

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

23 August 2010

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RESPONDING FINANCIAL CONDITIONS

ECONOMIC OVERVIEW

We continue to navigate through both upside and downside surprises, with last week being more of the former locally but the latter globally. However, it is important to stress that markets are responding appropriately, with financial conditions easing. This will provide support once we get past the current bout of unease. This week's local data calendar is light with the RBNZ survey of expectations for Q3 the only release of note. We expect it to show a picking up in inflation expectations but a deteriorating outlook for growth – not exactly the ideal mix.

FINANCIAL CONDITIONS UPDATE

We have seen an easing in financial conditions in both NZ and Australia over the past month, more so in the case of the former. Such easing, largely in response to concerns over the global economic outlook, is welcome and shows that the economic framework is responding well. However, our NZ financial conditions index still point to slower growth than what the RBNZ forecast in their June Statement, while our Australian financial conditions index suggest the RBA's recent forecasts could prove to be too conservative in the near term.

A CLOSER LOOK AT THE HOUSEHOLD SECTOR

With deleveraging a central theme, we thought it appropriate to look a little deeper and gather insights about what individual households are doing. While first impressions from household surveys suggest the return to "business as usual" for consumer spending, a closer look highlights some looming clouds.

INTEREST RATE STRATEGY

Bank bill and swap rates continue to march lower, led by global moves and a local market that is keen to embrace a pause in the RBNZ rate hike cycle in September. With no major NZ data due out this week we expect markets to focus on Australian political developments and on news from Jackson Hole, where the world's central bankers are meeting for their annual symposium. Although there appears to be little domestic rationale for rates to move lower, global developments are in the driving seat.

CURRENCY STRATEGY

NZD/USD finished last week virtually unchanged despite rallying by 2 percent midweek. However the NZD performed well versus other major currencies. AUD nervousness going into the weekend's general election was confirmed with the hung parliament result. This will provide nervous directionless trading until a result is known. EUR underperformed as news from the worst "PIIGS" (Greece) showed that the "medicine" is killing the patient. On JPY, BOJ have upped their currency rhetoric but the world now is different to previous intervention episodes. Look for choppy NZD price action this week, as it moves in tandem with the AUD.

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THIS WEEK'S EVENTS

- **RBNZ Survey of Expectations - Q3** (Tuesday 24 August, 3:00pm). The Q2 survey was conducted before the hike in GST was confirmed so we may see an impact in the Q3 survey. The average 2-year forecast for CPI inflation is expected to tick-up from the current 2.80 percent. Growth expectations are expected to be scaled back given recent developments.

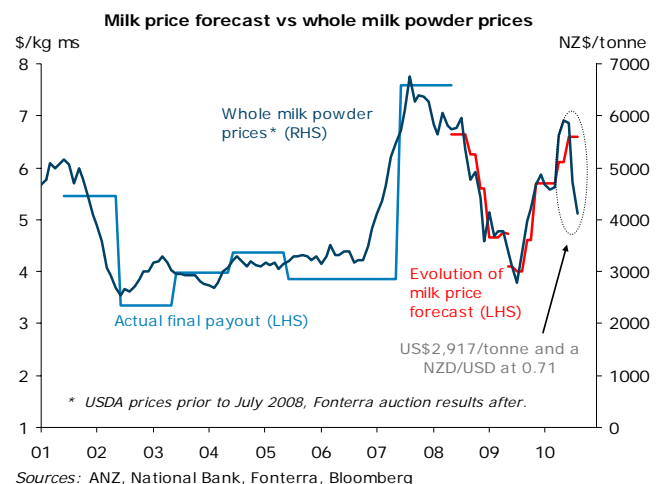
WHAT'S THE VIEW?

We'll start this week with a few observations about the RBNZ Governors speech last Thursday. First up, we commend the spirit in terms of ramming home the inflation message, and the importance of anchoring inflation given the obvious spike in H2 2010. The RBNZ is to be commended for its transparency in general, but one of the things we still think they could be better at doing is more on the record speeches – particularly when the central bank is facing both growth and inflation challenges at present. We hope last Thursday's speech was a precursor of more. Second, we noted some interesting wording in the speech. The "recovery is certainly not a fast or robust one", which compares with "broad based growth" and a recovery that was "robust enough" in June to start removing policy support. Even in July the RBNZ noted growth as being "respectable". Now you never want to read too much into such word changes but clearly the RBNZ has given itself wiggle room to move on the growth front and hence pause in September, with the market increasingly tilted that way. No doubt, sentiment from the global economy that Governor Bollard will be receiving this week at the Jackson Hole Forum will also be reinforcing this message. But equally clear is the reminder that the RBNZ's flexibility to support growth is subject to the medium-term price outlook remaining consistent with their price stability mandate.

Looking at the global scene longer-term global interest rates have continued to drift lower as

global concerns remain front and center on the part of investors. While a weaker US economy is not good news for global growth – and we still think there is a one in four chance of a double dip recession - there are compensations. Already, cuts to 2-year mortgage interest rates have contributed to significantly improving home affordability by one measure. Our update of financial conditions on page 5 suggests lower fixed term borrowing rates, a lower NZD/USD and an easing in credit spreads are likely to provide support to economic activity. However, the upturn is still modest relative to past recoveries.

Sometimes the good news comes from unexpected sources. With whole milk powder prices down by 25 percent in USD terms since April, there was the strong possibility that Fonterra would announce a lower forecast payout. As such, last week's Fonterra announcement that they were not changing the forecast payout for the 2010/11 season is a positive development. At current levels there are some downside risks around the forecast payout of a \$6.60 milk price and distributable profit of 30-50 cents per kg of milksolids. However, Fonterra acknowledged scope for a recovery in world dairy prices, with the rise in wheat prices likely to provide support. The next *globalDairyTrade* auction on September 2 will be keenly awaited. We can only presume that by holding the forecast intact, they're detecting some positive developments behind the scenes.

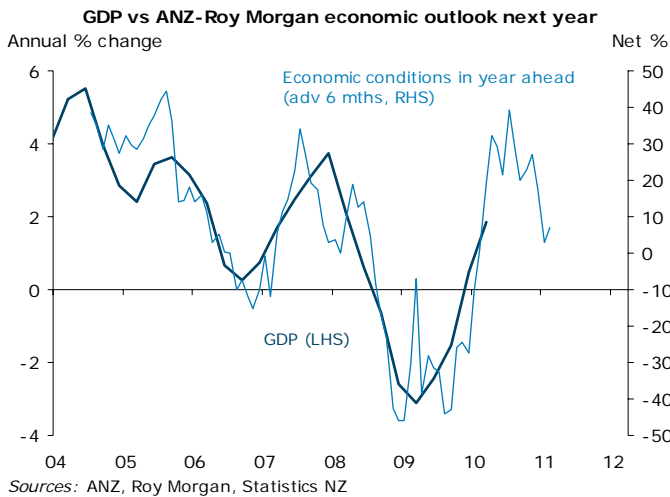


Data over the last week highlighted that the household sector continues to muddle along.

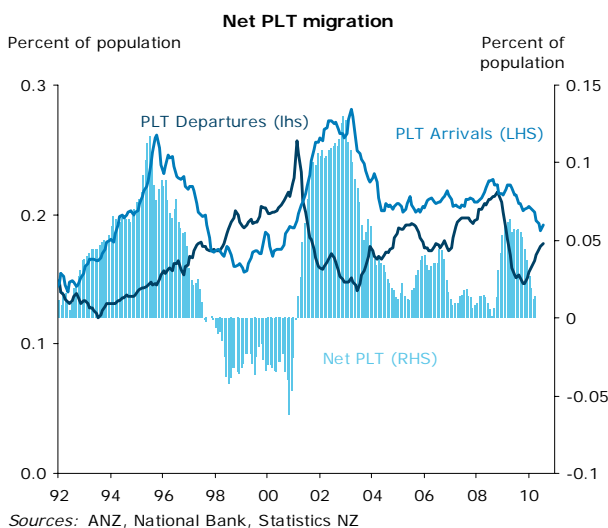
Consumer sentiment rose slightly, but this was largely driven by expectations of better times ahead over the next 12-months. The last 12-months have been brutal on household finances, and the spirit of households' assessment is that things can only get

ECONOMIC OVERVIEW

better. However, this sense of improvement is being tempered to some extent by the realisation that the recovery in household income and balance sheets is likely to be more moderate this time around.



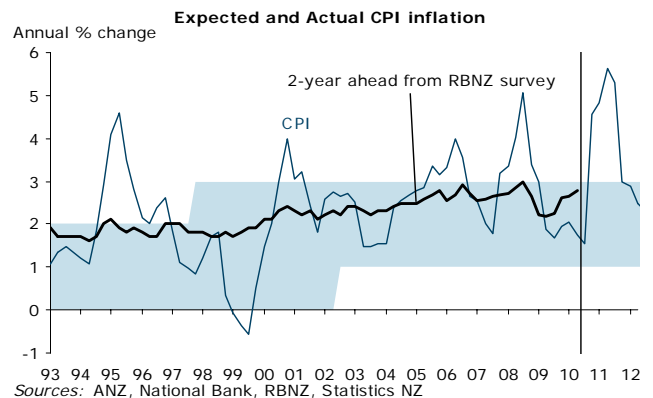
No doubt helped by retail discounting and the looming increase in GST, households still believe it to be a good time to purchase a major household item. We had been expecting the credit card data to reflect a similar spirit, but the weakness in July retail indicators suggests momentum is far from building. This certainly fits with the anecdotes we've received about July being a weak month.



Migration plays an important role in the New Zealand economy. The steadily declining trend in net inflows had highlighted the possibility of a net PLT outflow, so the July net monthly inflow of nearly 1,000 persons was something of a relief. It is early days yet, but is certainly a step in the right direction. At the margin, it will provide support to the ailing housing market and will assist supply-side capacity.

Recent research¹ shows that net immigration plays an important role towards meeting the demand for labour, with occupational migration inflows (at 1.3 percent of the labour force in 2008) proportionately larger than for other western countries. Although New Zealand has been losing a significant number of highly skilled (managers and professionals) and skilled (trades people) employees to Australia over a long period of time, this has usually been more than offset by inflows from other countries. About 40 percent of arrivals over 2008/09 were in the highly skilled category, with a further 23 percent being in the skilled category. A pick-up in arrivals with the right skill sets will come at an opportune time for alleviating skill shortages. With last week's RBNZ speech warning that they will act to contain the medium-term inflationary impacts from the October hike in GST, the last thing we need is for skills shortages to exacerbate pressure on wages at this point in time.

The research also highlights that migrant arrivals are changing, with China, South Africa and India becoming increasingly important sources and immigration from the UK being less significant. As such, the demand-side impacts could be somewhat different and this will need to be borne in mind by the RBNZ.



The only domestic data to be released this week will be the results from the RBNZ Survey of Expectations for Q3. The Q2 survey was conducted before the hike in GST was confirmed so we may see an impact on the Q3 results. The RBNZ will be keen to ensure that the spike in CPI inflation does not ratchet up price and wage expectations, with last week's speech by the RBNZ Governor affirming his commitment to use the OCR lever if necessary. As

¹ Manning, R and SriRamaratnam, R, "Employment by Skills in New Zealand and Migrants' share in its recent growth: Trans-Tasman and wider comparisons", Department of Labour.

ECONOMIC OVERVIEW

the RBNZ speech did note, higher interest rates would have a dampening impact on the recovery. On that note, growth expectations from the RBNZ survey are likely to be scaled back given the weakening tone of recent data.

RECENT LOCAL DATA

- **SNZ Capital Goods Price Index and Producer Price Indexes – Q2.** Producer input prices rose by 1.4 percent (+2.0 percent y/y). Output prices increased by 1.1 percent in the June quarter (1.3 percent y/y). Capital goods prices rose by 0.1 percent in the June quarter (-0.6 percent y/y).
- **ANZ Roy Morgan Consumer Sentiment – August.** The headline consumer confidence measure posted a 0.7 point increase to 116.3. The current conditions index eased by 0.3 points to 103.7, whereas the future conditions index rose by 1.3 points to 124.7.
- **SNZ External Migration – July.** Driven by a 12.5 percent seasonally adjusted increase in PLT arrivals, there was a net monthly inflow of 970 persons in July. PLT departures fell by 0.8 percent. Annual migration eased from a net inflow of 16,504 persons to 15,221. Visitor arrivals increased by a seasonally adjusted 1.4 percent.
- **RBNZ Credit Card Billings- July.** The value of credit card billings in New Zealand fell by 1.2 percent (+2.7 percent y/y).

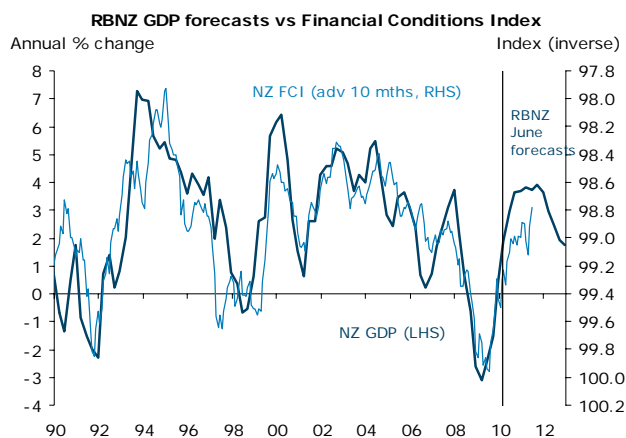
FINANCIAL CONDITIONS UPDATE

SUMMARY

We have seen an easing in financial conditions in both NZ and Australia over the past month, more so in the case of the former. Such easing, largely in response to concerns over the global economic outlook, is welcome and shows that the economic framework is responding well. However, our NZ financial conditions index still point to slower growth than what the RBNZ forecast in their June *Statement*, while our Australian financial conditions index suggest the RBA's recent forecasts could prove to be too conservative in the near term.

NZ FINANCIAL CONDITIONS EASE ON LOWER MORTGAGE RATES

Our proprietary Financial Conditions Index² (FCI) for NZ showed quite an easing in the past two months. Most of the easing came courtesy of declines in longer term fixed mortgage rates, which offset increases in the floating rate. In addition, the NZD came off recent highs and the credit default swap (CDS) spread for the big four Australian banks, which we use as a proxy for the cost of credit, fell after rising over May and June. Also helping to ease financial conditions is a slight loosening in lending standards, based on the US Federal Reserve's latest Senior Loan Officer Opinion Survey, which we use as a proxy for the availability of credit. Tighter financial conditions continue to come via lower asset prices, with the NZ equity market and house prices retreating. However, these were not sufficient to offset the easing conditions from elsewhere.

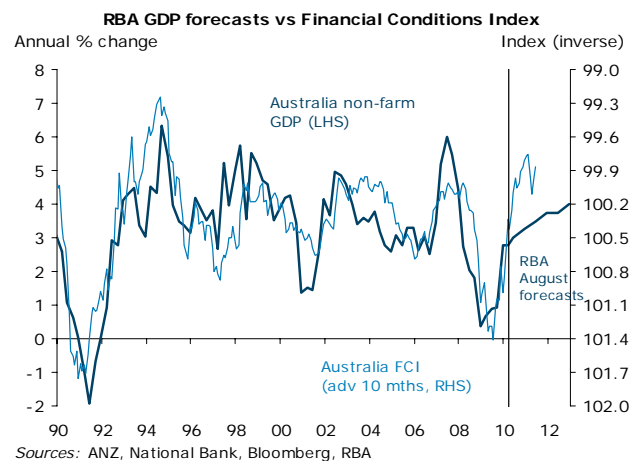


² A financial conditions index summarises a range of financial variables into a single series that can be used to predict the future path of the economy. Our FCI includes the currency adjusted for commodity prices or terms of trade movements, interest rates, asset prices, credit growth and proxies for the cost and availability of credit.

The loosening in our NZ FCI points to year-on-year GDP growth of around 3½ percent next year. This is a modest rate considering how deep the recession which the economy is recovering from was. However, it is a fairly respectable rate, though it is lower than what the RBNZ forecast in their June *Statement*. However, the Bank acknowledged in their July *Review* that the outlook has softened somewhat, and we expect downward revisions to the RBNZ's growth forecasts in their September *Statement* to more closely match what our FCI is pointing to.

AUSTRALIAN FINANCIAL CONDITIONS SUGGEST ABOVE TREND GROWTH

Our Australian FCI showed an easing in conditions over the past two months, though not to the same extent as NZ's. Helping ease conditions in Australia were continued gains in their major export commodity prices, lower wholesale interest rates and ongoing strong gains in house prices. Similarly to NZ, the fall in the CDS spread of the major banks and loosening in the Fed Loan Officer Survey also led to easing financial conditions. Lower equity prices, soft credit growth and a slightly higher AUD on a TWI basis provided the offset in the other direction. **The current FCI reading is flagging non-farm GDP growth of close to 5 percent by next year, well above what the RBA forecast in their recent Statement on Monetary Policy.**



THE UPSHOT

Part of the recent easings in our NZ and Australian FCIs are influenced by lower US interest rates. Given the volatility in financial markets due to uncertainty in the global outlook, our FCI's could be more volatile than usual. However, it highlights that the economic framework is responding well to recent developments.

A CLOSER LOOK AT THE HOUSEHOLD SECTOR

SUMMARY

With deleveraging a central theme, we thought it appropriate to look a little deeper and gather insights about what individual households are doing. While first impressions from household surveys suggest the return to “business as usual” for consumer spending, a closer look highlights some looming clouds.

THE MACRO DATA SHOWS CAUTION

RBNZ credit data shows households remain in deleveraging mode, with household debt on a declining trend relative to income. Household debt to income has fallen from 159 percent in the September 2008 quarter to 154 percent in the June 2010 quarter. We’ve consistently thought of de-leveraging as a critical dynamic before a sustained upturn in the property market (and economy in general) can take hold. The statistics tell us this is happening gradually, although we also note that households still have a negative reported saving rate so there is some way to go.

THE MICRO DATA PROVIDES USEFUL INSIGHTS ON HOUSEHOLD VULNERABILITY

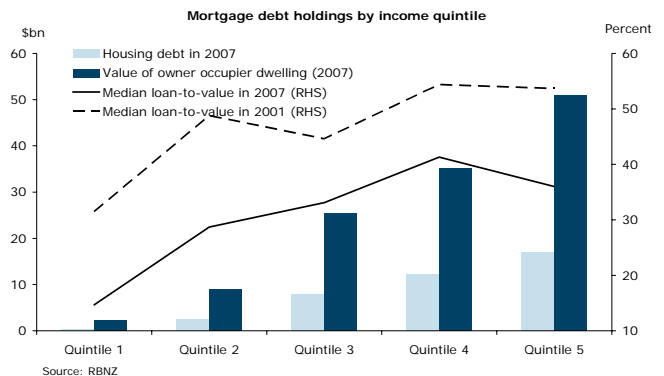
However, not all households have debt and to get a better feel of the “pressure points” we need to look into responses of individual households’ as reported in household surveys.

This is a growing area of evaluation by central banks around the world, with the RBNZ publishing research in this area recently.³

Key insights from RBNZ research (which use June 2007 year data) are similar to those found overseas:

- **Mortgage debt holdings are concentrated.** Only around one third of households have an outstanding mortgage. Of those that do, nearly three quarters of mortgage debt is held by the top 40 percent of income earners in this group.
- **Debt holdings remain moderate in relation to housing assets.** Less than one quarter of households with an outstanding mortgage had an LVR of more than 50 percent on their own property.
- **Debt servicing burdens were manageable.** Homeowners with mortgages tended to have higher than average incomes, with more than one person in the workforce. Lower interest rates had partly offset the impact of higher debt levels, with

median debt servicing ratios broadly unchanged compared to 2001. Debt servicing ratios have tended to decline with income.



In an environment of continuing property price rises, very low unemployment, strong income growth and easy credit (the “old normal”), these findings were no cause for alarm. **However, the playing field has changed, and the financial position of households does not look as secure as it did then.** The RBNZ were aware of the potential for things to go pear shaped and conducted a stress testing exercise on the micro dataset. It showed about seven percent of homeowners were likely to face substantial erosion in housing wealth and the ability to service debt in the event of large falls to property prices, considerably higher interest rates and unemployment.

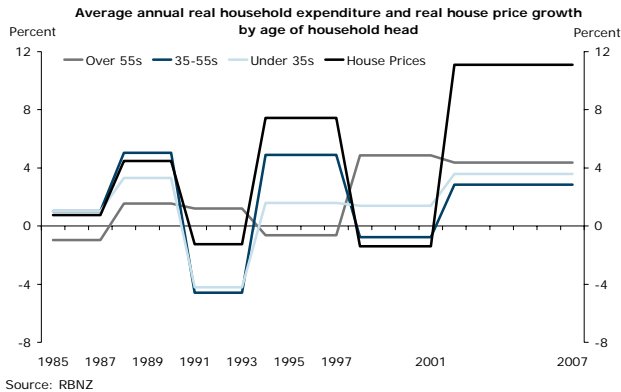
As yet, this “doomsday scenario” has not eventuated but consumer spending is not out of the woods just yet. The labour market is much weaker than it was back then, with the weakness in household credit suggesting a reluctance to take on additional debt to fund spending. Arguably, the impact of the new taxation regime is yet to be fully realised by the investor segment of the property market. We could see another downward leg in property prices as investors offload properties.

DRILLING DOWN INTO THE LINK BETWEEN HOUSE PRICES AND CONSUMER SPENDING

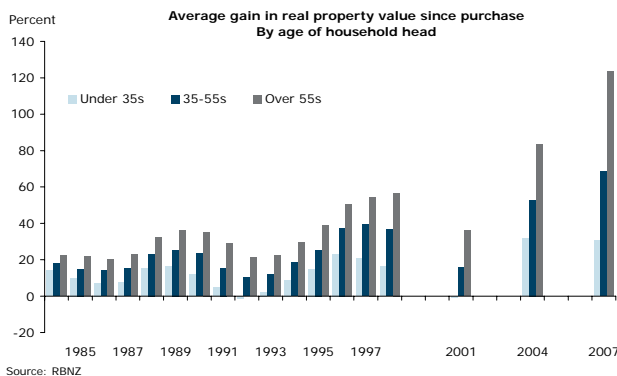
RBNZ research suggests that consumer spending is positively related to property price movements for various age and tenure cohorts. However, spending of the older age groups had the highest sensitivity to house price movements. **There have been winners and losers from the property price cycle.** The major beneficiaries from the 2003-2007 property boom have tended to be older homeowners, who have converted property price gains into higher consumer spending.

³ See Kida, M (2009), “Financial vulnerability of mortgage-indebted households”, RBNZ Bulletin, March, and Smith, M (2010), “Evaluating household expenditures and their relationship with house prices at the microeconomic level”, RBNZ Discussion paper, DP2010/01. Both studies use the Household Economic Survey, a triennial survey of 3,000 NZ households.

A CLOSER LOOK AT THE HOUSEHOLD SECTOR



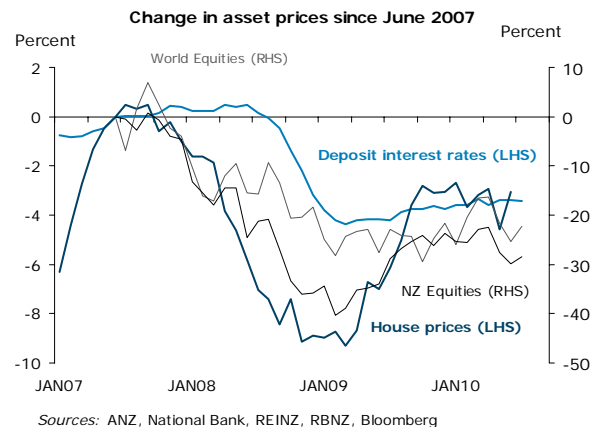
Spending growth of this “lucky generation” has outpaced that of younger cohorts since the late 1990s. For the “unlucky” ones, who got onto the property ladder or traded up just before the peak and have borrowed heavily to do so, the next few years will be difficult as they attempt to consolidate balance sheets in an environment of static property prices, low wage growth, and gradually climbing interest rates.



The older generation has not gotten away scott free, however. The period over which the household survey data was collected (within the June 2007 year), was the high-water mark for asset values. The last few years have been less than kind to household balance sheets, with widespread falls to asset prices since June 2007:

- Global and NZ equities have slipped by 20 to 30 percent.
- House prices are still around 4 percent lower.
- Deposit interest rates are lower, with the 3 percent OCR contrasting with the 8 percent policy rate applying in June 2007.
- We have also seen a number of finance company failures, which has seen savings eroded.⁴

The deterioration in balance sheets is likely to have forced the revaluation of retirement options for some households. With property prices in limbo and a large inventory of unsold homes on the market, households opting to cash-up may delay retirement plans and stay in the work force for longer. For households that have purchased at the peak of the property ladder, time is usually a great healer. Whether this will still be the case in a low inflation environment is uncertain.



The RBNZ analysis also highlighted that regional differences matter. After taking into account demographic factors, household income and other economic factors, real core (non-housing) spending of households living in the Auckland region are roughly 10 percent higher than other households. Furthermore there is a positive regional link between house prices and consumer spending, irrespective of what happens at the national level. **If house prices in your region increase by 1 percent more than prices nationwide, your consumer spending will be 0.4 percent higher. However, the same linkage applies on the way down.**

For many households, the preceding property price boom was such that household asset values are invariably in stronger shape than they were a decade earlier. House prices have doubled over the last 10-years and have invariably added to homeowners' assessments of their household wealth. **What many people did not take into account is that housing is a zero-sum game, with the cost of higher house prices having to be borne by someone. As yet, the jury is out on who is going to pick up the tab, or whether a further downward leg of property prices is likely to ensue.**

⁴ According to estimates compiled by interest.co.nz, 56 finance companies with \$6bn in investor funds have failed

since June 2007. These estimates suggest that roughly half of these funds are unlikely to be recovered by investors.

INTEREST RATE STRATEGY

SUMMARY

Bank bill and swap rates continue to march lower, led by global moves and a local market that is keen to embrace a pause in the RBNZ rate hike cycle in September. With no major NZ data due out this week we expect markets to focus on Australian political developments and on news from Jackson Hole, where the world's central bankers are meeting for their annual symposium. Although there appears to be little domestic rationale for rates to move lower, global developments are in the driving seat.

MARKET THEMES

- Generally weaker domestic data, the Australian election cliff-hanger, the threat of QE in the US and lower Canadian CPI are all being viewed as reasons for a RBNZ pause in September.
- Quantitative easing (QE) is like the proverbial elephant in the room, and it is having a major impact on NZ rates. This won't likely change much while US data continues to disappoint.
- Swap spreads have moved significantly negative again having failed to follow through after briefly widening early last week. With QE possibly on the way, we doubt spreads will be here for long.

REVIEW AND OUTLOOK

Interest rates continue to move lower, particularly swap and money market rates. But rather than there being a single catalyst, it's a case of a multitude of factors all pointing in the same direction. Among these, several developments stand out, including a significantly weaker than expected Philly Fed survey and higher jobless claims in the US, an undecided Australian election, and weaker than expected inflation in Canada. While Fed communication with regard to QE has been mixed (Kocherlakota against, Bullard for), markets are keen to embrace it. And while elections aren't the market movers they once were, the lack of a clear result in Australia means the RBA will be sidelined for a while. Market expectations for rate hikes have shifted in Canada too, which is now "odds on" to pause rather than hike.

Swap and bond market flow has been interesting. Large cuts in fixed mortgage rates (coinciding with a rise in the floating rate) have failed to excite the public and pay flow has been light. In contrast, prop receive flow has been significant, and the lack of liquidity in bonds means bonds have been left behind in the rally. Swaps spreads are now deeply negative, which we doubt is sustainable, especially if the Fed does adopt more QE. Spreads are certainly sparking interest at these levels.

PREFERRED BORROWING STRATEGIES

The current environment is proving to be a difficult one for borrowers. Although interest rates have fallen, it's the reason why that's happened (namely the softer economic environment) that has most businesses worried. So while choosing between a set of interest rates that are much lower seems like a nice problem to have (and better than having to choose between a set of higher rates), with less clarity on the direction of the economy, the stakes couldn't be higher. We do have reservations about the momentum (or lack of it) behind the recovery, but we do think some of the pessimism is overdone, and would characterise the recovery as slowing as opposed to coming to an end. We therefore see validity in taking advantage of the impact US interest rates are having on the local market. As described in the Borrower's Strategy, our preferred strategy is "delta hedging" – i.e. acknowledging that you believe rates should be higher, but they may move lower yet. Doing so will lower your average rate as rates move lower, but leave you with more cover if they start rising again. That's about as good as you can do when uncertainty is so high.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	Difficult to see domestic factors doing more to push interest rates lower.
NZ data	↔/↑	Has been generally weak, but retail and migration surprised stronger.
Fed Funds / front end	↓	Soft US data has added fuel to the case for more QE.
RBA	↔/↑	Battellino speech was mildly upbeat. But steady for now.
US 10 year	↓	2.05% beckons (2008 low).
NZ swap curve	↔/↓	Completely dependent on global developments.
Flow	↔/↓	Well received. Mortgage pay flow surprisingly light.
Technicals	↔/↓	5 & 10yr at key levels (4.25% & 4.75% respectively).

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 16-Sep-10	+13	+8
Thu 28-Oct-10	+19	+15
Thu 9-Dec-10	+25	+16
Thu 27-Jan-11	+32	+23
Thu 10-Mar-11	+37	+30
Thu 28-Apr-11	+47	+39
Thu 9-Jun-11	+55	+41

TRADING THEMES WE FAVOUR AT PRESENT

We still like being short NZD 12mth OIS against Australia, on the view that the market has probably over-shot in the near term. Swap spreads look to have gone too negative, but may worsen yet as payers stop out.

CURRENCY STRATEGY

SUMMARY

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MARKET THEMES

- Australian election (non) result will provide a week of directionless volatility.
- After a quiet period the "PIIGS" are back in the news and the news is not good.
- The NZD range trade continues. At 70(ish) cents NZDUSD is in no-man's land. NZD outperforms on crosses.
- The NZD/AUD cross support at 0.7820 held firm. Australia's election issues to underpin NZDAUD.

REVIEW AND OUTLOOK

NZD consolidated at the lower levels set the previous week, albeit with a positive bias midweek. The Fonterra announcement re-affirming their forecast payout for the 2010/11 season and RBNZ Governor's speech had little impact. With little data out this week we can expect the NZD to be tugged around by the other currencies. In this environment NZD tends to perform well against the other major currencies. Essentially NZD/USD is still rangebound in a broad 0.6850 to 0.7400 range. Current level is in "no-man's land".

The hung parliament in Australia will deliver directionless, volatile, headline-driven trading. Having gapped lower by 1 cent this morning following the election, the AUD/USD has stabilised for now. We do not expect a solution this week given the number of parties/independents involved and with a few seats yet to be decided. We can expect the AUD volatility to feed directly to NZD/AUD. This should keep the cross underpinned with support at 0.7850 and 0.7910. A break of resistance at 0.7990 will see a test of 0.8060 and looks very possible.

The "PIIGS" have been back in the news with Greece achieving some of its budget cuts but paying the price in a social context. This undermined the EUR during the week, with comments from ECB's Weber calling for stimulus to remain in place until 2011 adding to the negative bias. We can expect this to continue this week.

Increased BOJ rhetoric has the market looking for intervention to support the JPY. However, a lack of support from other major central banks may give the BOJ pause. Key USD/JPY support to watch is at 84.80.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Not that far off fair value.
Yield	↔	RBA on hold, RBNZ the same too?
Commodities	↓	Australian commodity prices outperforming NZ's.
Partial indicators	↓	Australian data outperforming NZ's.
Technicals	↓	Support at 0.7900, resistance at 0.8060.
Sentiment	↔	Equities and China still influential.
Other	↑	Hung parliament to weigh on AUD.
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 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	FOMC to hold long end down.
Commodities	↔/↑	Fonterra expecting dairy price recovery.
Risk aversion	↔	Still fickle.
Partial indicators	↔/↓	NZ data still largely disappointing.
Technicals	↔	Support at 0.7030. Resistance at 0.7150.
AUD	↓	Hung parliament to weigh on AUD.
Sentiment	↔/↓	Euro sovereign concerns starting to emerge again.
Other	↔/↓	Market still massively short the USD.
On balance	↔/↓	Medium term top in place at 0.74 but medium term bottom at 0.68?

DATA EVENT CALENDAR

ATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
23-Aug	GE	PMI Manufacturing - AUG	60.5	61.2	19:30
	GE	PMI Services - AUG	56.3	56.5	19:30
	EC	PMI Composite - AUG	56.3	56.7	20:00
	EC	PMI Manufacturing - AUG	56.1	56.7	20:00
	EC	PMI Services - AUG	55.4	55.8	20:00
24-Aug	US	Chicago Fed Nat Activity Index - JUL	-0.1	-0.63	00:30
	EC	Euro-Zone Consumer Confidence - AUG	-14	-14	02:00
	NZ	RBNZ 2yr Inflation Expectation - 3Q	- -	2.80%	15:00
	GE	GDP s.a. (QOQ) - 2Q F	2.20%	2.20%	18:00
	GE	GDP nsa (YoY) - 2Q F	4.10%	1.70%	18:00
	GE	Private Consumption - 2Q F	0.40%	-0.80%	18:00
	EC	Industrial New Orders SA (MoM) - JUN	1.50%	3.80%	21:00
25-Aug	US	Existing Home Sales - JUL	4.68M	5.37M	02:00
	US	Existing Home Sales MoM - JUL	-12.90%	-5.10%	02:00
	US	Richmond Fed Manufact. Index - AUG	8	16	02:00
	JN	Merchnds Trade Balance Total - JUL	¥466.3B	¥687.0B	11:50
	AU	Construction Work Done - 2Q	3.00%	1.90%	13:30
	GE	IFO - Business Climate - AUG	105.7	106.2	20:00
	GE	IFO - Current Assessment - AUG	107.5	106.8	20:00
	GE	IFO - Expectations - AUG	104.3	105.5	20:00
	US	MBA Mortgage Applications - Aug 20	- -	13.00%	23:00
26-Aug	US	Durable Goods Orders - JUL	3.00%	-1.00%	00:30
	US	Durables Ex Transportation - JUL	0.50%	-0.60%	00:30
	US	New Home Sales MoM - JUL	0.00%	23.60%	02:00
	US	House Price Purchase Index QoQ - 2Q	- -	-1.90%	02:00
	US	House Price Index MoM - JUN	0.10%	0.50%	02:00
	AU	Conference Board Leading Index - JUN	- -	0.30%	12:00
	AU	Private Capital Expenditure - 2Q	2.30%	-0.20%	13:30
	GE	GfK Consumer Confidence Survey - SEP	4	3.9	18:00
	EC	Euro-Zone M3 s.a. (YoY) - JUL	0.30%	0.20%	20:00
	EC	Euro-Zone M3 s.a. 3 mth ave. - JUL	0.10%	0.00%	20:00
	UK	CBI Reported Sales - AUG	18	33	22:00
27-Aug	US	Initial Jobless Claims - 21 AUG	491K	500K	00:30
	US	Continuing Claims - 14 AUG	4500K	4478K	00:30
	US	Mortgage Delinquencies - 2Q	- -	10.06%	02:00
	US	MBA Mortgage Foreclosures - 2Q	- -	4.63%	02:00
	JN	Jobless Rate - JUL	5.30%	5.30%	11:30
	JN	Natl CPI YoY - JUL	-0.90%	-0.70%	11:30
	JN	Natl CPI Ex Food, Energy YoY - JUL	-1.50%	-1.50%	11:30
	CH	MNI Business Condition Survey - AUG	- -	64.94	13:35
	GE	Import Price Index (MoM) - JUL	-0.40%	0.90%	18:00
	UK	Total Business Investment(QoQ) - 2Q P	3.00%	7.80%	20:30
	UK	GDP (QoQ) - 2Q P	1.10%	1.10%	20:30
	UK	GDP (YoY) - 2Q P	1.60%	1.60%	20:30
28-Aug	US	GDP QoQ (Annualized) - 2Q 2 nd	1.40%	2.40%	00:30
	US	Personal Consumption - 2Q 2 nd	1.60%	1.60%	00:30
	US	GDP Price Index - 2Q 2 nd	1.80%	1.80%	00:30
	US	Core PCE QoQ - 2Q 2 nd	1.10%	1.10%	00:30

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DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
28-Aug	GE	Consumer Price Index (MoM) - AUG P	0.00%	0.30%	00:30
	GE	Consumer Price Index (YoY) - AUG P	1.10%	1.20%	00:30
	US	U. of Michigan Confidence - AUG F	69.6	69.6	01:55

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 suggested that the household sector continues to muddle along, although improving consumer sentiment and a tick-up in monthly net immigration provides some hope of a firming in household spending. This week's RBNZ survey of expectations is likely to show a GST impact on forecasts for inflation but also highlight a more moderate growth outlook following the string of weaker data. We expect data readings for Q3 to highlight moderate expansion, and we will closely watch the soft gauges for signs of direction beyond that.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 24 Aug (3:00pm)	RBNZ Survey of Expectations – Q3	Up, down	The Q2 survey was conducted before the hike in GST was confirmed so we may see an impact on CPI forecasts. Growth expectations are expected to be scaled back.
Mon 30 Aug (10:45am)	SNZ – Overseas Merchandise Trade – Jul	Narrowing	We expect the monthly trade balance to slip back into a deficit of around \$120m. The higher USD will lower NZD denominated export returns, whereas the usual seasonal influences will boost imports. An annual trade surplus of around \$700m is forecast.
Mon 30 Aug (3:00pm)	National Bank Business Outlook – Aug	- -	- -
Tue 31 Aug (10:45am)	SNZ - Building Consents – Jul	Residential rising but non-residential sideways	Residential consent issuance is expected to post a modest increase from historically low levels - close to a 40 percent rise is needed to return consents to historical norms as a portion of the dwelling stock. The value of non-residential consents is expected to remain low.
Wed 1 Sep (3:00pm)	ANZ Commodity Price Index – Aug	- -	- -
Tue 7 Sep (10:45am)	SNZ Wholesale Trade Survey – Q2	Improving	Rising motor vehicle registrations and higher Q2 retail sales suggest a further climb in wholesale sales. Wholesale stocks are expected to continue climbing from their mid-2009 nadir.
Wed 8 Sep (10:45am)	SNZ Value of Work put in place -Q2	Heading down	Residential work put in place volumes are expected to register a further small increase. Reflecting low consent issuance, non-residential work is expected to contract by around 5 percent.
Wed 8 Sep (10:45am)	SNZ Economic Survey of Manufacturing – Q2	Dry weather effect	We expect around a 1 to 1.5 percent increase in ex-primary volumes. Primary manufacturing volumes are anticipated to be weighed down by lower dairy production.
Thur 9 Sep (10:45am)	SNZ Electronic Card Transactions - Aug	Rising	Stronger July core spending suggests retailing is finding its feet, although the weakness in fuel retailing is suspicious. Still waiting for a tangible Rugby World Cup effect.
Fri 10 Sep (10:45am)	Overseas Trade Indexes – Q2	Still on the up	The terms of trade are expected to continue their upward march, courtesy of climbing export commodity prices. Lower primary food production is expected to weigh down on export volumes whilst recovering domestic demand should boost imports.
Mon 13 Sep (10:45am)	Food Price Index - Aug	Easing	Weather related price increases have been evident in the past few months as have lagged-commodity price increases for dairy and meat. We expect a small decline in food prices, driven by lower prices for fruit and vegetables.
Tue 14 Sep (10:00am)	REINZ Housing Market Statistics – Aug	Flat	The stand-off between buyers and sellers is likely to continue, with only a small increase in sales volumes expected to eventuate. Prices are expected to remain flat to falling.
Tue 14 Sep (10:45am)	Retail Trade Survey – Jul	Stirring	The June report highlighted more vigour. Retail indicators suggest the possibility of a slight pullback in July. The spirit remains of a strengthening trend in retail spending lead up till October, followed by a period of consolidation.
On Balance		Building	Recovery continuing but signs of momentum easing.

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)	-0.8	0.0	1.0	-0.3	0.5	0.4	0.6	0.7	0.6	0.4
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	1.3	1.6	1.2	2.2	2.3	2.3
Unemployment Rate (% sa)	6.5	7.1	6.0	6.8	6.6	6.4	6.1	5.7	5.5	5.4
Current Account (% GDP)	-3.2	-2.9	-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

	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10
Retail Sales (% mom)	0.2	0.7	-0.5	0.7	-0.6	0.5	-0.3	0.4	0.9	..
Retail Sales (% yoy)	-0.2	2.4	2.0	2.3	2.4	4.4	2.7	1.9	3.4	..
Credit Card Billings (% mom)	0.4	0.8	-1.2	1.6	-0.2	0.7	-1.6	2.0	1.0	-1.2
Credit Card Billings (% yoy)	-0.3	1.6	1.9	2.6	1.1	5.3	0.8	3.4	4.5	2.7
Car Registrations (% mom)	0.5	2.1	6.8	-0.7	0.4	5.0	3.0	-3.7	5.8	-6.0
Car Registrations (% yoy)	-16.8	2.4	0.3	15.9	31.4	31.7	40.5	30.5	35.8	16.0
Building Consents (% mom)	11.0	0.6	-3.8	-2.6	6.1	-0.2	8.6	-9.5	3.5	..
Building Consents (% yoy)	26.5	20.4	22.7	35.2	29.9	33.5	32.2	11.2	27.7	..
REINZ House Price (% yoy)	6.0	5.2	9.6	7.7	6.1	7.6	4.7	3.7	3.7	2.6
Household Lending Growth (% mom)	0.4	0.0	0.2	0.2	0.1	0.1	0.2	0.2	0.2	..
Household Lending Growth (% yoy)	2.6	2.7	2.7	2.7	2.7	2.8	2.7	2.5	2.5	..
ANZ-Roy Morgan Consumer Confidence	125.9	121.5	118.6	131.4	123.6	121.8	121.9	126.0	122.0	115.6
NBNZ Business Confidence	48.2	43.4	38.5	..	50.1	42.5	49.5	48.2	40.2	27.9
NBNZ Own Activity Outlook	30.5	33.7	36.9	..	41.9	38.6	43.0	45.3	38.5	32.4
Trade Balance (\$m)	-501.5	-280.4	-26.4	271.1	327.8	607.5	651.9	768.4	276.2	..
Trade Balance (\$m annual)	-1176	-863	-549	-176	-330	-160	169	32	639	..
ANZ World Commodity Price Index (% mom)	4.8	11.0	2.5	0.3	3.7	1.8	5.1	1.2	-1.6	-0.8
ANZ World Commodity Price Index (% yoy)	-1.7	17.8	30.4	36.7	48.6	49.5	53.2	51.8	50.1	47.2
Net Migration (sa)	2140	1740	1690	1850	1000	950	720	230	70	970
Net Migration (annual)	18560	20021	21253	22588	21618	20973	19954	17967	16504	15221

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	Jun-10	Jul-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZD/USD	0.685	0.726	0.705	0.700	0.710	0.720	0.730	0.730	0.720	0.710
NZD/AUD	0.815	0.802	0.796	0.795	0.789	0.783	0.777	0.777	0.783	0.789
NZD/EUR	0.560	0.556	0.555	0.579	0.602	0.632	0.652	0.652	0.643	0.634
NZD/JPY	60.54	62.78	60.40	66.50	68.16	69.84	71.54	73.00	72.00	71.71
NZD/GBP	0.458	0.463	0.454	0.479	0.486	0.483	0.480	0.474	0.462	0.449
NZ\$ TWI	66.6	67.5	66.3	68.1	69.3	70.7	71.7	71.8	71.1	70.5
INTEREST RATES	Jun-10	Jul-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZ OCR	2.75	3.00	3.00	3.25	3.25	3.50	4.00	4.50	5.00	5.50
NZ 90 day bill	3.13	3.27	3.24	3.50	3.50	3.90	4.40	4.90	5.40	5.80
NZ 10-yr bond	5.34	5.33	5.15	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	0.53	0.45	0.33	0.40	0.35	0.35	0.35	0.60	0.85	1.35
AU Cash Rate	4.50	4.50	4.50	4.50	5.00	5.25	5.50	5.75	6.00	6.00
AU 3-mth	4.92	4.78	4.70	4.90	5.30	5.60	6.00	6.00	6.20	6.10

	20 Jul	16 Aug	17 Aug	18 Aug	19 Aug	20 Aug
Official Cash Rate	2.75	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.24	3.25	3.24	3.23	3.23	3.23
NZGB 11/11	3.77	3.50	3.52	3.60	3.59	3.55
NZGB 04/13	4.26	3.94	3.95	4.03	4.00	3.95
NZGB 12/17	5.13	4.86	4.85	4.92	4.88	4.83
NZGB 05/21	5.38	5.17	5.16	5.23	5.19	5.14
2 year swap	4.14	3.82	3.82	3.86	3.79	3.75
5 year swap	4.75	4.36	4.33	4.38	4.27	4.21
RBNZ TWI	66.9	66.0	66.0	66.3	66.6	66.1
NZD/USD	0.7124	0.7043	0.7081	0.7110	0.7122	0.7058
NZD/AUD	0.8117	0.7906	0.7866	0.7882	0.7941	0.7933
NZD/JPY	62.01	60.46	60.39	60.73	61.00	60.23
NZD/GBP	0.4665	0.4519	0.4520	0.4571	0.4572	0.4531
NZD/EUR	0.5492	0.5506	0.5514	0.5534	0.5560	0.5512
AUD/USD	0.8777	0.8908	0.9002	0.9020	0.8969	0.8897
EUR/USD	1.2972	1.2791	1.2842	1.2847	1.2809	1.2804
USD/JPY	87.05	85.85	85.29	85.41	85.65	85.33
GBP/USD	1.5270	1.5585	1.5666	1.5556	1.5578	1.5577
Oil (US\$/bbl)	76.53	75.39	75.17	75.76	75.39	74.45
Gold (US\$/oz)	1183.65	1218.75	1224.10	1225.30	1229.30	1232.40
Electricity (Haywards)	6.66	4.51	3.36	4.18	4.47	4.85
Milk futures (US\$/contract)	117	116	116	116	117	116
Baltic Dry Freight Index	1761	2488	2515	2558	2644	2756

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;

IMPORTANT NOTICE

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

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