

Market Focus

New Zealand

10 August 2009

THE W

NZ Economics Team:

Cameron Bagrie

Chief Economist

Telephone: +64 4 802 2212

E-mail: bagriec@anz.com

Khoon Goh

Senior Markets Economist

Telephone: +64 4 802 2357

E-mail: gohk@anz.com

Philip Borkin

Economist

Telephone: +64 4 802 2199

E-mail: borkinp@anz.com

Steve Edwards

Economist

Telephone: +64 4 802 2217

E-mail: edwards1@anz.com

Kevin Wilson

Rural Economist

Telephone: +64 4 802 2361

E-mail: wilsonk1@anz.com

Page 2: Economic overview

- > Unemployment is rising, but there is no doubting a better feel-good factor that has developed of late – both globally and domestically. Confidence is a powerful dynamic that can take hold quickly and unleash pent-up demand. Against this backdrop we still see a balance sheet constraint for NZ.Inc as very influential. We are now formally shifting from our bathtub with waves view to a more explicit “W” in recognition of the behavioural aspects that are endemic in every economic cycle. The second dip reflects our wariness towards the balance sheet leg, which still has some way to adjust yet.

Page 5: Economic comment – Spring is getting closer

- > The monthly wrap on farming from our rural economist: The winter has been hard and the news for some sectors has not been good. But spring usually brings improved farmer optimism as Mother Nature starts another round of the renewal process. We share some of the optimism long-term but are wary about the impact of tightly constrained cash flows, low activity in the land market and lower land prices on rural and urban centres. Delivering on potential and achieving an orderly unwind to the land price bubble is critically dependent on the NZ dollar, which is certainly not assisting at present.

Page 7: Interest rate strategy

- > Though the NZ market is getting ahead of itself in pricing in rate hikes from early next year, paying pressure is unlikely to subside in the near-term. Offshore developments are still the major driver, and the local dataflow is unlikely to entice receivers back in given the reaction to last week’s weak Q2 labour market data.

Page 8: Interest rate comment – payside pressure – is a flood of mortgage fixing pending?

- > Speculation is mounting that a bow-wave of payside pressure could force swap rates higher and the market is wary of the March experience. However, the market also needs to appreciate the “differentiating” factors this time around, including a steep mortgage curve, more responsive local banks and prudential policy changes.

Page 9: Currency strategy

- > Is the Dollar Bloc back? We think this argument has merit. This is particularly as the US looks towards the future with some optimism that they have past the worst, while Europe and Japan have proven to be very slow at addressing their issues. The financial world is in a better place than last week. That supports growth and ultimately the NZD. The break of 0.6630 last week is important and should see the NZD perform well versus the EUR and JPY.

Page 10: Currency comment – effective exchange rate update

- > With the exception of the forestry and crude sectors, all commodity adjusted real exchange rates rose in July.

Page 12: Data and event calendar

Page 14: Data watch

Page 15: Key forecasts

ECONOMIC OVERVIEW

Unemployment is rising, but there is no doubting a better feel-good factor that has developed of late – both globally and domestically. Confidence is a powerful dynamic that can take hold quickly and unleash pent-up demand. Against this backdrop we still see a balance sheet constraint for NZ.Inc as very influential. We are now formally shifting from our bathtub with waves view to a more explicit “W” in recognition of the behavioural aspects that are endemic in every economic cycle. The second dip reflects our wariness towards the balance sheet leg, which still has some way to adjust yet.

What’s ahead?

- > **June Retail Trade Survey** (Friday 1045 NZST). Nominal retail sales are expected to rise slightly in the month (0.1 percent), although core sales are expected to retreat 0.5 percent. We expect quarterly volumes to be largely unchanged.
- > **July REINZ House Sales** (circa 14 August). Sales volumes should hover near last month’s levels. However, median days to sell could possibly fall slightly again, providing some underlying support to prices.
- > **July REINZ Monthly Housing Price Index** (14 August). This is the first time this index will be released and is a new series calculated in conjunction with the RBNZ.

What’s the view?

The past week has seen us actively debating the alphabet soup of economic recoveries.

- > **Scenario one is the “V”.** It is built around pro-cyclical forces and improving tenor in the collective data. Pent-up demand is being unleashed as confidence improves. Balance sheet or external constraints are irrelevant. In NZ you can see aspects of this with talk of loan-to-value ratios on the rise again and investor confidence towards housing improving sharply. The rebound in an array of global data is starting to look consistent with the V. When you fall off a cliff such as the global economy did in late 2008, the first leg of recovery is always going to look consistent with a V.
- > **Scenario two is our bathtub with waves.** The balance sheet constraint is binding, but we allow for some inter-quarterly volatility in recognition of the fits and starts nature of data and human psyche. That is, a slight housing recovery before higher unemployment snuffs it out. Structural dynamics such as higher

deposit rates (which in turn put upward pressure on borrowing rates) and Fitch Ratings putting NZ on a negative credit outlook due to external imbalances apply here.

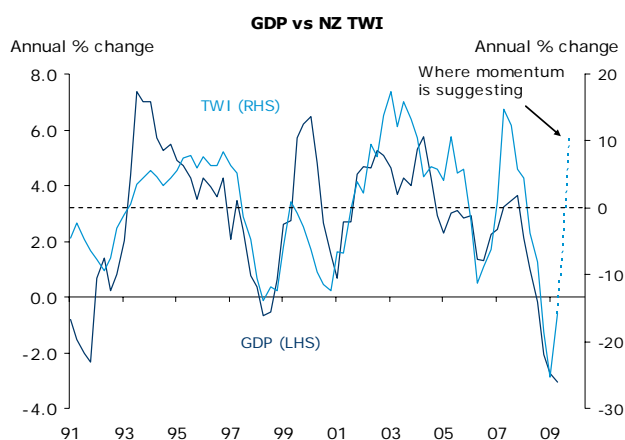
- > **Scenario three is the double-dip or “W”.** That is, a sharper recovery to ensue before another correction occurs on the other side. This is in effect a combination of scenarios one and two. It recognises not only the cyclical forces such as pent-up demand, but also the structural constraints which the economy needs to stay within. However, the constraints are somewhat looser in the near-term and this is really a reflection of the behavioural aspect to the economic and investment cycle. The stubborn strength of the NZ dollar (it ended the week higher despite the unemployment rate jumping from 5 to 6 percent) is an example of this sort of dynamic: forget about local fundamentals, focus on near-term momentum. And that’s where the behavioural aspect comes in with investors scared of missing the trend. But invariably the piper is paid. The longer it takes, the bigger the payback.

We are now drawn to the “W”. Scenario one seems a stretch given rising unemployment, pressure we are seeing on asset values (particularly commercial and rural) and structural changes already hitting the economy. We need to differentiate the level of activity versus the change. Improvements in sentiment are welcome, but they are recovering off precipitous lows. If this is indeed a “V” shaped recovery, then it’s hard to imagine policymakers sitting idly by and letting another bubble develop. And we doubt asset markets can sustain exit strategies being implemented this quickly despite improvements in credit markets clearly calling for it. Nor do we believe for a minute that policymakers are not going to extract some penance as payback for the mess they have had to clean up. And this means changes to the debt-fuelled consumption model that had been a key driver of growth in the past two decades.

The choice between the bathtub and “W” is really one of semantics. Effectively it is a recognition that momentum, once unleashed, is a powerful dynamic and the economic cycle is as much about getting a feel for behaviour as it is about the economic fundamentals. And there is no doubting a better feel-good factor is developing, despite the unemployment rate moving up sharply. With each passing day it seems more money is being lured out after taking refuge on the sidelines. A lot of this seems to be premised on a quick return to “normal” conditions, which in turn, is being interpreted as the way things were in 2006/07, prior to the financial crisis. We fundamentally disagree with such a definition of normal, but have to respect the animal spirits.

We have the NZ economy recording positive growth in H2 2009, but slipping into a hole again in H1 2010. Internationally, the key thing to watch is whether the first leg of recovery manifests in a rebound in domestic demand. We believe it won't. Domestically, our attention is squarely on the unemployment rate, commercial property prices and rural land values. Timing wise, it may well be that Rugby World Cup related activity and investment saves early 2010, something we are pondering. And of course we fully expect residential building consents to recover sharply over the coming months, leading to increased residential construction activity early next year, given the usual lags. There is also the prospect of a recovering Australian economy helping to pull NZ along. But the way commercial construction, the unemployment rate and dairy incomes are shaping up, there is a huge void to fill. The real message in our "W" cycle is that we do not believe recent signs of recovery are of sufficient quality (i.e. it's the wrong growth mix) to be sustainable, given NZ's external and balance sheet position.

In terms of our core financial market views, we'll leave our interest rate forecasts unchanged, but anchor our currency forecast more off the W. That means we're going to respect the push up into year-end on green shoots euphoria, but expect them to wilt, and the currency with it in late 2009 and early 2010. We now see the NZDUSD holding in the mid 0.60s over the course of H2 2009, but then easing towards 0.59 over Q1 2010. We just can't get away from a lower NZD being a critical part of the rebalancing process for NZ.Inc. Yes, we know dairy prices surged last week according to Fonterra's latest online auction results. But that is only sufficient to keep the payout for 2009/10 at \$4.55/kg ms. (In fact that figure still looks a stretch).



Sources: ANZ National, Statistics NZ

We can illustrate the euphoria that has been priced into the NZD by looking at the relationship between the TWI and GDP. Now, forget about the cause and effect and just focus on

the relationship. Generally speaking when the NZ economy is tracking above "trend" (around 2½ to 3 percent), the currency is rising above the level of a year ago and the reverse applies. **A simple takeout from this is that growth does not only need to be positive, but it has to grow at above trend for the currency to appreciate, something the NZ economy is still far from achieving.** At present though, the currency seems to be banking on a pretty swift turnaround in NZ's prospects. Assuming a year-end TWI of 64 (which is where momentum is suggesting), this puts the NZD up 10 percent on 2008. If the historical relationship holds, we'd need to see 4 percent growth in the second half of 2009 just for GDP to hit 2.5 percent. The last time we saw this over six months was in 1984! Something doesn't feel right.

Personally we hope we're wrong about the "W". But navigating through the biggest financial crisis in our lifetime just seems to have been a little too easy thus far. At this juncture we can't stress enough how important the outlook for asset values are, and we see them under a fair degree of pressure.

Turning to the data this week, it is relatively quiet locally with the major focus being June retail sales on Friday. We expect headline nominal sales to be largely flat in the month. However, this marks an expectation of a 0.5 percent fall in core sales, partly as a pull-back from the 1.6 percent surge last month. In terms of the quarterly numbers, real spending is expected to be largely flat, although risks do appear skewed towards another fall. The other local data this week is REINZ house sales for July. Following the Barfoot & Thompson numbers last week, sales volumes are expected to be reasonably similar to June levels, but days to sell may edge lower again, which will provide some underlying support to prices. On the last point, the REINZ this week (in conjunction with the RBNZ) will release a new stratified measure of house prices in an attempt to remove some of the composition influences that can affect the REINZ median house price measure. We welcome this work.

One area that may also be of interest this week is the start of the NZ earnings reporting season. We wonder if NZ will continue the trend from offshore of posting results that are better than (albeit reduced) expectations. We expect there to be a clear theme of cost cutting and focus on balance sheet strengthening. As always, the forward looking guidance that the companies provide will be crucial.

Internationally this week, the Fed's interest rate decision will be important. While rates are expected to be left unchanged, the focus will be on any discussions of the Fed's Quantitative Easing programme. In terms of data, retail sales and CPI

will be the focus in the US, while GDP data in Europe will be important. Closer to home, the Australian NAB confidence survey and June quarter wage growth numbers will be of most attention across the Tasman.

Recent local data...

- > **Labour Cost Index (June quarter):** Private sector wages and salaries rose 0.3 percent in the quarter. Annual growth eased to 2.6 percent – the softest since June 2005.
- > **Quarterly Employment Survey (June quarter):** This alternative measure of private sector wages rose 0.7 percent. Total seasonally adjusted paid hours and filled jobs both fell in the quarter.
- > **Fonterra on-line auction results (August):** Average wholemilk powder prices rose 25.8 percent from the previous auction in July.
- > **Barfoot & Thompson Auckland House Sales (July):** Seasonally adjusted house sales volumes fell 2.1 percent and available listings fell from 5,700 to 5,556.
- > **Household Labour Force Survey (June quarter):** Employment fell 0.4 percent, hours worked tumbled 1.9 percent and the unemployment rate rose a full percentage point to 6.0 percent.

SPRING IS GETTING CLOSER

The monthly wrap on farming from our rural economist: The winter has been hard and the news for some sectors has not been good. But spring usually brings improved farmer optimism as Mother Nature starts another round of the renewal process. We share some of the optimism long-term but are wary about the impact of tightly constrained cash flows, low activity in the land market and lower land prices on rural and urban centres. Delivering on potential and achieving an orderly unwind to the land price bubble is critically dependent on the NZ dollar, which is certainly not assisting at present.

The Weather

The last two seasons have been very difficult from a weather perspective. It has been wet, cold, windy and dry for longer periods than expected for the time of the year, with quick shifts between one weather pattern and the next. It has been hard on man, his wife or partner and their animals.

The winter of 2009 has been much colder than usual and followed a dry autumn leaving feed covers lower than desirable. The past relatively mild week has been a boon. Not quite game to say spring is sprung but the signs are encouraging – especially with calving and lambing rapidly gathering momentum. Soil moisture is not going to limit early spring grass or crop growth in many places.

Farm Gate Returns 2008/09

Different but the same. As usual it's all about timing. Lamb and venison producers have had a very good year for per head prices. Late sellers of lambs in 2008/09 have done well compared to early (December and January) sellers – a reverse of usual trends. Venison prices peaked and flattened for a longer period than usual (late August into November) before easing, but then not as far as usual.

Spring prime beef sales per kilogram were also very good in the mid \$4/kg. Autumn sale prices were just okay. Wool is a topic most do not want to talk about. Fine wool did well if sold early or on contract. Similarly early sales of crossbred wool were at (relatively) good levels but ended the season at the point of being a cost centre not a revenue earner.

Livestock prices more than offset lower per head performance on sheep and beef farms from carryover drought effects from summer/autumn 2008 or ongoing very trying seasonal conditions that consecutively applied to many districts from late winter 2008 to the autumn of 2009.

Many dairy farmers struggled with the same weather issues resulting in less production than anticipated and some horrendous empty cow rates. Eczema was a big issue for both sheep and cattle farmers north of Taupo last autumn.

Markets

Red meats are fluctuating in a narrow range.

The increase in the US dairy cow kill is being offset by a lower beef cow kill to leave volumes similar to the same months last year.

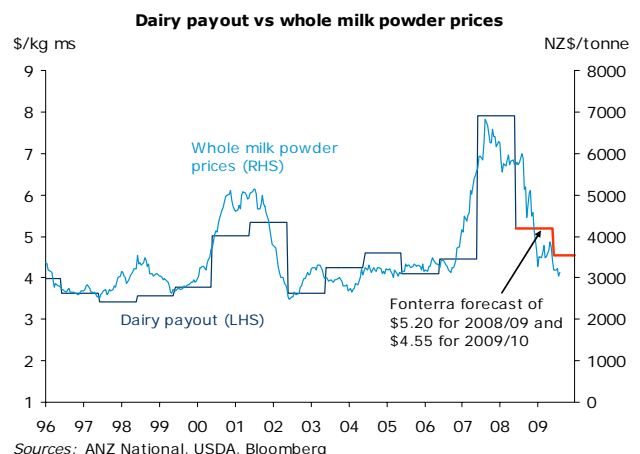
Wool – The New Zealand crossbred indicators are down a dollar a kilogram (clean) on this time last year. Mid micron is up over \$0.30 but the proxy used for Merino wool (the Australian Northern Indicator) is also down NZ\$1.60/kg.

Dairy – Fonterra auction prices jumped nearly 26 percent last week

– an encouraging sign. But the magnitude of the increase suggests there is a high degree of instability in the market and is an illustration of the degree of volatility that can be expected in commodity markets in the near-term. Heightened volatility has been a Fonterra (and our) message for a while.

Inventories are reported as low in New Zealand and buyers have been living hand to mouth. Production in the US has been the same as, or marginally below, the equivalent month in 2008 for the past five months. Equivalent month increases up to the start of 2009 were running at three to four percent.

Fonterra confirmed their \$4.55/kilogram forecast on Thursday 30th July for the year end July 2010. A simplistic USD spot price for commodities times a conversion factor times the exchange rate times 12 months suggest the forecast is a stretch. But a lot can happen in 12 months given the volatility in prices referred to above and the similar characteristic exhibited by the exchange rate. Such calculations do not take account of any profit from the added value parts of Fonterra's business that are supposed to bolster profits in periods of low dairy commodity prices. Watch this space.



In the meantime, cash flows on dairy farms are tightly constrained and there are a portion who have more debt than is manageable on a \$4.55 payout.

Grains – US export prices for wheat and maize increased by 5 to 10 percent from January 2009 to peak in May and then fell back to January levels. Soy beans are up 30 percent in USD terms since January 2009. A weaker US dollar, concerns over the new harvest (which have since been allayed) and the reported re-entry of hedge funds into the markets have all contributed to volatility in prices. Spot farm gate prices in the UK for all three grains have been flat to slowly easing!

Inputs

The indicative rock phosphate price still trends down. While the indicative June price of US\$97/tonne is much lower than the peak of US\$430/tonne, it is still twice the long-run average of mid US\$40s. The indicative USD prices for DAP, Urea and Triple Super Phosphate are now close to 2006 averages. The collapse in international grain prices sharply reduced the input of high priced fertiliser on crops planted for the 2009 harvest. That has left the manufacturers with more high cost inventory than they want.

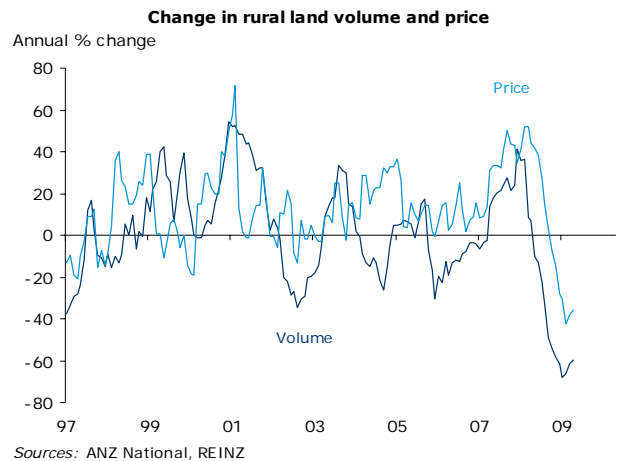
The inventory position is similar in New Zealand although driven off the pastoral sector rather than cropping. Falling dairy prices and cautious sheep farmers have held back on buying high priced fertiliser leaving the two co-operatives with more high cost inventory than they would like. Ex-works prices are also off their highs but still well above pre-boom levels.

Land Sales

Real Estate Institute of New Zealand (REINZ) rural sales data for July showed that the all farms median price was down 37 percent on the comparable figure for June 2008. The median level had ticked up from a low of \$1.04m in April to \$1.15m in May and June but was well below the comparable figure 12 months earlier of \$1.8m.

The volume of land sales is very low but that is usual and to be expected at this time of the farming year. Sales numbered 266, 288 and 285 for the quarters ending April, May and June 2009 respectively and down 60 percent on the same periods 12 months earlier.

Confidence can be assessed as low. The monthly (REINZ) rural sales data is a volatile series. But the correlation between the percentage change in price and the percentage change in the number of sales from April 2008 to date remains clear and unprecedented in this data series.



The big question is when will confidence in the land market return? There are several scenarios. History does provide a guide. The volume of sales started falling before the sale price of land fell in both the late 1980s and the late 1990s downturn in land prices. Actual prices fell by an average of 30 percent in both instances. It took five to seven years for the average price per hectare to regain previous levels. We suspect it might take longer this time.

We have written several times about the imbalance between land values and cash earning capacity. Either revenue has to increase without a corresponding increase in costs (and without the increased revenue immediately capitalised into land value), values must fall or a combination of both. We remain very positive about the long-run future for New Zealand produce and prices but land value must be more realistically aligned to net profit, not gross revenue. Structural changes in the political and economic environment are going to negatively impact on the future cost of running a farm, profit and value.

Overall Implications

Cash flows within agriculture remain very constrained. The financial and physiological pressure on a few is immense. Expenditure can and will be cut. History shows that. Some will have to sell. The low volume of land sales and lower prices exacerbate the pressures as cascading takes hold.

We are not doom-casters but the full flow on effects on country towns and servicing cities is yet to be felt. That, in turn, will reflect in business profits, employment and extend the period before the economy might be said to have recovered.

INTEREST RATE STRATEGY

Though the NZ market is getting ahead of itself in pricing in rate hikes from early next year, paying pressure is unlikely to subside in the near-term. Offshore developments are still the major driver, and the local dataflow is unlikely to entice receivers back in given the reaction to last week's weak Q2 labour market data.

Market themes...

- > Market shrugs off huge jump in NZ unemployment rate.
- > Talk of an end to US recession, and upgrade of Australian growth by the RBA, sparks global selloff.
- > Local market wary of mortgage paying pressure following increases in fixed rate mortgage rates.

Review and outlook

The global selloff intensified last week on hopes of an end to the US recession. This was sparked by better than expected US non-farm payrolls data. The Australian curve also moved higher across the board, as the RBA upgraded their growth forecasts for the Australian economy and removed their easing bias.

The NZ market ended up playing follow the leader. A large jump in the NZ unemployment rate only elicited a small move lower in yields, and this was subsequently unwound in quick fashion as the local rates market followed global moves. If such was the reaction to an undeniably weak labour market report, it will indeed require a material deterioration in domestic prospects to push yields lower. This looks unlikely to be the case in the near term. This week's housing market data is expected to show continued recovery, and retail sales data will show signs of stabilisation. They will be taken as further excuses to push yields higher still.

Market pricing continues to deviate materially from the RBNZ's policy intent. The first rate hike has been priced in from January next year, despite the RBNZ stating it expects to keep the OCR at or below current levels until the latter part of 2010. Our core strategy is to continue backing the policymaker. But we have to acknowledge near-term flows and a market that is nervous about potential mortgage paying pressure following last week's increases to fixed mortgage rates (though we don't think this is going to be material, see p8). Overall, while we think current levels are attractive to instigate receive positions, we have to respect the near-term payside pressure which is unlikely to subside in the near term.

Borrowing strategies we favour at present

The rise in swap yields is more to do with following AU and US developments as opposed to a reflection of what the RBNZ will do. We still see rate hikes as being a long way off, and continue to favour floating rates. We have been suggesting the use of options as a way to hedge further out, and this strategy has certainly been useful of late given the rise in yields.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	On hold. RBNZ unlikely to act on their easing bias. But hikes still a long way off.
NZ data	↔/↑	Labour market weak, but housing data this week to show continued recovery.
Fed Funds / front end	↔	FOMC this week key in flagging any changes to QE programme and talk of "exit strategies".
RBA	↔/↑	RBA in neutral mode and next move likely to be up.
US 10 year	↔/↑	Further signs of recovery in the economic data could see yields attempt a push towards 4%.
NZ swap curve	↔/↓	Further flattening pressure will continue.
Flow	↔/↑	Payside pressure will continue to dominate in the near-term, with receivers scant in the ground.
Technicals	↔/↑	Near-term, 4.2% in the 2-year swap is a key level which could break if offshore markets continue to selloff.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Sep-09	-3	-3
Thu 29-Oct-09	0	-3
Thu 10-Dec-09	+2	0
Thu 28-Jan-10	+10	+21
Thu 11-Mar-10	+15	+32
Thu 29-Apr-10	+20	+53
Thu 10-Jun-10	+25	+60

Trading themes we favour at present

Our core strategy is to continue backing the policymaker. In this regard, the tightenings priced in from January next year look premature. We still see value in going long March and June bank bills, particularly at current levels. Flattening pressure on the 2s10s is expected to continue, and though it has reached our 200bps target, we will continue to hold for now.

PAYSIDE PRESSURE – IS A FLOOD OF MORTGAGE FIXING PENDING?

Speculation is mounting that a bow-wave of payside pressure could force swap rates higher and the market is wary of the March experience. However, the market also needs to appreciate the “differentiating” factors this time around, including a steep mortgage curve, more responsive local banks and prudential policy changes.

There are some concerns beginning to develop that a flood of mortgage fixing could be pending, and that this, in turn, will force up swap rates. Being a relatively small market, mortgage related flow (as banks look to hedge their balance sheets) can have a dramatic impact on NZ swap rates. The argument for these concerns goes like this:

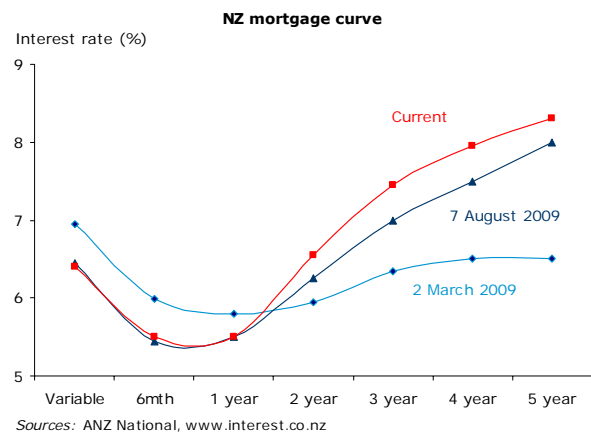
- > **There has been a significant increase in the amount of mortgages on floating rates.** In June, \$37.5 billion of mortgages were on floating rates (24 percent of the total). This is up from \$19.6 billion a year earlier (or 13 percent of the total). In addition, a further \$58.2 billion of fixed mortgages are due to roll off in the next 12 months. Hence, collectively there is around \$90 billion of mortgages that could potentially be fixed.
- > **NZ households have a historical tendency to borrow on fixed mortgage rates.** Since December 2004, the proportion of mortgage borrowing on fixed rates has averaged 82.6 percent of the total, in part due to the extended period that an inverse yield curve was experienced. Some retail banks have now raised their 2 to 5 year fixed rates and there is an expectation that a flood of money will try to “beat” the collective market moving up.
- > **This very dynamic occurred in March 2009.** Concerns that interest rates were set to rise and a reasonably upbeat statement from RBNZ Governor Bollard (at the time) led to a belief that borrowers had “missed the boat” on achieving low rates. During the month, there was an \$8.8 billion reduction in mortgages on floating rates or with less than one-year to reset. This contributed to local swap rates rising up to 50bps over the month. While no-one can really accurately say how much payside pressure accounted for this move, it clearly accentuated market movements at the time.

We agree with the broad argument, and there was obviously a lot going on in March. While there is little doubt the flood of paying caused local wholesale swap rates to rise, part of the reason for the sharp increase was simply that the local market got caught long, and the NZ market tends to have a small exit when a number are running for it. In

addition, the Australian 2-year swap rate also rose 15bps over the month, illustrating that rising rates were not just a NZ phenomenon.

This time there are some key differentiating factors:

- > **Banks are likely to be more responsive.** In March there was a window of opportunity between the wholesale curve moving and actual lending rates rising. We expect banks to be far quicker this time around, in effect dampening the incentive (or opportunity) to fix.
- > **The mortgage curve is already steep.** With the spread between floating and 5-year fixed rates currently near 160bps there is little incentive to fix for longer terms. In March, the 1 year - 5 year mortgage rate spread was 71 basis points (5.79 vs 6.5 percent). There is now a 249 bps gap between the two. Even the 2 year - 5 year gap is 174 points. This changes the fundamental fix-float or cost versus certainty proposition households are facing.



- > **The “delta” will be different this time around.** One of the reasons for the sharp reaction in wholesale rates in March was that the move by borrowers into the 5-year rate meant that traders had to try to clear this through the most liquid part of the curve and had to pay roughly twice as much 2-year to maintain duration. This time around, the shape of the mortgage curve is steep enough for us to believe a shift into 5-year fixing is not likely.

The upshot

Mortgage related paying remains a flow side risk to the local swaps market, particularly as we suspect the market remains “long”. The large number on floating mortgages can effectively fix at any time without incurring break fees. While there is potential for mortgage related fixing to provide some underlying payside support to shorter-term swap rates (2-years and below) we doubt we will see the same flood as was the case in March, given the current steepness of the mortgage curve and other differentiating factors.

CURRENCY STRATEGY

Is the Dollar Bloc back? We think this argument has merit. This is particularly as the US looks towards the future with some optimism that they have past the worst, while Europe and Japan have proven to be very slow at addressing their issues. The financial world is in a better place than last week. That supports growth and ultimately the NZD. The break of 0.6630 last week is important and should see the NZD perform well versus the EUR and JPY.

Market themes...

- > USD – finally has turned and looks good versus Europe and Japan.
- > Break above 0.6630 targets 0.6930.
- > All NZD crosses have broken topside resistance and we see further upside.

Review and outlook...

Dairy prices surprise. The big surprise last week was the increase in the Fonterra online auction prices, which rose 26 percent. This reduces the big downside risk for the NZD in the short-term, but will need to be sustained to ensure NZD can maintain its range above the major 0.6630 support. The spike higher above 0.68 on a better environment for risk looked premature but notable gains and closes above major resistances in NZDGBP (above 0.4020), NZDEUR (above 0.4680), NZDCHF (above 0.7150) and most importantly NZDJPY (above 64.50) suggest the NZD can sustain its break out above 61.50 on a TWI basis.

The stronger than expected employment report out of the US will drive the markets for the rest of the month. US 10-year yields have now moved higher than the UK, Germany, France and Japan and will focus the market on growth prospects going forward. The US has arguably been much more proactive in stimulating their economy and though the USD has been punished for its Quantitative Easing programme, the US now looks better positioned for growth than many of its Western counterparts. We are happy to own USD versus the JPY, EUR, GBP and CHF.

The big question for NZD now is what happens to commodity prices if the USD strengthens.

The jury is still out, with the market likely to focus on either the increased demand factors from a US recovery or the base currency effect of being priced in an appreciating currency. We prefer the former scenario to play out as China has stated once again over the weekend they are committed to an accommodative monetary policy still. This should

continue to support the green shoots sentiment at present.

Technically, the NZD is now targeting 0.6930 as the break of 0.6630 should hold downside probes. The NZDJPY should be supported at 64.50 medium term and we see long positions entered below 65.20 this week as good risk reward.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔/↑	Fonterra auction a positive shock.
Partial indicators	↔/↓	NZ unemployment rate now higher than Australia's.
Technicals	↔	Range trade now.
Sentiment	↔/↑	Earning season sees improved risk appetite.
Other	↔	Commodities the key.
On balance	↔	Respect the ranges.

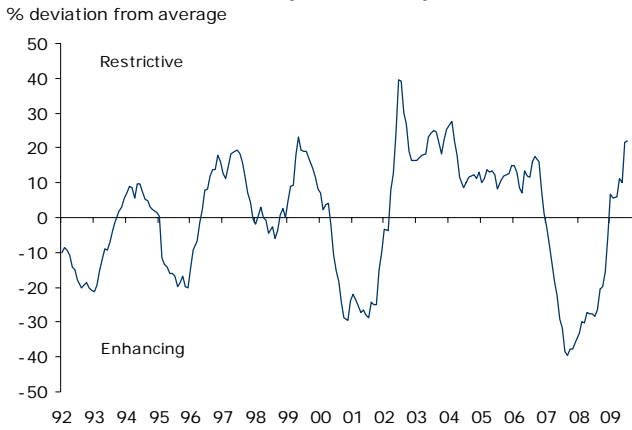
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	About cyclical fair value estimates.
Yield	↔/↓	Repeat of low for longer from the RBNZ.
Commodities	↔/↑	Fonterra auction a positive shock.
Risk aversion	↔/↑	Unemployment numbers in the states provide a boost to sentiment.
Partial indicators	↔/↓	Stabilisation in NZ, but is US bouncing back faster?
Technicals	↔/↑	Support at 0.6630 target 0.6930.
AUD	↔	Watch equity markets.
Sentiment	↔/↑	Improved with offshore developments.
Other	↔/↑	US beginning to grow again.
On balance	↔	Higher ranges for now. Commodity prices are key.

EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand’s main export industries. The measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations.

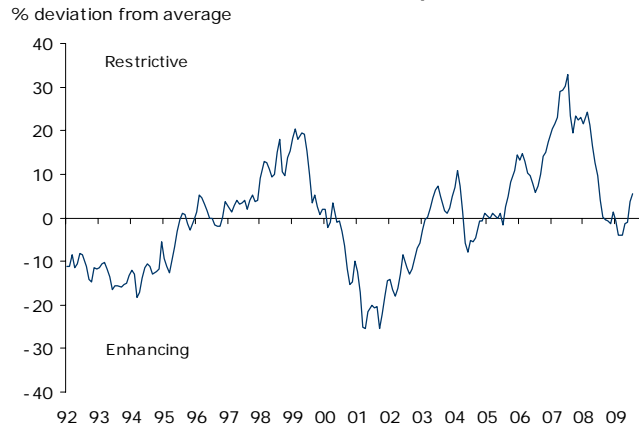
The forestry sector again benefited from rising world prices last month, and in excess of the move higher in the NZD. The same was the case for the crude (aluminium) sector. As a result, both sectors saw their commodity adjusted real exchange rates fall last month, although they both remain well in “restrictive” territory. All other sectors faced more restrictive conditions in July, with the higher currency more than outpacing the rise in world commodity prices in some instances.

Sector: Dairy ≈ 18% of exports



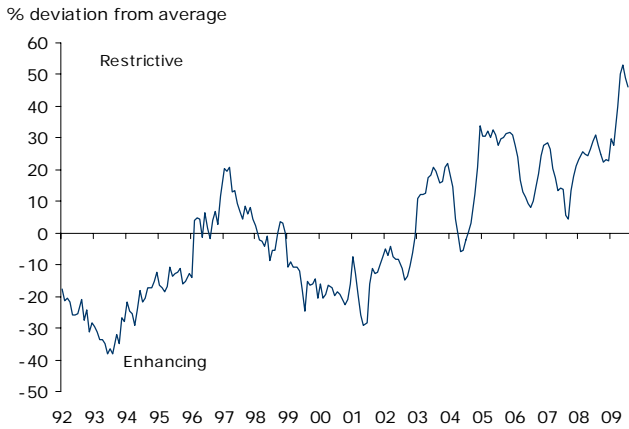
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



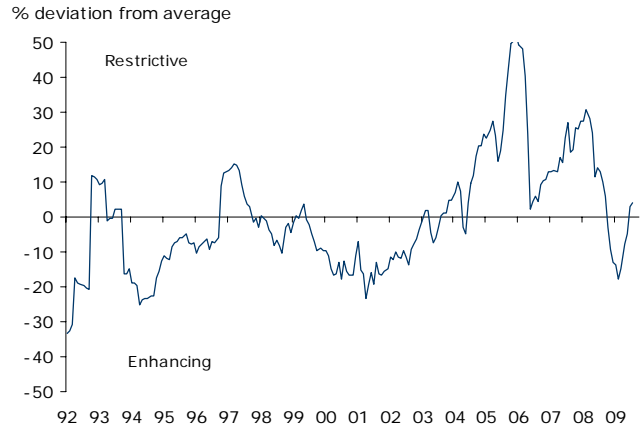
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry ≈ 10% of exports



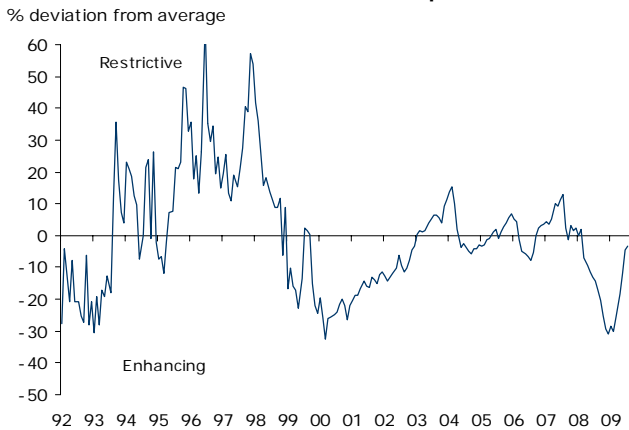
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports



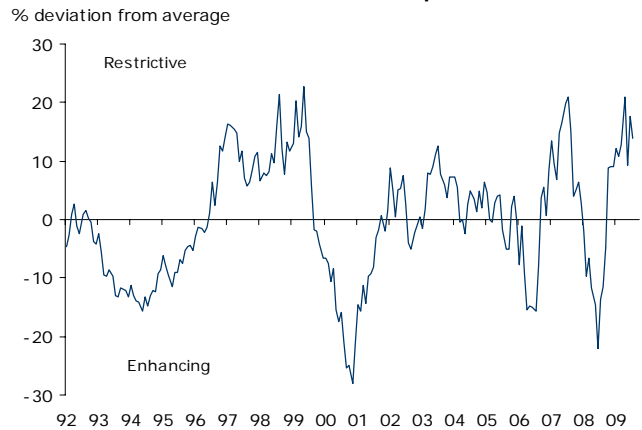
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

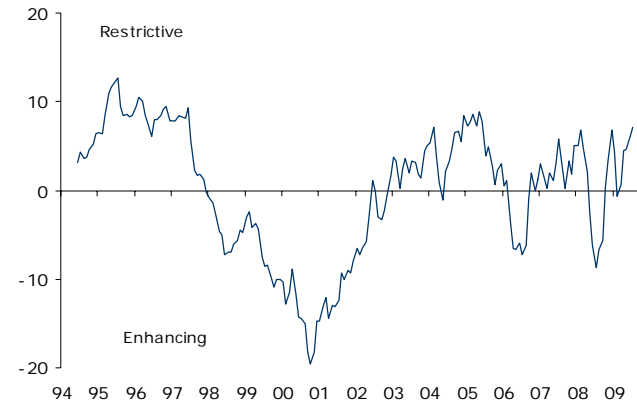
Sector: Crude ≈ 5% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Manufacturing \approx 20% of exports

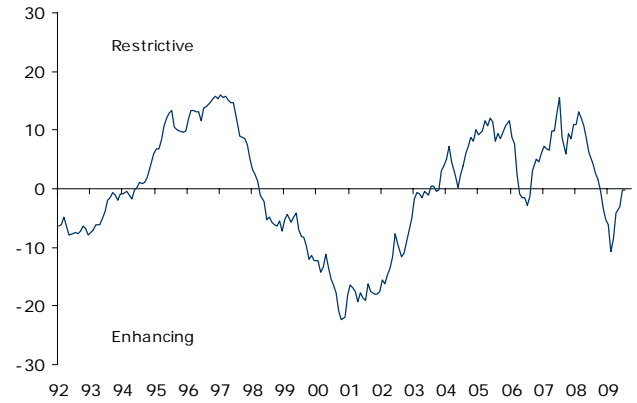
% deviation from average



Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Services \approx 24% of exports

% deviation from average



Sources: ANZ National, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
10-Aug	JN	Machine Orders (Jun) - mom	2.6%	-3.0%	11:50
		Money Stock M3 (Jul) - yoy	1.7%	1.7%	11:50
		Adjusted Current Account Total (Jun)	¥1350.0B	¥1015.8B	11:50
		Eco Watchers Survey: Current (Jul)	-	42.2	17:00
		Eco Watchers Survey: Outlook (Jul)	-	45.6	17:00
		Machine Tool Orders (Jul P) - yoy	-	-72.8%	18:00
	AU	Home Loans (Jun)	1.8%	2.2%	13:30
		Investment Lending (Jun)	-	2.4%	13:30
		Value of Loans (Jun) - mom	-	2.3%	13:30
		Foreign Reserves (Jul)	-	52.3B	18:30
	EC	Sentix Investor Confidence (Aug)	-25.8	-31.3	20:30
11-Aug	NZ	Card Spending (Jul) - mom	-	-1.0	10:45
	AU	NAB Business Conditions (Jul)	-	-2	13:30
		NAB Business Confidence (Jul)	-	4	13:30
	JN	BoJ Target Rate	0.1%	0.1%	-
		Consumer Confidence (Jul)	-	38.1	17:00
	GE	Consumer Price Index (Jul F) - mom	-0.1%	-0.1%	18:00
		Consumer Price Index (Jul F) - yoy	-0.6%	-0.6%	18:00
	UK	Total Trade Balance (Jun)	-£2300M	-£2168M	20:30
		DCLG House Prices (Jun) - yoy	-12.0%	-12.5%	20:30
12-Aug	US	Non-Farm Productivity (2Q P)	5.4%	1.6%	00:30
		Unit Labour Costs (2Q P)	-2.4%	3.0%	00:30
		Wholesale Inventories (Jun)	-0.9%	-0.8%	02:00
	JN	Domestic CGPI (Jul) - mom	0.0%	-0.3%	11:50
		Industrial Production (Jun F) - mom	-	2.4%	16:30
		Capacity Utilization (Jun F) - mom	-	8.0%	16:30
		BoJ Monthly Report	-	-	17:00
	AU	Westpac Consumer Confidence (Aug)	-	9.3%	13:00
		Wage Cost Index (2Q) - qoq	0.8%	0.8%	13:30
	UK	Claimant Count Rate (Jul)	4.9%	4.8%	20:30
		Jobless Claims Change (Jul)	28.0K	23.8K	20:30
		Average Earnings inc bonus (Jun) – 3m/yoy	2.4%	2.3%	20:30
		BoE Quarterly Inflation Report	-	-	21:30
	EC	Industrial Production (Jun) - mom	0.2%	0.5%	21:00
13-Aug	US	Trade Balance (Jun)	-\$28.5B	-\$26.0B	00:30
		Monthly Budget Statement (Jul)	-	-	06:00
		FOMC Rate Decision	0.25%	0.25%	06:15

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
13-Aug cont.	NZ	Business NZ PMI (Jul)	-	46.2	10:30
		Food Prices (Jul) - mom	-	2.8%	10:45
	AU	Consumer Inflation Expectation (Aug)	-	3.2%	13:00
		Average Weekly Wages (2Q) - qoq	0.7%	1.2%	13:30
	GE	GDP (2Q P) - qoq	-0.2%	-3.8%	18:00
		GDP (2Q P) - yoy	-6.6%	-6.7%	18:00
	EC	GDP (2Q A) - qoq	-0.5%	-2.5%	21:00
		GDP (2Q A) - yoy	-5.1%	-4.9%	21:00
14-Aug	US	Import Price Index (Jul) - mom	-0.5%	3.2%	00:30
		Advance Retail Sales (Jul)	0.7%	0.6%	00:30
		Retail Sales Less Autos (Jul)	0.1%	0.3%	00:30
		Continuing Claims (w/e Aug-2)	6350K	6310K	00:30
		Initial Jobless Claims (w/e Aug-9)	545K	550K	00:30
		Business Inventories (Jun)	-0.9%	-1.0%	02:00
	NZ	REINZ Monthly House Price Index (Jul)	-	-	-
		Retail Sales (Jun) - mom	-0.3%	0.8%	10:45
		Retail Sales Ex-Auto (Jun) - mom	-0.5%	1.6%	10:45
		Retail Sales Ex Inflation (2Q) - qoq	0.2%	-2.9%	10:45
	AU	RBA Governor's Semi-Annual Parliament Testimony	-	-	11:30
	JN	BoJ Monetary Policy Meeting Minutes for May	-	-	11:50
		Tertiary Industry Index (Jun) - mom	-0.3%	-0.1%	11:50
		BoJ to Release Board Meeting Minutes	-	-	11:50
	EC	CPI (Jul) - mom	-0.6%	0.2%	21:00
		CPI (Jul) - yoy	-0.6%	-0.6%	21:00
		CPI - Core (Jul) - yoy	1.3%	1.4%	21:00
15-Aug	US	Consumer Price Index (Jul) - mom	0.0%	0.7%	00:30
		CPI Ex Food & Energy (Jul) - mom	0.1%	0.2%	00:30
		Consumer Price Index (Jul) - yoy	-1.9%	-1.4%	00:30
		CPI Ex Food & Energy (Jul) - yoy	1.6%	1.7%	00:30
		Industrial Production (Jul)	0.4%	-0.4%	01:15
		Capacity Utilization (Jul)	68.4%	68.0%	01:15
		University of Michigan Confidence (Aug P)	69.0	66.0	02:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.
Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: With the June quarter labour market data now out of the way, the upcoming dataflow is generally expected to be on an improving trend, although the level and change once again needs to be distinguished. All-in-all, we expect further signs that the economy is closer to regaining forward momentum.

Date	Data/Event	Economic Signal	Comment
circa 14 Aug	REINZ House Sales (Jul)	Stabilising	Sales volumes should hover near last month's levels. However, median days to sell could possibly fall slightly again, providing some underlying support to prices.
Fri 14 Aug (10.45)	Retail Trade Survey (Jun)	Reversal	Following the surge in spending in May – partly driven by earlier spending on winter clothes, we expect a pull-back to have occurred in June, although high food prices will inflate the grocery bill. We expect a small contraction in volumes for the quarter.
Wed 19 Aug (10.45)	Producer Price Index (Jun qtr)	Easing	Input and output prices are both expected to ease in the quarter, largely driven by lower NZD commodity prices.
Thu 20 Aug (15.00)	NBNZ Regional Trends (Jun qtr)	-	-
Fri 21 Aug (10.45)	International Travel and Migration (Jul)	A source of support	Another reasonable monthly net inflow is expected as departures remain subdued. However, the key to watch is whether arrivals of non-NZ and Australians are able to hold up.
Tue 25 Aug (15.00)	RBNZ Survey of Expectations (3Q)	Not a major focus at present	2-year ahead inflation expectations are expected to remain subdued and near the 2.2 percent recorded in the previous survey
Thu 27 Aug (10.45)	Overseas Merchandise Trade (Jul)	Small deficit	A trade deficit is typically recorded in July and we expect this trend to be repeated. We will be closely watching exports to China to assess whether the stock-building story is continuing.
Fri 28 Aug (10.45)	Building Consents Issued (Jul)	Recovering	Residential consent issuance, while remaining at an extremely low level, should begin to recover in line with a pick up in house sales. Non-residential consent issuance, on the other hand, looks likely to weaken.
Fri 28 Aug (15.00)	Credit Growth (Jul)	De-leveraging continues	While improved housing activity may see household credit growth recover, the backdrop of de-leveraging will ensure that growth is still subdued. Rural and business credit growth is likely to continue weakening.
Mon 31 Aug (15.00)	NBNZ <i>Business Outlook</i> (Aug)	-	-
Thu 3 Sep (15.00)	ANZ Commodity Price Index (Aug)	-	-
On Balance		We have found a base	Signs of stabilisation are expected to continue. But the mix to growth does not give the recovery a sustainable look.

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
GDP (% qoq)	-0.2	-0.5	-1.0	-1.0	-0.6	0.4	0.4	-0.3	0.2	1.2
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	-3.1	-2.2	-0.8	-0.1	0.7	1.5
CPI (% qoq)	1.6	1.5	-0.5	0.3	0.6	0.6	0.5	0.3	0.7	0.7
CPI (% yoy)	4.0	5.1	3.4	3.0	1.9	0.9	1.9	1.9	2.0	2.2
Employment (% qoq)	1.2	0.1	0.8	-1.4	-0.5	-0.6	-0.3	-0.2	0.0	0.2
Employment (% yoy)	0.8	1.0	1.0	0.8	-0.9	-1.6	-2.7	-1.5	-1.1	-0.3
Unemployment Rate (% sa)	3.9	4.3	4.7	5.0	6.0	6.3	6.7	7.2	7.5	7.6
Current Account (% GDP)	-8.4	-8.7	-9.0	-8.5	-6.9	-5.9	-5.2	-5.3	-5.7	-6.1
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-3.0	-2.0	-1.6	-1.4	-1.0	-0.4	-1.0
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.2	-6.8	-7.3	-7.7	-5.8	-4.3	-3.8

KEY ECONOMIC INDICATORS

	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Retail Sales (% mom)	-1.4	0.0	-0.5	-1.2	0.2	-0.1	0.5	0.8
Retail Sales (% yoy)	0.7	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4
Credit Card Billings (% mom)	-1.8	-0.8	-2.2	1.6	0.8	-2.8	2.4	-0.4	0.2	..
Credit Card Billings (% yoy)	0.9	-0.9	-3.8	-2.4	-1.9	-4.8	-1.6	-2.4	-2.1	..
Car Registrations (% mom)	-0.9	-19.9	12.7	-14.1	-14.9	7.8	-1.5	-3.1	6.0	7.3
Car Registrations (% yoy)	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4
Building Consents (% mom)	-20.2	4.3	-6.8	-12.7	12.2	-0.8	11.3	3.0	-9.5	..
Building Consents (% yoy)	-43.3	-39.7	-41.4	-51.4	-39.9	-34.3	-56.6	-23.1	-24.2	..
REINZ House Price (% yoy)	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	..
Household Lending Growth (% mom)	0.1	-0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.1	..
Household Lending Growth (% yoy)	5.8	4.8	4.2	3.8	3.1	2.7	2.6	2.5	2.4	..
Roy Morgan Consumer Confidence	99.7	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3	106.1
NBNZ Business Confidence	-42.3	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7
NBNZ Own Activity Outlook	-11.4	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6
Trade Balance (\$m)	-994	-594	-341	-102	483	438	342	907	-417	..
Trade Balance (\$m annual)	-5269	-5234	-5614	-5405	-5165	-4684	-4049	-2973	-3176	..
ANZ World Commodity Price Index (% mom)	-7.6	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0
ANZ World Commodity Price Index (% yoy)	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5
Net Migration (sa)	90	-220	380	870	1640	1720	2110	2580	1730	..
Net Migration (annual)	4329	3569	3814	4538	6160	7482	9176	11202	12515	..

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jun-09	Jul-09	10-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.637	0.644	0.671	0.640	0.590	0.590	0.600	0.620	0.640	0.650
NZD/AUD	0.795	0.801	0.803	0.800	0.747	0.720	0.723	0.730	0.744	0.765
NZD/EUR	0.455	0.458	0.473	0.464	0.430	0.424	0.431	0.439	0.451	0.464
NZD/JPY	61.6	60.9	65.4	62.7	58.8	59.4	61.6	64.3	66.6	68.3
NZD/GBP	0.389	0.393	0.402	0.388	0.356	0.354	0.360	0.367	0.376	0.382
NZ\$ TWI	60.3	60.6	62.74	60.9	56.5	56.0	56.9	58.3	60.0	61.4
NZ interest rates	Jun-09	Jul-09	10-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.74	2.73	2.50	2.50	2.50	2.50	2.50	3.00	4.00	4.50
90 day bill	2.78	2.79	2.78	2.80	2.80	2.80	2.80	3.60	4.50	5.00
10 year bond	6.24	5.96	5.86	5.50	5.60	5.60	6.00	6.20	6.30	6.50
International	Jun-09	Jul-09	10-Aug-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.60	0.57	0.46	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	3.50	3.75
AU 3-mth	3.19	3.14	3.28	3.30	3.30	3.40	3.80	4.00	4.30	4.60

KEY RATES

	7 Jul	3 Aug	4 Aug	5 Aug	6 Aug	7 Aug
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.79	2.77	2.77	2.77	2.77	2.76
NZGB 11/11	3.60	3.81	3.85	3.92	3.89	3.90
NZGB 04/13	4.60	4.76	4.82	4.86	4.87	4.88
NZGB 12/17	5.70	5.74	5.81	5.84	5.85	5.86
NZGB 05/21	6.18	6.23	6.30	6.33	6.34	6.35
2 year swap	3.74	3.86	3.92	3.99	3.99	4.00
5 year swap	5.28	5.23	5.25	5.32	5.32	5.36
RBNZ TWI	60.2	61.6	61.8	62.2	62.0	62.2
NZD/USD	0.6358	0.6627	0.6680	0.6727	0.6706	0.6710
NZD/AUD	0.7979	0.7912	0.7917	0.7976	0.7956	0.8005
NZD/JPY	60.62	62.79	63.67	63.92	63.75	63.97
NZD/GBP	0.3905	0.3960	0.3941	0.3972	0.3949	0.3997
NZD/EUR	0.4549	0.4652	0.4642	0.4668	0.4656	0.4671
AUD/USD	0.7968	0.8376	0.8438	0.8434	0.8429	0.8382
EUR/USD	1.3978	1.4245	1.4389	1.4410	1.4404	1.4366
USD/JPY	95.34	94.75	95.31	95.02	95.06	95.34
GBP/USD	1.6281	1.6736	1.6951	1.6936	1.6980	1.6786
Oil	64.06	69.26	71.59	71.40	71.97	71.96
Gold	924.75	954.95	954.25	964.45	962.70	961.40
Electricity (Haywards)	4.55	2.67	2.46	2.11	2.92	4.27
Milk futures (US\$/contract)	86	91	92	92	92	92
Baltic Dry Freight Index	3216	3251	3159	3051	2907	2772

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing

Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

This document is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied

This document has been prepared by ANZ National Bank Limited.

ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com

to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 1177 Avenue of the Americas, New York, NY 10036 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this document. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.