NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

31 May 2010

INSIDE

NZ ECONOMICS TEAM

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

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

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

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

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

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

EYES ON CANADA

ECONOMIC OVERVIEW

We continue to take heart from the tone of NZ data. Not only is it pointing to ongoing momentum, but the mix to growth is positive for a durable upswing. Global ructions nonetheless remain a key risk. There are cyclical aspects to the global recovery to be mindful of when policymakers pursue their various exit strategies (NZ.Inc included). But complicating the picture are structural dynamics as the world transitions to a "new normal". Sovereign debt concerns are part of this transition process. Policymakers should be prepared to look through the cyclical aspect if history has taught us anything (e.g. leaving interest rates too low for too long). However, this means having to navigate through increasing market tensions for some time. This week's local data is expected to continue the theme of economic rebalancing. A key focus this week is the Bank of Canada interest rate decision. If they pause, reflecting global uncertainty, it'll provide some real food for thought for the RBNZ.

FINANCIAL CONDITIONS UPDATE

Recent global market turmoil has resulted in a marginal tightening in our financial conditions indexes for NZ, Australia and the US. The largest tightening occurred in Australia. With markets still volatile, it is too early to say whether the tightening in conditions will be sufficient to have a material impact on economic activity with the effects to date being around the edges as opposed to something more eye-watering.

INTEREST RATE STRATEGY

Global market volatility died down considerably late last week, shifting the focus back to the economic fundamentals, and the realities of life. In Europe, that reality is fiscal consolidation. In New Zealand, that reality is that the RBNZ is still more likely than not to raise rates next week. Financial market turmoil is a consideration, but we have been pleasantly surprised by how muted the impact has been so far, especially in New Zealand. Recent data has generally beat expectations, and is a reminder that the recovery is well on track. In this environment expect NZ to continue to tango between local and global forces.

CURRENCY STRATEGY

The NZD had some support from positive news in the form of Fonterra's payout forecast, helping to offset weakness from offshore. The 0.6600 level has provided solid support last week, and the 0.7000 level now looks to be a major resistance. Interest rate decisions from our commodity based cousins along with US non-farm payrolls will be the big drivers of NZD this week. We expect consolidation as we head into the RBNZ decision next week.

ECONOMIC OVERVIEW

SUMMARY

We continue to take heart from the tone of NZ data. Not only is it pointing to ongoing momentum, but the mix to growth is positive for a durable upswing. Global ructions nonetheless remain a key risk. There are cyclical aspects to the global recovery to be mindful of when policymakers pursue their various exit strategies (NZ.Inc included). But complicating the picture are structural dynamics as the world transitions to a "new normal". Sovereign debt concerns are part of this transition process. Policymakers should be prepared to look through the cyclical aspect if history has taught us anything (e.g. leaving interest rates too low for too long). However, this means having to navigate through increasing market tensions for some time. This week's local data is expected to continue the theme of economic rebalancing. A key focus this week is the Bank of Canada interest rate decision. If they pause, reflecting global uncertainty, it'll provide some real food for thought for the RBNZ.

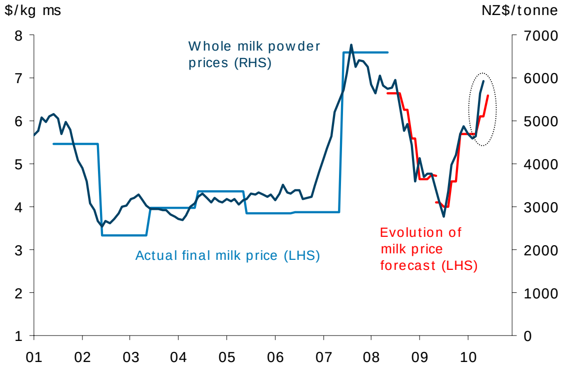
THE WEEK AHEAD

- **National Bank Business Outlook – May** (Monday 31 May, 3:00pm).
- **Fonterra online auction – June** (Wednesday, June 2, circa 6:00am). Prices for Whole Milk Powder for the last two months have been hovering just above $3,900 USD per tonne. We expect a slight fall in prices, but for the level to flag potential upside for the dairy payout.
- **ANZ Commodity Price Index – May** (Wednesday, 2 June, 3:00pm).
- **SNZ Wholesale Trade Survey – Q1** (Friday, 4 June 10:45am). Mostly on account of higher export sales, we expect a quarterly increase in sales of approximately 1 percent. The value of wholesale stocks should post their first quarterly increase since late 2008.

WHAT'S THE VIEW?

We continue to take heart from the tone of NZ data. Last week's events were dominated by the announced opening forecast dairy payout for the 2010/11 season by Fonterra. The forecast range, of between $6.90 to $7.10/kg ms before retentions, is 50 cents higher than the current season's range. Fonterra also noted that if the NZD and international dairy prices were to hold at current levels, then the 2010/11 payout could well be over $8.00. This could add anything from $650m to $2bn to annual dairying incomes. Adding to the positive tone was the April merchandise trade data showing the first annual trade surplus since mid-2002. Last week's consent data showed that the rebound in construction sector activity appears to be continuing but the level remains low and is not anything to get excited about, especially with non-residential work weak. Rounding out the week was credit growth figures that still show an economy that is de-leveraging.

Milk price forecast vs whole milk powder prices



Sources: ANZ, Fonterra, Bloomberg

These dynamics are exactly what the economy needs. That is, an expansion centred around earnings as opposed to spending. The latter will no doubt follow, but the current mix is giving us a lot of comfort over whether the recovery will have legs.

If we were to be party-poopers, it would centre around what we are seeing around the supply-side capacity of the economy. Whilst the rebound in exports is assisting in the rebalancing of the economy, subdued capital good imports, at $540m per month (average of $516m for the past six months), raise question marks about the supply-side capacity of the economy. Business sector credit growth continues to contract, implying reduced willingness by firms to borrow to invest. There are timing lags between confidence, imports and investment, but now is about the time we need to see more concrete evidence of an increasing willingness to invest. This appears to be occurring anecdotally – but very, very slowly. Unless we get a stronger recovery in capital accumulation, the upshot will be constrained supply-side capacity, which will result in inflationary pressure becoming more evident earlier in the cycle. From a monetary policy perspective, a key "error" risk resides not just in demand but perceived supply with the latter being unobservable.

Beyond the local scene, global ructions remain a key source of risk to the NZ economy. We noted last week we'd be watching three key areas, the impact of equity markets on soft leading gauges (a dynamic we won't be able to assess until late June), politics (leadership versus populism style decisions)

ECONOMIC OVERVIEW

and credit markets, specifically whether NZ.Inc is being impacted directly.

Focussing on the latter, at this stage it is difficult to argue that global ructions have had a material impact on NZ.Inc and it's ability to function. We noted last week that the central case was for the RBNZ to stick to the game-plan (i.e. rate hikes from the middle of 2010) and that still applies this week. Certainly there are areas for caution. Equity market sentiment remains fickle. LIBOR has been rising steadily this month. But beyond that we need to dig a little deeper and appreciate that there have been some offsets, specifically:

- LIBOR has only risen by around 20bps in the past month. Not only is this a relatively small rise in comparison to the circa 200bp rise following the collapse of Lehman Brothers in September 2008, but it has not been matched by a rise in EURIBOR[1], the comparable rate for euros in Europe. This is somewhat ironic, given that this is the geography where the problems stem from.
- NZD/USD basis swap[2] spreads for most maturities have narrowed. This partly offsets the rise in LIBOR, reducing the impact on funds raised offshore.
- There has been a divergence between CDS[3] spreads (which are derivatives) and actual bond spreads, with the former widening more than the latter. So while derivatives traders are trying to drive spreads higher, real money investors still have money to put to work, and are less eager to push spreads wider, suggesting that there is an element of speculation at play. It also suggests that quality borrowers (and that group includes the NZ Government and NZ banks) are likely to have less trouble issuing debt in the market than all the negative talk implies.
- The NZD has fallen by around 5 cents this month against the USD. While this could be regarded as partly "real" in that there is a perception that NZ's terms of trade may deteriorate if the global economy slips back onto recession, we doubt this is worth 5 cents and you only need to look at the potential for a circa $8 Fonterra payout to realise the positive impact this is having.

That being said, we can't completely dismiss market volatility and movements. It's naïve to think you emerge unscathed from a financial crisis in the space of 18 months. The after-effects were always going to linger and there will be more ructions, hence our "bathtub with waves" analogy for growth still applies in spirit. The global economy has not yet de-leveraged sufficiently for a cyclical upswing to take on a robust and sustainable look. That is not to say there won't be a recovery. Rather that it will take on a different look. **Yet we also believe there are two dynamics at work.**

The first is cyclical. With sovereign debt concerns a potential catalyst there is some risk of a "double-dip" style global recession. **Policymakers need to remain alert to this and of course it urges caution.** There are risks here but it's nowhere near 50 percent or a central scenario with counter upside risks being provided by a better looking US economy.

The second is structural. The global economy is undergoing a deep process of change. The old school model of debt accumulation of 2 to 3 times the rate of income growth is dead and buried as far as we are concerned. Part of the reason for recent market ructions is that it is taking the market some time to get its head around the implications of this change. It involves a different regulatory environment, and for a lot of nations a different trend growth rate over the next five to ten years as they transition to alternative economic models.

There will continue to be tension between these two dynamics, and of course policymakers face a near impossible task trying to differentiate between the two. But differentiate they must, if lessons from the past are to be taken on board. In an environment of change and learning from past mistakes there is always going to be tension (or a collision course) between markets and policymakers. Human behaviour seldom changes voluntarily: there is invariably a "stick" component and tension because of it. This doesn't mean policymakers can ignore what the market is saying and they need to tread cautiously in some instances, but neither should they slavishly follow it.

So where does that leave the RBNZ? A hike for June remains central in our view and we continue to see the tensions above as really influencing the pace of reduced monetary accommodation and the

[1] EURIBOR is the interbank offered rate for euros. In other words, EURIBOR is to EUR what LIBOR is to USD, and BKBM is to NZD.

[2] The basis swap spread is the spread payable when swapping USD funding back to NZD to remove currency risk. For example, if the spreads is trading at +10 and a NZ bank can raise funding in USD at LIBOR + 30, this would swap back to NZD BKBM +40bps.

[3] CDS are credit default swaps. This is the premium payable to protect against a debt issuer defaulting. The contracts can be bought or sold by anyone, regardless of whether they own bonds issued by the issuer in question.

ECONOMIC OVERVIEW

endgame. We continue to put a 60 percent probability on a hike, which by definition means we still see the fair chance of a pause. Given domestic considerations and with the local banking sector in pretty good shape, the hurdle to leaving rates unchanged remains high. Could rates be left on hold in June? Yes and this week's decision by the Bank of Canada is key to watch in terms of how central banks are weighing up developments. But at this juncture we haven't seen the impact of higher interbank interest rates on the local banking system to have reached that hurdle, nor evidence of a flow-on to key leading gauges of activity.

We continue to track financial conditions closely, and while they have tightened somewhat (refer page 5), the movement is not overly material. But the way things are unfolding a lot can change in a week!

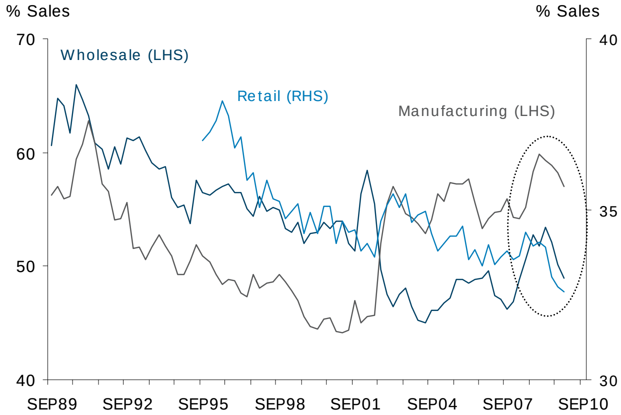
Turning to this weeks' key releases, the National Bank business confidence survey is out this afternoon. Of course we can't comment on the release in advance but suffice to say it'll be a key barometer of both momentum, and whether the recovery process is broadening. Given the timing of the survey it won't have caught the Budget, Fonterra announcement, or recent global financial ructions. June's reading is shaping up as critical in terms of the net impact, and until the numbers are in, we'll be left sifting through the tea leaves.

Fonterra's online auction will be informative in showing whether current international dairy prices will maintain their recent strength, given recent volatility in global financial markets. **We are expecting a small pullback in Whole Milk Powder prices, to around $3,700-3,800USD per tonne**, but for USD prices to still be around double those received in the June 2009 trading event. NZD prices are expected to be broadly unchanged. Wednesday's ANZ Commodity Price Index for May will provide a similar perspective for other New Zealand export commodities. We will be watching to see whether the recent improvement in forestry and meat prices will be sustained.

We expect March wholesale trade sales to post a quarterly increase of around 1 percent, buoyed by improving export sector sales. After declining since late 2008, wholesale stocks are expected to post a positive quarterly increase. The rebuilding of inventories is expected to be commonplace across sectors, and is anticipated to provide short-term support to growth before the terms of trade boost kicks in.

We'll also be keeping a close eye on the rhetoric out of the Bank of Canada and RBA. Both are due to deliver interest rate announcements this week. A hike is expected from the BOC and no change from the RBA. But the real issue surrounds the communication and whether recent market ructions are of sufficient mass to flag a change in tone. We expect both will stick to the script but will proceed cautiously – an approach likely to be followed by the RBNZ. **But if the BOC decide to pause in respect of global ructions and play the time-value of waiting card to see how things evolve and whether market conditions stabilise, this could be a key flag-bearer for the same approach by the RBNZ.**

Stock to sales ratio



Sources: ANZ National, Statistics NZ

RECENT LOCAL DATA

- **RBNZ Survey of Expectations – Q2.** The 2-year ahead forecast for CPI inflation climbed to 2.8 percent from the 2.65 percent reported in Q1.
- **SNZ Overseas Merchandise Trade – April.** The monthly trade surplus widened to $656m. An annual trade surplus of $161m was recorded, the first annual surplus since July 2002.
- **SNZ Building Consents – April.** The number of residential consents rose by 8.5 percent (15.5 percent ex-apartments). The value of monthly non-residential consents fell by 3.1 percent to $314m in April.
- **RBNZ Credit Aggregates – April.** Private sector credit ex-repo increased by 0.2 percent (up 0.4 percent y/y). Household credit growth increased by 0.2 percent (up 2.7 percent y/y), with the annual growth in agricultural credit slowing to 4.5 percent. Business credit fell by 8.2 percent compared to a year ago.

FINANCIAL CONDITIONS UPDATE

SUMMARY

Recent global market turmoil has resulted in a marginal tightening in our financial conditions indexes for NZ, Australia and the US. The largest tightening occurred in Australia. With markets still volatile, it is too early to say whether the tightening in conditions will be sufficient to have a material impact on economic activity with the effects to date being around the edges as opposed to something more eye-watering.

EARLY SIGNS OF CRACKS?

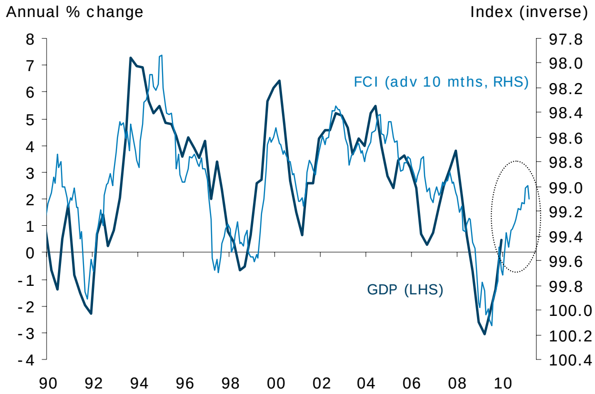
In our last update (*Market Focus* May 10) we noted that sovereign debt fears have not had any discernable impact on our financial conditions indexes[4] (FCI). **The ongoing turmoil in global markets over May has resulted in a tightening of financial conditions in NZ, Australia and the US, but the tightening has been mild.**

Most of the tightening in conditions has been via sharp declines in asset prices and a widening in credit spreads. Over the month, both the NZX50 and the ASX200 lost 7.3 percent, while the S&P500 is 8.2 percent lower. Credit default swap spreads of the big four Australian banks, which we use as a proxy for the cost of credit in NZ and Australia, rose by an average of 45bps, the largest increase since February 2008. The US 2-year swap spread widened by 23bps, the largest since September 2008 (when Lehman's went under). There were some offsets, particularly via a lower currency. The NZD TWI fell 3.6 percent while the AUD TWI fell 6.5 percent. However, the currency movements were not sufficient to offset the tightening in conditions from asset prices and credit spreads. In addition, commodity prices were also lower in the month, but this tends to be captured in our FCI with a lag.

So far, the tightening has not been large enough to suggest a material impact on real economic activity. Our NZFCI is pointing towards rising year-on-year growth in NZ, but at a more modest pace at around 2½ percent compared to those implied by confidence measures. Our FCI for Australia is still consistent with a well-above trend growth rate of around 5 percent year-on-year, while our USFCI is flagging growth of around 3 percent. Our USFCI suggests waning momentum later this year.

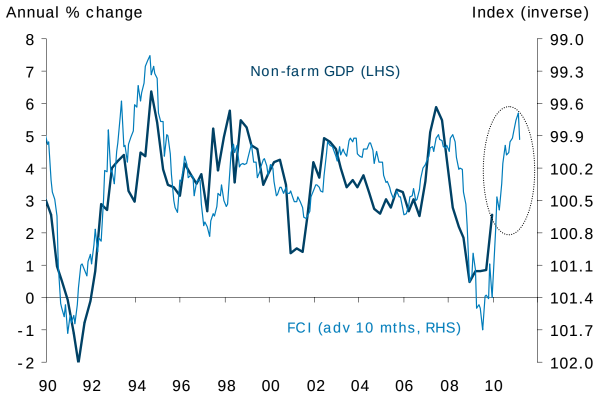
Given the very fickle nature of recent global market movements, it is too early to say whether the tightening in financial conditions seen over May heralds the turning point in growth momentum. It is not just the change in conditions in any given month, but the trend over the next few months that will be more important. In this regard, we will continue to pay close attention to how our FCIs evolve amid the market volatility.

NZ GDP vs Financial Conditions Index



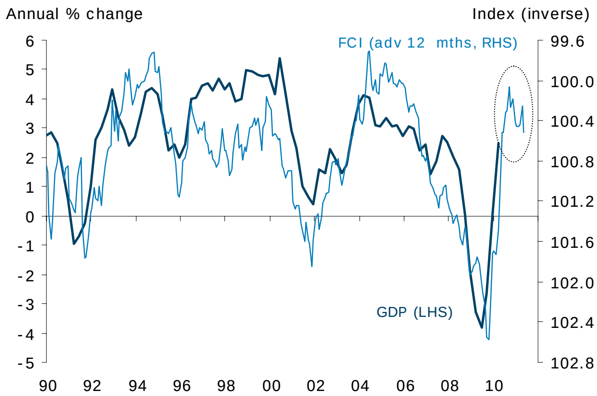
Sources: ANZ, National Bank, Statistics NZ

AU GDP vs Financial Conditions Index



Sources: ANZ, National Bank, Bloomberg

US GDP vs Financial Conditions Index



Sources: ANZ, National Bank, Bloomberg

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

INTEREST RATE STRATEGY

SUMMARY

Global market volatility died down considerably late last week, shifting the focus back to the economic fundamentals, and the realities of life. In Europe, that reality is fiscal consolidation. In New Zealand, that reality is that the RBNZ is still more likely than not to raise rates next week. Financial market turmoil is a consideration, but we have been pleasantly surprised by how muted the impact has been so far, especially in New Zealand. Recent data has generally beat expectations, and is a reminder that the recovery is well on track. In this environment expect NZ to continue to tango between local and global forces.

MARKET THEMES

- There have been times in the past few weeks when it looked like market volatility was set to overwhelm the positive domestic economic picture. But that looks less likely now.
- The Australian market was pricing in rate cuts last week, but has retreated. With the Bank of Canada set to hike tomorrow night, the focus will shift to reasons why the RBNZ will follow.

REVIEW AND OUTLOOK

Global market turmoil left traders running for cover last week, dramatically altering perceptions of the policy outlook going forward – not just here – but in Australia too. At one stage last week the Australian market had 80 percent odds of a rate cut priced in, in essence suggesting the RBA had gone too far. We still find ourselves cautious the global scene and respecting market nuances but mindful of domestic considerations and the actual flow-on of global events. As we discuss in detail on page 3, **in reality the impact on NZ has been quite muted.** Leaving rates on hold has some appeal given market jitters. Markets are still biased towards a hike, and the local economic case for one is very strong. We suspect the Bank is more likely to want to get going and pause later if needed, than find themselves in catch up mode later on. **Markets are turning back to this view – and are likely to do so with more vigour if the Bank of Canada raises rates tomorrow.**

Beyond the headlines and jaw-dropping market moves, **there has been one constant – and that has been the overall improving tone of NZ data.** The Budget was well received and most data and news has been upbeat – yet markets have ignored them. This could ultimately prove to be a mistake, especially if the RBNZ do raise the OCR next week.

Flow has been light over the past week, and while we expect to see increased pay-side pressure if the RBNZ hikes, the slope of the yield curve will limit volumes. It's clear that borrowers are more comfortable being floating, and this has and will continue to reduce swap market activity. Bonds remain well supported, especially at the long end, where tender demand has been exceptional.

PREFERRED BORROWING STRATEGIES

As we discussed in our last *Borrower's Strategy*, fixing is not necessarily the holy grail. Even those who were lucky enough to fix at last year's lows are unlikely to have benefited much unless they did so for very long tenors. But even then those who did will have missed out on extremely low BKBM rates, freeing up significant cashflow. Some hedge cover is appropriate, and we still like forward starting swaps, which will only get better if the RBNZ hike. But the RBNZ is likely to hike less this cycle, mindful of shifting trends among borrowers. They are, in effect, on your side. Don't panic ahead of next week.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	Market turmoil a risk, but not enough to delay a hike.
NZ data	↔/↑	Beating expectations. Fonterra news pleasing.
Fed Funds / front end	↔	Core PCE well behaved. Unemployment still high.
RBA	↔	Rate cuts very unlikely. Focus shifting back to data.
US 10 year	↔/↓	Likely to be in favour as Europe faces realities.
NZ swap curve	↔/↑	Mild paying expected, supply down. Swap spreads wider.
Flow	↔	Borrowers reluctant to pay.
Technicals	↔	Swamped by volatility

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Jun-10	+13	+16
Thu 29-Jul-10	+32	+39
Thu 16-Sep-10	+45	+58
Thu 28-Oct-10	+71	+72
Thu 9-Dec-10	+84	+96
Thu 27-Jan-11	+110	+114
Thu 10-Mar-11	+129	+133

TRADING THEMES WE FAVOUR AT PRESENT

Most points on the curve look reasonably well priced, and we don't have a strong differing opinion this week. However we think the short end is biased higher, the curve will flatten, and swap spreads will widen further. NZGS bonds are still in good demand, and while light, corporate paying is likely to pick up over the next few weeks.

CURRENCY STRATEGY

SUMMARY

The NZD had some support from positive news in the form of Fonterra's payout forecast, helping to offset weakness from offshore. The 0.6600 level has provided solid support last week, and the 0.7000 level now looks to be a major resistance. Interest rate decisions from our commodity based cousins along with US non-farm payrolls will be the big drivers of NZD this week. We expect consolidation as we head into the RBNZ decision next week.

MARKET THEMES

- Choppy market reacting to headlines. Equities leading everything.
- EUR/USD support at 1.2150 holds. If breached, it will drag the NZD lower.
- Bank of Canada decision to give the market clues for RBNZ next week.
- Libor was key in the last melt down and rallied into the weekend.

REVIEW AND OUTLOOK

Equities and Libor are the global barometers of health and they gave mixed signals last week. But slowly confidence should return to the equity market if Libor (demand for liquid USD) doesn't increase. A relief rally looked very possible last week but it was scuttled by Fitch's downgrade of Spain. The key for the currency markets is again the EUR, and whether it can hold its 4 year low above 1.2130. If so, the NZD will hold its recent 0.6600 low. Simply put, **the NZD has gone a long way against the EUR and GBP, and NZD/GBP of 0.5000 is a bridge too far regardless of fundamentals.**

The Bank of Canada decision this week is more important than usual. With over 70 percent chance of a rate hike priced in, many of the same drivers benefiting Canada are also benefiting NZ. A move by the Bank of Canada will be seen as increasing the odds of the RBNZ moving as well next week. The RBA meeting tomorrow is expected to see the cash rate being left unchanged. But the statement should squash any thought of rate cuts, which should see the AUD gain, rubbing off on the NZD.

Libor rallied on Friday, helping to ease concerns about credit stress. The Fitch downgrade of Spain weighted on the EUR, but the fact that Libor did not spike up to the same extent as during the early stages of the subprime crisis is seen as a positive. The currency market will continue to monitor Libor rates for signs of stress, but at this stage, it is not flagging any cause for concern.

Technically major support for the NZD is now at the 0.6640-0.6600 window. Passive equity hedge sell flows will be concluded over the next 24 hours. These flows could provide the opportunity to buy NZD for the week ahead. NZD should struggle above 0.6950 this week and we expect a range trade consolidation to occur.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	At fair value now.
Yield	↔/↑	Market still pricing in cuts by RBA!
Commodities	↔/↑	Softs doing better than hards during the market turmoil.
Partial indicators	↔/↓	NZ data improving. Australia's still good.
Technicals	↓	Resistance above 0.83 major.
Sentiment	↔	Equities higher = NZDAUD lower and vice versa.
Other	↔/↓	AUD to consolidate recent weakness.
On balance	↔	**Range trade here.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Getting closer to structural fair value estimate of 0.66.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↔/↑	NZ rates moving up before US rates.
Commodities	↓	NZD being sold on CRB weakness. Is this justified?
Risk aversion	↓	Libor and equity the key.
Partial indicators	↔/↑	NZ data continues to improve.
Technicals	↔	0.6600 – 0.7000 range until next RBNZ meeting.
AUD	↓	Was AUD oversold?
Sentiment	↔	NZD just following offshore moves.
Other	↓	Passive equity rebalancing tonight a big negative.
On balance	↔	**Closer to structural fair value. Adopt a wait and see approach.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	NZ TIME
31-May	JN	Industrial Production (MoM) - APR P	2.50%	1.20%	11:50
	AU	TD Securities Inflation MoM% - MAY	- -	0.40%	12:30
	AU	TD Securities Inflation YoY% - MAY	- -	2.90%	12:30
	AU	HIA New Home Sales (MoM) - APR	- -	0.90%	13:00
	AU	Private Sector Credit MoM% - APR	0.50%	0.50%	13:30
	AU	Private Sector Credit YoY% - APR	2.40%	2.10%	13:30
	AU	Current Account Balance - 1Q	-16400M	-17459M	13:30
	AU	Company Operating Profit QoQ% - 1Q	3.00%	2.20%	13:30
	AU	Inventories - 1Q	0.50%	0.20%	13:30
	JN	Labor Cash Earnings YoY - APR	0.80%	0.80%	13:30
	AU	Rismark Median House Prices - MAY	- -	450.0K	14:00
	NZ	NBNZ Business Confidence - MAY	- -	49.5	15:00
	AU	Quarterly Wage Agreements - 4Q	- -	3.5	16:00
	JN	Vehicle Production (YoY) - APR	- -	71.20%	16:00
	JN	Housing Starts (YoY) - APR	6.60%	-2.40%	17:00
	JN	Annualized Housing Starts - APR	0.840M	0.854M	17:00
	JN	Construction Orders (YoY) - APR	- -	42.30%	17:00
	EC	Euro-Zone M3 s.a. (YoY) - APR	-0.30%	-0.10%	20:00
	EC	Business Climate Indicator - MAY	0.2	0.23	21:00
	EC	Euro-Zone Consumer Confidence - MAY F	-18	-18	21:00
	EC	Euro-Zone CPI Estimate (YoY) - MAY	1.70%	1.50%	21:00
	EC	Euro-zone Services Confidence - MAY	6	5	21:00
01-Jun	AU	AiG Performance of Mfg Index - MAY	- -	59.8	11:30
	CH	PMI Manufacturing - MAY	54.5	55.7	13:00
	AU	Retail Sales s.a. (MoM) - APR	0.30%	0.30%	13:30
	AU	Building Approvals (MoM) - APR	-5.00%	15.30%	13:30
	CH	HSBC Manufacturing PMI - MAY	- -	55.4	14:30
	AU	RBA Rate Decision - May Meeting	4.50%	4.50%	16:30
	JN	Vehicle Sales (YoY) - MAY	- -	33.50%	17:00
	GE	Retail Sales (MoM) - APR	1.00%	-2.40%	18:00
	GE	Retail Sales (YoY) - APR	-0.70%	2.70%	18:00
	GE	Unemployment Change (000's) - MAY	-18K	-68K	19:55
	GE	Unemployment Rate (s.a) - MAY	7.80%	7.80%	19:55
	GE	PMI Manufacturing - MAY F	58.3	58.3	19:55
	EC	PMI Manufacturing - MAY F	55.9	55.9	20:00
	UK	PMI Manufacturing - MAY	57.9	58	20:30
	EC	Euro-Zone Unemployment Rate - APR	10.00%	10.00%	21:00
02-Jun	US	ISM Manufacturing - MAY	59	60.4	02:00
	US	ISM Prices Paid - MAY	72	78	02:00
	US	Construction Spending MoM - APR	0.10%	0.20%	02:00
	US	Dallas Fed Manf. Activity - MAY	18.60%	21.10%	02:30
	AU	Gross Domestic Product (QoQ) - 1Q	0.60%	0.90%	13:30
	AU	Gross Domestic Product (YoY) - 1Q	2.60%	2.70%	13:30
	NZ	ANZ Commodity Price Index - MAY	- -	4.90%	15:00
	UK	Net Consumer Credit - APR	0.3B	0.3B	20:30
	UK	Mortgage Approvals - APR	49.5K	48.9K	20:30
	UK	M4 Money Supply (MoM) - APR F	- -	0.00%	20:30
	UK	M4 Money Supply (YoY) - APR F	- -	3.30%	20:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
02-Jun	EC	Euro-Zone PPI (MoM) - APR	0.70%	0.60%	21:00
	EC	Euro-Zone PPI (YoY) - APR	2.60%	0.90%	21:00
03-Jun	US	Pending Home Sales MoM - APR	5.00%	5.30%	02:00
	US	Domestic Vehicle Sales - MAY	8.90M	8.78M	09:00
	US	Total Vehicle Sales - MAY	11.40M	11.21M	09:00
	AU	AiG Performance of Service Index - MAY	- -	52.3	11:30
	JN	Capital Spending - 1Q	-9.60%	-17.30%	11:50
	AU	Trade Balance - APR	-800M	-2082M	13:30
	UK	Nat'wide House prices sa (MoM) - MAY	0.30%	1.00%	18:00
	GE	PMI Services - MAY F	53.7	53.7	19:55
	EC	PMI Services - MAY F	56	56	20:00
	EC	PMI Composite - MAY F	56.2	56.2	20:00
	UK	PMI Services - MAY	55.7	55.3	20:30
	EC	Euro-Zone Retail Sales (YoY) - APR	-0.10%	-0.10%	21:00
04-Jun	US	ADP Employment Change - MAY	65K	32K	00:15
	US	Initial Jobless Claims - May 29	453K	460K	00:30
	US	Continuing Claims - May 22	4610K	4607K	00:30
	US	Factory Orders - APR	1.70%	1.30%	02:00
	US	ISM Non-Manf. Composite - MAY	55.7	55.4	02:00
	US	ICSC Chain Store Sales YoY - MAY	- -	0.80%	02:30
	EC	Euro-Zone GDP s.a. (QoQ) - 1Q P	0.20%	0.20%	21:00
	EC	Euro-Zone GDP s.a. (YoY) - 1Q P	0.50%	0.50%	21:00
05-Jun	US	Change in Nonfarm Payrolls - MAY	508K	290K	00:30
	US	Unemployment Rate - MAY	9.80%	9.90%	00:30
	US	Avg Hourly Earning MOM All Emp - MAY	0.10%	0.00%	00:30
	US	Avg Weekly Hours All Employees - MAY	34.1	34.1	00:30

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

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: Last week's data confirmed that the long-awaited rebalancing of the New Zealand economy was continuing. This week's data will provide an update for commodity export prices and business confidence, with Q1 wholesale trade an input into the forthcoming Q1 GDP release. Signs of improvement are evident, and we expect this to be apparent in the published data in the coming months.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 31 May (3:00pm)	NBNZ Business Outlook (May)	- -	- -
Wed 2 Jun (3:00pm)	ANZ Commodity Price Index (May)	- -	- -
Fri 4 Jun (10:45am)	Wholesale Trade Survey (Mar qtr)	Up	An increase in sales of around 1 percent is expected, buoyed largely by higher export sales. Wholesale stocks are expected to post a quarterly increase.
Tue 8 Jun (10:45am)	Value of Building Work Put in Place – Q1	Flat	Low residential and non-residential consent issuance late last year is expected to translate into a broadly flat outturn.
Tue 8 Jun (10:45am)	Economic Survey of Manufacturing- Q1	Up	Ex-primary manufacturing sector volumes are expected to post a further increase from very low levels. Improving sector confidence and a firming in orders is expected to translate into an increase in manufacturing stocks.
Thur 10 Jun (10:45am)	Electronic Card Transactions - May	Up	After the early-Easter induced volatility of the past couple of months, this will provide an opportunity to asses the strength of retail spending. A small increase is expected
Thur 10 Jun (10:45am)	Overseas Trade Indexes – Q1	Lifting	Higher export commodity prices are expected to boost the terms of trade. Higher forestry exports should boost export volumes, whereas climbing import volumes are indicative of improving domestic demand.
Fri 11 Jun (10:45am)	Food Price Index - May	Up	April's 0.5 percent fall is expected to be reversed, given the usual seasonal pattern. Due to strong commodity export prices, the trend in food prices remains higher.
Min 14 Jun (10:45am)	Retail Trade Survey – Apr	Down	April ECT and Credit Card data suggests a monthly fall in total sales values. Core retail spending is also likely to fall.
Tue 15 Jun (10:00am)	REINZ- May	Flat	Housing market activity is expected to remain at low levels as pre-*Budget* uncertainties weigh. Prices are expected to continue their downward trend.
Thur 17 Jun (3:00pm)	ANZ-Roy Morgan Consumer Confidence –Jun	- -	- -
Mon 21 Jun (10:45am)	SNZ External Migration - May	Waning	Net monthly PLT immigration is expected to remain below 1,000. Continued disruptions from European volcanic ash are likely to temper the expected recovery in visitor arrivals.
Wed 23 Jun (10:45am)	SNZ Balance of Payments – Q1	In the red	An improving trade balance is expected to be offset by another sizeable investment income deficit. The annual current account deficit will remain around 3 percent of GDP.
Thur 24 Jun (10:45am)	SNZ Gross Domestic Product – Q1 -	Moderating	A quarterly increase of around 0.5 percent is expected, led by increases to services and manufacturing activity. On the expenditure measure, positive contributions from inventory accumulation and higher business investment are expected to be partly offset by higher imports.
Fri 25 Jun (10:45am)	SNZ Overseas Merchandise Trade - May	Surplus	Lifting global export commodity prices are expected to contribute to another large monthly trade surplus. The lower NZD and stronger demand will boost import values.
On Balance		**Building**	**Recovery continuing but with heightened risks of slower global growth.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.8	0.2	0.3	0.8	**0.5**	**0.7**	**1.5**	**-0.1**	**1.1**	**1.3**
GDP (% yoy)	-3.1	-2.3	-1.4	0.5	**1.8**	**2.3**	**3.6**	**2.6**	**3.2**	**3.9**
CPI (% qoq)	0.3	0.6	1.3	-0.2	0.4	**0.9**	**0.9**	**2.8**	**0.6**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	2.0	**2.4**	**2.0**	**5.0**	**5.3**	**5.4**
Employment (% qoq)	-1.3	-0.5	-0.7	0.0	1.0	**0.2**	**0.4**	**0.6**	**0.6**	**0.7**
Employment (% yoy)	0.7	-0.9	-1.8	-2.4	-0.1	**0.6**	**1.7**	**2.2**	**1.8**	**2.3**
Unemployment Rate (% sa)	5.1	5.9	6.5	7.1	6.0	**6.3**	**6.0**	**5.6**	**5.4**	**5.0**
Current Account (% GDP)	-7.9	-5.6	-3.2	-2.9	**-3.0**	**-3.8**	**-5.1**	**-4.4**	**-4.4**	**-4.3**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	5.8	**3.8**	**3.9**	**2.5**	**1.0**	**-0.5**	**-0.6**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	**-2.0**	**12.3**	**16.9**	**11.6**	**7.0**	**2.3**

	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10
Retail Sales (% mom)	-0.5	1.2	0.2	0.1	0.7	-0.4	0.6	-0.6	0.5	..
Retail Sales (% yoy)	-1.4	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	4.4	..
Credit Card Billings (% mom)	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.4	-1.2
Credit Card Billings (% yoy)	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.2	1.9
Car Registrations (% mom)	6.9	-3.6	8.4	0.4	2.2	6.9	-0.6	0.5	5.7	2.9
Car Registrations (% yoy)	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7	40.5
Building Consents (% mom)	5.1	2.3	5.9	11.4	0.4	-3.8	-2.7	6.1	0.1	8.5
Building Consents (% yoy)	-16.5	-8.8	-11.5	26.7	20.3	22.6	35.1	29.8	33.3	32.1
REINZ House Price (% yoy)	0.0	5.1	6.1	6.0	5.2	9.6	7.7	6.1	7.6	4.7
Household Lending Growth (% mom)	0.3	0.3	0.3	0.3	0.0	0.2	0.2	0.1	0.1	0.1
Household Lending Growth (% yoy)	2.4	2.4	2.3	2.6	2.7	2.7	2.7	2.7	2.7	2.7
ANZ-Roy Morgan Consumer Confidence	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8	121.9
NBNZ Business Confidence	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5	49.5
NBNZ Own Activity Outlook	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6	43.0
Trade Balance ($m)	-177.6	-716.6	-561.5	-501.5	-280.4	-26.4	271.1	333.8	589.8	655.8
Trade Balance ($m annual)	-2491	-2360	-1669	-1176	-863	-549	-176	-324	-172	161
ANZ World Commodity Price Index (% mom)	0.9	4.2	7.3	4.7	10.9	2.6	0.4	3.8	1.8	4.9
ANZ World Commodity Price Index (% yoy)	-28.7	-23.1	-13.0	-1.4	18.1	30.8	37.1	49.1	50.1	53.5
Net Migration (sa)	2460	1630	1840	2150	1740	1670	1830	1000	970	770
Net Migration (annual)	14488	15642	17043	18560	20021	21253	22588	21618	20973	19954

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.698	0.711	0.677	0.680	0.700	0.710	0.720	0.730	0.730	0.720
NZD/AUD	0.780	0.775	0.802	0.810	0.795	0.789	0.783	0.777	0.777	0.783
NZD/EUR	0.512	0.526	0.552	0.553	0.579	0.602	0.632	0.652	0.652	0.643
NZD/JPY	62.10	66.41	61.64	63.24	66.50	68.16	69.84	71.54	73.00	72.00
NZD/GBP	0.458	0.468	0.469	0.479	0.500	0.493	0.486	0.480	0.474	0.462
NZ$ TWI	64.5	66.0	65.8	66.4	68.3	69.4	70.7	71.7	71.8	71.1
INTEREST RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25	4.75	5.25
NZ 90 day bill	2.71	2.67	2.99	3.20	3.70	3.80	4.20	4.70	5.20	5.70
NZ 10-yr bond	5.76	5.98	5.55	5.50	5.40	5.40	5.60	5.80	6.20	6.20
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75
US 3-mth	0.25	0.29	0.54	0.40	0.40	0.35	0.35	0.35	0.60	0.85
AU Cash Rate	3.75	4.00	4.50	4.50	4.75	5.00	5.25	5.50	5.75	6.00
AU 3-mth	4.13	4.49	4.88	4.80	5.00	5.30	5.60	6.00	6.00	6.20

	28 Apr	24 May	25 May	26 May	27 May	28 May
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.72	2.88	2.93	2.94	2.96	2.98
NZGB 11/11	3.79	3.67	3.61	3.63	3.66	3.67
NZGB 04/13	4.61	4.38	4.31	4.33	4.36	4.38
NZGB 12/17	5.67	5.34	5.29	5.31	5.34	5.33
NZGB 05/21	5.92	5.58	5.53	5.55	5.58	5.55
2 year swap	4.33	4.27	4.22	4.24	4.28	4.32
5 year swap	5.26	5.18	5.16	5.17	5.19	5.19
RBNZ TWI	66.8	65.4	65.2	65.1	65.3	66.0
NZD/USD	0.7156	0.6749	0.6682	0.6680	0.6700	0.6809
NZD/AUD	0.7759	0.8135	0.8145	0.8085	0.8063	0.8014
NZD/JPY	66.71	60.93	60.16	60.33	60.37	62.04
NZD/GBP	0.4685	0.4655	0.4653	0.4642	0.4643	0.4683
NZD/EUR	0.5418	0.5389	0.5430	0.5427	0.5468	0.5536
AUD/USD	0.9223	0.8296	0.8204	0.8262	0.8310	0.8496
EUR/USD	1.3207	1.2523	1.2306	1.2309	1.2254	1.2300
USD/JPY	93.22	90.28	90.04	90.32	90.11	91.12
GBP/USD	1.5273	1.4497	1.4362	1.4390	1.4429	1.4541
Oil (US$/bbl)	82.43	68.03	68.03	64.78	71.52	74.56
Gold (US$/oz)	1164.30	1187.25	1187.25	1206.25	1218.10	1210.95
Electricity (Haywards)	3.04	4.40	4.27	3.56	4.07	n/a
Milk futures (US$/contract)	117	127	126	126	126	126
Baltic Dry Freight Index	3329	3943	4187	4209	4156	4078

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.
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- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

IMPORTANT NOTICE

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

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

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

Record Keeping

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

Auditing

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

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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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