

Market Focus

New Zealand

8 June 2009

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Page 2: Economic overview

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Page 4: RBNZ June Monetary Policy Statement preview

- > We expect the RBNZ to keep the OCR unchanged at 2.5 percent on Thursday in lieu of signs of stabilisation and green shoots, in housing in particular. Despite this, considerable downside risks exist. We expect an easing bias and soft undertones to remain, with the Governor reiterating the "lower for longer" message.

Page 6: Economic comment – global watch

- > The smaller than expected contraction in US non-farm payrolls has added to calls that the US economy is nearing a trough. However, a higher unemployment rate shows that a number of challenges remain for US households. Australian data was generally stronger than expected and showed an economy that has to date avoided a technical recession. UK and European data is also showing some signs of base-forming.

Page 7: Interest rate strategy

- > Thursday's RBNZ decision will elicit a reaction either way, though any rally from a more dovish statement will be modest. With longer term mortgage rates rising, we could see a near-term selloff in the front end from mortgage related paying pressure.

Page 8: Currency strategy

- > The market begins to price in Fed rate hikes! After the 'improvement' in the US employment data, this is a massive sentiment shift that could last all week. Whether you believe it or not, the oversold state of the USD suggests people will be scrambling to reduce USD shorts. The NZD should struggle especially if the higher USD results in weaker commodity prices. The yield differential has narrowed markedly, suggesting the NZD may have room to correct back near the 200 day moving average. The RBNZ decision this week will attract attention but we suspect it is not critical to the NZD direction.

Page 9: Currency comment – effective exchange rates update

- > While remaining in restrictive territory, the dairy and crude sectors experienced a small improvement in their commodity adjusted real exchange rates (i.e. they became less restrictive) in the month on the back of a lift in world commodity prices. However, all the other commodity adjusted real effective change rates we monitor became more restrictive in the month.

Page 11: Data and event calendar**Page 13: Data watch****Page 14: Key forecasts**

ECONOMIC OVERVIEW

The NZD has started to correct from its recent highs but has a long way to go to ease pressure on the tradable sector. While the RBNZ takes centre stage this week and we expect a no change decision, the data over the week is likely to confirm another large contraction in March quarter GDP (due on 26 June).

What's ahead?

- > **March quarter Value of Building Work Put in Place** (Tuesday 1045 NZST). Residential building construction is expected to record at least a 10 percent quarterly contraction. Non-residential construction is expected to be largely unchanged.
- > **March quarter Overseas Trade Indexes** (Wednesday 1045 NZST). Large falls in export commodity prices is expected to see the terms of trade fall by 7.5 percent in the quarter. Volume data is expected to confirm that net exports will make a positive contribution to growth in the March quarter.
- > **RBNZ Monetary Policy Statement** (Thursday 0900 NZST). OCR on hold at 2.50 percent. Refer to page 4 for our full preview note.
- > **May REINZ House Sales** (circa 11 June). Seasonally adjusted house sales may retreat slightly from last month's surge. However, median days to sell should fall indicating that some strength is returning to the market.
- > **April Retail Trade Survey** (Friday 1045 NZST). The second lot of tax cuts should give retail sales a bit of a kick. We expect total monthly sales to rise 0.6 percent in the month.

What's the view?

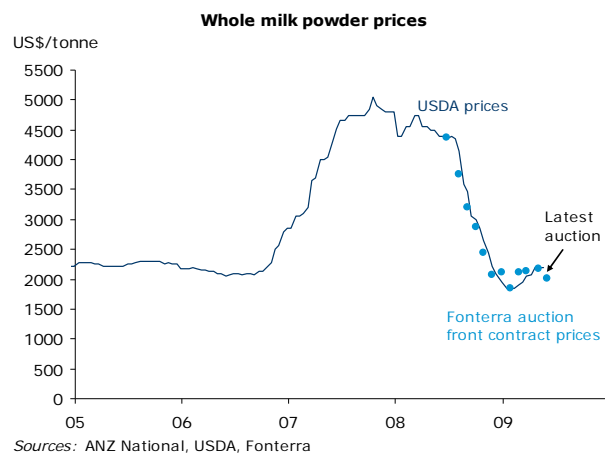
Last week we made reference to the economy showing evidence of counterbalancing. That is, stabilising domestic news and deteriorating signs across the tradable sector. This theme was again prevalent last week – up to a point.

In terms of the domestic economy, Barfoot & Thompson data last week reinforced signs of improving confidence towards housing. We remain very coy towards this extending too far, but will respect the bungy-cord dynamic for now. Ultimately we believe that household de-leveraging and rising unemployment will dominate.

On the other side of the spectrum, we had Fonterra's latest online-auction results and a literal calypso collapse in sales out of the Canterbury manufacturing sector (down 59 percent from a year ago according to a survey by the Canterbury Manufacturers Association). In terms of the

Fonterra auction, whole-milk powder prices fell 12 percent in USD terms from the previous month and are back below US\$2,000/tonne. However, in NZD terms they fell 19 percent. It is still very early days and lots can happen to dairy prices and the NZD, but recent trends are not encouraging and put downside risk to Fonterra's \$4.55/kg ms payout forecast for the 2009/10 season.

In this regard, this year's National Agricultural Fielddays being held at Mystery Creek this week will provide a rough barometer on rural sentiment. In particular, whether the rural chequebook is firmly shut. We suspect deals will still be done, but it will be price and discount driven.



Caught in the middle of the two extremes last week were commodity prices. At one end we can take some comfort from the fact that world prices managed to record their third consecutive monthly increase (up 2.7 percent in the month). However, the NZD index was down 1.5 percent. In NZD terms, the prices of our key exports are down 17 percent from their August 2008 peak. It is this type of dynamic that is also clearly shown in our effective exchange rate measures (refer to page 9), where a number of the sectors, despite getting a boost from higher world prices, are facing more restrictive conditions as the higher currency wipes out these gains.

Our travels around the country continue to be notable for the anecdotes we are receiving in terms of stabilising sentiment in the likes of Auckland, but weakening signs across the regions. What is becoming clear is that the tradable sector is now feeling the full brunt of the global economic recession, with lower commodity prices in NZD terms and export demand (particularly tourism) falling. While the NZD is not overly high relative to conventional fair value metrics, it is nonetheless high relative to the underlying demand conditions the NZ economy is facing. We remain NZD "bears". The tail-end of last week started to see some retreat on the currency front but it's fair to say it has a long way to go still.

This week the primary focus is the RBNZ, and our preview of their *Monetary Policy Statement* is detailed on page 4. We expect no change in the OCR and a repeat of their April mantra.

But over the week we will also be drawn to two key focal points. The first is whether the NZD continues to retreat. It was a weak USD driving it on the way up, and the USD has now started to find a base. In that environment the “long” NZD positioning (or the “short” USD positioning) we made reference to last week has the potential to unwind quickly.

The second aspect is indicators for Q1 GDP. While historical, they are still hugely relevant for a couple of reasons. They denote momentum (or lack of it), and define the base the economy was at in Q1. Our strong suspicion is that a lot of the signs of renewed momentum coming from more timely gauges is simply coming from Q1 being a deeper hole in the first place. If this is truly the case, then we need to be careful differentiating between the level and the rate of change.

The value of building work put in place data on Tuesday is expected to show another large contraction in real residential investment. Given the considerable fall in the floor area of residential consents issued, we expect a contraction of at least 10 percent in the quarter. This would be the sixth consecutive quarterly contraction. The performance of non-residential work put in place is not expected to be anywhere near as bad and we expect a reasonably flat result in the quarter. Nevertheless, this will not be enough to offset the residential investment weakness and will see the construction sector once again act as a significant drag on GDP growth.

The other partial GDP indicators released this week are the overseas trade indexes (OTIs) on Wednesday. Given the recent improvement in export performance, as shown in the monthly merchandise trade data, we expect export volumes to post a modest rise in the quarter. In particular, some components of primary goods such as dairy could rise strongly (although we suspect that a lot of this strength is due to a rundown in inventories). In addition, the outright capitulation in imports (with car imports particularly weak) should mean that net exports make a reasonable positive contribution to March quarter GDP growth. But this will be offset by a large unwinding of inventories, which had built up involuntarily over the past year as demand collapsed.

What will also be interesting from the OTI data will be the price series. We expect NZD export prices to record a significant fall in the quarter as the impact of lower global commodity prices is finally picked up in the trade data. In combination with a small rise in NZD import prices, this should see the terms of trade fall by 7.5 percent – the biggest

quarterly fall since March 1975. While the terms of trade will still be high by historical standards, this reflects a significant purchasing power reduction for the economy.

The other data this week is slightly less backward looking, with retail spending for April and REINZ house sales data for May. The latter is expected to closely mirror the trends in the Barfoot & Thompson data, with sales volumes down slightly from the previous month's surge, but still well above the trough. Importantly, the median number of days to sell a house is expected to continue to fall as sales activity improves. This should ensure that there is some underlying support for house prices. The key uncertainty will be whether this momentum can be sustained with unemployment rising and longer-term mortgage rates continuing to rise. We have our reservations.

The retail sales numbers are likely to show more signs that a base is beginning to form, at least for core spending (or spending that excludes motor vehicle related industries). The latest round of tax cuts is also expected to have contributed. We expect both headline and core sales to rise by 0.6 percent in the month.

Internationally this week, Australian labour market data and NAB business confidence for May are the key focus. Leading indicators (and statistical volatility) suggest a reversal of last month's surprise +27k result is on the cards. Our Australian colleagues expect a -29K result and for the unemployment rate to rise to 5.7 percent from 5.4 percent. Elsewhere around the globe, a number of speeches from ECB officials should be of interest given the reasonably upbeat comments from ECB President Trichet last week. In the US, the important releases are the Fed's Beige Book and retail sales data for May.

Recent local data...

- > **Financial Statements of Government for 10 months to April:** An underlying operating balance (OBEGAL) was a \$1.8 billion deficit, \$0.1 billion smaller than forecast.
- > **Barfoot & Thompson House Sales (May):** In seasonally adjusted terms, house sales fell 15 percent in the month. The average house price rose from \$502,726 to \$533,909.
- > **ANZ Commodity Price Index (May):** The world price index rose 2.7 percent. However, the NZD index fell 1.5 percent.
- > **Wholesale Trade Survey (March quarter):** Total seasonally adjusted wholesale trade sales fell 5.9 percent in the quarter.

RBNZ JUNE MONETARY POLICY STATEMENT PREVIEW

(due 9.00am Thursday 11 June)

We expect the RBNZ to keep the OCR unchanged at 2.5 percent on Thursday in lieu of signs of stabilisation and green shoots, in housing in particular. Despite this, considerable downside risks exist. We expect an easing bias and soft undertones to remain, with the Governor reiterating the "lower for longer" message.

A lot has changed since the April *OCR Review*.

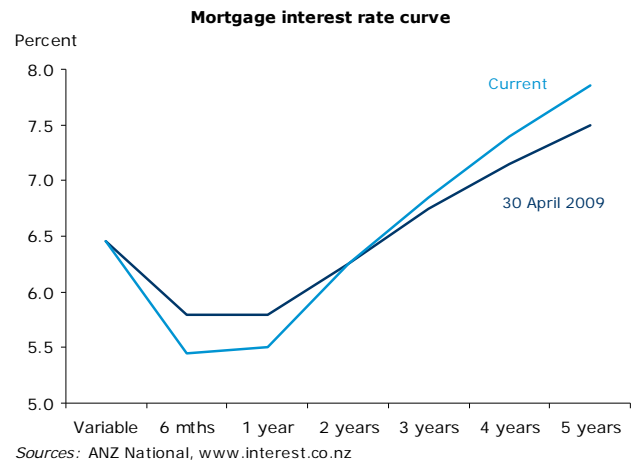
Credit markets have improved considerably. LIBOR-OIS spreads have fallen to pre-Lehman levels and likewise for the TED spread. Credit default swap spreads for the big four Australian banks, a rough proxy for the cost of funds facing the banking system, have also narrowed. Access to capital has improved markedly. To be fair this is from extreme opening positions, but is still very encouraging. Global equity markets have rebounded, as have commodity prices. But this needs to be read as markets unwinding some of the systemic risk discount that had been priced in.

On the real economy front, the global economy remains in the midst of a deep recession although recent global dataflow is pointing to a slower rate of contraction. The latter also suggests the pace of downward revisions to NZ's major trading partner growth forecasts is set to moderate, and in fact we may even see some modest upgrades for a few economies.

Domestically, the housing market is rebounding, business confidence is back in positive territory, and net migration is running at a three-month annualised rate of 22,000 people, the strongest since 2004. On the face of it, it's been pretty positive stuff. However, we need to be cognisant of the wider picture and developments.

A fair bit of what we are seeing at present is likely to be the base effect at work, and domestically it's clear that the housing market is showing FIFO characteristics and we doubt it is much more than that. While there has been substantial improvements in credit conditions at the front end of the curve (i.e. LIBOR rates), there has not been the same degree of improvement further out. The unemployment rate is still set to rise further, which risks creating a negative feedback loop into economic activity. Despite improved confidence, there is still little appetite to invest or hire by firms. In addition, the dairy payout forecast for the 2009/10 season of \$4.55/kg ms sets the tone for a further pullback in rural spending and the associated multiplier impact that will entail. And traditional monetary conditions have actually tightened since the April decision with fixed

mortgage rates moving up sharply, along with the New Zealand dollar.



In this environment, we believe it is more likely than not the RBNZ will pause on Thursday. With the flow-on from the global scene now only starting to be felt within the economy and financial conditions tightening, a further cut in the OCR is easily warranted. But against this backdrop we see considerably less pressure to ease given the stabilisation in the dataflow, especially following the aggressive front-loading of policy throughout this easing cycle and with further flow-through from mortgage refinancing to come. The pocket showing more than stabilisation is housing (off a very low base), and improving migration adds to the possibility of it getting away on itself. We don't think the fundamentals (credit and unemployment) justify this unfolding, but those with long memories at the RBNZ will be mindful of Groundhog Day. Moreover, we see numerous tactical considerations as being relevant.

- > Any easing is unlikely to be passed on to mortgage rates at present due to intense competition for domestic funds, which is blunting the OCR's impact. Clearly the RBNZ was frustrated by the lack of follow through from April's lowering of the OCR and dovish overtures. But equally clear is that borrowing rates are being determined by aggressive competition for deposits, which has diluted monetary policy's effectiveness – for now anyway. This in itself is a huge reason for the RBNZ to pause – why cut if you are not going to see any follow through? Better to preserve your bullets for another day.
- > A 75bps gap with Australia simply looks a stretch, despite the obvious business cycle differences. This is not to say that policy in NZ is heavily influenced by developments across the Tasman. But the RBNZ will be conscious of ensuring that interest rates in NZ remain attractive enough to continue attracting funding to finance the country's external deficit.

- > There is a case for keeping some “ammunition” up the RBNZ’s sleeve, which they can use in case economic prospects take another turn for the worse. Indeed, it seems the RBA is employing just such a strategy when it kept their rates unchanged last week but said that *“scope remains for some further easing of monetary policy, if needed. In assessing how it might use that scope, the Board will continue to monitor how economic and financial conditions unfold, and how they impinge on prospects for a sustainable recovery in economic activity.”*

Of course, the wildcard to a no change decision is the currency, which is around 17 percent above the RBNZ’s March MPS assumption at present (on a trade weighted basis). With a market that is split heading into the decision, the Governor will definitely get more bang for his buck by cutting rates. But even then it’s hard to see how lowering the OCR will make a real difference with sentiment being dominated by risk appetites and perceptions towards the USD. So, beyond the reaction on the day, there may not necessarily be any follow through. In fact, the NZD has already started to retreat late last week as sentiment towards the USD firms a tad. The currency is one of the areas where the RBNZ is damned if they mention or acknowledge it and damned if they don’t. A halfway house may be something along what the Bank of Canada said in their statement last week: *“In recent weeks, financial conditions and commodity prices have improved significantly, and consumer and business confidence have recovered modestly. If the unprecedentedly rapid rise in the Canadian dollar (which reflects a combination of higher commodity prices and generalized weakness in the U.S. currency) proves persistent, it could fully offset these positive factors.”*

Though we see the RBNZ pausing this week, we still believe further cuts in the OCR are more likely than not. With fiscal policy less expansionary going forward and monetary conditions tighter since the April Review, the burden is on monetary policy to do more. We have pencilled in a resumption of

policy easing later this year as the much talked about green shoots wilt and we see another bout of financial unease. This is as the real economic flow-on from the financial crisis into areas such as unemployment, reverberate back to the financial sector.

In terms of the other key messages in the statement, we are looking for the RBNZ to acknowledge recent signs of stabilisation in the economic data, but remain cautious over the pace of recovery. We also expect the Governor to re-iterate the “lower for longer view” on rates, and possibly firm up the language around it to get market pricing to move in line with the RBNZ’s policy view.

As for the economic projections in the *Monetary Policy Statement*, we expect the RBNZ to:

- > Lower the near-term GDP growth profile and push out the sustained recovery from their March MPS by six months.
- > Have a lower inflation forecast profile throughout the projection period relative to March, owing to a higher currency and larger negative output gap.
- > Have the 90-day profile staying flat at around 2.7 percent until mid-2010 with modest rises from there.

Financial market implications

At the time of writing, the market has around 30 percent chance of a rate cut priced in, while economist are almost evenly split between a no change and cut. As such, markets look primed for a reaction either way. However, we doubt there will be a big selloff in the event of a pause as this goes against the spirit of what the Reserve Bank has been trying to achieve, and that is get long term rates lower. Irrespective of the decision itself, the required strategy around the *Statement* seems clear – stop the market thinking about rate hikes, which at present are priced in from early 2010.

Our expectation of RBNZ Projections for June MPS (March 2009 MPS Projections in brackets)

Half year average	H2 2009	H1 2010	H2 2010	H1 2011	H2 2011
90 day	2.7 (3.0)	2.8 (3.2)	3.4 (3.8)	4.2 (4.6)	5.1 (5.3)
TWI	55.8 (49.2)	53.8 (47.5)	52.9 (47.9)	52.4 (49.0)	52.5 (50.1)
March years	2008(a)	2009	2010	2011	2012
CPI (ann % chg)	3.4	3.0 (3.1)	1.3 (1.6)	2.0 (2.2)	2.0 (2.1)
GDP (ann ave % chg)	3.1	-0.9 (-0.8)	-0.5 (0.2)	4.3 (4.8)	4.1 (3.9)

GLOBAL DATA WATCH

The smaller than expected contraction in US non-farm payrolls has added to calls that the US economy is nearing a trough. However, a higher unemployment rate shows that a number of challenges remain for US households. Australian data was generally stronger than expected and showed an economy that has to date avoided a technical recession. UK and European data is also showing some signs of base-forming.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
Australia	Current Account Balance (1Q)	-\$5425M	-\$4614M	-\$6357M	Stronger
	Building Approvals (Apr) – mom	2.0%	5.1%	6.3%	Stronger
	RBA Cash Target	3.00%	3.00%	3.00%	In-line
	GDP (1Q) – qoq	-0.2%	0.4%	-0.6%	Stronger
	Trade Balance (Apr)	\$1700M	-\$91M	\$2302M	Weaker
US	Pending Home Sales (Apr) – mom	0.5%	6.7%	3.2%	Stronger
	ISM Non-Manufacturing (May)	45.0	44.0	43.7	Weaker
	Factor Orders (Apr)	0.9%	0.7%	-1.9%	Weaker
	Non-Farm Productivity (1Q F)	1.2%	1.6%	0.8%	Stronger
	Continuing Jobless Claims (w/e May-24)	6855K	6735K	6750K	Stronger
	Change In Non-Farm Payrolls (May)	-520K	-345K	-504K	Stronger
	Unemployment Rate (May)	9.2%	9.4%	8.9%	Weaker
	Average Hourly Earnings (May) - mom	0.1%	0.1%	0.1%	In-line
	Consumer Credit (Apr)	-\$6.0B	-\$15.7B	-\$16.6B	Weaker
Euro-zone	Unemployment Rate (Apr)	9.1%	9.2%	8.9%	Weaker
	PMI Services (May F)	44.7	44.8	44.7	In-line
	GDP (1Q P) – qoq	-2.5%	-2.5%	-2.5%	In-line
	Retail Sales (Apr) – mom	0.2%	0.2%	-0.1%	In-line
UK	Net Consumer Credit (Apr)	0.1B	0.3B	0.1B	Stronger
	Mortgage Approvals (Apr)	41K	43K	40K	Stronger
	PMI Construction (May)	39.5	45.9	38.1	Stronger
	PMI Services (May)	49.5	51.7	48.7	Stronger
	BoE Interest Rate	0.50%	0.50%	0.50%	In-line
	PPI Input Prices (May) – mom	0.8%	0.4%	-1.7%	Weaker
	PPI Output Prices (May) - mom	0.4%	0.4%	0.7%	In-line
Japan	Capital Spending (1Q)	-30.0%	-25.3%	-17.3%	Stronger
Asia Ex-Japan					
<i>Singapore</i>	Purchases Managers Index (May)	50.5	51.2	49.2	Stronger
	Electronics Sector Index (May)	51.6	52.9	51.6	Stronger
<i>South Korea</i>	GDP (1Q F) – yoy	-3.8%	-4.2%	-4.3%	Weaker
<i>Malaysia</i>	Exports (Apr) – yoy	-21.8%	-26.3%	-15.7%	Weaker
	Imports (Apr) – yoy	-28.1%	-22.4%	-29.0%	Weaker
<i>Indonesia</i>	Bank of Indonesia Reference Rate	7.00%	7.00%	7.25%	In-line
	Consumer Confidence Index (May)	-	105.9	102.5	-
<i>Philippines</i>	M3 Money Supply (Apr) – yoy	-	13.7%	15.6%	-
	CPI (May) – mom	0.5%	-0.1%	0.5%	Weaker
<i>Taiwan</i>	CPI (May) - mom	-0.3%	-0.1%	-0.5%	Stronger

INTEREST RATE STRATEGY

Thursday's RBNZ decision will elicit a reaction either way, though any rally from a more dovish statement will be modest. With longer term mortgage rates rising, we could see a near-term selloff in the front end from mortgage related paying pressure.

Market themes...

- > RBA on hold but signals clear easing bias despite signs of stabilisation offshore.
- > US bond market selloff continues, as the market starts to toy with rate hikes, while continuing to worry about inflation and large fiscal deficits.
- > As a result of the global selloff, longer term fixed rate mortgages in NZ rise, with the 5-year rate reaching 8 percent.
- > NZ's credit ratings upgrade still resulting in solid demand for bonds, with last week's tender going well.

Review and outlook

Long-term interest rates keep rising, with the US 10-year bond yield now surpassing 3.8 percent for the first time since November last year. Inflation concerns remain, as do worries over issuance from a ballooning US fiscal deficit. Adding to that now are more signs of improvement in the dataflow (or should we say, the data is getting less bad). Non-farm payrolls shrank by much less than expected, adding to recent evidence suggesting the worst may be over. With that, the market has started to toy with rate hikes by the Fed later this year, despite the fact that the US unemployment rate actually rose by more than expected to 9.4 percent. Indeed, comments by Atlanta Fed President Dennis Lockhart that the Fed can't wait too long to tighten policy only added to the selloff in front end rates (despite Lockhart saying "we're not there yet"). Though we are sceptical about the Fed hiking that soon, we have to respect the price action and the consequent flow-on to the NZ rates market. Already, we have seen longer-term fixed mortgage rates in NZ rise. As a result, we expect to see more people seeking to fix in the 1 to 2-year space, and while we don't foresee the kind of mass mortgage fixing seen in March, the mortgage related paying pressure is still expected to send 2-year swap yields higher, given the lack of receivers around at present. The RBNZ's decision this Thursday will likely reiterate the lower for longer message, but it remains to be seen whether the market will align pricing to the RBNZ's policy view. This remains the Bank's big communication challenge, trying to get the back end of the yield curve down while not cutting, in the face of a global selloff in bonds.

Borrowing strategies we favour at present

Our favoured theme has not changed. The RBNZ is likely to reiterate the "lower for longer" message this Thursday. With the yield curve this steep, the short end makes a lot of sense. Especially with long end yields likely to move higher on the back of the global selloff. Taking the Governor's word at face value, going floating provides certainty and flexibility up till the second half of next year, by which time it will be clearer whether economic prospects are indeed recovering in a sustainable fashion.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔/↓	No change on Thursday, but lower rates still on the cards and "lower for longer" message won't go away.
NZ data	↓	Q1 partial indicators to point to weak GDP read. Terms of trade may surprise.
Fed Funds/ front end	↔/↑	Talk of Fed hikes doing the rounds, but hard to see with unemployment rate high.
RBA	↔/↓	On hold for now but clearly on easing bias.
US 10 year	↑	Inflation fear, fiscal deficit fear, less bad data all sending long end higher.
NZ swap curve	↔	Near term flattening possible as NZGS demand picks up. Long term, steepening still.
Flow	↔/↑	Market wary of mortgage paying pressure.
Technicals	↔/↑	Global selloff cannot be ignored.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Jun-09	-6	-7
Thu 30-Jul-09	-15	-11
Thu 10-Sep-09	-15	-11
Thu 29-Oct-09	-12	-11
Thu 10-Dec-09	-10	-2
Thu 21-Jan-10	-4	+6
Thu 11-Mar-10	+15	+14

Trading themes we favour at present

With the market split over Thursday's decision, going short outright in the 1-month OIS will reap instant reward on a no change decision, though it is not without risks. We still see swap yields heading lower in the front end, but are wary of mortgage related paying pressure flows in the near-term. But they will present more attractive levels to go long from.

CURRENCY STRATEGY

The market begins to price in Fed rate hikes! After the 'improvement' in the US employment data, this is a massive sentiment shift that could last all week. Whether you believe it or not, the oversold state of the USD suggests people will be scrambling to reduce USD shorts. The NZD should struggle especially if the higher USD results in weaker commodity prices. The yield differential has narrowed markedly, suggesting the NZD may have room to correct back near the 200 day moving average. The RBNZ decision this week will attract attention but we suspect it is not critical to the NZD direction.

Market themes...

- > USD sentiment change will not suit a short USD market. A base looks to be in place for the USD index for now.
- > NZ–US yield differential has narrowed. When will this start to matter?
- > The RBNZ to be dovish regardless.

Review and outlook...

Last week's rally to 0.6595 was brief and spectacular, but the rejection of the 0.6600 level looks just as spectacular and we believe will be more lasting. USD negative sentiment was the main driver for the NZD's dizzy rally and though this theme will continue to simmer, we see an over extended market caught badly the wrong way at bad levels. With the potential for a period of USD strength to emerge as central banks and sovereign wealth funds take a pause in their asset diversification, the NZD should struggle.

The yield differential has narrowed back to January levels across much of the curve, reflecting not only perceived green shoots in the US but also future headwinds here as the commodity bounce (largely a USD story in itself) has not benefited NZ to the extent of others. The hike in mortgage rates seen over the past 72 hours suggests the RBNZ will be extremely frustrated that monetary policy is having little effect. And we must expect an extremely dovish statement from the RBNZ this week given the level of private sector debt. This current yield differential suggests a sub 0.6000 NZD is soon to be seen. The RBNZ (whether they cut or not) should ensure that the yield curve differential continues to narrow versus the USD.

The Uridashi and Eurokiwi profile has been widely documented with over NZ\$4 billion of maturities next month. These maturities can play out two ways. Either they are rolled for another 2 to 3 years resulting in a large receiving pressure and compression of our yield differential, suggesting a

lower NZD, or the money goes home resulting in massive NZD selling.

Technically NZD/AUD is starting to show signs that the 0.8200 level is the top for a good move lower and we will look to fade any move above 0.8000 now. NZD/USD gap fill up to 0.6600 is complete. We target the 200 day moving average at 0.5800 with the top seen on Friday night at 0.6418 not to be breached.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield advantage Australia.
Commodities	↓	Milk lower.
Partial indicators	↔/↓	NZ just not as strong.
Technicals	↔/↓	0.8200 the top, sell as close as you can.
Sentiment	↔	Changes daily.
Other	↓	Break of 0.7725 very bearish. 0.72 potential.
On balance	↓	Negatives starting to weigh on kiwi.

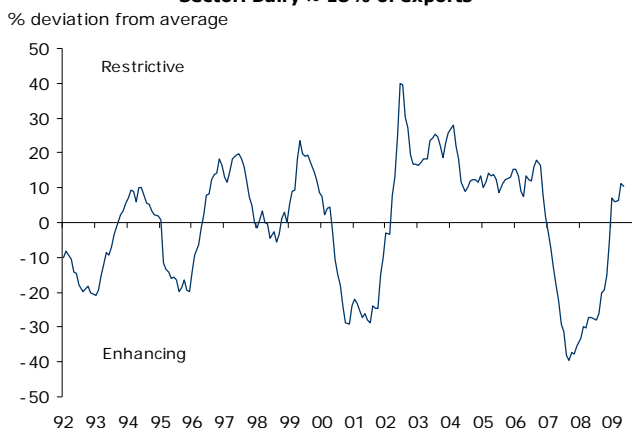
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔/↓	Slightly above cyclical fair value estimates.
Yield	↓	Narrowing from US side.
Commodities	↓	Fonterra auction weak.
Risk aversion	↔	Stabilised for now.
Partial indicators	↔	Both stabilising.
Technicals	↓	Top seen last week. 0.6420 to cap from now.
AUD	↔/↓	AUD disappointing after strong GDP outturn.
Sentiment	↓	USD starting to feel the love.
Other	↔	Can the USD overcome structural issues?
On balance	↓	Target 0.58 cents.

EFFECTIVE EXCHANGE RATES UPDATE

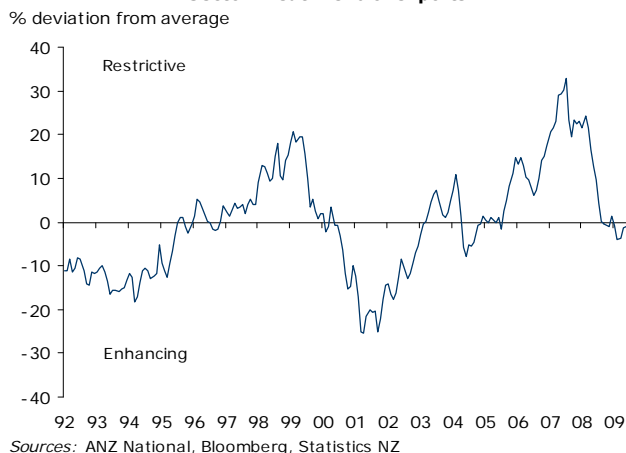
We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations.

While remaining in restrictive territory, the dairy and crude sectors experienced a small improvement in their commodity adjusted real exchange rates (i.e. they became less restrictive) in the month on the back of a lift in world commodity prices. However, all the other commodity adjusted real effective change rates we monitor became more restrictive in the month. While most groups benefited from higher international commodity prices, this was generally erased by a higher NZD against all NZ's major trading partners baring the AUD. Conditions in the forestry sector remain severely restrictive, and the manufacturing and dairy sectors are also facing restrictive conditions. Conditions are neutral for the meat, horticulture and services sectors.

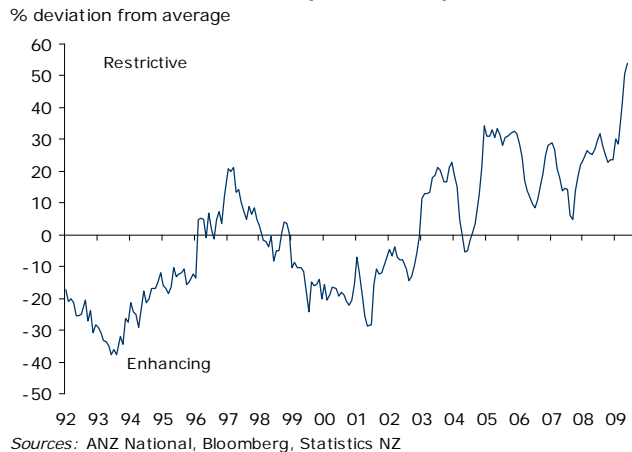
Sector: Dairy ≈ 18% of exports



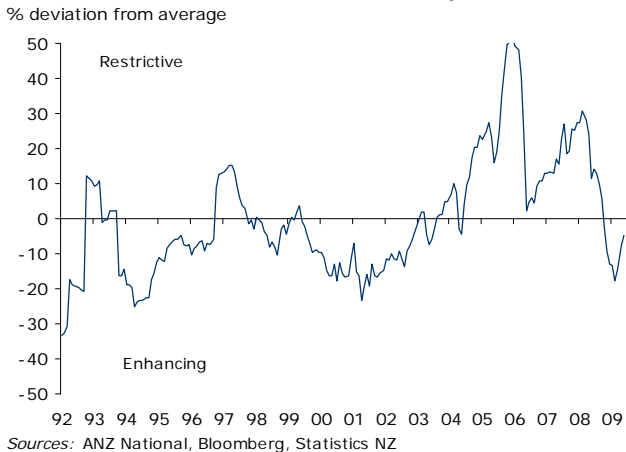
Sector: Meat ≈ 8% of exports



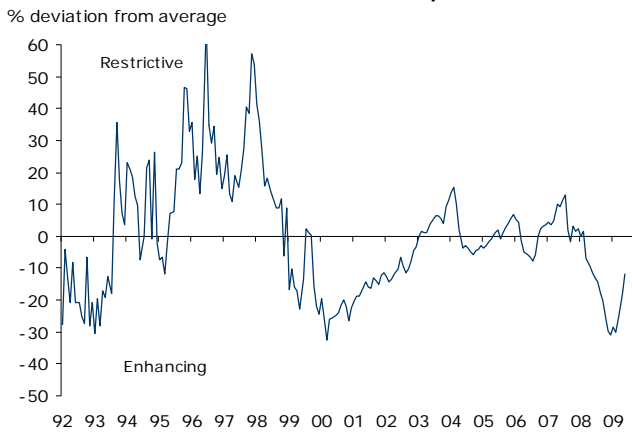
Sector: Forestry ≈ 10% of exports



Sector: Horticulture ≈ 4% of exports

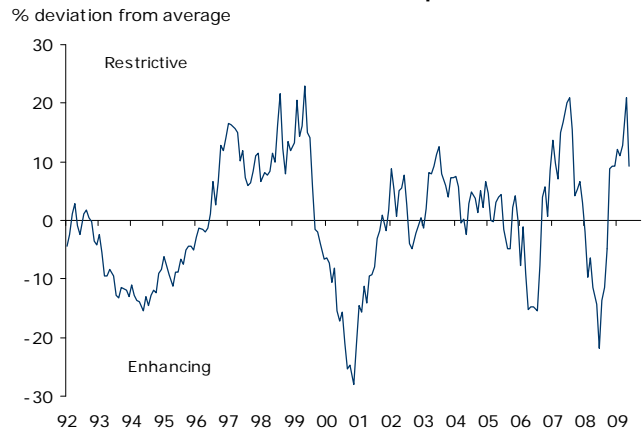


Sector: Seafood \approx 3% of exports



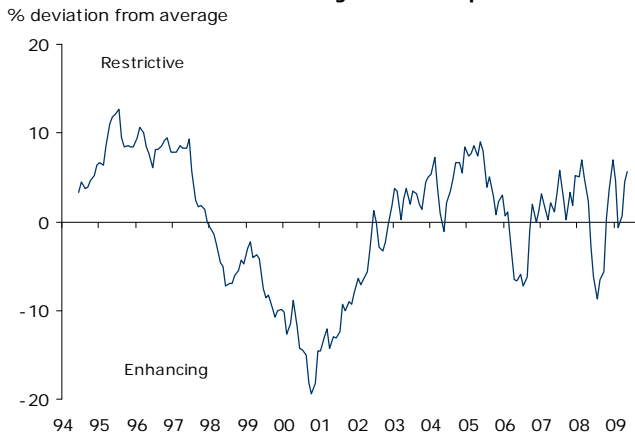
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude \approx 5% of exports



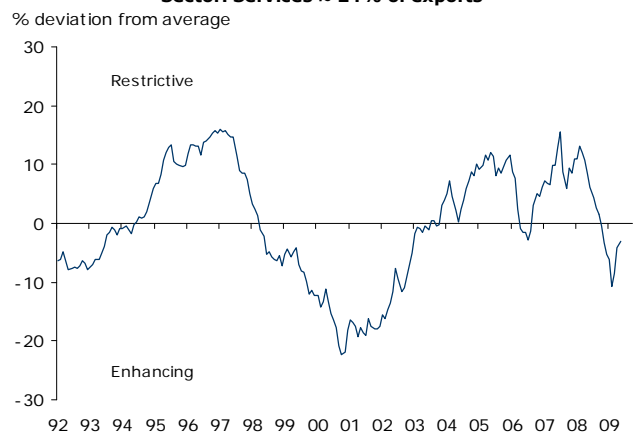
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Manufacturing \approx 20% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Services \approx 24% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
8-Jun	JN	Money Stock M3 (May) - yoy	1.7%	1.7%	11:50
		Adjusted Current Account Total (Apr)	¥960.0B	¥902.3B	11:50
		Trade Balance - BOP Basis (Apr)	¥184.6B	¥132.9B	11:50
		Eco Watchers Survey: Current (May)	34.0	34.2	17:00
		Eco Watchers Survey: Outlook (May)	-	39.7	17:00
	EC	Sentix Investor Confidence (Jun)	-31.0	-34.3	20:30
	GE	Factory Orders (Apr) - mom	0.0%	3.3%	22:00
9-Jun	EC	ECB's Constancio Speaks in Parliament Hearing on BPN	-	-	03:00
		ECB's Stark Speaks at Conference in Linz, Austria	-	-	05:35
		ECB Council Member Liikanen Speaks in Helsinki	-	-	20:00
	US	Fed's Tarullo Speaks on Financial Regulation in Washington	-	-	04:30
	NZ	Volume of Building Work Put in Place (1Q) - qoq	-	-6.5	10:45
	AU	NAB Business Conditions (May)	-	-10	13:30
		NAB Business Confidence (May)	-	-14	13:30
		ANZ Job Advertisements (May) - mom	-	-7.5%	13:30
	JN	Leading Index CI (Apr P)	77.2	76.3	17:00
		Coincident Index CI (Apr P)	86.0	85.1	17:00
		Machine Tool Orders (May P) - yoy	-	-80.4%	18:00
	GE	Trade Balance (Apr)	9.3B	11.3B	18:00
		Current Account (EURO) (Apr)	10.0B	10.2B	18:00
		Imports (Apr) - mom	0.5%	0.8%	18:00
		Exports (Apr) - mom	-0.1%	0.7%	18:00
		Industrial Production (Apr) - mom	0.3%	0.0%	22:00
	UK	DCLG UK House Prices (Apr) - mom	-13.3%	-13.6%	20:30
10-Jun	US	Wholesale Inventories (Apr)	-1.1%	-1.6%	02:00
		IBD/TIPP Economic Optimism (Jun)	50.0	48.6	02:00
		MBA Mortgage Applications (w/e Jun-6)	-	-16.2%	23:00
	NZ	Terms of Trade Index (1Q) - qoq	-3.8%	-0.9%	10:45
		NZ Card Spending (May) - mom	-	0.3	10:45
	JN	Machine Orders (Apr) - mom	-0.7%	-1.3%	11:50
		Domestic CGPI (May) - mom	-0.3%	-0.4%	11:50
	AU	Westpac Consumer Confidence (Jun)	-	-4.3%	13:00
		Home Loans (Apr)	1.5%	-	13:30
		Investment Lending (Apr)	-	-	13:30
		Value of Loans (Apr) - mom	-	-	13:30
	GE	Consumer Price Index (May F) - mom	-0.1%	-0.1%	18:00
	UK	Total Trade Balance (Apr)	-£2400M	-£2537M	20:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
10-Jun cont.	UK	Industrial Production (Apr) - mom	-0.1%	-0.6%	20:30
	EC	ECB's Gonzalez-Paramo Speaking in Madrid	-	-	23:00
11-Jun	US	Trade Balance (Apr)	-\$29.0B	-\$27.6B	00:30
		Fed's Lacker Speaks to North Carolina Senate Committee	-	-	02:00
		Fed's Duke Speaks on Community Development in Cleveland	-	-	04:15
		Monthly Budget Statement (May)	-\$181.0B	-\$165.9B	06:00
		Fed's Beige Book	-	-	06:00
	EC	ECB's Stark Speaks at Event in Dusseldorf, Germany	-	-	04:30
		ECB Publishes June Monthly Report	-	-	20:00
	NZ	RBNZ Official Cash Rate	2.50%	2.50%	09:00
		Business NZ Publishes Performance of Manufacturing Index	-	-	10:30
	JN	Gross Domestic Product (1Q F) - qoq	-4.0%	-4.0%	11:50
	AU	Consumer Inflation Expectation (Jun)	-	2.3%	13:00
		Employment Change (May)	-30.0K	27.3K	13:30
		Unemployment Rate (May)	5.7%	5.4%	13:30
		Full Time Employment Change (May)	-	49.1	13:30
		Part Time Employment Change (May)	-	-21.8	13:30
		Participation Rate (May)	65.4%	65.4%	13:30
	UK	BoE Releases Quarterly Inflation Attitudes Survey	-	-	20:30
12-Jun	US	Advance Retail Sales (May) - mom	0.5%	-0.4%	00:30
		Retail Sales Less Autos (May) - mom	0.2%	-0.5%	00:30
		Initial Jobless Claims (w/e Jun-7)	615K	621K	00:30
		Continuing Claims (w/e May-31)	6770K	6735K	00:30
		Business Inventories (Apr)	-1.0%	-1.0%	02:00
		Lockhart Speaks on US Economic Outlook at Atlanta Conference	-	-	05:05
	NZ	Retail Sales (Apr) - mom	0.2%	-0.4%	10:45
		Food Prices (Apr) - mom	-	-0.6%	10:45
		Retail Sales Ex-Auto (Apr) - mom	0.4%	0.5%	10:45
	JN	Industrial Production (Apr F) - mom	-	5.2%	16:30
		Capacity Utilization (Apr F) - mom	-	0.8%	16:30
		Consumer Confidence (May)	34.0	33.2	17:00
	EC	Industrial Production (Apr F) - mom	-0.4%	-2.0%	21:00
		ECB's Trichet Speaks at Event in Sofia	-	-	23:30
13-Jun	US	Import Price Index (May) - mom	1.4%	1.6%	00:30
		University of Michigan Confidence (Jun P)	69.5	68.7	02:00
	EC	ECB's Trichet Speaks at Event in Sofia	-	-	03:30

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

Key focus over the next four weeks: The RBNZ's *Monetary Policy Statement* is the obvious focus this week and we expect them to respect the recent improvement in the dataflow and leave rates unchanged. Indicators for March quarter GDP are expected to reinforce the likelihood of another large contraction.

Date	Data/Event	Economic Signal	Comment
Tue 9 Jun (10.45)	Value of Building Work Put in Place (Mar qtr)	Still contracting	Residential building construction is likely to record another large quarterly contraction. Non-residential construction is expected to be largely unchanged.
Wed 10 Jun (10.45)	Overseas Trade Indexes (Mar qtr)	Terms of trade lower	Large falls in export commodity prices is expected to see the terms of trade fall in the quarter. Volume data is expected to confirm net exports will make a positive contribution to growth in the March quarter.
Thu 11 Jun (09.00)	RBNZ June <i>Monetary Policy Statement</i>	Temporary pause	While a case can be made for further immediate rate cuts, the green shoots need to be respected. However, we don't expect them to be sustained and hence rate cuts are likely to resume from H2 2009.
circa 11 Jun	REINZ House Sales	Further signs of recovery	Seasonally adjusted house sales may retreat slightly from last month's surge. However, median days to sell should fall indicating that some strength is returning to the market.
Fri 12 Jun (10.45)	Retail Trade Survey (Apr)	Finding a base	The second lot of tax cuts should give retail sales a bit of a kick.
Mon 15 Jun (10.45)	Economic Survey of Manufacturing (Mar qtr)	Weak	Manufacturing activity is likely to be weighed down by primary food, where less livestock slaughtering will impact.
Mon 22 Jun (10.45)	International Travel and Migration (May)	More of the same	Less New Zealanders departing will ensure that solid monthly net inflows continue to be recorded.
Thu 25 Jun (10.45)	Balance of Payments (Mar qtr)	Rebalancing	Recent improvement in the trade balance should help drive the current account deficit to an improved deficit of 8.5 percent of GDP.
Fri 25 Jun (10.45)	GDP (Mar qtr)	The worst yet?	We currently have a 1.5 percent contraction pencilled in for the quarter – the worst quarter of the recession yet.
Mon 29 Jun (10.45)	Overseas Merchandise Trade (May)	Another monthly surplus	The trade balance typically records a surplus in May. However, we are expecting this to be larger than normal given a further capitulation in imports.
Mon 29 Jun (10.45)	Building Consents Issued (May)	The bounce	A further pick-up is expected considering the near record low levels and a natural response to an improvement in housing market activity.
Mon 29 Jun (15.00)	Credit Growth (May)	De-leveraging continues	Household credit growth will remain subdued. However, top on the watch list is now business and rural lending growth, which are also showing signs of substantial slowing.
Tue 30 Jun (15.00)	NBNZ <i>Business Outlook</i> (Jun)	-	-
Thu 2 Jul (15.00)	ANZ Commodity Price Index (Jun)	-	-
Tue 7 Jul (10.00)	NZIER Quarterly Survey of Business Opinion (Jun qtr)	An improvement in sentiment?	The survey is likely to mirror the latest National Bank <i>Business Outlook</i> and show an improvement in sentiment. However, gauges will remain consistent with an economy that continues to contract.
On Balance		Base forming?	There is a strong base effect appearing in some data, which suggests Q2 is the nadir in the cycle. But the jury is out on the speed of recovery and in H2 2009 we expect the economy to be moving along the bottom of the bath tub.

SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
GDP (% qoq)	-0.3	-0.2	-0.5	-0.9	-1.5	-0.5	0.0	0.1	0.5	1.2
GDP (% yoy)	2.1	1.0	-0.1	-1.9	-3.1	-3.3	-2.9	-1.9	0.1	1.8
CPI (% qoq)	0.7	1.6	1.5	-0.5	0.3	0.7	0.6	0.6	0.5	0.5
CPI (% yoy)	3.4	4.0	5.1	3.4	3.0	2.1	1.1	2.2	2.4	2.2
Employment (% qoq)	-1.0	1.2	0.2	0.6	-1.1	-1.0	-0.9	-0.4	-0.2	0.0
Employment (% yoy)	-0.2	0.8	1.1	0.9	0.8	-1.3	-2.4	-3.4	-2.5	-1.5
Unemployment Rate (% sa)	3.8	4.0	4.3	4.7	5.0	5.6	6.4	7.0	7.5	7.7
Current Account (% GDP)	-8.0	-8.4	-8.7	-9.0	-8.5	-7.1	-6.1	-5.2	-5.0	-4.9
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-0.9	-7.5	-2.0	-1.4	-1.0	-0.7	-0.4
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	-9.6	-11.1	-11.5	-11.6	-5.1	-3.5

KEY ECONOMIC INDICATORS

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Retail Sales (% mom)	0.3	0.3	-1.2	-0.1	-0.6	-1.2	0.3	-0.4
Retail Sales (% yoy)	-0.9	2.2	0.7	-4.1	-0.9	-3.7	-6.9	-1.9
Credit Card Billings (% mom)	-0.3	1.3	-1.8	-0.8	-2.2	1.5	0.8	-2.8	2.3	..
Credit Card Billings (% yoy)	2.6	2.5	0.9	-0.9	-3.8	-2.4	-1.9	-4.8	-1.6	..
Car Registrations (% mom)	-3.7	11.6	-1.4	-20.3	14.0	-14.4	-15.2	7.3	-2.4	-3.2
Car Registrations (% yoy)	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3
Building Consents (% mom)	-6.0	8.0	-19.9	4.2	-7.2	-12.6	12.0	-1.7	11.2	..
Building Consents (% yoy)	-42.9	-28.4	-43.1	-39.5	-41.6	-51.3	-40.1	-34.5	-56.6	..
REINZ House Price (% yoy)	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	..
Household Lending Growth (% mom)	0.4	0.2	0.1	-0.1	0.2	0.2	0.2	0.1	0.2	..
Household Lending Growth (% yoy)	7.2	6.6	5.8	4.8	4.2	3.8	3.1	2.8	2.6	..
Roy Morgan Consumer Confidence	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7	101.1	104.9
NBNZ Business Confidence	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9
NBNZ Own Activity Outlook	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8
Trade Balance (\$m)	-848	-1252	-994	-594	-341	-102	481	447	276	..
Trade Balance (\$m annual)	-4369	-5048	-5269	-5234	-5614	-5405	-5166	-4676	-4108	..
ANZ World Commodity Price Index (% mom)	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.7
ANZ World Commodity Price Index (% yoy)	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1
Net Migration (sa)	340	-20	40	-290	320	820	1620	1730	2160	..
Net Migration (annual)	4938	4403	4329	3569	3814	4538	6160	7482	9176	..

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)						
	Apr-09	May-09	8-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
NZD/USD	0.572	0.598	0.625	0.570	0.520	0.510	0.520	0.530	0.540	0.560
NZD/AUD	0.801	0.785	0.787	0.792	0.776	0.761	0.765	0.757	0.761	0.778
NZD/EUR	0.433	0.439	0.448	0.452	0.419	0.418	0.433	0.442	0.443	0.459
NZD/JPY	56.6	57.8	61.6	59.9	56.2	56.1	57.2	58.3	59.4	61.6
NZD/GBP	0.389	0.389	0.392	0.375	0.347	0.336	0.338	0.340	0.342	0.350
NZ\$ TWI	57.0	57.9	59.6	57.8	54.0	53.3	54.4	55.0	55.6	57.5
NZ interest rates	Apr-09	May-09	8-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
OCR	3.24	2.76	2.50	2.25	2.00	2.00	2.00	2.50	3.50	4.50
90 day bill	3.12	2.82	2.69	2.40	2.40	2.40	2.40	3.10	4.10	5.10
10 year bond	5.24	5.74	6.05	5.10	4.90	5.00	5.10	6.00	6.10	6.40
International	Apr-09	May-09	8-Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00	2.75
US 3-mth	1.02	0.66	0.63	0.70	0.50	0.70	1.25	1.75	2.25	3.00
AU cash	3.00	3.00	3.00	2.50	2.00	2.00	2.00	2.00	2.75	3.25
AU 3-mth	3.08	3.19	3.24	2.30	2.30	2.30	2.40	2.60	3.30	4.40

KEY RATES

	5 May	1 Jun	2 Jun	3 Jun	4 Jun	5 Jun
Official Cash Rate	2.50	n/a	2.50	2.50	2.50	2.50
90 day bank bill	2.78	n/a	2.70	2.68	2.70	2.69
NZGB 07/09	2.80	n/a	2.62	2.62	2.61	2.61
NZGB 11/11	3.59	n/a	3.66	3.67	3.65	3.69
NZGB 04/13	4.37	n/a	4.66	4.67	4.67	4.72
NZGB 12/17	5.49	n/a	5.87	5.88	5.88	5.94
2 year swap	3.43	n/a	3.61	3.56	3.54	3.60
5 year swap	4.71	n/a	5.11	5.06	5.07	5.15
RBNZ TWI	56.7	n/a	60.9	61.0	59.6	60.0
NZD/USD	0.5761	n/a	0.6478	0.6541	0.6320	0.6360
NZD/AUD	0.7795	n/a	0.7994	0.7930	0.7886	0.7911
NZD/JPY	56.83	n/a	62.40	62.55	60.78	61.52
NZD/GBP	0.3840	n/a	0.3938	0.3939	0.3887	0.3944
NZD/EUR	0.4306	n/a	0.4574	0.4569	0.4460	0.4479
AUD/USD	0.7391	n/a	0.8104	0.8248	0.8014	0.8039
EUR/USD	1.3379	n/a	1.4164	1.4315	1.4170	1.4200
USD/JPY	98.65	n/a	96.33	95.62	96.17	96.73
GBP/USD	1.5004	n/a	1.6448	1.6606	1.6259	1.6126
Oil	54.45	n/a	68.59	68.58	66.14	68.80
Gold	904.75	n/a	976.75	986.50	965.85	978.25
Electricity (Haywards)	3.42	3.56	7.92	7.75	5.76	5.28
Milk futures (US\$/contract)	86	85	85	85	85	86
Baltic Dry Freight Index	1897	3681	4106	4291	4093	3809

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.

NEW ZEALAND DISCLAIMER

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

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

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