NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

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INSIDE

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A PERIOD OF CONSOLIDATION

ECONOMIC OVERVIEW

Last week's data continued the tone of recent data suggesting economic activity is entering a consolidation phase rather than anything more brisk. The softer than expected Q2 CPI figures did not really alter the picture for an inevitable trend upwards for the OCR. Nevertheless, recent data suggests less urgency may be needed to return policy settings to more neutral territory. Even though a couple of 25 basis point hikes look odds on for the next two meetings, we retain our core view of a pause late in the year.

LEAKY HOMES IMPACT

Leaky homes relates to the lack of weather tightness for residential buildings. The potential macroeconomic impacts of leaky homes are examined by combining details from the Budget 2010 package, with information from the Price Waterhouse Coopers (PWC) report and information from the Weathertight Homes Resolution Services (WHRS). Leaky homes are a cost to the economy. While remedial work will provide a boost to economic activity, this will be offset by weaker household spending. As leaky homes are a cost-shock, it would lead to higher inflation, with the exact magnitude depending on who picks up the bill and how they fund it.

INTEREST RATE STRATEGY

Market expectations for RBNZ policy have changed very little, despite another week of subdued domestic data. We doubt the data were soft enough to see the RBNZ leave the OCR on hold next week, but they do add weight to the possibility of a pause later this year. Global market sentiment remains volatile. We expect interest rate expectations and price action to bobble around on risk-on and risk-off oscillating sentiment with limited trend conviction.

CURRENCY STRATEGY

The NZD continues to get buffeted around by technical breaks and offshore positioning against a variety of crosses. It is these crosses that will be the focus of attention this week. The recent run of soft domestic data should start to catch-up on the NZD, and we see the medium term top of 0.73 having been reached last week and the currency will start to test support levels.

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SUMMARY

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THIS WEEK'S EVENTS

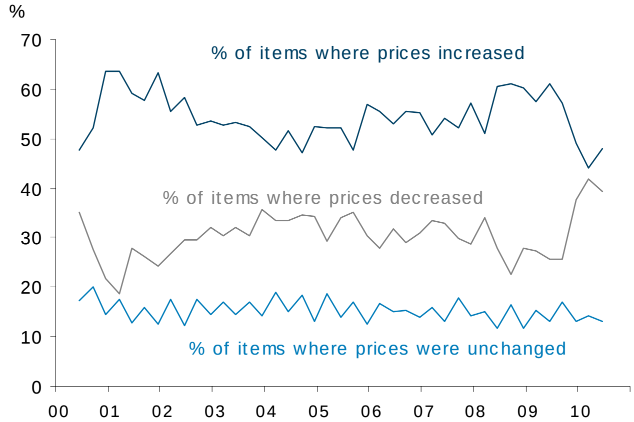
- **SNZ External Migration – June** (Wednesday, July 21, 10:45am). The trend in net permanent and long-term (PLT) immigration has been easing in recent months, as departures continue to trend up. We expect a further easing in net PLT immigration towards zero persons in June. While disruptions from European volcanic ash have now eased, a rebound in seasonally adjusted visitor arrival numbers is a month or two away.
- **RBNZ Credit Card Billings - June** (Wednesday July 21, 3:00pm). Monthly outturns of late have been volatile. We anticipate a small monthly increase on par with the 0.4 percent rise in retail Electronic Card Transactions for June.
- **ANZ-Roy Morgan Consumer Confidence – July** (Thursday, July 22, 3:00pm).

WHAT'S THE VIEW?

The RBNZ will be ending their stocktake of recent data with the July OCR decision rapidly approaching. More benign than expected June quarter inflation was a pleasing development although it is hardly a reason to alter their core forecasts. Core inflation and underlying non-tradable inflation remains well contained. Earlier we had highlighted the downside inflation risks posed by retail discounting, and there was some evidence of this occurring in the inflation numbers.

The inflation profile continues to be dominated by government policy changes and we still expect that annual CPI inflation to head above 5 percent over the next 12 months. A key challenge for the RBNZ will be managing inflation expectations during this period. This little niggle factor will be one reason the RBNZ is likely to stick to their June script and to keep raising rates. History has taught the RBNZ one simple lesson: they've tended to end up behind the curve during tightening cycles. Hence, the desire this time around to be more on the front foot.

CPI national item-level index movements



Sources: ANZ, National Bank, Statistics NZ

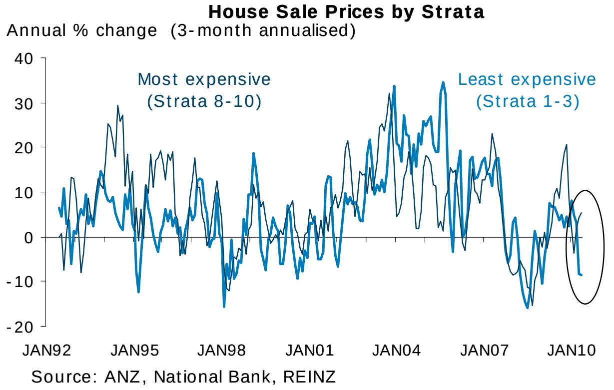
However, cracks are appearing in the RBNZ's June view. This is not a slur on the RBNZ's forecasts, rather an acknowledgement that developments are moving quickly. Three key judgements underpinned the June central track, namely households continue to de-leverage, there being limited second round impacts from the temporary spike in inflation in H2 2010 and global (and implicitly NZ) growth continuing to be robust. The first two are 2011 stories but the latter is more prevalent in terms of the here and now. While China continues to grow strongly (10.3 percent year on year in the June quarter) the tenor of OECD data continues to disappoint. We're not in the double-dip camp but we certainly take the view that the recovery process was always going to be more arduous than the somewhat lofty expectations circulating a few months ago.

We can slice and dice local data a number of ways but it's pretty hard to go against the spirit: the recovery is lacklustre and a far cry from the 1 percent quarterly growth rates the RBNZ was expecting for 2010. Ironically we find the picture of more sedate growth in 2010 somewhat comforting, as it foretells of continued de-leveraging, a better mix to growth, and strengthens the case for 2011 being stronger. We'd be more worried if 2010 was shaping up as a 4 percent growth year!

Despite *Budget* uncertainties being resolved, the June housing market data was downbeat. While prices did increase (a comforting factor for the RBNZ in terms of the required normalising of monetary policy), the general trend over 3 months is flat at best. Moreover, any house price increases have tended to be in the more expensive suburbs, whose households tend to have lower spending propensities. Prices in the cheaper suburbs are flat to falling. The trend in prices remains downwards, with the days to sell continuing to climb. June housing

ECONOMIC OVERVIEW

turnover fell further and remains at historically low levels as a proportion of the housing stock. It's hard to see this picture changing anytime soon with weekly mortgage approvals for the first week in July looking even softer than in June.

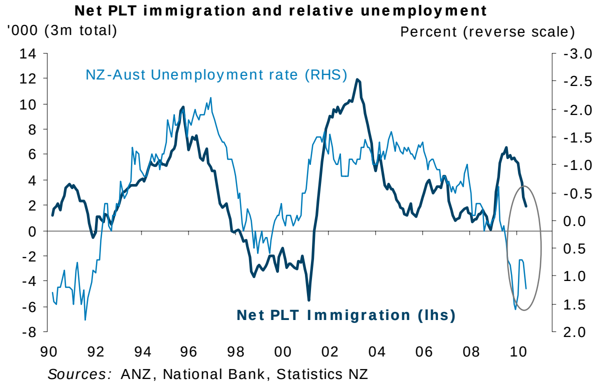


Retail sales highlighted the cautious mood predominating. Stronger sales for appliances and cars provided some hint of a "beat the GST rise" rush, but the overall tone was downbeat, with core retail sales falling for the second month in a row.

It's not all one-way traffic with manufacturing providing some solidarity to growth prospects according to the Business NZ PMI. Nevertheless, activity in the ex-primary sector has only recouped about one-third of the total production lost during the recession. The lift in new orders and a NZD/AUD cross rate in the low 80s bodes well for continuing expansion of the sector, although a slowing global economy could adversely impact export performance.

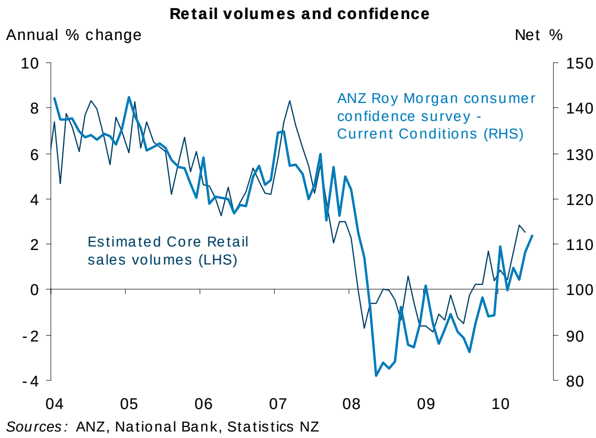
The above combination still leaves us firmly backing a hike in July, and (more likely than not) one in September. The latter is far from a done-deal in our view, but still looks (slightly) odds on. Beyond that we continue to favour a pause and the tightening cycle being executed in somewhat of a staggered manner. **Pretty well all other economists around town are pencilling in 25 basis point hikes at every meeting and this is something we struggle with given the tenor of local data and global nuances.**

Looking at the dataflow for the coming week, external migration data for June is expected to highlight decreasing support to domestic spending. With PLT departures trending up and arrivals trending down, a negative net monthly PLT inflow is a distinct possibility. Looking at quarterly annualised migration data (which smoothes out volatility but is timely in terms of turning points), it shows an easing in net inflows from 21,100 at the start of the year to 7,700 now. The stronger labour market performance of the Australian economy appears to be a powerful draw card and this doesn't look like changing anytime soon.



Although the European volcanic ash induced disruptions to overseas visitor arrivals are becoming a distant memory, they still have potential to cause volatility in the monthly figures. Whatever the cause may be, the reality is that these disruptions have been costly and are likely to dent services export activity in Q2. But generally speaking tourism inflows have held up pretty well over the past year.

This week also sees the release of the ANZ-Morgan Consumer Confidence report for July. It's a timely barometer of consumer sentiment, and we'll be paying attention to the current conditions measure. The recent trend has been one of improvement, with consumers eying major purchases again. How much of this is related to a "beat the GST-rise" dynamic is unclear. More generally, confidence surveys have showed signs of cooling of late – locally and globally. Thursday will see whether NZ consumers are bucking or following the trend in business confidence.



ECONOMIC OVERVIEW

RECENT LOCAL DATA

- **SNZ Food Price Index – June.** Food prices rose by 1.3 percent, with the annual change in food prices (2 percent fall) the lowest since 1957. Higher prices for fresh fruit and vegetables (up 9.3 percent) and meat, fish and poultry (up 2.7 percent) drove the increases. Prices for grocery food fell by 0.8 percent in June.
- **REINZ Housing Market Statistics – June.** The number of house sales fell by a seasonally adjusted 4.1 percent (-24.3 percent y/y), with the average days to sale climbing to 44 days (s.a.) from 43 in May. Housing prices rose by a seasonally adjusted 1.6 percent, to be 4.2 percent up on 12-months earlier.
- **SNZ Retail Trade – May**. Total retail spending climbed by a seasonally adjusted 0.4 percent. Core retail sales fell by 0.2 percent.
- **BNZ- Business NZ PMI – June**. The headline PMI rose 1.7 points to 56.2. All of the components were above 50, with employment and finished goods registering the largest increases, with deliveries the only sub-component to fall from May.
- **SNZ Consumers Price Index – Q2**. Headline CPI rose by 0.3 percent, with annual CPI inflation easing to 1.8 percent. Non-tradable CPI rose 0.6 percent (2.2 percent y/y), with tradable CPI falling by 0.1 percent (1.1 percent y/y).

LEAKY HOMES IMPACT

SUMMARY

Leaky homes relates to the lack of weather tightness for residential buildings. The potential macroeconomic impacts of leaky homes are examined by combining details from the Budget 2010 package, with information from the Price Waterhouse Coopers (PWC) report and information from the Weathertight Homes Resolution Services (WHRS). Leaky homes are a cost to the economy. While remedial work will provide a boost to economic activity, this will be offset by weaker household spending. As leaky homes are a cost-shock, it would lead to higher inflation, with the exact magnitude depending on who picks up the bill and how they fund it.

THE PROBLEM

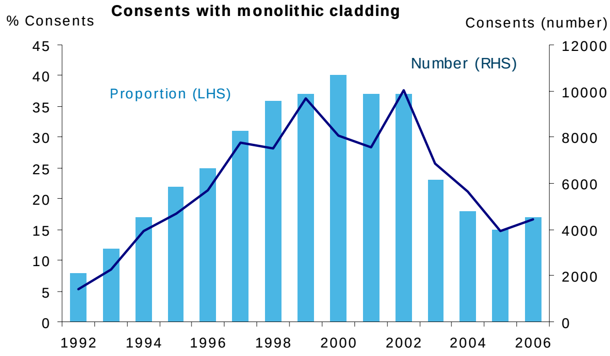
Under The Building Act 1991, which came into force in 1992, monolithic cladding (coated sheets which give the appearance of concrete, masonry or plaster) could be used as an alternative to timber or masonry. Untreated timber was also allowed for framing from 1996. These building materials were subsequently found to be more susceptible to watertightness issues, and building regulations were progressively tightened from 2005. Subsequent building inspections revealed a sharp drop-off in leaky buildings for dwellings constructed from 2007 onwards. However, the damage had already been done.

HOW MANY DWELLINGS ARE AFFECTED?

The scale of the problem is potentially very large. Approximately 330,000 dwelling consents were issued from 1992 to 2006. Of this, nearly 30 percent were for monolithic clad dwellings.

As at 31 March 2010, WHRS had received claims and completed assessments for nearly 8,000 properties. Claims were highest in the Auckland region (around 2,000 from Auckland city alone).

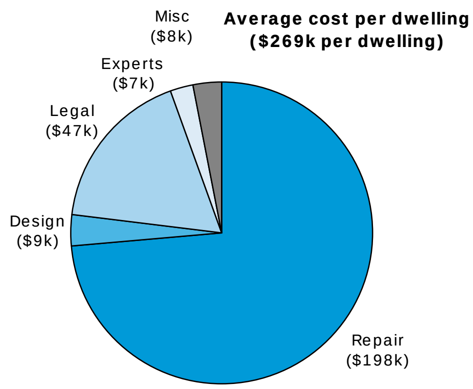
In making projections based on claims lodged, PWC estimated the number of potential failures could range between 22,000 and 89,000 dwellings. **The central estimate of 42,000 is approximately 2.5 percent of the total dwelling stock or around 10 percent of all houses built since 1992.** The wide error bands around the PWC projections illustrate considerable uncertainties involved. It can take several years before problems surface (the median lag from construction to a problem being reported has been found to be 8 years).



Source: WHRS, PWC, ANZ, National Bank, Statistics New Zealand

WHAT ARE THE POTENTIAL COSTS?

Leaky buildings are expensive to remedy as in many cases the structure and some contents are beyond salvageable repair. WHRS estimates put the average cost per dwelling at around $270,000 (in 2008$). Only 70 percent of the total cost is for remedial building work, with legal fees, design and other consultancy fees making up the balance. Even when claims are settled via mediation (i.e. for claims below $20k), there is likely to be a legal cost involved.



Source: PWC, ANZ, National Bank

Assuming 42,000 dwellings are affected, the PWC report estimates the total economy-wide cost of leaky buildings at $11.3bn (6 percent of GDP). Depending on how many homes are affected, the total cost could range from $6bn to $24bn. Aside from assumptions on the number of dwellings affected, the assumed costs are very sensitive to a number of other assumptions. For example, if the estimated failure rate of monolithic dwellings was 20 percent lower, PWC estimate the total cost would be $8.5bn, rather than $11.3bn.

WHO CARRIES THE COST?

This is the $64,000 (or should it be $11.3bn) question.

Leaky home owners have some recourse through the WHRS Act 2006 and the Consumer Guarantees Act (1993). Legally, any party who owes a duty of care may be brought into proceedings. This can include builders, building companies, sub-contractors (i.e. plumbers, electricians, and landscapers), architects and councils. **Nevertheless, there are hurdles to overcome:**

- **Legal costs can be significant.** To show that a party is liable under negligence, it must be proven that the party owes a duty of care to the homeowner, that duty has been breached, and damage has resulted. Even for less expensive claims (those less than $20,000 are usually settled via mediation) legal representation is usually needed.
- **The time horizon for claims is also limited.** Under current law, homeowners must report problems to the WHRS within 10-years of construction date to be eligible for compensation. Current estimates suggest that around one-third of dwellings are likely to fall outside this window, with the cost of repair being solely borne by the owner.
- It is also common to find that when parties are bought into account for their liability, they may not be in a suitable position from which to contribute. PWC estimate less than 5 percent of the total cost will be incurred by builders/developers.
- Furthermore, even if owners successfully obtain a favourable settlement, these are well below the claimed amount meaning the owner is still considerably out of pocket.

BUDGET 2010 PROPOSAL

One of the policy announcements occurring around the time of the 2010 *Budget* was a new package to partly compensate affected homeowners. According to the new package, government and local councils would each contribute 25 percent of the cost of repair, with homeowners coughing up the remaining 50 percent.

The details of the package are as follows:

- Compensation would not be provided to the 5,000 or so households who have already repaired their dwellings (see following section for further details).
- Councils will not contribute in cases where outside or outsourced building certifiers have approved sub-standard work.
- Homeowners would only qualify for assistance if their claim is received within ten years of construction. It is estimated that less than 24,000 dwellings would still be eligible.
- Homeowners cannot sue their council for approving faulty work, but can continue to sue other parties involved.
- Funds to homeowners will be provided through Government guaranteed bank loans.

Table 1 shows a rough breakdown of the costs under the proposed plan compared to the total costs of leaky buildings. Households are assumed to bear the full cost of repair if it falls outside the eligibility criteria for government assistance. This is likely to slightly overstate the burden on households and understate that on councils (and other parties) as some households have managed to obtain some form of compensation. [1]

Table 1: Distribution of costs

	% Cost	$bn	% Income
Latest proposal: 23,500 dwellings			
Homeowners	50	3.2	3.3
Local authorities	25	1.6	23.4
Central Government	25	1.6	2.5
Total	100	6.3	3.4
Total costs: 42,000 dwellings			
Homeowners	72	8.1	8.6
Local authorities	14	1.6	23.4
Central Government	14	1.6	2.5
Total	100	11.3	6.2

Income: Household Disposable Income, Total Local Authority Revenue, Total Crown Revenue, Nom inal GDP respectively.

Source: PWC, Statistics NZ, ANZ, National Bank.

Our estimates show that nearly three-quarters of the total costs will be borne directly by affected households.

[1] In March, the Court of Appeal awarded in favour of apartment owners on a leaky home claim against the North Shore City Council.

LEAKY HOMES IMPACT

WHAT IS THE ECONOMIC IMPACT?

Past impacts

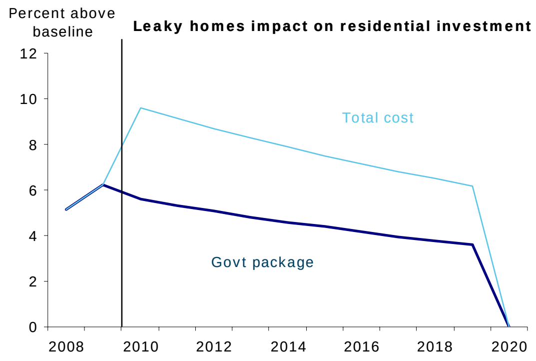
Some of the repairs have occurred already. PWC estimates suggest up to 3,500 repairs took place up to the end of 2008, but these are approximate, as remedial work to correct leaky buildings did not require a building consent from March 2005 till March 2008. It is likely that the actual figure could be considerably higher and we assume that around 5,000 dwellings have already had remedial work done. **Assuming costs are proportionate to the PWC estimate, nearly $1.3bn has already been spent on leaky buildings since 1992, with around $1.0bn being spent on building work alone.**

Future impacts

Of the 37,000 remaining dwellings, nearly two-thirds (23,500) are covered by the new scheme. The following assumptions are used:

- All households covered by the scheme take part.
- Repair work on these dwellings would not divert work from other areas[2]. Recognising that spare capacity in the construction sector is limited, we assume the repair work will be spread over the next 10-years, an average of 2,350 dwellings per annum.

The boost to construction sector activity would be in the order of $600m in 2008 dollars, or around 0.2 percent of GDP per annum over the next decade. As some homeowners may not be able to afford the loan repayments to the government, take up of the scheme may be smaller than what we assume.



Source: PWC, Statistics NZ, ANZ, National Bank.

[2] The low number of dwelling consents being issued (which currently equates to an addition of 16,000 dwellings to the housing stock each year as opposed to the 26,000 consents issued in 2007), which suggests (all else equal) some additional capacity.

However, there are 13,500 buildings not covered by the new offer. If all the affected dwellings are repaired over the next 10 years (3,700 per year), the value of repairs is equivalent to 0.3 percent of GDP per annum.

While construction sector activity is bound to benefit from the remedial work, **most of the costs will be borne by the household sector. Owners affected by leaky homes will be significantly out of pocket, and this is likely to weigh down on consumer spending.**

Table 2: Likely consumption impact

Costs	Cost	Effect on Consumption	% GDP pa
Balance sheet impact	-$8.1bn	-$440m to -$610m	Up to -0.1%*
Debt servicing			
Households in govt scheme (23,500)	-$3.16bn	-$245m pa	-0.1%
Non-govt scheme (18,500)	-$4.97bn	-$385m pa	-0.2%
Total	-$8.1bn	-$630m pa	-0.3%

*Estimated short-run impact on GDP. The average impact on GDP each year is smaller.
Source: PWC, Statistics NZ, ANZ, National Bank.

In assessing the effects on consumer spending, we examine two different approaches:

- Consumption will fall by the impact on balance sheet wealth. **Household wealth is assumed to decline by the value of repairs borne by households ($8.1bn according to table 1). This is about 1.3 percent of total net household wealth** (roughly $625bn according to RBNZ estimates). Recent RBNZ research places the long-run marginal propensity to consume from housing wealth in the region of 5.4 to 7.5 percent. This implies a fall of between $440m to $610m, less than 0.05 percent of GDP per annum if spread over the next decade. The short-run impact will be up to a 0.1 percent hit to GDP for the first year.
- The impact on consumption for affected households will be commensurate with the costs of borrowing to fund the repair work. Of the 42,000 affected households, 23,500 are eligible for government assistance and are assumed to borrow to fund the $134k cost each. The remainder are assumed to borrow to fund the full cost of repairs ($269k). The aggregate debt servicing cost, assuming a borrowing duration of 25 years and a mortgage interest rate of 6

percent, would be approximately $630m, or 0.3 percent of GDP per annum.

These two estimates are likely to show extreme ends of the scale. The actual impact on consumption is likely to fall somewhere in-between. Funding the cost of repairs will significantly impact on cashflow of affected households and weigh on discretionary spending, which implies a bigger consumption impact than implied by the balance sheet channel alone. Conversely, the consumption impact will be more modest than implied by debt servicing costs, given affected households may prefer to cut down on precautionary saving rather than fully absorb the hit to spending. There are also sizeable distributional effects involved, with higher spending from builders, lawyers and consultants likely to provide a partial offset.

As leaky homes are a cost to the economy, the net impact is likely to boost inflation. **However, the impact on inflation would depend on who picks up the bill and how they fund it.** If, for example, local authorities fund one quarter of the cost for repairing 23,500 homes and fund this by lifting local authority rates over a 10-year period, this would equate to a 4.0 percent increase in residential and commercial rates each year for the next 10-years (or a 6 percent annual increase if councils fund one quarter of the cost of repairing 42,000 dwellings). This would directly add 0.1 percent to annual CPI inflation (0.2 percent for a 6 percent increase in rates). Higher local authority rate charges would also flow through into higher rent charges and could conceivably add a further 0.1 percent per annum to annual inflation. The impact of the remedial work on construction sector capacity could also lead to higher CPI construction costs. Offsetting this will be the impact of a lower level of GDP from the lower consumption impact.

Table 3: Summary of impacts

Impact	Magnitude
Activity impact	
Residential Investment	+6.3% pa
Consumption	-0.6% to -0.1% pa
GDP	+0.2% pa to -0.3% pa
Inflation impact	
Total CPI impact	+0.2 to +0.3% pa

Sources: ANZ, National Bank, Statistics NZ

References

PriceWaterhouseCoopers (2009), Weathertightness - Estimating the Cost, Report for the Department of Building and Housing (29 July).

http://www.dbh.govt.nz/UserFiles/File/News/WHRS/pdf/PWC-weathertightness-estimating-cost-full-report.pdf

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INTEREST RATE STRATEGY

SUMMARY

Market expectations for RBNZ policy have changed very little, despite another week of subdued domestic data. We doubt the data were soft enough to see the RBNZ leave the OCR on hold next week, but they do add weight to the possibility of a pause later this year. Global market sentiment remains volatile. We expect interest rate expectations and price action to bobble around on risk-on and risk-off oscillating sentiment with limited trend conviction.

MARKET THEMES

- Soft data is suggestive of an economic recovery that is levelling out already. Given this, and the uncertainty created by the GST hike on October 1st, we see limited need for OCR hikes in Q4.
- Debt remains the key global issue of the day, and word that Hungary has failed to secure IMF and EU support for its austerity plan will ripple through already nervous bond markets.
- US 10yr Treasury yields have rallied back to earlier lows below 3 percent. With the VIX index on the rise again, this is suggestive of considerable uncertainty, and if sustained, will help anchor the NZ curve despite the medium-term trend being up.

REVIEW AND OUTLOOK

Last week's domestic data releases made for subdued reading, as did global developments over the weekend. Of course the "risk-off" swing on Friday was subsequent to it being "risk-on" for most of the week, so we shouldn't get carried away. But the sort of volatile price action we are seeing still portends of a lack of conviction and confidence in the recovery process. We doubt this will change anytime soon, and the associated uncertainty suggests caution on the part of the RBNZ.

The central case remains for rates to trend higher over the coming year but a firming in this trend looks a way off. We expect at least one more hike (next week), but September looks increasingly like a line call, with a pause in Q4 highly likely. While we expect next week's *OCR Review* to remain firm and focused on the need to keep a lid on inflation expectations, we expect a more circumspect tone with regard to global events in recognition of where the risk profile is clearly shifting. **Short end rates will remain anchored and will even be biased lower in this environment**. But with global rates rallying on debt and growth jitters, **this is more likely to see a parallel shift lower in the curve**, as opposed to a steepener.

Mortgage related paying has been light, despite substantial cuts in fixed rates that followed the rise in floating rates. This is not too surprising given that the housing market is still in the doldrums. Similarly, although flatter, the mortgage curve is still steep by historical standards. A lack of mortgage paying not only paves the way for fixed mortgage rates to edge lower, it reinforces the lack of conviction households have with regard to the recovery.

PREFERRED BORROWING STRATEGIES

Long end interest rates have come down a long way and offer value for hedgers looking to add to cover. We doubt 3mth BKBM will average below 5% for the next 5 years as swap levels imply, and this suggests there is value. But BKBM is closer to 3% than 5% at the moment, and the upcoming rate hike cycle is likely to be long and drawn out (as opposed to short and sharp as market pricing suggests). This means it could be some time before long term hedges provide any payback, so it's a case of having to weigh up cashflow against value. We see no value in adding to cover at the short end with 115bps of OCR hikes priced in by April. This is way out of line with the outlook.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	The 3 rate hikes priced in by Dec seems too aggressive.
NZ data	↔	Momentum is slowing, no inflation smoking gun.
Fed Funds / front end	↔/↓	Next move will be more accommodative if anything.
RBA	↔	Market pricing seems fair.
US 10 year	↔/↓	10yr USTs back below 3%.
NZ swap curve	↔/↓	Parallel shift lower likely.
Flow	↔/↑	No mortgage flow. Receive side bias from global flow.
Technicals	↔	2yr struggling through 4.20.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 29-Jul-10	+20	+20
Thu 16-Sep-10	+44	+39
Thu 28-Oct-10	+59	+55
Thu 9-Dec-10	+72	+71
Thu 27-Jan-11	+84	+81
Thu 10-Mar-11	+101	+99
Thu 28-Apr-11	+114	+115

TRADING THEMES WE FAVOUR AT PRESENT

We prefer to be outright long. The potential for the short end to take out the significant rate hikes priced in suggest the short end has some way to go, and the curve could steepen. But with global sentiment in the driving seat, there's arguably more pressure on the long end to rally, producing a parallel shift, or a mild flattening.

CURRENCY STRATEGY

SUMMARY

The NZD continues to get buffeted around by technical breaks and offshore positioning against a variety of crosses. It is these crosses that will be the focus of attention this week. The recent run of soft domestic data should start to catch-up on the NZD, and we see the medium term top of 0.73 having been reached last week and the currency will start to test support levels.

MARKET THEMES

- Has the NZD had the topside blow out and now in a position to underperform versus the crosses?
- Who is next to be downgraded in Europe?
- Equities still dominate the NZD direction and earning season ensures volatility.
- CPI was weak here but looks strong across the Tasman. The Australian election will see the AUD sidelined.

REVIEW AND OUTLOOK

The topside break of the 200 day moving average at 0.7130, coupled with squaring of massive AUD/EUR longs as the euro surged, caused the aggressive NZD buying seen during most of last week. This sent the NZD to a high of just above 0.7300, partly fuelled by aggressive NZD/AUD squaring as real money accounts ditched AUD longs versus most crosses. But the NZD unravelled late last week to break below 0.7130 with relative ease amidst a global risk selloff.

The break above the 200 day MA lasted only 3 days and now looks false. Indeed, the NZ data has been coming in below expectations of late, and this continued last week with soft housing market, retail spending and CPI data, suggesting some easing off in growth momentum. After ignoring the fundamentals for the past couple of weeks, the NZD finally succumbed. The NZD now has good support at 0.6965 but the squeezey nature of the NZD should now be complete. We now expect it to trade heavy as short positioning will not be providing support.

We treat last week as the blow off rally with any move to 0.7150 to be firm resistance. We see NZD weakness against most crosses.

The NZD/AUD cross will be a relative CPI story with the first leg of the double telling the RBNZ not to hurry. The Australian leg is out next week and looks to have more bite, potentially sending headline inflation above the RBA's target band. With positioning in this cross largely purged, we see 0.8215 capping and will be looking to 0.8080 to take profit. Complicating this picture somewhat is the election campaign in Australia, which will see the AUD getting sidelined.

The NZD/EUR and NZD/GBP crosses both now look to have medium term tops in place. Both failed retests during the week, which coincided with a continuation of improving German data. NZD/EUR now looks to be capped at 0.5680, and 0.4750 to be the top out for the NZD/GBP. We expect both these crosses to target 4 month lows.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Not that far off fair value.
Yield	↔/↑	RBA on hold, RBNZ to hike.
Commodities	↔	Dairy price declined. Wheat prices up but of no major benefit to NZ.
Partial indicators	↓	Australian data outperforming NZ's.
Technicals	↓	Resistance above 0.83 major.
Sentiment	↔	Still tracking equity market moves.
Other	↔/↓	Q2 CPI in Australia next week to be important.
On balance	↔	**Range trade 0.78-0.83.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.66.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↔/↑	US not hiking for a while.
Commodities	↔/↓	Early signs of NZ commodities correcting?
Risk aversion	↔	Following US earnings season and sovereign downgrades.
Partial indicators	↔/↓	NZ data weak of late.
Technicals	↔/↓	Blow out top in place.
AUD	↔	Election to see AUD sidelined.
Sentiment	↔	NZD more aligned to offshore moves.
Other	↔/↓	Market no longer short NZD.
On balance	↔/↓	**Medium term top in place at 0.73.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
19-Jul	**NZ**	**Performance Services Index - JUN**	**- -**	**- -**	**10:00**
	UK	Rightmove House Prices (MoM) - JUL	- -	0.30%	11:01
	UK	Rightmove House Prices (YoY) - JUL	- -	5.00%	11:01
	EC	ECB Euro-Zone Current Account SA - MAY	- -	-5.1B	20:00
	GE	Bundesbank Publishes Monthly Report - JUL	- -	- -	22:00
	US	NAHB Housing Market Index - JUL	16	17	02:00
20-Jul	AU	Reserve Bank's Board July Minutes - JUL	- -	- -	13:30
	JN	Leading Index CI - MAY F	- -	98.7	17:00
	JN	Coincident Index CI - MAY F	- -	101.2	17:00
	GE	Producer Prices (MoM) - JUN	0.20%	0.30%	18:00
	GE	Producer Prices (YoY) - JUN	1.10%	0.90%	18:00
	UK	Public Finances (PSNCR) - JUN	16.0B	12.0B	20:30
	UK	Public Sector Net Borrowing - JUN	13.0B	16.0B	20:30
	UK	M4 Money Supply (MoM) - JUN P	-0.10%	0.00%	20:30
	UK	M4 Money Supply (YoY) - JUN P	2.90%	2.80%	20:30
	UK	Major Banks Mortgage Approvals - JUN	52K	51K	20:30
	UK	CBI Business Optimism - JUL	22	24	22:00
21-Jul	US	Housing Starts MOM% - JUN	-2.20%	-10.00%	00:30
	US	Building Permits MOM% - JUN	0.20%	-5.90%	00:30
	NZ	Visitor Arrivals - JUN	- -	1.00%	10:45
	NZ	**New Zealand Net Migration SA - JUN**	**- -**	**250**	**10:45**
	AU	Westpac Leading Index (MoM) - MAY	- -	0.00%	12:30
	NZ	**Credit Card Spending (YoY) - JUN**	**- -**	**3.40%**	**15:00**
	NZ	**Credit Card Spending SA (MoM) - JUN**	**- -**	**1.90%**	**15:00**
	UK	Bank of England Minutes - JUL	- -	- -	20:30
22-Jul	AU	NAB Business Confidence - 2Q	- -	- -	02:00
	AU	RBA Foreign Exchange Transactn - JUN	- -	446M	13:30
	NZ	**ANZ Consumer Confidence MoM - JUL**	**- -**	**-3.20%**	**15:00**
	NZ	**ANZ Consumer Confidence Index - JUL**	**- -**	**122**	**15:00**
	JN	All Industry Activity Index (MoM) - MAY	-0.40%	1.80%	16:30
	GE	PMI Manufacturing - JUL A	58	58.4	19:30
	GE	PMI Services - JUL A	54.5	54.8	19:30
	EC	PMI Composite - JUL A	55.5	56	20:00
	EC	PMI Services - JUL A	55	55.5	20:00
	EC	PMI Manufacturing - JUL A	55.1	55.6	20:00
	UK	Retail Sales Ex Auto Fuel(MoM) - JUN	0.60%	0.50%	20:30
	UK	Retail Sales w/Auto Fuel (MoM) - JUN	0.50%	0.60%	20:30
	EC	Industrial New Orders SA (MoM) - MAY	-0.10%	0.90%	21:00
23-Jul	US	Initial Jobless Claims - 17 JUL	445K	429K	00:30
	US	Continuing Claims - 10 JUL	4590K	4681K	00:30
	US	Existing Home Sales - JUN	5.10M	5.66M	02:00
	US	Existing Home Sales MoM - JUN	-9.90%	-2.20%	02:00
	US	House Price Index MoM - MAY	-0.30%	0.80%	02:00
	US	Leading Indicators - JUN	-0.30%	0.40%	02:00
	EC	Euro-Zone Consumer Confidence - JUL A	-17	-17	02:00
	AU	Import price index (QoQ) - 2Q	1.00%	0.30%	13:30
	AU	Export price index (QoQ) - 2Q	12.00%	3.80%	13:30
	GE	IFO - Business Climate - JUL	101.5	101.8	20:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
23-Jul	GE	IFO - Expectations - JUL	101.6	102.4	20:00
	UK	GDP (QoQ) - 2Q A	0.60%	0.30%	20:30
	UK	GDP (YoY) - 2Q A	1.10%	-0.20%	20:30
	UK	Index of Services (3mth/3mth) - MAY	0.70%	0.60%	20:30

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, 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 confirmed that inflation remains subdued, with housing market activity and retail spending displaying an element of caution. This week sees the release of data that will have a key bearing on domestic spending over the next few months in the form of net migration and consumer confidence. Next week sees the July OCR decision, where we expect the RBNZ to continue removing policy stimulus with a 25 basis point hike. Commodity price and labour market data published early next month will provide further insights on medium-term growth influences. We expect data over the next few weeks to point towards a moderate rate of expansion for Q2, but we will be more focused on what the soft gauges are telling us about Q3.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 21 Jul (10:45am)	SNZ External Migration – Jun	Easing	We expect net PLT immigration of around zero persons in June. While disruptions from European volcanic ash have now eased, a rebound in visitor arrival numbers is some time away.
Wed 21 Jul (3:00pm)	RBNZ Credit Card Statistics – June	Ticking up	We expect a small monthly increase in credit card spending.
Thur 22 Jul (3:00pm)	ANZ-Roy Morgan Consumer Confidence - July	- -	- -
Wed 28 Jul (3:00pm)	National Bank Business Outlook - Jul	- -	- -
Thur 29 July (9:00am)	RBNZ July OCR	+25	We expect the RBNZ to continue the journey of removing policy accommodation.
Thur 29 July (10:45am)	Overseas Merchandise Trade – June	Surplus	We expect a monthly trade surplus of around $600m, the fifth consecutive monthly surplus. The annual trade surplus is expected to rise to around $1bn.
Fri 30th July (10:45am)	Building Consents – June	Up	Much of the 9.6 percent fall in the number of May residential consents should be reversed in June. But given a weak housing market backdrop, consent issuance is likely to remain weak for a few more months.
Mon 2 Aug (3:00pm)	ANZ Commodity Price Index – July	- -	- -
Tue 3 Aug (10:45am)	Labour Cost Index and Quarterly Employment Survey – Q2	Improving	Earnings growth is expected to pick-up from decade lows as skill shortages become more acute.
Thur 5 Aug (10:45am)	Household Labour Force Survey – Q2	Gradual	A repeat of the barnstorming Q1 surge in employment is unlikely. We expect a more modest 0.2 increase with hours worked to increase by 0.5 percent. Stronger growth in the labour force sees the unemployment rate rise to 6.3 percent.
Tue 10 Aug (10:45am)	Electronic Card Transactions – July	Damp	June Card spending was supported by higher spending on apparel as the wet winter had an impact. We expect retail values to remain subdued in July.
Thur 12 Aug (10:45am)	Food Price Index – July	Climbing	The June monthly rise was partly driven by the lagged effects of strengthening meat and dairy commodity export prices. Further price increases are in the pipeline with the rebuilding of retail margins expected to push food prices higher.
Fri 13 Aug (10:00am)	REINZ Housing Market Statistics – July	Battling	Sales volumes and house prices to remain subdued. Low affordability and deleveraging remain formidable headwinds.
Fri 13 Aug (10:45am)	Retail Trade Survey – Q2	Boosted by discounting	Some bounce back in monthly sales is probable given the weak May figures. Growth in nominal retail spending will be around 0.5 percent in Q2, with retail discounting and lower food prices expected to produce a similar increase in retail volumes.
On Balance		**Building**	**Recovery continuing but not firing on all cylinders**

ECONOMIC FORECASTS AND INDICATORS

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.3	0.9	0.6	**0.7**	**1.5**	**-0.1**	**1.1**	**1.3**	**1.6**	**0.5**
GDP (% yoy)	-1.5	0.5	1.9	**2.5**	**3.7**	**2.7**	**3.2**	**3.9**	**4.0**	**4.6**
CPI (% qoq)	1.3	-0.2	0.4	0.3	**1.1**	**2.8**	**0.6**	**1.0**	**0.8**	**0.5**
CPI (% yoy)	1.7	2.0	2.0	1.8	**1.6**	**4.6**	**4.8**	**5.6**	**5.3**	**3.0**
Employment (% qoq)	-0.7	0.0	1.0	**0.2**	**0.4**	**0.6**	**0.6**	**0.7**	**0.6**	**0.4**
Employment (% yoy)	-1.8	-2.4	-0.1	**0.6**	**1.7**	**2.2**	**1.8**	**2.3**	**2.5**	**2.3**
Unemployment Rate (% sa)	6.5	7.1	6.0	**6.3**	**6.0**	**5.6**	**5.4**	**5.0**	**4.9**	**4.9**
Current Account (% GDP)	-3.2	-2.9	-2.4	**-2.9**	**-3.7**	**-2.8**	**-3.0**	**-3.1**	**-2.9**	**-2.9**
Terms of Trade (% qoq)	-1.6	5.8	5.8	**3.9**	**2.4**	**1.0**	**-0.6**	**-0.6**	**0.1**	**-1.0**
Terms of Trade (% yoy)	-14.1	-8.2	-0.2	**14.4**	**19.1**	**13.7**	**6.8**	**2.2**	**-0.2**	**-2.0**

	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10
Retail Sales (% mom)	0.2	0.1	0.7	-0.5	0.7	-0.5	0.6	-0.3	0.4	..
Retail Sales (% yoy)	-0.5	-0.2	2.4	2.0	2.3	2.4	4.4	2.7	1.9	..
Credit Card Billings (% mom)	-0.7	0.2	0.8	-1.2	1.5	-0.3	0.7	-1.6	1.9	..
Credit Card Billings (% yoy)	-2.3	-0.3	1.6	1.9	2.7	1.1	5.2	0.7	3.4	..
Car Registrations (% mom)	7.7	0.3	2.2	6.8	-0.7	0.2	5.2	3.2	-3.5	6.1
Car Registrations (% yoy)	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7	40.5	30.5	35.8
Building Consents (% mom)	5.5	11.2	0.6	-3.8	-2.7	6.1	-0.2	8.3	-9.5	2.0
Building Consents (% yoy)	-11.6	26.5	20.3	22.7	35.2	29.9	33.4	32.0	11.1	25.9
REINZ House Price (% yoy)	6.1	6.0	5.2	9.6	7.7	6.1	7.6	4.7	3.7	3.7
Household Lending Growth (% mom)	0.3	0.4	0.0	0.2	0.2	0.1	0.2	0.2	0.2	..
Household Lending Growth (% yoy)	2.4	2.6	2.7	2.7	2.7	2.7	2.8	2.7	2.5	..
ANZ-Roy Morgan Consumer Confidence	120.0	125.9	121.5	118.6	131.4	123.6	121.8	121.9	126.0	122.0
NBNZ Business Confidence	49.1	48.2	43.4	38.5	..	50.1	42.5	49.5	48.2	40.2
NBNZ Own Activity Outlook	32.2	30.5	33.7	36.9	..	41.9	38.6	43.0	45.3	38.5
Trade Balance ($m)	-561.5	-501.5	-280.4	-26.4	271.1	327.8	607.1	665.4	814.2	..
Trade Balance ($m annual)	-1669	-1176	-863	-549	-176	-330	-161	182	91	..
ANZ World Commodity Price Index (% mom)	7.4	4.7	10.9	2.6	0.4	4.0	1.8	5.4	2.8	-1.2
ANZ World Commodity Price Index (% yoy)	-12.9	-1.3	18.2	31.0	37.4	49.8	50.9	55.1	55.0	53.3
Net Migration (sa)	1850	2140	1750	1690	1840	1000	940	730	250	..
Net Migration (annual)	17043	18560	20021	21253	22588	21618	20973	19954	17967	..

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	May-10	Jun-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZD/USD	0.681	0.685	0.709	0.700	0.710	0.720	0.730	0.730	0.720	0.710
NZD/AUD	0.805	0.815	0.817	0.795	0.789	0.783	0.777	0.777	0.783	0.789
NZD/EUR	0.553	0.560	0.549	0.579	0.602	0.632	0.652	0.652	0.643	0.634
NZD/JPY	62.11	60.54	61.43	66.50	68.16	69.84	71.54	73.00	72.00	71.71
NZD/GBP	0.468	0.458	0.463	0.479	0.486	0.483	0.480	0.474	0.462	0.449
NZ$ TWI	66.0	66.6	66.8	68.1	69.3	70.7	71.7	71.8	71.1	70.5
INTEREST RATES	May-10	Jun-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZ OCR	2.50	2.75	2.75	3.25	3.25	3.50	4.00	4.50	5.00	5.50
NZ 90 day bill	2.93	3.13	3.20	3.50	3.50	3.90	4.40	4.90	5.40	5.80
NZ 10-yr bond	5.56	5.34	5.42	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	0.54	0.53	0.53	0.40	0.35	0.35	0.35	0.60	0.85	1.35
AU Cash Rate	4.50	4.50	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.00
AU 3-mth	4.87	4.92	4.89	5.00	5.30	5.60	6.00	6.00	6.20	6.10

	16 Jun	12 Jul	13 Jul	14 Jul	15 Jul	16 Jul
Official Cash Rate	2.75	2.75	2.75	2.75	2.75	2.75
90 day bank bill	3.11	3.22	3.21	3.21	3.22	3.23
NZGB 11/11	3.78	3.78	3.78	3.80	3.79	3.76
NZGB 04/13	4.38	4.27	4.28	4.29	4.29	4.26
NZGB 12/17	5.30	5.18	5.18	5.18	5.17	5.12
NZGB 05/21	5.53	5.43	5.43	5.43	5.41	5.37
2 year swap	4.31	4.25	4.24	4.26	4.24	4.19
5 year swap	5.04	4.90	4.88	4.88	4.85	4.79
RBNZ TWI	67.1	67.4	67.7	67.9	68.2	67.8
NZD/USD	0.6952	0.7086	0.7122	0.7171	0.7213	0.7212
NZD/AUD	0.8048	0.8094	0.8151	0.8129	0.8189	0.8224
NZD/JPY	63.62	63.13	63.09	63.81	63.60	62.76
NZD/GBP	0.4695	0.4715	0.4739	0.4712	0.4725	0.4676
NZD/EUR	0.5645	0.5622	0.5655	0.5638	0.5662	0.5580
AUD/USD	0.8638	0.8755	0.8738	0.8821	0.8808	0.8769
EUR/USD	1.2315	1.2603	1.2595	1.2719	1.2740	1.2925
USD/JPY	91.51	89.09	88.58	88.99	88.18	87.02
GBP/USD	1.4807	1.5029	1.5029	1.5219	1.5265	1.5424
Oil (US$/bbl)	77.67	74.93	74.93	77.16	77.02	76.67
Gold (US$/oz)	1230.35	1200.15	1199.45	1211.08	1211.23	1207.30
Electricity (Haywards)	4.03	9.06	8.81	9.04	8.32	9.42
Milk futures (US$/contract)	123	118	118	117	117	117
Baltic Dry Freight Index	2893	1840	1790	1709	1700	1720

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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