Market Focus

New Zealand

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IN SHORT SUPPLY?

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

> The new RBNZ liquidity policy should ensure that competition for local deposits remains intense. The main impact should be felt during the next cyclical upswing via reducing the temptation to fund (and fuel) credit demand via accessing short-term funding. All else being equal this should reduce the need to raise the OCR as far. This week's NZIER *Quarterly Survey of Business Opinion* is expected to mirror the National Bank survey and show confidence bouncing off lows, but with elements of caution in terms of hiring and investment.

Page 5: Economic comment – a shortage of houses?

> There is no shortage of housing across the country. Rising migration and natural population growth mean current consent issuance is not keeping pace with demand, but there is sufficient excess supply from previous years to cover. However, looking at the regional level reveals excess demand intensifying in Auckland, whereas areas outside of the main centres have an overhang of supply.

Page 7: Economic comment – NBNZ *Business Outlook* update

> The June National Bank *Business Outlook* survey continues to show encouraging signs of improvement. Both headline business confidence and own activity readings moved higher, though some of the key gauges still remain at low levels. Our NBBO composite indicator (which has a strong correlation with GDP growth) is still flagging negative annual growth rates, but less so compared to earlier in the year.

Page 9: Interest rate strategy

> The NZ rates market is taking its cues from offshore, and we expect this to continue. We are set for a period of range trading with the RBNZ out of play for some time and the dataflow, both domestic and offshore, lacking a firm direction either way. Interest in NZ bonds should continue to increase as liquidity improves and yields remain at attractive levels.

Page 10: Currency strategy

> Stabilising US sentiment, the July Uridashi maturity profile and returning attention to NZ specifics (such as the dairy sector) has the NZD on the back foot. Technically the NZD looks set to remain under pressure.

Page 11: Currency comment – effective exchange rate update

> With the exception of the forestry sector, which benefited from world price increases exceeding the move higher in the NZD, all the commodity adjusted real exchange rates became more restrictive in June.

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ECONOMIC OVERVIEW

The new RBNZ liquidity policy should ensure that competition for local deposits remains intense. The main impact should be felt during the next cyclical upswing via reducing the temptation to fund (and fuel) credit demand via accessing short-term funding. All else being equal this should reduce the need to raise the OCR as far. This week's NZIER *Quarterly Survey of Business Opinion* is expected to mirror the National Bank survey and show confidence bouncing off lows, but with elements of caution in terms of hiring and investment.

What's ahead?

> **June quarter NZIER Quarterly Survey of Business Opinion** (Tuesday 1000 NZST). We expect headline confidence and domestic trading activity to improve from last quarter's precipitous lows and mirror the trends seen in the NBNZ *Business Outlook*. However, capacity and resource gauges should remain weak.

> **June REINZ House Sales** (circa 10 July). House sales may rebound from last month's fall. However, the days to sell measure should continue to tick lower as available listings ease. This should provide some underlying support to prices.

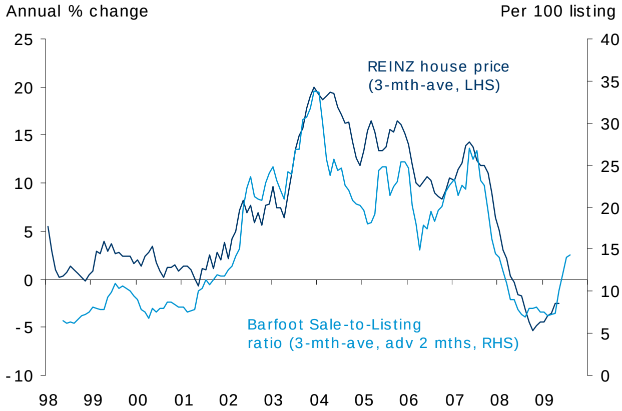
What's the view?

Last week was a relatively busy one, with plenty going on for the local market. In some ways, it is difficult to know where to begin. We'll try to narrow it down to four broad groupings.

First, the data released. While there was plenty, there was really nothing to change our core economic views. Business confidence is recovering off lows, but the movement lacks substance given exceptionally weak profit, employment and investment profiles. These are naturally lagging, but still critical to watch. The economy continues to contract, just at a slower pace and it's clearly a broad sectoral story (refer to the charts on page 7). Trade figures are encouraging in terms of the rebalancing dynamic. Building consents remain awful, but some hope can be gleamed by strengthening house sales, which should support rising consent issuance in H2.

Second, a so-called housing shortage. This discussion is in vogue at present, with plenty of anecdotes. The Barfoot & Thompson June house sales data again confirmed the anecdotes of improved housing market activity and buyer interest. The number of sales rose in the month and is well up on a year ago (although we need to remember that the previous year's level was very low, so year-on-year comparisons can be misleading). At the same time, the number of available listings continues to fall. In seasonally adjusted terms, available listings are down to 5,560. This is from a recent peak in mid-2008 of over 7,300 properties. In many ways this sort of comparison is not relevant. We need to appreciate that the period we have come from was probably the exception as opposed to the rule in terms of how frequently people were swapping and changing houses. But we'll take these numbers as they stand. When combined with rising migration, and building consents remaining at historical lows, there are widespread expectations that the housing market is set to take off courtesy of a shortage.

House Price and Sale-to-Listing Ratio



Sources: ANZ National, Barfoot and Thompson, REINZ

We'll address this on two levels.

> There is no shortage of housing *per se* across the country. Simple static or a one year snapshot of demand (population plus migration) relative to supply (consents) is too simplistic. You need to look at the cumulative picture over a number of years. This is done on page 5, where we note that there is no shortage, although it does not apply across all regions with Auckland in fact facing "excess demand".

> We suspect diminished listing activity is reflective of the broader de-leveraging dynamic across the economy. To that we would also add a still low unemployment rate, which is giving people the time-value option of pausing and consolidating as opposed to forced sales. When you buy a property (as an owner occupier) the tendency is to trade up and typically take on more debt. This is where altered lending appetites and reduced job security could be playing a role. In this environment, the bias is to stay put (the supply side). In practice this effect should influence both supply (listings) and demand (the decision to buy). Hence, we will be paying close attention to prices, which should remain capped if this dynamic is at work.

Third, new RBNZ liquidity requirements. We noted last week that we'd be paying close attention regarding any announcements on liquidity, both in terms of the signal of a growing regulatory breeze around the globe, but also the potential implications for markets. We won't go into extensive details in terms of the design of these new regulations, but broadly speaking, the aim is to reduce economic and banking sector vulnerability – a theme we agree with. The main mechanism is requiring the banks to meet a core funding ratio of 75 percent. This ratio (in broad terms) is defined as wholesale funding greater than one year plus retail funding and Tier 1 capital expressed over total loans and advances. Wholesale funding is defined crudely as anything "non-human" and in excess of $1 million. It doesn't take a genius to work out that there will be behavioural consequences as a result, with retail based funding now more "valuable". We see this sort of dynamic maintaining, if not escalating, intense pressure within the retail deposit market. This will be a win for savers, but of course the flipside to deposit rates are lending rates and what borrowers pay.

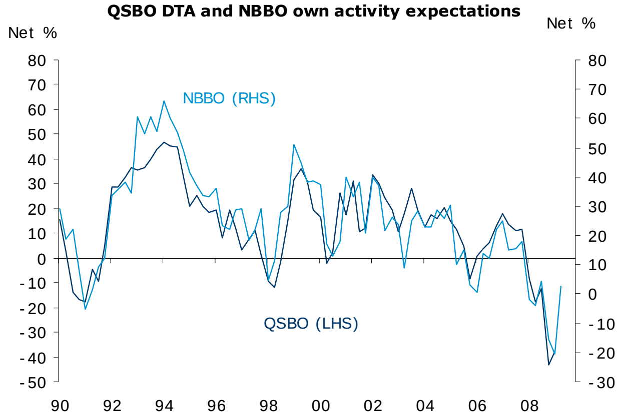
At this stage, we suspect the requirement to gain more term funding and the associated behavioural aspects is likely to see a small movement in retail rates – in the order of 20 basis points over time. On top of this, the 75 percent target (minimum) is likely to mean an 80 to 85 percent target in practice, given normal volatility in components. But the key point here is that monetary policy and central banking is evolving, as it has tended to do every twenty odd years. Regulation is set to play a far more dominant role influencing the business cycle and the real consequence of the policy change will be felt during the upswing, with the policy set to restrain the temptation to fund short-term in order to fuel credit growth as demand picks up. All else equal, this should mean less need to pull the traditional lever – the OCR – as hard.

Fourth and finally, movements in the NZ dollar. Looking at the global economic picture, last week saw renewed concerns regarding the so-called global recovery, particularly with unemployment rates continuing to rise sharply. Equities tracked lower over the week as did commodity prices. This naturally saw the NZD under pressure as risk appetites were reassessed, but clearly positioning was also playing a role. While tempting to see a weaker NZD as a consequence of the global scene, you only need to look at the declines in the NZD/AUD and correcting NZD/EUR and it is clear the story has some NZ specific aspects. Key in that regard are mounting concerns over NZ's dairy sector given the currency and falling dairy prices, with flow-on for the wider economy. This is a factor we expect to weigh heavily going forward (particularly the rural heartland).

Looking to the week ahead, the major domestic event is the NZIER's June *Quarterly Survey of Business Opinion* on Tuesday. Following the weak March quarter GDP numbers that showed the economy in a deeper hole than was widely appreciated, this survey will provide some more flavour for how the economy performed over the June quarter and also early into the September quarter. In particular, whether the economy is closer to regaining forward momentum. The traction gained from interest rate reductions should provide some support to sentiment. But it will be interesting to see the influence of any negative factors such as the flow-on from Fonterra's reduced payout forecast and a stubbornly high currency.

NZIER Q2 QSBO		
Measure	**Our expectation**	**Last**
Headline Confidence	**-10**	-64.6
Domestic Trading Activity (next 3 months)	**-15**	-38.7
Average selling price (next 3 months)	**-5**	-6.4

We expect the numbers to generally mirror recent trends shown by the NBBO. Headline business confidence should recover as respondents "price out" the economic Armageddon scenario that was a concern earlier in the year. Domestic trading activity expectations should also recover, but remain in negative territory, which is consistent with the economy still contracting but at a reduced pace. Resource gauges and the CUBO measure are expected to continue to point to an economy that has significant spare capacity and this should see inflation remain subdued for some time. We will be paying close attention to gauges of the labour market (employment intentions and difficulty in finding labour), and expect them to remain weak. At the margin though, they may not be quite as poor as signalled in the March quarter given that employment intentions from the NBBO have recovered, albeit marginally, of late.



Sources: ANZ National, Statistics NZ, NZIER

The other data anticipated this week is REINZ house sales data for June. Just like the Barfoot numbers discussed above, they may show a rebound in sales volumes. We are also expecting the days to sell measure to fall (given the trend shown in the sale-to-listing ratio) and this should provide some underlying support to prices.

Internationally this week, it is relatively quiet on the data front. The US ISM non-manufacturing survey will be widely watched, but this looks to be the extent of major US data. On the policy front, the RBA and the BoE are both announcing interest rate decisions and both are expected to keep rates unchanged at 3.0 and 0.5 percent respectively. The G8 nations are also meeting later in the week, and in conjunction with a G5 emerging nations meeting occurring at the same time, we wonder if there will be any comments on the US dollar as a reserve currency.

Recent local data…

> **Building Consents Issued (May):** Total residential consent issuance rose by 3.5 percent in the month. However, excluding apartments, consent issuance fell 3.2 percent.

> **Overseas Merchandise Trade (May):** A strong monthly surplus of $858 million was recorded. This takes the annual trade deficit to $3,044 million.

> **NBNZ Business Outlook (June):** Headline confidence and own activity expectations rose and remain in positive territory. However, other activity measures remain weak.

> **ANZ Commodity Price Index (June):** The World Price Index rose by 0.2 percent. However the NZD Index fell 5.0 percent.

> **Barfoot & Thompson Auckland House Sales (June):** Seasonally adjusted house sales rose 7.9 percent. The average house price was $521,791, 0.7 percent down on a year ago.

> **Financial Statements of Government (11 months to May):** An underlying operating deficit (OBEGAL) of $1.2 billion was recorded, $0.4 billion better than forecast.

> **QV House Prices (June):** House prices are down 7.1 percent on a year ago. This compares with -8.1 percent recorded in May.

A SHORTAGE OF HOUSES?

There is no shortage of housing across the country. Rising migration and natural population growth mean current consent issuance is not keeping pace with demand, but there is sufficient excess supply from previous years to cover. However, looking at the regional level reveals excess demand intensifying in Auckland, whereas areas outside of the main centres have an overhang of supply.

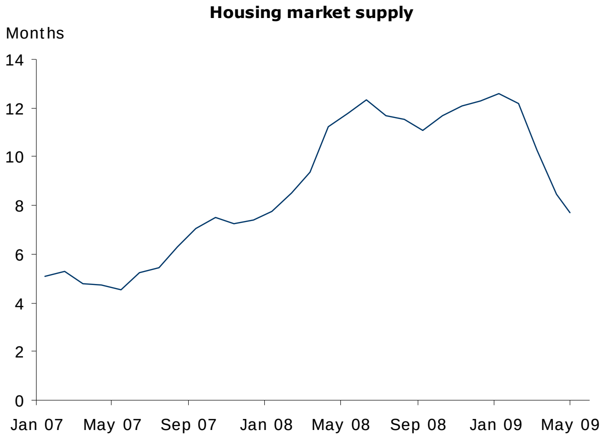
There are widespread anecdotes and talk of a shortage of housing.

From the outset we believe much analysis in relation to the physical housing supply misses a key point in terms of the housing market correction. This cycle is concentrated as a land price adjustment as opposed to a physical housing story. The majority of the price appreciation during the boom appeared in the former, and while land may be in limited supply in Auckland, this is certainty not the case nationally. When it comes to land prices, there is no debate that a speculative unwind is still unfolding and we fully expect the "ripple" effects to filter into suburb and regional valuations, just as they did during the upswing.

But we nonetheless feel the need to respond to the analysis that is being presented in relation to the physical housing supply, particularly in relation to it potentially driving up property prices and another mini-boom.

Building consents have collapsed to levels last seen in the 1960s. The number of dwelling consents issued in the last three months ran at an annualised rate of 14,000. Yet, net migration has accelerated to an annualised rate of 26,000 (based on the past three month's performance). Throw in natural population growth of around 35,000 a year and applying the average household size suggests there is fundamental demand for over 20,000 new dwellings over the coming 12 months. And this does not even take into account the depreciation of the existing housing stock.

Based on this, it is easy to see that an excess demand situation for housing has developed. On the face of it, this would point to upward pressure on house prices. Indeed, there have been anecdotes of late that new listings have been getting scarcer. The rebound in the number of house sales has resulted in a lower market "inventory" from the equivalent of over 12 month's sales at the end of last year to under 8 months currently (still higher than inventory of 5 month's equivalent sales prior to the housing market correction).



Sources: ANZ National, REINZ, www.realestate.co.nz

So are we really heading for a housing shortage crisis? To answer this question, it is important to distinguish between the flow and the stock. Based on recent flows (i.e. new demand from population growth versus new houses being constructed), there is no doubt that excess demand exists, as described earlier. But we need to take into account the fact that this comes after several years of excess supply.

Data since 1991 shows that the last time there was excess demand was in 2002 and 2003 (see table at the end). This was brought about by a surge in net migration. But since 2004, there has been excess supply as migration eased while consent issuance remained higher for most of that period.

Indeed, when we add up the cumulative demand-supply situation since 1991, there has been an excess supply of around 37,000 dwellings. There is some uncertainty in regards to key assumptions such as average people per house and depreciation. But tweaking these does not change the broad story. There is a housing "buffer" that can be used to absorb any temporary excess demand. This is also evident when we look at the total number of households currently versus the total number of dwellings in the country (the housing stock), which suggests there is still enough vacant houses to satisfy several year's worth of new demand.

The last comprehensive snapshot was the *2006 Census*, which recorded 110,000 dwellings that were empty (6.7 percent of total dwellings) and a further 13,500 that were under construction. Of course, we know that some of those houses are vacant for a reason (holiday homes, etc). But nonetheless, they can be occupied if need be.

While there does not appear to be any housing imbalance at the national level, the regional picture paints a contrasting view. We used regional population estimates and adjusted it using household size information from the *Census* to derive housing demand. After factoring in depreciation, we arrive at the demand-supply situation based on consents data at the regional level. What struck us immediately was the persistent excess demand situation in Auckland over the past few years. Even assuming no depreciation of the existing housing stock in Auckland, the number of consent issuance has fallen short of household growth.

Calendar Years	Excess Supply (Demand) for Housing					
	Auckland	Waikato	Wgtn	Rest of North Island	Canty	Rest of South Island
1997	-2470	850	40	2290	890	1650
1998	-1190	840	820	2020	1070	1420
1999	3750	1760	1240	3570	1880	2070
2000	630	1310	1150	2770	980	1430
2001	860	1540	690	3750	760	1020
2002	-2820	120	-250	890	-640	480
2003	-4850	490	-460	1010	-600	610
2004	260	790	-210	2050	0	850
2005	-1450	990	250	2830	580	1310
2006	-2130	1150	-170	2290	240	1310
2007	-2730	1630	210	3550	940	1640
2008	-3400	590	290	1830	40	930
2009(e)	**-6850**	**260**	**-230**	**420**	**-850**	**610**

In contrast, other parts of the country have been increasing their housing stock at a faster rate than growth in underlying demand. This is particularly so in parts of the North and South Islands outside of the main centres. No doubt the recent flurry of activity around coastal properties and holiday homes has been a part of this.

Given that Auckland is likely to be the main beneficiary of the net migration inflows, the excess demand situation is likely to intensify over the coming year. This will lead to upward pressure on rents and house prices in the region, if housing supply does not start to respond soon. However, other parts of the country which does not face any excess demand will continue to face downward pressure on house prices. Particularly those in the popular holiday home hotspots.

The upshot

Our analysis suggests there is no housing shortage at the national level. An excess demand situation is certainly developing at present given the acceleration in net migration and low levels of building consents being issued. But there has been sufficient excess supply in the past few years to absorb the rise in housing demand in the short-term. However, the regional picture shows Auckland experiencing excess demand in the past few years, and this is likely to intensify over the coming year. If supply does not pick up in Auckland, we could well see a divergence in the performance of house prices around the country, particularly as the economy emerges from recession and begins the long road to recovery.

Calendar Years	Population Growth from			Household Size	Underlying demand			Building Consents	Excess Supply (Demand)
	Migration	Natural	Total		Households	Depreciation	Total		
1991	6500	33800	40300	2.79	14400	3500	17900	17500	-400
1992	4600	31600	36200	2.79	13000	3540	16540	17700	1160
1993	13900	31800	45700	2.78	16400	3740	20140	18700	-1440
1994	19900	30400	50300	2.78	18100	4620	22720	23100	380
1995	28500	30000	58500	2.78	21000	4220	25220	21100	-4120
1996	24800	30800	55600	2.79	19900	4560	24460	22800	-1660
1997	7600	32700	40300	2.79	14500	5020	19520	25100	5580
1998	-6400	33000	26600	2.77	9600	4140	13740	20700	6960
1999	-8900	30900	22000	2.76	8000	5280	13280	26400	13120
2000	-11300	33100	21800	2.74	8000	4020	12020	20100	8080
2001	9700	33500	43200	2.73	15800	4100	19900	20500	600
2002	38200	35100	73300	2.74	26800	5440	32240	27200	-5040
2003	34800	37300	72100	2.74	26300	5980	32280	29900	-2380
2004	15100	37600	52700	2.73	19300	6280	25580	31400	5820
2005	7000	39700	46700	2.71	17300	5200	22500	26000	3500
2006	14700	35700	50400	2.70	18700	5200	23900	26000	2100
2007	5500	35700	41200	2.68	15400	5120	20520	25600	5080
2008	3800	35200	39000	2.67	14600	3700	18300	18500	200
2009(e)	**20000**	**35000**	**55000**	**2.67**	**20600**	**3200**	**23800**	**16000**	**-7800**

Note: The table shows nationwide new housing demand from migration and natural population growth each year (adjusted for household size), taking into account depreciation of the existing housing stock. An excess supply situation exists if the number of building consents issued that year exceeds the total underlying demand. An excess demand situation is where demand exceeds supply in that year.

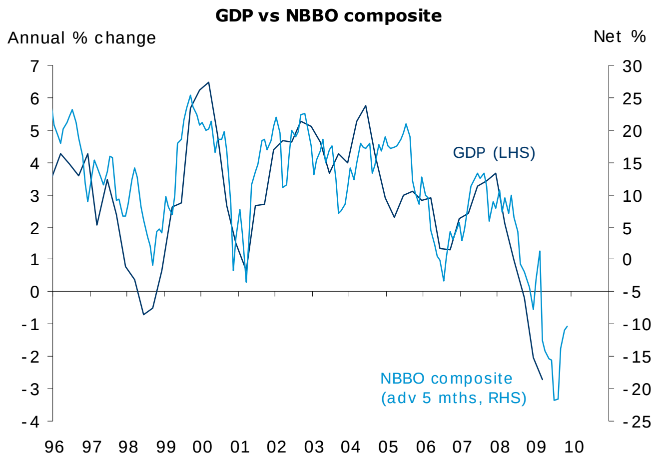
Sources: ANZ National, Statistics NZ

NATIONAL BANK *BUSINESS OUTLOOK* UPDATE

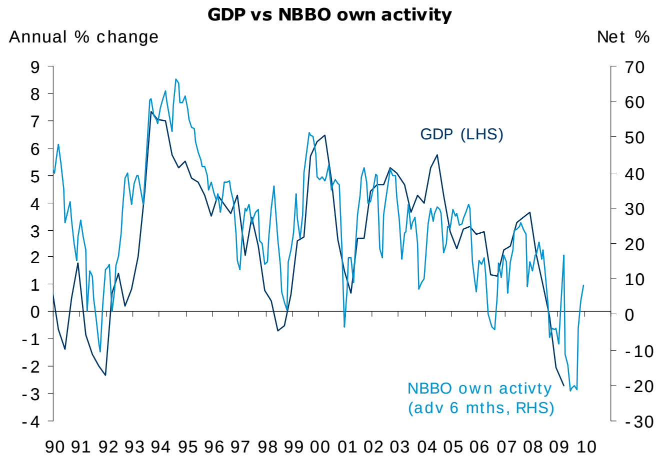
The June National Bank *Business Outlook* survey continues to show encouraging signs of improvement. Both headline business confidence and own activity readings moved higher, though some of the key gauges still remain at low levels. Our NBBO composite indicator[1] (which has a strong correlation with GDP growth) is still flagging negative annual growth rates, but less so compared to earlier in the year.

Both the headline confidence and own activity indicators remained in positive territory for the second consecutive month. The worst appears to be over. Yet, while firms are growing more confident, they remain cautious when it comes to making key decisions. Hiring and investment intentions are still at low levels, and indicate further cutbacks in staffing and investment ahead. Profits are still expected to fall. Our NBBO composite growth indicator suggests improvement ahead, though this relates to the rate of contraction as opposed to positive growth rates.

The sectoral breakdown (using a composite growth indicator for each) suggests an improvement in all sectors, but off depressed levels. The sharp contraction in manufacturing activity in Q1 was foreshadowed in our composite indicator, and similarly for the retail and wholesale sector. A turning point may be at hand for these sectors, but our sectoral composite is pointing to further falls in services sector and agriculture activity. The recent improvement in construction sentiment may not avert another large Q2 contraction. Overall, it looks like the sectors most badly affected so far are recovering off their lows, while those sectors that have held up are next in line for a fall.



Sources: ANZ National, Statistics NZ



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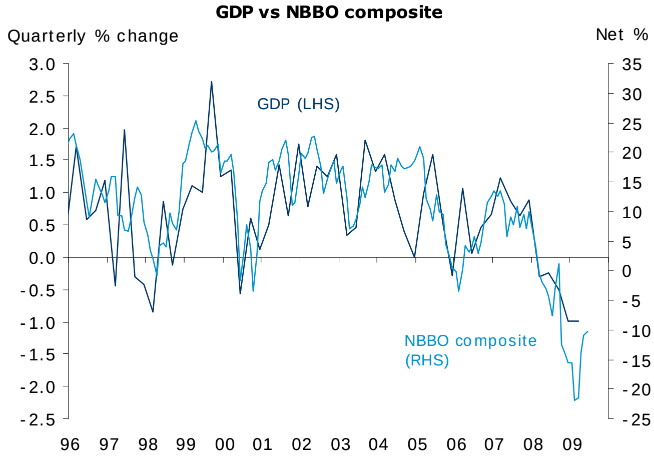
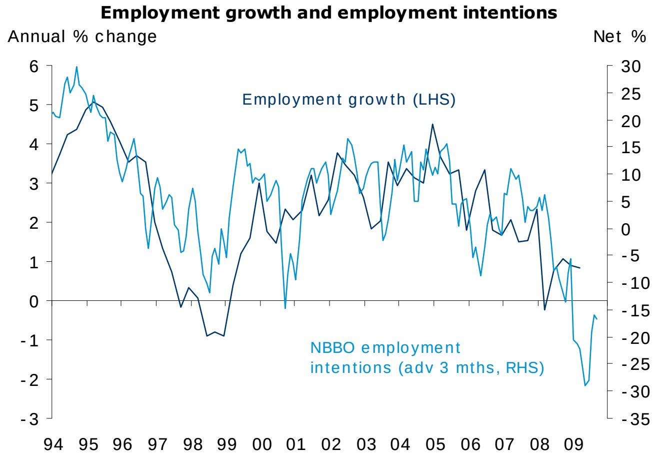


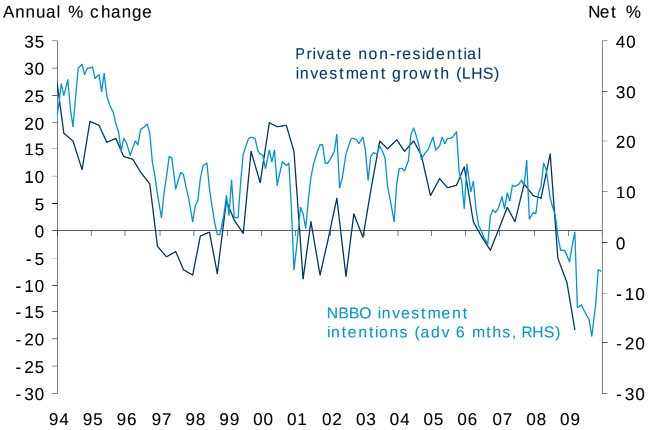
Sources: ANZ National, Statistics NZ



Sources: ANZ National, Statistics NZ

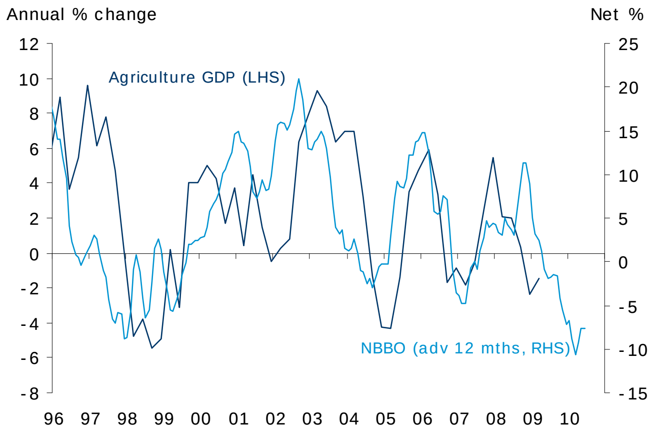
[1] Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology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

Investment growth and investment intentions



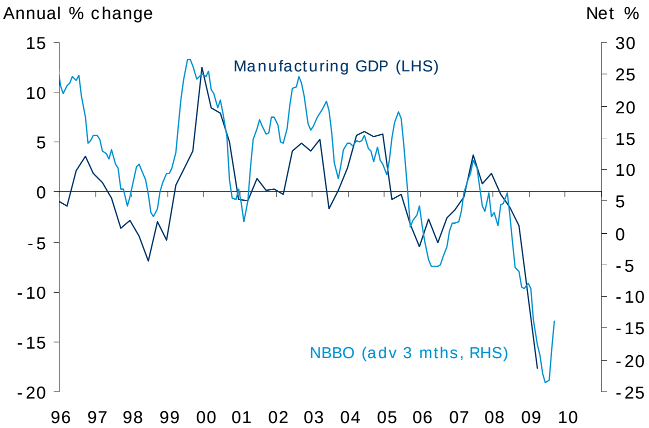
Sources: ANZ National, Statistics NZ

Agriculture GDP vs NBBO composite (12% of GDP)



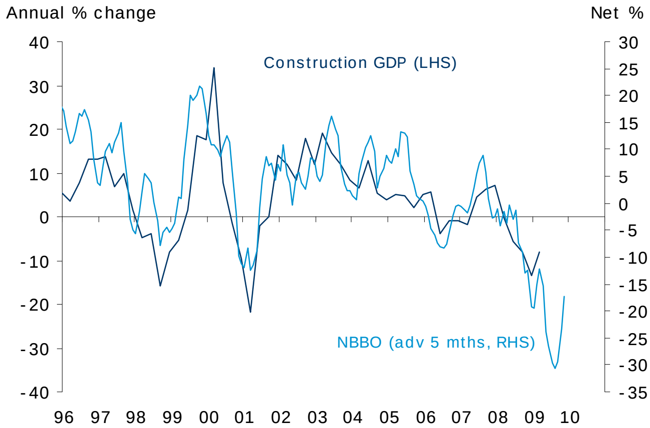
Sources: ANZ National, Statistics NZ

Manufacturing GDP vs NBBO composite (9% of GDP)



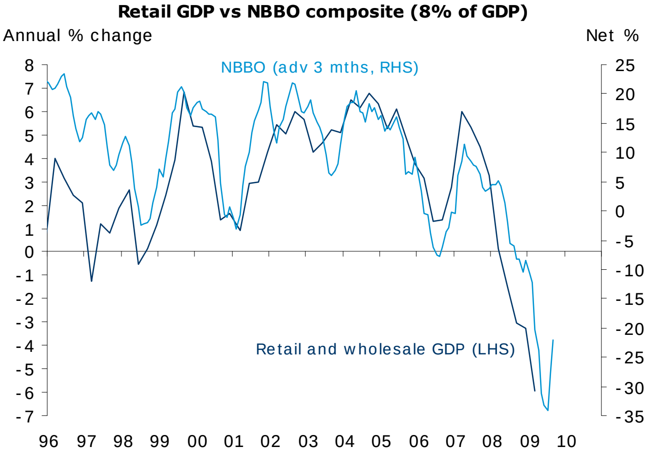
Sources: ANZ National, Statistics NZ

Construction GDP vs NBBO composite (5% of GDP)



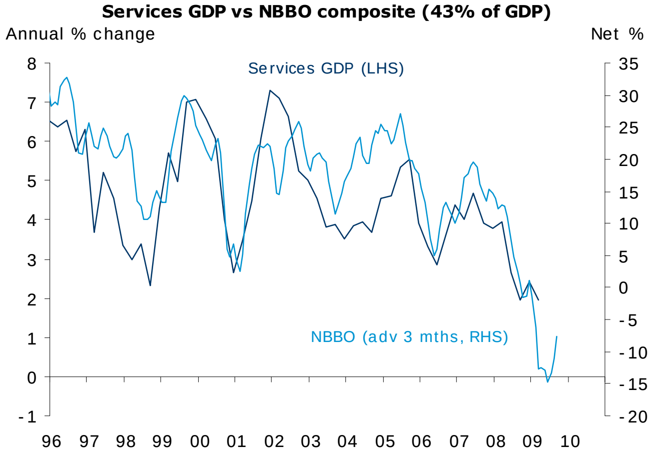
Sources: ANZ National, Statistics NZ

Retail GDP vs NBBO composite (8% of GDP)



Sources: ANZ National, Statistics NZ

Services GDP vs NBBO composite (43% of GDP)



Sources: ANZ National, Statistics NZ

INTEREST RATE STRATEGY

The NZ rates market is taking its cues from offshore, and we expect this to continue. We are set for a period of range trading with the RBNZ out of play for some time and the dataflow, both domestic and offshore, lacking a firm direction either way. Interest in NZ bonds should continue to increase as liquidity improves and yields remain at attractive levels.

Market themes…

- > Weaker than expected US payrolls throw into question the global recovery story.
- > Fonterra's online auction reported further falls in milk powder prices.
- > NZ bonds well supported with increasing interest and are outshining the swaps market.
- > QSBO this week to show rebound but the NZ economy has a long climb out of the trough.

Review and outlook

The NZ rates market put on a strong rally last week, despite a surprisingly strong trade surplus and recovering business confidence from the National Bank *Business Outlook* survey. The dataflow last week was not all one way though, with building consents still soft on an ex-apartment basis, and milk powder prices falling again in Fonterra's latest online auction. The latter has been getting a lot of airtime offshore of late, as the ramifications of a lower dairy payout on the NZ economy start to sink in. While domestic considerations played a part, most of the moves lower in yields can be tied to wider global moves. Disappointing offshore data, particularly the weaker than expected US nonfarm payrolls, saw a reassessment of the global recovery theme that has been priced into markets. An interesting feature of last week was the increased demand in NZ bonds, with a high bid-cover ratio in last week's auction and trading in bonds outshining those in swaps. Increased issuance is leading to improved liquidity, and with NZ's sovereign rating safe, bonds look attractively priced and should continue to attract demand.

An expected rebound in tomorrow's QSBO is unlikely to see too much of a selloff. Though it is likely to confirm that further RBNZ easings are off the table for now, we do not expect the survey to get the market excited over the prospects of an earlier tightening cycle either, though it may keep recent receiving interest in check. The RBA decision tomorrow will see a no change, but the statement could surprise and is a key risk event for this week. Overall, we see the NZ rates market remaining within ranges with the 2-year swap yield in a 3.5 to 4 percent range and a slight flattening bias on the curve.

Borrowing strategies we favour at present

Our favoured strategy remains unchanged, which is to stay floating. With hikes being prematurely, in our view, priced into the curve; you will be paying a premium to fix at current levels. Of course, the risk is that all the "green shoots" being talked about start to blossom, and the RBNZ is indeed forced to normalise policy quicker and faster than envisaged, causing yields to rise further. Though this is not our core view, those who fear such an outcome could consider gradually extending duration now to lock in still relatively low rates.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	On hold with easing bias. Further cuts unlikely but hikes still a long way off.
NZ data	↔/↑	Confidence and housing showing further improvements.
Fed Funds/ front end	↔	Market might look for early hikes but Fed firmly on hold for extended period.
RBA	↔	RBA this week to see no change. Could the statement surprise?
US 10 year	↔	Looks to be trading a 3.5% to 4% range.
NZ swap curve	↔/↓	Flattening pressure starting to emerge as receivers take advantage of higher longer dated yields.
Flow	↔/↓	Concerns over green shoots overseas have resulted in increased receiving interest in the NZ market.
Technicals	↔	2-year swap looks to be range trading for now.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Jul-09	-6	-6
Thu 10-Sep-09	-6	-6
Thu 29-Oct-09	-6	-5
Thu 10-Dec-09	+1	-3
Thu 21-Jan-10	+5	+7
Thu 11-Mar-10	+17	+20
Thu 29 Apr-10	+24	+34

Trading themes we favour at present

The NZ rates market look to be range trading. Our suggested trades of going long outright in the March and June bank bill futures is working well, and we believe there is further to go as the market converges to the RBNZ "lower for longer" view.

CURRENCY STRATEGY

Stabilising US sentiment, the July Uridashi maturity profile and returning attention to NZ specifics (such as the dairy sector) has the NZD on the back foot. Technically the NZD looks set to remain under pressure.

Market themes…

- Dairy sector – weighing on the kiwi.
- USD sentiment firming and looking better on the charts.
- Leading versus lagging – US employment weakens further but forward looking data still shows signs of life.

Review and outlook…

The NZD started last week on firm footing, breaking resistance levels at 0.6500 and testing higher. However, this strength reversed as a result of a combination of factors. Firstly, another fall in prices at Fonterra's online auction caught the market's attention, especially amongst offshore players. This saw selling of NZD especially against the AUD, which has been exacerbated by a focus on the Uridashi and Eurokiwi maturity schedule for July. Secondly, offshore equity markets turned south late in the week following a worse than expected US payrolls release and the USD is now finding a base. The resulting spike in risk aversion and firmer USD added to the NZD's downside. It is, however, interesting to note that a number of more forward looking indicators in the US have improved of late.

Looking ahead there are three key themes to watch for. The first is the USD. Challenges remain but the tenor of US data is becoming better than the Euro-zone, which means the euro could remain biased lower. A head and shoulders pattern is being talked about for the S&P, which could see risk sidelined heading into the earnings reporting season. But equity sentiment is fickle both ways. The second is the diary sector, which is likely to remain a kiwi specific theme on people's radars. The other key factor will be the bond maturity profile this month, which is seeing increasing attention in favour of the AUD over the bird.

From a domestic perspective, we expect the tenor of local data to in fact be marginally supportive the NZD. But doubts will remain surrounding the sustainability given the backdrop and the NZD now looks to be captive to a weak technical picture and positioning. The NZD's daily uptrend broke last week and this now brings into play key horizontal support at 0.6250. This will need to break early in the week to ensure stop losses from recent sellers do not come into play on the topside. The next downside target after 0.6250 is 0.6150 – the low from June. Key upside risk looks to stem from the AUD, with the RBA looking done and dusted at 3 percent, and potentially more vocal on their exit or normalisation strategy. The NZDAUD broke lower last week after again failing at key resistance around 0.8080. Topside resistance now comes in at 0.7980 to 0.8000. We continue to favour downside moves. Watch initial support at 0.7875. Bigger picture targets remain centred around the 0.7500 level.

International focus is the G8 meeting this weekend. Reports that the Chinese have asked for a discussion of the USD as a reserve currency and possible alternatives have led to increased focus on what will be contained in the communiqué. With the global economy delicate it seems unlikely that any major shift will be forthcoming.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield advantage Australia. RBA this week may surprise.
Commodities	↓	Dairy price weakness
Partial indicators	↔	NZ worse.
Technicals	↔/↓	0.7980 now resistance.
Sentiment	↔/↓	Watch RBA tomorrow.
Other	↔	Wary of positioning
On balance	↓	**Expect AUD to outperform.**

NZD vs USD: monthly directional gauges

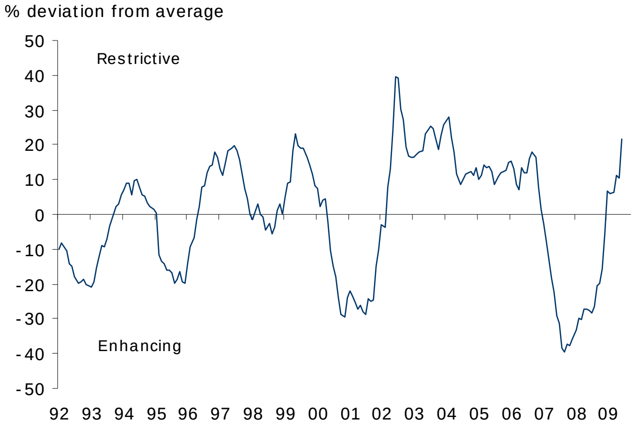
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔	Moved in line with cyclical fair value.
Yield	↔	Neutral for now.
Commodities	↔/↓	Focus on dairy price story.
Risk aversion	↔	Relatively subdued still.
Partial indicators	↓	US payrolls disappointed but led to USD strength.
Technicals	↔	Watch key support at 0.6250.
AUD	↔	RBA to set the tone.
Sentiment	↔/↓	Wary of bond maturities.
Other	↔/↑	Watch for extreme short positions.
On balance	↓	**Focus on dairy story threatens key support.**

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.

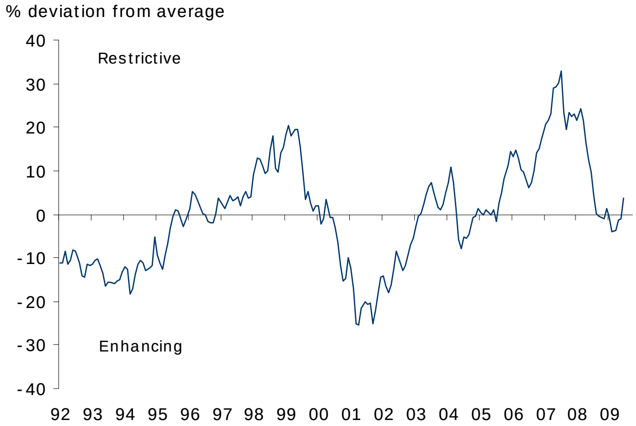
With the exception of the forestry sector, which benefited from world price increases exceeding the move higher in the NZD, all the commodity adjusted real exchange rates became more restrictive in June. In saying this though, the forestry sector's effective exchange rate remains well entrenched in "restrictive" territory. The dairy and manufacturing sectors are also experiencing restrictive conditions, with the former now facing the highest effective exchange rate (as a deviation from average) since March 2004. The meat, horticulture, seafood and services sectors are facing reasonably neutral conditions.

Sector: Dairy ≈ 18% of exports



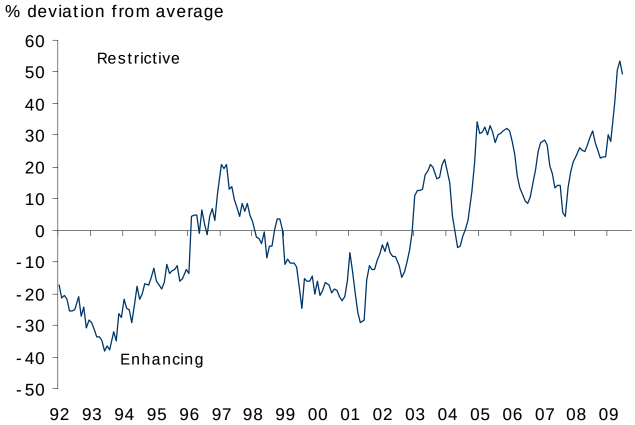
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



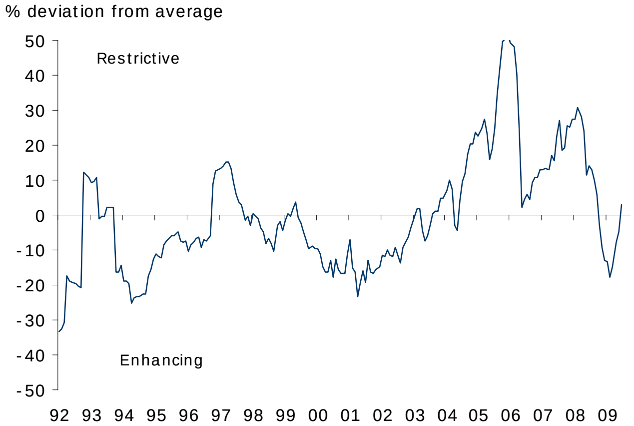
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry ≈ 10% of exports



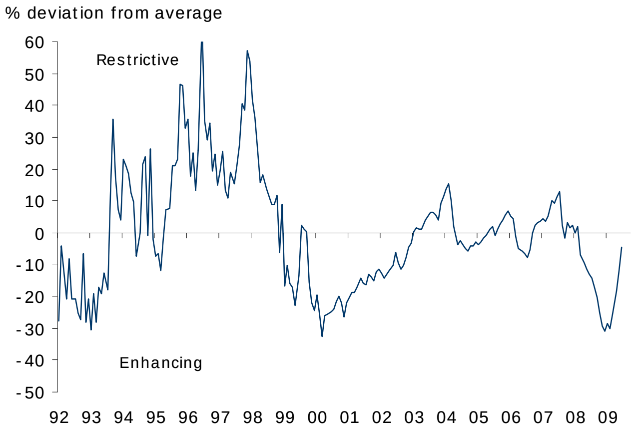
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports



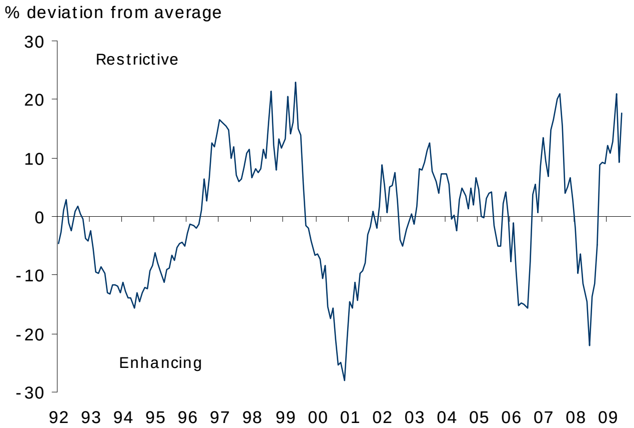
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports



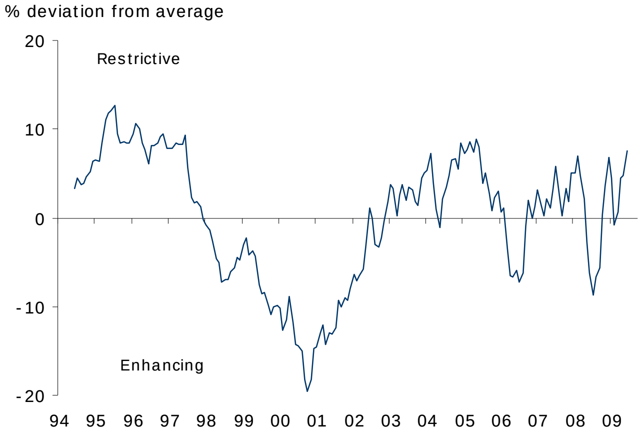
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports



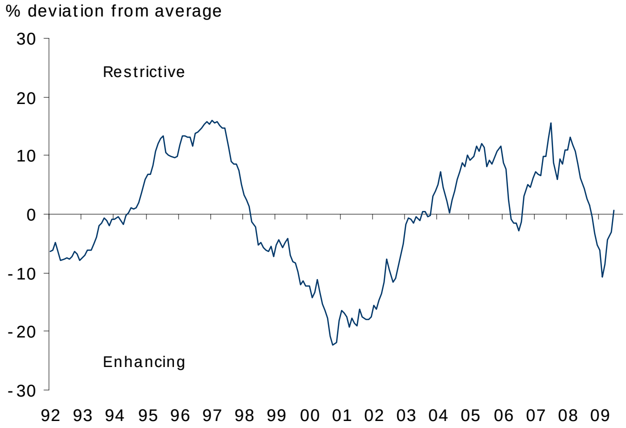
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Services ≈ 24% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
6-Jul	AU	TD Securities Inflation (Jun) - mom	-	-0.3%	12:30
		ANZ Job Advertisements (Jun) - mom	-	-0.2%	13:30
	JN	Leading Index CI (May P)	77.0	76.2	17:00
		Coincident Index CI (May P)	89.6	86	17:00
	EC	Sentix Investor Confidence (Jul)	-25	-27	20:30
		ECB's Nowotny Speaks at Event in Vienna	-	-	20:30
7-Jul	US	ISM Non-Manufacturing Composite (Jun)	46.0	44.0	02:00
	EC	ECB's Tumpel-Gugerell Speaks at Event in London	-	-	03:10
		ECB's Ordonez Speaks in Madrid	-	-	19:30
	NZ	**NZIER Business Opinion Survey (2Q)**	**-**	**-65**	**10:00**
	AU	AiG Performance of Construction Index (Jun)	-	46.9	11:30
		RBA Cash Target	3.00%	3.00%	16:30
	UK	Industrial Production (May) - mom	0.2%	0.3%	20:30
	GE	Factory Orders (May) - mom	0.5%	0.0%	22:00
8-Jul	UK	Nationwide Consumer Confidence (Jun)	55	53	11:01
		NIESR GDP Estimate (Jun)	-	-0.9%	11:01
	JN	Money Stock M3 (Jun) - mom	1.8%	1.8%	11:50
		Machine Orders (May) - mom	2.4%	-5.4%	11:50
		Adjusted Current Account (May)	¥1228.1B	¥966.3B	11:50
		Bankruptcies (Jun) - yoy	-	-6.7%	16:00
	AU	Westpac Consumer Confidence (Jul)	-	12.7%	13:00
		Home Loans (May)	1.3%	0.9%	13:30
		Investment Lending (May)	-	8.9%	13:30
		Value of Loans (May) - mom	-	1.9%	13:30
	EC	ECB's Gonzalez-Paramo Speaks in Madrid	-	-	20:00
		GDP (1Q F) - qoq	-2.5%	-2.5%	21:00
		ECB's Tumpel-Gugerell Speaks at Event in Frankfurt	-	-	21:50
	GE	Industrial Production (May) - mom	0.5%	-1.9%	22:00
9-Jul	US	Fed's Evans Speaks in South Bend, Indiana	-	-	04:55
		Consumer Credit (May)	-$10.0B	-$15.7B	07:00
	NZ	**Electronic Card Spending (Jun) - mom**	**-**	**0.9**	**10:45**
	AU	Consumer Inflation Expectation (Jul)	-	2.8%	13:00
		Employment Change (Jun)	-20.0K	-1.7K	13:30
		Full Time Employment Change (Jun)	-	-26.2	13:30
		Part Time Employment Change (Jun)	-	24.5	13:30
		Unemployment Rate (Jun)	5.9%	5.5%	13:30
		Participation Rate (Jun)	65.4%	65.5%	13:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
9-Jul cont.	JN	Machine Tool Orders (Jun P) - yoy	-	-79.2%	18:00
	GE	Consumer Price Index (Jun F) - mom	0.4%	0.4%	18:00
		Trade Balance (May)	9.0B	9.4B	18:00
		Current Account (May)	3.7B	5.8B	18:00
		Imports (May) - mom	0.8%	-6.0%	18:00
		Exports (May) - mom	1.5%	-5.0%	18:00
	EC	ECB Publishes July Monthly Report	-	-	20:00
	UK	Total Trade Balance (May)	-£2850	-£3014M	20:30
		BoE Interest Rate Announcement	0.50%	0.50%	23:00
10-Jul	US	Initial Jobless Claims (w/e Jul-5)	-	614K	00:30
		Continuing Claims (w/e Jun-28)	-	6702K	00:30
		Fed's Duke Speaks at FDIC Conference in Chicago	-	-	01:00
		Wholesale Inventories (May)	-1.0%	-1.4%	02:00
	JN	Domestic CGPI (Jun) - mom	-0.1%	-0.4%	11:50
	UK	PPI Input (Jun) - mom	0.8%	0.4%	20:30
		PPI Output (Jun) - mom	0.3%	0.4%	20:30
		PPI Output Core (Jun) - mom	0.2%	0.2%	20:30
11-Jul	US	Trade Balance (May)	-$30.0B	-$29.2B	00:30
		Import Price Index (Jun) - mom	2.0%	1.3%	00:30
		University of Michigan Confidence (Jul P)	70.6	70.8	02:00

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 NZIER's June quarter QSBO is the main focus for this week and will be looked to for signs that the economy is closer to regaining forward momentum. This, in fact, will be the focus of much of the upcoming domestic data.

Date	Data/Event	Economic Signal	Comment
Tue 7 Jul (10.00)	NZIER Quarterly Survey of Business Opinion (Jun qtr)	An improvement in sentiment?	The survey is likely to mirror the latest National Bank *Business Outlook* and show an improvement in sentiment. However, gauges will remain consistent with an economy that continues to contract.
circa 10 Jul	REINZ House Sales (Jun)	A winter turn?	We are on the lookout for signs of waning momentum as we head into winter. Higher longer-term mortgage rates and a weak labour market remain key headwinds.
Mon 13 Jul (10.45)	Retail Trade Survey (May)	Forming a base	Some evidence is emerging of a base beginning to form in retailing. Higher petrol prices will inflate the headline number.
Thu 16 Jul (10.45)	CPI (Jun qtr)	Not a focus	We are looking from a 0.3 percent headline print, taking annual inflation to 1.6 percent. The significant spare capacity now present in the domestic economy should weigh on non-tradable inflation.
Tue 21 Jul (10.45)	International Travel and Migration (Jun)	Solid support	Net migration inflows are expected to remain solid as fewer New Zealanders choose to leave. Visitor arrivals should remain weak.
Tue 28 Jul (10.45)	Overseas Merchandise Trade (Jun)	Positive rebalancing signs	A monthly trade deficit is typically recorded in June months. However, there is the possibility of a trade surplus as the weak domestic economy and inventory adjustment continues to weigh on import demand.
Wed 29 Jul (10.45)	Building Consents Issued (Jun)	Rebounding or record lows	While the level of consent issuance should remain very low, the recent pick-up in house sales activity should see consents begin to recover.
Wed 29 Jul (15.00)	NBNZ *Business Outlook* (Jul)	-	-
Thu 30 Jul (09.00)	RBNZ *OCR Review*	On hold	While the RBNZ will remain concern about market prices and the elevated NZD we expect them to hold the OCR at 2.50 percent. They will repeat their "low for an extended period" mantra.
Thu 30 Jul (15.00)	Credit Growth (Jun)	Housing improving, but overall credit still weak.	Housing credit growth may start to recover given the improvement in house sales activity. However, business and rural credit growth is likely to remain under pressure.
On Balance		**Base forming?**	**With Q1 data out of the way, attention now turns to how Q2 fared and on signs of green shoots. We expect any recovery to be subdued as we move along the bottom of the bath tub.**

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
GDP (% qoq)	-0.2	-0.5	-1.0	-1.0	**-0.7**	**-0.3**	**0.1**	**0.4**	**0.8**	**1.2**
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	**-3.2**	**-3.0**	**-1.9**	**-0.5**	**1.0**	**2.5**
CPI (% qoq)	1.6	1.5	-0.5	0.3	**0.3**	**0.7**	**0.5**	**0.3**	**0.7**	**0.7**
CPI (% yoy)	4.0	5.1	3.4	3.0	**1.6**	**0.8**	**1.8**	**1.8**	**2.2**	**2.2**
Employment (% qoq)	1.2	0.2	0.6	-1.1	**-1.0**	**-0.9**	**-0.4**	**-0.2**	**0.0**	**0.2**
Employment (% yoy)	0.8	1.1	0.9	0.8	**-1.3**	**-2.4**	**-3.4**	**-2.5**	**-1.5**	**-0.4**
Unemployment Rate (% sa)	4.0	4.3	4.7	5.0	**5.6**	**6.4**	**7.0**	**7.5**	**7.7**	**7.9**
Current Account (% GDP)	-8.4	-8.7	-9.0	-8.5	**-6.8**	**-5.8**	**-5.0**	**-4.8**	**-5.1**	**-5.1**
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-3.0	**-2.0**	**-2.0**	**-1.4**	**-1.1**	**-0.9**	**0.4**
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.2	**-6.8**	**-7.7**	**-8.1**	**-6.3**	**-5.3**	**-3.0**

KEY ECONOMIC INDICATORS

	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Retail Sales (% mom)	0.4	-1.3	0.0	-0.5	-1.2	0.2	-0.2	0.5	..	..
Retail Sales (% yoy)	2.2	0.7	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	..	..
Credit Card Billings (% mom)	1.4	-1.8	-0.8	-2.2	1.6	0.8	-2.8	2.4	-0.4	..
Credit Card Billings (% yoy)	2.5	0.9	-0.9	-3.8	-2.4	-1.9	-4.8	-1.6	-2.4	..
Car Registrations (% mom)	10.7	-0.9	-19.9	12.9	-14.1	-15.1	8.3	-2.4	-3.1	5.4
Car Registrations (% yoy)	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6
Building Consents (% mom)	8.4	-20.0	3.9	-6.8	-12.8	12.4	-0.9	11.9	3.5	..
Building Consents (% yoy)	-28.2	-43.2	-39.6	-41.5	-51.4	-39.9	-34.3	-56.5	-22.9	..
REINZ House Price (% yoy)	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	..
Household Lending Growth (% mom)	0.2	0.1	-0.1	0.2	0.2	0.2	0.1	0.2	0.4	..
Household Lending Growth (% yoy)	6.6	5.8	4.8	4.2	3.8	3.1	2.8	2.6	2.6	..
Roy Morgan Consumer Confidence	108.6	99.7	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3
NBNZ Business Confidence	1.6	-42.3	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5
NBNZ Own Activity Outlook	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3
Trade Balance ($m)	-1252	-994	-594	-341	-102	483	439	319	858	..
Trade Balance ($m annual)	-5048	-5269	-5234	-5614	-5405	-5165	-4683	-4072	-3044	..
ANZ World Commodity Price Index (% mom)	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2
ANZ World Commodity Price Index (% yoy)	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9
Net Migration (sa)	10	80	-240	350	840	1630	1740	2170	2690	..
Net Migration (annual)	4403	4329	3569	3814	4538	6160	7482	9176	11202	..

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

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	May-09	Jun-09	6-Jul-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
NZD/USD	0.598	0.637	0.628	0.580	0.550	0.540	0.540	0.550	0.560	0.580
NZD/AUD	0.785	0.795	0.790	0.763	0.753	0.735	0.730	0.733	0.737	0.734
NZD/EUR	0.439	0.455	0.450	0.460	0.444	0.443	0.450	0.458	0.467	0.475
NZD/JPY	57.8	61.6	60.4	56.8	52.3	52.4	54.0	56.7	58.8	62.1
NZD/GBP	0.389	0.389	0.385	0.367	0.355	0.355	0.360	0.372	0.378	0.387
NZ$ TWI	57.9	60.3	59.56	57.4	54.9	54.3	54.8	56.0	57.0	58.4
NZ interest rates	May-09	Jun-09	6-Jul-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
OCR	2.76	2.74	2.50	2.50	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	2.82	2.78	2.81	2.80	2.80	2.80	2.80	2.80	3.60	4.50
10 year bond	5.74	6.24	5.78	5.80	5.60	5.70	5.70	6.10	6.30	6.40
International	May-09	Jun-09	6-Jul-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25
US 3-mth	0.66	0.60	0.56	0.70	0.50	0.70	0.80	1.25	1.50	2.00
AU cash	3.00	3.00	3.00	3.00	2.50	2.50	2.50	2.50	2.75	3.25
AU 3-mth	3.19	3.25	3.13	2.90	2.80	2.80	2.80	3.00	3.30	4.40

KEY RATES

	3 Jun	29 Jun	30 Jun	1 Jul	2 Jul	3 Jul
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.68	2.82	2.82	2.81	2.82	2.80
NZGB 07/09	2.62	2.60	2.60	2.60	2.60	2.64
NZGB 11/11	3.67	3.82	3.80	3.77	3.73	3.69
NZGB 04/13	4.67	4.81	4.77	4.75	4.72	4.68
NZGB 12/17	5.88	5.96	5.94	5.92	5.87	5.79
2 year swap	3.56	3.79	3.79	3.75	3.74	3.70
5 year swap	5.06	5.31	5.31	5.27	5.25	5.20
RBNZ TWI	61.0	60.8	61.3	60.9	60.2	59.7
NZD/USD	0.6541	0.6442	0.6524	0.6449	0.6385	0.6302
NZD/AUD	0.7930	0.8029	0.8057	0.8003	0.7933	0.7912
NZD/JPY	62.55	61.48	62.47	62.45	61.67	60.46
NZD/GBP	0.3939	0.3909	0.3924	0.3920	0.3880	0.3847
NZD/EUR	0.4569	0.4592	0.4624	0.4596	0.4525	0.4504
AUD/USD	0.8248	0.8023	0.8097	0.8058	0.8049	0.7965
EUR/USD	1.4315	1.4030	1.4108	1.4033	1.4109	1.3993
USD/JPY	95.62	95.44	95.76	96.83	96.59	95.93
GBP/USD	1.6606	1.6480	1.6626	1.6450	1.6457	1.6380
Oil	68.58	69.16	71.47	69.82	69.32	66.68
Gold	986.50	937.05	943.10	928.10	940.05	933.05
Electricity (Haywards)	7.84	5.94	9.08	8.74	5.09	4.43
Milk futures (US$/contract)	85	85	85	85	85	#N/A
Baltic Dry Freight Index	4291	3734	3757	3742	3672	3520

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