

BNZ Weekly Overview

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Mission Statement

To help Kiwi businesspeople and householders make informed financial decisions by discussing the economy and its implications in a language they can understand.

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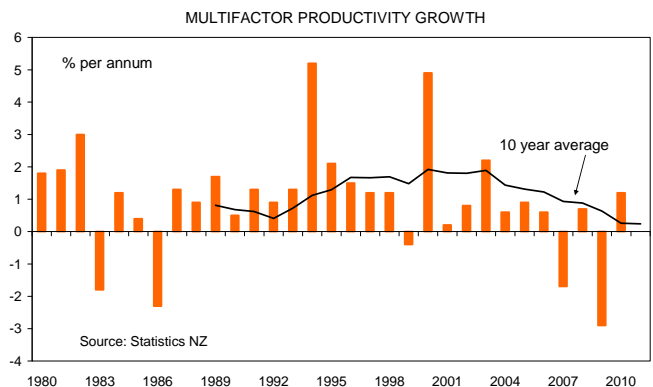
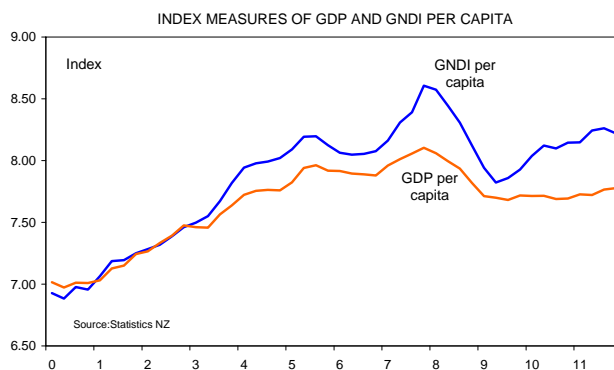
The Weekly Overview is written by Tony Alexander. The views expressed are my own and do not purport to represent the views of the BNZ. To receive the Weekly Overview each Thursday night please click here.

http://feedback.bnz.co.nz/forms/Fx-l8plokSGWgjN_7WOAw

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Boring Growth

Here are a couple of things to amuse yourself with. While the level of New Zealand's gross domestic product (GDP) is basically back where it was before we went into recession at the start of 2008, GDP per capita is down 4%. If we concentrate on just the part of the GDP which accrues to us Kiwis – gross national disposable income – then the fall is 4.5%. We are on average 4.5% poorer than before we entered recession and it is going to take maybe five years to get back to where we were given average population growth of about 1% per annum in the past five years when the average net migration gain was just under 10,000.



A key reason our GDP growth is so low is that productivity growth in New Zealand is poor. On average over the past ten years total factor productivity (captures labour and capital) has risen on average by only 0.2% per annum. That is hopeless.

Speaking of hopeless, consider the term above trend growth. On average over the past decade NZ GDP has risen by just 2.2% per annum. Growth over 2011 was 1.4%, 2010 1.2%, and 2009 -2.1%. We are forecasting growth of a trend 2.2% this year then 2.9% over 2013.

But much of next year's growth is predicated upon the Christchurch rebuild kicking into high gear, world growth being okay, and farmers boosting spending in the cities. But there is still no sign of an improvement in the insurance situation in Christchurch, world growth prospects are newly getting revised downward, and our export commodity prices are falling and farmers are pessimistic, so the timing and magnitude of their more city-oriented spending is going to shrink.

No wonder the markets are now pricing in a cut in the Reserve Bank's official cash rate from 2.5% in a few months time and the Kiwi dollar is weakening again. Above trend growth has been an article of faith more than a solidly grounded forecast for most of us over the past three years. At this stage there is no reason for saying that the probability of us being right has improved. That might change if we get to the end of June with no new big Christchurch aftershock, and as a result of that insurance companies re-enter the Christchurch residential market. But putting that aside, fresh back from two weeks observing things on the ground in Europe, looking at recent US data, and considering the slowdown in China and Australia, there is no strong reason for expecting strong NZ growth in the near future.

Travelling

I now know why the shops were closed in Madrid last Wednesday and there were mainly old people in dour dress with old suits and brooches – there was a military type parade to celebrate the end of a war with France a couple of centuries ago and May 2 is Madrid's holiday. Apparently the main Spanish cities as opposed to provinces (as in NZ) have an annual holiday. That meant that with two days of the weekend, Tuesday holiday for May Day, Wednesday Madrid Day, lots of people took Monday off and had a very long weekend well away from the city.

On the Thursday thankfully the city was very active, the shops were open – though I had no time to look through any due to appointments organised by the NZTE and MFAT staff in Madrid with people from the Bank of Spain and Spain's main employer body. I discuss points covered in those discussions in the Major Offshore Issues section below so have not much to say here beyond that the Bank of Spain building is astounding on the inside – or at least the old part of it is. There are high vaulted ceilings, stained glass windows, curving columns. Just lovely. Of course as a Cantabrian and now long lasting Wellington resident I saw major earthquake risk as well.

I flew from Madrid's main airport to Paris on Veuling Airways which apparently is one of Europe's low cost airlines and it shows. The seats are extremely close together with extra squeezing in of rows partly achieved by sculpting the back of the seat in front of you inward so your knees can fit and the pocket which normally goes there is put up the top of the seat. Typing on a keyboard was a physical impossibility but for a cheap near two hour flight it was okay.

This time in Paris I stayed at Timhotel Opera Madeleine – meaning they threw good sounding locations into the name so you would think it was classy. The hotel across the road certainly looks classy with flags outside and a lovely looking lobby and for a moment I got quite excited when the taxi dropped me off in front of it. But all the driver heard from my out of practice French was rue Saint Lazare and when I realised it was not the right hotel and looked across the road to where my hotel was, lets say reality kicked in.

Sound insulation is something Baron Haussman really should have forced upon everyone at the same time as he was ripping properties apart to create his big revolution-impeding boulevards all those years ago. At least I had a quiet balcony facing into the light well but it probably would not have been polite to drag my mattress onto it to get some peace and quiet for the night.

For the first time in Paris I used the Metro. It is sort of quaint. Some of the trains run on big rubber tyres which give quite a bumpy ride. The stopping often involves jerky braking rather than smooth deceleration so you need a good grip on a handrail if standing up. The carriages are tidy but not all that flash and many of the windows and doors have graffiti scratched into them. The pedestrian walking areas to and from the platforms are not the same class as in the London Underground and the system overall has a more subterranean feel about it. But the trains run frequently and that is what really matters.

This visit I made a visit to la Defense and the architecture there is quite interesting plus there is a huge shopping centre which I was thankful to find after pushing my way through crowds in the Galleries Lafayette and Printemps. The domed ceiling in the former is a beautiful sight. While walking around I started to wonder where all the Chinese were. Then I saw them queued outside the Louis Vuitton shop. I guess higher status is accorded one if one has purchased LV in Paris rather than Queen Street.

I had a lovely lunch in the ambassador's residence on rue Leonardo de Vinci. The residence is lovely though apparently things such as the wiring need to be brought up to standards of at least the second half of last century. The lunch included representatives from France's main employer group and their trade promotion board. Their interest was primarily in what NZ had to offer French companies. Why should they bother looking at New Zealand when the country is so small and so remote?

Our answers gravitated around some specific industries containing well developed expertise such as primary production, audio-visual, ICT, and we noted opportunities for French companies already in Australia to consider the cost benefits of investment in NZ – as some Australian companies are now acting upon. I discussed New Zealand's FTA with China and how it might provide some opportunities for French companies – but realistically these are early days for many NZ companies building expertise on the ground in China and my personal focus is more on getting NZ companies to learn from Kiwi operators already there rather than inviting others to immediately use the communication routes we are building up.

Guess what! I have officially been interviewed in Paris. How cool is that! You can see it here.

<http://tvnz.co.nz/world-news/expats-head-french-polls-video-4866089>

The interview followed a fantastic two hour discussion about the NZ economy and operating a business in France with 14 people from the Paris chapter of KEA. The TVNZ correspondent Garth Bray was not actually there to film me but instead get some comments from some of the other attendees. "But as every Newcastle lad knows, when you're getting monstered by a nine foot tall Hells Angel and there's a break in the traffic...." – you either get this or you don't, too bad if you don't. Google it you conversationally challenged net-addicted youngsters.

With regard to operating a business in France, things are quite different from New Zealand and China. Hierarchy matters a lot, it is good if you have printed a paper or book outlaying your thoughts on the world, and to get ahead it pays to attend one of the grand schools. Bureaucracy is massive, computers have yet to make an appearance in the book-based operations of some government enterprises, and meetings can be lengthy and without resolve yet be considered successful because everybody got to put their point of view across. There is not the casualness of business contact which we have in New Zealand, and there is not the rigid card-swapping ceremony of China or China's get sloshed to forge the bonds procedures. NZ has however a good brand in France of honesty and integrity.

I flew Air New Zealand there and back and the service was of course excellent as usual. But if you are travelling in Business Class just be aware that much as customers keep pointing out the problem you still run the risk that your electricity plug will not work properly. Thankfully as I wended my way through Irvine Welsh's latest offering little time was needed for the PC anyway.

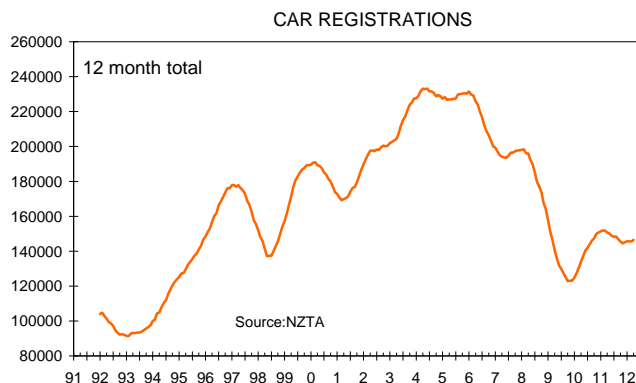
Is Our Economy Getting Better or Worse?

In this section we look only at what the data are actually telling us and pay no attention to forecasts or intentions measures.

There is a mild improvement underway but nothing to suggest much acceleration in growth overall from the 1.4% achieved last year or the 1.2% over 2010.

Are householders opening their wallets more?

In the three months to April there was a seasonally adjusted fall in the number of cars registered in NZ of around 2%. That is neither here nor there though is down from 10% growth three months earlier. We would interpret this as a weakening were it not for the distorting effects of rule changes for imported cars. So for the moment we are going to refrain from using car regos as an indicator of consumer spending strength.



Is business output rising?

Nothing new

Are businesses hiring more people?

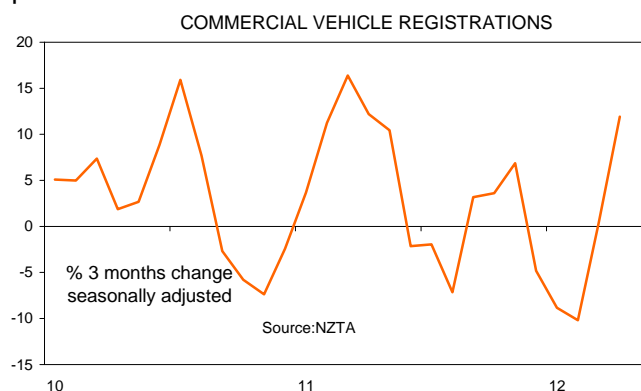
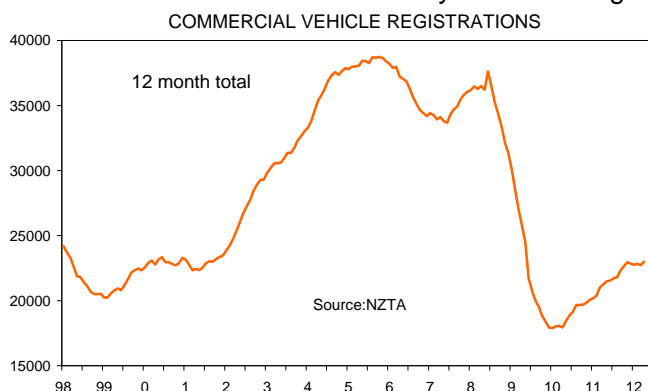
Last week we commented on the quarterly Household Labour Force Survey which showed an extra 9,000 jobs appeared during the March quarter meaning 76,000 since the low-point in the jobs cycle back in 2009. That is a fairly good result considering the terrible state of labour markets overseas with the US unemployment rate at 8.1% and the Euro-Zone at 10.9%.

Are businesses boosting their capital spending?

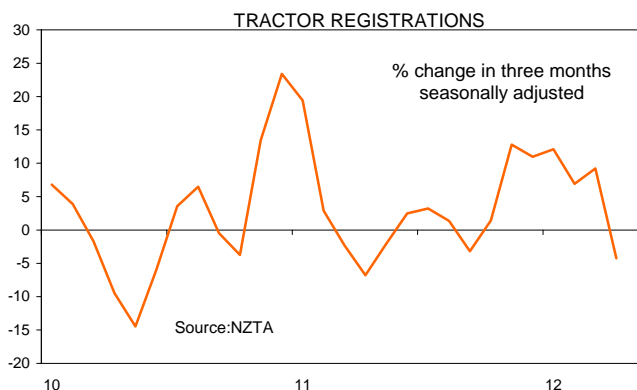
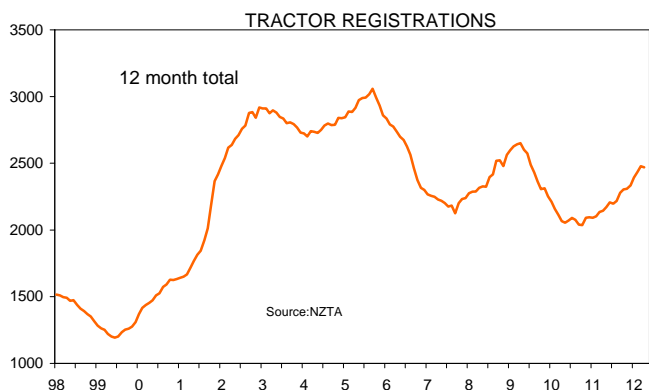
For equipment no. Buildings = mixed.

To see how businesses are feeling right now one can read our monthly BNZ Confidence Survey here. <http://tonyalexander.co.nz/bnz-confidence-survey/>

In the three months to April the number of commercial vehicles registered around New Zealand was ahead 4% from a year ago and up about 10% seasonally adjusted from the three months to January following a near 10% fall back then. So although the recent numbers have moved up again they may only be recovering to natural levels from the earlier decline and we don't read this yet as a sign that businesses are embarking on a new phase of investment. Note however that regos in the month of April were 18% ahead of a year earlier so if we had to call it we'd say there is a slight upward bias.



For the first time in nine months the number of tractors registered in a month was down from a year earlier. April's total was off 6% from April 2011. That meant that regos for the entire three month period were still ahead 17% from a year earlier but down 5% seasonally adjusted from the three months to January. Given that we decided at a pinch to interpret the upward move and good month result for commercial vehicle regos as signalling an upward trend, we have no other choice than to interpret the exact opposite direction movements for tractors as signalling weakness at a pinch. Maybe this is evidence of farmers exercising some new caution in the face of falling overseas prices.



What Do The Leading Indicators Say?

In this section we look only at the factors which can at times give insight into where the economy is headed. Generally we will only cover newly released information.

No new information this week.

INTEREST RATES

Wholesale interest rates have fallen yet again this week as investors cut their expectations for world growth in response to a poor US employment number and increasing fractures in Europe. The three year swap rate now sits near 2.77% which is almost three quarters of a percent down from where it was seven weeks ago. This large decline shows the extent to which optimism about global growth has plummeted – yet again!

We have no idea when rates will climb back up again having shown no success in forecasting this recent large decline. But given that we have seen rate rises and falls of unexpected timing and magnitude many times over the past three years in particular, the chances are we will see rates bump back up again when worries about Europe ease off. So current levels probably represent a good opportunity for borrowers to lock in some longer term fixed rates.

But remember, as we have written here for over three years now, you are foolish if you base your interest rate risk management decisions on a set of interest rate forecasts. Those forecasts have changed repeatedly and they will continue to change. Good luck.

FINANCIAL MARKETS DATA

	This week	Week ago	4 wks ago	3 months ago	Yr ago	10 yr average
Official Cash Rate	2.50%	2.50	2.50	2.50	2.50	5.4
90-day bank bill	2.68%	2.68	2.77	2.76	2.68	5.7
1 year swap	2.51%	2.66	2.84	2.82	2.89	5.8
3 year swap	2.77%	2.95	3.25	3.10	3.88	6.1
5 year swap	3.21%	3.41	3.69	3.53	4.53	6.3

If I Were a Borrower What Would I Do?

Stay floating or fix three years at 6.15%. It all depends upon one's risk tolerance. Thankfully, on February 16 when I wrote here that I would move from floating to fixed the justification was not an expectation of a rise in interest rates but simply the small gap between floating and fixing. To whit ..

“The gap between floating and fixing for three years has declined to only 0.41% from 1.4% three months ago and is now the lowest since March 2009. Personally I would take the three year rate because I like certainty and the 0.41% cost is very small. Most people however seem to be very comfortable sitting floating so if they change will probably only jump to the two year rate. The chances are however that with little discussion in the media regarding interest rate rises and picking low points, very few people will in fact shift away from floating. This will likely happen even though it is a complete gimmee because the chances of either the two year rate or floating rates falling again this year are low (though not zero given Europe uncertainty) and our official view is that the Reserve Bank will start tightening monetary policy before the end of the year.

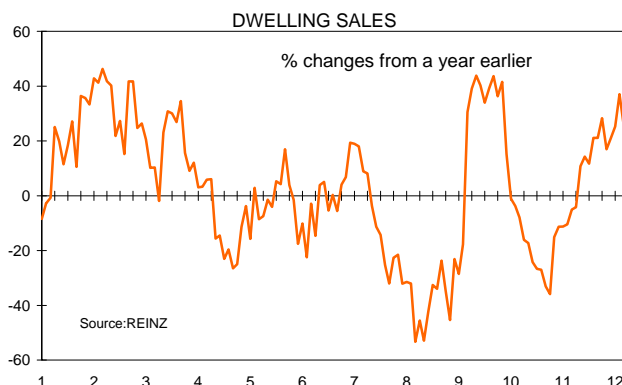
The only change I would make in the February 16 statement would be to note more explicitly the always high probability that monetary policy tightens in 2013 and not anytime this year.

HOUSING MARKET UPDATE

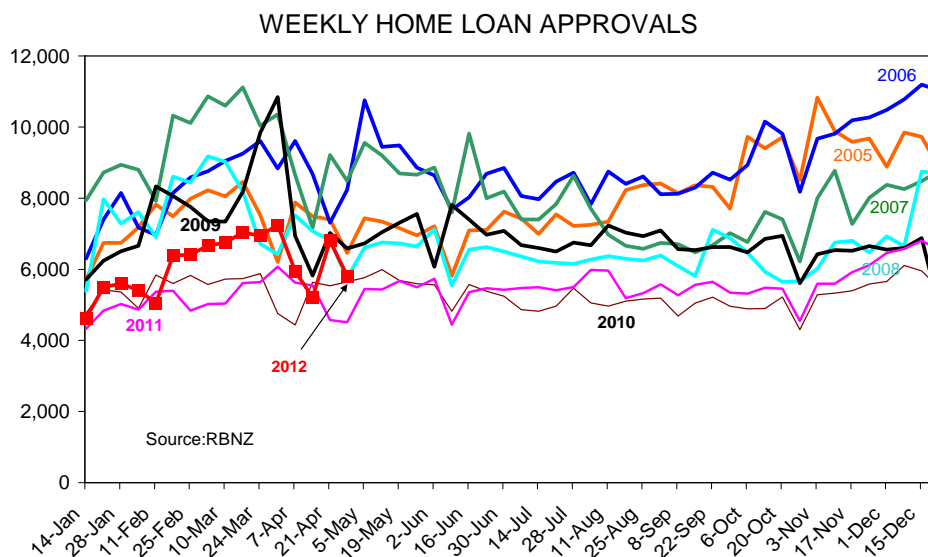
To view the most recent results of our monthly BNZ-REINZ Residential Market Survey click here. <http://tonyalexander.co.nz/bnz-reinz-survey/>

Housing Rising – But Nothing Stellar

The REINZ this week reported that during April there were 5,676 dwellings sold around New Zealand. This was a 13.8% rise from a year earlier which was the slowest annual pace of increase since July last year and down from 25% in March and 37% in February. This slowdown is confirmed in the monthly seasonally adjusted rate of change which was roughly a decline of 4% following a 5% rise in March.

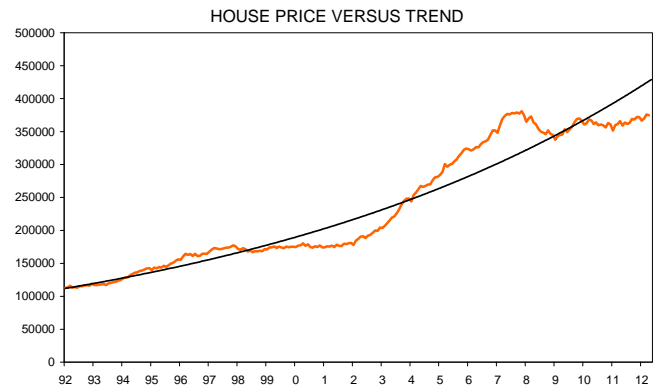
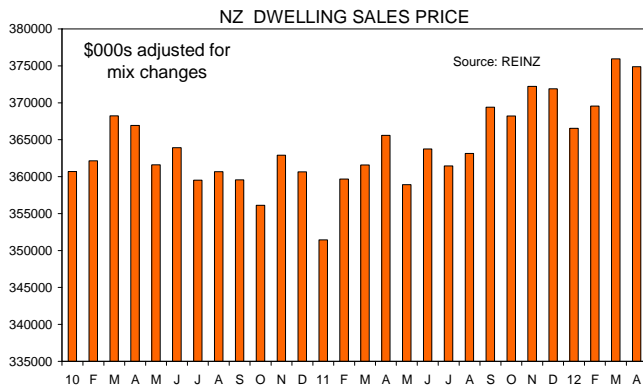


This slowing in the pace of improvement is consistent with the slowing growth we have already noted in weekly home loans approval data gathered and reported by the Reserve bank. The 2012 line is the red dotted one near the bottom toward the left.

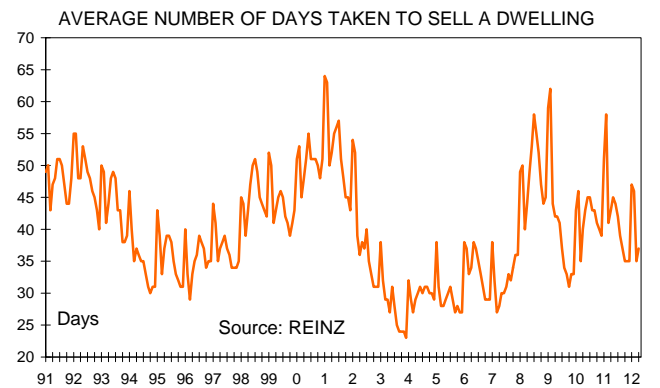
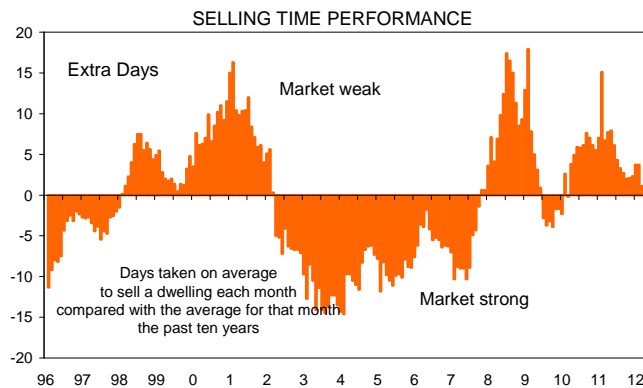


An earlier burst of life in residential property turnover has faded to some degree. With regard to prices there was a 0.3% fall in the median dwelling sale price which is unsurprising considering there was a 1.7% rise in March and 0.8% gain in April. The trend for prices is upward though we see no reason for believing that

price growth will consolidate closer to 10% than 5% over the coming year given the hesitancy we feel is still in the economy.



On average in April it took 37 days to sell a dwelling which was 1.6 days longer than average for April over the past ten years. March's result was 1.1 days longer than average and February's 3.7%. There is a mild improvement underway in the speed of property turnover but it is not rapid.



Overall the latest set of REINZ data show a residential real estate market on a path of gradual improvement will no sign of rapid gain which would excite the Reserve Bank or draw any particularly large group of cyclically uninformed investors into the market.

BNZ Confidence Survey Responses

For anyone who may not have already read them in the release of our survey results on Tuesday, here are the responses related to residential real estate.

Real Estate – Residential

- Real estate - steady as she goes. Noticing majority of properties selling below average selling price in our localised region of Mt Maunganui.
- Tauranga/Mt/Papamoa residential real estate very good sales in March not so good in April however up 18% on last year.
- Real Estate - Central North Island - enquiry has dipped slightly this week but the buyers that are out there are moving on property.
- Residential real estate Pakuranga/Howick - very short of quality listings all ranges, prices steady to slightly increasing but not enough buyers round to drive real increases, starting to get enquiry from buyers saying City is too expensive and looking for alternatives. Some sellers getting greedy on prices, buyers not responding.
- Real Estate - definitely on the improve. More buyers making decisions- more people at open homes
- Real estate, Auckland Eastern Suburbs. The market remained active through April but generated less volume than March. Buyers continue to compete strongly for quality properties in our area, however, monolithic clad homes are sticking and take some time to sell. Listing activity has bounced back now school holidays etc are out of the way.
- Excellent days on the market have dropped to approx 10days with last months stock. Real Estate Auckland's North Shore

BNZ WEEKLY OVERVIEW

- Real Estate Johnsonville: Market going the right way albeit slow but steady. Good numbers of buyers and listings coming in regularly but not at a great rate.
- Real Estate - steady interest with houses moving slowly.
- Real estate- lots of properties on the market, but few buyers
- Real Estate in Hawkes Bay - steady sales happening - no records being broken!
- Property valuation - New Plymouth. Lots of activity in lower price range, number of sales over all price ranges increasing too
- Real Estate, we are inundated with new listings because we offer a much lower cost good quality service which shows kiwis are still very cost conscious. Lots of buyer inquiry and midweek viewings which has been very rare for quite a long time now. Positive stuff as far as we are concerned.
- Real Estate: Buyers are cautious but more committed, especially first time buyers.
- Real Estate in Gisborne. After a good month in March we have reverted to slow and difficult. Activity continues, however, reaching a successful result remains difficult. Motivated sellers are meeting the market.
- Real Estate sales. Turnover high and prices climbing. Money is flowing into Christchurch and it is being spent. This is leading to more money being around in the South Island and a generally better feel for the future.

Property Management

- Property rentals. Difficult market throughout all the price ranges. Many properties and a small amount of good quality property. Old homes being vacant longer and newer, tidier, warmer homes moving quicker
- Residential property management. Houses in Christchurch all full. More people choosing to rent out their properties rather than sell because of positive cash flow due to increased rents
- Residential Property Investment Auckland - market is tight for rentals taking the opportunity to increase rents across the board 5 - 6% for existing tenancies. Tenancy change overs I'm increasing rent by 10 - 12% on one year fixed terms and could get more but trying to be reasonable. Some banks very competitive offering to pay majority of break fee for switches and large discounts on card rates. I'm investing the addition cash flow into renovations, new carpets, paintwork, appliances and two new decks. A good time to be a property investor in Auckland despite the recent tax changes to depreciation and LAQCs.
- Property Manager North Shore Auckland. Rents holding up in both student & family market. Enquiry is flat and listings have been growing over the last month. I feel the market has lost its strength and is losing steam. This is partly seasonal but maybe a reflection on vendors not getting the price they hoped for when marketing for selling and are going back to the rental market time will tell.
- The rental housing market is in full seasonal swing (Bay of Plenty).
- Property (Wellington). Low interest rates are making property deals viable again and have been able to lift rents slightly, but insurance costs have increased significantly, so overall am no better off.

MAJOR OFFSHORE ISSUES

Worries about the US have risen only a tiny amount following Friday night's disappointing employment report. But uncertainty about Europe is high and highly likely to get worse in coming weeks.

Europe

Just which movie does one watch to get a feel for how things are going in Europe? Personally I think it is a toss up between Apocalypse Now ('The horror, the horror') and The Life of Brian ("Always look on the bright side of life...")

- The Euro-zone unemployment rate has hit 10.9% from 9.9% a year ago.
- Manufacturing sector indicators have turned newly bad.
- The first Socialist French President in 17 years wants to boost the size of the State (like that can ever be positive for economic growth in the long term) and renegotiate one of the key things which has been encouraging investors to give the Euro-Zone the benefit of the doubt with regard to getting fiscal accounts into order – the Fiscal Pact dearly loved by Germany.
- The Greeks have given 7% support to a Nazi party (Golden Dawn – lovely name, just like the Shining Path in Peru). 16.8% went to a radical left-wing party. Formation of a Greek government may not be possible, fresh elections could be held late-June, if agreed spending cuts are not passed into law by the end of June financing from the IMF will not be continued, exit from the Euro will become almost inevitable (Citibank give it a 75% chance).

I wrote in very negative terms about Europe in the Weekly Overview of a fortnight ago, then again last week, and I do so again this week. Having viewed the situation on the ground, looked at the data, then stood right back to try and get a five decade view of the collective experiment starting with the Treat of Rome in 1956 I conclude that the situation is likely to get worse before it gets better – which is fairly much what the British PM David Cameron said two weeks ago in describing the European debt crisis as not having yet reached its half-way point.

Voters throughout Europe have sent a message not only that they are sick of fiscal austerity but they question more and more giving up their sovereignty to seemingly electorally unaccountable authorities in Brussels. Hence rising support for radical left and right wing weirdoes in general elections.

This week I held some meetings in Madrid with the central bank, the Bank of Spain, the main employers business group, and staff at the NZ Embassy. After telling them that NZ went through the wringer in the 1980s and we eventually popped out in much better sustainable shape so they should hang in there, these are the main points which people made to me.

There is little prospect that Spain will achieve firm growth in the next few years and the economy is widely expected to shrink near 2% this year then grow minimally over 2013 as a huge fiscal austerity programme is enacted at the same time as trading partners are in strife, the banking sector must address hefty bad debts for some operators, the labour market is deregulated, and house prices correct downward while construction stays weak in the face of a massive excess stock of houses.

Spain ran budget surpluses and had low government debt heading into the GFC. But it got caught out by a massive construction boom distorting the labour market and bringing plummeting wealth once the crisis arrived and property prices fell away. The resulting collapse in wealth and the construction sector hit an economy poorly positioned to adjust with the labour market still operating under conditions largely first put in place when democracy appeared in the 1970s. The unemployment benefit as a proportion of average wages is the highest in the OECD and labour market changes which started in April though have yet to be fully ratified in Parliament do not include reductions in dole payments.

Spain is not experiencing the sort of migration outflows that Portugal is. People stick very close to their families and regions. This is another problem of course for the labour market where in a modern economy

flexibility is needed. People need to move away from where employment is falling to places where it is growing. But this is greatly impeded by family life, high dole payments, and traditionally high redundancy payments. The latter used to run at 45 days per year worked but have been cut to 20 – 33 days depending on the sort of contract one now signs up to.

Labour costs have fallen in Spain by maybe 10% so far. But further adjustment is needed. Businesses for the moment are still laying people off and not hiring and it is much too early to see a positive employment response to the labour market reforms. Spain has a few very large exporters and strong investments overseas. But beneath these companies there is a dearth of exporters and the government has adopted a policy of trying to develop the next tier of actual and potential exporters.

Spain has a very strong trade and investment focus on South America but there is growing interest in how to participate in Asia-Pacific growth. I told them to think about using NZ as a conduit into China. That elicited some interest. The huge quantities of liquidity provided by the ECB to European banks has been greeted very positively and for now has taken worries about bank liquidity off the radar screens. What will happen in three years time however when the 1% loans are due for repayment is a different story.

Europe's adjustment process is made more difficult by the fact that the financial markets are not convinced the worst is past, that the reforms will continue, that the payoff is not far away. Contrast that with NZ where during our reform period there was high optimism offshore that strong benefits would flow. This lack of confidence in the decision making and implementation abilities of any body in the European Union apart from the European Central Bank means there is actually very little scope for easing off on the fiscal austerity drive and instead embracing a new fiscal stimulus package as so many people are now promoting. Who will pay for it?

There are a reasonable number of NZ companies operating in Spain including Orion Health and Fisher and Paykle Health. Spain takes more NZ kiwifruit than any other country though the data do not show this become some of the fruit is freighted south after landing in countries to the north.

There is a big issue with NZ seafood landing in the EU currently as the EU requires the catch be accorded as being imported from the country in which the catching boats are registered. That means NZ seafood gets registered as coming from the likes of South Korea and Japan even though it is transferred from such ships to NZ shores then exported.

Australia

What are the chances I would have spent time examining Aussie data as a Kiwi economist whilst traveling in Europe? Not high. Maybe next week I'll write about the Aussie Budget and their continuing dual speed economy. Watch for rising talk of the migration loss to Australia easing even though this weekend there is another large OzJobs Expo in Auckland worth taking a look at.

United States

The non-farm payrolls report for the US came in weaker than expected on Friday night with job numbers rising only 115,000 in April following a 156,000 rise in March. Although if one adds in upward revisions to February and March the level of employment in April met expectations (not the monthly change) there is clearly a slowing trend in jobs growth in the US. This is not of itself a sign that US growth is stalling. But it does again feed into the argument that the recovery is not yet on steady legs and one can only suspect that with massive uncertainty now swirling around Europe the US confidence indexes might edge back a little bit in the near future and reinvigorate the debate about the Federal Reserve printing more money.

China

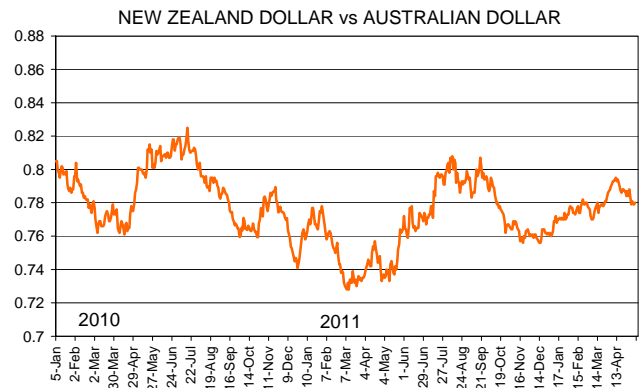
Chinese economic developments are now covered in our new publication "Growing With China", the last issue of which appeared on April 24. If you wish to receive this monthly then please email me specifying your name, company name, and connection with China. Tony.alexander@bnz.co.nz

Exchange Rates

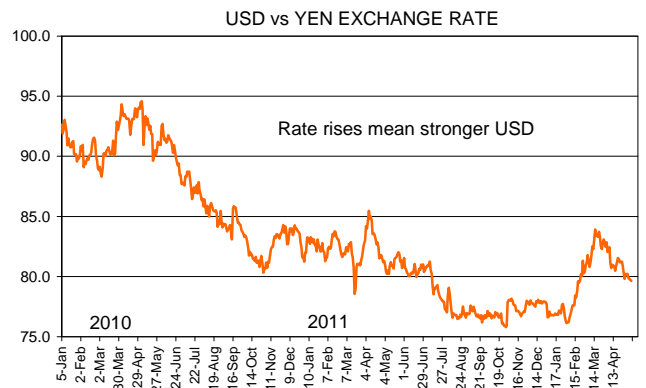
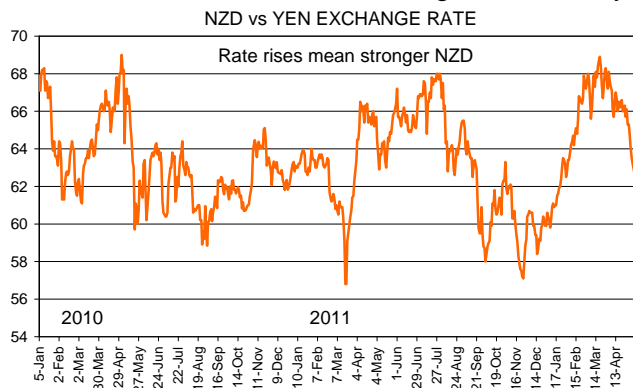
Exchange Rates	This Week	Week ago	4 wks ago	3 Mths ago	Yr ago	10 yr average	
NZD/USD	0.786	0.807	0.814	0.834	0.794	0.67	0.67
NZD/AUD	0.780	0.783	0.793	0.773	0.737	0.85	0.85
NZD/JPY	62.600	64.700	66.000	64.700	63.7	69.6	69.6
NZD/GBP	0.486	0.498	0.513	0.527	0.485	0.388	0.388
NZD/EUR	0.606	0.613	0.620	0.627	0.553	0.52	0.52
NZDCNY	4.960	5.070	5.136	5.254	5.156	4.99	4.99
USD/JPY	79.644	80.173	81.081	77.578	80.227	105.7	105.7
USD/GBP	1.617	1.620	1.587	1.583	1.637	1.72	1.72
USD/EUR	1.297	1.316	1.313	1.330	1.436	1.28	1.28
AUD/USD	1.01	1.03	1.03	1.08	1.08	0.788	0.788
USD/RMB	6.3108	6.2824	6.31	6.2998	6.4942	7.56	7.56

Kiwi At A Four Month Low

With the weak employment data out of the United States, bad manufacturing data in Europe and the UK, the rising risk that Greece will leave the Euro, and the election of a Socialist President in France there is a new big bout of the heeby geebies going through global financial markets at the moment. This means investors are pulling away from volatile risky assets such as equities and peripheral currencies like the NZD and AUD. Hence the NZD has dropped two cents against the USD while shedding some ground also on the cross rates to varying degrees.



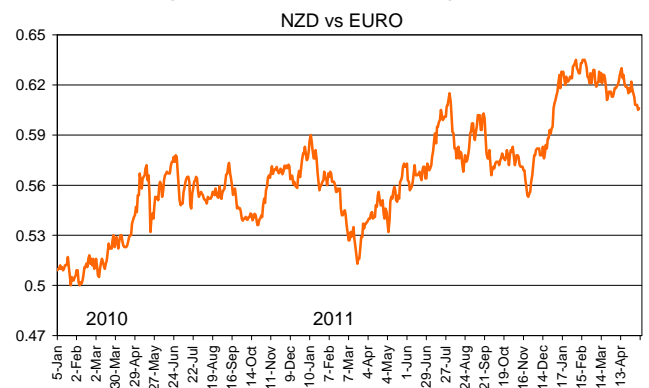
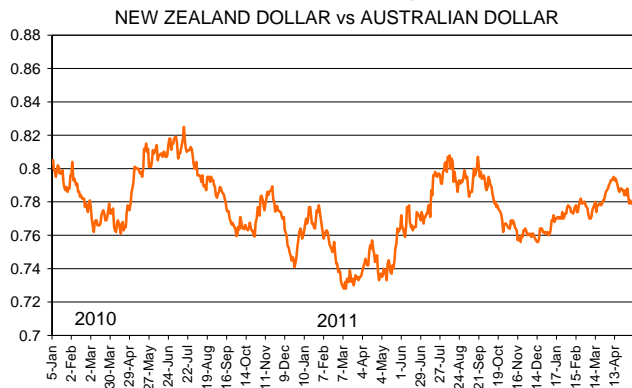
The Japanese yen on the other hand as risen as investors view it as a safe haven currently. The Japanese Finance Minister however has again warned of measures aimed at stemming strength in the Yen and if any action does occur this risks inducing extra volatility in FX markets.



BNZ WEEKLY OVERVIEW

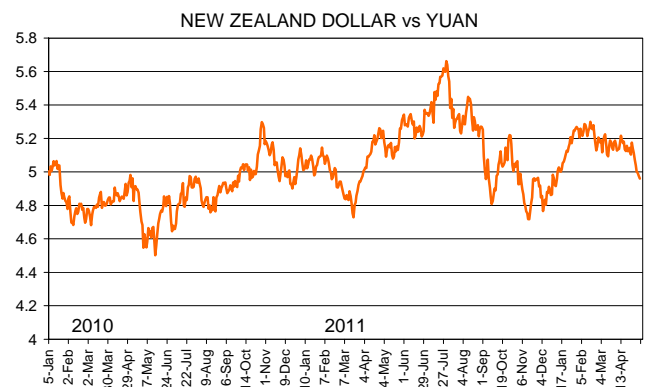
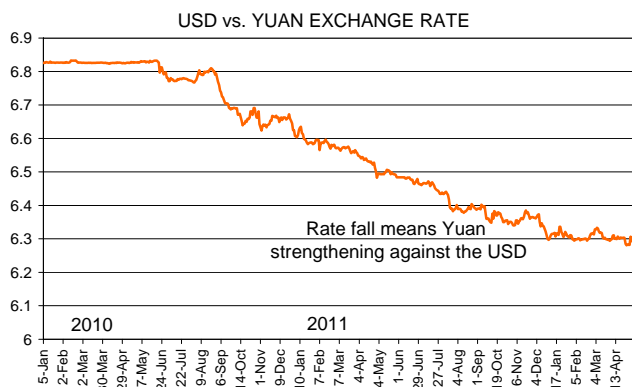
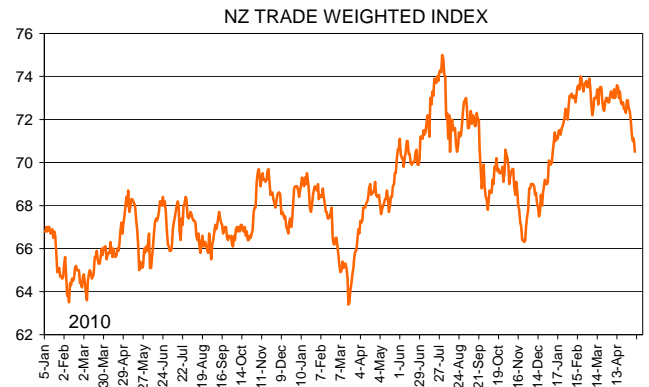
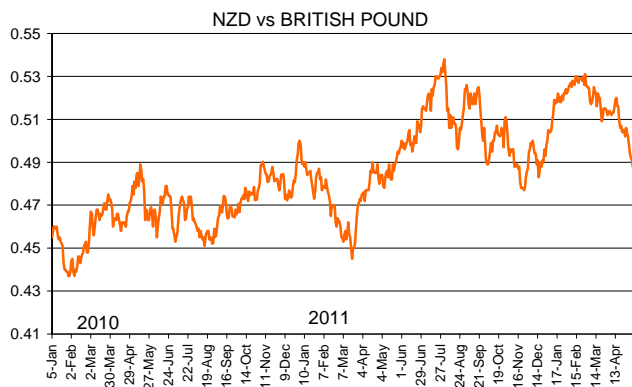
Where do we go from here? The first point to note is the strong opinion I have given here for many years, namely that currencies cannot be reasonably predicted. Or to put it more accurately. One may be able to predict a move up or down, but not when, how far, or for how long. Second, current times are massively uncertain and that means even what appear to be well thought out currency analyses and forecasts should be treated with a sack of salt if not outright contempt.

Third, toss a coin. If the Euro crisis blows over soon (yeah right) then investors will flood quickly back into risky assets like the NZD. If the crisis deepens (probably) then the NZD will fall further. But, unless the world falls into a new financial hole the chances are that the Kiwi dollar will bounce back up again as foreign central banks have flooded markets with their currencies. Therefore, if I were an exporter I would be looking for opportunities here to boost my hedging for the next 12 or so months – but probably not quite yet. The way things are spiralling downward overseas with 7% of voters opting for a new Nazi party in Greece, doubts about US economic strength and so on, things are likely to get worse before they get better.



Hold on tight.

Here is a thought. Does the Euro go up or down if Greece leaves? You would think down because of the speculation that others will also leave. But if the crap opts out you get left with the better ingredients in which case the currency rises. Good luck.



Exchange Rate Assumptions

This table contains the latest NAB currency forecasts. In red I indicate where I believe the risk lies for these rates. You are welcome to toss your own coin and generate an equally valid table.

	2011	2012	Risk	2013	Risk
Year end					
NZD/USD	0.77	0.83	Higher	0.75	Higher
NZD/AUD	0.76	0.85		0.82	
NZD/YEN	60.0	71		60	Higher
NZD/GBP	0.50	0.52	Higher	0.49	Higher
NZD/EUR	0.60	0.61	Higher	0.54	Higher
USD/JPY	78	85	Lower	80	Lower
GBP/USD	1.54	1.58	Lower	1.56	Lower
EUR/USD	1.30	1.35	Lower	1.38	Lower
AUD/USD	1.01	1.00	Higher	0.95	Higher

Key Forecasts

Dec. year		2010	2011	2012	2013
GDP	annual average chg	1.2	1.4	1.5 – 2.2	2.5 – 3.5
CPI	on year ago	4.0	1.8	2.0 – 2.6	2.5 – 2.9
Official Cash rate	end year	3.0	2.5	2.50 – 2.75	3.25 – 4.25
Employment	on year ago	1.3	1.6	1.0 – 1.6	1.5 – 1.9
Unemployment Rate	end year	6.8	6.3	5.5 – 6.0	4.8 – 5.5

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