9 December 2013

December MPS Decision Flawed

- Economic strength calls for immediate rate increase
- So too do falling mortgage interest rates
- But RBNZ has stated, categorically, that strong NZD prohibits this
- Consistency demands Q2 rate hike
- But we think the Bank will be forced to move earlier

The New Zealand economy is going from strength to strength. The economic expansion is broadening and deepening. No longer is the recovery story all about the rebuild of Christchurch. Rather, there is now a growing recognition that a substantial proportion of the economy will share in the gains.

In short:

- building sector activity is rising aggressively;

- the agriculture sector is faring well on the back of rising commodity prices and a bounce-back in production post-drought;

- commodity price gains have been reflected in a terms of trade which has risen to its highest level since 1973;

- retail sales growth is robust;

- employment intentions are very strong;

- services are performing well;

- tourism numbers are rising steadily driven by growth from China;

- net migration inflows are adding significantly to population growth and, in turn, domestic demand.

This being so, there is very little doubt GDP growth will accelerate to an above trend level in the very near future. We have annual growth peaking at 4.0% in Q2 next year but the balance of risk is that it will push even higher.

Above trend growth means that any spare capacity that exists in the economy will be absorbed. This will be highlighted by the unemployment rate dropping quickly to around 5.0%. Such absorption will result in non-tradables inflation pushing higher. Conceivably, this will be occurring at a time when the disinflationary pulse from an appreciating currency begins to dissipate resulting in heightened tradables inflation as well. Put the two together and annual CPI inflation will start testing the top end of the Reserve Bank's target band by early 2015.

With all this in mind, does it make sense that the cash rate is currently at record lows and real mortgage interest rates are both negative and falling? Of course not! In our opinion, the Reserve Bank should be hiking its cash rate this week, and probably by 50 basis points, in order to ensure that domestic demand does not get out of control.

Be that as it may, the chances of the Bank doing anything of the sort is nigh on zero. Why do we conclude that? Because that's what they've been telling us for some time now. The interest in this week's Monetary Policy Statement is instead in looking for guidance from the Reserve Bank as to when the tightening process is set to begin.

We are following this particular statement with more fascination than usual as we are dying to see how the Reserve Bank reconciles the aforementioned issues with its past-stated intent to hold off tightening until around June next year.

If the Reserve Bank was entirely consistent with its previous commentary it would have to confirm that the tightening cycle will not commence until June at the earliest. This conclusion originates from the September Monetary Policy Statement.

In September, the Reserve Bank's published 90-day bank bill track intimated that the tightening cycle would begin in April or June 2014. After this statement was released economic indicators (actual, leading and anecdotal) suggested that the Reserve Bank would need to affirm this starting point or, in fact, bring it forward a touch. But this was not to be the case. Instead, in October, the Bank baulked at the strength of the NZD and indicated that "Sustained strength in the exchange rate that leads to lower inflationary pressure would provide the Bank with greater flexibility as to the timing and magnitude of future increases in the OCR". The only way one could credibly interpret this comment was to assume that if the NZD held up then the first OCR increase would be delayed (read June or July) and the pace of increases would be moderated.

When the October OCR review was written the NZ TWI was sitting at around 76.5. This was well above (2.4%) the 74.7 that the RBNZ had assumed for the NZD right through until the third quarter of 2014. Since then the TWI has risen even further to be currently sitting at 77.80 – 4.2% above the September assumption and almost 2.0% above the level where the RBNZ said sustained strength would cause a rate delay when it wrote its October review.

In order for the RBNZ to bring its published tightening cycle forward from June (or later) it will need to justify why other developments in the economy have more than offset the strength in the currency. This will be an interesting exercise as:

- Q3 GDP growth looks like it will come in around the RBNZ's forecast;

- The Q3 CPI is also likely to be in line with forecast (if not below);

- The RBNZ has said it is too early to work out the impact of LVR restrictions on the housing sector but that initial observations are in line with expectations;

- Inflation expectations have not risen;

- Wage growth has been surprisingly low.

This is not to deny that the Bank has been faced with upside surprises:

- commodity prices have continued to rise and have pushed the terms of trade to a 40 year high;

- employment has proven to be much stronger than expected; and

- business and consumer confidence has headed to new heights.

Perhaps the most disconcerting thing for the RBNZ is that mortgage interest rates for sub-80% LVR borrowers are falling. It will be particularly worrisome for the Bank that floating rates, which the majority of borrowers face, are in decline because this means that not only are marginal rates falling but so too rates on the existing stock of lending. On balance, this means that monetary conditions are easing aggressively for many. If the Reserve Bank is to surprise with an earlier tightening, this will be the catalyst.

Be that as it may, from a purely consistency perspective, it will require some very good story telling if the RBNZ is to formally suggest an early-year tightening. Indeed, the story telling would have to be excellent to bring the tightening forward from June!

With this in mind, it seems to us highly unlikely the RBNZ will point to, or follow through with, a January rate hike. We thus think current market pricing for a 35% chance of an increase is overdone.

On this note, it was interesting to see the release late last week of the latest Dow Jones poll of economists' views on the upcoming Monetary Policy Statement. The full poll is on page 4 of this document. The poll is very interesting for a number of reasons:

- with all the talk of a rate hike in January not one surveyed forecaster has actually got this as their central scenario;

- while one or more of the surveyed commentators has been aggressively pushing the likelihood of a January hike, these folk still see very little follow through thereafter.

- even though we have been calling for a later start to the hiking cycle than most, we still have one of the highest rates forecast for end 2014.

Given what has happened to market pricing this reeks of one of those occasions when offshore punters are pushing the market in opposition to domestic views. Invariably, the domestics are proven correct when this happens. The exceptions are when international drivers dominate domestic drivers. In this instance, an early signal of tapering resulting in a falling NZD would do the trick but we think this unlikely. With this in mind, however, it is worth noting that the current market-priced probability of a January rate hike matches the 35% of Bloomberg-surveyed economists who believe that the Fed will begin its tapering in December.

Whatever the immediate view of the RBNZ, we believe it will no longer be able to justify being abstemious past March. After the October OCR we pushed our tightening call back to June from March not because we thought a later tightening was a clever thing but because we thought the RBNZ was delivering such a message as to its intent. We were wrong to do so and should have stuck with our long held view that the Reserve Bank would be dragged kicking and screaming into an earlier-than-they-forecast response by the sheer strength in the NZ economy. We herewith revert back to our March call. That said, our end year forecast for the cash rate to rise to 3.75% is unchanged and we still believe the starting point is a moving feast.

The Reserve Bank is really in a no win situation. If it brings forward its tightening cycle then its stance will be inconsistent with its previously written reports. If it doesn't, its actions will be inconsistent with the economic environment.

There are some other domestic data items due for release over the next few days but their importance, in the context of a week in which the RBNZ will set the ground rules for 2014, is minimal:

- Tuesday sees the release of Electronic Card Transactions for the month of November. October was a very strong number so we would not be surprised to see a much weaker follow up. An increase in sales of around 0.2% would fit the bill.

- The Accommodation survey is due out Wednesday and will confirm that tourism inflows are rising steadily.

- The Food Price Index for November is released Thursday. We are expecting a seasonally influenced 0.3% drop for the month. This, in turn, is consistent with our -0.3% pick for the Q4 CPI, which is a tad lower than the RBNZ's -0.1% determination.

- Sometime this week we are expecting Fonterra to announce an upwardly revised dairy payout for this season. We are looking for the milk price to eventually be raised to around $8.60 from $8.30. Whether Fonterra does it this time around is a moot point but it seems only a matter of time before the co-operative will formally recognize that the situation for dairy farmers continues to improve. Indeed, we believe the risk to our revised forecasts remains to the upside. More good news for the NZ economy.

- Friday is confidence day. We will be releasing our jointly sponsored BNZ-Business NZ Manufacturing PMI, which is expected to show further solid growth in manufacturing activity. And the ANZ will release its consumer confidence index, which is likely to be equally heady.

Of course, this morning we saw the release of the Economic Survey of Manufacturing. By our reckoning, Q3 manufacturing production increased about 2.5% in real, seasonally adjusted terms. This, in combination with last Friday's wholesale sales figures, supports our view that Q3 GDP rose 1.0% taking the annual rate to 3.2%. This is marginally higher than what we think the Reserve Bank had penned in when it produced its October OCR review so is consistent with a slightly earlier hike in rates.

QVNZ housing market data, also released today, showed house prices to be up 9.2% on year earlier levels. It's probably too early for this series to provide any indication of the impact of recent LVR restrictions but what it does indicate is that there is plenty of momentum in the housing sector and enough for inflation-watchers to be concerned. Be that as it may, house price inflation is broadly in line with RBNZ projections so, at least if it's to be consistent no reason for the RBNZ to panic.

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WSJ NEW ZEALAND

DOW JONES

Wall Street Journal New Zealand Economic Survey

12

Due Date	Forecast	Median	Range
12 Dec	% Chance of a rate hike	5%	0% to 30%
12 Dec	% Chance of a Rate Hold	95%	70% to 100%
12 Dec	% Chance of a Rate Cut	0%	0% to 1%
12 Dec	The first hike will be in	Mar-14	March 2014 to June 2014
12 Dec	What will the rate be in Dec 2014	3.50%	3.0% to .0%

	% Chance of a rate hike	% Chance of a Rate Hold	% Chance of a Rate Cut	The first hike will be in	What will the rate be in Dec 2014
ANZ Bank	5%	95%	0%	Mar-14	3.25%
ASB	1%	99%	0%	Mar-14	3.25%
BNZ	2%	98%	0%	Jun-14	3.75%
Citi	10%	90%	0%	Mar-14	3.75%
First NZ Capital	5%	95%	0%	Mar-14	3.50%
Goldman Sachs	0%	100%	0%	Jun-14	3.00%
HSBC	5%	95%	0%	Mar-14	3.50%
Infometrics	10%	90%	0%	Mar-14	3.50%
RBC Capital	5%	94%	1%	Mar-14	3.25%
TD Securities	20%	80%	0%	Mar-14	3.00%
UBS	30%	70%	0%	Mar-14	4.00%
Westpac	0%	99%	1%	Apr-14	3.50%

Contact The Wall Street Journal on (0064) 4 471 5990

NB: This poll was conducted before we changed our call from June to March

Global Watch

Australia

Confidence readings from the NAB Business Survey and Westpac-Melbourne Institute Consumer Sentiment survey come Tuesday/Wednesday, ahead of Thursday's jobs report for November. For us, it will be the NAB Business Conditions index that will be the best guide to how the non-farm business economy and domestic final demand is travelling late in the year. Conditions were still soft at -4 in October.

We expect the W-MI Consumer Sentiment index to be relatively unchanged with the Roy Morgan index holding up at around 120 through late November, post-dated by last week's unsurprising GDP and RBA no change decision. Further softness in the AUD may have weighed on sentiment to some extent.

For Thursday's labour market report, we look for a tepid gain of 5K in employment, not sufficient to stop the unemployment rate pushing back up to 5.8% where it was in August. The market is looking for a somewhat larger employment gain of 10K and a 5.8% unemployment rate with an unchanged participation rate at 64.8%. Monday's ANZ Job Ads for November will provide a last minute look into risks around Thursday's labour data. Job Ads having been more stable of late. Also in the data slate is Tuesday's housing finance approvals, which are expected to unveil another headline rise, by 1.0% after September's 4.4% gain.

China

It's the big week of the month with the release of China's inflation, activity and money supply/lending data for November, so important also for the AUD and Asian markets.

It kicks off Monday with the CPI/PPI inflation reports. The CPI is expected to remain under control at an annual 3.1% rate, little changed from October's 3.2% with agricultural prices having eased last month. PPI is expected to remain steady and low at -1.5%. No monetary policy triggers there. Tuesday's industrial production and retail sales reports are tipped to show ever so slightly lower growth, with IP at 10.1% from 10.3% y/y and retail sales at 13.2% from 13.3%. Year average annual growth in FAI is forecast to remain at 20.1%.

November's lending, financing and money supply reports are expected at any time from Tuesday onward. New yuan loans are forecast to rise from 506bn to 595bn, while the broader aggregate financing volumes are also tipped to increase to 935bn from 856bn. Such outcomes would be very much in line with or below recent trends, so not setting new excessive lending growth policy bells ringing.

United States

The November retail sales report will be the centerpiece of this week's US economic reports as the market looks ahead to the December 17-18 FOMC meeting. Released Thursday, it's expected to have grown 0.5%, keeping some continued momentum to consumer spending.

The market will also be paying close attention to a suite of Fed speakers, all speaking Monday, including hawks such as Richard Fisher, St. Louis Fed's Bullard and Jeffrey Lacker, President of the Atlanta Fed.

Also on the data front are the NFIB Small Business Optimism index on Tuesday, JOLTs Job Openings (also Tuesday) and Friday's PPI as well as the weekly mortgage applications (Wednesday) and jobless claims (Thursday).

Eurozone

The only Eurozone release of note this week is October industrial production on Thursday. The market is looking for a 0.3% rise, leaving the single currency area lagging the UK. Eurozone finance ministers are due to meet in Brussels on Wednesday to discuss banking union. And we can expect to hear positive noises on Ireland and Portugal as they begin to access bond markets.

Industrial production data for October are released in Germany on Monday. The market's looking for a strong increase to reverse the 0.9% dip seen in September.

United Kingdom

With the MPC 'no change' decision and the Autumn Statement behind us, attention this week focuses back on the outlook for the fourth quarter. October industrial production data (Tuesday) will be our first hard piece of evidence as to whether our forecast for 0.8% growth in Q4 2013 is on track. Industrial production grew by 0.9% in September buoyed by a 1.2% rise in manufacturing production. Surveys point to that strength continuing in October so we look for an above-consensus rise of 0.5%.

With the government's 'Help to Buy' scheme boosting housing demand we expect that the RICS house price balance will reach a new cyclical high in November.

UK export performance has been extremely disappointing, however, and our continual hopes for a narrowing in the trade deficit have generally been dashed. We are hopeful of better export performance in October and look for the total trade balance to narrow from £3.3b to £2.5b.

Also note, Governor Carney is due to speak at the Economic Club of New York on Monday and will doubtless continue to discuss the improvement in UK growth prospects.

NAB Economics

Fixed Interest Market

Reuters pgs BNZL BNZM Bloomberg pg BNZ BNZ

We believe the market is getting ahead of itself in pricing almost a 40% chance of a January hike, from the RBNZ. Rather, at this Thursday's meeting we see the Bank reiterating that rate hikes will likely start later than this in H1 next year, but that it sees 200bps of hikes will be forthcoming by 2016. While the NZ TWI is stronger than the Bank had assumed so is the economy's trajectory.

NZ 2 and 5-year swap are both starting to stretch 'fair value' based on the OCR track outlined above which is similar to our own view. In particular, 5-year swap which ended the week at 4.58% remains the 'expensive' point on the curve for paying, in our view. However, this is based on the assumption that the OCR eventually peaks at 4.50% in this cycle. We recognise the risks to this view are to the upside. The 'new neutral' OCR is seen around 4.25-4.50%. Historically, the OCR would normally peak some way above neutral.

The 2-10s swap curve ended the week at 145bps, still well within the 140-160bps range that has contained the curve for the past four months. Next year as OCR hikes get underway we see the curve flattening toward 70bps. This may encourage additional hedging further out the curve.

Friday's payrolls data confirmed US 10-year bonds yields are unlikely to breach 3.0% any time soon. After the above consensus US payrolls data (203k vs.185k) 10-year yields initially spiked from 2.86% to 2.92%. This proved extremely short-lived and yields ended the night back below 2.86%. Equity markets pushed higher, with the S&P500 closing up 1.1%. The market's response suggests it is increasingly comfortable with an imminent start to the Fed's 'tapering' process. December is now very much a 'live' meeting. Announcement of tapering should not see US 10-year yields break above September highs around 3.0%. This in turn should limit upward pressure on the long-end of the NZ curve, near-term.

Domestically, it will also be an important week for bond issuance. Today, the LGFA (Local Government Funding Agency) will announce the details of its final tender for the year, to take place on Wednesday. The DMO's final auction for the year will take place on Thursday. $200m of nominal bonds will be on offer. This will be the last tender ahead of the HYEFU (Half Year Economic and Fiscal Update on 17 December. Alongside the HYEFU the DMO will deliver its detailed issuance plans for Q1.

Across the Tasman, it is also an important week for data releases. Tuesday's NAB business confidence survey will be followed by Wednesday's consumer confidence. Thursday's AU employment report will capture much attention, as usual. Consensus expects the unemployment rate to tick up to 5.8% from 5.7% previously. We see a deteriorating trend continuing next year, which will take the AU unemployment rate above NZ's (currently 6.2% and downwardly biased ahead).

The market currently prices around a 40% chance of a further 25bps rate cut from the RBA in H1 next year. However, it prices a fairly rapid turn-around thereafter. It prices a 60% chance the cash rate will be higher than current by the end of 2014. By contrast we see the RBA cash rate at, or below current levels well into 2015.

change (bps)	90 day bills	04/15 NZGB	04/23 NZGB	2yr swaps	10yr swaps	2yr/10yr swaps (bps)
29-Nov-13	2.70%	3.10%	4.78%	3.69%	5.11%	142
6-Dec-13	2.70%	3.18%	4.79%	3.74%	5.19%	145
Change (bps)	**0**	**8**	**0**	**5**	**8**	**3**

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Key Fixed Interest Views

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Category		9-Dec-13	Tactical (1w-1m)	Strategic (12mth)	Comments
NZ Money Markets	OCR	2.50%	→	↑	We see 125bps of hikes by the end of next year and 200bps by the end of 2015
NZ Swap Yields	2-year	3.74%	→↓	↑	Now trading close to 'fair value'. Near-term risk of a pullback. We forecast 4.60% by the end of 2014
	5-year	4.58%	→↓	↑	We continue to see 5-year as the 'expensive' point on the curve. However, any pullback in yield will likely quickly attract payers
	10-year	5.19%	→	↑	We see a 4.90-5.40% range in the year ahead
NZ Swap Curve	2s-10s	145bps	→	↓	A 140-160bps range near-term. Flattening of curve to unfold in 2014, to a trough of 70bps
NZ-AU Swap Spreads	2-year	83bps	→ ↓	↑	Narrowing likely near-term. We see spreads peaking around 120bps in next year
NZ Bond Yields	NZGB 23s	4.79%	→	↑ →	We see a 4.50%-5.00% range for the year ahead
NZ Swap-Bond Spread	10-year	34bps	→↑	↑	As NZGB demand-supply dynamics improve we see spreads widening. We see a 25-55bps range holding in the year ahead
US Bond Yields	10-year	2.86%	→	↑→	The market now appears increasingly comfortable with a 'December' start to Fed 'tapering'
NZ-US Bond Spread	NZ-US 10-year	193bps	→ ↑	↑→	NZGB supply constraint in the year ahead should help limit any relative rise in NZGB yields despite a rising OCR track
NZ-AU Bond Spread	NZ-AU 10-year	45bps	↑	↑	We see wider spreads ahead, though constrained NZGB supply relative to ACGBs should limit move to September peak (85bps)
NZ Credit Spreads	Financials		→	→	HSBC 5-year FRN printed at BKBM +90bps
	Non-Fin		→	→	Retailable paper outperforming wholesale format

Foreign Exchange Market

Reuters pg BNZWFWDS Bloomberg pg BNZ9

The NZD was the strongest performer amongst its peers over the past week. This was despite last week bringing a stronger than anticipated (203k vs. 185k) US payrolls release. Also, the US unemployment rate downshifted to 7.0% from 7.3% previously. This was all sufficiently strong to suggest an imminent start to the Fed's tapering process, with December now very much a 'live' meeting. However, rather than obsessing over the start of tapering, the market seems to have recognised that improving US momentum reduces economic risk. Our risk appetite index (scale 0-100%) rebounded from 61 to 65% at the end of the week as equities on both sides of the Atlantic provided solid returns. The 'risk sensitive' NZD was a key beneficiary.

This illustrates to us that Fed 'tapering' might not be the death knell for the NZD that many appear to presume. Indeed, tapering appears to now be 'in the price'. Rather, while risk appetite remains resilient, a sustained downtrend in the NZD/USD will not take hold until (i) US growth begins to close the differential with NZ (ii) the market raises expectations for Fed rate hikes. With the market currently pricing a first Fed rate hike in 2H 2015, the risk is the Fed tries to push back on these expectations when it does ultimately announce 'tapering'. We therefore see the NZD/USD well supported into the early part of 2014, even as we acknowledge the NZD/USD is unlikely to revisit last April's highs (above 0.8600). We maintain our 2013 end year target of 0.8400.

We expect this Thursday's RBNZ meeting will convince the market it has got a little ahead of itself in pricing almost a 40% chance of a 25bps OCR hike by January. A reduction in near-term OCR expectations could see knee-jerk pullback in the NZD. The other key domestic event to look out for this week will be Fonterra's announcement of its revised payout forecast. This is likely to be to the upside of the already lofty indication of $8.30. Elevated NZ commodity prices remain a medium-term support for the currency.

All together, we see the NZD/USD likely to move higher this week within a 0.8150 to 0.8390 range. Thursday's MPS represents the greatest downside risk.

The NZD/AUD has pushed up to new cyclical highs, ending last week within a whisker of 0.9100. It will be a busy week for the cross, with important data releases on both sides of the Tasman. There will be plenty to influence sentiment toward the AUD this week. NAB's business confidence survey will be released on Tuesday followed by the Westpac consumer confidence survey on Wednesday. The AU employment report (due Thursday) historically has significant potential to impact on the market. We are aligned with consensus in expecting the unemployment rate to tick up to 5.8%. We see a deteriorating trend ahead, taking the AU unemployment rate above NZ's next year. However, we are aware that much of the diverging fortunes of AU relative to NZ are now 'in the price'.

Our NZD/AUD short-term 'fair value' model (including NZ-AU commodity price, swap price and business confidence differentials) suggests a range of 0.8400-0.8600 is justified. Our momentum model has favoured the NZD/AUD since 13 November. Momentum is a powerful force. However, we are cognisant further momentum-driven upside would take the cross further away from fundamental 'fair value'.

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Technicals

NZD/USD

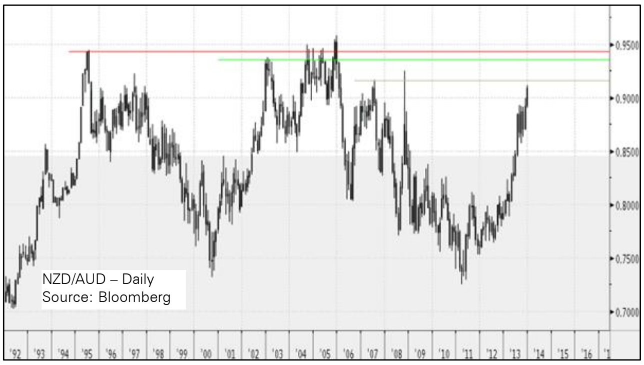
Outlook:	Grind higher (still in range)
ST Resistance:	0.8350 (ahead of 0.8480)
ST Support:	0.8160 (ahead of 0.8050)

The snap back above the 200 mda, and 0.8160 support area, now allows for the NZD to test towards the top end of the recent range. A move into 0.8360 very likely over the next week.

NZD/AUD

Outlook:	Lighten the load
ST Resistance:	0.9100 (ahead of 0.9170)
ST Support:	0.8930 (ahead of 0.8820)

The uptrend still remains intact, but from the technical perspective it certainly looks like a great place to assess the amount remaining upside. The past 20 years has capped out this cross in the 0.9400-0.9500 window.



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NZ 5-year Swap Rate

Outlook:	Neutral
ST Resistance:	4.60
ST Support:	4.44

Although the 4.60 level now briefly breached and finished the week slightly lower at 4.58. Upward sloping trendline support now comes in at 4.44, so a breakout is imminent. I will trade a closing breakout of 4.60/4.44.

NZ 2-year - 5-year Swap Spread (yield curve)

Outlook:	Flatter
ST Resistance:	+87
ST Support:	+77

As we have broken through +85 expect a move to +77 en route +61.

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Key Upcoming Events

	Forecast	Median	Last
Monday 9 December			
NZ, Manufacturing Sales, Q3 vol s.a.			-3.4%
NZ, Fonterra Payout Announcement this week			
NZ, QVNZ House Prices, October			+8.9%
NZ, (circa) REINZ Housing Data, November			
Aus, ANZ Job Ads, November			-0.1%
China, CPI, November y/y		+3.1%	+3.2%
Jpn, GDP, Q3 2nd est		+0.4%	+0.5%P
Jpn, Eco Watchers Survey (outlook), November			54.5
Germ, Industrial Production, October		+0.7%	-0.9%
Germ, Trade Balance, October		+€18.3b	+€20.4b
UK, Carney Speaks, Economic Club of NY			
Tuesday 10 December			
NZ, Electronic Card Transactions, Nov	+0.2%	+0.3%	+1.1%
Aus, Housing Finance, October	+1.0%	+1.0%	+4.4%
Aus, NAB Business Survey, November			
China, Retail Sales, November y/y		+13.2%	+13.3%
China, Industrial Production, November y/y		+10.1%	+10.3%
China, (circa) New Yuan Loans, November			$506b
Jpn, MOF Business Survey, Q4			+12.0
UK, Industrial Production, October		+0.4%	+0.9%
UK, Trade Balance, October		-£2.8b	-£3.3b

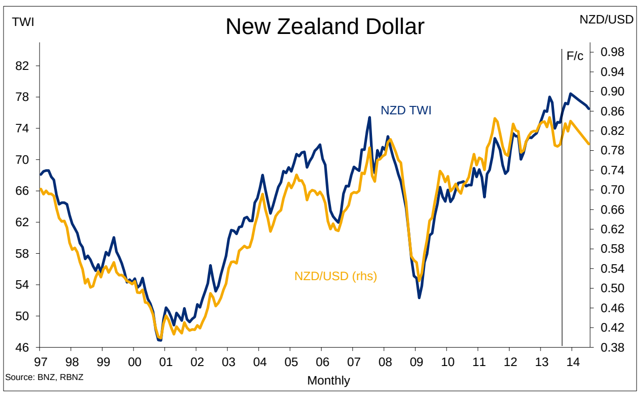
	Forecast	Median	Last
Tuesday 10 December *continued...*			
UK, RICS Housing Survey, November		+60%	+57%
US, Wholesale Inventories, October		+0.3%	+0.4%
Wednesday 11 December			
NZ, Mortgage Approvals, week ended 6 Dec			-8.6%
Aus, Consumer Sentiment - Wpac, December			110.3
Jpn, Machinery Orders, October		+0.7%	-2.1%
Germ, CPI, Nov y/y 2nd est		+1.3%	+1.3%P
Thursday 12 December			
December Monetary Policy Statement	2.50%	2.50%	2.50%
NZ, Food Price Index, November		-0.3%	-1.0%
Aus, Employment, November	+5k	+10k	+1k
Euro, ECB Monthly Bulletin			
Euro, Industrial Production, October		+0.3%	-0.5%
US, Retail Sales, November		+0.6%	+0.4%
US, Business Inventories, October		+0.3%	+0.6%
Friday 13 December			
NZ, BNZ PMI (Manufacturing), November			55.7
NZ, ANZ-RM Consumer Confidence, Dec			128.4
Jpn, Industrial Production, October 2nd est			+0.5%P
US, PPI ex-food/energy, November y/y		+1.4%	+1.4%

Historical Data

	Today	Week Ago	Month Ago	Year Ago
CASH & BANK BILLS				
Call	2.5	2.50	2.5	2.50
1mth	2.66	2.68	2.65	2.64
2mth	2.68	2.68	2.65	2.63
3mth	2.7	2.68	2.66	2.62
6mth	2.89	2.86	2.75	2.59
GOVERNMENT STOCK				
04/15	3.18	3.14	3.04	2.50
12/17	4.035	4.01	3.805	2.88
03/19	4.3	4.27	4.065	3.04
04/20	4.525	4.50	4.27	0.00
05/21	4.615	4.59	4.34	3.33
04/23	4.785	4.76	4.5	3.51
GLOBAL CREDIT INDICES (ITRXX)				
AUD 5Y	104.683	100.17	106	0.00
N. AMERICA 5Y	69.283	69.58	71.688	0.00
EUROPE 5Y	80.597	78.50	85.148	0.00
SWAP RATES				
2 years	3.74	3.69	3.3975	2.66
3 years	4.08	4.04	3.77	2.80
5 years	4.58	4.53	4.265	3.11
10 years	5.1925	5.11	4.81	3.78

	Today	Week Ago	Month Ago	Year Ago
FOREIGN EXCHANGE				
NZD/USD	0.8287	0.8152	0.8277	0.8237
NZD/AUD	0.9076	0.8920	0.8692	0.7878
NZD/JPY	85.289	83.4650	80.7135	67.8445
NZD/EUR	0.6042	0.5996	0.6008	0.6350
NZD/GBP	0.507	0.4976	0.5145	0.5136
NZD/CAD	0.8819	0.8652	0.8652	0.8179
TWI	77.77	76.54	76.28	73.68

NZD Outlook



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