Castle Hill, Canterbury.

1 September 2014

Weekly Commentary

In this issue

Bits and bobs

The early part of last week was dominated by news from offshore. At a major central bank conference, the Federal Reserve's Chairwoman Janet Yellen hinted that the Fed might be preparing to raise interest rates sooner. But while the US economy continues to gradually improve, the European economy continues to flounder. Speaking at the same conference, the head of the European Central Bank, Mario Draghi, hinted that the ECB is considering moves in the opposite direction to the Fed – potentially undertaking further monetary policy easing to combat falling inflation.

If they follow through on those signals, that would favour a stronger US dollar, a weaker euro, and on balance a lower New Zealand dollar. We saw a little of that sentiment come through last week, with the kiwi falling below 84 cents. We expect it to fall further yet, averaging about 83c through to the end of this year.

Aside from offshore events, another factor putting downward pressure on the NZ dollar over the last month or so has been tumbling dairy prices. And we're starting to see weaker dairy prices permeate New Zealand's economic data as well.

Business confidence fell for the sixth straight month in August. While sentiment remains substantially positive on balance, it's now more consistent with the middling pace of economic growth we saw over 2011-12, when GDP grew around 0.7% per quarter on average. Confidence was down across all of the broad industries surveyed, though the agricultural sector was understandably the most downbeat of the bunch.

July merchandise trade data showed a larger than expected deficit, with exports down on the same period a year ago. On a seasonally adjusted basis, the value of dairy exports have fallen 13% over the last couple of months, largely on the back of weaker prices. The other sector where we have seen falling prices weigh on exports is the

Bits and bobs continued

forestry sector. Log prices have fallen around 26% since March as a slower housing market in China has weighed on demand.

Weaker log and dairy prices are also expected to feature in today's data as the impressive run-up in New Zealand's terms of trade draws to a close. After climbing more than 20% over the last year or so, we estimate that the terms of trade fell by 2.3% in the June quarter, driven by lower export prices.

Ultimately we don't expect dairy prices to remain at current levels. The benefits of an improving Chinese economy should eventually flow through to Chinese consumers, shaking them out of their current malaise. This in turn should help bolster demand for our dairy exports.

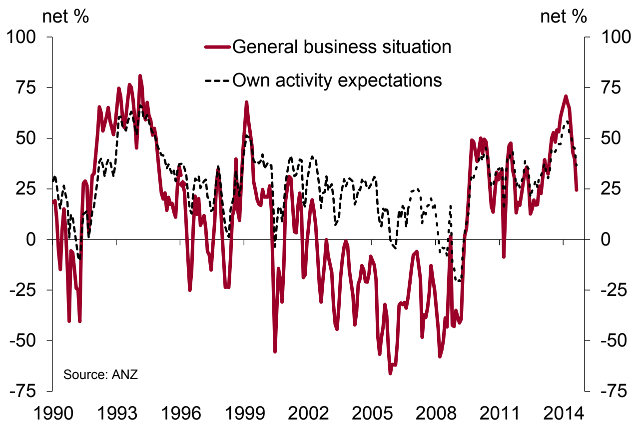
Fonterra also expects to see commodity prices improve in late 2014 and early 2015. On the back of this, it has retained its $6.00/kg milk price payout forecast for the current season (despite dairy prices declining another 9% since it first announced this forecast back in late July). However, it did acknowledge that there "remains further downside risks" to their forecast and continued to encourage farmers to exercise caution with their budgeting.

For our part, we are maintaining our own forecast of Fonterra's payout at $5.80. This effectively bakes in some of downside risk alluded to by Fonterra, leaving the risks around our own forecast more balanced. Westland Milk went further, announcing a 60c downgrade to its own payout forecast. It now expects to pay its farmers $5.40-$5.80 before retentions this season (Westland produces a different mix of products to Fonterra).

Eventually we would expect to see falling international dairy prices put downward pressure on prices of dairy products locally. But this is yet to come through to any great extent yet. In some cases prices for dairy products have actually risen in the last few months. Despite this, overall food prices were much lower than expected in July, with price declines across a range of fruit and vegetables, meat, poultry and grocery products.

The widespread nature of the decline in food prices means the weakness is unlikely to reverse any time soon. And with food making up a big chunk of the CPI (almost 20%) the much weaker than expected result has led us to downgrade our

Business confidence and own-activity outlook



September quarter CPI pick from 0.8% to 0.5%. This would see annual inflation drop to 1.2% (from 1.6% currently).

Yet despite softer near-term inflation and falling dairy prices, the economic news hasn't all been one way lately. Net migration is surging and the housing market is showing renewed signs of life. The construction sector also continues to grow strongly. Residential building consent issuance was broadly flat in July, leaving the strong uptrend of the last three years intact. Commercial consent issuance in particular has had a very strong couple of months, dominated by Canterbury where larger projects are now starting to be signed off.

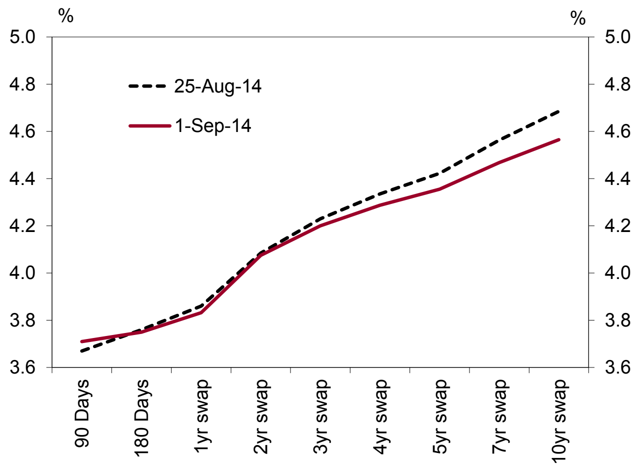
All this means the Reserve Bank won't be in a hurry to back away from its long held plan in the September *Monetary Policy Statement* in a couple of weeks. Instead, it is likely to remain firmly on message. While interest rates remain on hold for now, the Bank still expects to have to increase the OCR further next year.

Fixed vs Floating for mortgages

Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six-month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

Among the standard fixed rates, the best deals for borrowers with a deposit of 20% or more are clustered around the two-year term, and these offer substantial value relative to where we expect shorter-term rates to go over the next two years. There is little point in fixing for just one year, given that these rates are higher than the two-year rate in most cases. Opting for three- or four-year terms would require higher payments up front, but could help to insulate the borrower if the Reserve Bank follows through with an extensive OCR hiking cycle.

NZ interest rates

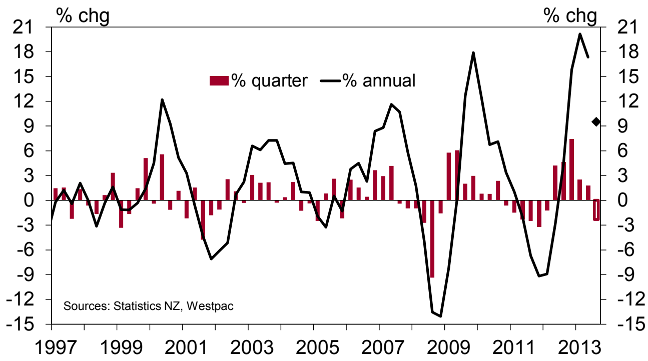


NZ Q2 terms of trade

Sep 1, Last: +1.8%, Westpac f/c: -2.3%, Mkt f/c: -3.5%

- After reaching a four-decade high in Q1, New Zealand's terms of trade are set to fall in the June quarter on the back of deteriorating export prices. Weaker dairy and log prices in particular will feature this quarter, with more modest declines in meat and wool prices also expected.
- International dairy prices have tumbled around 40% since February, under the weight of increasing global supply and weaker demand from China. Consequently, lower dairy prices will continue to weigh on New Zealand's terms of trade over the remainder of this year.
- Over a longer horizon, we remain optimistic about the outlook for the terms of trade. New Zealand exporters should continue to benefit from the changing diets and growing wealth of consumers in China and emerging market economies for some time yet.

NZ Terms of Trade

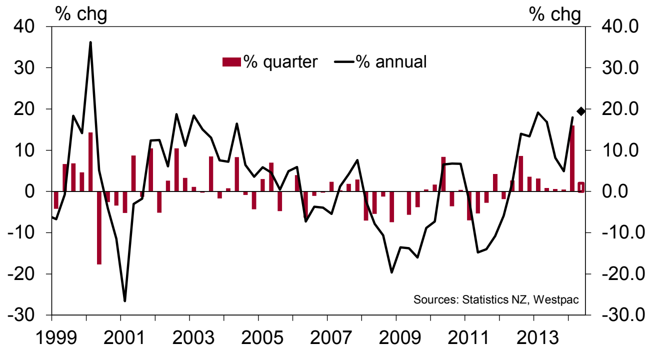


NZ Q2 building work put in place

Sep 3, Last: +16.0%, Westpac f/c: +2.0%, Mkt f/c: +0.5%

- Building work surged 16% in the March quarter, the biggest quarterly increase on record. We judge that this was largely a catch-up to the amount of consented work in the pipeline (building activity had been close to flat in the previous three quarters). But it's also possible that there was a degree of survey noise, or a shift in the seasonal pattern.
- Consents have continued to accelerate in the last few months, led by post-earthquake rebuilding in Christchurch and a correction to years of under-building in Auckland. Residential consents were up about 8% over the June quarter, but we've shaded back our forecast of building work to a 4% rise. Non-residential consents also rose over the quarter, but the lag from consent to construction tends to be longer and more variable here. Our forecast is for a 1% decline, with a very wide margin of error.

NZ real building work put in place

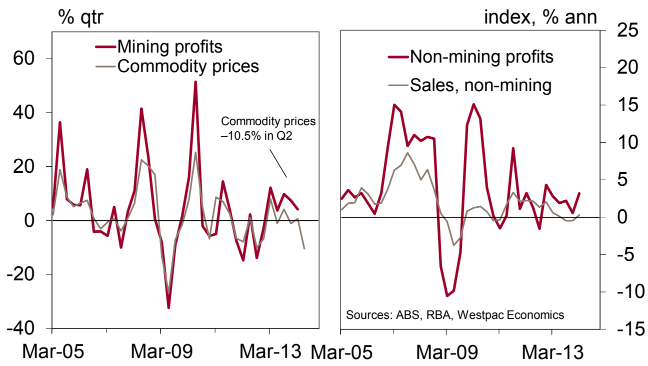


Aus Q2 company profits

Sep 1, Last: 3.1%, WBC f/c: –7.5%
Mkt f/c: –2.0%, Range: –7.5% to 3.5%

- Company profits took a hit in the June quarter, as global commodity prices fell and the Australian dollar rose.
- For Q2, we expect the national accounts to report a decline in company profits of around 4% to 4.5%. We also expect nominal GDP to contract, falling by 0.2%, with the terms of trade down an estimated 5%.
- The Business Indictors survey may well report a larger fall in profits, in the order of 7.5%. We suspect inventory prices fell, thereby exaggerating the movement in profits.
- Mining profits fell sharply in Q2, in the order of 10%, due to a fall in commodity prices of that magnitude (in AUD terms). In addition, profits across the broader economy may well have edged lower, as firms faced mixed trading conditions in Q2.

Company profits: led lower in Q2 by mining

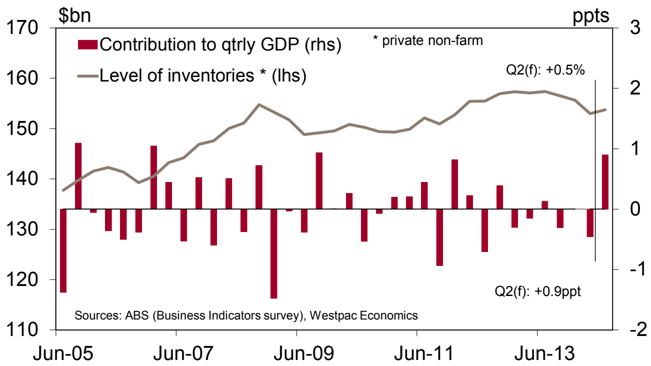


Aus Q2 business inventories

Sep 1, Last: –1.7%, WBC f/c: 0.5%
Mkt f/c: 0.3%, Range: –1.5% to 2.0%

- Business, in cost control mode, have cut inventories aggressively. We expect some rebuilding in the June quarter.
- Inventory levels were slashed by 1.7% in Q1 to be 2.6% down on a year ago, back at levels prevailing at the end of 2011. In the national accounts, Q1 figures were -2.0%qtr and -2.9%yr.
- For Q2, we expect a partial rebound in inventory levels, up 0.5%, a rise of $680mn. A sharp rise in goods imports in Q2, +3.7%qtr, $2.3bn, will have contributed to this rebuilding.
- On our forecast, private non-farm inventories add 0.9ppts to Q2 GDP, following a 0.5ppts subtraction in Q1.
- A word of caution, inventory data is volatile and often revised due to the difficulty of accurate measurement.

Inventories, Q2 f/c: +0.9ppts

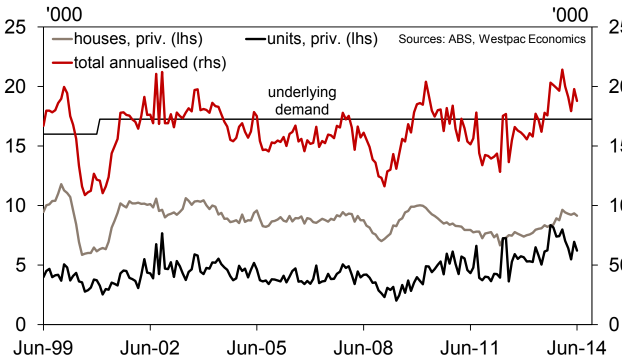


Aus Jul dwelling approvals

Sep 2 Last: –5.0%, WBC f/c: –1.0%
Mkt f/c: 1.9%, Range: –2.0% to 7.0%

- Dwelling approvals declined 5% in June, partially unwinding a 10.3% jump in May – both moves were driven by the lumpy ‘units’ segment (+26.7% in May; –10.5% in June). Looking through the volatility, approvals peaked in January and have tracked lower at about a –1%mth trend pace since then, but they remain at a relatively high level by historical standards.
- We expect this moderate downtrend to continue in July, reflecting weaker consumer sentiment since the start of the year, including a sharp cooling off in attitudes towards house purchase. While the link between sentiment and new construction can be loose – with a long and variable lag – construction-related finance approvals also suggest a cooling off. On balance, we expect approvals to decline a further 1% in July. As always, the units number is a bit of a wildcard.

Dwelling approvals

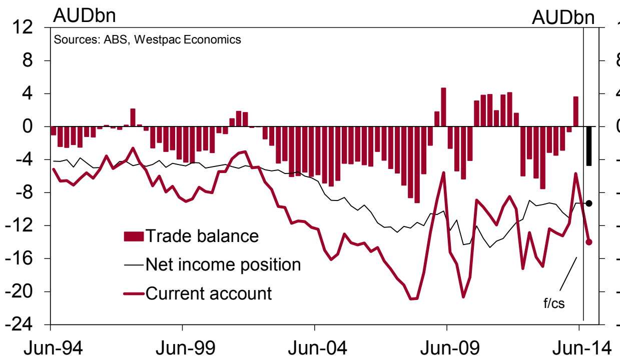


Aus Q2 current account balance, AUDbn

Sep 2, Last: –5.7, WBC f/c: –14.0
Mkt f/c: –14.0, Range: –15.3 to –5.1

- Australia’s current account deficit blew out to a forecast $14bn in the June quarter, -3.5% of GDP, as the trade account swung sharply from surplus to deficit.
- In Q1, the current account was originally reported as a deficit $5.7bn, -1.4% of GDP, with a trade surplus of $3.6bn offset by a net income deficit of $9.3bn.
- The balance on goods & services was a deficit of $4.7bn in Q2, a $7.3bn turnaround from a revised Q1 surplus of $2.6bn. Export earnings slumped, down 7% on weaker prices, while the import bill rose 1% on increased volumes. The terms of trade declined by 5% on our estimates.
- The net income deficit is expected to remain at around $9.3bn.

Current account deficit: widens to a f/c $14.0bn

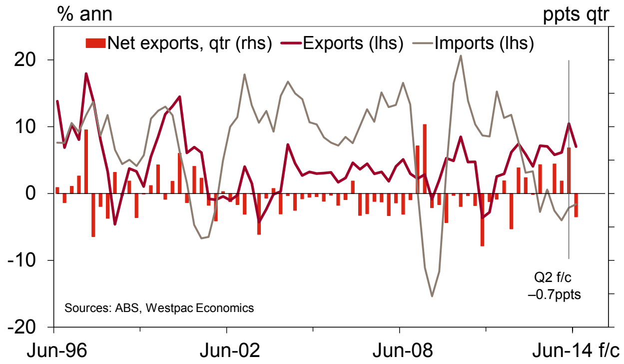


Aus Q2 net exports, cont’n

Sep 2, Last: 1.4ppts, WBC f/c: –0.7ppts
Mkt f/c: –0.7ppts, Range: –1.2ppts to 0.4ppts

- We expect some pay-back in net exports following an out-sized positive contribution in Q1. Net exports subtracted an estimated –0.7ppts from Q2 GDP following a 1.4ppt contribution in Q1. The annual contribution moderates to 1.9ppts from 2.7ppts.
- Export volumes were broadly flat in Q2, we estimate. This represents a consolidation following a 4.8% jump in Q1. The opening quarter saw an unusually strong seasonal lift in resource exports, mainly due to the absence of floods in Queensland (coal) and cyclones in WA (iron ore), which often occur at this time of year.
- Import volumes jumped by an estimated 3.7% in Q2, following a 1.4% decline in Q1, on a rebound in capital goods and services.

Export & import volumes

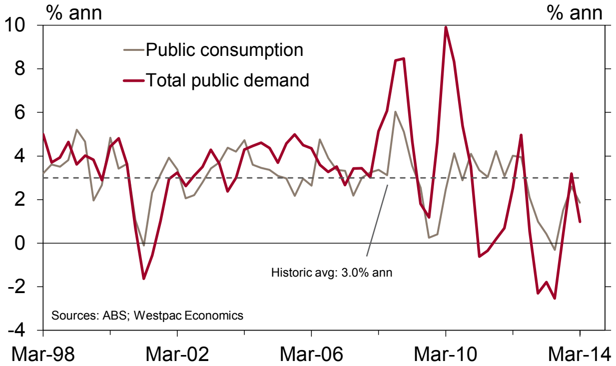


Aus Q2 public demand

Sep 2, Last: –0.1%, WBC f/c: flat

- Public demand has been sluggish of late, increasing by only 1.0% in the year to March quarter 2014.
- We expect a flat result in Q2, broadly matching the Q1 result.
- Consumption, which accounts for 80% of total public demand, expanded by 0.3%qtr in Q1, 1.9%yr. We expect another insipid rise of 0.3% in Q2. A renewed focus on budget repair at the Federal government level is a headwind at present.
- Public investment is in a soft spot at present, ahead of a ramp-up of spending on key transport projects. Investment most likely edged a little lower in the quarter, following a –2.2%qtr, –2.7%yr outcome in Q1.

Public demand: a soft start to 2014t

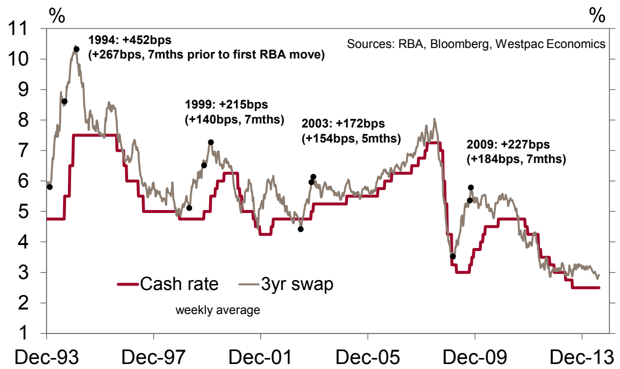


Aus RBA policy decision

Sep 2, Last: 2.50%, WBC f/c: 2.50%
Mkt f/c: 2.50%, Range: 2.50% to 2.50%

- The RBA is widely expected to leave interest rates unchanged following the August Board meeting.
- Rates have been on hold since August 2013, when they were lowered by 0.25% to 2.50%, down from a peak of 4.75% at the start of November 2011.
- We expect the Governor's statement to repeat the key themes,"the most prudent course is likely to be a period of stability in interest rates" and "the exchange rate remains high by historical standards, particularly given the declines in key commodity prices, and hence is offering less assistance than it might in achieving balanced growth in the economy".
- The Board will not be in a position to conduct its deliberations with knowledge of growth in the June quarter, due the day after the meeting.

RBA cash rate, 3 year swap)

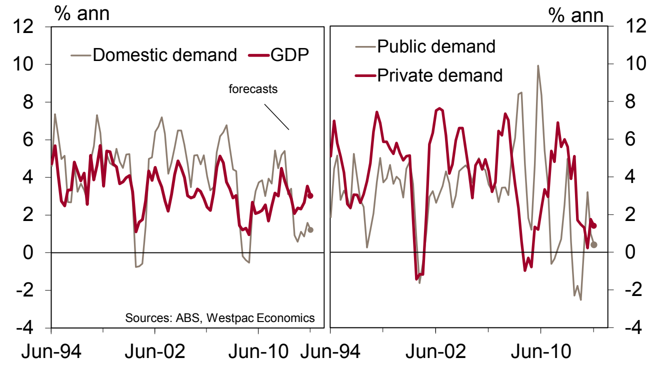


Aus Q2 GDP

Sep 3, Last: 1.1%, WBC f/c: 0.4%
Mkt f/c: 0.4%, Range: –0.4% to 0.6%

- Quarterly GDP growth is set to slow from 1.1% in Q1 to a forecast 0.4% in Q2.
- Central to this slowdown is net exports which will show some pay-back, with a forecast -0.7ppts subtraction in Q2 following a hefty 1.4ppt positive contribution in Q1 (as discussed above).
- Partially offsetting this 2.1ppt deterioration in net exports is a 1.4ppt positive swing in total inventories.
- Domestic demand growth is expected to hold steady at a soft 0.3%, constrained by flat public demand and a fall in business investment, although not by as much as in Q1. We have factored in 0.5% growth in consumer spending, boosted by a rise in vehicle sales and solid growth in services. Housing construction is growing strongly, albeit not as strong as in Q1.

Australian economic conditions

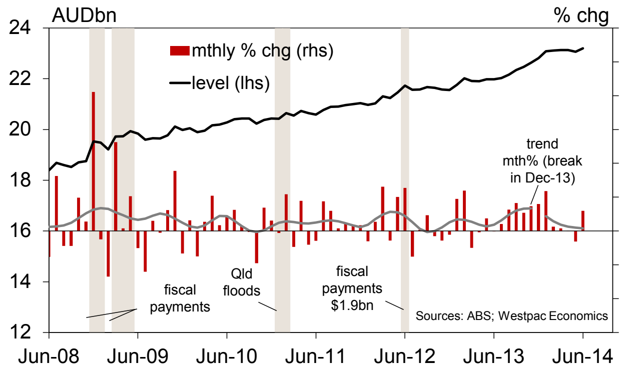


Aus Jul retail trade

Sep 4, Last: 0.6%, WBC f/c: 0.3%
Mkt f/c: 0.4%, Range: flat to 1.0%

- Retail sales rose 0.6% in June, with May's 0.5% fall pared back to a 0.3% decline; the detail also confirmed that the weak May result was partly weather-related. Most importantly, the figures confirmed that the slowdown since the start of the year has been significant, but not as severe as the sharp post-Budget fall in consumer sentiment had indicated.
- Consumer sentiment remained near its post-Budget lows in July, but bounced more substantively in August. Monthly business surveys also suggest demand perked up a little in June-July. Overall, we expect retail sales to remain subdued rather than weak, eking out a 0.3% gain in July to hold trend growth at a near-flat 0.1%mth pace.

Monthly retail sales

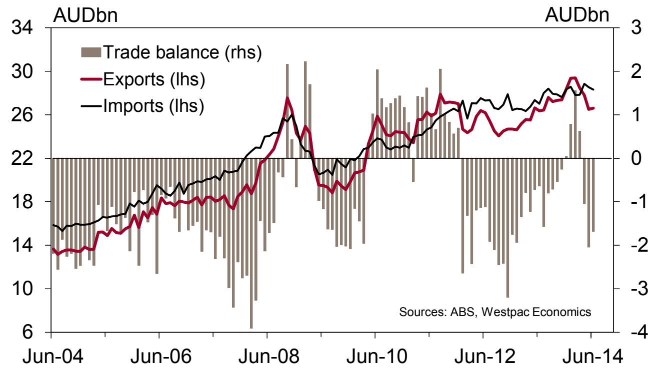


Aus Jul trade balance, AUDbn

Sep 4, Last: –1.68, WBC f/c: –1.2
Mkt f/c: –1.75, Range: –2.5 to 0.2

- Australia's international trade balance most likely improved somewhat in July, but the deficit is still expected to be sizeable.
- The trade deficit is a forecast $1.2bn in July, narrowing from a deficit of $1.68bn in June.
- Imports are expected to be broadly flat, with the ABS advising that goods imports were little changed, up only 0.1%. Given this and that the currency was steady in the month suggests that volumes were flat.
- Export earnings are forecast to rise by 2.0%. Increased shipments in iron ore and coal are expected to offset a further decline in prices.

Australia's trade balance: –$1.68bn in June



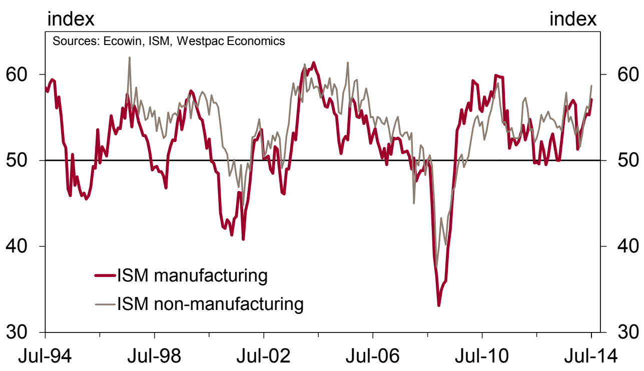
The week ahead

US Aug ISM surveys

Sep 2 Manufacturing: Last: 57.1, WBC f/c: 57.0
Sep 4, Non-manufacturing: Last: 58.7, WBC f/c: 56.5

- The ISM factory index rose from 55.3 to 57.1 in July, a new post-2011 high. In contrast, the Markit factory PMI fell from 57.3 in June to 55.8 in July, its lowest since April, continuing the lack of consistency between these two surveys of the same sector of the economy. The Markit PMI jumped to a 58.0 in Aug, a new cycle high; the NY Fed was weaker but Philly Fed was stronger. On balance, we expect the lack of sync between Markit and ISM to prevail, with a lower ISM reading in Aug.
- The ISM non-manufacturing jumped from 56.0 to 58.7 in July, its highest reading in eight and a half years (just months after its lowest reading in four years). The strong headline had been previously signalled by the Markit PMI services' multi-year high of 61.0 in June and 60.8 in July. It fell to 58.5 in Aug indicative of an imminent pull-back in the ISM equivalent survey.

US ISMs

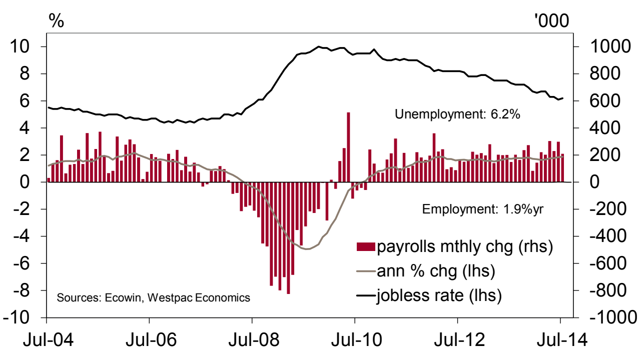


US Aug payrolls employment and unemployment

Sep 6, Employment Last: 209k, WBC f/c: 195k
Sep 6, Unemployment rate: Last: 6.2%, WBC f/c: 6.2%

- Payrolls rose 209k in July after a 277k average pace of jobs growth through Q2 (probably boosted by post-winter disruption hiring), up from 189k in Q1 and 197k in Q4. The economy grew just 0.9% annualised in H1 2014, but delivered jobs growth of 1.4mn over that period. It makes sense that employers might slow the pace of hiring in the second half and attempt to get more value from the apparently unproductive hires of earlier this year.
- The separate household survey used to calculate unemployment found 131k more people in jobs after a 160k average gain in Q2, also indicative of a moderating pace of hiring. Renewed optimism about the economy should encourage increased labour force participation, which might slow the decline in the jobless rate from here.

ECB & BoE

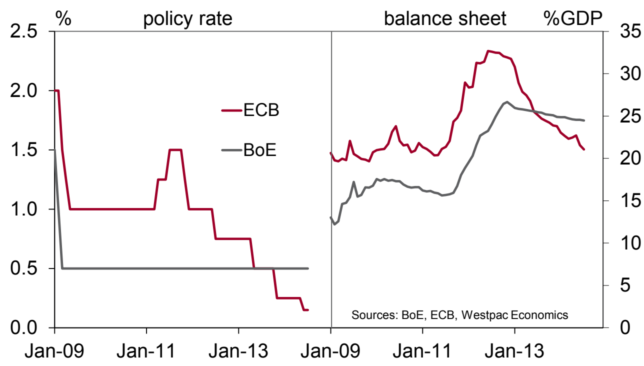


ECB to ease further; BoE not hiking yet

Sep 4, BoE bank rate: Last: 0.5%, WBC f/c: 0.5%
Sep 4, ECB repo rate: Last: 0.15%, WBC f/c: 0.15%

- Although 2/9 of the BoE policy committee voted for an Aug rate hike, data since then have shown sharply lower inflation, declining earnings growth and subdued retail sales. The committee should also be aware that employment is about to be reported in decline. The case against an imminent tightening has consequently firmed.
- ECB Chief Draghi said Aug 5 that "intensified" preparatory work for an asset purchase program was underway "with the expectation that we'll take action". Two weeks later he went out of his way to warn that inflation expectations "exhibited significant declines at all horizons", that the ECB Council would respond, and ABS purchase preparations were " fast moving forward". We expect full details by October after the first round of TLTROs, but it should be a "done deal" after the Sep presser.

US payrolls



Data calendar

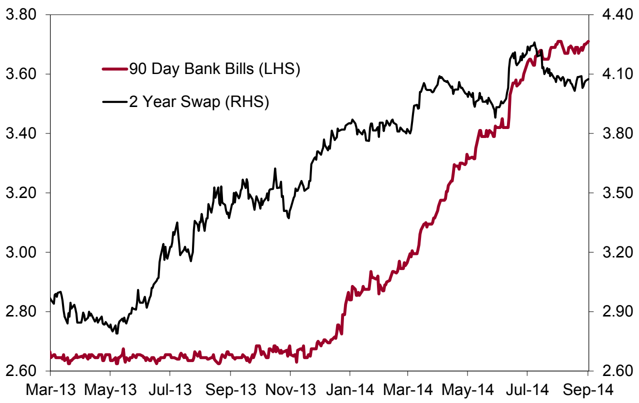
		Last	Market median	Westpac forecast	Risk/Comment
Mon 1					
NZ	Q2 terms of trade	1.8%	–3.5%	–2.3%	The descent from exceptionally high levels begins.
Aus	Q2 company profits	3.1%	–2.0	–7.5%	Mining profits down sharply.
	Q2 inventories	–1.7%	0.3	0.5%	A partial inventory rebuild following aggressive cuts.
	Aug TD-MI inflation gauge	0.2%	–	–	A 0.5% gain in the three months to July pointing to a modest Q3 CPI.
	Aug RP Data/Rismark home price index	1.6%	–	1.2%	Prices have caught a 'second wind' after Q3-Q1 surge stalled in Q2.
	Aug AiG PMI	50.7	–	–	Manufacturing index, a rare above 50 reading in July.
Chn	Aug manufacturing PMI	51.7	51.1	–	Forward looking detail points to a gain, but flash HSBC fell back heavily.
	Aug HSBC manufacturing PMI - final	50.3	50.3	–	Flash way below consensus, orders & output lower, stocks unchanged.
Eur	Aug PMI factory final	50.8 a	50.1	51.1	Latest responses heartened by Draghi's policy intentions?
Ger	Q2 GDP revision	–0.2% a	–0.2%	–0.2%	More detail on composition of growth.
UK	Jul net mortgage lending £bn	2.1	–	1.8	Loan outstandings rising sharply though mortgage approvals off peak
	Jul net consumer credit £bn	0.4	–	0.5	and demand for consumer credit remains weak.
	Jul M4 money supply ex IOFCs % ann	4.6%	–	–	Down from 7.9% yr in Aug 12, partly due BoE APP suspension.
	Aug house prices %yr	10.2%	–	–	Tentative date for Halifax index due sometime this week.
	Aug factory PMI	55.4	55.2	55.0	Risks to downside from European/geopolitical concerns biting.
US	Labor Day Holiday	–	–	–	White shoes no longer to be worn.
Tue 2					
NZ	Aug commodity prices	–2.4%	–	–	Significant decline expected on the back of weaker dairy prices.
Aus	Jul dwelling approvals	–5.0%	1.9%	–1.0%	Moderate slowdown since the start of the year, but from a high level.
	Q2 current account, AUDbn	–5.7	–14.0	–14.0	Sharp deterioration in trade balance, both prices and volumes.
	Q2 net exports, ppts cont'n	1.4	–0.7	–0.7	Some pay-back for Q1. Exports flat after 4.8% jump. Imports up 3.7%.
	Q2 public demand	–0.1%	–	0.0%	Flat public demand. A dip in investment. Consumption soft.
	RBA policy decision	2.50%	2.50%	2.50%	On hold. Rates were last moved in May & Aug 2013.
Eur	Jul PPI %yr	–0.8%	–1.1%	–0.9%	German PPI edged lower in July; minimal price pressure from industry.
UK	Aug PMI construction	62.4	61.4	61.0	Above 60 since Nov last year.
US	Aug PMI factory	58.0 a	–	–	Markit PMI at multi year high in Aug prelim.
	Jul construction spending	–1.8%	0.8%	1.0%	Residential on the rise again. Non-res patchy.
	Aug ISM manufacturing	57.1	56.8	57.0	3 yr high in Jul; Aug regional surveys mixed, Markit strong.
	Sep IBD-TIPP economic optimism	44.5	–	45.5	First read on Sep sentiment. Little changed from year ago levels in Aug.
Can	Aug PMI factory	54.3	–	–	At its high for the year but below late 2013 levels prior to harsh winter.
Wed 3					
NZ	GlobalDairyTrade auction	–0.6%	–	–	Will recent signs of stabilisation in dairy prices be maintained?
	Q2 building work put in place	16.0%	0.5%	2.0%	Q1's record jump was largely catch-up after soft growth in 2013.
Aus	Q2 GDP	1.1%	0.4%	0.4%	Net exports payback & domestic demand soft. Inventory rebuild a plus.
Chn	Aug NBS non–manufacturing PMI	54.2	–	–	Output (the headline) overstates the strength of the details.
	Aug HSBC services PMI	50.0	–	–	Ugly looking decline in July a sharp contrast to optimistic manufacturers.
Eur	Aug PMI composite final	52.8 a	52.1	53.0	PMI services may be revised higher from 53.5 along with factory PMI.
	Jul retail sales	0.4%	–0.2%	flat	French data not published for July; German data not out yet.
	Q2 GDP revision	0.0% a	0.0%	0.0%	More detail on composition of growth, more countries included.
UK	Aug BRC shop price index %yr	–1.9%	–	–	Price war in supermarkets and summer discounts still in place?
	Aug PMI services	59.1	58.2	57.0	Indicative of less rapid GDP growth in H2 2014.
US	Jul factory goods orders	1.1%	10.8%	10.0%	Durables known up 23% in July.
	Aug ISM New York	68.1	–	–	Third run at 70 in a year, first two attempts failed.
	Fed beige book	–	–	–	Regional economic reports prepared ahead of Sep 17 FOMC
	Aug auto sales mn annualised	16.4	16.5	–	Sales in uptrend, auto orders and production surged in July.
	Fedspeak	–	–	–	Williams on monetary policy.
Can	Jul trade balance C$bn	1.9	0.9	–	Exports rose 1.1% in Jun, imports fell 1.8%.
	BoC rate decision	1.0%	1.0%	1.0%	No policy bias with inflation off recent lows.
Thu 4					
Aus	Jul retail trade	0.6%	0.4%	0.3%	Not quite as weak as post-Budget sentiment reads but trend basically flat.
	Jul trade balance, AUDbn	–1.68	–1.75	–1.2	Deficit to narrow. Exports +2% on increased volumes. Imports flat.
Eur	ECB policy decision	0.15%	0.15%	0.15%	All eyes on Draghi given his Jackson Hole intentions.
Ger	Jul factory orders	–3.2%	1.5%	0.5%	June orders impacted by Ukraine situation, down 3 months in 4.
UK	BoE policy decision	0.5%	0.5%	0.5%	Case for minority support for rate hike has diminished.
US	Initial jobless claims w/e Aug 30	298k	–	290k	Trend approaching multi-decade lows.
	Aug ADP private payrolls	218k	215k	190k	Q3 jobs growth to slow; H1 14 gains excessive given flat economy.
	Aug corporate layoffs %yr	24.4%	–	–	Challenger series.
	Jul trade balance $bn	–41.5	–42.5	–	Exports rose 0.1% and imports fell 1.2% in June.
	Q2 productivity revisions	2.5%	2.5%	2.6%	GDP growth was revised higher on 28/8.
	Aug PMI services	58.5 a	–	–	Markit PMI at multi year high in June but 2.5 pts lower by Aug.
	Aug ISM non-manufacturing	58.7	57.4	56.5	ISM headline at highest since 2005 in Jul, which is unsustainable.
Fri 5					
Ger	Jul industrial production	0.3%	0.5%	–1.0%	Factory PMI down 4+ pts since Jan; orders down sharply in May-June.
US	Aug non-farm payrolls ch'	209k	220k	195k	Q3 jobs growth to slow; H1 14 gains excessive given flat economy.
	Aug jobless rate	6.2%	6.1%	6.2%	Higher participation stalling jobless rate improvement.
	Fedspeak	–	–	–	Kocherlakota and Rosengren.
Can	Aug employment ch'	42k	10k	10k	2014 YTD jobs growth average 14k, vs 5k/18k in 2013/2012 YTD.
	Aug Ivey PMI	54.1	–	53.0	Has crossed the neutral 50 level five times since Jul 2013.
Sat 6					
US	Fedspeak	–	–	–	Plosser.

New Zealand forecasts

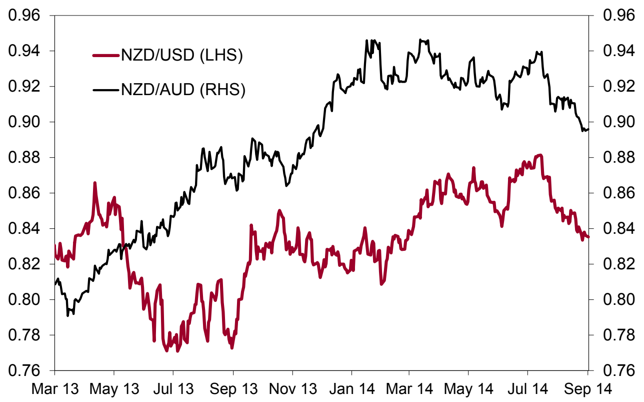
Economic Growth Forecasts	March years				Calendar years			
% change	2013	2014	2015f	2016f	2012	2013	2014f	2015f
GDP (Production) ann avg	2.3	3.3	3.4	3.2	2.5	2.9	3.6	3.2
Employment	0.4	3.8	2.8	2.6	0.4	2.9	3.0	2.9
Unemployment Rate % s.a.	6.2	5.9	5.3	4.7	6.8	6.0	5.4	4.7
CPI	0.9	1.5	1.8	2.1	0.9	1.6	1.6	2.0
Current Account Balance % of GDP	-3.9	-2.8	-4.5	-4.6	-4.1	-3.4	-3.5	-4.9

Financial Forecasts	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Cash	3.50	3.50	4.00	4.25	4.50	4.50
90 Day bill	3.70	3.85	4.30	4.45	4.60	4.75
2 Year Swap	4.20	4.40	4.70	4.90	5.00	5.10
5 Year Swap	4.60	4.80	5.10	5.20	5.30	5.40
10 Year Bond	4.60	4.80	4.90	5.00	5.05	5.10
NZD/USD	0.83	0.83	0.84	0.84	0.84	0.84
NZD/AUD	0.91	0.92	0.93	0.91	0.90	0.89
NZD/JPY	83.8	83.0	84.8	85.7	86.5	87.4
NZD/EUR	0.62	0.63	0.64	0.64	0.63	0.64
NZD/GBP	0.50	0.49	0.49	0.47	0.47	0.47
TWI	78.1	78.5	79.4	78.8	78.6	78.7

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 1 September 2014

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.50%	3.50%	3.50%
30 Days	3.66%	3.65%	3.65%
60 Days	3.69%	3.67%	3.67%
90 Days	3.71%	3.69%	3.71%
2 Year Swap	4.08%	4.05%	4.08%
5 Year Swap	4.36%	4.38%	4.48%

NZ foreign currency mid-rates as at Monday 1 September 2014

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.8353	0.8491	0.8510
NZD/EUR	0.6362	0.6341	0.6337
NZD/GBP	0.5034	0.5073	0.5058
NZD/JPY	87.04	86.87	87.29
NZD/AUD	0.8959	0.9115	0.9142
TWI	78.92	79.59	79.72

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2010	2011	2012	2013	2014f	2015f
Australia						
Real GDP % yr	2.3	2.6	3.6	2.4	3.2	3.0
CPI inflation % annual	2.8	3.0	2.2	2.7	2.3	2.8
Unemployment %	5.2	5.2	5.3	5.8	6.4	6.1
Current Account % GDP	-3.5	-2.8	-4.2	-3.2	-3.1	-2.5
United States						
Real GDP %yr	2.5	1.8	2.8	2.2	1.9	2.5
Consumer Prices %yr	1.6	3.1	2.1	1.5	1.9	1.9
Unemployment Rate %	9.6	8.9	8.1	7.4	6.3	5.8
Current Account %GDP	-3.0	-2.9	-2.9	-2.4	-2.5	-2.5
Japan						
Real GDP %yr	4.9	-0.3	1.5	1.6	1.6	1.4
Euroland						
Real GDP %yr	2.0	1.6	-0.6	-0.4	0.7	1.0
United Kingdom						
Real GDP %yr	1.7	1.1	0.3	1.8	2.6	2.1
China						
Real GDP %yr	10.4	9.3	7.7	7.7	7.4	7.5
East Asia ex China						
Real GDP %yr	7.8	4.4	4.0	4.0	3.9	4.9
World						
Real GDP %yr	5.2	3.9	3.2	3.0	3.1	3.7
Forecasts finalised 8 August 2014						

Interest Rate Forecasts	Latest	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
Australia						
Cash	2.50	2.50	2.50	2.50	2.50	2.75
90 Day Bill	2.63	2.60	2.55	2.55	2.65	3.00
10 Year Bond	3.29	3.60	3.70	3.80	4.20	4.50
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.250
US 10 Year Bond	2.34	2.60	2.70	2.70	2.80	3.20
ECB Repo Rate	0.15	0.15	0.15	0.15	0.15	0.15

Exchange Rate Forecasts	Latest	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15
AUD/USD	0.9348	0.91	0.90	0.90	0.92	0.93
USD/JPY	103.81	101	100	101	102	103
EUR/USD	1.3176	1.33	1.31	1.31	1.32	1.33
AUD/NZD	1.1171	1.10	1.08	1.07	1.10	1.11

Westpac economics team contact details

Dominick Stephens, Chief Economist
+64 9 336 5671

Michael Gordon, Senior Economist
+64 9 336 5670

Felix Delbrück, Senior Economist
+64 9 336 5668

Anne Boniface, Senior Economist
+64 9 336 5669

Any questions email:
economics@westpac.co.nz

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