

# NEW ZEALAND ECONOMICS MARKET FOCUS

5 December 2011

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## HOPE VERSUS REALITY

### ECONOMIC OVERVIEW

A better spring in the markets' step last week doesn't alter our core prognosis: in a deleveraging world growth will be slow, and when you throw in a political angle it adds another layer of downside risk. We're hopeful we'll see something constructive from this week's EU leaders summit, but we are far from convinced it'll be sufficiently credible. While the pass-through to NZ from a fragile backdrop remains mild so far, the uncertainty aspect is expected to keep the RBNZ kicking for touch. This week's dairy auction, retail and consumer confidence data will once again show to what degree NZ is holding its own.

### NZ DATA SURPRISE INDEX UPDATE

After softening from mid September, a sequence of better than expected activity data has contributed to a lift in the index. Doubts over the durability of upside activity surprises remain, and we are concerned over the weakening trend in the forward-looking "soft" data, which is suggestive of a slowing in base economic momentum.

### DECEMBER MPS PREVIEW

With the RBNZ universally expected to leave the OCR on hold, attention will focus on the tone. We expect a cautious *Statement* given the combination of easing inflation pressure of late, a delayed Canterbury rebuild, and global ructions. While the *Statement* will probably push back the timing of OCR increases to late 2012, we expect an ever-so-slight tightening bias to remain.

### INTEREST RATE STRATEGY

Coordinated global central bank, successful bond auctions in Europe and a better tone to US data led to a large sell-off in global fixed income. Whether the sell-off continues hinges on the outcome of this week's EU leaders summit, with room for disappointment. The RBA and RBNZ decision this week is expected to see the former cut, with the latter on hold.

### CURRENCY STRATEGY

While coordinated action by central banks has improved sentiment, European headlines will continue to be the central focus this week. We view the political aspect to the required Fiscal Union as a challenge in providing something of an enduring substance for risk appetites. Our expectation for an RBA cut could see the NZDAUD cross finally start to head higher.

### THE ANZ HEATMAP

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

## ECONOMIC OVERVIEW

### SUMMARY

A better spring in the markets' step last week, while welcome, doesn't alter our core prognosis: in a deleveraging world growth will be slow, and when you throw in a political angle it adds another layer of downside risk. This week's EU leaders' summit is key. We're hopeful we'll see something constructive, but we are far from convinced it'll be sufficiently credible. While the pass-through to NZ from a fragile backdrop remains mild so far, the uncertainty aspect is expected to keep the RBNZ kicking for touch, showing a lack of urgency to move the OCR. This week's dairy auction, retail and consumer confidence data will once again show to what degree New Zealand is holding its own. We're relatively constructive on the dataflow for now though the real-time anecdotes from our travels are becoming even more fragmented than usual.

### FORTHCOMING EVENTS

**GlobalDairyTrade auction** (Wednesday, 7 December November, early am). No change in the average winning price of US\$3,617/tonne is expected.

**SNZ Wholesale Trade – 2011Q3** (Wednesday, 7 December, 10:45am). Solid Q3 retail activity is expected to underpin a 1 percent increase in wholesale trade volumes.

**RBNZ Monetary Policy Statement – December** (Thursday, 8 December, 9:00am). The OCR is expected to remain at 2.5 percent. See our preview on page 7.

**SNZ Economic Survey of Manufacturing - 2011Q3** (Thursday, 8 December, 10:45am). Manufacturing volumes are expected to fall 0.9 percent, largely on account of lower ex-primary volumes.

**SNZ Electronic Card Transactions - November** (Friday, 9 December, 10:45am). A 0.9 percent fall in retail ECT (-0.6 percent for core retail) spending is forecast, with falls for fuel and apparel sales as the Rugby World Cup boost unwinds.

**ANZ-Roy Morgan Consumer Confidence – December** (Friday, 9 December, 1:00pm).

### WHAT'S THE VIEW

**A week is a long time in markets, with a better tone last week in contrast to the pessimism of the preceding few weeks.** Co-ordinated action by major global central banks to support liquidity in European banks showed a refreshing willingness to confront problems directly. A positive run of US economic data and successful bond auctions in Italy, France and Spain added to positive market sentiment. When you get a decent string of positives, market positioning and short squeezes can take over,

particularly when you are at incredibly low levels in the first place. At one stage the local interest rate market had a 25 basis point cut priced in by March 2012, with the 2 and 5 year swap hitting 2.61 and 3.35 percent respectively. Yet few market participants probably thought a cut was actually likely. Markets always push the boundaries and ex post we've simply seen some recoil.

### Has anything really changed? We think not.

Optimists point to co-ordinated central bank action as signalling a possible sea-change in attitudes. Pessimists are more inclined to point to what central banks might have gotten wind of and were trying to stop or pre-empt. It can't be a good thing that central banks feel compelled to provide liquidity on such a massive scale. Yes, Italy *et al* are managing to attract sufficient funding, though at considerable cost, with Italian 10-year bond yields currently at 6.64 percent. Money is always available: for the right price and risk premium.

**The world's deleveraging headwinds haven't disappeared**, and we have the simple reality check that **solutions need to come from governments and not central banks**. We said it last week and we'll say it again: **governments** (and we are talking 17 in the case of the Eurozone!) **seldom make the hard decisions until an "accident" gives them a mandate to take action**. For New Zealand, examples of "accidents" or "tipping points" forcing aggressive responses (where economic imperatives dominate political considerations) were, for those with long memories, 1984 and 1990.

**Global attention is now firmly directed at the December 9 EU leaders summit.** All and sundry seem an expert in terms of what to expect, or what not to. New Zealand is so far removed from the action, that detailed conjecture from ourselves would be folly. Suffice to say that we prefer to focus on the spirit of what is trying to be achieved, which, in rural parlance, is trying to herd 17 sheep into the same pen. Sheep trials show it's hard enough with three let alone the extra 14. Such is the political reality in trying to pull together the necessary fiscal union to match the monetary and currency equivalent. **We hope to see more substance than the fabled kicking the can down the road, but suspect this is what we will end up with.**

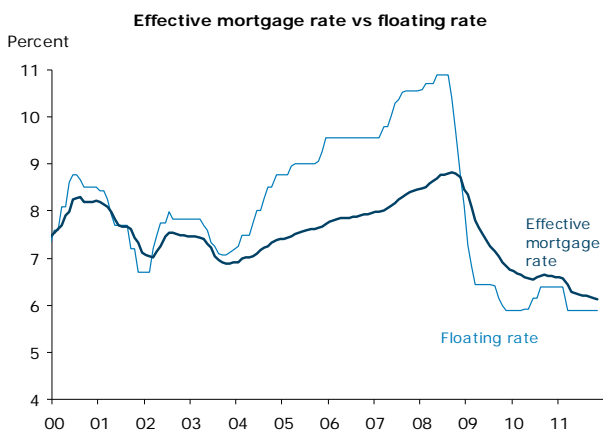
**We continue to assess prospects for NZ against this backdrop.** At present the story remains one of a looming threat, with direct impacts muted so far.

- Confidence surveys such as the National Bank Business Outlook continue to track okay, with domestic business confidence remaining firm,

## ECONOMIC OVERVIEW

although the slipping in export intentions to a 26-month low (+16) was a shot across the bow. Question marks surround the expectation/reality divide (i.e. business confidence has over-predicted growth for 3 years) but we've already discounted the results somewhat, pencilling in 2.5 percent growth next year as opposed to the 3.5 percent flagged by the survey's composite measures. Other measures such as consumer confidence haven't budged, remaining sombre, though job ads have weakened of late.

- Commodity prices continue to ease, with the weaker NZD providing a buffering role. The NZ goods terms of trade looks to have peaked, but are still 25 percent above historical averages – a large expansionary shock for the economy – although ongoing deleveraging is still blunting the impact on spending.
- The currency is flip-flopping, but is doing its job: receding in times of stress and rising in times of optimism (or less pessimism). And unbeknownst to a lot of people, monetary policy is actually easing at present. Over the coming 12 months, almost one quarter of fixed mortgage debt (approximately \$42bn) is due for renewal. This debt will be coming off a weighted average interest rate of 6.67 percent, and with current short-term mortgage interest rates around 5.8 percent, there is still a large pending interest rate cut. Our estimates suggest the effective mortgage interest rate (currently around 6.15 percent) could fall below 5.9 percent by the end of next year, assuming the RBNZ remains on hold and funding pressures do not flow through into borrowing costs. **So even if the RBNZ stays on the sidelines, the New Zealand economy is still getting some passive stimulus.**



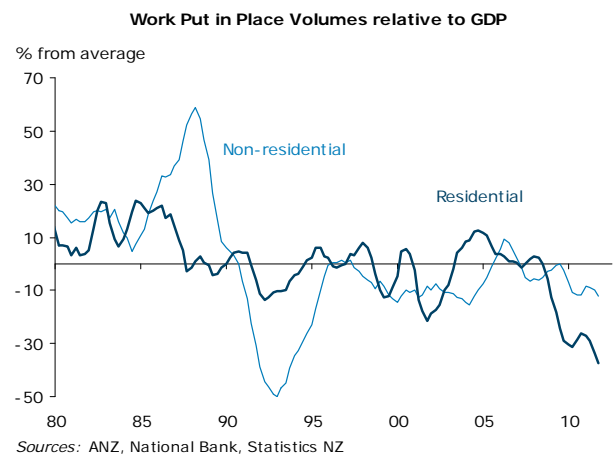
- Offshore funding pressures (cost of funds) remain elevated, though this represents the marginal cost

of funds as opposed to the average. This means New Zealand still has some time on its side before current market dislocation will really start to bite across the board.

- Further softness is appearing in China, with both manufacturing and non-manufacturing PMIs now falling below 50. The drop in the reserve requirement ratio for banks (interest rate cuts in another guise) shows the Chinese authorities are moving on to the front foot. The Chinese move also probably ups the ante on the RBA cutting again this week. Those drawing parallels with New Zealand need to be mindful that the Australian cash rate currently sits 200 bps above ours.

**So right here and now we continue to talk more about risks than reality, though the growth reality at present is still somewhat scratchy.** As our analysis of NZ data surprises on page 5 shows, the recent dataflow has been mixed. The Rugby World Cup looks to have induced an upward turnaround in the activity dataflow, but the impact cannot be expected to persist. More generally, when you start seeing mixed runs of data you must be alert to whether an inflection point in the cycle has been reached. We don't seem to be there at present, though a turn downwards is where the obvious risks reside.

**Today's work put in place data for Q3 confirmed a further weakening in construction sector activity,** which is at historically low levels in relation to GDP. Last week's consent data for October confirmed the construction sector is starting to pick up, but that the pace of recovery in Canterbury consent issuance remains glacial.



Today's Government financial statements for October 2011 showed outcomes undershooting the Pre-election Economic and Fiscal Update forecasts. While not by much, the reality is that this further confirms the fiscal straitjacket successive Governments are in. The tax

## ECONOMIC OVERVIEW

figures (which we view as a timely real-time indicator) showed some signs of softness creeping in from areas such as PAYE and GST. Tax can be volatile from month to month so we are coy about making sweeping assessments. Rather we focus on the spirit and it's another measure showing continued fragmentation across the economy.

Key inputs for Q3 GDP will be released later this week in the form of the manufacturing and wholesale trade data.

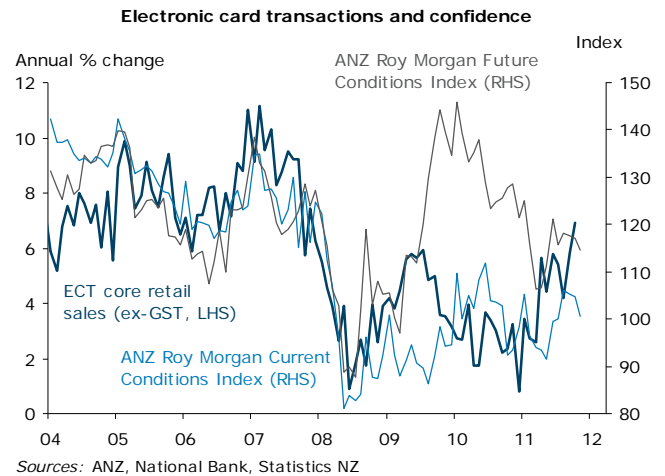
**The deterioration in manufacturing sector confidence is expected to catch up to the manufacturing sector activity.** Overseas Trade Indexes showed a pull-back in non-primary manufacturing export volumes, and with not much progress on earthquake reconstruction, activity is in a holding pattern. Good climatic conditions are expected to support dairy production, although a compensating fall is expected for meat volumes as farmers hold on to stock for longer.

The major domestic event this week is Thursday's December *Monetary Policy Statement*. With the hurdle for an OCR cut remaining high, the RBNZ is universally expected to leave the OCR on hold. **The two major influences behind the RBNZ view at present are the global economy and progress on the Canterbury rebuild. We see downside risks to both**, with the global outlook particularly troubling. A slower resolution to Canterbury insurance issues could see the OCR remain lower for longer.

The GlobalDairyTrade online auction should display ongoing resilience, with prices holding at historically high levels. **Higher Chinese demand is expected to provide a bulwark against falls**, with lower Chinese import tariffs for New Zealand dairy products next year a major support factor.

November's Electronic Card Transaction data is expected to confirm a Rugby World Cup hangover. Retail ECT spending is forecast to decline 0.9 percent, with a smaller fall for core ECT spending. We expect a larger boom-bust pattern to be evident in the quarterly retail data.

Friday's ANZ-Roy Morgan Consumer Confidence data will provide an updated assessment of consumers' mood. Household budgets look set for the usual test as the Christmas shopping season approaches, with our internal anecdotes suggesting households are now trying furiously to repair finances in time for the usual spend-up. They do not have much time. **The likelihood could be a further round of discounting as retailers seek to reduce stock levels.** A soft patch in early 2012 beckons.



### RECENT LOCAL DATA

**SNZ Value of Building Work Put in Place – 2011Q3.** The volume of building activity fell 2.3 percent, to the lowest level since March 2001.

**NZ Government Financial Statements – 4 months till October.** The Operating Balance before Gains and Losses (OBEGAL) was for a deficit of \$3.36bn, \$131m higher than the PREFU forecast. Core crown tax revenue came in \$503m below forecast.

**National Bank Business Outlook – November.** General business confidence rose 5 points (to +13), with firms' own activity expectations up 3 points to +29. Investment and profit expectations rose. Pricing intentions, export intentions, and employment intentions eased.

**SNZ National Employment Indicator – September.** The number of filled jobs declined 0.1 percent s.a. in September to be 1.2 percent higher than a year earlier.

**SNZ Building Consents – October.** Residential building consent numbers rose a seasonally adjusted 11.2 percent s.a. (+7.1 percent ex-apartments). The value of non-residential consents rose 1.7 percent to \$290m.

**RBNZ Credit Aggregates – October.** Private sector credit (R) ex-repo rose 1 percent in the 12 months to October. Annual household credit rose 1.1 percent, with business credit up 1.0 percent. Agricultural credit fell 0.9 percent in the 12 months to October.

**SNZ Overseas Trade Indexes - Q3.** The goods terms of trade fell 0.7 percent. Export volumes fell 0.7 percent, with a 2.7 percent increase in import volumes.

**ANZ Commodity Price Index – November.** The Index fell 1 percent (+5.8 percent y/y). The NZD Index rose 1.2 percent (+6.2 percent y/y).

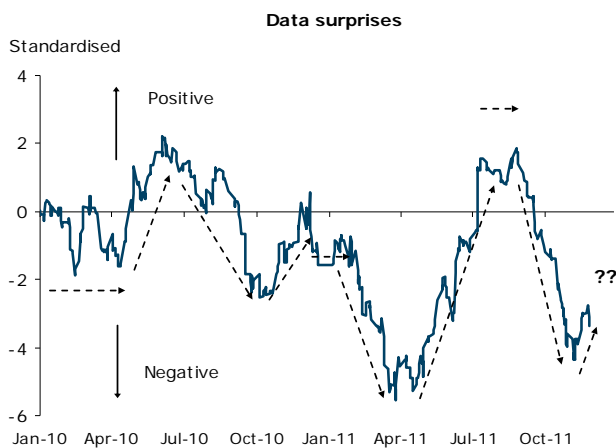
# NZ DATA SURPRISE INDEX UPDATE

## SUMMARY

Our New Zealand Data Surprise Index summarises the evolution of the local dataflow relative to market expectations. After softening from mid September, a sequence of better than expected activity data has contributed to a lift in the index. Encouragingly for the RBNZ, price surprises are now less one-sided, which is more consistent with their benign inflation view. Doubts over the durability of upside activity surprises remain, and we are concerned over the weakening trend evident in the forward-looking “soft” data, which is suggestive of a slowing in base economic momentum. While NZ remains better placed than many of our global peers, we will be paying close attention to leading indicators over the next few months for signs of further slowing in domestic economic momentum.

## A BETTER STRING OF DATA

Our Data Surprise Index is designed to summarise the impact of individual New Zealand data surprises on medium-term inflationary pressure.<sup>1</sup> It uses a wide range of domestic data outturns, and we place proportionately more weight on data that will have a bearing on medium-term inflationary pressure. The RBNZ, as part of their normal monetary policy deliberations, would have gone through a similar assessment in their December MPS deliberations, weighing up the aggregate tone of economic information received of late.



Sources: ANZ, National Bank, Bloomberg

The dataflow tends to move in strings, with data tending to undershoot and then overshoot market expectations at various stages. *It is the slope of the line that matters as opposed to whether it is above or below zero.* The year to date has shown considerable volatility in the local dataflow. In the first

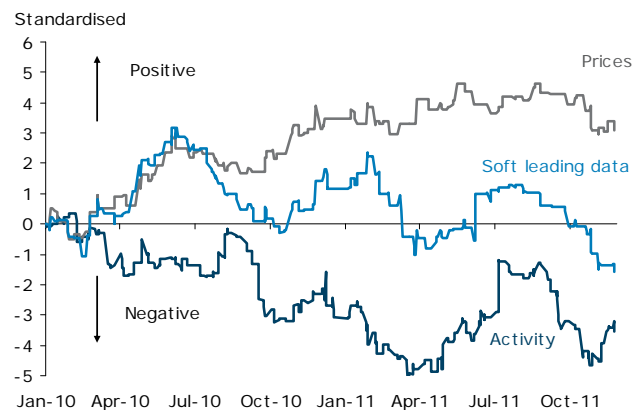
few months of this year, a string of weaker data was observed as sentiment and activity measures weakened in response to disruptions caused by the February 22 earthquake. An improving run of domestic data was evident from April through until about mid-July, which incorporated the stronger than expected Q1 GDP and Q2 CPI prints. Offsetting data surprises were then evident through until about early September, followed by a weaker string of data until mid-November. More recently, better than expected retail data has contributed to an improving run, but the dataflow remains mixed, with some weak outturns as well.

## EASING, BUT TO DIFFERING DEGREES

One of the advantages of our approach is that we can divide the domestic data surprises into different types of data. These include:

- “Activity” surprises, relating to various measures of economic activity typically published by Statistics New Zealand;
- “Price” surprises, which reflect the news content of recent price releases; and
- Surprises on the “soft” leading information captured in a range of sentiment and commodity price measures.

Data surprises by type



Sources: ANZ, National Bank, Bloomberg

Our analysis has shown the major data types have tended to track in different directions over time.

Much of the variation in the data since the September MPS has reflected the mixed run of hard activity data. Activity data is published with a lag, with much of the recent data pertaining to the September-October period when the Rugby World Cup was on. It is now December. The slide in the “soft” forward looking data, which points to a slowing in base economic momentum over the next few months, is concerning. Initially this was led by a weakening in commodity export prices but a weaker tone has also been evident

<sup>1</sup> See our November 22, 2010 Market Focus for more detail on how our surprise index is put together. The process is a mix of art and science.

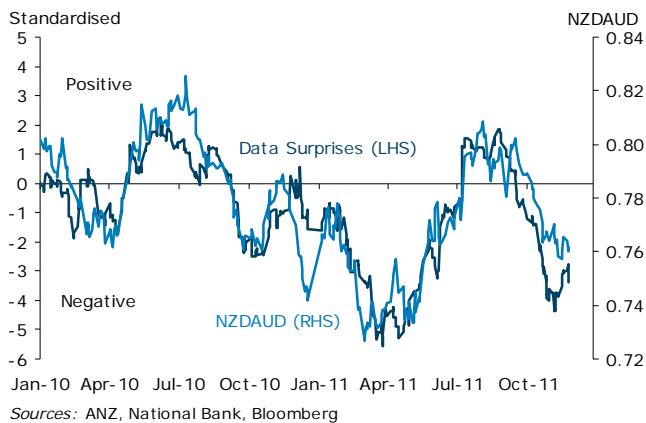
## NZ DATA SURPRISE INDEX UPDATE

in more recent manufacturing and consumer confidence data. Encouragingly for the RBNZ, a softer run of "price" surprises has also become evident, which is consistent with a moderation in pricing pressures within the economy.

### DATA SURPRISES AND FINANCIAL MARKET PRICES

Financial market prices tend to be influenced by a host of local and external factors, with the NZ dataflow only one of those. Nevertheless, **our surprise index has tended to broadly track movements in wholesale interest rates and the NZDAUD.**

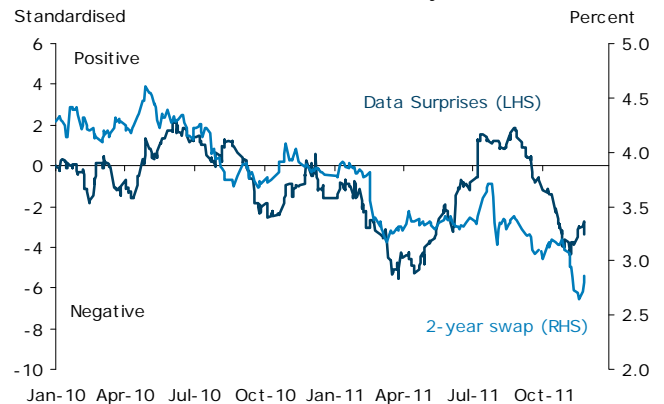
**Data surprises and the NZDAUD**  
Balance of data since January 2010



**It is interesting to note that the run of weaker data since August has coincided with a period during which the NZDAUD has been falling.** Our data surprise index has broadly tracked movements in the NZDUSD, with the local peak in the index coinciding with NZDUSD hitting a post-float high. Despite the recent positive run of activity data, the NZDAUD has not rallied by much. It could be that the currency markets are discounting upward surprises, as these can be attributable to "temporary" support factors.

**Wholesale interest rates, however, have been a different story.** In spite of the recent improvement in the local activity data, wholesale interest rates have continued to fall. In part this reflects the expectation that the weaker global growth outlook will start to weigh on domestic economic prospects, necessitating ongoing policy support. As yet, signs of this in the domestic dataflow are mixed.

**Data surprises and wholesale interest rates**  
Balance of data since January 2010



### THE UPSHOT

**Our surprise index has shown a mixed run of data of late.** This has been most evident in the "hard" activity data. There is considerable scope for further volatility, considering the additional uncertainty of trying to quantify the Rugby World Cup impact amidst a turbulent global scene, and with election-related volatility to boot. Encouragingly for the RBNZ, price-side surprises have become less one-sided. If the easing in pricing pressures is due to an easing in cost pressures, all fine and good. A slowdown due to weaker demand pressure would be a different matter altogether, highlighting the need for ongoing policy accommodation.

Also important to us (and the RBNZ for that matter) will be the outlook for base momentum within the economy. **Here the signal provided by the "soft" data surprise index is less than encouraging.** While the New Zealand economy is stacking up better than most, it is not immune from a global slowdown, with the weakening trajectory in the "soft" data a worrying sign. We will continue to pay close attention to confidence and commodity price measures over the next few months.

# RBNZ MONETARY POLICY STATEMENT PREVIEW

## SUMMARY

The RBNZ is universally expected to leave the OCR on hold, with attention therefore focussed on the tone. We expect a cautious *Statement* given the combination of easing inflation pressure of late, a delayed rebuild effort in Christchurch, and global ructions. We expect the *Statement* will push back the timing of OCR increases to late 2012. While we expect an ever-so-slight tightening bias to remain, the trajectory will basically flag that they are on hold for quite a while.

**At the October OCR Review, the RBNZ made it clear that ongoing global economic and financial risks made it prudent to keep the OCR on hold. The statement reiterated the conditionality of the OCR outlook.** The upshot was that if global developments proved to have only a mild impact on the NZ economy, the pressure on resources generated by Canterbury earthquake reconstruction would necessitate future OCR increases.

**Global downside risks have intensified.** The European debt crisis has lurched from bad to worse, with the Eurozone heading for recession. More positively, the US data has surprised on the upside. Downside risks to the Chinese economy are growing, with the sharp fall in Chinese manufacturing sentiment and signs that the property market is sharply cooling, pointing to a slowdown. The Australian economy is not immune, with sharp falls for export commodity prices expected to eventually flow through into activity.

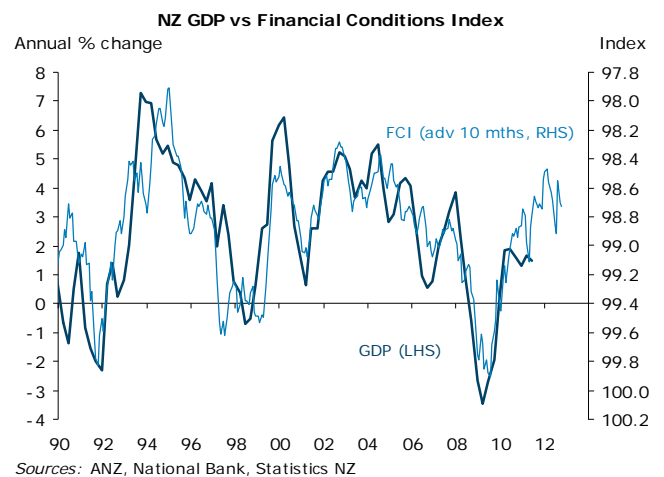
**Recent central bank actions around the world highlight the changed global outlook.** Last week's co-ordinated action by the major global central banks to support liquidity to European banks (via lowering the cost of dollar swaps) illustrates the gravity of the situation we are now in. The reserve ratio cut by the PBOC, and likelihood of further RBA interest rate cuts over the next few months (our Australian economists expect a 25bp cut this week), highlight the resolve to prevent the world falling into the abyss.

Of course we need to be mindful of the bigger picture and we've seen the normal array of economic developments since the last set of RBNZ forecasts. **Rather than list them all, we think four areas are relevant. The global scene is weaker, and contains signs of systemic risks. The NZ domestic economy is holding together. Rebuild efforts in Christchurch continue to face delays. Inflationary pressure is benign.**

This combination inevitably skews the outcome of Thursday's announcement towards kicking for touch any talk of the OCR moving up any time soon.

**In fact there are growing calls for a lower OCR,** with a host of central banks moving to provide more stimulus. However, to us, **this is still premature.**

- **The impact of the global ructions on the NZ economy to date has been modest.** It was only six weeks ago that the RBNZ stated that a mild impact would see the OCR still moving up. Nevertheless, we expect the tone of the *Statement* to reflect a reasonably downbeat assessment for trading partner growth, with forecasts for Europe set to be shaved back further.
- **2.5 percent for the OCR was the trough during the 2008 crisis;** moves lower require a weaker global backdrop. This is a risk, but is still far from conclusive.
- **Financial conditions have loosened via the NZD in particular.** CDS spreads are tighter than what they were a few months ago, and are still imparting a contractionary influence on the economy. On balance, **financial conditions are at similar levels to what they were back in September, and are not pointing towards the NZ economy falling into a hole.**



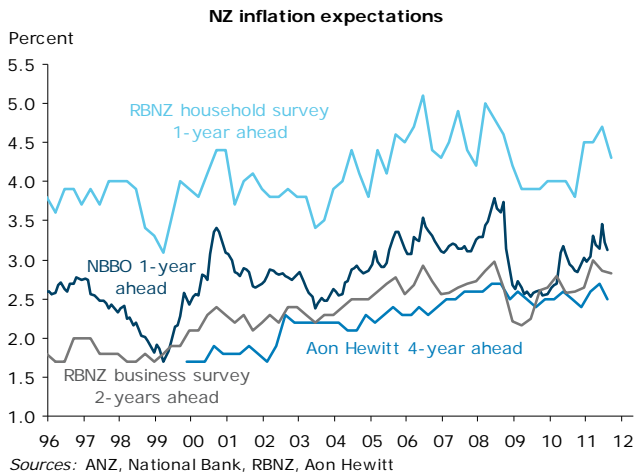
- The domestic economy is scratchy, but some pockets are performing well. Let's also not forget **the strongest pocket of the property market is Auckland,** a historical inflationary bug-bear.
- **Monetary policy easing is already in the pipeline, with the effective mortgage likely to drift lower** over the course of the year. Our estimates suggest the effective mortgage interest rate (currently around 6.15 percent) could fall

# RBNZ MONETARY POLICY STATEMENT PREVIEW

below 5.9 percent by the end of next year, assuming the RBNZ remains on hold and funding pressures do not flow through into borrowing costs.

- **We harbour some concerns about the signal that zero or negative real interest rates would send to a nation trying to improve national savings.** NB: with core inflation just above 2 percent, one or two OCR cuts would take real interest rates to zero or below.

Turning to the RBNZ’s economic projections, we expect their near-term GDP growth forecasts to be similar to the September MPS projections, but for **growth in 2012 to be scaled back** on account of weaker trading partner growth and a slower start to earthquake reconstruction. Growth for 2013 and 2014 will be stronger, on account of larger increases to reconstruction work, with the world economy recovering. **The short-term inflation outlook is assumed to be more benign**, with annual CPI inflation likely to temporarily dip below 2 percent midway next year, before settling in the low 2’s. Encouragingly for the RBNZ, surveyed measures of inflation expectations have been easing, but more RBNZ jawboning will be needed to push them towards the inflation target midpoint.



Given recent NZD falls, the RBNZ TWI assumption will be lower across the whole projection period, which will impart a slightly less contractionary influence. On account of a later pick-up in activity, the RBNZ are expected to push back the timing of OCR hikes until late 2012, or possibly early 2013, with the 90-day interest rate ending the projection period in the low to mid 4’s.

## FINANCIAL MARKET IMPLICATIONS

Market expectations are unanimous in expecting an unchanged OCR decision this Thursday. The hurdle for a rate cut remains high and we expect the Bank to kick future OCR moves into touch.

If as we expect, a relatively cautious MPS results, interest rate reaction is expected to be muted considering current market pricing is for no interest rate increases until late 2012/early 2013.

OUR EXPECTATIONS OF RBNZ SEPTEMBER 2011 MPS PROJECTIONS (SEPTEMBER 2011 MPS IN BRACKETS)				
	90-DAY	TWI (QTR AVERAGE)	CPI (ANN % CHG)	GDP (ANN % CHG)
Q1 2011	3.0	67.1	4.5	1.7 (1.4)
Q2	2.7	69.1	5.3	1.5 (1.8)
Q3	2.8 (2.9)	72.0 (72.5)	2.3 (4.9)	2.4 (2.7)
Q4	2.7 (2.9)	69.6 (72.4)	2.0 (2.6)	2.7 (3.3)
Q1 2012	2.8 (3.1)	68.6 (72.4)	2.0 (2.1)	2.2 (3.6)
Q2	2.8 (3.7)	68.4 (72.1)	1.7 (2.0)	2.7 (3.5)
Q3	2.8 (4.1)	68.2 (71.7)	2.1 (1.7)	2.8 (3.3)
Q4	3.1 (4.3)	68.0 (71.1)	2.2 (1.8)	2.9 (2.9)
Q1 2013	3.5 (4.3)	67.8 (70.6)	2.2 (2.0)	3.3 (2.6)
Q2	3.8 (4.3)	67.8 (70.3)	2.1 (2.0)	3.6 (2.8)
Q3	4.2 (4.3)	67.7 (69.8)	2.1 (2.2)	3.4 (3.1)
Q4	4.2 (4.3)	67.6 (69.4)	2.2 (2.3)	3.2 (3.2)
Q1 2014	4.2 (4.3)	67.5 (69.0)	2.2 (2.2)	3.2 (2.9)



# INTEREST RATE STRATEGY

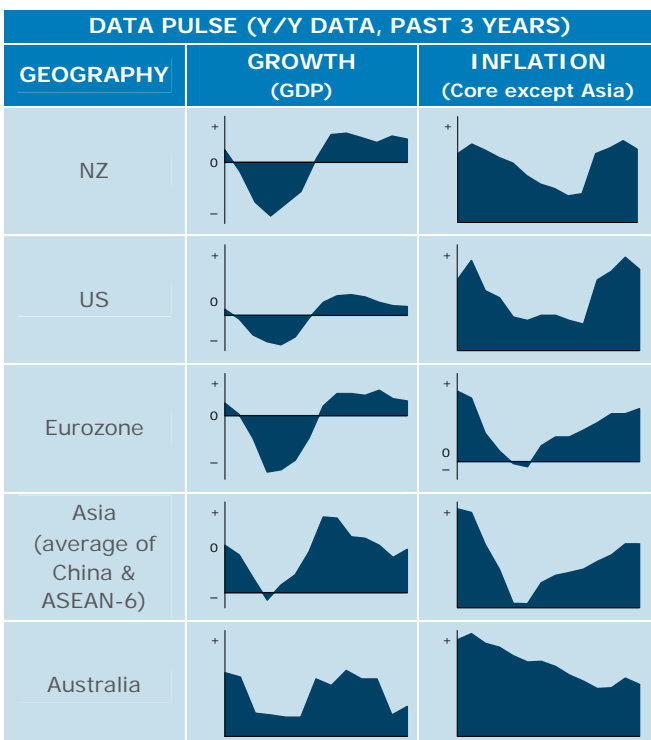
## SUMMARY

Coordinated global central bank action to provide USD liquidity to European banks, successful bond auctions in Europe and a better tone to US data led to a large sell-off in global fixed income. As we noted last week, after the extended rally on the back of sovereign debt concerns, a rebound was to be expected. Whether the sell-off continues hinges on the outcome of this week's EU leaders summit, and while we can see constructive desire across policymakers, we believe there is room for disappointment. The RBA and RBNZ decision this week is expected to see the former cut, with the latter on hold.

## THEMES

- **The sell-off in the NZ rates market was as aggressive as the rally in the previous two weeks.** OIS pricing has moved from fully pricing in a 25bp rate cut to mostly unwinding it.
- **Coordinated global central bank action has provided a boost to investor sentiment.** This saw successful debt auctions and lower bond yields in Europe.
- **RBNZ key domestic focus this week, but global developments to dominate the NZ rates market.** On hold for longer is likely to be the outcome for the RBNZ. **We are looking for the RBA to cut by 25bps tomorrow.**

## DATA PULSE



## PREFERRED STRATEGIES – INVESTORS

The NZ rates market continues to react to offshore headlines and liquidity is thin, exacerbating the moves. **The risk is that we get a further sell-off in rates**, particularly with newswire reports of some kind of major announcement at the ECB meeting on Thursday and at the EU leaders summit on Friday.

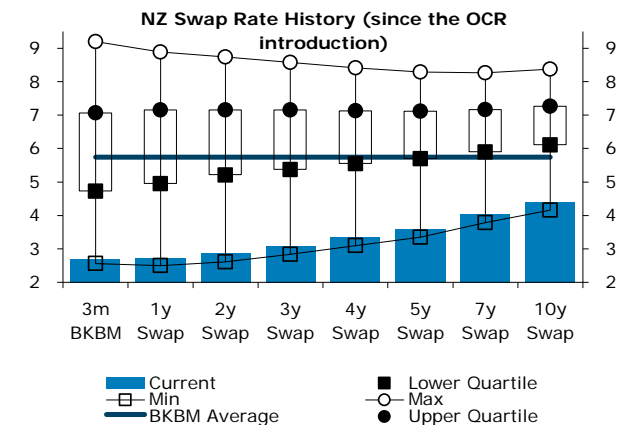
**We would use any further rise in swap yields to average into long positions, especially as some of the moves are likely to be a temporary short term squeeze.** The European problem will not be solved overnight and with domestic data still patchy, we still see the potential for future negative shocks as high.

KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Neutral/long	Looking to average into long positions on further backup in yields.
Curve	Neutral	Remains directional.
NZ-US 10y spread	Neutral	Bond spreads unchanged in the week, still looking tight.
Swap spreads	Negative	Bonds to continue outperforming swaps.

## PREFERRED STRATEGIES – BORROWERS

**Our preference remains to keep the duration of hedges short.** Do not be spooked by the sharp rise in yields – they are just back to where they were three weeks ago. The outlook is still littered with downside risks.

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



# INTEREST RATE STRATEGY

## GLOBAL SCENE

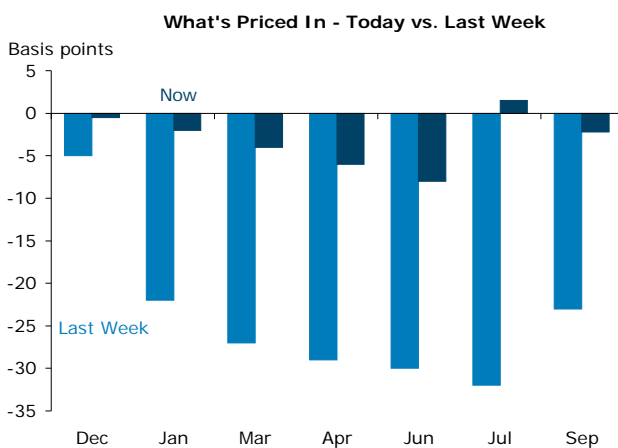
The coordinated global central bank action to provide USD liquidity to European banks was the key event for the global rates market last week. This halted the aggressive rates rally of the past two weeks, and alongside successful bond auctions in Europe, saw global rates selling off. This flowed through into the NZ market. Importantly, the boost to investor sentiment from the coordinated action led to Italian 10-year bond yields falling over 50bps to 6.68 percent while Spanish yields fell over 70bps to 5.68 percent. The coordinated action does not resolve the region's crisis, but has bought it more time.

The EU leaders summit on December 9 is the main focus for markets. Various newswire reports suggest that there will be major treaty changes and commitment to addressing the region's longer term fiscal situation announced, which will then allow the ECB to play a more active role. The risk is that the market gets ahead of itself in the lead up to the summit, only to be disappointed by the details. This has been the historical tendency and we are biased towards a repeat.

## DOMESTIC

We expect the RBNZ to stay on hold this week, but deliver a more cautious statement. Beyond the RBNZ, the domestic dataflow will only receive passing interest. The focus for the NZ rates market very much remains on offshore developments. Closer to home, our Australian colleagues are looking for the RBA to cut by 25bps as an insurance move. This is fully priced and if delivered we doubt the RBA will be keen to deliver market moving fireworks.

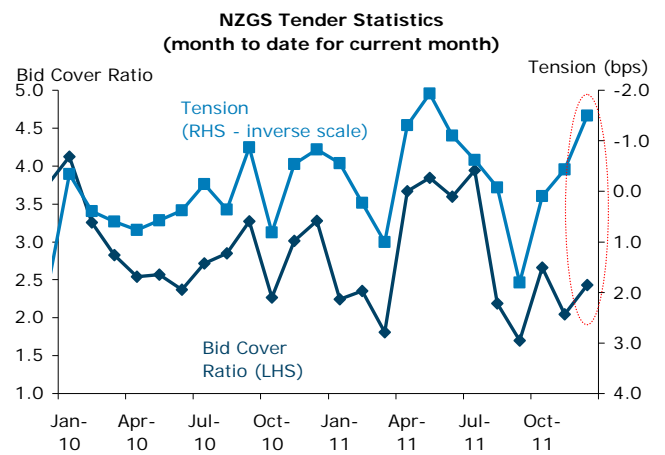
## MONETARY POLICY AND MARKET PRICING



Sources: ANZ, National Bank, Bloomberg

Market pricing of the RBNZ has flip flopped in the past week, going from fully pricing in a full 25bp rate cut by March to almost fully unwinding it. So long as we do not get another escalation in Europe, and the RBNZ do not surprise at their December MPS this week, we expect market pricing to stabilise somewhat. However, given that market pricing tends to want to price in either hikes or cuts (they don't tend to price in long periods of stable rates), we could see markets retesting the easing theme somewhat, particularly if the global economic outlook remains challenging and there are signs of that impacting on the local dataflow.

## BONDS



Last week's bond tender attracted decent demand with an overall bid cover of 2.4 and good price tension. The bond tender size was small at just \$150m, and given that the DMO is well ahead of their run rate, we can expect small tender sizes until early next year. With demand for NZGS still solid, especially for the longer dated bonds, this should see good price tension.

## SWAPS AND SWAP SPREADS

Swap spreads have gone further into negative territory following the sell-off in rates last week. We still expect bonds to outperform swaps, especially with smaller tender sizes until early next year, so are looking for swap spreads to head further into negative territory.

## RELATIVE VALUE

NZGS continues to offer good expected returns across the dollar bloc.

# CURRENCY STRATEGY

## SUMMARY

While coordinated action by central banks has improved sentiment, European headlines will continue to be the central focus this week. We view the political aspect to the required Fiscal Union as a challenge in providing something of an enduring substance for risk appetites. Our expectation for the RBA to ease while the RBNZ stays on hold could see the NZDAUD cross finally start to head higher.

## MARKET THEMES

- European headline watching continues.
- US data improving as China weakens.
- RBNZ MPS release to offer no surprises.
- RBA expected to cut the cash rate by 25bps to 4.25 percent, weighing somewhat on the AUD.

## REVIEW AND OUTLOOK

As expected we saw a positive week for currencies with risk being given an extra boost by the coordinated global central bank action to assist Europe. However, with regards to the EUR most of this was undone by reports that US Republicans are drafting a bill to block the IMF from bailing out Italy and Spain. Given that the US has enough of its own fiscal problems to deal with, it is not surprising that they are reticent to support profligacy beyond US borders. So while the ECB is working on a backdoor route to assist Italy and Spain, there is still a chance it might not come through.

Separately European bond tenders were keenly watched following the failure of a German tender the previous week. The Spanish tender went particularly well, giving the EUR a midweek boost. Rate announcements from the BoE and ECB together with the EU leaders summit will focus FX markets on the end of this week. The never-ending attempts by EU leaders to cobble together some sort of solution means FX markets will continue to be headline driven. **We're viewing central bank action as welcome but a truly sustaining turn in risk appetites needs to see coordinated action across Governments. This takes us into the realms of politics and we are sceptical whether we'll see something enduring anytime soon.**

Antipodean currency markets will be focussed on their respective central banks this week. **The RBA is now expected to cut rates by 25bps which should reinforce the floor under NZDAUD below 0.7600.** While the RBNZ are expected to remain on hold, the deteriorating situation in Europe may lead them to produce a more cautious statement.

**US data continues to march in the right direction** with the latest good news coming from the unemployment data. The good news is being reflected in the CFTC positioning data showing record long USD positions and near record short EUR positions. Surprisingly this is **not being reflected in the EURUSD exchange rate**, suggesting that other bigger flows are supporting EUR. We suspect that large and continuing repatriations by European banks are having an impact. Prior to the GFC European financial institutions held circa US\$50bn with the US Federal Reserve. By July 2011 this balance was US\$1.1 trillion, but has since dropped back to US\$700bn by September 2011. That is US\$400bn that potentially represents EUR repatriation.

**Chinese data continues to disappoint** with manufacturing PMI data coming in below the all important 50 level. **Further PBoC easings look likely.** For currency markets and risk sentiment, questions will surround whether it is too late.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued on a near-term cyclical basis.
Yield	↔/↑	RBA cut to narrow rate differential.
Commodities	↔	Commodities lower.
Partial indicators	↔	Data showing signs of slowing in NZ.
Technicals	↔/↑	Support at 0.7560.
Sentiment	↑	NZD undervalued vs AUD.
Other	↔	Global sentiment big driver.
<b>On balance</b>	↔/↑	<b>Sentiment sees lazy buyers coming forward.</b>
NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above revised structural fair value estimate of 0.70.
Fair value – short-term	↔	Closer to short term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↓	Softs falling.
Risk aversion	↔	Positive US data and short covering leads to risk on.
Partial indicators	↔	NZ data now mixed. US data improving.
Technicals	↔	Technical bounce done.
AUD	↔	Bullish correction over?
Sentiment	↔	Nothing special.
Other	↔	Nothing apparent.
<b>On balance</b>	↔	<b>EU headlines dominating.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
5-Dec	NZ	Value of All Buildings SA - 3Q	--	-2.3%(a)	10:45
	AU	AiG Performance of Service Index - NOV	--	48.8	11:30
	AU	TD Securities Inflation MoM% - NOV	--	0.1%	12:30
	AU	TD Securities Inflation YoY% - NOV	--	2.6%	12:30
	AU	Company Operating Profit QoQ% - 3Q	3.0%	6.7%	13:30
	AU	Inventories - 3Q	1.2%	2.5%	13:30
	AU	ANZ Job Advertisements (MoM) - NOV	--	-0.7%	13:30
	CH	China HSBC Services PMI - NOV	--	54.1	15:30
	GE	PMI Services - NOV F	51.4	51.4	21:55
	EC	PMI Composite - NOV F	47.2	47.2	22:00
	EC	PMI Services - NOV F	47.8	47.8	22:00
	EC	Sentix Investor Confidence - DEC	-21.0	-21.2	22:30
	UK	PMI Services - NOV	50.5	51.3	22:30
	UK	Official Reserves (Changes) - NOV	--	\$1387M	22:30
	EC	Eurozone Retail Sales (MoM) - OCT	0.1%	-0.6%	23:00
	EC	Eurozone Retail Sales (YoY) - OCT	-0.8%	-1.4%	23:00
	UK	Halifax House Price 3Mths/Year - NOV	-0.7%	-1.8%	5-9 Dec
	UK	Halifax House Prices sa (MoM) - NOV	0.0%	1.2%	5-9 Dec
6-Dec	US	ISM Non-Manf. Composite - NOV	53.8	52.9	04:00
	US	Factory Orders - OCT	-0.3%	0.3%	04:00
	AU	Current Account Balance - 3Q	-\$5.6B	-\$7.4B	13:30
	AU	Australia Net Exports of GDP - 3Q	-0.6	-0.5	13:30
	AU	RBA CASH TARGET - DEC	4.25%	4.50%	16:30
	EC	Eurozone GDP s.a. (QoQ) - 3Q P	0.2%	0.2%	23:00
	EC	Eurozone GDP s.a. (YoY) - 3Q P	1.4%	1.4%	23:00
	EC	Eurozone Household Cons (QoQ) - 3Q P	0.3%	-0.2%	23:00
	EC	Eurozone Gross Fix Cap (QoQ) - 3Q P	0.6%	0.1%	23:00
	EC	Eurozone Govt Expend (QoQ) - 3Q P	0.1%	-0.1%	23:00
7-Dec	GE	Factory Orders YoY (nsa) - OCT	1.9%	2.4%	00:00
	GE	Factory Orders MoM (sa) - OCT	1.0%	-4.3%	00:00
	US	IBD/TIPP Economic Optimism - DEC	42.0	40.6	04:00
	AU	AiG Perf of Construction Index - NOV	--	34.7	11:30
	AU	Gross Domestic Product (QoQ) - 3Q	1.2%	1.2%	13:30
	AU	Gross Domestic Product (YoY) - 3Q	2.3%	1.4%	13:30
	AU	Foreign Reserves - NOV	--	A\$44.9B	18:00
	UK	Industrial Production (MoM) - OCT	-0.3%	0.0%	22:30
	UK	Industrial Production (YoY) - OCT	-0.7%	-0.7%	22:30
	UK	Manufacturing Production (MoM) - OCT	-0.3%	0.2%	22:30
	UK	Manufacturing Production (YoY) - OCT	1.4%	2.0%	22:30
8-Dec	GE	Industrial Prod. YoY (nsa wda) - OCT	3.5%	5.4%	00:00
	GE	Industrial Production MoM (sa) - OCT	0.3%	-2.7%	00:00
	UK	NIESR GDP Estimate - NOV	--	0.5%	04:00
	US	Consumer Credit - OCT	\$7.0B	\$7.39B	09:00
	NZ	RBNZ Official Cash Rate - DEC	2.50%	2.50%	09:00
	NZ	Manufacturing Activity - 3Q	--	2.1%	10:45
	NZ	Manufacturing Activity Volume SA (QoQ) - 3Q	--	-0.7%	10:45
	NZ	QV House Prices YoY% - NOV	--	1.2%	12:00
	JN	Current Account Total - OCT	¥507.2B	¥1584.8B	12:50

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
8-Dec	JN	Adjusted Current Account Total - OCT	¥520.0B	¥1186.6B	12:50
	AU	Employment Change - NOV	10.0K	10.1K	13:30
	AU	Unemployment Rate - NOV	5.2%	5.2%	13:30
	AU	Full Time Employment Change - NOV	- -	20.0K	13:30
	AU	Part Time Employment Change - NOV	- -	-9.9K	13:30
	AU	Participation Rate - NOV	65.6%	65.6%	13:30
9-Dec	UK	BOE Asset Purchase Target - DEC	£275B	£275B	01:00
	UK	BOE ANNOUNCES RATES - DEC	0.50%	0.50%	01:00
	EC	ECB Announces Interest Rates - DEC	1.00%	1.25%	01:45
	US	Initial Jobless Claims - 3-Dec	395K	402K	02:30
	US	Continuing Claims - 26-Nov	3700K	3740K	02:30
	US	Wholesale Inventories - OCT	0.3%	-0.1%	04:00
	NZ	NZ Card Spending - Total MoM - NOV	- -	1.8%	10:45
	JN	Nominal GDP (QoQ) - 3Q F	1.2%	1.4%	12:50
	JN	GDP Annualized - 3Q F	5.1%	6.0%	12:50
	JN	Gross Domestic Product (QoQ) - 3Q F	1.3%	1.5%	12:50
	NZ	ANZ Consumer Confidence Index - DEC	- -	109.0	13:00
	NZ	ANZ Consumer Confidence MoM - DEC	- -	-2.9%	13:00
	CH	Consumer Price Index (YoY) - NOV	4.5%	5.5%	15:00
	CH	Producer Price Index (YoY) - NOV	3.3%	5.0%	15:00
	GE	Exports SA (MoM) - OCT	-1.3%	1.0%	20:00
	GE	Imports SA (MoM) - OCT	0.3%	-0.5%	20:00
	GE	Current Account - OCT	€14.0B	€15.7B	20:00
	GE	Consumer Price Index (YoY) - NOV F	2.4%	2.4%	20:00
	GE	CPI - EU Harmonised (YoY) - NOV F	2.8%	2.8%	20:00
	GE	Trade Balance - OCT	€15.0B	€17.4B	20:00
	UK	PPI Input NSA (MoM) - NOV	-0.1%	-0.8%	22:30
	UK	PPI Input NSA (YoY) - NOV	12.9%	14.1%	22:30
	UK	PPI Output n.s.a. (MoM) - NOV	0.0%	0.0%	22:30
	UK	PPI Output n.s.a. (YoY) - NOV	5.3%	5.7%	22:30
	UK	PPI Output Core NSA (MoM) - NOV	0.0%	-0.1%	22:30
	UK	PPI Output Core NSA (YoY) - NOV	3.3%	3.4%	22:30
	UK	Visible Trade Balance GBP/Mn - OCT	-£9400	-£9814	22:30
	UK	Trade Balance Non EU GBP/Mn - OCT	-£5400	-£5715	22:30
	UK	Total Trade Balance (GBP/Mln) - OCT	-£3450	-£3940	22:30
	CH	Industrial Production YTD YoY - NOV	14.0%	14.1%	UNSPECIFIED
	CH	Industrial Production (YoY) - NOV	12.6%	13.2%	UNSPECIFIED
	CH	Retail Sales YTD YoY - NOV	17.0%	17.0%	UNSPECIFIED
	CH	Retail Sales (YoY) - NOV	16.8%	17.2%	UNSPECIFIED
	GE	Wholesale Price Index (MoM) - NOV	- -	-1.0%	9-17 Dec
	GE	Wholesale price Index (YoY) - NOV	- -	5.0%	9-17 Dec
10-Dec	US	Trade Balance - OCT	-\$44.0B	-\$43.1B	02:30
	US	U. of Michigan Confidence - DEC P	65.8	64.1	03:55
	CH	Trade Balance (USD) - NOV	\$14.65B	\$17.03B	UNSPECIFIED
	CH	Exports YoY% - NOV	10.0%	15.9%	UNSPECIFIED
	CH	Imports YoY% - NOV	18.4%	28.7%	UNSPECIFIED

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 New Zealand economy remains evident, although cracks are starting to appear in the façade. Global events continue to take precedence, and will dominate the tone of the December *MPS*. OCR cuts look unlikely at this stage but the weaker global outlook is expected to contribute to the RBNZ pushing back the timing for OCR increases till late 2012. This week's activity data for Q3 is expected to convey mixed messages, with commodity price and consumer sentiment data providing important insights into momentum for 2012.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 7 Dec (early am)	GlobalDairyTrade auction	High	Overall prices are expected to be broadly unchanged, with stronger Chinese demand providing support.
Wed 7 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 (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. We don't expect a RBNZ hike until Dec 2012.
Thur 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Down	Offsetting movements are expected for meat and dairy volumes, with ex-primary volumes expected to fall 1 percent.
Fri 9 Dec (10:45am)	Electronic Card Transactions - Nov	RWC hangover	A 0.9 percent fall in ECT spending is forecast, with falls for fuel and apparel sales.
Fri 9 Dec (1:00pm)	ANZ - Roy Morgan Consumer confidence	- -	- -
Mon 12 Dec (1:00pm)	ANZ Job Ads - November	- -	- -
Tue 13 Dec (10:45am)	SNZ Food Price Index - Nov	Mild	We expect a 0.3 percent increase, with higher meat prices offsetting further falls for fruit and vegetables.
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.
Thur 15 Dec (10:45am)	SNZ Institutional Accounts	Better	Institutional sector accounts up to 2008/09 will be released, but household data for the 2010/11 year is expected to show positive household saving.
Mon 19 Dec (1:00pm)	National Bank Business Outlook	- -	- -
Wed 21 Dec (10:45am)	International Travel and Migration - Nov	Soft	We expect a net PLT outflow of 500 persons. With no Rugby World Cup visitors a 20 percent fall in visitor arrivals is expected.
Wed 21 Dec (10:45am)	Balance of Payments – Q3	Holding	We expect an annual deficit of around \$7.5bn (3.7 percent of GDP), despite a large goods surplus.
Thur 22 Dec (10:45am)	Gross Domestic Product – Q3	RWC boost	A 0.8 percent increase is expected, with strong retail activity offsetting weakness in construction sector activity.
Fri 30 Dec (3:00pm)	RBNZ Credit Aggregates-Nov	Deleveraging	Annual growth rates of around 1 percent for household and business credit, with agricultural credit down 1 percent.
<b>On Balance</b>		<b>Local vs global</b>	<b>Domestic gauges for H2 should remain positive but global concerns suggest caution for early 2012.</b>

## KEY FORECASTS AND RATES

	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
GDP (% qoq)	0.9	0.1	<b>0.8</b>	<b>1.1</b>	<b>0.2</b>	<b>0.5</b>	<b>0.7</b>	<b>1.0</b>	<b>0.9</b>	<b>0.7</b>
GDP (% yoy)	1.7	1.5	<b>2.4</b>	<b>2.9</b>	<b>2.2</b>	<b>2.6</b>	<b>2.5</b>	<b>2.4</b>	<b>3.1</b>	<b>3.3</b>
CPI (% qoq)	0.8	1.0	0.4	<b>0.3</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>
CPI (% yoy)	4.5	5.3	4.6	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.5</b>	<b>2.6</b>	<b>2.6</b>	<b>2.6</b>
Employment (% qoq)	1.2	0.0	0.2	<b>0.3</b>	<b>0.2</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.3</b>
Employment (% yoy)	1.8	2.0	1.1	<b>1.8</b>	<b>0.8</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.5</b>	<b>1.3</b>
Unemployment Rate (% sa)	6.5	6.5	6.6	<b>6.4</b>	<b>6.4</b>	<b>6.2</b>	<b>6.1</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Current Account (% GDP)	-3.6	-3.7	<b>-3.7</b>	<b>-3.6</b>	<b>-3.9</b>	<b>-4.0</b>	<b>-4.2</b>	<b>-4.5</b>	<b>-4.6</b>	<b>-4.7</b>
Terms of Trade (% qoq)	0.8	2.3	<b>1.5</b>	<b>2.1</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.7</b>	<b>-0.7</b>
Terms of Trade (% yoy)	6.7	7.0	<b>5.5</b>	<b>6.8</b>	<b>5.1</b>	<b>2.0</b>	<b>-0.3</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.9</b>

	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)	-0.4	-1.0	1.9	0.5	0.5	1.1	-1.2	1.3	2.6	..
Credit Card Billings (% yoy)	5.9	2.1	6.5	5.6	4.6	7.4	4.8	5.3	7.9	..
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	11.2	..
Building consents (% yoy)	-28.8	-26.1	-32.5	-21.8	-25.3	-15.6	18.7	-3.9	11.8	..
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	0.1	..
Household Lending Growth (% yoy)	1.5	1.2	1.3	1.2	1.2	1.2	1.1	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	18.3
NBNZ Own Activity Outlook	36.6	14.7	29.5	39.7	38.7	43.7	43.3	35.4	26.1	28.8
Trade Balance (\$m)	184	583	1158	550	201	103	-695	-789	-282	..
Trade Balance (\$m ann)	765	741	1238	1019	999	1288	1023	689	627	..
ANZ World Commodity Price Index (% mom)	2.7	4.7	1.6	0.4	-1.2	-0.2	-1.4	-2.0	-3.5	-1.0
ANZ World Commodity Price Index (% yoy)	20.3	23.5	19.8	19.6	20.6	22.2	22.0	16.5	9.1	5.8
Net migration (sa)	450	-510	-90	-270	-260	-200	110	-690	-640	..
Net migration (annual)	8249	6554	5508	4625	3867	2867	2257	773	-103	..

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

## KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Oct-11	Nov-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZD/USD	0.807	0.810	0.778	0.77	0.80	0.83	0.86	0.89	0.90	0.90
NZD/AUD	0.766	0.768	0.760	0.79	0.80	0.79	0.78	0.81	0.82	0.82
NZD/EUR	0.582	0.583	0.580	0.57	0.58	0.59	0.61	0.61	0.62	0.62
NZD/JPY	63.06	62.73	60.72	57.8	60.0	59.8	61.9	64.1	63.0	63.0
NZD/GBP	0.502	0.504	0.499	0.50	0.51	0.52	0.53	0.55	0.55	0.55
NZ\$ TWI	70.4	70.3	68.9	68.4	70.3	71.3	72.8	74.8	75.4	75.4
INTEREST RATES	Oct-11	Nov-11	Today	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50
NZ 90 day bill	2.73	2.72	2.67	2.70	2.70	2.80	2.80	3.20	3.70	3.80
NZ 10-yr bond	4.50	4.26	4.06	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	0.43	0.36	0.53	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.50	4.50	4.50	4.25	4.25	4.25	4.25	4.25	4.25
AU 3-mth	4.71	4.77	4.57	4.70	4.60	4.60	4.50	4.50	4.50	4.50

Forecasts finalised as at 28 November 2011

	2 Nov	28 Nov	29 Nov	30 Nov	1 Dec	2 Dec
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.70	2.67	2.71	2.71	2.72	2.71
NZGB 04/13	2.76	2.42	2.49	2.51	2.55	2.55
NZGB 04/15	3.30	2.79	2.86	2.86	2.90	2.90
NZGB 03/19	4.20	3.72	3.77	3.77	3.81	3.81
NZGB 05/21	4.40	3.97	4.04	4.03	4.07	4.07
2 year swap	3.10	2.72	2.79	2.80	2.86	2.88
5 year swap	3.88	3.44	3.50	3.50	3.57	3.60
RBNZ TWI	69.6	67.1	67.4	67.9	68.7	69.0
NZD/USD	0.7943	0.7502	0.7539	0.7625	0.7774	0.7802
NZD/AUD	0.7674	0.7633	0.7608	0.7613	0.7618	0.7637
NZD/JPY	62.10	58.26	58.91	59.44	60.40	60.71
NZD/GBP	0.4972	0.4841	0.4864	0.4892	0.4956	0.4978
NZD/EUR	0.5791	0.5642	0.5655	0.5725	0.5779	0.5797
AUD/USD	1.0351	0.9828	0.9909	1.0016	1.0205	1.0216
EUR/USD	1.3715	1.3296	1.3331	1.3319	1.3451	1.3458
USD/JPY	78.18	77.66	78.14	77.95	77.70	77.81
GBP/USD	1.5976	1.5496	1.5500	1.5588	1.5685	1.5673
Oil (US\$/bbl)	92.18	96.77	98.16	99.76	100.27	100.30
Gold (US\$/oz)	1722.60	1706.75	1710.65	1722.55	1746.45	1743.30
Electricity (Haywards)	6.27	6.03	6.56	7.23	8.67	9.87
Baltic Dry Freight Index	1859	1809	1828	1846	1862	1866
Milk futures (USD)	147	144	143	142	142	141

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