

CUTTING TO STOP TIGHTENING?

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Page 2: Economic overview

- > NZ faces the real prospect of tighter financial conditions if the Official Cash Rate does not fall very soon. This comes at a time the dreaded "R" is a reality. While this week's OCR decision takes centre stage, and looks a close call, our attention at present is also firmly on the global environment, and commodity prices. Domestically, apart from the RBNZ, migration data is the highlight, and while most will be looking at migration, we'll be paying increasing attention to tourism numbers going forward.

Page 4: RBNZ Official Cash Rate Preview

- > Thursday's OCR decision is a line-ball call. While we expect (more like hope!) the RBNZ reduces the OCR, it is a call that lacks conviction and we would not be surprised to see the RBNZ wait until a full *Monetary Policy Statement* in September to start the easing cycle. The crux of our view behind July is that the RBNZ needs to cut just to keep borrowing rates from moving up given higher international credit costs.

Page 6: Economic comment – sale-to-listing price differentials

- > Since the end of last year, the gap between the median price that dwellings are listed at with real estate agents and the final selling price has widened to over 4 percent. Anecdotes suggest the "gap" is wider although difficulties with medians may be playing a role. Overall, a widening "gap" is another sign that sellers are now willing to discount their price expectations in light of the current weakness in the New Zealand real estate market. Given a rising number of days to sell, we expect more of the same.

Page 10: Economic comment – global watch

- > US data was mixed, with retail sales and the Philly Fed weaker than expected, but industrial production and CPI on the stronger side. Confidence data out of Europe, confirms the region is slowing as does labour market data from the UK. However, inflation remains a concern in both regions.

Page 11: Interest rate strategy

- > Market split over Thursday's OCR decision. A rate cut to see a rally in the front end though the market will be hesitant to price too much more easings given the near-term inflation picture. Expect the curve to steepen towards key resistance level.

Page 12: Currency strategy

- > The RBNZ's interest rate decision takes centre stage this week and given the line-ball nature, the NZD remains vulnerable either way. In this environment markets will also be looking for offshore cues and slowly but surely sentiment seems to be returning towards a recoupled environment. We remain happy with a downside kiwi bias given the path for domestic rates and the global backdrop.

Page 13: Data and event calendar

Page 15: Data watch

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ECONOMIC OVERVIEW

NZ faces the real prospect of tighter financial conditions if the Official Cash Rate does not fall very soon. This comes at a time the dreaded "R" is a reality. While this week's OCR decision takes centre stage, and looks a close call, our attention at present is also firmly on the global environment, and commodity prices.

Domestically, apart from the RBNZ, migration data is the highlight, and while most will be looking at migration, we'll be paying increasing attention to tourism numbers going forward.

What's ahead?

- > **NZ June External Migration** (Monday 1045 NZST). Net monthly inflows look to have found a base. We expect the 12-month total to remain around its current level of 5,000.
- > **NZ June Electronic Card Transactions (ECT)** (Monday 1045 NZST). Given cost of living pressures, the underlying trend in the value of electronic card transactions is likely to be weak.
- > **NZ June Credit Card Spending** (Monday 1500 NZST). Very similar themes to the ECT data.
- > **RBNZ OCR Review** (Thursday 0900 NZST). We expect the OCR to be cut by 25 bps to 8.0 percent, although it is a very close call.

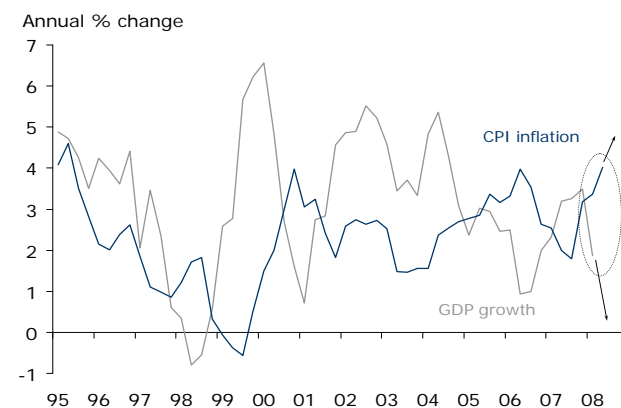
What's the view?

Toss a coin. That is almost how the market (and ourselves to be fair) is viewing the RBNZ's interest rate decision this Thursday. The market has currently priced in about a 54 percent chance for a 25 basis point cut and this is just about where our bias also resides. It really could go either way and it'd be hard to quibble which ever way that is. We're officially in the cut camp but would not be surprised at all if the Bank decided to sit tight for the moment. While that sounds a bit wimpish, it's simply a reflection of the environment we are in at present. Central banks can hardly agree themselves on how to navigate through the current period and the monetary policy textbook is devoid of answers at present. Just look at the ECB and Fed! Our preview is on page 4.

Looking at the broader picture, the growth-inflation situation the RBNZ faces is not unique. These are the most challenging economic times for any inflation targeting central bank in more than three decades. Policymakers around the globe are grappling with the dynamics of weakening economies at the same time as headline inflation rates are accelerating. This was brought home to bear with the release of inflation data last week, showing headline inflation rates of 5.0 percent for the US, 4.0 percent in the Euro-zone area and 3.8 percent in the UK – all well above where their respective central banks would like them to be. And while Chinese annual inflation eased to 7.1 percent, it also remains too high for the PBOC's liking. But spare a thought for Zimbabwe, whose official inflation rate has escalated to 2.2 million percent!

In NZ, the headline inflation rate was no less comforting, coming in stronger than expected and hitting 4 percent in Q2. But the composition of the price increases was mixed. Big contributions came from food, petrol and electricity prices as expected, albeit slightly on the stronger side, which added 1.2 percentage points to the 1.6 percent quarterly increase. Prices for most other goods and services appear well behaved, which will be mildly comforting for the RBNZ. Measures of core inflation were also mixed, with non-tradable inflation easing gradually to 0.9 percent in Q2 from 1.1 percent in the previous quarter, but other core measures remaining elevated (trimmed mean picked up to 1.2 percent from 0.8 percent, while the weighted median rose 0.8 percent, unchanged from Q1). The markets had been looking at the Q2 CPI release as the make or break for a July rate cut. As it transpired, the actual data failed to give strong guidance either way.

The growth/inflation dilemma



Sources: ANZ National, Statistics NZ

Moving back to the global inflation story, most of the upward pressure on inflation is largely a commodity price story – to date. Core inflation rates on the whole have been remarkably well contained, although an upward bias is starting to emerge in the likes of the US, which is of course starting to concern policymakers. Thankfully there is little evidence yet to suggest that high headline inflation rates are filtering into wage and price setting behaviour – one root cause of the 1970s stagflation period. We struggle to see such an outcome anyway, but of course policymakers don't even want to envisage the mere thought, hence the tough talk everywhere.

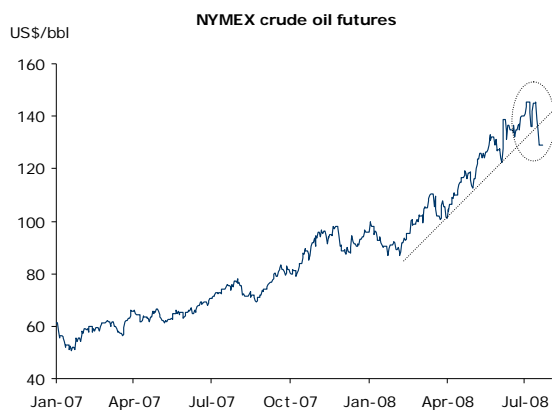
In terms of the global and NZ inflation dynamic, we're closely watching commodity prices at present. We see a lot of research calling for further increases, routs / corrections, blaming speculators, a weaker USD, pointing to supply-demand balance, or other aspects that in some cases appear a stretch. We end up scratching our heads and sometimes get even more confused the more we read.

However, a couple of things have struck us of late. First, there is a lot more talk about the demand destruction aspects of higher oil prices. You only have to see the increase in commuters on trains and buses here in Wellington to see the demand response locally. And there are anecdotes aplenty of this happening all

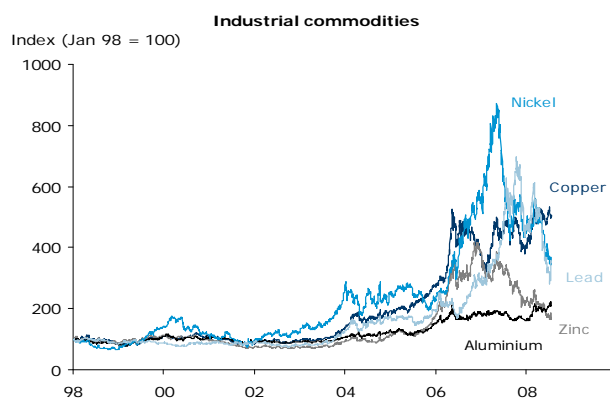
round the globe. There was talk that the Independence Day holiday weekend in the US (the peak of the summer driving season) was one of the quietest for some time, as holiday makers decided to travel closer to home. US oil demand is down 1.4 percent on a year ago.

Second, there seems heightened sensitivity across commodity markets to the global environment. Now we don't think the trend in the global picture has changed too much in the past few weeks (albeit with a lot of volatility with what has been happening in the US in terms of Fannie Mae and Freddie Mac). It's been a steady deterioration. But clearly, given signs the majority of the global economy are now overwhelmingly slowing sharply (US, Europe, UK, Japan et al), markets are more on edge. Whether we have hit some sort of "recoupling" tipping point remains the million dollar question.

Oil prices were down quite sharply last week (about 11 percent) and it is both the fact they fell and the speed which leaves us "speculating" the reasons. A bearish US inventory report and talks between the US and Iran have been cited. The techno-crats are pointing to the break below US\$135/bbl as a key level and time will tell. But when looking at some of the falls experienced for some industrial commodities such as nickel, zinc and lead of late we wonder what else is going on. Even some of the softs including corn were not immune. Heading the other way of course have been aluminium and copper. The Baltic Dry Freight Index was off 2½ percent last week but it's given some misleading cues recently. For now it's a question of waiting for more information.



Sources: ANZ National, Bloomberg



Sources: ANZ National, Bloomberg

Looking forward to this week, the data here locally (all out today) is second-tier in nature. We expect external migration to show net annual inflows hovering around their current level of 5,000. We will have some interest in tourist arrivals figures, as another gauge of global demand. It'll be too early to detect anything untoward at present but we are in no doubt tourism will be a key sector to watch over the coming year. While it's easy to envisage a lot of Australian tourists during the ski season and into summer, given where the NZD/AUD resides, three other aspects are worthy of note.

First, tourism is a luxury good with an income elasticity of around 2. Hence, small changes in global growth can have a big impact. Second, it's very procyclical in relation to the global growth cycle and influenced by the wealth effect, which is currently a big drag and likely to be for sometime given falling equity markets and house prices in most developed nations. When you are worth less, you travel less. Finally, tourism is a logical by-product and beneficiary of globalisation and oil (whether that be via freight rates or jet fuel costs for airfares) is a major spanner in that process at present. It's not widely recognised but the tourism sector earned more in foreign earnings than the dairy sector in the year to March 2007. Hence, it's a key area to watch.

The ECT and credit card data will be useful indicators of how the retail sector performed over June. Anecdotes and confidence gauges suggest a continuation of recent weakness, and it's certainly looking like Q2 consumption (61 percent of GDP) is looking weaker than Q1's read of -0.4 percent.

Internationally, the big event this week is the Australian Q2 CPI data. Our Australian colleagues are expecting headline CPI to rise by 1.3 percent, and core inflation by the same. These are obviously high and will remain a concern for the RBA. However, a speech by RBA Governor Stevens last week, as well as the release of the minutes from their June meeting, showed that the RBA are fully expecting strong near-term inflation and that the current monetary policy setting is about right given signs that the economy is slowing. The message coming out of Australia looks to be more one of keeping rates at currently levels for longer.

Other important international data this week includes PMI survey results out of Europe as well as the German IFO survey. CPI is due for release in Japan, and the first reading on UK June quarter GDP is expected. In the US, the earnings reporting season continues and durables goods data is released.

Recent data...

NZ Retail Sales (May): Total nominal retail sales fell by 1.2 percent, while core sales rose by 0.7 percent.

NZ CPI (June quarter): Headline CPI rose by 1.6 percent, taking annual inflation to 4.0 percent. Non-tradable inflation rose by 0.9 percent in the quarter (3.4 percent for the year), while tradable inflation rose by 2.3 percent (4.8 percent for the year).

OFFICIAL CASH RATE PREVIEW

(due 9.00am 24 July)

Thursday's OCR decision is a line-ball call. While we expect (more like hope!) the RBNZ reduces the OCR, it is a call that lacks conviction and we would not be surprised to see the RBNZ wait until a full *Monetary Policy Statement* in September to start the easing cycle. The crux of our view behind July is that the RBNZ needs to cut just to keep borrowing rates from moving up given higher international credit costs.

We and the market are split over this week's OCR decision. The OIS market has a 54 percent chance of a rate cut priced in, while we have decided to jump off the fence (but only just) to call for a 25bp reduction. However, our July rate cut view is one that we lack conviction over.

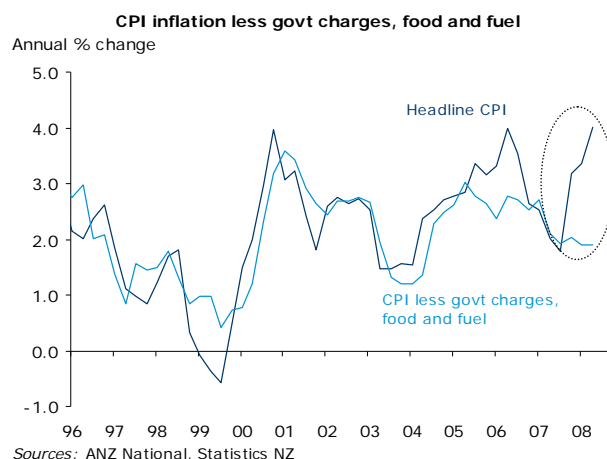
The RBNZ shifted to an easing bias at the June *Monetary Policy Statement*. But this is predicated on the condition that *"commodity prices stop rising, inflation expectations remain anchored, and weakening economic activity contributes to an easing in non-tradable inflation."*

- > On the commodity price front, prices remain elevated, although we are also seeing a lot of volatility. In terms of NZ commodity export prices, it is fair to say prices are still rising, and it's more than a dairy story. However, significantly, oil prices are now around 10 percent above what the RBNZ projected in June, having been as much as 20 percent higher (Dubai prices). While a one-off, the reality is that the surge has pushed prospects for the headline inflation rate through 5 percent. A critical judgement for the RBNZ is whether the recent sell-off in oil prices is the start of a corrective phase, which will help improve the near-term inflation picture, or merely a temporary blip. No-one knows and it's too early to tell.
- > There have been no recent readings on the RBNZ's inflation expectations survey, but the NBBO survey showed a slight rise to 3.5 percent in June from 3.4 percent the previous month. Given that food and petrol prices continue to rise, it is too soon to be confident that inflation expectations are truly anchored even at current elevated levels. All central banks are very sensitive to the potential for elevated inflation expectations to flow into wage bargaining behaviour. Deep down we suspect no one actually thinks it'll occur, but its one of those risks that you simply don't want to have a bar of.
- > Recent data on economic activity shows that growth is slowing more sharply than the RBNZ's June projections. Despite Q1 GDP coming in line with the RBNZ's expectations, partial data and confidence indicators point to a further contraction in Q2 GDP, and possibly even extending into Q3. We are in the process of updating our forecasts and see a lot more downside relative to May, when

we flagged GDP growth of 0.9 percent in 2008, and 1.3 percent in 2009. In our view, the economy is far from stabilising. It is continuing to deteriorate and we harbour some concerns. It's not just the turn in the cycle but the speed. The labour market will be the next driving force as firms look for efficiency gains.

- > On the inflation front, Q2 CPI was stronger than the RBNZ expected, with headline inflation hitting 4 percent. Inflation now looks set to hit 5 percent in Q3, though this is likely to be the peak. However, pricing intentions readings from both the NBBO and QSBO surveys point to further price pressures in the pipeline, as firms seek to pass higher input costs on.

It's easy to forcefully argue either side when it comes to a July move. Given the sharp slowdown in the economy and signs that the labour market is easing (from indicators on hiring intentions and difficulty in finding labour from the latest QSBO survey), the RBNZ can have greater confidence that medium-term inflation pressures will ease. If anecdotes towards the labour market are correct, the unemployment rate is set to move sharply higher. Indeed, excluding food, energy and government charges, all of which are outside of the RBNZ's control, inflation has been running at or below 2 percent for the past four quarters now. The Q2 CPI data suggests that non-tradable inflation may be starting to ease off, albeit gradually. The global economy is deteriorating by the day, and Australia looks to have hit the same wall NZ hit in January / February. The performance of the equity market is becoming painful to watch. In contrast, it's hard to ignore the reality of the 5 percent headline inflation rate. A huge degree of uncertainty still surrounds the global economy, commodities, and how quickly slower growth will dampen domestic inflation pressure. Cutting rates when the headline inflation rate is yet to peak is a very risky strategy for a central bank to pursue. Weighted and trimmed mean inflation measures are still rising. While the currency has eased, notably the NZD/AUD cross, funding and credit costs to financial institutions have increased markedly, actually tightening overall financial conditions.



We are back to playing pygmy-nomics where none of the options stand decidedly tall. Cut early

and you take on additional inflation risk, thereby risking an even harsher economic adjustment down the track. Cut late, and the economy finds itself in an unnecessarily bigger hole. Even cutting late and aggressive is not without risk given the attention the NZD is likely to receive in that situation. The chapter in the monetary policy handbook on dealing with credit related malaise, let alone in combination with a global inflation shock and domestic housing correction, hasn't been penned. At either extreme we have the approach adopted by the Fed (although the US economic situation obviously is far more serious), versus the ECB who just hiked less than three weeks ago. Then there is NZ, which is arguably weaker than both regions in the growth stakes, has the highest cash rate, and still seeing increases in the effective mortgage rate borrowers are facing!

We are more inclined towards a July move and a slow and steady approach to policy, but there is a fair degree of what we think needs to happen as opposed to what we think will happen. In our view it is easy, given what we are seeing across the global economy, domestic confidence measures, labour market sentiment and credit dislocation to warrant a rate cut this week. After all, a rate cut will only neutralise tighter financial conditions that are flowing through from other areas, such as a higher cost for global capital. International funding costs to the financial sector continue to rise, and this is a process we struggle to see stabilising given the global environment at present. The flow-on to corporate margins in particular is significant. It's an area we believe commentators and policymakers are significantly under-estimating the flow-on effects to the economy. A key error in previous business cycles has been continued tightening in financial conditions well after the economy has turned aggressively. It seems perverse but if the RBNZ doesn't cut soon, financial conditions will tighten at a time the dreaded "R" is a reality.

Moreover, the issue is wider than simply funding costs per-se to borrowers. Higher international borrowing costs have of course increased competition in the domestic deposit market (a healthy dynamic in our view in terms of assisting the economy's rebalancing process). This in turn raises the hurdle rate for investment in equities and property. It is apparent in the RBNZ's financial statistics that this is also siphoning money away from non-bank financials. A lot of these are healthy dynamics. But we need to be mindful how extreme and rapid we want adjustments to be.

Yet, the reality is that it is still a hard ask for the RBNZ to cut when all its criteria set out in their June Statement has not been fully met. Yes, the RBNZ is prepared to look through the near-term spike in inflation, and the growth picture is certainly weak. But the risk of inflation expectations continuing to drift higher due to a high headline inflation rate will probably prove to be the sticking point. As will the reality of cutting when the headline inflation rate is rising (although this will still apply in September). To be fair, given the sharp deterioration in firms'

expected profitability, employers will not be in a position to grant pay rises in line with inflation. Not when there are signs that the labour market has turned aggressively. The question remains whether the RBNZ is prepared to take this by faith.

So while we would certainly like to see rates move lower earlier, it will be hard to quibble if this does not manifest and the RBNZ decides that caution should prevail. In this regard, the key indicator the RBNZ will likely be waiting final confirmation from will be the Q2 Household Labour Force Survey (due 7 August). A patient approach will also give the RBNZ more time to assess recent developments across the global economy and commodity prices. Strategically, we are not strong fans of starting easing cycles on *OCR Review* dates, and particularly in the current environment when the headline inflation rate is still rising. The transparency and full communication advantages of a full *Monetary Policy Statement* would be preferable. However, these are exceptional times and while the September Statement is only six weeks away, we only need to look how much has changed since the June Statement – a mere six weeks ago.

Financial market implications

The July OCR Review is shaping up as very difficult to draft, irrespective of the decision itself. We can see a host of possible outcomes ranging from a cut with slow and steady nuances going forward to a no change decision but a statement targeted at getting more priced into the belly of the curve. The latter is particularly appealing in terms of mitigating the impact of higher international funding costs in longer dated rates to stop retail rates moving up. Net on net we suspect the RBNZ will find it difficult to prevent an aggressive move in rates and currency in either direction. If they manage it we'll dispatch some bottles of vino as it'll be a job very well done.

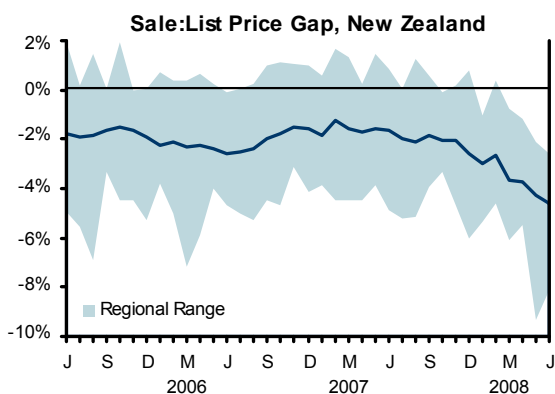
Irrespective of the outcome, we suspect the rates market will be prone to rally and make a push for 7.5 percent in the 2-year swap yield. The market will take a no change decision as merely cementing September and may start to think about a larger 50bp move. This is particularly so should oil prices continue to head lower as the week progresses.

If the RBNZ does decide to wait, the NZD/AUD looks to have some topside protection pending from Australian CPI figures this week, although the same cannot be said for the NZD/USD.

SALE-TO-LISTING PRICE DIFFERENTIALS

Since the end of last year, the gap between the median price that dwellings are listed at with real estate agents and the final selling price has widened to over 4 percent. Anecdotes suggest the “gap” is wider although difficulties with medians may be playing a role. Overall, a widening “gap” is another sign that sellers are now willing to discount their price expectations in light of the current weakness in the NZ real estate market. Given a rising number of days to sell, we expect more of the same.

Each month the REINZ publish a range of data pertaining to the real estate market. The most widely reported series relate to the number of houses sold, the median price of houses sold price and the median number of days to sell a dwelling. In addition to these, the REINZ also publish the price that dwellings are listed at and the eventual sale price. By comparing the list price to the sales price, we have derived a sale-to-listing price gap. As well as the nationwide figure, the REINZ also release the listing and sale price data by district. The following article is a regional summary of the sale-to-listing price gaps. The thicker line in the chart below shows the nationwide sales-to-listing price gap. In the latest observation the median sale price was 4.6 percent below the median listing price. The shaded area in the chart summarises the highest and lowest sale-to-listing price gaps across the regions.



So what does it show?

- > The most obvious trend in the chart is that the gap between the nationwide listing price and final selling price has been growing. The differential first began to widen further than normal in December last year. Prior to then, the average sale-to-listing price differential was 2 percent. In other words, over this earlier period the median house sales price was typically two percent below the median price that they were listed at. In the latest observation for June this differential has spread to 4.6 percent.
- > A similar trend has prevailed across the regions. The only exception being Hawke's Bay (see the bottom chart on page 9), where the differential

between selling and listing prices has narrowed over the past year and a half. During the past 18 months the sale-to-listing price gap has averaged -2.2 percent, while in the 18 months prior to this, the gap averaged -2.4 percent.

- > Another interesting comparison is to identify which regions are frequently under (or over) the national average. Here the stand-out region is Wellington. Over the past three years Wellington has consistently (excluding one month) recorded the narrowest sale-to-listing price gap across the regions. Canterbury has a similar (but not as extreme) track record, with a tighter sale-to-listing ratio than the national benchmark in all but one month. At the other extreme, the sale-to-listing price gap in the Bay of Plenty has been consistently wider than the national average. Northland's differential has also been wider, with only one occurrence in the past 36 observations that the gap has been narrower than the national benchmark. With only three years of data, explaining why this is so isn't easy. Maybe sellers aren't as informed about trends in the real estate market of their locality. Or perhaps it has been a buyers' market in these regions for the past three years.

The two tables below summarise those districts with the widest and narrowest sale-to-listing price differentials. To avoid wild swings, we have limited this analysis to only those areas with at least 15 sales in the past three months and we have averaged the sale-to-listing ratios over the latest three months. The price differentials presented for individual districts in the table will exceed the regional benchmarks presented in the charts on pages 9 and 10.

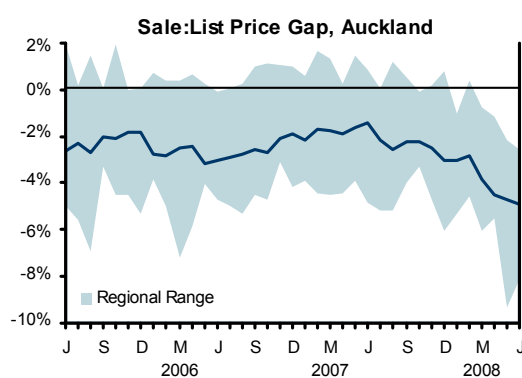
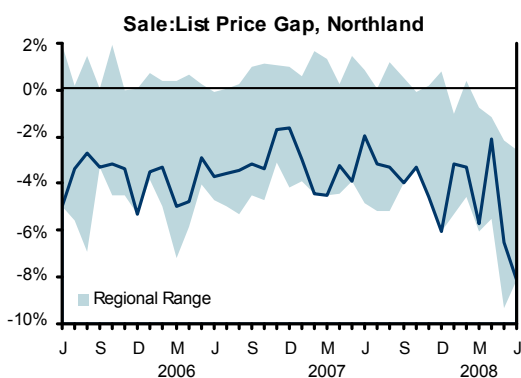
Waitara had the smallest sales-to-listing price differential in the three months to June, followed by Central Wellington. As we mention earlier, Wellington is consistently skewed towards the bottom of the table. Such a phenomenon could be explained by a combination of: buyers willing and able to pay a premium; supply shortages relative to demand; sellers more savvy and in tune with market prices; or the region's real estate market being relatively insulated from other parts of the nation and not being distorted by larger swings in the price cycle. It could also be a simple case of some firms (regions) using buyer enquiry as opposed to a set sale price.

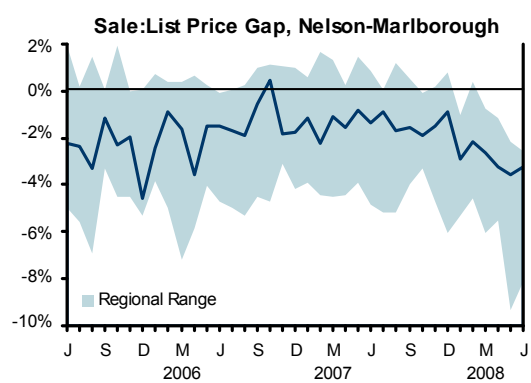
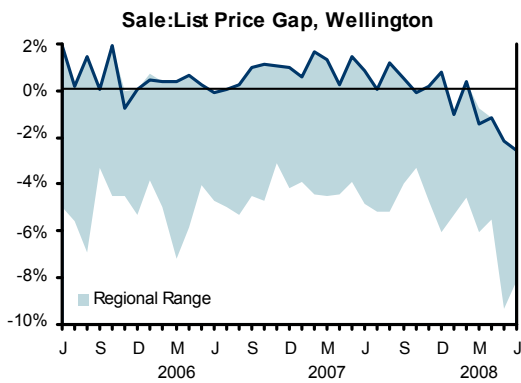
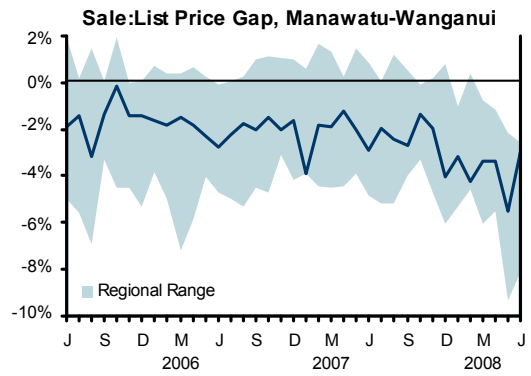
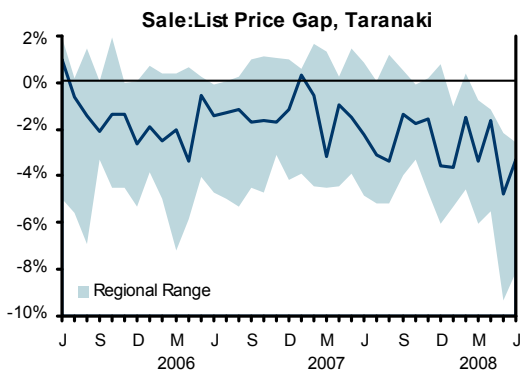
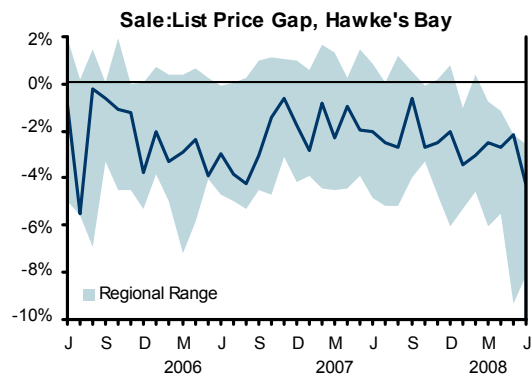
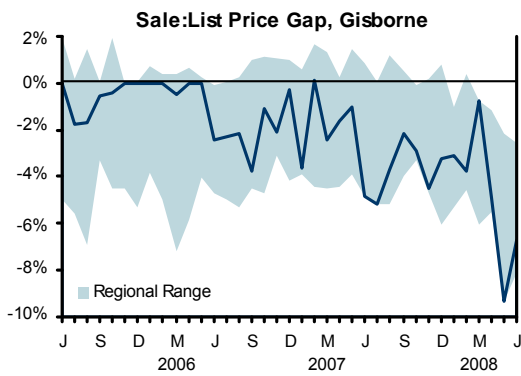
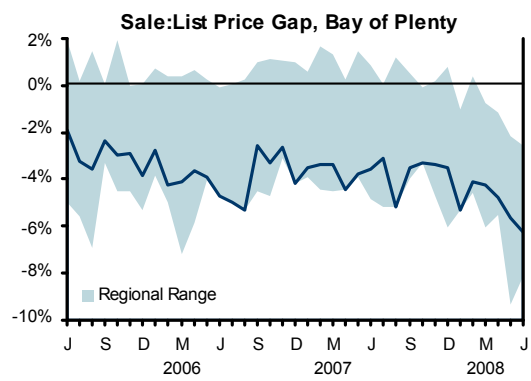
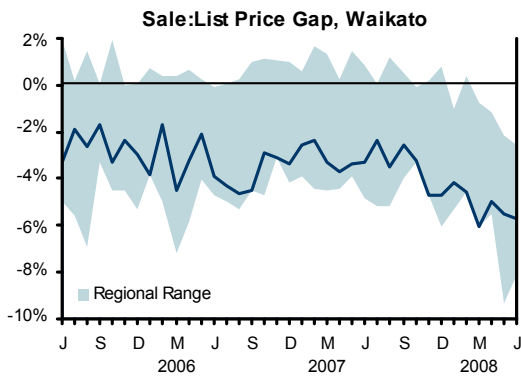
The upshot

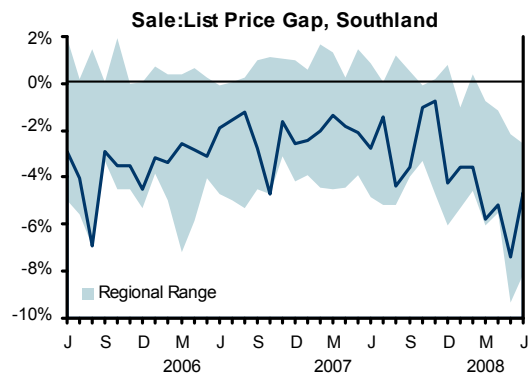
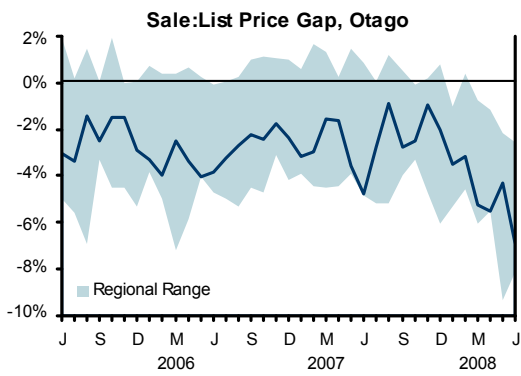
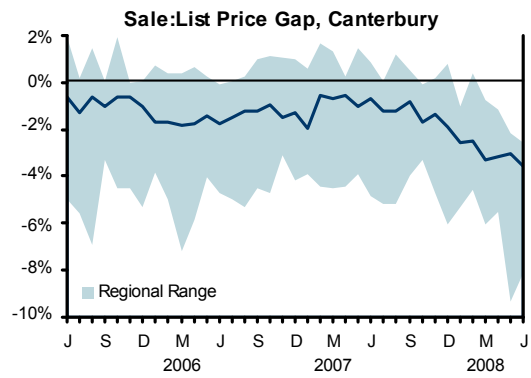
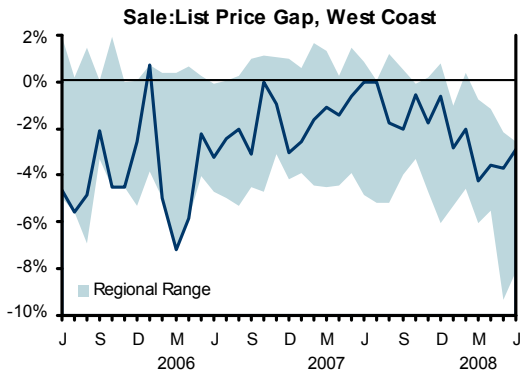
The widening gulf between listing and selling prices is one indication of sellers being reluctant to adjust their expectations down. They are holding out in hope that the market will recover. A prime example of this is the lengthening in the median time to sell a house. The gap between the two will stay extended until sellers accordingly adjust their expectations down. Strictly speaking anecdotes suggest the “gap” is wider than the 4.6 percent calculated here. Whether this means both the list price and sell price have both started to adjust is not clear. But we'll be watching this gap over coming months.

Ten Largest Sale-to-Listing Price Gaps (avg 3 mnths to June 2008)			
Sale:List Price Gap	District	Region	No. of Sales
-17.7%	Mangonui	Northland	16
-10.8%	Stratford	Taranaki	32
-9.6%	North Otago	Otago	80
-9.3%	Auckland, Islands Of Gulf	Auckland	39
-9.2%	Wanganui	Manawatu-Wanganui	184
-8.7%	Riverton	Southland	25
-8.4%	Te Anau	Southland	15
-8.1%	Rodney North	Auckland	77
-7.9%	Manurewa	Auckland	170
-7.6%	Papatoetoe	Auckland	211

Ten Smallest Sale-to-Listing Price Gaps (avg 3 mnths to June 2008)			
Sale:List Price Gap	District	Region	No. of Sales
-1.6%	Palmerston North City	Manawatu-Wanganui	267
-1.4%	Richmond	Nelson/Marlborough	54
-1.3%	Christchurch City South	Canterbury	60
-1.1%	Western Wellington	Wellington	104
-1.0%	Christchurch Seaside Hills	Canterbury	30
-0.9%	Winton	Southland	36
-0.7%	Northern Wellington	Wellington	183
-0.6%	Bell Block	Taranaki	39
-0.3%	Central Wellington	Wellington	112
0.0%	Waitara	Taranaki	21







GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. US data was mixed last week, with retail sales and the Philly Fed weaker than expected, but industrial production and CPI data on the stronger side. Confidence data out of Europe, confirms the region is slowing as does labour market data from the UK. However, inflation remains a concern in both regions.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Producer Price Index (Jun) – mom	1.4%	1.8%	1.4%	Stronger
	Advance Retail Sales (Jun) – mom	0.4%	0.1%	0.8%	Weaker
	Empire Manufacturing (Jul)	-8.0	-4.9	-8.7	Stronger
	Consumer Price Index (Jun) – yoy	4.5%	5.0%	4.2%	Stronger
	Industrial Production (Jun)	0.1%	0.5%	-0.1%	Stronger
	NAHB Housing Market Index (Jul)	18	16	18	Weaker
	Housing Starts (Jun)	960K	1,066K	977K	Stronger
	Philadelphia Fed (Jul)	-15.0	-16.3	-17.1	Weaker
Europe	Industrial Production (May) – mom	-2.3%	-1.9%	1.0%	Stronger
	ZEW Economic Sentiment (Jul)	-56.0	-63.7	-52.7	Weaker
	CPI (Jun) – yoy	4.0%	4.0%	4.0%	In-line
UK	PPI Input (Jun) – yoy	29.0%	30.3%	28.7%	In-line
	PPI Output (Jun) – yoy	9.9%	10.0%	9.3%	In-line
	PPI Output – Core (Jun) – yoy	6.5%	6.4%	6.1%	In-line
	CPI (Jun) – yoy	3.6%	3.8%	3.3%	Stronger
	CPI – Core (Jun) – yoy	1.5%	1.6%	1.5%	Stronger
	Jobless Claims Change (Jun)	10.0K	15.5K	14.3K	Weaker
	M4 Money Supply (Jun P) – mom	0.4%	2.0%	0.3%	Stronger
Asia Ex-Japan					
<i>China</i>	Money Supply – M2 (Jun) – yoy	17.5%	17.4%	18.1%	In-line
	Producer Price Index (Jun) – yoy	8.5%	8.8%	8.2%	Stronger
	Consumer Price Index (Jun) – yoy	7.3%	7.1%	7.7%	Weaker
	Retail Sales (Jun) – yoy	21.3%	23.0%	21.6%	Stronger
	Industrial Production (Jun) – yoy	15.6%	16.0%	16.0%	Stronger
	GDP (2Q) – yoy	10.3%	10.1%	10.6%	Weaker
<i>Singapore</i>	Retail Sales (May) – yoy	6.2%	4.8%	7.5%	Weaker
	Non-oil Domestic Exports (Jun) – mom	-2.8%	-10.5%	-10.5%	Weaker
<i>Philippines</i>	Overnight Borrowing Rate	5.50%	5.75%	5.25%	Stronger
<i>South Korea</i>	Unemployment Rate (Jun)	-	3.2%	3.2%	-
<i>Thailand</i>	Benchmark Interest Rate	3.50%	3.50%	3.25%	In-line
<i>Indonesia</i>	Money Supply – M2 (May) - yoy	-	17.5%	16.3%	-
	Consumer Confidence Index (Jun)	-	79.1	82.4	-
Japan	BoJ Interest Rate Announcement	0.50%	0.50%	0.50%	In-line
	Tertiary Industry Index (May) – mom	0.2%	-0.2%	1.9%	Weaker
Australia	Import Price Index (2Q) – qoq	2.2%	1.4%	2.7%	Weaker
	Export Price Index (2Q) – qoq	10.0%	13.5%	3.5%	Stronger

INTEREST RATE STRATEGY

Market split over Thursday's OCR decision. A rate cut to see a rally in the front end though the market will be hesitant to price too much more easings given the near-term inflation picture. Expect the curve to steepen towards key resistance level.

Market themes...

- > NZ Q2 CPI failed to give a clear steer either way.
- > Higher global cost of funds becoming a focus.
- > RBA looking content with current settings.
- > Bernanke sees significant downside growth risks but upside inflation risks intensified.

Review and outlook...

The much anticipated Q2 CPI print was supposed to be the make or break case for a July OCR move. Frustratingly, it turned out to be neither. Yes, headline inflation was stronger than expected hitting 4 percent. Yet, non-tradable inflation was slightly lower than expected, and apart from food, petrol and electricity prices, all other components appear better behaved. So the market was left to weigh up the deteriorating growth picture against a likely 5 percent headline inflation rate in Q3.

The market is split on Thursday's decision, with the OIS pricing in a 54 percent chance of a rate cut. The NZ swaps market outperformed despite a mixed CPI result, particularly in the front end. Expect to see a rally in the front end should the RBNZ ease, though the market will be hesitant to price too much more easings given the near-term inflation picture. Further curve steepening pressure is likely.

In offshore moves, US bonds sold off with the 10-year yield heading above 4 percent as credit jitters eased late in the week and safe haven flows dried up. With US Fed Chairman Ben Bernanke describing financial markets as under "considerable stress" and seeing significant downside growth risks but upside inflation risks having intensified, the Fed looks to be on hold for some time. The RBA looks increasingly comfortable with current monetary policy settings, despite an ugly near-term inflation picture. Australian financial institutions have been doing the RBA's work by lifting mortgage rates due to higher funding costs, and the markets now believe the next move in the Australian cash rate will more likely be down than up.

Higher funding costs will increasingly be a feature for the NZ rates market, as will the path for oil prices. The market will likely be more sensitive to any hint of greater credit dislocation leading to more expensive wholesale cost of funds. The 11 percent selloff in oil prices last week will be bullish for rates, as it will take some pressure off near-term inflation if it is sustained. An oil market correction will also help offset any further weakness in the NZD.

This week sees key PPI and CPI data for Australia, which may see the market back off any easing

thoughts. The data calendar is fairly light in the US and Europe, with key events being the BoE minutes and Fed Beige Book. Continuation of the US earnings result will be the main market mover.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↓	This Thursday's decision will be close. We are erring towards a cut.
NZ data	↔/↓	Only third tier data this week but it will reinforce the weak consumer sector.
Fed Funds/front end	↔	Significant downside growth risks but upside inflation risks intensified.
RBA	↔	RBA seems to be comfortable where they are, despite near-term inflation pressures.
US 10 year	↔/↑	Reversal of safe haven flows sees yields above 4%.
NZ swap curve	↔/↑	Further steepening pressure to emerge.
Flow	↔	Flows to be light ahead of RBNZ decision. Receivers should have the upper hand.
Technicals	↔/↓	Next technical move dependent on RBNZ decision.

Borrowing strategies we favour at present

Even if the RBNZ does not cut this Thursday, the Bank will clearly flag a move in September. Hence, we continue to prefer borrowing in the 1-year space. Borrowers who are concerned about the inflation picture can consider borrowing in the 2-year space.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 24-Jul-08	-63	-54
Thu 11-Sep-08	-145	-158
Thu 23-Oct-08	-237	-258
Thu 4-Dec-08	-329	-350
Thu 22-Jan-09	-397	-406
Thu 5-Mar-09	-453	-454
Thu 23-Apr-09	-485	-486

Trading themes we favour at present

Remain received the belly of the curve (3-5 year). Consider taking profit on September bank bill position and buying June 09's as a play on the RBNZ having to ease more.

CURRENCY STRATEGY

The RBNZ's interest rate decision takes centre stage this week and given the line-ball nature, the NZD remains vulnerable either way. In this environment markets will also be looking for offshore cues and slowly but surely sentiment seems to be returning towards a recoupled environment. We remain happy with a downside kiwi bias given the path for domestic rates and the global backdrop.

Market themes...

- > RBNZ's OCR decision the big focus this week.
- > Uncertainty across international markets (commodities, credit, equities) should see volatility remain high.
- > Swinging back to recoupling.
- > Internationally, Australian Q2 inflation data and the US earnings season will be important.

Review and outlook...

The NZD as a safe-haven currency? Strange as this may sound, this almost looked to be the case last week as the NZD ground higher and broke through the top of its well established down-channel against the USD, despite equity markets tumbling and risk aversion increasing on the back of credit jitters. However, the break proved to be short-lived, as a recovery in US stocks (particularly for financials) provided support to the greenback and the NZD fell by default.

Sifting between the tea leaves there are a couple of points to be mindful of at present. The first is activity across commodity markets, with the majority – led by oil – weakening considerably last week. There is a lot of "speculation" as to the reasoning, and people not short of explanation. But the major reason and second focal point in our eyes is continued weakness in the global economy. Slowly but surely we look to be returning to a more recoupling view of where the global economy resides. Hence we'll continue to watch equity and commodity market sentiment closely over the coming week. The European and US regions in particular look to be at crossover points in the growth stakes, with the former now weakening rapidly and the US stabilising, although it looks like we'll see another leg post Fannie Mae and Freddie Mac (credit) from the real side of the US economy as well.

Obviously this week's OCR decision on Thursday takes centre stage. As we have mentioned in the preceding pages, the decision is a very close one as the RBNZ weigh up a very weak economy, with accelerating headline inflation. Our view remains that the RBNZ needs to cut just to stop interest rates moving up, but we lack confidence to be fair that the RBNZ sees it the same way at present. Their hands are tied by the reality of inflation heading to 5 percent. Hence, the potential is to see a fairly large reaction in the NZD either way on the day. The NZD/AUD looks to have some topside protection in place if we see a no-change

decision, given pending CPI figures across the Tasman, which are expected to print strongly. Beyond that we suspect it'll be a case of the bird taking its cues from the global backdrop.

Technically, the 200 day moving average at 0.7760 has capped the NZD well and this looks likely to be the medium-term top. We prefer NZD now to start to move downward with minimum retracements. The first target is 0.7350. The NZD/AUD cross is interesting as a break of 0.7850 suggests the next leg lower is ready to begin. The coming 24 hours is critical for the NZD with weak daily closes suggesting a break of the recent ranges and a trend lower is about to start.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	RBA on hold for a long time and RBNZ probable cut.
Commodities	↔	Same picture for both.
Partial indicators	↓	Better across the Tasman.
Technicals	↓	The key 0.7850 level has been broken.
Sentiment	↓	Terms of trade says it all.
Other	↔	AUD/USD uncertain.
On balance	↓	Trend is clear.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	Yield and commodity story factored.
Yield	↔	Will people invest in US at any price?
Commodities	↔	The big one to watch.
Risk aversion	↔/↓	Credit again an issue but is it a bigger issue for US?
Partial indicators	↓	NZ real data now looking weaker than US.
Technicals	↔/↓	Moving average at 0.7760 the medium-term cap.
AUD	↔/↑	RBA seem happy with rates currently, but AUD break of 0.9640 targets 0.99.
Sentiment	↔	Changes daily.
Other	↔	Inflation all round. EUR/USD direction key.
On balance	↔/↓	RBNZ will need to cut to break range.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
21 Jul	NZ	Visitor Arrivals (Jun) - mom	-	9.4%	10:45
		Credit Card Spending (Jun) - yoy	-	5.9%	15:00
	UK	Rightmove House Prices (Jul) - mom	-	-1.2%	11:01
	AU	Producer Price Index (2Q) - qoq	1.6%	1.9%	13:30
		New Motor Vehicle Sales (Jun) - mom	-	-1.6%	13:30
22 Jul	US	Leading Indicators (Jun)	-0.1%	0.1%	02:00
	JN	All Industry Activity Index (May) - mom	0.4%	0.8%	11:50
23 Jul	US	Fed's Plosser Speaks in Pennsylvania on US Economy	-	-	00:30
		Richmond Fed Manufacturing Index (Jul)	-9	-12	02:00
		House Price Index (May) - mom	-0.6%	-0.8%	02:00
	AU	DEWR Skilled Vacancies (Jul) - mom	-	-0.1%	13:00
		Consumer Prices (2Q) - qoq	1.3%	1.3%	13:30
		Consumer Prices (2Q) - yoy	4.3%	4.2%	13:30
		RBA Trimmed Mean (2Q) - qoq	1.1%	1.2%	13:30
		RBA Trimmed Mean (2Q) - yoy	4.2%	4.1%	13:30
		RBA Weighted Median (2Q) - qoq	1.1%	1.3%	13:30
		RBA Weighted Median (2Q) - yoy	4.4%	4.4%	13:30
	UK	Bank of England Minutes	-	-	20:30
		BBA Loans for House Purchase (Jun)	-	27968	20:30
	EU	Industrial New Orders s.a. (May) - mom	-1.3%	2.5%	21:00
24 Jul	US	Fed's Mishkin Speaks at Bank of Canada Conference	-	-	01:00
		Fed's Kohn Speaks on Transparency at Bank of Canada Conference	-	-	03:15
		Fed's Beige Book	-	-	06:00
	NZ	RBNZ Interest Rate Announcement	8.25%	8.25%	09:00
	JN	Adjusted Merchandise Trade Balance (Jun)	¥270.0B	¥642.3B	11:50
		BoJ Board Member Atsushi Mizuno to Speak in Aomori City	-	-	13:00
	GE	PMI Manufacturing (Jul A)	52.0	52.6	19:30
		PMI Services (Jul A)	51.5	52.1	19:30
		IFO - Business Climate (Jul)	100.1	101.3	20:00
		IFO - Current Assessment (Jul)	106.5	108.3	20:00
		IFO - Expectations (Jul)	93.2	94.7	20:00
	EU	Current Account s.a. (May)	-	-0.3B	20:00
		PMI Manufacturing (Jul A)	48.7	49.2	20:00
		PMI Services (Jul A)	48.8	49.1	20:00
		PMI Composite (Jul A)	49.0	49.3	20:00
	UK	Retail Sales (Jun) - mom	-2.6%	3.5%	20:00
25 Jul	US	Initial Jobless Claims (w/e Jul 20)	380k	366k	20:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
25 Jul cont.	US	Continuing Claims (w/e Jul 13)	3,190k	3,122k	00:30
		Existing Home Sales (Jun) – mom	-1.2%	2.0%	02:00
	JN	National CPI (Jun) - yoy	1.9%	1.3%	11:30
		National CPI Ex-Fresh Food (Jun) - yoy	1.9%	1.5%	11:30
		National CPI Ex Food, Energy (Jun) - yoy	0.0%	-0.1%	11:30
		Corp Service Price (Jun) - yoy	0.6%	0.6%	11:50
	EU	Euro-Zone M3 s.a. (Jun)	10.3%	10.5%	18:00
	UK	GDP (2Q A) - qoq	0.2%	0.3%	20:00
		GDP (2Q A) - yoy	1.6%	2.3%	20:30
26 Jul	US	Durable Goods Orders (Jun)	-0.3%	0.0%	20:30
		Durables Ex Transportation (Jun)	-0.2%	-0.9%	00:30
		U. of Michigan Confidence (Jul F)	56.3	56.6	00:30
		New Home Sales (Jun) - mom	-1.8%	-2.5%	02:00

Key: AU: Australia, EU: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.
Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: Following the RBNZ's *OCR Review* this week, the big piece of information on the horizon in June quarter labour market data. The key variable is the unemployment rate. Other data is expected to cement expectations June quarter GDP growth was negative.

Date	Data/Event	Economic Signal	Comment
Mon 21 Jul (10.45)	Electronic Card Transactions (Jun)	Weak trend	Given cost of living pressures, the underlying trend in the value of electronic card transactions is likely to be weak.
Mon 21 Jul (10.45)	External Migration (Jun)	Base forming	Recent monthly net migration inflows have improved. We expect a base to form around the current annual net inflow of 5,000.
Thu 24 Jul (09.00)	RBNZ <i>OCR Review</i>	25bp cut, but close call	Although the CPI data will be important, we feel that developments across other areas have moved significantly far enough to suggest that a historical CPI print should not hold sway. We expect (hope for) a 25bp cut.
Mon 28 Jul (10.45)	Overseas Merchandise Trade (Jun)	Another deficit	Another monthly trade deficit is expected as the high oil prices continue to add to the import bill.
Tue 29 Jul (10.45)	Building Consents (Jun)	Weak	An early Easter and some large apartment approvals have increased volatility in consent issuance of late. However, we expect it to settle back down into its weakening trend.
Wed 30 Jul (15.00)	Credit Growth (Jun)	Weak	Housing lending will remain soft.
Thu 31 Jul (15.00)	NBNZ <i>Business Outlook</i> (Jul)	-	-
Mon 4 Aug (10.45)	QES & LCI (Jun qtr)	Still solid	Given the lagging nature of wage data, this is likely to show still strong wage growth, although the employment indicators within the QES may be soft.
Tue 5 Aug (15.00)	ANZ Commodity Price Index (Jul)	-	-
Thu 7 Aug (10.45)	Household Labour Force Survey (Jun qtr)	Bounce but underlying softness	Given the sharp fall last quarter, it is likely that employment growth will rebound in Q2, albeit modestly. However, this masks the underlying picture, which is one of a turn in labour demand. The unemployment rate is the more stable indicator of the trend. We expect a rise to 3.8 percent, but would not be surprised to see it higher going by the anecdotes we are hearing.
circa 11 Aug	REINZ House Sales (July)	Still weak	House sale volumes are expected to remain weak until vendors begin to adjust their price expectations.
Wed 13 Aug (10.45)	Producer Price Index (Q2)	Solid increase	Further increases in oil and wholesale electricity prices are expected to see both input and output prices rise strongly in the quarter.
Fri 15 Aug (10.45)	Retail Sales (Jun)	Price increases eating into discretionary income	The ECT and credit card data due this week will help shed some light. However, the underlying trend is likely to remain weak as discretionary spending is whittled away by price increases for core staples.
On Balance		An economy heading backwards, but with inflation	Growth indicators are awful. But inflation needs to be watched.

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Mar-10
GDP (% qoq)	0.8	0.5	0.8	-0.3	-0.4	0.1	0.3	0.3	0.5	0.5
GDP (% yoy)	3.2	3.3	3.5	1.9	0.7	0.2	-0.3	0.3	1.2	1.6
CPI (% qoq)	1.0	0.5	1.2	0.7	1.6	1.4	0.9	0.5	0.7	0.7
CPI (% yoy)	2.0	1.8	3.2	3.4	4.0	5.0	4.7	4.5	3.6	2.9
Employment (% qoq)	0.5	-0.3	0.9	-1.3	0.2	-0.2	0.0	0.1	0.1	0.2
Employment (% yoy)	1.5	1.6	2.5	-0.2	-0.6	-0.4	-1.3	0.1	0.0	0.4
Unemployment Rate (% sa)	3.6	3.5	3.4	3.6	3.8	4.0	4.2	4.3	4.5	4.7
Current Account (% GDP)	-8.1	-8.3	-7.9	-7.8	-7.3	-7.1	-6.9	-6.6	-6.5	-6.4
Terms of Trade (% qoq)	0.4	3.7	2.7	4.1	-0.1	-1.0	0.0	-1.5	-1.2	-1.0
Terms of Trade (% yoy)	2.3	8.4	8.5	11.3	10.7	5.8	3.0	-2.5	-3.6	-3.7

KEY ECONOMIC INDICATORS

	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08
Retail Sales (% mom)	1.1	-0.5	1.8	0.1	0.2	-0.6	-1.1	1.2	-1.2	..
Retail Sales (% yoy)	4.1	5.8	7.2	5.4	6.3	7.7	-1.0	4.1	1.0	..
Credit Card Billings (% mom)	2.2	-0.4	1.1	0.5	-	0.8	-3.4	4.0	-1.1	..
Credit Card Billings (% yoy)	9.3	7.7	9.5	7.6	8.6	8.0	3.3	8.2	5.9	..
Car Registrations (% mom)	-6.6	5.7	-3.5	-2.6	5.2	-4.3	-13.3	11.7	-14.7	3.3
Car Registrations (% yoy)	0.1	4.7	2.3	1.4	1.7	1.9	-13.2	-1.0	-20.6	-15.9
Building Consents (% mom)	-11.0	-4.2	0.4	-4.3	3.6	-5.7	-14.3	83.0	-45.0	..
Building Consents (% yoy)	-15.7	-16.0	-4.6	-6.6	-5.3	-17.6	-27.3	30.8	-27.1	..
REINZ House Price (% yoy)	12.3	8.0	6.7	4.5	4.0	0.7	1.6	-1.1	-1.4	..
Household Lending Growth (% mom)	0.8	0.8	0.8	0.7	0.7	0.8	0.4	0.4	0.5	..
Household Lending Growth (% yoy)	13.2	13.0	12.8	12.3	11.9	11.6	10.8	9.9	9.3	..
Roy Morgan Consumer Confidence	121.3	122.0	121.9	126.6	121.2	116.0	111.7	99.9	89.2	86.5
NBNZ Business Confidence	-26.5	-12.9	-19.6	-24.9	..	-43.9	-57.9	-54.8	-49.7	-38.7
NBNZ Own Activity Outlook	17.2	20.3	15.7	18.2	..	2.4	-6.4	-3.8	-4.4	-4.0
Trade Balance (\$m)	-572	-774	-628	39	-311	243	-44	-296	-196	..
Trade Balance (\$m annual)	-6282	-5883	-5691	-5307	-4793	-4422	-4527	-4609	-4813	..
ANZ World Commodity Price Index (% mom)	0.4	1.8	0.8	0.0	-1.4	1.1	2.0	-0.3	0.9	0.0
ANZ World Commodity Price Index (% yoy)	35.7	37.8	35.9	30.9	27.4	26.9	26.9	20.7	18.7	11.6
Net Migration (sa)	630	220	440	0	90	250	530	510	1010	..
Net Migration (annual)	8309	7517	6588	5491	4799	4643	4678	4666	4931	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	May-08	Jun-08	21-Jul-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
NZD/USD	0.778	0.762	0.761	0.770	0.750	0.720	0.680	0.640	0.630	0.620
NZD/AUD	0.819	0.801	0.784	0.762	0.721	0.720	0.723	0.719	0.724	0.738
NZD/EUR	0.500	0.489	0.480	0.494	0.484	0.468	0.453	0.441	0.450	0.456
NZD/JPY	81.1	81.4	81.3	80.1	78.0	75.6	73.4	70.4	69.3	69.4
NZD/GBP	0.395	0.387	0.382	0.393	0.389	0.379	0.364	0.346	0.346	0.344
NZ\$ TWI	69.4	68.2	67.5	67.8	65.9	64.0	61.9	59.6	59.6	59.7
NZ interest rates	May-08	Jun-08	21-Jul-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
OCR	8.25	8.25	8.25	7.75	7.50	7.50	7.25	6.75	6.25	6.00
90 day bill	8.72	8.76	8.44	8.00	7.90	7.80	7.30	6.80	6.30	6.20
10 year bond	6.43	6.44	6.12	6.10	5.70	5.80	5.80	5.60	5.30	5.40
International	May-08	Jun-08	21-Jul-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
US Fed funds	2.00	2.00	2.00	2.00	1.75	1.75	1.75	2.25	2.75	3.25
US 3-mth	2.68	2.80	2.79	2.50	2.00	1.75	2.00	2.50	3.00	3.50
AU cash	7.25	7.25	7.25	7.50	7.75	7.75	7.75	7.75	7.25	6.75
AU 3-mth	7.79	7.73	7.75	7.90	8.10	8.10	8.10	7.80	7.20	6.70

KEY RATES

	18 Jun	14 Jul	15 Jul	16 Jul	17 Jul	18 Jul
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.65	8.46	8.46	8.45	8.45	8.43
NZGB 07/09	7.05	6.78	6.79	6.79	6.79	6.83
NZGB 11/11	6.59	6.04	6.07	6.08	6.09	6.13
NZGB 04/13	6.43	6.06	6.05	6.05	6.04	6.08
NZGB 12/17	6.41	6.07	6.03	5.99	5.99	6.03
2 year swap	7.84	7.72	7.71	7.65	7.64	7.63
5 year swap	7.50	7.41	7.39	7.35	7.34	7.34
RBNZ TWI	68.0	67.7	67.8	68.0	68.1	67.6
NZD/USD	0.7562	0.7626	0.7669	0.7713	0.7715	0.7634
NZD/AUD	0.8006	0.7895	0.7895	0.7894	0.7907	0.7858
NZD/JPY	81.62	81.08	80.89	80.70	80.95	81.21
NZD/GBP	0.3872	0.3840	0.3845	0.3851	0.3855	0.3821
NZD/EUR	0.4879	0.4822	0.4836	0.4851	0.4867	0.4816
AUD/USD	0.9445	0.9658	0.9715	0.9771	0.9757	0.9715
EUR/USD	1.5498	1.5816	1.5858	1.5901	1.5851	1.5851
USD/JPY	107.93	106.34	105.48	104.63	104.93	106.38
GBP/USD	1.9532	1.9858	1.9944	2.0030	2.0015	1.9978
Oil	133.99	140.54	139.61	138.68	129.43	129.43
Gold	882.45	952.22	961.78	971.35	959.05	959.30
Electricity (Haywards)	30.20	8.18	6.05	11.27	7.24	6.52
Milk futures (US\$/contract)	144	144	144	144	144	143
Baltic Dry Freight Index	9437	9181	9150	9092	9059	9012

DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing**Experience**

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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