

# Market Focus

New Zealand

27 October 2009

## ALL IN THE WORDING

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**Page 2: Economic overview**

- > Our core views remain intact. We still see de-leveraging as a key theme. We expect the mix of both "soft" and "hard" economic data this week to continue pointing towards improvement in economic prospects, but considerable uncertainty to surround the durability and pace. We see these themes as supporting the RBNZ continuing to take a cautious – although perhaps more conditional – stance.

**Page 5: Economic comment – financial conditions update**

- > Financial markets are now pre-empting the recovery so far that the recovery itself looks at risk according to our financial conditions measure. There has been a substantial tightening in conditions via higher fixed mortgage rates and a stronger currency, offset somewhat by rising house prices and a firming equity market.

**Page 6: OCR Review preview**

- > We expect the RBNZ to keep the OCR unchanged at 2.5 percent and remove the soft easing bias from their September statement. We still believe there is enough uncertainty (fragility) for them to remain committed to keeping rates low for some time. But we would not be surprised to see this conditioned in some way to the outlook for inflation. The big picture is that we do not expect the RBNZ to ratify current market pricing.

**Page 7: Interest rate strategy**

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**Page 8: Currency strategy**

- > Despite a pull-back early this week, the market continues to believe the NZD is the safe haven of the South Pacific. The RBNZ is the obvious focus this week and following on from the (misinterpreted) comments from Dr Bollard last week – particularly from offshore participants – we see the potential for the market to come up disappointed. We continue to look for an eventual test of the 0.71 level.

**Page 9: Data and event calendar****Page 11: Data watch****Page 12: Key forecasts**

## ECONOMIC OVERVIEW

Our core views remain intact. We still see de-leveraging as a key theme. We expect the mix of both “soft” and “hard” economic data this week to continue pointing towards improvement in economic prospects, but considerable uncertainty to surround the durability and pace. We see these themes as supporting the RBNZ continuing to take a cautious – although perhaps more conditional – stance.

### What’s ahead?

- > **October ANZ-Roy Morgan Consumer Confidence** (Tuesday 1500 NZDT). This is the first release of our new joint publication with Roy Morgan that will help gauge the sentiment of the NZ consumer.
- > **October NBNZ Business Outlook** (Wednesday 1500 NZDT).
- > **RBNZ OCR Review** (Thursday 0900 NZDT). We expect the OCR to be left unchanged at 2.50 percent (refer to page 6 for our full preview note).
- > **September Overseas Merchandise Trade** (Thursday 1045 NZDT). A monthly deficit of \$800 million is expected as import demand finds a base and exports (particularly dairy) are now hampered by a low level of inventory.
- > **September Credit Growth** (Thursday 1500 NZDT). Housing lending is expected to continue to rise, albeit very modestly. However, business and agricultural credit growth should remain subdued.
- > **September Building Consent Issuance** (Friday 1045 NZDT). The number of residential consents issued is expected to continue to rebound in line with increased turnover in the housing market. However, non-residential consent issuance is likely to continue to deteriorate.

### What’s the view?

**We’ll start this week with our views on the widely discussed comments from RBNZ Governor Bollard last week.** Appearing before the Finance and Expenditure Committee, Dr Bollard was reported as saying that the high NZ dollar was not necessarily an impediment to raising the OCR in response to rising house prices. At first blush, and read in isolation, this obviously seems a relatively hawkish comment from a central bank governor who had previously acknowledged the high NZ dollar as a concern. This was how the market took it also and saw the NZD – already benefiting from an increased appetite for risk and a weak USD – provided with a further boost. There

remains a view in the market that the RBNZ will be next cab off the rank in following the RBA down the tightening cycle path.

**Like most comments, it pays to check the detail.** The comments – in spirit – were more an acknowledgement that the RBNZ can do little about the high levels of the kiwi. Indeed, with the market gunning for an early start to the tightening cycle (a 25bp hike is close to fully priced in by January next year) what Dr Bollard appeared to be highlighting was that actually hiking interest rates shouldn’t impact the currency further seeing as this would just meet market expectations.

**What was interesting was that a host of other comments were not really reported.** These included comments on the housing market. While improved activity was acknowledged, the RBNZ was not seeing much of an increase in credit going into housing and that “we [the RBNZ] don’t want to get into a position where we are forced, as in the last cycle, to raise interest rates to a very high level with the consequent damage that can do. We would certainly be talking to banks about credit conditions and requirements before that happened. At the minute we don’t have concerns, we think we have some room to use more tools we’d be looking at that over this next year.” These comments give the impression of a Governor much more comfortable than what current market pricing would suggest.

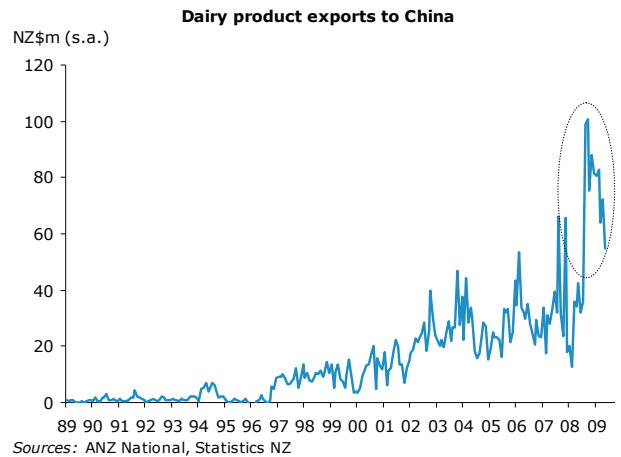
**We wonder if the Bank of Canada’s (BoC) recent statement could provide some useful insights into the RBNZ thinking.** To be fair Canada obviously has a huge exposure to the struggling US, whereas NZ is turning to Asia. But Canada has had a cumulative output loss of 4.6 percent, and the unemployment rate has increased from 5.8 to 8.4 percent. Both are far more similar to the NZ experience than the RBA and Australia.

**If we remember back to April,** the BoC was the first central bank to flag a commitment to keeping rates on hold for a specified period of time. It may have been a coincidence, but the RBNZ followed suit, giving such a commitment with their now famous “keep the OCR at or below the current level through until the latter part of 2010” phrase at their April OCR Review. At the BoC’s latest decision, while acknowledging positive developments and a return to growth, they added that “the current strength in the (Canadian) dollar is expected, over time, to more than fully offset the favourable developments since July.” Irrespective of how Dr Bollard’s comments have been interpreted, we suspect the RBNZ have a very similar view towards the NZD. The BoC retained their conditional commitment to keeping rates on hold until the end of Q2 2010. Call it idle musing, but Canada looks far closer to NZ than Australia at present.

**Turning to the dataflow this week, it is a relative busy one locally. The first release is the new ANZ-Roy Morgan Consumer Confidence measure for October today.** The Roy Morgan Consumer Confidence gauge is a timely measure of NZ consumer sentiment and has been in existence since January 2004. This month marks the first release of a new partnership with the ANZ. While the survey content will be the same as with the original survey, the ANZ economics team will provide insights into the results and some flavour around the numbers. Key is not necessarily the headline result, but the split between current conditions and expected conditions. The aim is for the results to be released on the third week of each month.

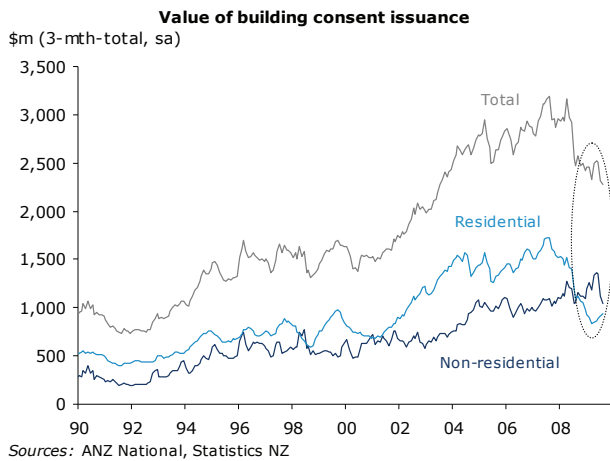
**Business confidence numbers are also released this week.** We won't go into the detail for obvious reasons but key to watch will be whether momentum has been sustained and what is happening across those important second-tier gauges including investment and employment. For a recovery to gain momentum, these need to strengthen.

**Another monthly trade deficit is expected for September.** Trade deficits are common place in September months and we expect this year to be no exception. We are picking a trade deficit of \$800 million. Both the level of exports and imports are expected to be relatively subdued – down between 15 and 20 percent on a year ago. The former has been benefiting from solid Chinese demand for dairy and log products. While that demand may still be present, a sharp run-down in inventories (particularly for dairy) is likely to limit how much can be exported due to natural biological constraints. Dairy exports to China have fallen nearly 50 percent since their peak at the end of 2008. Low dairy inventories are potentially contributing to the recent improvement in global dairy prices and we need to interpret the drop in exports in combination with the level, with the latter remaining high. NZ import demand, while still subdued, is expected to now start to recover as retailers look to begin restocking their shelves.



**Credit growth figures should reinforce recent trends.** While housing market turnover has clearly rebounded, housing lending growth has remained relatively modest, rising only 0.3 percent in both July and August. We need to remember that credit growth is effectively the change in the stock of credit. This means it is affected by both new lending and also existing mortgage holders paying down debt. It is the latter that appears to be playing a key role at present and fits with our core view of de-leveraging occurring across the economy. We suspect this theme will ensure housing credit growth will have remained reasonably modest in September, despite weekly RBNZ housing loan approvals data pointing to a pick up in new lending. For business and agricultural lending, credit growth is likely to remain subdued as investment intentions remain weak and the business sector, in particular, look at alternate funding sources given the numerous capital raisings that have been going on.

**Finally, building consent data will likely show a further divergence between residential and non-residential issuance.** It remains the tale of two sectors within the construction industry at present. Residential consent issuance is likely to continue to recover – albeit from a very deep hole – as housing turnover improves. However, non-residential issuance will likely continue on a deteriorating trend – government work aside. This should ensure that the aggregate consent figures – arguably what is most important – remain subdued.



**The international calendar is dominated by the Australian September quarter CPI release.**

Our Australian colleagues are expecting the headline CPI to grow 0.7 percent, taking the annual inflation rate to 1.0 percent. However, underlying inflation is forecast to rise 0.8 percent leaving annual underlying inflation at a relatively elevated, but lower, 3.5 percent (from 3.9 percent).

**Recent local data...**

- > **International Travel and Migration (September):** A seasonally adjusted net 1,800 people permanently migrated to NZ in September, taking the annual gain to 17,043. Short-term visitor arrivals rose 3.8 percent in the month.

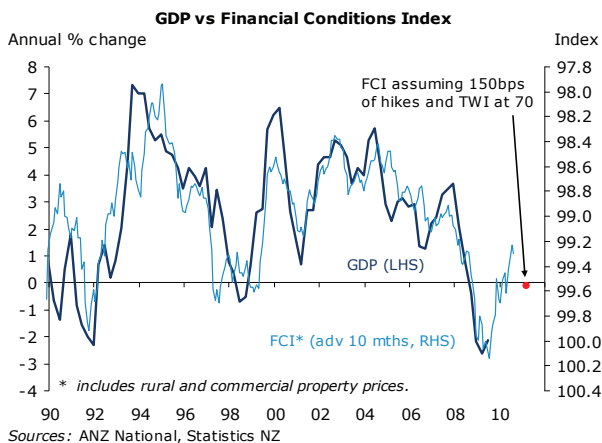
## FINANCIAL CONDITIONS UPDATE

Financial markets are now pre-empting the recovery so far that the recovery itself looks at risk according to our financial conditions measure. There has been a substantial tightening in conditions via higher fixed mortgage rates and a stronger currency, offset somewhat by rising house prices and a firming equity market.

### Not as loose as you'd think

One would get the impression that monetary conditions are extremely loose with the OCR at record lows and floating mortgage rates the lowest they have been for 40 years. However, when a broader array of variables is taken into account, financial conditions are not as loose as what the official cash rate suggests – despite firming asset prices in areas such as housing. Our Financial Conditions Index (FCI) may have recovered from the levels seen during the heights of the global financial crisis, but they are still at above average levels (i.e. tighter than normal).

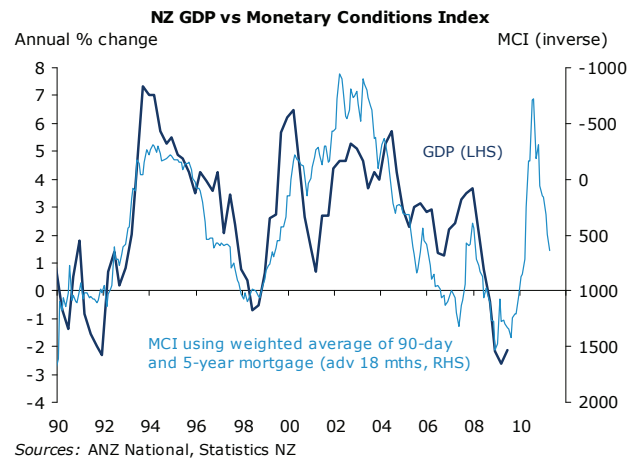
More recently, financial conditions have tightened courtesy of rising fixed rate mortgages (up 30bps to 50bps in the past month) and a higher currency (up 2.8 percent so far this month on a TWI basis). Rural land prices remain under pressure. Partially offsetting this is a fall in the floating mortgage rate, firming commodity prices (terms of trade), a narrower credit default swap spread for the big four Australian banks and stronger asset prices.



Our FCI is flagging growth of around 1 percent to 1½ percent over the coming year. To be fair, this is still growth. But the magnitude is in sharp contrast to recent confidence surveys, which are pointing to a much stronger rebound in growth in the 3 percent to 4 percent vicinity. Of course, both cannot be right and the track record of confidence surveys mean we have to acknowledge the potential for a far larger pent-up demand induced bounce over Q4 this year and Q1 2010. In

addition, we remain mindful that certain structural aspects to this economic cycle may not be fully captured by our FCI (technically, structural changes such as a stronger role for the credit channel of monetary policy suggest conditions are actually tighter!). **But what is very apparent at present is that financial markets are now pre-empting the cycle so much that the recovery itself looks to be at risk!** If we assume that current market pricing for the RBNZ is correct and we see 150bps of hikes by June next year, sending the TWI to 70, our FCI suggests zero growth.

Even the conventional Monetary Conditions Index suggests conditions are tight enough to choke off growth.<sup>1</sup> Now we are not fans at all of the MCI. But as an indicator, and nothing more than that, it still pays to keep an eye on it. The broad message is similar to our FCI – that despite the OCR at record lows, effective financial conditions are in fact much tighter.



### The upshot

Financial conditions have now re-priced the NZ economy so far that considerable risks surround whether a recovery will actually emerge. We would understand this if inflation was truly a problem, necessitating a further period of sub-par growth. It is not, so other forces are at play. Obviously there is strong Australia factor at play (dragging the NZD up, and firming expectations of RBNZ hikes). This overlooks the starting output gap positions for the two economies, but also that the RBNZ looks more advanced on the regulatory / prudential front (which lowers the neutral rate). The interaction between the real economy and financial conditions is akin to the chicken and egg: upcoming economic data will indicate whether this will be sunny-side up or hard-boiled.

<sup>1</sup> We use a weighted average of the 90-day rate and 5-year mortgage rate to more accurately capture the reality that a huge chunk of borrowing has historically been fixed.

## OCR REVIEW PREVIEW

(due 9.00am Thursday 29 October)

We expect the RBNZ to keep the OCR unchanged at 2.5 percent and remove the soft easing bias from their September statement. We still believe there is enough uncertainty (fragility) for them to remain committed to keeping rates low for some time. But we would not be surprised to see this conditioned in some way to the outlook for inflation. The big picture is that we do not expect the RBNZ to ratify current market pricing.

**The NZ economy is regaining momentum quicker than the RBNZ forecast back in their September Monetary Policy Statement.** Q2 GDP was positive and indicators point to stronger growth over H2 than the RBNZ forecast (0.1 and 0.6 percent respectively in Q3 and Q4). CPI data also surprised to the upside in Q3 (1.3 percent versus the RBNZ's 0.9 percent forecast). Forward looking indicators, in the form of consumer and business confidence, suggest a V-shaped type rebound is underway. In addition, the housing market continues to improve, with house prices up nearly 8 percent since the lows in January. Credit conditions continue to improve and the global scene is being positively upgraded by the day.

**In this environment we struggle to see an easing bias being maintained.** Abstracting from the data, the removal of the temporary emergency liquidity facilities put in place during the financial crisis is clear acknowledgement that conditions have improved substantially. **But at this juncture the RBNZ faces a huge amount of uncertainty.**

- > **Financial conditions have tightened materially since the September MPS.** The currency is 7.4 percent higher than what the RBNZ projected (on a TWI basis), swap yields are 20 to 70bps higher across the curve, and fixed rate mortgages have risen by as much as 50bps. Financial conditions have re-priced the NZ economy to the extent that considerable risks surround whether a recovery will emerge.
- > **House prices may be increasing again, but other property prices are still falling.** Commercial and industrial property prices have fallen by 6 and 14 percent over the first half of this year, and continue to come under downward pressure. Farm prices are down around 20 percent. **However, recent rises in dairy prices are significant.** They may allow the asset price adjustment going on across the rural sector to take place in a reasonably orderly fashion.
- > **There is a huge disconnect across surveys between expectations versus reality.** This is natural at turning points. But the gap has

never been so large and tells us a lot of the improvement in soft data is merely owing to the base effect of a long recession.

- > **There is still considerable slack in the economy.** Capacity utilisation remains at below historical average levels, and the unemployment rate is still rising. Wage inflation is receding.
- > **The interaction between fiscal and monetary policy will have an important bearing on the timing of the tightening cycle.** The government faces years of structural operating deficits based on current policy settings. A period of fiscal consolidation lies ahead. This effectively means fiscal policy will become contractionary as the government seeks to de-leverage, at a time when households are still getting their balance sheets in order. Anecdotally, this is manifesting already via pay negotiations (zero pay increases), departmental spending freezes and huge pressure to find savings or reprioritise existing spending. **Greater fiscal consolidation should leave more scope for monetary policy to remain accommodative for longer.**
- > **We shouldn't lose sight of the RBNZ's inflation mandate.** Government charges and one-offs or not, inflation is still higher than assumed in September. We don't think there was anything in the Q3 result to panic the RBNZ, but they wouldn't want to see a repeat.

**Cobbling this into a sensible statement will be easier said than done!**

**On balance, we believe the RBNZ will acknowledge the improvement** in the economic outlook and upside risks to their projections, **but still take a cautious view and flag that monetary policy will need to provide substantive support to the economy for a while.** We still see a strong case for rates remaining low for an extended period and apart from the economic environment, the shape of the yield curve (which is seeing more borrowers on floating or shorter-term fixed rates) should give the RBNZ confidence to run a lower for longer and rapid normalisation strategy (i.e. 50 bps moves when necessary) as opposed to the start early RBA.

**We wouldn't be surprised to see cautious tones somewhat more conditioned to the outlook for inflation.** The danger here is that the market immediately gets excited by Q4 prospects, but in so far as the medium-term outlook is concerned the labour market is key. By our calculations it's still weakening, and will do for some time. The Bank of Canada delivered a very dovish tone but caveated it somewhat off inflation to give themselves the ultimate flexibility.

## INTEREST RATE STRATEGY

The adjustment of expectations of RBNZ hikes has continued. But despite a likely acknowledging of improved conditions, we don't expect the RBNZ statement this week to back up current market pricing. However, nervousness and positioning is likely to lead to a limited rally in kiwi rates in what we view as a stressed market.

### Market themes...

- > Surprisingly strong NZ Q3 CPI is still weighing on the market.
- > The market is nervous ahead of Australian CPI, which could determine the speed and extent of RBA hikes.
- > A dovish RBNZ statement may only see a limited rally in NZ, with too much pent up payside pressure around.

### Review and outlook

**A lack of receiving interest has seen the NZ market push higher**, which in turn has triggered stopping out of received positions pushing the market even higher. This has resulted in thin liquidity and gapping of pricing. A lack of domestic data last week saw the kiwi market track offshore moves. An inability for kiwi rates to rally and some economists now calling for the first RBNZ hike to occur in March or April saw the market squeezed late into last week.

**With the front-end sell off, we saw a touch of steepening in the front end.** The market is considering that if the OCR rate hike is delayed until June or later, the 1/2's and 2/3's should steepen a little as the 1yr is a receive with Jan-March rate hikes shunted out the curve. The 2/10's has steepened reacting to the move in US rates and potentially on profit taking, but in a stressed market such as this there is not necessarily a good explanation to every move.

**While we view market pricing at extremes, this is only attracting limited receiving interest given market sentiment.** The Australian Q3 CPI print this week almost runs the risk of overshadowing the RBNZ due to current market positioning. If the CPI prints strong and the Australian market moves to price in a 50bp hike for the RBA November meeting, then there could be more stopping out in NZ rates and a dovish RBNZ may see little movement. In contrast, if the Australian CPI is benign the Australian market could rally to even put a November hike under question. The week ahead should continue to be choppy and stressed in the kiwi market.

### Borrowing strategies we favour at present

With the risk of an earlier start to the tightening cycle than we had envisaged increasing, borrowers should start to consider using options to hedge. Caps allow borrowers to take advantage of current low floating rates while protecting against higher rates, for a premium.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔/↑	Risk of earlier rate hike than our September view has increased.
NZ data	↔/↑	Data pointing to further momentum, with stickier inflation.
Fed Funds / front end	↔	Fed has committed to low rates for an extended period, but recent FED speak around exit strategies, the end of QE and fear of inflation is seeing US rates pushing higher.
RBA	↑	Talk of a 50bp move in November heats up with it all coming down to CPI on Wednesday.
US 10 year	↔/↑	Broken through the upside on technicals with the sell off now gaining momentum.
NZ swap curve	↔	Market will continue to be stressed with direction to be given by a mix of Aussie CPI and the RBNZ OCR statement.
Flow	↔/↑	Stop losing of received positions including 1y/1y has seen the market stressed with limited receiving interest.
Technical's	↔/↑	5-year swap yield broken through key technical level and looking to head higher.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 29-Oct-09	0	0
Thu 10-Dec-09	+11	+4
Thu 28-Jan-10	+21	+19
Thu 11-Mar-10	+56	+47
Thu 29-Apr-10	+92	+87
Thu 10-Jun-10	+128	+127
Thu 29-Jul-10	+168	+167

### Trading themes we favour at present

Markets are pushing for an earlier and more aggressive tightening cycle from the RBNZ, and our preferred trades have not performed in such an environment. With the risk of a further sell off high, we are looking to take a step back.

## CURRENCY STRATEGY

Despite a pull-back early this week, the market continues to believe the NZD is the safe haven of the South Pacific. The RBNZ is the obvious focus this week and following on from the (misinterpreted) comments from Dr Bollard last week – particularly from offshore participants – we see the potential for the market to come up disappointed. We continue to look for an eventual test of the 0.71 level.

### Market themes...

- > The RBNZ get to have there say this week.
- > Was the CPI surprise just a government-induced consumption tax and will it be discounted in Thursday's comments?
- > Equities lead the currency still. Note, consumer confidence gauges are starting to wane overseas.

### Review and outlook...

**This week is all about what is kept and what is taken out of the RBNZ statement.** With the market pricing in hikes by early 2010, there is room for disappointment. The Bank of Canada commented on the high levels of the USDCAD in their statement last week and achieved the desired result, with USDCAD now around 4 percent weaker. Will the RBNZ do something similar this week? This is unclear, but we suspect they will maintain a cautious tone and one that does not ratify current market pricing of rate hikes by early next year.

**The comments from Dr Bollard in front of the Finance and Expenditure Committee look to have been blown out of proportion – particularly by offshore participants.** As mentioned on page 2, the comments appear more of a reflection of a lack of options available to the RBNZ to get the NZD lower. In fact, the following statement says it all: *"If and when we were to increase rates would you see that coming through on the New Zealand dollar? Well, you might, but actually the market's already taken that into account...they are quite a long way ahead."* In our opinion, there was nothing in the comments that signal a central bank less concerned about the high NZD than in the past. It is more an acknowledgment that little can be done about the high level of the kiwi. In fact, with Dr Bollard not coming out and explicitly refuting the interpretation that many offshore players have taken to the comments, this ironically may lead to a lower NZD on disappointment if a major shift in RBNZ stance is not delivered.

**Technically, the NZD should have now seen the top.** We continue to look for a test of near the 0.71 level. The NZDAUD should also now be capped at 0.82, looking for a break of 0.80 over the next two weeks.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both softs and hard commodities performing well.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↓	Capped at 0.82 and looking for a break of 0.80.
Sentiment	↔/↓	Rate hike talk from the RBA giving positive sentiment.
Other	↔/↓	Asian central banks underweight Australian asset.
<b>On balance</b>	↔/↓	<b>NZD struggling to keep up with AUD.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔/↓	Above cyclical fair value estimates.
Yield	↔	Are we lower for longer?
Commodities	↔	Still lagging but gaining momentum.
Risk aversion	↔	Improved but still jittery. Earnings season key.
Partial indicators	↔/↓	Inventories being rebuilt, but what about demand?
Technicals	↔/↓	Top achieved. Now looking for a test of 0.71.
AUD	↑	First to hike in G20.
Sentiment	↔/↓	The RBNZ will be key this week. Offshore participants may be disappointed.
Other	↔/↓	All commodity currencies doing better than NZ.
<b>On balance</b>	↔/↓	<b>Risk-reward suggests a correction.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
27-Oct	<b>NZ</b>	<b>ANZ-Roy Morgan Consumer Confidence (Oct)</b>	-	-	<b>15:00</b>
	GE	ECB's Stark Speaking in Koenigswinter	-	-	21:45
	EC	Money Supply M3 (Sep) - yoy	2.2%	2.5%	22:00
28-Oct	US	S&P/CS Composite-20 (Aug) - yoy	-11.9%	-13.3%	02:00
		Consumer Confidence (Oct)	53.5	53.1	03:00
		Richmond Fed Manufacturing Index (Oct)	14	14	03:00
		Geithner Speaks at SIFMA Annual Meeting in New York	-	-	05:00
	JN	Retail Trade (Sep) - mom	0.2%	1.0%	12:50
	AU	DEWR Skilled Vacancies (Oct) - mom	-	1.2%	13:00
		Consumer Prices (3Q) - qoq	0.9%	0.5%	13:30
		Consumer Prices (3Q) - yoy	1.2%	1.5%	13:30
		RBA Trimmed Mean (3Q) - qoq	0.7%	0.8%	13:30
		RBA Trimmed Mean (3Q) - yoy	3.2%	3.6%	13:30
		RBA Weighted Median (3Q) - qoq	-	0.8%	13:30
		RBA Weighted Median (3Q) - yoy	3.7%	4.2%	13:30
	<b>NZ</b>	<b>NBNZ Business Confidence (Oct)</b>	-	<b>49.1</b>	<b>15:00</b>
29-Oct	US	Durable Goods Orders (Sep)	1.0%	-2.4%	01:30
		Durables Ex Transportation (Sep)	0.7%	0.0%	01:30
		New Home Sales (Sep)	440K	429K	03:00
	<b>NZ</b>	<b>RBNZ Official Cash Rate</b>	<b>2.50%</b>	<b>2.50%</b>	<b>09:00</b>
		<b>Trade Balance (Sep)</b>	<b>-681M</b>	<b>-725M</b>	<b>10:45</b>
		<b>Imports (Sep)</b>	<b>3.50B</b>	<b>3.47B</b>	<b>10:45</b>
		<b>Exports (Sep)</b>	<b>2.83B</b>	<b>2.74B</b>	<b>10:45</b>
		<b>NZ Trade Balance (Sep) - annual total</b>	<b>-1803M</b>	<b>-2365M</b>	<b>10:45</b>
		<b>Money Supply M3 (Sep) - yoy</b>	-	<b>3.5%</b>	<b>15:00</b>
	JN	Nomura/JMMA Manufacturing PMI (Oct)	-	54.5	12:15
		Industrial Production (Sep P) - mom	1.0%	1.6%	12:50
		Corp Service Price (Sep) - yoy	-3.4%	-3.5%	12:50
		Vehicle Production (Sep) - yoy	-	-25.9%	17:00
	AU	Conference Board Leading Index (Aug)	-	0.7%	13:00
		HIA New Home Sales (Sep) - mom	-	11.4%	14:00
	GE	Unemployment Change (000's) (Oct)	15K	-12K	21:55
		Unemployment Rate (Oct)	8.3%	8.2%	21:55
	UK	Net Consumer Credit (Sep)	-0.2B	-0.3B	22:30
		Net Lending Sec. on Dwellings (Sep)	0.8B	1.0B	22:30
		Mortgage Approvals (Sep)	53.6K	52.3K	22:30
		M4 Money Supply (Sep F) - yoy	-	11.3%	22:30
	EC	Business Climate Indicator (Oct)	-1.9	-2.1	23:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)	
29-Oct cont.	EC	Consumer Confidence (Oct)	-18	-19	23:00	
		Economic Confidence (Oct)	84.4	82.8	23:00	
		Industrial Confidence (Oct)	-22	-24	23:00	
		Services Confidence (Oct)	-8	-9	23:00	
30-Oct	US	GDP QoQ (Annualized) (3Q A)	3.2%	-0.7%	01:30	
		Personal Consumption (3Q A)	3.0%	-0.9%	01:30	
		GDP Price Index (3Q A)	1.4%	0.0%	01:30	
		Core PCE (3Q A) - qoq	1.4%	2.0%	01:30	
		Initial Jobless Claims (w/e Oct-25)	525K	531K	01:30	
		Continuing Claims (w/e Oct-18)	5900K	5923K	01:30	
		<b>NZ</b>	<b>Building Permits (Sep) - mom</b>	<b>-</b>	<b>1.7%</b>	<b>10:45</b>
		JN	Jobless Rate (Sep)	5.6%	5.5%	12:30
			Household Spending (Sep) - yoy	1.0%	2.6%	12:30
			National CPI (Sep) - yoy	-2.2%	-2.2%	12:30
			National CPI Ex-Fresh Food (Sep) - yoy	-2.4%	-2.4%	12:30
		National CPI Ex Food, Energy (Sep) - yoy	-1.0%	-0.9%	12:30	
		BoJ Target Rate	0.10%	0.10%	/2009	
		Housing Starts (Sep) - yoy	-37.0%	-38.3%	18:00	
		Construction Orders (Sep) - yoy	-	-25.2%	18:00	
	UK	GfK Consumer Confidence Survey	-14	-16	13:01	
	AU	Private Sector Credit (Sep) - mom	0.2%	0.1%	13:30	
	GE	Retail Sales (Sep) - mom	1.0%	-1.5%	20:00	
	EC	CPI Estimate (Oct) - yoy	-0.1%	-0.3%	23:00	
		Unemployment Rate (Sep)	9.7%	9.6%	23:00	
31-Oct	US	Personal Income (Sep)	0.0%	0.2%	01:30	
		Personal Spending (Sep)	-0.5%	1.3%	01:30	
		PCE Deflator (Sep) - yoy	-0.5%	-0.5%	01:30	
		PCE Core (Sep) - mom	0.2%	0.1%	01:30	
		PCE Core (Sep) - yoy	1.3%	1.3%	01:30	
		Employment Cost Index (3Q)	0.4%	0.4%	01:30	
		Chicago Purchasing Manager (Oct)	48.9	46.1	02:45	
		University of Michigan Confidence (Oct F)	70.0	69.4	03:00	

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

**Key focus over the next four weeks:** Upcoming data is expected to continue its generally improving trend, but we still question whether the “mix” to growth is right to achieve a sustainable recovery. The RBNZ’s OCR Review is now the major focus and we expect the previous soft easing bias to be dropped. Labour market data is expected to show further deterioration, but not at the pace experienced in the June quarter.

Date	Data/Event	Economic Signal	Comment
Tue 27 Oct (15.00)	ANZ-Roy Morgan Consumer Confidence (Oct)	-	-
Wed 28 Oct (15.00)	NBNZ <i>Business Outlook</i> (Oct)	-	-
Thu 29 Oct (09.00)	RBNZ <i>OCR Review</i>	Reiteration of low for extended period view.	While the economy is now out of recession and recent dataflow has shown improvement, the level of uncertainty is expected to see the RBNZ maintain their view of rates on hold for some time, though the easing bias will be dropped.
Thu 29 Oct (10.45)	Overseas Merchandise Trade (Sep)	Trade deficit expected	Import demand should remain subdued. However, with dairy inventories now at low levels, any further export demand will need to be met out of production and biological constraints will provide a natural handbrake. A monthly deficit of \$800 million is expected.
Thu 29 Oct (15.00)	Credit Growth (Sep)	De-leveraging continues	Housing lending is expected to continue to rise, albeit very modestly. However, business and agricultural credit growth should remain subdued.
Fri 30 Oct (10.45)	Building Consent Issuance (Sep)	On the mend	Residential consent issuance is expected to continue to rebound in line with increased turnover in the housing market. However, non-residential consent issuance is likely to continue to deteriorate.
Tue 3 Nov (10.45)	LCI and QES (Sep qtr)	Softening	Wage growth is expected to continue to moderate as labour market conditions remain weak.
Tue 3 Nov (15.00)	ANZ Commodity Price Index (Oct)	-	-
Wed 4 Nov	Fonterra online DairyTrade auction results	A correction?	With increases since July over 65 percent, logic would suggest a pull-back is pending. However, anecdotes continue to be received of improving demand and of price rises and so further gains cannot be ruled out.
Thu 5 Nov (10.45)	Household Labour Force Survey (Sep qtr)	Still deteriorating	The unemployment rate is expected to rise again, although not by the significant magnitude recorded in Q2. We have pencilled in an increase to 6.3 percent.
circa 11 Nov	REINZ House Sales (Oct)	Further house price increases.	The average value of weekly RBNZ loan approvals suggests that house prices are continuing to recover. Turnover numbers are likely to be around levels experienced over the past six months, and the median days to sell should remain relatively low.
Wed 11 Nov (09.00)	RBNZ <i>Financial Stability Report</i>	Risks diminishing?	The RBNZ are likely to again acknowledge that NZ’s financial system, compared with international counterparts, has come through the past 24 months in reasonable sharp, although not without its risks.
Thu 12 Nov (10.45)	Retail Trade Survey (Sep)	Stabilising	Another modest rise in spending is expected in the month. Volume growth in the quarter should be positive, but modest.
Mon 16 Nov (10.45)	Producer Price Index (Sep qtr)	A contraction in margins?	Both input and output prices are expected to rise in the quarter, although the former by a greater magnitude suggesting a contraction in non-wage margins.
<b>On Balance</b>		<b>Up</b>	<b>Right direction, wrong mix.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
GDP (% qoq)	-0.5	-1.0	-0.8	0.1	<b>0.5</b>	<b>0.8</b>	<b>0.6</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>
GDP (% yoy)	-0.4	-2.2	-2.6	-2.1	<b>-1.2</b>	<b>0.6</b>	<b>2.0</b>	<b>2.5</b>	<b>2.6</b>	<b>2.3</b>
CPI (% qoq)	1.5	-0.5	0.3	0.6	1.3	<b>0.4</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>	<b>0.8</b>
CPI (% yoy)	5.1	3.4	3.0	1.9	1.7	<b>2.5</b>	<b>2.5</b>	<b>2.7</b>	<b>2.1</b>	<b>2.5</b>
Employment (% qoq)	0.1	0.8	-1.4	-0.5	<b>-0.5</b>	<b>-0.2</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.3</b>	<b>0.4</b>
Employment (% yoy)	1.0	1.0	0.8	-0.9	<b>-1.6</b>	<b>-2.5</b>	<b>-1.3</b>	<b>-0.9</b>	<b>-0.1</b>	<b>0.5</b>
Unemployment Rate (% sa)	4.3	4.7	5.0	6.0	<b>6.3</b>	<b>6.6</b>	<b>6.9</b>	<b>7.1</b>	<b>7.0</b>	<b>7.0</b>
Current Account (% GDP)	-8.6	-8.9	-8.1	-5.9	<b>-4.2</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-4.7</b>	<b>-5.5</b>	<b>-5.6</b>
Terms of Trade (% qoq)	-1.0	-1.0	-2.7	-8.9	<b>1.0</b>	<b>1.1</b>	<b>0.5</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>
Terms of Trade (% yoy)	5.8	1.8	-5.0	-13.1	<b>-11.4</b>	<b>-9.5</b>	<b>-6.6</b>	<b>2.6</b>	<b>1.7</b>	<b>0.7</b>

## KEY ECONOMIC INDICATORS

	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09
Retail Sales (% mom)	-0.5	-1.2	0.2	0.0	0.4	0.7	0.0	-0.5	1.1	..
Retail Sales (% yoy)	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	..
Credit Card Billings (% mom)	-2.2	1.7	1.1	-2.9	2.4	-0.3	0.1	0.2	1.6	-1.0
Credit Card Billings (% yoy)	-3.7	-2.4	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3
Car Registrations (% mom)	13.3	-14.4	-14.8	6.8	-0.7	-3.0	6.1	7.2	-3.4	7.0
Car Registrations (% yoy)	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8
Building Consents (% mom)	-5.6	-12.7	11.9	-1.8	11.3	2.6	-9.3	4.5	1.7	..
Building Consents (% yoy)	-41.4	-51.2	-39.8	-34.2	-56.5	-23.8	-23.7	-16.9	-8.8	..
REINZ House Price (% yoy)	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1
Household Lending Growth (% mom)	0.1	0.2	0.1	0.1	0.2	0.4	0.1	0.3	0.3	..
Household Lending Growth (% yoy)	4.2	3.8	3.1	2.7	2.6	2.5	2.4	2.4	2.3	..
Roy Morgan Consumer Confidence	102.9	103.7	98.8	94.7	101.1	104.9	105.3	107.0	113.2	117.3
NBNZ Business Confidence	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1
NBNZ Own Activity Outlook	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2
Trade Balance (\$m)	-341	-102	483	438	322	906	-331	-175	-725	..
Trade Balance (\$m annual)	-5614	-5405	-5165	-4684	-4070	-2994	-3111	-2488	-2365	..
ANZ World Commodity Price Index (% mom)	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8
ANZ World Commodity Price Index (% yoy)	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0
Net Migration (sa)	400	870	1640	1720	2080	2610	1690	2480	1610	1800
Net Migration (annual)	3814	4538	6160	7482	9176	11202	12515	14488	15642	..

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

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Aug-09	Sep-09	27-Oct-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.675	0.702	0.747	0.710	0.720	0.710	0.690	0.680	0.670	0.650
NZD/AUD	0.809	0.816	0.817	0.798	0.783	0.780	0.775	0.782	0.788	0.793
NZD/EUR	0.474	0.482	0.503	0.480	0.474	0.473	0.466	0.463	0.459	0.455
NZD/JPY	64.1	64.2	68.9	62.5	61.9	62.5	62.1	62.6	63.0	61.8
NZD/GBP	0.408	0.430	0.458	0.425	0.431	0.430	0.421	0.412	0.404	0.389
NZ\$ TWI	62.9	64.3	67.25	63.8	63.6	63.3	62.3	61.9	61.6	60.6
NZ interest rates	Aug-09	Sep-09	27-Oct-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.74	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.76	2.77	2.80	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	6.03	5.82	5.84	5.60	5.60	5.70	6.00	6.10	6.30	6.50
International	Aug-09	Sep-09	27-Oct-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.35	0.29	0.28	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.25	3.50	4.00	4.00	4.00	4.00	4.00	4.50
AU 3-mth	3.49	3.38	3.83	3.90	4.40	4.30	4.30	4.30	4.50	5.00

## KEY RATES

	23 Sep	19 Oct	20 Oct	21 Oct	22 Oct	23 Oct
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.76	2.81	2.80	2.80	2.77	2.80
NZGB 11/11	4.13	4.37	4.37	4.38	4.47	4.52
NZGB 04/13	4.98	5.15	5.16	5.16	5.24	5.29
NZGB 12/17	5.70	5.73	5.73	5.73	5.79	5.84
NZGB 05/21	6.07	6.00	6.00	6.00	6.05	6.11
2 year swap	4.28	4.66	4.66	4.65	4.65	4.79
5 year swap	5.51	5.63	5.62	5.61	5.61	5.77
RBNZ TWI	65.8	66.7	67.3	67.1	67.3	67.5
NZD/USD	0.7264	0.7439	0.7545	0.7496	0.7534	0.7566
NZD/AUD	0.8287	0.8103	0.8122	0.8126	0.8147	0.8152
NZD/JPY	65.92	67.58	68.20	68.00	68.59	69.33
NZD/GBP	0.4432	0.4553	0.4600	0.4577	0.4537	0.4546
NZD/EUR	0.4904	0.5000	0.5037	0.5025	0.5023	0.5035
AUD/USD	0.8766	0.9181	0.9290	0.9225	0.9248	0.9281
EUR/USD	1.4812	1.4881	1.4980	1.4916	1.4998	1.5028
USD/JPY	90.75	90.85	90.39	90.71	91.04	91.64
GBP/USD	1.6390	1.6340	1.6402	1.6376	1.6607	1.6645
Oil	71.50	77.55	79.47	78.87	81.03	80.82
Gold	1017.90	1050.65	1066.05	1054.95	1058.65	1062.05
Electricity (Haywards)	3.62	2.75	1.89	3.21	1.52	2.33
Milk futures (US\$/contract)	99	110	110	110	110	113
Baltic Dry Freight Index	2175	2766	2832	2917	3001	3043

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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.

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#### 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.

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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.

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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.

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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.

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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.

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- 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.

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

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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.

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