

# MORE BITTER MEDICINE

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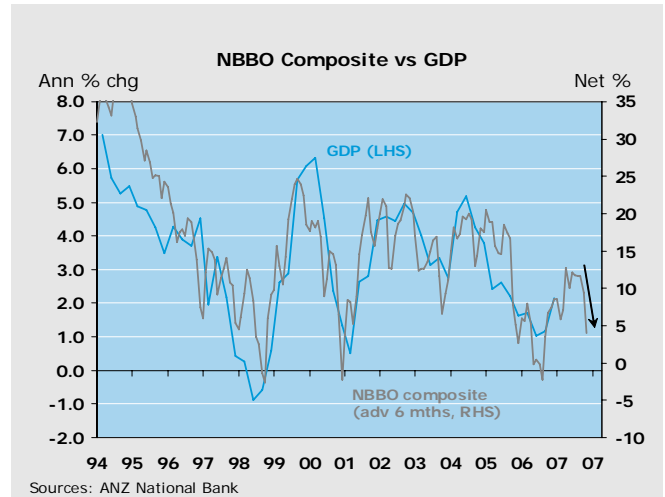
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## High interest rates and currency have dented confidence.



## But inflation expectations remain elevated.



## ECONOMIC OVERVIEW

**The market has finally woken up to the risk of a further hike, despite evidence the economy is looking vulnerable.**

### What's ahead...

- NZ March quarter Wholesale Trade Survey (Tuesday 1045 NZST). A strong increase is expected, in line with the growth in retail sales.
- ANZ May Commodity Price Index (Wednesday 1500 NZST).
- RBNZ June *Monetary Policy Statement* (Thursday 0900 NZST). OCR likely up again.
- NZ March quarter Value of Building Work Put in Place (Friday 1045 NZST). Subdued residential investment is expected to be offset by stronger non-residential investment.

### What's the view

The market has finally woken up to the hike risk we've noted over recent weeks. As noted on page 3, we expect the Reserve Bank to hike the Official Cash Rate again. Admittedly it looks like a fine-line decision. There are certainly a lot of strong reasons presented by both the pause and hike camps supporting their respective views.

A slow-down is emerging, and urges caution. A weak business confidence reading, and one of the largest falls in firms' own activity expectations from the National Bank *Business Outlook Survey* was a timely reminder that higher interest rates and a high currency do pack some economic punch. Our composite growth indicator from the *Survey* (which comprises firms' own activity expectations, investment and employment intentions) is suggesting economic growth tailing to a tad over 1 percent. Disconcertingly, export intentions fell to their lowest level since 1998, and manufacturing export intentions to their lowest level since 1988! The economy is not invincible.

Against this backdrop core inflation pressures remain elevated. There is a lot of economic stimulus for the economy via a terms of trade shock (dairy payout) and fiscal policy that is likely to elongate the economic cycle.

This time around the slow-down needs to be definitive. Hikes, economic consolidation and then rebound have been a familiar pattern over the past two years, and notably in the housing market, which is on its third wind. This time around, the consolidation for the economy and housing market needs to be sustained given the inflationary undercurrent. The bias may be to do more than is necessary on the interest rate front to engineer this. Business confidence was certainly a wake up call and reminded us of the risks the economy is facing. But what happens next month when people start to factor in the Fonterra payout boost?

A further rate hike from the Reserve Bank will deliver collateral damage to exporters in the near-term. The currency has already reacted. It looks to contain upside risk, although the NZD/USD does look capped around the previous high of 0.7493 – for now.

But the end-game is a turn in the housing market. It's a critical element that needs to slow if domestic demand is going to ease. We are in no doubt the Reserve Bank will win the growth moderation crusade. Rates will continue to move up until they do! At some point – and we are mindful that the impact of higher interest rates on households is likely to be very non-linear (i.e. gains in intensity as rates move up) – monetary policy will get some powerful punch. Certainly, when you look and see fixed lending rates 80 plus basis points higher across the curve relative to six months ago, we are very mindful as to what could eventuate. Sure, jobs are aplenty, fiscal spending is around the corner, and we're sitting on a big cash cow at present. But when the housing market does turn, and price appreciation is not apparent, there is going to be some stress. A booming rural economy in 2000 (low currency and high commodity prices) did not avert a domestic recession that year!

Slower growth will drag the NZD lower. When growth slows, yield becomes irrelevant. Just look at the USD over the past six months, which has weakened vis-à-vis the euro, despite having higher rates. It's just a question of timing.

Admittedly we've had a nightmare calling the currency over the past 9 months (like all and sundry). We called 0.75 in 2004, and then the aggressive move to 0.60. To call a bounce back to 0.65 was brave in 2006, when all were talking 0.55. It's been embarrassing ever since and we've gone silent. But everyone now seems to think the NZD will remain above 0.70 until the end of 2007. No one expects a major move. This seems odd to us. The reason? We don't think the Reserve Bank will let the economy continue its current expansion phase that long. Put simply: the RBNZ will win. Momentum will ease. When we do start to see the economy soften, brace for another ride down the currency elevator. This looks a Q3 story.

### Recent data...

- **NZ Electronic Transactions data (Apr).** Total value of electronic card transactions (ECT) for April was up 0.1 percent, following a 0.4 percent rise in March.
- **NZ Building Consents (Apr).** Residential building consents rose by 0.7 percent. On an ex-apartment basis, consents rose 2.2 percent.
- **NZ Credit growth (Apr).** Total household claims rose by 1.0 percent, after a 1.3 percent increase in March.
- **NBNZ Business Confidence (May).** All activity measures recorded falls in May, with the magnitude of the moves "significant".

## JUNE MONETARY POLICY STATEMENT PREVIEW

**We expect the OCR to increase by 25 basis points at the *Monetary Policy Statement on June 7*. The risk profile for rates remains upwards, although we suspect the tenor of the Governor's assessment could provide some mixed signals.**

**We now expect the Governor to hike the OCR at the June *Monetary Policy Statement*.** In our last *Market Focus*, we highlighted the case for a June hike. While we acknowledged that the economy is at a vulnerable stage in the economic cycle which warranted a wait-and-see approach, we noted that the lack of inflation headroom and upside risks to domestic demand effectively negated the option of waiting. What held us back from calling a hike last week was expected signs of weakness in leading gauges, and the low odds being placed by the market on a June hike. The latter may sound like a cop out, but central bank's seldom like to surprise markets so market pricing does have an influence. Rather we ascribed a still high 40 percent probability to a move as opposed to market pricing of around 20 percent then.

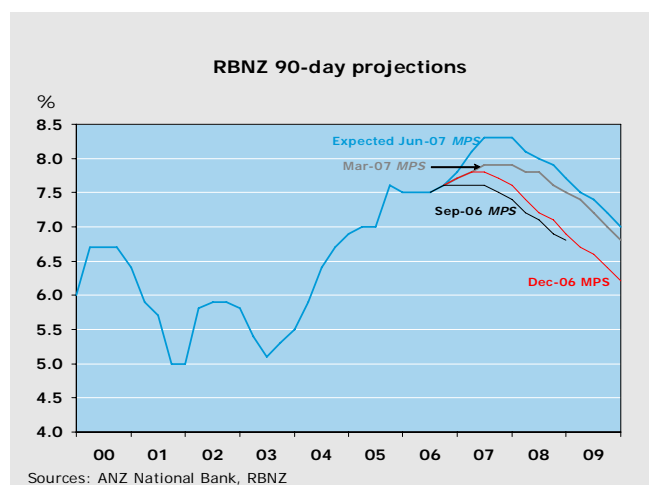
So why have we changed tack?

- **We continue to be bugged by the notion that the Reserve Bank needs to ensure the moderation in domestic growth this time around is definitive and sustained.** The bias from a central bank's perspective will be to do more on the interest rate front to ensure this is the case. While a strong case for caution can be presented given vulnerabilities in the economy, ugly inflation numbers in Q1 (rising non-tradable inflation) have greatly reduced the Reserve Bank's flexibility to watch and wait, as has been the pattern for the past 2 plus years.
- **The local buzz surrounding the dairy payout is phenomenal.** Our Chief Economist has been on the road over the past week and all the talk is about the higher Fonterra payout around the regions. The May National Bank *Business Outlook Survey* pre-dates the announcement. While the survey portends of the slow-down the Reserve Bank is seeking, expansionary fiscal policy and an effective terms of trade shock point to a degree of resilience.
- **The inflation nuances** – once again coming from anecdotal discussions from our road trips (and data is just the plural of anecdote) – are worrying. We expect another strong non-tradable inflation result in Q2, and particularly from non-tradable ex-housing, which is that deep-rooted sort of inflation that is a central bank's real nemesis.

- **A shift in market pricing towards 30:70 for June makes it easier for the Governor to hike.** We have been warning about the market's complacency over the risk of June for some weeks. Over the past week, the market has woken up to the risk we had been alluding to. Sure, there is no guarantee that the Governor will take what's on the table – he did not in October last year. But we suspect the shift in market sentiment will be enough to get the Governor over the line on June 7.

**This combination has effectively increased the probability marginally above 50 percent.**

Admittedly, when you start from ascribing a 40 percent probability it's a small change, but the risk profile just now seems to be that the Reserve Bank hikes.



**From a market perspective, and nuances to look for, we expect:**

- **We suspect the Governor's assessment may be decidedly short and provide little guidance going forward.** We would not be surprised to see further cuteness regarding exchange rate fundamentals in an attempt to mitigate some of the bitter medicine delivered to the export sector in the form of a higher NZD.
- **A higher and sticky inflation track.** With inflation expectations still elevated at 2.6 percent, it is difficult for the Reserve Bank's forecasting framework to show inflation comfortably heading towards the middle of the target band without generating a very large negative output gap (i.e. economic growth closer to 1 percent). Such a track will reinforce the risk profile for interest rates remaining to the upside, despite what we suspect will be little guidance in the Governor's assessment, and a 90-day track – which at 8.3 percent – is neither here-nor-there in terms of a follow up move.

## Financial market implications

At the time of writing the market was pricing in a 30 percent chance of a rate hike for June and a 70 percent chance of a hike by October. Given that the swaps market has already moved a long way over recent days, we think a hike will only see a modest sell-off on the day. A neutral tone in the statement but an upward revised 90-day projection will see the market price in only a small chance of a July or September move. A no change decision will see the NZD come off, but we suspect the interest rate market will not see a large rally, with market pricing pushed towards a July hike.

### Our forecasts of RBNZ Projections for June MPS (March MPS Projections)

<i>Half year average</i>	H1 2007	H2 2007	H1 2008	H2 2008	H1 2009
90 day	8 (7.8)	8¼ (7.9)	8¼ (7.9)	8 (7.7)	7¾ (7.4)
TWI	69.9 (68.6)	70.6 (68.3)	69.5 (67.3)	68.0 (65.8)	66.9 (64.7)
<i>March years</i>	2007	2008	2009	2010	
CPI (ann % chg)	2.5 (2.3)	2½ (2.3)	2¾ (2.7)	2¼ (2.5)	
GDP (ann ave % chg)	1¾ (1.8)	3¼ (3.1)	2 (2.4)	1¾ (2.1)	

## STEPPING UP

**Medium-sized businesses are an unheralded backbone of the economy. A key issue facing such businesses is succession.**

There are an estimated 3,500 privately-owned medium-sized<sup>1</sup> businesses that have turnover between \$10 and \$150 million. They generate annual revenues of around \$110 billion. To put this in perspective, total sales for the entire economy is just under \$600 billion. Put another way, assuming a price-to-revenue ratio of one, the combined market value of these businesses would exceed the total market capitalisation of the NZX (\$77 billion).

Such businesses represent a huge chunk of the economy that very little is written about. Yet they are a key engine of New Zealand's economic growth, and will play a significant role in the country's future growth prospects. The large and successful businesses of tomorrow will be the small and mid-sized businesses of today.

ANZ launched the New Zealand *Privately Owned Business Barometer* last week in an attempt to better understand the role that these businesses play in the economy, and what issues and opportunities they and their owners face.

The key is understanding what limitations these businesses face in realising their full potential, and how they can continue to grow and go through the full business lifecycle. In short, the key to New Zealand's future economic prosperity is reliant on the ability of these medium-sized businesses to take the step up to the next level.

The key points we take from the Barometer are:

- **Mature, sizeable businesses dominate.** Almost 90 percent of the businesses have been operating for over 10 years, and a third have been going for more than 30 years. Over half had annual revenues in excess of \$20 million and almost a quarter have revenues over \$40 million. This is heartening, as it points to businesses that have ridden through at least one economic cycle, and have tasted some tough times. This suggests that most of the businesses are well placed to ride through what we think will be a challenging earnings environment over the coming 12-18 months.
- **Confidence and growth aspirations are strong.** Almost two-thirds plan to invest in growth over the next 12 months, and most are more confident about their own business than the economy in general. There is generally greater optimism over the medium-term compared to the short-term, a reflection of the current stage in the economic cycle. Addressing the recent decline in labour

productivity and the lack of spare capacity in the economy requires greater investment by businesses. The Barometer's result showing a willingness to invest is a positive sign.

- **Most expect to grow organically, with around 17 percent expecting near-term growth via acquisitions.** Almost two-thirds feel that capital was not a constraint, yet half said they would acquire or expand if more funds were available. There is a large supply of capital available for businesses to tap – but it appears they need more knowledge and advice on how to tap it.
- **Governance structures could be improved,** with one-third of companies having no boards of directors at all and only 57 percent of those with boards meet regularly. Yet almost half believed that the appointment of an independent director could add value to their growth initiatives. The macroeconomic literature has acknowledged the importance of having sound institutions as a pre-requisite for strong economic growth. The same applies for businesses, and it appears this is an area where formalising and strengthening the governance structure could lead to a marked improvement in performance. Again, more knowledge is needed on how to set up these structures, but also a willingness of owners/founders to give up some control.
- **There will be a large change in ownership structure over the next 5 years.** Most businesses are still run by their founders. However, the owners/main shareholders are aging, with two-thirds over 50 years old and one-third over 60. Almost half the owners wish to retire within 5 years and a third wish to take a less active role within 3 years. Yet, only one-tenth of businesses have a formal succession plan in place, with half acknowledging that succession is an issue. Half of those surveyed who plan to exit have a preference for an external exit either through a trade sale, private equity or IPO. How the ownership transition occurs will be critical not only for the continued growth of the businesses, but also for the New Zealand capital market.

While the *Barometer* shows that medium-sized businesses in New Zealand are well placed and continue to look for growth, it also reveals that they may not be achieving their maximum potential. Abstracting from microeconomic and regulatory issues that bug all businesses, taking the next step requires more professional and specialist support and advice to business owners.

Looking ahead, a number of these medium-sized businesses need to step up and become big businesses if New Zealand is to succeed on the international stage. Watch for consolidation, action on the succession front, and the emergence of stronger governance and professional managers.

<sup>1</sup> We define medium-size businesses as those having annual revenues between \$10 and \$150 million.

## INTEREST RATE STRATEGY

**Consolidation and tight ranges expected heading into the RBNZ decision on Thursday. From a risk/reward perspective, we favour going short into the OCR decision.**

### Market themes...

- Market woke up from its complacency over the risk of a June hike, but still not convinced RBNZ will move.
- Liquidity to be thin as participants sit on the sidelines ahead of the RBNZ decision.
- Big week for central bank announcements with RBA, RBNZ, ECB and BoE decisions.

### Outlook...

We had been warning for some time that the risk profile for June was higher than what the market was pricing in. The market finally woke up from its complacency and sent the swaps yield curve up by between 5 and 14bps over the week. The weak National Bank *Business Outlook* release only provided a temporary respite, though it was enough for the market to back off from the 40:60 pricing it had at one stage.

The key focus for the week is obviously Thursday's RBNZ decision. It will be a close call, though the market is not convinced that the Governor will deliver. But from a risk/reward perspective, with only 8bps priced in, we favour going short into the OCR decision.

It is a clear run data-wise into the RBNZ decision, and we expect participants to be sitting on the sidelines. However, as the past week has shown, the market could well have second thoughts again, resulting in some re-positioning leading up to Thursday. Given that liquidity is likely to be thin, any flows particularly from mortgage book paying will dictate direction. We expect payaside bias to prevail heading into Thursday.

Offshore focus is squarely on central bank interest rate decisions from the RBA, ECB and BoE. Of the three, only the ECB is expected to hike, with ECB President Trichet's use of the word "strong vigilance" virtually cementing a rate increase. The RBA is on hold, though the run of data continues to be strong and this week's GDP and labour force data will likely increase the risk profile towards higher Australian rates. The BoE is similarly expected to hold rates this week, but a rate hike is expected later in the year.

### Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔/↑	We believe the RBNZ will increase the OCR by 25bps this Thursday.
NZ data	-	A clear run to the June MPS.
Fed Funds/front end	↔	Softer Q1, but stronger than expected US data point to reasonable Q2. Fed look to be hold for rest of this year.
RBA	↔/↑	Strong AU data continues to point towards another hike from the RBA, and sooner rather than later, but not this week.
US 10 year	↔/↑	US bond yields holding important 4.95% support.
NZ swap spreads	↔/↑	Expected to widen further due to payaside pressure from mortgage books into OCR.
Flow	↔/↑	Payaside pressure in front end bills and swaps with only 8bps priced in for June. We expect the RBNZ to hike.
Technicals	↔/↑	NZ bonds have broken recent ranges and to trade higher in yield.

### Borrowing strategies we favour at present

Interest rates continue to head north, with borrowers keen to fix rates ahead of this week's RBNZ decision. We have seen significant increases in rates along the curve. While there has been some relief since the release of the NBNZ *Business Outlook Survey*, pressure remains. Fixing in the 2 and 3 year part of the curve represents good insurance over the short-term and allows borrowers to participate in restructuring opportunities if we were to see a dip in yields in the medium-term.

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

OCR dates	Last week	This week
Thu 7-Jun-07	19	32
Thu 26-Jul-07	44	52
Thu 13-Sep-07	54	68
Thu 25-Oct-07	54	72
Thu 6-Dec-07	54	72
Thu 24-Jan-08	52	72
Thu 6-Mar-08	48	68

### Trading themes we favour at present

Payaside bias to prevail until Thursday. The brunt of the paying will be in the 1-3 year, though global moves seen over late last week and yesterday mean the rest of the curve will not be far behind.

## CURRENCY STRATEGY

### NZD to remain supported by yield demand heading into RBNZ decision.

#### Market themes...

- Rising expectations of a rate hike from the RBNZ have ensured key support at 0.7236 held, and a re-test of highs at 0.7493 is likely.
- Chinese authorities attempt to cool China's stock market.
- Inflation still the Fed's dominant concern.

#### Outlook...

Yield and the carry trade dominated the NZD over the past week. Interest rate markets, which had in our view been under-pricing the risk of a rate hike from the RBNZ this week, became nervous about the prospects for a hike at some stage this year and interest rates have moved higher as a result. This lent sufficient support to the kiwi to push it back above US0.74. The National Bank *Business Outlook* survey, which is the last major piece of domestic data heading into the RBNZ's decision, did nothing to knock the wind out of the market's sails, and the kiwi is starting the week strongly.

The message from offshore was largely unchanged, with the US Federal Reserve's FOMC minutes pointing to inflation remaining the dominant concern. Chinese authorities raised the stamp duty on share transactions in an attempt to slow the rampant Chinese stock market (generating an 8 percent decline in Chinese stocks late last week) – a decision that weighed slightly on the EUR, GBP, AUD and JPY.

While the tension between risk aversion (reflected in concerns about a bubble in Chinese equity markets) and yield continues, in the absence of a shock from offshore, yield will be in firm focus over the week ahead. The RBA, RBNZ, ECB and BoE are scheduled to make interest rate announcements. The RBA (Wednesday) are expected to leave rates on hold until after the Federal election later this year. The RBNZ's interest rate decision (Thursday) is a much closer call, although we believe the balance of risks points to them hiking. With the market pricing in around 32 percent probability for a hike, the risk for the NZD remains to the upside heading into the RBNZ decision, and a re-test of 0.7493 highs is likely. A no change decision, or any sign that the tightening cycle is at an end, would weigh on the NZD into the week's end.

The Australian data calendar is full, with Balance of Payments, GDP and labour force data all due this week. Last Friday night's US non-farm payrolls data has set the tone for the start of the week, rising 157,000 (surpassing market expectations for a 132,000 increase). US markets continue to push

back expectations for rate cuts from the Fed, and this is helping to underpin the US dollar.

Technically, the NZD has broken above the hourly down channel as key support at 0.7236 held over the past week. Over the coming week, the market should look to test 0.7493 highs as the RBNZ's *MPS* approaches. Interest rate relatively will play a large part with this, and a change to an 8% OCR would help cement support levels.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑	Advantage NZ – 7.75 v 6.25, and could widen.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↑	Break of 0.89 yields test of 0.8980, which we expect to cap ahead of RBNZ.
Sentiment	↔	Balanced between short-term NZD/USD strength and medium-term fundamentals.
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
<b>On balance</b>	↔	<b>Central bank decisions will dominate.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	Fonterra announcement shows some sectors booming, but priced in now.
Yield	↔	RBNZ, and US re-test of 5% critical to differential now.
Commodities	↔	Higher commodity prices remain supportive but largely reflected already.
Risk aversion	↑	Euphoria exists.
Partial indicators	↑	CAD on fire. We are seen as part of commodity currency group.
Technicals	↑/↔	Test 0.7500, unlikely to hold ahead of RBNZ.
AUD	↔	Stable but not leading.
Sentiment	↑	No sellers – yet.
Other	↓	Models buying in rangy markets an opportunity?
<b>On balance</b>	↑	<b>Rallies above 0.7500 unsustainable ahead of OCR decision.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
5 Jun	<b>NZ</b>	<b>Wholesale Trade Survey (1Q)</b>	-		<b>10:45</b>
	AU	Current Account Balance (1Q)	-14,765m	-15,096m	13:30
		Building Approvals (Apr) – mom	2.5%	-11.4%	13:30
	GE	PMI Services (survey) (May)	57.9	57.8	19:55
	EU	IMF's Deppler Speaks in Luxembourg on Euro-Area Economy	-	-	19:00
		PMI Services (survey) (May)	57.1	57.0	20:00
		Retail Sales (Apr) – mom	0.5%	0.5%	21:00
	UK	Official Reserves (May) – change	-	\$291m	20:30
		PMI Services (survey) (May)	57.0	57.2	20:30
6 Jun	US	Bernanke, Fukui and Trichet Speak to Conference in South Africa	-	-	00:15
		ISM Non-Manufacturing (May)	55.8	56.0	02:00
		Paulson Speaks on US-China Economic Relations	-	-	03:00
		Fed's Warsh Speaks in London on Financial Markets	-	-	03:00
		Fed's Pinalto Speaks at Bundesbank Conference on Policy	-	-	19:45
	UK	Nationwide Consumer Confidence (May)	92	90	11:01
	AU	RBA Cash Rate Target	6.25%	6.25%	11:30
		GDP (1Q) – qoq	1.0%	1.0%	13:30
	<b>NZ</b>	<b>ANZ Commodity Price Index (May) - mom</b>	-	<b>4.8%</b>	<b>15:00</b>
	JN	Coincident Index (Apr P)	66.7%	10.0%	17:00
		Leading Economic Index (Apr P)	20.0%	36.4%	17:00
	GE	Factory Orders (Apr) – mom	-1.0%	2.4%	22:00
	EU	ECB Announces Interest Rates	4.0%	3.75%	23:45
7 Jun	EU	ECB's Trichet Speaks at ECB Monthly News Conference	-	-	00:30
		ECB's Weber Speaks in Frankfurt	-	-	04:30
	US	Non-Farm Productivity (1Q F)	1.0%	1.7%	00:30
		Unit Labour Costs (1Q F)	1.3%	0.6%	00:30
		Fed's Lacker Speaks on Economy in Frederick, Maryland	-	-	01:50
		Fed's Hoenig Speaks on Policy, Economy in Cody, Wyoming	-	-	06:45
	<b>NZ</b>	<b>RBNZ Official Cash Rate</b>	<b>7.75%</b>	<b>7.75%</b>	<b>09:00</b>
		<b>RBNZ Governor Bollard Appears at Finance &amp; Expenditure Committee</b>	-	-	<b>11:30</b>
	AU	Official Reserve Assets (May)	-	\$915.6B	11:50
	AU	Employment Change (May)	11.3k	49.6k	13:30
		Unemployment Rate (May)	4.4%	4.4%	13:30
		Participation Rate (May)	64.9%	64.9%	13:30
		Foreign Reserves (May)	-	\$81.5B	18:30
	UK	BoE Announces Rates	5.5%	5.5%	23:00

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Date	Country	Data/Event	Mkt.	Last	Time (NZST)
8 Jun cont.	US	Wholesale Inventories (Apr)	0.3%	0.3%	02:00
	US	ICSC Chain Store Sales (May) – yoy	-	-2.4%	05:30
		Consumer Credit (Apr)	\$6.0B	\$13.5B	07:00
	<b>NZ</b>	<b>Value of Building Work Put in Place (1Q)</b>	<b>-</b>	<b>2.2%</b>	<b>10.45</b>
	JN	Machine Tool Orders (Apr) – mom	5.0%	-4.5%	11:50
		Money Supply M2+CD (May) – yoy	1.2%	1.1%	11:50
		Broad Liquidity (May) – yoy	2.6%	2.6%	11:50
		Eco Watchers Survey: Current (May)	50.3	49.7	17:00
		Eco Watchers Survey: Outlook (May)	-	51.9	17:00
	AU	Home Loans (Apr)	2.0%	1.3%	13:30
		Investment Lending (Apr)	-	-5.0%	13:30
	GE	Trade Balance (Apr)	15.0B	18.4B	18:00
		Current Account (Apr)	12.5B	17.2B	18:00
		Imports (Apr) – mom	2.0%	-3.0%	18:00
		Exports (Apr) – mom	1.5%	-1.4%	18:00
		Industrial Production (Apr) – mom	0.6%	-0.1%	22:00
	UK	Industrial Production (Apr) – mom	0.2%	0.3%	20:30
		Manufacturing Production (Apr) – mom	0.2%	0.6%	20:30
	EU	Euro-Zone OECD Leading Indicator (Apr)	-	109.7	22:00
9 Jun	US	Trade Balance (Apr)	-\$63.5B	-\$63.9B	00:30
	UK	NIESR GDP Estimate (May)	-	0.7%	11:01

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

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

## NEW ZEALAND DATA WATCH

**Key focus over next four weeks:** The National Bank *Business Outlook* survey showed the economy is fallible and the recent interest rate increases and high currency have knocked business confidence. The focus over the next four weeks, once the Reserve Bank's *MPS* is out of the way, is whether this weakening in confidence feeds into an actual slowing in activity. The key releases to help determine this are April retail sales and the May REINZ housing market report. However, an exceptionally strong Q1 GDP print at the end of the month will provide a distraction to this.

Date	Data/Event	Economic Signal	Comment
Tue 5 Jun (10.45)	Wholesale Trade Survey (Q1)	Strong	This survey should record a strong increase in line with the increase in retail sales.
Thu 7 Jun (10.45)	RBNZ <i>Monetary Policy Statement</i>	Another 25 basis point hike	Despite the weak business confidence and anecdotes that the economy is slowing, we feel the Reserve Bank will increase the OCR by 25 basis points to 8.0%. This time around, the consolidation for the economy and housing needs to be sustained given the inflationary under-current. The Bank will not want to see a continuation of the hike, economic consolidation, and rebound scenario that has occurred over the past two years. The bias may be to do more than is necessary on the interest rate front to engineer this.
Fri 8 Jun (10.45)	Value of Building Work Put in Place (Q1)	Elevated	Subdued residential investment is expected to be offset by stronger non-residential investment.
Mon 11 Jun (10.45)	Overseas Trade Indexes (Q1)	Strong terms of trade	Strong commodity prices and lower NZD oil prices see the terms of trade increase strongly in the March quarter.
Thu 14 Jun (10.45)	Retail Trade Survey (Apr)	Technical pull-back	After two extraordinarily strong monthly increases, we expect a pull-back in retail spending in April.
Fri 15 Jun (10.45)	Economic Survey of Manufacturing (Q1)	Recovery	A recovery in the Business NZ PMI suggests manufacturing production increased in the quarter.
circa 15 Jun	REINZ Housing Report (May)	Supply constrained?	Possible continued easing in monthly house sales. Although a lack of supply will place further upward pressure on prices.
Wed 20 Jun (10.45)	External Migration (May)	Easing	PLT departures have been trending upwards and resulting in a fall in the annual net migration inflow. This is likely to continue.
Fri 22 Jun (15.00)	Credit Card Billings (May)	Early signs of stress?	Spending is likely to be maintained, but the outstanding balances are likely to have ticked up as consumers' disposable incomes are reduced by higher mortgage rates.
Wed 27 Jun (10.45)	Overseas Merchandise Trade (May)	Small surplus	Surging commodity prices will ensure export values remain strong, while higher oil prices will also support import values.
Thu 28 Jun (10.45)	Balance of Payments (Mar qtr)	Improving	A further gradual improvement in the goods and services balance is expected to see the current account deficit fall below 9% of GDP for the first time since September 2005.
Fri 29 Jun (10.45)	Gross Domestic Product (Mar qtr)	Very strong	Momentum from the end of last year has spilled over into Q1. Consumer spending looks likely to lead the way and we are expecting growth of at least 1 percent in the quarter.
<b>On Balance</b>		<b>Mixed</b>	<b>Inflection point?</b>

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## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Apr 07	May 07	5 Jun 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
NZD/USD	0.734	0.733	0.746	0.730	0.660	0.640	0.630	0.610	0.590	0.570
NZD/AUD	0.888	0.888	0.895	0.880	0.815	0.790	0.788	0.772	0.776	0.770
NZD/EUR	0.544	0.542	0.553	0.529	0.478	0.471	0.474	0.469	0.465	0.456
NZD/JPY	87.3	88.5	90.9	87.6	77.9	74.2	72.5	69.5	66.1	62.7
NZD/GBP	0.369	0.369	0.375	0.367	0.335	0.328	0.326	0.319	0.312	0.306
NZ\$ TWI	71.3	71.4	72.6	70.6	63.9	62.1	61.6	60.1	58.7	57.1
NZ interest rates	Apr 07	May 07	5 Jun 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
OCR	7.67	7.85	7.75	8.00	8.00	8.00	8.00	8.00	8.00	7.50
90 day bill	7.98	8.09	8.15	8.20	8.10	8.10	8.10	8.10	8.10	7.50
10 year bond	6.08	6.18	6.45	6.30	6.40	6.40	6.40	6.10	5.90	6.00
International	Apr 07	May 07	5 Jun 07	Jun 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
US Fed funds	5.25	5.25	5.25	5.25	5.25	4.75	4.75	4.75	5.00	5.25
US 3-mth	5.36	5.36	5.36	5.40	5.00	4.60	4.75	4.90	5.25	5.40
AU cash	6.25	6.25	6.25	6.25	6.25	6.50	6.50	6.50	6.50	6.50
AU 3-mth	6.38	6.36	6.35	6.40	6.40	6.70	6.70	6.70	6.70	6.80

## KEY RATES

	1 May	28 May	29 May	30 May	31 May	1 June
Official Cash Rate	7.75	7.75	7.75	7.75	7.75	7.75
30 day bank bill	7.98	8.01	8.00	8.03	8.03	8.03
90 day bank bill	8.06	8.10	8.13	8.17	8.17	8.15
NZGB 07/09	7.11	7.17	7.20	7.22	7.21	7.25
NZGB 11/11	6.74	6.86	6.90	6.92	6.91	6.95
NZGB 04/13	6.42	6.59	6.62	6.65	6.65	6.69
NZGB 12/17	6.05	6.30	6.34	6.37	6.35	6.39
1 year swap	8.15	8.24	8.28	8.29	8.25	8.28
2 year swap	7.99	8.11	8.18	8.20	8.16	8.19
5 year swap	7.68	7.76	7.83	7.88	7.84	7.88
RBNZ TWI	71.7	70.9	70.9	71.1	71.3	72.1
NZD/USD	0.7413	0.7263	0.7263	0.7283	0.7303	0.7400
NZD/AUD	0.8943	0.8867	0.8867	0.8896	0.8865	0.8929
NZD/JPY	88.61	88.37	88.37	88.43	88.78	90.17
NZD/GBP	0.3707	0.3659	0.3659	0.3675	0.3695	0.3738
NZD/EUR	0.5431	0.5397	0.5397	0.5414	0.5436	0.5501
AUD/USD	0.8289	0.8191	0.8191	0.8187	0.8238	0.8288
EUR/USD	1.3649	1.3457	1.3457	1.3451	1.3434	1.3453
USD/JPY	119.53	121.67	121.67	121.42	121.56	121.85
GBP/USD	1.9998	1.9847	1.9847	1.9820	1.9764	1.9798
Oil	65.78	64.59	63.19	63.19	63.47	64.02
Gold	678.55	656.00	657.95	657.70	656.35	663.35
Electricity Price Index	7.93	7.13	7.02	6.99	6.89	6.59

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