

# Business Weekly

## Just a little commitment

### This Week

Alan Bollard takes centre stage this week with Thursday's OCR announcement, for which we expect the RBNZ to deliver a 50bp cut. The backdrop to the decision is talk of "green shoots" in economic data, some still-sobering reminders that the global economy is a far from being out of the woods yet, and a tightening of monetary conditions ever since the March MPS was released. The tightening in monetary conditions came, in part, from improved global sentiment. But is also partly a result of the RBNZ's tactics at the March MPS. The RBNZ wanted to wean the markets off expecting further large rate cuts, but in signalling it was close to the end of the easing cycle it triggered a mad rush by borrowers to fix for long terms, pushing rates up.

The RBNZ went so far as to put out a [statement](#) on April 1 expressing its concern with rising interest rates. However, both interest rates and the NZ dollar have remained stubbornly high. If the RBNZ is still concerned by these developments the OCR decision is its opportunity to make a material difference. A 50bp cut has a much better chance of nudging markets in the desired direction. For that reason we favour a 50bp cut.

Deciding how much to cut by is only the half of the RBNZ's decision in April. Equally important will be the sort of actions the RBNZ takes to accompany a cut. In our view, it boils down to 3 options:

- A) Express similar concerns as the April 1 statement ("inconsistent" and "unwarranted") and hope that recent optimism in global markets reverses.
- B) Combine a rate cut with an explicit commitment to keep the OCR at or below its new level for a defined period (e.g. the Bank of Canada's recent commitment to keep rates low until Q2 2010).
- C) Take more direct action to influence the NZ dollar or long-term interest rates such as FX intervention, purchases of long-term debt, or participating in the swaps market.

Option A will do little. Even worse, if accompanied by only 25bp cut carried a strong risk of back-firing again. Option B stands a better chance at influencing longer-term interest rate expectations. A well-designed statement with a 25bp cut could also be effective, but is a far riskier strategy given current market pricing. At this point the RBNZ would prefer to keep Option C (probably the most effective) up its sleeve.

But the RBNZ should also be evaluating other alternatives to the OCR as a contingency, such as those in Option C. The RBNZ may never use such plans, but better to have a plan than not.

### Click here for:

[Foreign Exchange](#)

- NZD remains off its recent peak against the USD, further downside risk.

[Interest Rates](#)

- RBNZ expected to cut the OCR by 50 basis points on Thursday.

[Week Ahead](#)

- RBNZ the focus, also trade data, building consents and business confidence.

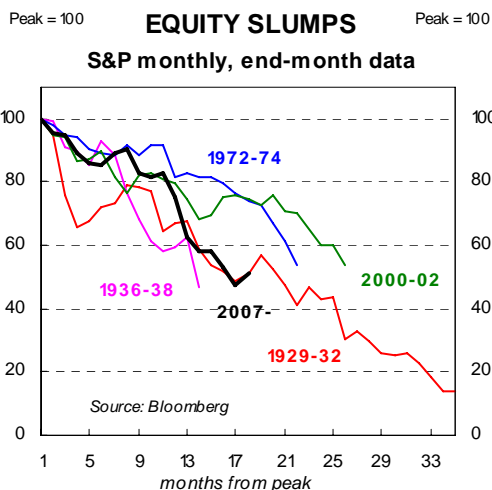
[Week in Review](#)

- Net Migration picks up as the number of departures to Australia decline.

[Global Calendars](#)

- FOMC has a rate announcement this week, US Q1 GDP also a highlight.

### Chart of the week



- The past week has been another volatile one for equity markets, with markets ending a 6-week rally as confidence in the financial sector plateaued.
- The chart on the left shows equity market levels from peaks to various major troughs experienced over the past 80 years. The magnitude of the current downturn is quite similar to those of previous major equity downturns, though has generally been swifter in pace.
- Historical episodes also show that it is not uncommon for markets to go through temporary periods of recovery during downturns. Between 1929 and 1932, equities soared by more than 20% four times, only to fall back below previous lows.
- Equity markets can remain quite volatile during times of considerable uncertainty.

### General Advice Warning

As this report was prepared without taking into account your objectives, financial situation or particular needs, you should not take any action in reliance of this report without considering your particular circumstances and, if necessary, obtaining professional advice.

## Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.5696	0.5675	0.5753	0.5550	0.7859	DOWN	0.5600	0.5750
NZD/AUD	0.7898	0.7886	0.8212	0.8970	0.8369	DOWN	0.7800	0.7950
NZD/JPY	55.13	56.17	56.58	52.88	81.72	DOWN	54.00	56.00
NZD/EUR	0.4299	0.4361	0.4241	0.4414	0.4990	DOWN	0.4200	0.4350
NZD/GBP	0.3883	0.3849	0.3972	0.3530	0.3940	DOWN	0.3800	0.3950
TWI	56.4	56.6	57.2	56.9	70.5	DOWN	55.00	57.00

Weekly support and resistance levels \* Current is as at 12pm Tuesday; week ago as at Monday 5pm

- The NZD remained off its recent peak against the USD last week, and is also down on the JPY and Euro. The NZD briefly traded below 0.55 early last week, but ground higher over the rest of the week.
- This week the focus is on the RBNZ. We expect the Bank to deliver a 50bp cut as it makes an effort to ease monetary conditions. If our expectation proves correct this will weigh on the NZD. The Kiwi is pulling back from its recent high near 0.60 against the USD, and we expect this movement to continue over the coming weeks.
- Against the AUD, the NZD has traded in a narrow range between 0.785 and 0.795. This cross rate is sensitive to interest rate differentials, and a 50bp cut from the RBNZ would likely see the NZD challenge support at 0.78.
- A wild card for the week is Swine flu. If the situation proves serious, it will weigh on the NZD.

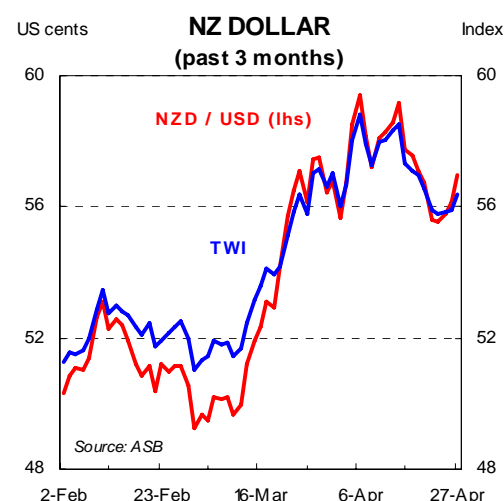
### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
April NBNZ Business Outlook	29/4	3.00 pm	-
RBNZ OCR Announcement	30/4	9.00 am	2.50%

**Potential currency movers from the US this week:** S&P/CaseShiller House Price Index, Consumer Confidence, Richmond Fed Manufacturing Index (29<sup>th</sup>), Q1 GDP FOMC rate decision (30<sup>th</sup>), PCE Deflator, Chicago PMI, (1<sup>st</sup>), Uni of Michigan Confidence, ISM Manufacturing, Vehicle Sales (2<sup>nd</sup>)

### Medium term outlook:

- As a consequence of the financial market turmoil centred in the United States, USD weakness was expected in early 2009. Although this weakness was initially offset in part by concerns about other regions, improved sentiment in financial markets has seen risk appetites improve and the USD weaken.
- It is likely there was an over-reaction by both the bond and currency market to the announcement the Fed will begin buying \$300 billion of long-term US Treasuries as part of its quantitative easing (or credit easing) policy. Markets have also reflected a wave of optimism, which may get put to the test in the coming months.
- Recent influences suggest a risk the EUR, GBP, and JPY retrace some of March's large gains. We are also likely to see further pullback in the NZD/USD.
- However, we are also comfortable with our current forecast that the NZD and AUD have bottomed and will begin a slow appreciation over the course of 2009, rather than revisit and break through the lows seen in early 2009.
- NZD/USD and AUD/USD will lift as the USD eventually depreciates. But both the Australian dollar and the New Zealand dollar will remain weak vis-à-vis the major cross rates while global growth remains weak. Ratings concerns will weigh on the NZD over the next 2-3 months, and a rating downgrade is a key downside risk to our forecast.
- RBNZ Governor, Alan Bollard, revealed to the New Zealand Parliamentary Finance and Expenditure Select Committee on 4 March, the RBNZ were in the process of reducing the RBNZ's foreign exchange reserves from \$5 billion down to a benchmark rate of \$1 billion. Bollard also went on to say that the RBNZ aimed to intervene both at the top and bottom of the cycle to try and stabilise the exchange rate.



[\[Last Quarterly Economic Forecasts\]](#)

## Interest Rate Market

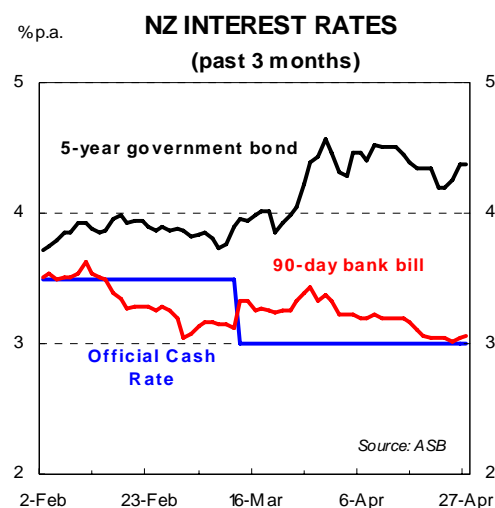
Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	3.00	3.00	3.00	6.50	8.25	DOWN
90-day bank bill	3.06	3.04	3.33	7.06	8.90	DOWN
2-year swap	3.67	3.70	3.89	6.39	8.20	DOWN
5-year swap	4.78	4.83	5.03	6.52	7.73	DOWN
11/11 gov't stock	4.37	4.34	4.44	5.72	6.66	FLAT
NZSX 50	2656	2695	2653	2781	3617	FLAT

\* Current is as at 12pm Monday; week ago as at Monday 5pm

- Despite the US sharemarkets and currencies experiencing a rollercoaster week, domestic interest rate markets remained quiet. Interest rates remained steady, with the focus on Thursday's OCR announcement.
- Economists are expecting a 50 basis point cut, bringing the cash rate to 2.5%. However, the market is less convinced, with only 36 basis points priced in. Should market pricing stay round these levels, we can expect some movement on the day. A 50bp cut, combined with an explicit time horizon for low rates, will put downward pressure on rates across the curve. However, a 25bp cut, and/or non-committal statement risks backfiring and returning upward pressure on longer end rates as the next round of borrowers look to fix mortgages.

### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
March Trade Balance	29/4	10.45 am	+\$250m
April NBNZ Business Outlook	29/4	3.00 pm	-
RBNZ OCR Announcement	30/4	9.00 am	2.50%
March Building Consents	30/4	10.45 am	-
Q1 LCI/QES	4/5	10.45 am	+0.6%



**Comment:** Large flow of 2<sup>nd</sup> tier data, but the focus of the week will be the RBNZ OCR Announcement. Economists are expecting a 50 basis point cut, although the market has not fully priced this in. We are also looking for a more explicit commitment from the RBNZ on holding rates down for a specified time. The FOMC are due to announce prior to the RBNZ (6.15am NZT), although we are not expecting any new initiatives to be announced this month.

### Medium term outlook: [\[Last Quarterly Economic Forecasts\]](#)

- The RBNZ cut the OCR by 'only' 50 basis points at the March OCR review and Monetary Policy statement. It sent a strong signal that it was slowing down the pace of rate cuts and was reluctant to cut the OCR below 2.5%. The RBNZ has now cut 525 basis points off the OCR since July 2008.
- The RBNZ's growth forecasts are optimistic, with the economy exiting the recession by mid-2009 and rebounding sharply. We think end-2009 is more likely, a view which is supported by the most recent Quarterly Survey of Business Opinion. Importantly, that survey revealed further deterioration in employment and investment intentions as well as a very sharp decline in capacity utilisation. These indicators point to downside risk to the RBNZ's March MPS economic projections.
- In addition, the RBNZ appears to have put a lot of weight on monetary and fiscal stimulus. The RBNZ are hoping for tax cuts, lower interest rates and the lower exchange rate to support the economy throughout the latter part of 2009. In particular, the RBNZ is expecting extended weakness in the NZD to do much of the work for the Bank. Current levels of the NZD and longer-term interest rates undermine the projected recovery.
- On April 1<sup>st</sup> the RBNZ took the unusual step to issue an intra-meeting statement expressing its view that the rise in long-term swap rates was unwarranted and inconsistent with its monetary policy outlook. The RBNZ's statement signalled a level of frustration and we believe they will now seriously consider a 50bp cut. The RBNZ may be very reluctant to do so as it had strongly signalled slowing the pace of rate cuts down in March. However, the best option the RBNZ has to cap upward pressure on interest rates is to deliver another aggressive cut along with a very clear commitment to holding the cash rate down for a long time. We also expect the RBNZ will have to cut cash rate to 2.0% by July.
- The RBNZ made it pretty clear it is not currently entertaining the use of alternatives policy measure (such as Quantitative Easing undertaken by other central banks) and has also discounted the likelihood of NZ rates dropping near zero. However, we believe making contingency plans would be a prudent step.

## NZ Data Preview: a look at the week ahead

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
March Merchandise Trade Balance	29/4	10.45 am	\$490m	+\$250m	+\$200
April NBNZ Business Confidence	29/4	3.00 pm	-39	-	-
RBNZ Cash Rate Announcement	30/4	9.00 am	3%	2.5%	2.5%
March Building Consents	30/4	10.45 am	+12%	-	+4%
Q1 Labour Cost Index	4/5	10.45 am	+0.7%	+0.6%	+0.7%
Q1 Quarterly Employment Survey	4/5	10.45 am	+0.8%	+0.6%	+0.6%

### Wednesday 29 April

#### March Merchandise Trade Balance.

**ASB (f): \$200 million. Last: \$489.5 million.**

We expect a trade surplus of \$200 million in March. Exports values are expected to continue to reflect the underlying trend of weakening export volumes (manufactures in particular).

Meat export prices are likely to remain reasonable. However, volumes are expected to weaken, reflecting low lamb slaughter. The Kiwi averaged around 51c over February, 5 cents lower than in January and down 35% on year-ago levels. However, in March the NZD traded as high as 58c against the USD in the month. If the strength persists, it will start to impact export values.

The trend for merchandise imports has been falling steeply since a turning point in September 2008, down 8.1% (\$334 million) at an average monthly rate of 1.7% since then.

We expect exports to be down around 7% on year-ago levels, and imports down around 14% on year ago levels, resulting in a trade surplus of \$200 million for the month.

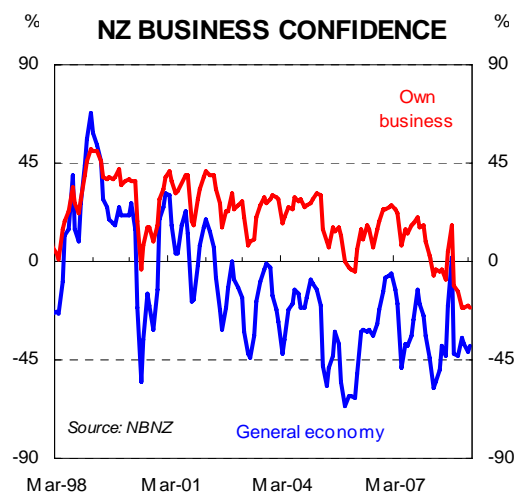
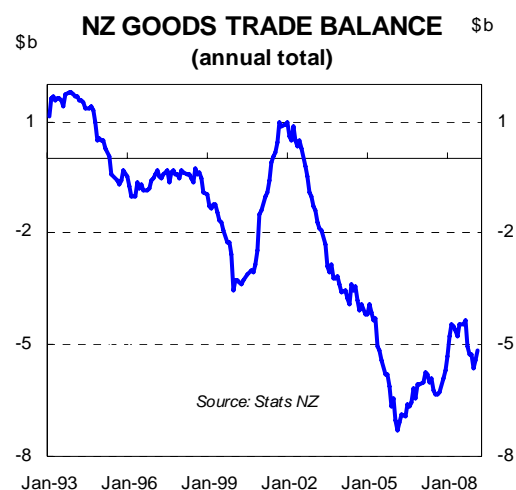
### Wednesday 29 April

#### April NBNZ Business Confidence

**Previous -39 (General) -21 (own activity)**

Business confidence remained weak in March. The General outlook remained near recent lows and the own activity indicator showed further deterioration. With net 21% expecting their trading conditions to deteriorate, the survey remains well into recession territory.

While business confidence remains weak and consistent with further declines in GDP, it was somewhat reassuring to see the outlook has not deteriorated significantly over the last three surveys. Policy responses in the form of lower interest rates and fiscal stimulus are possibly helping improve confidence at the margin. Over the past month we have seen market sentiment improve, particularly overseas as US banks have reported some better-than-expected results, some signs of stabilisation have been observed in housing markets, and sharemarkets have rallied. In this light, business confidence should lift slightly in April. Nonetheless, with demand remaining weak business confidence is likely to remain very low for much of this year.



**Thursday 30 April**

**RBNZ OCR Review**

**ASB f/c 50bp cut, 2.5% OCR.**

Since the March MPS, economic developments have been split. Locally, key economic data remain weak. However, international developments show early signs of some stabilisation. In the March MPS projections, the RBNZ were heavily relying in a low exchange rate and low interest rates to deliver an economic recovery. Both the exchange rate and long-term interest rates have risen since early March. If current levels of the NZ dollar and long-term interest rates are sustained, they risk undermining the recovery.

We expect the RBNZ to cut the OCR by 50bp in April. The cut will acknowledge the worse than expected deterioration in business activity, as well as help offset the recent tightening in monetary conditions. In addition to a larger cut, the RBNZ needs to be more explicit about keeping the cash rate low for a set amount of time.

**Thursday 30 April**

**March Building Consents**

**Previous +12% mom -44% yoy ASB f/c +4% mom**

Building consent issuance lifted in February from the incredibly low January number, but remained significantly down on year-ago levels.

Contributing to January's weakness and February's lift was a decline and recovery in apartment consent issuance. We expect apartment consent issuance to remain weak – well below the 310 monthly average since 2000.

Excluding the volatile apartment component, core consents issuance was flat from January to February, and is now down 50% on year-ago levels.

Consent issuance is at historic lows and undershooting the level of house sales turnover. While the fundamentals for housing construction remain weak, lower interest rates and rising net migration inflows should help prevent building activity from falling much further.

**Monday 4 May**

**Q1 Labour Cost Index, Quarterly Employment Survey**

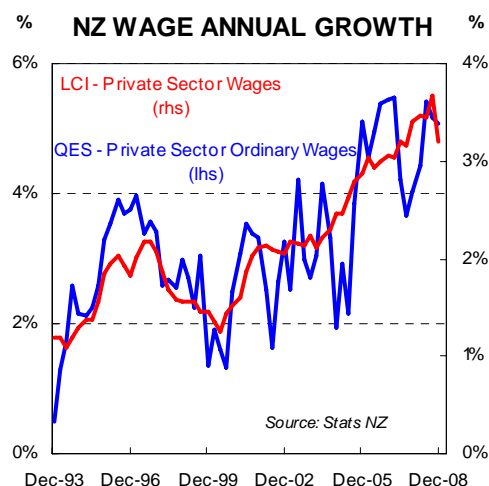
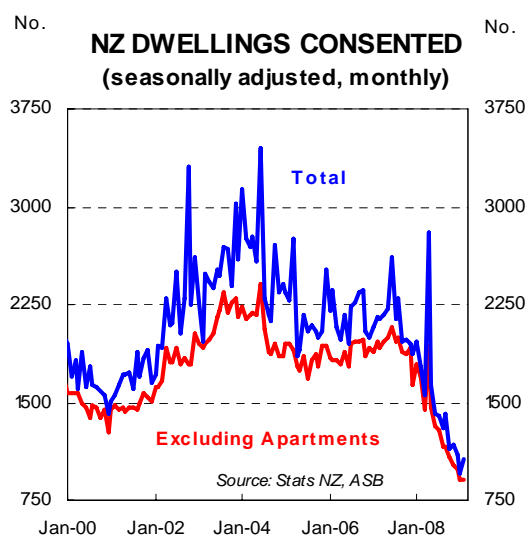
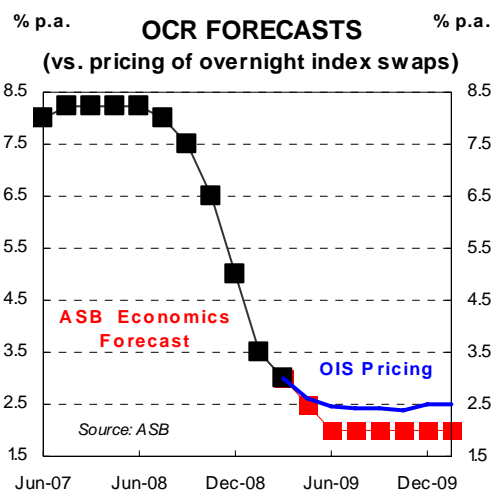
**ASB f/c: LCI private ordinary time 0.7% qoq, 3.2% yoy**

NZ wage inflation started to ease in 2008 as the labour market softened, a trend that will continue over 2009 and 2010.

We expect the Labour Cost Index for private sector ordinary time work to register a 0.7% qoq increase, some deceleration from the trend seen over 2006 and 2007. That would nudge the annual rate down to 3.2%. The overtime-inclusive private sector measure, for which the RBNZ publishes forecasts, is expected to increase by the same amounts.

The QES wage measures are less useful given that compositional shifts can make the quarter-to-quarter results very volatile. We expect private sector ordinary time wages to rise 0.6% qoq and 4.6% yoy. Other results in the QES survey, such as filled jobs, will give some indications of the strength of the labour market over Q1.

By late 2009 annual wage growth is likely to be noticeably lower as employment levels contract and unemployment continues to rise.

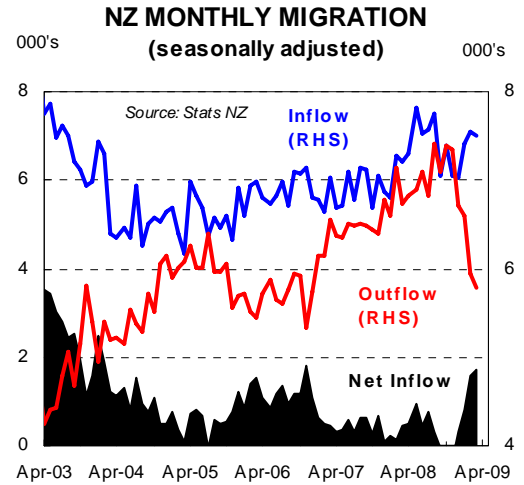


## NZ Data Review: weekly recap

### March International Travel and Migration

Net migration increased by 1,720 (s.a.) over March, bringing the annual inflow up to almost 7,500. The recent turn around in net migration has come from a drop in departures, primarily to Australia, but also to the UK. Departures dropped 2.9% (s.a.) in March, following on from February's large 9.8% decline. The decline in departures reflects weakening job prospects overseas. While departures have dropped, arrivals have remained relatively steady, ticking down slightly (-0.7%) over March but up 4% on year-ago levels.

Short-term visitor arrivals fell 0.5% (seasonally adjusted) in March. The seasonally-adjusted data suggest visitor arrivals are actually down around 3.6% on year-ago levels. While visitor arrivals from Australia remain firm, arrivals from other countries have started to fall with large declines from Asian countries.



## Global Data Calendars

Note: Calendar 2 is in UK times. Add 11 hours for NZ times.

### Calendar – Australasia, Japan and China

Date	Time		Econ Event	Period	Unit	Last	Forecast	
	NZT						Market	ASB/CBA
Tue 28 Apr	11.50	JP	Large retailers' sales	Mar	%	-8.1	~	~
	11.50	JP	Retail trade	Mar	m%ch	-0.2	~	~
					y%ch	-5.7	~	~
17.00	JP	Small business confidence	Apr	~	30.4	~	~	
Wed 29 Apr	10.45	NZ	Trade balance	Mar	\$mn	489.0	250	200
	15.00	NZ	NBNZ business confidence	Apr	~	-39.3	~	~
Thu 30 Apr	~	AU	NAB Agribusiness survey	Q1	~	~	~	~
	~	JP	BoJ target rate	Apr	%	0.1	0.1	0.1
	~	NZ	AON 1-yr inflation expectation	Apr	%	2.1	~	~
	09.00	NZ	RBNZ official cash rate	apr	%	3.0	2.5	2.5
	10.45	NZ	Building permits	Mar	m%ch	11.6	~	4
	11.15	JP	Nomura/JMMA manufacturing PMI	Apr	Index	33.8	~	~
	11.50	JP	Industrial production	Mar	m%ch	-9.4	~	~
					y%ch	-38.4	~	~
	12.00	AU	Conference board leading index	Feb	%	-0.6	~	~
	13.00	AU	HIA new home sales	Mar	m%ch	3.9	~	~
	13.30	AU	NAB quarterly business survey	Q1	Index	-42.0	~	~
	13.30	AU	Private sector credit	Mar	m%ch	5.4	0.3	0.3
					y%ch	0.0	4.8	4.9
	16.00	JP	Vehicle production	Mar	y%ch	-56.2	~	~
	17.00	JP	Housing starts	Mar	y%ch	-24.9	~	~
17.00	JP	Annualised housing starts	Mar	\$mn	0.87	~	~	
17.00	JP	Construction orders	Mar	y%ch	-24.9	~	~	
Fri 01 May	11.30	AU	Ai Group performance of manufacturing index	Apr	Index	33.4	~	~
	11.30	JP	Jobless rate	Mar	%	4.4	~	~
	11.30	JP	Household spending	Mar	y%ch	-3.5	~	~
	11.30	JP	National CPI	Apr	y%ch	-0.1	~	~
	11.30	JP	National CPI ex food, energy	Apr	y%ch	-0.1	~	~
	11.50	JP	Labor cash earnings	Mar	y%ch	-2.4	~	~
	17.00	JP	Vehicle sales	Apr	y%ch	-31.5	~	~

## Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	UK			Period	Unit	Last	Forecast	
	time	Econ	Event				Market	CBA
Mon 27 Apr	00.01	UK	Hometrack housing survey	Apr	m%ch	-0.6	~	~
					y%ch	-10.3	~	~
	00.01	UK	BBA loans for house purch.	Mar	no.	28,179	~	~
	07.10	GE	Consumer confidence survey	May	~	2.4	~	~
Tue 28 Apr	15.30	US	Dallas Fed manuf. activity	Apr	%	49.0	~	~
	~	GE	CPI – EU harmonised	Apr	m%ch	-0.2	~	~
					y%ch	0.4	~	~
	14.00	US	S&P/CS composite-20	Feb	y%ch	-19.0	-18.8	~
	15.00	US	Consumer confidence	Apr	~	26.0	28.8	~
	15.00	US	Richmond Fed manuf. index	Apr	Index	-20.0	~	~
	Wed 29 Apr	10.00	EZ	Business climate indicator	Apr	~	-3.6	~
13.30		US	GDP	Q1	saar	-6.3	-4.9	~
19.15		US	FOMC rate decision	Apr	%	0.25	0.13	~
Thu 30 Apr	00.01	UK	GfK Cons. confidence survey	Apr	~	-30.0	~	~
	05.05	GE	Retail sales	Mar	m%ch	-0.2	~	~
					y%ch	-5.3	~	~
	07.00	GE	ILO unemployment rate	Mar	%	7.4	~	~
	10.00	EZ	CPI estimate	Apr	y%ch	0.6	~	~
	10.00	EZ	Unemployment rate	Mar	%	8.5	~	~
	13.30	CA	Industrial product price	Mar	m%ch	0.4	0.5	~
	13.30	CA	GDP	Feb	m%ch	-0.7	~	~
	13.30	CA	Raw materials price index	Mar	m%ch	1.7	2.0	~
	13.30	US	Personal income	Mar	%	-0.2	-0.2	~
	13.30	US	PCE core	Mar	m%ch	0.2	0.1	~
					y%ch	1.8	1.8	~
	13.30	US	Employment cost index	Q1	%	0.5	0.5	~
	13.30	US	Initial jobless and continuing claims					
	14.45	US	Chicago purchasing manager	Apr	Index	31.4	34.0	~
15.00	US	NAPM-Milwaukee	Apr	Index	30.0	~	~	
Fri 01 May	~	US	Total vehicle sales	Apr	\$mn	9.9	9.6	~
	09.30	UK	Net consumer credit	Mar	£bn	-0.2	~	~
	09.30	UK	Mortgage approvals	Mar	'000	38.0	~	~
	09.30	UK	PMI manufacturing	Apr	Index	39.1	~	~
	15.00	US	Uni of Michigan confidence	Apr	Index	61.9	61.5	~
	15.00	US	ISM manufacturing	Apr	Index	36.3	38.0	~
	15.00	US	Factory orders	Mar	%	1.8	-0.7	~

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