

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

15 November 2010

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MISINTERPRETATION?

ECONOMIC OVERVIEW

The RBNZ Financial Stability Report delivered a sober medium-term assessment for the economy. We agree with the nuances, but the spirit is a tad too downbeat, in our view. Today's retail trade data for Q3 confirmed a respectable increase in retail volumes, but also signs of consumers cutting back on discretionary spending implying a more modest impact on Q3 consumption volumes. We will closely watch Thursday's consumer confidence release for signs of a stabilisation after the GST-induced volatility of late. High dairy export prices hold out the promise of a better 2011 unfolding.

KIWIFRUIT INDUSTRY AND THE PSA OUTBREAK

Early last week, PSA was discovered on a kiwifruit orchard in the Bay of Plenty. At the time of writing 38 orchards had been tested for the disease, 8 orchards had been confirmed as having the disease, with 28 returning negative tests and two pending. A total of 176 orchards had emailed photos of the suspected symptoms to Zespri, with 382 growers saying their properties had showed no signs of the disease. There are a total of 3077 registered kiwifruit orchards in New Zealand. At this stage, the impacts look more niggling in terms of the effect on aggregate GDP, though that is not to downplay what is obviously a significant event to the local community and industry. Other countries with the disease are still exporting, there is no known risk to animal or human health, and the disease is not known to be carried on the fruit.

FINANCIAL CONDITIONS UPDATE

Despite recent strength in the NZ dollar and ongoing weakness in house prices, financial conditions remain supportive for NZ growth prospects next year. In contrast, financial conditions have tightened significantly in Australia – courtesy of the November rate hike by the RBA and the AUD pushing past parity. Both the NZ and Australian proprietary Financial Conditions Indexes (FCI) are flagging year-on-year growth of 3 to 3½ percent by late 2011.

INTEREST RATE STRATEGY

Markets have been subjected to the opposing forces of dovish comments from RBNZ Governor Bollard, and a US bond market that's wary of inflation. The yield curve has steepened as a result. Although market expectations for RBNZ policy are back to more appropriate levels, with little incentive to pay fixed, short end rates are set to continue grinding lower. Although higher US yields will continue to pressure the long end, steepening the curve further, NZ's commitment to price stability should see NZ yields outperform over the medium term.

CURRENCY STRATEGY

Unsurprisingly the G-20 has come and gone with nothing material emerging from the talks. The bigger story last week was the u-turn in commodity prices with the most dramatic falls occurring in the food sector. This, together with lower currencies, suggests we are experiencing a USD specific move and the NZD will be caught in the midst of it.

ECONOMIC OVERVIEW

SUMMARY

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THIS WEEK'S EVENTS

- **globalDairyTrade online auction** (Wednesday November 17, 6:00am). Contract prices for whole milk powder are expected to average around US \$3,500 per tonne.
- **SNZ Producer Price Indexes – 2010Q3** (Thursday, November 18, 10:45am). Lower oil and export commodity prices are expected to deliver a moderation in quarterly input and output price inflation to around 0.7 percent for both measures.
- **SNZ Capital Goods Price Index – 2010Q3** (Thursday, November 18, 10:45am). We expect a small increase of around 0.2 percent.
- **ANZ Roy Morgan Consumer Confidence – November** (Thursday, November 18, 3:00pm).

WHAT'S THE VIEW?

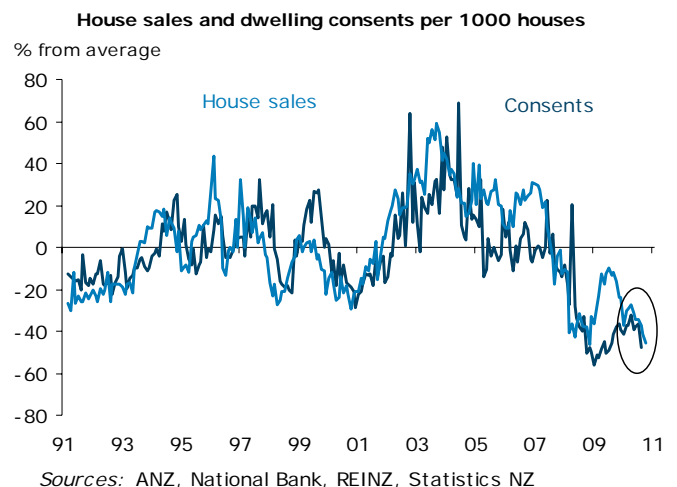
Like Australia, New Zealand has been a major beneficiary of the structural increase in demand for commodities. Unlike Australia, however, the bulk of our primary sector exports are agriculturally based and susceptible to the vagaries of climatic fluctuations. Disease is another factor to contend with, with the discovery of *Pseudomonas syringae* pv *Actinidiae* (Psa) in a number of Bay of Plenty kiwifruit orchards the most recent example. On page 5 we sketch out some initial impressions and highlight some of the potential channels through which this could affect NZ. Suffice to say it looks more niggling than otherwise in terms of the impact on aggregate GDP, though that is not to downplay what is obviously a significant event to the local community and industry.

Last week's Financial Stability Report repeated the downbeat message that characterises the current RBNZ view. The usual suspects were paraded. The financial system remains sound despite a weak economy. Comments by the Governor

appeared to put paid to the suggestion that the RBNZ is seeing anything other than weakness in data outturns, noting that "if there's some misinterpretation of New Zealand data, as we feel there might have been over the last couple of weeks, then we'd look for the market to correct that and we'll be talking further about that when we put out the monetary policy statement in a month's time". The RBNZ did highlight some concerns over recent currency wobbles but the Governor noted that NZ authorities can do little to influence the NZD in a market being driven by offshore developments.

We continue to concur with the spirit of the RBNZ's view, though we still suspect their underlying tone is a tad too downbeat. That's not to downplay challenges; rather that we're taking more heart from what we are seeing across the likes of commodity prices, emerging market economies and financial conditions. We update the latter on page 9.

Last week's data maintained the familiar theme of a weak near-term outlook for household spending. **The October REINZ housing market data was particularly weak**, with October sales the lowest for this time of the year since at least the early 1990s. With prices still falling the upshot is likely to be weaker household spending, with the implications for residential investment not looking too flash either. **Stabilised and improving asset values are a precondition to a rate hike, and we are not in that position at present.** Commercial property prices look to have stabilised but the same cannot be said for rural land and residential property – two pockets that are facing the most significant de-leveraging headwinds.

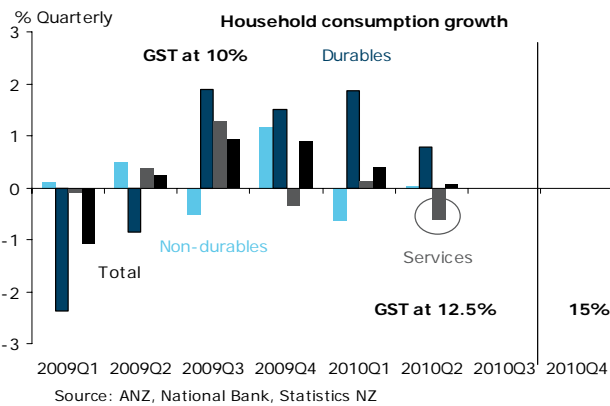


The Manufacturing PMI indicated that despite the low NZD/AUD, activity continues to hobble along, with

ECONOMIC OVERVIEW

the high NZD/USD potentially having an offsetting impact on sentiment. The sub-par NZ PMI is contrast to the pick-up seen in similar gauges overseas.

The 0.8 percent increase in the value of October retail electronic card transactions (ECT) **held out the possibility that the post-GST-hike lull in spending could be relatively mild**, especially with our October monthly inflation gauge modest at 1.1 percent. However, much of the strength in ECT spending was attributable to a surprisingly strong increase in fuel spending (up 8 percent, whereas retail petrol prices increased by around 4 percent), with core spending unchanged from September. Thus, the sizeable fall in durable ECT spending and the 2.2 percent increase in food prices suggest core retail volumes are likely to have fallen by a fair margin.

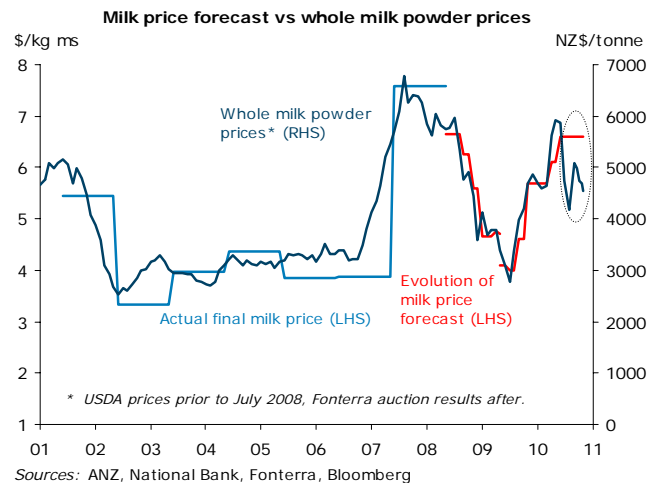


Today's retail trade data confirmed a respectable increase in September spending volumes. There was evidence of a pre-GST rise in spending on consumer durables, but also signs that consumers were cutting back on other items, particularly discretionary non-durables. As the Q2 GDP outturn reminded us (where consumption volumes barely moved despite a 1.3 percent quarterly increase in retail volumes), retail volumes are not the full story as far as consumption activity is concerned.

The *globalDairyTrade* online auction for mid-November is on Wednesday and we expect prices to remain in a holding pattern at around the US \$3,500 per tonne mark. This is expected to keep the 2010/11 payout forecast intact although eyeballing the previous chart suggests otherwise. But suffice to say there are a host of other variables that influence the final payout.

At this juncture we remind readers that dairy prices are but one portion of what is now broad-based commodity price strength. The announcement over the weekend that the

Government is looking at a free-trade agreement with Russia will only add to NZ's soft commodity potential. Russia is one of the BRIC group of emerging economies that are set to become increasingly influential within the global economy over the next few years. Currently Russia is our 33rd largest trading partner in merchandise trade, but this ranking is set to dramatically improve, with the major beneficiaries likely to be sheep meat and dairy exporters.



NZ faces significant challenges akin to a host of other nations in terms of fixing a weak national balance sheet. But unlike many nations around the globe, structural shifts are playing to our strengths and supporting commodity demand. **This allows the near-term de-leveraging dynamic (a growth suppressant) to be orderly and addressed from the income side (which improves serviceability).** The latter means growth will still be achieved, though of the grumpy variety.

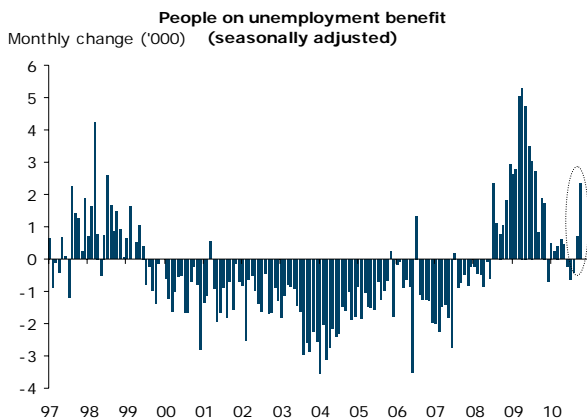
The Capital Goods and Producer Price data is released on Thursday. Lower oil and export commodity prices are expected to deliver a moderation in quarterly input and output price inflation, to around 0.7 percent for both measures. We expect a small increase of around 0.2 percent in capital goods prices, with higher construction costs to be partly offset by lower prices for imported capital equipment. With the value of capital good imports up 18 percent in Q3, the implication is a decent increase in business investment volumes for plant and machinery. This is a small step towards lifting the productive capital stock but much more is needed to alleviate concerns we have about supply-side capacity within the economy.

The ANZ Roy Morgan measure of consumer sentiment is released on Thursday. Recall that consumer sentiment eased in October – and

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particularly perceptions towards current conditions, driven by a sharp fall in the net balance of respondents feeling it was a good time to purchase a major household item. GST noise was obviously at play here so caution was needed. The November readings should have moved beyond such noise and will provide a better steer on underlying conditions and sentiment.

An important influence on consumer sentiment is the labour market. We note that while the Q3 labour market data showed a fall in the unemployment rate, and the SEEK New Job Ads Index released last week rose 7.3 percent in October, the dole queue is yet to show a sustained decline. In fact, the numbers of people on the unemployment benefit rose 3.7 percent (s.a.) in October, following a 1.1 percent increase in September, and this is hard data as opposed to sentiment. This raises the potential for a reversal of Q3 strength in Q4, which to be fair is probably on the cards anyway, given recent volatility in the HLFS. At this stage we believe the labour market is stable / improving but very dichotomised: there is support in pockets, but not amongst the low-skilled who tend to dominate registered beneficiary figures.



With the labour market potentially see-sawing and asset prices still under downward pressure the market is naturally coy about a hike in March. We're sticking to a March hike view at present on the back of our more upbeat assessment for 2011 – the NZ economy has shown a tendency to turn on a dime and 2010 pessimism is set to turn to 2011 optimism in our view. But amid the caution expressed in the Financial Stability Report and likely patchy data for a few months yet, the RBNZ appear to require sustained evidence this time around, as opposed to taking a bit on faith as they did in June this year. The path of least regret may be waiting on the sidelines. **But the flipside of this will of**

course be a necessity for more decisive steps later.

RECENT LOCAL DATA

- **SNZ Retail Trade Survey - 2010Q3.** Total and core (ex-auto and fuel related) retail sales values increased by 1.6 percent (s.a.) in the September month. The volume of core retail sales increased by 0.9 percent in 2010Q3, with total retail volumes rising by 0.7 percent.
- **SNZ Electronic Card Transactions – October 2010.** Seasonally adjusted retail ECT spending rose by 0.8 percent (5.6 percent y/y), with core retail spending broadly unchanged for the month (+4.8 percent y/y). The ECT data is GST inclusive, so the numbers were boosted by the GST rise from 12.5 to 15 percent.
- **RBNZ Financial Stability Report.** The financial system remains sound, with the global recovery putting banks in a better position to meet future credit demand and support growth. While the domestic rebalancing is proceeding, the high NZD/USD is not helpful.
- **REINZ Housing Market Data – October 2010.** Sales fell 7.2 percent (s.a), to be 35.9 percent lower than 12 months earlier. Days to sell rose from 45 to 46 (s.a). The seasonally adjusted REINZ Housing Price Index fell by 1.3 percent to be 3.5 percent lower than 12 months earlier.
- **BNZ Business NZ Manufacturing PMI.** The headline measure increased slightly in seasonally adjusted terms to 49.7 (49.5 previously). Lower readings for production and new orders were offset by a lift in new orders, finished stocks and deliveries.
- **SNZ Food Price Index – October 2010.** Food prices rose by 2.2 percent (5.1 percent y/y). The increase in GST contributed to price increases in the five food sub-groups of between 1.7 and 4.0 percent.

KIWIFRUIT AND THE PSA OUTBREAK

SUMMARY

Early last week, PSA¹ was discovered on a kiwifruit orchard in the Bay of Plenty. At the time of writing 38 orchards had been tested for the disease, 8 orchards had been confirmed as having the disease, with 28 returning negative tests and two pending. A total of 176 orchards had emailed photos of the suspected symptoms to Zespri, with 382 growers saying their properties had showed no signs of the disease. There are a total of 3077 registered kiwifruit orchards in New Zealand. At this stage, the impacts look more niggling in terms of the effect on aggregate GDP, though that is not to downplay what is obviously a significant event to the local community and industry. Other countries with the disease are still exporting, there is no known risk to animal or human health, and the disease is not known to be carried on the fruit.

CURRENT SITUATION & RESPONSE

The current situation continues to evolve quickly, but broadly, the Ministry of Agriculture, Forestry and Biosecurity (MAFBNZ) have advised Zespri that their testing of the suspected vine infection has been confirmed in eight cases as PSA. The confirmed cases are in a localised area in the Bay of Plenty, where 77 percent of New Zealand's kiwifruit production occurs.

ZESPRI, MAFBNZ and Plant & Food Research (P&FR) have implemented industry-wide monitoring to assess how widespread the infection is, as well as monitoring market reaction.

Subsequently, the media has reported that to date 176 orchards have supplied photos to Zespri showing suspected symptoms of the disease, with 38 orchards officially tested, 8 confirmed as having the disease, 28 returning negative results and two pending. No formal identification of the strain has yet been established.

International markets are still digesting the news and waiting on more information.

Australia and the US have already banned the importation of New Zealand kiwifruit cuttings and nursery plants following the findings.

The current process that growers are working through involves walking throughout their orchards looking at the leaves on each vine carefully for the PSA symptoms:

1. If no symptoms are identified, no action is required.

2. If PSA symptoms are identified, then a close-up digital photo of the suspected symptoms is taken and sent to Zespri.

The process from there is:

1. The photograph is evaluated and Zespri endeavours to notify the grower of the initial assessment within 48 hours of receiving the notification.
2. If the photographed symptoms are considered a risk, Zespri will also notify MAFBNZ.
3. Once MAFBNZ are notified of the symptoms, a process of sampling and testing for confirmation of PSA will take place.
4. In the interim, all unnecessary orchard access is restricted.

POTENTIAL IMPLICATIONS

There are **two potential sources of economic implications** for growers, the wider community and the New Zealand economy to consider. One is **the possible direct effects that the disease and any subsequent control or eradication process will have on the production of kiwifruit.** The other implication is **the potential imposition of restrictions** by individual countries on importing kiwifruit production from regions within New Zealand, or from New Zealand as a whole. At this stage we'll ignore wider considerations like the potential impact on asset values given the limited information we have to date.

The effect on kiwifruit production has several different dimensions:

1. The type of action taken to control or eradicate the disease.
2. How widespread the disease is.
3. What variety of kiwifruit are affected and to what extent.

Currently it is too early to tell what the effect on production will be from each of the variables. However, some scenarios can be run quickly with the information to hand.

The table overleaf shows industry average information for Green and Gold varieties using 2010-11 information from Zespri. Overall, there are 12,825 hectares of kiwifruit, with 22 percent of this the Gold variety and 78 percent Green. Gold is the higher value crop and returns approximately 35

¹ See appendix for full description.

KIWIFRUIT AND THE PSA OUTBREAK

percent of export receipts or NZ\$358 million in the year ended September 2010.

Unfortunately, the disease has been located in the Bay of Plenty, which produces 77 percent of New Zealand's kiwifruit. In other countries the disease is known to affect Gold kiwifruit vines more than the traditional Green. The timing of the disease outbreak is also important, with the 2010 crop picked in March through to early June and the vast majority already sold. Currently pollination of Gold varieties for the 2011 crop is complete and Green is under way. As such, the majority of any economic impacts on production and returns will be from 2011 onwards.

Industry Breakdown

	GREEN	GOLD	TOTAL
Average yield per hectare (kg/ha)	7,587	9,398	7,916
Number of hectares	10,495	2,330	12,825
Orchard gate return per hectare (\$)	32,168	80,182	40,891
Total NZ Orchard returns (\$M)	338	187	524
Total NZ Exports (\$M)	647	358	1005

Source: ANZ, National Bank, ZESPRI

A scenario where only the production of Gold kiwifruit is affected and reduced by 50 percent would decrease production by 10 million kgs. This reduction could lead to a corresponding increase in market prices, but the extent is difficult to quantify without some measure of in-market price elasticities. As an illustration, the table below summarises what proportion of kiwifruit production is exported, and the proportion of revenue that is captured within the industry.

Impact of lower production of Gold kiwifruit

USE	% TOTAL	\$M
Exports	95%	-\$179m
Domestic	5%	-\$9
SUPPLY	% TOTAL	\$M
Grower margin	32%	-\$61
Rest of economy	68%	-\$127m

Source: ANZ, National Bank, Statistics NZ

Around 95 percent of the value of kiwifruit is exported, with the loss in export earnings of around \$179m, if production of Gold kiwifruit fell by 50 percent. This fall in export earnings would generate sizeable impacts throughout the economy,

with more than two-thirds of the first round impact being borne by sectors servicing the kiwifruit industry. The information in the table is somewhat dated and is approximate, but it is useful for highlighting the inter-linkages within the economy. The total economy-wide multiplier for the primary sector is in the region of 2.5 (which include the first and subsequent round impacts), with the total costs to the economy from the loss in kiwifruit production in the region of 0.24 percent of GDP.

The other factor in many biosecurity outbreaks is that consumers tend to be wary of purchasing the product in question because of health concerns. Any reduction in supply may therefore be offset by a reduction in demand, even though there is no health risk associated with PSA. One factor working in New Zealand's favour is the ZESPRI monopoly which allows the industry to control the impact of such an incident taking place. Such a positive cannot be overstated enough.

If the Bay of Plenty region were to prove to be the only place where the disease is located and a buffer zone is established, then a 25 percent reduction in kiwifruit production of both varieties from this region would lower exports by \$193 million (0.27 percent of GDP including multiplier effects), lowering kiwifruit orchard returns per hectare by NZ\$10,200.

KIWIFRUIT PRODUCTION IN NEW ZEALAND



Source: Zespri

KIWIFRUIT AND THE PSA OUTBREAK

It is important to note that in other countries which have the disease the total impact on production has been less than 50 percent and localised to specific regions. Therefore, the above analysis should be considered worse-case, though you never want to make those sorts of statements! The biosecurity response to either control or eradicate will also have a strong bearing on production losses, not just in year one but over a longer period. Hence, rather than kneecapping the industry it really shifts it from being one at the forefront of the economy over the coming years to somewhat of a laggard.

Market access restrictions are the other potential economic impact on growers and the wider New Zealand economy. The identification of the strain of PSA will be important for other countries that already have the disease and would influence whether or not they impose market restrictions. **Factors working in favour of the New Zealand kiwifruit industry are that countries with the disease are still exporting, there is no risk to animal or human health and the disease is not known to be carried on the fruit.**

Countries that have the disease are Japan, Korea, Italy, France, and Portugal, and it is suspected in China. Combined these countries (ex. China) represent 32 percent of global production. New Zealand produces 21 percent. **The first five of these countries account for approximately 40 percent of New Zealand's exports (NZ\$396 million).** With Germany and Spain part of the EU, and their neighbouring countries having the disease, it is unlikely that New Zealand would face market restrictions in these countries unless the strain identified in New Zealand is new and more virulent. Market restrictions are more likely to come from China, Hong Kong, Taiwan, Australia and the US. Combined these countries are approximately 28 percent of global production and account for 24 percent or \$242 million of New Zealand's exports. What is also of concern is that China and other Asian countries are where the future growth in exports is envisaged to be, particularly for Gold. This has the potential to limit the future growth aspirations of the industry.

There are also wider risks of greater restrictions on all New Zealand agricultural and horticultural exports from changed market perceptions with the Australian ban on apples a good example. These account for approximately 60 percent of merchandised exports. Cost on growers

could also increase from more certification and biosecurity controls.

The initial assessment seems to be that because of New Zealand's environmental conditions, the industry structure, the fact that other countries also have the disease, and the experience of ZESPRI and P&FR with handling the disease overseas, this should not be a huge issue for production or market access. However, modelling a few of the extreme scenarios would suggest a potential hit of up to NZ\$200-250 million on annual exports (0.5-0.6 percent on New Zealand's total exports) or 0.2-0.3 percent of GDP. Until more is known about the strain of the disease, the environmental conditions it prefers and suitable control options, it is difficult to predict the future. Irrespective of the outcome, it's still a timely reminder that the vagaries of primary production (which involve mother nature, global conditions, biosecurity risks) mean a material risk premium needs to be attached to the investment. This is simply not the case at present, and is one factor (though secondary in nature with more pressing influences dominating) driving a re-connection between land values and underlying returns across the entire rural sector.

KIWIFRUIT AND THE PSA OUTBREAK

APPENDIX

WHAT IS PSEUDOMONAS SYRINGAE PV ACTINIDIAE (PSA)?

PSA is a bacterial disease which affects all kiwifruit species and has fatal effects on kiwifruit vines if not treated. Symptoms include brown, angular leaf spots that may be surrounded by a yellow halo when held up to light. Other possible symptoms include an abundant production of red (and sometimes white) ooze from infected canes, leaders or trunks and the wilting of shoots.

The disease has been identified in kiwifruit for at least 25 years. Extremely cold and wet winters, followed by cool wet springs, appear to be typical climatic conditions for the disease to establish and spread. These conditions fit the winter and spring conditions experienced this year and are likely to have brought about the current outbreak. The disease can be spread via windborne pollen, strong

winds, heavy rainfalls, animals and humans. While PSA can seriously damage kiwifruit production, it is not known to be carried on the fruit and there is no known health risk to animals or humans.

PSA has been identified in Japan, Korea, Italy, France, and Portugal and is suspected in China. Economic losses in Italy have been more prominent in the last few years due to weather conditions favouring the spread of the disease, with some regions losing up to 50 percent of their production. Overall, 35 percent of orchards have been affected.

There is no known cure for PSA; prevention and mitigation techniques are the only known defence at this time. These techniques have had mixed results in Japan and Korea where the disease has developed resistance to certain practices. Research is underway to better understand the biology of the disease and avoid further spread in Europe.

NEW ZEALAND'S KIWIFRUIT EXPORTS BY MAJOR MARKET

	SEPTEMBER YEAR ENDED					
	1990 %	2000 %	2010 %	1990 \$M	2000 \$M	2010 \$M
Japan	32.4	26.9	29.3	152	160	294
Germany	49	29.1	22.1	230	173	222
Spain	0	11	8.7	0	65	88
China	0	0.8	7.4	0	5	75
Korea	0.2	1.4	6.9	1	8	70
Taiwan	1.2	4.4	6.5	6	26	65
Australia	4.3	3.9	4.8	20	23	48
Italy	0	2.9	3.2	0	17	32
USA	10.9	7.2	3.1	51	43	31
Hong Kong	0.6	1.3	2.3	3	8	23
Malaysia	0	0.4	1.1	0	2	11
Singapore	0.5	0.8	0.9	2	5	9
Indonesia	0	0	0.5	0	0	5
Canada	0.1	0.2	0.4	0	1	4
Thailand	0	0.1	0.4	0	1	4
Mexico	0	0.2	0.4	0	1	4
UAE	0.2	0.3	0.3	1	2	3
India	0	0	0.2	0	0	2
South Africa	0	0.2	0.2	0	1	2
Vietnam	0	0	0.1	0	0	1
Philippines	0	0	0.1	0	0	1
UK	0.1	7	0	0	42	0
Global Total	100	100	100	469	594	1005

Source: ANZ, National Bank, Statistics New Zealand

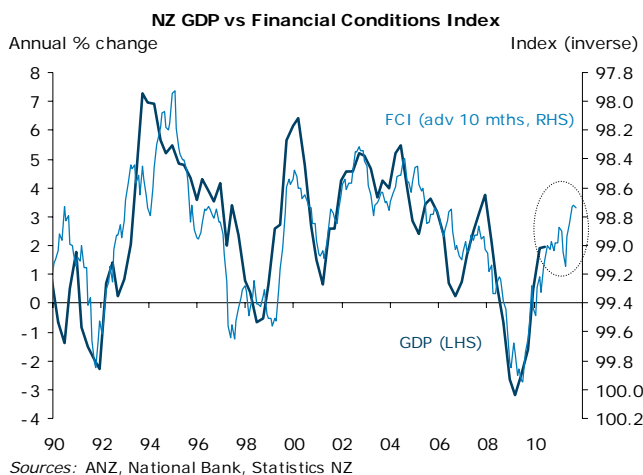
FINANCIAL CONDITIONS UPDATE

SUMMARY

Despite recent strength in the NZ dollar and ongoing weakness in house prices, financial conditions remain supportive for NZ growth prospects next year. In contrast, financial conditions have tightened significantly in Australia – courtesy of the November rate hike by the RBA and the AUD pushing past parity. Both our NZ and Australian proprietary Financial Conditions Indexes (FCI) are flagging year-on-year growth of 3 to 3½ percent by late 2011.

STILL SUPPORTIVE IN NZ

Our proprietary Financial Conditions Index² (FCI) for NZ has been stable over the past month. Based on a conventional monetary conditions framework, the strength in the NZD will have resulted in a tightening in conditions. However, our FCI framework takes into account a broader range of variables. Alongside the currency, ongoing declines in house and rural land prices were the other variable working to tighten financial conditions. However, offsets have been higher commodity prices (to record highs in world terms), stronger equity prices, and a loosening in lending standards as proxied by the US Federal Reserve's latest Senior Loan Officer Opinion Survey (and you can see this sentiment locally through more generous loan-to-value ratios now on offer into the housing sector). Mortgage rates are steady despite the 24bp rise in the 2-year swap yield since late September.



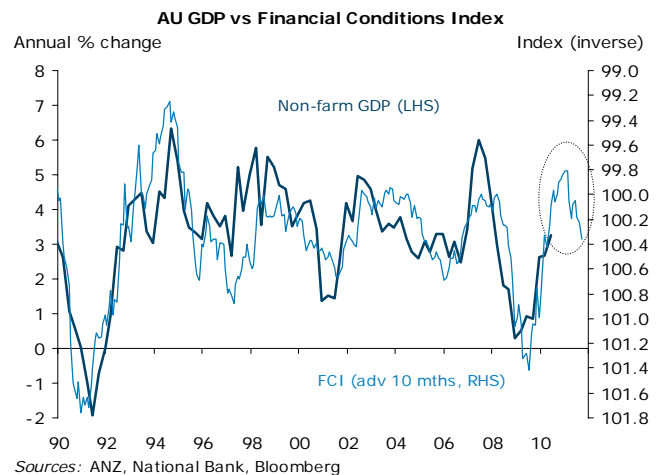
At current levels, our FCI is pointing to year-on-year GDP growth of around 3 to 3½ percent by the latter part of next year. This rate is above the

² A financial conditions index summarises a range of financial variables into a single series that can be used to predict the future path of the economy. Our FCI includes the currency adjusted for commodity prices or terms of trade movements, interest rates, asset prices, credit growth and proxies for the cost and availability of credit.

current consensus and RBNZ growth forecast, but in line with our own view. Partial indicators to date suggest only modest growth for Q3, and that Q4 is not off to a great start. But if our FCI is correct, we should start to see increased momentum in the economy over H1 next year. **Upcoming business confidence readings will be key bellwethers testing this view.**

SIGNIFICANT TIGHTENING IN AUSTRALIA

A few months back, our Australia FCI was flagging the potential for 5 percent year-on-year GDP growth. But recent months have seen a significant tightening in financial conditions in Australia. The key drivers are the surge in the AUD and higher interest rates on the back of the 25bp hike by the RBA in early November. The AUD has risen by as much as 4.5 percent against the USD over the past month and a half, while on a trade-weighted basis the increase has been around 2 percent. Australia's commodity prices have increased, but not sufficiently to counter the AUD's rise. In addition, the increase in mortgage rates in excess of the rise in the cash rate mean that the actual tightening in conditions from the interest rate channel is more than what is captured in our FCI. Higher equity prices are certainly helping to counter these headwinds to some extent, but we note that house prices in Australia have started to show small declines.



Our Australian FCI is still flagging a respectable growth of 3 to 3½ percent towards the end of next year, which is broadly in line with the RBA's latest forecasts from their November *Statement on Monetary Policy*. The tightening in financial conditions is probably the major driver of the decline seen in recent business and consumer confidence surveys in Australia. On the face of it, overall financial conditions appear to be consistent with where the RBA would want them for now.

INTEREST RATE STRATEGY

SUMMARY

Markets have been subjected to the opposing forces of dovish comments from RBNZ Governor Bollard, and a US bond market that's wary of inflation. The yield curve has steepened as a result. Although market expectations for RBNZ policy are back to more appropriate levels, with little incentive to pay fixed, short end rates are set to continue grinding lower. Although higher US yields will continue to pressure the long end, steepening the curve further, NZ's commitment to price stability should see NZ yields outperform over the medium term.

MARKET THEMES

- US markets are continuing to debate the efficacy of QE II. US bond yields have risen since it was announced, but that's probably more a function of concern over the inflationary consequences.
- RBNZ Governor Bollard maintains that the market has misinterpreted recent data, adding that if things don't correct, they'll have something to say about it at the December MPS.
- Roll and carry are shaping up to be major issues ahead of 2011, with NZ growth set to be above consensus, and global inflation set to rise.

REVIEW AND OUTLOOK

The RBNZ Financial Stability Report was undoubtedly the highlight of last week – or perhaps more precisely, the press conference that followed it. Indeed, **not only did Governor Bollard take the opportunity to remind the market that his view of the economy had not fundamentally changed since September, he took the unusual step of saying that there had been “some misinterpretation” of the data.** But it was the comment that “we'd look for the market to correct that and we'll be talking further about that when we put out the Monetary Policy Statement” that is really telling, and suggests that he has no urgency to adjust policy. Interestingly, **Bollard also made pointed references to the interaction between interest rates and the exchange rate, noting that the high NZD “does reduce pressure on monetary policy and the markets will presumably reach the conclusion”.** All in all we think these were significant comments, and while the market has reacted, **short end rates are still higher than they were in the weeks leading up to the October OCR Review. As such, we see scope for rates to move lower yet as we approach the December MPS.**

Global pressures couldn't be more different. **QE II has failed to elicit a rally from the US bond market**, and in fact, 10yr bond yields are around 30bps higher than they were the day QE II was

announced. If this continues, it will obviously add pressure on NZ long end rates to rise. However, the medium term judgement seems a simple one – **US inflation is set to rise, and that's not a good thing for bonds, especially at these low yields.**

PREFERRED BORROWING STRATEGIES

Borrowers should take considerable comfort from Bollard's comments in relation to the outlook, and the lack of fundamental underpinning behind the move higher in [short end] rates earlier this month. His comments have also turned the spotlight back on the currency – and the idea that a high NZD will mean fewer OCR hikes will be like music to the ears of exporters and importers alike. As we noted last week, we didn't favour chasing the market, and with any luck hedgers have some cover on at lower levels. If not, we favour waiting for the dust to settle on Bollard's comments before getting hedge cover up to desired levels. The US inspired steepening of the curve has deepened the conundrum faced by borrowers, and makes fixing more expensive. If the curve steepens further, it would pay to consider shorter hedges, particularly if forward breakevens move to unrealistically high levels.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	Bollard very comfortable.
NZ data	↔/↑	Bollard: The market has “misinterpreted” the data.
Fed Funds / front end	↔	QE II here, but market now focused on inflation.
RBA	↔/↓	Look to be on hold following pre-emptive November hike.
US 10 year	↔	Significant rise in yields.
NZ swap curve	↔/↓	Steepening to continue as RBNZ reins in short end and long end follows US higher.
Flow	↔/↑	Lower rates likely to avert panic paying.
Technicals	↔/↑	2yr floundering at key level.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 9-Dec-10	+2	+0
Thu 27-Jan-11	+8	+3
Thu 10-Mar-11	+20	+12
Thu 28-Apr-11	+37	+26
Thu 9-Jun-11	+53	+40
Thu 28-Jul-11	+68	+52
Thu 15-Sep-11	+84	+65

TRADING THEMES WE FAVOUR AT PRESENT

Although it looks stretched short term, we favour hanging on to steepeners, which have performed well over the past week. We also favour being outright long the short end, mainly as an accrual trade into the holiday period.

CURRENCY STRATEGY

SUMMARY

Unsurprisingly the G-20 has come and gone with nothing material emerging from the talks. The bigger story last week was the u-turn in commodity prices with the most dramatic falls occurring in the food sector. This, together with lower currencies, suggests we are experiencing a USD specific move and the NZD will be caught in the midst of it.

MARKET THEMES

- G-20 meetings deliver nothing substantial.
- Commodity price bubble appears to have burst.
- US dollar short positioning is weighing on the bears.
- European (Ireland in particular) concerns continue to simmer.
- Concerns about Chinese inflation creeping into the mix.

REVIEW AND OUTLOOK

While the G-20 meetings were the focus going into the weekend, there was little surprise that they delivered nothing concrete. Indeed the US-China bickering continued with no resolution from either side. It can be argued that both sides are at fault but obviously neither is going to admit that! So in the absence of agreement the "currency war" is set to continue. Apart from frustration over the speed of the Renminbi appreciation, the inability of the US to contain QE within its borders is the other overriding problem as that capital seeks better returns abroad, pushing other currencies higher. While this will deliver a weaker USD in the medium term, beware that positioning remains extreme. And weakness in commodity prices late last week fed through to a stronger USD in the short term, putting pressure on weak speculative short positions.

"If it looks like a bubble, it probably is a bubble". There is no other way to describe commodities markets during the past 4 months, particularly with regards to food. Sugar futures were up 150 percent from May until last Wednesday. Thursday and Friday last week sugar fell 20 percent. Other food futures fell around 10 percent during the same period. It seems that the bubble has burst and commodities are undermining currencies in general relative to the USD. Expect this theme to continue for another week or so.

The Antipodean currencies are being driven more by external factors with positioning now weighing on the AUD. Key NZ data events that could impact the local currency this week, apart from

today's retail sales release, are PPI and Consumer Confidence. In Australia the release of the RBA board minutes on Tuesday will be eagerly anticipated for hints of whether further rate hikes are in prospect and the potential timing of it.

The USD's movements this week will be key to how the NZD performs, and in this regard, a heavy US data calendar is going to be influential. US retail sales, CPI, housing starts, Philly Fed and ending with a speech by Fed Chairman Bernanke could see the USD continue to correct higher, particularly if the tone of US economic data continues to show improvement.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Close to fair value.
Yield	↔	Yields stable for now.
Commodities	↓	Soft commodities have turned as the bubble appears to have burst.
Partial indicators	↔	Trans-Tasman data releases slightly more balanced.
Technicals	↑	Now in uptrend heading for 80 cents.
Sentiment	↑	Swung in favour of NZD.
Other	↑	At historically low levels.
On balance	↑	Trending higher 0.7770-0.7970.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	FOMC happy with weaker USD.
Commodities	↓	Soft commodities bubble appears to have burst.
Risk aversion	↔	Equities still relevant.
Partial indicators	↔	NZ data showing slight improvement.
Technicals	↔	Experiencing a correction.
AUD	↑	Everyone bullish AUD.
Sentiment	↔	Softer tone due to external factors.
Other	↔/↓	Is USD corrective move underway?
On balance	↔	Remains supported still but will not be immune to wider USD moves.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
15-Nov	NZ	Performance Services Index - OCT	- -	54.8	10:30
	NZ	Retail Sales Ex Inflation(QoQ) - 3Q	0.00%	1.30%	10:45
	NZ	Retail Sales (MoM) - SEP	1.10%	0.00%	10:45
	NZ	Retail Sales Ex-Auto (MoM) - SEP	1.00%	-0.60%	10:45
	JN	Gross Domestic Product (QoQ) - 3Q P	0.60%	0.40%	12:50
	UK	Rightmove House Prices (MoM) - NOV	- -	3.10%	13:01
	UK	Rightmove House Prices (YoY) - NOV	- -	2.90%	13:01
	AU	New Motor Vehicle Sales MoM - OCT	- -	0.90%	13:30
	AU	New Motor Vehicle Sales YoY - OCT	- -	8.60%	13:30
	JN	Industrial Production (MoM) - SEP F	- -	-1.90%	- -
	JN	Capacity Utilization (MoM) - SEP F	- -	-0.90%	17:30
	EC	Euro-Zone Govt Debt/GDP Ratio - Dec 31	- -	78.70%	23:00
	EC	Euro-Zone Trade Balance sa - SEP	1.0B	-1.4B	23:00
16-Nov	US	Advance Retail Sales - OCT	0.70%	0.60%	02:30
	US	Retail Sales Less Autos - OCT	0.40%	0.40%	02:30
	US	Retail Sales Ex Auto & Gas - OCT	0.30%	0.40%	02:30
	US	Empire Manufacturing - NOV	14	15.73	02:30
	US	Business Inventories - SEP	0.80%	0.60%	04:00
	JN	Housing Loans YoY - 3Q	- -	3.60%	12:50
	AU	Reserve Bank's Board November Minutes - Nov 15			13:30
	CH	China Leading Economic Index - Apr 23			15:00
	UK	DCLG UK House Prices (YoY) - SEP	- -	8.30%	22:30
	UK	CPI (MoM) - OCT	0.20%	0.00%	22:30
	UK	CPI (YoY) - OCT	3.10%	3.10%	22:30
	UK	Core CPI YOY - OCT	2.60%	2.70%	22:30
	UK	RPI (MoM) - OCT	0.30%	0.40%	22:30
	UK	RPI (YoY) - OCT	4.60%	4.60%	22:30
	EC	Euro-Zone CPI - Core (YoY) - OCT	1.00%	1.00%	23:00
	EC	Euro-Zone CPI (MoM) - OCT	0.30%	0.20%	23:00
	EC	Euro-Zone CPI (YoY) - OCT F	1.90%	- -	23:00
	GE	Zew Survey (Current Situation) - NOV	75	72.6	23:00
	EC	ZEW Survey (Econ. Sentiment) - NOV	2	1.8	23:00
	GE	ZEW Survey (Econ. Sentiment) - NOV	-6	-7.2	23:00
17-Nov	US	Producer Price Index (MoM) - OCT	0.80%	0.40%	02:30
	US	PPI Ex Food & Energy (MoM) - OCT	0.10%	0.10%	02:30
	US	Producer Price Index (YoY) - OCT	4.60%	4.00%	02:30
	US	PPI Ex Food & Energy (YoY) - OCT	2.10%	1.60%	02:30
	US	Total Net TIC Flows - SEP	- -	\$38.9B	03:00
	US	Net Long-term TIC Flows - SEP	- -	\$128.7B	03:00
	US	Industrial Production - OCT	0.30%	-0.20%	03:15
	US	Capacity Utilization - OCT	74.90%	74.70%	03:15
	US	NAHB Housing Market Index - NOV	17	16	04:00
	AU	Westpac Leading Index (MoM) - SEP	- -	-0.10%	12:30
	AU	DEWR Skilled Vacancies MoM - NOV	- -	-0.50%	13:00
	AU	Wage Cost Index QoQ - 3Q	1.10%	0.80%	13:30
	AU	Wage Cost Index YoY - 3Q	3.30%	3.00%	13:30
	UK	Bank of England Minutes - Nov 17			22:30
	UK	Claimant Count Rate - OCT	4.50%	4.50%	22:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
17-Nov	UK	Average Weekly Earnings 3M/YoY - SEP	2.00%	1.70%	22:30
	UK	Weekly Earnings exBonus 3M/YoY - SEP	2.30%	2.00%	22:30
	UK	ILO Unemployment Rate (3mths) - SEP	7.70%	7.70%	22:30
	EC	Construction Output SA MoM - SEP	-	-0.40%	23:00
18-Nov	US	MBA Mortgage Applications - Nov 12	-	5.80%	01:00
	US	Consumer Price Index (MoM) - OCT	0.30%	0.10%	02:30
	US	CPI Ex Food & Energy (MoM) - OCT	0.10%	0.00%	02:30
	US	Consumer Price Index (YoY) - OCT	1.30%	1.10%	02:30
	US	CPI Ex Food & Energy (YoY) - OCT	0.70%	0.80%	02:30
	US	Housing Starts - OCT	600K	610K	02:30
	US	Building Permits - OCT	570K	539K	02:30
	US	Housing Starts MOM% - OCT	-1.60%	0.30%	02:30
	US	Building Permits MOM% - OCT	4.20%	-5.60%	02:30
	NZ	Producer Prices- Inputs (QoQ) - 3Q	0.30%	-	10:45
	NZ	Producer Prices- Outputs (QoQ) - 3Q	0.60%	-	10:45
	AU	Average Weekly Wages (QoQ) - AUG	1.10%	0.80%	13:30
	AU	Average Weekly Wages (YoY) - AUG	5.40%	5.20%	13:30
	NZ	ANZ Consumer Confidence Index - NOV	-	113.6	15:00
	EC	Euro-Zone Current Account nsa - SEP	-	-10.5B	22:00
	UK	M4 Money Supply (YoY) - OCT P	-	1.00%	22:30
	UK	Retail Sales Ex Auto Fuel(MoM) - OCT	0.20%	0.00%	22:30
	UK	Retail Sales Ex Auto Fuel(YoY) - OCT	1.50%	1.80%	22:30
	UK	Retail Sales w/Auto Fuel (MoM) - OCT	0.40%	-0.20%	22:30
	UK	Retail Sales w/Auto Fuel (YoY) - OCT	0.00%	0.50%	22:30
	UK	Public Sector Net Borrowing - OCT	8.9B	15.6B	22:30
19-Nov	US	Initial Jobless Claims - Nov 13	441K	435K	02:30
	US	Continuing Claims - Nov 6	4290K	4301K	02:30
	US	Leading Indicators - OCT	0.50%	0.30%	04:00
	US	Philadelphia Fed. - NOV	5	1	04:00
	US	RPX Composite 28dy YoY - SEP	-	-2.68%	10:00
	NZ	Credit Card Spending SA (MoM) - OCT	-	0.90%	15:00
	NZ	Credit Card Spending (YoY) - OCT	-	4.10%	15:00
	JN	All Industry Activity Index (MoM) - SEP	-0.60%	-0.40%	17:30
	GE	Producer Prices (MoM) - OCT	0.30%	0.30%	20:00
	GE	Producer Prices (YoY) - OCT	4.10%	3.90%	20:00

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next four weeks: Last week's data highlighted the current mood of caution in the household sector, with the RBNZ Financial Stability Report showing concern that the weak USD is not helping the rebalancing of the NZ economy. This week's consumer sentiment data will reveal whether consumer caution remains as we head towards the holiday shopping season. Dairy export price data will be worth viewing given the recent focus on USD weakness and rising global inflation. We continue to closely watch the soft gauges for signs of direction, and are encouraged by the improvement shown by the October National Bank Business Outlook survey and historically high export commodity prices. However, the impact of a high NZD on sentiment is one to watch.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Wed 17 Nov (6:00am)	<i>globalDairyTrade</i> online auction	Holding	Contract prices for whole milk powder are expected to average around US \$3,500 per tonne.
Thur 18 Nov (10:45am)	Producer Price Index – Q3	Moderating	We expect a moderation in quarterly input and output price inflation to around 0.7 percent for both measures.
Thur 18 Nov (10:45am)	Capital Goods Price Index	Drifting up	We expect a small increase of around 0.2 percent.
Thur 18 Nov (3:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Mon 22 Nov (10:45am)	International Travel and Migration - Oct	Providing support	We expect a permanent and long-term net inflow of around 1000 persons. Visitor arrivals will ease as the ski season nears an end.
Mon 29 Nov (10:45am)	Overseas Merchandise Trade - Oct	Growing annual surplus	We expect another monthly deficit of about \$400m. The annual trade surplus is forecast to climb above \$1bn.
Mon 29 Nov (3:00pm)	National Bank Business Outlook	- -	- -
Tue 30 Nov (10:45am)	Building Consents – Oct	Up	Earthquake related construction will underpin work on alterations and additions. Lower house sales figures suggest weakness in residential issuance.
Wed 1 Dec (6:00am)	<i>globalDairyTrade</i> online auction	Holding	Contract prices for whole milk powder are expected to average around US \$3,500 per tonne.
Wed 1 Dec (3:00pm)	ANZ Commodity Price Index - Nov	- -	- -
Tue 7 Dec (10:45am)	Wholesale Trade Survey- Q3	Rising	We expect a 2 percent increase in operating income underpinned by higher primary wholesale trade. A more sedate increase is expected from wholesale volumes.
Wed 8 Dec (10:45am)	Work Put in Place- Q3	Lower	We expect up to a 5 percent fall in the volume of residential work, to be partly offset by higher non-residential volumes.
Wed 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Rebound	We expect a rebound in ex-primary manufacturing volumes of around 3 percent. Primary manufacturing volumes should show a similar increase.
Thur 9 Dec (9:00am)	December MPS	On hold	The RBNZ are expected to affirm their downbeat message for domestic spending. However, they are likely to reiterate that the OCR is still going up "at some stage".
Thur 9 Dec (10:45am)	Electronic Card Transactions – Nov	Crawling up	We expect a small increase in retail related ECT spending.
Fri 9 Dec (10:45am)	Overseas Trade Indexes- Q3	Purchasing power rising	The terms of trade will rise by around 3 percent. A larger fall in export volumes is expected due to weaker primary sector exports. Rising capital good imports are a positive sign for 2011.
On Balance			Data for Q3 looking subdued but we will be looking for an improving tone over Q4.

KEY FORECASTS AND RATES

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

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

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			FORECAST (END MONTH)						
FX RATES	Aug-10	Sep-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.699	0.734	0.775	0.72	0.72	0.73	0.74	0.72	0.71	0.70
NZD/AUD	0.785	0.759	0.784	0.76	0.77	0.75	0.74	0.74	0.74	0.74
NZD/EUR	0.551	0.539	0.565	0.51	0.51	0.52	0.51	0.51	0.51	0.51
NZD/JPY	58.86	61.33	63.93	57.6	56.2	55.1	55.5	56.5	56.8	57.4
NZD/GBP	0.455	0.467	0.480	0.46	0.45	0.46	0.46	0.45	0.44	0.44
NZ\$ TWI	65.5	66.3	69.1	64.1	63.7	64.1	63.8	63.5	63.0	63.0
INTEREST RATES	Aug-10	Sep-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.00	3.25	3.75	4.00	4.25	4.75	5.25
NZ 90 day bill	3.21	3.17	3.17	3.20	3.70	4.20	4.30	4.70	5.20	5.50
NZ 10-yr bond	5.13	5.01	5.42	5.50	5.60	5.90	5.90	5.90	5.80	5.80
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
US 3-mth	0.30	0.29	0.28	0.35	0.35	0.35	0.35	0.35	0.35	0.85
AU Cash Rate	4.50	4.50	4.75	4.75	4.75	5.00	5.25	5.50	5.75	5.75
AU 3-mth	4.75	5.01	5.06	5.00	5.10	5.20	5.50	5.70	6.00	6.00

	12 Oct	8 Nov	9 Nov	10 Nov	11 Nov	12 Nov
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.18	3.18	3.17	3.17	3.18	3.18
NZGB 11/11	3.88	4.18	4.18	4.15	4.14	4.16
NZGB 04/13	4.35	4.66	4.66	4.66	4.64	4.66
NZGB 12/17	4.95	5.24	5.25	5.32	5.32	5.32
NZGB 05/21	5.06	5.33	5.34	5.41	5.39	5.42
2 year swap	3.74	4.02	3.98	3.94	3.92	3.93
5 year swap	4.32	4.61	4.60	4.60	4.60	4.61
RBNZ TWI	66.8	69.5	69.3	68.8	69.6	69.2
NZD/USD	0.7502	0.7891	0.7866	0.7752	0.7866	0.7764
NZD/AUD	0.7656	0.7801	0.7770	0.7743	0.7817	0.7811
NZD/JPY	61.55	64.08	63.60	63.38	64.57	63.97
NZD/GBP	0.4716	0.4894	0.4874	0.4852	0.4869	0.4824
NZD/EUR	0.5406	0.5657	0.5666	0.5637	0.5699	0.5700
AUD/USD	0.9799	1.0115	1.0124	1.0011	1.0063	0.9940
EUR/USD	1.3878	1.3950	1.3884	1.3752	1.3803	1.3621
USD/JPY	82.04	81.21	80.85	81.76	82.09	82.39
GBP/USD	1.5907	1.6124	1.6140	1.5977	1.6156	1.6093
Oil (US\$/bbl)	82.18	86.85	87.07	87.04	87.77	87.77
Gold (US\$/oz)	1349.45	1389.80	1410.86	1396.15	1407.80	1389.70
Electricity (Haywards)	2.03	5.18	5.24	5.53	13.40	7.08
Milk futures (US\$/contract)	116	116	116	117	117	117
Baltic Dry Freight Index	2719	2482	2467	2454	2366	2313

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;

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- 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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