ANZ

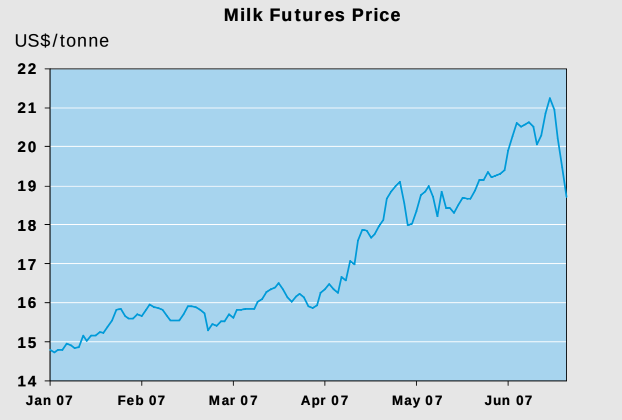
Market Focus
New Zealand

DATE 2 July 2007

EXCELLENCE OR MEDIOCRITY?

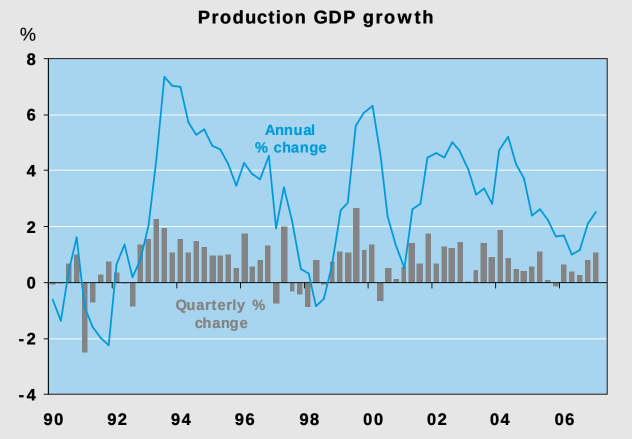
CONTENTS

Milk futures prices off 12 percent last week, reputedly due to adverse consumer reaction to higher cheese prices.



Sources: ANZ National Bank, Bloomberg

Confirmation that economic activity expanded strongly in the early part of this year.



Sources: ANZ National Bank, Statistics NZ

ECONOMIC OVERVIEW

There was certainly enough in last week's data to keep the Reserve Bank on edge although there was no smoking gun to push the panic button. With a light domestic calendar this week, offshore developments will dominate.

What's ahead…

- ANZ Commodity Price Index for June (Thursday 1500 NZST).

What's the view

After a reasonably quiet start to the week, a flood of domestic data towards the end of the week gave plenty for markets to chew on, with a mixture of both Q1 and Q2 data. The March quarter data confirmed what we already knew – the economy expanded strongly in the first part of the year.

Production GDP expanded by 1.0 percent in the March quarter, above the Reserve Bank's June *MPS* forecast of 0.8 percent. In fact, the result was within a smidgen of printing at 1.1 percent with the unrounded figure at 1.04. At first glance one would say that this poses upside risk to interest rates. The stronger result directly feeds into the Reserve Bank's output gap calculations, and hence medium-term inflation forecast. However, expenditure GDP grew by a more modest 0.6 percent. Averaging over the two measures gives an estimate in line with the Bank's forecast.

On balance, there seemed little in the GDP figures to rattle the Reserve Bank, although the composition was likely to have been slightly stronger than what they were expecting. Domestic demand was once again the main driver, with household consumption leading the way, while the net external sector again detracted from growth – a mix the Reserve Bank has previously stated they are unhappy with and wants to see correct. Stocks were surprisingly weak and suggest some upside to Q2 GDP, although this now looks to have been tempered with signs of softening retail spending.

Although we admit it is very early days, the economy looks to be rolling over gradually. Consumer confidence fell in the June quarter and is no doubt a result of the recent increases in mortgage rates. Net migration inflows have eased further and will continue to provide less impetus to the housing market. Business confidence rebounded strongly, no doubt a consequence of the announced forecast dairy payout, although the overall level remains consistent with 1.5 percent growth. Moreover, the survey will not have fully captured the full impact of the June rate hike and high currency. The first clear read of this will be provided next week by the NZIER's Quarterly Survey of Business Opinion. Anecdotally, the nuances are certainly starting to turn decidedly more bearish. There is a lot of pain with the currency at these levels, and we find it hard to envisage a further hike by the Reserve Bank.

The Reserve Bank's forecasts have pencilled in 0.8 percent for Q2. This looks high given the decline in April retail sales and softening in other partial indicators relating to Q2, such as easing confidence and a flattening in house sales. We expect growth in the quarter to be slightly lower at around 0.5 to 0.6 percent.

Looking at this week, the domestic calendar is light, with only commodity prices due for release. The picture across most soft commodity baskets over the month has certainly been one of strength, and notably for dairy prices. However, a 12 percent decline in Chicago Mercantile Exchange milk futures last week caught some market participants' attention. While not directly related to New Zealand's export basket, the decline has certainly got people thinking about the massive surge in milk powder prices recently and the potential for it to turn at some stage. The reason for the decline in the milk futures price is reputedly a negative market reaction to price hikes for cheese in the US (which the milk futures prices is related to). The key question New Zealand's dairy exporters are facing is will consumers demand the same amount when the price of yoghurt, ice-cream, chocolate etc goes through the roof? Watch this space.

Offshore, it's a heavy data week with the Tankan survey in Japan, the US ISM manufacturing survey and culminating in the key non-farm payrolls release at the end of the week. The RBA, ECB and BoE interest rate decisions are also due this week. With the domestic calendar looking light, these offshore developments look to hold the key for direction in the interest rate market and the NZD.

Recent data…

- **NZ Westpac Consumer Confidence (Jun qtr).** Headline confidence eased to 111.4, from 117.7 in the March quarter.
- **NZ Overseas Merchandise Trade (May).** The monthly trade balance recorded a surplus of $9 million, taking the annual balance to $5,869 million.
- **NZ Balance of Payments (Mar qtr).** The current account deficit improved to 8.5 percent of GDP, from 9.0 percent in the December quarter.
- **NZ May Building Consents (May).** Residential building consents rose by 5.5 percent. Excluding apartments, the rise was 2.8 percent.
- **NBNZ *Business Outlook* (June).** Most activity measures rebounded, while inflation and pricing intentions remain elevated.
- **NZ Credit Growth (May).** Total household claims grew by 1.1 percent.
- **NZ GDP (Mar qtr).** Production GDP grew by 1.0 percent in the quarter, taking annual average growth to 1.7 percent. Expenditure GDP grew by a more modest 0.6 percent.

EXCELLENCE OR MEDIOCRITY?

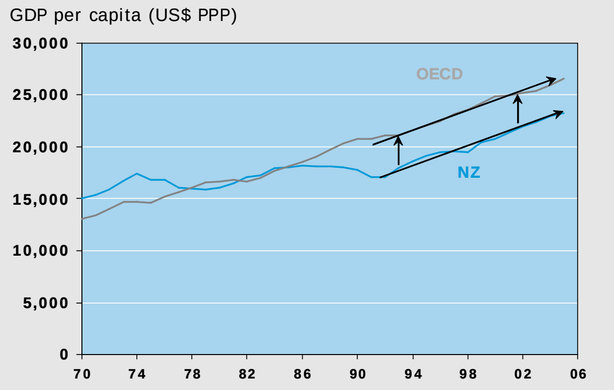
Burgeoning demand for soft commodities and a higher terms of trade are presenting New Zealand with a golden opportunity to move back up the OECD ladder. A failue to arrest inflation and improve productivity growth will be an opportunity lost.

The stars are in alignment when looking at burgeoning demand for soft commodities, notably dairy related products. Demand is outstripping supply. Export subsidies for EU dairy products have been reduced. Protein is in demand. Asia's growing middle class is increasingly demanding consumer based products. After years of seeing either outright declining commodity prices, or a stagnant terms of trade, relative price shifts around the globe are now moving in our favour. Our terms of trade, or what we receive for our exports relative to what we pay for our imports (the price of butter versus a DVD, a kilogram of steak versus a car, seafood goods versus clothing), is tracking up. Such gains represent a major windfall boost for the economy.

Our long-term modelling highlights that a 1 percent improvement in New Zealand's terms of trade is worth around 0.15 percentage points to growth. The terms of trade is an unheralded source of growth and improving living standards.

The positive terms of trade shock we are experiencing is presenting the economy with a golden opportunity to move back up the OECD ladder. We may have stopped falling down the ladder, but the next move is to close the gap and start climbing back up. But the path to victory is seldom paved immediately with gold. There are two pre-conditions that will need to be met if the New Zealand economy is able to take full advantage of the commodity price boom.

NZ and OECD GDP per capita



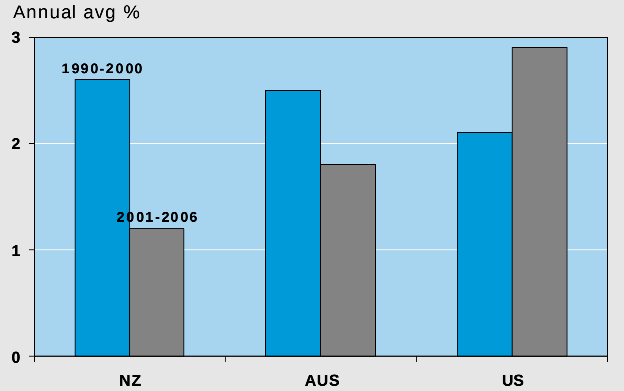
Sources: ANZ National Bank, OECD

Firstly, inflation pressures need to be contained. Inflation erodes purchasing power and leads to a misallocation of resources. It encourages squandering and overspending, and living for today as opposed to investing in the future. In an inflationary environment, any earnings windfall is quickly eroded.

A great deal of attention has focused on the forecast income boost to the dairy sector, yet little comment has been made on the rising costs (inflation) of running a dairy farm, which has been running in excess of 5 percent per year for the past 2 years. The economic breakeven (including depreciation) for a dairy farm by our calculation has now risen to around $4.50/kg ms. Costs are seeing this rise by more than $0.25/kg ms per year. Four years of recent inflation trends in the sector would see the economic breakeven rise to $5.50/kg ms! All of a sudden that windfall has disappeared!

Secondly, productivity performance needs to improve. As we've noted before, there has been a disconcerting deterioration in labour productivity growth across the market (business) sector of late. During the 1990s productivity growth averaged an impressive 2.5 percent per annum. Since 2001, the average has declined to 1.1 percent. We have gone from exceeding our trading partners to slipping materially behind. While partly cyclical, the roots of this deterioration can also be traced to infrastructure deficits, the growing burden of regulation, compliance costs, uncertainty across some key industries (i.e. electricity), and a raft of policies that deliver poor economic incentives.

Market sector productivity comparison



Sources: ANZ National Bank, Statistics NZ

While a great deal of attention is focused on the Reserve Bank's desire to slow the demand side of the economy to curb inflation, the reality is that the inflation issues are largely stemming from the supply side, of which productivity is a significant part. If productivity growth over the past five years had been a meagre 0.2 percentage points higher, core inflation pressure would be at least 0.5 percent lower, and interest rates the same. The NZ dollar would have a 6 as opposed to a 7 in front of it. The Reserve Bank has said time and time again that the housing market (sales and consents) needs to slow. Yet when you look at residential investment and the number of building consents issued, both relative to GDP, we have already seen a large adjustment by historical standards. The implication of this? It's very much a supply issue that is driving inflation pressure.

With the business (or market sector) accounting for around two-thirds of the economy, and productivity growth slipping by around 1.4 percentage points, New Zealand needs the equivalent of a terms of trade boost of around 6 percent per year to merely match economic performance over the 1990s! Yes, we are firm believers in the commodity boom story. But even we admit that to see a rise of this magnitude each year to offset the decline in productivity growth is a big ask! And this is merely to stand still against OECD counterparts as opposed to close the gap!

Even allowing for the windfall gain we are set to receive, the real potential growth rate of the economy still looks to be less than the 3 percent mark commonly quoted across policymakers.

New Zealand is on the cusp of something special. We are being presented with a golden opportunity to move back up the OECD ladder. But if we are to take full advantage of the commodity boom, inflation pressures need to be tamed and productivity performance greatly improved. Everyone has a role to play in ensuring this can occur. Households need to hold back their desire to continually accumulate debt and spending for today. The government needs to curb its continued back office expansion which is not only crowding out the private sector, but also driving wages up. The role of regulation and red tape in holding businesses back also needs to be seriously looked at by policymakers. Wage demands need to be tempered. Financial institutions need to be mindful of the potentially adverse impact of excessive leverage. All have a stake in ensuring that the New Zealand economy performs to its fullest potential, and all can play their part.

INTEREST RATE STRATEGY

We expect the short end to rally on the back of the high NZD, with the longer end tied to global developments. Given the light domestic data calendar, the rates market will remain within recent ranges.

Market themes...

- High NZD should start to bite, prompting the short-end rates market to rally.
- Residual mortgage paying in the 2-year but liquidity still an issue. Flows to still have a large say.
- Offshore developments to dictate longer end curve, with RBA, ECB and BoE interest rate decisions due.

Outlook...

The much anticipated bevy of domestic economic data out last week failed to provide the local rates market with too much excitement – or direction for that matter. Most of the data came in line with market expectations, and on balance, slightly stronger than what the RBNZ was forecasting in their June *Monetary Policy Statement*. But not strong enough to cause them to press the panic button. Attention now turns to the upcoming dataflow relating to Q2. Unlike last week, the domestic calendar is looking very light this week, with only the ANZ Commodity Price Index for June due for release.

Despite a lack of local data to provide direction, we expect the short-end to rally given where the NZD is at the moment. A currency at these levels will eventually start to hurt, and we find it hard to envisage a further hike by the RBNZ. Market pricing has now pared back to a 45 percent chance of a further hike in the current tightening cycle. But further weakness in the data is needed to be convinced that the tightening cycle is over. Since this will not be forthcoming this week, expect the rates market to remain within recent ranges. Flows will again have a large say, with residual mortgage paying in the 2-year.

The long-end of the curve will be dictated by offshore developments this week, notably the interest rate announcements by the RBA, ECB and BoE. Of the three, only the BoE is largely expected to hike interest rates. Recent volatility in US bond yields will also flow through into domestic yields. Continued concerns over hedge fund losses from betting in the US subprime mortgage market and the ongoing adjustment in the US housing market could see US 10-year yields fall below 5 percent, but given the Fed's continued concern over inflation, we do not expect yields to remain below 5 percent for long.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↔/↑	Three hikes in a row, and a fourth one cannot be ruled out. But hard to see given where NZD is.
NZ data	↔	Strong Q1 confirmed. Partials for Q2 showing some softness. Q2 CPI hold the key.
Fed Funds/front end	↔/↑	Fed holds, citing inflation still the predominant concern. Easings still not on Fed agenda.
RBA	↔/↑	Next move by RBA still up, but they have time to wait until after the election. CPI print still key.
US 10 year	↔/↓	Flight-to-safety flows to hold bond yields down. But should remain above 5% given inflation concerns.
NZ swap spreads	↔/↓	Expected to contract given continued issuance.
Flow	↔	2 year IRS in the 8.30%-8.50% range to continue.
Technicals	↔	Price action in the US Treasury market will dictate the technical picture this week.

Borrowing strategies we favour at present

While we have seen increases along the rates curve, the risk bias is still skewed to the upside. Fixing in the 1 to 3-year part of the curve provides good insulation from further increases in the short term. Any dip in yields will allow borrowers restructuring opportunities. Building optionality into medium term strategies should be considered, to allow participation should rates fall in the medium term.

Probability of 25bps increase as implied by market pricing

OCR dates	Last week	This week
Thu 26-Jul-07	35	28
Thu 13-Sep-07	45	44
Thu 25-Oct-07	58	44
Thu 6-Dec-07	70	44
Thu 24-Jan-08	71	44
Thu 6-Mar-08	61	28
Thu 24-Apr-08	58	28

Trading themes we favour at present

With the NZD at current levels, it takes the pressure off the RBNZ to hike again, which should put good receiving interest into the front end of the curve.

CURRENCY STRATEGY

Markets will look to offshore developments this week with a lack of local data. Safe haven flows in the face of global terror concerns, along with the usual yield demand could see the NZD push towards 0.78.

Market themes…

- Offshore events the focus this week.
- Increased security and terror concerns could be positive for kiwi.
- How long will it be before the growing numbers of anecdotes of pain start to see investors' sentiment turn?

Outlook…

Supportive local data, along with the usual yield demand, saw the NZD again surge to a new post float high last week. Even with the spectre of RBNZ intervention, investors demand for the NZD continues to grow unabated as investors' risk appetites remain strong and NZ yields remain heavily in favour.

With little in the way of domestic data this week, the focus will be offshore. Key interest rate announcements from the RBA, BoE and ECB will get centre stage, while US non-farm payrolls data due at the end of the week will also be important. Of the central banks announcing rates, only the BoE is expected to hike. The RBA look to have time on their hands given the latest CPI prints and are unlikely to hike prior to the Federal election, while the ECB are viewed as being on hold for now, but with further hikes before the end of the year a strong possibility.

Further USD weakness was experienced at the end of last week as the US bond market rallied strongly on news that core inflation had eased to its lowest level in three years, while flight-to-safety flows on concerns over terrorist attacks in London, and continued wariness towards credit concerns also provided support. The key for the USD remains the outlook for the Fed and whether the recovery in economic activity will continue. The non-farm payrolls data will be looked towards to help provide evidence for this.

The news of London police finding and defusing a number of car bombs sent jitters through markets. We know from history that a large amount of risk aversion is negative for the NZD, but a small amount is generally not. Markets may actually view the terror concerns in the UK as supportive of the NZD as it has seen as a safe-haven.

Yield remains the key factor supporting the NZD. With lower interest rates unlikely for sometime yet, this will remain the key leg of support. But, with growing anecdotes of pain through some parts of the economy – and we note the news of Bridgecorp in the headlines this morning - the key question for the NZD remains, when will these anecdotes start to see investor sentiment towards the NZD turn? It is unlikely until it shows up in the hard data.

Technically, the NZD is in an uptrend and close to breaking through key levels. Against the AUD, the first level of resistance is at 0.91, before the 0.9230 key level. Support is currently around 0.9050. Against the US, we are in uncharted territory. The first level of resistance is at 0.7775. 0.7680 is support.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↑/↔	Advantage NZ – 8.00 v 6.25.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↓	Been range bound all year, do not trust this break out.
Sentiment	↔	Yield, ….
Other	↔	Yield still attractive for both Uridashi and eurokiwi. But maturity profile steepening.
On balance	↔/↓	**Short-term consolidation with negative bias.**

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.62-0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↓	Some sectors booming, but most struggling.
Yield	↑	8% clearly a buy trigger.
Commodities	↔	Higher commodity prices remain supportive but NZD over-priced on dairy alone.
Risk aversion	↑	Vix and terrorism indicates increase – but who cares?
Partial indicators	↓	Kiwi overvalued every way you look at it.
Technicals	↑	Holding support levels and making new highs.
AUD	↑	Also bid by retail.
Sentiment	↑	Profession market hurt, retail investor winning.
Other	↑	Yen the key now as market on bender.
On balance	↑/↔	**Consolidation with upward bias but 0.78 is extent of move.**

CURRENCY UPDATE

We've once again had to upgrade our currency projections following the higher starting point for the NZD. Strategically, we've decided to play it safe, join the crowded fence, and run with a gradual turn in the NZD. Yet we know from history that the outcome will be anything but. Tactically, we still believe it's a 2007 story and suspect 65 cents against the USD will be achieved before the end of the year. With the Reserve Bank set to win the growth crusade but the RBA underpinning the AUD, something in our forecasts has to give and the sacrificial lamb is an exaggerated fall in the NZD/AUD.

Once again we've been forced to upgrade our currency projections. With each squeeze up in the NZD, the starting point obviously becomes higher. The case can certainly be presented for a massive movement in the NZD, but it is safer to run this as a tactical as opposed to a strategic view.

To us it feels eerily like the reciprocal of 2000. Remember back then when economists were looking for the turn up in the NZD as it kept on declining? By the time it hit 40 cents against the USD, the talk was on it hitting 30 cents, and you were chastised for presenting forecasts that showed it going to 50 cents! Isn't hindsight a wonderful thing!

As so far as currency projections are concerned, they should be treated with a grain of salt. Currency forecasters are on a hiding to nothing. If they get it right, it is quickly forgotten (such as when we called the bounce to 65 cents last year) but you are quickly chastised when things go wrong. The life of a currency forecaster! Our approach as soothsayers is one of honesty. About the only thing we can be certain of at present is that the NZD, when it turns, will turn aggressively.

Eight core themes continue to underpin our currency views. It is how these themes shape the risk profile that is ultimately the key.

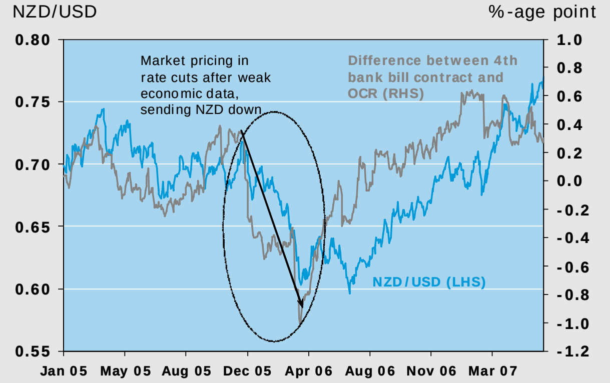
The soft commodity story is being overplayed as a currency fundamental. Strong commodity prices equal a higher currency and is underpinning the stronger for longer NZD. This is true to a point. However, the market is overlooking productivity growth as a currency fundamental (refer to 18 June *Market Focus*). We'll side with the Reserve Bank. The NZD is overvalued when looking at the fundamentals and the rubber band is getting taut.

The Reserve Bank will win. Is there any doubt that the Reserve Bank will win the disinflation crusade? They will simply bludgeon the economy (housing market and domestic demand) until it turns. Anecdotally we are starting to see evidence of this through retail sales and confidence.

Our formal economic forecasts now include a negative quarter for GDP. We've successfully called a negative quarter for GDP twice in the past 7 years – June 2000 and December 2005. We use six indicators to make such a call, and the green light has flashed on five. When the market gets a sustained picture of slowing growth and consistent weakness across the partial indicators, we struggle to see the NZD remaining elevated. Just look at early 2006.

It is expectations towards monetary policy as opposed to the yield differential itself that matters. The Reserve Bank does not need to be cutting rates for the NZD to be falling. It is market expectations towards the Reserve Bank that is the key. The Reserve Bank may still talk tough alluding to inflation risks, but like the Fed over the past three months, are unlikely to be overly wary if the market "correctly" responds to weak data by inverting the curve.

NZD/USD and interest rate expectations



Sources: ANZ National Bank, Bloomberg

Historically the NZD does turn aggressively. Hitting 65 cents against the USD by the end of the year may sound a stretch given the NZD/USD is currently above 77 cents. But the NZD is a volatile currency and moves in excess of 10 cents in a year are not uncommon. In early 2006, the NZD/USD went from over 71 cents to 60 cents within 3 months.

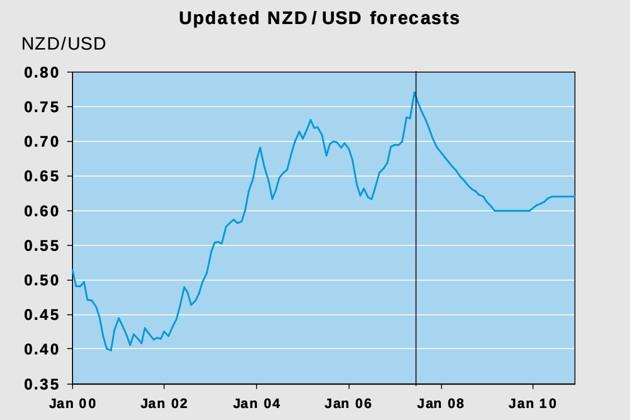
A strong AUD courtesy of pending hikes from the RBA complicates the overall currency picture. A strong AUD has been one factor buoying the NZD. And with the next move by the RBA largely expected to be up, further strength in the AUD could provide some support for the NZD.

Something has to give. All forecasters are facing an inconsistency at present when they try to tie in a consistent NZD/USD, AUD/USD and NZD/AUD track. Do we run with a high NZD/USD for another year courtesy of a strong AUD (with the RBA looking set to hike post election), which presents a more palatable NZD/AUD track on the assumption the AUD stays high, or a turn in the NZD/USD as implied by the fundamentals and associated massive rout in the NZD/AUD? It is the NZD/USD that is of far more importance to this economy and it is the route we have decided to take.

Perceptions towards the carry trade remain vulnerable to a major reversal. Risk appetites are waxing and waning, with the S&P VIX hitting as high as 18.9 last week, before dropping back to 16.2. Global interest rates are moving up, with only the BoJ and Fed the laggards. There have been some clear messages emanating from policymakers (Bank of International Settlements, BoJ, etc) regarding the carry trade. We haven't built a major carry trade unwind story into our forecast numbers, although it has subjectively skewed our bias.

The upshot

Strategically we've decided to join the crowded fence, play it safe, and run with a gradual turn in the NZD. Slow grinds up the elevator and slow grinds down over the coming year. There seems little upside in trying to be a hero by picking the timing of the exact move! Yet we know from history that gradual turns simply do not occur. Tactically, we still believe a material turn in the NZD is a 2007 story and suspect 65 cents against the USD will be achieved before the end of the year.



Sources: ANZ National Bank, Reuters

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
2 Jul	AU	AiG Performance of Manufacturing Index (Jun)	-	55.2	11:30
		RBA Commodity Index SDR (Jun) – yoy	-	5.8%	18:30
	JN	Tankan Large Manufactures Index (2Q)	23	23	11:50
		Tankan Large Manufactures Outlook (2Q)	22	20	11:50
		Tankan Non-Manufacturing Index (2Q)	22	22	11:50
		Tankan Non-Manufacturing Outlook (2Q)	23	23	11:50
		Tankan Large All Industry Capex (2Q)	9.0%	2.9%	11:50
		Labour Cash Earnings (May) – yoy	0.2%	-0.2%	13:30
	GE	PMI Manufacturing (Jun)	56.4	56.1	19:55
	EU	PMI Manufacturing (Jun F)	55.4	55.4	20:00
	UK	PMI Manufacturing (Jun F)	55.0	54.9	20:30
		Index of Services (Apr) – 3mth/3mth	0.8%	0.8%	20:30
3 Jul	US	ISM Manufacturing (Jun)	55.0	55.0	02:00
		ISM Prices Paid (Jun)	65.5	71.0	02:00
	JN	Monetary Base (Jun) – yoy	-4.2%	-5.7%	11:50
	AU	Building Approvals (May) – mom	-1.4%	8.1%	13:30
	EU	ECB's Smaghi Speaks in Rome	-	-	20:00
		Euro-Zone PPI (May) – mom	0.3%	0.4%	21:00
		Euro-Zone Unemployment Rate (May)	7.0%	7.1%	21:00
	UK	PMI Construction (Jun)	57.7	58.0	20:30
4 Jul	EU	ECB's Trichet Speaks in Frankfurt	-	-	01:45
	US	Pending Home Sales (May) – mom	0.6%	-3.2%	02:00
		Factory Orders (May)	-1.2%	0.3%	02:00
	UK	Nationwide Consumer Confidence (Jun)	97	99	11:01
		PMI Services (Jun)	57.0	57.2	20:30
		BoE Mortgage Equity Withdrawal (1Q)	14.5B	14.6B	20:30
	AU	AiG Performance of Services (Jun)	-	56.1	11:30
		RBA Cash Rate Target	6.25%	6.25%	11:30
		Trade Balance (May)	-1,200m	-962m	13:30
		Exports (May)	-	18,079m	13:30
		Imports (May)	-	19,041m	13:30
	GE	PMI Services (Jun)	58.0	57.5	19:55
	EC	PMI Services (Jun F)	58.3	58.3	20:00
		PMI Composite (Jun F)	-	57.7	20:00
		Retail Sales (May) – mom	0.0%	0.2%	21:00
5 Jul	**NZ**	**ANZ Commodity Price Index (Jun)**	**-**	**2.6%**	**15:00**
	JN	Leading Economic Index (May P)	40.0%	18.2%	17:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
5 Jul cont.	JN	Coincident Index (May P)	66.7%	65.0%	17:00
	UK	BoE Announces Rates	5.75%	5.50%	23:00
	US	Challenger Job Cuts (Jun) – yoy	-	32.4%	23:30
	EU	ECB Announces Interest Rates	4.0%	4.0%	23:45
6 Jul	US	ADP Employment Change (Jun)	98k	97k	00:15
		ISM Non-Manufacturing (Jun)	58.0	59.7	02:00
		Fed's Yellen Speaks at Conference in Singapore	-	-	16:01
	EU	ECB's Trichet Speaks at ECB Monthly News Conference	-	-	00:30
		ECB's Ordonez, EU's Almunia Speak at Conference in Santander	-	-	20:00
		OECD Leading Index (May)	-	110.0	22:00
	AU	AiG Performance of Construction Index (Jun)	-	45.1	11:30
		Foreign Reserves (Jun)	-	84.6B	18:30
	JN	Official Reserve Assets (Jun)	-	911.1B	11:50
	UK	Industrial Production (May) – mom	0.3%	0.3%	20:30
		Manufacturing Production (May) – mom	0.3%	0.3%	20:30
	GE	Factory Orders (May) – mom	0.6%	-1.2%	22:00
7 Jul	US	Change in Non-farm Payrolls (Jun)	120k	157k	00:30
		Unemployment Rate (Jun)	4.5%	4.5%	00:30
		Change in Manufacturing Payrolls (Jun)	-13k	-19k	00:30
		Average Hourly Earnings (Jun) – mom	0.3%	0.3%	00:30
		Average Weekly Hours (Jun)	33.9	33.9	00:30
	UK	NIESR GDP Estimate (Jun)	-	0.8%	11:01
8 Jul	EU	ECB's Trichet Speaks in Aix-en-Provence	-	-	21:30

Key: AU: Australia, CA: Canada, EU: European Union, GE: Germany, JP: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.
Source: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All $ values in local currency. Na= not available. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over next four weeks: Now that data from the March quarter is out of the way – confirming economic activity rebounded strongly at the start of this year, the Reserve Bank can now fully concentrate on indicators of Q2 activity and evidence of whether the tighter financial conditions are in fact slowing domestic demand and hence inflationary pressure. In this regard, the next key releases prior to the *OCR Review* are the QSBO and the June quarter CPI.

Date	Data/Event	Economic Signal	Comment
Thu 5 Jul (15.00)	ANZ Commodity Price Index (June)	-	-
Tue 10 Jul (10.00)	NZIER QSBO (Jun qtr)	Easing	After three OCR increases by the RBNZ this year and a new post-float high for the currency, we feel business confidence would have suffered in the June quarter, particularly as this survey does not include the agricultural sector.
Fri 13 Jul (10.45)	Retail Trade Survey (May)	Further consolidation	Higher mortgage rates are expected to eat into consumers' disposable incomes. Further consolidation in consumer spending is likely.
Mon 16 Jul (10.45)	Consumer Price Index (Jun qtr)	Watch non-tradable inflation	We expect the annual headline CPI to ease to 1.7 percent in the June quarter. However, it is the non-tradable inflation print that is most important. We expect this to remain elevated and over 4 percent in annual terms.
circa 16 July	REINZ Housing Market report (Jun)	Easing	There were very early signs that the housing market had begun slowing in May. We expect further evidence in this release, although an apparent shortage of houses will keep house prices elevated.
Fri 20 Jul (10.45)	External Migration (June)	Easing	PLT departures have trended upwards. Are overseas destinations becoming more attractive places to live?
Fri 20 Jul (15.00)	Credit Card Billings (June)	Easing	Further fallout from the higher mortgage rates is expected.
Thu 26 Jul (09.00)	RBNZ *OCR Review*	On hold	Given the significant tightening in financial conditions, we feel the Reserve Bank will keep the OCR unchanged, but will be well and truly in data-watch mode. A firm tightening bias will remain.
Fri 27 Jul (10.45)	Overseas Merchandise Trade (June)	Deficit	Expecting a deficit as imports are pulled higher by the arrival of the HMNZS Canterbury.
On Balance		**Slowing**	**Bias looks to be turning**

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SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	May 07	Jun 07	2 Jul 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.733	0.769	0.771	0.730	0.690	0.670	0.650	0.630	0.620	0.600
NZD/AUD	0.888	0.907	0.909	0.890	0.831	0.798	0.783	0.778	0.775	0.769
NZD/EUR	0.542	0.572	0.570	0.529	0.507	0.504	0.500	0.496	0.496	0.488
NZD/JPY	88.5	94.9	94.9	90.5	86.9	85.1	81.9	78.1	75.6	72.0
NZD/GBP	0.369	0.384	0.384	0.371	0.354	0.347	0.340	0.333	0.333	0.326
NZ$ TWI	71.4	74.9	74.8	71.2	67.6	66.0	64.5	63.1	62.4	60.7
NZ interest rates	May 07	Jun 07	2 Jul 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	7.85	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.50	6.75
90 day bill	8.09	8.30	8.38	8.20	8.10	8.10	8.10	8.10	7.50	6.80
10 year bond	6.18	6.64	6.74	6.70	6.70	6.40	6.10	6.00	6.20	6.40
International	May 07	Jun 07	2 Jul 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	4.75	4.75	4.75	4.75	4.75	5.75
US 3-mth	5.36	5.36	5.36	5.35	5.35	5.35	5.35	5.40	5.50	6.00
AU cash	6.25	6.25	6.25	6.25	6.25	6.50	6.75	6.75	6.75	6.75
AU 3-mth	6.36	6.44	6.44	6.40	6.40	6.70	6.90	6.90	6.90	6.90

KEY RATES

	29 May	25 June	26 June	27 June	28 May	29 June
Official Cash Rate	7.75	8.00	8.00	8.00	8.00	8.00
30 day bank bill	8.00	8.20	8.19	8.21	8.21	8.19
90 day bank bill	8.13	8.36	8.37	8.36	8.37	8.36
NZGB 07/09	7.20	7.32	7.32	7.31	7.31	7.33
NZGB 11/11	6.90	7.13	7.13	7.11	7.11	7.13
NZGB 04/13	6.62	7.04	7.04	7.02	7.02	7.04
NZGB 12/17	6.34	6.74	6.74	6.69	6.70	6.71
1 year swap	8.28	8.46	8.45	8.44	8.46	8.46
2 year swap	8.18	8.35	8.34	8.32	8.34	8.34
5 year swap	7.83	8.06	8.04	8.00	8.02	8.02
RBNZ TWI	70.9	74.5	74.5	74.4	74.4	74.8
NZD/USD	0.7263	0.7663	0.7668	0.7648	0.7648	0.7692
NZD/AUD	0.8867	0.9026	0.9048	0.9070	0.9090	0.9072
NZD/JPY	88.37	94.92	94.68	94.05	94.02	94.93
NZD/GBP	0.3659	0.3832	0.3836	0.3828	0.3826	0.3842
NZD/EUR	0.5397	0.5689	0.5694	0.5692	0.5682	0.5723
AUD/USD	0.8191	0.8490	0.8475	0.8432	0.8414	0.8479
EUR/USD	1.3457	1.3469	1.3466	1.3436	1.3461	1.3440
USD/JPY	121.67	123.87	123.47	122.97	122.94	123.42
GBP/USD	1.9847	1.9997	1.9988	1.9979	1.9988	2.0022
Oil	63.19	68.85	67.78	67.78	68.98	69.61
Gold	657.95	653.95	641.90	641.90	644.65	647.25
Electricity Price Index	7.02	8.17	8.41	8.42	8.94	9.16

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