NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

27 September 2010

INSIDE

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GOOD 'TIL THE LAST DROP

ECONOMIC OVERVIEW

The bears continue to have the upper paw after the release of the Q2 GDP figures last week. The data was another reminder that the economy is still being buffeted by structural headwinds which are preventing the normal cyclical recovery dynamics from taking hold. However, we should not lose sight of the fact that these influences are paving the way for a stronger 2011 growth performance. We remain comfortable with an above-consensus growth view for next year (we are forecasting close to 4 percent growth, compared to the consensus at 3.3 percent) – but within the spirit of a modest trend growth rate over the next five years (i.e. lower than what we've been used to). Looking ahead, this week sees the release of merchandise trade and building consents data for August, with the RBNZ credit data providing an update on the deleveraging dynamic currently underway. The release of business confidence data for September rounds off the week.

CHINA'S WATER SITUATION

In this article, our China Economists Li-Gang Liu and Louis Lam provide an overview of the water situation there and what it implies for imported food demand. Their analysis shows that at this stage, China's food supply and demand are mostly balanced. However, with rapid urbanisation and rising income, it is increasingly less likely that China will maintain a balanced supply and demand picture for food, particularly with a low natural water endowment. Using some simple assumptions, they find that over the next 15 years, China's annual food shortage is likely to be around 111 million tons. The shortage is likely to be concentrated in high grade agricultural products, dairy, meat and other high protein products. This simple projection suggests that China will gradually become a major net importer of agricultural products in the next 15 years. This trend is already occurring but we suspect it will accelerate further.

INTEREST RATE STRATEGY

Bad luck, they say, comes in threes. So too, it seems do surprises. First came the RBNZ's sudden change of heart; second came the Fed's preparedness to provide "additional accommodation"; and last but not least was last week's NZ Q2 GDP surprise. The net result has been lower interest rates across the yield curve, reinforcing the view that the RBNZ is firmly on hold for the time being. It is difficult to imagine what might top recent developments in terms of downside risks to interest rates. But with the Fed poised to take further action, lower US interest rates will keep downward pressure on NZ rates.

CURRENCY STRATEGY

The NZD/USD has been dragged back above 0.7300 on the back of a US Federal Reserve that is prepared to engage in further quantitative easing if they feel the need to. A re-pricing of the RBA is also lending support to the NZD. Regardless of the weak domestic data and the fact that the RBNZ is out of play until next year, the base in the NZD/USD continues to climb with any move below 0.7300 now seen as a buying opportunity. Expect a test of topside resistance of 0.7400 to ensue.

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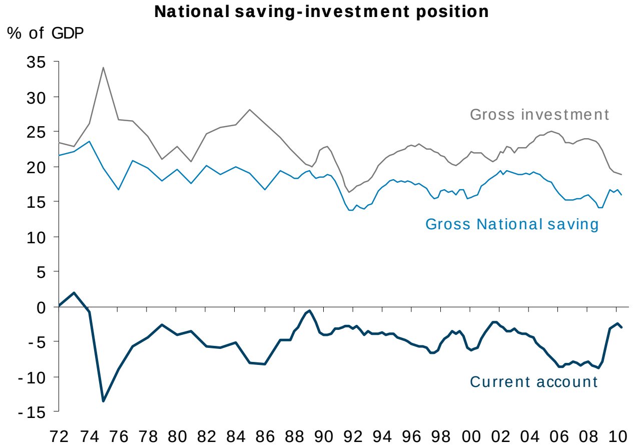
THIS WEEK'S EVENTS

- **Overseas Merchandise Trade – August 2010** (Wednesday 29th September, 10:45am). We expect a monthly trade deficit of $400m. The annual trade surplus is expected to climb to around $900m.
- **RBNZ Credit Aggregates – August 2010** (Wednesday 29th September, 3:00pm). Deleveraging remains widespread, with modest increases in household and agricultural credit expected. Business credit is expected to continue declining.
- **SNZ Building Consents – August 2010** (Thursday 30th September, 10:45am). We expect a 2 percent increase in the number of residential consents issued, underpinned by a rebound in ex-apartment consents. Non-residential consent values of around $300m are forecast.
- **National Bank Business Outlook – September 2010** (Thursday 30th September, 3:00pm).

WHAT'S THE VIEW?

Last week's domestic data was dominated by the weaker Q2 GDP figures and a deterioration in the current account deficit. The increase in the annual current account deficit from 2.4 percent of GDP to 3 percent comes despite having the largest trade surplus in more than 20 years. The latter tells us that we are still hostage to past dis-saving and our poor investment track record. These are two of the major structural weaknesses of the New Zealand economy and one of the reasons why we are perennially in deficit against the rest of the world. Indeed, the last time New Zealand recorded an annual current account surplus was back in 1973.



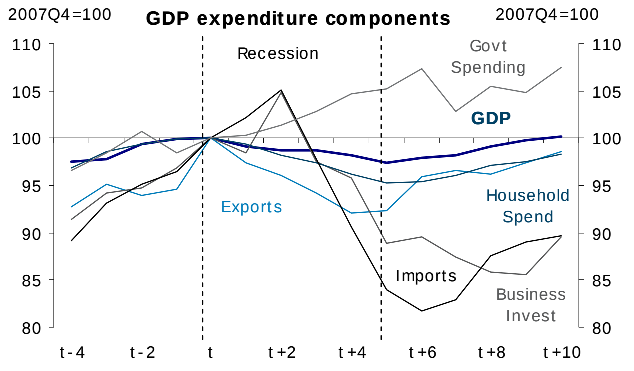
Sources: ANZ, National Bank, Statistics NZ

The fact that the current account deficit has started to turn upward reinforces two key dynamics which will be influential over the coming years. Firstly, the deleveraging dynamic has far from run its course. Second, it is critical that NZ.Inc continue to allocate resources into the tradable sector, at the expense of the non-tradable sector, to keep the trade balance in the black. Of course, there are no magic bullets here that will result in such a switch in a seamless fashion. This is one reason why we keep repeating our view of a lower trend growth rate over a number of years, in order for the rebalancing of the economy to truly take hold.

While Q2 GDP was considerably weaker than what the RBNZ had forecast, it was consistent with the spirit of the September *Monetary Policy Statement* assessment. In short, the household sector remains extremely cautious. Volumes of consumer durables and residential investment are in the process of recovering from cyclical lows. However, households are switching consumption and cutting back on discretionary spending.

Other details of the Q2 GDP report were also on the weaker side of the ledger and generally pointed to the recovery losing steam. From being a star performer, the manufacturing sector has rejoined the pack. A rundown in inventory levels is hardly a sign of business sector confidence even when manufacturing exports were strong. There were some encouraging signs with higher output from the forestry sector and increased mineral exploration, with solid gains in most of the services sector. However, these were generally few and far between.

ECONOMIC OVERVIEW



Source: ANZ, National Bank, Statistics New Zealand

Since the end of the recession, the recovery has been subdued, with growth only averaging 0.4 percent per quarter. Considering the degree of economic slack that normally emerges during a recession, this growth performance has been poor and has lagged previous cyclical recoveries. Key ingredients of typical cyclical recoveries, most notably rebounding business investment and household spending, have largely been absent. While overall investment has been rising, the mix has a less sustainable feel about it. With the economy barely moving despite a 3 percent OCR, a considerable amount of policy support is still needed, even after taking into account the usual lags.

Some are questioning why our growth forecast for calendar year 2011 (we are close to 4 percent, compared to consensus at 3.3 percent) is so upbeat considering all that is happening around us. Well, one reason is because of all that is happening around us and our cautious view on 2010! Regular readers will know that we have been at the weaker end of the economist's 2010 growth spectrum. Weak retailing and housing et al are reasons we are more optimistic on 2011, for it foretells of balance sheet repair. To be fair, the current account figures suggest 2011 could be another deleveraging dominated year. But we are not convinced that human behaviour will want to stand still (i.e. not spend) for that long. And certainly not during a Rugby World Cup year when we are the hosts. A current account deficit of 3 percent of GDP allows some scope for a bit of pent-up-demand before we get into the deficit worry zone of 4½ to 5 percent of GDP (which is when the net external debt position starts to rise relative to the size of the economy).

Prospects for 2011 are shaping up across a number of levels. Last week, Fonterra announced that the total dairy payout to farmers (after retentions) will be $6.37/kg ms for the 2009/10 season. This is the second highest payout on record, and will see incomes higher by $1.5bn compared to the previous season. Based on the 2010/11 season's forecast staying unchanged and assuming a recovery in milk production, we could see dairy incomes lift by a further $1bn this season. This will provide a decent fillip to the rural economy. While any spare cash will initially go straight into debt repayment, the increased rural incomes will still provide a core nucleus of cash for farm expenditure and capital.

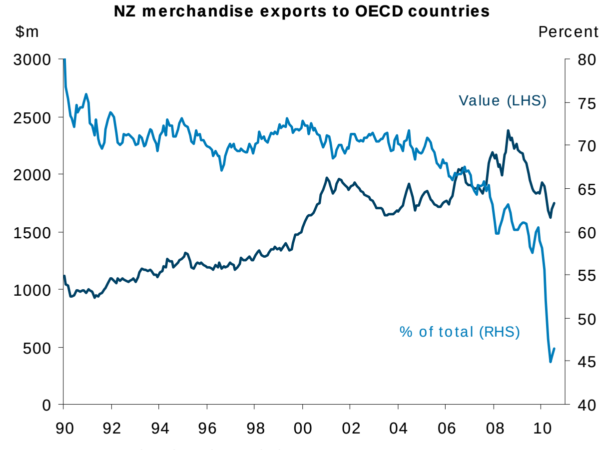
Last week's New Zealand Petroleum Conference was well received, and highlighted that NZ.Inc has potentially large and valuable mineral resources. The challenge will be putting in place the policies and necessary investment in order to take advantage of the wealth that lie beneath our feet and seas. This week we have included a piece of research on the China water situation, which show that China will gradually become a major net importer of agricultural products in the next 15 years. New Zealand, being well endowed with water, is obviously well placed to benefit from this. **Such dynamics are far from magic bullets, but are intended to remind people that all hope is not lost.** Markets (and economists' sentiment) are notorious for swaying with the prevailing breeze, and breezes tend to change direction frequently.

We continue to trust the spirit of our bathtub with waves shaped cycle. Three months ago, the bulls held the upper hoof, and now the bears hold the upper paw. A halfway house seems logical to us. Moreover, we have taken a guarded stance on 2010 all along and see little reason for a weak Q2 2010 GDP figure to alter our 2011 prognosis. But we will remind readers of course that within an optimistic view of 2011, we still believe the economy is facing a five year journey of 2 to 2½ percent trend growth. Differentiating a 3 to 3½ percent trend growth rate (the 1990's and early part of this decade experience) from 2 to 2½ percent may seem like semantics. But it foretells of an environment where there is growth alright, but one where it is still tough to make a buck. Such is the reality of an economy that faces an elongated period of structural rebalancing change.

Looking at this week, merchandise trade for August will show a return to the red, with a monthly deficit of around $400m expected. Declining export commodity prices, a stronger NZD and the usual seasonal pattern is expected to lower August export receipts, with imports marginally lower as a consequence of the firmer NZD/USD. With the global expansion looking increasingly uneven, we will be closely monitoring where the demand for New Zealand's exports is coming from. The increasing diversification of our export base provides some

ECONOMIC OVERVIEW

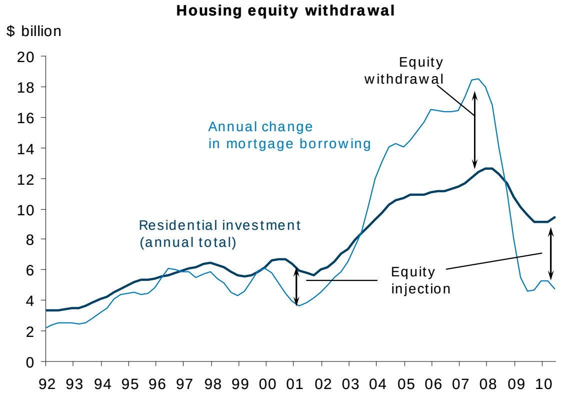
insulation from the chill coming from the major OECD economies.



Sources: ANZ, National Bank, Statistics NZ

We will also be watching the import numbers carefully. To ensure that growth prospects in 2011 have legs, it is imperative for future supply-side performance that we get more productive capital in place. Imports of capital goods have been ticking up towards $600m per month but still have some way to go to the post $700m level immediately preceding the recession.

Related to this is the apparent reluctance of businesses to borrow, with **Wednesday's credit aggregates data for August expected to highlight continuing deleveraging.** Agricultural debt has essentially flat-lined since last September and despite the positive talk by Fonterra, we do not expect much change. Household credit growth is expected to remain anaemic, with households still injecting more funds into the housing market than they are withdrawing from it. Our latest estimates suggest that the net equity injection by the household sector was in the region of $4.6bn in the June 2010 year. It is an $11bn turnaround in just three years and is one of the factors contributing to the softness in current consumer spending.



Sources: ANZ, National Bank, Statistics NZ, RBNZ

Building consents for August are expected to highlight continued improvement, but from low levels. We expect the number of new dwelling consents to rise by around 2 percent, with a rebound in ex-apartment consents following the July fall. The monthly value of non-residential consents is anticipated to rise by a similar margin to around $300m.

Finally, **Thursday's National Bank *Business Outlook* for September** will provide the opportunity to assess the impact on business sentiment from the Canterbury earthquake. It may seem a little rich for us to be talking the survey up as the most important indicator of the week given that we prepare it, but the survey was accurate in capturing the rapid easing in momentum in the economy in the middle of this year, and the broad-based nature of the weakness. Therefore, whether the easing trend is maintained, or a base is found, will be important in assessing how the economy will fare at the end of the year.

Turning to key offshore events for this week, **the major focus will be on US data in light of the FOMC statement last week which opened the door for further quantitative easing.** In particular, the ISM manufacturing, construction spending and consumer confidence releases will be closely watched. Chinese PMI data will also attract the usual interest for signs of how the world's second largest economy is faring.

RECENT LOCAL DATA

- **ANZ-Roy Morgan Consumer Confidence – September 2010.** Consumer Confidence was broadly unchanged at 116.4 (from 116.3 in July). The current conditions index eased to 102.9 (from 103.7). The future expectations component lifted to 125.5, buoyed by a more positive assessment of the economy during the next five years.
- **SNZ External Migration – August 2010.** Net permanent and long-term (PLT) immigration eased to a net inflow of 840 persons, from an inflow of 880 persons in July. In annual terms, the net inflow was 14,430 persons. PLT arrivals were broadly unchanged, whereas PLT departures rose by 0.8 percent, led by a 3.1 percent rebound in PLT departures to Australia. Overseas visitor arrivals rose by 0.6 percent to be 4.3 percent higher than 12-months earlier.
- **RBNZ Credit Card Billings – August 2010.** Total billings increased by a seasonally adjusted 0.5 percent (+2.0 percent y/y), led by a 0.7 percent increase in billings on domestic cards. Billings on overseas cards increased by 0.3 percent.

ECONOMIC OVERVIEW

- **SNZ Balance of Payments – Q2 2010.** A quarterly current account deficit of $880m was recorded, with a $2.0bn surplus on the trade balance being offset by a $2.8bn investment income deficit and $0.1b deficit on transfers. The annual deficit climbed to $5.6bn (3.0 percent of GDP) from the 2.4 percent annual trough in the March 2010 year.
- **SNZ Gross Domestic Product – Q2 2010.** GDP increased by 0.2 percent (1.9 percent y/y). A 0.6 percent increase in primary sector activity and 0.4 percent increase in services output was partly offset by a 1.0 percent fall in activity in the goods producing sectors, driven by a 4.0 percent fall in manufacturing output. The expenditure based measure registered a 0.4 percent quarterly increase (+2.3 percent y/y), with broadly flat household consumption and a large rundown in inventories offsetting firmer residential and business investment and a positive contribution from net exports.

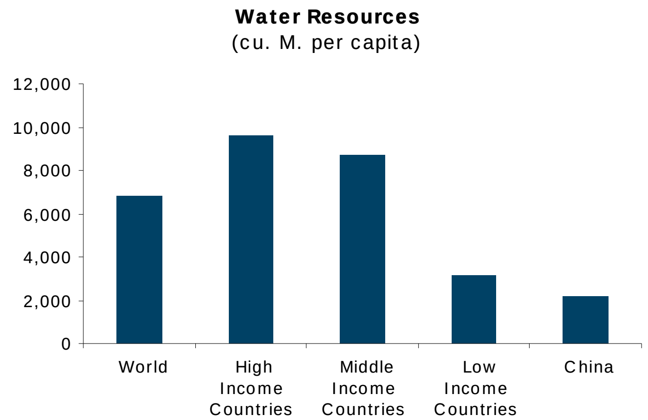
CHINA'S WATER SITUATION

SUMMARY

In this article, our China Economists Li-Gang Liu and Louis Lam provide an overview of the water situation there and what it implies for imported food demand. Their analysis shows that at this stage, China's food supply and demand are mostly balanced. However, with rapid urbanisation and rising income, it is increasingly less likely that China will maintain a balanced supply and demand picture for food, particularly with a low natural water endowment. Using some simple assumptions, they find that over the next 15 years, China's annual food shortage is likely to be around 111 million tons. The shortage is likely to be concentrated in high grade agricultural products, dairy, meat and other high protein products. This simple projection suggests that China will gradually become a major net importer of agricultural products in the next 15 years. This trend is already occurring but we suspect it will accelerate further.

CHINA'S ENDOWMENT IN WATER RESOURCES IS QUITE POOR

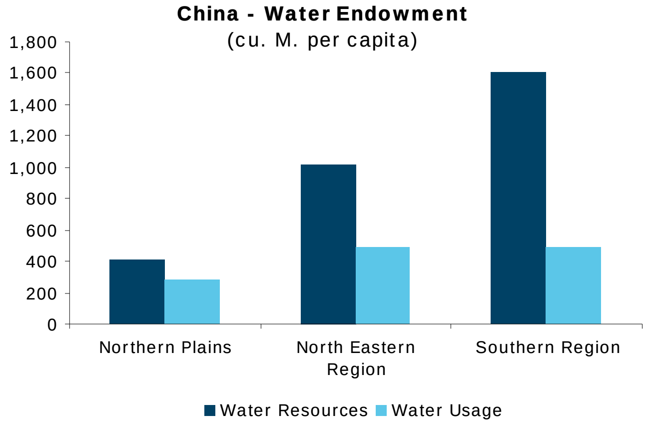
China is one of the most poorly endowed countries in the world in terms of fresh water resources. China's freshwater resource endowment – at 2,156 m^3/year per capita – is less than one-third of the world's average of 6,794 m^3/year. Interestingly, New Zealand's endowment of fresh water is a whopping 42 times more than China's at 90,400 m^3/year per capita[1]. China's fresh water endowment is also lower than the average of the low income economies.



Sources: ANZ, National Bank, China Statistical Yearbook 2009

CHINA'S WATER DISTRIBUTION IS EXTREMELY UNEVEN

While China's national average water endowment is well above the commonly defined "water scarce" threshold of 1,000m^3/year per capita, the distribution of water resources is extremely uneven. In China's northern regions, which have historically been the hub of China's massive population, industry and agriculture, the water shortage problem is especially acute. Northern China accounts for only 19.6 percent of naturally available water resources, or about 410 m^3 per capita, but 46.5 percent of the population and 64.8 percent of the arable land. Poor natural water resources, coupled with industrial pollution, are putting many Northern provinces in stress. Around 400 of 660 Chinese cities are reportedly short of water. Serious water shortages are being encountered in 108 cities, mostly in Northern China including mega cities like Beijing and Tianjin.



Sources: ANZ, National Bank, China Statistical Yearbook 2009

At the same time, prolonged overdrawing of underground water and industrial pollution are only amplifying the already grave situation. According to China's Ministry of Water Resources, in 2003 water shortages in the Huang-Huai-Hai Basin in Northern China were estimated at 15-20 billion m^3, and expected to reach 21-28 billion m^3 and 32-39.5 billion m^3 by 2010 and 2030 respectively. As per capita income increases over time, residential usage of water will compete with agricultural usage.

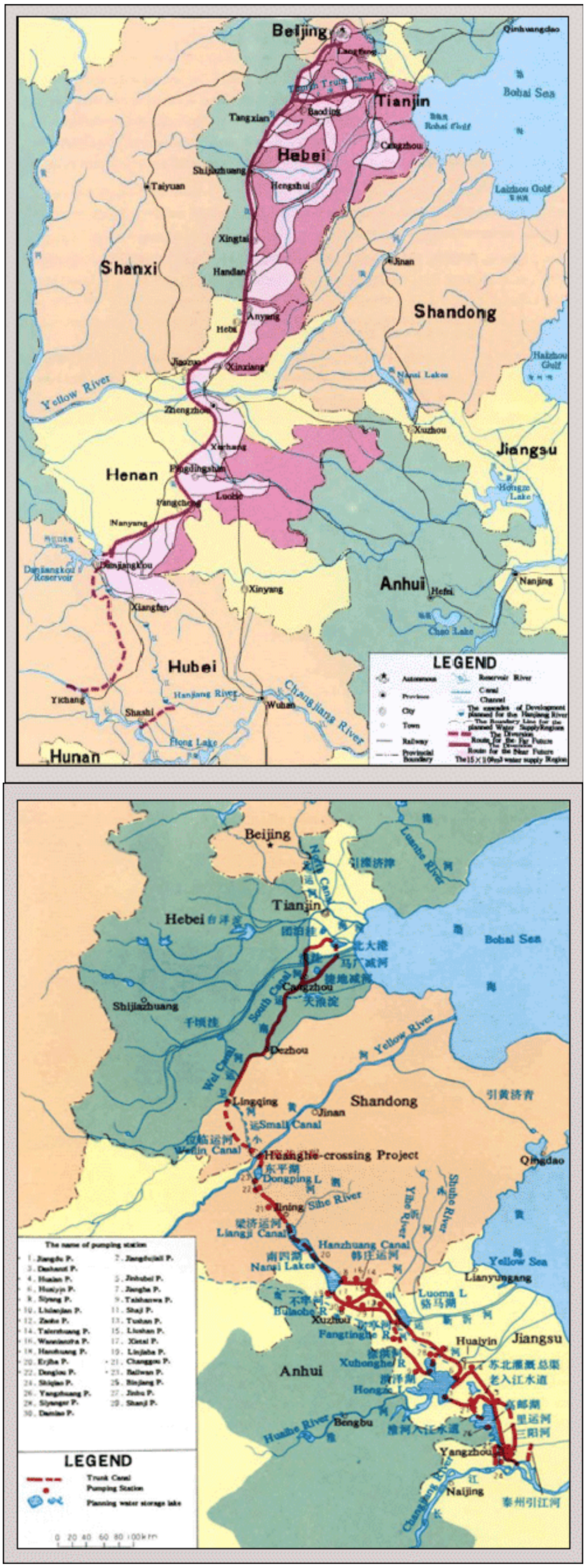
SOUTH-NORTH WATER DIVERSION PROJECT

Faced with a severe water shortage in China's northern regions, the country started a south-north water diversion project in 2002 as a solution, attempting to divert water from the relatively water abundant south to the north.

[1] Source: CIA

CHINA'S WATER SITUATION

MAP OF CENTRAL AND EASTERN ROUTE



Source: Ministry of Water Resources

The scheme consists of three main routes, namely the Eastern Route, the Central Route, and the Western Route. While construction of the Eastern and Central Route is underway, they have been plagued with delays and pollution problems.

The first phase of the Eastern Route is scheduled for completion in 2013. The diverted water is expected to travel through the Hangzhou-Beijing Grand Canal, from the north Yangtze River to the Huang-Huai-Hai Plain. The total length of the route is 1,156kms. The Central Route with a length of 1,267kms will divert water from the Danjiangkou reservoir along new canals through Henan and Hebei Provinces to cities including Beijing and Tianjin. The Central Route was originally scheduled for completion in 2008 for the Olympics, but was delayed. It will not send any water to Beijing and Tianjin until 2014. Total investment in the first phase of these two routes is estimated to be more than 180 billion yuan, according to the government estimates.

The western route was projected to draw on the more abundant water sources in the Qinghai-Tibet Plateau and supply 4 billion cubic metres of water to the north-western provinces. However, the western route, which was estimated to cost over 300 billion yuan, is considered much more difficult to build than the Eastern and Central, due to geographic aspects and technical limitations of the project. The project is scheduled to be completed by 2050.

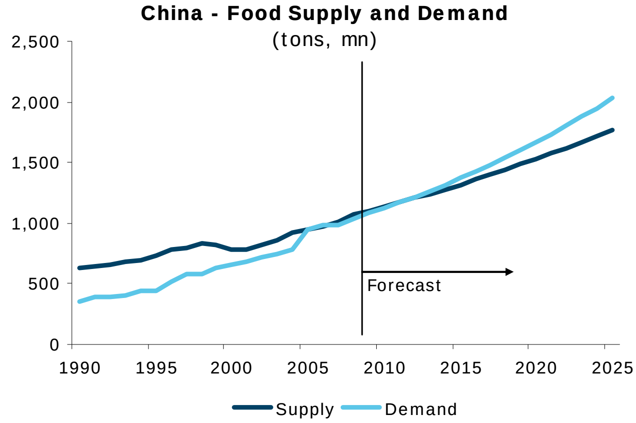
IMPLICATIONS FOR AGRICULTURAL PRODUCTION

As the northern region accounts for a majority of China's arable land, the lack of water has become a major problem for China's agricultural production. With accelerating urbanisation, water shortages in China's northern cities will only intensify. While the south-north diversion project is to provide an estimated total of 44.8 billion m^3 / year of water to the dry north, it is unlikely to bring a drastic change to the water shortage problem in the short-term. The eastern route and central route are still far from completion, and water pollution may reduce the useable water arriving in the northern cities. Furthermore, the huge investment required suggests that the costs of this water will be high; making it too expensive for farmland irrigation once the project is completed. It is therefore unlikely to provide much help for the production of agricultural goods.

At this stage, China's food supply and demand are mostly balanced. However, with rapid urbanisation and rising income, it seems increasingly less likely that China will maintain a balanced supply and demand food picture. Over the last ten years,

CHINA'S WATER SITUATION

China's food supply has increased by 4 percent per annum on average, while food demand increased at an average of 6 percent per year. Using a liberal assumption that China can maintain a growth rate in food supply at 3 percent per year in the next 15 years and a conservative assumption that food demand growth will be 4 percent per year, we find that over the next 15 years China's food shortage per year is likely to be around 111 million tons. The shortage is likely to be concentrated in high grade agricultural products, dairy, meat and other high protein products. This suggests that China will gradually become a major net importer of agricultural products in the next 15 years.



Sources: ANZ, National Bank

INTEREST RATE STRATEGY

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MARKET THEMES

- The key issue for interest rate markets remains US quantitative easing (QE). "Additional accommodation" now seems likely from the Fed.
- The high likelihood of a RBA rate hike next week stands out as apparently being the sole upside risk to interest rates this week. But it's priced in.
- Domestic markets continue to focus on recent weak data and the RBNZ's change of heart. Upside surprises seem far-fetched.

REVIEW AND OUTLOOK

The US FOMC Statement and NZ Q2 GDP data were undoubtedly the highlights of last week. Speculation that the Fed might announce further QE had been running red hot prior to the FOMC, and while none was forth-coming, **the Fed has explicitly acknowledged that it is "prepared to provide additional accommodation if needed".** The scene has been set – and with inflation at a 48 year low and unemployment still stubbornly high, most now feel that it's a case of when, not if, the Fed will take further steps. Of course, there's one dissenter that needs to be appeased yet, and it's not clear what that next step will be. However it is likely to be some variant of QE, specifically designed to keep long-term interest rates low. **This will almost certainly have an impact on NZ rates, especially at the long end – as speculation of QE already has. The bottom line – although NZ rates are already low relative to the economic outlook, global forces will likely take them lower yet.**

Surprisingly weak Q2 GDP data has also rattled nerves, and with the RBNZ now comfortable with the OCR lower for longer, it seems there is little holding the rates market back. Short end rates have already moved lower, paring back expectations of rate hikes. **And although in our view what's priced in now looks fair relative to our forecasts, pay side flow has evaporated, and the market remains vulnerable to weak data**, and offshore news – of which there is plenty this week, particularly in the US (house prices, ISMs, core PCE, confidence).

PREFERRED BORROWING STRATEGIES

The next few months are likely to be something of a "tug-of-war" between domestic fundamentals and offshore forces. Although the RBNZ are clearly comfortable with rates remaining lower for longer, the long-term domestic economic outlook remains positive (albeit less so than initially assumed). As such the market needs to recognise that the OCR is headed gradually higher over time. However this is offset by the need for lower interest rates in the US, which will continue to pull at NZ rates. In our mind this presents an opportunity for borrowers. However, we have to acknowledge that the outlook is less certain. In our view this adds significant weight to the arguments in favour of using options. Some may be put off by the premium, but with the curve having flattened substantially and rates having moved much lower in the last 6 months, strike levels are much more attractive.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	Firmly on hold for now.
NZ data	↔	Soft Q2 GDP raises more questions than it answers.
Fed Funds / front end	↔/↓	Setting the scene for further QE.
RBA	↔/↑	Rate hike next week likely. One of few upside risks.
US 10 year	↔/↓	Even if QE is a while away, threat of it will cap yields.
NZ swap curve	↔/↓	Biased to flatten. Short end rally complete, long end has downside risk.
Flow	↔/↓	Pay side has evaporated.
Technicals	↔/↓	Prior lows now in sight.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Oct-10	+2	+0
Thu 9-Dec-10	+6	+2
Thu 27-Jan-11	+15	+7
Thu 10-Mar-11	+29	+19
Thu 28-Apr-11	+40	+31
Thu 9-Jun-11	+46	+39
Thu 28-Jul-11	+54	+48

TRADING THEMES WE FAVOUR AT PRESENT

We still like swap spread normalisation trades, which are performing well now that spreads have narrowed from extreme negative levels towards zero. We've had to be patient, but with the short end now pricing in a benign scenario, the curve is set to flatten from here, led by the long end. We also prefer to be outright long the long end.

CURRENCY STRATEGY

SUMMARY

The NZD/USD has been dragged back above 0.7300 on the back of a US Federal Reserve that is prepared to engage in further quantitative easing if they feel the need to. A re-pricing of the RBA is also lending support to the NZD. Regardless of the weak domestic data and the fact that the RBNZ is out of play until next year, the base in the NZD/USD continues to climb with any move below 0.7300 now seen as a buying opportunity. Expect a test of topside resistance of 0.7400 to ensue.

MARKET THEMES

- NZ Q2 GDP was weak, but not all bad news with strong lift in dairy incomes confirmed.
- The NZD/AUD broke support at 0.7700 though it now looks over sold. In the short-term, any bounce to above 0.7800 should now be seen as a selling opportunity.
- EUR strength in the face of peripheral Europe debt crisis shows just how weak the USD is.
- BoJ has to go it alone. With no support and the US pressuring China for a stronger renminbi, it's hard to see the yen depreciating.

REVIEW AND OUTLOOK

The dovish RBNZ was followed by a weak Q2 GDP number, ensuring that rates are on hold for the remainder of 2010. Still, the NZD could not break the post-September MPS lows of 0.7220. The currency base climbed during the week with the low on Monday at 0.7255, Tuesday at 0.7260, Thursday (after the Q2 GDP number) at 0.7264 and Friday at 0.7276. This suggests solid support and we see the risk tilted towards a top side break of the 0.7400 resistance level. This week, we look for a 0.7300-0.7450 range. The NBNZ business confidence data on Thursday is the major domestic data release this week.

The FOMC has put quantitative easing back on the table. US inflation is getting too low for comfort, and with the fed funds rate already at zero and not signs of a decent lift in growth, the Fed is prepared to do more to support the US economy. Further quantitative easing looks to be all that is left in the toolkit. This is driving the greenback lower, with the USD index breaking below 79.50 and targeting 76.60.

NZD/AUD broke support at 0.7700 and confirms its medium term downtrend. However, we see this market as over sold at present, and are looking for a retracement back to 0.7800/0.7830 before heading lower again.

The EUR shrugged off the negative side of Basel III and widening credit spreads for its weaker members. This is solely a USD weakness story. Europe still has many obstacles to overcome, none of which will be helped by a stronger EUR. Germany is doing well, as shown by the recent IFO survey, which is putting more pressure on the weaker members. **Finally what do the BoJ do now?** They want a weaker yen just as the Fed signalled a weaker USD. The status quo would be a good out come.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Under fair value now but not that far off.
Yield	↔/↓	RBA could well move next week. RBNZ on hold till next year.
Commodities	↔	Soft commodities performing better, lending support to NZD.
Partial indicators	↓	Australian data outperforming NZ's.
Technicals	↔	Oversold. Looking for bounce to just above 0.78.
Sentiment	↔	Everyone bullish AUD.
Other	↑	At historically low levels.
On balance	↔	**Range trade 0.7650-0.7830.**

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 happy with weaker USD.
Commodities	↔/↑	Remain supportive overall.
Risk aversion	↔	Equities still relevant.
Partial indicators	↔/↓	NZ data still largely disappointing.
Technicals	↔	Strong support above 0.7250, targeting break of 0.74 resistance.
AUD	↑	Everyone bullish AUD.
Sentiment	↑	"New world/old world" theme shifting NZD sentiment toward Australia/Asia.
Other	↔	Domestic data weak but Fonterra news positive.
On balance	↔/↑	**Remains overall supported with rising base.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
27-Sep	JN	Merchnds Trade Balance Total - AUG	¥200.0B	¥804.2B	12:50
	EC	Euro-Zone M3 s.a. (YoY) - AUG	0.30%	0.20%	21:00
28-Sep	US	Chicago Fed Nat Activity Index - AUG	-0.5	0	01:30
	US	Dallas Fed Manf. Activity - SEP	-7	-13.5	03:30
	GE	GfK Consumer Confidence Survey - OCT	4.2	4.1	19:00
	UK	GDP (QoQ) - 2Q F	1.20%	1.20%	21:30
	UK	GDP (YoY) - 2Q F	1.70%	1.70%	21:30
	UK	Current Account (BP) - 2Q	-8.2B	-9.6B	21:30
	UK	CBI Reported Sales - SEP	25	35	23:00
	GE	Consumer Price Index (MoM) - SEP P	-0.20%	0.00%	02:00
29-Sep	GE	Consumer Price Index (YoY) - SEP P	1.30%	1.00%	02:00
	US	S&P/CaseShiller Home Price Ind - JUL	- -	147.97	02:00
	US	S&P/CS 20 City MoM% SA - JUL	-0.05%	0.28%	02:00
	US	S&P/CS Composite-20 YoY - JUL	3.10%	4.23%	02:00
	US	Consumer Confidence - SEP	52.3	53.5	03:00
	US	Richmond Fed Manufact. Index - SEP	6	11	03:00
	NZ	**Trade Balance - AUG**	**- -**	**-186M**	**10:45**
	NZ	**Imports - AUG**	**- -**	**3.75B**	**10:45**
	NZ	**Exports - AUG**	**- -**	**3.57B**	**10:45**
	JN	Tankan Lge Manufacturers Index - 3Q	7	1	12:50
	JN	Tankan Non-Manufacturing - 3Q	-2	-5	12:50
	AU	Conference Board Leading Index - JUL	- -	0.10%	13:00
	NZ	**Money Supply M3 YoY - AUG**	**- -**	**-2.80%**	**15:00**
	CH	HSBC Manufacturing PMI - SEP	- -	51.9	15:30
	UK	Index of Services (3mth/3mth) - JUL	0.70%	0.70%	21:30
	UK	Mortgage Approvals - AUG	47.0K	48.7K	21:30
	UK	M4 Money Supply (YoY) - AUG F	- -	1.80%	21:30
	EC	Business Climate Indicator - SEP	0.58	0.61	22:00
	EC	Euro-Zone Consumer Confidence - SEP F	-11	-11	22:00
30-Sep	**NZ**	**Building Permits MoM - AUG**	**- -**	**3.10%**	**10:45**
	UK	GfK Consumer Confidence Survey - SEP	-19	-18	12:01
	JN	Nomura/JMMA Manufacturing PMI - SEP	- -	50.1	12:15
	JN	Retail Trade MoM SA - AUG	1.90%	0.70%	12:50
	JN	Retail Trade YoY - AUG	4.70%	3.90%	12:50
	JN	Industrial Production (MoM) - AUG P	1.10%	-0.20%	12:50
	JN	Industrial Production YOY% - AUG P	16.90%	14.20%	12:50
	AU	HIA New Home Sales (MoM) - AUG	- -	-7.00%	14:00
	AU	Building Approvals (MoM) - AUG	0.00%	2.30%	14:30
	AU	Private Sector Credit MoM% - AUG	0.30%	0.10%	14:30
	AU	Private Sector Credit YoY% - AUG	2.90%	2.80%	14:30
	AU	Building Approvals (YoY) - AUG	10.40%	11.00%	14:30
	NZ	**NBNZ Activity Outlook - SEP**	**- -**	**25.7**	**15:00**
	NZ	**NBNZ Business Confidence - SEP**	**- -**	**16.4**	**15:00**
	JN	Housing Starts (YoY) - AUG	10.20%	4.30%	18:00
	JN	Construction Orders (YoY) - AUG	- -	-0.70%	18:00
	UK	Nat'wide House prices sa (MoM) - SEP	-0.30%	-0.90%	19:00
	UK	Nat'wide House prices nsa(YoY) - SEP	2.60%	3.90%	19:00
	GE	Unemployment Change (000's) - SEP	-20K	-17K	20:55

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
30-Sep	GE	Unemployment Rate (s.a) - SEP	7.60%	7.60%	20:55
	EC	Euro-Zone CPI Estimate (YoY) - SEP	1.80%	1.60%	22:00
1-Oct	US	GDP QoQ (Annualized) - 2Q T	1.60%	1.60%	01:30
	US	Personal Consumption - 2Q T	2.00%	2.00%	01:30
	US	Core PCE QoQ - 2Q T	1.10%	1.10%	01:30
	US	Initial Jobless Claims - 25 SEP	460K	465K	01:30
	US	Continuing Claims - 18 SEP	4468K	4489K	01:30
	US	Chicago Purchasing Manager - SEP	56	56.7	02:45
	US	NAPM-Milwaukee - SEP	58	59	03:00
	AU	AiG Performance of Mfg Index - SEP	- -	51.7	12:30
	JN	Natl CPI YoY - AUG	-0.90%	-0.90%	12:30
	JN	Natl CPI Ex Food, Energy YoY - AUG	-1.50%	-1.50%	12:30
	CH	PMI Manufacturing - SEP	52.8	51.7	14:00
	GE	Retail Sales (MoM) - AUG	0.40%	-0.30%	19:00
	GE	Retail Sales (YoY) - AUG	3.40%	0.80%	19:00
	AU	RBA Commodity Index SDR YoY% - SEP	- -	52.70%	19:30
	GE	PMI Manufacturing - SEP F	55.3	55.3	20:55
	EC	PMI Manufacturing - SEP F	53.6	53.6	21:00
	UK	BoE Housing Equity Withdrawal - 2Q	-£2.9B	-£3.2B	21:30
	UK	PMI Manufacturing - SEP	53.8	54.3	21:30
	EC	Euro-Zone Unemployment Rate - AUG	10.00%	10.00%	22:00
2-Oct	US	Personal Income - AUG	0.30%	0.20%	01:30
	US	Personal Spending - AUG	0.40%	0.40%	01:30
	US	PCE Deflator (YoY) - AUG	1.50%	1.50%	01:30
	US	Core PCE Deflator (MoM) - AUG	0.10%	0.10%	01:30
	US	Core PCE Deflator (YoY) - AUG	1.40%	1.40%	01:30
	US	U. of Michigan Confidence - SEP F	67	66.6	02:55
	US	ISM Manufacturing - SEP	54.5	56.3	03:00
	US	ISM Prices Paid - SEP	59	61.5	03:00
	US	Construction Spending MoM - AUG	-0.40%	-1.00%	03:00
3-Oct	CH	China Non-manufacturing PMI - SEP	- -	60.1	14:00

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

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 was a bit of a reality check, with the Q2 annual current account deficit climbing to 3 percent of GDP and Q2 quarterly GDP growth slowing to 0.2 percent. This week sees the release of merchandise trade and building consents data for August, which are expected to confirm a modest pace of recovery. The National Bank *Business Outlook* for September will provide the opportunity to assess if there were any earthquake related impacts on sentiment, after broadly unchanged readings for overall consumer sentiment in September. Earthquake related reconstruction will provide a boost to 2011 but GDP for Q3 2010 will be weighed down by earthquake disruptions. We continue to closely watch the soft gauges for signs of direction but continue to remain mindful of the earthquake impact on sentiment. Next week's Q3 QSBO is the next major read on how the economy fared during the third quarter.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 29 Sep (10:45am)	Overseas Merchandise Trade - Aug	In the red	Seasonal factors, a higher NZD/USD, and lower commodity prices should contribute to a $400m monthly deficit. The annual trade surplus should climb to $900m.
Wed 29 Sep (3:00pm)	RBNZ Credit Aggregates - Aug	Subdued	Deleveraging is ongoing with the subdued housing market likely to keep housing credit growth low.
Thur 30 Sep (10:45am)	Building Consents - Aug	Rising	Some reversal of the July fall in ex-apartment consents is expected. Can non-residential consents maintain recent vigour?
Thur 30 Sep (3:00pm)	NBNZ Business Outlook - Sep	- -	- -
Mon 4 Oct (3:00pm)	ANZ Commodity Price Index - Sep	**- -**	**- -**
Tue 5 Oct (10:00am)	NZIER QSBO – Q3	Easing off	The General business situation is expected to continue tracking lower, with domestic trading activity stalling. The Canterbury earthquake may push up surveyed capacity utilisation.
Wed 6 Oct (early am)	globalDairyTrade online auction	Inching higher	We expect the early October event to show a small step up in whole milk powder prices. The smaller quantities on offer are likely to add to price volatility in trading events.
Mon 11 Oct (10:45am)	Electronic Card Transactions - Sep	Better late than never	We expect a monthly increase of more than 2 percent as households take the opportunity to beat the GST rise.
Wed 13 Oct (10:45am)	Food Price Index - Sep	Moving higher	The unwinding of retail discounting and high commodity export prices should lift prices for groceries and meat.
Thur 14 Oct (10:00am)	REINZ Housing Market Statistics - Sep	Easing off	As a consequence of the Canterbury earthquake we expect a 5 percent fall in sales. Downward pressures on prices remain.
Thur 14 Oct (10:30am)	BNZ Business NZ PMI - Sep	Disruption	Christchurch is a major manufacturing hub so we expect some disruption. The spirit remains one of gradual expansion.
Thur 14 Oct (10:45am)	SNZ Retail Trade Survey - Aug	Cautious	Retail indicators suggest a modest increase in August retail sales, though no signs of a pre-GST spend-up are likely to show up in the data. Households continue to focus on repairing balance sheets.
Mon 18 Oct (10:45am)	Consumers Price Index – Q3	High and low	Boosted by ETS related charges and large increases in motor vehicle registration and licensing fees, we expect a quarterly increase in the CPI of 1.1 percent. Annual CPI inflation should ease to 1.6 percent.
Thur 21 Oct (10:45am)	International Travel and Migration – Sep	Up and down	A small net monthly PLT inflow is expected, with a risk of a larger than expected pick-up in departures – especially to Australia. We will be on the lookout for any tourism disruption in the visitor arrivals number arising from the Canterbury earthquake.
On Balance			**August data mixed but activity and confidence data for Q3 and Q4 will be subdued.**

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)	0.2	1.0	0.5	0.2	**0.4**	**0.5**	**1.2**	**1.4**	**1.6**	**0.5**
GDP (% yoy)	-1.6	0.5	1.9	1.9	**2.1**	**1.6**	**2.3**	**3.5**	**4.8**	**4.8**
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	-2.8	-2.4	-3.0	**-3.7**	**-3.0**	**-3.1**	**-3.0**	**-3.1**	**-3.1**
Terms of Trade (% qoq)	-1.6	5.8	6.1	2.0	**3.0**	**1.0**	**-0.5**	**-0.7**	**0.0**	**-1.0**
Terms of Trade (% yoy)	-14.1	-8.2	0.1	12.7	**17.9**	**12.5**	**5.6**	**2.7**	**-0.2**	**-2.1**

	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10
Retail Sales (% mom)	-0.4	0.7	-0.6	0.5	-0.3	0.4	1.0	-0.4	..	..
Retail Sales (% yoy)	2.0	2.3	2.4	4.4	2.7	1.9	3.4	2.2	..	..
Credit Card Billings (% mom)	-1.2	1.7	-0.2	0.8	-1.7	1.9	1.0	-1.3	0.5	..
Credit Card Billings (% yoy)	1.9	2.6	1.1	5.2	0.8	3.4	4.5	2.6	2.0	..
Car Registrations (% mom)	6.8	-0.6	0.4	5.2	2.9	-3.8	5.6	-6.4	-0.2	..
Car Registrations (% yoy)	0.3	15.9	31.4	31.7	40.5	30.5	35.8	16.0	19.0	..
Building Consents (% mom)	-3.7	-2.7	6.1	-0.3	8.5	-9.2	3.3	3.2	..	..
Building Consents (% yoy)	22.7	35.4	29.9	33.3	32.0	11.1	27.9	26.5	..	..
REINZ House Price (% yoy)	9.6	7.7	6.1	7.6	4.7	3.7	3.7	2.6	0.9	..
Household Lending Growth (% mom)	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	..	..
Household Lending Growth (% yoy)	2.7	2.7	2.7	2.8	2.7	2.5	2.5	2.3	..	..
ANZ-Roy Morgan Consumer Confidence	118.6	131.4	123.6	121.8	121.9	126.0	122.0	115.6	116.3	116.4
NBNZ Business Confidence	38.5	..	50.1	42.5	49.5	48.2	40.2	27.9	16.4	..
NBNZ Own Activity Outlook	36.9	..	41.9	38.6	43.0	45.3	38.5	32.4	25.7	..
Trade Balance ($m)	-26	271	328	608	660	765	214	-186	..	..
Trade Balance ($m annual)	-549	-176	-330	-160	178	37	581	573	..	..
ANZ World Commodity Price Index (% mom)	2.5	0.3	3.7	1.8	5.1	1.2	-1.6	-0.8	-1.4	..
ANZ World Commodity Price Index (% yoy)	30.4	36.7	48.6	49.5	53.2	51.8	50.1	47.3	38.6	..
Net Migration (sa)	1700	1850	1000	960	770	350	230	880	840	..
Net Migration (annual)	21253	22588	21618	20973	19954	17967	16504	15221	14507	..

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	Jul-10	Aug-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.726	0.699	0.735	0.710	0.720	0.734	0.730	0.720	0.710	0.700
NZD/AUD	0.802	0.785	0.765	0.755	0.750	0.753	0.760	0.766	0.755	0.795
NZD/EUR	0.556	0.551	0.545	0.568	0.600	0.612	0.608	0.610	0.602	0.583
NZD/JPY	62.78	58.86	62.02	60.35	62.64	65.33	67.16	67.68	69.58	70.00
NZD/GBP	0.463	0.455	0.465	0.461	0.465	0.474	0.471	0.462	0.449	0.432
NZ$ TWI	67.5	65.5	66.5	66.1	67.7	69.1	69.2	69.1	68.5	68.3
INTEREST RATES	Jul-10	Aug-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	3.75	4.00	4.25	4.75	5.25
NZ 90 day bill	3.27	3.21	3.17	3.30	3.70	4.20	4.30	4.70	5.20	5.50
NZ 10-yr bond	5.33	5.13	5.16	5.20	5.30	5.80	6.20	6.20	6.10	6.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.45	0.30	0.29	0.35	0.35	0.35	0.60	0.85	1.35	1.85
AU Cash Rate	4.50	4.50	4.50	5.00	5.25	5.50	5.75	6.00	6.00	6.00
AU 3-mth	4.78	4.75	4.83	5.30	5.60	6.00	6.00	6.20	6.10	6.10

	24 Aug	20 Sep	21 Sep	22 Sep	23 Sep	24 Sep
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.24	3.17	3.17	3.16	3.16	3.16
NZGB 11/11	3.59	3.62	3.64	3.61	3.54	3.52
NZGB 04/13	3.99	4.05	4.06	4.01	3.93	3.91
NZGB 12/17	4.87	5.00	5.02	4.97	4.88	4.86
NZGB 05/21	5.18	5.28	5.29	5.24	5.16	5.14
2 year swap	3.79	3.80	3.81	3.79	3.73	3.71
5 year swap	4.23	4.41	4.42	4.38	4.34	4.32
RBNZ TWI	66.1	66.8	66.9	67.1	66.6	66.4
NZD/USD	0.7035	0.7270	0.7288	0.7368	0.7325	0.7284
NZD/AUD	0.7925	0.7708	0.7707	0.7704	0.7665	0.7662
NZD/JPY	59.83	62.31	62.36	62.51	61.98	61.98
NZD/GBP	0.4558	0.4641	0.4678	0.4705	0.4680	0.4646
NZD/EUR	0.5569	0.5563	0.5567	0.5543	0.5470	0.5457
AUD/USD	0.8877	0.9432	0.9456	0.9564	0.9557	0.9507
EUR/USD	1.2632	1.3068	1.3092	1.3292	1.3391	1.3347
USD/JPY	85.05	85.71	85.57	84.84	84.62	85.09
GBP/USD	1.5433	1.5666	1.5578	1.5659	1.5653	1.5679
Oil (US$/bbl)	72.71	74.81	74.81	72.96	72.98	73.40
Gold (US$/oz)	1221.28	1278.15	1278.80	1289.40	1291.20	1294.15
Electricity (Haywards)	3.67	1.63	1.16	2.57	2.48	2.40
Milk futures (US$/contract)	116	120	118	118	118	118
Baltic Dry Freight Index	2861	2628	2562	2486	2461	2444

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.

NEW ZEALAND DISCLAIMER

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

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

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