

# Market Focus

New Zealand

22 February 2010

## STICKING WITH THE SCRIPT

### NZ Economics Team:

**Cameron Bagrie**

Chief Economist

Telephone: +64 4 802 2212

E-mail:

[cameron.bagrie@anz.com](mailto:cameron.bagrie@anz.com)

**Khoon Goh**

Senior Markets Economist

Telephone: +64 4 802 2357

E-mail:

[khoon.goh@anz.com](mailto:khoon.goh@anz.com)

**David Croy**

Senior Interest Rate Strategist

Telephone: +64 4 576 1022

E-mail:

[david.croy@anz.com](mailto:david.croy@anz.com)

**Mark Smith**

Economist

Telephone: +64 4 802 2199

E-mail:

[mark.smith2@anz.com](mailto:mark.smith2@anz.com)

**Steve Edwards**

Economist

Telephone: +64 4 802 2217

E-mail:

[steve.edwards@anz.com](mailto:steve.edwards@anz.com)

**Kevin Wilson**

Rural Economist

Telephone: +64 4 802 2361

E-mail:

[kevin.wilson@anz.com](mailto:kevin.wilson@anz.com)

### Page 2: Economic overview

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### Page 4: More on Sovereign risk

- > In last week's Market Focus we ranked 25 OECD countries against a series of variables, with the intention of arriving at an intuitive measure of sovereign risk. While the results we arrived at sat fairly well with our earlier held beliefs, there were a few surprises. With that in mind, we decided to stress test our analysis, with interesting results. The "usual suspects" popped up again, and NZ and Australia continue to compare well. But others like the US and Japan didn't do so well.

### Page 5: Regional output gaps

- > Our regional output gap measures continue to show ample spare capacity across the economy. Large negative output gaps across all regions show that idle capacity is broad based. While this is hardly surprising given the state of the economy, it is notable that some regions show less idle capacity relative to the previous quarter. This fits with continued underlying improvement across the economy but also portends of a lower potential growth rate.

### Page 6: Interest rate strategy

- > Weaker than expected economic data are evidence of a patchy recovery, and one that does not compare well to the Australian experience. Yet the market continues to price in a series of rate hikes that would potentially make even the RBA shudder. Short end rates can move lower, but steadily rising dollar bloc yields, and better US and Australian data will add upward pressure to long term NZ rates.

### Page 7: Currency strategy

- > The US economy is moving slowly along the exit strategy path. Others are not, which means the USD looks the default play. The NZD remains capped at 0.7020 to the upside, and very much remains hostage to global moves. The NZDAUD is on the move and we expect further downside trending.

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## ECONOMIC OVERVIEW

We've resisted the temptation to follow the market and push out our first rate hike expectations beyond June. This is certainly a risk, but we're not getting overly spooked by softening data yet. We expect data this week to continue portraying mixed economic signals.

### What's ahead?

- > **March 2010 RBNZ survey of expectations – February month** (Wednesday, 3.00pm NZDT). Interest is on what happens to the survey read on two-year-ahead CPI inflation (2.6 percent in Q4).
- > **National Bank Business Outlook – February month** (Thursday 3.00pm NZDT). Will business confidence buck the trend of weak domestic data releases?
- > **RBNZ Credit Growth - January month** (Thursday, 3pm NZDT). Likely to be down across the board. Household and agricultural credit is likely to reflect the weakness evident in the January REINZ property statistics.
- > **SNZ Merchandise Trade - January month** (Friday 10.45am NZDT). A rebound in imports remains in prospect, with last month's trade surplus a one-off. Expect an annual trade deficit in the region of \$500m.
- > **SNZ Building Consents - January month** (Friday 10.45am NZDT). Some recovery in residential consent numbers in prospect.

### What's the view?

We noted last week that we'd be thinking about our June OCR call. The run of soft data has questioned whether the economy is merely patchy or heading for a double-dip. Uncertainty regarding the impact of structural change is adding to the mix. Forthcoming changes to the tax system, while favourable for medium-term growth prospects, are also likely to weigh on near-term activity and create more volatility, with the housing market looking to be the most visible casualty.

**Suffice to say that with the recovery appearing patchy still we look at the global scene with some unease.** The uneven nature of the global recovery, sovereign debt concerns in Europe, and a differing timetable for policy exit strategies provide an additional layer of uncertainty to how the recovery unfolds.

**But, we're sticking to the script.**

- > We remain uneasy about the amount of pricing power evident despite the economy having emerged from recession less than nine months ago. NZ firms have some pricing power in key

pockets. We will be keenly awaiting the next few monthly reads from the NBBO and our Monthly Inflation Gauge to see if it signals a firming in future inflation readings.

- > We need to be mindful that sentiment can shift very quickly, particularly with the noise inherent in recent NZ data. People ended 2009 too sanguine about the recovery and the danger is the reverse takes hold over the coming months. Last week's bounce in credit card billings is a timely reminder that there are positives amongst the data outturns.
- > The NZD is starting to adjust (downwards). We maintain the view that the NZD/AUD is moving below 75 cents, although recent developments suggest it may get there earlier than expected. While it produces a better mix to monetary conditions, it adds to medium-term inflationary pressure.
- > The economy is improving – slowly, but against a backdrop of curtailed supply-side capacity.

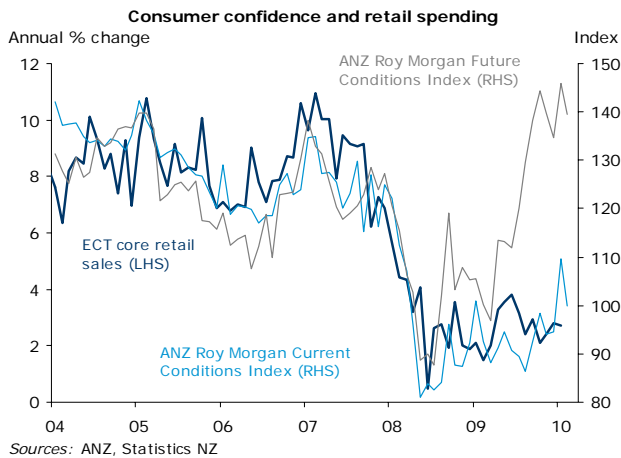
**That said, the risk profile is undoubtedly skewed towards a later move.** In fact we wouldn't rule out the RBNZ being on holiday in 2010 altogether if data over the coming year or so is going to be very noisy given structural changes taking place. Changes imposed last week by the Canadian authorities are an example of the types of regulation widely being considered. While changes to prudential policy by the RBNZ are not as substantial, they appear to be working well and provide the RBNZ with an additional "policy" instrument. **We'll be watching confidence, our monthly inflation gauge, monthly benefit numbers (as a gauge of the labour market) and credit growth particularly closely.** While tempting to focus on the housing market, weakness in that pocket is a fait accompli and will be little new news to us.

**We still see this as broadly symptomatic of an 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. 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. Key for policymakers is that both demand and supply will be impacted as we navigate through a process of "change" and they need to be keeping an eye on both.

Last week's dataflow was light.

The **February ANZ Roy Morgan Consumer Confidence survey showed that headline**

confidence fell 7.8 points to 123.6. Four of the five component questions in the survey were down, with the outlook five-years ahead bucking the trend. Consumers remain considerably more optimistic about future conditions.



The elevated overall confidence readings against a weaker labour and housing market backdrop suggest that consumers think the worst is over. **While there is light at the end of the tunnel, the lower readings for current conditions implies the recovery process will be gradual and guarded. Consumers remain wary.**

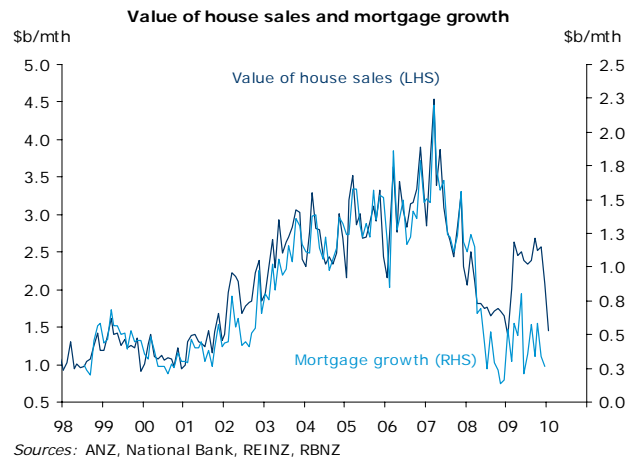
**The first NBBO release for the year will be keenly awaited.** Business confidence ended last year on a high note, and it will be informative to see if the recent run of softer local data has had an impact on firms' assessment of business conditions. Of particular interest will be readings for investment and employment intentions, given that increases in both are pre-requisites for a sustainable recovery. We will also closely examine pricing intentions and expected inflation readings.

**This week sees the release of two key pieces of RBNZ data.** The RBNZ Survey of expectations is worth a quick perusal. The RBNZ are likely to be concerned if the survey measure CPI inflation two years ahead (2.61 percent for the Q4 survey) continues to move higher.

**With deleveraging a central theme, we will be closely watching the January credit data.** Subdued household borrowing growth implies that households have generally taken advantage of the lower interest environment by paying off more debt than usual. With the January REINZ housing data showing a sizeable decline in housing market activity the household credit numbers are likely to be subdued. Business credit has been on a declining trend since late 2008. Agricultural credit peaked last October and is likely to head lower.

**Given the considerable run up in debt during the "good times" there is a long way to go.** It is encouraging for New Zealand's medium-term prospects that some effort at balance sheet

consolidation is being made now. **With deleveraging an ongoing theme it should not detract from the gradual improvement within the economy.** Nevertheless, it is likely to prevent a sudden rebound in activity and spending gauges.



**We expect the January merchandise trade data to show the return to monthly trade deficits.** Import demand is likely to recovery from depressed levels as firms set to rebuild inventories. We expect an annual trade deficit of roughly \$500m, about one-tenth of the annual deficit 12 months ago.

**Friday's consent data should show an increase in residential consent issuance from the drop in December.** The recent weakness evident in monthly readings for housing turnover points to a milder recovery in residential building activity over 2010 than previously assumed. Non-residential consents are likely to weaken.

#### Recent local data...

- > **Credit card billings – January.** Billings rose 1.5 percent following a 1.2 percent fall in December.
- > **Producers Price Indexes – December quarter.** Producer input prices rose by 0.3 percent over the quarter, whereas output prices fell by 0.4 percent.
- > **NBNZ Regional Trends – December quarter** The nationwide measure of economic activity increased 1.2 percent in the December quarter. Activity in 11 of the 13 regions increased.
- > **ANZ Roy Morgan Consumer Confidence – February.** Headline confidence fell 7.8 points to 123.6. Future and current conditions both fell.

## ACT TWO, SCENE ONE

In last week's Market Focus we ranked 25 OECD countries against a series of variables, with the intention of arriving at an intuitive measure of sovereign risk. While the results we arrived at sat fairly well with our earlier held beliefs, there were a few surprises. With that in mind, we decided to stress test our analysis, with interesting results. The "usual suspects" popped up again, and NZ and Australia continue to compare well. But the US and Japan didn't do so well.

### Why did we stress test our thinking?

**There were several reasons.** First, we wanted to be sure of what we had done. What we found initially was pretty close to what we expected, but there were surprises. For example, Japan, Iceland and the US all did better than we expected. Second, we had seen analysis from a number of other organisations, and what struck us most was that those analyses tended to concentrate mostly just on debt numbers, and ignored some of the other characteristics (including what we called "favourable" characteristics). Third, such measures are always open to a degree of subjectivity in terms of the inputs, hence the importance of looking at an array of results and specifications. Finally, it was the data. Not only did we gather a little more data, but we made improvements to the way we used it.

### Subtle changes

**The first step was to integrate the additional data to the study.** In our original study\* we used net debt as our primary measure of overall indebtedness. We changed this to gross debt and added a measure of duration to capture refinancing risk. We also made minor changes to the way we expressed external debt. In our original study we measured this in USD per capita, but we changed that to percent of GDP. In addition, we changed our GDP per capita from a PPP measure to a USD measure. **Some of these changes were subtle, but they did make for a better and more subjective comparison.** For example, PPP may be a better measure of per capita GDP when trying to get an idea of quality of life, but when it comes to paying back foreign debt, measuring it in USD is probably a fairer measure. Finally, we used percentage scores as opposed to rankings to compare countries on each measure (however the final scores were ranked at the end). This allowed us to capture the magnitude of differences across countries. For example, there is a large gap between the highest and second highest countries when it comes to gross debt, and this magnitude difference is lost when one uses rankings alone. We felt the analysis ought to capture this.

\* A Greek Tragedy, ANZ Market Focus, 15 February 2010.

## What we found

The spirit of our original analysis remains intact. But there were some interesting changes:

- > **There remains a high concentration of European countries** under all specifications. We still see this as highlighting the vulnerability of the euro.
- > **Greece slips down the rankings** when ranked purely on the basis of economic and debt measures (i.e. ignoring what favourable or "good" characteristics like population, GDP per capita, and measures of political stability and economic freedom). But it still remains high in the list, accompanied by Spain and Portugal.
- > **The US and Iceland make it into the top 3, and Japan jumped up the list.** The US is there because it can't count on being big, rich, and flexible.
- > **New Zealand and Australia remain near the bottom of the table** – where we want to be. But it's not a case of being "good", it's a case of being "less bad". The NZ government borrows money – it just doesn't do it to anywhere the same degree as others do.

Country	Ranked on Economic and Debt Measures	Ranked 66% on Econ 34% on "good"	Original Rank - 50/50 weighted
Ireland	1	2	3
Iceland	2	3	11
Unites States	3	11	12
Greece	4	1	1
Spain	5	5	4
Portugal	6	4	2
Japan	7	12	16
France	8	7	6
UK	9	13	10
Poland	10	6	6
Belgium	11	10	9
Italy	12	9	4
Canada	13	18	18
Hungary	14	8	8
Germany	15	14	14
Finland	16	19	19
Czech Rep.	17	15	12
Netherlands	18	17	17
Austria	19	16	14
New Zealand	20	20	19
Australia	21	21	24
Denmark	22	23	21
Sweden	23	22	22
Switzerland	24	25	25
Norway	25	24	23

Sources: ANZ, National Bank, OECD, the BIS, the World Bank, the Economist Intelligence Unit, the Economist, and the Heritage Foundation.

## THE REGIONAL GAP

Our regional output gap measures continue to show ample spare capacity across the economy. Large negative output gaps across all regions show that idle capacity is broad based. While this is hardly surprising given the state of the economy, it is notable that some regions show less idle capacity relative to the previous quarter. This fits with continued underlying improvement across the economy but also portends of a lower potential growth rate.

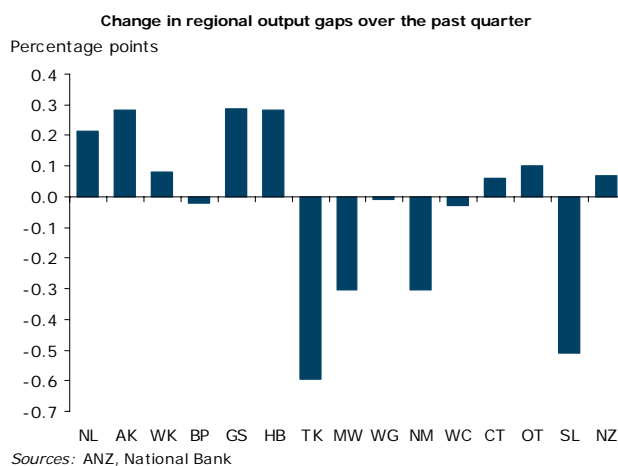
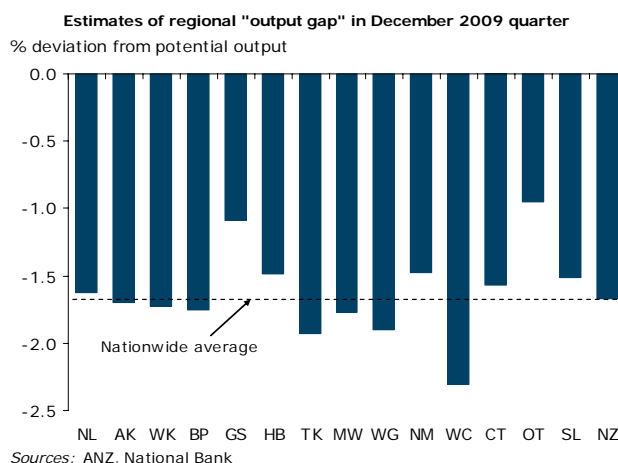
In deriving output gaps estimates, we rely on regional measures.<sup>1</sup> While it is common to estimate an output gap for the aggregate economy, regional measures give us a richer picture in terms of not just whether capacity pressure is rising or falling, but also its concentration and how broad it is. Regional measures are prone to a larger degree of uncertainty compared to nationwide data. But it is the broad trends and the regional variations that are the main focus.

Here are some key messages from the analysis:

- > **All regions continue to experience significant slack**, with all recording negative output gaps in the December quarter. This is the fourth consecutive quarter that all regions experienced a negative output gap. The West Coast has the largest negative output gap, followed by Taranaki with Wellington coming in third. Otago has the least spare capacity (in a relative sense), overtaking Southland.
- > **At a nationwide level, the output gap improved a touch in the quarter** (ie the negative output gap narrowed somewhat), though **there was a wide disparity across the regions**. Taranaki and Southland, which were the last regions to head into negative output gap territory, posted the largest deteriorations in the December quarter. In contrast, Auckland, Gisborne and Hawke's Bay – regions that were first to record negative output gaps in the September 2008 quarter – experienced the biggest improvement.

<sup>1</sup> Our regional output gap estimates are generated using the economic activity data from the National Bank Regional Trends, unemployment rates from Statistics NZ's HLFS, and capacity utilization measures from the NBNZ *Business Outlook* survey. We chose a broad approach for two reasons. First, it minimises some of the error that typically surrounds statistics at the regional level. Second, the RBNZ uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For each input we use a band-pass filter to derive the business cycle. The regional unemployment rates are advanced two quarters prior to filtering as this is a lagging indicator. Individual output gap measures across activity, unemployment and capacity utilisation for each region are then given an equal weighting.

- > Looking at the three measures we use to calculate the output gap, **the biggest improvement nationwide came courtesy of a narrowing in the activity gap**. This was courtesy of the 1.2 percent increase in economic activity in the December quarter as measured by the National Bank Regional Trends. The capacity gap also improved a touch. But partly offsetting these were a further deterioration in the unemployment gap, due to the nationwide unemployment rate rising from 6.5 percent to 7.3 percent.



Note: NL = Northland, AK = Auckland, WK = Waikato, BP = Bay of Plenty, GS = Gisborne, HB = Hawke's Bay, TK = Taranaki, MW = Manawatu-Whanganui, WG = Wellington, NM = Nelson-Marlborough, WC = West Coast, CT = Canterbury, OT = Otago, SL = Southland.

### The upshot

We take three messages from our gauges. First, the persistence of a uniform and broad negative gap across the regions flags ample spare capacity nationally. Second, the marginal improvement in the output gap nationally, signals that despite continued volatility in the data, an underlying improvement is underway. Finally, the elimination of idle capacity in some regions so early in the recovery phase also portends of a lower trend growth rate. The latter is an area we continue to monitor closely.

## INTEREST RATE STRATEGY

Weaker than expected economic data are evidence of a patchy recovery, and one that does not compare well to the Australian experience. Yet the market continues to price in a series of rate hikes that would potentially make even the RBA shudder. Short end rates can move lower, but steadily rising dollar bloc yields, and better US and Australian data will add upward pressure to long term NZ rates.

### Market themes...

- > Last week's Fed discount rate hike was the first step in what is set to be a long journey. We expect risk and carry trades to be pared back as excess liquidity is reined in.
- > Market expectations of RBNZ rate hikes look way too optimistic, especially in relation to the Australian experience.
- > Stress testing of key sovereign debt variables still shows NZ in a positive light. We remain confident NZ won't be singled out.

### Review and outlook

When the Fed increased its discount rate last week it was careful to point out that this did *"not signal any change in the outlook for the economy or for monetary policy, which remains about as it was at the January meeting"*. That may well be the case. While the first Fed rate hike may be some time away, as they take the last steps to close down emergency liquidity facilities, it does make access to liquidity more expensive. Fed officials have long argued that the Fed would need to reduce the size of its balance sheet before it embarks on any policy tightening. Thursday's move is another step in that direction. Not surprisingly US bond yields moved higher, and we expect them to continue edging higher over the next few weeks, adding pressure on NZ long end yields.

Better Australian data and the likelihood of more rate hikes there will also add upward pressure, and may even see Australian long end rates move above their NZ counterparts. While their economy is bounding ahead, the RBA has been reluctant to tighten aggressively, with three 25bp hikes and a pause. By contrast, the NZ market is pricing in hikes of at least 25bps per meeting from June and over 130bps of hikes in total this year, even despite the patchy recovery. We find these inconsistencies difficult to swallow – and they imply that our short end can move lower as hikes are priced out. Governor Bollard's "meaty chunks" certainly look to be off the table. NZ also still compares very well to other dollar bloc markets from a carry perspective. This will ensure ongoing interest from Uridashi and Eurokiwi investors, especially with more than \$3bn of maturities this month.

### Borrowing strategies we favour at preset

Hedge with caution. Long end rates are extremely low relative to previous cycles, even in forward space. There is some truth to the notion that the recovery will be "different this time", and it does imply that the rate hike cycle will be more muted. Long term rates may also be lower in future, but to argue that this is because policy rates will be lower than normal is to ignore the reason why – and that's because term premiums will likely rise. And with the Fed now looking to soak up excess liquidity, key benchmark global term interest rates are set to rise, and threaten to take NZ rates with them. It therefore makes sense to add to medium and long term hedges here. As always, care is needed though – rates may be cheap here – but the curve is steep and certainty comes at a higher cost.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔/↓	Less and later seems to be more appropriate now. Even a June hike looks marginal.
NZ data	↔/↓	Patchy at best. Nothing to get excited about, for sure.
Fed Funds / front end	↔/↑	Every journey starts with the first step. The discount rate hike was just the start.
RBA	↔/↑	Governor's comments last week were hawkish. March hike almost certain.
US 10 year	↔/↑	Fed move signals the end of curve carry trades. Scope for yields to rise further yet.
NZ swap curve	↔/↑	Will steepen. Preferred habitat theory in play.
Flow	↔	Receivers dominating.
Technicals	↔/↓	2yr break of 4.20% paves the way for a move to 4%.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Mar-10	+2	+2
Thu 29-Apr-10	+4	+7
Thu 10-Jun-10	+26	+25
Thu 29-Jul-10	+60	+59
Thu 16-Sep-10	+87	+85
Thu 28-Oct-10	+112	+109
Thu 9-Dec-10	+138	+131

### Trading themes we favour at present

The two themes we have been running with for a few weeks – NZ narrowing on a spread to the US and Australia, and curve steepeners – remain relevant. Domestic factors support lower yields, but global factors suggest the opposite, and this just adds fuel to narrowers and steepeners. Roll and carry just add to the appeal, for either outright long short end positions, and steepeners.

## CURRENCY STRATEGY

The US economy is moving slowly along the exit strategy path. Others are not, which means the USD looks the default play. The NZD remains capped at 0.7020 to the upside, and very much remains hostage to global moves. The NZDAUD is on the move and we expect further downside trending.

### Market themes...

- > NZDAUD remains under pressure due to divergent Trans-Tasman economic performance.
- > The US Federal Reserve's continual removal of non-traditional liquidity support will underpin the USD.
- > The Greece issue is not going away and the other "PIIGS" are coming into focus, undermining the EUR.
- > China returns from their one week lunar New Year break.

### Review and outlook...

**The US Federal Reserve's decision to lift the discount rate by 25bps to 0.75 percent took the currency market by surprise.** While this move was flagged by Fed Chairman Bernanke the week before, the market was nonetheless caught off guard by the timing of the move. While the Fed was at pains to explain that the raising of the discount rate was a "technical move" only and had no effect on financial conditions or the outlook for monetary policy, it is nonetheless a continuation of the Fed's exit strategy. As a signal that the financial system in the US is gradually normalising, the Fed's move can be seen as a positive bias towards the US economy and therefore the USD. Especially when the ongoing issues relating to Greece is set to drag on, with the EU finance ministers' meeting last week failing to come up with any concrete plans. Bottom line is that the US economy is turning earlier and is a step closer down the exit strategy path vis-à-vis Europe in particular. This suggests USD strength and EUR weakness should continue.

**Positioning suggests the potential for a short squeeze in the EUR at some stage.** While the broad upward trend for the USD (and downward trend for the EUR) remains intact, speculative net short positioning in the EUR is at an extreme level, which risks a short squeeze at some point if we see some unwinding of shorts. This will have the potential to drag the NZD higher. However, any such move is expected to be temporary.

**With this backdrop the NZD and AUD will see mixed fortunes against various other currencies.** On a TWI basis we see little overall

direction. But amongst the individual NZD cross rates, we expect the NZD to strengthen against the EUR and GBP, and weaken against the USD and AUD – near term positioning related volatility aside.

The technical levels this week are 0.6925 support and 0.7020 resistance in the NZDUSD, which we expect to hold. In the NZDAUD, 0.7750 and 0.7680 are now the major support levels. We expect these to be tested and a break will set the scene for a move towards 0.7500 and below.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Commodities are rangebound.
Partial indicators	↔/↓	Australian data still strong. NZ's starting to wane.
Technicals	↔	Major support levels at 0.7750, .7710 and .7680.
Sentiment	↔/↓	Market still treating NZ and AU the same.
Other	↔/↓	RBA bullish on Australia's prospects. RBNZ only expecting crumbs.
<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.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔/↓	US data still improving. NZ's not.
Technicals	↔/↓	Support at 0.6925 200 day moving average.
AUD	↔	Resistance at 0.9035.
Sentiment	↔/↓	Continue to watch European developments.
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)
22-Feb	AU	Motor Vehicle Sales – mom – Jan		3.3%	13:30
23-Feb	US	Chicago Fed National Activity Index – Jan		-0.61	02:30
	US	Dallas Fed Mfg Index – Feb		8.3%	04:30
	US	Fed's Yellen speaks on Economy in San Diego			05:00
	JN	BOJ Minutes – Jan meeting			12:50
	AU	RBA Deputy Governor Battellino speaks in Sydney			20:00
	GE	IFO – Current Assessment – Feb	92.0	91.2	22:00
	GE	IFO – Expectations – Feb	100.6	100.6	22:00
24-Feb	US	S&P/CaseShiller 20 City House Prices – mom - Dec	0.05%	0.24%	03:00
	US	Richmond Fed Mfg Index		-2	04:00
	US	Consumer Confidence	55.0	55.9	04:00
	JN	Merchandise Trade Balance – Adjusted – Jan	¥509.5bn	¥522.8bn	12:50
	AU	Wage Cost Index – qoq – Q4		0.7%	13:30
	<b>NZ</b>	<b>RBNZ Inflation Expectations – Q1</b>		<b>2.6%</b>	<b>15:00</b>
	GE	GDP (F) – qoq – Q4	0.0%	0.0%	20:00
	GE	GfK Consumer Confidence – Feb	3.1	3.2	20:00
	EC	Industrial New Orders – mom – Dec		1.6%	23:00
25-Feb	US	New Home Sales – mom – Jan	2.3%	-7.6%	04:00
	US	Geithner testifies to House Budget Committee			04:00
	US	Fed's Bernanke gives Monetary Policy Report			04:00
	AU	Private Capital Expenditure – Q4		-3.9%	13:30
	AU	Construction Work Done – Q4		2.2%	13:30
	<b>NZ</b>	<b>NBNZ Business Confidence – Feb</b>		<b>38.5</b>	<b>15:00</b>
	<b>NZ</b>	<b>M3 Money Supply – yoy – Jan</b>		<b>-1.1%</b>	<b>15:00</b>
	GE	Unemployment Rate – Feb	8.2%	8.2%	21:55
	EC	Eurozone M3 – yoy – Jan	0.1%	-0.2%	22:00
26-Feb	US	Durable Goods Orders – mom – Jan	1.5%	0.3%	02:30
	US	Initial Jobless Claims – week ending 21 Feb	465k	473k	02:30
	US	Continuing Claims – week ending 14 Feb		4563k	02:30
	US	Fed's Bernanke Monetary Policy Report to Senate Panel			03:00
	<b>NZ</b>	<b>Building Permits – mom – Jan</b>		<b>-2.4%</b>	<b>10:45</b>
	<b>NZ</b>	<b>Trade Balance – 12mth total – Jan</b>		<b>2m</b>	<b>10:45</b>
	JN	CPI – yoy – Jan	-1.4%	-17%	12:30
	JN	Industrial Production – mom - Jan	1.0%	1.9%	12:50
	JN	Retail Trade s.adj.– mom – Jan	-0.3%	-1.2%	12:50
	JN	Housing Starts – yoy - Jan	-11.5%	-15.7%	18:00
	UK	GfK Consumer Confidence – Feb	-17	-17	13:01

Continued over page



Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
26-Feb	AU	Private Sector Credit – mom – Jan		0.3%	13:30
	UK	GDP (P) – qoq – Q4	0.2%	0.1%	22:30
	EC	Eurozone CPI – mom – Jan	-0.8%	0.3%	23:00
27-Feb	US	GDP(P) – qoq Annualised – Q4	5.6%	5.7%	02:30
	US	Chicago PMI - Feb	59.0	61.5	03:45
	US	University of Michigan Consumer Confidence – Feb (F)	73.9	73.7	03:55
	US	Existing Home Sales – mom – Jan	0.9%	-16.7%	04:00
	US	NAPM Milwaukee – Feb		56.0	04:00
	GE	CPI – mom – Feb	0.5%	0.6%	n.a.

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 next key read will be the National Bank Business Outlook survey.

Date	Data/Event	Economic Signal	Comment
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 a 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.
Thur 11 Mar (10:45am)	Food Price Index (Feb month)	Down	Expect some pullback from large rises in January.
Fri 12 Mar (10.45am)	Retail Trade (Jan month)	Up	Expect some recovery in core (ex fuel and vehicle) sales after large December fall.
Fri 12 Mar (10.45am)	REINZ residential (Feb month)	Dead cat bounce?	We expect mild recovery in housing turnover following sharp falls in January.
Fri 19 Mar (10.45am)	International Travel and Migration (Feb month)	Up	Will PLT departures remain low despite much better job prospects across the ditch?
<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>1.9</b>	<b>0.4</b>	<b>0.3</b>	<b>-0.2</b>
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	<b>-9.5</b>	<b>-4.3</b>	<b>7.6</b>	<b>9.4</b>	<b>5.6</b>	<b>2.5</b>

## KEY ECONOMIC INDICATORS

	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Retail Sales (% mom)	0.6	0.1	-0.5	1.2	0.2	0.1	0.8	0.0	..	..
Retail Sales (% yoy)	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.3	..	..
Credit Card Billings (% mom)	-0.4	0.2	0.1	1.3	-0.7	0.2	0.8	-1.2	1.5	..
Credit Card Billings (% yoy)	-2.4	-2.0	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.6	..
Car Registrations (% mom)	-2.0	6.0	7.0	-3.1	7.7	0.8	2.3	6.7	-0.8	..
Car Registrations (% yoy)	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	..
Building Consents (% mom)	2.8	-9.1	4.9	2.5	5.3	13.2	0.1	-2.4	..	..
Building Consents (% yoy)	-23.4	-24.0	-16.8	-8.8	-12.0	27.7	20.3	23.6	..	..
REINZ House Price (% yoy)	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7	..
Household Lending Growth (% mom)	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	..	..
Household Lending Growth (% yoy)	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	..	..
ANZ-Roy Morgan Consumer Confidence	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6
NBNZ Business Confidence	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..	..
NBNZ Own Activity Outlook	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..	..
Trade Balance (\$m)	906	-331	-178	-717	-561	-502	-276	2	..	..
Trade Balance (\$m annual)	-2994	-3110	-2491	-2360	-1669	-1177	-860	-517	..	..
ANZ World Commodity Price Index (% mom)	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4	..
ANZ World Commodity Price Index (% yoy)	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	..
Net Migration (sa)	2540	1620	2460	1610	1830	2150	1730	1710	..	..
Net Migration (annual)	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)						
	Dec-09	Jan-09	22-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.716	0.553	0.700	0.700	0.680	0.670	0.650	0.640	0.640	0.640
NZD/AUD	0.793	0.816	0.778	0.787	0.782	0.779	0.765	0.780	0.810	0.831
NZD/EUR	0.490	0.417	0.514	0.507	0.504	0.504	0.500	0.500	0.508	0.516
NZD/JPY	64.1	50.0	64.2	62.3	61.2	61.6	61.1	61.4	62.7	64.0
NZD/GBP	0.440	0.382	0.453	0.438	0.430	0.427	0.419	0.413	0.416	0.416
NZ\$ TWI	64.6	54.9	64.95	64.4	63.4	63.1	62.1	62.0	63.0	63.8
NZ interest rates	Dec-09	Jan-09	22-Feb-10	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
OCR	2.76	5.12	2.50	2.50	2.75	3.25	3.75	3.75	4.25	5.00
90 day bill	2.78	4.37	2.72	2.80	3.20	3.70	4.10	4.10	4.90	5.50
10 year bond	5.90	4.49	5.86	5.50	5.50	5.60	6.00	6.20	6.40	6.50
International	Dec-09	Jan-09	22-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	0.25	1.18	0.25	0.25	0.30	0.35	0.85	1.35	1.85	2.10
AU cash	3.75	4.25	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25
AU 3-mth	4.28	3.41	4.12	4.40	4.80	4.90	5.00	5.00	5.10	5.60

## KEY RATES

	19 Jan	15 Feb	16 Feb	17 Feb	18 Feb	19 Feb
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.78	2.73	2.72	2.70	2.70	2.72
NZGB 11/11	4.20	3.82	3.79	3.80	3.80	3.81
NZGB 04/13	4.87	4.57	4.56	4.57	4.59	4.63
NZGB 12/17	5.69	5.52	5.52	5.54	5.56	5.58
NZGB 05/21	5.96	5.82	5.82	5.84	5.85	5.87
2 year swap	4.55	4.22	4.19	4.21	4.21	4.22
5 year swap	5.41	5.21	5.19	5.20	5.20	5.21
RBNZ TWI	66.7	64.6	64.8	64.9	65.0	65.0
NZD/USD	0.7388	0.6971	0.6992	0.7047	0.7014	0.6968
NZD/AUD	0.7996	0.7850	0.7848	0.7826	0.7823	0.7813
NZD/JPY	66.85	62.85	62.90	63.66	63.81	63.92
NZD/GBP	0.4502	0.4448	0.4458	0.4469	0.4478	0.4515
NZD/EUR	0.5135	0.5119	0.5133	0.5119	0.5166	0.5165
AUD/USD	0.9240	0.8880	0.8909	0.9005	0.8966	0.8918
EUR/USD	1.4387	1.3617	1.3622	1.3766	1.3578	1.3491
USD/JPY	90.49	90.16	89.96	90.34	90.97	91.74
GBP/USD	1.6410	1.5673	1.5683	1.5769	1.5662	1.5433
Oil	78.25	74.11	74.11	77.27	77.27	78.97
Gold	1137.55	1094.15	1105.20	1103.60	1103.75	1104.90
Electricity (Haywards)	6.81	7.94	8.45	9.60	17.28	7.16
Milk futures (US\$/contract)	123	..	107	107	107	107
Baltic Dry Freight Index	3208	2566	2598	2661	2704	2714

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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.

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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.

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- 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.

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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.

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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.

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- 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.

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- 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.

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

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