

Market Focus

New Zealand

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DAIRY WHIP

NZ Economics Team:

Cameron Bagrie

Chief Economist

Telephone: +64 4 802 2212

E-mail: bagriec@anz.com

Khoon Goh

Senior Markets Economist

Telephone: +64 4 802 2357

E-mail: gohk@anz.com

Philip Borkin

Economist

Telephone: +64 4 802 2199

E-mail: borkinp@anz.com

Steve Edwards

Economist

Telephone: +64 4 802 2217

E-mail: edwards1@anz.com

Kevin Wilson

Rural Economist

Telephone: +64 4 802 2361

E-mail: wilsonk1@anz.com

Page 2: Economic overview

- > We continue to back a late and aggressive strategy for the RBNZ, as opposed to early and gradual. The lesson from previous cycles is simple: when you need to move, get back to neutral quickly, then reassess. With huge divergences opening up across leading and lagging data, it is sometimes useful to step back and remember that there is more than one way to skin a cat. That is, we expect (need) other mechanisms to assist monetary policy over the coming cycle. But in the absence of such mechanisms, the risk is building that the RBNZ has to lift rates in March and not by 25 basis points.

Page 5: Economic comment – Fonterra’s updated forecast

- > The lift in Fonterra’s 2009/10 payout forecast to \$6.05/kg ms is a positive result for the industry and will help to further alleviate the considerable stresses faced by many. It may see some modest lift in spending across rural regions. However, we suspect that de-leveraging will still be a major theme, but in a much more orderly fashion.

Page 6: Economic comment – monthly inflation gauge

- > Our monthly inflation gauge shows an easing in domestic inflation pressures, despite the official CPI data indicating price stickiness. Our gauge, along with soft wage inflation trends, point to further declines in non-tradable inflation ahead.

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- > The Fonterra announcement will overshadow the weak labour market data, putting a bid in the market. However, we do not expect the market to push aggressively for a January hike again, though pricing will settle for March. Rates look set to range trade in the week ahead.

Page 8: Currency strategy

- > The NZD was ripe for a correction last week yet it failed to move lower. In fact, we start this week higher and looking for further gains as the lift in Fonterra’s payout forecast surprised many with the magnitude. Despite the comments from the RBNZ Governor, we see the NZDAUD consolidating around current levels.

Page 9: Currency comment – effective exchange rate update

- > It was again the dairy and forestry sectors benefiting from higher global commodity prices, in excess of the rise in the NZD, that saw their real commodity adjusted real exchange rates fall in October.

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ECONOMIC OVERVIEW

We continue to back a late and aggressive strategy for the RBNZ, as opposed to early and gradual. The lesson from previous cycles is simple: when you need to move, get back to neutral quickly, then reassess. With huge divergences opening up across leading and lagging data, it is sometimes useful to step back and remember that there is more than one way to skin a cat. That is, we expect (need) other mechanisms to assist monetary policy over the coming cycle. But in the absence of such mechanisms, the risk is building that the RBNZ has to lift rates in March and not by 25 basis points.

What's ahead?

- > **October REINZ House Sales** (circa 11 November). The average value of weekly RBNZ loan approvals suggests that house prices are continuing to recover. Turnover numbers are likely to be around levels experienced over the past six months, and the median days to sell should remain relatively low.
- > **RBNZ's November Financial Stability Report** (Wednesday 0900 NZDT). The RBNZ are likely to again acknowledge that NZ's financial system, compared with international counterparts, has come through the past 24 months in reasonable shape, although not without its risks.
- > **September Retail Trade Survey** (Thursday 1045 NZDT). Another modest rise in spending is expected in the month. Volume growth in the quarter, however, will likely be subdued and we expect a flat result.

What's the view?

You have to admire the RBNZ Governor's determinedness to get the market on his side.

For the third consecutive week, Governor Bollard has been in the headlines, this time delivering a speech titled *"NZ is not Australia, but could be their lucky neighbour"*. While the full speech was not made public (and would have undoubtedly had some discussion on the positive longer-term story for NZ), you can get a pretty good idea from the phrase *"If financial markets can't see the differences [between the NZ and Australian economies], they will eventually lose money, and it will hurt the New Zealand economy"*.

It now appears that after being unable to influence the NZDUSD, the NZDAUD is in his sights. With Australia being a major destination for NZ's manufactured and services exports, a lower cross would undoubtedly assist a large portion of the export sector. But his comments should probably not just be limited to the currency

market. The interest rate market continues to thumb its nose at RBNZ rhetoric by continuing to expect the RBNZ to follow on the heels of the RBA and begin tightening monetary policy early next year (the market is almost fully priced for a 25 basis point hike in March).

Two schools of thought on central banks are emerging. The first is move early, but go slow and steady. The second is to go late and more aggressively. The RBA is obviously in the former camp, while we believe the RBNZ is in the latter. You can argue until you are blue in the face about the pros and cons of each. But apart from the obvious economic differences and the reality that economies that have experienced deep downturns will be forced to run the latter policy, we think the RBNZ has learnt the one lesson from the two previous cycles. **The lesson is pretty simple: when you need to move, get back to neutral quickly, then reassess.** The key here is getting back to neutral (i.e. removing expansionary monetary policy) as opposed to moving aggressively to a restrictive stance.

In so far as the data outturns are concerned, there is something for everyone. Hawks can point to a recovering housing market (although, at present, credit growth remains subdued) and commodity prices (particularly dairy) that are rising strongly. Today's increase in the dairy payout forecast to \$6.05/kg ms from \$5.10 will alleviate a lot of stress across the dairy sector and puts another \$1.2 billion into the economy. Strictly speaking we still think pressure on the sector to de-leverage will dominate, so the actual impact will not be as large (see page 5 for more details). But there is clearly an equivalent risk that old bubble-creating behaviours emerge, as we seem to be seeing in the residential housing market. Conversely, June quarter unemployment rate and hours worked figures point to a weak economy, with widening as opposed to narrowing capacity. Weaker fiscal numbers (tax revenue) reinforce that fiscal policy needs to wind down the stimulus to the economy in order for the Government's fiscal position to improve, if the next generation is not going to be saddled by debt.

At times like this – when major divergences are opening up – it is useful to remember that there is more than one way to skin a cat. The OCR is a blunt instrument and we are in no doubt other measures are going to be introduced over the coming years as monetary policy seeks more "mates" – including the interaction with fiscal policy. In terms of the two main "surprises", namely the dairy sector and housing, the former will face different capital lending requirements at some stage, which means higher lending margins and also some form of regulatory mechanism to internalise the negative externality it imposes on

our environment. The “better” the outlook, the closer these changes are. Housing in some way or form will feature in terms of the recommendations out of various review groups and taskforces that the Government have in place and that are all due to report back before the end of the year. It may not be a capital gains or land tax that is taken up for “political reasons”. But you can’t have an investment class such as housing, which is NZ’s biggest, and expect the Government to continue giving that investment class an aggregate tax refund, which is the current absurdity! The rules will change, either be it through depreciation rates, eliminating various deductibilities or some other tax modifications. It’s all part of fostering changes across the economy, and we are in no doubt various structural modifications will be influential in so far as how much work monetary policy has to do.

In the absence of such changes, the risk is that we go back to the behaviours of old, familiar bubbles form, the rebalancing process is stymied and the OCR once again becomes the sledgehammer.

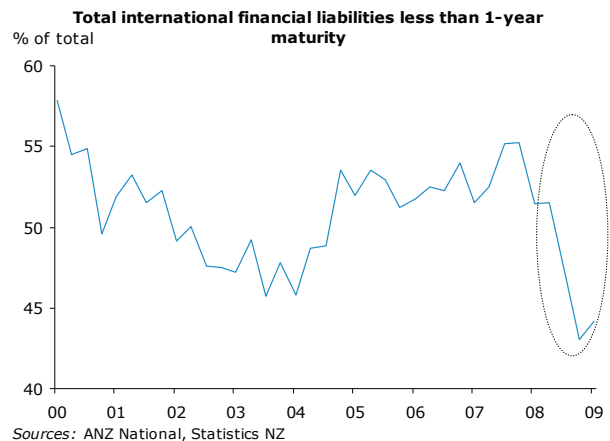
In fact, in the absence of such changes, the risk is that the RBNZ moves in March, and not by 25 basis points. This is a view we are starting to have a lot of sympathy for and will be having a long think about over the week. Maintaining our core view will depend greatly on our assessment as to whether we think such structural changes will eventuate. Also how the key Christmas period is shaping up. January and February are periods where firms are short on cash-flow so a lot need stronger Christmas trading.

Looking towards this week, REINZ housing data for October should continue to show solid activity. Barfoot & Thompson Auckland house sales data last week showed a further lift in the number of house sales (seasonally adjusted), a still tight listings situation and prices continuing to rise. These themes will also likely be present in the REINZ numbers.

We suspect the RBNZ’s Financial Stability Report (FSR) will repeat recent messages of the NZ financial system being reasonably sound – although not without its risks.

Compared with many international counterparts (and putting aside some well documented issues in the local non-bank financial sector), the NZ financial system has come through the past 24 months in reasonable shape. One of the concerns that the RBNZ had prior to (and during) the financial crisis was surrounding the maturity profile of NZ banks’ international funding and how this was largely targeted at the short-term. One notable development of late has been the reduction in NZ’s international financial liabilities (we suspect banking sector driven) with terms of less than 1 year.

Obviously the financial crisis itself would have forced this change. But we suspect the RBNZ’s new liquidity requirement for domestic banks is also playing a role. One theme we also see getting plenty of discussion within the FSR will be around the ongoing need for de-leveraging for households and parts of the rural sector.



Finally, retail sales should post a modest gain in the September month, but show pretty subdued quarterly volumes. Following the bounce in core retail spending of 1.2 percent in August, we expect a more modest 0.5 percent rise in September. This continues the trend of retail spending slowly beginning to stabilise and tick higher again as confidence improves. In terms of the headline figures, a 0.5 percent increase is also expected with motor vehicle retailing also starting to recover off an extremely low base, partially offset by lower petrol prices. But the quarterly volumes are likely to highlight what is still a pretty subdued backdrop. We expect real spending to be flat in the quarter, and the risks actually appear for a small fall if the deflator comes in larger than we envisage.

Internationally, the Australian NAB Business Confidence survey and October labour market data will be key focal points. The latter, in particular, is likely to reinforce the fact that “NZ is not Australia”, with NZ’s labour market considerably weaker than across the Tasman. Further a field, Euro-zone Q3 GDP as well as a number of Federal Reserve officials speaking will get plenty of attention.

Recent local data...

- > **Labour Cost Index (September quarter):** Private sector ordinary time wage and salary rates rose 0.4 percent in the quarter, taking annual growth to 1.9 percent.
- > **Quarterly Employment Survey (September quarter):** Total gross earnings rose 1.8 percent in the quarter, taking annual growth to 1.6 percent. In seasonally adjusted terms,

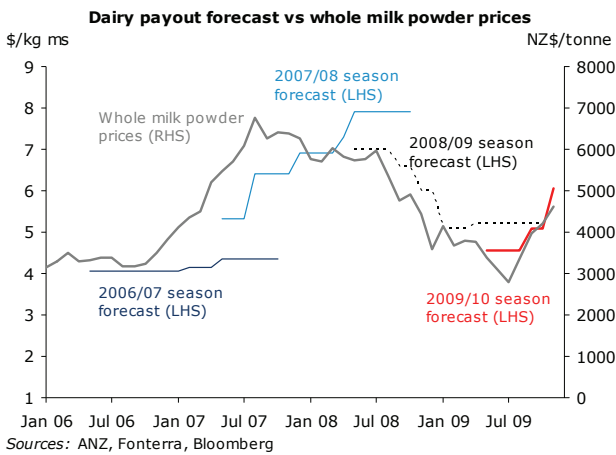
total paid hours rose 0.2 percent, while filled jobs fell 0.8 percent.

- > **ANZ Commodity Price Index (October):**
The World Price Index rose 4.6 percent in the month. However, a higher NZD saw these gains wiped out and the NZD Index fell 0.4 percent.
- > **Fonterra DairyTrade auction results:**
Wholemilk powder prices rose 13.7 percent to US\$3,437/tonne.
- > **Barfoot & Thompson Auckland house sales (October):** In seasonally adjusted terms, the number of house sales rose 2.0 percent, available listings fell 1.9 percent, while the average sale price rose to \$544,745 from \$514,890 in September.
- > **Financial Statements of Government for three months to September:** The core operating balance (or OBEGAL) was a \$2.0 billion deficit – around \$0.9 billion worse than forecast. This was largely driven by weaker than expected tax revenue.
- > **Household Labour Force Survey (September quarter):** Employment fell 0.8 percent, hours worked fell 0.7 percent and the unemployment rate rose 0.5ppts to 6.5 percent.

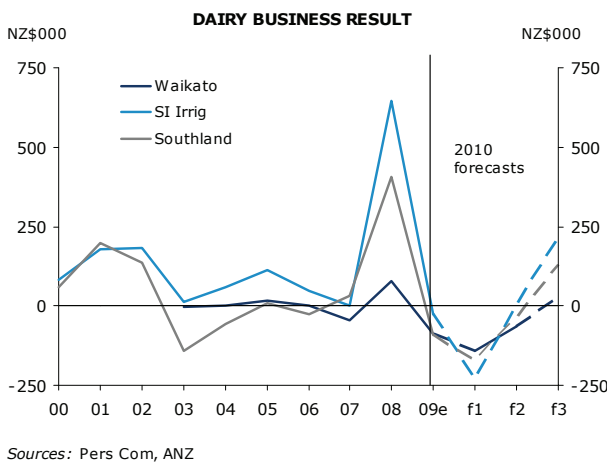
FONTERRA'S UPDATED FORECAST

The lift in Fonterra's 2009/10 payout forecast to \$6.05/kg ms is a positive result for the industry and will help to further alleviate the considerable stresses faced by many. It may see some modest lift in spending across rural regions. However, we suspect that de-leveraging will still be a major theme, but in a much more orderly fashion.

This morning, Fonterra announced a revised forecast payout for the 2009/10 season of \$6.05/kilogram milk solids (kg ms), up \$0.95 from the previous forecast of \$5.10 in September. This is very positive news and puts most dairy farms back into the black on a profit basis. We estimate that this lift in the payout is equivalent to around \$1.2 billion or 0.7 percent of GDP.



The business return (BR) equals gross farm profit less total costs including farm working expenses, depreciation, interest plus drawings. On the farm, the revised third forecast (f3 in the chart below) sees BR for 2009/10 become positive again. Earlier BR forecasts for 2009/10 had quite serious negatives.



The Fonterra announcement notes "how much volatility there is in the market". This needs to be kept in mind with nine months of the financial year left to run.

A return to profitability will markedly reduce stress levels within the industry, but may not solve all problems. Cash flows will be torn between holding cost down to the budgeted levels, reducing debt and minimising the large swings in income tax.

Note that the forecast is "available" for payout. The distributable profit (value add or value return) component of the forecast is reduced from \$0.50/kg ms to \$0.35/kg ms. This will reduce the short-term attraction that Fonterra's proposed capital restructuring might have had to Shareholders. A lower capital contribution from Shareholders is likely to be captured by a larger retention than might have been the case. The capital has to come from somewhere!

Budgets have farm cost screwed down tight. Many have been surprised how much cost can be taken out and still leave the business sustainable. There will be a temptation to take the foot off the brake, but overdraft levels will hold that temptation in check.

In fact, we expect de-leveraging will remain a major theme. Total agricultural debt to registered banks has increased by 14 percent from \$40.5 billion to \$46.0b over the past year. The effective increase is greater as credit balance fell by \$1.4b from \$6.7b to \$5.3 over the same period i.e. net debt increased by \$6.9b. An estimated \$4b of the increase could be attributed to the dairy sector. Increased working capital requirements were high as a consequence of carryover effects of the drought and the lower cash flow from milk payments. \$4b is around one third of the grossed up forecast income from the revised forecast. Debt reduction will be uppermost on many dairy farmers' minds.

The weather will also have an influence on farmer confidence and where the money actually goes. The dairy season started well after a cold winter but another cold period in late September through all of October dented peak milk flows, but not seriously. Total production targets could still be reached given an 'average' summer and autumn.

The dynamics of the land market will also be interesting. Dairy farms may become a little easier to sell. However, the less than favourable short-term outlook for sheep and beef farms, the level of debt held by some within that sector and the number of "name" properties for sale will keep the pressure on.

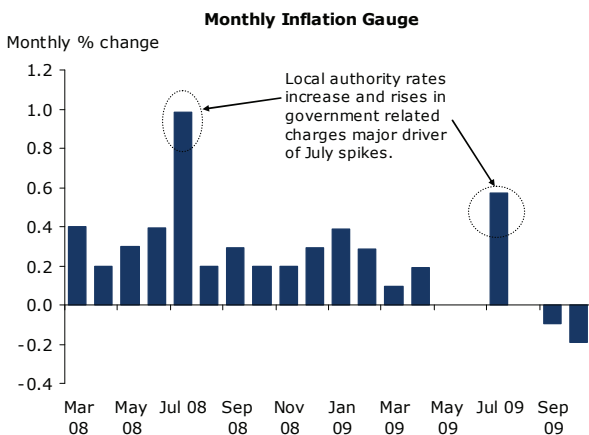
The upshot

The increased payout forecast is a real positive and will allow a more orderly, but still necessary, de-leveraging process in the dairy sector.

MONTHLY INFLATION GAUGE¹

Our monthly inflation gauge shows an easing in domestic inflation pressures, despite the official CPI data indicating price stickiness. Our gauge, along with soft wage inflation trends, point to further declines in non-tradable inflation ahead.

The strong official Q3 CPI data, released mid last month, was a surprise to us, particularly the elevated non-tradable CPI print. Our monthly inflation gauge had been pointing to a drop off in domestic inflation pressures, and the latest reading for October (showing a 0.2 percent decline in the month, following the 0.1 percent fall in September) suggests this easing trend remains in place.



Source: ANZ

Based on our gauge, there has been a notable drop off in domestic inflation pressure over the second half of this year, apart from the July 2009 spike which was driven by increases in local authority rates and other government related charges. There are still price increases evident in the services sector, particularly for health services and other professional services. But our survey detects ongoing price declines in other areas which more than offset the price rises over the past two months.

Rent data from the Department of Building and Housing continue to show flat readings, which is at odds with the pick-up in housing market activity. Median rents have hovered between \$290 to

¹ Our monthly inflation gauge is intended to provide a timely indication of domestic inflation trends. For simplicity, we have limited ourselves to a domestic or non-tradable inflation measure. It should be noted that our monthly inflation gauge will not exactly mirror the official non-tradable CPI due to coverage and methodological issues. Our main priority is to come up with a gauge that is timely and able to provide an indication of domestic inflation trends. This will allow us to assess whether inflation pressures remain, or whether they are starting to ease. Our gauge, however, is designed to be as comparable as possible to the official Statistics NZ series. Note that our gauge is still in the experimental stages, and is subject to further refinements.

\$300/week over the past two years. Based on this, we can expect the rental CPI component, which has a 14.5 percent weight in the non-tradable CPI index, to continue easing in the coming quarters as those coming off existing rent contracts are in better position to lock in similar or lower rents.

Our modelled construction cost indicator still show weakness. But forward looking indicators suggest the trough in construction cost may be near. House sales, which tended to be a good lead indicator, have picked up in recent months. In addition, pricing intentions for the construction sector from the latest National Bank *Business Outlook* survey turned positive in October, following negative reads in the previous nine months.

While our inflation gauge was pointing to soft domestic inflation pressures, the official non-tradable CPI reads in Q2 and Q3 came in much stronger. But if our gauge is to be believed, the underlying tone of domestic inflation pressure is indeed easing, especially if you discount a number of "one-offs". With wage inflation coming off the boil quickly, it does suggest that we could see non-tradable inflation continue to ease over the next few quarters, the Q3 upside surprise aside. The proof will come in the Q4 reading due early next year. Ongoing moderating in domestic inflation will be important in allowing the RBNZ to keep to their "on hold until the second half of 2010" stance on rates.

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Feb-08	1000			
Mar-08	1004	0.4		1.1
Apr-08	1006	0.2		
May-08	1009	0.3		
Jun-08	1013	0.4	0.9	0.9
Jul-08	1023	1.0		
Aug-08	1025	0.2		
Sep-08	1028	0.3	1.5	1.3
Oct-08	1030	0.2		
Nov-08	1032	0.2		
Dec-08	1035	0.3	0.7	0.8
Jan-09	1039	0.4		
Feb-09	1042	0.3		
Mar-09	1043	0.1	0.8	0.7
Apr-09	1045	0.2		
May-09	1045	0.0		
Jun-09	1045	0.0	0.2	0.5
Jul-09	1051	0.6		
Aug-09	1051	0.0		
Sep-09	1050	-0.1	0.5	1.0
Oct-09	1048	-0.2		

INTEREST RATE STRATEGY

The Fonterra announcement will overshadow the weak labour market data, putting a bid in the market. However, we do not expect the market to push aggressively for a January hike again, though pricing will settle for March. Rates look set to range trade in the week ahead.

Market themes...

- > Weak labour market data reinforces the RBNZ's "on hold until second half of 2010" stance.
- > But Fonterra's big upward revision to their payout forecast will keep the market sticking to their earlier tightening cycle view.

Review and outlook

The market still appears to be long and positioning became very clear when the market failed to rally on a weak unemployment read and a dovish speech from RBNZ Governor Bollard on the same day.

While there was a rush to buy the futures strip post the unemployment release, the rally ran into heavy selling pressure and the market backed away quickly. This positioning has made the market thin and fairly illiquid. Participants who are backing the RBNZ by staying long are in effect playing the accrual trade as new receivers are rare. After recent squeezes in the market, receivers are very selective on entry levels. With many of these positions looking for quick returns and potentially not prepared to sit tight through volatility and earn the carry, the market is still prone to a squeeze. While the 2-year sporadically did trade below 4.45 percent, this now seems to be where growing payside interest sits.

The market steepened further and flattener trades were unwound as the cost of carry becomes prohibitive. Steepening moves in both US and Australia have also seen momentum building to steepen the curve. There has been good activity in 2/5's moving out from +112 to +117bps.

In terms of flow we have seen very little payside in mortgage flows. Corporate flow has been more active with some taking advantage of the recent rally and paying swap while others take profit on the recent steepening, pulling back swap coverage to shorter dates. Offshore receive interest has been quieter with a Uridashi issued last week for \$164m in 2-year but generally other flows have been lighter with less enquiry.

Fonterra's announcement this morning should support the payside in short end swap, as will the expected release of REINZ housing data, which should show good activity and small price gains. In

Australia, the October employment data looks to be a deciding factor in whether the RBA hikes again in December. But while we do not expect this week's dataflow to lead to another big squeeze in the NZ swaps market, any attempt to rally on weak data is likely to find payside interest quickly.

Borrowing strategies we favour at present

The RBNZ remains committed to keeping rates unchanged until the second half of next year, giving borrowers some time to continue benefiting from lower floating rates. We still favour using caps to hedge as the market continues to run with an earlier tightening cycle than what the RBNZ flagged. Another alternative strategy is to use swaptions.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	RBNZ says in plain language that market pricing is wrong and they are on hold until the second half of 2010.
NZ data	↔/↑	Labour market may be weak, but Fonterra has announced a big increase to the forecast payout.
Fed Funds / front end	↔	Fed still committed to low for an extended period.
RBA	↔/↑	Still looking at gradual moves, with December very much data dependent.
US 10 year	↔	Still struggling to break through the 3.5% level.
NZ swap curve	↔	Recent steepening moves may pause following Fonterra announcement.
Flow	↔	Mortgage flows quiet, corporates more active and using recent rally.
Technicals	↔/↑	4.45% in 2-year attracting plenty of payers.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Dec-09	+2	+2
Thu 28-Jan-10	+6	+4
Thu 11-Mar-10	+22	+20
Thu 29-Apr-10	+73	+60
Thu 10-Jun-10	+102	+96
Thu 29-Jul-10	+139	+129
Thu 16-Sep-10	+171	+160

Trading themes we favour at present

The market is likely to keep looking for earlier hikes than what the RBNZ flagged, especially in light of the big upward revision to the dairy payout. We see swaps very much range trading in the near-term, and continue to play the accrual trade.

CURRENCY STRATEGY

The NZD was ripe for a correction last week yet it failed to move lower. In fact, we start this week higher and looking for further gains as the lift in Fonterra's payout forecast surprised many with the magnitude. Despite the comments from the RBNZ Governor, we see the NZDAUD consolidating around current levels.

Market themes...

- > US non-farm payrolls were again weak, but the USD didn't appreciate.
- > Equities lead the currency still.
- > Fonterra, at \$6.05/kg ms gives farmers a lifeline. But it will also support the NZD.

Review and outlook...

Go figure. Local labour market data last week was poor, with a higher unemployment rate and another drop in hours worked. The RBNZ Governor also stressed how we differ from Australia and delivered another blunt phrase stating "*If financial markets can't see the differences [between the NZ and Australian economies], they will eventually lose money, and it will hurt the New Zealand economy*". But despite all this, the NZD traded higher all week. The NZD started last Monday morning at 0.7080 and begins this week above 0.7300.

The increase in the Fonterra payout forecast is obviously positive news. We see it as reducing stresses within the industry and allowing any adjustment to take place in a much more orderly fashion. De-leveraging will remain a key theme as previous high debt levels are pared. This will ensure that the downstream impacts are not as large as they could be. Yet it was the magnitude of the upgrade that was the biggest surprise (we suspect many were expecting a lift to around \$5.50/kg ms) and sees the NZD start this week well bid.

Looking offshore, the G20 statement made no specific comment on currencies. There was some speculation that specific comments would be made in regards to wanting a more flexible exchange rate regime in China. However, this never transpired and may be a signal to markets to return to 'business as usual' of using the USD as a funding currency. Equity market sentiment will continue to be the major driver of this theme.

Last week, the NZD was ripe for a major correction. But the market ground higher. The NZD has now had a break out to the topside and may now approach 0.7500 again as we consolidate

the recent correction. Any dip to 0.7280 will likely see strong buying interest emerge.

The NZDAUD cross should consolidate around current levels with a base seen now at 0.7880 and a top at 0.8020.

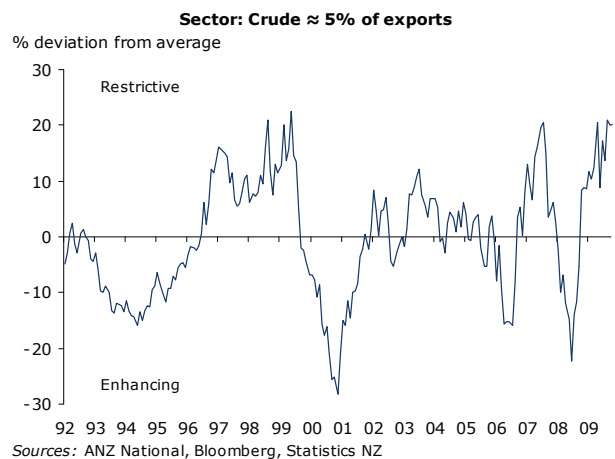
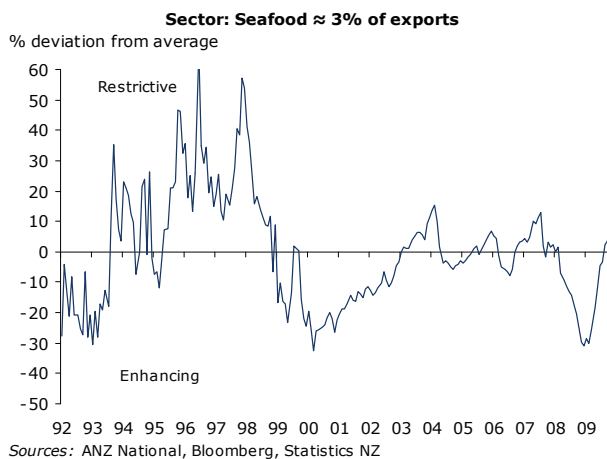
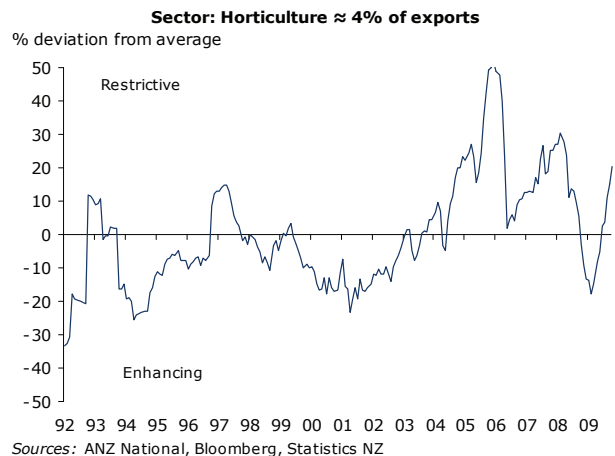
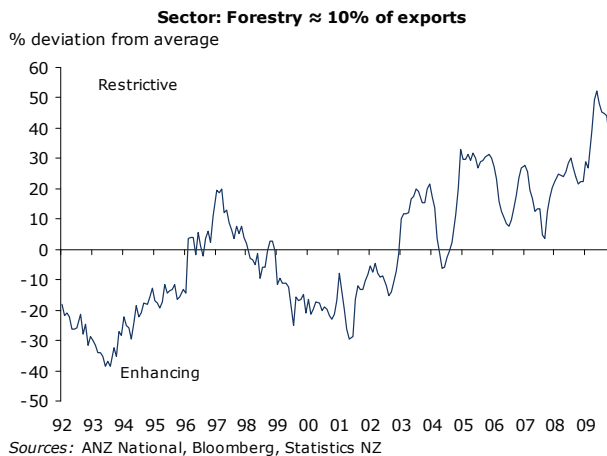
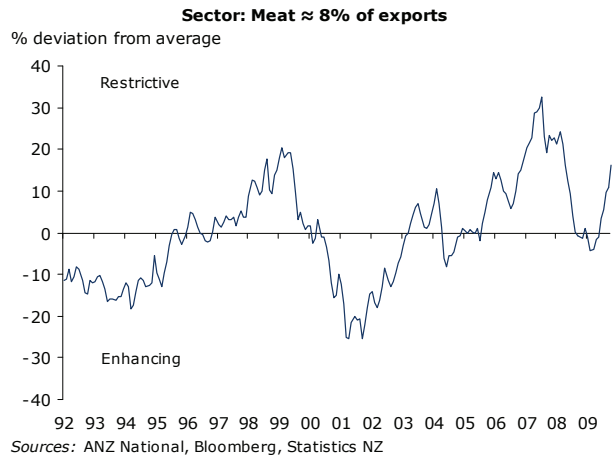
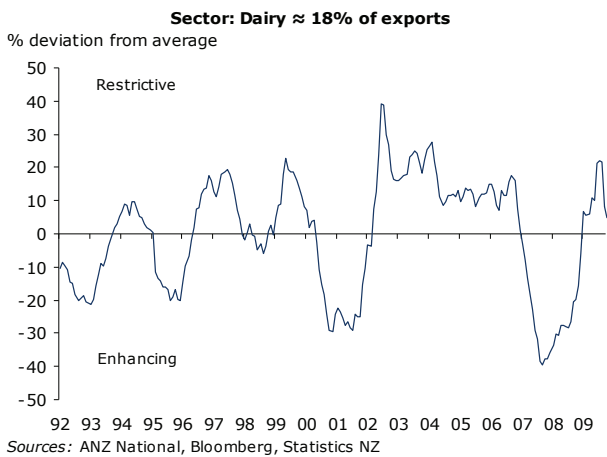
NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both softs and hards performing well.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔	Now in consolidation mode, despite comments from RBNZ Governor Bollard.
Sentiment	↔	The Fonterra announcement should see people forget about the weak NZ labour market for the time being.
Other	↔/↓	Asian central banks underweight Australian asset.
On balance	↔	In consolidation mode.

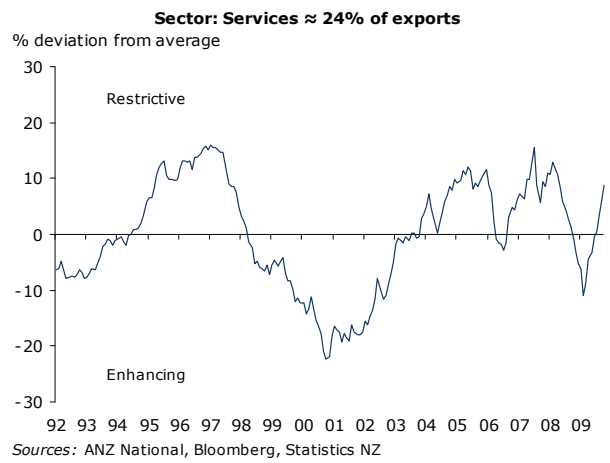
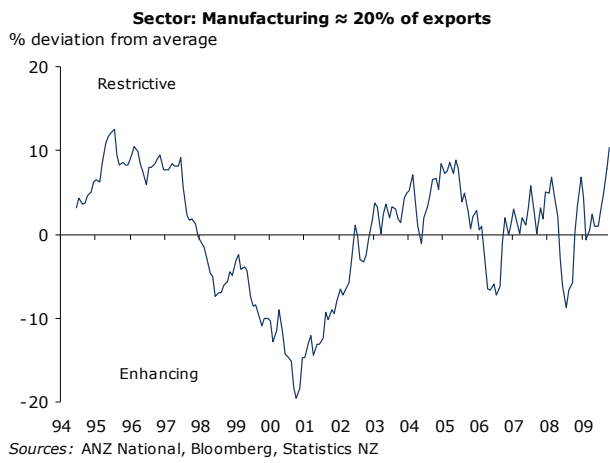
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔/↓	Above cyclical fair value estimates.
Yield	↔	Are we lower for longer?
Commodities	↔/↑	Magnitude of Fonterra forecast lift a big surprise.
Risk aversion	↔	Still watching equity markets.
Partial indicators	↔/↓	Inventories being rebuilt, but what about demand?
Technicals	↔/↑	Support at 0.7280.
AUD	↑	First to hike in G20.
Sentiment	↔	G20 made no mention of FX. Does this signal a return to USD selling?
Other	↔/↑	ECB looks to be starting exit strategies. Fed still behind.
On balance	↔/↑	Tried to break lower last week, but couldn't do it.

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.

It was again the dairy and forestry sectors benefiting from higher global commodity prices, in excess of the rise in the NZD, that saw their real commodity adjusted real exchange rates fall in October. The former has fallen sharply over the past two months, to now be near neutral levels. For the forestry sector on the other hand, it remains a case of prices remaining in restrictive territory. The majority of other sectors saw their effective exchange rates rise over the month, largely as a result of a higher NZD. For all sectors, with the exclusion of the seafood (and dairy) sector, conditions remain quite restrictive.





DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
9-Nov	JN	Official Reserve Assets (Oct)	-	\$1053.0B	12:50
	AU	ANZ Job Advertisements (Oct) - mom	-	4.4%	13:30
		Home Loans (Sep)	3.0%	-0.6%	13:30
		Investment Lending (Sep)	-	7.6%	13:30
		RBA Assistant Governor Lowe Speaks in Perth	-	-	16:20
	GE	Trade Balance (Sep)	11.3B	8.1B	20:00
		Current Account (Sep)	9.3B	4.6B	20:00
		Imports (Sep) - mom	0.9%	0.5%	20:00
		Exports (Sep) - mom	2.5%	-2.8%	20:00
	EC	ECB's Stark Speaks in Tuebingen, Germany	-	-	20:15
		Sentix Investor Confidence (Nov)	-12.0	-12.6	22:30
10-Nov	GE	Industrial Production (Sep) - mom	1.0%	1.7%	00:00
		Consumer Price Index (Oct F) - mom	0.1%	0.1%	20:00
		ZEW Survey (Econ. Sentiment) (Nov)	55.0	56.0	23:00
		ZEW Survey (Current Situation) (Nov)	-70.0	-72.2	23:00
	NZ	NZ Electronic Card Spending (Oct)	-	0.7	10:45
	AU	RBA Official John Broadbent Speaks in Sydney	-	-	12:00
		NAB Business Conditions (Oct)	-	3	13:30
		NAB Business Confidence (Oct)	-	14	13:30
	JN	Adjusted Current Account Total (Sep)	1320.1B	¥1233.6B	12:50
		Money Stock M3 (Oct) - yoy	2.3%	2.2%	12:50
		Bank Lending (Oct) - yoy	1.5%	1.6%	12:50
		Machine Tool Orders (Oct P) - yoy	-	-62.1%	19:00
	UK	RICS House Price Balance (Oct)	28.0%	22.0%	13:01
		Total Trade Balance (Sep)	-£3000M	-£2318M	22:30
		DCLG UK House Prices (Sep) - yoy	-4.9%	-5.6%	22:30
	EC	ZEW Survey (Econ. Sentiment) (Nov)	58.0	56.9	23:00
11-Nov	US	Fed's Lockhart to Speak on US Economic Outlook in Atlanta	-	-	03:15
		IBD/TIPP Economic Optimism (Nov)	49.5	48.7	04:00
		Fed's Yellen Speaks in Phoenix on US Economic Outlook	-	-	04:00
		Fed's Rosengren Speaks in London	-	-	05:15
		Fed's Fisher Speaks in Austin on US Economic Outlook	-	-	13:30
	NZ	RBNZ Financial Stability Report	-	-	09:00
		Food Prices (Oct) - mom	-	-0.7%	10:45
	AU	Westpac Consumer Confidence Index (Nov)	-	121.4	12:30
	JN	Machine Orders (Sep) - mom	4.1%	0.5%	12:50
	UK	Claimant Count Rate (Oct)	5.1%	5.0%	22:30

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Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
11-Nov cont	UK	Jobless Claims Change (Oct)	20.0K	20.8K	22:30
		Average Earnings inc bonus (Sep) - 3m/yoy	1.4%	1.6%	22:30
		BoE Quarterly Inflation Report	-	-	23:30
12-Nov	NZ	Business NZ Publishes Performance of Manufacturing Index	-	-	10:30
		Retail Sales (Sep) - mom	0.4%	1.1%	10:45
		Retail Sales Ex-Auto (Sep) - mom	0.4%	1.2%	10:45
		Retail Sales Ex Inflation (3Q) - qoq	-0.1%	0.4%	10:45
	JN	Domestic CGPI (Oct) - mom	-0.1%	0.1%	12:50
	AU	Consumer Inflation Expectation (Nov)	-	3.5%	13:00
		Employment Change (Oct)	-10.0K	40.6K	13:30
		Full Time Employment Change (Oct)	-	35.4	13:30
		Part Time Employment Change (Oct)	-	5.2	13:30
		Unemployment Rate (Oct)	5.8%	5.7%	13:30
		Participation Rate (Oct)	65.2%	65.2%	13:30
	EC	ECB's Tumpel-Gugerell, Draghi Speak at Conference in Rome	-	-	21:00
		ECB Publishes Monthly Report	-	-	22:00
		Industrial Production (Sep) - mom	0.5%	0.9%	23:00
13-Nov	US	Initial Jobless Claims (w/e Nov-08)	510K	512K	02:30
		Continuing Claims (w/e Nov-1)	5700K	5749K	02:30
		Monthly Budget Statement	-\$150.0B	-\$155.5B	08:00
	EC	ECB's Trichet Speaking in Frankfurt	-	-	08:00
		GDP (3Q A) - qoq	0.5%	-0.2%	23:00
		GDP (3Q A) - yoy	-3.9%	-4.8%	23:00
	NZ	Non Resident Bond Holdings (Oct)	-	72.1%	15:00
	JN	Industrial Production (Sep F) - mom	-	1.4%	17:30
		Capacity Utilization (Sep F) - mom	-	2.3%	17:30
		Consumer Confidence (Oct)	40.5	40.7	18:00
	GE	GDP (3Q P) - qoq	0.8%	0.3%	20:00
14-Nov	EC	ECB's Paramo Speaks in Cordoba, Spain	-	-	01:00
	US	Trade Balance (Sep)	-\$31.8B	-\$30.7B	02:30
		Import Price Index (Oct) - mom	1.0%	0.1%	02:30
		Import Price Index (Oct) - yoy	-5.6%	-12.0%	02:30
		University of Michigan Confidence (Nov P)	71.0	70.6	04:00
		Fed's Evans, Noyer to Speak On Asset-Price Bubbles in Paris	-	-	05:30

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

NEW ZEALAND DATA WATCH

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

Date	Data/Event	Economic Signal	Comment
circa 11 Nov	REINZ House Sales (Oct)	Further house price increases.	The average value of weekly RBNZ loan approvals suggests that house prices are continuing to recover. Turnover numbers are likely to be around levels experienced over the past six months, and the median days to sell should remain relatively low.
Wed 11 Nov (09.00)	RBNZ <i>Financial Stability Report</i>	Risks diminishing?	The RBNZ are likely to again acknowledge that NZ's financial system, compared with international counterparts, has come through the past 24 months in reasonable shape, although not without its risks.
Thu 12 Nov (10.45)	Retail Trade Survey (Sep)	Stabilising	Another modest rise in spending is expected in the month. Volume growth in the quarter, however, will likely be subdued and we expect a flat result.
Mon 16 Nov (10.45)	Producer Price Index (Sep qtr)	A contraction in margins?	Both input and output prices are expected to rise in the quarter, although the former by a greater magnitude suggesting a contraction in non-wage margins.
Mon 23 Nov (10.45)	International Travel and Migration (Oct)	Another gain	The number of New Zealanders permanently departing is likely to remain subdued. However, we expect the level of arrivals to also begin to ease. Another monthly net inflow is expected, but potentially smaller than in recent months.
Thu 26 Nov (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Fri 27 Nov (10.45)	Overseas Merchandise Trade (Oct)	Another deficit	Another monthly trade deficit is expected, which is typical for October months. The level of imports will be important to watch for any signs of a turn in prospects.
Fri 27 Nov (15.00)	RBNZ Survey of Expectations (Dec qtr)	Contained	We expect the 2-year ahead measure of inflation expectations to remain near the current 2.3 percent.
Fri 27 Nov (15.00)	Credit Growth (Oct)	Ongoing de-leveraging	Themes from recent months are likely to be repeated where housing credit growth remains relatively subdued as existing mortgage holders look to pay down debt. Credit growth for business and agriculture will also be soft.
Mon 30 Nov (10.45)	Building Consents (Oct)	Up she goes	Residential consent issuance is likely to continue to rise from what are still very low levels. However, non-residential consent issuance is likely to continue to trend lower.
Thu 3 Dec (15.00)	ANZ Commodity Price Index (Nov)	-	-
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	1.0	1.1	0.5	0.0	0.2	0.1
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	-11.4	-9.5	-6.6	2.6	1.7	0.7

KEY ECONOMIC INDICATORS

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Retail Sales (% mom)	-1.2	0.2	0.0	0.4	0.7	0.0	-0.5	1.1
Retail Sales (% yoy)	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1
Credit Card Billings (% mom)	1.7	1.1	-2.9	2.4	-0.3	0.1	0.2	1.6	-1.0	..
Credit Card Billings (% yoy)	-2.4	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	..
Car Registrations (% mom)	-14.5	-14.6	6.3	-0.6	-2.6	6.2	7.2	-2.6	6.7	0.9
Car Registrations (% yoy)	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8
Building Consents (% mom)	-12.3	11.9	-1.8	11.8	2.8	-9.1	4.0	1.7	3.4	..
Building Consents (% yoy)	-51.1	-39.8	-34.4	-56.5	-23.5	-23.8	-16.7	-8.9	-12.7	..
REINZ House Price (% yoy)	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	..
Household Lending Growth (% mom)	0.2	0.1	0.0	0.2	0.4	0.1	0.3	0.3	0.2	..
Household Lending Growth (% yoy)	3.8	3.1	2.7	2.5	2.5	2.3	2.4	2.3	2.3	..
ANZ-Roy Morgan Consumer Confidence	103.7	97.1	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9
NBNZ Business Confidence	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2
NBNZ Own Activity Outlook	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5
Trade Balance (\$m)	-102	483	438	322	906	-331	-176	-719	-424	..
Trade Balance (\$m annual)	-5405	-5165	-4684	-4070	-2994	-3110	-2490	-2361	-1533	..
ANZ World Commodity Price Index (% mom)	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.6
ANZ World Commodity Price Index (% yoy)	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.6
Net Migration (sa)	870	1640	1720	2080	2610	1690	2480	1610	1800	..
Net Migration (annual)	4538	6160	7482	9176	11202	12515	14488	15642	17043	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Sep-09	Oct-09	9-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.702	0.737	0.734	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.816	0.815	0.796	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.482	0.498	0.493	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	64.2	66.5	65.9	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.430	0.456	0.440	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	64.3	66.4	65.56	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Sep-09	Oct-09	9-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.75	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.77	2.79	2.80	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.82	5.78	5.74	5.60	5.60	5.70	6.00	6.10	6.30	6.50
International	Sep-09	Oct-09	9-Nov-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.29	0.36	0.27	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.25	3.50	3.50	4.00	4.00	4.00	4.00	4.00	4.50
AU 3-mth	3.38	3.68	3.96	3.90	4.40	4.30	4.30	4.30	4.50	5.00

KEY RATES

	6 Oct	2 Nov	3 Nov	4 Nov	5 Nov	6 Nov
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.78	2.78	2.80	2.81	2.80	2.80
NZGB 11/11	4.12	4.27	4.28	4.26	4.26	4.29
NZGB 04/13	4.88	5.05	5.06	5.03	5.03	5.06
NZGB 12/17	5.55	5.69	5.69	5.69	5.73	5.75
NZGB 05/21	5.89	5.99	5.99	5.99	6.03	6.05
2 year swap	4.29	4.49	4.53	4.47	4.45	4.50
5 year swap	5.45	5.64	5.67	5.63	5.62	5.67
RBNZ TWI	66.5	64.7	65.0	64.9	64.6	64.7
NZD/USD	0.7324	0.7182	0.7227	0.7199	0.7193	0.7221
NZD/AUD	0.8360	0.7960	0.7948	0.7983	0.7931	0.7906
NZD/JPY	65.23	64.67	65.23	64.98	65.02	65.44
NZD/GBP	0.4587	0.4366	0.4409	0.4386	0.4356	0.4348
NZD/EUR	0.4983	0.4867	0.4883	0.4889	0.4848	0.4853
AUD/USD	0.8761	0.9023	0.9093	0.9018	0.9070	0.9134
EUR/USD	1.4699	1.4757	1.4801	1.4725	1.4836	1.4878
USD/JPY	89.06	90.05	90.26	90.26	90.39	90.62
GBP/USD	1.5966	1.6448	1.6390	1.6412	1.6514	1.6606
Oil	69.70	77.04	80.29	80.21	80.30	79.64
Gold	1021.65	1044.75	1092.40	1092.40	1088.45	1091.15
Electricity (Haywards)	12.79	2.13	3.11	3.57	3.93	4.69
Milk futures (US\$/contract)	105	118	118	118	118	124
Baltic Dry Freight Index	2441	3185	3247	3295	3335	3393

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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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