2 December 2013

Weekly Commentary

Nugget Point, Balclutha

In this issue

The waiting is the hardest part

With the New Zealand economy showing some serious upward momentum, interest rate markets are now fully pricing in a 25 basis point OCR increase in March next year – and are also giving a 40% chance that the first hike comes as soon as January. We don't consider a January hike a strong possibility. We've laid out our thoughts on the timing of the first OCR hike before – particularly when we shifted our forecast from March to April – and the basic points haven't changed since then.

On the plus side, the New Zealand economy is clearly getting up a head of steam. We are currently forecasting a whopping 1.4% rise in September quarter GDP, partly due to dairy production springing back sharply from the drought early this year. But there are plenty of positive signs outside of agriculture too. The upcoming sectoral surveys – especially building work put in place (Wednesday) and manufacturing (next Monday) – will help us put the finishing touches on our forecast, but indications to date suggest these will be strong.

Recent indicators suggest that the strong momentum has continued into the current quarter. Last week we saw another lift in business confidence to its highest since 1999, a further surge in building consents in the Canterbury region, and a return to a trade surplus (in seasonally adjusted terms) as the effects of the drought fade into the past and export commodity prices remain high.

The question for markets is whether the RBNZ can be shocked into acting sooner than the April 2014 starting date for OCR hikes that its most recent published forecasts imply. We feel that the hurdle for January is too high, given the RBNZ's concern about the high exchange rate and the need for more data on how its loan-to-value ratio (LVR) restrictions are affecting the housing market.

The NZD trade-weighted index today is more or less where it was at the time of the October OCR review – lower against the US dollar but higher against the Australian dollar. Moreover, we expect it to strengthen against the US dollar by early next year, as markets continue to be disappointed by a lack of 'tapering' in the Federal Reserve's asset purchases.

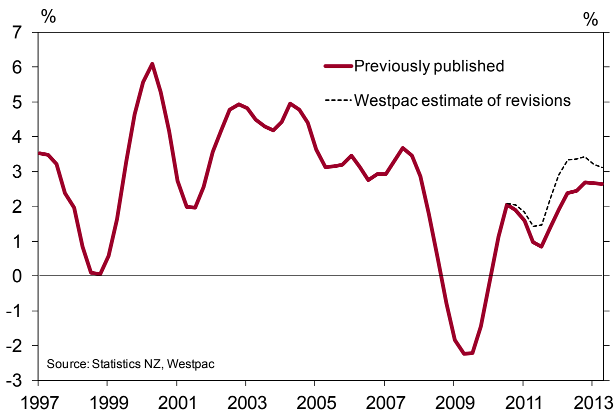
Based on our currency outlook, we expect inflation in New Zealand to remain subdued for a while longer, only returning to the 2% midpoint of the RBNZ's target band in early 2015. While monetary policy should ideally be pre-emptive, that sort of outlook for inflation doesn't require urgent action.

Even if the NZ dollar were to fall significantly in coming weeks, there is still a substantial hurdle to hiking rates as early as January. The RBNZ's restrictions on high loan-to-value ratio (LVR) housing lending came into force on 1 October, and new data published by the RBNZ confirmed that banks are more or less complying with the rule today – the share of new lending at LVRs above 80% fell to 11.7% in October, compared to a 'speed limit' of 10% on average over the first six months.

However, limiting high-LVR lending is just the means to an end; the RBNZ has made it clear that a slower rate of house price growth will be the measure of success for macroprudential policy. Given the typical lags in the housing market, it could be several more months before we have a clear sense one way or another about the impact on house prices.

One notable aspect of the lending data was that the fall in high-LVR lending in October was partly offset by an increase in low-LVR lending. This suggests that to some degree, buyers with larger deposits (more likely to be investors) are stepping into the gap left by first-home buyers who have been shut out of the market. That would suggest no more than a modest downward impact on house prices, as we and the RBNZ have been expecting. And as we've noted before, an 'as expected' outcome for the housing market would leave the RBNZ comfortable with its plan to begin hiking the OCR around April.

NZ annual GDP growth



With the market clamouring to predict the next OCR hike, there was understandable interest in a recent paper from Statistics NZ detailing some upcoming revisions to the national accounts. In particular, the track record of GDP growth over the last few years is likely to be revised higher, due to new information on post-quake building activity in Canterbury and an overhaul of the chronically mismeasured communications sector. While this is welcome news, we don't think it has major implications for monetary policy. We've already seen that inflation was quite subdued over the last couple of years, which suggests that the economy's non-inflationary potential was probably also higher than thought.

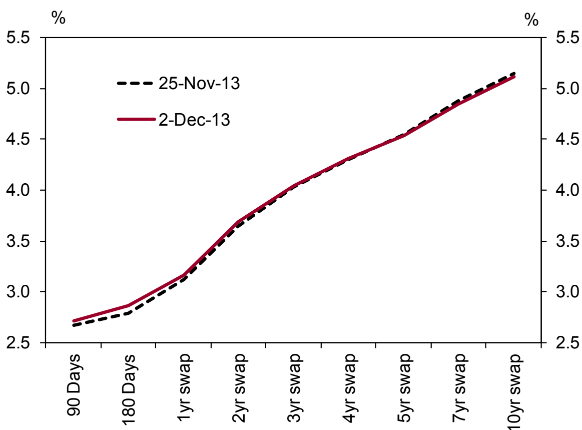
Perhaps the more interesting aspect of the revisions was the improved measurement of spending by overseas visitors, which reduces the current account deficit and – because that spending is no longer being attributed to New Zealanders – a higher household savings rate. We've been talking about mismeasurement issues in household saving for some time,[1] and this change goes some way to addressing the problem. New Zealand's household savings rate was once reported to be as low as -15% in the mid-2000s; subsequent revisions have eroded this gap and the latest revisions put the trough at -6%.

1 See most recently "Save us! How much are New Zealanders really saving", 20 August 2012.

Fixed vs Floating for mortgages

We are now indifferent between fixing and floating. In our view, interest rate markets are now "fairly priced". We expect short-term rates to rise substantially over the next three years. The level of long-term fixed rates, which are higher than short-term rates, is in tune with that expectation. This means we can discern no obvious interest rate advantage in any particular term. The decision can be treated as a risk management choice according to individual circumstances.

NZ interest rates

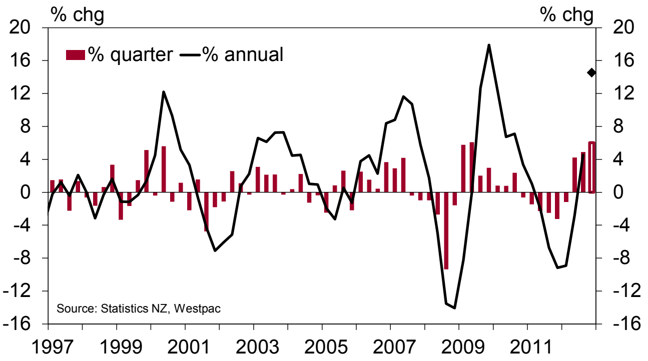


NZ Q3 terms of trade

Dec 2, Last: 4.9%, WBC f/c: 6.0%, Mkt f/c: 2.9%

- We expect New Zealand's terms of trade to leap 6% higher in the September quarter on the back of strong export prices. Once again dairy prices will steal much of the limelight. But prices for a number of other commodity exports including meat, logs and wool prices have also strengthened in recent months. In aggregate, export prices are forecast to rise 7.4%. Import prices are expected to increase a more modest 1.4%.
- In contrast to surging prices, export volumes are forecast to drop a little further in the September quarter. However, beyond this, we expect to see a strong rebound in export volumes reflecting much improved growing conditions for the agricultural sector since last summer's drought.

NZ terms of trade

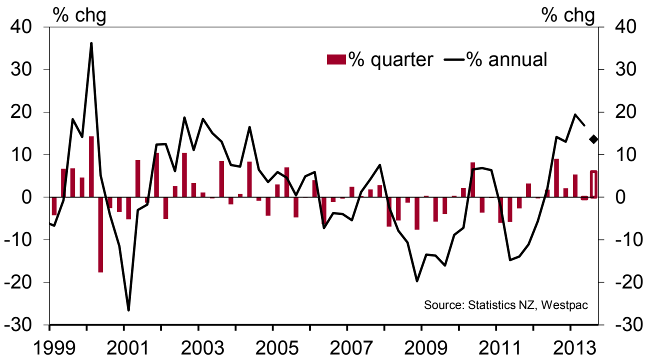


NZ Q3 building work put in place

Dec 4, Last: -0.4%, WBC f/c: 6.0%, Mkt f/c: 4.8%

- Nationwide building activity is now picking up strongly, led by post-earthquake reconstruction in Canterbury but increasingly spreading to other regions.
- Building consents point to solid growth in both residential and non-residential building work over the June quarter - we estimate a 9.5% and 2.5% increase respectively.
- The building work survey is drawn from a sample of active building consents. This means that it misses non-consented work such as repairs. As upcoming revisions to the GDP history will show, this accounts for a significant amount of quake-related activity in Canterbury to date.

NZ real building work put in place

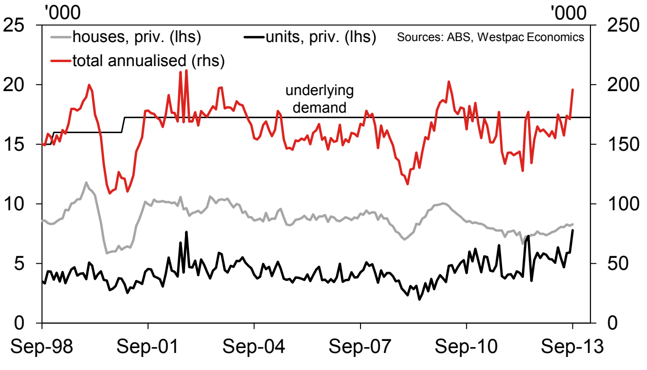


Aus Oct dwelling approvals

Dec 2, Last: 14.4%, WBC f/c: –8.0%
Mkt f/c: –4.5%, Range: –14.5% to 5.0%

- Dwelling approvals jumped 14.4% in Sep due to a big spike in multi-unit 'high-rise' approvals (+47%). The spike was concentrated in NSW and Vic (where high rise approvals accounted for nearly a quarter of all approvals in the month) but was due to multiple projects rather than a handful of very large approvals. Private detached house approvals and 'low to mid-rise' dwelling approvals both posted a more sedate 1.5% gain.
- Oct will undoubtedly see a reversal. Construction-related finance approvals continue to point to an underlying uptrend tracking around a 1.5%mth pace. Our forecast 8% drop would bring trend growth in dwelling approvals back to this solid underlying pace and leave total approvals over 5% above their Aug level.

Dwelling approvals

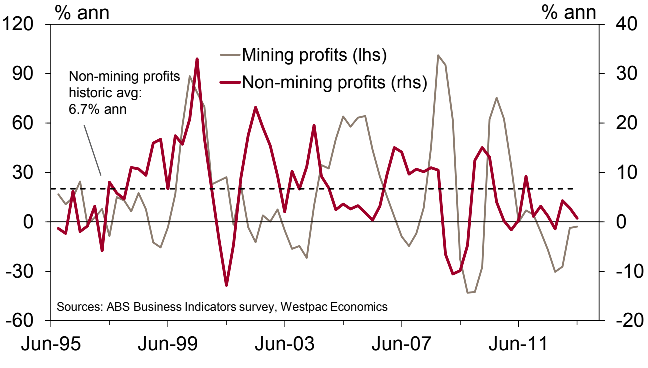


Aus Q3 company profits

Dec 2, Last: –0.8%, WBC f/c: 0.3%
Mkt f/c: 1.0%, Range: –1.0% to 2.0%

- Company profits remain under pressure but are likely to have posted a slight 0.3% gain in Q3 aided by a boost to mining profits from a lower AUD.
- Non-rural commodity prices rose 4.5%qtr in AUD terms with a lower currency more than offsetting a 3.4%qtr decline in prices in USD terms. That compares to a 1.1%qtr decline in AUD prices in Q2. Although the AUD fell more heavily in Q2 and rose over Q3 the average level in Q3 was down 7.6% on Q2. It has been 2.6% higher on average in Q4 to date.
- This temporary boost is likely to have been negated by continued weakness across non-mining sectors. Demand conditions outside of mining remain patchy with business survey responses showing profits under intense pressure in Q3.

Company profits

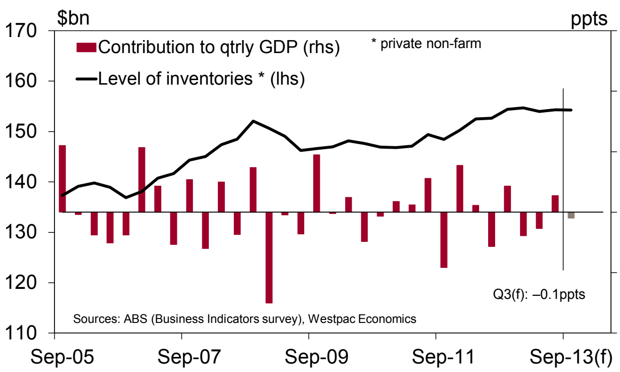


Aus Q3 business inventories

Dec 2, Last: 0.2%, +0.3ppts, WBC f/c: flat, –0.1ppts
Mkt f/c: flat, Range: –1.1% to 0.6%

- We expect private non-farm inventories to be a slight drag on growth in Q3. As always though we caution that inventories can be volatile from quarter to quarter and history is frequently revised.
- We expect inventory levels to be flat in the quarter. Coming off a small gain in Q2 that gives a slight 0.1ppt drag on headline GDP growth.

Inventories, Q3 f/c: a small –ve for growth

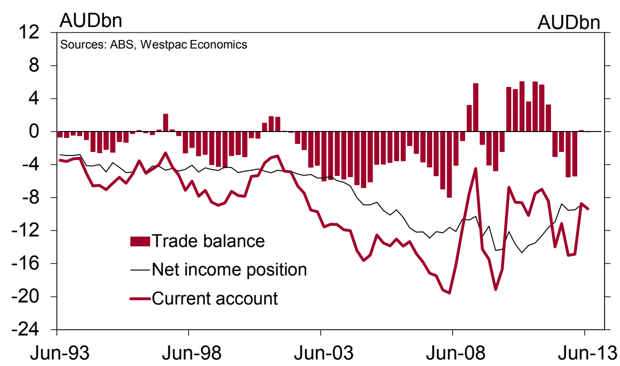


Aus Q3 current account

Dec 3, Last: –$9.4bn, WBC f/c: –$10.1bn
Mkt f/c: –$11.5bn, Range: –$12.4bn to –$6.8bn

- We saw a modest deterioration in the current account in Q2, from –$8.7bn to –9.4bn and this is expected to continue in Q3.
- A weaker AUD helps to lift the value of imports in Q3 (the TWI is down 6.7%qtr) while weaker commodity prices are holding back the rise in export values. We see the trade position deteriorating slightly in Q3, from a small deficit of $18mn in Q2 to a deficit of $750mn in Q3. We estimate that the terms of trade declined by around 1.9%, on lower commodity prices and stronger import prices. We anticipate a net income deficit of $9bn, matching that in Q2 and not much different from the Sep quarter 2012.
- With the decline in the volume of imports being greater than the decline in export volumes, the net export contribution is forecast to lift to 0.2ppt from a flat print in Q2.

Current account

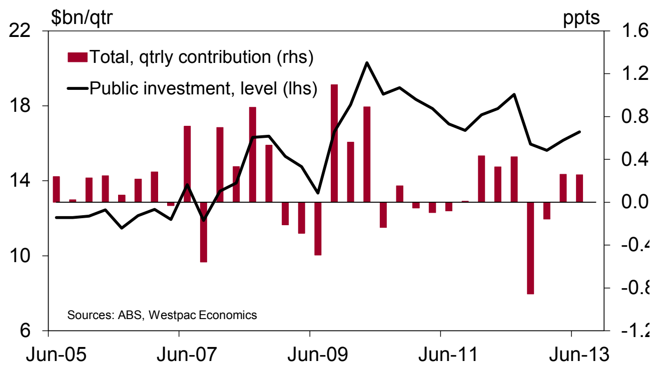


Aus Q3 public demand

Dec 3, Last: 1.2%, WBC f/c: flat

- We anticipate a stalling in public demand in Q3 after a six month burst.
- Our forecast is for public demand to hold flat in Q3 after rising 1.2% in Q2 and Q1. Public investment is expected to be down 1.5%qtr, offset by a 0.4% rise in public consumption. We already have partial confirmation of the weak quarter for investment with Q3 construction data showing public work down 2.7%qtr on a big fall in engineering construction. Meanwhile labour data on hours worked shows solid gains for 'non-market' sectors consistent with rising public consumption.

Public demand: volatile around a weak trend

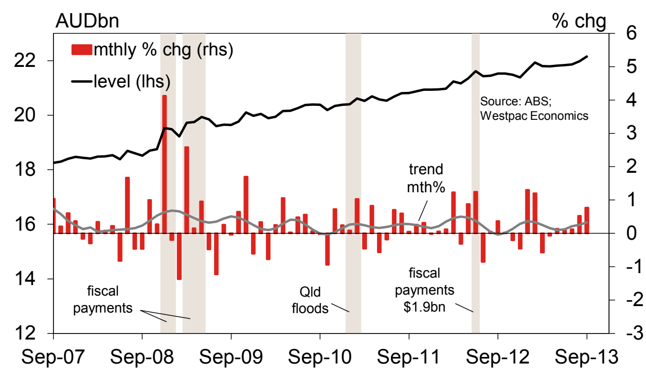


Aus Oct retail trade

Dec 3, Last: 0.8%, WBC f/c: 0.6%
Mkt f/c: 0.4%, Range: 0.2% to 1.0%

- Monthly retail sales rose 0.8% in Sep with Aug revised up from 0.4% to 0.5%. The Sep month detail showed strong gains for department stores (but off a weak year), clothing and 'other' retail with solid rises for food and a decline in household goods retail. Some of the Sep gain may be temporary reflecting the cash-flow boost from the RBA's Aug rate cut. However, the pick up does suggest firming consumer sentiment is giving a lift. That said, sales growth is coming off a weak base and still not particularly strong.
- The Oct retail read should give a better guide to the extent of any confidence-related lift. Anecdotal reports suggest sales momentum did carry into Oct although the general picture on spending still looks to be relatively restrained. Overall we expect Oct sales to be up 0.6%.

Monthly retail sales



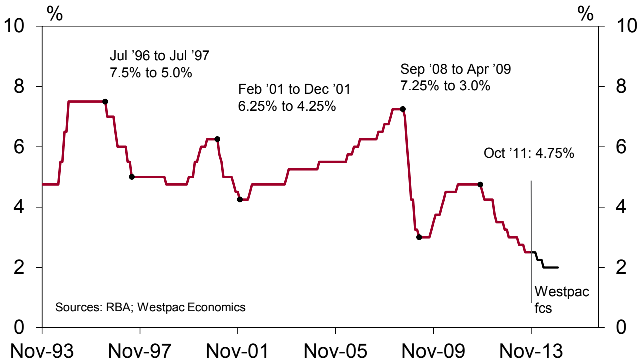
The week ahead

Aus RBA policy decision

Dec 3, Last: 2.50%, WBC f/c: 2.50%
Mkt f/c: 2.50%, Range: 2.50% to 2.50%

- The November Statement on Monetary Policy included downwardly revisions to the RBA's growth forecasts. The RBA now expects growth to remain below trend through 2014, circa 2.5%. Sub-trend growth through 2014 highlights the need for further policy stimulus. While the Q3 CAPEX survey pointed to an improvement in the past three months, investment intentions remain well below those of six months ago. The implication is that the hand-off to non-mining led growth is anything but assured.
- Recent comments from the RBA, most notably Governor Stevens in mid-Nov, show a preference for stimulating the economy by 'talking down' the currency. We doubt this policy will prove successful, meaning further rate cuts will be necessary, but not until 2014.

RBA cash rate: easing cycles

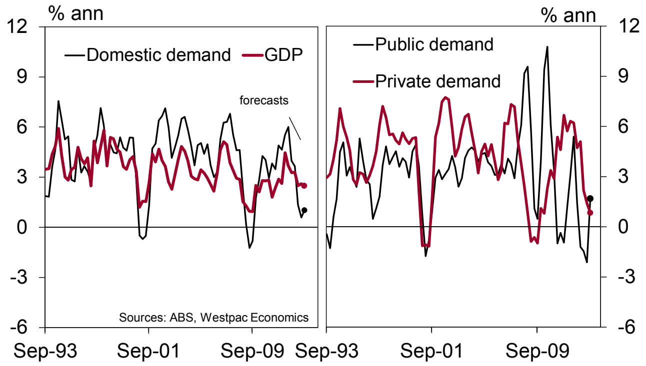


Aus Q3 GDP

Dec 4, Last: 0.6%, WBC f/c: 0.7%
Mkt f/c: 0.7%, Range: 0.4% to 0.9%

- In Q2, GDP rose by 0.6%, but domestic demand growth was soft at just 0.3%; the balance was made up by contributions from inventories and net exports, 0.2ppts and 0.1ppt.
- We expect growth to edge higher to 0.7% in Q3, 2.5%yr.
- Domestic final demand is expected to grow by 0.5%, primarily driven by consumption and engineering construction. Non-residential investment is also set to support, but equipment investment and residential construction will partial offsets.
- Net exports are expected to add 0.2ppts in the quarter on the back of weak imports. The weakness in imports coupled with the solid gain for consumption points to slower rate of inventory accrual.
- Note, 2012/13 annual revisions will be incorporated in Q3.

Australian economic conditions

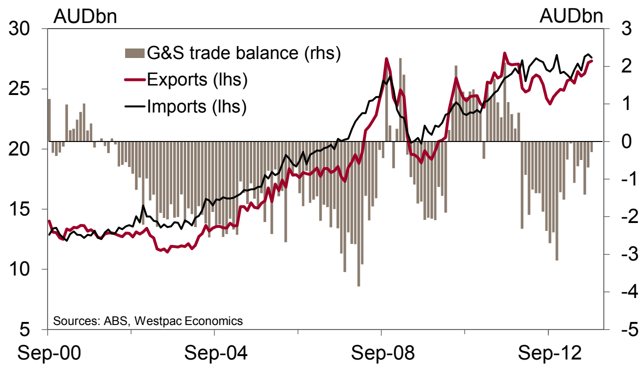


Aus Oct trade balance

Dec 5, Last: –$284mn, WBC f/c: –$150mn
Mkt f/c: –$350mn, Range: –$1,250mn to $200mn

- Australia's trade balance improved in September from a smaller than originally reported deficit in August. The deficit narrowed to $284mn, a $59mn reduction on the revised $693mn deficit in September.
- Imports fell 1.0% which was weaker than we had been looking for. Exports were softer than we had anticipated, rising just $124mn, or 0.5%. Metal ore rose 3%, other mineral fuels lifted 9% while services lifted 0.2%. Weakness was seen in rural exports (–3%), other manufactures (–9%) and coal (–1%).
- For Oct, port data suggests iron ore exports made modest gains while coal exports remained solid. Commodity price were a touch stronger but this was more than offset by a stronger AUD. The stronger AUD would have help mute the value of imports hence our forecast for the deficit to narrow slightly.

Australia's trade position

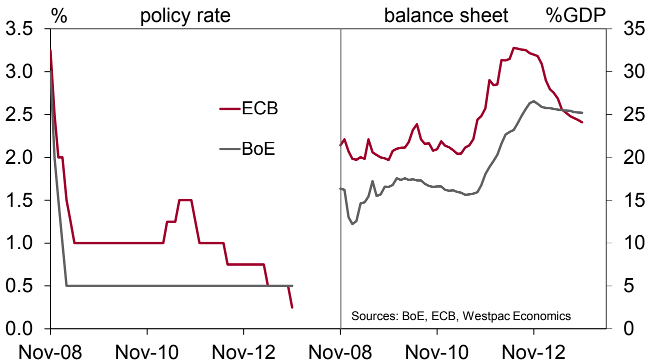


ECB policy decision

Dec 5, ECB repo rate: Last: 0.25%, WBC f/c: 0.25%

- At the Nov press conference, chief Draghi said that the ECB is ready to act as rising money-market rates threaten higher borrowing costs. "We will remain particularly attentive to the implications that these developments may have to the stance of monetary policy... I'm very, very cautious about the recovery. I can't share enthusiasm, it's just the beginning. The shoots are still very, very green".
- The 'Draghi dangle' refers to the ECB's hints at possible policy measures such as negative deposit rates, using the balance sheet to take on risk, or another long-term refinancing operation, without actually doing anything. It remains to be seen how long this soft option can be deployed. Westpac continues to expect ECB balance sheet expansion before the end of the first quarter.

ECB & BoE



US Nov ISM surveys

Dec 2, Factory: Last: 55.7, WBC f/c: 53.5

Dec 4, Non-man: Last: 58.6, WBC f/c: 55.5

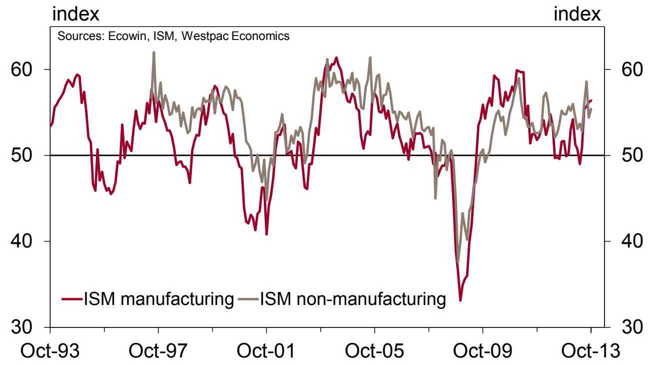
- The manufacturing ISM index edged up from 56.2 to 56.4 in Oct, its highest in two and a half years, continuing to out-perform the official factory data which averaged 0.1% monthly growth through Q1 and Q2, and less than that (0.067%) in Q3.
- That said, we expect GDP growth to slow to below 1% annualised in Q4; at some point the ISM survey should fall back towards the low 50s (it averaged 51.5 in H1 2013 when GDP was 1.8% annualised).
- The non-manufacturing ISM index rose from 54.4 to 55.4 in Oct, just shy of our 56.0 forecast, a rise we expect to be a temporary bounce due to short-term relief about the government shutdown.

US Nov nonfarm payrolls

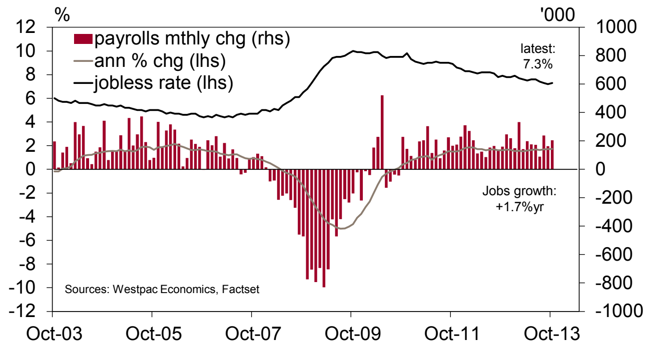
Dec 6, Payrolls: Last: 204k, WBC f/c: 140k

- Payrolls rose by an impressive 204k in Oct, for a three month average gain of 202k in Aug–Oct. Looked at this way, it appears that jobs initially grew at a much faster pace during the first half of the past year, before losing some momentum in mid 2013 and only partially recovering it since then. Interpretation is clouded, however, by the unknown number of private sector jobs that were temporarily lost during the October government shutdown.
- We expect GDP growth to slow to below 1% annualised in Q4. Payrolls growth of 200k+ is not consistent with that, so we should see payrolls growth slow substantially in Nov and/or downward revisions to recent history.

US ISMs



US payrolls



Data calendar

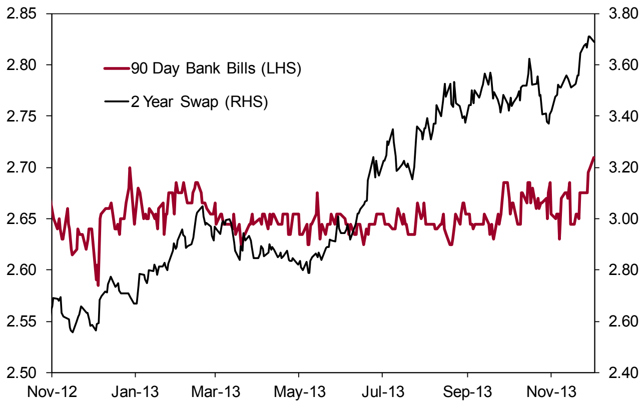
		Last	Market median	Westpac forecast	Risk/Comment
Mon 2					
NZ	Q3 terms of trade	4.9%	2.9%	6.0%	Big jump expected, driven by higher dairy prices.
Aus	Nov TD-MI inflation gauge	0.1%	–	–	Running at 2.1%yr.
	Nov RP Data-Rismark home price index	1.3%	–	0.1%	Daily index suggests price gains took a breather in Nov.
	Nov AiG PMI	53.2	–	–	Showed a promising post-election bounce that included improved activity.
	Oct dwelling approvals	–14.4%	–4.5%	–8.0%	High-rise spike drove big gain in Sep, to reverse in Oct.
	Q3 company profits	–0.8%	1.0%	0.3%	AUD decline boost to mining profits. Inventories expected to be flat.
Chn	Nov HSBC manufacturing PMI - final	50.9	50.4	–	External demand continues to wane.
Eur	Nov PMI factory final	51.5 a	51.5	51.3	Indicative of modest expansion continuing in Q4. France looking fragile.
UK	Nov house prices %yr	6.9%	–	–	Halifax index due 2-6 Dec.
	Nov house prices %yr	3.1%	–	–	Hometrack index.
	Nov PMI factory	56.0	–	55.5	Survey strength not reflected in official IP data.
US	Nov ISM manufacturing	56.4	56.5	54.0	Recent out-performance against official IP data unsustainable.
	Nov construction spending	–	0.4%	–	Double release as Oct data delayed by govt shutdown.
Tue 3					
NZ	Nov ANZ commodity price index	1.4%	–	–	Prices continue to hover near historic highs.
Aus	Q3 current account balance, A$bn	–$9.4bn	–$11.0bn	–$10.1bn	Weak AUD & soft commodity prices conspiring to widen the deficit.
	Q3 net export contribution, ppts	flat	0.35	0.2	Exports dip but import volumes fall faster, giving slight lift to GDP.
	Oct retail sales	0.8%	0.4%	0.6%	A welcome lift in sales but coming off a very weak base.
	RBA policy decision	2.50%	2.50%	2.50%	RBA forecasting sub-par growth but prefers policy stimulus via lower A$.
Chn	Nov NBS non–manufacturing PMI	56.3	–	–	Headline deceptive: new business tracking at just 51.6.
Eur	Oct PPI %yr	–0.9%	–1.1%	–1.0%	German PPI decelerated further in Oct.
UK	Nov PMI construction	59.4	59.0	59.0	Sector uplift through 2013.
	Nov BRC sales %yr	0.8%	–	–	Same store sales. CBI survey weak in recent months.
US	Nov ISM New York	59.3	–	55.0	Post govt shutdown bounce likely to reverse somewhat.
	Nov IBD-TIPP economic optimism	41.4	43.0	40.0	Post government shutdown bounce likely to be reversed. UoM, CB weaker.
	Nov auto sales	15.2	15.8	–	Sales have had second steepest 2 month fall since cash for clunkers!
Wed 4					
NZ	GlobalDairyTrade auction	0.1%	–	–	Strong domestic production yet to significantly dint prices.
	Q3 building work put in place	-0.4%	4.8%	6.0%	Consents suggest a strong ramp up in the Christchurch rebuild.
Aus	Q3 GDP	0.6%	0.7%	0.7%	Improvement on Q2 but Q3 still a mixed bag growth-wise.
Chn	Nov HSBC services PMI	52.6	–	–	Composite headline discontinued - "business activity" reported across.
Eur	Oct retail sales	–0.6%	0.1%	0.4%	German retail sales and French consumer spending data due 29/11.
	Nov PMI services final	50.9 a	50.9	50.8	Economy not gaining momentum in Q4, with France a key concern.
	Q3 GDP revision	0.1% a	0.1%	0.1%	More detailed breakdown.
UK	Nov BRC shop price index %yr	–0.5%	–0.5%	–	Sometimes useful guide to direction of change of annual CPI.
	Nov PMI services	62.5	62.0	59.0	All time high (since 2006) in Oct.
US	Nov ISM non-manufacturing	55.4	55.1	54.4	Post government shutdown bounce was probably temporary.
	Oct trade balance $bn	–41.8	–40.2	–	Exports down 0.2% in Sep, imports down 1.2%.
	Nov ADP private payrolls ch	130k	173k	145k	ADP did not replicate payrolls' inexplicable strength in Oct report.
	Oct new home sales annualised	–	–	–	Double release as Sep data delayed by govt shutdown.
	Beige book	–	–	–	Fed's regional assessment ahead of last FOMC under Bernanke, Dec 18.
	Fedspeak	–	–	–	Pianalto.
Can	BoC rate decision	1.0%	1.0%	1.0%	Low inflation means easing bias dropped by new governor Poloz.
	Oct trade balance C$bn	–0.4	–0.7	–	Exports up 1.8% in Sep, imports up 0.2%.
Thu 5					
Aus	Oct trade balance, A$mn	–$284	–$325	–$150	Growth in export volumes partially offset by stronger AUD.
Eur	ECB policy decision	0.25%	0.25%	0.25%	Easing bias still in place even after Nov cut.
UK	BoE policy decision	0.50%	0.50%	0.50%	Asset purchases to remain suspended at £375bn.
	Autumn statement	–	–	–	Chancellor updates fiscal position.
US	Initial jobless claims w/e Nov 29	316k	–	320k	Nov prone to holidays distortion due Veteran's Day, Thanksgiving.
	Q3 GDP prelim % annualised	2.8% a	3.1%	2.8%	Growth spurt unsustainable into Q4 as sequester, shutdown bite.
	Oct factory orders	1.7%	–1.0%	–1.8%	Durables known down 2%.
	Nov corporate layoffs %yr	–4.2%	–	–	Challenger series.
	Fedspeak	–	–	–	Fisher, Lockhart
Can	Oct building permits	1.7%	–	–	Permits up just 0.2% yr.
	Nov Ivey PMI	62.8	60.0	54.0	Volatility of H1 2013 is back, making this survey difficult to interpret.
Fri 6					
NZ	Q3 wholesale sales	–1.5%	–	–	Sectoral input for GDP.
Ger	Oct factory orders	3.3%	–0.9%	–1.0%	Recent tendency for late qtr jump in orders to be reversed quickly.
US	Nov non-farm payrolls ch'	204k	183k	140k	See text box for thoughts re recent apparent strength in labour mkt.
	Nov jobless rate	7.3%	7.2%	7.3%	Unemployment rate decline largely function of lower participation.
	Sep core PCE deflator	0.1%	0.1%	0.1%	Core CPI was 0.1% in Oct.
	Sep personal income	0.5%	0.3%	0.3%	Hourly earnings up 0.1% in Sep, hours worked up 0.2%.
	Sep personal spending	0.2%	0.2%	0.1%	Retail sales up 0.4%. Services spending growth may be weaker.
	Dec UoM consumer sentiment prelim	72.0	–	71.0	Confidence losing altitude into year end on most measures.
	Oct consumer credit $bn	$13.7	$14.5	–	Student and auto loans the main driver still.
	Fedspeak	–	–	–	Plosser (and Greenspan).
Can	Nov employment ch	13k	7.5k	10k	Jobs up 11k month average in Q3, heading for similar in Q4

New Zealand forecasts

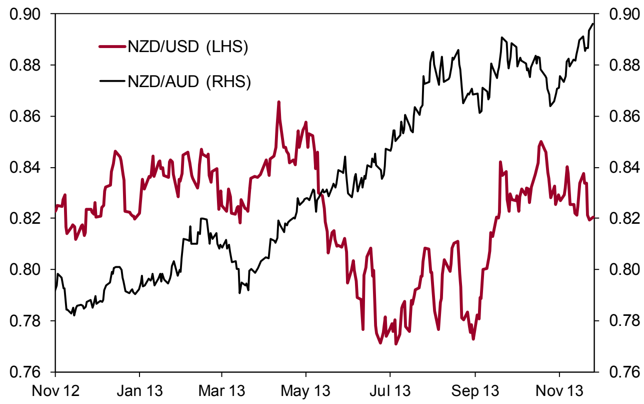
Economic Growth Forecasts	March years				Calendar years			
% change	2012	2013f	2014f	2015f	2011	2012	2013f	2014f
GDP (Production) ann avg	1.9	2.7	3.0	3.8	1.4	2.7	2.8	3.8
Employment	1.0	0.4	2.6	2.7	1.5	-1.4	3.8	2.8
Unemployment Rate % s.a.	6.8	6.2	5.6	5.1	6.3	6.8	5.7	5.0
CPI	1.6	0.9	1.3	2.2	1.8	0.9	1.5	1.9
Current Account Balance % of GDP	-3.8	-4.5	-3.8	-4.9	-3.6	-4.7	-3.9	-4.4

Financial Forecasts	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Cash	2.50	2.50	3.00	3.25	3.50	3.75
90 Day bill	2.65	2.90	3.25	3.50	3.75	4.00
2 Year Swap	3.50	3.70	3.90	4.10	4.40	4.60
5 Year Swap	4.50	4.60	4.70	4.80	4.90	5.00
10 Year Bond	4.60	4.70	4.75	4.80	4.85	4.90
NZD/USD	0.85	0.84	0.82	0.79	0.77	0.76
NZD/AUD	0.89	0.90	0.91	0.91	0.90	0.90
NZD/JPY	82.5	80.6	77.9	74.3	71.1	70.4
NZD/EUR	0.63	0.63	0.64	0.64	0.64	0.63
NZD/GBP	0.52	0.52	0.51	0.51	0.50	0.48
TWI	78.5	78.3	77.8	76.3	74.7	74.1

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 2 Dec 2013

Interest Rates	Current	Two weeks ago	One month ago
Cash	2.50%	2.50%	2.50%
30 Days	2.68%	2.65%	2.66%
60 Days	2.70%	2.65%	2.66%
90 Days	2.71%	2.64%	2.66%
2 Year Swap	3.69%	3.51%	3.44%
5 Year Swap	4.53%	4.41%	4.30%

NZ foreign currency mid-rates as at Monday 2 Dec 2013

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.8140	0.8348	0.8250
NZD/EUR	0.5990	0.6187	0.6117
NZD/GBP	0.4971	0.5178	0.5180
NZD/JPY	83.40	83.74	81.45
NZD/AUD	0.8913	0.8902	0.8744
TWI	76.52	77.92	76.79

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2009	2010	2011	2012	2013f	2014f
Australia						
Real GDP % yr	1.4	2.5	2.4	3.7	2.5	2.3
CPI inflation % annual	2.1	2.8	3.0	2.2	2.4	2.6
Unemployment %	5.6	5.2	5.2	5.3	5.8	6.4
Current Account % GDP	-4.2	-2.9	-2.3	-3.7	-2.6	-3.0
United States						
Real GDP %yr	-3.1	2.4	1.8	2.8	1.6	1.6
Consumer Prices %yr	-0.3	1.6	3.1	2.1	1.5	1.7
Unemployment Rate %	9.3	9.6	8.9	8.1	7.5	7.3
Current Account %GDP	-2.7	-3.0	-2.9	-2.7	-2.5	-2.6
Japan						
Real GDP %yr	-5.7	4.9	-0.5	1.9	1.8	1.7
Consumer Prices %yr	-1.3	-0.7	-0.3	0.0	-0.2	0.1
Unemployment Rate %	5.2	5.1	4.5	4.3	4.3	4.3
Current Account %GDP	2.8	3.6	2.0	2.1	2.0	2.0
Euroland						
Real GDP %yr	-4.4	1.9	1.6	-0.6	-0.5	-0.1
Consumer Prices %yr	0.3	1.7	2.7	2.2	1.4	1.2
Unemployment Rate %	9.5	10.0	10.1	11.7	12.4	13.0
Current Account %GDP	-0.2	-0.1	0.0	0.9	1.0	1.0
United Kingdom						
Real GDP %yr	-4.0	1.8	0.9	0.2	1.1	0.9
Consumer Prices %yr	2.2	3.2	4.0	2.8	2.3	1.8
Unemployment Rate %	7.6	7.8	8.4	8.0	8.5	8.5
Current Account %GDP	-1.3	-2.5	-1.9	-3.8	-2.5	-1.5
Forecasts finalised 8 November 2013						

Interest Rate Forecasts	Latest	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14
Australia						
Cash	2.50	2.50	2.25	2.00	2.00	2.00
90 Day Bill	2.58	2.60	2.35	2.10	2.10	2.10
10 Year Bond	4.22	3.90	3.60	3.40	3.80	4.00
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	2.75	2.50	2.40	2.40	2.80	3.00
ECB Repo Rate	0.25	0.25	0.25	0.25	0.25	0.25

Exchange Rate Forecasts	Latest	Dec 13	Mar 14	Jun 14	Sep 14	Dec 14
AUD/USD	0.9096	0.96	0.94	0.92	0.92	0.90
USD/JPY	102.33	97	96	95	94	93
EUR/USD	1.3615	1.38	1.34	1.31	1.31	1.28
AUD/NZD	1.1218	1.13	1.12	1.11	1.11	1.11

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Disclaimer continued

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