

Market Focus

New Zealand

14 December 2009

DATA-WATCH MODE

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Page 2: Economic overview

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Page 5: Government's Half-Year Update and Budget Policy Statement preview

- > We expect the Treasury to upgrade their economic growth forecasts, but downgrade their tax revenue forecasts. This leads to a worse near-term fiscal position but marginally better position by 2012/13. The persistence and size of fiscal deficits, along with the rate of debt accumulation, will reinforce the need for a sustained period of restrictive fiscal policy. While we suspect the *Budget Policy Statement* will lack specifics, anything that is strong on growth, savings, productivity and a more balanced economy will be strong signs in our eyes that material changes (if lacking details) are pending. This could assist monetary policy, although the market will likely require something of more substance.

Page 7: Economic comment – monthly inflation gauge

- > Our monthly inflation gauge recorded a 0.1 percent increase in November. This is still a soft reading overall. A still weak labour market backdrop should ensure the absence of cost-push inflation pressures within the private sector in the near-term. Pricing pressure in the government-dominated non-contestable areas is another matter.

Page 8: Interest rate strategy

- > The change in stance from the RBNZ last week has seen the market gravitate back towards a March rate hike. Receivers will be thin on the ground and with the potential for mortgage paying activity to pick up, swap yields look set to move higher.

Page 9: Currency strategy

- > Improving US data has the FX world reassessing recent risk correlations. This has boosted the greenback. The problems for the Euro-zone's small member countries and Japan's continued lethargic prospects, in stark contrast with China's robust growth, will likely see the EUR and JPY under-perform against the likes of the NZD and AUD.

Page 10: Currency comment – NZD year-end effect

- > There is a seasonal factor that typically provides support to the NZD heading into the end of year holiday period. Last year was no exception. With the USD still weak, this seasonal pattern could yet repeat again. However, sentiment remains fickle in the current environment, and the NZD remains vulnerable to a fresh bout of risk aversion over the liquidity thin late December to mid-January period.

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ECONOMIC OVERVIEW

The RBNZ is now clearly in data-watch mode. We've nudged our OCR call forward a quarter to June. While trying to front-run the market is tempting, we simply don't believe there is enough evidence of an enduring recovery pending pre-March.

What's ahead?

- > **Government's Budget Policy Statement and Half Year Economic and Fiscal Update** (Tuesday 1300 NZDT). While the Government's economic projections will likely be revised higher, the fiscal position will remain weak. We will be focusing on the strategy to arrest the deteriorating fiscal trend, as well as any potential announcements on pending tax changes (refer to page 5 for our full preview).
- > **December NBNZ Business Outlook** (Thursday 1500 NZDT).
- > **December ANZ-Roy Morgan Consumer Confidence** (Friday 1500 NZDT).

What's the view?

It is no surprise what got the lion's share of attention last week. The unexpected shift in tone from the RBNZ at the December *Monetary Policy Statement* has seen the currency bulls and interest rate bears back out in force. The NZD is out-performing again, with the TWI up around 2½ percent and wholesale interest rates up between 9 and 31 basis points across the curve. A March rate hike is once again close to being fully priced by the market.

But unlike some, this slight change in tone has not got us spooked. Admittedly, we have nudged forward our expectations for the start of the tightening cycle from September to June, although we broadly signalled this in last week's *Market Focus* anyway. Yet there is plenty of water to flow under the bridge before then. The shift in the RBNZ's stance is very conditional on how the economy tracks relative to their forecasts over the coming months. The RBNZ was quite explicit with this stating *"It could be that our current projections are overly optimistic or unduly pessimistic. If so, the timing of the removal of stimulus could well be adjusted."* The RBNZ has given itself an extra level of flexibility to respond to economic developments.

In fact, reading through the entire Statement, we actually feel it is a fair reflection of the current state of play within the economy. The RBNZ have acknowledged the improvements in both the domestic and global outlooks. House prices, migration and commodity prices are obviously the big support factors locally. The RBNZ's GDP forecasts have been revised up

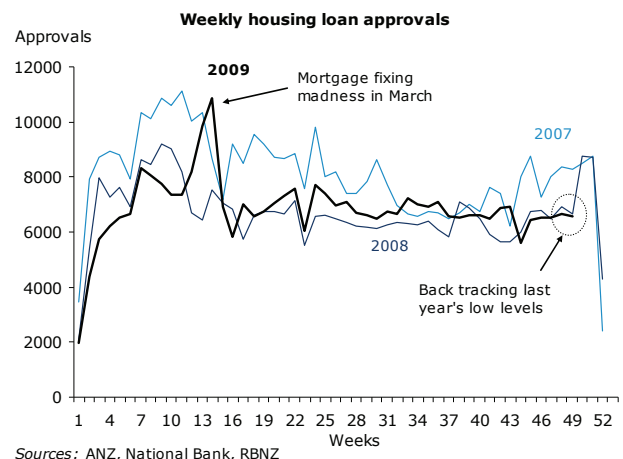
accordingly. Yet there is still an undertone of cautiousness within their views. House prices are expected to rise further, but not be maintained. A higher NZD is expected to largely offset the benefit of better global growth and higher commodity prices. Households are expected to remain somewhat cautious over their spending decisions. These are views we share.

Yet, it is the final paragraph of the opening assessment that has been jumped on.

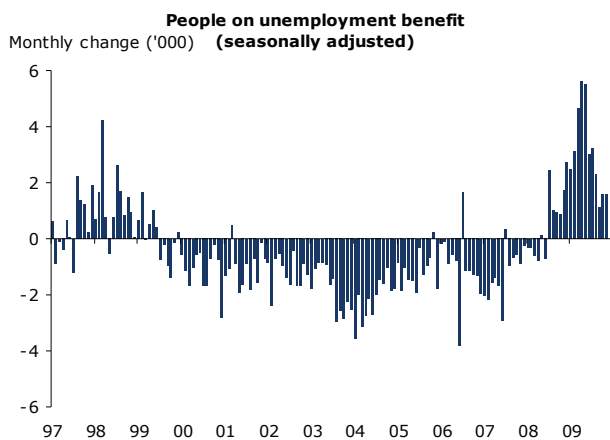
Obviously removing the phrase *"second half of 2010"* and replacing it with *"middle of 2010"* does highlight a shift in stance. The Bank's 90 day bank bill track also suggests a Q2 start to the tightening cycle compared with Q4 in the September *MPS*. The market was looking for an excuse to push interest rates higher, and they found it! But chapter two of the *Statement* is far more benign and something we would encourage all to read. It's probably some of the best scribing we've read from the RBNZ. It's just a shame the RBNZ mis-read the market so much with their policy assessment itself and slight change in tone (which generated the sharp market reaction). Ex-post comments from the Governor to try and rein the market in were not successful as the horse had bolted.

Looking forward, there are a number of areas that will be critical to watch:

- > **House prices.** While further near-term gains do appear likely (and the RBNZ also expect this), we are still not convinced the market will push on strongly over 2010. In fact, weekly RBNZ mortgage approval data shows the number of approvals falling below last year's subdued levels. REINZ data for November this morning shows seasonally adjusted house sales down 8 percent in the month and days to sell a touch higher. The market is not pushing on as some would have us believe. It appears a lack of listings is continuing to support prices, but the increase in the value of home loan approvals also looks to have stabilised of late. Emigration flows to Australia will also be critically important over 2010.



- > **The behavioural response from households.** The concern the RBNZ have is that higher house prices feed into a strong recovery in consumer spending. For this to occur, credit growth will need to pick up. There is limited evidence of this occurring yet, with consumer debt actually falling, highlighting the de-leveraging backdrop. While stabilised, retail spending remains subdued, with total sales flat in October. We will likewise be watching loan-to-value ratios on offer in housing across the banking sector as a driver of credit growth.
- > **Business will need to turn increased confidence into actual decisions,** particularly in relation to investment and employment. On the former, capital goods imports and business sector credit growth will provide a lead. For the latter, things like the NZIER's QSBO in January for measures of ease of finding labour and employment intentions will be important. Interestingly, despite the actual number of people on the unemployment benefit falling in November, once we adjust for seasonality, the numbers still increased. If we see one major risk to the RBNZ's economic forecasts, it is that the peak in the unemployment rate of 6.7 percent could be surpassed.



Sources: ANZ, National Bank, MSD

- > **The global backdrop and other central bank movements.** If we see other central banks across the OECD (and the majors in particular) start to lay out specific exit strategies, then it'll be a sign of confidence that policymakers think the global recovery has enduring qualities. This will be material for the RBNZ.
 - > **And finally, the wildcard remains fiscal policy.** This is something we have highlighted at length over recent weeks, so we won't go into details again. But any fiscal consolidation and changes to the tax system that helps increase saving will mean less pressure for monetary policy to do more work (and likely result in a lower NZD). This means close attention needs to be paid to the government's *Half-year Economic and Fiscal Update* and *Budget Policy Statement (BPS)* due out tomorrow (refer to page 5 for our full preview). Strictly speaking we suspect the *BPS* is too early for concrete steps to emerge, but we are in no doubt they are pending: the current fiscal position is simply too weak for steps not to be taken at some stage.
- While it is tempting to try to front-run the market (or jump on the band-wagon) and call a rate hike for March, we simply don't believe there will be enough evidence of an underlying enduring recovery by then.**
- Certainly we are aware that at this juncture things do seem to be moving at a fast clip and there is the potential for more. The past three months has already seen major changes in tone. Confidence can quickly become self-fulfilling when it comes to growth. Yet the RBNZ is also clear that "*We will also be looking for assurance that the domestic recovery is on a solid footing and can be self sustained as policy stimulus is withdrawn*". We think the tenor of the data is improving and will do so by March. But what needs to be appreciated is that this follows 18 months of sub-trend growth (a huge difference with Australia). Looking at previous tightening cycles you typically need successive quarters of above trend GDP before the tightening cycle starts and we can't see that happening at all by March.
- The wildcard remains inflation.** As the RBNZ note, it seems that the recession took the heat out of inflation as opposed to driving it to an especially low base. This is problematic on three levels. First it portends of a far less negative output gap starting position than was commonly thought. Second, it also suggests a lower trend rate of growth for the economy. Trend growth is not 3 percent and we note the RBNZ assumed something close to 2 percent in their *Statement* – something we included in our October forecast update. This is significant in so far as asset / equity valuations are concerned as well. And finally, what it implies about structural rigidities within the system. On top of that there is obviously also excessive inflationary pressure from non-contestable pockets of the economy.
- We're siding with the RBNZ's view of limited inflationary pressure over the coming quarters** (they have the best forecasting track record) but clearly the market will remain spooked to the potential for stronger outturns. And if we do see stronger outturns and a policy response we'll be taking a major step towards a W shaped economic cycle. It is at this point that fiscal policy could also assist the RBNZ in a variety of ways including looking at inflationary pressure emerging from non-

contestable pockets and promoting flexibility across various markets.

In addition to the announcements from the Government this week, business and consumer confidence measures are the major data releases. The key within the National Bank *Business Outlook*, as with previous months, is whether firms are feeling confident enough to go out and invest and employ. Expectations for their own activity have risen solidly over the past six months. Turning this into actual hiring and investment decisions has been a little slower. Just as the RBNZ singled out, it is not until the latter begin to improve will we become more confident that the recovery is becoming self-sustaining. For the ANZ-Roy Morgan Consumer Confidence numbers, the focus will once again be on the large disparity that currently exists between consumers' current and future expectations. So while many will be focusing on whether both measures ease again following the small fall in November, it is also the gap between them that we will be interested in.

Recent local data...

- > **Wholesale Trade Survey (September quarter):** Total wholesale trade sales fell 0.8 percent – the fifth consecutive quarterly fall.
- > **Value of Building Work Put in Place (September quarter):** The volume of residential building work put in place fell 5.4 percent, while non-residential building work fell 4.3 percent.
- > **Economic Survey of Manufacturing (September quarter):** Manufacturing sales volumes fell 1.4 percent. Excluding meat and dairy manufacturing, sales volumes rose 1.0 percent.
- > **Electronic Card Transactions (November):** Total retail ECT sales rose 0.7 percent. Excluding motor vehicle related industries, sales rose 0.3 percent.
- > **Retail Sales (October) – released earlier than scheduled by Statistics NZ:** Headline sales were flat in the month, while core sales rose 0.5 percent.
- > **Overseas Trade Indexes (September quarter):** The merchandise terms of trade fell 1.3 percent, led by a 5.2 percent fall in export prices. Export volumes rose 1.0 percent, while import volumes lifted 1.9 percent.
- > **REINZ House Sales (November):** In seasonally adjusted terms, house sales fell 8.0 percent, while days to sell rose one day to 35 days. House prices were unchanged in the month at \$355,000, up 5.2 percent on a year ago.

NZ GOVERNMENT'S BUDGET POLICY STATEMENT AND HALF-YEAR ECONOMIC AND FISCAL UPDATE PREVIEW

(due 1.00pm 15 December)

We expect the Treasury to upgrade their economic growth forecasts, but downgrade their tax revenue forecasts. This leads to a worse near-term fiscal position but marginally better position by 2012/13. The persistence and size of fiscal deficits, along with the rate of debt accumulation, will reinforce the need for a sustained period of restrictive fiscal policy. While we suspect the *Budget Policy Statement* will lack specifics, anything that is strong on growth, savings, productivity and a more balanced economy will be strong signs in our eyes that material changes (if lacking details) are pending. This could assist monetary policy, although the market will likely require something of more substance.

The Half-year Economic and Fiscal Update (HYEFU) and Budget Policy Statement (BPS) have taken on added significance. The RBNZ's December *Monetary Policy Statement* devoted a whole box (the only box on topical issues in fact) to the linkages between monetary, fiscal and tax policy. In addition, the Governor noted in his policy assessment that "*fiscal consolidation would help reduce the work that monetary policy might otherwise need to do.*"

The challenges for the government are:

- > To show their commitment to getting back into surplus in order to allay any concerns held by credit rating agencies (Fitch has NZ on negative outlook).
- > Shift the stance of fiscal policy from expansionary into contractionary mode to allow monetary policy to remain accommodative for longer, with the hope of taking pressure off the currency as well.
- > Deliver or flag policy changes that will help improve the trend rate of growth for the economy.
- > And to do this all while keeping to the promises made to the electorate.

There are three key things we will be on the lookout for:

- > Updated forecasts for the fiscal position contained in the *HYEFU*.
- > A broad outline of any new fiscal strategy in the *BPS*, including flagging any potential tax changes.

- > Any changes to the DMO's bond tender programme.

The government's fiscal position is currently worse than expected. The underlying operating deficit (or OBEGAL¹) for the four months to October was \$3.3 billion – \$1.2 billion larger than forecast. The government accounts have been negatively impacted by a combination of the recession, which substantially reduced tax revenues (particularly corporate tax), and past structural increases in government spending. In addition, assumptions and provisions around the government deposit guarantee scheme, which is currently over \$800 million, has also impacted. Tax revenues continue to undershoot forecasts by a wide margin despite the economy emerging from recession and gaining forward momentum earlier than when the Treasury expected at the time of the May *Budget*. This is something that is unlikely to turn around quickly on the back of an improved economic backdrop alone.

We expect an unusual situation where the Treasury will upgrade their economic growth forecasts, but downgrade their tax revenue forecasts.

The Minister of Finance alluded to this when he said recently that "*It is quite possible we could end up with an economy in slightly better shape than people thought back in March or April. ...So even if growth is a bit better, it doesn't automatically flow through to the government accounts.*" So while we see the Treasury's March 2010 GDP growth forecasts being revised up from -1.7 percent to closer to flat, and the March 2011 forecasts up from 1.8 percent to around 2½ percent, the tax forecasts will be revised lower over the initial forecast period. This will result in larger underlying deficits over the next two financial years of around 5 percent of GDP. But we expect improvements further out given a better growth and unemployment rate track (seen peaking at 7 percent compared to 8 percent at the time of the *Budget*).

Of course, the Treasury's forecasts are based on current policy settings. What is clear is that the current path is not sustainable, and settings need to change if the government is to return to surplus within a decade.

There is no doubt that next year's Budget is set to be tight, with the government sticking to their \$1.1 billion allocation for new operating spending. This has been well signalled by the Minister of Finance in recent comments: "*It's clear that the impact of the recession will be felt by many businesses and, in turn, on the Government's books for some time. This will influence our decisions around both revenue and spending. It means there will be little or no new money for government departments and ministries for the foreseeable*

¹ Operating Balance excluding Gains and Losses.

future" and "If we are to fund new priorities without pushing Government debt to unsustainable levels, then finding savings in existing spending will be critical." Even so, keeping to the \$1.1 billion will be a challenge itself given cost pressures within the health and education sectors in particular. We suspect there will be a further drive for cost savings across the whole public sector, or at least a re-prioritisation of some spending. **But these by themselves are mere tinkering at the margins and are not enough to address deteriorating fiscal situation. Further structural changes to government spending and/or to tax policy are required.**

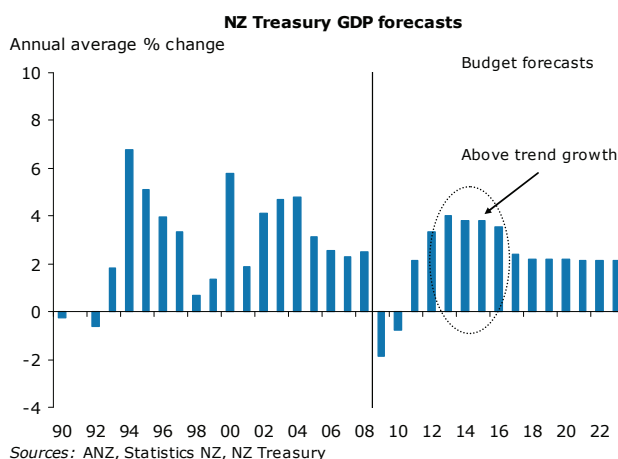
In this regard, we will be looking for the BPS to outline any major changes to come at next year's Budget. Recommendations from various working groups that the Government commissioned (e.g. Taskforce 2025 & the Tax Working Group) have been cited as too radical, but it would be unrealistic to think all the recommendations are completely off the radar. There is a fiscal consolidation imperative. Australia is also a moving target to catch on the per capita income stakes, and they too have an upcoming tax review that could turn up the heat on change on this side of the Tasman. The NZ Government has already announced a suite of changes to the energy sector, adopting most of the recommendations made by the Ministerial Review into the electricity market so some Reviews are being followed up. All up, we suspect the BPS will still lack substance but we will be closely reading the spirit of the document.

Anything that is strong on growth, savings, productivity and a more balanced economy will be strong signs in our eyes that material changes (if lacking details) are pending.

As for the DMO's bond tender programme, we expect an increase to the 2009/10 programme to \$9.5 billion, with the out-years similar to what was projected at this year's Budget.

Financial Market Implications

A marginally improving growth outlook will be welcome, particularly in so far as the medium-term fiscal projections are concerned. But in the Budget, the Treasury somewhat fudged the numbers by including strong above trend growth for a couple of years beyond the immediate forecast period to help rein the (deteriorating debt) numbers in. Even then the projections still assumed two decades of deficits. With the immediate growth outlook now better, this fudge should be unwound. Net-on-net, we expect the numbers to continue to highlight the need for a sustained period of fiscal restraint.



Fiscal policy is expected to support monetary policy, but we suspect that at this stage it will be nothing new and specifics will be lacking.

Fiscal policy is moving to a more restrictive stance. However, this has been well flagged and offers little new information to the RBNZ. We expect nuances in relation to structural changes across the economy to implicitly portend of assistance but to generally lack substance.

Economic and Fiscal Forecasts – Our expectations of Treasury's forecasts (BEFU forecasts in brackets)

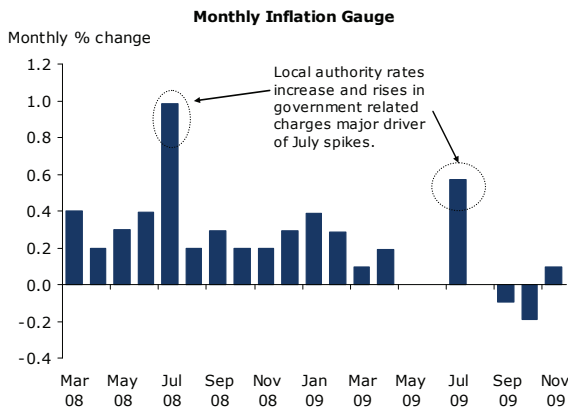
March Years	2008/09 (a)	2009/10	2010/11	2011/12	2012/13	2013/14
Real GDP (ann. ave. % chg., production)	-1.1 (-0.9)	-0.3 (-1.7)	2.4 (1.8)	3.1 (2.9)	3.2 (4.0)	3.0 (n/a)
CPI (ann. % chg.)	3.0 (3.0)	2.4 (2.3)	2.6 (2.4)	2.5 (2.4)	2.4 (2.4)	2.3 (n/a)
June Years	2008/09 (a)	2009/10	2010/11	2011/12	2012/13	2013/14
Operating Balance – \$ million	-10,505 (-9,303)	-5,000 (-5,729)	-6,900 (-7,111)	-6,600 (-7,115)	-5,100 (-5,773)	-4,000 (n/a)
- % GDP	-5.8 (-5.2)	-2.7 (-3.3)	-3.6 (-3.9)	-3.3 (-3.7)	-2.4 (-2.9)	-1.8 (n/a)
OBEGAL – \$ million	-3,893 (-2,916)	-9,000 (-7,739)	-9,500 (-9,265)	-8,800 (-9,583)	-7,600 (-8,423)	-6,000 (n/a)
- % GDP	-2.2 (-1.8)	-5.0 (-4.5)	-5.0 (-5.2)	-4.3 (-5.0)	-3.6 (-4.1)	-2.7 (n/a)
Net core crown debt – % of GDP	9.5 (8.7)	16.0 (15.6)	22.0 (21.8)	25.0 (27.1)	28.0 (30.9)	30.0 (n/a)
Bond tender – \$ billion	5.5 (5.9)	9.5 (8.5)	11.5 (11.5)	15.0 (15.0)	15.0 (15.0)	15.0 (n/a)

– (a) actual

MONTHLY INFLATION GAUGE

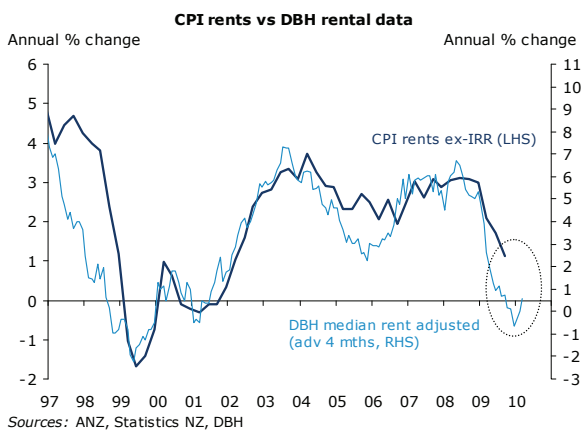
Our monthly inflation gauge recorded a 0.1 percent increase in November. This is still a soft reading overall. A still weak labour market backdrop should ensure the absence of cost-push inflation pressures within the private sector in the near-term. Pricing pressure in the government-dominated non-contestable areas is another matter.

Following two consecutive monthly declines, our monthly inflation gauge recorded a 0.1 percent increase over November. Price increases were recorded in health services, which continue to show ongoing rises. We also continue to see ongoing price increases for professional services. Alcoholic beverages and tobacco partly reversed the previous month's decline, posting a small rise. And despite Air New Zealand announcing cuts to domestic airfares in some regions in mid-October, we still recorded an increase for the transport group in the month.

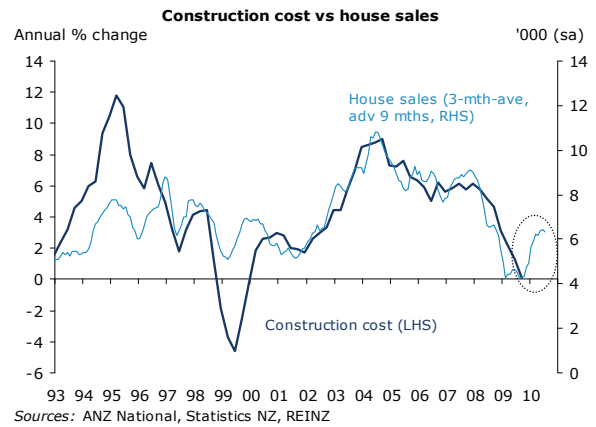


Source: ANZ

Property related prices remain weak, despite the rebound in house prices. Rents continue to flat line based on data from the Department of Building and Housing, with median rents continuing to fluctuate between \$290 and \$300 per week. Our modelled construction cost series showed a mild decline, though it should be noted that based on past relationship with housing market activity, we can expect a rise in construction cost next year.



Sources: ANZ, Statistics NZ, DBH



Sources: ANZ National, Statistics NZ, REINZ

Overall, our inflation gauge is not giving any warning signs on the inflation front. The official Statistics NZ non-tradable CPI reading remains elevated, and it remains to be seen whether it will ease in Q4 in line with our gauge. A still weak labour market backdrop should ensure the absence of cost-push inflation pressures within the private sector in the near-term. However, we are likely to experience further upward price pressure in government-dominated non-contestable areas (such as ACC levies for a start) as the government seeks to address the large fiscal deficit situation.

We note that after tracking in line with the official Statistics NZ non-tradable inflation series, our inflation gauge under-predicted inflation pressures in the September quarter. Looking at the RBNZ's December *Monetary Policy Statement* forecasts, it appears they are expecting something in the vicinity of a 0.3 to 0.4 percent increase. The CPI release in January will be a very important one to help determine when the RBNZ's tightening cycle will begin.

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Feb-08	1000			
Mar-08	1004	0.4		1.1
Apr-08	1006	0.2		
May-08	1009	0.3		
Jun-08	1013	0.4	0.9	0.9
Jul-08	1023	1.0		
Aug-08	1025	0.2		
Sep-08	1028	0.3	1.5	1.3
Oct-08	1030	0.2		
Nov-08	1032	0.2		
Dec-08	1035	0.3	0.7	0.8
Jan-09	1039	0.4		
Feb-09	1042	0.3		
Mar-09	1043	0.1	0.8	0.7
Apr-09	1045	0.2		
May-09	1045	0.0		
Jun-09	1045	0.0	0.2	0.5
Jul-09	1051	0.6		
Aug-09	1051	0.0		
Sep-09	1050	-0.1	0.5	1.0
Oct-09	1048	-0.2		
Nov-09	1049	0.1		

INTEREST RATE STRATEGY

The change in stance from the RBNZ last week has seen the market gravitate back towards a March rate hike. Receivers will be thin on the ground and with the potential for mortgage paying activity to pick up, swap yields look set to move higher.

Market themes...

- > RBNZ flags rate hikes from middle of 2010, taking the market by surprise.
- > Market pricing in another rate hike from RBA in February following strong data.
- > US dataflow strong, leading to a selloff in bonds.

Review and outlook

Obviously the big theme last week was the RBNZ's more upbeat view of the economy and their signalling of conditional rate hikes from around the middle of next year. The market had been expecting a repeat of the last statement but the change in tone saw a massive sell off which has led to stopping out of received positions and new concerns about the possibility of new mortgage payside flows hitting the market.

While Governor Bollard has tried to subsequently rein the market in, the change in view has left many racing to cover the possibility once again that improving data could bring hikes forward to Q1. The 2-year traded from 4.32 percent prior to the decision up to 4.61 percent on the day, with the curve flattening through the technical 98 level in 2/5's. Since then, stopping out has seen the 2-year trade up to 4.70 percent and we think there is further to go before stopping out clears from the market. In addition to this, strong Australian employment and US retail sales data added to the payside theme.

The upcoming data now takes on added importance for the timing and extent of the first move. With the RBNZ forecasting Q3 GDP of 0.4 percent and a 0.2 percent fall in the Q4 CPI, the risk is that these data surprise on the upside leading to more aggressive market pricing. We believe curve flattening will continue, but curve shape will be highly volatile until the first interest rate hike.

The NBNZ Business Outlook is the important data this week. Key will be whether improved confidence is filtering through to investment and hiring decisions. However, the Government's *Half-Year Update* and *Budget Policy Statement* will also be critical to help gauge how aggressive any period of fiscal consolidation will be. In Australia, RBA minutes are released. Doubts now remain around how strong the Australian Q3 GDP will be, with poor

exports figures released last week. Even so, with forward looking indicators strong, a weakish GDP number will likely have little effect.

We have seen no immediate pick up in mortgage flows, but the risk is that those on floating look to fix in the 1 to 2-year bucket, which could see increasing payside in the NZ market. This follows a relatively quiet period over the last few months. Corporate activity has been light and we have seen no interest from offshore to receive at these higher levels, which is not surprising.

Borrowing strategies we favour at present

While the short end of the curve will continue to stay low, it may not stay that way for as long as we initially thought. We still like hedging interest rate risk via using caps as opposed to paying swaps outright.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	From "second half" to "middle of 2010".
NZ data	↔/↑	Business and consumer confidence data this week the key reads.
Fed Funds / front end	↔	How long will the "extended period" phase stay in?
RBA	↔	Still strong data in Australia has the market pushing for a February move.
US 10 year	↔/↑	The key 3.5% level breached. Further upside on the cards.
NZ swap curve	↔	Curve set to flatten further.
Flow	↔/↑	No receivers in sight. Mortgage paying could start to emerge.
Technicals	↔/↑	2-year broken out of trend channel, could re-test post Q3 CPI high.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 28-Jan-10	+2	+4
Thu 11-Mar-10	+11	+22
Thu 29-Apr-10	+26	+51
Thu 10-Jun-10	+59	+84
Thu 29-Jul-10	+85	+113
Thu 16-Sep-10	+130	+180
Thu 28-Oct-10	-	+212

Trading themes we favour at present

The surprising change in tone from the RBNZ has seen us exit all our long bank bill positions. Swap yields look likely to continue drifting higher and the curve flatten as the market looks for an earlier rate hike.

CURRENCY STRATEGY

Improving US data has the FX world reassessing recent risk correlations. This has boosted the greenback. The problems for the Euro-zone's small member countries and Japan's continued lethargic prospects, in stark contrast with China's robust growth, will likely see the EUR and JPY under-perform against the likes of the NZD and AUD.

Market themes...

- > RBNZ delivers a change in tone.
- > Should better US data equal a lower NZD?
- > The correlations with the "old world" are breaking down.

Review and outlook...

The shift in stance from the RBNZ got a strong reaction in currency markets. The NZD surged higher after the decision, with the market focusing on the removal of the "second half of 2010" phrase and the Bank's 90-day bank bill track showing a tightening cycle beginning six months earlier. The exceptional employment numbers in Australia last week and the fact that their unemployment rate is falling, not rising, will also likely continue to support the Antipodean currencies.

Strong retail sales data in the US on Friday night has increased the markets' confidence that the US economy is recovering. More focus will hence fall on the Fed's "low for an extended period" view on interest rates. The US yield curve is steepening as ongoing supply of medium to long-dated bonds hit the market. Given the yield differential moving in the US's favour further out the curve, the reasons to own Japanese and European bonds is starting to dwindle.

The Euro-zone is suffering an uneven recovery, with France and Germany looking better, while Greece, Spain and Ireland struggle with very little momentum. Japanese exporters have been hit hard from a stronger JPY. The economy is back in deflation mode and policymakers are looking at ways to try and support. Market positioning has favoured both the EUR and JPY as the diversification out of USD occurred. A reversal now looks to be underway.

The NZD is trapped between an appreciating USD and an improving world outlook. It looks set to consolidate in the recent 0.70-0.73 range. The major level to watch from a technical perspective is 0.7320. A swag of indicators (which are currently negative) will send a strong buy signal if this level is breached and a close above it occurs. NZDAUD is now also a range trade after the tone change from RBNZ Governor Bollard. 0.8000 appears to be the top and 0.7800 now the base.

The trades we favour for this week is long NZD or AUD against the EUR and JPY. We prefer 0.4900 to hold for the NZDEUR, and looking for a target of 0.5250 over the coming months. For the NZDJPY, we favour 63.00 to hold for a break above 67.00, with a target above 70.00.

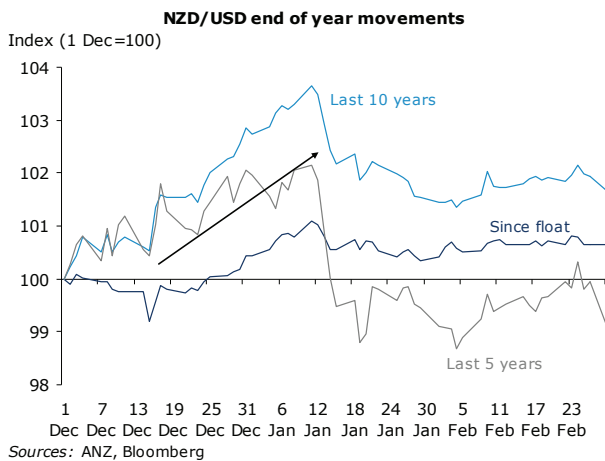
NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia.
Commodities	↔	Both softs and hards performing well.
Partial indicators	↔/↓	Both economies improving, but Aussie much faster.
Technicals	↔	Range trade. Support at 0.78 and resistance 0.80.
Sentiment	↔	Three-from-three for the RBA. Market pushing for earlier RBNZ moves.
Other	↔/↓	Asian central banks underweight Australian asset.
On balance	↔	Range trade.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long-term average.
Fair value – short-term	↔	In line with cyclical fair value.
Yield	↔	Does an improving US labour market imply an earlier Fed hike?
Commodities	↔/↑	Soft commodities gaining momentum. USD key.
Risk aversion	↔	Equities still remain the key to watch.
Partial indicators	↔	NZ data today will allow Q3 GDP expectations to be firmed.
Technicals	↔	0.70 to 0.73 range into Christmas.
AUD	↔/↑	RBA first to hike in G20. Will they now pause?
Sentiment	↔/↑	Change in stance from RBNZ has got the market excited.
Other	↔	Has the US non-farm payrolls been enough to turn the USD's fortunes?
On balance	↔	USD still key.

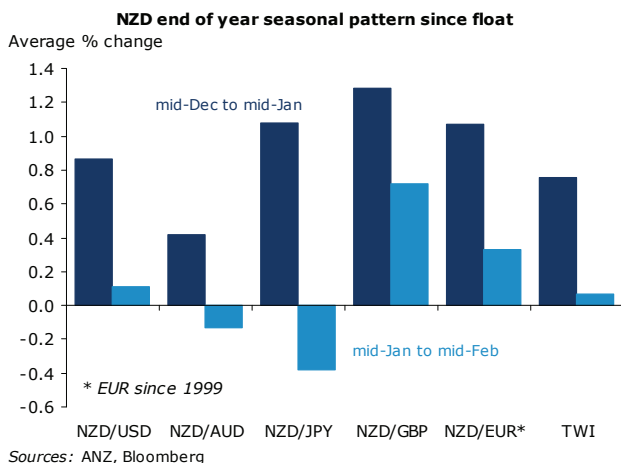
NZD YEAR-END EFFECT

There is a seasonal factor that typically provides support to the NZD heading into the end of year holiday period. Last year was no exception. With the USD still weak, this seasonal pattern could yet repeat again. However, sentiment remains fickle in the current environment, and the NZD remains vulnerable to a fresh bout of risk aversion over the liquidity thin late December to mid-January period.

The NZD appears to exhibit a strong seasonal pattern over the December/January period. As the graph below shows, the NZD tends to gain against the USD from about mid-December until around mid-January. Since the NZD was floated, it has gained 15 out of 24 times over that period against the USD. The average increase was 0.9 percent, with the median gain slightly higher at 1 percent. There is, however, a large standard deviation around the movements of 2.6 percent. During periods when the NZD did rise, the average increase was 2.4 percent. The average decline was 1.7 percent.



The NZD's end of year effect appears to be broad-based. Since the float, the biggest gains have been on the crosses against the GBP, EUR and Yen.



The reasons for such seasonal effects could be due to:

- > The usual rise in international tourists during the peak holiday season, increasing demand for outright NZD purchases
- > Lower trade activity, which given NZ's trade deficit, implies less net-NZD selling overall
- > Investors (especially Japanese investors) channelling their funds into higher yielding currencies over the quiet end-of-year period
- > Thin liquidity conditions given that many market participants are away on holiday

There could well be other factors at play, but liquidity conditions are likely to be the major driver.

The fact that the NZD tends to gain the most against the GBP on average, whether it be over a 5 year, 10 year, 15 year or post float average, suggests perhaps a very strong tourist related currency flow. Visitor arrivals from the UK are the second largest after Australia. A similar effect could be in play in terms of the NZDEUR.

The tables below show the percentage movements in the NZD against the majors over the mid-December to mid-January period, as well as the movements over the following month to see if any year-end effects subsequently unwind when liquidity returns to more normal conditions. It appears that:

- > On some occasions, the gains over mid-December to mid-January unwind the following month, but on average the NZD has managed to hang on to the earlier gains.
- > There does not appear to be any end of year seasonal effect on the NZDAUD. This could be due to the fact that the AUD exhibits a similar seasonal effect as well.

Implications

If history is any guide, we can expect a repeat of the end of year seasonal pattern this summer. Of course, just to show that there is no such thing as a sure bet, the seasonal pattern failed to show over December last year and January this year, when the NZDUSD fell 3 percent, and followed that up with another 2.7 percent decline in the following month. But the NZDGBP and NZDEUR posted gains of 1.3 and 1.2 percent respectively, reinforcing perhaps the tourist flow effect.

With the EUR in particular looking somewhat vulnerable at present, we could see the seasonal pattern reassert itself this December/January. However, sentiment remains fickle in the current environment, and the NZD remains vulnerable to a fresh bout of risk aversion over the liquidity thin late December to mid-January period.

Average % change for various time periods			
NZDUSD	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
Last 24 years	0.9	0.1	1.0
Last 15 years	1.4	-0.3	1.1
Last 10 years	1.7	-0.6	1.1
Last 5 years	-0.5	-0.5	-1.0
Range:			
Minimum	-4.9	-6.4	-5.7
Maximum	5.3	4.8	8.0

Average % change for various time periods			
NZDAUD	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
Last 24 years	0.4	-0.1	0.3
Last 15 years	0.6	-0.3	0.3
Last 10 years	0.1	-0.3	-0.1
Last 5 years	-0.9	-1.3	-2.2
Range:			
Minimum	-6.0	-2.7	-3.9
Maximum	3.9	3.4	4.9

Average % change for various time periods			
NZDJPY	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
Last 24 years	1.1	-0.4	0.7
Last 15 years	1.5	0.7	2.1
Last 10 years	1.6	0.4	1.9
Last 5 years	-2.2	1.0	-1.2
Range:			
Minimum	-5.0	-6.4	-10.5
Maximum	9.9	5.0	8.7

Average % change for various time periods			
NZDGBP	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
Last 24 years	1.3	0.7	2.0
Last 15 years	1.6	0.3	2.0
Last 10 years	1.9	-0.2	1.7
Last 5 years	1.4	0.1	1.6
Range:			
Minimum	-3.1	-4.9	-6.1
Maximum	5.9	7.5	9.7

Average % change for various time periods			
NZDEUR	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
Last 24 years
Last 15 years
Last 10 years	1.1	0.3	1.4
Last 5 years	0.2	0.3	0.5
Range:			
Minimum	-1.1	-2.9	-2.1
Maximum	4.2	3.1	4.7

Average % change for various time periods			
TWI	mid-Dec to mid-Jan	mid-Jan to mid-Feb	mid-Dec to mid-Feb
Last 24 years	0.8	0.1	0.8
Last 15 years	1.2	0.1	1.2
Last 10 years	1.2	-0.3	0.9
Last 5 years	-0.7	0.0	-0.6
Range:			
Minimum	-4.0	-4.4	-3.7
Maximum	5.1	2.9	5.7

Sources: ANZ, Bloomberg

Note: Mid of the month refers to the 15th or closest to it.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
14-Dec	NZ	REINZ Monthly House Price Index (Nov)	-	-	10:00
		Non Resident Bond Holdings (Nov)	-	71.2%	15:00
	JN	Tankan Large Manufacturers Index (4Q)	-27	-33	12:50
		Tankan Non-Manufacturing (4Q)	-23	-24	12:50
		Industrial Production (Oct F) - mom	-	0.5%	17:30
		Capacity Utilization (Oct F) - mom	-	1.6%	17:30
	UK	Rightmove House Prices (Dec) - mom	-	-1.6%	13:01
	EC	Employment (3Q) - qoq	-	-0.5%	23:00
		Industrial Production (Oct) - mom	0.7%	0.3%	23:00
15-Dec	NZ	MED Quarterly Energy Data	-	-	-
		Government's Half-Year Economic and Fiscal Update	-	-	13:00
	AU	Dwelling Starts (3Q)	6.0%	-3.7%	13:30
		Reserve Bank's Board December Minutes	-	-	13:30
	UK	RICS House Price Balance (Nov)	39.0%	34.0%	13:01
		CPI (Nov) - mom	0.2%	0.2%	22:30
		RPI (Nov) - mom	0.2%	0.3%	22:30
		DCLG UK House Prices (Oct) - yoy	-	-4.1%	22:30
	GE	ZEW Survey (Econ. Sentiment) (Dec)	50.0	51.1	23:00
		ZEW Survey (Current Situation) (Dec)	-60.1	-65.6	23:00
	EC	Labour Costs (3Q) - yoy	3.5%	4.0%	23:00
		ZEW Survey (Econ. Sentiment) (Dec)	50.0	51.8	23:00
16-Dec	US	Producer Price Index (Nov) - mom	0.8%	0.3%	02:30
		PPI Ex Food & Energy (Nov) - mom	0.2%	-0.6%	02:30
		Empire Manufacturing (Dec)	24.0	23.5	02:30
		Net Long-term TIC Flows (Oct)	\$42.3B	\$40.7B	03:00
		Total Net TIC Flows (Oct)	-	\$133.5B	03:00
		Industrial Production (Nov)	0.5%	0.1%	03:15
		Capacity Utilization (Nov)	71.1%	70.7%	03:15
		NAHB Housing Market Index (Dec)	18	17	07:00
	AU	Westpac Leading Index (Oct) - mom	-	0.4%	12:30
		DEWR Skilled Vacancies (Dec) - mom	-	2.4%	13:00
		Gross Domestic Product (3Q) - qoq	0.4%	0.6%	13:30
		RBA Deputy Bank Governor Battellino speaks in Sydney	-	-	14:15
	JN	Tertiary Industry Index (Oct) - mom	0.5%	-0.5%	12:50
		Machine Tool Orders (Nov F) - yoy	-	-8.6%	19:00
	GE	PMI Manufacturing (Dec A)	52.6	52.4	21:30
		PMI Services (Dec A)	51.9	51.4	21:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
16-Dec cont.	EC	PMI Manufacturing (Dec A)	51.5	51.2	22:00
		PMI Services (Dec A)	53.2	53.0	22:00
		CPI (Nov) - mom	0.2%	0.2%	23:00
	UK	Claimant Count Rate (Nov)	5.1%	5.1%	22:30
		Jobless Claims Change (Nov)	12.5K	12.9K	22:30
		Average Earnings inc bonus (Oct) - 3m/yoy	1.2%	1.2%	22:30
		ILO Unemployment Rate (3mths) (Oct)	7.9%	7.8%	22:30
17-Dec	US	Consumer Price Index (Nov) - mom	0.4%	0.3%	02:30
		CPI Ex Food & Energy (Nov) - mom	0.1%	0.2%	02:30
		Current Account Balance (3Q)	-\$108.0B	-\$98.8B	02:30
		Housing Starts (Nov)	579K	529K	02:30
		Building Permits (Nov)	570K	551K	02:30
		FOMC Rate Decision	0.25%	0.25%	08:15
	AU	HIA New Home Sales (Nov) - mom	-	-6.0%	13:00
		RBA Foreign Exchange Transaction (Nov)	-	307M	13:30
	NZ	NBNZ Business Confidence (Dec)	-	43.4	15:00
	JN	Leading Index CI (Oct F)	-	89.7	18:00
		Coincident Index CI (Oct F)	-	94.3	18:00
	UK	Retail Sales (Nov) - mom	0.5%	0.4%	22:30
		BoE Releases Quarterly Inflation Attitudes Survey	-	-	22:30
	EC	Construction Output (Oct) - mom	-	-1.1%	23:00
18-Dec	US	Initial Jobless Claims (w/e Dec-13)	465K	474K	02:30
		Continuing Claims (w/e Dec-6)	5170K	5157K	02:30
		Leading Indicators (Nov)	0.7%	0.3%	04:00
		Philadelphia Fed (Dec)	16.0	16.7	04:00
		Fed's Bernanke Confirmation Vote Held in Senate Banking Committee	-	-	04:00
	NZ	ANZ-Roy Morgan Consumer Confidence (Dec)	-	121.5	15:00
	JN	BoJ Target Rate	0.10%	0.10%	-
	GE	Producer Prices (Nov) - mom	0.2%	0.0%	20:00
		IFO - Business Climate (Dec)	94.5	93.9	22:00
		IFO - Current Assessment (Dec)	90.0	89.1	22:00
		IFO - Expectations (Dec)	99.0	98.9	22:00
	EC	Current Account s.a. (Oct)	-	-5.4B	22:00
		Trade Balance s.a. (Oct)	-	6.8B	23:00
	UK	Public Finances (PSNCR) (Nov)	17.3B	5.9B	22:30
		M4 Money Supply (Nov P) - mom	0.6%	1.6%	22:30
		BoE Releases Trends in Lending Report	-	-	22:30

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: We are on the home stretch for 2009, with plenty to chew on before the country shuts down for the Christmas/New Year period. The Government's *Half-Year Update* and *Budget Policy Statement* this week will be important for how aggressive the Government's fiscal consolidation plans are. Signs of a more aggressive fiscal consolidation strategy mean monetary policy will need to do less. The Q3 GDP numbers are likely to suggest a modest pick up in growth in the quarter.

Date	Data/Event	Economic Signal	Comment
Tue 15 Dec (14.00)	Government's <i>Half-Year Economic and Fiscal Update</i> and <i>Budget Policy Statement</i>	How bad?	Recent rhetoric from the Minister of Finance appears to be prepping for what looks likely to be a reasonably tight <i>Budget</i> next year. We expect the fiscal forecasts to show the fiscal position remaining under significant pressure for some time yet despite better growth projections.
Thu 17 Dec (15.00)	NBNZ <i>Business Outlook</i> (Dec)	-	-
Fri 18 Dec (15.00)	ANZ-Roy Morgan Consumer Confidence (Dec)	-	-
Mon 21 Dec (10.45)	International Travel and Migration (Nov)	Still supportive	A net inflow of migration is expected to continue as departures remain low.
Tue 22 Dec (10.45)	Balance of Payments (Sep qtr)	Another big improvement	The current account deficit is expected to show a sharp improvement in the quarter due to an improved trade balance as well as lower profits from foreign firms.
Wed 23 Dec (10.45)	GDP (Sep qtr)	Gaining some forward momentum	The final piece of information we are waiting on is electricity generation data from MED. At this stage we continue to have a 0.5 percent increase pencilled in, although see upside risk to this.
On Balance		Up	Right direction, wrong mix.

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11
GDP (% qoq)	-1.0	-0.8	0.1	0.5	0.8	0.6	0.6	0.6	0.5	0.7
GDP (% yoy)	-2.2	-2.6	-2.1	-1.2	0.6	2.0	2.5	2.6	2.3	2.4
CPI (% qoq)	-0.5	0.3	0.6	1.3	0.4	0.3	0.7	0.7	0.8	0.5
CPI (% yoy)	3.4	3.0	1.9	1.7	2.5	2.5	2.7	2.1	2.5	2.8
Employment (% qoq)	0.7	-1.4	-0.4	-0.7	-0.1	0.0	0.1	0.3	0.4	0.5
Employment (% yoy)	0.9	0.7	-0.9	-1.8	-2.5	-1.2	-0.7	0.3	0.8	1.3
Unemployment Rate (% sa)	4.7	5.0	6.0	6.5	6.8	7.0	7.1	7.1	7.0	6.9
Current Account (% GDP)	-8.9	-8.1	-5.9	-4.2	-3.5	-3.7	-4.7	-5.5	-5.6	-5.6
Terms of Trade (% qoq)	-1.0	-2.7	-9.4	-1.2	3.4	1.5	1.9	0.6	0.1	-0.2
Terms of Trade (% yoy)	1.8	-5.0	-13.5	-13.7	-9.9	-6.0	5.7	7.6	4.2	2.4

KEY ECONOMIC INDICATORS

	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09
Retail Sales (% mom)	0.2	-0.1	0.4	0.6	0.1	-0.6	1.2	0.3	0.0	..
Retail Sales (% yoy)	-6.9	-1.9	-1.7	-2.4	-1.1	-1.4	-1.1	-0.5	-0.2	..
Credit Card Billings (% mom)	1.1	-3.2	2.6	-0.3	0.1	0.3	1.4	-1.0	0.2	..
Credit Card Billings (% yoy)	-1.9	-4.7	-1.6	-2.3	-2.1	-1.9	0.1	-2.3	-0.4	..
Car Registrations (% mom)	-14.5	6.3	-0.1	-2.6	6.1	7.0	-2.6	6.4	0.9	1.4
Car Registrations (% yoy)	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3	-16.8	-16.8	2.4
Building Consents (% mom)	12.6	-1.7	11.3	2.9	-9.6	5.4	2.2	5.5	11.7	..
Building Consents (% yoy)	-39.8	-34.2	-56.5	-22.9	-24.4	-16.4	-8.6	-11.9	26.7	..
REINZ House Price (% yoy)	-2.2	-4.0	-1.4	-2.2	0.0	0.0	5.1	6.1	6.0	..
Household Lending Growth (% mom)	0.1	0.0	0.2	0.4	0.0	0.2	0.3	0.2	0.3	..
Household Lending Growth (% yoy)	3.1	2.7	2.5	2.5	2.3	2.4	2.3	2.3	2.6	..
ANZ-Roy Morgan Consumer Confidence	97.1	93.4	104.6	105.8	103.4	107.8	112.3	120.0	125.9	121.5
NBNZ Business Confidence	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2	49.1	48.2	43.4
NBNZ Own Activity Outlook	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0	32.2	30.5	33.7
Trade Balance (\$m)	483	438	322	906	-331	-178	-717	-563	-487	..
Trade Balance (\$m annual)	-5165	-4684	-4070	-2994	-3110	-2491	-2360	-1671	-1164	..
ANZ World Commodity Price Index (% mom)	-4.6	1.0	2.6	2.8	0.2	1.0	4.4	6.8	4.7	10.5
ANZ World Commodity Price Index (% yoy)	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.7	-13.0	-1.5	17.4
Net Migration (sa)	1620	1680	2050	2590	1670	2480	1650	1860	2130	..
Net Migration (annual)	6160	7482	9176	11202	12515	14488	15642	17043	18560	..

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)						
	Oct-09	Nov-09	14-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
NZD/USD	0.737	0.731	0.725	0.720	0.710	0.690	0.680	0.670	0.650	0.650
NZD/AUD	0.815	0.794	0.796	0.783	0.780	0.775	0.782	0.788	0.793	0.823
NZD/EUR	0.498	0.490	0.496	0.474	0.473	0.466	0.463	0.459	0.455	0.464
NZD/JPY	66.5	65.3	64.6	61.9	62.5	62.1	62.6	63.0	61.8	63.1
NZD/GBP	0.456	0.440	0.446	0.431	0.430	0.421	0.412	0.404	0.389	0.382
NZ\$ TWI	66.4	65.2	65.28	63.6	63.3	62.3	61.9	61.6	60.6	61.6
NZ interest rates	Oct-09	Nov-09	14-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
OCR	2.76	2.76	2.50	2.50	3.00	3.75	4.25	4.75	5.25	5.50
90 day bill	2.79	2.80	2.79	2.80	3.60	4.20	4.70	5.20	5.70	5.80
10 year bond	5.82	5.88	5.78	5.70	5.70	5.80	6.00	6.20	6.40	6.50
International	Oct-09	Nov-09	14-Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	1.25	2.00	2.00	2.00
US 3-mth	0.28	0.26	0.25	0.40	0.75	0.80	1.50	2.50	2.50	2.50
AU cash	3.25	3.50	3.75	4.00	4.25	4.50	4.75	4.75	4.75	5.25
AU 3-mth	3.94	4.03	4.16	4.40	4.80	4.90	5.00	5.00	5.10	5.60

KEY RATES

	11 Nov	7 Dec	8 Dec	9 Dec	10 Dec	11 Dec
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.82	2.78	2.77	2.77	2.78	2.78
NZGB 11/11	4.40	4.12	4.12	4.07	4.25	4.30
NZGB 04/13	5.15	4.85	4.84	4.81	4.96	4.99
NZGB 12/17	5.81	5.72	5.71	5.69	5.75	5.77
NZGB 05/21	6.11	6.01	6.01	5.98	6.04	6.06
2 year swap	4.57	4.33	4.39	4.34	4.57	4.65
5 year swap	5.69	5.44	5.49	5.45	5.55	5.60
RBNZ TWI	65.9	64.2	64.0	63.7	64.9	65.2
NZD/USD	0.7415	0.7174	0.7147	0.7089	0.7246	0.7272
NZD/AUD	0.7967	0.7839	0.7823	0.7817	0.7907	0.7932
NZD/JPY	66.45	64.44	63.62	62.63	63.92	64.53
NZD/GBP	0.4433	0.4353	0.4344	0.4359	0.4444	0.4458
NZD/EUR	0.4946	0.4818	0.4815	0.4811	0.4915	0.4938
AUD/USD	0.9307	0.9152	0.9136	0.9069	0.9164	0.9168
EUR/USD	1.4993	1.4889	1.4842	1.4735	1.4743	1.4727
USD/JPY	89.61	89.82	89.01	88.35	88.21	88.74
GBP/USD	1.6726	1.6481	1.6454	1.6264	1.6305	1.6312
Oil	79.01	75.41	73.89	72.59	70.67	70.54
Gold	1108.15	1156.55	1165.20	1134.80	1128.05	1135.70
Electricity (Haywards)	16.02	5.38	5.02	5.14	6.25	5.51
Milk futures (US\$/contract)	124	137	137	137	137	137
Baltic Dry Freight Index	3748	4036	3902	3791	3671	3579

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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