

NEW ZEALAND ECONOMICS MARKET FOCUS

21 November 2011

INSIDE

Economic Overview	2
Rural Wrap	5
Regional Output Gaps	8
Interest Rate Strategy	10
Currency Strategy	12
Data Event Calendar	13
Data Watch	15
Key Forecasts	16

NZ ECONOMICS TEAM

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

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

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

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

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

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

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

THE GREEN FLUSH

ECONOMIC OVERVIEW

The global outlook continues to dominate local events. A better tone to US data and progress towards filling the leadership vacuum in Europe has been swamped by concerns that the European debt crisis is worsening. This backdrop dominates the risk profile for the NZ economy, though the direct impact to date has been mild. While the local data remains reasonable, much of it has a temporary feel to it, with a soft start to 2012 beckoning. This week's local data is expected to show continued fragmentation, with the RBNZ survey underscoring reduced concerns over the inflation outlook. We expect the election to come and go with little fuss.

RURAL WRAP

The green flush of some pretty hefty cash flowing in the door in the livestock sectors and some of the best pasture conditions seen across the country have been the winning hand this spring. Mother Nature has been kind and volumes are good. This will support H2 2011 GDP and mitigate to some extent expectations of softer prices compared to the past season.

REGIONAL OUTPUT GAPS

Our regional output gap measures continue to show regional divergences. All regions bar one experienced a negative output gap in Q3, with output gaps widening for 10 regions. However, the output gap narrowed for Auckland and moved into positive territory for Canterbury. Our measures suggest there is enough spare capacity to temporarily accommodate a strengthening in demand in most regions. However, the presence of a positive output gap in Canterbury raises questions over the ability of the region to accommodate the upswing in demand from earthquake reconstruction without significant overheating eventuating. The durability of the recovery will be cut short unless action is taken to lift supply side capacity.

INTEREST RATE STRATEGY

The NZ market is now in transition mode, testing an easing theme. We concur with the bias that the market wants to trade given the tone of global news flow. But we need to be careful not to read too much into the rally, which had all the hallmarks of a classic squeeze. The data flow is fairly light this week, but event risk is high, with US budget talks, the Spanish election, and general price action in European bonds likely to dictate the tone. The local market is at a crossroads (on the RBNZ's next move), but we suspect it won't be long before one view dominates.

CURRENCY STRATEGY

The NZ general election this weekend could see the NZD fluctuating along with the poll numbers of the minor parties. But while domestic politics will hold some interest, it is still the European situation that is the key focus for financial markets, as we await the outcome of Spain's general election and whether Italian and French bond yields back off from recent highs. The US data continues to recover, but focus on the debt "supercommittee" could yet introduce a bit more volatility into FX markets. We expect the NZD to remain on the backfoot on wider global concerns.

ECONOMIC OVERVIEW

SUMMARY

The global outlook continues to dominate local events. A better tone to US data and progress towards filling the leadership vacuum in Europe has been swamped by concerns that the European debt crisis is worsening. This backdrop dominates the risk profile for the NZ economy, though the direct impact to date has been mild. While the local data remains reasonable, much of it has a temporary feel to it, with a soft start to 2012 beckoning. This week's local data is expected to show continued fragmentation, with the RBNZ survey underscoring reduced concerns over the inflation outlook. We expect the election to come and go with little fuss.

FORTHCOMING EVENTS

RBNZ Credit Card Billings – October (Monday, 21 November, 3:00pm). A 1.0 percent increase in billings is forecast, led by higher domestic billings.

SNZ International Travel and Migration – October (Tuesday, 22 November, 10:45am). A net permanent and long-term outflow of 300 persons is forecast. International visitor arrival numbers should hold up in seasonally adjusted levels.

RBNZ Survey of Expectations – Q4 (Tuesday, 22 November, 3:00pm). The 2-year-ahead expectation for CPI inflation is forecast to decline to 2.8 percent.

SNZ Overseas Merchandise Trade – October (Thursday, 24 November 10:45am). A monthly trade deficit of \$450m is expected, with the annual trade surplus down to around \$500m.

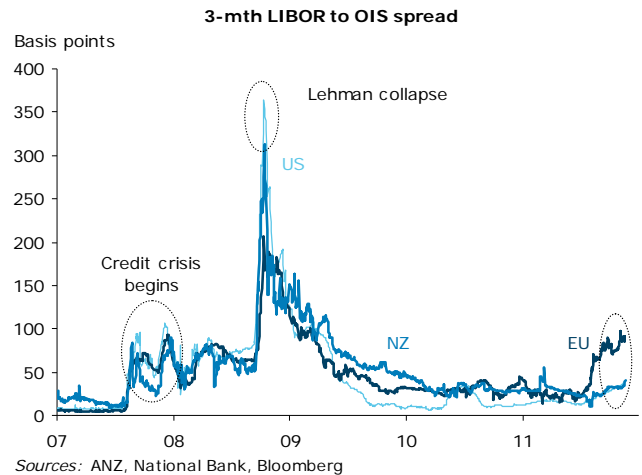
New Zealand General Election – Saturday, 26 November.

WHAT'S THE VIEW

The risk profile for the New Zealand economy continues to be dictated by the global scene. At one end of the spectrum we're taking heart from the better tone to US data, and the active steps the new Government in Italy is flagging in regard to reform. Yet challenges remain.

Pressures in European money markets are rising with Euribor to OIS spreads continuing to lift. They are now at levels seen when the credit crisis first began to emerge in late 2007. The LIBOR to OIS spreads in the US and UK have also risen, but not to the same extent. So USD funding for European banks is getting a bit harder, though they have unlimited access to euros courtesy of the ECB. What is interesting is that while the focus may be on the European banks, the bank CDS spreads for US banks have followed the same path as for the European banks. This is in contrast to the GFC experience when

US bank CDS spreads blew out but European and UK bank spreads did not move to the same extent. This is a sign that problems in Europe are not confined to that region.



And of course there are huge layers of uncertainty in other areas. We've noted them before but they are worth repeating. The Eurozone needs a fiscal union if a currency union is to survive. Will governments cede their democratically elected rights to some higher federal power? We suspect not, though Chancellor Merkel in Germany has started socialising the concept. With recession in Europe looming, government solvency will deteriorate, and fiscal austerity (another growth suppressant) hasn't really started. And then there are the elections (with Spain's results due some time today), political pressures, and questionable appetite for European debt. There is too much talk (speculation) of black swans for our liking.

History tells us that the inevitable hard decisions are not made until all other options have been exhausted, at which point "accidents" typically take place. We expect history to repeat. While market attention is on Europe, let's not forget the focus was on the US a couple of months ago, and we suspect we'll see a swing back to the other side of the Atlantic before the end of the year.

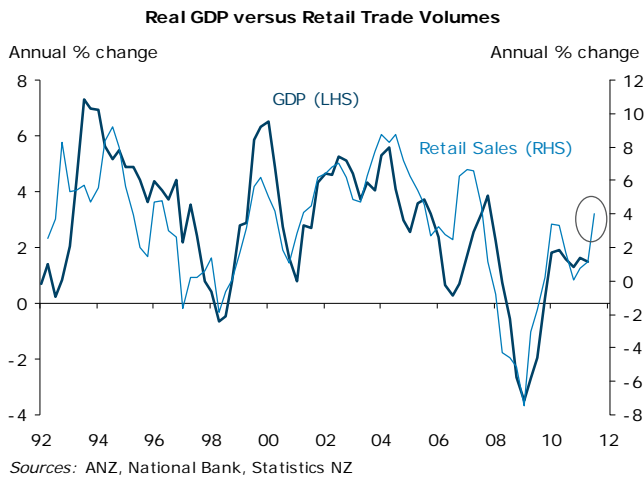
Amidst shaky global nuances, New Zealand still looks to be battling along okay. We had been searching for evidence of a Rugby World Cup boost to activity, and it finally arrived, courtesy of the barnstorming Q3 retail sales result. **However, the larger the RWC-induced lift, the greater the post-event fall.** A subdued Christmas shopping season and start to 2012 beckons.

Of course lead indicators have rolled over somewhat of late but all are so far consistent with an easing back in growth (albeit from a

ECONOMIC OVERVIEW

reasonably moderate rate to begin with) as opposed to something more ominous. However, we must emphasise again that downside risks dominate. That said, commodity prices remain a critical transmission mechanism from the global scene and last week's 2.6 percent lift in the GlobalDairyTrade auction was an encouraging sign. With the auction clearing reasonable volumes, this was a major positive for dairy incomes. But the real story was the lift in NZD prices which rose 6.3 percent. This sort of movement signifies the critical role the NZD is playing as a buffer. And we should not lose sight of the fact that it's not just the NZDUSD that has eased, but also the NZDAUD cross rate as well, which has fallen below 76 cents. Yes, there are worrying reasons why the currency has fallen, but we'll still take it!

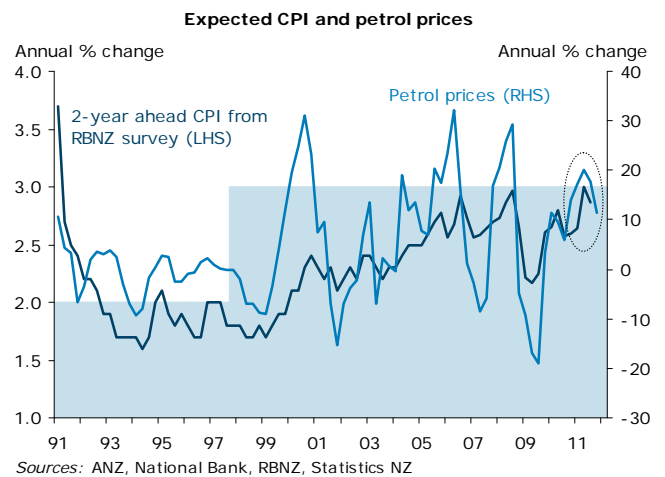
A key factor underpinning rural incomes is Mother Nature. Past New Zealand downturns have usually been associated with adverse climatic events, but as our Rural Wrap on page 5 shows, conditions look extremely favourable for the pastoral sector.



The rates market in New Zealand is now seriously testing an outright easing in policy. Could it take place? Yes. Do we think it is likely? No, despite our assessment of the global scene being at the circumspect end of the spectrum. With core inflation running just over 2 percent, real interest rates are already effectively at zero. The global scene is fragile, but it took a financial crisis in 2008 to get the OCR to 2.5 percent last time. We're already at 2.5 percent so one wonders what we would have to see to justify it being even lower! Monetary conditions are easing via the NZD and lower wholesale interest rates. However, **it may well be that the OCR settles at 2.5 percent for an extended period and if the global scene does not settle (which we struggle to see happening anytime**

soon), the RBNZ may well flag as much in the December *Monetary Policy Statement*.

Looking to the week ahead, the forthcoming election dominates the week. The latest Roy Morgan Poll (surveyed over November 7-18) shows a clear National Party election victory, attracting 53 percent of the party vote, with Labour at 24.5 percent. We will closely follow what happens to the minor parties, with the Roy Morgan poll showing a climb in support for the Green Party (to 13 percent), but the other parties, namely New Zealand First (3 percent), Act (1.5 percent), the Maori Party (3 percent), Mana (1 percent), and United Future (under 0.5 percent), needing to secure an electorate seat. With 61 percent of those polled believing the country is heading in the right direction, voters seem to want a period of relative stability rather than wholesale changes.



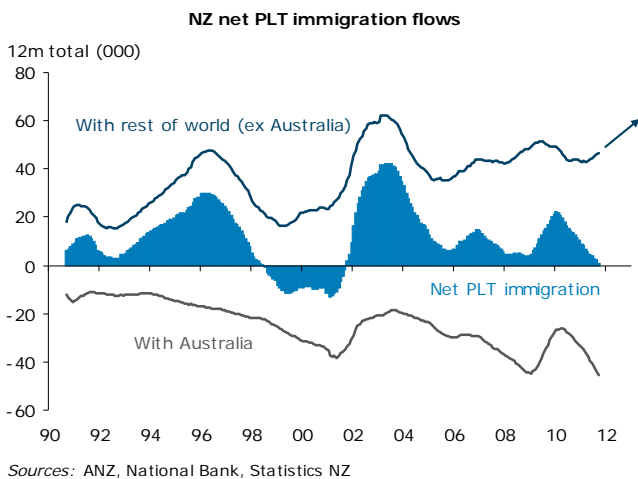
We continue to closely monitor trends in the medium-term drivers of inflation, and this week's **RBNZ survey of expectations is likely to signal a little more inflation headroom.** We expect the key 2-year-ahead measure for CPI inflation to ease from 2.86 percent to slightly under 2.8 percent. The early November fall in petrol prices is likely to have helped. However, our work shows that expectations are persistent, and with various surveys showing expectations remaining well above the midpoint of the inflation target, this may act to reduce the flexibility of the RBNZ and raise the hurdle for prospective OCR cuts.

Credit card billings are expected to mimic the lift in the electronic card transactions. We expect a 1.0 percent increase, driven largely by a pick-up in domestic card spending.

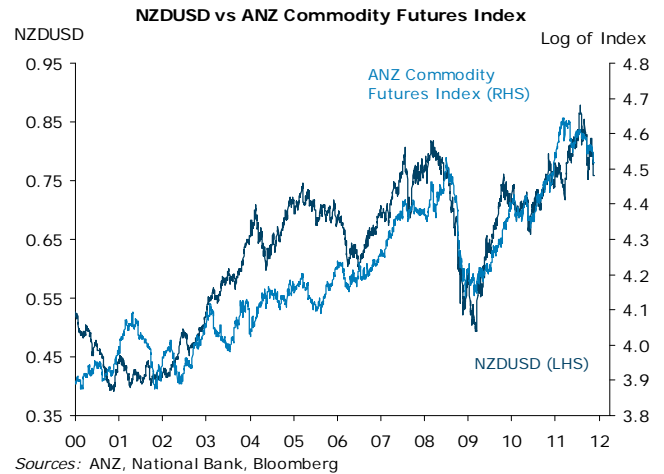
Migration flows in recent months have been volatile, reflecting a number of domestic and global influences. We expect a net permanent and long-term (PLT)

ECONOMIC OVERVIEW

migration outflow of about 300 persons, driven by a tailing off in PLT departures from high September levels and a climb in PLT arrivals from their September lows. An increasingly fickle global scene is behind both. **There is an Australia vs. non-Australia migration dynamic at play**, with New Zealand experiencing a net PLT outflow of around 46,000 persons to Australia over the past 12 months. Offsetting this was a net PLT inflow into New Zealand of about the same magnitude from other countries. With Europe looking increasingly shaky, we believe much of the expected turnaround in the net immigration inflow will come from this, rather than a sharp turnaround from Australia. While the November RBA minutes suggested the Australian labour market outside of the mining sector was not as strong as the Bank had previously expected, the outlook remains reasonably favourable.



With an extra 15,000 overseas visitors envisaged to have arrived in October for the latter stages of the Rugby World Cup, October visitor arrival numbers should hold up. Like the retail sector, however, the environment for tourism over the next few months will be testing.



We continue to closely monitor the commodity price outlook, which will have a key bearing on domestic activity and inflation. **The fall in NZD denominated commodity prices is expected to contribute to an October monthly trade deficit and a narrowing in the annual trade surplus.** Higher pastoral production will help provide a small offset to this. Despite the increasingly fickle global scene, capital goods imports have displayed resilience, and despite their fall in September were 21 percent higher than in the June quarter. Prolonging the recovery will require more capacity building, and time is starting to run out. Our regional output gap analysis on page 8 shows less spare capacity on supply-side measures for most regions. Rebuilding the capital stock after a period of low investment is not just a Canterbury story.

RECENT LOCAL DATA

SNZ Retail Trade Survey – Q3. Retail values rose a seasonally adjusted 2.1 percent, with core values up 2.7 percent s.a. Retail volumes rose 2.2 percent s.a. and core volumes rose 2.4 percent s.a.

GlobalDairyTrade auction. Auction prices rose 2.6 percent, to an average price of US \$3,617/tonne.

National Bank Regional Trends – Q3. The nationwide measure of economic activity lifted 0.6 percent, which followed a 1.1 percent lift in June. Quarterly activity rose 1.1 percent in the South Island, with North Island activity expanding 0.5 percent.

SNZ Capital Goods Price Index – Q3. Capital goods prices were broadly unchanged (0.0 percent y/y), with offsetting price movements.

SNZ Producer Prices – Q3. Input prices rose 0.6 percent (4.7 percent y/y), with producer output prices up 0.2 percent (3.5 percent y/y).

RURAL WRAP

SUMMARY

The green flush of some pretty hefty cash flowing in the door in the livestock sectors and some of the best pasture conditions seen across the country have been the winning hand this spring. Mother Nature has been kind and volumes are good. This will support H2 2011 GDP and mitigate to some extent expectations of softer prices compared to the past season.

ON-FARM/ORCHARD CONDITIONS

The west coast of both islands and Southland have had a remarkable amount of rain through October and early November with most paddocks now at field capacity. The downside to the moist conditions has been limited access to paddocks for heavy machinery. This has delayed planting summer crops, and silage and baleage making has been stop-start. Where crops have been planted, germination has occurred very quickly due to the good soil moisture and temperature conditions. Unfortunately, with Southland being a later lambing region, some pockets were affected by larger lamb losses than normal.

The east coast of both islands are also wet, but not quite at field capacity. Spring conditions have been some of the best seen in years, which provides good momentum heading into the summer. In Canterbury the favourable weather conditions have led to huge savings in irrigation costs. Crop establishment has also been stop-start in places due to the soft conditions underfoot. The development of mild La Nina conditions since April seems to be driving the more favourable growing conditions. The momentum from the spring and forecast favourable climatic conditions should see cautious optimism continue into the first quarter of 2012.

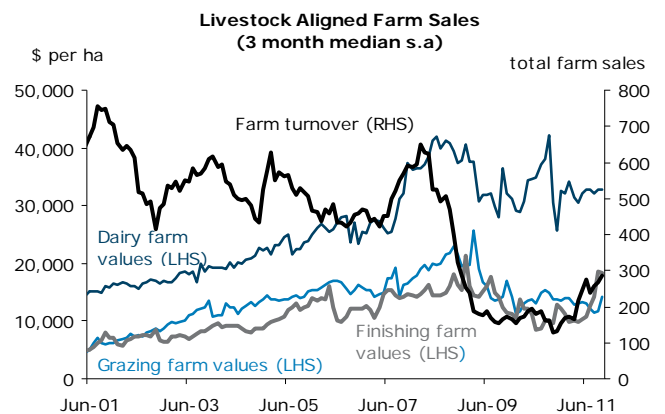
RURAL PROPERTY MARKET

The winnings from the green flush in the livestock sector have spilled over into further momentum for the rural property market. While we have heard a lot of noise about debt repayment from the good earnings in 2010-11, the reality is that it looks like quite a bit of this extra cash has found its way into property.

In fact, according to the RBNZ figures, **aggregate gross agricultural debt has increased by nearly \$1 billion since April and \$300 million since the start of 2011.**

If we look at **the average dairy farmer's cash available for reinvestment in 2010-11 there was approximately \$175,000 extra cash for reinvestment** after tax over and above the average

of the last 10 years. The average meat and fibre farmer's cash available for reinvestment after tax in 2010-11 was \$40,000 above the average. **Across all the commercial dairy and meat/fibre farmers in New Zealand, this adds up to a substantial \$2.57 billion extra for reinvestment** over and above the average of the last 10 years (1.3 percent of GDP). June year RBNZ data shows gross debt has been stable year-on-year, while deposits have increased by \$758 million. So in effect there is probably an extra \$1.8 billion in cash available for reinvestment. The October milk cheque is still to be reflected in the RBNZ data and a good proportion of the meat and fibre and some of the dairy money would have been spent on deferred on-farm maintenance. **However, a reasonable amount seems to have found its way into the rural property market over the last six months or so.**



Sources: ANZ, National Bank, REINZ

Thankfully, most investments have been strategic in nature and from those with strong balance sheets. This additional momentum has also started to lend some support to pricing for support blocks and possible future dairy conversion, with murmurs of further upside over the coming 12 months.

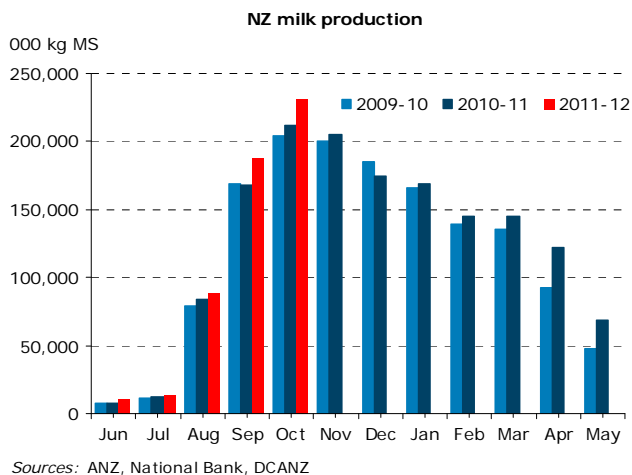
The opposite is true in the horticultural sector with kiwifruit properties under pressure from the spread of PSA-V and softer orchard-gate returns elsewhere. **The turnover in sales since the start of this year has halved and is now a third of the 10-year average. The average price per hectare plunged to \$75,000 in the period ended August and has stayed around this level in September and October.** This provides evidence that August was not a one-off. The spring median prices per hectare have been half what they were this time last year. All indications are that the stresses in each sector will continue to hamper turnover and sale values.

RURAL WRAP

DAIRY

Fonterra revised back their milk price forecast for 2011–12 by 45 cents to \$6.30 per kg MS. Early season payments were left unchanged, with setups later in the season reduced. **Combined with last year's record payout and the strong start to milk production this season means there has been very good cash-flow this spring.** While a downward revision was expected, the magnitude was probably larger than most had pencilled in. The soft landing for the revenue line will be better production and lower interest rates, but this won't make-up the entire difference.

For example, if production were to finish the season up 5 percent on last season, this would be worth \$0.32 per kg MS for a farmer who is 100 percent share backed. The effective interest rate has also been lowered by 0.50 percent over the last 12 months. This lowers interest costs by \$0.11 per kg MS for the average dairy farmer with debt of \$22 per kg MS (or half a cent for every \$1 of debt per kg MS). All up this means the average dairy farmer will probably receive at least a \$0.43 per kg MS lift from better production and lower interest rates. **This offsets a third of the decline in the payout from 2010–11 and will ensure momentum in the rural property market is maintained into the New Year.**



Year-to-date milk production is up 10 percent, with the lower North Island and central and lower South Island leading the charge. The reported loss of 30-50 million litres of milk in the central and upper North Island region from the gas leak in the Maui pipeline that shut down processing plants was not trivial. This shaved 2–3.5 percentage points off the growth in milk production in the North Island during October. It also reduced year-to-date milk production growth by 0.5–1.0 percentage point,

implying there is very strong momentum in milk production heading into the summer. This could see milk production for the season finish as high as 8 percent ahead of last year, one of the largest annual increases since Fonterra's formation 10 years ago (discounting the bounce-back from drought in 2008).

MEAT AND FIBRE

Official lambing results are due out this week. **Anecdotes suggest most regions have had a better lambing than last year's shocker.** Better lamb survival has been cited as the main reason in most regions, although pockets of Southland did suffer. More lambs, good pasture conditions and high early season prices should be seeing a deeper draft of prime lambs away at weaning. **We have not seen this in production statistics yet with production back 20 percent on last year as farmers add more weight to lambs.** Carcase weights for the year-to-date are up 8 percent on this time last year. Anecdotally lamb breeders have planted, or are intending to plant, more feed crops to add more value to their lambs. Combined with good pasture conditions across just about every region this could suggest higher store prices as breeders hold on to lambs that are not sold prime at weaning, shorting the store market. A similar situation exists for store cattle. Total beef production is back 12 percent on last year, with bull beef back 27 percent.

HORTICULTURE AND VITICULTURE

PSA is casting a lengthening shadow over the kiwifruit industry and Bay of Plenty region. There are sizeable implications for the Bay of Plenty economy (with kiwifruit-related activity making up close to 20 percent of regional activity). A bleak kiwifruit outlook is likely to lead to many pack-houses struggling or consolidating over the next 12 months, with transport, orchard and engineering services also hit.

The latest update from Kiwifruit Vine Health **has 839 orchards identified as having the disease, or 25 percent of all orchards.** The epicentre is in the Bay of Plenty region where the average orchard is larger than other regions. Therefore, **the total infected area is 4,612 hectares, or 34 percent of the total area.** Seventy-eight percent of New Zealand's area is now in a priority zone. Gold is bearing the brunt of the disease with half of the total Gold crop now infected, compared with a third of the Green crop.

Where to from here is now the question. **It is going to be a very big struggle for Gold kiwifruit over the next few years.** This crop is one of New Zealand's key competitive advantages. From a

RURAL WRAP

profitability point of view it has the highest yield and receives a price premium at the orchard-gate nearly twice that of Green. In 2011–12 orchard-gate returns per hectare are forecast at \$87,100 for Gold and \$31,400 for Green. Until new PSA-V resistant Gold varieties can be bred, Gold exports are going to be severely constrained. Anecdotal reports have Green responding better to containment/management practices. **A better idea of the size of the 2012 crop will be gained in coming weeks, but we expect Gold to be well down on the 30 million trays from 2011.**

THE UPSHOT

The upshot is the rural sector has become increasingly two-speed. Livestock-aligned sectors are performing well but the main horticultural/viticulture sectors are struggling. Cash-flow forecasts look solid for livestock-aligned sectors in 2011-12. This provides further momentum and confidence from the stellar 2010-11 season, further helping those parts of the sector where balance sheets have been under stress. The stress in the horticultural/viticulture sector is now starting to spill over into asset values and is likely to have some way to run yet. While a degree of uncertainty surrounds the outlook for commodity prices, Mother Nature is providing important support. Volumes are good, farm conditions excellent, so confidence is still in the cautiously optimistic zone as a consequence.

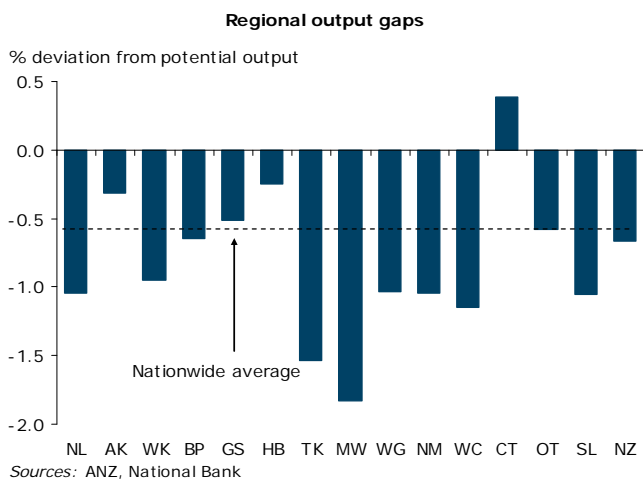
REGIONAL OUTPUT GAPS

SUMMARY

Our regional output gap measures continue to show regional divergences. All regions bar one experienced a negative output gap in Q3, with output gaps widening for 10 regions. However, the output gap narrowed for Auckland and moved into positive territory for Canterbury. Our measures suggest there is enough spare capacity to temporarily accommodate a strengthening in demand in most regions. However, the presence of a positive output gap in Canterbury raises questions over the ability of the region to accommodate the upswing in demand from earthquake reconstruction without significant overheating eventuating. The durability of the recovery will be cut short unless action is taken to lift supply side capacity.

THE REGIONAL GAP

We present our updated regional output gap measures for the September 2011 quarter.¹ The regional measures provide us with a richer picture of how geographically concentrated nationwide trends are.



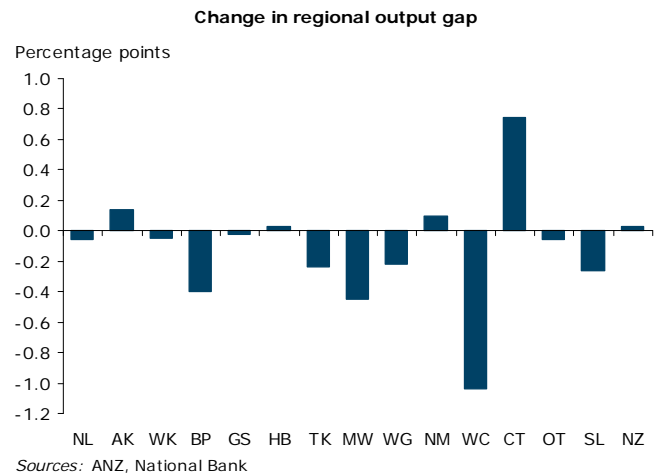
Regional measures are prone to a larger degree of uncertainty than nationwide data. But it is the broad

¹ Our regional output gap estimates are generated using economic activity data from the National Bank *Regional Trends*, unemployment rates from Statistics NZ's *HLFS*, and capacity utilisation measures from the National Bank *Business Outlook* survey. We chose a broad approach for two reasons. First, it minimises some of the error that typically surrounds statistics at the regional level. Second, the RBNZ uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For the unemployment rate, activity, and surveyed capacity utilisation, we use a band-pass filter to derive trend estimates. The regional unemployment rates are advanced two quarters prior to filtering, as this is a lagging indicator. Individual activity, unemployment and capacity utilisation gaps for each region are then given an equal weighting.

trends and the regional variations that are the main focus.

Key points from the updated analysis are:

- **There is still idle capacity across most regions.** Taranaki and Whanganui-Manawatu are the regions with the largest negative output gap. For the first time since late 2008, one of the regions (Canterbury) has a positive output gap. Regions with a low margin of spare capacity include Auckland and the Hawke's Bay.
- **At the nationwide level the negative output gap barely moved.** Increasing regional divergences remain evident, with 10 of the 14 regions experiencing a wider range of spare capacity. Those regions with increasing negative output gaps tended to be those with more spare capacity, particularly the West Coast and Manawatu-Whanganui. Canterbury registered the largest increase in its regional output gap, with a less negative output gap also evident for Auckland and Nelson-Marlborough.



Note: NL = Northland, AK = Auckland, WK = Waikato, BP = Bay of Plenty, GS = Gisborne, HB = Hawke's Bay, TK = Taranaki, MW = Manawatu-Whanganui, WG = Wellington, NM = Nelson-Marlborough, WC = West Coast, CT = Canterbury, OT = Otago, SL = Southland.

- **Fluctuations in regional output gaps were partly driven by differences in demand.** Regional activity from the NBNZ *Regional Trends* climbed 0.6 percent nationwide, but there were regional divergences, with quarterly growth rates in a -0.8 to +1.8 percent range. Regions experiencing strong quarterly growth (such as Canterbury and Auckland) tended to see more positive movements in their activity gaps. The more negative output gap for the Bay of Plenty and West Coast was largely a consequence of falling Q3 activity in those particular regions.

REGIONAL OUTPUT GAPS

- **Capacity-based metrics showed a narrower margin of spare capacity, but with widening regional divergences.** The degree of labour market slack widened slightly in Auckland, Taranaki, Manawatu-Whanganui and Wellington. A narrower margin of labour market slack was evident in Canterbury, Waikato, and the Hawke's Bay. Surveyed capacity utilisation declined nationwide, and was down for nine regions. The largest declines were for the West Coast, Northland, and Gisborne. Capacity utilisation barely budged in Auckland and rose slightly in Canterbury.
- **The output gap estimates for Canterbury moved into positive territory.** With the exception of Auckland, activity gaps for Canterbury showed less spare capacity than other regions, with the 1.8 percent Q3 increase in regional activity taking activity levels in the region 4.5 percent above March quarter levels. Capacity-based metrics show higher survey capacity utilisation relative to trend, although a wide margin of spare capacity remained in the Canterbury labour market.

THE UPSHOT

Our regional output gap estimates show idle capacity remains in most regions. **There remain marked differences depending on the capacity indicator used.** Demand-based approaches (NBNZ Regional Trends) continue to show a much greater margin of spare capacity than more supply-side approaches (i.e. NBBO capacity utilisation and the HLFS unemployment rate). Encouragingly, a fair degree of labour market slack remains, although capacity-based metrics continue to signal a limited margin of spare capacity. A key challenge will be rebuilding supply-side capacity in Christchurch, without significantly impeding resource allocation in other regions/sectors, which could truncate the durability of the recovery.

Our approach emphasises the importance of also examining the supply side of the economy when assessing the degree of medium-term inflationary pressure. There are also differences in resource pressures by region. Monetary policy can do little to assist the supply side, so there is a greater role for other policies (including regulatory) to help alleviate resource bottlenecks.

INTEREST RATE STRATEGY

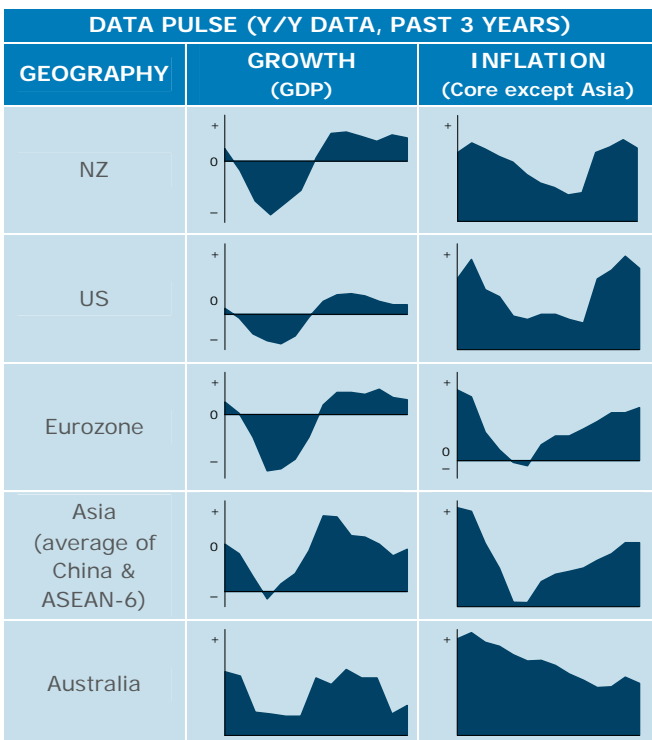
SUMMARY

The NZ market is now in transition mode, testing an easing theme. We concur with the bias that the market wants to trade given the tone of global news flow. But we need to be careful not to read too much into the rally, which had all the hallmarks of a classic squeeze. The data flow is fairly light this week, but event risk is high, with US budget talks, the Spanish election, and general price action in European bonds likely to dictate the tone. The local market is at a crossroads (on the RBNZ's next move), but we suspect it won't be long before one view dominates.

THEMES

- The NZ market is in transition mode, having moved from pricing hikes to pricing cuts. Pricing is pretty light, and at some stage it must revert to pricing in tightening or cuts with conviction.
- Europe remains the key global concern, and is likely to be the main source of price volatility. US data is steadily improving, but the market is wary of "supercommittee" budget talks that look to have stalled, potentially undermining sentiment.
- Although NZ Q3 data is likely to be solid, it runs the risk of getting railroaded by European concerns, as the last few weeks have shown.
- With yields at record low levels and swap spreads at recent highs, demand for NZGS is waning.

DATA PULSE



PREFERRED STRATEGIES – INVESTORS

Market pricing is at an extreme here. While we can mount several arguments as to why the market might move to price in deeper cuts (primarily on global concerns), we can equally make a case for the market reverting back to a more neutral profile. Much depends on how global events pan out, and we see no point expressing global risk in the NZ market. We also want to stand back for a few days and see if last week's move locally was a typical squeeze. The market certainly went insatiably well bid after the NZGS 11/11 matured, and we'd want to see a bit of follow through before we embrace the rate cut view with open arms. Our preferred trade this week is to short the Dec meeting OIS at 7.5bps through cash. This seems like a relatively safe trade in such volatile times.

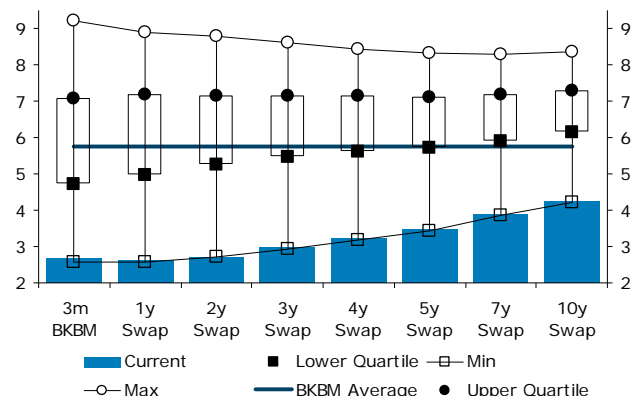
KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral/long	We're bearish globally, would add duration on backups.
Curve	Neutral	Directional, likely to steepen if more cuts get priced in.
NZ-US 10y spread	Negative	Bond spread trading at its tightest levels in 12 months.
Swap spreads	Neutral/Negative	Bonds are expensive here, in outright and spread terms.

PREFERRED STRATEGIES – BORROWERS

We prefer to keep the duration of hedges short. But with rates at all-time lows, those who need to hedge to maintain ratios will find the pricing very attractive.

KEY VIEWS – FOR BORROWERS		
GAUGE	DIRECTION	COMMENT
Hedge ratio	Mostly floating	Floating still the lowest rate, OCR on hold for a while.
Value	Extreme	Rates are at record lows.
Uncertainty	High	Takes the gloss off low rates.

NZ Swap Rate History (since the OCR introduction)



Sources: ANZ, National Bank, Bloomberg



INTEREST RATE STRATEGY

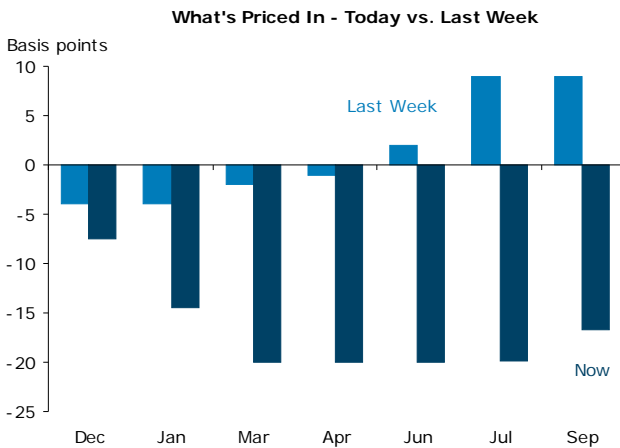
GLOBAL SCENE

Europe remains the key focus for the market, and although we have seen a reduction in Italian bond yields, and a contraction in the French-German bond spread, outright levels are still in “danger” territory. The market remains vulnerable to headlines, and what worries us is that each successive rebound has tended to be of less intensity. US data has surprised to the upside almost without exception over the past few weeks. With Fed policy still trying to keep yields low, this helps explain why equities have performed so well. But the big risks lie ahead. Indeed, although this is not a big week for US data, US budget talks look to be stalling. This event has the potential to seriously knock sentiment if it is not resolved by Wednesday this week.

DOMESTIC

The domestic data pulse remains more favourable, and we expect card spending data later today to be boosted by the Rugby World Cup. Q3 GDP is also shaping up well, and will deliver a surprise before Christmas. But this has to be weighed against the global scene, which remains dominant.

MONETARY POLICY AND MARKET PRICING

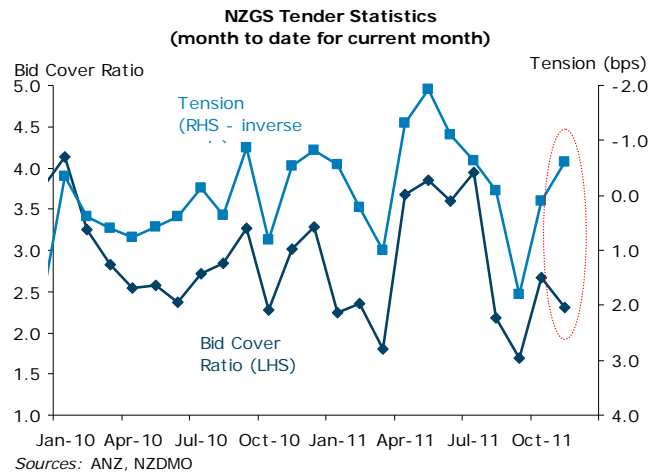


Sources: ANZ, National Bank, Bloomberg

The market is now well and truly pricing in a cut, and as noted earlier, is at something of a crossroads. With global risk still at front and centre, we wouldn't be surprised to see the market move to price deeper cuts. Indeed, waning global risk appetite tends to have an immediate impact on key risk factors for NZ such as funding spreads, bond demand and confidence, and as such, will play a more pivotal role in shaping expectations. But we really want to see the market “reject” the squeeze before we declare rate cuts to be the order of the day. We do think the market is being a bit two-faced pricing in such high odds of a cut by March, with no follow through

thereafter. But this is typical of a market in transition. We are tempted to favour being long Mar-Sep OIS at +1 as this trade could do well if the market prices deeper cuts. But it will blow up completely if the market returns to pricing in hikes.

BONDS



Demand for NZGS dropped away sharply at last week's tender, with bid cover falling to just 1.34 times. This is not the lowest figure for a single tender, but it is pretty low and has dragged the month to date average down, as the chart above shows. Bonds are expensive here on 3 key measures – in outright yield terms, on a spread to swap, and on a spread to US Treasuries. This adds weight to the view that much of last week's move was a bond-driven squeeze.

SWAPS AND SWAP SPREADS

We'd normally expect swap spreads to widen or “normalise” here as the market moved to switch bond shorts covered in the swap market. But last week's poor tender showing has left bonds with a very offered tone, and we suspect swap spreads will narrow for the next few days. This seems like a fairly safe assumption, because if the market does not take a breather but rather elects to push hard for cuts, it will be the swaps that get moving fast, contracting spreads.

RELATIVE VALUE

The NZGS market still offers the highest expected returns across the dollar bloc, but with spreads to swap reasonably wide, and spreads to the US tight, we really need to see the market move unwaveringly toward pricing in RBNZ rate cuts for current valuations to be validated.



CURRENCY STRATEGY

SUMMARY

The NZ general election this weekend could see the NZD fluctuating along with the poll numbers of the minor parties. But while domestic politics will hold some interest, it is still the European situation that is the key focus for financial markets, as we await the outcome of Spain's general election and whether Italian and French bond yields back off from recent highs. The US data continues to recover, but focus on the debt "supercommittee" could yet introduce a bit more volatility into FX markets. We expect the NZD to remain on the backfoot on wider global concerns.

MARKET THEMES

- NZ general election this weekend will turn NZD watchers into poll watchers to see if the minor parties will hold the balance of power.
- Spanish general election result and resulting policy initiatives will be the focus for European crisis watchers.
- US data announcements including GDP and confidence indices may confirm US recovery. But will the "super committee" agree on the needed budget cuts?

REVIEW AND OUTLOOK

The NZ general election this weekend will see some focus return to domestic considerations.

The risk off environment has seen NZD underperform for the last week or so, brushing off a strong Q3 retail sales print. And we could see the NZD fluctuate this week as the market keeps an eye on the political polls. While we expect Q3 data to be strong, a post-RWC hangover could be on the cards, and ongoing global uncertainty could continue to weigh on the NZD. The next key support is at 0.7470, then nothing until 0.7120.

The Spanish election hints at the shifting political sands across Europe with the opposition Peoples Party scoring a massive swing in their favour.

It seems the next phase of the European crisis will be the political phase. Certainly some banter between Angela Merkel and David Cameron suggests there are very different views about the way forward, with Merkel saying that Germany is ready to cede some sovereignty to strengthen the euro area and restore confidence in the common currency, whereas Cameron's view is that the crisis offers the opportunity to allow powers to "ebb back" to national states from Brussels. Suffice to say there remain significant stresses in the Eurozone which will not dwindle any time soon. Expect continued EUR volatility in the near term with downside risk.

In the US, growth and confidence data should inform us whether the current (anaemic) growth outlook is getting a more solid footing.

We remain concerned about the directional dichotomy of the US and European growth outlooks, which should underpin the USD for now. At some stage we expect bearish attention to return to the USD, though this looks a way off.

Chinese Premier Wen Jiabao pledged to President Obama that China will push forward yuan reform in an active, gradual and controllable manner.

Policymakers in China have also pledged to adjust its growth toward domestic demand and narrow its external surplus. While a welcome move, the market's focus will remain on whether China can avoid a hard landing.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued on a near-term cyclical basis.
Yield	↑	NZD yield curve is positive and AUD inverted.
Commodities	↔	Softs peaking.
Partial indicators	↔	Data showing signs of slowing in NZ.
Technicals	↔↑	Support at 0.7560.
Sentiment	↑	See NZD undervalued vs AUD.
Other	↔	Global sentiment big driver.
On balance	↔/↑	Sentiment sees lazy buyers coming forward.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔	Closer to short term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↔	Softs peaking.
Risk aversion	↔↑	Positive US data and short covering leads to risk on.
Partial indicators	↔	NZ data now mixed. US data improving.
Technicals	↓	Major support 0.7580 breached. Next support 0.7470.
AUD	↓	Breach of 1.0000 gives bearish outlook.
Sentiment	↔↓	Election week jitters could undermine NZD.
Other	↔	Nothing apparent.
On balance	↔↓	Election week the focus.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Nov	JN	Merchandise Trade Balance Total - OCT	¥39.9B	¥296.2B	12:50
	JN	Adjusted Merchandise Trade Bal. - OCT	-¥204.0B	-¥21.8B	12:50
	JN	Merchandise Trade Exports YoY - OCT	-0.3	2.3	12:50
	JN	Merchandise Trade Imports YoY - OCT	15.1	12.1	12:50
	UK	Rightmove House Prices (MoM) - NOV	-	2.8%	13:01
	UK	Rightmove House Prices (YoY) - NOV	-	1.2%	13:01
	NZ	Credit Card Spending SA (MoM) - OCT	-	1.6%	15:00
	NZ	Credit Card Spending (YoY) - OCT	-	5.2%	15:00
	JN	All Industry Activity Index (MoM) - SEP	-1.0%	-0.5%	17:30
	EC	Eurozone Current Account nsa - SEP	-	-€6.3B	22:00
	EC	ECB Eurozone Current Account SA - SEP	-	-€5.0B	22:00
22-Nov	US	Chicago Fed Nat Activity Index - OCT	0.19	-0.22	02:30
	US	Existing Home Sales - OCT	4.80M	4.91M	04:00
	US	Existing Home Sales MoM - OCT	-2.2%	-3.0%	04:00
	NZ	Net Migration SA - OCT	-	-660	10:45
	NZ	RBNZ 2yr Inflation Expectation - 4Q	-	2.9%	15:00
	UK	Public Finances (PSNCR) - OCT	-£1.0B	£19.9B	22:30
	UK	PSNB ex Interventions - OCT	£6.5B	£14.1B	22:30
	UK	Public Sector Net Borrowing - OCT	£3.8B	£11.4B	22:30
23-Nov	US	GDP QoQ (Annualized) - 3Q S	2.5%	2.5%	02:30
	US	Personal Consumption - 3Q S	2.4%	2.4%	02:30
	US	GDP Price Index - 3Q S	2.5%	2.5%	02:30
	US	Core PCE QoQ - 3Q S	2.1%	2.1%	02:30
	EC	Eurozone Consumer Confidence - NOV A	-21.0	-19.9	04:00
	US	Richmond Fed Manufact. Index - NOV	-1	-6	04:00
	US	Minutes of FOMC Meeting - NOV	-	-	08:00
	AU	Conference Board Leading Index - SEP	-	-0.1%	12:00
	AU	Construction Work Done - 3Q	2.0%	0.7%	13:30
	CH	HSBC Flash China Manufacturing PMI - NOV	-	51.1	15:30
	GE	PMI Manufacturing - NOV A	48.5	49.1	21:30
	GE	PMI Services - NOV A	50.0	50.6	21:30
	EC	PMI Composite - NOV A	46.1	46.5	22:00
	EC	PMI Manufacturing - NOV A	46.5	47.1	22:00
	EC	PMI Services - NOV A	46.0	46.4	22:00
	UK	Bank of England Minutes - NOV	-	-	22:30
	UK	BBA Loans for House Purchase - OCT	33000	33130	22:30
	EC	Industrial New Orders NSA (YoY) - SEP	6.1%	6.2%	23:00
	EC	Industrial New Orders SA (MoM) - SEP	-2.7%	1.4%	23:00
24-Nov	US	MBA Mortgage Applications - 18-Nov	-	-10.0%	01:00
	US	Durable Goods Orders - OCT	-1.2%	-0.6%	02:30
	US	Durables Ex Transportation - OCT	0.0%	1.8%	02:30
	US	Cap Goods Orders Nondef Ex Air - OCT	-1.0%	2.4%	02:30
	US	Cap Goods Ship Nondef Ex Air - OCT	-	-0.9%	02:30
	US	Personal Income - OCT	0.3%	0.1%	02:30
	US	Personal Spending - OCT	0.3%	0.6%	02:30
	US	PCE Deflator (YoY) - OCT	2.7%	2.9%	02:30
	US	PCE Core (MoM) - OCT	0.1%	0.0%	02:30
	US	PCE Core (YoY) - OCT	1.7%	1.6%	02:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-Nov	US	Initial Jobless Claims - 19-Nov	390K	388K	02:30
	US	Continuing Claims - 12-Nov	3610K	3608K	02:30
	US	U. of Michigan Confidence - NOV F	64.5	64.2	03:55
	US	Kansas City Fed Manf. Activity - NOV	9	8	05:00
	NZ	Trade Balance - OCT	-\$450M	-\$751M	10:45
	NZ	Exports - OCT	\$3.75B	\$3.44B	10:45
	NZ	Imports - OCT	\$4.27B	\$4.19B	10:45
	GE	GDP nsa (YoY) - 3Q F	2.5%	-	20:00
	GE	Domestic Demand - 3Q	0.5%	0.4%	20:00
	GE	Exports - 3Q	1.6%	2.3%	20:00
	GE	Capital Investment - 3Q	1.2%	0.3%	20:00
	GE	Government Spending - 3Q	0.2%	0.2%	20:00
	GE	Construction Investment - 3Q	-0.1%	-0.9%	20:00
	GE	Imports - 3Q	1.5%	3.2%	20:00
	GE	Private Consumption - 3Q	0.5%	-0.7%	20:00
	GE	GDP s.a. (QOQ) - 3Q F	0.5%	0.5%	20:00
	GE	GDP wda (YoY) - 3Q F	2.6%	-	20:00
	GE	IFO - Business Climate - NOV	105.2	106.4	22:00
	GE	IFO - Current Assessment - NOV	115.0	116.7	22:00
	GE	IFO - Expectations - NOV	96	97	22:00
	UK	GDP (QoQ) - 3Q P	0.5%	0.5%	22:30
	UK	GDP (YoY) - 3Q P	0.5%	0.5%	22:30
	UK	Private Consumption - 3Q P	0.2%	-0.8%	22:30
	UK	Government Spending - 3Q P	0.5%	1.1%	22:30
	UK	Gross Fixed Capital Formation - 3Q P	1.1%	1.7%	22:30
	UK	Exports - 3Q P	0.8%	-1.3%	22:30
	UK	Imports - 3Q P	0.7%	-0.3%	22:30
	UK	Index of Services (MoM) - SEP	0.0%	0.3%	22:30
	UK	Index of Services (3mth/3mth) - SEP	0.6%	0.6%	22:30
	UK	Total Business Investment(QoQ) - 3Q P	-	11.6%	22:30
	UK	Total Business Investment(YoY) - 3Q P	-	3.8%	22:30
	UK	BoE Housing Equity Withdrawal - 2Q	-\$6.0B	-\$5.8B	24 Nov-1 Dec
25-Nov	US	Thanksgiving Day - markets closed	-	-	-
	UK	CBI Trends Total Orders	-19	-18	00:00
	UK	CBI Trends Selling Prices - NOV	0	1	00:00
	JN	Tokyo CPI YoY - NOV	-0.5%	-0.5%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - NOV	-0.3%	-0.4%	12:30
	JN	Tokyo CPI Ex Food, Energy YoY - NOV	-0.9%	-1.0%	12:30
	JN	Natl CPI YoY - OCT	-0.1%	0.0%	12:30
	JN	Natl CPI Ex-Fresh Food YoY - OCT	-0.1%	-	12:30
	JN	Natl CPI Ex Food, Energy YoY - OCT	-0.9%	-0.4%	12:30
	JN	Corp Service Price Index (YoY) - OCT	-0.1%	-0.1%	12:50
	CH	Leading Index - OCT	-	100.43	25-28 Nov
	GE	Import Price Index (MoM) - OCT	-0.2%	0.6%	25 Nov-6 Dec
	GE	Import Price Index (YoY) - OCT	6.9%	6.9%	25 Nov-6 Dec
26-Nov	NZ	2011 General Election	-	-	-

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

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

Note: All surveys are preliminary and subject to change



LOCAL DATA WATCH

Key focus over the next few weeks: The relative resilience of the NZ economy was clearly in evidence last week, with a sizeable Rugby World Cup boost in the Q3 retail data, with dairy commodity prices posting solid increases. The global outlook remains troubling, and a soft start to 2012 beckons in NZ as the RWC boost fades. The OCR will eventually need to move higher, but this will be conditional on the global scene improving. This week's RBNZ survey will show how much wiggle room is available to the Bank on the inflation front.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 21 Nov (3:00pm)	RBNZ Credit Card Billings – Oct	RWC lift	A 1.0 percent increase is expected. Overseas-issued card spending should consolidate at high levels.
Tue 22 Nov (10:45am)	International Travel and Migration – Oct	Turning	A net PLT outflow of 300 persons is forecast. Visitor numbers to stabilise, despite the extra 15,000 RWC visitors.
Tue 22 Nov (3:00pm)	RBNZ Survey of Expectations – Q4	Down but not out	The 2-year-ahead survey measure for inflation is expected to ease slightly to around 2.8 percent.
Thur 24 Nov (10:45am)	Overseas Merchandise Trade – October	Down	A monthly trade deficit of \$450m is expected, with the annual trade surplus down to around \$500m.
Mon 28 Nov (1:00pm)	National Bank Business Outlook – Nov	- -	- -
Tue 29 Nov (10:45am)	National Employment Indicator - Sep	Down	Falling job advertising suggests a small fall is in prospect. We expect a 0.3 to 0.4 percent fall.
Wed 30 Nov (10:45am)	SNZ Building Consents – Oct	See-saw	A 5 percent lift in dwelling consents is forecast following the large decline in the previous month.
Wed 30 Nov (3:00pm)	RBNZ Credit Aggregates – Oct	Subdued	Low annual rates of household and business credit growth, with falling agriculture credit expected as dairy cheques are banked.
Thur 1 Dec (1:00pm)	SNZ Overseas Trade Indexes – Q3	Peaking?	We expect a 1.5 percent increase in the terms of trade. Import volumes to rise 1.5 percent, with exports up 0.5 percent.
Thur 1 Dec (1:00pm)	ANZ Commodity Price Index – Nov	- -	- -
Mon 5 Dec (10:45am)	Value of work put in place – Q3	Down	We expect a 5 percent fall in work put in place volumes, with both residential and non-residential posting declines.
Wed 7 Dec (early am)	GlobalDairyTrade auction	Holding	Prices are expected to consolidate at historically high levels.
Thur 8 Dec (09:00am)	RBNZ December <i>MPS</i>	On hold	Global concerns and a benign short-term inflation outlook will keep the RBNZ on the sidelines.
Thur 8 Dec (10:45am)	SNZ Wholesale Trade Survey - Q3	Up	Accelerating retail activity is expected to underpin a 1 percent increase in wholesale trade activity.
Thur 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Up	Primary manufacturing volumes are expected to rise 3 percent. Ex-primary volumes are expected to track sideways.
Fri 9 Dec (10:45am)	Electronic Card Transactions - Nov	RWC hangover	A 0.8 percent fall in ECT spending is forecast, with falls for fuel and apparel sales.
Fri 9 Dec (1:00pm)	ANZ - Roy Morgan Consumer confidence	- -	- -
Wed 14 Dec (10:00am)	REINZ housing market report - November	Lifting	Low mortgage interest rates and no further RWC distractions should see a 2 percent plus gain in sales volumes.
Thur 15 Dec (10:30am)	BNZ Business NZ Manufacturing PMI	Subdued	Another sub-50 print is in prospect, although we expect a climb from the 46.5 level recorded in October.
On Balance		Local vs global	Domestic gauges for H2 should remain positive but global concerns suggest caution for early 2012.

KEY FORECASTS AND RATES

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
GDP (% qoq)	0.9	0.1	0.8	1.1	0.2	0.5	0.7	1.0	0.9	0.7
GDP (% yoy)	1.7	1.5	2.4	2.9	2.2	2.6	2.5	2.4	3.1	3.3
CPI (% qoq)	0.8	1.0	0.4	0.3	0.6	0.7	0.9	0.4	0.6	0.7
CPI (% yoy)	4.5	5.3	4.6	2.5	2.3	2.1	2.5	2.6	2.6	2.6
Employment (% qoq)	1.2	0.0	0.2	0.3	0.2	0.5	0.4	0.3	0.3	0.3
Employment (% yoy)	1.8	2.0	1.1	1.8	0.8	1.3	1.4	1.4	1.5	1.3
Unemployment Rate (% sa)	6.5	6.5	6.6	6.4	6.4	6.2	6.1	6.0	6.0	6.0
Current Account (% GDP)	-3.6	-3.7	-3.9	-3.3	-3.5	-3.6	-4.0	-4.4	-4.5	-4.5
Terms of Trade (% qoq)	0.8	2.3	1.5	2.1	-0.8	-0.8	-0.8	-0.8	-0.7	-0.7
Terms of Trade (% yoy)	6.7	7.0	5.5	6.8	5.1	2.0	-0.3	-3.1	-2.9	-2.9

	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11
Retail ECT (% mom)	-0.2	1.4	1.5	-0.7	1.1	0.3	-0.6	0.7	1.5	..
Retail ECT (% yoy)	6.2	6.6	10.0	6.8	9.0	8.0	8.4	7.5	7.4	..
Credit Card Billings (% mom)	-0.5	-1.0	1.8	0.4	0.5	1.1	-1.4	1.6	..	..
Credit Card Billings (% yoy)	5.8	2.1	6.5	5.5	4.6	7.3	4.7	5.2	..	..
Car registrations (% mom)	-2.0	-0.1	-5.3	3.5	-2.3	-1.9	9.1	-12.3	0.4	..
Car registrations (% yoy)	2.8	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	-8.8	..
Building consents (% mom)	-9.7	2.4	-1.1	3.4	-1.2	13.6	16.7	-17.1	..	..
Building consents (% yoy)	-28.8	-26.1	-32.5	-21.8	-25.3	-15.6	18.7	-3.9	..	..
REINZ House Price Index (% yoy)	-0.7	-1.8	-0.4	-0.7	0.0	0.5	0.7	2.7	3.4	..
Household Lending Growth (% mom)	0.1	-0.1	0.2	0.1	0.1	0.2	0.1	0.1	..	..
Household Lending Growth (% yoy)	1.5	1.2	1.3	1.2	1.2	1.2	1.1	1.1	..	..
ANZ Roy Morgan Consumer Confidence	108.1	101.4	101.4	103.3	112.5	109.4	113.3	112.6	112.2	109.0
NBNZ Business Confidence	34.5	-8.7	14.2	38.3	46.5	47.6	34.4	30.3	13.2	..
NBNZ Own Activity Outlook	36.6	14.7	29.5	39.7	38.7	43.7	43.3	35.4	26.1	..
Trade Balance (\$m)	184	583	1158	550	201	102	-697	-751	..	..
Trade Balance (\$m ann)	765	741	1238	1019	999	1287	1020	724	..	..
ANZ World Commodity Price Index (% mom)	2.7	4.7	1.6	0.4	-1.2	-0.2	-1.4	-2.0	-3.5	..
ANZ World Commodity Price Index (% yoy)	20.3	23.5	19.8	19.6	20.6	22.2	22.0	16.5	9.1	..
Net migration (sa)	440	-540	-120	-290	-280	-210	120	-660	..	..
Net migration (annual)	8249	6554	5508	4625	3867	2867	2257	773	..	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Sep-11	Oct-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.761	0.807	0.756	0.77	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.788	0.766	0.756	0.79	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.569	0.582	0.559	0.57	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	58.67	63.06	58.01	57.8	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.489	0.502	0.479	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ\$ TWI	68.3	70.4	66.9	68.4	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Sep-11	Oct-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.25	3.50	3.75
NZ 90 day bill	2.86	2.73	2.68	2.70	2.70	3.20	3.50	3.50	3.90	4.00
NZ 10-yr bond	4.42	4.50	3.90	4.30	4.30	4.30	4.30	4.40	4.40	4.60
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.37	0.43	0.49	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.75	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25
AU 3-mth	4.92	4.71	4.60	4.70	4.60	4.60	4.50	4.50	4.50	4.50

Forecasts finalised as at 28 October 2011

	18 Oct	14 Nov	15 Nov	16 Nov	17 Nov	18 Nov
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.71	2.72	2.71	2.67	2.62	2.66
NZGB 04/13	2.88	2.59	2.52	2.48	2.49	2.50
NZGB 04/15	3.46	3.08	2.93	2.85	2.84	2.82
NZGB 03/19	4.43	3.95	3.78	3.65	3.68	3.68
NZGB 05/21	4.67	4.18	4.01	3.88	3.91	3.91
2 year swap	3.16	2.95	2.85	2.79	2.73	2.71
5 year swap	3.99	3.71	3.59	3.53	3.47	3.43
RBNZ TWI	69.5	68.9	68.2	67.8	67.7	67.4
NZD/USD	0.7921	0.7885	0.7753	0.7666	0.7653	0.7617
NZD/AUD	0.7775	0.7651	0.7597	0.7598	0.7598	0.7600
NZD/JPY	60.86	60.84	59.77	59.10	58.96	58.60
NZD/GBP	0.5016	0.4905	0.4876	0.4859	0.4868	0.4827
NZD/EUR	0.5751	0.5725	0.5691	0.5699	0.5680	0.5645
AUD/USD	1.0188	1.0306	1.0205	1.0089	1.0073	1.0022
EUR/USD	1.3773	1.3774	1.3624	1.3451	1.3473	1.3493
USD/JPY	76.83	77.16	77.09	77.09	77.04	76.93
GBP/USD	1.5791	1.6075	1.5899	1.5776	1.5721	1.5780
Oil (US\$/bbl)	86.43	98.98	98.11	99.37	102.59	98.94
Gold (US\$/oz)	1674.75	1793.00	1777.90	1768.50	1760.45	1724.80
Electricity (Haywards)	9.67	5.23	3.21	6.37	6.33	7.27
Baltic Dry Freight Index	2136	1818	1846	1884	1898	1895
Milk futures (USD)	146	143	143	143	143	143

IMPORTANT NOTICE

NEW ZEALAND DISCLAIMER

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

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

UNITED STATES DISCLAIMER

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

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

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

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

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