Market Focus

New Zealand

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SLOWLY BUT SURELY

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Page 2: Economic overview

> Slowly but surely the economy looks to be gaining more momentum, although the coming month with be critical for many firms in terms of cashflow performance and there is a strong level effect to be wary off. Data this week is expected to be somewhat mixed, but still consistent with an improving trend. We continue to pay close attention to fiscal trends. With the fiscal accounts in a decidedly worse shape than expected, the status quo operating model is defunct. Recommendations from various panels may have been pushed aside for now, but it would be unrealistic to think that changes are not pending.

Page 5: Economic comment – on the one hand…

> "Mixed" is a word that describes the state of the rural sector at the moment, but that is nothing new. The Emissions Trading Scheme legislation was amended two weeks ago with no change to the end point for agriculture – it just takes longer to get there. A subdued overall outlook prevails for discretionary expenditure by farmers.

Page 7: RBNZ December *Monetary Policy Statement* preview

> We expect the RBNZ to upgrade their growth forecasts for the economy, but continue to highlight caution over the path for monetary policy. With market pricing pared back following the October assessment, we don't believe Thursday's *MPS* contains the same risk-reward, particularly given the improving backdrop. We think the RBNZ will be content with where the swap curve is at present, and will not want to produce a *Statement* that will cause too much of a reaction.

Page 9: Interest rate strategy

> We suspect the RBNZ will want to deliver a *Statement* that will have minimal impact on the rates market this week. A reassessment of the Fed following the strong US non-farm payrolls number could see some payside flow wash through into the NZ market.

Page 10: Currency strategy

> After the stronger than expected US non-farm payrolls last week, it looks likely to continue to be a USD story this week. Commodities will also follow the greenback's fortunes. Short USD positions look set to be trimmed. The question remains though: will this be enough to change the USD's fortunes? The wildcard remains the JPY, with the economy facing significant structural and cyclical challenges.

Page 11: Currency comment – effective exchange rate update

> The dairy sector was the big winner in November. Not only did world dairy prices record another strong increase, but the NZD fell against the USD over the month. This ensured the dairy sector's commodity adjusted real effective exchange rate moved into "enhancing" territory during the month – the first time in close to 12 months. The dairy sector is the only group facing enhancing conditions at present.

Page 13: Data and event calendar

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ECONOMIC OVERVIEW

Slowly but surely the economy looks to be gaining more momentum, although the coming month with be critical for many firms in terms of cashflow performance and there is a strong level effect to be wary off. Data this week is expected to be somewhat mixed, but still consistent with an improving trend. We continue to pay close attention to fiscal trends. With the fiscal accounts in a decidedly worse shape than expected, the status quo operating model is defunct. Recommendations from various panels may have been pushed aside for now, but it would be unrealistic to think that changes are not pending.

What's ahead?

> **September quarter Value of Building Work Put In Place** (Tuesday 1045 NZDT). We expect both residential and non-residential construction volumes to be weak in the quarter, although particularly so for the latter.

> **September quarter Economic Survey of Manufacturing** (Tuesday 1045 NZDT). The BNZ-Business NZ PMI survey has moved back into expansion territory. A rebuilding of inventories is likely to contribute to improved manufacturing production.

> **November Electronic Card Transactions** (Wednesday 1045 NZDT). Monthly volatility aside, we expect an ongoing subdued trend.

> **RBNZ *Monetary Policy Statement*** (Thursday 0900 NZDT). In our view, there have been limited developments since the October *Review* to see the RBNZ shift from their "on hold until the second half of 2010" view on rates. See page 7 for our full preview note.

> **September quarter Overseas Trade Indexes** (Thursday 1045 NZDT). We expect the terms of trade to be a touch higher in the quarter (0.6 percent). In terms of volumes, we expect both export and imports to fall slightly, but to support the view of net exports making a small negative contribution to GDP growth.

> **November REINZ House Sales** (circa 11 December). While activity will remain well above last year's levels, we expect further signs of stabilisation in turnover and days to sell in the month. Price rises still look likely however.

What's the view?

We'll again start our discussion by looking at some key developments over the past week:

> **Firstly, the commodity price story for NZ remains an encouraging one.** The ANZ Commodity Price Index posted a whopping 10.5 percent increase in November – the second biggest monthly gain on record. To be fair, much of this was driven by strong increases in dairy prices. But with eight out of the 13 commodities recording price rises, the strength was reasonably broad-based. After falling around 13 percent from its peak, NZ's terms of trade looks set to begin rising again, which represents a positive medium-term windfall for the economy. This factor should not be discounted, and will help assist the rebalancing the economy requires.

> **The structure of the tax system is getting plenty of attention.** In our eyes, the Taskforce 2025 and the Tax Working Group put forward some sensible, interesting, but also provocative recommendations of what needs to be done to lift NZ's relative performance. It is fair to say that some of the suggestions are no-go areas politically, and there appears little appetite at this stage to make some tough decisions. But we'll go back to what we said last week: the current model is broken and the status quo is just not sustainable. Something needs to change. The ball is now in the Government's court and we will await the release of the *Half-year Fiscal Update* and *Budget Policy Statement* next week for any hint of change at next year's *Budget*.

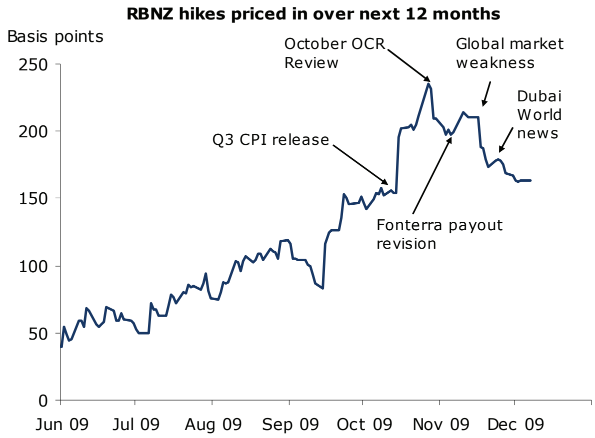
> **The current state of the Government's accounts illustrates that the status quo is not sustainable.** Make no bones about it, the fiscal position continues to deteriorate – and at a faster rate than forecast. The underlying operating balance (or OBEGAL) was in deficit to the tune of $3.3 billion in the four months to October, compared with a forecast deficit of $2.1 billion (a $1.2 billion divergence). In the September accounts, the divergence from forecast was only $0.9 billion. Even allowing for weakness across the economy, there is a strong structural aspect to the deficits, and turning this trend around will require fiscal policy to move to a contractionary stance.

This final point leads well into the major focus this week; the RBNZ's December *Monetary Policy Statement*. At the Bank's October *OCR Review*, fiscal policy was singled out as being able to lend some support to monetary policy by doing some of its "work" for it. With the fiscal position now even weaker, there is greater pressure on fiscal settings to change. And on top of this we fully expect structural changes in relation to the tax treatment of investment properties to come to the fore at some stage. So while the RBNZ will certainly be mindful of the string of positive developments with commodity prices (and the

Fonterra upward payout revision) being the big one, there is much to weigh up.

On top of that, the global scene remains uncertain. Prior to last Friday, events in Dubai saw the economic bears (bond bulls) have the upper paw (hoof). Following Friday's much better-than expected US employment report, the economic bulls (bond bears) probably have the upper hoof (paw). Equities remain caught in no-man's land at present: low interest rates (including expectations of the same) are supporting valuations and liquidity into the market (the so-called sweet spot for equities), but this cannot be sustained if the stabilisation in the US unemployment rate is to be believed. Next month's US employment figures will be critical in so far as shaping asset allocations.

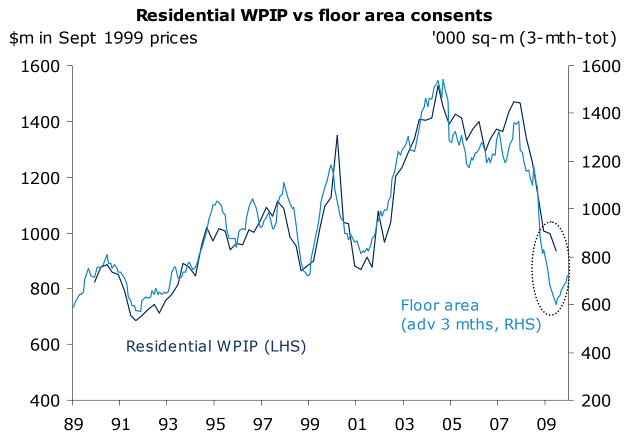
The market has pared back expectations regarding the RBNZ since October. Following the surprisingly strong Q3 CPI release, the market was expecting earlier rate hikes, which the RBNZ duly doused out at their October *Review*. Since then, market expectations around the timing of the tightening cycle have been pushed out, with global developments playing a key part in this. In any case, we do not expect the RBNZ to have another crack at market pricing. It is too soon for the Bank to abandon its October stance, but the case is building for a change in rhetoric in the New Year. This will likely set the scene for a hike around mid year, with our expectation that the first couple of moves will be in 50bp clips to cement credibility and get the market to do most of the work for the RBNZ, followed by a series of 25bp moves.



Sources: ANZ, Bloomberg

Our travels around the country continue to be notable for a number of themes. More signs of improvement are apparent. Housing remains at the forefront, although the past few weeks seem to have seen a tail-off in buyers. The increased dairy payout forecast has done wonders for confidence in a number of regions. At the same time a lot of industries are simply bouncing off lows. Firms by-and-large continue to take a cautious stance in terms of investment and employment despite seeing improvements. Getting bills paid remains an issue. Retailing in particular remains tough and the Christmas shopping period is critical for the sector. **There are still challenges, but collectively we have to acknowledge that slowly but surely positive momentum is starting to broaden. But we have to stress: off lows.**

In terms of data this week, construction numbers are expected to again be subdued. While residential building consent issuance has begun to bounce off what were extremely low levels, it is too early for this to be picked up in actual construction activity just yet. In fact, with the floor area of consent issuance remaining weak (down around 47 percent from its peak), historical relationships imply residential construction work put in place could fall 10 percent in the September quarter. We don't expect a fall of this magnitude, but are still looking for something soft. Putting this aside however, the outlook is looking better. Improved housing market activity, solid net migration gains, and a turn in building consents should see residential construction activity pick up into 2010. But the same optimism can't be shared for the non-residential sector. Like with residential consent issuance, the floor area of non-residential consents issued has tumbled over 40 percent from its peak. This should weigh on construction in the September quarter. But with rising vacancy rates, a more difficult funding environment, tough profit conditions and falling rents, the outlook is looking weak for non-residential construction. Of course, Government infrastructure projects should lend support, but these are not expected to be enough to offset weakness from the private sector.



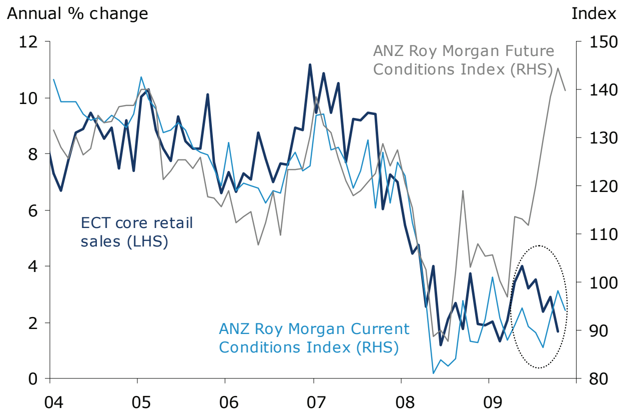
Sources: ANZ, National Bank, Statistics NZ

Manufacturing production may manage to post a rebound. Within the Economic Survey of Manufacturing, it is always important to distinguish between sales and production. It is the latter that is more important for GDP calculations, but can be impacted quite significantly by changes in inventory levels. With inventories having been run down sharply in the June quarter – particularly for dairy – we suspect a rebuild should support production this quarter (though most of the rebuild will come from non-dairy sectors). The BNZ Capital-Business NZ Manufacturing PMI has managed to move back to a level above 50, highlighting that the sector is on the mend. However, levels will remain extremely low. In fact, within the GDP accounts, manufacturing ex-primary production remains 17 percent below its December 2007 peak. It will take a number of quarters to see this recover, particularly with the currency acting as a big headwind.

Net exports are expected to make a small negative GDP growth contribution in the quarter. Following a positive 2.7 percent contribution to growth in Q2, the Overseas Trade Index volume numbers are expected to post a small reversal in Q3. Our estimate of primary goods export volumes is expected to fall by around 1 percent (still a reasonably solid result), following a 15 percent surge in Q2. Goods import volumes are expected to be flat to marginally higher following four consecutive quarterly declines and a cumulative loss of over 20 percent. The terms of trade should encouragingly record a small increase in the quarter, courtesy of rebounding commodity prices. In fact, given the commodity price backdrop, some reasonable terms of trade gains should be recorded over the next few quarters.

November electronic card transactions data is expected to remain subdued. Paymark, which processes the majority of electronic transactions in NZ, noted that the value of spending via their network rose by 1.2 percent in November compared to a year ago. Despite high headline consumer confidence readings, most households are still feeling financially worse off than last year, and this will have an important bearing on spending over the holiday season.

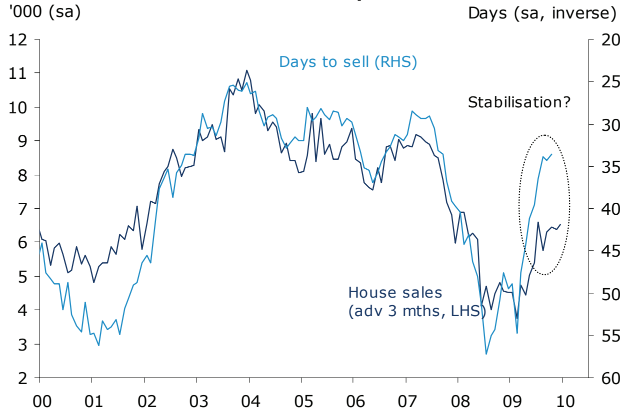
Electronic card transactions and confidence



Sources: ANZ, Statistics NZ, Roy Morgan

Another update on the housing market is also possible late this week. The REINZ November housing market statistics are due around the end of the week. The theme from the last couple of months has been that while price gains are being supported by an ongoing tight listings situation, turnover and the number of days to sell have looked to stabilise and not push on. This could be related to the listing situation as "choice" remains limited. However, it could also be due to recent mortgage rate increases taking some of the heat out of the market. We expect these recent themes to be repeated.

House Sales vs Days to Sell



Sources: ANZ, National Bank, REINZ

Finally, we noted last week that we will be watching the latest unemployment benefit numbers closely. The November data was not released last week, but we will keep a lookout for it this week.

Recent local data…

> **Building Consents Issued (October):** Residential consents rose by 11.7 percent in the month taking annual growth to 26.7 percent. The value of non-residential consents was $329 million.

> **Fonterra online DairyTrade auction results:** Milk-powder prices rose 3.6 percent to an average of US$3,560/tonne.

> **ANZ Commodity Price Index (November):** The World Price Index rose a strong 10.5 percent, while NZD prices rose 11.7 percent – a record monthly increase.

> **Financial Statements of Government for the four months to October:** The OBEGAL or underlying operating deficit was $3.3 billion – $1.2 billion larger than forecast. Net debt was in line with forecast at 11.9 percent of GDP.

ON THE ONE HAND…

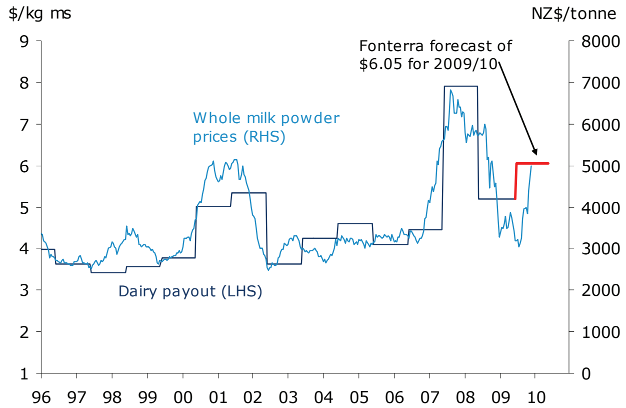
"Mixed" is a word that describes the state of the rural sector at the moment, but that is nothing new. The Emissions Trading Scheme legislation was amended two weeks ago with no change to the end point for agriculture – it just takes longer to get there. A subdued overall outlook prevails for discretionary expenditure by farmers.

The early spring turned back to winter. The promising start to spring in August and early September took a step back in October and early November. Storms dented lambing percentages in later lambing flocks. Milk production struggled to get ahead compared with the same time last season. Growth rates in lambs and finishing cattle have been lower than average. It has been cold and windy over much of the country.

Soil moisture was getting low earlier than usual in the Far North, Bay of Plenty and East Coast North Island. Central Otago is in drought mode.

The mood varies. Dairy farmers look to have got a get out of jail free card but with a fine after the latest Fonterra "available for payout" forecast lifted from $5.20/kilogram milk solids (kg ms) to $6.05. There is likely to be a determination to stick to lower farm working costs budgeted for when the forecast was only $4.55/kg ms and use the rest to reduce overdrafts.

Dairy payout vs whole milk powder prices



Sources: ANZ National, USDA, Bloomberg

Sheep and beef farmers are frustrated with the markets. Those with winter hoggets or very early spring lambs on contract have obtained 'good' returns relative to the past. Over $100/head has been received for top weight lambs. The outlook for mainstream mid-season lambs however is more subdued at $70/head, down around $20/head on last season. Prime cattle schedules have slid as the exchange rate appreciated. Fortunately the indicative international manufacturing beef price is oscillating in a narrow range of US$1.35 to $1.40/pound.

Strong wool has lifted off at least a 17-year low of $2.62/kilogram clean in June 2009, to claw its way back up to $3.10 last Thursday. This is better, but still has a long way to go for profitable production.

Venison producers face declining schedules at this time of the year as the chilled meat season finishes. Again, prices have slipped 20 percent below the comparable time in 2008.

Apple growers have little idea what prices next season might bring after reduced returns from the 2009 harvest.

Kiwifruit orchards with Zespri Gold™ are smiling with forecast orchard gate returns of $7.57/tray, up $2.08/tray from $5.41 received for the 2008 harvest. The bottom line looks attractive. Those with Zespri Green™ are not so well placed. The per tray price for the 2009 harvest is forecast at 3.63/tray, down $0.05 from 2008 and not offset by a small increase in the yield per hectare.

Grape growers and wineries are experiencing growing pains. The volume of grapes available currently exceeds the ability of the market to absorb the finished product at previous prices. Sauvignon Blanc accounts for around 60 percent of the crop and has taken a 30 percent drop in the average price received by the grower between 2008 and 2009 (from an average of $2,320 to $1,640/tonne). Most other varieties have also dropped in price by varying percentages.

Renegotiated contracts, lower prices, crop management, fruit without a home and vine extraction are all difficult issues for many growers at present and may be so for the next two or three years.

The Emissions Trading Scheme (ETS) legislation was amended two weeks ago with no change to the end point for agriculture – just taking longer to get there. Farmers (and the rest of us) will start paying carbon tax on electricity and fuel from 1 January 2010. Fertiliser is also caught at this time. The start date for paying for agricultural emissions was pushed out two years to 2015 and the rate of escalation to paying for full emissions was slowed.

New Zealand remains the only country with agriculture in emissions trading policy. There remain big issues about measurement and the point of obligation. There remains a big question whether the consumer will pay a premium for 'green' food products from New Zealand.

Rural land sales remain stalled. The number of sales ticked up a tad as expected. The median fell a tad but, within the statistical noise, that means no change to a stalled market.

The volatile all farms rolling three month median price fell again to $875,000 from $877,500 in

September and is 42 percent lower than October 2008. A smoothed median price series suggests the rural land price is down 33 percent on October 2008.

There were 205 sales in the three months ending October 2009 compared with 178 for the three months ending September 2009. The comparable figure for the period end October 2008 was 390. We expect sales volumes to be low but accelerate in the autumn as the Fonterra payout becomes more certain, as the attitude of banks to risk becomes clearer, the avail of debt finance money is clearer and time runs out to get a clean sale before the winter.

Implications

Overall, we expect discretionary expenditure by farmers to remain subdued. The operational focus will be on debt reduction or at least stopping debt increasing. The improved outlook for dairy in 2009/10 has not eliminated the need for a structural adjustment to land values. Implementation of the ETS scheme is just another driver for change. There is still a small number of farmers who need to restructure their balance sheets or exit the industry. It may give them a little more time to get a more favourable outcome.

RBNZ DECEMBER *MONETARY POLICY STATEMENT* PREVIEW
(due 9.00am Thursday 10 December)

We expect the RBNZ to upgrade their growth forecasts for the economy, but continue to highlight caution over the path for monetary policy. With market pricing pared back following the October assessment, we don't believe Thursday's *MPS* contains the same risk-reward, particularly given the improving backdrop. We think the RBNZ will be content with where the swap curve is at present, and will not want to produce a *Statement* that will cause too much of a reaction.

There is no doubting that the NZ economy continues to gain forward momentum. Domestically, consumer and business confidence remain at healthy levels and consistent with robust economic growth. Net migration continues to provide underlying support, running at a three-month annualised rate of 22,500 people, compared to just 2,000 a year ago. Building consents look to be rebounding off extreme lows, which should provide an impetus to growth over the first half of next year. And house prices continue to rise, with the median house price rising to fresh highs.

The international scene looks likely to lend support to NZ's growth prospects next year. Economic growth among NZ's major trading partners rebounded strongly, returning to positive territory over the second half of this year, and leading indicators point to an acceleration back towards trend growth next year. **Once a major source of downside risk as the global financial crisis was unfolding, the global scene now looks to be a source of upside risk in the year ahead.**

Some are also looking at latent inflationary pressures. Inflation expectations did tick-up from 2.3 percent to 2.6 percent according to the RBNZ's 2-year ahead survey. Trends in government related inflation are worrying, and even more so if this is a lever policymakers decide to pull when undertaking the process of fiscal consolidation. NZ's implementation of the Emissions Trading Scheme (ETS) poses a clear upside risk to the medium term inflation outlook. We estimated that scheme introduced by the previous government (but repealed by the current one) would have added around 0.2 or 0.3 percentage points to CPI inflation.

On the face of it, the improvements suggest that the monetary policy tightening cycle should be brought forward. Particularly given the big rise in commodity prices (especially dairy), which has seen Fonterra revise upwards their current season forecast payout from $5.10 to $6.05/kg ms. This revision, which occurred after the RBNZ's last OCR *Review*, is expected to increase rural incomes by $1.2b, equivalent to 0.7 percent of GDP.

At this juncture we need to appreciate that monetary policy has been getting, or is set to get, a helping hand from three sources:

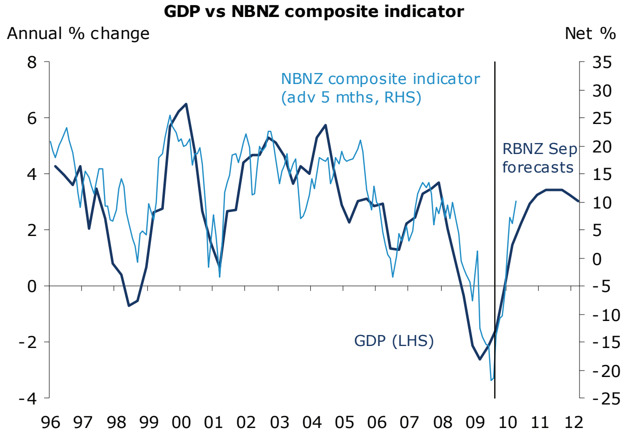
> **The mortgage curve.** Longer-term fixed rate mortgages continue to rise, with the 2-year rate now nearing its decade average level and rates of longer duration well above average. This is encouraging more borrowers to shorten duration, which gives the RBNZ more policy traction. Moreover, we suspect the recent flattening in house sales and average days to sell is already reflecting the impact of recent mortgage rate rises.

> **Fiscal policy.** While there has been no official change to government policy, there have been enough noises coming from official channels to suggest that changes aimed at property investment is coming. We also look set for a more aggressive fiscal consolidation strategy at next year's *Budget*, something which the Treasury advised the government to pursue which in their view *"could be expected to result in the OCR being set lower than it otherwise would be for several years".* The RBNZ themselves noted in their October *Review* that *"removing some of the current fiscal stimulus is likely to reduce the work that monetary policy will otherwise need to do."*

> **Prudential regulation.** New liquidity rules are coming into force from 1 April next year, and this has already had an effect on the shape of the mortgage curve. We fully expect further regulatory changes: it is not a question of if or what, but when. Given the dual roles the RBNZ has, this is probably not a theme they will be alluding too much to in the *Statement* itself, although the Governor has made repeated references to prudential affairs in various speeches.

At the same time, not all the dataflow has been to the upside. Consumer spending remains subdued, and credit growth is still very weak. The rebound in business confidence *et al* is consistent with the RBNZ's September forecast. Importantly, we have yet to see the tick-up in confidence move into the hard data. De-leveraging continues. Business credit growth has contracted, indicating that private sector business investment will stay weak. Indeed, while residential building consents has been picking up, commercial consents are heading lower. Rural land prices and commercial property prices are still falling. We suspect net migration trends will reverse in 2010 given how the Australian economy and unemployment rate are shaping up. The local unemployment rate has yet to peak and we view this as the second of the two-leg quinella before policy normalisation can be considered (the first being a stabilisation in house prices, which has certainly been achieved). Moreover, there is the base effect from five quarters of recession (and the sixth quarter of sub-trend GDP) when thinking about spare capacity within the economy.

GDP vs NBNZ composite indicator



Sources: ANZ, National Bank, Statistics NZ, RBNZ

In addition, the global environment remains uncertain. While real economic activity is recovering, the news from Dubai is a reminder that the effects of the credit crisis is still set to linger for some time.

Collectively we think there is enough uncertainty to keep the RBNZ steered towards the 2nd half of 2010 as opposed to the 1st. Certainly, our core economic view remains centred around a subdued recovery but of course this contains the normal caveats which the RBNZ will also be mindful of. If there is a surprise to be had in this statement, it may well be that the assessment is more conditional on the medium-term inflation outlook.

In terms of the key economic projections:

> **We expect the RBNZ's growth projections to be revised higher, driven by stronger domestic demand.** This will be offset be weaker net exports, resulting in a deteriorating external position in the medium-term (abstracting from the near-term improvements due to the impact of the IRD tax case wins).

> **Inflation forecasts will be revised higher throughout the projection period, though still remaining within the target band.** This will partly reflect the higher starting point, and the impact of the ETS (assuming the RBNZ had enough time to put this through).

> **The RBNZ's 90-day profile will show a rise from around September.** This is consistent with the "on hold until the second half of 2010" message, and we expect the 90-day track to head towards the 5.0 to 6.0 percent range by the end of the forecast horizon. This in itself may get the market thinking, but to us it will merely be a reflection of a general-equilibrium model "normalising" towards the end of the forecast period.

Financial market implications

With pricing pared back following the October assessment, we don't believe Thursday's *MPS* contains the same risk-reward, particularly given the improving backdrop. We think the RBNZ will be content with where the swap curve is at present, and will not want to produce a *Statement* that will cause too much of a reaction. Given the direct swipe at market pricing in October there simply does not seem to have been sufficient material information for a major U-turn in the space of six weeks. However, we suspect the market will continue to look for an earlier rate hike than the second half of 2010, with pricing likely gravitating towards April at the earliest.

Our expectation of RBNZ Projections for December *MPS* (September 2009 *MPS* Projections in brackets)

Half year average	90-day	TWI	March years	CPI (ann % chg)	GDP (ann ave % chg)
H1 2010	2.8 (2.8)	64.0 (62.3)	2009 (a)	3.0	-1.1
H2 2010	3.6 (2.9)	63.5 (62.0)	2010	2.4 (1.7)	-0.2 (-0.9)
H1 2011	4.4 (3.6)	62.5 (60.8)	2011	2.6 (2.0)	3.1 (3.1)
H2 2011	5.3 (4.4)	61.0 (59.3)	2012	2.5 (2.4)	3.2 (3.4)

INTEREST RATE STRATEGY

We suspect the RBNZ will want to deliver a *Statement* that will have minimal impact on the rates market this week. A reassessment of the Fed following the strong US non-farm payrolls number could see some payside flow wash through into the NZ market.

Market themes…

> RBA goes 3-from-3, and Australian banks push through bigger mortgage rate increase.

> US non-farm payrolls bring the bond bears back to life.

Review and outlook…

The positive economic dataflow for NZ continued, though the rates market's response was fairly subdued. A rebound in building consents and a surge in the ANZ Commodity Price Index point to ongoing momentum in the economy. However, it was offshore developments once again that provided direction for the local market.

The RBA hiked rates for the third consecutive month. But a statement which gave no hint of future direction, and an Australian bank pushing through 45bps of increases in their floating mortgage rate, led to a rally in the Australian market on short covering as participants pondered that the RBA will need to do less work. By the end of the week, the big four banks in Australia increased their mortgage rates by an average of 35bps, highlighting the increasing cost of funds which may result in a lower neutral cash rate. Late in the week, the surprisingly strong US non-farm payrolls number led to a selloff in US rates as the market starts to reassess the Fed's "on hold for an extended period" rhetoric.

There was ongoing flattening pressure in the NZ curve, and any attempts to steepen the curve were met with quick resistance as receivers sought the elevated mid-part of the curve. We too see this as attractive with the NZ 1y rate 2yrs forward currently 10bps higher than the equivalent Australian rate. While it can be argued that historically NZ has higher rates than Australia, we think that with the RBA already in a tightening cycle with a cash rate 125bps above NZ's and with their economy having a much stronger starting point, this is a little overdone. The 5y swap has also broken through technical levels and looks to be capped at 5.50 percent for the meantime, which has also motivated curve receivers.

Flow during the week was limited with speculative flows dominating and only small amounts of mortgage paying interest beyond 1y and some offshore receiving of front end swap.

The highlight of this week will be the RBNZ decision, where a similar statement to October is expected but the market will be alert to any increase in the 90 day bank bill track or talk of improving conditions both domestically and globally. If the RBNZ does stick to its previous message, we think the March bank bills will be due a small rally as it will seem to be too much of a U-turn for the RBNZ to hike by March next year. We still expect a residual 5pts priced in for March heading into the end of the year in lieu of CPI risks in January, with the market firming up on April.

Borrowing strategies we favour at present

Borrowers can continue to benefit from low floating rates for another six months at least. We continue to see better value in caps for those wanting to hedge, rather than paying swap outright.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	We expect a repeat of the "on hold until the second half of 2010" message.
NZ data	↔/↑	Big surge in commodity prices bodes well for the terms of trade.
Fed Funds / front end	↔	US non-farm payrolls throws a spanner in the works.
RBA	↔	RBA goes for three in a row but a temporary pause could be on the cards.
US 10 year	↔/↑	A push above 3.5% looks on the cards this week.
NZ swap curve	↔	Flattening pressure returning in the curve.
Flow	↔	Flows still limited with speculative flows dominating
Technicals	↔	2-year swap bouncing off support, 5-year capped at 5.5% for time being.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Dec-09	+2	+1
Thu 28-Jan-10	+1	+3
Thu 11-Mar-10	+8	+12
Thu 29-Apr-10	+26	+27
Thu 10-Jun-10	+54	+60
Thu 29-Jul-10	+86	+86
Thu 16-Sep-10	+138	+131

Trading themes we favour at present

We do not see any big risk-reward trades for this week's RBNZ decision. A continuation of the October stance should see limited reaction in the swap curve. We continue to play the accrual trade in rates.

CURRENCY STRATEGY

After the stronger than expected US non-farm payrolls last week, it looks likely to continue to be a USD story this week. Commodities will also follow the greenback's fortunes. Short USD positions look set to be trimmed. The question remains though: will this be enough to change the USD's fortunes? The wildcard remains the JPY, with the economy facing significant structural and cyclical challenges.

Market themes...

> Does the US jobs number lead to earlier interest rate hikes?

> Equities are still the biggest driver of currency moves.

> How do commodities behave in a stronger USD world?

Review and outlook...

The US non-farm payrolls data has caught a long market by surprise. The US dollar carry trade has been derailed by the resuscitation of the US labour market. The question is, can the US economy survive if this in turn results in an earlier removal of monetary policy support? US yields have sold off aggressively and have started to price in tightenings around the middle of next year.

In terms of the NZD, the biggest news last week was the fact that NZ commodity prices continue to move higher. However, while a better economic backdrop is fundamentally good for commodities, will the fact most are denominated in US dollars have any impact? The fact that gold prices tumbled US$50/ounce late last week suggests that the latter point may dominate, at least initially. Gold prices do appear vulnerable around current elevated levels.

It is likely that the market will recalibrate itself for the week and then once again start to trade off global equities. If the "risk switch" is turned back on then it is hard to see the direct beneficiary of global growth i.e. the AUD falling too far. The resource sector boom in Australia may just be getting started.

The NZD looks very middle of the range this week, with the big support level now at 0.7000 and resistance at 0.7300 heading into Christmas. The NZD may benefit against the crosses this week as the JPY and EUR both look more vulnerable to a resurgent USD. The former remains the wildcard, with the Japanese economy facing significant structural and cyclical challenges. We are not expected too much in the way of a market reaction from the RBNZ's December *Monetary Policy Statement* this week.

The AUDUSD also appears to be close to the middle of the recent range. Without an obvious theme this week, the market could continue to wash around in the 0.9000 to 0.9300 range.

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 0.7700 into Christmas.
Sentiment	↔/↓	Three-from-three for the RBA. RBNZ on hold.
Other	↔/↓	Asian central banks under-weight Australian asset.
On balance	↔/↓	**NZD struggling to keep up with AUD.**

NZD vs USD: monthly directional gauges

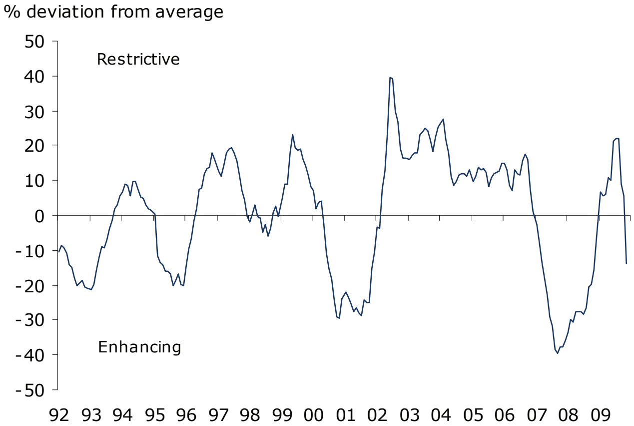
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔	Does an improving US labour market imply an earlier Fed hike?
Commodities	↔/↑	Soft commodities gaining momentum. USD key.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔	NZ data today will allow Q3 GDP expectations to be firmed.
Technicals	↔	0.70 to 0.73 range into Christmas.
AUD	↔/↑	RBA first to hike in G20. Will they now pause?
Sentiment	↔	Dubai concerns over-hyped.
Other	↔	Has the US non-farm payrolls been enough to turn the USD's fortunes?
On balance	↔	**It is a USD story at the moment.**

EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations.

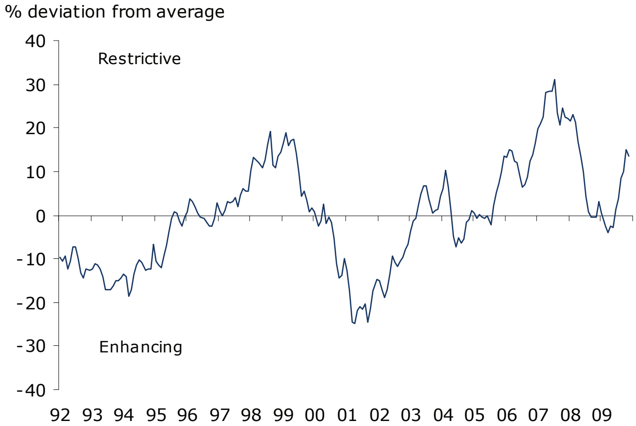
The dairy sector was the big winner in November. Not only did world dairy prices record another strong increase, but the NZD fell against the USD over the month – the first monthly fall since February. This ensured the dairy sector's commodity adjusted real effective exchange rate moved into "enhancing" territory during the month – the first time in close to 12 months. The forestry sector also benefited from higher commodity prices and a lower NZD, although its real effective exchange rate remains restrictive. The movements across other sectors were much more muted, although falls were recorded for every sector except seafood, which was impacted by lower commodity prices over the month. The dairy sector is the only group facing enhancing conditions at present.

Sector: Dairy ≈ 18% of exports



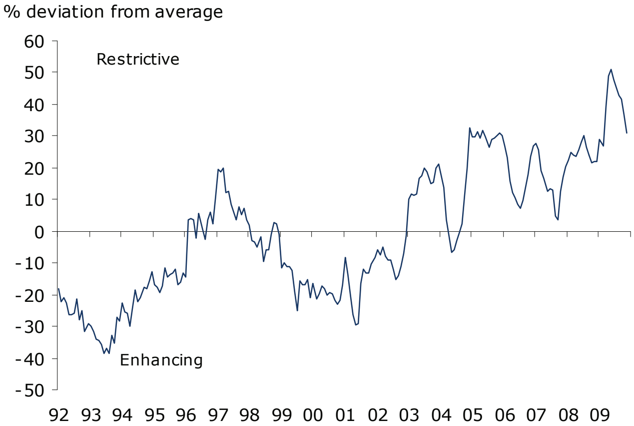
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



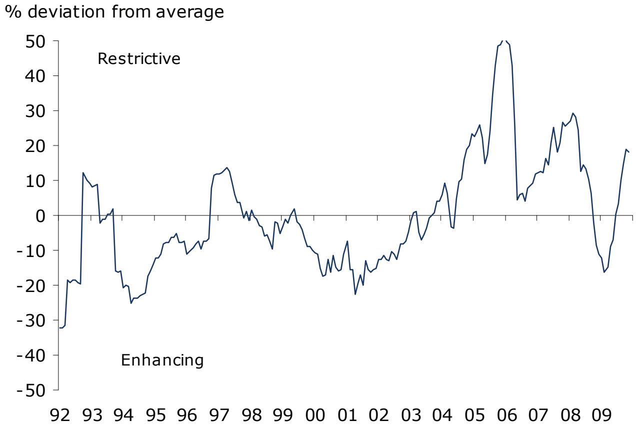
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Forestry ≈ 10% of exports



Sources: ANZ, Bloomberg, Statistics NZ

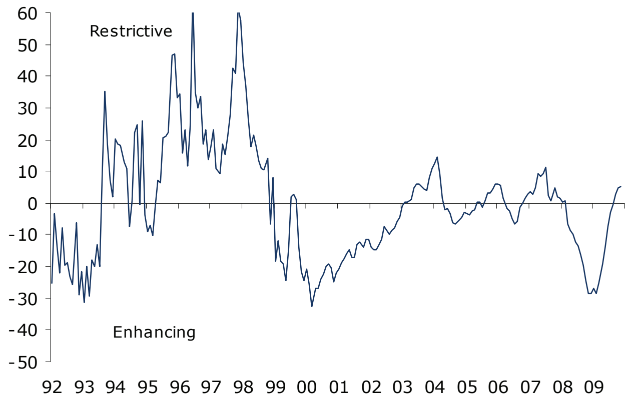
Sector: Horticulture ≈ 4% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports

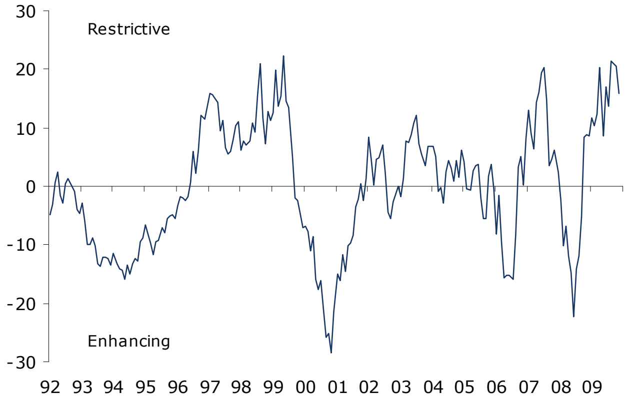
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports

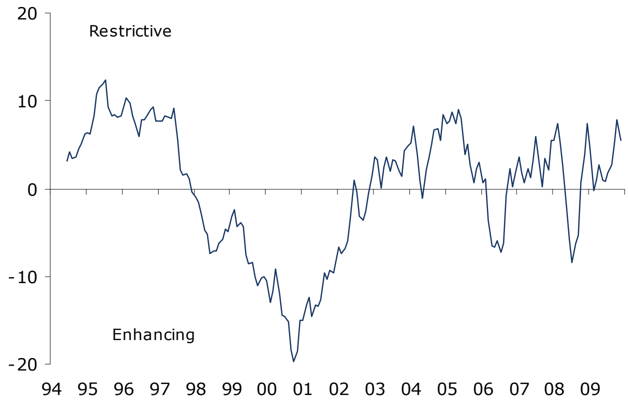
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports

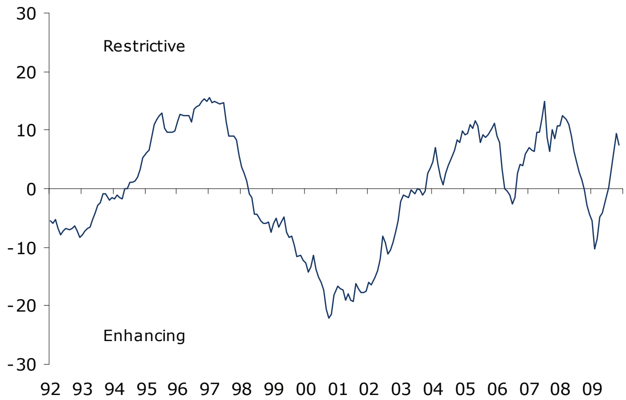
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services ≈ 24% of exports

% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
7-Dec	AU	AiG Perf of Construction Index (Nov)	-	50.9	11:30
		ANZ Job Advertisements (Nov) - mom	-	-1.7%	13:30
	EC	ECB's Trichet speaks in Paris	-	-	21:00
		ECB's Quaden Speaks at Belgian Finance Forum Conference	-	-	23:45
8-Dec	GE	Factory Orders (Oct) - mom	0.8%	0.9%	00:00
	EC	ECB's Trichet speaks in Brussels	-	-	02:00
	US	Bernanke Speaks to Economic Club of Washington Lunch	-	-	06:00
		Consumer Credit (Oct)	-$9.3B	-$14.8B	09:00
		New York Fed President Dudley Speaks at Columbia University	-	-	11:45
	NZ	**Economic Survey of Manufacturing (3Q) - qoq**	**-**	**-4.8%**	**10:45**
		Value of Building Work Put in Place (3Q) - qoq	**-**	**-4.5%**	**10:45**
	JN	Adjusted Current Account Total (Oct)	¥1564.9B	¥1338.0B	12:50
		Money Supply-M3 (Nov) - yoy	2.4%	2.4%	12:50
		Leading Index CI (Oct P)	88.7	86.4	18:00
		Coincident Index CI (Oct P)	93.8	92.7	18:00
		Eco Watchers Survey: Current (Nov)	40.0	40.9	18:00
		Eco Watchers Survey: Outlook (Nov)	-	42.8	18:00
	AU	NAB Business Conditions (Nov)	-	12	13:30
		NAB Business Confidence (Nov)	-	16	13:30
		Current Account Balance (3Q)	-16650M	-13347M	13:30
		RBA Governor Stevens Speaks in Sydney	-	-	21:15
	UK	Industrial Production (Oct) - mom	0.5%	1.6%	22:30
9-Dec	GE	Industrial Production (Oct) - mom	1.0%	2.7%	00:00
		Trade Balance (Oct)	10.7B	10.6B	20:00
		Consumer Price Index (Nov F) - mom	-0.2%	-0.2%	20:00
		Current Account (Oct)	9.4B	9.4B	20:00
	UK	Nationwide Consumer Confidence (Nov)	70	72	13:01
		Total Trade Balance (GBP/Mln) (Oct)	-£3175M	-£3469M	22:30
	EC	ECB's Stark Speaks in Bonn	-	-	05:00
	NZ	**Electronic Card Transactions (Nov) - mom**	**-**	**-0.2%**	**10:45**
	AU	Westpac Consumer Confidence (Dec)	-	-2.5%	12:30
		Home Loans (Oct)	-2.0%	5.1%	13:30
		Trade Balance (Oct)	-1805M	-1849M	13:30
		Investment Lending (Oct)	-	-0.1%	13:30
	JN	Gross Domestic Product (3Q F) - qoq	0.7%	1.2%	12:50
		Machine Tool Orders (Nov P) - yoy	-	-42.5%	19:00
10-Dec	EC	ECB's Weber Speaks in Frankfurt	-	-	00:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
10-Dec cont.	EC	ECB Publishes Dec. Monthly Report	-	-	22:00
		ECB Council Member Liikanen Speaks in Helsinki	-	-	22:00
	UK	Pre-Budget Report Published	-	-	01:30
	US	Wholesale Inventories (Oct)	-0.5%	-0.9%	04:00
	NZ	**RBNZ Official Cash Rate Announcement**	**2.50%**	**2.50%**	**09:00**
		Terms of Trade Index (3Q) - qoq	**-**	**-9.0%**	**10:45**
	JN	Machine Orders (Nov P) - yoy	-4.5%	10.5%	12:50
		Domestic CGPI (Nov) - mom	-0.2%	-0.7%	12:50
	AU	Consumer Inflation Expectation (Dec)	-	3.2%	13:00
		Employment Change (Nov)	5.0K	24.5K	13:30
		Unemployment Rate (Nov)	5.9%	5.8%	13:30
		Full Time Employment Change (Nov)	-	2.9	13:30
		Part Time Employment Change (Nov)	-	21.5	13:30
		Participation Rate (Nov)	65.2%	65.2%	13:30
		RBA Assistant Governor Speaks in Sydney	-	-	14:45
11-Dec	UK	BoE Interest Rate Announcement	0.50%	0.50%	01:00
		BoE Asset Purchase Target	£200B	£200B	01:00
		PPI Input (Nov) - mom	0.5%	2.6%	22:30
		PPI Output (Nov) - mom	0.3%	0.2%	22:30
		PPI Output Core (Nov) - mom	0.2%	0.3%	22:30
	US	Trade Balance (Oct)	-$37.0B	-$36.5B	02:30
		Initial Jobless Claims (w/e Dec-6)	460K	457K	02:30
		Continuing Claims (w/e Nov-29)	5431K	5465K	02:30
		Fed Governor Duke Speaks at Chicago Fed Conference	-	-	07:45
		Monthly Budget Statement (Nov)	-$135.0B	-$176.4B	08:00
	NZ	**Food Prices (Nov) - mom**	**-**	**-1.5%**	**10:45**
	JN	Consumer Confidence (Nov)	-	40.8	18:00
12-Dec	EC	ECB's Tumpel-Gugerell Speaks in Stockholm	-	-	01:00
		ECB's Trichet Speaks in London	-	-	01:15
	US	Import Price Index (Nov) - mom	1.2%	0.7%	02:30
		Advance Retail Sales (Nov)	0.7%	1.4%	02:30
		Retail Sales Less Autos (Nov)	0.4%	0.2%	02:30
		Retail Sales Ex Auto & Gas (Nov)	0.3%	0.3%	02:30
		University of Michigan Confidence (Dec P)	69.0	67.4	04:00
		Business Inventories (Oct)	-0.2%	-0.4%	04:00

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: We are on the home stretch for 2009, with plenty to chew on before the country shuts down for the Christmas/New Year period. The RBNZ decision this week will be important, but we will be paying just as much attention to the Government's *Half-Year Update* and *Budget Policy Statement*. Signs of a more aggressive fiscal consolidation strategy mean monetary policy will need to do less.

Date	Data/Event	Economic Signal	Comment
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 (10.45)	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 an ongoing subdued trend.
Thu 10 Dec (09.00)	RBNZ December *Monetary Policy Statement*	The same message	In our view, there have been limited developments since the October *Review* 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 a touch higher in the quarter. But recovering commodity prices will see larger improvements 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.
circa 11 Dec	REINZ House Sales (Nov)	Consolidating?	While activity is likely to remain at reasonable levels, there are some signs that turnover and days to sell are beginning to stabilise. Prices should continue to be supported by a shortage of listings.
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.
Tue 15 Dec (14.00)	Government's *Half-Year Economic and Fiscal Update* and *Budget Policy Statement*	How bad?	Recent rhetoric from the Minister of Finance appears to be prepping for what looks likely to be a reasonably tight *Budget* next year. We expect the fiscal forecasts to show the fiscal position remaining under significant pressure for some time yet.
Thu 17 Dec (15.00)	NBNZ *Business Outlook* (Dec)	-	-
Mon 21 Dec (10.45)	International Travel and Migration (Nov)	Still supportive	A net inflow of migration is expected to continue as departures remain low.
Tue 22 Dec (10.45)	Balance of Payments (Sep qtr)	Another big improvement	The current account deficit is expected to show a sharp improvement in the quarter due to an improved trade balance as well as lower profits from foreign firms.
Wed 23 Dec (10.45)	GDP (Sep qtr)	Gaining some forward momentum	A number of partial indicators are still due, but we have pencilled in a quarterly increase of 0.5 percent, with upside risk.
On Balance		**Up**	**Right direction, wrong mix.**

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**	**0.6**	**0.6**	**0.5**
GDP (% yoy)	-0.4	-2.2	-2.6	-2.1	**-1.2**	**0.6**	**2.0**	**2.5**	**2.6**	**2.3**
CPI (% qoq)	1.5	-0.5	0.3	0.6	1.3	**0.4**	**0.3**	**0.7**	**0.7**	**0.8**
CPI (% yoy)	5.1	3.4	3.0	1.9	1.7	**2.5**	**2.5**	**2.7**	**2.1**	**2.5**
Employment (% qoq)	0.1	0.7	-1.4	-0.4	-0.7	**-0.1**	**0.0**	**0.1**	**0.3**	**0.4**
Employment (% yoy)	1.1	0.9	0.7	-0.9	-1.8	**-2.5**	**-1.2**	**-0.7**	**0.3**	**0.8**
Unemployment Rate (% sa)	4.3	4.7	5.0	6.0	6.5	**6.8**	**7.0**	**7.1**	**7.1**	**7.0**
Current Account (% GDP)	-8.6	-8.9	-8.1	-5.9	**-4.2**	**-3.5**	**-3.7**	**-4.7**	**-5.5**	**-5.6**
Terms of Trade (% qoq)	-1.0	-1.0	-2.7	-8.9	**0.6**	**3.3**	**1.5**	**2.0**	**0.5**	**0.2**
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	**-11.7**	**-7.9**	**-3.9**	**7.7**	**7.6**	**4.3**

KEY ECONOMIC INDICATORS

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Retail Sales (% mom)	0.2	-0.1	0.5	0.7	0.0	-0.5	1.1	0.2	..	..
Retail Sales (% yoy)	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	..	..
Credit Card Billings (% mom)	1.1	-3.2	2.6	-0.3	0.1	0.3	1.4	-1.0	0.2	..
Credit Card Billings (% yoy)	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	-0.4	..
Car Registrations (% mom)	-14.5	6.3	-0.1	-2.6	6.1	7.0	-2.6	6.4	0.9	1.4
Car Registrations (% yoy)	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4
Building Consents (% mom)	12.6	-1.7	11.3	2.9	-9.6	5.4	2.2	5.5	11.7	..
Building Consents (% yoy)	-39.8	-34.2	-56.5	-22.9	-24.4	-16.4	-8.6	-11.9	26.7	..
REINZ House Price (% yoy)	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0	..
Household Lending Growth (% mom)	0.1	0.0	0.2	0.4	0.0	0.2	0.3	0.2	0.3	..
Household Lending Growth (% yoy)	3.1	2.7	2.5	2.5	2.3	2.4	2.3	2.3	2.6	..
ANZ-Roy Morgan Consumer Confidence	97.1	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9	121.5
NBNZ Business Confidence	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2	43.4
NBNZ Own Activity Outlook	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5	33.7
Trade Balance ($m)	483	438	322	906	-331	-178	-717	-563	-487	..
Trade Balance ($m annual)	-5165	-4684	-4070	-2994	-3110	-2491	-2360	-1671	-1164	..
ANZ World Commodity Price Index (% mom)	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.7	10.5
ANZ World Commodity Price Index (% yoy)	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4
Net Migration (sa)	1620	1680	2050	2590	1670	2480	1650	1860	2130	..
Net Migration (annual)	6160	7482	9176	11202	12515	14488	15642	17043	18560	..

Figures in bold are forecasts. mom: Month-on-Month qoq: Quarter-on-Quarter yoy: Year-on-Year

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Oct-09	Nov-09	7-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.737	0.731	0.716	0.720	0.710	0.690	0.680	0.670	0.650	0.650
NZD/AUD	0.815	0.794	0.783	0.783	0.780	0.775	0.782	0.788	0.793	0.823
NZD/EUR	0.498	0.490	0.481	0.474	0.473	0.466	0.463	0.459	0.455	0.464
NZD/JPY	66.5	65.3	64.7	61.9	62.5	62.1	62.6	63.0	61.8	63.1
NZD/GBP	0.456	0.440	0.435	0.431	0.430	0.421	0.412	0.404	0.389	0.382
NZ$ TWI	66.4	65.2	64.14	63.6	63.3	62.3	61.9	61.6	60.6	61.6
NZ interest rates	Oct-09	Nov-09	7-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
OCR	2.76	2.76	2.50	2.50	2.50	3.00	4.00	4.50	5.00	5.50
90 day bill	2.79	2.80	2.79	2.80	2.80	3.60	4.50	5.00	5.50	5.80
10 year bond	5.82	5.88	5.65	5.70	5.70	5.80	6.00	6.20	6.40	6.50
International	Oct-09	Nov-09	7-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	1.25	2.00	2.00	2.00
US 3-mth	0.28	0.26	0.26	0.40	0.75	0.80	1.50	2.50	2.50	2.50
AU cash	3.25	3.50	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25
AU 3-mth	3.94	4.03	4.06	4.40	4.80	4.90	5.00	5.00	5.10	5.60

KEY RATES

	4 Nov	30 Nov	1 Dec	2 Dec	3 Dec	4 Dec
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.81	2.80	2.78	2.77	2.77	2.78
NZGB 11/11	4.26	4.04	4.04	4.05	4.05	4.05
NZGB 04/13	5.03	4.74	4.74	4.75	4.77	4.77
NZGB 12/17	5.69	5.61	5.61	5.62	5.65	5.65
NZGB 05/21	5.99	5.90	5.90	5.91	5.94	5.94
2 year swap	4.47	4.34	4.32	4.30	4.31	4.33
5 year swap	5.63	5.46	5.43	5.42	5.42	5.44
RBNZ TWI	64.9	63.9	63.8	64.4	64.4	64.2
NZD/USD	0.7199	0.7207	0.7170	0.7281	0.7278	0.7228
NZD/AUD	0.7983	0.7854	0.7817	0.7848	0.7822	0.7823
NZD/JPY	64.98	62.44	62.64	63.37	63.96	63.77
NZD/GBP	0.4386	0.4347	0.4360	0.4381	0.4362	0.4370
NZD/EUR	0.4889	0.4784	0.4776	0.4822	0.4822	0.4800
AUD/USD	0.9018	0.9176	0.9172	0.9277	0.9304	0.9240
EUR/USD	1.4725	1.5064	1.5013	1.5101	1.5094	1.5057
USD/JPY	90.26	86.64	87.36	87.03	87.88	88.22
GBP/USD	1.6412	1.6579	1.6446	1.6619	1.6684	1.6540
Oil	80.21	75.95	77.19	78.39	76.62	76.42
Gold	1092.40	1178.55	1179.05	1208.30	1225.90	1201.50
Electricity (Haywards)	3.57	9.19	6.96	6.58	5.42	6.58
Milk futures (US$/contract)	118	124	124	124	124	136
Baltic Dry Freight Index	3295	3887	3836	3918	4062	4107

NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

Qualifications, experience and professional standing

Experience

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

Relevant professional body

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

Professional indemnity insurance

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

Criminal convictions

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

Other interests and relationships

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

Record Keeping

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

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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