

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

8 November 2010

INSIDE

Economic Overview	2
Monthly Inflation Gauge	5
Interest Rate Strategy	6
Currency Strategy	7
Effective Exchange Rate Update	8
Data Event Calendar	10
Data Watch	12
Key Forecasts	13

NZ ECONOMICS TEAM

Cameron Bagrie
Chief Economist
Telephone: +64 4 802 2212
E-mail: Cameron.Bagrie@anz.com

Khoon Goh
Head of Market Economics and Strategy
Telephone: +64 4 802 2357
E-mail: Khoon.Goh@anz.com

David Croy
Senior Interest Rate Strategist
Telephone: +64 4 576 1022
E-mail: David.Croy@anz.com

Sharon Zöllner
Senior Economist
Telephone: +64 4 576 1062
E-mail: Sharon.Zollner@anz.com

Mark Smith
Economist
Telephone: +64 4 802 2199
E-mail: Mark.Smith2@anz.com

Steve Edwards
Economist
Telephone: +64 4 802 2217
E-mail: Steve.Edwards@anz.com

Con Williams
Rural Economist
Telephone: +64 4 802 2361
E-mail: Con.Williams@anz.com

CURRENCY WOBBLES

ECONOMIC OVERVIEW

QE part 2 of US \$600 billion, a hike from the RBA and a better tone to NZ labour market data has sent the NZD skyward. While not sufficient at present to undermine aggregate economic prospects in terms of tightening financial conditions, it's a reminder that NZ is the two-dime player on the high rollers' table. Global events that are driving the NZD higher are beyond our control and spheres of influence. Some of the proposed solutions, including capital controls, are bigger evils. This week sees the release of the first batch of retail and housing market data in the new tax environment, which is expected to affirm the RBNZ's cautious view of household sector developments. While the economy appears to be trading water currently, conditions for a more upbeat 2011 are gradually moving into place.

MONTHLY INFLATION GAUGE

Our monthly inflation gauge posted a 1.1 percent increase in October, following a 0.3 percent decline in September. This was less than we would have expected, given it is the first month in the higher GST environment. The apparent lack of flow-through from higher GST into retail prices supports the RBNZ view on inflation. However, it is still early days and the muted initial impact may well be a function of timing.

INTEREST RATE STRATEGY

While the Fed's second instalment of quantitative easing (QE2) failed to elicit a meaningful rally in the bond market, the RBA's rate hike caught the market by surprise. Rates are on hold here, but the RBA hike is a timely reminder of the upbeat tone in the "neighbourhood" we reside in. Assessing significant growth dichotomies among our trading partners will be a key judgement for the RBNZ in 2011, and we believe we have seen the lows in NZ rates this cycle. The degree to which NZ rates continue to rise will in part depend crucially on how borrowers respond. NZ rates look to be shifting to a new range, but with more potential for upwards drift.

CURRENCY STRATEGY

Broad based NZD strength continued last week with the TWI up 3 percent in the week and up 5 percent over the last two weeks, as stronger data prints locally surprised the currency market. In the US the announcement of the much anticipated QE2 gave the market enough comfort to resume its USD selling. After such a strong run, expect the NZD to consolidate this week. A re-emergence of sovereign concerns in the eurozone is one to watch.

EFFECTIVE EXCHANGE RATE UPDATE

Our effective exchange rate (EER) measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Two of the industry groups we monitor experienced a more enhancing effective exchange rate, with rising commodity prices more than offsetting the stronger NZD/USD. However, five of the other six groups generally experienced more restrictive trading conditions. Sizeable disparities in trading conditions for our major export groups remain.

ECONOMIC OVERVIEW

SUMMARY

QE part 2 of US \$600 billion, a hike from the RBA and a better tone to NZ labour market data has sent the NZD skyward. While not sufficient at present to undermine aggregate prospects in terms of tightening financial conditions, it's a reminder that NZ is the two-dime player on the high rollers' table. Global events that are driving the NZD higher are beyond our control and spheres of influence. Some of the proposed solutions, including capital controls, are bigger evils. This week sees the release of the first batch of retail and housing market data in the new tax environment, which is expected to affirm the RBNZ's cautious view of household sector developments. While the economy appears to be trading water currently, conditions for a more upbeat 2011 are gradually moving into place.

THIS WEEK'S EVENTS

- **SNZ Electronic Card Transactions – October 2010** (Tuesday, November 9, 10:45am). The GST rise will push the value of electronic card transactions up. We suspect consumers continue to have their wallets shut. We are looking for a 1 percent rise in spending.
- **RBNZ Financial Stability Review** (Wednesday, November 10, 9:00am). The FSR will reinforce the sound financial system in NZ. Some comment about the currency is possible.
- **BNZ Business NZ Manufacturing PMI – October** (Wednesday, November 10, 10:30am). We expect the headline PMI measure to pick up towards 50.
- **SNZ Food Price Index – October 2010** (Thursday, November 11, 10:45am). A 2.5 percent monthly increase in food prices is expected.
- **REINZ Housing Market Data – October 2010** (Friday, November 12, 10:00am). We expect a 2 percent rise in sales, largely on account of a partial rebound in Canterbury sales. Sales in other areas could fall. Prices are expected to continue trending downwards.

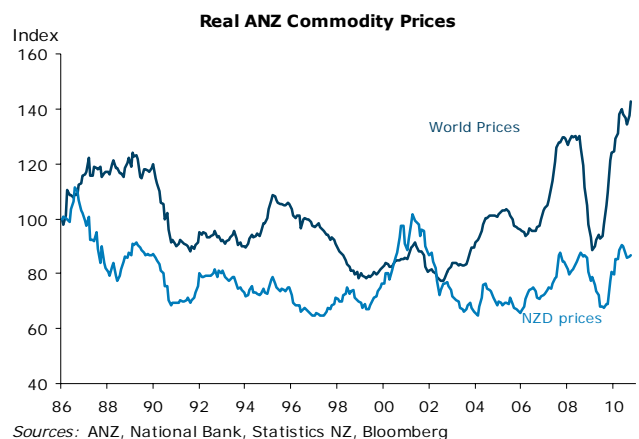
WHAT'S THE VIEW?

Central bank announcements by the FOMC and the RBA dominated last week. The scale of further quantitative easing announced by the FOMC was not of the "shock and awe" variety that some market participants had been hoping for. Still, US \$600b in purchases of longer-term Treasury securities over the next 8 months is nothing to sneeze at. This equates to US \$75b, or half of NZ's

total annual nominal GDP a month. **The dichotomised market response is interesting: bonds have sold-off, while the USD has remained under the pump, sending the NZD skyward.** Across the Tasman, the RBA hiked – unexpected in timing (though in line with what our colleagues were expecting), but not in spirit: they'd been flagging that rates would need to move up for a while.

A dovish Fed, upbeat RBA and better tone to NZ's domestic data has put a rocket under the NZD. To recap the domestic data last week:

- We saw strong price gains for soft commodities, with the ANZ World Commodity Price Index up 3.5 percent. A further broadening of commodity price strength beyond dairy was key, with wool prices at a 21-year high.
- Volatility aside, labour market readings had a better underlying tone. The HLFS has been all over the place of late, but the September survey looked fairly internally consistent (apart from some weird swings in male and female employment). Beyond physical job creation and the associated drop in the unemployment rate from 6.9 to 6.4 percent, labour earnings are up 3.6 percent in the September year, which will support not only spending, but also the process of deleveraging.

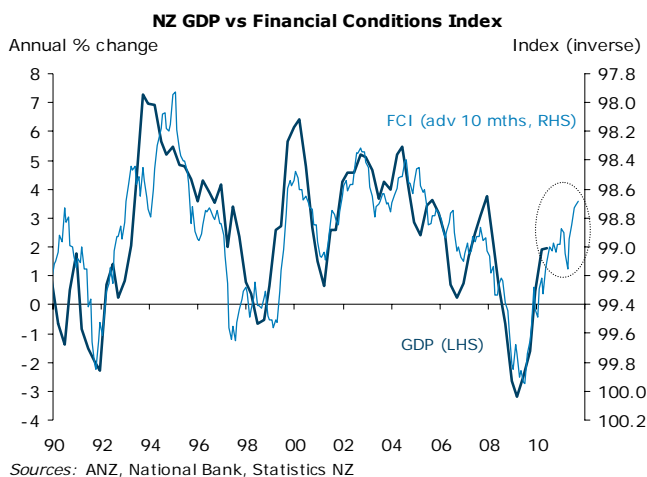


While high commodity prices and a low NZD/AUD are clearly beneficial for NZ.Inc, as our analysis of effective exchange rates on page 8 shows, the high NZD/USD is doing parts of the export sector no favours. While whole milk powder prices in the November *globalDairyTrade* auction were broadly unchanged in USD terms, the implied NZD price fell 2.7 percent to around NZD \$4,500 per tonne. At this stage, the high NZD is not enough to threaten Fonterra's milk price forecast of

ECONOMIC OVERVIEW

\$6.60 kg/ms. But it means the upside is capped. The RBNZ are likely to be more concerned about the impact of the strong currency on the tradable sector than the RBA, who view the higher AUD as being consistent with economic fundamentals and assisting in containing inflationary pressure. Indeed, the RBA need a higher currency due to limited inflation headroom.

It's at this juncture that better looking data (in a relative sense) or the policy decisions of others can undermine local prospects. The past week has seen a tightening in financial conditions via the currency and higher interest rates. The NZD on a TWI basis has broken out of its recent range, and while NZD commodity prices were up in October, they'd have to go up a lot further in November to mitigate the NZD's rise. Last month's National Bank business confidence survey showed a 10 point dip in export intentions, and that was likely a response to the push through 75 US cents. Now we're knocking on the door of 80! **At present we don't think the tightening in financial conditions from the currency is sufficient to undermine the outlook for 2011. Financial conditions have eased in other areas, i.e. equities and commodity prices.** Admittedly, the NZD/USD's rise is becoming problematic for exporters but let's not forget the level of support from other areas. While the likes of the NZD/AUD has bounded from 0.76 to 0.78 and the 2 year swap is up 25 basis points in a fortnight, such a de-facto tightening is coming from extremely favourable conditions in the first place.

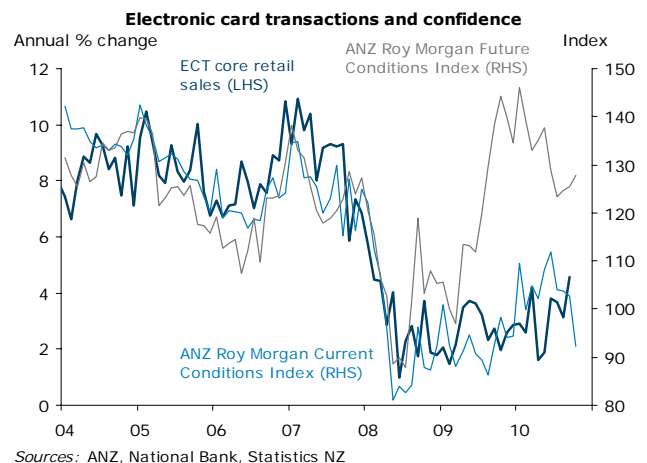


If we are right and the recent improvement in economic indicators is sustained - GST hiccups to retailing aside, we'd expect financial conditions to tighten somewhat in response.

Remember, the NZ interest rate market only has half a hike priced in by March and around 100 basis points in aggregate over 2011, which is a little light

in our view. This does not mean that we gloss over the likes of the rise in the NZD/USD; its not justified by NZ's fundamentals. Unfortunately the exchange rate is a relative price and our fundamentals look a lot healthier than those in the US at present. **Suffice to say we put the tightening in aggregate financial conditions into the watch as opposed to the worry basket.**

In regard to the NZD/USD, debate is heating up as what could be done. Ironically, the moment you start seeing the chorus for different instruments or approaches to intervention (think the US equity bubble in 2000, or local housing bubble in 2008) is precisely when market extremes have self-corrected. Calls for the RBNZ to intervene in the FX market have been fairly muted so far. For the RBNZ to intervene, all necessary criteria have to be met: the NZD TWI being at "exceptional" levels that are "unjustified by economic fundamentals"; intervention being consistent with the spirit of the Policy Targets Agreement (PTA); and intervention deemed to have a fair chance of success. We believe you would have to currently pencil in a "no" for all of these criteria. The idea of capital controls or adopting the Singaporean model is being offered as a solution. However, there are important differences between the two economies. The last time we looked Singapore had official foreign reserves at around 100 percent of GDP compared to just 12 percent for New Zealand. Furthermore, Singapore's net financial asset position of plus 230 percent of GDP is in marked contrast to our net financial liabilities of 87 percent of GDP! **Our current floating exchange rate regime is not perfect, but relative to the carnage capital controls and the likes imposed on the economy in the 1970's, it's the lesser of alternate evils.**



Turning to this week's data, we get October readings for housing and retailing, and GST and seismic anomalies are likely to be influential.

ECONOMIC OVERVIEW

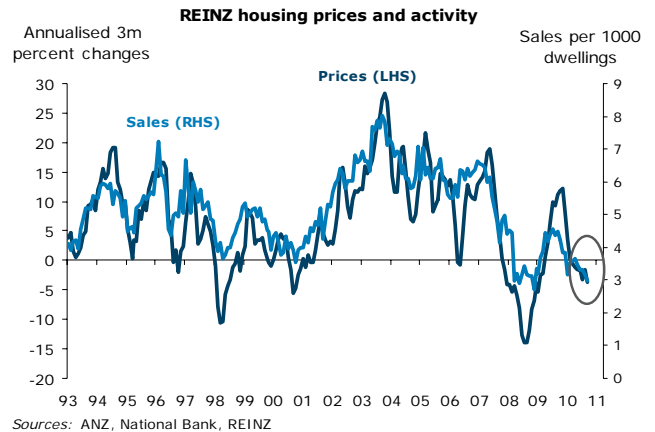
We are assuming that October retail electronic card transactions (ECT) will increase by 1 percent due to the GST increase. But stripping out the GST effect, the volume of spending is likely to have fallen. The fall in the proportion of respondents viewing it a better time to purchase a major household item in the October ANZ-Roy Morgan Consumer Confidence survey suggests a near-term post-GST hangover. As our October inflation gauge on page 5 suggests, the impact of higher GST on prices so far has been relatively muted on non-tradable items. It is early days yet, however.

Wednesday sees the release of the 6-monthly RBNZ financial stability report. We are not expecting the report to be market moving, although the FSR report and press conference can provide useful insights into the RBNZ's line of thinking.

We are expecting further positive signs to emerge in manufacturing sector sentiment, with the BNZ-Business NZ Manufacturing PMI expected to tick up to around the 50 mark in October. Business confidence amongst manufacturers rose in October in the National Bank Business Outlook survey, and we have seen international measures of confidence and production among manufacturers rise recently. Although sentiment remains weaker than at the start of the year and the NZD/USD is at dizzying heights, things are starting to look a little better for manufacturers. Given that food manufacturing makes up a large chunk of the sector in NZ, higher **commodity prices probably have quite a lot to do with it.**

Largely on account of the rise in GST, we are expecting October food prices to have increased by approximately 2.5 percent. Of potentially greater importance for medium-term price pressures has been the global undercurrent of rising food prices, which we also expect to be influential in New Zealand over the next year or so.

REINZ data is expected to show a recovery in the number of house sales from depressed levels. We expect a 2 percent increase in sales, largely on account of a partial rebound of sales in the Canterbury region. However, sales in other areas are likely to have fallen if the decline in Auckland house sales reported by Barfoot and Thompson is anything to go by. House prices have been trending downwards, falling at an annual rate of close to 4 percent. Examining trends by price bracket suggests price weakness is more concentrated amongst the expensive suburbs, with annualised falls of around 6 percent. The weakness in retail spending is likely to be partly attributable to the wealth effect working in reverse.



RECENT LOCAL DATA

- ANZ Commodity Price Index – October 2010.** Commodity prices rose 3.5 percent to a new all time high (+31.4 percent). Prices for nine commodities rose whereas three recorded price declines. New Zealand dollar denominated export prices rose by 0.8 percent (+28.2 percent y/y).
- SNZ Labour Cost Index – Q3 2010.** Private sector ordinary time salary and wage rates rose by 0.6 percent in Q3 (+1.6 percent y/y) with the unadjusted private sector measure registering a 1.3 percent quarterly increase (+3.4 percent).
- SNZ Quarterly Employment Survey – Q3 2010.** Private sector ordinary time earnings rose 1 percent (0.7 percent y/y). The number of filled jobs declined by 0.4 percent (s.a.) in Q3, whereas paid hours rose by 0.2 percent (s.a.).
- globalDairyTrade online auction – early November.** Whole milk powder prices rose by 0.2 percent in the early November event to US \$3,495 per tonne (+15.7 percent y/y). In NZD terms, prices fell by 2.7 percent m/m (+9.6 percent y/y).
- SNZ Household Labour Force Survey – Q3 2010.** Employment increased by 1.0 percent (1.8 percent y/y), with the unemployment rate declining to 6.4 percent in seasonally adjusted terms (previously 6.9 percent). The labour force participation rate ticked up to 68.3 percent of the working age population, from 68.1 percent.

MONTHLY INFLATION GAUGE

SUMMARY

Our monthly inflation gauge posted a 1.1 percent increase in October, following a 0.3 percent decline in September. This was less than we would have expected, given it is the first month in the higher GST environment. There was a scattering of sizeable increases throughout the gauge, but in general price increases were more restrained, with even a few price falls occurring. The apparent lack of flow-through from higher GST into retail prices supports the RBNZ view on inflation. However, it is still early days and the muted initial impact may well be a function of timing.

ANOTHER MODERATE MONTH

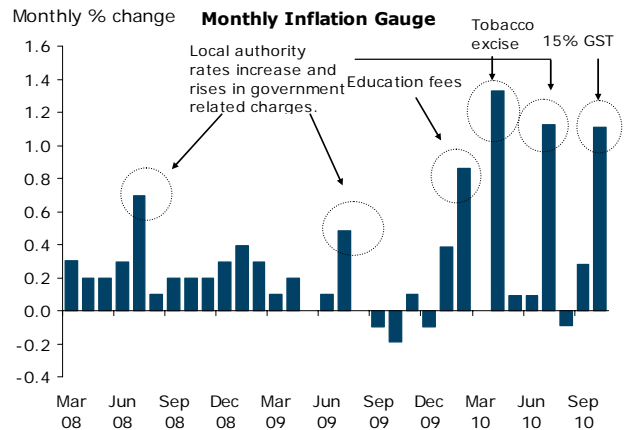
Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI, differences in methodology and coverage mean the gauge will not exactly mirror the official series. However, it is proving to be a useful indicator of the broad direction of domestic inflationary trends.

The 1.1 percent monthly increase in the gauge was less than we had expected given it was the first month in the higher GST environment.

There was a scattering of sizeable monthly price increases: 17 percent for postal services, 14 percent for dwelling insurance, 5 percent for health insurance, 4 percent for medical services and electricity, 3 percent for hairdressers. Prices in eight of the nine groups within the gauge increased in October. Price movements in the gauge were lower than the 2.2 percent increase implied by higher GST. There were even a few price falls scattered throughout the gauge, with lower prices for alcoholic drinks and life insurance. The lack of sizeable price increases for some groups was expected: dwelling rents, which account for about 17 percent of the gauge, are not subject to GST, and education fees are usually levied in the March quarter.

The gauge has proved to be a useful bellwether of inflationary trends, correctly picking the 1.2 percent quarterly increase in Q3 non-tradable CPI. **The smaller than expected October increase may be a consequence of the weak demand environment,** where the pricing power of firms is limited, or it may simply be a function of timing. The former is the current view of the RBNZ who believe that the GST-induced spike in prices will have little impact on medium-term inflation. **Conversely, it could be that firms are still in the process of adjusting their pricing structures.** If this is the

case, the upshot is likely to be firmer increases in prices for more goods and services over the coming months. In this regard, readings from our inflation gauge in the next few months will provide an important steer on the extent of pricing pressures throughout the domestic economy. **We will be watching closely for any signs of a more generalised spill-over in pricing behaviour.**



Source: ANZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Feb 08	1000	0.0		
Mar 08	1003	0.3		1.1
Apr 08	1005	0.2		
May 08	1007	0.2		
Jun 08	1010	0.3	0.6	0.9
Jul 08	1017	0.7		
Aug 08	1018	0.1		
Sep 08	1020	0.2	1.1	1.3
Oct 08	1022	0.2		
Nov 08	1024	0.2		
Dec 08	1027	0.3	0.6	0.8
Jan 09	1031	0.4		
Feb 09	1034	0.3		
Mar 09	1035	0.1	0.9	0.7
Apr 09	1037	0.2		
May 09	1037	0.0		
Jun 09	1038	0.1	0.4	0.5
Jul 09	1043	0.5		
Aug 09	1043	0.0		
Sep 09	1042	-0.1	0.5	1.0
Oct 09	1040	-0.2		
Nov 09	1041	0.1		
Dec 09	1040	-0.1	-0.2	0.1
Jan 10	1044	0.4		
Feb 10	1053	0.9		
Mar 10	1053	0.0	0.9	0.5
Apr 10	1067	1.3		
May 10	1068	0.1		
Jun 10	1069	0.1	1.7	0.6
Jul 10	1081	1.1		
Aug 10	1080	-0.1		
Sep 10	1083	0.3	1.2	1.2
Oct 10	1094	1.1		

INTEREST RATE STRATEGY

SUMMARY

While the Fed's second instalment of quantitative easing (QE2) failed to elicit a meaningful rally in the bond market, the RBA's rate hike caught the market by surprise. Rates are on hold here, but the RBA hike is a timely reminder of the upbeat tone in the "neighbourhood" we reside in. Assessing significant growth dichotomies among our trading partners will be a key judgement for the RBNZ in 2011, and we believe we have seen the lows in NZ rates this cycle. The degree to which NZ rates continue to rise will in part depend crucially on how borrowers respond. If there's mass panic, they could jump sharply, even if only temporarily. NZ rates look to be shifting to a new range, but with more potential for upwards drift.

MARKET THEMES

- QE2 has been delivered, and despite being at least as large as market expectations, US bond yields have not fallen. We find this very telling.
- Broadly speaking, the low rates environment will continue so long as QE does. But they could rise sharply afterwards, and the Fed can amend the size of the programme at any time.
- Domestically, rates look to be under pressure, if only due to the momentum behind the rise. Payers who missed the boat look mildly panicked.

REVIEW AND OUTLOOK

The focus was firmly offshore last week, with 2 key events driving price action. **Top of the list was the Fed's long-awaited QE2 package, second was the RBA board meeting.** That may have been how the market was prioritising things ahead of time, but in the event QE2 came and went with very little reaction, and **it was the RBA's surprise hike that caused a stir.** In many ways we weren't surprised – after all, the market wasn't expecting the RBA to hike, particularly given the prior week's low CPI data. But remember, it's inflation down the track that matters most for policy, and in that regard there are parallels for NZ. **QE was different, and the market had anticipated it well**, and the Fed seemed eager to deliver on expectations. They did, but **bond yields failed to post even a mild relief rally, which begs the question – what would it take for rates to move lower?** With US data already on the mend, although the carrying out of QE will keep yields down, the market will be mindful of the growth and inflation it's designed to deliver.

Domestic rates have moved sharply higher in the past fortnight, partly for global reasons, partly on better data. This could have further to go yet, particularly if mortgage paying picks up. But as in

the past, we may see a respite over the Christmas break, as activity slows up into the summer.

PREFERRED BORROWING STRATEGIES

As we noted in last week's edition of our regular *Borrower's Strategy*, readers will ideally already be well hedged if they have shared our views in relation to the opportunities that QE II has thrust on the local market. There were 2 reasons for this. First, our view of NZ's growth prospects for 2011 is above-consensus, and as a result, we believe the market has mildly underestimated the degree of RBNZ tightening that's in store. The second related to our global growth view. Not only do we think QE will be successful (it's hard to imagine it not being given that the package is large, and will be increased if necessary), but US data was already showing signs of picking up, and Asian inflation is on the rise. We remain of this view, and favour having at least some cover on at the moment in case the recent run up in rates is sustained. However we do not advocate chasing the market too far – as it has in the past, the market has a tendency to come back after violent spikes higher, and the current spike has the hallmarks of a mildly panicked rise.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	FSR in focus this week.
NZ data	↔/↑	HLFS data upbeat, leading indicators good for 2011.
Fed Funds / front end	↔	QE2 all the market wanted and more. But no rally!
RBA	↔/↓	Pre-emptive hike takes pressure off in near future.
US 10 year	↔	Look to have bottomed out.
NZ swap curve	↔/↓	Get ready for near term steepeners.
Flow	↔/↑	Payers might panic.
Technicals	↔/↑	2yr break of 4% significant.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 9-Dec-10	+1	+2
Thu 27-Jan-11	+5	+8
Thu 10-Mar-11	+13	+20
Thu 28-Apr-11	+29	+37
Thu 9-Jun-11	+39	+53
Thu 28-Jul-11	+56	+68
Thu 15-Sep-11	+68	+84

TRADING THEMES WE FAVOUR AT PRESENT

We struggle to see outright rates moving lower from here, but with the curve still steep, it's uneconomic to be outright short. From a portfolio perspective, we prefer to be short duration, escaping the potential for capital losses by being overweight the short end, where roll is better. Now that the swap curve has flattened, we favour picking levels to put on medium term steepeners. These should perform well, as we expect the long end to rise more quickly in the post QE environment than the OCR, steepening the curve.

CURRENCY STRATEGY

SUMMARY

Broad based NZD strength continued last week with the TWI up 3 percent in the week and up 5 percent over the last two weeks, as stronger data prints locally surprised the currency market. In the US the announcement of the much anticipated QE2 gave the market enough comfort to resume its USD selling. After such a strong run, expect the NZD to consolidate this week. A re-emergence of sovereign concerns in the eurozone is one to watch.

MARKET THEMES

- NZ data and positioning lending support to NZD.
- QE2 continues to influence, giving USD bears confidence.
- US data shows some signs of improvement. Could this confound the bears?
- G-20 the next major focus for global currency markets.
- USDJPY remains stable with the market squeezed by BOJ.

REVIEW AND OUTLOOK

NZD strength continued last week given, another boost by better than expected employment data. The NZD has risen by 5.1 percent on a TWI basis over the last two weeks, demonstrating that the recent strength is NZD specific rather than just USD weakness. Specifically, last week's better than expected NZ employment data sparked a 1.2 percent jump in a matter of minutes. While "the trend is your friend", there is little NZ specific data for release this week so perhaps a pause in the trend is in order. Expect consolidation then, with perhaps some jawboning from official quarters – likely with the release of the RBNZ's Financial Stability Report on Wednesday.

NZD/AUD traded in a relatively wide range but ended up going nowhere on the week. The surprise (to some) RBA rate rise on Tuesday sparked the NZD/AUD to lows at around 0.7650. Then, Thursday's surprisingly stronger NZ employment data sent us near the top of the range at 0.7850. Technically NZD/AUD continues to exhibit a positive bias, with the potential to trade above 80 cents over the coming weeks still on the cards.

The much anticipated QE2 by the US Federal Reserve has come and gone but its effect will linger for months to come. The result was close enough to market expectations for it to embark on fresh USD selling, taking EUR to a 10 month high.

However the ongoing tug-of war between US QE2 and lingering concerns about the fragility of southern European economies reversed all of the post QE2 gains. The rise in the peripheral eurozone credit default swap spreads, with the Irish one to record highs, suggest the focus of attention in currency markets could start to shift away from the USD towards the EUR. Especially with the US economic dataflow starting to take on a better tone, first with the ISM beating expectations and non-farm payrolls surprising on the upside (not to mention better revisions). As the market focuses on the G-20 summit this week, expect EUR to range trade.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔	Back close to fair value.
Yield	↔	Yields stable for now.
Commodities	↔	Soft commodities very strong, lending support to NZD.
Partial indicators	↔	Trans-Tasman data releases slightly more balanced.
Technicals	↑	Now in uptrend heading for 80 cents.
Sentiment	↑	Swung in favour of NZD.
Other	↑	At historically low levels.
On balance	↑	Trending higher 0.7700-0.7900.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	FOMC happy with weaker USD.
Commodities	↔/↑	Remain supportive overall.
Risk aversion	↔	Equities still relevant.
Partial indicators	↔	NZ data showing slight improvement.
Technicals	↔/↑	Overbought but momentum still strong.
AUD	↑	Everyone bullish AUD.
Sentiment	↑	"Disbelief" suggests market missing move may spur panic buying.
Other	↔	Start watching the EUR.
On balance	↔/↑	Remains overall supported with rising base.

EFFECTIVE EXCHANGE RATE UPDATE

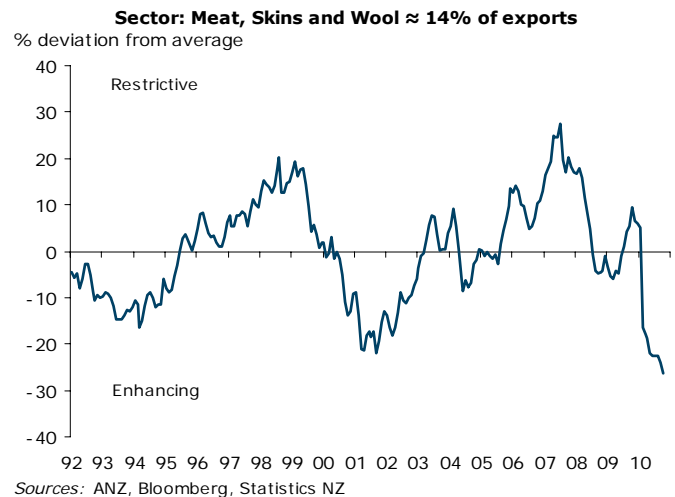
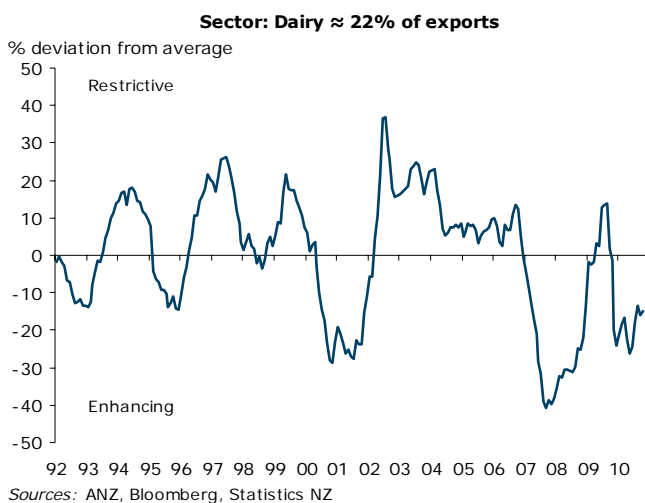
SUMMARY

Our effective exchange rate (EER) measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Two of the industry groups we monitor experienced a more enhancing effective exchange rate, with rising commodity prices more than offsetting the stronger NZD/USD. However, five of the other six groups generally experienced more restrictive trading conditions. Sizeable disparities in trading conditions for our major export groups remain, with competitiveness depending on both who you sell to and what you are selling.

MIXED FORTUNES

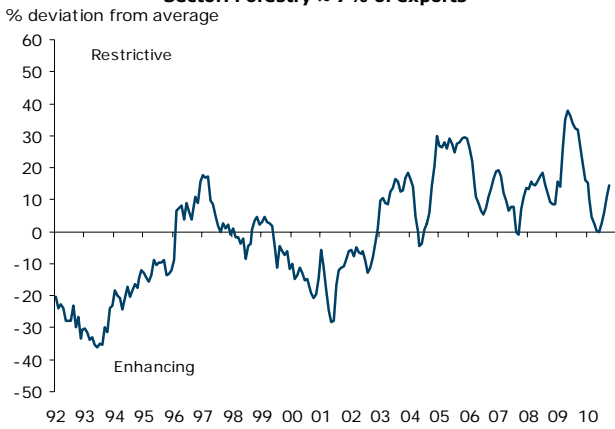
Meat, skins and wool, and crude products experienced a more enhancing effective exchange rate in October. Meat, skins and wool (up 6 percent) and crude (up 5 percent) experienced sizeable increases in world prices. World prices for dairy products (up 2 percent) and forestry (up 1 percent) also rose but were more than offset by the 3 percent increase in the NZD/USD over the month. Trading conditions for seafood exporters were broadly unchanged compared to last month, but declining global commodity export prices for horticulture contributed to less competitiveness. And despite the NZD falling against the AUD and euro, the strengthening NZD against the USD and GBP contributed to a decline in competitiveness for the other sectors we monitor, namely manufacturing and services.

Sizeable disparities in trading conditions are evident in the various export groups. Conditions remain stimulatory for meat, skins and wool, dairy and seafood. Conditions are in restrictive territory for the remaining five groups, most evidently for horticulture. These disparities show little signs of closing, and have widened in some cases, with not all export sectors benefiting from the upswing in export commodity prices. **Even within sector groups, trading conditions are likely to be quite variable.** The low NZD/AUD is likely to have been of considerable benefit for manufacturers selling to the Australian market and for trans-Tasman tourism. Conversely, if the NZD/USD remains above the 75 cent level (it is currently around 79 cents), firms selling into USD-denominated markets will find the going tough, especially those with little pricing power or those not benefiting from historically high export commodity prices. **The picture is also complicated that some exporters have imported inputs, providing a natural buffer against exchange rate moves.** This is difficult to measure in aggregate and is not taken into account in this analysis.



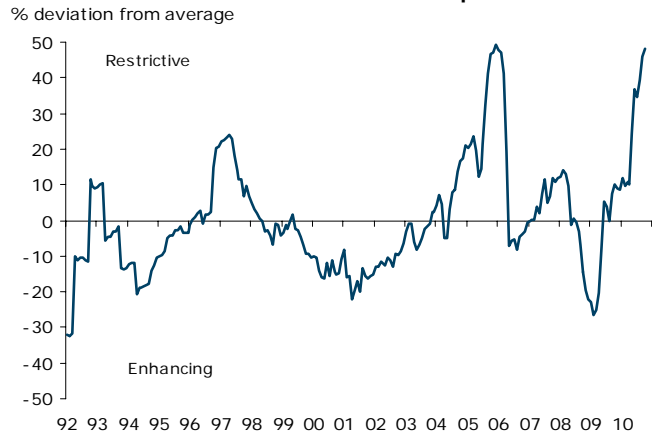
EFFECTIVE EXCHANGE RATE UPDATE

Sector: Forestry \approx 7% of exports



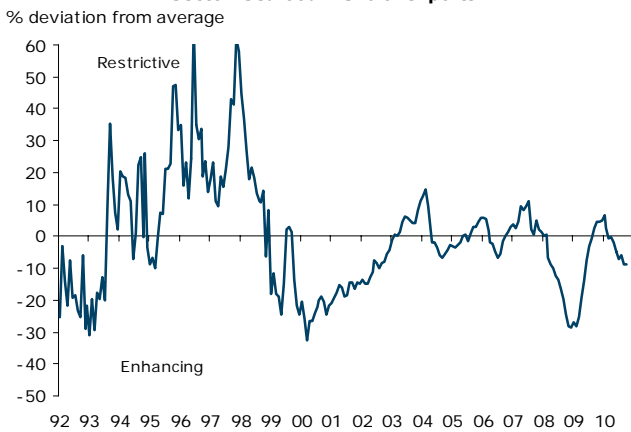
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Horticulture \approx 4% of exports



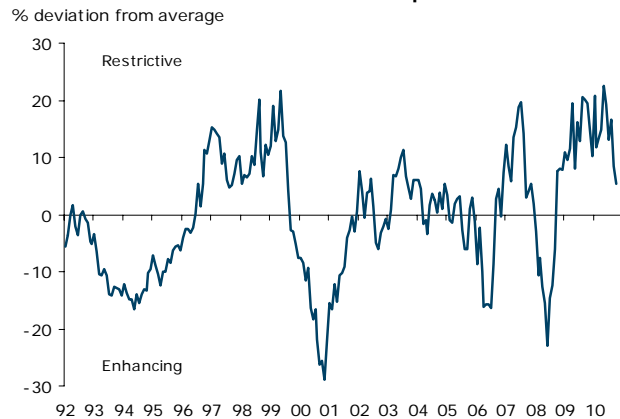
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood \approx 3% of exports



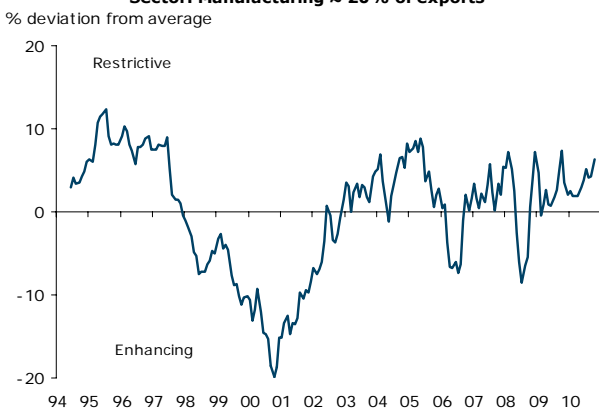
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude \approx 5% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing \approx 20% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services \approx 21% of exports



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
8-Nov	AU	ANZ Job Advertisements (MoM) - OCT	- -	0.70%	13:30
	JN	Coincident Index CI - SEP P	102	103.3	18:00
	JN	Leading Index CI - SEP P	99	99.5	18:00
	GE	Current Account (EURO) - SEP	9.0B	4.6B	20:00
	GE	Trade Balance - SEP	12.0B	9.0B	20:00
	EC	Sentix Investor Confidence - NOV	10	8.8	22:30
9-Nov	GE	Industrial Production MoM (sa) - SEP	0.40%	1.70%	00:00
	NZ	QV House Prices YoY% - OCT	- -	2.00%	00:00
	NZ	NZ Card Spending (MoM) - OCT	- -	1.5	10:45
	JN	Japan Money Stock M3 YoY - OCT	2.10%	2.10%	12:50
	JN	Current Account Total - SEP	¥1684.3B	¥1114.2B	12:50
	JN	Trade Balance (BoP Basis) - SEP	¥876.9B	¥195.9B	12:50
	UK	RICS House Price Balance - OCT	-39%	-36%	- -
	AU	NAB Business Conditions - OCT	- -	7	- -
	AU	NAB Business Confidence - OCT	- -	10	- -
	JN	Eco Watchers Survey: Current - OCT	- -	41.2	18:00
	JN	Eco Watchers Survey: Outlook - OCT	- -	41.4	18:00
	JN	Machine Tool Orders (YoY) - OCT P	- -	113.60%	19:00
	GE	Consumer Price Index (MoM) - OCT F	0.10%	0.10%	20:00
	GE	Consumer Price Index (YoY) - OCT F	1.30%	1.30%	20:00
	UK	Visible Trade Balance GBP/Mn - SEP	-£8000	-£8227	22:30
	UK	Total Trade Balance (GBP/Mln) - SEP	-£4500	-£4643	22:30
	UK	Industrial Production (MoM) - SEP	0.40%	0.30%	22:30
	UK	Industrial Production (YoY) - SEP	3.60%	4.20%	22:30
10-Nov	US	IBD/TIPP Economic Optimism - NOV	46.5	46.4	04:00
	US	Wholesale Inventories - SEP	0.70%	0.80%	04:00
	UK	NIESR GDP Estimate - OCT	- -	0.50%	12:00
	NZ	Reserve Bank Financial Stability Report - NOV			09:00
	AU	Westpac Consumer Confidence Index - NOV	- -	117	12:30
	AU	Home Loans - SEP	1.00%	1.00%	13:30
	AU	Investment Lending - SEP	- -	-3.90%	13:30
	AU	Value of Loans MoM - SEP	- -	0.00%	13:30
	CH	Trade Balance (USD) - OCT	\$25.50B	\$16.88B	12:00
	CH	Exports YoY% - OCT	23.00%	25.10%	12:00
	CH	Imports YoY% - OCT	28.10%	24.10%	12:00
	JN	Consumer Confidence - OCT	40.8	41.4	18:00
	GE	Wholesale price Index (YoY) - OCT	- -	7.60%	20:00
	UK	BOE Quarterly Inflation Report - NOV			23:30
11-Nov	US	Trade Balance - SEP	-\$45.0B	-\$46.3B	02:30
	US	Import Price Index (YoY) - OCT	3.60%	3.50%	02:30
	US	Initial Jobless Claims - Nov 6	450K	457K	02:30
	US	Continuing Claims - Oct 30	4300K	4340K	02:30
	US	Monthly Budget Statement - OCT	-\$149.0B	-\$176.4B	08:00
	NZ	Business NZ PMI - OCT	- -	49.2	10:30
	NZ	Food Prices (MoM) - OCT	- -	0.70%	10:45
	AU	Consumer Inflation Expectation - NOV	- -	3.80%	13:00
	AU	Unemployment Rate - OCT	5.00%	5.10%	13:30
	AU	Employment Change - OCT	20.0K	49.5K	13:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
11-Nov	AU	Part Time Employment Change - OCT	- -	-6.3K	13:30
	AU	Participation Rate - OCT	65.60%	65.60%	13:30
	CH	Producer Price Index (YoY) - OCT	4.50%	4.30%	15:00
	CH	Purchasing Price Index (YoY) - OCT	- -	7.10%	15:00
	CH	Consumer Price Index (YoY) - OCT	4.00%	3.60%	15:00
	CH	Retail Sales (YoY) - OCT	18.80%	18.80%	15:00
	CH	Industrial Production (YoY) - OCT	13.50%	13.30%	15:00
	CH	Industrial Production YTD YoY - OCT	16.00%	16.30%	15:00
	EC	ECB Publishes Nov. Monthly Report – Nov			22:00
12-Nov	NZ	REINZ Housing Price Index MoM% - OCT	- -	-0.30%	10:00
	NZ	REINZ House Sales YoY% - OCT	- -	-33.10%	10:00
	UK	Nationwide Consumer Confidence – OCT	53	53	13:00
	CH	China Property Prices – OCT	8.9	9.1	13:00
	NZ	Non Resident Bond Holdings – OCT	- -	64.00%	15:00
	GE	GDP nsa (YoY) - 3Q P	3.70%	- -	20:00
	GE	GDP s.a. (QOQ) - 3Q P	0.80%	- -	20:00
	EC	Euro-Zone GDP s.a. (QoQ) - 3Q A	0.50%	1.00%	23:00
	EC	Euro-Zone GDP s.a. (YoY) - 3Q A	1.90%	1.90%	23:00
	EC	Euro-Zone Ind. Prod. sa (MoM) – SEP	0.30%	1.00%	23:00
13-Nov	US	U. of Michigan Confidence - NOV P	69	67.7	03:55

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States CH: China.

Sources: Dow Jones, Reuters, Bloomberg, ANZ, National Bank. All \$ values in local currency.

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next four weeks: Last week's labour market data underlined the continued improvement which is a positive sign for consumer spending. Rising commodity prices are another positive for the earnings side of the economy, which bodes well for 2011. This week's retail and housing data should continue to emphasise the caution inherent in the household sector. Earthquake-related reconstruction will provide a boost to 2011 but GDP for Q3 2010 will be weighed down by earthquake disruptions. We continue to closely watch the soft gauges for signs of direction, and are encouraged by the improvement shown by the October National Bank Business Outlook survey. However, the impact of a high NZD on sentiment is one to watch.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 9 Nov (10:45am)	Electronic Card Transactions - Oct	Down	The GST rise will push up the value of retail ECT transactions. We expect an increase of retail related ECT spending of around 1 percent.
Wed 9 Nov (10:30am)	BNZ Business NZ Manufacturing PMI - October	Improving	We expect the headline PMI reading to approach 50 from 49.2 in September. Employment and new orders are expected to continue recovering.
Thur 11 Nov (10:45am)	Food Price Index - October	Up, up, up	Higher GST, wet weather and higher export commodity prices will push food prices up.
Fri 12 Nov (10:00am)	REINZ Housing Market Statistics - Oct	Moving higher	Sales are expected to rise 2 percent as quake-related disruptions lessen. However, on an ex-Canterbury basis, sales could fall further. Prices should continue to trend lower.
Mon 15 Nov (10:45am)	Retail Trade Survey - Q3	Up	We expect a 1.2 percent increase in total retail sales for the month, with core retail up 1.0 percent. Nominal core retail spending will increase by about 0.7 percent in Q3, with retail volumes broadly unchanged on Q2.
Thur 18 Nov (10:45am)	Producer Price Index - Q3	Moderating	Lower oil and export commodity prices are expected to deliver a moderation in quarterly input and output price inflation to around 0.7 percent for both measures. The September fall in wholesale electricity prices will be a positive for Q3 GDP if sustained.
Thur 18 Nov (10:45am)	Capital Goods Price Index	Drifting up	We expect a small increase of around 0.2 percent. Higher construction costs to be partly offset by lower prices for imported capital equipment.
Thur 18 Nov (3:00pm)	ANZ-Roy Morgan Consumer Confidence - Nov	- -	- -
Mon 22 Nov (10:45am)	International Travel and Migration - Oct	Providing support	We expect a permanent and long-term (PLT) net inflow of around 1000 persons. Visitor arrivals are expected to dip as the ski season nears an end.
Mon 29 Nov (10:45am)	Overseas Merchandise Trade - Oct	Growing annual surplus	We expect another monthly deficit of about \$400m. The annual trade surplus is forecast to climb above \$1bn.
Mon 29 Nov (3:00pm)	National Bank Business Outlook - Nov	- -	- -
Tue 30 Nov (10:45am)	Building Consents - Oct	Up	Despite higher GST, the number of residential consents is expected to be underpinned by earthquake related reconstruction. The value of work on alterations and additions in particular is expected to firm.
Wed 1 Dec (10:45am)	ANZ Commodity Price Index - Nov	- -	- -
On Balance			Data for Q3 looking subdued but we will be looking for an improving tone over Q4.

KEY FORECASTS AND RATES

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.2	1.0	0.5	0.2	0.4	0.5	1.2	1.4	1.6	0.5
GDP (% yoy)	-1.6	0.5	1.9	1.9	2.1	1.6	2.3	3.5	4.8	4.8
CPI (% qoq)	1.3	-0.2	0.4	0.2	1.1	2.4	0.6	1.0	0.8	0.5
CPI (% yoy)	1.7	2.0	2.0	1.7	1.5	4.1	4.4	5.2	4.9	2.9
Employment (% qoq)	-0.8	0.0	1.0	-0.2	1.0	0.3	0.5	0.7	0.6	0.4
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	1.8	2.1	1.7	2.5	2.1	2.2
Unemployment Rate (% sa)	6.5	7.1	6.0	6.9	6.4	6.3	6.2	5.8	5.6	5.5
Current Account (% GDP)	-3.2	-2.8	-2.4	-3.0	-3.7	-3.0	-3.1	-3.0	-3.1	-3.1
Terms of Trade (% qoq)	-1.6	5.8	6.1	2.0	3.0	0.9	-0.6	-0.6	0.0	-0.9
Terms of Trade (% yoy)	-14.1	-8.2	0.1	12.7	17.9	12.4	5.4	2.6	-0.3	-2.1

	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10
Retail sales (% mom)	0.8	-0.5	0.5	-0.3	0.3	1.0	-0.5	0.0
Retail sales (% yoy)	2.3	2.4	4.4	2.7	1.9	3.4	2.2	2.3
Credit Card Billings (% mom)	1.6	-0.3	0.9	-1.6	1.9	1.0	-1.2	0.6	0.9	..
Credit Card Billings (% yoy)	2.6	1.1	5.2	0.8	3.4	4.4	2.7	2.1	4.1	..
Car registrations (% mom)	-0.8	0.6	4.9	3.1	-4.0	5.6	-6.4	-0.2	2.3	-4.1
Car registrations (% yoy)	15.9	31.4	31.7	40.5	30.5	35.8	16.0	19.0	19.2	9.4
Building consents (% mom)	-3.1	6.6	0.1	8.4	-10.1	2.0	3.0	-17.9	0.6	..
Building consents (% yoy)	34.9	29.9	32.7	32.6	11.5	26.6	26.1	-3.1	-9.5	..
REINZ House Price (% yoy)	7.7	6.1	7.6	4.7	3.7	3.7	2.6	0.9	0.0	..
Household Lending Growth (% mom)	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.1	0.2	..
Household Lending Growth (% yoy)	2.9	2.9	2.9	2.8	2.6	2.6	2.5	2.3	2.3	..
ANZ Roy Morgan Consumer Confidence	131.4	123.6	121.8	121.9	126.0	122.0	115.6	116.3	116.4	113.6
NBNZ Business Confidence	..	50.1	42.5	49.5	48.2	40.2	27.9	16.4	13.5	23.7
NBNZ Own Activity Outlook	..	41.9	38.6	43.0	45.3	38.5	32.4	25.7	26.7	30.5
Trade Balance (\$m)	271	328	608	660	770	221	-182	-413	-532	..
Trade Balance (\$m ann)	-176	-330	-160	178	41	593	589	892	921	..
ANZ World Commodity Price Index (% mom)	0.3	3.7	1.8	5.1	1.2	-1.6	-0.8	-1.4	2.8	3.5
ANZ World Commodity Price Index (% yoy)	36.7	48.6	49.5	53.2	51.8	50.1	47.3	38.6	32.9	31.4
Net migration (sa)	1850	1000	950	750	340	240	910	880	1070	..
Net migration (annual)	22588	21618	20973	19954	17967	16504	15221	14507	13914	..

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

KEY MARKET FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Aug-10	Sep-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.699	0.734	0.794	0.72	0.72	0.73	0.74	0.72	0.71	0.70
NZD/AUD	0.785	0.759	0.784	0.76	0.77	0.75	0.74	0.74	0.74	0.74
NZD/EUR	0.551	0.539	0.566	0.51	0.51	0.52	0.51	0.51	0.51	0.51
NZD/JPY	58.86	61.33	64.53	57.6	56.2	55.1	55.5	56.5	56.8	57.4
NZD/GBP	0.455	0.467	0.490	0.46	0.45	0.46	0.46	0.45	0.44	0.44
NZ\$ TWI	65.5	66.3	69.8	64.1	63.7	64.1	63.8	63.5	63.0	63.0
INTEREST RATES	Aug-10	Sep-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	3.75	4.00	4.25	4.75	5.25
NZ 90 day bill	3.21	3.17	3.16	3.20	3.70	4.20	4.30	4.70	5.20	5.50
NZ 10-yr bond	5.13	5.01	5.31	5.50	5.60	5.90	5.90	5.90	5.80	5.80
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
US 3-mth	0.30	0.29	0.29	0.35	0.35	0.35	0.35	0.35	0.35	0.85
AU Cash Rate	4.50	4.50	4.75	4.75	4.75	5.00	5.25	5.50	5.75	5.75
AU 3-mth	4.75	5.01	4.99	5.00	5.10	5.20	5.50	5.70	6.00	6.00

	5 Oct	1 Nov	2 Nov	3 Nov	4 Nov	5 Nov
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.17	3.20	3.16	3.18	3.17	3.17
NZGB 11/11	3.85	4.10	4.10	4.13	4.17	4.15
NZGB 04/13	4.33	4.58	4.57	4.60	4.64	4.63
NZGB 12/17	4.93	5.20	5.19	5.22	5.24	5.21
NZGB 05/21	5.05	5.29	5.28	5.31	5.34	5.30
2 year swap	3.72	3.92	3.91	3.95	4.07	4.03
5 year swap	4.28	4.54	4.53	4.56	4.65	4.61
RBNZ TWI	66.3	67.8	67.7	68.0	68.8	69.4
NZD/USD	0.7380	0.7667	0.7648	0.7716	0.7844	0.7934
NZD/AUD	0.7633	0.7759	0.7739	0.7730	0.7803	0.7813
NZD/JPY	61.60	61.83	61.67	62.24	63.36	64.12
NZD/GBP	0.4665	0.4774	0.4765	0.4811	0.4863	0.4879
NZD/EUR	0.5401	0.5483	0.5500	0.5504	0.5549	0.5583
AUD/USD	0.9669	0.9882	0.9882	0.9982	1.0053	1.0155
EUR/USD	1.3663	1.3982	1.3905	1.4018	1.4135	1.4211
USD/JPY	83.47	80.64	80.64	80.66	80.78	80.82
GBP/USD	1.5819	1.6059	1.6052	1.6038	1.6131	1.6263
Oil (US\$/bbl)	81.43	81.45	82.94	83.91	86.85	86.85
Gold (US\$/oz)	1314.30	1359.41	1356.41	1354.85	1395.00	1395.00
Electricity (Haywards)	1.77	2.50	3.59	9.73	5.21	5.82
Milk futures (US\$/contract)	118	118	118	118	118	116
Baltic Dry Freight Index	2569	2648	2600	2542	2510	2495

IMPORTANT NOTICE

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.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL 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;

IMPORTANT NOTICE

- 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 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. (Member of FINRA [www.finra.org] and registered with the SEC) ("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 277 Park Avenue, 31st Floor, New York, NY 10172 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.