

# Market Focus

New Zealand

7 September 2009

## GUEST COMMENT

### NZ Economics Team:

#### Cameron Bagrie

Chief Economist

Telephone: +64 4 802 2212

E-mail: [bagriec@anz.com](mailto:bagriec@anz.com)

#### Khoon Goh

Senior Markets Economist

Telephone: +64 4 802 2357

E-mail: [gohk@anz.com](mailto:gohk@anz.com)

#### Philip Borkin

Economist

Telephone: +64 4 802 2199

E-mail: [borkinp@anz.com](mailto:borkinp@anz.com)

#### Steve Edwards

Economist

Telephone: +64 4 802 2217

E-mail: [edwards1@anz.com](mailto:edwards1@anz.com)

#### Kevin Wilson

Rural Economist

Telephone: +64 4 802 2361

E-mail: [wilsonk1@anz.com](mailto:wilsonk1@anz.com)

### Page 2: Economic overview

- > While uncertainty surrounds the outlook for dairy prices, the rebound seen of late probably now means the adjustment across rural farm values will occur in a reasonably orderly fashion. We continue to look at data from two angles: respecting the trend and direction, but being mindful of the levels. The RBNZ this week are likely to move to a more neutral bias, but remain very cautious. Data is expected to confirm recession conditions in Q2, but an improving trend into Q3.

### Page 4: Economic comment – China's recovery and its potential side effects

- > China has a massive role to play in the global economic recovery. Here is a comment on the outlook and subsequent risks for China from our Asian Chief Economist, Paul Gruenwald.

### Page 7: Economic comment – focusing on the levels

- > A look at some indicators in level terms to help highlight the difference between the level and the change.

### Page 8: RBNZ Monetary Policy Statement Preview

- > Given signs of stabilisation and improvement in the global and domestic economy, we expect the RBNZ to shift towards a more neutral stance, but with very cautious tones. We still expect the RBNZ to remain committed to keeping rates low for some time, and we would not be surprised to see them refer to regulatory measures to strengthen this message. Though the economic projections will be revised slightly higher, as the Governor noted last week, there is a *"hell of a long way to go"*.

### Page 10: Interest rate strategy

- > The RBNZ is the main focus this week, though the NZ rates market will still be reluctant to buy into the *"rates on hold until late 2010"* message, capping any potential rally on a cautious tone. The NZ market is likely to be heavily influenced by moves in Australia once again, particularly if the dataflow builds a case for the RBA to hike pre-Christmas.

### Page 11: Currency strategy

- > The AUD is still looking bid. At the same time we expect the RBNZ to provide a stark reminder on where it sees the NZD and interest rates going forward. The RBNZ wants both lower relative to current levels. Whether the market accepts this remains the million dollar question. Lacking a global sentiment sea-change towards the USD or turn in risk appetites, the scapegoat should be a lower NZDAUD.

### Page 12: Data and event calendar

### Page 14: Data watch

### Page 15: Key forecasts

## ECONOMIC OVERVIEW

While uncertainty surrounds the outlook for dairy prices, the rebound seen of late probably now means the adjustment across rural farm values will occur in a reasonably orderly fashion. We continue to look at data from two angles: respecting the trend and direction, but being mindful of the levels. The RBNZ this week are likely to move to a more neutral bias, but remain very cautious. Data is expected to confirm recession conditions in Q2, but an improving trend into Q3.

### What's ahead?

- > **Q2 Value of Building Work Put in Place** (Tuesday 1045 NZST). Following the surprise flat result last quarter, we expect residential construction to fall in the vicinity of 10 percent. Non-residential construction should hold up at a reasonable level.
- > **August Electronic Card Transactions** (Wednesday 1045 NZST). While volatile on a monthly basis, we expect it to generally point to a stabilisation in retail spending.
- > **RBNZ September Monetary Policy Statement** (Thursday 0900 NZST). We expect the OCR to be left unchanged at 2.50 percent (refer to page 8 for our full preview).
- > **Q2 Overseas Trade Indexes** (Thursday 1045 NZST). The terms of trade is expected to fall 3.3 percent in the quarter. Volume data should again confirm that net exports will make a positive contribution to GDP growth.
- > **REINZ August Housing Market data** (circa 11 September). House sales should post another rise. The median days to sell should remain around current levels, or even fall slightly. Prices appear to be slowly rising.

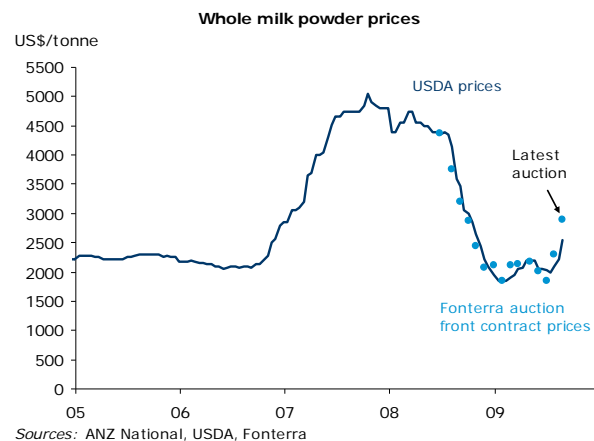
### What's the view?

**Right up front we need to acknowledge three key developments from last week.**

**Firstly, the curve borrowers' face continues to steepen.** Long-term rates are still biased higher, but short-term rates actually fell last week. This carries important implications. Even more people will be encouraged to borrow at floating or short-term rates. This means that when the RBNZ does decide to hike rates, a few 50bp nudges will give them considerable bang for their buck – both in terms of the shock value but also the direct cash-flow implications. We are somewhat surprised the consensus is expecting the first move by the RBNZ to be a 25bp hike mid-next year. In our minds the Bank will wait till later, but be more inclined to move more aggressively and in larger clips. No one will like it when it happens, but this strategy –

which will entail delivering a message immediately – will end up with interest rates being lower on average over the cycle.

**Second, dairy prices are rising.** The last two Fonterra on-line auctions have been remarkable, with average prices rising by around 25 percent in each of the past two months. After dairy prices looked to be lagging the general upward moves in global commodity prices, they have caught up in a very short space of time. How much is simply inventories being rebuilt off lows (our suspicion) versus actual demand is uncertain. At this juncture there remains a huge degree of uncertainty over the outlook. But the rebound has mitigated a huge aspect of the downside risks for the economy, despite a higher currency. For the rural sector and dairying, huge challenges remain. The chequebook is shut. Farm prices will remain under pressure as a speculative bubble unwinds. But the increase in dairy prices now probably means that adjustment can occur in a reasonably orderly fashion. This is significant.



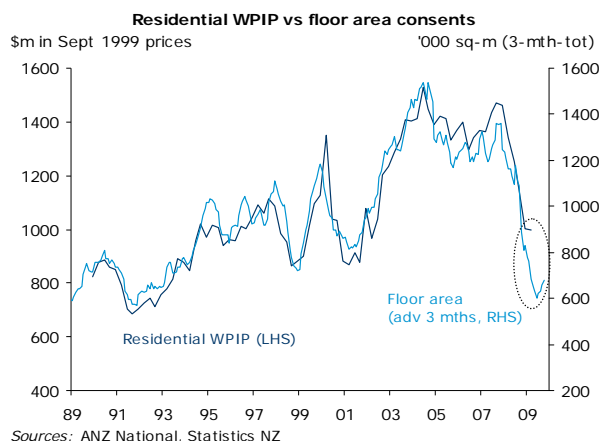
**Thirdly, levels versus the change.** The change in the tenor of data needs to be acknowledged. Every improvement starts with small steps. But we are surprised by the lack of attention towards levels. Take residential building consents. They are now hovering around 1,150 per month. Even if they jump by 50 percent, which is what leading (confidence) indicators are saying (a massive movement in terms of the change) that takes them to 1,700. Relative to the working age population, that's a mild cycle. The same story applies in terms of import volumes, manufacturing, retailing, house sales and car registrations to name a few pro-cyclical indicators.

**We fully expect a host of gauges to continue showing improvement over the coming months,** but the key is the opening position and level. The term being courted by a number of scribes is the "statistical recovery" and as Dr Bollard noted a week ago, "there is a hell of a long way to go". Momentum turns positive and the economy rebounds, but off such lows that it doesn't

really feel like it. Page 7 shows a collection of charts in level terms to highlight the point. Given the falls, the initial legs of the rebound are also going to look like the infamous V shaped cycle. But as we've noted before, the missing ingredients to the full V as opposed to half-an-up-leg on the second side are a) final demand and b) a quality mix to the growth picture.

**The RBNZ takes the limelight with their September Monetary Policy Statement on Thursday.** We won't go into the full details of our expectations here as you can refer to page 8 for our preview note. But we expect the OCR to be left unchanged at 2.50 percent. We also believe a move towards a neutral stance is more likely than not, but a commitment to low rates for well into 2010 to remain. **Like other central banks, the key theme will be one of cautiousness.** Whether it is in regular monetary policy decisions (like from the ECB last week), or ad hoc speeches by officials, most appear relatively guarded with their views towards the outlook. This is despite acknowledging the positive signs that are emerging. Words such as "uncertain", "rocky" and "gradual" are commonplace when used to explain the pending recovery.

**On the data front this week, building work is expected to be weak.** Work put in place surprised last quarter, with residential construction work coming in relatively flat, despite some large falls in building consent issuance. We put this down to timing issues. Residential construction should resume its downward moves in the June quarter and post a fall in the vicinity of 10 percent. Further falls beyond this cannot be ruled out over the remainder of this year, although with building consent issuance now beginning to turn the corner, a recovery in residential construction should take place next year. Non-residential construction should hold up at a reasonable level. However, unlike a pending recovery in residential construction, the outlook for non-residential construction is not as favourable (as we discussed in last week's *Market Focus*).



**The Q2 OTI terms of trade looks set to post another large fall – in the order of three percent.** This will take the cumulative decline to 8.3 percent. But once again going back to our change/levels mantra, the terms of trade will remain 7 percent above the decade average (looking at levels and changes cuts both ways). If NZ can get away with a deep global recession, and have the terms of trade base around current levels, then we've escaped relatively unscathed. OTI volume data is expected to show net exports again making a positive contribution to GDP growth, with imports again contracting. Exports, particularly primary, should be strong, although we expect this will be a result of a run-down in inventories.

**August housing data should continue to point to recovery.** Barfoot & Thompson Auckland house sales data last week showed another rise in sales volumes and we expect this trend to be mirrored by the REINZ numbers. The improving demand situation, on top of what appears to be hesitation or reluctance to list properties for sale, is continuing to tip the scales in favour of sellers at present. This looks to be providing underlying support to prices, which we expect to have increased again in the month. The median days to sell measure is expected to remain around current levels or even fall slightly again. Our view remains that this near-term "blip" in strength will tail off into the latter parts of the year as the lack of listings situation eases with confidence improving and the natural pick up we see as the warmer weather arrives. This will see things then settle down to a more gradual pace of recovery. If this does not occur, then we are sure there will be a policy/regulator response. The weekly RBNZ mortgage approval data is important to watch in this regard.

**Internationally, Australia has another busy week.** The NAB business confidence survey and labour market data for August will be of most interest. In the US, the Fed's Beige Book will be widely perused, and the BoE are also announcing an interest rate decision in the UK.

### Recent local data...

- > **NBNZ Business Outlook (August):** Headline confidence rose to a net 34 percent expecting the better times ahead for the economy from a net 19 percent in July. Own activity expectations rose to close to a five-year high of a net 26 percent.
- > **Barfoot & Thompson Auckland house sales (August):** Seasonally adjusted house sales rose 6.7 percent, while available listings fell to 5,537 – the lowest since September 2007.
- > **ANZ Commodity Price Index (August):** World prices rose by 4.3 percent in the month. However, the NZD Index fell 0.7 percent.

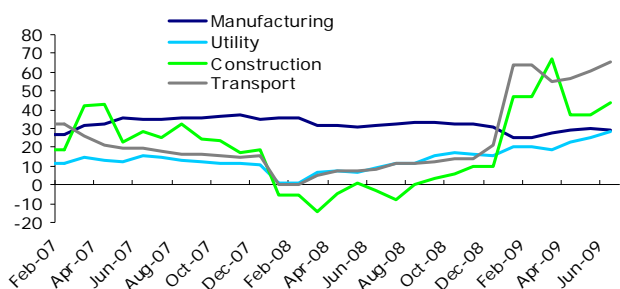
## CHINA'S RECOVERY AND ITS POTENTIAL SIDE-EFFECTS

China has a massive role to play in the global economic recovery. Here is a comment on the outlook and subsequent risks for China from our Asian Chief Economist, Paul Gruenwald.

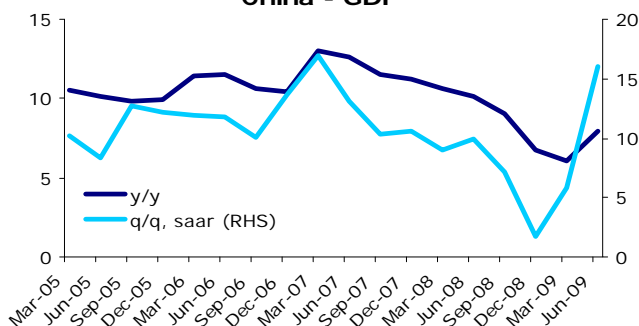
### An impressive recovery

The Chinese economy accelerated in mid-2009, supported by the massive stimulus plan launched in November of last year. GDP expanded by 7.9 percent on a year-on-year basis in Q2 and by an astounding 3.9 percent (seasonally adjusted) in the quarter alone, equivalent to an annual pace of almost 16 percent! This is a far cry from zero growth (s.a.) in the final quarter of 2008. In terms of GDP composition, both the secondary and tertiary sectors have rebounded strongly. Data so far in Q3 show that domestic demand growth continues to strengthen. Importantly, the recovery has taken place against a background of weak external demand, challenging the notion that China is an export led or dependent economy.

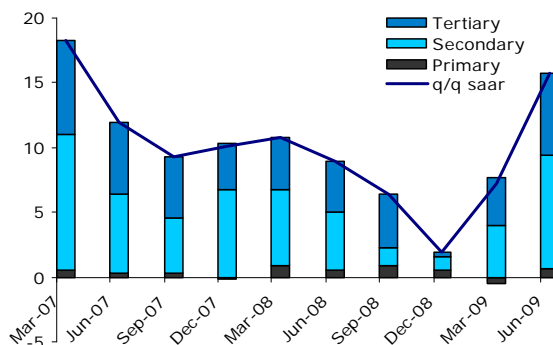
China - Fixed Asset Investment by Sector (YTD, y/y)



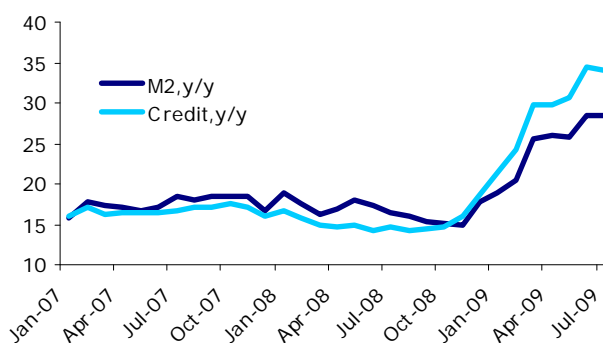
China - GDP



China - Contribution to GDP



China - Money and Credit Growth



### Side effects

While the recovery in real activity can be classified as a success to date, concerns have been raised about the allocation of financial resources intended to fund the stimulus plan. New bank lending in the first seven months of 2009 reached 1½ times the total lending recorded in all of 2008. During the same period, year-to-date M2 growth overshoot the authorities' annual target by 7 percentage points. Concurrent with the surge in bank lending, prices of key asset classes such as equities and property have picked up sharply in recent months, leading some commentators to conclude that dangerous bubbles are forming that could unwind with dire consequences.

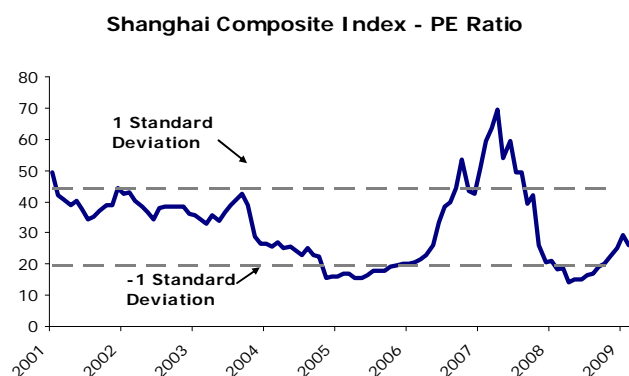
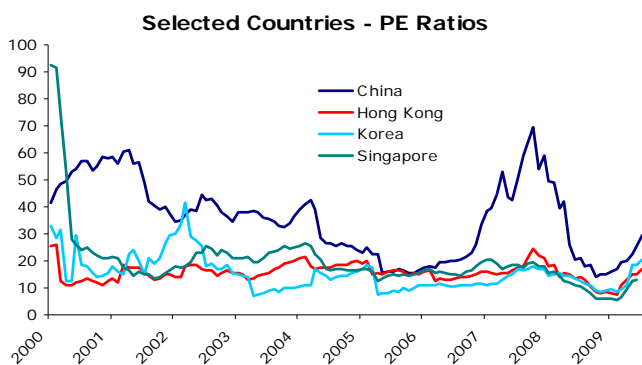
The authorities recognised that lending was growing too quickly and have begun to undertake measures to ensure that bank funds are being channelled to their intended purposes. The objectives are to cap the creation of potential non-performing loans and to take away the fuel for the recent rise in asset prices. The measures include increased scrutiny from the regulators, raising capital adequacy ratios, and urging commercial banks to step up credit checks (see table below). At the same time, the Peoples' Bank of China (PBoC) has started to drain liquidity using open market operations.

These efforts have shown some early success. Recent data show that new bank lending fell to CNY335bn (NZ\$71bn) in July following June's

CNY1530bn (NZ\$325bn) increase. Fixed asset investment growth was 29.7 percent (y/y) in July, down 6ppt from June. The following paragraphs look at three areas that have received the most attention in conjunction with China's fast turn around: equities, house prices and commodities. While each of these carries risks, our current view is that any ancillary "damage" from the recent surge in credit growth is likely to be manageable.

### **Equities: Big price run-up, but what about valuations?**

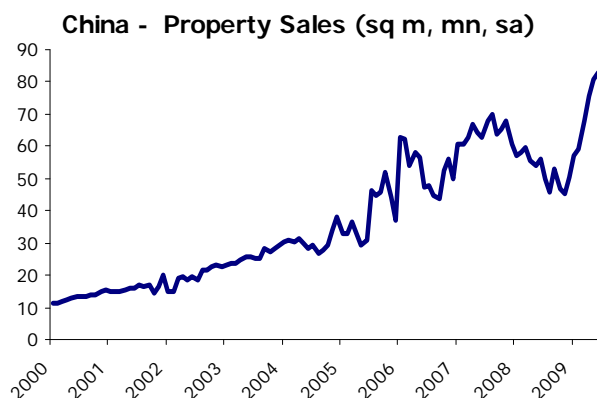
The Shanghai Composite Index has had a strong run in 2009, rising by more than 50 percent year-to-date (it was up by almost 75 percent at one point). This has led some commentators to speculate as to whether this constitutes a bubble. Looking at the index's price-to-earnings ratio, current valuations appear well within a one standard deviation band, and well below the peak of late 2007, suggesting that fears of overvaluation may be exaggerated. On a cross country basis, the P/E ratio in China is moderately above other bourses in the region.



### **Real Estate: More expensive, but less affordable?**

Housing has been another market receiving attention as a potential bubble. Property sales in the first seven months of 2009 rose 37 percent (y/y), with the latest reading reaching 69 percent in July. While average prices have risen sharply as well, the price-to-income ratio suggests that China's real estate remains affordable, on average. It is important to note that nominal GDP growth in

China, which has risen at double-digit rates over the past decade, has also significantly outpaced house price increases. However, rental yields remain low compared to deposit interest rates, indicating that expectations for high rental growth are being priced in. Supply remains constrained, which has in some areas contributed to high premiums being placed on housing.

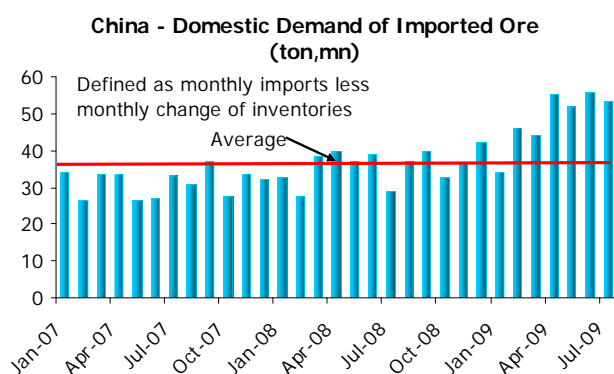
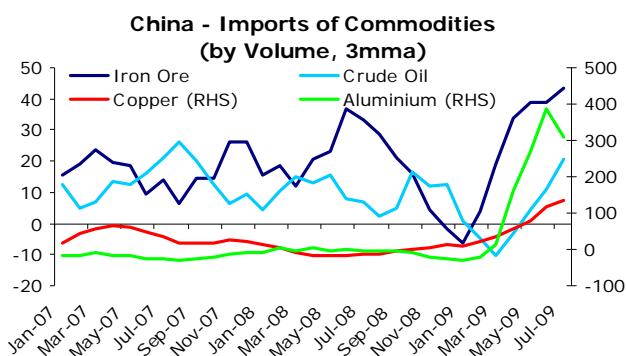


### **Commodities: Underlying demand amidst lots of noise**

The infrastructure-heavy stimulus and recovery has resulted in a surge in base metal imports in to China. However, the link between metals demand and imports is less than clear cut and may include effects from the surge in bank lending. As a result, there has been much commentary about the extent to which strategic stockpiling and speculative imports indicate any underlying real commodity demand at all.

As we have argued elsewhere, China's recent demand for commodities has included a considerable component of stock building. This has inflated the aggregate demand for metals over and above what would be required by the manufacturing sector alone. In the past few weeks, on-shore commodity prices have retreated significantly, suggesting that the speculative demand for inventory may have levelled off. Meanwhile, China's policy to curb overcapacity will likely drive down commodity demand going forward as well. So, we expect that imports of commodities

will slow in the second half of 2009, but still remain at historically high levels. Nonetheless, measuring true underlying commodity demand remains difficult and resource flows in this sector will require continued monitoring.



Source: CEIC, Bloomberg, ANZ Economics

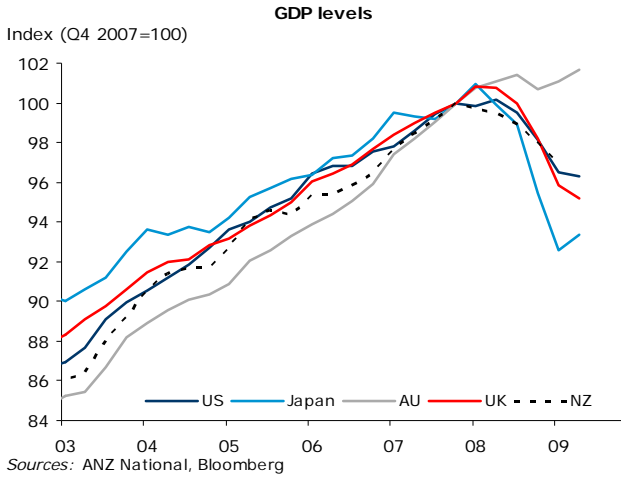
**Outlook and risks**

With the effects of the stimulus plan ahead of schedule, China appears to be on track to reach its growth target of 8 percent for 2009 as a whole. The turnaround from zero growth in late 2008 has been impressive. We see the risks to this forecast to be on the upside, at least in the near-term. The main concern is the efficiency of the current growth path. And the main policy challenge is to moderate the pace of credit expansion with the aim of minimising the ancillary damage from a stimulus plan centred on state-directed (rather than market-determined) credit. At this point, any fallout from equity and housing price declines would appear to be manageable, although the extent of future non-performing loan formation is unknown. Such costs are part of the trade-offs chosen by the authorities, who put a relatively large weight on maintaining a high level of growth, prosperity and “social harmony” at the expense of higher fiscal costs in the medium term to address non-performing loans at state-owned banks.

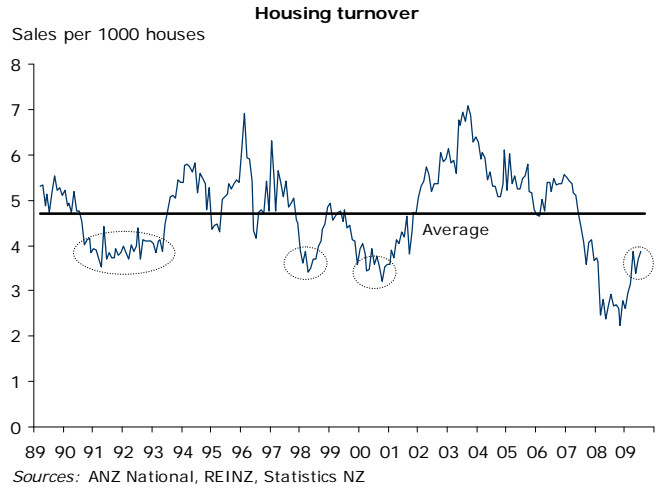
What to watch?	
Policy Action	Comments
PBoC reaffirms that the M2 growth target for 2009 is 17%; M2 has already grown by 25% in 2009 year-to-date.	If the PBoC sharply tightens money supply growth in the coming months the real effects could be substantial. We see the recent pronouncement as a warning signal as long as asset prices remain well-behaved.
CBRC plans to tighten capital requirements by stopping banks from counting cross-held subordinated debt capital.	The recent correction in China's stock market is partly driven by news that two big banks will raise capital. According to the local media, domestic banks need to raise CNY100bn in 2009 to satisfy the new CBRC requirements.
PBoC to let the repurchase rate and yields of central bank bills to rise beginning in July; PBoC resumed auctions of 1-year central bank bills in July.	In China, quantity control is historically more effective in ensuring credit quality than interest rates. That said, the pace of central bank bill issuance needs to be watched along with the tentative rise in rates.
CBRC reaffirms a higher mortgage rate equal to 1.1 times the benchmark lending rate for buying a second home, according to local media.	Housing sales were depressed when the CBRC first introduced such policy last year. It reaffirmed this policy recently following the rally in housing prices and sales, indicating that the Chinese government is concerned about possible asset bubbles. Markets should be watching housing sales data in the coming months.
China has restarted IPOs from July, after suspending them for ten months.	The regulatory body wants to cool the stock market through increasing supply. Also, the financing burden needs to be shifted in part from the banking system in order to minimise future NPLs.
The government is reportedly going to audit the destination of bank loans in September 2009.	This measure targets the rumour that a substantial portion of bank loans are leaking out to the stock market. The quality and impact of the audit are unknown at this point, but to the extent that it is credible there may be some advance sell-off.

## FOCUSING ON THE LEVELS

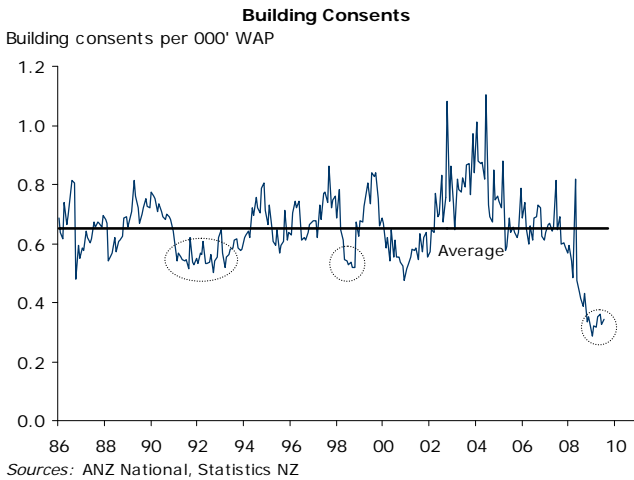
**GDP levels compared. Most are climbing out of deep chasms.**



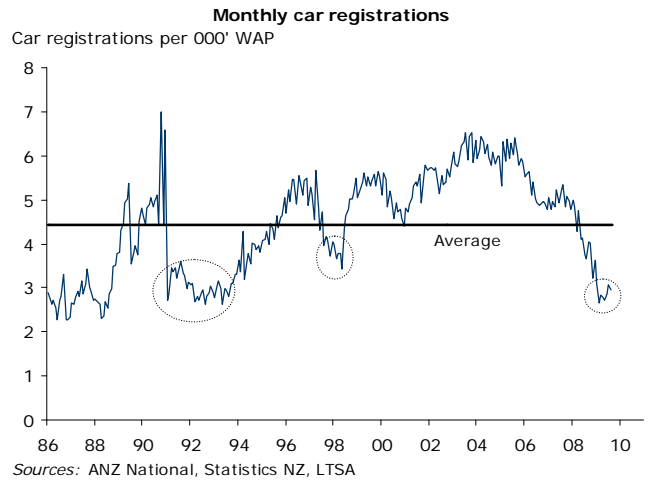
**House sales rebounded off extreme lows – the change. But level still consistent with lows of past downturns.**



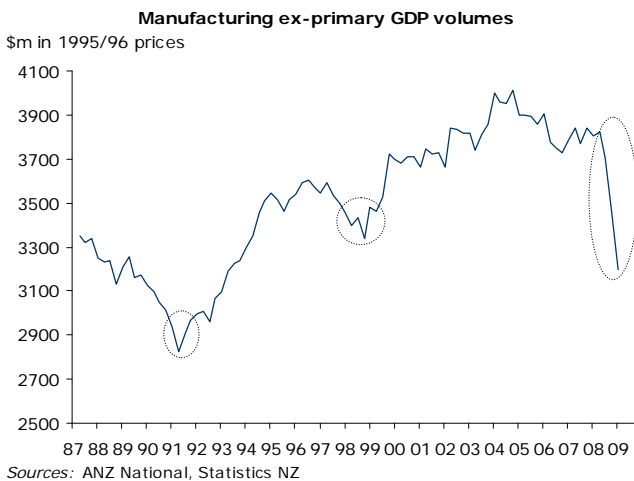
**Building consents fell to the lowest level since the 1960s, and that is even without adjusting for population size. Now rising, but still massively below previous nadirs.**



**Car registrations remain very weak and although it looks to have bottomed, current readings are at levels not seen since the early 1990s.**



**Manufacturers definitely doing it tough out there. Another "statistical" rebound pending.**



**Importers also affected, with the biggest capitulation of imports seen in the past few quarters.**



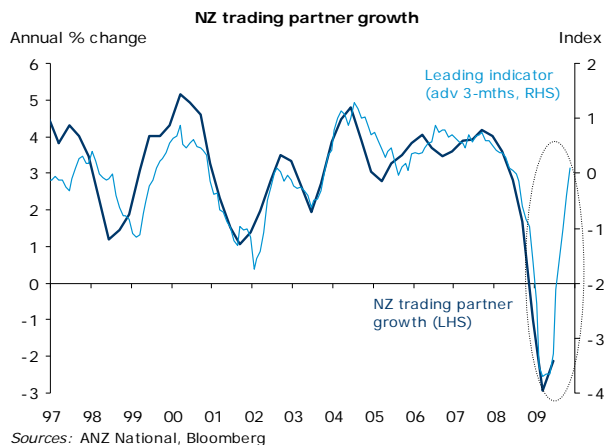
## RBNZ SEPTEMBER MONETARY POLICY STATEMENT PREVIEW

(due 9.00am Thursday 10 September)

Given signs of stabilisation and improvement in the global and domestic economy, we expect the RBNZ to shift towards a more neutral stance, but with very cautious tones. We still expect the RBNZ to remain committed to keeping rates low for some time, and we would not be surprised to see them refer to regulatory measures to strengthen this message. Though the economic projections will be revised slightly higher, as the Governor noted last week, there is a "hell of a long way to go".

Most of the news received over the past six weeks has been positive.

- > **Credit markets continue to improve**, as reflected in narrowing spreads in the major economies, and also in NZ's 90-day to 3-month OIS spread. The TED spread in the US is back below pre-crisis historical averages. The NZ banking system has ready access to global funds at a cheaper rate than six weeks ago.
- > **The global scene is stabilising and on the cusp of regaining forward momentum.** Q2 GDP growth outturns mostly surprised on the upside. Leading indicators point to a V-shaped rebound for NZ's major trading partners and from a shallower trough than the RBNZ was expecting at the time of their June projections.



- > **Locally, housing activity is strengthening.** House prices are rising again, sales are picking up and it takes much less time to sell. Building consents look to be in the process of recovering off historical lows as well.
- > **Business confidence has rebounded strongly, suggesting the economy is in recovery mode.** The latest National Bank Business Outlook survey saw strong lifts in both headline confidence and the own activity reading to above historical average levels.

- > **Dairy prices have recorded a strong lift.** The RBNZ said at its July Review that "New Zealand has not benefited to any significant extent from the rebound that has occurred recently in global hard commodity prices." The 56 percent increase in wholemilk powder prices achieved in the last two Fonterra online auctions mean this concern is allayed for now. Such a sharp rise is unusual, and we are coy in reading this as the start of a new trend. But it does diminish the downside risk to this season's dairy payout and more importantly the risk of an unsavoury asset bubble correction across the rural sector. Considerable weakness across land values remains but the key is that the unwind is now more likely to be orderly.

**While obviously welcome, as the Governor noted last week, there is a "hell of a long way to go".** On the face of it, the rapid improvement we have seen across credit markets and the stabilisation in real economies argue for the removal of the extraordinary measures that have been put in place around the globe. Rather, the demeanour across central banks remains somewhat circumspect and they appear in no hurry on that front. Even the RBA made it quite clear that their emergency rate setting is no longer appropriate, but remains non committal to when they will start to remove some of their accommodative stimulus. **Clearly, there is still a lot of uncertainty surrounding the outlook, and policymakers are proceeding with caution.**

**Financial conditions add a further complication to the picture.** In the July OCR Review, the RBNZ noted that "The forecast recovery is based on a further easing in financial conditions. If this easing does not occur, the forecast recovery could be put at risk." Since then, longer term mortgage rates have risen to the equivalent of a rate hike and the TWI is around 4 percent higher. Financial conditions have tightened based on the traditional and narrow definition. But when you account for the effect of asset prices, financial conditions have in fact loosened. Of course, there is considerable uncertainty over the outlook for asset prices, and we believe the recent strengthening seen in house prices will not be sustained. Nonetheless, our Financial Conditions Index suggests overall conditions are not overly restrictive at present.

**Collectively, the RBNZ is in a real quandary.** They have been successful at stabilising the economy, as have policymakers around the globe. But there is now a risk that the housing market kicks on. In June, the RBNZ's assessment was that rising unemployment and lower rural incomes would dominate. Both factors still apply, though housing has more migration induced momentum, which is also seeping across the wider economy as

that feel-good factor extends. On the international front, an inventory rebuild is supporting prospects, but until final demand recovers it is hard to become bullish just yet. Asset markets remain volatile, and the cautious tone from central banks warns of the potential for a few more skeletons to come out of various closets. The NZ economy seems to be evolving more in line with the alternative “build-up of imbalances” scenario painted by the RBNZ in their June *MPS* than their central projection. While the RBNZ was silent on the 90-day track under their alternative scenario, it is reasonable to conclude that, in the absence of a regulatory response, the OCR moves higher much earlier compared to their central projection.

**We expect the RBNZ to proceed cautiously.** In the absence of a pending global “event” or ancillary measures to curtail a ‘borrow-and-spend’ style recovery, we struggle to see any case for a rate cut at this juncture, despite obvious frustration with the currency. Improving dairy prices are mitigating downside risks from an unsavoury popping of the dairy price bubble. The flipside to this is whether we could see the scene set for the early removal of stimulus. The idea seems incredible to us. If other central banks are not hurrying to remove extraordinary policy support measures, that is indeed telling us something about the global scene. Accordingly the RBNZ is hardly going to shift rapidly in laying out a case for removing stimulus, despite the strengthening in the local housing market. At the margin, we believe it more likely than not that the RBNZ shifts towards a neutral stance. But we suspect the phrasing will be somewhat non-specific.

**We still see the RBNZ committing to holding the OCR low for an extended period.** We would not be surprised to see them refer to regulatory measures to strengthen this message. This may be key if the RBNZ wants to dampen down the enthusiasm towards hikes and a potential rise in the currency that a shift to neutral may bring. The comments by the Governor last week, when asked about market pricing, were also rather telling. He said *“The market’s always got its own views and often it’s wrong”... “Financial markets either want things to go down or they want things to go up. They just don’t seem to do stability very well, but they’re not necessarily right.”* [emphasis added]. The Governor said the *Monetary Policy Statement* will be *“absolutely clear cut”* in terms of

setting out their path for interest rates. Judging by the comments, it seems very much like the RBNZ’s game-plan has not really changed.

#### In terms of the key economic projections:

- > **We expect the RBNZ’s growth projections to be revised higher.** Consumption growth will be stronger, offset by weaker exports in the near term courtesy of the higher currency. In short, the “quality” recovery that the RBNZ wants to see will be delayed. A key judgement underpinning the RBNZ’s projections will be that recent strength in the housing market does not extend too far, and households continue to rebuild their balance sheet by saving more.
- > **Inflation will be projected to remain comfortably within the target band.** A higher currency and sufficient resource slack in the economy mean inflation pressure will be well contained.
- > **We see the RBNZ presenting a broadly similar 90-day track as in June.** Mechanically, a large negative output gap that takes time to close and well contained inflation allows for monetary policy to remain stimulatory for some time.

**Despite an upward revised outlook, we expect the overall statement to paint a very cautious tone and highlight the still considerable uncertainty surrounding the recovery path.**

Focus will be made of the need for the economy to rebalance away from consumption towards exports, and the consequences of allowing imbalances to fester. In part, the soft tone will be an attempt to prevent the market from continuing to front run an earlier tightening cycle, especially in response to the explicit easing bias being dropped.

#### Financial market implications

The OIS market has only one point of easing priced in for Thursday, though the market continues to run with rate hikes early next year with over 100bps priced in over the next 12 months. We doubt there will be much of a selloff should the easing bias be dropped, but any rally on a more dovish tone should be limited and run into paying interest. We can also expect some comments aimed at the currency, but doubt this will have much of an impact.

**Our expectation of RBNZ Projections for September *MPS* (June 2009 *MPS* Projections in brackets)**

Half year average	90-day	TWI	March years	CPI (ann % chg)	GDP (ann ave % chg)
H2 2009	2.8 (2.8)	61.5 (57.1)	2009 (a)	3.0	-1.0
H1 2010	2.8 (2.8)	59.2 (54.7)	2010	1.4 (1.2)	-1.0 (-1.3)
H2 2010	3.0 (2.9)	56.9 (52.8)	2011	2.0 (2.3)	3.0 (3.2)
H1 2011	3.7 (3.5)	55.5 (51.9)	2012	2.1 (2.2)	3.5 (3.8)
H2 2011	4.0 (3.9)	54.5 (51.9)			

## INTEREST RATE STRATEGY

The RBNZ is the main focus this week, though the NZ rates market will still be reluctant to buy into the "rates on hold until late 2010" message, capping any potential rally on a cautious tone. The NZ market is likely to be heavily influenced by moves in Australia once again, particularly if the dataflow builds a case for the RBA to hike pre-Christmas.

### Market themes...

- > NZ 2-year swap yield failed to take out topside support.
- > Global equities weakness and a rally in global rates dominates.
- > RBA non-committal on timing of rate hike and seems to be in no rush.

### Review and outlook

**The recent ranges in the 2-year swap yield held.** We thought the 4.2 percent topside level would have been tested and broken last week, particularly if the NBNZ business confidence data was strong. While the confidence reading did indeed show a big increase, and the Fonterra auction mid-week achieved a surprisingly strong rise in dairy prices, NZ rates ended up trading towards the bottom of ranges as weak global equities and a rally in global rates dominated. Still, the 4 percent level (2-year) held very firm once again, with participants reluctant to push it below.

**The "on hold until late 2010" message from RBNZ is likely to fall on deaf ears again.** This week's RBNZ statement boils down to two things for the rates market: Will the easing bias be completely removed (or watered down), and will the RBNZ retain its commitment to keep the OCR on hold until the latter part of 2010? Participants are largely square heading into Thursday, and any rally on a dovish statement will again hit a wall of paying interest at the bottom of ranges. However, the market will latch on to any watering down of the RBNZ's commitment to keeping rates on hold, which risks a selloff.

**There is no real conviction on the part of participants at present.** Long positions in the market are lacking, with most being very short term in nature. This could partly be due to the end of bank financial year nearing, causing traders to reduce risk and liquidity to be light. There has been interest in the past week in the AU-NZ spread trade, with a potential for some unwind of this, this week. We have also seen an unwind of the 2s10s curve flattener at around 181-187bps, and expect flattering pressure to ease given the cost of carry.

**Watch the Australian dataflow.** The NZ data this week is largely second tier and historical. We

expect the Australian dataflow (NAB confidence, Westpac consumer confidence, retail sales and employment) to have more influence on the NZ rates market, especially if it builds the case of a rate hike from the RBA pre-Christmas.

### Borrowing strategies we favour at present

Our strategy is unchanged. We still favour floating and this will remain the cheapest part of the curve for some time. For those who want certainty in their borrowing, we continue to suggest the use of options as a way to hedge, rather than locking in swap yields at current levels. Those with long-term in-the-money hedges can consider shortening duration and using the value to convert the swap to a collar over the next 12-24 months.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↔	Easing bias to go, but RBNZ to keep commitment to staying on hold until the latter part of next year.
NZ data	↔	This week's Q2 dataflow to show weakness.
Fed Funds / front end	↔	Fed still cautious over economy, suggesting no rush to remove stimulus.
RBA	↑	RBA not in any hurry, but the case for pre-Christmas hike to build this week?
US 10 year	↔	Broke through 3.5% support but looks set to return towards ranges on issuance concern.
NZ swap curve	↔	Flattening should start to ease given carry cost.
Flow	↔/↑	Payside still to dominate towards bottom of ranges.
Technicals	↔	Ranges to hold, 2-year in 4%-4.2%.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 10-Sep-09	-2	-1
Thu 29-Oct-09	-2	-3
Thu 10-Dec-09	+3	+6
Thu 28-Jan-10	+15	+11
Thu 11-Mar-10	+38	+32
Thu 29-Apr-10	+57	+41
Thu 10-Jun-10	+87	+73

### Trading themes we favour at present

We see the RBNZ reiterating their stance this Thursday in keeping rates on hold until late next year. Hence, we still see value in the March and June bank bills. However, given the recent flattening moves in the 2s10s, we suggest taking profits on the trade.

## CURRENCY STRATEGY

The AUD is still looking bid. At the same time we expect the RBNZ to provide a stark reminder on where it sees the NZD and interest rates going forward. The RBNZ wants both lower relative to current levels. Whether the market accepts this remains the million dollar question. Lacking a global sentiment sea-change towards the USD or turn in risk appetites, the scapegoat should be a lower NZDAUD.

### Market themes...

- > The RBNZ needs to deliver a strong message.
- > The USD is weak and looks like getting weaker.
- > Gold is showing the way and big resistance has been broken in AUD above 0.8460. The NZD looks set to break 0.69 this week.

### Review and outlook...

Another Monday, another test of the well documented barrier at 0.69 for the NZD. The difference this week is it is not the NZD that's leading the charge north, it is the AUD. The AUD's range of 0.8160 to 0.8460 lasted all of August. The 0.84 level must now be seen as a base and 0.88 is our target.

Questions continue to surround the robustness of the global recovery story but there is no doubting the market has a head of steam. Cash continues to be put to work. The various schools of economics: monetarists, Keynesians, Austrians and neo-classicists have all been caught out explaining developments. The new wave is "behavioural" economics. Eventually this "wave" in association with reducing systemic risks will need a regulatory response and close attention needs to be paid to the G20 this week. But for now, the market is fixated with trends, and these are being determined by the improving tone in data.

Asian central banks continue to diversify their reserves and NZD continues to benefit from these flows. Over three-quarters of NZGBs are now held offshore. Given the large issuance over the past four months, it is simple to see where some of the demand for NZDs has come from. Going forward, we expect this demand to continue, especially if the long bonds continue to trade through swap.

The RBA looks set to raise interest rates before the end of the year. Our friends across the Tasman spent as much as anyone stimulating their economy. Their currency fell 35 percent and they never even hit recession. The Q2 GDP number last week is proof that the lucky country is well named.

The USD is the other side of this equation. If you think NZ has increased issuance, the USD has really

got the borrowing bug. The concern to us is that with all these flows into the US as new Treasuries are sold to the globe in USD, why hasn't the USD strengthened? What happens when the inflows are finished and you're just left with the coupon payments? How weak can the USD become?

Technically, the NZD is still targeting 0.6935/50 and we expect this level to be seen before the RBNZ. But concern is now that the consolidation has been so prolonged and the NZD has not experienced a noticeable dip that another leg upwards could unfold. Fundamentally, the kiwi is extended and we are wary of chasing trends. But a catalyst lower remains absent.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Within the range.
Yield	↓	Yield favours Australia. RBA hikes before year-end.
Commodities	↔	Softs playing catch-up.
Partial indicators	↔/↓	Both economies are recovering, but Australia faster.
Technicals	↔	Range trade now.
Sentiment	↔/↑	Earning season sees improved risk appetite.
Other	↔/↓	The RBNZ to reinforce different stance to RBA.
<b>On balance</b>	↔/↓	<b>Respect the ranges but a move lower is pending.</b>

### NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Above long term average.
Fair value – short-term	↔	About cyclical fair value estimates.
Yield	↔/↓	Repeat of low for longer from the RBNZ this week.
Commodities	↔	Dairy price increases lower downside risks for rural economy.
Risk aversion	↔	Risk appetites have improved, but still jittery.
Partial indicators	↔/↓	Stabilisation in NZ, but is US bouncing back faster?
Technicals	↔/↑	Still targeting 0.6935.
AUD	↔	Labour market data this week is critical.
Sentiment	↔/↑	Improved with offshore developments.
Other	↔/↑	US beginning to grow again.
<b>On balance</b>	↔/↑	<b>Higher ranges for now. Commodity prices key.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
7-Sep	AU	AIG Performance of Construction Index (Aug)	-	39.5	11:30
		ANZ Job Advertisements (Aug) – mom	-	-1.7%	13:30
		Foreign Reserves (Aug)	-	53.2B	18:30
	JN	Official Reserve Assets (Aug)	-	\$1022.7B	11:50
	EC	Sentix Investor Confidence (Sep)	-13.7	-17.0	20:30
	GE	Factory Orders (Jul) - mom	2.0%	4.5%	22:00
8-Sep	<b>NZ</b>	<b>Value of Construction Work Put in Place (2Q) - qoq</b>			<b>10:45</b>
	UK	RICS House Price Balance (Aug)	0.0%	-8.1%	11:01
		Industrial Production (Jul) - mom		0.5%	20:30
	JN	Adjusted Current Account Total (Jul)	¥1380.7B	¥1798.8B	11:50
		Trade Balance - BOP Basis (Jul)	¥495.1B	¥602.2B	11:50
		Money Stock M3 (Aug) - yoy	1.9%	1.9%	11:50
		Bank Lending including Trusts (Aug) - yoy	1.9%	2.1%	11:50
		Eco Watchers Survey: Current (Aug)	43.0	42.4	17:00
		Eco Watchers Survey: Outlook (Aug)	-	44.9	17:00
	AU	NAB Business Conditions (Aug)	-	1	13:30
		NAB Business Confidence (Aug)	-	10	13:30
	GE	Trade Balance (Jul)	11.3B	12.2B	18:00
		Current Account (Jul)	10.0B	13.3B	18:00
		Imports (Jul) – mom	1.0%	5.9%	18:00
		Exports (Jul) - mom	1.2%	6.1%	18:00
		Industrial Production (Jul) - mom	0.2%	-0.1%	22:00
9-Sep	US	Consumer Credit (Jul)	-\$4.0B	-\$10.3B	07:00
	<b>NZ</b>	<b>Electronic Card Transactions (Aug) - mom</b>	-	<b>0.8</b>	<b>10:45</b>
	UK	Nationwide Consumer Confidence (Aug)	62	60	11:01
		Total Trade Balance (Jul)	-£2000M	-£2176M	20:30
	AU	Westpac Consumer Confidence (Sep)	-	3.7%	13:00
		Retail Sales (Jul) – mom	0.5%	-1.4%	13:30
		Home Loans (Jul)	-1.0%	1.1%	13:30
		Investment Lending (Jul)	-	-1.8%	13:30
		Value of Loans (Jul)	-	1.0%	13:30
	JN	BoJ Board Member Miyako Suda to Speak in Nagasaki City	-	-	13:30
		Leading Index CI (Jul P)	81.9	79.9	17:00
		Coincident Index CI (Jul P)	89.0	88.0	17:00
		Machine Tool Orders (Aug P) - yoy	-	-72.3%	18:00
	GE	Consumer Price Index (Aug F) - mom	0.2%	0.2%	18:00
10-Sep	US	Fed's Evans to Speak in New York about the Inflation Debate	-	-	-

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
10-Sep cont.	US	Fed's Fisher Speaks in Dallas on U.S. Economic Challenges	-	-	05:55
		Fed's Beige Book	-	-	06:00
	EC	Jose Manuel Gonzalez-Paramo speaks at event in Switzerland	-	-	02:15
		ECB Council Member Liikanen Speaks in Helsinki	-	-	21:00
	<b>NZ</b>	<b>RBNZ Monetary Policy Statement</b>	<b>2.50%</b>	<b>2.50%</b>	<b>09:00</b>
		<b>Terms of Trade Index (2Q) - qoq</b>	<b>-3.2%</b>	<b>-3.0%</b>	<b>10:45</b>
	JN	Machine Orders (Jul) - mom	-3.1%	9.7%	11:50
		Domestic CGPI (Aug) - mom	0.2%	0.4%	11:50
	AU	Consumer Inflation Expectation (Sep)	-	3.5%	13:00
		Employment Change (Aug)	-15.0K	32.2K	13:30
		Full Time Employment Change (Aug)	-	-16	13:30
		Part Time Employment Change (Aug)	-	48.2	13:30
		Unemployment Rate (Aug)	5.9%	5.8%	13:30
	UK	BoE Announces Interest Rates	0.50%	0.50%	23:00
11-Sep	US	Trade Balance (Jul)	-\$27.4B	-\$27.0B	00:30
		Initial Jobless Claims (w/e Sep-06)	560K	570K	00:30
		Continuing Claims (w/e Aug-30)	6200K	6234K	00:30
		Fed's Lockhart Speaks in Florida on Global Interactions	-	-	04:30
	EC	ECB Council Member Nowotny Speaks in Bologna	-	-	03:30
		ECB Publishes Sep. Monthly Report	-	-	20:00
	<b>NZ</b>	<b>Food Prices (Aug) - mom</b>	<b>-</b>	<b>0.6%</b>	<b>10:45</b>
	JN	Gross Domestic Product (2Q F) - qoq	0.9%	0.9%	11:50
		Consumer Confidence (Aug)	40.0	39.7	17:00
	UK	PPI Input (Aug) - mom	1.0%	-1.4%	20:30
		PPI Output (Aug) - mom	0.3%	0.3%	20:30
		PPI Output Core (Aug) - mom	0.2%	0.5%	20:30
12-Sep	US	Import Price Index (Aug) - mom	1.0%	-0.7%	00:30
		Wholesale Inventories (Jul)	-1.0%	-1.7%	02:00
		University of Michigan Confidence (Sep P)	67.5	65.7	02:00
		Monthly Budget Statement (Aug)	-\$159.1B	-\$111.9B	06:00

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

## NEW ZEALAND DATA WATCH

**Key focus over the next four weeks:** The upcoming dataflow is generally expected to take on an improving trend and one that points to an economy closer to exiting recession. Although once again, the difference between the change and level needs to be distinguished. The RBNZ should shift to a slightly more neutral stance this week.

Date	Data/Event	Economic Signal	Comment
Tue 8 Sep (10.45)	Value of Building Work Put in Place	Falling still	Following the surprise flat result in residential construction last quarter, we expect a reasonable fall to occur in June. Non-residential construction should hold up at a reasonable level.
Thu 10 Sep (09.00)	RBNZ <i>Monetary Policy Statement</i>	Step towards neutral	Similar messages are likely to be delivered by the RBNZ. However, an asset price bubble unwind and high currency are problematic. We expect the tone to shift more towards neutral, although remain on the soft side of it. Dissipating downside risks to the global economy (improving credit markets) and an improving housing market call for a more neutral stance. However, we once again need to differentiate between the change and the level of activity.
Thu 10 Sep (10.45)	Overseas Trade Indexes (Jun qtr)	Terms of trade down again	Another large fall in export prices is expected in the quarter, driven by lagged movements in NZD commodity prices. This should contribute to the terms of trade falling by around 3 percent.
circa 11 Sep	REINZ Housing Market data (Aug)	On the path to recovery, but for how long?	The recent trend of improving housing market activity is expected to be maintained. House prices look likely to be supported by the current lack of listings.
Mon 14 Sep (10.45)	Retail Trade Survey (Jul)	Stabilising	Retail spending looks as though it is finding a base. We expect sales to record a modest rise in the month.
Tue 15 Sep (10.45)	Economic Survey of Manufacturing (Jun qtr)	Improving?	Following some large falls in recent quarters, manufacturing activity is expected to record positive growth, albeit off depressed levels.
Mon 21 Sep (10.45)	International Travel and Migration (Aug)	Similar story	Another solid monthly net inflow is expected as the number of New Zealanders leaving remains subdued. However, the big focal point is whether arrivals are able to hold up, particularly given the weak domestic labour market.
Tue 22 Sep (10.45)	Balance of Payments (Jun qtr)	Sharp improvement, but will it be sustained?	A reasonable improvement in the trade balance (courtesy of a capitulation in imports) should see the current account deficit improve to around 7 percent of GDP in the quarter.
Wed 23 Sep (10.45)	GDP (Jun qtr)	The final quarter of recession?	We have pencilled in a -0.6 percent contraction.
Fri 25 Sep (10.45)	Overseas Merchandise Trade (Aug)	Beginning to turn?	With the domestic economy stabilising, import demand is expected to do the same, albeit gradually. We expect the annual trade deficit to start to hover around current levels.
Tue 29 Sep (10.45)	Building Consent Issuance (Aug)	On the mend	Residential building consent issuance looks to have turned the corner and is on the recovery path. However, the opposite looks to be the case for non-residential consent issuance.
Tue 29 Sep (15.00)	Credit Growth (Aug)	Housing better, but others still weak	Housing credit growth is likely to continue to improve, albeit modestly. Business and agricultural lending should remain weak.
Wed 30 Sep (15.00)	NBNZ <i>Business Outlook</i> (Sep)	-	-
<b>On Balance</b>		<b>We have found a base</b>	<b>Signs of stabilisation are expected to continue. But the mix to growth does not give the recovery a sustainable feel.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
GDP (% qoq)	-0.2	-0.5	-1.0	-1.0	<b>-0.6</b>	<b>0.4</b>	<b>0.4</b>	<b>-0.3</b>	<b>0.2</b>	<b>1.2</b>
GDP (% yoy)	1.0	-0.2	-2.1	-2.7	<b>-3.1</b>	<b>-2.2</b>	<b>-0.8</b>	<b>-0.1</b>	<b>0.7</b>	<b>1.5</b>
CPI (% qoq)	1.6	1.5	-0.5	0.3	0.6	<b>0.6</b>	<b>0.5</b>	<b>0.3</b>	<b>0.7</b>	<b>0.7</b>
CPI (% yoy)	4.0	5.1	3.4	3.0	1.9	<b>0.9</b>	<b>1.9</b>	<b>1.9</b>	<b>2.0</b>	<b>2.2</b>
Employment (% qoq)	1.2	0.1	0.8	-1.4	-0.5	<b>-0.6</b>	<b>-0.3</b>	<b>-0.2</b>	<b>0.0</b>	<b>0.2</b>
Employment (% yoy)	0.8	1.0	1.0	0.8	-0.9	<b>-1.6</b>	<b>-2.7</b>	<b>-1.5</b>	<b>-1.1</b>	<b>-0.3</b>
Unemployment Rate (% sa)	3.9	4.3	4.7	5.0	6.0	<b>6.3</b>	<b>6.7</b>	<b>7.2</b>	<b>7.5</b>	<b>7.6</b>
Current Account (% GDP)	-8.4	-8.7	-9.0	-8.5	<b>-6.9</b>	<b>-5.9</b>	<b>-5.2</b>	<b>-5.2</b>	<b>-5.6</b>	<b>-6.0</b>
Terms of Trade (% qoq)	-0.4	-1.0	-1.0	-3.0	<b>-3.3</b>	<b>-1.5</b>	<b>-1.5</b>	<b>-0.9</b>	<b>-0.5</b>	<b>-0.9</b>
Terms of Trade (% yoy)	10.7	5.8	1.8	-5.2	<b>-8.0</b>	<b>-8.5</b>	<b>-8.9</b>	<b>-7.0</b>	<b>-4.4</b>	<b>-3.8</b>

## KEY ECONOMIC INDICATORS

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
Retail Sales (% mom)	0.0	-0.5	-1.2	0.2	-0.1	0.5	0.7	0.1	..	..
Retail Sales (% yoy)	-4.1	-0.9	-3.7	-6.9	-1.9	-1.7	-2.4	-1.1	..	..
Credit Card Billings (% mom)	-0.8	-2.2	1.5	0.9	-2.8	2.3	-0.4	0.2	0.1	..
Credit Card Billings (% yoy)	-0.9	-3.8	-2.3	-1.9	-4.8	-1.6	-2.3	-2.1	-2.0	..
Car Registrations (% mom)	-19.5	12.7	-14.2	-14.8	7.3	-1.7	-2.5	6.1	7.0	-3.5
Car Registrations (% yoy)	-34.4	-23.7	-36.5	-44.6	-32.9	-41.0	-33.3	-29.6	-16.4	-18.3
Building Consents (% mom)	4.5	-5.8	-13.1	12.3	-1.7	11.2	2.9	-9.6	4.9	..
Building Consents (% yoy)	-39.9	-41.4	-51.3	-39.8	-34.2	-56.6	-23.4	-24.1	-16.8	..
REINZ House Price (% yoy)	-4.1	-4.8	-4.4	-2.2	-4.0	-1.4	-2.2	0.0	0.0	..
Household Lending Growth (% mom)	-0.1	0.2	0.2	0.1	0.1	0.2	0.4	0.1	0.3	..
Household Lending Growth (% yoy)	4.8	4.2	3.8	3.1	2.7	2.6	2.5	2.4	2.4	..
Roy Morgan Consumer Confidence	99.0	102.9	103.7	98.8	94.7	101.1	104.9	105.3	107.0	114.1
NBNZ Business Confidence	-43.0	-35.0	..	-41.2	-39.3	-14.5	1.9	5.5	18.7	34.2
NBNZ Own Activity Outlook	-14.1	-21.5	..	-20.1	-21.2	-3.8	3.8	8.3	12.6	26.0
Trade Balance (\$m)	-594	-341	-102	483	438	322	905	-332	-163	..
Trade Balance (\$m annual)	-5234	-5614	-5405	-5165	-4684	-4070	-2995	-3112	-2478	..
ANZ World Commodity Price Index (% mom)	-7.4	-7.4	-4.3	-4.6	1.0	2.6	2.8	0.2	1.0	4.3
ANZ World Commodity Price Index (% yoy)	-18.3	-24.3	-26.5	-30.7	-31.4	-29.4	-28.1	-27.9	-28.5	-22.8
Net Migration (sa)	-210	390	890	1670	1750	2130	2610	1650	2470	..
Net Migration (annual)	3569	3814	4538	6160	7482	9176	11202	12515	14488	..

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

## SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jul-09	Aug-09	7-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
NZD/USD	0.644	0.675	0.688	0.640	0.590	0.590	0.600	0.620	0.640	0.650
NZD/AUD	0.801	0.809	0.809	0.800	0.747	0.720	0.723	0.730	0.744	0.765
NZD/EUR	0.458	0.474	0.481	0.464	0.430	0.424	0.431	0.439	0.451	0.464
NZD/JPY	60.9	64.1	64.0	62.7	58.8	59.4	61.6	64.3	66.6	68.3
NZD/GBP	0.393	0.408	0.420	0.388	0.356	0.354	0.360	0.367	0.376	0.382
NZ\$ TWI	60.6	62.9	63.60	60.9	56.5	56.0	56.9	58.3	60.0	61.4
NZ interest rates	Jul-09	Aug-09	7-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
OCR	2.73	2.73	2.50	2.50	2.50	2.50	3.00	4.00	4.50	5.00
90 day bill	2.79	2.76	2.75	2.80	2.80	2.80	3.60	4.50	5.00	5.50
10 year bond	5.96	6.03	5.64	5.90	6.00	6.00	6.40	6.60	6.70	6.90
International	Jul-09	Aug-09	7-Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.48	0.44	0.31	0.50	0.70	0.80	1.25	1.50	2.00	2.50
AU cash	3.00	3.00	3.00	3.00	3.25	3.50	3.75	4.00	4.00	4.00
AU 3-mth	3.20	3.30	3.42	3.50	3.60	3.80	4.30	4.30	4.30	4.30

## KEY RATES

	4 Aug	31 Aug	1 Sep	2 Sep	3 Sep	4 Sep
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.77	2.78	2.76	2.76	2.75	2.74
NZGB 11/11	3.85	4.05	4.05	4.00	3.98	4.00
NZGB 04/13	4.82	4.91	4.90	4.85	4.83	4.84
NZGB 12/17	5.81	5.67	5.66	5.62	5.62	5.64
NZGB 05/21	6.30	6.07	6.06	6.02	6.02	6.04
2 year swap	3.92	4.18	4.14	4.07	4.05	4.07
5 year swap	5.25	5.43	5.39	5.35	5.33	5.35
RBNZ TWI	61.8	63.3	63.7	62.9	62.7	63.0
NZD/USD	0.6680	0.6823	0.6884	0.6759	0.6762	0.6800
NZD/AUD	0.7917	0.8129	0.8147	0.8131	0.8092	0.8096
NZD/JPY	63.67	63.22	64.08	62.77	62.43	63.02
NZD/GBP	0.3941	0.4204	0.4223	0.4178	0.4156	0.4162
NZD/EUR	0.4642	0.4779	0.4796	0.4753	0.4735	0.4771
AUD/USD	0.8438	0.8393	0.8450	0.8313	0.8356	0.8399
EUR/USD	1.4389	1.4278	1.4355	1.4220	1.4280	1.4254
USD/JPY	95.31	92.66	93.09	92.87	92.33	92.67
GBP/USD	1.6951	1.6231	1.6301	1.6179	1.6271	1.6337
Oil	71.59	69.97	69.97	68.11	68.03	67.90
Gold	954.25	951.00	953.45	954.30	975.80	991.20
Electricity (Haywards)	2.46	5.39	1.08	4.70	3.71	6.73
Milk futures (US\$/contract)	92	98	98	98	98	98
Baltic Dry Freight Index	3159	n/a	2423	2413	2414	2415

## NEW ZEALAND DISCLOSURE INFORMATION

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

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

### *Qualifications, experience and professional standing*

#### **Experience**

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

#### **Relevant professional body**

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

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

#### **Professional indemnity insurance**

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

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

The insurer is ANZcover Insurance Pty Limited.

#### **Dispute resolution facilities**

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

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

#### *Criminal convictions*

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

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

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

#### *Fees*

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

#### *Other interests and relationships*

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

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

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

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

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

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

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

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

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

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

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

#### **Record Keeping**

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

#### **Auditing**

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

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

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

#### **NEW ZEALAND DISCLAIMER**

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

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

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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail [ecnmcs@anz.com](mailto:ecnmcs@anz.com)

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