

COMMODITY WATCH

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Page 2: Economic overview

- > A weaker currency has loosened financial conditions considerably. On the face of it, this suggests the seeds of recovery are now firmly being sown. We'll resist making sweeping assessments until we further understand the reason for the NZD's fall. Casting our minds back to 1997/98, a falling currency was welcome; the reasons it was occurring were not. Retail sales data this week is expected to be weak. REINZ data is expected to show housing volumes recovering off a low base, but we'll be playing close attention to average days to sell.

Page 5: Economic comment – rural update

- > An early spring would be appreciated by man and beast. The rate of change in the agricultural landscape and farming systems in New Zealand over the past two years is astounding. A 23 percent reduction in the number of lambs processed for export between 2007/08 and 2008/09 is forecast by Meat and Wool NZ economic Service (MWNZES). A weaker NZD offers an opportunity for higher farm product prices.

Page 6: Economic comment – global watch

- > Similar themes again this week, with US data generally printing stronger than expected suggesting the economy may be finding a base. However, European and UK data was again mixed to slightly weaker than expected highlighting US weakness has broadened. In saying this, the Asian region looks to be still hanging in at present.

Page 7: Interest rate strategy

- > New Zealand swap rates continue to grind lower, buoyed by an extremely bullish Australian market. Instead of retracing, like we thought may happen, the Australian market has gone from strength to strength, and is unlikely to be disappointed by the *Statement on Monetary Policy* today, adding to the bullish tone in NZ. However with so much priced in, any fresh news will need to be pretty bad to see the market rally further. Expect the market to consolidate or back up in yield from current levels.

Page 8: Currency strategy

- > The NZD looks set to remain heavy this week as the USD recovery story takes hold and commodity currencies remain under the pump. A dovish RBA *Statement on Monetary Policy* today should see the AUD under pressure, weighing on the NZD. Given the recent large moves, a rebound on short covering is possible, though the overall trend is still down for the NZD.

Page 9: Currency comment – effective exchange rate update

- > It was a double windfall for most export sectors over the month, as a sharp fall in the NZD against all but the Australian dollar along with a strong rise in commodity prices saw all the commodity adjusted real exchange rates we monitor become more enhancing.

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ECONOMIC OVERVIEW

A weaker currency has loosened financial conditions considerably. On the face of it, this suggests the seeds of recovery are now firmly being sown. We'll resist making sweeping assessments until we further understand the reason for the NZD's fall. Casting our minds back to 1997/98, a falling currency was welcome; the reasons it was occurring were not. Retail sales data this week is expected to be weak. REINZ data is expected to show housing volumes recovering off a low base, but we'll be playing close attention to average days to sell.

What's ahead?

- > **July REINZ Housing Report** (circa 11 August). It is possible that house sales could rebound over the month. However, this is likely to just be a sign of vendors adjusting their price expectations. Prices are expected to continue to fall.
- > **June quarter Producer Price Index** (Wednesday 1045 NZST). Both input and output prices are expected to rise strongly in the month (2.6 percent and 2.3 percent respectively) due to high oil and wholesale electricity prices.
- > **June Retail Sales** (Friday 1045 NZST). Core retail sales are expected to fall 1.0 percent, while headline sales are expected to drop a more muted 0.1 percent due to a rebound in motor vehicle sales. For the quarter, volumes are expected to contract 2.0 percent.

What's the view?

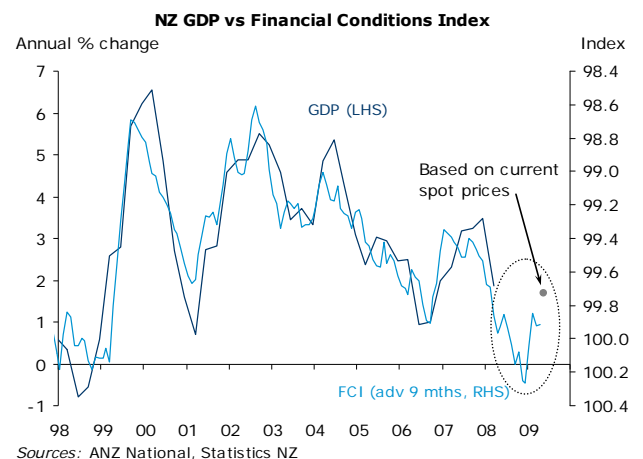
Finally, we have something a little more positive to talk about to start the week. The ANZ Commodity Price Index – a measure of NZ's key commodity export prices – scaled new record heights in July, with the World Price index rising 1.8 percent and the NZD Index rising 2.8 percent. World beef prices led the charge, up 10.5 percent in the month, although the increases were relatively broad-based, with eight of the thirteen commodities rising in price. The World Price Index is now up 8.7 percent on a year ago, while the NZD Index is up 14.3 percent. We update our commodity adjusted real exchange rates on page 9. They show that higher commodity prices, plus the sharp fall in the NZD, is having the obvious positive spin-offs for most of NZ's export sectors.

This is a good news story for New Zealand, and at times we need to be reminded that there are a few positives still around. While we note that these high prices are coming at a time when we are in low-season sales and so are not yet reflected in farm-gate prices, the recent lift in agricultural commodity prices will give the nation a step-up and assist the rebalancing process the economy is currently embarking on, as growth swings from the spending to the earning sectors. Once the increased export returns filter through the economy, the entire country stands to benefit.

We remain secular commodity bulls and this is a major reason why we hold a very positive long-term outlook for the NZ economy. But we also realise that secular trends tend to manifest over 30 or so years and numerous mini cycles exist within those trends. Put simply, trends never extend in a linear type fashion. At the risk of bursting the good news bubble that is developing, we must put forward a word of caution. The rises in NZ's export prices are coming at a time when global commodity prices, on the whole, are starting to come under pressure.

As we have been reporting in recent weeks, the global economy is slowing (and quite sharply we might add), recoupling is back to the fore, attention is swinging to Asia, and commodity prices. Energy prices fell a further 5 percent last week, and industrials such as copper, zinc and aluminium also fell. It is against this backdrop that we see the NZD (and the AUD) facing considerable selling pressure. Of course technicals, a stronger USD by default, interest rate expectations (notably in Australia) and ECB President Trichet's mention of downside risks to growth after leaving interest rates unchanged have also played a role. But the major development of late has been on the commodity price front, and the flow-on for currencies.

The lower NZD, along with a further rally in local interest rates, saw financial conditions ease considerably last week. On the face of it, it suggests the seeds of a recovery are now firmly being sown, thereby lessening the need for the RBNZ to react. Of course, it is not that clear cut. For now we'll resist making sweeping assessments as we need to more fully understand the reasons for the NZD's fall, and in particular the commodity price angle. Casting our minds back to 1997/98, a falling currency was welcome; the reasons it was occurring were not.

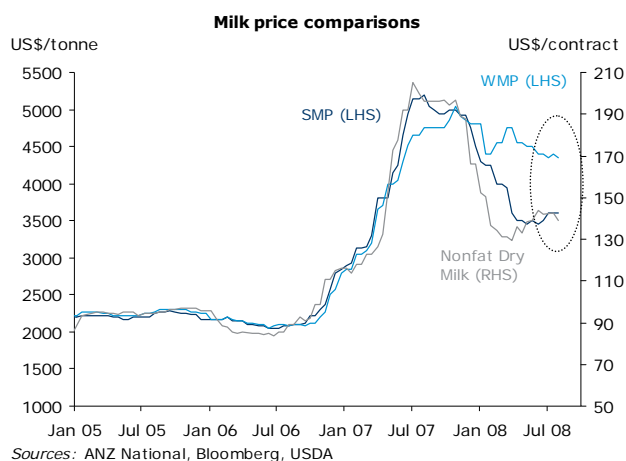


Global growth is on everyone's minds at present and further evidence of it turning sharply was presented last week. The Japanese government, in their monthly update on the economy, admitted the world's second largest economy was "weakening" and "may be in a recession". European data continues to print soft, with retail sales down 3.1 percent on a year ago and German factory orders and industrial production sharply weaker. UK house prices continue to fall. More of the same is expected this week, with Euro

zone and Japanese Q2 GDP released, with the market looking for outright contractions in both.

We wonder, therefore, against this backdrop of a slowing global economy and generally falling commodity prices, whether NZ's export prices can maintain their recent momentum. To be fair, 'softs' (which are what NZ generally exports) look to have remained relatively immune, but they do need to be closely watched. After all, much of the good news story (particularly for dairy) has already been capitalised into local farm values.

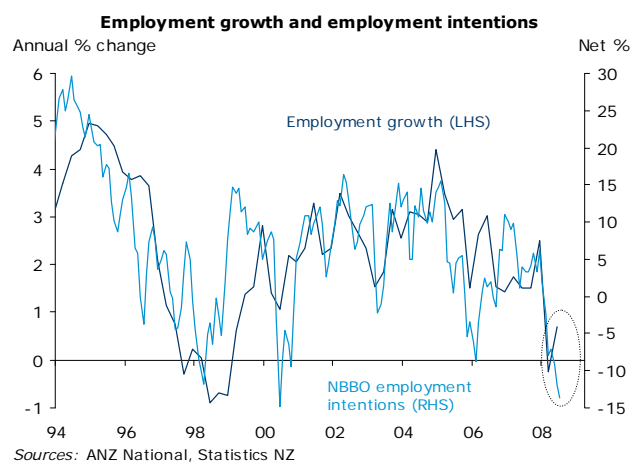
Dairy prices look more at risk than other softs we export for a number of reasons. Dairy experienced the largest run-up, and at their peak had risen 120 percent in a year, so naturally could be prone to a degree of retracement. In fact we have already seen elements of this with USDA Oceania Skim Milk Power (SMP) prices down 31 percent and Whole Milk Power (WMP) prices down 14 percent from their peaks. European prices have fallen further than Oceania equivalents so we may be set to see more catch-up. We are also seeing a supply side response, with US, European and South American production increasing (although to be fair, production was already increasing before prices really took off). But we know that the dairy tap cannot just be turned on. It takes time to ramp up production so the risk looks to be for more supply to flood onto the market. Anecdotally, the supply and demand for dairy produce looks to be in balance. The challenge going forward is whether it remains so if demand (global growth) is waning, and supply is still coming on line. We'll be having a close look at USDA prices released late in the week.



The other major local development last week was the release of June quarter labour market data. The data was really a bit of a mixed bag and there was arguably something there for everyone. Wage growth remains solid, with the LCI measure of private sector ordinary time salary and wages rising 0.8 percent in the quarter and 3.5 percent on the year. Total QES gross earnings are up 7.4 percent on a year ago, illustrating some support to beleaguered households. Employment growth and hours work rebounded strongly (1.2 percent and 2.3 percent respectively) following weakness of almost the same magnitude in the March quarter. This looks to be a clear case of statistical

noise! The unemployment rate, which has been the more stable and hence a better measure in our view, rose to a 27-month high of 3.9 percent, as more people entered the labour force looking for work.

Looking forward, the labour market will continue to ease. Employment intention readings tell us that employment growth is set to weaken over the second half of this year. The National Bank *Business Outlook* shows negative reads for six consecutive months and firms are reporting it less difficult to find labour. We expect the unemployment rate to head towards 4½ percent by the end of the year and towards 5 percent by the end of 2009. As we mentioned in last week's *Market Focus*, we see the risk of a higher unemployment rate given that cost of living pressures may see more people remain in the labour market rather than exit as has been the case in previous cycles.



For markets, the labour market data was looked at as being the make or break indicator on a potential 50bp rate cut in September. It didn't really provide a steer either way and so the market continues to toy with the idea, and not much more than that. A weaker currency is now also starting to weigh on expectations, given that financial conditions have eased materially, thereby lessening the justification for a large move. Unless we see something untoward on the commodity price front, the adjustment in the currency and financial conditions is certainly consistent with our view that the RBNZ will end up pausing in H1 2009. In terms of a potentially larger move in September, we remain of the view that financial stability as opposed to lagging economic data is the wildcard, also an area that we continue to monitor very closely. Last week saw another finance company join the list of those announcing freezes. This is not new "news" per se as a theme so we've discounted it. However, the risk remains that the break down in confidence we have witnessed infects other areas.

Markets in our nearest neighbour are also seriously testing the idea of their central bank cutting rates by 50bps in September. The shift in sentiment in Australia has been remarkable over the past couple of weeks as the economy also looks to be slowing. But it has, in part, been justified by the RBA delivering a dovish statement last week. Although the RBA left

rates unchanged at 7.25 percent, they have literally opened the door to rate cuts stating *"the Board's view is that scope to move towards a less restrictive stance of monetary policy in the period ahead is increasing"*. Our Australian colleagues now expect rates to be cut in September, but only by 25bps. Although the last two Australian easing cycles (1996 and 2001) have begun with 50bps moves, the pending move from the RBA (just like the RBNZ a couple of weeks ago) looks to be one of offsetting tighter financial conditions from other areas, rather than one of reflation. A gradualist approach still seems to be the more prudent step to take.

For NZ, there are a couple of areas to be wary of. First, the reason the RBA is pondering rate cuts in the first place. It's a signal that the Australian economy has hit the same wall NZ did in early 2008. A lot of people seem to have overlooked the fact that when you weigh up the two shocks Australia was experiencing, a positive terms of trade shock, and a credit shock, the net effect of the two was reflected in the current account deficit. The fact it was still negative was a pretty strong signal that the credit shock was going to dominate. Second, lower interest rates across the Tasman earlier than expected will obviously impact on the NZD/AUD, although for now we're happy to maintain our 0.75 cent view. The fillip in the NZD/AUD is not much more than position purging, and in fact we're surprised it held in so well given the massive rally in Australian interest rates. Third, the RBA has had an uncanny knack of getting it right, and we wonder what they know domestically, or have cottoned onto internationally, that the rest of us haven't.

Looking forward, the local data calendar this week is dominated by the June retail sales release on Friday. It is expected to be weak, particularly sales excluding motor vehicle related industries, which we expect to contract by 1.0 for the month. For the June quarter, we expect retail volumes to fall by 2.0 percent, which would easily be the biggest fall on record and comes after a 1.2 percent fall in Q1. The story for retailing remains the same. Households continue to pare back spending in the face of significant cost of living pressures. Retailing faces a challenging 12 months as households consolidate and de-leverage.

The REINZ housing report for July is also due out this week. Like the Barfoot and Thompson data released last week, we expect the number of house sales to rebound solidly. But rather than a sign of new found strength, this will just be the next step in the housing market adjustment as vendors adjust their price expectations. House prices are expected to continue to fall and days to sell to tick up slightly. The final piece of data is the Q2 PPI on Wednesday. Higher global oil prices and significantly higher wholesale electricity prices should see both input and output prices up strongly.

Recent local data...

Labour Cost Index (June quarter): Private sector ordinary time salary and wages rose 0.8 percent, leaving annual growth at 3.5 percent.

Quarterly Employment Survey (June quarter): Private sector salary and wages rose 1.5 percent, taking annual growth to 5.4 percent.

ANZ Commodity Price Index (July): The World Price Index rose 1.8 percent, while the NZD Price Index rose 2.8 percent.

Household Labour Force Survey (June quarter): Employment rebounded by 1.2 percent following a 1.3 percent fall in the March quarter. The unemployment rate rose to a 27-month high of 3.9 percent.

BRING IT ON – RURAL UPDATE

An early spring would be appreciated by man and beast.

The rate of change in the agricultural landscape and farming systems in New Zealand over the past two years is astounding.

A 23 percent reduction in the number of lambs processed for export between 2007/08 and 2008/09 is forecast by Meat and Wool NZ economic Service (MWNZES).

A weaker NZD offers an opportunity for higher farm product prices.

Spring

"Spring is nearly sprung and de grass nearly riz, it's been very wet where the birdies is. It would now be good to see some sun so man and beast can have more fun." (with apologies to Anonymous)

A benign May and June provided some get out of jail free cards for many pastoral properties. Lack of frost and warm rains allowed better than average pasture growth for this time of the year. July and early August dished up some rain, more rain and still more rain. Water tables are now well topped up – even in Central Otago! Some sun now would be most welcome.

New Zealand Big Picture

The extent of change to the agricultural landscape and farming systems in New Zealand over the past two years must be one of the greatest in our short history. There are more non-traditional farmer land owners and more start up dairy processors. Meat companies are looking very hard at where their processing capacity is relative to supply and are taking action. A farmer co-operative in joint ownership with private enterprise in the meat industry would be a first if approved by shareholders.

Almost every farmer we have visited this winter is making changes to the farm business or to farming systems. Some are making the change(s) by choice, but many out of necessity. Dairy conversions and dairy support and the associated reduction in sheep numbers are obvious. More subtle are changes to fertiliser regimes, cropping, feed conservation, improved efficiency of water and energy use.

Many harder sheep and beef farms have reduced stocking rates and altering livestock selling policies.

None of this is new but the rate of change is. It is literally like a gold rush!

Fewer Lambs and Sheep

MWNZES are predicting a fall of 6 million (m) (23 percent est.) to 20m in the number of lambs processed in 2008/09. The reduction comes from a combination of drought (reduced numbers and scanning rates) and substitution of sheep to dairy cattle. There are several wild cards before the actual number for 2008/09 will be known, and we would not

be surprised if the number turns out to be less than the above estimate.

The ewe kill for year end June 2008 was a whopping 6m, up from 4.6m last year and 3.7m in 2006. The reduction in the national sheep flock is estimated at 12 percent, from 38.5m in June 2007 to 34.2m in 2008.

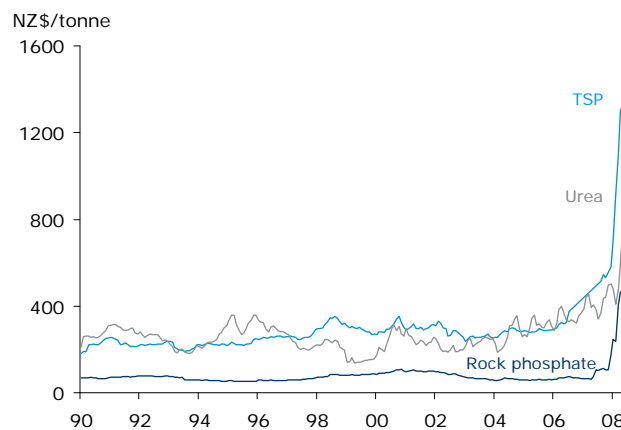
2008/09 Product Price Forecasts

An eight percent fall in the NZD trade weighted exchange rate since early June is a much brighter prospect for 2008/09 farm incomes than last season, other things being equal. Our June forecasts currently look a bit low.

Much higher returns are necessary to offset cost increases and restore profitability in all sectors with the exception of dairy. The current Fonterra forecast of \$7/kg will provide a reasonable profit margin in spite of increased costs. Pastoral industry input costs (before drought effects) are thought to have increased 10 to 15 percent last season and many are expecting a similar increase in 2008/09. Wages, energy, fertiliser and rates all are well up on this time 12 months ago. Horticulture has not been immune to increases in input costs either.

Further increases in the farm gate cost of fertiliser seem inevitable. International prices are still increasing. The NZ farm price increases to date will be based on raw material purchases made earlier this year that now look cheap!

Indicative International Fertiliser Prices



Sources: ANZ National, World Bank

GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. Similar themes again this week, with US data generally printing stronger than expected suggesting the economy may be finding a base. However, European and UK data was again mixed to slightly weaker than expected highlighting US weakness has broadened. In saying this, the Asian region looks to be still hanging in at present.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Personal Income (Jun)	-0.2%	-0.1%	1.8%	Stronger
	Personal Spending (Jun)	0.4%	0.6%	0.8%	Stronger
	PCE Core Deflator (Jun) – mom	0.2%	0.3%	0.2%	Stronger
	Factory Orders (Jun)	0.7%	1.7%	0.9%	Stronger
	ISM Non-Manufacturing (Jul)	48.8	49.5	48.2	Stronger
	FOMC Interest Rate Announcement	2.00%	2.00%	2.00%	In-line
	Consumer Credit (Jun)	\$6.3B	\$14.3B	\$8.1B	Stronger
	Non-Farm Productivity (2Q P)	2.5%	2.2%	2.6%	Weaker
Europe	PPI (Jun) – mom	0.8%	0.9%	1.2%	Stronger
	PMI Services (Jul F)	48.3	48.3	48.3	In-line
	Retail Sales (Jun) – yoy	-1.3%	-3.1%	-0.1%	Weaker
	ECB Interest Rate Announcement	4.25%	4.25%	4.25%	In-line
UK	PMI Construction (Jul)	37.5	36.7	38.8	Weaker
	Industrial Production (Jun) – mom	0.1%	-0.2%	-0.9%	Weaker
	PMI Services (Jul)	46.6	47.4	47.1	Stronger
	Nationwide Consumer Confidence (Jul)	57	51	62	Weaker
	HBOS House Prices (Jul) – 3mth/year	-1.5%	-1.7%	-1.9%	Weaker
	BoE Interest Rate Announcement	5.00%	5.00%	5.00%	In-line
Asia Ex-Japan					
<i>China</i>	Coincident Index (Jun)	-	103.84	103.52	-
<i>South Korea</i>	M2 Money Supply (Jun) – yoy	-	15.1%	15.8%	-
	Bank of Korea Repo Rate	5.00%	5.25%	5.00%	Stronger
<i>Singapore</i>	Consumer Confidence (Jul)	-	85.9	86.8	-
	Purchases Managers Index (Jul)	49.6	51.6	50.6	Stronger
	Electronics Sector Index (Jul)	50.5	51.1	51.7	Stronger
<i>Philippines</i>	CPI (Jul) – yoy	11.9%	12.2%	11.4%	Stronger
<i>Malaysia</i>	Exports (Jun) – yoy	18.4%	18.4%	22.9%	In-line
	Imports (Jun) – yoy	10.3%	12.1%	9.4%	Stronger
<i>Indonesia</i>	Bank of Indonesia Reference Rate	9.00%	9.00%	8.75%	In-line
<i>Vietnam</i>	Industrial Output YTD (Jul) – yoy	-	16.4%	16.5%	-
	Retail Sales YTD (Jul) – yoy	-	29.8%	30.0%	-
Japan	Leading Index CI (Jun P)	91.1	91.2	92.9	In-line
	Coincident Index (CI (Jun P)	101.7	101.7	103.3	In-line
	Machine Orders (Jun) – mom	-9.9%	-2.6%	10.4%	Stronger
	M3 Money Stock (Jul) – yoy	1.0%	0.8%	0.9%	Weaker
Australia	House Price Index (2Q) – qoq	-1.3%	-0.3%	0.4%	Stronger
	RBA Interest Rate Announcement	7.25%	7.25%	7.25%	In-line
	Home Loans (Jun)	-2.0%	-3.7%	-6.9%	Weaker
	Employment Change (Jul)	5.0k	10.9k	22.2k	Stronger
	Unemployment Rate (Jul)	4.3%	4.3%	4.3%	In-line

INTEREST RATE STRATEGY

New Zealand swap rates continue to grind lower, buoyed by an extremely bullish Australian market. Instead of retracing, like we thought may happen, the Australian market has gone from strength to strength, and is unlikely to be disappointed by the *Statement on Monetary Policy* today, adding to the bullish tone in NZ. However with so much priced in, any fresh news will need to be pretty bad to see the market rally further. Expect the market to consolidate or back up in yield from current levels.

Market themes...

- > Domestic rate monetary policy expectations have held remarkably steady over the past week, but bullish optimism has been buoyed by events across the Tasman.
- > Retail sales and REINZ housing data may provide additional ammunition for the bulls, but with so much easing priced in, we continue to look for developments on the financial stability front.
- > In normal circumstances a lower NZD would be cause for caution for the RBNZ, however with broad commodity indices and oil prices falling at a similar pace, the impact is lessened.

Review and outlook...

Markets continue to toy with the idea of a 50bp cut. Expectations of more aggressive policy seems reasonable, however we continue to believe that there isn't enough information on the table just yet to justify a 50bp cut. Data confirming that spending is slowing or house prices are falling don't add materially to the information that's already on the table, and won't differ from RBNZ expectations. However if financial stability starts to get undermined, that's a completely different story, but so far we haven't reached that point. The bullish tone in Australia has also played a big part in shaping expectations, and while we don't think today's RBA *Statement on Monetary Policy* will disappoint a bullish market, if we stand back a little, we wonder how much merit there is in a 50bp cut. Market and political rhetoric continues to focus on shoring up confidence, which is more consistent with policy being eased sooner, but more gently, rather than later, but more aggressively.

The exchange rate clearly matters for monetary policy, and while a collapse in the NZD as large as what occurred last week would normally be cause for concern (although we still need to fully understand the reasons for it), equally soft commodity prices alter the picture. Indeed, while the NZD is down almost 8 percent to date in Q3, WTI crude and the CRB index are off around 18 percent and 16 percent respectively. Not only does this reduce the immediate inflation impacts, it will also go some way to alleviate RBNZ concerns about high headline inflation fuelling a wage/price spiral. Ironically, the combination of falling commodity prices and a strong dollar also offer the best possible environment for the NZD to fall further,

with monetary policy less likely to be an impediment to the external rebalancing process that is already underway.

Gauges for NZ interest rates yields

Gauge	Direction	Comment
RBNZ	↓	Market contemplating a 50bp cut at the next meeting. We're not convinced yet, but that's where the risks lie.
NZ data	↓	This week's REINZ and retail sales data unlikely to alter the soft picture.
Fed Funds/front end	↔	US data and equity markets recovering well
RBA	↑	Market still may be disappointed by the lack of a 50bp cut next month
US 10 year	↔	Global yields reacting to opposing forces of weak Euro & UK data/stronger US data
NZ swap curve	↓	Near term scope for steepening (normalisation)
Flow	↔	Receive side flow continues to dominate
Technicals	↔/↓	Momentum favourable

Borrowing strategies we favour at present

We continue to expect rates to gradually move lower across the curve, led by the short end. Rising US yields and longer term inflation concerns will slow any rally at the back end, and as such, we suggest targeting moves towards 6.75% to lock in long dated cover, and reduce interest expense. When the yield curve normalises, use the steep curve to trim back the length of cover, and potentially lower interest cost.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Sep-08	-35	-35
Thu 23-Oct-08	-54	-55
Thu 4-Dec-08	-85	-82
Thu 22-Jan-09	-113	-110
Thu 5-Mar-09	-119	-119
Thu 23-Apr-09	-141	-138
Thu 4-Jun-09	-146	-148

Trading themes we favour at present

With so much priced in, we favour being neutral or slightly short, particularly on the OIS curve. Upcoming data may justify current pricing, but are unlikely to see yields go lower, but could disappoint. Basically, the market is overstretched in the short term.

CURRENCY STRATEGY

The NZD looks set to remain heavy this week as the USD recovery story takes hold and commodity currencies remain under the pump. A dovish RBA *Statement on Monetary Policy* today should see the AUD under pressure, weighing on the NZD. Given the recent large moves, a rebound on short covering is possible, though the overall trend is still down for the NZD.

Market themes...

- > USD strength gaining hold as EUR and others thumped.
- > As commodities continue to sell off aggressively.
- > Signs of a sharp slowdown in the UK and Eurozone mount.
- > AUD to remain heavy, weighing on the NZD.

Review and outlook...

The antipodean currencies had another big move lower last week, with the NZD off 3.2 percent and the AUD down by a larger 4.3 percent. Both broke through key levels at 0.70 and 0.90 respectively in late-afternoon trade on Friday, though the NZD managed to claw back losses while the AUD remains under pressure.

Where as in the previous week, it was a re-pricing of the RBNZ and RBA that initially saw the antipodeans sent lower, this time around, the central theme was the return of USD strength and broad-based weakness in commodity prices. A dovish RBA statement earlier in the week also weighed on sentiment. After being shunned by the FX world as the US economy deteriorated amidst the subprime collapse, there is increasing signs in the dataflow that the US economy may be starting to stabilise. In contrast, growth indicators coming out of the UK, Eurozone and Japan continue to weaken, with markets now expecting Q2 GDP to contract in the Eurozone and Japan. ECB President Trichet's acknowledgement about poor Eurozone growth triggered the EUR selloff and ensuing USD strength. Since hitting 1.60 in mid-July, the EUR has sold off almost ten big figures.

The NZD finds itself starting this week looking very vulnerable to further moves lower. Looking at positioning data, sentiment has truly turned against the antipodeans with net longs in AUD halved from a week ago and real money going net short NZD for the first time since July 2006. There is nothing in the local data calendar that will provide much by way of support. The QV house price data for July shows ongoing declines in house prices, which is currency negative. The REINZ housing report due sometime this week will similarly show a weak housing market. Wednesday's PPI is expected to show a strong read, but is not a key release that tends to worry the FX markets. Friday's June retail sales print is widely tipped to be soft, which again will not be supportive of the NZD.

Offshore, the focus will be on the RBA's *Statement on Monetary Policy* (SMP) today, and CPI data out of the US, UK and Eurozone, as well as Q2 GDP for Eurozone. The SMP should see the AUD remain under pressure, which will act as a drag on the NZD. However, given the recent large moves in the past couple of weeks, a short covering rebound could eventuate at some stage, though our view remains that the overall trend for the NZD is still down.

AUD/USD is leading the move south. A break of 0.8900 now targets 0.8510 as massive position squaring continues. The NZD/USD now targets 0.6800 but we suspect this move will be orderly. The NZD/AUD cross resistance at 0.7937 (1.2600 support) should break this week and lead to a test of 0.8050 as the first target in the cross.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Growth differentials still favouring AUD but closing.
Yield	↔	Another 30bp rally in Australia last week.
Commodities	↑	Hards selling off by more. Pay close attention to dairy
Partial indicators	↓	NZ indicators still worse.
Technicals	↔	0.7937 now resistance. Squeeze possible.
Sentiment	↔	AUD longs pared back but going net short NZD.
Other	↑	AUD still looking vulnerable
On balance	↔	More neutral given pressure on AUD

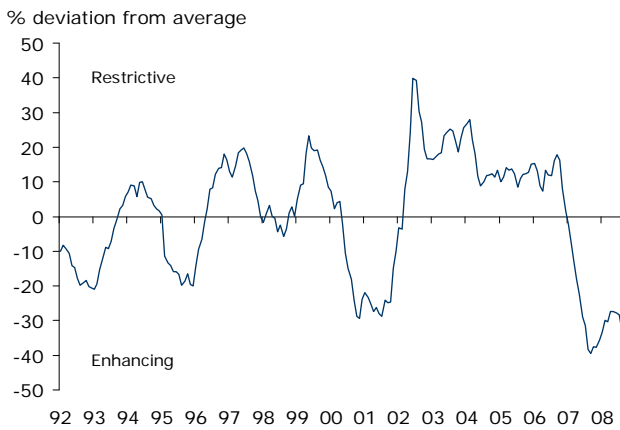
NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↔	Yield and commodity story factored.
Yield	↔	RBNZ now easing but fully factored.
Commodities	↓	The big one to watch.
Risk aversion	↔	Low inflation = equity stabilisation.....for now.
Partial indicators	↓	NZ real data simply weaker than US.
Technicals	↔/↓	Next target now 0.68.
AUD	↔/↓	AUD looks awful
Sentiment	↔	Changes daily.
Other	↓	USD tallest pygmy
On balance	↔/↓	RBNZ has cut so trend becomes clearer.

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 it is generally acknowledged that a high NZD is eroding the competitiveness of the export sector, our real effective exchange rate measures show a contrasting impact on different sectors of the export community.

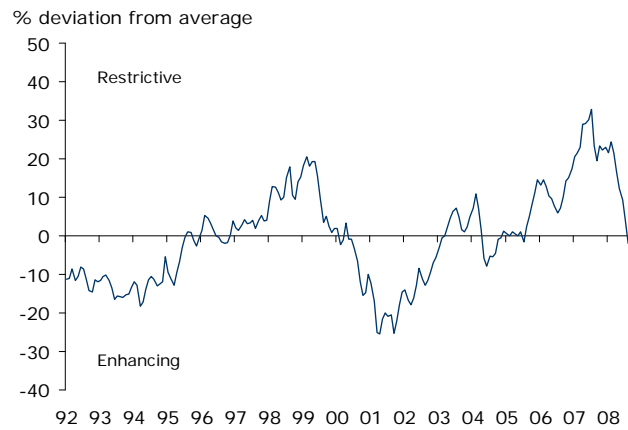
It was a double windfall for most export sectors over the month, as a sharp fall in the NZD against all but the Australian dollar along with a strong rise in commodity prices saw all the commodity adjusted real exchange rates we monitor become more enhancing. The sector to benefit the most was the meat sector, where world beef prices rose 10.5 percent and most exporting is done in US dollars. Conditions have moved from very restrictive over 2007, to now be broadly neutral. Other sectors to experience enhancing conditions are dairy, seafood, crude and manufacturing. Conditions remain very restrictive for the forestry sector as world prices remains subdued, and the horticulture sector (albeit improving) is also still facing challenging times.

Sector: Dairy, ≈18% of exports



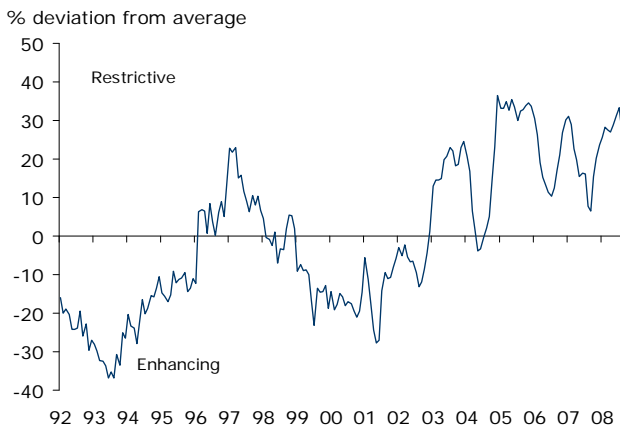
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat, ≈8% of exports



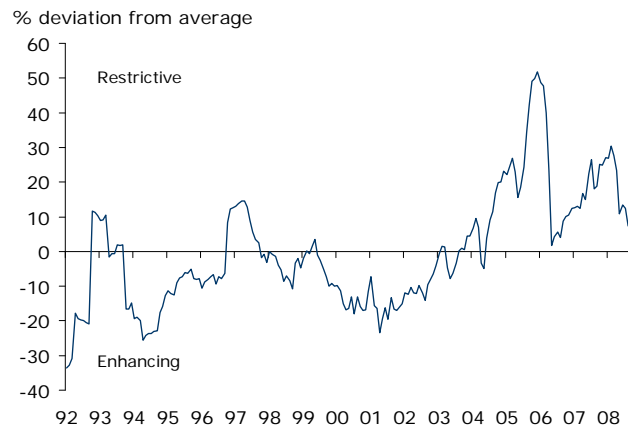
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry, ≈10% of exports



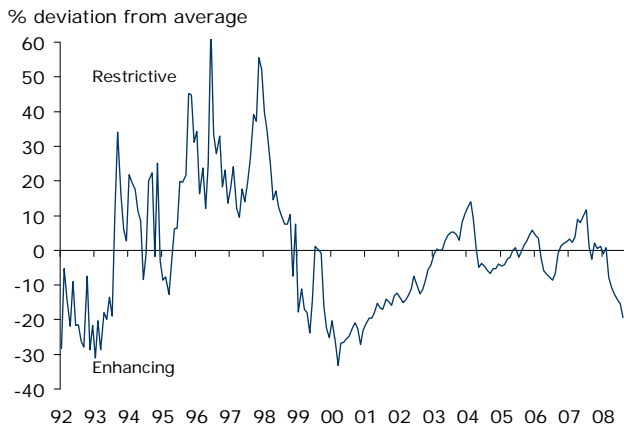
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture, ≈4% of exports



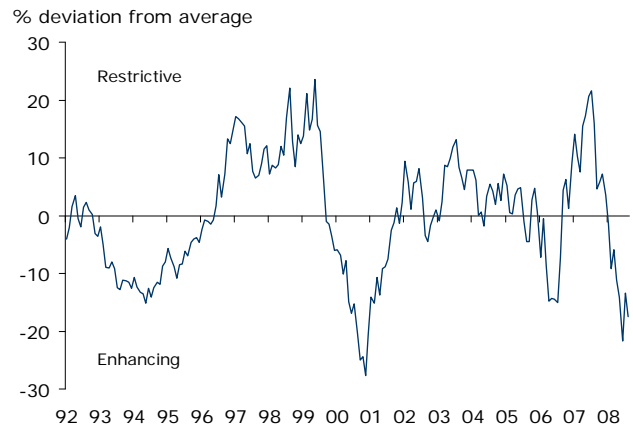
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood, ≈3% of exports



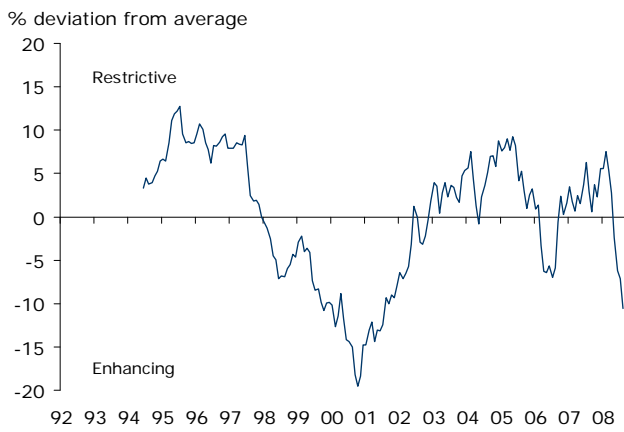
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude, ≈5% of exports



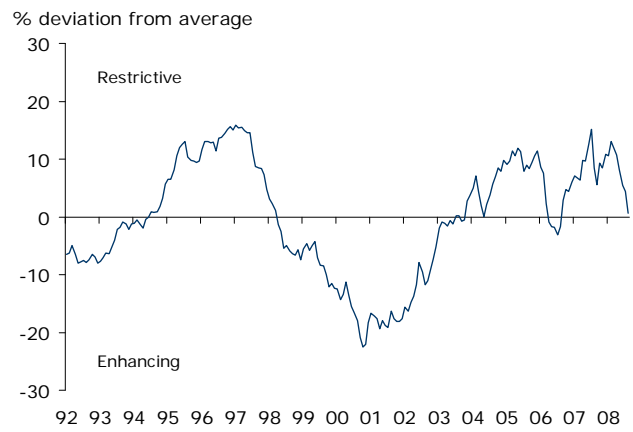
Sources: ANZ National, Bloomberg, Statistics NZ

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 (NZST)
11-Aug	AU	Reserve Bank Quarterly Monetary Policy Statement	-	-	13:30
	JN	Machine Tool Orders (Jul P) – yoy	-	-2.5%	18:00
	UK	PPI Input s.a. (Jul) - mom	1.0%	2.1%	20:30
		PPI Output n.s.a. (Jul) - mom	0.5%	0.9%	20:30
		PPI Output Core SA (Jul) - mom	0.4%	0.3%	20:30
		Total Trade Balance (Jun)	-£4200m	-£4248m	20:30
12-Aug	JN	Domestic CGPI (Jul) - mom	0.8%	0.8%	11:50
		Industrial Production (Jul) - mom	-	-2.0%	16:30
		Capacity Utilization (Jul) - mom	-	2.2%	16:30
		Consumer Confidence - Households (Jul)	32.0	32.6	17:00
	AU	NAB Business Confidence (Jul)	-	-9	13:30
		NAB Business Conditions (Jul)	-	0	13:30
		CBA HIA House Affordability (2Q)	-	103.1	13:30
	UK	RICS House Price Balance (Jul)	-90.0%	-88.0%	11:01
		CPI (Jul) - mom	-0.2%	0.7%	20:30
		CPI (Jul) - yoy	4.2%	3.8%	20:30
		Core CPI (Jul) - yoy	1.7%	1.6%	20:30
		RPI (Jul) - yoy	4.9%	4.6%	20:30
		DCLG UK House Prices (Jun) - yoy	1.5%	3.7%	20:30
13-Aug	US	Trade Balance (Jun)	-\$62.0B	-\$59.8B	00:30
		IBD/TIPP Economic Optimism (Aug)	39.0	37.4	02:00
		Monthly Budget Statement (Jul)	-\$90.0B	-\$36.4B	06:00
	NZ	Producer Prices- Inputs (2Q) - qoq	2.6%	2.3%	10:45
		Producer Prices- Outputs (2Q) - qoq	2.1%	1.8%	10:45
	AU	RBA Assistant Governor Lowe Speaks in Sydney	-	-	11:15
		Westpac Consumer Confidence (Aug)	-	-6.7%	12:30
		Wage Cost Index (2Q) - qoq	1.0%	0.9%	13:30
	JN	Gross Domestic Product (2Q P) - qoq	-0.6%	1.0%	11:50
		Adjusted Current Account Total (Jun)	¥1,084.0B	¥2032.7B	11:50
	UK	Claimant Count Rate (Jul)	2.6%	2.6%	20:30
		Jobless Claims Change (Jul)	17.0K	15.5K	20:30
		Avg Earnings inc bonus (Jun) – 3m/yoy	3.6%	3.8%	20:30
		ILO Unemployment Rate (3mths) (Jun)	5.3%	5.2%	20:30
		Manufacturing Unit Wage Cost (Jun) – 3m/yoy	-	1.8%	20:30
		Bank of England Inflation Report	-	-	21:30
	EU	Industrial Production sa (Jun) - mom	0.1%	-1.9%	21:00
14-Aug	US	Import Price Index (Jul) - mom	1.0%	2.6%	00:30
		Advance Retail Sales (Jul)	-0.1%	0.1%	00:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)	
11-Aug cont.	US	Retail Sales Less Autos (Jul)	0.5%	0.8%	00:30	
		Business Inventories (Jun)	0.5%	0.3%	02:00	
	JN	Tertiary Industry Index (Jun) - mom	-0.3%	-0.2%	11:50	
	NZ	Business NZ PMI (Jul)	-	45.7	12:00	
		Non Resident Bond Holdings (Jul)	-	77.5%	15:00	
	AU	Consumer Inflation Expectation (Aug)	-	5.9%	13:00	
		Average Weekly Wages (May)	-	1.1%	13:30	
	GE	GDP s.a. (2Q P) - qoq	-0.8%	1.5%	18:00	
		Consumer Price Index (Jul F) - mom	0.6%	0.6%	18:00	
		Consumer Price Index (Jul F) - yoy	3.3%	3.3%	18:00	
		EU	ECB Publishes August Monthly Report	-	-	20:00
			CPI (Jul) - mom	-0.1%	0.4%	21:00
			CPI (Jul) - yoy	4.1%	4.0%	21:00
		CPI - Core (Jul) - yoy	1.8%	1.8%	21:00	
GDP s.a. (2Q A) - qoq		-0.2%	0.7%	21:00		
GDP s.a. (2Q A) - yoy		1.5%	2.1%	21:00		

Key: AU: Australia, EU: 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: With the RBNZ on an easing path, we see little on the data horizon to stop them from cutting interest rates over the remainder of this year. The dataflow is likely to confirm the economy is slowing rapidly, although with still lingering inflationary pressures. Retail sales data this week is the major focus and will confirm households are under the pump.

Date	Data/Event	Economic Signal	Comment
circa 11 Aug	REINZ House Sales (July)	Recovery off low base, but prices down	House sale volumes are expected to rebound in the month as vendors adjust their price expectations. Prices are expected to continue to fall.
Wed 13 Aug (10.45)	Producer Price Index (Q2)	Solid increase	Further increases in oil and wholesale electricity prices are expected to see both input and output prices rise strongly in the quarter.
Fri 15 Aug (10.45)	Retail Sales (Jun)	Price increases eating into discretionary income	The ECT and credit card data point to a fall in June retail sales, particularly for core sales. We expect retail sales volumes for Q2 to show a large contraction.
Wed 21 Aug (10.45)	External Migration (Jul)	Finding a base	The monthly net inflow appears to have found a base and we expect the 12-month total to remain around the current 5,000 level. Visitor arrivals are probably more important to watch as a gauge of global demand.
Wed 21 Aug (10.45)	Electronic Card Transactions (Jul)	Weak	Volatility aside, retail spending is likely to remain weak as cost of living pressures weigh on household budgets.
Wed 21 Aug (10.45)	Credit Card Spending (Jul)	Weak	Similar themes to the ECT data.
Wed 21 Aug (15.00)	NBNZ Regional Trends (Q2)	-	-
Tue 26 Aug (10.45)	Overseas Merchandise Trade (Jul)	Monthly deficit	Another monthly trade deficit, as the impact of high oil prices continues to add to imports, although a correction in consumption goods imports is eventually likely given the turn in domestic demand.
Thu 28 Aug (15.00)	NBNZ Business Outlook (Aug)	-	-
Thu 28 Aug (15.00)	Credit Growth (Jul)	Weak	Household lending growth will be soft in line with the weak housing market. Business lending should also continue to weaken, although agriculture will provide some offset.
Fri 29 Aug (10.45)	Building Consents Issued (Jul)	Weak	Building consent issuance may bounce from the weak June level, but still with a weak trend. Commercial issuance remains key to watch.
Wed 3 Sep (15.00)	ANZ Commodity Price Index (Aug)	-	-
On Balance		An economy heading backwards, but with inflation	Growth indicators are poor. But inflation needs to be watched.

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
GDP (% qoq)	0.8	0.5	0.8	-0.3	-0.5	-0.2	0.2	0.3	0.5	0.5
GDP (% yoy)	3.2	3.3	3.5	1.9	0.6	-0.2	-0.8	-0.2	0.8	1.5
CPI (% qoq)	1.0	0.5	1.2	0.7	1.6	1.4	0.9	0.5	0.7	0.7
CPI (% yoy)	2.0	1.8	3.2	3.4	4.0	5.0	4.7	4.5	3.6	2.9
Employment (% qoq)	0.3	-0.1	0.9	-1.3	1.3	-0.6	-0.1	0.0	0.1	0.2
Employment (% yoy)	1.5	1.5	2.5	-0.2	0.7	0.2	-0.7	0.6	-0.6	0.2
Unemployment Rate (% sa)	3.6	3.5	3.4	3.7	3.9	4.2	4.5	4.6	4.8	4.9
Current Account (% GDP)	-8.1	-8.3	-7.9	-7.8	-7.6	-7.4	-7.2	-6.8	-6.4	-6.1
Terms of Trade (% qoq)	0.4	3.7	2.7	4.1	-0.1	-1.0	0.0	-1.5	-1.2	-1.0
Terms of Trade (% yoy)	2.3	8.4	8.5	11.3	10.7	5.8	3.0	-2.5	-3.6	-3.7

KEY ECONOMIC INDICATORS

	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
Retail Sales (% mom)	-0.5	1.8	0.1	0.2	-0.6	-1.1	1.2	-1.2
Retail Sales (% yoy)	5.8	7.2	5.4	6.3	7.7	-1.0	4.1	1.0
Credit Card Billings (% mom)	-0.4	1.1	0.5	-	0.9	-3.4	3.9	-1.2	-0.7	..
Credit Card Billings (% yoy)	7.7	9.5	7.6	8.6	8.0	3.3	8.2	5.9	3.3	..
Car Registrations (% mom)	5.7	-3.5	-2.6	5.2	-4.3	-13.3	11.7	-14.7	3.3	..
Car Registrations (% yoy)	4.7	2.3	1.4	1.7	1.9	-13.2	-1.0	-20.6	-15.9	..
Building Consents (% mom)	-4.0	0.6	-4.3	3.1	-6.1	-13.4	80.5	-40.8	-20.2	..
Building Consents (% yoy)	-15.8	-4.4	-6.5	-5.3	-17.7	-27.3	30.6	-26.5	-47.1	..
REINZ House Price (% yoy)	8.0	6.7	4.5	4.0	0.7	1.6	-1.1	-1.4	-2.2	..
Household Lending Growth (% mom)	0.8	0.8	0.7	0.7	0.8	0.4	0.4	0.4	0.3	..
Household Lending Growth (% yoy)	13.0	12.8	12.3	11.9	11.6	10.8	9.9	9.3	8.4	..
Roy Morgan Consumer Confidence	122.0	121.9	126.6	121.2	116.0	111.7	99.9	89.2	86.5	83.9
NBNZ Business Confidence	-12.9	-19.6	-24.9	..	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2
NBNZ Own Activity Outlook	20.3	15.7	18.2	..	2.4	-6.4	-3.8	-4.4	-4.0	-8.2
Trade Balance (\$m)	-774	-628	39	-311	243	-43	-288	-168	-223	..
Trade Balance (\$m annual)	-5883	-5691	-5307	-4793	-4422	-4526	-4599	-4775	-4480	..
ANZ World Commodity Price Index (% mom)	1.8	0.8	0.0	-1.4	1.1	2.0	-0.3	0.9	0.0	1.8
ANZ World Commodity Price Index (% yoy)	37.8	35.9	30.9	27.4	26.9	26.9	20.7	18.7	11.6	8.7
Net Migration (sa)	230	440	20	100	250	530	480	960	490	..
Net Migration (annual)	7517	6588	5491	4799	4643	4678	4666	4931	4732	..

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)						
	Jun-08	Jul-08	11-Aug-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
NZD/USD	0.762	0.756	0.701	0.710	0.690	0.680	0.660	0.640	0.630	0.620
NZD/AUD	0.801	0.785	0.791	0.755	0.750	0.747	0.742	0.744	0.759	0.765
NZD/EUR	0.489	0.479	0.469	0.455	0.454	0.453	0.446	0.441	0.450	0.456
NZD/JPY	81.4	80.7	77.4	76.7	74.5	74.8	72.6	71.7	71.8	71.3
NZD/GBP	0.387	0.380	0.367	0.362	0.358	0.358	0.353	0.346	0.346	0.344
NZ\$ TWI	68.2	67.2	64.8	63.8	62.7	62.4	61.1	60.2	60.5	60.4
NZ interest rates	Jun-08	Jul-08	11-Aug-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
OCR	8.25	8.18	8.00	7.75	7.25	7.25	7.00	6.50	6.00	6.00
90 day bill	8.76	8.46	8.22	8.00	7.60	7.60	7.10	6.50	6.20	6.20
10 year bond	6.44	6.17	6.21	6.30	6.00	6.00	5.80	5.70	5.70	5.80
International	Jun-08	Jul-08	11-Aug-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
US Fed funds	2.00	2.00	2.00	2.00	1.75	1.75	1.75	2.25	2.75	3.25
US 3-mth	2.78	2.79	2.80	2.50	2.00	1.75	2.00	2.50	3.00	3.50
AU cash	7.25	7.25	7.25	7.00	6.75	6.75	6.50	6.25	6.25	5.75
AU 3-mth	7.84	7.76	7.32	7.60	7.00	7.00	6.80	6.50	6.40	5.90

KEY RATES

	8 Jul	4 Aug	5 Aug	6 Aug	7 Aug	8 Aug
Official Cash Rate	8.25	8.00	8.00	8.00	8.00	8.00
90 day bank bill	8.57	8.29	8.29	8.24	8.25	8.22
NZGB 07/09	6.89	6.91	6.91	6.88	6.89	6.88
NZGB 11/11	6.23	6.13	6.15	6.18	6.19	6.19
NZGB 04/13	6.23	6.11	6.14	6.18	6.19	6.19
NZGB 12/17	6.28	6.11	6.15	6.17	6.17	6.17
2 year swap	7.75	7.27	7.29	7.24	7.23	7.24
5 year swap	7.40	7.08	7.08	7.04	7.00	7.00
RBNZ TWI	67.1	65.5	65.6	65.6	65.2	64.4
NZD/USD	0.7521	0.7287	0.7271	0.7251	0.7173	0.7033
NZD/AUD	0.7875	0.7814	0.7837	0.7906	0.7886	0.7847
NZD/JPY	80.56	78.48	78.67	78.59	78.57	77.09
NZD/GBP	0.3809	0.3689	0.3709	0.3706	0.3682	0.3642
NZD/EUR	0.4787	0.4677	0.4681	0.4682	0.4647	0.4616
AUD/USD	0.9550	0.9326	0.9278	0.9172	0.9096	0.8963
EUR/USD	1.5712	1.5581	1.5533	1.5487	1.5437	1.5237
USD/JPY	107.11	107.70	108.20	108.39	109.53	109.61
GBP/USD	1.9744	1.9751	1.9602	1.9567	1.9481	1.9312
Oil	141.38	121.45	121.45	118.71	118.57	119.84
Gold	927.25	894.65	891.65	878.40	882.35	869.30
Electricity (Haywards)	28.26	9.01	7.52	5.73	6.34	8.50
Milk futures (US\$/contract)	144	139	139	139	139	139
Baltic Dry Freight Index	9147	8209	8100	7869	7521	7201

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.

DISCLAIMER

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

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

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