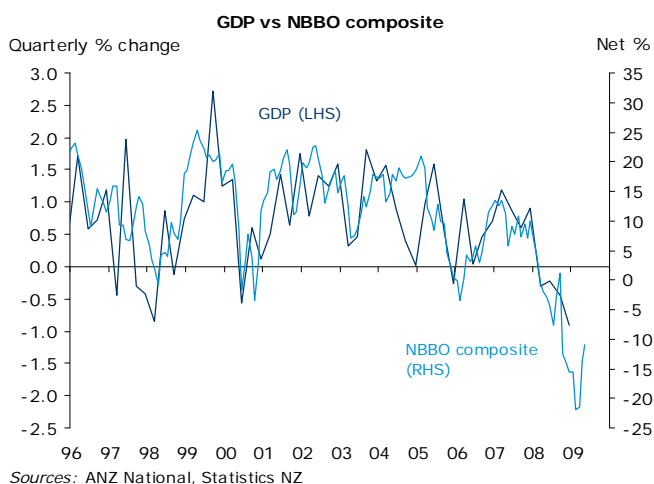
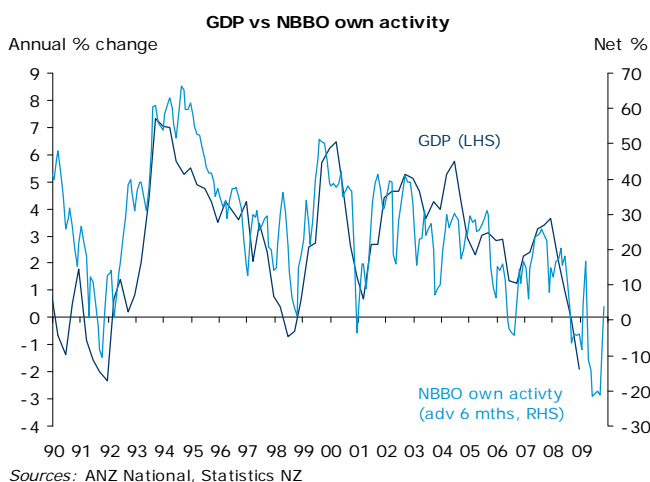
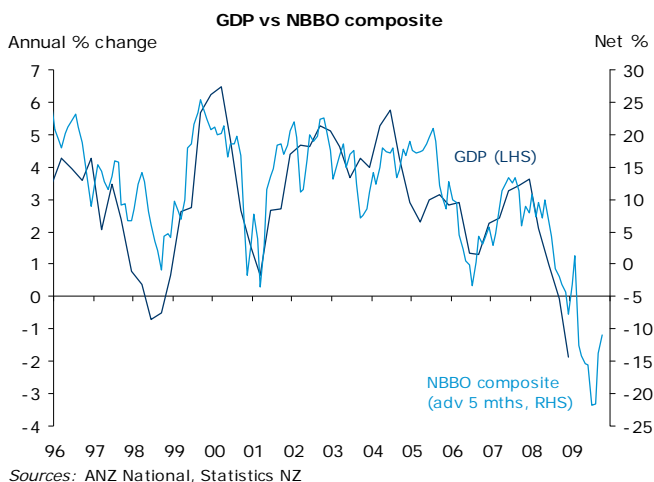
The co-operative pays for milk on the 20th of the month following supply. As the advance rates are increased (usually from about January onwards) retrospective payments are also made on the milk supplied to season to date. The balance of payments owing for milk supplied for the season continue monthly until October. Hence the average dairy farmer milks their cows from August to May, but is actually paid over 14 months, as the last leg of payment spreads into the next season.

## NATIONAL BANK *BUSINESS OUTLOOK UPDATE*

The May National Bank *Business Outlook* survey showed continued improvement in sentiment, giving more credence to the “green shoots” thesis. Encouragingly, both headline business confidence and own activity readings have turned positive. Our NBBO composite indicator<sup>1</sup> (which has a strong correlation with GDP growth) continues to point to an improvement, though is still flagging contractions ahead.

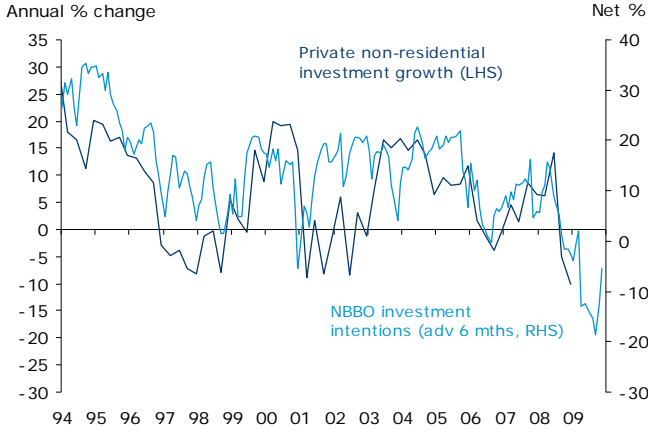
The lift in business sentiment in April’s NBBO survey continued into May, with both the headline confidence and own activity indicator improving into positive territory. Looking at the other key activity gauges of the survey, such as investment intentions, employment intentions and profit expectations, all posted improvements as well – though still remain well below historical averages. The overall message is that businesses are still finding things tough going, just less tough compared to the previous few months. Firms are still in no mood to hire more staff or increase investment. Profits are still expected to come under downward pressure, if any are indeed being made.

Our NBBO composite growth indicator continues to flag a negative read for GDP in the year ahead of around -1 percent. This is a marked improvement from the -3 percent it was flagging earlier this year. In terms of sectoral breakdowns, all sectors bar agriculture posted rises in own activity outlooks. Given Fonterra’s opening forecast payout announced last week, we can imagine agriculture sector confidence taking a hit in the coming survey. Manufacturers and those in construction continue to fare worse than others, though their composite indices look to be turning. The services sector could still dodge a year-on-year contraction in activity, though it looks to be a close call.

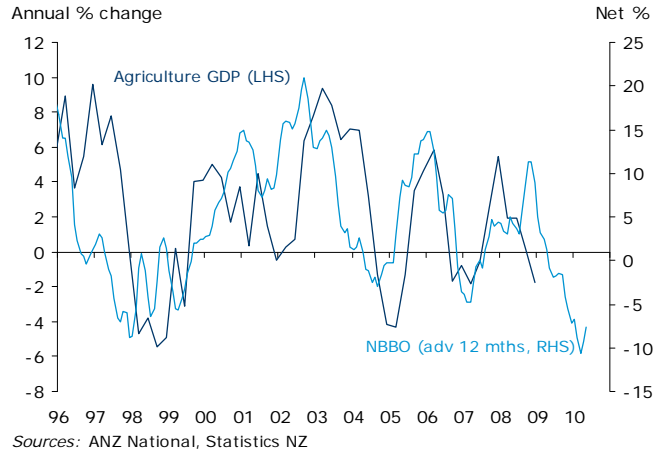


<sup>1</sup> Our composite measure uses the forward looking activity indicators from the National Bank *Business Outlook* Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.

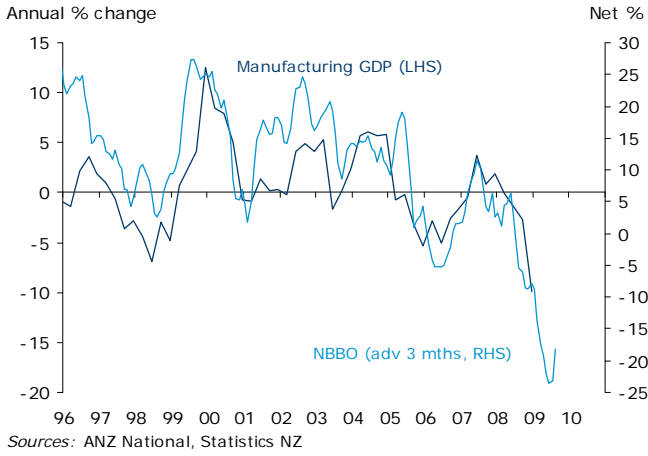
**Investment growth and investment intentions**



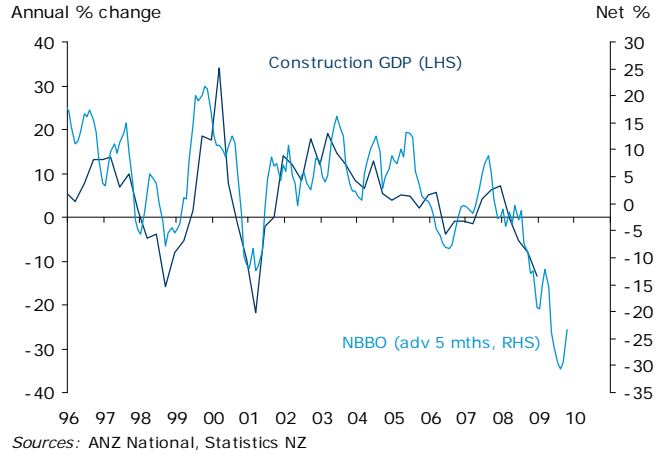
**Agriculture GDP vs NBBO composite (12% of GDP)**



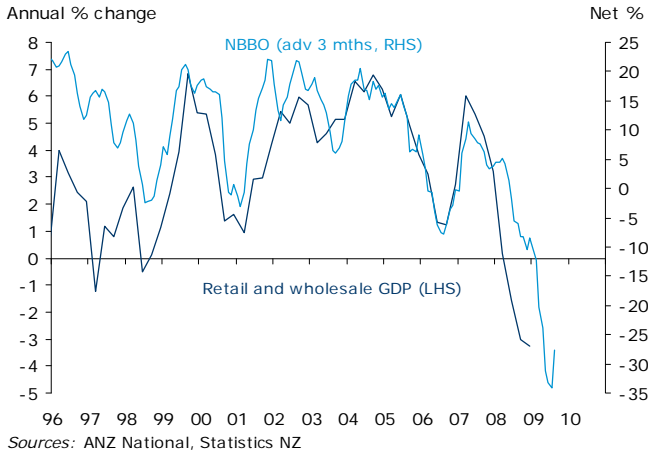
**Manufacturing GDP vs NBBO composite (9% of GDP)**



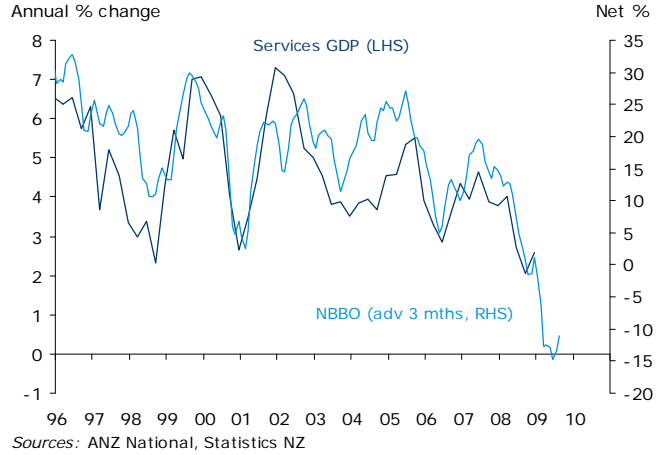
**Construction GDP vs NBBO composite (5% of GDP)**



**Retail GDP vs NBBO composite (8% of GDP)**



**Services GDP vs NBBO composite (43% of GDP)**



## GLOBAL DATA WATCH

There has been plenty of data released around the globe over the past week, although it was mixed. Manufacturing surveys continue to recover from their lows, although generally still signal contraction. However, the Chicago PMI bucked the trend and deteriorated. Australian data was weak and all but confirms they are in recession. Asian trade flows remain very weak.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
<b>Australia</b>	Construction Work Done (1Q)	-3.0%	-3.7%	2.3%	Weaker
	Private Capital Expenditure (1Q)	-6.0%	-8.9%	7.3%	Weaker
	Private Sector Credit (Apr) – mom	0.2%	0.1%	0.1%	In-line
	Retail Sales (Apr) – mom	0.5%	0.3%	2.2%	Weaker
	Company Operating Profit (1Q) – qoq	-4.5%	-7.2%	-8.0%	Weaker
	Inventories (1Q)	-1.4%	-1.2%	-1.5%	In-line
<b>US</b>	S&P/CS Composite-20 (May) – yoy	-18.3%	-18.7%	-18.7%	Weaker
	Consumer Confidence (May)	42.6	54.9	40.8	Stronger
	Existing Home Sales (Apr)	4.66M	4.68M	4.55M	In-line
	House Price Index (Mar) – mom	0.2%	-1.1%	0.2%	Weaker
	Durable Goods Orders (Apr) – mom	0.5%	1.9%	-2.1%	Stronger
	Continuing Jobless Claims (w/e May-17)	6750K	6788K	6678K	Weaker
	New Home Sales (Apr)	360K	352K	351K	Weaker
	GDP Annualised (1QP) - qoq	-5.5%	-5.7%	-6.1%	Weaker
	Chicago Purchasing Manager (May)	42.0	34.9	40.1	Weaker
	U of Michigan Confidence (May F)	68.0	68.7	67.9	Stronger
	Personal Income (Apr) - mom	-0.2%	0.5%	-0.2%	Stronger
	Personal Spending (Apr) – mom	-0.2%	-0.1%	-0.3%	In-line
	PCE Deflator – Core (Apr) – mom	0.2%	0.3%	0.2%	In-line
	ISM Manufacturing (May)	42.3	42.8	40.1	Stronger
	Construction Spending (Apr) – mom	-1.5%	0.8%	0.4%	Stronger
<b>Euro-zone</b>	Current Account (Mar) – s.a.	-	-6.5%B	-7.8B	-
	Industrial New Orders (Mar) – mom	0.8%	-0.8%	0.0%	Weaker
	Economic Confidence (May)	69.0	69.3	67.2	In-line
	Money Supply – M3 (Apr) – 3-mth avg	5.1%	5.2%	5.6%	In-line
	CPI Estimate (May) - yoy	0.2%	0.0%	0.6%	Weaker
	PMI Manufacturing (May F)	40.5	40.7	40.5	In-line
<b>UK</b>	GfK Consumer Confidence (May)	-25	-27	-27	Weaker
	Nationwide House Prices (May) - mom	-0.9%	1.2%	-0.3%	Stronger
	PMI Manufacturing (May)	44.0	45.4	43.1	Stronger
<b>Japan</b>	Adjusted Merchandise Trade Balance (Apr)	-¥17.8B	-¥52.2B	-¥50.7B	Weaker
	Merchandise Trade Exports (Apr) - yoy	-42.0%	-39.1B	-45.5B	Stronger
	Merchandise Trade Imports (Apr) - yoy	-36.9%	-35.8%	-36.6%	Stronger
	Retail Trade (Apr) – mom	0.5%	0.6%	-1.0%	In-line
	Jobless Rate (Apr)	5.0%	5.0%	4.8%	In-line
	Household Spending (Apr) – yoy	-0.7%	-1.3%	-0.4%	Weaker
	National CPI (Apr) – yoy	-0.3%	-0.1%	-0.3%	Stronger
	Industrial Production (Apr P) – mom	3.3%	5.2%	1.6%	Stronger
	Housing Starts (Apr) - yoy	-22.0%	-32.4%	-20.7%	Weaker

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Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
<b>Asia Ex-Japan</b>					
<i>China</i>	PMI Manufacturing (May)	-	53.1	53.5	-
<i>Singapore</i>	CPI (Apr) – mom	-0.4%	-1.1%	-0.4%	Weaker
	Industrial Production (Apr) – mom	6.3%	24.7%	-15.1%	Stronger
	M2 Money Supply (Apr) – yoy	-	9.7%	11.5%	-
<i>Hong Kong</i>	Exports (Apr) – yoy	-24.0%	-18.2%	-21.1%	Stronger
	Imports (Apr) – yoy	-24.6%	-17.0%	-22.7%	Stronger
	M3 Money Supply (Apr) – yoy	-	3.8%	3.3%	-
	Retail Sales – Volume (Apr) – yoy	-7.6%	-5.5%	-9.2%	Stronger
<i>Taiwan</i>	Industrial Production (Apr) – yoy	-25.0%	-19.9%	-25.8%	Stronger
	Export Orders (Apr) – yoy	-25.4%	-20.9%	-24.3%	Stronger
	M2 Money Supply (Apr) – yoy	-	6.8%	6.4%	-
<i>South Korea</i>	Consumer Confidence (May)	-	105.0	98.0	-
	Industrial Production (Apr) – yoy	2.1%	2.6%	4.9%	Stronger
	Current Account (Apr) – US\$m	-	\$4284.4	\$6648.8	-
	Ext Trade – Export (May) – yoy	-28.1%	-28.3%	-19.6%	In-line
	Ext Trade – Import (May) – yoy	-38.3%	-40.4%	-35.6%	Weaker
	CPI (May) – mom	0.1%	0.0%	0.3%	In-line
<i>Malaysia</i>	Overnight Rate	2.00%	2.00%	2.00%	In-line
	GDP (1Q) – yoy	-3.9%	-6.2%	0.1%	Weaker
	M3 Money Supply (Apr) – yoy	-	6.1%	7.3%	-
<i>India</i>	GDP (1Q) – yoy	5.0%	5.8%	5.8%	Stronger
	Exports (Apr) – yoy	-	-33.2%	-33.0%	-
	Imports (Apr) – yoy	-	-36.6%	-34.0%	-
<i>Philippines</i>	Total Imports (Mar) – yoy	-	-36.2%	-31.9%	-
	Trade Balance (Mar)	-	-\$363M	-\$522M	-
	GDP (1Q) – qoq	-1.9%	-2.3%	0.3%	Weaker
	Overnight Borrowing Rate	4.25%	4.25%	4.50%	In-line
<i>Thailand</i>	GDP (1Q) – qoq	-1.7%	-1.9%	-6.1%	Weaker
	Total Exports (Apr) – yoy	-	-25.2%	-22.7%	-
	Total Imports (Apr) – yoy	-	-36.4%	-35.1%	-
	Manufacturing Production (Apr) – yoy	-16.1%	-9.7%	-14.9%	Stronger
	Current Account Balance (Apr) – US\$	\$650M	\$426M	\$2404M	Weaker
	CPI (May) – mom	0.5%	-0.3%	1.0%	Weaker
<i>Indonesia</i>	Inflation (May) – mom	0.2%	0.0%	-0.3%	Weaker
	Exports (Apr) – yoy	-21.1%	-22.9%	-28.2%	Weaker
	Imports (Apr) – yoy	-39.5%	-44.5%	-34.8%	Weaker
<i>Vietnam</i>	Exports YTD (May) – yoy	-	-6.8%	-0.1%	-
	Imports YTD (May) – yoy	-	-37.0%	-41.0%	-
	Industrial Output YTD (May) – yoy	-	4.0%	3.3%	-
	Retail Sales YTD (May) – yoy	-	21.0%	21.5%	-

## INTEREST RATE STRATEGY

NZ's stable credit rating opens the door for foreign investors who had been cautiously holding off buying NZ assets. This is good news for interest rates, especially with liquidity and credit thawing, and the RBNZ likely to reiterate their "OCR to remain low" message at next week's MPS. But beware of rapidly rising global long term interest rates.

### Market themes...

- > S&P's decision to revise the outlook on NZ's credit rating from negative to stable was without doubt a positive shock to the market.
- > Less fiscal stimulus means monetary policy and the NZD need to do more. Yet the NZD has rallied. While not our forecast, at the margin it raises the odds of an OCR cut next week.
- > Global attitudes towards inflation are worrying, particularly the temptation to deflate away the debt burden, which has seen bond yields rise.
- > Rising global long term interest rates only add to headwinds facing NZ as it tries to recover.

### Review and outlook

Global long term interest rates continue to rise as fears of a pickup in inflation intensify, and data show signs of a base forming. Are the so-called "bond vigilantes" back? Judging by the magnitude of the move higher in US Treasury yields, it looks like they are. Early signs that we have seen the worst of the downturn have tended to be confirmed by recent data that continues to improve, and this was always likely to provoke a negative reaction in the bond markets. However, US 10yr Treasury yields have almost doubled (up from 2.05% at the end of 2008 to almost 3.75% last night). A move of this magnitude likely reflects concerns that the government will let inflation go as it looks to deflate away the debt burden. Indeed, it's only really been in the past month that we have heard serious debate about allowing inflation to rise, and this has coincided with the most intense period of rising bond yields. Positive as it was that NZ managed to avoid a downgrade, rising global interest rates adds yet another headwind to growth, and are just another factor the real economy will have to cope with. Worst of all, it will just intensify NZ's need (and incentive) to de-leverage, as it implies a much steeper than otherwise yield curve, as the RBNZ keeps policy on hold, and rising global long end yields force our long end higher. We note with curiosity that the NZD has shot higher on (amongst other things) the no downgrade story. The strength of the Kiwi may continue (especially as it is seen as one of the "least-worst" currencies), but if it does, then it will just put more pressure on the RBNZ, who are already carrying the can for fiscal policy.

### Borrowing strategies we favour at present

With the yield curve as steep as it is, the short end is the only "safe harbour". It might feel risky having minimal hedge cover in place, but at least you have the RBNZ Governor Bollard on your side. Given his commitment to keep the OCR at or below 2.5% until the second half of 2010, it's difficult to argue the case adding to hedges in the 1-2yr tenor. This leaves forward cover as the only viable cover – but the steep curve makes it prohibitive. While it's possible that the RBNZ may be considering rate hikes beyond that, but this will only occur if the general economic environment improves. By then, business will be in a much better position to be able to commit to fixed interest cover. And if the recovery is tamer and more delayed that what's currently priced in, swap rates will be much lower by then than what the forward curve implies.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓↓	June OCR cut unlikely, but not impossible, especially with NZD here, tight Budget.
NZ data	↔/↑	Budget constrained by credit rating, puts more pressure on RBNZ and NZD to deliver.
Fed Funds/ front end	↔	Fed likely to be extremely frustrated by rising yields.
RBA	↔	Rhetoric suggests a long period of on-hold policy.
US 10 year	↑	Focus on credit ratings and temptation to deflate debt away remains negative.
NZ swap curve	↔	Near term flattening possible as NZGS demand picks up. Long term, steepening still.
Flow	↔/↓	Stable outlook has opened the door to more investors.
Technicals	↔/↑	Relentless sell-off in global yields. Not a good sign.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Jun-09	-9	-6
Thu 30-Jul-09	-11	-15
Thu 10-Sep-09	-10	-15
Thu 29-Oct-09	-9	-12
Thu 10-Dec-09	-8	-10
Thu 21-Jan-10	+1	-4
Thu 11-Mar-10	+18	+15

### Trading themes we favour at present

Notwithstanding our overall bearish outright view, in the near term we see scope for the NZ long end to outperform the US on a spread as the "downgrade" premium gets priced out. Similarly, the higher NZD and fiscal strait-jacket put the onus on the RBNZ.

## CURRENCY STRATEGY

The world is punishing the USD, as green shoots, improving risk sentiment and diversification trends dominate. With the USD heading lower, it is hard for the NZD to do anything but move higher. Fundamentally, the NZD is not justified at current levels and positioning data points to the rubber band getting taut.

### Market themes...

- > NZ Budget contained no surprises.
- > S&P revising NZ's sovereign credit rating from negative outlook back to stable is undoubtedly positive for the NZD.
- > Opening dairy payout forecast for 2009/10 season is a negative for the currency, but the market shrugging it off for now.
- > USD is universally hated, and risk appetites are back with a vengeance. Result is a higher NZD.

### Review and outlook...

Another week, another move higher in the NZD. The buyers are coming from a number of sources. Bond buying demand now that a rating downgrade threat has been removed, Toshin fund demand, medium-term macro shorts squaring up, under-hedged exporters and over-hedged importers scrambling. But the main reason for the rise in the NZD versus virtually every single major currency is the sharp rise in speculative long positions that have been taken in the kiwi. At the end of May, the speculative community were long NZD to the tune of 12,500 contracts, having been net short over March. Current net long positions are the largest since March 2008, when the currency was hovering at around 0.80.

The S&P reaffirmation of NZ's AA+ rating arrived just as the global economy, fuelled by better manufacturing data in China and higher than expected GDP in India, sent risk appetites sky high. Every Belgium dentist and Japanese housewife seems to want to be in the game. They see the CRB rising, they see equities rising, what they don't see is the beginning of a trade war starting with milk powder being used as gun powder.

As per normal the NZD will spend 44 weeks a year grinding higher and 8 weeks a year in free fall. The currency is at elevated levels and though there are still shorts in the market, the people that are long are not long-term holders. A turn in equities or commodities, both of which are near their 200 day moving average, could inspire one of those 8 weeks to occur. Remember, the yield argument is not as

compelling as it was with our short end locked at 2.5 percent max for the next 12 months at least.

As a last point about the USD and the required selling of Treasuries, data suggests that foreign buyers were out in strength during the US\$101 billion of issuance last week. That is, there was no problem finding buyers for the issuances, suggesting there is still underlying demand from offshore. If this is the case, all the cash that has been positioned for USD weakness is speculative, and may soon be reversed.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	No bad news priced in AUD.
Yield	↓	Yield advantage Australia.
Commodities	↓	Metals higher, milk lower.
Partial indicators	↔	Dairy payout NZD negative. Capex AUD negative.
Technical's	↔	Around 0.80 feels right.
Sentiment	↔/↑	Risk appetites back.
Other	↔/↑	S&P comments positive for NZD.
<b>On balance</b>	↔	<b>Market happy playing current range.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Above long term average.
Fair value – short-term	↓	Above cyclical fair value estimates.
Yield	↓	Narrowing courtesy of US selloff.
Commodities	↔/↓	Dairy payout not in line with CRB moves.
Risk aversion	↑	Risk appetites back with a vengeance.
Partial indicators	↔	More signs of stabilisation.
Technical's	↔	Divergence. Longs beware.
AUD	↔/↑	AUD still holding up.
Sentiment	↑	S&P upgrade of NZ positive.
Other	↔	Spec market very long.
<b>On balance</b>	↔/↓	<b>Kiwi fundamentals point to lower levels.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
2-Jun	AU	Current Account Balance (1Q)	-5425M	-6499M	13:30
		RBA Cash Target	3.00%	3.00%	16:30
	UK	Net Consumer Credit (Apr)	0.1B	0.1B	20:30
		Mortgage Approvals (Apr)	41K	39K	20:30
		M4 Money Supply (Apr F) – mom	-	0.1%	20:30
		PMI Construction (May)	39.5	38.1	20:30
	EC	Unemployment Rate (Apr)	9.1%	8.9%	21:00
3-Jun	US	Pending Home Sales (Apr) - mom	0.5%	3.2%	02:00
		Fisher Speaks In Lubbock, Texas on US, Regional Economy	-	-	05:20
	<b>NZ</b>	<b>New Zealand Government Financial Statements as at April 30</b>	-	-	<b>10:00</b>
	AU	AiG Performance of Service Index (May)	-	39.8	11:30
		Gross Domestic Product (1Q) – qoq	-0.2%	-0.5%	13:30
		Gross Domestic Product (1Q) – yoy	-0.4%	0.3%	13:30
	JN	BoJ Board Member Kamezaki to Speak in Shizuoka City	-	-	13:00
	GE	PMI Services (May F)	46.0	46.0	19:55
	EC	PMI Services (May F)	44.7	44.7	20:00
		PPI (Apr) – mom	-0.8%	-0.7%	21:00
		PPI (Apr) – yoy	-4.5%	-3.1%	21:00
		GDP (1Q P) - qoq	-2.5%	-2.5%	21:00
		GDP (1Q P) - yoy	-4.6%	-4.6%	21:00
	UK	PMI Services (May)	49.5	48.7	20:30
		Official Reserves (Changes) (May)	-	-\$326M	20:30
4-Jun	US	ADP Employment Change (May)	-525K	-491K	00:15
		ISM Non-Manufacturing Composite (May)	45.0	43.7	02:00
		Factory Orders (Apr)	0.9%	-0.9%	02:00
		Fed's Bernanke Testifies Before House Budget Committee	-	-	02:00
		Fed's Hoenig Speaks in Sheridan, Wyoming	-	-	06:30
		Fed's Pinalto Speaks at Conference	-	-	23:50
	JN	Capital Spending (1Q)	-30.0%	-17.3%	11:50
	AU	Trade Balance (Apr)	1700M	2498M	13:30
		RBA Governor Stevens Speaks in Townsville	-	-	14:30
	<b>NZ</b>	<b>ANZ Commodity Price (May)</b>	-	<b>2.5%</b>	<b>15:00</b>
	EC	Retail Sales (Apr) - mom	0.2%	-0.6%	21:00
		ECB Announces Interest Rates	1.00%	1.00%	23:45
	UK	BoE Announces Interest Rates	0.50%	0.50%	23:00
5-Jun	US	Non-Farm Productivity (1Q F)	1.2%	0.8%	00:30
		Unit Labour Costs (1Q F)	2.9%	3.3%	00:30

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)
5-Jun cont.	US	Initial Jobless Claims (w/e May-31)	620K	623K	00:30
		Continuing Claims (w/e May-24)	6860K	6788K	00:30
		Bernanke Gives Welcome Remarks at Fed Conference in Washington	-	-	00:45
	EC	Trichet Speaks at ECB Monthly News Conference	-	-	00:30
		ECB's Gonzalez-Paramo Speaking in Frankfurt	-	-	02:50
		ECB's Trichet Speaks at Event in Warsaw	-	-	19:50
	AU	AIG Performance of Construction Index (May)	-	36.5	11:30
	JN	Official Reserve Assets (May)	-	\$1011.5B	11:50
	UK	PPI Input (May) - mom	0.8%	-1.0%	20:30
		PPI Input (May) - yoy	-8.3%	-5.0%	20:30
		PPI Output (May) - mom	0.4%	0.6%	20:30
		PPI Output (May) - yoy	-0.4%	1.2%	20:30
		PPI Output Core (May) - mom	0.3%	0.4%	20:30
		PPI Output Core (May) - yoy	1.2%	2.4%	20:30
6-Jun	US	Change in Non-Farm Payrolls (May)	-520K	-539K	00:30
		Unemployment Rate (May)	9.2%	8.9%	00:30
		Change in Manufacturing Payrolls	-150K	-149K	00:30
		Average Hourly Earnings (May) - mom	0.1%	0.1%	00:30
		Fed's Rosengren, Yellen Speak on Panel at Fed Conference	-	-	06:15
		Consumer Credit (Apr)	-\$6.0B	-\$11.1B	07:00
	EC	ECB's Stark Speaks at Event in Warsaw	-	-	00:30
		ECB's Tumpel-Gugerell Speaks at Event in St. Petersburg	-	-	22:00

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:** A clear base effect is at play in the data where indicators are naturally rebounding off precipitous lows. This is a theme we expect to continue in the near-term. However, a weak labour market remains a key headwind for recovery. Partial indicators for March quarter GDP are expected to be very weak.

Date	Data/Event	Economic Signal	Comment
Wed 3 Jun (10.00)	Financial Statements of the Government (10 months to April)	Further into the red	Lower tax revenue is expected to see the Government's underlying accounts head further into the red, although broadly in-line with the <i>Budget</i> expectations. Better returns in the month from Crown Financial Institutions will help stop the headline operating balance from deteriorating further.
Thu 4 Jun (15.00)	ANZ Commodity Price Index (May)	-	-
Tue 9 Jun (10.45)	Value of Building Work Put in Place (Mar qtr)	Still contracting	Residential building construction is likely to record another large quarterly contraction. Non-residential construction is expected to be largely unchanged.
Wed 10 Jun (10.45)	Overseas Trade Indexes (Mar qtr)	Terms of trade lower	Large falls in export commodity prices is expected to see the terms of trade fall in the quarter. Volume data is expected to confirm net exports will make a positive contribution to growth in the March quarter.
Thu 11 Jun (09.00)	RBNZ June <i>Monetary Policy Statement</i>	Temporary pause	While a case can be made for further immediate rate cuts, the green shoots need to be respected. However, we don't expect them to be sustained and hence rate cuts are likely to resume from H2 2009.
Fri 12 Jun (10.45)	Retail Trade Survey (Apr)	Finding a base	The second lot of tax cuts should give retail sales a bit of a kick.
Mon 15 Jun (10.45)	Economic Survey of Manufacturing (Mar qtr)	Weak	Manufacturing activity is likely to be weighed down by primary food, where less livestock slaughtering will impact.
Mon 22 Jun (10.45)	International Travel and Migration (May)	More of the same	Less New Zealanders departing will ensure that solid monthly net inflows continue to be recorded.
Thu 25 Jun (10.45)	Balance of Payments (Mar qtr)	Rebalancing	Recent improvement in the trade balance should help drive the current account deficit to an improved deficit of 8.5 percent of GDP.
Fri 25 Jun (10.45)	GDP (Mar qtr)	The worst yet?	We currently have a 1.5 percent contraction pencilled in for the quarter – the worst quarter of the recession yet.
Mon 29 Jun (10.45)	Overseas Merchandise Trade (May)	Another monthly surplus	The trade balance typically records a surplus in May. However, we are expecting this to be larger than normal given a further capitulation in imports.
Mon 29 Jun (10.45)	Building Consents Issued (May)	The bounce	A further pick-up is expected considering the near record low levels and a natural response to an improvement in housing market activity.
Mon 29 Jun (15.00)	Credit Growth (May)	De-leveraging continues	Household credit growth will remain subdued. However, top on the watch list is now business and rural lending growth, which are also showing signs of substantial slowing.
Tue 30 Jun (15.00)	NBNZ <i>Business Outlook</i> (Jun)	-	-
Thu 2 Jul (15.00)	ANZ Commodity Price Index (Jun)	-	-
<b>On Balance</b>		<b>Base forming?</b>	<b>There is a strong base effect appearing in some data, which suggests Q2 is the nadir in the cycle. But the jury is out on the speed of recovery and in H2 2009 we expect the economy to be moving along the bottom of the bath tub.</b>

## 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	<b>-1.5</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>1.2</b>
GDP (% yoy)	2.1	1.0	-0.1	-1.9	<b>-3.1</b>	<b>-3.3</b>	<b>-2.9</b>	<b>-1.9</b>	<b>0.1</b>	<b>1.8</b>
CPI (% qoq)	0.7	1.6	1.5	-0.5	0.3	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
CPI (% yoy)	3.4	4.0	5.1	3.4	3.0	<b>2.1</b>	<b>1.1</b>	<b>2.2</b>	<b>2.4</b>	<b>2.2</b>
Employment (% qoq)	-1.0	1.2	0.2	0.6	-1.1	<b>-1.0</b>	<b>-0.9</b>	<b>-0.4</b>	<b>-0.2</b>	<b>0.0</b>
Employment (% yoy)	-0.2	0.8	1.1	0.9	0.8	<b>-1.3</b>	<b>-2.4</b>	<b>-3.4</b>	<b>-2.5</b>	<b>-1.5</b>
Unemployment Rate (% sa)	3.8	4.0	4.3	4.7	5.0	<b>5.6</b>	<b>6.4</b>	<b>7.0</b>	<b>7.5</b>	<b>7.7</b>
Current Account (% GDP)	-8.0	-8.4	-8.7	-9.0	<b>-8.5</b>	<b>-7.1</b>	<b>-6.1</b>	<b>-5.2</b>	<b>-5.0</b>	<b>-4.9</b>
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-0.9	<b>-5.0</b>	<b>-2.1</b>	<b>-1.4</b>	<b>-1.1</b>	<b>-0.7</b>	<b>-0.4</b>
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	<b>-7.1</b>	<b>-8.7</b>	<b>-9.1</b>	<b>-9.3</b>	<b>-5.2</b>	<b>-3.5</b>

## KEY ECONOMIC INDICATORS

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Retail Sales (% mom)	0.3	0.3	-1.2	-0.1	-0.6	-1.2	0.3	-0.4	..	..
Retail Sales (% yoy)	-0.9	2.2	0.7	-4.1	-0.9	<b>-3.7</b>	<b>-6.9</b>	<b>-1.9</b>	..	..
Credit Card Billings (% mom)	-0.3	1.3	-1.8	-0.8	-2.2	1.5	0.8	-2.8	2.3	..
Credit Card Billings (% yoy)	2.6	2.5	0.9	-0.9	-3.8	<b>-2.4</b>	<b>-1.9</b>	<b>-4.8</b>	<b>-1.6</b>	..
Car Registrations (% mom)	-3.7	11.1	-1.0	-19.7	12.7	<b>-14.1</b>	<b>-15.1</b>	<b>7.3</b>	<b>-3.0</b>	..
Car Registrations (% yoy)	-30.5	-15.6	-19.9	-34.4	-23.7	<b>-36.5</b>	<b>-44.6</b>	<b>-32.9</b>	<b>-41.0</b>	..
Building Consents (% mom)	-6.0	8.0	-19.9	4.2	-7.2	<b>-12.6</b>	<b>12.0</b>	<b>-1.7</b>	<b>11.2</b>	..
Building Consents (% yoy)	-42.9	-28.4	-43.1	-39.5	-41.6	<b>-51.3</b>	<b>-40.1</b>	<b>-34.5</b>	<b>-56.6</b>	..
REINZ House Price (% yoy)	-5.7	-6.1	-4.3	-4.1	-4.8	<b>-4.4</b>	<b>-2.2</b>	<b>-4.0</b>	<b>-1.4</b>	..
Household Lending Growth (% mom)	0.4	0.2	0.1	-0.1	0.2	0.2	0.2	0.1	0.2	..
Household Lending Growth (% yoy)	7.2	6.6	5.8	4.8	4.2	<b>3.8</b>	<b>3.1</b>	<b>2.8</b>	<b>2.6</b>	..
Roy Morgan Consumer Confidence	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7	101.1	104.9
NBNZ Business Confidence	-20.5	1.6	-42.3	-43.0	-35.0	..	<b>-41.2</b>	<b>-39.3</b>	<b>-14.5</b>	1.9
NBNZ Own Activity Outlook	4.7	16.7	-11.4	-14.1	-21.5	..	<b>-20.1</b>	<b>-21.2</b>	<b>-3.8</b>	3.8
Trade Balance (\$m)	-848	-1252	-994	-594	-341	<b>-102</b>	481	447	276	..
Trade Balance (\$m annual)	-4369	-5048	-5269	-5234	-5614	<b>-5405</b>	<b>-5166</b>	<b>-4676</b>	<b>-4108</b>	..
ANZ World Commodity Price Index (% mom)	-3.4	-5.1	-7.6	-7.4	-7.4	<b>-4.3</b>	<b>-4.6</b>	<b>1.0</b>	<b>2.5</b>	..
ANZ World Commodity Price Index (% yoy)	3.5	-2.1	-11.1	-18.3	-24.3	<b>-26.5</b>	<b>-30.7</b>	<b>-31.4</b>	<b>-29.5</b>	..
Net Migration (sa)	340	-20	40	-290	320	820	1620	1730	2160	..
Net Migration (annual)	4938	4403	4329	3569	3814	4538	6160	7482	9176	..

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)						
	Apr-09	May-09	2-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
NZD/USD	0.572	0.641	0.650	0.570	0.520	0.510	0.520	0.530	0.540	0.560
NZD/AUD	0.801	0.800	0.803	0.792	0.776	0.761	0.765	0.757	0.761	0.778
NZD/EUR	0.433	0.452	0.459	0.452	0.419	0.418	0.433	0.442	0.443	0.459
NZD/JPY	56.6	61.1	62.8	59.9	56.2	56.1	57.2	58.3	59.4	61.6
NZD/GBP	0.389	0.396	0.395	0.375	0.347	0.336	0.338	0.340	0.342	0.350
NZ\$ TWI	57.0	60.4	61.2	57.8	54.0	53.3	54.4	55.0	55.6	57.5
NZ interest rates	Apr-09	May-09	2-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
OCR	3.24	2.50	2.50	2.25	2.00	2.00	2.00	2.50	3.50	4.50
90 day bill	3.12	2.75	2.72	2.40	2.40	2.40	2.40	3.10	4.10	5.10
10 year bond	5.24	5.74	5.79	5.10	4.90	5.00	5.10	6.00	6.10	6.40
International	Apr-09	May-09	2-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00	2.75
US 3-mth	1.02	0.96	0.65	0.70	0.50	0.70	1.25	1.75	2.25	3.00
AU cash	3.00	3.00	3.00	2.50	2.00	2.00	2.00	2.00	2.75	3.25
AU 3-mth	3.08	3.16	3.16	2.30	2.30	2.30	2.40	2.60	3.30	4.40

## KEY RATES

	29 Apr	25 May	26 May	27 May	28 May	29 May
Official Cash Rate	3.00	2.50	2.50	2.50	2.50	2.50
90 day bank bill	3.03	2.80	2.80	2.81	2.79	2.75
NZGB 07/09	2.97	2.69	2.69	2.69	2.69	2.70
NZGB 11/11	3.74	3.69	3.69	3.74	3.65	3.56
NZGB 04/13	4.44	4.60	4.60	4.67	4.64	4.55
NZGB 12/17	5.39	5.76	5.76	5.85	5.85	5.74
2 year swap	3.66	3.57	3.56	3.61	3.57	3.51
5 year swap	4.81	5.02	5.01	5.08	5.10	5.01
RBNZ TWI	56.3	58.7	58.9	59.1	59.1	59.6
NZD/USD	0.5664	0.6172	0.6184	0.6220	0.6172	0.6269
NZD/AUD	0.7938	0.7922	0.7942	0.7918	0.7948	0.7954
NZD/JPY	54.86	58.44	58.57	59.35	59.50	60.40
NZD/GBP	0.3852	0.3886	0.3892	0.3897	0.3882	0.3925
NZD/EUR	0.4295	0.4411	0.4425	0.4453	0.4473	0.4480
AUD/USD	0.7135	0.7791	0.7786	0.7856	0.7765	0.7882
EUR/USD	1.3186	1.3992	1.3974	1.3968	1.3797	1.3992
USD/JPY	96.86	94.68	94.71	95.42	96.40	96.34
GBP/USD	1.4703	1.5883	1.5890	1.5960	1.5901	1.5970
Oil	49.01	61.15	60.51	62.48	63.41	65.09
Gold	893.05	954.10	954.35	950.10	946.55	962.00
Electricity (Haywards)	4.76	2.72	2.01	1.74	1.75	2.52
Milk futures (US\$/contract)	83	n/a	85	85	85	85
Baltic Dry Freight Index	1772	n/a	2942	3164	3298	3494

## 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.

#### **Use of Money and Property**

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.

#### **NEW ZEALAND DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

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