

NEW ZEALAND ECONOMICS MARKET FOCUS

18 July 2011

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FROM RECOVERY TO EXPANSION

ECONOMIC OVERVIEW

Stronger than expected March quarter GDP and upward historical revisions paint the New Zealand economy in a more favourable light. While some might question the figures, we have few qualms over the approach taken by Statistics New Zealand. The outturn fits with the more positive economic vibes we had been detecting and writing about earlier in the year. Today's stronger than expected Q2 inflation data showed some worrying signs on the pricing front and there is limited scope for further upward surprises. In the absence of a global meltdown, an OCR at 2.5 percent is on borrowed time.

THE RETURN OF ANZ JOB ADS

Job advertisements used to be a well monitored indicator of the labour market and broader economy. For a variety of reasons it fell off the radar. It is now back under the ANZ banner and we discuss recent trends. The ANZ job advertisement series lifted 2 percent in June, the fifth consecutive month of solid increases. While the level of job newspaper advertisements remains low, newspaper job ads have lifted 37 percent since the start of the year and 22 percent since June 2010. Our composite job ads series suggests the unemployment rate will continue falling. Our unemployment direction index, which aggregates a range of monthly labour market indicators including job ads, also suggests a small decline in the unemployment rate in the near term. An improving labour market will add additional impetus to the recovery process.

INTEREST RATE STRATEGY

The pulse of the domestic data flow has been strong for some time now, and contrasts significantly with the tone of global news. GDP and CPI data were "out of the park" and confirm that the OCR is on borrowed time at 2.5 percent. There is now a very real possibility that the RBNZ raises rates before December. But global rates will be held down by multiple uncertainties, and ironically, the possibility of a US credit rating downgrade. This should assist the NZ yield curve to flatten.

CURRENCY STRATEGY

An interesting week ahead for the currency markets as the "deathly hallows" headlines of Europe and the US battle each other for supremacy. Whether it all ends here, or not, is the ultimate question. The Australasian currencies might sit on the sidelines were it not for the RBA meeting minutes to pour cold water on some recent forecasts of imminent interest rate cuts. Fortunes of the NZD may still be in the hands of offshore counterparties although with supply and demand issues potentially reaching a turning point, many will be wary of taking things to the extreme while the AUD remains under pressure.

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THIS WEEK'S EVENTS

GlobalDairyTrade auction (Wednesday, July 20, early am). We expect overall dairy prices to hold around current levels, with offsetting movements amongst the components.

SNZ Overseas Migration – June (Thursday, July 21, 10:45am). We expect a net outflow of 200 persons. Ash clouds and not much snow will contribute to a 2-3 percent fall in visitor numbers.

RBNZ Credit Card Billings – June (Thursday, July 21, 3:00pm). A monthly increase of approximately 0.9 percent is envisaged. Spending on overseas cards is expected to fall given the expected fall on overseas visitor numbers.

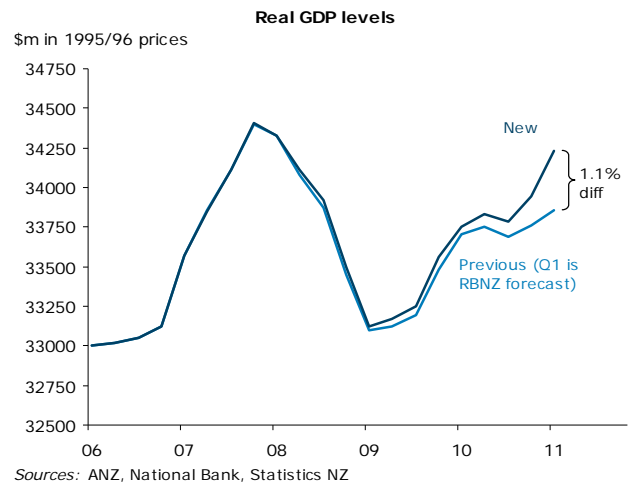
WHAT'S THE VIEW?

We don't normally become too caught up with historical GDP data but last weeks outturn is noteworthy on a number of levels:

- **It fits with the positive vibes we'd been writing about earlier in the year.** It always takes time for lagging data to catch up with the anecdotes but the inflection point theme we were writing about for the economy at the start of the year is now being confirmed in the data. Such real time vibes have strengthened into Q2 and July so we are in no doubt the cyclical fillip messages coming from business confidence surveys have real substance.
- Stronger than expected Q1 data and upward historical revisions imply less spare capacity in the economy than previously thought. With recent indicators pointing to an ongoing recovery, this is likely to further erode remaining spare capacity. **As such, inflationary pressures should start to quickly emerge.**
- **There is still a level / change dynamic to be wary of,** so for a lot of New Zealanders the growth doesn't feel like it because the level of

activity is still 0.5 percent down on 2007 levels, and 4.5 percent lower on a per-capita basis.

- **We strongly suspect the Q1 bounce was partly recoil from the mid 2010 stalling in momentum.** It's much easier to springboard from lows and the NZ economy has a track record of doing so.



After sitting through the lock-up and talking to senior Statistics NZ officials, we have no few qualms over the accuracy of the 0.8 percent expansion in NZ's Q1 GDP. Realising that their surveys could miss the potential earthquake impact, Statistics New Zealand directly surveyed 800 Canterbury businesses to obtain additional information on the impact of the earthquake, revisited their methodologies, sought out other information, and undertook some scenario testing to ensure that the estimates at the national level were robust. With the earthquake contributing to stronger activity, in terms of increased Government services and demolition work, not all of the growth was of the "feel good" variety. But it was growth, nonetheless.

The economy is now in expansion phase. We've intentionally used the term expansion as distinct from recovery. This may appear to be temping fate but we now have a) a rising growth trajectory over successive quarters b) investment picking up (i.e. capital imports and business credit) c) employment firming and d) real-time anecdotes that point to continued economic substance despite an awful looking global scene. We place a lot of weight on the anecdotes we get around the country on our travels and they are pointing to further improvement. It's not one way traffic. Cash-flow and slow paying debtors are still problematic. Huge structural challenges remain and the level of activity remains low for a host of industries. Higher food prices continue to erode consumer purchasing power and the housing market is continuing to tread

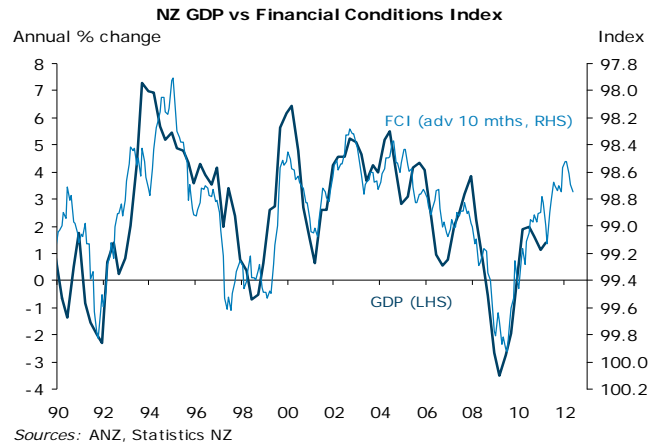
ECONOMIC OVERVIEW

water. July readings for consumer confidence continue to show an element of household caution, despite retail activity continuing to gain traction. Yet, there simply seem more ticks on the positive and momentum side of the ledger.

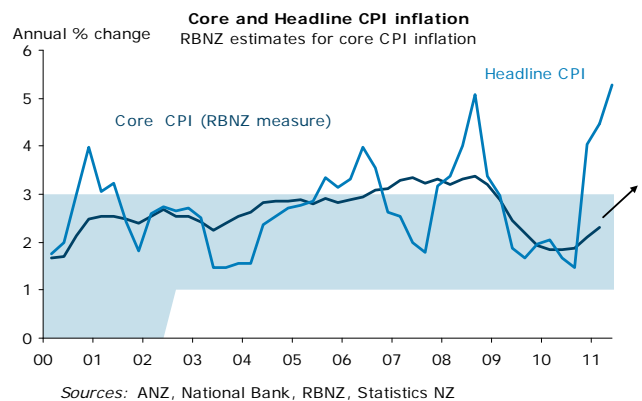
With expansion will come other challenges:

- An OCR at 2.5 percent is on borrowed time.** A few months ago we started mooted about the OCR moving up in September (refer our Market Focus of 11 April) which seemed a very bold comment to make at the time. We think this remains a material risk at this juncture. The recent dataflow has been reasonably upbeat and suggests a strengthening in economic activity into Q2/Q3. The RBNZ's pick for Q2 GDP (+0.4 percent) looks light. It's looking increasingly like the 50 bps "insurance" cut delivered in March needs to be unwound – soon. Note the use of the word unwound: we are talking about reversing an extraordinary support mechanism as opposed to tight policy.
- There is a danger financial market's front-run the expansion story thereby choking it off via tighter financial conditions.** This is particularly relevant at present for in comparison with the gloomier messages overseas, New Zealand simply stands out. With the US and Europe lurching from one Sovereign Debt related panic to another, the New Zealand story is starting to resonate. The NZD/USD hit another post-float high last week, and could move higher if these divergences in economic prospects become more apparent. Eying the tightening in financial conditions seen to date (refer below) doesn't suggest the expansion is under threat and there are some metrics such as the reconstruction related activity in Christchurch and the Rugby World Cup that financial conditions won't capture.
- Labour capacity will increasingly come under the spotlight.** Conventional wisdom is that 3 years of successive wobbles across the economy should mean oodles of spare and idle capacity. However, this doesn't appear to be the case across the labour market and we've become struck of late by growing anecdotes of skill shortages in select pockets. We've cranked up the old job ads series we used to produce as a timely barometer of labour market trends.

These are welcome challenges, but challenges nonetheless. The fact we've mentioned them fits with economics being the "dismal science", but such as the reality of dealing with the business cycle.



For some time we have voiced our discomfort over the medium-term inflation outlook. **Today's stronger than expected Q2 inflation print was a case in point.** Core inflation measures produced by Statistics NZ firmed, and the distribution of price increases shifted further to the right (i.e. more price increases and fewer price falls). We will have to wait until 3pm today to get the updated RBNZ core inflation estimate for Q2 (with annual ex-GST core inflation reported to be 2.3 percent in the March 2011 year), but if this shows a similar trend the RBNZ's discomfort will grow. Our core view remains a December MPS start to the tightening cycle, with a 25 basis point increase, but we cannot rule out an earlier move; in fact there is a material probability of this.



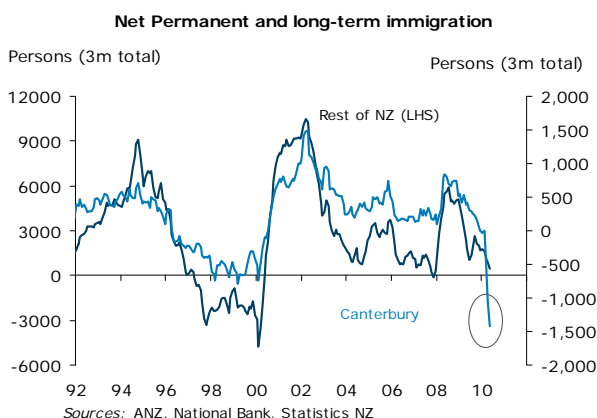
Looking to the week ahead, a key consideration for the RBNZ will be the outlook for export prices. **We expect this week's GlobalDairyTrade auction will see prices consolidate at current (historically high) levels, with offsetting movements for the components.** With larger volumes of skim milk powder (SMP) becoming available in northern hemisphere markets, we expect some weakening in SMP prices. Prices for fat based products have eased recently, and could ease further given the increase in volumes on offer. Conversely, whole milk powder

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prices could potentially show signs of firming, given the later dated contracts will apply for 2012 where tariff rates will be lower for NZ product into China. Cheddar cheese will be available on *GlobalDairyTrade* for the first time this week.



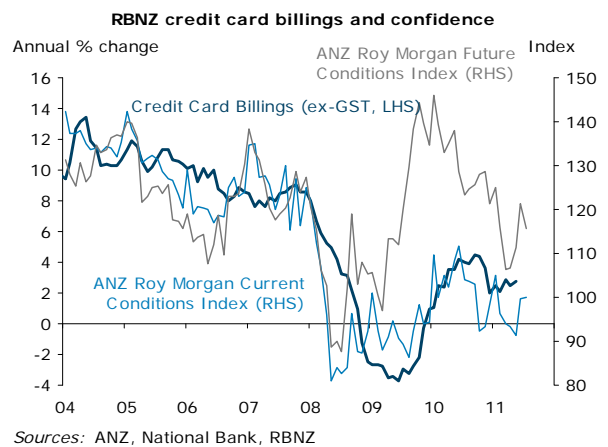
While the market is focused on concerns in Europe and the US, New Zealand's exports are heading to a diversified market base, with nearly half of our exports by value being sent to non-OECD markets. China is a major market but with Free-Trade Agreements either having been ratified or in negotiation, New Zealand stands to gain access to more than half the world's population and half of global GDP. With nearly 20 percent of the world's population, India could be the next big thing, and we will discuss its potential as an export market in next week's *Market Focus*.



Migration figures (released Thursday) are expected to show a fourth successive monthly outflow. Seismic related anomalies are the culprit with a firm Canterbury-rest of NZ divide opening up. A key metric we'll be eyeing is both short-term and long-term migrations. This combination has seen a **net outflow of 18,000 over the past year, which no doubt would have impacted on domestic**

spending and the housing market. June visitor arrivals are expected to fall 2-3 percent, with Ash cloud disruptions and not much snow providing further headwinds to a sector struggling from the high NZD/USD and earthquake related factors.

We expect the June credit card billings to portray a similar upbeat retail message as the Electronic Card Transactions data. Admittedly consumer confidence dipped in July, but this was from consumers scaling back their longer term expectation for the New Zealand economy. Their own situation continues to improve, albeit gradually.



RECENT LOCAL DATA

Consumers Price Index – 2011Q2. The CPI rose 1.0 percent, taking the annual rate of CPI inflation to 5.3 percent.

SNZ Food Price Index – June. Food prices rose 1.4 percent m/m to be (Wednesday, July 13, 10:45am). A 0.7 percent increase in food prices is expected.

REINZ housing market report – June. Sales volumes eased 0.4 percent s.a. (+14.3 percent y/y). The seasonally adjusted house prices index rose 1.8 percent m/m (0.0 percent y/y). Days to sell eased from 44 to 42 seasonally adjusted.

BNZ Business NZ Manufacturing PMI – June. The headline manufacturing PMI eased from 54.7 to 54.3.

SNZ Gross Domestic Product – 2011Q1. Real production-based GDP increased 0.8 percent (+1.4 percent y/y). The expenditure based measure increased 0.6 percent q/q (1.1 percent y/y).

ANZ Roy Morgan Consumer Confidence – July. Headline consumer confidence eased 3.1 points to 109.4. The Future Conditions index fell from 121.2 to 115.6, while the Current Conditions index was up marginally from 99.6 to 100.1.

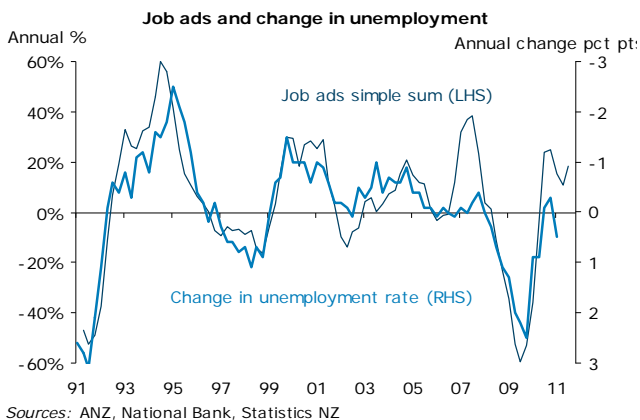
THE RETURN OF ANZ JOB ADS

SUMMARY

Job advertisements used to be a well monitored indicator of the labour market and broader economy. For a variety of reasons it fell off the radar. It is now back under the ANZ banner and we discuss recent trends. The ANZ job advertisement series lifted 2 percent in June, its fifth consecutive month of solid increases. While the *level* of job newspaper advertisements remains low, newspaper job ads have lifted 37 percent since the start of the year and 22 percent since June 2010. Our composite job ads series suggests the unemployment rate will continue falling. Our unemployment direction index, which aggregates a range of monthly labour market indicators including job ads, also suggests a small decline in the unemployment rate in the near term. An improving labour market will add additional impetus to the recovery process.

THE RETURN OF ANZ JOB ADS

The number of job ads used to be a well monitored and closely watched pulse of the economy. Job ads provided a useful benchmark for the direction of the unemployment rate, employment and indicators such as the job vacancy rate (the ratio of jobs advertised related to the working age population) which can proxy the amount of spare capacity in the labour market.

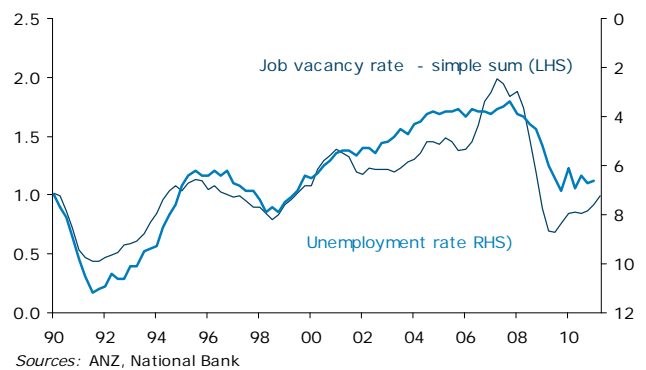


For a variety of reasons job ads as an economic indicator fell off the radar.

- The onset of the internet age significantly cheapened the search costs for employers. This has seen a switch away from traditional newspaper advertising. Hence, the level of newspaper advertising has seen a structural shift lower.

- On-line jobs can often be multi-listed which means double-counting can occur.
- At extremes in the cycle, declines or falling newspaper ads can give counter-intuitive results. The conventional wisdom is that rising job ads are a sign of economic health. However, supply shortages or a surfeit of capacity (i.e. a high unemployment rate) at extremes must be taken into account as newspaper advertising contains a significant search cost element. The sharp tail off in job ads from as early as 2005 is a case in point. This didn't reflect weakening demand. There was simply not the supply available and employers weren't prepared to continually "front" cost wise.

Job vacancy natural and unemployment rate



Such challenges do not strike out job ads as a useful indicator (and the labour market is a critical one) but does mean some care must be taken in interpretation.

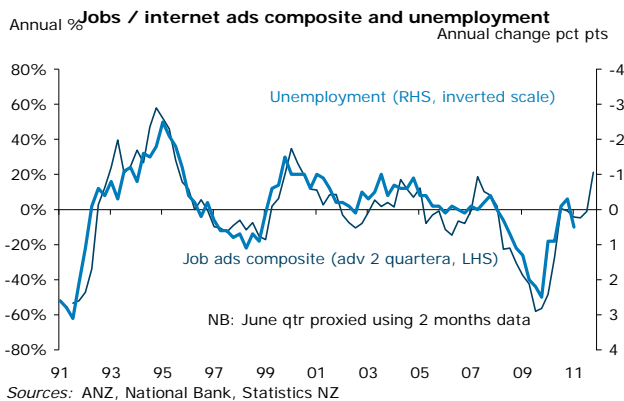
Today we released the revamped job ads series. It still contains the same key inputs such as newspaper ads and on-line advertising. We could put caveats around the results but readers will get the message from what we expressed above. In such a situation you need to focus on the key trends, which are:

- **Newspaper job advertisements have been lifting for five months and lifted a further 2 percent in June.** Since January, the number of newspaper vacancies has lifted 37 percent. Simply eyeballing the level of job ads show they remain at low levels. However, structural forces and the substitutability with internet advertising will partially account for this.
- A clear regional trend is emerging. **Canterbury is the bellwether for newspaper vacancies.** In the past 3 months more jobs have been advertised in Canterbury than in Auckland and

THE RETURN OF ANZ JOB ADS

Wellington combined. Canterbury accounted for 39 percent of newspaper vacancies in June. Historically this figure has averaged 17 percent.

- **Internet advertising has also picked up strongly since troughing in mid- 2009.** There has been an 80 percent increase in internet advertising since the low in July 2009.
- **We focus on a composite job advertisement series.** Our composite measure has been calibrated to match changes in the HLFS unemployment rate. This calibration places more weight on newspaper advertisements vis-à-vis on-line advertising by a factor of 5 to 1. Our composite measure tracks changes in the unemployment rate closely and removes some of the “misses” changes in job ads has had with swings in the unemployment rate such as in 2007. **Our composite measure suggests the HLFS unemployment rate will fall in Q2.**



THE UNEMPLOYMENT DIRECTION INDEX

The labour market is a crucial economic barometer. Timely, accurate information is critical, though there is sometimes a trade-off between the two qualities. The Household Labour Force Survey has been extremely volatile of late. The surveyed unemployment rate has lurched in consecutive quarters from 7.0 percent to 6.1 percent, and back up to 6.9 percent before settling just over the 6½ percent mark. This makes analysis of the labour market somewhat complicated.

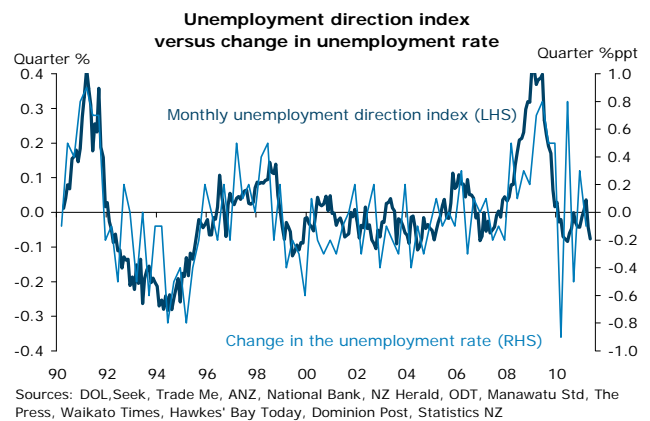
We have derived a monthly Unemployment Direction Index that tracks the change in the unemployment rate but in a smoother fashion.

The timely barometers we include are:

- Our composite job ads series as discussed in the previous section (current and lagged 6 months);

- Number of people receiving the unemployment benefit – a real-time barometer (from 1996);
- Employment intentions from the *National Bank Business Outlook* survey (NBBO, from 1993, current and lagged 6 months);
- The NBBO own activity measure (from 1990); and
- The strength or weakness in firms’ own activity expectations, relative to employment intentions from the NBBO.

This approach effectively “averages” across an array of measures. Notably, even though the index is monthly, it is considerably less volatile than the surveyed unemployment rate.



Our composite index captures the major directional trends in the labour market, and is more stable than the unemployment rate itself. This is intuitively appealing. **Our Unemployment Direction Index points to a gradually falling unemployment rate.** This suggests a diminishing margin of labour market capacity, which will eventually feed through into higher wages and core inflation.

INTEREST RATE STRATEGY

SUMMARY

The pulse of the domestic data flow has been strong for some time now, and contrasts significantly with the tone of global news. GDP and CPI data were “out of the park” and confirm that the OCR is on borrowed time at 2.5 percent. There is now a very real possibility that the RBNZ raises rates *before* December. But global rates will be held down by multiple uncertainties, and ironically, the possibility of a US credit rating downgrade. This should assist the NZ yield curve to flatten.

MARKET THEMES

- GDP and CPI data have shifted the debate on the timing of the RBNZ's next move towards a hike *by* December, as opposed to *in* December.
- The focus in the US has shifted towards fiscal consolidation. As such, the “smart money” is betting that a credit rating downgrade will keep a lid on bond yields. This thesis is not all that counterintuitive.
- Significant curve flattening now looks inevitable.

REVIEW AND OUTLOOK

Although the vast majority of recent domestic data releases have beaten expectations, it wasn't until last week's out-of-the-park GDP figures (and upward revisions to Q4) that the market started to show any real conviction with regard to the recovery. Today's higher than expected CPI figures have only added weight to the argument, and may force the RBNZ's hand. Indeed, for the first time since the RBNZ cut the OCR in March, the bellwether 2 year swap is threatening to break higher, putting some real conviction behind the view that the **December is now not just the likely timing of the next rate hike, it's the outer limit. As noted on page 3, we can't rule out an earlier move and its something we're giving serious thought to.**

Globally, **it's the US that's at the forefront at the moment, in particular the debt ceiling and the possibility of a credit rating downgrade.** Talk of a downgrade to default is nonsense, but a 1-2 notch downgrade is now a possibility. More importantly, it has honed the focus, and the **“smart money” has come to the view that while downgrade is a negative development, if it leads to fiscal reform, it means fiscal policy, rather than monetary policy will do all the heavy lifting.** That could be good for bonds. There is certainly plenty of work to do. Indeed, OECD data show the US primary balance averaged -2.4 percent in the 15 years prior to the GFC. If Uncle Sam wishes to get net debt (currently 75 percent of GDP) back towards a more sustainable 30 percent, this could mean 20+ years of 2 percent primary surpluses, a swing of 4.4

percent. The bottom line for NZ: **if the data pulse here remains upbeat, and the US move towards real fiscal consolidation, expect the yield curve to flatten considerably.**

PREFERRED BORROWING STRATEGIES

Our preference for a while has been to stay on the sidelines, but we now favour taking action. Global uncertainty remains high, but it is equally clear that the NZ economy is on a firm footing. Moreover it is looking likely the economy will “sail right through” global turmoil over the next 12 months, in a similar way to how Australia did immediately post-GFC. This means rate hikes are firmly on the agenda, with policy needing to be neutralised reasonably quickly (read: the OCR to 4% by the end of 2012 – putting the real OCR at around 1.5%). This is much faster than what the market has priced in. By contrast, the market is pricing the 3mth bill rate to 5% within 3 years and 6% in 6 years. This is well higher than where we see it going, noting the Australian experience of 175ps of hikes slowing their economy. Higher leverage and increased exposure to floating rates will also limit the need for hikes. We thus believe the market has under-priced near term rate rises, and over-priced the extent of the cycle, suggesting the 2-3 year part of the curve offers the best value. We do not favour long term hedges.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	RBNZ will be hiking by Dec at the latest. Sep even possible.
NZ data	↑	GDP last week shows 2011 started on a solid footing.
Fed Funds / front end	↔/↓	CPI takes QE3 off the table. But fiscal consolidation is the real issue for monetary policy.
RBA	↔/↓	50bps of cuts now priced in.
US 10 year	↔/↓	Being buffeted, but likely to rally on downgrade.
NZ swap curve	↔/↓	Flattening of the curve likely to intensify if global rates fall.
Flow	↑	Paying starting to intensify.
Technicals	↔/↑	2yr break of 3.50% looming.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Jul-11	0	+1
Thu 15-Sep-11	0	+9
Thu 27-Oct-11	+1	+20
Thu 8-Dec-11	+16	+32
Thu 26-Jan-12	+28	+45
Thu 8-Mar-12	+40	+58
Thu 26-Apr-12	+56	+66

TRADING THEMES WE FAVOUR AT PRESENT

Although the cost of roll and carry is high, there is momentum behind the move higher in yields, and we prefer to be short the 2yr below 3.50%. We also like yield curve flatteners on our divergent domestic/global views.

CURRENCY STRATEGY

SUMMARY

An interesting week ahead for the currency markets as the “deathly hallows” headlines of Europe and the US battle each other for supremacy. Whether it all ends here, or not, is the ultimate question. The Australasian currencies might sit on the sidelines were it not for the RBA meeting minutes to pour cold water on some recent forecasts of imminent interest rate cuts. Fortunes of the NZD may still be in the hands of offshore counterparties although with supply and demand issues potentially reaching a turning point, many will be wary of taking things to the extreme while the AUD remains under pressure.

MARKET THEMES

- European Banking Authority (EBA) stress tests do nothing to quell market concerns in this arena.
- US deficit and debt ceiling negotiations keep markets on edge as the deadline nears and credit rating agencies circle.

REVIEW AND OUTLOOK

Initial NZD weakness off the back of European sovereign concerns were short lived.

Opportunities for exporters to obtain sub 0.80USD forwards out past one year ensured that many took the opportunity to place cover. The weakness in NZD was reversed almost too easily as concerns around the US credit ratings were raised by the major rating agencies and this provided the spark to push the NZD higher. Fuel was added to the fire with a higher than expected NZ Q1 GDP release, which took all by surprise and drove the NZD to yet another post float high. From there it remained elevated despite a late weakening of the AUD after some forecasts of lower Australian interest rates hit the market.

The US question has not been answered. If credit rating agencies are supposed to be the canary in the mine then you would expect them to be proactive in their approach. This would add to USD weakness and be supportive of the NZD. Talk early in the week of an interim deal would only prolong the hard decisions.

European arena full of actors. The action continues for the European arena despite the EBA’s stress test results delivering just 8 failures and 16 near misses. In reality the assumptions used in the stress test need questioning, and markets are likely to continue to be disbelieving and reflect this in their pricing. As one commentator noted, it was more of a “tickle” test than a “stress” test.

While there is scope for the NZD to head higher, a period of consolidation this week is more

likely. The level of the NZD will start to hurt the non-commodity exporters. This week’s online Global Dairy auction should be watched with interest. The level of the NZD is helping to rebalance supply and demand issues and this is likely to play out in such announcements.

Technically speaking, the NZD has reached a major technical objective against the AUD (0.7961) and is approaching another against the EUR (0.6050). It should struggle to build on recent gains this week once the impact of the Q2 CPI is digested.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↑	Yield convergence favouring AUD less.
Commodities	↑	Wary of cracks appearing here
Partial indicators	↔/↑	NZ Q1 GDP strong.
Technicals	↔	Resistance at 0.7961
Sentiment	↔	Risk off.
Other	↔	Quiet week ahead. External factors to provide direction.
On balance	↔/↑	Trending higher.
NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	NZ Bonds have more fun.
Commodities	↔	Starting to be wary of turns in key NZ related commodities
Risk aversion	↔	Mixed signals.
Partial indicators	↑	NZ data better, US data worsening.
Technicals	↓	Bearish divergence.
AUD	↔/↓	AUD in correction mode.
Sentiment	↔	Underlying positive however cracks appearing.
Other	↔	External factors to drive NZD this week.
On balance	↔	An alignment of views may see the NZD struggle this week

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
18-Jul	NZ	Performance Services Index - JUN	--	54.7(a)	10:30
	NZ	Consumer Prices (QoQ) - 2Q	--	1.0%(a)	10:45
	NZ	Consumer Prices (YoY) - 2Q		5.3%(a)	10:45
	NZ	ANZ Job Ads - JUN	--	2.0%(a)	13:00
	UK	Rightmove House Prices (MoM) - JUL	--	0.6%	11:01
	UK	Rightmove House Prices (YoY) - JUL	--	1.1%	11:01
	AU	New Motor Vehicle Sales MoM - JUN	--	-7.6%	13:30
	AU	New Motor Vehicle Sales YoY - JUN	--	-14.5%	13:30
19-Jul	US	Net Long-term TIC Flows - MAY	\$40.0B	\$30.6B	01:00
	US	Total Net TIC Flows - MAY	--	\$68.2B	01:00
	US	NAHB Housing Market Index - JUL	14	13	02:00
	AU	Reserve Bank's Board Minutes - JUL	--	--	13:30
	EC	Construction Output SA MoM - MAY	--	0.7%	21:00
	EC	Construction Output WDA YoY - MAY	--	-2.0%	21:00
	GE	Zew Survey (Current Situation) - JUL	85.0	87.6	21:00
	EC	ZEW Survey (Econ. Sentiment) - JUL	--	-5.9	21:00
	GE	ZEW Survey (Econ. Sentiment) - JUL	-12.5	-9.0	21:00
20-Jul	US	Housing Starts - JUN	575K	560K	00:30
	US	Housing Starts MOM% - JUN	2.7%	--	00:30
	US	Building Permits - JUN	597K	612K	00:30
	US	Building Permits MOM% - JUN	-2.0%	8.7%	00:30
	AU	Westpac Leading Index (MoM) - MAY	--	0.2%	12:30
	AU	DEWR Skilled Vacancies MoM - JUL	--	-2.0%	13:00
	CH	Conference Board Leading Economic Index - JUL	--	--	14:00
	GE	Producer Prices (MoM) - JUN	0.0%	0.0%	18:00
	GE	Producer Prices (YoY) - JUN	5.5%	6.1%	18:00
	UK	Bank of England Minutes - JUL	--	--	20:30
21-Jul	EC	Euro-Zone Consumer Confidence - JUL A	-10.0	-9.8	02:00
	US	Existing Home Sales - JUN	4.95M	4.81M	02:00
	US	Existing Home Sales MoM - JUN	2.9%	-3.8%	02:00
	NZ	Net Migration SA - JUN	--	-360	10:45
	UK	Nationwide Consumer Confidence - JUN	49	55	11:01
	JN	Merchandise Trade Balance Total - JUN	-¥149.0B	-¥853.7B	11:50
	JN	Adjusted Merchandise Trade Bal. - JUN	-¥250.4B	-¥474.6B	11:50
	JN	Merchandise Trade Exports YoY - JUN	-4.1	-10.3	11:50
	JN	Merchandise Trade Imports YoY - JUN	11.0	12.3	11:50
	AU	NAB Business Confidence - 2Q	--	11	13:30
	AU	RBA Foreign Exchange Transaction - JUN	--	601M	13:30
	CH	HSBC Flash China Manufacturing PMI - JUL	--	50.1	14:30
	NZ	Credit Card Spending SA (MoM) - JUN	--	0.6%	15:00
	NZ	Credit Card Spending (YoY) - JUN	--	5.1%	15:00
	JN	All Industry Activity Index (MoM) - MAY	1.8%	1.5%	16:30
	GE	PMI Manufacturing - JUL A	54.1	54.6	19:30
	GE	PMI Services - JUL A	56.1	56.7	19:30
	EC	PMI Composite - JUL A	52.6	53.3	20:00
	EC	Euro-Zone Current Account nsa - MAY	--	-6.5B	20:00
	EC	ECB Euro-Zone Current Account SA - MAY	--	-5.1B	20:00
	EC	PMI Manufacturing - JUL A	51.5	52.0	20:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Jul	EC	PMI Services - JUL A	53.2	53.7	20:00
	UK	Public Finances (PSNCR) - JUN	17.0B	11.1B	20:30
	UK	PSNB ex Interventions - JUN	12.5B	17.4B	20:30
	UK	Public Sector Net Borrowing - JUN	10.2B	15.2B	20:30
	UK	Retail Sales Ex Auto Fuel(MoM) - JUN	0.7%	-1.6%	20:30
	UK	Retail Sales Ex Auto Fuel(YoY) - JUN	0.2%	0.0%	20:30
	UK	Retail Sales w/Auto Fuel (MoM) - JUN	0.7%	-1.4%	20:30
	UK	Retail Sales w/Auto Fuel (YoY) - JUN	0.4%	0.2%	20:30
22-Jul	US	Initial Jobless Claims - 16 JUL	410K	405K	00:30
	US	Continuing Claims - 9 JUL	3705K	3727K	00:30
	US	House Price Index MoM - MAY	0.1%	0.8%	02:00
	US	Leading Indicators - JUN	0.2%	0.8%	02:00
	US	Philadelphia Fed. - JUL	2.0	-7.7	02:00
	AU	Import price index (QoQ) - 2Q	-1.1%	1.4%	13:30
	AU	Export price index (QoQ) - 2Q	4.5%	5.2%	13:30
	JN	Supermarket Sales (YoY) - JUN	-	-1.4%	17:00
	GE	IFO - Business Climate - JUL	113.6	114.5	20:00
	GE	IFO - Current Assessment - JUL	122.2	123.3	20:00
	GE	IFO - Expectations - JUL	105.0	106.3	20:00
	EC	Industrial New Orders NSA (YoY) - MAY	10.3%	8.6%	21:00
	EC	Industrial New Orders SA (MoM) - MAY	0.8%	0.7%	21:00

Key: AU: Australia, EC: Euro-zone, 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: Stronger than expected March quarter GDP (and upward revisions to historical numbers) confirmed that the economy started the year with considerably more momentum, with potentially a smaller margin of spare capacity than previously envisaged. Today's inflation data was stronger than the RBNZ's pick and we continue to view clear upside medium-term inflation risks to the June MPS assessment. Domestic data over the next few months should show continued improvement, albeit with global ructions and uncertainties over the pace of earthquake reconstruction suggest a bumpy road ahead.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 20 July (6:00am)	<i>GlobalDairyTrade</i> dairy auction	Holding	We expect dairy prices to hold around current levels, but with offsetting movements amongst the components.
Thur 21 July (10:45am)	International Travel and Migration - June	Down	We expect a net outflow of 200 persons. Ash clouds and not much snow will contribute to a 2-3 percent fall in visitor numbers.
Thur 21 July (3:00pm)	RBNZ Credit Statistics – June	Up	A monthly increase of approximately 0.9 percent is envisaged. Spending on overseas cards should fall.
Tue 26 July (10:45am)	Overseas Merchandise Trade - June	Another surplus	We expect a monthly surplus of \$480m, with the annual surplus to widen to \$1.3bn.
Wed 27 July (1:00pm)	National Bank Business Outlook – July	- -	- -
Thur 28 July (9:00am)	RBNZ OCR Review	On hold	We expect the OCR to be maintained at 2.5 percent. The first RBNZ hike will be in the December <i>MPS</i> .
Fri 29 July (10:45am)	Building Consents – June	Climbing	We expect a 3 percent increase in residential consent numbers.
Fri 29 July (3:00pm)	RBNZ Credit Aggregates -June	Flat	Low annual rates of credit growth expected, with business credit climbing and agricultural credit easing.
Mon 1 Aug (1:00pm)	ANZ Commodity Price Index	- -	- -
Tue 2 Aug (10:45)	Labour Cost Index – Q2	Growing	We expect private sector salary and wage rates to rise 0.5 percent (2.1 percent y/y).
Tue 2 Aug (10:45)	Quarterly Employment Survey – Q2	Tightening	Private sector hourly earnings should rise 0.2 percent (2.1 percent y/y). Filled jobs and paid hours should rise 0.2 percent.
Wed 3 Aug (6:00am)	<i>GlobalDairyTrade</i> dairy auction	Stabilise	We expect overall dairy prices to hold around current levels, with offsetting movements amongst the components.
Thur 4 Aug (10:45)	Household labour Force Survey – Q2	Firming	A 0.2 percent increase in employment is expected, with the unemployment rate to fall to around 6.4 percent.
Tue 9 Aug (10:45)	Electronic Card Transactions - July	Up	Firming incomes will underpin a 0.5 percent increase in retail ECT spending.
On Balance		On the up	Soft leading gauges and less uncertainty over the future of Christchurch point towards a better Q2 and beyond.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.5	0.8	0.7	1.5	1.8	0.7	0.9	0.9	0.8	0.7
GDP (% yoy)	1.1	1.4	1.9	3.5	4.9	4.8	5.0	4.4	3.3	3.3
CPI (% qoq)	2.3	0.8	1.0	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.7	2.6	2.9
Employment (% qoq)	-0.4	1.4	0.2	0.4	0.6	0.7	0.5	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	2.2	1.4	2.4	1.7	2.2	2.3	2.1	1.8
Unemployment Rate (% sa)	6.7	6.6	6.4	6.1	6.0	5.7	5.5	5.4	5.3	5.3
Current Account (% GDP)	-4.1	-4.2	-4.2	-4.2	-3.6	-4.0	-4.2	-4.6	-4.9	-5.0
Terms of Trade (% qoq)	0.8	0.9	2.9	3.1	1.0	-0.8	-0.9	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.3	6.8	7.8	7.9	8.0	6.2	2.3	-1.6	-3.2	-3.3

	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11
Retail ECT (% mom)	1.9	0.9	1.0	-0.8	2.4	-0.2	1.4	1.4	-0.7	1.2
Retail ECT (% yoy)	5.0	4.8	6.3	4.4	5.7	6.2	6.6	10.0	6.8	9.0
Credit Card Billings (% mom)	1.1	0.6	0.1	-1.8	3.7	-0.4	-1.3	1.8	0.6	..
Credit Card Billings (% yoy)	4.3	4.6	3.8	2.0	5.6	5.3	1.7	6.1	5.1	..
Car registrations (% mom)	2.6	-3.9	13.0	-8.5	0.9	-1.7	-0.2	-5.6	3.3	-2.3
Car registrations (% yoy)	19.2	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5	-3.7	-9.5
Building consents (% mom)	0.7	-1.8	8.5	-18.8	9.2	-9.6	2.5	-1.2	2.3	..
Building consents (% yoy)	-9.4	-17.5	-8.9	-26.4	-14.9	-28.9	-26.2	-32.2	-22.0	..
REINZ House Price Index (% yoy)	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	-0.7	..
Household Lending Growth (% mom)	0.2	0.0	0.0	0.0	0.1	0.1	-0.1	0.2	0.1	..
Household Lending Growth (% yoy)	2.3	2.0	1.8	1.6	1.6	1.5	1.2	1.2	1.2	..
ANZ Roy Morgan Consumer Confidence	116.4	113.6	114.5	112.2	117.1	108.1	101.4	101.4	103.3	112.5
NBNZ Business Confidence	13.5	23.7	33.2	29.5	..	34.5	-8.7	14.2	38.3	46.5
NBNZ Own Activity Outlook	26.7	30.5	35.3	34.5	..	36.6	14.7	29.5	39.7	38.7
Trade Balance (\$m)	-455	-220	-177	-218	9	184	586	1148	605	..
Trade Balance (\$m ann)	978	1259	1363	1172	909	765	744	1232	1067	..
ANZ World Commodity Price Index (% mom)	2.6	3.0	2.1	1.6	4.3	2.7	4.7	1.6	0.4	-1.2
ANZ World Commodity Price Index (% yoy)	25.1	23.1	13.1	12.1	16.3	20.3	23.5	19.8	19.6	20.6
Net migration (sa)	1000	400	600	720	440	450	-520	-120	-350	..
Net migration (annual)	13914	12610	11519	10451	8689	8249	6554	5508	4625	..

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	Apr-11	May-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZD/USD	0.810	0.824	0.848	0.80	0.81	0.79	0.77	0.75	0.73	0.73
NZD/AUD	0.738	0.772	0.796	0.74	0.75	0.75	0.75	0.74	0.74	0.74
NZD/EUR	0.547	0.572	0.600	0.58	0.60	0.59	0.57	0.55	0.53	0.54
NZD/JPY	65.75	67.16	66.98	68.0	70.5	70.3	70.1	69.8	69.4	70.1
NZD/GBP	0.485	0.501	0.526	0.50	0.52	0.51	0.49	0.47	0.46	0.46
NZ\$ TWI	68.6	70.9	73.3	70.4	71.8	70.9	69.4	67.8	66.4	66.8
INTEREST RATES	Apr-11	May-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00	4.25
NZ 90 day bill	2.68	2.69	2.68	2.70	3.10	3.70	3.80	4.20	4.30	4.80
NZ 10-yr bond	5.44	5.11	5.00	5.20	5.50	5.70	6.00	6.20	6.10	6.20
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00	2.50
US 3-mth	0.27	0.25	0.25	0.35	0.35	0.85	1.60	2.10	2.10	2.60
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	5.00	5.00	5.25	5.25	5.50
AU 3-mth	4.92	5.02	5.00	5.00	5.00	5.20	5.20	5.50	5.50	5.70

	15 Jun	11 Jul	12 Jul	13 Jul	14 Jul	15 Jul
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.67	2.66	2.66	2.67	2.66	2.64
NZGB 04/13	3.18	3.17	3.13	3.14	3.19	3.23
NZGB 04/15	3.98	3.99	3.92	3.91	3.96	3.98
NZGB 03/19	4.84	4.90	4.80	4.77	4.80	4.80
NZGB 05/21	5.05	5.10	5.00	4.97	4.98	4.98
2 year swap	3.36	3.37	3.32	3.34	3.41	3.42
5 year swap	4.36	4.41	4.34	4.37	4.39	4.39
RBNZ TWI	70.1	72.2	71.4	71.4	72.5	72.6
NZD/USD	0.8151	0.8342	0.8194	0.8222	0.8424	0.8416
NZD/AUD	0.7619	0.7793	0.7732	0.7733	0.7846	0.7842
NZD/JPY	65.60	67.38	65.63	65.33	66.31	66.67
NZD/GBP	0.4980	0.5212	0.5162	0.5158	0.5220	0.5210
NZD/EUR	0.5656	0.5880	0.5872	0.5870	0.5926	0.5941
AUD/USD	1.0698	1.0704	1.0597	1.0633	1.0737	1.0732
EUR/USD	1.4412	1.4187	1.3955	1.4008	1.4215	1.4167
USD/JPY	80.48	80.77	80.10	79.46	78.71	79.22
GBP/USD	1.6366	1.6006	1.5874	1.5940	1.6139	1.6154
Oil (US\$/bbl)	99.37	96.20	97.41	97.41	98.04	95.75
Gold (US\$/oz)	1524.00	1545.65	1568.05	1565.55	1585.50	1583.75
Electricity (Haywards)	2.47	3.03	5.40	3.93	4.21	4.95
Baltic Dry Freight Index	1405	1437	1411	1383	1367	1353
Milk futures (USD)	162	153	155	157	155	155

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