

## LABOUR QUIRKS AND FUNDAMENTALS

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### Page 2: Economic overview

- > The March quarter HLFS employment report was unequivocally weak and the market has been quick to bring forward interest rate cuts, with a move by July now fully priced. While there is now a non-trivial risk of a pre-September move (our central track), it looks a big ask, particularly given the movement in the currency.

### Page 5: Economic comment – RBNZ liquidity measure changes

- > The RBNZ has made comprehensive changes to its repo-eligibility criteria, aiming to improve liquidity in the NZ financial system. In doing so, the RBNZ has introduced a new investor subset of registered banks that will be willing to invest in qualifying assets. This move should improve overall liquidity of the NZ capital markets and broaden the spectrum for potential issues that can be transacted in the NZ market.

### Page 6: Economic comment – global watch

- > US data was generally stronger than expected last week, with ISM non-manufacturing continuing the run of upside surprises. However, European and UK data is weakening. European retail sales fell more than expected as did UK industrial production.

### Page 7: Interest rate strategy

- > The risk profile for rates has shifted towards an earlier easing by the RBNZ. September still our core view, but June should not be totally ruled out. Receivers to dominate as dataflow expected to continue printing soft.

### Page 8: Currency strategy

- > With the domestic economic story unfolding, the NZD remains vulnerable to moves lower. Strictly speaking, the swap market looks to be pre-empting the lower interest rate story too early. However, with partial indicators printing weak, and the USD maybe finding a base, the trend looks to be the market's friend.

### Page 9: Currency comment – effective exchange rate update

- > Despite a small fall in world commodity prices in April, all the commodity adjusted real exchange rates we monitor fell over the month (became more enhancing). A lower NZD, particularly against the AUD, contributed to this.

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## ECONOMIC OVERVIEW

The March quarter HLFS employment report was unequivocally weak and the market has been quick to bring forward interest rate cuts, with a move by July now fully priced. While there is now a non-trivial risk of a pre-September move (our central track), it looks a big ask, particularly given the movement in the currency.

### What's ahead?

- > **REINZ April Housing Market Report** (circa 12 May). March saw house sales collapse, but the median house price rose due to compositional aspects. Sales could possibly bounce back slightly in April in line with the Barfoot & Thompson data, although we expect the price rise to unwind.
- > **NZ April Food Price Index** (Tuesday 1045 NZST). Although food prices are volatile on a monthly basis due to seasonal fluctuations, we expect annual growth to remain at high levels, reinforcing two dynamics; one inflationary, the other a huge squeeze on disposable income.
- > **NZ March quarter Retail Trade Survey** (Thursday 1045 NZST). We expect another soft month for retail. Monthly core sales are expected to fall 0.7 percent and volumes down 0.7 percent in the quarter.
- > **NZ March quarter Capital Goods Price Index** (Friday 1045 NZST).
- > **NZ March quarter Producer Price Index** (Friday 1045 NZST). A large surge in wholesale electricity prices is expected to drive both input and output prices higher. A small recovery in margins is expected, although they remain under pressure.

### What's the view?

It was a very busy week last week and a number of developments are worthy of discussion. Unfortunately though, the news does not make for very pleasant reading. The pile of evidence continues to show that the economy is certainly not moving forward.

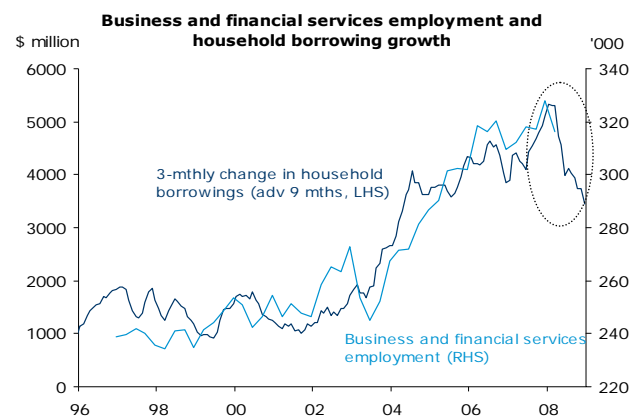
Topping the list of events last week was the release of March quarter labour market data. It showed the labour market weakening significantly more than expected. The economy shed 29,000 jobs in the March quarter (1.3 percent) – the biggest quarterly fall in employment since March 1989. The number of people employed within the economy is now 0.2 percent below the levels seen 12 months prior and is the first time annual employment growth has turned negative since December 1998 (the last time the economy was in recession). Total hours worked fell 1.9 percent (the biggest quarterly fall since March 1994) and the unemployment rate increased to 3.6 percent from 3.4 percent in the December quarter. If not for a record fall in the labour force participation rate to 67.7 percent, the unemployment rate would have increased considerably more. The weakness was widespread, with full-time and part-time employment

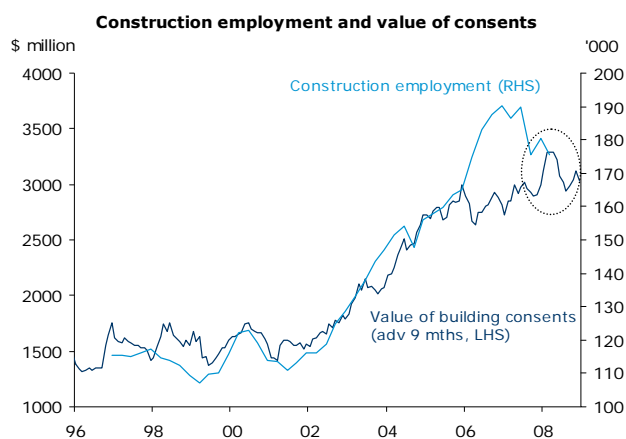
falling 1.7 percent and 1.1 percent respectively in the quarter. Given that we typically expect part-time jobs to show weakness first, the considerable fall in full-time employment could be a significant development.

The labour market is typically thought of as a lagging indicator of the economic cycle. It usually takes time for slowing activity to impact on firms' labour decisions. So the fact that employment turned down so aggressively in the same quarter as activity has come to a grinding halt is a worrying sign. It suggests that the economy is slowing more rapidly than first thought. We now expect March quarter GDP growth to be negative and prospects for the June quarter look no better.

Nevertheless, we have to be cautious about interpreting the extent of the weakness. The HLFS survey is notoriously volatile and the fall in employment comes after strong growth of 0.9 percent in the December quarter. We can't help but feel that part of the weakness in the results is a statistical quirk with movements in female employment and participation over the December and March quarters containing a fair degree of "noise".

But irrespective of this volatility, the data still paints a very weak picture. Averaging across the March and December quarters, employment growth is still negative. Sectors where we would expect job losses to occur did shed staff. Our seasonally adjusted estimates show the distribution sector (wholesale and retail) and business/financial services shedding the most jobs in the quarter (-16,000 and -12,000 respectively). The construction sector also shed 5,000 jobs. These are the sectors that were at the front-end of the employment boom over the past five years (accounting for 67 percent of economy-wide job growth) so we should hardly be surprised (or panic) to also see them at the front-end of the economic slowdown to date. With activity indicators for those sectors softening considerably, weak figures in the March quarter are expected to extend, and we expect the unemployment rate to easily push through 4 percent by year end. Of course, such a rate is still low, but directionally it's headed one way.





If there is any glimmer of hope at the moment, it is that wage growth remains solid, although this is exactly what you'd expect of a late cycle variable such as wages. The Labour Cost Index measure of private sector ordinary time salary and wage rates rose 0.7 percent in the March quarter, holding annual growth at 3.5 percent. Gross earnings in the Quarterly Employment Survey rose by 7.5 percent from a year ago. This should help provide some support to households being squeezed by increased debt servicing costs and higher prices for core staples. However, if the unemployment rate continues to grind higher, which we expect it to, the current gains in wages are unlikely to be sustained. With recent business surveys reporting firms finding it slightly less difficult to find both skilled and unskilled labour, this is also portends of slower wage growth ahead.

If there was another area that caught our attention last week it was fiscal policy. With the economy flat at best, attention is squarely on the potential for fiscal policy to fill the growth void. While Dr Cullen toned down expectations for large tax cuts last week, our key focal point is what else could be brought in to help households, and particularly the more traditional labour voter. With \$1.5 billion set aside for tax reduction, this spreads pretty thinly over all the workers in the country and \$20/week is likely to disappoint a number of people. Our preview of the *Budget* will be out next Monday.

The other notable area of fiscal policy was the announced delay in the emissions trading scheme (ETS), along with deferral of the ability of local authorities to raise petrol levies. On the face of it, this is certainly inflation friendly. Abstracting from the ETS scheme, the Reserve Bank's inflation forecasts in March showed inflation falling more quickly below 3 percent. Then there is less risk of second round inflationary effects via a persistently high headline rate impacting on wage bargaining and the like. While comforting to a degree, what seems to be overlooked is the substitution effect. One of the reasons the scheme is being delayed is because of inflationary pressure (on households) coming from other areas. No where is this more apparent than in looking at petrol and oil. The Reserve Bank's March projections were assuming US\$90/bbl for oil. It is now US\$120. Deferring a regional petrol tax or ETS may help to

some degree, but the starting position is still far higher in the first place. Based on current oil prices and the NZD, we would not rule out 91 octane petrol prices hitting \$2/litre this week. The headline inflation rate could hit 4 percent if this continues.

Stepping back to the bigger picture and market, an early easing theme is now being pushed. A full cut is now priced by the end of July, and the market is 50-50 on whether we see a move in June.

Abstracting from inflationary pressure – which is a huge hurdle itself (and makes it an extremely tough ask) – there are four areas we will be watching closely to see whether an interest rate cut as soon as June could even be brought to the table. Yes, we know the Reserve Bank are inflation targetters, so it's the inflation story that will dominate. Yet we also know that monetary policy is as much about judgement as science, there are often wider considerations at hand, and it's the bias and nuances that come out of discussions (and flow-on effects for the curve) that are of equal, if not more importance, than pulling the interest rate lever itself.

- > How business confidence fares. Business confidence correctly picked the turning point around February / March, and the issue from here is whether firms believe their own outlook has improved, stabilised or worsened. With March quarter GDP weak, further weakness in Q2 business sentiment will portend of growth in the June quarter being negative. Conversely, improvement may have the Reserve Bank thinking of the economic rope-a-dope in March 2006.
- > Credit. As the Reserve Bank noted in their Financial Stability Report, banks are tightening the availability of credit. While seen as "prudent" by the Reserve Bank, this could also "exacerbate the slowdown in the economy...putting additional pressure on households and businesses". The Reserve Bank has brought in additional liquidity management arrangements as a contingency against further global credit market disruption, but like the BoE, the reality is that the interest rate lever would also have to be pulled to restore confidence.
- > The *Budget*. The Reserve Bank has repeatedly acknowledged that fiscal policy remains an inflationary risk. As noted earlier, we've seen jockeying last week on both tax cuts, and government inflationary effects particularly in terms of the impact on households. The latter is an area the Government appears more sensitive to. With lower GST on food ruled out, it may well be that excise duties on petrol is an area the government targets to help middle-to-low income families. After all, a key reason petrol has gone up so much at the pump is because the government's tax share is percentage as opposed to fixed rate based.
- > The currency. While the Reserve Bank desires a lower currency (and it's an evitable part of rebalancing), and we've seen a notable

adjustment versus the AUD, the inflationary flow-on will have them on edge.

All-in-all, we remain far more comfortable calling a move in September, for now. If we were looking to be making a change it would be driven by one area, namely credit.

For now, reductions in fixed lending rates seen late last week in the 2-year part of the curve, combined with a lower currency will likely reinforce the view at the Reserve Bank that with the market doing their work, they have time on their side.

With inflationary pressure strong, the low growth hurdle to get the Reserve Bank across the line is huge, as in growth needs to be very poor. They are inflation targetters after all! The labour market remains key, and while the March quarter was weak, we suspect we need to see another quarter to really give them confidence that downward pressure on medium term inflation will eventuate. With the June quarter employment figures released in August, it all points to September for lower rates.

On the growth front, we're just polishing off our latest forecasts, and while we have 1 percent annual average growth pencilled in over the year, the more adept annual percent change tells a different (flat-to-negative) picture. As any economist will tell you, you can hide a lot in annual averages.

On the international front, it was relatively quiet last week, at least by recent standards. The major focus was centred on Australia and particularly the RBA's interest rate announcement. Although most were expecting them to leave interest rates unchanged, a more hawkish statement was expected given recent inflation outturns. The statement that was delivered suggests to our Australian economists that the case for a further policy tightening has strengthened since the April meeting. They make this assessment on the basis that the only innovation in this statement was a reference to wages: *"should expectations of high ongoing inflation begin to affect wage and price setting, that outlook would need to be reviewed"*. Our Australian colleagues expect rates to remain on hold for the rest of the year, largely because of an expectation of a further slowing in domestic demand. However, they admit that the risks are heavily skewed to a rate hike in the months ahead. It reinforces to us that our long held bearish view on the NZD/AUD will continue to play out.

Moving to the data this week, it is likely to be more of the same. REINZ house sales for April (expected early in the week) should be pretty grim. Compositional aspects played havoc with the March data with sales collapsing, but the median price rising strongly. We cannot rule out this occurring again but in reverse fashion, with volumes up and prices down - sharply. However, we expect weakness to now be more widespread, particularly given the Barfoot and Thompson data released last week. The number of sales in Auckland only recovered slightly from the collapse in March, but even higher-valued properties are now struggling to sell. We expect the nationwide

figures to show the median house price unwinding all of last month's unusual increase, and for days to sell to also increase.

However, the housing market is almost becoming yesterday's news. Greater interest now is on how weakness is broadening. In this regard, the retail sales data will be closely perused. We expect sales to be very weak in the March month. Part of the weakness will be due to the early Easter this year. But there is no denying now that the underlying trend is negative, and we expect this to be reinforced in the data, if not accentuated. Households' discretionary income is being eaten away by higher prices for petrol and food and this is having a large impact on the retail sector. You only have to look at the sales results for two large retail bellwethers last week to get an appreciation of this. The retail sector is one area where we expect deflationary forces to come through over the next 12 months as businesses struggle to get rid of excess stock on their shelves. The weakness will be fully apparent in the March quarter figures released at the same time. We are expecting quarterly volumes to fall by 0.7 percent and the level to be close to 1 percent below March 2007 levels.

Weak real economic indicators are expected to keep the bias for the currency pointed lower, subject to the US dollar remaining in a support zone.

Deflationary force from the retail sector will be key over the next 12 months as inflation pressures are likely to remain strong in the near-term. Food and PPI inflation data (also released this week) is likely to support this. Although food prices are volatile on a monthly basis, we expect annual growth to push higher. Both PPI input and output data is likely to increase strongly, driven by a considerable increase in wholesale electricity prices over the quarter.

The international calendar is particularly busy this week. It is CPI week, with the US, Europe and UK due to release results. GDP data for Europe and Japan is also expected as are retail sales for the US. In Australia, the big focus will be the Commonwealth Budget, while Fed and ECB policymakers are also active this week with a number of speeches expected.

### Recent data...

- > **NZ Labour Cost Index (March quarter).** Private sector ordinary time salary and wage rates rose 0.7 percent, taking annual growth to 3.5 percent.
- > **NZ Quarterly Employment Survey (March quarter).** Private sector ordinary time salary and wage rates rose 1.1 percent, taking annual growth to 4.4 percent.
- > **ANZ Commodity Price Index (April).** The world price index fell 0.3 percent, taking annual growth to 20.7 percent.
- > **NZ Household Labour Force Survey (March quarter).** Employment fell 1.3 percent, total hours worked fell 1.9 percent and the unemployment rate rose to 3.6 percent.

## RBNZ LIQUIDITY MEASURE CHANGES

The RBNZ has made comprehensive changes to its repo-eligibility criteria, aiming to improve liquidity in the NZ financial system. In doing so, the RBNZ has introduced a new investor subset of registered banks that will be willing to invest in qualifying assets. This move should improve overall liquidity of the NZ capital markets and broaden the spectrum for potential issues that can be transacted in the NZ market.

### Proposed Changes

The RBNZ has announced changes to its liquidity management arrangements. This includes expanding the range of acceptable securities for domestic operations via its overnight reverse repurchase facility ("ORRF"). The range has been expanded to include the following:

- > New Zealand dollar, New Zealand registered and issued 'plain vanilla' securities that are acceptable in Austraclear and rated AAA. This excludes issues that include optionality or subordination.
- > Securities issued by New Zealand Government agencies, state owned enterprises and New Zealand local authorities which are rated AA- or higher.
- > Residential Mortgage Backed Securities ("RMBS") based on NZ registered assets that are rated AAA. These securities must comprise prime domestic residential first mortgages on NZ properties that do not have high loan to value ratios (an indicative maximum loan to value ratio is 60-80 percent).

These measures have been implemented to guard against further disruption to banking system liquidity arising from global financial market unrest. This follows the implementation of similar arrangements by other central banks.

All securities accepted into the ORRF will be subject to a 0.50 percent margin over the Overnight Cash Rate ("OCR"). With regard to RMBS, the RBNZ will accept exposures on up to 2 percent of gross assets per institution at the OCR +0.50 percent. Thereafter the RBNZ will determine the margin.

A 'haircut' or risk margin regime will operate and replaces the current exposure limit regime. Securities offered in a repurchase transaction will have a market value greater than the cash or other securities supplied. The margin will be varied to reflect the type of security, its credit rating and tenor, as per the table below.

Rating	Eligible security	Cover factor	
		Maturity < 3 years	Maturity > 3 years
AAA	NZ Government - Treasury Bills - Bonds - IIBs	1%	3%
	Acceptable Kauris	3%	5%
	RMBS (NZ\$) Bank paper (NZ\$) Local Authorities (NZ\$) SOEs (NZ\$)	8%	10%
AA- to AA+	Bank paper (NZ\$) Local Authorities (NZ\$) SOEs (NZ\$)	10%	15%

The new regime is to come into effect on 3 June 2008, with the exception of RMBS, which is likely to be eligible on 31 July.

The RBNZ noted that these changes are seen as temporary, to be kept in place while global markets remain unsettled and that liquidity arrangements will be further reviewed in 12 months time.

Details of the new liquidity measures are available at <http://www.rbnz.govt.nz/finmarkets/liquiditymanagement/3311800.html>

### Market Implications

We view this as a positive change for the maintenance of financial system stability - allowing banks to hold a more diversified set of assets in their liquidity portfolios - and for the market as a whole. Previously the range of acceptable securities was confined to NZ Government securities, domestic bank bills and acceptable 'AAA' Kauri bonds. The widened universe of acceptable instruments will ensure a positive sentiment ensues for the newly added security types and we have already seen credit spreads narrow since the announcement.

In introducing these changes, the RBNZ is encouraging the NZ market to develop a broader array of assets that are repo-eligible; improving the overall liquidity of the NZ fixed interest market. We understand that this emphasis on liquidity will mean that smaller, illiquid, tranches are likely not to be accepted as repo-eligible.

While there remains some uncertainty surrounding the "temporary" nature of the changes, we believe that this clause is primarily to retain the RBNZ's normal ability to develop its policy over time. We understand that repo-eligibility of any approved security, provided it continues to meet the relevant criteria, would be 'grandfathered' should there be any policy changes.

## GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. US data was generally stronger than expected last week, with ISM non-manufacturing continuing the run of upside surprises. However, European and UK data is weakening. European retail sales fell more than expected as did UK industrial production.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<b>US</b>	ISM Non-Manufacturing (Apr)	49.1	52.0	49.6	Stronger
	Non-Farm Productivity (1Q P)	1.5%	2.2%	1.8%	Stronger
	Unit Labour Costs (1Q P)	2.6%	2.2%	2.8%	Weaker
	Pending Home Sales (Mar) – mom	-1.0%	-1.0%	-2.8%	In-line
	Consumer Credit (Mar)	\$6.0B	\$15.3B	\$6.5B	Stronger
	Wholesale Inventories (Mar)	0.5%	-0.1%	0.9%	Weaker
<b>Europe</b>	PMI Services (Apr F)	51.8	52.0	51.8	Stronger
	PPI (Mar) – mom	0.7%	0.7%	0.7%	In-line
	Retail Sales (Mar) – mom	0.2%	-0.4%	-0.2%	Weaker
	ECB Interest Rate Announcement	4.00%	4.00%	4.00%	In-line
<b>UK</b>	PMI Services (Apr)	51.7	50.4	52.1	Weaker
	Nationwide Consumer Confidence (Apr)	74	70	77	Weaker
	Industrial Production (Mar) – mom	-0.1%	-0.5%	0.3%	Weaker
	Manufacturing Production (Mar) – mom	0.0%	-0.5%	0.4%	Weaker
	BoE Interest Rate Announcement	5.00%	5.00%	5.00%	In-line
<b>Asia Ex-Japan</b>					
<i>China</i>	Producer Price Index (Apr) – yoy	8.4%	8.1%	8.0%	Weaker
	PMI Manufacturing (Apr)	-	59.2	58.4	-
<i>Singapore</i>	PMI (Apr)	49.2	49.3	49.4	In-line
	Electronic Sector Index (Apr)	49.8	50.2	50.7	Stronger
<i>South Korea</i>	Retail Sales (Mar) – yoy	-	8.5%	7.2%	-
	Bank of Korea Interest Rate Announcement	5.00%	5.00%	5.00%	In-line
	Consumer Confidence (Apr)	-	100.4	99.7	-
	Producer Price Index (Apr)	-	9.7%	8.0%	-
<i>Malaysia</i>	Exports (Mar) – yoy	10.4%	5.3%	14.5%	Weaker
	Imports (Mar) – yoy	6.0%	2.6%	11.1%	Weaker
<i>Taiwan</i>	Exports (Apr) – yoy	19.0%	14.0%	22.8%	Weaker
	Imports (Apr) – yoy	28.1%	17.7%	37.3%	Weaker
<i>Indonesia</i>	Bank of Indonesia Interest Rate Announcement	8.00%	8.25%	8.00%	Stronger
<b>Japan</b>	Leading Economic Index (Mar P)	20.0%	20.0%	54.5%	In-line
	Coincident Index (Mar P)	33.3%	33.3%	70.0%	In-line
<b>Australia</b>	TD Securities Inflation (Apr) – mom	-	0.5%	0.4%	-
	House Price Index (1Q) – qoq	0.0%	1.1%	4.1%	Stronger
	RBA Interest Rate Announcement	7.25%	7.25%	7.25%	In-line
	Employment Change (Apr)	10.0k	25.4k	18.1k	Stronger
	Unemployment Rate (Apr)	4.1%	4.2%	4.1%	(Weaker)

## INTEREST RATE STRATEGY

The risk profile for rates has shifted towards an earlier easing by the RBNZ. September still our core view, but June should not be totally ruled out. Receivers to dominate as dataflow expected to continue printing soft.

### Market themes...

- > Labour market looks to have turned already, and Q1 GDP likely contracted.
- > Expectations of RBNZ easing cycle brought forward.
- > RBA showing patience but will reassess if demand does not slow sufficiently.

### Review and outlook...

We had said that a turn in the labour market was the key to unlocking the easing cycle. The surprisingly soft Q1 HLFS data means the key has been inserted in the keyhole. It appears now that the labour market may have turned earlier than expected, and is less of a medium-term inflation concern now. The sharp drop in hours worked suggests Q1 GDP likely contracted, and Q2 look no better. We remain comfortable sticking with our September easing view, which has suddenly become very crowded with most analysts now expecting a similar start to the easing cycle. In our view, an earlier easing, possibly in June, is a non-trivial risk. Credit is the key risk underpinning an early move. Conversely, the currency makes it a tough ask.

The near-term dataflow will continue to print weak, reinforcing our view that Q1 GDP will be negative. The question is how negative. This week's April housing market report and Q1 retail sales will be weak, putting the swaps curve under further downward pressure. The moves following the HLFS data were large, and some pullback could be expected. However, with sentiment now clearly turned and the OIS pricing in close to a 50 percent chance of a June cut and 4½ rate cuts over the next 12 months, it will take a brave soul to go against the herd at the moment. For now, it's all about how early and how low will the RBNZ go.

Our strategy of receiving the 3 to 5 year part of the curve and going long the fourth bank bill contract has worked out very well, having got set early on. Our hedge of paying the 2-year has worked against us, but that was always an insurance against rates staying higher for longer. We now suggest taking that hedge off, and consider putting on a 2s10s steepener trade.

Across the Tasman, the RBA stood pat and described their current stance as appropriate. But the risks to rates in Australia remain to the upside, particularly if demand does not moderate sufficiently for the RBA's liking.

In offshore events this week, it's a busy calendar with CPI prints out of the US, UK and EU, as well as GDP data from EU and Japan. Retail sales, confidence and the Philly Fed data are also important reads out of the US. The Australian Budget on Tuesday will take centre stage across the Tasman and RBA Stevens' speech will

be closely perused. Also of note are numerous Fed speakers who will give the market plenty to digest in terms of forming a view on the future outlook for Fed funds rate.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔/↓	Turn in labour market could yet see the RBNZ blink early.
NZ data	↔/↓	HLFS data a shocker. Retail sales this week could be equally shocking.
Fed Funds/front end	↔	Market unsure about Fed's next move. Looks to be on hold for now.
RBA	↔/↑	Strong employment report but RBA to be patient. Risk to AU rates still to upside.
US 10 year	↔/↓	Bond market taking cues off equity movements for now.
NZ swap curve	↔/↓	Steepening pressure to continue as data expected to print soft.
Flow	↓	Flows all on the receive side at present, with payers largely absent.
Technicals	↔/↓	Technically, the market has broken through key support levels. Next key levels to be data determined.

### Borrowing strategies we favour at present

Given the shift in market sentiment towards an earlier easing cycle, we suggest borrowers target the 1-year space, which benefits from positive pick-up and also based on our core economic view that the RBNZ will ease in September. Borrowers will be able to reset at substantially lower levels in a year's time.

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

OCR dates	Last week	This week
Thu 5-Jun-08	-12	-48
Thu 24-Jul-08	-52	-116
Thu 11-Sep-08	-92	-196
Thu 23-Oct-08	-164	-268
Thu 4-Dec-08	-244	-328
Thu 22-Jan-09	-244	-388
Thu 5-Mar-09	-392	-448

### Trading themes we favour at present

Stick with core strategy of receiving the belly of the curve (3-5 year), but close out of paying the 2-year as a hedge. Consider putting on a 2s10s steepener.

## CURRENCY STRATEGY

**With the domestic economic story unfolding, the NZD remains vulnerable to moves lower. Strictly speaking, the swap market looks to be pre-empting the lower interest rate story too early. However, with partial indicators printing weak, and the USD maybe finding a base, the trend looks to be the market's friend.**

### Market themes...

- > Weak labour market data highlights that the NZ economic cycle has turned aggressively.
- > Has the USD found a base?
- > Interest rate differentials around the globe are critical to watch.

### Review and outlook...

The NZD will not stay high in a weak growth environment and the mountain of evidence pointing to a sharp slowdown in NZ activity continues to grow. Very weak labour market data last week has reinforced an aggressive turn in the economic cycle.

We now expect Q1 GDP growth to be negative and Q2 growth is not shaping as any better. Interest rate differentials are narrowing as markets re-price the RBNZ. The past 4 weeks has seen a 20-50bps fall in NZ interest rates across the curve. It leaves the NZD set for a further run lower and based on its historical performance, this move could be quite aggressive.

Strictly speaking, current pricing from the rates market (which has a full 30bps of cuts from the RBNZ by July) looks early, and implies the market could be disappointed. However, from a starting position of 80 cents against the greenback 4 weeks ago, the NZ-Aus swaps curve only 20bps apart, and growth data expected to reinforce the trend-is-your-friend bias, the bird looks to be playing catch-up.

The big uncertainty around the globe is the outlook for the USD. Recent US data has come in on the stronger side of expectations providing support to the greenback, but significant uncertainty remains. If credit market concerns were to intensify, or another large investment house was to experience difficulties, then USD weakness could resurface. In the meantime though, there is evidence the USD has found a base and we struggle to see the EUR/USD recapturing recent strength given the waning momentum in the European region. Watch interest rate differentials.

The NZD/AUD has been a major mover over the past week, and while positioning suggests it could be prone to a fillip as profit taking sets in, particularly ahead of the RBNZ's June MPS, the economic fundamentals remain strongly in the AUD's favour. Employment momentum is diverging, the yield gap is now a meagre 20 points across the curve, and hard commodity prices continue to outperform softs.

The local data this week is likely to continue reinforcing a weak domestic macro-environment. REINZ housing data for April is likely to be pretty grim,

while we are expecting a reasonably large contraction in retail sales volumes for the March quarter in data due on Thursday. Barring the Government's *Budget*, we struggle to see any data on the horizon that could lend significant support to the NZD.

The international calendar is a full one. The big events are CPI data in UK, US and Europe. We also receive GDP data for Europe and Japan and this will be critical to assess how US weakness is broadening. In US, retail sales will be of interest, as will a number of Fed officials due to make speeches. Markets will be looking for any hints at the policy outlook.

NZD has broken all support and we now we expect the 0.7740 level to contain any upside probes. The downside target of 0.7430 finally seems attainable over the next two weeks. But a sharp reaction from this level is certainly possible. NZD/AUD has very solid resistance at 0.8270 and we treat any probe above 0.8250 as an excellent sell zone. 0.8000 is strong support and we would take profit at this level.

#### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↓	Yield spreads narrowing.
Commodities	↔	Oil setting record highs.
Partial indicators	↔/↓	Better across the Tasman.
Technicals	↓	Solid resistance at 0.8270.
Sentiment	↓	RBA key.
Other	↔	Watch market positioning.
<b>On balance</b>	↓	<b>Moving lower.</b>

#### NZD vs USD: monthly directional gauges

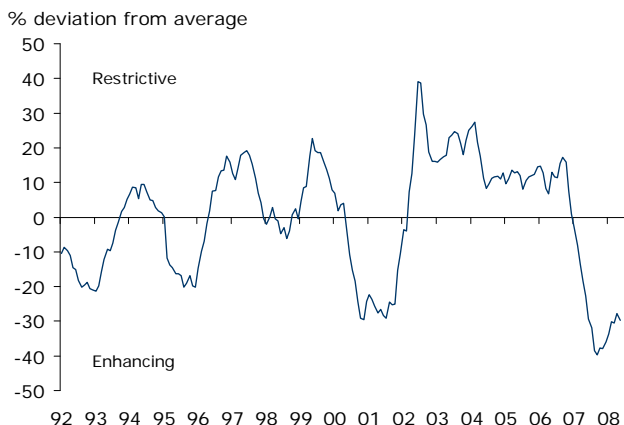
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔/↓	Yield and commodity story factored.
Yield	↓	Yield gap narrowing as RBNZ repriced and Fed done?
Commodities	↔/↓	Still a key one to watch.
Risk aversion	↔/↑	Positive sentiment returns.
Partial indicators	↓	NZ data now looking weaker than US.
Technicals	↓	0.7430 the target.
AUD	↔/↑	Will the RBA need to hike?
Sentiment	↔	Market extremely bearish.
Other	↔/↑	Genuine interest from Fed to fix banking gridlock.
<b>On balance</b>	↓	<b>Domestic headwinds too great.</b>

## EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures take into account the world prices that exporters are able to command (commodity prices in the case of commodity exporters), and adjust them by currency movements based on the export destinations. While it is generally acknowledged that a high NZD is eroding the competitiveness of the export sector, our real effective exchange rate measures show a contrasting impact on different sectors of the export community.

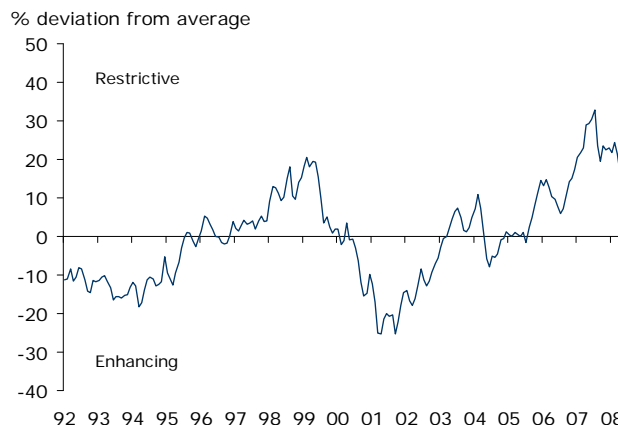
Despite a small fall in world commodity prices in April, all the commodity adjusted real exchange rates we monitor fell over the month (became more enhancing). A lower NZD, particularly against the AUD, contributed to this. Four of the eight sectors are now experiencing commodity adjusted real exchange rates that are below historical averages. These sectors are dairy, seafood, crude and now manufacturing (largely due to the lower NZD/AUD). Conditions still remain restrictive for the meat, forestry, horticulture and services sectors.

**Sector: Dairy, ≈18% of exports**



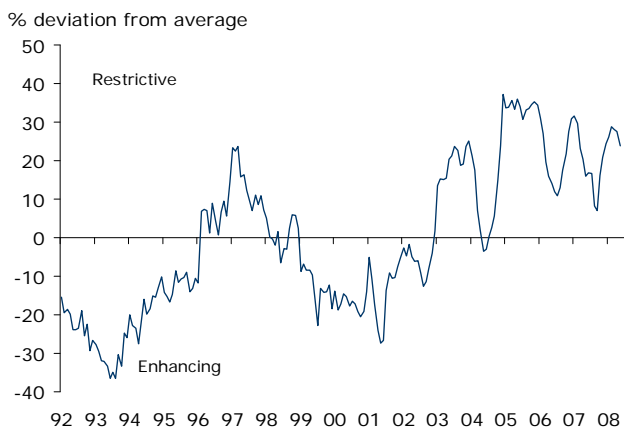
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Meat, ≈8% of exports**



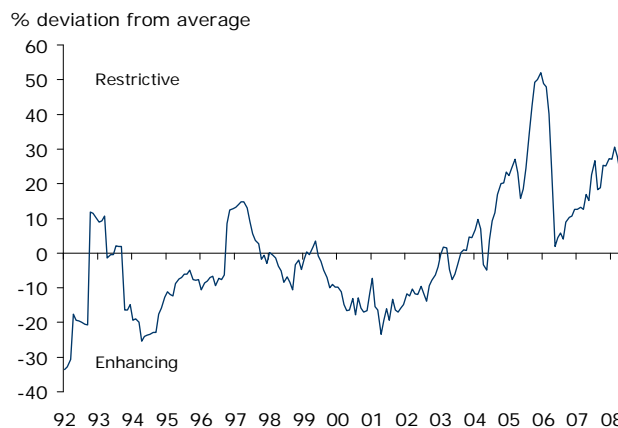
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Forestry, ≈10% of exports**



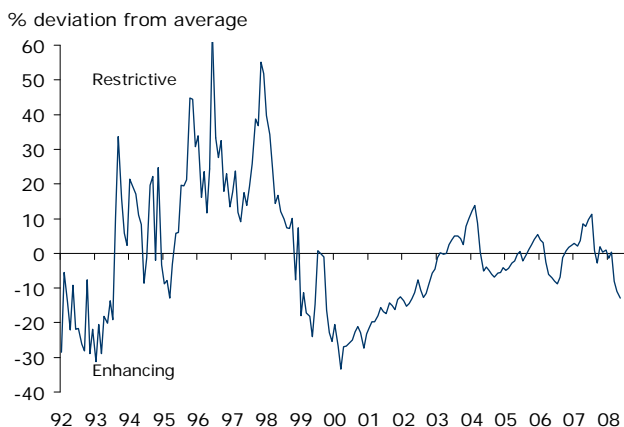
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Horticulture, ≈4% of exports**



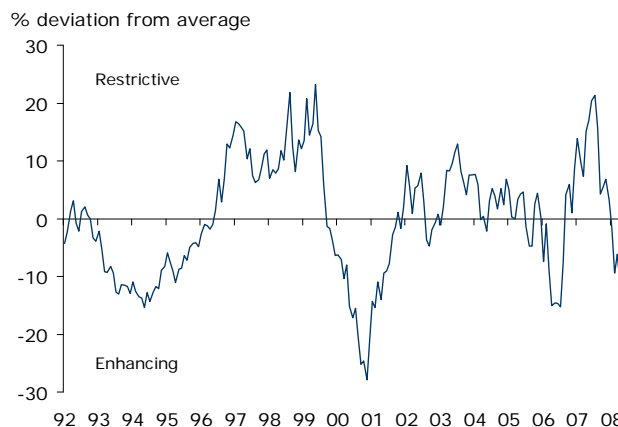
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Seafood, ≈3% of exports**



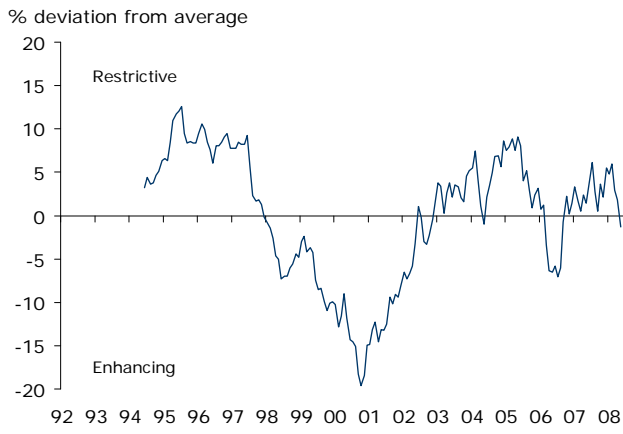
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Crude, ≈5% of exports**

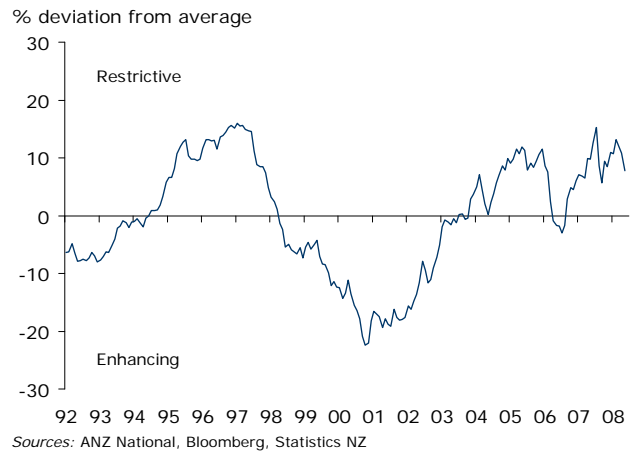


Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Manufacturing, ≈20% of exports**



**Sector: Services, ≈24% of exports**



## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
12 May	JN	Money Supply M2+CD (Apr) – yoy	2.2%	6.5%	11:50
		Broad Liquidity (Apr) – yoy	3.1%	3.1%	11:50
		Bank Lending incl Trusts (Apr) – yoy	1.2%	1.1%	11:50
		Bankruptcies (Apr) – yoy	-	8.0%	16:30
		Eco Watchers Survey: Current (Apr)	-	36.9	17:00
		Eco Watchers Survey: Outlook (Apr)	-	38.2	17:00
	AU	Home Loans (Mar)	-0.8%	-5.9%	13:30
		NAB Business Confidence (Apr)	-	-4	13:30
		NAB Business Conditions (Apr)	-	7	13:30
		Investment Lending (Mar)	-	-9.5%	13:30
	UK	PPI Input (Apr) – mom	1.8%	1.8%	20:30
		PPI Output (Apr) – mom	0.6%	0.9%	20:30
		PPI Output – Core (Apr) – mom	0.3%	0.3%	20:30
		Total Trade Balance (Mar)	-4,440m	-4,439m	20:30
13 May	US	Fed's Evans speaks about US Economic Outlook in Illinois	-	-	01:15
		Monthly Budget Statement (Apr)	\$160.0B	\$177.7B	06:00
		Fed's Lockhart speaks at Financial Markets Conference	-	-	11:15
	EU	ECB's Trichet Attends Conference	-	-	03:00
		ECB's Noyer, and Fed's Pinalto speak in Paris	-	-	22:10
	<b>NZ</b>	<b>Food Prices (Apr) – mom</b>	<b>-</b>	<b>0.7%</b>	<b>10:45</b>
	AU	Commonwealth Budget	-	-	-
	UK	RICS House Price Balance (Apr)	-80.0%	-78.5%	11:01
		CPI (Apr) – mom	0.5%	0.4%	20:30
		CPI (Apr) – yoy	2.6%	2.5%	20:30
		Core CPI (Apr) – yoy	1.3%	1.2%	20:30
		RPI (Apr) – yoy	3.9%	3.8%	20:30
		DCLG House Prices (Mar) – yoy	4.5%	6.7%	20:30
14 May	US	Fed's Bernanke speaks at Atlanta Fed Markets Conference	-	-	00:20
		Import Price Index (Apr) – mom	1.7%	2.8%	00:30
		Advance Retail Sales (Apr)	-0.2%	0.2%	00:30
		Retail Sales Less Autos (Apr)	0.2%	0.1%	00:30
		IBD/TIPP Economic Optimism (May)	38.0	39.2	02:00
		Business Inventories (Mar)	0.4%	0.6%	02:00
		Fed's Yellen speaks on US Economic Outlook at Vancouver Conference	-	-	05:00
		Fed's Hoenig speaks in Oklahoma City on Economic Outlook	-	-	05:00
		Fed's Fisher speaks About Fed and Economy in Texas	-	-	05:30
	JN	Domestic CGPI (Apr) – mom	0.5%	0.5%	11:50

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
14 May	JN	Current Account Total (Mar)	2,810.0B	2,467.7B	11:50
	AU	Westpac Consumer Confidence (May)	-	-1.3%	12:30
		Wage Cost Index (1Q) – qoq	1.1%	1.1%	13:30
	<b>NZ</b>	<b>Non-Resident Bond Holdings (Apr)</b>	<b>-</b>	<b>76.8%</b>	<b>15:00</b>
	UK	Claimant Count Rate (Apr)	2.5%	2.5%	20:30
		Jobless Claims Change (Apr)	0.0k	-1.2k	20:30
		Average Earnings inc Bonus (Mar) – 3m/yoy	3.7%	3.7%	20:30
		ILO Unemployment Rate (Mar) – 3mths	5.2%	5.2%	20:30
		BoE Quarterly Inflation Report	-	-	21:30
	EU	Industrial Production (Mar) – mom	-0.3%	0.3%	21:00
15 May	US	Fed's Rosengren speaks on Basel II at Boston Conference	-	-	00:30
		CPI (Apr) – mom	0.3%	0.3%	00:30
		CPI Ex Food & Energy (Apr) – mom	0.2%	0.2%	00:30
		CPI (Apr) – yoy	4.0%	4.0%	00:30
		CPI Ex Food & Energy (Apr) – yoy	2.4%	2.4%	00:30
		Fed's Kroszner speaks on Basel II in Boston	-	-	01:15
		Fed's Lockhart speaks at Financial Markets Conference	-	-	04:00
	<b>NZ</b>	<b>Retail Sales (Mar) – mom</b>	<b>-0.4%</b>	<b>-0.7%</b>	<b>10:45</b>
		<b>Retail Sales Less Autos (Mar) – mom</b>	<b>-0.4%</b>	<b>0.2%</b>	<b>10:45</b>
		<b>Retail Sales Ex Inflation (Q1) – qoq</b>	<b>-0.3%</b>	<b>0.3%</b>	<b>10:45</b>
		<b>Business NZ PMI (Apr)</b>	<b>-</b>	<b>48.3</b>	<b>12:00</b>
	JN	Machine Orders (Mar) – mom	-5.2%	-12.7%	11:50
	AU	Consumer Inflation Expectation (May)	-	11.2%	12:30
		Average Weekly Wages (Feb) – qoq	-	0.6%	13:30
		RBA Foreign Exchange Transactions (Ap)	-	A\$295m	13:30
		RBA Governor Stevens speaks in Sydney	-	-	22:30
	GE	GDP (1Q P) – qoq	0.7%	0.3%	18:00
	EU	ECB Publishes May Monthly Report	-	-	20:00
		GDP (1Q A) – qoq	0.5%	0.4%	21:00
		GDP (1Q A) – yoy	1.9%	2.2%	21:00
		CPI (Apr) – mom	0.3%	1.0%	21:00
		CPI (Apr) – yoy	3.3%	3.6%	21:00
		CPI – Core (Apr) – yoy	2.0%	2.0%	21:00
		ECB's Trichet speaks in Vienna	-	-	23:40
16 May	US	Empire Manufacturing (May)	0.0	0.6	00:30
		Net Long-Term TIC Flows (Mar)	\$63.8B	\$72.5B	01:00
		Total Net TIC Flows (Mar)	\$65.0B	\$64.1B	01:00
		Industrial Production (Apr)	-0.3%	0.3%	01:15
		Capacity Utilisation (Apr)	80.1%	80.5%	01:15

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
16 May cont.	US	Fed's Bernanke speaks on Banking Risk Management	-	-	01:30
		Philadelphia Fed (May)	-19.0	-24.9	02:00
		NAHB Housing Market Index (May)	20	20	05:00
	EU	ECB's Mersch speaks in Vienna	-	-	01:00
		ECB's Liikanen speaks in Brussels	-	-	09:00
		Trade Balance (Mar)	2.5B	0.8B	20:15
	<b>NZ</b>	<b>PPI – Inputs (1Q) – qoq</b>	<b>1.1%</b>	<b>1.3%</b>	<b>10:45</b>
		<b>PPI – Outputs (1Q) – qoq</b>	<b>1.3%</b>	<b>1.5%</b>	<b>10:45</b>
	JN	GDP (1Q P) – qoq	0.6%	0.9%	11:50
		GDP Annualised (1Q P)	2.5%	3.5%	11:50
		GDP Deflator (1Q P) – yoy	-1.5%	1.3%	11:50
		Industrial Production (Mar F) – mom	-3.1%	-3.1%	16:30
		Capacity Utilisation (Mar F) – mom	-	1.8%	16:30
		Consumer Confidence (Apr)	-	37.0	17:00
17 May	US	Housing Starts (Apr)	940k	947k	00:30
		Building Permits (Apr)	915k	928k	00:30
		University of Michigan Confidence (May P)	62.0	62.6	02:00

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

## NEW ZEALAND DATA WATCH

**Key focus over the next four weeks:** The trend in the data has undoubtedly turned negative and more of the same is expecting in coming weeks. However, the big upcoming event is the *Budget*, as everyone (including the Reserve Bank) is wanting to know the details surrounding personal tax cuts and what other initiatives will be made.

Date	Data/Event	Economic Signal	Comment
circa 12 May	REINZ Housing Report (Apr)	Weak	March saw house sales collapse, but the median house price surge due to compositional aspects. Sales could possibly bounce back slightly in April, although we expect prices to unwind.
Thu 15 May (10.45)	Retail Sales (Mar)	Exclude price, going backwards	We expect another soft month for retail, particularly due to the early Easter this year. Excluding price increases for food and petrol, the retail sector is heading backwards.
Fri 16 May (10.45)	Producer Price Index (Mar qtr)	Margins under pressure	A large surge in wholesale electricity prices is expected to drive both input and output prices higher. A small recovery in margins is expected, although they remain under pressure.
Tue 20 May (10.45)	External Migration (Apr)	Is a base forming?	The 3-month annualized inflow is expected to remain around 3,000. However, the risks do appear skewed to the downside.
Wed 21 May (10.45)	Electronic Card Transactions (Apr)	Bounce	An early Easter this year likely contributed to the softness in March. We expect a small bounce in sales in April, although underlying weakness will remain.
Wed 21 May (15.00)	Regional Trends (Jun qtr)	-	-
Wed 21 May (15.00)	Credit Card Spending (Apr)	Bounce	An early Easter this year likely contributed to the softness in March. We expect a small bounce in sales in April, although underlying weakness will remain.
Thu 22 May (14.00)	Budget Economic and Fiscal Update	Tax cuts, how much and when?	Personal tax cuts have been well signaled and details will be the major focus of this Budget. Given it is an election year we will also be looking for other spending initiatives. Nevertheless, the fiscal accounts are likely to remain strong.
Mon 26 May (10.45)	Overseas Merchandise Trade (Apr)	Small deficit	Another small monthly trade deficit is expected, with record high oil prices increasing the value of imports.
Tue 27 May (15.00)	RBNZ Expectations Survey (Jun qtr)	Elevated	Given petrol and food price increases, along with the Government's emissions trading scheme, inflation expectations will remain elevated. We expect the key 2-year ahead measure to remain around current levels of 2.7 percent.
Thu 29 May (15.00)	National Bank <i>Business Outlook</i> (May)	-	-
Thu 29 May	Credit Growth (Apr)	Soft	This should remain soft in line with weakness in the housing market.
Fri 30 May (10.45)	Building Consents Issued (Apr)	Weak	Given the extent of softness in monthly house sales volumes, along with muted net migration inflows, we expect building consent issuance to continue to track lower.
Wed 4 Jun (15.00)	ANZ Commodity Price Index (May)	-	-
Thu 5 Jun (09.00)	RBNZ <i>Monetary Policy Statement</i>	Softer tone	With evidence mounting that the economy is slowing rapidly, the RBNZ are likely to soften the tone of their statement. Both growth and inflation forecasts are likely to be revised lower.
Thu 5 Jun (10.45)	Wholesale Trade Survey (Mar qtr)	Weak	We expect wholesale trade activity to be weak, in line with developments in the retail sector.
<b>On Balance</b>		<b>An economy heading backwards, but still with inflation</b>	<b>Growth indicators are now expected to come in consistently weak, but inflation still problematic.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
GDP (% qoq)	1.2	0.9	0.5	1.0	<b>-0.3</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>
GDP (% yoy)	2.3	3.2	3.3	3.7	<b>2.1</b>	<b>0.9</b>	<b>0.5</b>	<b>-0.3</b>	<b>0.3</b>	<b>1.1</b>
CPI (% qoq)	0.5	1.0	0.5	1.2	0.7	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.4</b>	<b>0.7</b>
CPI (% yoy)	2.5	2.0	1.8	3.2	3.4	<b>3.3</b>	<b>3.7</b>	<b>3.4</b>	<b>3.1</b>	<b>2.8</b>
Employment (% qoq)	1.4	0.5	-0.3	0.9	-1.3	<b>0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
Employment (% yoy)	1.8	1.5	1.6	2.5	-0.2	<b>-0.6</b>	<b>-0.4</b>	<b>-1.3</b>	<b>0.1</b>	<b>0.0</b>
Unemployment Rate (% sa)	3.7	3.6	3.5	3.4	3.6	<b>3.8</b>	<b>4.0</b>	<b>4.2</b>	<b>4.3</b>	<b>4.5</b>
Current Account (% GDP)	-8.2	-8.1	-8.4	-7.9	<b>-7.5</b>	<b>-6.9</b>	<b>-6.5</b>	<b>-6.5</b>	<b>-6.5</b>	<b>-6.5</b>
Terms of Trade (% qoq)	1.5	0.4	3.7	2.9	<b>2.0</b>	<b>0.0</b>	<b>-1.0</b>	<b>0.0</b>	<b>-1.5</b>	<b>-1.2</b>
Terms of Trade (% yoy)	4.5	2.3	8.4	8.8	<b>9.3</b>	<b>8.8</b>	<b>4.0</b>	<b>1.0</b>	<b>-2.5</b>	<b>-3.6</b>

## KEY ECONOMIC INDICATORS

	Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08
Retail Sales (% mom)	0.2	0.3	1.0	-0.4	1.8	0.1	0.3	-0.7	..	..
Retail Sales (% yoy)	5.7	6.3	4.1	5.8	7.2	5.4	6.3	7.7	..	..
Credit Card Billings (% mom)	0.1	0.4	2.5	-0.6	1.2	0.5	-	0.5	-2.7	..
Credit Card Billings (% yoy)	7.8	8.5	9.4	7.7	9.4	7.6	8.6	8.0	3.5	..
Car Registrations (% mom)	6.9	1.0	-6.7	5.6	-3.6	-2.7	6.1	-4.5	-13.5	13.9
Car Registrations (% yoy)	7.0	10.9	0.1	4.7	2.3	1.4	1.7	1.9	-13.2	-1.0
Building Consents (% mom)	-15.4	4.4	-8.9	-5.4	0.9	-4.1	2.7	-6.6	-9.1	..
Building Consents (% yoy)	-4.5	-1.8	-14.9	-16.5	-4.5	-6.2	-5.0	-18.0	-26.4	..
REINZ House Price (% yoy)	10.4	12.9	12.3	8.0	6.7	4.5	4.0	0.7	1.6	..
Household Lending Growth (% mom)	0.8	0.9	0.8	0.9	0.8	0.7	0.7	0.8	0.5	..
Household Lending Growth (% yoy)	13.7	13.6	13.2	13.0	12.8	12.3	11.9	11.6	10.8	..
Roy Morgan Consumer Confidence	121.1	122.4	121.3	122.0	121.9	126.6	121.2	116.0	111.7	99.9
NBNZ Business Confidence	-38.5	-33.8	-26.5	-12.9	-19.6	-24.9	..	-43.9	-57.9	-54.8
NBNZ Own Activity Outlook	12.4	16.7	17.2	20.3	15.7	18.2	..	2.4	-6.4	-3.8
Trade Balance (\$m)	-808	-947	-572	-774	-628	39	-313	249	-50	..
Trade Balance (\$m annual)	-6340	-6336	-6282	-5883	-5691	-5307	-4795	-4418	-4529	..
ANZ World Commodity Price Index (% mom)	4.6	1.4	0.4	1.8	0.8	0.0	-1.4	1.1	2.0	-0.3
ANZ World Commodity Price Index (% yoy)	35.1	36.3	35.7	37.8	35.9	30.9	27.4	26.9	26.9	20.7
Net Migration (sa)	460	770	640	250	460	30	110	240	490	..
Net Migration (annual)	8966	8730	8309	7517	6588	5491	4799	4643	4678	..

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

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Mar-08	Apr-08	12-May-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
NZD/USD	0.801	0.791	0.767	0.780	0.740	0.690	0.660	0.640	0.630	0.620
NZD/AUD	0.867	0.851	0.815	0.830	0.804	0.767	0.759	0.762	0.778	0.795
NZD/EUR	0.517	0.502	0.496	0.506	0.490	0.469	0.465	0.464	0.474	0.488
NZD/JPY	81.0	81.1	79.0	79.6	74.0	70.4	69.3	69.1	69.3	70.1
NZD/GBP	0.400	0.399	0.393	0.390	0.379	0.359	0.349	0.344	0.342	0.341
NZ\$ TWI	71.5	70.4	68.6	69.6	66.6	63.0	61.6	60.9	61.2	61.7
NZ interest rates	Mar-08	Apr-08	12-May-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
OCR	8.67	8.60	8.25	8.25	8.00	7.50	7.00	6.50	6.00	6.00
90 day bill	8.90	8.87	8.64	8.80	8.40	7.90	7.30	6.80	6.40	6.30
10 year bond	6.37	6.48	6.37	6.70	6.70	6.20	5.80	5.40	5.20	5.10
International	Mar-08	Apr-08	12-May-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09
US Fed funds	2.25	1.75	2.00	1.50	1.50	1.50	1.50	1.50	2.00	2.50
US 3-mth	2.69	2.73	2.69	2.00	1.75	1.75	1.75	2.00	2.50	3.00
AU cash	7.25	7.25	7.25	7.25	7.25	7.25	7.25	7.25	6.75	6.00
AU 3-mth	7.86	7.88	7.79	7.70	7.60	7.50	7.40	7.10	6.60	5.80

## KEY RATES

	9 Apr	5 May	6 May	7 May	8 May	9 May
Official Cash Rate	8.25	8.25	8.25	8.25	8.25	8.25
90 day bank bill	8.88	8.82	8.84	8.78	8.60	8.64
NZGB 07/09	6.79	6.95	6.95	6.92	6.78	6.75
NZGB 11/11	6.47	6.68	6.68	6.65	6.52	6.50
NZGB 04/13	6.47	6.62	6.62	6.59	6.47	6.45
NZGB 12/17	6.48	6.45	6.45	6.44	6.34	6.33
2 year swap	8.24	8.04	8.04	7.97	7.77	7.73
5 year swap	7.81	7.58	7.59	7.54	7.45	7.45
RBNZ TWI	70.9	70.1	70.3	70.6	69.5	69.1
NZD/USD	0.7954	0.7822	0.7866	0.7903	0.7731	0.7720
NZD/AUD	0.8555	0.8337	0.8298	0.8332	0.8216	0.8208
NZD/JPY	81.39	82.33	82.42	82.76	80.74	79.95
NZD/GBP	0.4046	0.3959	0.3986	0.4010	0.3961	0.3947
NZD/EUR	0.5064	0.5058	0.5068	0.5096	0.5047	0.5010
AUD/USD	0.9297	0.9382	0.9479	0.9485	0.9410	0.9406
EUR/USD	1.5706	1.5466	1.5522	1.5508	1.5318	1.5409
USD/JPY	102.33	105.25	104.78	104.72	104.44	103.56
GBP/USD	1.9659	1.9759	1.9732	1.9710	1.9519	1.9557
Oil	110.89	116.36	119.94	121.82	123.56	123.77
Gold	934.20	863.00	873.70	877.90	868.70	882.25
Electricity (Haywards)	9.43	19.76	24.03	22.09	21.65	22.38
Milk futures (US\$/contract)	137	139	139	139	139	139
Baltic Dry Freight Index	7760	n/a	9855	10104	10221	10237

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