NEW ZEALAND ECONOMICS
NBNZ MARKET FOCUS

22 March 2010

INSIDE

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LUKEWARM

ECONOMIC OVERVIEW

We expect upcoming data to confirm 2009 ended on an improving note, with above-trend GDP growth and a shrinking annual current account deficit. However, the key for the RBNZ will be prospects for 2010 and beyond, and we expect data here to remain inconclusive in regards to the pace of the recovery. The sluggish response of business investment is a key area we are watching, both in regard to the demand picture, but also with what it portends of in regard to future supply-side capacity and productivity trends.

RURAL WRAP

Global prices for New Zealand produce are broadly similar to last year. Mid season farm gate prices of dairy, sheep, and venison have been at or better than forecast. The agricultural portion of a New Zealand economic recovery is looking better than nine months ago. However, profits are highly likely to be banked. Land sales will remain subdued. The long-term prognosis at the farm gate looks good. Export trends are encouraging, but the hangover of excessive reliance on capital gain and excessive leverage remains in some farm businesses.

DATA PREVIEW

A higher investment income deficit is expected to deliver a return to a quarterly current account deficit in Q4 2009. The annual deficit is expected to narrow further but this improvement will be transitory. We expect Q4 GDP to confirm the strongest quarterly expansion in two years. Details are likely to show something of a mixed bag in terms of the sustainability of the expansion.

INTEREST RATE STRATEGY

The market remains sympathetic towards early rate hikes, and is pricing in high odds of a June hike. NZ is not Australia, but global investors often lump the two markets in together, so RBA hikes will have an impact on sentiment here. We believe high retail interest rates and a tight *Budget* will keep the RBNZ in check, but only time will tell. In the interim, we expect the market to hedge bets on a June move.

CURRENCY STRATEGY

JPY repatriation typically has a significant impact on markets during the last week of March, as it has in the past two years. Both the NZD and the AUD look vulnerable after a weak close last Friday. Given the month-end effect, consider selling the carry trade early in the week, or buying it late in the week.

DATA AND EVENT CALENDAR

DATA WATCH

KEY FORECASTS

ECONOMIC OVERVIEW

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THE WEEK AHEAD

- **SNZ Balance of Payments – December 2009 quarter (Wednesday 24th March, 10:45am NZDT).** We expect the return to quarterly deficits ($1.5bn expected). The annual current account deficit is expected to shrink to 2 percent of GDP. See our preview on page 8.
- **SNZ Gross Domestic Product – December 2009 quarter (Thur 25th March, 10:45am NZDT).** We expect a 0.9 percent quarterly increase (0.5 percent y/y). Manufacturing, retail, and construction to lead the charge. See our preview on page 8.
- **SNZ Overseas Merchandise Trade – February (Friday 26th March, 10:45am NZDT).** We expect a small surplus, largely on account of low import values. Exports to Australia should continue to benefit from the favourable NZDAUD cross rate.

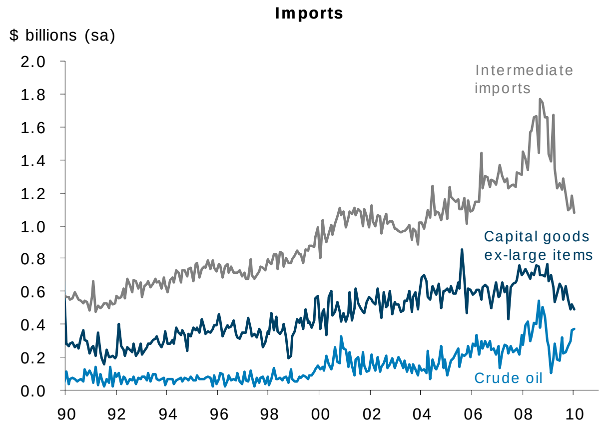
WHAT'S THE VIEW?

One of the key drivers behind cyclical recoveries is business investment. It's a key bellwether of confidence manifesting in actual decisions and barometer of a recovery that has legs. Swings in annual business investment of plus or minus 20 percent are not uncommon with a strong accelerator dynamic influential. The mid 1990's cycle is a clear example of how sharply business investment can pick-up, particularly following an extended period of underinvestment.

Lead-indicators of business investment are lukewarm. Business sector credit growth is declining. Technically we think this exaggerates the true story with bank credit simply being substituted by other forms of funding. But even abstracting from this, the trend is flat at best. The pace of rural credit growth has slowed sharply. Housing sector lending growth is subdued, and we need to bear in mind that a huge portion of NZ small-to-medium sized enterprise (SME) business investment is added to or financed via the residential mortgage market. With house prices now flat-lining at best (and more likely declining), prospects are not inspiring. And if NZ is not going back to the borrow-and-spend days of old (read: there is a "new normal" for housing credit growth), there is going to be a structural adjustment for how SME business investment is financed and treated. New mechanisms and approaches will undoubtedly appear, just like they will in terms of the vacuum a huge number of finance companies used to fill. The key issue is one of timing. With SME's hugely exposed to retailing and housing, maintaining cash-flow (rather than expanding operations) is likely to be the predominant concern for firms. Suffice to say we think there is going to be a void in regard to SME related investment over 2010.

Surveyed measures of investment intentions have recovered but are still very subdued. Monthly capital good import data still looks to be easing, although this is being masked by falling prices for imported capital equipment (recall, that the Overseas Trade Indices showed an 8.5 percent fall in prices for imported capital goods for Q4). Lower capital prices may be encouraging more business investment, and the 8.2 percent lift in Q4 capital imports (if sustained) augurs well for a strengthening of the recovery. However, considering volumes are nearly 20 percent below year-earlier levels, there is also the base effect to be mindful of.

Business sector profitability is showing signs of recovery and balance sheets are in good shape. But at present there does not appear the confidence to put retained earnings to work.



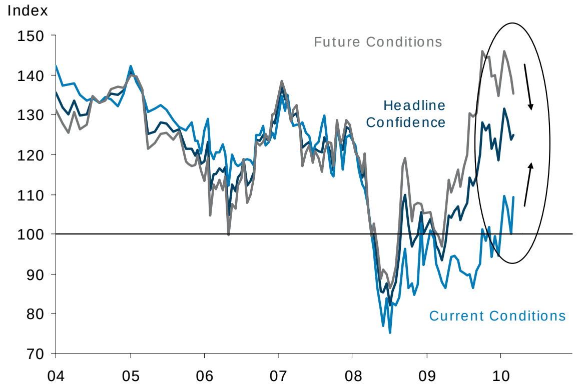
Sources: ANZ, National Bank, Statistics NZ

A consequence of low capital investment is a lower potential growth rate. In the March MPS, the RBNZ alluded to investment lagging the cycle and have made fairly sober assumptions for potential growth (2 to 2½ percent) over the forecast horizon **We're more inclined towards the lower end of that range over the coming two to three years.** If business investment is not picking up, then prospects for productivity growth do not look flash (although government related investment is making some inroads here).

So while we continue to monitor demand side aspects to the cycle (barometers such as housing activity, confidence, dwelling consents, and car sales are key here), **we also continue to pay close attention to structural dynamics.** Some, such as continued de-leveraging and improving balance sheets including a lower current account deficit leave us circumspect over 2010 but very optimistic for 2011. Others, such as business investment, are simply a case of saying the jury remains out, and that in itself bugs us somewhat as we think the conditions for a sustained pickup are moving into place nicely.

In terms of cyclical gauges, there wasn't anything in last week's data to alter our assessment of some softening in H1 2010. Consumer confidence eased a tad, but the level remains high. Better readings for the current conditions component of confidence surveys are encouraging as this gauge is more aligned to actual spending trends. Consumers' views on it being a good time to purchase major household item have lifted. Time will tell whether consumers are responding to aggressive discounting in the consumer durables sector or something more. The former is certainly the view of the RBNZ, although strong evidence of retail discounting has not yet been forthcoming in the published statistics.

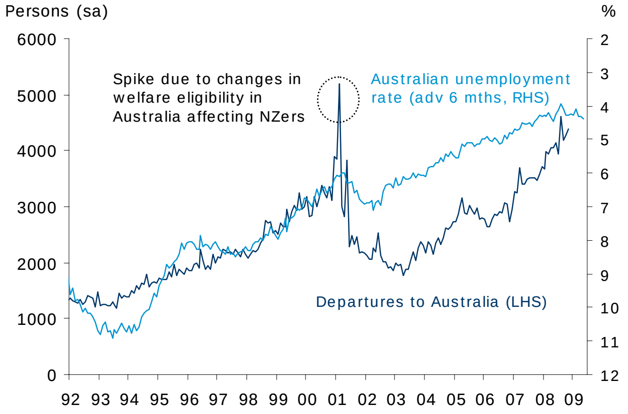
ANZ Roy Morgan Consumer Confidence



Sources: ANZ, National Bank, Roy Morgan

Migration data provided some glass half empty and half full statistics. Population growth continues to be bolstered by net immigration, with a net inflow of 1,060 permanent and long-term (PLT) migrants being recorded in February. More people mean more demand. While the smallest monthly net PLT inflow since January last year, it's still a healthy figure and monthly statistics can be notoriously volatile. Looking at the 3-month annualised picture there is a net inflow of just over 18,000. **However, the direction is clearly down.** PLT departures are up 8 percent in the three months to February, so it flags a turning point. But departures remain very low and some people who earlier put off their OE may now being reconsidering their plans. With trans-Tasman labour market differences in Australia's favour, risks of an accelerating trend are material. Given the starting inflow position for migration, the easing trend (if it extends and we find it hard to believe it won't) is not so much a negative, but more a case of diminishing support. But this will be coming at a time housing is battling a higher interest rate and tax liability outlook.

Monthly PLT departures to Australia



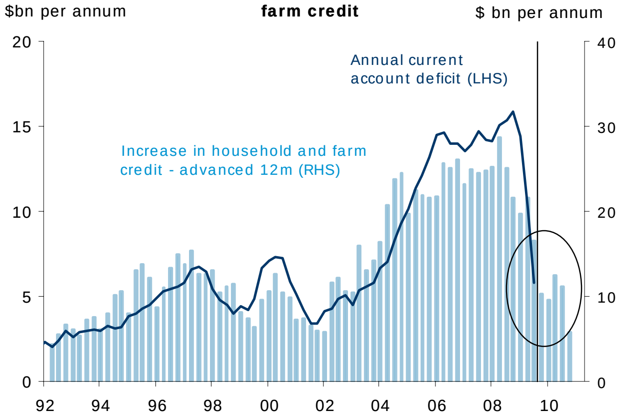
Sources: ANZ, National Bank, Statistics NZ, RBA

The coming week sees the release of historical data for Q4. Key among them is Thursday's GDP. Our forecasts suggest some upside risks to the 0.6 percent projected in the March *MPS*, but the Reserve Bank is likely to be broadly comfortable unless the data signals a markedly different growth profile for 2010. Confirmation of a June start to the tightening cycle will only be assured if the recovery maintains momentum over early 2010. What we have seen so far indicates that activity in early 2010 is unlikely to have maintained the pace of late last year. Even allowing for a "soft patch" in H1 2010, it may well be that the RBNZ have enough confidence in its projections for 2011 to still give the OCR a tweak. We have some sympathy for this, but the risk here of course is that the recovery gets hobbled before it is really underway, and particularly on the investment front. If, as we suspect, house prices have shown clear signs of falling in the lead-up, it'll be a brave call. So **our path of least regret view in terms of the first hike still centres around Q3.**

Continued evidence of de-leveraging is expected to be apparent in current account figures released on Wednesday. We expect the annual deficit to fall to 2.0 percent of GDP. Improving commodity prices, weak import demand, pressures on profitability and windfalls from the tax cases have been supporting factors, but against a backdrop of de-leveraging. With credit growth still anaemic, prospects for the deficit to remain low look pretty good (for the next 6 months anyway). It will support an easing in NZ's net external liability position, which should continue tracking down from 94 percent of GDP. This in itself is a huge structural improvement. The flipside of course is what it is telling us about domestic demand with imports capitulating over 2009.

Looking forward we expect the current account deficit to remain low for the first half of 2010. But the real issue is what happens from late 2010 when demand starts to pick-up (and we suspect credit growth with it). At that juncture the cyclical picture will look a lot better, but if **the current account deficit also starts to widen we'll be returning to the age old dilemma for NZ.Inc: insufficient savings.** And in that regard we hope Kiwisaver initiatives do not get scrapped or lessened in favour of financing tax cuts in the *Budget*. But we'll leave our views on that and things like compulsory super for another day.

Current account deficit and change in household and farm credit



Sources: ANZ, National Bank, RBNZ, Statistics NZ

Trade figures for February will be closely watched. These provide a timely indication for how the economy is faring over early 2010. We expect climbing export commodity prices and the lower NZD will translate into higher NZD export values. Import values are also to rise on account of the lower NZD, and improving business and consumer sentiment. We will be closely monitoring capital imports to see whether improving business sentiment is flowing through into purchasing decisions.

RECENT LOCAL DATA

- **Westpac McDermott Miller NZ Consumer Confidence – March 2009 quarter.** Overall confidence fell 2.2 points to 114.7. Present conditions firmed 0.5 points to 99.0, whereas future conditions eased 4.1 points to 124.7.
- **ANZ/Roy Morgan Consumer Confidence – March.** Headline confidence fell 1.8 points to 121.8. The rise in current conditions (up 5.0 pts to 104.9) partially offset an easing in future conditions (down 6.3 pts) to 133.1.
- **SNZ International Travel and Migration – February.** The net PLT monthly inflow of eased to 1060 persons (from 1860 in January), with annual net PLT immigration of 21,618 persons. Visitor arrivals fell by 1.9 percent (+4 percent y/y) whereas short-term resident departures rose by 6.2 percent (+8.0 percent yoy).
- **RBNZ Credit Card Billings – February.** Total credit card billings fell by 0.3 percent following a 1.4 percent increase in January. Spending on NZ cards used domestically declined 0.2 percent.

RURAL WRAP - A MID SEASON REVIEW OF 2009/10

Global prices for New Zealand produce are broadly similar to last year. Mid season farm gate prices of dairy, sheep and venison have been at or better than forecast. The agricultural portion of a New Zealand economic recovery is looking better than nine months ago. However, profits are highly likely to be banked. Land sales will remain subdued. The long-term prognosis at the farm gate looks good. Export trends are encouraging, but the hangover of excessive reliance on capital gain and excessive leverage remains in some farm businesses.

INTERNATIONAL

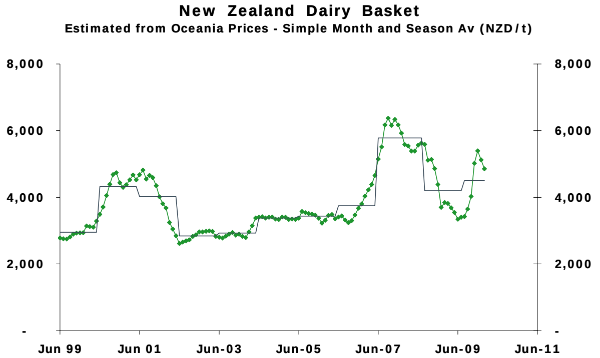
The price levels of global commodities are broadly steady on last year, below the spike but around the levels of two years ago.

Meat

Wholesale prices for NZ lamb and venison are steady. The US benchmark price for manufacturing beef has surged to $1.70/lb in the past two months, well above the pre-spike five-year level of around US$1.40/lb. Why? Quite simple really - demand exceeds supply. US fast food chains are running promotions and demand has picked up. The US cow kill is lagging a little and supply from Australia and New Zealand is also lagging. The difference between too little and too much is not big.

Dairy

Dairy commodity prices have eased after surging off their low last winter. By December 2009 they were three quarters of the way up to the 2007 peak. An indicative NZ dairy basket hovered around US$2,100 per tonne between January and August 2009 but reached over $3,800 by December. The February figure was lower but still a respectable US$3,400. The estimated season to date figure for the basket is NZD4,500, up from $4,200 last season.



Sources: USDA, ANZ, National Bank

Liquid milk prices in the US and UK have also increased by 25 to 40 percent off unprofitable lows. Many dairy farms will now be cash flow positive rather than negative. Will the remaining farms look to push production? The answer is likely to be yes. Farmers will want extra production to help try and reduce increased debt.

Grains

Latest reports suggest supply of grain is still not an issue and markets have eased since before Christmas.

Wool

Wool shows a little more life. There is degree of buoyancy in the UK where the strong indicator has moved from 70p/kg to 112p/kg since August 2009. The Australian Northern fine wool indicator in February is 25 percent above the same time in 2009. Inventories are reported as low and there is renewed interest in buying.

DOMESTIC

Farmers are looking for the autumn rains. Farm gate prices are better than forecast in 2009 for most livestock and dairy.

The Weather

Mid March is usually the time for a substantial autumn rain. It is anticipated by over two thirds of the sites we monitor. Northland is still in a serious drought and Marlborough is dry, even by Marlborough standards. The number of grass growing hours per day now starts to shorten quite quickly. The finish of daylight saving on the 4th April does not help. It is desirable to have a good cover of pasture before winter.

Sheep meat

There is a lower mid season peak in the number of lambs being processed. Farmers who have fewer sheep and plenty of grass are trying to grow lambs to heavier weights to improve the per head price. The result is that the mid season kill year to date is estimated to be down around 1.5 million lambs on the comparable period in 2008/09. The lambs are there and will have to be processed at some point. It will be interesting to see what the winter/early spring prices will be on higher numbers.

Mid season farm gate prices for prime lambs are better than expected and the estimated average mid season to date is $81/head. The comparable average for the 2008/09 year was $90.

Wool

The NZ strong wool indicator collapsed in the March to June period last season, clawed its way back to $3.19/kg clean in November only to fall back to under $3 in January. It subsequently recovered to be around $3.20. Nothing changes: wool very commonly has within season price swings of up to

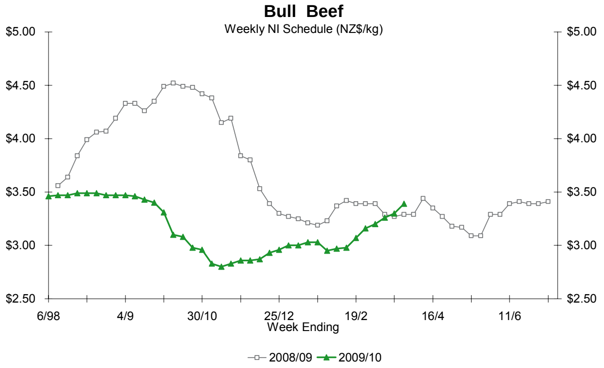
+ 25 percent either side of the final season average.

Venison

Mid season schedules have been lower than last season but still at a reasonable level. Lower numbers presented for slaughter have been a considerable help in holding the niche and high-end market price up during the recession. Velvet producers are enjoying a better market, with prices up around $20 to $30/kg for the better grades.

Beef

Early sellers of prime beef have taken a hammering compared to last year, mostly due to the high NZD/USD compared to last season. Schedules are now comparable to the same time last season.



Sources: NZX Agrifax, ANZ, National Bank

Dairy

The very gloomy May 2009 forecast by Fonterra (and other companies by default) of $4.50/kg has had an amazing turn around. Crude numbers still suggest that a total return over $6/kg (before retentions) is a stretch. But exchange rate gains/losses and International Financial Reporting Standard adjustments increase the margin for error in an external forecast.

The uptake of the additional shares offered by Fonterra was equivalent to about five percent of total production. Most are thought to be recent conversions taking the opportunity to share up at what seems a favourable price.

Debt and liquidity

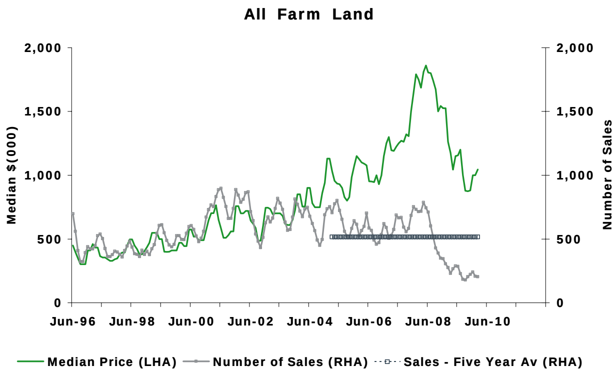
The M3 statistics show that the monthly rate of increase in agricultural debt has slowed from a long standing range of 1.5 to 2.0 percent/month down to 0.3 percent in January 2010. A lack of land sales and a slow down in capital intensive development is an obvious explanation.

Net debt is still increasing albeit more slowly. Best intentions of many farmers (and their bankers) are to reduce debt. Over-drafts are around 10 percent lower than same time last year – part due to better cash flows and part due to debt restructuring. The $12.9b surge in debt between June 2007 and June 2009 was not all related to land purchases. Droughts and low prices also contributed. Nevertheless the increase in debt was large.

Credit balances are still declining after the largest percentage annual increase in 24 years (66 percent) between June 2007 and 2008. The reduction will be used to pay off debt and maintain farm inputs without adding to debt. There was much cost cutting in budgets last winter, particularly on dairy farms. It will be interesting to see how strong the will power has been when it comes to comparing budget with the actual result.

Land Sales

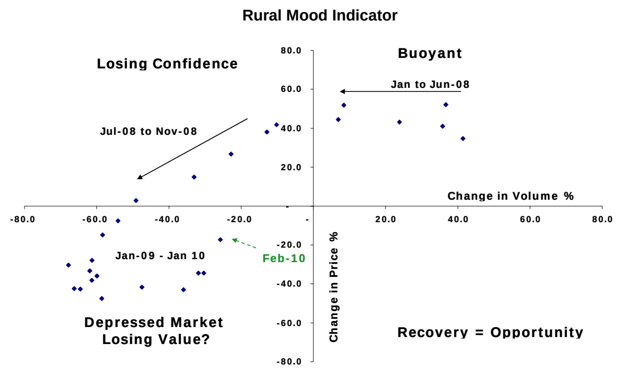
The numbers of sales remain very low with sales ranging from very well paid compared to the peak to down 20 to 25 percent.



Sources: REINZ, ANZ, National Bank

A market requires volume as well as price. Both volume and price increase in buoyant times, the converse occurs in depressed markets. The next graph plots annual percentage change in price against annual percentage change in volume for the period shown.

The graph overleaf shows the transformation from buoyant times in early 2008, a cooling-off in the second part of that year and the depressed market since.



Sources: REINZ, ANZ, National Bank

While the data suggests a significant correction in land prices is occurring, there has not been a major collapse. The adjustment continues to evolve in an orderly (if slow) manner. But that is in line with the experience of the late 1980s and 1990s.

THE CHINA AND ASIA FACTOR

The greater Asian and Chinese economies continue to grow in importance for exports from New Zealand. Primary industry exports contribute significantly to that growth.

NZ Exports to China	YE Jan 2010 ($m)	Change * ($m)	% of total
Dairy Products	1132	155	31
Sheep & Beef Products	216	29	6
Wool & Carpets	233	3	6
Fruit	67	6	2
Wine	14	4	0
Total Agriculture	**1662**	**197**	**45**
Forestry	701	79	19
Metals	77	10	2
Engineering and Chemicals	62	4	2
All Other	1208	-150	33
Totals	**3710**	**140**	**100**
* Change three months Jan 2010 versus January 2009 ($m)			

Source: Stats NZ, ANZ

Export growth to the region is a strong positive in any economic outlook. It does come with a caveat. Increasing a large export exposure to any one country does leave New Zealand susceptible to any economic challenges that may arise in the destination country. One big issue in China is gaining control over inflation.

IMPLICATIONS

The agricultural portion of a New Zealand economic recovery is looking better than nine months ago. Our overall assessment is unchanged. Profits are highly likely to be banked. Land sales will remain subdued. Farm prices are set to remain under pressure given the gulf between vendor and purchaser expectations.

The financial pressure for those with too much debt may have eased a little but the underlying issue for them and the industry as a whole still remains. Specifically, a host have accepted the new reality that farm land needs to be support by an appropriate yield and cash-flow. The medium-term story looks extremely encouraging for those with strong balance sheets. There are also those that continue to expect a return to previous capital gains, a dynamic we struggle with given the prospective path for leverage across the sector.

Footnote: Of course day light saving has nothing to do with the number of growing hours/day! Just joking!

DATA PREVIEW

A higher investment income deficit is expected to deliver a return to a quarterly current account deficit in Q4 2009. The annual deficit is expected to narrow further but this improvement will be transitory. We expect Q4 GDP to confirm the strongest quarterly expansion in two years. Details are likely to show something of a mixed bag in terms of the sustainability of the expansion.

Current account – December 2009 quarter

(due Wednesday 24 March 10.45am)

Current Account	ANZ	RBNZ	Market
Quarter	**-$1,518m**		-1,600m.
Annual	**-$3,724m**		..
% of GDP	**-2.0**	-2.2	-2.0%

After September posted the first quarterly current account surplus for more than two decades we expect a return to the status quo in December.

The improving terms of trade will help generate another quarterly goods trade surplus. The services balance is also likely to record a small surplus. However, we expect the return to larger quarterly investment income deficits, which were temporarily dampened by lower profitability, debt servicing costs, and provisioning of the big four Australian bank's over structured financial transactions. In late December a settlement on the latter was reached, with bank's to pay 80 percent of the assessed amount of tax owning. Bank Disclosure Statements indicate over-provisioning may already have taken place, with some payback in this quarter possible.

The narrowing in the annual deficit is pleasing, but it does not imply a resolution of NZ's external imbalances. The weak domestic economy has been the major driver of the narrowing current account deficit. While still patchy, we expect improving corporate profitability and import demand will contribute to fairly sizeable quarterly deficits over 2010. The annual current account deficit is expected to trough below 2 percent of GDP in early 2010 before heading towards 4 percent by the end of the year.

FINANCIAL MARKET IMPLICATIONS

Like in Q3, the market will be clued up for the possibility of the tax provisions to cause volatility in the Q4 numbers. The potential for surprise appears less in these numbers.

GDP – DECEMBER 2009 QUARTER

(due Thursday 25 March 10.45am)

GDP	ANZ	RBNZ	Market
QoQ	**+0.9**	+0.6	+0.8
YoY	**0.5**	0.2	0.3
Ann. Ave.	**-1.5**	-1.6	-1.5

Headline production GDP is expected to expand by 0.9 percent in Q4, a more convincing turn in economic activity than the 0.2 percent increase in Q3. Policy support, the inventory cycle, rebounding manufacturing activity, and natural base effects are all supportive factors.

Ex-primary manufacturing, wholesale and retail trade, and residential construction lead the way. These were some of the hardest hit sectors during the recession, so some payback was inevitable. About one-third of the quarterly increase in GDP is attributable to ex-primary manufacturing, with lower livestock slaughtering to provide a small offset. Solid growth is also expected from retail and wholesale trade, with firmer residential building expected to lift construction sector activity. The electricity sector is expected to post a small positive quarterly rise, with activity in the mining sector expected to post a solid quarterly increase.

Services sector activity is expected to post a respectable quarterly increase (about 0.8 percent), although we expect some divergences. Quarterly declines in paid hours in some sub-sectors and lower real estate sales volumes are likely to contribute to lower growth in some sub-sectors.

On an expenditure basis, we expect a sizeable positive contribution from inventories, a massive turnaround from earlier in the year. Improved retail spending is suggestive of higher private consumption, whereas stronger residential investment will boost aggregate investment. Business investment is expected to register a broadly flat increase, with higher plant and machinery investment offsetting a fall in non-residential investment. Net trade is expected to make a negative quarterly contribution.

FINANCIAL MARKET IMPLICATIONS

Upside risks around the RBNZ's 0.6 percent quarterly pick are likely on account of the stronger manufacturing data (released after the MPS forecasts were finalised). **We expect the Bank will be broadly comfortable unless details of the GDP report point to a markedly different outlook for activity (and inflationary pressure) over 2010**.

INTEREST RATE STRATEGY

The market remains sympathetic towards early rate hikes, and is pricing in high odds of a June hike. NZ is not Australia, but global investors often lump the two markets in together, so RBA hikes will have an impact on sentiment here. We believe high retail interest rates and a tight *Budget* will keep the RBNZ in check, but only time will tell. In the interim, we expect the market to hedge bets on a June move.

MARKET THEMES

- We are less optimistic than the RBNZ on the economy's near-term growth prospects. If we're right a June hike seems unlikely.
- The debate around timing of the first RBNZ hike has become strategic, rather than economic.
- A dovish FOMC Statement suggests that Fed is in no hurry to hike. The market is reluctant to price in an April RBA hike, but it should.

REVIEW AND OUTLOOK

The debate over the timing of the RBNZ's first rate continues to be played out, and at this point market pricing favours a June start – not a surprise given the RBNZ's "*around the middle of 2010*" comment. However, we wonder what economic imperative there is to raise rates just yet given tighter financial conditions, and what is set to be a tight *Budget*. However, the RBNZ may decide to hike for strategic reasons. We suspect they remain mindful of previous cycles when they've been caught behind the curve. This does concern us slightly, but at this stage it is not sufficient for us to change our call for a September start to the cycle.

Global considerations are also having an impact on market behaviour. For example, it is worth noting that the yield curve is pricing in broadly four back to back rate hikes from June. That's more than even the most upbeat economists are calling for. Yet key bellwether rates like the 2yr swap rate have met with resistance below 4.10%. This is partly due to the fact that Australian rates have been rising – and could rise further. Indeed, the Australian market is pricing in just 19bps of hikes by May, leaving it vulnerable to a surprise if the RBA hike in April or May. We think a RBA hike by May is likely, and this will have an impact on NZ rates – even if the link proves to be unfounded.

This week's Q4 GDP data will be the first test, particularly given that the RBNZ is forecasting growth of just 0.6 percent. This is below market consensus, and potentially lowers the bar for an adverse reaction in the rates market.

PREFERRED BORROWING STRATEGIES

Rates remain elevated, and may remain so for a while. This is not cause for concern, as the market is already pricing in back to back hikes from June. As such we see no value in short end hedges. These only endorse the large hikes that are priced in, and are inconsistent with what has been a significant tightening in financial conditions. By contrast, long end swap rates are competitive, but trade at a high premium to floating. Consider forward swaps, which offer a hedge, but don't have a near term impact on cashflow.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	We don't think a June hike is likely, but depends on data.
NZ data	↔/↓	Complete disappointment so far. GDP could be stronger.
Fed Funds / front end	↔	FOMC statement dovish. Getting behind the curve?
RBA	↔/↑	McCrann favours a hike.
US 10 year	↔/↑	Fed behind the curve + data improving = higher yields.
NZ swap curve	↔/↑	Doing the job for the RBNZ. Steeper as 10yr follows US.
Flow	↔/↑	Market reluctant to take 2yr below 4.10%.
Technicals	↔	Risk that yields rise on better GDP, RBA fears.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 29-Apr-10	+5	+4
Thu 10-Jun-10	+21	+19
Thu 29-Jul-10	+40	+41
Thu 16-Sep-10	+77	+72
Thu 28-Oct-10	+96	+94
Thu 9-Dec-10	+115	+112
Thu 27-Jan-11	+145	+151

TRADING THEMES WE FAVOUR AT PRESENT

While we remain confident that the data flow between now and June will avert a June hike, the road there is likely to be bumpy. Thursday's GDP data is the first such test, with the market at 0.8 percent and the RBNZ at 0.6 percent. This probably exposes the market to more upside risk, and may liven the debate around a June hike if we see a consensus number. But with the market already 76% priced for a June, and the first hike likely to be 25 rather than 50, if we do see 25 get fully priced in, we'd view that as an extremely good risk/reward trade on a September hike. We still maintain our overall view there is too much priced in, and expect NZ rates to outperform Australia, but don't see either view getting any traction this week.

CURRENCY STRATEGY

JPY repatriation typically has a significant impact on markets during the last week of March, as it has in the past two years. Both the NZD and the AUD look vulnerable after a weak close last Friday. Given the month-end effect, consider selling the carry trade early in the week, or buying it late in the week.

MARKET THEMES

- This week is about seasonality.
- US health reform will dominate headlines.
- The EU summit is later this week.
- India surprises and raises rates 25bp. Just how far away is inflation?

REVIEW AND OUTLOOK

The failure of the NZD to break through the top side at 0.7175 has the market sitting directionless at 0.7080 to start the week. The range is now very defined with major support at 0.6860 and solid resistance at 0.7175. A break of either of these levels appears difficult this week.

Japanese year-end repatriation flows are important, and with most commentators calling for a weaker yen on any sign of the US-JPY yield differentials blowing out. The JPY has appreciated strongly over the comparable weeks in 2009 and 2008. This suggests there may be an opportunity to sell AUD/JPY today in anticipation of a clean out later in the week, or buy it once repatriation flows are complete. We would expect similar price action in the NZD via the same dynamic in the NZD/JPY cross.

Last week, the Fed retained its long held statement of rates on hold for an extended period, giving risk trades and equities the green light. We suspect the market is a little long on risk, particularly with Japanese repatriation, the EU Summit, and US President Obama's health reform bill all looming large this week.

India and China have acknowledged that inflation has arrived. As policy starts to focus more on inflation, this has negative consequences for the growth side of the equation – and thus global demand.

We continue to favour being short NZD, particularly against AUD. We see value in reducing 20% of the position at 0.7065 just ahead of the 200hour Moving average. Ideally we would see NZD to the 0.6980 level this week. The AUD has also failed at 0.9255 but the yield differential is not abating. We favour setting a stop loss on this position above the 0.7777 high seen last week, which also aligns with the 0.7777 resistance from December.

One thing is for certain – the choppy, directionless nature of the markets is set to continue as the winners from this stimulus fuelled recovery become less clear as inflation changes behaviours.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Under valued but fair value is lower.
Yield	↓	Yield favours Australia.
Commodities	↔	Commodities flat lining in both countries.
Partial indicators	↔/↓	Australian data still better.
Technicals	↔	pivot 0.7777.
Sentiment	↔	Market squared shorts to early?
Other	↔/↑	India raises rates, will China follow?
On balance	↔	**Yield and growth story too hard to ignore. But no momentum.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔	Fed on hold as well.
Commodities	↔	Commodities flat-lining.
Risk aversion	↔/↑	Risk this week then environment positive for risk.
Partial indicators	↔/↓	US data still improving. NZ's not.
Technicals	↔	Range trade 0.6860-0.7175.
AUD	↔	Resistance at 0.9255 Support 0.9080.
Sentiment	↔	NZD still sidelined.
Other	↔	Equities still big driver of FX.
On balance	↔/↓	**Range-bound with negative bias.**

DATA EVENT CALENDAR

DATE	COUNTRY	DATA / EVENT	MKT.	LAST	TIME (NZDT)
22-Mar	AU	New vehicle sales – mom - Feb		-3.4%	13:30
23-Mar	US	Chicago Fed Nat Activity Index - Feb		0.02	01:30
	EZ	Eurozone Consumer Confidence – Mar		-17	04:00
	EZ	ECB's Trichet Speaks at Parliamentary Panel			04:30
	US	Treasury's Geithner address			09:30
	JN	BOJ Monetary Policy Minutes - Feb			12:50
	UK	CPI – yoy - Feb	3.1%	3.5%	22:30
	UK	Core CPI – yoy - Feb	3.1%	3.1%	22:30
24-Mar	US	Existing Home Sales - % mom - Feb	-1.0%	-7.2%	03:00
	EC	ZEW Survey – Economic Sentiment – Mar		40.2	23:00
	EC	CPI – mom – Feb	+0.3%	-0.8%	23:00
	US	Housing Starts – mom – Feb	-3.6%	+2.8%	01:30
	US	House Price index – mom – Jan	-1.0%	-1.6%	03:00
	US	ABC Consumer Confidence – Mar 22		-43	10:00
	NZ	**Current Account Balance – Q4**		**-$1.413b**	**10:45**
	NZ	**Current Account Balance to GDP – Q4**		**-3.1%**	**10:45**
	JN	Merchandise Trade Balance - Feb (yen)	605	85	12:50
	GE	PMI Manufacturing – Mar	56.8	57.2	21:30
	GE	IFO Business Climate – Mar	95.6	95.2	22:00
	GE	IFO current assessment – Mar	0.1%	0.1%	22:00
	GE	IFO Business Climate	0.1%	0.1%	22:00
	EC	PMI Manufacturing - Mar	54	54.2	22:00
	EC	PMI Composite		53.7	22:00
25-Mar	US	Durable Goods Orders- Feb	1.0%	3.0%	01:30
	US	PPI Ex Food & Energy – mom – Feb	+0.1%	+0.3%	01:30
	UK	Budget Report Published			01:30
	US	New home sales - mom – Feb	1.9%	-11.2%	03:00
	US	Fed's Hoenig speaks			03:45
	NZ	**GDP – qoq – Q4**		**0.2%**	**10:45**
	NZ	**GDP – yoy – Q4**		**-1.3%**	**10:45**
	GE	Gfk Consumer Confidence - Apr	3.1	3.2	20:00
	EZ	M3 (s.a 3m average)	-0.1%	-0.1%	22:00
	UK	Retail sales –mom- Feb	0.5%	-1.8%	23:00
	UK	Core retail sales –mom- Feb	0.2%	-1.2%	23:00
26-Mar	US	Initial Jobless Claims – Mar 21	455k	457k	01:30
	US	Continuing Claims – Mar 14		4.58m	01:30
	NZ	**Trade Balance - Feb**		**+$269m**	**10:45**

Continued on page overleaf

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	TIME (NZDT)
	NZ	**Exports - Feb**[h]		**$3.15b**	**10:45**
	NZ	**Trade Balance – 12m total - Feb**		**-$178m**	**10:45**
	AU	Governor Stephens Address			11:15
	JP	CPI – yoy - Feb	-1.2%	-1.3%	12:30
	JP	Core CPI – yoy - Feb	-1.1%	-1,2%	12:30
	UK	Business Investment – qoq – 4q		-=5.8%	22:30

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, 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

This week will see the release of the release of the Balance of Payments and GDP for Q4 last year. After a lean period, we expect to see the return to decent quarterly growth rates. Data readings for the first half of 2010 are expected to remain volatile.

DATE	DATA / EVENT	ECONOMIC SIGNAL	COMMENT
Wed 24 Mar (10.45am)	Balance of Payments (Dec qtr)	Improving trend	Widening in quarterly investment income expected to offset improving trade position. Annual deficit to narrow to 1.8 percent of GDP.
Fri 26 Mar (10.45am)	Gross Domestic Product (Dec qtr)	Back to above trend	Quarterly outturn to be boosted by healthy growth in services, retail and mining.
Fri 26 Mar (10.45am)	Overseas Merchandise Trade (Feb)	Imports still down?	Exports to Australia should continue to benefit from the favourable NZDAUD cross- rate.
Tue 30 Mar (10.45am)	Building Consents (Feb)	Stable	Still too early to see recovery given the uncertainty resulting from pending regulatory changes.
Wed 31 Mar (3:00pm)	National Bank Business Outlook (Mar)	Holding	Will business confidence remain elevated given the mixed data of late?
Tue 13 Apr (10:00am)	REINZ Residential data (March)	Stabilisation	Will provide an opportunity to see the impact (if any) of the PM's February speech.
Tue 13 Apr (10.45am)	Electronic Card Transactions (Mar)	Lifting	Recent outturns have been soft and a big month is overdue.
Wed 14 Apr (10.45am)	Retail Trade Survey (Feb)	Soggy	ECT data suggests a flat outturn.
Xxxx April (3.00pm)	ANZ Roy Morgan Consumer Confidence (April)	Up or down	After last month's bounce we may see some easing in confidence. Don't bet the house on it, though.
Tue 20 Apr (10:45am)	Consumers Price Index (Mar qtr)	Firming	We expect a 0.6 percent quarterly increase.
Tue 20 Apr (10:45am)	Food Price Index (Mar)	Up	Expect firming commodity prices to starting filtering through.
On Balance		**Improving but not racing away**	**Recovery still on track but patchy.**

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.9	0.2	0.2	**0.9**	**0.3**	**0.4**	**0.5**	**0.9**	**1.1**	**1.1**
GDP (% yoy)	-3.0	-2.1	-1.3	**0.5**	**1.6**	**1.8**	**2.1**	**2.1**	**2.9**	**3.7**
CPI (% qoq)	0.3	0.6	1.3	-0.2	**0.6**	**0.7**	**0.9**	**0.8**	**0.5**	**1.0**
CPI (% yoy)	3.0	1.9	1.7	2.0	**2.3**	**2.5**	**2.1**	**3.1**	**3.0**	**3.2**
Employment (% qoq)	-1.1	-0.5	-0.8	-0.1	**0.1**	**0.3**	**0.4**	**0.6**	**0.6**	**0.7**
Employment (% yoy)	0.8	-0.9	-1.8	-2.4	**-1.2**	**-0.5**	**0.7**	**1.4**	**1.9**	**2.3**
Unemployment Rate (% sa)	5.0	6.0	6.5	7.3	**7.5**	**7.4**	**7.2**	**6.8**	**6.5**	**6.2**
Current Account (% GDP)	-7.9	-5.6	-3.1	**-1.8**	**-1.6**	**-2.3**	**-3.4**	**-3.5**	**-3.3**	**-3.0**
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	**5.8**	**1.9**	**3.8**	**4.0**	**0.2**	**-0.2**	**-0.8**
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	**-8.2**	**-3.9**	**10.1**	**16.3**	**10.2**	**8.0**	**3.2**

	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10
Retail Sales (% mom)	0.6	0.1	-0.5	1.2	0.2	0.1	0.9	-0.4	..	..
Retail Sales (% yoy)	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.0	..	..
Credit Card Billings (% mom)	-0.4	0.2	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	..
Credit Card Billings (% yoy)	-2.4	-2.0	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.6	..
Car Registrations (% mom)	-1.8	6.1	7.1	-2.9	7.9	0.3	2.2	6.2	-0.5	-0.7
Car Registrations (% yoy)	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4
Building Consents (% mom)	3.5	-9.5	5.2	2.2	5.6	12.1	0.5	-3.4	-2.9	..
Building Consents (% yoy)	-22.8	-24.4	-16.5	-9.1	-11.7	26.7	20.4	22.9	35.2	..
REINZ House Price (% yoy)	-2.2	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7	..
Household Lending Growth (% mom)	0.4	0.1	0.3	0.3	0.3	0.3	0.0	0.2	0.2	..
Household Lending Growth (% yoy)	2.5	2.3	2.4	2.4	2.4	2.6	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	105.8	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6
NBNZ Business Confidence	1.9	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1
NBNZ Own Activity Outlook	3.8	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9
Trade Balance ($m)	906.1	-331.1	-177.6	-716.6	-561.5	-501.5	-275.4	-32.0	269.1	..
Trade Balance ($m annual)	-2994	-3110	-2491	-2360	-1669	-1176	-858	-549	-178	..
ANZ World Commodity Price Index (% mom)	2.8	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4	3.8
ANZ World Commodity Price Index (% yoy)	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	48.6
Net Migration (sa)	2470	1620	2460	1620	1840	2150	1720	1680	1850	..
Net Migration (annual)	11202	12515	14488	15642	17043	18560	20021	21253	22588	..

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	Jan-10	Feb-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.701	0.698	0.707	0.680	0.670	0.650	0.640	0.640	0.640	0.650
NZD/AUD	0.793	0.780	0.773	0.782	0.779	0.765	0.780	0.810	0.831	0.867
NZD/EUR	0.506	0.512	0.522	0.504	0.504	0.500	0.500	0.508	0.516	0.533
NZD/JPY	63.28	62.10	63.93	61.20	61.64	61.10	61.44	62.72	64.00	65.00
NZD/GBP	0.439	0.458	0.471	0.430	0.427	0.419	0.413	0.416	0.416	0.428
NZ$ TWI	65.0	64.5	65.5	63.4	63.1	62.1	62.0	63.0	63.8	65.6
INTEREST RATES	Jan-10	Feb-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.25	3.50	4.00	4.75	5.25
NZ 90 day bill	2.77	2.71	2.62	2.80	3.20	3.70	3.80	4.60	5.20	5.60
NZ 10-yr bond	5.62	5.76	5.89	5.70	5.60	6.00	6.20	6.40	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.25	0.28	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25	5.25
AU 3-mth	4.38	4.13	4.26	4.80	4.90	5.00	5.00	5.10	5.60	5.60

	19 Feb	15 Mar	16 Mar	17 Mar	18 Mar	19 Mar
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.72	2.70	2.68	2.67	2.66	2.66
NZGB 11/11	3.81	3.73	3.71	3.70	3.73	3.72
NZGB 04/13	4.63	4.52	4.51	4.50	4.53	4.53
NZGB 12/17	5.58	5.56	5.55	5.56	5.59	5.60
NZGB 05/21	5.87	5.85	5.84	5.85	5.88	5.89
2 year swap	4.22	4.20	4.19	4.16	4.17	4.17
5 year swap	5.21	5.16	5.16	5.15	5.16	5.16
RBNZ TWI	65.0	64.7	65.0	65.5	65.6	65.9
NZD/USD	0.6968	0.7015	0.7045	0.7119	0.7136	0.7150
NZD/AUD	0.7813	0.7678	0.7705	0.7750	0.7734	0.7759
NZD/JPY	63.92	63.61	63.57	64.34	64.37	64.66
NZD/GBP	0.4515	0.4626	0.4680	0.4675	0.4661	0.4691
NZD/EUR	0.5165	0.5106	0.5147	0.5168	0.5200	0.5249
AUD/USD	0.8918	0.9136	0.9143	0.9186	0.9227	0.9215
EUR/USD	1.3491	1.3738	1.3687	1.3775	1.3722	1.3621
USD/JPY	91.74	90.67	90.24	90.38	90.21	90.43
GBP/USD	1.5433	1.5165	1.5055	1.5229	1.5311	1.5243
Oil (US$/bbl)	78.97	79.79	79.79	81.75	82.93	82.16
Gold (US$/oz)	1104.90	1111.45	1111.70	1128.15	1123.85	1124.40
Electricity (Haywards)	6.62	9.60	10.94	12.23	12.65	10.56
Milk futures (US$/contract)	107	109	109	109	109	109
Baltic Dry Freight Index	2714	3574	3498	3427	3396	3379

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.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

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