

## This Week

Market focus is firmly on central banks this week, with the FOMC rate announcement in the US and the RBNZ OCR Review here in NZ on Thursday morning. Added to that, markets are continuing to digest the implications of RBA Governor Stevens' speech last week in which he noted interest rates for borrowers and depositors are "pretty close" to the average over the past 10 to 12 years. His comments suggest Australian monetary policy may not have to be tightened as much as markets had initially expected. However, markets remain wary of the potential for a strong Australian Q1 CPI result on Wednesday, which would indicate that the cash rate would need to be moved into restrictive territory to combat inflationary pressures.

Back in NZ, last Tuesday's Q1 CPI outturn reduced the urgency for the RBNZ to commence the tightening cycle. In particular, the softer non-tradable result allows the RBNZ a bit of breathing space in the near term. Combined with recent activity data pointing to a slightly softer growth outlook, the RBNZ will likely want to wait a little while longer to assess how the economic recovery evolves. In particular, the subdued increase in construction costs would have allayed some fears that inflation in this area was accelerating with the recovery in housing construction activity. However, the substantial increase in pricing intentions in the building industry in recent months suggests construction costs will rebound over the coming year.

The emphasis the RBNZ places on its discussion of recent economic developments in its statement this Thursday will provide an indication on how it plans to balance a softer growth outlook with inflation pressures further down the track. With Q1 non-tradable inflation coming in slightly below RBNZ expectations, there is reduced urgency to commence the tightening cycle. As such, we now see July as the most likely meeting for an OCR increase.

Nonetheless, there are a number of key events between the April and June meeting which would influence how the economic recovery pans out. The household sector has been one area in which the recovery has been less convincing. Already we have seen a softening in the housing market given the potential removal of tax advantages for investment property in the May Budget. Furthermore, Q1 employment data in early May will be watched closely given the uncertainty over the strength of the recovery in the labour market.

In light of the pivotal role these events will play in determining how long the OCR can be left at current stimulatory levels, the RBNZ will likely continue to leave the timing of tightening open to both June and July in its statement. Meanwhile, in the US markets will be focussing on the third paragraph in the FOMC statement for any change to the commitment to leave rates at "exceptionally low levels" for an "extended period".

## Click here for:

### [Foreign Exchange](#)

- NZD range trades during the week, but heads higher early this week.

### [Interest Rates](#)

- Mixed week for interest rates, all eyes on RBNZ later this week.

### [Week Ahead](#)

- Business Outlook, RBNZ, Trade balance, Building Consents, Credit Aggregates.

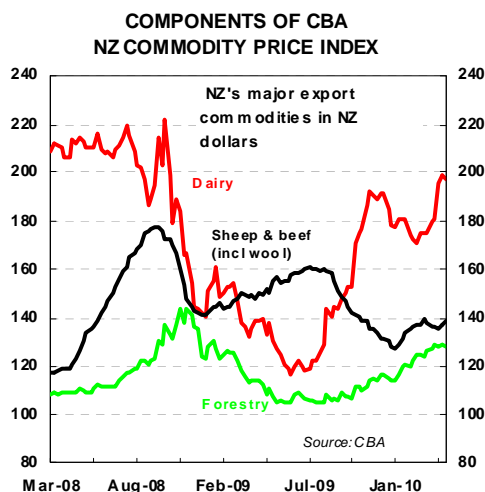
### [Week in Review](#)

- Q1 CPI, March Tourism and Migration data.

### [Global Calendars](#)

- AU PPI and CPI, FOMC Rate Announcement, US GDP, BoJ Target Rate.

## Chart of the week



- NZ export meat, dairy and forestry prices have all lifted over 2010. The price increases are positive, but for each sector, prices remain shy of the 2008 peaks.
- Price gains in part reflect recovering demand, but for meat and dairy, a lot of the price action is reflecting international supply concerns.
- Many areas of New Zealand are enduring drought conditions, and this is impacting end of season dairy production. Offshore, European and Australian dairy production figures have been weak in early 2010.
- US meat prices have been high, export supply from this part of the world has been tight, and poor US weather in early 2010 is another factor behind tightness in the key US beef market.
- In sum, the price gains are pleasing, but for many farmers the price gains will be offset by low production volumes.

### 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	0.7167	0.7086	0.7055	0.7563	0.5614	FLAT/UP	0.7050	0.7300
NZD/AUD	0.7742	0.7704	0.7757	0.8147	0.7889	FLAT/UP	0.7650	0.7850
NZD/JPY	67.41	65.23	65.24	69.23	54.54	FLAT/UP	66.50	69.00
NZD/EUR	0.5374	0.5261	0.5291	0.5032	0.4273	FLAT/UP	53.00	55.00
NZD/GBP	0.4658	0.4641	0.4739	0.4545	0.3833	FLAT/UP	0.4600	0.4800
TWI	66.7	65.8	66.0	67.5	55.9	FLAT/UP	66	69

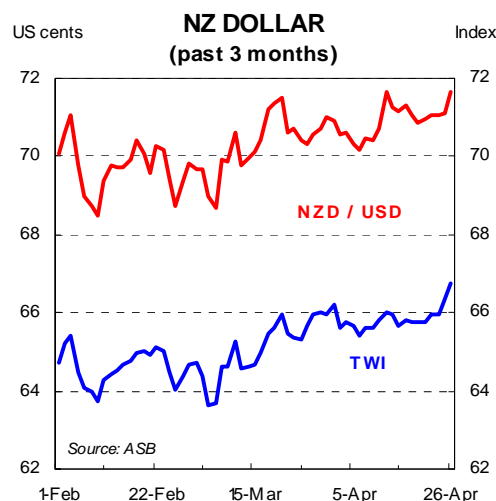
^Weekly support and resistance levels \* Current is as at 11.30 am Monday; week ago as at Monday 5pm

- The NZD spent most of last week trading in its recent range between 0.7050 and 0.7150 against the USD. NZD has broken out of this range late Friday and this week, trading up towards 0.72.
- The NZD has also moved higher against the AUD. The NZD traded down near 0.76 against the AUD last week, but is now around 0.775.
- The NZD has posted gains against the JPY last week. The JPY was not helped by comments last week from Fitch around Japan's fiscal situation, which has contributed to concerns about a downgrade to Japan's sovereign debt.
- This week the offshore focus will be on the FOMC, with the market looking for any signals regarding the timing of rate hikes in the US. Locally, the RBNZ's rate decision will be the highlight of a busy second half of the week. No change in the OCR is expected, but the RBNZ could sent the NZD up (or down), if the market gets any clues about rate hikes coming sooner (or later) this year.

### Short-term outlook:

Key data	Date	Time (NZST)	Market expects
Australian Consumer Price Index	28/4	1.30 pm	0.8%
NBNZ Business Outlook	28/4	3.00 pm	-
RBNZ Rate Announcement	29/4	9.00 am	2.5%
Trade Balance	29/4	10.45 am	\$354m
Building Consents	30/4	10.45 am	-
RBNZ Credit Aggregates	30/4	3.00 pm	-

**Potential currency movers from offshore this week:** US CaseShiller House Price Index, US Consumer Confidence (27<sup>th</sup>); FOMC Rate Decision (28<sup>th</sup>); Bank of Japan Target Rate decision, EU Unemployment Rate, US GDP (30<sup>th</sup>).



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

- We have made slight revisions to our NZD forecasts. The USD has not appreciated as much as we anticipated despite a better performing US economy. Persistently low US bond yields and negative net private sector investment into the US are the main reasons why the USD has not strengthened more.
- In addition, the slowing in Eurozone's economy has not dampened global growth as much as we previously expected. The slowdown in the Eurozone has been more than offset by a better performing US economy and robust Asian economies. We anticipate further EUR weakness as the economy struggles to gain traction and sovereign debt issues continue to plague investor and business confidence there.
- We expect the NZD to peak around 0.74 against the USD, with the NZD peaking as the RBNZ begins its tightening cycle in the middle of this year. We still anticipate that the USD will strengthen in the second half of this year due to a better performing US economy and third-quarter Fed rate hikes. We expect the NZD to trade around 0.72 at the end of 2010.
- We now expect the RBNZ to first increase the OCR in July and expect the pace of increase to be gradual, reducing the scope for interest rate driven out-performance for the NZD.
- The NZD is expected to gain on the AUD over the course of 2010 once the RBNZ lifts rates and interest rate differentials with Australia narrow. Firm global growth will also work to drive the NZD/AUD exchange rate higher over the remainder of 2010 as the New Zealand economy benefits more than Australia from a higher export-to-GDP ratio.
- The JPY is expected to slowly weaken this year in response to a stronger USD and a firm global economy.

## Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.50	2.50	2.50	2.50	3.00	FLAT
90-day bank bill	2.68	2.69	2.66	2.80	3.05	FLAT
2-year swap	4.32	4.24	4.32	4.83	3.66	FLAT
5-year swap	5.30	5.26	5.29	5.81	4.77	FLAT
5-year benchmark gov't stock	5.17	5.16	5.24	5.32	4.41	FLAT
NZSX 50	3311	3282	3237	3209	2656	DOWN

\* Current is as at 11.30am Monday; week ago as at Monday 5pm. Please note that we have recently changed the NZ govt 5-year benchmark bond to April 2015 maturity (from April 2013). This does cause some distortion in the comparison against the previous levels (i.e. month ago).

- NZ interest rates waxed and waned over the week, finishing slightly higher on last Monday's levels. Rates initially fell following Tuesday's weaker than expected CPI with the market increasingly starting to doubt the likelihood of a June start to rate hikes. We now expect the first hike in July (previously June). There has been no smoking gun in recent data to push for immediate action by the RBNZ. This week, the RBNZ will remain on hold but is expected to leave its options open regarding future rate hikes, either leaving the statement unchanged or making moves more event dependent.
- Offshore events drove a lift in rates over the second half of the week (mostly at the longer end). In particular, the Bank of Canada removed its 'conditional commitment' to keep the overnight lending rate unchanged until the end of Q2, to be more dependent on upcoming data.
- Governor Stevens' speech on Friday triggered a decline in Australian interest rates as the market focused on comments that interest rates are "now pretty close" to average levels. Expectations are that the RBA is likely to remain on hold at its next meeting, assuming this week's Q1 CPI remains well behaved.

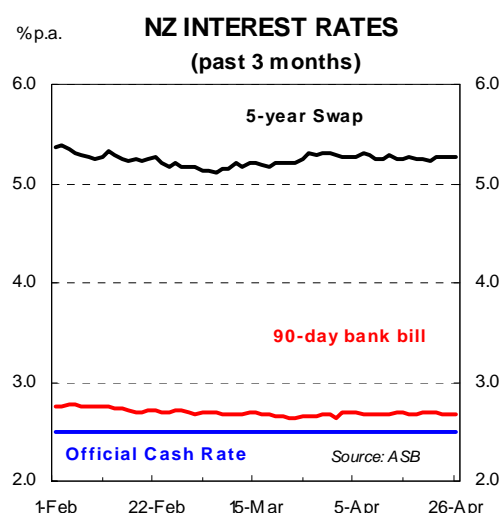
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**Comment:** Following Governor Stevens' comments on Friday, the market has largely backed off the possibility of a RBA hike in May, with a well behaved CPI likely to further reaffirm this expectation. All eyes on the RBNZ Thursday morning, looking for further guidance on the timing of rate hikes. The RBNZ is likely to keep its options open, as various uncertainties continue to cloud the economic outlook.

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

- The RBNZ held the cash rate at 2.5% at the March MPS, and continued to point to the "middle of 2010" as to when the tightening in monetary policy will commence. However, there was no further indication of whether the OCR will be increased in the June or July meeting.
- Although the RBNZ left its near-term projection for the 90-day interest rate unchanged, there was a downward revision in its medium-term 90-day track in recognition that current bank funding costs were likely to persist. This supports our expectations that OCR increases will be in 25 basis point increments over the tightening cycle this year.
- Activity data have been soft. In particular, momentum in housing market activity is waning with housing sales at low levels and days to sell starting to increase. We expect uncertainty over changes to tax policy regarding property investment will weigh on the housing market over 2010. Meanwhile, the recovery in household spending remains very subdued, particularly in the areas of discretionary spending.
- We continue to see upside risks to the RBNZ's inflation forecasts. However, the most recent outturn was close to the RBNZ's expectation, and the slightly softer than expected non-tradable result (core domestic inflation pressures) provides the RBNZ with some breathing room to wait a bit longer to assess the current mixed tone in the data.
- The weak activity data reduce the urgency for the RBNZ to unwind stimulus. Nonetheless, with signs that inflation pressures will build up later this year we expect the RBNZ will begin tightening with a 25 basis point OCR increase in July, and follow this up with further 25 basis point increases in the subsequent meetings.



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

Data	Date	Time (NZST)	Previous	Market expects	ASB expects
April National Bank Business Outlook	28/4	3.00pm	42.5	-	-
RBNZ OCR Review	29/4	9.00am	2.50%	2.50%	2.50%
March Trade Balance	29/4	10.45am	\$320m	-	\$500m
March Building Consents yoy	30/4	10.45am	29.8%	-	-
March RBNZ Credit Aggregates – Housing yoy	30/4	3.00pm	3.2%	-	-

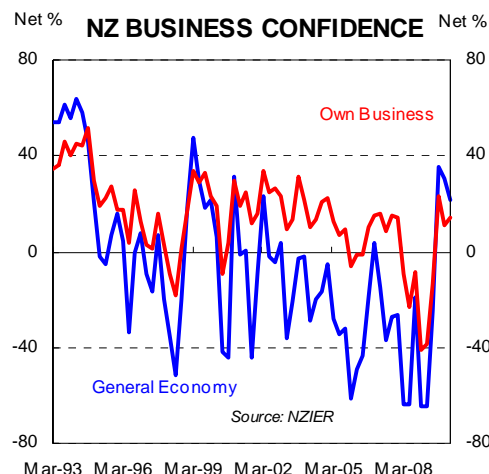
### Wednesday 28 April

#### April National Bank Business Outlook

**Previous: headline 42.5, own activity 38.6**

Both headline business confidence and own activity expectations eased in the March month, but remain at reasonably high levels. The small decline in firm profitability suggests conditions are still tough for many firms, hence some caution remains amongst businesses regarding expansion plans.

We expect business confidence to hold up around current high levels, thus pointing to a recovery in investment and hiring over the second half of 2010. However, subdued profitability may temper the pace of firms' expansion, such that the recovery in economic activity is likely to be gradual.



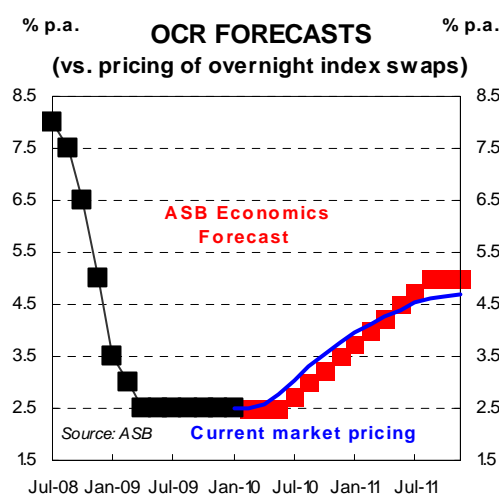
### Thursday 29 April

#### RBNZ OCR Review

**Previous: 2.50%, ASB f/c: 2.50%**

We expect the RBNZ to remain on hold at the April OCR Review. Of greater importance will be the extent to which the RBNZ pins down a time as to when it will commence its tightening cycle. In recent announcements, it has indicated its expectations that monetary policy stimulus would be removed "around the middle of 2010". Since the RBNZ finalised its March forecasts there has been no smoking gun within key data to materially shift the RBNZ's core view.

Between the April and June meetings, there are the releases of Q1 employment and the Budget. Given the pivotal role these events will play in determining how long the OCR can be left at current stimulatory levels, the RBNZ will likely continue to leave the timing of tightening open to both June and July. The accumulation of slightly softer data in recent weeks means that our central view is for the first OCR increase to occur in July.



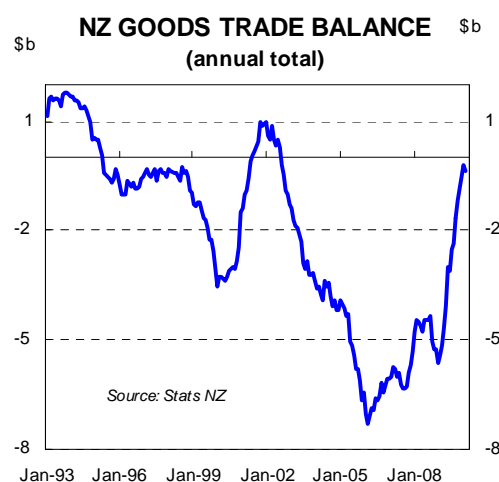
### Thursday 29 April

#### March Trade Balance

**Previous: \$320 million, ASB f/c: \$500 million**

The Trade Balance enters a seasonally strong period during the early part of the year, typically beginning in February, as meat and dairy exports are both around seasonal peaks. The recovery started early this year, with January recording a very strong trade surplus due to very strong dairy exports. We expect this strength to continue in March, further buoyed by higher dairy prices.

To date, imports have been slow to recover, although will gradually gather momentum along with recovering economic demand.



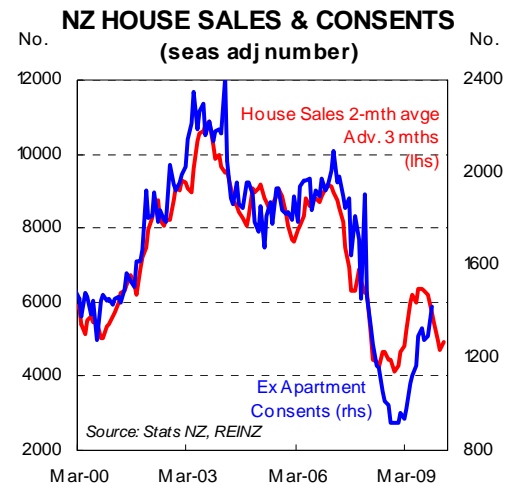
**Friday 30 April**

**March Building Consents**

**Previous: yoy +29.8%**

Dwelling consent issuance continues to improve when compared to year-ago levels, but in the past couple of readings has slightly undershot the recovery we have been expecting.

Core consent issuance has recovered from the low of 745 at the start of 2009 but remains well short of the average of around 1900 per month over 2006-2007. Given the level of migration and home sales, we would expect core consent issuance to rise towards the 1800 per month mark over this year. However, for March we expect a more modest print of just above 1400 seasonally adjusted, which is a 35% increase on year-ago levels. Apartment consents remain weak, and are expected to average around 50-100 units per month over the coming months.



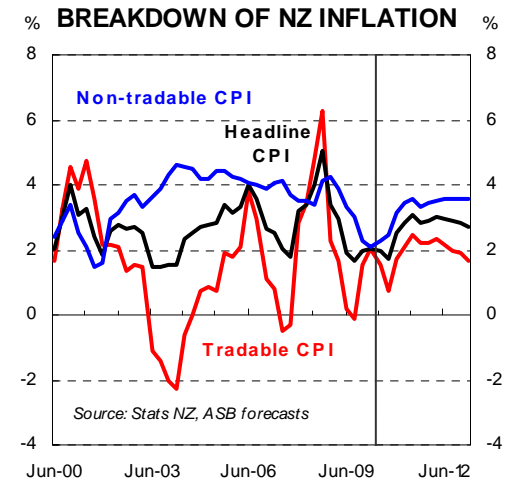
**NZ Data Review: weekly recap**

**Q1 Consumer Price Index**

Q1 CPI came in slightly below our expectations, but was likely in line with the RBNZ's updated forecast given the increase in petrol prices that occurred after the March MPS. Importantly, the slightly softer non-tradable result gives the RBNZ a bit of inflation breathing space in the near-term. The increase in housing costs was more subdued than we were expecting, with the 0.2% increase in construction costs well below what the increase in building pricing intentions in recent business surveys would suggest.

Turning to tradable inflation, the substantial increase in petrol prices in Q1 of 6.9% drove the increase. This was partly offset by price declines in imported consumer goods - such as furniture and appliances - which were more than what the strong NZ dollar over late 2009 would have suggested. This reflects the weak household demand that we have seen in the recent retail sales data.

While inflation looks to be benign in the near term, a combination of higher ACC levies and Emissions Trading Scheme in Q3 this year poses upside risks to medium-term inflation expectations, which are already elevated at 2.7%.

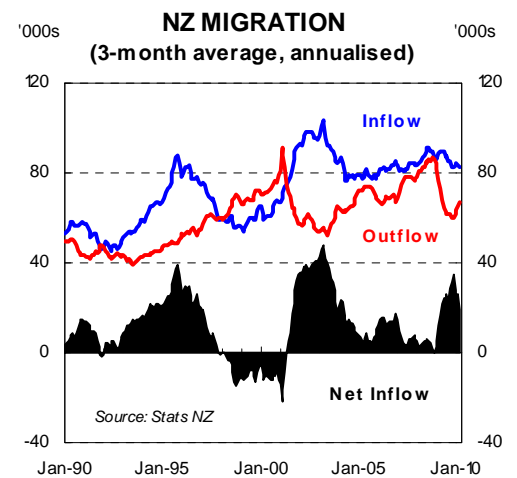


**March International Travel and Migration**

The monthly rate of net migration continues to ease, with a net inflow of just under 1000 during March (compared to an average of 1800 per month over 2009). The annual rate of net migration has now past its peak (of 22,600 in January) and we expect the annual rate of net migration to slow to just under 10,000 per annum.

The recent slow down in net migration comes as the number of departures has began to recover, mainly to Australia. Over the next year the slow down in net migration will reduce some of the current pressure on the housing market.

Short-term visitor arrivals picked up 1.1% over March and are up over 7% on year-ago levels. Much of the improvement has been the strong increase in the number of Australian tourists. More recently, the number of Australian tourist arrivals has plateaued (on a seasonally-adjusted basis). However, there has been a firm recovery in visitor numbers from China and Korea, which is a very encouraging sign that discretionary demand for overseas travels is improving along with the global economic recovery.



## 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	Forecast		
	NZT					Last	Market	ASB/CBA
Tue 27 Apr	13.30	AU	Producer price index	QI	q%ch	-0.4	~	0.3
					y%ch	-1.5	~	-0.8
Wed 28 Apr	11.50	JP	Retail trade	Mar	m%ch	0.9	~	~
	13.30	AU	CPI	QI	q%ch	0.5	~	0.9
					y%ch	2.1	~	2.9
15.00	NZ	NBNZ business confidence	Apr	Index	42.5	~	~	
Thu 29 Apr	9.00	NZ	RBNZ official cash rate	Apr	%	2.50	2.50	2.50
	10.45	NZ	Trade balance	Mar	\$mn	321.0	~	500
					12mth ytd	-347.0	~	~
	10.45	NZ	Imports	Mar	\$bn	3.0	~	~
	10.45	NZ	Exports	Mar	\$bn	3.3	~	~
Fri 30 Apr	~	JP	BoJ monetary policy meeting					
	~	JP	BoJ target rate	Apr	%	0.1	0.1	0.1
	10.45	NZ	Building permits	Mar	m%ch	5.9	~	~
	11.30	JP	Overall household spending	Mar	y%ch	-0.7	~	~
	11.30	JP	Jobless rate	Mar	%	4.9	~	~
	11.30	JP	Job-to-applicant ratio	Mar	ratio	0.5	~	~
	11.30	JP	National CPI	Mar	y%ch	-1.0	~	~
	11.50	JP	Industrial production	Mar	y%ch	31.3	~	~
	13.30	AU	HIA new home sales	Mar	m%ch	-5.2	~	~
	13.30	AU	Private Sector Credit	Mar	m%ch	0.4	~	0.3
					y%ch	1.6	~	1.6
	13.30	JP	Labor cash earnings	Mar	y%ch	-0.7	~	~
	17.00	JP	Housing starts	Mar	y%ch	-9.3	~	~
17.00	JP	Annualised housing starts	Mar	mn	0.8	~	~	
17.00	JP	Construction orders	Mar	y%ch	-20.3	~	~	

## Calendar – North America & Europe

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

Date	UK		Event	Period	Unit	Last	Forecast	
	Time	Econ					Market	CBA
Mon 26 Apr	00.01	UK	Hometrack housing survey	Apr	y%ch	1.3	~	~
	15.30	US	Dallas Fed manufacturing activity	Apr	m%ch	7.2	9.5	~
Tue 27 Apr	07.00	GE	GfK consumer confidence survey	May	Index	3.2	~	~
	09.30	UK	BBA loans for house purchase	Mar	no.	35,276	~	~
	14.00	US	S&P/CS 20 city	Feb	m%ch	0.3	-0.1	~
	15.00	US	Richmond Fed manufacturing Index	Apr	Index	6.0	~	~
	15.00	US	Consumer confidence	Apr	Index	52.5	54.0	~
Wed 28 Apr	~	GE	CPI - EU harmonised	Apr	m%ch	0.6	~	~
					y%ch	1.2	~	~
	14.00	CA	House price index	Feb	y%ch	7.5	~	~
	19.15	US	FOMC rate decision	Apr	%	0.25	0.25	0.25
Thu 29 Apr	08.55	GE	Unemployment change	Apr	'000	-31.0	~	~
	08.55	GE	Unemployment rate	Apr	%	8.0	~	~
	10.00	EZ	Business climate indicator	Apr	Index	-0.3	~	~
	10.00	EZ	Industrial confidence	Apr	Index	-10.0	~	~
	10.00	EZ	Economic confidence	Apr	Index	97.7	~	~
	10.00	EZ	Services confidence	Apr	Index	1.0	~	~
	13.30	US	Chicago Fed national activity index	Mar	Index	-0.6	~	~
	13.30	US	Initial jobless and continuing claims	Apr	~	~	~	~
Fri 30 Apr	00.01	UK	GfK consumer confidence survey	Apr	Index	-15.0	~	~
	10.00	EZ	CPI estimate	Apr	y%ch	1.5	~	~
	10.00	EZ	Unemployment rate	Mar	%	10.0	~	~
	13.30	US	GDP (annualised)	QI	q%ch	5.6	3.5	~
	13.30	US	Personal consumption	QI	q%ch	1.6	~	~
	13.30	US	Employment cost index	QI	q%ch	0.5	0.5	~
	14.45	US	Chicago purchasing manager	Apr	Index	58.8	59.6	~
	14.55	US	U. of Michigan confidence	Apr	Index	69.5	71.8	~
	15.00	US	NAPM-Milwaukee	Apr	Index	62.0	~	~

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