

Market Focus

New Zealand

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NO PULSE?

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Page 2: Economic overview

- > Data continues to point to an economy emerging from recession, although uncertainty surrounds the pace of the recovery. Rebounding confidence is welcome, but anaemic credit growth is also telling us the economy continues to de-leverage. This is a theme that resides at the centre of our economic view. We expect such tensions between soft (leading) data and hard (lagging) data to remain for some time.

Page 4: Economic comment – no pulse?

- > It is new lending that is important for economic activity, not the size of the existing stock. Our credit impulse measure suggests further contraction to come in private final domestic demand. On the face of it, this is consistent with further improvements in NZ's external current account position, but at the expense of near-term growth.

Page 6: Economic comment – NBNZ *Business Outlook* update

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Page 8: Interest rate strategy

- > A strong QSBO and hawkish RBA will keep the NZ market pushing a Q1 rate hike theme. The bias will remain towards the payside and the curve may flatten further despite the carry cost. However, as seen towards the end of last week, how global equities perform will have as much say given increasing nervousness regarding valuations.

Page 9: Currency strategy

- > While the weak USD trend remains intact – and the G7 said nothing substantial to alter the outlook – we expect the NZD to under-perform this week. The kiwi has struggled above 0.72, while the AUD failed to hold gains above 0.88. Recent commodity price moves may accentuate this weakness. The RBA and Australian labour market data will be key direction bellwethers for the NZDAUD cross this week.

Page 10: Data and event calendar**Page 12: Data watch****Page 13: Key forecasts**

ECONOMIC OVERVIEW

Data continues to point to an economy emerging from recession, although uncertainty surrounds the pace of the recovery. Rebounding confidence is welcome, but anaemic credit growth is also telling us the economy continues to de-leverage. This is a theme that resides at the centre of our economic view. We expect such tensions between soft (leading) data and hard (lagging) data to remain for some time.

What's ahead?

- > **September ANZ Commodity Price Index** (Monday 1500 NZDT).
- > **September quarter NZIER Quarterly Survey of Business Opinion** (Tuesday 1000 NZDT). Business confidence should show a reasonable surge, in line with the National Bank *Business Outlook*. However, gauges of resource pressure should continue to point to significant slack within the economy.
- > **Fonterra online auction results** (Wednesday morning NZDT). Following the remarkable 50 percent surge in prices over the past two months, logic would call for a pull-back. However, given anecdotes another rise cannot be ruled out.

What's the view?

Let's start with the housing market this week (being New Zealanders, it is obviously dear to our hearts). Back in August – amongst hot debate surrounding a potential housing shortage pushing up prices – we outlined our belief that it was the balance sheet constraint for NZ.Inc rather than any potential housing shortage that would prove to be the binding constraint on the market going forward. A view of strong house price growth just didn't sit comfortably with us in a de-leveraging world and what this would imply for existing imbalances within the economy. We added though, that for this view to be ratified (and also whether the RBNZ could maintain their "low for an extended period" view on interest rates), we needed to see the housing market stabilise into the end of the year.

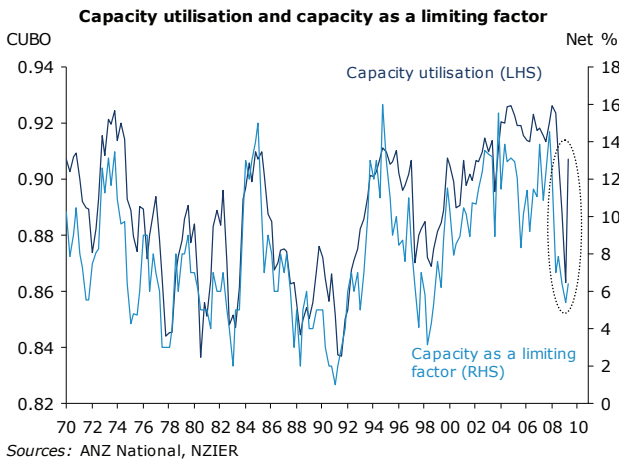
In this regard, we noted with interest last week's data showing a reasonable increase in housing market listings. Clearly, part of the reason for the recent momentum and rises in house prices across the country has been due to a lack of listings on the market (as opposed to a generalised shortage of houses). This has resulted in a so-called "shortage price premium". Low interest rates and net migration inflows have been supporting demand and there is no doubt a number of cashed-up buyers are still in the market. But we also

suspect the altered credit backdrop and weak labour market led to hesitancy to list and the lack of supply was consistent with an economy that was de-leveraging. According to realestate.co.nz, new listings rose 19 percent in September. This figure is not seasonally adjusted and so plenty of caveats need to be expressed here (listings typically rise as the weather improves and particularly so in October). But in our eyes, this is a large monthly rise, even accounting for normal seasonal fluctuations, and suggests the supply side is now responding. Once again we'd urge some caution interpreting this. It would be tempting to surmise that rising supply will suppress prices, but it may also be a sign of confidence in the market i.e. recent housing market trends are leading to increased confidence from homeowners to test the waters.

Credit growth will determine which path we are on. If it's a confidence game, then credit growth will surely pick-up. Conversely, if, as we suspect, the market is now starting to settle at a new (lower) equilibrium or normal, where income growth, rebuilding precautionary savings and job security are more influential, then we expect credit growth to remain anaemic and the housing market to flatten into Christmas as opposed to kick-on. Private sector credit grew by a meagre 0.1 percent in August with housing up 0.3 percent. Weekly RBNZ mortgage approvals data suggests no real acceleration into September. Our inclination remains that the need for households to de-leverage and the balance sheet constraint continues to be dominant influences on the housing market, despite the odd pocket of strength. Page 4 details a credit impulse measure, and what it implies for domestic demand.

Turning to the data this week, the NZIER's Quarterly Survey of Business Opinion (QSBO) for the September quarter should show a reasonable improvement. The recent trend in the National Bank *Business Outlook* has been clear, and we expect the QSBO to mirror that. That is, business sentiment should show a solid rise. The news that the economy is now technically out of recession and the announcement from Fonterra of a lift in their payout forecast (both during the week beginning 21 September) would have likely fallen during the NZIER survey period. But we suspect that the bulk of responses would have been received prior to this positive news. You could therefore argue that had the QSBO been surveyed later in the month, there would be even more upside. Of course, negative factors such as the elevated currency remain, but with monetary policy support now gaining traction and likely to remain accommodative for some time yet, and economic conditions for a number of domestic sectors beginning to stabilise, these factors should be the dominant drivers of improved business sentiment.

Looking at the numbers, we expect both headline business confidence and expectations towards firms’ own domestic trading activity to accentuate green shoots euphoria (see table below). The latter should help reinforce expectations that economic momentum is building and further positive GDP growth will be recorded over the second half of this year. Expectations towards employment, investment and profits should also improve. In saying this though, employment intentions are likely to still be in negative territory, highlighting that while conditions are stabilising, it is far from a case of firms feeling confident enough yet to go out and increase staff levels. There is also likely to be quite a bit of interest around the capacity utilisation (CUBO) figure this quarter. After a surprise increase in the June quarter, we are expecting a pull-back. There has been a disconnect opening up between the CUBO and the “capacity as a limiting factor” gauge. We are biased more towards the latter and suspect this gap will close, at least partially, this quarter.



NZIER Q3 QSBO		
Measure	Our expectation	Last
Headline Confidence	+15	-24.8
Domestic Trading Activity (next 3 months)	+12	-10.1
Capacity Utilisation (CUBO)	0.8850	0.9070
Employment (next 3 months)	-5	-18.9
Average selling price (next 3 months)	+5	7.1

There is a ‘commodities’ feel to the rest of the local data/events this week. With the currency rising strongly over September – and representing a further headwind for the tradable sector – the main focus of the ANZ *Commodity Price Index*, to be released this afternoon, will be whether movements in global commodity prices have been enough to offset.

The other interesting event will be the results of Fonterra’s next online DairyTrade auction.

Recent strong increases in dairy prices (resulting in a lift in Fonterra’s 2009/10 payout forecast) will go a long way to ease cash-flow pressures in the industry. However, despite somewhat of a sigh of relief, the sector should be under no illusions about the need to de-leverage. Any surplus cash-flow will end up paying down debt as opposed to being used for discretionary spending. De-leveraging is a huge part of our economic story for the household sector and it is equally, if not more, relevant to the agriculture industry and it is simply not going to take place over 12 months.

The auction itself looks to be a lottery. Logic would suggest that after such a sharp movement higher in global dairy prices, there could be a pull-back this month. However, what has become clearer with the release of August trade numbers but also the June quarter GDP results is that dairy stocks have been rundown aggressively. This now means that any increase in exports has to be met out of production. Biological constraints obviously limit how quickly the latter can increase. This implies some underlying support to prices. Indeed, the dairy futures prices traded on the Chicago Mercantile Exchange posted further gains last week. However, given that the futures prices are still lagging behind the Fonterra auction prices, it suggests there is an element of catch-up (or correction!). Hence, roll the dice.

Central bank announcements are the main focal point internationally this week. The RBA, ECB and BoE are all making interest rate announcements this week. Naturally, most of our attention will be on what the RBA decide. A rate hike seems unlikely, but given the recent Australian dataflow and rhetoric from officials, one might not be too far away. In fact, the market is fully priced for a hike in November. Australian labour market data, also due this week, will help cement this view one way or the other.

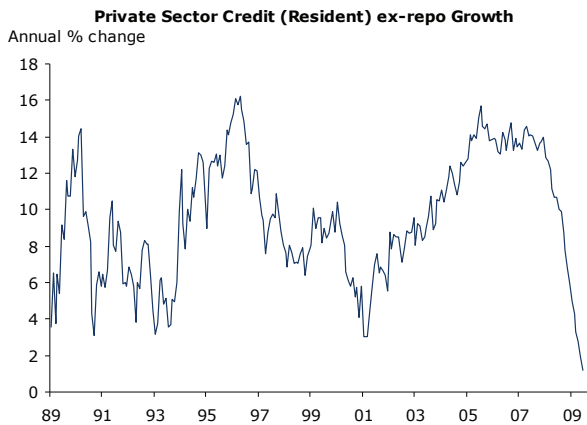
Recent local data...

- > **Building Consent Issuance (August):** Total residential consent issuance rose 1.7 percent, while ex-apartment issuance rose 2.8 percent. \$384 million of non-residential consents were issued in the month.
- > **Credit Growth (August):** Total private sector credit grew just 0.1 percent, to be up only 1.2 percent on a year ago – the weakest annual growth on record.
- > **NBNZ Business Outlook (September):** Both headline confidence and own activity expectations rose solidly in the month, to 49.1 and 32.2 respectively.

NO PULSE?

It is new lending that is important for economic activity, not the size of the existing stock. Our credit impulse measure suggests further contraction to come in private final domestic demand. On the face of it, this is consistent with further improvements in NZ's external current account position, but at the expense of near-term growth.

Credit growth has slowed markedly this year, such that the annual growth rate in private sector resident credit (ex repo) has gone from 10 percent in September 2008 to a mere 1.2 percent in August 2009 – the lowest annual growth rate since this series was collected by the RBNZ. By comparison, the two previous recessionary episodes still managed to see credit growth trough at around 3 percent.



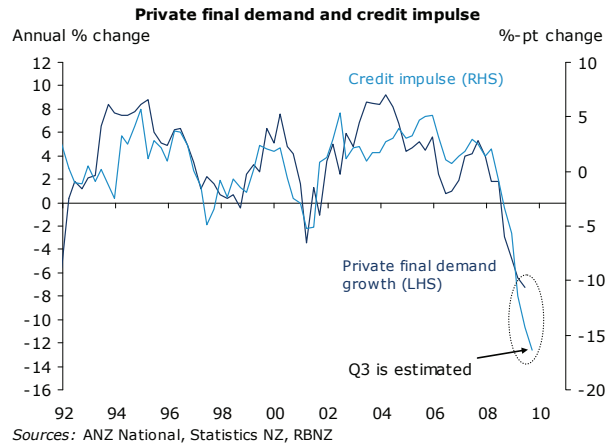
It is the change in the rate of credit growth that matters more to activity, rather than the growth rate itself. There is a material difference between the two, with most of the focus tending to go on the latter. However, it is the former that tends to have a closer fit with final demand. We calculate a "credit impulse" measure, which is simply the change in the stock of credit to GDP compared to the previous period:

$$CI_t = \frac{c_t}{GDP_t} - \frac{c_{t-1}}{GDP_{t-1}}$$

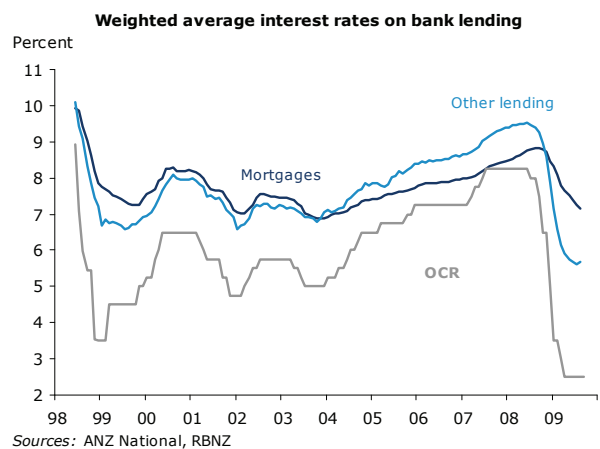
where CI_t is the credit impulse and c_t is the change in the stock of credit.¹

The credit impulse measure tracks private final domestic demand well (i.e. private consumption plus private investment). This is not really all that surprising given that a large part of residential and business investment is funded from bank debt, and so too a growing portion of consumption over recent years (how else do you

explain a negative household savings rate?). An obvious question though is which way does the causation go? During the credit boom years, the supply of credit to NZ was essentially infinite and cheap (i.e. very low interest rates, especially when taking risk into account). This created an upward spiral where rising asset prices encouraged more investment (and therefore demand for credit), while cheap credit also led to more demand to fund investment and consumption.



We suspect a combination of diminished appetite for debt and tighter supply is behind the recent sharp slowing in credit growth. In short, we are now experiencing the reverse of what occurred during the credit boom years. Although the "price" of credit has come down (as reflected in the lower effective interest rates facing mortgages and other types of lending), the recession and general uncertainty about the outlook has seen investment plans put on hold. In addition, several financial institutions have exited the industry over the past 12-18 months, reducing the available supply of credit. And as a general rule, lending standards and credit criteria have generally tightened across the board.



In addition, there is an element of structural change that will affect credit growth, and therefore the credit impulse measure. Firms have been actively replacing bank debt with equity or corporate debt, evidenced by the large amounts

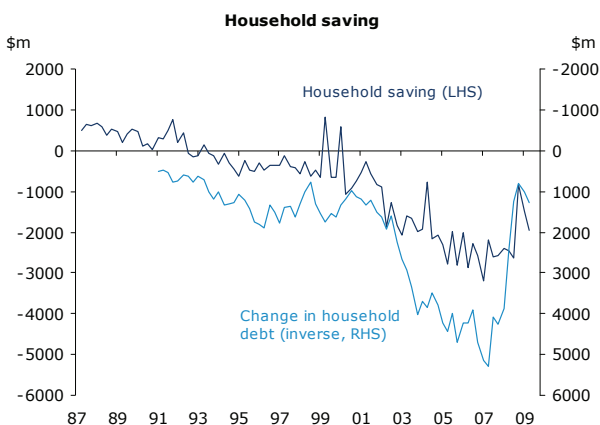
¹ Acknowledgement needs to go to Michael Biggs from Deutsche Bank, who used this framework and analysis on the US.

of equity and debt issuances this year, and business sector credit growth is flat on a year-ago. Hence, our credit impulse measure will be overstating the implied weakness in domestic demand, although we suspect the spirit and direction remains the same.

On the face of it final demand looks set to stay subdued in the near-term. Judging from the recent credit numbers, we are likely to see a further contraction in Q3, and possibly Q4 as well. This reinforces the large role that the inventory cycle will play in supporting growth over the second half of this year, and why we continue to harbour doubts over the sustainability and durability of the recovery that is seemingly underway. This is particularly given that a lot of the recent increase in agriculture lending is likely to be for working capital purposes rather than to fund new investment. Similarly, the rise in mortgage credit seems to be driven by higher house prices as opposed to funding new residential construction given the still low building consents numbers.

However, at this juncture we need to be wary of tension from two contrasting forces.

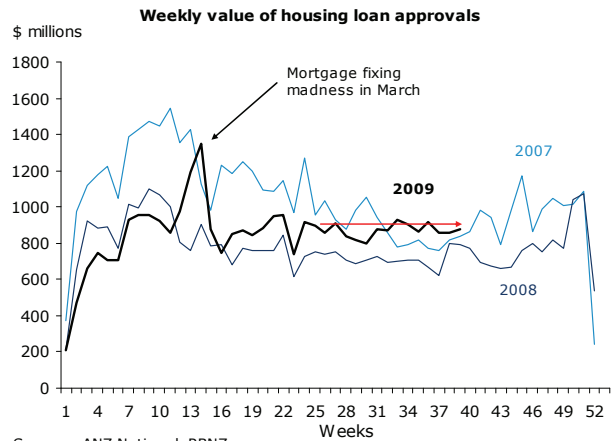
- > **The household savings rate remains poor** (negative) and portends of household credit growth remaining slow. Savings has improved of late, but there is still a long way to go before households have built enough of a precautionary buffer. Higher savings imply reduced demand for credit, which in turn results in further contraction in our credit impulse measure. We are already seeing consumer debt being reduced. Such a de-leveraging effect is a reason why we expect final demand to remain subdued in the near-term.



Sources: ANZ National, Statistics NZ, RBNZ

- > **Housing demand looks strong,** with the value of weekly housing loan approvals data collected by the RBNZ showing year-on-year growth of over 20 percent. This implies a strong pick-up in household credit growth. However, apart from the large spike higher in March, the value of housing loan approvals has

been remarkably stable. It is still running above last year's level, but is not showing signs of acceleration. Looking at the number of approvals, it has recently dipped below last year's level. But the average value per approval is running well ahead, in line with a pickup in house prices.

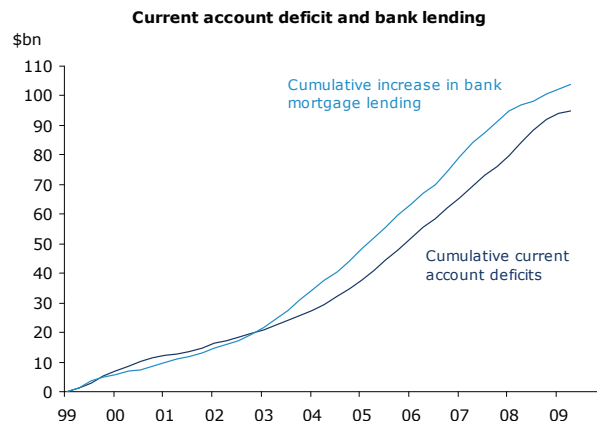


Sources: ANZ National, RBNZ

The upshot

Recent credit data and our credit impulse is not indicative of an economy rebounding strongly. In fact the converse applies. While the housing component is relatively more robust (up 2.3 percent on a year ago compared to aggregate private sector credit of 1.3 percent) both are very subdued. However, the gap between business credit (zero) and housing (which has picked up from lows) also flags an unbalanced recovery. The two will invariably be linked by labour market prospects. If firms are de-leveraging then its hard to imagine job prospects picking up sharply.

The ever widening current account deficit over the decade was closely related to cumulative mortgage lending. It is hard to imagine the former improving in a sustainable fashion unless the later remains subdued and this will no doubt come at the expense of near-term growth.



Sources: ANZ National, Statistics NZ, RBNZ

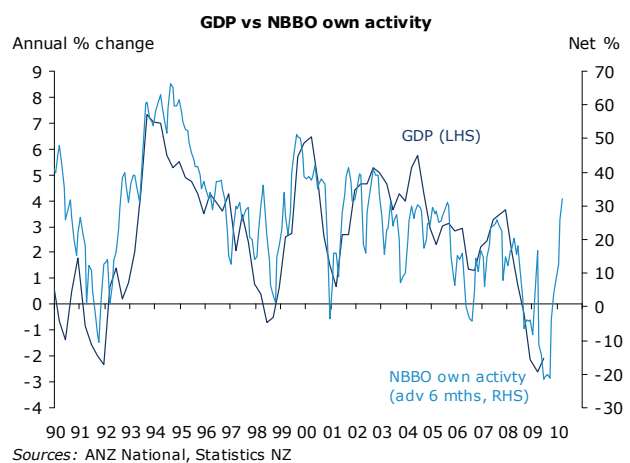
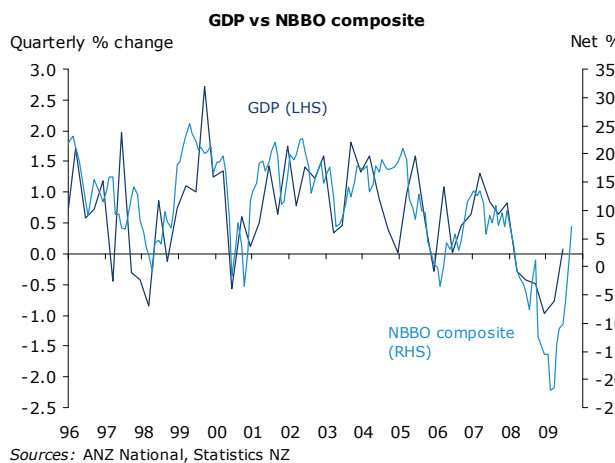
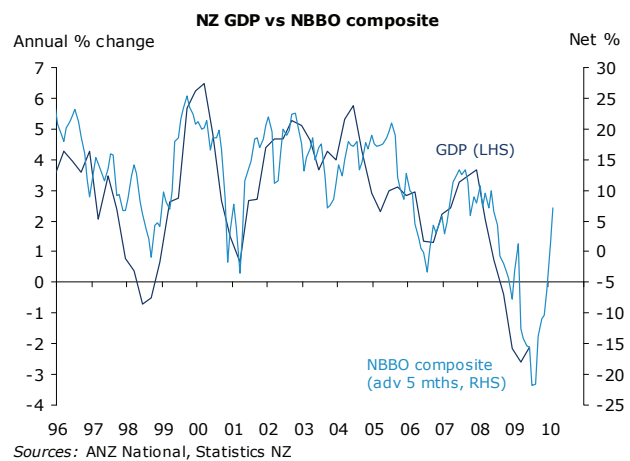
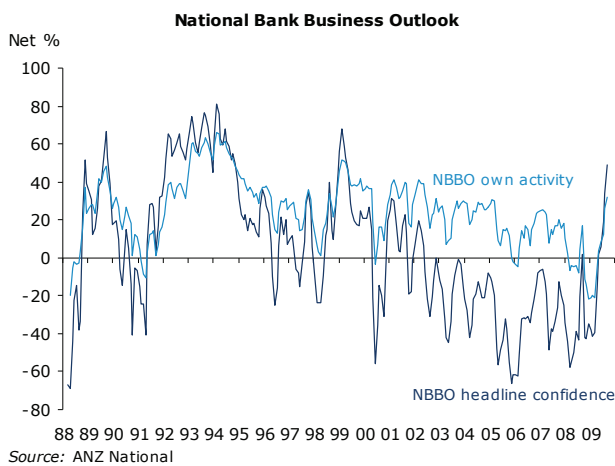
NATIONAL BANK BUSINESS OUTLOOK UPDATE

The latest National Bank *Business Outlook* survey suggests a full blown recovery is underway, with inflation kept well in check. Our composite growth indicator² (which has a strong correlation with GDP growth) continues to rise and is flagging 2½ percent growth next year. It is the non-tradable sector that is leading the charge, however, giving an unbalanced and unsustainable feel to the recovery story.

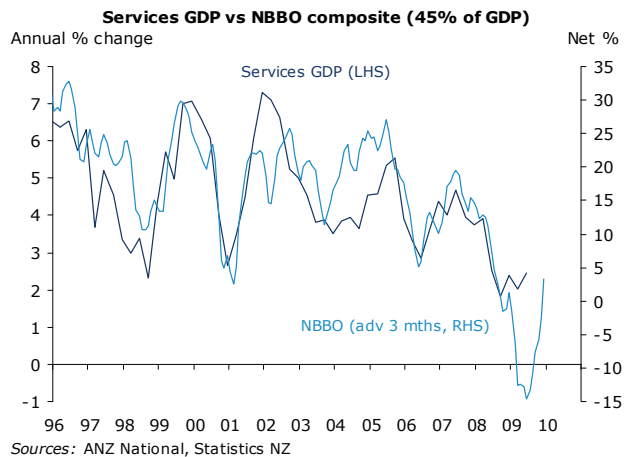
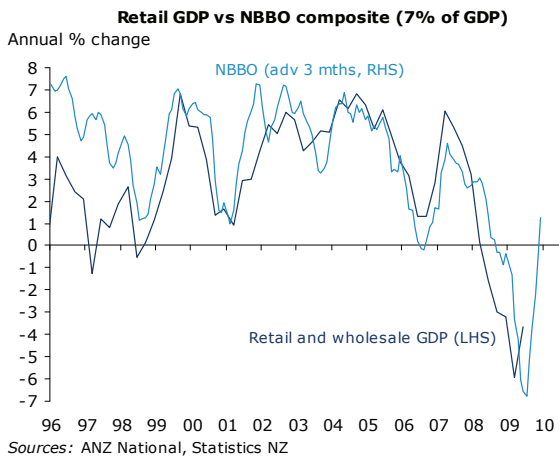
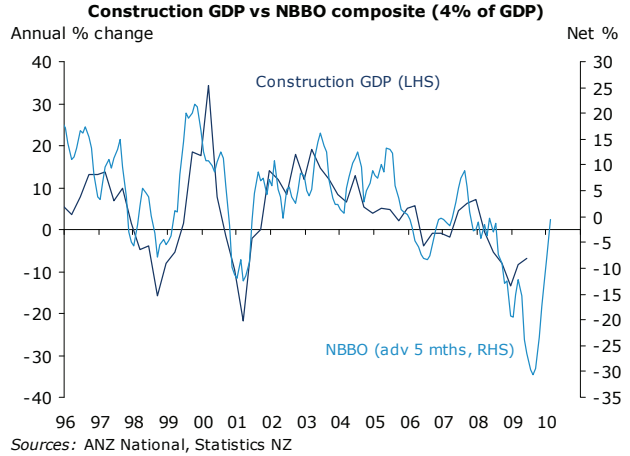
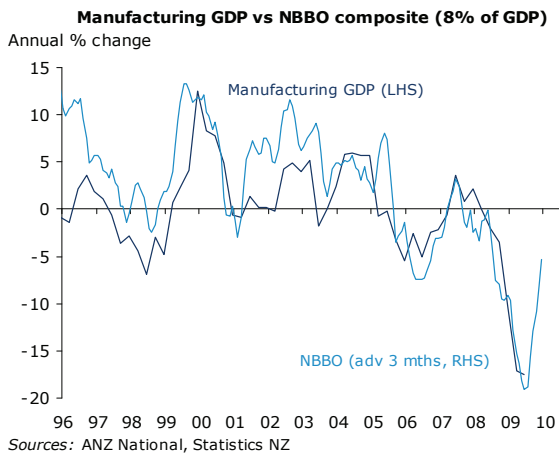
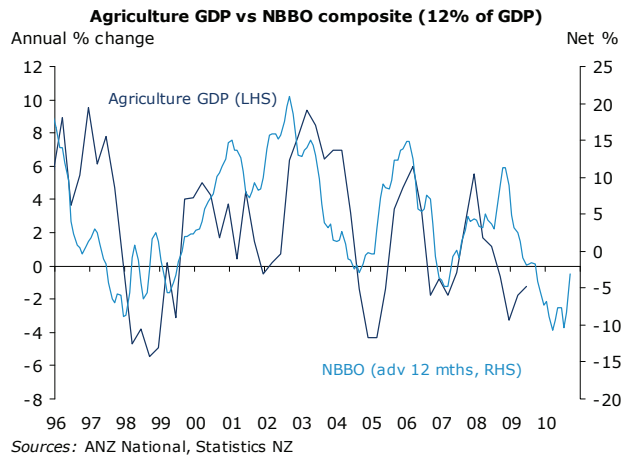
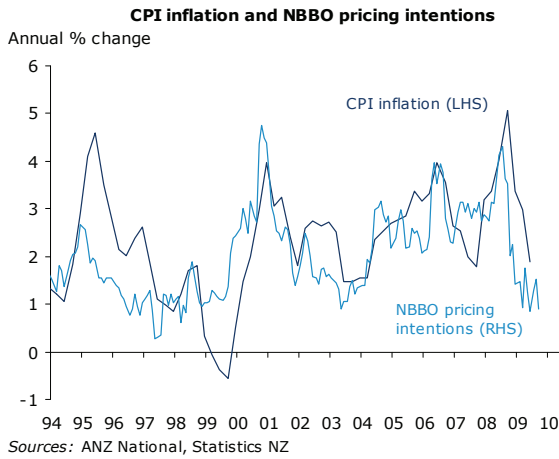
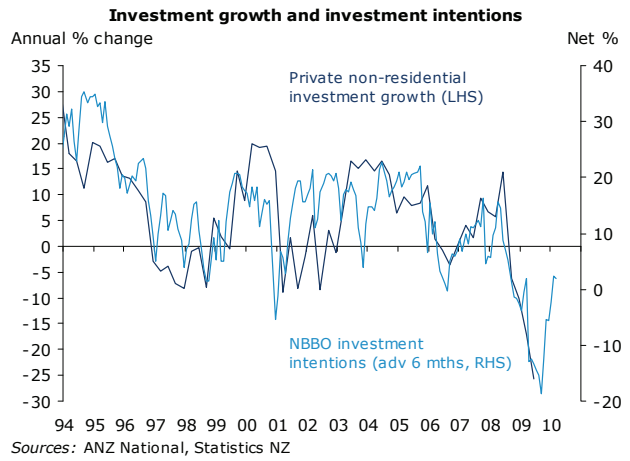
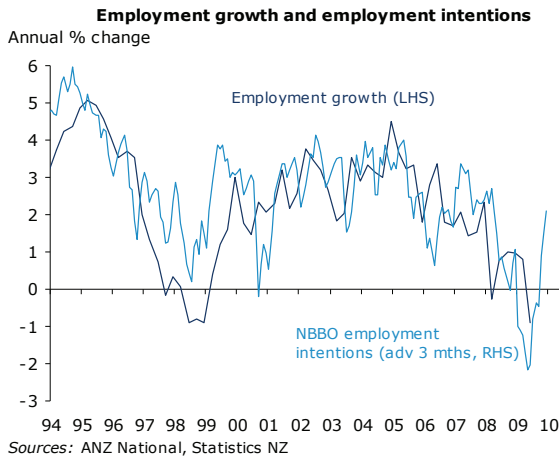
With the worst of the recession (and the recession itself!) behind us, firms feel a lot more upbeat about the future. Both headline confidence and the own activity reading posted strong gains in September to reach their highest levels since April 1999 and June 2002 respectively. Employment and profit expectations improved, while investment intentions fell a tad.

However, investment and employment intentions remain below historical averages, indicating a degree of caution amongst firms, despite expecting much better things ahead. The rise in employment intentions suggest we may see positive employment growth again, though likely not sufficient to absorb the increases in the labour force. Pricing intentions are consistent with annual headline inflation remaining towards the bottom of the RBNZ’s target band, which no doubt will be pleasing news for the Bank as it embarks on a period of monetary policy stability.

Our sectoral composite indicators show a universal turnaround across the board, but it is clear that the recovery is being driven by the non-tradable sector. Manufacturing and agriculture still look set for further contractions ahead, though at a much smaller rate compared to what has been experienced to date. The current account may have shown a sharp improvement of late, but the recovery story still has an unbalanced and unsustainable feel about it.



² Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.



INTEREST RATE STRATEGY

A strong QSBO and hawkish RBA will keep the NZ market pushing a Q1 rate hike theme. The bias will remain towards the payside and the curve may flatten further despite the carry cost. However, as seen towards the end of last week, how global equities perform will have as much say given increasing nervousness regarding valuations.

Market themes...

- > A game of two halves last week. Strong NZ and Australian data and upbeat RBA Governor led to a selloff in NZ rates earlier in the week.
- > Disappointing US data led to a global rally in rates, flowing through into the NZ market late in the week.
- > QSBO aside, offshore developments will be the main driver of the NZ market this week.

Review and outlook

The NZ market mainly followed moves in Australia and offshore last week. Strong Australian retail sales data saw a mild selloff both here and in Australia, which carried on in NZ following another strong NBNZ business confidence print. But later in the week, equity weakness and nervousness ahead of US non-farm payrolls saw the selloff undone and with the Australian market rallying hard, the kiwi market ended up back where it started in the front end. Interestingly, although the front end rallied, the curve flattened at the same time, indicating there is increasing interest to put flatteners on, even though the carry is prohibitive. US non-farm payrolls was weak as expected but the market failed to hold the post release rally and ended up largely unchanged on the day.

The week though was generally characterised by weak volumes and choppy pricing, and we can expect the same again this week. We have seen interest to put on short end received positions on the pull back to around 4.29 percent in the 2-year. We are also continuing to see a lack of payside flow from mortgage books and further increases in fixed mortgage rates by local banks should confirm this trend.

In Australia more commentators over the weekend are raising the possibility of a rate hike this Tuesday. Even if the RBA decides to stay on hold, it will likely signal that a November move is likely. So with a potentially strong QSBO following the improving trend of the NBNZ *Business Outlook*, and then the RBA decision followed by Fonterra auctions results the next morning, the risk this week looks to be for a selloff or at least payside pressure being maintained. Any rally is likely to be

fairly limited and probably led by poor offshore data or further equity weakness.

Borrowing strategies we favour at present

We continue to run with our strategy of staying in the short end of the curve. Although we see floating rates staying the most attractive / cost effective part of the curve for some time, borrowers need to remain cognisant of their interest rate risk management parameters. Where additional hedging is required, borrowers should consider using options.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	RBNZ says they are on hold until late 2010 but market looking for early hikes.
NZ data	↔/↑	Data showing further forward momentum in the economy, but not rocketing away as yet.
Fed Funds / front end	↔	Fed still committed to low rates for an extended period.
RBA	↑	This week's statement could lay out the case for a pre-Christmas move.
US 10 year	↔	Looks to have moved to a lower 3.1% to 3.35% range.
NZ swap curve	↔/↑	Still looking for curve to steepen following recent overdone flattening moves.
Flow	↔/↑	Risk of stop losses on any selloff triggering further moves higher in the short-end.
Technicals	↔	The 5-year yield is sitting at a key support level and could test a move to the downside.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 29-Oct-09	+1	0
Thu 10-Dec-09	+2	+3
Thu 28-Jan-10	+13	+12
Thu 11-Mar-10	+35	+39
Thu 29-Apr-10	+59	+53
Thu 10-Jun-10	+83	+92
Thu 29-Jul-10	+108	+128

Trading themes we favour at present

We still see the tightening cycle as a H2 2010 story. But the market will want to keep testing an early rate hike theme, especially with a strong QSBO expected this week. Given our view, we see current levels as attractive entry points to instigate long positions at the front end. But we favour being patient and waiting until past the QSBO and RBA.

CURRENCY STRATEGY

While the weak USD trend remains intact – and the G7 said nothing substantial to alter the outlook – we expect the NZD to underperform this week. The kiwi has struggled above 0.72, while the AUD failed to hold gains above 0.88. Recent commodity price moves may accentuate this weakness. The RBA and Australian labour market data will be key direction bellwethers for the NZDAUD cross this week.

Market themes...

- > Lots of talk of the world improving, but data showing some wobbles.
- > China still away this week so who's going to buy the commodities and the commodity currencies?
- > NZ data of meaning this week and the RBA is the wildcard.

Review and outlook...

The focus late last week was twofold with G7 and US employment. The big news out of the G7 was what wasn't said. Various European officials suggested currencies, and particularly the weakness in the USD, would be discussed. Yet the only direct currency comment they could produce in their communiqué was related to China! Needless to say, the EUR has opened higher this morning.

A Chinese holiday is only one reason the CRB index is struggling. Sure China has been stockpiling commodities over the last few months, but where are the price gains for commodities? The CRB index is still at levels seen in June, while the AUD is 10 percent higher. World demand has fallen off a cliff and has only stabilised. Has the AUD run up on a massive stock of commodities being kept in foreign currency? That is, has Australia been paid in advance? The CRB has been suggesting the AUD has been ahead of itself for a while and as a result, we suspect 0.8760 will provide solid resistance this week. The RBA may be ready to hike, but no one else in the world is and this fact alone may stop them. September labour market data will likely be the make or break for whether hikes are delivered before the end of the year.

Local QSBO data and the Fonterra auction must print higher this week for the NZD to continue its rally, as weak US data and negative equity moves weigh. The NZD is currently sidelined with little flow of note. The market is now looking for direction and expecting continuing good news. Those with long positions are deep in the money, but will be spooked by the weak non-farm payrolls

release in the US and a negative equity week last week. Overseas cash will need reasons to stay.

Technically, the NZDAUD cross has done enough on Friday and we expect that last week's 0.8165-0.8295 range is seen again.

The NZDUSD this week suggests a sell between 0.7200 and 0.7250, with stop losses just above this level, and looking for 0.7020 over the week ahead. October is typically a good month for shakeouts and we see the risk/reward, along with market positioning, favouring another.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Starting to look heavy as demand concerns feature, Fonterra auction the key.
Partial indicators	↔	Both economies improving, but Aussie faster?
Technicals	↔	Range trade now.
Sentiment	↔	RBA based.
Other	↔	Asian central banks diversification.
On balance	↔	Respect the ranges.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔	About cyclical fair value estimates.
Yield	↔/↓	Lower for longer from RBNZ, but Fed the same.
Commodities	↔	Starting to look heavy as demand concerns feature.
Risk aversion	↔	Improved, but fragile.
Partial indicators	↔/↓	Inventories being rebuilt, but what about demand?
Technicals	↔	Sell between 0.72 and 0.750.
AUD	↔/↓	Couldn't hold above 0.88.
Sentiment	↔/↑	USD unloved, but is the weak GBP an early turn indicator?
Other	↔/↑	Asian central banks are dominating and more are looking at NZ.
On balance	↔	Choppy range suggests trend ending.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
5-Oct	AU	AiG Performance of Service Index (Sep)	-	48.0	12:30
		ANZ Job Advertisements (Sep) - mom	-	4.1%	14:30
	NZ	ANZ Commodity Price (Sep) - mom	-	4.3%	15:00
	GE	PMI Services (Sep F)	52.2	52.2	20:55
	EC	PMI Services (Sep F)	50.6	50.6	21:00
		Sentix Investor Confidence (Oct)	-11.8	-14.6	21:30
		Retail Sales (Aug) - mom	-0.5%	-0.2%	22:00
	UK	PMI Services (Sep)	54.5	54.1	21:30
		Official Reserves (Changes)	-	\$396M	21:30
6-Oct	US	ISM Non-Manufacturing Composite (Sep)	50.0	48.4	03:00
		Fed's Dudley Speaks at Fordham Law School in New York	-	-	11:30
	NZ	NZIER Business Opinion Survey (3Q)	-	-25	11:00
	AU	Trade Balance (Aug)	-900M	-1556M	14:30
		RBA Cash Rate Announcement	3.00%	3.00%	17:30
	UK	Industrial Production (Aug) - mom	0.2%	0.5%	21:30
		Manufacturing Production (Aug) - mom	0.3%	0.9%	21:30
7-Oct	NZ	Fonterra to Announce Outcome of Monthly Milk Powder Auction	-	-	-
	UK	Nationwide Consumer Confidence (Sep)	68	63	12:01
	AU	AiG Performance of Construction Index (Sep)	-	42.4	12:30
		Home Loans (Aug)	-0.5%	-2.0%	13:30
		Investment Lending (Aug)	-	-4.0%	13:30
		Value of Loans (Aug) - mom	-	-1.7%	13:30
	JN	Official Reserve Assets (Sep)	-	\$1042.3B	12:50
		Leading Index CI (Aug P)	83.3	82.5	18:00
		Coincident Index CI (Aug P)	91.2	89.8	18:00
	US	Fed's Hoenig Speaks at the Denver Branch of Kansas City Fed	-	-	14:45
	EC	GDP (2Q F) - qoq	-0.1%	-0.1%	22:00
	GE	Factory Orders (Aug) - mom	1.1%	3.5%	23:00
8-Oct	US	Monthly Budget Statement (Sep)	-	\$45.7B	T OCT
		Consumer Credit (Aug)	-\$10.0B	-\$21.6B	08:00
	JN	Adjusted Current Account Total (Aug)	¥1171.3	¥1159.0B	12:50
		Trade Balance - BOP Basis (Aug)	¥285.0B	¥437.3B	12:50
		Eco Watchers Survey: Current (Sep)	42.5	41.7	18:00
		Eco Watchers Survey: Outlook (Sep)	-	44	18:00
		Machine Tool Orders (Sep P) - yoy	-	-71.5%	19:00
	AU	Employment Change (Sep)	-10.0K	-27.1K	14:30
		Unemployment Rate (Sep)	6.0%	5.8%	14:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
8-Oct cont.	AU	Full Time Employment Change (Sep)	-	-30.8	14:30
		Part Time Employment Change (Sep)	-	3.8	14:30
		Participation Rate (Sep)	65.1%	65.1%	14:30
	GE	Industrial Production (Aug) - mom	1.8%	-0.9%	23:00
9-Oct	UK	BoE Interest Rate Announcement	0.50%	0.50%	00:00
		BoE Asset Purchase Target	175B	175B	00:00
		PPI Input (Sep) - mom	-0.8%	2.2%	21:30
		PPI Output (Sep) - mom	0.1%	0.2%	21:30
		PPI Output Core (Sep) - mom	0.2%	0.2%	21:30
		Total Trade Balance (Aug)	-£2300M	-£2447M	21:30
	EC	ECB Announces Interest Rates	1.00%	1.00%	00:45
		ECB's Trichet Speaks at Monthly News Conference	-	-	01:30
	US	Initial Jobless Claims (w/e Oct-4)	540K	551K	01:30
		Continuing Claims (w/e Sep-27)	6120K	6090K	01:30
		Fed's Hoenig Speaks in Oklahoma City	-	-	13:45
		Wholesale Inventories (Aug)	-1.0%	-1.4%	03:00
	NZ	Electronic Card Transactions (Sep) - mom	-	-	10:45
	JN	Machine Orders (Aug) - mom	2.2%	-9.3%	12:50
	AU	Treasury Secretary Henry Speaks to Senate Committee in Sydney	-	-	16:35
	GE	Trade Balance (Aug)	12.0B	13.9B	19:00
		Imports (Aug) - mom	0.9%	-0.2%	19:00
		Exports (Aug) - mom	1.9%	2.3%	19:00
		Current Account (Aug)	8.8B	11.0B	19:00
		Consumer Price Index (Sep F) - mom	-0.3%	-0.4%	19:00

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: Now that the economy is “technically” out of recession, the focus needs to turn to the quality and durability of the upturn. Upcoming data is expected to continue its generally improving trend, but we still question whether the “mix” to growth is right to get a sustainable recovery. The NZIER QSBO should point to a better feel good factor. We will be perusing the Government’s financial statements closely.

Date	Data/Event	Economic Signal	Comment
Mon 5 Oct (15.00)	ANZ Commodity Price Index (Sep)	-	-
Tue 6 Oct (10.00)	NZIER Quarterly Survey of Business Opinion (Jun qtr)	Improving	Following the trends in the National Bank <i>Business Outlook</i> , the QSBO is expected to show improving sentiment and activity. While firms’ employment and investment intentions are also expected to improve, they will generally remain weak. The indicators of resource pressure should still show large slack in the economy.
Wed 6 Oct	Fonterra global DairyTrade results (Oct)	Will there be another strong rise?	Anecdotes suggest a further firming in global dairy prices. However, given the 50 percent increase in the past two auctions, we would not rule out a pull-back.
circa 11 Oct	REINZ House Sales (Sep)	Still solid	Activity is likely to again be solid as inventory on the market remains tight. However, we expect this dynamic to ease into year end as more listings come onto the market and higher long-term mortgage rates slow demand.
Tue 13 Oct (10.45)	Retail Trade Survey (Aug)	Facing headwinds	De-leveraging consumers and a weak labour market remain large headwinds for consumers. Spending is likely to be positive, but only modestly so.
Wed 14 Oct (10.00)	Financial Statements of Government for the year ended June 2009	Watching the tax take	We expect the numbers to be reasonably close to what was forecast in the May <i>Budget</i> . We will, however, be watching the tax take closely.
Thu 15 Oct (10.45)	Consumers Price Index (Sep qtr)	Underlying softness	Food prices and local authority rate increases should see the CPI rise around 0.8 percent in the quarter. However, non-tradable and other core measure should remain soft.
Wed 21 Oct (10.45)	International Travel and Migration (Sep)	Starting to slow?	While another solid monthly net migration inflow is expected, with the number of residency and work permit approvals falling, the number of arrivals may start to ease. We will be keeping a close watch on departures for signs of a turnaround.
Wed 28 Oct (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Thu 29 Oct (09.00)	RBNZ <i>OCR Review</i>	Reiteration of low for extended period view.	While recent dataflow has shown improvement and one of an economy now out of recession, the level of uncertainty is expected to see the RBNZ maintain their view of rates on hold for some time.
Thu 29 Oct (10.45)	Overseas Merchandise Trade (Sep)	Trade deficit expected	Import demand should remain subdued. However, with inventories now at low levels, any further export demand will need to be met out of production and biological constraints will provide a natural handbrake. A monthly deficit is expected.
Thu 29 Oct (15.00)	Credit Growth (Sep)	De-leveraging continues	Housing lending is expected to continue to rise, albeit very modestly. However, business and agricultural credit growth should remain subdued.
On Balance		We have found a base	The focus of the dataflow is how H2 2009 is faring. The growth mix does not give the recovery a sustainable fell though.

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	0.5	0.8	0.6	0.5	0.5	0.5
GDP (% yoy)	-0.4	-2.2	-2.6	-2.1	-1.2	0.6	2.0	2.4	2.4	2.1
CPI (% qoq)	1.5	-0.5	0.3	0.6	0.8	0.4	0.3	0.7	0.7	0.8
CPI (% yoy)	5.1	3.4	3.0	1.9	1.2	2.1	2.0	2.2	2.1	2.6
Employment (% qoq)	0.1	0.8	-1.4	-0.5	-0.6	-0.3	-0.3	0.0	0.2	0.4
Employment (% yoy)	1.0	1.0	0.8	-0.9	-1.6	-2.7	-1.6	-1.2	-0.4	0.3
Unemployment Rate (% sa)	4.3	4.7	5.0	6.0	6.3	6.7	7.1	7.3	7.3	7.2
Current Account (% GDP)	-8.6	-8.9	-8.1	-5.9	-5.8	-5.1	-5.1	-5.7	-6.0	-6.2
Terms of Trade (% qoq)	-1.0	-1.0	-2.7	-8.9	1.0	1.0	0.5	0.0	0.2	0.1
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	-11.4	-9.6	-6.7	2.5	1.7	0.7

KEY ECONOMIC INDICATORS

	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09
Retail Sales (% mom)	-0.5	-1.2	0.1	-0.1	0.5	0.7	-0.1	-0.5
Retail Sales (% yoy)	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4
Credit Card Billings (% mom)	-2.2	1.6	1.0	-3.0	2.4	-0.3	0.1	0.2	1.6	..
Credit Card Billings (% yoy)	-3.7	-2.4	-2.0	-4.8	-1.6	-2.3	-2.1	-1.9	0.1	..
Car Registrations (% mom)	12.7	-14.2	-14.8	7.3	-1.7	-2.5	6.1	7.0	-3.5	..
Car Registrations (% yoy)	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	..
Building Consents (% mom)	-5.6	-12.7	11.9	-1.8	11.3	2.6	-9.3	4.5	1.7	..
Building Consents (% yoy)	-41.4	-51.2	-39.8	-34.2	-56.5	-23.8	-23.7	-16.9	-8.8	..
REINZ House Price (% yoy)	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	..
Household Lending Growth (% mom)	0.1	0.2	0.1	0.1	0.2	0.4	0.1	0.3	0.3	..
Household Lending Growth (% yoy)	4.2	3.8	3.1	2.7	2.6	2.5	2.4	2.4	2.3	..
Roy Morgan Consumer Confidence	102.9	103.7	98.8	94.7	101.1	104.9	105.3	107.0	113.2	117.3
NBNZ Business Confidence	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1
NBNZ Own Activity Outlook	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2
Trade Balance (\$m)	-341	-102	483	438	322	906	-331	-175	-725	..
Trade Balance (\$m annual)	-5614	-5405	-5165	-4684	-4070	-2994	-3111	-2488	-2365	..
ANZ World Commodity Price Index (% mom)	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.3	..
ANZ World Commodity Price Index (% yoy)	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.8	..
Net Migration (sa)	390	870	1660	1730	2100	2610	1700	2420	1610	..
Net Migration (annual)	3814	4538	6160	7482	9176	11202	12515	14488	15642	..

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)						
	Aug-09	Sep-09	5-Oct-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.675	0.702	0.716	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.809	0.816	0.828	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.474	0.482	0.491	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	64.1	64.2	64.4	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.408	0.430	0.449	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	62.9	64.3	65.36	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Aug-09	Sep-09	5-Oct-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.74	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.76	2.77	2.76	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	6.03	5.82	5.51	5.50	5.80	5.80	6.20	6.40	6.50	6.60
International	Aug-09	Sep-09	5-Oct-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	0.44	0.70	0.28	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.00
AU 3-mth	3.30	3.40	3.42	3.50	3.60	3.80	4.30	4.30	4.30	4.30

KEY RATES

	2 Sep	28 Sep	29 Sep	30 Sep	1 Oct	2 Oct
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.76	2.80	2.80	2.81	2.76	2.75
NZGB 11/11	4.00	4.09	4.09	4.17	4.14	4.07
NZGB 04/13	4.85	4.93	4.93	4.96	4.93	4.83
NZGB 12/17	5.62	5.60	5.60	5.61	5.60	5.51
NZGB 05/21	6.02	5.94	5.94	5.94	5.94	5.85
2 year swap	4.07	4.23	4.26	4.30	4.28	4.22
5 year swap	5.35	5.45	5.45	5.49	5.46	5.39
RBNZ TWI	62.9	65.5	65.5	65.5	65.7	64.9
NZD/USD	0.6759	0.7188	0.7188	0.7209	0.7224	0.7120
NZD/AUD	0.8131	0.8222	0.8222	0.8205	0.8190	0.8188
NZD/JPY	62.77	64.74	64.74	64.72	64.93	63.60
NZD/GBP	0.4178	0.4516	0.4516	0.4501	0.4527	0.4472
NZD/EUR	0.4753	0.4917	0.4917	0.4931	0.4938	0.4896
AUD/USD	0.8313	0.8742	0.8742	0.8786	0.8820	0.8696
EUR/USD	1.4220	1.4619	1.4619	1.4620	1.4628	1.4541
USD/JPY	92.87	90.07	90.07	89.77	89.88	89.32
GBP/USD	1.6179	1.5917	1.5917	1.6018	1.5956	1.5922
Oil	68.11	66.69	66.69	66.56	70.46	70.67
Gold	954.30	991.05	991.40	996.20	1006.60	999.55
Electricity (Haywards)	4.70	2.03	2.18	1.73	1.63	13.37
Milk futures (US\$/contract)	98	99	102	102	102	105
Baltic Dry Freight Index	2413	2192	2185	2220	2284	2357

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.

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- 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.
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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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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.

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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.

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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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