

New Zealand economic update

RBNZ December MPS

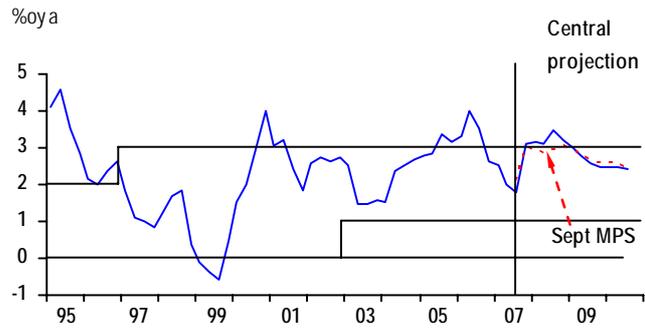
RBNZ punchy on inflation outlook, but acknowledges global growth risks

The RBNZ today left the official cash rate (OCR) unchanged at 8.25%, as expected by all 16 market economists surveyed by Bloomberg. The rhetoric delivered by the central bank was, however, more punchy on the inflation front; with likely personal tax cuts, rising oil prices and emissions trading, all adding to the near term inflation trajectory. On balance, the statement was slightly more hawkish than expected, with the noted risks to higher inflation clearly outweighing the downside risks associated with a deteriorating housing market and concerns over growth in key trading partners. This is a central bank that has been at war with inflation since early 2004, and the chance of a rate cut is still a long way off.

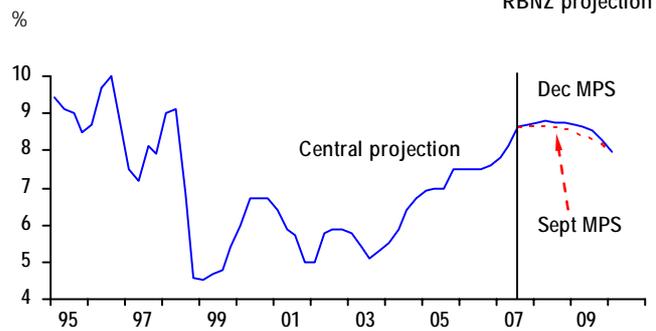
One key point of note from the statement was the exclusion of a scenario analysis around the 90 day interest rate track. In the September MPS there was both an upside and downside scenario reflecting the risks associated with a higher than forecast inflation trajectory, and the downside risks to global growth from the financial market turmoil. The December statement has no such scenarios, just a flatline forecast; this suggests the risks have not changed since September. From the RBNZ's commentary, there is still an upside scenario to inflation, and a downside scenario from the global financial markets turbulence (see charts below).

As a result of the government's promised personal tax cut package, plus higher oil and food prices, and the new emissions trading scheme (which commences in stages from 2008) interest rates are now forecast by the RBNZ to remain at current levels for longer. JPMorgan maintains its forecast that the RBNZ will keep the OCR unchanged at 8.25% for the foreseeable future - with little to no chance of a rate cut until 2009. Given today's commentary, the risk of a further tightening in this cycle has increased to 25-30%.

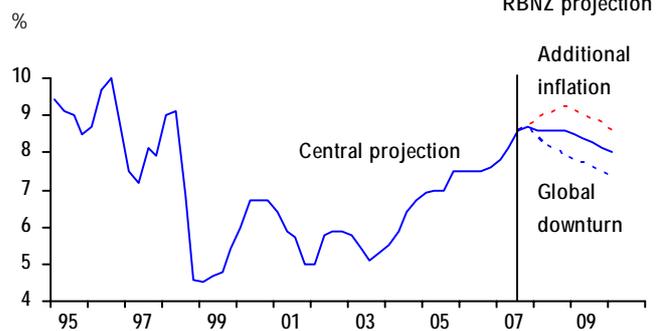
New Zealand: CPI and RBNZ forecast trajectory (Dec MPS)



RBNZ Dec MPS: 90 day interest rate track



RBNZ Sept MPS: 90 day interest rate track



Analysts' Compensation: The research analysts responsible for the preparation of this report receive compensation based upon various factors, including the quality and accuracy of research, client feedback, competitive factors and overall firm revenues. The firm's overall revenues include revenues from its investment banking and fixed income business units. **Ratings System:** JPMorgan uses the following sector/issuer portfolio weightings: Overweight (over the next three months, the recommended risk position is expected to outperform the relevant index, sector, or benchmark), Neutral (over the next three months, the recommended risk position is expected to perform in line with the relevant index, sector, or benchmark), and Underweight (over the next three months, the recommended risk position is expected to underperform the relevant index, sector, or benchmark). **JPMorgan uses the following fundamental credit recommendations:** Improving (the issuer's credit profile/credit rating likely improves over the next six to twelve months), Stable (the issuer's long-term credit profile/credit rating likely remains the same over the next six to twelve months), Deteriorating (the issuer's long-term credit profile/credit rating likely falls over the next six to twelve months), Defaulting (there is some likelihood that the issuer defaults over the next six to twelve months). **Valuation & Methodology:** In JPMorgan's credit research, we assign a rating to each issuer (Overweight, Underweight or Neutral) based on our credit view of the issuer and the relative value of its securities, taking into account the ratings assigned to the issuer by credit rating agencies and the market prices for the issuer's securities. Our credit view of an issuer is based upon our opinion as to whether the issuer will be able service its debt obligations when they become due and payable. We assess this by analyzing, among other things, the issuer's credit position using standard credit ratios such as cash flow to debt and fixed charge coverage (including and excluding capital investment). We also analyze the issuer's ability to generate cash flow by reviewing standard operational measures for comparable companies in the sector, such as revenue and earnings growth rates, margins, and the composition of the issuer's balance sheet relative to the operational leverage in its business. Other Disclosures: **Planned Frequency of Updates:** JPMorgan provides periodic updates on companies/industries based on company-specific developments or announcements, market conditions or any other publicly available information. **Legal Entities:** JPMorgan is the marketing name for JPMorgan Chase & Co. and its subsidiaries and affiliates worldwide. J.P. Morgan Securities Inc. is a member of NYSE and SIPC. JPMorgan Chase Bank, N.A. is a member of FDIC and is authorized and regulated in the UK by the Financial Services Authority. J.P. Morgan Futures Inc., is a member of the NFA. J.P. Morgan Securities Ltd. (JPMSL) is a member of the London Stock Exchange and is authorized and regulated by the Financial Services Authority. J.P. Morgan Equities Limited is a member of the Johannesburg Securities Exchange and is regulated by the FSB. J.P. Morgan Securities (Asia Pacific) Limited (CE number AAJ321) is regulated by the Hong Kong Monetary Authority. JPMorgan Chase Bank, Singapore branch is regulated by the Monetary Authority of Singapore. J.P. Morgan Securities Asia Private Limited is regulated by the MAS and the Financial Services Agency in Japan. J.P. Morgan Australia Limited (ABN 52 002 888 011/AFS Licence No: 238188) (JPMAL) is regulated by ASIC. **General:** Information has been obtained from sources believed to be reliable but JPMorgan does not warrant its completeness or accuracy except with respect to any disclosures relative to JPMSI and/or its affiliates and the analyst's involvement with the issuer. Opinions and estimates constitute our judgment as at the date of this material and are subject to change without notice. Past performance is not indicative of future results. The investments and strategies discussed here may not be suitable for all investors; if you have any doubts you should consult your investment advisor. The investments discussed may fluctuate in price or value. Changes in rates of exchange may have an adverse effect on the value of investments. This material is not intended as an offer or solicitation for the purchase or sale of any financial instrument. JPMorgan and/or its affiliates and employees may act as placement agent, advisor or lender with respect to securities or issuers referenced in this report. Clients should contact analysts at and execute transactions through a JPMorgan entity in their home jurisdiction unless governing law permits otherwise. This report should not be distributed to others or replicated in any form without prior consent of JPMorgan, U.K. and European Economic Area (EEA): Investment research issued by JPMSL has been prepared in accordance with JPMSL's Policies for Managing Conflicts of Interest in Connection with Investment Research, which can be found at <http://www.jpmorgan.com/pdf/doc/research/ConflictManagementPolicy.pdf>. This report has been issued in the U.K. only to persons of a kind described in Article 19 (5), 38, 47 and 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (all such persons being referred to as "relevant persons"). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is only available to relevant persons and will be engaged in only with relevant persons. In other EEA countries, the report has been issued to persons regarded as professional investors (or equivalent) in their home jurisdiction. **Germany:** This material is distributed in Germany by J.P. Morgan Securities Ltd. Frankfurt Branch and JPMorgan Chase Bank, N.A., Frankfurt Branch who are regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht. **Australia:** This material is issued and distributed by JPMAL in Australia to "wholesale clients" only. JPMAL does not issue or distribute this material to "retail clients." The recipient of this material must not distribute it to any third party or outside Australia without the prior written consent of JPMAL. For the purposes of this paragraph the terms "wholesale client" and "retail client" have the meanings given to them in section 761G of the Corporations Act 2001. JPMAL may hold an interest in the financial product referred to in this report. JPMCB, N.A. may make a market or hold an interest in the financial product referred to in this report. **Korea:** This report may have been edited or contributed to from time to time by affiliates of J.P. Morgan Securities (Far East) Ltd, Seoul branch. Revised January 4, 2006. Copyright 2006 JPMorgan Chase & Co. All rights reserved. Additional information available upon request.