

BRACE FOR MORE VOLATILITY

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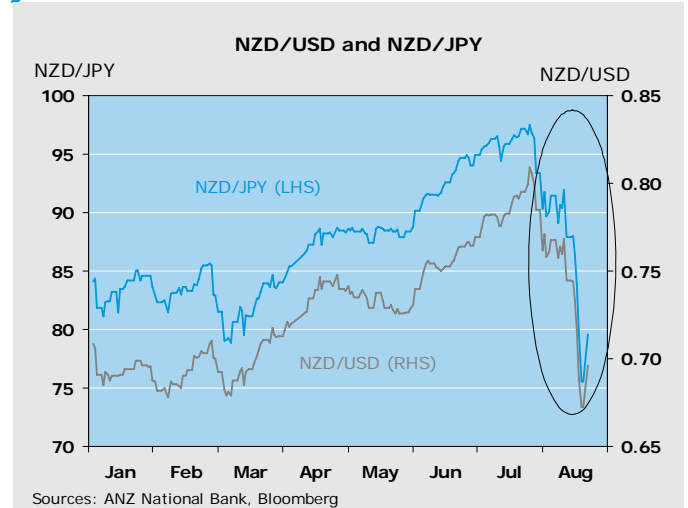
- Liquidity concerns and risk aversion dominated over the past week, and the NZD underperformed. The Fed's discount rate cut gave some reprieve, but while liquidity concerns remain it will be a bumpy road for the NZD.

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Unwinding of carry trades weighs heavily on the NZD falling close to 20 percent in just over three weeks.



Retail sales retreated after the strong increase in Q1.



ECONOMIC OVERVIEW

We expect domestic developments to continue to take second stage as global events dominate. Action by the Fed sharply reflat markets on Friday, although we expect another week of volatility and unease. Attention will be on the additional premium New Zealand must now pay to attract the necessary capital to fund our savings shortfall.

What's ahead...

- NZ July Credit Card Billings (Tuesday 1500 NZST). Consumer spending is likely to have slowed given the increases in mortgage rates.
- NZ July Overseas Merchandise Trade (Friday 1045 NZST). July historically records a trade deficit. This month will be no exception as the high NZD weighs on export volumes and timing issues delay the impact of higher dairy prices.

What's the view

Another incredible week! Global credit concerns continue to dominate and anxiety surrounding the potential for a global credit crunch looks to have taken a marked shift upwards. The NZD was smashed. Investors fled risky assets and into the perceived safety of government bonds. Short-term interest rates shot up as a cash shortage developed. Central banks globally were forced to step in with liquidity injections for their respective banking systems to ensure they functioned properly. The level of panic that ensued in markets is remarkable. The magnitude of some of the movements in currencies and equities is something that has not occurred since the 1987 stock market crash.

The US subprime mortgage crisis was the catalyst for the recent credit woes. However, contagion has now clearly spread. Investors are worried about the extent of leverage in the system and the degree to which an apparently manageable credit event sets off processes that may cause a disorderly unwinding of leveraged balance sheets.

Deepening distress in the financial markets is raising questions about the global economic outlook. Short-term liquidity conditions are very tight, despite the action of central banks. Corporate borrowers who rely on the commercial paper market are having funding problems. No one wants to hold risk at the moment. Some large North American firms, as well as an Australian, company have had to draw down on credit lines as a means of funding short-term cash flow. We feel more news of this kind is likely to develop in coming weeks as funding issues intensify.

New Zealand has not been immune to the developments. Swap and corporate bond spreads have widened, the 90 day bank bill rate rose to close to 9 percent, the NZX followed global stocks

down, and, of course, the NZD was pummelled. The movement in the NZD was phenomenal. A little over three weeks ago, it was trading at a post-float high of 0.8110 against the USD. It has fallen nearly 16 percent since and has been the worst performing currency against the USD out of 180 global currencies traded! We look into other implications for the NZ economy on page 3.

Central bankers have done their best to calm fears of a global meltdown, with most stating that there is limited evidence of it spilling into real economies. However, this appears to have fallen on deaf ears, with markets aggressively pricing in interest cuts for the Fed as soon as next month (which is now looking a fair bet given Friday's decision to cut the discount rate to inject liquidity), and have pared back expectations of hikes in both Europe and the UK. Markets are looking for central banks to come to the rescue (although given the moral hazard nature of some of the difficulties being experienced, it is arguable that they shouldn't).

Locally, we also received further evidence of slowing momentum, although soft retail figures did come on the heels of a strong preceding month. The anecdotes towards the housing market continue to paint a portrait of moderation and flatness. We expect this week's domestic data to continue to demonstrate signs of moderation in the cycle, including softer migration inflows, and easing credit growth.

However, domestic developments will continue to play second fiddle to wider global sentiment. As a substantial net borrower, the fundamental re-pricing of lending that is going on around the globe will carry an economic cost to New Zealand. Monetary policy is tightening further, just not via the Reserve Bank. Attention will be on the additional premium New Zealand must now pay to attract the necessary capital to fund its savings shortfall.

It is difficult to entertain the Reserve Bank having to hike interest rates in the current "credit crunch" feared environment. A weaker currency will clearly give the Reserve Bank some inflationary palpitations, and notable with petrol prices on the ascent (watch that Hurricane season). But the global re-rating of credit risk we are seeing at present is ultimately looking like the circuit breaker that fosters the inevitable rebalancing of growth required in New Zealand.

Recent data...

- **NZ Retail Sales (June).** Total monthly sales fell 0.4 percent, while core sales fell 0.5 percent. Q2 real retail spending fell 0.6 percent, after growth of 3.7 percent in Q1.

GLOBAL FINANCIAL MARKET TURMOIL: IMPLICATIONS FOR NZ

New Zealand's reliance on offshore funding makes it vulnerable to recent global financial market volatility. While it is too early to say how widespread the contagion could be, we note that the New Zealand banking sector is sound. But clearly there will be an economic cost arising from recent events.

Recent financial market turmoil suggests that a deterioration in global financial stability could threaten global growth prospects. While developments are fluid at present and any ramifications for the real economy are uncertain, they do pose downside risks for global growth – something the US Federal Reserve acknowledged late last week.

Although NZ has limited direct exposure to the US subprime losses being incurred (apart from some investors via certain retail funds exposed to CDOs in the US), it is not totally immune to the shockwaves. We make the following observations.

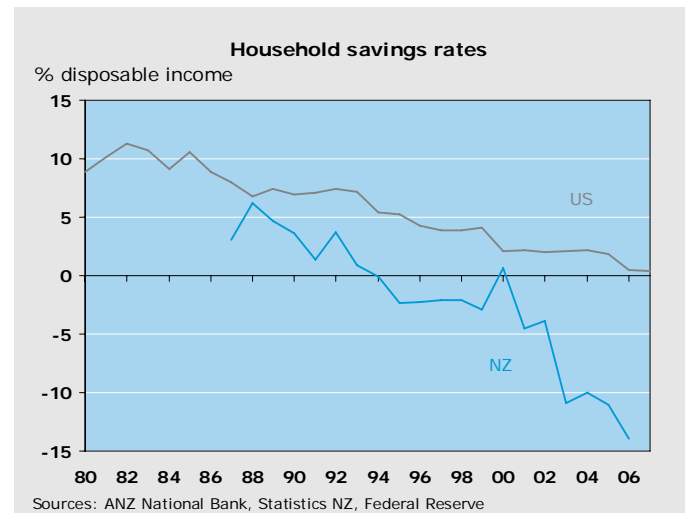
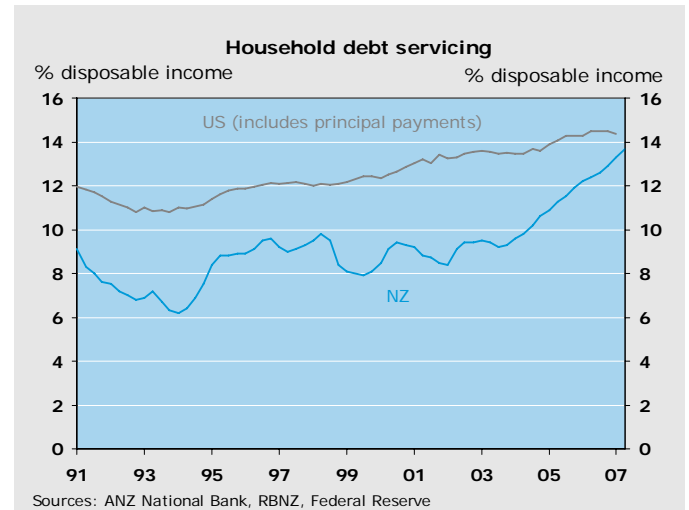
OBSERVATION 1: This credit event is fundamentally a re-pricing risk. The low volatility environment of the past few years has encouraged increased risk taking and led to a mispricing of risk. This saw credit and swap spreads narrow substantially, further encouraging leveraging and more risk taking. In short, bubble trouble. The subprime fallout has seen volatility return to more normal levels, with the consequence that risk is being more adequately priced.

OBSERVATION 2: The movements in markets so far need to be put in perspective. Excluding the S&P VIX, spreads have only returned to normal ranges. The current US subprime crisis (which Fed Chairman Ben Bernanke has estimated would amount to US\$100 billion, or around 0.7 percent of GDP), pales relative to the Savings and Loan crisis in the early 1990s (which reputedly amounted to 3 percent of GDP).

Risk gauge	Average 1990-2007	Two weeks ago	Current
S&P VIX Index	18.89	15.15	29.99
JP Morgan emerging market spreads*	325.55	175.66	244.24
US 5-year swap spread	49 bps	57 bps	69 bps
US 10-year swap spread	56 bps	68 bps	75 bps
JP Morgan US credit investment grade index [†]	123.9	146.2	147.2
S&P US credit speculative grade index [^]	418.8	420.8	426.5

* average only since January 2000 † average since 1999 ^ average since January 2003.

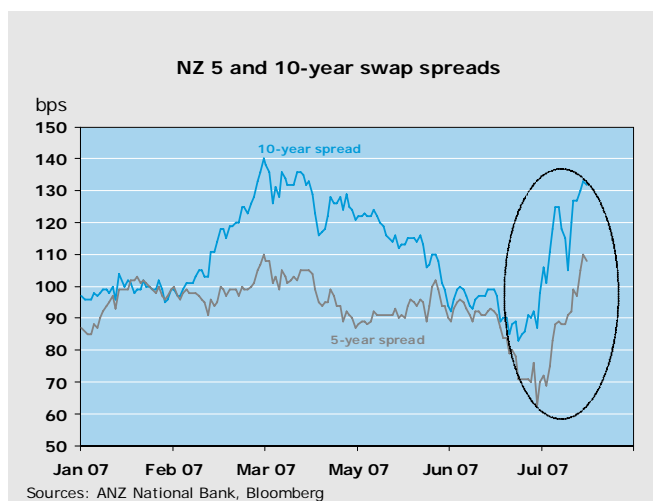
OBSERVATION 3: If events extend, economies that will be most heavily penalised or potentially on the watch-list include those with heavy indebtedness, a weak banking sector (or evidence of such in the past such as pockets of Asia), poor credit rating, and demonstrated moral hazard behaviour such as poor governance. In this regard, the amount of leverage among New Zealand households is the key source of vulnerability, with record levels of indebtedness and debt servicing.



OBSERVATION 4: New Zealand's main Achilles heel is the sheer magnitude of overseas borrowing. Overseas debt currently stands at \$192.8b or 118 percent of GDP, with over 37 percent of the debt of a short-term duration (maturing in 90 days or less). This means New Zealand is critically reliant upon overseas sentiment to continue funding the savings shortfall. As such, the wider impact of global events should not be understated. This includes bank and corporate funding (especially via the commercial paper market).

New Zealand Overseas Debt Maturity Profile (as at March 2007)		
	\$bn	%
At call	15	7.8
2 to 90 days	57	29.8
91 days to 6 months	14	7.4
6 to 12 months	15	7.7
1 to 2 years	10	5.4
Others	81	42.0
Total overseas debt	193	100

OBSERVATION 5: Financial conditions have tightened. While retail mortgage rates are unchanged so far, the effective funding costs for corporates have increased due to a blow-out in spreads. For example, the 5-year and 10-year swap spreads have widened to 130 and 110bps respectively, from 83 and 71bps a month ago. The spreads on asset backed commercial paper have similarly widened by between 10-15bps in the last week. There are \$1.2b worth of commercial paper maturing next month.



OBSERVATION 6: The banking system in New Zealand is sound. The KPMG Financial Institutions Performance Survey earlier this year found the banking industry is in good shape to meet any market shock or slowdown. The RBNZ's *Financial Stability Report* in May also concluded that banks are well capitalised, strongly profitable and managing their risks adequately.

OBSERVATION 7: This credit event is looking different to previous episodes. Prior periods of credit dislocation have typically been business or sovereign related events. The crux of this event stems from excessive leverage within the US housing arena (not to mention lax lending standards). Historically, financial institutions have implicitly moved to perceived low beta assets in times of credit dislocation, which has ironically been the housing market. This credit event is looking decidedly different in this regard.

OBSERVATION 8: New Zealand does not really have a subprime market, although the share of low-doc and high loan-to-value ratio (LVR) loans has been rising. The proportion of

new mortgages with a LVR above 90 percent has risen from around 8 percent early last year to close to 10 percent currently. However, a significant majority of the low-doc and high LVR loans are within the banking sector which does not suffer from the same moral hazard issues as in the US, and tend to be given out to self-employed or applicants with volatile earnings, as opposed to those with very poor or no credit history.

OBSERVATION 9: Non-bank financial institutions (NBFIs) is likely where all the action will reside. Growth within the sector had been compounding at almost 19 percent per year for the past five years. It represents 8.4 percent of total lending, and a huge amount is related to consumer finance. Domestic funding is likely to be cannibalised, and the industry is suffering from perception problems following the collapse of Bridgecorp. To put this in perspective, the collapse of Bridgecorp alone would represent 0.2 percent of GDP (assuming 40 percent recovery from receivers), compared to Fed Chairman Ben Bernanke's 0.7 percent of GDP estimate from the US subprime fallout.

	Non-bank financial institutions loans to households			
	Mortgages (\$m)	% share	Consumer (\$m)	% share
Jun-01	1,931	2.8	2,457	34.0
Jun-02	2,272	3.1	3,390	42.4
Jun-03	2,853	3.5	4,072	45.2
Jun-04	3,920	4.1	4,547	46.5
Jun-05	4,916	4.4	5,054	47.4
Jun-06	6,425	5.0	5,413	47.2
Jun-07	7,809	5.3	5,535	45.5

Financial market implications

For New Zealand, financial markets will respond appropriately if risks to the economy do intensify, thereby loosening financial conditions and acting as a stabiliser – as the NZD has already done in the past week. In addition, there is ample scope for both fiscal and monetary policy to respond aggressively if needed.

However, New Zealand's reliance on offshore funding makes it vulnerable to recent global financial market volatility. While it is too early to say how widespread the contagion could be, we note that the New Zealand banking sector is sound. But clearly there will be an economic cost arising from recent events. We also note that based on past experiences, bubbles do not unwind in an orderly fashion.

LOOKING FOR SOME BALANCE

Our simple demand-supply housing balance measures across the regions highlight that Auckland remains the hottest. However, the majority of regions are now shifting to a position of excess supply.

REINZ housing market data shows housing market activity is moderating. Median house prices have fallen for the second consecutive month, house sales continued their trend lower, and days to sell ticked up slightly. The previous tight market has been a consequence of both strong demand and tight supply conditions. But interest rate hikes are likely to see demand slow. The question is whether tight supply will continue to support the market, or will the Reserve Bank get the sustained slowing they desire. We monitor two simple gauges to highlight supply-demand balance within the property market, and across the regions.

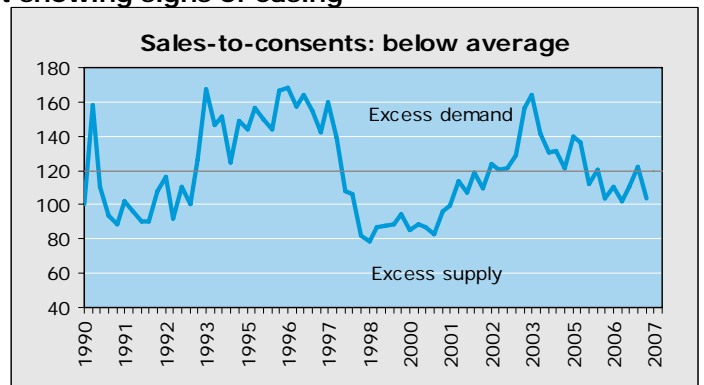
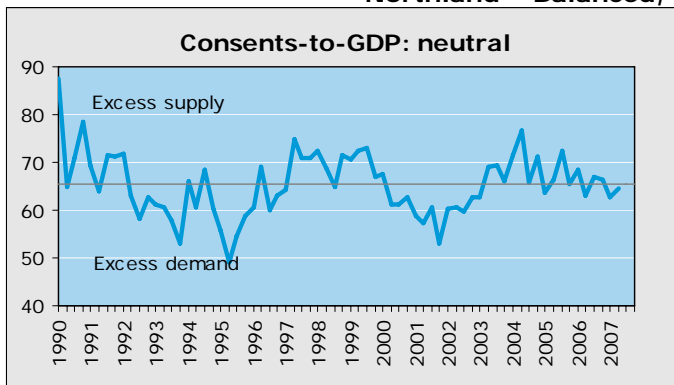
- **The ratio of consents (supply) to economic growth within a region.** If consents are growing faster than demand growth within the region, it is indicative of excess supply, and of course the converse applies.
- **The ratio of house sales to consents.** Another supply-demand balance measure, with an up-tick in the ratio indicating excess demand, and a fall below trend suggesting a supply glut pending.

Across the regions, we note the following:

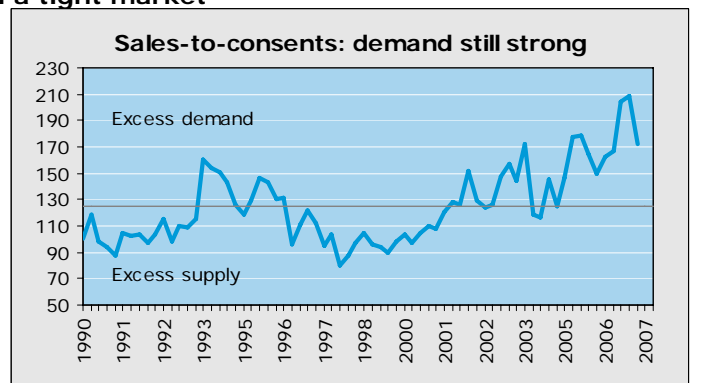
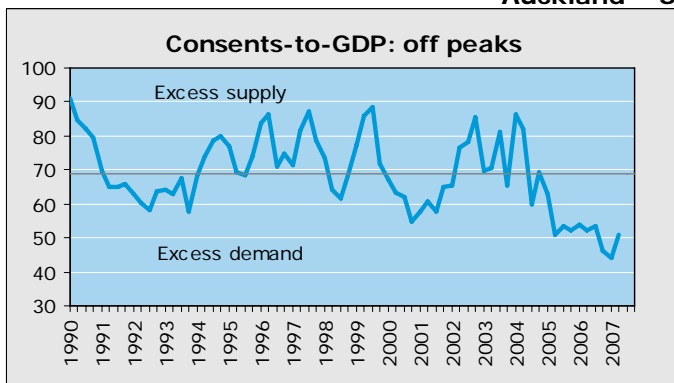
- Auckland remains the national hot-spot although conditions have eased since last quarter. The ratio of consents to GDP remains below trend (too little supply), while the ratio of sales to consents did fall, but remains indicative of still strong demand.
- Our demand-supply indicators suggest roughly balanced conditions in Northland, Waikato and Canterbury.
- The majority of regions are now showing early signs of a market that is set to move in the favour of buyers. The ratio of consents to GDP has been trending up in Gisborne, Taranaki, Hawke's Bay, Manawatu, Nelson/Malborough and West Coast. Wellington also experienced a sharp shift to excess supply conditions in the quarter. In these same regions, the ratio of house sales to consents has fallen below the historical average.

Only the Auckland region is still clearly facing significant excess demand conditions. The majority of other regions look to be showing pending excess supply conditions relative to demand. The tight demand-supply balance that has been supportive of the housing market for some time finally looks to be turning. Ultimately, this suggests that house price growth, which has already softened recently, will continue to moderate over the year ahead.

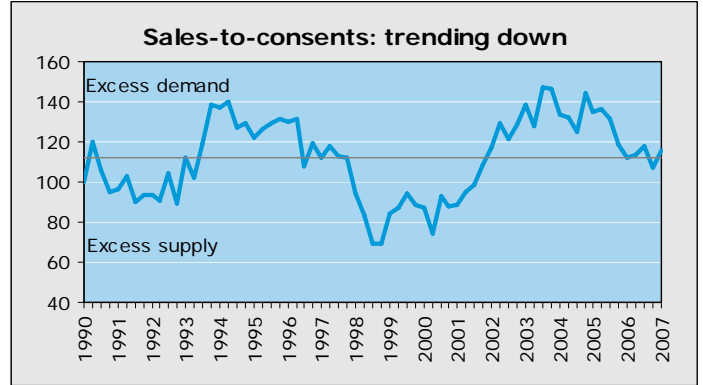
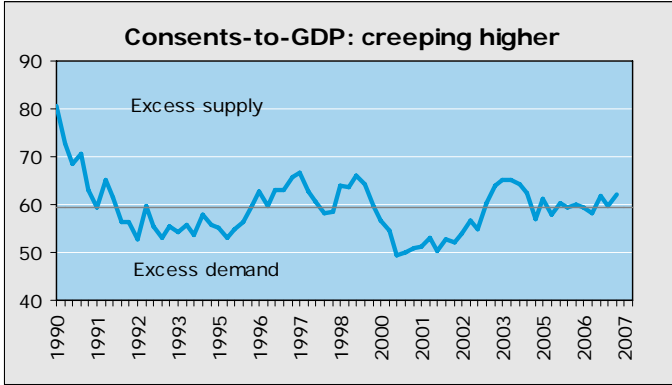
Northland – Balanced, but showing signs of easing



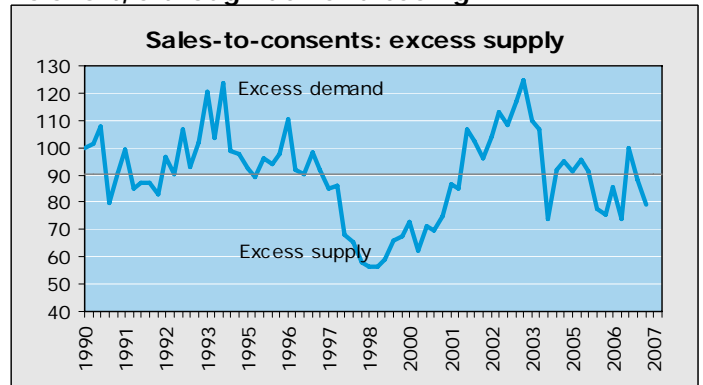
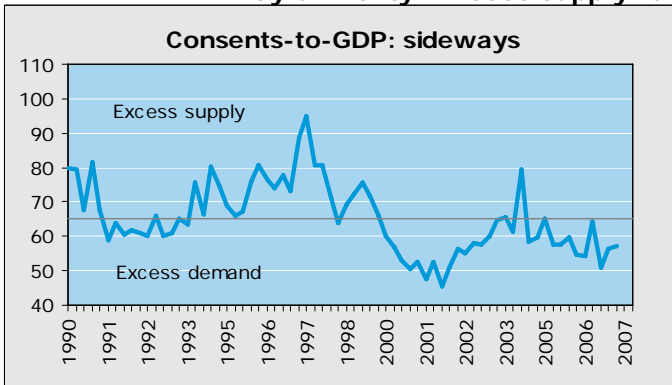
Auckland – Still a tight market



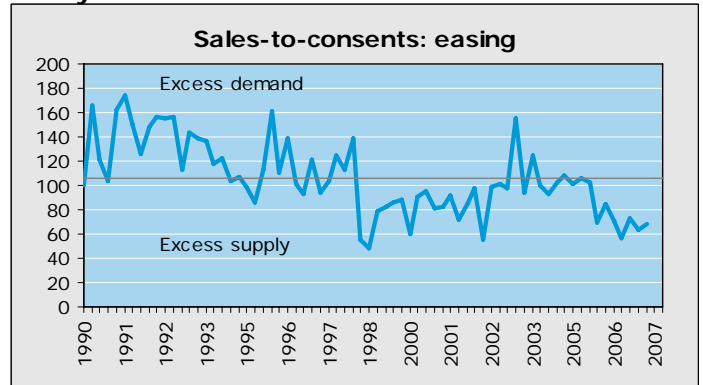
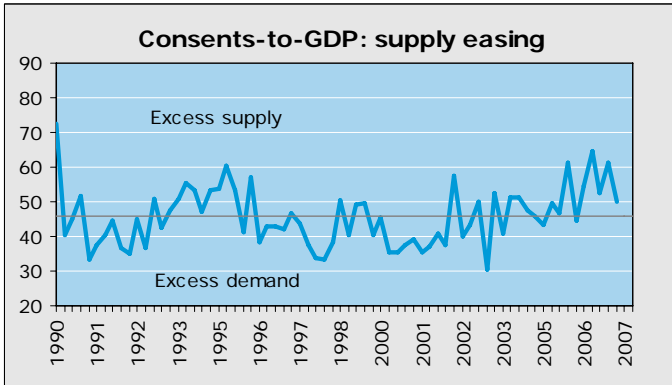
Waikato – balanced



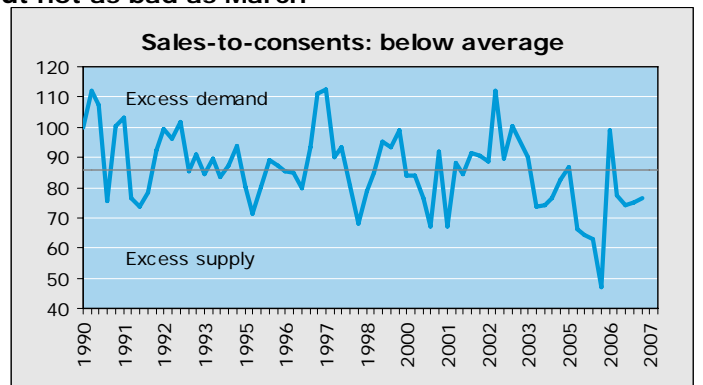
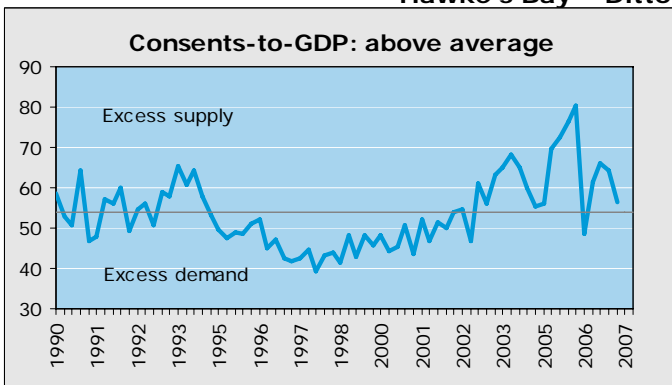
Bay of Plenty – House supply remains short, although demand easing



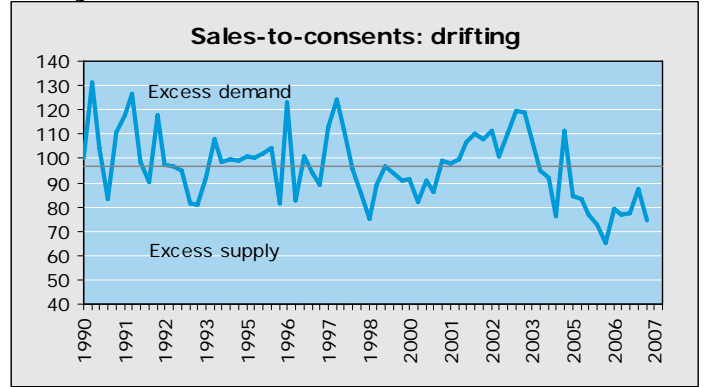
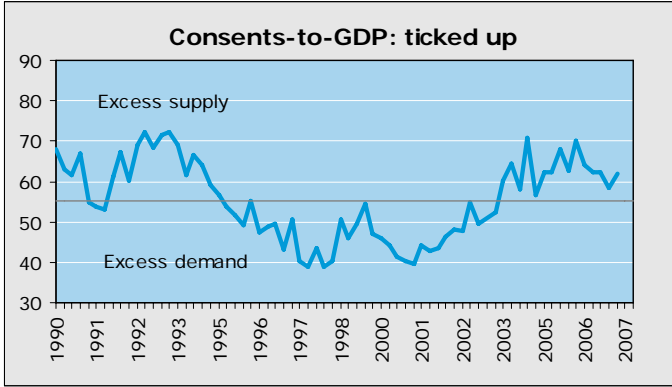
Gisborne – Too many houses



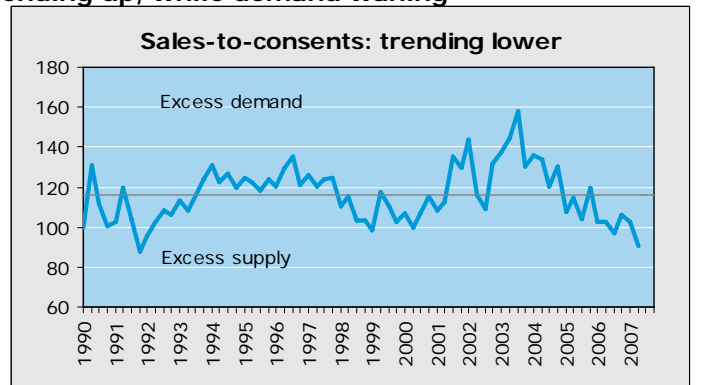
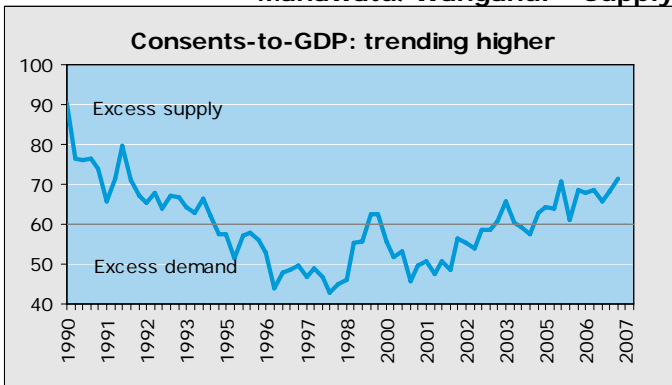
Hawke's Bay – Ditto, but not as bad as March



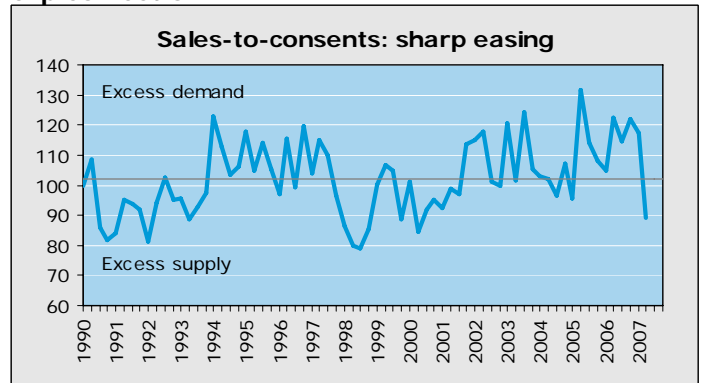
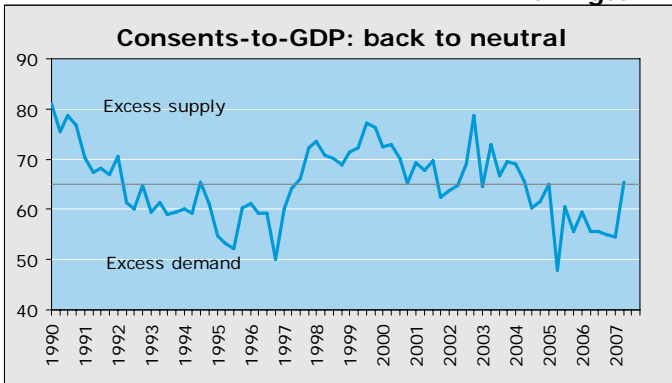
Taranaki – Too many houses



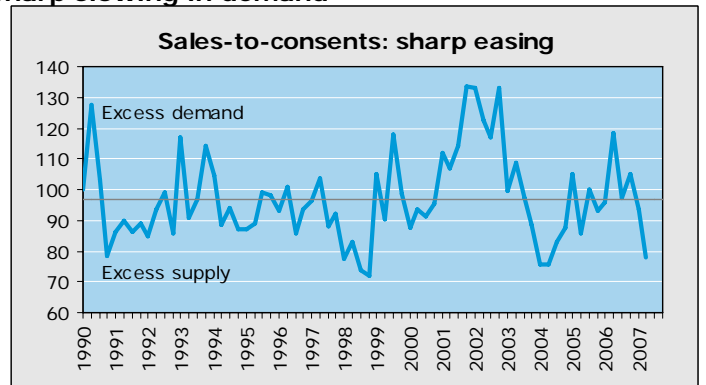
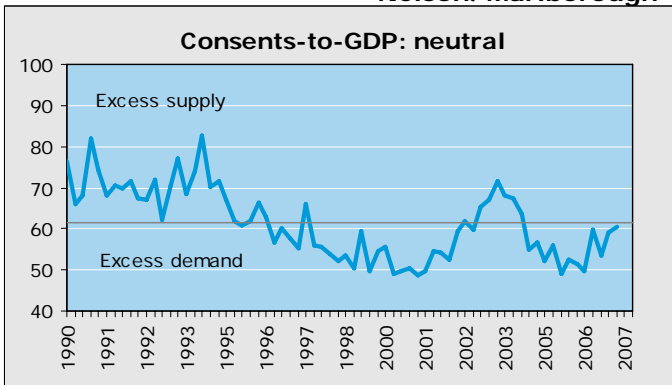
Manawatu/Wanganui – Supply trending up, while demand waning



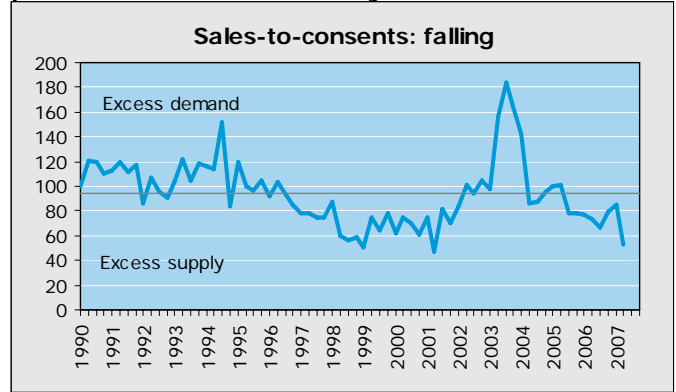
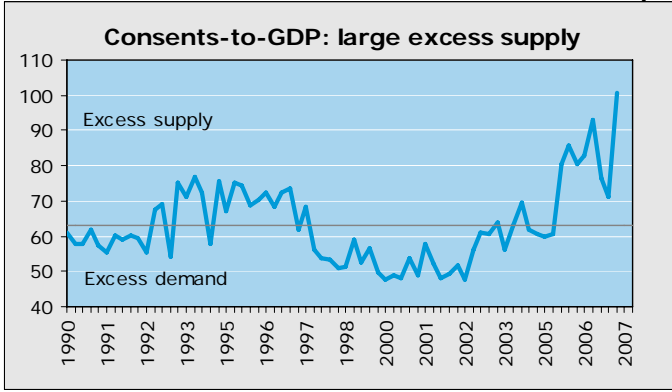
Wellington – Sharp correction



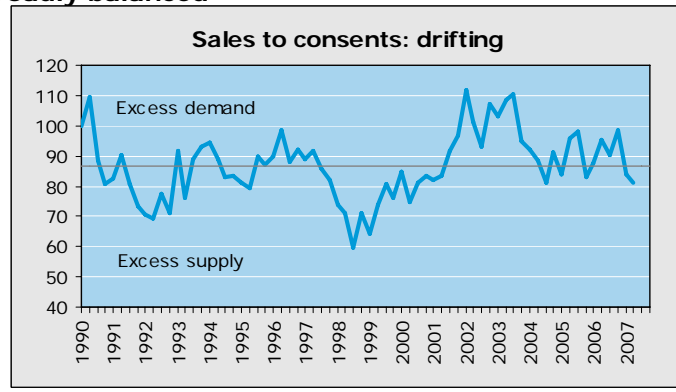
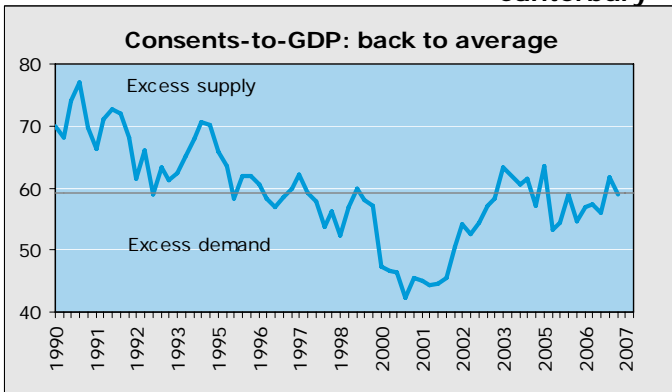
Nelson/Marlborough – Sharp slowing in demand



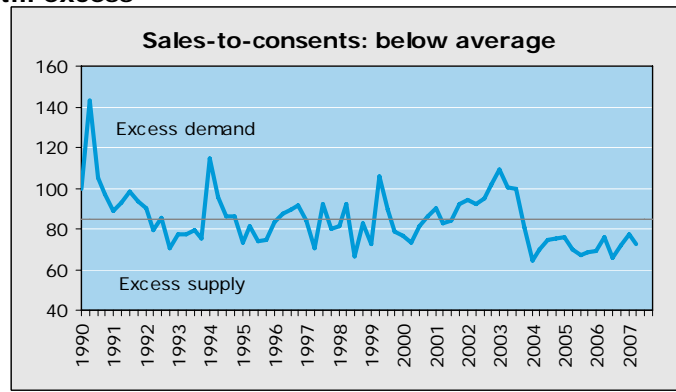
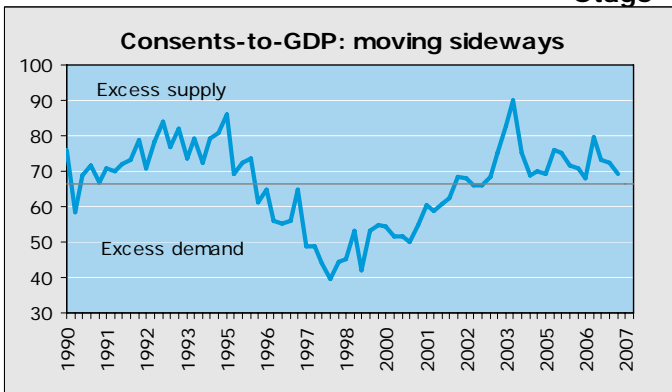
West Coast – A lot of houses set to pop up on the coast. Are the buyers around?



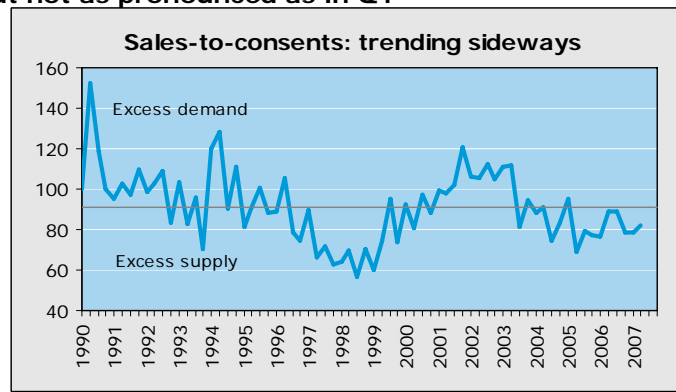
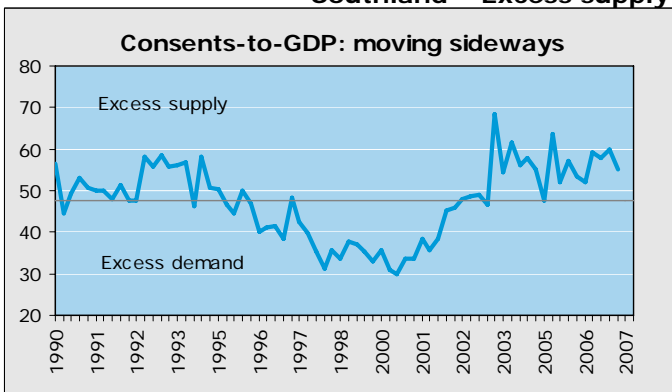
Canterbury – broadly balanced



Otago – Still excess



Southland – Excess supply but not as pronounced as in Q1



INTEREST RATE STRATEGY

Global developments will once again dictate local rates market this week. Expect more of the same – ongoing volatility and wider spreads.

Market themes...

- Subprime and credit woes very much still centre stage. Fed cutting their discount rate helped stabilise markets late last week.
- NZ market starting to price in small chance of easing early next year.

Outlook...

The local rates market was once again caught up in the global financial market turmoil. Weak NZ retail sales data last week sent yields lower and had the market rule out any chance of another interest rate increase from the Reserve Bank.

Although the US Federal Reserve managed to stabilise markets to some extent by cutting its discount rate by 50bps late last week, we expect ongoing volatility this week as the subprime and credit woes still have further to play out. Providing liquidity to the banking system in the US will help avoid a credit crunch, but the underlying problems are still there. Until the full extent of the subprime losses are known and by whom, markets will continue to trade on news flow.

The lack of any major domestic data this week means it will be more of the same for the local rates market – ongoing volatility and wider spreads. The NZ 2-year swap yields traded down to the bottom of its range, but has not broken through. We expect the front end to remain well anchored around the view that monetary policy is on hold for some time. The negative carry in the 2-year will limit the amount of receive side flows until the market is certain that the easing cycle is close. Similarly, the 2s10s curve remains trapped at the bottom of its range and a substantial steepening will only occur once the market is sure that the Reserve Bank will start cutting rates.

The OIS market is now not only ruling out any chance of a further interest rate hike by the Reserve Bank, it is also starting to price in a small chance of easings early next year. A full rate cut is now priced in by mid-next year. While we concur that further increases can be ruled out, given the lack of inflation headroom, an easing next year look too soon – unless global developments extend into an “event”. This is certainly where the risk profile looks to reside. However, we expect global movements to continue dominating the local rates market, and increased volatility will be the norm – a theme we expect to continue for some time.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔	RBNZ in neutral mode. Lack of inflation headroom make near-term easings unlikely unless global volatility extends.
NZ data	↔	Near-term dataflow to show further moderation.
Fed Funds/front end	↔/↓	Fed cuts discount rate by 50bps to 5¾%. Markets interpreting this as signaling a cut to the Fed funds rate on 18 September.
RBA	↔/↑	RBA Governor more hawkish about growth and inflation risks despite global developments.
US 10 year	↔/↓	Safe haven flows and prospects of Fed rate cuts sees Treasury yields down.
NZ swap spreads	↔/↑	Spreads will continue to test their recent highs on the back of global credit concerns.
Flow	↔	Volatility through global markets will dictate direction of the local curve.
Technicals	↔/↓	The technical picture is clouded by global financial volatility at present.

Borrowing strategies we favour at present

Yields continue to head lower following offshore moves, as risk aversion in global financial markets dominates. This move allows clients with fixed rates maturing in 2008/09 to forward fix interest rates at attractive levels as the yield curve has steeped and inverted further. This dip in yields also presents clients who have floating debt to add cover at attractive levels as the saving between floating and the 2 - 5 year fixed rates has increased.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 13-Sep-07	8	0
Thu 25-Oct-07	8	0
Thu 6-Dec-07	8	0
Thu 24-Jan-08	8	-40
Thu 6-Mar-08	-8	-40
Thu 24-Apr-08	-8	-80
Thu 5-Jun-08	-44	-80

Trading themes we favour at present

Given the current volatile environment, clear trading themes are difficult to identify.

CURRENCY STRATEGY

Liquidity concerns and risk aversion dominated over the past week, and the NZD underperformed. The Fed's discount rate cut gave some reprieve, but while liquidity concerns remain it will be a bumpy road for the NZD.

Market themes...

- Liquidity concerns + risk aversion = NZD the worst performing currency.
- Volatility to remain high.

Outlook...

The past week saw investors continue to flee perceived risky assets. This caused global stock markets to tumble, emerging market bond spreads to widen, hard commodity prices to fall, and generated rapid falls in high yielding currencies as carry trade positions against the Japanese yen and Swiss franc were unwound. The exit door for those with long NZ dollar positions has proved to be small, with the kiwi dollar the second worst performing currency in the world over the past week behind the Thai baht (and, from a wider perspective, the worst performing over the period since 23 July). In addition to global difficulties, financial markets latched on to a much weaker-than-expected retail sales result, which suggested that the New Zealand consumer was starting to turn, and raised question marks about the strength of the economy.

Perceived levels of support in the low USD0.70s proved to have as much substance as the Three Pigs' straw house. Markets were particularly volatile, with it not unusual to see the NZD move up and down several cents in the course of a day. The kiwi fell to support around 0.6650; NZD/AUD to support around 0.8525; and the NZD/JPY (one of the more volatile currency pairs, recording a 7½ percent range on Friday night alone) fell to 74.30 before the Federal Reserve's decision to change their discount rate boosted US equity markets and saw currency weakness unwind slightly.

Looking forward, it is difficult to see a material rebound in the kiwi in the near term. While subprime difficulties and credit concerns continue to dominate financial markets, the NZ dollar will be at the mercy of offshore developments. Keep an eye on US equity markets and the Bank of Japan's interest rate announcement this week for direction. To exacerbate the situation, this week sees the maturity of a large number of uridashi bonds (although we suspect that most of these have been dealt with over the past week). Local data (July merchandise trade on Friday) is expected to record a deficit, and is unlikely to provide any real support for the kiwi. Expect the kiwi to trade in a wide range, and volatility to remain high.

Technically, the NZD is likely to trade in a wide range over the week ahead, with further tests of the downside. Selling interest exists just above 0.70, which could limit any moves to the upside. With global concerns likely to continue to weigh, we favour the NZD being heavy this week. A base is forming around 0.8550 in the NZD/AUD, and current volatility provides an ability to move back towards 0.8877 (200 day moving average).

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑	NZ rates holding higher level.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↓	Don't try to catch a falling knife.
Sentiment	↓	Risk aversion on the rise.
Other	↓	Massive maturity month for offshore issuance with redemptions expected.
On balance	↓	0.8850 top for moves lower.

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	↓	Who knows how damaging subprime is to the US economy.
Yield	↑	Yield differential widening on credit concerns. Fed dovish.
Commodities	↑	Higher commodity prices remain supportive. These are holding up well.
Risk aversion	↓	Subprime contagion hurting NZD.
Partial indicators	↓	Kiwi overvalued and momentum is down.
Technicals	↓	0.6650/0.6700 support, 0.7050/0.7200 resistance.
AUD	↑	Fundamentals solid across the Tasman. AUD should be above 80 cents.
Sentiment	↓	Position squaring occurring.
Other	↓	Massive volatility negates carry benefit.
On balance	↓	NZD has caught the cold. Reasons to buy limited until normality returns.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 20	NZ	Visitor Arrivals (Jul)	-	0.8%	10:45
	UK	Rightmove House Prices (Aug) – yoy	-	10.3%	11:01
		Public Finances (PSNCR) (Jul)	-11.0B	10.3B	20:30
		Public Sector Net Borrowing (Jul)	-6.0B	7.4B	20:30
		M4 Money Supply (Jul P) – mom	0.7%	0.7%	20:30
		M4 Sterling Lending (Jul P)	12.0B	6.7B	20:30
		BSA Mortgage Approvals (Jul)	-	3,972m	20:30
Aug 21	US	Leading Indicators (Jul)	0.4%	-0.3%	02:00
	JN	All Industry Activity Index (Jun)	0.3%	-0.3%	11:50
		Machine Tool Orders (Jul F) – yoy	-	18.2%	18:00
	NZ	Credit Card Spending (Jul) – yoy	-	9.1%	15:00
	GE	ZEW Survey (Economic Sentiment) (Aug)	-1.5	10.4	21:00
		ZEW Survey (Current Situation) (Aug)	85.0	88.2	21:00
	EC	ZEW Survey (Economic Sentiment) (Aug)	0.0	7.2	21:00
		Trade Balance s.a. (Jun)	3.0B	3.6B	21:00
		Construction Output (Jun) – mom	-	0.2%	21:00
Aug 22	US	Fed's Lacker to Speak to North Carolina Risk Management Group	-	-	04:30
	JN	Merchandise Trade Balance Total (Jul)	829.0B	1222.3B	11:50
		Adjusted Merchandise Trade Balance (Jul)	760.0B	823.8B	11:50
	AU	Westpac Leading Index (Jun) – mom	-	0.2%	12:30
		DEWR Skilled Vacancies (Aug) – mom	-	-0.1%	13:00
		New Motor Vehicle Sales (Jul) – mom	-	2.2%	13:30
	EU	Current Account (Jun)	-	-8.6B	20:30
		Industrial New Orders (Jun) – mom	2.0%	1.7%	21:00
Aug 23	JN	BoJ Target Interest Rate	0.5%	0.5%	-
		BoJ Monthly Report	-	-	18:00
		BoJ Governor Fukui to Speak at Regular Press Conference	-	-	18:30
	GE	GDP (2Q F) – qoq	-	-	18:00
		GDP (2Q F) – yoy	2.5%	-	18:00
	UK	Total Business Investment (2Q P) – qoq	2.0%	-0.6%	20:30
Aug 24	NZ	Trade Balance (Jul)	-	-524.5m	10:45
		Imports (Jul)	-	3.27B	10:45
		Exports (Jul)	-	2.75B	10:45
	EU	PMI Manufacturing (Aug A)	54.5	54.9	20:00
		PMI Services (Aug A)	58.0	58.3	20:00
		PMI Composite (Aug A)	56.9	57.5	20:00
	UK	GDP (2Q P) – qoq	0.8%	0.8%	20:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 24 cont.	UK	Index of Services (Jun) – 3mth/3mth	0.8%	0.9%	20:30
Aug 25	US	Durable Goods Orders (Jul)	1.0%	1.3%	00:30
		Durables Ex Transportation (Jul)	0.6%	-1.0%	00:30
		New Home Sales (Jul)	820K	834k	02:00
		New Home Sales (Jul) – mom	-1.7%	-6.6%	02:00
Aug 26	US	Fed's Fisher, Lockhart, Poole Speak on Regional Economy	-	-	06:45

Key: AU: Australia, CA: Canada, EU: European Union, GE: Germany, JP: 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: Given the developments in financial markets over the past few weeks, along with growing evidence that the economy has turned in the face of higher interest rates, the market will continue to prod an easing theme.

Date	Data/Event	Economic Signal	Comment
Tue 21 Aug (15.00)	Credit Card Billings (July)	Easing	Consumer spending is likely to have slowed given the increases in mortgage rates.
Fri 24 Aug (10.45)	Overseas Merchandise Trade (July)	Deficit	July historically records a trade deficit. This month will be no exception as the high NZD weighs on export volumes and timing issues delay the impact of higher dairy prices.
Thu 30 Aug (10.45)	Building Consents (July)	Pull-back	After a strong increase in June due to builders rushing to get applications in prior to fee increases, we expect a considerable pull-back this month.
Thu 30 Aug (15.00)	Credit Growth (July)	Robust	Total household claims have been growing around 1 percent since 2002. They rose 1.1 percent in June, although we expect this to have eased in July, albeit modestly.
Thu 30 Aug (15.00)	National Bank <i>Business Outlook</i> (Aug)	-	-
Thu 6 Sep (10.45)	Wholesale Trade Survey (Jun qtr)	Flat	We expect flat quarterly retail sales growth in June after the strong increase in March. Wholesale trade is also expected to mirror this pattern.
Thu 6 Sep (15.00)	ANZ Commodity Price Index (Jul)	-	-
Fri 7 Sep (10.45)	Value of Building Work Put in Place (Jun qtr)	Holding up	Residential work put in place to post a rebound following Q1's fall. Non-residential work put in place to remain elevated.
circa 10 Sep	REINZ Housing Report (Aug)	Softening	Further signs of softening are expected in August with interest rate increases this year now fully manifesting.
Tue 11 Sep (10.45)	Overseas Trade Indices (Jun qtr)	Terms of trade up	Strong increases in commodity prices, particularly dairy, are expected to contribute to a large increase in the terms of trade for Q2.
Thu 13 Sep (09.00)	Reserve Bank <i>Monetary Policy Statement</i>	On hold	The RBNZ is in neutral mode, signalling that they believe they have done enough to contain inflation. There are early signs that the economy is turning and recent developments in global financial markets make a rate hike hard to foresee.
Thu 13 Sep (10.45)	Retail Trade (Jul)	Small bounce	A small bounce is possible given the fall recorded last month. However, the underlying trend is expected to be one of moderation.
Fri 14 Sep (10.45)	Economic Survey of Manufacturing (Jun qtr)	Modest	Based on the PMI, we are expecting modest growth in production volumes.
On Balance		Slowing	Housing leading the way but when will the rest follow?

NZ Economics

Cameron Bagrie
Chief Economist
+64 4 802 2212

Sean Comber
Economist
+64 4 802 2286

Philip Borkin
Economist
+64 4 802 2199

Khoon Goh
Interest Rate Strategist
+64 4 802 2357

Steve Edwards
Economist
+64 4 802 2217

Kevin Wilson
Rural Economist
+64 4 802 2361

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jun 07	Jul 07	20 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.756	0.786	0.697	0.740	0.720	0.700	0.660	0.640	0.630	0.610
NZD/AUD	0.898	0.907	0.872	0.871	0.828	0.787	0.767	0.771	0.778	0.772
NZD/EUR	0.563	0.573	0.517	0.529	0.518	0.515	0.493	0.485	0.485	0.480
NZD/JPY	92.6	95.6	79.7	88.1	86.4	85.4	81.8	78.1	76.9	73.2
NZD/GBP	0.380	0.386	0.352	0.366	0.362	0.357	0.340	0.333	0.333	0.326
NZ\$ TWI	73.7	75.6	67.6	70.8	68.9	67.3	64.3	62.9	62.5	61.0
NZ interest rates	Jun 07	Jul 07	20 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	8.00	8.25	8.25	8.25	8.25	8.25	8.25	8.25	7.75	6.75
90 day bill	8.32	8.44	8.99	8.60	8.50	8.50	8.50	8.40	7.70	6.80
10 year bond	6.73	6.79	6.31	6.30	6.40	6.70	6.70	6.90	6.80	6.70
International	Jun 07	Jul 07	20 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
US Fed funds	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.75
US 3-mth	5.36	5.36	5.50	5.35	5.35	5.35	5.35	5.40	5.50	6.00
AU cash	6.25	6.25	6.25	6.50	6.50	6.75	6.75	6.75	6.75	6.75
AU 3-mth	6.44	6.62	6.81	6.70	6.70	6.90	6.90	6.90	6.90	6.90

KEY RATES

	17 July	13 August	14 August	15 August	16 August	17 August
Official Cash Rate	8.00	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.38	8.50	8.60	8.70	8.72	8.95
90 day bank bill	8.50	8.63	8.73	8.80	8.94	8.98
NZGB 07/09	7.74	7.66	7.63	7.52	7.36	7.42
NZGB 11/11	7.38	7.10	7.07	6.99	6.84	6.88
NZGB 04/13	7.24	6.95	6.92	6.86	6.72	6.75
NZGB 12/17	6.87	6.44	6.39	6.33	6.23	6.26
1 year swap	8.61	8.63	8.63	8.64	8.61	8.60
2 year swap	8.50	8.45	8.42	8.40	8.34	8.34
5 year swap	8.13	8.07	8.04	8.00	7.94	7.94
RBNZ TWI	75.9	71.4	70.6	69.2	67.0	65.5
NZD/USD	0.7923	0.7443	0.7324	0.7158	0.6892	0.6724
NZD/AUD	0.9066	0.8776	0.8726	0.8645	0.8545	0.8603
NZD/JPY	96.58	88.01	86.36	83.78	79.89	75.57
NZD/GBP	0.3889	0.3679	0.3640	0.3596	0.3469	0.3402
NZD/EUR	0.5747	0.5431	0.5379	0.5298	0.5135	0.5016
AUD/USD	0.8739	0.8481	0.8393	0.8280	0.8066	0.7816
EUR/USD	1.3787	1.3704	1.3616	1.3511	1.3422	1.3405
USD/JPY	121.90	118.24	117.92	117.04	115.91	112.39
GBP/USD	2.0371	2.0229	2.0123	1.9903	1.9868	1.9762
Oil	74.11	71.49	71.60	72.40	73.36	70.99
Gold	665.55	670.05	669.15	667.40	665.55	649.10
Electricity Price Index	7.31	5.22	4.88	5.00	4.98	5.02

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ANZ Bank, Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-802 2024
<http://www.anz.com/nz> e-mail ecnmcs@anz.com