

# THE CREDIT DECELERATOR

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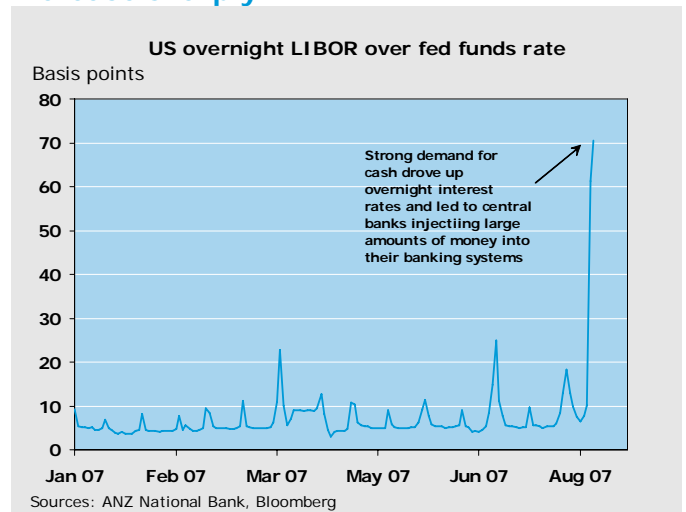
- Further increases in world commodity prices coupled with the recent fall in the NZD have seen many commodity adjusted real exchange rates ease. However, the overall story is the same. The dairy sector continues to perform well, while other sectors struggle under the high NZD.

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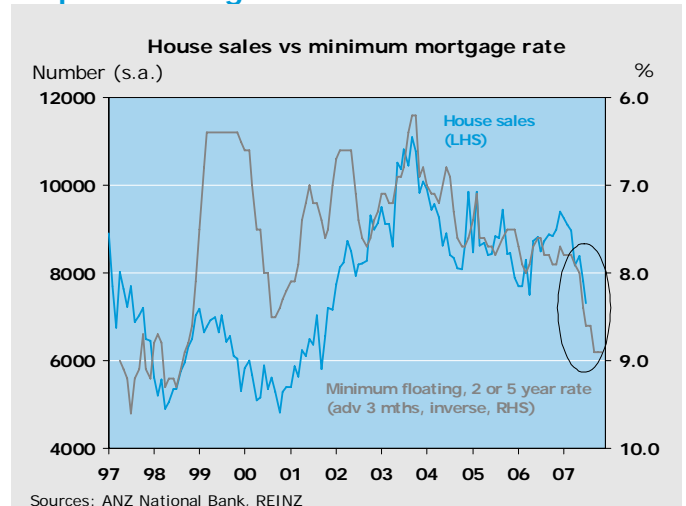
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Central banks were forced to inject cash into their banking systems as credit concerns saw overnight interest rates increase sharply.



The housing market looks to be turning in response to higher interest rates.



## ECONOMIC OVERVIEW

**Global developments continue to dominate with signs of contagion spreading from the US subprime market. We expect another volatile week. Domestically, the housing market looks to be turning. However, given that inflationary pressures are broad-based and the labour market remains extremely tight, the Reserve Bank will remain vigilant.**

### What's ahead...

- NZ June Retail Sales (Tuesday 1045 NZST). Based on credit card spending, we expect a modest increase for the month. However, volumes are expected to be flat for the quarter.

### What's the view

Last week's REINZ data showed signs that activity in the housing market continues to ease. House sales are now 22 percent below their December 2006 level. The median number of days to sell a house has (finally) increased, although still remains low by historical standards. Annual house price inflation remains robust at 10.2 percent, although the trend in the data over the past three months has been for a small fall. It is news that will be welcomed by the RBNZ. The housing market looks to be responding to higher interest rates.

However, the Reserve Bank is unlikely to be resting easy just yet. The housing market has shown an ability in the past to rebound quickly after a lull in activity. Inflationary pressures are more broad-based than the housing market, which means the Reserve Bank needs to see such moderation as sustained and to filter across to other areas of the economy. A tight labour market – reinforced last week with strong wage and employment growth – will continue to help insulate NZ households and provide upside risks to inflation. Commodity prices continue to skyrocket (up 35 percent in the past 12 months). All illustrate that vigilance is still required by the Reserve Bank and that they will not be contemplating interest rate cuts for a while yet.

But for now, it is the global scene that is dominating. Nervousness abounds in financial markets as investors contemplate further news of pain stemming from the US subprime mortgage crisis. Temporary liquidity problems at the end of last week saw central banks inject large amounts of cash into their financial systems. Developments have now moved beyond what we regarded as a healthy turn in the credit cycle, to contagion. What is unclear is how many more dominos are lined up to keel over and whether this will turn into an even larger "event". For now the Fed continues to believe subprime woes will be contained. But with each passing day, developments are showing otherwise.

For the past few years there has been a strong global credit accelerator supporting growth

domestically and offshore. This credit accelerator has been in addition to the conventional monetary (low interest rate) accelerator that has underpinned global growth. Cash and credit have been cheap, and easy to obtain. Risk appetites have been strong. Asset prices and markets have been caught up in a circle of success where liquidity drives asset prices; the ability to leverage drive deals and returns; leading to more liquidity driving asset prices and scope to leverage... and the spiral is in motion. Moreover, such is the pressure on institutions to out-perform that additional risk has had to be taken to grab that "excess return".

This credit accelerator now has the potential to turn into a credit and growth "decelerator". There has been an implicit tightening in financial conditions via a widening in swap and credit spreads – albeit from low levels. Deals will be harder to get off the ground as they are more closely perused. But whether this turns into a full-blown credit event remains unknown.

NZ will not be immune. Even if global events are contained credit spreads have still widened domestically in line with offshore movements and seem unlikely to contract. It would be safe to assume that there will not be the same appetite for credit risk. By-and-large credit will still be plentiful, but just not as cheaply nor of the same magnitude. The NZ banking system is fundamentally sound and bears little resemblance to the US equivalent, which is littered with moral hazard problems in terms of how the mortgage market operates. But domestically it is the non-bank financial institutions that have the greatest potential to act as a credit decelerator. The failure of Bridgecorp may be just the tip of the iceberg if funding becomes more of an issue.

For now we expect further volatility and caution to prevail. The key going forward is whether events in the US are truly contained to subprime. If not (which is increasingly looking the case), has the remainder of the world truly decoupled from the US? From NZ's perspective, the key is Asia, which by-and-large drives commodity prices. The last credit event (1998) followed the Asian crisis. Will credit related events, this time around, precede other real economic developments?

### Recent data...

- **NZ LCI & QES (Jun qtr).** LCI private sector salary and ordinary time wage rates rose 0.7 percent, while QES rates rose 1.0 percent.
- **ANZ Commodity Price Index (Jul).** The world price index rose 4.7 percent.
- **NZ HLFS (Jun qtr).** Employment grew by 0.7 percent. The unemployment rate fell to 3.6 percent.
- **REINZ Housing data (Jul).** House sales fell 6.2 percent (s.a.). Median house prices eased to \$345,000. The median number of days to sell rose slightly from 30 to 31 days.

## THEN AND NOW

**The last global credit event was in 1998, and unlike the current instance, the NZ economy was already on its knees. The currency had already moved to act as a stabiliser and provide a “reflationary” boost. The nature of the current event (credit) reinforces NZ’s archillies heel, namely leverage. A critical area to watch is whether events extend to Asia (as a key driver of commodities).**

We have written at length about NZ’s stage in the business cycle. Briefly, the combination of higher interest rates, extended currency, overvalued housing market, high current account deficit, and inflationary pressure have typically slowed growth to a vulnerable stall speed. Both financial conditions and confidence are now consistent with 1.5 percent growth – a rate we consider a touch above stall speed. But ultimately it has been an offshore event that has provided the coup de grâce on a recession in the past e.g. global recession in 1991, and the Asian crisis in 1997/98. It is an adverse external event that presents the most significant risk to the NZ economy.

The last credit event was in 1998, and involved Russian default (August) and the collapse of Long Term Capital Management in September. Looking back to that period, we note the following:

- The credit event in 1998 was preceded by recessions across the Asian region, stemming from a shortage of foreign exchange that caused the value of currencies and equities in Thailand, Indonesia, South Korea and others to fall heavily. The currency crisis in turn revealed significant problems in the banking systems.
- The IMF initiated bail-out packages in late 1997, and the Fed – in response to credit market unease – became the world’s financial saviour, cutting rates 75 basis points between September and November 1998 in an effort to stabilise markets and inject liquidity.
- The NZ economy was far weaker at the onset of the last credit event of 1998. The economy had contracted in four out of the previous five

quarters, having been brought to its knees by collapsing demand from Asia and previously tight financial conditions. The unemployment rate had been tracking up for six quarters.

- Financial markets were already moving to provide a “reflationary” boost. The NZD had been falling for more than a year. Shenanigans with the Monetary Conditions Index saw interest rates rise in 1998 although overall conditions were still loosening. Leading gauges of momentum, such as firms’ own activity expectations from the the National Bank *Business Outlook Survey*, were improving.
- Fiscal policy was providing a massive boost in 1997, in a similar fashion to now. However, this still wasn’t sufficient to avert a recession.
- Weakening commodity prices were a key transmission mechanism to the economy. Relative to 1998, soft commodity prices are 88 percent higher. NZ’s terms of trade are 22 percent higher, and show little sign of abating. However, we similarly note that rural land prices are 120 percent higher. High commodity prices are required to sustain land valuations.
- NZ is more heavily indebted. Housholds’ debt servicing burden is more than 30 percent higher relative to 1997 and 1998. The current account position is more perilous.

Uncertainty surrounds how events will unfold. We are coy about making sweeping assessments. However, some points are still noteworthy. The nature of the shock offshore (reassessed credit risk), could disconcertingly undermine the NZ economy given its dependence on offshore capital. Certainly, such capital will now demand a higher premium to compensate for risk. Internationally, policy-makers do not appear to have the same financial flexibility (or perhaps willingness) to act via cutting rates given the prevalence of inflation. The NZD obviously has the potential to move a long way in acting as an important stabiliser domestically. The critical area to watch from NZ’s perspective is whether events in the US extend to the Asian region, and start to impact negatively on commodity prices and tourism flows.

	June 1997		June 1998		Now	
	level	direction	level	direction	level	direction
TWI	67.4	↓	57.4	↓	71.8	↔/↓
2-year swap	7.26	↓	8.43	↔	8.42	↔
Commodity prices	123.3	↓	109.4	↓	205.7	↑
GDP (annual avg %)	3.4%	↓	0.5%	↓	2.1%*	↔/↓
Debt servicing to income <sup>^</sup>	9.2%	↔	9.5%	↔/↑	13.3%	↑
NBNZ own activity	14.1	↓	18.3	↑	14.8	↔/↓
Unemployment rate	6.6%	↑	7.6%	↔	3.6%	↔
Fiscal impulse (% of GDP)	2.3%	↓	0.1%	↑	1.9%	↓
Current account (% GDP)	-6.7%	↑	-4.7%	↓	-8.0%*	↓
Net external debt (% GDP) <sup>^</sup>	81.5%	↑	87.9%	↑	87.8%*	↑
Terms of trade	966	↓	962	↔	1172*	↑

\* ANZ National’s forecast, <sup>^</sup> March quarter, # 2007/08 fiscal year

## INTEREST RATE STRATEGY

**Domestic and international data to take a back seat to global credit and liquidity concerns this week. Continued volatility expected to see commercial paper, credit and EFP spreads trade wider.**

### Market themes...

- Further evidence that NZ housing market has turned.
- Subprime and credit woes spreading, forcing central banks to inject cash into the banking system.
- Increased risk aversion has seen flight to quality, sending US bond yields sharply lower and rate cuts from the Fed priced in.

### Outlook...

Once again, offshore developments will be the main driver of the local rates market this week. The US subprime and credit woes appear to be spreading, with liquidity being affected, forcing central banks to inject cash into the system to avoid a credit crunch. There is huge uncertainty over how far this will extend, but this episode looks to have further to run. In the midst of all the volatility and uncertainty, investors have become risk averse, pulling out of riskier assets and into the safety of bonds. This saw US yields being driven down, flowing through into local rates.

Given the ongoing volatility expected this week, the international data calendar – which includes Japan and Europe GDP, and CPI for US, UK and Europe – will be taking a back seat. US Treasuries will remain well sought as risk is avoided.

This week's sole local data release – June retail sales – is expected to show a modest increase in consumer spending. However, the market reaction to last week's labour market and housing data – where rates hardly budged despite much stronger than expected employment growth but rallied when soft housing data was released – shows that participants are looking through strong data which they regard as historical and instead putting more weight on timelier data relating to domestic demand. In addition, global developments will hold centre stage, with the retail sales data likely to attract only passing interest.

The rates market is now ruling out any chance of a September move by the RBNZ, and only 2pts of a further move at some stage priced in. Given the lack of inflation headroom, we doubt the market will look for rate cuts too early. Hence, trading this week should be within recent ranges and certain levels in the IRS curve to hold despite global developments. But continued volatility is expected

to see commercial paper, credit and EFP spreads trade wider.

Gauges for NZ interest rates yields		
Gauge	Direction	Comment
RBNZ	↔	RBNZ in neutral mode. Hurdle to another rate hike very high.
NZ data	↔/↑	Retail sales data this week to still show modest consumer spending but housing market has turned.
Fed Funds/front end	↔/↓	Subprime and credit woes starting to spread. Market fully pricing in two rate cuts by the Fed by year's end.
RBA	↔/↑	After hiking last week, RBA set to hold for rest of the year. Bias still up but global developments dominate.
US 10 year	↔/↓	In current environment, safe haven flows sees Treasuries in demand.
NZ swap spreads	↔/↑	Global credit concerns to see spreads test their recent high on the back of flows.
Flow	↔	Volatility through global markets will dictate direction of local curve.
Technical	↔/↓	Global financial volatility is clouding the technical picture at the moment.

### 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 steepened 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	16	8
Thu 25-Oct-07	16	8
Thu 6-Dec-07	16	8
Thu 24-Jan-08	16	8
Thu 6-Mar-08	4	-8
Thu 24-Apr-08	4	-8
Thu 5-Jun-08	-36	-44

### Trading themes we favour at present

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

## CURRENCY STRATEGY

**Further credit concerns towards the end of last week weighed on the NZD. While risk appetites remain weak, offshore developments hold the key for NZD moves, and reasons to buy are limited.**

### Market themes...

- Liquidity concerns fuel further risk aversion.
- Few reasons to buy NZD until "normality" returns.

### Outlook...

A semblance of normality hung over currency markets over the first part of last week. Strong labour market data on both sides of the Tasman and an interest rate hike from the RBA provided support for the NZD, which spent the first half of the week consolidating after the sharp falls a week earlier. "Bargain hunting" in US equity markets saw these recover from their lows, and risk appetites appeared to be returning, with measures of risk aversion retracing.

However, developments on Thursday night (NZST) made it clear that this "normality" was the eye of the hurricane. News that France's largest listed bank had frozen 3 of its funds because it couldn't fairly value the assets, and rumours that a German bank was in trouble suggested that subprime and credit concerns, which had largely been confined to the US, were spreading. The resulting nervousness saw liquidity become extremely tight as investors demanded cash at the expense of riskier asset classes and resulted in a number of central banks stepping in to inject liquidity into the market. This in turn prompted concerns that liquidity was becoming an issue and saw investors flee risky assets. The carry trade was one of the casualties of this increased risk aversion, with the NZD (and AUD) getting driven lower, with several (unsuccessful to date) attempts to push the NZD through 0.7400.

Further injections of liquidity from central banks (there has reportedly been in excess of US\$300 billion injected into the global financial system), along with statements to the effect that they were prepared to do more to keep financial systems running smoothly, have helped to stem the flow out of "riskier" asset classes. The significant unwinding of the carry trade also slowed, and both the NZD and AUD have consolidated around 0.7450 and 0.8450, respectively.

Nevertheless, markets remain jittery, and while credit concerns continue to dominate, offshore developments remain critical to the future path for the NZD. In such an environment, interest rate differentials are firmly in the back seat, and there are few reasons to buy the NZD. August is a large

month for Uridashi and Eurokiwi maturities, and with risk aversion rising, a number of redemptions are expected to weigh further on the kiwi.

Technically, the NZD has tried twice to break through 0.7400 and support has held both times. This could lead to a bounce to 0.7520. However, with global concerns likely to continue to weigh, we favour the NZD being heavy this week, and see a move to 0.7240 as likely. A breach of this support would be more difficult and significant. Expect 0.7520-0.7240 range on the outside.

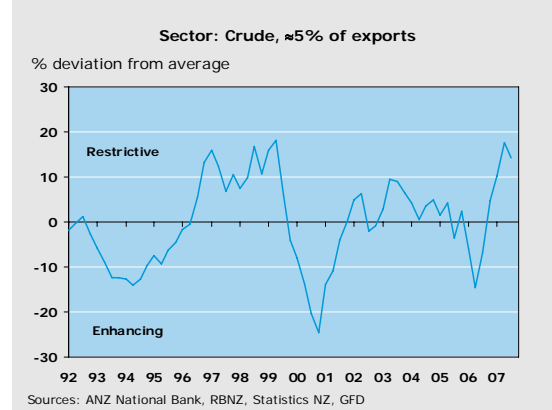
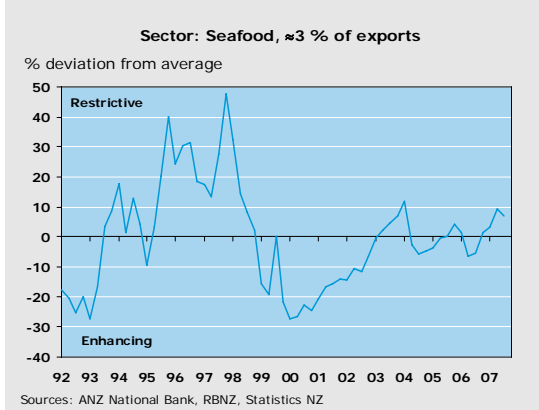
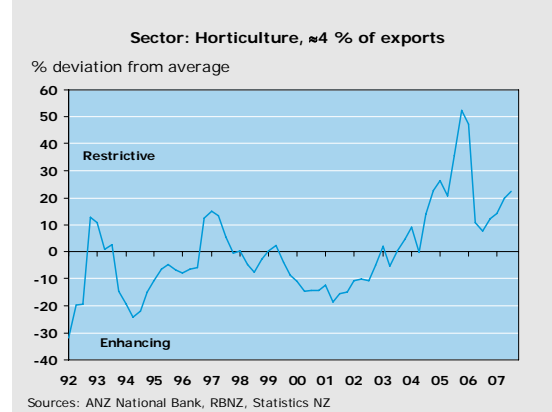
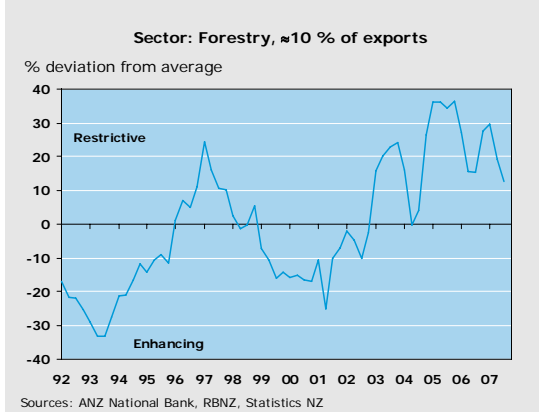
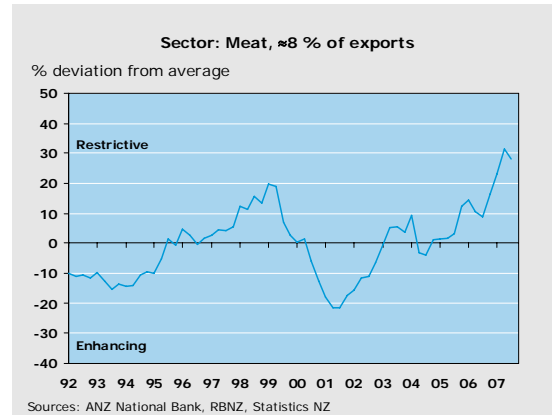
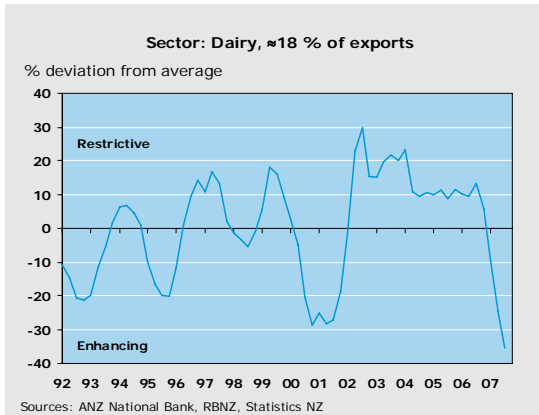
NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials favouring AUD.
Yield	↔	RBA Statement on Monetary Policy today.
Commodities	↔	Still supportive of both.
Partial indicators	↓	Aussie ahead of us in the terms of trade cycle.
Technicals	↓	Break of 200 day ma suggests trend is lower.
Sentiment	↓	Risk aversion on the rise.
Other	↔	Massive maturity month for offshore issuance with redemptions expected.
<b>On balance</b>	↓	<b>Short above 0.8850 with s/I above 0.89.</b>

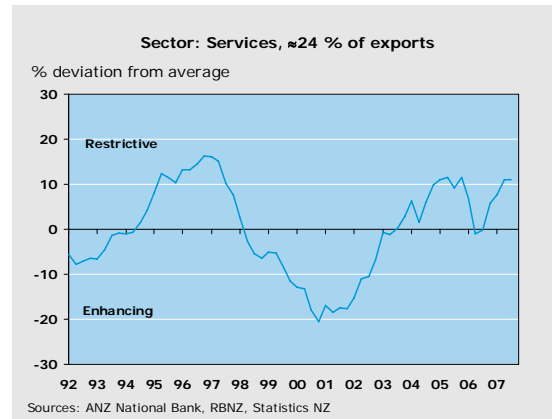
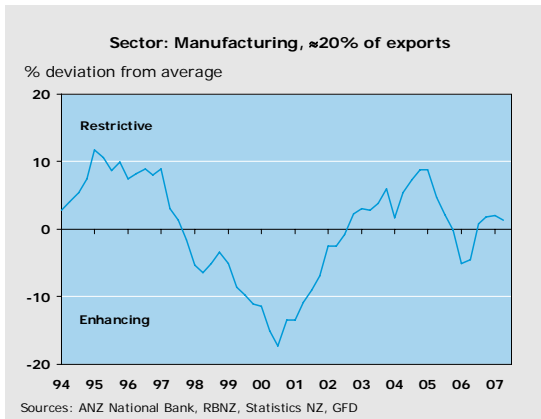
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↓	Some sectors booming, but most struggling.
Yield	↑	Yield differential widening on credit concerns.
Commodities	↑	Higher commodity prices remain supportive. These are holding up well.
Risk aversion	↓	Subprime contagion hurting NZD.
Partial indicators	↓	Kiwi overvalued either way you look at it.
Technicals	↓	Break of 0.7540 suggests move to major support around 0.7240.
AUD	↑	Fundamentals solid across the Tasman. AUD should be above 80 cents.
Sentiment	↓	Position squaring occurring.
Other	↔	IMM long positions greatly reduced. More to come.
<b>On balance</b>	↔/↓	<b>NZD has caught the cold. Reasons to buy limited until normality returns.</b>

## EFFECTIVE EXCHANGE RATES (UPDATE)

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

Further increases in world dairy prices coupled with the recent fall in the NZD have seen the commodity adjusted real exchange rate for the dairy sector fall to a historically low level. The forestry sector is also experiencing less restrictive conditions compared to a few months ago. The easing in the currency has also led to a small amount of relief for the meat, seafood, crude and manufacturing sectors, although conditions remain restrictive, and near record highs in the case of meat. Despite the recent fall in the currency, the commodity adjusted real exchange rate for the horticulture industry has risen, largely due to recent falls in the world price of apples, while the commodity adjusted real exchange rate for the services sector remained relatively flat.





## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 13	<b>NZ</b>	<b>Food Prices (Jul) – mom</b>	-	<b>0.0%</b>	<b>10:45</b>
	JN	Gross Domestic Product (2Q P) – qoq	0.2%	0.8%	11:50
		GDP Annualised (2Q P)	0.9%	3.3%	11:50
		GDP Deflator (2Q P) – yoy	-0.4%	-0.3%	11:50
		Current Account Total (Jun)	¥1,609.5B	¥2,133.6B	11:50
		Adjusted Current Account (Jun)	¥2,186.2B	¥2,226.4B	11:50
	AU	RBA Quarterly Monetary Policy Statement	-	-	13:30
	UK	PPI Input (Jul) – mom	0.7%	0.6%	20:30
		PPI Output (Jul) – mom	0.3%	0.2%	20:30
		PPI Output Core (Jul) – mom	0.2%	0.2%	20:30
		DCLG House Prices (Jun) – yoy	11.1%	10.9%	20:30
Aug 14	US	Advance Retail Sales (Jul)	0.2%	-0.9%	00:30
		Retail Sales Less Autos (Jul)	0.4%	-0.4%	00:30
		Business Inventories (Jun)	0.4%	0.5%	02:00
	<b>NZ</b>	<b>Retail Sales (Jun) – mom</b>	<b>0.4%</b>	<b>1.2%</b>	<b>10:45</b>
		<b>Retail Sales Ex-Autos (Jun) – mom</b>		<b>0.8%</b>	<b>10:45</b>
		<b>Retail Sales Ex Inflation (2Q) – qoq</b>	<b>0.1%</b>	<b>3.8%</b>	<b>10:45</b>
	UK	RICS House Price Balance (Jul)	9.1%	10.6%	11:01
		CPI (Jul) – mom	-0.2%	0.2%	20:30
		Core CPI (Jul) – yoy	2.0%	2.0%	20:30
		RPI (Jul) – mom	-0.1%	0.5%	20:30
		RPI Ex Mortgage Interest Payments (Jul) – yoy	3.2%	3.3%	20:30
	JN	Tertiary Industry Index (Jul) – mom	-0.2%	-0.1%	11:50
	AU	NAB Business Confidence (Jul)	-	15	13:30
		NAB Business Conditions (Jul)	-	16	13:30
	GE	GDP (2Q) – qoq	0.4%	0.5%	18:00
		GDP (2Q) – yoy	2.8%	3.3%	18:00
	EU	Euro-Zone GDP (2Q A) – qoq	0.5%	0.7%	21:00
		Euro-Zone Industrial Production (Jun) – mom	-0.1%	0.9%	21:00
Aug 15	US	Trade Balance (Jun)	-\$61.0B	-\$60.0B	00:30
		PPI (Jul) – mom	0.1%	-0.2%	00:30
		PPI Ex Food and Energy (Jul) – mom	0.2%	0.3%	00:30
		IBD/TIPP Economic Optimism (Aug)	46.5	48.2	02:00
	AU	Wage Cost Index (2Q) – qoq	1.1%	1.0%	13:30
	UK	Bank of England Minutes	-	-	20:30
		Claimant Count Rate (Jul)	2.7%	2.7%	20:30
		Jobless Claims Change (Jul)	-10.0k	-13.8k	20:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
Aug 15 cont.	UK	Average Earnings Inc Bonus (Jun) – 3M/yoy	3.5%	3.5%	20:30
		ILO Unemployment Rate (Jun) – 3mths	5.4%	5.4%	20:30
Aug 16	US	CPI (Jul) – mom	0.1%	0.2%	00:30
		CPI Ex Food and Energy (Jul) – mom	0.2%	0.2%	00:30
		Empire Manufacturing (Aug)	18.0	26.5	00:30
		Total Net TIC Flows (Jun)	\$62.5B	\$105.9B	01:00
		Industrial Production (Jul)	0.3%	0.5%	01:15
		Capacity Utilisation (Jul)	81.7%	81.7%	01:15
		NAHB Housing Market Index (Aug)	23	24	05:00
	AU	RBA Foreign Exchange Transaction (Jul)	-	\$618m	13:30
		Average Weekly Wages (May) – qoq	-	1.1%	13:30
	<b>NZ</b>	<b>Non-Resident Bond Holdings (Jul)</b>	-	<b>67.8%</b>	<b>15:00</b>
	GE	CPI (Jul F) – mom	0.4%	0.4%	18:00
		CPI – EU Harmonised (Jul F) – mom	0.5%	0.5%	18:00
	UK	Retail Sales (Jul) – yoy	0.1%	3.4%	20:30
	EU	Euro-Zone CPI (Jul) – mom	-0.2%	0.1%	21:00
		Euro-Zone CPI – Core (Jul) – yoy	1.9%	1.9%	21:00
Aug 17	US	Housing Starts (Jul)	1,400k	1,467k	00:30
		Building Permits (Jul)	1,400k	1,413k	00:30
		Philadelphia Fed (Aug)	8.9	9.2	05:00
	AU	RBA Governor Semi-Annual Testimony	-	-	12:00
		Preliminary BoP Imports (Jul) – mom	-	1.0%	13:30
	GE	Producer Prices (Jul) – mom	0.3%	0.2%	18:00
Aug 18	US	Fed's Poole Speaks about US Exports in Arkansas	-	-	01:00
		University of Michigan Confidence (Aug P)	88.0	90.4	02:00

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:** Although a strong labour market will provide a base level of support for the housing market and consumer spending, there is evidence that the economy is slowing in the face of higher interest rates. The housing market, in particular, is moderating. The key now for the Reserve Bank is whether this slowdown will be sustained. Retail sales data this week will be very important as will indicators of borrowing demand.

Date	Data/Event	Economic Signal	Comment
Tue 14 Aug (10.45)	Retail Trade Survey (June)	Still robust	Credit card statistics suggest that consumer spending remains robust. We expect a modest increase for the month.
Mon 20 Aug (10.45)	External Migration (July)	Easing	Migration inflows have slowed as the number of permanent and long-term departures has increased. This theme is expected to continue.
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)	-	-
Mon 3 Aug	National Bank <i>Rural Report</i>	-	-
Thu 6 Aug (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 Aug (15.00)	ANZ Commodity Price Index (Jul)	-	-
Fri 7 Aug (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.
<b>On Balance</b>		<b>Slowing</b>	<b>Housing leading the way but when will the rest follow?</b>

### NZ Economics

<p><b>Cameron Bagrie</b> Chief Economist +64 4 802 2212</p>	<p><b>Khoon Goh</b> Interest Rate Strategist +64 4 802 2357</p>
<p><b>Sean Comber</b> Economist +64 4 802 2286</p>	<p><b>Steve Edwards</b> Economist +64 4 802 2217</p>
<p><b>Philip Borkin</b> Economist +64 4 802 2199</p>	<p><b>Kevin Wilson</b> Rural Economist +64 4 802 2361</p>

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jun 07	Jul 07	13 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
NZD/USD	0.756	0.786	0.747	0.770	0.730	0.700	0.660	0.640	0.630	0.610
NZD/AUD	0.898	0.907	0.883	0.885	0.830	0.787	0.767	0.771	0.778	0.772
NZD/EUR	0.563	0.573	0.546	0.550	0.525	0.515	0.493	0.485	0.485	0.480
NZD/JPY	92.6	95.6	88.3	95.5	92.0	88.9	83.2	79.4	76.9	73.2
NZD/GBP	0.380	0.386	0.369	0.381	0.367	0.357	0.340	0.333	0.333	0.326
NZ\$ TWI	73.7	75.6	71.8	73.9	70.3	67.8	64.5	63.1	62.5	61.0
NZ interest rates	Jun 07	Jul 07	13 Aug 07	Sep 07	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09
OCR	8.07	8.18	8.25	8.25	8.25	8.25	8.25	8.25	7.75	6.75
90 day bill	8.32	8.44	8.59	8.60	8.50	8.50	8.50	8.40	7.70	6.80
10 year bond	6.73	6.79	6.49	6.80	6.90	6.90	6.80	6.90	6.70	6.60
International	Jun 07	Jul 07	13 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	5.58	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	6.44	6.62	6.73	6.40	6.40	6.70	6.90	6.90	6.90	6.90

## KEY RATES

	10 July	6 July	7 July	8 August	9 August	10 August
Official Cash Rate	8.00	8.25	8.25	8.25	8.25	8.25
30 day bank bill	8.24	8.45	8.48	8.48	8.48	8.48
90 day bank bill	8.36	8.58	8.58	8.59	8.58	8.60
NZGB 07/09	7.49	7.76	7.78	7.80	7.79	7.65
NZGB 11/11	7.20	7.15	7.20	7.23	7.21	7.09
NZGB 04/13	7.10	6.95	7.04	7.07	7.05	6.95
NZGB 12/17	6.78	6.39	6.53	6.58	6.58	6.45
1 year swap	8.46	8.61	8.64	8.65	8.62	8.60
2 year swap	8.37	8.42	8.47	8.49	8.45	8.40
5 year swap	8.07	8.02	8.07	8.09	8.07	8.02
RBNZ TWI	74.9	72.4	73.0	72.8	73.4	71.6
NZD/USD	0.7758	0.7579	0.7637	0.7598	0.7681	0.7447
NZD/AUD	0.9032	0.8868	0.8903	0.8878	0.8879	0.8810
NZD/JPY	95.63	89.10	90.64	90.39	91.90	87.93
NZD/GBP	0.3849	0.3712	0.3757	0.3758	0.3771	0.3684
NZD/EUR	0.5698	0.5486	0.5530	0.5526	0.5563	0.5449
AUD/USD	0.8589	0.8546	0.8578	0.8558	0.8651	0.8453
EUR/USD	1.3616	1.3814	1.3810	1.3750	1.3807	1.3667
USD/JPY	123.27	117.56	118.68	118.96	119.65	118.07
GBP/USD	2.0156	2.0417	2.0327	2.0218	2.0371	2.0214
Oil	72.14	75.41	72.03	72.23	72.23	71.62
Gold	659.35	673.10	670.70	674.80	674.00	663.30
Electricity Price Index	7.16	5.73	6.00	6.02	5.96	5.84

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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](mailto:ecnmcs@anz.com)