

Market Focus

New Zealand

21 September 2009

A FAIR (VALUE) QUESTION

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Page 2: Economic overview

- > This week's data is expected to provide some comfort, with an improving external position and the last quarter of negative growth before forward momentum resumes. However, a sustained recovery requires more than a mere cyclical improvement in the external position. A house-view towards a weak USD and positive AUD has necessitated material changes to our NZD projections. Foreign, as opposed to domestic fundamentals, dominate. It has our W shaped economic cycle for NZ. Inc written all over it.

Page 4: Economic comment – currency fair value update

- > Our fair value work on currencies is built around structural inputs: namely economic inputs that tend to stick over time as opposed to those that wax and wane. An average of seven specifications puts fair value at 0.62 for the NZD/USD, 0.81 for the NZD/AUD and 62 on a TWI basis. These models are irrelevant for picking cyclical movements. However, they are critical in so far as anchoring medium-term currency projections are concerned. Invariably the rubber band becomes taut.

Page 7: Data previews – NZ June quarter BoP and GDP

- > The current account deficit is expected to improve to 6.7 percent of GDP, while the GDP numbers should show a quarterly contraction of 0.3 percent.

Page 8: Interest rate strategy

- > A heavy local data calendar is unlikely to have as much impact on the rates market as offshore events. The FOMC announcement is the main focus. We look set for a period of range trading, but pressure on the curve to steepen will continue.

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- > This week, the G20 leaders meeting is the wild card, while the FOMC is likely to be over analysed. We expect a continuation of the wait and see approach for the latter. In NZ, the current account could be the other big surprise as one-offs contribute to a considerable improvement in the deficit. Can the US sale of US\$112 billion of notes this week see any demand for the USD?

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ECONOMIC OVERVIEW

This week's data is expected to provide some comfort, with an improving external position and the last quarter of negative growth before forward momentum resumes. However, a sustained recovery requires more than a mere cyclical improvement in the external position. A house-view towards a weak USD and positive AUD has necessitated material changes to our NZD projections. Foreign, as opposed to domestic fundamentals, dominate. It has our W shaped economic cycle for NZ. Inc written all over it.

What's ahead?

- > **June quarter Balance of Payments** (Tuesday 1045 NZST). We expect a reasonable improvement in the annual current account deficit in the quarter to 6.7 percent of GDP. Refer to page 7 for our full preview note.
- > **Q3 Westpac-McDermott Miller Consumer Confidence** (Tuesday 1400 NZST). A modest improvement in consumer confidence is expected in the quarter, as the housing market stabilises and interest rate reductions gain traction. However, a weak labour market will remain a big cloud over consumer sentiment.
- > **June quarter GDP** (Wednesday 1045 NZST). A 0.3 percent contraction is expected. Refer to our preview note on page 7.
- > **August Overseas Merchandise Trade** (Friday 1045 NZST). A trade deficit is typically recorded in August and this year is expected to be no different. However, with import demand remaining subdued, we expect a deficit slightly smaller than usual (\$400 million).

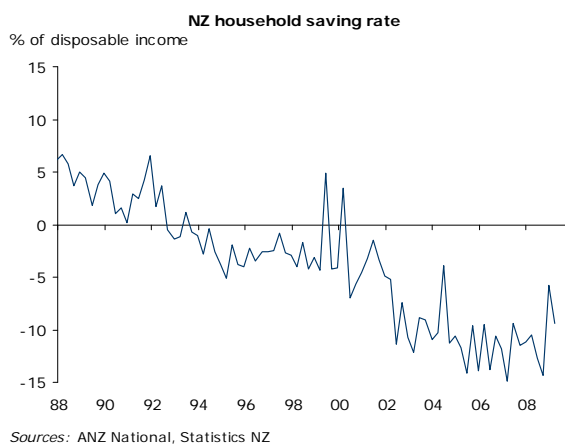
What's the view?

We were provided with a clear reminder last week that the "green shoots" party is not yet an open invite. Manufacturing remains weak. Housing is obviously getting a lot of attention and last week's REINZ data depicted clear perkiness, although limited evidence of a market that is really kicking on. Consumer spending remains subdued, despite this improvement in the housing market, benefits of lower mortgage rates and solid gains in net migration. Reported aggressive price discounting from retailers and a general improvement in consumer sentiment has also not had a material affect on spending. Headline and core retail sales both contracted 0.5 percent in July. Electronic Card Transactions for August (released the week prior but only rising 0.2 percent) suggests subdued spending has continued. Discretionary or big ticket items, in particular, continue to be shunned. Growth indications for Q3 are not off to a flash start.



We continue to see subdued domestic demand as a critical component of the economy's rebalancing process. To be fair, part of the reason for the weak spending can be put down to cyclical pressures on household incomes (subdued wage growth and rising unemployment saw income growth in Q2 fall and likely the same in Q3). But, it goes beyond this. There are structural aspects including: de-leveraging, altered credit appetites (supply, demand and price), reassessed expectations towards the property market and the rebuilding of the precautionary savings buffer.

Household savings have improved, but nowhere near far enough. Household savings statistics in NZ are poor and only produced annually, so we resort to a proxy series. According to our estimates, the household (dis)savings rate has improved from over -14 percent to around -9 percent of disposable income. But it is clear that the \$2 billion in tax cuts and \$1 billion reduction in household debt servicing costs have not been spent. Ironically, the more evidence we see of people squirreling money away, the more optimistic we become about prospects 24 months out.



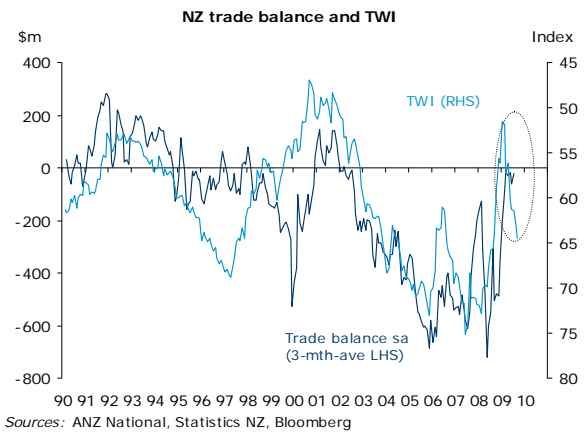
This week has seen some substantial upward revisions to our currency projections. This reflects a house-view towards a weak USD (i.e. rising EUR/USD through until year-end) and positive view of the AUD (which is expected to push through 90 cents). For the NZD, this means more upside prodding and continued elevation into 2010.

From a pure NZ standpoint, we continue to scratch our heads over the endgame here. It has our W shaped economic cycle for NZ. Inc written all over it. The stubbornly high NZ dollar is unsustainable and we find ourselves sympathising heavily with the RBNZ and Minister of Finance. We struggle to see how a nation with a net external liability position of 100 percent of GDP can sustain an elevated currency for an elongated period. For sure, dairy commodity prices have recovered but what about the other 80 percent of exports? So while we'll respect the price action and global sentiment, the spirit of our view remains very wary in terms of how the adjustment for the NZ economy and currency may pan out.

Data this week forces us to take a bit of a step back in time. As recent indicators and our musings over previous editions of the *Market Focus* have touched on, the economy is most likely out of recession now. Although as our discussion above suggests, it is clearly not marching away. Data due this week is largely historical in nature, with June quarter Balance of Payments and GDP numbers released. Our preview note is on page 7, but we expect the numbers to show a reasonable improvement in the annual current account deficit to 6.7 percent of GDP and for GDP to record a 0.3 percent quarterly contraction. For the latter, it will be the sixth consecutive quarterly decline, but most likely the last this year.

Consumer confidence will likely record a marginal improvement. The Westpac McDermott-Miller consumer confidence gauge largely follows movements in the more timely Roy Morgan measure. The latter has been rising over the past few months and as a result, we expect the former to also post a small increase in Q3. The magnitude could be up to a 10 point increase, taking the index to 115. However, with the labour market remaining weak, this should remain a key factor capping consumer optimism.

The annual trade deficit is expected to improve further. A monthly trade deficit is typically recorded in August months, and we expect this year to be no different, with a deficit of \$400 million expected. However, our expectation is for a smaller (August) deficit than has been the case over the past five years and should contribute to another improvement in the annual trade deficit. Weak consumer spending suggests that import demand remains sluggish and we are continuing to hear anecdotes of still robust demand from China for our exports. This will help ensure the current account deficit continues to improve into year end. However, the latest moves higher in the NZD do suggest that the recent improvements to the trade balance may not be sustained. This is something that needs to be watched closely.



Sources: ANZ National, Statistics NZ, Bloomberg

Finally, Fonterra could potentially announce an update of their payout forecast this week. Recent rises in dairy prices have lifted sentiment in the industry and there are widespread murmurings of a lift in the \$4.55/kg ms payout for 2009/10. Looking at the numbers, 30 cents higher looks feasible but of course this is only the start of the season and there is 10 months to go. Nonetheless, this would be a positive if it was to occur, although we'd characterise it as allowing some of the stresses in the industry to be worked through in a more orderly fashion, as opposed to delivering nirvana. Of course it will also pay to keep in mind that the flagged payout is not necessarily what farmers get in the pocket, so keep an eye on discussions on retentions.

Internationally, the G20 head of state meeting will get plenty of attention. With previous support now gaining traction, we suspect a topic that will get plenty of airtime is regulation and the overhaul of the financial system. In terms of other events, the FOMC rate decision is near the top of the list, with the focus being on any changes to the Fed's QE programme or talk of exit strategies. In terms of data, the German IFO survey and US durable goods orders are the main releases.

Recent local data...

- > **Retail Trade Survey (July):** Headline and core retail sales both fell by 0.5 percent.
- > **Economic Survey of Manufacturing (June quarter):** Total manufacturing sales volumes rose 1.8 percent, although excluding meat and dairy manufacturing, sales fell 2.8 percent.
- > **BNZ-Business NZ PMI (August):** The seasonally adjusted index fell 0.9 percentage points to 48.7.
- > **REINZ House Sales (August).** Seasonally adjusted house sales fell 1.9 percent. The median price rose to \$346,750, to be up 5.1 percent on a year ago. The median days to sell fell to 33 days.

CURRENCY FAIR VALUE UPDATE

Our fair value work on currencies is built around structural inputs: namely economic inputs that tend to stick over time as opposed to those that wax and wane. An average of seven specifications puts fair value at 0.62 for the NZD/USD, 0.81 for the NZD/AUD and 62 on a TWI basis. These models are irrelevant for picking cyclical movements. However, they are critical in so far as anchoring medium-term currency projections are concerned. Invariably the rubber band becomes taut.

We regularly update a number of currency models. Probably the most important are our structural fair value (FV) estimates. Our FV estimates are an average across seven different specifications that are in one way or another engrained in economic theory. The estimates are based on the notion to use as many models as possible but to trust none of them. Economic inputs include inflation, interest rates (short and long-term), current account positions, terms of trade, productivity (unit labour costs) and economic volatility. All are estimated jointly as part of a system.

In so far as picking near-term directional movements in currencies, such structural models are pretty much worthless. The market invariably latches on to "themes". These tend to change or switch on and off from time to time, and typically the inputs into currency models (i.e. commodities and risk appetites) that drive such momentum are harder to forecast than currencies themselves.

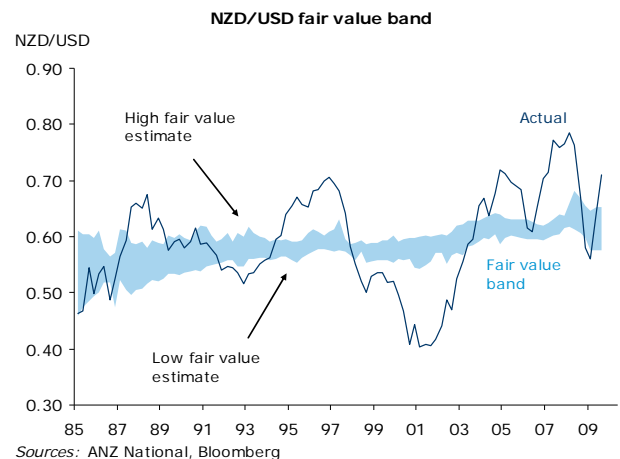
Nonetheless, we see structural estimates as a critical currency tool. They give an idea where the currency is likely to reside on average over the business cycle, which in turn anchors medium-term views and are essential for businesses to assist in making long-term investment decisions.

At the core of currency forecasting should be issues that will remain persistently relevant as opposed to temporary near-term themes that the market may latch on to. The idea that fair value for the NZD/USD can swing from 50 to 70 cents is simply poppycock and reflects a market that swings with themes of the day as opposed to focusing on fundamentals that stick over time.

FV measures are also useful for showing tensions. There is no doubt currencies can and will divert from economic fundamentals, and this can take place for a number of years. But invariably the rubber band becomes taut.

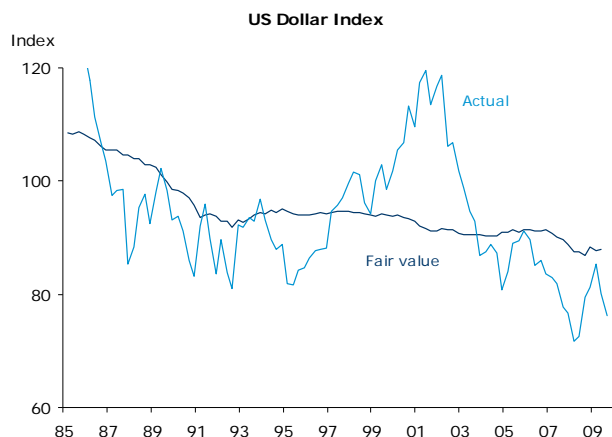
So what are the main results?

- > **FVs are reasonably similar to the last time we updated this work.** This is hardly surprising. FV estimates tend to be slow moving, unlike cyclical estimates that can move rapidly given movements in the VIX or interest rate differentials for example.
- > **NZD and AUD FVs are slightly lower** (0.62 for NZD and 0.76 for AUD c.f. with 0.64 and 0.78 previously). The main driver behind the declines are relative terms of trade movements (after removing the business cycle), but also developments on the productivity front. The latter area is something to keep an eye on, particularly in relation to the USD.
- > **The range of spot FV estimates for the NZD/USD is 0.58 to 0.65.** Generally speaking all estimates have moved in a similar fashion over time with a high-low range of around 5 to 10 cents.



- > **Both NZD and AUD estimates are higher relative to long-term averages, which are often quoted.** We remain comfortable saying FV is now higher for both in a structural sense vis-à-vis the USD than say 10 years ago. This is pretty well accepted. We have simply taken it a step further and put some actual science into the calculations and analysis.
- > **The approach puts fair value for the NZD/AUD closer to 81 cents** which is well below often quoted fair value estimates. Key here is relative terms of trade movements, external positions and unit labour costs.
- > **Relative to FVs, most of the majors are "overvalued" against the USD.** The only major to be near fair value is the GBP, while the EUR is still the most "overvalued". The USD/JPY is also sitting at an extreme relative to valuations based on structural inputs. Our composite USD index puts it as 13 percent undervalued. Relative to history this is not what we would consider extreme.

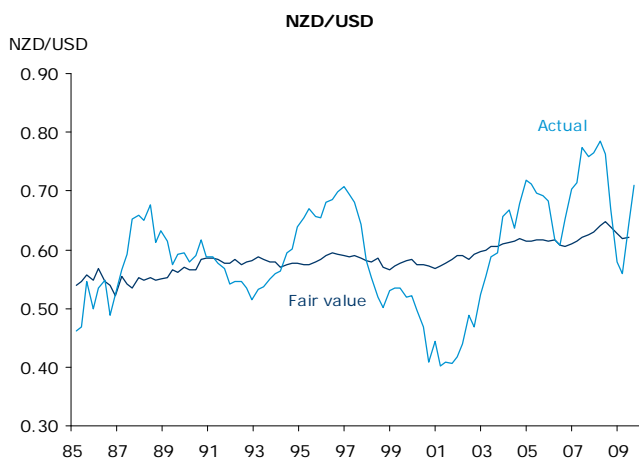
> Interestingly, the “implied” NZ TWI is reasonably close to fair value, highlighting that it really is a case of the USD being “undervalued” at present.



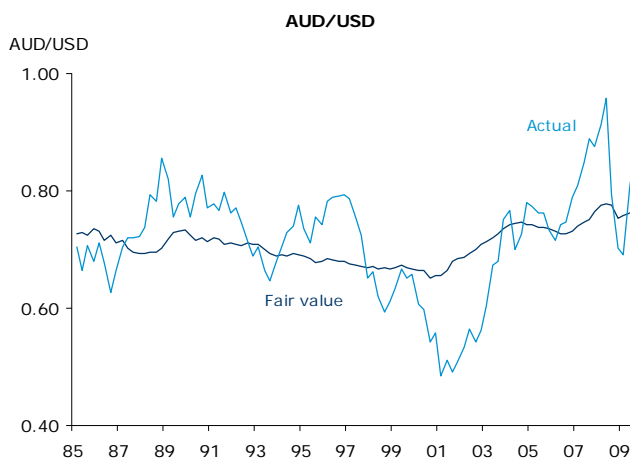
Sources: ANZ National, Bloomberg

Currency	Fair value	Current	Deviation from fair value (%)
NZD/USD	0.621	0.708	14.1
AUD/USD	0.763	0.867	13.6
EUR/USD	1.238	1.470	18.7
GBP/USD	1.690	1.624	-3.9
USD/JPY*	107.3	91.4	-14.8
USD/CAD*	1.224	1.070	-12.6
USD/SEK*	7.859	6.882	-12.4
USD/CHF*	1.206	1.030	-14.6
Dollar Index	87.97	76.55	-13.0
NZD/AUD	0.814	0.817	0.4
NZ TWI	62.20	64.55	3.8

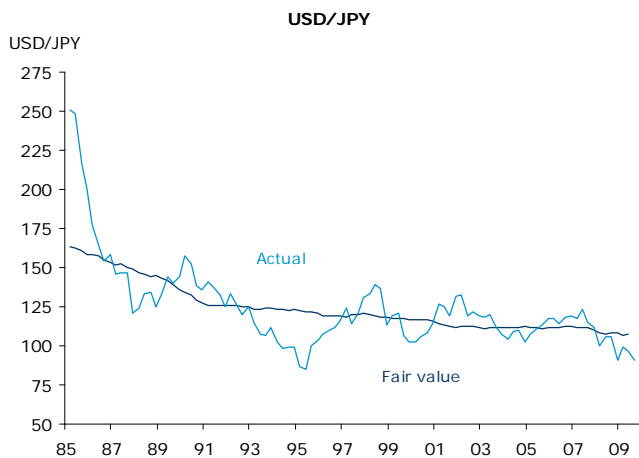
* A negative deviation from fair value for these currencies represents overvalued.



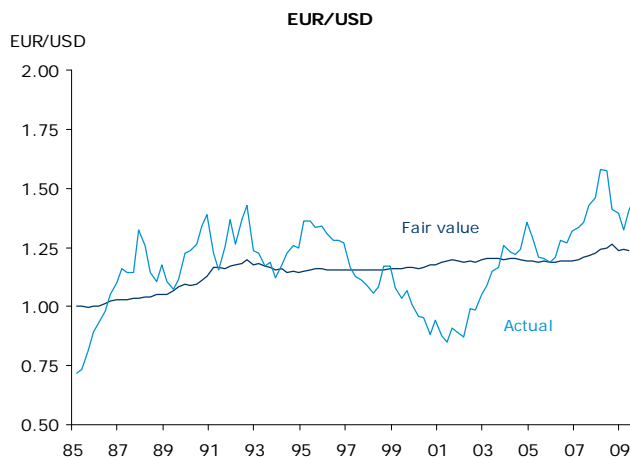
Sources: ANZ National, Bloomberg



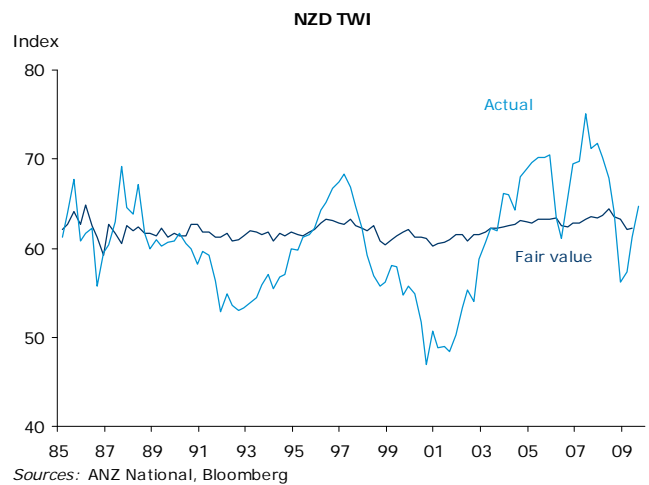
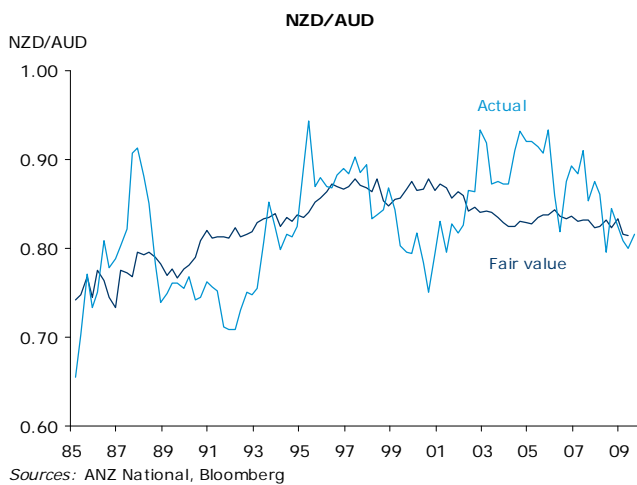
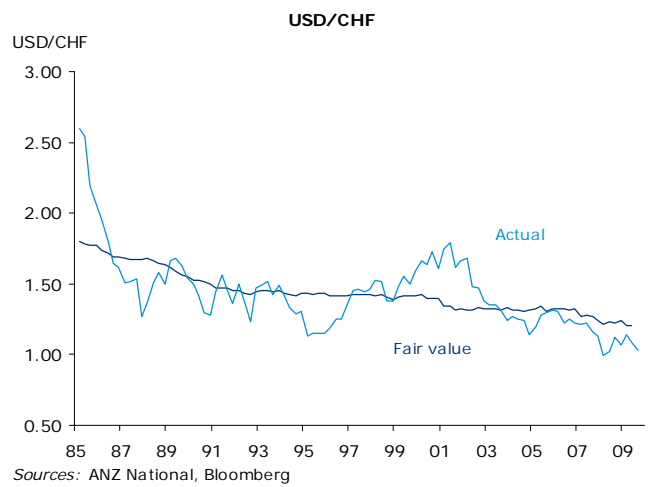
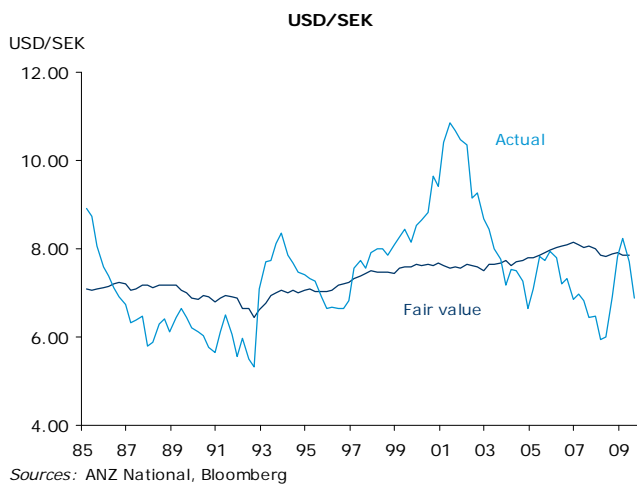
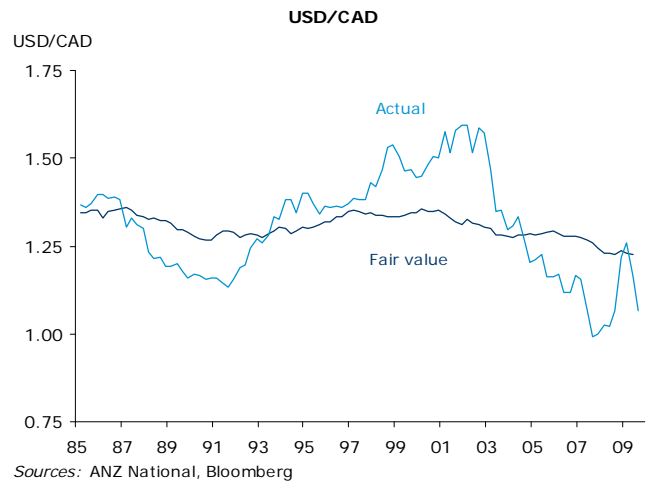
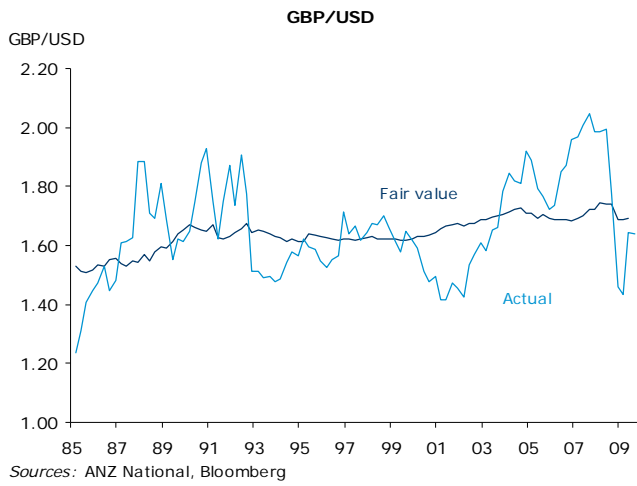
Sources: ANZ National, Bloomberg



Sources: ANZ National, Bloomberg



Sources: ANZ National, Bloomberg



DATA PREVIEWS

Current account – June 2009 quarter

(due Tuesday 22 September 10.45am)

	ANZ National	RBNZ	Market
Quarter	-\$783m	-	-\$1,724m
Annual	-\$12,104m	-	-\$13,040m
% of GDP	-6.7	-6.9	-7.2

A narrower trade deficit, improvements in the invisibles balance and some one-offs are expected to lead to a sharp correction in the annual current account deficit. However, the improvement does not look sustainable.

The current account deficit should improve sharply in the June quarter. We expect the annual current account deficit to reduce from 8.5 percent of GDP to 6.7 percent in the June quarter. In percentage point terms, this would be the biggest improvement in the current account deficit since December 1975. An annual goods surplus, largely due to a capitulation in imports, and a sharp drop in the income earned by foreign companies operating in NZ (read banks) are the big contributors to the reduction in the deficit.

We expect further improvement in the current account deficit into year end. The same drivers of the improvement in the June quarter should continue over the remainder of the year. In addition, lower interest rates (locally and globally) contribute to reduced debt servicing costs and we envisage the current account deficit narrowing to around 5 percent of GDP by year-end. Subdued credit growth and weak consumer spending show that households continue to de-leverage. A 5 percent deficit will stabilise the ratio of net foreign liabilities at around 100 percent of GDP.

The improvement in the current account does not look sustainable. Collapsing import volumes (down over 20 percent from their peak) have been the main contributor and with signs domestic demand is stabilising to picking up, we suspect imports will rebound sharply in 2010. At the same time, a higher NZ dollar is frustrating hopes of an export led recovery.

Financial market implications

We continue to harbour concern regarding the endgame for the economy given the mix of growth and large reliance on offshore capital to fund a savings shortfall. This requires more than a cyclical correction. But in-so-far as Tuesday's release is concerned, the market appears to be on the high side and has failed to capture some one-offs that will impact on the net investment income deficit for the quarter. **So while we remain wary, this batch of data may well be a pleasant (less negative) surprise.**

GDP – June 2009 quarter

(due Wednesday 23 September 10.45am)

	ANZ National	RBNZ	Market
QoQ	-0.3	-0.1	-0.2
YoY	-2.8	-2.6	-2.7
Ann. Ave.	-1.9	-1.9	-1.9

The June quarter is expected to mark the final (6th) quarter of recession. A slower rate of contraction will add weight to the view the recession is over. The components are expected to be a mixed bag and we expect inventory movements to introduce a fair degree of volatility into year-end.

Production GDP is expected to contract 0.3 percent in Q2. This will be the sixth consecutive quarterly contraction (although most likely the last), marking the longest recession for NZ since the 1970s. This will also take the cumulative GDP loss since the recession began to 3.3 percent.

The components are a bit of a mixed bag this quarter. The largest contributor to the weakness in the quarter is again expected to be the manufacturing (ex primary) sector. It alone is expected to knock 0.3 percentage points off GDP growth in the quarter and see its total cumulative loss topping a whopping 19 percent. It clearly illustrates the impact the global recession has had on the tradable sector. On top of this, the construction, transport and storage and agricultural sectors are also expected to record negative growth in the quarter. Offsetting this to a degree is a reasonable rise in business services (linked to improved activity in the housing market). The electricity sector is also expected to make a reasonably positive contribution to growth given a large increase in hydro generation in the quarter.

On an expenditure basis, a large contribution from net exports (2 percentage points) is expected to be met by a considerable run-down in inventories and weak investment. Residential investment should deteriorate following the surprise flat result in Q1, while business investment is expected to be weak. Inventories are expected to knock 0.6ppt off growth in the quarter and a rebuild off such levels will add some natural support to the economy in H2 2009.

Financial market implications

We doubt there will be anything in the release to get the market excited. The volatile inventory component is where the main surprise factor resides and if we do see that in Q2, then we will simply adjust what we have pencilled in for H2. We continue to monitor the mix to growth as well as momentum itself. Beyond Q2, the economy has turned the corner, but questions surround the durability.

INTEREST RATE STRATEGY

A heavy local data calendar is unlikely to have as much impact on the rates market as offshore events. The FOMC announcement is the main focus. We look set for a period of range trading, but pressure on the curve to steepen will continue.

Market themes...

- > Mixed domestic data had minimal impact on rates. Volatility in global rates dominated.
- > Generally positive offshore dataflow sees payside interest emerge.
- > But liquidity very thin and flows had more of an impact on pricing than usual. Expect this to be the case into month end.

Review and outlook

NZ rates loosely followed offshore moves last week but held within a tight range. Pricing was shunted around on flows in another illiquid period. The 2-year broke above 4 percent but seemed to find solid receiving interest around 4.05 percent. The dataflow was mixed with strong housing but weak retail sales and manufacturing data. The latter probably capped the upside for the market later in the week. A lack of mortgage paying also restricted the sell off with other banks following the move to drop floating rates. The current steepness in the mortgage curve seems likely to cap payside flow beyond 1-year. The recent swap curve steepening held in although there was limited pricing or flow. The close out of the September futures contract was fairly tame, although a rush for end of bucket selling of early Dec bills saw the 90 day bank bill spike higher the previous day to 2.85 percent.

The NZGB tender went very well on Thursday with bids of \$1.2b in the Nov 11's, \$360m in the 13's and \$470m in the 21's, with all bids clustered within fairly tight ranges. This led the DMO to run a tap tender on Friday with a further \$200m of 11's successfully issued. While domestic prudential issues are seeing increasing demand for NZ government bonds by banks, a massive maturity of local authority bonds in Australia could be seeing offshore investors looking across to the NZ market as an alternative, with the improving liquidity in the NZGS market making it more appealing as well.

This week we could head slightly higher in rates, especially if the global outlook continues to improve. This is probably keeping offshore receiving interest restricted with big and fast rallies in NZ rates probably unlikely. We see value in playing the carry trade and letting the 2-year received position accrue down the curve. Of the week's dataflow, the major one is the Q2 GDP

print, though it will largely be read as historical and unlikely to get much of a reaction unless there is an outside surprise. Wednesday's Fonterra announcement on the payout could keep up the payside in swap rates, but we think the 2-year probably will stay within a 3.95-4.1 percent range.

Borrowing strategies we favour at present

We continue to envisage rates remaining low for some time, a view validated by the RBNZ's recent MPS. Our strategy is to stay floating to take advantage of the cashflow advantage, particularly given the steepening yield curve. With the market still pricing in rate hikes too early, in our view, we continue to favour options for hedging purposes.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	Set for a period of monetary policy stability. RBNZ on hold until late next year.
NZ data	↔/↑	Q2 GDP to confirm small contraction, but Q3 to see positive growth resume, though at a subdued pace.
Fed Funds / front end	↔	FOMC this week to reiterate low rates for an extended period. Size of QE unlikely to be expanded.
RBA	↑	Next move is up, but timing depends on the data.
US 10 year	↔	Very volatile on flows and speculation about Fed's QE programme.
NZ swap curve	↔/↑	Further steepening pressure on the curve expected.
Flow	↔	Liquidity to be thinner than usual as we head into bank financial year end.
Technicals	↔	2-year yield look set for a 3.95%-4.1% range.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 29-Oct-09	-2	0
Thu 10-Dec-09	0	+1
Thu 28-Jan-10	+4	+8
Thu 11-Mar-10	+24	+24
Thu 29-Apr-10	+34	+36
Thu 10-Jun-10	+66	+67
Thu 29-Jul-10	+84	+90

Trading themes we favour at present

With monetary policy set for a period of stability, we believe carry will play a more important part in speculative positioning. We see value in receiving the 2-year swap above 4%, and favour going into a 2s10s steepener position. Both benefit from positive carry.

CURRENCY STRATEGY

This week, the G20 leaders meeting is the wild card, while the FOMC is likely to be over analysed. We expect a continuation of the wait and see approach for the latter. In NZ, the current account could be the other big surprise as one-offs contribute to a considerable improvement in the deficit. Can the US sale of US\$112 billion of notes this week see any demand for the USD?

Market themes...

- > NZ GDP and current account numbers this week.
- > Profit taking could see USD strengthen. Sell this strength.
- > The story for the GBP is not so great.

Review and outlook...

The NZD made it as far as 0.7159 last week, but for once finished mid range as the announcements out of the UK of potentially lower interest rates and mounting concerns over the banking sector showed again that the financial crisis is not just confined to the US, but is a global issue and the road to recovery is not a smooth one. NZDGBP hit a new millennium high of 0.4365. But don't worry, if you missed this we suspect there will be another high this week.

GBP performance will likely be the driver of global currency markets this week. The NZD could struggle to continue rallying if risk appetites are reduced and the USD strengthens as concerns over an end to stimulus money come to fruition. The G20 meeting this week could also place global capital in wait and see mode.

The market is now long AUD and to a lesser degree NZD. IMM positioning data shows record longs in both for the year. The rally in gold prices of the last week has also focused less sophisticated eyes on the AUD and suggests that hot money is now playing in the AUD, suggesting the AUD is finally vulnerable to a small correction. 0.8460 is still expected to hold medium term, but with our target of 0.8800 nearly seen last week (0.8776 high) a retracement to this major support can be expected before the next leg of the rally ensues. Fundamental reasons for this retracement include a reduced likelihood of the RBA raising interest rates this year on the back of some softer data and the reduced yield premium over the USD.

The NZ current account deficit has potential to surprise with a reasonable improvement this week as one-offs impact on the invisibles balance. This will be a pleasant surprise, but are unlikely to be maintained given the current mix of growth and the recent increase in the NZD.

This week, the NZD is still expected to only consolidate recent gains in a 0.6960/0.7160 range. Expectations of a small negative Q2 GDP number will have a limited effect. The massive demand for NZ bonds last week resulting in a tap tender on Friday shows that with three quarters of all NZ bonds in foreign hands, offshore demand for our currency is solid. This demand should ensure that the upward trend remains intact for now.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔/↑	Softs catching up with all but gold/silver.
Partial indicators	↔	Both economies improving, but Aussie faster?
Technicals	↔	Range trade now.
Sentiment	↔/↓	Gold fever. Hot money now getting involved.
Other	↔	Asian central banks diversification.
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	↔/↓	Lower for longer from RBNZ, but Fed the same.
Commodities	↔/↑	Starting to improve in line with USD weakness.
Risk aversion	↑	Equities up, yields down. What aversion?
Partial indicators	↔/↓	Inventories being rebuilt, but what about demand?
Technicals	↔/↑	Support at 0.6900.
AUD	↔/↑	Break of 0.8460 targets 0.8800.
Sentiment	↔/↑	USD unloved.
Other	↔/↑	Asian central banks are dominating and more are looking at NZ.
On balance	↔	Higher ranges for now. Central banks and commodities supporting, but a consolidation likely near-term.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
21-Sep	NZ	Visitor Arrivals (Aug) – mom	-	3.9%	10:45
		Credit Card Spending (Aug) – yoy	-	-2.0%	15:00
	UK	Rightmove House Prices (Sep) – mom	-	-2.2%	11:01
	AU	New Motor Vehicle Sales (Aug) – mom	-	-6.9%	13:30
	EC	ECB's Tumpel-Gugerell Speaks on Banking Models in Milan	-	-	19:00
22-Sep	US	Leading Indicators (Aug)	0.7%	0.6%	02:00
		New York Fed's Christine Cumming Speaks on Economic Recovery	-	-	09:30
	NZ	Current Account Balance (2Q)	-1.98B	-1.247B	10:45
		Current Account (2Q) - % of GDP	-7.4%	-8.5%	10:45
		Westpac NZ Consumer Confidence (3Q)	-	106	14:00
23-Sep	US	Richmond Fed Manufacturing Index (Sep)	16	14	02:00
		House Price Index (Jul) – mom	0.5%	0.5%	02:00
		Treasury's Wallace Speaks at BondEdge conference	-	-	04:00
	NZ	GDP (2Q) – qoq	-0.2%	-1.0%	10:45
		GDP (2Q) – yoy	-2.6%	-2.7%	10:45
	AU	DEWR Skilled Vacancies (Sep) – mom	-	1.0%	13:00
	GE	PMI Manufacturing (Sep A)	50.8	49.2	19:30
		PMI Services (Sep A)	54.0	53.8	19:30
	EC	PMI Manufacturing (Sep A)	49.7	48.2	20:00
		PMI Services (Sep A)	50.5	49.9	20:00
		Industrial New Orders (Jul) – mom	2.0%	3.1%	21:00
	UK	Bank of England Minutes	-	-	20:30
24-Sep	US	FOMC Rate Decision	0.25%	0.25%	06:15
	JN	Adjusted Merchandise Trade Balance (Aug)	¥187.7B	¥194.5B	11:50
		Merchandise Trade Exports (Aug) – yoy	-36.5%	-36.5	11:50
		Merchandise Trade Imports (Aug) – yoy	-41.6%	-40.8	11:50
		All Industry Activity Index (Jul) – mom	0.8%	0.1%	16:30
	AU	HIA New Home Sales (Aug) – mom	-	0.1%	13:00
		RBA Releases Financial Stability Review	-	-	13:30
	GE	IFO – Business Climate (Sep)	92.0	90.5	20:00
		IFO – Current Assessment (Sep)	87.7	86.1	20:00
		IFO – Expectations (Sep)	96.6	95.0	20:00
25-Sep	US	Initial Jobless Claims (w/e Sep-20)	550K	545K	00:30
		Continuing Claims (w/e Sep-13)	6190K	6230K	00:30
		Existing Home Sales (Aug)	5.35M	5.24M	02:00
		Fed's Evans Speaks on Asset Prices, Regulation in Chicago	-	-	02:30
	NZ	Trade Balance (Aug)	-329M	-163M	10:45

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
25-Sep cont.	NZ	Imports (Aug)	3.45M	3.34B	10:45
		Exports (Aug)	3.10M	3.18B	10:45
		Trade Balance (Aug) – 12-mth total	-1938M	-2478M	10:45
	JN	BoJ Monetary Policy Meeting Minutes for May	-	-	11:50
		Corp Service Price (Aug) – yoy	-3.5%	-3.4%	11:50
	EC	SNB Conference, hosted by Orphanides	-	-	P SEP
		ECB's Mersch Speaks at Luxembourg Event	-	-	/2009
		Money Supply M3 (Aug) – yoy	2.7%	3.0%	20:00
	UK	Total Business Investment (2Q F) – qoq	-10.4%	-10.4%	20:30
26-Sep	US	Durable Goods Orders (Aug) – mom	0.4%	5.1%	00:30
		Durables Ex Transportation (Aug) – mom	1.0%	1.1%	00:30
		New Home Sales (Aug)	440K	433K	02:00
		University of Michigan Confidence (Sep F)	70.5	70.2	02:00
		Fed's Warsh to Speak at Chicago Fed's Banking Conference	-	-	05:15

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 upcoming dataflow is generally expected to take on an improving trend and one that points to an economy now out of recession. The June quarter GDP result is expected to record another contraction, but of lesser magnitude than recent quarters.

Date	Data/Event	Economic Signal	Comment
Tue 22 Sep (10.45)	Balance of Payments (Jun qtr)	Sharp improvement, but will it be sustained?	A reasonable improvement in the trade balance and lower invisibles deficit should see the current account deficit improve to 6.7 percent of GDP in the quarter.
Tue 22 Sep (14.00)	Westpac McDermott-Miller Consumer Confidence (Sep qtr)	Feeling better	A modest improvement in consumer confidence is expected in the quarter, in line with the Roy Morgan measure, as the housing market stabilises and interest rate reductions gain traction. However, a weak labour market will remain a big cloud over consumer sentiment.
Wed 23 Sep (10.45)	GDP (Jun qtr)	The final quarter of recession?	We expect a 0.3 percent contraction, led by weakness in the manufacturing sector.
Fri 25 Sep (10.45)	Overseas Merchandise Trade (Aug)	Beginning to turn?	With the domestic economy stabilising, import demand is expected to do the same, albeit gradually. We expect a monthly deficit of \$400 million.
Tue 29 Sep (10.45)	Building Consent Issuance (Aug)	On the mend	Residential building consent issuance looks to have turned the corner and is on the recovery path. However, the opposite looks to be the case for non-residential consent issuance.
Tue 29 Sep (15.00)	Credit Growth (Aug)	Housing better, but others still weak	Housing credit growth is likely to continue to improve, albeit modestly. Business and agricultural lending should remain weak.
Wed 30 Sep (15.00)	NBNZ <i>Business Outlook</i> (Sep)	-	-
Mon 5 Oct (15.00)	ANZ Commodity Price Index (Sep)	-	-
Tue 6 Oct (10.00)	NZIER Quarterly Survey of Business Opinion (Jun qtr)	Improving	Following the trends in the National Bank <i>Business Outlook</i> , the QSBO is expected to show improving sentiment and activity. While firms' employment and investment intentions are also expected to improve, they will generally remain weak.
circa 11 Oct	REINZ House Sales (Sep)	Still solid	Activity is likely to again be solid as inventory on the market remains tight. However, we expect this dynamic to ease into year end as more listings come onto the market.
Tue 13 Oct (10.45)	Retail Trade Survey (Aug)	Facing headwinds	De-leveraging consumers and a weak labour market remain large headwinds for consumers. Spending is likely to be positive, but only modestly so.
Wed 14 Oct (10.00)	Financial Statements of Government for the year ended June 2009	Watching the tax take	We expect the numbers to be reasonably close to what was forecast in the May <i>Budget</i> . We will, however, be watching the tax take closely.
Thu 15 Oct (10.45)	Consumers Price Index (Sep qtr)	Underlying softness	Food prices and local authority rate increases should see the CPI rise around 0.8 percent in the quarter. However, non-tradable and other core measure should remain soft.
On Balance		We have found a base	The focus of the dataflow turns to how Q3 is faring, likely the first quarter of positive growth since late 2007. The growth mix does not give the recovery a sustainable fell though.

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	-0.3	0.5	0.4	-0.3	0.2	1.2
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	-2.8	-1.8	-0.4	0.3	0.8	1.5
CPI (% qoq)	1.6	1.5	-0.5	0.3	0.6	0.8	0.4	0.3	0.7	0.7
CPI (% yoy)	4.0	5.1	3.4	3.0	1.9	1.2	2.1	2.0	2.2	2.1
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	-6.7	-5.8	-5.1	-5.1	-5.7	-6.0
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-2.7	-8.9	0.9	0.5	0.5	0.0	0.1
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.0	-13.1	-11.5	-10.2	-7.3	1.9	1.0

KEY ECONOMIC INDICATORS

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Retail Sales (% mom)	0.0	-0.5	-1.2	0.2	-0.1	0.5	0.7	0.1	-0.6	..
Retail Sales (% yoy)	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	..
Credit Card Billings (% mom)	-0.8	-2.2	1.5	0.9	-2.8	2.3	-0.4	0.2	0.1	..
Credit Card Billings (% yoy)	-0.9	-3.8	-2.3	-1.9	-4.8	-1.6	-2.3	-2.1	-2.0	..
Car Registrations (% mom)	-19.5	12.7	-14.2	-14.8	7.3	-1.7	-2.5	6.1	7.0	-3.5
Car Registrations (% yoy)	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3
Building Consents (% mom)	4.5	-5.8	-13.1	12.3	-1.7	11.2	2.9	-9.6	4.9	..
Building Consents (% yoy)	-39.9	-41.4	-51.3	-39.8	-34.2	-56.6	-23.4	-24.1	-16.8	..
REINZ House Price (% yoy)	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1
Household Lending Growth (% mom)	-0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.1	0.3	..
Household Lending Growth (% yoy)	4.8	4.2	3.8	3.1	2.7	2.6	2.5	2.4	2.4	..
Roy Morgan Consumer Confidence	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3	107.0	113.2
NBNZ Business Confidence	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2
NBNZ Own Activity Outlook	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0
Trade Balance (\$m)	-594	-341	-102	483	438	322	905	-332	-163	..
Trade Balance (\$m annual)	-5234	-5614	-5405	-5165	-4684	-4070	-2995	-3112	-2478	..
ANZ World Commodity Price Index (% mom)	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.3
ANZ World Commodity Price Index (% yoy)	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.8
Net Migration (sa)	-210	390	890	1670	1750	2130	2610	1650	2470	..
Net Migration (annual)	3569	3814	4538	6160	7482	9176	11202	12515	14488	..

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)						
	Jul-09	Aug-09	21-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.644	0.675	0.709	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.801	0.809	0.817	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.458	0.474	0.482	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	60.9	64.1	64.7	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.393	0.408	0.437	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	60.6	62.9	64.61	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Jul-09	Aug-09	21-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.73	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.79	2.76	2.79	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.96	6.03	5.62	5.50	5.80	5.80	6.20	6.40	6.50	6.60
International	Jul-09	Aug-09	21-Sep-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	0.48	0.44	0.29	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.00
AU 3-mth	3.20	3.30	3.35	3.50	3.60	3.80	4.30	4.30	4.30	4.30

KEY RATES

	18 Aug	14 Sep	15 Sep	16 Sep	17 Sep	18 Sep
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.76	2.78	2.78	2.77	2.76	2.76
NZGB 11/11	4.02	3.93	3.94	4.02	4.01	3.94
NZGB 04/13	4.91	4.71	4.74	4.81	4.84	4.80
NZGB 12/17	5.81	5.54	5.57	5.65	5.66	5.63
NZGB 05/21	6.24	5.94	5.97	6.04	6.06	6.03
2 year swap	4.10	3.95	3.96	3.96	4.05	4.04
5 year swap	5.40	5.26	5.26	5.26	5.35	5.34
RBNZ TWI	62.7	63.9	64.0	64.3	64.8	64.6
NZD/USD	0.6695	0.6991	0.7018	0.7061	0.7134	0.7104
NZD/AUD	0.8137	0.8149	0.8144	0.8151	0.8159	0.8156
NZD/JPY	63.52	63.24	63.93	64.30	64.98	64.79
NZD/GBP	0.4096	0.4207	0.4222	0.4287	0.4327	0.4334
NZD/EUR	0.4748	0.4806	0.4799	0.4812	0.4845	0.4825
AUD/USD	0.8228	0.8579	0.8617	0.8663	0.8744	0.8710
EUR/USD	1.4100	1.4547	1.4623	1.4675	1.4725	1.4722
USD/JPY	94.88	90.46	91.09	91.07	91.09	91.20
GBP/USD	1.6345	1.6617	1.6623	1.6470	1.6489	1.6393
Oil	66.72	69.34	68.86	70.81	72.50	72.48
Gold	937.65	1002.70	999.20	1009.80	1019.55	1014.20
Electricity (Haywards)	1.46	0.77	0.85	1.36	7.46	0.98
Milk futures (US\$/contract)	92	98	98	98	98	98
Baltic Dry Freight Index	2704	2450	2431	2415	2390	2356

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.
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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.

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