NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

14 June 2010

INSIDE

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KICK OFF

ECONOMIC OVERVIEW

The hurdle to a second OCR increase by the RBNZ is less than the first, and the probability of a follow-up hike in July is high. Global ructions may challenge this but the RBNZ have declared their hand. They want to be ahead of the curve as opposed to risk being behind it, particularly given the near-term jump in headline inflation past 5 percent. We remain comfortable calling for 2 or 3 more 25 basis point hikes, followed by a pause in a similar fashion to the RBA. Beyond that we continue to ponder the endgame for rates, which will be influenced by the process of learning and change that is set to occur across the economy, particularly in relation to expected capital gains. The more stable that these expectations are relative to the underlying performance of the economy, the less the OCR will need to rise. This week's data is domestic-centric and expected to be weak. We'll take comfort from this as another sign of the economy's rebalancing process.

EFFECTIVE MORTGAGE RATE UPDATE

With the RBNZ starting to remove policy stimulus, the effective mortgage rate facing households is set to rise. Given the greater proportion of mortgages on floating and the steep mortgage curve, the RBNZ will have a greater impact on the effective mortgage rate compared to previous cycles. However, household behaviour in the form of staying floating versus fixed, and the extent of the OCR pass-through into mortgages rates, is set to have a greater influence on the RBNZ's policy outlook.

INTEREST RATE STRATEGY

The NZ economy is building momentum and it makes sense to move towards more neutral monetary policy. Global events may yet undermine growth, but so far they haven't, and the RBNZ has responded to what it has seen. The OCR is set to keep rising from here, and we suspect with a pause or two along the way – but this is already priced in, so the outlook for term rates is fairly benign. Moreover, now that the RBNZ has cited financial market developments as a consideration for policy, rates are likely to fluctuate with global rates.

CURRENCY STRATEGY

Debt, equity and currency all rallied on Friday night. This was impressive given the backdrop of weak retail sales in the USA. This suggests the risk unwind is completed as the market is looking to move out of cash. The CFTC positioning data supports this view with both the NZD and AUD positioning close to zero.

ECONOMIC OVERVIEW

SUMMARY

The hurdle to a second OCR increase by the RBNZ is less than the first, and the probability of a follow-up hike in July is high. Global ructions may challenge this but the RBNZ have declared their hand. They want to be ahead of the curve as opposed to risk being behind it, particularly given the near-term jump in headline inflation past 5 percent. We remain comfortable calling for 2 or 3 more 25 basis point hikes, followed by a pause in a similar fashion to the RBA. Beyond that we continue to ponder the endgame for rates, which will be influenced by the process of learning and change that is set to occur across the economy, particularly in relation to expected capital gains. The more stable that these expectations are relative to the underlying performance of the economy, the less the OCR will need to rise. This week's data is domestic-centric and expected to be weak. We'll take comfort from this as another sign of the economy's rebalancing process.

THIS WEEK'S EVENTS

- **REINZ Housing Market Statistics – May** (Tuesday, June 15, 10:00am). Housing market activity is expected to remain at low levels as pre-Budget uncertainties weigh. Prices are expected to continue their downward trend.
- **ANZ-Roy Morgan Consumer Sentiment – June** (Thursday, June 17, 3:00pm).

WHAT'S THE VIEW?

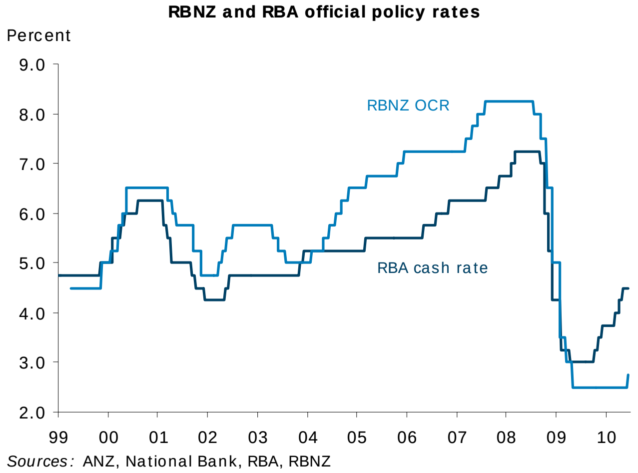
The RBNZ stuck to their script and raised the OCR from 2.50 to 2.75 percent last week. The removal of policy stimulus was deemed to be appropriate, with the recovery underway and the pending boost from the terms of trade over the coming year. The Statement itself was relatively upbeat. However, clearly mindful of the potential for global developments to worsen, the RBNZ have made future decisions conditional on the economic outlook by stating that *"further removal of stimulus will be reviewed in light of economic and financial market developments."*

The RBNZ policy outlook was conditional on three key assumptions; that the near-term spike in CPI inflation has only a limited impact on medium-term inflation expectations; that households and firms continue to deleverage, and that trading partner growth is not materially affected by offshore risk concerns in Europe.

The first two assumptions relate to upside risks and it will take some time before there is enough information to fully assess whether the assumptions are playing out as expected. No doubt the RBNZ will continue to pay close attention to credit growth, wage and inflation indicators. If we see wage demands start to match the spike in the headline CPI, brace for at least one 50bp move at some stage. We presume deleveraging means credit growing at a slower pace than income growth, as opposed to contracting per se.

This is part of the adjustment to the "new normal" as opposed to what we have seen in the decade prior to the global financial crisis where credit growth expanded at 2 to 3 times the rate of income growth. We see this as more of a 2011 risk, but the message is once again pretty clear: the RBNZ is prepared to bring out the stick to ensure deleveraging occurs and that we do not go back to the ways of old. **In fact one could argue that monetary policy is relatively simple going forward: if credit growth is above GDP growth, make sure interest rates are above neutral, and vice versa.**

At present, the two main issues regarding the path for the OCR are how fast do they move up and where does it stop in this cycle. We are less sanguine than the RBNZ on the global economy, hence our more cautious view over the tightening cycle in the coming 12 months. Interest rates are still set to move up, but when we consider recent house price trends and with the potential for global ructions to escalate, **it seems rather heroic to assume there will be a rate hike every 6 weeks.**



We've pencilled in another three hikes over the coming meetings followed by a pause around Q4. Something akin to what the RBA has done in taking their cash rate from 3 to 4.5 percent, but with a 3 month pause along the way. The first rate hike is always the hardest, and the fact that the RBNZ has begun to move means the hurdle to pausing in July is

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reasonably high. You simply do not embark on a tightening cycle unless you have at least another few more in mind from the outset. The strategy from the RBNZ seems clear: stay ahead of the curve rather than risk getting behind it.

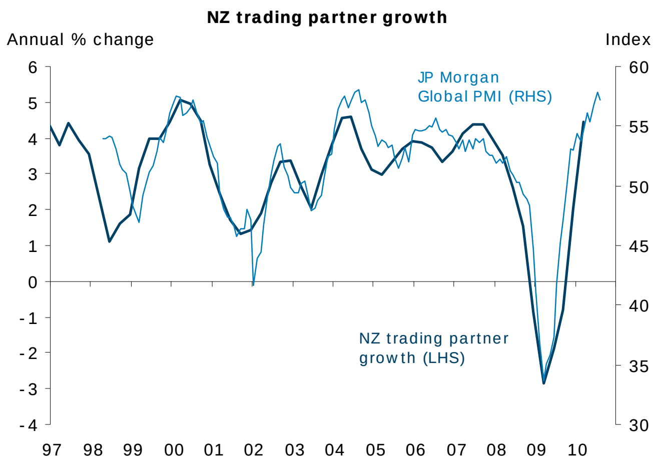
The third assumption used by the RBNZ was in recognition that the global recovery was far from assured. At present, global developments have the potential to move very quickly and will have more immediate policy relevance. **Going forward, we will be watching for any actual and potential impacts of Eurozone events on NZ.Inc.** Higher bank funding costs are an obvious sign and it is already occurring. However, as we have noted in prior weeks, this direct impact has been somewhat offset by a weaker NZD/USD (although not last week!) and a narrowing NZD/USD basis swap. NZ banks remain well capitalised and liquidity positions are strong.

SOVEREIGN DEBT VULNERABILITY RANKINGS	
COUNTRY	OVERALL RANKING[1]
Greece	1
Portugal	2
Ireland	3
Spain	4
Poland	5
Iceland	6
France	7
Hungary	8
Italy	9
Belgium	10
Czech Republic	11
Germany	12
Austria	13
Netherlands	14
United Kingdom	15
United States	16
Japan	17
Finland	18
Canada	19
New Zealand	20
Australia	21
Sweden	22
Denmark	23
Norway	24
Switzerland	25

[1] Our vulnerability rankings are a diffusion of unfavourable and favourable characteristics. We use standardised data to rank OECD countries on the basis of a number of unfavourable characteristics (e.g. Budget deficit, Government debt to GDP, current account to GDP). We then do the same for favourable data (e.g. GDP per capita, exchange rate flexibility, economic freedom). We then compare these rankings to come up with an overall ranking.

The RBNZ note that long-term interest rates could also start to drift up in response to deteriorating fiscal positions in many OECD economies. Certainly the market looks to be picking off the weakest gazelle (in this case sovereigns) one-by-one. It just seems a question of time before an economy of material size is impacted, so this risk is somewhat "real". Above is our sovereign vulnerability table (as detailed in the February 15th edition of the *Market Focus*) of the most likely candidates. The so-called PIIGS pretty well round out the market top spots but the past few weeks has also seen rumours about Hungary and others circulate, which tells us we are moving beyond the top 5 and into the next layer.

The most obvious global risk is that a loss of confidence can quickly derail prospects. In this regard we'll be closely eyeing key global PMIs and ISM survey results for June. Currently these sit in the high 50s, indicating a solid pace of expansion. As we've noted in recent weeks, these gauges have been closely correlated with equity market movements. There is a fair degree of circularity over what causes what, so we'll refrain from making sweeping assessments. But nonetheless, a modest fall in such surveys is certainly feasible given the 10 percent fall in equity prices from their April peaks to date, although last week's rally in bourses is encouraging. A larger fall in sentiment, say a push towards the low 50s, will start to warn of material consequences. But for now the recovery seen to date looks incredibly "V"-ish.



Sources: ANZ National, Bloomberg

This cyclical rebound goes against the spirit of the required global deleveraging needed to restore balance sheet positions. If a typical rebound ensues, then the risks of double-dip increases as it indicates that we have failed to learn from past

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mistakes. We have also become rather bemused by global trading figures: China is back printing large surpluses while US trade deficits are increasing again. At a time the G20 is talking about rebalancing, the world is becoming increasingly unbalanced!

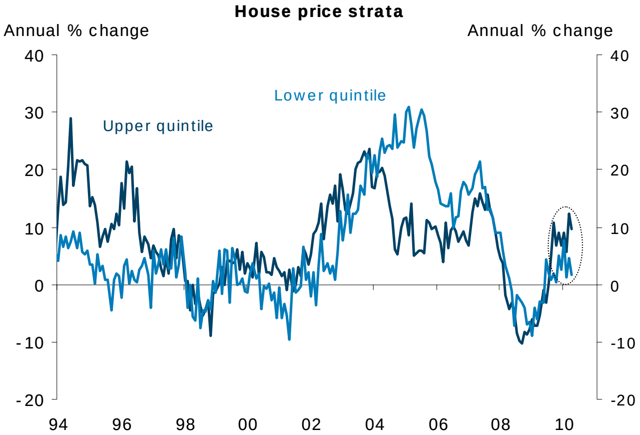
Turning to the question of where the OCR ultimately ends up, history would say rates will invariably overshoot some notion of neutral. So if we say 5 percent is the new neutral, then a push to 6 percent (as shown by the RBNZ's projections) could easily be on the cards. Of course the choice of 5 percent as a neutral rate can be considered somewhat arbitrary (and the Governor nicely side-stepped any questions in relation to its level). But we are tending to take a lot of comfort that the end point will not be as high as in previous cycles given higher bank funding costs, the implicit ancillary policy instrument the RBNZ now has in the form of the core funding ratio, and assistance from other areas such as fiscal policy.

Relative to prior cycles, we believe New Zealanders' medium term expectations towards house prices are more contained (read: reasonable), which implicitly means the nominal OCR should not have to ratchet up as far for real interest rates to move up. Nor will the interest rate borrowers face need to head as high. But of course **the million dollar question the RBNZ faces is whether things turn out this way.** Or expressed differently, are we set to jump back into property once the terms of trade effect filters through the economy? This is one of the upside risks noted by the RBNZ (i.e. we re-leverage on expectations of strong capital gains after deleveraging in 2010). Unfortunately there is a data void in regard to asset price inflation expectations (house prices and rural land prices) but it's a critical part of assessing where interest rates could end up and also where the neutral OCR may reside. **We're having a think about this and it may well be that we modify our Business Outlook Survey to capture such information.**

In order to answer the question regarding where interest rates end up, we need to recognise the structural (namely deleveraging) dynamic that is interplaying with cyclical forces, and the historical tendency to overshoot. The global economy is now 15 months into the recovery process. Yet the required deleveraging has yet to fully run its course (or some may argue that it has not really got started when you look at sovereign balance sheets). It seems incredible to assume that we can put the events of late 2008 beyond us in 18 months. Such events have typically involved five year adjustments, resulting in below average growth rates over a number of years, and we expect this cycle to be no different. In practice, policymakers are on a hiding to nothing trying to differentiate between the structural and cyclical forces as we noted a couple of weeks ago. Making sure it doesn't happen again is in fact an argument for sticking to the script and normalising policy. In this regard policymakers and the recovery process are on a collision course at some stage. Of course we don't expect such a collision to take place, but neither do we expect interest rates to remain low forever. Some degree of pragmatism seems likely to prevail where interest rates do move up to but with regard to the various tensions within the economy.

So where does that leave NZ? A two year prognosis (forecast) for rates ending up in the neutral zone seems pretty reasonable while global deleveraging takes place. **At some stage it is likely that interest rates will move beyond neutral, just as night follows day. But at present that's not in our forecast timeframe and that is the important distinction to make.** The implication of course is that term interest rates may go much higher in a few years time.

House price strata



Sources: ANZ, National Bank, REINZ

Data this week is focused on the household sector. Retail trade data for April, released this morning. Core retail sales were not as weak as expected, with the 7 percent increase in accommodation spending preventing a larger fall. Housing market data out tomorrow will still show that deleveraging is still the overriding theme. Sales volumes are not suggestive of a building boom eventuating, and prices have largely been tracking sideways over recent months. It is too soon to assess the impact of the tax changes on the housing market. However, viewing pricing trends in various segments of the market suggests that the fall-off in prices has been more concentrated in the cheaper

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priced suburbs that are likely to contain investment properties. It could well be that investors have been getting rid of properties in anticipation of a tougher taxation environment. We expect prices to be sideways to down and the average days to sell figures to more up.

We'll also be paying particular attention to the ANZ-Roy Morgan consumer confidence survey. This seems like an oxymoron given that we release the statistics, but we're simply drawing readers' attention to it for one simple reason: it's the first sample of June data which will capture the Budget, dairy payout and recent financial market ructions. All are issues that are more relevant to business confidence (which we will release on June 28) but consumer confidence may nonetheless provide a useful barometer.

RECENT LOCAL DATA

- **SNZ Value of Work Put in Place – Q1.** The volume of building work increased by 0.7 percent. Residential building work increased by 2.2 percent, which was partly offset by a 1.3 percent fall in non-residential building work.
- **SNZ Economic Survey of Manufacturing – Q1**. Due to a 10.1 percent decline in dairy and meat volumes, total manufacturing volumes fell by 2.7 percent in the March quarter. Ex-primary manufacturing volumes increased by 1.3 percent, which implies a 1 percent increase in production GDP for this component.
- **RBNZ June Monetary Policy Statement.** The RBNZ increased the OCR to 2.75 percent. The MPS noted that "*further removal of stimulus will be reviewed in light of economic and financial market developments.*"
- **BNZ Capital – Business NZ PMI – May.** The overall PMI dipped 4.1 points to 54.5 in May. Readings for all five components fell, with the largest falls for production (down 7.1 points to 55.3) and new orders (down 4.1 points to 56.4). Four of the five components remain in expansionary territory (50 or above), but employment fell to 49.3.
- **SNZ Electronic Card Transactions – May**. Retail related ECT values increased by 0.4 percent, following a 2.2 percent fall in April. Core ECT spending (which excludes fuel and vehicle related spending) rose by 1.0 percent after falling by 1.9 percent in April.
- **SNZ Overseas Trade Indices – Q1**. Largely a consequence of a 10.2 percent increase in export prices, the terms of trade rose by 5.9 percent. Export volumes increased by 3.0 percent, whereas import volumes rose by 2.8 percent.
- **SNZ Food Price Index – May.** Food prices declined by 0.7 percent (-0.5 percent y/y), led by a decline in meat (-2.4 percent), fresh fruit and vegetable (-2.1 percent) and grocery prices (-0.7 percent).
- **SNZ Retail Trade – May.** Total retail sales fell by 0.3 percent, with core retail (ex fuel and vehicle related) sales falling by 0.2 percent.

EFFECTIVE MORTGAGE RATE UPDATE

SUMMARY

With the RBNZ starting to remove policy stimulus, the effective mortgage rate facing households is set to rise. Given the greater proportion of mortgages on floating and the steep mortgage curve, the RBNZ will have a greater impact on the effective mortgage rate compared to previous cycles. However, household behaviour in the form of staying floating versus fixed, and the extent of the OCR pass-through into mortgages rates, is set to have a greater influence on the RBNZ's policy outlook.

TURNING AROUND

The effective mortgage rate (EMR) facing households has troughed, and is set to rise now that the RBNZ has started to increase interest rates. During the easing cycle, the EMR went from a peak of 8.83 percent in September 2008 to 6.60 percent in April 2010, which is the last available data. We estimate that this will reduce to around 6.57 percent this month, which will mark the low. At present, around 33 percent of mortgages are on floating rates. This means last week's 25bp increase in the OCR – assuming this translates into a similar increase in the floating rate – will see an immediate 8bp increase in the EMR. **However, we do note that banks have yet to move in response to last week's OCR increase, and the pass-through when it comes may not be one-for-one.**

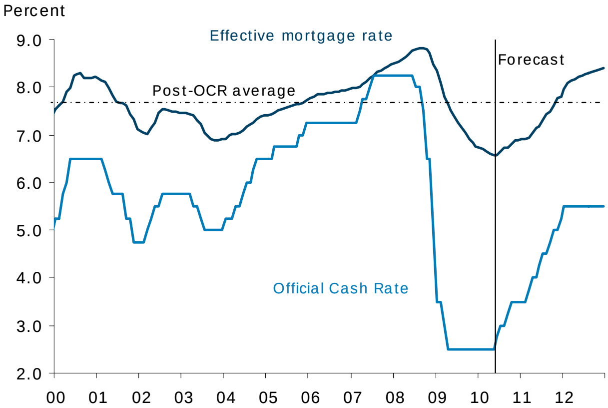
In assessing where the EMR will head to going forward, we note the following three points:

- **The mortgage curve will flatten.** However, this is cold comfort to households. Fixed mortgage rates in the three year and above space are above historical average rates, and not many are opting for them as a result. Even the once popular two year rate, at 7.3 percent, is not that far below average levels. With future OCR increases already priced into the mortgage curve, longer term fixed rates will remain largely unchanged, with floating and shorter-fixed rates set to move up, causing the curve to flatten.

- **There is not much scope to hide.** Those rolling off their fixed rate mortgages in the coming weeks and months are coming off a weighted average rate of around 6.8 percent. There is still savings to be had by floating or fixing up to 1-year, but not much. Any window of opportunity for savings is set to shut quickly when the RBNZ delivers another hike in July. We believe getting the entire mortgage curve towards where rates are rolling off (6.8 percent) appears a logical first step for policy. This could be achieved with 3 to 4 hikes.

- **Removing stimulus, not tightening.** Based on our forecast of the OCR heading towards 3.5 percent by October, followed by a pause before a resumption in Q1 next year, the EMR does not reach its average level until late 2011. However, the slope is clearly still far more pronounced than what was seen between 2004 and 2008.

Effective Mortgage Rate and the OCR



Sources: ANZ, National Bank, RBNZ

	OUTSTAND-ING MORTGAGE ($M)*	WEIGHTED AVERAGE RATE (%)		RATE NOW (%)^	POST OCR AVG. (%)
Floating	53,761	5.80	Floating	5.9	8.2
<1-yr	58,991	6.85	6-mth	5.9	7.4
1<2-yr	32,342	6.98	1-year	6.4	7.5
2<3-yr	11,593	7.80	2-year	7.3	7.7
3<4-yr	4,788	6.91	3-year	7.7	7.9
4<5-yr	1,437	7.20	4-year	8.2	8.0
5-yr +	155	7.11	5-year	8.5	8.1

* As at April 2010
^ Average headline mortgage rates of the major banks. Assumes only the floating rate goes up by 25bp.
Sources: ANZ, National Bank, RBNZ, www.interest.co.nz

What our estimates show is that despite a much lower starting point, the RBNZ is able to bring the EMR towards average levels fairly quickly. It took the RBNZ around two years to get the EMR from a trough of 6.88 percent at the end of 2003 towards average levels. This time around, it can be done in half that timeframe. This reinforces the greater potency that monetary policy has this time around, due to the steep yield curve and the growing proportion of mortgages on floating and short term fixed rates.

Going forward, we will be closely watching two dynamics. The first is household behaviour and the choice between going floating or fixing their mortgages. The latter could deliver more immediate monetary policy traction, but also poses challenges down the track. The second is the pass-through from a higher OCR to physical borrowing rates. We

EFFECTIVE MORTGAGE RATE UPDATE

haven't yet seen any pass-through from last week's decision to mortgage rates. At this juncture, it is not just the OCR itself, but also how competitive the deposit space continues to be which will be influential. Our working assumption is that it remains a competitive market with scrambling for domestic based funding ensuring deposit rates broadly mirror changes in the OCR, and hence the same for borrowing rates. But that said, we do suspect the correlation will be less than one-to-one, and this is something the RBNZ will need to take into account in setting the physical OCR.

INTEREST RATE STRATEGY

SUMMARY

The NZ economy is building momentum and it makes sense to move towards more neutral monetary policy. Global events may yet undermine growth, but so far they haven't, and the RBNZ has responded to what it has seen. The OCR is set to keep rising from here, and we suspect with a pause or two along the way – but this is already priced in, so the outlook for term rates is fairly benign. Moreover, now that the RBNZ has cited financial market developments as a consideration for policy, rates are likely to fluctuate with global rates.

MARKET THEMES

- While July and September OCR hikes are almost certain, late 2010/early 2011 hikes will depend on global developments. But market pricing does not seem to appreciate this.
- The way mortgage and corporate borrowers respond to start of the rate hike cycle is critical for price action. If we see panic, rates could leap higher. We expect things will be orderly.

REVIEW AND OUTLOOK

Last week's decision to raise rates was the right one, despite global market jitters. Doing nothing was a possibility, and could even have been justified. But if they had done so, with the recovery underway and inflation concerns lingering, the RBNZ may have found themselves in catch-up mode later on – hardly a good result for the economy, or long term interest rates. Not surprisingly, rates markets were little changed on the move, which had been well signalled.

Looking ahead, the big question is, how will mortgage borrowers respond now that the RBNZ has kicked off the rate hike cycle? **We doubt we will see the same kind of panic we saw last year** when rates bottomed out. Mortgage rates have been rising steadily and the sense that there's a bargain to be had has faded. With the effective mortgage rate rolling off around 6.8 percent, the 18 month rate of 6.9 percent is now the inflection point borrowers have to decide whether they go for certainty (pay more) or for the cash-flow benefit floating rates or even the 1 year rate provides. Borrowers may seek this certainly but we suspect a host will still go after the near-term cash-flow benefit and buy in to the RBNZ's message that the OCR won't have to go as high this cycle as it has in the past has been received and understood. **But if there an area we need to closely watch is to what extent rate hikes are passed on. At present the RBNZ has seen zero follow through**.

PREFERRED BORROWING STRATEGIES

If there is one gripe we have with the swap curve it is the inconsistent manner in which expectations are being expressed. The OCR is heading higher, but global market developments will play a role in future decisions. Market jitters probably won't prevent the next one or two hikes, but it seems incredible to believe the OCR will rise in a straight line as market pricing implies. The predominant near term risks are to the downside, but the long term outlook is positive. Yet the market is dead-set in pricing in big hikes up front, but has "undercooked" things later on. This has held down mid/long term and forward starting swap rates, which are now at levels that may be of interest to borrowers who do need to hedge. But with the OCR likely to peak lower this cycle (nearer neutral, as opposed to well above it), we favour keeping hedge ratios fairly low.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	OCR going gradually higher unless very good reason to hold off. But its priced in.
NZ data	↔	Terms of trade significant, but retail has lagged.
Fed Funds / front end	↔	Bernanke comments imply rates on hold for a while.
RBA	↔/↑	Improved global scene and Stevens comments has seen sense return to AU market.
US 10 year	↔/↓	Safe haven demand comes and goes. Yields capped.
NZ swap curve	↔/↓	More than enough rate hikes priced in. Higher global rates suggest downside risk.
Flow	↔/↓	Curve has been too steep for borrowers.
Technicals	↔	Extreme volatility.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 29-Jul-10	+18	+18
Thu 16-Sep-10	+40	+41
Thu 28-Oct-10	+57	+57
Thu 9-Dec-10	+81	+75
Thu 27-Jan-11	+103	+95
Thu 10-Mar-11	+115	+113
Thu 28-Apr-11	Not forecast	+132

TRADING THEMES WE FAVOUR AT PRESENT

The RBNZ have made it clear that global/market events will play a role in future decisions, making NZ rates something of a low-beta global risk trade. And the beauty about NZ rates is the roll and carry they offer. If you share our view of the still significant near term risks, use sell-offs to add to NZD long/received positions in the 2-3yr part of the curve.

CURRENCY STRATEGY

SUMMARY

Debt, equity and currency all rallied on Friday night. This was impressive given the backdrop of weak retail sales in the USA. This suggests the risk unwind is complete as the market is looking to move out of cash. The CFTC positioning data supports this view with both the NZD and AUD positioning close to zero.

MARKET THEMES

- Key drivers? If de-risking is completed, what next? Cash allocation doesn't make sense unless you are very bearish prospects, and while a double-dip is a risk for the global economy it's not central.
- EURO/USD 1.2150 resistance is becoming key.
- Equities continue to dominate NZD direction.

REVIEW AND OUTLOOK

If the world is now square risk and that's a big if, then what happens now? And how do you get square Europe? Given the signs of a slowing in US growth as the stimulus measures roll off, and the impact of the austerity measures being applied in Europe, the bounce in commodity currencies has been aggressive. Lending support to this was the RBNZ interest rate hike and the strong jobs data in Australia.

It's more of a technical picture this week. Both the euro and AUD are now at the top of their recent ranges, and are near to major resistance levels (1.2150/70 and 0.8550/8570 respectively). Regardless of your global or local economic view these two resistance levels will be critical to the NZD direction. The NZD now looks very mobile in a .06700-0.7040 range this week.

Terms of trade continue to improve. The CRB index has struggled in the global downturn but this is not an accurate portrayal of the NZ commodity group. The ANZ commodity index has shown record highs that have suggested GDP growth is likely to accelerate strongly from here. Given high rural debt levels, we do not expect all of the increase in incomes to flow through into higher spending. Nevertheless, it is fair to note that New Zealand's problems going forward look a lot smaller than much of the developed world.

China looks less like a bubble. Prospects for the Chinese economy appear less fragile, given the 48.5 percent annual increase in May exports that was reported last week. The popular consensus is that a currency appreciation would benefit risk in the world and see most currency's appreciate against the USD. The China trade figures are both a positive (global momentum) but also send a worrying signal. At a time policymakers are seeking rebalancing, we're becoming more unbalanced. This in itself tells us the de-risking and de-leveraging dynamics have yet to run their course. But after movements of prior weeks, markets look to be in the mood to take a breather. Alternatively, we are now in the zone where conviction in terms of views is limited. We have sympathy for this which means more whippy movements ahead as stops are tight and volume is fickle.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	At fair value now.
Yield	↔/↑	RBA on hold, RBNZ did hike.
Commodities	↔/↑	NZ commodity prices at another record high.
Partial indicators	↔/↓	NZ data improving. Australia's still good.
Technicals	↓	Resistance above 0.83 major.
Sentiment	↔	Equities higher = NZDAUD lower and vice versa.
Other	↔	AUD to lead as high Beta currency.
On balance	↔	**Range trade here.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Getting closer to structural fair value estimate of 0.66.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	NZ rates moving up before US rates.
Commodities	↑	NZ commodities basket avoided the sell off.
Risk aversion	↔/↑	Libor stabilising.
Partial indicators	↔/↑	NZ data continues to improve.
Technicals	↔	0.6700 – 0.7040 range until next RBNZ meeting.
AUD	↔	In holding pattern. Major resistance at 0.8555.
Sentiment	↔	NZD just following offshore moves.
Other	↓	Watch the EUR. 1.2150 critical
On balance	↔	**Closer to structural fair value. Adopt a wait and see approach.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
14-Jun	**NZ**	**Performance Services Index - MAY**	**- -**	**54.1**	**10:30**
	NZ	**Retail Sales (MoM) - APR**	**-0.20%**	**0.50%**	**10:45**
	NZ	**Retail Sales Ex-Auto (MoM) - APR**	**-0.40%**	**1.10%**	**10:45**
	JN	BSI Large All Industry (QoQ) - 2Q	- -	-2.4	11:50
	JN	BSI Large Manufacturing (QoQ) - 2Q	- -	4.3	11:50
	JN	BoJ Monetary Policy Meeting - JUN			16:00
	JN	Industrial Production (MoM) - APR F	- -	1.30%	16:30
	JN	Capacity Utilization (MoM) - APR F	- -	0.60%	16:30
	EC	Euro-Zone Ind. Prod. sa (MoM) - APR	0.50%	1.30%	21:00
15-Jun	**NZ**	**REINZ House Sales YoY% - MAY**	**- -**	**-16.20%**	**10:00**
	NZ	**REINZ Housing Price Index MoM% - MAY**	**- -**	**-0.40%**	**10:00**
	UK	RICS House Price Balance - MAY	15%	17%	11:01
	AU	Reserve Bank's Board Minutes - JUN			13:30
	NZ	Non Resident Bond Holdings - MAY	- -	63.20%	15:00
	JN	BOJ Target Rate - JUN	0.10%	0.10%	0:00
	UK	CPI (MoM) – MAY	0.40%	0.60%	20:30
	UK	CPI (YoY) – MAY	3.50%	3.70%	20:30
	UK	Core CPI YOY - MAY	2.90%	3.10%	20:30
	UK	DCLG UK House Prices (YoY) - APR	10.00%	9.70%	20:30
	EC	ZEW Survey (Econ. Sentiment) - JUN	39	37.6	21:00
	EC	Euro-Zone Trade Balance sa - APR	1.5B	0.6B	21:00
	EC	Eurozone Employment (QoQ) - 1Q	- -	-0.20%	21:00
	GE	ZEW Survey (Econ. Sentiment) - JUN	42	45.8	21:00
	GE	Zew Survey (Current Situation) - JUN	-15	-21.6	21:00
16-Jun	US	Import Price Index (MoM) - MAY	-1.30%	0.90%	00:30
	US	Empire Manufacturing - JUN	20	19.11	00:30
	US	Net Long-term TIC Flows - APR	$30.0B	$140.5B	01:00
	US	Total Net TIC Flows - APR	- -	$10.5B	01:00
	US	NAHB Housing Market Index - JUN	21	22	02:00
	UK	Nationwide Consumer Confidence - MAY	72	74	11:01
	AU	Westpac Leading Index (MoM) - APR	- -	0.90%	12:30
	AU	Dwelling Starts - 1Q	7.00%	15.10%	13:30
	JN	BOJ Monthly Report - JUN			17:00
	JN	Machine Tool Orders (YoY) - MAY F	- -	191.80%	18:00
	UK	Claimant Count Rate - MAY	4.70%	4.70%	20:30
	UK	Jobless Claims Change - MAY	-20.0K	-27.1K	20:30
	UK	Average Weekly Earnings 3M/YoY - APR	4.50%	4.00%	20:30
	UK	ILO Unemployment Rate (3mths) - APR	8.00%	8.00%	20:30
	EC	Euro-Zone CPI (MoM) - MAY	0.10%	0.50%	21:00
	EC	Euro-Zone CPI (YoY) - MAY F	1.60%	1.60%	21:00
	EC	Euro-Zone CPI - Core (YoY) - MAY	0.80%	0.80%	21:00
	EC	Euro-Zone Labour Costs (YoY) - 1Q	2.10%	2.20%	21:00
17-Jun	US	Producer Price Index (MoM) - MAY	-0.50%	-0.10%	00:30
	US	PPI Ex Food & Energy (MoM) - MAY	0.10%	0.20%	00:30
	US	Housing Starts - MAY	648K	672K	00:30
	US	Housing Starts MOM% - MAY	-3.70%	5.80%	00:30
	US	Building Permits - MAY	625K	606K	00:30
	US	Building Permits MOM% - MAY	2.50%	-11.50%	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-Jun	US	Industrial Production - MAY	0.80%	0.80%	01:15
	US	Capacity Utilization - MAY	74.50%	73.70%	01:15
	AU	RBA Foreign Exchange Transactions - MAY	- -	350M	13:30
	NZ	**ANZ Consumer Confidence Index - JUN**	**- -**	**126**	**15:00**
	JN	Leading Index CI - APR F	- -	101.7	17:00
	JN	Coincident Index CI - APR F	- -	101.6	17:00
	EC	ECB Publishes June Monthly Report - JUN			20:00
	UK	Retail Sales Ex Auto Fuel(MoM) - MAY	0.10%	0.10%	20:30
	UK	Retail Sales w/Auto Fuel (MoM) - MAY	0.10%	0.30%	20:30
	EC	Construction Output SA MoM - APR	- -	7.60%	21:00
	US	Consumer Price Index (MoM) - MAY	-0.20%	-0.10%	00:30
	US	CPI Ex Food & Energy (MoM) - MAY	0.10%	0.00%	00:30
	US	Consumer Price Index (YoY) - MAY	2.00%	2.20%	00:30
	US	CPI Ex Food & Energy (YoY) - MAY	0.90%	0.90%	00:30
	US	Initial Jobless Claims - JUN 12	450K	456K	00:30
	US	Continuing Claims - JUN 5	4560K	4462K	00:30
	US	Current Account Balance - 1Q	-$121.8B	-$115.6B	00:30
	US	Philadelphia Fed. - JUN	20	21.4	02:00
	US	Leading Indicators - MAY	0.40%	-0.10%	02:00
	JN	BoJ Monetary Policy Meeting Minutes - MAY			11:50
	GE	Producer Prices (MoM) - MAY	0.10%	0.80%	18:00
	GE	Producer Prices (YoY) - MAY	0.80%	0.60%	18:00
	UK	Major Banks Mortgage Approvals - MAY	50K	47K	20:30
	UK	Public Finances (PSNCR) - MAY	20.5B	8.8B	20:30
	UK	Public Sector Net Borrowing - MAY	18.0B	10.0B	20:30
	UK	M4 Money Supply (MoM) - MAY P	0.20%	0.00%	20:30

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's June Monetary Policy Statement showed that the RBNZ was sticking to the script, despite an uncertain global environment. This week the spotlight returns to the household sector, which is expected to highlight the patchiness of the recovery – but this what we consider a positive in terms of the durability of the upswing we are seeing. The following week sees the release of the Q1 GDP and Balance of payments data. We expect signs of improvement to be apparent in the published data in the coming months, but of course this will by-and-large relate to Q1 whereas we are almost in Q3 already. So at present we'll be paying particular attention to the leading soft gauges.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 14 Jun (10:45am)	Retail Trade Survey – Apr	Down	April ECT and Credit Card data suggests a monthly fall in total sales values. Core retail spending is also likely to fall.
Tue 15 Jun (10:00am)	REINZ- May	Flat	Housing market activity is expected to remain at low levels as pre-*Budget* uncertainties weigh. Prices are expected to continue their downward trend.
Thur 17 Jun (3:00pm)	ANZ-Roy Morgan Consumer Confidence –Jun	- -	- -
Mon 21 Jun (10:45am)	SNZ External Migration – May	Waning	Net monthly PLT immigration is expected to remain below 1,000. Continued disruptions from European volcanic ash are likely to temper the expected recovery in visitor arrivals.
Wed 23 Jun (10:45am)	SNZ Balance of Payments – Q1	In the red	An improving trade balance is expected to be offset by another sizeable investment income deficit. The annual current account deficit will remain around 3 percent of GDP.
Thur 24 Jun (10:45am)	SNZ Gross Domestic Product – Q1 -	Moderating	A quarterly increase of around 0.5 percent is expected, led by services and manufacturing activity. On the expenditure measure, positive contributions from inventory accumulation and business investment will be partly offset by higher imports.
Fri 25 Jun (10:45am)	SNZ Overseas Merchandise Trade – May	Surplus	Lifting global export commodity prices are expected to contribute to another large monthly trade surplus. The lower NZD and stronger demand will boost import values.
Mon 28 June (3:00 pm)	National Bank Business Outlook - Jun	- -	- -
Tue 29 Jun (10:45am)	Building Consents - May	Looking up	A slight pullback for residential consents is likely. Non-residential consent issuance should start improving.
Tue 29 Jun (3:00pm)	RBNZ Credit Aggregates - May	Soft	We expect the process of balance sheet repair to continue for a while yet. Will closely look at business sector lending for a steer on the willingness of firms to borrow.
Thur 1 Jul (3:00pm)	ANZ Commodity Price Index - Jun	- -	- -
On Balance		**Building**	**Recovery continuing nicely.**

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**	**0.7**	**1.5**	**-0.1**	**1.1**	**1.3**
GDP (% yoy)	-3.1	-2.3	-1.4	0.5	**1.8**	**2.3**	**3.6**	**2.6**	**3.2**	**3.9**
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	**-3.0**	**-3.8**	**-5.1**	**-4.4**	**-4.4**	**-4.3**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	5.8	5.8	**4.0**	**2.4**	**0.9**	**-0.5**	**-0.7**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	-0.2	**14.5**	**19.2**	**13.7**	**6.9**	**2.1**

	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Retail Sales (% mom)	1.2	0.2	0.1	0.7	-0.4	0.6	-0.6	0.5	..	..
Retail Sales (% yoy)	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	4.4	..	..
Credit Card Billings (% mom)	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.4	-1.2	..
Credit Card Billings (% yoy)	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.2	1.9	..
Car Registrations (% mom)	-3.6	8.4	0.4	2.2	6.9	-0.6	0.5	5.7	2.9	..
Car Registrations (% yoy)	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7	40.5	..
Building Consents (% mom)	2.3	5.9	11.4	0.4	-3.8	-2.7	6.1	0.1	8.5	..
Building Consents (% yoy)	-8.8	-11.5	26.7	20.3	22.6	35.1	29.8	33.3	32.1	..
REINZ House Price (% yoy)	5.1	6.1	6.0	5.2	9.6	7.7	6.1	7.6	4.7	..
Household Lending Growth (% mom)	0.3	0.3	0.4	0.0	0.2	0.2	0.1	0.2	0.2	..
Household Lending Growth (% yoy)	2.4	2.3	2.6	2.7	2.7	2.7	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8	121.9	126.0
NBNZ Business Confidence	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5	49.5	48.2
NBNZ Own Activity Outlook	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6	43.0	45.3
Trade Balance ($m)	-716.6	-561.5	-501.5	-280.4	-26.4	271.1	333.8	589.8	655.8	..
Trade Balance ($m annual)	-2360	-1669	-1176	-863	-549	-176	-324	-172	161	..
ANZ World Commodity Price Index (% mom)	4.2	7.4	4.7	10.9	2.6	0.4	4.0	1.8	5.4	2.5
ANZ World Commodity Price Index (% yoy)	-23.1	-12.9	-1.3	18.2	31.0	37.4	49.8	50.9	55.1	54.5
Net Migration (sa)	1630	1840	2150	1740	1670	1830	1000	970	770	..
Net Migration (annual)	15642	17043	18560	20021	21253	22588	21618	20973	19954	..

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	Apr-10	May-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZD/USD	0.727	0.669	0.691	0.700	0.710	0.720	0.730	0.730	0.720	0.710
NZD/AUD	0.783	0.809	0.810	0.795	0.789	0.783	0.777	0.777	0.783	0.789
NZD/EUR	0.547	0.542	0.570	0.579	0.602	0.632	0.652	0.652	0.643	0.634
NZD/JPY	68.21	60.43	63.45	66.50	68.16	69.84	71.54	73.00	72.00	71.71
NZD/GBP	0.476	0.465	0.474	0.500	0.493	0.486	0.480	0.474	0.462	0.449
NZ$ TWI	68.2	65.1	67.3	68.3	69.4	70.7	71.7	71.8	71.1	70.5
INTEREST RATES	Apr-10	May-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZ OCR	2.50	2.50	2.75	3.25	3.50	3.75	4.25	4.75	5.25	5.50
NZ 90 day bill	2.70	2.93	3.08	3.70	3.80	4.20	4.70	5.20	5.70	5.80
NZ 10-yr bond	5.91	5.56	5.51	5.40	5.40	5.60	5.80	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25
US 3-mth	0.35	0.54	0.54	0.40	0.35	0.35	0.35	0.60	0.85	1.35
AU Cash Rate	4.25	4.50	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.00
AU 3-mth	4.63	4.87	4.95	5.00	5.30	5.60	6.00	6.00	6.20	6.10

	11 May	7 Jun	8 Jun	9 Jun	10 Jun	11 Jun
Official Cash Rate	2.50	2.50	2.50	2.50	2.75	2.75
90 day bank bill	2.91	2.99	2.99	3.00	3.06	3.07
NZGB 11/11	3.96	3.78	3.69	3.70	3.71	3.76
NZGB 04/13	4.71	4.45	4.36	4.37	4.37	4.40
NZGB 12/17	5.60	5.38	5.27	5.28	5.26	5.29
NZGB 05/21	5.82	5.60	5.48	5.49	5.47	5.51
2 year swap	4.55	4.39	4.28	4.29	4.29	4.33
5 year swap	5.37	5.22	5.11	5.11	5.11	5.07
RBNZ TWI	68.4	66.7	65.5	65.3	66.3	66.4
NZD/USD	0.7190	0.6839	0.6641	0.6623	0.6775	0.6815
NZD/AUD	0.8010	0.8096	0.8109	0.8067	0.8089	0.8059
NZD/JPY	66.69	63.35	60.86	60.59	61.79	62.40
NZD/GBP	0.4865	0.4671	0.4579	0.4589	0.4640	0.4630
NZD/EUR	0.5656	0.5615	0.5549	0.5543	0.5623	0.5629
AUD/USD	0.8976	0.8447	0.8190	0.8210	0.8376	0.8456
EUR/USD	1.2713	1.2180	1.1969	1.1949	1.2048	1.2108
USD/JPY	92.76	92.63	91.65	91.49	91.21	91.57
GBP/USD	1.4779	1.4641	1.4502	1.4433	1.4600	1.4719
Oil (US$/bbl)	76.89	74.62	71.88	71.88	74.38	73.89
Gold (US$/oz)	1204.20	1203.15	1236.55	1237.05	1229.65	1227.40
Electricity (Haywards)	6.36	1.65	3.15	4.04	2.79	2.09
Milk futures (US$/contract)	127	122	122	121	121.5	122
Baltic Dry Freight Index	3822	3733	3579	3514	3423	3288

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

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