NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

4 June 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

A BANK OF CANADA SCRIPT?

ECONOMIC OVERVIEW

Markets continue to oscillate between being “risk on” and “risk off”. This highlights the huge degree of uncertainty surrounding recovery prospects. The Bank of Canada’s rate hike (the first of the G7) and RBA’s pause were notable for their cautious tones towards the global economy. The former looks to have delivered a balanced script for the RBNZ to emulate. We expect the RBNZ to hike by 25 basis points next week. Beyond the Monetary Policy Statement, data this week is expected to shape a solid Q1 GDP print.

JUNE MPS PREVIEW

We expect the RBNZ to raise the OCR to 2.75 percent next Thursday. The strengthening (though patchy) economic outlook necessitates that the RBNZ start removing policy stimulus. Furthermore, a worsening short-term inflation outlook may be raising concerns over the medium-term inflation outlook. However, with tighter financial conditions and with increasing policy traction available to them, the RBNZ can afford to be less pre-emptive.

Moreover, recent financial market volatility and concerns over contagion from Europe are likely to prompt the RBNZ to act more cautiously than in previous tightening cycles. With global concerns weighing, the upshot is that policy support will be needed for a while yet and we expect a relatively cautious assessment. At present the decision seems relatively clear but if we see considerable market ructions in the lead-up to next Thursday, the decision will likely be a line ball call. Such is the nature of markets at present.

INTEREST RATE STRATEGY

Global financial market volatility eased, most likely paving the way for the RBNZ to raise the OCR next week and follow the lead of the Bank of Canada. We expect the tone of the MPS to echo the tone used by the Bank of Canada, who kicked off their tightening cycle earlier this week. Market pricing still feels mildly “topsy-turvy”, with not enough priced in for next week, and too much priced in over the remainder of the year. This could see term rates rally after the MPS, even with a 25bp rate hike.

CURRENCY STRATEGY

The RBNZ may be the main focus of attention next week, but the NZD will once again find itself more heavily influenced by offshore moves. The EUR finds itself flirting with the key 1.2150 support level once again, and if that level is broken, the NZD will get dragged lower even despite a rate hike by the RBNZ.

EFFECTIVE EXCHANGE RATE UPDATE

Due to rising export commodity prices and a weaker USD, all of the industry groups experienced a more enhancing exchange rate in May. Conditions have clearly moved into enhancing territory for three of the eight groups that we monitor, with effective exchange rates for most of the other groups at (or slightly below) historical averages.

ECONOMIC OVERVIEW

SUMMARY

Markets continue to oscillate between being "risk on" and "risk off". This highlights the huge degree of uncertainty surrounding recovery prospects. The Bank of Canada's rate hike (the first of the G7) and RBA's pause were notable for their cautious tones towards the global economy. The former looks to have delivered a balanced script for the RBNZ to emulate. We expect the RBNZ to hike by 25 basis points next week. Beyond the Monetary Policy Statement, data this week is expected to shape a solid Q1 GDP print.

NEXT WEEKS EVENTS

- **SNZ Value of Work Put in Place – Q1** (Tuesday, June 8, 10:45am). A small increase is expected.
- **SNZ Economic Survey of Manufacturing – Q1** (Tuesday, June 8, 10:45am). We expect a reasonably solid increase in volumes of between one and two percent. Manufacturing stocks are expected to continue increasing.
- **RBNZ June *Monetary Policy Statement*** (Thursday, June 10, 9:00am). The RBNZ is expected to raise the OCR to 2.75 percent. See our preview on page 5.
- **SNZ Electronic Card Transactions – May** (Thursday, June 10, 10:45am). We are looking for a jump of around 2 percent, unwinding the previous month's fall.
- **SNZ Overseas Trade Indices – Q1** (Thursday, June 10, 10:45am). Higher export prices will boost the terms of trade but rising import volumes are expected to contribute to a decline in net exports, and weaker Q1 GDP.
- **SNZ Food Price Index – May** (Friday, June 11, 10:45am). Food prices are expected to be up courtesy of climbing prices for fruit and vegetables and meat.

WHAT'S THE VIEW?

Markets continue to oscillate between being "risk on" and "risk off" and this highlights a huge degree of uncertainty surrounding the recovery prospects. Equities have been up and down like yo-yos, commodity prices and currencies the same. To be fair it seemed more risk on than off. There was a corrective bounce in some key markets but that pattern can change quickly, so we need to be careful when trying to interpret recent movements. Soft leading gauges softened somewhat in May (China PMI, US ISM's) but the levels remain solid. We suspect it'll be late June/July before we get some semblance in the soft data as to the impact of recent ructions.

This sort of volatile price action doesn't necessarily de-rail the recovery process but continues to question the pace of the recovery. We've been at pains to emphasise over prior months the huge amount of tension within the financial system and global economy in areas such as cyclical versus structural (de-leveraging) influences, leadership versus populism, and how public sector balance sheets are rebuilt to name but a few. These dynamics remain "in play", and hence we stick to the spirit of our "bathtub with waves" shaped cycle. Market ructions may ultimately settle down, but the fact we've seen the erratic price action over the past few weeks tells us the market is skittish. This begs the question of how much substance is actually below what the soft data is telling us.

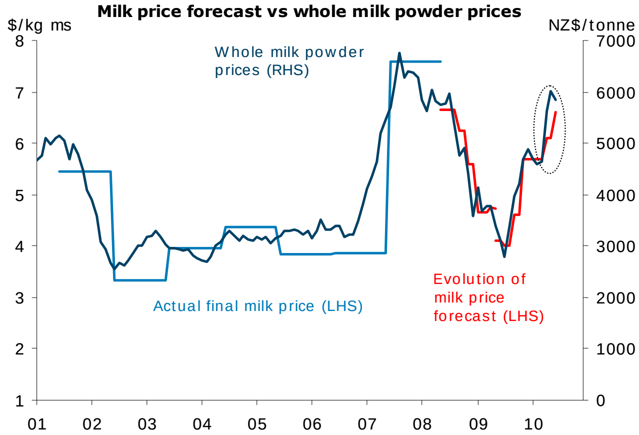
The Bank of Canada's hike (the first of the G7) and RBA's pause were notable for cautious tones towards the global economy. As widely expected, the Bank of Canada became the first of the G7 central banks to raise official interest rates in the current cycle although the decision looks to have been finely balanced. However, recent market volatility and fears over contagion from Europe appear to have prompted more caution over the interest rate outlook, with the statement noting that "*any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments*". The RBA was equally cautious noting that the *"effects of these various factors* [primarily Europe, equities, commodities and the weaker AUD] *will need to remain under review".*

We noted last week that the direct impact of global unease so far on NZ had been muted. The same applies this week. Credit markets remain somewhat fickle and we note not a lot of deals are being written when it comes to funding. But the market is still differentiating to a degree (thankfully in favour of Australasian banks). Financial conditions are stable. Last week's Fonterra online auction was somewhat of a test case in regard to the global scene and while Whole Milk Powder prices fell by an average of 3.4 percent in the June trading event to $3,790 per tonne, we consider this a pretty good result when seen in conjunction with the huge bounce over prior months. **Broad based increases in world prices for New Zealand's export commodities in May also suggested a limited impact from global market volatiltiy, so far.** However, the sizeable fall in aluminium prices (down

ECONOMIC OVERVIEW

11 percent) is a warning that things can move very quickly. **New Zealand Business confidence remained perky, although once again we think June will be the real test for local and global confidence reads.**

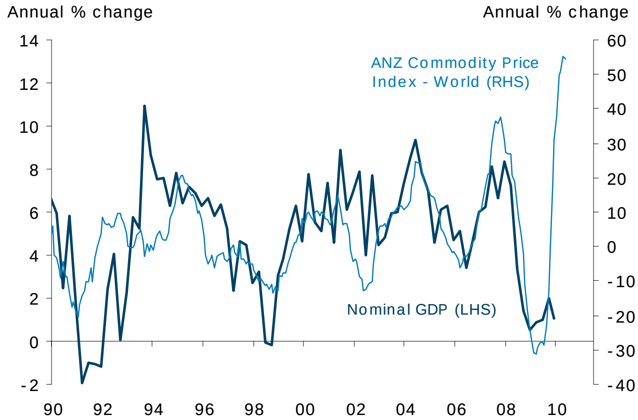
Milk price forecast vs whole milk powder prices



Sources: ANZ, Fonterra, Bloomberg

In this environment the odds remain stacked in favour of the RBNZ tweaking the OCR higher. Domestic data considerations (and prospects for inflation well above 5 percent) are persuasive. Certainly when you look at the historical relationship between commodity prices and nominal GDP (chart below) you'd be more than a little uncomfortable with current policy settings. But equally, global developments remain fluid and require close monitoring (and commodity prices do tend to lag other indicators such as currencies). The Bank of Canada looks to have a laid out a nice script for the RBNZ to follow.

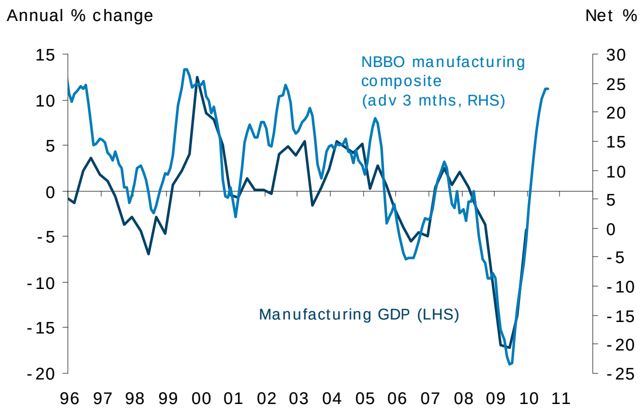
Nominal GDP vs Commodity Prices



Sources: ANZ, National Bank, Statistics NZ

Beyond the Monetary Policy Statement, data this week is expected to shape a solid Q1 GDP print. Survey indicators suggest a sizeable bounce in manufacturing sector activity and we are expecting a relatively upbeat survey result, with manufacturing volumes increasing by one to two percent. Primary food production is expected to be broadly unchanged, with the likelihood that the dry weather earlier in the year may affect the March quarter numbers. We expect that manufacturers will continue rebuilding inventories which will provide a helpful fill-up to economic activity.

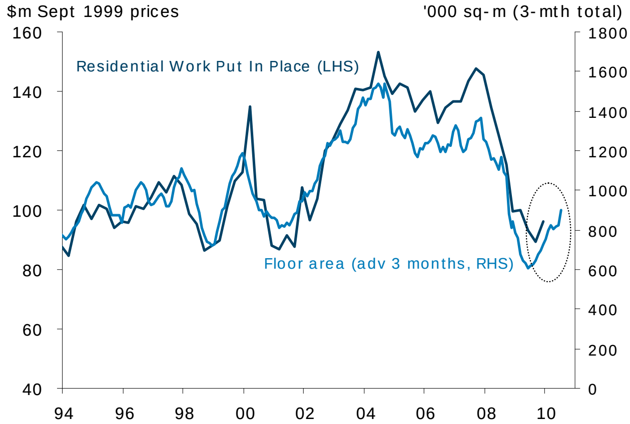
Manufacturing GDP vs NBBO composite



Sources: ANZ, National Bank, Statistics NZ

Work put in place data is expected to confirm improvement in construction sector activity. A small increase in residential work put in place is expected. The floor area of residential consents started picking up in February, but we do not expect this to be evident in the Work Put in Place figures until the June or September quarters. Non-residential consent issuance has been trending up since September and we expect an increase in non-residential work put in place. However, the consent figures indicate that non-residential construction sector activity remains reliant on public sector work.

Work put in Place and building consents



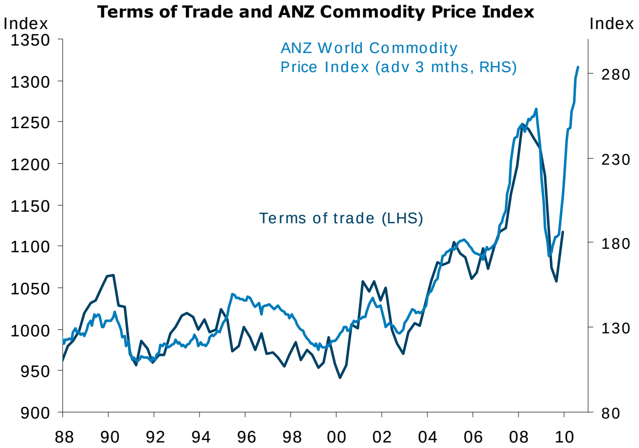
Sources: ANZ, National Bank, Statistics NZ

The key takeout from next week's overseas trade data will be to confirm the improving purchasing power of NZ.Inc. The value of merchandise exports increased by 13 percent in the

ECONOMIC OVERVIEW

March quarter, but we expect the majority of this increase will be attributable to higher export prices. Conversely, most of the 6 percent increase in import values for the quarter is due to higher volumes. As such, despite a trade surplus, we expect a negative contribution to March quarter GDP from net trade. Nevertheless, the boost to producer incomes augurs well for the sustainability of the expansion.

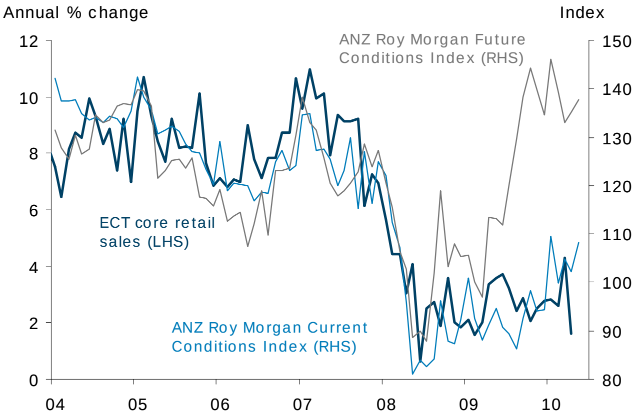
Terms of Trade and ANZ Commodity Price Index



Sources: ANZ, National Bank, Statistics NZ

May Electronic Card transactions are anticipated to post a rebound increase from the April decline. Abstracting from the monthly volatility, part of which was attributable to the early timing of Easter, retail spending has been subdued. Despite employment starting to pick up, the increase in incomes is being restricted by low wage growth. Nevertheless, improving consumer sentiment suggests that households feel that the worst has passed. With the increase in GST less than four months away, there is also the likelihood of a pre-GST spending bounce in durable spending. Nevertheless, the retail environment is likely to remain challenging over the coming months.

Electronic card transactions and confidence



Sources: ANZ, National Bank, Statistics NZ

Food prices in May are estimated to have posted a small increase, with meat and fruit and vegetable prices expected to rebound. Given the climb in meat and dairy commodity export prices, further increases in food prices are in prospect. With government policy related price rises set to impact on CPI inflation in the coming months, the onus will be on the RBNZ to ensure the second round price effects will be contained and yet ensure that the recovery continues. It will be a tricky balancing act.

RECENT LOCAL DATA

- **National Bank Business Outlook – May**. General business confidence eased by 1.3 points to 48.2. Businesses' assessment of their own activity firmed by 2.3 points to 45.3, the highest reading since June 1999. Both employment and investment intentions rose.
- **Fonterra online auction – June**. The average price across all contracts for Whole Milk Powder fell 3.4 percent to $3,790 USD. Contract prices have roughly doubled in NZD and USD terms over the past 12-months.
- **ANZ Commodity Price Index – May.** The World Price Increased by 2.5 percent to be 55 percent up on a year earlier. NZD commodity prices increased by 2.9 percent for the month (30 percent y/y).
- **SNZ Wholesale Trade Survey – Q1.** Total wholesale sales rose by 2.3 percent from the previous quarter in seasonally adjusted terms (+2.7 percent y/y). Thirteen of the 16 wholesale industries recorded an increase in sales. The value of wholesale trade stocks rose by 1.9 percent.

JUNE MONETARY POLICY STATEMENT PREVIEW

SUMMARY

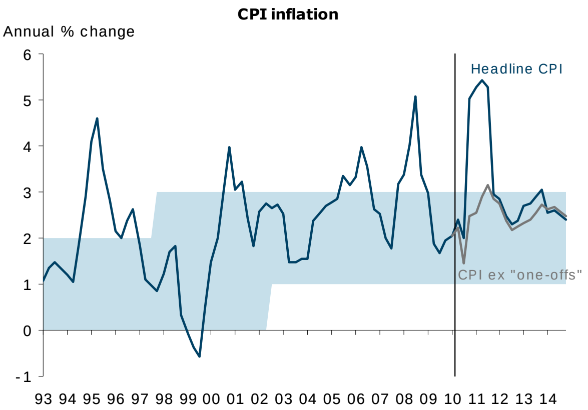
We expect the RBNZ to raise the OCR to 2.75 percent next Thursday. The strengthening (though patchy) economic outlook necessitates that the RBNZ start removing policy stimulus. Furthermore, a worsening short-term inflation outlook may be raising concerns over the medium-term inflation outlook. However, with tighter financial conditions and with increasing policy traction available to them, the RBNZ can afford to be less pre-emptive.

Moreover, recent financial market volatility and concerns over contagion from Europe are likely to prompt the RBNZ to act more cautiously than in previous tightening cycles. With global concerns weighing, the upshot is that policy support will be needed for a while yet and we expect a relatively cautious assessment. At present the decision seems relatively clear but if we see considerable market ructions in the lead-up to next Thursday, the decision will likely be a line ball call. Such is the nature of markets at present.

IMPROVING OUTLOOK

We expect the RBNZ projections to show a strengthening in economic activity. Soft leading indicators, such as business and consumer confidence, are pointing towards stronger growth. Moreover, high commodity prices and normal base effects at work will contribute to strengthening activity. Unemployment has fallen massively (although how much is noise remains uncertain). However, the RBNZ are likely to note that the recovery so far has been uneven, with business spending a notable laggard. They will also allude to the softness in credit growth and housing market activity, and may comment on the patchiness of retail spending so far. These headwinds are expected to have a temporary impact with the improving labour market and terms of trade boost dominating the medium-term outlook.

The short-term inflation outlook has clearly worsened. Much of this is related to government policy, with the Emissions Trading Scheme (from July), and higher tobacco excise (late April) temporarily adding to inflation. Furthermore, with Budget 2010 confirming an increase in GST to 15 percent in October, annual CPI inflation rising above 5 percent by mid-2011 looks a done deal. The RBNZ are mandated to look through short-term inflation volatility but they will be concerned over potential second round effects onto wages and prices throughout the economy. The increase in the 2-year ahead forecast for CPI inflation in the June RBNZ survey (to 2.8 percent), suggests the market is also mindful of the inflation risks. Watch for the statement to have some clearly directed wording towards ensuring that first round price increases do no seep into wage and price setting behaviour.



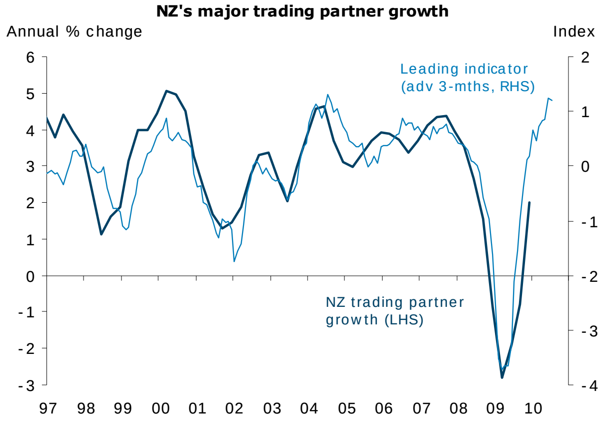
Sources: ANZ, National Bank, Statistics NZ

Given the worsening inflation outlook the RBNZ will no doubt be keen to ensure they do not fall behind the curve. A key takeout from prior cycles is simple: hike late and you ultimately end up raising rates by more. Typically a central bank would look through the spike in inflation, noting the consumption tax (drag on growth) implications. But these are not ordinary times. The OCR (though not the effective OCR) is at a historical low. Financial conditions are more restrictive than implied by the low OCR and the RBNZ will no doubt still take comfort from the greater amount of policy traction they are set to achieve due to the positively sloped yield curve and shorter duration of debt. But still, inflation at +5 and OCR sub 3 doesn't feel right.

Global ructions complicate the picture and encourage more caution. Leading indicators continue to point towards strengthening trading partner growth but given the strong correlation lead indicators have had with equities over the past few years, momentum is set to wane sharply in June. The unbalanced nature of the global recovery, recent jitters in financial markets, and concerns over European economies have the potential to scupper the global recovery. At this stage NZ hasn't really been impacted. Credit markets have certainly tightened but messages across credit markets are not uniform (see our May 31 Market Focus for further details) and the NZDUSD has adjusted as a buffer. So at present there are certainly risks, but risks as opposed to inevitabilities. As the RBA noted, *"the effects of these various factors in the world economy will need to remain under review"*. **But in the meantime rising inflation and deteriorating medium term inflation drivers are inevitability**

JUNE MONETARY POLICY STATEMENT PREVIEW

and you react to what you know as opposed to what you don't.



Sources: ANZ, National Bank, Bloomberg

But clearly some degree of pragmatism still needs to prevail and we expect the tenor of the statement to be very guarded in regards to the global economy. So while rates are set to move up, question-marks will surround the pace.

In our mind a hike in June pretty well cements the commitment to another one or two at least (which is likely to be strongly supported by a strong Q2 inflation read). Beyond that the Bank of Canada summed it up nicely when they stated *"any further reduction of monetary stimulus would have to be weighed carefully against domestic and global economic developments"*. We don't think the RBNZ will go this far (you don't do one hike in isolation) but we believe their assessment is likely to question the magnitude of policy tightening incorporated into current market pricing (currently 160 basis points over the next 12 months).

STICKING TO THE SCRIPT BUT MAINTAINING FLEXIBILITY

We see the RBNZ designing a statement that leaves itself maximum flexibility over the path of policy tightening. We expect a relatively upbeat growth outlook to be conditional on the foreshadowed global recovery eventuating, and on export commodity prices remaining at historically high levels. If these events do not transpire, the RBNZ will want to signal that the likely path of policy tightening will be more gradual than highlighted in their main forecasts. Of course, some strongly worded phrases towards the inflation trajectory will somewhat counter this but the more immediate risk seems to stem from recent global ructions and we expect the tenor of the statement to reflect this.

We expect the Bank's published 90-day profile to be similar to March. The end point for the 90-day track is expected to settle around 6 percent from mid-2012. This is considerably lower than previous tightening cycles, which is intended to show that financial conditions are expected to remain tighter than implied by the level of the OCR and that the neutral OCR is potentially lower.

FINANCIAL MARKET IMPLICATIONS

We suspect the Bank will be keen to deliver a statement that generates minimal market reaction.

While we expect the 90-day track to depict business as usual, we expect the tone to be relatively guarded. So while the immediate market reaction will respond to what we ultimately believe will be a hike decision, the real issue will be the impact of the MPS on the degree of policy tightening built into market pricing.

Indeed one of the current peculiarities in the market at present is the expectation that the OCR for New Zealand will reach 4.1 percent by June next year as opposed to 4.7 percent for Australia. This will take the effective OCR above Australia's. Last time we looked it was Australia that had the more problematic medium-term inflation issue.

OUR EXPECTATION OF RBNZ PROJECTIONS (MARCH 2010 MPS IN BRACKETS)

	90-DAY	TWI	CPI (ANN % CHG)	GDP (ANN AVE % CHG)
Q2 2010	2.9 (2.9)	66.7 (64.4)		
Q3	3.2 (3.3)	66.1 (64.2)		
Q4	3.5 (3.6)	65.5 (64.1)		
Q1 2011	3.8 (4.0)	64.9 (63.7)	4.8 (2.3)	3.4 (3.8)
Q2	4.2 (4.4)	64.3 (63.1)		
Q3	4.5 (4.7)	63.7 (62.5)		
Q4	5.0 (5.0)	63.1 (61.9)		
Q1 2012	5.5 (5.4)	62.6 (61.4)	2.9 (2.8)	4.1 (3.9)
Q2	5.8 (5.7)	62.1 (60.7)		
Q3	6.0 (6.0)	61.6 (60.2)		
Q4	6.0 (6.1)	61.0 (59.9)		
Q1 2013	6.0 (6.1)	60.6 (59.3)	2.8 (2.7)	2.5 (2.4)

INTEREST RATE STRATEGY

SUMMARY

Global financial market volatility eased, most likely paving the way for the RBNZ to raise the OCR next week and follow the lead of the Bank of Canada. We expect the tone of the MPS to echo the tone used by the Bank of Canada, who kicked off their tightening cycle earlier this week. Market pricing still feels mildly "topsy-turvy", with not enough priced in for next week, and too much priced in over the remainder of the year. This could see term rates rally after the MPS, even with a 25bp rate hike.

MARKET THEMES

- The Bank of Canada's decision to raise rates earlier this week despite market jitters sets a useful precedent for the RBNZ.
- Market jitters are a consideration for the RBNZ, but with little evidence of a significant impact on New Zealand, their effects is likely to be felt later on via slower global growth.

REVIEW AND OUTLOOK

Tuesday's Bank of Canada (BOC) rate hike stands out for three reasons. First, the decision to hike was brave so soon after significant market volatility. Second, the BOC specifically noted that in its view, the spillover of market volatility to Canada had been limited. This was exactly the same conclusion we arrived at with regard to NZ, as noted in our previous *Market Focus*. Third, but not least, was the clarity behind the BOC's message. The BOC are excellent communicators, are not afraid to call it how they see it, and have again led the way, as they did with their conditional commitment to keep rates low in 2009 (which the RBNZ subsequently followed). As such we view the BOC's actions and words as significant for the precedent it sets, and it sets the scene for the RBNZ to raise rates with confidence next week (although we acknowledge a lot can still happen between now and then given how fickle markets have become of late!).

Other offshore developments are also worthy of comment – like the collapse in bond issuance across the globe during May. If this trend continues, funding margins are sure to rise, and will blow strongly against the NZ recovery, limiting the OCR endgame. We're also mindful of inconsistencies across markets. Local players seem reluctant to get long NZ rates on the view that the OCR is headed much higher. Yet the market is calling for RBA cuts after just 6 hikes in 9 months. Similarly, is it realistic to expect NZ 2yr rates to be above Aussie 2yr rates in one year's time, as the curve implies? That's a lot of catch-up the RBNZ has to do, and isn't Australia supposed to be the "lucky country"?

PREFERRED BORROWING STRATEGIES

The upcoming tightening cycle is likely to be measured and muted, and next week's rate rise should not be cause for concern. In fact, swap rates may even fall after the MPS, as they did after the BOC hike. And with the RBNZ "on your side" to the extent that they are mindful of the preponderance of floating rate exposure, it makes sense to keep hedge ratios light. Furthermore, as we have long noted, any hedging activity should be commensurate with the degree of conviction behind any upswing in trading conditions. In terms of tenor – if you do need to hedge, we are becoming increasingly drawn to medium term (4-7yr) rates on the basis that they are low, and have given the "new normal" idea of rates being lower the benefit of the doubt. Forward starting swaps also look attractive, and remain well below historic norms – for example, 5yr hedges starting in 2 years are currently around 6%, the lowest level in 12 months and well off last year's the 6.75% peak.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	25bp hike next week likely, with intermittent hikes later.
NZ data	↔/↑	Commodities rise to a record high, but housing looks soft.
Fed Funds / front end	↔	Jobs and inflation soft, no imminent action likely.
RBA	↑	Market still pricing cuts! Not consistent with inflation.
US 10 year	↔/↓	Safe haven demand comes and goes. Still well bid.
NZ swap curve	↔/↑	Likely to experience a relief rally after MPS on outlook.
Flow	↔	Too expensive to pay.
Technicals	↔	Extreme volatility.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Jun-10	+16	+23
Thu 29-Jul-10	+39	+43
Thu 16-Sep-10	+58	+65
Thu 28-Oct-10	+72	+82
Thu 9-Dec-10	+96	+106
Thu 27-Jan-11	+114	+128
Thu 10-Mar-11	+133	+140

TRADING THEMES WE FAVOUR AT PRESENT

Discrepancies between the NZ and Australian markets have thrown up significant opportunities, with Australia pricing in cuts, and NZ pricing in 4 hikes by years-end. If things get so bad that the RBA has to cut, the RBNZ will be stopped dead in its tracks. Look to get long the NZD short end (12mth OIS or fwd start swaps) against Australia. With too much tightening priced in over the next 12 months (160bps), consider receiving 12mth OIS against 2mth.

CURRENCY STRATEGY

SUMMARY

The RBNZ may be the main focus of attention next week, but the NZD will once again find itself more heavily influenced by offshore moves. The EUR finds itself flirting with the key 1.2150 support level once again, and if that level is broken, the NZD will get dragged lower even despite a rate hike by the RBNZ.

MARKET THEMES

- RBNZ now widely tipped to follow the Bank of Canada's lead. Market already priced in.
- EUR/USD support at 1.2150 holds for now. If breached, it will drag the NZD lower.
- Equities continue to dominate NZD direction.

REVIEW AND OUTLOOK

The difference between the old world and the new world are once again being highlighted. The old world with its large fiscal deficits, unsustainable lifestyle and declining competitiveness will continue to find it difficult to attract capital. In contrast, the resource rich new world, with its much better fiscal position, should see investors continue to divert funds their way. Throw in the yield advantage and it is easy to see why the likes of the CAD, AUD and NZD should keep appreciating versus the EUR and GBP.

The USD is caught in between this old and new world differentiation. For now, the USD is benefiting from the flight away from EUR denominated assets. That the economic recovery appears to be gaining at a more rapid pace is also helping sentiment towards the USD, with the nonfarm payrolls expected to confirm positive net gains. So much so that recent commentary from some Federal Reserve Presidents has been at the hawkish end. Perhaps the "extended period" phrase is close to its use by date. If so, expect even more support for the USD, at an even greater expense against the EUR and GBP.

The RBNZ decision next week is expected to see the start of the removal of policy stimulus. However, this by itself is unlikely to see the NZD gain too much, for it is already largely priced in. It would take a global market meltdown for the Governor to pause. But the reality is that the NZD will remain hostage to wider global moves – in particular the EUR. It may have survived the key 1.2150 level once again, but it seems only a matter of time before that level is breached. When it does, the NZD will get dragged down with it. Which may be exactly what the RBNZ would like since they have been wanting to engineer a lower currency to assist in the economy's rebalancing.

The NZD has good support at both 0.6700 and 0.6750, and we expect this band to hold into the RBNZ. The topside at 0.6900 is now the resistance. Given some renewed Uridashi interest and an increase in demand for our 'safe haven' government bonds, the reasons to exit the NZD seem limited. With US Libor having stabilised, concerns over bank funding has eased.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	At fair value now.
Yield	↔/↑	RBA on hold, RBNZ to hike.
Commodities	↔/↑	NZ commodity prices at another record high.
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	↑	NZ commodities basket avoided the selloff.
Risk aversion	↔	Libor stabilising.
Partial indicators	↔/↑	NZ data continues to improve.
Technicals	↔	0.6600 – 0.7000 range until next RBNZ meeting.
AUD	↔	In holding pattern.
Sentiment	↔	NZD just following offshore moves.
Other	↓	Watch the EUR.
On balance	↔	**Closer to structural fair value. Adopt a wait and see approach.**

EFFECTIVE EXCHANGE RATE UPDATE

SUMMARY

We present an update of our real effective exchange rate measures across New Zealand's main export industries. These measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations.

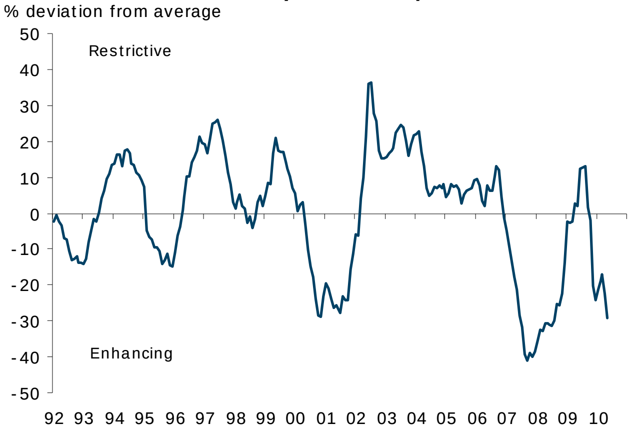
Due to rising export commodity prices and a weaker USD, all of the industry groups experienced a more enhancing exchange rate in May. Conditions have clearly moved into enhancing territory for three of the eight groups that we monitor, with effective exchange rates for most of the other groups at (or slightly below) historical averages.

IMPROVING CONDITIONS FOR SOME

Most of the industry groups experienced an improvement in their effective exchange rates over May. Higher commodity export prices for dairy, meat and forestry contributed to an improvement in their effective exchange rates over May. The sizeable depreciation of the NZD against the USD and Yen also had an impact, although the NZD strengthened against the AUD in May.

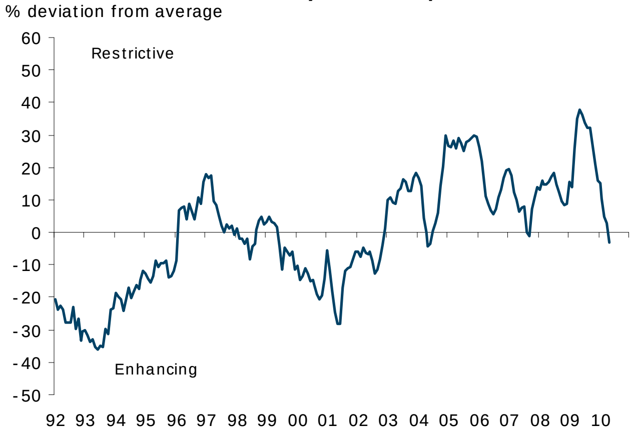
Conditions are moving into more enhancing territory for more of the groups we monitor. Effective exchange rates have moved into enhancing territory for dairy, meat, and horticulture. Effective exchange rates for forestry, seafood, and manufacturing are in slightly enhanced territory, with the effective exchange rate still in restrictive territory for services and crude. **Compared to a year ago, effective exchange rates have improved for six of the eight groups.** The most striking improvement has been for dairy, meat and forestry. **With the NZD now around 6 percent lower against the USD, the buffering role of the NZD will become less apparent if commodity prices maintain their recent strength.**

Sector: Dairy ≈ 19% of exports



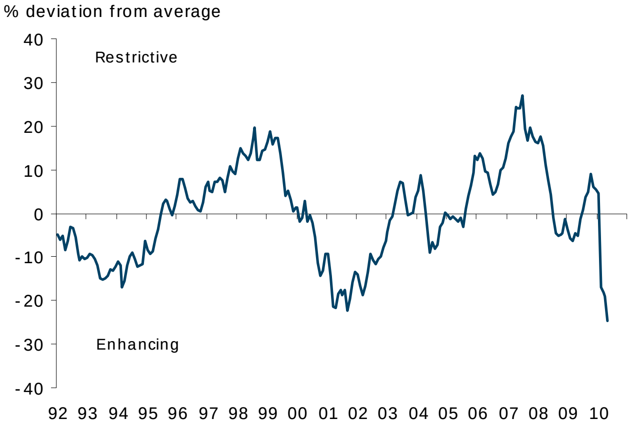
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Forestry ≈ 9% of exports



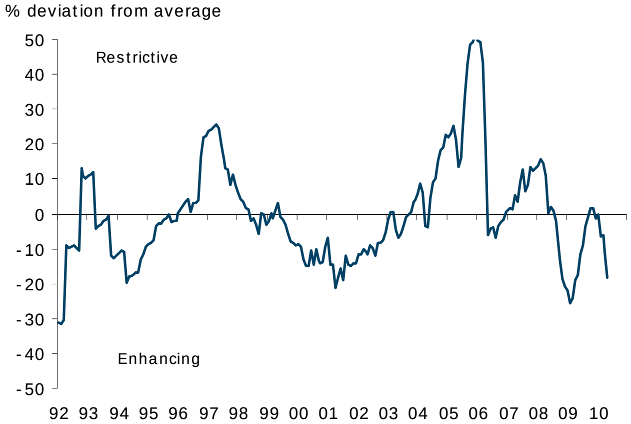
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



Sources: ANZ, Bloomberg, Statistics NZ

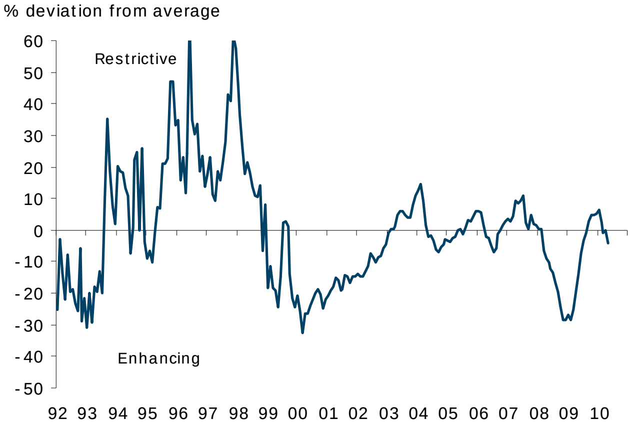
Sector: Horticulture ≈ 4% of exports



Sources: ANZ, Bloomberg, Statistics NZ

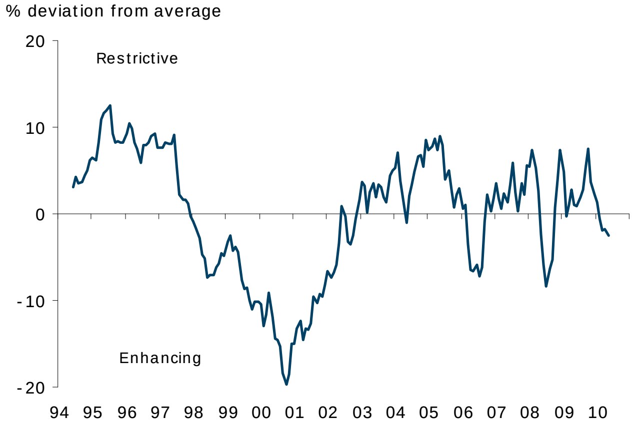
EFFECTIVE EXCHANGE RATE UPDATE

Sector: Seafood ≈ 3% of exports



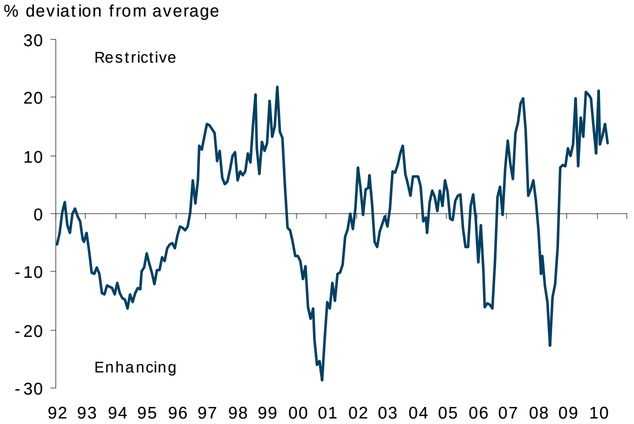
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports



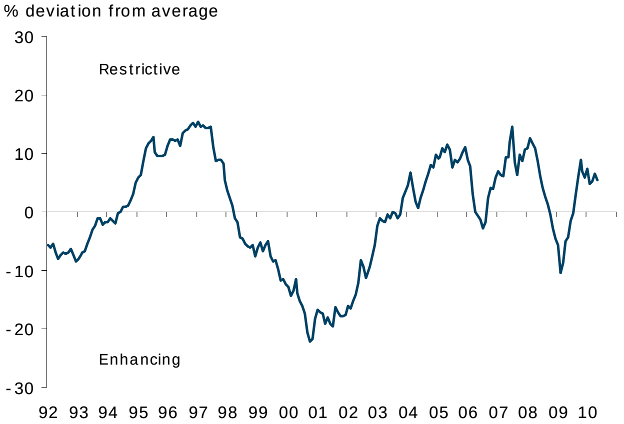
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services ≈ 21% of exports



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
04-Jun	US	ADP Employment Change – MAY	70K	32K	00:15
	US	Nonfarm Productivity – 1Q F	3.40%	3.60%	00:30
	US	Initial Jobless Claims	455K	460K	00:30
	US	Continuing Claims	4610K	4607K	00:30
	US	Factory Orders – APR	1.80%	1.30%	02:00
	US	ISM Non-Manf. Composite – MAY	55.6	55.4	02:00
	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	515K	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
07-Jun	**NZ**	**QV House Prices YoY% - MAY**	**- -**	**6.10%**	**00:00**
	AU	AiG Perf of Construction Index – MAY	- -	55.8	11:30
	AU	ANZ Job Advertisements (MoM) – MAY	- -	-1.20%	13:30
	GE	Factory Orders MoM (sa) – APR	0.30%	5.00%	22:00
08-Jun	US	Consumer Credit – APR	$0.0B	$2.0B	07:00
	NZ	**Manufacturing Activity – 1Q**	**- -**	**0.70%**	**10:45**
	JN	Current Account Total – APR	- -	¥2534.2B	11:50
	JN	Trade Balance (BoP Basis) – APR	- -	¥1074.7B	11:50
	JN	Japan Money Stock M3 YoY – MAY	- -	2.20%	11:50
	GE	Trade Balance – APR	17.0B	17.2B	18:00
	GE	Current Account (EURO) – APR	- -	18.0B	18:00
	GE	Industrial Production MoM (sa) – APR	0.70%	4.00%	22:00
09-Jun	US	IBD/TIPP Economic Optimism – JUN	- -	48.7	02:00
	UK	Nationwide Consumer Confidence – MAY	- -	74	11:01
	JN	Machine Orders (MoM) – APR	- -	5.40%	11:50
	AU	Westpac Consumer Confidence – JUN	- -	108	12:30
	AU	Home Loans – APR	- -	-3.40%	13:30
	AU	NAB Business Conditions – MAY	- -	8	13:30
	AU	NAB Business Confidence – MAY	- -	13	13:30
	AU	Investment Lending – APR	- -	3.00%	13:30
	AU	Value of Loans MoM – APR	- -	-3.40%	13:30
	UK	Total Trade Balance (GBP/Mln) – APR	- -	-£3683	20:30
10-Jun	US	Fed's Beige Book – 39965			06:00
	NZ	**RBNZ Official Cash Rate**	**2.75%**	**2.50%**	**09:00**
	NZ	**Business NZ PMI – MAY**	**- -**	**58.9**	**10:30**
	NZ	**Terms of Trade Index (QoQ) – 1Q**	**- -**	**5.70%**	**10:45**
	NZ	**NZ Card Spending (MoM) – MAY**	**- -**	**-1.7**	**10:45**
	JN	Gross Domestic Product (QoQ) – 1Q F	- -	1.20%	11:50
	JN	GDP Annualized – 1Q F	- -	4.90%	11:50
	AU	Consumer Inflation Expectation – JUN	- -	3.60%	13:00
	AU	Employment Change – MAY	- -	33.7K	13:30
	AU	Unemployment Rate – MAY	- -	5.40%	13:30
	AU	Participation Rate – MAY	- -	65.20%	13:30
	CH	Trade Balance (USD) – MAY	$8.20B	$1.68B	/2010
	CH	Exports YoY% - MAY	32.00%	30.50%	/2010
	CH	Imports YoY% - MAY	44.40%	49.70%	/2010

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
10-Jun	JN	Consumer Confidence – MAY	- -	42.1	17:00
	GE	Consumer Price Index (YoY) – MAY F	1.20%	1.20%	18:00
	GE	CPI – EU Harmonised (YoY) – MAY F	- -	1.20%	18:00
	UK	BOE Asset Purchase Target – JUN	- -	200B	23:00
	UK	BOE ANNOUNCES RATES – 40330	0.50%	0.50%	23:00
	EC	ECB Announces Interest Rates – 40330	1.00%	1.00%	23:45
11-Jun	US	Trade Balance – APR	-$41.0B	-$40.4B	00:30
	US	Initial Jobless Claims – 38504	- -	- -	00:30
	US	Continuing Claims – 47239	- -	- -	00:30
	US	Monthly Budget Statement – MAY	-$140.0B	- -	06:00
	NZ	**Food Prices (MoM) – MAY**	**- -**	**-0.50%**	**10:45**
	CH	Producer Price Index (YoY) – MAY	6.70%	6.80%	14:00
	CH	Consumer Price Index (YoY) – MAY	3.00%	2.80%	14:00
	CH	Retail Sales (YoY) – MAY	18.60%	18.50%	14:00
	CH	Industrial Production (YoY) – MAY	17.00%	17.80%	14:00
	CH	Industrial Production YTD YoY – MAY	18.60%	19.10%	14:00
	CH	Fixed Assets Inv Urban YTD YoY – MAY	25.70%	26.10%	14:00
	UK	PPI Input NSA (YoY) – MAY	- -	13.10%	20:30
	UK	PPI Output n.s.a. (YoY) – MAY	- -	5.70%	20:30
	UK	Industrial Production (MoM) – APR	- -	2.00%	20:30
	UK	Industrial Production (YoY) – APR	- -	2.00%	20:30
	UK	Manufacturing Production (MoM) – APR	- -	2.30%	20:30
12-Jun	US	Advance Retail Sales – MAY	0.20%	0.40%	00:30
	US	Retail Sales Less Autos – MAY	0.10%	0.40%	00:30
	US	Retail Sales Ex Auto & Gas – MAY	- -	0.40%	00:30
	US	U. of Michigan Confidence – JUN P	75	73.6	01:55
	US	Business Inventories – APR	0.60%	0.40%	02:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, CH: China, NZ: New Zealand, UK: United Kingdom, US: United States.
Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All $ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: Next week the focus will be on the RBNZ, with the release of the June *Monetary Policy Statement*. We expect the RBNZ to raise the OCR by 25 basis points and to signal a gradual pace of policy tightening. Further inputs into the Q1 GDP release will also be published next week. We expect signs of improvement to be apparent in the published data in the coming months.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
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 (9:00am)	RBNZ June MPS	Kick-off	We expect the RBNZ to raise the OCR by 25 basis points, with the RBNZ to signal a gradual path of policy tightening.
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 should boost the terms of trade. Higher forestry exports should lift 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.
Mon 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 services and manufacturing activity. On the expenditure measure, positive contributions from inventory accumulation and business investment will 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.
Mon 28 June (3:00 pm)	National Bank Business Outlook - Jun	- -	- -
Tue 29 Jun (10:45am)	Building Consents - May		A slight pullback for residential consents is likely. Non-residential consent issuance should start improving.
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**	**2.3**	**1.0**	**-0.5**	**-0.6**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	**-2.0**	**12.3**	**16.7**	**11.4**	**6.8**	**2.2**

	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10
Retail Sales (% mom)	1.2	0.2	0.1	0.7	-0.4	0.6	-0.6	0.5	..	..
Retail Sales (% yoy)	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	4.4	..	..
Credit Card Billings (% mom)	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.4	-1.2	..
Credit Card Billings (% yoy)	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.2	1.9	..
Car Registrations (% mom)	-3.6	8.4	0.4	2.2	6.9	-0.6	0.5	5.7	2.9	..
Car Registrations (% yoy)	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7	40.5	..
Building Consents (% mom)	2.3	5.9	11.4	0.4	-3.8	-2.7	6.1	0.1	8.5	..
Building Consents (% yoy)	-8.8	-11.5	26.7	20.3	22.6	35.1	29.8	33.3	32.1	..
REINZ House Price (% yoy)	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	0.4	0.0	0.2	0.2	0.1	0.2	0.2	..
Household Lending Growth (% yoy)	2.4	2.3	2.6	2.7	2.7	2.7	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8	121.9	126.0
NBNZ Business Confidence	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5	49.5	48.2
NBNZ Own Activity Outlook	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6	43.0	45.3
Trade Balance ($m)	-716.6	-561.5	-501.5	-280.4	-26.4	271.1	333.8	589.8	655.8	..
Trade Balance ($m annual)	-2360	-1669	-1176	-863	-549	-176	-324	-172	161	..
ANZ World Commodity Price Index (% mom)	4.2	7.4	4.7	10.9	2.6	0.4	4.0	1.8	5.4	2.5
ANZ World Commodity Price Index (% yoy)	-23.1	-12.9	-1.3	18.2	31.0	37.4	49.8	50.9	55.1	54.5
Net Migration (sa)	1630	1840	2150	1740	1670	1830	1000	970	770	..
Net Migration (annual)	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	Apr-10	May-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZD/USD	0.727	0.669	0.684	0.700	0.710	0.720	0.730	0.730	0.720	0.710
NZD/AUD	0.783	0.809	0.810	0.795	0.789	0.783	0.777	0.777	0.783	0.789
NZD/EUR	0.547	0.542	0.562	0.579	0.602	0.632	0.652	0.652	0.643	0.634
NZD/JPY	68.21	60.43	63.36	66.50	68.16	69.84	71.54	73.00	72.00	71.71
NZD/GBP	0.476	0.465	0.467	0.500	0.493	0.486	0.480	0.474	0.462	0.449
NZ$ TWI	68.2	65.1	66.7	68.3	69.4	70.7	71.7	71.8	71.1	70.5
INTEREST RATES	Apr-10	May-10	Today	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12
NZ OCR	2.50	2.50	2.50	3.25	3.50	3.75	4.25	4.75	5.25	5.50
NZ 90 day bill	2.70	2.93	3.02	3.70	3.80	4.20	4.70	5.20	5.70	5.80
NZ 10-yr bond	5.91	5.56	5.62	5.40	5.40	5.60	5.80	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25
US 3-mth	0.35	0.54	0.54	0.40	0.35	0.35	0.35	0.60	0.85	1.35
AU Cash Rate	4.25	4.50	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.00
AU 3-mth	4.63	4.87	4.83	5.00	5.30	5.60	6.00	6.00	6.20	6.10

	4 May	31 May	1 Jun	2 Jun	3 Jun	4 Jun
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.76	2.95	3.04	3.02	3.02	3.01
NZGB 11/11	3.92	3.69	3.71	3.74	3.81	3.78
NZGB 04/13	4.72	4.40	4.41	4.42	4.48	4.45
NZGB 12/17	5.68	5.34	5.35	5.34	5.40	5.38
NZGB 05/21	5.92	5.56	5.57	5.56	5.62	5.61
2 year swap	4.48	4.37	4.40	4.40	4.41	4.39
5 year swap	5.32	5.23	5.25	5.25	5.24	5.22
RBNZ TWI	68.3	66.2	65.9	65.8	66.5	66.7
NZD/USD	0.7293	0.6825	0.6763	0.6743	0.6846	0.6839
NZD/AUD	0.7889	0.8045	0.8085	0.8120	0.8082	0.8098
NZD/JPY	69.22	62.37	61.58	61.62	63.11	63.35
NZD/GBP	0.4780	0.4718	0.4671	0.4594	0.4664	0.4672
NZD/EUR	0.5523	0.5546	0.5515	0.5531	0.5571	0.5615
AUD/USD	0.9244	0.8484	0.8365	0.8304	0.8471	0.8446
EUR/USD	1.3204	1.2307	1.2264	1.2191	1.2288	1.2180
USD/JPY	94.91	91.39	91.05	91.38	92.19	92.65
GBP/USD	1.5258	1.4466	1.4479	1.4678	1.4678	1.4641
Oil (US$/bbl)	86.19	74.00	74.00	72.70	72.88	74.62
Gold (US$/oz)	1181.15	1214.13	1218.00	1224.75	1222.15	1207.13
Electricity (Haywards)	5.21	4.96	4.88	4.69	4.52	..
Milk futures (US$/contract)	120	#N/A	126	125	125	..
Baltic Dry Freight Index	3352	#N/A	4074	4041	3933	..

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing

Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

IMPORTANT NOTICE

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

NEW ZEALAND DISCLAIMER

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

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

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

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

UNITED STATES DISCLAIMER

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

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

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

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