

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

3 May 2010

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COMING ATTRACTION

ECONOMIC OVERVIEW

The RBNZ's nuances have to be respected. We take removing policy stimulus "over the coming months" to literally mean a coin toss between June and July. We favour the former, particularly with last week's upward revision to Fonterra's milk price forecast (and a potential \$7 total payout in 2010/11 if a weak EUR can cap NZD/USD strength) along with surprisingly weak working age population figures that suggest the risk to this week's unemployment rate figures appears to the downside. Rather than debate semantics regarding the timing of the first hike, our attention is on the pace and the endgame. Structural imbalances and global uncertainty is leaning against a historical pro-cyclical upswing, which suggests we are unlikely to see an aggressive policy normalisation strategy.

SOVEREIGN DEBT UPDATE

Since our last update on the Greek debt crisis in February, the situation has deteriorated with increased fear of "contagion". We update our earlier analysis with updated data and find that although there have been minor changes to our vulnerability rankings; the overall spirit of our original analysis remains intact. That is, sovereign debt remains very much a G7/European issue. New Zealand and Australia compares well to other sovereigns, and may even benefit from a worsening in the European sovereign debt crisis.

AUSTRALIAN TAX UPDATE

We summarise our Australian colleague's take on the response of the Australian Government to the Henry Tax Review. The tax changes that were announced yesterday will increase the tax take from what economists call "super-normal" profits in the resources sector and use the funds for a variety of measures to address challenges in the economy. The underlying assumption is that strong demand for commodities from emerging economies will continue for many years to come. The announced tax changes address only a fraction of the recommendations contained in the Henry Tax Review.

INTEREST RATE STRATEGY

The prospect of earlier rate hikes has the market on edge. While the ultimate path of the OCR is still dependent on how the data evolves, improving business conditions and encouraging anecdotes increase the chance of a June hike. On the face of it, with high odds of a June hike (and follow up hikes after that) already priced in, this does not necessarily imply that swap rates need to move sharply higher. However, markets remain nervous, adding to upside pressure.

CURRENCY STRATEGY

The NZD has awakened from its slumber and is firing on all crosses. On a TWI basis, the 68 resistance level which we are currently testing is the high since mid-2008. There is a feeling that the economy has turned for the better with business confidence higher and Fonterra raising its milk price forecast. The NZD may be beginning its catch-up run to the other commodity currencies.

ECONOMIC OVERVIEW

SUMMARY

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THE WEEK AHEAD

- **ANZ Commodity Price Index – April** (Monday 3 May, 3:00pm).
- **SNZ Labour Cost Index and Quarterly Employment Survey – March quarter** (Tuesday May 4, 10:45am). Private sector LCI Salary and Ordinary Time Wage Rates are expected to increase by 0.4 percent in the March quarter (1.4 percent y/y). Private ordinary time average earnings are expected to increase by 0.7 percent in the March quarter, to 2.8 percent in the March year.
- **Fonterra online auction** (Wednesday 5 May, 6:00am). After last month's surge, a slight pullback is possible. But supply tightness will ensure that prices remain firm.
- **SNZ Household Labour Force Survey – March quarter** (Thursday 6 May, 10:45am). The labour market is at a turning point, with employment expected to increase by 0.2 percent and hours worked by 0.7 percent. The unemployment rate is expected to ease to 7.1 percent, largely as a consequence of low growth in the working age population.
- **Crown Financial Statements –Nine Months Ended 31 March** (Friday 7 May, 10:00am). Recent fiscal outturns have been tracking broadly in line with Treasury's forecasts, thanks to a tight rein on spending. We expect the headline March numbers to be boosted by better investment returns.

WHAT'S THE VIEW?

Last week's risk in regards to a June hike has become reality. The factors we detailed last week, including our internal anecdotes, the credit channel of monetary policy and the realities of an inflation rate that looks set to rise through 5 percent were persuasive in terms of the risk profile. In regards to inflation, the surprise increase in the tobacco excise tax (the only real new news last week) is not really material, adding around 0.2 percentage points to the CPI. But we are deeply suspicious that the process of fiscal consolidation is going to involve further tax increases of this sort as the government exercises its non-contestable muscle. For monetary policy, there is no easy solution here. These sorts of price increases are an explicit consumption (and in this case, externality) tax which suggests caution on the rates front. But with the headline inflation rate above 5 percent with the expected increase in GST, it's a brave call to keep the OCR at an historical low.

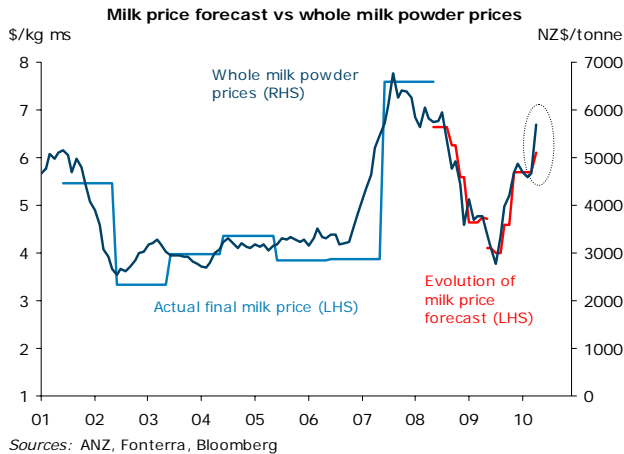
The RBNZ's nuances have really sealed the deal in terms of the timing of the first hike. For one, they see upside risk to their already lofty 4 percent year-on-year expectations for GDP growth by the end of 2010, so we know the spirit of their leanings. While only tweaking their communication slightly from "around the middle of 2010" to "over the coming months", **we take the latter literally and view it as a coin toss between June and July. We prefer June.**

September simply feels too late despite the attachment of some conditionality by the RBNZ (they also added the caveat "provided the economy continues to evolve as projected") and the fact that the near-term data outturns suggest that growth over the first half of this year is unlikely to match the RBNZ's 1 percent per quarter expectations. Last week's building consents pull-back and weak credit growth are recent examples, although business confidence readings and the trade figures augur well for growth over the second half of the year.

However, we are now also more mindful of H2 2010 and 2011 growth dynamics. Everyone is talking about the upwards revision to the 2009/10 milk price payout, which when we wind in the impact of lower volumes and drought related feed costs, is likely to result in only a small net impetus to the economy. The focus should be on 2010/11. If strong global dairy prices can be maintained at around US\$4,000/tonne and sovereign tensions in Europe stop the NZD/USD moving up too far (which looks to be the case), then we are potentially

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looking at a \$7/kg ms total dairy payout for next season. This is where the real story resides.



Deleveraging, the purging of structural imbalances, global uncertainty and regulatory changes are still powerful dynamics that we believe are influential in the recovery process.

They are leaning against the traditional strong pro-cyclical upswing which is being flagged by elevated business confidence readings. While we can debate the semantics over a June hike, the above dynamics are expected to influence the pace of tightening. We struggle to see the NZ economy sustaining successive 25 basis point hikes at every meeting for the next year, which is what the market is pricing in at present. Our internal anecdotes tell us the economy is recovering, but a huge amount of patchiness remains.

The challenge for the RBNZ is to raise rates to a more neutral setting (a somewhat arbitrary concept) without derailing the economic recovery. This is a fine balancing act considering the structural forces that are occurring at the same time. If the RBNZ tighten in June, they will have at least one or two more up their sleeve in mind. Putting in 3 or 4 consecutive hikes up-front seems plausible. This would take the “effective” OCR to around 4.5 to 5 percent (3.5 percent plus 100 to 150 basis points of additional bank funding costs), which is around 100 to 150 basis points below neutral. As noted above, a long steady succession of over 190 basis points in tightening (what the market has priced in) seems too aggressive given the patchiness of the recovery. The flipside to this is trying to pick when a potential pause will occur. Q4 seems the most probable after 3 to 4 up-front hikes. We note too that this was what the RBA did.

Of course there is another, historically appealing scenario, where rates move to neutral and beyond relatively quickly as central

banks end up “behind the curve”. This applied to NZ in the early 1990’s and 2004/05. The structural dynamics we mentioned above lean heavily against this. However, we would never want to rule it out. “This time it’s different” is a graveyard phrase for economic (and interest rate) views. The most likely candidates driving this scenario seem to stem from either:

- the historical experience where once the NZ economy gets going, it proves difficult to rein in as we seek to return to the “old” normal, or;
- the China story being maintained and NZ following the Australian terms of trade experience, or;
- the diminished supply side capacity of the economy becoming problematic for the inflation outlook.

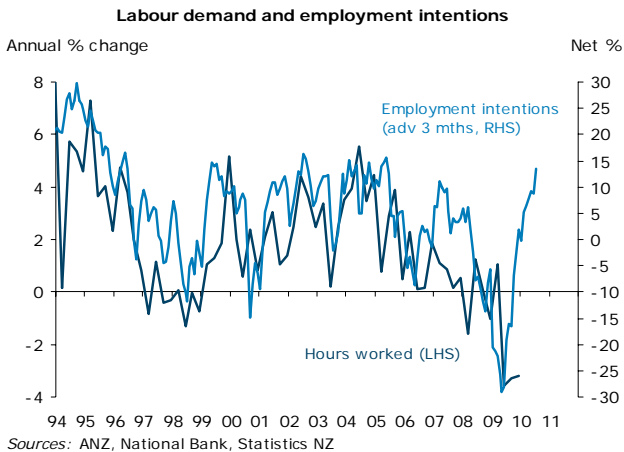
The RBNZ’s new prudential liquidity policy, alongside proposed new global banking regulation, should ensure that we do not go back to the “old” normal. The China story remains compelling over the medium-term. But we see the challenges facing China on the inflation front (evidenced by the PBOC raising reserve requirements again over the weekend) as dampening the extent of further commodity price gains from here.

This leaves the final point about diminished supply side capacity, one we hold most concerns about. Credit growth into the business sector is down – not a positive sign for business investment. Capital imports did pick up in March but off a low base. At the same time it looks like the unemployment rate has peaked. Arguably getting the right labour-capital mix is just as important as the tradable-non-tradable mix to growth. While the latter is improving, the former is deteriorating, which will have negative implications for future productivity growth. Monetary policy outcomes are determined by both supply capacity and demand. There is a lot of comment on the latter, but not much on the former.

This week’s data sees the focus return to the labour market. The inherent volatility in the HLFS survey cautions against too much weight being placed on quarterly outturns. Nevertheless, the spirit of improving employment intentions and job ads is of the labour market having turned the corner. We expect a return to positive quarterly employment growth in March after four consecutive quarterly declines. Largely as a consequence of last week’s weaker than expected increase in the working age population, the unemployment rate is expected to ease to 7.1 percent. **However, it will**

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not take much of an upside surprise to employment growth (or fall in labour force participation) to result in a larger fall in the unemployment rate. This would be hard for the RBNZ to ignore.



Despite some improvement in the demand for labour being evident, there is a considerable amount of slack apparent in the labour market. This is expected to keep wage inflation contained. Wage inflation moderated very quickly over 2009 and the key test will be whether the lid is kept on wages when the demand for labour strengthens.

The domestic focus will also be on commodity prices, with the ANZ Commodity Price Index out later today, and Fonterra's online auction on Wednesday. With NZ's commodity prices already at record highs in both world and NZD terms, we will see whether another new high is reached. And while Fonterra's online auction may not repeat last month's 20 percent rise, supply tightness will ensure prices remain elevated. The latest Crown Financial Statements on Friday should provide a glimpse of how this current fiscal year is faring as we head into the *Budget*. The headline operating balance has been better than Treasury's December forecast, due to improved investment returns, the tax conduit settlements and a tight rein on expenditure. But with the underlying tax numbers still running a little behind due to the patchiness of the recovery, more onus will have to be on expenditure restraint to get the underlying fiscal position in better shape.

Tomorrow also sees the RBA interest rate announcement and our Australian colleagues expect a hike. Core inflation measures now suggest underlying inflation has troughed at around the top of the 2 to 3 percent policy range. Non-tradable inflation came in at 1.5 percent in the

March quarter. Abstracting from a complete melt-down in Europe, these sorts of pricing pressures should be difficult for the RBA to ignore. With the market somewhat gun-shy and only pricing in around a 50 percent chance of a move, there is plenty of scope for action on the day. Specifically, with the market now pretty firm on the RBNZ moving in June, the risk is that a no-change from the RBA keeps propelling the NZDAUD higher. But at present we'd expect the RBA to follow through and put an end to the squeeze that has seen the cross move higher at the end of last week. The last thing the NZ economy needs at present is the NZDAUD to move back sharply into the 80 cent plus range.

RECENT LOCAL DATA

- National Bank Business Outlook – April.** Headline business confidence lifted 7 points to plus 49.5, with the activity outlook rising to 43.0, the highest since 1999. Employment and investment intentions firmed slightly (to 13.4 and 10.2 respectively).
- RBNZ OCR Announcement – April. The RBNZ held the OCR at 2.5 percent.** The “middle of 2010” phrase to signal the start of the tightening cycle was replaced with “over the coming months”.
- SNZ Overseas Merchandise Trade – March.** According to our seasonally adjusted estimates, the value of exports increased by 3.4 percent, whereas imports rose 3.2 percent in the month (both to \$3.5bn). In non-seasonally adjusted terms the trade surplus widened to \$567m (a \$194m deficit for the 12 months to March).
- RBNZ Monetary and Credit Aggregates – March.** Resident Private Sector Credit (ex-repo) declined by 0.2 percent to be 0.3 percent higher than 12-months earlier. Household credit growth expanded by 0.1 percent (up 2.7 percent y/y), whereas the pace of annual business and agricultural credit eased (to -8.2 percent and 5.7 percent, respectively).
- SNZ Building Consents – March.** Residential consents fell by 0.4 percent (up 32.9 percent y/y) with consents ex-apartments falling 8.3 percent (+ 38.9 percent y/y). The value of non-residential consents fell by 3.9 percent, to be 4.8 percent up on a year earlier.

SOVEREIGN DEBT UPDATE

SUMMARY

Since our last update on the Greek debt crisis in February, the situation has deteriorated with increased fear of “contagion”. We update our earlier analysis with updated data and find that although there have been minor changes to our vulnerability rankings; the overall spirit of our original analysis remains intact. That is, sovereign debt remains very much a G7/European issue. New Zealand and Australia compares well to other sovereigns, and may even benefit from a worsening in the European sovereign debt crisis.

INFECTIOUS?

The Greek sovereign debt crisis took a turn for the worse in the last two weeks, following downward revisions to the Greek fiscal position by Eurostat and credit downgrades to Greek bonds to “junk” status by S&P. And while the eurozone finance ministers agreed to a €110b aid package over three years for Greece over the weekend; this is unlikely to be the end of the matter.

Wider sovereign concerns are emerging, with credit default swap spreads widening amongst the heavily indebted eurozone economies. Given recent events, we have updated our earlier analysis on sovereign risk.¹ The methodology is unchanged, but we have used the latest available data, most notably the recent Eurostat revisions to European fiscal accounts and the latest available unemployment figures from Eurostat and the OECD. While many of the changes were minor, they tended to be in the “wrong” direction, as Table 1 shows. It should be noted that we have now used either actual or estimated 2009 figures in this updated analysis, whereas the original estimates used 2010 forecasts. This does mean we are using the prior year’s data, but it is more accurate.

The updated data makes very little difference to the broad thrust of our initial findings. We compare our original rankings with the latest rankings in Table 2. Again, we rank countries in two different ways, as we did in our stress test. The first is a diffusion ranking that has twice the weighting on the unfavourable measures (i.e. 66/33 unfavourable to favourable), and the second is equal weighted (i.e. 50/50 unfavourable to favourable). **When we incorporate updated data, the rankings were almost unchanged.**

¹ Refer to “A Greek Tragedy?”, Market Focus 15 February 2010; and “Act Two, Scene One”, Market Focus 22 February 2010.

Table 1: Changes to date used in our analysis

Country	Budget Deficit %GDP		Unemployment Rate %	
	Original (2010)	Update (2009)	Original	Update
Australia	-3.5	-4.0	5.5	5.3
Austria	-4.3	-3.4	5.4	5.0
Belgium	-5.7	-6.0	8.2	8.0
Canada	-5.2	-4.8	8.3	8.2
Czech Rep.	-5.7	-5.9	8.0	7.9
Denmark	-2.5	-2.7	7.4	7.5
Finland	-2.3	-2.2	8.8	9.0
France	-8.2	-7.5	10.0	10.1
Germany	-3.2	-3.3	7.5	7.5
Greece	-12.7	-13.6	9.7	10.2
Hungary	-4.3	-4.0	10.7	11.0
Iceland	-10.1	-15.7	7.8	9.3
Ireland	-12.2	-14.3	13.3	13.2
Italy	-5.5	-5.3	8.5	8.5
Japan	-8.2	-7.4	5.1	4.9
Netherlands	-4.5	-5.3	4.0	4.1
New Zealand	-3.3	-1.2	6.5	7.3
Norway	9.9	9.6	3.2	3.3
Poland	-6.4	-7.1	8.9	9.0
Portugal	-6.7	-9.4	10.4	10.3
Spain	-9.6	-11.2	19.5	20.1
Sweden	-2.0	-0.5	8.9	8.7
Switzerland	-1.3	0.7	4.6	4.6
UK	-12.6	-11.5	7.8	7.8
USA	-10.7	-11.2	10.0	9.7

The top 10 countries in our vulnerability ranking are European. Similarly, by either measure, the top 5 most vulnerable countries are Greece, Ireland, Iceland, Portugal and Spain (the so called PIIGS). The least vulnerable, according to our measure, are the antipodeans and the Scandinavians. Broadly speaking then, the spirit of our earlier analysis remains intact – that is, **the sovereign debt issue is generally a Europe/G7 issue, and is not a substantial issue for New Zealand or Australia.** Not only is New Zealand’s Budget deficit the 4th smallest in the OECD, it is less than a third of that of the UK, the US, Greece and Ireland. Similarly, New Zealand’s government debt is the 3rd lowest in the OECD, and is about a third as large as the US or the UK, and less than a quarter of Greece’s on a percent of GDP basis. This gives New Zealand enormous flexibility – yet despite that the Government has vowed to be fiscally prudent, mindful of the importance of a strong credit rating.

SOVEREIGN DEBT UPDATE

Table 2: Updated vulnerability rankings

Country	66/33 Unfavourable/ Favourable	50/50 Unfavourable/ Favourable
	Ranking (previous ranking in brackets)	
Greece	1 (1)	2 (2)
Ireland	2 (2)	3 (3)
Iceland	3 (3)	1 (1)
Portugal	4 (4)	5 (5)
Spain	5 (5)	4 (4)
Poland	6 (6)	8 (8)
France	7 (7)	6 (6)
Hungary	8 (8)	7 (7)
Italy	9 (9)	9 (9)
Belgium	10 (10)	10 (10)
United States	11 (11)	20 (20)
Japan	12 (12)	18 (18)
UK	13 (13)	22 (22)
Czech Republic	14 (15)	12 (12)
Germany	15 (14)	14 (15)
Austria	16 (16)	13 (13)
Netherlands	17 (17)	15 (14)
Canada	18 (18)	21 (21)
Finland	19 (19)	17 (17)
New Zealand	20 (20)	19 (19)
Australia	21 (21)	24 (24)
Sweden	22 (22)	23 (23)
Denmark	23 (23)	16 (16)
Norway	24 (24)	11 (11)
Switzerland	25 (25)	25 (25)

In some respects, **New Zealand could potentially benefit from a European sovereign debt crisis – at least on the interest rate side.** While it is inevitable that the global aggregate demand for sovereign debt will reduce, this is likely to be small in comparison to the level of switching activity that is likely to occur. In other words, if investors sell the bonds of a particular government for fear of default, they are likely to invest those funds elsewhere, in the debt of safer governments. This is the classic safe-haven trade, and when it occurs, the gap between assets in “favour” and assets “out of favour” can be extreme. **New Zealand and Australia are likely to be the beneficiaries of any safe haven buying.** It would not take much of an asset re-allocation given the €2.82 trillion of outstanding bonds issued by Greece, Spain, Ireland, Italy and Portugal. This would also see swap spreads widen, particularly if it coincided with pay side interest from borrowers ahead of rate hikes over the coming months.

IMPLICATIONS FOR NEW ZEALAND

We noted in our original analysis that “With markets now turning to points of differentiation (as opposed to the “trend is your friend” strategy of 2009), sovereign debt is once again a major fundamental.” This is certainly something that has played out.

With New Zealand’s better fiscal position and improving trajectory, we do not expect New Zealand to be cast into the same heap as the highly indebted European sovereigns.

There is a risk that investors will demand a higher risk premium for holding sovereign debt in general, ignoring country specific factors. However, we think the likelihood of this is small, as the market has been quick to differentiate. Indeed, **credit default swap spreads for New Zealand have been stable throughout the sovereign debt crisis saga, indicating that there has been no noticeable rise in risk premiums for New Zealand.**

AUSTRALIAN TAX UPDATE

SUMMARY

We summarise our Australian colleague's take on the response of the Australian Government to the Henry Tax Review. The tax changes that were announced yesterday will increase the tax take from what economists call "super-normal" profits in the resources sector and use the funds for a variety of measures to address medium to long-term challenges in the economy. The underlying assumption is that strong demand for commodities from emerging economies will continue for many years to come. The announced tax changes address only a fraction of the recommendations contained in the Henry Tax Review.

SHARING THE BENEFITS OF THE RESOURCES BOOM

Yesterday's announcement on the Australian Taxation System contained two components: the *Henry Tax Review*, which was originally delivered to the Government in December 2009; and the Government's 'first phase' of reforms in response to the Review announced in its Tax Policy Statement "*Stronger, Fairer, Simpler: A Tax Plan for Our Future*".

The Henry Review is as broad ranging and comprehensive as promised, with 138 recommendations covering just about every element of the tax and transfer system. Somewhat staggeringly, **we estimate that only three of the Henry recommendations have been acted upon at yesterday's announcement.** The Government's initial wave of reform is focused on resource, company and small business taxation as well as superannuation. They are:

- A new Resources Super Profit Tax (RSPT) on mining profits of 40 percent from July 2012, which is expected to raise A\$3b in its first year and A\$9b in its second year. Around a third of the RSPT will be directed into a fund to finance infrastructure investment in the sector.²
- Raising the superannuation guarantee from 9 percent to 12 percent, to be phased in from 1 July 2013 and completed by 1 July 2019. The superannuation guarantee age limit will rise from 70 to 75, effective from 1 July 2013.
- The corporate tax rate will be cut from the current 30 percent to 29 percent from July 2013 and 28 percent by July 2014. Small businesses will get an earlier head start on the lower company tax.

Of the remaining measures, the government has put these into two buckets; those that have been unambiguously ruled out and those that could be addressed in the next term of Government.

The Government is looking to take a larger share of the economic rent generated by the resource sector, and utilise that money for longer-term benefits of the economy and community. While the RSPT can be seen as a new 'tax slug' on the resource sector, the new arrangements for the distribution of natural resources profits is not as harsh as other countries. For example, this distribution is much closer to 50/50 in the UK and Norway.

The government has announced three key issues they wish to address (and use the newly created revenues for) as part of the reforms:

- A stronger economy, specifically trying to alleviate the effects of a two-speed economy via the cut to the general company tax rate;
- Higher national savings via an increase in the compulsory superannuation rate; and
- Encouraging investment in the natural resources sector via the setting up of an infrastructure fund and providing a Resource Exploration Rebate.

The policy thrust of these reforms is to make sure all Australians benefit from the resources boom and to address medium-term demographic challenges for the economy. At the very heart of this package is an assumption that the strong trading conditions in global commodity markets will be maintained for many years to come.

The announcements reinforce Australia's strong financial position as well as favourable positioning within the world economy. The Government appears convinced that the commodity boom will be maintained and that underlying economic processes will take many years, if not decades, to play-out.

IMPLICATIONS FOR NEW ZEALAND

Given the small scale of NZ's mining operations, the proposed RSPT is unlikely to have much impact. The lowering of the Australian corporate tax rate will add pressures to cut NZ business taxes to stay competitive. It adds a bit more urgency for the NZ government to get its books back into surplus to give it more flexibility to put in place the growth enhancing recommendations from the various taskforces and reviews that it has commissioned.

² State levied mining royalties remain but are deductible from the Commonwealth government's income tax assessment.

INTEREST RATE STRATEGY

SUMMARY

The prospect of earlier rate hikes has the market on edge. While the ultimate path of the OCR is still dependent on how the data evolves, improving business conditions and encouraging anecdotes increase the chance of a June hike. On the face of it, with high odds of a June hike (and follow up hikes after that) already priced in, this does not necessarily imply that swap rates need to move sharply higher. However, markets remain nervous, adding to upside pressure.

MARKET THEMES

- The RBNZ has given itself flexibility with subtle changes to the wording of the RBNZ *OCR Review* last week. The Bank now expects to remove policy stimulus “over the coming months”.
- At this stage, the first hike is a coin toss between June and July. However, we favour June for tactical reasons. June is also an *MPS* date.
- The probability of a RBA rate hike this week is high, weighing on an already nervous market.
- Greece’s success in securing a bailout will calm market nerves. However, the threat of a Chinese revaluation remains.

REVIEW AND OUTLOOK

The RBNZ dropped its reference to the “middle of 2010” at last week’s *OCR Review*, as expected. However a rate hike is expected “over the coming months, provided the economy continues to evolve as projected”. As such, the path of monetary policy depends on how data evolves – giving the RBNZ complete flexibility. However, we are encouraged by the sustained improvement in confidence, and other anecdotes we have picked up from our travels around the country, and are suggesting that the RBNZ will have the “proof” they need to lessen the degree of stimulus on offer by June. There’s nothing magic about June, but it is a *MPS* date, and comes with the benefit of a full projection. More importantly, getting started “early” will put the RBNZ “ahead of the curve”, lessening the need to come out with all guns blazing later on, as has occurred in the past. Nonetheless, the RBNZ have reiterated that rate hikes will be more “effective” now, making 25bp hikes much more likely than 50bp or larger moves. Still, markets remain nervous, with the RBA set to hike tomorrow, and jobs data later in the week. Pay side pressure has been heavy over the past fortnight, and while it is likely to recede, receivers are notable by their absence. Expect the slow grind higher in rates to continue.

PREFERRED BORROWING STRATEGIES

While the onus is still on the data to “prove” the need for early rate hikes, persistent buoyancy in business confidence surveys suggest that the gap between lofty expectations and lacklustre reality is starting to close from the bottom (i.e. with activity improving). Nobody knows this more than you – the business community – and if business is picking up, it may be time to start hedging. Tight cashflows have prevented many borrowers from hedging for a while now. With cashflows set to improve, consider aligning hedge ratios and tenors with the strength of conviction. If business is still slow and conviction is lacking, consider options or forward starting swaps. But if business is picking up briskly, and there is conviction behind it, consider hedging for a longer term. Short end swaps are reasonably neutral, pricing in a hike profile close to the RBNZ’s projections. However long end rates are still low by historical standards and offer much better value.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	Next move depends on data, which we expect to improve.
NZ data	↔/↑	HLFS this week likely to improve mildly.
Fed Funds / front end	↔/↑	FOMC neutral. But US data gradually improving.
RBA	↔/↑	Rate hike this week likely, but it is 60% priced in.
US 10 year	↔	Bond market remains very complacent. Makes us wary despite China/Greece issues.
NZ swap curve	↔/↑	Upside risks remain. Scope for swap spreads to widen.
Flow	↔/↑	Payers still have the upper hand. Nervous.
Technicals	↔	Range trading.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Jun-10	+11	+17
Thu 29-Jul-10	+33	+45
Thu 16-Sep-10	+55	+62
Thu 28-Oct-10	+87	+94
Thu 9-Dec-10	+112	+120
Thu 27-Jan-11	+128	+147
Thu 10-Mar-11	Not forecast	+164

TRADING THEMES WE FAVOUR AT PRESENT

Our view change sees us being mildly bearish rates. While our core view implies higher rates, this has to be tempered by what’s already priced in. We are also mindful of the significant penalty roll and carry impose on short positions, making us reluctant to go outright short. We are wary of the potential for a widening in swap spreads as NZGS demand improves as the European sovereign debt crisis intensifies, and corporate paying interest picks up.

CURRENCY STRATEGY

SUMMARY

The NZD has awakened from its slumber and is firing on all crosses. On a TWI basis, the 68 resistance level which we are currently testing is the high since mid-2008. There is a feeling that the economy has turned for the better with business confidence higher and Fonterra raising its milk price forecast. The NZD may be beginning its catch up run to the other commodity currencies.

MARKET THEMES

- Last week's domestic events supporting of the NZD. This week's labour market data may add further support if the unemployment rate falls.
- Fonterra online auction this week a big focus. Even a flat result is a good one given last month's increase.
- China and Greece developments starting to be overlooked as contagion fears fade.

REVIEW AND OUTLOOK

The NZD was very well supported on dips last week after Fonterra announced an upward revision to their milk price forecast for this season. The NZD outperformed all major crosses. Downside support is now at 0.7180 for the NZDUSD, which should contain any dip going into the HLFS employment report out this Thursday. 0.7430 is now the topside target, which is at risk of being taken out if we get a hike from the RBA tomorrow, a decent Fonterra online auction this Wednesday and a fall in the unemployment rate on Thursday. Of course, how global events play out will be important. But the NZD has shrugged off Greece woes and another tightening in reserve requirements by the PBOC, suggesting it is in a resurgent mood.

The AUD has support at the 0.9200 level, with the RBA decision tomorrow the main focus this week. Technically, the 0.9333 level still contains the topside but the higher lows seen since February suggest the topside break is happening and targeting 0.9475. The yield differential is just too large to ignore, especially with the Fed still on hold for an extended period.

While the FOMC revised their outlook for the US economy upwards somewhat, low rates are still here to stay. With inflation not an immediate threat and the unemployment rate still high, the FOMC is ensuring that the recovery continues to gather pace before contemplating raising the fed funds rate.

The Greece air package announced over the weekend was substantial, at €110b over three years. This should help the market shift its focus

away from sovereign debt concerns somewhat in the near-term. However, the fact that the EUR was unable to put on a more substantial relief rally than what we have seen suggests many market participants are still happy to maintain short positions in the euro.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔/↑	Undervalued.
Yield	↓	Yield further in favour of Australia if RBA hikes tomorrow.
Commodities	↔	Softs now following on the hard's footsteps.
Partial indicators	↔/↓	Australian data still better, but NZ's could start to play catch-up.
Technicals	↔/↑	Support at 0.7620. Resistance at 0.7900.
Sentiment	↔	Focus on RBA this week.
Other	↔/↓	World improving which will support AUD more.
On balance	↔	NZD due to catch-up.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value estimate of 0.66.
Fair value – short-term	↔/↓	Moved above our cyclical near-term fair value of 0.70.
Yield	↔/↑	NZ rates moving up before US rates.
Commodities	↑	NZ commodity prices improving strongly.
Risk aversion	↔/↑	Improved on Greek rescue package.
Partial indicators	↔/↓	US data improving faster than NZ's but for how long?
Technicals	↔	Upside bias with support at 0.7094 currently.
AUD	↔	Resistance at 0.9417 will be very important.
Sentiment	↔	NZD just following offshore moves.
Other	↔/↓	Yield differentials still matter.
On balance	↔	Still in medium-term down channel but will range trade at higher level in near term.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME	
03-May	AU	AiG Performance of Mfg Index - APR	- -	50.2	11:30	
	AU	TD Securities Inflation YoY% - APR	- -	2.50%	12:30	
	AU	House Price Index QoQ - 1Q	3.00%	5.20%	13:30	
	AU	House Price Index YoY - 1Q	18.00%	13.60%	13:30	
	NZ	ANZ Commodity Price - APR	- -	1.80%	15:00	
	AU	RBA Commodity Index SDR YoY% - APR	- -	1.40%	18:30	
	GE	PMI Manufacturing - APR F	61.3	61.3	19:55	
	EC	PMI Manufacturing - APR F	57.5	57.5	20:00	
	04-May	US	Personal Income – MAR	0.30%	0.00%	00:30
		US	Personal Spending – MAR	0.70%	0.30%	00:30
US		PCE Core (MoM) – MAR	0.00%	0.00%	00:30	
US		PCE Core (YoY) – MAR	1.30%	1.30%	00:30	
US		ISM Manufacturing – APR	59.9	59.6	02:00	
US		ISM Prices Paid – APR	72	75	02:00	
US		Construction Spending MoM – MAR	-0.50%	-1.30%	02:00	
US		Domestic Vehicle Sales – APR	8.90M	9.05M	09:00	
US		Total Vehicle Sales – APR	11.40M	11.77M	09:00	
NZ		LCI – Private Sector -QoQ – 1Q	0.40%	0.30%	10:45	
NZ		QES Private Sector ordinary average hourly earnings - QoQ – 1Q	0.30%	-0.40%	10:45	
NZ		QES Paid Hours – QoQ - Q1	- -	-0.30%	10:45	
NZ		QES Filled Jobs – QoQ - Q1	- -	+1.20%	10:45	
CH		HSBC Manufacturing PMI – APR	- -	57	14:30	
AU		RBA CASH TARGET – MAY	4.50%	4.25%	16:30	
UK		Net Consumer Credit – MAR	0.5B	0.5B	20:30	
UK		Net Lending Sec. on Dwellings – MAR	1.6B	1.6B	20:30	
UK		Mortgage Approvals - MAR	50.0K	47.1K	20:30	
UK		M4 Money Supply (MoM) - MAR F	- -	0.10%	20:30	
UK	M4 Money Supply (YoY) - MAR F	- -	3.50%	20:30		
UK	PMI Manufacturing - APR	57.3	57.2	20:30		
EC	Euro-Zone PPI (MoM) - MAR	0.70%	0.10%	21:00		
EC	Euro-Zone PPI (YoY) - MAR	0.90%	-0.50%	21:00		
05-May	US	Factory Orders - MAR	0.00%	0.60%	02:00	
	US	Pending Home Sales MoM - MAR	3.10%	8.20%	02:00	
	US	Pending Home Sales YoY - MAR	- -	17.30%	02:00	
	UK	Nationwide Consumer Confidence - APR	- -	72	11:01	
	AU	AiG Performance of Service Index - APR	- -	48.4	11:30	
	AU	Building Approvals – (MoM) MAR	0.50%	-3.30%	13:30	

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME	
05-May	GE	PMI Services - APR F	55	55	19:55	
	EC	PMI Services - APR F	55.5	55.5	20:00	
	EC	PMI Composite - APR F	- -	57.3	20:00	
	UK	PMI Construction - APR	53.2	53.1	20:30	
	EC	Euro-Zone Retail Sales (YoY) - MAR	- -	-1.10%	21:00	
	EC	Euro-Zone Retail Sales (MoM) - MAR	0.00%	-0.60%	21:00	
	US	Challenger Job Cuts YoY - APR	- -	-55.00%	23:30	
	06-May	US	ADP Employment Change - APR	30K	-23K	00:15
US		ISM Non-Manf. Composite - APR	56	55.4	02:00	
NZ		Unemployment Rate - 1Q	7.3%	7.3%	10:45	
NZ		Participation Rate (QoQ) - 1Q	68.1%	68.10%	10:45	
NZ		Employment Change (QoQ) - 1Q	0.2%	-0.10%	10:45	
AU		Trade Balance - MAR	-2150M	-1924M	13:30	
AU		Retail Sales s.a. (MoM) - MAR	0.70%	-1.40%	13:30	
AU		Retail Sales Ex Inflation(QoQ) - 1Q	0.30%	1.10%	13:30	
UK		PMI Services - APR	56.4	56.5	20:30	
GE		Factory Orders MoM (sa) - MAR	1.40%	0.00%	22:00	
EC		ECB Announces Interest Rates - MAY	1.00%	1.00%	23:45	
07-May		US	Nonfarm Productivity - 1Q P	2.50%	6.90%	00:30
		US	Unit Labor Costs - 1Q P	-0.50%	-5.90%	00:30
		US	Initial Jobless Claims - MAY 01	443K	448K	00:30
	US	Continuing Claims - APR 24	- -	4645K	00:30	
	US	ICSC Chain Store Sales YoY - APR	- -	9.00%	02:30	
	AU	AiG Perf of Construction Index - APR	- -	48.7	11:30	
	JN	Monetary Base (YoY) - APR	- -	2.10%	11:50	
	AU	RBA Monetary Policy Statement - MAY	--	--	13:30	
	UK	PPI Input NSA (MoM) - APR	0.60%	3.60%	20:30	
	GE	Industrial Production MoM (sa) - MAR	1.50%	0.00%	22:00	
08-May	US	Unemployment Rate - APR	9.70%	9.70%	00:30	
	US	Change in Nonfarm Payrolls - APR	176K	162K	00:30	
	US	Avg Hourly Earning MOM All Emp - APR	0.10%	-0.10%	00:30	
	US	Avg Weekly Hours All Employees - APR	34.1	34	00:30	
	US	Consumer Credit - MAR	-\$2.7B	-\$11.5B	07:00	

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, CH: China, 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: Last week's OCR Review saw the OCR held at 2.5 percent, with the RBNZ expecting "to begin removing policy stimulus over the coming months, provided the economy continues to evolve as projected." Focus this week will return to the labour market, which is expected to show improvement in labour demand. Budget 2010 is also fast approaching and will provide more clarity on the direction of government policy. Signs of improvement are becoming increasingly evident although we do not expect this to be apparent in the published data until later in Q2.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 4 May (10:45am)	Labour Cost Index, Quarterly Employment Survey (Mar qtr)	Near the trough	Past readings have surprised on the downside. We expect another low quarterly print, with annual wage inflation at (or close to) its cyclical trough.
Thur 6 May (10:45am)	Household Labour Force Survey (Mar qtr)	Turning	The labour market is at a turning point. We expect a small increase in employment, although remain aware of the considerable quarterly volatility of recent HLFS outturns. The unemployment rate is expected to ease to 7.1 percent.
Tue 11 May (10:45am)	Electronic Card Transactions (Apr)	Easing	We may see some pull-back following the 2 percent plus monthly increase in March.
Thur 13 May (10:00am)	BNZ Business NZ PMI (Apr)	Improving	NZ is expected to follow an improving global trend.
Thur 13 May (10:45am)	Food Price Index (Apr)	Rising	High food commodity prices suggest a climb in annual food price inflation.
Fri 14 May (10:00am)	REINZ Residential data (Apr)	Up	A recovery of sorts was evident in the March data. April could see further improvement but the level of activity to remain low.
Fri 14 May (10:45am)	Retail Trade Survey (Mar)	Up	March ECT and credit Card billings suggest a 1% plus increase in the month. For the quarter as a whole we expect core retail volumes to post a decline.
Tue 18 th May (10:45am)	Producer Price Index Capital Goods Price Index (Mar qtr)	Margins still tight	Prices to be strongly influenced by export prices and the NZD. We expect that the high NZD is continuing to lower prices for capital plant and machinery.
Thur 20 May (2:00pm)	Budget 2010	Tight	Final details of the tax reform package to be released. Expenditure restraint to remain a key focus. The fiscal position is set to improve, but deficits are likely for the next few years.
Fri 21 May (10:45am)	International Travel and Migration (Apr)	Lower	A rising trend in PLT departures to Australia is expected to produce smaller net PLT inflows, with the annual net inflow. Disruptions to European travel are likely to weigh down on visitor arrivals.
Fri 21 May (3:00pm)	ANZ Roy-Morgan Consumer Confidence (May)	-	-
Thur 27 May (10:45am)	Overseas Merchandise Trade (Apr)	Closer to balance	Exports to be buoyed by firm export commodity prices. Improving domestic demand is expected to translate into a recovery in imports over the coming months.
Fri 28 May (10:45am)	Building Consents (Apr)	Holding pattern	With uncertainties over tax treatment still looming we don't expect a sustained pick-up in consent issuance until the second half of 2010.
Fri 28 May (3:00pm)	RBNZ Credit Aggregates (Apr)	Contained	March data has confirmed deleveraging remains a key influence, although housing credit is showing very modest improvement.
On Balance		Still sub-trend but building nicely	Two speed recovery with still subdued domestic demand, but improving tradable sector activity.

ECONOMIC FORECASTS AND INDICATORS

	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
GDP (% qoq)	-0.8	0.2	0.3	0.8	0.3	0.6	1.2	0.7	1.1	1.4
GDP (% yoy)	-3.1	-2.3	-1.4	0.5	1.6	2.0	3.0	2.8	3.7	4.5
CPI (% qoq)	0.3	0.6	1.3	-0.2	0.4	0.9	0.9	2.8	0.6	1.0
CPI (% yoy)	3.0	1.9	1.7	2.0	2.0	2.4	2.0	5.0	5.3	5.4
Employment (% qoq)	-1.1	-0.5	-0.8	-0.1	0.2	0.3	0.4	0.6	0.6	0.7
Employment (% yoy)	0.8	-0.9	-1.8	-2.4	-1.1	-0.4	0.8	1.5	1.9	2.3
Unemployment Rate (% sa)	5.0	6.0	6.5	7.3	7.1	7.1	6.9	6.4	6.2	5.9
Current Account (% GDP)	-7.9	-5.6	-3.2	-2.9	-3.2	-4.2	-5.3	-4.7	-4.4	-4.1
Terms of Trade (% qoq)	-2.7	-9.4	-1.6	5.8	3.8	3.9	2.5	1.0	-0.5	-0.6
Terms of Trade (% yoy)	-5.0	-13.5	-14.1	-8.2	-2.0	12.3	16.9	11.6	7.0	2.3

	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10
Retail Sales (% mom)	0.1	-0.6	1.2	0.3	0.0	0.8	-0.5	0.7	-0.6	..
Retail Sales (% yoy)	-1.1	-1.4	-1.1	-0.5	-0.2	2.4	2.0	2.3	2.4	..
Credit Card Billings (% mom)	0.2	0.1	1.3	-0.7	0.2	0.8	-1.2	1.4	-0.2	1.2
Credit Card Billings (% yoy)	-2.0	-2.1	0.1	-2.3	-0.3	1.6	1.9	2.7	1.2	6.3
Car Registrations (% mom)	6.0	7.0	-3.6	8.5	0.5	2.2	6.9	-0.8	0.3	5.4
Car Registrations (% yoy)	-29.6	-16.4	-18.3	-16.8	-16.8	2.4	0.3	15.9	31.4	31.7
Building Consents (% mom)	-9.3	5.3	2.3	5.6	11.9	0.4	-3.8	-2.9	5.8	..
Building Consents (% yoy)	-24.3	-16.5	-9.0	-11.7	26.7	20.4	22.7	35.0	29.8	..
REINZ House Price (% yoy)	0.0	0.0	5.1	6.1	6.0	5.2	9.6	7.7	6.1	7.6
Household Lending Growth (% mom)	0.1	0.3	0.3	0.3	0.3	0.0	0.2	0.2	0.1	..
Household Lending Growth (% yoy)	2.4	2.4	2.4	2.3	2.6	2.7	2.7	2.7	2.7	..
ANZ-Roy Morgan Consumer Confidence	103.4	107.8	112.3	120.0	125.9	121.5	118.6	131.4	123.6	121.8
NBNZ Business Confidence	5.5	18.7	34.2	49.1	48.2	43.4	38.5	..	50.1	42.5
NBNZ Own Activity Outlook	8.3	12.6	26.0	32.2	30.5	33.7	36.9	..	41.9	38.6
Trade Balance (\$m)	-331.1	-177.6	-716.6	-561.5	-501.5	-280.4	-26.4	271.1	334.6	..
Trade Balance (\$m annual)	-3110	-2491	-2360	-1669	-1176	-863	-549	-176	-324	..
ANZ World Commodity Price Index (% mom)	0.2	1.0	4.4	6.8	4.7	10.5	2.6	0.4	3.8	1.8
ANZ World Commodity Price Index (% yoy)	-27.9	-28.5	-22.7	-13.0	-1.5	17.4	30.0	36.5	48.6	49.7
Net Migration (sa)	1620	2460	1630	1850	2150	1730	1670	1830	1010	990
Net Migration (annual)	12515	14488	15642	17043	18560	20021	21253	22588	21618	20973

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	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZD/USD	0.698	0.705	0.729	0.710	0.720	0.700	0.690	0.680	0.660	0.650
NZD/AUD	0.780	0.776	0.789	0.747	0.750	0.745	0.750	0.756	0.750	0.756
NZD/EUR	0.512	0.530	0.547	0.518	0.529	0.526	0.531	0.531	0.524	0.524
NZD/JPY	62.10	65.31	68.57	64.61	66.24	65.80	66.24	66.64	66.00	65.00
NZD/GBP	0.458	0.475	0.476	0.461	0.468	0.458	0.451	0.447	0.434	0.433
NZ\$ TWI	64.5	66.0	68.0	64.9	66.0	65.1	65.0	64.9	63.8	63.4
INTEREST RATES	Feb-10	Mar-10	Today	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
NZ OCR	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.25	4.75	5.25
NZ 90 day bill	2.71	2.67	2.74	3.10	3.70	3.80	4.20	4.70	5.20	5.70
NZ 10-yr bond	5.76	5.98	5.91	5.90	5.90	5.80	5.90	6.10	6.50	6.50
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.75	1.25	1.75	2.00	2.50
US 3-mth	0.25	0.29	0.35	0.30	0.35	0.85	1.35	1.85	2.10	2.60
AU Cash Rate	3.75	4.00	4.25	4.25	4.75	5.00	5.25	5.50	5.75	6.00
AU 3-mth	4.13	4.49	4.63	4.40	4.90	5.20	5.40	5.70	5.90	6.20

	30 Mar	26 Apr	27 Apr	28 Apr	29 Apr	30 Apr
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.67	2.69	2.70	2.72	2.72	2.73
NZGB 11/11	3.80	3.78	3.81	3.79	3.83	3.89
NZGB 04/13	4.61	4.61	4.63	4.61	4.63	4.69
NZGB 12/17	5.73	5.69	5.68	5.67	5.67	5.67
NZGB 05/21	6.02	5.95	5.94	5.92	5.92	5.91
2 year swap	4.31	4.29	4.33	4.33	4.36	4.40
5 year swap	5.27	5.26	5.27	5.26	5.27	5.28
RBNZ TWI	66.0	66.9	67.0	66.8	67.0	67.6
NZD/USD	0.7106	0.7193	0.7207	0.7156	0.7170	0.7253
NZD/AUD	0.7733	0.7746	0.7782	0.7759	0.7759	0.7792
NZD/JPY	65.50	67.77	67.65	66.71	67.30	68.21
NZD/GBP	0.4740	0.4663	0.4663	0.4685	0.4726	0.4728
NZD/EUR	0.5270	0.5380	0.5386	0.5418	0.5428	0.5472
AUD/USD	0.9189	0.9286	0.9261	0.9223	0.9241	0.9308
EUR/USD	1.3484	1.3371	1.3382	1.3207	1.3209	1.3255
USD/JPY	92.18	94.22	93.87	93.22	93.87	94.04
GBP/USD	1.4990	1.5426	1.5455	1.5273	1.5172	1.5341
Oil (US\$/bbl)	81.92	84.54	84.20	82.43	83.22	85.17
Gold (US\$/oz)	1111.75	1158.95	1155.15	1164.30	1166.20	1171.85
Electricity (Haywards)	13.72	7.75	4.21	3.04	4.08	3.20
Milk futures (US\$/contract)	109	117	117	117	117	118
Baltic Dry Freight Index	2982	3020	3203	3329	3359	3354

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:



IMPORTANT NOTICE

- 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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