



30 January 2012

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NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
 Telephone: +64 4 802 2212
 E-mail: Cameron.Bagrie@nbnz.co.nz

David Croy
Senior Interest Rate Strategist
 Telephone: +64 4 576 1022
 E-mail: David.Croy@nbnz.co.nz

Sharon Zöllner
Senior Economist
 Telephone: +64 4 576 1062
 E-mail: Sharon.Zollner@nbnz.co.nz

Mark Smith
Senior Economist
 Telephone: +64 4 802 2199
 E-mail: Mark.Smith@nbnz.co.nz

Steve Edwards
Economist
 Telephone: +64 9 357 4065
 E-mail: Steve.Edwards@nbnz.co.nz

Con Williams
Rural Economist
 Telephone: +64 4 802 2361
 E-mail: Con.Williams@nbnz.co.nz

LUNCHING ON LIQUIDITY

ECONOMIC OVERVIEW

Global developments continue to swamp local nuances, and while market sentiment has been supported by increasing liquidity, weak fundamentals still need addressing and this keeps the risk profile pointed downward. Last week's RBNZ OCR Review showed a watering down of the tightening bias and signalled a longer period on the sidelines. However, barring global meltdown, the next move in the OCR will be up. We expect the mixed run of local data to continue, albeit with more positives than negatives to be evident this week.

TAYLOR RULE UPDATE

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INTEREST RATE STRATEGY

Fed chair Ben Bernanke has made it clear that QE3 is on the table, much to the shock of a market that was focussing on positive data. With the Fed Funds rate now set to remain close to zero for at least another 2 years, US bond yields are likely to remain low for the time being. This should keep pressure on the NZ curve to flatten, especially with the RBNZ unlikely to ease further. NZGS remain in good demand, and are likely to remain so if the NZD remains strong.

CURRENCY STRATEGY

FOMC 'transparency' indicates the potential for more QE of one form or another, leaving the USD with a weakening bias, in the absence of escalating sovereign concerns – a big assumption. We expect renewed attention towards the latter over the coming weeks as the market tests Portugal and we approach the March 20th €14.5bn Greek redemption. Surprisingly, volatility levels are back to predicting a stable environment, adding up to support for risk currencies. Downside protection appears cheap here.

THE NBNZ HEATMAP

Variable	12 mth view	Comment	Risk profile
GDP	2.4%	Respectable but grumpy growth. Downside risks.	
OCR	No change	OCR low for longer as opposed to outright lower	
CPI	2.5%	Soft near-term, but some medium-term inflation drivers remain sticky.	

ECONOMIC OVERVIEW

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FORTHCOMING EVENTS

SNZ Building Consents - December (Tuesday, 31 January, 10:45am). An 8 percent s.a. increase in residential issuance is expected (+5 percent s.a. ex-apartments), with non-residential issuance of around \$300m forecast.

SNZ National Employment Indicator - October (Tuesday, 31 January, 10:45am). No change is expected, with a bias to the upside.

RBNZ Credit Aggregates – December (Tuesday, 31 January, 3:00pm). Annual credit growth of 1.0 to 2.5 percent is expected for household and business credit respectively, with agricultural credit about 1 percent lower than 12 months earlier.

GlobalDairyTrade auction (Wednesday, 1 February, early am). The average winning price is expected to remain around US \$3,700/tonne.

ANZ Commodity Price Index – January (Thursday, February 2, 1:00pm).

SNZ International Travel and Migration - December (Friday, 3 February, 10:45am). A net permanent and long term inflow of 100 persons is expected. Visitor arrivals are likely to rise 2-3 percent.

WHAT'S THE VIEW

Has anything materially changed in the last week? We think not.

The RBNZ kicked for touch – again. The Bank moved closer to a neutral stance, with the tightening bias now watered down so much as to be almost imperceptible.

The RBNZ are not the only central bank willing to stay in the sidelines. Last week's FOMC statement reiterated a higher degree of comfort with the inflation outlook and, given the downside activity risks, pushed the mid 2013 start-date for policy tightening back to

late 2014. Now, call us somewhat sceptical but a delayed tightening cycle doesn't quite square with the better tone to US data of late. On page 5 we update our analysis of Taylor Rules, which deliver an interest rate recommendation based on current inflation and capacity metrics. The lower policy rates relative to the Taylor Rule's recommendations in the US and most economies in our analysis are an indication of where central banks view the direction of risks. One wonders what is implicitly being anticipated by the central banks.

Stepping back, **you can see a real battle going on across markets, which are increasingly caught between the massive amounts of liquidity on offer and the poor fundamentals.** Recent market movements suggest policymakers are winning at present, but if fundamentals are to continue to be superseded, political decision making needs to instil confidence, via credibility and competence. In short order. And therein lies the contradictions and inherent tensions.

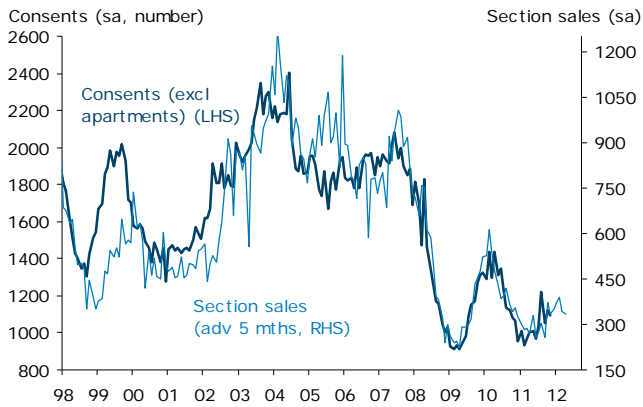
Data outturns in New Zealand continue to give mixed signals – a dynamic to which we expect to become increasingly accustomed.

- **The public finances for November confirmed** continuing signs of **fiscal slippage**. As the PM's speech outlined last week, the Government is still on track to return to surplus by 2014/15, but only just. It generally confirms a tighter fiscal straitjacket if this target is to be met.
- **The recovery in manufacturing sentiment was a step in the right direction**, but the outlook remains for modest growth at best.
- The December Merchandise Trade surplus was largely driven by a dairy-induced export boost, but has a temporary feel to it, given weakness in meat and forestry exports. **This patchiness is to be expected given the export environment we are now in.** The shift in the import mix towards investment and away from consumption was encouraging, but will need to be sustained for us to be comfortable that the desired rebalancing of the economy is underway. Intense global headwinds and an unfavourable mix of monetary conditions are likely to put this to the test.

This combination once again leaves us very comfortable regarding our fundamental view, namely, scratchy growth, with a downward risk profile. Of course you don't want to change such anchors from week to week, but that should never stop us from regularly checking their validity and robustness.

The theme of patchy local data is expected to continue this week, albeit with more positive than negative signs.

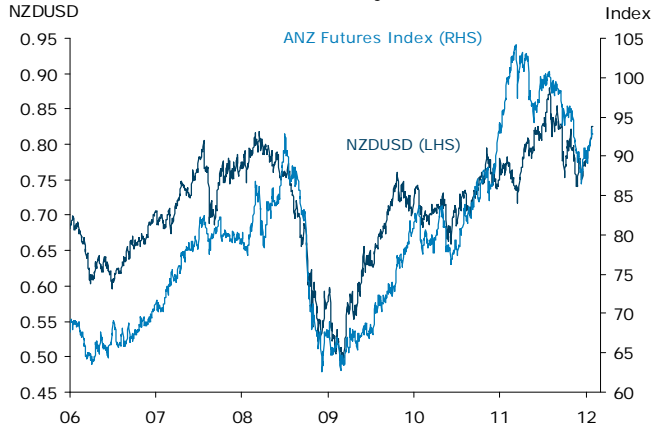
New dwelling consents and REINZ section sales



Sources: ANZ, National Bank, Statistics NZ, REINZ

Given the lead provided by housing market indicators we expect a rebound in December residential consent issuance. **Abstracting from monthly volatility, residential consent issuance is expected to trend higher over 2012** given its extraordinarily weak levels and the support being provided by low mortgage interest rates. Recent media reports suggest that insurance-funded rebuilding activity looks set to step-up over the next month or two, which will eventually have implications for construction sector capacity and OCR settings. This is an area we will be continuing to closely monitor.

NZDUSD vs ANZ Commodity Futures Index



Sources: ANZ, National Bank, Bloomberg

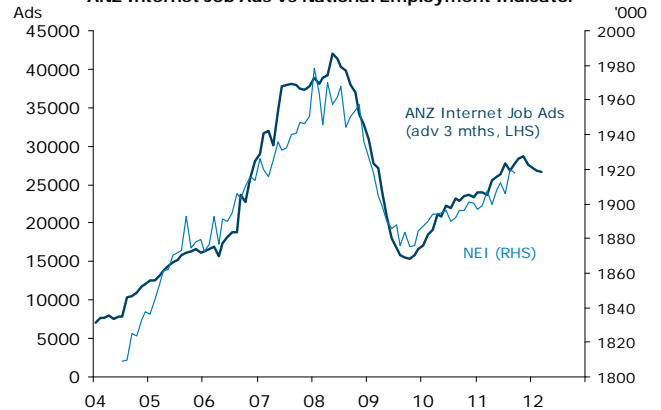
Commodity price data will provide an update of the income generating part of the economy. First up is the GlobalDairyTrade auction, with the lift in USD prices in the previous event an encouraging sign for local producers, notwithstanding the stronger NZDUSD. The reduced amount of product on offer at the previous event would also have helped to underpin prices, and with a sizeable portion of product already sold in the forward market, **we will be closely watching the volumes being offered for auction. We are also mindful of the possibility that the Chinese New Year holidays could weigh on demand.** It will be useful to see if the resilience in dairy prices extends to other parts of New Zealand's commodity export basket, with Thursday's ANZ

Commodity Price Index providing an update for January.

Given we believe the process of structural deleveraging has some way to go **we do not expect the credit aggregates to provide any warning signs to the RBNZ.** However, we will closely watch agricultural and household credit aggregates for signs of a property market induced tick-up. Given the resilience in December capital good imports (which rose to \$704m s.a.), we expect business credit to hold onto its November gains.

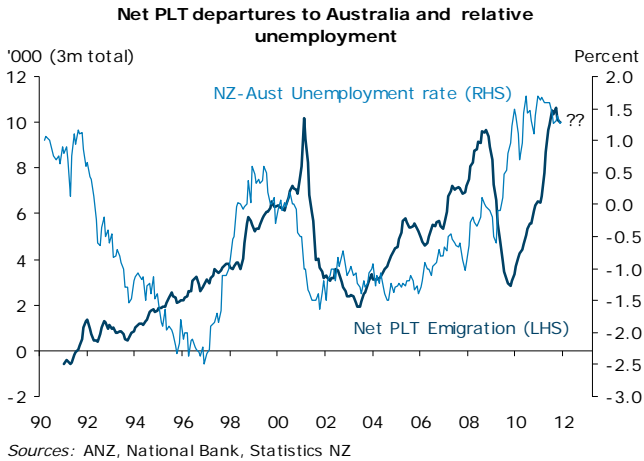
With Q4 labour market data scheduled to be published next week, **the National Employment Indicator for October will provide some insight into the strength of labour market recovery at the start of the quarter.** While an October jump in this indicator is certainly possible, the lead provided by internet job advertising suggests flattish employment over the next few months. Employment intentions from the NBBO have been trending down but remain in positive territory. Nothing to suggest the unemployment rate will move down sharply from here and another reason for the caution apparent in retail spending.

ANZ Internet Job Ads vs National Employment Indicator



Sources: ANZ, National Bank, Statistics NZ

Migration data rounds off the local weekly data. **We expect a return to a small monthly net immigration inflow, driven by a further moderation in PLT departures.** Arrival numbers are expected to hold onto recent gains, with NZ continuing to stack up well in relation to Europe in particular. We expect the worsening UK and Australian labour market outlook will contribute to a turnaround to an annual net permanent and long-term immigration inflow over 2012. More net immigration will help bolster both the demand and supply sides of the economy. With household deleveraging acting to temper the impact of migration on the housing market and consumer spending, a return to a net migration inflow could well generate a more neutral impact on inflation if it helps to alleviate pressures on labour market capacity bottlenecks. Time will tell.



RECENT LOCAL DATA

BNZ Business NZ Manufacturing PMI – December. The seasonally adjusted PMI index rose 5.9 points to 51.9. Four of the five seasonally adjusted main diffusion indices were above 50.

RBNZ Credit Card Billings – December. Billings rose a seasonally adjusted 0.9 percent (5.9 percent y/y), underpinned by an 8.1 percent s.a increase in spending on overseas cards.

RBNZ OCR Review – January. The OCR was left unchanged at 2.5 percent. “Given ongoing uncertainty around global conditions and the moderate pace of domestic demand, it remains prudent to keep the OCR on hold at 2.5 percent.”

SNZ Overseas Merchandise Trade – December. A trade surplus of \$338m was registered, with the annual surplus climbing to \$1,113m.

Government Financial Statement for the five months ended November 2011. The operating balance before gains and losses (OBEGAL) deficit was \$4.48 billion, \$252 million greater than forecast in the PREFU. Gross debt (\$72.3bn) was lower than forecast, with net debt (\$47.3bn) close to forecast.

TAYLOR RULE UPDATE

Our Taylor Rules tend to broadly track official interest rates, suggesting that the starting point for economic activity and inflation is a key component behind current interest rate settings. Given that monetary policymakers tend to look at a much larger information set and make use of forward-looking information, the Taylor Rule recommendations are not meant to signal where “optimal” policy settings should be. They can, however, provide a guide of where central banks are implicitly viewing the risk profile, with current interest rate settings generally below our Taylor Rule recommendations.

WHAT IS THE TAYLOR RULE?

A Taylor Rule is a monetary policy rule that stipulates how much the central bank has historically tended to change the nominal interest rate in response to changes in inflation, output, or other economic conditions¹.

These rules have a number of pitfalls. The most obvious is that they are based on current data, not forward-looking information that monetary policymakers need to take into account when setting interest rates. As such, the recommendations from these rules should not be taken too literally, but can prove to be a useful cross check on current policy settings, particularly where there is a significant variance between the two. Below we compare Taylor Rule recommendations for a selection of economies.

NZ Taylor Rule just above OCR

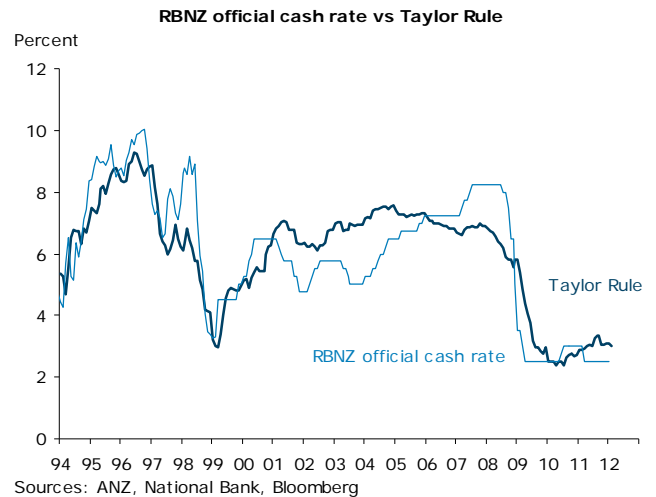
The interest rate recommendation from our New Zealand Taylor Rule tends to broadly track movements in the New Zealand OCR.

The current interest rate recommendations from the Taylor Rule (2.9 percent) are slightly above the current OCR (2.5 percent). With core inflation close to the midpoint of the inflation target and with a wider degree of labour market slack than usual, our rule does not fully capture higher funding costs, which in effect have “lowered” the neutral OCR.

¹ See Taylor, John B. (1993). “Discretion versus Policy Rules in Practice,” Carnegie-Rochester Conference Series on Public Policy, 39. According to Taylor’s original version of the rule, deviations of the nominal interest rate (I_t) from equilibrium should be due to divergences of current actual inflation (Π) from target inflation rates (Π^*) and the degree of current economic slack within the economy, which we proxy with an unemployment rate gap ($(u_t - u^*)$). As such

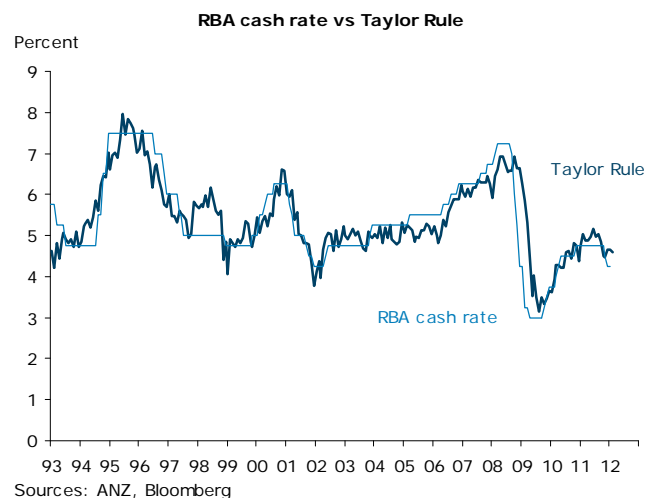
$$I_t = \Pi_t + r^* + a_{\Pi} (\Pi_t - \Pi^*) + a_u (u_t - u^*)$$

Coefficients for our Taylor Rule have been estimated and have theoretically correct signs. For some economies we have augmented the rule, adding some time dummies and interest rate spreads. Further information is available on request.



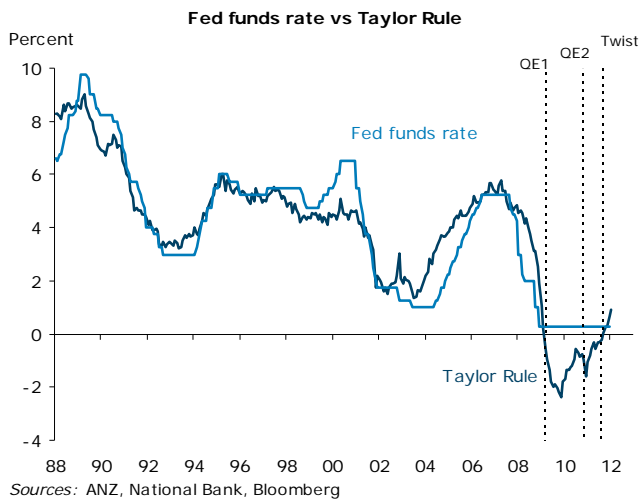
Australian Taylor Rule close to cash rate

Our Australian Taylor Rule tends to closely track the Australian cash rate. As is the case with New Zealand, the current recommendations from our Australian Taylor Rule (4.45 percent) are slightly above those of the current policy rate (4.25 percent). In part this reflects higher headline and core CPI inflation than the midpoint of the 2-3 percent inflation target, with the current level of unemployment (5.2 percent) close to our estimates of the non-accelerating inflation rate of unemployment (NAIRU).



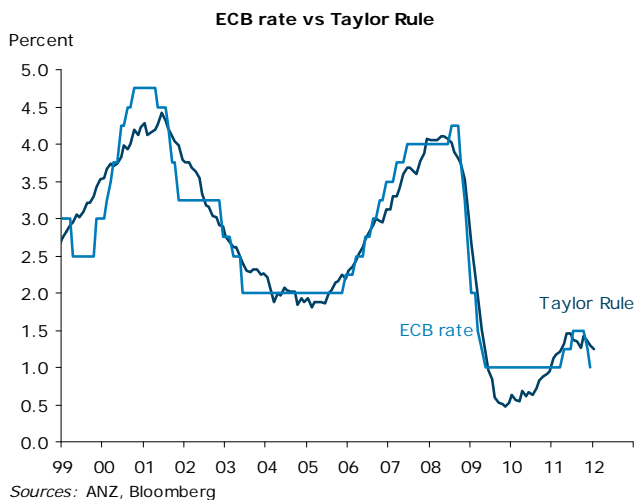
US Taylor Rule recommendation lifts

Our Taylor Rule recommendations had previously been calling for monetary policy settings that were similar in spirit to the two episodes of quantitative easing instigated by the Fed. More recently, however, interest rate recommendations of the Rule have been drifting up, with the lift in the core PCE deflator (currently 1.7 percent y/y) and a lessening degree of labour market slack both influential. The current recommendation (0.9 percent) is well above the current fed funds rate (0.25 percent) but is still nearly two standard deviations below its historical mean.



ECB Taylor Rule recommendation eases

Our ECB Taylor Rule interest rate recommendation (currently 1.25 percent) has been drifting down as the rising unemployment rate has widened the implied margin of labour market slack. Headline inflation remains well above the sub 2 percent implicit target and rising rates of core inflation (currently 1.6 percent y/y) suggest narrower inflation headroom. The ECB cut in December took the policy rate to 1 percent, which remains close to the Taylor Rule.



The others

We also calculate Taylor Rules for some of the other economies:

UK – The Taylor Rule recommends the policy interest rate falls to -0.5 percent, which is equivalent to signalling more quantitative easing is required. Core inflation remains above the 2 percent symmetrical target, but this is offset by a large degree of labour market slack.

Canada – the Taylor Rule recommendation (1.4 percent) eased further given lower core inflation and a widening unemployment gap.

Japan – our Taylor Rule recommends a policy interest rate of 0.05 percent, with consumer prices showing a smaller decline.

China – slowing momentum and moderating CPI inflation deliver a Taylor Rule recommendation of 6.35 percent, versus the one-year lending rate of 6.56 percent. The December cut in the reserve requirement ratio is consistent with the spirit of our Taylor Rule.

Summary and upshot

	Current Policy Rate	Taylor Rule Rate
Reserve Bank of New Zealand	2.50	2.93
Reserve Bank of Australia	4.25	4.45
US Federal Reserve	0.25	0.91
European Central Bank	1.00	1.25
Bank of Canada	1.00	1.57
Bank of England	0.50	-0.51
Bank of Japan	0.10	0.05
Peoples Bank of China	6.56	6.35

From our analysis we can conclude:

- There is an old saying in economics: use as many models as you can, but trust none of them. The Taylor Rule recommendations are obtained from a “reduced form” (highly simplified) representation of the economy. Nevertheless, **they provide a useful framework for analysis** and are a key component of our analysis toolkit.
- **The starting point clearly matters for central bank decisions.** Our Taylor Rules tend to broadly track policy interest rate settings.
- The recent moderation in core inflation rates has generally pushed the Taylor Rule recommendations for interest rates downwards. This is consistent with recent central bank comment displaying more comfort regarding the inflation outlook.
- While the starting point matters, policymakers need to look ahead, given the lags between policy actions, activity and inflation.
- **That current interest rate settings are below Taylor Rule recommendations tells you something about how central banks are viewing the risk profile.**

We will continue to closely monitor our Taylor Rules with a view to assessing potential policy interest rate moves and changes to the implied risk profile.

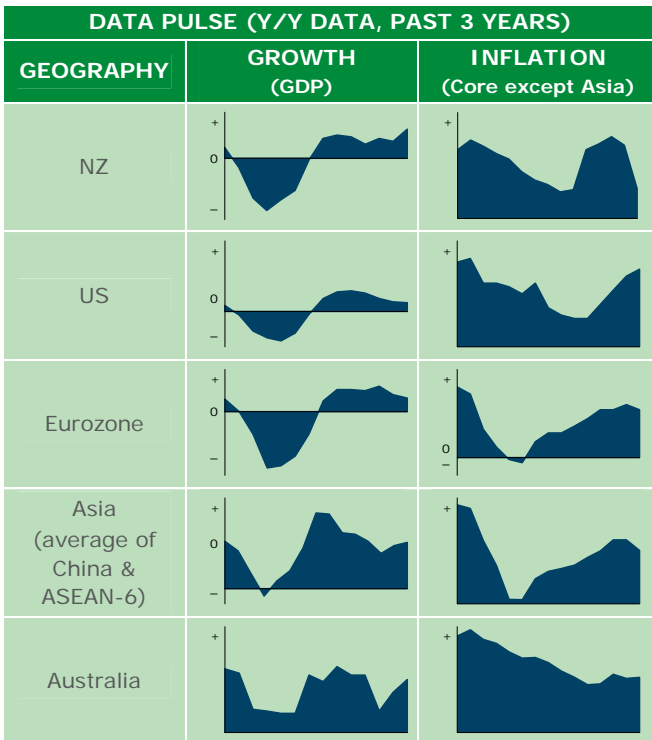
INTEREST RATE STRATEGY

Fed chair Ben Bernanke has made it clear that QE3 is on the table, much to the shock of a market that was focussing on positive data. With the Fed Funds rate now set to remain close to zero for at least another 2 years, US bond yields are likely to remain low for the time being, with any spikes higher not sustained unless there is convincing dataflow to match. This should keep pressure on the NZ curve to flatten, especially with the RBNZ unlikely to ease further. NZGS remain in good demand, and are likely to remain so if the NZD remains strong, particularly given the recent narrowing in swap spreads.

THEMES

- The prospect of Fed Funds remaining low until late 2014 and the possibility of QE3 has seen US bond yields edge lower. But 10yr yields are still above last year's lows. Is that the next target?
- Greek PSI talks are ongoing, but Portugal is now in the spotlight, with spreads to bunds widening to new highs. They are the next Greece.
- The RBNZ is in no hurry to hike. In December they said a 2.5 percent OCR seems prudent "for now", but last week they removed those two words, essentially implying a neutral outlook.
- NZ bond yields have lagged US equivalents, and swap spreads have narrowed. With the NZD supported, we expect offshore demand to grow.

DATA PULSE



PREFERRED STRATEGIES – INVESTORS

Past episodes of QE have taught us that **QE itself may not necessarily lead to lower yields, but the threat of it tends to.** QE3 looms large, Bernanke was very candid about the possibility of it, and we expect this theme to dominate markets in the weeks ahead. **With the NZ/US 10 year spread back above +200bps, and the NZD still trending higher, we prefer to be long 5/21s, outright or on asset swap (which have narrowed significantly).**

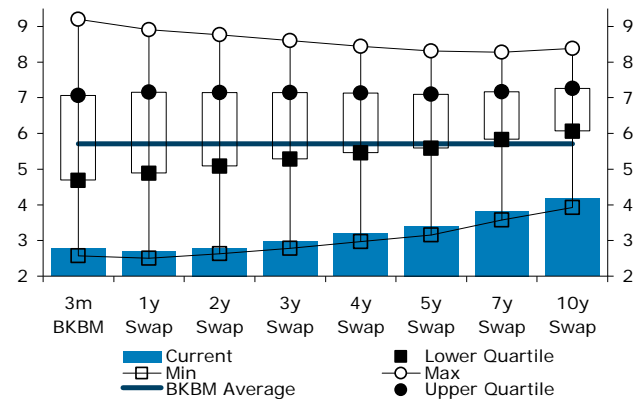
KEY VIEWS – FOR INVESTORS		
GAUGE	DIRECTION	COMMENT
Duration	Long	Potential for QE will only hone the search for carry.
Curve	Flatter	QE should flatten curve; RBNZ are unlikely to cut.
NZ-US 10y spread	Narrower	Back at very cheap levels.
Swap spreads	Wider	The recent narrowing has surprised us. Mortgage flows could reverse the trend.

PREFERRED STRATEGIES – BORROWERS

Last week's *OCR Review* confirmed that the RBNZ is in no rush to raise rates. But while this significantly reduces the urge to hedge interest rate risk, their acknowledgement that funding markets are tightening is **a warning not to be complacent about funding and liquidity.** With these variables on the move, be careful using vanilla swap hedges.

KEY VIEWS – FOR BORROWERS		
GAUGE	VIEW	COMMENT
Hedge ratio	Mostly floating	Swaptions still preferred to outright swap hedges.
Value	Good	Still historically cheap.
Uncertainty	High	Offset by likelihood OCR to stay on hold for a long time.

NZ Swap Rate History (since the OCR introduction)



Sources: ANZ, National Bank, Bloomberg

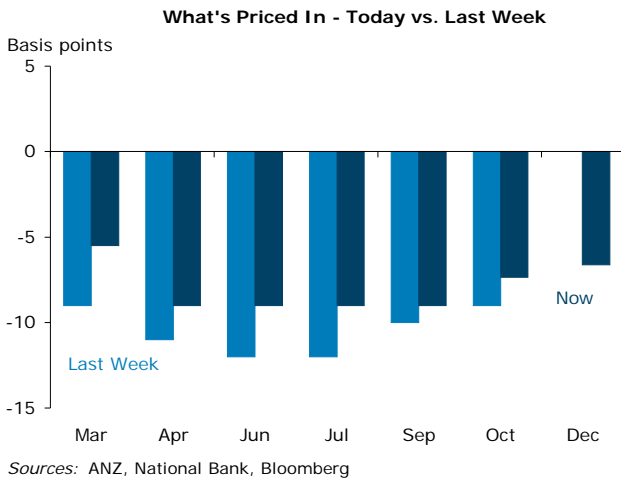
GLOBAL SCENE

The European sovereign debt crisis and Fed policy are the two predominant market themes at the moment, with Greek PSI negotiations and fears over Portugal at the heart of the former, and the possibility of QE3 at the heart of the latter. **Both should provide a downward bias to interest rates** in core markets, at least in the near term. The spectacular rally in US Treasuries that followed Uncle Sam’s credit rating downgrade made it clear that fear dominates at times of uncertainty. With only slow progress being made on Greece, and Portuguese government bond yields rising to new highs on Friday, fear may well come to the fore again. QE3 is not yet a done deal, but **the fact that FOMC participants saw inflation remaining below and unemployment remaining above their long-run tendencies is very telling, as was Bernanke’s apparent dismissal of the recent run of stronger US data.**

DOMESTIC

This week’s data schedule is fairly light, with just second tier data due for release. Recent data has tended to be something of a mixed bag, with softer NZIER business confidence, card spending and CPI data offset somewhat by better trade and milk price data. With the RBNZ on the sidelines, expect global events and considerations to continue dominating.

MONETARY POLICY AND MARKET PRICING

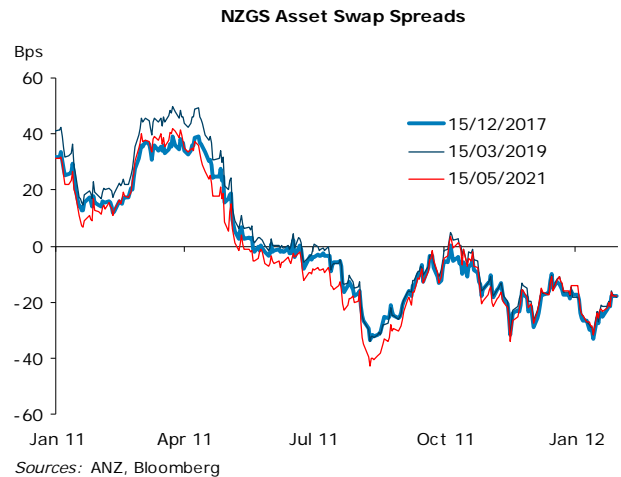


Market expectations for RBNZ rate cuts have been pared back a touch, but this is more a case of noise than any serious change in sentiment. Last week’s OCR Review may have been dovish in the sense that **Governor Bollard dropped the words “for now” from the last sentence of the press release, which was basically the formal adoption of a neutral stance. However, it seems equally clear that the RBNZ are not of a mind to cut the OCR.** As Bollard highlighted in his speech on Friday, the Bank feels NZ is well placed to weather a global shock, and the Bank has other tools

at its disposal (such as those used in 2008 and 2009) should risk appetite and liquidity deteriorate further. **We’d certainly not be looking immediately to OCR cuts should market sentiment take a turn for the worse, but markets will price an increased risk, keeping a lid on short-end rates.**

BONDS

Demand for bonds remains reasonable, as does price tension, with last week’s bond tender clearing at yields below market, and bid cover at 2.3 times. This isn’t as spectacular as the prior week, but is still solid, and we’d expect offshore demand to remain strong while the NZD remains well bid. **NZGS 5/21s look cheap on asset swap as the chart below shows, and are back at 200+ on a spread to the US.** All NZGS have significantly better Roll+Carry compared to global counterparts, but NZGS 12/17s and 3/19s look the best value of the NZGS bonds.



SWAPS AND SWAP SPREADS

We have to admit to being somewhat surprised by the **lack of mortgage-related paying** following recent cuts in fixed mortgage rates, but the risk is it heats up as people return from holidays. **Spreads remain biased to widen.**

RELATIVE VALUE

As noted earlier, **NZGS 12/17s and 3/19s look the best value from an all-up Roll+Carry adjusted return perspective.** Butterfly analysis shows that the 4/15s are cheap against 4/13s and 12/17s or 3/19s. In swaps, the **7yr looks cheap against 5yrs and 10yrs on a butterfly basis.**

CURRENCY STRATEGY

FOMC 'transparency' indicates the potential for more QE of one form or another, leaving the USD with a weakening bias, in the absence of escalating sovereign concerns – a big assumption. We expect renewed attention towards the latter over the coming weeks as the market tests Portugal and we approach the March 20th €14.5bn Greek redemption. Surprisingly, volatility levels are back to predicting a stable environment, adding up to support for risk currencies. Downside protection appears cheap here.

MARKET THEMES

- Policy interest rates will be lower for longer. Global central banks are delivering the message that monetary policy will be accommodative for the foreseeable future. This supports risk seeking behaviour if, and only if, policymakers can maintain markets' confidence, given weak fundamentals.
- European issues are being dominated by risk seeking and short covering.
- The NZD has extended its rally and old world issues are having a lesser effect on new world currencies. Expect this attitude to prevail while the US and Chinese outlooks remain resilient.

REVIEW AND OUTLOOK

Last week's FOMC provided a dovish surprise for markets, with Bernanke making it clear that QE3 is very much on the table. On the face of it, this means the system will be awash with short-term liquidity, which in turn should support high yielding currencies. Although the theme of lower for longer also applies to the RBNZ, they are equally unlikely to cut, and NZD interest rates are high by comparison, with carry still likely to support the Kiwi.

The year-end NZD rally has continued and the seasonal correction window has now passed.

The NZD continues to push higher and is now sitting on topside resistance at 0.8250-75. With a trade surplus thanks largely to the dairy sector, we look to rising commodity prices to support the NZD.

Negative European news is being increasingly ignored. NOK and SEK are still correlated to negative European news, but AUD, NZD and equities are following Asian and US indicators. We are also seeing divergence within Europe, with Italian, Spanish and Irish yields decoupling from Greek and Portuguese yields. The latter are rapidly pushing higher, raising the question of a second bailout for Portugal. This week could be a big week for Europe with Greek PSI issues to be resolved, the 2nd €130bn bailout of Greece to be finalised and further news about the 'fiscal compact'. For the "risk on" theme to continue, we need to see concrete action from policymakers to

maintain the confidence of markets so weak fundamentals can be temporarily overlooked. This looks set for a big test over the coming weeks, and we are mindful that volatility levels have receded, portending a material breakout.

The NZDAUD looks range-bound between 0.7662 and 0.7722. We still favour NZD outperformance.

The RBNZ's more neutral bias and higher than expected Australian CPI raises questions which should keep the cross range bound ahead of next week's RBA meeting.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued on a near-term cyclical basis.
Yield	↔/↑	Market expects an RBA cut next week. By contrast, we don't expect one till March.
Commodities	↔/↑	Commodities are strong but NZ products are stronger.
Partial indicators	↔	Leading indicators are slowing.
Technicals	↔	Indicators seeing range-bound behaviour.
Sentiment	↑	NZD seen as undervalued vs. AUD in market's view.
Other	↔	Global sentiment big driver.
On balance	↔/↑	Range-bound until RBA but we still favour NZD.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above revised structural fair value estimate of 0.70.
Fair value – short-term	↔↓	Getting stretched now.
Yield	↑	RBNZ may be neutral, but they aren't easing more, like the Fed is considering.
Commodities	↔/↑	Softs looking reasonable.
Risk aversion	↔/↑	Important resistance levels have broken in a number of risk indicators.
Partial indicators	↔	NZ data now mixed. US data slowing.
Technicals	↔↓	Technical bounce stretched.
AUD	↔/↑	Has broken higher, but has ability to test even higher.
Sentiment	↔	Seasonal pattern is dead.
Other	↔	Nothing apparent.
On balance	↔/↑	The trend is your friend!

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
30-Jan	NZ	Performance Services Index - DEC	- -	50.6(a)	10:30
	UK	Hometrack Housing Survey (MoM) - JAN	- -	-0.2%	13:01
	UK	Hometrack Housing Survey (YoY) - JAN	- -	-2.1%	13:01
	EC	Business Climate Indicator - JAN	-0.25	-0.31	23:00
	EC	Eurozone Consumer Confidence - JAN F	-20.6	-20.6	23:00
	EC	Eurozone Economic Confidence - JAN	93.8	93.3	23:00
	EC	Eurozone Indust. Confidence - JAN	-6.8	-7.1	23:00
	EC	Eurozone Services Confidence - JAN	-1.6	-2.1	23:00
	GE	Consumer Price Index (MoM) - JAN P	-0.4%	0.7%	30-31 Jan
	GE	Consumer Price Index (YoY) - JAN P	2.0%	2.1%	30-31 Jan
31-Jan	US	Personal Income - DEC	0.4%	0.1%	02:30
	US	Personal Spending - DEC	0.1%	0.1%	02:30
	US	PCE Deflator (YoY) - DEC	2.3%	2.5%	02:30
	US	PCE Core (MoM) - DEC	0.1%	0.1%	02:30
	US	PCE Core (YoY) - DEC	1.7%	1.7%	02:30
	US	Dallas Fed Manf. Activity - JAN	0.5	-3.0	04:30
	NZ	Building Permits MoM - DEC	8.0%	-6.4%	10:45
	AU	RPData-Rismark House Px Raw - DEC	- -	-0.2%	12:30
	AU	RPData-Rismark House Px S.A - DEC	- -	0.1%	12:30
	UK	GfK Consumer Confidence Survey - JAN	-32	-33	13:01
	AU	NAB Business Conditions - DEC	- -	1	13:30
	AU	NAB Business Confidence - DEC	- -	2	13:30
	AU	Private Sector Credit MoM% - DEC	0.3%	0.3%	13:30
	AU	Private Sector Credit YoY% - DEC	3.6%	3.5%	13:30
	NZ	Money Supply M3 YoY - DEC	- -	6.5%	15:00
	GE	Retail Sales (MoM) - DEC	0.8%	-1.0%	20:00
	GE	Retail Sales (YoY) - DEC	0.9%	0.8%	20:00
	GE	Unemployment Change (000's) - JAN	-10K	-22K	21:55
	GE	Unemployment Rate (s.a) - JAN	6.8%	6.8%	21:55
	UK	Net Consumer Credit - DEC	£0.4B	£0.4B	22:30
	UK	Net Lending Sec. on Dwellings - DEC	£0.8B	£0.6B	22:30
	UK	Mortgage Approvals - DEC	54.0K	52.9K	22:30
	UK	M4 Money Supply (MoM) - DEC	- -	-0.6%	22:30
	UK	M4 Money Supply (YoY) - DEC	- -	-2.6%	22:30
	UK	M4 Ex OFCs 3M Annualised - DEC	- -	3.7%	22:30
	EC	Eurozone Unemployment Rate - DEC	10.4%	10.3%	23:00
1-Feb	US	Employment Cost Index - 4Q	0.4%	0.3%	02:30
	US	S&P/CS Composite-20 YoY - NOV	-3.3%	-3.4%	03:00
	US	Chicago Purchasing Manager - JAN	63.0	62.2	03:45
	US	Consumer Confidence - JAN	68.0	64.5	04:00
	US	NAPM-Milwaukee - JAN	57.5	57.8	04:00
	AU	AiG Performance of Mfg Index - JAN	- -	50.2	11:30
	AU	HIA New Home Sales (MoM) - DEC	- -	6.8%	13:00
	AU	House Price Index QoQ - 4Q	-0.6%	-1.2%	13:30
	AU	House Price Index YoY - 4Q	-3.3%	-2.2%	13:30
	CH	PMI Manufacturing - JAN	49.6	50.3	14:00
	CH	HSBC Manufacturing PMI - JAN	- -	48.7	15:30
	AU	RBA Commodity Price Index Au - JAN	- -	104.5	18:30

Continued on following page

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Feb	AU	RBA Commodity Index SDR YoY% - JAN	- -	10.9%	18:30
	UK	Nat'wide House prices sa (MoM) - JAN	-0.2%	-0.2%	20:00
	UK	Nat'wide House prices nsa(YoY) - JAN	1.2%	1.0%	20:00
	GE	PMI Manufacturing - JAN F	50.9	50.9	21:55
	EC	PMI Manufacturing - JAN F	48.7	48.7	22:00
	UK	PMI Manufacturing - JAN	50.0	49.6	22:30
	EC	Eurozone CPI Estimate (YoY) - JAN	2.7%	2.8%	23:00
	UK	Halifax House Prices sa (MoM) - JAN	- -	-0.9%	1-9 Feb
	UK	Halifax House Price 3Mths/Year - JAN	- -	-1.3%	1-9 Feb
2-Feb	US	MBA Mortgage Applications - 27-Jan	- -	-5.0%	01:00
	US	ADP Employment Change - JAN	183K	325K	02:15
	US	Construction Spending MoM - DEC	0.5%	1.2%	04:00
	US	ISM Manufacturing - JAN	54.5	53.9	04:00
	US	ISM Prices Paid - JAN	49.8	47.5	04:00
	US	Domestic Vehicle Sales - JAN	10.50M	10.45M	11:00
	US	Total Vehicle Sales - JAN	13.50M	13.48M	11:00
	NZ	ANZ Commodity Price - JAN	- -	-0.8%	13:00
	AU	Building Approvals (MoM) - DEC	2.0%	8.4%	13:30
	AU	Building Approvals (YoY) - DEC	-22.1%	-18.9%	13:30
	AU	Trade Balance - DEC	1200M	1380M	13:30
	UK	PMI Construction - JAN	52.5	53.2	22:30
	EC	Eurozone PPI (MoM) - DEC	-0.1%	0.2%	23:00
	EC	Eurozone PPI (YoY) - DEC	4.3%	5.3%	23:00
3-Feb	US	Challenger Job Cuts YoY - JAN	- -	30.6%	01:30
	US	Nonfarm Productivity - 4Q P	0.8%	2.3%	02:30
	US	Unit Labor Costs - 4Q P	0.9%	-2.5%	02:30
	US	Initial Jobless Claims - 28-Jan	370K	377K	02:30
	US	Continuing Claims - 21-Jan	3530K	3554K	02:30
	NZ	Net Migration SA - DEC	- -	-50	10:45
	AU	AiG Performance of Service Index - JAN	- -	49	11:30
	CH	China Non-manufacturing PMI - JAN	- -	56	14:00
	CH	China HSBC Services PMI - JAN	- -	52.5	15:30
	GE	PMI Services - JAN F	54.5	54.5	21:55
	EC	PMI Composite - JAN F	50.4	50.4	22:00
	EC	PMI Services - JAN F	50.5	50.5	22:00
	UK	PMI Services - JAN	53.3	54	22:30
	EC	Eurozone Retail Sales (MoM) - DEC	0.3%	-0.8%	23:00
	EC	Eurozone Retail Sales (YoY) - DEC	-1.3%	-2.4%	23:00
	CH	Leading Index - DEC	- -	100.18	3-5 Feb
4-Feb	US	Change in Nonfarm Payrolls - JAN	150K	200K	02:30
	US	Change in Private Payrolls - JAN	168K	212K	02:30
	US	Change in Manufact. Payrolls - JAN	11K	23K	02:30
	US	Unemployment Rate - JAN	8.5%	8.5%	02:30
	US	Avg Hourly Earning MOM All Emp - JAN	0.2%	0.2%	02:30
	US	Avg Hourly Earning YOY All Emp - JAN	1.9%	2.1%	02:30
	US	ISM Non-Manf. Composite - JAN	53.2	52.6	04:00
	US	Factory Orders - DEC	1.5%	1.8%	04:00

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, National Bank. All \$ values in local currency

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: The RBNZ kicked further for touch, although it confirmed that the next direction for the OCR is up, barring global meltdown. Trade-centric data provided some good news, with the recovery in manufacturing sentiment combining with a rising annual trade surplus, courtesy of strong dairy exports. This week's commodity price data will provide further insights. Consent data is expected to show recovery from a low base. With a fickle global backdrop, and with ongoing uncertainty over the timing of the Canterbury rebuild, the upshot is likely to be the OCR on hold until at least December. The spirit of our assessment is a low OCR endpoint this cycle.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 31 Jan (10:45am)	Building Consents – Dec	Rebounding	An 8 percent increase in residential issuance is expected, with non-residential issuance of around \$300m.
Tue 31 Jan (10:45am)	National Employment Indicator – Oct	No change	The lead provided by internet job advertising suggests flat employment over the next few months.
Wed 1 Feb (early am)	GlobalDairyTrade auction	Holding	Strong Chinese demand will support prices, with no change in the average price expected.
Thur 2 Feb (1:00pm)	ANZ Commodity Price Index – Jan	- -	- -
Fri 3 Feb (10:45am)	International Travel and Migration – Dec	Improving	A net permanent and long term inflow of 100 persons is expected. Visitor arrivals are likely to rise 2-3 percent.
Tue 7 Feb (10:45am)	Labour Cost Index – 2011Q4	Contained	A 0.5 percent increase in private sector ordinary time earnings (1.9 percent y/y) is forecast.
Tue 7 Feb (10:45am)	Quarterly Employment Survey - Q4	Stalling	No change in filled jobs expected. Average hourly earnings are expected to rise 0.5 percent (3.2 percent y/y).
Thur 9 Feb (10:45am)	Household Labour Force Survey – Q4	Creeping forward	A 0.2 percent quarterly increase in employment is forecast, with the unemployment rate easing to 6.5 percent.
Fri 10 Feb (10:45am)	Electronic Card Transactions – Jan	Improving	A 0.2 percent monthly s.a. increase in retail ECT spending is forecast. Higher increases for core retail are expected.
Wed 15 Feb (early am)	GlobalDairyTrade auction	Holding	No change in the average dairy price is expected.
Wed 15 Feb (10:45am)	Retail Trade – Q4	Up	Higher cash spending will help deliver a 1.5 percent increase in retail volumes, with core volumes up 0.5 percent.
Thur 16 Feb (10:00am)	ANZ Job Ads – Jan	- -	- -
Thur 16 Feb (10:30am)	BNZ Business NZ Manufacturing PMI	Subdued	January manufacturing confidence to remain below 50 given the global outlook.
Thur 16 Feb (10:00am)	Budget Policy Statement	Fiscal straightjacket	The PM confirmed a 2014/15 surplus, but with considerably less fiscal headroom given the weaker growth outlook.
Thur 16 Feb (1:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Mon 20 Feb (10:45am)	Producer Price Index, Capital Goods Price Index – Q4	Moderate	The lower NZD will offset lower crude and wholesale electricity prices, with a 0.5 percent quarterly increase for both PPI inputs and outputs. No change in overall capital goods prices is expected.
Tue 21 Feb (1:00pm)	National Bank Regional Trends – Q4	- -	- -
Tue 21 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Easing	We expect the 2-year-ahead CPI forecast to ease to around 2-5-2.6 percent (versus 2.82 percent in the Q4 survey).
Wed 22 Feb (3:00pm)	Credit card billings – January	Sideways	No change is expected, with a fall in overseas billings offset by a small climb in domestic card spending.
On Balance		Local vs global	Resilient domestic gauges are expected to start confirming a loss in economic momentum, with the global backdrop suggesting caution for early 2012.

KEY FORECASTS AND RATES

	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
GDP (% qoq)	0.8	0.6	0.2	0.5	0.7	1.0	0.9	0.7	0.7	0.6
GDP (% yoy)	1.9	2.2	1.7	2.1	2.0	2.4	3.1	3.3	3.3	2.9
CPI (% qoq)	0.4	-0.3	0.6	0.7	0.9	0.4	0.6	0.7	0.9	0.3
CPI (% yoy)	4.6	1.8	1.6	1.4	1.8	2.5	2.7	2.6	2.7	2.7
Employment (% qoq)	0.2	0.2	0.2	0.5	0.4	0.3	0.3	0.3	0.3	0.3
Employment (% yoy)	1.1	1.7	0.7	1.2	1.4	1.4	1.5	1.3	1.2	1.2
Unemployment Rate (% sa)	6.6	6.5	6.5	6.2	6.1	6.1	6.1	6.1	6.1	6.0
Current Account (% GDP)	-4.3	-3.8	-4.2	-4.4	-4.7	-5.0	-5.2	-5.4	-5.7	-5.9
Terms of Trade (% qoq)	-0.6	-0.4	-0.9	-0.9	-0.8	-0.8	-0.8	-0.6	-0.7	-0.7
Terms of Trade (% yoy)	3.4	2.1	0.5	-2.7	-2.9	-3.3	-3.2	-3.0	-3.0	-2.8

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12
Retail ECT (% mom)	1.4	-0.8	1.1	0.3	-0.4	0.5	1.5	-0.6	-0.3	
Retail ECT (% yoy)	10.0	6.8	9.0	8.0	8.4	7.5	7.4	6.0	7.2	
Credit Card Billings (% mom)	1.7	0.4	0.5	1.0	-1.1	1.1	2.6	-3.4	0.9	
Credit Card Billings (% yoy)	6.5	5.6	4.5	7.4	4.7	5.1	7.8	3.2	5.9	
Car Registrations (% mom)	-5.4	3.4	-2.3	-1.8	8.6	-11.1	1.1	7.4	4.2	
Car Registrations (% yoy)	-10.5	-3.7	-9.5	-6.0	1.9	-12.2	-8.8	-7.9	4.2	
Building Consents (% mom)	-1.2	3.2	-1.0	11.2	19.5	-17.7	10.7	-6.4	..	
Building Consents (% yoy)	-32.5	-21.6	-25.3	-17.6	18.5	-3.7	11.4	-5.0	..	
REINZ House Price Index (% yoy)	-0.4	-0.7	0.0	0.5	0.7	2.7	3.4	2.6	3.1	
Household Lending Growth (% mom)	0.2	0.1	0.1	0.2	0.1	0.1	0.1	0.0	..	
Household Lending Growth (% yoy)	1.3	1.2	1.2	1.2	1.2	1.1	1.1	1.0	..	
ANZ Roy Morgan Consumer Confidence	101.4	103.3	112.5	109.4	113.3	112.6	112.2	109.0	108.4	116.1
NBNZ Business Confidence	14.2	38.3	46.5	47.6	34.4	30.3	13.2	18.3	16.9	
NBNZ Own Activity Outlook	29.5	39.7	38.7	43.7	43.3	35.4	26.1	28.8	25.7	
Trade Balance (\$m)	1158	550	201	103	-690	-788	-226	-307	338	
Trade Balance (\$m ann)	1238	1019	999	1288	1028	694	688	557	1113	
ANZ World Commodity Price Index (% mom)	1.6	0.4	-1.2	-0.2	-1.4	-2.0	-3.6	-1.1	-0.8	
ANZ World Commodity Price Index (% yoy)	19.8	19.6	20.6	22.2	22.0	16.5	9.0	5.5	3.1	
Net Migration (sa)	-60	-240	-240	-190	130	-660	-650	-60	..	
Net Migration (annual)	5508	4625	3867	2867	2257	773	-103	-568	..	

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

	ACTUAL			Forecast (end month)						
FX RATES	Nov-11	Dec-11	Today	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
NZD/USD	0.810	0.770	0.824	0.80	0.83	0.86	0.89	0.90	0.90	0.90
NZD/AUD	0.768	0.794	0.774	0.80	0.79	0.78	0.81	0.82	0.82	0.82
NZD/EUR	0.583	0.570	0.624	0.58	0.59	0.61	0.61	0.62	0.62	0.62
NZD/JPY	62.73	57.75	63.20	60.0	59.8	61.9	64.1	63.0	63.0	63.0
NZD/GBP	0.504	0.497	0.524	0.51	0.52	0.53	0.55	0.55	0.55	0.55
NZ\$ TWI	70.3	68.4	72.4	70.3	71.3	72.8	74.8	75.4	75.4	75.4
INTEREST RATES	Nov-11	Dec-11	Today	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75
NZ 90 day bill	2.73	2.75	2.77	2.70	2.80	2.80	3.20	3.70	3.80	4.20
NZ 10-yr bond	4.02	3.81	3.92	4.10	4.10	4.20	4.40	4.40	4.60	4.80
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50
US 3-mth	0.53	0.58	0.55	0.35	0.35	0.35	0.35	0.35	0.35	0.60
AU Cash Rate	4.50	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00
AU 3-mth	4.60	4.48	4.36	4.20	4.20	4.20	4.20	4.20	4.20	4.20

Forecasts finalised as at 28 November 2011

	27 Dec	23 Jan	24 Jan	25 Jan	26 Jan	27 Jan
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.68	2.74	2.74	2.74	2.73	2.77
NZGB 04/13	2.46	2.47	2.49	2.49	2.50	2.50
NZGB 04/15	2.74	2.81	2.83	2.86	2.86	2.83
NZGB 03/19	3.58	3.64	3.66	3.69	3.70	3.67
NZGB 05/21	3.85	3.90	3.92	3.94	3.95	3.92
2 year swap	2.72	2.82	2.82	2.86	2.81	2.80
5 year swap	3.31	3.44	3.45	3.48	3.43	3.42
RBNZ TWI	69.0	71.6	71.7	71.9	72.1	72.5
NZD/USD	0.7733	0.8066	0.8094	0.8108	0.8169	0.8222
NZD/AUD	0.7619	0.7697	0.7709	0.7709	0.7701	0.7738
NZD/JPY	60.26	62.16	62.34	63.19	63.54	63.63
NZD/GBP	0.4950	0.5188	0.5205	0.5193	0.5217	0.5242
NZD/EUR	0.5918	0.6257	0.6229	0.6229	0.6232	0.6270
AUD/USD	1.0149	1.0480	1.0499	1.0518	1.0608	1.0626
EUR/USD	1.3068	1.2892	1.2994	1.3017	1.3109	1.3114
USD/JPY	77.92	77.06	77.02	77.94	77.78	77.39
GBP/USD	1.5622	1.5547	1.5549	1.5613	1.5657	1.5684
Oil (US\$/bbl)	99.73	98.15	99.47	98.84	99.23	99.76
Gold (US\$/oz)	1594.21	1668.55	1673.70	1665.75	1712.40	1720.45
Electricity (Haywards)	2.19	10.57	11.30	12.35	10.71	10.63
Baltic Dry Freight Index	1738	841	807	784	753	726
Milk futures (USD)	142	140	140	138	138	137

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This publication has been prepared by ANZ National Bank Limited, Level 7, 1 Victoria Street, Wellington 6011, New Zealand, Phone 64-4-802 2000, Fax 64-4-496 8639, <http://www.nbnz.co.nz> and e-mail nzeconomics@nbnz.co.nz.