NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

11 October 2010

INSIDE

NZ ECONOMICS TEAM

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

Khoon Goh
Head of Market Economics and Strategy
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

Sharon Zöllner
Senior Economist
Telephone: +64 4 576 1062
E-mail: Sharon.Zollner@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

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

A QuEasy FEELING

ECONOMIC OVERVIEW

Recent economic data continues to raise questions regarding the underlying robustness of the recovery. However, we take heart from the recent loosening in financial conditions, stronger export commodity prices and the progress the economy has made in deleveraging. Data releases this week is expected to collectively show a very soft underbelly, although we must not lose sight of the fact that the data relates mainly to the month of September, which will be affected by the Canterbury earthquake. Our attention remains focused on prospects for 2011 as opposed to where we have been.

FINANCIAL CONDITIONS UPDATE

Our proprietary Financial Conditions Index (FCI) for NZ has eased in recent months, which should eventually lend support to economic prospects. A higher NZ exchange rate has been offset by increases in commodity and equity prices. Based on past relationships, our NZ FCI is flagging year-on-year growth of 3½ percent by the latter part of 2011 – stronger than the RBNZ forecast in their latest Monetary Policy Statement. Our FCI for Australia has tightened in the past two months, courtesy of a higher exchange rate and interest rates though still suggests growth of over 4 percent.

MONTHLY INFLATION GAUGE

Our gauge posted a 0.3 percent increase in September, which followed a 0.1 percent decline in August. The increase was attributable to large increases for a few components, with price movements generally contained. The July spike in the gauge suggests a sizable non-tradable CPI print for Q3.

INTEREST RATE STRATEGY

NZ interest rates are currently range bound. The surprise pause by the RBA last week demonstrated that with so little priced into the front end of the curve, NZ swaps have little room to rally. The following strong Australian employment data saw a brief spike in our front end rates but this lacked any momentum and rates drifted back within the range.

CURRENCY STRATEGY

The AUD was the standout currency last week, having its first run at parity against the USD with NZD towed along for the ride. Finance Ministers' meetings in Washington over the weekend have disappointed markets. We look set for further near-term USD weakness. But NZD/USD should struggle to surpass 0.76 for now.

EFFECTIVE EXCHANGE RATE UPDATE

Our effective exchange rate (EER) measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Despite the stronger NZD against most TWI currencies, this has been offset by increases in most export commodity prices. However, sizeable disparities in trading conditions for our major export groups remain.

ECONOMIC OVERVIEW

SUMMARY

Recent economic data continues to raise questions regarding the underlying robustness of the recovery. However, we take heart from the recent loosening in financial conditions, stronger export commodity prices and the progress the economy has made in deleveraging. This week sees the release of retail trade related data for Q3, which is expected to show consumers leaving it until the last minute to beat the October rise in GST. Also due for release is manufacturing sentiment, which is expected to remain cautious, and housing market statistics – which we expect to show static house prices at best, with volumes remaining weak. Collectively then, a very soft underbelly, although we must not lose sight of the fact that this week's data relates mainly to the month of September, which will be affected by the Canterbury earthquake. We have been receiving better anecdotes over the past two weeks, and our attention remains focused on prospects for 2011 as opposed to where we have been.

THIS WEEK'S EVENTS

- **SNZ Food Price Index – September 2010** (Wednesday, October 13, 10:45am). We expect a 0.3 percent monthly increase.
- **REINZ Housing Market Statistics – September 2010** (Thursday, October 14, 10:00am). Largely due to the Canterbury earthquake, we expect a fall in sales volumes of around 5 percent. Prices are expected to track sideways as the stand-off between buyers and sellers persists.
- **SNZ Retail Trade – August 2010** (Thursday October 14, 10:45am). We expect a 0.4 percent increase in total retail sales, with core retail spending expected to increase by 0.3 percent.
- **BNZ-Business NZ Manufacturing PMI – September 2010** (Thursday, October 14, 11:30am). Manufacturing sentiment is expected to remain below 50.

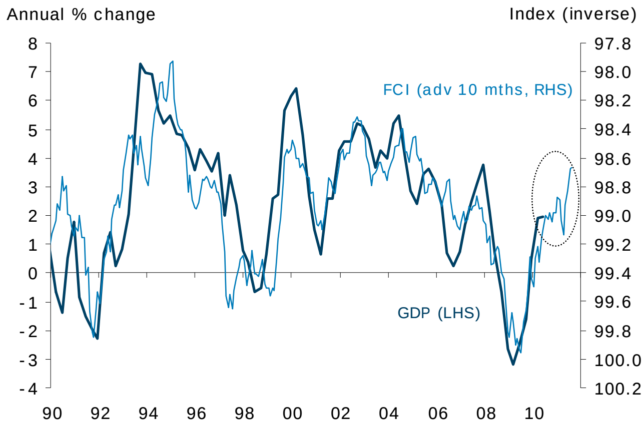
WHAT'S THE VIEW?

Global developments continue to strongly influence key local financial market variables. The RBA surprised most market watchers by not increasing the cash rate from its current 4.5 percent level last week. The initial reaction was a drop in the AUD/USD of over a cent, with the NZD/AUD propelled higher. But this pressure has abated and the cross remains a critical pillar of support for NZ's export industry – manufacturing and tourism in particular. The RBA statement leaves little doubt that the next move will be a policy tightening. Our Australian colleagues expect a 25bp hike next month. If so, and with the RBNZ clearly on hold until Q1 next year, the NZD/AUD should remain well below fair value (which we estimate is around 0.77-0.80).

The market has partly priced in expectations that the US Federal Reserve will be conducting a further round of quantitative easing (the so-called QE2) in early November, although doubts remain over whether it will have the desired effect. This is supporting low NZ yields as they mirror global moves, but has also seen the NZD/USD dragged higher as the greenback comes under severe selling pressure. Tactically, we are more cautious on the Eurozone's prospects, and expect a turn in the EUR/USD to be mirrored by the NZD/USD at some stage. But sentiment is so strongly bearish on the USD at present, that any turn does not look imminent (though the sceptic in us would note that it is usually when sentiment is at extremes that you see a turning point!).

What is important for NZ.Inc is the aggregate impact. Collectively, financial conditions have eased – materially. Page 5 provides an update of our proprietary Financial Conditions Index.

NZ GDP vs Financial Conditions Index



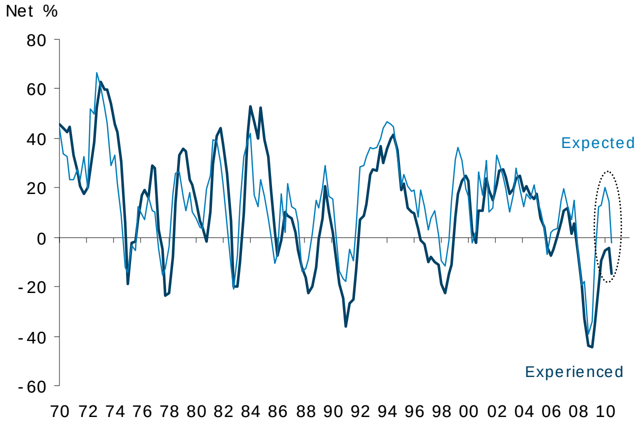
Sources: ANZ, National Bank, Statistics NZ

Against this backdrop of looser financial conditions, the domestic data continues to raise questions regarding the underlying robustness of the recovery. We were expecting last week's Q3 NZIER Quarterly Survey of Business Opinion (QSBO) to show general business confidence easing a notch, in line with recent readings from the National Bank Business Outlook survey. But we were surprised by the downbeat tone of the QSBO, which showed broad-based weakness across all sectors, regions and firm size. At face value, the decline in experienced domestic trading activity (DTA) suggests the economy will stall over the second half of 2010. Indeed, with the "expectations overshoot" between experienced and actual DTA still at historically high

ECONOMIC OVERVIEW

levels, and given the tepid pace of recovery to date, it is not surprising to see firms sharply revise down their expectations for Q4.

QSBO Domestic Trading Activity

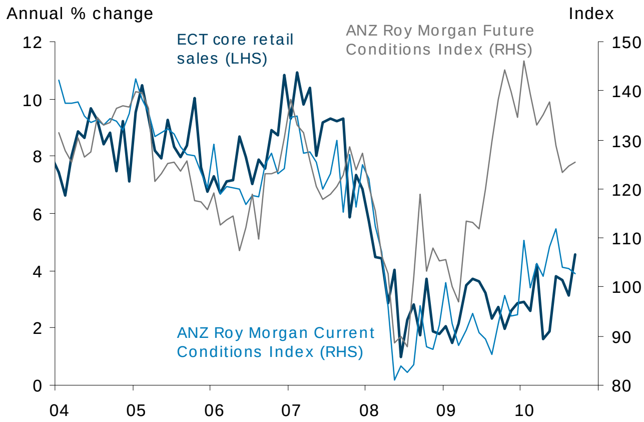


Sources: ANZ, National Bank, NZIER

While acknowledging the softness in the QSBO, we are not getting carried away. September was hardly a stellar month to be taking such surveys. Confidence would not have been helped by the collapse of a major financial institution in late August and the Canterbury earthquake soon after that. For some time our core economic view has been that 2010 was going to be a difficult year. Deleveraging and the need to rebalance the economy towards an earnings-centric driven model were always likely to take their toll on domestic spending. While "this time is different" is a graveyard phrase for economists, we have long maintained that the deleveraging and rebalancing process were going to impede the return to "business as usual" over 2010.

We are remaining steadfast in our more upbeat view on 2011. Looser financial conditions, strong commodity prices and the progress the economy has made in deleveraging are putting in place a solid base for next year. Simply put, the pay-off from getting your house in order will be higher spending at a later date. While there is still some way to go, there is light at the end of the tunnel. Our view of a better 2011 is also predicated on export commodity prices retaining broad-based strength. Last week's commodity price data contained some promising signs, with wool, meat and seafood prices registering healthy gains. The broadening in commodity price strength beyond dairy has been one of the standout features over the last few months. The stabilisation of dairy prices in the early October *globalDairyTrade* online auction at around 25 percent above historical averages was also promising. However, our analysis of effective exchange rates on page 10 shows that not everyone is benefiting. With the NZD/USD now above the 75 cent mark, it is important to have a diversified export strategy.

Electronic card transactions and confidence



Sources: ANZ, National Bank, Statistics NZ

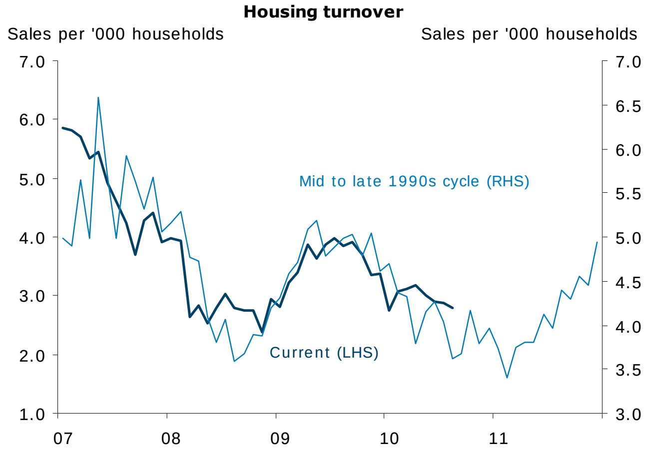
This morning's Electronic Card Transaction (ECT) data for September showed evidence of a pre-GST rise spend-up with retail transactions increasing by 1.5 percent. Core retail spending also showed some vigour, rising by 1.4 percent. The ECT data confirmed earlier anecdotes of a last minute rush to beat the GST increase, particularly for automotive fuel (up 2.9 percent) and durables (up 4 percent). We expect a solid rise in September retail sales but will need to see evidence of substantive retail discounting to be confident of a healthy Q3 rise for private consumption activity.

We expect a 0.3 percent monthly increase in the September Food Price Index. The wet winter is expected to prevent the usual seasonal fall in fresh fruit and vegetable prices. We also expect to see small price rises to be scattered around other parts of the food basket, with the removal of earlier discounting and the lagged impact of commodity price strength the major culprits. Risks around our September pick for food prices are on the upside.

Thursday looms as a very busy morning. REINZ data for September is expected to highlight ongoing weakness in the property market. We expect a fall in sales volumes of around 5 percent, largely on account of disruptions caused by the Canterbury earthquake. Sales in the Canterbury/Westland region typically account for around 15 percent of nationwide sales so much weaker activity in this region will have a tangible impact nationwide. Residential sales for other regions are also unlikely to be that flash if the 3 percent fall in Auckland sales volumes reported by Barfoot and Thompson is anything to go by. RBNZ loan approval data also shows that activity in the mortgage market remains depressed. To date the

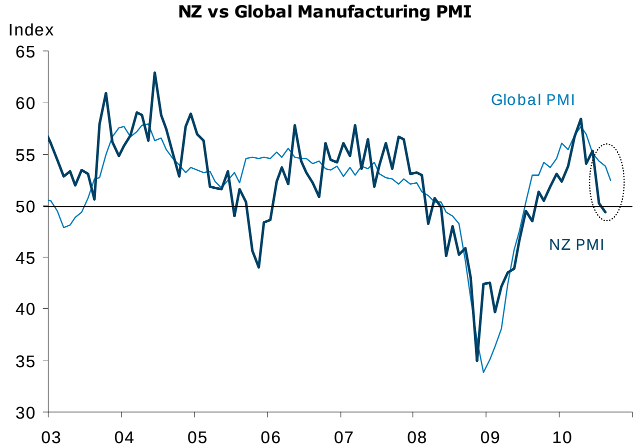
ECONOMIC OVERVIEW

most recent cycle bears uncanny similarities to the mid 1990s cycle.



Sources: ANZ, National Bank, REINZ, Statistics NZ

We envisage house prices in the September REINZ report will track sideways, with the risks skewed towards a small fall. Beyond GST-related spikes and dips in consumer spending around September and October, softness in housing will continue to keep consumers cautious. This is a key part of the RBNZ's story and we concur with it. Results from the NZ Income Survey confirmed that household incomes did not fare particularly well, with the 1.2 percent rise in median weekly wages and salary in the June 2010 year the weakest since June 1999. However, we suspect there will be a bit more life in consumer spending over 2011 as the likes of the Rugby World Cup and improved income generation (particularly in the rural sector) come to the fore. The labour market is key here, and while demand remains subdued according to survey measures, anecdotally it looks in better shape according to our recent business contacts.



Sources: ANZ, National Bank, Bloomberg, Business NZ

Manufacturing sentiment from the BNZ-Business NZ PMI is expected to deliver another sub 50 read. With Canterbury being a major manufacturing centre, the September earthquake could have a tangible impact on readings for production. Manufacturing sector sentiment from the National Bank Business Outlook and the QSBO suggests that manufacturing sector activity is in the doldrums. Overseas gauges have been heading lower suggesting not a lot of substance to the current upturn after the inventory boost fades.

Thursday also sees retail trade data for August. Retail indicators have provided mixed signals and we have been pragmatic in splitting the difference. We expect a 0.4 percent increase for total retail, with core retail (ex-fuel and vehicle related) rising 0.3 percent. One of the lessons from the Q2 GDP outturn was that surprises are more likely to eventuate from sources for which published indicators are not available. It emphasises the importance of taking into account a wide range of information. Our internal anecdotes have proved to be an invaluable source of information and while we are now detecting an improving tone, it is more of the cautious optimism variety rather than signalling a more substantive pick-up.

RECENT LOCAL DATA

- **ANZ Commodity Price Index – September 2010.** The ANZ Commodity Price Index increased by 2.9 percent in the month (+33.1 percent y/y). The number of commodities recording higher prices outnumbered those registering price falls by three to one, with sizeable increases for wool prices. The New Zealand dollar index rose by 1.2 percent in September (+27 percent y/y).
- **NZIER Quarterly Survey of Business Opinion – Q3.** Headline business confidence plummeted 35 points to -9. Domestic trading activity for Q3 fell 11 points to -15, whereas expectations of domestic trading activity fell 17 points to -2. Capacity utilisation eased slightly to 0.904, with the balance of firms still intending to cut investment in buildings. Average selling prices for the next 3 months eased slightly, with higher expected costs translating into a decline in profit expectations. Difficulty finding labour eased, although employment intentions for the next 3 months lifted slightly.
- ***globalDairyTrade* online auction – early October.** Whole milk powder prices eased by an average of 2.2 percent in the early October event to an average of US$3,520 per tonne. Prices remain 17 percent higher than October 2009 levels in US dollar terms and 14 percent higher in NZD terms.

FINANCIAL CONDITIONS UPDATE

SUMMARY

Our proprietary Financial Conditions Index (FCI) for NZ has eased in recent months, which should eventually lend support to economic prospects. A higher NZ exchange rate has been offset by increases in commodity and equity prices. Based on past relationships, our NZ FCI is flagging year-on-year growth of 3½ percent by the latter part of 2011 – stronger than the RBNZ forecast in their latest *Monetary Policy Statement*. Our FCI for Australia has tightened in the past two months, courtesy of a higher exchange rate and interest rates. However, our Australian FCI is still consistent with year-on-year growth of over 4 percent towards the end of next year.

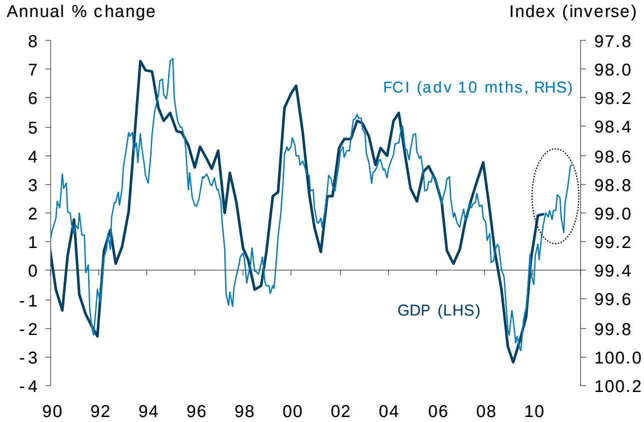
SHRUGGING OFF A HIGHER NZD

Our proprietary Financial Conditions Index[1] (FCI) for NZ has continued to ease in recent months. This is despite strong gains in the NZD/USD. No doubt, the NZD/USD's 5.1 percent increase over September, alongside the further 2.9 percent rise in the first week of October, would have resulted in some tightening of financial conditions. But the currency's rise on a trade weighted index basis (TWI) has been more muted (up 1.3 percent in October, and 1 percent so far in October). This is because a key factor in the NZD/USD's recent rise has been generalised USD weakness. The NZD has fallen against the AUD and EUR. In addition, soft commodity prices have risen, which is providing an offset to a higher NZ exchange rate.

Higher equity prices and a slight decline in longer term fixed mortgage rates have also helped to ease financial conditions. The latter is courtesy of lower wholesale swap rates, reflecting falls in global interest rates and an RBNZ that is now on hold until March next year at the earliest. Somewhat perversely, the Canterbury earthquake resulted in higher share prices for the major listed companies involved in construction, resulting in an easing in financial conditions via this channel. A fall in the credit default swap spreads for the big four Australian banks, which we use as a proxy for the cost of credit, also helped to ease financial conditions further. Falling house prices and sluggish credit growth are working in the opposite direction, but have not been enough to fully counter the easing conditions from elsewhere.

[1] 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. Our FCI includes the currency adjusted for commodity prices or terms of trade movements, interest rates, asset prices, credit growth and proxies for the cost and availability of credit.

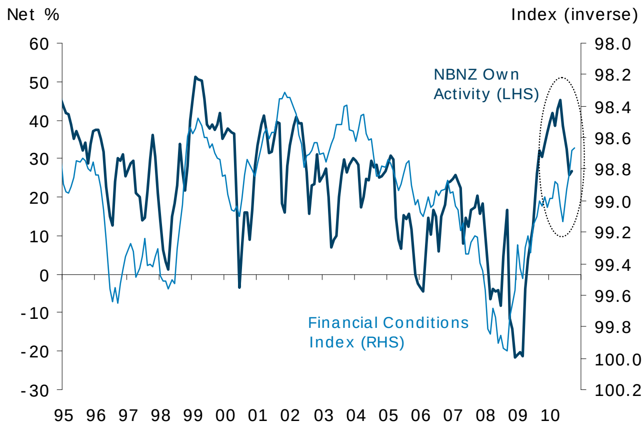
NZ GDP vs Financial Conditions Index



Sources: ANZ, National Bank, Statistics NZ

Based on our FCI, we appear to be on track for year-on-year GDP growth of around 3½ percent by the latter part of next year. This is a fairly respectable growth rate compared to the rates that have so far been achieved since the economy emerged from recession in Q2 2009. Our FCI suggests that growth will be stronger than the 2¾ percent forecast by the RBNZ for next year. Hence, we remain comfortable with our out-of-consensus view for a stronger 2011.

NBNZ Own Activity vs Financial Conditions



Sources: ANZ, National Bank, Statistics NZ

While easing financial conditions should eventually lend support to economic prospects, their effects will not be immediate. We remind readers that easing financial conditions take time to be felt. Our FCI suggests still-subdued growth over coming quarters, before a more meaningful pick-up occurs early to mid-next year. Encouragingly, our FCI is now more "optimistic" about future prospects compared to the National Bank Business Outlook. This is a reversal of the situation seen since late last year when business sentiment raced ahead on hope of a brighter outlook, only to be disappointed mid-year by the reality of a sluggish recovery. If our FCI

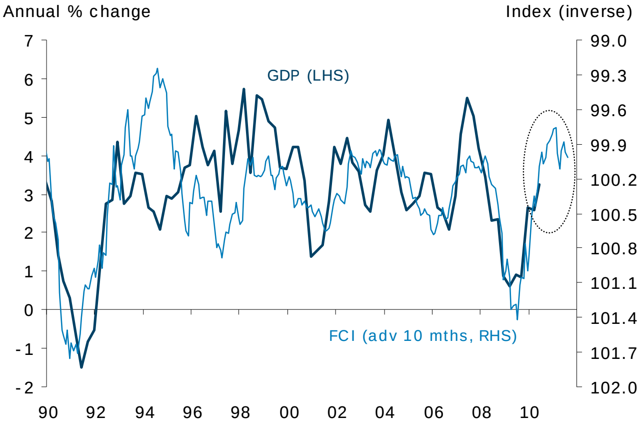
FINANCIAL CONDITIONS UPDATE

is accurate, then there is limited downside to business sentiment from current levels. But obviously businesses will likely want to see sustained evidence of improving demand before they will commit to hiring and investing. Conditions are moving into place here, but slowly.

MARKET DOING THE TIGHTENING FOR THE RBA BUT IS IT ENOUGH?

Our Australian FCI showed a tightening in conditions over the past two months, in contrast to the easing seen in NZ. Most of the tightening was courtesy of a strongly rising Australian currency (up 5.7 percent on a trade-weighted basis over September, and a further 0.7 percent so far in October) and higher wholesale interest rates. The latter was on the back of increased expectations that the RBA would lift the cash rate. While the RBA did not hike last week, strong employment data has seen the market price in a decent chance of a hike next month. Soft credit growth was another factor working to tighten financial conditions. Working in the other direction were increases in commodity prices, higher asset prices, and a fall in the credit default swap spreads for the big four Australian banks. However, these were not sufficient to fully offset the currency and interest rate impact on our FCI.

AU GDP vs Financial Conditions Index



Sources: ANZ, National Bank, Bloomberg

Despite the tightening in financial conditions, **the current FCI reading is consistent with Australian non-farm GDP growth of over 4 percent on a year-on-year basis towards the end of next year.** This is above the 3¾ percent forecast by the RBA at their August Statement on Monetary Policy. The market is clearly doing some of the work for the RBA in terms of tightening financial conditions sufficiently to prevent growth from taking off. A higher AUD is a key part of this. But by itself, it is unlikely to be enough and the RBA will need to act on its tightening bias. Our Australian colleagues expect the RBA to lift the cash rate by 25bps in November, and follow that up with a further 125bps of hikes over 2011.

MONTHLY INFLATION GAUGE

SUMMARY

Our monthly inflation gauge posted a 0.3 percent increase in September, which followed a 0.1 percent decline in August. The increase was attributable to large increases for a few components, with price movements generally contained. The July spike in the gauge suggests a sizable non-tradable CPI print for Q3. With higher GST coming into effect from October, subsequent readings of the monthly inflation gauge will provide an important steer on the impact of pricing behaviour within the economy.

ANOTHER MODERATE MONTH

Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI, differences in methodology and coverage mean the gauge will not exactly mirror the official series. However, it is proving to be a useful indicator of the broad direction of domestic inflationary trends.

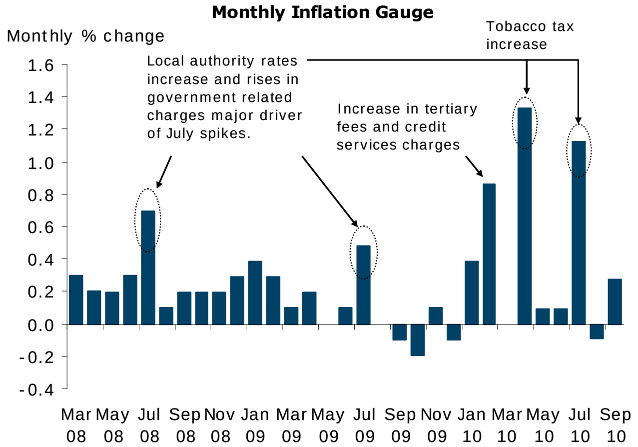
Driving the 0.3 percent increase in the monthly gauge for September were a few sizeable increases in a number of items, notably beer, spirits, accommodation services and some housing related components. Price increases for alcoholic drinks followed price falls in August.

Pricing pressures were not broad based. Only three of the eight groups in the gauge recorded price increases in September, with prices broadly unchanged in the other five groups.

After the strong 1.1 percent increase in July, which was influenced by government related charges, inflation readings for the last two months suggest that pricing pressures remain contained. **As a result of the strong July, the gauge produces a 1.2 percent quarterly increase for the September quarter, which also happens to be our pick for quarterly Q3 non-tradable CPI inflation.**

Contained price pressures outside of non-contestable pockets of the economy suggest the pricing power of firms is limited due to the weak demand environment. This is the current view of the RBNZ who believe that the impact of the GST-induced spike in prices will have little impact on medium-term inflation.

Another possibility, however, is that price setters are merely delaying price increases until the October increase in GST comes into effect. If this is indeed the case, the upshot is likely to be firmer increases in the October prices of most goods and services than the GST rise from 12.5 percent to 15 percent would imply (prices should in fact increase by 2.2 percent if it is only purely due to the GST rise). Readings from our inflation gauge in the next few months will provide an important steer on the extent of pricing pressures throughout the domestic economy. **We will be watching closely for any signs of a more generalised spill-over in pricing behaviour.**



Source: ANZ

	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	1043	0.5		
Aug-09	1043	0.0		
Sep-09	1042	-0.1	0.5	1.0
Oct-09	1040	-0.2		
Nov-09	1041	0.1		
Dec-09	1040	-0.1	-0.2	0.1
Jan-10	1044	0.4		
Feb-10	1053	0.9		
Mar-10	1053	0.0	0.9	0.5
Apr-10	1067	1.3		
May-10	1068	0.1		
Jun-10	1069	0.1	1.7	0.6
Jul-10	1081	1.1		
Aug-10	1080	-0.1		
Sep-10	1083	0.3	1.2	

INTEREST RATE STRATEGY

SUMMARY

NZ interest rates are currently range bound with the 2-year swap yield in a 3.65 to 3.80 percent range. The surprise pause by the RBA last week demonstrated that with so little priced into the front end of the curve, NZ swaps have little room to rally. The following strong Australian employment data saw a brief spike in our front end rates but this lacked any momentum and rates drifted back within the range. Look for further range trading in the NZ rates market for now.

MARKET THEMES

- US markets continue to expect the Fed to embark on QE2 in early November, keeping US yields low.
- RBA surprised by pausing last week, but leave no doubt that the next move is up.
- NZ data continue to be soft, but swap yields can only rally so far from here.

REVIEW AND OUTLOOK

The increasing likelihood of QE2 in the US continues to dominate global rates markets. Fed speakers continue to publicise differing views but with Friday's payrolls again pointing to an economy losing momentum, some form of QE2 still seems likely. The resulting lower longer-dated US yields will continue to wash through into the back end of the NZ curve. However, strong NZ export commodity prices are countering the potential QE2 flattening pressure on the NZ curve. The QSBO was particularly weak showing broad-based deterioration in sentiment across all sectors and regions. While the NZD came off on the back of the release, the reaction in the rates market was fairly muted. This highlights the fact that, **with so little priced into the front of the NZ curve, there is little room for swaps to rally from here, even if the economic data continue to disappoint.** The market is range bound with little flow. Trading positions may have been reduced into year end and with little mortgage or corporate activity in the market, both pricing and volumes have been very light. We can expect more of the same this week.

The RBA may have surprised the market by leaving the cash rate unchanged at 4.5 percent last week, but there is no doubt that the next move is still up. Another strong Australian employment number has seen expectations for an RBA rate hike re-kindled. . This week's NAB business confidence survey will be particularly interesting with the Australian market continuing to reshuffle ahead of the all important CPI read on October 27.

PREFERRED BORROWING STRATEGIES

Interest rates continue to edge lower, spurred on by growing expectations of QE2 in the US. Recent domestic data has not helped, but despite the soft tone of the data, and a fairly bleak short term outlook, rates would not be anywhere near current levels had the Fed not been contemplating QE2. As such, we'd regard the current environment as an opportunistic one for borrowers. But that doesn't mean jumping in boots and all now – even if, like us, you think rates are unrealistically low. It's like trying to sell something at auction – you don't just accept the first bid above your reserve, you see how far you can stretch out the bidding. A similar analogy applies here – but the beauty of hedging is that you don't have to do it all at once – you can always do some at your "reserve" rate, leaving your powder dry to do more at better levels if it gets there. As such, our preferred strategy is to make sure you have enough cover on now so that you're happy if rates do snap higher. Remember, the market is playing with fire here – if we get QE2, US rates may drop half a percent in an instant. But if we don't, or the market is not happy with what it gets, it might snap higher by just as much. And any strategy needs to recognise this.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	On hold, and comfortable.
NZ data	↔/↓	Still soft, as QSBO showed.
Fed Funds / front end	↔/↓	QE2 still on the cards, helping drive US 2yr to record lows.
RBA	↔	No change was a surprise, especially given jobs data.
US 10 year	↔/↓	Focus on 2008 low of 2%.
NZ swap curve	↔/↓	Biased to flatten as long end follows US rates.
Flow	↔/↑	Light for now. Pay side will emerge on rallies.
Technicals	↔/↓	Break of prior lows looms.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Oct-10	+0	+0
Thu 9-Dec-10	+2	+2
Thu 27-Jan-11	+6	+7
Thu 10-Mar-11	+16	+18
Thu 28-Apr-11	24	+27
Thu 9-Jun-11	+37	+40
Thu 28-Jul-11	+44	+51

TRADING THEMES WE FAVOUR AT PRESENT

NZ rates still look exaggerated relative to Australian rates, particularly NZGS bonds, which are trading at "par" with Aussie governments. Yet the RBA cash rate is headed higher faster than the NZ OCR, and likely to be higher for some time. We still like curve flatteners, with QE2 likely to have a significant impact. But like outright rates, the pull from QE2 puts the market very much on "borrowed time".

CURRENCY STRATEGY

SUMMARY

The AUD was the standout currency last week, having its first run at parity against the USD. The NZD got towed along for the ride, despite some very soft domestic data. Finance Ministers' meetings in Washington over the weekend have disappointed markets by leaving the task of dealing with currency misalignments to the IMF. We look set for further near-term USD weakness. But NZD/USD should struggle to surpass 0.76 for now.

MARKET THEMES

- NZ data remains anaemic but global currency issues drive NZD/USD higher.
- AUD unstoppable as strong data continues. Parity with USD seems inevitable.
- NZD/AUD low but stable as AUD calls the shots.
- QE2 still a key theme for major currencies.
- IMF tasked with role of "currency cop".

REVIEW AND OUTLOOK

NZ data and sentiment may still be anaemic but external factors continue to drive NZD/USD higher. As suggested last week a break of the key 0.7440 level looks to have confirmed that further strength is in the offing. However, it should be noted that on a TWI basis the NZD has been quite stable for the last year. Indeed, for the last quarter it has been constrained in a 2.5 percent range. While the data this week (housing, retail sales and PMI) will likely continue the soft trend, we expect general USD weakness will continue to underpin the NZD/USD. On a TWI basis expect stability to continue.

The AUD had its first attempt at trading through parity against the USD, reaching a high of 0.9918. The last time AUD/USD traded 1.0000 was pre the 13 December 1983 float in July 1982. Despite the surprise "no change" from the RBA, the extremely strong employment data combined with QE2 induced USD weakness conspired in AUD's favour. Comments from Australian Treasurer Wayne Swan suggest they are not concerned with a high currency, viewing it as a sign of a strong economy. Following international developments (below) over the weekend we can expect a break of the 1.0000 level this week.

The meeting of Finance Ministers in Washington has handed the job of "currency policeman" to the IMF. Discussions of ""currency wars" have become more prevalent during the past week as competitive devaluation seems an easy path to help generate stronger export growth. Already the markets have recognised how toothless the IMF can be in these matters and continued to sell USD. Expect to see increased currency intervention by emerging market economies and looking further out, trade conflict cannot be ruled out. From a NZ perspective, we cannot even compete let alone win in the competitive devaluation stakes. Despite our weak data, it seems NZD/USD can only go higher.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	**DIRECTION**	**COMMENT**
Fair value	↔/↑	Under fair value now but not that far off.
Yield	↔/↓	Yields stable for now. Risk of RBA hike in November.
Commodities	↔	Soft commodities very strong, lending support to NZD.
Partial indicators	↓	Australian data outperforming NZ's.
Technicals	↔	Comfortable in 0.7600/0.7800 range.
Sentiment	↔	Everyone bullish AUD.
Other	↑	At historically low levels.
On balance	↔	**Range trade 0.7600-0.7830.**

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	↑	FOMC happy with weaker USD.
Commodities	↔/↑	Broad-based strength.
Risk aversion	↔/↑	Got a boost from prospects of Fed's QE2.
Partial indicators	↔/↓	NZ data still largely disappointing.
Technicals	↔/↑	Break of 0.7440 confirmed further strength.
AUD	↑	Set for parity?
Sentiment	↑	"New world/old world" theme shifting NZD sentiment toward Australia/Asia.
Other	↔	Watch for possible USD short-squeeze.
On balance	↔/↑	**Remains overall supported with rising base.**

EFFECTIVE EXCHANGE RATE UPDATE

SUMMARY

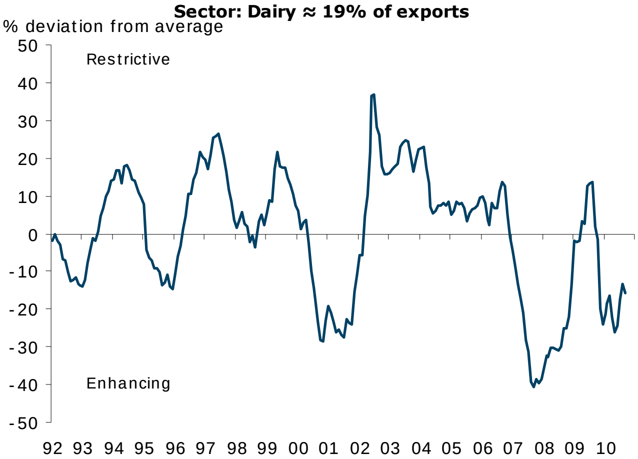
Our effective exchange rate (EER) measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Despite the stronger NZD against most TWI currencies, this has been offset by increases in most export commodity prices. However, sizeable disparities in trading conditions for our major export groups remain.

MIXED FORTUNES

Four of the eight industry groups experienced a more enhancing effective exchange rate in September. Higher commodity prices for dairy products (up 5 percent), meat and wool (up 4 percent), seafood (up 4 percent) and crude (up 9 percent) resulted in improving competitiveness for these sectors. However, less enhancing conditions were evident in forestry and horticulture. The marginal decline in competitiveness for manufacturing and services was also a consequence of broad-based NZD strength.

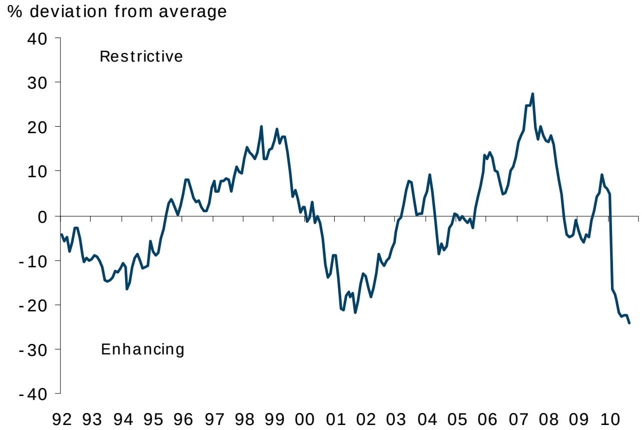
Sizeable disparities in trading conditions are evident in the various export groups. Conditions are in enhancing territory for three groups, namely meat and wool, dairy and seafood. However, conditions are in restrictive territory for the remaining five groups, most evidently for horticulture. These disparities show little signs of closing, and have widened in some case with not all export sectors benefiting from the upswing in export commodity prices. With the NZD/USD currently above 75 cents, the buffering role of the exchange rate is becoming less evident.

Sector: Dairy ≈ 19% of exports



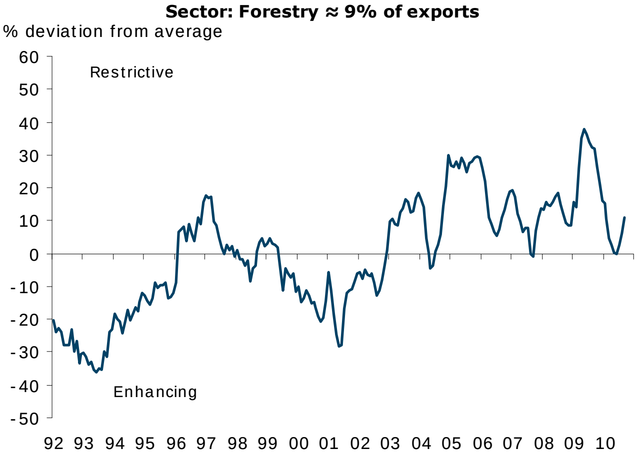
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



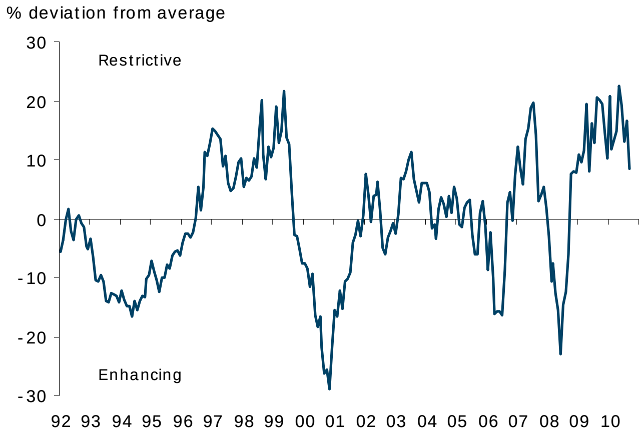
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Forestry ≈ 9% of exports



Sources: ANZ, Bloomberg, Statistics NZ

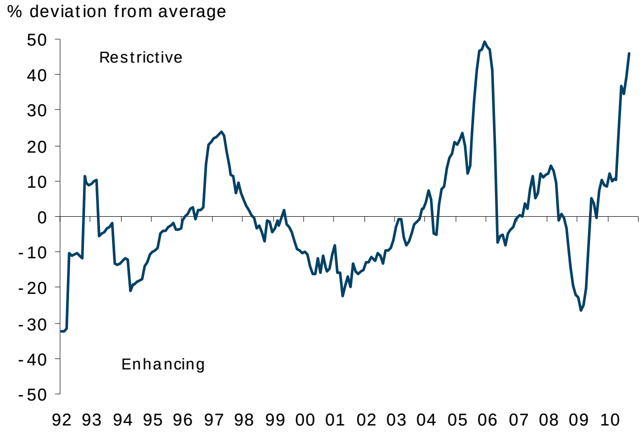
Sector: Crude ≈ 5% of exports



Sources: ANZ, Bloomberg, Statistics NZ

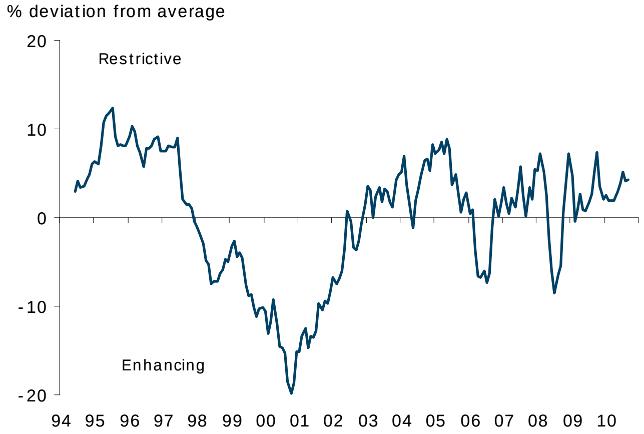
EFFECTIVE EXCHANGE RATE UPDATE

Sector: Horticulture ≈ 4% of exports



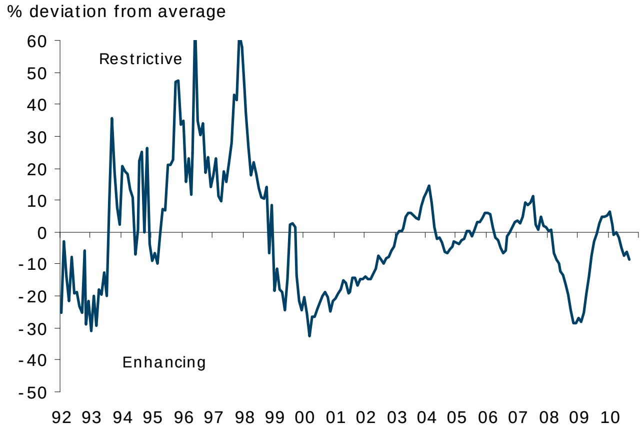
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports



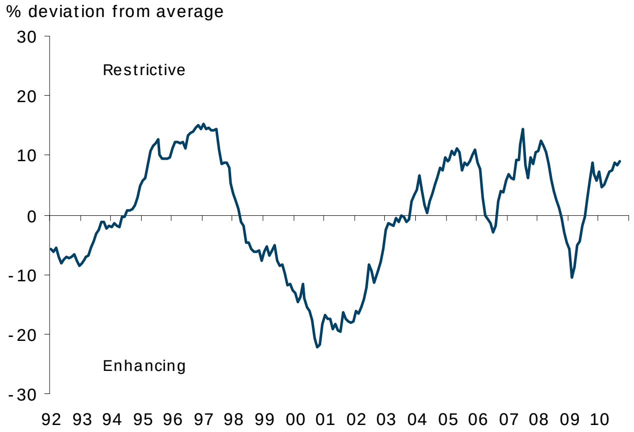
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services ≈ 21% of exports



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
11-Oct	AU	Home Loans - AUG	1.0%	1.7%	13:30
12-Oct	UK	RICS House Price Balance - SEP	-36.0%	-32.0%	12:01
	AU	NAB Business Conditions - SEP	- -	5	13:30
	AU	NAB Business Confidence - SEP	- -	11	13:30
	JN	Consumer Confidence - SEP	- -	42.5	18:00
	JN	Consumer Confidence Households - SEP	- -	42.4	18:00
	GE	Consumer Price Index (MoM) - SEP F	-0.1%	-0.1%	19:00
	GE	Consumer Price Index (YoY) - SEP F	1.3%	1.3%	19:00
	GE	CPI - EU Harmonised (MoM) - SEP F	-0.2%	-0.2%	19:00
	GE	CPI - EU Harmonised (YoY) - SEP F	1.3%	1.3%	19:00
	GE	Wholesale Price Index (MoM) - SEP	0.4%	1.6%	19:00
	GE	Wholesale price Index (YoY) - SEP	6.3%	6.4%	19:00
	UK	DCLG UK House Prices (YoY) - AUG	8.1%	8.4%	21:30
	UK	CPI (MoM) - SEP	0.0%	0.5%	21:30
	UK	CPI (YoY) - SEP	3.1%	3.1%	21:30
	UK	Core CPI YOY - SEP	2.6%	2.8%	21:30
	UK	RPI (MoM) - SEP	0.1%	0.4%	21:30
	UK	RPI (YoY) - SEP	4.4%	4.7%	21:30
	UK	RPI Ex Mort Int.Payments (YoY) - SEP	4.4%	4.7%	21:30
	UK	Visible Trade Balance GBP/Mn - AUG	-£8050	-£8667	21:30
	UK	Trade Balance Non EU GBP/Mn - AUG	-£4400	-£4800	21:30
	UK	Total Trade Balance (GBP/Mln) - AUG	-£4388	-£4916	21:30
13-Oct	US	NFIB Small Business Optimism - SEP	89.6	88.8	00:30
	US	IBD/TIPP Economic Optimism - OCT	44.5	45.3	03:00
	US	Minutes of FOMC Meeting - 41183	- -	- -	07:00
	NZ	Food Prices (MoM) - SEP	- -	-0.1%	10:45
	UK	Nationwide Consumer Confidence - SEP	59	61	12:01
	JN	Japan Money Stock M2 YoY - SEP	2.8%	2.8%	12:50
	JN	Japan Money Stock M3 YoY - SEP	2.1%	2.1%	12:50
	JN	Machine Orders (MoM) - AUG	-3.9%	8.8%	12:50
	JN	Machine Orders YOY% - AUG	8.7%	15.9%	12:50
	AU	Westpac Consumer Confidence Index - OCT	- -	113.2	13:30
	NZ	Non Resident Bond Holdings - SEP	- -	62.7%	15:00
	CH	Trade Balance (USD) - SEP	$17.50B	$20.03B	- -
	CH	Exports YoY% - SEP	26.4%	34.4%	- -
	CH	Imports YoY% - SEP	25.0%	35.2%	- -
	UK	Jobless Claims Change - SEP	4.5K	2.3K	21:30
	UK	Average Weekly Earnings 3M/YoY - AUG	1.6%	1.5%	21:30
	UK	Weekly Earnings exBonus 3M/YoY - AUG	2.2%	1.8%	21:30
	UK	ILO Unemployment Rate (3mths) - AUG	7.8%	7.8%	21:30
	EC	Euro-Zone Ind. Prod. wda (YoY) - AUG	7.4%	7.1%	22:00
	EC	Euro-Zone Ind. Prod. sa (MoM) - AUG	0.8%	0.0%	22:00
14-Oct	US	Import Price Index (MoM) - SEP	-0.2%	0.6%	01:30
	US	Import Price Index (YoY) - SEP	3.8%	4.1%	01:30
	NZ	REINZ House Sales YoY% - SEP	- -	-27.1%	10:00
	NZ	Retail Sales (MoM) - AUG	0.3%	-0.4%	10:45
	NZ	Retail Sales Ex-Auto (MoM) - AUG	0.2%	-0.1%	10:45
	NZ	REINZ Housing Price Index MoM% - SEP	- -	0.3%	11:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
14-Oct	NZ	Business NZ PMI - SEP	- -	49.3	11:30
	JN	Domestic CGPI (MoM) - SEP	0.0%	0.0%	12:50
	JN	Domestic CGPI (YoY) - SEP	0.0%	0.0%	12:50
	AU	Consumer Inflation Expectation - OCT	- -	3.1%	13:00
	JN	Tokyo Condominium Sales (YoY) - SEP	- -	18.5%	17:00
	JN	Machine Tool Orders (YoY) - SEP F	- -	112.9%	19:00
15-Oct	US	Trade Balance - AUG	-$44.1B	-$42.8B	01:30
	US	Producer Price Index (MoM) - SEP	0.2%	0.4%	01:30
	US	PPI Ex Food & Energy (MoM) - SEP	0.1%	0.1%	01:30
	US	Producer Price Index (YoY) - SEP	3.7%	3.1%	01:30
	US	PPI Ex Food & Energy (YoY) - SEP	1.5%	1.3%	01:30
	US	Initial Jobless Claims - 40087	443K	445K	01:30
	US	Continuing Claims - 37530	4450K	4462K	01:30
	CH	Actual FDI (YoY) - SEP	5.7%	1.4%	- -
	CH	Money Supply - M0 (YoY) - SEP	- -	16.0%	- -
	CH	Money Supply - M1 (YoY) - SEP	21.5%	21.9%	- -
	CH	Money Supply - M2 (YoY) - SEP	18.9%	19.2%	- -
	CH	New Yuan Loans - SEP	500.0B	545.2B	- -
	JN	Industrial Production (MoM) - AUG F	- -	-0.3%	17:30
	JN	Industrial Production YOY% - AUG F	- -	15.4%	17:30
	JN	Capacity Utilization (MoM) - AUG F	- -	-0.3%	17:30
	EC	Euro-Zone CPI - Core (YoY) - SEP	1.0%	1.0%	22:00
	EC	Euro-Zone CPI (MoM) - SEP	0.2%	0.2%	22:00
	EC	Euro-Zone CPI (YoY) - SEP F	1.8%	- -	22:00
	EC	Euro-Zone Trade Balance sa - AUG	-0.8B	-0.2B	22:00
	EC	Euro-Zone Trade Balance - AUG	0.0B	6.7B	22:00
16-Oct	CH	Foreign Exchange Reserves - SEP	$2502B	- -	- -
	CH	China Property Prices - SEP	890.0%	930.0%	- -
	US	Consumer Price Index (MoM) - SEP	0.2%	0.3%	01:30
	US	CPI Ex Food & Energy (MoM) - SEP	0.1%	0.0%	01:30
	US	Consumer Price Index (YoY) - SEP	1.2%	1.1%	01:30
	US	CPI Ex Food & Energy (YoY) - SEP	0.9%	0.9%	01:30
	US	Advance Retail Sales - SEP	0.4%	0.4%	01:30
	US	Retail Sales Less Autos - SEP	0.3%	0.6%	01:30
	US	Retail Sales Ex Auto & Gas - SEP	0.3%	0.5%	01:30
	US	Empire Manufacturing - OCT	6.0	4.1	01:30
	US	U. of Michigan Confidence - OCT P	69.0	68.2	02:55
	US	Business Inventories - AUG	0.5%	1.0%	03:00
	US	Monthly Budget Statement - SEP	-$32.0B	-$46.6B	07:00

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.

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: Last week's data provided a mixed picture. The broad-based slump in business sentiment from the Q3 QSBO highlighted the possibility of further deceleration in economic activity from the tepid 0.2 percent expansion in Q2. The strengthening in commodity export prices and the consolidation in whole milk powder prices in the *globalDairyTrade* online auction were positive signs towards an export-led rebound for 2011. Earthquake related reconstruction will provide a boost to 2011 but GDP for Q3 2010 will be weighed down by earthquake disruptions. We continue to closely watch the soft gauges for signs of direction.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 13 Oct (10:45am)	Food Price Index - Sep	Moving higher	The unwinding of retail discounting and high commodity export prices should lift prices for groceries and meat.
Thur 14 Oct (10:00am)	REINZ Housing Market Statistics - Sep	Easing off	As a consequence of the Canterbury earthquake we expect a 5 percent fall in sales. Downward pressures on prices remain.
Thur 14 Oct (10:30am)	BNZ Business NZ PMI - Sep	Disruption	Christchurch is a major manufacturing hub so we expect some disruption. The spirit remains one of stalled activity.
Thur 14 Oct (10:45am)	SNZ Retail Trade Survey - Aug	Cautious	Retail indicators suggest a 0.4 percent increase in August retail sales, with core retail spending expected to increase by 0.3 percent. Households continue to focus on repairing balance sheets.
Mon 18 Oct (10:45am)	Consumers Price Index – Q3	Annual low	Boosted by higher food prices and government related charges we expected a 0.8 percent quarterly increase. Annual CPI inflation should ease to 1.3 percent.
Wed 20 Oct (6:00am)	*globalDairyTrade* online auction	Staying put	Further consolidation is likely, with contract prices for whole milk powder expected to average US $3,500 per tonne.
Thur 21 Oct (10:45am)	International Travel and Migration – Sep	Up and down	A small net monthly PLT inflow is expected, with a risk of a larger than expected pick-up in departures – especially to Australia. We will be on the lookout for any tourism disruption in the visitor arrivals number arising from the Canterbury earthquake.
Fri 29 Oct (10:45am)	Overseas Merchandise Trade - Sep	Still in the red	A monthly deficit in the region of $500m is expected, with the annual trade deficit expected to remain close to $900m.
Fri 29 Oct (10:45am)	Building Consents - Sep	Up	After the sharp fall in August issuance a pullback of sorts is expected. Earthquake related disruptions could be influential.
Tue 2 Nov (10:45am)	Labour Cost Index – Q3	Restrained	We expect a 0.4 percent increase in private sector labour costs in Q3 (1.4 percent y/y). The forthcoming income tax cuts and soggy domestic demand should restrict wages moving higher.
Tue 2 Nov (10:45am)	Quarterly Employment Survey – Q3	Improving	We expect a 0.5 percent increase in filled jobs. Private sector average hourly earnings are expected to increase by 1.0 percent in Q3 (0.7 percent y/y).
Wed 3 Nov (6:00am)	*globalDairyTrade* online auction	Holding	Contract prices for whole milk powder are expected to average around US $3,500 per tonne.
Thur 4 Nov (10:45am)	Household Labour Force Survey – Q3	Improving	There remains considerable statistical noise but the spirit is of continued labour market recovery. We expect a 0.5 percent increase in employment with the unemployment rate set to ease to 6.6 percent.
On Balance			**August data mixed but activity and confidence data for Q3 and Q4 may be subdued.**

ECONOMIC FORECASTS AND INDICATORS

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.2	1.0	0.5	0.2	**0.4**	**0.5**	**1.2**	**1.4**	**1.6**	**0.5**
GDP (% yoy)	-1.6	0.5	1.9	1.9	**2.1**	**1.6**	**2.3**	**3.5**	**4.8**	**4.8**
CPI (% qoq)	1.3	-0.2	0.4	0.3	**0.8**	**2.8**	**0.6**	**1.0**	**0.8**	**0.5**
CPI (% yoy)	1.7	2.0	2.0	1.8	**1.3**	**4.3**	**4.6**	**5.3**	**5.2**	**2.9**
Employment (% qoq)	-0.8	0.0	1.0	-0.3	**0.5**	**0.4**	**0.6**	**0.7**	**0.6**	**0.4**
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	**1.3**	**1.6**	**1.2**	**2.2**	**2.3**	**2.3**
Unemployment Rate (% sa)	6.5	7.1	6.0	6.8	**6.6**	**6.4**	**6.1**	**5.7**	**5.5**	**5.4**
Current Account (% GDP)	-3.2	-2.8	-2.4	-3.0	**-3.7**	**-3.0**	**-3.1**	**-3.0**	**-3.1**	**-3.1**
Terms of Trade (% qoq)	-1.6	5.8	6.1	2.0	**3.0**	**1.0**	**-0.5**	**-0.7**	**0.0**	**-1.0**
Terms of Trade (% yoy)	-14.1	-8.2	0.1	12.7	**17.9**	**12.5**	**5.6**	**2.7**	**-0.2**	**-2.1**

	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10
Retail Sales (% mom)	-0.4	0.7	-0.6	0.5	-0.3	0.4	1.0	-0.4	..	..
Retail Sales (% yoy)	2.0	2.3	2.4	4.4	2.7	1.9	3.4	2.2	..	..
Credit Card Billings (% mom)	-1.2	1.7	-0.2	0.8	-1.7	1.9	1.0	-1.3	0.5	..
Credit Card Billings (% yoy)	1.9	2.6	1.1	5.2	0.8	3.4	4.5	2.6	2.0	..
Car Registrations (% mom)	6.8	-0.6	0.4	5.2	2.9	-3.8	5.6	-6.4	-0.2	2.7
Car Registrations (% yoy)	0.3	15.9	31.4	31.7	40.5	30.5	35.8	16.0	19.0	19.2
Building Consents (% mom)	-3.8	-2.7	6.2	-0.3	8.6	-10.0	3.2	2.4	-17.8	..
Building Consents (% yoy)	22.8	35.7	30.0	32.8	32.4	10.9	27.5	25.9	-3.0	..
REINZ House Price (% yoy)	9.6	7.7	6.1	7.6	4.7	3.7	3.7	2.6	0.9	..
Household Lending Growth (% mom)	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.1	..
Household Lending Growth (% yoy)	2.7	2.7	2.7	2.8	2.7	2.5	2.5	2.3	2.2	..
ANZ-Roy Morgan Consumer Confidence	118.6	131.4	123.6	121.8	121.9	126.0	122.0	115.6	116.3	116.4
NBNZ Business Confidence	38.5	..	50.1	42.5	49.5	48.2	40.2	27.9	16.4	13.5
NBNZ Own Activity Outlook	36.9	..	41.9	38.6	43.0	45.3	38.5	32.4	25.7	26.7
Trade Balance ($m)	-26	271	328	608	660	770	220	-183	-437	..
Trade Balance ($m annual)	-549	-176	-330	-160	178	41	592	587	866	..
ANZ World Commodity Price Index (% mom)	2.5	0.3	3.7	1.8	5.1	1.2	-1.6	-0.8	-1.4	2.9
ANZ World Commodity Price Index (% yoy)	30.4	36.7	48.6	49.5	53.2	51.8	50.1	47.3	38.6	33.1
Net Migration (sa)	1700	1850	1000	960	770	350	230	880	840	..
Net Migration (annual)	21253	22588	21618	20973	19954	17967	16504	15221	14507	..

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	Aug-10	Sep-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.699	0.734	0.756	0.720	0.720	0.734	0.740	0.724	0.710	0.700
NZD/AUD	0.785	0.759	0.764	0.758	0.766	0.753	0.740	0.739	0.740	0.745
NZD/EUR	0.551	0.539	0.541	0.514	0.507	0.517	0.510	0.510	0.507	0.507
NZD/JPY	58.86	61.33	61.97	57.60	56.16	55.05	55.50	56.47	56.80	57.40
NZD/GBP	0.455	0.467	0.474	0.456	0.450	0.459	0.457	0.453	0.444	0.443
NZ$ TWI	65.5	66.3	67.0	64.1	63.7	64.1	63.8	63.5	63.0	63.0
INTEREST RATES	Aug-10	Sep-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	3.75	4.00	4.25	4.75	5.25
NZ 90 day bill	3.21	3.17	3.19	3.30	3.70	4.20	4.30	4.70	5.20	5.50
NZ 10-yr bond	5.13	5.01	5.11	5.00	5.00	5.30	5.30	5.70	5.80	5.60
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
US 3-mth	0.30	0.29	0.29	0.35	0.35	0.35	0.35	0.35	0.35	0.85
AU Cash Rate	4.50	4.50	4.50	4.75	5.25	5.50	5.75	6.00	6.00	6.00
AU 3-mth	4.75	5.01	4.84	5.10	5.60	6.00	6.00	6.20	6.10	6.10

	8 Sep	4 Oct	5 Oct	6 Oct	7 Oct	8 Oct
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.20	3.17	3.17	3.17	3.17	3.18
NZGB 11/11	3.73	3.83	3.85	3.85	3.94	3.92
NZGB 04/13	4.18	4.31	4.33	4.33	4.41	4.39
NZGB 12/17	5.11	4.91	4.93	4.93	5.01	4.99
NZGB 05/21	5.40	5.03	5.05	5.05	5.13	5.11
2 year swap	3.84	3.72	3.72	3.74	3.78	3.76
5 year swap	4.45	4.28	4.28	4.31	4.35	4.33
RBNZ TWI	66.8	66.6	66.3	66.8	67.1	66.9
NZD/USD	0.7175	0.7430	0.7380	0.7473	0.7536	0.7531
NZD/AUD	0.7864	0.7661	0.7633	0.7698	0.7659	0.7653
NZD/JPY	59.85	62.08	61.60	62.11	62.48	61.97
NZD/GBP	0.4667	0.4705	0.4665	0.4696	0.4750	0.4738
NZD/EUR	0.5649	0.5401	0.5401	0.5399	0.5414	0.5398
AUD/USD	0.9124	0.9698	0.9669	0.9708	0.9839	0.9840
EUR/USD	1.2702	1.3756	1.3663	1.3842	1.3919	1.3952
USD/JPY	83.41	83.55	83.47	83.11	82.91	82.28
GBP/USD	1.5374	1.5793	1.5819	1.5915	1.5865	1.5894
Oil (US$/bbl)	73.98	81.57	81.43	82.83	83.21	81.34
Gold (US$/oz)	1257.83	1317.55	1314.30	1344.13	1352.25	1334.10
Electricity (Haywards)	2.54	1.47	1.77	1.44	2.93	1.80
Milk futures (US$/contract)	120	118	118	118	118	118
Baltic Dry Freight Index	2975	2478	2569	2639	2662	2696

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:

- 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

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.

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