NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

10 May 2010

INSIDE

NZ ECONOMICS TEAM

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

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

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

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

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

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

INFLATION AND SOVEREIGN WATCH

ECONOMIC OVERVIEW

While last week's labour market data for Q1 showing a 6 percent unemployment rate don't feel right, the spirit of underlying recovery across employment, hours worked and underemployment cements a June hike. A continuation of status quo monetary conditions now rests on contagion from Greece extending further - a possibility but not what we would consider a prudent central track. Data this week is expected to confirm a strengthening in sentiment for the manufacturing sector, but mixed messages across the domestic economy. Most interest will centre on April electronic card transaction data to see if the March gain was an Easter blip or something of substance.

FINANCIAL CONDITIONS INDEX UPDATE

Our Financial Conditions Indexes point to ongoing growth momentum in NZ, Australia and the US over the coming year. Recent global market gyrations as a result of sovereign debt fears have not had any discernable impact on our financial conditions as yet. To date, the impact has largely been felt through lower equity prices and a widening in credit spreads. Given the advanced warning that our Financial Conditions Indexes provided us when the sub-prime crisis first started to escalate in 2007, we will be paying particularly close attention this time around.

MONTHLY INFLATION GAUGE

Our April monthly inflation gauge increased by 1.2 percent, following a 0.1 percent fall in March. This was the highest monthly increase in the 27 month history of the series. Higher prices for tobacco and alcohol contributed about one-third of the monthly increase. Large price increases were also scattered through other parts of the gauge, with few price declines evident. Overall our index is providing tentative evidence that pricing pressures are picking up throughout the economy – a worrying sign at this juncture of the cycle.

INTEREST RATE STRATEGY

Market sentiment remains nervous after a roller coaster week. Rates rose sharply following much better HLFS data, and broad RBNZ endorsement of what's priced in, only to come back on the spill-over of European debt concerns, and a neutral RBA statement. With market sentiment fickle, expect more volatility over the week ahead but for the NZ bond market to remain well supported as NZ.Inc takes elements of a safe haven status.

CURRENCY STRATEGY

The currency market was more volatile than usual last week as contagion fears, a hung UK parliament and a brief unprecedented drop in US equities led to big moves. Positive US economic data was largely ignored as the focus was on risk aversion. Given that the market now has the biggest short position in the EUR since its inception, the risk is for a massive short squeeze rally should the EU finance ministers come up with a credible plan this week. This has the potential to drag the NZD higher.

ECONOMIC OVERVIEW

SUMMARY

While last week's labour market data for Q1 showing a 6 percent unemployment rate don't feel right, the spirit of underlying recovery across employment, hours worked and underemployment cements a June hike. A continuation of status quo monetary conditions now rests on contagion from Greece extending further - a possibility but not what we would consider a prudent central track. Data this week is expected to confirm a strengthening in sentiment for the manufacturing sector, but mixed messages across the domestic economy. Most interest will centre on April electronic card transaction data to see if the March gain was an Easter blip or something of substance.

THE WEEK AHEAD

- **SNZ Electronic Card Transactions – April** (Tuesday May 11, 10:45am). The surprisingly strong March increase may have been due to the timing of Easter falling in early April. If so, we can expect a pullback in retail spending in April.
- **BNZ/Business NZ PMI - April** (Thursday May 13, 10:00am). We expect the PMI to follow the lead of the National Bank Business Outlook survey for manufacturing, showing further improvement.
- **SNZ Food Price Index - April** (Thursday May 13, 10:45am). Monthly volatility needs to be borne in mind but we expect high food commodity prices will translate into rising food prices over the coming months.
- **REINZ Housing Market data - April** (Friday May 14, 10:00am). House sales are expected to post a small rise in seasonally adjusted terms, but for the level of activity to remain low.
- **SNZ Retail Trade – March** (Friday May 14, 10:45am). Retail indicators suggest a positive monthly increase of around 1.5 percent on both core and total measures. Core Retail volumes in the March quarter are expected to decline whereas a small increase in total retail volumes is expected.

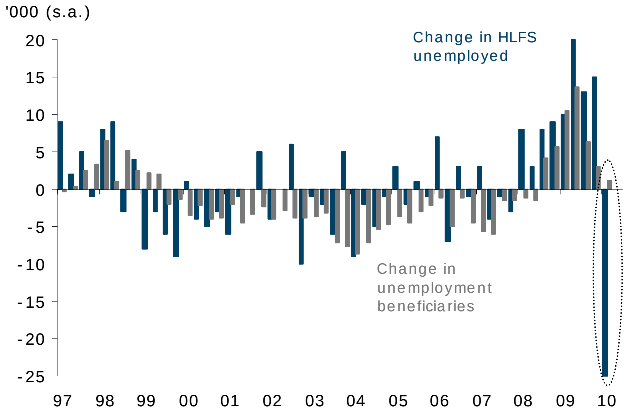
WHAT'S THE VIEW?

Just like everyone else, we were gob-smacked by last week's unemployment figures. The 1.1 percentage point decline in the unemployment rate to 6 percent, from the previous quarter's 7.1 percent was the largest in the history of the survey.

We are reminded of the old adage about lies, dammed lies and statistics. But as economists, we have to deal with the official figures as they come. We will break our comments down into five key areas.

- **We do not believe the unemployment rate now resides at 6 percent.** For one, the 25,000 fall in sampled unemployed is at odds with the 1,000 increase in the official numbers on the unemployment benefit over the quarter. Even if we look at the change over two quarters to remove some of the noise, the HLFS unemployed is down by 10,000 while those receiving the unemployment benefit are up by 4,000. The correlation between the two is not strong (0.52 correlation coefficient), but such a large divergence in the opposite direction is unprecedented.

HLFS unemployed and unemployment beneficiaries



Sources: ANZ, National Bank, MSD

- **Part of the issue resides in the 1,000 fall in the seasonally adjusted working age population during the quarter, the first fall since Q4 1986.** The decline seen in 1986 was entirely believable, for net migration was negative during that period. But given that there was a net inflow of migrants in the 15+ age group of around 3,500 during Q1 2010, this implies there was a fall in the natural working age population. This has never occurred before in the history of the survey, and seems at odds with recent population trends. If we make the heroic assumption that the working age population actually grew by around 0.3 percent then we would get an unemployment rate of around 6.4 percent. Now it is always dangerous to make these sorts of fiddles but we need to do precisely this for a simple reason. **We fully expect to see some sort of statistical reversal in the unemployment rate figures in Q2 if, as we suspect, "noise" has had an overly strong influencing role. We have**

ECONOMIC OVERVIEW

pencilled in an unemployment rate of 6.3 percent for Q2. Of course even if we see such a statistical correction, the unemployment rate will still be well below where anyone thought unemployment would be by Q2 2010.

- **While we are disputing where the exact unemployment rate figures actually reside – and the working age population dynamics – there is still a wake-up call here.** The population is ageing. Obviously everyone does not suddenly fall out of the labour market beyond the age of 65. As the babyboomers filter through the system over time, we will see more of the dynamics that was evident in the HLFS last week: the unemployment rate being increasingly influenced not just by employment growth, but by available supply.
- **Notwithstanding peculiarities in the HLFS survey, the overall spirit was still one of strength and an improving labour market.** The 1 percent rise in employment growth was dominated by full-time employment and hours worked rose by a stronger 1.7 percent. Measures of underemployment improved, with the number of people who work part-time and would prefer more hours easing to its lowest since late 2008. Alongside the strong paid hours data from the QES survey, there is now upside risk to GDP growth over Q1 and possibly Q2, with the RBNZ's projections of 1 percent quarterly growth looking achievable.
- **We are wary of the productivity consequences of what we are starting to see.** Employment growth is picking up, which is a healthy dynamic for the cyclical rebound that is currently underway. Growth prospects in 2010 now looks a lot healthier on the face of it, with such "good" news having the potential to see elevated consumer and business confidence translate into real activity. But as we noted last week, there is a supply-side issue to be mindful of here: we are seeing evidence of lifting labour inputs. We also need to see signs of improving business investment, if the supply-side capacity of the economy is going to be enhanced. Indeed, it is the supply side capacity of the economy that we have the greater reservations over, which could threaten the gradual normalisation path for interest rates. Our Monthly Inflation Gauge is now showing an upward trend in domestically generated inflation (refer to page 7).

The improvement in the labour market pretty much cements a June rate hike. We still see 25bp moves as opposed to something larger, and this was reinforced by Governor Bollard's speech where he essentially endorsed the "small steps" that had been priced in by the market. **We still envisage a pause in the tightening cycle at some stage rather than a straight line to neutral, which we see as 5 percent.** Eventually rates are likely to push through neutral in line with history, but to think we are going from 2.5 to 5 percent in a straight line in the first instance seems a little heroic to us.

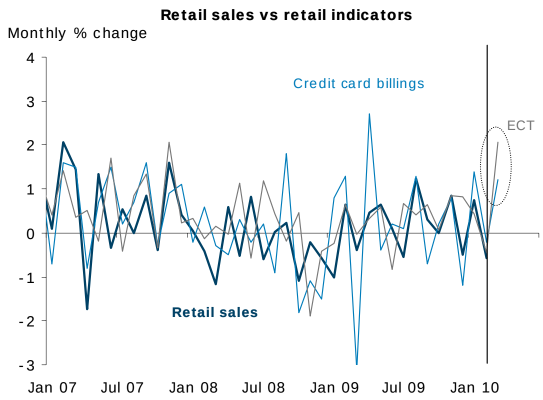
No rate hike in June now rests entirely on the global scene and European sovereign debt concerns extending. This is certainly possible, but we wouldn't put it down as the central track. The deterioration we saw in credit markets over the week was sobering. Credit spreads globally are once again widening and parallels are being drawn between Greece (Bear Stearns) and follow-up nations that are being compared to Lehmans. But equally important was what we were seeing across the equity market and Friday's price action in particular. Standing back there was good news: Greece and their aid package, and the US printed some strong payrolls figures. The failure of bourses to stabilise or recover from Thursday's Mickey Mouse movements (i.e. near 1000 point drop in the DJIA at one stage) tells us that there is not a lot of conviction out there. How equity and credit markets behave over the coming week are going to be key.

We don't think policymakers are going to stand idly by, although neither do we believe there is a quick fix. Policymakers may provide a near-term solution to current liquidity issues in pockets of Europe (i.e. bond and CDS spreads) but the real issue is one of solvency. The later requires deep-rooted macro reform (and this includes the political appetite for it). Stepping back we view recent developments as still consistent with our "bathtub with waves" cycle. It is part and parcel of the transition stage of the economic cycle that we alluded to at the start of the year in our Key Macro Themes. At present there are huge tensions between growth versus the need to de-leverage, liquidity versus solvency, the old normal versus the new normal (and pending regulatory change), private sector balance sheets versus the public sector, the exit strategies and leadership versus populism to name but a few. **To believe that we are embarking on the holy grail of recoveries when such tensions exist simply seems a stretch to us.** Of course we are likely to see some unease, which is precisely what we are seeing now.

ECONOMIC OVERVIEW

We believe the latest batch will be resolved, but another will appear over the coming months. Only one thing will truly heal the global economy and that is the passage of time.

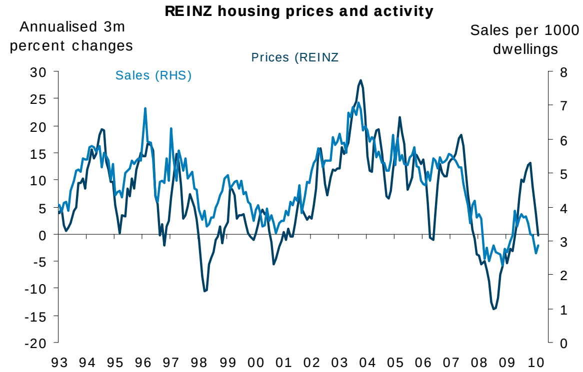
Turning to this week's data, we expect retailing to show a welcome fillip in March. Credit card billings and electronic card transactions data both point to a sizeable jump. Total retail volumes are expected to register a small quarterly increase with a March monthly bounce merely giving some mediocrity to an otherwise subdued quarter and volumes being assisted by price discounting. **More important will be the retail reading for April** from electronic card transactions (ECT) data which we'll get on Tuesday. With Easter occurring in the first week of April, some of March's robust retailing figures may have merely been shopping in advance of the holiday and hence ECT data could show a pullback. However, if the ECT data comes in strong it'll be a flag-bearer for underlying momentum starting to show some substance. In practice we suspect both dynamics will come to the fore and a flat outturn will emerge.



Sources: ANZ, National Bank, Statistics NZ, RBNZ

We expect the Business NZ PMI to follow the trend of the manufacturing component to the National Bank Business Outlook for April and show a lift in sentiment. Production, deliveries and stocks in the PMI have moved into expansion, and we expect this to be sustained in April. Recent monthly readings of the NBBO have shown that manufacturing firms are intending to add to staffing levels, and we expect this to be reflected in the PMI survey as well.

We expect some signs of tentative improvement in the REINZ housing statistics. Sales remain close to historical lows with uncertainty weighing. Given the absolute level, it'll be hard to get excited about any sort of volume-based bounce. We'll be paying more attention to the average days to sell a house and the house price index as bellwethers. We expect both to remain subdued, and this pattern to remain until uncertainties over taxation are resolved and more solid labour income growth returns.



Sources: ANZ, National Bank, REINZ

RECENT LOCAL DATA

- **ANZ Commodity Price Index – April**. The ANZ Commodity Price Index increased by 4.9 percent in April (+53.0 percent y/y) to a new record high, with ten of the thirteen commodities increasing. The NZD Commodity price index increased by 3.8 percent to a new record high (+23.3 percent y/y).
- **SNZ Labour Cost Index and Quarterly Employment Survey – March quarter.** Private sector LCI Salary and Ordinary Time Wage Rates rose a quarterly 0.3 percent (1.3 percent y/y). QES private sector ordinary average hourly earnings fell by 0.4 percent (+2.3 percent y/y). QES hours paid and filled jobs rose by a seasonally adjusted 1.1 percent.
- **Fonterra online auction – May.** The average price for Whole Milk Powder (WMP) was $3,932 per tonne, 1.2 percent lower than in April.
- **SNZ Household Labour Force Survey – March quarter.** Employment increased by 1.0 percent, with hours worked increasing by 1.7 percent. With the labour force participation rate holding at 68.1 percent, a 0.1 percent fall in the labour force resulted in the unemployment rate falling to 6.0 percent, from the 7.1 percent in the December quarter.
- **Crown Financial Statements - Nine Months Ended 31 March.** The operating balance was in deficit by $1,327 million, whereas the core deficit was $5,272 million. Higher than forecast returns from crown investments and lower than forecast expenditure were partly offset by lower than forecast crown revenue.

FINANCIAL CONDITIONS UPDATE

SUMMARY

Our Financial Conditions Indexes point to ongoing growth momentum in NZ, Australia and the US over the coming year. Recent global market gyrations as a result of sovereign debt fears have not had any discernable impact on our financial conditions as yet. To date, the impact has largely been felt through lower equity prices and a widening in credit spreads. Given the advanced warning that our Financial Conditions Indexes provided us when the sub-prime crisis first started to escalate in 2007, we will be paying particularly close attention this time around.

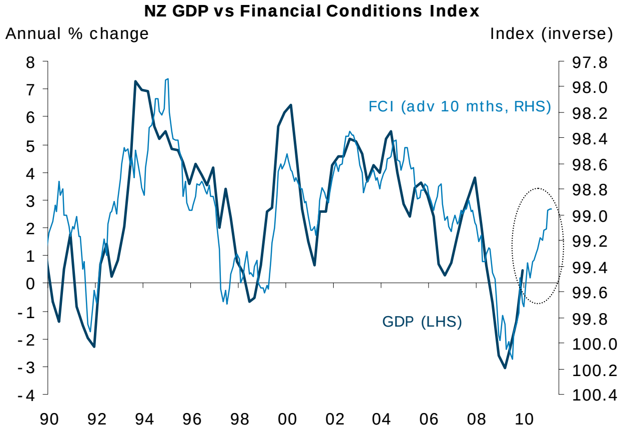
A PRIMER

It is widely known that financial variables influence economic behaviour, and therefore the future state of the economy. There is a wide array of financial variables with some having a more important influence than others. A financial conditions index summarises a range of financial variables into a single series that can be used to predict the future path of the economy. The decision of which variables to include is typically based on current understanding of how the monetary policy transmission mechanism works. The Monetary Conditions Index (MCI), which was used as a policy tool by the RBNZ between June 1997 and February 1999, was an example of a simplified financial conditions index based on two variables – the 90-day bank bill rate and the New Zealand dollar exchange rate as measured by the trade weighted index.

While simplicity has its advantages, the increasing role of financial intermediation in a modern economy means there are different channels through which monetary policy influences the economy. In order to capture these, our Financial Conditions Index for the NZ, Australian and US economies includes a wider range of variables. We include the currency adjusted for commodity prices or terms of trade movements, interest rates, asset prices, credit growth, and measures or proxies for the cost and availability of credit. Due to a lack of an equivalent survey on lending conditions in NZ and Australia, we use the Federal Reserve's Senior Loan Officer Survey as a reasonable proxy.

NZ – GETTING READY TO ACCELERATE

The recovery from recession to date has been fairly subdued by NZ's historical experience. However, our NZ Financial Conditions Index (NZFCI) suggests accelerating momentum going forward, though not to the same extent as what is being implied by recent business confidence surveys. Nonetheless, at current levels, the NZFCI is flagging close to 3 percent year-on-year growth by the end of this year. This is below the 4 percent forecast by the RBNZ, but there is no doubting the trend. Last week's unexpectedly strong Q1 labour market report is the first hard data confirming the improving prospects following some rather lacklustre partial data.



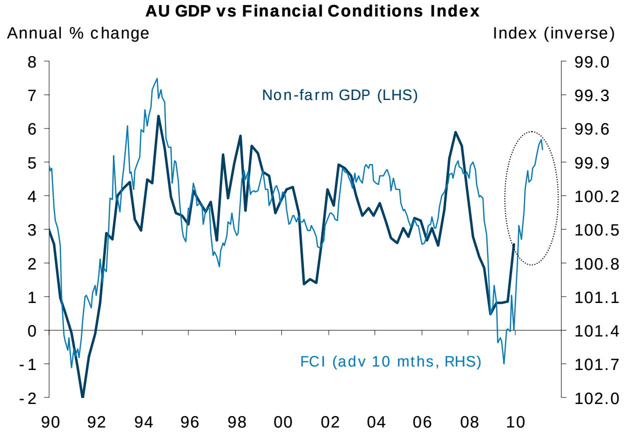
Sources: ANZ, National Bank, Statistics NZ

In terms of what has been pushing the NZFCI into more enhancing conditions, **we cannot get away from the role that record high commodity prices are playing.** Ordinarily, the NZD would have risen to offset some of the strong increase in world commodity prices. But EUR weakness and concerns over sovereign debt has held the NZD down, meaning the full impact of commodity price increases has flowed through into our NZFCI. Indeed, **the strength of the commodity price channel has been enough to offset the tightening stemming from lower asset prices, weak credit growth and a widening in the credit default swap spreads of the major Australian banks** (which we use as a proxy for the cost of funds). Unsurprisingly, sovereign debt concerns in Europe have been the major cause of these. Thus far, they do not pose a risk to the NZ recovery story.

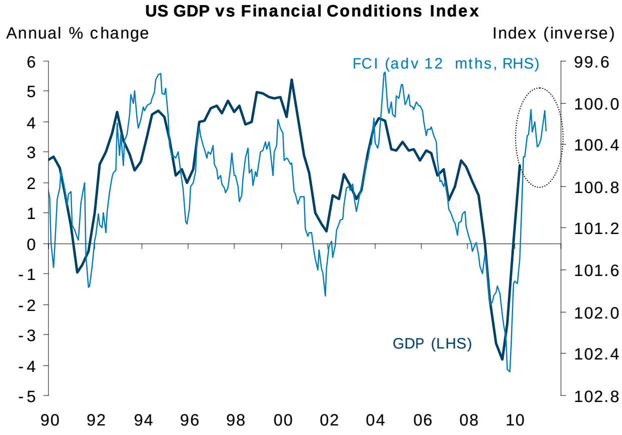
AUSTRALIA – FEELING INVINCIBLE STILL

The Australian economy continues to defy belief in terms of its strength. If you believe our Australian Financial Conditions Index (AUFCI), they are poised for over 5 percent year-on-year non-farm GDP growth by the end of this year. This is well above trend growth and the 3¼ percent forecast by the RBA at their recent Statement on Monetary Policy. The six rate hikes by the RBA do not seem to be having much effect so far.

FINANCIAL CONDITIONS UPDATE



Sources: ANZ, National Bank, Bloomberg



Sources: ANZ, National Bank, Bloomberg

Looking at what has been driving the AUFCI, there are strong similarities to NZ. **A big surge in commodity prices at a time when the Australian dollar actually fell has led to a large easing in conditions.** The 20 percent year-on-year rise in house prices was also a big contributor. But as we saw for the NZFCI, global jitters have led to a widening in bank credit default swap spreads, and equity prices have taken a large fall. The new mining tax announced by the Australian Government led to a larger sell-off in Australian equities. **The AUFCI actually tightened over the past month, though the move is within normal month-to-month volatility and does not herald a turnaround in growth momentum.**

US – BUNGEE CORD

The US economy is on the comeback trail. Our US Financial Conditions Index (USFCI) was close in picking the turning point for growth, and the recovery to date has certainly been tracking the USFCI well. At current levels, the USFCI suggests growth of 4 percent year-on-year by late this year or early next year.

The economy is clearly benefiting from the Federal Reserve leaving rates at zero for an extended period. The fall in 10-year bond yields over the past month has also helped to ease financial conditions. In addition, we are seeing an improvement in credit growth, and house prices have started to increase. Importantly, **the Federal Reserve's latest Senior Loan Officer Survey shows that financial institutions are continuing to relax lending standards.** In other words the credit tap, which was shut to many businesses and households during the height of the global financial crisis, is slowly opening again.

In recent months, our USFCI has essentially been moving sideways. This suggests that strong momentum in the US economy could start to wane by late this year or early next year. If so, then we can expect the various leading indicators such as the ISM start to ease off. The USFCI has tightened more in the past month compared to the NZFCI and AUFCI on the back of global sovereign concerns. This is to be expected given the rally seen in the USD (whereas the NZD and AUD fell) and wider swap spreads.

WATCH THIS SPACE

Our Financial Conditions Indexes have picked the turning point in the economic cycle well in advance. At present, it is still pointing to ongoing growth momentum in NZ, Australia and the US over the coming year, with Australia expected to outperform. Our USFCI suggests growth momentum may fade somewhat in the US later this year. But it is not suggesting a turning point in the recovery cycle.

At this stage, growing sovereign debt concerns have not had a material effect on our Financial Conditions Indexes. Lower equity prices and a widening in credit spreads have been offset by strong commodity prices in the case of NZ and Australia, and accommodative interest rates in the case of the US. Given the advanced warning that our Financial Conditions Indexes provided us when the sub-prime crisis first started to escalate in 2007, we will be paying particularly close attention this time around to see if sovereign fears are starting to have an impact on real activity.

MONTHLY INFLATION GAUGE

SUMMARY

Our April monthly inflation gauge increased by 1.2 percent, following a 0.1 percent fall in March. This was the highest monthly increase in the 27 month history of the series. Higher prices for tobacco and alcohol contributed about one-third of the monthly increase. Large price increases were also scattered through other parts of the gauge, with few price declines evident. Overall our index is providing tentative evidence that pricing pressures are picking up throughout the economy – a worrying sign at this juncture of the cycle.

MONTHLY INFLATION TO A NEW HIGH

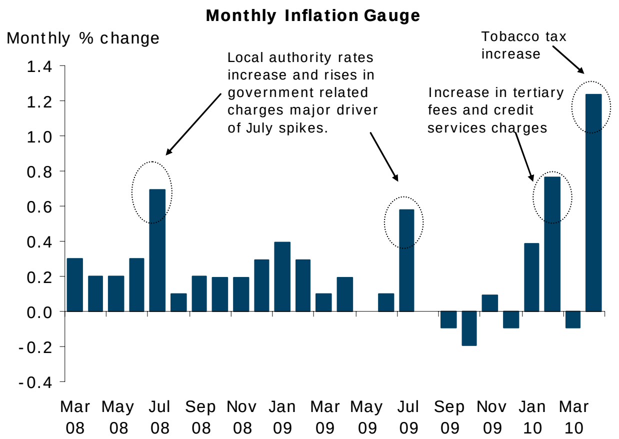
Following a 0.1 percent decline in March, the April **monthly inflation gauge increased by 1.2 percent, the highest monthly increase on record.** Six of the eight groups within the gauge recorded monthly increases, with only one group registering a monthly fall. The rise in the tobacco excise and removal of price discounting for beer contributed to a 10 percent rise in the alcohol and tobacco group. Health and home contents insurance, cultural, and private transport services also registered monthly increases of at least 2.0 percent. Milder price increases were also evident for a few other components. Price falls were few and far between, with lower dwelling insurance, and telephone toll calls particularly noteworthy.

Partly on account of seasonality, monthly readings of the gauge tend to be variable. **Averaging the monthly gauge over the last three months gives a 1.3 percent quarterly increase, which follows a broadly flat increase over the previous three months.** While partly attributable to government policy (e.g. tertiary education and the tobacco excise being some examples), evidence of a pick up in pricing pressure is emerging.

We are somewhat coy about making sweeping assessments as the gauge remains somewhat experimental. Government related charges from non-contestable pockets have had a material impact. So far, the performance of the gauge has been encouraging although gaps between official non-tradable inflation reads and our gauge have been apparent. Some of this divergence will reflect timing and others the smaller coverage of our survey.

However, we are now coming to the view that our gauge is providing evidence that pricing pressures are intensifying. This is particularly problematic as the economy is only 4 to 5 quarters into the recovery and expansion phase. **In this situation, the "problem" resides not with the demand side of the equation, but rather the economy's underlying supply-side capacity.** It is the latter that we suspect holds the greatest threat to our central track of interest rates being normalised gradually.

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Feb-08	1000			
Mar-08	1003	0.3		1.1
Apr-08	1005	0.2		
May-08	1007	0.2		
Jun-08	1010	0.3	0.6	0.9
Jul-08	1017	0.7		
Aug-08	1018	0.1		
Sep-08	1020	0.2	1.1	1.3
Oct-08	1022	0.2		
Nov-08	1024	0.2		
Dec-08	1027	0.3	0.6	0.8
Jan-09	1031	0.4		
Feb-09	1034	0.3		
Mar-09	1035	0.1	0.9	0.7
Apr-09	1037	0.2		
May-09	1037	0.0		
Jun-09	1038	0.1	0.4	0.5
Jul-09	1044	0.6		
Aug-09	1044	0.0		
Sep-09	1043	-0.1	0.6	1.0
Oct-09	1041	-0.2		
Nov-09	1042	0.1		
Dec-09	1041	-0.1	-0.2	0.1
Jan-10	1045	0.4		
Feb-10	1053	0.8		
Mar-10	1052	-0.1	0.8	0.5
Apr-10	1065	1.2		



Source: ANZ

INTEREST RATE STRATEGY

SUMMARY

Market sentiment remains nervous after a roller coaster week. Rates rose sharply following much better HLFS data, and broad RBNZ endorsement of what's priced in, only to come back on the spill-over of European debt concerns, and a neutral RBA statement. With market sentiment fickle, expect more volatility over the week ahead but for the NZ bond market to remain well supported as NZ.Inc takes on elements of a safe haven status.

MARKET THEMES

- Last week's HLFS was a boomer, and has seen the market price in high odds of a June hike and start to test moves beyond 25 bps.
- Difficulties in Europe create uncertainty, but are not necessarily bad news for NZ – provided liquidity difficulties can be addressed.

REVIEW AND OUTLOOK

Last week's strong HLFS print seals the case for a June rate hike. An improving labour market has always been the missing piece in the puzzle – and now that unemployment is on its way down, the RBNZ seemingly has a green light to start taking its foot off the accelerator. Given the recent data flow, it is increasingly difficult to go against a June hike purely on domestic grounds, especially with our monthly inflation gauge trending up.

However, global concerns are a completely different story – as they have the potential to intensify into something extremely unsettling for markets. NZ's direct links to Europe are minor in comparison to our financial market links. As such, we'll be focussing more keenly on the fallout from Europe, and on how key aspects of market functioning like liquidity fare. **We fully expect steps to be taken by policymakers to address emerging liquidity concerns, but the real issue is solvency and this will only be addressed by macro reform.** For NZ, the story at present is one of a relatively strong debt position, flexible currency, and government leadership (we expect a tight Budget). NZ bonds are increasingly being seen as a legitimate safe-haven asset. But this positive view assumes policymakers can address liquidity problems in the first instance.

On the flow side, at this stage **pay flow on the part of corporates and mortgage books has been notable for its absence**, despite the change in expectations. This isn't surprising given the shape of the curve, which continues to impose a huge burden on those looking to lock in fixed rates. It is also a reflection of the volatility of markets – but even once (if) the dust settles, we do not expect a rush to fix. The rise in confidence has not been universal, and the curve is simply still too steep for many.

PREFERRED BORROWING STRATEGIES

The yield curve continues to offer an odd mix of "nowhere to hide" and "a place for everyone". Indeed, if you expect rates to rise you can either pay a premium to fix, or take it on the chin when the rises come, so there is no hiding. But then again, the fact that only some can afford that luxury means that there is a natural place for everyone, and those on floating rates will continue to get relief. And with the market pricing in 200bps of hikes over 12 months, there's little value in short term hedging. However longer dated and forward starting swap rates are still low by historical standards, and offer value – especially for those who are confident that trading conditions will improve, as our surveys suggest.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↑	Onus now on data to show why not to hike in June.
NZ data	↑	HLFS a boomer, retail sales expected to be strong too.
Fed Funds / front end	↔	9.9% unemployment and low inflation = FF on hold.
RBA	↔/↑	Market has had a complete mind-shift. Upside risk.
US 10 year	↔	Improving US data pulling against global concerns.
NZ swap curve	↔	Looking toppy short term. Swap spreads to widen.
Flow	↔	Stop loss paying done, but borrowers doing nothing.
Technicals	↔	Biased upward.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Jun-10	+17	+18
Thu 29-Jul-10	+45	+42
Thu 16-Sep-10	+62	+70
Thu 28-Oct-10	+94	+97
Thu 9-Dec-10	+120	+126
Thu 27-Jan-11	+147	+148
Thu 10-Mar-11	+164	+166

TRADING THEMES WE FAVOUR AT PRESENT

Be careful when thinking about how the European saga will filter down to NZ, as it is not necessarily bad news. Far from it – we expect NZ bonds to be seen as safe-haven assets, and for swap spreads to be biased wider. We are also tempted to re-instigate longs in 2yr swaps at extremes, especially if we move back to being 75/100% priced in for June. From there, carry/roll will be attractive.

CURRENCY STRATEGY

SUMMARY

The currency market was more volatile than usual last week as contagion fears, a hung UK parliament and a brief unprecedented drop in US equities led to big moves. Positive US economic data was largely ignored as the focus was on risk aversion. Given that the market now has the biggest short position in the EUR since its inception, the risk is for a massive short squeeze rally should the EU finance ministers come up with a credible plan this week. This has the potential to drag the NZD higher.

MARKET THEMES

- Greece aid package failed to calm markets down. Will the EU's stabilisation fund work?
- RBA hike and strong NZ and US data largely ignored by the market.
- Equities will be the lead barometer for commodity currencies.

REVIEW AND OUTLOOK

The NZD again performed extremely well last week in an environment of risk aversion. Typically, the NZD would have been sold down hard, particularly as equities and commodities were being hit hard. However, the NZD held on better than expected and wider sovereign concerns are not flowing through into this part of the world. Last week's bond tender attracted strong interest with $495m worth of bids for the $100m of issuance. In addition, Australia's sovereign credit default swap spreads are trading at a lower level than Germany's.

Strong domestic data helped provide support for the NZD. Record high commodity prices and a big drop in the unemployment rate, alongside comments from RBNZ Governor Bollard that rate hikes from next month are on the cards, all helped provide buying support for the NZD. **Technically, the NZD escaped last week with little damage.** The market continues to produce higher highs and higher lows on a monthly basis. This suggests stops can be placed on longs at 0.7000 now, with a potential grind higher as the RBNZ begins its tightening cycle ahead of the Federal Reserve. With the US unemployment rate rising to 9.9 percent, it is difficult to see the Fed tightening given its dual mandate, despite the strong payrolls numbers.

The AUD was hit especially hard, due to a combination of liquidation of long positioning and reaction to the mining tax. The RBA rate hike last week was already priced into the market, and AUD weakness was not helped by the market contemplating a small chance of a rate cut now.

This week, domestic developments will give way to global events. The outcome of the EU finance ministers meeting on dealing with the sovereign debt crisis will be critical, but how the market takes it is too difficult to call. The market needs decisive action, and the risk is that any outcome falls short of market expectation, leading to further risk aversion. The hung UK parliament following their election last week is not helping sentiment. All eyes will be on how equity and credit markets perform. That will prove to be the main driver for the NZD in the near term.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Closer to fair value now.
Yield	↔/↑	Yield differential due to narrow.
Commodities	↔	Gold the only one gaining.
Partial indicators	↔/↑	NZ labour market data trumps all others for now.
Technical's	↔	We are now at the middle of a 0.78-0.82 range.
Sentiment	↔	All about the EUR this week.
Other	↔	Is the EU stabilisation plan going to work?
On balance	↔	**Wait and see.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↓	Gone above our cyclical near-term fair value.
Yield	↑	June now locked in for RBNZ.
Commodities	↑	NZ commodity prices still at record highs.
Risk aversion	↔/↓	Terrible but NZD not being impacted to the same extent.
Partial indicators	↔	US data improving but so is NZ's.
Technicals	↔	Major support at 0.70 for retest of year's highs.
AUD	↔	Overly punished last week on positioning.
Sentiment	↔	It all depends on EU announcement.
Other	↔/↓	Yield differentials still matter.
On balance	↔	**NZD survives risk aversion test with ease.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-May	JN	BoJ Monetary Policy Meeting Minutes - APR	- -	- -	11:50
	AU	ANZ Job Advertisements (MoM) - APR	- -	1.80%	13:30
	AU	NAB Business Conditions - APR	- -	13	13:30
	AU	NAB Business Confidence - APR	- -	16	13:30
	CH	China NDRC Housing Prices - APR	11.6	11.7	--
	CH	Money Supply - M2 (YoY) - APR	22.00%	22.50%	--
	CH	New Yuan Loans - APR	585.0B	510.7B	--
	CH	Trade Balance (USD) - APR	-$0.55B	-$7.24B	16:00
	CH	Exports YoY% - APR	28.90%	24.30%	16:00
	CH	Imports YoY% - APR	51.50%	66.00%	16:00
	GE	Trade Balance – MAR	14.0B	12.6B	18:00
	GE	Imports SA (MoM) - MAR	0.50%	0.20%	18:00
	GE	Current Account (EURO) - MAR	13.5B	9.1B	18:00
	GE	Exports SA (MoM) - MAR	3.00%	5.10%	18:00
	EC	Sentix Investor Confidence – MAY	-1	2.5	20:30
	UK	BOE Asset Purchase Target - MAY	200B	200B	23:00
	UK	BOE ANNOUNCES RATES – May Meeting	0.50%	0.50%	23:00
11-May	**NZ**	**NZ Card Spending (MoM) - APR**	**- -**	**2.1**	**10:45**
	UK	BRC April Retail Sales Monitor - MAY			11:01
	UK	RICS House Price Balance - APR	10%	9%	11:01
	CH	Producer Price Index (YoY) - APR	6.50%	5.90%	14:00
	CH	Purchasing Price Index (YoY) - APR	12.10%	11.50%	14:00
	CH	Consumer Price Index (YoY) - APR	2.70%	2.40%	14:00
	CH	Retail Sales (YoY) - APR	18.20%	18.00%	14:00
	CH	Retail Sales YTD YoY - APR	18.00%	17.90%	14:00
	CH	Industrial Production (YoY) - APR	18.50%	18.10%	14:00
	CH	Fixed Assets Inv Urban YTD YoY - APR	26.00%	26.40%	14:00
	GE	Consumer Price Index (MoM) - APR F	-0.10%	-0.10%	18:00
	GE	CPI - EU Harmonised (MoM) - APR F	-0.10%	-0.10%	18:00
	GE	CPI - EU Harmonised (YoY) - APR F	1.00%	1.00%	18:00
	GE	Consumer Price Index (YoY) - APR F	1.00%	1.00%	18:00
	GE	Wholesale Price Index (MoM) - APR	0.90%	1.30%	18:00
	GE	Wholesale price Index (YoY) - APR	5.20%	4.30%	18:00
	UK	Industrial Production (MoM) - MAR	0.30%	1.00%	20:30
	UK	Manufacturing Production (MoM) - MAR	0.40%	1.30%	20:30
	AU	Australia 2010/11 Federal Budget - 2010	--	--	21:30
12-May	US	Wholesale Inventories - MAR	0.50%	0.60%	02:00
	US	IBD/TIPP Economic Optimism - MAY	48.4	48.4	02:00
	AU	Home Loans - MAR	-3.00%	-1.80%	13:30
	AU	Investment Lending - MAR	- -	-1.10%	13:30
	AU	Value of Loans MoM - MAR	- -	-4.40%	13:30
	JN	Leading Index CI - MAR P	- -	98.5	17:00
	GE	GDP s.a. (QOQ) - 1Q P	0.00%	0.00%	18:00
	UK	Claimant Count Rate - APR	4.80%	4.80%	20:30
	UK	Jobless Claims Change - APR	-20.0K	-32.9K	20:30
	UK	Average Weekly Earnings 3M/YoY - MAR	2.10%	2.30%	20:30
	UK	ILO Unemployment Rate (3mths) - MAR	8.00%	8.00%	20:30
	EC	Euro-Zone Ind. Prod. sa (MoM) - MAR	1.00%	0.90%	21:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
12-May	EC	Euro-Zone GDP s.a. (QoQ) - 1Q A	0.10%	0.00%	21:00
	UK	Bank of England Quarterly Inflation Report - MAY	--	--	21:30
13-May	US	Trade Balance - MAR	-$40.0B	-$39.7B	00:30
	US	Monthly Budget Statement - APR	-$20.0B	-$20.9B	06:00
	NZ	**Business NZ PMI - APR**	**- -**	**56.3**	**10:30**
	NZ	**Food Prices (MoM) - APR**	**- -**	**0.20%**	**10:45**
	UK	Nationwide Consumer Confidence - APR	73	72	11:01
	JN	Current Account Total - MAR	¥2212.8B	¥1470.6B	11:50
	JN	Adjusted Current Account Total - MAR	¥1482.0B	¥1119.0B	11:50
	JN	Trade Balance (BoP Basis) - MAR	- -	¥778.0B	11:50
	JN	Japan Money Stock M3 YoY - APR	2.00%	2.00%	11:50
	AU	RBA Assistant Governor Lowe speech - Colonial Forum Sydney	--	--	13:00
	AU	Employment Change - APR	22.5K	19.6K	13:30
	AU	Unemployment Rate - APR	5.30%	5.30%	13:30
	AU	Full Time Employment Change - APR	- -	30.1K	13:30
	AU	Part Time Employment Change - APR	- -	-10.6K	13:30
	AU	Participation Rate - APR	65.10%	65.10%	13:30
	EC	ECB Publishes May Monthly Report - MAY	--	--	20:00
	UK	Visible Trade Balance GBP/Mn - MAR	-£6407	-£6179	20:30
	UK	Trade Balance Non EU GBP/Mn - MAR	-£3450	-£3329	20:30
	UK	Total Trade Balance (GBP/Mln) - MAR	-£2500	-£2061	20:30
	UK	DCLG UK House Prices (YoY) - MAR	- -	7.40%	20:30
14-May	US	Import Price Index (MoM) - APR	0.80%	0.70%	00:30
	US	Initial Jobless Claims - 08 MAY	440K	444K	00:30
	US	Continuing Claims - 01 MAY	4590K	4594K	00:30
	NZ	**REINZ House Sales YoY% - APR**	**- -**	**-8.00%**	**10:00**
	NZ	**REINZ Housing Price Index MoM% - APR**	**- -**	**1.70%**	**10:00**
	NZ	**Retail Sales (MoM) - MAR**	**1.10%**	**-0.60%**	**10:45**
	NZ	**Retail Sales Ex-Auto (MoM) - MAR**	**1.50%**	**-0.90%**	**10:45**
	NZ	**Retail Sales Ex Inflation(QoQ) - 1Q**	**0.30%**	**1.00%**	**10:45**
	NZ	**Non Resident Bond Holdings - APR**	**- -**	**63.60%**	**15:00**
15-May	US	Advance Retail Sales - APR	0.20%	1.60%	00:30
	US	Retail Sales Less Autos - APR	0.40%	0.60%	00:30
	US	Industrial Production - APR	0.60%	0.10%	01:15
	US	Capacity Utilization - APR	73.70%	73.20%	01:15
	US	U. of Michigan Confidence - MAY P	73.5	72.2	01:55
	US	Business Inventories - MAR	0.40%	0.50%	02:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, CH: China, 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: Last week confirmed that the labour market is improving, with employment and hours worked registering their strongest quarterly gain in nearly two years, but we still harbour doubts about the magnitude of the reported fall in the HLFS unemployment rate. This week sees the focus return to the spending side the economy, with retail sales, electronic card transactions, and with residential property market data also being released. Next week sees the release of Budget 2010, which will provide more clarity on the direction of government policy. Signs of improvement are becoming increasingly evident, and we expect this to be apparent in the published data in the coming months.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 11 May (10:45am)	Electronic Card Transactions (Apr)	Easing	We may see some pull-back following the 2 percent plus monthly increase in March.
Thur 13 May (10:00am)	BNZ Business NZ PMI (Apr)	Improving	NZ is expected to follow an improving global trend.
Thur 13 May (10:45am)	Food Price Index (Apr)	Rising	High food commodity prices suggest a climb in annual food price inflation.
Fri 14 May (10:00am)	REINZ Residential data (Apr)	Up	A recovery of sorts was evident in the March data. April could see further improvement.
Fri 14 May (10:45am)	Retail Trade Survey (Mar)	Up	March ECT and credit Card billings suggest a 1% plus increase in the month. For the quarter as a whole we expect core retail volumes to post a decline.
Tue 18^{t} May (10:45am)	Producer Price Index Capital Goods Price Index (Mar qtr)	Margins still tight	Prices to be strongly influenced by export prices and the NZD. The high NZDUSD has kept prices for imported capital goods and machinery attractive for firms contemplating investment.
Thur 20 May (2:00pm)	Budget 2010	Tight	Final details of the tax reform package to be released. Expenditure restraint to remain a key focus. The fiscal position is set to improve, but deficits are likely for the next few years.
Fri 21 May (10:45am)	International Travel and Migration (Apr)	Lower	A rising trend in PLT departures to Australia is expected to produce smaller monthly net PLT inflows. Disruptions to European travel are likely to weigh down on visitor arrivals.
Fri 21 May (3:00pm)	ANZ Roy-Morgan Consumer Confidence (May)	--	--
Tue 25th May (3:00pm)	RBNZ Survey of Expectations – Q2	Firming	The closely watched 2-year-ahead measure of CPI inflation is expected to climb from the 2.65 percent reported in Q1.
Thur 27 May (10:45am)	Overseas Merchandise Trade (Apr)	Closer to balance	Exports to be buoyed by firm export commodity prices. Improving domestic demand is expected to translate into a recovery in imports over the coming months.
Fri 28 May (10:45am)	Building Consents (Apr)	Holding pattern	After uncertainties on tax treatment are clarified following Budget 2010, we expect a sustained pick-up in consent issuance in the second half of 2010.
Fri 28 May (3:00pm)	RBNZ Credit Aggregates (Apr)	Contained	March data confirmed deleveraging remains a key influence, although housing credit is showing very modest improvement.
Mon 31 May (3:00pm)	NBNZ Business Outlook (May)	--	--
Wed 2 Jun (3:00pm)	ANZ Commodity Price Index (May)	--	--
Fri 4 Jun (10:45am)	Wholesale Trade Survey (Mar qtr)	Up	Higher export sales should feature, but this will be partly moderated by lower growth in consumer spending.
On Balance		**Building nicely**	**Economy moving towards above trend growth as the terms of trade boost filters through the economy.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.8	0.2	0.3	0.8	**0.5**	**0.6**	**1.2**	**0.7**	**1.1**	**1.4**
GDP (% yoy)	-3.1	-2.3	-1.4	0.5	**1.8**	**2.2**	**3.2**	**3.0**	**3.7**	**4.5**
CPI (% qoq)	0.3	0.6	1.3	-0.2	0.4	**0.9**	**0.9**	**2.8**	**0.6**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	2.0	**2.4**	**2.0**	**5.0**	**5.3**	**5.4**
Employment (% qoq)	-1.3	-0.5	-0.7	0.0	1.0	**0.2**	**0.4**	**0.6**	**0.6**	**0.7**
Employment (% yoy)	0.7	-0.9	-1.8	-2.4	-0.1	**0.6**	**1.7**	**2.2**	**1.8**	**2.3**
Unemployment Rate (% sa)	5.1	5.9	6.5	7.1	6.0	**6.3**	**6.0**	**5.6**	**5.4**	**5.0**
Current Account (% GDP)	-7.9	-5.6	-3.2	-2.9	**-3.2**	**-4.2**	**-5.3**	**-4.7**	**-4.4**	**-4.1**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	5.8	**3.8**	**3.9**	**2.5**	**1.0**	**-0.5**	**-0.6**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	**-2.0**	**12.3**	**16.9**	**11.6**	**7.0**	**2.3**

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10
Retail Sales (% mom)	-0.6	1.2	0.3	0.0	0.8	-0.5	0.7	-0.6	..	..
Retail Sales (% yoy)	-1.4	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	..	..
Credit Card Billings (% mom)	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.2	..
Credit Card Billings (% yoy)	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.3	..
Car Registrations (% mom)	6.9	-3.6	8.4	0.4	2.2	6.9	-0.6	0.5	5.7	2.9
Car Registrations (% yoy)	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7	40.5
Building Consents (% mom)	5.3	2.3	5.6	11.9	0.4	-3.8	-2.9	5.8	-0.4	..
Building Consents (% yoy)	-16.5	-9.0	-11.7	26.7	20.4	22.7	35.0	29.8	32.9	..
REINZ House Price (% yoy)	0.0	5.1	6.1	6.0	5.2	9.6	7.7	6.1	7.6	..
Household Lending Growth (% mom)	0.3	0.3	0.3	0.3	0.0	0.2	0.2	0.1	0.1	..
Household Lending Growth (% yoy)	2.4	2.4	2.3	2.6	2.7	2.7	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8	121.9
NBNZ Business Confidence	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5	49.5
NBNZ Own Activity Outlook	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6	43.0
Trade Balance ($m)	-177.6	-716.6	-561.5	-501.5	-280.4	-26.4	271.1	334.6	567.2	..
Trade Balance ($m annual)	-2491	-2360	-1669	-1176	-863	-549	-176	-324	-194	..
ANZ World Commodity Price Index (% mom)	1.0	4.4	6.8	4.7	10.5	2.6	0.4	3.8	1.8	4.9
ANZ World Commodity Price Index (% yoy)	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	48.6	49.7	53.0
Net Migration (sa)	2460	1630	1850	2150	1730	1670	1830	1010	990	..
Net Migration (annual)	14488	15642	17043	18560	20021	21253	22588	21618	20973	..

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	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.698	0.711	0.717	0.710	0.720	0.700	0.690	0.680	0.660	0.650
NZD/AUD	0.780	0.775	0.801	0.747	0.750	0.745	0.750	0.756	0.750	0.756
NZD/EUR	0.512	0.526	0.557	0.518	0.529	0.526	0.531	0.531	0.524	0.524
NZD/JPY	62.10	66.41	66.15	64.61	66.24	65.80	66.24	66.64	66.00	65.00
NZD/GBP	0.458	0.468	0.485	0.461	0.468	0.458	0.451	0.447	0.434	0.433
NZ$ TWI	64.5	66.0	67.9	64.9	66.0	65.1	65.0	64.9	63.8	63.4
INTEREST RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25	4.75	5.25
NZ 90 day bill	2.71	2.67	2.91	3.10	3.70	3.80	4.20	4.70	5.20	5.70
NZ 10-yr bond	5.76	5.98	5.81	5.90	5.90	5.80	5.90	6.10	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.29	0.43	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	4.00	4.50	4.25	4.75	5.00	5.25	5.50	5.75	6.00
AU 3-mth	4.13	4.49	4.89	4.40	4.90	5.20	5.40	5.70	5.90	6.20

	7 Apr	3 May	4 May	5 May	6 May	7 May
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.67	2.76	2.76	2.76	2.87	2.92
NZGB 11/11	3.78	3.92	3.92	3.89	4.05	3.92
NZGB 04/13	4.57	4.73	4.72	4.68	4.79	4.65
NZGB 12/17	5.73	5.69	5.68	5.62	5.65	5.57
NZGB 05/21	6.01	5.93	5.92	5.86	5.87	5.79
2 year swap	4.28	4.47	4.48	4.43	4.61	4.53
5 year swap	5.25	5.32	5.32	5.30	5.42	5.36
RBNZ TWI	65.7	68.0	68.3	68.0	68.9	67.8
NZD/USD	0.7053	0.7278	0.7293	0.7194	0.7275	0.7130
NZD/AUD	0.7609	0.7880	0.7889	0.7919	0.8021	0.7992
NZD/JPY	66.44	68.36	69.22	68.13	68.36	65.95
NZD/GBP	0.4623	0.4776	0.4780	0.4757	0.4812	0.4796
NZD/EUR	0.5270	0.5506	0.5523	0.5559	0.5667	0.5609
AUD/USD	0.9269	0.9236	0.9244	0.9084	0.9070	0.8921
EUR/USD	1.3384	1.3219	1.3204	1.2942	1.2837	1.2712
USD/JPY	94.20	93.93	94.91	94.71	93.96	92.50
GBP/USD	1.5256	1.5239	1.5258	1.5124	1.5117	1.4867
Oil (US$/bbl)	86.59	86.07	86.19	82.73	77.18	77.18
Gold (US$/oz)	1138.35	1177.60	1181.15	1168.15	1199.65	1199.55
Electricity (Haywards)	11.33	5.22	5.21	7.17	6.63	6.82
Milk futures (US$/contract)	111	118	120	122	122	127
Baltic Dry Freight Index	2947	#N/A	3352	3379	3468	3608

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.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, 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:

IMPORTANT NOTICE

- 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.

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

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

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and registered with the SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 277 Park Avenue, 31st Floor, New York, NY 10172 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

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

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

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