

NEW ZEALAND ECONOMICS MARKET FOCUS

24 January 2012

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TIME ON THEIR SIDE

ECONOMIC OVERVIEW

The NZ economy continues to show mixed signals. This can be typical of an economy at an inflection point and we are set for an extended period of patchy data. Amidst a week of mildly improving global sentiment we're not losing track of the bigger picture – a long drawn out slog for Western Society. We expect the RBNZ to be of the same mindset, and with tame inflation affording the luxury of patience, an extended policy siesta beckons.

JANUARY OCR PREVIEW

The RBNZ is universally expected to leave the OCR on hold. We expect the tone of the statement to retain an ever so slight tightening bias but to be more noncommittal on the timeframe for OCR moves which means in effect a neutral stance. Barring a global meltdown we expect the next move in the OCR to be up – but not for a long time.

ANZ TRUCKOMETER UPDATE

The ANZ Truckometer is a monthly economic indicator using traffic volumes data. It's timely and shows lead characteristics to official GDP data. In December, it dropped 2.4 percent (s.a.), completing a weak quarter. This measure suggests growth in H1 2012 is looking even more scratchy than 2011.

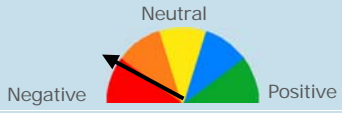
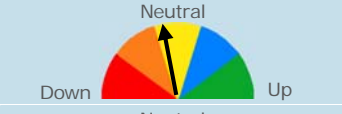

INTEREST RATE STRATEGY

Expect interest rates to remain broadly biased to the downside, with the short end likely to continue pressing for OCR cuts following weaker CPI data, and the long end remaining well bid on sovereign debt worries. The chorus of calls for US Treasury bond yields to rise is getting louder, but there is an equally loud chorus calling for QE. Demand for domestic bonds appears to be picking up, potentially reflecting diversification following European credit rating downgrades. But fixed rate mortgage cuts may see some swap paying, so expect swaps to lag bonds.

CURRENCY STRATEGY

The year has started as it ended with risk being sought across the board. Chinese and US data continues to show resilience. While European news has been reasonably downbeat, markets have largely ignored tail risks, most notably that of a looming Greek debt default.

THE ANZ HEATMAP

Variable	12 mth view	Comment	Risk profile
GDP	2.4%	Respectable but grumpy growth. Downside risks.	
OCR	No change	OCR low for longer as opposed to outright lower	
CPI	2.5%	Benign but some medium-term inflation drivers remain sticky.	

ECONOMIC OVERVIEW

SUMMARY

The New Zealand economy continues to show mixed signals. This can be typical of an economy at an inflection point. Our Truckometer flags moving beyond mere inflection, but we suspect mixed signals are also reflective of tensions owing to the navigation of numerous economic shocks. If the latter is true, we're set for an extended period of patchy data. Amidst a week of mildly improving global sentiment we're not losing track of the bigger picture – a long drawn out slog for Western Society. We expect the RBNZ to be of the same mindset, and with tame inflation affording the luxury of patience, an extended policy siesta beckons. Merchandise Trade data is expected to show a monthly trade surplus, courtesy of record December dairy exports, but subdued manufacturing sector confidence illustrates the pending roadblocks to the necessary economic rebalancing.

FORTHCOMING EVENTS

RBNZ Credit Card Billings – December (Wednesday, January 25, 3:00pm). We expect a 0.3 percent s.a. lift in billings (+5.6 percent y/y), underpinned by a 2 percent monthly rise in overseas card billings.

RBNZ OCR Review – January (Thursday, January 26, 9:00am). We expect the OCR to be held at 2.5 percent. See our preview on page 4.

BNZ Business NZ Manufacturing PMI – December (Thursday, January 26, 10:30am). We expect the index to remain around the current 45.7 mark, with finished stocks the only component above 50.

SNZ Overseas Merchandise Trade - December (Friday, 27 January, 10:45am). A monthly trade surplus of around \$200m is forecast, with the annual trade surplus widening to around \$1.0bn.

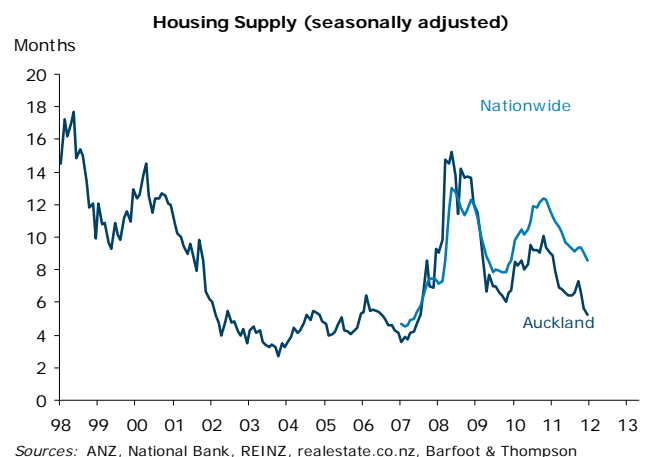
WHAT'S THE VIEW

The economy is still scratchy, with the QSBO domestic trading activity readings confirming firms are generally experiencing weaker demand conditions, with the pullback in construction sector confidence of some concern. This ties in with what the National Bank Business Outlook survey told us late in 2011.

We're still seeing greater polarisation in indicators. Dairy prices continue to see good support. Interest-rate sensitive pockets of the economy are looking perkier. Housing market data showed sales lifting in most regions, albeit from a low base. However, the fall in December electronic card spending confirmed a tough end of the year for retail,

discounting galore is occurring to move stock, consumer confidence is flatlining and job ads are on the wane. Our proprietary ANZ Truckometer (see page 5) tanked in Q4 2011. This indicator contains lead characteristics and the activity outlook is not encouraging. **Mixed signals** can be suggestive of an **economy at a turning point**. We have some **sympathy** for this, although we **suspect it is reflective of an economy that is also navigating numerous shocks simultaneously** (see last week's *Market Focus*). If the latter is the case, we are set for an extended period of mixed messages on the data front.

Supply-side tensions are also becoming more apparent. QSBO demand-side indicators softened but capacity measures tightened. We can see semblances of a Canterbury effect here, with the lift in capacity utilisation and capacity as a limiting factor driven largely by Canterbury. Despite tightening capacity, cost and price pressures eased, although the increase in building prices for Canterbury is a sign of things to come. Housing data confirmed Auckland remains the regional hotspot, with intra-regional migration contributing to a 7,000 person increase in the region's population over 2011, with Canterbury's population shrinking by about 9,000. Depopulation trends bear close monitoring in Christchurch for they portend of continued supply-side tensions as resources reallocate.



Little things are not headline grabbers but we need to take note of them. Auckland Airport reported record throughput. We haven't seen the breakdown but suspect a growing tilt in NZ visitor arrivals from Asia – epitomising the structural connectivity story that is developing in a broader manner beyond Merchandise Trade flows. These are the sort of dynamics where the seeds were sown in 2010 and 2011 but we expect to see the benefits in 2012 and beyond. Fonterra reported record exports

ECONOMIC OVERVIEW

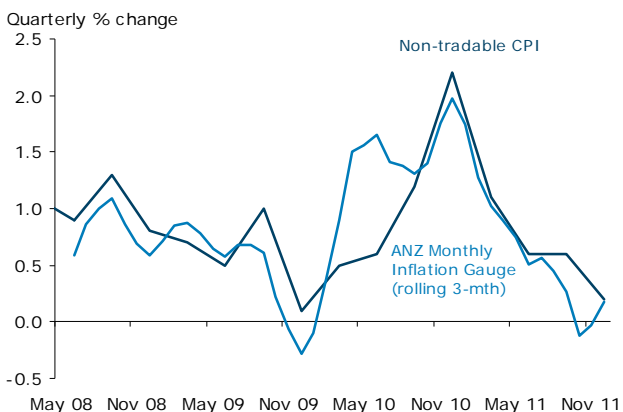
in December – the role of Mother Nature supporting pastoral production in New Zealand should never be under-estimated.

Against this backdrop global nuances continue to dominate local market sentiment. As we highlighted in our key themes for 2012 in last week's *Market Focus*, **western society still faces a sustained period of penance** following a leveraging super-cycle. Yo-yo market movements look set to be the norm for the foreseeable future, with little substance in current market movements. **This means we are viewing the stronger NZD over the week as not much more than noise.**

Net on net we're still comfortable calling a "scratchy", "grumpy" growth dynamic at work across the economy.

Before we turn to the week ahead, **we have to put in a plug for our monthly inflation gauge.** This is a measure we developed a couple of years ago, partly out of frustration with NZ being one of only a few OECD countries not to report a monthly CPI series. Our measure has coverage issues of course but benign Monthly Inflation Gauge readings since March last year have preceded the moderating run of quarterly non-tradable CPI outturns. Its improving track record is encouraging us to place increasing weight on this measure. We will be watching and reporting estimates going forward and placing more confidence in them.

ANZ Monthly Inflation Gauge vs Non-tradable CPI



Sources: ANZ, Statistics NZ

The RBNZ takes prime position this week with Thursday's OCR Review expected to show another kick for touch. Barring a global meltdown, we don't expect OCR moves for some time to come. The RBNZ have the luxury of time on their side, and in such an unsettled local and global environment are likely to make full use of it. Refer to page 4 for our full preview.

The global outlook remains challenging, with Thursday's Manufacturing PMI expected to post another subdued read. Despite all of the current global pessimism, this week's merchandise trade data is expected to show some signs of optimism, with a \$200m monthly trade surplus, courtesy of record Fonterra dairy December exports. The tick-up in last week's GlobalDairyTrade auction, was also encouraging. We expect the high inventory overhang to contribute to a fall in import values. Capital goods imports will be watched for signs of further recovery.

Enhancing investment, particularly in areas of our comparative advantage will leave our economy better placed to benefit from a global recovery. For now, however, this looks a long way away, with swings in sentiment and ongoing volatility to remain for a while to come. Such is grumpy growth.

RECENT LOCAL DATA

NZIER QSBO – 2011Q4. The General Business Situation fell to -3 s.a. (+10 previously), with actual and expected domestic trading activity both down (to -4 and +13 s.a.). Average selling price expectations eased to +17 (+22 previously). Capacity utilisation and capacity as a limiting factor both rose.

SNZ Electronic Card Transactions – December Retail ECT card spending fell 0.3 percent s.a. m/m (6.3 percent y/y), with core retail spending down 0.1 percent s.a. (5.7 percent y/y).

GlobalDairyTrade auction. The average auction price firmed 1.5 percent to US \$3,701 per tonne. NZD prices fell 1.3 percent from the January 4 event.

REINZ Housing Market Report – December. Sales volumes rose 4.4 percent s.a. (20.9 percent y/y). The REINZ house price index firmed 0.6 percent s.a. (+3.1 percent y/y). The median days to sale was steady at 39 days s.a.

ANZ Job Ads – December. Job ads fell 2.3 percent s.a, with newspaper listings falling 4.5 percent s.a. and internet advertising down 1.8 percent s.a. The composite job ads series fell 3.2 percent s.a.

SNZ Consumer Price Index – 2011Q4 (Thursday, January 19, 10:45am). The CPI fell 0.3 percent (1.8 percent y/y). Tradable prices fell 0.9 percent q/q (1.1 percent y/y), while non-tradable prices rose 0.2 percent (2.5 percent y/y).

ANZ-Roy Morgan Consumer Confidence – January. Headline consumer confidence lifted from 108.4 to 116.1, with overall confidence levels unchanged after accounting for seasonality. Current conditions lifted 11 points to 113.8 n.s.a., whereas future conditions rose 5 points to 117.6.

JANUARY OCR PREVIEW

SUMMARY

The RBNZ is universally expected to leave the OCR on hold. We expect the tone of the statement to retain an ever so slight tightening bias but to be more noncommittal on the timeframe for OCR moves which means in effect a neutral stance. Barring a global meltdown we expect the next move in the OCR to be up – but not for a long time.

MAINTAINING FLEXIBILITY

In the December *MPS*, the RBNZ bowed to global uncertainty and risks, against a local backdrop of modest domestic activity. This combination meant there was **no hurry to act on the tightening bias**. The OCR, however, **would need to move higher, with Q3 2012 flagged**. We see **events** since the December *MPS* as likely to **encourage the RBNZ to take an even more patient approach**:

- **The global outlook remains of concern though to be fair outturns have probably exceeded expectations**, particularly in regard to US data. Europe remains the key worry. Policymakers appear to be hoping for the best but preparing/resigned for otherwise. We concur.
- **A more benign short-term inflation outlook is providing more inflation headroom** with CPI inflation undershooting the RBNZ *MPS* pick. Of course the RBNZ is theoretically focused on medium-term inflation but the starting point still matters. Inflation is below 2 percent. Medium-term signals are more mixed but pretty comfortable in general. Commodity prices are still high, but the unemployment rate is stable and measures of pricing intentions have generally continued to ease.
- **Monetary conditions are tighter than the December *MPS* projections**, with the NZD TWI currently at 71.6 versus the 67 assumption for Q1 in the *MPS*. If sustained it is equivalent to a 1 percent increase in the OCR assuming an MCI ratio of 6:1. We're not big believers in the MCI – there are other financial variables that influence monetary conditions – one of which is offshore funding costs and they remain elevated. **Financial conditions – a broader gauge than MCI's, are still pointing to modest momentum**. This is a positive, but the word modest tells the real story.
- **The starting point and outlook in H1 2012 is weaker**. Downward revisions to the level of GDP and signs of easing growth momentum over the start of 2012 suggest a greater margin of economic slack. We note some signs of tightening in some capacity metrics but we view this as a supply-side

issue. Prospects for the rebuild in Christchurch continue to be pushed out.

The key focus will be on the tone, and while we don't expect a clear neutral stance, we expect something pretty close. Core inflation measure is now around 2 percent. Time is on the RBNZ's side.

Could the next move in the OCR be down? This looks premature from our point of view though in a world where the probability of a negative tail risk event is far higher than the reciprocal the market will remain biased as such.

- **The real OCR is around 0.5 percent, well below neutral levels. This ammunition should be kept in reserve for a full-blown "custard" scenario. This is a speculative as opposed to concrete risk.** A small open trading nation needing to rebalance its economy does not need negative real interest rates.
- With the global outlook remains troubling, **trading partner growth is generally holding up quite well and key transmission mechanisms to NZ such as commodity prices have held up extremely well.**
- **Passive monetary policy stimulus is still being delivered** every day the OCR remains unchanged, with sizeable dollar-values of fixed loans rolling off. Some banks have also cut fixed mortgage rates in the past week.
- **The domestic economy is scratchy, but interest-rate sensitive pockets are picking up**, notably the RBNZ's historical nemesis, the Auckland property market.
- When earthquake reconstruction eventually picks up, the pressure on domestic resources will have to be countered by a higher OCR.

In the December *MPS* the RBNZ had a tightening bias, albeit a mild one. Although they will probably stop short of shifting to a neutral bias this week, **the likely reluctance of the Bank to commit to a more explicit timeframe for OCR hikes will largely be interpreted as a neutral statement by the market.**

FINANCIAL MARKET IMPLICATIONS

Market expectations are unanimous in expecting an unchanged OCR decision this Thursday. A modicum of cuts priced in over the next couple of meetings really reflects the markets assessment towards the risk profile as opposed to anything more. We don't expect anything in the assessment on Thursday for the market to be jolted from this way of thinking, but we may see expectations get pared back.

ANZ TRUCKOMETER UPDATE

SUMMARY

The ANZ Truckometer is a monthly economic indicator using traffic volumes data. It's timely and shows lead characteristics to official GDP data. In December, it dropped 2.4 percent (s.a.), completing a weak quarter. This measure suggests growth in H1 2012 is looking even more scratchy than 2011.

ABOUT THE TRUCKOMETER

The ANZ Truckometer is a new economic indicator derived using traffic volumes data. Because it uses traffic volumes across the country we consider it valuable for providing real-time information on how the economy is tracking. Theoretically, we'd consider such data concurrently though statistical analysis shows a lead relationship of 3 to 6 months. **Thus, it contains holy-grail characteristics to an economist: it's timely and contains leading information.** Because the monthly data is volatile, we tend to focus on the 3-month moving average in the index. The data is seasonally adjusted.

The fit of the Truckometer against GDP growth over coming periods will be adversely impacted by two events: traffic will not capture the Christchurch rebuilding activity, and it cannot be expected to have picked up the extra spending associated with the Rugby World Cup (RWC). The ANZ Truckometer is best interpreted as an indicator of base momentum in the economy. No indicator is perfect.

Technical notes on the Truckometer were published in the Market Focus on 14 November 2011, a copy of which is available on request. The ANZ Truckometer remains experimental and subject to revision.

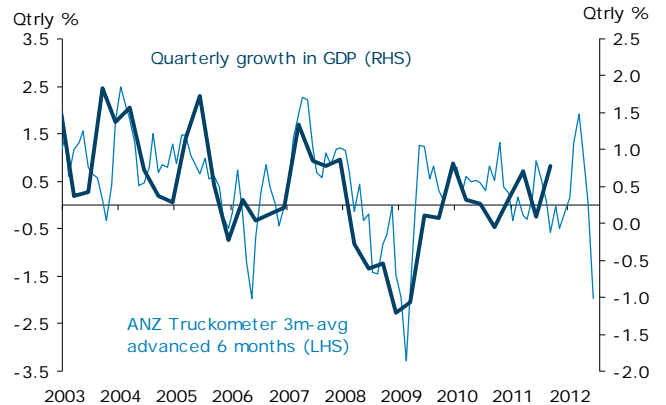
RESULTS

The ANZ Truckometer fell 2.4 percent in December, with the three-month average that we match to quarterly GDP growth also falling sharply (-2.0 percent). The ANZ Truckometer has been volatile in recent months, but looking through the noise, **economic momentum appears to be waning rapidly.** It would take an impressive bounce-back in January to prevent the trend turning negative. Particularly given the fact that growth in the second half of 2011 has been flattered by the Rugby World Cup. In fact the **ANZ Truckometer raises the possibility of one quarter of negative growth this year.** We're not in that camp, but it's hard to go against the spirit: momentum softened at the end of 2011.

A note of caution: December is the most seasonal month for traffic flows, and holiday traffic may have been adversely affected by the poor weather. The data is therefore potentially overstating the weakness.

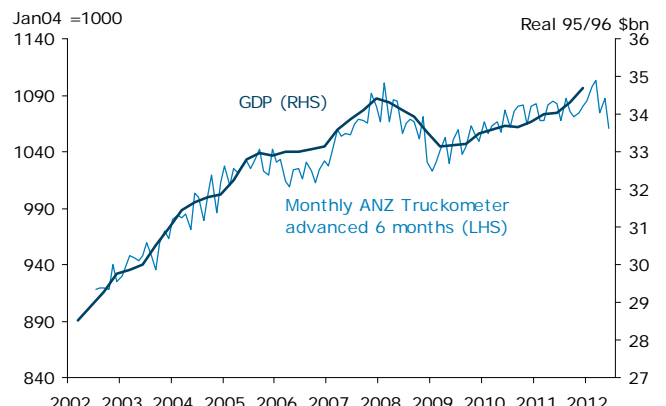
However, it's still hard to go beyond the spirit, with the levels chart highlighting a clear waning trend. January data will be key for assessing whether we are looking at a re-run of 2008, when traffic volumes fell markedly and GDP followed.

ANZ Truckometer (3-month avg) and GDP growth



Sources: ANZ, NZ Transport Agency, Statistics NZ

Monthly ANZ Truckometer and GDP levels



Sources: ANZ, NZ Transport Agency, Statistics NZ

ANZ TRUCKOMETER			
	Index (Jan 04= 1000)	3-month average	Qtrly % chg, 3m avg
Dec-10	1082	1083	0.9
Jan-11	1067	1078	0.5
Feb-11	1087	1079	0.1
Mar-11	1076	1077	-0.6
Apr-11	1071	1078	0.0
May-11	1074	1074	-0.5
Jun-11	1080	1075	-0.2
Jul-11	1085	1080	0.2
Aug-11	1098	1088	1.3
Sep-11	1103	1095	1.9
Oct-11	1075	1092	1.1
Nov-11	1087	1088	0.1
Dec-11	1061	1074	-2.0



INTEREST RATE STRATEGY

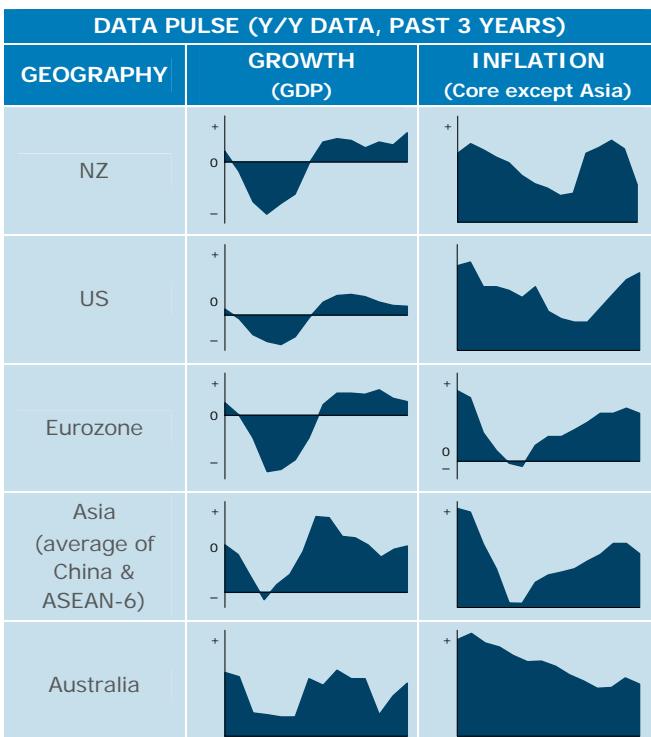
SUMMARY

Expect interest rates to remain broadly biased to the downside, with the short end likely to continue pressing for OCR cuts following weaker CPI data, and the long end remaining well bid on sovereign debt worries. The chorus of calls for US Treasury bond yields to rise is getting louder, but there is an equally loud chorus calling for QE. Demand for domestic bonds appears to be picking up, potentially reflecting diversification following European credit rating downgrades. But fixed rate mortgage cuts may see some swap paying, so expect swaps to lag bonds.

THEMES

- The global interest rate environment remains subdued. But the market is braced for bad news, and took credit rating downgrades in its stride. Our feeling is, only a genuine shock will see key global interest rates to move materially lower.
- Last week's soft CPI data gives the RBNZ "wiggle room" to cut the OCR should global developments require. The hurdle here is high, but some paring back of easing expectations is likely.
- Judging by last week's bond tender, NZGS are back en vogue, with a solid jump in bid cover and excellent price tension.
- Fixed mortgage rate cuts may lead to an uptick in mortgage fixing activity, adding upward pressure to swap spreads as NZGS demand improves.

DATA PULSE



PREFERRED STRATEGIES – INVESTORS

We have to admit to having been pleasantly surprised by how well markets took the European sovereign ratings downgrades in their strides – clearly a sign that there's plenty of negativity priced in. Our suspicion is that investors were expecting the news, and have simply put a long-ago-conceived "Plan B" into action – which potentially includes more stable markets like Australia and NZ. This should help support the local bond market, but our preference is to be paid swap spreads on the possibility that mortgage related paying emerges.

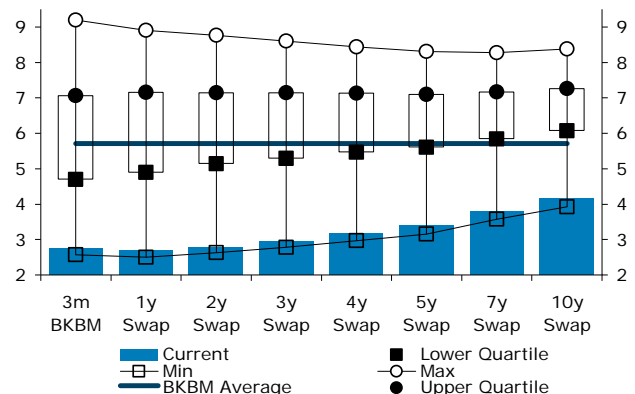
KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Long	Bond demand has picked up; real yields look great.
Curve	Neutral	Global factors relevant to both ends of the curve.
NZ-US 10y spread	Narrower	At attractive levels, in both nominal and real terms.
Swap spreads	Wider	At risk of widening as NZGS buyers compete with mortgage paying.

PREFERRED STRATEGIES – BORROWERS

Although the RBNZ is on hold until the end of the year at the earliest, and rates are low in level terms, some cover seems appropriate, and we favour swaptions over caps, as detailed in Friday's *Borrower's Strategy* (available on request).

KEY VIEWS – FOR BORROWERS		
GAUGE	VIEW	COMMENT
Hedge ratio	Mostly floating	Swaptions preferred to outright swap hedges.
Value	Good	Still historically cheap.
Uncertainty	High	Optionality makes sense.

NZ Swap Rate History (since the OCR introduction)



Sources: ANZ, National Bank, Bloomberg



INTEREST RATE STRATEGY

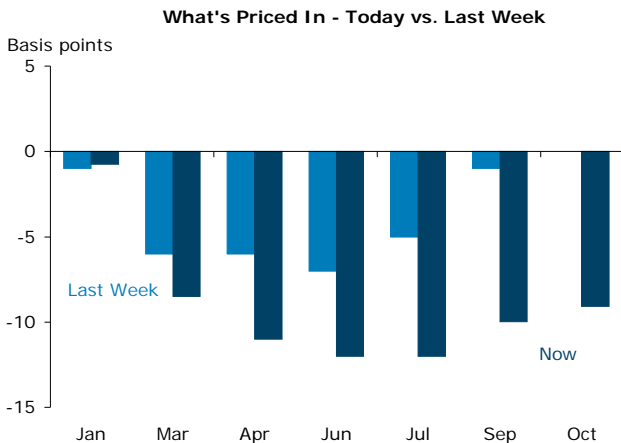
GLOBAL SCENE

Europe continues to dominate the headlines, but does not appear to be in the driving seat insofar as moves in bond yields are concerned. As noted earlier, reaction to the multiple sovereign downgrades was minimal, and the focus is now on the US. At issue is whether or not US data will hold up, or whether there is some seasonality at play. With expectations now ramped up, the risk of disappointment is growing. We continue to watch the housing market, for this is a key barometer of consumption and confidence. Event risk this week is high – with among other things, the FOMC (who will release interest rate forecasts for the first time); and Australian CPI data.

DOMESTIC

Although this week's data schedule is fairly heavy, most of the data is second tier, with most of the focus likely to be on credit card spending (Wednesday) and the RBNZ OCR Review Thursday. Neither is likely to be market-moving. However, the "hangover" from last week's soft CPI data continues to linger, and has given the bulls something to chew on. We are mindful not to get too carried away – cuts in fixed rate mortgages, and the ongoing roll off of historic fixed rates does mean that monetary conditions are easing at the household level, something the RBNZ will be wary of.

MONETARY POLICY AND MARKET PRICING



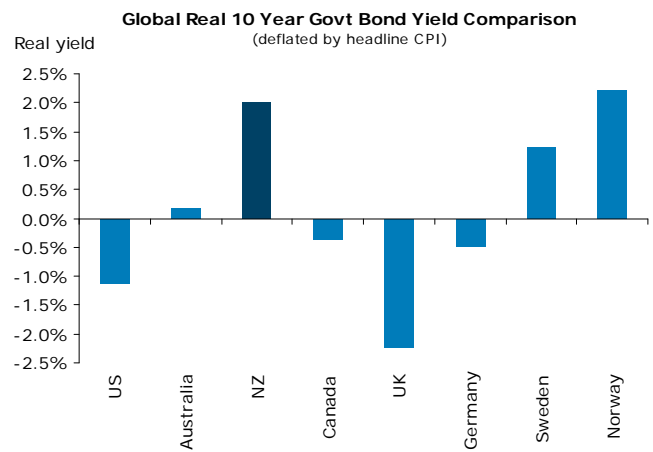
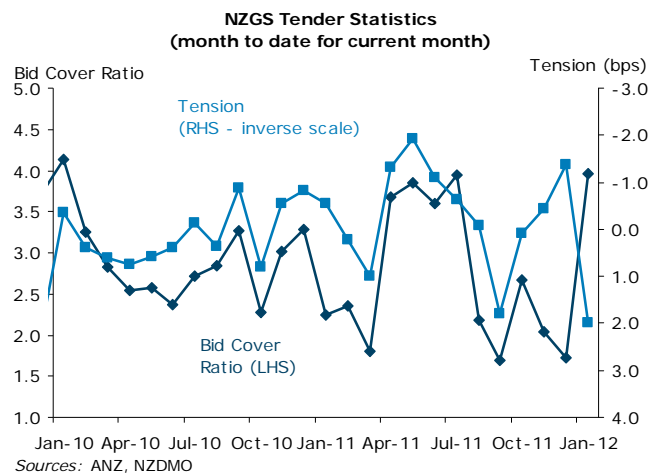
Sources: ANZ, National Bank, Bloomberg

The market has moved to price rate cuts in with more conviction, but it continues to price in a turn about around the middle of the year, with cumulative expectations for October less than those for July. Given the global backdrop, it is natural for the market to be pricing in the risk of cuts. However, the down-then-up profile strongly suggests that the market is pricing in the risk of an emergency cut, as opposed to a real conviction that the OCR is actually headed lower. Given cuts in mortgage rates, the hurdle for OCR cuts is now even higher, even after the CPI data. Although

the short end will remain well supported, rate cut expectations may get pared back a touch after the OCR Review.

BONDS

Bid cover at last week's tender was extremely strong. This is encouraging, even if it was just one tender, and a small one at that. NZGS spreads have come in from "cheap" levels against the US and AU, but look more compelling in real terms. Even if much of the improvement was technical, related to GST dropping out of CPI data, NZ will start to show up on investors' models as a standout, as the chart below shows.



Sources: ANZ, Bloomberg

SWAPS AND SWAP SPREADS

Although it is difficult to tell how much swap paying may eventuate from cuts in fixed rate mortgages, there is a risk of it, and we expect spreads to widen.

RELATIVE VALUE

NZGS 5/21s are back to neutral against US and AU, but remain attractive on asset swap, with long end spreads having cheapened up by almost 10bps in the past ten days. We thus prefer to be long asset swaps.



CURRENCY STRATEGY

SUMMARY

The year has started as it ended with risk being sought across the board. Chinese and US data continues to point to resilient economies, which whilst aren't accelerating, are providing a reasonable base for activity. European news has been as bad as you could reasonably predict without an "accident", yet markets have largely ignored it. Consequently, most measures of financial stress are now lower (less risk of failure, more risk seeking). There are still tail events particularly Greek PSI, which, if not agreed, could result in a Greek default in March. Aside from tail events markets are positive at present.

MARKET THEMES

- European issues still dominate market thoughts with markets focusing on the plausibility of multiple tail events. Currently Greek PSI (Private Sector Involvement) debt haircuts talks are dominating with fears of an associated default.
- Short covering and risk seeking has dominated the start of year.
- NZD has extended its rally and old world issues are having a lesser effect on new world currencies. With China and US economies looking resilient.

REVIEW AND OUTLOOK

Europe continues to be front and centre of market commentary. The S&P downgrade of Europe has marked a low point in risk metrics all having improved since the downgrade. Even continued failure of a PSI deal to materialise in Greece has failed to dampen short covering and risk seeking behaviour in currencies. Euro positioning is still extremely short, which could see the short covering rally extend. As we enter February markets will focus on the next injection of liquidity into the European economy via the ECB's February 3yr LTRO auction. Indeed, recall the December LTRO was hailed a success in putting liquidity concerns in Europe to bed.

The NZD year end rally has continued and the seasonal correction is looking less likely. The NZD has broken firmly above its short term pivot at 0.80 and the 200d MA at 0.8044. Whilst NZD remains above this pivot and the market ignores European woes, it looks increasingly likely we will only see reversal in the more stretched crosses of NZDEUR and NZDGBP.

It has been notable that negative European news now seems to mainly affect only European risk indicators. NOK & SEK are still following the traditional headline correlation to negative European

news but increasingly AUD, NZD and Equities are following Asian and US indicators.

The NZDAUD looks range bound between 0.7662 and 0.7722. We still favour NZD outperformance on this cross and there are a growing number of market participants who feel the same. This has generally led to a slower performance as the cross market quickly becomes crowded. Australian CPI data and the RBNZ OCR Review both have the potential to push the cross higher.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued on a near-term cyclical basis.
Yield	↔	RBA is expected to further narrow interest rate differentials in February but the difference is still large.
Commodities	↔/↑	Commodities are strong but NZ products are stronger.
Partial indicators	↔	Leading indicators are slowing.
Technicals	↑	Turned up, positive outlook.
Sentiment	↑	See NZD undervalued vs. AUD.
Other	↔	Global sentiment big driver.
On balance	↑	NZDAUD specific interest has re-entered the market.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above revised structural fair value estimate of 0.70.
Fair value – short-term	↔	Closer to short-term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↔/↑	Softs looking reasonable.
Risk aversion	↔/↑	Important resistance levels have broken in a number of risk indicators, Market seems risk positive at present.
Partial indicators	↔	NZ data now mixed. US data improving.
Technicals	↔↓	Technical bounce done.
AUD	↔/↑	AUD has broken topside levels and looks set to test higher.
Sentiment	↔↓	Seasonal pattern correction still possible.
Other	↔	Nothing apparent.
On balance	↔/↑	The trend is your friend.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
24-Jan	AU	Conference Board Leading Index - NOV	- -	0.6%	12:00
	GE	PMI Manufacturing - JAN A	49.0	48.4	21:30
	GE	PMI Services - JAN A	52.5	52.4	21:30
	EC	PMI Composite - JAN A	48.5	48.3	22:00
	EC	PMI Manufacturing - JAN A	47.3	46.9	22:00
	EC	PMI Services - JAN A	49.0	48.8	22:00
	UK	Public Finances (PSNCR) - DEC	£19.0B	£10.6B	22:30
	UK	PSNB ex Interventions - DEC	£14.9B	£18.1B	22:30
	UK	Public Sector Net Borrowing - DEC	£12.1B	£15.2B	22:30
	EC	Industrial New Orders NSA (YoY) - NOV	-2.7%	1.6%	23:00
	EC	Industrial New Orders SA (MoM) - NOV	-2.2%	1.5%	23:00
	JN	BOJ Target Rate - JAN	0.10%	0.10%	UNSPECIFIED
25-Jan	US	Richmond Fed Manufact. Index - JAN	7	3	04:00
	AU	Westpac Leading Index (MoM) - NOV	- -	0.1%	12:30
	JN	Merchandise Trade Balance Total - DEC	-¥154.9B	-¥687.6B	12:50
	JN	Adjusted Merchandise Trade Bal. - DEC	-¥376.5B	-¥537.9B	12:50
	JN	Merchandise Trade Exports YoY - DEC	-7.4	-4.5	12:50
	JN	Merchandise Trade Imports YoY - DEC	8.0	11.4	12:50
	AU	DEWR Internet Skilled Vacancies MoM - DEC	- -	-1.0%	13:00
	AU	Consumer Prices (QoQ) - 4Q	0.2%	0.6%	13:30
	AU	Consumer Prices (YoY) - 4Q	3.3%	3.5%	13:30
	AU	RBA Trimmed Mean (QoQ) - 4Q	0.5%	0.3%	13:30
	AU	RBA Trimmed Mean (YoY) - 4Q	2.4%	2.3%	13:30
	AU	RBA Weighted Median (QoQ) - 4Q	0.5%	0.3%	13:30
	AU	RBA Weighted Median (YoY) - 4Q	2.4%	2.6%	13:30
	US	2012 State of the Union Address	- -	- -	15:00
	NZ	Credit Card Spending SA (MoM) - DEC	- -	-3.4%	15:00
	NZ	Credit Card Spending (YoY) - DEC	- -	3.2%	15:00
	GE	IFO - Business Climate - JAN	107.5	107.2	22:00
	GE	IFO - Current Assessment - JAN	116.8	116.7	22:00
	GE	IFO - Expectations - JAN	99	98.4	22:00
	UK	Bank of England Minutes - JAN	- -	- -	22:30
	UK	BBA Loans for House Purchase - DEC	35000	34738	22:30
	UK	GDP (QoQ) - 4Q A	-0.1%	0.6%	22:30
	UK	GDP (YoY) - 4Q A	0.8%	0.5%	22:30
	UK	Index of Services (MoM) - NOV	0.4%	-0.7%	22:30
	UK	Index of Services (3mth/3mth) - NOV	-0.1%	0.2%	22:30
26-Jan	UK	CBI Trends Total Orders - JAN	-23	-23	00:00
	UK	CBI Trends Selling Prices - JAN	3	7	00:00
	UK	CBI Business Optimism - JAN	- -	-30	00:00
	US	MBA Mortgage Applications - 20-Jan	- -	23.1%	01:00
	US	House Price Index MoM - NOV	0.0%	-0.2%	04:00
	US	Pending Home Sales MoM - DEC	-1.0%	7.3%	04:00
	US	Pending Home Sales YoY - DEC	- -	6.9%	04:00
	US	FOMC Rate Decision - JAN	0.25%	0.25%	06:30
	NZ	RBNZ Official Cash Rate - JAN	2.50%	2.50%	09:00
	NZ	Business NZ PMI - DEC	- -	45.7	10:30
	JN	Corp Service Price Index (YoY) - DEC	-0.1%	-0.2%	12:50

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Jan	JN	Japan Buying Foreign Bonds - JAN	- -	¥920.0B	12:50
	JN	Japan Buying Foreign Stocks - JAN	- -	-¥33.6B	12:50
	JN	Foreign Buying Japan Bonds - JAN	- -	¥192.3B	12:50
	JN	Foreign Buying Japan Stocks - JAN	- -	¥139.8B	12:50
	GE	GfK Consumer Confidence Survey - FEB	5.6	5.6	20:00
	UK	Nat'wide House prices sa (MoM) - JAN	- -	-0.2%	26 Jan - 1 Feb
	UK	Nat'wide House prices nsa(YoY) - JAN	- -	1.0%	26 Jan - 1 Feb
27-Jan	UK	CBI Reported Sales - JAN	-6	9	00:00
	US	Chicago Fed Nat Activity Index - DEC	-0.1	-0.37	02:30
	US	Durable Goods Orders - DEC	2.0%	3.7%	02:30
	US	Durables Ex Transportation - DEC	0.9%	0.3%	02:30
	US	Cap Goods Orders Nondef Ex Air - DEC	1.0%	-1.2%	02:30
	US	Cap Goods Ship Nondef Ex Air - DEC	0.6%	-1.0%	02:30
	US	Initial Jobless Claims - 21-Jan	370K	352K	02:30
	US	Continuing Claims - 14-Jan	3513K	3432K	02:30
	US	Leading Indicators - DEC	0.7%	0.5%	04:00
	US	New Home Sales MoM - DEC	2.1%	1.6%	04:00
	US	New Home Sales - DEC	322K	315K	04:00
	US	Kansas City Fed Manf. Activity - JAN	0	-4	05:00
	NZ	Trade Balance - DEC	-50M	-308M	10:45
	NZ	Exports - DEC	4.11B	3.91B	10:45
	NZ	Imports - DEC	4.10B	4.22B	10:45
	JN	Tokyo CPI YoY - JAN	-0.4%	-0.4%	12:30
	JN	Tokyo CPI Ex-Fresh Food YoY - JAN	-0.3%	-0.3%	12:30
	JN	Tokyo CPI Ex Food, Energy YoY - JAN	-1.0%	-1.1%	12:30
	JN	Natl CPI YoY - DEC	-0.2%	-0.5%	12:30
	JN	Natl CPI Ex-Fresh Food YoY - DEC	-0.1%	-0.2%	12:30
	JN	Natl CPI Ex Food, Energy YoY - DEC	-1.1%	-1.1%	12:30
	JN	Retail Trade YoY - DEC	2.1%	-2.2%	12:50
	JN	Retail Trade MoM SA - DEC	0.4%	-2.0%	12:50
	JN	Large Retailers' Sales - DEC	-0.6%	-2.5%	12:50
	GE	Import Price Index (MoM) - DEC	0.3%	0.4%	20:00
	GE	Import Price Index (YoY) - DEC	3.8%	6.0%	20:00
	EC	Eurozone M3 s.a. 3 mth ave. - DEC	2.3%	2.5%	22:00
	EC	Eurozone M3 s.a. (YoY) - DEC	2.2%	2.0%	22:00
28-Jan	US	GDP QoQ (Annualized) - 4Q A	3.0%	1.8%	02:30
	US	GDP Price Index - 4Q A	2.0%	2.6%	02:30
	US	Core PCE QoQ - 4Q A	0.9%	2.1%	02:30
	US	Personal Consumption - 4Q A	2.4%	1.7%	02:30
	US	U. of Michigan Confidence - JAN F	74	74	03:55

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All \$ values in local currency

Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

Key focus over the next few weeks: The QSBO provided further evidence of a slowing in growth momentum, although capacity metrics remain more sticky. Benign Q4 CPI inflation looks to provide the RBNZ with the luxury of staying on the sidelines. Global developments continue to dominate local markets, and will be a key focus for this week's OCR review. With a fickle global backdrop, and with ongoing uncertainty over the timing of the Canterbury rebuild, the upshot is likely to be the OCR on hold for most of 2012. The spirit of our assessment is a low OCR endpoint this cycle.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 25 Jan (3:00pm)	RBNZ Credit Card Spending - Dec	Sideways	Flat domestic billings, with the 0.3 percent lift in total billings (5.6 percent y/y) driven by a rise in overseas card billings.
Thur 26 Jan (9:00am)	RBNZ OCR Review	On hold	Global concerns and a benign short-term inflation environment dictate the RBNZ remaining on hold until at least December.
Thur 26 Jan (10:30am)	BNZ Business NZ Manufacturing PMI	Low	Confidence to remain well below 50, although some improvement is possible given trends in global gauges.
Fri 27 Jan (10:45am)	Overseas Merchandise Trade - Dec	Dairy boost	A trade surplus of around \$200m is forecast, with the annual trade surplus improving to around \$1bn.
Tue 31 Jan (10:45am)	Building Consents - Dec	Rebounding	A 10 percent increase in residential issuance is expected, with non-residential issuance of around \$300m forecast.
Tue 31 Jan (10:45am)	National Employment Indicator - Oct	No change	The lead provided by internet job advertising suggests flat employment over the next few months.
Wed 1 Feb (early am)	GlobalDairyTrade auction	Holding	Strong Chinese demand will support prices, with no change in the average price expected.
Thur 2 Feb (1:00pm)	ANZ Commodity Price Index - Jan	- -	- -
Fri 3 Feb (10:45am)	International Travel and Migration - Dec	Improving	A net permanent and long term inflow of 100 persons is expected. Visitor arrivals are likely to rise 2-3 percent.
Tue 7 Feb (10:45am)	Labour Cost Index - 2011Q4	Contained	A 0.5 percent increase in private sector ordinary time earnings (1.9 percent y/y) is forecast.
Tue 7 Feb (10:45am)	Quarterly Employment Survey - Q4	Stalling	No change in filled jobs expected. Average hourly earnings are expected to rise 0.5 percent (3.2 percent y/y).
Thur 9 Feb (10:45am)	Household Labour Force Survey - Q4	Creeping forward	A 0.2 percent quarterly increase in employment is forecast, with the unemployment rate easing to 6.5 percent.
Fri 10 Feb (10:45am)	Electronic Card Transactions - Jan	Improving	A 0.2 percent monthly s.a. increase in retail ECT spending is forecast. Higher increases for core retail are expected.
Wed 15 Feb (early am)	GlobalDairyTrade auction	Holding	No change in the average dairy price is expected.
Wed 15 Feb (10:45am)	Retail Trade - Q4	Up	Higher cash spending will help deliver a 1.5 percent increase in retail volumes, with core volumes up 0.5 percent. .
Thur 16 Feb (10:00am)	ANZ Job Ads - Jan	- -	- -
Thur 16 Feb (10:30am)	BNZ Business NZ Manufacturing PMI	Subdued	January manufacturing confidence to remain below 50 given the global outlook.
Thur 16 Feb (1:00pm)	ANZ-Roy Morgan Consumer Confidence - Feb	- -	- -
On Balance		Local vs global	Resilient domestic gauges are expected to start confirming a loss in economic momentum, with the global backdrop suggesting caution for early 2012.

KEY FORECASTS AND RATES

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
GDP (% qoq)	0.8	0.6	0.2	0.5	0.7	1.0	0.9	0.7	0.7	0.6
GDP (% yoy)	1.9	2.2	1.7	2.1	2.0	2.4	3.1	3.3	3.3	2.9
CPI (% qoq)	0.4	-0.3	0.6	0.7	0.9	0.4	0.6	0.7	0.9	0.3
CPI (% yoy)	4.6	1.8	1.6	1.4	1.8	2.5	2.7	2.6	2.7	2.7
Employment (% qoq)	0.2	0.2	0.2	0.5	0.4	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	1.1	1.7	0.7	1.2	1.4	1.4	1.5	1.3	1.2	1.2
Unemployment Rate (% sa)	6.6	6.5	6.5	6.2	6.1	6.1	6.1	6.1	6.1	6.0
Current Account (% GDP)	-4.3	-3.8	-4.2	-4.4	-4.7	-5.0	-5.2	-5.4	-5.7	-5.9
Terms of Trade (% qoq)	-0.6	-0.4	-0.9	-0.9	-0.8	-0.8	-0.8	-0.6	-0.7	-0.7
Terms of Trade (% yoy)	3.4	2.1	0.5	-2.7	-2.9	-3.3	-3.2	-3.0	-3.0	-2.8

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
Retail ECT (% mom)	1.4	-0.8	1.1	0.3	-0.4	0.5	1.5	-0.6	-0.3	
Retail ECT (% yoy)	10.0	6.8	9.0	8.0	8.4	7.5	7.4	6.0	7.2	
Credit Card Billings (% mom)	1.7	0.4	0.5	1.0	-1.1	1.1	2.6	-3.4	..	
Credit Card Billings (% yoy)	6.5	5.6	4.5	7.4	4.7	5.1	7.8	3.2	..	
Car Registrations (% mom)	-5.4	3.4	-2.3	-1.8	8.6	-11.1	1.1	7.4	4.2	
Car Registrations (% yoy)	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	-8.8	-7.9	4.2	
Building Consents (% mom)	-1.2	3.2	-1.0	11.2	19.5	-17.7	10.7	-6.4	..	
Building Consents (% yoy)	-32.5	-21.6	-25.3	-17.6	18.5	-3.7	11.4	-5.0	..	
REINZ House Price Index (% yoy)	-0.4	-0.7	0.0	0.5	0.7	2.7	3.4	2.6	3.1	
Household Lending Growth (% mom)	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.0	..	
Household Lending Growth (% yoy)	1.3	1.2	1.2	1.2	1.2	1.1	1.1	1.0	..	
ANZ Roy Morgan Consumer Confidence	101.4	103.3	112.5	109.4	113.3	112.6	112.2	109.0	108.4	116.1
NBNZ Business Confidence	14.2	38.3	46.5	47.6	34.4	30.3	13.2	18.3	16.9	
NBNZ Own Activity Outlook	29.5	39.7	38.7	43.7	43.3	35.4	26.1	28.8	25.7	
Trade Balance (\$m)	1158	550	201	103	-690	-789	-228	-308	..	
Trade Balance (\$m ann)	1238	1019	999	1288	1028	694	687	555	..	
ANZ World Commodity Price Index (% mom)	1.6	0.4	-1.2	-0.2	-1.4	-2.0	-3.6	-1.1	-0.8	
ANZ World Commodity Price Index (% yoy)	19.8	19.6	20.6	22.2	22.0	16.5	9.0	5.5	3.1	
Net Migration (sa)	-60	-240	-240	-190	130	-660	-650	-60	..	
Net Migration (annual)	5508	4625	3867	2867	2257	773	-103	-568	..	

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Nov-11	Dec-11	Today	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
NZD/USD	0.810	0.770	0.810	0.80	0.83	0.86	0.89	0.90	0.90	0.90
NZD/AUD	0.768	0.794	0.769	0.80	0.79	0.78	0.81	0.82	0.82	0.82
NZD/EUR	0.583	0.570	0.622	0.58	0.59	0.61	0.61	0.62	0.62	0.62
NZD/JPY	62.73	57.75	62.36	60.0	59.8	61.9	64.1	63.0	63.0	63.0
NZD/GBP	0.504	0.497	0.521	0.51	0.52	0.53	0.55	0.55	0.55	0.55
NZ\$ TWI	70.3	68.4	71.7	70.3	71.3	72.8	74.8	75.4	75.4	75.4
INTEREST RATES	Nov-11	Dec-11	Today	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75
NZ 90 day bill	2.73	2.75	2.74	2.70	2.80	2.80	3.20	3.70	3.80	4.20
NZ 10-yr bond	4.02	3.81	3.90	4.10	4.10	4.20	4.40	4.40	4.60	4.80
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
US 3-mth	0.53	0.58	0.56	0.35	0.35	0.35	0.35	0.35	0.35	0.60
AU Cash Rate	4.50	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
AU 3-mth	4.60	4.48	4.36	4.20	4.20	4.20	4.20	4.20	4.20	4.20

Forecasts finalised as at 28 November 2011

	20 Dec	16 Jan	17 Jan	18 Jan	19 Jan	20 Jan
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.65	2.72	2.73	2.74	2.75	2.74
NZGB 04/13	2.43	2.47	2.47	2.47	2.46	2.46
NZGB 04/15	2.73	2.72	2.78	2.83	2.73	2.76
NZGB 03/19	3.56	3.56	3.61	3.66	3.59	3.62
NZGB 05/21	3.83	3.82	3.87	3.91	3.84	3.88
2 year swap	2.66	2.81	2.86	2.86	2.78	2.81
5 year swap	3.22	3.41	3.45	3.46	3.39	3.43
RBNZ TWI	68.2	71.2	71.3	71.5	71.4	71.3
NZD/USD	0.7588	0.7933	0.7976	0.8014	0.8025	0.8023
NZD/AUD	0.7645	0.7719	0.7691	0.7722	0.7713	0.7710
NZD/JPY	59.19	60.97	61.22	61.45	61.58	61.85
NZD/GBP	0.4890	0.5183	0.5192	0.5222	0.5196	0.5180
NZD/EUR	0.5836	0.6273	0.6268	0.6274	0.6233	0.6191
AUD/USD	0.9926	1.0277	1.0370	1.0378	1.0404	1.0406
EUR/USD	1.3002	1.2647	1.2724	1.2774	1.2876	1.2959
USD/JPY	78.01	76.85	76.76	76.68	76.74	77.09
GBP/USD	1.5518	1.5307	1.5361	1.5346	1.5444	1.5488
Oil (US\$/bbl)	93.86	98.69	99.68	100.70	100.61	100.32
Gold (US\$/oz)	1597.45	1636.80	1657.53	1653.50	1664.30	1656.65
Electricity (Haywards)	12.57	5.99	8.20	6.09	6.45	6.09
Baltic Dry Freight Index	1878	1013	974	926	893	862
Milk futures (USD)	143	140	140	140	140	140

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