

BREAKING THE BACK OF IT

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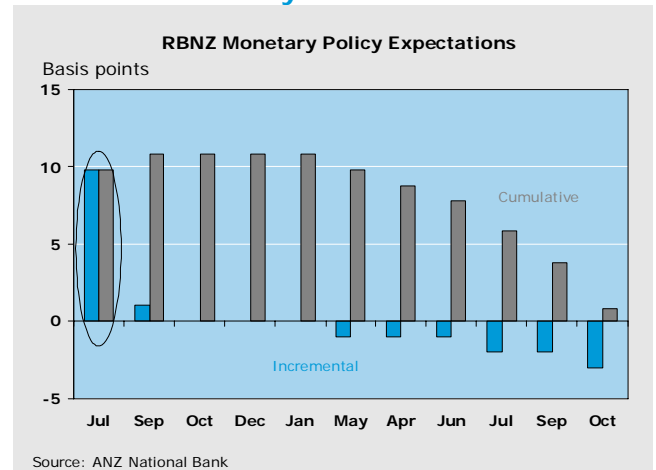
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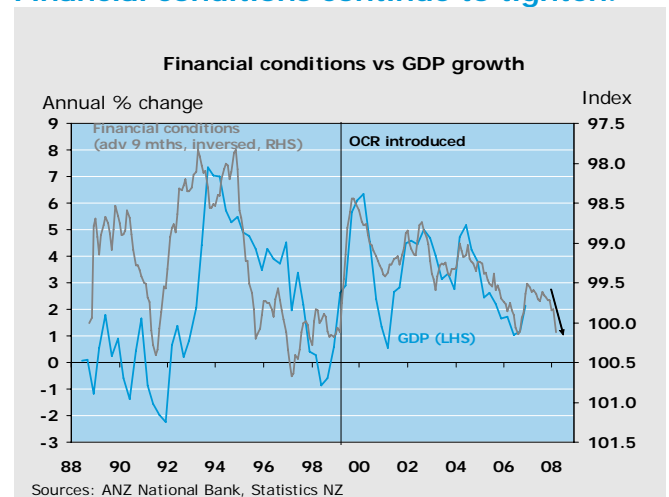
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Markets are attuned to the risk of a further hike in July.



Financial conditions continue to tighten.



ECONOMIC OVERVIEW

The Reserve Bank's *Statement* reinforces that the bias for the OCR remains to the upside. Nonetheless, the Reserve Bank (with some assistance from offshore) looks to have broken the back of the yield curve – a significant development in ensuring policy traction and potentially mitigating the need for a further move.

What's ahead...

- NZ March quarter Overseas Trade Indices (Monday 1045 NZST). We expect a strong rise in the terms of trade for the March quarter.
- NZ April Retail Sales (Thursday 1045 NZST). We expect a pull-back in spending in April.
- NZ March quarter Economic Survey of Manufacturing (Friday 1045 NZST). A recovery in the Business NZ PMI suggests manufacturing production increased in the quarter.

What's the view

Carnage. There is no other word to describe last week. A 33 and 35 basis point increase in New Zealand 2- and 5-year swap rates, respectively, the NZD/USD pushing through 0.76, and some offshore commentators reporting that the hike by the Reserve Bank was responsible for US longer-dated yields popping well through 5 percent! Equities down, then up. Swap spreads widening. It's a message that markets are on edge, although such unease certainly did not stop the NZD heading up, which is not typical when risk appetites are being reassessed! So what do we make of it all? There look to be 6 key messages:

The Reserve Bank wants to make sure the pending slowdown is for real. As noted by the Reserve Bank, *"there are some early indications from recent opinion surveys and other data that growth may be starting to soften, but these are by no means conclusive. Indeed, at present the risks to domestic activity appear to remain on the upside... A significant development in the past six months has been a marked increase in dairy prices."* With considerable stimulus in the pipeline, the Reserve Bank needed a further anti-growth insurance policy to ensure preliminary signs of a turn in the cycle manifest in a sustained outcome.

Inflation is the greater risk at present. While the Governor has been harshly criticised for raising interest rates last week, such criticism looks unfounded. Commentators are failing to appreciate the balancing act the Governor is facing. On the one hand, there is the risk that inflation continues unchecked. On the other, there is the risk of an unnecessary growth sacrifice if the interest rate lever is pulled too hard. History tends to judge late cycle moves as being unnecessary. But which is the bigger evil? Undoubtedly the first. Better a small growth sacrifice now, as opposed to risking a harsher adjustment down the track.

The risk profile for interest rates remains to the upside. The Reserve Bank still expects CPI inflation to remain at the top of the policy target band through 2008, 2009 and 2010. There is no inflation headroom. The Reserve Bank sees the balance of risks for medium-term inflation to the upside. An alternative interest rate scenario, which is based on further lifts in commodity prices and a more stretched economy, portrays a 90-day track hitting 8.5 percent.

The yield curve looks to be working in the Reserve Bank's favour. The importance of this cannot be under-stated. It's a key reason we expect the Reserve Bank to remain on hold in July. Monetary policy is more than merely pulling the OCR lever. It is about manipulating the yield curve. Low longer-dated yields had suppressed the monetary policy transmission mechanism over the past few years. The combination of higher global yields and outright capitulation along the NZ yield curve post the June *Statement* now looks set to deliver the policy tightening essential to slowing the housing market (refer page 3). Brace for fixed lending rates to breach 9 percent across the board. Indeed, the Reserve Bank has achieved more policy tightening over the past 3 months than in the preceding 2 years! The trick for them at this juncture is to keep the yield curve up, and working in their favour.

The global economy may be waking to the NZ experience. Certainly the US economy looks to be repeating the NZ experience in early 2006 and proving far more resilient than the consensus expected. The lesson from New Zealand is that inflation pressure is stronger and interest rates end up moving further than first thought. US 10-year yields have now popped through 5 percent – a key psychological level – and equity markets are wary of valuation challenges in a higher interest rate environment. The market is now looking for a hike from the RBA over the coming 2 months, given the fall in the unemployment rate to 4.2 percent.

Brace for more volatility. With international markets starting to evolve towards inflation risks, expect volatility to remain high and markets to be vulnerable to changes in risk appetite. We continue to favour a far earlier (and aggressive) turn in the NZD than the consensus, given our view that the economy will show signs of slowing over the coming months, international yields look to be biased higher, and risk appetites look fragile.

Recent data...

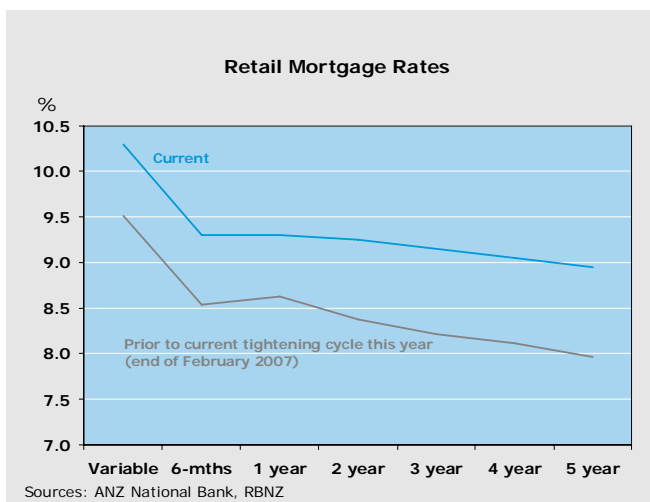
- **NZ Wholesale Trade Survey (Mar qtr).** Seasonally adjusted sales rose 1.7 percent.
- **ANZ Commodity Price Index (May).** The world price index rose 2.6 percent.
- **RBNZ June Monetary Policy Statement.** The OCR was increase by 25bps to 8.0 percent.
- **NZ Building Work Put in Place (Mar qtr).** Total real construction activity rose 2.5 percent.

PIPELINE UPDATE

Recent moves in longer-dated yields will give the Reserve Bank additional policy traction.

The Reserve Bank has been clear in its objective of wanting to generate a sustained slowdown in domestic demand to alleviate inflation pressure. Previous tightening cycles have been muted by falling global yields, which resulted in lower fixed lending rates and prolonged the monetary policy transmission channel. This has been a great source of frustration to the Reserve Bank, which found itself having to do more.

Much has been made of the boom in world dairy prices forcing the Reserve Bank's hand last week. But a recent significant development is the upwards pressure that has emerged on New Zealand longer-dated yields courtesy of outright capitulation following the June decision, and also upwards pressure from rising global rates. We, and no doubt the Reserve Bank as well, have been surprised at how far the back-end of the New Zealand yield curve has increased courtesy of offshore moves. US 10-year bond yields rose as much as 40bps in the last two weeks, and the NZ 10-year bond yield is up over 50bps over that time. New Zealand's 5-year swap rate is similarly up 50 basis points in two weeks! The entire New Zealand curve has risen, and we suspect this will have a significant impact on housing activity.



Almost all fixed lending rates are now likely to be in excess of 9 percent – a massive level for first home buyers. To put this in perspective, to a typical first home buyer looking at borrowing \$250,000, the increase in fixed lending rates over the past 3 months of close to 100 basis points, has increased the weekly cost by almost \$40.

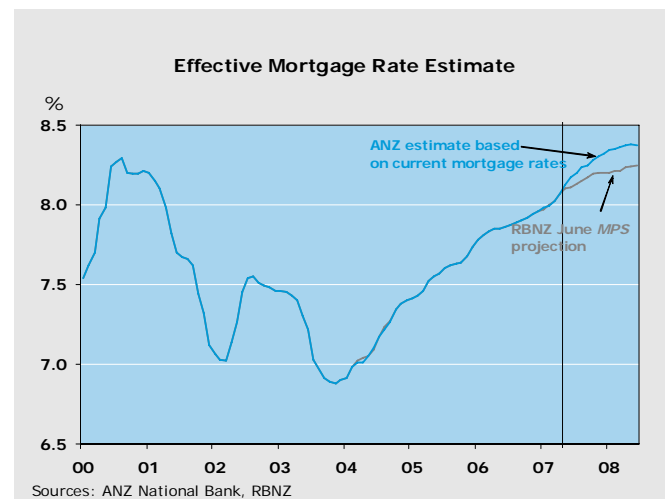
The magnitude of increases in interest rates over the past 3 months is massive. A 2-year fixed mortgage is now likely to be 100 basis points higher than in February, similarly for a 5-year rate. It is the speed of the change that may be potentially a very effective policy tool if it dents the bullet-proof persona of the housing market.

Certainly last week's OCR hike was not met by the same *"Higher rates, who cares"* headline that followed the March *Statement*.

There is nowhere to run. As noted above, almost all fixed lending rates are likely to be at or above 9 percent. Borrowers typically shunted along the yield curve previously when their mortgage came up for renewal, leaving cash-flow unchanged. The recent sizable increase in longer-dated lending rates has removed this option.

There is considerable pipeline tightening to come. We have updated our effective mortgage rate estimate, taking into account where lending rates are likely to be set given recent wholesale interest rate moves. Our updated effective mortgage rate profile shows a steep rise over the coming months, courtesy of the 75bps increase in floating rates in the past three months, which flow straight through into the effective rate, and the large jump in interest rates faced by those refinancing in the next few months.

Our effective mortgage rate estimate has a higher profile than the Reserve Bank's June *MPS* projection, with a peak of close to 8.4 percent in early 2008, the highest level since late 1998. We suspect the Reserve Bank did not incorporate any further increases in the mortgage curve when it estimated their effective mortgage rate for the June *MPS*. This means that the pipeline mortgage rate effect will be delivering a bigger impact than the Reserve Bank was expecting.



Financial Market Implications

The yield curve now looks to be working in the Reserve Bank's favour. This will deliver a higher, flatter mortgage curve across the board, resulting in a more substantial pipeline interest rate effect than the Reserve Bank was expecting.

While the market will continue to test a July hike theme – and we remain wary where the June quarter CPI non-tradable inflation could print – the yield curve should be giving the Governor comfort that monetary policy will bite.

TIGHTENING THE FINANCIAL CONDITIONS GRIP

Our *Financial Conditions Index* is pointing towards a material turn in economic activity over the second half of this year, and is consistent with GDP growth of 1 to 1¼ percent by early 2008.

Regular readers of our *Market Focus* will be aware of our *Financial Conditions Index*, which we monitor and provide periodic updates in this publication. Unlike the conventional *Monetary Conditions Index*, our *Financial Conditions Index* includes a wider array of variables to recognise the different channels through which monetary policy influences the economy. These include:

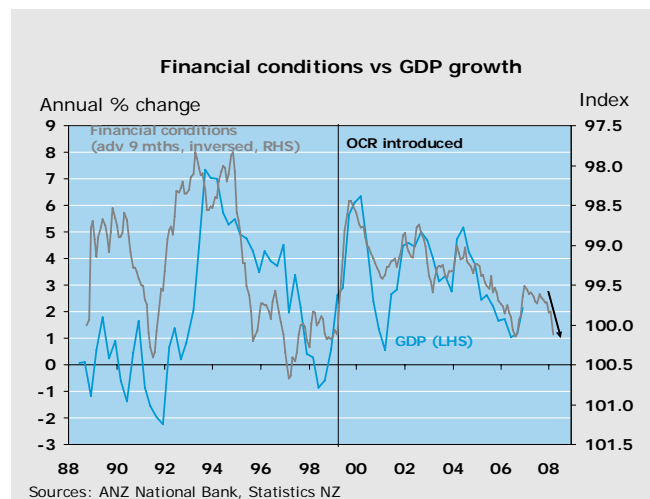
- The currency, augmented for where commodity prices reside in the cycle and the impact that costs are having on export performance.
- The 90-day bank bill rate, which the Reserve Bank influences through the OCR.
- The 2-year swap rate to recognise that most mortgage lending is undertaken for 1 to 2 years, which gives monetary policy long lags.
- The 10-year bond rate.
- The equity market index as a proxy for corporate wealth and liquidity.
- House prices to proxy household wealth, in recognition that most New Zealand households' wealth is tied up in housing.
- Private sector credit growth as a proxy for the credit channel of monetary policy and to recognise the growing role that financial intermediaries are playing in the monetary transmission process.
- The stock of monetary aggregate relative to the size of the economy to capture the role of liquidity.

Our index is calibrated so that there is a 4:1 ratio between the internal (e.g. interest rates) and external (e.g. currency) variables. The weights on the domestic variables are also heavily skewed towards the 90-day and 2-year swap rates, with smaller roles for the 10-year bond rate, equity market, house prices, credit growth and monetary aggregate ratio.

A major change we have recently introduced is to calculate the *Financial Conditions Index* on a monthly basis. This allows us to capture more timely movements in financial market pricing, and better identify turning points in the growth cycle.

Our revamped monthly *Financial Conditions Index* provides a stronger correlation with GDP growth

compared to the quarterly version. Since June 1999 (after the OCR was introduced), the correlation coefficient was -0.81 and more importantly, has been successful in predicting key turning points in the growth cycle. Our index picked the slowdown in economic growth since late 2004 and the strong rebound in Q4 last year and Q1 this year. But things are looking more ominous for the second half of this year.



Financial conditions have started to tighten since early this year, and materially so over recent months, courtesy of higher domestic interest rates and the currency reaching new post-float highs. Strong increases in world commodity prices have dampened the effect of the high currency, and continued strong house price growth has also provided some offset.

But sharp rises in interest rates courtesy of successive moves by the RBNZ in March, April and June have delivered most of the tightening in financial conditions over the past two months. Higher global interest rates, which pushed up the NZ 10-year bond yield, also added to the tightening.

Based on the lagged effect of when tighter financial conditions start to impact on growth, we expect economic activity to feel the bite over the second half of this year. Q1 GDP growth will undoubtedly be strong, and Q2 is still likely to post reasonable growth. However, Q3 is looking very vulnerable. In fact we are suspicious of an outright contraction.

Our *Financial Conditions Index* suggests a turn in the growth cycle mid-year, with the annual pace of GDP growth to slow towards 1 to 1¼ percent by either late this year or early next year. If financial conditions remain where they are, it looks like the Reserve Bank is about to get their desired slowdown.

INTEREST RATE STRATEGY

After recent sharp moves in the rates market, we expect the curve to retract this week. There will be pressure to receive the front-end of the curve, but offshore moves will dictate.

Market themes...

- Surprise RBNZ move sparks sell-off and reassessment of NZ interest rate prospects.
- Global yields move higher with US 10-year bond breaking through key 5 percent level.
- Big inflation week to set the tone for global rates, with CPI data for US, UK and EU due.

Outlook...

The market was caught by two unexpected developments last week. The first was the surprise hike by the RBNZ (though this was in line with our out-of-consensus call). The second was the sharp sell-off in global bonds, with US 10-year bond yields breaking through the key 5 percent level and pushing the back-end of the NZ curve higher.

We expect a much more subdued trading week this week compared to last week's price action. After such sharp moves in yields across the entire swaps curve (up by between 26 and 40bps over the course of the week), we expect receivers to dominate early in the week as participants expect a retracement of the curve. Flows and offshore moves to continue dictating.

The market is now pricing in a 50 percent chance of a July hike by the RBNZ. Our view is closer to a one-in-three chance. Certainly the upcoming dataflow will still print largely on the strong side in the near-term, starting with today's terms of trade data, which we expect to print stronger than what the market and the RBNZ is expecting. Thursday's retail sales will likely show a pullback following two strong months, but will not provide conclusive evidence that the consumer is putting its wallet away. Friday's manufacturing survey will provide the final piece of the jigsaw for Q1 GDP. A strong rebound in manufacturing production will seal a much stronger Q1 GDP print than what the RBNZ had forecast, which will bias the direction for rates towards the upside.

Given last week's moves in global yields, the upcoming inflation reports from the US, UK and EU will be closely watched. Markets have now finally become attuned to the inflation risks after firm policy action by central banks. Whether the bearish sentiment towards bonds continues will rest on the inflation outturns. Strong data out of Australia, this time on the labour market front, continues to point to the risk of a hike from the RBA sooner rather than later. The BoJ is expected to keep rates on hold at the end of this week. But with expectations

of a hike sometime in the second half of the year, the BoJ's assessment will be closely watched.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔/↑	Three hikes in a row, and a fourth one cannot be ruled out.
NZ data	↔/↑	Strong terms of trade to keep bias towards higher rates, but soft retail sales could put a cap.
Fed Funds/front end	↔/↑	Fed look to be on hold for rest of this year. Market not willing to price in hikes just yet.
RBA	↔/↑	Strong AU employment data raises the risk of a RBA hike, sooner rather than later.
US 10 year	↔/↑	US bond yields broke through key 5% level. Sentiment bearish on bonds.
NZ swap spreads	↔/↓	EFPs to grind lower this week.
Flow	↔/↓	Receivers to dominate early in the week. Large NZD/JPY overnight flows to bring some receivers in on the carry trade.
Technicals	↑	The technical picture is still painting a medium-term bearish outlook.

Borrowing strategies we favour at present

No relief for NZD borrowers last week with significant increases in yields driven by the RBNZ and offshore. Fixing in the 2- and 3-year part of the curve still represents good insurance over the short-term and allows borrowers to participate in restructuring opportunities if we were to see a dip in yields in the medium-term.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Jul-07	27	52
Thu 13-Sep-07	43	72
Thu 25-Oct-07	47	74
Thu 6-Dec-07	47	74
Thu 24-Jan-08	47	74
Thu 6-Mar-08	43	74
Thu 24-Apr-08	31	74

Trading themes we favour at present

We expect the curve to retract, with the brunt of the move in the front-end of the curve.

CURRENCY STRATEGY

With carry still king, we expect the NZD to show short-term strength. Volatility looks set to increase.

Market themes...

- Rate hike from RBNZ helps NZD to new post-float highs.
- Big data releases in Australia point to rate hikes across the Tasman.

Outlook...

Yield related demand for Australasian currencies continued in force last week. A rate hike from the RBNZ assisted the NZD to post-float highs of 0.7640. Strong demand has been noted, particularly from Japanese custodial accounts, suggesting that carry related trades are still the order of the day. Latest IMM data (for the week ending 5 June, pre-dating the OCR decision) points to an increase in the speculative (net long) positioning in the NZ dollar – from NZ\$1.49bn to \$1.99bn, and this could extend further.

The RBA left their policy interest rate unchanged. But strong data through the week (notably a monster GDP result, and employment data showing the Australian labour market is on fire) have left the market in little doubt that Australian interest rates will rise. The sticking point at present is the timing of the rate hike, with our official call being that this will be delayed until after the Federal election, but there is a very real risk that it could happen as early as next month. IMM long positioning in the Australian dollar more than doubled in the week to 5 June to stand at A\$7.7bn.

Over the week ahead, the domestic focus will be on today's Q1 Overseas Trade Indices and the release of April retail spending on Thursday. The retail spending result is expected to be soft, following several strong months. With the Reserve Bank clearly in data-watch mode and looking for signs that the interest rate increases delivered this year are having an impact, weakness in retail spending may weigh on the kiwi. But the main directional driver for the kiwi this week is likely to come from offshore.

The US calendar is quite full this week. As we have noted previously, markets are backing away from expectations of a rate cut from the Fed this year. Given that inflation continues to be the Fed's primary concern, US PPI and CPI data (due Friday and Saturday, NZST respectively) will be keenly waited for. Retail sales and the Fed's Beige Book will provide a read on the state of the US economy. Any upside in these releases will reinforce the changing market sentiment, and lend support to the USD.

Market sentiment will be key, and can easily turn on a dime. While touching the top of a weekly channel at 0.7640 with very little supply into the market, it will not take much to extend the move through to 0.7730. With euphoric buying and a long market, 0.7800 beckons as a significant top. Close watch on the level of the NZ TWI by the market will see selling interests potential unveiled on some crosses.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑↔	Advantage NZ – 8.00 v 6.25.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↑	Break of 0.9025 sees 0.90 bid now. Expect a probe to 0.9180 over next two weeks.
Sentiment	↑	Bonus season in Japan giving short term NZD/USD strength.
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
On balance	↑	Short term strength but volatility set to rise.

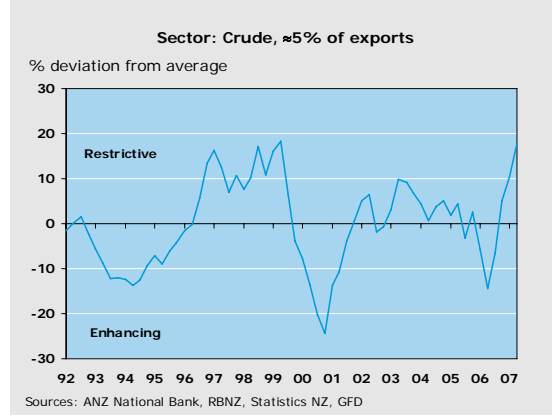
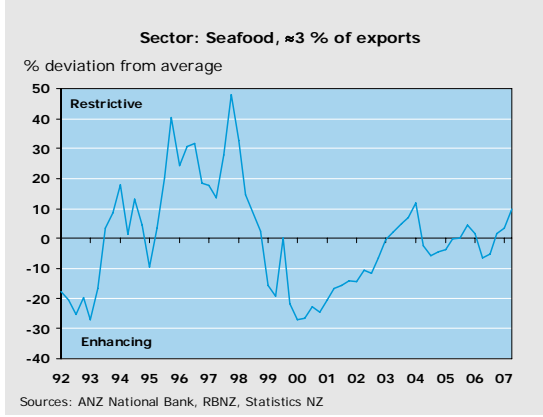
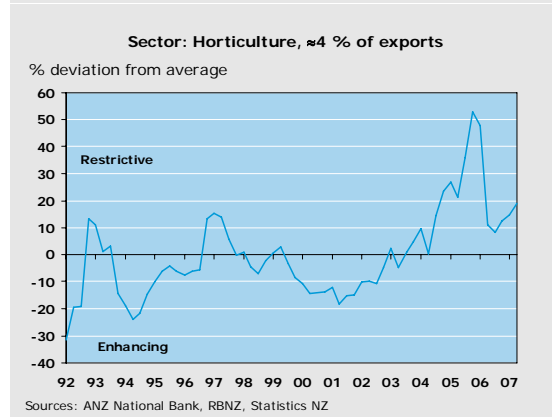
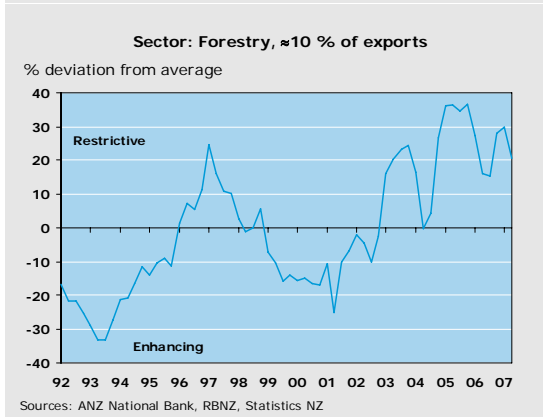
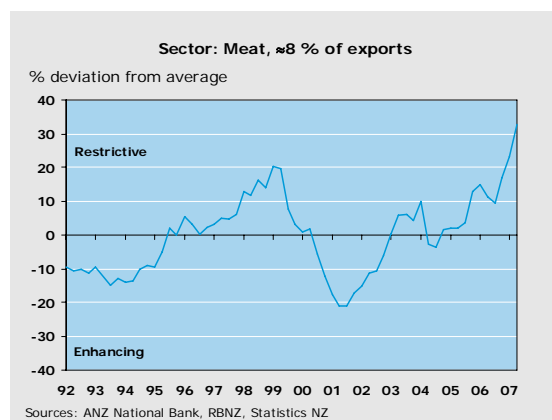
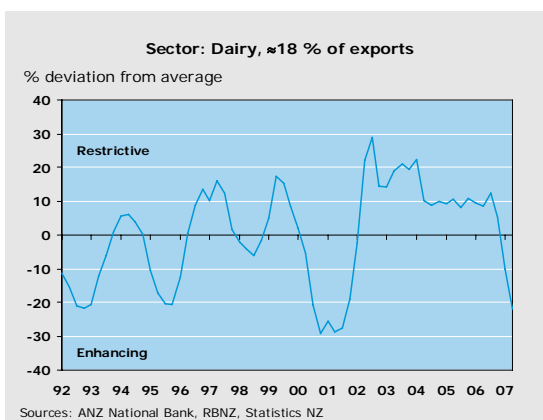
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↓	Some sectors booming, but over-priced now.
Yield	↑	8% clearly a buy trigger.
Commodities	↔	Higher commodity prices remain supportive but NZD over-priced on dairy alone.
Risk aversion	↑	Euphoria exists.
Partial indicators	↔	Commodity currency consolidating, emerging markets remain jittery at extended levels.
Technicals	↑	NZD holding break levels well. Expect 0.7560 to hold now for a push to 0.7730.
AUD	↔	Stable but not leading.
Sentiment	↑	Seller averaging in wider intervals.
Other	↓	Offshore market is getting long. We think 0.7800 to cap for large retracement.
On balance	↑↔	Short term strength but 0.78 is extent of move.

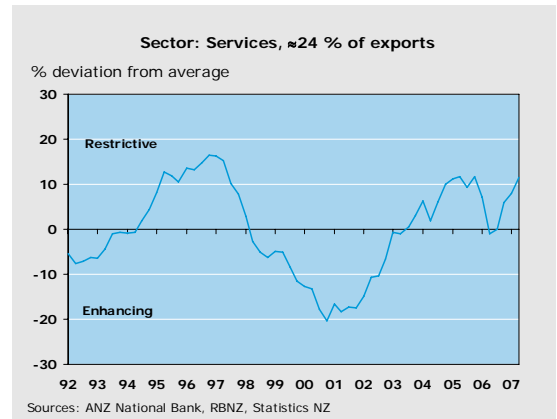
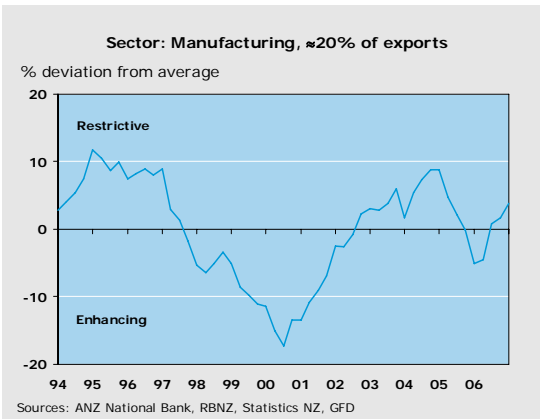
EFFECTIVE EXCHANGE RATES (UPDATE)

Regular readers will remember that we track real effective exchange rate measures across various export industries. These measures adjust for the impact of commodity prices and are weighted by the export destination. They highlight that the high NZD continues to have a contrasting impact on the New Zealand export community.

Strong commodity prices continue to insulate the dairy sector. Our effective exchange rate is now approaching levels last seen during the period the NZD/USD was below 0.45! (It is perhaps of little surprise to see the 2007/08 dairy payout being flagged as close to the \$5.35 payout received in 2000/01). Improved sawn timber and pulp prices are assisting the forestry sector although the overall level of the currency is still a net restraint on the sector. The commodity adjusted real exchange rate facing the meat industry continues to set new historical highs. Conditions have tightened in the seafood, crude, horticulture, and service industries. Conditions have similarly tightened for the manufacturing sector, and particularly with the NZD/AUD now breaching 0.90.

Collectively, the measures highlight the massive divergences across the export sector with the dairy industry doing well, but conditions progressively tightening for other sectors.





DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
11 Jun	NZ	Terms of Trade (1Q) – qoq	2.5%	2.4%	10:45
	JN	GDP (1Q F) – qoq	-	0.6%	11:50
		GDP Deflator (1Q F)	-0.2%	-0.2%	11:50
	US	Fed's Pinalto, ECB's Hurley Speak in Dublin	-	-	20:00
	UK	PPI Input (May) – mom	0.6%	0.7%	20:30
		PPI Output (May) - mom	0.4%	0.5%	20:30
		PPI Output Core (May) – mom	0.3%	0.1%	20:30
		DCLG House Prices (Apr) – yoy	11.0%	10.9%	20:30
12 Jun	US	Fed's Moskow Gives Welcome Remarks on Auto Industry	-	-	02:00
	JN	Domestic CGPI (May) – mom	0.5%	0.8%	11:50
	NZ	Bollard Speaks to Waikato Grasshoppers	-	-	15:30
		Consumer Confidence (May)	47.8	47.6	17:00
	AU	NAB Business Confidence (May)	-	13	13:30
		NAB Business Conditions (May)	-	13	13:30
	UK	CPI (May) – mom	0.3%	0.3%	20:30
		CPI Core (May) – yoy	1.8%	1.8%	20:30
		Retail Price Index (May) – mom	0.4%	0.5%	20:30
		RPI Ex Mortgage Interest Payments (May) – yoy	3.3%	3.6%	20:30
		Trade Balance Non EU (Apr)	-£4,000	-£3,963	20:30
		Total Trade Balance (Apr)	-£4,375	-£4,529	20:30
	EU	Euro-Zone Industrial Production (Apr) – mom	0.2%	0.4%	21:00
13 Jun	US	Treasury's Paulson Speaks at Trade Conference in Atlanta	-	-	00:30
		IBD/TIPP Economic Optimism	-	48.0	02:00
		Former Fed Chairman Greenspan Speaks at Mortgage Conference in New York	-	-	04:30
		Fed's Moskow Introduces Speaker at Transportation Conference	-	-	06:00
		Monthly Budget Statement (May)	-\$70.0B	-\$42.9B	06:00
	EU	ECB's Mersch Holds Briefing in Luxembourg	-	-	04:00
	NZ	Food Prices (May) – mom	-	0.2%	10:45
	JN	Current Account Total (Apr)	¥1,818.1B	¥3,317.2B	11:50
		Industrial Production (Apr F) – mom	0.1%	-0.1%	16:30
		Capacity Utilisation (Apr F)	-	106.3	16:30
	AU	Westpac Consumer Confidence (Jun)	-	7.5%	12:30
	EU	ECB Council Member Liikanen Holds a News Conference	-	-	20:00
		Euro-Zone Employment (1Q) – qoq	-	0.3%	21:00
	UK	Jobless Claims Change (May)	-8.4k	-15.7k	20:30
		Average Earnings inc Bonus (Apr) – 3m/yoy	4.4%	4.5%	20:30
		ILO Unemployment Rate (Apr) – 3mths	5.5%	5.5%	20:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
14 Jun	US	Import Price Index (May) – mom	0.3%	1.3%	00:30
		Advance Retail Sales (May)	0.6%	-0.2%	00:30
		Retail Sales Less Autos (May)	0.7%	0.0%	00:30
		Fed's Geithner Speaks on Asia, Economy & Finance in Singapore	-	-	00:40
		Business Inventories (Apr)	0.3%	-0.1%	02:00
		Fed's Beige Book	-	-	06:00
	EU	ECB's Trichet Speaks in Berlin	-	-	05:00
	NZ	Retail Sales (Apr) – mom	0.0%	1.3%	10:45
		Retail Sales Ex-Auto (Apr) – mom	0.0%	0.8%	10:45
		Business NZ PMI (May)	-	54.2	-
	AU	Consumer Inflation Expectation (Jun)	-	14.2%	12:30
		RBA Governor Glenn Stevens Speaks	-	-	14:55
	GE	Consumer Price Index (May F) – mom	0.2%	0.2%	18:00
		CPI – EU Harmonised (May F) – mom	0.2%	0.2%	18:00
	UK	Retail Sales (May) – mom	0.3%	-0.1%	20:30
	EU	Euro-Zone CPI (May) – mom	0.3%	0.6%	21:00
		Euro-Zone CPI Core (May) – yoy	1.9%	1.9%	21:00
		Euro-Zone Labour Costs (1Q) – yoy	2.5%	2.4%	21:00
15 Jun	US	Fed Holds Washington Hearing on Mortgage Regulations	-	-	00:30
		Producer Price Index (May) – mom	0.6%	0.7%	00:30
		PPI Ex Food & Energy (May) – mom	0.2%	0.0%	00:30
	NZ	Manufacturing Activity (1Q) – qoq	-	-2.2%	10:45
	JN	BoJ Target Rate	0.5%	0.5%	-
		BoJ Governor Fukui to Hold Regular Press Conference	-	-	18:30
	EU	Euro-Zone Trade Balance (Apr) – s.a.	1.2B	5.1B	21:00
		ECB's Gonzalez-Paramo Speaks on Central Bank Credibility	-	-	23:00
16 Jun	US	Fed's Lockhart Gives Welcome at Atlanta Fed Credit Conference	-	-	00:20
		Fed's Bernanke to Speak at Credit Conference in Atlanta	-	-	00:30
		Consumer Price Index (May) – mom	0.6%	0.4%	00:30
		CPI Ex Food & Energy (May) – mom	0.2%	0.2%	00:30
		Empire Manufacturing (Jun)	11.0	8.0	00:30
		Current Account Balance (1Q)	-\$202.8B	-\$195.8B	00:30
		Net Long-Term TIC Flows (Apr)	\$70.0B	\$67.6B	01:00
		Industrial Production (May)	0.2%	0.7%	01:15
		Capacity Utilisation (May)	81.6%	81.6%	01:15
		University of Michigan Confidence (Jun P)	88.0	88.3	02:00
		Fed's Yellen Speaks at Free Trade Conference in Massachusetts	-	-	04:20

Key: AU: Australia, CA: Canada, EU: European Union, GE: Germany, JP: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.

Source: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. Na= not available. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over next four weeks: The Reserve Bank needs a sustained period of slower growth in domestic activity to alleviate inflation pressures. Although there are some early signs that activity is softening, it is far too early to be confident that this will be sustained. The central focus for the Reserve Bank will be on indicators of Q2 activity, and in particular whether there is any evidence that the recent tightening in financial conditions is slowing domestic demand. In this regard, May housing market and April retail sales are shaping up as very important reads.

Date	Data/Event	Economic Signal	Comment
Mon 11 Jun (10.45)	Overseas Trade Indexes (Q1)	Strong terms of trade	Strong soft commodity prices and lower world oil prices to see the terms of trade increase strongly in the March quarter.
Thu 14 Jun (10.45)	Retail Trade Survey (Apr)	Technical pull-back	After two extraordinarily strong monthly increases, we expect a pull-back in retail spending in April.
Fri 15 Jun (10.45)	Economic Survey of Manufacturing (Q1)	Recovery	A recovery in the Business NZ PMI suggests manufacturing production increased in the quarter.
circa 15 Jun	REINZ Housing Report (May)	Supply constrained?	Possible continued easing in monthly house sales, although a lack of supply will likely see price gains remaining solid.
Wed 20 Jun (10.45)	External Migration (May)	Easing	PLT departures have been trending upwards resulting in a fall in the annual net migration inflow. This is likely to continue.
Fri 22 Jun (15.00)	Credit Card Billings (May)	Early signs of stress?	Spending is likely to be maintained, but the outstanding balances are likely to have ticked up as consumers' disposable incomes are reduced by higher mortgage rates.
Wed 27 Jun (10.45)	Overseas Merchandise Trade (May)	Small surplus	Surging commodity prices will ensure export values remain strong, while higher oil prices will also support import values.
Thu 28 Jun (10.45)	Balance of Payments (Mar qtr)	Improving	A further gradual improvement in the goods and services balance is expected to see the current account deficit fall below 9% of GDP for the first time since September 2005.
Thu 28 Jun (10.45)	Building Consents (May)	Rebound?	The underlying trend in building consents is softening. However, proposed fee increases in July may see builders try to get in before hand and could see a rebound in consent issuance.
Thu 28 Jun (10.45)	Credit Growth (May)	Still strong	Credit has been growing by at least 1 percent per month for the past nine months now. We expect this to continue.
Fri 29 Jun (10.45)	Gross Domestic Product (Mar qtr)	Very strong	Momentum from the end of last year has spilled over into Q1. Consumer spending looks likely to lead the way and we are expecting growth of at least 1 percent in the quarter.
On Balance		Mixed	Inflection point?

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SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Apr 07	May 07	11 Jun 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
NZD/USD	0.734	0.733	0.762	0.730	0.660	0.640	0.630	0.610	0.590	0.570
NZD/AUD	0.888	0.888	0.903	0.880	0.815	0.790	0.788	0.772	0.776	0.770
NZD/EUR	0.544	0.542	0.570	0.529	0.478	0.471	0.474	0.469	0.465	0.456
NZD/JPY	87.3	88.5	92.7	87.6	77.9	74.2	72.5	69.5	66.1	62.7
NZD/GBP	0.369	0.369	0.387	0.367	0.335	0.328	0.326	0.319	0.312	0.306
NZ\$ TWI	71.3	71.4	74.2	70.6	63.9	62.1	61.6	60.1	58.7	57.1
NZ interest rates	Apr 07	May 07	11 Jun 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
OCR	7.67	7.85	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50
90 day bill	7.98	8.09	8.37	8.30	8.20	8.10	8.10	8.10	8.10	7.50
10 year bond	6.08	6.18	6.84	6.50	6.60	6.60	6.60	6.10	6.00	6.10
International	Apr 07	May 07	11 Jun 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25
US 3-mth	5.36	5.36	5.36	5.40	5.00	4.60	4.75	4.90	5.25	5.40
AU cash	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
AU 3-mth	6.38	6.36	6.48	6.40	6.40	6.70	6.70	6.70	6.70	6.80

KEY RATES

	8 May	4 June	5 June	6 June	7 May	8 June
Official Cash Rate	7.75	n/a	7.75	7.75	8.00	8.00
30 day bank bill	8.00	n/a	8.05	8.06	8.21	8.23
90 day bank bill	8.08	n/a	8.17	8.16	8.33	8.37
NZGB 07/09	7.14	n/a	7.32	7.36	7.41	7.45
NZGB 11/11	6.78	n/a	7.03	7.06	7.12	7.24
NZGB 04/13	6.46	n/a	6.78	6.83	6.90	7.10
NZGB 12/17	6.08	n/a	6.50	6.55	6.62	6.83
1 year swap	8.18	n/a	8.32	8.33	8.46	8.54
2 year swap	8.00	n/a	8.26	8.28	8.39	8.52
5 year swap	7.66	n/a	7.98	7.98	8.07	8.23
RBNZ TWI	71.6	n/a	72.8	73.1	73.2	73.3
NZD/USD	0.7396	n/a	0.7492	0.7544	0.7563	0.7546
NZD/AUD	0.8903	n/a	0.8964	0.8948	0.8925	0.8944
NZD/JPY	88.60	n/a	91.25	91.55	91.65	91.53
NZD/GBP	0.3705	n/a	0.3760	0.3781	0.3794	0.3813
NZD/EUR	0.5433	n/a	0.5548	0.5578	0.5600	0.5620
AUD/USD	0.8307	n/a	0.8358	0.8431	0.8474	0.8437
EUR/USD	1.3614	n/a	1.3503	1.3525	1.3506	1.3426
USD/JPY	119.79	n/a	121.79	121.35	121.18	121.30
GBP/USD	1.9961	n/a	1.9928	1.9951	1.9933	1.9791
Oil	62.26	n/a	66.17	65.63	65.97	66.93
Gold	685.70	n/a	671.25	671.70	670.45	660.15
Electricity Price Index	7.62	5.43	5.28	5.06	5.15	5.35

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