

## LABOUR PAINS

### NZ Economics Team:

#### Cameron Bagrie

Chief Economist  
Telephone: +64 4 802 2212  
E-mail: [bagrie@anz.com](mailto:bagrie@anz.com)

#### Khoon Goh

Senior Markets Economist  
Telephone: +64 4 802 2357  
E-mail: [gohk@anz.com](mailto:gohk@anz.com)

#### David Croy

Interest Rate Strategist  
Telephone: +64 4 802 2286  
E-mail: [croyd1@anz.com](mailto:croyd1@anz.com)

#### Philip Borkin

Economist  
Telephone: +64 4 802 2199  
E-mail: [borkinp@anz.com](mailto:borkinp@anz.com)

#### Steve Edwards

Economist  
Telephone: +64 4 802 2217  
E-mail: [edwards1@anz.com](mailto:edwards1@anz.com)

#### Kevin Wilson

Rural Economist  
Telephone: +64 4 802 2361  
E-mail: [wilsonk1@anz.com](mailto:wilsonk1@anz.com)

### Page 2: Economic overview

- > While poor, the labour market data did not paint the unequivocally weak picture we were expecting. But we are viewing it as a matter of timing and statistical noise. A higher unemployment rate risks setting off non-linear type responses from households, making the RBNZ's job of supporting the economy that much harder. Data this week will continue to highlight a very weak domestic economy.

### Page 4: Economic comment – monthly inflation gauge

- > Our experimental monthly inflation gauge recorded a 0.4 percent increase in January, with tax related adjustments accounting for part of the increase. Price increases are still strong in certain services areas - likely a lagged effect from a strong labour market - but appear well contained in others.

### Page 5: Economic comment – dairy payout for beginners

- > Fonterra announced 12 days ago that the forecast payout for the 2008/09 season was reduced from \$6.00 per kilogram milk solids (/kg ms) to \$5.10. In addition, the value-add payment due in April 2009 is deferred to October 2009. A reduction in the forecast was not unexpected but the magnitude of the fall will have still surprised some. We need to understand how the payout is structured to fully appreciate how the cash flow impacts, which are significant, roll into the 2009/10 season, with consequential effects on rural spending.

### Page 7: Economic comment – global watch

- > US data showed some improvement last week, although it remains very weak. Global trade and industrial production data remains poor.

### Page 9: Interest rate strategy

- > A run of stronger than expected data releases here and overseas has rattled the market. Some are wondering if the RBNZ may slow the pace of easing, and take a more cautious approach. They may well do so and we have some niggling concerns over how low rates can go given our reliance on offshore capital. But for now, we are viewing the sell-off as position cleansing with a bias for yields still lower given the global and domestic backdrop.

### Page 10: Currency strategy

- > Volatile risk appetites, commodity prices and sentiment towards the USD continue to leave the NZD range-bound. At this junctures it's hard to go past the bigger picture of an inevitable rebalancing process, which requires a lower currency, and this continues to drive our medium-term view. Rallies remain a sell.

### Page 11: Currency comment – effective exchange rates

- > Conditions in the dairy sector have moved into "restrictive" territory for the first time since the end of 2006. The forestry and crude sectors are also experiencing "restrictive" conditions. The seafood industry continues to face the most "enhancing" conditions, while conditions for the meat, manufacturing and services sectors are broadly neutral.

### Page 13: Data and event calendar

### Page 15: Data watch

### Page 16: Key forecasts

## ECONOMIC OVERVIEW

While poor, the labour market data did not paint the unequivocally weak picture we were expecting. But we are viewing it as a matter of timing and statistical noise. A higher unemployment rate risks setting off non-linear type responses from households, making the RBNZ's job of supporting the economy that much harder. Data this week will continue to highlight a very weak domestic economy.

### What's ahead?

- > **REINZ January House Sales** (circa 11 February). House sales could potentially show further stabilisation around current levels. However, we expect house prices to remain under downward pressure.
- > **January Electronic Card Transactions** (Wednesday 1045 NZDT).
- > **December Retail Sales** (Friday 1045 NZDT). Following November's surprising strength (in a relative sense) we expect retail spending to fall sharply in December. Headline sales are expected to fall 1.4 percent and core sales 0.7 percent.

### What's the view?

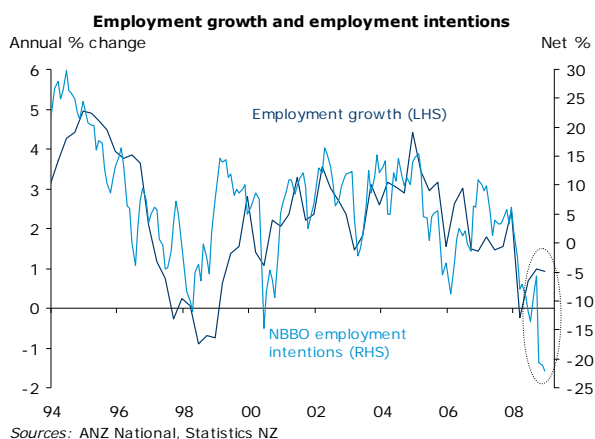
The December quarter labour market data was clearly the major focus for markets and economy watchers last week. Many (including ourselves) were expecting the data to be unequivocally weak.

As it turned out, the data was mixed. The unemployment rate rose to a five year high of 4.6 percent, and for the first time since a brief period in 1999 (and before that 1991/92) NZ has a higher unemployment rate than that of Australia. Total hours worked in the quarter tumbled 1.9 percent – reinforcing the likelihood of another contraction in GDP, and not a small one. Wage growth also appears to have peaked, with annual growth in the Labour Cost Index measure of private sector wages falling from 3.7 percent to 3.2 percent. What provided the spanner for those anticipating universal weakness was a 0.9 percent increase in employment, largely driven by part-timers. Despite the economy in recession throughout 2008, an extra 20,000 jobs were added during the year.

So what do we make of it all? Like most we were left scratching our heads. One possible explanation is that firms are still hoarding labour, but working them a lot less (the fall in hours worked definitely fits with this). To some extent, the labour hoarding story is comforting to a degree, as it implies employers and employees are being very flexible in managing the downturn. Better to work less and

still have a job, than to join the ranks of the unemployed.

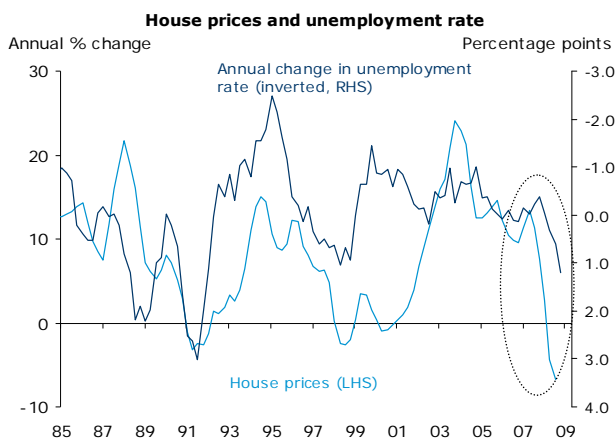
But what about the dichotomy between what business surveys are telling us and the data? Is the data wrong, or is it that businesses are not following through with their intentions. While the data is notoriously volatile, the answer is probably neither and instead it is just an issue of timing. We expect the employment data to "catch up" in the coming quarters and have pencilled in a reasonable retracement in employment growth in the March quarter. Looking at the standard deviation of the quarterly change in employment over the past 5 years from the Household Labour Force Survey, at a rather large 0.7 percent, we have to wonder about the performance of the survey. It seems unbelievable that the sharp change from quarter to quarter is actual job creation and destruction. So rather than focus on the components, we'll continue to monitor the unemployment rate.



We see the unemployment rate rising quite sharply over 2009 as the demand picture dominates and we find it hard to go against either the spirit of what employment intention surveys are telling us, or the anecdotes we continue to pick up on our travels.

Now we have to note that in a lot of instances, any projected rise in the unemployment rate is being over-dramatised. For sure, the unemployment rate rising from 4.6 percent at present to potentially over 7 percent is not healthy. But it does not involve another 60K people losing their jobs. The unemployment rate is driven by supply (people joining the job market) and demand. The former may be contained by additional people returning to training, and seeking education. Conversely, pressure on households may see more workers choose (or be forced) to remain in the labour force leading to a higher participation rate than would typically be the case. Altering tax rates may also encourage more to enter the labour force. But one reason the unemployment rate will move higher is because a lot of people cannot get jobs and join the labour force and this is distinct from actually losing one.

A dynamic we continue to assess are the non-linear type influences in every economic cycle and whether you have a job or not (and perception you can get one), and its consequential flow-on is top of the list. Economists are notorious for under-estimating booms and of course the flipside. Business cycle models are typically built on linear type dynamics, when in reality we know they don't always hold. The problem with the non-linear aspects to the economic cycle is that it's virtually impossible to assess when the "tipping point" will occur. The classic example here is the housing market. Conventional wisdom (and valuation metrics) was that it should have peaked at least four years ago, yet it moved further into uncharted territory, as non-linear dynamics such as: perceived job security, phenomenal risk appetites, credit, and booming rural land prices took over. These are exactly the same aspects that are setting off vicious reciprocal effects, making it difficult to stabilise the economy. These sorts of dynamics are one reason we sit at the bottom end of consensus over the coming year (GDP contracting 2 percent over 2009 and there is more downside risk).



Looking to the week ahead, the major domestic data out this week is the retail trade survey for December. Following last month's surprise (where spending was flat) we expect the weakness to "shift" to December. Part of this will just be inter-month statistical noise. However, both credit card statistics and Electronic Card Transactions (ECT) fell in the month (quite sharply in the case of the former). With motor vehicle sales expected to reverse last month's strength and lower petrol prices reducing the value spent at fuel outlets, we expect headline sales to tumble 1.4 percent. However, weakness is not expected to just be limited to motor vehicle related industries, with core sales expected to fall a relatively large 0.7 percent. The data should reinforce that a period of household de-leveraging is well underway. In addition, the quarterly volume numbers will also be released at the same time. For the first three quarters of last year, retail sales volumes contracted (as did GDP). We expect another

contraction (by 0.5 percent) and for this to again lay the ground work for a fourth consecutive contraction in GDP.

The other releases next week are REINZ house sales and also ECT data for January. The former could possibly show further evidence of stabilisation in house sales, particularly as some may be encouraged to enter the market given the sharply lower mortgage rates. However, it is the number of days to sell and the median house price we will be watching closely, with both expected to show the market remains very depressed. A gap has developed between REINZ house prices and Quotable Value house prices (with the latter down 8.3 percent in January) and we expect the REINZ numbers to eventually converge to the downside.

The ECT data is volatile on a monthly basis, but will be one of the first pieces of hard data for 2009. We expect the underlying trend to remain weak given the economic backdrop.

Internationally this week, Australian January labour market data will be the major focus over the Tasman. Our Australian colleagues (and the market) expect the unemployment rate to rise to 4.7 percent. In Europe, a number of speeches are expected by ECB officials and these will be listened to closely following the ECB's decision to leave rates unchanged last week. For the US, retail sales data and a speech from Fed Chairman Bernanke will be important, as will any further news of the large US stimulus package.

### Recent local data...

- > **Labour Cost Index (December quarter):** Private sector ordinary time wage rates rose by 0.7 percent, taking annual growth from 3.7 percent to 3.2 percent.
- > **Quarterly Employment Survey (December quarter):** Private sector ordinary time hourly earnings rose by 0.8 percent. Seasonally adjusted paid hours fell 1.4 percent and actual filled jobs rose 0.4 percent.
- > **External Migration (December):** A net 270 people permanently migrated to NZ. Short-term visitor arrivals rose by 3.9 percent.
- > **ANZ Commodity Price Index (January):** Both the world price index and NZD price index fell by 4.3 percent.
- > **Household Labour Force Survey (December quarter):** Employment grew by 0.9 percent. However, a rise in the participation rate to 69.3 percent resulted in the unemployment rate rising to 4.6 percent.

## MONTHLY INFLATION GAUGE<sup>1</sup>

**Our experimental monthly inflation gauge recorded a 0.4 percent increase in January, with tax related adjustments accounting for part of the increase. Price increases are still strong in certain services areas - likely a lagged effect from a strong labour market - but appear well contained in others.**

Following five consecutive monthly increases of 0.2 percent, our experimental monthly inflation gauge rose by 0.4 percent in November. A rise in tobacco and cigarette prices, due to the annual indexation of excise taxes on 1 January, partly accounted for the increase. The indexation uses the September 2008 quarter CPI figure, which so happens to be the peak in annual inflation at 5.1 percent. Based on our estimates, the increase in tobacco and cigarette prices accounted for half of the 0.4 percent monthly increase in our inflation gauge.

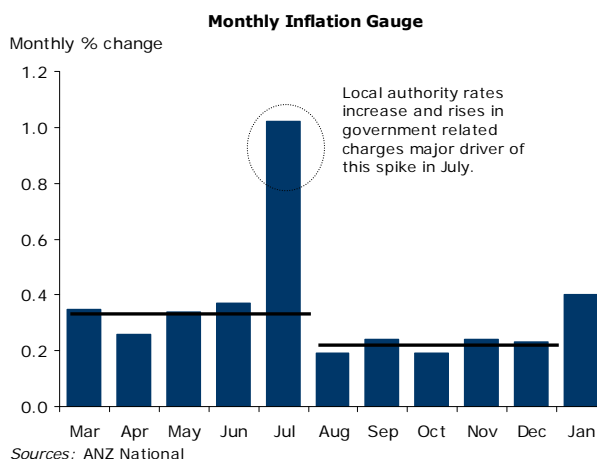
We recorded reasonable increases in beer and wine prices during January. There were also increases in medical and professional services prices, as well as insurance costs. Despite one electricity retailer announcing price increases from January, we did not pick up a strong rise during the month. However, this could be a timing issue in terms of when we did the survey. With more price increases being announced by electricity companies, we think January will prove to be only a temporary respite.

Rents continue to be flat, no doubt partly due to the additional rental stock becoming available from so called "accidental landlords" – people who have been unable to sell their houses purchased for capital gain or renovation (or unwilling to accept the prices being offered) and have therefore decided to rent them out instead. Our modelled measure of construction costs showed a small decline in the month.

Our inflation gauge has been fairly close to the official Statistics NZ non-tradable CPI print over the past three quarters (see table), which gives us confidence that we are on the right track. With January already off to a reasonably strong start, and some strong increases expected in February

from education fee increases, we may be looking at a stronger non-tradable CPI print in Q1, although seasonal aspects will obviously account for most of this. At this stage we fully expect weakness in other prices to provide an offset and non-tradable inflation to continue its easing trajectory. We will continue to closely monitor the individual components of our gauge – particularly service sector components.

	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Mar-08	0.4		1.1
Apr-08	0.3		
May-08	0.3		
Jun-08	0.4	1.0	0.9
Jul-08	1.0		
Aug-08	0.2		
Sep-08	0.2	1.4	1.3
Oct-08	0.2		
Nov-08	0.2		
Dec-08	0.2	0.7	0.8
<b>Jan-09</b>	<b>0.4</b>		



<sup>1</sup> Our monthly inflation gauge is intended to provide a timely indication of domestic inflation trends. For simplicity, we have limited ourselves to a domestic or non-tradable inflation measure. It should be noted that our monthly inflation gauge will not exactly mirror the official non-tradable CPI due to coverage and methodological issues. Our main priority is to come up with a gauge that is timely and able to provide an indication of domestic inflation trends. This will allow us to assess whether inflation pressures remain, or whether they are starting to ease. Our gauge, however, is designed to be as comparable as possible to the official Statistics NZ series. Note that our gauge is still in the experimental stages, and is subject to further refinements.

## DAIRY PAYOUT FOR BEGINNERS

Fonterra announced 12 days ago that the forecast payout for the 2008/09 season was reduced from \$6.00 per kilogram milk solids (/kg ms) to \$5.10. In addition, the value-add payment due in April 2009 is deferred to October 2009. A reduction in the forecast was not unexpected but the magnitude of the fall will have still surprised some. We need to understand how the payout is structured to fully appreciate how the cash flow impacts, which are significant, roll into the 2009/10 season, with consequential effects on rural spending.

### Background

Simplistically, the co-operative turns the milk into a saleable product, deducts costs and pays the residual to shareholder suppliers. The farmer supplier to a co-operative receives a proportional share (based on milk supplied) of a pooled annual net profit from the co-operative.

The co-operative announces a forecast payout for the coming financial year prior to the start of the season. A profile of advance payments is established with the forecast. The advance profile extends beyond the end of the financial year of the co-operative because it takes a couple of months to close off and prepare the annual accounts and hence determine the final profit available to pay suppliers.

The initial advance is about 60 percent of the forecast annual price. At this point, the co-operative only pays an advance and not the full forecast price for cash flow and risk reasons.

The forecast payout is increased if market returns are better than expected. The advance rates are

also increased. Privately owned dairy companies (Open Country Cheese, Synlait etc) run the same payment policy for the same reasons.

The converse also applies. If the market does not deliver and the forecast has to be reduced then the advance payments will not increase as fast, not at all, or in a worst case scenario, clawed back (e.g. as Fonterra is likely to have done for milk supplied in July, August and September and as Westland announced in December 2008).

The co-operative pays for milk on the 20th of the month following supply. As the advance rates are increased (usually from about January onwards) retrospective payments are also made on the milk supplied to season to date. The balance of payments owing for milk supplied for the season continue monthly until October. Hence the average dairy farmer milks their cows from August to May, but is actually paid over 14 months, as the last leg of payment spreads into the next season.

### Fonterra announcements 12 days ago

- > The forecast payment was reduced from \$6.00/kilogram milk solids (kg ms) to \$5.10.
- > The advance payment profile was reduced.
- > The timing of increases in the advance profile was extended.
- > The April value-add payment (a Fonterra quirk compared to other co-operatives) is deferred until October.
- > The value of the fair value share will not be reviewed at this time.

The following table shows the four forecast advance profiles for milk for the 2008/09 season.

Forecast Date (Paid 20 <sup>th</sup> )	May 2008 \$7.00	Sept 2008 \$6.60	Nov 2008 \$6.00	Jan 2009 \$5.10
Jul-08	4.30	4.30	4.30	4.30
Aug-08	4.30	4.30	4.30	4.30
Sep-08	4.30	4.30	4.05	4.05
Oct-08	4.30	4.05	4.05	4.05
Nov-08	4.30	4.05	4.05	4.05
Dec-08	4.30	4.05	4.05	4.05
Jan-09	4.30	4.05	4.05	4.05
Feb-09	4.65	4.40	4.05	4.05
Mar-09	4.65	4.40	4.05	4.05
Apr-09	5.00	4.70	4.05	4.05
May-09	5.00	4.70	4.20	4.05
Jun-09	5.30	4.95	4.45	4.05
Jul-09	5.65	5.30	4.75	4.20
Aug-09	6.00	5.65	5.05	4.30
Sep-09	6.30	5.90	5.30	4.40
Oct-09	6.65	6.25	5.60	4.65
<b>Value-add</b>				
April-09	0.15	0.20	0.20	
Oct-09	0.35	0.15	0.20	0.45
<b>Total</b>	6.65+0.15+0.35	6.25+0.20+0.15	5.60+0.20+0.20	4.65+0.45

Cash payments for milk produced in the 2008/09 production season extend into the next season. This provides critical cash flow to offset months when milk is not produced.

The farmer gets paid the advance rate on the 20<sup>th</sup> of the month for milk produced in the previous month. As the advance increases you get paid more for production each month. But retrospective payments are made on all milk produced for the season to date. Milk production usually ceases in May but payments continue through to October. The amount paid in these months is the increase in the advance multiplied by total production for the previous season.

In terms of the announcements themselves, the net effects are:

- > The milk revenue of the dairy farmer whose financial year ends 31 May will be \$0.75/kg ms less than they were expecting on the \$6 forecast (\$0.15 less for May, \$0.40 less in June and no value-add in April).
- > The deferred payments i.e. money received after the end of the farmers' financial year will be \$0.50/kg less (the effect of pushing out all the value-add to October). That is, it carries into next season.

No decision has been made on the amount of retention (if any).

### The implications

An unappreciated aspect to the dairy payout is the spread of payment over effectively 14 months. Hence, a lower forecast impacts both cash-flows today, but also heading into the coming season. Can dairy farmers now reduce costs for the rest of the 2008/09 season given that supplementary feed costs for instance are now fixed and two thirds of the financial year has already gone?

Arguably it is the cash flow in the new season that will be more influential on the New Zealand economy. What will be the initial advance for the 2009/10 season? An advance of \$3.00 would be in the offing if the forecast for 2009/10 was similar to a confirmed result for 2008/09 at \$5.10. That would be around a dollar less than the current advance. Second, the traditional timing of increases in the advance payout during the season may also be delayed if the outlook remains very uncertain, further adding to the cash flow pressure of farmers. Pushing out the 2008/09 value-add is one way of softening a low advance in 2009/10.

The outcome will be an even sharper cut back in discretionary expenditure by dairy farmers in 2009 and 2010 than previously forecast, at a time when the rest of the economy is also expected to be struggling.

### The bottom line

Lower cash-flow to the dairy sector is a key channel the global crisis, and the transmission via lower commodity prices, will impact on the economy. The hinterland has typically underperformed in global recessions and we expect this cycle to be no different. In terms of the real impact on cash-flow, we expect this to be felt from the September quarter.

## GLOBAL WATCH

US data showed some signs of improvement last week, with ISM surveys increasing from previous depressed levels. However, the actual levels remain very low and still indicative of a contracting economy. A higher unemployment rate also suggests the economy is far from out of the woods yet. In other data, the central theme is clearly one of Asian trade flows capitulating, while global industrial production is also very weak.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market	
<b>US</b>	Personal Income (Dec)	-0.4%	-0.2%	-0.4%	Stronger	
	Personal Spending (Dec)	-0.9%	-1.0%	-0.8%	Weaker	
	ISM Manufacturing (Jan)	32.5	35.6	32.9	Stronger	
	ISM Non-Manufacturing (Jan)	39.0	42.9	40.1	Stronger	
	Pending Home Sales (Dec) – mom	0.0	6.3%	-3.7%	Stronger	
	Non-Farm Productivity (4Q)	1.6%	3.2%	1.5%	Stronger	
	Unit Labour Costs (4Q)	2.9%	1.8%	2.6%	Weaker	
	Continuing Jobless Claims (w/e Jan-25)	4795K	4788K	4768K	In-line	
	Change in Non-Farm Payrolls (Jan)	-540K	-598K	-577K	Weaker	
	Unemployment Rate (Jan)	7.5%	7.6%	7.2%	Weaker	
	Consumer Credit (Dec)	-\$3.5B	-\$6.6B	-\$11.0B	Weaker	
	<b>Euro-zone</b>	PMI Manufacturing (Jan F)	34.5	34.4	34.5	In-line
		PMI Services (Jan F)	42.5	42.2	42.5	Weaker
PPI (Dec) – mom		-1.2%	-1.3%	-2.0%	In-line	
Retail Sales (Dec) – mom		-0.2%	0.0%	-0.1%	Stronger	
ECB Interest Rate Announcement		2.00%	2.00%	2.00%	In-line	
<b>UK</b>	PMI Manufacturing (Jan)	34.5	35.8	34.9	Stronger	
	PMI Construction (Jan)	29.0	34.5	29.3	Stronger	
	PMI Services (Jan)	40.3	42.5	40.2	Stronger	
	Nationwide Consumer Confidence (Jan)	45	40	48	Weaker	
	BoE Interest Rate Announcement	1.00%	1.00%	1.50%	In-line	
	PPI Input (Jan) – mom	0.5%	1.5%	-2.4%	Stronger	
	PPI Output (Jan) - mom	-0.1%	0.1%	-0.1%	In-line	
	Industrial Production (Dec) - mom	-1.2%	-1.7%	-2.5%	Weaker	
<b>Asia Ex-Japan</b>						
	<i>China</i>	PMI Manufacturing (Jan)	-	45.2	41.2	-
	<i>South Korea</i>	Ext Trade – Export (Jan P) – yoy	-29.1%	-32.8%	-17.8%	Weaker
		Ext Trade – Import (Jan P) – yoy	-30.9%	-32.1%	-21.6%	Weaker
		Consumer Price Index (Jan) – mom	0.0%	0.1%	0.0%	In-line
	<i>Singapore</i>	Purchasing Managers Index (Jan)	-	45.0	44.8	-
	<i>Hong Kong</i>	Purchasing Managers Index (Jan)	-	40.3	39.6	-
		Retail Sales – Volume (Dec) – yoy	-6.5%	-0.7%	-2.7%	Stronger
	<i>Thailand</i>	Consumer Price Index (Jan) – mom	-0.1%	0.0%	-1.6%	In-line
	<i>India</i>	Exports (Dec) – yoy	-	-1.1%	-10.0%	-
		Imports (Dec) – yoy	-	8.8%	6.1%	-
	<i>Indonesia</i>	Inflation (Jan) – mom	-0.1%	-0.1%	0.0%	In-line
		Exports (Dec) – yoy	-13.1%	-20.0%	-2.1%	Weaker
		Imports (Ex Trade Zones) (Dec) – yoy	-5.0%	-7.5%	-5.1%	Weaker
		BoI Reference Rate	8.25%	8.25%	8.75%	In-line
<i>Philippines</i>	CPI (Jan) - mom	0.1%	0.3%	-0.9%	Stronger	

Continued over page

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<b>Japan</b>	Monetary Base (Jan) – yoy	2.7%	3.9%	1.8%	Stronger
	Labour Cash Earnings (Dec) – yoy	-1.5%	-1.4%	-0.7%	In-line
	Leading CI (Dec P)	79.0	79.8	81.8	Stronger
	Coincident CI (Dec P)	92.3	92.3	94.9	In-line
<b>Australia</b>	TD Securities Inflation (Jan) – mom	-	0.8%	-0.2%	-
	House Price Index (4Q) – qoq	-1.0%	-0.8%	-2.4%	Stronger
	RBA Cash Rate	3.25%	3.25%	4.25%	In-line
	Retail Sales (Dec) – mom	1.4%	3.8%	0.4%	Stronger
	Building Approvals (Dec) – mom	2.0%	-2.9%	-10.2%	Weaker

## INTEREST RATE STRATEGY

**A run of stronger than expected data releases here and overseas has rattled the market. Some are wondering if the RBNZ may slow the pace of easing, and take a more cautious approach. They may well do so and we have some niggling concerns over how low rates can go given our reliance on offshore capital. But for now, we are viewing the sell-off as position cleansing with a bias for yields still lower given the global and domestic backdrop.**

### Market themes ...

- > Expectations of rate cuts have been pared back significantly. Say what you will about the accuracy of the HLFS data, it was exactly the type of news the market wasn't prepared for.
- > Stepping away from what we believe remains a very negative backdrop, it is now clear that the market had whipped itself into a bearish frenzy. This may take a week or two to correct.
- > The market is really starting to sit up and take notice of the impact of fiscal policy on bond yields. The more the Australian government borrows, the harder it is for NZ to do so.

### Review and outlook ...

It wasn't just the pace and extent of the recent interest rate rally that was remarkable, it was also the fact that it was almost uninterrupted. As such, it was vulnerable to better than expected news, and it's natural for the market to take a breather, and reconsider the outlook. We've also been surprised by some of the data, and while it's healthy to question one's views from time to time, we believe this is likely to be a short term distraction from what is otherwise going to be a challenging year. The market is correct to have backed up, and priced out some of the aggressive rate cuts that were priced in, but stepping back from the noise, the broad picture remains the same.

One anomaly that remains is the way in which market pricing has distributed the rate cuts that are in store. Indeed, 70 of the circa 100bps of rate cuts on offer are slated for March. This strikes us as slightly odd. If the RBNZ continue making aggressive moves, the OCR is probably headed lower faster, whereas if they move more gradually, by definition they will spread rate cuts out over time. Either way, by March, we doubt the market will have as little priced in as what's currently priced in for April and beyond. The other major theme that has been developing in interest rate markets is the impact of government deficits and the bond issuance that goes with it. This is going to be a significant challenge for bond yields, and implies a much steeper yield curve, and NZ will be in the thick of it.

### Borrowing strategies we favour at present

Long end swap rates are now 20-30bps higher than the lows seen in late January. But we don't think this is a good enough reason to panic, and start paying fixed. While we have been surprised by the degree to which market interest rates have moved higher, given the almost uninterrupted nature of the move lower, we've been expecting a retracement for some time now. We have always said we were looking for signs that the economy was showing signs of stabilising before we abandoned our preference for remaining floating. So far we haven't seen anything convincing. Global data continues to print weak, and we remain circumspect on New Zealand. Meanwhile, take advantage of cheap rates at the short end courtesy of the steep yield curve.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔	Market starting to debate how far the RBNZ will go.
NZ data	↔/↓	HLFS surprised but is completely at odds with other surveys/anecdotes.
Fed Funds/ front end	↔/↓	Quant Easing on the agenda, BOE joining in now too.
RBA	↔	Didn't disappoint, but silent on future outlook surprised.
US 10 year	↔/↑	Supply becoming an issue, and not just in the US.
NZ swap curve	↔/↑	Steeper reinforced by increased NZGS issuance, possible credit downgrade.
Flow	↔/↑	Bounce higher has got some people nervous. Payers likely to emerge.
Technicals	↔/↑	Bounce could become self fulfilling for a short while.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 12-Mar-09	-75	-71
Thu 30-Apr-09	-117	-94
Thu 11-Jun-09	-123	-102
Thu 30-Jul-09	-125	-103
Thu 10-Sep-09	-124	-104
Thu 29-Oct-09	-122	-94
Thu 10-Dec-09	-122	-91

### Trading themes we favour at present

The OIS market has backed up considerably, but is still pricing in the bulk of the easing for March. This isn't consistent with a gradualist or an aggressive approach. Look for the market to spread rate cuts out. Despite being a somewhat "crowded" trade, and one that has performed well over the past fortnight, we continue to favour curve steepeners.

## CURRENCY STRATEGY

**Volatile risk appetites, commodity prices and sentiment towards the USD continue to leave the NZD range-bound. At this junctures it's hard to go past the bigger picture of an inevitable rebalancing process, which requires a lower currency, and this continues to drive our medium-term view. Rallies remain a sell.**

### Market themes...

- > Recent run of NZ and Australian data not as bad as feared. Moody's affirmation of NZ rating helped.
- > RBA delivers 100bp cut but silent on future path of policy.
- > Equities and commodities markets rise on optimism of the US stimulus plan.
- > Reduced risk aversion sees USD and JPY weaken.

### Review and outlook...

The NZD managed to survive its first test below the key 0.50 level against the USD. We fully expect the 0.50 level to face further tests in the coming weeks and months. For now though, the NZD looks "safe" (or on borrowed time) as improved risk appetite has emerged on hope that the US stimulus plan will be passed this week. Given that the last stimulus plan did not result in a lasting improvement in the US economy, whether this second plan will be subject to debate. Nonetheless, markets are willing to give it the benefit of the doubt, for there is little else to be cheerful about. The economic dataflow continues to be dire, with US non-farm payrolls showing another large decline, resulting in a rising unemployment rate. Factory orders and industrial production data from the US, UK and Germany are still very weak.

But there is some glimmer of light. Moody's affirmed NZ's rating outlook, giving the NZD some lift. The Baltic Dry Index has risen strongly off its lows. It is still some 86 percent off its peaks, but the fact that it has started to move higher is an encouraging sign that perhaps global trade is starting to flow again, after virtually coming to an abrupt halt at the end of last year. Commodity prices too appear to be recovering, with copper up 24 percent from its December lows. However, soft commodities that NZ mainly exports have not joined in the global rally, with dairy prices still soft based on Fonterra's recent online auction.

We view the rally in the NZD towards the end of last week as a short-squeeze move, helped by improving risk appetites. The market was short the NZD and failure to break the 0.50 level quickly saw the NZD retrace up to key Fibonacci levels. A rally in the AUD, helped by better retail sales data there

and the likelihood that the RBA will slow down the pace of easings, also assisted the NZD's move. Despite this, we find it difficult to go past the inevitable rebalancing process for the NZ economy, with a lower currency one of the key relative prices that must adjust if such a process is to take hold. Hence, it still looks a case of sell on rallies, with NZ data expected to provide little support to a sustained move higher.

Technically the downside momentum has waned for now. The NZD looks to consolidate recent gains with the 0.5175 level the base and first resistance at around 0.5365.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↔	RBA delivers 100bp cut but silent on future moves.
Commodities	↔/↓	Commodities staging a rally but more in AUD's favour.
Partial indicators	↓	NZ indicators worse for now.
Technicals	↓	Topside resistance at 0.80.
Sentiment	↔	Risk appetite improving.
Other	↓	RBNZ still set to cut big, RBA may slow it down.
<b>On balance</b>	↔/↓	<b>Further declines expected, though likely to be a slow grind down.</b>

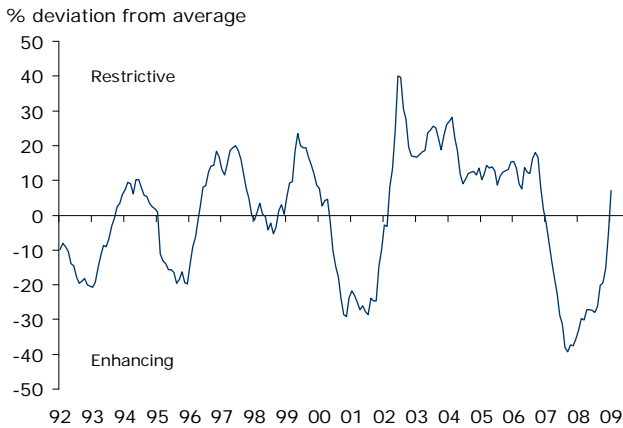
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models in this environment. They say low 0.50s.
Fair value – short-term	↔	Close to our cyclical fair value level.
Yield	↓	Differential still narrowing.
Commodities	↓	NZ's commodity basket not joining the global rally.
Risk aversion	↔	Reduced on optimism of US stimulus plan.
Partial indicators	↔	NZ's starting to compete with the US's.
Technicals	↔/↓	0.5175 base support.
AUD	↔/↑	Recovers on commodity rally and rates selloff.
Sentiment	↔	Fickle.
Other	↔/↑	USD lower on improved risk appetite.
<b>On balance</b>	↔/↓	<b>Consolidation in the near-term, before the next leg lower.</b>

## 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 that exporters are able to command (commodity prices in the case of commodity exporters), and adjust them by currency movements based on the export destinations. While recent falls in the NZD is helping to improve competitiveness, this is offset by falling commodity prices in some sectors.

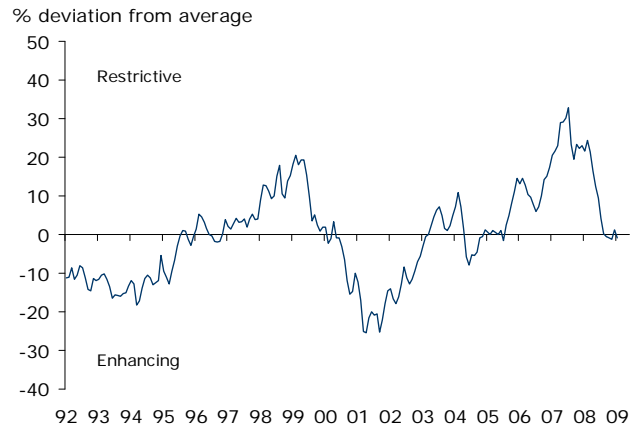
With the NZD largely unchanged against most currencies in January, it was movements in global commodity prices that generally drove the changes in our commodity adjusted real effective exchange rates in the month. Conditions in the dairy sector have moved into “restrictive” territory for the first time since the end of 2006 as world dairy prices fell another 12 percent in the month. This is despite a NZD that has fallen a long way against the USD since the start of 2008. The forestry and crude sectors are also experiencing real effective exchange rates above their long-term averages and hence face “restrictive” conditions. The seafood industry continues to face the most “enhancing” conditions, while conditions for the meat, manufacturing and services sectors are broadly neutral.

**Sector: Dairy, ≈18% of exports**



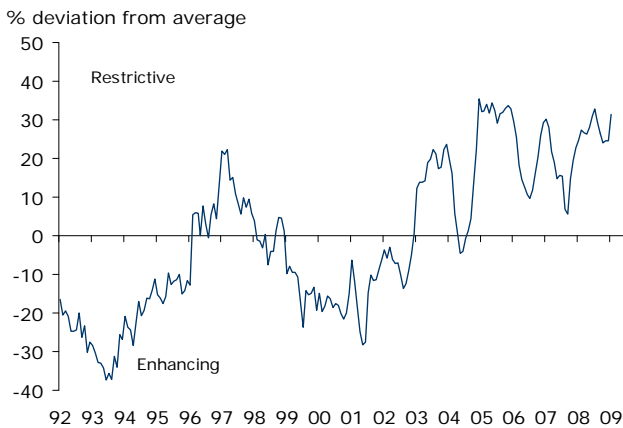
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Meat, ≈8% of exports**



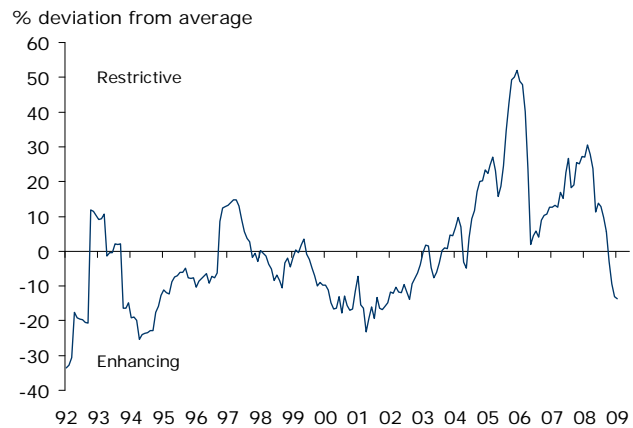
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Forestry, ≈10% of exports**



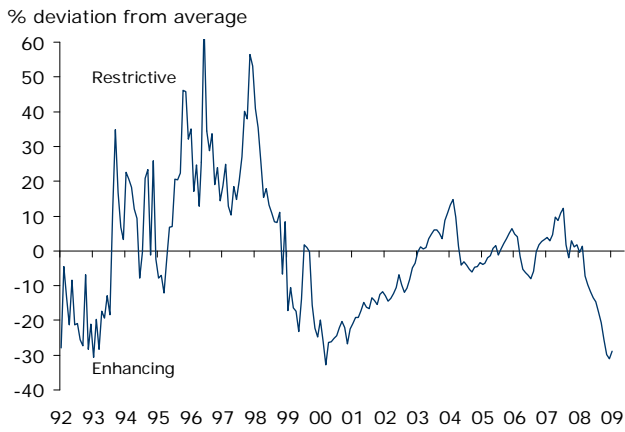
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Horticulture, ≈4% of exports**



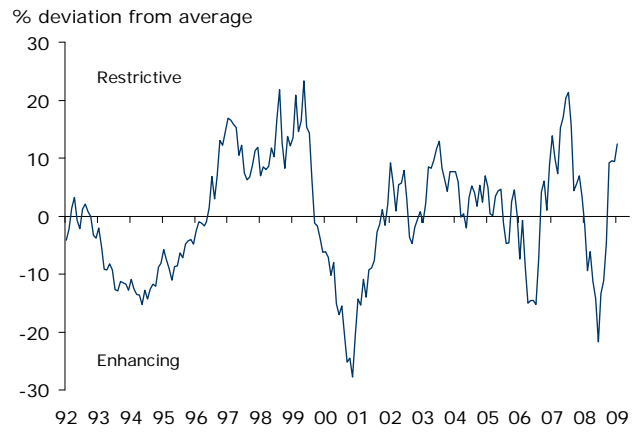
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Seafood, ≈3% of exports**



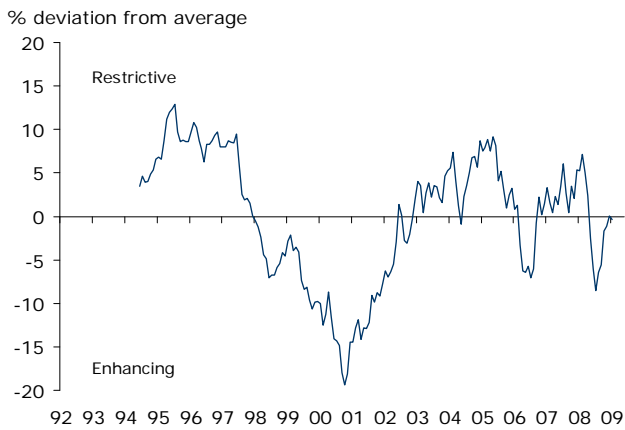
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Crude, ≈5% of exports**



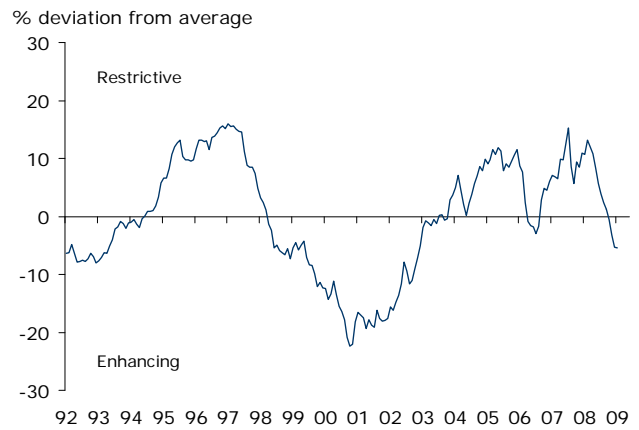
Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Manufacturing, ≈20% of exports**



Sources: ANZ National, Bloomberg, Statistics NZ

**Sector: Services, ≈24% of exports**



Sources: ANZ National, Bloomberg, Statistics NZ

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
9-Feb	JN	Money Stock M3 (Jan) – yoy	0.8%	0.8%	12:50
		Machine Orders (Dec) - mom	-8.6%	-16.2%	12:50
		Adjusted Current Account Total (Dec)	¥601.5B	¥654.1B	12:50
		Bankruptcies (Jan) – yoy	-	24.1%	17:30
		Eco Watchers Survey: Current (Jan)	13.3	15.9	18:00
		Eco Watchers Survey: Outlook (Jan)	-	17.6	18:00
		Machine Tool Orders (Jan P) – yoy	-	-71.8%	19:00
	AU	ANZ Job Advertisements (Jan) – mom	-	-9.7%	13:30
	GE	Trade Balance (Dec)	8.2B	9.7B	20:00
		Current Account (EURO) (Dec)	7.5B	8.6B	20:00
		Imports SA (Dec) - mom	-3.9%	-5.8%	20:00
		Exports SA (Dec) - mom	-4.0%	-10.8%	20:00
	EC	Sentix Investor Confidence (Feb)	-31.5	-34.4	22:30
10-Feb	JN	Housing Loans (4Q) - yoy	-	4.2%	12:50
		Consumer Confidence (Jan)	-	26.7	18:00
	UK	RICS House Price Balance (Jan)	-70.0%	-73.0%	13:01
		Total Trade Balance (GBP/Mln) (Dec)	-£4250	-£4478	22:30
	AU	NAB Business Confidence (Jan)	-	-20	13:30
		NAB Business Conditions (Jan)	-	-6	13:30
		Reserve Bank Governor Glenn Stevens Speaks in Kuala Lumpur	-	-	21:45
	US	Fed's Fisher Speaks in Houston on the Global Financial Crisis	-	-	14:45
	EC	ECB's Weber Speaks in Kuala Lumpur, Malaysia	-	-	19:30
11-Feb	US	New York Fed's Dudley Speaks About Inflation at New York Fed	-	-	03:00
		Wholesale Inventories (Dec)	-0.7%	-0.6%	04:00
		IBD/TIPP Economic Optimism (Feb)	-	45.4	04:00
		Bernanke Testifies on Fed Programs at House Panel	-	-	04:00
	<b>NZ</b>	<b>Electronic Card Transactions (Jan) - mom</b>	<b>-</b>	<b>-</b>	<b>10:45</b>
	AU	Westpac Consumer Confidence (Feb)	-	-2.2%	12:30
		Home Loans (Dec)	3.5%	1.3%	13:30
		Investment Lending (Dec)	1.0%	-6.1%	13:30
		Value of Loans (Dec) - mom	2.3%	1.4%	13:30
	GE	Consumer Price Index (Jan F) – mom	-0.5%	0.3%	20:00
	UK	Claimant Count Rate (Jan)	3.8%	3.6%	22:30
		Jobless Claims Change (Jan)	88.0K	77.9K	22:30
		Average Earnings inc bonus (Dec) – 3m/yoy	3.0%	3.1%	22:30
		ILO Unemployment Rate (3mths) (Dec)	6.3%	6.1%	22:30
		Bank of England Quarterly Inflation Report	-	-	23:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
11-Feb cont.	EC	ECB's Stark Speaks in Stuttgart, Germany	-	-	23:45
12-Feb	US	Trade Balance (Dec)	-\$36.0B	-\$40.4B	02:30
		Chicago Fed's Evans Speaks in Iowa on US Economic Outlook	-	-	07:00
		Monthly Budget Statement (Jan)	-\$78.0B	-	08:00
	EC	ECB's Stark Speaks in Baden-Baden, Germany	-	-	04:00
		ECB's Papademos Talks at London Society of Business Economists	-	-	10:30
		ECB's Tumpel-Gugerell Speaking in Vienna	-	-	07:00
		ECB's Bini Smaghi Speaks in Brussels	-	-	21:00
		ECB Publishes February Monthly Report	-	-	22:00
		Industrial Production (Dec) - mom	-2.5%	-1.6%	23:00
	<b>NZ</b>	<b>Business NZ Performance of Manufacturing Index (Jan)</b>	-	-	<b>10:30</b>
		<b>Food Prices (Jan) - mom</b>	-	<b>-0.2%</b>	<b>10:45</b>
	JN	Domestic CGPI (Jan) - mom	-0.6%	-1.2%	12:50
	AU	Consumer Inflation Expectation (Feb)	-	2.7%	13:00
		Employment Change (Jan)	-18.0K	-1.2K	13:30
		Unemployment Rate (Jan)	4.7%	4.5%	13:30
		Participation Rate (Jan)	64.9%	65.0%	13:30
		NAB Business Confidence (4Q)	-	-7	13:30
13-Feb	US	Advance Retail Sales (Jan)	-0.8%	-2.7%	02:30
		Retail Sales Less Autos (Jan)	-0.4%	-3.1%	02:30
		Initial Jobless Claims (w/e Feb-8)	610K	626K	02:30
		Continuing Claims (w/e Feb-1)	4800K	4788K	02:30
		Business Inventories (Dec)	-0.9%	-0.7%	04:00
	EC	ECB's Gonzalez-Paramo Speaks in Barcelona, Spain	-	-	07:30
		GDP (4Q P) - qoq	-1.3%	-0.2%	23:00
	<b>NZ</b>	<b>Retail Sales (Dec) - mom</b>	-	<b>0.0%</b>	<b>10:45</b>
		<b>Retail Sales Ex-Auto (Dec) - mom</b>	-	<b>0.3%</b>	<b>10:45</b>
		<b>Retail Sales Ex Inflation (4Q) - qoq</b>	-	<b>-0.9%</b>	<b>10:45</b>
	GE	GDP (4Q P) - qoq	-1.8%	-0.2%	20:00
14-Feb	EC	ECB's Gonzalez-Paramo Speaks in Lerida, Spain	-	-	00:00
	US	University of Michigan Confidence (Feb P)	61.0	61.2	04:00

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

## NEW ZEALAND DATA WATCH

**Key focus over the next four weeks:** We doubt the upcoming domestic data will highlight anything other than a still very weak NZ economy. Retail sales this week will reinforce that the household consolidation process is well underway, with the fourth consecutive contraction in quarterly real spending.

Date	Data/Event	Economic Signal	Comment
circa 11 Feb	REINZ House Sales (Jan)	Volumes stabilising, but prices under pressure	House sales could potentially show further signs of stabilisation. However, house prices should remain under downward pressure and the length of time to sell a house will remain above the historical average.
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	We expect a poor result. Lower petrol prices and car sales will see headline spending fall 1.4 percent, although core sales are expected to also be very weak (down 0.7 percent). For the quarter we expect volumes to fall 0.5 percent.
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.
Wed 4 Mar (15.00)	ANZ Commodity Price Index (Feb)	-	-
<b>On Balance</b>		<b>Flow-on from the global scene in the dataflow.</b>	<b>No signs of a base.</b>

## 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	<b>-0.6</b>	<b>-1.0</b>	<b>-0.3</b>	<b>0.0</b>	<b>0.2</b>	<b>0.6</b>
GDP (% yoy)	3.7	2.1	1.0	-0.1	<b>-1.5</b>	<b>-2.2</b>	<b>-2.3</b>	<b>-1.9</b>	<b>-1.1</b>	<b>0.5</b>
CPI (% qoq)	1.2	0.7	1.6	1.5	-0.5	<b>0.3</b>	<b>0.8</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>
CPI (% yoy)	3.2	3.4	4.0	5.1	3.4	<b>3.0</b>	<b>2.2</b>	<b>1.3</b>	<b>2.5</b>	<b>2.7</b>
Employment (% qoq)	1.0	-1.3	1.2	0.1	0.9	<b>-1.5</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-0.2</b>	<b>0.2</b>
Employment (% yoy)	2.5	-0.2	0.7	1.0	0.9	<b>0.7</b>	<b>-1.5</b>	<b>-2.4</b>	<b>-3.5</b>	<b>-1.8</b>
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.6	<b>5.1</b>	<b>6.1</b>	<b>6.7</b>	<b>7.0</b>	<b>7.1</b>
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.6	<b>-8.9</b>	<b>-8.8</b>	<b>-7.7</b>	<b>-7.0</b>	<b>-6.5</b>	<b>-6.5</b>
Terms of Trade (% qoq)	2.9	4.2	-0.4	-2.3	<b>-3.1</b>	<b>-1.6</b>	<b>-1.7</b>	<b>-1.6</b>	<b>-1.1</b>	<b>-0.7</b>
Terms of Trade (% yoy)	8.8	11.6	10.7	4.4	<b>-1.8</b>	<b>-7.2</b>	<b>-8.5</b>	<b>-7.8</b>	<b>-5.9</b>	<b>-5.0</b>

## 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)	10.8	-13.4	1.4	-7.2	-3.6	11.2	-1.3	-19.9	12.9	-8.0
Car Registrations (% yoy)	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5
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	-4.3
ANZ World Commodity Price Index (% yoy)	20.7	18.7	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5
Net Migration (sa)	490	940	450	780	360	-30	-20	-450	270	..
Net Migration (annual)	4666	4931	4732	5201	4938	4403	4329	3569	3814	..

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	9-Feb-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
NZD/USD	0.557	0.553	0.532	0.500	0.450	0.430	0.410	0.420	0.430	0.440
NZD/AUD	0.831	0.816	0.787	0.794	0.776	0.768	0.759	0.778	0.768	0.759
NZD/EUR	0.414	0.417	0.410	0.400	0.375	0.364	0.360	0.382	0.410	0.419
NZD/JPY	50.9	50.0	48.8	44.0	38.7	36.6	34.9	36.1	37.8	39.6
NZD/GBP	0.373	0.382	0.359	0.357	0.341	0.331	0.328	0.336	0.344	0.349
NZ\$ TWI	55.1	54.9	53.4	51.0	47.2	45.5	44.3	45.8	47.3	48.3
NZ interest rates	Dec-08	Jan-09	9-Feb-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
OCR	5.42	5.12	3.50	2.75	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	5.22	4.37	3.51	3.00	2.90	2.80	2.80	2.80	3.60	4.60
10 year bond	4.87	4.49	4.64	4.30	4.60	4.70	4.80	5.20	5.20	5.70
International	Dec-08	Jan-09	9-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	1.24	1.20	0.90	0.70	0.50	0.70	1.25	1.75
AU cash	4.25	4.25	3.25	3.00	2.75	2.50	2.50	2.50	2.50	3.50
AU 3-mth	4.15	3.46	3.25	3.50	2.80	2.80	2.80	3.20	3.90	4.40

## KEY RATES

	6 Jan	2 Feb	3 Feb	4 Feb	5 Feb	6 Feb
Official Cash Rate	5.00	3.50	3.50	3.50	3.50	n/a
90 day bank bill	4.90	3.51	3.53	3.51	3.51	n/a
NZGB 07/09	3.90	3.15	3.15	3.16	3.16	n/a
NZGB 11/11	4.19	3.34	3.35	3.45	3.45	n/a
NZGB 04/13	4.35	3.71	3.75	3.86	3.86	n/a
NZGB 12/17	4.71	4.36	4.43	4.54	4.54	n/a
2 year swap	4.37	3.32	3.32	3.36	3.36	n/a
5 year swap	4.72	3.97	3.97	4.04	4.04	n/a
RBNZ TWI	57.6	51.3	51.6	51.7	51.7	n/a
NZD/USD	0.5883	0.5035	0.5082	0.5108	0.5108	n/a
NZD/AUD	0.8233	0.7964	0.8003	0.7948	0.7948	n/a
NZD/JPY	54.76	45.20	45.60	45.59	45.59	n/a
NZD/GBP	0.4013	0.3505	0.3574	0.3542	0.3542	n/a
NZD/EUR	0.4326	0.3956	0.3953	0.3983	0.3983	n/a
AUD/USD	0.7146	0.6322	0.6350	0.6427	0.6427	n/a
EUR/USD	1.3598	1.2729	1.2857	1.2826	1.2826	n/a
USD/JPY	93.08	89.77	89.73	89.26	89.26	n/a
GBP/USD	1.4659	1.4366	1.4220	1.4422	1.4422	n/a
Oil	48.46	41.73	41.35	40.27	40.27	n/a
Gold	856.20	913.15	898.10	903.95	904.00	n/a
Electricity (Haywards)	0.87	4.89	4.14	3.84	4.32	4.80
Milk futures (US\$/contract)	86	84	83	83	83	83
Baltic Dry Freight Index	775	1099	1148	1316	1498	1642

## 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.

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

This document has been prepared by ANZ National Bank Limited.

ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail [ecnmcs@anz.com](mailto:ecnmcs@anz.com)

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

#### **UNITED STATES DISCLAIMER**

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 1177 Avenue of the Americas, New York, NY 10036 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

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

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

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