NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

8 March 2010

INSIDE

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com

Khoon Goh
Senior Markets Economist
Telephone: +64 4 802 2357
E-mail: Khoon.Goh@anz.com

David Croy
Senior Interest Rate Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Mark Smith
Economist
Telephone: +64 4 802 2199
E-mail: Mark.Smith2@anz.com

Steve Edwards
Economist
Telephone: +64 4 802 2217
E-mail: Steve.Edwards@anz.com

Kevin Wilson
Rural Economist
Telephone: +64 4 802 2361
E-mail: Kevin.Wilson@anz.com

AN OXYMORON

ECONOMIC OVERVIEW

We have tweaked our near-term growth expectations lower, but upped the outlook for 2011 substantially. At this juncture, we are now inclined to pencil in Q3 as the start of the tightening cycle by the RBNZ, rather than Q2.

RBNZ MONETARY POLICY STATEMENT PREVIEW

We expect the RBNZ to leave the OCR unchanged at 2.5 percent this Thursday. But the assessment will likely leave the timing of the tightening cycle vague to give the RBNZ flexibility. Specifically, we struggle to see why the RBNZ would continue to include references to “the middle of 2010” in regards to tightening policy, given that we are now already in March.

IMPLICATIONS OF A LOWER NZD/AUD

The combination of a low NZD/AUD cross and a strong Australian economy suggests a real boon for exporters – particularly services and manufacturers – and will assist with the much needed rebalancing of the economy. Given the typical lags from when the benefits of a lower currency start to show up, the full effects will not become apparent until next year.

INTEREST RATE STRATEGY

This week’s MPS is clearly the main event of the week and the risk-return suggests something mildly bullish for rates. The recovery is still on track, but it is patchy and sluggish – developments unlikely to change before a market implied hike for June. There is still far too much tightening priced into the yield curve, and this is not consistent with economic developments, or the Australian experience.

CURRENCY STRATEGY

The 0.7700-0.7730 level should cap the NZD/AUD cross. Technically, the downside break of 0.7730 should lead to a move towards 0.7300. Fundamentally, the move is justified as the yield differential between the two economies is set to remain divergent for some time, and this week’s Australian employment data will reinforce the gap between the respective economy’s unemployment rates.

EFFECTIVE EXCHANGE RATES UPDATE

Improving commodity prices and a weaker NZD have seen five of the eight industry groups experience a more enhancing exchange rate in February. Conditions remain in “restrictive” territory for most groups, although the weaker NZD has seen “enhanced” conditions for manufacturers.

ECONOMIC OVERVIEW

SUMMARY

We have tweaked our near-term growth expectations lower, but upped the outlook for 2011 substantially. At this juncture, we are now inclined to pencil in Q3 as the start of the tightening cycle by the RBNZ, rather than Q2.

THE WEEK AHEAD

- **SNZ Electronic Card Transactions – February** (Tuesday 10.45am NZDT). Will the moderation in consumer confidence weigh on retail spending?
- **SNZ Overseas Trade Indexes – December quarter** (Tuesday 10.45am NZDT). The higher NZD will weigh on prices, resulting in a small, 0.6 percent, decline in the terms of trade. Import and export volumes to register small quarterly increases.
- **RBNZ March MPS** (Thursday 9.00am NZDT). OCR to remain at 2.5 percent. See page 5 for our full preview.
- **REINZ Housing Market Statistics – February month** (Thursday 10.00am NZDT). Some recovery in sales volumes after very weak January but prices to remain flat.
- **SNZ Food Price Index – February month** (Thursday 10.45am NZDT). Some pullback in prices expected after January's big increase.
- **SNZ Retail Trade Survey – January month** (Friday 10.45am NZDT). We expect a 0.5 percent increase in headline retail sales, with a stronger 1.0 percent increase in core sales, reversing some of the previous month's weakness.

THE VIEW

We've made a couple of little tweaks to our economic assessment.

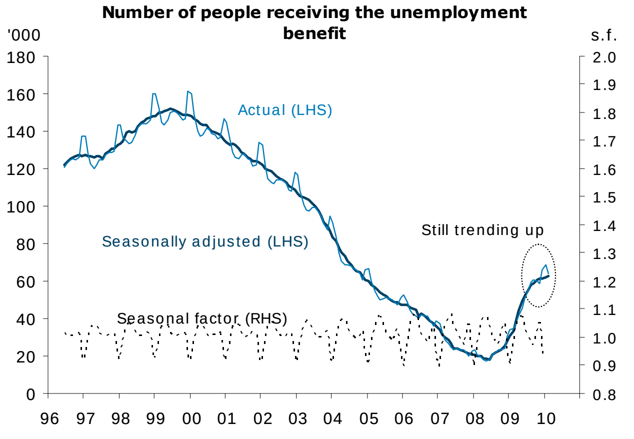
First up, we have lowered our growth projections for the first half of calendar 2010. We have repeatedly cited deleveraging and structural changes as powerful influences on the economic cycle and the recovery process. We now see them as even more persuasive. This is a marginal tweak in terms of annual average figures, with growth being shaved from 2.2 to 1.9 percent for calendar 2010. But the spirit is really about dampening H1 and firming up late 2010/early 2011, with the second half benefiting from better export performance and some natural rebound as uncertainty surrounding tax and other structural changes clears up.

Second, we have raised our expectations for 2011 substantially, from 3.2 percent to 4.0 percent. This reflects two dynamics (plus the Rugby World Cup effect). Weakness in H1 2010 (and 2008 and 2009) is influential, because the more this economy frontloads deleveraging and rebuilds its balance sheet, the greater the opportunity for pent-up demand to be unleashed. In short, tougher times over 2010 bring something better in 2011. But we are also becoming increasingly optimistic over what we are seeing across commodity prices and the currency (the NZD/AUD in particular). We have been at pains to emphasise that we monitor both structural and cyclical indicators in so far as our expectations for the economy are concerned. Growth in itself is not the issue: we need the conditions to drive a robust and sustainable upswing, and these conditions are gradually falling into place.

Challenges still remain and 2010 may well be more of a struggle. There is the global scene for one. Domestically, we know the commercial property market is very weak and non-residential investment activity is facing a huge growth hole over H2 2010. This is a material downside risk – locally and globally. In addition, recent weakness in the housing market means the expected cyclical rebound in residential investment could well be pushed out. Rural land prices are under pressure. Prospects for business investment remain poor (a sad signal for the supply-side capacity of the economy). Much economic activity is still contingent on central bank and government support remaining in place and for the currency to continue to weaken. The recent migration fillip will unwind over 2010 as the Australian job market lures more kiwis across the ditch.

Labour market developments will be crucial in this regard. Monthly numbers of people receiving the unemployment benefit are one of the timeliest indicators we have about the state of the labour market. Over the weekend, it was reported that this number fell in February by 4,224, or 6.1 percent, to 64,145. However, this series is highly seasonal and February normally sees a decline anyway. Our seasonally adjusted estimates show a small increase of 370 or 0.6 percent for the month, following a 0.8 percent rise in January. This is much smaller than the increases seen over most of last year, and is a sign that the labour market is starting to stabilise. But the number is still moving up – albeit slowly. And so the same appears likely for Q1 unemployment figures due out in May.

ECONOMIC OVERVIEW



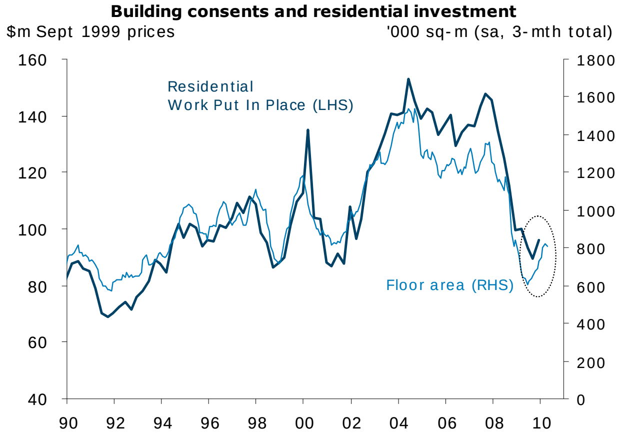
Sources: ANZ, National Bank, MSD

At this juncture, we are now inclined to pencil in Q3 as the start of the RBNZ tightening cycle. Such fiddling (we were previously at June) is always dangerous ahead of the RBNZ's OCR decision and release of their *Monetary Policy Statement*. Of course, if we were to simply slavishly follow the RBNZ, we wouldn't have jobs in the first place! **Moreover, it may appear an oxymoron to be delaying the timing of the first hike when you are becoming more bullish about prospects for 2011.** But we are also mindful that 2011 is critically dependent on policy support remaining for a while yet. Fiscal policy is set to become more contractionary in the year ahead, and this lessens the need for monetary policy to do too much heavy lifting. In addition, **lofty expectations of future growth need to be matched by reality before policy support can be removed.** At present, there is a lot of expectation but it is inconsistent with reality in terms of what the hard economic data is throwing up. This gap will close eventually. We just think it is another few months away yet.

We are taking a lot of comfort over what we are seeing in terms of the economy's rebalancing process. **The catalyst to "change" has really been the overwhelming nuances we are getting about the slow pace of the recovery.** Each month we get feedback across business and corporate managers from within the bank stretching from the upper North all the way to Invercargill. This month, the normal array of positives and negatives are coming through. But sifting through the tea leaves, one thing is clear: this economy is not picking up a head of steam. The recovery itself is still on track but the economy is just not firing on all cylinders. Neither is it likely to over the coming months (and certainly not prior to the June *Monetary Policy Statement*) given where credit growth and housing reside, nor if our real-time nuances are reflected in the hard data (and after all, data is simply the plural of anecdote). That said we fully expect the odd bit of "data tension" relative to our view to emerge in the form of a robust Q4 GDP figure and some uncomfortably high Q1 inflation figures. But collectively, the data is expected to continue the recent trend of waxing and waning.

After looking forward, we have to also be mindful of where we have been. Our focus is primarily on the former but attention must also be paid to the latter. Preliminary indicators suggest that GDP ended last year on an improving note. This morning's Work Put In Place and Manufacturing Survey data confirmed this.

The Work Put In Place data showed a strong 7.4 percent rise in real residential construction. This was no surprise as it was foreshadowed by rising building consents data over the second half of 2009. Recent weakness in building consents data however, suggest that we are unlikely to see a similarly strong increase in residential construction over the first quarter of this year. Non-residential construction fell 6.1 percent, following a 4.6 percent decline in the previous quarter. We expect further weakness in non-residential over the year ahead. Overall, the GDP construction component looks to have risen by 1 percent in Q4.



Sources: ANZ, National Bank, Statistics NZ

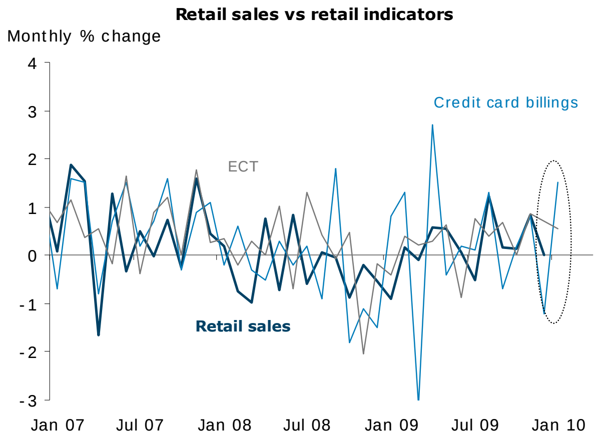
The Economic Survey of Manufacturing for Q4 showed a strong increase in production. Based on our estimates, after adjusting the 2.8 percent increase in real sales for changes to inventories, we expect a solid 3.2 percent increase in the manufacturing ex-primary GDP component for Q4. This comes after six consecutive quarterly declines which has seen this sector shrink by 17 percent. We expect further expansion in the sector, driven by exporters, with the lower NZD and strong

ECONOMIC OVERVIEW

demand in key manufacturing markets providing a boost.

The higher NZD and the lagged effects of lower commodity prices is expected to have contributed to lower export and import prices in the Q4 Overseas Trade Indexes. We expect a slight dip in the OTI terms of trade, but for this to be short-lived as recent increases in export commodity prices filter through over the coming quarters.

This week's retail related data will help shed light on whether the December slowdown was a one-off. Indicators for January retail trade suggest a small climb in the nominal spend, but as the month also saw sizeable increases in food and petrol prices, the impact on retail volumes is likely to have been more subdued. Concerns over job security could be instilling more caution. Electronic Card Transaction and REINZ housing data will help shed more light on the mood of households in February.



Sources: ANZ, National Bank, Statistics NZ, RBNZ

Thursday's release of the March *Monetary Policy Statement* will provide an opportunity to see and hear the Bank's current thinking (see page 5 for our MPS preview).

RECENT LOCAL DATA

- **SNZ External Travel and Migration – January**. Seasonally adjusted permanent and long term arrivals exceeded departures by 2,000 persons (22,600 for the year). Short-term overseas visitor arrivals up 7.5 percent from 12-months earlier. Monthly resident short-term departures were down slightly compared to year earlier.
- **ANZ Commodity Price Index - February**. The world price index lifted a further 3.8 percent, to be 48.6 percent up on a year-earlier. The New Zealand dollar index rose 7.9 percent in the month and 11.1 percent from a year ago.
- **Fonterra Monthly Auction Result –March.** Whole Milk Powder prices firmed by 0.8 percent to US$3,281.
- **SNZ Wholesale Trade Survey - December quarter**. Wholesale sales increased by 1.9 percent, stocks up 0.1 percent for the quarter.

RBNZ MONETARY POLICY STATEMENT PREVIEW

SUMMARY

We expect the RBNZ to leave the OCR unchanged at 2.5 percent this Thursday. But the assessment will likely leave the timing of the tightening cycle vague to give the RBNZ flexibility. Specifically, we struggle to see why the RBNZ would continue to include references to "the middle of 2010" in regards to tightening policy, given that we are now already in March.

A MIXED BAG

Economic momentum is still building across the economy but it is becoming clear that the recovery itself is sluggish. A generally encouraging string of data in late 2009 has been replaced by mixed nuances and patchiness in early 2010. Soft leading indicators, such as business and consumer confidence, are pointing towards stronger growth ahead than what the RBNZ projected in December. But the hard data, such as credit growth and consumer spending, still remain subdued. The housing market appears to have hit a wall early this year. Such inconsistencies cloud the economic outlook somewhat.

We put this patchiness down to four reasons.

- **A backdrop of household deleveraging and a structural imperative to improve NZ's external position** – a key differentiator from previous cycles. The same deleveraging dynamic is at work across rural New Zealand.
- **Some success the RBNZ is having with its new liquidity regime** (an implicit ancillary policy instrument), which has seen fixed lending rates rise sharply and dented the ability of the housing market to extend.
- **Continued global unease.** While the tone of global data is improving, developments across Greece are a reminder that the after-effects of the global financial crisis will linger for some time.
- **Some uncertainty regarding pending tax changes.** On top of this, fiscal restraint is clearly going to be assisting monetary policy.

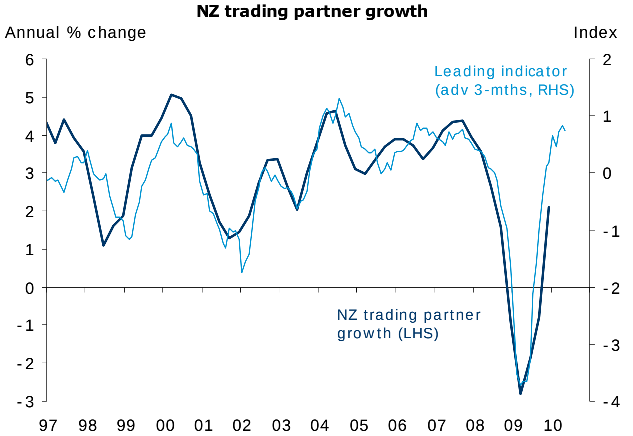
Of course there are a host of other possible reasons, but we believe these four capture the thrust of the patchiness that is being reflected in hard data such as unemployment and investment.

Therefore, it is tempting to conclude that the economic recovery is being postponed, and so too should the timing of the tightening cycle. We are having increasing sympathy for this view.

However, there have also been some positive developments of late.

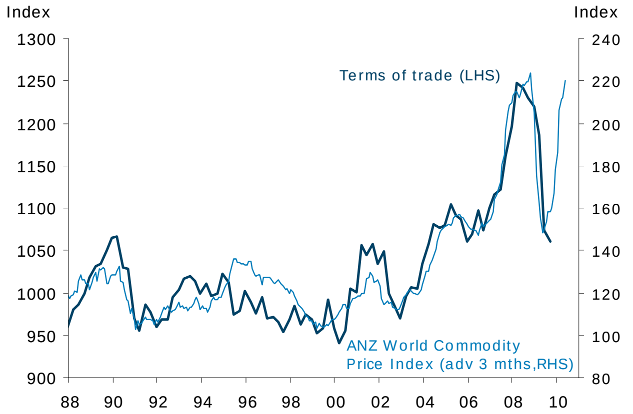
- **Soft indicators such as business confidence are still encouraging.** Investment and hiring intentions have recovered, although the latter remains at low levels still.
- **NZ's major trading partner growth grew strongly** in the December quarter by 1.2 percent, and leading indicators are pointing to a return to trend growth later this year.
- **There has been a strong rebound in NZ's major export commodity prices,** which is now just shy of reaching an all time high.
- **The NZD has retreated and is now over 4 percent lower than what the RBNZ assumed** at their December projections (on a TWI basis).

NZ trading partner growth



Sources: ANZ, National Bank, Bloomberg

Terms of Trade



Sources: ANZ, National Bank, Statistics NZ

So while semblances of a recovery are emerging, there remain the inevitable question-marks surrounding the pace and whether it is sufficiently self sustaining.

RBNZ MONETARY POLICY STATEMENT PREVIEW

Significantly, the two gauges that the RBNZ singled out as key to watch in the December Statement – credit and business spending – remain weak. And while trading partner growth has been robust at the end of last year, risks remain in the form of recent sovereign debt concerns, the unwillingness of the US consumer to come out of their shell, and active attempts by the Chinese authorities to cool down their economy.

While we have seen some near-term deterioration in pricing intentions and inflation expectations, a weaker labour market and weak Q4 2009 non-tradable read continues to suggest **a favourable medium-term inflation outlook.**

This backdrop suggests ongoing caution and patience by the RBNZ, as it seeks further evidence about how the economy will evolve.

CHANGING THE SCRIPT SOMEWHAT?

With the housing market weakening rapidly and domestic demand likely to be soft over the first half of this year, the clear risk is that the tightening cycle is later as opposed to mid-year (June). To our minds, June is getting awfully close and if the Bank were sure they needed to hike then, they will need to up the rhetoric in their April *Review*. This looks a real stretch. Significantly, with housing market activity softening and the labour market weaker, the Bank's concern over a premature rebound in consumption will be allayed.

We see the RBNZ designing a statement that leaves itself greater flexibility over when to start the tightening cycle. The fact that inflation is still expected to remain within the target band and the steep yield curve is working in their favour affords the RBNZ such flexibility. **We still see the RBNZ taking comfort that the outlook beyond mid 2010 looks solid, even though recent data has been patchy.** Hence, we expect a cautiously (and heavily caveated) optimistic tone.

We expect the RBNZ to drop references to "the middle of 2010" in their OCR assessment. The middle of 2010 (it covers April to September) is almost upon us so it appears somewhat redundant. **References to removing policy stimulus when growth becomes self sustaining makes more sense to us.** The path for credit growth and business spending will continue to be influential.

In terms of the RBNZ's economic projections:

- **We expect the near-term growth forecasts to be shaved lower slightly, but revised higher later in 2010 and into 2011.** The mix of growth will be more balanced, with net exports making a bigger contribution at the expense of domestic demand. This should give the projected recovery a more sustainable feel.
- **The Bank's inflation forecasts will be revised higher**, largely reflecting a higher starting point due to a stronger Q1 2010 CPI forecast, and the impact of the government's emissions trading scheme (ETS) from 1 July which will add 0.4 percentage points to inflation. However, we expect the RBNZ's inflation forecasts to remain within the target band. The RBNZ will look through the ETS impact, and we suspect they will not be too concerned about potential second round impacts due to a weak labour market.
- **Consistent with their mid-year view on rate hikes, we expect the Bank's 90-day profile to be largely similar to December's.** With the forecast horizon extended another year, we expect the 90-day track to settle at around 5.7 percent from mid-2012 – a signal that they do not expect to hike rates too aggressively and an implicit recognition that the neutral rate is now lower.

FINANCIAL MARKET IMPLICATIONS

We suspect the Bank will be keen to deliver a statement that generates minimal market reaction. **However, the clear risk is that a later start to the tightening cycle is flagged given the subdued nature of the recovery to date and we struggle to see that changing in three months.**

OUR EXPECTATION OF RBNZ PROJECTIONS (DECEMBER 2009 MPS IN BRACKETS)

	90-DAY	TWI	CPI (ANN % CHG)	GDP (ANN AVE % CHG)
Q1 2010	2.7 (2.8)	64.5 (66.5)	2.2 (1.8)	-0.4 (-0.3)
Q2	2.8 (2.9)	64.5 (66.6)		
Q3	3.2 (3.3)	64.2 (66.2)		
Q4	3.5 (3.5)	63.5 (65.5)		
Q1 2011	3.9 (3.9)	63.0 (64.5)	2.6 (1.8)	3.5 (3.6)
Q2	4.4 (4.4)	62.5 (63.4)		
Q3	4.7 (4.7)	62.2 (62.2)		
Q4	5.1 (5.1)	61.8 (61.2)		
Q1 2012	5.6 (5.6)	61.6 (60.5)	2.5 (2.6)	4.1 (3.9)
Q2	5.7 (..)	61.3 (..)		
Q3	5.7 (..)	61.1 (..)		
Q4	5.7 (..)	61.0 (..)		

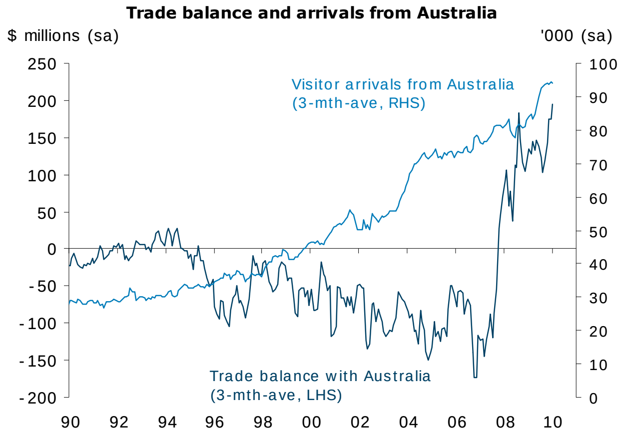
IMPLICATIONS OF A LOWER NZD/AUD

SUMMARY

The combination of a low NZD/AUD cross and a strong Australian economy suggests a real boon for exporters – particularly services and manufacturers – and will assist with the much needed rebalancing of the economy. Given the typical lags from when the benefits of a lower currency start to show up, the full effects will not become apparent until next year.

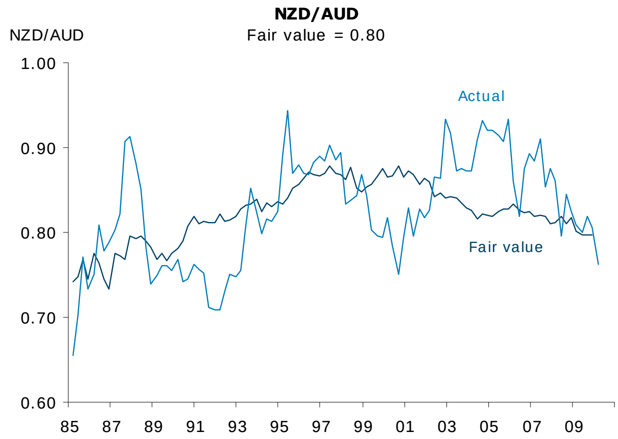
GETTING MORE THAN JUST CRUMBS

Observation 1: Australia is by far NZ's most important trading partner. Merchandise exports to Australia account for 23 percent of all exports, larger than the next two biggest export destinations combined (China and US). Since late 2007, the trade balance with Australia has moved into surplus after years of deficits, and the surplus has been increasing. Australian tourists make up 44 percent of all visitor arrivals, a significant increase from the 32 percent share a decade ago. In the twelve months to January 2010, arrivals from Australia increased 12.3 percent from a year ago, compared to a 5.5 percent decline in arrivals from all other countries. **Hence, where the NZD/AUD goes has a more important bearing than the other cross rates.**



Sources: ANZ, National Bank, Statistics NZ

Observation 2: Fair value for the NZDAUD has fallen considerably. A booming Australian terms of trade and stronger productivity growth has seen fair value decline markedly. These are structural dynamics that tend to stick over time. On top of this we obviously have cyclical influences such as the yield differential working in the AUD's favour – another dynamic that is expected to be around for some time. **The stickiness factor is crucial, for it encourages the investment and physical resource allocation shifts to occur.** Our fundamental fair value model for the NZD/AUD is currently around 80 cents, suggesting that this cross is around 4.5 percent undervalued. Currency pairs often spend considerable time away from fair value and given both structural and cyclical inputs its hard to see what will drive the NZD/AUD back above fair value at this juncture (although positioning does tend to be influential).



Sources: ANZ, National Bank, Bloomberg

Observation 3: NZ export sector activity is modestly less sensitive to cycles in the NZD/AUD. For a start, cyclical swings in the NZD/AUD are typically less extreme than for other NZD bilaterals, most notably the NZDUSD. However, the composition of exports also matters. Research done by the RBNZ[1] find that services exports volumes are more exchange rate sensitive but with a fairly long 18 month lag, while the peak exchange rate impact on manufacturing export volumes is more modest but occurs sooner (12 months). With around half of New Zealand's manufacturing exports destined for Australia, the NZD/AUD is a key exchange rate for this sector. As our analysis of effective exchange rates show, the lower NZD/AUD is moving conditions to "enhancing" territory, which will help benefit manufacturing export activity over the next 12-months.

Observation 4: With a weaker currency are inflation consequences. Australia is a key supplier of consumer imports, with a large proportion of New Zealand's food imports obtained from Australia. The lower NZD will have raised costs for importers, but as we have already seen, sizeable food price rises in the last few years (linked to soft commodity prices), the scope for further rises is likely to be limited given the weak retail environment.

[1] Smith, Mark (2004) Impact of the exchange rate on export volumes, RBNZ Bulletin 67:1, p5-13.

IMPLICATIONS OF A LOWER NZD/AUD

THE UPSHOT

The combination of a low NZD/AUD cross and a strong Australian economy suggests a real boon for exporters. We have noted for some time the need for the NZ economy to rebalance and for the earnings sector to be the major driver of growth if the recovery is to be sustainable. **The currency is now at a level that will assist with this rebalancing process, and the NZD/AUD cross is a big part of this.** Though the full effect will not be apparent until next year, this is one of the factors that have led us to upgrade our growth forecasts for calendar 2011.

INTEREST RATE STRATEGY

SUMMARY

This week's MPS is clearly the main event of the week and the risk-return suggests something mildly bullish for rates. The recovery is still on track, but it is patchy and sluggish – developments unlikely to change before a market implied hike for June. There is still far too much tightening priced into the yield curve, and this is not consistent with economic developments, or the Australian experience.

MARKET THEMES

- We have changed our forecasts and now expect the RBNZ to stay on hold until September. Yet there are 119bps of hikes priced in by year-end.
- Monetary policy now finds itself surrounded by friends – namely a steeper yield curve, intense competition for deposits and fiscal policy.
- We still look to the RBA for direction. Despite their exceptional economic performance, they have gingerly raised rates by just 100bps.

REVIEW AND OUTLOOK

Interest rates continue to grind lower, and have probably gone as far as they can ahead of the MPS. What happens after that obviously depends on the RBNZ's rhetoric – and we expect it to be decidedly circumspect. As we noted in our preview on page 5, the recovery is still on track, but it is patchy and sluggish. It's also worth noting that **monetary policy doesn't operate in a vacuum**, and at the moment the invisible hand of the market is lending a hand. Not only is the yield curve steeper, with 5yr fixed mortgage rates up over 2 percent since January 2009, but there is intense competition for deposits, and this is driving up everyday interest rates. **The steeper curve and higher deposit rates takes enormous pressure off monetary policy**, and is one reason why we see a delayed start to the tightening cycle.

Divergent policy stances are set to be a major source of tension in coming months, particularly against Australia. Local rates will obviously be most heavily influenced by RBNZ policy, but rising Australian rates will also be a challenge. This is evident in market pricing. For example, the local market is pricing in almost 120bbps of rate hikes by December. Yet the NZ economy is much weaker than Australia's, and the RBA has gingerly raised rates by just 100bps since October, and the market is pricing in just 25bps more by July. So while that suggests NZ interest rates have scope to fall, there is still an "Australia" premium holding them up.

PREFERRED BORROWING STRATEGIES

Our long held view that there is no value in hedging at the short end of the curve becomes even more appropriate now that the RBNZ is set to delay the tightening cycle by a quarter. We're still surprised that the market is gunning for around 120bps of rate hikes in the second half. 5-10yr swaps continue to trade well below historic norms, and offer good value for those looking to add to long term hedges. 10yr swaps are now at a 10month low, having fallen around 40bps since the days after the hawkish December MPS. Forward starting swaps look even better, and offer a hedge when you need it – later, when rates are likely to be actually rising – but don't have cashflow implications now. We particularly like 4-7yr swaps starting in 2-3 year's time. These still have low outright yields, but don't suffer from aggressive "roll" down the curve.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	First rate hike likely to be delayed till September.
NZ data	↔/↓	All eyes on the MPS. Recent data has been soft.
Fed Funds / front end	↔	US data improving. But Fed hikes are a long way away.
RBA	↔/↑	Just one rate hike priced in by July? We can't believe it.
US 10 year	↔/↑	Large sell off post payrolls likely to continue. US bonds losing safe haven appeal.
NZ swap curve	↔/↑	Lower yields overall, and a steeper curve.
Flow	↔/↓	Receive flow dominating. Roll/Carry supportive.
Technicals	↔	Trend lower continues. 2yr swap can go below 4%.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 11-Mar-10	+0	+0
Thu 29-Apr-10	+5	+4
Thu 10-Jun-10	+19	+20
Thu 29-Jul-10	+47	+47
Thu 16-Sep-10	+71	+70
Thu 28-Oct-10	+92	+87
Thu 9-Dec-10	+123	+119

TRADING THEMES WE FAVOUR AT PRESENT

We favour outright longs at the short end, with scope for yields to grind lower after what should be a circumspect MPS, supported by roll and carry. The MPS and RBA Deputy Governor Lowe's speech could be the catalyst for further NZ steepening and out-performance against Australia.

CURRENCY STRATEGY

SUMMARY

The 0.7700-0.7730 level should cap the NZD/AUD cross. Technically, the downside break of 0.7730 should lead to a move towards 0.7300. Fundamentally, the move is justified as the yield differential between the two economies is set to remain divergent for some time, and this week's Australian employment data will reinforce the gap between the respective economy's unemployment rates.

MARKET THEMES

- NZD generally range-bound 0.6850-0.7020.
- RBNZ this Thursday.
- Japanese year end repatriation nearly complete and carry trades look good again.

REVIEW AND OUTLOOK

The NZD continues to be range-bound. The market has lost interest in the NZD as they are finally realising we are not a state of Australia. The new RBNZ liquidity rules will ensure local depositors can access 4 to 5 percent term rates, while offshore speculative/margin cash can only receive the wholesale rate with a downward bias. As volumes in other currencies have picked up over 2010, the NZD has not noticed any increase in liquidity.

The RBNZ will remain sidelined for longer. Our official call for a rate hike has changed from June to September. The RBNZ has a chance to differentiate itself again versus Australia and given the crumbs at the table comment, it is difficult to see Dr Bollard not taking this opportunity to express that view to a wider audience. The expected tax changes coming in the NZ Budget in May will reduce the leverage in the housing market and prevent house prices from inflating strongly in the near-term. Again, reasons to buy NZD are not present.

The world is a better place and risk is 'on' once again. Consumer credit in the US picked up markedly over January, the first time it has increased in a year and the biggest increase since mid-2008. US nonfarm payrolls was also not as bad as feared, and the unemployment rate continues to stabilise. The question for the NZD is whether a 2.5 percent cash rate is enough to attract the short term hot money that flows when the 'risk on' button is pushed. **We suspect that NZD will be a very poor relation to other commodity currencies including AUD, CAD and NOK.**

This is a good environment for carry trades and with Japan repatriating Yen for the year end nearly complete, there is the opportunity for AUDJPY to hold above 80 and try significantly higher. Greece continues to weigh on the Euro but if that is as low as the Euro can go on what was very negative news, we would prefer to be long Euro and GBP, not short from here. So the question of a double top in NZDGBP at 0.4700 must be addressed. We are happily short NZDGBP above 0.4600 looking for a retest of 0.4360 support. Simply put, risk is on but the RBNZ and the proposed tax changes will ensure it won't benefit the NZD.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Commodities recovering on weaker USD
Partial indicators	↔/↓	Australian data still strong. NZ's starting to wane.
Technicals	↔	Major resistance at 0.7730.
Sentiment	↓	Market focussed on dichotomies in economies and monetary policy.
Other	↔/↓	RBNZ to be dovish?
On balance	↔/↓	**Yield and growth story too hard to ignore.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔/↓	Market pushing RBNZ hikes back. Consumer credit in US up strongly.
Commodities	↔	Commodities recovering on weaker USD
Risk aversion	↔/↑	Time healing the consumer?
Partial indicators	↔/↓	US data still improving. NZ's not.
Technicals	↔/↑	Range trade 0.6850-0.7020.
AUD	↔/↑	0.9070 resistance to break this week.
Sentiment	↔	RBNZ based.
Other	↔	Equities still big driver of FX.
On balance	↔/↓	**Range-bound but TWI lower.**

EFFECTIVE EXCHANGE RATE UPDATE

SUMMARY

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.

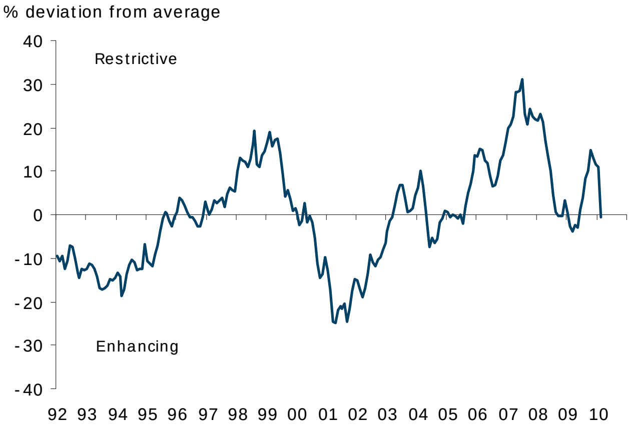
Improving commodity prices and a weaker NZD have seen five of the eight industry groups experience a more enhancing exchange rate in February. Conditions remain in "restrictive" territory for most groups, although the weaker NZD has seen "enhanced" conditions for manufacturers.

BETTER CONDITIONS FOR MOST SECTORS

Five of the eight industry groups experienced an improvement in their effective exchange rates over February. The largest improvements were due to a lift in commodity prices (for meat prices in particular) or a lower NZD (as in the case of manufacturing and forestry which have heavier weightings on the NZDUSD and NZDAUD.

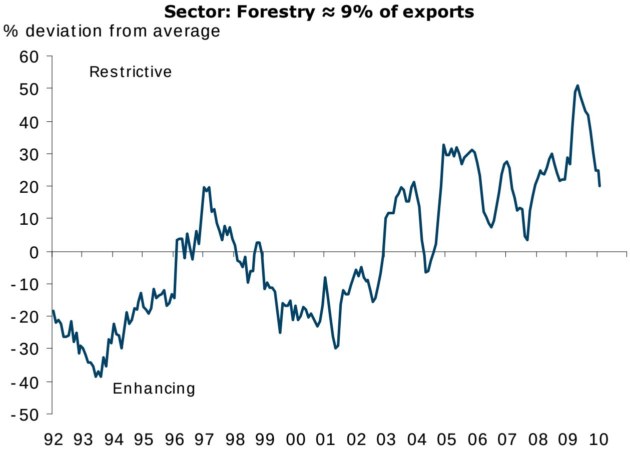
Overall, however, conditions remain in restrictive territory for five of the eight groups. Effective exchange rates have been restrictive for at least 6-months for these groups. Of the other three groups, effective exchange rates for meat exporters are back towards historical averages, whereas dairy exporters and manufacturers are benefiting from an "enhancing" effective exchange rate.

Sector: Meat ≈ 8% of exports



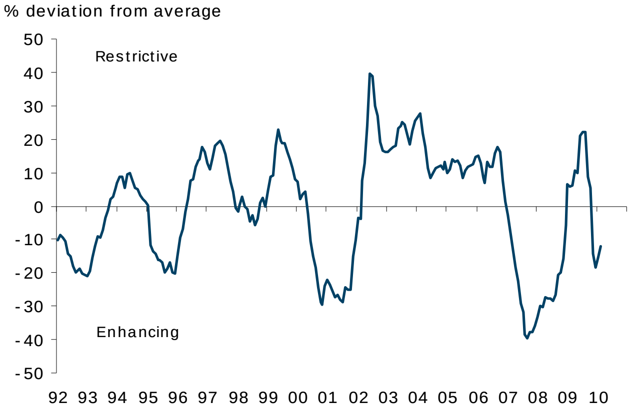
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Forestry ≈ 9% of exports



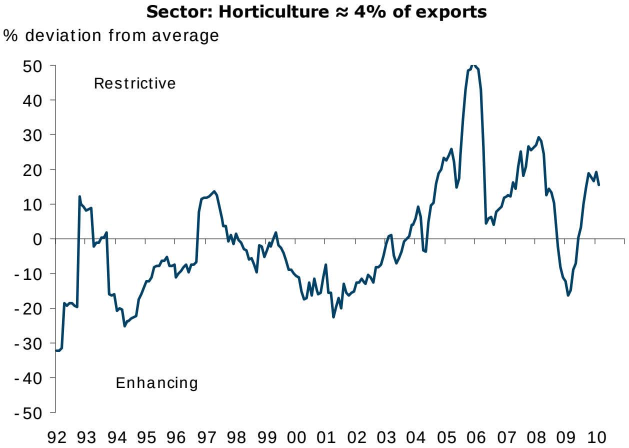
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Dairy ≈ 19% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports

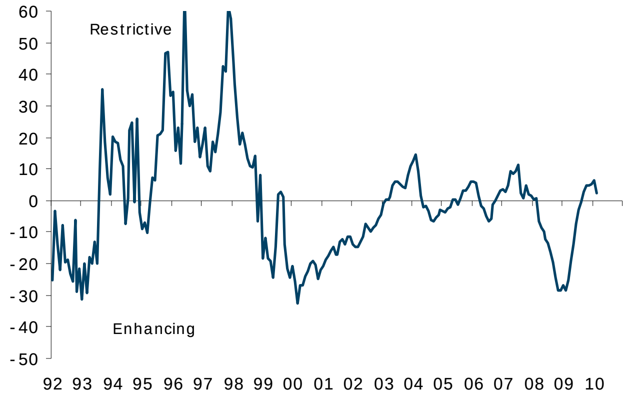


Sources: ANZ, Bloomberg, Statistics NZ

EFFECTIVE EXCHANGE RATE UPDATE

Sector: Seafood ≈ 3% of exports

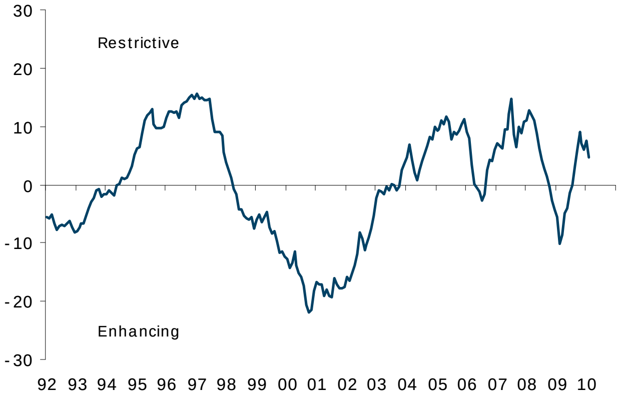
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services ≈ 21% of exports

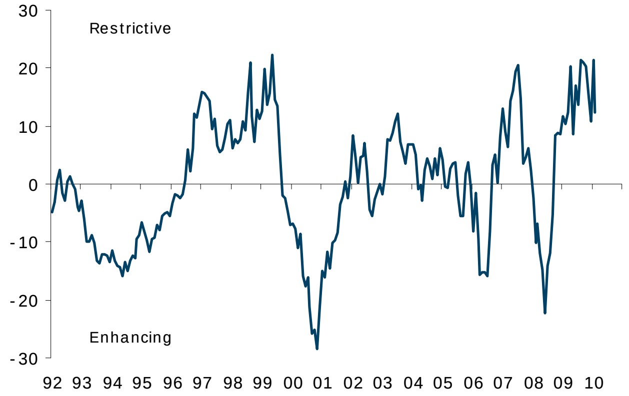
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports

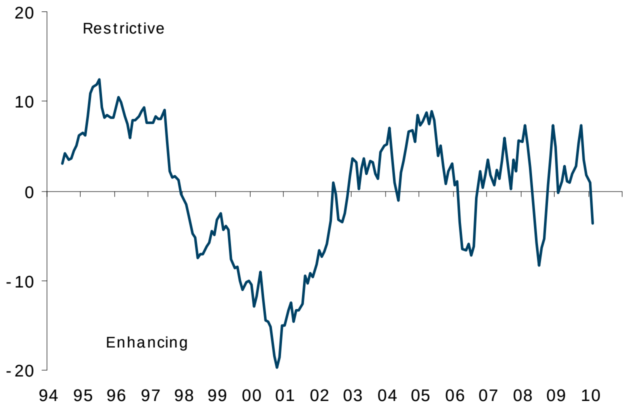
% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports

% deviation from average



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	TIME (NZDT)
8-Mar	**NZ**	**QVNZ House Prices**	**-**	**4.4%**	**00:00**
	NZ	**Manufacturing Activity – qoq – Q4**	**-**	**-5.1%**	**10:45**
9-Mar	**NZ**	**Electronic Card Transactions – mom - Feb**	**-**	**+0.5%**	**10:45**
	AU	NAB Business Confidence – Feb	-	+3	13:30
	AU	ANZ Job Ads – mom – Feb	-	-8.1%	13:30
	UK	Trade Balance – Jan	-£7.0bn	-£7.3bn	22:30
10-Mar	US	IBD/TIPP Econ Optimism - Mar	-	46.8	04:00
	NZ	**Terms of Trade – qoq – Q4**	**-**	**-1.3%**	**10:45**
	AU	RBA Deputy Governor Lowe Speaks	-	-	11:00
	AU	Westpac Consumer Confidence – mom - Mar	-	-2.6%	12:30
	AU	Home Loans	+2.0%	-5.5%	13:30
	AU	Investment Lending	-	+1.9%	13:30
	GE	Trade Balance – Jan	€16.1bn	€13.5bn	20:00
	UK	Industrial Production – mom – Jan	+0.2%	+0.5%	22:30
11-Mar	US	Monthly Budget Statement - Feb	-$202bn	-$42.6bn	08:00
	NZ	**RBNZ OCR Review**	**2.50%**	**2.50%**	**09:00**
	NZ	**BNZ Business NZ PMI – Feb**	**-**	**52.0**	**10:30**
	AU	Employment – mom – Feb	+15k	+52.7k	13:30
	AU	Unemployment Rate – Feb	5.4%	5.3%	13:30
12-Mar	US	Trade Balance – Jan	-$41.0bn	-$40.2bn	02:30
	US	Initial Jobless Claims (Mar 7th)	450k	469k	02:30
	US	Continuing Claims (Feb 28th)	-	4500k	02:30
	NZ	**REINZ House Sales – yoy – Jan**	**-**	**-1.1%**	**10:00**
	NZ	**REINZ House Prices – mom – Feb**	**-**	**-1.6%**	**10:00**
	NZ	**Retail Sales – mom – Jan**	**-**	**0.0%**	**10:45**
13-Mar	EC	Eurozone Industrial Production – mom – Jan	+0.7%	-1.7%	00:00
	US	Advance Retail Sales – mom – Feb	+0.1%	+0.6%	02:30
	US	Univ. Michigan Confidence – Mar	73.9	73.6	03:55
	US	Business Inventories – mom – Jan	+0.1	-0.2%	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: The RBNZ is front and centre this week. This month will also see the release of the Balance of Payments and GDP for Q4 last year. After a lean period, we expect to see the return to decent quarterly growth rates. Data readings for 2010 are expected to remain volatile given continuing deleveraging and impending structural changes.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 9 Mar (10.45am)	Electronic Card Transactions (Feb)	Flat	Will January slowdown in core ECT spending persist?
Wed 10 Mar (10.45am)	Overseas Trade Indexes (Dec qtr)	NZD prices down	Higher NZD to offset rising commodity export prices and to contain increases in import prices. OTI export and import volumes to register small quarterly increase.
Thur 11 Mar (9:00am)	March MPS	On hold	RBNZ to leave the timing of the tightening cycle vague to give themselves additional flexibility.
Thur 11 Mar (10:45am)	Food Price Index (Feb)	Down	Likely pullback from large rises in January.
Fri 12 Mar (10.45am)	Retail Trade (Jan)	Up	Expect some recovery in core (ex fuel and vehicle) sales after large December fall. But retail volumes flat.
Fri 12 Mar (10.45am)	REINZ residential (Feb)	Dead cat bounce?	Will housing market bounce back? We suspect not given pending tax changes to investment property.
Thur 18 Mar (3.00pm)	ANZ Roy Morgan Consumer Confidence (March)	Holding?	Was the February slip a one-off or will weak job prospects continue to weigh?
Fri 19 Mar (10.45am)	International Travel and Migration (Feb)	Up	Will PLT departures remain low despite much better job prospects across the ditch?
Wed 24 Mar (10.45am)	Balance of Payments (Dec qtr)	Improving trend	Widening in quarterly investment income expected to offset improving trade position. Annual deficit to narrow to 1.8 percent of GDP.
Wed 24 Mar	Westpac MM Consumer Confidence (Dec qtr)	Improving	Expect this to track the ANZ Roy Morgan Consumer Confidence measure.
Fri 26 Mar (10.45am)	Gross Domestic Product (Dec qtr)	Back to above trend	Quarterly outturn to be boosted by healthy growth in services, retail and mining.
Fri 26 Mar (10.45am)	Overseas Merchandise Trade (Feb)	Imports still down?	Exports to Australia should continue to benefit from the favourable NZDAUD cross- rate. Imports likely to stay weak.
Tue 30 Mar (10.45am)	Building Consents (Feb)	Stable	Still too early to see recovery given the uncertainty resulting from pending regulatory changes.
On Balance		**Improving but not racing away**	**Recovery still on track but patchy.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.9	0.2	0.2	**0.9**	**0.3**	**0.4**	**0.5**	**0.9**	**1.1**	**1.1**
GDP (% yoy)	-3.0	-2.1	-1.3	**0.5**	**1.6**	**1.8**	**2.1**	**2.1**	**2.9**	**3.7**
CPI (% qoq)	0.3	0.6	1.3	-0.2	**0.6**	**0.7**	**0.9**	**0.8**	**0.5**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	**2.3**	**2.5**	**2.1**	**3.1**	**3.0**	**3.2**
Employment (% qoq)	-1.1	-0.5	-0.8	-0.1	**0.1**	**0.3**	**0.4**	**0.6**	**0.7**	**0.7**
Employment (% yoy)	0.8	-0.9	-1.8	-2.4	**-1.2**	**-0.5**	**0.7**	**1.4**	**2.0**	**2.4**
Unemployment Rate (% sa)	5.0	6.0	6.5	7.3	**7.5**	**7.4**	**7.2**	**6.8**	**6.4**	**6.1**
Current Account (% GDP)	-7.9	-5.6	-3.1	**-1.8**	**-1.3**	**-1.7**	**-2.4**	**-2.4**	**-2.4**	**-2.6**
Terms of Trade (% qoq)	-2.7	-9.4	-1.2	**-0.6**	**4.8**	**3.9**	**4.0**	**0.3**	**-0.2**	**-0.8**
Terms of Trade (% yoy)	-5.0	-13.5	-13.7	**-13.4**	**-6.7**	**7.0**	**12.6**	**13.6**	**8.1**	**3.3**

	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Retail Sales (% mom)	0.6	0.1	-0.5	1.2	0.2	0.1	0.8	0.0	..	..
Retail Sales (% yoy)	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.3	..	..
Credit Card Billings (% mom)	-0.4	0.2	0.1	1.3	-0.7	0.2	0.8	-1.2	1.5	..
Credit Card Billings (% yoy)	-2.4	-2.0	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.6	..
Car Registrations (% mom)	-1.8	6.1	7.1	-2.9	7.9	0.3	2.2	6.2	-0.5	-0.7
Car Registrations (% yoy)	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4
Building Consents (% mom)	3.5	-9.5	5.2	2.2	5.6	12.1	0.5	-3.4	-2.9	..
Building Consents (% yoy)	-22.8	-24.4	-16.5	-9.1	-11.7	26.7	20.4	22.9	35.2	..
REINZ House Price (% yoy)	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7	..
Household Lending Growth (% mom)	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	0.2	..
Household Lending Growth (% yoy)	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6
NBNZ Business Confidence	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1
NBNZ Own Activity Outlook	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9
Trade Balance ($m)	906.1	-331.1	-177.6	-716.6	-561.5	-501.5	-275.4	-32.0	269.1	..
Trade Balance ($m annual)	-2994	-3110	-2491	-2360	-1669	-1176	-858	-549	-178	..
ANZ World Commodity Price Index (% mom)	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4	3.8
ANZ World Commodity Price Index (% yoy)	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	48.6
Net Migration (sa)	2480	1620	2450	1600	1820	2160	1730	1720	1950	..
Net Migration (annual)	11202	12515	14488	15642	17043	18560	20021	21253	22588	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Dec-09	Jan-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.723	0.701	0.695	0.680	0.670	0.650	0.640	0.640	0.640	0.650
NZD/AUD	0.807	0.793	0.766	0.782	0.779	0.765	0.780	0.810	0.831	0.867
NZD/EUR	0.505	0.506	0.510	0.504	0.504	0.500	0.500	0.508	0.516	0.533
NZD/JPY	67.24	63.28	62.91	61.20	61.64	61.10	61.44	62.72	64.00	65.00
NZD/GBP	0.448	0.439	0.460	0.430	0.427	0.419	0.413	0.416	0.416	0.428
NZ$ TWI	66.3	65.0	64.4	63.4	63.1	62.1	62.0	63.0	63.8	65.6
INTEREST RATES	Dec-09	Jan-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.00	4.75	5.25
NZ 90 day bill	2.80	2.77	2.70	2.80	3.20	3.70	3.80	4.60	5.20	5.60
NZ 10-yr bond	5.81	5.62	5.74	5.70	5.60	6.00	6.20	6.40	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.25	0.25	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25	5.25
AU 3-mth	4.28	4.38	4.21	4.80	4.90	5.00	5.00	5.10	5.60	5.60

	5 Feb	1 Mar	2 Mar	3 Mar	4 Mar	5 Mar
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.76	2.70	2.68	2.69	2.69	2.69
NZGB 11/11	3.84	3.69	3.69	3.67	3.68	3.67
NZGB 04/13	4.59	4.50	4.50	4.45	4.44	4.43
NZGB 12/17	5.53	5.48	5.48	5.44	5.45	5.44
NZGB 05/21	5.86	5.76	5.76	5.73	5.75	5.74
2 year swap	4.24	4.14	4.14	4.11	4.09	4.09
5 year swap	5.24	5.14	5.12	5.09	5.07	5.07
RBNZ TWI	64.0	64.7	64.8	64.4	63.7	63.7
NZD/USD	0.6889	0.6984	0.6978	0.6973	0.6902	0.6881
NZD/AUD	0.7938	0.7784	0.7752	0.7716	0.7641	0.7637
NZD/JPY	61.77	62.26	62.29	61.86	61.05	61.39
NZD/GBP	0.4377	0.4606	0.4671	0.4634	0.4578	0.4568
NZD/EUR	0.5025	0.5135	0.5154	0.5114	0.5044	0.5059
AUD/USD	0.8679	0.8972	0.9002	0.9037	0.9033	0.9010
EUR/USD	1.3709	1.3601	1.3538	1.3635	1.3683	1.3601
USD/JPY	89.66	89.15	89.27	88.72	88.45	89.22
GBP/USD	1.5740	1.5164	1.4940	1.5048	1.5075	1.5062
Oil (US$/bbl)	73.13	79.72	78.71	79.62	80.91	80.21
Gold (US$/oz)	1065.40	1116.75	1116.07	1132.95	1136.48	1133.05
Electricity (Haywards)	7.28	9.72	9.38	8.83	9.35	10.89
Milk futures (US$/contract)	108	107	107	107	107	108
Baltic Dry Freight Index	2715	2760	2792	2911	3121	3242

IMPORTANT NOTICE

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

IMPORTANT NOTICE

- 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.

This document is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 1177 Avenue of the Americas, New York, NY 10036 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this document. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

This document has been prepared by ANZ National Bank Limited. ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 http://www.anz.co.nz e-mail ecnmcs@anz.com