

CURRENCY VERSUS RATES

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Page 2: Economic overview

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Page 4: Economic comment – financial conditions update

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Page 5: Economic comment – global watch

- > While US GDP surprised on the upside, it was still a very weak result. Forward looking activity gauges (such as the Chicago PMI and consumer confidence) suggest the US economy continues to deteriorate. Elsewhere around the globe, the data flow was also generally weak, with Asian trade data very poor – a clear indication that the global economy is slowing sharply.

Page 7: Interest rate strategy

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Page 8: Currency strategy

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ECONOMIC OVERVIEW

OCR expectations continue to fall as the RBNZ flags a preparedness to go further. We now see the OCR hitting 2.5 percent. While tempting to engage in OCR leap-frog as to how low we go, we see the currency as the more important aspect linking both the cyclical downturn and structural adjustment. Data this week, however, is expected to endorse market sentiment that the OCR will continue to fall.

What's ahead?

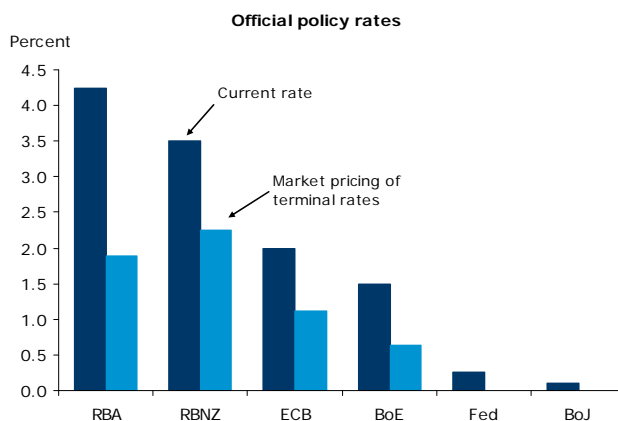
- > **December quarter Labour Cost Index and Quarterly Employment Survey** (Monday 1045 NZDT). Wage growth has peaked. We expect the LCI measure of private sector ordinary time wages to increase by 0.7 percent, taking annual growth to 3.3 percent. The comparable QES measure is expected to rise by 0.5 percent.
- > **December External Migration** (Wednesday 1045 NZDT). Another net migration outflow cannot be ruled out. Tourism inflows are also expected to be weak.
- > **January ANZ Commodity Price Index** (Wednesday 1500 NZDT).
- > **December quarter Household Labour Force Survey** (Thursday 1045 NZDT). This survey is likely to be unequivocally weak. Employment is expected to contract by 1.5 percent and the unemployment rate rising to 4.7 percent.

What's the view?

Where to now? Following last week's larger than expected cut by the RBNZ, the scene is obviously set for interest rates to record further new lows, and quickly. As the scale and intensity of the global recession starts to hit home, so too the reality that the OCR will continue to head lower still. The market will certainly push that way given the pending tenor of the upcoming data, particularly with this week's labour market data set to show the unemployment rate rocketing higher.

Some of those tactical musings we noted last week are now clearly red herrings at the RBNZ – or at least secondary considerations – for now. On that basis, it is hard to go against NZ interest rates following the historical pattern of ending up around 1 percent above an average across our trading partners. With the US and Japan at near zero and the UK expected to join them soon, Australia heading to 2 percent and Europe towards 1 percent, 1 looks the prime number. This implies NZ rates around 2 percent. Such an approach is rough, but you get a similar answer if you assume

zero real interest rates and the mid-point of the policy-band.



We've made some changes to our interest rate forecasts, lowering the trough in the cycle to 2.5 percent (75 basis points in March and room for one more in April). At this stage, we have resisted going the whole hog. Certainly we expect no joy at all on the data front. And in the current economic environment, given the likely tenor of upcoming dataflow, the market will press for aggressive cuts.

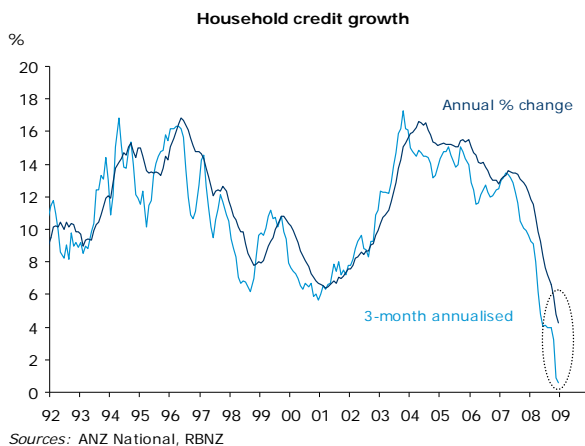
While it is hard to go against the spirit of cutting rates aggressively to support the economy, in so far as economic relief is concerned it is akin to looking for the tallest pygmy. But as far as alternatives go it is probably the best that we have right now, particularly with fiscal policy being somewhat constrained given the risk of a credit downgrade.

Some aspects to this economic and easing cycle continue to nag at us. It is households that need to de-leverage, having over-extended during the good times. Households – who drove us into this jam in the first place (and we were warned about an overheating housing market by the RBNZ a few years back) – are getting most of the relief via lower interest rates, while businesses are not (eying up where retail bond issues are being priced). And it is the latter that drive productive aspects to the cycle and the supply side. This cycle is about the supply of money as opposed to the price. We keep going back to the structural (spend less, earn more) adjustment that needs to occur. But this is obviously being stymied by the worst global recession in 50 years.

In this environment, no one is doubting that monetary policy needs to act, and aggressively to boot. But we wonder how this cycle is going to unfold and how far policy can indeed go. Our economic forecasts (close to -2 percent for 2009) are at the bottom end of consensus, and we think they still contain more downside risk, despite the aggressive easing cycle to date.

With the market (and analysts as well) playing OCR leap-frog in terms of how low rates go, the currency has fallen off the radar. Yet when we think about the dynamics driving this cycle, including falling commodity prices, the global picture, NZ being placed on negative outlook by Standard and Poor's, and relative price movements that are required to assist in the inevitable rotation of growth, we keep coming back to the currency. It needs to fall, and by a long way. We simply cannot see any other way that this cycle can pan out.

While yield related aspects to the currency are influential (to a degree), in terms of determining how low the NZD will go – and the RBNZ has given the green-light for further moves south – it is the dynamics of rebalancing that are more important to us. Certainly last week's trade figures gave no joy when it comes to suggesting the rebalancing process is underway. But other data including credit card spend (down 3.9 percent on a year ago) and 3-month annualised housing credit growth (which came to a virtual standstill) are telling us that de-leveraging – a pre-requisite to a lower current account deficit – is starting to take hold.



So rather than follow the crowd and play the “how low will the OCR go” game, we prefer to play the currency leg. We have lowered our six and twelve month forecasts for the NZD/USD to 0.45 and 0.41 respectively (previously 0.47 and 0.44). We see the NZD/AUD hitting 76 cents by year end. Another cross we think people are slow to notice is the NZD/JPY. With the USD/JPY set to remain sub 90 in our view, the NZD/JPY looks set to fall below 40. And remember, this is a cross that supports a lot of our luxury end spending and high technology goods. So while the lower cost of money may support buying houses, the cost of imported items to furnish them may not!

In terms of the week ahead, we see little on the data front to alter the poor perception towards the economy, nor the expectation that the RBNZ will need to act aggressively again in March (if we can call 75 basis points aggressive in the new world of super-sized rate cuts!).

The December quarter labour market data is obviously the main focus and it is expected to be unequivocally weak. Wage growth is likely to have peaked, particularly looking at the speed at which labour resources are freeing up, although there will remain some latent wage growth pressures, with annual rates expected to remain relatively elevated. We expect the LCI measure of private sector wages to increase by 0.7 percent – a step down from the strong 1.1 percent increase in the September quarter. This will take annual growth from 3.7 percent to 3.3 percent.

But lagging wage pressure is a typical late cycle phenomenon. The big story from the data will be a sharp rise in the unemployment rate – our preferred gauge of labour market trends. Other survey indicators are either too lagging (wages), or too volatile (employment growth). We expect the unemployment rate to rise from 4.2 percent to 4.7 percent. Going by anecdotes, we actually wouldn't rule out an event sharper increase. As we have stated in recent editions of *Market Focus* the risk is that this sets off some non-linear dynamics, which is something the RBNZ have commented on by urging households to “not pull down the shutters”. For a de-leveraging economy, the shutters do need to come down, but the real issue is the degree. All monetary policy is praying for, or trying to ensure, is that the economy does not shut up shop completely.

The other domestic data this week is external migration and commodity prices. The former will highlight another vulnerability the domestic economy is facing, namely weaker exports (tourism) as a direct result from weaker trading partner growth.

Internationally, interest rate announcements from the RBA, BoE and ECB are all due. While the former have signalled they are likely to pause, both the RBA and BoE are expected to cut rates. Our Australian colleagues expect a 75bp cut (which will only put Australian rates on a par with NZ), although the risk is for something larger. Data-wise the US ISM and non-farm payrolls results, as always, will be very important.

Recent local data...

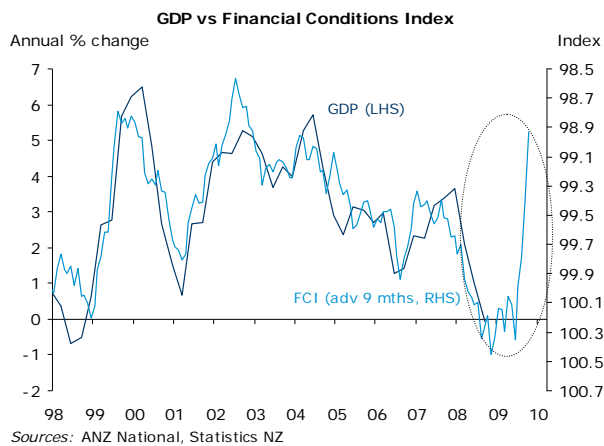
- > **RBNZ OCR Review:** The OCR was cut by 150bps to a new record low of 3.50 percent.
- > **Overseas Merchandise Trade (December):** A \$347 million monthly trade deficit takes the annual deficit to \$5,615 million.
- > **Building Consents (December):** Residential consent issuance fell 6.0 percent to a new record low. Excluding apartments, consent issuance fell 0.7 percent – also a record low.

FINANCIAL CONDITIONS UPDATE¹

Aggressive policy action in recent months, and expectations of more to come, has led to a substantial loosening in financial conditions. While considerable stimulus is in the pipeline and point to an eventual recovery, there is huge uncertainty over the timing, we continue to be mindful that our gauges do not capture the credit channel of monetary policy well.

Financial conditions unleashed

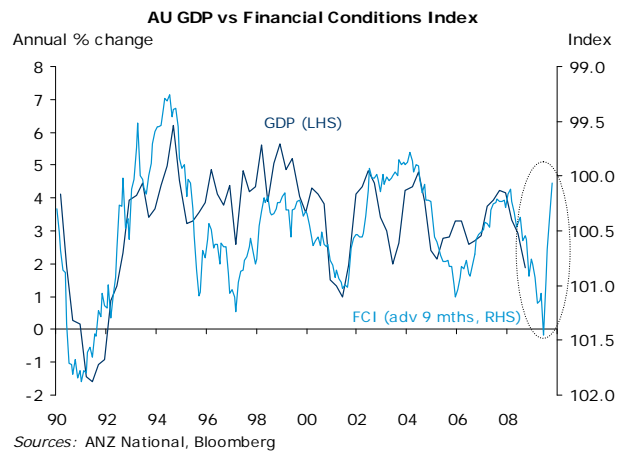
A 300bp cut to the OCR in two months and another move lower in the NZD has resulted in a massive loosening in financial conditions in NZ. With swap rates testing historic lows and even the US 2-year swap spread narrowing somewhat, it was more than enough to counter the continued decline in asset prices and sharp slowdown in credit growth.



This easing in financial conditions is unprecedented. Past periods of aggressive easings in financial conditions has resulted in a strong rebound in growth. Our index certainly suggests that while a protracted period of sluggish growth can be expected for most of this year, a strong recovery could take hold by the end of the year or early next year.

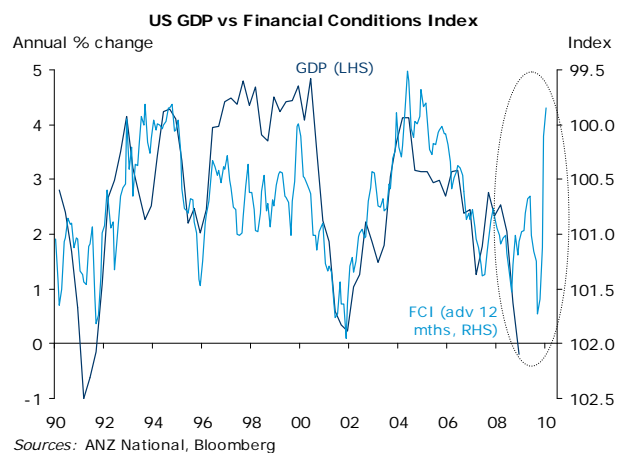
Aggressive policy action from the RBA and a lower AUD has also resulted in a substantial loosening in financial conditions in Australia. Partly offsetting this is the continual decline in asset prices and credit growth contracting for the first time since the early 1990s. While the relationship with Australian GDP growth is not as good as the NZ case, our financial conditions index nonetheless suggests enough stimulus in the pipeline to see a recovery underway by the end of this year. However, we could well see negative growth rates before then.

¹ Our Financial Conditions Index includes the currency (adjusted for commodity prices or terms of trade movements), interest rates, asset prices, credit growth, and measures of credit cost and liquidity. It provides a timely leading gauge of economic activity, and more importantly it has been successful in predicting key turning points in the growth cycle.



US financial conditions look promising

There is nothing more that monetary policy can do in the US. Asset prices are still falling, but US financial conditions still managed to ease thanks to an improving terms of trade, lower bond yields and narrowing swap spreads. With the Fed looking to purchase Treasuries outright, this could keep longer-dated yields lower and help keep financial conditions loose. At this stage, a rebound in the US looks to be a 2010 prospect.



Our financial conditions metrics clearly demonstrate that strong traditional mechanisms are acting in a highly stimulatory manner, largely via very low wholesale interest rates and a lower currency in the case of NZ and Australia. However, we also need to recognise that the typical financial conditions measures do not capture - or capture in a notoriously lagging fashion via asset prices - the credit channel of monetary policy. Specifically, we need to remember that this economic cycle is as much about the supply of money (and hence the impact on financial conditions via asset prices) as well as the price. This is an area we continue to explore with a view to modifying our gauges.

So for now, while our financial conditions indexes are clearly pointing to an eventual recovery, uncertainty will continue to surround the timing and we need to be mindful of other forces in the near-term.

GLOBAL WATCH

While US GDP surprised on the upside, it was still a very weak result. Forward looking activity gauges (such as the Chicago PMI and consumer confidence) suggest the US economy continues to deteriorate. Elsewhere around the globe, the data flow was also generally weak, with Asian trade data very poor – a clear indication that the global economy is slowing sharply.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Leading Indicators (Dec) – mom	-0.2%	0.3%	-0.4%	Stronger
	Existing Home Sales (Dec) – mom	-2.0%	6.5%	-9.4%	Stronger
	S&P/CS Composite-20 (Nov) – yoy	-18.4%	-18.2%	-18.1%	In-line
	Consumer Confidence (Jan)	39.0	37.7	38.6	Weaker
	FOMC Rate Decision	0.25%	0.25%	0.25%	In-line
	Durable Goods (Dec)	-2.0%	-2.6%	-3.7%	Weaker
	Continuing Claims (w/e Jan 18)	4625K	4776K	4617K	Weaker
	New Home Sales (Dec) – mom	-2.5%	-14.7%	-4.4%	Weaker
	GDP (Annualised) (4Q)	-5.5%	-3.8%	-0.5%	Stronger
	Chicago Purchasing Manager (Jan)	34.9	33.3	35.1	Weaker
University of Michigan Confidence (Jan F)	61.9	61.2	61.9	Weaker	
Euro-zone	M3 Money Supply (Dec) – yoy	7.6%	7.3%	7.7%	Weaker
	Business Climate Indicator (Jan)	-3.5	-3.2	-3.1	Weaker
	Economic Confidence (Jan)	65.4	68.9	70.4	Stronger
	CPI Estimate (Jan) – yoy	1.4%	1.1%	1.6%	Weaker
	Unemployment Rate (Dec)	7.9%	8.0%	7.9%	Weaker
UK	Nationwide House Prices (Jan) – mom	-1.7%	-1.3%	-2.5%	Stronger
	GfK Consumer Confidence (Jan)	-35	-37	-33	Weaker
	Net Consumer Credit (Dec)	0.7B	0.3B	0.7B	Weaker
	Mortgage Approvals (Dec)	26K	31K	27K	Stronger
Asia Ex-Japan					
<i>South Korea</i>	Industrial Production (Dec) – mom	-4.0%	-9.7%	-10.7%	Weaker
<i>Singapore</i>	Unemployment Rate (4Q)	2.8%	2.6%	2.2%	Stronger
	M2 Money Supply (Dec) - yoy	-	12.0%	11.8%	-
<i>Hong Kong</i>	Exports (Dec) – yoy	-9.1%	-11.4%	-5.3%	Weaker
	Imports (Dec) – yoy	-12.0%	-16.2%	-7.9%	Weaker
	M3 Money Supply (Dec) - yoy	-	1.2%	-11.9%	-
<i>Malaysia</i>	M3 Money Supply (Dec) – mom	-	11.9%	12.5%	-
<i>Thailand</i>	Total Exports (Dec) – yoy	-	-15.7%	-17.7%	-
	Total Imports (Dec) - yoy	-	-8.8%	0.2%	-
	Manufacturing Production (Dec) - yoy	-8.2%	-18.8%	-7.7%	Weaker
	Total Capacity Utilisation (Dec)	-	58.9	59.4	-
<i>India</i>	Reverse Repo Rate	4.00%	4.00%	4.00%	In-line
<i>Philippines</i>	Total Imports (Nov) – yoy	-	-31.5%	-11.1%	-
	GDP (4Q) – qoq	0.6%	1.0%	1.2%	Stronger
	Overnight Borrowing Rate	5.00%	5.00%	5.50%	In-line
Japan	Corporate Service Price (Dec) – yoy	-2.4%	-2.5%	-2.0%	In-line
	Retail Trade (Dec) – mom	-0.8%	-2.0%	-0.1%	Weaker
	Jobless Rate (Dec)	4.1%	4.4%	3.9%	Weaker

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Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
Japan cont.	Household Spending (Dec) – yoy	-3.6%	-4.6%	-0.5%	Weaker
	National CPI (Dec) – yoy	0.4%	0.4%	1.0%	In-line
	Industrial Production (Dec P) – mom	-8.9%	-9.6%	-8.5%	Weaker
	Housing Starts (Dec) – yoy	-7.9%	-5.8%	0.0%	Stronger
Australia	NAB Business Confidence (Dec)	-	-20	-30	-
	Producer Price Index (4Q) – qoq	0.4%	1.3%	2.0%	Stronger
	Consumer Prices (4Q) – qoq	-0.4%	-0.3%	1.2%	In-line
	Private Sector Credit (Dec) – mom	0.5%	-0.3%	0.4%	Weaker

INTEREST RATE STRATEGY

The RBNZ failed to disappoint last week with another 150bp rate cut. It is now abundantly clear that the RBNZ is firmly on the front foot. Given the tone of global data, and the risks that lie ahead for the domestic economy, the risk is the RBNZ have a lot more work to do. Of course, their job will be made easier if the NZD continues to depreciate.

Market themes ...

- > The big question now is – how far will the RBNZ go? It's all about balancing the need to act quickly against the need to keep some powder dry. The currency will also play a role.
- > Swap rates remain biased to the downside, tracking OCR expectations. But that's becoming increasingly irrelevant for many, especially borrowers.
- > The threat of a credit ratings downgrade hangs over us. This will limit the degree to which everyday interest rates can fall.

Review and outlook ...

Monetary policy still has plenty of work to do. The OCR remains reasonably lofty by comparison with our OECD counterparts. As Governor Bollard reminded us on Friday *"the tool box is by no means empty"*, and if necessary, *"there is still room for us to cut the OCR further"*. While there are plenty of rate cuts already priced in, there are no obvious sign of "things" improving. As such, history is likely to repeat. So far the pattern has been like so: after each rate cut, the market front-loads easings and tries to price in a base. As the next RBNZ meeting edges nearer, the market has tended to up the ante, and price in deeper cuts, and in the event, the RBNZ has trumped the market. And while there is a limit to how much lower the OCR can go, what's really going to change pricing is the prospect of the OCR staying low for an unusually long period. There is a good case to be made for slowing the pace of easing on the grounds that monetary policy should respond to the cycle, and not to structural shifts (we do need to come out of this downturn in better shape than we went in). However, political pressure will mount while the RBNZ still has some "ammo" left. The currency will play a key role too, but while interest rates remain high relative to our peers, it will still have some friends. After all, 3.5 percent is better than zero.

Funding pressures are also set to be an issue should NZ get downgraded. If that does occur, funding costs could rise even more placing immense pressure on the RBNZ to cut rates further in a bid to keep interest rates at palatable levels.

Borrowing strategies we favour at present

It is now getting very tempting to extend duration. Interest rates are not only extremely low by historical standards, but some would say there's enough easing now priced in. Still, we're not convinced, and we favour remaining floating. As we have long argued, the level of interest rates can easily be justified by the current environment. And while the market is pricing in an OCR end-point of around 2.25 percent, the path lower is gradual beyond March, with rate hikes priced in for 2010. This suggests there is scope for swap rates to continue to fall as the "L-shaped" recovery gets priced in. If there is anything the past six months has taught us, it's that policy rates are headed lower faster. And with no credible signs of recovery in sight, there is no case to be made (apart from the fact that we will eventually see a recovery) for policy rates to rise anytime soon. Finally, let's not forget pressures on cash-flow, and pressure on borrowing costs, both of which argue for flexibility.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔/↓	They didn't disappoint, and won't if things get uglier.
NZ data	↓	One word: awful. HLFs to continue that theme.
Fed Funds/ front end	↔	Quant Easing on the agenda, BOE joining in now too.
RBA	↔	Unlikely to disappoint.
US 10 year	↔/↑	Supply becoming an issue.
NZ swap curve	↔/↓	Bull steepening, reinforced by increased NZGS issuance, possible credit downgrade.
Flow	↓	Corporate payers still shy, "the street" still receiving.
Technicals	↓	Break of 3% in 2y looms ...

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 12-Mar-09	-64	-75
Thu 30-Apr-09	-84	-117
Thu 11-Jun-09	-91	-123
Thu 30-Jul-09	-99	-125
Thu 10-Sep-09	-100	-124
Thu 29-Oct-09	-107	-122
Thu 10-Dec-09	Not forecast	-122

Trading themes we favour at present

The bulk of the easing that's priced in is slated for March. We agree with the spirit of another large move in March, but if they do, they're unlikely to stop abruptly there. Similarly, if the RBNZ slow the pace of easing, it implies spreading the cuts more evenly. Consider 2mth – 6mth OIS inverters.

CURRENCY STRATEGY

With NZ yields set to fall further, the NZD's attractiveness continues to fade. A short-squeeze move higher is possible in the near-term, but this is only postponing the inevitable. AUD weakness on the back of another big RBA rate cut will assist the NZD's move lower.

Market themes...

- > RBNZ cuts big and prepared to do more, citing the "tool box is by no means empty".
- > Further weak global data sparking more safe haven flows, benefiting the USD and JPY.
- > Rebound in commodities, especially gold, not benefiting the AUD.
- > Market awaits details of Obama's plan to revive credit markets.

Review and outlook...

The attractiveness of the NZD's yield advantage is fast fading. The RBNZ's surprise 150bp cut last week, and a preparedness to cut more now that inflation is no longer an issue, has seen a massive narrowing in yield differentials. Particularly against the USD, which has seen a selloff in longer-date US bonds on the back of issuance concerns. Faced with a loss of yield attractiveness, still widening external imbalances based on last week's trade balance data, no signs of a recovery from recession, and a potential credit downgrade overhanging the currency to boot, it is difficult to be bullish on the NZD. Indeed, CFTC data showed an increase in net short positions in the NZD by real money managers last week, and we can expect more participants to jump on the shorting bandwagon.

But as we have seen so many times in the past, when too many get on one side of a trade too quickly, there is the potential for a short squeeze higher at some point. Especially after such a big run down, with the NZDUSD falling over 12 percent over January already. Still, sentiment is certainly against the NZD, especially with ongoing global uncertainty seeing the USD benefiting from safe haven flows.

We have been looking for a move lower in the NZDAUD cross for some time, and this move has finally occurred over the past couple of weeks. After passing through several key support levels, this cross may be in for a period of consolidation. A break of the 0.80 level was significant, and this support level has now become a key resistance level. With the RBA decision tomorrow likely to weigh on the AUD alongside recession fears, we may have to wait a while for another big push lower in the NZDAUD cross. We still expect a test of last

year's 0.7750 lows at some stage in the coming months. AUD weakness will certainly drag on the NZD. The big key data event for the NZD this week is the Q4 labour market data. With confirmation of a deteriorating labour market and a move higher in the unemployment rate, key support levels in the NZD is expected to be put to the test this week.

Technically, the NZD has broken support and now should be sold on any rally approaching 0.5175. First support at 0.5050 should give way to target 0.4950 later in the week. NZDAUD cross should top out between 0.8000 and 0.8130 with a retest of recent lows seen around 0.7800.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↔/↓	100bp from RBA possible this week.
Commodities	↔/↓	Commodities staging a rally but more in AUD's favour.
Partial indicators	↓	NZ indicators worse for now.
Technicals	↓	Top between 0.8000 and 0.8130.
Sentiment	↓	Risk appetite low.
Other	↓	Race to the cash rate bottom between RBNZ and RBA.
On balance	↔/↓	Further declines expected, though near-term consolidation likely.

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models in this environment. They say low 0.50s.
Fair value – short-term	↔	Slightly below our cyclical fair value level.
Yield	↓	Differential still narrowing.
Commodities	↓	NZ's commodity basket not joining the global rally.
Risk aversion	↔/↓	High on the back of global recession concerns.
Partial indicators	↔	NZ's starting to compete with the US's.
Technicals	↔/↓	0.4950 the target.
AUD	↔/↓	Down on recession fear.
Sentiment	↔/↓	Very poor.
Other	↔/↓	USD higher on risk aversion flows.
On balance	↔/↓	Next leg lower

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
2-Feb	NZ	Labour Cost Private Sector Wage (4Q) - qoq	0.8%	1.1%	10:45
		QES Private Wages ex Overtime (4Q) – qoq	0.6%	1.2%	10:45
	AU	AiG Performance of Mfg Index (Jan)	-	33.7	11:30
		TD Securities Inflation (Jan) – mom	-	-0.2%	12:30
		HIA New Home Sales (Dec) – mom	-	-	12:30
		House Price Index (4Q) – qoq	-1.0%	-1.8%	13:30
		RBA Commodity Index SDR (Jan) – yoy	-	34.4%	18:30
	JN	Vehicle Sales (Jan) – yoy	-	-22.3%	18:00
	GE	PMI Manufacturing (Jan F)	32.0	32.0	21:55
	EC	PMI Manufacturing (Jan F)	34.5	34.5	22:00
	UK	PMI Manufacturing (Jan)	34.5	34.9	22:30
3-Feb	EC	ECB's Gonzalez-Paramo Speaks in Barcelona	-	-	01:00
	US	Personal Income (Dec)	-0.4%	-0.2%	02:30
		Personal Spending (Dec)	-0.9%	-0.6%	02:30
		PCE Deflator (Dec) - yoy	1.0%	1.4%	02:30
		PCE Core (Dec) – mom	0.0%	0.0%	02:30
		PCE Core (Dec) - yoy	1.7%	1.9%	02:30
		ISM Manufacturing (Jan)	32.5	32.9	04:00
		ISM Prices Paid (Jan)	18.0	18.0	04:00
		Construction Spending (Dec) - mom	-1.2%	-0.6%	04:00
	JN	Monetary Base (Jan) - yoy	-	1.8%	12:50
		Labour Cash Earnings (Dec) – yoy	-1.5%	-0.70%	14:30
	AU	Trade Balance (Dec)	1050M	1448M	13:30
		RBA Cash Rate Announcement	3.25%	4.25%	16:30
	UK	PMI Construction (Jan)	29.0	29.3	22:30
	EC	PPI (Dec) - mom	-1.2%	-1.9%	23:00
4-Feb	US	Pending Home Sales (Dec) – mom	0.0%	-4.0%	04:00
	NZ	Visitor Arrivals (Dec)	-	0.8%	10:45
		ANZ Commodity Price (Jan)	-	-7.4%	15:00
	AU	AiG Performance of Service Index (Jan)	-	39.3	11:30
		Retail Sales Trend (Dec) – mom	0.3%	0.1%	13:30
		Retail Sales s.a. (Dec) - mom	1.0%	0.4%	13:30
		Building Approvals (Dec) - mom	2.0%	-12.8%	13:30
	UK	Nationwide Consumer Confidence (Jan)	45	47	13:01
		PMI Services (Jan)	40.3	40.2	22:30
		Official Reserves (Changes) (Jan)	-	\$1534M	22:30
	GE	PMI Services (Jan F)	45.4	45.4	21:55
	EC	PMI Services (Jan F)	42.5	42.5	22:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
4-Feb cont.	EC	PMI Composite (Jan F)	38.5	38.5	22:00
		Retail Sales (Dec) - mom	-0.2%	0.6%	23:00
5-Feb	US	ADP Employment Change (Jan)	-530K	-693K	02:15
		ISM Non-Manufacturing Composite (Jan)	39.0	40.1	04:00
	NZ	Unemployment Rate (4Q)	4.6%	4.2%	10:45
		Employment Change (4Q) - qoq	-0.7%	0.1%	10:45
	JN	BoJ Board Member Atsushi Mizuno to Speak in Gifu City	-	-	14:30
6-Feb	GE	Factory Orders (Dec) - mom	-2.5%	-6.0%	00:00
	UK	BoE Interest Rate Announcement	1.00%	1.50%	01:00
		PPI Input (Jan) - mom	0.5%	-2.0%	22:30
		PPI Output (Jan) - mom	-0.1%	0.0%	22:30
		PPI Output Core (Jan) - mom	0.1%	0.2%	22:30
		Industrial Production (Dec) - mom	-1.2%	-2.3%	22:30
	EC	ECB Interest Rate Announcement	2.00%	2.00%	01:45
		Trichet Speaks at ECB Monthly News Conference	-	-	02:30
	US	Non-Farm Productivity (4Q)	1.2%	1.3%	02:30
		Unit Labour Costs (4Q)	3.0%	2.8%	02:30
		Initial Jobless Claims (w/e Feb 1)	580K	588K	02:30
		Continuing Claims (w/e Jan 25)	4790K	4776K	02:30
		Factory Orders (Dec)	-3.0%	-4.6%	04:00
		Fed's Bullard Speaks to Financial Analysts in Missouri	-	-	07:00
		Fed's Stern Speaks in Minnesota on Macro, Financial Policy	-	-	08:00
	AU	AIG Perf of Construction Index (Jan)	-	32	11:30
		RBA Quarterly Monetary Policy Statement	-	-	13:30
		Foreign Reserves (Jan)	-	47.5B	18:30
	JN	Leading Index CI (Dec P)	79.0	81.3	18:00
		Coincident Index CI (Dec P)	92.3	94.9	18:00
7-Feb	GE	Industrial Production (Dec) - mom	-2.5%	-3.1%	00:00
	US	Change in Non-Farm Payrolls (Jan)	-530K	-524K	02:30
		Unemployment Rate (Jan)	7.5%	7.2%	02:30
		Average Hourly Earnings (Jan) - mom	0.2%	0.3%	02:30
		Average Weekly Hours (Jan)	33.3	33.3	02:30
		Consumer Credit (Dec)	-\$4.0B	-\$7.9B	09:00
		Fed's Yellen Speaks in Hawaii to Bank Directors	-	-	11:45
	EC	ECB's Gonzalez-Paramo Speaks in Granada, Spain	-	-	06:00
	UK	NIESR GDP Estimate (Jan)	-	-1.5%	13:01

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 labour market data is the focus this week and it is expected to be very weak, highlighting another leg of vulnerability for the domestic economy. We struggle to see other data highlighting anything other than a domestic economy that is yet to find a base.

Date	Data/Event	Economic Signal	Comment
Mon 2 Feb (10.45)	LCI & QES (Dec quarter)	Wage growth still elevated, but at its peak	Wage growth is likely to have peaked.
Thu 5 Feb (10.45)	HLFS (Dec quarter)	Continuing to turn	This has the potential to be a nasty one. We expect employment to fall and for the unemployment rate to rise sharply.
Thu 12 Feb (10.45)	Food Price Index (Jan)	Easing	While volatile on a monthly basis due to weather and seasonal aspects, annual food price inflation is likely to have peaked given lower global commodity prices.
Fri 13 Feb (10.45)	Retail Trade Survey (Dec)	Anecdotes suggest subdued	While we will wait for the credit card data to make a final call, anecdotes from the Christmas shopping period were mixed. People still spent, but on cheaper goods. We expect another weak result.
Mon 16 Feb (10.45)	Producer Price Index (Dec qtr)	Passed the peak	Like with the CPI, producer price inflation is likely to have peaked. We expect output prices to fall by around 0.6 percent, and input prices to be relatively flat – still indicative of margin pressure.
Wed 25 Feb (15.00)	RBNZ Survey of Expectations (Mar qtr)	Inflation concerns easing	Expectations of future inflation outcomes are expected to fall in light of declining headline inflation. We think the key 2-year ahead reading will fall from 2.7 percent to 2.2 percent
Thu 26 Feb (10.45)	Overseas Merchandise Trade (Jan)	Watching export levels	A monthly trade deficit is expected. However, we will be watching the absolute level of exports given the weakness in the global economy and slowing in global trade flows.
Thu 26 Feb (15.00)	NBNZ <i>Business Outlook</i> (Feb)	-	-
Thu 26 Feb (15.00)	Credit Growth (Jan)	De-leveraging	Household credit growth is expected to remain very weak, as households de-leverage and balance sheet repair continues.
Fri 27 Feb (10.45)	Building Consents (Jan)	Another record low?	Residential consent issuance could start to stabilise at these very depressed levels. However, we expect commercial consent issuance to now also trend lower.
Fri 27 Feb (10.45)	External Migration (Jan)	Visitor arrivals heading downhill	Another net outflow of permanent migration cannot be ruled out for the month. Visitor arrivals are also expected to continue to head lower in the face of the global economic slowdown.
On Balance		Flow-on from the global scene starting to appear in the dataflow.	Weakness extending into early 2009.

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
GDP (% qoq)	0.8	-0.3	-0.2	-0.4	-0.6	-1.0	-0.3	0.0	0.2	0.6
GDP (% yoy)	3.7	2.1	1.0	-0.1	-1.5	-2.2	-2.3	-1.9	-1.1	0.5
CPI (% qoq)	1.2	0.7	1.6	1.5	-0.5	0.0	0.8	0.6	0.7	0.5
CPI (% yoy)	3.2	3.4	4.0	5.1	3.4	2.7	1.9	0.9	2.1	2.6
Employment (% qoq)	0.9	-1.3	1.3	0.1	-1.5	-1.0	-0.6	-0.5	-0.2	0.0
Employment (% yoy)	2.5	-0.2	0.7	1.0	-1.4	-1.1	-3.0	-3.6	-2.3	-1.3
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.7	5.2	5.7	6.1	6.6	6.9
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.6	-8.9	-8.8	-7.7	-7.0	-6.5	-6.5
Terms of Trade (% qoq)	2.9	4.2	-0.4	-2.3	-3.1	-1.6	-1.7	-1.6	-1.1	-0.7
Terms of Trade (% yoy)	8.8	11.6	10.7	4.4	-1.8	-7.2	-8.5	-7.8	-5.9	-5.0

KEY ECONOMIC INDICATORS

	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Retail Sales (% mom)	1.2	-1.2	0.9	-0.7	0.3	0.4	-1.3	0.0
Retail Sales (% yoy)	4.1	1.0	1.5	2.5	-0.9	2.2	0.7	-4.1
Credit Card Billings (% mom)	-0.3	0.4	-0.1	0.1	-0.4	1.3	-1.7	-1.0	-2.2	..
Credit Card Billings (% yoy)	5.5	6.0	3.9	4.2	2.4	2.5	1.0	-0.9	-3.9	..
Car Registrations (% mom)	12.2	-14.0	1.4	-7.2	-3.4	10.9	-0.4	-20.0	14.1	..
Car Registrations (% yoy)	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	..
Building Consents (% mom)	81.9	-42.3	-12.6	-1.8	-6.8	8.4	-19.2	4.0	-5.9	..
Building Consents (% yoy)	30.5	-26.8	-46.0	-34.4	-43.1	-28.3	-43.1	-39.5	-41.0	..
REINZ House Price (% yoy)	-1.1	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	..
Household Lending Growth (% mom)	0.3	0.5	0.2	0.3	0.4	0.2	0.1	-0.1	0.2	..
Household Lending Growth (% yoy)	9.9	9.2	8.4	7.7	7.2	6.6	5.8	4.7	4.2	..
Roy Morgan Consumer Confidence	99.9	89.2	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7
NBNZ Business Confidence	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..
NBNZ Own Activity Outlook	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..
Trade Balance (\$m)	-293	-169	-215	-797	-848	-1252	-995	-588	-347	..
Trade Balance (\$m annual)	-4604	-4782	-4478	-4468	-4369	-5048	-5269	-5230	-5615	..
ANZ World Commodity Price Index (% mom)	-0.3	0.9	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	..
ANZ World Commodity Price Index (% yoy)	20.7	18.7	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	..
Net Migration (sa)	500	960	460	780	360	-20	-20	-590
Net Migration (annual)	4666	4931	4732	5201	4938	4403	4329	3569

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)						
	Dec-08	Jan-09	2-Feb-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
NZD/USD	0.557	0.516	0.508	0.500	0.450	0.430	0.410	0.420	0.430	0.440
NZD/AUD	0.831	0.788	0.799	0.794	0.776	0.768	0.759	0.778	0.768	0.759
NZD/EUR	0.414	0.397	0.397	0.400	0.375	0.364	0.360	0.382	0.410	0.419
NZD/JPY	50.9	46.3	45.6	44.0	38.7	36.6	34.9	36.1	37.8	39.6
NZD/GBP	0.373	0.361	0.351	0.357	0.341	0.331	0.328	0.336	0.344	0.349
NZ\$ TWI	55.1	51.8	51.6	51.0	47.2	45.5	44.3	45.8	47.3	48.3
NZ interest rates	Dec-08	Jan-09	2-Feb-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
OCR	5.42	3.50	3.50	2.75	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	5.22	3.77	3.55	3.20	2.90	2.80	2.80	2.80	3.60	4.60
10 year bond	4.87	4.22	4.35	4.30	4.60	4.70	4.80	5.20	5.20	5.70
International	Dec-08	Jan-09	2-Feb-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50
US 3-mth	1.43	1.18	1.18	1.20	0.90	0.70	0.50	0.70	1.25	1.75
AU cash	4.25	4.25	4.25	3.00	2.75	2.50	2.50	2.50	2.50	3.50
AU 3-mth	4.15	3.46	3.41	3.50	2.80	2.80	2.80	3.20	3.90	4.40

KEY RATES

	30 Dec	26 Jan	27 Jan	28 Jan	29 Jan	30 Jan
Official Cash Rate	5.00	5.00	5.00	5.00	3.50	3.50
90 day bank bill	5.15	4.14	4.00	3.99	3.77	3.66
NZGB 07/09	3.95	3.33	3.40	3.40	3.35	3.34
NZGB 11/11	4.19	3.43	3.45	3.44	3.40	3.35
NZGB 04/13	4.29	3.71	3.73	3.71	3.68	3.69
NZGB 12/17	4.63	4.25	4.27	4.26	4.22	4.32
2 year swap	4.32	3.53	3.49	3.51	3.32	3.25
5 year swap	4.65	4.00	3.99	4.01	3.91	3.87
RBNZ TWI	56.5	53.4	52.9	52.8	52.2	51.6
NZD/USD	0.5814	0.5283	0.5291	0.5298	0.5210	0.5103
NZD/AUD	0.8397	0.8074	0.7977	0.7975	0.7857	0.7908
NZD/JPY	52.54	47.11	47.37	47.22	47.03	45.71
NZD/GBP	0.4007	0.3873	0.3766	0.3728	0.3673	0.3588
NZD/EUR	0.4122	0.4091	0.3996	0.4003	0.3970	0.3953
AUD/USD	0.6924	0.6543	0.6633	0.6643	0.6631	0.6453
EUR/USD	1.4105	1.2914	1.3241	1.3235	1.3122	1.2908
USD/JPY	90.36	89.18	89.53	89.12	90.26	89.57
GBP/USD	1.4508	1.3639	1.4050	1.4213	1.4186	1.4223
Oil	46.17	45.12	46.50	41.67	42.04	41.58
Gold	875.20	890.40	903.00	895.65	883.85	902.15
Electricity (Haywards)	2.54	4.46	9.89	15.93	3.74	4.70
Milk futures (US\$/contract)	86	84	84	84	84	84
Baltic Dry Freight Index	n/a	995	1004	1014	1036	1070

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.
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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.

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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.

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

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