

# Market Focus

New Zealand

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## ENTRÉE OR CRUMBS?

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### Page 2: Economic overview

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### Page 5: A Greek tragedy?

- > As the drama in Greece unfolds we thought it would be useful to come up with a simple but objective measure of sovereign risk. We ranked the OECD countries on a series of favourable and unfavourable characteristics, and used those rankings to create a diffusion index. European countries dominate those with a negative overall score – meaning that they had more unfavourable than favourable characteristics. By contrast, NZ and Australia compare favourably.

### Page 8: Monthly Inflation Gauge

- > Our monthly inflation gauge recorded a 0.4 percent increase in January, following flat results over the previous two months. The rise likely reflects seasonal price increases and a base effect from the previous month's weakness. Therefore, we are not reading too much into the rise at this stage.

### Page 9: Interest rate strategy

- > Early optimism that 2010 would be the year the recovery would take hold has faded and markets have a decidedly cautious air about them. Almost every NZ data release this year has disappointed, bringing with it a change in sentiment. The RBNZ looks set to deliver less and later, keeping a lid on interest rates.

### Page 10: Currency strategy

- > The divergence between Australia and NZ's economic performance has become too big to ignore. The employment gains across the Tasman contrast starkly with the lack of employment growth evident here. This suggests the NZDAUD cross should continue to come under downward pressure.

### Page 11: Data and event calendar

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## ECONOMIC OVERVIEW

We're not getting overly excited over the recent run of soft data. We were at the more conservative end anyway. We continue to view local and global developments (soft NZ housing and retail trade data, China, Greece-euro zone, strong Australian employment data, exit strategies, PM's speech from the throne) as consistent with an economy entering a period of transition and navigating a "bathtub with waves" shaped cycle. Each provide opportunities and challenges, but the big picture remains dominated by de-leveraging and structural change.

### What's ahead?

- > **Producers Price Indexes – December quarter** (Tuesday 10.45 NZDT). Though a high NZD over the quarter will have a dampening effect on prices, the large increase in dairy payout is expected to result in a 0.6 percent rise in output prices.
- > **NBNZ Regional Trends – December quarter** (Wednesday, 15.00 NZDT). This will give an indication of how Q4 GDP could shape up.
- > **ANZ Roy Morgan Consumer Confidence – February** (Thursday, 15.00 NZDT). After a good start to the year, we will see whether confidence stays high once consumers get their credit bills in the mail.

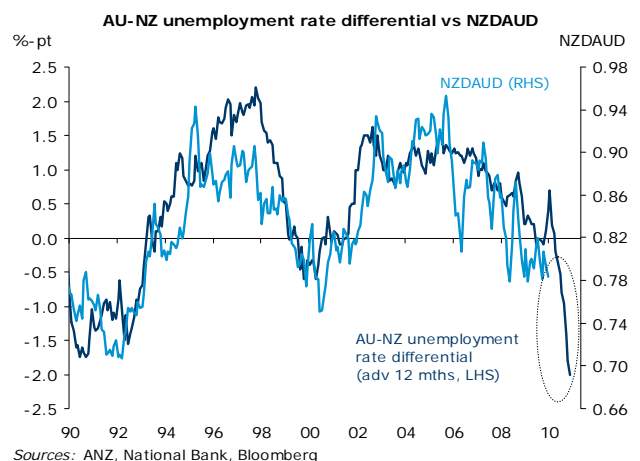
### What's the view?

First, let's start with some quick comments on the global economy.

- > **There remains an undercurrent of improvement.** Recent US trade and inventory data point to a recovery in domestic demand in the US economy, with a fall in continuing claims suggesting the labour market is settling. However, with improvement comes attention towards so-called exit strategies. Last week Fed Chairman Bernanke outlined the steps towards an exit strategy, which included scaling back a range of emergency measures. These changes are not intended to signal a change in the monetary policy outlook. However, they will provide the Fed with the necessary tools to more effectively reduce stimulus at the appropriate time and remind us that at some stage the economic patient will have to stand on its own two feet. This sort of tension will continue over 2010.
- > **The global balance sheet adjustment is ongoing, with developments in Greece merely highlighting that fiscal policymakers are not immune to pending de-leveraging** – in fact it's a critical next leg

to watch. On page 5 we take a look at various vulnerability characteristics among the OECD nations. The heaviest concentration risk at this juncture remains centred in Europe, which reinforces our positive support bias for the USD as the default play for now.

- > **China is now key to watch. Last Friday the PBOC raised reserve requirements for lenders, the second increase this year.** With managing inflation expectations now a key policy objective, the authorities will be concerned with the building up of inflation momentum. Over the last few months, annualised reads for CPI inflation have been above 5 percent. While higher food prices have boosted the aggregate CPI inflation readings, **the question remains whether quantitative tightening alone will be effective in containing inflation in an environment where lending growth and property prices have been booming.** This sets the scene for an earlier and faster appreciation in the Renminbi, which will add support to the turn we've already seen in the USD (by lessening its pressure to remain low against the currencies of other OECD nations).
- > **Australian employment continues to surprise on the upside, which carries three important implications.** First, it's hard to see how the RBA cannot raise rates in March. Second, this will naturally keep the NZD/USD linked to AUD/USD performance, but there is a growing likelihood the NZD/AUD falls below 75 cents given the massive divergence in monetary policy settings (and unemployment rates). Finally, the massive unemployment rate divergences suggest we'll see a strong pickup in emigration across the Tasman over the coming months. With the housing market now well-and-truly past a turning point, weaker emigration will only exacerbate the trend.

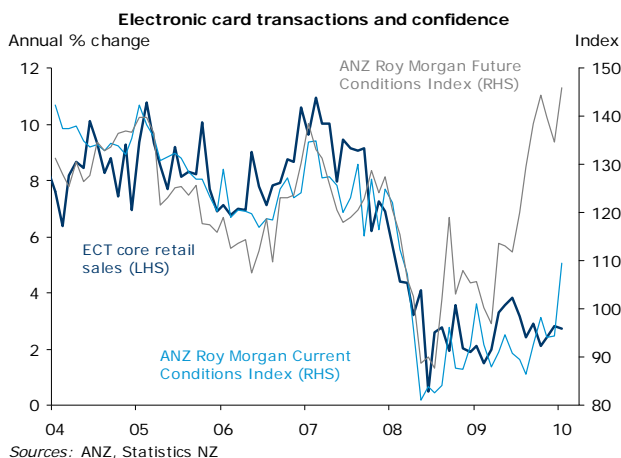


We view the interaction of the above as broadly symptomatic with a global economy

that is navigating a “bathtub with waves” cycle. We detailed what we defined as the five stages in the economic cycle in our January 22<sup>nd</sup> *Market Focus*, where we outlined our key macro themes for 2010. With efforts by policy makers to avoid economic meltdown (stage three) appearing to have worked, the economy is now in the process of transition (stage four). We continue to see the interaction of policy support, pending regulatory changes, ongoing balance sheet repair, populism (versus leadership) and eventual policy exit strategies as creating a huge amount of tension and uncertainty over the outlook. **Hence, we continue to take a guarded view towards the global picture.**

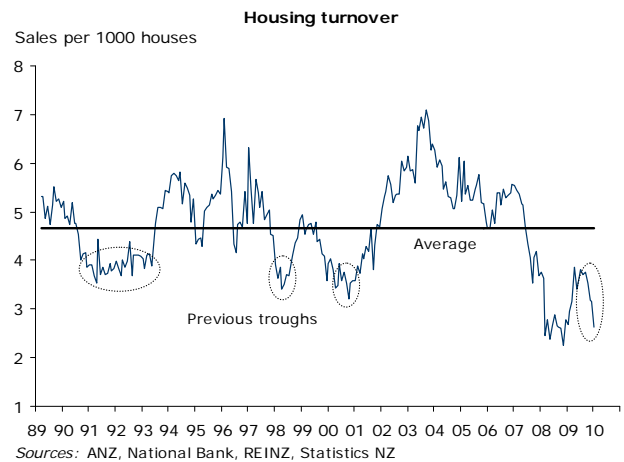
**The local dataflow over the past week has largely been household related. After showing signs of improvement late last year, consumer spending appears to be taking a breather.** As expected, December quarter’s retail trade recorded a solid quarterly (1 percent) increase in volumes. Core sales volumes (which exclude fuel and vehicle related expenditure) increased by 1.3 percent. We’d put much of this down to a statistical bounce off lows. **However, we were surprised by the weakness of the December monthly figures, with core sales down by 1.8 percent.** Some of this will no doubt reverse in January (we hate placing too much weight on monthly numbers) but clearly the number itself is a reminder that this recovery pattern is shaping up as fundamentally different given ongoing de-leveraging.

**Electronic Card Transaction data also suggests a slow start to 2010.** Retail related ECT rose 0.5 percent in January, but the increase was due to higher fuel prices. Core ECT spending was down 0.1 percent. **This week’s ANZ Roy Morgan consumer confidence survey – as a gauge of pending retailing trends - is shaping up as a key barometer.**



**January REINZ housing market data confirmed that the pick-up in activity and prices that began last April has run out of puff.** The number of number of sales recorded their

largest monthly fall since March 2008 in seasonally adjusted terms. Housing price data confirm that the uptrend in prices that began early last year has ended. Prices in seasonally adjusted terms have been flat since late last year.



**More timely RBNZ loan approvals show no sign of improvement and suggest that the January slump may not be a one-off.** Housing approvals are at their weakest for this time of the year since the RBNZ starting compiling this data (late 2003).

**We’re not getting overly excited over the recent run of soft data.** We were at the more conservative end anyway, given the weight we placed on de-leveraging and credit growth as barometers and dominant themes. Data does tend to run in strings and we are merely in a soft patch. Our travels around the country still detect an improving tone, albeit a gradual one.

**That said, we have tweaked our interest rate expectations somewhat.** Specifically, we’ve altered our June 50 bps move to 25. We still see a 50 at some stage but suspect it will more likely be in 2011 (N.B: we have a two-stage tightening cycle within our forecasts, and now view the second stage as starting with a 50). This in part reflects the run of data, and our suspicion that the data is going to be very volatile over the mid-year, given the combination of cyclical and structural (i.e. tax changes) influences. For now the risk remains tilted towards a later start (or not at all in 2010), but we’ll resist wholesale changes and hold on to the view that an underlying aura of improvement is underway (and also some wariness we have towards Q1 inflation). But this is heavily caveated on the global scene holding its act together, an area we hold some reservations over.

**Last week’s speech by the PM outlined policy measures to achieve a step change in New Zealand’s economic performance.** We won’t go into detail (which would be hard to do anyway given that none were really released), but will concentrate on some key points and the underlying spirit:

- > **Tax changes reside at the centre of pending changes.** Like it or not, the tax system is broken and this needs to be addressed. The presented options (GST to 15 percent, lower income tax, the ruling out of a land tax and capital gains tax but the flagging of ceasing depreciation allowances to property investors) look pretty demure relative to what could have been. But we suspect they are part of a grand plan, and every journey starts with the first step.
  - > **There were some encouraging murmurings in the speech** in regard to increasing the availability and flexibility of labour, getting better outcomes from the education system, tightening benefit criteria, unlocking the nation's natural resource endowments and continuing to press ahead on trade negotiations. But the real issue is simple: is it enough to deliver a step change in performance so we get an entrée from Australia's table, as opposed to the crumbs? The jury is out.
  - > **There is going to be considerable noise in the economic data over the coming months and year.** Spending may be bought-forward in anticipation of GST hikes, and property investors may sit on their hands until they know the final details.
  - > **The near-term impact of the changes will be negative for growth.** While details are scant, the mere speculation of changes will lead to altered behaviour across the economy. While designed to be fiscally neutral, the bottom line is that those with heavy weightings in high-beta assets (notably housing) lose out while those on incomes with a lower propensity to consume tend to gain. The mix in the medium-term is positive for the economy, but there is an adjustment hurdle to get through first.
  - > **Abstracting from the near-term GST impact on inflation, the implications of the policy changes for medium-term inflation appear to be mildly reassuring:**
    - The tax changes are likely to reduce the attractiveness of property investment as a tax hedge. This could dampen property values, and cool consumer spending. There could be a temporary inflation impact as some property investors put up rents to recoup higher costs.
    - Lower taxation on labour income is likely to have a beneficial impact on labour supply.
    - Other measures to boost labour supply (via stricter benefit testing) may help alleviate medium-term inflationary pressures via containing wage pressure of the low-skilled.
  - > **A huge amount of expenditure restraint is required if tax priorities are to be met.** There is simply not enough cash available via raising GST to 15 percent or tightening the rules on depreciation and housing to fund sizable tax cuts and compensate low income earners for higher GST. This can only be achieved if complimented by material fiscal restraint over a number of years.
- For now the jury remains out on how material these initiatives will be over the medium-term.** Yes, they will be positive. But Australia is a moving target. At a minimum the scene has been set for some material (if not ground-breaking) changes. **This, in combination with other dynamics, reinforces the transition stage we believe the New Zealand economy will enter in 2010.**
- Recent local data...**
- > **Electronic Card Transactions – January month.** Retail related ECT rose 0.5 percent in the month, but the rise was largely due to higher fuel prices. Core ECT spending (ex-fuel and vehicle related) fell by 0.1 percent. Employment concerns may be weighing.
  - > **Food Price Index – January month.** Monthly food prices rose by 2.1 percent in the month (up 2.2 percent from a year ago). This followed five consecutive monthly falls. Significant upward monthly contributions from chicken, fresh milk, tomatoes and soft drinks. Prices appear to be finding a floor.
  - > **BNZ Business NZ PMI – January month.** The decline in the Manufacturing index to 53 from 52 suggests a slower pace of expansion.
  - > **REINZ housing statistics – January month** Sales numbers fell by 17 percent and median days to sell were flat at 36 days in seasonally adjusted terms. The REINZ Housing Price Index rose by 0.3 percent in seasonally adjusted terms to be 6.9 percent up on the year.
  - > **Retail Trade Survey – December quarter** Total retail sales were unchanged, core (ex-fuel and vehicle related) sales fell by 1.8 percent in the December month. Volumes increased by 1.0 percent, with core volumes up by 1.3 percent in the quarter.

## A GREEK TRAGEDY?

As the drama in Greece unfolds we thought it would be useful to come up with a simple but objective measure of sovereign risk. We ranked the OECD countries on a series of favourable and unfavourable characteristics, and used those rankings to create a diffusion index. European countries dominate those with a negative overall score – meaning that they had more unfavourable than favourable characteristics. By contrast, NZ and Australia compare favourably.

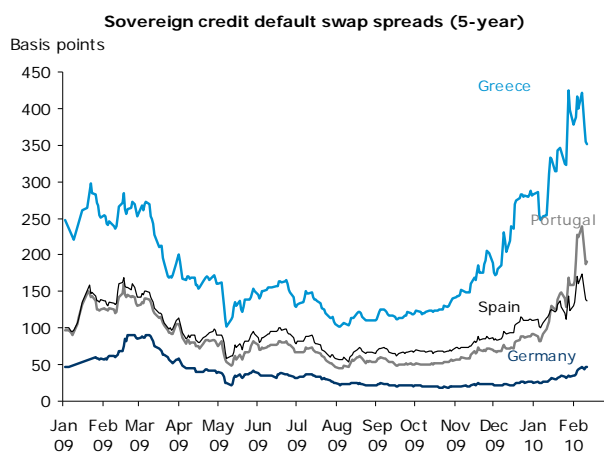
### Will the contagion spread?

**Concerns over the potential for sovereign credit default have arisen in recent weeks, resulting in volatility across global markets.**

Attention has been squarely focused on Greece, though other countries with high public debt levels are also coming under scrutiny. Greek 5-year credit default swap spreads blew out past 400bps in early February, while Portugal's went past 200bps.

**News last week that European leaders have reached an agreement to assist Greece is encouraging.** But the fact that details are lacking mean it is unlikely to be the end of the matter.

**The fiscal crisis facing Greece is not necessarily an isolated one.** As we have noted before, the global financial crisis saw a large chunk of debt being transferred from the private sector to the public sector. **A "shuffling" exercise may have mitigated systemic downside risks in 2009, but it has not altered the basic proposition that debt drove the global economy into this jam, and de-leveraging is the only sustainable way out.** While the fiscal policy response in the initial stages of the crisis was correct, namely to lean on the government's balance sheet and run expansionary fiscal policy, with this comes pending pressure for fiscal consolidation or the so-called fiscal exit strategy.



Sources: ANZ, National Bank, Bloomberg

To help us identify potential areas of susceptibility, **we have constructed a simple indicator of**

**vulnerability.** Our intention was to come up with a considered but intuitively simple measure of overall risk for each country, recognising that this is precisely the way markets tend to digest data. By ranking each country against a list of unfavourable characteristics, and then comparing this against its ranking in a list of favourable characteristics, we have been able to compile a diffusion score.

**Of course, such measures are never going to be sophisticated enough to capture individual country specific aspects** (and nor do we profess to be experts towards some nations). However, like most indicators **it is the underlying spirit and trends that are important.**

**The unfavourable characteristics we analysed were:**

- > Net government debt (% GDP);
- > 2010 Government deficit (% GDP);
- > 2010 structural deficit estimate (% GDP);
- > Unemployment rate (harmonised measures);
- > Current account deficit (% GDP);
- > External debt (US\$ per capita).

As a general rule, unfavourable characteristics tended to be based on hard data, and we were careful to include stock (e.g. the amount of debt) and flow (e.g. annual deficit) measures. It is conceivable that there is a degree of double counting here, but we felt it was important to emphasis quantitative measures of indebtedness, as this is what markets are focussing on.

**The favourable characteristics we analysed were:**

- > GDP per capita (PPP basis);
- > Population;
- > Foreign reserves (SDR per capita);
- > Equity market capitalisation (% GDP);
- > An index of "Economic Freedom";
- > An index of "Political Instability";
- > A measure of currency flexibility.

Favourable characteristics were a mix of hard data and qualitative scores, and again these were chosen in recognition of the things markets tend to focus on. For example, we all know the US is highly indebted, but it is big, rich and sophisticated. By contrast, Greece is viewed as being politically unstable and rates poorly in surveys of economic freedom, and these are characteristics markets tend to shun, particularly where debt is involved. We also included a measure of currency flexibility and a measure of equity market depth in the list of favourable characteristics. This is because we felt that a floating exchange rate provides a natural

release valve at times of pressure – and while the euro is a freely floating currency, those in the euro have fixed exchange rates amongst each other. Given the degree of intra-European trade, this could be considered a source of enormous stress. Equity market depth was included as a proxy for reliance on debt – the idea being that the more sophisticated your equity market is, the less reliant you are on debt markets.

**A net diffusion index links the two to give an economy's overall score.** A negative score means a country has more unfavourable than favourable characteristics – and could be at the forefront of market attention. By contrast, countries with a positive score are likely to be viewed positively by markets – or at least given greater latitude.

### Key results

Country	Overall Score
Greece	-23
Portugal	-19
Ireland	-14
Italy	-13
Spain	-13
France	-11
Poland	-11
Hungary	-8
Belgium	-6
United Kingdom	-4
Iceland	-3
Czech Republic	0
United States	0
Austria	1
Germany	1
Japan	3
Netherlands	7
Canada	8
Finland	9
<b>New Zealand</b>	<b>9</b>
Denmark	14
Sweden	15
Norway	16
<b>Australia</b>	<b>19</b>
Switzerland	23

Our analysis highlights the following:

- > **Greece ranks highly in terms of unfavourable characteristics** like government debt, unemployment, and current account balance. But they are hardly alone in this regard, with the US and UK also faring poorly on that score. However Greece ranks

low in a comparison of favourable characteristics, such as size, GDP per capita, economic freedom, political stability, and exchange rate flexibility.

- > **Portugal, Italy, Ireland and Spain also rank high on unfavourable characteristics**, and are not too dissimilar to Greece in many respects. But when comparing the favourable characteristics, it's Greece that scores poorly amongst the group.
- > **European countries dominate the OECD, and our study group – but they also dominate the list of countries with negative scores.** This makes them more likely to be the focus of market attention.
- > **NZ and Australia compare relatively favourably**, particularly in regards to the fiscal position, currency flexibility, and a high degree of economic freedom.
- > **The US escapes a negative score.** It may be heavily indebted, but as noted earlier, it is big, rich, and sophisticated. **This does not excuse the US, it merely gives it more time to sort out its untenable position.**

### The bottom line

Ultimately it is a combination of unfavourable and favourable characteristics that are most important for markets. Favourable characteristics do not forgive ills but they do give greater flexibility in terms of the pending adjustment process. Despite the prospect of a Greek rescue package, **there are clearly challenges ahead, with a huge amount of concentration and contagion risk in the euro area.** This is expected to accentuate pressure on the euro, and bias the USD upwards as the surprise package of 2010.

**With markets now turning to points of differentiation (as opposed to the "trend is your friend" strategy of 2009), sovereign debt is once again a major fundamental.** Not only is it set to be de-stabilising, particularly for currency and debt markets, but it will ultimately force discipline and difficult choices. Key question marks will surround whether private sector de-leveraging and balance sheet repair has progressed sufficiently that the same adjustments can manifest in the public sector without destabilising the former. We continue to view such tensions as consistent with our "bathtub with waves" shaped cycle.

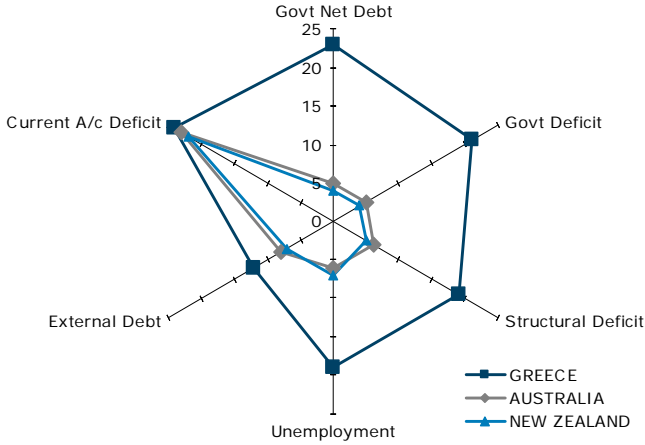
### Addendum

As an addendum we have included a series of "cobweb" diagrams on the next page which give a visual illustration of how selected countries compare on the various measures we analysed. The further out along the cobweb a country lies, the more it has the particular characteristic noted.

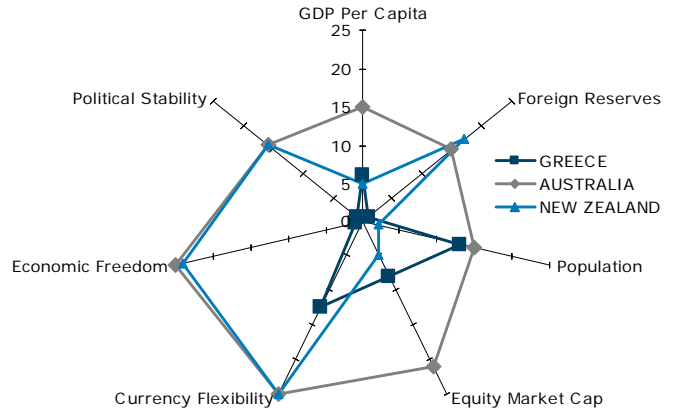
Ideally, the best cobweb combination is a small one for unfavourable characteristics, and a big one for favourable characteristics. See charts below.

**Cobweb diagrams**

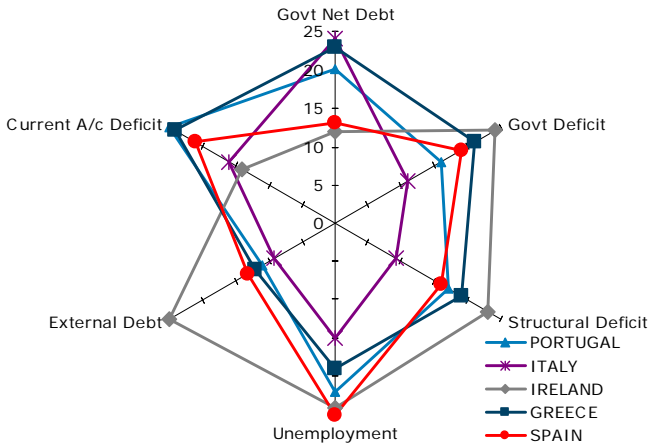
**Ranking of Unfavourable Characteristics**



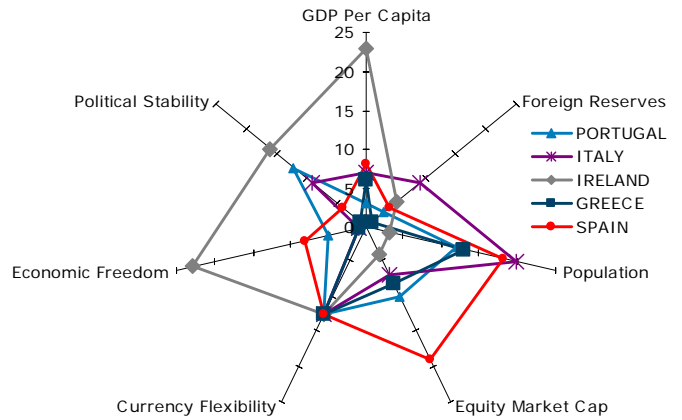
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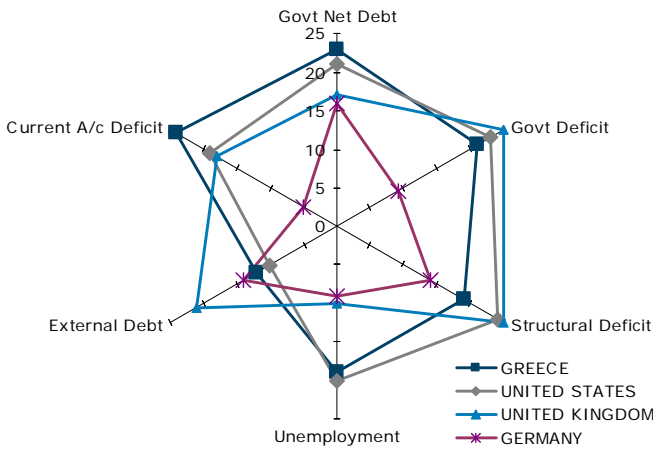
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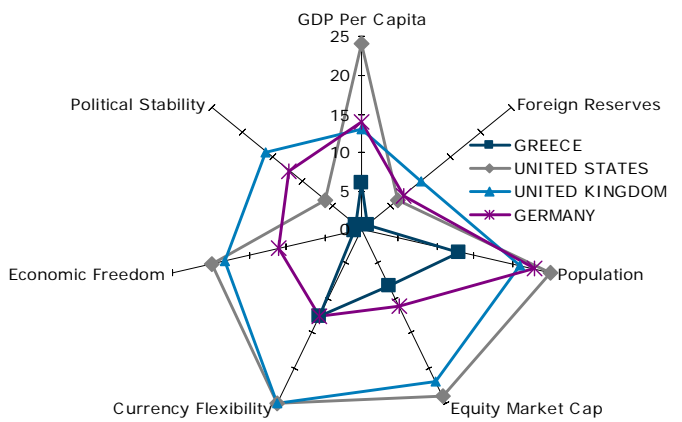
**Ranking of Favourable Characteristics**



**Ranking of Unfavourable Characteristics**



**Ranking of Favourable Characteristics**



Data sources: ANZ, OECD, the BIS, the World Bank, the Economist Intelligence Unit, and the Heritage Foundation

## MONTHLY INFLATION GAUGE<sup>1</sup>

Our monthly inflation gauge recorded a 0.4 percent increase in January, following flat results over the previous two months. The rise likely reflects seasonal price increases and a base effect from the previous month's weakness. Therefore, we are not reading too much into the rise at this stage.

Our monthly inflation gauge has been broadly flat since the middle of 2009, barring the sharp rise in July 2009 which was influenced by increases in local authority rates and government related charges. The 0.4 percent increase in our gauge over January has bucked this trend.

The major driver of the January increase was a sharp rise in the alcoholic, beverages and tobacco group. However, this rise follows a decline recorded over December. Also adding to the overall increase in the gauge were increases in the price for professional services. The labour market may be weak and wage growth at its softest for almost a decade, but this does not seem to be holding back price increases for some services.

Other prices we collected for our gauge were largely steady. This included prices for health related services, which followed six months of reasonable increases. Rent data from the Department of Building and Housing continues to flatline, and the housing related group in our gauge was largely unchanged in the month.

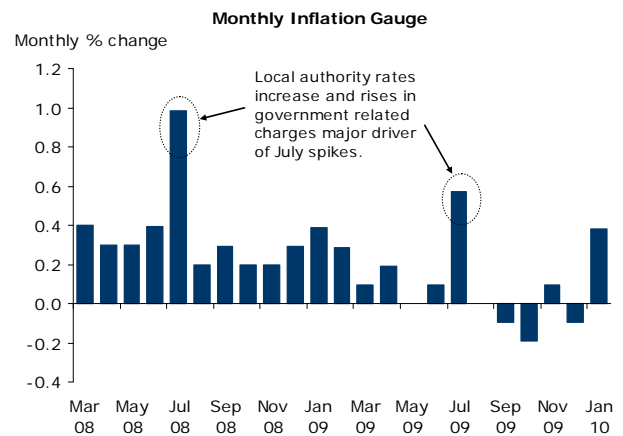
At this stage, we are not reading too much into the increase in our gauge over January. There is likely to be some seasonality at play. This should become more apparent as we get a longer time series for our inflation gauge. Possibly also inflating the January increase somewhat are base effects from the previous month's low reading.

Looking ahead to the rest of the quarter, we know that increases in education fees over February will push our gauge higher. In addition, we have not noticed much passthrough in price from the annual indexation of the tobacco excise tax. We can expect an increase in the price for tobacco and cigarettes at some stage from this. Hence, the

<sup>1</sup> Our monthly inflation gauge is intended to provide a timely indication of domestic inflation trends. For simplicity, we have limited ourselves to a domestic (i.e. non-tradable) inflation measure. The inflation gauge is designed to be as comparable as possible to the official Statistics NZ non-tradable CPI series. However, the gauge will not exactly mirror the official series due to coverage and methodological differences. Our main priority is to come up with a gauge that is timely and able to provide an indication of domestic inflation trends. This will allow us to assess the extent and the direction of inflation pressures. Note that our gauge is still in the experimental stages, and is subject to further refinements.

March quarter non-tradable CPI increase is unlikely to be as soft as last quarter's 0.1 percent rise.

In terms of the performance of our gauge so far, the results to date are encouraging. While it has underestimated the increase in non-tradable CPI over the second half of last year, it did pick the easing trend in domestic inflation pressure that was evident from the middle of last year. And even though the December quarter non-tradable CPI print was not as weak as what our gauge was suggesting, it did come in soft nonetheless. In that regard, our gauge is providing some valuable information on the broad trends, even if it misses the occasional quarter. We will be closely monitoring the inflation gauge over the coming months to see if domestic inflation pressures remain contained, or whether the trend is starting to turn higher.



Source: ANZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Feb-08	1000			
Mar-08	1004	0.4		1.1
Apr-08	1007	0.3		
May-08	1010	0.3		
Jun-08	1014	0.4	0.9	0.9
Jul-08	1024	1.0		
Aug-08	1026	0.2		
Sep-08	1029	0.3	1.6	1.3
Oct-08	1031	0.2		
Nov-08	1033	0.2		
Dec-08	1036	0.3	0.7	0.8
Jan-09	1040	0.4		
Feb-09	1043	0.3		
Mar-09	1044	0.1	0.9	0.7
Apr-09	1046	0.2		
May-09	1046	0.0		
Jun-09	1047	0.1	0.4	0.5
Jul-09	1053	0.6		
Aug-09	1053	0.0		
Sep-09	1052	-0.1	0.6	1.0
Oct-09	1050	-0.2		
Nov-09	1051	0.1		
Dec-09	1050	-0.1	-0.2	0.1
Jan-10	1054	0.4		



## INTEREST RATE STRATEGY

Early optimism that 2010 would be the year the recovery would take hold has faded and markets have a decidedly cautious air about them. Almost every NZ data release this year has disappointed, bringing with it a change in sentiment. The RBNZ looks set to deliver less and later, keeping a lid on interest rates.

### Market themes...

- > Leading indicators may paint a rosy picture. However, hard data are suggestive of a more tenuous recovery. Expect a delayed and more subdued response from the RBNZ.
- > Sovereign debt concerns will be felt in NZ. But our analysis shows that NZ measures up favourably, which suggests the disruptions will be generalised, rather than specific to NZ.

### Review and outlook

Regular readers may be aware that we chose to borrow RBNZ Governor Bollard's "Meaty Chunks" quip as the title our February 1 *Market Focus*. Those sentiments seemed appropriate at the time. China had rebounded so quickly that monetary authorities had to rein it in, US data was improving, and the RBA was set to tighten policy again as Australia's economy accelerated. Greece's woes were starting to become a talking point, but it wasn't the main story. But things look quite different now. Markets are watching developments in Greece with eagle eyes, with the EUR twitching on every headline. Meanwhile, China is set to ramp up the pace of monetary tightening, and may even allow its exchange rate to appreciate by as much as 5 percent. Perhaps worse still, domestic data has been much softer than expected. Unemployment surged in Q4, retail sales slumped, and house prices fell. This is leaving something of a bitter aftertaste, and one that's not going away.

So what does all this mean? For the most part, it means a delayed tightening cycle. With the OCR already at such an accommodative stance, it's up to swap rates and the NZD to respond – and they have – to the point where markets may have even overdone the extent of the delay. We only say that as markets tend to have a tendency to want to over-emphasise rate hikes.

Sovereign debt concerns are also a de-stabilising influence. However, as our research topic (see page 5) suggests, NZ stacks up well in a peer comparison, so we don't expect NZ to be singled out as "contagion" spreads. But there will likely be some fallout, and the associated rise in risk aversion will have an impact on credit pricing, giving the RBNZ even more cause to be cautious.

### Borrowing strategies we favour at present

The prospect of a delayed and more subdued tightening cycle suggests borrowers should be cautious about hedging. Even though market expectations of rate hikes have adjusted to the point where markets are pricing in a scenario close to our forecasts, they are pricing in reasonably hefty hikes by historic standards, especially over the next 2 years. This isn't surprising given how low the OCR is – however what's the point in hedging for 1-2 years with this much tightening priced in. What we do find ironic is that the market has a subdued attitude towards long-term prospects, but is willing to price in plenty of rate hikes over the next 2 years. If anything, we see the next 2 years as being quite stressed, but our long-term prospects look okay. With 4-7 year swap rates around 5-5.50%, which would be low by pre-2008 standards, we favour those tenors for borrowers looking to have certainty of interest costs. But with this much uncertainty, we favour options, and keeping overall hedge ratios relatively low.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	Less and later seems to be more appropriate now.
NZ data	↔/↓	There has been virtually no strong data in 2010 so far.
Fed Funds / front end	↔	Rates are headed higher in 2010, but not for a while.
RBA	↔/↑	Strong jobs data puts a March hike back in sight.
US 10 year	↔/↓	Sovereign credit wobbles providing significant safe haven bid – even for the US!
NZ swap curve	↔/↑	Biased to steepen. Local data soft, risk aversion up.
Flow	↔	Has been light. Shorts have been cleaned out.
Technicals	↔	No clear signals. Uptrend has been broken.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Mar-10	+1	+2
Thu 29-Apr-10	+10	+4
Thu 10-Jun-10	+37	+26
Thu 29-Jul-10	+64	+60
Thu 16-Sep-10	+89	+87
Thu 28-Oct-10	+117	+112
Thu 9-Dec-10	+144	+138

### Trading themes we favour at present

Yields are set to remain subdued and the curve biased to steepen, and roll supports a mild long position. NZ 10yr yields are likely to continue to compress on a spread against the US and Australia on growth and credit quality differences.

## CURRENCY STRATEGY

The divergence between Australia and NZ's economic performance has become too big to ignore. The employment gains across the Tasman contrast starkly with the lack of employment growth evident here. This suggests the NZDAUD cross should continue to come under downward pressure.

### Market themes...

- > The NZD and AUD are clearly on different growth trajectories. The cross is yet to fully reflect this widening differential.
- > Greece continues to weigh on the euro, despite the EU leaders' pledge to provide support.
- > Equities/commodities/currency correlation stronger than ever.
- > China raises the reserve requirement ratio again, as articles of a property bubble emerge.

### Review and outlook...

**The economic dataflow continues to print strongly in Australia**, with last week's employment outturn yet again surprising on the topside. **The contrast with NZ could not be clearer**, with an unemployment rate of 7.3 percent here compared to Australia's 5.3 percent. Very weak NZ retail sales and housing market data last week further reinforces the contrasting performance of the antipodean nations. The NZDAUD cross is currently around 5.3 percent below its historical average, hence the differential story is partly reflected in the currency. However, **with the recovery momentum looking like it is starting to wane in NZ, the NZDAUD should continue to come under further downward pressure**. This will be reinforced if market expectations regarding the RBNZ get pared back and the RBA steps up to the plate and deliver a hike in March.

**Among the majors, the euro continues to be dragged down by developments over Greece**. While support was pledged by EU leaders, details were light and the finance ministers meeting this week reportedly will not be discussing specific ways of supporting Greece. It is interesting that ECB President Trichet came out to stress that the EU commitment was strong enough to him prior to the market's open today.

**The currency market is likely to be more influenced by the headlines this week than by the dataflow**. The USD could well continue to gain from safe haven flows. The People's Bank of China unexpectedly raised the reserve requirement ratio for the second time this year, then went on holiday for Chinese New Year. This will leave the market wondering if there is an asset bubble and how

much more tightening we can expect. This is not a positive environment for high yielding currencies.

The technical levels this week are all in the NZDAUD with 0.7813 and 0.7755 the major support levels (0.7755 goes back to 1989). We expect these to be tested and a break can see the cross head quickly toward 0.7500 and below. Do not think this is impossible for we have spent many years below 0.7700 in the past

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both hards and softs still coming under downward pressure.
Partial indicators	↔/↓	Australian data still strong. NZ's starting to wane.
Technicals	↔	Major support levels at 0.7813 and 0.7755.
Sentiment	↔/↓	Market still treating NZ and AU the same.
Other	↔/↓	RBA minutes and NAB confidence key to watch this week.
<b>On balance</b>	↔/↓	<b>Yield and growth story too hard to ignore.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔/↓	Market pushing RBNZ hikes back.
Commodities	↔/↓	Commodities back in recent range but still under pressure.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔/↓	US data still improving. NZ's not.
Technicals	↔/↓	Support at 0.69 200 day moving average.
AUD	↔	Resistance at 0.8980.
Sentiment	↔/↓	Outcome of EU finance ministers meeting to be closely watched.
Other	↔	Equities still big driver of FX.
<b>On balance</b>	↔/↓	<b>Still like it lower with topside at 0.7020.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
15-Feb	<b>NZ</b>	<b>BNZ Business NZ PSI</b>		<b>56.0</b>	<b>10:30</b>
	UK	Rightmove House Prices – mom - Feb		0.4%	13:01
	JN	GDP – qoq – Q4	0.9%	0.3%	12:50
	JN	Industrial Production – Dec F – mom		2.2%	17:30
16-Feb	<b>NZ</b>	<b>PPI Inputs – qoq –Q4</b>	<b>0.5%</b>	<b>-1.1%</b>	<b>10:45</b>
	<b>NZ</b>	<b>PPI Outputs – qoq –Q4</b>	<b>0.4%</b>	<b>-1.4%</b>	<b>10:45</b>
	AU	NAB Business Confidence		8	13:30
	UK	CPI – mom - Jan	-0.1%	0.6%	22:30
	UK	Core CPI – yoy - Jan	3.2%	3.8%	22:30
	GE	ZEW Survey – Economic Sentiment – Feb	41.0	47.2	23:00
	GE	ZEW Survey – Current Situation – Feb	-53.0	-56.6	23:00
17-Feb	US	Empire Manufacturing - Feb	18.0	15.92	02:30
	US	Net Long-term TIC Flows - Dec	\$50.0bn	\$26.6bn	03:00
	US	Fed's Hoening speaks at Budget Forum in Washington			06:00
	US	NAHB Housing Market Index - Feb	16	15	07:00
	US	ABC Consumer Confidence – Feb 15		-48	11:00
	AU	Westpac Leading Index – mom - Dec		1.0%	12:30
	JN	BOJ Monetary Policy meeting	0.1%	0.1%	17:00
	EC	Eurozone Trade Balance – s.adj. – Dec	€3.9bn	€3.9bn	23:00
18-Feb	US	Building Permits - Jan	615k	653k	02:30
	US	Housing Starts - Jan	580k	557k	02:30
	US	Industrial Production – mom- Jan	0.8%	0.6%	03:15
	US	Minutes of FOMC Meeting			08:00
	<b>NZ</b>	<b>ANZ Roy Morgan Consumer Confidence Index – Feb</b>			<b>15:00</b>
18-Feb	US	Fed's Plosser speaks on Financial Crisis in Philadelphia			06:45
19-Feb	US	Initial Jobless Claims – week to Feb 14	430k	440k	02:30
	US	Continuing Claims – week to Feb 7	4500k	4538k	02:30
	US	PPI – mom – Jan	0.8%	0.2%	02:30
	US	PPI ex Food & Energy – mom – Jan	0.1%	0.0%	02:30
	US	Philadelphia Fed - Feb	17.0	15.2	04:00
	AU	RBA Governor to appear before House of Reps Committee			11:30
	GE	Producer Prices – mom - Jan	+0.3%	-0.1%	20:00
	US	Fed's Bullard speaks to Economics Club in Memphis			14:30
	<b>NZ</b>	<b>Credit Card Spending – mom – Jan</b>		<b>-1.3%</b>	<b>15:00</b>
	GE	PMI Manufacturing - Feb	53.8	53.7	21:30
	GE	PMI Services - Feb	52.4	52.2	21:30
	EC	PMI Manufacturing - Feb	52.5	53.5	22:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
19- Feb	EC	PMI Services – Feb	52.7	52.4	22:00
	EC	PMI Composite - Feb	53.5	53.7	22:00
20-Feb	US	Consumer Price Index - Jan	0.3%	0.1%	02:30
	US	CPI ex Food and Energy – mom - Jan	0.1%	0.1%	02:30

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:** The dataflow over the coming weeks mainly relates to how well Q4 last year fared, which we suspect recorded decent growth. We will be paying closer attention to forward looking gauges to see whether the momentum from the end of last year carried through into the early part of this year. In this regard, the ANZ Roy Morgan Consumer Confidence and the National Bank Business Outlook surveys will be important reads.

Date	Data/Event	Economic Signal	Comment
Tue 16 Feb (10.45)	Capital Goods Price Index (Dec qtr)	Modest increase	Of historical relevance only.
Tue 16 Feb (10.45)	Producers Price Index (Dec qtr)	Still margin pressure	Volatility caused by the Fonterra payout movements mean not too much should be read into the headline numbers. Margin pressure should still be evident among most sectors.
Wed 17 Feb (15.00)	NBNZ Regional Trends (Dec qtr)	How strong?	We will get an indication of how Q4 GDP could shape up from the Regional Trends release.
Thu 18 Feb (15.00)	ANZ Roy Morgan Consumer Confidence (Feb)	Still perky?	After a good start to the year, we will see whether confidence stays high once consumers get their credit bills in the mail.
Wed 24 Feb (15.00)	RBNZ Survey of Expectations (Mar qtr)	Steady	We were surprised at the previous quarter's rise, and are looking for a steady print for this release.
Thu 25 Feb (15.00)	Credit Growth (Jan)	Anaemic	No signs of a pick-up in business spending expected from the credit data. Neither will subdued household debt growth cause too much concern for the RBNZ.
Thu 25 Feb (15.00)	National Bank Business Outlook (Feb)	Still optimistic?	This will be the first read of business confidence for the year. We will be paying close attention to whether last year's sentiment has translated through into investment and hiring intentions.
Fri 26 Feb (10.45)	Trade Balance (Jan)	Rebalancing	Recent improvements in NZ's major export commodity prices are still to flow through and imports are expected to stay weak. It points to ongoing improvements in the annual trade balance.
Fri 26 Feb (10.45)	Building Consents (Jan)	Bounce?	December's decline was a surprise. We think January will show a rebound, but recent weakness in house sales suggest the strong cyclical upswing we were expected may be under threat.
Mon 1 Mar (15.00)	International Travel and Migration (Jan)	Still coming but for how long more?	The labour market difference between NZ and Australia is getting stark. A turnaround in net migration is likely sooner rather than later.
Mon 1 Mar (15.00)	ANZ Commodity Price Index (Feb)	Feeling the global blues?	Given the recent sell-off in global commodity prices, we will see the extent that NZ's soft commodity basket has been affected. The overall level remains high compared to historical averages.
Friday 5 Mar (10.45am)	Wholesale Trade Survey (Dec qtr)	Up	Retail trade data suggests positive quarter. We will be seeing whether stocks continue to be run down.
Mon 8 Mar (10.45am)	Value of work put in place (Dec qtr)	Building	Expect bounce-back from Q3. Lower house sales points to weakness ahead.
Mon 8 Mar (10.45am)	Economic Survey of Manufacturing (Dec qtr)	Up	Will watch ex meat and dairy volumes for indication of Q4 GDP. Expect fall in primary production to be offset by higher non-primary production
Tue 9 Mar (10.45am)	Electronic Card Transactions (Feb)	Flat	Will be interested to see whether the January slowdown in core ECT spending persists.
Wed 10 Mar (10.45am)	Overseas Trade Indexes (Dec qtr)	Up	Increases in export commodity prices are likely to flow through into higher export prices. The stronger NZD is likely to contain increases in import prices.
<b>On Balance</b>		<b>Improving but not racing away</b>	<b>Positive momentum but off a low base.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
GDP (% qoq)	-0.9	-0.9	0.2	0.2	<b>0.9</b>	<b>0.5</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.7</b>
GDP (% yoy)	-2.5	-3.0	-2.1	-1.3	<b>0.5</b>	<b>1.8</b>	<b>2.2</b>	<b>2.6</b>	<b>2.2</b>	<b>2.4</b>
CPI (% qoq)	-0.5	0.3	0.6	1.3	-0.2	<b>0.2</b>	<b>0.7</b>	<b>0.9</b>	<b>0.8</b>	<b>0.5</b>
CPI (% yoy)	3.4	3.0	1.9	1.7	2.0	<b>1.9</b>	<b>2.0</b>	<b>1.6</b>	<b>2.7</b>	<b>3.0</b>
Employment (% qoq)	0.5	-1.1	-0.5	-0.8	-0.1	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>
Employment (% yoy)	0.9	0.8	-0.9	-1.8	-2.4	<b>-1.2</b>	<b>-0.6</b>	<b>0.5</b>	<b>1.0</b>	<b>1.4</b>
Unemployment Rate (% sa)	4.7	5.0	6.0	6.5	7.3	<b>7.5</b>	<b>7.5</b>	<b>7.3</b>	<b>7.0</b>	<b>6.9</b>
Current Account (% GDP)	-8.7	-7.9	-5.6	-3.1	<b>-1.8</b>	<b>-1.3</b>	<b>-1.7</b>	<b>-2.4</b>	<b>-2.4</b>	<b>-2.4</b>
Terms of Trade (% qoq)	-1.0	-2.7	-9.4	-1.2	<b>3.9</b>	<b>2.9</b>	<b>2.1</b>	<b>0.5</b>	<b>0.2</b>	<b>-0.3</b>
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	<b>-9.5</b>	<b>-4.3</b>	<b>7.8</b>	<b>9.7</b>	<b>5.8</b>	<b>2.6</b>

## KEY ECONOMIC INDICATORS

	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10
Retail Sales (% mom)	0.6	0.6	0.1	-0.5	1.2	0.2	0.1	0.8	0.0	..
Retail Sales (% yoy)	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.3	..
Credit Card Billings (% mom)	2.7	-0.3	0.1	0.1	1.2	-0.7	0.1	0.8	-1.3	..
Credit Card Billings (% yoy)	-1.6	-2.3	-2.0	-2.0	0.0	-2.3	-0.4	1.5	1.8	..
Car Registrations (% mom)	-1.4	-2.0	6.0	7.0	-3.1	7.7	0.8	2.3	6.7	-0.8
Car Registrations (% yoy)	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9
Building Consents (% mom)	12.7	2.8	-9.1	4.9	2.5	5.3	13.2	0.1	-2.4	..
Building Consents (% yoy)	-56.5	-23.4	-24.0	-16.8	-8.8	-12.0	27.7	20.3	23.6	..
REINZ House Price (% yoy)	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7
Household Lending Growth (% mom)	0.3	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	..
Household Lending Growth (% yoy)	2.5	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	104.6	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4
NBNZ Business Confidence	-14.5	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..
NBNZ Own Activity Outlook	-3.8	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..
Trade Balance (\$m)	322	906	-331	-178	-717	-561	-502	-276	2	..
Trade Balance (\$m annual)	-4070	-2994	-3110	-2491	-2360	-1669	-1177	-860	-517	..
ANZ World Commodity Price Index (% mom)	2.6	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4
ANZ World Commodity Price Index (% yoy)	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5
Net Migration (sa)	2000	2540	1620	2460	1610	1830	2150	1730	1710	..
Net Migration (annual)	9176	11202	12515	14488	15642	17043	18560	20021	21253	..

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)						
	Nov-09	Dec-09	15-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.731	0.716	0.696	0.700	0.680	0.670	0.650	0.640	0.640	0.640
NZD/AUD	0.794	0.793	0.785	0.787	0.782	0.779	0.765	0.780	0.810	0.831
NZD/EUR	0.490	0.490	0.511	0.507	0.504	0.504	0.500	0.500	0.508	0.516
NZD/JPY	65.3	64.1	62.7	62.3	61.2	61.6	61.1	61.4	62.7	64.0
NZD/GBP	0.440	0.440	0.444	0.438	0.430	0.427	0.419	0.413	0.416	0.416
NZ\$ TWI	65.2	64.6	64.54	64.4	63.4	63.1	62.1	62.0	63.0	63.8
NZ interest rates	Nov-09	Dec-09	15-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
OCR	2.76	2.76	2.50	2.50	2.75	3.25	3.75	3.75	4.25	5.00
90 day bill	2.80	2.78	2.75	2.80	3.20	3.70	4.10	4.10	4.90	5.50
10 year bond	5.88	5.90	5.85	5.50	5.50	5.60	6.00	6.20	6.40	6.50
International	Nov-09	Dec-09	15-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00
US 3-mth	0.26	0.25	0.25	0.25	0.30	0.35	0.85	1.35	1.85	2.10
AU cash	3.50	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25
AU 3-mth	4.03	4.28	4.23	4.40	4.80	4.90	5.00	5.00	5.10	5.60

## KEY RATES

	12 Jan	8 Feb	9 Feb	10 Feb	11 Feb	12 Feb
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.78	2.76	2.76	2.75	2.76	2.74
NZGB 11/11	4.25	3.83	3.81	3.85	3.91	3.86
NZGB 04/13	4.94	4.58	4.56	4.59	4.65	4.60
NZGB 12/17	5.77	5.52	5.50	5.53	5.59	5.55
NZGB 05/21	6.05	5.84	5.82	5.85	5.89	5.85
2 year swap	4.57	4.23	4.21	4.21	4.32	4.25
5 year swap	5.50	5.23	5.20	5.20	5.30	5.24
RBNZ TWI	66.9	64.1	63.7	64.3	10.5	64.5
NZD/USD	0.7401	0.6881	0.6845	0.6938	0.6978	0.6974
NZD/AUD	0.7987	0.7951	0.7913	0.7925	0.7865	0.7845
NZD/JPY	68.24	61.46	61.19	62.24	62.73	62.55
NZD/GBP	0.4603	0.4409	0.4391	0.4425	0.4463	0.4448
NZD/EUR	0.5109	0.5045	0.5009	0.5043	0.5064	0.5101
AUD/USD	0.9266	0.8654	0.8650	0.8755	0.8872	0.8890
EUR/USD	1.4485	1.3640	1.3666	1.3759	1.3780	1.3671
USD/JPY	92.21	89.32	89.40	89.71	89.89	89.69
GBP/USD	1.6078	1.5605	1.5589	1.5680	1.5634	1.5678
Oil	82.54	71.15	71.87	73.71	74.48	74.11
Gold	1151.25	1066.60	1066.45	1075.65	1077.90	1093.40
Electricity (Haywards)	4.91	6.35	7.54	7.19	7.19	6.50
Milk futures (US\$/contract)	126	108	108	108	108	108
Baltic Dry Freight Index	3160	2722	2706	2630	2575	2571

### 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.

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