

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

31 January 2011

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FOOD UNREST

ECONOMIC OVERVIEW

The RBNZ stuck to their cautious script with little to suggest rates will move up anytime soon. Prospects for further fiscal restraint also give the RBNZ greater scope to leave monetary policy more accommodative than otherwise. This week's HLFS figures are expected to support the "lower rates for longer" mantra. And though the RBNZ seem content with the inflation outlook and the pace of the recovery, we believe both are set to surprise them on the upside this year. But we have a bout of lagging 2010 data (such as employment figures) and hurdles to get over first. So in a nutshell, we expect Q4 2010 data to come in weak but brace for the reciprocal in 2011 Q1/Q2. We consider the latter far more relevant.

NZ FOOD PRICE OUTLOOK

We see considerable tension emerging over the coming year between cost-push inflation from strong commodity prices and a cautious consumer who will be strongly averse to price rises. A simple model that incorporates both commodity price and demand aspects suggests around 6.5 percent food price inflation (excluding GST) over the coming year, despite the weakened pricing power that a cautious consumer entails.

LABOUR MARKET PREVIEW

We expect another volatile read in this week's labour market statistics relating to the final quarter of 2010. Wage inflation will remain contained and show no signs of any spill-over from the GST increase. Employment growth was likely modest, though we expect a rise in the unemployment rate to 6.6 percent, largely due to statistical payback following the previous quarter's decline. The risk profile is for a weaker employment outturn and higher unemployment rate. Given the usual lags between when improved economic activity translates through into employment growth, a more substantial fall in the unemployment rate looks to be a H2 2011 story.

INTEREST RATE STRATEGY

Short end interest rates continue to range-trade, steadied by opposing forces. Upside risks emanating from a potential rise in inflation need to be weighed against our expectations of weak data in the near-term. The OCR will likely go higher this year, but it's too soon to make a definitive call as to when and by how much. We still expect the next hike to be in June, but as the RBNZ has reiterated, we need to see evidence that the recovery is robust, and more obvious signs of inflation. So we're back to data watching and we expect this week to validate rates being on hold for quite a while yet. A turning point is coming but it's 6 weeks away from validation.

CURRENCY STRATEGY

Last week's RBNZ statement was not as dovish as the market was expecting, catching the market off-guard somewhat and leading to a rise in the NZD. The economic data out of the US continue to improve, but it was the political situation in Egypt that has seen the USD's safe-haven status return to the fore. However, the NZD has managed to hold up despite Middle East concerns, highlighting ongoing demand for the currency.

ECONOMIC OVERVIEW

SUMMARY

The RBNZ stuck to their cautious script with little to suggest rates will move up anytime soon. Prospects for further fiscal restraint also give the RBNZ greater scope to leave monetary policy more accommodative than otherwise. This week's HLFS figures are expected to support the "lower rates for longer" mantra. And though the RBNZ seem content with the inflation outlook and the pace of the recovery, we believe both are set to surprise them on the upside this year. But we have a bout of lagging 2010 data (such as employment figures) and hurdles to get over first. So in a nutshell, we expect Q4 2010 data to come in weak but brace for the reciprocal in Q1/Q2 2011. We consider the latter far more relevant.

THIS WEEK'S EVENTS

- **SNZ Labour Cost Index and Quarterly Employment Survey – Q4** (Tuesday, February 1, 10:45am). We expect a 0.6 percent increase in private sector LCI in the quarter, taking annual wage inflation to 1.9 percent. Paid hours are expected to show modest growth of around 0.6 percent.
- **ANZ Commodity Price Index – January** (Tuesday, February 1, 3:00pm).
- **globalDairyTrade online auction – early February** (Wednesday, February 2, 6:00am). We expect whole milk powder prices will increase to around USD \$4,000 per tonne.
- **SNZ Household Labour Force Survey – Q4** (Thursday, February 3, 10:45am). We are looking for a small 0.2 percent rise in employment growth, but for the unemployment rate to increase to 6.6 percent on the back of a larger rise in the labour force. See page 7 for our preview.

WHAT'S THE VIEW?

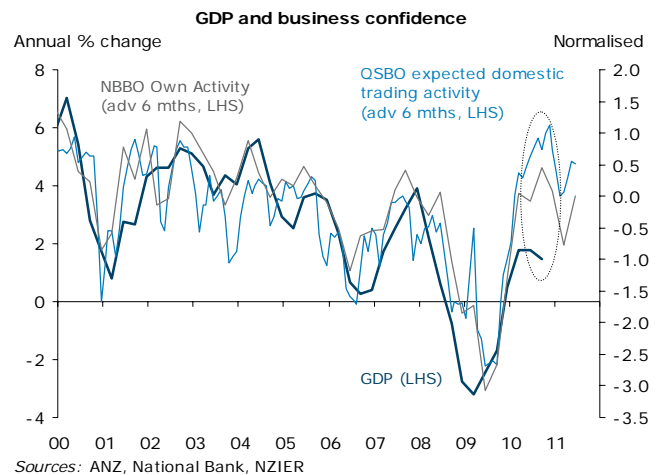
Business as usual was the main message we took from the RBNZ's first OCR review of the year. While they acknowledged the weakness in the data relating to late 2010 – most notably the contraction in Q3 GDP and weak retail sales over Q4 – this was countered by the RBNZ highlighting signs of improvement in the forward indicators. The Bank even noted that there are tentative signs of stabilisation in the housing market. That is true in terms of the number of houses sold over recent months, but they remain at awfully low levels, which is likely to hamper residential construction activity over early 2011. Furthermore, we believe that house prices still have further downward adjustment to go in real terms, and it is house prices that are more influential for consumption growth.

With the RBNZ not giving much away and sticking to their December *Monetary Policy Statement* stance, there are a couple of key areas to watch.

The first is **whether the improvement in the forward indicators is merely a ruse, or a sign that something more substantial lies ahead.**

The pick up in business confidence late last year was encouraging. But the jury is still out on whether this will be translated into actual economic activity. Certainly the commodity price story is compelling, but weak land prices and curtailed production is limiting the diffusion into the broader economy. There is more reason to be cautious about what the business confidence gauges are telling us, after the surge early last year proved to be a damp squib when the economy stalled over Q2 and Q3 2010. **So the onus will be on the lead indicators to manifest into hard outturns in order for the RBNZ to have confidence that the recovery is "robust".**

Early indications on momentum in 2011 look far better than how 2010 closed. But we are also mindful of false dawns. For now we're taking encouragement on what we are seeing here and now but it needs to extend for another six weeks. In the meantime we'll get a bout of lagging 2010 data which; (a) will reinforce the view that any bounce is coming off lows, and (b) keep commentators somewhat wary. The latter is frustrating because we prefer to talk about the future, as opposed to looking in the rear-view mirror.



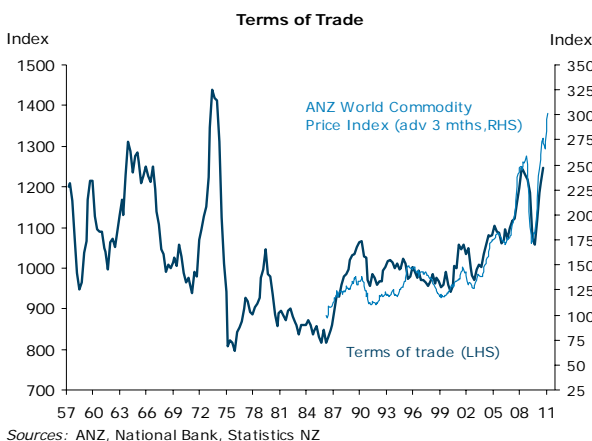
The second is **inflation pressure, something the RBNZ views as being contained.** Indeed, in Governor Bollard's speech last week, he said that "we think price inflation remains comfortably under control." **We are not as sanguine about the inflation outlook as the RBNZ.** As we indicated last week, we are becoming increasingly mindful of some cost-driven increases in inflation and the

ECONOMIC OVERVIEW

impact this will have as an implicit tax on spending. This does not mean that we have turned into inflation hawks. But it is something that is set to come into sharp focus at some stage this year.

Food-related inflation will pick up strongly, and price increases are already in the pipeline given the strong increases in global food commodity prices. **We think that food price inflation will be between 6 and 8 percent by year end, which could add up to 1.4 percentage points to headline inflation.** The likely contribution from petrol and government-related services, will add up to another 1 percentage point. These come at a time when headline inflation is already high, due to the GST rise. Page 5 details some quick forecasts of food related inflation, incorporating both demand aspects and cost-push forces.

Of course, section 3(a) of the Policy Targets Agreement (PTA) instructs the RBNZ to look through the impact on inflation from exceptional movements in the prices of commodities traded in world markets. And since high food prices act as an implicit consumption tax, the RBNZ will only focus on ensuring there are no spill-over effects into other prices or wages. **But we wonder how comfortable the RBNZ will be if underlying inflation is running close to the top of the target band later this year, at a time when the economic recovery really gets underway, helped along by the Rugby World Cup, Canterbury reconstruction and now the potential positive flow-on effects of the rebuilding of Queensland following devastating floods.**



The New Zealand economy is at a delicate juncture at present. Building consents remain very weak. However, high soft commodity prices look set to deliver a huge income boost via a rising terms of trade, which look set to reach its highest levels since the 1970s. Tomorrow's ANZ Commodity Price Index

and Wednesday's *globalDairyTrade* online auction are expected to convey this positive theme for NZ.Inc.

But as we said last week, the benefits of these will be slow to diffuse into the broader economy. For one, the additional income will be used by the rural sector to deleverage and improve their balance sheet. High commodity prices will put a floor under falling rural land prices. But the multiplier effect will be smaller than in the previous boom. In the meantime, everyone else will have to fork out more for food. We've talked about a grumpy growth dynamic across the economy for a number of years and this is another example of this at work.

We noted a NZIER report released last week which concluded that the New Zealand economy will be worse off from high food prices. First up a bouquet to the organisation, which has put out a lot of public good style analysis, for being prepared to enter into public debate over topical issues. It's something that New Zealand lacks and doesn't see enough of, hence the bouquet for taking some stands on key issues.

But in the current instance we think this analysis is somewhat "interesting" and we'll leave readers to interpret why we emphasised this word. **We respectfully disagree.** For sure there are distributional impacts across sectors and over time related to rising food prices. But to conclude New Zealand in aggregate is worse off goes against:

- The positive coefficient of the terms of trade variable in long-run GDP equations.
- Simple analysis: New Zealand consumes \$16 billion worth of groceries. A 7 percent rise in food prices will increase the grocery bill by \$1.1 billion, assuming all else equal. This is less than the increase in dairy incomes forecast over the 2010/11 season, let alone the boost to rural incomes conferred by broadening commodity price strength.
- Common sense: if higher food (commodity) prices are bad for New Zealand then lower food prices will be good. The experience of 1970 to 1990 when New Zealand suffered because of falling food prices puts that one to bed!

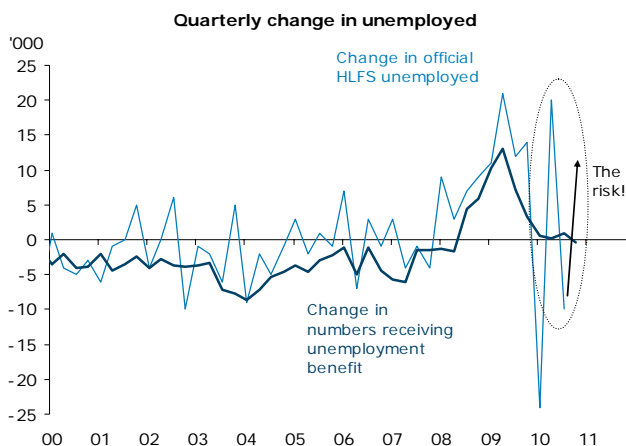
Of course our simplistic approach will not capture all the dynamics. But it passes the "smell test". A food-orientated export nation being worse off owing to higher food prices does not.

Turning briefly to political events, the Prime Minister has outlined his election strategy: **more fiscal restraint and a partial sell off of state owned assets.** The RBNZ made ample reference to fiscal

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policy in their December *Monetary Policy Statement*, noting that “accelerated elimination of New Zealand’s fiscal deficit could help improve national savings, thereby easing current pressure on interest rates and the New Zealand dollar, and reducing New Zealand’s dependence on international borrowing.” Therefore, we think that the RBNZ will welcome further belt-tightening in the public sector and an earlier return to fiscal surplus (now expected to be a year earlier by 2014/15). **This also means the RBNZ has room to be more accommodative than otherwise and is another factor leaning against our expectation that the OCR could move up around mid-year.**

Turning to this week’s events, New Zealand labour market data for Q4 2010 is the main highlight. Our preview is on page 7. **Recent volatility in the unemployment data makes interpreting these figures difficult. We think there is a risk of a statistical spike in the unemployment rate, continuing the pattern of the past few quarters and this would accentuate expectations that the OCR could be on hold for longer.** We will focus on the trend, and even the raw numbers. In any case, the numbers of people claiming the unemployment benefit has stabilised of late. A glass-half-full interpretation could take this as a positive, as beneficiaries are typically the last participants in the recovery. But the economy also needs to be creating sufficient jobs to absorb the rising working age population, with the latter registering a decent 12,000 jump in the December quarter. With effectively flat GDP growth in the middle of 2010, the risk is that the Q4 unemployment rate spikes higher.



Sources: ANZ, National Bank, MSD, Statistics NZ

Events over the past week and our suspicions towards the HLFS will only accentuate the expectation that the OCR could be on hold for longer. We’d normally side with this were it not for our inclinations that the scene is being set for a

strong springboard effect for the economy over the second half of 2011. For sure the economy has ample capacity to absorb a sizeable uptick given weakness in 2010 H2. But equally, the NZ economy has historically turned on a dime and we suspect the one-offs are being underplayed. **Suffice to say that we think the next 6 weeks are going to be telling. Early indications look promising, though off lows. But we need to see more corroboration and for it to extend in order for the recovery to turn into something of substance.**

In international events, the RBA cash rate decision headlines the Australian calendar. A no change is widely expected, and our Australian colleagues have now pushed out the timing of when they expect a rate hike from April to July, with another follow up hike in October, to take the cash rate to 5.25 percent by year end. The key focus in the US is on the ISM and payrolls data. Following strong growth in the US economy in Q4 2010, signs of ongoing momentum into early this year bode well for the US recovery, which could start to be reflected in the USD at some stage.

RECENT LOCAL DATA

- **SNZ Trade Balance – December.** A monthly trade deficit of \$250m was recorded, taking the annual trade surplus to \$1.13bn.
- **SNZ Building Consents – December.** The number of new residential consents excluding apartments fell 11.3 percent (s.a.) to 943 units (-27.9 percent y/y). Non-residential consents worth \$332m were issued.
- **BNZ Business NZ Performance of Services Index – December.** The headline index increased to 52.5 from 51.7. Three of the five sub-indices were in expansion territory, with activity/sales recording the largest monthly increase.
- **RBNZ Credit Card Statistics – December.** Total credit card billings in NZ fell 1.4 percent, following a 0.1 percent fall in the previous month. Compared to a year ago, credit card billings are up 2 percent.

NZ FOOD PRICE OUTLOOK

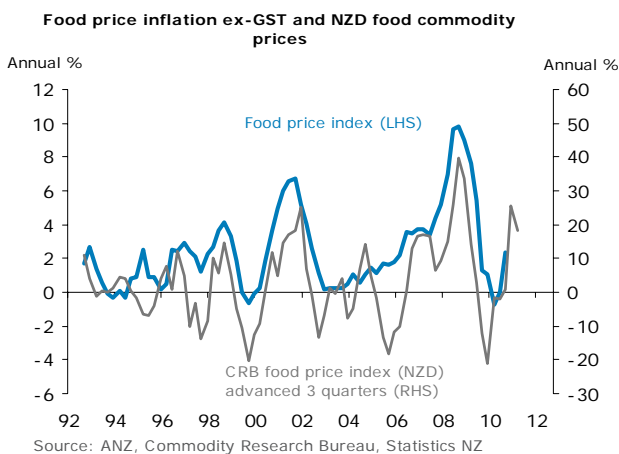
SUMMARY

We see considerable tension emerging over the coming year between cost-push inflation from strong commodity prices and a cautious consumer who will be strongly averse to price rises, particularly in the food and grocery arena. A simple model that incorporates both commodity price and demand aspects suggests around 6.5 percent food price inflation (excluding GST) over the coming year, despite the weakened pricing power that a cautious consumer entails.

DRIVERS OF NZ FOOD PRICES

Food price inflation is driven by commodity prices, and the overall pricing environment (amongst other things). Over the coming year we see tension emerging between the two. As a general rule we're more demand-pull inflation inclined – you can't pass on price increases if people are not buying. However, food is a necessary good: we need to eat. While there are various behavioural aspects that can mitigate this (e.g. buying a different sized package of an item if the price goes up, or different brands) – and we are seeing these dynamics at present – there is still an "essential" element to a lot of grocery-related purchases.

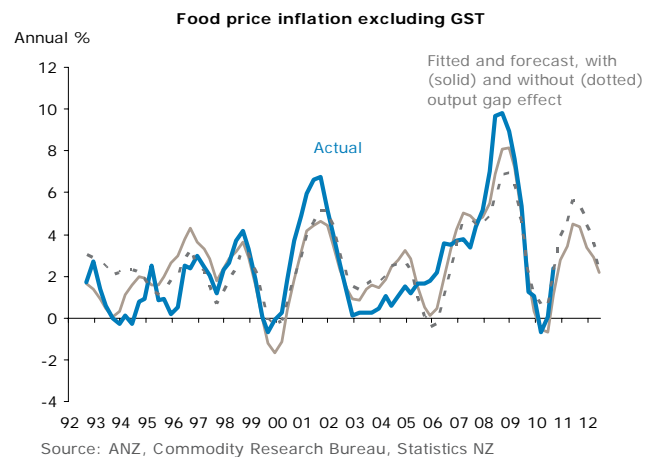
You can eyeball the relationship between commodity prices and food prices on the following chart. For commodity prices, we use the CRB food commodity price index converted to NZD terms. It doesn't capture all the movements in food prices, but by-and-large does a pretty good job. It can be seen that commodity price changes tend to show up in retail food prices after a while. But while food commodity prices often fall on an annual basis, retail food prices almost never do. This shows the cushioning impact of margins: retailers skim the cream when food commodity prices fall but absorb some of the increases on the other side of the cycle.



Our model also takes into account the impact of economy-wide demand pressures. Incorporating an estimate of the output gap into a simple equation improves the fit of the model or the stylised relationship.¹ This specification captures both cost-push influences (such as commodity prices, typically lagged reflecting the impact of longer-term contracts) but also demand-pull (ability to pass on price increases to the market). We could extend the model further to include other non-commodity related costs but they don't tend to add anything more.

FORECASTS OF NZ FOOD PRICES

To get a forecast of food prices we need forecasts of the explanatory variables. We generate the output gap from our current GDP forecasts. Weak economic momentum dampens the full flow-through of stronger commodity prices but a fair bit still works through. (For technophobes, the coefficient on the output gap term is 0.13). For the CRB food commodity price index, we assume for argument's sake the current upward momentum will increase until mid-year, at which point the level is around 7.5 percent higher than today, and then will unwind, with the level ending the year where it began and staying there. This results in the following forecast for food price inflation over the next two years (converted to annual percent changes for readability).



The specification is pretty simple but highlights that the current weak demand environment is set to knock the top off what would otherwise be a very chunky jump in food prices over the coming year, even excluding the hike to GST. Any upward surprise in growth would therefore quickly unleash further food price inflation. Consider 2008, when the lagged 2007 strength in the economy saw food prices

¹ Allowing for possible lags up to 8 quarters, the best specification for quarterly food price inflation included the output gap lagged 3 quarters, and various lags of the CRB index from 1 to 6 quarters.

NZ FOOD PRICE OUTLOOK

increase over 1 percent more than commodity price increases alone would have implied.

Our simple analysis does not capture the impact of the October 2010 rise in GST. We can simply add 2.2 percent to the above annual price inflation forecasts to get the GST-inclusive numbers. But this doesn't allow for any expectations impact of the higher headline inflation numbers. The Reserve Bank is assuming the current weak pricing power environment will cap inflation expectations, or at least retailers' ability to act on them. This seems reasonable. But it is a further upside risk when this economy finally takes a definitive turn upwards.

But the greatest risk to this illustrative scenario is of course that commodity prices do not evolve as assumed. In fact, this is a given. It is pretty easy to come up with both up-side and down-side scenarios at present. La Nina may not be finished causing supply chaos yet. And on the other side, China's credit bubble could pop spectacularly in short order, knocking their economy for six and causing world food prices to plummet (in tandem with just about every other commodity you can think of). Who'd be a forecaster?

2010Q4 LABOUR MARKET PREVIEW

SUMMARY

We expect another volatile read in this week's labour market statistics relating to the final quarter of 2010. Wage inflation will remain contained and show no signs of any spill-over from the GST increase. Employment growth was likely modest, though we expect a rise in the unemployment rate to 6.6 percent, largely due to statistical payback following the previous quarter's decline. The risk profile is for a weaker employment outturn and higher unemployment rate. Given the usual lags between when improved economic activity translates through into employment growth, a more substantial fall in the unemployment rate looks to be a H2 2011 story.

SLOW GRIND

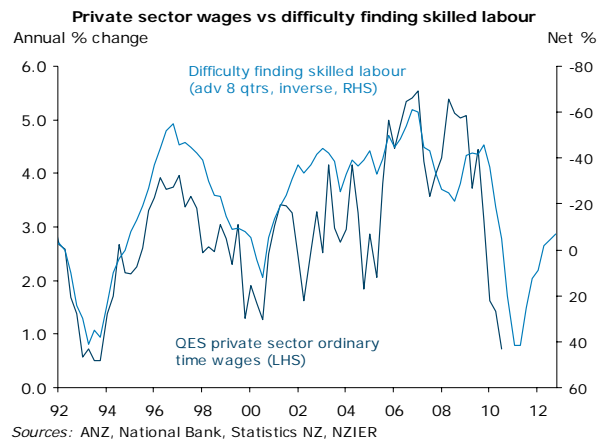
Labour market indicators have generally shown an improvement late last year. The National Bank *Business Outlook* employment intentions survey rose from 0.8 in September to 12.5 in December. And while the QSBO past employment indicator remains in negative territory in Q4 at -3.1, this was an improvement from the -11.9 reading in Q3.

December 2010 quarter expectations		
	Our Forecast	Market
LCI salary and wage ordinary time (private sector)	+0.6% q/q +1.9% y/y	+0.5% q/q +1.8% y/y
QES salary and wage ordinary time (private sector)	+0.4% q/q +1.6% y/y	+0.3% q/q +1.4% y/y
HLFS unemployment rate (s.a.)	6.6%	6.4%
HLFS participation rate (s.a.)	68.3%	68.3%
HLFS employment growth	+0.2% q/q +2.0% y/y	+0.2% q/q +2.0% y/y

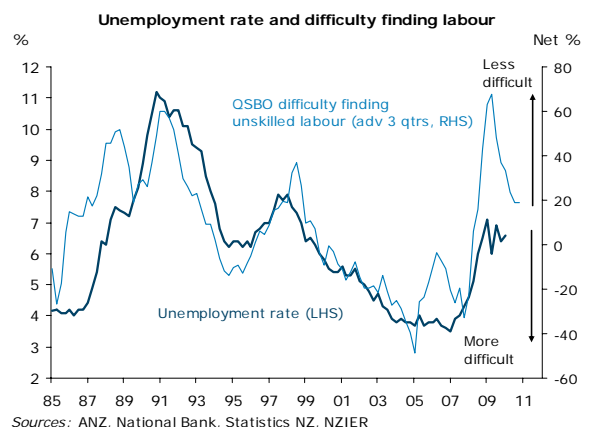
However, given that the economy effectively stalled over the middle part of last year, we expect the Q4 labour market statistics to be mixed. Certainly, we are not expecting concrete signs of labour market strength. On the wage inflation front, there will be no sign of upside wage pressure. GST may have risen from 1 October last year, but workers were more than compensated for it by tax cuts. Hence, we are not expecting to see any spill-over into the wage numbers.

We do not expect to see any signs of a meaningful pick-up in wage growth until the second half of this year, if the traditional lags between wages and skill shortages are maintained. Hence, despite signs of skilled labour becoming harder to find, it is not at a level that would see strong wage pressures as yet. But the distribution of wage growth will be more marked by sector. With tradespeople and construction-related jobs in higher demand due to the Canterbury reconstruction, we see stronger wage growth there. But other sectors

where demand has been weak (e.g. retail) will see virtually no wage pressure at all.



Turning to the HLFS data, we expect recent quarterly volatility to persist. Hence, while we expect a modest 0.2 percent increase in employment growth, we are also looking for a rise in the unemployment rate to 6.6 percent. This is partly a statistical payback from the fall in the unemployment rate in Q3 but also a reflection of a stalled economy over the six months prior. We note that the number of people on the unemployment benefit rose by 1,000 over 2010H2. HLFS unemployment fell by 10,000 in Q3, so some convergence for Q4 looks in prospect. The Q4 working age population figures – already released - showed a sizable jump, which suggests to us the risk profile around the unemployment rate, if we see stalled employment growth, is to the upside.



On the whole, we believe the labour market is slowly on the mend – **but it's a massively dichotomised story across sectors**. And it will be a slow grind with a more meaningful improvement likely to be a H2 2011 story. Sifting through the likely data volatility, the main message will be that while labour demand has improved, it is only enough to broadly keep up with labour force growth. Wage inflation pressures are not a concern for the RBNZ, as yet.

INTEREST RATE STRATEGY

SUMMARY

Short end interest rates continue to range-trade, steadied by opposing forces. Upside risks emanating from a potential rise in inflation need to be weighed against our expectations of weak data in the near-term. The OCR will likely go higher this year, but it's too soon to make a definitive call as to when and by how much. We still expect the next hike to be in June, but as the RBNZ has reiterated, we need to see evidence that the recovery is robust, and more obvious signs of inflation. So we're back to data watching and we expect this week to validate rates being on hold for quite a while yet. A turning point is coming but it's 6 weeks away from validation.

MARKET THEMES

- While the tone of the OCR Review was neutral and consistent with the December MPS, it was not dovish enough for a "long" market.
- Japan's credit rating downgrade has put the focus back on sovereign credit. To its credit, the NZ Government is committed to fiscal discipline, and the market is listening.

REVIEW AND OUTLOOK

Thursday's OCR Review was undoubtedly the major event for the NZ market last week. However, two other events were also worthy of attention. The first was Governor Bollard's scene-setting first speech of the year, as has become the tradition during his leadership. Two things stood out from his speech - the degree of uncertainty that lies ahead, and the diverse nature of that uncertainty. Indeed, it's not as if the major building blocks of the recovery are in place, with only a few minor risks on the periphery. Instead, every part of the economy is going through a transition, and there are significant risks in each area. Lining the ducks up could be tricky and it's going to be a while before a clear view will emerge of where the economy is headed.

We have a view on where we're headed and so does the RBNZ. However, over the next few months, we need to be aware that the information at hand is "circumstantial" at best, and we need to see concrete signs before jumping to conclusions. For markets, this means more volatility. And there is a hurdle of weak 2010 data to get over first.

Japan's credit rating downgrade also caught our attention – not so much the headlines, but the subtle implications arising from it. At a time of heightened market focus on sovereign credit risk, it served as a timely reminder to markets and the public that we live in an age of fiscal austerity. Thankfully, the Key Government has been making the right noises on this

front – with talk of cost savings, asset sales and a return to surpluses a year ahead of forecasts all music to a wary market's ears. In a perverse way, NZ is starting to look like a safe haven, especially while the currency remains strong.

PREFERRED BORROWING STRATEGIES

At some stage this year it is likely to be worth paying fixed, and/or extending cover to above-average levels. But we're not there yet, and as tempting as it is to "get in early", we'd caution against it for two reasons. First and foremost, we haven't yet got confirmation that the recovery will be sustained – there are significant risks, and events in Egypt remind us that these can come out of left field. Second, we suspect the data flow is going to get worse before it gets better, and this is set to test the market's mettle – particularly as the market is pricing in stiffer rate hikes than the RBNZ's own forecasts. So, although we are reasonably confident that things are on the up and up, this needs to be tempered up against the risks and current market pricing, and at the moment that's not supportive.

GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔	Hike still a long way off.
NZ data	↔/↓	Near-term data likely to be soft, but outlook improving.
Fed Funds / front end	↔/↑	FOMC Statement neutral, but data picking up.
RBA	↔	Weak CPI data has given the RBA more breathing room.
US 10 year	↔	Stabilising at higher levels. Needs a catalyst to move.
NZ swap curve	↔/↑	Likely to steepen, with short end held down by soft data.
Flow	↔	Market read the OCR Review as not dovish enough.
Technicals	↔	Range trading.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Mar-11	+1	0
Thu 28-Apr-11	+4	+3
Thu 9-Jun-11	+11	+8
Thu 28-Jul-11	+26	+24
Thu 15-Sep-11	+36	+33
Thu 27-Oct-11	+49	+50
Thu 8-Dec-11	Not forecast	+59

TRADING THEMES WE FAVOUR AT PRESENT

Sentiment in the local bond market is likely to improve, as opposed to deteriorate, following the Japanese downgrade as global investors look to NZ as a virtual safe haven. Demand has been reinforced by the NZ Government's commitment to fiscal austerity, and the additional roll/carry courtesy of the resultant less restrictive monetary policy. Although we like positive carry steepeners, these may take a breather on global political concerns.

CURRENCY STRATEGY

SUMMARY

Last week's RBNZ statement was not as dovish as the market was expecting, catching the market off-guard somewhat and leading to a rise in the NZD. The economic data out of the US continue to improve, but it was the political situation in Egypt that has seen the USD's safe-haven status return to the fore. However, the NZD has managed to hold up despite Middle East concerns, highlighting ongoing demand for the currency.

MARKET THEMES

- NZD torn between weak data releases and the RBNZ's less pessimistic outlook.
- Political instability in Egypt brings safe-haven support for USD.
- FOMC suggests they will stay the course.
- Slightly less positive Australian data appears to cap AUD.

REVIEW AND OUTLOOK

The currency market was positioned for a dovish statement from the RBNZ last week. The actual tone was not as dovish, causing the NZD to move higher. At this stage, while acknowledging recent weaker data, the RBNZ are focusing on forward indicators which they said "have firmed somewhat". So it will be up to the hard economic data to confirm this view. For this week, however, expect the Egyptian situation to be the main driver via USD strength.

The Australian CPI data surprised with its relative weakness. AUD continues to look fully priced. The RBA are expected to leave rates unchanged on Tuesday, so expect little direction from them. NAB Business Confidence this week will reveal how much the Queensland floods have dented confidence, which could see the AUD further sidelined.

The political uncertainty in Egypt impacted financial markets on Friday, causing a safe-haven bid to the USD. Tensions in Egypt do not look likely to be resolved quickly, so expect the USD to be underpinned for the next week or so at least. We will need to watch this closely for any signs of political unrest spreading beyond Egypt and Tunisia. The USD could garner more medium term support should tensions in the Middle East escalate.

The FOMC last week suggested that their QE2 plan remains in place and will work its way to completion as expected. US economic data

continues to improve at varying levels, giving the financial markets fewer reasons to continue to sell the USD. In particular, confidence indicators are proving very resilient, with consumer confidence for January coming in at 60.6 versus expectations of 54.0. Q4 GDP growth was also strongly driven by consumption growth. Are US consumers starting to open their wallets?

The Lunar New Year holidays start on Wednesday in most Asian countries. Expect the markets in our time zone to become very quiet later in the week.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Below fair value.
Yield	↔/↓	Yields less supportive as NZ growth prospects soften.
Commodities	↔/↑	NZ's commodities outperforming AU's recently.
Partial indicators	↓	Anaemic NZ data continues.
Technicals	↑	Bounced strongly from 0.7400. Momentum up.
Sentiment	↓↔	Weak NZ data continues but RBNZ more upbeat on forward indicators.
Other	↑	Near historically low levels.
On balance	↑	0.7700 - 0.7800.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Higher US bond yields whereas NZ's turn lower.
Commodities	↑	Food-related commodities still rising.
Risk aversion	↔/↑	Political instability drives USD higher.
Partial indicators	↔/↓	US data has been getting better apart from payrolls.
Technicals	↔	Rangebound with negative bias.
AUD	↓	AUD sentiment turned bearish.
Sentiment	↓	Weak data still at the fore.
Other	↑	RBNZ less dovish.
On balance	↓	USD safe-haven strength to undermine NZD.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-Jan	NZ	Building Permits MoM - DEC	-1.30%	8.80%	10:45
	NZ	Trade Balance - DEC	50M	-186M	10:45
	NZ	Exports - DEC	3.80B	3.65B	10:45
	NZ	Imports - DEC	3.75B	3.84B	10:45
	AU	TD Securities Inflation MoM% - JAN	- -	0.20%	12:30
	AU	TD Securities Inflation YoY% - JAN	- -	3.80%	12:30
	JN	Industrial Production (MoM) - DEC P	2.80%	1.00%	12:50
	JN	Industrial Production YOY% - DEC P	4.40%	5.80%	12:50
	AU	Private Sector Credit MoM% - DEC	0.30%	0.30%	13:30
	AU	Private Sector Credit YoY% - DEC	3.40%	3.60%	13:30
	NZ	Money Supply M3 YoY - DEC	- -	-0.20%	15:00
	JN	Housing Starts (YoY) - DEC	4.60%	6.80%	18:00
	JN	Construction Orders (YoY) - DEC	1.10%	-5.30%	18:00
	GE	Retail Sales (MoM) - DEC	2.00%	-2.40%	20:00
	GE	Retail Sales (YoY) - DEC	1.10%	2.00%	20:00
	EC	Euro-Zone CPI Estimate (YoY) - JAN	2.30%	2.20%	23:00
1-Feb	US	Personal Income - DEC	0.40%	0.30%	02:30
	US	Personal Spending - DEC	0.50%	0.40%	02:30
	US	PCE Core (MoM) - DEC	0.10%	0.10%	02:30
	US	PCE Core (YoY) - DEC	0.80%	0.80%	02:30
	US	PCE Deflator (YoY) - DEC	1.30%	1.00%	02:30
	US	Chicago Purchasing Manager - JAN	64.5	66.8	03:45
	US	NAPM-Milwaukee - JAN	- -	62	04:00
	US	Dallas Fed Manf. Activity - JAN	15	12.8	04:30
	NZ	Average Hourly Earnings QoQ - 4Q	0.60%	1.00%	
	NZ	Private Wages Exc Overtime QoQ - 4Q	0.50%	0.60%	10:45
	NZ	Private Wages Inc Overtime QoQ - 4Q	0.60%	0.50%	10:45
	AU	AiG Performance of Mfg Index - JAN	- -	46.3	11:30
	AU	NAB Business Conditions - DEC	- -	4	13:30
	AU	NAB Business Confidence - DEC	- -	6	13:30
	AU	House Price Index QoQ - 4Q	-0.20%	0.10%	13:30
	AU	House Price Index YoY - 4Q	5.60%	11.50%	13:30
	CH	PMI Manufacturing - JAN	53.5	53.9	14:00
	NZ	ANZ Commodity Price - JAN	- -	2.00%	15:00
	CH	HSBC Manufacturing PMI - JAN	- -	54.4	15:30
	AU	RBA Cash Target	4.75%	4.75%	16:30
	AU	RBA Commodity Price Index Au - JAN	- -	94.6	18:30
	AU	RBA Commodity Index SDR YoY% - JAN	- -	47.70%	18:30
	UK	Nat'wide House prices sa (MoM) - JAN	-0.40%	0.40%	20:00
	UK	Nat'wide House prices nsa(YoY) - JAN	-1.00%	0.40%	20:00
	GE	Unemployment Change (000's) - JAN	-10K	3K	21:55
	GE	Unemployment Rate (s.a) - JAN	7.50%	7.50%	21:55
	GE	PMI Manufacturing - JAN F	60.2	60.2	21:55
	EC	PMI Manufacturing - JAN F	56.9	- -	22:00
	UK	PMI Manufacturing - JAN	58	58.3	22:30
	UK	Net Lending Sec. on Dwellings - DEC	0.6B	0.8B	22:30
	UK	Mortgage Approvals - DEC	46.5K	48.0K	22:30
	UK	M4 Money Supply (YoY) - DEC	- -	-1.40%	22:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
2-Feb	US	Construction Spending MoM - DEC	0.10%	0.40%	04:00
	US	ISM Manufacturing - JAN	58	57	04:00
	US	ISM Prices Paid - JAN	73.5	72.5	04:00
	AU	HIA New Home Sales (MoM) - DEC	- -	-0.20%	13:00
	UK	PMI Construction - JAN	49.5	49.1	22:30
	EC	Euro-Zone PPI (MoM) - DEC	0.70%	0.30%	23:00
	EC	Euro-Zone PPI (YoY) - DEC	5.20%	4.50%	23:00
3-Feb	US	Challenger Job Cuts YoY - JAN	- -	-29.00%	01:30
	US	ADP Employment Change - JAN	150K	297K	02:15
	NZ	Unemployment Rate - 4Q	6.50%	6.40%	10:45
	NZ	Employment Change (QoQ) - 4Q	0.20%	1.00%	10:45
	NZ	Employment Change (YoY) - 4Q	2.00%	1.80%	10:45
	NZ	Participation Rate (QoQ) - 4Q	68.20%	68.30%	10:45
	AU	Building Approvals (MoM) - DEC	1.30%	-4.20%	13:30
	AU	Building Approvals (YoY) - DEC	-13.70%	-9.90%	13:30
	AU	Trade Balance - DEC	1600M	1925M	13:30
	CH	China Non-manufacturing PMI - JAN	- -	56.5	14:00
	GE	PMI Services - JAN F	60	60	21:55
	EC	PMI Composite - JAN F	56.3	56.3	22:00
	EC	PMI Services - JAN F	55.2	- -	22:00
	UK	PMI Services - JAN	51.3	49.7	22:30
	EC	Euro-Zone Retail Sales (MoM) - DEC	0.50%	-0.80%	23:00
	EC	Euro-Zone Retail Sales (YoY) - DEC	0.20%	0.10%	23:00
4-Feb	EC	ECB Announces Interest Rates	1.00%	1.00%	01:45
	US	Unit Labor Costs - 4Q P	0.20%	-0.10%	02:30
	US	Initial Jobless Claims - Jan 29	420K	454K	02:30
	US	Continuing Claims - Jan 22	3920K	3991K	02:30
	US	Nonfarm Productivity - 4Q P	2.00%	2.30%	02:30
	US	ISM Non-Manf. Composite - JAN	57	57.1	04:00
	US	Factory Orders - DEC	-0.40%	0.70%	04:00
	NZ	New Zealand Net Migration SA - DEC	- -	630	10:45
5-Feb	US	Change in Nonfarm Payrolls - JAN	140K	103K	02:30
	US	Change in Private Payrolls - JAN	145K	113K	02:30
	US	Unemployment Rate - JAN	9.50%	9.40%	02:30
	US	Avg Hourly Earning MOM All Emp - JAN	0.20%	0.10%	02:30
	US	Avg Hourly Earning YOY All Emp - JAN	1.70%	1.80%	02:30

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States CH: China.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All \$ values in local currency.

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: In last week's January OCR review, the RBNZ stuck to their December MPS script. This week's wage inflation data will provide an early assessment of the RBNZ's view that wage pressure remains contained. The HLFS will also reveal whether the labour market is showing genuine signs of improvement, with risks pointing to a spike up in the unemployment rate. Next week's local release calendar is light. We expect more of the data pertaining to 2011 to start to hit a more promising note for NZ.Inc.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 31 Jan (10:45am)	Overseas Merchandise Trade – Dec	Into the black	We expect a monthly surplus of around \$170m. Commodity price strength is the major influence.
Mon 31 Jan (10:45am)	Building Consents – Dec	Down	Forward indicators, notably REINZ housing and section sales, suggest a decline. Construction sector activity remains weak.
Mon 31 Jan (3:00pm)	RBNZ Credit Aggregates - Nov	Flat	Deleveraging remains ongoing.
Tue 1 Feb (10:45am)	Labour Cost Index – 2010q4	Moving up	Private Sector Salary and Ordinary Time Wage Rates are expected to increase 0.6 percent (1.9 percent y/y).
Tue 1 Feb (10:45am)	Quarterly Employment Survey – 2010q4	Rising	Labour earnings will be underpinned by rising hourly earnings, and small increases in filled jobs and paid hours.
Tue 1 Feb (3:00pm)	ANZ Commodity Price Index - Jan	- -	- -
Wed 2 Feb (6:00am)	<i>globalDairyTrade</i> online auction	Firm	We expect USD prices to remain underpinned by supply concerns and strong demand.
Thur 3 Feb (10:45am)	Household Labour Force Survey – Q4	Sideways	A 0.2 percent increase in employment is envisaged. The unemployment rate is expected to tick up to 6.6 percent.
Fri 4 Feb (10:45am)	External Migration – Dec	Supportive	We expect a net inflow of approximately 600 persons. The annual inflow is expected to slow to around 10,000 persons.
Wed 9 Feb (10:45am)	Electronic Card Transactions – Jan	Rising	We expect a small increase of perhaps 0.5 percent from weak December levels.
Fri 11 Feb (10:45am)	Food Price Index - Jan	Rising	Strong export commodity prices point to strengthening domestic food prices over 2011.
Mon 14 Feb (10:00am)	REINZ Housing Market Report – Jan	Caution	Another small increase in residential volumes is expected. Prices are expected to trend lower.
Mon 14 Feb (10:45am)	Retail Trade Survey – 2010q4	Post GST blues	Retail values are expected to move sideways in the December month. Retail volumes should contract by about 0.5 percent in the December quarter.
Thur 17 Feb (3:00pm)	ANZ-Roy Morgan Consumer Confidence - Feb	- -	- -
Fri 25 Feb (3:00pm)	RBNZ Credit Aggregates - Jan	Still deleveraging	The focus on balance sheet repair is expected to continue.
On Balance		An improving tone	Data for Q4 is likely to see a return to positive growth, but in fits and starts. We continue to look for forward-looking gauges to convey an improving tone.

KEY FORECASTS AND RATES

	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
GDP (% qoq)	0.6	0.1	-0.2	0.5	0.8	1.0	1.7	1.5	0.1	0.4
GDP (% yoy)	1.8	1.8	1.5	1.0	1.3	2.2	4.1	5.1	4.4	3.7
CPI (% qoq)	0.4	0.2	1.1	2.3	0.8	1.0	0.8	0.5	0.5	0.7
CPI (% yoy)	2.0	1.7	1.5	4.0	4.5	5.3	5.0	3.1	2.8	2.5
Employment (% qoq)	1.0	-0.2	1.0	0.2	0.3	0.4	0.6	0.7	0.5	0.4
Employment (% yoy)	-0.1	0.0	1.8	2.0	1.3	1.9	1.5	2.0	2.2	2.2
Unemployment Rate (% sa)	6.0	6.9	6.4	6.6	6.5	6.4	6.1	5.8	5.6	5.6
Current Account (% GDP)	-2.4	-3.0	-3.1	-2.3	-2.4	-2.1	-2.8	-2.5	-2.4	-2.4
Terms of Trade (% qoq)	6.1	2.0	3.0	2.9	2.4	1.0	-0.1	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	0.1	12.7	17.9	14.7	10.7	9.6	6.3	2.6	-0.7	-2.5

	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11
Retail sales (% mom)	-0.7	3.2	-1.2	-1.1	0.1	2.0	-2.4	1.5	..	..
Retail sales (% yoy)	3.6	5.6	4.7	2.8	1.8	4.6	0.6	2.5	..	..
Credit Card Billings (% mom)	-1.5	1.9	1.1	-1.2	0.7	1.0	0.5	-0.1	-1.4	..
Credit Card Billings (% yoy)	0.8	3.5	4.5	2.7	2.1	4.3	4.6	3.7	2.0	..
Car registrations (% mom)	2.6	-4.0	5.5	-6.4	0.0	2.6	-3.7	14.1	-9.1	..
Car registrations (% yoy)	40.5	30.5	35.8	16.0	19.0	19.2	9.4	23.5	6.4	..
Building consents (% mom)	8.2	-9.9	1.9	3.1	-17.7	0.8	-1.9	8.8	-18.6	..
Building consents (% yoy)	32.4	11.3	26.8	25.8	-3.1	-9.4	-17.4	-8.7	-26.4	..
REINZ House Price (% yoy)	4.7	3.7	3.7	2.6	0.9	0.0	-1.4	1.4	-2.2	..
Household Lending Growth (% mom)	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.1	..	..
Household Lending Growth (% yoy)	2.8	2.6	2.6	2.5	2.3	2.3	2.0	1.8	..	..
ANZ Roy Morgan Consumer Confidence	121.9	126.0	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1
NBNZ Business Confidence	49.5	48.2	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..
NBNZ Own Activity Outlook	43.0	45.3	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..
Trade Balance (\$m)	660	770	221	-186	-430	-454	-224	-186	-250	..
Trade Balance (\$m ann)	178	41	593	585	871	978	1256	1350	1131	..
ANZ World Commodity Price Index (% mom)	5.1	1.2	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	..
ANZ World Commodity Price Index (% yoy)	53.2	51.8	50.1	47.3	38.6	32.9	31.4	23.7	23.0	..
Net migration (sa)	770	340	230	900	840	1000	640	630	..	..
Net migration (annual)	19954	17967	16504	15221	14507	13914	12610	11519	..	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Nov-10	Dec-10	Today	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
NZD/USD	0.743	0.780	0.770	0.73	0.73	0.75	0.74	0.73	0.72	0.71
NZD/AUD	0.775	0.763	0.777	0.73	0.73	0.74	0.74	0.75	0.74	0.75
NZD/EUR	0.572	0.583	0.566	0.56	0.57	0.59	0.57	0.55	0.54	0.53
NZD/JPY	62.14	63.22	63.21	62.1	63.5	66.0	66.6	67.2	67.7	67.5
NZD/GBP	0.477	0.500	0.486	0.47	0.48	0.48	0.47	0.46	0.45	0.44
NZ\$ TWI	68.1	69.2	68.8	66.4	67.0	68.6	67.7	67.1	66.1	65.4
INTEREST RATES	Nov-10	Dec-10	Today	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	3.75	3.75	4.00	4.25	4.50
NZ 90 day bill	3.20	3.18	3.24	3.20	3.70	4.00	4.00	4.40	4.50	4.90
NZ 10-yr bond	5.66	5.87	5.48	5.60	5.90	5.90	5.90	5.80	5.80	5.80
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50
US 3-mth	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35	0.85	1.60
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.50	5.75	5.75	5.75
AU 3-mth	5.04	5.04	4.94	5.10	5.20	5.50	5.70	6.00	6.00	6.00

	21 Dec	24 Jan	25 Jan	26 Jan	27 Jan	28 Jan
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.16	3.18	3.18	3.19	3.19	3.21
NZGB 11/11	4.06	3.96	3.93	3.89	3.89	3.90
NZGB 04/13	4.81	4.63	4.60	4.56	4.55	4.55
NZGB 12/17	5.70	5.41	5.38	5.34	5.33	5.31
NZGB 05/21	5.87	5.59	5.56	5.52	5.51	5.50
2 year swap	3.82	3.87	3.86	3.85	3.88	3.86
5 year swap	4.74	4.67	4.67	4.65	4.64	4.64
RBNZ TWI	67.4	67.9	68.2	68.4	68.7	69.0
NZD/USD	0.7459	0.7592	0.7654	0.7677	0.7718	0.7728
NZD/AUD	0.7485	0.7678	0.7691	0.7704	0.7752	0.7814
NZD/JPY	62.41	62.81	63.10	63.02	63.38	63.91
NZD/GBP	0.4798	0.4754	0.4780	0.4858	0.4850	0.4864
NZD/EUR	0.5664	0.5584	0.5602	0.5611	0.5633	0.5638
AUD/USD	0.9965	0.9888	0.9952	0.9965	0.9956	0.9890
EUR/USD	1.3168	1.3595	1.3663	1.3683	1.3701	1.3707
USD/JPY	83.67	82.73	82.44	82.09	82.12	82.70
GBP/USD	1.5547	1.5970	1.6011	1.5803	1.5915	1.5889
Oil (US\$/bbl)	88.68	87.12	86.74	85.08	86.15	84.45
Gold (US\$/oz)	1387.20	1343.78	1334.20	1334.15	1346.10	1312.20
Electricity (Haywards)	13.05	1.01	2.50	1.72	2.72	2.24
Baltic Dry Freight Index	1886	1345	1292	1234	1186	1137
Milk futures (US\$/contract)	122	134	136	139	139	138

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

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

Other interests and relationships

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

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

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL 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;



IMPORTANT NOTICE

- 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

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