

## NEED VERSUS WILL

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### Page 2: Economic overview

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### Page 5: Economic comment – to pay or not to pay

- > Mortgage related flows dominated the rates market last week, which had descended into a state of panic. While we expect such noise in the market to dissipate, the immediate implications are dilution of the monetary policy transmission channel, which ups the ante on the RBNZ to do more, either via the OCR front or in giving a clear signal that rates will be staying low for an extended period of time.

### Page 7: Economic comment – global watch

- > Data generally came out stronger than expected last week, particularly in the US, where there are signs of improvement in the housing market, albeit off very low levels. However, weaker jobless claims show that any potential recovery will not be a strong one. Leading indicators in the UK and Europe have also shown some improvement.

### Page 8: Interest rate strategy

- > Recent tightening in monetary conditions has upped the ante on the RBNZ to do more. The risk is now tilted towards a 2 percent trough in the OCR, and for the Bank to clearly signal that rates will stay low for an extended period of time, in order to get the curve down. For borrowers, we suggest staying floating and wait for longer dated yields to drift lower once the mortgage paying flows subside.

### Page 9: Currency strategy

- > The NZD benefited from an increase in rate differentials over the past week. The top now feels in place and a range trade can occur. Current account and GDP are both behind us suggesting the NZD will be more affected by global themes than domestic.

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## ECONOMIC OVERVIEW

We've revised our NZD outlook slightly. The spirit of an easing profile remains, although a quarter later in terms of the actual profile. In our eyes, the currency remains a key relative price variable that needs to correct lower, particularly given pressure on lending rates, which have little to do with the RBNZ.

### What's ahead?

- > **February Credit Growth** (Monday 1500 NZDT). Household lending growth to stay near flat. But lending growth to the agriculture and business sector is expected to remain elevated.
- > **March NBNZ Business Outlook** (Tuesday 1500 NZDT).
- > **March ANZ Commodity Price Index** (Thursday 1500 NZDT).
- > **Crown Financial Statements for Eight Months to February** (Friday 1000 NZDT). We expect tax revenue to reverse the rebound from last month and for another operating deficit to be recorded.

### What's the view?

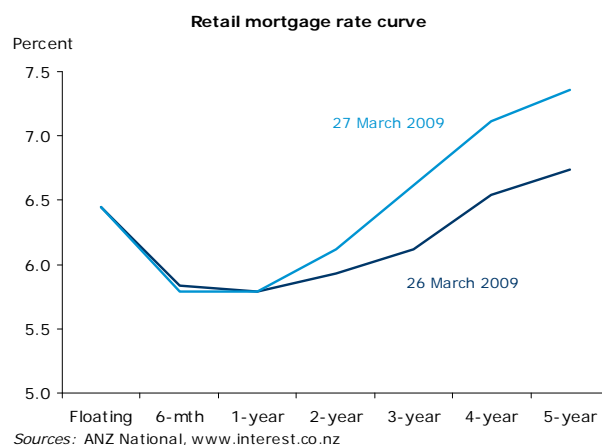
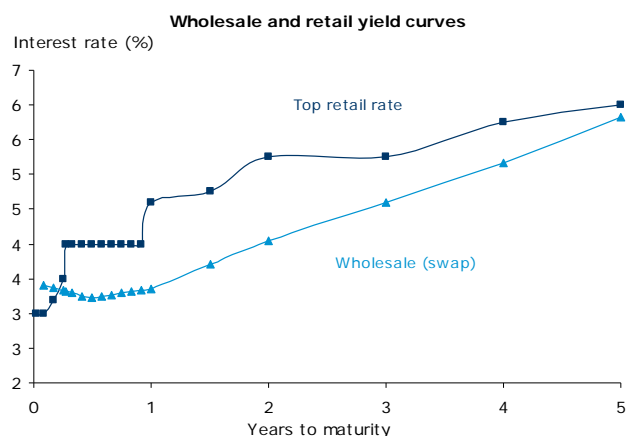
2008 has finally come to a close with data released last week. While tempting to completely ignore (that was then after all), a few points are still noteworthy. The economy remains in recession, and while a 0.9 percent contraction in GDP is hardly something to cheer about, the economy hasn't fallen off a cliff either. The contractions to date remain relatively orderly in so far as the business cycle is concerned. At the same time poor current account figures (-8.9 percent of GDP) continue to tell us that the economy needs to de-leverage. As we've been saying for some time, the sacrificial lamb to this will be growth over 2009.

If anything positive can be taken from the data, it shows that the economy is slowly rebalancing. We have long argued for the need to shift from spending towards the earnings side of the economy. While it is very early days, there is some evidence that this process has begun. This week's credit growth data will point to the speed with which this adjustment is taking place. Consumption growth remains subdued, residential investment has capitulated and imports are now tumbling. The seasonally adjusted current account deficit (while still extremely large) has improved over the past two quarters. February imports are also down 14.2 percent on a year ago – the sharpest fall since February 1993 – and other growth indicators remain very weak.

But this rebalancing process is also featuring in other ways, and the thing that we are closely watching at present is deposit rates. As these

move up there is natural pressure on borrowing rates to do the same, and obviously some of the "noise" across the interest rate market is accentuating the upwards pressure. Page 5 has a quick look at developments and what it all means.

Stepping aside from such noise we need to appreciate what is going on, for we're in no doubt it'll be material in so far as the outlook for the real economy is concerned. Interest rates are simply a relative price mechanism reallocating growth from savers to spenders and the reverse. When you eye overseas credit spreads, capital flows, and sentiment it's easy to see that investors and savers now hold the upper hand. It's been slow to filter through to New Zealand. But what we are seeing at present – which is nothing more than strong competition for cash and firming up of balance sheets – bares all the hallmarks of an aggressive and sharp de-leveraging process. And the sacrificial pawn has to be growth, so we are in no doubt the economy has yet to trough.



In so far as monetary policy is concerned, these movements also represent a significant tightening in monetary conditions. This is coming at a time when the economy remains very weak and will pose headwinds for the RBNZ's solid rebound over H2 2009 prognosis. While there are some firming anecdotes of a recovering housing market (with stories in Wellington of queues developing outside

open homes and houses selling within a few days of going on the market), rising lending rates and less job security will be quick to snuff that out. Also, the RBNZ's March projections now look decidedly dated with a stronger currency (as do everyone's in this environment).

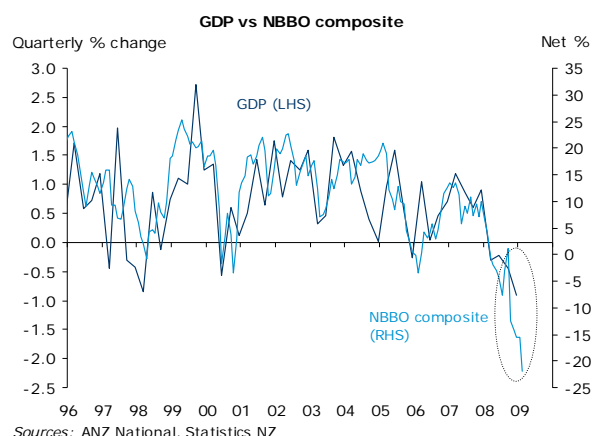
We noted last week that we'd wait until the dust settles before reassessing our financial market views. While tempting to tweak our interest rate view in terms of calling for a more aggressive OCR trough (2 percent versus 2.5), we've resisted. We'll stand by what we said last week: its not just about how low the OCR goes, but how long it is expected to remain low. The next leg for monetary policy is to flag that rates will remain low for an extended period.

The currency is more problematic. Given NZ's external position, there is an inevitability about where the NZD needs to head. The NZD is the key relative price (and circuit breaker) to assist the economy in the rebalancing process. With the RBNZ losing traction over borrowing rates, its implicit target (not that they can admit it) is to get the currency down. Saying the OCR will remain low for sometime as opposed to simply tweaking it could be powerful here. The problem at present is that the USD faces similar hurdles, and of course everyone cannot depreciate their way to economic nirvana. Certainly, the volatility we are seeing across equities and the like, along with weakness in the Euro-region leave us coy about placing too much weight on last week's movements.

For now, we're tweaked our numbers to give more realism given the higher starting position. We now see the NZD/USD hitting 0.49 by the end of June and 0.45 by the end of the year. We likewise see a further leg lower against the other majors. The spirit of weakness remains intact. With fiscal policy in a feared credit rating cut straitjacket and the power of monetary policy being diluted by the deposit market, the currency is the only shock absorber left to do any work. We all know the need, but no doubt questions will remain over whether this will occur. Our March 2009 Quarterly Economic Forecasts should be out in the next couple of days and will attempt to tie it all in together.

	NZDUSD	NZDAUD	NZDJPY	NZDEUR	NZDGBP
Dec-08	0.579	0.824	52.5	0.415	0.397
<b>Current</b>	<b>0.568</b>	<b>0.823</b>	<b>55.7</b>	<b>0.429</b>	<b>0.398</b>
Jun-09	0.490	0.790	49.0	0.395	0.345
Sep-09	0.470	0.810	46.1	0.412	0.336
Dec-09	0.450	0.833	43.2	0.417	0.333
Mar-10	0.440	0.815	41.8	0.407	0.338
Jun-10	0.440	0.786	41.8	0.400	0.338
Sep-10	0.450	0.776	43.7	0.402	0.346
Dec-10	0.460	0.767	45.1	0.404	0.348
Mar-11	0.470	0.734	47.0	0.405	0.351
Jun-11	0.480	0.727	49.0	0.407	0.356
Sep-11	0.500	0.735	52.0	0.417	0.365
Dec-11	0.520	0.743	54.6	0.433	0.371
Mar-12	0.540	0.771	56.7	0.450	0.380
Jun-12	0.550	0.764	57.8	0.458	0.379
Sep-12	0.580	0.784	60.9	0.483	0.395
Dec-12	0.600	0.789	63.0	0.500	0.400

Turning to the events this week, the local data is dominated by the release of the March NBNZ *Business Outlook* tomorrow. This survey is one of the best lead indicators and is a core input we use in determining our near-term views on the economy. While the NZIER's QSBO will be closely eyed in April for the March quarter, the NBNZ *Business Outlook* Survey should provide a pretty good overview given that they were sampled only two weeks apart. In the last survey, own activity expectations remained very weak and other activity gauges such as employment and investment intentions hit record lows. The focus for this month will be whether economic conditions have deteriorated even further or will there be signs of stabilisation. Our composite index is already foreshadowing a further sharp fall in March quarter GDP.



The crown financial statements for the eight months to February (released on Friday) will also be a focus. We expect the tax numbers to reverse their bounce from last month (timing issues around tax payments always feature) and for another operating deficit to be recorded. These numbers are important, as tax (volatility aside) provides a

key gauge on how the economy is tracking prior to the release of economic data. The corporate tax take has fallen over recent months indicating the challenging profit environment at present and we expect this to continue. We will, of course, also be looking closely at the trend in source deductions – the largest tax component – for further information on the state of the labour market. Given anecdotes received we also expect this to be under downward pressure. Recent rhetoric from the Prime Minister and Minister of Finance, suggest they are trying to soften up the market for the *Budget* numbers in May to be ugly.

The other pieces of domestic data this week are February credit growth (today) and the March ANZ Commodity Price Index on Thursday. The question for the latter will be whether NZ commodities can mirror the theme of global commodity price movements over the past few weeks and recover slightly. Household credit growth is likely to remain near flat, considering the weakness still present in the housing market.

Internationally, it is quite a busy data week. The ECB are due to make an announcement on interest rates, with the market expecting another 50bp cut. In Japan, there is the March quarter Tankan business sentiment survey, which is a good leading gauge on the economy. In the US, the ISM surveys and also the non-farm payrolls released for March will be watched to see whether the trend of slightly better data is being maintained.

#### Recent local data...

- > **Westpac McDermott-Miller Consumer Confidence (March quarter):** Pessimists again outnumber optimists, with the index falling by 5.3 points to 96.0.
- > **Balance of Payments (December quarter):** The seasonally adjusted current account deficit improved by \$236m to \$3,772m. However, the annual deficit widened from 8.6 to 8.9 percent of GDP.
- > **GDP (December quarter):** The economy contracted by 0.9 percent in the quarter, with annual growth falling to -1.9 percent.
- > **Overseas Merchandise Trade (February):** A trade surplus of \$489 million was recorded. In the year to February, exports fell 6.6 percent, while imports tumbled 14.2 percent.

## TO PAY OR NOT TO PAY

Mortgage related flows dominated the rates market last week, which had descended into a state of panic. While we expect such noise in the market to dissipate, the immediate implications are dilution of the monetary policy transmission channel, which ups the ante on the RBNZ to do more, either via the OCR front or in giving a clear signal that rates will be staying low for an extended period of time.

As economists, we wouldn't normally be drawn for comment on the cut and thrust of daily market moves, and we certainly wouldn't dwell on them like a trader might. Nonetheless, we find it hard to stay silent in the wake of last week's moves across the swaps market, which was the clearest example of a market gripped by panic we have seen in years. Indeed, on one day alone last week (Thursday), the bellwether 2 year swap moved up a staggering 40bps, only to retreat almost all the way back by the end of the day. If that's not panic, we wonder what is. The rise in wholesale interest rates and resultant rise in mortgage rates certainly has a lot of people talking, and asking questions.

As of last week, 2 to 5 year fixed mortgage rates had risen 19 to 62 basis points, and the wholesale swaps curve is up 41 basis points in the 2 year and 61 basis points in the 5 year. This morning, swap yields have risen by another 15 to 19 basis points across the curve. These sorts of moves tell us there is further pressure on mortgage rates to move up, if left unchecked.

The reasons for the recent movements are wide and varied:

- > Rising deposit rates have increased the domestic funding costs of financial intermediaries.
- > There is a lack of liquidity at times in the NZ rates market, and the usual receive side interest from offshore has been notably absent.
- > Our collective desire as a nation to beat the market has shifted into overdrive. Higher rates encourage a greater incentive to fix for fear of missing the boat, more pay side pressure, upside pressure on the wholesale curve, fixed lending rates....and the spiral is in motion.
- > The mentality of borrowers remains "old school", and there is a deep desire for the certainty of fixed. People have been slow to embrace the possibility (which is reality elsewhere) that floating rate borrowing will cost less over the long term. Going towards the longer end of the curve makes sense in an inverted yield curve environment, especially when the risk is that short-term rates are

heading higher. It doesn't necessarily apply when the curve is upward sloping and short term rates are still headed lower.

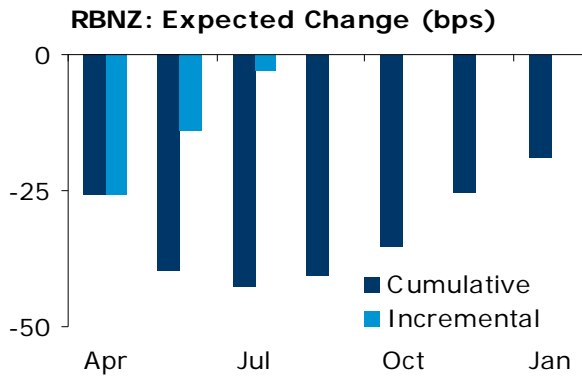
- > The RBNZ (rightly or wrongly) has become victim of previous policy action where borrowers are used to (or fear) aggressive movements upwards in rates when the cycle turns. Hence the mad rush to fix at any hint of the end in the easing cycle nearing.
- > Stiffer competition in the fixed mortgage market (relative to floating) has kept fixed margins lower, increasing the attractiveness of fixed.

On top of the above list, we have a deep suspicion that the frenzy that has developed is also symptomatic of burgeoning household stress. In such circumstances, even small changes can become relevant. Cash strapped households are looking at all possible avenues to free up some cashflow. Going fixed when it offered a small advantage over floating rates is one way to do this. Having certainty over mortgage payments is also another added attraction. Few households will have the stomach to stand by and watch fixed rates move higher, particularly if they have been on the right side of the market (i.e. floating) as rates have fallen.

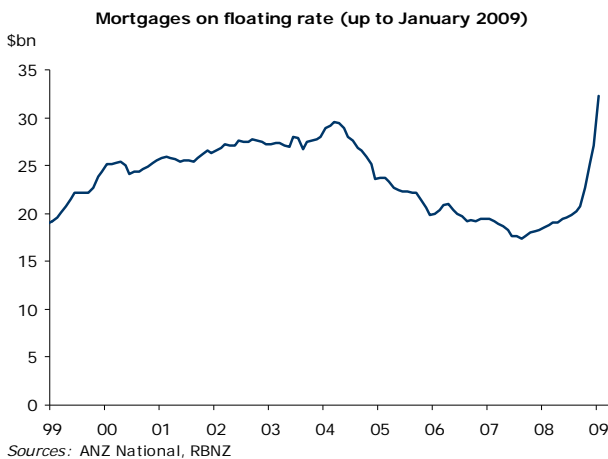
The immediate question is where to from here?

Looking at the implied forward market pricing for the OCR, it is clear that recent swap movements are at odds with what the RBNZ signalled in their March *Monetary Policy Statement*. The RBNZ is looking at a trough in the OCR of 2.5 percent, and no rate hikes until early next year at the earliest. But current market pricing has only 43bps of cuts, and hikes from September this year. The economic outlook has not altered for the better since the RBNZ's March *Statement* to warrant such market pricing. Rather, it has been purely driven by flows. Fixing just because you want to beat the rush is one thing, but it's completely different to fixing because you genuinely think the floating rate (which will soon be the lowest rate available) is heading higher. The RBNZ is certainly not projecting the OCR to go higher!

Market expectations for RBNZ OCR		
OCR dates	Rate	Change (bps)
Current	3.00	
Thu 30-Apr-09	2.74	-26
Thu 11-Jun-09	2.60	-40
Thu 30-Jul-09	2.57	-43
Thu 10-Sep-09	2.59	-41
Thu 29-Oct-09	2.65	-35
Thu 10-Dec-09	2.75	-25
Thu 21-Jan-10	2.81	-19



With the wholesale yield curve steepening considerably, leading to a similar steepening in the mortgage rate curve, the attractiveness of fixing for 4 or 5 years has diminished significantly. At present the 2-year rate of 6.1 percent (average across the big banks) looks good relative to the historical average of close to 8 percent, and strikes a balance between short-term flexibility and a degree of certainty. By contrast, the 5-year rate of 7.4 percent may be below historical averages of 8.2 percent, but does not offer as much flexibility. And borrowers miss out should shorter-term rates end up lower for longer.



The difficulty at present is trying to determine how much potential mortgage paying there could be. This isn't something that would ordinarily be a concern, but if market moves become self-fulfilling (as they did on Thursday) then this is relevant. RBNZ data shows that more and more people have gone on floating since the RBNZ cut rates mid-last year. As at the end of January, there were \$32.3b on floating (clearly less now). People on floating could decide to fix at any time. If even 5 percent decided to fix right now, that's \$1.6 billion of mortgage paying to do. Volumes such as this are significant, particularly in a market which has been virtually devoid of paying activity from the mortgage sector since the middle of 2008. And this doesn't include those on fixed rates rolling off.

In so far as implications are concerned, we are mindful of four:

- > Most obviously, the RBNZ is not getting the same bang for its buck. Policy is still getting traction, as the average roll-off rate of people coming off fixed rates at 8.4 percent is higher than current mortgage rates. But it is far less than what the RBNZ was banking on at their *March Statement*.
- > The kind of panic that has swept through the market over the past week isn't healthy – for the public as a whole, or for policy makers. Recent movements in the wholesale and mortgage curve continue to highlight the behavioural and non-linear dynamics in this economic cycle, which modern macro models are simply not equipped to deal with. Such behavioural dynamics introduce far greater swings in the business cycle itself. Hence, monetary policy needs to remain guided by more judgment than pure science.
- > Recent interest rate pressure will no doubt be two-sided once pay side interest dissipates and receivers return. Recent sharp rises in 5 year fixed rates now make it a far less attractive proposition. As such, brace for a return leg lower in the coming months.
- > Recent events reinforce our view that the RBNZ needs to be clear in its guidance over the future path for policy, particular in so far as to how long rates are expected to remain low. Previous policy action (when rate hikes commence fairly quickly following the end of the easing cycle) is partly responsible for what we are currently seeing in terms of the mad rush to fix. And the RBNZ needs to stem this if it seeks more policy traction (which is definitely required when we eye the economic picture).

So what's the conclusion? Don't panic – doing so will just add to the pandemonium. While that's easier said than done, consider what the RBNZ projections indicate. These have the 90 day rate averaging 3.0 percent in H2 2009 and 3.2 percent over H1 2010. If that happens, the floating mortgage rate will be the lowest rate, in contrast with much of the last 10-15 years where fixed rates have tended to be lower. So while fixing has been a good strategy, looking ahead, it may not be. This is particularly true for those considering their options now that most fixed mortgage rates have been increased.

## GLOBAL DATA WATCH

Data generally came out stronger than expected last week, particularly in the US, where there are signs of improvement in the housing market, albeit off very low levels. However, weaker jobless claims show that any potential recovery will not be a strong one. Leading indicators in the UK and Europe have also shown some improvement.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
<b>Australia</b>	Conference Board Leading Index (Jan)	-	-0.6%	-1.1%	-
<b>US</b>	Existing Home Sales (Feb) – mom	-0.9%	5.1%	-5.3%	Stronger
	House Price Index (Jan) – mom	-0.9%	1.7%	-0.2%	Stronger
	Richmond Fed Manufacturing Index (Mar)	-51	-20	-51	Stronger
	Durable Goods Orders (Feb)	-2.5%	3.4%	-7.3%	Stronger
	New Home Sales (Feb) – mom	-2.9%	4.7%	-13.2%	Stronger
	GDP Annualised (4Q F)	-6.6%	-6.3%	-6.2%	Stronger
	Continuing Jobless Claims (w/e Mar 15)	5,475K	5,560K	5,438K	Weaker
	Personal Income (Feb)	-0.1%	-0.2%	0.2%	Weaker
	Personal Spending Feb)	0.2%	0.2%	1.0%	In-line
	PCE Deflator (Feb) – yoy	0.8%	1.0%	0.8%	Stronger
	University of Michigan Confidence (Mar F)	56.8	57.3	56.6	Stronger
<b>Euro-zone</b>	Trade Balance s.a. (Jan)	-1.9B	-5.5B	-1.7B	Weaker
	PMI Manufacturing (Mar A)	33.5	34.0	33.5	Stronger
	PMI Services (Mar A)	39.1	40.1	39.2	Stronger
	M3 Money Supply (Feb) – 3-mth avg	6.3%	6.5%	7.1%	Stronger
	Industrial New Orders (Jan) - mom	-5.6%	-3.4%	-8.0%	Stronger
<b>UK</b>	CPI (Feb) – mom	0.3%	0.9%	-0.7%	Stronger
	Total Business Investment (4Q F) – qoq	-3.9%	-1.5%	-3.9%	Stronger
	Retail Sales (Feb) – mom	-0.4%	-1.9%	0.8%	Stronger
	GDP (4Q F) - qoq	-1.5%	-1.6%	-1.5%	In-line
	Current Account (4Q)	-5.9B	-7.6B	-8.2B	Weaker
<b>Japan</b>	Exports (Feb) – yoy	-47.6%	-49.4%	-45.7%	Weaker
	Imports (Feb) – yoy	-2.5%	-2.6%	-2.4%	In-line
	National CPI (Feb) – yoy	-0.1%	-0.1%	-0.1%	In-line
	Retail Trade (Feb) – mom	-0.6%	-0.3%	-0.1%	Stronger
<b>Asia Ex-Japan</b>					
<i>China</i>	Industrial Profits YTD (Feb) – yoy	-	-37.3%	4.9%	-
<i>Singapore</i>	CPI (Feb) – mom	-0.1%	-0.5%	-0.1%	Weaker
	Industrial Production (Feb) – mom	-0.7%	-2.5%	-5.4%	Weaker
<i>South Korea</i>	GDP (4Q F) – yoy	-3.4%	-3.4%	-3.4%	In-line
<i>Hong Kong</i>	Exports (Feb) – yoy	-20.0%	-23.0%	-21.8%	Weaker
	Imports (Feb) – yoy	-21.7%	-17.5%	-27.1%	Stronger
<i>Philippines</i>	Total Imports (Jan) – yoy	-	-34.5%	-34.0%	-
<i>Vietnam</i>	CPI (Mar) – yoy	-	11.3%	14.8%	-
	Exports YTD (Mar) – yoy	-	2.4%	-5.1%	-
	Imports YTD (Mar) – yoy	-	-45.0%	-43.1%	-
	GDP YTD (1Q) – yoy	-	3.1%	6.2%	-
	Industrial Output YTD (Mar) – yoy	-	2.1%	2.5%	-
	Retail Sales YTD (Mar) – yoy	-	21.9%	20.6%	-

## INTEREST RATE STRATEGY

Recent tightening in monetary conditions has upped the ante on the RBNZ to do more. The risk is now tilted towards a 2 percent trough in the OCR, and for the Bank to clearly signal that rates will stay low for an extended period of time, in order to get the curve down. For borrowers, we suggest staying floating and wait for longer dated yields to drift lower once the mortgage paying flows subside.

### Market themes...

- > Mortgage flows sent NZ rates substantially higher last week, but sense is returning.
- > NZD also pushed higher on weaker USD and higher yield differential.
- > Q4 GDP not as bad as feared, but still weak. The economy isn't out of the woods just yet.

### Review and outlook...

The NZ rates market has been dominated by mortgage paying flows, especially in the 5-year, which forced the entire curve higher. A lack of receiving interest on the other side meant that it was all one way traffic, exacerbating the move. Alongside the resurgent NZD, monetary conditions have tightened substantially since the RBNZ's March MPS, putting the Bank's projected economic recovery in the second half of 2009 in doubt.

We believe that swap yields will eventually move lower once the mortgage paying pressure subsides. After all, current market pricing of a 43bp reduction in the OCR by July, but hikes later this year, are clearly at odds with what the RBNZ flagged earlier this month. However, mortgage paying pressure and therefore the mis-pricing of the RBNZ may continue for a while as more households seek to switch to fixed, fearing they may miss out (see our research piece on page 5). These latest developments certainly complicate the RBNZ's task. While Q4 GDP came in only slightly worse than the RBNZ's forecast, the economy is yet to find a base. And the economy can ill afford tighter monetary conditions so soon before a rebound has a chance to take place. This could yet force the RBNZ to do more not only on the OCR front, but also in making a clear signal to the market that rates are staying low for an extended period of time in order to get the yield curve down. The latter point is particularly important to avoid the kind of panic seen last week of people rushing in to fix, driving wholesale and retail rates higher.

We caution borrowers against joining the herd and rushing in to fix at this point. Better entry levels will appear once the dust settles. Waiting and staying floating also means benefiting from lower rates, which could yet head lower for longer.

### Borrowing strategies we favour at present

The sharp move higher in swap yields last week may have prompted many to ask whether we have seen the bottom for rates. That's possible if the objective was to pay the low for a particular swap, but only time will tell. With the OCR headed lower and likely to remain low, there is merit in staying floating. Not only do we believe longer-dated swap yields will start to drift lower once the mortgage paying flows clear, but the recent tightening in monetary conditions could yet force the RBNZ to do more. This raises the risk that the trough in the OCR will be 2 percent and the Bank signalling rates staying low for longer to keep the yield curve down and avoid the kind of selloff we saw in the last few weeks. Hence, we see limited gains in rushing to fix at this point.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓	OCR still headed lower, and will stay "low for longer".
NZ data	↔/↓	Given the move higher in rates, the onus is on the data to deliver. NBBO this week will be critical.
Fed Funds/ front end	↔	Fed has moved to QE, ECB rumoured to be following.
RBA	↔	The April RBA decision is still very much a coin toss.
US 10 year	↔/↓	Fed's move to keep long end yields down in near term.
NZ swap curve	↔/↑	Curve flattening likely. Higher mortgage rates will see steepening resume.
Flow	↔/↓	Pay pressure capitulated, but sense is now returning.
Technicals	↔	Irrelevant at present given the flows.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Apr-09	-32	-26
Thu 11-Jun-09	-57	-40
Thu 30-Jul-09	-62	-43
Thu 10-Sep-09	-62	-41
Thu 29-Oct-09	-62	-35
Thu 10-Dec-09	-62	-25
Thu 21-Jan-10	-57	-19

### Trading themes we favour at present

We believe the 2-year swap yield could retrace to 3.2 percent once mortgage paying pressure subsides. However, the risk is that yields drift higher in the near-term. Hence, we prefer to maintain the 2s10s steepener, and look to establish long outright positions once there are clearer signs that mortgage flows are easing.

## CURRENCY STRATEGY

The NZD benefited from an increase in rate differentials over the past week. The top now feels in place and a range trade can occur. Current account and GDP are both behind us suggesting the NZD will be more affected by global themes than domestic.

### Market themes...

- > Yield differentials support the NZD as risk appetite improves tentatively.
- > Quantitative easing – who's next?
- > Equity markets – is risk appetite returning?

### Review and outlook...

The NZD pushed higher last week as several drivers combined to support it. Firstly, risk appetite improved as global equity markets staged a strong rally over the week. Secondly, a large sell off in the NZ rates market has seen yield differentials move in the NZD's favour across all currency pairs. Finally, key local data came out slightly better than market expectations, leading to a relief rally. While in normal times a -0.9 percent outturn for GDP in a quarter would be seen as a negative for the NZD, in this market we are searching for the tallest pygmy and this result put NZ ahead of many major economies.

The US data improved for the week with existing home sales and durable goods printing stronger than expected. This helped fuel the rally in the equity markets and caused a movement back to yield seeking investments. This has been backed up by large global fund managers being forced into higher yielding assets, as the US Federal Reserve's QE policy and low US treasuries yields are having an effect. The EUR which recently has been highly correlated with the NZD does not look as rosy and the FX market is convinced the ECB will need to begin quantitative easing as well. It is a risky game to second guess the ECB and the jury is out on whether the EUR sell off on Friday night is sustainable into the G20 meeting this week. Sentiment (concerns) towards Eastern Europe and hence the EUR is either over or under-blown depending on which commentator you listen to.

So the NZD now remains at "inflated" levels. But with yield differentials moving strongly in NZ's favour (for now), some genuine signs of life in the housing market, dairy prices comfortably off the lows and posting gains for the month, talk of positive migration affecting demand, and international equity managers invested in the US having to buy local currencies including NZD into

month end to maintain their static hedges, the downside for NZD this week looks limited.

Technically the NZD break of 0.5550 should lead to a test of 0.5850. This is the ideal top. We got close last week with a 0.5802 high seen. 0.5590 should hold for the week with a test of 0.5850 to be seen again. Risk of a G20 surprise from the week ahead as pressure mounts on Europe to 'do more' will be the focus and could see large movements in the NZD/EUR cross.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔/↓	Should be lower.
Yield	↔/↑	Recent swap movements supportive.
Commodities	↔	Stabilising at lower levels.
Partial indicators	↔	NZ data weak, more to come, but so is everyone else.
Technicals	↔	0.8000 support.
Sentiment	↔	Following equities still.
Other	↔	Dairy prices look to be stabilising.
<b>On balance</b>	↔	<b>Cross looks stable at current ranges.</b>

### NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models
Fair value – short-term	↔/↓	Above fair value.
Yield	↔/↑	Swap yields supportive for now.
Commodities	↔	Dairy prices appear to be stabilising.
Risk aversion	↔/↑	Fed QE may see more funds chasing yield.
Partial indicators	↔	US's still nasty but NZ's starting to compete.
Technicals	↔/↓	0.5550 -0.5850 range.
AUD	↔/↓	Australian data not pretty either. Rally looks tired.
Sentiment	↔	G20 this week to influence.
Other	↔	Kiwi overvalued but to remain so this week.
<b>On balance</b>	↔/↓	<b>Big trend is still lower.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
30-Mar	NZ	<b>Building Permits (Feb) - mom</b>	-	<b>-13.1%</b>	<b>10:45</b>
		<b>Money Supply M3 (Feb) - yoy</b>	-	<b>6.9%</b>	<b>15:00</b>
	UK	Hometrack Housing Survey (Mar) - mom	-	-0.8%	12:01
		Net Consumer Credit (Feb)	0.4B	0.4B	21:30
		Mortgage Approvals (Feb)	34K	31K	21:30
		M4 Money Supply (Feb F) – mom	-	1.4%	21:30
	JN	Industrial Production (Feb P) – mom	-9.1%	-10.2%	12:50
		Vehicle Production (Feb) – yoy	-	-41.0%	17:00
	AU	HIA New Home Sales (Feb) - mom	-	8.3%	13:00
	EC	ECB's Bini Smaghi Speaks at Event in Milan	-	-	21:30
		Economic Confidence (Mar)	65.4	65.4	22:00
31-Mar	EC	ECB's Trichet, ECB's Wellink Speak at EU Parliament	-	-	02:00
		ECB's Ordonez Speaks in Madrid	-	-	21:00
		CPI Estimate (Mar) - yoy	0.7%	1.2%	22:00
	UK	GfK Consumer Confidence Survey (Mar)	-35	-35	12:01
	JN	Nomura/JMMA Manufacturing PMI (Mar)	-	31.6	12:15
		Jobless Rate (Feb)	4.3%	4.1%	12:30
		Household Spending (Feb) - yoy	-4.7%	-5.9%	12:30
		Labour Cash Earnings (Feb) - yoy	1.5%	-1.3%	14:30
		Housing Starts (Feb) - yoy	-17.6%	-18.7%	18:00
		Construction Orders (Feb) - yoy	-	-38.3%	18:00
		Small Business Confidence (Mar)	-	25	18:00
	AU	Private Sector Credit (Feb) - mom	0.5%	0.6%	13:30
		Assistant RBA Governor Debelle Gives Speech in Sydney	-	-	15:20
	NZ	<b>NBNZ Business Confidence (Mar)</b>	-	<b>-41.2</b>	<b>15:00</b>
	GE	ILO Unemployment Rate (Feb)	7.4%	7.3%	19:00
		Unemployment Change (000's) (Mar)	52K	40K	20:55
		Unemployment Rate (s.a.) (Mar)	8.0%	7.9%	20:55
	UK	Index of Services (3mth/3mth) (Jan)	-1.0%	-0.9%	21:30
1-Apr	US	S&P/CS Composite-20 (Jan) - yoy	-18.6%	-18.6%	02:00
		Fed's Stern Speaks in Washington on 'Too Big to Fail'	-	-	02:00
	US	Chicago Purchasing Manager (Mar)	34.4	34.2	02:45
		Consumer Confidence (Mar)	28.0	25.0	03:00
		Fed's Plosser Speaks in Chicago on Financial Regulatory Reform	-	-	06:00
	UK	Bank of England's Tucker, Haldane, Bailey to Testify	-	-	02:00
		PMI Manufacturing (Mar)		34.7	21:30
	AU	AIG Performance of Mfg Index (Mar)	-	31.7	11:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
1-Apr cont.	AU	Retail Sales (Feb) - mom	-0.5%	0.2%	13:30
		Building Approvals (Feb) - mom	1.5%	-3.7%	13:30
		RBA Commodity Index SDR (Mar) - yoy	-	19.7%	18:30
	JN	Tankan Large Manufacturers Index (1Q)	-55	-24	12:50
		Tankan Large Mfg Outlook (1Q)	52	-36	12:50
		Tankan Non-Manufacturing (1Q)	-25	-9	12:50
		Tankan Non- Manufacturing Outlook (1Q)	-25	-14	12:50
		Vehicle Sales (Mar) - yoy	-	-32.4%	18:00
	GE	PMI Manufacturing (Mar F)	32.4	32.4	20:55
	EC	PMI Manufacturing (Mar F)	34.0	34	21:00
		Unemployment Rate (Feb)	8.3%	8.2%	22:00
2-Apr	US	ADP Employment Change (Mar)	-663K	-697K	01:15
		ISM Manufacturing (Mar)	36.0	35.8	03:00
		ISM Prices Paid (Mar)	33.0	29.0	03:00
		Pending Home Sales (Feb) - mom	0.1%	-7.7%	03:00
		Construction Spending (Feb) - mom	-1.7%	-3.3%	03:00
		Fed's Pinalto Speaks in Columbus at Ohio Bankers' Day	-	-	06:00
	<b>NZ</b>	<b>Fonterra Monthly Milk Powder Auction</b>	-	-	<b>08:00</b>
		<b>ANZ Commodity Price (Mar) – mom</b>	-	<b>-4.6%</b>	<b>15:00</b>
	JN	Monetary Base (Mar) – yoy	-	6.4%	12:50
	AU	Trade Balance (Feb)	700M	970M	13:30
	UK	PMI Construction (Mar)	27.8	27.8	21:30
		Bank of England Releases Quarterly Credit Conditions Survey	-	-	21:30
3-Apr	EC	ECB Announces Interest Rates	1.00%	1.50%	00:45
		ECB's Trichet Speaks at ECB Monthly News Conference	-	-	01:30
		PMI Services (Mar F)	40.1	40.1	21:00
		ECB's Bini Smaghi Speaks at Event in Rome	-	-	22:00
	US	Initial Jobless Claims (w/e Mar-29)	650K	652K	01:30
		Continuing Claims (w/e Mar Mar)	5600K	5560K	01:30
		Factory Orders (Feb)	1.4%	-1.9%	03:00
	AU	AiG Performance of Service Index (Mar)	-	32.2	11:30
	GE	PMI Services (Mar F)	41.7	41.7	20:55
	UK	PMI Services (Mar)	43.5	43.2	21:30
4-Apr	US	Change in Non-Farm Payrolls (Mar)	-660K	-651K	01:30
		Unemployment Rate (Mar)	8.5%	8.1%	01:30
		Average Hourly Earnings (Mar)	0.2%	0.2%	01:30
		ISM Non-Manufacturing Composite (Mar)	42.0	41.6	03:00
		Fed's Bernanke Speaks at Fed Credit-Markets Conference in Charlotte	-	-	05:00

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

## NEW ZEALAND DATA WATCH

**Key focus over the next four weeks:** With the distractions of the December quarter and 2008 out of the way, we can now focus our attention on 2009. Unfortunately, conditions are still very challenging, and the weaker global backdrop is likely to become more apparent in the domestic data.

Date	Data/Event	Economic Signal	Comment
Mon 30 Mar (15.00)	Credit Growth (Feb)	Flat	Household lending growth to stay close to flat. But lending growth to the agriculture and business sector is expected to remain elevated, though this is likely to do more with managing cashflows as opposed to new investment.
Tue 31 Mar (15.00)	NBNZ <i>Business Outlook</i> (Mar)	-	-
Thu 2 Apr (15.00)	ANZ Commodity Price Index (Mar)	-	-
Fri 3 Apr (10.00)	Crown Financial Statements (eight months to Feb)	Operating deficit	We expect tax revenue to reverse the rebound from last month and for another operating deficit to be recorded.
Tue 7 Apr (10.00)	NZIER QSBO (Mar qtr)	Bottom found?	Domestic trading activity, investment and employment intentions, and profitability are all expected to remain at depressed levels. But this reading may be close to the bottom in the current cycle.
Thu 9 Apr (10.45)	Electronic Card Transactions (Mar)	Sitting on the sidelines	A small rebound in the value of ECT transactions expected, though the overall picture is one of weakness in consumer spending.
Tue 14 Apr (10.45)	Retail Sales (Feb)	Petrol fuelled rebound	Higher petrol prices in February will inflate headline retail sales, though this will be offset by further declines in car sales. Core spending to remain weak.
Fri 17 Apr (10.45)	CPI (Mar qtr)	Inflation under control	A 0.3 percent increase is expected, but apart from government related increases (tax indexation and education fees increases), inflation is will under control.
Tue 21 Apr (10.45)	International Travel and Migration (Mar)	Positive migration, but less visitors	Net migration inflows likely to remain positive as less NZ's choose to leave. We are also watching for an influx of ex-pats returning home, although there is little evidence of this yet. Tourism inflows will remain under pressure.
Wed 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Signs of rebalancing	While the weak global backdrop is impacting export growth, import growth is slowing faster as the domestic economy de-leverages. We expect another monthly trade surplus.
Wed 29 Apr (15.00)	Credit Growth (Mar)	Clear signs of de-leveraging	Household credit growth to remain subdued.
Wed 29 Apr (15.00)	NBNZ <i>Business Outlook</i> (Apr)	-	-
Thu 30 Apr (09.00)	RBNZ <i>OCR Review</i>	25bp cut	At the March <i>MPS</i> the RBNZ signalled a more gradual pace to future easing and at this stage we expect a 25bp cut. However, the bias is for them to do more, particularly given the higher NZD.
Thu 30 Apr (10.45)	Building Consents Issued (Mar)	A base?	We expect a base to begin to form around current depressed levels.
<b>On Balance</b>		<b>Flow-on from the global scene in the dataflow.</b>	<b>We are detecting a base effect in some data, which suggest the June quarter is the nadir in the cycle. But the jury is out on the speed of recovery.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
GDP (% qoq)	0.9	-0.3	-0.2	-0.5	-0.9	<b>-1.5</b>	<b>-0.3</b>	<b>0.1</b>	<b>0.2</b>	<b>0.5</b>
GDP (% yoy)	3.6	2.1	1.0	-0.1	-1.9	<b>-3.1</b>	<b>-3.1</b>	<b>-2.6</b>	<b>-1.5</b>	<b>0.5</b>
CPI (% qoq)	1.2	0.7	1.6	1.5	-0.5	<b>0.3</b>	<b>0.8</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>
CPI (% yoy)	3.2	3.4	4.0	5.1	3.4	<b>3.0</b>	<b>2.2</b>	<b>1.3</b>	<b>2.5</b>	<b>2.7</b>
Employment (% qoq)	1.0	-1.3	1.2	0.1	0.9	<b>-1.5</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-0.3</b>	<b>0.0</b>
Employment (% yoy)	2.5	-0.2	0.7	1.0	0.9	<b>0.7</b>	<b>-1.5</b>	<b>-2.4</b>	<b>-3.6</b>	<b>-2.1</b>
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.6	<b>5.1</b>	<b>6.1</b>	<b>6.8</b>	<b>7.2</b>	<b>7.6</b>
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.6	-8.9	<b>-8.9</b>	<b>-7.9</b>	<b>-7.1</b>	<b>-6.6</b>	<b>-6.6</b>
Terms of Trade (% qoq)	2.9	4.2	-0.4	-1.0	-0.9	<b>-3.0</b>	<b>-3.2</b>	<b>-3.0</b>	<b>-2.3</b>	<b>-1.6</b>
Terms of Trade (% yoy)	8.8	11.6	10.7	5.8	1.8	<b>-5.2</b>	<b>-7.9</b>	<b>-9.8</b>	<b>-11.0</b>	<b>-9.6</b>

## KEY ECONOMIC INDICATORS

	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Retail Sales (% mom)	0.7	-0.7	0.3	0.3	-1.3	0.0	-0.7	-1.1	..	..
Retail Sales (% yoy)	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9	-3.7	..	..
Credit Card Billings (% mom)	-0.1	0.2	-0.4	1.3	-1.6	-0.9	-2.3	1.8	0.5	..
Credit Card Billings (% yoy)	3.9	4.2	2.4	2.5	1.1	-0.9	-3.9	-2.2	-1.9	..
Car Registrations (% mom)	1.6	-7.0	-3.4	10.6	-0.7	-20.0	12.3	-13.1	-15.4	..
Car Registrations (% yoy)	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	..
Building Consents (% mom)	-13.2	-1.0	-6.9	8.2	-19.4	3.6	-7.1	-13.2	..	..
Building Consents (% yoy)	-45.8	-34.5	-43.2	-28.5	-42.8	-39.8	-41.4	-51.8	..	..
REINZ House Price (% yoy)	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	..
Household Lending Growth (% mom)	0.2	0.3	0.5	0.2	0.1	-0.1	0.2	0.1	..	..
Household Lending Growth (% yoy)	8.4	7.7	7.2	6.6	5.8	4.8	4.2	3.8	..	..
Roy Morgan Consumer Confidence	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7
NBNZ Business Confidence	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	..
NBNZ Own Activity Outlook	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	..
Trade Balance (\$m)	-215	-797	-848	-1252	-994	-594	-342	-104	489	..
Trade Balance (\$m annual)	-4478	-4468	-4369	-5048	-5269	-5234	-5614	-5408	-5161	..
ANZ World Commodity Price Index (% mom)	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	..
ANZ World Commodity Price Index (% yoy)	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	..
Net Migration (sa)	430	740	320	-40	10	-310	280	740	1670	..
Net Migration (annual)	4732	5201	4938	4403	4329	3569	3814	4538	6160	..

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)						
	Jan-09	Feb-09	30-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.553	0.515	0.568	0.490	0.470	0.450	0.440	0.440	0.450	0.460
NZD/AUD	0.816	0.794	0.823	0.790	0.810	0.833	0.815	0.786	0.776	0.767
NZD/EUR	0.417	0.402	0.429	0.395	0.412	0.417	0.407	0.400	0.402	0.404
NZD/JPY	50.0	47.6	55.7	49.0	46.1	43.2	41.8	41.8	43.7	45.1
NZD/GBP	0.382	0.358	0.398	0.345	0.336	0.333	0.338	0.338	0.346	0.348
NZ\$ TWI	54.9	52.3	57.0	51.2	50.7	49.9	48.9	48.3	49.0	49.5
NZ interest rates	Jan-09	Feb-09	30-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	5.12	3.71	3.00	2.50	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	4.37	3.40	3.33	3.00	3.00	3.00	3.00	3.00	3.70	4.70
10 year bond	4.49	4.53	5.35	4.40	4.30	4.30	4.70	4.80	5.50	5.70
International	Jan-09	Feb-09	30-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
US 3-mth	1.18	1.28	1.22	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	4.25	3.50	3.25	2.75	2.25	2.00	2.00	2.00	2.00	3.00
AU 3-mth	3.46	3.68	3.17	2.90	2.10	2.30	2.30	2.40	2.60	3.80

## KEY RATES

	27 Feb	23 Mar	24 Mar	25 Mar	26 Mar	27 Mar
Official Cash Rate	3.50	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.19	3.25	3.33	3.39	3.44	3.33
NZGB 07/09	2.97	3.08	3.15	3.18	3.21	3.19
NZGB 11/11	3.49	3.46	3.53	3.69	3.84	3.87
NZGB 04/13	3.88	3.99	4.05	4.22	4.38	4.44
NZGB 12/17	4.49	4.80	4.87	5.05	5.18	5.23
2 year swap	3.23	3.48	3.56	3.83	3.88	3.85
5 year swap	4.08	4.47	4.63	4.99	5.06	4.99
RBNZ TWI	51.9	55.8	56.5	55.7	56.6	57.1
NZD/USD	0.5055	0.5642	0.5723	0.5599	0.5711	0.5747
NZD/AUD	0.7840	0.8110	0.8092	0.8040	0.8171	0.8216
NZD/JPY	49.24	54.39	55.97	54.75	55.79	56.50
NZD/GBP	0.3544	0.3888	0.3899	0.3816	0.3918	0.3970
NZD/EUR	0.3976	0.4132	0.4187	0.4157	0.4210	0.4239
AUD/USD	0.6448	0.6957	0.7072	0.6964	0.6989	0.6995
EUR/USD	1.2715	1.3656	1.3669	1.3469	1.3565	1.3559
USD/JPY	97.41	96.40	97.79	97.79	97.69	98.32
GBP/USD	1.4265	1.4510	1.4680	1.4671	1.4576	1.4475
Oil	43.18	51.55	53.05	53.36	52.24	53.87
Gold	939.25	950.00	942.75	927.70	933.70	933.15
Electricity (Haywards)	3.60	5.68	5.86	5.39	5.47	4.18
Milk futures (US\$/contract)	83	83	83	83	83	83
Baltic Dry Freight Index	1986	1773	1758	1740	1714	1678

## NEW ZEALAND DISCLOSURE INFORMATION

The Bank (in respect of itself and its principal officers) makes the following investment adviser disclosure to you pursuant to section 41A of the Securities Markets Act 1988.

The Bank (in respect of itself and its principal officers) makes the following investment broker disclosure to you pursuant to section 41G of the Securities Markets Act 1988.

### *Qualifications, experience and professional standing*

#### **Experience**

The Bank is a registered bank and, through its staff, is experienced in providing investment advice about its own securities and, where applicable, the securities of other issuers. The Bank has been selling securities, and providing investment advice on those securities, to customers as a core part of its business for many years, drawing on the extensive research undertaken by the Bank and its related companies and the skills of specialised staff employed by the Bank. The Bank is represented on many bank, finance and investment related organisations and keeps abreast of relevant issues by running seminars and workshops for relevant staff and having its investment adviser staff attend external seminars where appropriate. The Bank subscribes to relevant industry publications and, where appropriate, its investment advisers will monitor the financial markets.

#### **Relevant professional body**

The Bank is a member of the following professional bodies relevant to the provision of investment advice:

- New Zealand Bankers Association;
- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
- Institute of Finance Professionals.

#### **Professional indemnity insurance**

The Bank (and its subsidiaries), through its ultimate parent company Australia and New Zealand Banking Group Limited, has professional indemnity insurance which covers its activities including those of investment advisers it employs.

This insurance covers issues (including 'prior acts') arising from staff fraud, electronic crime, documentary fraud and physical loss of property. The scope of the insurance also extends to third party civil claims, including those for negligence. The level of cover is of an amount commensurate with the size and scale of the Bank.

The insurer is ANZcover Insurance Pty Limited.

#### **Dispute resolution facilities**

The Bank has a process in place for resolving disputes. Should a problem arise, you can contact any branch of the Bank for more information on the Bank's procedures or refer to any of the Bank's websites.

Unresolved complaints may ultimately be referred to the Banking Ombudsman, whose contact address is PO Box 10-573, Wellington.

#### **Criminal convictions**

In the five years before the relevant investment advice is given none of the Bank (in its capacity as an investment adviser and where applicable an investment broker) or any principal officer of the Bank has been:

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;

- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

#### **Fees**

At the time of providing this disclosure statement it is not practicable to provide accurate disclosure of the fees payable for all securities that may be advised on. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

#### **Other interests and relationships**

When a security is sold by the Bank, the Bank may receive a commission, either from the issuer of a security or from an associated person of the Bank. Whether that commission is received and, if received, its value depends on the security sold. At the time of providing this disclosure statement it is not practicable to provide a detailed list of each security that may be advised on, the name of the issuer of that security and the rate of the commission received by the Bank. However, this information will be disclosed to you should you seek advice from one of the Bank's investment advisers on a specific investment.

In addition to the interest that the Bank has in products of which it is the issuer, the Bank, or an associated person of the Bank, has the following interests or relationships that a reasonable person would find reasonably likely to influence the Bank in providing the investment advice on the securities listed below:

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

#### **Securities about which investment advice is given**

The Bank provides investment advice on the following types of securities:

- Debt securities including term and call deposits, government stock, local authority stock, State-Owned Enterprise bonds, Kiwi bonds and corporate bonds and notes;
- Equity securities such as listed and unlisted shares;
- New Zealand and overseas unit trusts;
- Share in a limited partnership;
- Superannuation schemes and bonds;
- Group investment funds;
- Life insurance products;
- Derivative products including interest rate and currency forward rate contracts and options; and
- Other forms of security, such as participatory securities.

#### **PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY**

If you wish to pay investment money to the Bank you can do this in several ways such as by:

- Providing cash;
- Providing a cheque payable to the relevant product or service provider and crossed 'not transferable'; or
- Making an automatic payment or payment through another electronic delivery mechanism operated by the Bank.

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

Any investment money lodged with the Bank for the purchase of securities offered by the Bank, its subsidiaries or any third parties will be deposited in accordance with your instructions, to your nominated account or investment. Such money will be held by the Bank according to usual banking terms and conditions applying to that account or the particular terms and conditions relating to the investment and will not be held by the Bank on trust unless explicitly accepted by the Bank on those terms. Any investment money or property accepted by the Bank on trust will be so held until disbursed in accordance with your instructions. Any investment property lodged with the Bank will be held by the Bank as bailee according to the Bank's standard terms and conditions for holding your property.

#### **Record Keeping**

The Bank will keep adequate records of the deposit of investment moneys or property and all withdrawals and dealings with such money or property, using the account/investment number allocated to your investment. You may have access to those records upon request.

#### **Auditing**

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

#### **Use of Money and Property**

Money or property held by the Bank for a specific purpose communicated to the Bank (e.g. the purchase of an interest in a security) may not be used by the Bank for its own purposes and will be applied for your stated purpose. No member of the Bank's staff may use any money or property deposited with the Bank, for their own purposes or for the benefit of any other person. In the absence of such instructions, money deposited with the Bank may be used by the Bank for its own purposes, provided it repays the money to you upon demand (or where applicable, on maturity), together with interest, where payable.

#### **NEW ZEALAND DISCLAIMER**

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

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

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