

TURNING POINT?

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Page 2: Economic overview

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- > Resource pressures remain strong, with our regional output gap measures still positive in most regions. However, all but one region experienced a reduction in capacity pressures in the June quarter.

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- > Another week of generally stronger than expected data in the US, although weekly jobless claims numbers show the labour market continues to turn. UK and European data continues to deteriorate, with the latter posting its first quarterly contraction in GDP in the June quarter.

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- > New Zealand swap rates moved slightly lower over the week, led by the long end. We expect this to continue, as the long end contemplates a weaker global environment, and the prospect of rate cuts beyond what is already priced in. It is difficult to argue that the short end can rally much more unless the RBNZ step up the pace of easing, which won't likely occur unless we see a major financial shock. However the long end has scope to move lower yet.

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- > A period of consolidation lies ahead for the NZD following the big moves of the past couple of weeks. With the AUD looking very oversold, the kiwi could get dragged up, although the overall trend remains down. Further liquidation by Japanese margin traders is likely to continue to hang over the NZDJPY cross.

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ECONOMIC OVERVIEW

The economy is slowly working through the adjustment phase, and some leading indicators have now started to improve, albeit off low bases. This will certainly turn attention to a potential rebound. Yet we doubt this will extend into a full-blown recovery given the global backdrop, the household de-leveraging process and further expected weakness in the labour market. Our core economic view continues to centre on growth remaining subdued for some time yet.

What's ahead?

- > **Q2 Producer Price Index** (Tuesday 10.45 NZST). Both input and output prices are expected to rise strongly in the quarter (2.6 percent and 2.3 percent respectively) due to high oil and wholesale electricity prices.
- > **July External Migration** (Thursday 1045 NZST). The 12-month net inflow is expected to remain around the current 5,000 level. Visitor arrivals are important to watch as a gauge of global demand.
- > **July Electronic Card Transactions** (Thursday 1045 NZST). Volatility aside, retail spending is likely to remain weak as cost of living pressures weigh on household budgets.
- > **Q2 NBNZ Regional Trends** (Thursday 1500 NZST).
- > **July Credit Card Spending** (Thursday 1045 NZST). Similar themes to the ECT data.

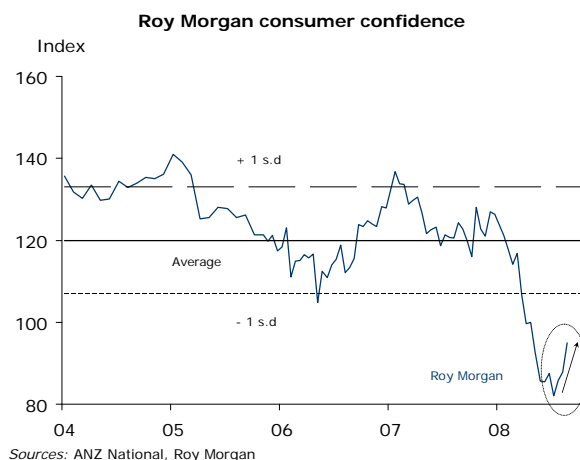
What's the view?

We are beginning to see signs of recovery, or at least stabilisation. Roy Morgan consumer confidence has risen off its record low levels to the highest level since mid-April. The mid-August index rose by 7.1 points from early August to sit at 94.9. The July BNZ-Business NZ PMI index also posted a solid rebound rising from 45.3 in June, to 48.8. Although a number below 50 still represents contraction, it is an improvement all the same. House sales have now rebounded for two successive months and a couple of other business surveys have shown improvement.

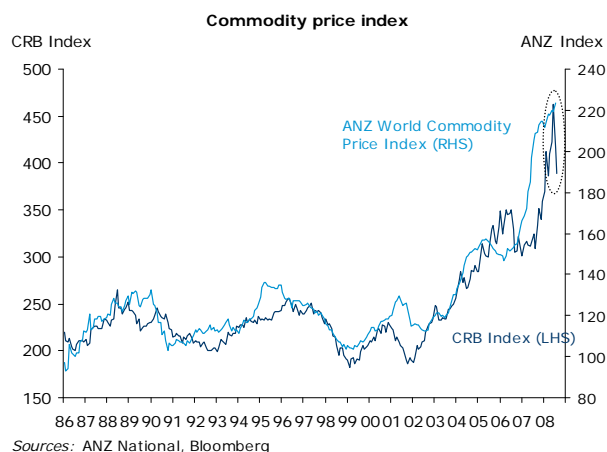
There are of course good reasons why this should be the case. The RBNZ has now started to let go of the monetary policy handbrake. The NZD has fallen considerably against the USD and on a TWI basis, although recovered of late against the AUD. This is also coming at the same time as petrol prices have eased, with 91 octane falling below \$2/litre last week. The NZX is up 10 percent from its trough. The opposition political party has announced it intends to bring forward the 2010 tax cuts to April 2009. It is a sure sign that the financial stabilisers are working correctly.

However, we struggle to see this recovery theme extending too far and we'd characterise it as stabilisation.

- > **There is a base effect at work.** Consumer confidence remains at precipitous lows and house sales are still down 33 percent on a year ago. When you plunge to historical nadirs there is seldom any where else to go but up! Moreover, there is no information coming through from timely credit data to say anything has changed.



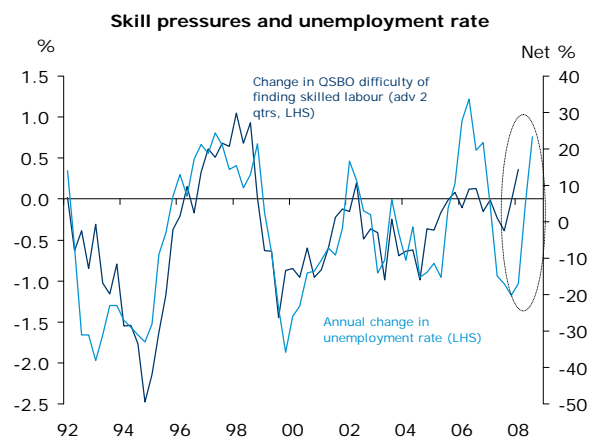
- > **The global backdrop is weakening.** Data over the past week has shown that June quarter GDP contracted in Japan, Singapore, Germany, France, Italy (and therefore Euro-zone as a whole for the first time ever). Dutch GDP managed a flat result, while Spain just 0.1 percent growth. Growth across the Asian region is also slowing – but not to the same degree. However, still of sufficient magnitude to test the commodity price story, putting commodity prices under pressure. For now, NZ's key export prices remain elevated. But we wonder if they will be able to maintain their current momentum given the global backdrop. The latest fortnightly USDA dairy prices showed a 4.6 percent decline in wholemilk power (WMP) from early August. Skimmilk prices (SMP) fell a more muted 0.7 percent. WMP and SMP are now 18 percent and 30 percent below their respective peaks of late last year. This still leaves them remarkably elevated, but then again, we know a lot has been capitalised into farm values.



- > **Imbalances will take time to be purged.** The current account deficit remains at 7.8 percent of GDP. While we've seen some improvement in the

trade balance, it's generally been disappointing given the magnitude of the terms of trade boost. The weight of the current account adjustment still needs to come via the domestic economy, and hence import demand. Moreover, the inflationary dynamic (yes, it's still around) is inconsistent with the economy reflating.

- > **We continue to be drawn to the process of household de-leveraging.** Households enter this slowdown being the most exposed given high indebtedness, cost of living pressures and exposure to a weakening housing market. We've said it on numerous occasions but we'll say it again. Household de-leveraging processes are different to business equivalents. Households have only one real option available, and that is to pare back spending. In contrast, businesses can look at investment, employment, costs in general and inventories as levers to pull. Hence, consumer style adjustments tend to take time, and we expect household consumption to remain pretty anaemic for an extended period. There'll no doubt be some volatility (rebound) around the timing of tax cuts and the like, but we won't be getting excited by that.
- > **The unemployment rate is in the early stages of adjusting higher.** Weak growth and inflation continues to put pressure on earnings. Focus is increasingly turning to costs, and labour inputs. While disheartening in the first instance, we also need to remember that this is all about improving productivity growth, a critical aspect if any recovery is going to be sustained. But it also means rising strain on the household sector in the near-term or at a minimum continued caution.



Of course there are a number of other positives that will act to mitigate these factors including expansionary fiscal policy, infrastructure investment, and the population is still growing. But our core prognosis continues to be drawn to wider themes.

Turning to the week ahead, local data is all second and third-tier in nature. We have the June quarter PPI indices released on Tuesday. Higher global oil prices and significantly higher wholesale electricity prices should see both input and output prices up strongly. The rest of the data is released on Thursday, with July

external migration, electronic card transactions and credit card data as well as the June quarter NBNZ *Regional Trends*. The latter will provide a useful early indication for June quarter GDP.

Of the three pieces of data for July, we will probably be watching the migration data most closely. While the permanent numbers have shown some stabilisation after they threatened to head into negative territory a few months back (a risk we would not discount in the future) we will instead be drawn to the visitor arrivals numbers as an additional gauge of global demand and how households are behaving. The tourism sector is one of NZ's biggest export earners and while recent currency movements will obviously be beneficial as it makes NZ a relatively cheaper destination to visit, the risk is that these benefits get wiped out as global growth slows and the wealth effect from falling asset values weighs. High international transport costs are also not helping, although it looks like price competition is set to increase further on the Trans-Tasman route. With the global slowdown centring on households, the risk is that tourism (which is really a luxury good) gets placed on the backburner.

Along with the data, the focus this week (and for the next month or so) will be the local earnings reporting season. We have already seen a number of large companies announce results and to date there has been a bit of a mixed bag. While their year end results are of interest, it is their view on the outlook that can often receive the most attention.

Internationally, much of the focus will be on central banks, with the RBA, BoE and BoJ all releasing minutes from their latest meetings. The latter are also scheduled to make an interest rate announcement, although rates are expected to be left unchanged. The most interesting from our point of view will of course be the RBA. This was the meeting where the Bank shifted stance and signalled they are prepared to cut interest rates in the near future. The minutes will help us assess when and how aggressive those interest rate easings will be, although to be fair they may not provide too much information over and above what the *Statement on Monetary Policy* did last week. Apart from these events, it is actually pretty quiet on the international data front. The PMI results in Europe will be of interest to gauge how the September quarter is performing following the contraction in June. In the US, PPI data will be the focus, although it is a little redundant following the CPI data released last week.

Recent local data...

REINZ House Sales (July): In seasonally adjusted terms, house sale rose 11.6 percent, the medium house prices remained unchanged at \$340,000, and days to sell rose to 57.

BNZ – Business NZ PMI (July): The index rose from 45.3 in June to 48.8.

Roy Morgan Consumer Confidence (mid-Aug): the index rose by 7.1 points to 94.9.

Retail Sales (June): Monthly sales rose 0.9 percent, while core sales were flat. Volumes fell 1.5 percent.

THE REGIONAL GAP

Resource pressures remain strong, with our regional output gap measures still positive in most regions. However, all but one region experienced a reduction in capacity pressures in the June quarter.

The linkage between excess demand and inflation pressure is well known. Economists frequently talk about the “output gap”, noting that when the output gap is positive (i.e. actual economic growth exceeds “potential”), inflation pressures build. The period of strong growth recorded in New Zealand in recent years has seen a positive output gap open up and inflation pressures emerge. Seeing these pressures, the Reserve Bank tightened monetary policy by raising the Official Cash Rate.

We have updated our regional output gap measures to examine which regions are responsible for the inflation pressures that persist in New Zealand. To refresh readers’ memories, the regional output gaps are estimated using data from the National Bank’s *Regional Trends* and *Business Outlook* survey, and Statistics New Zealand’s regional unemployment data.¹

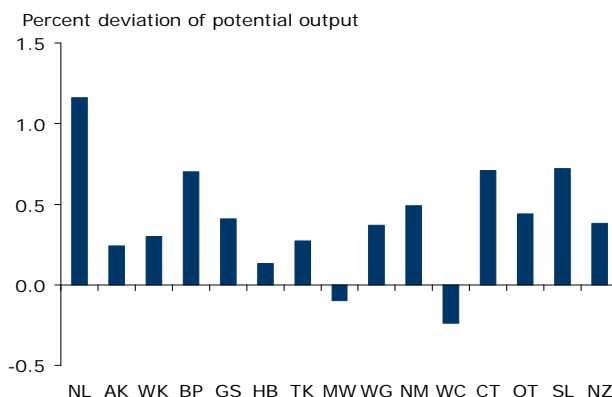
There are five key messages from this analysis:

- > A positive output gap still exists across the country as a whole, reinforcing the current inflation dynamic. Low unemployment rates (despite two consecutive quarterly increases in the nationwide measure) and particularly elevated capacity utilisation contributed most to the positive output gap in the June quarter.
- > Capacity pressures remain reasonably widespread with 12 regions showing a positive output gap.
- > The West Coast and Manawatu-Wanganui are detracting from inflationary pressures, albeit marginally, with negative output gaps. These two regions have consistently had the lowest (or negative) output gaps for the past three quarters. All other regions have positive output gaps at present.
- > As was the case in the March quarter, there does not appear to be a clear pattern of capacity pressure across the regions. Northland once again recorded the highest output gap, which was largely driven by still high capacity utilisation. As

¹ The estimates are generated using estimates of the output gap, unemployment gap (utilising Okun’s Law) and a derived capacity utilisation gap from the National Bank business confidence survey. We chose a broad approach for two reasons. First it minimises some of the error that may surround simple regional activity statistics (which are only partial indicators). Second, the Reserve Bank uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For each input we use a band-pass filter to derive the business cycle – a standard statistical technique that is available on modern statistical software. Individual output gap measures across activity, unemployment and capacity utilisation for each region are then given an equal weighting.

was also the case in March, Bay of Plenty, Southland and Canterbury had large positive output gaps. The consumer-driven Auckland region has a relatively small gap, while Wellington is sitting mid-pack.

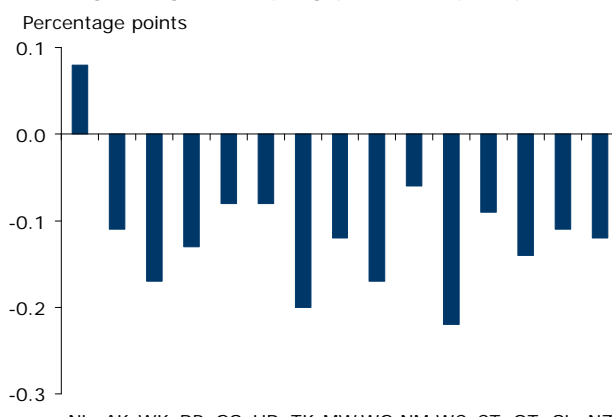
Estimate average regional “output gap” in Jun 08



Sources: ANZ National

- > With the exclusion of Northland, all the regions experienced a reduction in capacity pressures in the June quarter, with the West Coast, Taranaki, Waikato and Wellington leading the charge. Given that activity across the country has slowed and the labour market is turning, this type of dynamic is not at all surprising.

Change in regional output gaps over the past quarter



Sources: ANZ National

The upshot

Although capacity pressures remain strong, reinforcing the current inflationary dynamic, they are beginning to ease and help endorse the RBNZ’s decision to begin cutting interest rates in July.

One of the factors we believe the RBNZ can take comfort from in terms of the result, is that dampened excess demand is becoming more widespread and not solely contained to domestic or spending-centric regions.

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

GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. Another week of generally stronger than expected data in the US, although weekly jobless claims numbers show the labour market continues to turn. UK and European data continues to deteriorate, with the latter posting its first quarterly contraction in GDP in the June quarter.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Import Price Index (Jul) – mom	1.0%	1.7%	2.9%	Stronger
	Advance Retail Sales (Jul) – mom	-0.1%	-0.1%	0.3%	In-line
	CPI (Jul) – mom	0.4%	0.8%	1.1%	Stronger
	Initial Jobless Claims (w/e Aug 3)	435K	450K	460K	Weaker
	Empire Manufacturing (Aug)	-4.0	2.8	-4.9	Stronger
	Industrial Production (Jul)	0.0%	0.2%	0.4%	Stronger
	U. of Michigan Confidence (Aug P)	62.0	61.7	61.2	Weaker
Europe	Industrial Production (Jun) – mom	0.1%	0.0%	-1.8%	Weaker
	CPI (Jul) – mom	-0.1%	-0.2%	0.4%	Weaker
	GDP (2Q A) – qoq	-0.2%	-0.2%	0.7%	In-line
UK	PPI Input (Jul) – mom	1.0%	-0.6%	2.7%	Weaker
	PPI Output (Jul) – mom	0.5%	0.4%	0.9%	Weaker
	CPI (Jul) – mom	-0.2%	0.0%	0.7%	Stronger
	DCLG House Prices (Jun) – yoy	1.5%	0.6%	3.0%	Weaker
	Jobless Claims Change (Jul)	17.0K	20.1K	20.0K	Weaker
Asia Ex-Japan					
<i>China</i>	Exports (Jul) – yoy	16.8%	26.9%	17.6%	Stronger
	Imports (Jul) – yoy	27.2%	33.7%	31.0%	Stronger
	CPI (Jul) – yoy	6.5%	6.3%	7.1%	Weaker
	Retail Sales (Jul) – yoy	22.4%	23.3%	23.0%	Stronger
	M2 – Money Supply (Jul) – yoy	17.1%	16.4%	17.4%	Weaker
	Industrial Production (Jul) – yoy	15.9%	14.7%	16.0%	Weaker
<i>South Korea</i>	Unemployment Rate (Jul)	-	3.2%	3.2%	-
	Export Price Index (Jul) – mom	-	0.1%	1.1%	-
	Import Price Index (Jul) – mom	-	1.1%	2.7%	-
<i>Singapore</i>	GDP Annualised (2Q)	-6.3%	-6.0%	-6.6%	Stronger
	Retail Sales (Jun) – mom	0.0%	0.0%	0.4%	In-line
<i>Thailand</i>	Consumer Confidence (Jul)	-	71.8	70.8	-
<i>Malaysia</i>	Industrial Production (Jun) – yoy	2.0%	2.0%	2.8%	In-line
<i>India</i>	Industrial Production (Jun) – yoy	5.4%	5.4%	4.1%	In-line
<i>Vietnam</i>	Industrial Output YTD (Jul) – yoy	-	16.4%	16.5%	-
	Retail Sales YTD (Jul) – yoy	-	29.8%	30.0%	-
<i>Indonesia</i>	GDP (2Q) – qoq	2.20%	2.44%	2.19%	Stronger
Japan	Domestic CGPI (Jul) – mom	0.8%	2.0%	0.9%	Stronger
	Consumer Confidence Households (Jul)	32.0	31.4	32.6	Weaker
	GDP (2Q P) – qoq	-0.6%	-0.6%	0.8%	In-line
	Tertiary Industry Index (Jun) – mom	-0.3%	-0.8%	-0.2%	Weaker
Australia	NAB Business Conditions (Jul)	-	-5	0	-
	Wage Cost Index (2Q) – qoq	1.0%	1.2%	0.9%	Stronger
	Consumer Inflation Expectations (Aug)	-	4.9%	5.9%	-

INTEREST RATE STRATEGY

New Zealand swap rates moved slightly lower over the week, led by the long end. We expect this to continue, as the long end contemplates a weaker global environment, and the prospect of rate cuts beyond what is already priced in. It is difficult to argue that the short end can rally much more unless the RBNZ step up the pace of easing, which won't likely occur unless we see a major financial shock. However the long end has scope to move lower yet.

Market themes...

- > Barring any financial shocks, we expect swap rates to continue grinding steadily lower as the year progresses. However, the short end can't outpace the RBNZ by much, but the long end can.
- > We now have GDP data for all of the G7 economies, and only the US and UK printed positive. With commodity prices cooling down, and consumer confidence weakening in the major economies, there is pressure on global long end yields to continue falling.
- > Last week's long list of "tier-one" data in the US, Australia and locally saw expectations of rate cuts pared back slightly. With 150bps of rate cuts priced in, it's difficult for the money market to rally any further on soft data (although it is vulnerable to financial shocks). But the back end of the curve can continue to drift lower.

Review and outlook...

Market expectations for RBNZ rate cuts have been pared back over the past week, and are broadly consistent with rate cuts at each of the next five meetings. It has been abundantly clear for some time that the NZ economy is under pressure, and as such, these expectations look fairly reasonable. However, we remain taken aback by the extent of easing expectations in Australia at this early stage, and we'd be surprised to see the cash rate cut three times by December as market pricing suggests, paving the way for disappointment, particularly relative to NZ.

While there isn't much scope for pricing to adjust at the short end of the curve, long end interest rates have yet to materially react to the prospect of a global slowdown, and the possibility of a more extended domestic slowdown. At the moment inflation concerns are keeping a floor under yields. However the RBNZ remain committed to price stability, and if demand (both domestically and offshore) slows quickly enough and commodity prices keep correcting, these concerns will subside. Given the large disparities in basis point values between short-dated and long-dated swaps, in a rallying environment, the short end has to substantially outpace the back end in order to outperform from a return perspective. That will only occur if the RBNZ start slashing rates, but if that happens, the long end is likely to be rallying hard, as it has in past episodes of aggressive easing, both here and overseas.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↓	RBNZ policy expectations seem fair, and are unlikely to back up materially.
NZ data	↓	Data continue to print on the soft side, and are unlikely to upset the apple cart.
Fed Funds/front end	↔ / ↑	Is the USD rebound telling us something? We think it could be. But outside the US, things are getting worse.
RBA	↔ / ↓	AU market has backed off a 50bp cut next month, and the RBA aren't likely to disappoint.
US 10 year	↔	US 10yr bonds don't have much scope to rally, but European yields do.
NZ swap curve	↓	Near term scope for steepening (normalisation).
Flow	↔	The pace of receive side flow has slowed.
Technicals	↔ / ↓	Trending lower in yield.

Borrowing strategies we favour at present

From a cashflow perspective it makes sense to target the long end of the curve, which offers lower rates. However, given the likelihood that rates move much lower, this strategy is only likely to be competitive if actively managed, as per our *Borrower's Strategy* piece two weeks ago. More passive borrowers should target the very short end of the curve. While the 1yr is still fairly high at 7.63%, it is well below 3mth BKBM, and offers plenty of flexibility in the event of a rally. Interest rate caps also make sense and are reasonably competitive in an inverse yield curve environment.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Sep-08	-35	-29
Thu 23-Oct-08	-54	-58
Thu 4-Dec-08	-85	-76
Thu 22-Jan-09	-113	-106
Thu 5-Mar-09	-119	-121
Thu 23-Apr-09	-141	-131
Thu 4-Jun-09	-146	-142

Trading themes we favour at present

Market expectations for RBNZ cuts have backed up and now look reasonable in the short term. However the market remains vulnerable to more downside further out. The curve remains too flat beyond 4yrs, and can invert further. Forward yields (like the 3yr/3yr and 5yr/5yr) are on the move and are likely to continue. The AU market is way ahead of itself and is vulnerable to a correction. Consider selling AU March 09 FRAs or Bank bill futures against NZ equivalents at -54bps.

CURRENCY STRATEGY

A period of consolidation lies ahead for the NZD following the big moves of the past couple of weeks. With the AUD looking very oversold, the kiwi could get dragged up, although the overall trend remains down. Further liquidation by Japanese margin traders is likely to continue to hang over the NZDJPY cross.

Market themes...

- > More of the same – USD strength and commodities weakness.
- > Japanese and Euro-zone economies contracted, US inflation stronger but inflation expectations down.
- > RBA board minutes the key highlight in an otherwise light data week. A pullback in NZDAUD likely following its recent run-up.

Review and outlook...

Trading in the NZD was very volatile last week, with massive selling pressure mid-week taking it down to 0.6830 at one stage. But the selling pressure eased by week's end and saw the kiwi end the week slightly higher. Japanese margin trading liquidation accounted for some of the selling, with data from TFX showing a 30 percent reduction in net long NZDJPY positions last week, the bulk of which coincided with the big mid-week fall. However, despite the recent selling by Japanese margin traders, they still retain a large net long NZDJPY position. Hence, the potential remains for another bout of margin trading liquidation that will continue to hang over the cross.

Positioning data compiled by the CFTC point to real money managers remaining net short of the NZD, while also continuing to pare back their net long AUD positions. The USD continues to find favour in the FX community, with more speculators increasing their net long positions in the Greenback, mainly at the expense of the EUR and GBP. Following the big moves of the previous two weeks, we can expect a period of consolidation ahead for the NZD in the near term. The reality is that having fallen near 4 percent so far this month, we were always going to pause for a breather at some stage. However, the kiwi still remains vulnerable to moves lower, but a failure to break 0.68 last week has given the bird some brief respite.

This week's data calendar is very light, with only third tier data on offer in NZ. It is hard to get excited over tomorrow's PPI data given the lack of insight it gives to CPI. Credit card and electronic card transaction data due Thursday will provide a hint of whether consumers are back hitting the shops, but their recent poor lead on retail sales mean the data must be treated with caution. The major news for the week is tomorrow's RBA board minutes. With the Aussie market still toying with a 50bp move by the RBA in September, this will be closely watched by the FX market. With the market pricing in close to 70bps of easing by the RBA by the end of this year compared to the RBNZ's 76bps, bills pricing looks at odds with the

respective economies. Aussie bills led the AUD lower and it may well be that we see the reverse. Given this dynamic we find it hard to be bullish the NZDAUD at these levels, with the recent fillip looking overdone.

The NZD has found a base above 0.6800 and the bounce has been impressive. Minimum target top side is 0.7180 and technically we can see a move as high as 0.7400 to sell again. AUDUSD will be the driver for the NZD rally as support at 0.8600 may frustrate all the bears who were targeting AUDUSD touching the 0.8500 Fibonacci retracement level. A break of AUDUSD above 0.8725 suggests a retracement as high as 0.9050 may be under way. NZDAUD correction looks nearly complete and should stall below 0.8250.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials still favouring AUD but closing.
Yield	↔	Another 16bp rally in Australia last week.
Commodities	↑	Commodities remain weak but softs lagging
Partial indicators	↓	NZ indicators still worse.
Technicals	↔	Topside at 0.8250.
Sentiment	↔	AUD longs continue to be pared back but still net short NZD.
Other	↔	AUD correction complete in first instance.
On balance	↓	Gone too far.

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	↔	Yield and commodity story factored.
Yield	↔	RBNZ now easing but fully factored.
Commodities	↓	The big one to watch closely.
Risk aversion	↔	Low inflation = equity stabilisation....for now.
Partial indicators	↓	US data stabilising, NZ data still very weak.
Technicals	↔/↓	Minimum target topside of 0.7180.
AUD	↔	AUD first leg complete. Risk of recoil.
Sentiment	↔	Changes daily.
Other	↓	USD tallest pygmy.
On balance	↔/↓	RBNZ has cut so trend becomes clearer.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
18-Aug	UK	Rightmove House Prices (Aug) - mom	-	-1.8%	11:01
	JN	Leading Index CI (Jun F)	-	91.2	17:00
		Coincident Index CI (Jun F)	-	101.7	17:00
		Nationwide Department Store Sales (Jul) - yoy	-	-7.6%	17:30
	EU	Trade Balance s.a. (Jun)	0.5B	-1.5B	21:00
19-Aug	US	NAHB Housing Market Index (Aug)	16	16	05:00
	NZ	Producer Prices- Inputs (2Q) - qoq	2.6%	2.3%	10:45
		Producer Prices- Outputs (2Q) - qoq	2.1%	1.8%	10:45
	AU	Preliminary BoP Imports (Jul) - mom	-	-2.0%	13:30
		RBA Board Minutes from August meeting	-	-	13:30
	JN	BoJ Interest Rate Announcement	0.50%	0.50%	-
	GE	Producer Prices (Jul) - mom	0.7%	0.9%	18:00
		ZEW Survey (Econ. Sentiment) (Aug)	-62.0	-63.9	21:00
		Zew Survey (Current Situation) (Aug)	10.0	17	21:00
	EU	ZEW Survey (Econ. Sentiment) (Aug)	-65.0	-63.7	21:00
20-Aug	US	Producer Price Index (Jul) - mom	0.5%	1.8%	00:30
		PPI Ex Food & Energy (Jul) - mom	0.2%	0.2%	00:30
		Housing Starts (Jul)	930K	1066K	00:30
		Building Permits (Jul)	970K	1091K	00:30
		Fed's Fisher Speaks in Aspen on US Economy	-	-	02:00
	JN	All Industry Activity Index (Jun) - mom	-0.9%	0.4%	11:50
	JN	BoJ Monthly Report	-	-	17:00
	AU	Westpac Leading Index (Jun) - mom		0.0%	12:30
		DEWR Skilled Vacancies Aug - mom	-		13:00
	UK	Bank of England Minutes	-	-	20:30
		Public Finances (PSNCR) (Jul)	-10.0B	15.5B	20:30
		Public Sector Net Borrowing (Jul)	-4.3B	9.2B	20:30
		M4 Money Supply (Jul P) - mom	0.5%	1.8%	20:30
		M4 Sterling Lending (Jul) P	14.0B	46.1B	20:30
	EU	Construction Output (Jun) - mom	-	0.2%	21:00
21-Aug	NZ	Visitor Arrivals (Jul)	-	-1.4%	10:45
		Credit Card Spending (Jul) - yoy	-	3.3%	15:00
	JN	Adjusted Merchandise Trade Balance (Jul)	¥351.0B	¥135.4B	11:50
	AU	RBA Foreign Exchange Transactions (Jul)	-	A\$875M	13:30
		New Motor Vehicle Sales (Jul) - mom	-	1.0%	13:30
	GE	PMI Manufacturing (Aug A)	50.5	50.9	19:30
		PMI Services (Aug A)	52.1	53.1	19:30
	EU	PMI Manufacturing (Aug A)	47.0	47.4	20:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
21-Aug cont.	EU	PMI Services (Aug A)	48.0	48.3	20:00
		PMI Composite (Aug A)	47.7	47.8	20:00
	UK	Retail Sales (Jul) - mom	-0.2%	-3.9%	20:30
		Total Business Investment (2Q P) - qoq	-0.7%	-1.8%	20:30
22-Aug	US	Initial Jobless Claims (w/e Aug 17)	440K	450K	00:30
		Continuing Claims (w/e Aug 10)	3,404K	3,417K	00:30
		Philadelphia Fed (Aug)	-14.0	-16.3	02:00
		Leading Indicators (Jul)	-0.2%	-0.1%	02:00
	JN	BoJ Monetary Policy Meeting Minutes for July	-	-	11:50
	EC	Current Account s.a. (Jun)	-	-7.3B	20:00
		Industrial New Orders (Jun) - mom	-1.1	-3.5%	21:00
	UK	Index of Services (Jun) – 3mth/3mth	0.4%	0.4%	20:30
		GDP (2Q P) – qoq	0.1%	0.3%	20:30
23-Aug	US	Fed's Bernanke Speaks on Financial Stability at Jackson Hole	-	-	02:00

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: As we have been saying of late, there is unlikely to be anything in the domestic data flow that will stand in the way of the RBNZ cutting rates again at their *Monetary Policy Statement* in around four weeks time. The data is likely to remain weak and indicators consistent with GDP contracting over the June quarter.

Date	Data/Event	Economic Signal	Comment
Tue 19 Aug (10.45)	Producer Price Index (Q2)	Solid increase	Further increases in oil and wholesale electricity prices are expected to see both input and output prices rise strongly in the quarter.
Thu 21 Aug (10.45)	External Migration (Jul)	Finding a base	The monthly net inflow appears to have found a base and we expect the 12-month total to remain around the current 5,000 level. Visitor arrivals are probably more important to watch as a gauge of global demand.
Thu 21 Aug (10.45)	Electronic Card Transactions (Jul)	Weak	A rebound is likely given record high petrol prices in July. Volatility aside, core retail spending is likely to remain weak as cost of living pressures weigh on household budgets.
Thu 21 Aug (10.45)	Credit Card Spending (Jul)	Weak	Similar themes to the ECT data.
Thu 21 Aug (15.00)	NBNZ Regional Trends (Q2)	-	-
Tue 26 Aug (10.45)	Overseas Merchandise Trade (Jul)	Monthly deficit	Another monthly trade deficit, as the impact of high oil prices continues to add to imports, although a correction in consumption goods imports is about due given weakness in retailing.
Wed 27 Aug (15.00)	NBNZ Business Outlook (Aug)	-	-
Thu 28 Aug (15.00)	Credit Growth (Jul)	Weak	Household lending growth will be soft in line with the weak housing market. Business lending should also continue to weaken, although agriculture will provide some offset.
Fri 29 Aug (10.45)	Building Consents Issued (Jul)	Weak	Building consent issuance may bounce from the weak June level, but still with a weak trend. Commercial issuance remains key to watch.
Wed 3 Sep (15.00)	ANZ Commodity Price Index (Aug)	-	-
Mon 8 Sep (10.45)	Value of Building Work Put in Place (Q2)	Contraction	Both residential and non-residential construction activity are expected to have fallen over the June quarter.
Wed 10 Sep (10.45)	Overseas Trade Indexes (Q2)	Elevated terms of trade	Still elevated prices of NZ key commodity exports is expected to see the terms of trade post a modest increase in the quarter.
Thu 11 Sep (09.00)	RBNZ <i>Monetary Policy Statement</i>	25bp cut	We expect another 25bp cut in the OCR. The Bank's near-term GDP forecasts are likely to be revised lower.
Fri 12 Sep (10.45)	Retail Trade Survey (Jul)	Underlying weakness	Credit card and ECT data will help shed some light, but the trend of underlying weakness is expected to remain.
On Balance		An economy heading backwards, but with inflation	Growth indicators are poor. But inflation still lagging.

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
GDP (% qoq)	0.8	0.5	0.8	-0.3	-0.5	-0.2	0.2	0.3	0.5	0.5
GDP (% yoy)	3.2	3.3	3.5	1.9	0.6	-0.2	-0.8	-0.2	0.8	1.5
CPI (% qoq)	1.0	0.5	1.2	0.7	1.6	1.4	0.9	0.5	0.7	0.7
CPI (% yoy)	2.0	1.8	3.2	3.4	4.0	5.0	4.7	4.5	3.6	2.9
Employment (% qoq)	0.3	-0.1	0.9	-1.3	1.3	-0.6	-0.1	0.0	0.1	0.2
Employment (% yoy)	1.5	1.5	2.5	-0.2	0.7	0.2	-0.7	0.6	-0.6	0.2
Unemployment Rate (% sa)	3.6	3.5	3.4	3.7	3.9	4.2	4.5	4.6	4.8	4.9
Current Account (% GDP)	-8.1	-8.3	-7.9	-7.8	-7.6	-7.4	-7.2	-6.8	-6.4	-6.1
Terms of Trade (% qoq)	0.4	3.7	2.7	4.1	-0.1	-1.0	0.0	-1.5	-1.2	-1.0
Terms of Trade (% yoy)	2.3	8.4	8.5	11.3	10.7	5.7	2.9	-2.7	-3.7	-3.7

KEY ECONOMIC INDICATORS

	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Retail Sales (% mom)	1.8	0.0	0.3	-0.7	-1.1	1.2	-1.1	0.9	..	..
Retail Sales (% yoy)	7.2	5.4	6.3	7.7	-1.0	4.1	1.0	1.5	..	..
Credit Card Billings (% mom)	1.1	0.5	-	0.9	-3.4	3.9	-1.2	-0.7	..	..
Credit Card Billings (% yoy)	9.5	7.6	8.6	8.0	3.3	8.2	5.9	3.3	..	..
Car Registrations (% mom)	-3.7	-2.7	9.8	-8.5	-12.8	11.4	-13.5	1.4	-7.5	..
Car Registrations (% yoy)	2.3	1.4	1.7	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	..
Building Consents (% mom)	0.6	-4.3	3.1	-6.1	-13.4	80.5	-40.8	-20.2	..	..
Building Consents (% yoy)	-4.4	-6.5	-5.3	-17.7	-27.3	30.6	-26.5	-47.1	..	..
REINZ House Price (% yoy)	6.7	4.5	4.0	0.7	1.6	-1.1	-1.4	-2.2	..	..
Household Lending Growth (% mom)	0.8	0.7	0.7	0.8	0.4	0.4	0.4	0.3	..	..
Household Lending Growth (% yoy)	12.8	12.3	11.9	11.6	10.8	9.9	9.3	8.4	..	..
Roy Morgan Consumer Confidence	121.9	126.6	121.2	116.0	111.7	99.9	89.2	86.5	83.9	91.4
NBNZ Business Confidence	-19.6	-24.9	..	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2	..
NBNZ Own Activity Outlook	15.7	18.2	..	2.4	-6.4	-3.8	-4.4	-4.0	-8.2	..
Trade Balance (\$m)	-628	39	-311	243	-43	-288	-168	-223	..	..
Trade Balance (\$m annual)	-5691	-5307	-4793	-4422	-4526	-4599	-4775	-4480	..	..
ANZ World Commodity Price Index (% mom)	0.8	0.0	-1.4	1.1	2.0	-0.3	0.9	0.0	1.8	..
ANZ World Commodity Price Index (% yoy)	35.9	30.9	27.4	26.9	26.9	20.7	18.7	11.6	8.7	..
Net Migration (sa)	440	20	100	250	530	480	960	490	..	..
Net Migration (annual)	6588	5491	4799	4643	4678	4666	4931	4732	..	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jun-08	Jul-08	18-Aug-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
NZD/USD	0.762	0.756	0.705	0.710	0.690	0.680	0.660	0.640	0.630	0.620
NZD/AUD	0.801	0.785	0.814	0.755	0.750	0.747	0.742	0.744	0.759	0.765
NZD/EUR	0.489	0.479	0.480	0.455	0.454	0.453	0.446	0.441	0.450	0.456
NZD/JPY	81.4	80.7	77.9	76.7	74.5	74.8	72.6	71.7	71.8	71.3
NZD/GBP	0.387	0.380	0.378	0.362	0.358	0.358	0.353	0.346	0.346	0.344
NZ\$ TWI	68.2	67.2	65.9	63.8	62.7	62.4	61.1	60.2	60.5	60.4
NZ interest rates	Jun-08	Jul-08	18-Aug-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
OCR	8.25	8.18	8.00	7.75	7.25	7.25	7.00	6.50	6.00	6.00
90 day bill	8.76	8.46	8.18	8.00	7.60	7.60	7.10	6.50	6.20	6.20
10 year bond	6.44	6.17	6.21	6.30	6.00	6.00	5.80	5.70	5.70	5.80
International	Jun-08	Jul-08	18-Aug-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
US Fed funds	2.00	2.00	2.00	2.00	1.75	1.75	1.75	2.25	2.75	3.25
US 3-mth	2.78	2.79	2.81	2.50	2.00	1.75	2.00	2.50	3.00	3.50
AU cash	7.25	7.25	7.25	7.00	6.75	6.75	6.50	6.25	6.25	5.75
AU 3-mth	7.84	7.76	7.29	7.60	7.00	7.00	6.80	6.50	6.40	5.90

KEY RATES

	15 Jul	11 Aug	12 Aug	13 Aug	14 Aug	15 Aug
Official Cash Rate	8.25	8.00	8.00	8.00	8.00	8.00
90 day bank bill	8.46	8.22	8.22	8.24	8.23	8.23
NZGB 07/09	6.79	6.90	6.92	6.90	6.90	6.90
NZGB 11/11	6.07	6.23	6.26	6.25	6.26	6.26
NZGB 04/13	6.05	6.23	6.26	6.26	6.26	6.26
NZGB 12/17	6.03	6.17	6.19	6.19	6.19	6.19
2 year swap	7.71	7.26	7.28	7.28	7.25	7.25
5 year swap	7.39	7.02	7.04	7.03	7.00	7.00
RBNZ TWI	67.8	64.5	64.6	63.8	64.9	65.1
NZD/USD	0.7669	0.6993	0.6976	0.6880	0.6987	0.6986
NZD/AUD	0.7895	0.7894	0.7947	0.7951	0.8031	0.8072
NZD/JPY	80.89	76.92	76.85	74.85	76.47	76.93
NZD/GBP	0.3845	0.3645	0.3659	0.3624	0.3743	0.3745
NZD/EUR	0.4836	0.4670	0.4687	0.4607	0.4692	0.4728
AUD/USD	0.9715	0.8859	0.8778	0.8653	0.8700	0.8655
EUR/USD	1.5858	1.4974	1.4884	1.4933	1.4892	1.4775
USD/JPY	105.48	109.99	110.16	108.79	109.44	110.12
GBP/USD	1.9944	1.9187	1.9065	1.8986	1.8665	1.8656
Oil	139.61	115.42	114.44	113.10	115.05	115.05
Gold	961.78	862.90	811.85	814.15	797.50	789.05
Electricity (Haywards)	6.05	15.94	21.05	12.34	10.11	12.16
Milk futures (US\$/contract)	144	139	139	139	139	139
Baltic Dry Freight Index	9150	7055	6992	7097	7420	7557

DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing**Experience**

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

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