

Weekly Commentary

2 November 2009

Suspended sentence

The RBNZ's decision to leave the cash rate on hold at 2.50% came as no surprise, but the focus was on whether they would alter or replace the 'bias' sentence at the end of the statement.

In recent statements, the RBNZ have noted that "we continue to expect to keep the OCR at or below the current level through until the latter part of 2010." Our view was that, with the recovery unfolding rapidly, the RBNZ would give themselves more flexibility with a statement along the lines of "it is appropriate to keep the OCR at low levels for a considerable period". This would have both given them some breathing room in terms of the timing of rate hikes, and recognise that even a few hikes would still leave the OCR at abnormally low levels.

In the event, there were some cosmetic changes but the thrust of the statement was broadly unchanged. The first change was that the last vestiges of an easing bias were removed, with "at or below the current level" becoming "at the current level". The second change was that "the latter part of 2010" became "the second half of 2010". Arguably these words are synonymous, but compared to the interest rate projections in the September *Monetary Policy Statement*, which were consistent with no hikes until Q4 2010 at the very earliest, the latest statement allows for the possibility of hikes by Q3 next year.

The RBNZ acknowledged the continuing

improvement in both global and domestic activity. But once again they raised concerns that the recovery is being skewed towards domestic demand and away from exports – without shedding any light on what this means on balance for monetary policy. Our view is that since domestic demand bore the brunt of the recession, while exports held up relatively well, the recovery will inevitably be skewed towards those sectors that have the most ground to make up.

The emphasis on keeping the cash rate unchanged for an extended period leaves an important question unanswered: what happens when they do start raising rates? Recent comments from the RBNZ have given us the strong impression that they lean towards moving rates late and hard, rather than early and gradually. This was touched upon in the September *MPS* projections, which indicated a fairly steep tightening profile beyond late 2010 – putting the 90-day rate at 5%, and rising fast, by the end of the forecast horizon in early 2012.

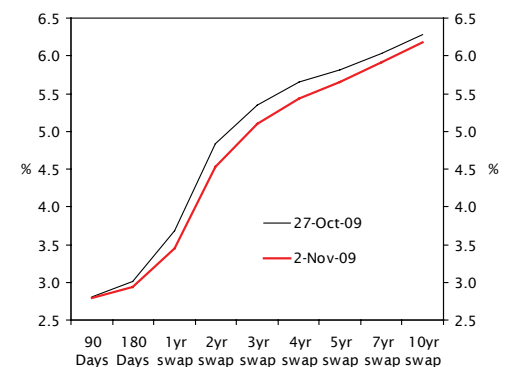
This approach would seem to put the RBNZ at odds with many other central banks that favour a pre-emptive approach – especially in light of the fact that policy rates are still at 'emergency' settings, when the emergency has passed. The RBA and Norges Bank have begun raising rates on this basis, ECB officials have commented on the need to act early, and there's even speculation that the Fed will look at rewording its

commitment to low rates at this week's review.

Last week's statement was also notable for the way that the RBNZ explicitly placed themselves in opposition to market pricing for rate hikes next year – before the statement, interest rate markets were picking January next year for the first rate hike; this timing has since been pushed back to March. That's still significantly earlier than what the RBNZ has signalled, but it doesn't mean that the market is deliberately challenging the RBNZ. On the contrary, our experience is that the speculative market has had some sympathy for the RBNZ's view, but traders have been repeatedly cleaned out as the domestic data has turned out stronger than expected.

We expect the data to maintain that generally positive tone over coming

NZ Interest Rates



*Yield curve is yields on bank bills to 180 days, fixed interest rate swaps for 1 year onwards.

months, and we remain of the view that by March the RBNZ will have seen enough to be convinced that it's time to start moving policy away from 'emergency' settings. The RBNZ do have some time on their side, with the economy running below capacity and inflation comfortably within the target – but we don't think that latitude extends to the second half of next year.

Turning to this week's data releases, business confidence was a touch lower in October, but still near its highest in ten years. The details of the survey showed further improvements in expected profits and investment and export intentions, although employment intentions remained broadly flat. Confidence was also a little less broad-based than in September – most sectors were more cautious, perhaps due to the recent strength of the currency, but the construction sector was remarkably fired-up.

That confidence will be needed to propel the pickup in residential construction that we think is required over coming years. Building consents rose another 3.3% in September, with a strong lift in apartment consents from unusually low levels. However, consents are still running at less than half of the peaks reached in early 2004.

The September trade deficit of \$424m was in line with our expectations, although both sides of the ledger showed the effects on prices from the stronger NZ dollar. Milk powder exports were also held back by seasonally low production and the sharp rundown in stocks earlier this year.

This week's data is centred on the labour market. The various wage measures (Tues) are likely to remain subdued, reflecting their status as a lagging indicator. We expect the unemployment rate (Thurs) to

rise from 6.0% to 6.5%, though this will be the last major quarterly increase. Hours worked are expected to rise, as employers respond to the recovery initially by increasing the hours of existing workers.

Fixed vs. floating: Six-month fixed mortgage rates have now risen – until now this was the only fixed term that had been left unscathed by rate increases. Now that it appears no point on the mortgage curve is 'safe', we could see borrowers rush to fix at whatever favourable rates are still on offer. With floating and one-year fixed rates around similar levels, there may not seem to be much advantage in fixing right now, but those who wait until they see the whites of the RBNZ's eyes before fixing are likely to face much less attractive options. Repaying more than the minimum amount and spreading the loan over a mix of terms can help to reduce overall risk regarding uncertain future interest rate changes.

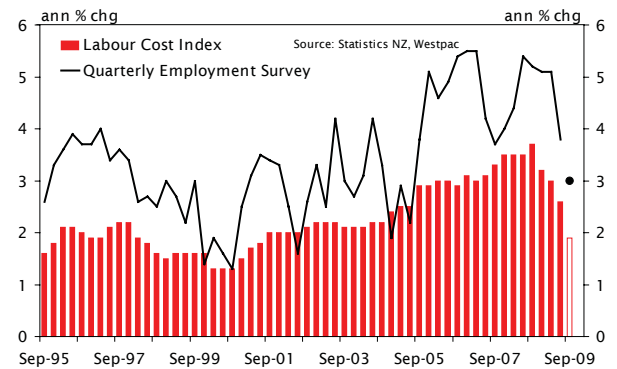
Key Data Previews

NZ Q3 wage growth

Nov 3, LCI pvt ord time – Last: 0.3%, WBC f/c: 0.4%
 Nov 3, QES pvt ord time – Last: 0.7%, WBC f/c: 0.3%

- LCI wage inflation has been moderating rapidly in the wake of the recession. We expect that wage inflation has reached its low point, and will now stay low for some time. The only hook is that the second half of the year tends to be slightly stronger than the first, because that is when most people get their annual pay increase. So our Q3 forecast is slightly higher than Q2, but still very weak for the time of year.
- The QES wage measure has been slow to fall because it is not adjusted for compositional shifts in the workforce. During recession the lowest paid are more likely to lose their job, meaning the average rate of pay goes up! Job losses have now slowed to a trickle, so we expect the QES to begin reflecting the underlying reality of slow wage growth.

NZ LCI & QES wages, private sector ord time

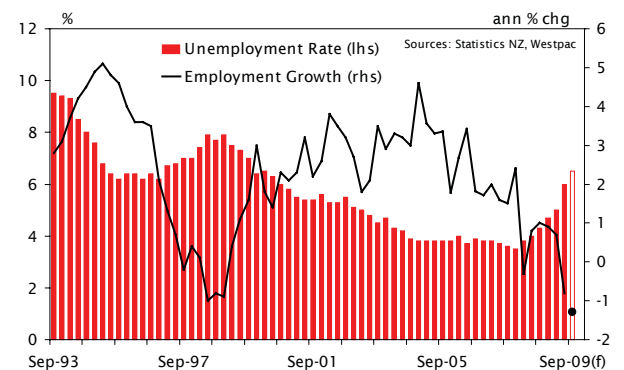


NZ Q3 HLFS employment and unemployment

Nov 5, Employment – Last: -0.5%, WBC f/c: -0.2%
 Unemployment – Last: 6.0%, WBC f/c: 6.5%

- We expect the HLFS to reflect the recession just past, not the recent flush of improved data. We expect another large jump in the unemployment rate, to 6.5%.
- Indicators suggest employment growth of -0.2%, with slight upside risk. The third quarter has been unaffected by the volatility and negative autocorrelation that has developed in the HLFS over the past three years. Our employment forecast therefore does not reflect technical factors. We expect the participation rate to stay flat at 68.4%.
- Look for hours worked to jump strongly. The earliest production gains during recovery are typically met by increasing the hours of existing workers, rather than new hiring.

NZ employment and unemployment

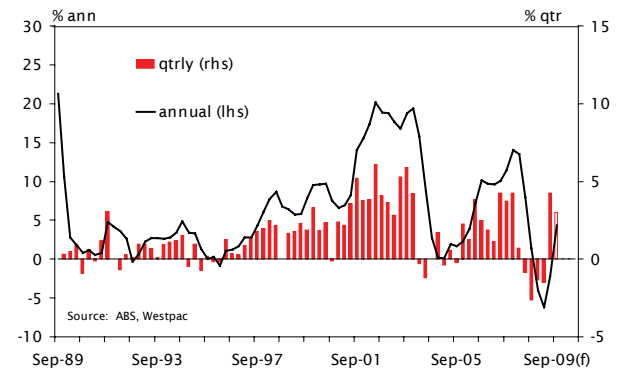


Aus Q3 house price index

Nov 2, Last: 4.2%, WBC f/c: 3.0%, Mkt f/c: 3.0%, Range: 1.0% to 5.0%

- House prices bounced back in Q2 according to the official ABS measure, rising 4.2% to claw back most of the 6.2% decline over the previous nine months. Although the rise was stronger than expected, the official figures had been slow to pick up on the turnaround apparent in private sector measures since the start of the year. Part of the problem is the narrow definition used by the ABS measure, which only covers detached houses, i.e. excluding townhouses, terraces and units.
- Private sector measures point to another solid rise in Q3 with prices up between 2.7% and 3.7%. Overall we expect the official ABS index to post a 3% rise, with revisions to previous provisional estimates likely. The pace of price growth will moderate over the immediate short term as demand is checked by rate rises and first home buyer activity cools.

Established house prices

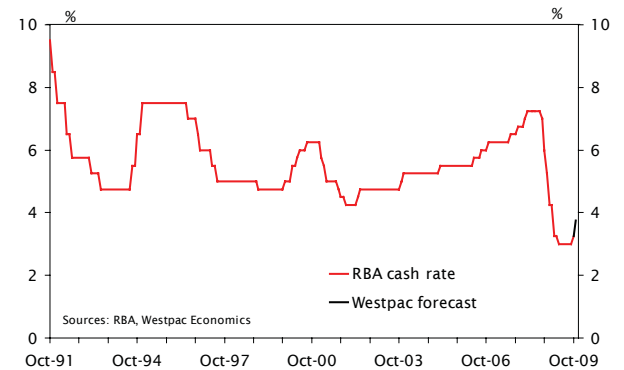


Aus RBA policy announcement

Nov 3, Last: 3.25%, WBC f/c: 3.75%, Mkt f/c: 3.50%, Range: 3.50% to 3.75%

- The RBA is expected to raise rates 50bps at its Nov meeting. Recent statements by the Governor and the minutes from the Oct meeting point to significant urgency behind the Bank’s current tightening bias. In particular, Gov Stevens argued against being “timid” when withdrawing “emergency” stimulus after the threat had passed, while the minutes revealed concerns that inflation would not slow as much as anticipated.
- Meanwhile, the Bank is wary of a rapidly improving economic outlook including: a more resilient than expected domestic sector; a global recovery; and the potential for strong demand (especially ex China) to quickly reignite the minerals boom. With the RBA likely to unveil upwardly revised growth and inflation forecasts in its SoMP (due Nov 6), a sub-4% cash rate is looking increasingly inappropriate.

RBA unwinding ‘emergency’ rate cuts

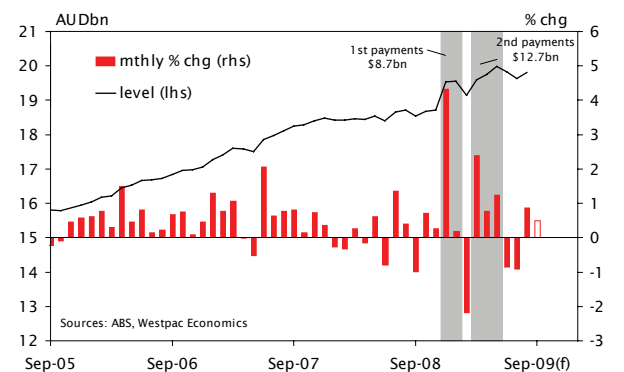


Aus Sep retail trade

Nov 4, Last: 0.9%, WBC f/c: 0.5%, Mkt f/c: 0.5%, Range: -0.5% to 1.5%

- Retail sales posted a strong rebound in Aug, rising 0.9% after a 0.9% fall in July and a 0.8% fall in June. Previous falls reflected the wind-down from the Government’s 2nd round of fiscal payments which helped drive three strong monthly gains prior to this (+4.5% between Feb and May). This wind-down would also have been a modest drag on spending in August. As such, the August rise points to an underlying cyclical improvement in spending consistent with the surge in consumer sentiment since May, into strongly optimistic territory.
- Consumers remained upbeat in September. Industry reports suggest discretionary and housing-related retail picked up through Q3, albeit with softer than expected sales from the big food retailers. Overall we expect a 0.5% rise in September sales although the extreme volatility in recent months and technical problems are wildcards worthy of a note of caution.

Monthly retail sales

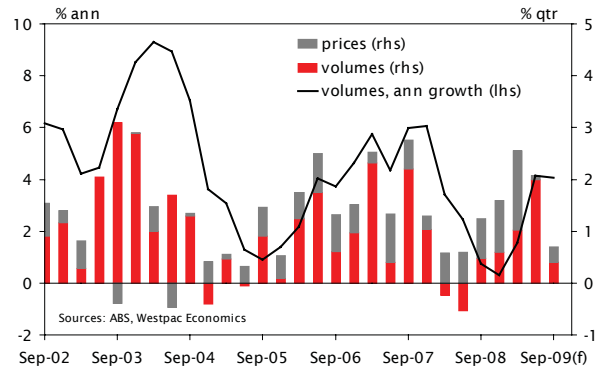


Aus Q3 real retail sales

Nov 4, Last: 2.0%, WBC f/c: -0.6%, Mkt f/c: -0.5%, Range: -1.0% to 1.0%

- Real retail sales jumped 2% in Q2 after a solid 1% rise in Q1. The surge in H1 mainly reflected the substantial boost from over \$21bn in one-off fiscal payments to households – equal to about 40% of quarterly nominal retail sales.
- The boost from this stimulus started to wind down late in Q2 and into Q3. But with monthly sales firming in Aug-Sep, nominal sales are expected to be down just 0.3%qtr for Q3 as a whole. Retail components of the CPI point to a price rise of about +0.3%qtr (vs +0.1% in Q2) with declining food prices a notable drag.
- Overall, this gives a -0.6% fall in Q3 real retail sales, a reasonable result given the scale of the fiscal let-down, and still up 3%yr.

Retail sales: volumes and prices

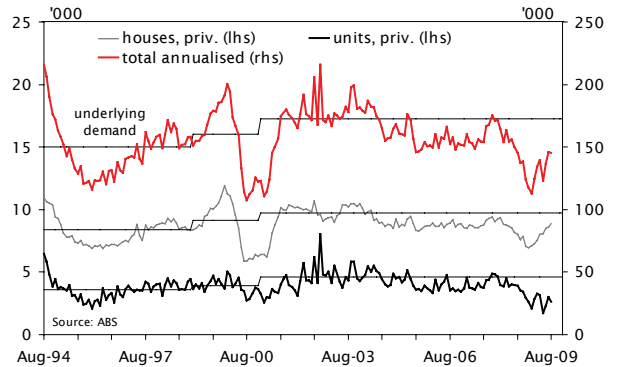


Aus Sep dwelling approvals

Nov 4, Last: -0.1%, WBC f/c: 3.0%, Mkt f/c: 2.3%, Range: -2.0% to 6.0%

- Dwelling approvals posted a surprise 0.1% dip in September. However, this reflected a sharp pull-back in the volatile units segment (i.e. apartments) with the upturn in the more stable houses segment instead showing a notable strengthening (up 3.1%mt). The latter is a better guide to underlying trends.
- Industry data was mixed for Sep with signs of a late rush of finance approvals as FHBs tried to beat the bonus deadline, but soft new home sales (albeit after a big jump in August). Dwelling approvals are still catching-up with both indicators – in particular, new finance approvals for construction are up 60%+ from last year’s lows (cf dwelling approvals up 30%). Some of the gap is due to developer financing problems but we suspect it is also a case of a delayed response. We are forecasting September approvals to show a solid 3.0% rise.

Dwelling approvals

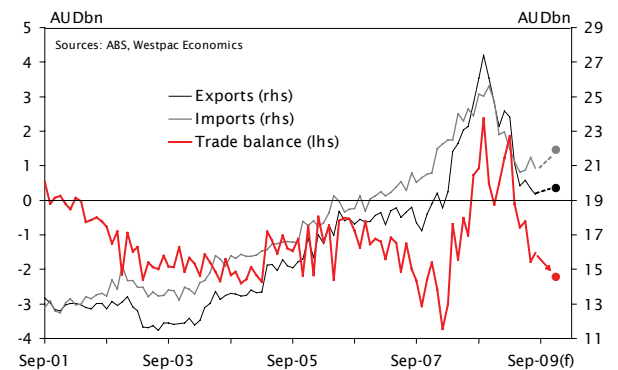


Aus Sep international trade balance, AUDbn

Nov 5, Last: -1.524, WBC f/c: -2.20, Mkt f/c: -2.15, Range: -3.00 to -1.00

- The deficit fell \$259mn in Aug to \$1.524bn. Exports fell 1.8% suggesting a vols pullback. Rural X fell 2.8% led by weaker prices. Non-rural X fell 2.6% after recent strength (vols driven as non-rural commodity price index was near steady) led by a \$248mn fall in coal. Imports fell 2.9% but the AUD rose 3.8% (denting prices) suggesting firm volumes. Capital goods remain in a downtrend, but consumer goods are trending up.
- Port data implies slightly lower non-rural X vols in Sep (higher ores but lower coal) and prices fell 2.2%, but with a 2.4ppt s.adj. boost we look for flat values. Rural X should fall 2.5% with higher volumes more than offset by a 4.4% fall in prices and a 2.1ppt s.adj. drag. But with a \$400mn rise in non-monetary gold, total X are f/c to rise 1.9%. But this will be swamped by import strength, with merchandise data implying a 6.4% rise in goods, and we forecast +5.1% for total M.

Deficit up with flat NR X swamped by M jump



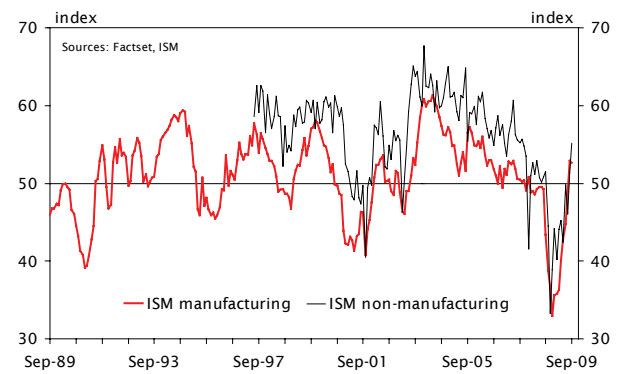
US Oct ISM factory and non-manufacturing reports

Nov 2, Factory Last: 52.6, WBC f/c: 53.2, Mkt f/c: 53.0

Nov 4, Non-Factory Last: 50.9, WBC f/c: 51.5, Mkt f/c: 51.6

- Since Q2, most US business surveys have shown varying degrees of improvement, as fears of economic Armageddon were replaced by “normal” recession concerns. Since mid year most regional surveys have risen above the neutral level and later in Q3 both national ISM surveys rose above 50 indicative of national industrial and services expansion, consistent with the Fed’s official IP report which has recently shown gains, and the positive Q3 GDP outcome.
- We expect this upward momentum to continue for both ISM surveys in Oct, though caution that the first regional index to turn positive back in May, the Richmond Fed, was softer in Oct.
- Another issue for the non-manufacturing ISM is that it covers the construction sector which might be a little less supportive of business confidence gains in coming months.

US ISMs: economy expanding

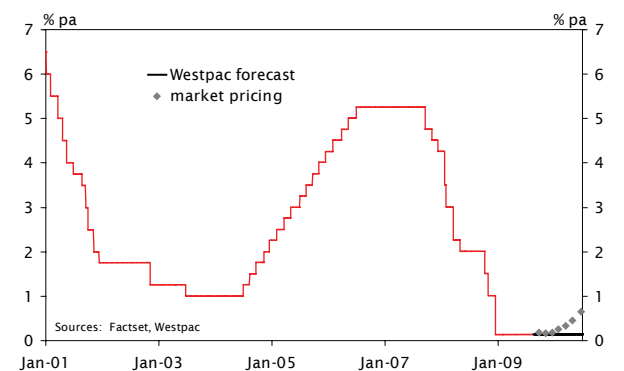


US FOMC policy decision

Nov 4, Last: 0-0.25%, WBC f/c: 0-0.25%, Mkt f/c: 0-0.25%

- With the economy now growing again, at some point the Fed will have to assess whether the recovery is genuine and self-sustaining, or merely a temporary response to the various stimuli from low interest rates, fiscal policy and quantitative easing.
- Despite some agitation from the less influential regional Fed presidents, we doubt that a majority on the FOMC believe that it is time to start unwinding monetary stimulus. Indeed the FOMC will need time to see any impact from with the Fed’s \$300bn Treasury purchase program which only concluded this week.
- Hence it is likely that the statement will once again commit to maintaining “exceptionally low levels of the federal funds rate for an extended period”.

Fed funds target rate



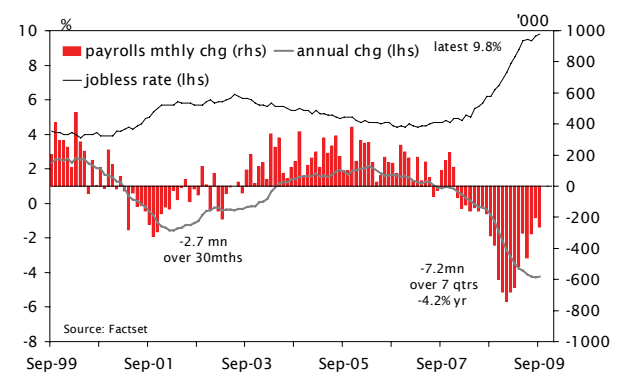
US Oct non-farm payrolls to fall by 150k

Nov 6, Payrolls Last: -263k, WBC f/c: -150k, Mkt f/c: -175k

Nov 6, Unemployment Last: 9.8%, WBC f/c: 10.0%, Mkt f/c: 9.9%

- Sep’s 263k payrolls decline was second best outcome (after August’s revised 201k fall) since July last year. However the separate household survey found 785k job losses, its steepest fall since the beginning of this year, and as a consequence, the jobless rate rose by nearly 0.2 pts from 9.66% to 9.83%.
- With the economy expanding at a 3.5% annual pace in Q3, job shedding should further diminish, a view supported by falling initial jobless claims, and less weak job components in some business surveys. We forecast a 150k payrolls fall.
- A 10% unemployment rate is imminent, a view supported by the sharp deterioration in labour market confidence to the weakest on record in the Oct Conference Board consumer confidence report.

US jobs market: losses moderating



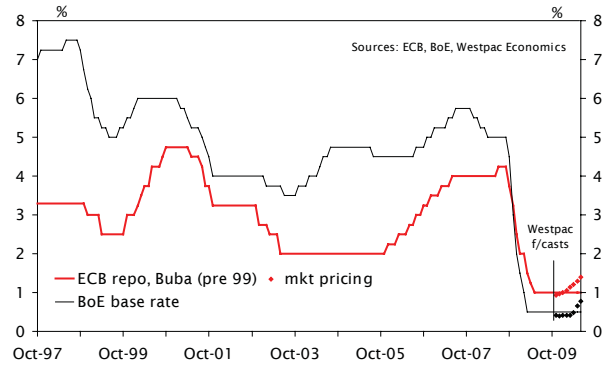
Bank of England and European Central Bank

Nov 5, BoE Last: 0.50%, WBC f/c: 0.50%, Mkt f/c: 0.50%

Nov 5, ECB Last: 1.00%, WBC f/c: 1.00%, Mkt f/c: 1.00%

- The BoE policy committee voted 9:0 in October to hold rates steady and leave the QE asset purchase programme at £175bn. Since then, inflation has fallen sharply to just 1.1% yr, and GDP data confirmed that the economy remained in recession in Q3. BoE officials have made it clear that they believe QE is working, which is an indication that they are likely to extend the program. We expect the asset purchase target to be lifted by a further GBP25bn to GBP200bn, to be reassessed in February 2010.
- Although the Euroland economy is emerging from recession, the fly in the ointment for the ECB is the continued deceleration in M3 growth, to just 1.8% yr in Sep, and private sector lending contraction for the first time ever. This provides justification for maintaining current easing policy settings, and possibly some form of further easing, though we expect nothing in Nov.

ECB and BoE on hold



Key Data and Events

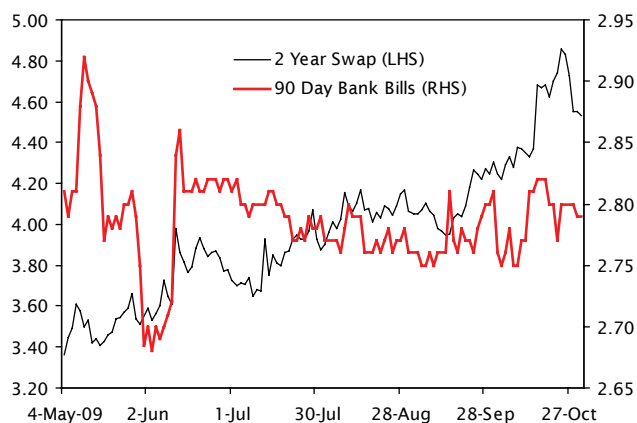
		Last	Market Median	Westpac Forecast	Comments
Mon 2 Nov					
Aus	Oct AiG PMI	52.0	-	-	Above 50 in Aug & Sep, up from 34 on avg in Q1.
	Oct TD-MI Inflation Gauge	flat	-	-	Despite flat Sep, Jul spike lifted 3mth pace to 0.86% vs 0.13% in Jun.
	Q3 House Prices	4.2%	3.0%	3.0%	Private sector measures point to further solid price gains in Q3.
	Oct RBA Comm Price Idx, SDR %yr	-32.3%	-	-	Most prices firming; base for annual comparisons improving sharply.
US	Oct ISM Factory	52.6	53.0	53.2	Most regional surveys showed further Oct gains.
	Sep Pending Home Sales	6.4%	0.0%	-2.0%	Further evidence that housing market momentum is softening.
	Sep Construction Spending	0.8%	-0.2%	-0.8%	Housing construction underway still falling, non-res very negative.
	Fedspeak	-	-	-	Gov Tarullo on exec pay - no policy comment given FOMC blackout.
Jpn	Sep Labour Earnings %yr	-2.7%	-2.1%	-	Rate of decline has been stemmed, but labour market still distressed.
Eur	Oct PMI Factory (F)	50.7 a	50.7	50.8	Recent tendency for modest upward revision.
UK	Oct House Prices %yr	-7.4%	-4.9%	-	Tentative date for HBoS series, due 2-6/11.
	Oct PMI Factory	49.5	50.0	50.0	Weaker sterling and industrial upswing elsewhere should see PMI rise.
Tue 3 Nov					
NZ	Q3 Labour Cost Index Private Ord Time	0.3%	0.3%	0.4%	Very weak, but slightly above Q2 on seasonality.
	Q3 QES Private Sector Ord Time	0.7%	0.5%	0.3%	To start reflecting underlying reality.
	Oct ANZ Commodity Price Index	6.8%	-	-	Dairy and forestry to drive solid increase; meat prices to fall.
Aus	RBA Policy Announcement 2:30pm	3.25%	3.50%	3.75%	Unwinding emergency easing, un-timidly, prudently and quickly.
	Melbourne Cup Day Public Hol. (Vic only)	-	-	-	The 'race that stops a nation' after the 'rate decision that stops a nation'.
US	Sep Factory Orders	-0.8%	0.8%	-	Durables known up 1%, non-durables likely up on prices.
	Oct Auto Sales mn annualised	9.20	9.80	9.20	Ongoing softer sales with cash for clunkers now finished.
UK	Oct PMI Construction	46.7	47.2	47.0	Levelled off below 50, implying ongoing contraction in the sector.
Wed 4 Nov					
Aus	Oct AiG PSI	49.3	-	-	Edging back to 50 with consumer-driven sectors leading the way.
	Sep Retail Sales	0.9%	0.5%	0.5%	Upturn in discretionary spend outweighing drag from fiscal let-down.
	Q3 Real Retail Sales	2.0%	-0.5%	-0.6%	A good out-turn given the scale of the let-down from fiscal boosters.
	Sep Dwelling Approvals	-0.1%	2.3%	3.0%	Finance approvals point to continued strong gains.
US	Oct Corporate Layoff Announcements	66.4k	-	-	Clearly past their peak, consistent with lower initial claims.
	Oct ADP Private Payrolls Change	-254k	-200k	-	A legitimate lab market indicator but often divergent from payrolls.
	Oct ISM Non-Factory	50.9	51.6	51.5	Often called services ISM but includes construction which may be softer.
	FOMC Rate Decision	0-0.25%	0-0.25%	0-0.25%	Don't expect change to "extended period" comment in statement.
Eur	Oct PMI Services (F)	52.3a	52.3	53.0	Recent tendency for modest upward revision.
	Sep Producer Price Index %yr	-7.5%	-7.7%	-7.6%	German PPI annual rate fell but Euroland base effects less favourable.
UK	Oct Consumer Confidence	71	73	67	Will prolonged UK recession impact on confidence?
	Oct PMI Services	55.3	55.5	54.5	PMI looks too strong given Q3 GDP contraction.
	Oct BRC Shop Price Index %yr	-0.1%	-	-	Early clue to part of CPI basket.
Thu 5 Nov					
NZ	Q3 HLFS Employment	-0.5%	-0.3%	-0.2%	Recovery to manifest in hours worked rather than new hiring.
	Q3 HLFS Unemployment	6.0%	6.4%	6.5%	We expect this to be the last sharp rise.
Aus	Sep Int'l Trade Balance, AUDbn	-1.524	-2.15	-2.20	NR X flat, rural X down, but gold up for 1.9% X rise; M surged 5.1%.
	RBA Governor Stevens speaking	-	-	-	Melbourne, 7.55PM AEDT, Topic: "The Road to Prosperity"
US	Q3 Productivity % annualised	6.6%	6.5%	5.4%	With the economy growing but jobs and hours worked falling,
	Q3 Unit Labour Costs % annualised	-5.9%	-4.0%	-2.9%	productivity is higher and ULCs are falling.
	Initial Jobless Claims w/e 31/10	530k	522k	-	Downtrend intact but has stalled a little in recent weeks.
	Oct Chain Store Sales %yr	0.1%	-	-	Not always consistent with weekly chain store sales reports.
Jpn	Bank of Japan Minutes	-	-	-	Deflation is re-entrenched. Unlikely to be over-excited by IP recovery.
Eur	Sep Retail Sales	-0.2%	0.2%	0.2%	French spending solid but Euroland data does not include autos.
	ECB Rate Decision	1.00%	1.00%	1.00%	Steady as she goes. No hints about timing of eventual tightening.
UK	Sep Industrial Production	-2.5%	1.2%	2.2%	A bounce, but some of the Aug output slump was genuine weakness.
	BoE Rate Decision	0.50%	0.50%	0.50%	Rates firmly on hold but BoE's belief in success of QE program and
	BoE Asset Purchase Target	175	225	200	recent weakness in data point to QE extension.
Can	Sep Building Permits	7.2%	1.8%	-	Housing market is trending higher again.
	Oct Ivey PMI nsa	61.7	58.0	58.0	Not seasonally adjusted but tends to slip in Oct.
Fri 6 Nov					
Aus	Oct AiG PCI	50.8	-	-	Jumped to 18mth high in Sep.
	RBA Statement on Monetary Policy	-	-	-	Growth and inflation forecasts to be revised up.
	RBA Dep. Gov. Battellino speaking	-	-	-	Perth, 5.20 AEDT, panel discussant at Aust Parliamentary Conference
US	Oct Non-farm Payrolls Change	-263k	-175k	-150k	Jobless claims downtrend and return to positive GDP growth should
	Oct Unemployment Rate %	9.8%	9.9%	10.0%	see slower pace of job shedding but jobless rate still heading for 10%.
	Sep Wholesale Inventories	-1.3%	-1.0%	-1.0%	Slightly slower pace of inventory shedding late in Q3.
	Sep Consumer Credit \$bn	-12.0	-10.3	-15.0	Fewer auto sales to hit the credit data.
	Fedspeak	-	-	-	Evans and Duke.
Ger	Sep Factory Orders	1.4%	1.0%	1.0%	Heading for rare seventh straight rise! But surveys suggest gain likely.
UK	Oct PPI %yr	1.4%	2.0%	-	Core output measure.
Can	Oct Unemployment Change	30.6k	10.0k	10.0k	Economy creating jobs again.

New Zealand Economic and Financial Forecasts

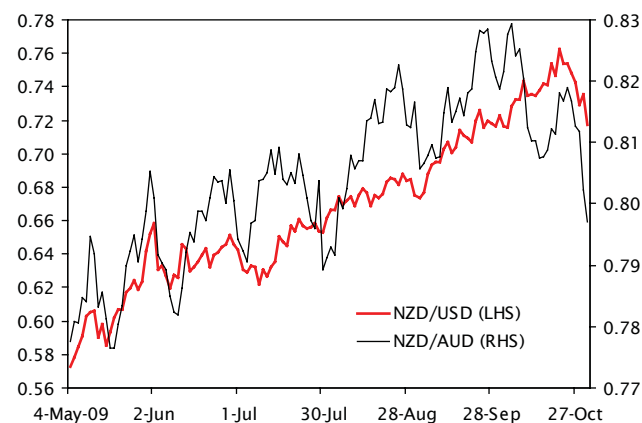
Economic Growth Forecasts	March years				Calendar years			
	2008	2009	2010f	2011f	2008	2009f	2010f	2011f
% change								
GDP (Production) ann avg	3.1	-1.1	0.0	3.7	0.0	-1.3	3.5	3.8
Employment	-0.3	0.7	-0.8	1.9	0.9	-1.7	0.9	1.8
Unemployment Rate % s.a.	3.8	5.0	6.7	5.9	4.7	6.6	6.3	5.3
CPI	3.4	3.0	2.4	2.9	3.4	2.5	2.4	2.8
Current Account Balance % of GDP	-7.9	-8.1	-2.5	-4.2	-8.9	-2.6	-4.0	-5.2

Financial Forecasts	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
Cash	2.50	2.75	3.25	3.75	4.25	4.75	5.25
90 Day bill	2.90	3.20	3.70	4.20	4.70	5.20	5.70
2 Year Swap	4.90	5.30	5.50	5.70	5.90	6.10	6.30
5 Year Swap	5.80	6.10	6.20	6.30	6.40	6.50	6.60
10 Year Bond	6.00	6.10	6.20	6.30	6.30	6.40	6.50
NZD/USD	0.79	0.79	0.75	0.76	0.79	0.77	0.75
NZD/AUD	0.81	0.81	0.82	0.82	0.83	0.84	0.83
NZD/JPY	68.7	68.7	69.8	73.0	79.0	81.6	81.8
NZD/EUR	0.52	0.52	0.51	0.51	0.52	0.51	0.50
NZD/GBP	0.45	0.44	0.43	0.42	0.43	0.42	0.40
TWI	68.7	68.6	67.4	67.9	70.5	69.8	68.7

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 2 November 2009

Interest Rates	Current	Two Weeks Ago	One Month Ago
Cash	2.50%	2.50%	2.50%
30 Days	2.78%	2.80%	2.78%
60 Days	2.77%	2.78%	2.78%
90 Days	2.79%	2.82%	2.75%
2 Year Swap	4.53%	4.68%	4.22%
5 Year Swap	5.65%	5.65%	5.39%

NZ foreign currency midrates as at Monday 2 November 2009

Exchange Rates	Current	Two Weeks Ago	One Month Ago
NZD/USD	0.7138	0.7534	0.7159
NZD/EUR	0.4850	0.5040	0.4913
NZD/GBP	0.4349	0.4595	0.4491
NZD/JPY	63.990	68.300	64.290
NZD/AUD	0.7959	0.8123	0.8275
TWI	64.650	67.310	65.380

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2004	2005	2006	2007	2008	2009f	2010f
Australia							
Real GDP % yr	3.8	2.8	2.9	4.0	2.4	0.7	2.5
CPI inflation % annual	2.6	2.8	3.3	3.0	3.7	2.0	2.0
Unemployment %	5.4	5.1	4.8	4.4	4.3	5.8	6.9
Current Account % GDP	-6.1	-5.8	-5.3	-6.3	-4.6	-4.0	-4.7
United States							
Real GDP %yr	3.9	3.1	2.8	2.1	0.4	-2.6	1.5
Consumer Prices %yr	2.6	3.4	3.2	2.9	3.8	-0.5	1.2
Unemployment Rate %	5.5	5.1	4.6	4.6	5.8	9.2	10.5
Current Account % GDP	-5.7	-6.1	-6.0	-5.2	-4.9	-2.8	-2.1
Japan							
Real GDP %yr	2.3	1.9	2.8	2.2	-1.0	-6.0	1.1
Consumer Prices %yr	-0.1	-0.3	0.2	0.1	1.4	-1.1	-0.7
Unemployment Rate %	4.5	4.4	4.1	3.9	4.0	5.3	6.4
Current Account % GDP	3.3	3.6	3.9	4.8	3.2	2.6	3.0
Euroland							
Real GDP %yr	2.2	1.7	2.9	2.7	0.7	-4.1	0.2
Consumer Prices %yr	2.1	2.5	2.0	3.1	1.6	0.3	0.7
Unemployment Rate %	9.0	8.8	7.9	7.3	7.8	10.0	11.5
Current Account % GDP	0.0	-0.2	-0.5	0.0	-0.2	0.0	0.4
United Kingdom							
Real GDP %yr	3.0	2.2	2.9	2.6	0.7	-4.4	0.5
Consumer Prices %yr	1.3	2.1	3.0	2.1	3.5	1.0	1.2
Unemployment Rate %	2.8	2.8	3.0	2.5	3.1	5.5	7.0
Current Account % GDP	-1.9	-2.6	-3.0	-2.8	-2.3	-6.0	-5.5

Forecasts finalised 9 October 2009

Interest Rate Forecasts	Latest (Nov 2)	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Australia						
Cash	3.25	4.00	4.25	4.50	4.50	4.50
90 Day Bill	3.89	4.30	4.50	4.70	4.60	4.75
10 Year Bond	5.54	6.00	5.70	6.20	6.50	6.50
International						
Fed Funds	0.125	0.125	0.125	0.125	0.125	0.125
US 10 Year Bond	3.38	3.50	3.20	3.75	4.25	4.50
ECB Repo Rate	1.00	1.00	1.00	1.00	1.00	1.25
Exchange Rate Forecasts						
AUD/USD	0.8969	0.98	0.98	0.92	0.93	0.95
USD/JPY	89.64	87	87	93	96	100
EUR/USD	1.4717	1.52	1.52	1.47	1.50	1.51
AUD/NZD	1.2565	1.24	1.24	1.23	1.22	1.20

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