

## FISCAL WATCH

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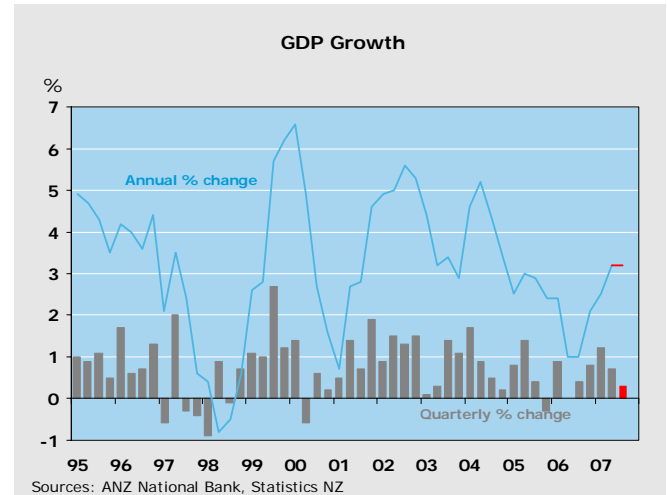
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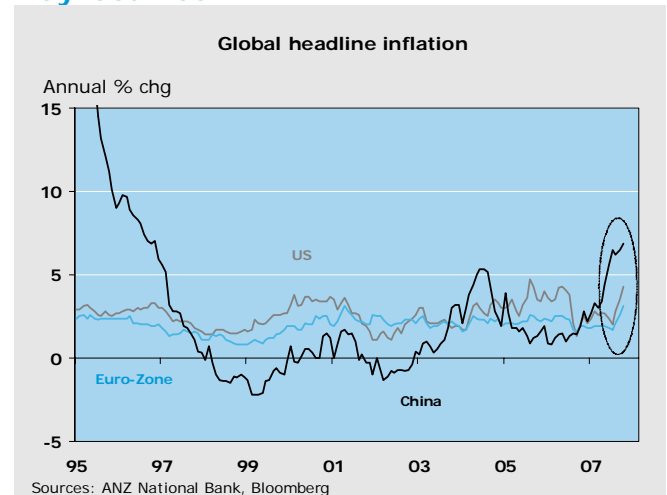
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**We expect September quarter GDP to expand by 0.3 percent – a step down from H1 2007.**



**Global inflation measures all printed one way last week.**



**Note: This is the final *Market Focus* for 2007. Look for the first issue of 2008 on Monday 14 January. We would like to wish our readers a happy and safe Christmas and New Year.**

## ECONOMIC OVERVIEW

**Weakening domestic demand, more dairy stimulus for 2008 and fickle global conditions were the key messages from last week. This week we expect another mixed bag including soft growth figures, but pending support to the economy and upside inflation risks to be reinforced by the Government's *Half-Year Update*. The economy remains delicately placed.**

### What's ahead?

- **Half-Year Economic and Fiscal Update** (Tuesday 12.30 NZDT). This is expected to show an upward revision in tax revenue and operating surplus forecasts. Key will be the amount earmarked for future tax cuts.
- **NBNZ December Business Outlook** (Tuesday 1500 NZDT).
- **Q4 Westpac McDermott Miller Consumer Confidence** (Wednesday 0100 NZDT). Confidence expected to remain resilient in the face of higher mortgage rates and petrol prices.
- **NZ November External Migration** (Wednesday 1045 NZDT). We feel a base is likely to form around current levels of 7,500, although the risks appear skewed to the downside.
- **NZ November Food Price Index** (Wednesday 1045 NZDT). Although volatile on a monthly basis, the underlying trend is clearly upwards given movements in global commodity prices.
- **NZ Q3 Balance of Payments** (Thursday 1045 NZDT). We expect the annual deficit to remain unchanged at 8.2 percent, although the quarterly seasonally adjusted deficit should show an improvement.
- **NZ Q3 GDP** (Friday 1045 NZDT). We expect growth of 0.3 percent in the quarter. Excluding Tui, underlying activity is looking soft.
- **NZ November Credit Card Spending** (Friday 1500 NZDT). The moderation in consumer spending is expected to continue, though higher petrol prices may inflate billings in the month.

### What's the view?

Last week was notable on a number of levels. Data confirmed that domestic demand is waning. The housing market continues to soften, despite a small seasonally adjusted rise in house sales over November. The median number of days to sell a house rose to its highest level since 2002. Historically, this would precede easing house prices and we expect this cycle to be no different. In fact, house prices have effectively been flat for the past seven months and look set to fall by around 5 percent over 2008. In addition to this, retail spending is also slowing. Core monthly sales fell 1.1 percent over October. Part of this weakness can be attributed to a number of New Zealanders travelling to the Rugby World Cup (and therefore not spending money locally), but the underlying trend is one of softness.

We also received the final partial indicators for GDP last week and they point to a relatively soft Q3 growth (released this Friday). In fact we expect growth of 0.3 percent for the quarter. If the impact of production from the Tui oil field, which we estimate to add around 0.2 percentage points, is stripped out, then underlying activity is particularly weak and a marked step-down from growth over the first half of the year.

Yet the economy is far from being on the ropes. A further upside boost to the dairy sector from Fonterra increasing their forecast payout for this season from \$6.40/kgms to \$6.90/kgms, will effectively deliver an extra \$600 million into dairy farmers pockets. This will diffuse through the wider economy as farmers increase spending (although some may be used to pay down debt) and it poses a challenge to the sustained slowdown thesis that is a prerequisite to dampening inflation pressure. Yet looking at herd prices and land values, a stronger payout looks to have already been capitalised.

Against this backdrop, the global environment remains fickle and volatile, and growth-linked commodity prices such as base metals continue to ease. The Fed disappointed markets by cutting interest rates 25 basis points and nudging the discount window the same when some were potentially looking for a 50 basis point cut. Stocks tumbled and the bond market promptly rallied – yes rallied on a smaller than expected cut. However, the following day, the Fed, along with four other central banks, announced new measures to improve liquidity in money markets. The announcement definitely came as a shock to many participants and quickly saw the bond market give back its earlier gains. Whether the announced liquidity measures will achieve what they are hoped is being questioned as LIBOR rates subsequently set only modestly lower from their elevated levels. Former Fed Chairman Greenspan was in the headlines again last week stating that the US economy has a 1 in 2 chance of entering recession and is showing early symptoms of stagflation. We remain very circumspect of the global economy at present.

Looking at the broad (NZ) picture, inflation pressure has put the Reserve Bank in a bind. This week's food price figures are expected to show annual growth continuing to trek skywards as surging commodity prices – which are contributing to the Fonterra payout – come with a sting in their tail. In fact, all central banks could find themselves in a similar situation. If a global credit meltdown is indeed averted, then it will be a testament to the powerful supporting role played by ample liquidity (cash looking for a home and picking up distressed assets), the role of Sovereign Wealth Funds in providing injections to distressed assets, and looser monetary policy. Yet such aggressive action does not come without risk. In an environment where unemployment rates across the Western world sit at or near record lows, productivity is weakening,

unit labour costs are rising, commodity prices are through the stratosphere, 1990's inflation suppressants are less apparent, and there could be a shift towards left leaning governments (Australia and potentially the US), the environment irks of inflation. Even the weekend's commitment across 180 countries towards climate change in Bali will add another layer to inflation, if the externality associated with greenhouse gas emissions is to be successfully internalised.

Of course an inflation story is subject to successfully navigating through the current credit mess. We are closely watching global events given the historical coup-de-grâce that a sizeable turn has traditionally meant for New Zealand. From this point on we will be regularly detailing the crux of data outturns around the globe. The first edition is detailed on page 4 and shows that last week a number of outturns surprised markets on the upside. Unfortunately, the upside surprises were largely inflation-centric – hardly a positive for a global economy, and reinforce just how delicately placed the current situation is. In the US, annual CPI growth is now running at 4.3 percent and the PPI experienced its biggest increase in 34 years. Chinese inflation surged to 6.9 percent courtesy of food prices, while European inflation (at 3.1 percent) and UK PPI input inflation (at 10.3 percent) also surprised on the upside. Core inflation measures were more contained, but still deteriorated. Conversely real economic barometers look decidedly mixed, ranging from reasonable job growth and strong retail sales in the US, to a weak Tankan in Japan, and soft European ZEW survey. Non-Japan Asia real economy figures were generally on the stronger side of expectations. Internationally, debate continues to rage about decoupling, or recoupling – a feature that sentiment is now more alert to. For now it remains a question of watch, worry and wait, although our instincts at this stage are more drawn towards the recoupling as opposed to decoupling thesis.

In terms of the week ahead domestically, it's action packed. Most talk locally will centre on the Government's *Half-Year Economic and Fiscal Update*, which is expected to once again show upward revisions in tax and operating surplus forecasts. Everyone will be looking for anything relating to tax cuts and we expect some of the additional surprise revenue will be set aside for this. However, details are likely to remain scant at this stage. The Reserve Bank in particular will be looking closely at the details to assess the additional impetus fiscal policy will place on inflationary pressure next year.

Also this week we receive Q3 GDP data as mentioned above as well as Balance of Payments, Westpac consumer confidence, external migration, credit card spending and the final read on NBNZ business confidence for the year. As has been the theme over recent months, this data should again provide a bit of a mixed bag. The current account deficit is expected to remain unchanged at 8.2

percent of GDP, despite booming terms of trade. Consumer confidence likely held up reasonably well on expectations of tax cuts, while migration will show a continued easing in annual net inflows. Good news for the Reserve Bank as it means less stimulus to the housing market, but bad news for employers desperately looking for staff. With retail sales flat-lining for most of this year, credit card billings for November will give a glimpse of how the Christmas shopping season started off. But with higher petrol prices over the month this means less left over for those presents.

#### Recent data...

- **NZ Overseas Trade Indexes (Q3).** The terms of trade rose 3.6 percent.
- **REINZ Housing Report (November).** Seasonally adjusted house sales rose 1.9 percent, days to sell rose to 40 days and annual house price growth eased to 6.7 percent.
- **NZ Retail Sales (October).** Headline sales fell 0.7 percent, while core sales fell a larger 1.1 percent.
- **NZ Economic Survey of Manufacturing (Q3).** Total real sales fell 4.2 percent. Excluding meat and dairy product manufacturing, the fall was a more modest 1.6 percent.

## GLOBAL WATCH

A key theme emanating through our recent commentary has been prospects for the global economy, which we believe represent the most significant risk to the NZ economy at present. With this in mind, we will be presenting a weekly table of data outturns, with a particular emphasis on the Asian region. The past week showed a majority of upside surprises, although a large proportion of these were inflation-centric. The picture in the US remains mixed, while the key Tankan and European ZEW survey were soft. Non-Japan Asia indicators were generally on the strong side of expectations, suggesting a firm base to growth is continuing.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<b>US</b>	Non-farm payrolls (Nov)	80k	90k	170k	Stronger
	University of Michigan Confidence (Dec P)	75.0	74.5	76.1	Weaker
	FOMC rate decision	4.25%	4.25%	4.50%	In-line
	Trade balance (Oct)	-\$57.4B	-\$57.8B	-\$57.1B	In-line
	Import price index (Nov) – mom	2.0%	2.7%	1.4%	Stronger
	PPI (Nov) - mom	1.5%	3.2%	0.1%	Stronger
	Retail sales (Nov) – mom	0.6%	1.2%	0.2%	Stronger
	CPI (Nov) – yoy	4.1%	4.3%	3.5%	Stronger
<b>Europe</b>	ZEW Econ. Sentiment (Dec)	-35.0	-35.7	-30.0	Weaker
	Industrial production (Oct) – mom	0.2%	0.4%	-0.8%	Stronger
	CPI (Nov) – yoy	3.0%	3.1%	2.6%	Stronger
<b>UK</b>	PPI – Input (Nov) - yoy	9.2%	10.3%	8.5%	Stronger
	PPI – Output (Nov) - yoy	4.2%	4.5%	3.9%	Stronger
	DCLG house prices (Oct) y/y	10.8%	11.3%	10.8%	Stronger
	Claimant count rate (Nov)	2.6%	2.5%	2.5%	Stronger
	Average earnings inc bonus (Oct) 3m/yoy	4.2%	4.0%	4.1%	Weaker
<b>Asia Ex-Japan</b>					
<i>China</i>	PPI (Nov) – yoy	3.5%	4.6%	3.2%	Stronger
	Money Supply – M2 (Nov) – yoy	18.2%	18.5%	18.5%	Stronger
	CPI (Nov) – yoy	6.5%	6.9%	6.5%	Stronger
	Exports (Nov) – yoy	21.0%	22.8%	22.3%	Stronger
	Imports (Nov) – yoy	23.3%	25.3%	25.5%	Stronger
	Retail sales (Nov) – yoy	18.0%	18.8%	18.1%	Stronger
	Industrial production (Nov) – yoy	18.0%	17.3%	17.9%	Weaker
<i>Philippines</i>	Total exports (Oct) – yoy	4.3%	10.5%	4.6%	Stronger
<i>South Korea</i>	Unemployment rate (Nov)	-	3.2%	3.1%	-
<i>India</i>	Industrial production (Oct) – yoy	10.0%	11.8%	6.8%	Stronger
<i>Thailand</i>	Consumer confidence	-		68.6	-
<i>Indonesia</i>	Consumer confidence (Nov)	-	101.3	100.2	-
	Money supply – M2 (Oct) – yoy	-	15.4%	17.1%	-
<b>Japan</b>	Machine orders (Oct) y/y	-2.3%	3.3%	-7.0%	Stronger
	Consumer confidence (Nov)	43.0	40.0	42.9	Weaker
	Tankan Large Manufacturers Index Outlook (4Q)	18	15	19	Weaker
	Tankan Non-Manufacturing Outlook (4Q)	17	15	21	Weaker
<b>Australia</b>	Home loans (Oct)	1.0%	-0.7%	-2.0%	Weaker
	NAB Business Conditions (Nov)	-	15	20	-
	Employment change (Nov)	20k	52.6k	5.4k	Stronger
	Unemployment rate (Nov)	4.3%	4.5%	4.4%	Weaker

## DATA PREVIEW

### CURRENT ACCOUNT – Sept qtr (due Thursday 20 Dec 10:45am)

	ANZ National	RBNZ	Market
Quarter (actual)	<b>-\$4,870m</b>	-	-\$4,910m
Quarter (s.a.)	<b>-\$3,360m</b>	-	-\$3,370m
Annual	<b>-\$13,847m</b>	-	-\$13,886m
As % of GDP	<b>-8.2%</b>	-8.0%	-8.3%

#### Key points

- **Annual current account deficit to remain unchanged at 8.2 percent of GDP.**
- **But improvement in seasonally adjusted current account deficit expected, courtesy of a smaller goods and services deficit.**

**The annual current account deficit is expected to remain largely unchanged.** At 8.2 percent of GDP, this is the same annual deficit as recorded in the June quarter. A higher annual services surplus is expected to be offset by larger annual goods and investment income deficits.

**But in seasonally adjusted terms, a quarterly improvement is expected.** The seasonally adjusted goods and services deficit is expected to decrease to around \$480 million in the September quarter, an improvement from the \$590 million deficit recorded in June. A strong 3.6 percent increase in the terms of trade contributes to this, although again it is a solid improvement in the services balance that drives most of the gain. Despite the high NZD, visitor arrivals remained reasonably robust, while departures of NZ residents fell 3.5 percent.

**As always, the key risks reside around the investment income deficit.** The investment income deficit is expected to have remained largely unchanged compared with the June quarter, at around \$3 billion. However, we admit it is notoriously volatile and difficult to predict. The investment income deficit also holds the key to the future outlook for the overall current account deficit. Although further gains in the terms of trade are expected, it is difficult to envisage a material improvement in the current account deficit given the strength in the NZD and the fact that the net investment income deficit is predominantly made up of debt, meaning it is less sensitive to the corporate profit cycle than in the past.

#### Market Implications

NZ remains vulnerable, given the extent of imbalance within its external accounts, particularly in the current global environment. However, barring any major surprise, we expect a reasonably muted reaction in financial markets. The major focus will be on Q3 GDP the following day.

### GDP –Sept qtr (due Friday 21 Dec 10:45am)

	ANZ National	RBNZ	Market
GDP	<b>0.3% qoq</b> <b>3.1% apc</b> <b>2.7% aapc</b>	0.6% qoq 3.4% apc 2.8% aapc	0.4% qoq 3.2% apc 2.8% aapc

#### Key points

- **Q3 GDP is expected to grow by 0.3 percent, a step down from a strong H1 2007.**
- **Underlying activity is soft excluding Tui production.**
- **But the key issue is whether weakness will be sustained into 2008.**

**Headline GDP growth is expected to print at 0.3 percent for Q3,** following growth of 0.7 percent in Q2. On the production side, the services sector remains the main contributor to growth. However, activity in this sector has slowed, particularly those with a large exposure to the housing market such as finance & insurance and real estate and business services. The goods sector is expected to detract from growth, largely due to falls in manufacturing and electricity production. Production from the Tui oil field is expected to contribute around 0.2 percentage points to growth. On the expenditure side, investment is expected to make the largest contribution, while stocks and the net external sector are expected to detract from growth.

**Activity is soft, excluding production from the Tui oil field.** The economy looks to have slowed after the strong growth experienced over H1 2007. Tighter financial conditions are undoubtedly one reason behind the slowing. Recent indicators (housing and consumer spending), support a theme of lower growth in Q4.

**Market expectations of Q3 GDP are very narrowly bunched (0.3 to 0.5 percent), which leaves us coy about an outlier result,** particularly given the typical volatility in NZ's statistics. The key source of outlier risk is volatile stock movements. Care will need to be taken interpreting the final figures as less inventory building may imply some upside risk going forward, while an involuntary rebuild is potentially a health warning towards the next two quarters.

#### Market Implications

We are expecting a print slightly softer than market expectations and the Reserve Bank's estimate. We suspect the currency market may be a little vulnerable to a weak result given current sentiment. A more muted reaction is anticipated across the interest rates market given the Reserve Bank's concerns over inflationary pressures.

## INTEREST RATE STRATEGY

**Big data/event week to end the year. Fiscal policy to keep bias towards higher rates, but soft Q3 GDP to leave the market trading within its recent ranges.**

### Market themes...

- Fed cuts but disappoints markets who were looking for more. US CPI a concern.
- New coordinated central banks' liquidity measures initially boosted confidence, but reality soon sets in.
- NZ data ended the week on a soft note.

### Outlook...

There was quite a bit to chew on in terms of the domestic dataflow last week. The terms of trade rose to its highest level since 1974 and is expected to increase further in Q4. Fonterra also announced a rise in the forecast payout for the 2007/08 season that will add an additional \$600m to dairy incomes (equivalent to 0.4 percent of GDP). These reinforce the RBNZ's concerns over inflation risks. Yet, the dataflow has not been all one-sided. Housing market data and retail sales show that domestic demand continues to wane. And manufacturing data showed that the sector contracted in Q3, pointing to a soft Q3 GDP print at the end of this week.

The *Half Yearly Economic and Fiscal Update* tomorrow will reveal the size of the much anticipated tax cuts for next year's *Budget*. This, alongside Wednesday's food price inflation print, will likely keep the bias towards higher rates. Yet, there is further evidence mounting that economic activity has taken a turn over the second half of this year. Expectations of a soft GDP print this Friday should contain rates within its trading range.

The 2s10s swap curve continues to hover close to the -100bp level, and while we believe the curve will steepen, any substantial moves will not occur until there are clear signs that inflation pressures are starting to ease. For now, it looks to be a case of trading the outright yield ranges. There will still be ongoing pressure on the NZ-US 10-year bond spread (currently +217bps) to widen, though we continue to note that current levels look over-extended. In our 5 November *Market Focus*, we noted that the 2-year swap spread is out-of-line with fundamental and flow drivers, and is expected to narrow, which it has last week.

Offshore focus this week will be on central bank speeches from the Fed and ECB, as well as minutes from the RBA and BoE. The BoJ will be announcing their interest rate decision on 20 December. As has been the case in recent weeks, newsflow is likely to

again dominate offshore markets, and the NZ rates market will be tagging along for the ride.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔/↑	It's all about inflation at the moment.
NZ data	↔	Some soft numbers appearing, and weak Q3 GDP to cap off the year.
Fed Funds/front end	↔/↓	Fed cuts by 'only' 25bps, market still looking for more.
RBA	↔	Credit turmoil doing the RBA's work for it. On hold for now.
US 10 year	↔/↑	US inflation a big concern for bonds at the moment.
NZ swap spreads	↔/↑	Short supply of bonds particularly in the front end should see swap spreads widen.
Flow	↔	Further Uridashi issuance to see offerings into the market. Market also looking to receive ahead of data prints.
Technicals	↔/↑	Technically, US 10-year bonds look to have established a bearish undertone.

### Borrowing strategies we favour at present

With global inflationary data coming out over the weekend we are likely to see NZ interest rates rise over the next couple of days. In particular, we are still of the opinion that interest rates will stay high for some time, barring a material global event. With Christmas fast approaching we favour fixing in the 3-5 year part of the swaps curve. Those obligated to pay fixed further out (4-5 year) need to be ready to shorten their swap duration should market conditions change significantly.

### Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 24-Jan-08	8	9
Thu 6-Mar-08	16	9
Thu 24-Apr-08	22	13
Thu 5-Jun-08	6	13
Thu 24-Jul-08	6	-27
Thu 11-Sep-08	-26	-47
Thu 23-Oct-08	-26	-47

### Trading themes we favour at present

We favour going long into Q3 GDP should the *HYEFU* and food price index result in a sell-off earlier in the week. The June/Sept 2008 IB futures spread looks too wide and we favour buying the first contract against selling the latter.

## CURRENCY STRATEGY

**Renewed support for the USD in the face of inflationary pressures has pushed the NZD lower by default. The kiwi looks vulnerable. Locally, GDP and HYEFU the focus this week.**

### Market themes...

- Volatility remains the order of the day, particularly over the liquidity-sparse holiday period.
- USD finding support from inflationary woes.
- Government's *Half-Year Update*, Q3 BoP and GDP the focus this week.

### Outlook...

A crazy week for the NZD. Volatility was extreme as global developments once again dominated. Earlier in the week, in a much anticipated announcement, the Federal Reserve cut both the fed funds and discount rates by 25bps to 4.25 and 4.75 percent respectively. However, accompanying rhetoric surrounding inflationary pressures as well as some expecting a more aggressive easing saw equity markets tumble, US bond markets rally and the NZD and AUD sold down aggressively. But the very next day, a joint announcement by the Fed, ECB, SNB, BoE and BoC of new measures to improve liquidity in money markets and ease credit pressures increased confidence that a full-blown global credit crunch will be averted and the NZD subsequently soared, at one stage, through US\$0.79.

But the rollercoaster ride continued. Stronger than expected US CPI data to end the week provided renewed support to the USD and sent it to its highest levels against the euro and the yen in over a month. This left the NZD with only one way to go and it ended the week trading around 0.7650 with a very heavy bias. Markets are now having to seriously consider the possibility that the Fed will lack the ability to be able to continue cutting rates aggressively next year due to the significant inflationary pressures present. It remains an incredibly challenging environment for policymakers.

This sets up a very interesting period for the NZD. A lack of liquidity over the holiday period typically sees the NZD push higher (refer to our discussion of this on the following page). However, yield differentials between NZ and the US have closed, as have the differentials between NZ and AUS and could weigh on the kiwi. The NZD could finally be set for a move lower against the AUD after previously defying all belief. One thing is for sure though, volatility is likely to remain high.

Data-wise, it is a very busy week. We receive updates on business and consumer confidence, food

prices, migration and credit card spending. However, the three key events will be the release of the Government's *Half-Year Update* (Tuesday 1230 NZDT), and the Q3 Balance of Payments and GDP data on Thursday and Friday (1045 NZDT) respectively. These should all provide mixed messages and illustrate the delicate juncture the economy remains in. Tax cuts (inflation), imbalances and slowing domestic demand are likely to be the key themes.

Technically, the NZD/AUD is back at the top of its past 18 month's range. The 200 week MA around 0.8920 should cap this week for a test of the 200 day MA at 0.8750. There is divergence on the daily chart also suggesting the market is stretched. This leaves us happy to be short above 0.8900.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	Yield differentials narrowing.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Better across the Tasman. Terms of trade shocks bigger there.
Technicals	↓	0.8900 is a stretch.
Sentiment	↓	AUD data is better.
Other	↓	Elections over. Back to fundamentals.
<b>On balance</b>	↓	<b>This is a sell!!!</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↑	US data is woeful.
Yield	↔	US yield is closing gap finally.
Commodities	↔	Off their highs.
Risk aversion	↓	Credit concerns are weighing.
Partial indicators	↔	NZ domestic economy is soft, but US is softer.
Technicals	↔	200 day ma at 0.7440 to contain downside, but failure to rally suggests test of this level.
AUD	↑	Election over. Business as usual.
Sentiment	↔	Neutral in NZ, bearish in US.
Other	↑/↔	USD disliked globally.
<b>On balance</b>	↔	<b>Still yield v risk aversion.</b>

## NZD MOVES OVER HOLIDAY PERIOD

There is a seasonal factor that typically provides support to the NZD heading into the end of year holiday period. However, given current fickle global conditions, we are coy about making sweeping assessments. Our analysis also suggests that increased volatility can be expected.

We look at the NZD's movements over the mid-December to mid-February period to investigate whether there are any seasonal factors heading into year end. Liquidity for the NZD tends to dry up over the end of year holiday period, as businesses and traders wind down their activities. As such, flows tend to have a larger effect on the NZD's movements over that period. The lack of liquidity means the NZD's movements should be more volatile.

The tables to the right show the percentage movements in the NZD against the majors, including the TWI, over the following periods:

- mid-December to mid-January, to assess any year-end seasonal effect;
- mid-January to mid-February, to see if any year-end effects subsequently unwind when liquidity returns to more normal conditions, and;
- mid-December to mid-February to see whether any movements over the early part holds.

Averages over different time periods are reported, covering the last 5, 10, 15 and 22 years (since the NZD was floated). The analysis shows that:

- there is a strong positive seasonal factor which pushes the NZD higher heading into year end. Since the float, the NZDUSD has averaged a gain of 1.3 percent from mid-December to mid-January. Those gains appear to have held on average into mid-February.
- In the last 22 years, the NZDUSD has fallen only on 7 occasions at the turn of the New Year, and these tend to be during periods when the economy was generally weak (early 1990s recession, 1997/98). But the NZDUSD managed to recover all the lost ground by mid-February in three years out of seven.
- The story is largely similar on the crosses. However, there does not appear to be any seasonal effect on the NZDAUD. The NZDJPY appear to have the largest seasonal factor, posting the highest percentage gains over the turn of the year.

Will the seasonal pattern repeat this summer? Given current fickle global conditions, we are coy about making sweeping assessments. However, looking at the ranges that are typical over the summer months, our analysis suggests that increased volatility can be expected.

Average % change for various time periods			
NZDUSD	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
<b>Last 22 yrs</b>	<b>1.3</b>	<b>0.1</b>	<b>1.3</b>
Last 15 yrs	1.6	-0.1	1.4
Last 10 yrs	2.2	-0.4	1.7
Last 5 yrs	1.8	1.0	2.9
Range:			
Minimum:	-3.5	-7.2	-4.4
Maximum:	6.0	5.8	8.9

Average % change for various time periods			
NZDAUD	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
<b>Last 22 yrs</b>	<b>0.7</b>	<b>0.0</b>	<b>0.7</b>
Last 15 yrs	0.6	-0.1	0.5
Last 10 yrs	0.5	-0.3	0.2
Last 5 yrs	0.1	-0.1	0.0
Range:			
Minimum:	-5.7	-3.2	-3.8
Maximum:	7.2	5.8	5.1

Average % change for various time periods			
NZDJPY	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
<b>Last 22 yrs</b>	<b>1.7</b>	<b>-0.4</b>	<b>1.2</b>
Last 15 yrs	2.4	-0.1	2.2
Last 10 yrs	2.5	0.1	2.5
Last 5 yrs	0.1	2.5	2.6
Range:			
Minimum:	-5.3	-5.9	-9.3
Maximum:	11.3	5.2	8.8

Average % change for various time periods			
NZDGBP	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
<b>Last 22 yrs</b>	<b>0.9</b>	<b>0.9</b>	<b>1.8</b>
Last 15 yrs	1.3	1.0	2.4
Last 10 yrs	1.9	0.0	1.9
Last 5 yrs	1.1	0.5	1.6
Range:			
Minimum:	-5.3	-6.6	-7.8
Maximum:	5.6	7.8	9.3

Average % change for various time periods			
NZDEUR	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
<b>Last 7 yrs</b>	<b>0.5</b>	<b>0.6</b>	<b>1.0</b>
Last 5 yrs	0.7	0.6	1.4
Range:			
Minimum:	-2.3	-1.4	-3.7
Maximum:	2.2	4.0	4.1

Average % change for various time periods			
TWI	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
<b>Last 22 yrs</b>	<b>1.0</b>	<b>0.1</b>	<b>1.0</b>
Last 15 yrs	1.4	0.1	1.5
Last 10 yrs	1.7	-0.1	1.6
Last 5 yrs	0.9	0.9	1.9
Range:			
Minimum:	-4.9	-4.4	-3.7
Maximum:	4.9	2.5	5.9

Sources: ANZ National and Reuters

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
Dec 17	<b>NZ</b>	<b>Performance of Services Index (Nov)</b>	-	-	<b>12:00</b>
	JN	Tertiary Industry Index (Dec) – mom	1.2%	-1.6%	12:50
	UK	Rightmove House Prices (Dec) – mom	-	-0.1%	13:01
	AU	Dwelling Starts (3Q)	-	-4.0%	13:30
	EU	PMI Manufacturing (Dec A)	52.3	52.8	22:00
		PMI Services (Dec A)	54.0	54.1	22:00
		PMI Composite (Dec A)	53.7	54.1	22:00
Dec 18	US	Current Account Balance (3Q)	-\$183.3B	-\$190.8B	02:30
		Empire Manufacturing (Dec)	20.0	27.4	02:30
		Net Long-Term TIC Flows (Oct)	\$48.5B	\$26.4B	03:00
		Total Net TIC Flows (Oct)	\$30.0B	-\$14.7B	03:00
		NAHB Housing Market Index (Dec)	19	19	07:00
	AU	RBA publishes Policy Meeting Minutes	-	-	13:30
	<b>NZ</b>	<b>NBNZ Business Confidence (Dec)</b>	-	<b>-19.6</b>	<b>15:00</b>
	UK	CPI (Nov) – mom	0.3%	0.5%	22:30
		CPI (Nov) – yoy	2.2%	2.1%	22:30
		CPI – Core (Nov) – yoy	1.6%	1.5%	22:30
		RPI (Nov) – mom	0.3%	0.4%	22:30
		RPI (Nov) – yoy	4.2%	4.2%	22:30
		RPI Ex Mortgage Interest Payments (Nov) – yoy	3.1%	3.1%	22:30
	EU	Trade Balance s.a. (Oct)	3.0B	3.1B	22:30
Dec 19	US	Housing Starts (Nov)	1,176k	1,229k	02:30
		Building Permits (Nov)	1,150k	1,170k	02:30
		Fed Governors to hold open meeting on Mortgage Rules	-	-	04:00
	<b>NZ</b>	<b>Visitor Arrivals (Nov)</b>	-	<b>-2.6%</b>	<b>10:45</b>
		<b>Food Prices (Nov) – mom</b>	-	<b>0.6%</b>	<b>10:45</b>
	AU	Westpac Leading Index (Oct) – mom	-	-1.6%	12:30
		DEWR Skilled Vacancies (Dec) – mom	-	0.6%	13:00
	GE	Producer Prices (Nov) – mom	0.4%	0.4%	20:00
		IFO – Current Assessment (Dec)	109.9	110.4	22:00
		IFO – Expectations (Dec)	98.0	98.3	22:00
	EU	ECB's Trichet addresses European Parliament in Brussels	-	-	22:00
		ECB's Liescher speaks in Vienna	-	-	22:00
		Construction Output (Oct) – mom	-	0.0%	23:00
	UK	BoE Minutes	-	-	22:30
Dec 20	US	Fed's Lacker speaks on Economic Outlook in North Carolina	-	-	07:00
	<b>NZ</b>	<b>Current Account Balance (3Q)</b>	<b>-4,910B</b>	<b>-2.914B</b>	<b>10:45</b>

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
Dec 20 cont.	<b>NZ</b>	<b>Current Account % GDP (3Q)</b>	<b>-8.3%</b>	<b>-8.2%</b>	<b>10:45</b>
	JN	Adjusted Merchandise Trade Balance (Nov)	¥966.7B	¥1,072.6B	12:50
		BoJ Target Rate Announcement	0.5%	0.5%	-
		BoJ Monthly Report	-	-	19:00
	AU	RBA Foreign Exchange Transactions (Nov)	-	A\$237m	13:30
		RBA Monthly Bulletin	-	-	13:30
	GE	GfK Consumer Confidence Survey (Jan)	4.0	4.3	20:10
	UK	GDP (3Q F) – qoq	0.7%	0.7%	22:30
		GDP (3Q F) – yoy	3.2%	3.2%	22:30
		Current Account (3Q)	-11.4B	-9.1B	22:30
		Public Finances (PSNCR) (Nov)	8.0B	-4.8B	22:30
		Public Sector Net Borrowing (Nov)	10.0B	-1.0B	22:30
		M4 Money Supply (Nov P) – mom	0.4%	0.2%	22:30
		M4 Sterling Lending (Nov P)	15.7B	19.5B	22:30
		BSA Mortgage Approvals (Nov)	-	£3,985m	22:30
Dec 21	US	Initial Jobless Claims (Dec 16)	335k	33k	02:30
		Continuing Claims (Dec 9)	2,605k	2,639k	02:30
		GDP Annualised (3Q F)	4.9%	4.9%	02:30
		Personal Consumption (3Q F)	2.8%	2.7%	02:30
		GDP Price Index (3Q F)	0.9%	0.9%	02:30
		Core PCE (3Q) – qoq	1.8%	1.8%	02:30
		Leading Indicators (Nov)	-0.3%	-0.5%	04:00
		Philadelphia Fed (Dec)	6.0	8.2	06:00
	<b>NZ</b>	<b>GDP (3Q) – qoq</b>	<b>0.4%</b>	<b>0.7%</b>	<b>10:45</b>
		<b>GDP (3Q) – yoy</b>	<b>3.2%</b>	<b>3.2%</b>	<b>10:45</b>
		<b>Credit Card Spending (Nov) – yoy</b>	<b>-</b>	<b>7.8%</b>	<b>15:00</b>
	AU	Conference Board Leading Index (Oct)	-	0.5%	12:00
	EU	ECB Current Account (Oct)	1.8B	0.6B	22:00
		Industrial New Orders (Oct) – mom	2.0%	-1.6%	23:00
	UK	Retail Sales (Nov) – mom	0.2%	-0.1%	22:30
		Index of Services (Oct) – 3mth/3mth	0.7%	0.9%	22:30
22 Dec	US	PCE Deflator (Nov) – yoy	-	2.9%	02:30
		Personal Income (Nov)	0.5%	0.2%	02:30
		Personal Spending (Nov)	0.7%	0.2%	02:30
		PCE Core (Nov) – mom	0.2%	0.2%	02:30
		PCE Core (Nov) – yoy	2.0%	1.9%	02:30
		University of Michigan Confidence (Dec F)	74.9	74.5	04:00

Key: AU: Australia, EU: 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 busy week this week with a number of local data releases. The Government's *Half-Year Economic and Fiscal Update* will show the coffers filling up for an election year spend-up, reinforcing upside risks to inflation. But Q3 GDP at the end of the week will show that the interest rate hikes this year are having an impact at slowing domestic demand.

Date	Data/Event	Economic Signal	Comment
Tue 18 Dec (12.30)	Half-Year Economic and Fiscal Update	Strong support, but inflationary risks	This is expected to show upward revisions to tax and operating surplus forecasts. Key will be the amount earmarked for tax cuts.
Tue 18 Dec (15.00)	NBNZ Business Outlook (Dec)	-	-
Wed 19 Dec (01.00)	Westpac McDermott Miller Consumer Confidence (Dec qtr)	Holding Up	Confidence expected to remain resilient in the face of higher mortgage rates and petrol prices.
Wed 19 Dec (10.45)	Food Price Index (Nov)	Increasing	Although volatile on a monthly basis, the underlying trend is clearly upwards given movements in global commodity prices.
Wed 19 Dec (10.45)	External Migration (Nov)	Easing	Net inflows have eased over the year. We feel a base is likely to form around current levels of 7,500, although the risks appear to lie to the downside.
Thu 20 Dec (10.45)	Balance of Payments (Sep qtr)	Unchanged but still imbalanced	We expect the current account deficit to remain unchanged at 8.2 percent of GDP.
Fri 21 Dec (10.45)	Gross Domestic Product (Sep qtr)	Pull-back from strong H1	We have penciled in growth of 0.3 percent in the quarter with soft private consumption and net exports once again detracting from growth. Underlying activity is soft when the contribution from Tui is removed.
Fri 21 Dec (15.00)	Credit Card Spending (Nov)	Softening	A moderation in consumer spending is expected to continue though higher petrol prices will inflate billings. The interest bearing component of outstanding balances will be interesting to watch after experiencing a reasonable tick-up last month.
Fri 28 Dec (15.00)	Credit Growth (Nov)	Trending lower	We expect another monthly release showing credit growth around 0.8 percent.
Mon 7 Jan (10.45)	Overseas Merchandise Trade (Nov)	Annual balance improving	Despite a large increase in oil prices over the month, we expect a solid improvement in dairy exports in November. A monthly deficit should still be recorded, although the annual deficit is expected to improve.
<b>On Balance</b>		<b>Sub-trend but respectable</b>	<b>All about inflation from here, but signs of softer growth emerging.</b>

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## SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (% qoq)	0.4	0.8	1.2	0.7	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.6</b>
GDP (% yoy)	1.0	2.1	2.5	3.2	<b>3.1</b>	<b>2.6</b>	<b>1.7</b>	<b>1.3</b>	<b>1.4</b>	<b>1.7</b>
CPI (% qoq)	0.7	-0.2	0.5	1.0	0.5	<b>1.0</b>	<b>0.5</b>	<b>0.8</b>	<b>0.9</b>	<b>0.8</b>
CPI (% yoy)	3.5	2.6	2.5	2.0	1.8	<b>3.0</b>	<b>3.0</b>	<b>2.7</b>	<b>3.1</b>	<b>2.9</b>
Employment (% qoq)	-0.3	0.0	1.2	0.6	-0.3	<b>0.4</b>	<b>0.4</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Employment (% yoy)	1.5	1.4	1.7	1.6	1.5	<b>1.9</b>	<b>1.1</b>	<b>0.7</b>	<b>1.2</b>	<b>1.0</b>
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	3.5	<b>3.6</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>	<b>4.0</b>
Current Account (% GDP)	-8.8	-8.7	-8.3	-8.2	<b>-8.2</b>	<b>-7.9</b>	<b>-7.4</b>	<b>-6.9</b>	<b>-6.8</b>	<b>-6.8</b>
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.4	3.7	<b>3.1</b>	<b>1.0</b>	<b>0.1</b>	<b>-0.3</b>	<b>-0.2</b>
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.3	8.4	<b>9.0</b>	<b>8.4</b>	<b>8.0</b>	<b>3.9</b>	<b>0.6</b>

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

## KEY ECONOMIC INDICATORS

	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07
Retail Sales (% mom)	2.3	0.8	-1.2	1.1	-0.4	0.2	0.2	1.0	-0.7	..
Retail Sales (% yoy)	6.4	7.4	7.4	6.7	4.8	5.7	6.3	4.1	5.5	..
Credit Card Billings (% mom)	1.5	1.0	-1.0	0.8	1.8	0.1	0.2	2.7	-0.5	..
Credit Card Billings (% yoy)	8.2	7.2	7.9	5.8	9.0	7.9	8.6	9.4	7.8	..
Car Registrations (% mom)	-9.3	0.7	-1.4	6.0	-4.7	7.0	1.2	-6.6	5.7	-3.6
Car Registrations (% yoy)	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1	4.7	2.3
Building Consents (% mom)	6.8	-1.0	0.8	5.2	12.7	-16.0	4.8	-10.3	-4.8	..
Building Consents (% yoy)	-8.5	3.4	9.3	2.9	33.1	-4.1	-1.3	-15.6	-16.1	..
REINZ House Price (% yoy)	13.6	13.7	14.4	14.8	12.1	10.4	12.9	12.3	8.0	6.7
Household Lending Growth (% mom)	1.1	1.2	1.1	1.1	1.1	0.9	0.9	0.8	0.8	..
Household Lending Growth (% yoy)	13.1	13.3	13.5	13.5	13.5	13.5	13.4	13.1	12.9	..
Roy Morgan Consumer Confidence	133.8	129.3	128.6	122.1	121.0	121.1	122.4	121.3	122.0	121.9
NBNZ Business Confidence	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5	-12.9	-19.6
NBNZ Own Activity Outlook	25.7	24.1	22.5	7.8	14.8	12.4	16.7	17.2	20.3	15.7
Trade Balance (\$m)	-127	60	-215	8	-518	-808	-945	-573	-690	..
Trade Balance (\$m annual)	-5767	-5776	-6024	-5900	-6226	-6340	-6334	-6282	-5798	..
ANZ World Commodity Price Index (% mom)	1.4	2.0	4.9	2.6	6.3	4.6	1.4	0.4	1.8	0.8
ANZ World Commodity Price Index (% yoy)	13.0	17.1	20.9	21.1	29.8	35.1	36.3	35.7	37.8	36.0
Net Migration (sa)	520	620	220	410	590	470	720	660	260	..
Net Migration (annual)	13151	12081	11222	10682	10078	8966	8730	8309	7517	..

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Oct 07	Nov 07	17 Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
NZD/USD	0.760	0.763	0.765	0.760	0.740	0.710	0.680	0.660	0.640	0.630
NZD/AUD	0.847	0.851	0.888	0.800	0.771	0.763	0.756	0.759	0.762	0.768
NZD/EUR	0.534	0.520	0.532	0.517	0.507	0.500	0.489	0.489	0.485	0.488
NZD/JPY	88.1	84.8	86.8	83.6	79.9	75.3	72.1	71.3	70.4	71.2
NZD/GBP	0.372	0.368	0.380	0.369	0.361	0.351	0.342	0.340	0.333	0.335
NZ\$ TWI	71.1	70.3	71.8	69.2	67.2	65.2	63.2	62.5	61.6	61.7
NZ interest rates	Oct 07	Nov 07	17 Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
OCR	8.30	8.33	8.25	8.25	8.25	8.00	7.50	7.00	6.75	6.75
90 day bill	8.68	8.74	8.84	8.70	8.60	8.00	7.50	7.00	7.00	7.00
10 year bond	6.38	6.39	6.44	6.40	6.50	6.70	6.70	6.70	6.70	7.00
International	Oct 07	Nov 07	17 Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
US Fed funds	4.50	4.50	4.25	3.75	3.75	3.75	3.75	4.00	4.50	5.25
US 3-mth	4.89	5.13	4.97	4.50	4.25	4.00	4.25	4.50	5.00	5.50
AU cash	6.50	6.75	6.75	7.00	7.25	7.25	7.25	7.25	7.25	7.25
AU 3-mth	7.01	7.25	7.51	7.30	7.50	7.50	7.50	7.50	7.40	7.40

## KEY RATES AND COMMODITIES

	14 Nov	10 Dec	11 Dec	12 Dec	13 Dec	14 Dec
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.71	8.89	8.87	8.88	8.88	8.86
NZGB 07/09	7.35	7.59	7.61	7.57	7.56	7.45
NZGB 11/11	7.10	7.27	7.28	7.24	7.23	7.18
NZGB 04/13	6.95	7.03	7.05	7.01	7.01	6.98
NZGB 12/17	6.53	6.46	6.48	6.43	6.43	6.41
2 year swap	8.68	8.70	8.69	8.65	8.65	8.66
5 year swap	8.19	8.17	8.18	8.13	8.14	8.18
RBNZ TWI	70.5	71.8	72.4	72.2	72.6	72.9
NZD/USD	0.7656	0.7733	0.7833	0.7796	0.7850	0.7845
NZD/AUD	0.8481	0.8830	0.8820	0.8896	0.8886	0.8932
NZD/JPY	85.06	86.25	87.55	86.43	87.90	88.22
NZD/GBP	0.3685	0.3805	0.3827	0.3829	0.3833	0.3842
NZD/EUR	0.5224	0.5280	0.5320	0.5318	0.5330	0.5362
AUD/USD	0.9027	0.8758	0.8881	0.8763	0.8834	0.8783
EUR/USD	1.4655	1.4645	1.4723	1.4660	1.4728	1.4630
USD/JPY	111.10	111.54	111.77	110.86	111.97	112.46
GBP/USD	2.0776	2.0321	2.0466	2.0361	2.0479	2.0420
Oil	91.18	88.23	87.72	90.12	94.41	92.35
Gold	804.90	798.80	807.50	801.50	810.65	802.90
Electricity (Haywards)	3.95	8.11	7.76	7.22	8.29	5.06
Milk futures (US\$/contract)	189	166	166	166	166	166
Baltic Dry Freight Index	10995	9992	9929	9936	9918	9918

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