NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

26 April 2010

INSIDE

NZ ECONOMICS TEAM

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

Khoon Goh
Senior Markets Economist
Telephone: +64 4 802 2357
E-mail: Khoon.Goh@anz.com

David Croy
Senior Interest Rate Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Mark Smith
Economist
Telephone: +64 4 802 2199
E-mail: Mark.Smith2@anz.com

Steve Edwards
Economist
Telephone: +64 4 802 2217
E-mail: Steve.Edwards@anz.com

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

AGAINST THE GRAIN

ECONOMIC OVERVIEW

While the market is now seriously re-thinking prospects for a June hike, with a view to dismissing it in favour of a later move (although this faces the RBNZ reality check this week), we are doing the opposite. While we remain comfortable with the spirit of our Q3 view (which is built on deleveraging and what we are seeing in terms of the current mix to growth), there are a few niggling issues that don't sit well with us, and add weight to a tactical, earlier start to the rate hike cycle. Last week's CPI figures give the RBNZ scope to play a cautious hand but we believe upcoming labour market developments and the Budget will ultimately hold more sway. In the meantime we expect normal tensions across data outturns, not challenging the recovery itself, but rather the pace of it.

RBNZ APRIL OCR PREVIEW

Like all and sundry, we expect the OCR to be left unchanged at 2.5 percent this Thursday. We struggle to see the point of maintaining the "middle of 2010" phrase. We expect the tenor of the assessment to be much more centred around the dataflow to give the RBNZ full flexibility.

NZD EQUILIBRIUM EXCHANGE RATE

Fundamental equilibrium exchange rate models provide a medium-term anchor for currency projections, though currencies can deviate for long periods away from fundamentals. According to our updated estimates, the NZD/USD is currently around 8.9 percent overvalued, with fair value (FV) residing at 0.66. Fair value for the AUD/USD is 0.81, which also gives us an implied NZD/AUD fair value of 0.81. Against the NZD cross rates, the NZD is most overvalued against the GBP.

INTEREST RATE STRATEGY

The market has been reluctant to take interest rates lower, even in the face of soft CPI data, which had a short-lived reaction. We must acknowledge the risks of a June move. As noted in the economic overview section, we think momentum is set to turn back towards a June hike and this has us reassessing our Q3 view. If the market can't rally on soft CPI and a dovish RBA, it is arguable that further rallies will be difficult with global growth trends now moving progressively towards requiring less monetary policy support.

CURRENCY STRATEGY

Despite a softer than expected NZ CPI data, dovish comments by RBA Governor Stevens and Greek spreads blowing out to record levels, the risk switch is still turned on as equities and commodities moved higher – leading to a resurgent NZD. The RBNZ may dampen things down a bit later this week, but offshore sentiment looks supportive of the NZD.

ECONOMIC OVERVIEW

SUMMARY

While the market is now seriously re-thinking prospects for a June hike, with a view to dismissing it in favour of a later move (although this faces the RBNZ reality check this week), we are doing the opposite. While we remain comfortable with the spirit of our Q3 view (which is built on deleveraging and what we are seeing in terms of the current mix to growth), there are a few niggling issues that don't sit well with us, and add weight to a tactical, earlier start to the rate hike cycle. Last week's CPI figures give the RBNZ scope to play a cautious hand but we believe upcoming labour market developments and the *Budget* will ultimately hold more sway. In the meantime we expect normal tensions across data outturns, not challenging the recovery itself, but rather the pace of it.

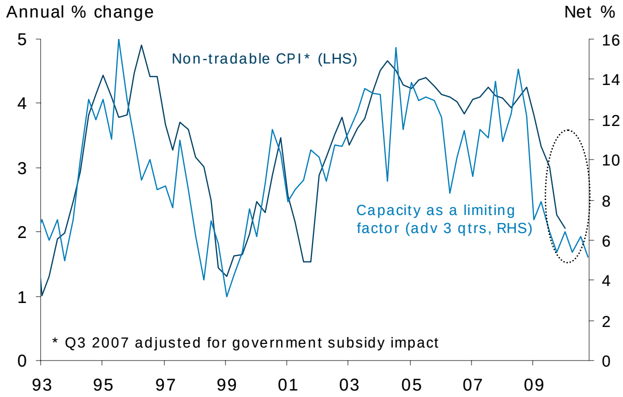
THE WEEK AHEAD

- **National Bank Business Outlook - April** (Wednesday 28 April, 3:00pm).
- **RBNZ OCR Announcement - April** (Thursday 29 April, 9:00am). We expect the OCR to be held at 2.50 percent and for "the middle of 2010" phrase to be replaced with something that will leave the timing of the tightening cycle data-dependent (see preview on page 5).
- **SNZ Overseas Merchandise Trade – March** (Thursday 29 April, 10:45am). Another monthly surplus is expected. We will be closely watching import data for signs of improving domestic demand.
- **RBNZ Monetary and Credit Aggregates – March** (Thursday 29 April, 3:00pm). These data are expected to confirm the economy remains in deleveraging mode – a positive for prospects in 2011. (NB: we define deleveraging as credit growth expanding at a rate below income or GDP growth).
- **SNZ Building Consents – March** (Friday 30 April, 10:45am). Residential construction indicators do not suggest a repeat of last month's surge in consents.

WHAT'S THE VIEW?

On the face of it, last week's inflation data supports a Q3 start to the tightening cycle. The 0.4 percent increase was marginally higher than projected in the March MPS, but the RBNZ should have been reassured by the inflation mix, which is far more important. Low readings for non-tradable CPI and a range for core measures confirmed that domestically generated inflation pressure remained contained and this mix would have been better than the RBNZ expected. **But rather than take the outturns as critical for pumping a Q3 view, we continue to be more mindful of labour market developments and the upcoming *Budget* in so far as the medium-term outlook for inflation is concerned.** Both are critical, particularly the labour market.

Non-tradable Inflation vs capacity as limiting factor



Sources: ANZ National, Statistics NZ, NZIER

At this juncture we have to say that there are also a number of factors / developments (beyond pure data outturns) that suggest to us a June hike may still, in fact, remain the central case. This has nothing to do with the so-called Canadian conspiracy theory following the Bank of Canada's announcement last week which set the scene for a June hike.

- **Our monthly internal survey (of commercial and business banking managers) continues to show underlying improvement and we've received better nuances from our roadshow.** Such anecdotes are critical as they tend to lead the hard economic data, and we consider them more reliable than confidence surveys. These anecdotes were critical in our decision to call softness in Q1 hard data a few months ago. The weakness in the data which eventuated has seen the market push out expectations for an April and June hike. Now we are detecting an improving / firming trend across the anecdotes and this is likely to manifest in some hard data going forward in a more conclusive fashion. Hence, the likelihood is that the market eventually centres in on a June hike. And if it is there, the RBNZ will likely take it.
- **The credit channel of monetary policy is becoming less of a restraining influence.** With each passing day we seem to collect more anecdotes of easier access to credit or leniency

ECONOMIC OVERVIEW

with regard to loan-to-value ratios. We are not talking about 2007 style behaviour, but certainly things are freeing up at the margin (as you would expect with improving economic conditions). If the credit channel of monetary policy is chasing volumes (although we acknowledge demand is still weak), then the monetary policy transmission mechanism should not be as loose. The emphasis on as is noteworthy: we are not talking about policy being tight, merely less supportive. Regular readers will be aware that we've paid close attention to the credit channel over the years (and the interaction between the credit and traditional monetary policy channel) and it's an area we continue to monitor closely.

- **Having headline inflation approaching 5 percent on GST hikes, the ETS and other government policy related charges doesn't sit well with a cash rate at 2.5 percent.** Yes, we all know these will affect household purchasing power and are largely one-off in nature. But most central banks would probably prefer not to have the policy rate at an historical low level when inflation is rising. (NB: even if higher bank funding costs suggest the "effective OCR" is around 4 percent, this is still low).

The above combination has us musing, although we are not about to change our view – not yet anyway. De-leveraging and weak credit growth remain critical anchors behind our economic assessment. We still see fiscal policy as being influential. The RBNZ is now getting the right mix to growth so it would be ironic if they took action that threatened that. But **it would be imprudent for not pointing out some other potential swing factors.** The NZ economy has shown a notorious tendency to turn sharply and there are huge non-linear dynamics within the economic system that we remain mindful of. This is why we continue to pay close attention to credit aggregates and anecdotal evidence for clues as to whether economic momentum is picking up.

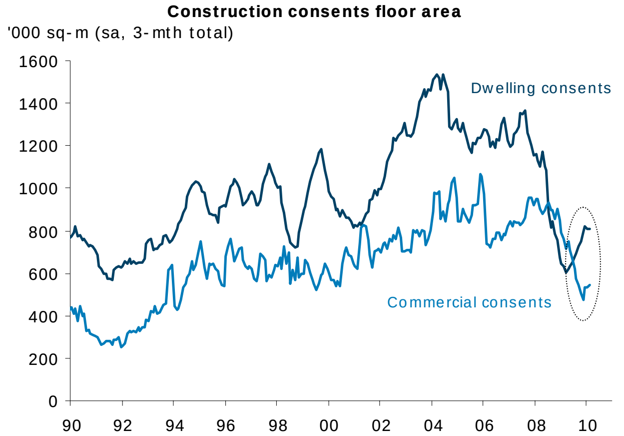
Swing factors skew the risk profile. And in terms of the risk profile we still think the timing of the first hike as being a coin-toss between June and September. Starting in July (where the market has shifted to) remains an option and you'd never rule it out. But starting a cycle from such an extreme starting point should warrant the communication benefits of a full *Monetary Policy Statement*. To be fair, this didn't pan out on the way down (with a July 2008 start), but easing cycles tend to be rides down the elevator and tightening cycles climbs up the stairs. And **if our anecdotes are correct, September feels a tad late, although June clearly will require a leap of faith in the recovery process given continued pressure on asset values (i.e. rural and house prices).**

This may sound like an economist wanting a bob-each-way but to us the start of the tightening cycle is not the real issue although this week's *OCR Review* will obviously receive considerable market attention. Our preview is detailed on page 5. We continue to assess both the potential speed of the cycle and the endgame. Economists seem to talk in each cycle about different factors supporting a more demure path or endgame, and each time around getting back to neutral quickly seems to be the historical lesson. NZ's potential terms of trade gains if the China story holds up, would support this strategy. **However, this time around a structurally weak national balance sheet and regulatory changes including prudential measures and modifications to the tax system in the *Budget* would add credence to the "this time it's different" thesis.** Time will tell.

In terms of the dataflow this week we expect the normal array of mixed messages. At present we'd characterise the mixture as not challenging the recovery itself, but rather the pace of it.

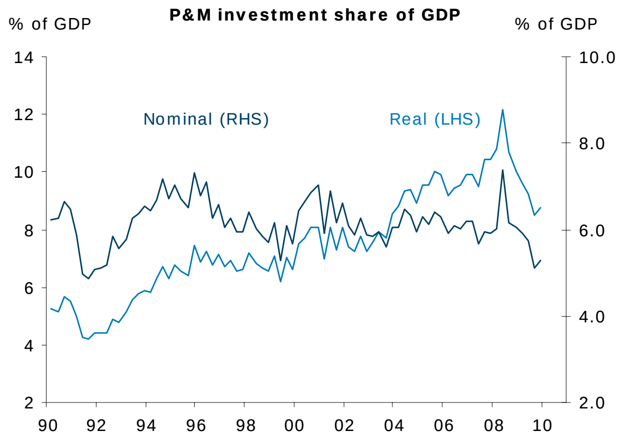
Consent issuance picked up in February but low house sales do not bode well for March. Some commentators point to a widening supply/demand imbalance as a critical factor driving a strong uplift from here. We view this as an important but secondary consideration to credit and balance sheet trends, which are tied up in the economy's de-leveraging process. On balance, we err towards a gradual recovery in consents over the coming months and intra-month volatility should be treated as exactly that. Non-residential building activity remains reliant on government support and a recovery remains some way off. We'll be paying particularly close attention to the dollar value of issuance per square metre – which we use as a proxy for construction costs. We are hearing anecdotes of price increases for building materials, particularly timber. If so, building costs per square metre, which has hovered around $1,400 in recent months, should start to rise.

ECONOMIC OVERVIEW



Sources: ANZ, National Bank, Statistics NZ

This week's merchandise trade data will provide an up to date assessment for how the tentative rebalancing of the economy is proceeding. We are expecting a continuation of trade surpluses, with exports set to benefit from improving commodity prices. We will be focusing particular attention on imports to get a gauge on the state of domestic demand. Over the last few months, imports of capital goods have been static at around $500m per month. Although lower prices for imported machinery may well have contributed to higher capital investment volumes, the low level of business investment does not augur well for the future supply-side performance of the economy. And if there is an area we suspect economists will end up chasing their tail, it may well be from the supply side as opposed to demand.



Sources: ANZ, National Bank, Statistics NZ

Credit growth figures are expected to remain subdued. The household sector remains in deleveraging mode, with consumer credit on a declining path and low housing credit growth symptomatic with the weak housing market. Agriculture lending has been broadly unchanged since November and we do not expect much change this month. Business credit remains weak and does not yet portend for a strong expansion in business investment.

The other major piece of information is the National Bank *Business Outlook*. We won't comment on the details but last month's survey was consistent with 4 percent GDP growth. The critical question at this juncture is when we start seeing it manifest in the hard data. Based on the historical relationship this should be happening now – the survey has tended to be more concurrent that leading.

RECENT LOCAL DATA

- **SNZ Consumers Price Index – March 2010 quarter.** The CPI increased by 0.4 percent, with the annual increase unchanged at 2.0 percent. The non-tradable CPI increased by 0.5 percent (2.1 percent y/y), with tradable CPI increasing by 0.1 percent (2.0 percent y/y).
- **ANZ-Roy Morgan Consumer Confidence – April.** Overall confidence rose by 0.1 point to 121.9. Future conditions rose 2 points, to 135.1, whereas current conditions eased 3 points to 102.3.
- **SNZ External Migration – March.** Net permanent and long-term immigration increased by 990 persons (20,973 annual), following an inflow of 1,010 persons in February (21,618). Visitor arrivals rose by 1.1 percent, to be 7.4 percent up on a year earlier.
- **RBNZ Credit Card Statistics – March.** Total credit card billings in New Zealand increased by 1.2 percent (6.3 percent y/y).

RBNZ APRIL OCR PREVIEW

SUMMARY

Like all and sundry, we expect the OCR to be left unchanged at 2.5 percent this Thursday. We struggle to see the point of maintaining the "middle of 2010" phrase. We expect the tenor of the assessment to be much more centred around the dataflow to give the RBNZ full flexibility.

HEAD OR TAILS

There has been the usual array of positives and negatives since the RBNZ's March *Monetary Policy Statement*.

On the positive side of the ledger prospects for the global economy continue to improve. Australia looks strong. China is booming. Commodity prices have soared. Prospects for the dairy payout look better. Q4 2009 GDP was marginally stronger. Soft leading data looks good.

At the other extreme we have seen softness in the domestic economy (although March retailing looks better). Credit growth remains weak. Core inflation looks contained. Drought conditions are impacting on the rural sector. That Greek situation just won't go away. The NZ economy doesn't feel like it is expanding at the 1 percent per quarter rate over 2010, which the RBNZ forecast. There is a huge gap between expectations and current conditions in leading indicators.

So while there are some developments to validate the RBNZ's view, question marks remain. In this situation the broad spirit of the Bank's March forecasts seem alive. **Most new information seems to relate to weaker near-term domestic activity but better prospects for the terms of trade supporting activity further out. So the key issue is really one of timing.**

FOCUSING ON THE BIG PICTURE

The RBNZ is widely expected to leave rates unchanged at 2.5 percent at this Thursday's *OCR Review*. We concur with this and the market has pretty well eliminated any chance of a hike. **As is usual, most attention will surround the tone**.

Themes apparent in their March assessment still remain intact. *"The New Zealand economy is recovering broadly as expected … trading partner activity has recovered a little faster than expected…households are still cautious….credit growth remaining subdued… fiscal consolidation would also help reduce the work that monetary policy might otherwise need to do…higher bank funding costs reduce the extent of future increases in the OCR."*

Beyond that, the market is fixated with whether the phrase "We continue to expect to begin removing policy stimulus around the middle of 2010" remains. To us, it looks redundant.

- **The exact timing of the tightening cycle is highly data dependent and the RBNZ should aim to give itself full flexibility.** Around the middle of 2010 appeared technically designed in late 2009 to give the RBNZ flexibility to move if they needed to anytime from April to September. Retaining "middle of 2010" when we are already in April implicitly ties them to June given that it is the MPS date. Given the uncertainties still present and the volatility in the data due to uncertainty over tax policy changes which complicates the analysis, we see little point in holding firm to the mid-year stance.
- **The RBNZ should aim to deliver a policy assessment that has minimal market reaction.** Market pricing has backed off from June, with only around 11 points priced in currently and a full rate hike priced in for July. Implicitly, the market is expecting the "middle of 2010" stance to be dropped or severely watered down. Retaining the mid-year stance will only cause the rates market to sell off and the NZD to spike higher. This is an eventual endgame, but something we hope the RBNZ will seek to avoid at present given that the mix to growth (more earning, less spending) is moving in the right direction. (We are reminded of the first law of policymaking in this regard: when things are working, leave it alone).

We expect the RBNZ to replace the "middle of 2010" phrase with something that will leave the timing of the tightening cycle data-dependent. Such data-dependence is of course always the case but at this juncture the data needs to corroborate a sustained pickup. In that regard, it's hard to go past the simplicity behind the Bank of Canada's statement last week: "*The extent and timing (of rate hikes) will depend on the outlook for economic activity and inflation.*" And unlike in Canada where that sentence was read as hawkish as it was an indication that rate hikes had been brought forward, in the NZ context it will merely reinforce the message that rates are set to move up, but for the timing to be flexible. **However, a clear risk is that the RBNZ sticks to its guns; they've seen enough to be satisfied that their conditions have been met and the middle of 2010 is exactly that.**

NZD EQUILIBRIUM EXCHANGE RATE

SUMMARY

Fundamental equilibrium exchange rate models provide a medium-term anchor for currency projections, though currencies can deviate for long periods away from fundamentals. According to our updated estimates, the NZD/USD is currently around 8.9 percent overvalued, with fair value (FV) residing at 0.66. Fair value for the AUD/USD is 0.81, which also gives us an implied NZD/AUD fair value of 0.81. Against the NZD cross rates, the NZD is most overvalued against the GBP.

NO SMALL BEER

Currency modelling plays an important part in our assessment of the future path of the NZ dollar, both against the USD and on the crosses. No model can adequately forecast the path of the exchange rate, with studies showing that most fail to beat a random walk. However, currency models at least provide a key medium-term anchor for projections. And while currencies can deviate from fair value for considerable periods of time (in either direction), it will ultimately revert towards fair value at some stage. The deviation from fair value can also help to highlight how taut the figurative rubber band has become and where the tensions, if any, lie between the various currency pairs. Of course, fair value itself is a moving target. We have recently revamped and updated our currency models.

Our approach to currency modelling is to use several specifications, in recognition that there is no one superior model. As a former central banker once said, use as many models as you can, but trust none of them. The choice of models is based on the empirical literature. At the simplistic end, there is the purchasing power parity (PPP) approach. This can be further extended to the sticky price monetary model. In more recent times, the behavioural equilibrium exchange rate (BEER) approach has gained in popularity. BEER models use economic variables that can have an influence on the exchange rate. The common variables used in the literature are interest rates, productivity, net external debt, government debt and the relative price of non-tradables. In our BEER models, we use real interest rates, money supply to account for the role of quantitative easing, terms of trade differentials, current account balance in place of net external debt, and unit labour cost as well as productivity differentials.

A key feature across all specifications is that they involve economic inputs. This gives the estimates a degree of stickiness in terms of how quickly fair value can shift (for divergences in economic trends takes time to emerge). On the flipside, a disadvantage is that such models never capture near-term movements and nor are they designed to do that. Analysts often rely on inputs such as commodity prices, equities and risk barometers in near-term models. But in practice the causality can easily run the other way (especially from currencies to commodity prices) so it becomes a question of garbage, in garbage out.

In all, we utilise seven models with our fair value estimate based on the average of those models. Rather than estimating each currency separately, we have modelled the major currencies (NZD, AUD, CAD, EUR, GBP, JPY, SEK and CHF) as a single system. The table below shows the results of our fair value (FV) estimates for the majors as well as the NZD cross rates.

Currency Majors	Fair Value	Current 26/4/2010	Deviation from fair value (%)
NZD/USD	0.66	0.717	9.3
AUD/USD	0.81	0.926	14.9
EUR/USD	1.30	1.336	2.6
GBP/USD	1.82	1.539	-15.5
USD/JPY*	95.1	94.0	-1.2
USD/CAD*	1.15	0.999	-13.2
USD/SEK*	7.7	7.177	-6.7
USD/CHF*	1.07	1.074	0.5
Dollar Index	82.5	81.3	-1.4
NZD Crosses	**Fair Value**	**Current 26/4/2010**	**Deviation from fair value (%)**
NZD/USD	0.66	0.717	9.3
NZD/AUD	0.81	0.774	-4.9
NZD/EUR	0.50	0.537	6.5
NZD/JPY	62.4	67.4	8.0
NZD/GBP	0.36	0.466	29.3
NZ$ TWI	62.8	66.7	6.3

* *A negative deviation implies overvalued.*

WHO IS LOOKING PRICEY?

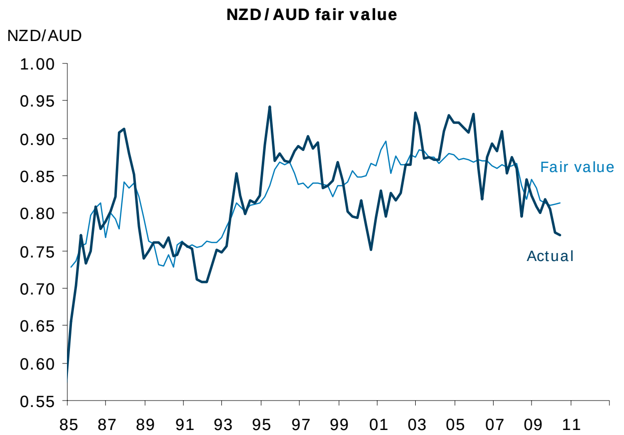
The key highlights from our updated estimates are:

- **The FV for the NZD and AUD have increased since our last update** (from 0.62 to 0.66 for the NZD, and from 0.76 to 0.81 for the AUD). This is not surprising as we have seen a big improvement in the terms of trade for both economies. And while productivity has been poor, particularly for NZ, the improvement seen in the current account has helped (though this is

NZD EQUILIBRIUM EXCHANGE RATE

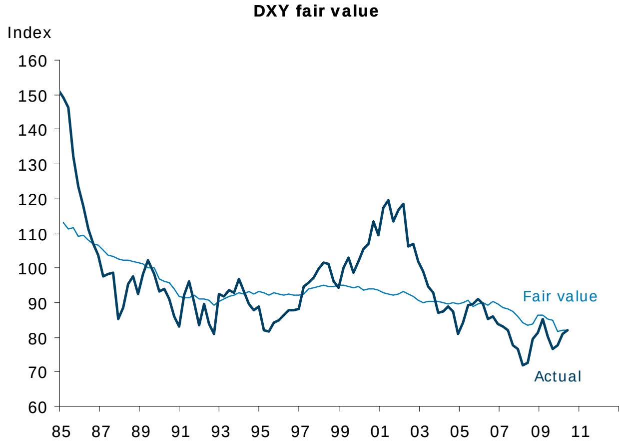
partly cyclical and will reverse further out). Interest rate differentials have also been supportive for both the NZD and AUD, particularly for the latter as the RBA has started raising rates.

- **FV for the NZD and AUD are higher than long-term historical averages** of 0.60 and 0.72 respectively (average of the last 20 years). There is considerable debate over whether currencies are mean-reverting. Looking at our fair value estimates over time, it is clear that there has been a structural shift higher for both currencies, reflecting better fundamentals such as a stronger terms of trade.
- **The implied FV for the NZD/AUD cross rate is 0.81.** While this implies that the NZD is around 5 percent undervalued relative to the AUD, it is within the normal deviation range.



Sources: ANZ, National Bank

- **Across the major currencies, the GBP is the most undervalued while the EUR is fairly close to our FV estimate.** The Yen and Swiss franc are also close to FV, while the Canadian loonie, at near parity, is around 13 percent overvalued. The AUD is the most extended. Interestingly, amidst all the deviations among the majors, the US Dollar Index looks to be fairly valued at present.



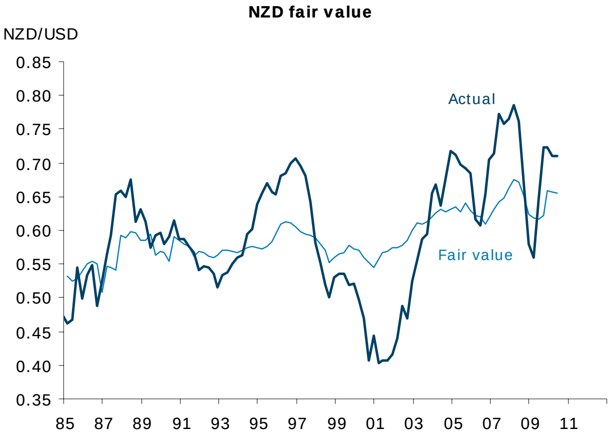
Sources: ANZ, National Bank

- **When we derive the implied NZD cross rates, the NZD is most overvalued against the GBP by almost 30 percent.** But on a TWI basis, it is only around 6 percent above FV.

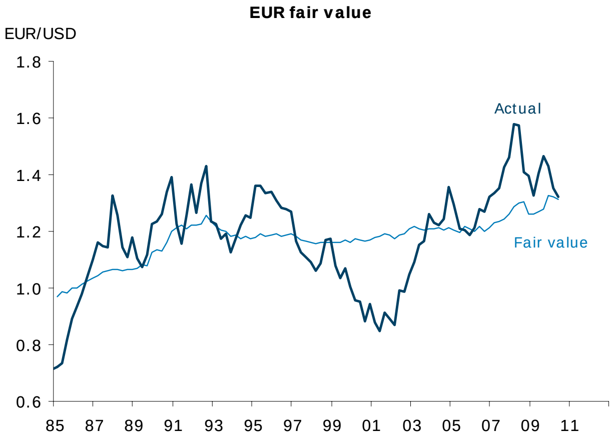
THE UPSHOT

Our FV estimates provide a benchmark reference. The currency market will continue to be driven by different "themes" that tend to switch on and off (Greece is obviously dominating sentiment regarding the EUR at present, and the UK election has a grip over the GBP). Our currency modelling suggests that the market has perhaps driven the GBP and the AUD to opposite extremes. Of course, this is not to say that the AUD cannot extend further or that the GBP cannot continue to fall. Sustained deviations can occur. But the onus will then be on the economic data to play catch-up.

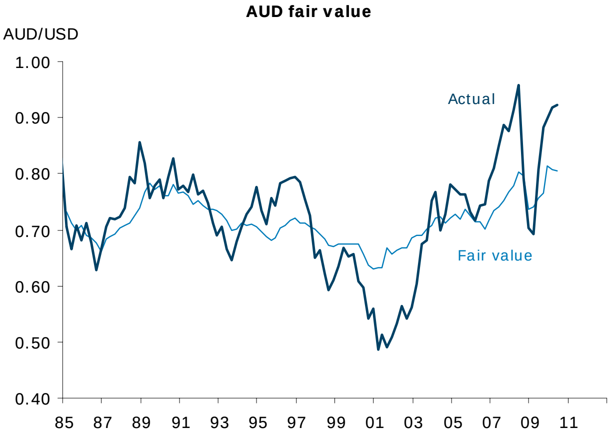
NZD EQUILIBRIUM EXCHANGE RATE



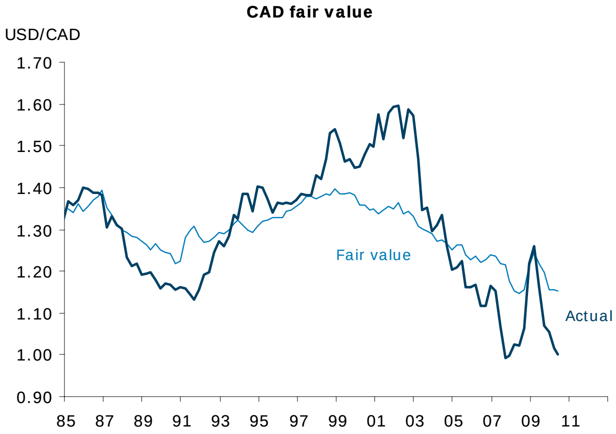
Sources: ANZ, National Bank



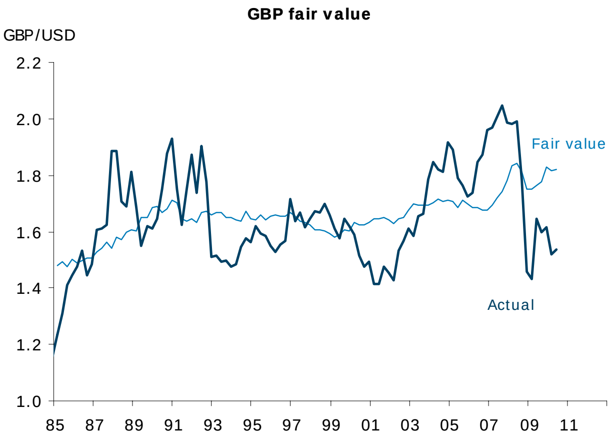
Sources: ANZ, National Bank



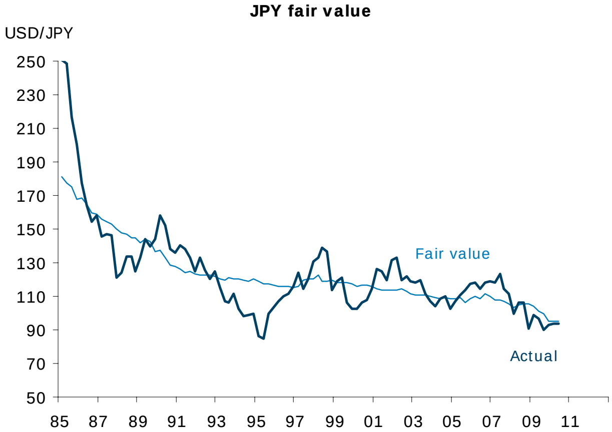
Sources: ANZ, National Bank



Sources: ANZ, National Bank



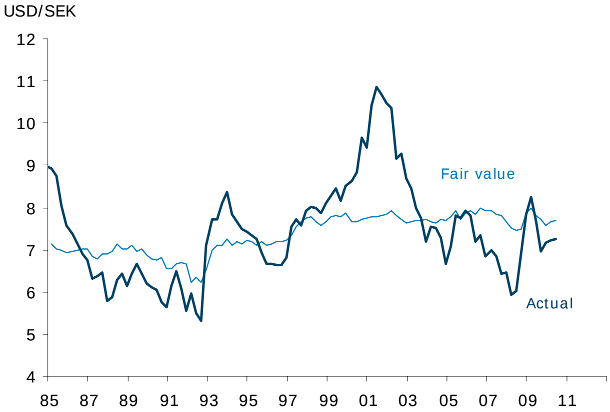
Sources: ANZ, National Bank



Sources: ANZ, National Bank

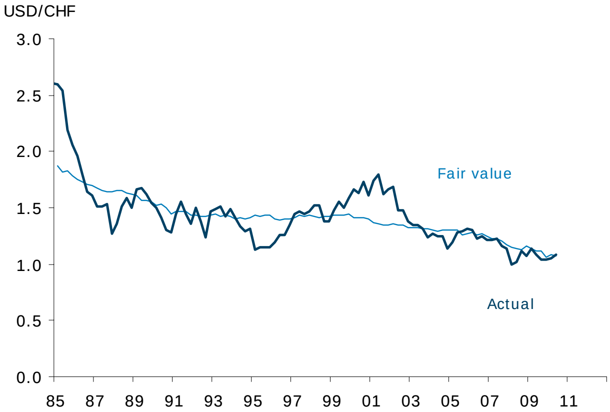
NZD EQUILIBRIUM EXCHANGE RATE

SEK fair value



Sources: ANZ, National Bank

CHF fair value



Sources: ANZ, National Bank

INTEREST RATE STRATEGY

SUMMARY

The market has been reluctant to take interest rates lower, even in the face of soft CPI data, which had a short-lived reaction. We must acknowledge the risks of a June move. As noted on pages 2-4, we think momentum is set to turn back towards a June hike and this has us reassessing our Q3 view. If the market can't rally on soft CPI and a dovish RBA, it is arguable that further rallies will be difficult with global growth trends now moving progressively towards requiring less monetary policy support.

MARKET THEMES

- Markets were nervous about the prospect of a stronger number ahead of last week's CPI. The market now looks to this week's Australian CPI.
- The yield curve is doing a good job moderating activity, but will that be enough to satisfy the RBNZ? Tactical arguments in favour of an early hike are building and need to be acknowledged.
- Greece looks set to get bailed out, but the issue of wider EU sovereign debt has not gone away. A Chinese revaluation also looms large. Both issues will be challenges for markets.

REVIEW AND OUTLOOK

We have long been of the view that monetary policy settings remain appropriate given the slope of the yield curve (which encourages de-leveraging) and upcoming tax changes (which add to uncertainty). And while there is no evidence of significant inflation pressure as yet, higher GST remains a challenge, and at some stage the gap between confidence and actual activity will close. **Thus we need to acknowledge the possibility of a tactical, earlier hike than our Q3 forecast**. As noted on pages 2 and 3, beyond lagging data, we suspect the case is set to turn in favour of June.

Accordingly, we expect the OCR Review to give the RBNZ flexibility surrounding either June or slightly later. This suggests the near term rates outlook remains reasonably benign. And even if we do see an earlier start to the hike cycle, we'd view **more now as implying less later on**. Even if the evidence (which we now suspect) started to support an earlier move, it is debatable how much higher the rates structure would move given there are already 111bps of rate hikes priced in by December. We are also mindful of global developments, especially in Australia, where the RBA now look to have policy at a level they're comfortable with, at least in so far as rates are now close to "average". **Australia has long been a source of upward pressure for NZ rates and this now looks to be easing**. Much now depends on AU CPI data this week, and if it is low, and AU rates move lower, ours will follow. However, less pressure from Australia looks set to be offset by global trends, and gradually improving data is slowly signalling the need for less policy support.

PREFERRED BORROWING STRATEGIES

Leading indicators point to a welcome pick up in trading conditions, but the shine could be taken off the rebound if it is accompanied by an increase in interest expense. It is therefore very tempting to "get set" before interest rates start to rise. But long term swap rates are already up off their lows, and are factoring in rate rises from June, and term swap rates are significantly higher than 3mth BKBM. Hedging here therefore requires a "leap of faith" that trading conditions will recover sufficiently well so as to make hedging affordable. Given the bulk of rates rises are priced in over the next 2 years, and business activity has not yet recovered, consider forward starting swaps. These offer protection later on, but don't draw on cash now.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	OCR Review tone to be flexible and data dependant.
NZ data	↔	CPI data was a relief.
Fed Funds / front end	↔	US data improving steadily, Sleeping giant awaking?
RBA	↔	Stevens says next move depends on this week's CPI.
US 10 year	↔	Bond market remains very complacent. Makes us wary despite China/Greece issues.
NZ swap curve	↔	Neutral. Short end driven by data, long end by offshore.
Flow	↔	Market has been reluctant to get long. Nervous.
Technicals	↔	Range trading.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 29-Apr-10	+3	+3
Thu 10-Jun-10	+13	+11
Thu 29-Jul-10	+29	+33
Thu 16-Sep-10	+64	+55
Thu 28-Oct-10	+92	+87
Thu 9-Dec-10	+116	+112
Thu 27-Jan-11	+129	+128

TRADING THEMES WE FAVOUR AT PRESENT

We remain bullish the short end, but the market seems uncomfortable embracing lower rates. Ironically, it's likely to be lower AU rates that drive NZ rates lower. Consider taking profit on Receive NZ/Pay AU spread trades, as it looks like the RBA hikes from here are data dependant.

CURRENCY STRATEGY

SUMMARY

Despite a softer than expected NZ CPI data, dovish comments by RBA Governor Stevens and Greek spreads blowing out to record levels, the risk switch is still turned on as equities and commodities moved higher – leading to a resurgent NZD. The RBNZ may dampen things down a bit later this week, but offshore sentiment looks supportive of the NZD.

MARKET THEMES

- Canada and Australia's currencies have outperformed the NZD. Is it catch-up time?
- Australia joins other countries in introducing rules to cool down their property market.
- Greece is tapping the EU/IMF aid package. A near-term default is averted but what does that mean for the NZD?

REVIEW AND OUTLOOK

The NZD held up incredibly well last week. This was despite a weaker than expected Q1 CPI print, dovish comments from RBA Governor Stevens stating that rates are now closer to average (hinting that they are almost done), and the ongoing drama over Greece. To be fair, there are further signs that the global economy is improving. The dataflow out of the US has been positive, the German IFO surpassed expectations, and the earnings reporting season in the US has exceeded analysts' expectations. Conditions have certainly improved sufficiently for the Bank of Canada to flag an earlier start to their tightening cycle than initially envisaged. With the Fed likely to remain on hold for an extended period, and commodity prices continuing to gain, this should see commodity currencies outperform.

It was ground hog week for the AUD. Yield differentials remain supportive of the AUD/USD with 1 year forwards near 400 points. Market positioning is the main concern for the AUD with the speculative community heavily net long. This week's Q1 CPI in Australia could well be the make-or-break for a May move by the RBA. Given the strong historical correlation between NZ's and Australian CPI, a weak print could well see further squaring up of long AUD positions. This is particularly so, following Governor Stevens' speech.

The EUR simply cannot break 1.32 to the downside despite the Greek tragedy playing out. Even GBP weakness on the back of their soft Q1 GDP proved temporary. Does this signal the peak in the USD, with further moves lower from here on in? Particularly given that the Fed could well lag behind other central banks in the tightening cycle. With global growth improving, and given that NZ's two largest export destinations are now Australia and China, there is no reason the NZD cannot break its recent 0.6960-0.7185 range and target 0.7320 over the weeks ahead.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued.
Yield	↓	Yield still in favour of Australia but RBA seeing rates near average.
Commodities	↔	Softs now following on the hard's footsteps.
Partial indicators	↔/↓	Australian data still better, especially their labour market.
Technicals	↔/↑	Support at 0.7720 Market to target resistance at 0.7800.
Sentiment	↔	Australia Q1 CPI and RBNZ decision to dictate.
Other	↔/↓	World improving which will support AUD more.
On balance	↔	**NZD due for catch-up.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔	Getting closer to *middle of the year*.
Commodities	↑	NZ commodity prices improving strongly.
Risk aversion	↔	Fickle.
Partial indicators	↔/↓	US data improving faster than NZ's.
Technicals	↔/↑	Upside bias with support at 0.7050 currently.
AUD	↔	Support at 0.9180 will be very important.
Sentiment	↑	More positive for NZD following Fonterra auction result.
Other	↔/↑	Fed to reiterate extended period.
On balance	↔/↑	**Range trade but risk of 0.7185 breaking, targeting 0.7320.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
26-Apr	UK	Hometrack Housing Survey (MoM) - APR	- -	0.30%	11:01
	UK	Hometrack Housing Survey (YoY) - APR	- -	1.30%	11:01
	JN	Corp Service Price Index (YoY) - MAR	-1.40%	-1.30%	11:50
27-Apr	US	Dallas Fed Manf. Activity - APR	9.80%	7.20%	02:30
	AU	Producer Price Index (QoQ) - 1Q	0.6%	-0.4%	13:30
	AU	NAB Business Confidence – 1Q	- -	18	13:30
	AU	Producer Price Index (YoY) - 1Q	-0.6%	-1.50%	13:30
	JN	Small Business Confidence - APR	- -	45.8	17:00
	GE	GfK Consumer Confidence Survey - MAY	3.3	3.2	18:00
	UK	BBA Loans for House Purchase - MAR	38000	35276	20:30
28-Apr	US	S&P/CS Composite-20 YoY - FEB	1.30%	-0.70%	01:00
	US	S&P/CS 20 City MoM% SA - FEB	-0.10%	0.32%	01:00
	US	Richmond Fed Manufact. Index - APR	9	6	02:00
	US	Consumer Confidence – APR	54	52.5	02:00
	US	ABC Consumer Confidence	- -	-50	09:00
	JN	Retail Trade MoM SA – MAR	-0.60%	0.90%	11:50
	JN	Retail Trade YoY – MAR	3.60%	4.20%	11:50
	JN	Large Retailers' Sales – MAR	-5.00%	-4.00%	11:50
	AU	Consumer Prices (QoQ) – 1Q	0.8%	0.50%	13:30
	AU	Consumer Prices (YoY) - 1Q	2.8%	2.5%	13:30
	AU	RBA Trimmed Mean (YoY) - 1Q	2.9%	3.2%	13:30
	AU	RBA Weighted Median (YoY) – 1Q	3.0%	3.6%	13:30
	NZ	**NBNZ Business Confidence - APR**	**- -**	**42.5**	**15:00**
	US	MBA Mortgage Applications -	- -	13.60%	23:00
29-Apr	US	FOMC Rate Decision -	0.25%	0.25%	06:15
	NZ	**RBNZ Official Cash Rate**	**2.50%**	**2.50%**	**09:00**
	NZ	**Trade Balance – MAR**	**354M**	**321M**	**10:45**
	NZ	**Imports – MAR**	**3.33B**	**3.00B**	**10:45**
	NZ	**Exports – MAR**	**3.72B**	**3.32B**	**10:45**
	NZ	**NZ Trade Balance 12 Mth YTD - MAR**	**-400M**	**-347m**	**10:45**
	AU	Conference Board Leading Index - FEB	- -	-0.20%	12:00
	NZ	**Money Supply M3 YoY – MAR**	**- -**	**-5.10%**	**15:00**
	GE	Unemployment Rate (s.a) – APR	8.00%	8.00%	19:55
	EC	Euro-Zone M3 s.a. (YoY) – MAR	-0.10%	-0.40%	20:00
	EC	Euro-Zone Indust. Confidence - APR	-8	-10	21:00
	EC	Business Climate Indicator - APR	-0.14	-0.32	21:00
	EC	Euro-Zone Economic Confidence - APR	99.3	97.7	21:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
30-Apr	US	Chicago Fed Nat Activity Index - MAR	-0.2%	-0.64	00:30
	US	Initial Jobless Claims – Apr 24	441K	456K	00:30
	US	Continuing Claims – Apr 17	4613K	4646K	00:30
	NZ	Building Permits MoM - MAR	- -	5.90%	10:45
	UK	GfK Consumer Confidence Survey - APR	-15	-15	11:01
	JN	Nomura/JMMA Manufacturing PMI - APR	- -	52.4	11:15
	JN	Overall Hhold Spending (YoY) - MAR	0.70%	-0.50%	11:30
	JN	Jobless Rate - MAR	4.90%	4.90%	11:30
	JN	Tokyo CPI YoY - APR	-2.10%	-1.80%	11:30
	JN	Tokyo CPI Ex Food, Energy YoY - APR	-1.60%	-1.20%	11:30
	JN	Natl CPI YoY - MAR	-1.10%	-1.10%	11:30
	JN	Natl CPI Ex Food, Energy YoY - MAR	-1.10%	-1.10%	11:30
	JN	Industrial Production (MoM) - MAR P	0.80%	-0.70%	11:50
	JN	Industrial Production YOY% - MAR P	31.10%	31.30%	11:50
	AU	HIA New Home Sales (MoM) - MAR	- -	-5.20%	13:00
	AU	Private Sector Credit MoM% - MAR	0.4%	0.40%	13:30
	AU	Private Sector Credit YoY% - MAR	1.9%	1.60%	13:30
	JN	Labor Cash Earnings YoY - MAR	-0.40%	-0.70%	13:30
	JN	Vehicle Production (YoY) - MAR	- -	74.90%	16:00
	JN	Housing Starts (YoY) - MAR	-5.80%	-9.30%	17:00
	EC	Euro-Zone CPI Estimate (YoY) - APR	1.50%	1.50%	21:00
	EC	Euro-Zone Unemployment Rate - MAR	10.00%	10.00%	21:00
01-May	US	GDP QoQ (Annualized) - 1Q A	3.40%	5.60%	00:30
	US	Personal Consumption - 1Q A	3.10%	1.60%	00:30
	US	GDP Price Index - 1Q A	0.80%	0.50%	00:30
	US	Core PCE QoQ - 1Q A	0.40%	1.80%	00:30
	US	Employment Cost Index - 1Q	0.50%	0.50%	00:30
	US	Chicago Purchasing Manager - APR	60	58.8	01:45
	US	U. of Michigan Confidence - APR F	71	69.5	01:55
	US	NAPM-Milwaukee - APR	- -	62	02:00
	CH	PMI Manufacturing - APR	55.6	55.1	13:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, CH: China, NZ: New Zealand, UK: United Kingdom, US: United States.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All $ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: This week sees the April OCR Review. We expect the OCR to be held at 2.5 percent and for the "middle of 2010" phrase to be removed. Focus after the OCR will return to some key labour market readings and then to Budget 2010. Data readings for the first few months of 2010 have highlighted the patchiness of the recovery. We expect this to continue for the near-term, but for signs of improvement to start to emerge in later Q2.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 28 Apr (3:00pm)	National Bank Business Outlook (Apr)	-	-
Thur 29 Apr (9:00am)	RBNZ OCR announcement	Steady	We expect the OCR to be held at 2.5 percent, and for the RBNZ to remove explicit references to "expect beginning removing stimulus around the middle of 2010".
Thur 29 Apr (10:45am)	Overseas Merchandise Trade (Mar)	Surplus	Firming commodity prices are expected to lift export values, after the previous decline. We will closely watch capital imports for signs of a recovery in business investment.
Thur 29 Apr (3:00pm)	RBNZ monetary/credit aggregates (Mar)	Easing	Households, farms and firms to remain in deleveraging mode.
Fri 30 Apr (10:45am)	Building Consents (Mar)	Stable	We expect some levelling off in residential consent issuance. Non-residential issuance is expected to remain weak.
Tue 4 May (10:45am)	Labour Cost Index (Salary and Wage Rates, Mar qtr)	Near the trough	Past readings have surprised on the downside. We expect another low quarterly print, with annual wage inflation at (or close to) its cyclical trough.
Thur 6 May (10:45am)	Household Labour Force Survey (Mar qtr)	Lagging	We expect that increasing demand for labour will be met by increasing hours for existing employees, with employment broadly flat for the quarter. The unemployment rate is expected to climb to 7.5 percent.
Tue 11 May (10:45am)	Electronic Card Transactions (Apr)	Easing	We may see some pull-back following the 2 percent plus monthly increase in March.
Thur 13 May (10:00am)	BNZ Business NZ PMI (Apr)	Improving	NZ is expected to follow an improving global trend.
Thur 13 May (10:45am)	Food Price Index (Apr)	Rising	High food commodity prices suggest a climb in annual food price inflation.
Fri 14 May (10:00am)	REINZ Residential data (Apr)	Up	A recovery of sorts was evident in the March data. April could se further improvement but the level of activity to remain low.
Fri 14 May (10:45am)	Retail Trade Survey (Mar)	Up	March ECT and credit Card billings suggest a 1% plus increase in the month. For the quarter as a whole we expect core retail volumes to post a decline..
Thur 20 May (3:00pm)	ANZ Roy-Morgan Consumer Confidence (May)	-	-
Thur 20 May (2:00pm)	Budget 2010	Tight	Final details of the tax reform package to be released. Expenditure restraint to remain a key focus. The fiscal position is set to improve, but deficits are likely for the next few years.
Tue 18t May (10:45am)	Producer Price Index Capital Goods Price Index (Mar qtr)	Margins still tight	Prices to be strongly influenced by export prices and the NZD. We expect that the high NZD is continuing to lower prices for capital plant and machinery.
Fri 21 May (10:45am)	International Travel and Migration (Apr)	Lower	A rising trend in PLT departures to Australia is expected to produce smaller net PLT inflows and a declining annual net inflow. Disruptions to European travel are likely to weigh down on visitor arrivals.
On Balance		**Still sub-trend**	**Recovery still on track but patchy.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.8	0.2	0.3	0.8	**0.3**	**0.4**	**0.5**	**0.9**	**1.1**	**1.1**
GDP (% yoy)	-3.1	-2.3	-1.4	0.5	**1.6**	**1.8**	**2.0**	**2.1**	**2.9**	**3.7**
CPI (% qoq)	0.3	0.6	1.3	-0.2	0.4	**0.7**	**0.9**	**0.8**	**0.5**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	2.0	**2.2**	**1.8**	**2.8**	**3.0**	**3.3**
Employment (% qoq)	-1.1	-0.5	-0.8	-0.1	**0.0**	**0.3**	**0.4**	**0.6**	**0.6**	**0.7**
Employment (% yoy)	0.8	-0.9	-1.8	-2.4	**-1.3**	**-0.6**	**0.6**	**1.3**	**1.9**	**2.3**
Unemployment Rate (% sa)	5.0	6.0	6.5	7.3	**7.5**	**7.5**	**7.2**	**6.8**	**6.5**	**6.2**
Current Account (% GDP)	-7.9	-5.6	-3.2	-2.9	**-3.2**	**-4.2**	**-5.4**	**-4.7**	**-4.4**	**-4.2**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	5.8	**1.8**	**3.9**	**3.9**	**0.2**	**-0.2**	**-0.7**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	**-4.0**	**10.1**	**16.2**	**10.1**	**8.0**	**3.3**

	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
Retail Sales (% mom)	0.1	-0.6	1.2	0.3	0.0	0.8	-0.5	0.7	-0.6	..
Retail Sales (% yoy)	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	..
Credit Card Billings (% mom)	0.2	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.2
Credit Card Billings (% yoy)	-2.0	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.3
Car Registrations (% mom)	6.0	7.0	-3.6	8.5	0.5	2.2	6.9	-0.8	0.3	5.4
Car Registrations (% yoy)	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7
Building Consents (% mom)	-9.4	5.3	2.3	5.4	12.1	0.4	-3.6	-2.8	5.9	..
Building Consents (% yoy)	-24.4	-16.5	-9.0	-11.8	26.7	20.3	22.8	35.2	29.9	..
REINZ House Price (% yoy)	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7	6.1	7.6
Household Lending Growth (% mom)	0.1	0.3	0.3	0.3	0.3	0.0	0.2	0.2	0.1	..
Household Lending Growth (% yoy)	2.4	2.4	2.4	2.4	2.6	2.7	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8
NBNZ Business Confidence	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5
NBNZ Own Activity Outlook	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6
Trade Balance ($m)	-331.1	-177.6	-716.6	-561.5	-501.5	-280.4	-28.4	263.1	320.9	..
Trade Balance ($m annual)	-3110	-2491	-2360	-1669	-1176	-863	-551	-186	-347	..
ANZ World Commodity Price Index (% mom)	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4	3.8	1.8
ANZ World Commodity Price Index (% yoy)	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	48.6	49.7
Net Migration (sa)	1620	2460	1630	1850	2150	1730	1670	1830	1010	990
Net Migration (annual)	12515	14488	15642	17043	18560	20021	21253	22588	21618	20973

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.698	0.705	0.717	0.710	0.720	0.700	0.690	0.680	0.660	0.650
NZD/AUD	0.780	0.776	0.774	0.747	0.750	0.745	0.750	0.756	0.750	0.756
NZD/EUR	0.512	0.530	0.537	0.518	0.529	0.526	0.531	0.531	0.524	0.524
NZD/JPY	62.10	65.31	67.43	64.61	66.24	65.80	66.24	66.64	66.00	65.00
NZD/GBP	0.458	0.475	0.466	0.461	0.468	0.458	0.451	0.447	0.434	0.433
NZ$ TWI	64.5	66.0	66.8	64.9	66.0	65.1	65.0	64.9	63.8	63.4
INTEREST RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.00	4.75	5.25
NZ 90 day bill	2.71	2.67	2.68	2.70	3.20	3.70	3.80	4.60	5.20	5.50
NZ 10-yr bond	5.76	5.98	5.92	5.90	5.90	5.80	5.90	6.10	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.29	0.32	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	4.00	4.25	4.25	4.75	5.00	5.25	5.50	5.75	6.00
AU 3-mth	4.13	4.49	4.53	4.40	4.90	5.20	5.40	5.70	5.90	6.20

	23 Mar	19 Apr	20 Apr	21 Apr	22 Apr	23 Apr
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.64	2.69	2.70	2.69	2.67	2.67
NZGB 11/11	3.74	3.71	3.69	3.73	3.78	3.77
NZGB 04/13	4.54	4.51	4.51	4.55	4.60	4.58
NZGB 12/17	5.61	5.64	5.64	5.68	5.68	5.66
NZGB 05/21	5.90	5.91	5.92	5.95	5.95	5.92
2 year swap	4.19	4.21	4.17	4.23	4.23	4.25
5 year swap	5.17	5.19	5.18	5.23	5.23	5.22
RBNZ TWI	65.4	65.7	65.8	66.0	66.0	66.4
NZD/USD	0.7069	0.7082	0.7106	0.7113	0.7109	0.7108
NZD/AUD	0.7709	0.7705	0.7651	0.7631	0.7674	0.7714
NZD/JPY	63.82	65.15	65.84	66.28	66.00	66.40
NZD/GBP	0.4685	0.4645	0.4635	0.4629	0.4608	0.4626
NZD/EUR	0.5214	0.5261	0.5269	0.5301	0.5310	0.5372
AUD/USD	0.9170	0.9192	0.9288	0.9321	0.9264	0.9214
EUR/USD	1.3558	1.3461	1.3487	1.3417	1.3388	1.3232
USD/JPY	90.28	91.99	92.65	93.18	92.84	93.41
GBP/USD	1.5088	1.5248	1.5331	1.5366	1.5426	1.5364
Oil (US$/bbl)	81.26	81.52	81.52	82.98	82.78	83.04
Gold (US$/oz)	1105.20	1135.00	1137.40	1143.55	1146.90	1139.85
Electricity (Haywards)	14.55	6.98	7.95	10.76	9.93	8.68
Milk futures (US$/contract)	109	115	115.25	115.5	115.5	116.5
Baltic Dry Freight Index	3280	3002	2998	3009	3006	3013

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.

This document is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. (Member of FINRA [www.finra.org] and registered with the SEC) ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 277 Park Avenue, 31st Floor, New York, NY 10172 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this document. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.