ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

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SPEED BUMPS

ECONOMIC OVERVIEW

While some are strongly downplaying the impact of pending “speed limits” on high LVR housing lending, we tend to disagree. Not only are actual borrowing costs moving up as a consequence of forthcoming changes, but we also expect the quantity impact to hit home. We will be paying close attention to forthcoming readings for mortgage approvals, credit aggregates, and housing market reports. Forthcoming business confidence readings are expected to signal strong support for overall demand, although our view is that developments on the supply side of the economy need to be considered.

REGIONAL OUTPUT GAPS

Strengthening demand and activity, and increasing labour utilisation contributed to a narrower margin of spare capacity in most regions. Although some regions are closing in, Canterbury remains the regional standout, with pressures on capacity a signal of where resources need to shift. Declining surveyed capacity utilisation provides some more encouraging signs on the duration of the recovery.

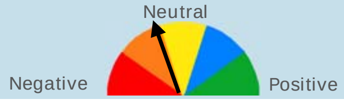
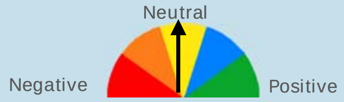
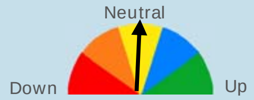
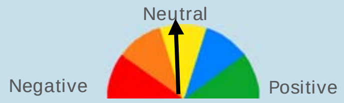
INTEREST RATE STRATEGY

We continue to see scope for a corrective rally in NZ rates as positioning turns neutral and value-seeking investors return to the market. Strategically, we would shift from a strategy of selling NZGS rallies to a more neutral view on duration. Tactically, we would look to enter NZGS longs at current levels, and reset swap spread wideners in the low 30s. The NZ front end continues to look fully priced, although rallies could be fairly shallow with the domestic data pulse expected to remain robust. We prefer to take profit on tactical steepeners. Global yields look set to consolidate in an otherwise quiet data week, with next week’s US payrolls data key to firming up September tapering expectations.

CURRENCY STRATEGY

We expect NZD/USD to remain above the key 0.7680-0.7700 support level for now, and given the lack of support below this level, it is critical it holds. The domestic pulse continues to point to NZD strength, despite LVR restrictions leading to a paring back in rate hike expectations. However, with Fed tapering just around the corner, and yields rising, the finger is still being pointed at countries that are heavily leveraged. Prior EM darlings are receiving attention and this opens up downside for the commodity bloc. We view recent NZD/AUD weakness as a correction, and look for a return to NZD/AUD strength in coming months.

THE ANZ HEATMAP

Variable	View	Comment	Risk profile
GDP	3.3% y/y for 2014 Q2	Confidence gauges suggest solid momentum. Concerns over growth mix, capacity constraints, NZD and global outlook.	
Unemployment rate	5.8% for 2014 Q2	Following the economy but ongoing volatility.	
OCR	3.00% by Jun 2014	RBNZ to pursue alternative options before OCR hikes. Low inflation, high NZD buying time.	
CPI	1.9% y/y for 2014 Q2	Contained/low near-term. Upside risks to construction costs, food petrol and domestic inflation.	

ECONOMIC OVERVIEW

SUMMARY

While some are strongly downplaying the impact of pending “speed limits” on high LVR housing lending, we tend to disagree. Not only are actual borrowing costs moving up as a consequence of forthcoming changes, but we also expect the quantity impact to hit home. We will be paying close attention to forthcoming readings for mortgage approvals, credit aggregates, and housing market reports. Forthcoming business confidence readings are expected to signal strong support for overall demand, although our view is that developments on the supply side of the economy need to be considered.

FORTHCOMING EVENTS

ANZ Business Outlook –August (1:00pm, Thursday, August 29).

SNZ Building Consents – July (10:45am, Friday, August 30). A 1 to 2 percent increase in overall consent issuance is likely, with ex-apartment consent numbers likely to hold around June levels. Non-residential values of around $350m are envisaged.

RBNZ Credit Aggregates – July (3:00pm, Friday, August 30). Firming rates of household credit are expected, given the July pick-up in housing market activity. Annual agricultural credit growth is likely to move lower over the next few months as dairy cheques are cashed.

SNZ Overseas Trade Indexes – Q2 (10:45am, Monday, September 2). A 5.5 percent increase in the goods terms of trade is expected. Import volumes are expected to rise 2 percent, with drought related falls to dairy and meat exports expected to contribute to a 6 to 8 percent sa fall in export volumes.

WHAT’S THE VIEW?

While some have deemed the October introduction of high-LVR speed limits on mortgage lending as likely to have a minimal impact, we do not. Putting on our “independent” commentator hat, there are five main aspects that we think are being underestimated:

- **The "price" being charged in the high LVR space will move up too.** Back in March the RBNZ flagged an increase in regulatory capital required for high-LVR housing lending, with this set to kick in on September 30. This will result in an increase of regulatory capital for housing loans of around 12 percent. That's a cost to banks, which will need to pass it on. One outcome of such changes will likely be the more rigorous application of low equity premiums and low equity margins. These equate to an interest rate increase for riskier lending. And we suspect gone are the days when banks will offer up huge cash incentives or gimmicks, such as the latest tech gadget with each mortgage.
- **Banks have a huge volume of preapprovals to now manage.** A preapproved loan is a legal contract that can be alive for 6 months. Looking at weekly mortgage approvals data over the preceding months suggests this "pipeline" could be substantial. That's an asset (new business) but it’s now also a liability: there will be some uncertainty as to how these preapprovals will roll off, and banks will need to manage this uncertainty. We wouldn’t be surprised to see tweaks to lending criteria. Those pre-approved high-LVR loans that "confirm" will likely end up facing the differentiated pricing discussed above too.
- **The plumage of the Governor: he's not a hawk or a dove. He's the one with the shotgun who likes to get things done**. If LVR restrictions don't work he'll: a) tighten them further or b) use another prudential measure or c) raise the OCR harder and faster. The latter may not be his preferred strategy but it is most certainly still in the toolkit.
- **Banks had already started to tighten lending criteria and back off in the high LVR space before the final announcement**. That's the credit channel of monetary policy at work: it's hugely relevant for the traditional monetary policy transmission mechanism.
- The Governor was pretty pointed in terms of comments that he **expects bank executives and board members to operate within the spirit of the new regime. Those are not the nuances of a regulator who wants to be mucked around**.

This does not mean LVR restrictions and other changes are a silver bullet to housing shortages. They will certainly not cause 30,000 new Auckland houses to pop out of the ground. They are tools that merely buy the RBNZ time before the supply-side response starts to kick in. **The measures will also be subject the law of unintended consequences.** Disintermediation towards more lightly regulated lenders is one risk. Also, **a side effect of risk based pricing could be *lower* mortgage interest rates than otherwise for low-LVR lending as banks chase borrowers with high equity.** However, given the drift higher in fixed mortgage interest rates (courtesy largely of US

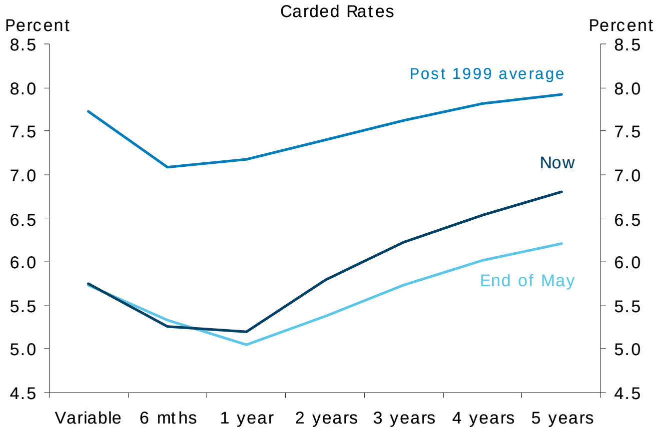
ECONOMIC OVERVIEW

monetary policy) overall interest rates seem likely to continue to increase for all borrowers, just at different speeds. **We will be watching the deposit space closely: it's one bellwether of future mortgage interest rate moves.**

Even with these caveats, it's hard to go past the spirit of last week's messages. **Giving the measures more punch is the fact that they are being accompanied by a tightening in financial conditions (i.e. witness the rise in fixed borrowing rates)**. More restrictions on the credit channel of monetary policy – plus long rates rising courtesy of the US Federal Reserve – mean less pressure on the traditional NZ monetary policy (OCR) mechanism. **This is a key reason we're not expecting the RBNZ to be heavy-handed with the OCR until 2015 (not to be confused with saying that the OCR will not rise sooner: it will!).**

Moreover **the RBNZ is likely quite chuffed with the lift in long-term fixed rates** in the housing arena: it'll keep borrowers chasing the front (cheapest) part of the curve. This is where the "specials" remain. The RBNZ will thereby get more bang for its buck when it finally decides the time is ripe for an OCR hike, which means they can afford to be patient.

Mortgage interest rate curve
Carded Rates

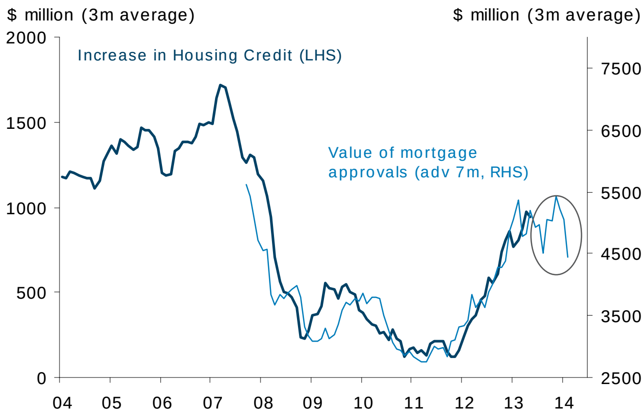


Sources: ANZ, RBNZ, www.interest.co.nz

With high-LVR lending restrictions now a core part of the policy framework, forthcoming credit data releases look set to take on more prominence (the next release is Friday). A bumper July month for house sales suggests annual housing credit growth will move above 6 percent over the next few months. The earlier strengthening in mortgage approvals preceded the climb in the credit aggregates, **although their recent tailing off suggests veiled threats of policy action by the RBNZ appear to have gained some traction**.

Mortgage approvals will be key to watch over the coming months for gauging further impacts. The official announcement of the high-LVR restrictions, and the Governor's remarkably explicit comments that the measures "will provide the Bank with greater flexibility in considering the timing and magnitude of any future increases in the OCR", imply the RBNZ now has to factor such a framework into their *MPS* projections. **The Governor has made it clear that he believes "LVR restrictions will support monetary policy."** There might be a great deal of uncertainty regarding how effective they will be, but for monetary policy purposes, the Reserve Bank will have to make an assumption. **We will be watching with interest what the assumed impact is for not only the implied tightening profile over the next year, but also the neutral OCR.** Not to mention the September *MPS* forecasts for house prices.

Mortgage approvals and housing credit growth (sa)



Sources: ANZ, RBNZ

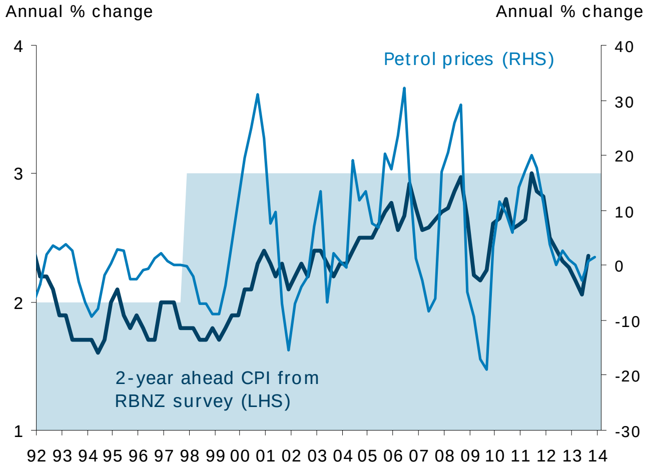
We will also peruse agricultural credit aggregates with great interest. While we are just into the 2013/14 season and the pending supply response from overseas dairy producers is likely to weaken prices towards the end of the year, another few strong GlobalDairyTrade auction results would raise the prospect of Fonterra lifting their 2013/14 $7.50/kgMS milk price forecast. The upshot would likely be a larger cash injection payout versus last season, than the $3.1bn already earmarked. This is already a huge income injection for the economy. **Agricultural credit aggregates will provide an early indication as to whether the rural sector is "doing the right thing" or whether the milk is going to turn to froth.**

In terms of the bread and butter stuff, **the tick-up in business sector inflation expectations from the RBNZ survey was a reminder that the RBNZ cannot take continued low inflation for granted.** This result needs to be put in perspective: the 2.3

ECONOMIC OVERVIEW

percent expectation for two years ahead is still close to the inflation target; the survey sample is small (only 84 respondents in the Q3 survey); and the Q3 blip could reflect recently observed price increases rather than being a sign of generalised pricing pressure. We continue to focus on a selection of indicators of core inflation and **will be paying particular heed to our Monthly Inflation Gauge over the next few months.**

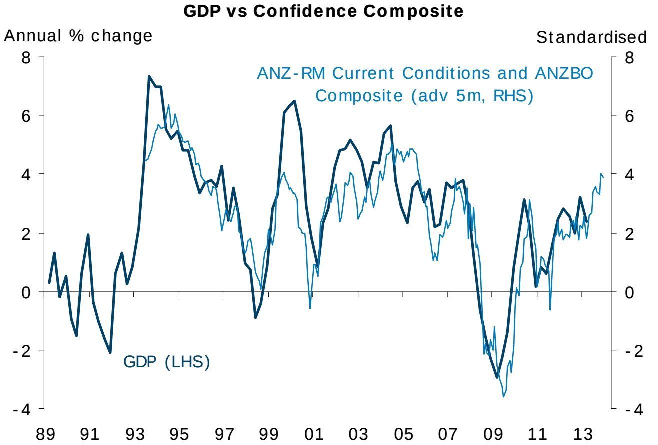
Expected CPI and Petrol Prices



Sources: ANZ, RBNZ, Statistics NZ

The recent resilience in the NZ activity data had earlier been signalled by the drift up in business confidence earlier in the year. **One of the hallmarks of more recent readings has been the broadening in confidence across sectors, with our business sector composite indicators pointing to strengthening momentum for most sectors of the economy.** This week's *ANZ Business Outlook* will be useful for discerning whether this trend is continuing. We will also be closely following pricing intentions from the survey to see if the July uptick was a spike or the start of a trend.

GDP vs Confidence Composite



Sources: ANZ, Roy Morgan, Statistics NZ, Westpac McDermott Miller

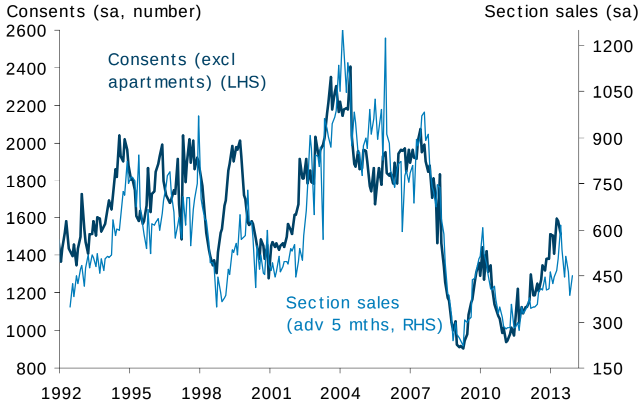
Consumer confidence is also strong, with the broad-based July lift in imports suggesting that the demand side of the economy is fizzing. While strong July capital good imports were a promising sign, **we continue to harbour doubts as to whether there is sufficient capacity to facilitate this demand, with sector and regional tensions over where additional capacity is required and where it is located.** Our regional output gap analysis (see page 6) continues to signal strong demand for resources in Canterbury, consistent with higher inflation readings for that region.

The construction sector remains at the vanguard of the expansion, accounting for close to one third of the nationwide increase in GDP and employment over the past year. There are a number of factors suggesting it will remain a case of "onwards and upwards" for building activity:

- a long period of under-building, resulting in housing shortages (particularly in Auckland);
- still low (but rising) mortgage interest rates;
- the $40bn Canterbury rebuild and earthquake strengthening work;
- the balance shifting in favour of building given rising prices for existing homes; and
- addressing $12-15bn in leaky buildings.

Nevertheless, it is unlikely to be *continuously* onwards and upwards for construction sector activity, as evidenced by the drop in cement production outside of Canterbury in Q2. **We continue to harbour some doubts over the ability of construction sector capacity to meet rising demand.** Construction cost inflation remains elevated, with the tailing off in residential section sales another sign that ex-apartment issuance may be heading for a breather.

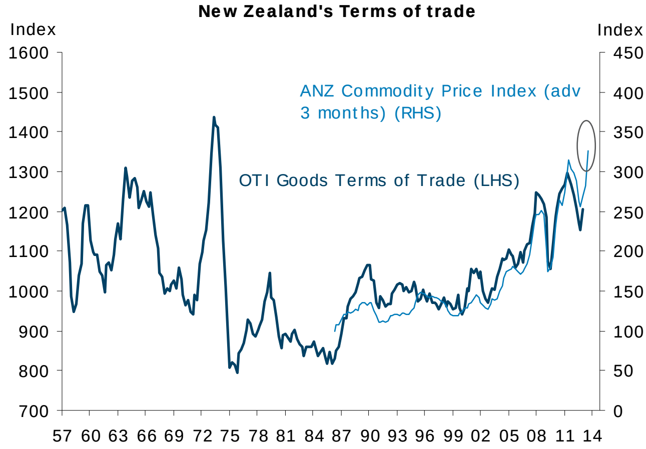
New dwelling consents and REINZ section sales



Sources: ANZ , REINZ, Statistics NZ

ECONOMIC OVERVIEW

The Q2 terms of trade are expected to show a dairy price impact, **with the goods terms of trade on track to reach their highest levels since the early 1970s. This is a major support factor for the NZ economy.** We are also likely to see a large drought-induced drop in Q2 export volumes, with trade volume data confirming sharp falls dairy, meat and wool exports. With import volumes likely to move up in Q2, the upshot is likely to be a large negative net trade contribution to Q2 GDP. Fortunately there appears to have been sufficient momentum in the services sector to deliver a respectable Q2 GDP outturn.



Sources: ANZ, Statistics NZ

RECENT LOCAL DATA

ANZ Regional Trends – Q2. The Nationwide measure of economic activity expended 1.2 percent (4.4 percent y/y). Eleven regions recorded rising quarterly activity, with falls in two regions, while activity in one region was unchanged.

RBNZ Survey of Expectations – Q3. Both the 1 and 2-year ahead forecast for annual CPI inflation rose: to 1.9 and 2.36 percent respectively (1.52 and 2.06 percent in Q2).

GlobalDairyTrade auction – 20 August. The average winning price rose 2.3 percent to US $4,941/MT. Whole milk powder prices rose 2.7 percent.

SNZ International Travel and Migration – July. There was a net PLT inflow of 1,980 persons, with the annual net PLT inflow rising to 10,569. Overseas visitor arrivals rose 1.3 percent (5.9 percent y/y).

RBNZ Credit Card Billings – August. The value of credit card billings fell 0.3 percent sa (+4.7 percent y/y). Domestic billings fell 0.4 percent, with billings on overseas cards up 0.9 percent.

SNZ Overseas Merchandise Trade – July. There was a monthly merchandise trade deficit of $774m, with the annual merchandise trade deficit climbing to $1,688m.

REGIONAL OUTPUT GAPS

SUMMARY

Strengthening demand and activity, and increasing labour utilisation contributed to nine of the fourteen regions reporting a narrower margin of spare capacity. Although some regions are closing in, Canterbury remains the regional standout, with pressures on capacity a signal of where resources need to shift. Declining surveyed capacity utilisation provides some more encouraging signs on the duration of the recovery, although developments on the pricing side of the economy will provide the ultimate proof.

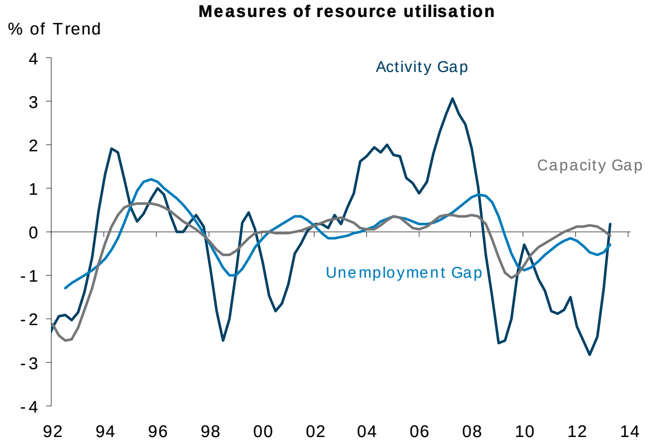
REGIONAL GAPS

Our regional output gap measures for the June 2013 quarter provide an updated snapshot of the degree of resource pressure throughout the regions.[1] Regional measures are prone to a larger degree of uncertainty than nationwide data, so we focus on the broad trends.

Key points from the updated analysis are:

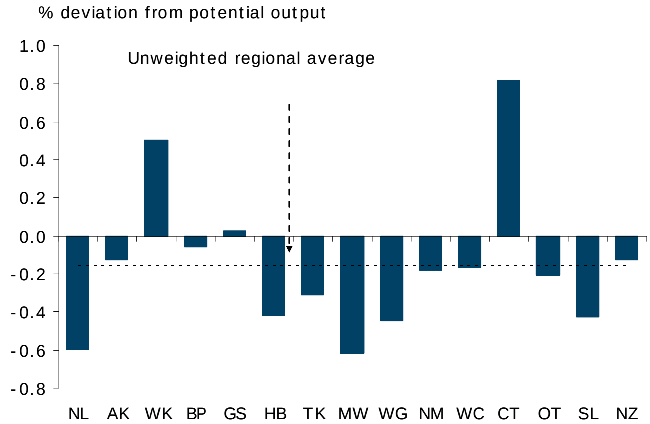
- **In the June 2013 quarter, 11 of the 14 regions examined had a margin of spare capacity** (i.e. a negative output gap). Manawatu/Whanganui and Northland had the greatest margin of spare capacity, followed by Wellington, Hawke's Bay, and Southland. Again, **three regions reported a positive output gap.** For the fifth successive quarter Canterbury led the pack, with the Waikato and Gisborne the other regions no longer deemed to have an excess overall margin of slack.
- **The estimated degree of resource stretch depends on the output gap measure used.** Our overall measure for each region quoted above is an average of three approaches: the activity gap, the labour-based gap, and capacity-based metrics.
- **The nationwide *activity* gap moved into positive territory in Q2, the first such occurrence since the June 2008 quarter.** Underpinning this was the 1.2 percent rise in nationwide activity reported in the ANZ *Regional Trends,* with 11 of the 14 regions recording an increase in economic activity in the June quarter. **As a result, the activity gaps narrowed for most of the regions, particularly for Northland, Auckland, and Wellington – regions that experienced faster Q2 growth than the nationwide average.** Canterbury, Waikato, and Auckland are adjudged to have positive activity gaps, whereas Northland and Southland had the most negative gaps.

Measures of resource utilisation



Sources: ANZ, Statistics NZ

Regional output gaps



Sources: ANZ

Note: NL = Northland, AK = Auckland, WK = Waikato, BP = Bay of Plenty, GS = Gisborne, HB = Hawke's Bay, TK = Taranaki, MW = Manawatu-Whanganui, WG = Wellington, NM = Nelson-Marlborough, WC = West Coast, CT = Canterbury, OT = Otago, SL = Southland

- **Nationwide *labour-based* gap metrics also tightened marginally in Q2, although the majority of regions still show a margin of labour market slack.** The Hawke's Bay, Manawatu/Whanganui and Wellington have more labour market slack than other regions, whilst the labour market was the tightest in Gisborne, the Waikato and Canterbury. Labour utilisation in Auckland tightened but the region has more slack

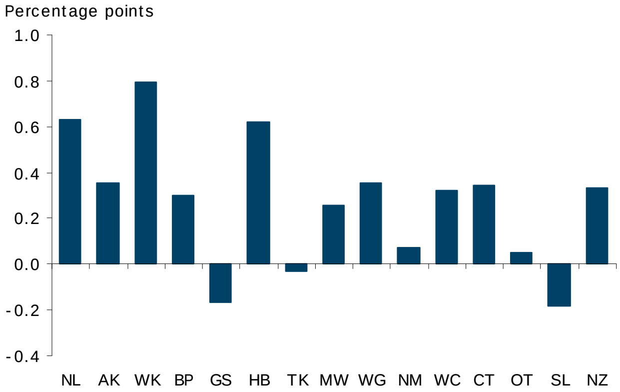
[1] Our regional output gap estimates are generated using economic activity data from the ANZ *Regional Trends*, unemployment rates from Statistics NZ's *HLFS*, and capacity utilisation measures from the ANZ *Business Outlook* survey. We chose a broad approach for two reasons. First, it minimises some of the error that typically surrounds statistics at the regional level. Second, the RBNZ uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For the unemployment rate, activity, and surveyed capacity utilisation, we use a band-pass filter to derive trend estimates. The regional unemployment rates are advanced two quarters prior to filtering, as this is a lagging indicator. Individual activity, unemployment and capacity utilisation gaps for each region are then given an equal weighting.

REGIONAL OUTPUT GAPS

than the nationwide average. Measurement quirks relating to the HLFS continue to contribute to considerable volatility, although improvements in job advertising suggest the strengthening demand backdrop is starting to flow through into hiring. Despite this, our internal anecdotes suggest continuing labour market bottlenecks for some sectors that may not be captured by our regional measures.

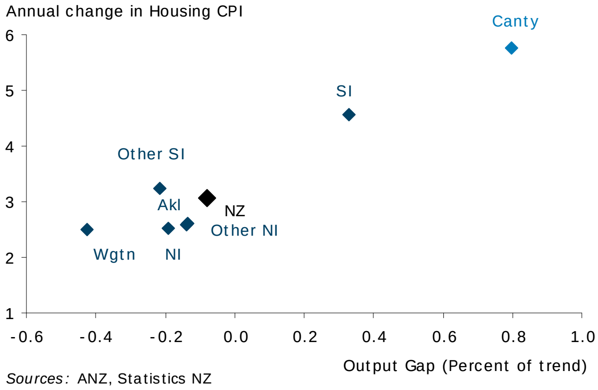
- **Conversely, nationwide *capacity-based* metrics eased in Q2 and are around trend levels.** In eleven regions, surveyed capacity utilisation declined relative to trend in Q2, with the largest declines being in Canterbury and Taranaki. This suggests lifting business investment in those regions is starting to alleviate capacity constraints. The largest degree of slack was in Gisborne, Southland and Hawke's Bay. Capacity-based metrics eased further relative to trend in Auckland. Four of the regions were still adjudged to have higher surveyed capacity utilisation relative to trend, most notably the Hawke's Bay, Canterbury and Waikato.
- In the big picture, an improving demand backdrop is contributing to a geographically broad-based erosion of spare capacity. **Our estimates suggest nine of the 14 regions experienced a narrower margin of overall slack versus the previous quarter.** The major catalyst was strengthening demand, consistent with the geographically widespread pick-up in Q2 activity reported in the *Regional Trends* (half of the 14 regions experienced a quarterly expansion larger than 1 percent). In most cases this was reinforced by tightening labour market capacity, which in turn was offset by offsetting moves in capacity utilisation. More negative activity gaps were the catalyst behind more negative output gaps in five of the 14 regions.
- With the $40bn rebuild continuing to gain pace, positive activity gaps are continuing to climb for Canterbury, with this region having the most positive activity and overall output gap. Higher inflation in the Canterbury region remains a signal of where resources need to shift. **Lower surveyed capacity utilisation in Canterbury in Q2 suggests that resources are indeed starting to flow into the region**, which may help mitigate the upward pricing pressure implied by strengthening demand. This is encouraging, although **the proof is in the pudding: we are closely watching developments on the pricing side of the economy.** Our internal anecdotes continue to highlight skill shortages in the region, indicating a still-high degree of mismatch between available skills and vacancies.

Change in regional output gap



Sources: ANZ

Regional Output Gaps and Housing Group Inflation
2013Q2 Inflation and 2013Q2 Output gaps



Sources: ANZ, Statistics NZ

THE UPSHOT

A number of common themes emerge:

- **The broadening demand-based recovery is starting to filter through most regions.** A Canterbury versus Rest of New Zealand divide is apparent, but some regions are catching up.
- A larger margin of surveyed capacity utilisation suggests increases in business investment are starting to flow through into productive capacity. **This is encouraging, although it remains to be seen whether it will address resource bottlenecks**, which threaten to truncate the durability of the nationwide recovery.
- **As yet, there is little evidence of capacity pressures in Canterbury translating into a lift in nationwide core inflation that would be of concern to the RBNZ.** However, we will continue to closely monitor developments on the pricing side of the economy, particularly our Monthly Inflation Gauge, for signs of a shift.

INTEREST RATE STRATEGY

SUMMARY

We continue to see scope for a corrective rally in NZ rates as positioning turns neutral and value-seeking investors return to the market. Strategically, we would shift from a strategy of selling NZGS rallies to a more neutral view on duration. Tactically, we would look to enter NZGS longs at current levels, and reset swap spread wideners in the low 30s. The NZ front end continues to look fully priced, although rallies could be fairly shallow with the domestic data pulse expected to remain robust. We prefer to take profit on tactical steepeners. Global yields look set to consolidate in an otherwise quiet data week, with next week's US payrolls data key to firming up September tapering expectations.

THEMES

- NZGS yields are approaching levels where we prefer to enter tactical longs. US yields also look set to consolidate with Fed tapering fully priced.
- The NZ front end has scope to rally further, after dovish comments from the RBNZ Governor and as high-LVR limits reduce payside pressure.
- This week's domestic focus will be on ANZ *Business Outlook*. Fed speakers take centre stage in the US.

PREFERRED STRATEGIES – INVESTORS

We continue to see scope for a corrective rally as the positioning squeeze in the swap market runs out of momentum. However, any rally is likely to be relatively shallow given the robust domestic data pulse. **Expectations for early 2014 OCR hikes have been pared back** in the past week following the introduction of high-LVR limits and dovish comments from RBNZ Governor Wheeler, although long-end rates remained under pressure from higher US yields. **The front end still offers value with 115bps of hikes priced by December 2014**, and while the 1yr/1yr rate has rallied 10bps to 4 percent in the past week (offering 9bps of monthly roll), we expect further receiving on back-ups toward 4.10-4.20 percent.

KEY VIEWS – FOR INVESTORS		
GAUGE	**DIRECTION**	**COMMENT**
Duration	Tactical long/ Neutral	Target longs above 4.70 percent. Neutral on a medium-term view.
2s10s Curve	Neutral	Take profit on tactical steepeners with long-end yields at highs.
NZ-US 10yr spread	Neutral / Narrower	NZ-US offers some value at 180. Neutral NZ-AU at 60bps.
Swap spreads	Neutral	Consolidation with NZGS out of favour. To widen longer term.

We shift from a strategy of selling NZGS rallies to a more neutral view on duration in light of the recent back-up in yields, and would **look to enter tactical longs in the NZGS Apr-23s.** US yields look fully priced for tapering, and we are now starting to see demand for NZGS return as yields rise towards our fair value estimate. **NZGS also offer good value from a relative value perspective and we would look to re-instigate swap spreads wideners at around 30bps.** However, while NZGS now offer a decent pick-up to both ACGB and US Treasury yields, we are cautious on long-term spreads, with NZ Dec-14 bill futures now trading 95bps above Australian rates and 320bps above Eurodollars. We would look to **take profit on tactical curve steepeners** as US 10yr yields approach 3 percent, although we continue to expect the curve to gradually steepen over the longer term.

PREFERRED STRATEGIES – BORROWERS

We prefer to hold off adding to hedge cover at current levels, and continue to favour a strategy of "averaging in" to additional hedge cover on dips in yield. Markets invariably overshoot, and as momentum slows we could start to see a corrective rally. Focus on the long end, given this has more scope to move higher on a longer term view. The 125bps back-up in term swap rates since May has seen **forward rates return to levels close to longer-term averages. Thus, borrowers need to carefully weigh up the cost of adding to hedge cover.** There is no guarantee that fixing will prove to be the most cost effective choice over time – it's the path of the OCR that ultimately determines the effectiveness of fixing.

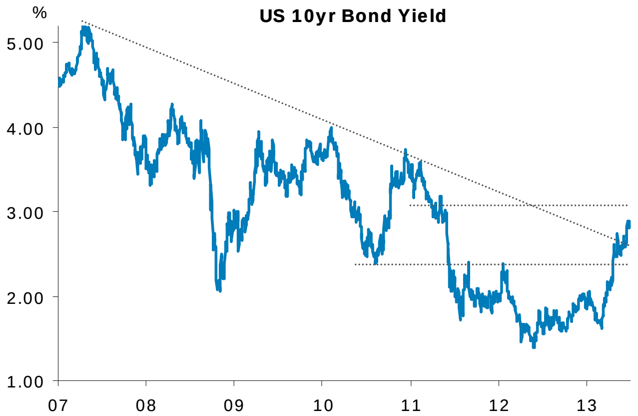
KEY VIEWS – FOR BORROWERS		
GAUGE	**VIEW**	**COMMENT**
Hedge ratio	Majority hedged	Stay majority hedged. Await dips to maintain high ratios.
Value	Approaching fair value	Short-end fully priced but swap rates to consolidate.
Uncertainty	High / Reduced	EM Asia and Europe risks. Australian outlook soft.

Indeed, last week's mortgage rates hikes (2-5yr rates higher by as much as 60bps) **could lead to a reduction in payside interest** as mortgage-holders are corralled into cheaper 12-18 month fixed-term rates, which are typically offset by deposit flow. We would target dips in the 5yr rate towards our fair value estimate of 4.20 percent to top up cover, although remain **wary that rallies are likely to be relatively shallow** with the domestic data flow remaining robust. **We continue to forecast term swap rates to normalise over the longer term,** both as the RBNZ embarks on a tightening cycle from H1 2014 and as US yields gradually lift ahead of an eventual Fed tightening cycle. Thus, **it makes sense to remain majority hedged on a longer-term view.**

INTEREST RATE STRATEGY

GLOBAL SCENE

US 10yr bond yields have tested two-year highs in the past week as Fed Minutes help firm up expectations for a September start to tapering. The FOMC "judged that adding new information on the outlook for asset purchases might prompt an unwarranted shift in market expectations", effectively condoning current expectations. **Our global strategists assign 70 percent odds to a September start to tapering**, expecting an initial step of $10-20bn. US 10yr yields have now breached the key 2.75 percent level and **a move towards 3.05 percent beckons** if August payrolls data prints above expectations on September 6. This is the level from where yields fell when the Fed first introduced forward guidance in 2011 and could provide a near-term top. **The downside is likely to be limited to 2.50 percent,** with market flow the key driver of direction. We see some possibility that the Fed will adjust the language around the threshold forward guidance for the federal funds rate at the September FOMC meeting, potentially capping yields. With a light data calendar this week, **Fed speakers Bullard, Williams and Lacker take centre stage.**



Sources: ANZ, Bloomberg

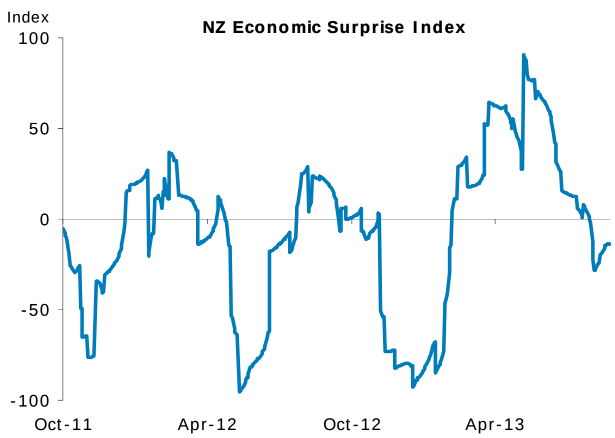
Elsewhere, markets will look to **German IFO on Tuesday** for signs that Europe's core continues to recover, **Q2 Australian Capex on Thursday,** and **China's official manufacturing PMI on Sunday** for confirmation that downside risks are abating.

DOMESTIC SCENE AND RBNZ EXPECTATIONS

Overly aggressive pricing of OCR hikes have been pared back in the past week on the introduction of LVR limits and as the RBNZ Governor stated "that while higher policy rates may well be needed next year as expanding domestic demand starts to generate overall inflation pressure, this is not the case at present… furthermore, with policy rates remaining very low in the major economies, and falling in Australia, **any OCR increase in the near term would risk the NZD appreciating sharply".** To highlight this point, of the major central banks that we follow, **the RBA is expected to be the next cab off the tightening rank following the RBNZ – and that's not until early 2015!**

The RBNZ is clearly stuck between a rock and a hard place and will be hoping a sustainable US recovery to help relieve pressure on NZD/USD. **We remain of the view that OCR hikes will start from March 2014 and that the pace of tightening will be gradual.** Last week's mortgage rate hikes (ANZ's 5yr rate is now above 7 percent) suggest OCR hikes will gain even greater traction when they arrive, with borrowers more likely to stick to cheaper short rates for now. The Bank has been forced to turn to alternative policy tools to cool the housing market, and while we expect the high-LVR lending restrictions will impact both the quantity and price of borrowing, the impact on the housing market is more of an unknown.

Thus we see scope for a further paring back in OCR expectations. The probability of a January cut has halved to around 40 percent in the past week, but the market continues to price 115bps of hikes by the end of 2014, some 15bps higher than the upside scenario published in the June *MPS*. While mid-curve swap rates appear to be offering decent medium-term value, **much depends on the domestic data pulse, and our proprietary gauges and internal anecdotes point to ongoing strength.** Indeed, a neutral NZ economic surprise index suggests expectations have also been ratcheted up, potentially limited the downside for swap rates on a reduced likelihood that the data disappoints.



Sources: Bloomberg, Citi

The main data this week will be August ANZ business confidence data on Thursday, the series having printed 14-year highs in July. **July building consents are expected to track higher** towards longer-term averages on Friday, while RBNZ credit aggregates are likely to show household borrowing firming further in July.

CURRENCY STRATEGY

SUMMARY

We expect NZD/USD to remain above the key 0.7680-0.7700 support level for now, and given the lack of support below this level, it is critical it holds. The domestic pulse continues to point to NZD strength, despite LVR restrictions leading to a paring back in rate hike expectations. However, with Fed tapering just around the corner, and yields rising, the finger is still being pointed at countries that are heavily leveraged. Prior EM darlings are receiving attention and this opens up downside for the commodity bloc. We view recent NZD/AUD weakness as a correction, and look for a return to NZD/AUD strength in coming months.

TABLE 1: KEY VIEWS

CROSS	WEEK	MONTH	YEAR
NZD/USD	↔/↑	Resilient in August.	USD re-pricing to dominate long term.
NZD/AUD	↔/↓	Not yet an opportunity.	NZD to hold gains and justify levels.
NZD/EUR	↔	EUR resilient.	Euro issues impact on EUR limited.
NZD/GBP	↔	GBP to follow data higher	GBP has more upside potential.
NZD/JPY	↔/↓	Policy action key for yen.	More yen weakness.

The NZD market has a small "door" and a tendency to underperform at times of stress. Our core view is that EM will not be overly stressed by capital outflows but it's a finely balanced call.

THEMES AND RISKS

- "Reversification" (flows from the periphery back to the core) remains an overarching thematic. The NZD is holding up, but it remains a strategic "sell on rallies" despite the strong domestic pulse.
- Downside across the commodity bloc remains open so long as Asia's leverage build-up receives attention. Such attention is not going away.
- The market reaction to macro prudential policy is worth noting, although separating it from wider global moves is difficult.

TABLE 2: KEY UPCOMING EVENT RISK

EVENT	WHEN (NZT)	LIKELY IMPACT
US Durable goods	Tue 00:30	USD ↑↓
EU German IFO	Tue 20:00	NZD/EUR ↓
US Richmond Fed	Wed 02:00	USD ↑
US Consumer Conf	Wed 02:00	USD ↓
UK Carney speech	Thu 00:45	NZD/GBP ↑
NZ ANZ Business Conf	Thu 13:00	NZD ↑
AU Q2 Private Capex	Thu 13:30	NZD/AUD ↑
US 2nd Read Q2 GDP	Fri 00:30	USD ↑
JPY CPI reads	Fri 11:30	NZD/JPY ↑
GE Retail Sales	Fri 18:00	NZD/EUR ↓
US Chicago PM	Sat 01:45	USD ↑

EXPORTERS' STRATEGY

Given our expectation that 0.7680-0.7700 holds, we would be happy hedging in the 0.77's. We expect NZD/USD to remain in the 0.77 to 0.81 range.

IMPORTERS' STRATEGY

Patience is the key as we navigate this crucial juncture. We expect importers will get another chance to hedge near 0.80 in the coming month.

DATA PULSE

The RBNZ's implementation of high-LVR lending limits prompted a modest re-pricing of monetary policy expectations, and led to profit taking on long NZD positions. The combination of more neutral RBA minutes and tighter local lending standards led to a significant correction in the NZD/AUD cross.

The **US FOMC minutes discussed tapering in July**, which was a surprise despite the unanimous conclusion it was too early being in line with expectations.

Brazil implemented a currency intervention program after markets sent the currencies of India, Indonesia, Brazil and Turkey sharply lower on concerns they would have issues coping with capital outflows.

China, Europe and the US produced optimistic flash activity surveys, helping the AUD to remain stable. German and UK GDP revisions had encouraging details, suggesting Europe is slowly healing.

TABLE 3: NZD VS AUD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↓	Above fair value.
Yield	↓	NZD yield premium in the price.
Commodities	↔	Reaction to news uncertain.
Data	↑	NZD data unequivocally better.
Techs	↑	Technicals suggest this is only a correction.
Sentiment	↓	AUD/USD still positioned short.
Other	↓	China posted strength in PMI.
On balance	↔/↓	**Last week saw a correction which has momentum.**

TABLE 4: NZD VS USD: MONTHLY GAUGES

GAUGE	GUIDE	COMMENT
Fair value	↔/↓	Still above fair value.
Yield	↑	Short yield still favours NZD.
Commodities	↓	NZ commodity prices main question.
Risk aversion	↑	Carry trade still available.
Data	↔	NZ data pulse slowing.
Techs	↔	Good support in place.
Other	↑	AUD looks a little oversold.
On balance	↔/↑	**We expect 0.7680-0.7700 support to hold.**

CURRENCY STRATEGY

TECHNICALS

Chart 1: NZD/USD daily candles with RSI and MA

NZD/USD remains within existing ranges. Technically, this is encouraging. The move lower last week stalled at the first support and there is support all the way to the uptrend at 0.7680. If 0.7680 breaks there is a minor risk of a clear out down to 0.75. AUD has also lost ground and currently is trading below the 0.9100-0.9140 pivot.

Chart 2: AUD/USD daily candles with RSI and MA

Chart 3: NZD/AUD daily candles with RSI and MA

NZD/AUD has corrected back into the uptrend channel. Supports are at 0.86, 0.85 and again at 0.8460.

TABLE 5: KEY TECHNICAL ZONES		
CROSS	**SUPPORT**	**RESISTANCE**
NZD/USD	0.7760 – 0.7780 0.7680 - 0.7700	0.7860 – 0.7880 0.7960 - 0.7980
NZD/AUD	0.8570 – 0.8600	0.8850 – 0.8900
NZD/EUR	0.5800 - 0.5850	0.6130 - 0.6150
NZD/GBP	0.4980 - 0.5000	0.5280 - 0.5300
NZD/JPY	75.50 – 76.00	80.00 - 80.50

POSITIONING

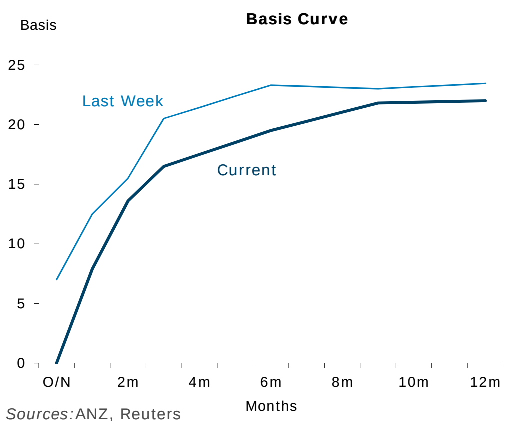
USD long positioning has been reduced for the fifth consecutive week according to the latest CFTC report. GBP shorts were reduced, EUR longs increased, and JPY shorts reduced. AUD net shorts were stable, and NZD positioning is still roughly flat.

GLOBAL VIEWS

"Reversification" (i.e. the reversal of diversification) continues to drive currency markets. Last week saw a focus on Asian twin deficit currencies the Indian rupee and Indonesian rupiah. Stresses in EM (including Turkish lira and Brazilian real) are driven by fears those countries cannot cope with the capital outflows associated with the end of QE. This prompted Brazil to intervene in their currency with a US$60bn program that runs through to December. Markets are watching for Indian and Indonesian responses.

FORWARDS: CARRY AND BASIS.

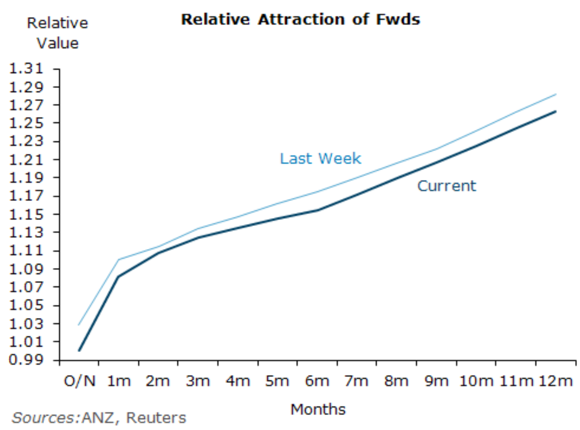
Chart 4: NZD/USD short basis curve



Sources: ANZ, Reuters

Recent falls in spot have and will continue to pressure short end basis. We do not expect 3m basis to decline further as there is good b/s interest present when implied yield falls to 2.8%. Duration is being rewarded.

Chart 5: Relative attraction of the forward curve



Sources: ANZ, Reuters

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
26-Aug	NZ	Trade Balance - Jul	--	-$774M(a)	10:45
	NZ	Exports - Jul	--	$3.85B(a)	10:45
	NZ	Imports - Jul	--	$4.62B(a)	10:45
	NZ	Trade Balance 12 Mth YTD - Jul	--	-$1688M(a)	10:45
27-Aug	US	Durable Goods Orders - Jul	-4.0%	3.9%	00:30
	US	Durables Ex Transportation - Jul	0.5%	-0.1%	00:30
	US	Cap Goods Orders Nondef Ex Air - Jul	0.5%	0.9%	00:30
	US	Cap Goods Ship Nondef Ex Air - Jul	0.3%	-0.9%	00:30
	US	Dallas Fed Manf. Activity - Aug	3.9	4.4	02:30
	CH	Industrial Profits YTD YoY - Jul	--	11.1%	13:30
	GE	IFO Business Climate - Aug	107.0	106.2	20:00
	GE	IFO Current Assessment - Aug	111.0	110.1	20:00
	GE	IFO Expectations - Aug	103.1	102.4	20:00
28-Aug	US	S&P/CS 20 City MoM SA - Jun	1.00%	1.05%	01:00
	US	S&P/CS Composite-20 YoY - Jun	12.10%	12.17%	01:00
	US	Richmond Fed Manufact. Index - Aug	0	-11	02:00
	US	Consumer Confidence Index - Aug	79.0	80.3	02:00
	AU	CBA/HIA House Affordability - 2Q	--	69.7	12:00
	AU	Construction Work Done - 2Q	1.0%	-2.0%	13:30
	GE	Import Price Index MoM - Jul	0.3%	-0.8%	18:00
	GE	Import Price Index YoY - Jul	-2.5%	-2.2%	18:00
	GE	GfK Consumer Confidence - Sep	7.1	7.0	18:00
	EC	M3 Money Supply YoY - Jul	2.0%	2.3%	20:00
	EC	M3 3-month average - Jul	2.4%	2.8%	20:00
	UK	CBI Reported Sales - Aug	20	17	22:00
	US	MBA Mortgage Applications - 23-Aug	--	-4.6%	23:00
	CH	Leading Index - Jul	--	99.55	28-31 Aug
29-Aug	US	Pending Home Sales MoM - Jul	0.0%	-0.4%	02:00
	US	Pending Home Sales YoY - Jul	--	9.1%	02:00
	JN	Retail Trade YoY - Jul	-0.1%	1.6%	11:50
	JN	Retail Sales MoM - Jul	-1.3%	-0.2%	11:50
	JN	Large Retailers' Sales - Jul	-0.5%	3.5%	11:50
	AU	HIA New Home Sales MoM - Jul	--	3.4%	13:00
	NZ	ANZ Business Confidence - Aug	--	52.8	13:00
	NZ	ANZ Activity Outlook - Aug	--	43.7	13:00
	AU	Private Capital Expenditure - 2Q	0.0%	-4.7%	13:30
	GE	Unemployment Change (000's) - Aug	-5K	-7K	19:55
	GE	Unemployment Rate - Aug	6.8%	6.8%	19:55
30-Aug	GE	CPI MoM - Aug P	0.1%	0.5%	00:00
	GE	CPI YoY - Aug P	1.7%	1.9%	00:00
	GE	CPI EU Harmonized MoM - Aug P	0.1%	0.4%	00:00
	GE	CPI EU Harmonized YoY - Aug P	1.7%	1.9%	00:00
	US	Initial Jobless Claims - 24-Aug	330K	336K	00:30
	US	Continuing Claims - 17-Aug	2990K	2999K	00:30
	US	GDP Annualized QoQ - 2Q S	2.2%	1.7%	00:30
	US	Personal Consumption - 2Q S	1.8%	1.8%	00:30
	US	GDP Price Index - 2Q S	0.7%	0.7%	00:30
	US	Core PCE QoQ - 2Q S	0.8%	0.8%	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
30-Aug	NZ	Building Permits MoM - Jul	1.3%	-4.0%	10:45
	UK	GfK Consumer Confidence - Aug	-14	-16	11:05
	JN	Natl CPI YoY - Jul	0.7%	0.2%	11:30
	JN	Natl CPI Ex Fresh Food YoY - Jul	0.6%	0.4%	11:30
	JN	Natl CPI Ex Food, Energy YoY - Jul	-0.2%	-0.2%	11:30
	JN	Tokyo CPI YoY - Aug	0.5%	0.4%	11:30
	JN	Tokyo CPI Ex-Fresh Food YoY - Aug	0.4%	0.3%	11:30
	JN	Tokyo CPI Ex Food, Energy YoY - Aug	-0.3%	-0.4%	11:30
	JN	Industrial Production MoM - Jul P	3.7%	-3.1%	11:50
	JN	Industrial Production YoY - Jul P	2.0%	-4.6%	11:50
	AU	Private Sector Credit MoM - Jul	0.4%	0.4%	13:30
	AU	Private Sector Credit YoY - Jul	3.1%	3.1%	13:30
	NZ	Money Supply M3 YoY - Jul	--	6.2%	15:00
	UK	Nationwide House PX MoM - Aug	0.6%	0.8%	18:00
	UK	Nationwide House Px NSA YoY - Aug	3.3%	3.9%	18:00
	GE	Retail Sales MoM - Jul	0.6%	-0.8%	18:00
	GE	Retail Sales YoY - Jul	1.8%	-2.8%	18:00
	UK	Net Consumer Credit - Jul	£0.6B	£0.5B	20:30
	UK	Net Lending Sec. on Dwellings - Jul	£1.1B	£1.0B	20:30
	UK	Mortgage Approvals - Jul	58.8K	57.7K	20:30
	UK	M4 Money Supply MoM - Jul	--	0.1%	20:30
	UK	M4 Money Supply YoY - Jul	--	1.5%	20:30
	UK	M4 Ex IOFCs 3M Annualised - Jul	4.5%	4.7%	20:30
	EC	Business Climate Indicator - Aug	-0.36	-0.53	21:00
	EC	Economic Confidence - Aug	93.8	92.5	21:00
	EC	Industrial Confidence - Aug	-9.6	-10.6	21:00
	EC	Consumer Confidence - Aug F	--	-15.6	21:00
	EC	Services Confidence - Aug	-6.8	-7.8	21:00
	EC	Unemployment Rate - Jul	12.1%	12.1%	21:00
	EC	CPI Estimate YoY - Aug	1.4%	1.6%	21:00
	EC	CPI Core YoY - Aug A	1.1%	1.1%	21:00
31-Aug	US	Personal Income - Jul	0.2%	0.3%	00:30
	US	Personal Spending - Jul	0.3%	0.5%	00:30
	US	PCE Deflator MoM - Jul	0.2%	0.4%	00:30
	US	PCE Deflator YoY - Jul	1.4%	1.3%	00:30
	US	PCE Core MoM - Jul	0.2%	0.2%	00:30
	US	PCE Core YoY - Jul	1.2%	1.2%	00:30
	US	ISM Milwaukee - Aug	--	52.43	01:00
	US	Chicago Purchasing Manager - Aug	53.0	52.3	01:45
	US	Univ. of Michigan Confidence - Aug F	80.5	80.0	01:55

Key: AU: Australia, EC: Eurozone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States, CH: China.
Sources: Dow Jones, Reuters, Bloomberg, ANZ Bank New Zealand Limited. All $ values in local currency
Note: All surveys are preliminary and subject to change

LOCAL DATA WATCH

The RBNZ continued to move on the front foot, with the October introduction of high LVR speed limits on mortgage lending designed to directly target areas of risk from the booming Auckland property market and mitigate the extent of OCR tightening. Rising dairy auction prices, strong migration inflows and lifting surveyed inflation expectations suggest OCR hikes are a matter of when rather than if. Strong levels of sentiment have been one of the hallmarks of late, with the August ANZ *Business Outlook* providing insights on H2 momentum. We continue to expect an early-2014 start to OCR moves, with a gradual pace of policy tightening and a low OCR endpoint this cycle.

DATE	DATA / EVENT	ECONOMIC SIGNAL	COMMENT
Thur 29 Aug (1:00pm)	ANZ Business Outlook – Aug	- -	- -
Fri 30 Aug (10:45am)	Building Consents – Jul	Up	A 2 to 3 percent monthly increase in residential issuance is expected. Low section sales suggest downside risk.
Fri 30 Aug (3:00pm)	RBNZ Credit Aggregates – July	Lifting	Firming rates of household credit expected, given July pick-up in housing market activity. Agricultural credit to fall.
Mon Sep 2 (10:45am)	Overseas Trade Indexes – Q2	Up, down	A 5.5 percent rise in the goods terms of trade expected. A small climb in imports expected, with export volumes down 8 percent.
Tue 3 Sep (10:45am)	ANZ Commodity Price Index – Aug	- -	- -
Wed 4 Sep (10:45am)	Work Put in Place – Q2	Pause	A flat outturn is expected, with offsetting movements. Falls in cement volumes suggest downside risk.
Fri 6 Sep (10:45am)	Wholesale Trade Survey – Q2	Offset	A small rise expected. Falls in export activity to be offset by stronger retail.
Mon 9 Sep (10:45am)	Economic Survey of Manufacturing Q2	Drought Hit	A drought hit to meat and dairy volumes should drag overall manufacturing volumes lower.
Tue 10 Sep (10:00am)	ANZ Truckometer - Aug	- -	- -
Tue 10 Sep (10:45am)	ECT spending – Aug	Fuel boost	2 percent fall in fuel prices to support 1 percent rise in core spending, with more moderate rises for retail ECT spending.
Thur 12 Sep (9:00am)	September *MPS*	On hold	RBNZ likely to reaffirm “on hold in 2013” message. High NZD, low inflation, high LVR speed limits to restrict extent of policy tightening over 2014.
Fri 13 Sep (10:00am)	REINZ Housing Report - August	Slowing	Slowing mortgage approvals point to a pause in sales volumes.
Fri 13 Sep (10:30am)	BNZ Business NZ PMI – Aug	Rebuild vs. NZD	A reading in the mid to high 50’s expected. The Canterbury rebuild is an offset to the high NZD/AUD.
Fri 13 Sep (10:45am)	Food Price Index – Aug	Trending up	Lifts in dairy and meat prices are likely to add to food prices over the next few months
Fri 13 Sep (1:00pm)	ANZ Roy Morgan Consumer Confidence – September	- -	- -
Mon 16 Sep (10:45am)	BNZ Business NZ PSI - Aug	Solid	Set to remain in the mid to high 50s given resilient consumer sentiment and housing market tailwinds.
Wed 18 Sep (early am)	GlobalDairyTrade auction	Very high	Higher global production is likely to contribute to price falls over the next few months from very high levels.
Wed 18 Sep (10:45am)	NZ BOP – Q2	Contained	A $1.8bn deficit is forecast, with the annual deficit easing to 4.7 percent of GDP. High terms of trade offset apparent.
Thur 19 Sep (10:45am)	NZ GDP – Q2	Services boost	A 0.6 percent lift is forecast, underpinned by strong services GDP, with drought induced falls in primary and manufacturing.
Fri 20 Sep (10:45am)	International Travel and Migration - July	Coming in	Another hefty net PLT inflow expected, with a 20k net PLT inflow on track for CY2013. Visitor arrivals to remain up on year ago.
Fri 20 Sep (10:00am)	ANZ Job Ads - Aug	- -	- -
On Balance		**Broadening**	**Strengthening momentum over 2013, with the RBNZ to start removing monetary stimulus from early 2014.**

KEY FORECASTS AND RATES

	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
GDP (% qoq)	**0.6**	**0.8**	**0.9**	**0.8**	**0.8**	**0.7**	**0.6**	**0.6**	**0.5**	**0.5**
GDP (% yoy)	**2.7**	**3.2**	**2.6**	**3.1**	**3.3**	**3.3**	**3.0**	**2.8**	**2.5**	**2.3**
CPI (% qoq)	0.2	**0.8**	**0.2**	**0.5**	**0.4**	**0.6**	**0.3**	**0.7**	**0.7**	**0.8**
CPI (% yoy)	0.7	**1.2**	**1.5**	**1.6**	**1.9**	**1.7**	**1.8**	**2.0**	**2.3**	**2.5**
Employment (% qoq)	0.4	**0.4**	**0.4**	**0.4**	**0.4**	**0.3**	**0.3**	**0.3**	**0.3**	**0.3**
Employment (% yoy)	0.7	**1.5**	**2.8**	**1.4**	**1.5**	**1.4**	**1.4**	**1.3**	**1.2**	**1.1**
Unemployment Rate (% sa)	6.4	**6.2**	**6.0**	**5.9**	**5.8**	**5.7**	**5.6**	**5.6**	**5.6**	**5.6**
Current Account (% GDP)	**-4.7**	**-4.6**	**-4.5**	**-4.5**	**-4.6**	**-4.6**	**-4.7**	**-4.9**	**-5.1**	**-5.2**
Terms of Trade (% qoq)	**5.6**	**2.4**	**1.5**	**1.0**	**0.4**	**0.3**	**0.0**	**-0.2**	**-0.6**	**-0.7**
Terms of Trade (% yoy)	**5.1**	**11.2**	**14.3**	**10.8**	**5.4**	**3.3**	**1.7**	**0.5**	**-0.5**	**-1.5**

	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
Retail ECT (% mom)	0.5	0.3	0.3	0.7	-0.3	0.9	0.7	1.0	0.4	..
Retail ECT (% yoy)	6.2	3.6	5.8	2.5	4.2	5.2	5.4	5.1	7.7	..
Credit Card Billings (% mom)	0.4	1.0	-2.3	3.2	-0.3	0.4	-0.6	1.4	-0.3	..
Credit Card Billings (% yoy)	3.9	4.6	0.5	4.7	3.7	4.1	2.5	3.7	4.7	..
Car Registrations (% mom)	-3.8	0.2	3.4	1.2	0.1	7.9	1.8	0.2	8.5	..
Car Registrations (% yoy)	8.4	3.0	6.5	9.4	11.2	17.8	16.3	15.6	27.6	..
Building Consents (% mom)	-5.1	10.2	-0.6	5.2	-9.6	20.6	1.0	-4.0	..	..
Building Consents (% yoy)	17.9	29.8	17.3	33.0	-1.1	32.7	43.1	26.6	..	..
REINZ House Price Index (% yoy)	7.3	6.7	7.2	8.1	8.6	9.8	8.7	8.4	8.6	..
Household Lending Growth (% mom)	0.5	0.4	0.4	0.4	0.5	0.5	0.5	0.4	..	..
Household Lending Growth (% yoy)	3.3	3.6	3.8	4.1	4.3	4.7	5.0	5.1	..	..
ANZ Roy Morgan Consumer Conf.	114.1	114.7	118.3	121.0	114.8	119.2	123.7	123.9	119.8	123.0
ANZ Business Confidence	26.4	22.7	..	39.4	34.6	32.3	41.8	50.1	52.8	..
ANZ Own Activity Outlook	31.6	31.4	..	37.6	32.4	30.3	34.3	45.0	43.7	..
Trade Balance ($m)	-587	535	-294	432	732	171	40	374	-774	..
Trade Bal ($m ann)	-1389	-1155	-1288	-1066	-521	-687	-901	-816	-1688	..
ANZ World Commodity Price Index (% mom)	0.9	1.0	0.3	1.1	7.4	12.6	-1.6	-3.7	0.6	..
ANZ World Comm Price Index (% yoy)	-6.7	-5.2	-6.1	-4.9	3.9	22.5	26.1	24.4	25.7	..
Net Migration (sa)	570	-150	430	800	1310	1610	1750	2230	1980	..
Net Migration (ann)	-1567	-1165	12	1195	2542	4776	6242	7907	10569	..
ANZ Heavy Traffic Index (% mom)	1.8	-5.0	2.5	0.4	-2.4	3.9	4.3	-7.8	9.6	..
ANZ Light Traffic Index (% mom)	0.8	-1.3	1.6	-1.4	1.8	-1.2	2.7	-2.1	0.8	..

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

KEY FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Jun-13	Jul-13	Today	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
NZD/USD	0.774	0.799	0.780	0.80	0.79	0.78	0.77	0.76	0.75	0.75
NZD/AUD	0.847	0.885	0.864	0.89	0.90	0.89	0.89	0.88	0.88	0.88
NZD/EUR	0.595	0.603	0.583	0.60	0.59	0.57	0.55	0.54	0.54	0.54
NZD/JPY	76.71	77.99	77.08	84.0	83.0	81.9	84.7	83.6	82.5	82.5
NZD/GBP	0.509	0.526	0.501	0.52	0.52	0.52	0.51	0.49	0.48	0.48
NZ$ TWI	73.3	75.3	73.6	76.0	75.3	74.0	73.3	72.5	71.6	71.6
INTEREST RATES	Jun-13	Jul-13	Today	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.00	3.00	3.25	3.25
NZ 90 day bill	2.66	2.66	2.64	2.70	2.80	3.20	3.30	3.30	3.70	3.70
NZ 10-yr bond	4.13	4.22	4.65	4.10	4.00	4.10	4.10	4.10	4.30	4.30
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.27	0.27	0.26	0.30	0.40	0.40	0.40	0.40	0.50	0.50
AU Cash Rate	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.25
AU 3-mth	2.82	2.67	2.59	2.70	2.40	2.40	2.40	2.40	2.40	2.40

Forecasts finalised as at May 31, 2013

	23 Jul	19 Aug	20 Aug	21 Aug	22 Aug	23 Aug
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.63	2.62	2.62	2.63	2.63	2.65
NZGB 04/13	3.41	3.95	3.89	3.88	3.95	3.92
NZGB 04/15	3.63	4.20	4.16	4.15	4.22	4.19
NZGB 03/19	3.89	4.46	4.43	4.45	4.53	4.50
NZGB 05/21	4.09	4.66	4.63	4.61	4.71	4.68
2 year swap	3.18	3.53	3.43	3.44	3.48	3.45
5 year swap	3.95	4.43	4.37	4.37	4.44	4.41
RBNZ TWI	75.5	76.2	75.2	74.6	74.0	74.0
NZD/USD	0.8001	0.8120	0.7986	0.7935	0.7834	0.7833
NZD/AUD	0.8628	0.8812	0.8819	0.8782	0.8717	0.8685
NZD/JPY	79.55	79.26	77.94	77.18	76.89	77.61
NZD/GBP	0.5205	0.5197	0.5105	0.5064	0.5021	0.5026
NZD/EUR	0.6062	0.6094	0.5984	0.5911	0.5874	0.5869
AUD/USD	0.9273	0.9215	0.9055	0.9036	0.8987	0.9019
EUR/USD	1.3198	1.3325	1.3346	1.3423	1.3337	1.3347
USD/JPY	99.43	97.61	97.60	97.27	98.15	99.08
GBP/USD	1.5371	1.5623	1.5642	1.5669	1.5603	1.5585
Oil (US$/bbl)	106.61	107.58	107.14	104.90	103.93	104.93
Gold (US$/oz)	1335.25	1378.85	1362.55	1368.40	1362.20	1378.00
Electricity (Haywards)	6.22	6.13	8.35	8.27	6.37	5.27
Baltic Dry Freight Index	1127	1115	1145	1156	1158	1165
Milk futures (USD)	177	179	182	182	180	180

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