

CONFIDENCE, HOUSES, SPENDING

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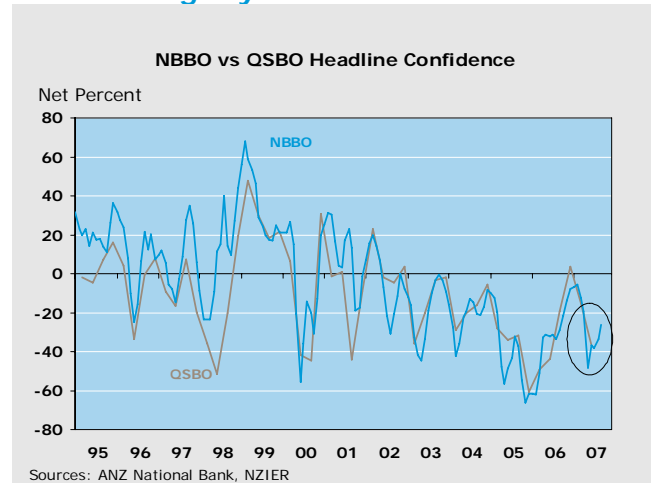
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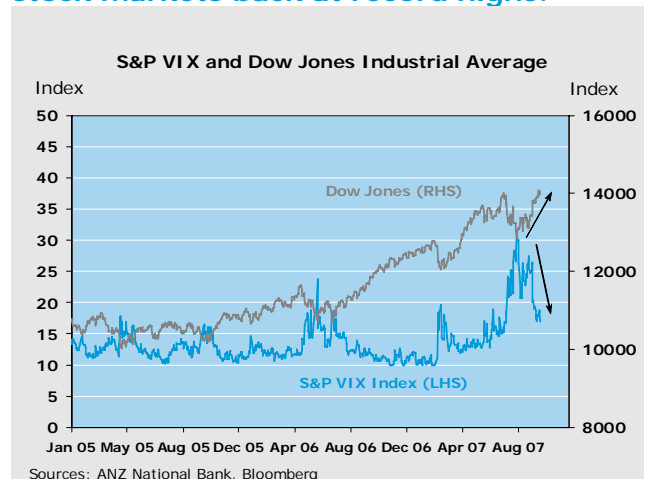
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Headline business confidence should rebound slightly.



The return of risk appetites has seen US stock markets back at record highs.



ECONOMIC OVERVIEW

This week's data will provide key gauges on the economy. We expect a mixed bag. With inflation pressures prevalent, we have taken a more cautious stance towards the RBNZ. This, in combination with a stronger AUD and weaker USD, has seen our currency forecasts lifted.

What's ahead...

- NZIER Quarterly Survey of Business Opinion (Tuesday 1000 NZDT). We expect confidence to remain largely unchanged and indicators of resource pressures to remain elevated.
- REINZ September Housing Report (circa 10 October). This report is expected to show further evidence of softness with easing house sales, an increase in the days to sell a house, and slowing house price growth.
- NZ August Retail Sales (Friday 1045 NZDT). We expect a small rebound in August sales.

What's the view

The themes of capacity constraints, inflation pressure, and improving risk appetites are dominating the landscape. It's a combination that is pointing to the RBNZ remaining on hold indefinitely, and the NZD remaining supported. It has led us to alter our views surrounding the RBNZ's policy outlook as well as our currency forecasts. We have now shifted the start of our OCR easing profile out to September next year (see page 6 for an update of our interest rate view).

Against this backdrop, last week's Barfoot and Thompson report on the Auckland property market (sales down 36 percent on a year ago) is a timely reminder that the RBNZ is having considerable success in what was previously its main focal point, namely the housing market. This week's REINZ report is also likely to have a decidedly soft tone, with seasonally adjusted sales expected to be down close to 17 percent in the month, and a rise in the average days to sell. This should also start to filter into easing house price growth.

In contrast to softening housing activity, other gauges such as employment confidence (which leapt to its highest level since June 2004) and improving confidence across Canterbury Manufacturers are signs of resilience.

Such polarisation or resilience is evidence of the powerful positive forces supporting the economy, which last week's further, albeit small, rise in commodity prices is testament to. Where the pendulum swings for the economy over the next 24 months is likely to be determined by whether we see an outright fall in house prices. This is certainly looking the case at present, but also something the RBNZ probably needs to see happen to dampen burgeoning inflation pressure.

The combination of our more neutral stance towards monetary policy, a stronger AUD, and a fragile USD has necessitated further changes to our outlook for the NZD/USD. Our Australian counterparts are very bullish the AUD and the NZD does tend to ride in kanga's pouch. We now see the NZD/USD remaining above 70 cents well into 2008. Our core views against the yen, euro, and pound remain largely unchanged, all signals that there is a heavy USD element to the revision as well. If there is one clear theme in our currency forecasts, it is for continued declines in the NZD/AUD. The AUD is looking as strong as an ox, and the RBA risks getting behind the curve (subject to conditions stabilising). The RBA and Australian economy is looking eerily like the RBNZ and New Zealand in late 2006.

Looking at the broader global picture, markets remain in limbo and continue to look for the central bank "put" (or interest rate cuts) to underpin asset valuations. However, there are continued signs that things are settling. Markets rewarded crystallised subprime losses across some of the large investment banks by pushing equities up, a testament to the fact that even though some losses were large, it is better they are known, than have the market second guess. It appears that many feel the worst is past, or that potential central bank action will be enough to avert a major crisis. Last week's stronger than expected employment figures, and revisions the previous month show a US economy that remains ambivalent to housing woes.

Turning to this week, locally the NZIER Business Opinion Survey should provide further mixed messages on the state of the economy. Headline confidence should remain low, but based on the National Bank *Business Outlook* firms' own activity expectations may remain surprisingly resilient. Most importantly for the Reserve Bank, capacity and resource pressure indicators will still be elevated. Also this week, we have the REINZ report (as previously discussed) and August retail sales data. After two soft months for spending (partly a consequence of strong growth over the first part of the year, but also likely to be due to higher mortgage rates beginning to bite), we expect a small rebound in sales this month due to the volatile nature of NZ data. Nevertheless, the underlying trend in retail spending is expected to remain soft.

Internationally, the data week is relatively quiet. The Fed's minutes from their September meeting (when they cut rates by 50 basis points) will remain key, along with the tug-of-war between debt and equity markets over the economic outlook.

Recent data...

- **ANZ Commodity Price Index (Sep).** The world price index rose 0.4 percent, while the NZD index rose by 1.5 percent.

VULNERABILITY OR A SIGN OF CONFIDENCE?

Sections and apartments are often talked about as the most vulnerable parts of the property market. We rank the regions. Southland is tops, but is this potentially a sign of strength? A lot of New Zealand's regional "sun" and retirement spots also feature as 'vulnerable'.

The section and apartment sectors of the property market – traditionally more speculative areas – are often touted as being the pockets that are the most vulnerable at this stage in the property cycle.

Higher interest rates or tougher lending criteria often mean that these pockets can experience large price swings, relative to other types of property, as demand wanes. But what regions have all the sections and apartments on the market?

It makes little sense to look at apartments and sections in isolation because if you don't have much land, you end up building more apartments. So we have derived a crude indicator that uses both. The table below shows the number of sections and apartments for sale relative to the total number of properties on the market across all the regions and ranks them from highest to lowest.

So what does it show?

- **The region at the top of the list is also the one facing some large positive stimuli.** Southland, a key dairy region and potential Norway of the South Pacific, has over half of its properties for sale as either sections or apartments. Based on REINZ data, Southland is also the hottest region at the moment with median days to sell a property at just 17 days, half the NZ-wide figure of 34 days. Although

there are a high number of sections for sale, they don't stay unsold for long!

- **A holiday or retirement destination theme is also present.** Popular locations for the family bach and retirement, namely Thames/Coromandel, Taupo, Tasman, Northland, and Queenstown all have a high exposure. These regions have experienced significant expansion and price growth over this latest cycle. However, we also note that others with the same characteristics (the Bay of Plenty areas (mid-table), Kapiti Coast and Hawke's Bay (lower third)) do not rank as highly. Is this suggesting supply may have got ahead of itself in the first group?
- **In terms of the Auckland region,** the City ranks highly (large number of apartments), but the majority of areas within greater Auckland are in the lower quartile, potentially reinforcing the significant impact that restricted land development from respective councils may be having.
- **Other features** include West Coast at number 7 (a lot of sections for Pike Coal employees), and Christchurch City near the bottom.

The upshot

Some regions of the country are currently more heavily exposed to the section and apartment sector of the property market. As interest rates are at elevated levels, and further pipeline tightening is likely to come through the effective mortgage rate, these regions are possibly more vulnerable to a more protracted slowdown than those regions with limited exposure. However, it may not be all bad news. Regions such as Southland – who are benefiting from high dairy prices and oil exploration – have a high exposure. This may just mean they are more confident about the future.

Number of sections and apartments for sale relative to total properties for sale

Rank	Region	%	Rank	Region	%	Rank	Region	%
1	Southland	50.4	15	Nelson City	29.6	29	Waimakariri	14.5
2	Queenstown Lakes	43.5	16	Malborough	29.3	30	Waitakere	14.3
3	Tasman	43.4	17	Rodney	28.7	31	Kapiti Coast	14.3
4	Northland – Far North	40.5	18	Whakatane	27.4	32	Hawkes Bay	13.0
5	Auckland City	37.0	19	Hauraki	25.6	33	Manawatu/Wanganui	12.5
6	Thames/Coromandel	34.8	20	Western BoP	24.9	34	Franklin	12.5
7	West Coast	33.8	21	Tauranga City	22.0	35	Timaru	10.6
8	Central Otago ex Qtn	33.1	22	Kaikoura	21.4	36	Manukau City	10.0
9	Northland – Whangarei	32.9	23	Dunedin City	19.6	37	Papakura	9.7
10	Taupo	32.3	24	North Shore City	19.4	38	Christchurch City	8.8
11	Gisborne	31.0	25	Selwyn	16.7	39	Rotorua	7.1
12	Waitaki	31.0	26	Upper Hutt	15.2	40	Lower Hutt	4.2
13	Wellington City	30.7	27	Hamilton City	15.1			
14	Hurunui, Hanmer	30.3	28	Taranaki	15.1			

Source: Trade Me (as it was the only readily available source).

DATA PREVIEW

QSBO – SEPTEMBER QUARTER (due Tuesday 9 October 10:00am)

	ANZ National	Previous
Business Confidence	-35	-37
Capacity Utilisation	91.0	91.6
Pricing Intentions	32.5	35.3

Key points

- **Headline confidence to recover slightly.**
- **But domestic trading activity indicators to remain resilient.**
- **Indicators of resource pressure to decline modestly but still remain elevated.**
- **All up, not enough to panic the Reserve Bank but enough to keep them on alert.**

We do not expect too much by way of surprises in the NZIER's QSBO due tomorrow.

In line with the National Bank *Business Outlook* survey, headline business confidence and the domestic trading activity indicator are expected to rebound a tad.

Global financial market turbulence likely to be shrugged off.

It is hard to go past the much publicised exuberance related to the August announcement of an increased forecast dairy payout, for the expected improvement in sentiment. Some of the increased optimism may also be due to the lower NZD over the first half of September, though the currency has recovered much of its lost ground since then.

Indicators of resource pressure to still remain elevated.

We expect the capacity utilisation measure and difficulty in finding skilled and unskilled labour to ease slightly, but remain at levels that are consistent with further near-term inflation pressure. Although the Reserve Bank noted in their September *Monetary Policy Statement* that "*structural changes in the economy could mean that these indicators [such as capacity utilisation] are overstating the degree of resource pressures when compared to previous business cycles...*", overall the indicators will still paint a picture of an economy that remains stretched.

Pricing intentions to ease but still cold comfort for the Reserve Bank, as it will still suggest inflation hovering near the top of the target band. Other indicators we will be looking out for are signs of how business profitability is holding up, as well as their investment intentions.

Market Implications

Overall, the QSBO survey will paint a picture of still intense resource pressure, but we doubt there will be anything in it to cause the Reserve Bank to panic. We do not anticipate much financial market reaction to the release.

CPI – SEPTEMBER QUARTER (due Monday 15 October 10:45am)

	ANZ National	RBNZ	Market
Q3 CPI	0.8% qoq	0.8% qoq	0.8% qoq
Forecast	2.1% yoy	2.1% yoy	2.1% yoy

Key points

- **Q3 CPI expected to print at 0.8 percent.**
- **Non-tradable inflation to still remain above 4 percent.**
- **Any upside surprise, particularly for non-tradable, will see the Reserve Bank in a difficult position come the October Review.**

Headline inflation in Q3 is expected to stay in the middle of the target band, but this is cold comfort for the RBNZ. A 0.8 percent increase in the quarter will see annual inflation edge up to 2.1 percent. However, the inflation rate is expected to pick up in Q4 when the -0.2 percent CPI increase in Q4 2006 falls out of the annual calculation.

Food and housing group to make the largest contributions to Q3 CPI. Food price inflation, the Reserve Bank's latest concern, is expected to add 0.3 percentage points to the CPI. Groceries and fruit and vegetables will lead the way. The housing group will again make another large contribution (0.4 percentage points) though this is partly seasonal, due to increases in local authority rates.

A few one-offs in the quarter to help. Changes to health funding and the government's 20 hours 'free' childcare policy are expected to lower the prices for those services in the CPI, though their overall impact is not likely to be large. The cheaper domestic airfares offered by Pacific Blue, which were matched by other airlines, should also see the domestic air transport index decline. However, it will not be sufficient to offset the seasonal increases in international airfares.

Non-tradable and core inflation measures will be the Reserve Bank's main focus.

In this regard, there is likely to be little comfort. We expect annual non-tradable inflation to remain sticky at above 4 percent. The trimmed mean and weighted median will likely also remain elevated. We continue to be mindful of cost push pressures, particularly in the services sector.

Market Implications

A stronger non-tradable print will see the market further remove the easings priced in for next year and raise the spectre of another hike. But with clear evidence of domestic demand waning, we expect this to eventually start to ease inflation pressure, though we acknowledge this could take a while. With the TWI back above 71, the Reserve Bank could find itself doing another delicate balancing act for the October OCR Review.

INTEREST RATE STRATEGY

Payside bias expected to remain in the local rates market this week. Limited reaction to the data this week expected with the market awaiting next week's CPI outturn. Pressure on the curve to invert further.

Market themes...

- Global credit concerns continue to ease.
- Follow through from strong Q2 GDP data sees payside bias return to the rates market.
- 2-year swap yields back to 8.3-8.5 percent range while 2s10s curve flattened.

Outlook...

The local rates market saw a return of payside bias last week as a result of follow through from the strong Q2 GDP data. Market pricing for the RBNZ has now backed away from near term easings and started to price in a small chance of a rate hike. The first full rate cut has been pushed out from July to October 2008.

In line with this, the 2-year swap yield has broken out of its recent 8.1-8.3 percent range and is now set to trade back in its previous 8.3-8.5 percent range. Though the cash squeeze in the short-term money markets has eased somewhat with the start of the new bank financial year, the spread of the 90-day rate over the 3-month OIS remains wide at 40bps, and the carry cost is helping to hold the front-end of the swap curve higher. This also saw the 2s10s swap curve invert further, breaking through the -80bp support level.

This week's QSBO, retail sales and REINZ housing market data should provide some direction for the local market. With the market already expecting weak housing figures courtesy of last week's Barfoot data, the extent of resource pressure from tomorrow's QSBO and Friday's August retail sales data will be the key reads. But the market is unlikely to react too much to any soft data with next week's Q3 CPI the key focus. Hence, expect payside bias to continue and for the curve to come under flattening pressure, though a large Uridashi roll this month may provide some offset.

In offshore developments, stronger than expected US non-farm payrolls including upward historical revisions has reduced the odds of another Fed rate cut, though the market continues to look for one. The US data calendar is busy with the FOMC minutes, PPI, retail sales and consumer confidence. A raft of Fed speakers this week will also provide the markets with some direction. In Australia, consumer confidence and labour market data may turn the heat up for the RBA if it continues the recent run of strong data prints. The BoJ

announces its interest rate decision this week though the consensus is for no change.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	Inflation pressure to keep RBNZ on alert. On hold for now but firmly in data-watch mode.
NZ data	↔	QSBO, retail sales and housing data this week but Q3 CPI data next week the key focus.
Fed Funds/front end	↔/↓	Stronger than expected non-farm payrolls reduces chances of another Fed rate cut, but markets still looking for one later this year.
RBA	↔/↑	Strong AU retail sales suggests bias still for higher rates. Employment data this week one to watch.
US 10 year	↔/↑	Non-farm payrolls saw US bond market sell-off. Still concerned over inflation.
NZ swap spreads	↑	Global moves and stops triggered late last week should see EFPs widen further this week.
Flow	↔/↑	Payside pressure after stops seen. Rallies to be limited ahead of next week's CPI.
Technicals	↔/↑	Market is technically testing higher levels. Data key for next direction.

Borrowing strategies we favour at present

The Market is now less optimistic of a cut in the OCR in early 2008 with an increasing chance that rate rises may be back on the agenda. This is likely to see people enter into 2-3yr swaps over paying the floating rate (which is significantly higher at the moment). The use of interest rate caps and other option based instruments will allow participation in lower interest rates.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 25-Oct-07	2	2
Thu 6-Dec-07	2	4
Thu 24-Jan-08	-2	6
Thu 6-Mar-08	-14	8
Thu 24-Apr-08	-42	0
Thu 5-Jun-08	-74	-16
Thu 24-Jul-08	-106	-44

Trading themes we favour at present

We expect yields to drift higher as payside bias continues to dominate. Further curve inversion pressure also expected as market rethinks RBNZ stance.

INTEREST RATE UPDATE

With credit markets improving and inflation pressure intensifying, we have withdrawn our stabilisation cuts in early 2008, and moved to a more neutral stance towards monetary policy. Looking forward, we remain very wary of the credit cycle in certain leveraged pockets. However, additional inflation pressure gives the Reserve Bank limited capacity to respond.

On 23 August we brought forward our expectations of when the Reserve Bank will start the easing cycle. This change was necessitated by what we considered at the time to be a fundamental shift in the balance of risks facing the New Zealand economy. Global credit markets were fragile. Financial conditions to the domestic economy via swap and credit spreads had tightened further, and NZ as a net borrower was very vulnerable to the change in risk assessment that was taking place. We were seeing stress across non-bank financial institutions. We were also very wary of the role that the credit channel of monetary policy could play at the end of the economic cycle, as risk was re-priced upwards across the globe.

While we still remain mindful of the risks these credit factors have added to the outlook, we must be equally cognisant of all developments, particularly those of late:

- Stronger growth over H1, though historical, has added to capacity constraints and inflation pressure. The latter continued to be highlighted as a significant concern in the September *Monetary Policy Statement*.
- Other inflation pressures continue to intensify including commodity prices (food price inflation), oil prices, and costs with meeting New Zealand's emission targets. While such factors are one-off in nature, they are coming at a time core inflation pressure is elevated, and risk destabilising inflation expectations.
- Debt markets retain an aura of nervousness, but have nonetheless showed signs of stabilisation and improvement. (As an aside we are scratching our heads over the disconnect between debt, equities and currencies which appear at odds over economic prospects).
- Locally, stresses across non-bank financial institutions have not extended (too far), and confidence gauges have either stabilised or improved.

On balance, we have moved to a more neutral stance towards the Official Cash Rate, and consequently deferred our expectations for any easings until late 2008. While an easing profile is still built into our central track, the underlying spirit is one of rates being high and restrictive for some time.

Looking forward we expect the path for interest rates to be dominated by very contrasting forces.

Inflation pressure is unlikely to abate soon, and in fact will intensify, courtesy of additional pressure from food-related inflation. The labour market shows little sign of turning, despite soggy profitability. Businesses continue to hoard labour, productivity is still weak, and government employment is not slowing. Impetus from booming dairy prices is massive (although more than fully capitalised into farm values). In contrast, the housing market is clearly slowing, and we are very bearish on prospects. We believe recent credit dislocation has not ceased in certain pockets. However, the NZ dollar will clearly be a significant release valve that such unease is expressed through. We are already seeing this reflected in the NZD/AUD. The cross has receded from 0.90 to 0.85 in two months, and is on track for a move south of 0.80.

Our bias remains tilted towards housing related softness and credit dislocation in some areas, leading to a sharp unwind of the economic cycle. But put simply, we need to see more economic news and be more comfortable on the inflation front before we can consider this our central track and look for easings. In the absence of such developments it seems prudent to stand back and adopt a more watchful stance. Moreover, the Reserve Bank's ability to respond may well be tied by the additional inflation pressure.

As far as monetary policy is concerned, these are very disconcerting times. Inflation pressures are very prevalent via both capacity and cost-push forces. Old-heads are wary of the 1970's inflation experience when slow growth did not dampen inflation. However, there are equally strong vulnerabilities within the economy that have the potential to see the cycle unravel quickly. October 1987 comparisons are being made in terms of the growth in non-regulated speculative and leveraged activities. Central banks' top priority in times of credit unease is to ensure the financial plumbing is functioning, although not to underwrite "bad" investment decisions. The Reserve Bank and other central banks are facing a delicate balancing act over the coming year.

We see a fundamental test of the monetary policy framework, which is critically dependent on inflation expectations being anchored. Considerable cost-push pressure is prevalent, at a time demand-pull inflation from the domestic economy is starting to wane. The monetary policy framework is built around the latter dominating, provided inflation expectations are well anchored. At present inflation expectations are anchored, although we would still characterise them as being uncomfortably high. How wage and price setting behaviour responds to significant cost pressure and a higher inflation rate in the near-term will be critical.

CURRENCY STRATEGY

Further consolidation likely in the NZD, with the kiwi to benefit by default on any further USD weakness. Expect the NZD/AUD to continue to underperform.

Market themes...

- USD remains heavy despite consolidating over the week.
- Further NZD gains likely to be on the coat-tails of AUD strength. NZD/AUD set to struggle under 0.8500.

Outlook...

A large part of last week was characterised by USD consolidation and broad range trading for the NZ dollar. The kiwi squeezed higher early in the week, pushing towards resistance around 0.77. The squeeze ran out of steam mid-week, and a technical-based USD correction took hold and gained some momentum. The kiwi tested downside support, which cleaned out weak longs before more determined buying entered the market and set a floor around 0.75. The USD's corrective move continued through the week, but markets became more tentative as the non-farm payrolls data approached and market participants squared up the overdone buying of US dollars ahead of the data.

NFP data was slightly stronger than expected, and helped to ease fears that the US would enter a recession. US equity markets strengthened following the result, and as we have come to expect, this lent support to carry related currencies. While the data also provided some initial support for the USD, solid sovereign interest in the EUR kicked the USD lower, and reinforced the gains in other currencies.

AUD/USD strength is benefiting the kiwi, although, the NZD/AUD is clearly underperforming. Relative demand for the two currencies is illustrated by recent changes in speculative positioning data. IMM data for the week ending 2 October shows that net long positions in both the NZD and AUD have increased from their late August lows. But while positions in the AUD have increased A\$5.0b from their lows, positioning in the NZD has increased by a more modest NZ\$1.5b.

This week poses a mixed bag for the kiwi. The local market will continue to take its lead from offshore developments, with the NZD's fortunes continuing to be driven by changes in risk appetites. Looking across the respective calendars, there doesn't appear to be any show stopping releases. The Columbus Day holiday in the US today is likely to see a quiet start to the week. The minutes of the Fed's 18 September meeting (released Wednesday morning NZ time) will be examined for the Fed's thinking at the time of their surprise 50 basis point

rate cut, and could be interesting. Across the Tasman, employment data (Thursday) is expected to show a 20,000 increase in jobs over the month. Local retail spending (Friday) is expected to record a small rebound, but this needs to be read in the context of recent weakness.

The NZD/USD is now in a well established up channel, and has clawed back a significant proportion of the losses from July's highs. The 200 hour moving average has provided solid support for the NZD on its climb from mid-September, and is expected to continue to do so in an environment where the NZD appreciates by default on USD weakness. In the absence of any surprises, another week in the 0.75 to 0.77 consolidation zone is looming. The NZD/AUD remains under pressure, with daily topside resistance at 0.8630 likely to cap.

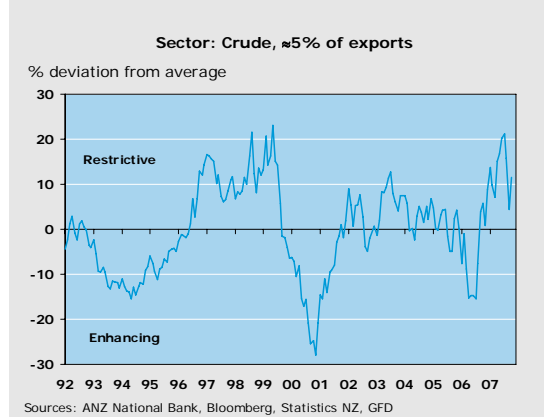
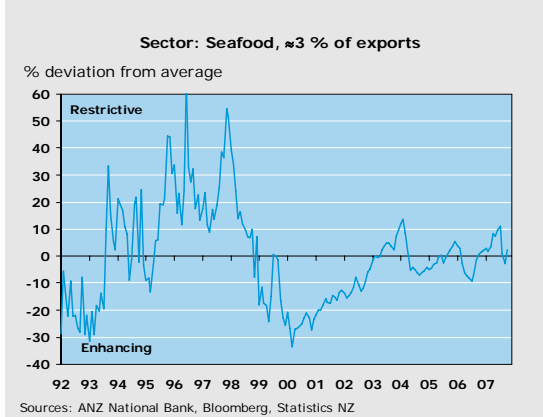
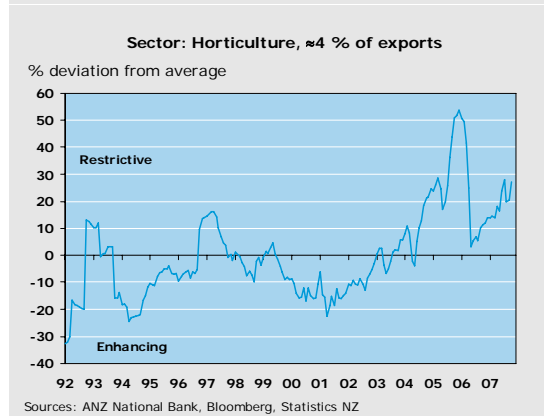
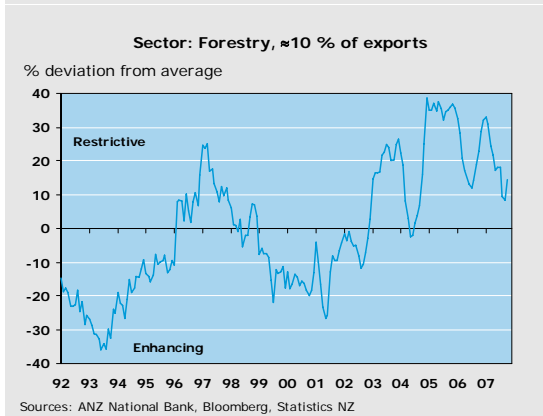
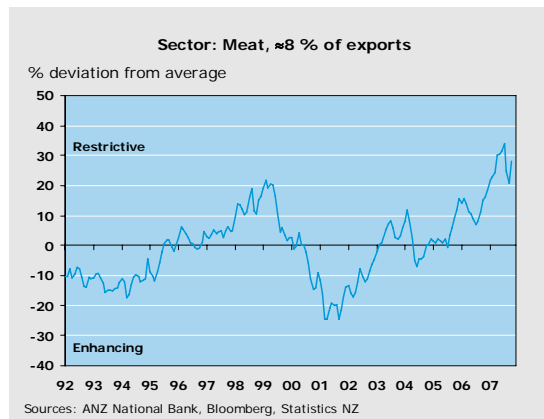
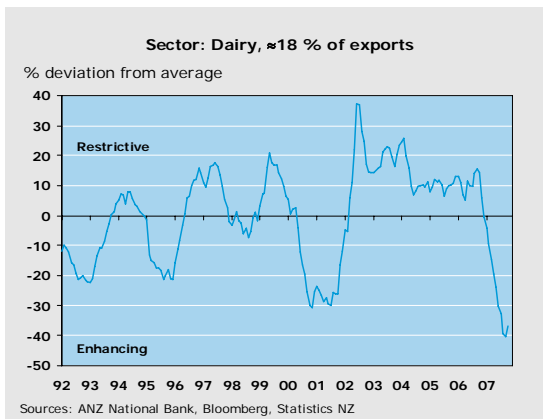
NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Growth differentials favouring AUD.
Yield	↔/↑	Swap spreads remain supportive for NZD.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Better across the Tasman.
Technicals	↔	0.8630 to cap.
Sentiment	↓	AUD data is better.
Other	↓	Australian economy is stronger.
On balance	↓/↔	Key support at 0.8460. Break possible.

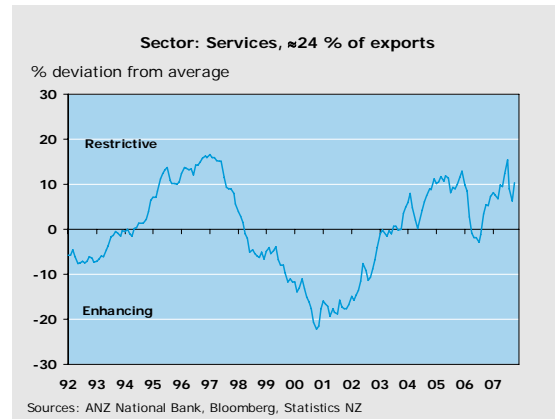
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	US data is weak as well.
Yield	↑	OCR high for longer.
Commodities	↑	Higher commodity prices are still a major factor.
Risk aversion	↔	Volatility measures down, market remains "calm".
Partial indicators	↔	Payrolls data relieves some concern.
Technicals	↔/↑	Consolidation in broad range.
AUD	↑	Fundamentals solid in Australia. AUD doing well.
Sentiment	↔	US data ok, so consolidation likely.
Other	↓	Big maturity month for Uridashi and Eurokiwi.
On balance	↔/↑	Consolidation 0.75-0.77.

EFFECTIVE EXCHANGE RATES (UPDATE)

Regular readers will know that we track real effective exchange rate measures across various export industries. These measures adjust for the impact of commodity prices and are weighted by the export destination. They highlight that the performance of the NZD has a contrasting impact on different sectors of the New Zealand export community.

A lower currency over September, as a result of the fallout from global credit concerns, had a positive impact on all commodity adjusted real exchange rates we monitor and contributed to the dairy sector commodity adjusted real exchange rate posting a new record low. However, the subsequent recovery in the NZD has removed this positive impact, with all measures showing a deterioration in conditions based on current NZD "spot" rates. Unless there is a strong increase in world commodity prices in October, this deterioration is expected to be sustained. Conditions still remain restrictive for the meat, forestry, horticulture, crude and services sectors. The seafood and manufacturing sectors are experiencing broadly neutral conditions.





DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
8 Oct	AU	ANZ Job Advertisements (Sep) – mom	-	0.1%	14:30
		Foreign Reserves (Sep)	-	\$70.4B	19:30
	EU	ECB's Trichet Speaks at Brussels Think Tank	-	-	19:00
		ECB's Hurley Speaks at Conference in Dublin	-	-	20:30
		ECB's Liikanen Speaks in Helsinki	-	-	21:00
	UK	PPI Input (Sep) – mom	1.5%	-0.5%	21:30
		PPI Output (Sep) – mom	0.2%	0.1%	21:30
		PPI Output – Core (Sep) – mom	0.2%	0.2%	21:30
		Industrial Production (Aug) – mom	0.3%	-0.1%	21:30
		Manufacturing Production (Aug) – mom	0.4%	-0.3%	21:30
	GE	Factory Orders (Aug) – mom	2.2%	-7.1%	23:00
9 Oct	NZ	NZIER Business Opinion Survey (3Q)	-	-37	10:00
	AU	NAB Business Confidence (Sep)	-	10	14:30
		NAB Business Conditions (Sep)	-	19	14:30
	JN	Eco Watchers Survey: Current (Sep)	45.3	44.1	18:00
		Eco Watchers Survey: Outlook (Sep)	-	46.5	18:00
	GE	Trade Balance (Aug)	16.2B	17.9B	19:00
		Current Account (Aug)	10.6B	14.1B	19:00
		Imports (Aug) – mom	0.5%	-2.8%	19:00
		Exports (Aug) – mom	0.5%	-0.3%	19:00
		Industrial Production (Aug) – mom	3.9%	0.1%	23:00
	EU	ECB's Trichet Speaks at European Parliament	-	-	21:30
	UK	Visible Trade Balance (Aug)	-£6,800	-£7,065	21:30
		Total Trade Balance (Aug)	-£4,100	-£4,425	21:30
10 Oct	US	IBD/TIPP Economic Optimism (Oct)	49.0	48.2	03:00
		Fed's Poole Speaks About Global Economy to Council in St. Louis	-	-	06:30
		Minutes of September FOMC Meeting	-	-	07:00
		Fed's Yellen Speaks at Public Affairs Forum in Los Angeles	-	-	08:40
	AU	Westpac Consumer Confidence (Oct)	-	4.2%	13:30
		Home Loans (Aug)	1.1%	-4.1%	14:30
		Investment Lending (Aug)	-	-6.8%	14:30
	JN	Machine Tool Orders (Sep P) – yoy	-	12.6%	19:00
11 Oct	US	Fed's Rosengren Speaks About Real Estate in Portland Maine	-	-	01:00
		Wholesale Inventories (Aug)	0.3%	0.2%	03:00
	UK	Leading Indicator Index (Aug) – mom	-	-0.2%	03:30
		Coincident Indicator Index (Aug) – mom	-	0.1%	03:30
		RICS House Price Balance (Sep)	-	-1.8%	12:01

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
11 Oct cont.	NZ	Business NZ PMI (Sep)	-	55.7	12:00
	JN	Machine Orders (Aug) – mom	-5.6%	17.0%	12:50
		Money Supply M2+CD (Sep) – yoy	1.8%	1.8%	12:50
		Broad Liquidity (Sep) – yoy	3.7%	3.7%	12:50
		Current Account Total (Aug)	¥2,240B	¥1,855.9B	12:50
		Adjusted Current Account Total (Aug)	¥2,200B	¥1,753.9B	12:50
		Bank Lending incl Trusts (Sep)	0.6%	0.5%	12:50
		BoJ Target Rate Announcement	0.5%	0.5%	-
		BoJ Monthly Report	-	-	19:00
	AU	Consumer Inflation Expectation (Oct)	-	18.7%	13:30
		Employment Change (Sep)	20k	31.9k	14:30
		Unemployment Rate (Sep)	4.3%	4.3%	14:30
		Participation Rate (Sep)	65.1%	65.1%	14:30
	EU	ECB Publishes Monthly Report	-	-	21:00
		Euro-Zone GDP (2Q F) – qoq	0.3%	0.3%	22:00
		Euro-Zone GDP (2Q F) – yoy	2.5%	2.5%	22:00
		ECB's Trichet Speaks in Moscow	-	-	22:15
12 Oct	US	Trade Balance (Aug)	-\$59.0	-\$59.2B	01:30
		Initial Jobless Claims (Oct 7)	315k	317k	01:30
		Continuing Claims (Sep 30)	2,550k	2,541k	01:30
		Import Price Index (Sep) – mom	1.0%	-0.3%	01:30
	NZ	Retail Sales (Aug) – mom	0.4%	0.0%	10:45
		Retail Sales Ex-Auto (Aug) – mom	0.5%	-0.2%	10:45
	JN	Domestic CGPI (Sep) – yoy	1.9%	1.9%	12:50
		Bankruptcies (Sep) – yoy	-	2.9%	17:30
		Consumer Confidence (Sep)	-	44.1	18:00
	EU	Euro-Zone Industrial Production (Aug) – mom	0.3%	0.6%	22:00
13 Oct	US	PPI (Sep) – mom	0.5%	-1.4%	01:30
		PPI Ex Food & Energy (Sep) – mom	0.2%	0.2%	01:30
		Advance Retail Sales (Sep)	0.2%	0.3%	01:30
		Retail Sales Less Autos (Sep)	0.3%	-0.4%	01:30
		Fed's Bernanke Gives Opening Remarks at Dallas Fed Conference	-	-	02:10
		Fed's Fisher Gives Welcome Remarks at Dallas Fed Conference	-	-	02:25
		University of Michigan Confidence (Oct P)	84.0	83.4	03:00
		Business Inventories (Aug)	0.2%	0.5%	03:00
		Fed's Kohn Gives Dinner Remarks at Dallas Fed Conference	-	-	13:00
	EU	ECB's Mersch to Speak at ACI 50 th Anniversary in Luxembourg	-	-	05:30

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: With global financial unease settling down, the focus for the Reserve Bank is back to domestic inflationary concerns. Although domestic demand looks to be slowing – and we expect further confirmation this week from REINZ and retail sales data – there is limited evidence that this is resulting in an easing in inflationary pressures. The September quarter CPI release will be critical.

Date	Data/Event	Economic Signal	Comment
Tue 9 Oct (10.00)	NZIER Quarterly Survey of Business Opinion (Sep qtr)	Down	We expect confidence to remain largely unchanged and indicators of resource pressures to remain elevated.
circa 10 Oct	REINZ housing report (Sep)	Down	The housing market has turned. This report is expected to show further evidence of softness with easing house sales, an increase in the days to sell a house, and slowing house price growth.
Fri 11 Oct (10.45)	Retail Sales (Aug)	Small rebound	After two particularly soft months, we expect a small rebound in retail sales in August. However, the underlying trend will remain one of softness.
Mon 15 Oct (10.45)	Consumers Price Index (Sep qtr)	Non-tradable still high	We expect the headline CPI to increase by 0.8 percent in the quarter keeping the annual inflation rate at 2.1 percent. The worry for the RBNZ is that non-tradable inflation remains elevated at above 1.0 percent in the quarter. The risk profile surrounding non-tradable inflation appears skewed to the upside.
Fri 19 Oct (10.45)	External Migration (Sep)	Easing	Migration has trended lower over recent months. However, we expect some consolidation around current levels.
Fri 19 Oct (15.00)	Credit Card Spending (Sep)	Rebound	After two consecutive monthly falls, we expect a small rebound in credit card spending in September.
Thu 25 Oct (09.00)	RBNZ <i>OCR Review</i>	On hold	The June quarter GDP figures are likely to skew the tenor towards a more hawkish line.
Mon 29 Oct (10.45)	Overseas Merchandise Trade (Sep)	Imbalanced	Another large monthly trade balance is expected. Export volumes continue to be subdued by a high currency, while higher global oil prices will add to the import bill, though this will be offset somewhat by oil exports from Tui.
Tue 30 Oct (10.45)	Building Consents (Sep)	Slowing	Monthly consent issuance remains volatile. However, we expect the recent easing trend in net migration to begin to filter into lower consent issuance numbers.
Tue 30 Oct (15.00)	Credit Growth (Sep)	Easing	Given weak housing data, we can expect this to manifest through household lending. We will be looking closely at business lending, which showed a massive surge in August.
Wed 31 Oct (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
On Balance		Slowing	All about inflation from here.

NZ Economics

Cameron Bagrie
Chief Economist
+64 4 802 2212

Sean Comber
Economist
+64 4 802 2286

Philip Borkin
Economist
+64 4 802 2199

Khoon Goh
Interest Rate Strategist
+64 4 802 2357

Steve Edwards
Economist
+64 4 802 2217

Kevin Wilson
Rural Economist
+64 4 802 2361

SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
GDP (% qoq)	0.4	0.8	1.2	0.7	0.2	0.3	0.3	0.4	0.4	0.6
GDP (% yoy)	1.0	2.1	2.5	3.2	3.0	2.5	1.5	1.2	1.4	1.7
CPI (% qoq)	0.7	-0.2	0.5	1.0	0.8	0.7	0.5	0.8	0.8	0.8
CPI (% yoy)	3.5	2.6	2.5	2.0	2.1	3.0	3.0	2.7	2.7	2.8
Employment (% qoq)	-0.4	0.1	1.2	0.7	0.0	0.1	0.3	0.3	0.3	0.3
Employment (% yoy)	1.5	1.4	1.7	1.5	1.9	1.9	1.0	0.6	1.0	1.2
Unemployment Rate (% sa)	3.8	3.7	3.7	3.6	3.7	3.8	3.9	4.0	4.2	4.2
Current Account (% GDP)	-8.8	-8.7	-8.3	-8.2	-8.2	-7.9	-7.4	-6.9	-6.8	-6.8
Terms of Trade (% qoq)	-2.2	2.5	1.5	0.6	5.5	2.0	0.8	0.1	0.0	-0.4
Terms of Trade (% yoy)	-1.3	3.8	4.5	2.5	10.5	10.0	9.2	8.6	3.0	0.5

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

KEY ECONOMIC INDICATORS

	Dec-06	Jan-07	Feb-07	Mar-07	Apr-07	May-07	Jun-07	Jul-07	Aug-07	Sep-07
Retail Sales (% mom)	0.8	0.4	2.2	0.9	-1.2	1.0	-0.4	0.0
Retail Sales (% yoy)	3.6	6.9	6.4	7.4	7.4	6.7	4.8	5.7
Credit Card Billings (% mom)	2.8	-1.1	1.5	1.0	-0.8	0.5	2.1	-0.1	-0.3	..
Credit Card Billings (% yoy)	10.0	6.8	8.2	7.4	7.8	5.7	9.3	7.9	8.4	..
Car Registrations (% mom)	-3.7	13.3	-9.5	0.6	-1.3	6.0	-4.6	7.2	1.3	-7.2
Car Registrations (% yoy)	-17.8	-5.8	-12.5	-11.0	-4.8	-2.5	-1.5	7.0	10.9	0.1
Building Consents (% mom)	-4.2	4.9	6.6	-1.5	1.2	4.7	13.7	-15.5	5.8	..
Building Consents (% yoy)	-20.7	-5.5	-8.5	2.8	9.9	2.2	33.2	-4.1	-0.5	..
REINZ House Price (% yoy)	11.9	9.0	13.6	13.7	14.4	14.8	12.1	10.4	12.9	..
Household Lending Growth (% mom)	1.0	1.1	1.1	1.2	1.1	1.1	1.1	0.9	0.9	..
Household Lending Growth (% yoy)	12.9	13.0	13.1	13.3	13.6	13.6	13.6	13.6	13.5	..
Roy Morgan Consumer Confidence	128.0	136.8	133.8	129.3	128.6	122.1	121.0	121.1	122.4	121.3
NBNZ Business Confidence	-7.7	..	-5.9	-12.5	-19.4	-48.3	-37.2	-38.5	-33.8	-26.5
NBNZ Own Activity Outlook	24.0	..	25.7	24.1	22.5	7.8	14.8	12.4	16.7	17.2
Trade Balance (\$m)	-346	-825	-127	60	-215	8	-518	-813	-945	..
Trade Balance (\$m annual)	-6082	-6013	-5767	-5776	-6024	-5900	-6226	-6345	-6339	..
ANZ World Commodity Price Index (% mom)	3.8	1.3	1.4	2.0	4.9	2.6	6.3	4.6	1.4	0.4
ANZ World Commodity Price Index (% yoy)	9.4	11.1	13.0	17.1	20.9	21.1	29.8	35.1	36.3	35.7
Net Migration (sa)	1020	400	530	620	220	400	590	470	750	..
Net Migration (annual)	14609	14116	13151	12081	11222	10682	10078	8966	8730	..

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jul 07	Aug 07	8 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
NZD/USD	0.786	0.729	0.764	0.740	0.720	0.710	0.700	0.680	0.660	0.630
NZD/AUD	0.907	0.877	0.850	0.841	0.809	0.772	0.761	0.756	0.759	0.759
NZD/EUR	0.573	0.535	0.540	0.540	0.529	0.530	0.530	0.523	0.520	0.508
NZD/JPY	95.6	85.3	89.3	87.3	85.7	85.2	84.0	80.2	77.9	73.1
NZD/GBP	0.386	0.362	0.374	0.372	0.367	0.366	0.365	0.360	0.353	0.342
NZ\$ TWI	75.4	70.2	71.8	70.6	68.8	67.9	67.2	65.7	64.6	62.5
NZ interest rates	Jul 07	Aug 07	8 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
OCR	8.18	8.35	8.25	8.25	8.25	8.25	8.00	7.50	7.00	6.75
90 day bill	8.44	8.72	8.74	8.70	8.70	8.60	8.00	7.50	7.00	7.00
10 year bond	6.79	6.40	6.31	6.30	6.40	6.50	6.50	6.70	6.70	6.70
International	Jul 07	Aug 07	8 Oct 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
US Fed funds	5.25	5.25	4.75	4.50	4.50	4.50	4.50	4.50	5.50	5.75
US 3-mth	5.36	5.62	5.24	4.80	4.70	4.65	4.65	4.65	5.75	6.10
AU cash	6.25	6.50	6.25	6.50	6.75	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.62	6.89	6.91	6.80	6.90	6.90	6.90	6.90	6.90	6.90

KEY RATES

	5 Sep	1 Oct	2 Oct	3 Oct	4 Oct	5 Oct
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.67	8.65	8.61	8.58	8.59	8.59
90 day bank bill	8.81	8.74	8.73	8.74	8.74	8.74
NZGB 07/09	7.00	6.98	6.98	6.98	6.98	6.96
NZGB 11/11	6.62	6.71	6.71	6.71	6.71	6.68
NZGB 04/13	6.51	6.63	6.63	6.62	6.62	6.59
NZGB 12/17	6.18	6.29	6.29	6.29	6.29	6.26
1 year swap	8.56	8.67	8.67	8.69	8.69	8.71
2 year swap	8.25	8.38	8.38	8.43	8.43	8.44
5 year swap	7.82	7.90	7.90	7.94	7.93	7.94
RBNZ TWI	66.8	71.6	71.6	71.5	71.1	71.1
NZD/USD	0.6929	0.7645	0.7631	0.7614	0.7535	0.7561
NZD/AUD	0.8421	0.8588	0.8594	0.8561	0.8532	0.8507
NZD/JPY	80.24	87.96	88.06	88.14	87.90	88.08
NZD/GBP	0.3442	0.3739	0.3738	0.3727	0.3708	0.3709
NZD/EUR	0.5093	0.5358	0.5366	0.5371	0.5345	0.5349
AUD/USD	0.8228	0.8902	0.8879	0.8894	0.8831	0.8888
EUR/USD	1.3606	1.4268	1.4222	1.4176	1.4098	1.4136
USD/JPY	115.81	115.05	115.40	115.76	116.65	116.49
GBP/USD	2.0129	2.0448	2.0413	2.0431	2.0322	2.0388
Oil	75.07	81.64	80.31	80.00	79.97	81.48
Gold	680.95	745.30	743.00	734.60	725.90	736.80
Electricity Price Index	5.52	4.89	4.65	4.55	4.43	4.22

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