

NOWHERE TO RUN

CONTENTS

Page 2: Economic overview

- Data is once again reinforcing the robustness of the economy despite tight financial conditions. The only thing negating the need for a hike at present is the sizable jump in retail fixed lending rates, which should give the Reserve Bank some comfort.

Page 3: Economic comment – grass roots feedback

- Our road-show talks around the country are highlighting economic resilience, and an inflationary under-current. Traditional financial conditions metrics no longer apply. Liquidity remains plentiful. In such an environment, the economy becomes a victim of its own success. Interest rates and the currency are likely to remain high as a consequence.

Page 5: Interest rate strategy

- Consolidation to be the major theme in the local rates market this week. With a lack of major domestic data to provide directional leads, offshore events will dominate. Market pricing for April unlikely to move higher from here given retail mortgage rates have increased last week, providing de facto tightening for the Reserve Bank.

Page 6: Interest rate comment – pipeline update

- Recent increases in fixed lending rates across the mortgage curve, if sustained, effectively deliver additional pipeline tightening over and above what the RBNZ had projected in their March MPS. While this implies that the Bank can leave rates on hold in April, the challenge is to keep the wholesale swaps curve up to ensure the retail mortgage rates stay high.

Page 7: Currency strategy

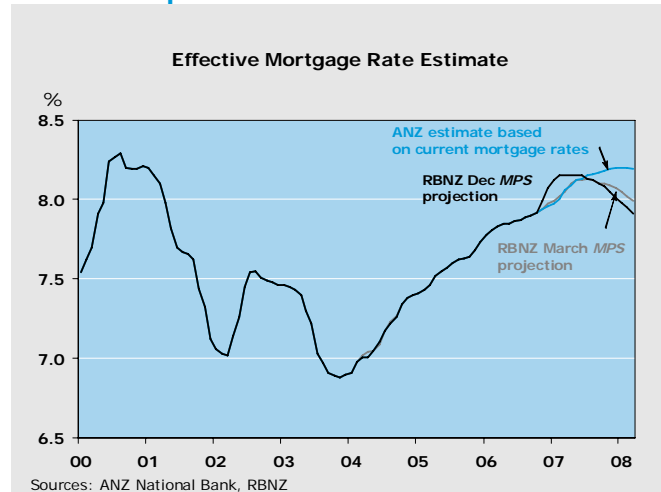
- The market remains caught between liquidity (yield) and growing tensions. Expect the NZD to remain range-bound for now. We expect the RBA to hike and support NZD across G3, and resistance in the NZD/AUD to be probed.

Page 8: Data timetable

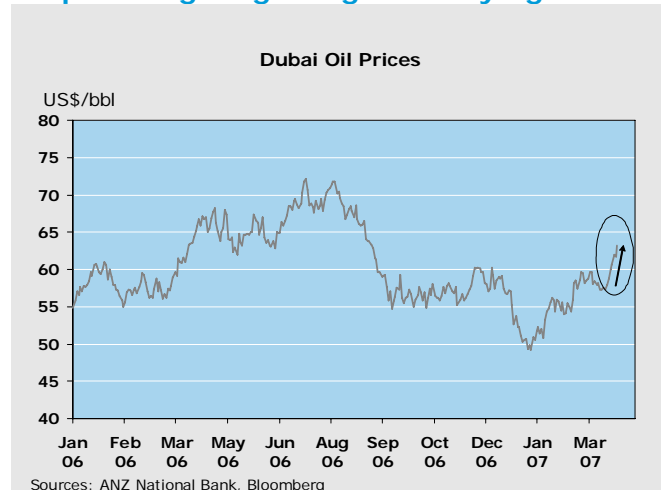
Page 10: Data watch

Page 11: Key forecasts

Recent rises in fixed mortgage rates should help the Reserve Bank.



Oil prices again getting to worrying levels.



ECONOMIC OVERVIEW

Data is once again reinforcing the robustness of the economy despite tight financial conditions. The only thing negating the need for a hike at present is the sizable jump in retail fixed lending rates, which should give the Reserve Bank some comfort.

What's ahead...

- March ANZ Commodity Price Index (due Wednesday 1500 NZST).
- RBA interest rate decision (Wednesday 1130 NZST). We expect the RBA to hike interest rates by 25 basis points to 6.50 percent.

What's the view

Last week's data (GDP, credit growth, business confidence, consumer confidence, and building consents) once again reinforced the robustness of the economy in the face of tight financial conditions. Our road-show around the country is confirming the same (refer page 3). In such an environment, and given a backdrop of inflation, the bias – and talk – from the Reserve Bank will remain towards tighter monetary policy, and we suspect the prejudice is sooner rather than later.

Admittedly the continued strength in the NZD may be giving some palpitations. But strong commodity prices and a notably weaker NZD/AUD are insulating the export sector in aggregate.

We – and the Reserve Bank - continue to look for the catalyst to slow this economy, and housing market in particular, which is increasingly feeling like that 500-pound gorilla, namely the US equity market in the late 1990s. The technology sector during that period was insensitive to monetary policy, and there was speculation of ancillary instruments to assist the Fed. Then like most bubbles, it popped, and this broadly coincided with the last marginal 25 basis point hike from the Fed.

Last week we noted higher interest rates, a higher NZD, weaker global growth, and/or dampened domestic liquidity or the credit channel of monetary policy, as the real levers to slow the economy, with the latter the key areas to watch over the week. The lack of traction along the yield curve, or in fact outright inversion of the yield curve, and aggressive discounting across financial intermediaries has suppressed the transmission of monetary policy to the economy.

Yet monetary policy is clearly set to become more potent going forward. Fixed lending rates have risen markedly over the past month, with the average 2-year mortgage rate rising by 40 basis points. As noted on page 6, there is still considerable pipeline policy tightening to come.

Of course a key reason behind the rise in retail rates has been the rate increase in March, and the

70 percent probability the market is assigning to a follow-up move at some stage. A failure to move will surely see rates rally materially, and the pipeline effect disappear. While we sympathise with this, the reality is that both the curve and market pricing will continue to react to economic developments. A rally in rates post the October no-change decision and perceived soft underbelly in the March *Statement* were not sustained when the economic data pointed the other way.

Moreover, there are other forces at work. The significant flattening of the entire yield curve is also a sign of a maturing market, and increasing recognition of rates expected to be higher for longer. Cutting rates in 2008 looks a stretch given the 2008 *Budget*. A rate hike is not needed to cement this. The right communication can. Aggressive discounting across financial intermediaries has eased, giving the Reserve Bank additional traction. While we do live in a competitive environment where it is all power to the consumer, we suspect the Governor will be far more comfortable knowing the credit channel of monetary policy is at least not actively working against monetary policy, for now anyway!

We believe the recent rises in fixed lending rates - if sustained (and we note not all have yet moved) - should be a material influence on April's decision. Given the March OCR hike, the threshold to a second move will undoubtedly be lower, and resilience across the economy leaves the risk towards a further move. We expect the recent bout of increases in mortgage lending rates to give the Reserve Bank some comfort that housing related activity will return to a moderating trend. The increases in fixed lending rates have in effect delivered the impact of two 25 basis point increases in the Official Cash Rate. Movements in fixed lending rates mean policy is directly targeting the housing sector, and without delivering excessive collateral damage to the export sector via the currency, which an additional hike will certainly do.

To be fair, there is no guarantee this will be sufficient to dampen exuberance being shown towards housing. Competitive pressures could quickly re-assert. So the bias for rates remains up although we remain in the no-change camp.

Data last week...

- **NZ Overseas Merchandise Trade (Feb).** Monthly trade deficit of -\$127 million.
- **NZ Building Consents (Feb).** The number of residential consents rose by 5.8 percent.
- **NZ Balance of Payments (Dec qtr).** Annual deficit of 9.0 percent of GDP.
- **NZ Credit Growth (Feb).** 1.1 percent growth.
- **NZ GDP (Dec qtr).** GDP grew by 0.8 percent in the quarter or 1.5 percent for the year. Expenditure based GDP grew by 1.2 percent.
- **NZ NBNZ Business Outlook (Feb).** A slight fall in headline confidence but resilience across other real economic measures.

GRASS-ROOTS FEEDBACK

Our road-show talks around the country are highlighting economic resilience, and an inflationary under-current. Traditional financial conditions metrics no longer apply. Liquidity remains plentiful. In such an environment, the economy becomes a victim of its own success. Interest rates and the currency are likely to remain high as a consequence.

Our Chief Economist has been on the road for the past two weeks, from Whangarei to Invercargill. The audience has included more than 2,500 small businesses, investors and farmers. Such a cross-section represents a large part of the mainstream "nuts and bolts" of the New Zealand economy.

Such real-time information in October last year was a key reason we shifted from our renowned dovish leanings, towards the need for a hike. While wrong in timing, the spirit was certainly correct.

With this in mind we thought it useful to share some of the broad insights and themes we are receiving around the country at present.

- **There is a firm base to growth.**

The economy is trundling along nicely. There is limited stress. Conversely, there are few instances of people setting the world on fire and things being hot-hot-hot (apart from the property market). But the underlying message we received was one of comfort, which is consistent with the message emanating last week from the National Bank *Business Outlook Survey*. Moreover, it was a message of across-the-board resilience and growth being considerably wider than the property market alone. Commodity prices, Working for Families, migration and the retirement of baby-boomers are noted sources of demand. The positive impact of high commodity prices in particular cannot be understated.

Moreover, our Chief Economist was awestruck by the amount of road-works being undertaken. The extent of this was far greater than six months ago, and notably in the South Island. The importer or manufacturer of those orange cones must be making a fortune!

- **Housing: strong although a lot are shaking their heads.**

Housing was widely acknowledged as performing strongly. Real estate agents have some great tales about prices being paid and competition. There is some true amazement as to the performance of the market. Agents remain bullish. Liquidity, globalisation, migration (notably NZer's returning), and parents assisting first home buyers are noted sources of impetus. Some regions are still playing catch-up. However, deep down (and after a couple

of wines), even the bulls have some unease towards how it could unfold.

- **Labour demand is still ok and there are limited instances of shedding despite cost pressure on the bottom line.**

Widespread nodding is apparent amongst audiences when themes of declining profits, margin squeezes and rising costs are brought to the fore. Businesses are bearing the brunt of the slowdown. Profits are down. Costs are up.

The nodding stops when the conversation extends to potential labour shedding or natural attrition as a response. Profits being down does not equate to losses. Labour demand remains positive, although vacancies are not as abundant as last October, which is counter to what employment intention surveys are telling us. Most businesses are in a holding pattern.

Our assessment? Things are still comfortable out there. The slowdown we have seen to date is merely reducing capacity stress as opposed to opening up capacity gaps. Moreover, the rebound in growth seen in late 2006 and early 2007 now has the economy once again running in line with capacity barriers.

- **Inflation pressure is still widely acknowledged, although the pressure is not as intense as last October.**

A simple poll. Hands up who thinks inflation will be 2 percent in a year's time. Ten percent of responses. Three percent? Twenty-five percent of the audience. Above three-percent? Sixty-five percent. Businesses are seeing a significant amount of inflationary pressure.

Of course such sampling is potentially spurious. There is an implicit upside bias in such sampling of inflation expectations, and people may well be using today's rate of inflation as the best predictor of tomorrow.

Yet equally, we take such nuances as disconcerting as they point to a clear inflationary undercurrent, and suggest that inflation expectations remain very elevated. In some (albeit limited) instances we were truly concerned by talk of passing on price increases "*because the market was more accepting of inflation*". Such anecdotes are a central bank's worst nightmare.

However, if there is some comfort to be taken it is that the inflationary nuances are not as strong as we received in October last year, when close to eighty percent thought inflation would be four percent!

- **People have cash.**

What do I do with my money? A question that pops up time and time again, and an explicit

reminder of the excess liquidity that continues to underpin demand, activity and prices. People have cash following six years of strong growth, low interest rates and exceptional performance across asset classes. Such an abundance of liquidity is underpinning perkiness in the property market in particular.

It seems peculiar but most are aware of a squeeze going on across some segments of New Zealand where cash is not so plentiful. Some landlords are seeing it across tenants. But liquidity and wealth continue to underpin investment demand across the upper-tier. Until the upper-tier takes a hit, the economy may well continue its bullet-proof persona. Some well-heeled investors were in cash over 2006, but have felt obliged to jump back in. Low single-digit returns and capital preservation are seen as losing money relative to the opportunities they perceive. It is just not in the investors' mindset to remain on the sidelines. Hmmm. Bubble trouble.

The "opportunity" factor was truly astounding. Everywhere we went people were talking prospects, whether they involved property, retirement, farming (dairy prices!!!!!!), exploration, organics, viticulture, tourism or forestry (a big shaker at present). We are indeed a nation of entrepreneurs and go-getters. The glass is half full!

Of course there were also downers and the glass was sometimes half-empty. We came across numerous instances of people finding the regulatory cost of doing business too hard. The frustration factor was high. A lot were cashing up, and buying that multi-million dollar property. Selling capacity enhancing businesses to buy property? It's the trade of settling for economic mediocrity. Regulation and intervention does carry a cost, and policy-makers need to hear this from grass-roots New Zealand.

- **Currency grizzles are largely absent.**

We expected a few grizzles about the economy but they were few and far between. This implies that financial conditions are not that tight, and our regularly presented financial conditions index – which shows financial conditions as tight as prior to previous recessions – may be missing something.

The impact of commodity prices as a buffer, and the relatively lower NZD/AUD has been very significant.

- **The 8.5 factor.**

People were generally comfortable with current interest rate settings. Borrowers have taken advantage of previously low rates to lock in cover.

But talk of the entire interest rate curve for mortgage borrowers being above 8.5 percent for two-years led to a few gold-fish faces across investors! Welcome to the brave new world where

the May 2008 *Budget* means the Reserve Bank doesn't cut rates, keeping pressure on the front and belly of the curve, and higher global rates (if the New Zealand experience is followed) keeps pressure on the longer end. No where to run. Doh! Brace for the bite.

So what do we make of it all?

The economy remains stuck in the circle of economic success. When people have jobs, they spend. A firm base to growth continues to put pressure on resources. Traditional financial conditions metrics no longer apply. Liquidity remains plentiful. In such an environment, the economy becomes victim of its own success. Interest rates and the currency are likely to remain high as a consequence.

INTEREST RATE STRATEGY

Consolidation to be the major theme in the local rates market this week. With a lack of major domestic data to provide directional leads, offshore events will dominate. Market pricing for April unlikely to move higher from here given retail mortgage rates have increased last week, providing de facto tightening for the Reserve Bank.

Market themes...

- Lack of local data means offshore to dictate, but consolidation will be the main theme.
- Some residual mortgage paying left but expect receivers to have the upper hand.
- RBA, geopolitics to be major focus offshore.

Outlook...

Last week's big dataflow failed to provide a smoking gun for the local rates market. Expectations of strong prints had the market pricing in a 50/50 chance of an April hike at one stage. But the weaker than expected headline GDP outturn and a drop in the National Bank *Business Outlook* headline confidence saw the odds of an April hike pared back a bit. Although the expenditure measure of GDP came in strong at 1.2 percent and domestic demand rebounded strongly in Q4, the weaker headline number was enough to temper a market that was expecting a big outturn.

There is no major local data this week to provide the market with directional leads. But a major development in the retail mortgage market late last week will likely have more influence. Most of the major retail banks have increased their fixed lending rates across the curve by as much as 40 basis points, effectively delivering a de facto tightening for the Reserve Bank. If sustained, the current mortgage rates will deliver more pipeline tightening than what the Reserve Bank had expected in their March *Monetary Policy Statement*, which could be enough to hold them off for April.

With most of the mortgage paying completed, there is only some residual paying left this week. Receivers had started to enter the market last week, and we expect further receiving interest this week. Liquidity could again be a major issue which could exaggerate shifts in the swaps curve.

Offshore, the RBA holds center stage. The market is split over this Wednesday's RBA policy decision. Our house view is that the RBA will hike, taking the cash rate to 6.5 percent. Against a backdrop of inflation risks and an economy at close to full capacity, a rate hike is seen as cheap insurance. In other offshore developments, geopolitical and trade tensions could see further volatility in currency and interest rate markets. Given the absence of

domestic news, the local rates market will be driven by offshore developments this week.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔/↑	March delivered. Higher mortgage rates reduces case for April hike but risk remains on upside.
NZ data	↔	No major data this week to provide direction.
Fed Funds/front end	↔/↓	Market still looking for easings but Fed more concerned about inflation rather than growth.
RBA	↑	RBA look set to hike this week.
US 10 year	↔/↓	Subprime worries, elevated inflation, geopolitical tensions. Bond market taking notice of inflation concerns but safe haven flows hold yields down.
NZ swap spreads	↔/↓	Spreads at record levels. Correction of EFPs expected.
Flow	↔	Residual mortgage paying to go but receivers to have the upper hand.
Technicals	↔/↓	Offshore developments to dictate.

Borrowing strategies we recommend at present

The market looks to be at the top of the cycle given our core economic view that the Reserve Bank will not be hiking further in this cycle. We do not see much value at the 1 or 2 year part of the curve at the moment, preferring the 3 to 5 year part instead. We continue to recommend that clients also look to use interest rate options with rates at such high levels. Call your dealer to discuss.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Apr-07	40	44
Thu 7-Jun-07	68	64
Thu 26-Jul-07	72	72
Thu 13-Sep-	72	72
Thu 25-Oct-07	72	72
Thu 6-Dec-07	68	68
Thu 24-Jan-08	60	64

Trading themes we favour at present

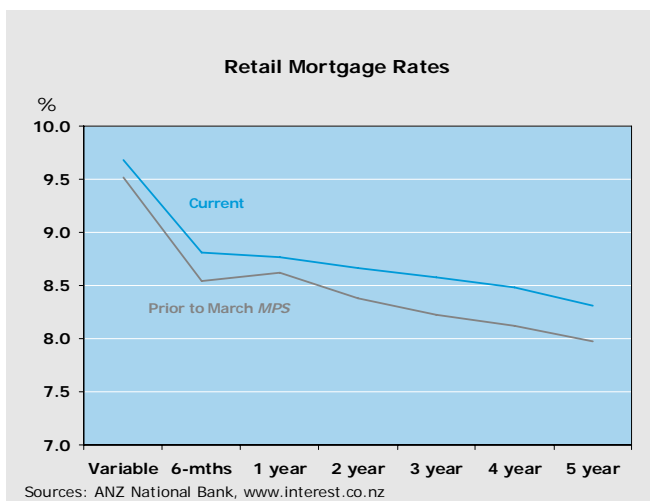
We continue to favour curve inversion trades. The recent increases in fixed mortgage rates will have more effect in the longer part of the curve.

PIPELINE UPDATE

Recent increases in fixed lending rates across the mortgage curve, if sustained, effectively deliver additional pipeline tightening over and above what the RBNZ had projected in their March MPS. While this implies that the Bank can leave rates on hold in April, the challenge is to keep the wholesale swaps curve up to ensure the retail mortgage rates stay high.

As we noted in our 26 February *Market Focus*, the Reserve Bank has missed effecting a large chunk of the mortgages that were locked in at the height of the 2005 mortgage war. This has resulted in less effective pipeline tightening than the Bank expected at their December MPS. Hence, the Bank's latest effective mortgage rate projection from their March MPS contained a more gradual increase.

Since the March MPS, the retail mortgage rate curve has shifted upwards – reflecting the OCR hike delivered by the Reserve Bank and an increase in the wholesale swaps curve as the market anticipates a higher chance of a follow-up hike. Among the major retail banks, fixed mortgage rates are now above 8.4 percent across the curve.



Current rates if maintained, will give the RBNZ extra pipeline tightening compared to what they were expecting in the March MPS. There are some \$33 billion worth of fixed mortgages coming up for renewal in the coming 12 months, with around 30 percent of them due around April, May and June 2007. These mortgages are currently at a weighted average rate of 7.7 percent, which will reset at rates 70-110 basis points higher if current fixed mortgage rates are maintained.

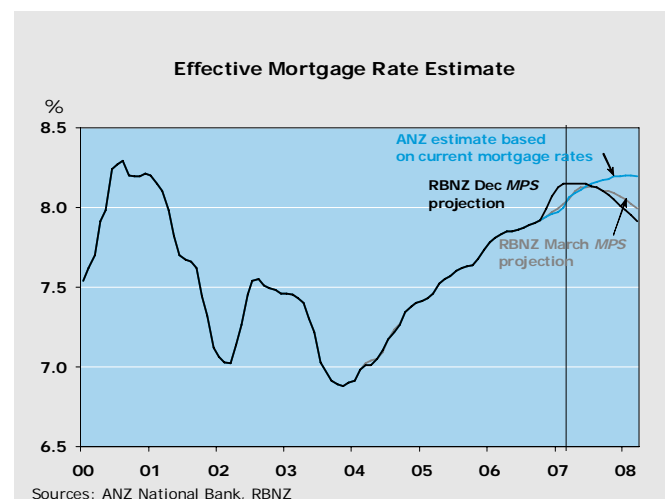
We model what the effective mortgage rate would look like assuming the following factors:

- the fixed mortgage rates as of the end of last week are maintained over the coming month;
- monthly mortgage growth of 1 percent;
- fixed mortgage margins maintained at around 70-80 basis points, which remain well below historical averages but above the average margins of the past few months; and

- most of the roll-off and new mortgages go into 2 and 5-year fixed rates

The updated effective mortgage rate profile shows more pipeline tightening from the middle of this year with the effective rate rising from 8 percent currently to a peak of 8.2 percent by late 2007 (compared to a peak of 8.13 percent by July 2007 which the Reserve Bank expected). The new mortgage rates will take time to filter through into the effective rate a large proportion of those rolling off over the coming one to two months would already have been refinanced at the previous rates.

Even so, the higher rates will start to bite as there is no where along the curve for borrowers to duck for cover. Mortgage holders were willing to move to the 5-year end when the differential was large. But with the average 5-year rates now at 8.4 percent, there could be a reluctance for people to move towards that end. Most will likely bite the bullet and go with the 1 or 2-year rate in the hope of refinancing at a lower rate when that term expires. If this were to occur, the near-term effective rate could be higher than we had modelled.



Financial Market Implications

The recent increases in fixed mortgages rates, if sustained, should have a material influence on the RBNZ's April OCR decision. The increases have effectively delivered the downstream impact of at least two 25 basis point hikes in the OCR to the mortgage rate pipeline. However, we note that not all financial institutions have raised their rates yet, and competitive pressures and another mortgage war could ignite. Assuming current mortgage rates remain over the coming month, it effectively delivers a tightening which is targeted specifically at the housing sector without delivering excessive collateral damage to the export sector via the currency, which an additional hike to the OCR will certainly do. While this implies that the RBNZ can afford to leave rates unchanged in April, the challenge is to keep the wholesale swaps curve up to ensure the swaps market does not rally. The talk will certainly remain tough.

CURRENCY STRATEGY

The market remains caught between liquidity (yield) and growing tensions. Expect the NZD to remain range-bound for now. We expect the RBA to hike and support NZD across G3, and resistance in the NZD/AUD to be probed.

Market themes...

- Carry continues to support.
- Tensions between Iran and the West.
- Data calms concerns about US growth.
- But risk appetites on alert given oil, inflation and protectionism backdrop.

Outlook...

After domestic fundamentals were back in the frame over the past week, attention switches back to offshore, particularly on the growing tensions between Iran and the West, and on the data front, US non-farm payrolls data (Friday) and the RBA announcement on Wednesday.

The US announced that it will impose tariffs on Chinese imports to compensate for Chinese export subsidies. Concerns that the US moves could start a trade war between the US and China, which would ultimately undermine the US economy, have weighed on the US dollar.

From a New Zealand point of view, a move towards protectionism in the US has negative implications. But markets continue to face a balancing act between the large quantities of liquidity looking for a home (resulting in carry-related support for the kiwi) and escalating risk themes (geopolitical tensions, and a deteriorating global inflation trend). At this stage there does not appear to be enough to the risk side to undermine the performance of the NZD materially, although volatility is likely to remain elevated and the upside for the kiwi capped.

Generally strong US data over the past week has helped calm concerns about US growth. Focus now shifts to Friday's non-farm payrolls, which are expected to record a modest increase of 128,000. Such an outcome will point to a still healthy US labour market, and provide support for the USD.

The RBA will make an interest rate announcement on Wednesday morning. While the market is of the view that their next move will be a rate hike, a move is not fully priced in for this week. Given the yield-related run up in the AUD following relatively hawkish comments from RBA officials over the past month, a rate hike, if delivered, is likely to provide further support to the AUD. The RBA's inflation concern is helping to bring a more main-stream feel to the RBNZ's inflation rhetoric, and should reinforce yield support for the NZD. The theme of

yield related support is being borne out by speculative positioning data, with long NZD and AUD positioning posting the largest gains in the week to 27 March (NZD longs increased to a record high NZ\$2.3b, and AUD longs to A\$8.1bn).

Technically, the NZD looks set to remain in a broad (0.7050 to 0.7200) range, with any excursions below 0.70 a solid buy, while the upside remains capped by increased volatility and escalating risk themes. NZD/AUD will be dictated by the RBA. We expect a hike, and associated spillover support for the NZD across the G3, but resistance in the NZD/AUD to be probed. The key level is 0.8780.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Above the 0.85-0.88 zone.
Yield	↔	Both central banks hawkish.
Commodities	↔	Gold breaks to topside, supporting AUD.
Partial indicators	↔	RBA – will they, won't they - the major determinant.
Technicals	↔	Triangle has been forming since late Jan. Apex is close by – expect action.
Sentiment	↔	RBA, RBA, RBA.
Other	↓	Protectionist overtones more negative for NZD.
On balance	↔	Broad consolidation, RBA for breakout.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value moving higher (0.62-0.65) given a structural shift in commodity prices.
Fair value – short-term	↔	NZD more fairly valued on commodity models.
Yield	↑	NZ yield attractive. Period.
Commodities	↔	Insulation from dairy and forestry. Meat sector a worry.
Risk aversion	↓	Higher global inflation and protectionist overtones creating headwinds.
Partial indicators	↓	US data improved by NFP important.
Technicals	↔	Overbought but consolidating for next leg higher. 0.6980 to hold.
AUD	↔/↑	AUD strength dragging NZD higher. Watch RBA.
Sentiment	↑	Positive.
Other	↔	Range defined.
On balance	↔	Carry winning, but headwinds emerging.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Apr 2	AU	AiG PMI (Mar)	-	57.7	11:30
		Retail Sales (Feb)	0.4%	0.9%	13:30
		Building Approvals (Feb) – mom	0.2%	-0.9%	13:30
		Building Approvals (Feb) – yoy	-	-1.0%	13:30
		RBA Commodity Index SDR (Mar) – yoy	-	8.1%	18:30
	JN	Tankan Large Manufacturers Index (1Q)	24	25	11:50
		Tankan Large Manufacturers Outlook (1Q)	22	22	11:50
		Tankan Non-Manufacturing (1Q)	23	22	11:50
		Tankan Non-Manufacturing Outlook (1Q)	22	20	11:50
		Tankan Large All Industry Capex (1Q)	1.7%	12.4%	11:50
GE	PMI Manufacturing (Mar)	57.5	57.2	19:55	
EU	PMI Manufacturing (Mar)	55.7	55.6	20:00	
UK	PMI Manufacturing (Mar)	55.1	55.4	20:30	
Apr 3	US	ISM Manufacturing (Mar)	51.1	52.3	02:00
		ISM Prices Paid (Mar)	58.5	59.0	02:00
		Fed's Poole Speaks to Economists in New York	-	-	04:30
	JN	Monetary Base (Mar) – yoy	-19.7%	-21.1%	11:50
	AU	Trade Balance (Feb)	-1,110m	-876m	13:30
		Exports (Feb)	-	18,119m	13:30
		Imports (Feb)	-	18,995m	13:30
	UK	PMI Construction (Mar)	57.3	57.3	20:30
	EU	Euro-Zone PPI (Feb) – mom	0.3%	0.1%	21:00
		Euro-Zone PPI (Feb) – yoy	2.8%	2.9%	21:00
Apr 4	US	Pending Home Sales – mom	0.0%	-4.1%	02:00
		Total Vehicle Sales (Mar)	16.5m	16.6m	-
		Domestic Vehicle Sales (Mar)	12.7m	12.8m	-
	UK	Nationwide Consumer Confidence (Mar)	86	85	11:01
	AU	AiG Performance of Service Industry (Mar)	-	54.5	11:30
		RBA Cash Rate (Apr)	6.25%	6.25%	11:30
	NZ	ANZ Commodity Price Index (Mar)	-	1.6%	15:00
	JN	BoJ Deputy Governor Muto to Speak at Seminar in Tokyo	-	-	15:40
	GE	PMI Services (Mar)	57.4	57.2	19:55
		Factory Orders (Feb) – mom	0.5%	-1.0%	22:00
Factory Orders (Feb) – yoy		5.8%	7.8%	22:00	
EU	PMI Services (Mar)	57.5	57.5	20:00	
	Euro-Zone Retail Sales (Feb) – mom	0.5%	-1.0%	21:00	
	Euro-Zone Retail Sales (Feb) – yoy	1.2%	-0.1%	21:00	

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Apr 4 cont.	UK	PMI Services (Mar)	57.5	57.4	20:30
Apr 5	US	ADP Employment Change (Mar)	128k	57k	00:15
		Factory Orders (Feb)	1.8%	-5.6%	02:00
		ISM Non-Manufacturing (Mar)	55.0	54.3	02:00
	UK	Industrial Production (Feb) – mom	0.2%	0.1%	20:30
		Industrial Production (Feb) – yoy	0.7%	0.4%	20:30
		Manufacturing Production (Feb) – mom	0.3%	-0.2%	20:30
		Manufacturing Production (Feb) – yoy	2.2%	2.0%	20:30
		BoE Announces Rates	5.25%	5.25%	23:00
	GE	Industrial Production (Feb) – mom	-0.5%	1.9%	22:00
		Industrial Production (Feb) – yoy	6.7%	8.1%	22:00
Apr 6	UK	NIESR GDP Estimate (Mar)	-	0.5%	11:01
	JN	Official Reserve Assets (Mar)	-	\$905.0b	11:50
		Leading Economic Index (Feb P)	30.0%	40.9%	17:00
		Coincident Index (Feb P)	5.6%	45.0%	17:00
	EU	Euro-Zone OECD Leading Index (Feb)	-	109.3	22:00
Apr 7	US	Change in Non-Farm Payrolls (Mar)	130k	97k	00:30
		Unemployment Rate (Mar)	4.6%	4.5%	00:30
		Change in Manufacturing Payrolls (Mar)	-11k	-14k	00:30
		Average Hourly Earnings (Mar) – mom	0.3%	0.4%	00:30
		Average Hourly Earnings (Mar) – yoy	3.9%	4.1%	00:30
		Average Weekly Hours (Mar)	33.8	33.7	00:30
		Wholesale Inventories (Feb)	0.4%	0.7%	02:00
		Consumer Credit (Feb)	\$5.0B	\$6.4B	07:00

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

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

NEW ZEALAND DATA WATCH

Key focus over next four weeks: Data released last week confirmed the robustness of the economy despite the tight financial conditions. Credit growth remains strong, consumer and business confidence elevated, domestic demand solid and the economy still well out of balance, giving the Reserve Bank plenty to ponder prior to their April *OCR Review*. The next key releases for the Reserve Bank are the NZIER *Quarterly Survey of Business Opinion* and the March quarter CPI. Given where the National Bank *Business Outlook* has been printing, confidence is likely to remain elevated while recent petrol price increases should see the CPI printing slightly above their March *Monetary Policy Statement* forecast therefore keeping the market well attuned to the probability of a further interest rate hike.

Date	Data/Event	Economic Signal	Comment
Thu 5 Apr (15.00)	ANZ Commodity Price Index (Mar)	-	-
Tue 10 Apr (10.00)	NZIER Quarter Survey of Business Opinion (Mar qtr)	Continued strength	Despite the recent increase in interest rates, confidence is likely to remain solid. Watch for CUBO and skill shortage indicators to reinforce capacity pressure.
Fri 13 Apr (10.45)	Retail Trade Survey (Feb)	Stabilisation	Consumer spending is expected to show further modest increases, although trend measures will continue to stabilise and show limited evidence of acceleration.
circa 15 Apr	REINZ Housing Report (Mar)	Resilient	Judging by our own book, March credit growth is looking strong and suggests the REINZ March report will also print strongly. Expect house sales to remain elevated and the median number of days to sell a house to stay at historically low levels.
Wed 18 Apr (10.45)	Consumer Price Index (Mar qtr)	Easing	The headline CPI is expected to increase by 0.4 percent, taking the annual inflation rate to 2.4 percent. Non-tradables inflation will remain elevated, increasing by 0.9 percent (annual 3.8 percent), while tradables inflation is expected to fall by 0.2 percent in the quarter.
Fri 20 Apr (10.45)	External Migration	Steady	After an easing in recent migration gains, we expect annual migration to stabilise at around 13,000 per annum.
Tue 24 Apr (15.00)	Credit Card Billings (Mar)	Steady	A small technical pull-back is expected given the strong increase in February.
Thu 26 Apr (09.00)	Reserve Bank OCR Review	On hold but tightening bias to remain	Although the Reserve Bank left the door open to further hikes, we believe the threshold is high. However, rates are likely to remain at current levels for a considerable period of time
Thu 26 Apr (10.45)	Merchandise Trade (Mar)	Small surplus	We expect the monthly trade balance to record a small surplus with high export commodity prices being offset by an increase in oil import prices.
Fri 27 Apr (15.00)	Credit Growth (Mar)	Strong	Credit growth continues to show limited evidence of slowing. We expect another 1.0 percent month.
On Balance		A firm base	Strong momentum end of last year. Partially relating to Q1 show a firm base has been found.

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SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Feb 07	Mar 07	2 Apr 07	Mar 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08
NZD/USD	0.694	0.716	0.715	0.716	0.710	0.660	0.630	0.620	0.600	0.580
NZD/AUD	0.887	0.886	0.884	0.886	0.877	0.846	0.829	0.827	0.822	0.806
NZD/EUR	0.530	0.537	0.535	0.537	0.530	0.500	0.485	0.484	0.472	0.464
NZD/JPY	83.7	84.4	84.1	84.4	83.1	75.9	70.6	68.2	64.8	62.6
NZD/GBP	0.354	0.365	0.363	0.365	0.360	0.340	0.330	0.328	0.323	0.315
NZ\$ TWI	68.9	70.0	69.8	70.0	69.2	64.9	62.3	61.5	59.8	58.3
NZ interest rates	Feb 07	Mar 07	2 Apr 07	Mar 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08
OCR	7.25	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50	7.50
90 day bill	7.74	7.88	7.93	7.90	7.70	7.60	7.60	7.60	7.60	7.60
10 year bond	5.96	5.97	5.96	6.00	6.20	6.30	6.30	6.00	6.00	5.90
International	Feb 07	Mar 07	2 Apr 07	Mar 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00
US 3-mth	5.35	5.35	5.35	5.35	5.40	5.00	4.60	4.75	4.90	5.25
AU cash	6.25	6.25	6.25	6.25	6.50	6.50	6.75	6.75	6.75	6.75
AU 3-mth	6.35	6.52	6.52	6.50	6.80	6.80	7.00	7.00	7.00	7.00

KEY RATES

	28 Feb	26 Mar	27 Mar	28 Mar	29 Mar	30 Mar
Official Cash Rate	7.25	7.50	7.50	7.50	7.50	7.50
30 day bank bill	7.67	7.79	7.80	7.80	7.80	7.80
90 day bank bill	7.78	7.93	7.91	7.92	7.92	7.91
NZGB 07/09	6.64	6.92	6.92	6.90	6.91	6.92
NZGB 11/11	6.39	6.61	6.60	6.58	6.59	6.60
NZGB 04/13	6.14	6.30	6.30	6.28	6.28	6.29
NZGB 12/17	5.84	5.94	5.94	5.92	5.92	5.93
1 year swap	7.92	8.04	8.04	8.04	8.04	8.04
2 year swap	7.73	7.95	7.94	7.92	7.92	7.92
5 year swap	7.33	7.69	7.66	7.59	7.60	7.61
RBNZ TWI	69.1	69.5	70.1	69.7	69.6	69.8
NZD/USD	0.7006	0.7093	0.7173	0.7133	0.7125	0.7132
NZD/AUD	0.8900	0.8824	0.8862	0.8855	0.8826	0.8831
NZD/JPY	82.97	83.64	84.71	83.66	83.51	84.04
NZD/GBP	0.3568	0.3620	0.3643	0.3631	0.3627	0.3632
NZD/EUR	0.5302	0.5346	0.5381	0.5341	0.5347	0.5345
AUD/USD	0.7872	0.8038	0.8094	0.8055	0.8073	0.8076
EUR/USD	1.3213	1.3267	1.3331	1.3355	1.3325	1.3344
USD/JPY	118.43	117.92	118.09	117.28	117.21	117.83
GBP/USD	1.9633	1.9594	1.9691	1.9647	1.9647	1.9636
Oil	61.46	61.07	61.77	62.98	64.11	66.10
Gold	670.25	659.50	663.88	665.10	665.30	662.90
Electricity Price Index	5.55	5.96	6.04	6.23	6.38	6.37

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