NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

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INSIDE

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BELT TIGHTENING

ECONOMIC OVERVIEW

Sovereign debt concerns continue to cast a shadow over the eurozone. A by-product of this looks to be a weaker NZD/USD, which will continue to assist the economy's rebalancing process. This week's *Budget* is expected to clearly differentiate NZ.Inc when it comes to sovereign risk. Yes, we have a fiscal deficit. But debt is low, and some minor fiscal tinkering should see the accounts back in the black by 2014/15. Relative to global peers Australia and New Zealand look like beacons of fiscal austerity.

BUDGET 2010 PREVIEW

We expect a fiscally austere *Budget*, which delivers on the much expected combination of a rise in GST, cut in income taxes and tighter rules for property investors. The "package" is expected to be fiscally neutral. However, the fiscal stance should turn mildly contractionary, which should aid the endgame and pace of monetary policy adjustment. Relative to global counterparts we expect the Crown accounts to look like a beacon of fiscal austerity. While we expect an encouraging policy mix insofar as the medium-term outlook is concerned (and relative to overseas counterparts), we suspect the political economy of MMP means the *Budget* will stop short of delivering sufficient critical mass for a real step-change in economic performance.

AGEING AND LABOUR FORCE PARTICIPATION

Recently released long-term population projections by Statistics NZ highlight the growing proportion above 65. By combining recently published population projections with assumptions for labour force participation we generate projections for the labour force over the next decade. Labour force growth eventually eases to 0.6 percent per year (from an average of 1.8 percent per annum over the last five years).

INTEREST RATE STRATEGY

Subdued data last week has seen some question whether in fact the gap between expectations and reality is closing. Be that as it may, with leading indicators looking up, and inflation pressures on the rise, it will take more than that to hold the RBNZ back. Eurozone sovereign debt concerns remain disconcerting and LIBOR rates are squeezing up. But Asia is bounding along, and the US economy is strengthening. Still, with considerable tightening priced in, the Budget expected to provide some assistance to monetary policy, and NZ bonds the beneficiaries of safe haven demand, there looks to be minimal upside risk to rates this week.

CURRENCY STRATEGY

NZ data was weaker last week but the focus in currency markets was once again on Europe. With increased talk of the demise of the EUR, the NZD got dragged lower. The NZ Budget this week will highlight the strong relative fiscal position and ensure that NZ does not get tarred by the same European sovereign brush. But where the EUR goes this week, so too the NZD – and that is increasingly looking down in the near term.

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SUMMARY

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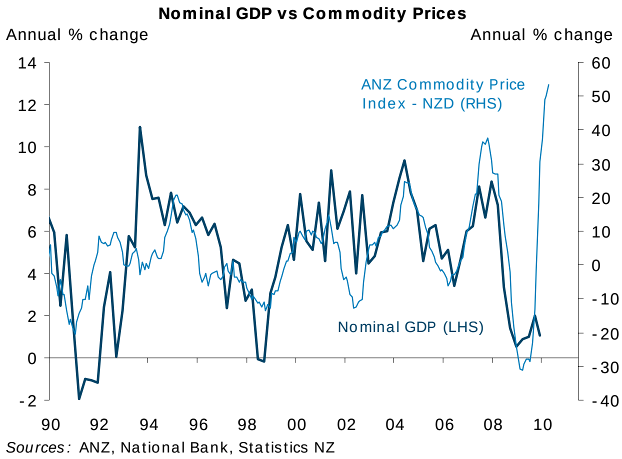
THE WEEK AHEAD

- **SNZ Producers Price Index and SNZ Capital Goods Price Index – March 2010 quarter** (Tuesday, May 18, 10:45am). Prices to be strongly influenced by export prices and the NZD. The high NZD/USD has kept prices for imported capital goods and machinery attractive for firms contemplating investment.
- **RBNZ Financial Stability Review** (Wednesday, May 19, 9:00am).
- **Budget 2010** (Thursday, May 20, 2:00pm). Final details of the tax reform package are likely to create the most interest. Expenditure restraint will remain a key focus. The fiscal position is set to improve, but deficits are likely for the next few years. See our preview on page 5.
- **SNZ International Travel and Migration – April** (Friday, May 21, 10:45am). A rising trend in PLT departures to Australia is expected to produce smaller monthly net PLT inflows. Disruptions to European travel from volcanic ash are likely to weigh down on visitor arrivals.
- **ANZ-Roy Morgan Consumer Confidence – May** (Friday, May 21, 3:00pm).
- **RBNZ Credit Card Spending – April** (Friday, May 21, 3:00pm). This data will provide further insight into whether an April dip for retail spending will occur.

WHAT'S THE VIEW?

We'll start off this week with some quick comments on the fiscal woes afflicting the Euro zone. The European Commission's stabilisation/intervention package has provided liquidity to the system. At €750bn, the package is large, amounting to around 10 percent of the combined public debt of the eurozone members. For the moment, the package appears to have shored up liquidity and restored confidence, with credit spreads having narrowed. **However, liquidity is only part of the problem. The main issue is solvency.** Europe is struggling under an enormous debt burden (close to 80 percent of GDP across the eurozone) which is rising. Solvency issues cannot be fixed without fundamental macro reform and improving competitiveness. It's hard to see how this cannot be achieved without; a) wholesale labour market reforms to improve flexibility; b) a fundamental shift in the whole welfare system across the region, including the average working week and retirement age, and c) a weaker euro. In addition, there is a huge social element to undertaking the necessary adjustment.



Providing policymakers can keep the impact contained – a big IF considering the social consequences of change and global uncertainty - we continue to view current eurozone developments as mildly NZ positive. For one, the NZ bond market is receiving a mild safe haven bid tone. Second, a weaker EUR/USD is dragging the NZD/USD down, thereby supporting the export sector. If this trend continues (and we suspect the EUR/USD is headed sub 1.10 with US data looking better by the day), the USD will remain the default play and the dairy payout in 2010/11 won't have a 7 in front of it, it'll have an 8! Of course it's somewhat heroic to say that such a major development (and we do view eurozone sovereign developments and that theme in general as material) is a positive for NZ. But that is precisely what seems to be occurring at the moment, although obviously those exporters into the region will not be viewing it so favourably with

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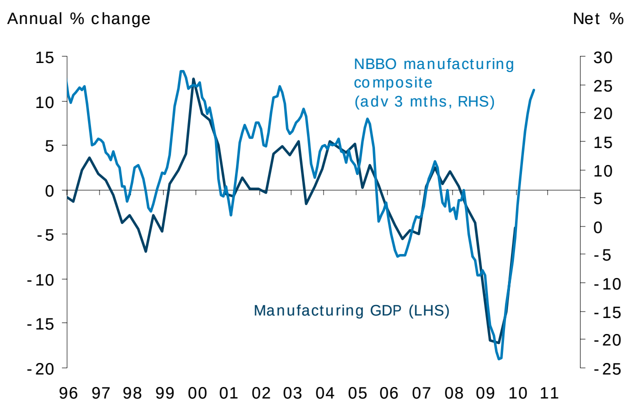
the NZD/EUR looking like it has 0.60 written all over it. And of course a semi-favourable growth outcome critically assumes policymakers will move to address solvency issues so it doesn't turn into a full-blown crisis. This is another leap of faith on our behalf, but the alternative simply seems untenable although far from improbable.

This week's *Budget* is expected to clearly differentiate NZ.Inc when it comes to sovereign risks. Refer to page 5 for our full preview. Yes we have a fiscal deficit. But debt is low, and some minor fiscal tinkering should see the accounts back in the black by 2014/15. **Relative to global peers (excluding Australia), NZ looks like a beacon of fiscal austerity. Sovereign concerns surrounding the willingness to address solvency problems will support the government's push to get the public finances into better shape.**

Beyond global developments, we continue to take heart from the underlying spirit of data outturns for NZ. The National Bank *Business Outlook* composite indicator for manufacturing suggests a cyclical rebound is in prospect and the Business NZ PMI confirmed the same last week. Such growth is off lows, but the trend is clearly one of improvement.

Manufacturing GDP vs NBBO composite



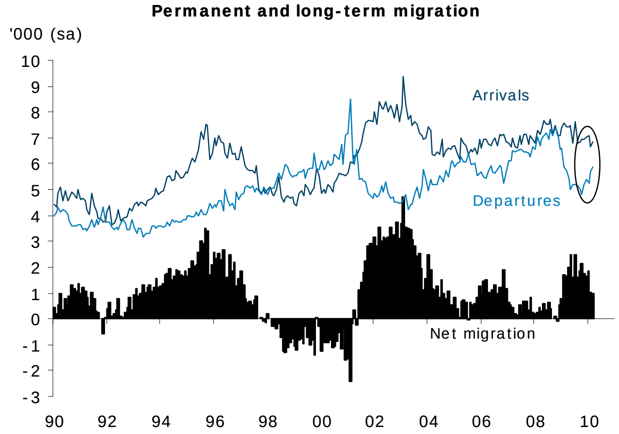
Sources: ANZ, National Bank, Statistics NZ

We see at present great positives in lacklustre retailing and housing momentum so far as prospects for 2011 are concerned. Yes, retailing was up in March, but April electronic card transactions data reversed the bounce and we expect retail sales to do the same. Friday's RBNZ credit card data will also provide further insight into whether an April dip for retail spending is in prospect. Consumer sentiment measures continue to highlight the wide disparity between buoyant future prospects, and more modest expectations of current conditions, the latter of which is a more influential driver of consumer spending. We do not expect a rebound in retail spending until higher export commodity prices flow through the economy and incomes start to recover.

Data for March quarter producer and capital good prices is released tomorrow. Measures of producer margins have been squeezed over the last year. We will have to wait to see whether much improved business survey readings for profitability will be evident. Lower prices for imported capital equipment have been one factor supporting plant and machinery investment but we will need to see higher business profitability to ensure a sustained recovery in business investment.

We expect the international travel and migration data to continue to show an easing net PLT immigration inflow. Departures to Australia are expected to trend up, with last week's Australian labour market data showing the demand for labour remains strong. We also expect to see weaker visitor numbers, mostly on account of the flight disruptions that were experienced in Europe due to volcanic ash.

Permanent and long-term migration



Sources: ANZ, National Bank, Statistics NZ

RECENT LOCAL DATA

- **SNZ Electronic Card Transactions – April**. The value of retail transactions declined by a seasonally adjusted 1.7 percent following a 2.0 percent increase in March. Core retail ECT spending dropped by 1.9 percent.
- **BNZ/Business NZ PMI – April.** The overall index climbed to 58.9, the highest level since June 2004. All of the subcomponents rose with the most sizeable increases for new orders, production and employment.
- **SNZ Food Price Index – April.** Food prices fell 0.5 percent to be 0.4 percent up on a year

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earlier. Sizeable falls to meat prices (down 2.6 percent) and fresh fruit and vegetables (down 1.7 percent) offset a 0.7 percent increase in grocery prices.

- **REINZ Housing Market data - April**. House sales increased by a seasonally adjusted 3 percent in the April month (-16 percent y/y). Seasonally adjusted days to sell climbed from 38 to 42. The REINZ House Price Index increased by a seasonally adjusted 0.1 percent, to be 6.2 percent up on a year earlier.
- **SNZ Retail Trade – March.** Monthly retail sales increase by a seasonally adjusted 0.5 percent, with core (ex-fuel and auto related) retail sales increasing by 1.1 percent. Retail volumes rose by 0.2 percent in the March quarter, with core retail volumes declining by 0.5 percent.

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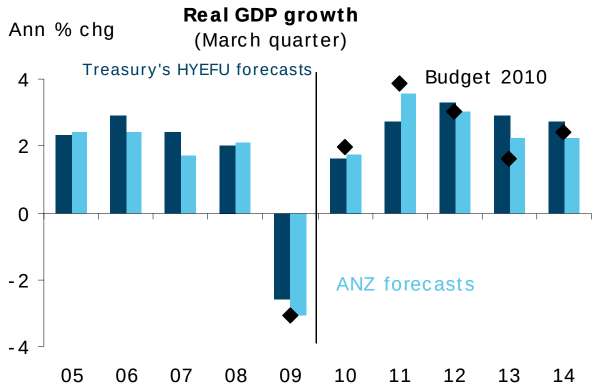
A BETTER ECONOMIC OUTLOOK

The Minister of Finance has acknowledged that the economy is recovering more strongly than the Treasury forecast in December. This reflects a combination of factors, including the continued recovery in the global economy, a much improved outlook for the terms of trade and improved business and consumer confidence.

We expect that the *Budget* forecasts for growth in 2010 and 2011 will be revised up towards the forecast consensus (2.8 percent for the 2010 calendar year and 3.3 percent for 2011). However, the possibility of a stronger 2011 emerging (unless the impacts of the European debt crisis intensify) suggests upside risk for next year.



Source: ANZ, National Bank, Treasury

Despite the return to above trend growth rates, the improved economic outlook will take some time to feed-through into the Government's books. With the economy having recently emerged from recession, incomes and profitability are still in the early stages of recovery.

Recent fiscal outturns have underscored that the underlying revenue position remains weak.

FOCUS ON EXPENDITURE RESTRAINT

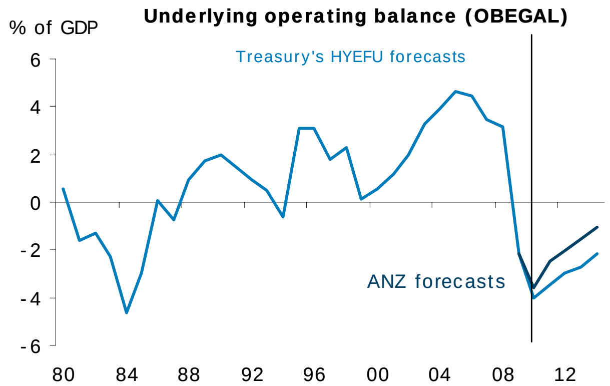
An improving tax base will form one leg of improvement in the operating balance, but a key plank needs to come from the expenditure side. **We estimate that the underlying cyclical adjusted operating deficit sits around 2 percent of GDP.** The government has signalled its intention to adhere to the inflation adjusted $1.1 billion annual operating allowance for new current spending.

While NZ has a far stronger operating deficit relative to a number of global peers, NZ's large external debt position means it is critical that the government remains committed to delivering on this agenda of expenditure restraint.

A mildly contractionary fiscal stance (in the order of 0.5 to 1 percent of GDP per year), should modestly ease some pressure on monetary policy. This means the policy normalisation can be gradual, resulting in a lower terminal OCR.

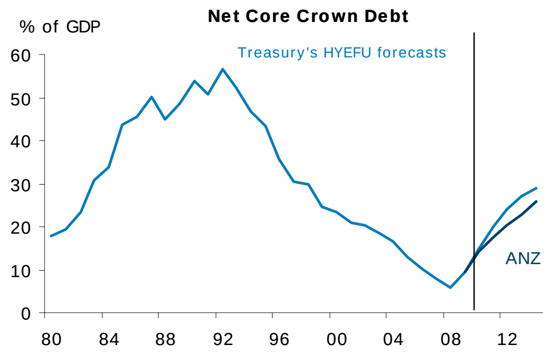
SMALLER DEFICITS TO FOLLOW

The underlying operating balance (OBEGAL) is expected to gradually improve from around 3.5 percent of GDP in the current fiscal year to around one percent by 2013/14 and return to surplus thereafter. A critical element of this will be assumed continued expenditure constraint.



Source: ANZ, National Bank, Treasury

BUDGET 2010 PREVIEW

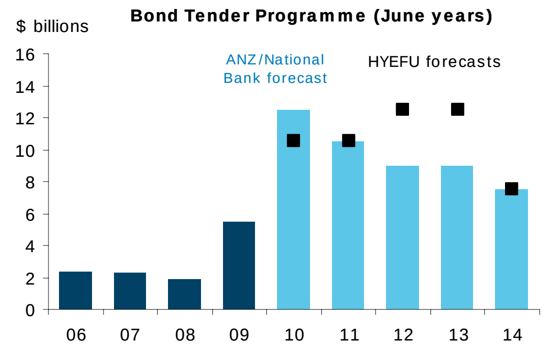


Source: ANZ, National Bank, Treasury

Net public debt (excluding NZS assets) is expected to climb above 25 percent by 2013/14. But critically, an earlier return to surplus is expected to depict a net debt burden that that starts to fall from 2015/16.

SIZEABLE DEBT PROGRAMME

We expect the bond tender programme to be scaled back, but remain sizeable relative to previous years. Following last month's announcement by the DMO, the 2009/10 tender was increased to $12.5bn. In following years, the lower deficit profile is expected to see the DMO progressively scale back the bond tender programme. **The overall size of the bond tender from 2010/11 to 2013/14 is expected to be around $48.5bn, around $5bn lower than forecast in the December update.**



Source: ANZ, National Bank, Treasury

TAX REFORMS DOMINATE THE AGENDA

Much of this *Budget* has been flagged in advance. Tax reform dominates these expectations and we find it hard to disagree with the general expectations that income tax rates (particularly the 38 cent bracket) will go down, GST will move up, and there will be tightening in the rules surrounding some of the so-called tax advantages for housing. Changes to the latter are expected to include some toning down of depreciation allowances and potential ring-fencing to prevent tax deductibility of property losses on taxable income. **While fiscally neutral in design, the tax changes to property will provide assistance to monetary policy. We expect the market to interpret this as such.**

Beyond that, the real focus is whether the *Budget* has sufficient new policy initiatives to deliver a real "step-change" in economic performance as stated in the December *Budget Policy Statement*. On that front, changes to the tax system are welcome, although well short of the recommendations of the Tax Working Group. Recently announced investment in science and assistance for R&D is welcome. We fully expect the Government to flag that investment in NZ's natural resource base (read: mining) will remain on the agenda. Beyond that we would not be surprised to see some tinkering with the education system, although what that might entail we are not sure. Suffice to say that education is a critical part of delivering on the Government's medium-term aspiration.

Other supply-side reforms are either a continuation of past measures or have already been announced. These include sizable investment in infrastructure (including roads, ultra-fast broadband and electricity transmission), with emphasis on regulatory reforms and improving education and skills. Whether these will be effective in improving NZ's dismal productivity performance remains to be seen.

Do we think the *Budget* will have sufficient muscle to deliver a "step-change"? We suspect not. There are strong political economy reasons that are huge headwinds. **So we suspect we are in for a series of small-steps as opposed to a big step change.**

FINANCIAL MARKET IMPLICATIONS

We expect the market to take the *Budget* in a positive tone.

- A credible fiscal path for consolidation will be presented and the Government will now be able to demonstrate that it is making progress via reprioritising expenditure.
- Monetary policy is expected to receive assistance from both the movements in fiscal policy towards a contractionary stance, but also some targeted measures towards housing. We don't think this will defer the RBNZ from June, but it should lower the endgame and see a gradual pace of normalisation over the coming year.

BUDGET 2010 PREVIEW

While strong on rhetoric we ultimately suspect the *Budget* will stop short of having the critical mass to deliver a real step-change in performance. The flipside to this however is that small steps tend to have more stickability and durability – which are in themselves positive medium-term dynamics.

June Years	2006	2007	2008	2009	2010(f)	2011(f)	2012(f)	2013(f)	2014(f)
Operating Balance ($m)	9,542	8,023	2,384	-10,505	-3,700	-3,500	-2,500	-1,500	-500
- as % of GDP	6	4.7	1.3	-5.8	-2	-1.7	-1.1	-0.7	-0.2
OBEGAL ($m)	7,091	5,860	5,637	-3,893	-6,800	-5,000	-4,500	-3,500	-2,500
- as % of GDP	4.5	3.5	3.1	-2.2	-3.6	-2.4	-2.1	-1.6	-1.1
Net Core Crown Debt ($m)	16,163	13,380	10,258	17,119	26,500	36,000	44,000	51,000	60,000
- as % of GDP	10.2	7.9	5.7	9.5	14.1	17.6	20.2	22.7	25.8
Core Crown residual cash ($m)	2,985	2,877	2,057	-8,639	-9,500	-9,500	-8,500	-8,000	-6,500
Bond Tender Programme ($m)	2,355	2,300	1,889	5,493	12,500	10,500	9,000	9,000	7,500

Sources: ANZ, National Bank, Statistics New Zealand, The Treasury.

AGEING AND LABOUR FORCE PARTICIPATION

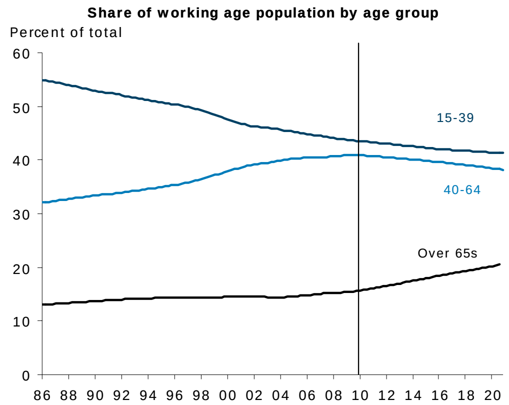
SUMMARY

Recently released long-term population projections by Statistics NZ highlight the growing proportion above 65. By combining recently published population projections with assumptions for labour force participation we generate projections for the labour force over the next decade. Labour force growth eventually eases to 0.6 percent per year (from an average of 1.8 percent per annum over the last five years).

THE POPULATION IS AGEING

The March quarter Household Labour Force survey results – while questionable in terms of the large fall in the unemployment rate, still provided a wake-up call in terms of labour supply with flat growth in the working age population. In this quick comment we look at one aspect of labour supply, the participation rate.

February 2010 Statistics New Zealand projections estimate that the resident working age population (those aged 15 or over) will number 3.8 million persons in 2021 from 3.4 million currently, an annual growth rate of approximately 1.1 percent. **Of this, the portion of the working age population aged 65 and over is projected to increase to just over 20 percent by 2020.**

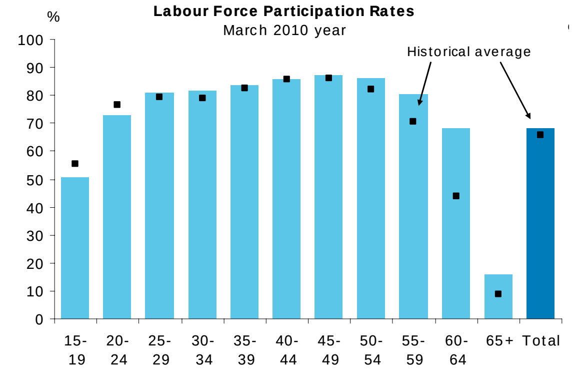


Sources: ANZ, National Bank, Statistics NZ

A rising working age population boosts supply side capacity by adding to the potential labour supply. However, the composition matters, with a more skilled and flexible workforce more advantageous in terms of supply side performance. Demographic trends and differences in labour force participation matter too, with the latter tending to be higher in the 20 to 55 age groups, but lower in the young and older age groups.

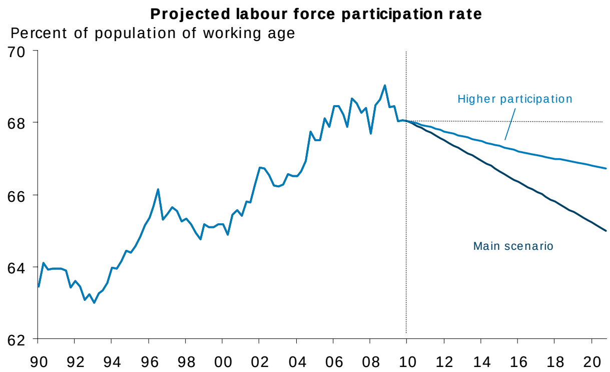
By combining population projections with assumptions for the participation rate it is possible to generate projections for the size of the labour force. If we assume the labour force participation rate for age group cohorts are broadly unchanged, **the impact of the ageing population is expected to contribute to lower growth in the labour force** (to around 0.6 percent per annum). Effects are more apparent from 2015 onwards.

All else equal, the lower labour force will lower the participation rate by approximately 3.2 percentage points by the end of the decade (from 68.1 to 64.9 percent). This would lower the amount of labour input within the economy and could lead to a fall in the unemployment rate by a similar margin.



Sources: ANZ, National Bank, Statistics NZ

What is also apparent is that participation rates over the past decade have been climbing for older age groups. We generate an alternative scenario, in which the trend increase in labour force participation for the over 65s over the last decade is maintained (which is plausible given improving longetivity and a possible rise in the age of entitlement for NZ Superannuation). In this case the aggregate labour force participation rate eases to around 66.9 percent by 2020; higher than in the previous scenario, but still lower than it is now.



Sources: ANZ, National Bank, Statistics

Such estimates – while prone to uncertainty - highlight two key themes.

- **The NZ economy – and global peers – are**

past the "sweet spot" where labour demand could be quickly matched by supply-side adjustments, of which a rising participation rate with age formed a part.

- **While the fiscal cost of population aging dominates the literature, equal attention needs to be paid to the impact on supply-side performance.**

INTEREST RATE STRATEGY

SUMMARY

Subdued data last week has seen some question whether in fact the gap between expectations and reality is closing. Be that as it may, given improved leading indicators and inflation pressures on the rise, it will take more than that to hold the RBNZ back. Eurozone sovereign debt concerns remain disconcerting and LIBOR rates are squeezing up. But Asia is bounding along, and the US economy is strengthening. Still, with considerable tightening priced in, the *Budget* expected to provide some assistance to monetary policy, and NZ bonds the beneficiaries of safe haven demand, there looks to be minimal upside risk to rates this week.

MARKET THEMES

- Most now concede that a June rate hike is more likely than not, despite weaker data recently. But global market ructions may change the picture.
- Bonds yields in UK/Europe are lower on the idea that fiscal prudence implies looser monetary policy. Lower global yields and our superior fiscal stance add to NZ's safe haven appeal.

REVIEW AND OUTLOOK

On the face of it, last week's soft retail sales and housing data marginally increases the odds that the RBNZ leave rates unchanged in June. But when seen against the prior week's HLFS data and rising inflation pressures in certain pockets, room for regret around a June hike seems slim. **At this stage it seems only a major financial market disruption will hold the RBNZ back**. Rising LIBOR rates are to be respected, as are aggressive moves in liquid "risk" currencies such as the AUD, which foreshadowed H2 2008 credit malaise. At the moment the EC's mega bailout package has been very effective at addressing the crisis of confidence in European debt markets, and has addressed liquidity issues – and at around 10 percent of the size of the entire debt market, we expect it will be successful. But, solvency problems run deep, and addressing them has negative long term growth consequences.

What has been interesting – but not surprising – has been the widening in swap spreads, with bond yields falling and swap yields rising. As we noted last week, **NZ is increasingly being seen as a safe-haven** (bonds and currency), and this is helping keep a lid on long term rates, especially for bonds. Corporate and mortgage related pay side pressure in the swap market has been light so far, despite the prospect of rate hikes. This is perhaps not surprising given the slope of the curve. However, as we saw 14 months ago, if fixing interest builds the effects could be significant, and cause a short term spike in yields – and swap spreads.

This week's *Budget* is the main event locally. We expect market-friendly numbers, and initiatives targeting property investment to be supportive of monetary policy. **This won't change prospects for a June hike, but they are likely to give markets reason to expect a lower endgame for the OCR**.

PREFERRED BORROWING STRATEGIES

Short end swap rates have risen by 30-40bps in the past month, and are now pricing in a fairly aggressive and not unrealistic steady-as-she-goes RBNZ rate hike profile. This provides little incentive to hedge – doing so just validates that expectation. By contrast, long end yields have held steady, and continue to offer good value by historic comparison. The flattening of the curve has seen forward starting yields fall – for example the 5yr swap 3yrs forward has dropped from 6.49% to 6.37% in the past month. We favour using this dip as an opportunity to hedge.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	Onus now on events to show why not to hike in June.
NZ data	↔/↑	Retail sales soft, PMI strong.
Fed Funds / front end	↔	Kohn says "extended period" comment not unconditional.
RBA	↑↑	Strong focus on inflation. Greece is a sideshow – Asia Pacific is back in business.
US 10 year	↔/↑	US data steadily improving.
NZ swap curve	↔	Outright yields pretty toppy. Swap spreads to widen.
Flow	↔	Stop loss paying done, but borrowers doing nothing.
Technicals	↔	Still biased upward.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Jun-10	+18	+20
Thu 29-Jul-10	+42	+42
Thu 16-Sep-10	+70	+67
Thu 28-Oct-10	+97	+93
Thu 9-Dec-10	+126	+120
Thu 27-Jan-11	+148	+145
Thu 10-Mar-11	+166	+163

TRADING THEMES WE FAVOUR AT PRESENT

Swap spreads are set to widen as NZGS benefit from safe haven demand as investors flee EUR denominated assets and European sovereign bonds. 10yr wideners sub 20bps look attractive. Short end yields are overdone at current levels (i.e. 2yr swap above 4.50%) but we're not inclined to get long while we are bearish AUD interest rates.

CURRENCY STRATEGY

SUMMARY

NZ data was weaker last week but the focus in currency markets was once again on Europe. With increased talk of the demise of the EUR, the NZD got dragged lower. The NZ *Budget* this week will highlight the strong relative fiscal position and ensure that NZ does not get tarred by the same European sovereign brush. But where the EUR goes this week, so too the NZD – and that is increasingly looking down in the near term.

MARKET THEMES

- *Budget* this week is the domestic focus. Interpretation of the tax changes is the key.
- The CRB index is starting to break down. NZ's commodity basket is still looking good but for how long more?
- Euro woes continue as the "shock and awe" package fails to instil lasting confidence.

REVIEW AND OUTLOOK

Even weak local data last week couldn't shake the NZD out of its recent range. Support for the NZD was evident for most of last week, only giving way when the EUR broke through the key 1.25 level as talk intensified of the single currency's demise. The next key support level for the NZD is now a 0.7050.

This Thursday's *Budget* is a key event. Even though it is widely expected to show improved fiscal fortunes with a return to surplus earlier than expected, it is how the market interprets the impact of tax changes on the economy that will determine how the NZD responds. Should the tax changes be perceived as negative for housing and therefore result in lower near term NZ growth, this will be bearish for the NZD. But offsetting this somewhat is NZ's new found status as a safe haven due to our low sovereign debt levels. Buyers of NZ government bonds are plentiful as investors switch out of European sovereigns, adding buying support to the NZD. In addition, speculators continue to build their net long positions in NZD, suggesting that the safe haven status may extend to the currency as well.

Sentiment continues to sour on the AUD. Eurozone concerns, ongoing crackdown on property in China, falling CRB index and the ongoing negative reaction to the Australian government's mining tax have all weighed. Not even a strong Australian employment report could lend a hand. AUD weakness looks unjustified but the market is long and spooked. We see this week as buying opportunities against the USD and the NZD.

The EUR has further to fall and NZDEUR looks set to test 0.60. The NZDGBP is at levels not seen for decades, hitting a new post float high last week. However, it could be a struggle to reach the 0.50 level in NZDGBP, and the GBP could turn around quickly if the new UK government puts forth a credible plan to tackle the country's fiscal deficit.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Closer to fair value.
Yield	↓	Yield gap still very much in favour of AUD.
Commodities	↑	Softs performing better than hards.
Partial indicators	↔/↓	Australian data still better, but NZ's could start to play catch-up.
Technicals	↔	0.78-0.82 range in play.
Sentiment	↔/↑	Souring for AUD as market pares back their long positions.
Other	↔	Watch the euro. The market is.
On balance	↔	**This cross is off the radar till NZ Budget.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value estimate of 0.66.
Fair value – short-term	↔/↓	Still above cyclical fair value.
Yield	↔/↑	NZ rates moving up before US rates.
Commodities	↑	NZ commodity prices still holding up well.
Risk aversion	↔/↑	Risk aversion up but NZ not being hurt.
Partial indicators	↔/↑	Is improvement in NZ labour market the big turnaround?
Technicals	↔	Support at 0.7050 being tested.
AUD	↔/↓	Sentiment turning negative.
Sentiment	↔	Tax changes in Budget will affect sentiment this week.
Other	↔/↑	NZ bonds well bid on safe haven.
On balance	↔	**Positives not as strong this week.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-May	**NZ**	**Performance of Services Index – Apr**	**--**	**57.3**	**10:30**
	UK	Rightmove House Prices (MoM) - MAY	- -	2.60%	11:01
	JN	Machine Orders (MoM) - MAR	6.30%	-5.40%	11:50
	JN	Domestic CGPI (MoM) - APR	0.30%	0.20%	11:50
	UK	U.K. CBI May Industrial Trends - 45778			22:00
18-May	US	Empire Manufacturing - MAY	30	31.86	00:30
	US	Net Long-term TIC Flows - MAR	$50.0B	$47.1B	01:00
	US	Total Net TIC Flows - MAR	- -	$9.0B	01:00
	US	NAHB Housing Market Index - MAY	20	19	05:00
	NZ	**Producer Prices- Inputs (QoQ) - 1Q**	**- -**	**0.30%**	**10:45**
	NZ	**Producer Prices- Outputs (QoQ) - 1Q**	**- -**	**-0.40%**	**10:45**
	JN	Tertiary Industry Index (MoM) - MAR	-1.50%	-0.20%	11:50
	AU	Reserve Bank's Board May Minutes			13:30
	JN	Consumer Confidence – APR	- -	41	17:00
	JN	Consumer Confidence Households - APR	42	40.9	17:00
	JN	Tokyo Dept. Store Sales (YoY) - APR	- -	-5.10%	17:30
	JN	Nationwide Dept. Sales (YoY) - APR	- -	-3.50%	17:30
	JN	Machine Tool Orders (YoY) - APR F	- -	220.50%	18:00
	UK	CPI (MoM) – APR	0.40%	0.60%	20:30
	UK	CPI (YoY) – APR	3.50%	3.40%	20:30
	UK	Core CPI YOY – APR	2.90%	3.00%	20:30
	EC	Euro-Zone CPI (MoM) – APR	0.40%	0.90%	21:00
	EC	Euro-Zone CPI (YoY) – APR	1.50%	1.50%	21:00
	EC	Euro-Zone CPI - Core (YoY) - APR	0.80%	1.00%	21:00
	EC	ZEW Survey (Econ. Sentiment) - MAY	38	46	21:00
	EC	Euro-Zone Trade Balance - MAR	5.0B	2.6B	21:00
	EC	Euro-Zone Trade Balance sa - MAR	4.4B	3.3B	21:00
	GE	ZEW Survey (Econ. Sentiment) - MAY	47	53	21:00
	GE	Zew Survey (Current Situation) - MAY	-33	-39.2	21:00
19-May	US	Producer Price Index (MoM) - APR	0.10%	0.70%	00:30
	US	PPI Ex Food & Energy (MoM) - APR	0.10%	0.10%	00:30
	US	Producer Price Index (YoY) - APR	5.60%	6.00%	00:30
	US	PPI Ex Food & Energy (YoY) - APR	0.90%	0.90%	00:30
	US	Housing Starts – APR	650K	626K	00:30
	US	Housing Starts MOM% - APR	3.80%	1.60%	00:30
	US	Building Permits – APR	680K	685K	00:30
	US	Building Permits MOM% - APR	0.00%	7.50%	00:30
	AU	Westpac Consumer Confidence - MAY	- -	-1.00%	12:30
	AU	Westpac Cons. Confidence Index - MAY	- -	116.1	12:30
	AU	DEWR Skilled Vacancies MoM - MAY	- -	1.30%	13:00
	AU	Wage Cost Index QoQ - 1Q	0.80%	- -	13:30
	AU	Wage Cost Index YoY - 1Q	2.90%	- -	13:30
	JN	Industrial Production (MoM) - MAR F	- -	0.30%	16:30
	JN	Capacity Utilization (MoM) - MAR F	- -	0.00%	16:30
	UK	Bank of England Minutes			20:30
	EC	Construction Output SA MoM - MAR	- -	-3.30%	21:00
	US	MBA Mortgage Applications	- -	3.90%	23:00
20-May	US	Consumer Price Index (MoM) - APR	0.10%	0.10%	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
20-May	US	CPI Ex Food & Energy (MoM) - APR	0.10%	0.00%	00:30
	US	Consumer Price Index (YoY) - APR	2.40%	2.30%	00:30
	US	CPI Ex Food & Energy (YoY) - APR	1.00%	1.10%	00:30
	US	CPI Core Index SA – APR	- -	220.664	00:30
	US	Consumer Price Index NSA - APR	218.143	217.631	00:30
	US	Minutes of FOMC Meeting - May 19 Meeting			06:00
	JN	Housing Loans YoY - 1Q	- -	1.60%	11:50
	JN	Gross Domestic Product (QoQ) - 1Q P	1.40%	0.90%	11:50
	JN	GDP Deflator YoY - 1Q P	-3.00%	-2.80%	11:50
	AU	Consumer Inflation Expectation - MAY	- -	4.10%	13:00
	AU	RBA Foreign Exchange Transactn - APR	- -	892M	13:30
	AU	Average Weekly Wages (QoQ) - FEB	0.90%	- -	13:30
	AU	Average Weekly Wages (YoY) - FEB	5.40%	- -	13:30
	NZ	**New Zealand Budget**			**14:00**
	JN	BoJ Monetary Policy Meeting			16:00
	GE	Producer Prices (MoM) - APR	0.60%	0.70%	18:00
	JN	Convenience Store Sales YoY - APR	- -	-4.90%	19:00
	UK	Retail Sales Ex Auto Fuel(MoM) - APR	-0.10%	0.20%	20:30
	UK	Retail Sales (MoM) – APR	0.20%	0.40%	20:30
21-May	US	Initial Jobless Claims - May 15	440K	444K	00:30
	US	Continuing Claims - May 8	4610K	4627K	00:30
	US	Philadelphia Fed. – MAY	21.6	20.2	02:00
	US	Leading Indicators – APR	0.20%	1.40%	02:00
	EC	Euro-Zone Consumer Confidence - MAY A	-16	-15	02:00
	NZ	**Visitor Arrivals – APR**	**- -**	**1.10%**	**10:45**
	NZ	**New Zealand Net Migration SA - APR**	**- -**	**980**	**10:45**
	NZ	**Credit Card Spending (YoY) - APR**	**- -**	**6.30%**	**15:00**
	NZ	**ANZ Consumer Confidence Index - MAY**	**- -**	**121.9**	**15:00**
	NZ	**ANZ Consumer Confidence MoM - MAY**	**- -**	**0.00%**	**15:00**
	NZ	**Credit Card Spending SA (MoM) - APR**	**- -**	**1.20%**	**15:00**
	JN	BOJ Target Rate	- -	0.10%	/2010
	JN	Leading Index CI - MAR F	- -	102.8	17:00
	JN	Coincident Index CI - MAR F	- -	101.1	17:00
	GE	GDP s.a. (QOQ) - 1Q F	0.20%	0.20%	18:00
	GE	PMI Services - MAY A	55.4	55.2	19:30
	GE	PMI Manufacturing - MAY A	61.1	61.5	19:30
	EC	ECB Euro-Zone Current Account SA - MAR	- -	-3.9B	20:00
	EC	PMI Services - MAY A	55.6	55.6	20:00
	EC	PMI Manufacturing - MAY A	57.4	57.6	20:00
	EC	PMI Composite - MAY A	57.2	57.3	20:00
	GE	IFO - Business Climate - MAY	101.9	101.6	20:00
	GE	IFO - Current Assessment - MAY	100	99.3	20:00
	GE	IFO - Expectations - MAY	103.5	104	
	UK	Total Business Investment(QoQ) - 1Q P	-0.60%	-4.30%	
	UK	Public Sector Net Borrowing - APR	10.9B	23.5B	

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 data showed that the recovery in retail spending remains patchy, with the residential property market recovery yet to gain traction. This week sees the release of *Budget* 2010, which will provide more clarity on the direction of government policy. Signs of improvement are becoming increasingly evident, and we expect this to be apparent in the published data in the coming months.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 18 May (10:45am)	Producer Price Index Capital Goods Price Index (Mar qtr)	Margins still tight	Prices to be strongly influenced by export prices and the NZD. The high NZDUSD has kept prices for imported capital goods and machinery attractive for firms contemplating investment.
Thur 20 May (2:00pm)	Budget 2010	Tight	Final details of the tax reform package to be released. Expenditure restraint to remain a key focus. The fiscal position is set to improve, but deficits are likely for the next few years.
Fri 21 May (10:45am)	International Travel and Migration (Apr)	Lower	A rising trend in PLT departures to Australia is expected to produce smaller monthly net PLT inflows. Disruptions to European travel are likely to weigh down on visitor arrivals.
Fri 21 May (3:00pm)	ANZ Roy-Morgan Consumer Confidence (May)	--	--
Tue 25 May (3:00pm)	RBNZ Survey of Expectations – Q2	Firming	The closely watched 2-year-ahead measure of CPI inflation is expected to climb from the 2.65 percent reported in Q1.
Thur 27 May (10:45am)	Overseas Merchandise Trade (Apr)	Closer to balance	Exports to be buoyed by firm export commodity prices. Improving domestic demand is expected to translate into a recovery in imports over the coming months.
Fri 28 May (10:45am)	Building Consents (Apr)	Holding pattern	After uncertainties on tax treatment are clarified following Budget 2010, we expect a sustained pick-up in consent issuance in the second half of 2010.
Fri 28 May (3:00pm)	RBNZ Credit Aggregates (Apr)	Contained	March data confirmed deleveraging remains a key influence, although housing credit is showing very modest improvement.
Mon 31 May (3:00pm)	NBNZ Business Outlook (May)	--	--
Wed 2 Jun (3:00pm)	ANZ Commodity Price Index (May)	--	--
Fri 4 Jun (10:45am)	Wholesale Trade Survey (Mar qtr)	Up	Higher export sales should feature, but this will be partly moderated by lower growth in consumer spending.
Tue 8 Jun	Value of Building Work Put in Place – Q1	Flat	Low residential and non-residential consent issuance late last year is expected to translate into broadly flat outturn.
Tue 8 Jun	Economic Survey of Manufacturing- Q1	Up	Ex-primary manufacturing sector volumes are expected to post a further increase from very low levels. Improving sector confidence and a firming in orders is expected to translate into an increase in manufacturing stocks.
Thur 10 Jun	Electronic Card Transactions - May	Up	After the early-Easter induced volatility of the past couple of months, this will provide an opportunity to asses the strength of retail spending. A small increase is expected
Thur 10 Jun	Overseas Trade Indexes – Q1	Lifting	Higher export commodity prices are expected to boost the terms of trade. Higher forestry exports should boost export volumes, whereas climbing import volumes are indicative of improving domestic demand.
Fri 11 Jun	Food Price Index - May	Up	April's 0.5 percent fall is expected to be reversed, given the usual seasonal pattern. Due to strong commodity export prices, the trend in food prices remains higher.
On Balance		**Building nicely**	**Economy moving towards above trend growth as the terms of trade boost filters through the economy.**

ECONOMIC FORECASTS AND INDICATORS

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

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10
Retail Sales (% mom)	-0.5	1.2	0.2	0.1	0.7	-0.4	0.6	-0.6	0.5	..
Retail Sales (% yoy)	-1.4	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	4.4	..
Credit Card Billings (% mom)	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.2	..
Credit Card Billings (% yoy)	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.3	..
Car Registrations (% mom)	6.9	-3.6	8.4	0.4	2.2	6.9	-0.6	0.5	5.7	2.9
Car Registrations (% yoy)	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7	40.5
Building Consents (% mom)	5.3	2.3	5.6	11.9	0.4	-3.8	-2.9	5.8	-0.4	..
Building Consents (% yoy)	-16.5	-9.0	-11.7	26.7	20.4	22.7	35.0	29.8	32.9	..
REINZ House Price (% yoy)	0.0	5.1	6.1	6.0	5.2	9.6	7.7	6.1	7.6	4.7
Household Lending Growth (% mom)	0.3	0.3	0.3	0.3	0.0	0.2	0.2	0.1	0.1	..
Household Lending Growth (% yoy)	2.4	2.4	2.3	2.6	2.7	2.7	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8	121.9
NBNZ Business Confidence	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5	49.5
NBNZ Own Activity Outlook	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6	43.0
Trade Balance ($m)	-177.6	-716.6	-561.5	-501.5	-280.4	-26.4	271.1	334.6	567.2	..
Trade Balance ($m annual)	-2491	-2360	-1669	-1176	-863	-549	-176	-324	-194	..
ANZ World Commodity Price Index (% mom)	0.9	4.2	7.3	4.7	10.9	2.6	0.4	3.8	1.8	4.9
ANZ World Commodity Price Index (% yoy)	-28.7	-23.1	-13.0	-1.4	18.1	30.8	37.1	49.1	50.1	53.5
Net Migration (sa)	2460	1630	1850	2150	1730	1670	1830	1010	990	..
Net Migration (annual)	14488	15642	17043	18560	20021	21253	22588	21618	20973	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.698	0.711	0.707	0.710	0.700	0.700	0.690	0.680	0.660	0.650
NZD/AUD	0.780	0.775	0.799	0.772	0.769	0.769	0.767	0.756	0.750	0.756
NZD/EUR	0.512	0.526	0.572	0.592	0.609	0.609	0.585	0.576	0.550	0.533
NZD/JPY	62.10	66.41	65.23	64.61	64.40	65.80	66.24	66.64	66.00	65.00
NZD/GBP	0.458	0.468	0.487	0.473	0.467	0.470	0.469	0.456	0.440	0.433
NZ$ TWI	64.5	66.0	68.0	68.0	68.1	68.4	67.3	66.5	64.7	63.7
INTEREST RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25	4.75	5.25
NZ 90 day bill	2.71	2.67	2.92	3.10	3.70	3.80	4.20	4.70	5.20	5.70
NZ 10-yr bond	5.76	5.98	5.80	5.90	5.90	5.80	5.90	6.10	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.29	0.45	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	4.00	4.50	4.50	5.00	5.25	5.50	5.75	5.75	6.00
AU 3-mth	4.13	4.49	4.88	4.80	5.20	5.50	5.80	6.00	6.00	6.20

	14 Apr	10 May	11 May	12 May	13 May	14 May
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.68	2.92	2.91	2.92	2.92	2.92
NZGB 11/11	3.74	3.99	3.96	3.96	3.96	3.94
NZGB 04/13	4.54	4.74	4.71	4.71	4.71	4.69
NZGB 12/17	5.66	5.63	5.60	5.59	5.59	5.57
NZGB 05/21	5.94	5.86	5.82	5.81	5.81	5.80
2 year swap	4.21	4.61	4.55	4.55	4.55	4.52
5 year swap	5.21	5.41	5.37	5.39	5.39	5.37
RBNZ TWI	65.8	68.3	68.4	68.4	68.4	68.2
NZD/USD	0.7139	0.7232	0.7190	0.7183	0.7183	0.7143
NZD/AUD	0.7643	0.8008	0.8010	0.7983	0.7983	0.7964
NZD/JPY	66.68	66.99	66.69	66.95	66.95	66.32
NZD/GBP	0.4603	0.4855	0.4865	0.4831	0.4831	0.4882
NZD/EUR	0.5232	0.5589	0.5656	0.5674	0.5674	0.5694
AUD/USD	0.9341	0.9031	0.8976	0.8998	0.8998	0.8969
EUR/USD	1.3644	1.2939	1.2713	1.2659	1.2659	1.2544
USD/JPY	93.40	92.63	92.76	93.20	93.20	92.84
GBP/USD	1.5509	1.4897	1.4779	1.4868	1.4868	1.4631
Oil (US$/bbl)	85.62	75.12	76.89	75.65	74.38	74.38
Gold (US$/oz)	1155.73	1200.00	1204.20	1238.35	1236.25	1236.40
Electricity (Haywards)	6.92	5.42	6.36	6.19	5.08	3.87
Milk futures (US$/contract)	111	127	127	127	127	127
Baltic Dry Freight Index	2966	3707	3822	3888	3914	3929

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing

Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

If you wish to pay investment money to the Bank you can do this in several ways such as by:

IMPORTANT NOTICE

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

Record Keeping

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

Auditing

The Bank's systems and operations are internally audited on a regular basis. The financial statements of the Bank and its subsidiaries are audited annually by KPMG. However, this does not involve an external audit of the receipt, holding and disbursement of the money and other property.

Use of Money and Property

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

NEW ZEALAND DISCLAIMER

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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