

# Market Focus

New Zealand

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## EXPECTATIONS AND REALITY

### Page 2: Economic overview

- > We continue to take a guarded view towards the outlook and side with the RBNZ's view of the world rather than the market's. That is, a tightening cycle beginning in H2 2010 as opposed to H1. Data this week is expected to give mixed signals and we expect global nuances to be similar.

### Page 4: Economic comment – the regional gap

- > Capacity pressures effectively remain non-existent across all regions of the economy. However, for some regions, particularly in the North, there looks to be marginally less spare capacity than in recent quarters.

### Page 5: Interest rate strategy

- > The 2-year swap yield broke a key support level last week, but paying interest at current levels should ensure that 4.32 percent is the new short-term low. The risk of a further clean-out in short positions remains. Global moves are set to be the main driver of the NZ rates market this week.

### Page 6: Interest rate comment – implications of a widening basis swap market

- > NZ basis swaps have risen considerably over recent times. We see this as another factor reinforcing our low for longer view for the RBNZ.

### Page 8: Currency strategy

- > With interest rate differential support waning, the NZD looks set to consolidate around recent levels. The downside should hold above the November 3rd low at 0.7080. Equities still remain the key driver, but the regulators are getting more airtime.

### Page 9: Data and event calendar

### Page 11: Data watch

### Page 12: Key forecasts

## ECONOMIC OVERVIEW

We continue to take a guarded view towards the outlook and side with the RBNZ's view of the world rather than the market's. That is, a tightening cycle beginning in H2 2010 as opposed to H1. Data this week is expected to give mixed signals and we expect global nuances to be similar.

### What's ahead?

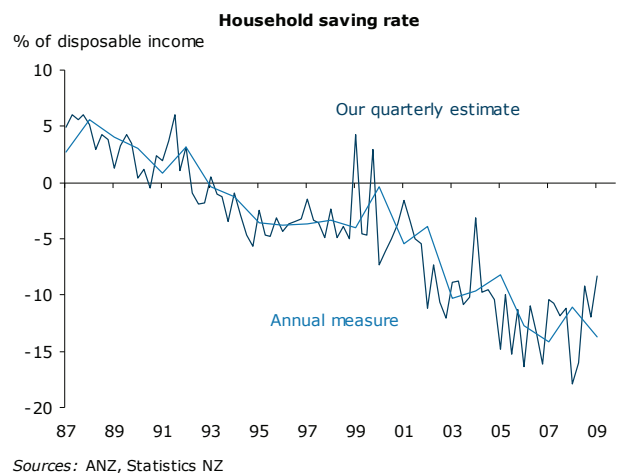
- > **November ANZ-Roy Morgan Consumer Confidence** (Monday 1500 NZDT).
- > **November NBNZ Business Outlook** (Thursday 1500 NZDT).
- > **October Overseas Merchandise Trade** (Friday 1045 NZDT). Another monthly trade deficit is expected, which is typical for October. However, at \$600 million, this is smaller than recent history and sees the annual deficit improve. The level of imports will be important to watch for any signs of stock rebuilding.
- > **September quarter RBNZ Survey of Expectations** (Friday 1500 NZDT). We expect the 2-year ahead measure of inflation expectations to remain around 2.3 percent.
- > **October Credit Growth** (Friday 1500 NZDT). Themes from recent months are likely to be repeated, where housing credit growth remains relatively subdued as existing mortgage holders look to pay down debt.

### What's the view?

There were a few key messages from developments last week:

- > **The interaction between fiscal and monetary policy is on policymakers' radars.** Treasury officials, in a paper released to the Minister of Finance in August (but only made public last week) laid out a scenario where fiscal consolidation provided the ability for monetary policy to remain at a looser setting for longer stating "*All else equal, such cuts [in government spending] could be expected to result in the OCR being set lower than it otherwise would be for several years.*" This in turn, was then expected to lead to less pressure on the NZD, "*...the tighter New Zealand's fiscal policy is, the looser our monetary policy is likely to be and, as a result, the lower the exchange rate.*" **All up it looks like prepping for a tight Budget and fiscal restraint, which should help the RBNZ.**
- > **The whole process of rebalancing remains some way off.** Statistics NZ's Household Income and Outlay Account (which is not an official series) showed the (dis)savings rate for

the year to March 2009 actually deteriorated to -13.7 percent of disposable income, from -11 percent a year prior. To be fair, New Zealand statistics on savings are poor, so you need to treat the headline figures with a grain of salt. Some of the deterioration will reflect timing issues (i.e. falling farm incomes, which should improve over the coming year due to the higher dairy payout). Nonetheless, even abstracting from this, they illustrate a key point: **if rising asset values are not driving the wealth effect for spending, then there is a lot more pressure on discretionary spending to come** before households are paying their way and the savings rate returns to a more "normal" or sustainable level.

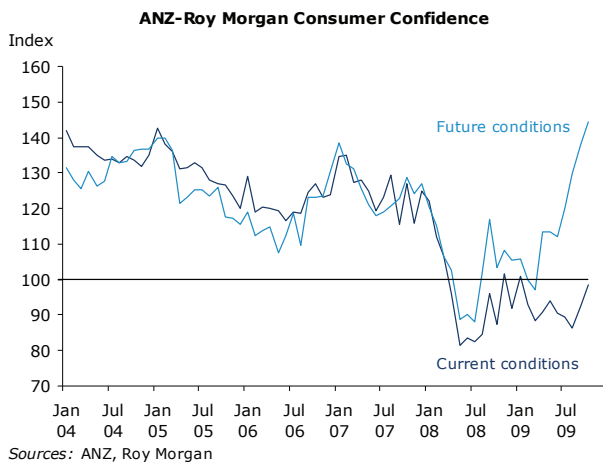


- > **Global risk appetites took a turn for the worse.** The economic data released around the globe last week was not that bad, although admittedly it was far from strong either. But despite this, "risk" assets turned lower, particularly in currency markets. The NZD and AUD both fell around 3 percent last week. It is hard to come up with a clear trigger for the moves. But more vocal policymaker concern over the threat of asset bubbles beginning to form, or the fact that some countries have already begun to act to stem the liquidity driven flows (for example Brazil, Singapore and Taiwan) may have contributed. While there was significant positioning in the "global recovery story", last week's price action suggests to us there is not a lot of conviction. Global sentiment can still be best summed up as fragile.

**With these sorts of nuances, we remain comfortable siding more with the RBNZ's view of policy, as opposed to the market's.** That is, we expect the start of the tightening cycle to begin in H2 2010 as opposed to H1. One risk to this stems from migration trends, with today's data for October coming in strong, showing a net 2,130 (seasonally adjusted) permanently arriving in the month. The three-month annualised total is

currently running at 22,560. But at this stage, our judgement is that the relative paths for the NZ and Australian economies will quickly see this trend turn post-Christmas.

**Turning to this week, the ANZ-Roy Morgan Consumer Confidence measure is the first piece of data due (this afternoon).** Consumer confidence has improved markedly over recent times as policy support begins to gain traction. This is of course encouraging, and is another piece of evidence pointing to the economy beginning to recover. However, digging into the detail, there is a clear divergence at present with how respondents feel about the future and how they feel about their current situation. It is the former that has driven confidence higher, while the latter remains very subdued. Unfortunately for retailers, it is typically the latter that is more important for determining spending trends. The better expectations for the future haven't flowed through into actual spending decisions yet. Credit card billings for October, released last week, only increased 0.2 percent and followed subdued Electronic Card Transactions data the week prior. It is clear that cautiousness prevails, which is not at all surprising given the weak labour market backdrop. It is this divergence that will be key to focus on in this month's release.



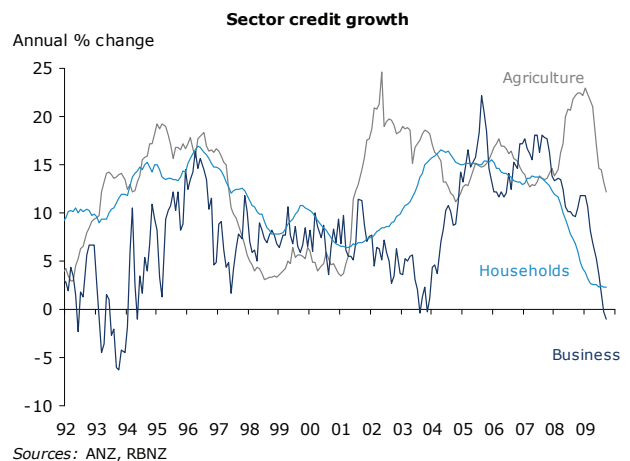
**The NBNZ Business Outlook (NBBO) result is also an important release this week.** Like their consumer counterpart, business sentiment has improved sharply of late (although the NBBO did turn down slightly in October). However once again, the devil is in the detail. Headline confidence and own activity expectations have posted strong increases. Yet this increased confidence has not flowed through into actual hiring and investment intentions just yet and it is these indicators the market needs to be paying close attention to.

**Another narrowing in the annual trade balance is expected.** We expect a \$600 million monthly trade deficit to be recorded in October. This is consistent with historical October deficits. However, as it is smaller than recorded in October

2008, the annual trade deficit improves to \$1.1 billion – the smallest level since November 2002. The level of exports and imports remain well down on levels achieved 12 months ago (22 and 25 percent respectively), illustrating the still weak global trade backdrop. Key to watch within this release will be whether there are any signs that imports are now beginning to recover in line with the domestic economy. Although with consumer spending remaining subdued, we suspect not.

**Inflation expectations are expected to remain contained.** The RBNZ's *Survey of Expectations* is unlikely to get too much attention. However, we see it as likely that the 2-year ahead measure of inflation expectations will remain reasonably similar to last quarter's level of 2.3 percent. Expectations for GDP growth are likely to be bumped higher.

**Finally, credit growth should generally remain subdued, reinforcing the de-leveraging backdrop.** It is one of the key pillars of our generally circumspect views of the economic outlook. That is, ongoing de-leveraging. Despite the improvements seen in the housing market, particularly in prices, credit growth has risen only modestly of late. In fact, the growth of just 0.2 percent for total household claims in September is the same as the average monthly increase for the past 12 months. This compares with average monthly growth of 1.1 percent between 2002 and 2007. Business and agriculture lending is also likely to remain subdued.



### Recent local data...

- > **NBNZ Regional Trends (September quarter):** Twelve out of the 14 regions recorded positive growth in the quarter, with Waikato leading the charge. Nationwide activity expanded by 0.7 percent.
- > **Credit Card spending (October):** Total credit card billings rose 0.2 percent, following a 1.0 percent fall in September.

## THE REGIONAL GAP

**Capacity pressures effectively remain non-existent across all regions of the economy. However, for some regions, particularly in the North, there looks to be marginally less spare capacity than in recent quarters.**

We present our updated regional output gap measures. To refresh readers' memories, regional output gaps are estimated using data from the National Bank's *Regional Trends* and *Business Outlook* survey, and Statistics NZ's regional unemployment data.<sup>1</sup> While conventional output gap measures give us information about the aggregate economy, regional measures give us a richer picture in terms of not just whether capacity pressure is rising, or falling, but its concentration and how broad it is. These measures are prone to a huge degree of uncertainty. But using a combination of measures also tends to smooth out some of the volatility and extremes that are often reported in output gaps.

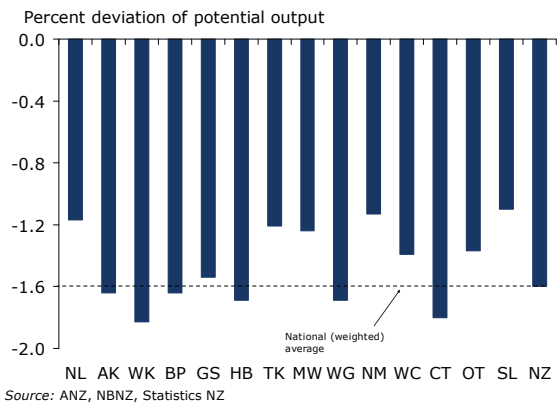
Here are some key messages from the analysis:

- > Once again, all regions reported negative output gaps in the September quarter. Looking at the composition of this, for the third consecutive quarter, the activity gap was negative across every region and for the first time this cycle, the unemployment gap was negative across all the regions. Conversely though, two out of 14 regions experienced a positive capacity gap in the September quarter. As was the case in the June quarter, Waikato had the largest negative output gap, although the Canterbury region is not far behind, while Southland has the least spare capacity (on a relative sense).
- > At a national level, the output gap of -1.6 percent in the September quarter is now the most negative it has been since the March 1993 quarter. The activity gap actually improved marginally in the quarter (although remains very negative), while the unemployment and capacity gaps both widened.
- > There is a clear North-South divide when looking at the change in output gaps. If the Bay of Plenty and Wellington regions are

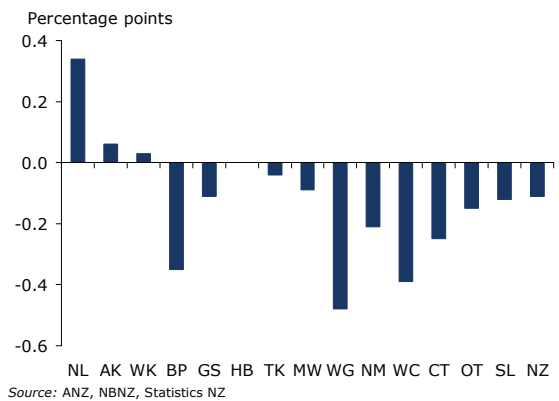
<sup>1</sup> The estimates are generated using estimates of the output gap, unemployment gap and a derived capacity utilisation gap from the NBNZ *Business Outlook* survey. We chose a broad approach for two reasons. First it minimises some of the error that may surround simple regional activity statistics (which are only partial indicators). Second, the Reserve Bank 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 – a standard statistical technique that is available on modern statistical software. 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.

excluded for the time being, then the difference in the change in output gaps between the North and South Islands is stark. While in a levels sense, South Island regions (generally) have smaller negative output gaps, it looks to be the case of these regions catching up to their North Island counterparts. In fact, Northland, Auckland and Waikato all saw their output gaps become less negative in the September quarter.

**Estimate average regional "output gap" in September 2009**



**Change in regional output gaps over the past quarter**



### The upshot

Large negative output gaps reinforce the lack of resource pressures across the country at present, despite the economy beginning to record positive growth once again. Spare capacity remains prevalent. Although the September quarter CPI result surprised on the upside, we see the inflation backdrop as generally being weak. This is a key factor, in our view, enabling the RBNZ to keep interest rates low for an extended period. Regional dynamics are also interesting, for they tell us that spare capacity is universal.

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

## INTEREST RATE STRATEGY

The 2-year swap yield broke a key support level last week, but paying interest at current levels should ensure that 4.32 percent is the new short-term low. The risk of a further clean-out in short positions remains. Global moves are set to be the main driver of the NZ rates market this week.

### Market themes...

- > Risk aversion is back, sending global rates rallying.
- > Market pricing for RBA in December pared back. Timing of RBNZ tightening cycle pushed out from March to April by the market.

### Review and outlook

**NZ rates rallied hard towards the end of last week** on negative global sentiment, covering of short positions and on the back of a NZ Treasury report that stated that restraining fiscal spend would allow the RBNZ to maintain low rates for longer. Coinciding with a global rally the night before, the Treasury report got a lot of coverage and led to some fresh receiving, giving the rates rally new momentum.

**Risk aversion offshore led to big moves in global rates.** In Australia, the 3-year futures broke a technical level at 95.03 and that market continued to rally on big volumes, as shorts stopped out. While a rate hike in December is generally expected in Australia (though market pricing has been pared back somewhat), market participants are beginning to think that a 4.5 percent cash rate is probably the top for next year, and not 5 percent which had been priced in.

**The blow-out in the Australian bills/libor market is seen to have effectively delivered some tightening itself** by increasing bank funding costs, with the 5-year basis hitting +48 over BBSW last week after a flurry of bank issuance offshore. The NZ market has also headed higher with the 5y trading at BKBM +35. In addition, the implementation of new capital requirements for banks is fast approaching and realisation is growing that neutral cash rates of old may not be relevant in giving direction in the new environment, providing a boost to receiving interest.

**We think last week's rally has stalled and 4.32 percent could be the new short term low.** If the RBNZ was to start hiking by 50bps in June and take the OCR to 5 percent by March 2011, a 2-year of 4.30 percent would generally be consistent with this, roughly where market consensus currently is. Last week we saw new offshore receiving into the rally and again very limited mortgage paying. But there was increased corporate activity taking

advantage of the rally and paying swap. On the back of the front-end rally, the curve steepened, which also followed steepening moves in the US and Australia. For the rest of the week we think the 2-year could head up to 4.40 percent with a mild flattening bias. The local data calendar is unlikely to push the market too much, though global moves may give more direction.

### Borrowing strategies we favour at present

The RBNZ remains committed to keeping rates unchanged until the second half of next year, giving borrowers some time to continue benefiting from lower floating rates. Paying fixed at current levels still looks expensive, as you are locking in rate hikes that have been priced in too early, in our view. We continue to favour using cap-based strategies as a way to hedge.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	RBNZ says that market pricing is wrong and they are on hold until H2 2010.
NZ data	↔/↑	Will confidence readings continue to track higher?
Fed Funds / front end	↔	Fed committed to low rates for an extended period.
RBA	↔/↑	Cash rate still heading higher. But market paring back December pricing.
US 10 year	↔	Safe haven demand driving yields lower but 3.3% key support level.
NZ swap curve	↔	Cost of carry to continue to weigh on flattener positions.
Flow	↔	Mortgage flows still quiet, corporate flows picking up.
Technicals	↔	4.22% next big support level, but unlikely to be tested.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Dec-09	+2	+1
Thu 28-Jan-10	+5	+2
Thu 11-Mar-10	+18	+7
Thu 29-Apr-10	+56	+32
Thu 10-Jun-10	+93	+64
Thu 29-Jul-10	+126	+100
Thu 16-Sep-10	+161	+136

### Trading themes we favour at present

Market pricing has pared back from March and the curve has steepened. This has benefited our long March bank bill position, which we have favoured for some time. With monetary policy on hold until the second half of next year, it looks to be a case of going for the accrual trade in rates.

## IMPLICATIONS OF WIDENING BASIS SWAP MARKET

NZ basis swaps have risen considerably over recent times. We see this as another factor reinforcing our low for longer view for the RBNZ.

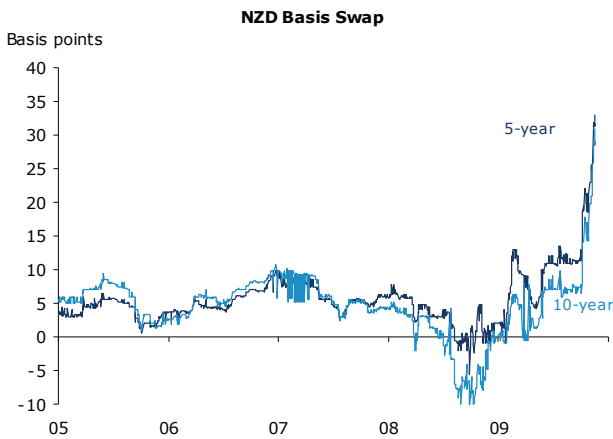
The cross currency interest rate swap market is used by borrowers to exchange interest and principal payments on foreign currency issuance for their 'home' currency. For New Zealand dollar based borrowers (mainly banks and large corporates), the cost of offshore borrowing is affected by:

- > the basis swap level;
- > credit margins;
- > the conversation factor; and
- > Approved Issuer Levy (AIL) costs.

The conversion factor reflects the fact that one USD basis point is not equivalent to one NZD basis point due to interest rate differentials between the two currencies. The greater the interest rate differential, the higher the conversion factor will be. With monetary policy on hold in NZ and the US, the conversion factor is unlikely to rise further.

Domestic borrowers are required to either deduct Non-Resident Withholding Tax or AIL from interest payments made to offshore investors. In most cases the AIL will be paid by the issuer on foreign currency bond issues, adding to the cost of the transaction. A bond issued with a 5 percent coupon will attract AIL equating to 2 percent of the coupon amount or 10 bps.

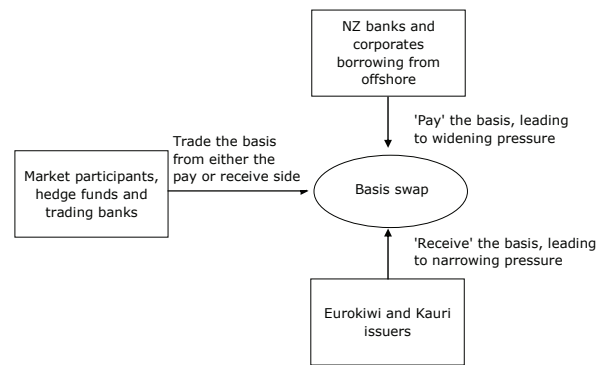
The NZD-USD basis swap level reflects the cost of swapping USD Libor Flat (no spread) payments for NZD BKBM. Of late, we have seen a large widening in the basis swaps market, with the 5-year rising to 34bps, while the 10-year just moved past 30bps.



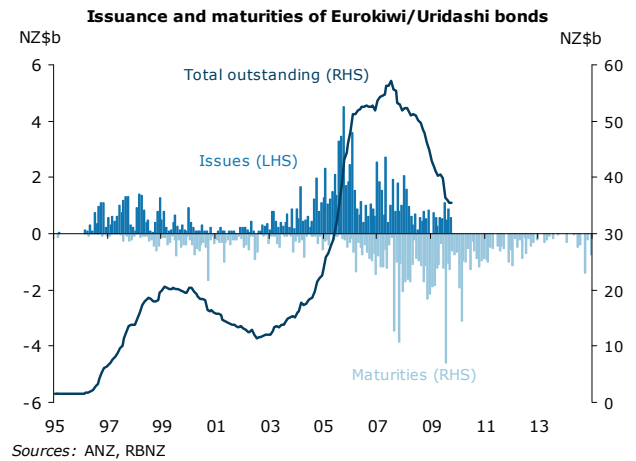
Sources: ANZ National, Bloomberg

The basis level is largely flow driven. NZ borrowers raising funding in foreign currencies will need to

'pay' the basis, which will place upward pressure on the level. The offsetting flow will come from Eurokiwi and Kauri issuers who borrow in NZD and need to 'receive' the basis to swap the proceeds back to their preferred currency.

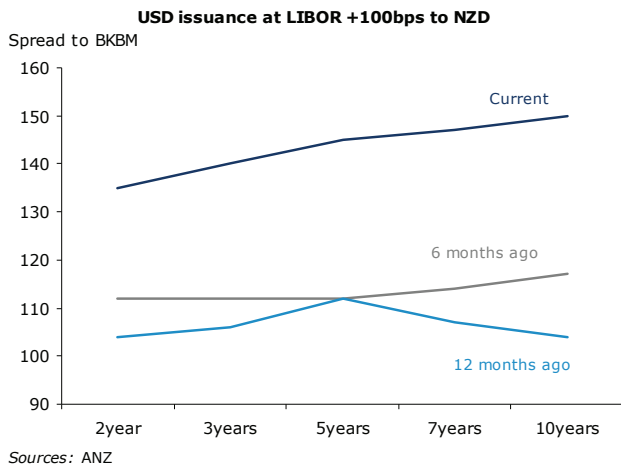


There is a stream of offshore borrowing by NZ banks looking to diversify their funding mix, partly as their existing funding rolls off and to fund new lending growth. On the other side of the transaction, however, there has been a reduction in the number of Eurokiwi and Kauri issues. Part of the reason for this is uncertainty over the level of demand for new issuance given proposed regulatory changes relating to what kind of liquid assets banks need to hold. Of course, there will come a point where the basis swaps reach a level that is very attractive for Eurokiwi and Kauri issuers even accounting for regulatory uncertainty, and we will see increased issuance.



Sources: ANZ, RBNZ

Another factor that is preventing basis swaps from narrowing is the absence of hedge funds and other market participants who previously traded the basis from both sides. Ordinarily, given where it has widened to, you would have seen receivers come into the market. But such offshore participants have largely been absent of late.



The chart above shows the impact of the basis and conversion factor of swapping USD borrowing assuming a credit spread of 3 month USD Libor +100. The cost to 3 month BKBM is between +135 to 150bps (before AIL) depending on the term.

### The upshot

Basis swaps are expected to remain elevated for some time, impacting on the offshore borrowing costs for NZ banks and corporates. This suggests that there will unlikely be any let-up in the intense competition for retail deposits by banks, and this in turn will continue to put upward pressure on longer term borrowing rates faced by households and businesses.

## CURRENCY STRATEGY

With interest rate differential support waning, the NZD looks set to consolidate around recent levels. The downside should hold above the November 3<sup>rd</sup> low at 0.7080. Equities still remain the key driver, but the regulators are getting more airtime.

### Market themes...

- > Risk is being reduced as markets adopt a wait and see approach.
- > Equities still the biggest driver of currency moves.
- > Regulation of capital inflows; first in Brazil. Are Asian economies next?

### Review and outlook...

**There were simply no new buyers of the NZD last week.** CFTC data showed long NZD positions have reduced over 30 percent from recent highs. Are people finished with risk for the financial year or is this a sign that investors are taking a wait and see approach as talk of regulation of inflows spread across emerging markets?

**We still see that the reasons to sell commodity currencies in a world that talks a lot but comes back to the same old theme of "lower for longer" is hard to find.** A range trade into the year-end looks the most likely scenario as talk of corrective bounces in the USD will be hard to maintain until the Fed signals rate hikes are imminent. With the US 2-year Treasury now trading at year lows of 0.7 percent, the market does not believe this is likely.

**Equities continue to define the direction of risk/growth/commodity currencies** and a further retracement in the US and or Chinese equity markets will likely see more people run for the carry trade exit door. The US Thanksgiving weekend starting this Thursday normally gives a good view into the mind of the US consumer and so investors will be watching for how spending gauges have fared after this.

### Regulation is coming as policymakers attempt to clamp down on the risk of asset bubbles.

But fundamentals haven't change and this still implies that for the world to rebalance, the USD goes lower as US problems are exported. Closer to home, it is interesting to note that while some economies regulate capital inflows, the basis swap market in both Australia and NZ is paying a large benefit for any cash arriving for term.

**The NZDAUD cross topped out at the 0.8020 level and focus now moves to a retest of 0.7900 support.** We still prefer this cross to drift to 0.7750 pre-Christmas, and do not think 0.8000

will be seen again this year. Finally after the two rate hikes from the RBA (and potentially a third in December), cash rates of 3.50 percent compared to 2.50 percent is gaining traction.

**Though we see NZDAUD lower, we believe the NZDUSD has limited downside.** 0.7080 is the major support level that, in our view, is unlikely to be breached. A break back above the much talked about 55 day moving average at 0.7280 can see acceleration higher back above 0.7400.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both softs and hards performing well.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔/↓	Range trade, but expect a retest of 0.7900.
Sentiment	↔/↓	Australia to go in December. RBNZ on hold.
Other	↔/↓	Asian central banks underweight Australian asset.
<b>On balance</b>	↔/↓	<b>NZD struggling to keep up with AUD.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	Above cyclical fair value estimates, just.
Yield	↔	Both low for longer.
Commodities	↑	Soft commodities gaining momentum.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔/↓	Inventories being rebuilt, but what about demand?
Technicals	↔	Hard to see a breach of 0.7080.
AUD	↑	First to hike in G20.
Sentiment	↔	Volatility aside, US downtrend is still in place.
Other	↔	Brazil has placed tax on capital inflows. Will this start a new trend?
<b>On balance</b>	↔/↑	<b>Reasons to sell diminishing.</b>



## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
23-Nov	<b>NZ</b>	<b>Visitor Arrivals (Oct) - mom</b>	-	<b>3.8%</b>	<b>10:45</b>
		<b>ANZ-Roy Morgan Consumer Confidence Survey</b>	-	<b>125.9</b>	<b>15:00</b>
	AU	New Motor Vehicle Sales (Oct) - mom	-	2.9%	13:30
	GE	PMI Manufacturing (Nov A)	51.6	51.0	21:30
		PMI Services (Nov A)	51.2	50.7	21:30
	EC	PMI Manufacturing (Nov A)	51.2	50.7	22:00
		PMI Services (Nov)	52.9	52.6	22:00
24-Nov	EC	ECB's Trichet Speaks in Madrid	-	-	02:00
		Industrial New Orders (Sep) - mom	1.0%	2.0%	23:00
	US	Chicago Fed National Activity Index (Oct)	-	-0.81	02:30
		Existing Home Sales (Oct)	5.70M	5.57M	04:00
	AU	Conference Board Leading Index (Sep)	-	1.8%	12:00
	JN	BoJ Monthly Report	-	-	18:00
	GE	GDP (3Q F) - qoq	0.7%	0.7%	20:00
		Ifo - Business Climate (Nov)	92.5	91.9	22:00
		Ifo - Current Assessment (Nov)	88.0	87.3	22:00
		Ifo - Expectations (Nov)	97.3	96.8	22:00
	UK	Total Business Investment (3Q P) - qoq	-5.0%	-10.2%	22:30
25-Nov	US	GDP (Annualized) (3Q S)	2.9%	3.5%	02:30
		Personal Consumption (3Q S)	3.2%	3.4%	02:30
		GDP Price Index (3Q S)	0.8%	0.8%	02:30
		Core PCE (3Q S) - qoq	1.4%	1.4%	02:30
		S&P/CS Composite-20 (Sep) - yoy	-9.1%	-11.3%	03:00
		Consumer Confidence (Nov)	47.5	47.7	04:00
		Richmond Fed Manufacturing Index (Nov)	8	7	04:00
		House Price Index (Sep) - mom	0.1%	-0.3%	04:00
		Minutes of Nov. 4 FOMC Meeting	-	-	08:00
	AU	RBA Deputy Governor Speaks in Melbourne	-	-	11:20
		DEWR Skilled Vacancies (Nov) - mom	-	1.9%	13:00
	JN	Corp Service Price (Oct) - yoy	-2.6%	-3.2%	12:50
		Adjusted Merchandise Trade Balance (Oct)	¥300.0B	¥58.6B	12:50
		Merchandise Trade Exports (Oct) - yoy	-27.0	-30.6	12:50
		Merchandise Trade Imports (Oct) - yoy	-34.1	-36.9	12:50
		BoJ Deputy Governor Hirohide Yamaguchi to Speak in Tokyo	-	-	13:45
	GE	GfK Consumer Confidence Survey (Dec)	4.0	4.0	20:00
	UK	GDP (3Q P) - qoq	-0.3%	-0.4%	22:30
		GDP (3Q P) - yoy	-5.1%	-5.2%	22:30

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Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
26-Nov	US	Personal Income (Oct) – mpm	0.2%	0.0%	02:30
		Personal Spending (Oct) – mom	0.5%	-0.5%	02:30
		PCE Core (Oct) - mom	0.1%	0.1%	02:30
		PCE Deflator (Oct) - yoy	0.1%	-0.5%	02:30
		Durable Goods Orders (Oct) - mom	0.5%	1.4%	02:30
		Durables Ex Transportation (Oct) - mom	0.6%	1.2%	02:30
		Initial Jobless Claims (w/e Nov-22)	500K	505K	02:30
		Continuing Claims (w/e Nov-15)	5565K	5611K	02:30
		University of Michigan Confidence (Nov F)	67.0	66.0	04:00
		New Home Sales (Oct)	405K	402K	04:00
	AU	Private Capital Expenditure (3Q)	1.0%	3.3%	13:30
	<b>NZ</b>	<b>NBNZ Business Confidence (Nov)</b>	<b>-</b>	<b>48.2</b>	<b>15:00</b>
	EC	Money Supply M3 (Oct) - yoy	0.8%	1.8%	22:00
27-Nov	<b>NZ</b>	<b>Trade Balance (Oct)</b>	<b>-480M</b>	<b>-424M</b>	<b>10:45</b>
		<b>Trade Balance (Oct) – 12-mth total</b>	<b>-1010M</b>	<b>-1533M</b>	<b>10:45</b>
		<b>Imports (Oct)</b>	<b>3.60B</b>	<b>3.25B</b>	<b>10:45</b>
		<b>Exports (Oct)</b>	<b>3.14B</b>	<b>2.83B</b>	<b>10:45</b>
		<b>Money Supply M3 (Oct) - yoy</b>	<b>-</b>	<b>2.7%</b>	<b>15:00</b>
		<b>RBNZ 2-year Inflation Expectations</b>	<b>-</b>	<b>2.3%</b>	<b>15:00</b>
	JN	Jobless Rate (Oct)	5.4%	5.3%	12:30
		Household Spending (Oct) - yoy	0.6%	1.0%	12:30
		National CPI (Oct) - yoy	-2.4%	-2.2%	12:30
		National CPI Ex-Fresh Food (Oct) - yoy	-2.2%	-2.3%	12:30
		National CPI Ex Food, Energy (Oct) - yoy	-1.1%	-1.0%	12:30
		Retail Trade (Oct) - mom	-0.9%	0.9%	12:50
	EC	Business Climate Indicator (Nov)	-1.65	-1.78	23:00
		Consumer Confidence (Nov)	-17	-18	23:00
		Economic Confidence (Nov)	88.0	86.2	23:00
		Industrial Confidence (Nov)	-19	-21	23:00
		Services Confidence (Nov)	-6	-7	23:00

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

## NEW ZEALAND DATA WATCH

**Key focus over the next four weeks:** Upcoming data is expected to continue its generally improving trend, but we still question whether the “mix” to growth is right to achieve a sustainable recovery. The key issue is whether “hard” data begins to catch up to where “soft” data (confidence surveys etc) currently sit.

Date	Data/Event	Economic Signal	Comment
Mon 23 Nov (15.00)	ANZ-Roy Morgan Consumer Confidence (Nov)	-	-
Thu 26 Nov (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Fri 27 Nov (10.45)	Overseas Merchandise Trade (Oct)	Another deficit	A deficit of \$600m is expected. The level of imports will be key to watch for signs of a turn in prospects.
Fri 27 Nov (15.00)	RBNZ Survey of Expectations (Dec qtr)	Contained	We expect the 2-year ahead measure of inflation expectations to remain near the current 2.3 percent level.
Fri 27 Nov (15.00)	Credit Growth (Oct)	Ongoing de-leveraging	Themes from recent months are likely to be repeated where housing credit growth remains relatively subdued as existing mortgage holders look to pay down debt. Credit growth for business and agriculture will also be soft.
Mon 30 Nov (10.45)	Building Consents (Oct)	Up she goes	Residential consent issuance is likely to continue to rise from what are still very low levels. However, non-residential consent issuance is likely to continue to trend lower.
Thu 3 Dec (15.00)	ANZ Commodity Price Index (Nov)	-	-
Fri 4 Dec (10.00)	Financial Statements of Government for the four months ended October	Further into the red	The underlying operating deficit is expected to remain weaker than forecast as a lower tax take weighs. Improvement in financial markets should help to boost the headline operating balance.
Mon 7 Dec (10.45)	Wholesale Trade Survey (Sep qtr)	Subdued	Following flat retail sales volumes in the quarter, we expect a similar result for wholesale trade.
Tue 8 Dec (10.45)	Value of Building Work Put in Place (Sep qtr)	Non-residential to be particularly weak	We expect both residential and non-residential construction volumes to be weak in the quarter, although particularly so for the latter.
Tue 8 Dec	Economic Survey of Manufacturing (Sep qtr)	An improvement	The BNZ-Business NZ PMI survey has moved back into expansion territory. A rebuilding of inventories is likely to contribute to improved manufacturing production.
Wed 9 Dec (10.45)	Electronic Card Transactions (Nov)	Improving, but growth subdued.	Despite stimulus from net migration and low interest rates, headwinds for consumers remain strong. Volatility aside, we expect a reasonably subdued result.
Thu 10 Dec (09.00)	RBNZ December <i>Monetary Policy Statement</i>	The same message	In our view, there have been limited developments since the October <i>Review</i> to see the RBNZ shift from their “on hold until the second half of 2010” view on rates.
Thu 10 Dec (10.45)	Overseas Trade Indexes (Sep qtr)	Terms of trade recovering	We expect the terms of trade to be largely flat in the quarter. But recovering commodity prices will see an improvement from Q4. In terms of volumes, we expect both export and imports to fall slightly leading to a small negative net export contribution to GDP.
Mon 14 Dec (10.45)	Retail Trade Survey (Oct)	Cautiousness prevails	Despite the improvements seen in consumer confidence, this is not flowing through into actual spending decisions. De-leveraging and a weak labour market remain big headwinds.
Thu 17 Dec (15.00)	NBNZ <i>Business Outlook</i> (Dec)	-	-
<b>On Balance</b>		<b>Up</b>	<b>Right direction, wrong mix.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
GDP (% qoq)	-0.5	-1.0	-0.8	0.1	<b>0.5</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>
GDP (% yoy)	-0.4	-2.2	-2.6	-2.1	<b>-1.2</b>	<b>0.6</b>	<b>2.0</b>	<b>2.5</b>	<b>2.6</b>	<b>2.3</b>
CPI (% qoq)	1.5	-0.5	0.3	0.6	1.3	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>
CPI (% yoy)	5.1	3.4	3.0	1.9	1.7	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.1</b>	<b>2.5</b>
Employment (% qoq)	0.1	0.7	-1.4	-0.4	-0.7	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>
Employment (% yoy)	1.1	0.9	0.7	-0.9	-1.8	<b>-2.5</b>	<b>-1.2</b>	<b>-0.7</b>	<b>0.3</b>	<b>0.8</b>
Unemployment Rate (% sa)	4.3	4.7	5.0	6.0	6.5	<b>6.8</b>	<b>7.0</b>	<b>7.1</b>	<b>7.1</b>	<b>7.0</b>
Current Account (% GDP)	-8.6	-8.9	-8.1	-5.9	<b>-4.2</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-4.7</b>	<b>-5.5</b>	<b>-5.6</b>
Terms of Trade (% qoq)	-1.0	-1.0	-2.7	-8.9	<b>1.0</b>	<b>1.1</b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	<b>-11.4</b>	<b>-9.5</b>	<b>-6.6</b>	<b>2.6</b>	<b>1.7</b>	<b>0.7</b>

## KEY ECONOMIC INDICATORS

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Retail Sales (% mom)	-1.1	0.2	-0.1	0.5	0.7	0.0	-0.5	1.1	0.2	..
Retail Sales (% yoy)	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	..
Credit Card Billings (% mom)	1.7	1.1	-2.9	2.4	-0.3	0.1	0.2	1.6	-1.0	0.2
Credit Card Billings (% yoy)	-2.4	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	-0.4
Car Registrations (% mom)	-14.5	-14.6	6.3	-0.6	-2.6	6.2	7.2	-2.6	6.7	0.9
Car Registrations (% yoy)	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8
Building Consents (% mom)	-12.3	11.9	-1.8	11.8	2.8	-9.1	4.0	1.7	3.4	..
Building Consents (% yoy)	-51.1	-39.8	-34.4	-56.5	-23.5	-23.8	-16.7	-8.9	-12.7	..
REINZ House Price (% yoy)	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0
Household Lending Growth (% mom)	0.2	0.1	0.0	0.2	0.4	0.1	0.3	0.3	0.2	..
Household Lending Growth (% yoy)	3.8	3.1	2.7	2.5	2.5	2.3	2.4	2.3	2.3	..
ANZ-Roy Morgan Consumer Confidence	103.7	97.1	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9
NBNZ Business Confidence	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2
NBNZ Own Activity Outlook	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5
Trade Balance (\$m)	-102	483	438	322	906	-331	-176	-719	-424	..
Trade Balance (\$m annual)	-5405	-5165	-4684	-4070	-2994	-3110	-2490	-2361	-1533	..
ANZ World Commodity Price Index (% mom)	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.6
ANZ World Commodity Price Index (% yoy)	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.6
Net Migration (sa)	870	1640	1720	2080	2610	1690	2480	1610	1800	..
Net Migration (annual)	4538	6160	7482	9176	11202	12515	14488	15642	17043	..

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)						
	Sep-09	Oct-09	23-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.702	0.737	0.724	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.816	0.815	0.792	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.482	0.498	0.487	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	64.2	66.5	64.3	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.430	0.456	0.439	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	64.3	66.4	64.76	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Sep-09	Oct-09	23-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.75	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.77	2.79	2.80	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.82	5.78	5.68	5.60	5.60	5.70	6.00	6.10	6.30	6.50
International	Sep-09	Oct-09	23-Nov-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	0.29	0.36	0.26	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.25	3.50	3.50	4.00	4.00	4.00	4.00	4.00	4.50
AU 3-mth	3.38	3.68	3.92	3.90	4.40	4.30	4.30	4.30	4.50	5.00

## KEY RATES

	20 Oct	16 Nov	17 Nov	18 Nov	19 Nov	20 Nov
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.80	2.78	2.77	2.78	2.78	2.80
NZGB 11/11	4.37	4.29	4.21	4.22	4.14	4.12
NZGB 04/13	5.16	5.04	4.93	4.94	4.85	4.82
NZGB 12/17	5.73	5.75	5.70	5.71	5.67	5.68
NZGB 05/21	6.00	6.05	6.00	6.01	5.97	5.99
2 year swap	4.66	4.50	4.45	4.46	4.36	4.34
5 year swap	5.62	5.61	5.56	5.57	5.50	5.48
RBNZ TWI	67.3	66.1	66.4	66.3	65.8	64.9
NZD/USD	0.7545	0.7424	0.7478	0.7441	0.7392	0.7273
NZD/AUD	0.8122	0.7961	0.8006	0.8020	0.7985	0.7932
NZD/JPY	68.20	66.59	66.64	66.41	65.91	64.64
NZD/GBP	0.4600	0.4446	0.4449	0.4429	0.4426	0.4373
NZD/EUR	0.5037	0.4966	0.5000	0.5000	0.4951	0.4882
AUD/USD	0.9290	0.9326	0.9341	0.9278	0.9257	0.9169
EUR/USD	1.4980	1.4949	1.4956	1.4883	1.4929	1.4899
USD/JPY	90.39	89.69	89.11	89.25	89.17	88.87
GBP/USD	1.6402	1.6700	1.6809	1.6799	1.6703	1.6633
Oil	79.47	76.34	78.91	79.03	79.55	77.50
Gold	1066.05	1127.15	1136.35	1143.10	1142.45	1142.95
Electricity (Haywards)	1.89	6.23	7.27	7.59	6.98	6.31
Milk futures (US\$/contract)	110	125	125	125	125	124
Baltic Dry Freight Index	2832	4220	4381	4643	4661	4507

### 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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#### Securities about which investment advice is given

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

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

#### PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

#### **Record Keeping**

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

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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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