

# NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

30 August 2010

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## TWEAKING

### ECONOMIC OVERVIEW

We have formally shifted to a no hike call for September. While somewhat "late" relative to a market that is effectively now pricing in the same, regular readers will be aware that we have been calling for a pause ever since the tightening cycle began. Our change of call also involves a couple of other tweaks, with a restart to the tightening cycle expected in December, and we now also see a stronger probability of a 50 basis point hike at some stage. We are still calling a "bathtub with waves" shaped economic cycle and expect the current down-leg to find a base and see improved momentum before year-end, though global palpitations make this difficult to envisage at present.

Last week was encouraging from a medium-term inflation viewpoint. The true test, however, will come from examining what price and wage setters actually do, with today's National Bank Business Outlook providing current insights into the pricing power of businesses. Commodity price data later in the week will provide important insights for the activity outlook.

### REGIONAL OUTPUT GAP UPDATE

Our regional output gap measures still show broad based idle capacity across the regions. Largely as a consequence of climbing capacity utilisation and a fall in the unemployment rate, the regional gap has narrowed since the March quarter. Highlighting the patchiness of the recovery, the margin of spare capacity varies by region, with the degree of spare capacity closing more quickly in South Island regions.

### INTEREST RATE STRATEGY

Global interest rates have been volatile and are having a significant impact on NZ interest rates. This has occurred at a time when the local market was already reeling from a string of weaker than expected data releases, extracting a heavy toll on the market. Expectations for monetary policy have changed significantly, with the first rate hike pushed out to March by the market. A rate hike in September now looks less likely. However the recovery has been delayed, rather than undermined, and we still see the OCR moving higher into late 2010/early 2011.

### CURRENCY STRATEGY

Despite a midweek dip below 0.7000, the NZD/USD finished last week marginally higher on positive equity moves. Indecision on the Australian election front began to fade from the forefront of markets as they started this week looking at the raft of Australian economic data to come. Offshore markets divided their attention equally between the bond and equity markets, leaving the USD virtually unchanged on the index. Look for initial AUD strength tempered by month end equity rebalancing, but boosted later this week by relatively positive economic data. The NZD should be dragged along for the ride with the potential to revisit the 0.7200+ area. Some expectation of intervention by the Bank of Japan may see JPY weakness later in the week.

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### THIS WEEK'S EVENTS

- **National Bank *Business Outlook* – August** (Monday 30 August, 3:00pm).
- **RBNZ Credit Growth – July** (Monday 30 August, 3:00pm). The usual themes are expected to be evident. Soft growth in household credit growth, ongoing deleveraging in business credit, and signs of the agriculture sector making some inroads in repaying their debt.
- **SNZ Building Consents - July** (Tuesday 31 August, 10:45am). The number of residential consents for new dwellings is expected to increase by around two percent to 1450 units. The value of non-residential consents is expected to remain broadly unchanged.
- **ANZ Commodity Price Index – August** (Wednesday 1 September, 3:00pm).
- **globalDairyTrade online auction – September** (Thursday 2 September, circa 6:00 am). We expect whole milk powder prices to show signs of improvement. For the early September event we expect a small increase, taking the average price to around US \$3,000 per tonne.

### WHAT'S THE VIEW?

**We have formally shifted to a no hike call for September.** While somewhat "late" relative to a market that is effectively now pricing in the same, regular readers will be aware that we have been

calling for a pause ever since the tightening cycle began. Hence, the underlying spirit is nothing new.

### **This change of call also involves a couple of other tweaks:**

- **We expect the tightening cycle to resume in December.** While tempting to push the pause out into Q1 2010, this would see monetary policy remaining on hold for between six to seven and a half months. This does not sit well with us, global challenges aside. The economy certainly needs monetary policy to remain supportive, but a 3 percent OCR is still extraordinarily low in the first place.
- **We now also see a stronger probability of a 50 basis point hike at some stage – though somewhat down the track.** We are still calling a bathtub with waves shaped cycle and expect the current down-leg to find a base and see improved momentum before year-end, though global palpitations make this difficult to envisage at present. Moreover, if the RBNZ accompanies a pause in September with a cautious tone (and there are certainly sufficient reasons to do so), there must be a counterbalance. There are still inflation risks to be mindful of, the yield curve is now flatter and three months out the global and local picture could look far better. Pausing may be the path of least regret at present, but it does not come risk free. So on the assumption that the global economy does not go through a double dip, pausing now implies more decisive action later. Recall that in January, the Governor came out with his "meaty chunks" comment in regards to what could happen. It may seem strange to be speculating of a 50 basis point move at some stage right now. But remember that three months ago, we seemed to be out of left-field talking about a pause in the cycle before year end!

**Like the RBNZ, we are in the process of finalising our quarterly forecasts. One of the key take-outs is of an economy that is failing to kick-on.** We have always had a pretty sombre view of 2010 and a more upbeat assessment of 2011. The spirit of this remains intact, although at present we are inclined to shave 2011 down a tad, but we are only talking from 3.9 percent to around 3¾ percent. Suffice to say that the spirit of our bathtub with waves shaped cycle is going to remain the underlying assessment, as the global economy continues to deleverage.

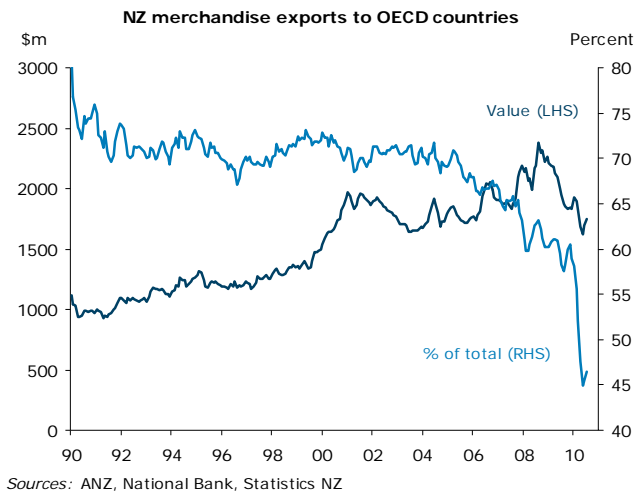
**We continue to draw readers' attention beyond discrete expectations for growth in a year, and**

## ECONOMIC OVERVIEW

### towards the trend growth rate over five years.

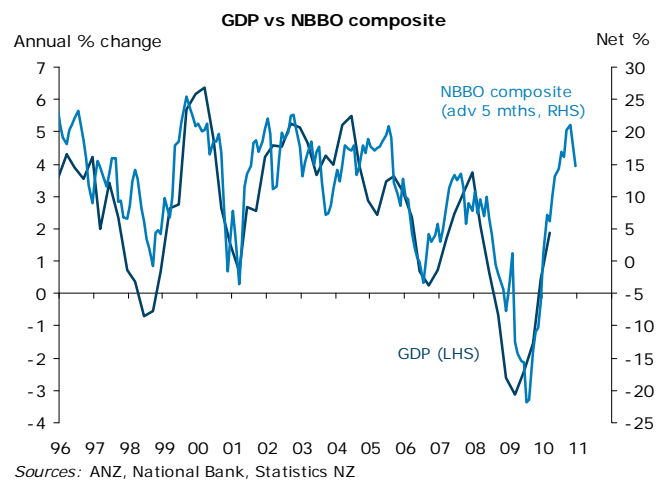
This is the bigger story. The growth potential of the economy is now capped by the deleveraging dynamic and frictions that restrict the immediate transfer of labour and capital between sectors. Specifically, NZ.Inc has been overweight on the non-tradable sector over the past decade, and the remobilisation towards the tradable sector is not going to happen overnight. Of course, we could always go back to business as usual but the endgame here would be a policy or market induced double-dip (think OCR through the roof and/or ratings downgrades). And we are shy of calling that.

**In that light, today's trade data showed that the diversification of export activity away from traditional markets has afforded New Zealand some temporary insulation.** There are quite sizeable shifts in trading patterns taking place. Underpinned by higher commodity export prices and stronger demand in emerging economies, the merchandise export share to emerging economies has lifted sharply in recent years. Strength in the Australian economy provides some reasons for cautious optimism. Given the higher degree of interconnectedness in the global economy, this is only likely to be a temporary respite.

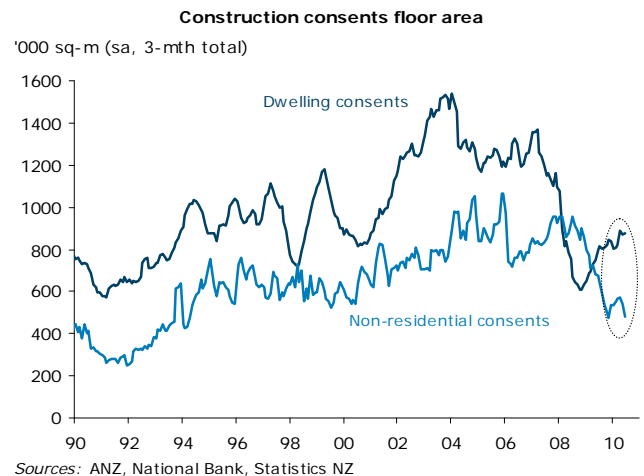


Later today the National Bank *Business Outlook* will provide an up to date assessment of the mood of businesses. Since peaking in May, various gauges of business sentiment have been on a moderating path. The outlook remains one of respectable growth, although the speed at which sentiment has been declining is of concern. We will be paying particularly close attention to employment and investment expectations – two critical legs to driving a robust recovery. The same can be said for pricing intentions. Last week saw an encouraging fall in the RBNZ's 2-year ahead inflation expectations

reading from 2.8 percent to 2.57 percent. Of course, such movements need to be taken with a grain of salt in some instances. But remember that the RBNZ made a number of key judgements in June. One of those related to price setting behaviour, which for now looks contained. Such containment gives greater flexibility to respond to another key judgment, which was for a respectable global and domestic growth picture, which is obviously not the case. Credit growth numbers for July, also due this afternoon, will confirm the poor business investment backdrop at present.



**Building consent data for July is anticipated to show conflicting fortunes.** Despite leading indicators (e.g. house sales) suggesting continued weakness, residential activity has been improving. In that light we expect to see a small increase in the number of residential consents for July.

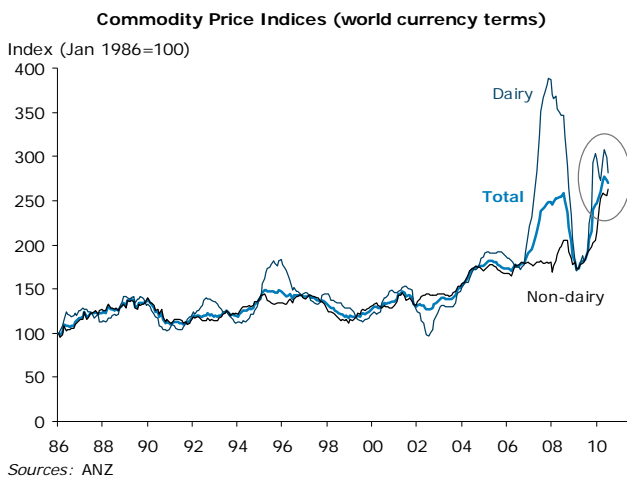


Prospects in the non-residential construction sector do not appear as bright. We anticipate the value of non-residential consents will remain unchanged from last month's lacklustre levels. With construction work relating to the Rugby World Cup nearing the home

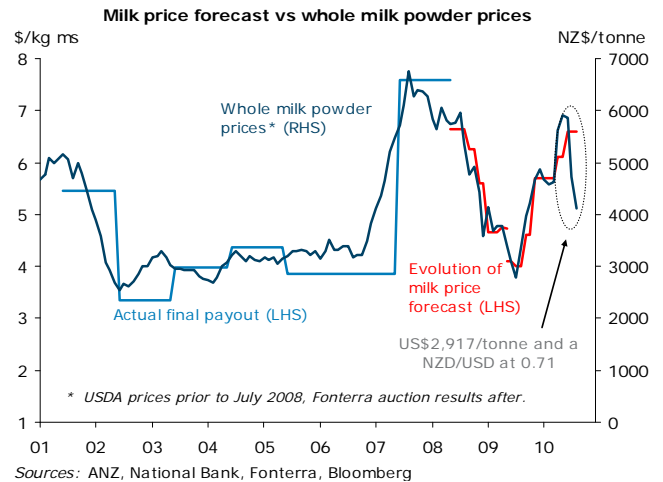
## ECONOMIC OVERVIEW

straight and with light at the end of the infrastructure pipeline, we are becoming increasingly concerned at the dearth of new projects on the horizon. The way things are heading, next year is shaping up as being a less than stellar year for the sector.

**The ANZ Commodity Price Index data for August is released on Wednesday.** Declining USD prices for whole milk powder from the August *globalDairyTrade* online auction suggests a further fall in the dairy price component of the index. While dairy is a sizeable chunk of NZ's commodity exports, we also need to bear in mind what is happening to the remaining 60 percent. Partly underpinned by higher prices for meat, wool and skins, prices for these commodities rose by more than 40 percent in the year to July, reaching all-time highs. While not every sector is benefiting, the current strength of export commodity prices is not just isolated to the dairy sector. This will help underpin a broadening in the export recovery.



Later this week also sees the *globalDairyTrade* online auction for early September. With the auction now moving to a twice monthly event, it will not be a long time between drinks. The average whole milk powder price for each monthly event has been trending down since hitting close to US\$4,000 per tonne in April. In maintaining their official forecast range for the milk payout (at \$6.60 milk price and distributable profit of 30-50 cents per kg of milk solids) Fonterra highlighted the possibility of a strengthening in international prices further into the season. At the very least, we expect whole milk prices to at least arrest the declines in recent months. Unless we see signs of improvement in the next few months, doubts over Fonterra's assessment will continue to grow.



**Internationally, the key focus will be on Q2 GDP in Australia and the ISM and nonfarm payrolls data in the US.** Our Australian colleagues are expecting a 0.7 percent print for Q2 GDP, slightly below the market consensus of 0.9 percent. But the key major events for global markets are the US ISM release on Thursday and the nonfarm payrolls on Friday night. Given the recent sharp declines in the various regional surveys, there is a real risk that we see a similar sharp fall in the ISM reading from the current 55.5 level. We cannot rule out a move below 50, which would signify contraction. Such an outcome will certainly see fears of a sharper slowdown in the US heightened. The August nonfarm payrolls is expected to see another large contraction as the Census workers finish off their contracts. Key will be whether the US unemployment rate continues to stabilise at around 9½ percent, or starts to move higher.

### RECENT LOCAL DATA

- **RBNZ Survey of Expectations - Q3.** The average 1-year ahead forecast for annual CPI inflation ticked up to 3.85 percent (2.9 percent previously), although the 2-year ahead average forecast for CPI inflation eased to 2.57 percent (from 2.8 percent). Expectations for annual GDP growth one year ahead eased to 2.3 percent (from 2.7 percent). Two year ahead expectations for annual average GDP growth eased slightly to 2.8 percent.

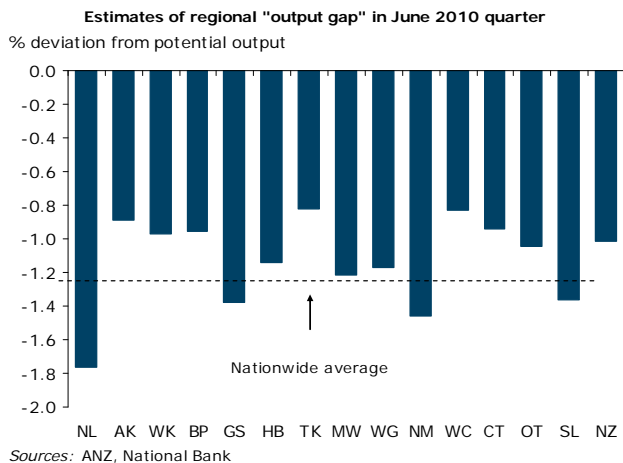
# REGIONAL OUTPUT GAP UPDATE

## SUMMARY

Our regional output gap measures still show broad based idle capacity across the regions. Largely as a consequence of climbing capacity utilisation and a fall in the unemployment rate, the regional gap has narrowed since the March quarter. Highlighting the patchiness of the recovery, the margin of spare capacity varies by region, with the degree of spare capacity closing more quickly in South Island regions.

## THE REGIONAL GAP

We present our updated regional output gap measures for the June 2010 quarter.<sup>1</sup> While it is common to estimate an output gap for the aggregate economy, regional measures give us a richer picture in terms of not just whether capacity pressure is rising or falling, but also its concentration and how broad it is. Regional measures are prone to a larger degree of uncertainty compared to nationwide data. But it is the broad trends and the regional variations that are the main focus.



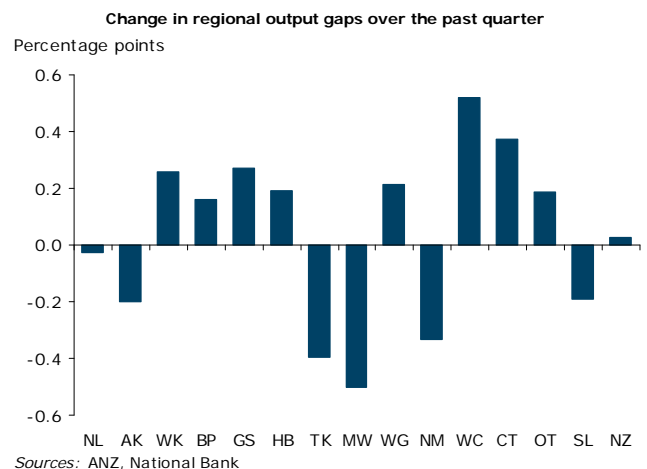
Key points from the updated analysis are:

- **There is still broad based idle capacity across the regions.** All regions continue to experience a

<sup>1</sup> Our regional output gap estimates are generated using economic activity data from the National Bank Regional Trends, unemployment rates from Statistics NZ's HLFS, and capacity utilization measures from the National Bank *Business Outlook* survey. We chose a broad approach for two reasons. First, it minimises some of the error that typically surrounds statistics at the regional level. Second, the RBNZ uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For the unemployment rate and activity, we use a band-pass filter to derive trend estimates, with the Cap-U gap being the difference between the current value and its historical average. The regional unemployment rates are advanced two quarters prior to filtering as this is a lagging indicator. Individual activity, unemployment and capacity utilisation gaps for each region are then given an equal weighting.

fairly sizeable negative output gap for the eighth consecutive quarter. Northland, Nelson-Marlborough, Gisborne and Southland are regions with the largest negative output gap. Regions with the smallest negative output gap are Taranaki and the West Coast.

- **Spare capacity is being used up as capacity constraints become evident.** Nationwide, the negative output gap narrowed by 0.4 percent. Most regions recorded a narrowing in the negative output gap, with the most pronounced narrowing being in the West Coast, Canterbury and Otago. Conversely, regional gaps widened for Manawatu.
- **Of some concern, this narrowing is coming from the supply-side of the economy.** According to the National Bank Regional Trends, output rose by only 0.4 percent in the June quarter, although there were strong regional divergences, with the South Island leading the charge. A climb in surveyed capacity utilisation was also more prevalent in South Island regions and suggests this firming of activity is quickly eroding spare capacity.



Note: NL = Northland, AK = Auckland, WK = Waikato, BP = Bay of Plenty, GS = Gisborne, HB = Hawke's Bay, TK = Taranaki, MW = Manawatu-Whanganui, WG = Wellington, NM = Nelson-Marlborough, WC = West Coast, CT = Canterbury, OT = Otago, SL = Southland.

## THE UPSHOT

The persistence of negative output gaps across the regions suggests there is still spare capacity in the economy. However, the gap is closing, with the South Island leading the charge. The narrowing in the output gap is also coming from truncated supply-side capacity, which appears to be a consequence of low business investment. This does not bode well for future supply-side capacity, and could see inflation pressures emerge early.

# INTEREST RATE STRATEGY

## SUMMARY

Global interest rates have been volatile and are having a significant impact on NZ interest rates. This has occurred at a time when the local market was already reeling from a string of weaker than expected data releases, extracting a heavy toll on the market. Expectations for monetary policy have changed significantly, with the first rate hike pushed out to March by the market. A rate hike in September now looks less likely. However the recovery has been delayed, rather than undermined, and we still see the OCR moving higher into late 2010/early 2011.

## MARKET THEMES

- We have changed our view and now expect the RBNZ to leave policy unchanged in September. There is simply too much uncertainty at the moment for the RBNZ to tinker with policy.
- Bernanke's speech disappointed the market, which was expecting news of a further round of quantitative easing (QE).
- Swap spreads have stabilised after flirting with significantly negative levels. We expect the market to normalise as buyers of bonds emerge.

## REVIEW AND OUTLOOK

**US interest rates were very volatile last week**, with the US 10-year bond yield falling to as low as 2.42% mid-week, only to rise and close near its weekly high of 2.64%. The US economic data continues to be weak, spurring the market to anticipate further QE by the US Federal Reserve. However, **Fed Chairman Bernanke's speech at the annual central banker's symposium at Jackson Hole proved to be a disappointment, as there was no commitment to further policy support.** Japanese and German rates have also been generally moving sharply lower, with markets fearful that Japan will have no choice but to ease more, and German bunds benefiting from safe haven flows as Eurozone growth concerns rise as fiscal austerity takes hold. Global rates have always had a powerful impact on NZ rates, but the sheer size of recent moves has overwhelmed the market, taking long term swap rates to their lowest levels since the bearish days of early 2009. **Flow has been particularly influential in recent moves.** Whereas greater liquidity saw the swap market lead the rally, the resultant narrowing/inversion of swap spreads has caught the market's eye, and spreads have started moving out. Pay side has also been evident over the last few sessions as 10yr swap moved through 4.75 percent.

## PREFERRED BORROWING STRATEGIES

Borrowers face yet another conundrum. Whereas at the beginning of the year borrowers had to choose between low floating rates and a set of fixed rates that most people thought were heading higher, borrowers must now choose between slightly higher floating rates, and fixed rates that while low by historical standards, may head lower yet. The threat of QE in the US is like an elephant in the room for local interest rates, and things may intensify yet. It would therefore be foolish not to acknowledge the very real risk that interest rates continue to move lower. But with rates moving to historically low levels consistent with the OCR being low for an unrealistically long period of time, it's equally important to acknowledge that it is global monetary factors, as opposed to local fundamentals that are keeping a lid on rates. As such we do see benefit in incrementally adding to hedges as rates move lower. As noted last week, doing so will lower your average rate as rates move lower, but leave you with more cover if they start rising again. This is a valid strategy when uncertainty is as high as it is.

## GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	RBNZ look set to leave policy on hold in September.
NZ data	↔	Fall in inflation expectations takes pressure off RBNZ.
Fed Funds / front end	↓	It looks like a case of when, not if QE comes along.
RBA	↔/↑	Market pricing in rate cuts – seems premature.
US 10 year	↓	Keeps making new yield lows. 2% beckons.
NZ swap curve	↔/↓	Flattening to intensify. Swap spreads to stay negative.
Flow	↔/↓	One way traffic. Mortgage pay flow still very light.
Technicals	↔/↓	5yr break of 4% looms.

## MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 16-Sep-10	+8	+5
Thu 28-Oct-10	+15	+12
Thu 9-Dec-10	+16	+17
Thu 27-Jan-11	+23	+22
Thu 10-Mar-11	+30	+27
Thu 28-Apr-11	+39	+34
Thu 9-Jun-11	+41	+47

## TRADING THEMES WE FAVOUR AT PRESENT

Swap spreads pushed further into negative territory than we thought, but have now stabilised. We expect spreads to move back towards flat as investors take advantage of the significant value that has emerged from asset swapping bonds back to floating. AUD 12mth OIS has outperformed its NZD equivalent as expected. However progress from here will be slow as the NZ market catches up on Australia.

# CURRENCY STRATEGY

## SUMMARY

Despite a midweek dip below 0.7000, the NZD/USD finished last week marginally higher on positive equity moves. Indecision on the Australian election front began to fade from the forefront of markets as they started this week looking at the raft of Australian economic data to come. Offshore markets divided their attention equally between the bond and equity markets, leaving the USD virtually unchanged on the index. Look for initial AUD strength tempered by month end equity rebalancing, but boosted later this week by relatively positive economic data. The NZD should be dragged along for the ride with the potential to revisit the 0.7200+ area. Some expectation of intervention by the Bank of Japan may see JPY weakness later in the week.

## MARKET THEMES

- NZD upside bias expected as it remains supported by a stronger AUD.
- NZD/AUD cross support contained within a 0.7850 – 0.7980 range.
- AUD should shake off the Australian election blues and begin to swing higher off the back of positive economic releases.

## REVIEW AND OUTLOOK

**Strong demand, both onshore and offshore, on dips sub 0.7000 for the NZD/USD last week was central to the recovery later in the week.** It will be another week of watching offshore developments. In order of relevance and importance, the equity and risk aversion signals continue to take precedence with developments economically over in Australia an assisting factor for higher NZD moves. Essentially NZD/USD remains in a broad 0.6850 to 0.7400 range. Current level is in “no-man’s land”. While the domestic dataflow has mainly played second fiddle, the National Bank *Business Outlook* and *globalDairyTrade* online auction this week may have some influence. But global influences will continue to hold sway over the NZD’s fortunes.

**A similar picture to review for the AUD last week as it survived the current malaise on the election front.** This week will have the Australian market squarely focussed on economic releases. It is hard to imagine on a relative basis that they will under perform and therefore AUD strength is likely. This should ensure that the NZD/AUD cross remains capped on the topside and unable to break back above the 0.8000 level in the short term. Some equity rebalancing for month end flows may see another swing towards resistance at 0.7970 but it would be a hard ask to see this broken this week.

**The central bankers’ conference at Jackson Hole is unlikely to provide any real surprises.** Fed Chairman Bernanke’s much anticipated speech has already disappointed the market by not outlining further QE measures. Despite the desire of markets to find surprises, more likely news out of Japan on the intervention front will star instead. Recent rhetoric has been strong and without actually following this up with action, the JPY would strengthen beyond tolerable levels. This may see the NZD/JPY initially move higher as a result.

### NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Not that far off fair value.
Yield	↔	RBA on hold, RBNZ the same too?
Commodities	↓	Australian commodity prices outperforming NZ’s.
Partial indicators	↓	Australian data outperforming NZ’s.
Technicals	↓	Support at 0.7870, resistance at 0.8000.
Sentiment	↔	Equities and China still influential.
Other	↑	Australian economic data to outweigh election results
<b>On balance</b>	↔	<b>Range trade 0.78-0.82</b>

### NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	FOMC to hold long end down.
Commodities	↔/↑	Remain supportive overall.
Risk aversion	↔	Mixed.
Partial indicators	↔/↓	NZ data still largely disappointing.
Technicals	↔	Support at 0.7050. Resistance at 0.7200.
AUD	↑	Australian economic data to lift.
Sentiment	↔/↓	Euro sovereign concerns starting to emerge again.
Other	↔/↓	Market still massively short the USD.
<b>On balance</b>	↔/↓	<b>Remains overall supported sub 0.70USD</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
30-Aug	NZ	<b>Trade Balance - JUL</b>	-40M	276M	10:45
	AU	Company Operating Profit QoQ% - 2Q	5.8%	3.9%	13:30
	AU	Inventories - 2Q	0.4%	0.5%	13:30
	NZ	<b>NBNZ Business Confidence - AUG</b>	-	27.9	15:00
	NZ	<b>Money Supply M3 YoY - JUL</b>	-	-3.3%	15:00
	EC	Business Climate Indicator - AUG	0.7	0.66	21:00
	EC	Euro-Zone Indust. Confidence - AUG	-4	-4	21:00
	EC	Euro-Zone Consumer Confidence - AUG F	-12	-12	21:00
	EC	Euro-Zone Economic Confidence - AUG	101.6	101.3	21:00
	EC	Euro-zone Services Confidence - AUG	6	6	21:00
31-Aug	US	Personal Income - JUL	0.3%	0.0%	00:30
	US	Personal Spending - JUL	0.3%	0.0%	00:30
	US	PCE Core (MoM) - JUL	0.1%	0.0%	00:30
	US	PCE Core (YoY) - JUL	1.4%	1.4%	00:30
	US	Dallas Fed Manf. Activity - AUG	-16.0%	-21.0%	02:30
	NZ	<b>Building Permits MoM - JUL</b>	2.0%	3.5%	10:45
	UK	GfK Consumer Confidence Survey - AUG	-24	-22	11:01
	JN	Industrial Production (MoM) - JUL P	-0.2%	-1.1%	11:50
	JN	Retail Trade MoM SA - JUL	0.5%	0.4%	11:50
	JN	Large Retailers' Sales - JUL	-1.3%	-3.0%	11:50
	AU	Private Sector Credit MoM% - JUL	0.3%	0.2%	13:30
	AU	Retail Sales s.a. (MoM) - JUL	0.4%	0.2%	13:30
	AU	Current Account Balance - 2Q	-6500M	-16551M	13:30
	AU	Building Approvals (MoM) - JUL	-0.7%	-3.3%	13:30
	AU	Australia Net Exports of GDP - 2Q	0.3	-0.5	13:30
	AU	Building Approvals (YoY) - JUL	6.1%	13.2%	13:30
	JN	Housing Starts (YoY) - JUL	2.0%	0.6%	17:00
	JN	Annualized Housing Starts - JUL	0.756M	0.750M	17:00
	GE	Unemployment Change (000's) - AUG	-20K	-20K	19:55
	GE	Unemployment Rate (s.a) - AUG	7.6%	7.6%	19:55
	UK	Net Consumer Credit - JUL	0.0B	-0.1B	20:30
	UK	Net Lending Sec. on Dwellings - JUL	0.7B	0.7B	20:30
	UK	Mortgage Approvals - JUL	46.5K	47.6K	20:30
	UK	M4 Money Supply (MoM) - JUL F	-	0.4%	20:30
	EC	Euro-Zone CPI Estimate (YoY) - AUG	1.6%	1.7%	21:00
	EC	Euro-Zone Unemployment Rate - JUL	10.0%	10.0%	21:00
1-Sep	US	S&P/CS 20 City MoM% SA - JUN	0.2%	0.5%	01:00
	US	Chicago Purchasing Manager - AUG	57	62.3	01:45
	US	Consumer Confidence - AUG	50.9	50.4	02:00
	US	NAPM-Milwaukee - AUG	62	66	02:00
	US	Minutes of FOMC Meeting - AUG	-	-	06:00
	AU	AiG Performance of Mfg Index - AUG	-	54.4	11:30
	CH	PMI Manufacturing - AUG	51.5	51.2	13:00
	AU	Gross Domestic Product (QoQ) - 2Q	0.9%	0.5%	13:30
	CH	HSBC Manufacturing PMI - AUG	-	49.4	14:30
	NZ	<b>ANZ Commodity Price - AUG</b>	-	-0.8%	15:00
	JN	Vehicle Sales (YoY) - AUG	-	15.0%	17:00
	GE	Retail Sales (MoM) - JUL	0.5%	-0.9%	18:00

Continued on following page



## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Sep	AU	RBA Commodity Index SDR YoY% - AUG	- -	51.0%	18:30
	GE	PMI Manufacturing - AUG F	58.2	58.2	19:55
	EC	PMI Manufacturing - AUG F	55	- -	20:00
	UK	PMI Manufacturing - AUG	57	57.3	20:30
	US	Challenger Job Cuts YoY - AUG	- -	-57.2%	23:30
2-Sep	US	ADP Employment Change - AUG	17K	42K	00:15
	US	ISM Manufacturing - AUG	52.8	55.5	02:00
	US	ISM Prices Paid - AUG	55.3	57.5	02:00
	US	Construction Spending MoM - JUL	-0.5%	0.1%	02:00
	AU	Trade Balance - JUL	3100M	3539M	13:30
	UK	Nat'wide House prices sa (MoM) - AUG	-0.3%	-0.5%	18:00
	UK	PMI Construction - AUG	53.2	54.1	20:30
	EC	Euro-Zone PPI (MoM) - JUL	0.3%	0.3%	21:00
	EC	Euro-Zone GDP s.a. (QoQ) - 2Q P	1.0%	1.0%	21:00
	EC	ECB Announces Interest Rates - 37500	1.0%	1.0%	23:45
3-Sep	US	Nonfarm Productivity - 2Q F	-1.9%	-0.9%	00:30
	US	Unit Labor Costs - 2Q F	1.2%	0.2%	00:30
	US	Initial Jobless Claims - 46966	475K	473K	00:30
	US	Continuing Claims - 44409	4430K	4456K	00:30
	US	Factory Orders - JUL	0.4%	-1.2%	02:00
	US	Pending Home Sales MoM - JUL	-1.0%	-2.6%	02:00
	AU	AiG Performance of Service Index - AUG	- -	46.6	11:30
	JN	Capital Spending excl Sftwre - 2Q	-5.9%	-12.9%	11:50
	JN	Capital Spending - 2Q	-6.5%	-11.5%	11:50
	CH	China Non-manufacturing PMI - AUG	- -	60.1	13:00
	CH	China HSBC Services PMI - AUG	- -	56.3	14:30
	GE	PMI Services - AUG F	58.5	- -	19:55
	EC	PMI Services - AUG F	55.6	- -	20:00
	EC	PMI Composite - AUG F	56.1	- -	20:00
	UK	PMI Services - AUG	52.9	53.1	20:30
	EC	Euro-Zone Retail Sales (MoM) - JUL	0.2%	0.0%	21:00
4-Sep	US	Change in Nonfarm Payrolls - AUG	-100K	-131K	00:30
	US	Change in Private Payrolls - AUG	47K	71K	00:30
	US	Change in Manufact. Payrolls - AUG	10K	36K	00:30
	US	Unemployment Rate - AUG	9.6%	9.5%	00:30
	US	Avg Hourly Earning MOM All Emp - AUG	0.1%	0.2%	00:30
	US	Avg Weekly Hours All Employees - AUG	34.2	34.2	00:30
	US	ISM Non-Manf. Composite - AUG	53.2	54.3	02:00

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 RBNZ survey of expectations highlighted a short-term GST impact, but with growth expectations being scaled back, expected inflation at the 2-year horizon dipped slightly. This week's data is expected to show a relatively slow start to activity in Q3, with business sentiment and commodity price releases providing further insights. Rapidly approaching is the GDP data for Q2, which we expect will highlight a "respectable" pace of expansion. Data readings for Q3 should highlight moderate expansion, and we will closely watch the soft gauges for signs of direction beyond that.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 30 Aug (3:00pm)	National Bank Business Outlook –Aug	- -	- -
Mon 30 Aug (3:00pm)	RBNZ Credit Growth - Jul	Flat	The usual themes are expected to be evident: soft growth in household credit growth, ongoing deleveraging in business credit, and signs of the agriculture sector repaying their debt.
Tue 31 Aug (10:45am)	SNZ - Building Consents – Jul	Residential rising but non-residential flat	Residential consent issuance is expected to increase by 2 percent, but remain at historically low levels. The value of non-residential consents is expected to remain broadly unchanged.
Wed 1 Sep (3:00pm)	ANZ Commodity Price Index – Aug	- -	- -
Tue 7 Sep (10:45am)	SNZ Wholesale Trade Survey – Q2	Improving	Rising motor vehicle registrations and higher Q2 retail sales suggest a further climb in wholesale sales. Wholesale stocks are expected to continue climbing from their mid-2009 nadir.
Wed 8 Sep (10:45am)	SNZ Value of Work put in place -Q2	Heading down	Residential work put in place volumes are expected to register a further small increase. Reflecting low consent issuance, non-residential work is expected to contract by around 5 percent.
Wed 8 Sep (10:45am)	SNZ Economic Survey of Manufacturing – Q2	Dry weather effect	We expect around a 1 to 1.5 percent increase in ex-primary volumes. Primary manufacturing volumes are anticipated to be weighed down by lower dairy production.
Thur 9 Sep (10:45am)	SNZ Electronic Card Transactions - Aug	Rising	Stronger July core spending suggests retailing is finding its feet, although the weakness in fuel retailing is suspicious. Still waiting for a tangible Rugby World Cup effect.
Fri 10 Sep (10:45am)	Overseas Trade Indexes – Q2	Still on the up	The terms of trade are expected to continue their upward march, courtesy of climbing export commodity prices. Lower primary food production is expected to weigh down on export volumes whilst recovering domestic demand should boost imports.
Mon 13 Sep (10:45am)	Food Price Index - Aug	Easing	Weather related price increases have been evident in the past few months as have lagged-commodity price increases for dairy and meat. We expect some reversal of this.
Tue 14 Sep (10:00am)	REINZ Housing Market Statistics – Aug	Flat	The stand-off between buyers and sellers is likely to continue, with only a small increase in sales volumes expected to eventuate. Prices are expected to remain flat to falling.
Tue 14 Sep (10:45am)	Retail Trade Survey – Jul	Stirring	The June report highlighted more vigour. Retail indicators suggest the possibility of a slight pullback in July. The spirit remains of a strengthening trend in retail spending till October, followed by a period of consolidation.
Tue 21 Sep (10:45am)	International Travel and Migration - Aug	Up	Last month's 1,000 net inflow was a welcome development. We expect a similarly sized inflow but risks of a pick-up in departures (after last month's fall) point to a smaller net inflow.
Wed 22 Sep (10:45am)	Balance of Payments – Q2	Back to usual	Despite a large trade surplus we expect a large investment income deficit to deliver a quarterly deficit. The annual deficit is expected to climb to 3.7 percent of GDP.
Tue 21 Sep (10:45am)	Gross Domestic Product – Q2	Respectable	We expect a 0.7 percent increase. Lower primary sector production to be offset by firming services output.
<b>On Balance</b>		<b>Building</b>	<b>Recovery continuing but signs of momentum easing.</b>

# ECONOMIC FORECASTS AND INDICATORS

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.3	0.9	0.6	<b>0.7</b>	<b>1.5</b>	<b>-0.1</b>	<b>1.1</b>	<b>1.3</b>	<b>1.6</b>	<b>0.5</b>
GDP (% yoy)	-1.5	0.5	1.9	<b>2.5</b>	<b>3.7</b>	<b>2.7</b>	<b>3.2</b>	<b>3.9</b>	<b>4.0</b>	<b>4.6</b>
CPI (% qoq)	1.3	-0.2	0.4	0.3	<b>1.1</b>	<b>2.8</b>	<b>0.6</b>	<b>1.0</b>	<b>0.8</b>	<b>0.5</b>
CPI (% yoy)	1.7	2.0	2.0	1.8	<b>1.6</b>	<b>4.6</b>	<b>4.8</b>	<b>5.6</b>	<b>5.3</b>	<b>3.0</b>
Employment (% qoq)	-0.8	0.0	1.0	-0.3	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>	<b>0.6</b>	<b>0.4</b>
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	<b>1.3</b>	<b>1.6</b>	<b>1.2</b>	<b>2.2</b>	<b>2.3</b>	<b>2.3</b>
Unemployment Rate (% sa)	6.5	7.1	6.0	6.8	<b>6.6</b>	<b>6.4</b>	<b>6.1</b>	<b>5.7</b>	<b>5.5</b>	<b>5.4</b>
Current Account (% GDP)	-3.2	-2.9	-2.4	<b>-2.9</b>	<b>-3.7</b>	<b>-2.8</b>	<b>-3.0</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.9</b>
Terms of Trade (% qoq)	-1.6	5.8	5.8	<b>3.9</b>	<b>2.4</b>	<b>1.0</b>	<b>-0.6</b>	<b>-0.6</b>	<b>0.1</b>	<b>-1.0</b>
Terms of Trade (% yoy)	-14.1	-8.2	-0.2	<b>14.4</b>	<b>19.1</b>	<b>13.7</b>	<b>6.8</b>	<b>2.2</b>	<b>-0.2</b>	<b>-2.0</b>

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Retail Sales (% mom)	0.7	-0.5	0.7	-0.6	0.5	-0.3	0.4	0.9	..	..
Retail Sales (% yoy)	2.4	2.0	2.3	2.4	4.4	2.7	1.9	3.4	..	..
Credit Card Billings (% mom)	0.8	-1.2	1.6	-0.2	0.8	-1.7	1.9	1.0	-1.2	..
Credit Card Billings (% yoy)	1.6	1.9	2.6	1.1	5.2	0.8	3.4	4.4	2.7	..
Car Registrations (% mom)	2.1	6.8	-0.7	0.4	5.0	3.0	-3.7	5.8	-6.0	..
Car Registrations (% yoy)	2.4	0.3	15.9	31.4	31.7	40.5	30.5	35.8	16.0	..
Building Consents (% mom)	0.6	-3.8	-2.6	6.1	-0.2	8.6	-9.5	3.5	..	..
Building Consents (% yoy)	20.4	22.7	35.2	29.9	33.5	32.2	11.2	27.7	..	..
REINZ House Price (% yoy)	5.2	9.6	7.7	6.1	7.6	4.7	3.7	3.7	2.6	..
Household Lending Growth (% mom)	0.0	0.2	0.2	0.1	0.1	0.2	0.2	0.2	..	..
Household Lending Growth (% yoy)	2.7	2.7	2.7	2.7	2.8	2.7	2.5	2.5	..	..
ANZ-Roy Morgan Consumer Confidence	121.5	118.6	131.4	123.6	121.8	121.9	126.0	122.0	115.6	116.3
NBNZ Business Confidence	43.4	38.5	..	50.1	42.5	49.5	48.2	40.2	27.9	..
NBNZ Own Activity Outlook	33.7	36.9	..	41.9	38.6	43.0	45.3	38.5	32.4	..
Trade Balance (\$m)	-280	-26	271	328	608	660	765	214	-186	..
Trade Balance (\$m annual)	-863	-549	-176	-330	-160	178	37	581	573	..
ANZ World Commodity Price Index (% mom)	11.0	2.5	0.3	3.7	1.8	5.1	1.2	-1.6	-0.8	..
ANZ World Commodity Price Index (% yoy)	17.8	30.4	36.7	48.6	49.5	53.2	51.8	50.1	47.2	..
Net Migration (sa)	1750	1690	1840	1000	950	760	300	140	970	..
Net Migration (annual)	20021	21253	22588	21618	20973	19954	17967	16504	15221	..

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

## KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Jun-10	Jul-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZD/USD	0.685	0.726	0.713	0.700	0.710	0.720	0.730	0.730	0.720	0.710
NZD/AUD	0.815	0.802	0.790	0.795	0.789	0.783	0.777	0.777	0.783	0.789
NZD/EUR	0.560	0.556	0.558	0.579	0.602	0.632	0.652	0.652	0.643	0.634
NZD/JPY	60.54	62.78	60.85	66.50	68.16	69.84	71.54	73.00	72.00	71.71
NZD/GBP	0.458	0.463	0.459	0.479	0.486	0.483	0.480	0.474	0.462	0.449
NZ\$ TWI	66.6	67.5	66.6	68.1	69.3	70.7	71.7	71.8	71.1	70.5
INTEREST RATES	Jun-10	Jul-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZ OCR	2.75	3.00	3.00	3.00	3.25	3.50	4.00	4.50	5.00	5.50
NZ 90 day bill	3.13	3.27	3.23	3.10	3.50	3.90	4.40	4.90	5.40	5.80
NZ 10-yr bond	5.34	5.33	5.14	5.20	5.40	5.60	5.80	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25
US 3-mth	0.53	0.45	0.30	0.40	0.35	0.35	0.35	0.60	0.85	1.35
AU Cash Rate	4.50	4.50	4.50	4.50	5.00	5.25	5.50	5.75	6.00	6.00
AU 3-mth	4.92	4.78	4.75	4.90	5.30	5.60	6.00	6.00	6.20	6.10

	27 Jul	23 Aug	24 Aug	25 Aug	26 Aug	27 Aug
Official Cash Rate	2.75	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.31	3.24	3.24	3.23	3.23	3.23
NZGB 11/11	3.79	3.58	3.59	3.56	3.56	3.56
NZGB 04/13	4.28	3.98	3.99	3.98	3.98	3.96
NZGB 12/17	5.15	4.87	4.87	4.84	4.84	4.81
NZGB 05/21	5.43	5.18	5.18	5.15	5.15	5.12
2 year swap	4.23	3.78	3.79	3.73	3.75	3.75
5 year swap	4.83	4.21	4.23	4.17	4.21	4.23
RBNZ TWI	68.4	66.2	66.1	66.0	66.0	66.1
NZD/USD	0.7333	0.7066	0.7035	0.7022	0.7038	0.7051
NZD/AUD	0.8137	0.7923	0.7925	0.7943	0.7929	0.7955
NZD/JPY	63.75	60.33	59.83	59.15	59.66	59.63
NZD/GBP	0.4735	0.4540	0.4558	0.4553	0.4526	0.4540
NZD/EUR	0.5643	0.5557	0.5569	0.5551	0.5535	0.5544
AUD/USD	0.9012	0.8918	0.8877	0.8840	0.8876	0.8864
EUR/USD	1.2996	1.2715	1.2632	1.2650	1.2715	1.2719
USD/JPY	86.93	85.38	85.05	84.24	84.77	84.57
GBP/USD	1.5486	1.5564	1.5433	1.5423	1.5550	1.5530
Oil (US\$/bbl)	78.93	72.71	72.71	71.24	72.07	73.36
Gold (US\$/oz)	1185.60	1225.40	1221.28	1231.90	1240.45	1236.94
Electricity (Haywards)	7.31	3.09	3.42	4.42	2.94	3.32
Milk futures (US\$/contract)	118	116	116	116	116	116
Baltic Dry Freight Index	1869	2841	2861	2773	2703	2712

## 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;

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

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

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

### Record Keeping

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

### Auditing

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

### Use of Money and Property

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

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