

# WAIT AND SEE

## CONTENTS

### Page 2: Economic overview

- The Reserve Bank moved to a more neutral stance last week given the uncertainties present in the economic outlook. This week is dominated by the Fed's interest rate decision. We favour a 25 basis point move, while the market sees some potential for a bigger cut.

### Page 3: Economic comment – funding pressure

- Liquidity pressures within the non-bank financial institution sector pose a notable downside risk to the economic outlook. While developments are still fluid and there are many quality players in the sector, we believe the risk should not be underestimated.

### Page 5: Data preview – June quarter current account

- We expect the annual current account deficit to improve in the June quarter, recording a deficit of 8.2 percent of GDP. However, the quarterly seasonally adjusted deficit is expected to worsen.

### Page 6: Interest rate strategy

- The rates market is now on data watch mode, which we expect to print on the soft side, leaving the market biased towards current pricing and lower rates. But the market will be largely in a holding pattern this week awaiting the FOMC decision.

### Page 7: Currency strategy

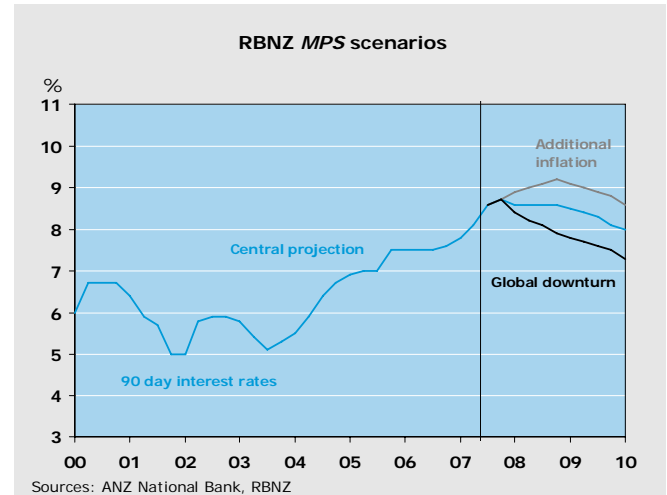
- Offshore developments will continue to provide NZD direction. The Fed's interest rate announcement on Wednesday morning (NZ time) is key.

### Page 8: Data timetable

### Page 10: Data watch

### Page 11: Key forecasts

## The Reserve Bank presented two very different scenarios at their MPS.



## Retail spending looks like it has come to an abrupt halt in July.



## ECONOMIC OVERVIEW

**The Reserve Bank moved to a more neutral stance last week given the uncertainties present in the economic outlook. This week is dominated by the Fed's interest rate decision. We favour a 25 basis point move, while the market sees some potential for a bigger cut.**

### What's ahead...

- NZ June quarter Balance of Payments (Thursday 1045 NZST). We expect the annual current account deficit to show a modest improvement, but the quarterly seasonally adjusted deficit to worsen.
- NZ August External Migration (Friday 1045 NZST). Another modest monthly net gain expected, but the annual total to ease further.
- NZ August Credit Card Spending (Friday 1500 NZST). A modest rebound expected following July's decline, but the overall direction is for further moderation in consumer spending.

### What's the view

If there is one thing to be certain of at the moment, it is that these are uncertain times. This was clearly a predominant theme running through the Reserve Bank's *Monetary Policy Statement* last week as they joined the chorus of other central bankers in taking the prudent "let's-wait-and-see-approach" to monetary policy. The world has undoubtedly changed since the Bank's previous *Monetary Policy Statement* in June, and the tone and forecasts contained within last week's *Statement* clearly reflected that.

The fact remains, no one can be sure how global credit market concerns stemming from weakness in the US housing market are going to pan out. Will current weakness just be confined to the US? Has the rest of the world truly decoupled from the US therefore limiting any flow-on impact on commodity prices? And how will an economy such as New Zealand – which has a huge reliance on foreign capital – be impacted? The potential answers to these questions are endless.

The current environment warrants caution and we think the Reserve Bank's move to a more neutral bias – a step down from their conditional neutral bias they expressed in July – is appropriate in the current environment. This is not only because of the volatility in financial markets, but also because of recent stresses in the local non-bank financial institution sector. Offshore developments remain fluid, and the potential impact on the global economy and on New Zealand are unclear, a point the Reserve Bank emphasises.

Nevertheless, they remain concerned with inflationary pressures. Recent higher than expected non-tradable CPI outturns and evidence of more widespread inflation pressure have the Reserve Bank on alert. In addition, they see

further upside risks from commodity and food price inflation over the next 18 months. While the Reserve Bank will largely look through the initial direct price effects of higher food prices, they are wary of second round effects. However, part of their inflation concern is offset somewhat by dampening domestic demand and the downside risks to economic growth stemming from global financial market turbulence.

We received further evidence of this dampening domestic demand last week from retail sales data, which showed spending continued to slow in August. In fact, spending looks like it has come to an abrupt halt since its surge in Q1 this year. Monthly growth in trend measures are at their lowest level since 1998! This complements other recent data such as housing market activity and household borrowing, which all suggest that domestic demand is turning. It is now just a question of whether this slowdown results in reduced non-tradable inflation pressures.

With the final partial indicators for Q2 GDP received last week, namely the Overseas Trade Indices and manufacturing data, we now have to wait a couple of weeks for the actual GDP results to be released. We continue to expect quarterly growth of 0.5 percent, although the manufacturing data provided a small amount of upside risk to this estimate. On an expenditure basis, much of the growth looks likely to come from a build-up in inventories.

This week, the local data flow will be dominated by the June quarter balance of payments. It typically gets a relatively muted reaction in financial markets, but in the current environment of increased risk aversion, who knows! Main market attention will be on the Fed's interest rate decision. The Fed is caught between moral hazard (it is not their job to bail people out of bad investment decisions) and real economic developments. As the BoE's decision to bail out Northern Rock showed, sometimes you cannot differentiate the two. But at a minimum, the financial system "plumbing" needs to function. We expect a 25 basis point cut, while the market is erring towards something larger.

### Recent data...

- **NZ PPI (June qtr)**. Input and output prices rose by 1.3 and 1.2 percent, respectively.
- **REINZ housing report (August)**. House sales fell 9.0 percent (s.a.) and the median days to sell a house rose to 34 (s.a.). Annual house price growth rose to 12.9 percent.
- **NZ Overseas Trade Indices (June qtr)**. The terms of trade rose by 0.6 percent.
- **RBNZ September Monetary Policy Statement**. The RBNZ left the OCR unchanged and moved to a more neutral policy stance.
- **NZ Retail Sales (July)**. Headline sales were flat in July, while core sales fell by 0.2 percent.
- **NZ Economic Survey of Manufacturing (June qtr)**. Both real and nominal sales increased by 1.7 percent.

## FUNDING PRESSURE

Liquidity pressures within the non-bank financial institution sector pose a notable downside risk to the economic outlook. While developments are still fluid and there are many quality players in the sector, we believe the risk should not be underestimated.

Finance company difficulties have been “front page” news over the past two months since the Bridgecorp collapse in July. A further five finance companies have since gone into receivership, bringing the total to nine in the past 16 months or so – putting more than \$1 billion of retail investor funds in doubt.

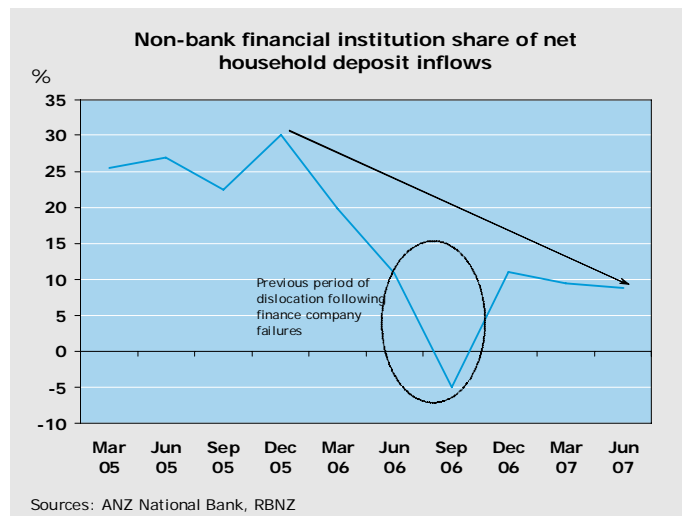
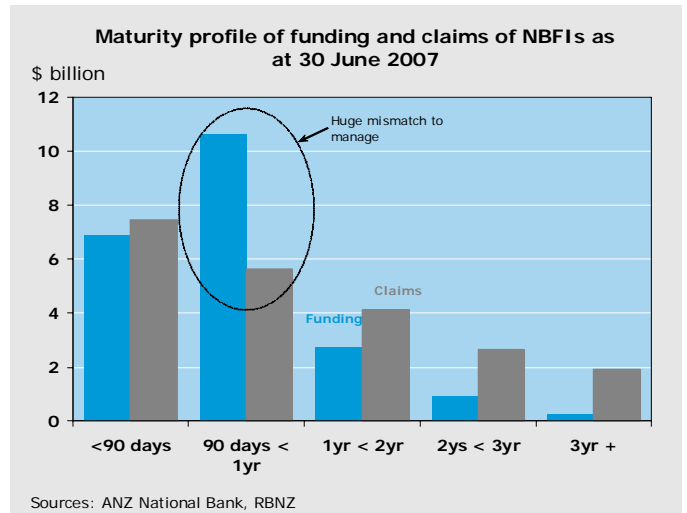
At the outset, we have to say that there are some quality players across the non-bank financial institution (NBFI) sector. They play a strong role in the economy by providing access to credit for certain pockets and asset classes within the economy.

Microeconomic and firm-specific factors look to be playing a strong role in some of the recent finance company collapses. But the more negative the talk and publicity generated, the greater the risk for the entire sector, as everyone appears to be tarred with the same brush. Commentators need to be responsible in their comments and analysis.

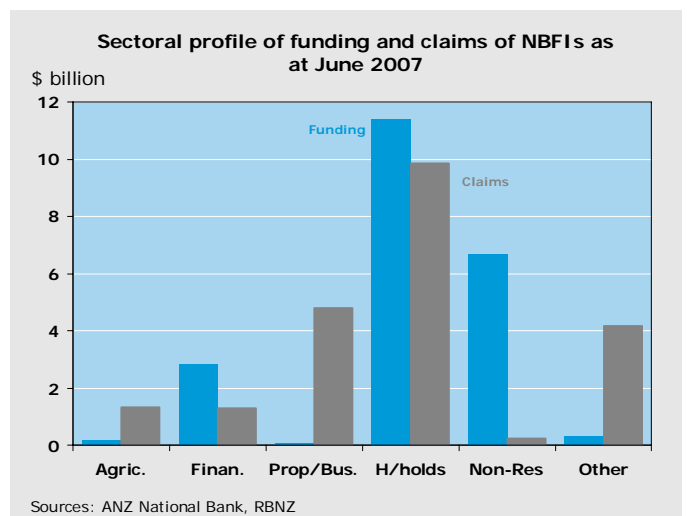
However, it is clear that the combination of re-rated risk appetites (a global phenomenon) and heightened perception risk has now altered the landscape. As there is a potential influence on the macroeconomic outlook, we feel obliged to provide some comment.

Reduced investor risk appetites along with negative publicity are making it increasingly difficult for certain segments of the NBFI sector to raise funds – at least at the relatively low (on a risk/return basis) interest rates that they had been achieving until recently. The increased difficulty as well as higher cost of obtaining credit will make the next few months quite challenging for many NBFIs.

Reserve Bank data highlights the duration imbalance between the sector’s funding and claims – something that is not in itself unusual amongst financial institutions in general, but could be an issue in the current environment. At June 2007 around \$10.6b of funding will mature in 3-12 months. But there is only \$5.6b of claims in that maturity bucket, suggesting that we are entering a critical period over the coming months.



Historically, liquidity hasn’t been a big issue. Reinvestment rates by existing investors was high (reportedly around 80 percent), and new fund inflows from households were strong. Over 2005, NBFIs managed to attract between 25 and 30 percent of total net household deposit flows – giving them plenty of cash to lend out.



But the environment is very different now. Finance company failures have seen NBFI’s share of net household deposit inflows fall sharply to less

than 10 percent as at June 2007 (although they recovered somewhat after the Provincial, Western Bay and National Finance collapses of last year). This number is highly likely to have fallen further, given recent publicity and company failures.

**In terms of exposure to the NBFi sector, households are by far the most exposed** to difficulties in the sector, as both the largest investor and borrower. Households have around \$11.4b of funds invested, although as we note later the direct exposure is small relative to overall wealth and \$9.8b borrowed with roughly half for consumer and half for housing.

## Macroeconomic Implications

**The direct impact from current difficulties within the NBFi sector is, by itself, unlikely to be large.** At a broad level we note:

- The sector is by-and-large a small pocket of the economy, with total lending of \$21.7b, which is 7.4 percent of total lending.
- Households' direct exposure to the NBFi sector is small. Although households are the most exposed, the amount invested in the sector represents around 7.3 percent of total household financial assets and a mere 1.9 percent of total net wealth.
- The capital at risk from failures to date, although not immaterial at over \$1.1b, is nonetheless small relative to total household financial assets (0.7 percent) or GDP (0.6 percent). However, conversely, it is already close to approximating the quoted losses surrounding US subprime, which have been put at US\$100b or 0.7 percent of GDP.
- Actual realised losses on finance company exposure are likely to be far smaller, around \$300-\$400m at present or around 0.2 percent of GDP. However, this capital will still be tied up for some time.

**However, stepping back, there has been a strong credit accelerator supporting economic growth over the past five years.** Asset prices (notably housing) and markets have been caught up in a circle of success where liquidity drives asset prices, the ability to leverage drives deals and returns, resulting in real economic momentum, which leads to more liquidity driving asset prices and scope for leverage... and the spiral is in motion. Cheap and easily available credit has resided at the heart of this spiral.

**The key source of downside risk to economic growth lies in the availability of credit,** and notably to pockets of the economy that have become conditioned to the credit "fix". In the current environment where risk is being re-priced and risk appetites are waning, we believe the difficulties within the NBFi sector (and a more

general tightening of credit conditions globally) are merely symptoms of the global de-leveraging process which is underway. We note:

- The NBFi sector has been a key source of liquidity to the economy, especially for households. Total lending growth had been compounding at almost 18 percent per annum over the past five years. Credit growth from the sector in calendar 2005 and 2006 was \$3.5b and \$3.3b respectively. To put this in perspective, this is broadly equivalent to the incremental income boost being provided by the higher dairy payout over the coming season.
- Any liquidity squeeze in the NBFi sector (via consolidation, survival instincts and altered credit lending appetites) will certainly remove key sources of credit to certain pockets of the economy. Most notable will be durable consumer spending, which is reliant on consumer financing, and speculative property related investing (including apartment developments). The market for mezzanine finance has reputedly dried up. There are growing anecdotes of projects struggling to get finance. While this will only limit credit to a relatively small pocket of the economy, its effect should not be underestimated as these pockets are the speculative and upper end that have intensified pressure on asset values and competed for scarce resources.
- Other financial intermediaries do not have the same risk appetites as finance companies, which mean there may still be a reluctance to fill the gap being vacated in certain areas.

## Financial Market Implications

In last week's *Statement*, the Reserve Bank noted that the recent collapses and reduced liquidity within the NBFi sector could dampen activity in some areas. But the Reserve Bank expects those negative effects to be contained. While we believe that the direct impact of the failures themselves will be limited, we believe that liquidity pressures within the NBFi sector pose a notable downside risk to the economic outlook.

Just as the credit accelerator of the past few years helped underpin activity and worked against the Reserve Bank's efforts, the global de-leveraging process is now working in the opposite direction. While developments are still fluid and there are many quality players in the NBFi sector, we believe the risk should not be underestimated.

From a markets perspective, it is a case of watching the data and any further news regarding the NBFi sector. We expect the tightening of credit to start showing up in the dataflow through reduced building consent issuance (particularly for apartments) and further softness in housing market activity and durables related consumer spending, leaving the market biased towards lower rates.

## DATA PREVIEW

### CURRENT ACCOUNT – JUNE QTR (due Thursday 20 Sept 10:45am)

	ANZ National	RBNZ	Market
Quarter	-2,825m	-	-\$3,250m
Annual	-\$13,650m	-	-\$14,078m
As % of GDP	-8.2%	-8.5%	-8.5%

#### Key points

- We expect the annual current account deficit to improve in the June quarter, recording a deficit of 8.2 percent of GDP.
- However, the quarterly seasonally adjusted deficit should widen courtesy of a deteriorating merchandise trade balance.
- The strong dairy price impact has yet to flow through.
- But, given the still elevated level of the NZD, we expect the deficit to remain high for some time.

**An improvement in the annual current account deficit to 8.2 percent of GDP is expected.** This comes about from an expected small improvement in the annual services balance courtesy of solid visitor arrival numbers and spending over the past 12 months, despite the high NZD. The annual investment income deficit is also expected to contract slightly because of improved returns for New Zealand investments overseas, along with reduced profitability, impacting on foreign owned firms operating in New Zealand. Offsetting this to a small degree is a slight deterioration in the annual goods balance. The June quarter typically records a positive goods balance, and this quarter is expected to be no exception. However, the quarterly unadjusted surplus is expected to be smaller than usual given the poor trade performance in the quarter.

**Nevertheless, the quarterly seasonally adjusted deficit is expected to widen.** The driver is almost solely a result of a deterioration in the merchandise trade balance over the June quarter. Despite strong global growth providing a solid base of demand for New Zealand's exports overseas, an elevated NZD has impacted on competitiveness and returns. It also looks to have led to an increase in import demand in the June quarter. OTI data suggests export volumes rose by a modest 0.4 percent in the June quarter, while import volumes grew by 3.3 percent. This volume impact more than offsets the gain from the 0.6 percent increase in the terms of trade in the quarter.

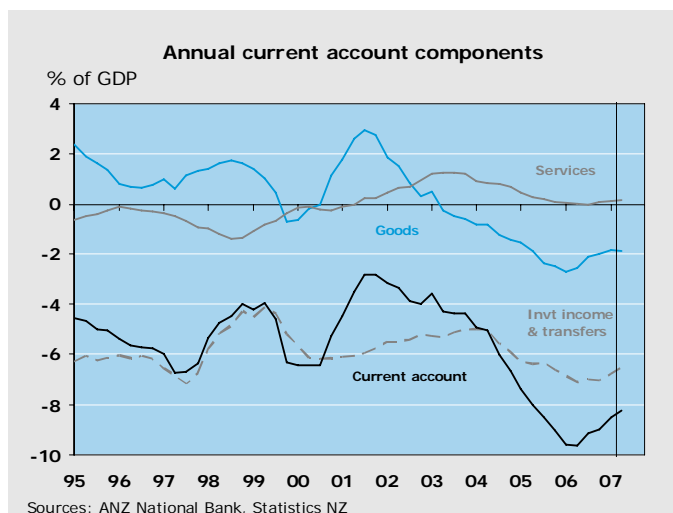
**The current account deficit is expected to remain elevated for some time.** A material improvement in the current account deficit is difficult to envisage without a further sustained move lower in the NZD even though it has fallen from its recent post float high of over US81 cents. The fact the net investment income deficit is predominantly made up of debt (86.4 percent), points to the investment income deficit being less sensitive to the corporate profit cycle than in the past and influenced more by changes in interest rates. Although US interest rates are expected to move lower, global rates will generally remain elevated for some time, therefore keeping the investment income deficit at a historically higher level.

**A slowing domestic economy and increasing terms of trade should eventually see the deficit reduce.** The strong impact of surging dairy prices has not yet been picked up in the trade data due to timing issues. When it does, it should provide a large boost to export earnings. We also expect a slowing domestic economy to contribute to reduced demand from imports and eventually result in a lower goods and services deficit.

**The size of its current account deficit leaves New Zealand vulnerable, particularly after recent financial market developments.** New Zealand has a strong reliance on foreign capital. Overseas debt currently stands at \$192.8b or 118 percent of GDP, with over 37 percent of the debt of a short-term duration (maturing in 90 days or less). While credit rating agencies will continue to express concern over the size of the deficit, New Zealand's strong fiscal position remains a saving grace.

#### Financial market implications

Barring any major surprises (which can happen if Statistics NZ puts through major revisions), the Balance of Payments data typically gets a reasonably muted reaction in financial markets. However, the heightened uncertainty in global markets – particularly the reluctance to take on risk at present – could see the NZD hit if the deficit was to print worse than expected.



## INTEREST RATE STRATEGY

The rates market is now on data watch mode, which we expect to print on the soft side, leaving the market biased towards current pricing and lower rates. But the market will be largely in a holding pattern this week awaiting the FOMC decision.

### Market themes...

- RBNZ sees increased uncertainty over policy outlook. A case of wait and see.
- Local data starting to show moderation in domestic demand, but inflation risks remain.
- Global credit concerns remain, with Fed decision and statement this week key event risk.

### Outlook...

The RBNZ has laid it out very clear to the market in last week's *Monetary Policy Statement*. Things are more uncertain than usual, there are upside risks to inflation but downside risks to growth, the RBNZ still thinks it has done enough, but it will be watching developments closely. The underlying message is to watch the data.

In this regard, this week's local data calendar will provide further hints on how consumer spending fared over winter. The housing market had its quietest winter in seven years. Retail sales were subdued over June and July. Electronic transaction data and credit card billings this week will show whether retail spending recovered in August or remain subdued. August migration data will show continued easing in net migration, providing less support to the housing market. The Q2 current account release is unlikely to be a market mover for rates. Overall, we expect the local dataflow to print on the soft side, leaving the market biased towards lower rates.

The cash squeeze in the local money market remains an issue, and is preventing the swaps curve from rallying further given the carry cost. The cash squeeze is likely to persist as global credit concerns remain, with last week's announcement that the BoE has provided emergency funding to Northern Rock, the UK's fifth largest mortgage lender, a fresh reminder that all is still not well.

In offshore events, the FOMC takes centre stage, not only for their decision (25 or 50bps cut?) but also in what they convey in their statement. This will set the tone and direction for the US bond market. Fed Chairman Bernanke's testimony before the House of Representatives later in the week will also be closely watched. The BoJ is widely expected to leave rates unchanged this week.

### Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔	RBNZ on hold but remains concern over inflation.
NZ data	↔/↓	Data to show Q3 GDP off on a soft note. Q2 current account, August electronic transaction data, credit card and migration due this week.
Fed Funds/front end	↔/↓	Fed widely expected to cut the Fed funds rate this week. Debate over extent of cut.
RBA	↔/↑	Australian economy remains strong. Further hikes still likely but dependent on global developments.
US 10 year	↔/↓	FOMC statement this week will provide direction for bond yields.
NZ swap spreads	↔/↓	We continue to favour swap spreads to narrow, NZGB led.
Flow	↔/↓	Receive side flows dominates 3-years out.
Technicals	↔/↓	Fed decision this week should make the technical picture clearer.

### Borrowing strategies we favour at present

Borrowers with existing debt maturing in 2008/09 will find rates becoming attractive to forward fix swaps out of their maturity dates and should be aware the steeper the yield curve gets, the more benefit in these trades. Borrowers with existing long dated cover at good rates may want to look at taking some profit from these trades.

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

OCR dates	Last week	This week
Thu 25-Oct-07	-8	-8
Thu 6-Dec-07	-14	-24
Thu 24-Jan-08	-34	-56
Thu 6-Mar-08	-78	-88
Thu 24-Apr-08	-122	-140
Thu 5-Jun-08	-166	-200
Thu 24-Jul-08	-214	-256

### Trading themes we favour at present

The swaps yield curve is expected to drift higher as a retracement move following the global rally last week. All eyes on the Fed this week.

## CURRENCY STRATEGY

**Offshore developments will continue to provide NZD direction. The Fed's interest rate announcement on Wednesday morning (NZ time) is key.**

### Market themes...

- All eyes on the Fed.

### Outlook...

Local data and developments continue to take a back seat to the swings and roundabouts that are dominating global trading conditions. Despite some volatile intra-day trading ranges, the NZ dollar strengthened through the course of the week. This was despite domestic data painting a picture of weakening domestic economic activity (with retail spending and housing market activity both printing on the weak side). The Reserve Bank's *Monetary Policy Statement* had no discernable impact on the NZ dollar.

A mix of further US dollar weakness and recovering US equity markets (helped by news that beleaguered mortgage lender Countrywide Financial had secured US\$12b in new borrowing capacity) contributed to the rise in the NZ dollar, with solid offshore demand for the kiwi emerging. With yield differentials as wide as they are at present, there is still a strong appetite for the NZ dollar carry trade so long as risk appetites remain intact. In this regard, US equity markets remain a key gauge of the state of risk appetites, and the NZ dollar continues to take its lead from them.

Looking forward, the broader fortunes of the NZ dollar will continue to be determined by offshore developments. Risk sentiment in the inter-bank market (a concurrent measure of risk appetite at present) looks to have improved, but the environment remains fragile. However, any indications of credit difficulties or further fallout from the subprime collapse are likely to impact on risk appetites and weigh on the NZ dollar. The US Federal Reserve's interest rate decision on Wednesday morning (NZ time) is shaping up as the key event for the week ahead. We (and the majority of market forecasters) expect the Fed to cut their target rate 25 bps to 5.00 percent. Such a move would likely see the market remaining edgy, whereas a 50 basis point cut would help to underpin asset prices and bring yield back into play, which would be supportive of the NZ dollar. Central banks are walking a tightrope balancing moral hazard, inflation risks, real economic developments and ensuring the financial system "plumbing" is functioning. Domestically, NZ's balance of payments data due on Thursday is likely to record a smaller deficit (as a proportion of GDP), but last week's experience suggests that the market will put this to one side.

Technically 200 hour moving average support (currently at 0.70) should provide initial support for the NZD/USD while the 200 day moving average (currently at 0.7245) will provide resistance. Any deeper tests of the downside will again be met with serious yield demand as it approaches the 0.6800-0.6850 area. The NZD/AUD looks to be capped at 0.8550 for now as the top of the down-trend held. Expect some slippage on this cross, targeting 0.8380 over the week.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Growth differentials favouring AUD. But below 0.85 we are competitive.
Yield	↔	Yields converged last week.
Commodities	↔	Still supportive of both. And both doing well in weak USD environment.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↓	0.8630 the top.
Sentiment	↓	AUD data is better.
Other	↓	Australian economy is stronger.
<b>On balance</b>	↓	<b>0.8630 top for moves lower. Target 0.8220.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	US data is weak as well.
Yield	↑	Yield differential wide and important.
Commodities	↑	Higher commodity prices are still a major factor.
Risk aversion	↓	World on high alert.
Partial indicators	↔	Neutral here.
Technicals	↔	Stuck between 200 hour M.A. at 0.7000 and 200 day M.A. at 0.7245.
AUD	↑	Fundamentals solid across the Tasman. AUD doing well.
Sentiment	↓	But is the market getting short?
Other	↔	Massive volatility negates carry benefit but calmer waters see renewed interest e.g. Toshin fund.
<b>On balance</b>	↔	<b>It's all about the Fed.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
17 Sep	US	US's Paulson, France's Lagarde Talk to Reporters in Paris	-	-	18:50
	EU	Euro-Zone Trade Balance (Jul) – s.a.	4.0B	5.2B	21:00
		ECB Council Member Liikanen Speaks in Finland	-	-	23:00
18 Sep	US	Empire Manufacturing (Sep)	18.0	25.1	00:30
	JN	Tertiary Industry Index (Jul) – mom	-0.5%	0.1%	11:50
	AU	Preliminary BoP Imports (Aug) – mom	-	-4.0%	13:30
		RBA Governor Stevens Speaks	-	-	15:10
	UK	CPI (Aug) – mom	0.4%	-0.6%	20:30
		CPI (Aug) – yoy	1.9%	1.9%	20:30
		Core CPI (Aug) – yoy	1.8%	1.7%	20:30
		RPI (Aug) – mom	0.5%	-0.6%	20:30
		RPI (Aug) – yoy	4.0%	3.8%	20:30
		RPI Ex Mortgage Interest Payments (Aug) – yoy	2.6%	2.7%	20:30
	GE	ZEW Survey (Economic Sentiment) (Sep)	-17.0	-6.9	21:00
		ZEW Survey (Current Situation) (Sep)	75.0	80.2	21:00
	EU	ZEW Survey (Economic Sentiment) (Sep)	-15.0	-6.1	21:00
Sep 19	US	Producer Price Index (Aug) – mom	-0.3%	0.6%	00:30
		PPI Ex Food & Energy (Aug) – mom	0.1%	0.1%	00:30
		Net Long-Term TIC Flows (Jul)	\$95.0B	\$120.9B	01:00
		Total Net TIC Flows (Jul)	\$60.0B	\$58.8B	01:00
		NAHB Housing Market Index (Sep)	20	22	05:00
		FOMC Interest Rate Decision Expected	5.00%	5.25%	06:15
	AU	Westpac Leading Index (Jul) – mom	-	1.0%	12:30
		RBA's Battellino Speaks	-	-	20:15
	JN	BoJ Target Rate Decision	0.5%	0.5%	-
		Coincident Index (Jul F)	70.0%	66.7%	17:00
		BoJ Governor Fukui to Speak at Regular Press Conference	-	-	18:30
		Leading Economic Index (Jul F)	72.7%	70.0%	17:00
		Nationwide Dept. Store Sales (Aug) – yoy	-	-4.3%	17:30
	GE	Producer Prices (Aug) – mom	1.0%	-0.1%	18:00
	UK	BoE Minutes	-	-	20:30
Sep 20	US	CPI (Aug) – mom	0.0%	0.1%	00:30
		CPI Ex Food & Energy (Aug) – mom	0.2%	0.2%	00:30
		CPI (Aug) – yoy	2.1%	2.4%	00:30
		CPI Ex Food & Energy (Aug) – mom	2.2%	2.2%	00:30
		Housing Starts (Aug)	1,350k	1,381k	00:30
		Building Permits (Aug)	1,345k	1,373	00:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Sep 20 cont.	US	Bernanke Testifies Before House Financial Services Committee	-	-	16:00
	EU	ECB's Trichet, Weber, and Germany's Merkel Speak in Frankfurt	-	-	-
		Construction Output (Jul) – mom	-	0.6%	21:00
	<b>NZ</b>	<b>Current Account Balance (2Q)</b>	<b>-3.25B</b>	<b>-2.217B</b>	<b>10:45</b>
		<b>Current Account Balance (2Q) - % of GDP</b>	<b>-8.5%</b>	<b>-8.5%</b>	<b>10:45</b>
	AU	RBA Monthly Bulletin	-	-	13:30
		RBA Foreign Exchange Transactions (Aug)	-	\$396m	13:30
	JN	BoJ Governor Fukui to Speak to Convention in Tokyo	-	-	19:05
	UK	Retail Sales (Aug) – yoy	4.0%	4.4%	20:30
		Public Finances (PSNCR) (Aug)	3.5B	-13.1B	20:30
		Public Sector Net Borrowing (Aug)	6.5B	-6.5B	20:30
		M4 Money Supply (Aug P) – mom	0.8%	1.0%	20:30
		M4 Sterling Lending (Aug P)	15.1B	24.6B	20:30
Sep 21	US	Leading Indicators (Aug)	-0.4%	0.4%	02:00
		Philadelphia Fed (Sep)	2.6	0.0	04:00
	<b>NZ</b>	<b>Visitor Arrivals (Aug)</b>	-	<b>-1.8%</b>	<b>10:45</b>
		<b>Net Migration (Aug) – 12 month total</b>	-	<b>8,966</b>	<b>10:45</b>
		<b>Credit Card Spending (Aug) – yoy</b>	-	<b>7.8%</b>	<b>15:00</b>
	JN	All Industry Activity Index (Jul) – mom	-0.4%	0.2%	11:50
	AU	New Motor Vehicle Sales (Aug) – mom	-	0.6%	13:30
	EU	ECB's Smaghi Speaks in Paris	-	-	19:00
		PMI Manufacturing (Sep A)	53.9	54.3	20:00
		PMI Services (Sep A)	57.6	58.0	20:00
		PMI Composite (Sep A)	56.9	57.4	20:00
Sep 22	US	Fed's Vice Chairman Kohn Speaks at Bundesbank Conference	-	-	00:00
		Fed's Plosser Makes Opening Remarks at Philadelphia Conference	-	-	00:45
		Fed's Warsh Speaks on Financial Market Developments in Albany	-	-	05:00

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:** Given the heightened uncertainty in both the global and domestic economic environments, the Reserve Bank moved to a more neutral policy stance last week. They acknowledged both upside and downside risks to the economic outlook. Domestic demand is now showing strong signs it has turned. The key for the Bank now is whether this begins to feed into reduced domestic inflationary pressure.

Date	Data/Event	Economic Signal	Comment
Thu 20 Sep (10.45)	Balance of Payments (Jun qtr)	Modest improvement	We expect the annual current account deficit to show a modest improvement, but the quarterly seasonally adjusted deficit to worsen.
Fri 21 Sep (10.45)	External Migration (Aug)	Easing	Another modest monthly net gain expected, but the annual net migration total to continue easing.
Fri 21 Sep (15.00)	Credit Card Billings (Aug)	Moderation	A modest rebound expected following July's decline, but the overall direction is for further moderation in consumer spending.
Wed 26 Sep (10.45)	Overseas Merchandise Trade (Aug)	Imbalanced	Trade balance yet to show signs of the surge in dairy prices. Import demand still holding up.
Wed 26 Sep (02.00)	Westpac McDermott Miller Consumer Confidence (Sep qtr)	Down	Given global market volatility and finance company concerns, not to mention higher mortgage rates, consumer confidence is expected to ease.
Thu 27 Sep (10.45)	Building Consents (Aug)	Trending down	With the housing market slowing and net migration easing, the demand for new dwellings will slow – resulting in a downward trend in building consent issuance.
Thu 27 Sep (15:00)	NBNZ <i>Business Outlook</i> (Sep)	-	-
Fri 28 Sep (10.45)	GDP (Jun qtr)	Modest	Soft private consumption and a detraction from net exports is expected to be offset by increases in business investment and inventories. We expect GDP to expand by 0.5 percent for the quarter.
Thu 4 Oct	ANZ Commodity Price Index (Sep)	-	-
Tue 9 Oct	NZIER Quarterly Survey of Business Opinion (Dec qtr)	Down	Global uncertainty and softer domestic demand to weigh on confidence. But, a lower NZD to provide some cheer to exporters. Indicators of resource pressures to remain elevated.
<b>On Balance</b>		<b>Slowing</b>	<b>Dairy versus housing (credit). We are backing the latter.</b>

### NZ Economics

**Cameron Bagrie**  
Chief Economist  
+64 4 802 2212

**Sean Comber**  
Economist  
+64 4 802 2286

**Philip Borkin**  
Economist  
+64 4 802 2199

**Khoon Goh**  
Interest Rate Strategist  
+64 4 802 2357

**Steve Edwards**  
Economist  
+64 4 802 2217

**Kevin Wilson**  
Rural Economist  
+64 4 802 2361

## SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (% qoq)	0.3	0.8	1.0	<b>0.5</b>	<b>-0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>	<b>0.6</b>
GDP (% yoy)	1.1	2.1	2.5	<b>2.6</b>	<b>2.2</b>	<b>1.6</b>	<b>0.9</b>	<b>0.8</b>	<b>1.4</b>	<b>1.7</b>
CPI (% qoq)	0.7	-0.2	0.5	1.0	<b>0.7</b>	<b>0.7</b>	<b>0.5</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
CPI (% yoy)	3.5	2.6	2.5	2.0	<b>2.0</b>	<b>2.9</b>	<b>2.9</b>	<b>2.6</b>	<b>2.7</b>	<b>2.8</b>
Employment (% qoq)	-0.4	0.1	1.2	0.7	<b>-0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
Employment (% yoy)	1.5	1.4	1.7	1.5	<b>1.8</b>	<b>1.7</b>	<b>0.6</b>	<b>0.0</b>	<b>0.2</b>	<b>0.4</b>
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>
Current Account (% GDP)	-9.1	-9.0	-8.5	<b>-8.2</b>	<b>-7.8</b>	<b>-7.4</b>	<b>-6.9</b>	<b>-6.5</b>	<b>-6.7</b>	<b>-6.8</b>
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.6	<b>5.1</b>	<b>1.7</b>	<b>1.1</b>	<b>0.1</b>	<b>-0.2</b>	<b>-0.6</b>
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.5	<b>10.1</b>	<b>9.2</b>	<b>8.7</b>	<b>8.1</b>	<b>2.7</b>	<b>0.4</b>

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

## KEY ECONOMIC INDICATORS

	Nov-06	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07
Retail Sales (% mom)	-0.1	0.8	0.4	2.2	0.9	-1.2	1.0	-0.4	0.0	..
Retail Sales (% yoy)	4.5	3.6	6.9	6.4	7.4	7.4	6.7	4.8	5.7	..
Credit Card Billings (% mom)	-0.7	2.9	-1.1	1.5	1.0	-0.8	0.4	2.0	-0.2	..
Credit Card Billings (% yoy)	7.8	9.9	6.8	8.2	7.4	7.9	5.7	9.2	7.8	..
Car Registrations (% mom)	-1.9	-3.7	13.2	-9.2	0.4	-1.2	5.9	-4.5	7.4	1.9
Car Registrations (% yoy)	-15.3	-17.8	-5.8	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9
Building Consents (% mom)	-11.1	-4.2	4.9	6.6	-1.4	1.1	4.9	14.2	-15.5	..
Building Consents (% yoy)	-1.0	-20.8	-5.6	-8.4	3.0	9.9	2.3	33.4	-3.9	..
REINZ House Price (% yoy)	10.0	11.9	9.0	13.6	13.7	14.4	14.8	12.1	10.4	12.9
Household Lending Growth (% mom)	1.1	1.0	1.1	1.1	1.2	1.1	1.1	1.1	0.9	..
Household Lending Growth (% yoy)	13.1	12.9	13.0	13.1	13.3	13.6	13.6	13.6	13.6	..
Roy Morgan Consumer Confidence	123.7	128.0	136.8	133.8	129.3	128.6	122.1	121.0	121.1	122.4
NBNZ Business Confidence	-14.0	-7.7	..	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8
NBNZ Own Activity Outlook	23.7	24.0	..	25.7	24.1	22.5	7.8	14.8	12.4	16.7
Trade Balance (\$m)	-820	-346	-825	-127	60	-215	9	-511	-791	..
Trade Balance (\$m annual)	-6047	-6082	-6013	-5767	-5776	-6024	-5899	-6217	-6315	..
ANZ World Commodity Price Index (% mom)	2.1	3.8	1.3	1.4	2.0	4.9	2.6	6.3	4.6	1.4
ANZ World Commodity Price Index (% yoy)	5.3	9.4	11.1	13.0	17.1	20.9	21.1	29.8	35.1	36.3
Net Migration (sa)	1840	1020	400	530	630	210	390	570	440	..
Net Migration (annual)	14757	14609	14116	13151	12081	11222	10682	10078	8966	..

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jul 07	Aug 07	17 Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
NZD/USD	0.786	0.729	0.713	0.680	0.650	0.620	0.620	0.610	0.590	0.580
NZD/AUD	0.907	0.877	0.846	0.829	0.783	0.765	0.775	0.782	0.776	0.773
NZD/EUR	0.573	0.535	0.514	0.496	0.478	0.463	0.470	0.469	0.465	0.468
NZD/JPY	95.6	85.3	82.2	80.2	77.4	74.4	74.4	72.0	69.6	67.3
NZD/GBP	0.386	0.362	0.355	0.342	0.332	0.320	0.323	0.323	0.316	0.315
NZ\$ TWI	75.4	70.2	68.1	65.7	63.0	60.7	61.1	60.6	59.3	58.7
NZ interest rates	Jul 07	Aug 07	17 Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
OCR	8.18	8.35	8.25	8.25	8.00	7.50	7.50	7.50	7.25	6.75
90 day bill	8.44	8.72	8.79	8.70	8.30	7.90	7.70	7.70	7.30	6.80
10 year bond	6.79	6.40	6.17	6.30	6.40	6.50	6.50	6.70	6.70	6.50
International	Jul 07	Aug 07	17 Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
US Fed funds	5.25	5.25	5.25	4.75	4.75	4.75	4.75	4.75	5.50	5.75
US 3-mth	5.36	5.62	5.65	5.25	5.15	5.00	5.00	5.25	5.75	6.10
AU cash	6.25	6.50	6.25	6.50	6.75	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.62	6.89	6.99	6.80	6.90	6.90	6.90	6.90	6.90	6.90

## KEY RATES

	14 Aug	10 Sep	11 Sep	12 Sep	13 Sep	14 Sep
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.60	8.83	8.82	8.75	8.75	8.69
90 day bank bill	8.73	8.85	8.88	8.85	8.85	8.80
NZGB 07/09	7.63	6.75	6.73	6.80	6.85	6.89
NZGB 11/11	7.07	6.36	6.34	6.40	6.45	6.51
NZGB 04/13	6.92	6.28	6.25	6.32	6.37	6.43
NZGB 12/17	6.39	5.98	5.96	6.03	6.08	6.14
1 year swap	8.63	8.55	8.55	8.58	8.54	8.53
2 year swap	8.42	8.16	8.14	8.17	8.15	8.17
5 year swap	8.04	7.69	7.67	7.69	7.66	7.69
RBNZ TWI	70.6	65.9	66.5	67.4	67.6	68.0
NZD/USD	0.7324	0.6883	0.6957	0.7060	0.7099	0.7124
NZD/AUD	0.8726	0.8373	0.8400	0.8456	0.8453	0.8490
NZD/JPY	86.36	77.96	79.09	80.70	81.10	81.98
NZD/GBP	0.3640	0.3392	0.3431	0.3476	0.3499	0.3528
NZD/EUR	0.5379	0.4996	0.5042	0.5100	0.5108	0.5135
AUD/USD	0.8393	0.8220	0.8282	0.8349	0.8398	0.8391
EUR/USD	1.3616	1.3778	1.3799	1.3843	1.3897	1.3873
USD/JPY	117.92	113.26	113.69	114.30	114.24	115.07
GBP/USD	2.0123	2.0293	2.0274	2.0312	2.0287	2.0193
Oil	71.60	76.70	77.53	78.16	79.85	80.05
Gold	669.15	699.80	703.50	712.70	710.45	706.50
Electricity Price Index	4.88	5.96	6.04	6.11	6.02	5.91

**Disclaimer**

This document has been prepared by ANZ National Bank Limited (the "Bank"), is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

ANZ Bank, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639  
<http://www.anz.com/nz> e-mail [ecnmcs@anz.com](mailto:ecnmcs@anz.com)