

NEW ZEALAND ECONOMICS MARKET FOCUS

20 June 2011

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DECISION TIME

ECONOMIC OVERVIEW

On the face of it last week's large aftershocks in Christchurch and market volatility overseas could dampen New Zealand's recovery prospects. While we respect the challenges they pose, we're wary of making knee-jerk assessments. Until various uncertainties and risks start manifesting in reality and outcomes, we'll go with what we know. The income generating part of the economy is in a very good space right now. The tone of data is improving and domestic barometers have good potential to rebound off lows. Last week's seismic events might prompt more decisiveness in regard to the rebuild.

SOVEREIGN RISK UPDATE

Our updated sovereign risk rankings shows a widening in the divergence between the best and worst borrowers, and some juggling of overall rankings. Broadly speaking, the "usual suspects" appear where you'd expect them, with the "problem end" remaining Europe-centric. While nations such as the US and the UK score badly on the negative attributes, flexibility continues to buy them some time. However, both countries have fallen a number of places since our last update. Our analysis also shows that New Zealand continues to compare well with other sovereigns.

DATA PREVIEW

Courtesy of a large reinsurance inflow, we are expecting a quarterly surplus of \$5.1b, which will deliver the first annual current surplus since the early 1970s. Excluding one-offs, the underlying current account deficit should remain around 5 percent of GDP. While market friendly in appearance, this short-term fillip masks an underlying structural issue. We're expecting the current account deficit to widen going forward, but for there to be enough structural changes across the economy (including household behaviour) to stop it blowing out massively.

INTEREST RATE STRATEGY

Last week's aftershocks in Christchurch were as strong as the February quake, and quickly drew attention away from the prior week's upbeat RBNZ MPS. More bad news followed, with weaker data in the US and an intensification of the sovereign debt crisis in Europe. These are all key risk events, but they should be viewed as risks, as opposed to the main focus. Globally, it also looks like NZ is being viewed as a carry-supported safe-haven as European sovereign credit concerns intensify.

CURRENCY STRATEGY

How the Greece situation plays out this week will determine the NZD's fortunes. Expect the currency markets to be headline driven, with fundamentals pushed to one side for now. The FOMC decision on Thursday will also be influential, with markets likely to be disappointed when the Fed douses hopes for QE3. This week will also see NZ record an annual current account surplus for the first time in 30 years, on the back of reinsurance flows, though this will have already been priced in. On balance, we are looking for the NZD to trade with a slight downside bias as soft commodity prices are looking weak.

ECONOMIC OVERVIEW

SUMMARY

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THIS WEEK'S EVENTS

SNZ International Travel and Migration – May (Tuesday, June 21, 10:45am). Net immigration of roughly zero persons is expected. We expect a 2 percent fall in overseas visitor arrival numbers.

SNZ Balance of Payments – 2011Q1 (Wednesday, June 22, 10:45am). A \$6bn reinsurance flow will produce a \$5.1bn surplus, with the first annual surplus (0.3 percent of GDP) since the early 1970s. See our preview on page 8.

RBNZ Credit Card Billings – May (Wednesday, June 22, 3:00pm). The value of billings is forecast to fall 0.5 percent.

WHAT'S THE VIEW?

Economic challenges continue to mount.

- **More major aftershocks in Christchurch were not what anybody needed but, last week's magnitude 5.5 and 6.3 quakes were what we got.** Alarmists have suggested this will scupper plans to rebuild Christchurch. At the very least the belief is that the greater uncertainty will push back the reconstruction work and pending economic recovery, which will keep the RBNZ on the sidelines for longer. The aftershocks have been confirmed as a new event by EQC and will involve more leveraging off the Government's balance sheet.
- **Market ructions were also evident overseas,** with concerns over an intensification of the euro debt crisis and a slowing in US manufacturing gauges the major catalysts. Both are triggering

fears of a global slowdown, although we remain alert to the possibility manufacturing sentiment could recover as the temporary disruption from Japanese seismic events fade.

At a time like this, calm heads are called for.

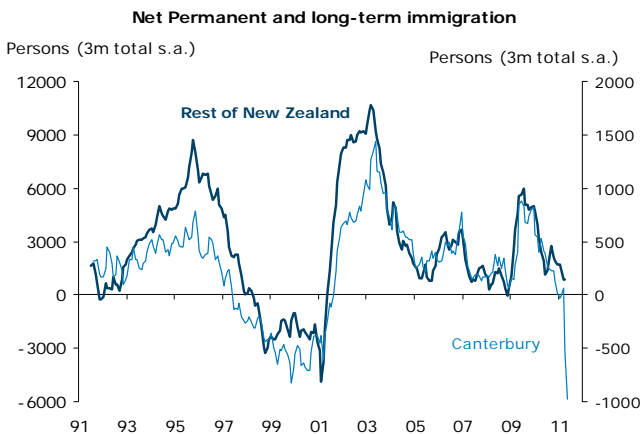
While it's tempting to make sweeping assessments and changes to our view, the reality is that there has been little aggregate information to base it on. **At present:**

- We know the tenor of **local data is generally coming in better than expected**, so we have a better opening base. We attended last week's Fieldays, and farmers had more of a spring in their step, which portends the terms of trade windfall starting to diffuse into the general economy.
- **The European situation is bad.** We always thought it would be, so this is not new news to us. Page 6 updates our sovereign risk analysis and shows the problem end of the scale has a European flavour to it. The wider issue is who holds the other side of the credit default swaps written and this extends the problem beyond European borders. The primary consequence here is even more fickle credit markets (with wider CDS spreads for domestic banks) but of course it's also helped knock the top off the NZD/USD, which is long overdue and helps the nation out.
- **We're becoming more concerned over prospects for the US** but are not yet throwing in the towel on the hope that the current malaise is temporary and heavily supply-chain and weather induced. A stronger CPI read and slower growth suggests the presence of Slugflation (sluggish growth with a bit of inflation), which is a poor combination. July indicators are going to be key.
- **It's too early to assess the economic consequences of recent seismic events.** On the face of it we're back to square one, which means pushing the recovery back by a further 3-6 months. However:
 1. Rebuilding (as distinct from demolition and putting in place temporary facilities) was never going to take place in 2011 anyway.
 2. We believe policymakers now have more of a mandate to take decisive action, and in fact it's imperative they do. Of course the ground needs to stop shaking so violently before the rebuild can get seriously underway. But a major risk to the speed of the recovery was the inevitable delays in getting the necessary policy traction to move forward. This is where a shock can act as a

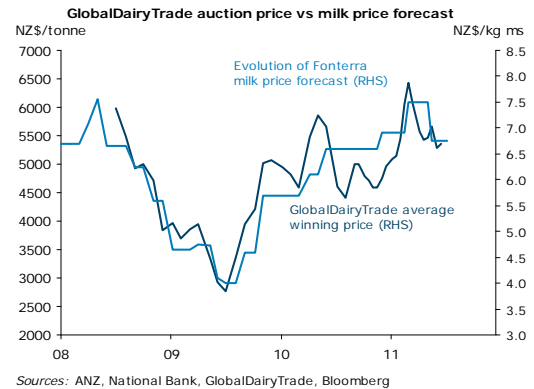
ECONOMIC OVERVIEW

bureaucracy buster. Decisiveness is not without risk, but it seems a less unpalatable option than doing nothing. In the case of the CBD, the more red-stickered buildings there are, the easier it is to start demolishing the area, which is a precursor to the rebuild effort. More liquefaction in the eastern suburbs ups the ante on alternative residential subdivisions being opened up earlier, for it seems folly to leave people stranded in no-mans land.

- The situation is complicated by the emotional and psychological aspects. Migration flows are potentially a critical consequence here. A key issue for economic activity and inflation will be where people go to if they do decide to leave. Viewing net external immigration flows into Christchurch (see the following chart) confirms an exodus of around 1,000 persons since the February quake. We expect this pattern to continue (and even intensify) over the next few months which will be a major drag on growth. Of course we know much larger numbers have shifted to other regions, which will have quite different implications. If this internal migration is more permanent, the need for more housing and infrastructure in other parts of the country could put pressure on resources. Not all can play this card financially, but the deeper the psychological aspects run, the more people will opt for it. This is an area of which policymakers also need to be mindful. Greater uncertainty will do little to prevent an exodus out of New Zealand.



Sources: ANZ, National Bank, Statistics NZ

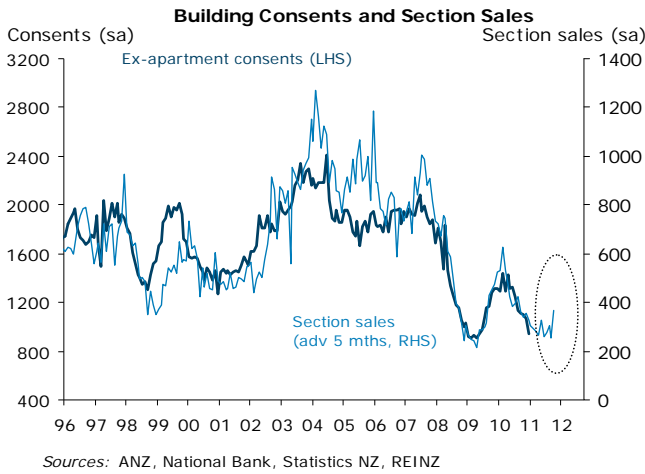


Until various uncertainties and risks start to translate into action and outcomes we'll go with what we know and that is that the income generating part of the economy is in a very good space right now, the tone of data is improving, and domestic barometers have good potential to recoil off lows. **Prospects for the income generating part of the New Zealand economy remain very good.** USD dairy prices dipped 2.6 percent in the latest *globalDairyTrade* auction, but prices remain at least 70 percent above historical averages for a range of dairy products. Whole milk powder prices firmed 2.6 percent and by around 4 percent in NZD terms.

The key issue going forward is whether this resilience will persist. Of course the psychological aspects to seismic events in Christchurch may be telling. The latter is one reason we hope policymakers bite the bullet and lay out a plan to help the uncertainty risk factor subside. Nonetheless, **positive signs are there – cash-flow issues across the economy remain prominent, but momentum is still positive:**

- There are signs that housing turnover is strengthening, which usually precludes a pick-up in house prices and consumer spending. We're not convinced we'll see prices move far anytime soon but the volume boost is welcome. We're paying close attention to section sales as they lead building consents, and section sales have risen to their highest in nearly a year. It's a key barometer to watch to see if this momentum is sustained over the coming months. **While the recovery is from low levels and characterised by regional differences, the housing market is moving in the right direction.** A similar recovery is underway in the rural property market.

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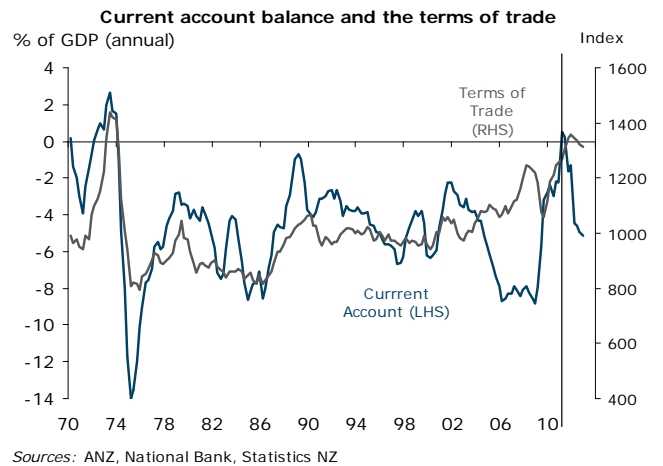
- **Income growth is solid.** We all know about the commodity price story and the rural chequebook looks to be opening. Good growing conditions are the icing on the cake here, though a kind mother nature to the rural heartland is proving challenging for the tourism sector, with the ski season delayed. We're paying close attention to the labour market. Timely indicators such as internet-based job ads are still lifting in June, and job ads were up for May. Interestingly, there were more newspaper jobs advertised in Christchurch in May than in Auckland and Wellington combined! This suggests a large amount of resilience in the Canterbury region, with things moving in the right direction.
- **Consumer sentiment is also picking up,** with improvement in both current and future conditions measures. **Consumers have the means to spend if the inclination is there.**

Of course it's far from one-way traffic and we need to acknowledge the challenges. The commercial property market remains weak. Retailing is the same; despite good volumes in Q1, volumes remain nearly 5 percent below 2007Q1 peaks, and are nearly 10 percent lower on a per-capita basis.

Looking at the week ahead, with the GDP release delayed until early July, the March quarter current account will take centre stage this week.

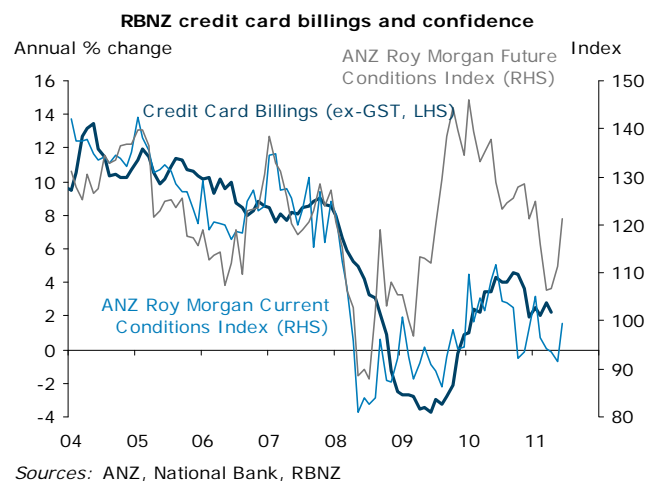
Reinsurance inflows and other one-offs are expected to deliver the first annual current account surplus since the mid 1970s. This will be fleeting and we are more focused on the trajectory of the deficit. While we expect the deficit to deteriorate to just over 5 percent of GDP by the end of next year, a return to 7 percent plus deficits is unlikely. We acknowledge the likelihood that earthquake reconstruction will see a substantial reallocation of resources away from income generation, but believe

low domestic interest rates, household spending restraint and the higher terms of trade will provide buffers. If anything, the debt-fuelled expansion of the 2003/07 period stands out as the unusual period.



May migration data is expected to show no new net inflows. Given recent seismic events, we expect a string of net migration outflows over the next few months. We are also expecting a 2 percent fall in overseas visitor arrival numbers, with the slump in March quarter accommodation retail and low overseas visitor guest nights confirming a difficult first half of the year for the tourism/hospitality sector. The Rugby World Cup can't come soon enough.

Credit Card billings for May are expected to follow the May electronic card transactions data and show a seasonally adjusted fall of around 0.5 percent. We will be closely watching how billings on overseas cards have fared to gauge how services exports are holding up.



Today's manufacturing and wholesale trade data illustrated the resilience of these sectors, with continuing signs of recovery off a low base. We

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had thought that the February 22 earthquake would have weighed on manufacturing activity, but it does not appear to have been the case, going by the strength in ex-dairy and meat manufacturing volumes, which rose by 2.5 percent in the quarter. Primary sector volumes held their own and the late flourish to this season suggest a healthy Q2 bounce is in store. Wholesale trade volumes appear to have treaded water in Q1, supported by higher retail activity. As a result we have scaled up our pick for Q1 GDP to a 0.2 percent increase, which is consistent with the spirit of the June MPS projections. A key uncertainty is whether Statistics New Zealand will make any adjustments to services sector activity to account for seismic disruptions that have been missed by their surveys. The RBNZ will be pondering the same question.

A further uncertainty is the outlook for manufacturing sector activity, with overseas sentiment gauges having weakened in recent months. Manufacturing sentiment continues to recover from the March post-quake nadir, and is heading in the opposite direction to overseas gauges. Sometimes its nice to be the odd one out.

RECENT LOCAL DATA

SNZ Economic Survey of Manufacturing – 2011Q1 Ex-primary manufacturing volumes rose a seasonally adjusted 2.5 percent. Meat and dairy manufacturing volumes rose 1 percent.

SNZ Wholesale Trade Survey – 2011Q1. Wholesale Trade Sales rose 2.8 percent q/q with wholesale stocks rising 0.2 percent q/q.

REINZ Housing Market Report – May. Residential sales volumes rose 10.2 percent s.a. (+10.8 percent y/y). The REINZ house price index fell a seasonally adjusted 1.3 percent (+0.7 percent y/y), with the median days to sell remaining broadly unchanged on 44 days.

SNZ Food Price Index – May. Food prices rose 0.5 percent to be 7.4 percent higher than a year ago.

SNZ Retail Trade Survey – 2011Q1. Retail volumes rose a seasonally adjusted 0.9 percent, with core volumes up 0.7 percent. Retail sales values rose a seasonally adjusted 2 percent in the March quarter, with retail spending rising 2.6 percent outside of Canterbury.

ANZ Roy Morgan Consumer Confidence – June. Headline consumer confidence rose 9 points to 112.5. Future conditions rose 10 points to 121.2, with current conditions up 8 points to 99.6.

Westpac Consumer Confidence – 2011Q2.

Headline confidence rose 14 points to 112. The current conditions measure rose 8 points (to 103.9), with future conditions up 18 points (to 117.4).

BNZ/Business NZ Manufacturing PMI – May. The manufacturing PMI rose to 54.7, with four of the five components rising and above 50. Finished stocks fell to 49.3 from 55.

SOVEREIGN DEBT CRISIS – AN UPDATE

SUMMARY

In this article we update our sovereign risk rankings, which use both negative (i.e. debt) and positive (i.e. flexibility) metrics. It shows a widening in the divergence between the best and worst borrowers, and some juggling of overall rankings. Broadly speaking, the “usual suspects” appear where you’d expect them, with the “problem end” remaining Europe-centric. While nations such as the US and the UK score badly on the negative attributes, flexibility continues to buy them some time. However, both countries have fallen a number of places since our last update. Our analysis also shows that New Zealand continues to compare well with other sovereigns, despite the fiscal blowout caused by the Christchurch earthquakes.

Markets remain nervous about sovereign debt, particularly in Europe, where the situation in Greece appears to be close to breaking point. Markets are certainly starting to flex their muscles, with 5-year CDS spreads and government bond yields blowing out for Greece, Portugal, and Ireland in particular. Ironically, these events have also contributed to a sharp fall in yields for better (or perceived better) quality borrowers, driving an even larger wedge between the core and the periphery.

UPDATING OUR ANALYSIS

We derive a proxy for sovereign risk by looking at a mixture of negative (i.e. debt metrics) and favourable characteristics (i.e. economic flexibility) by country. We believe it important to consider both aspects. We collected comparable statistics across 38 countries, from the same source where possible. Datasets are then categorised as “unfavourable” or “favourable”. The unfavourable datasets we examine include the level of government debt, the budget deficit, external debt, the current account balance and the unemployment rate – things that markets worry about.

Favourable datasets include metrics like GDP per capita, population, a qualitative measure of economic freedom, and exchange rate regime – aspects that afford nations a degree of flexibility, acting as an offset to unfavourable characteristics. Once characterised, each dataset is then standardised and weighted. Scores have an intuitive meaning and are peer-adjusted, in that they are percentiles. Negative unfavourable scores are added to positive favourable scores to arrive at an overall vulnerability score, with the most vulnerable countries having the lowest (generally negative) overall scores. While no indicator can possibly capture all dynamics and

nuances, using a consistent cross-country approach nonetheless provides a useful reference point.

The table below summarises the results. Nations are ranked according to their overall score, which is the net of the unfavourable and favourable numbers. The ranking is best to poorest. Because the methodology is the same as the one we have used in earlier analysis, there is consistency in the scoring system as well as the rankings we use.

Overall Rank	Country	Overall Score	Change in Rank	S&P Credit Rating
1	Norway	41.5%	Same	AAA
2	Switzerland	24.7%	Same	AAA
3	Australia	18.5%	Same	AAA
4	Singapore	17.2%	Improved 1	AAA
5	Denmark	13.6%	Worsened 1	AAA
6	Sweden	10.8%	Improved 2	AAA
7	Taiwan	8.7%	Worsened 1	AA-
8	Luxembourg	7.4%	Improved 2	AAA
9	Canada	5.5%	Worsened 2	AAA
10	NZ	2.5%	Worsened 1	AA+
11	Hong Kong	0.7%	Improved 2	AAA
12	Japan	-1.8%	Worsened 1	AA-
13	China	-2.1%	Improved 2	AA-
14	Korea	-2.4%	Improved 4	A
15	Czech Rep	-2.5%	Worsened 1	A
16	USA	-4.3%	Worsened 4	AAA
17	Finland	-5.0%	Worsened 1	AAA
18	Germany	-7.5%	Worsened 1	AAA
19	Austria	-9.9%	Same	AAA
20	Netherlands	-11.5%	Improved 2	AAA
21	Poland	-13.2%	Same	A-
22	Malaysia	-14.0%	Worsened 2	A-
23	Iceland	-14.5%	Improved 4	BBB-
24	Thailand	-15.0%	Worsened 1	BBB+
25	Hungary	-15.5%	Improved 3	BBB-
26	UK	-16.7%	Worsened 2	AAA
27	India	-19.3%	Worsened 2	BBB-
28	Philippines	-20.6%	Worsened 2	BB
29	Vietnam	-21.0%	Improved 2	BB-
30	Indonesia	-23.3%	Worsened 1	BB+
31	Italy	-25.4%	Worsened 1	A+
32	Belgium	-25.8%	Same	AA+
33	France	-29.3%	Improved 1	AAA
34	Slovakia	-30.9%	Worsened 1	A+
35	Ireland	-32.9%	Same	BBB+
36	Spain	-38.6%	Same	AA
37	Portugal	-41.9%	Same	BBB-
38	Greece	-55.8%	Same	CCC

A couple of clear trends are notable.

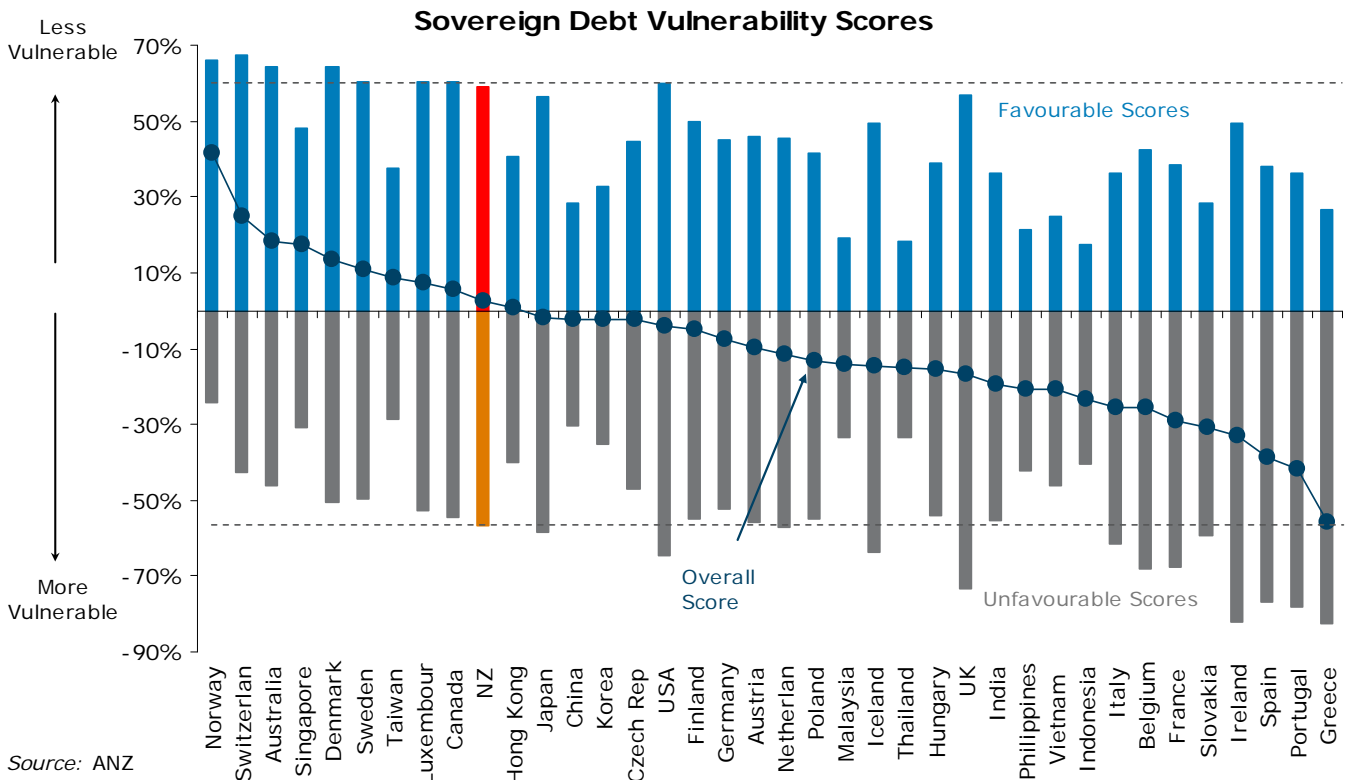
- Ireland and Mediterranean Europe continue to dominate the lower rungs of our table. By contrast, Scandinavia, Australia and Switzerland sit at the top of the table.

SOVEREIGN DEBT CRISIS – AN UPDATE

- There are some major European nations that perform poorly but have high credit ratings and are not currently on the radar screens of markets. This includes Belgium and France.
- The spread between the best and worst scores has widened. This is not shown in the table, but we note that while Norway's score improved slightly, Greece's score fell substantially. The fact is that 31 of the 38 scores show an overall lack of progress. This in part illustrates that the balance sheet shuffling process (i.e. shifting debt from the private sector to the public sector) that was a part of the global recovery package has not changed the necessary structural (i.e. deleveraging) dynamic that is a precursor to a "normal" cyclical recovery.
- The US and UK both slipped in the rankings, by 4 and 2 places respectively. The US experienced the largest rank decline, courtesy of an appalling 2011 Budget deficit and massive current account deficit. Both the US and UK continue to rank poorly on the unfavourable scores (as the chart below shows), but this is offset by comparatively better favourable characteristics. As an example, only 4 countries have a worse unfavourable score than the UK. But it has a lot going for it too – its

population, size, floating exchange rate, and stability. This does not eliminate the hard core issues, but it does offer increased flexibility. The same applies to the US.

- Although New Zealand slipped one place in the rankings, and did score lower, it remains in the top 10. While NZ ranks somewhat poorly on the unfavourable scores, only 8 countries score better on favourable scores. In that regard, our overall situation is similar to that facing the United States, but for different reasons. The US has a government debt and unemployment problem; New Zealand has a short-term fiscal problem and high external debt.
- Norway is the standout performer. It has the second best favourable score and the lowest unfavourable score (by some margin). A bit more oil would be handy.
- There is a loose correlation between our rankings and S&P's credit ratings. But there is a concentration of AAA rated borrowers in the middle of the rankings, and a few (like the UK and France) at the bottom. On the table, New Zealand is in good company, being surrounded by AAA borrowers.



DATA PREVIEW

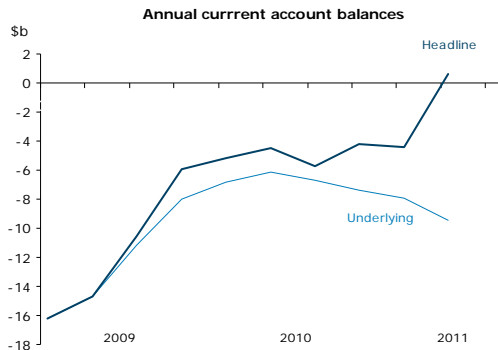
SUMMARY

Courtesy of a large reinsurance inflow, we are expecting a quarterly surplus of \$5.1b, which will deliver the first annual current surplus since the early 1970s. Excluding one-offs, the underlying current account deficit should remain around 5 percent of GDP. While market friendly in appearance, this short-term fillip masks an underlying structural issue. We're expecting the current account deficit to widen going forward, but for there to be enough structural changes across the economy (including household behaviour) to stop it blowing out massively.

Current account – March 2011 quarter
(due Wednesday 22 June, 10.45am)

Current Account	ANZ	RBNZ	Market
Quarter	+5.1b	- -	+4.6b
Annual	+0.6b	- -	+0.6b
% of GDP	+0.3%	+0.2%	+0.3%

We are expecting a quarterly current account surplus of approximately \$5.1b. This will deliver an annual balance of \$0.6b, the first annual surplus since the early 1970s. In seasonally adjusted terms, we expect a March quarter surplus of around \$3.5b.

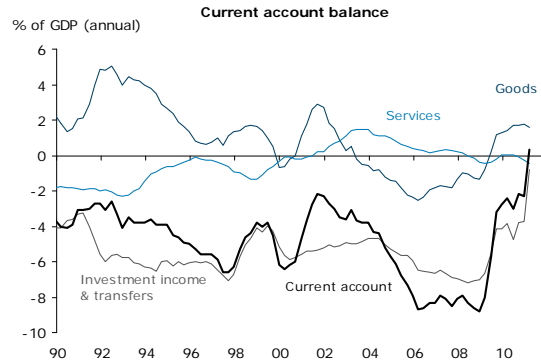


Sources: ANZ, National Bank, Statistics NZ

While the terms of trade are at a 37-year high, favourable one-offs are the major driver. We are assuming \$6b of reinsurance flows associated with the February 22 Christchurch earthquake will contribute to a March quarter transfers surplus of about that magnitude. This, together with the reinsurance inflows from the September 2010 earthquake, is estimated to have boosted the current account surplus by around \$10b over the March year.

The high terms of trade and a seasonal lull in imports will contribute to a quarterly trade surplus of around \$1,200m. Rebounding demand for imports is expected to narrow the trade surplus over the March year. Services exports are expected to register a quarterly surplus of around \$600m in March, but lower inbound tourism spending (due to the high NZD and the impact of the February 22 earthquake on

visitor numbers) is expected to contribute to a widening annual services deficit.



Sources: ANZ, National Bank, Statistics NZ

We expect an investment income deficit of \$2.7b in March, with the annual deficit climbing to \$11b. Investment income debits are expected to climb given the weaker NZD and the increase in overseas equity markets. The recovery in corporate profitability (from a low base) should generate a seasonally adjusted lift in investment income debits.

Looking forward, we expect normal service to resume, with the current account deficit heading towards 5 percent of GDP by the end of next year. Higher subsequent reinsurance flows could slow this journey and affect the starting point, but will not change the broad direction.

This is in the "problematic but not alarming" zone. It's problematic because it'll keep New Zealand's net external debt position elevated. Generally speaking you need deficits below 5 percent of GDP to lower net external debt. While NZ has obvious strong terms of trade support, the realities of rising import penetration (due to rebuilding destroyed capital stock in Christchurch and strengthening business investment) will make it hard to keep the current account deficit down. We assume there is a structural aspect to household behaviour that will temper consumer spending and the current account deficit. To assume otherwise sees the deficit head to 7 percent of GDP.

FINANCIAL MARKET IMPLICATIONS

Considering recent events and the impact of one-offs, the market will pay less attention than usual to historical Q1 data. While the return to a positive annual surplus may provide some temporary support to the NZD, we suspect the market will focus on the medium-term picture. While the return to 5-6 percent deficits is on the cards, we do not expect a return to significantly higher deficits than this. As evidence of this structurally better picture emerges, this is likely to limit downside pressure on the NZD.



INTEREST RATE STRATEGY

SUMMARY

Last week's aftershocks in Christchurch were as strong as the February quake, and quickly drew attention away from the prior week's upbeat RBNZ MPS. More bad news followed, with weaker data in the US and an intensification of the sovereign debt crisis in Europe. These are all key risk events, but they should be viewed as risks, as opposed to the main focus. Globally, it also looks like NZ is being viewed as a carry-supported safe-haven as European sovereign credit concerns intensify.

MARKET THEMES

- Last week's aftershocks were devastating, and have knocked confidence. But things are picking up elsewhere in NZ – let's not lose sight of that.
- The MPS may have been overshadowed, but it's not irrelevant – and nor is its message that interest rates need to move higher.
- Global developments are the biggest risk at this point. Although Greece is grabbing the headlines, US data is more critical.

REVIEW AND OUTLOOK

Much has been said about last Monday's aftershocks, and we have written about it at length on page 2. But what matters most from a market perspective is how it will affect monetary policy. In that regard, **we would urge readers not to lose sight of two things. The first is that activity continues to pick up outside Christchurch.** This is what really matters for monetary policy. **The second is what last week means for Christchurch itself – because if it has forced decisions to be made on marginal areas of the city, that will in fact accelerate activity by removing uncertainty.**

Global events are also weighing on the market. **Greece is grabbing the headlines. But this is very peripheral to NZ,** and if anything, NZ is being favourably singled out for its lack of association with Greece. That said, a Greek meltdown would be bad news for NZ interest rates, as it would see liquidity dry up.

What matters most for the local market is the path of US interest rates. US yields have fallen on soft data – and in that regard the collapse in the Philadelphia Fed survey was not encouraging. **This week's US FOMC meeting will be critical for the near term direction in global yields.** Given the tone of recent "Fedspeak", we won't see QE3, but by the same token, it's unlikely to be upbeat.

Risk events like aftershocks, Greece, and the US all matter – **but don't lose sight of local fundamentals, which are improving rapidly.**

PREFERRED BORROWING STRATEGIES

As we noted in this week's Borrower's Strategy (available on request), only time will tell whether current low swap rates will come to be viewed as an opportunity missed or the beginning of a sustained period of low rates and high uncertainty. Outside of Christchurch, domestic economic considerations certainly suggest that rates need to move higher. However, heightened uncertainty argues for caution. Ironically, we see international risks as more of a cause for concern than local risks. Interest rates are at competitive levels, but there are risks, and global markets are nervous. As such, we prefer to use vanilla caps to add to hedge cover at these levels, with one eye on value, but another on the possibility that the downside move extends further. This does mean paying a premium. However, that premium just got cheaper, thanks to the fact that 2 year to 10 year swaps are about 10-15 basis points lower than they were last week, before last Monday's aftershocks. Option premiums are also low relative to the premium floating rates and fixed rates.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↑/↔	Rates would be higher in the absence of aftershocks and global market concerns.
NZ data	↑	Recent data strong. Aftershocks add to uncertainty.
Fed Funds / front end	↔	Drop in Philly Fed survey a concern. FOMC critical.
RBA	↔	Market has completely priced out rate hikes.
US 10 year	↔	Likely to remain supported until data improves.
NZ swap curve	↔	Fundamentals have been set aside in favour of risks.
Flow	↔	Massive short-covering.
Technicals	↔	It's all about momentum.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Jul-11	+1	0
Thu 15-Sep-11	+3	0
Thu 27-Oct-11	+6	+2
Thu 8-Dec-11	+22	+12
Thu 26-Jan-12	+32	+21
Thu 8-Mar-12	+46	+38
Thu 26-Apr-12	+57	+52

TRADING THEMES WE FAVOUR AT PRESENT

Although our domestic economic view is leaning strongly towards being "short", the reality is that the market is being heavily influenced by uncertainty and global concerns. Carry is also negative on short positions. Short end flatteners like the 1yr-4yr has appeal. It's fairly immune to global moves, will respond to strong local data, and earns 2.2bps/month roll+carry.

CURRENCY STRATEGY

SUMMARY

How the Greece situation plays out this week will determine the NZD's fortunes. Expect the currency markets to be headline driven, with fundamentals pushed to one side for now. The FOMC decision on Thursday will also be influential, with markets likely to be disappointed when the Fed douses hopes for QE3. This week will also see NZ record an annual current account surplus for the first time in 30 years, on the back of reinsurance flows, though this will have already been priced in. On balance, we are looking for the NZD to trade with a slight downside bias as soft commodity prices are looking weak.

MARKET THEMES

- Christchurch aftershocks rattle NZD.
- Markets will be headline driven this week with the Greek bailout the key focus.
- FOMC and Bernanke press conference to confirm end of QE2 and not much chance of QE3.
- Soft commodities continue to sell off, which will act as a drag on NZD.

REVIEW AND OUTLOOK

The start of this week is all about Europe and Greece, and will see currency markets jittery and headline driven. The ease with which the EUR rallied on Friday belies an undercurrent of concern and was more about a short market trimming positions and triple-witching in the US. The headlines merely provided the catalyst. It has become evident that any Greek solution requires a significant level of private sector support, which may be about as successful as herding cats, so do not expect a smooth outcome. **UK banks have significantly reduced short term unsecured lending to Eurozone banks as the term "Lehman-style" event surfaces.**

The FOMC decision this week is the last before QE2 ends, leaving the market with one less reason to sell USD. With the Fed Chairman holding a press conference following the statement, a few more nuances may come out during the Q&A session. In the end, don't expect any change in direction or view from the Fed as they continue to buy time for the economy to continue therapy and healing. QE3 is also a step too far for the Fed, so the market may well be disappointed by this. However, there is a raft of real economic data due out of the US this week including home sales, durable goods and GDP. With the exception of home sales data, expectations are generally positive.

The NZD was one of the worst performing currencies last week, dragged down by the large aftershocks in Christchurch and concerns over Greece. The effects of the aftershock are expected to subside now that it is clear the damage is nowhere close to the initial large estimates put forth. This week will also see NZ record an annual current account surplus for the first time in 30 years, due to reinsurance flows. The market is already expecting this, so we think the NZD reaction will be minimal.

For this week, we expect the NZD to be driven by the external events noted above. With the Greece decision in the hands of EU politicians, the outcome is anyone's guess. On balance though, we think the bias for the NZD will be slightly down, as last week's aftershocks still weigh on offshore investors, and soft commodities look weak.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↓	Yield convergence favouring AUD less.
Commodities	↔	Weak commodities leave NZD and AUD vulnerable.
Partial indicators	↔/↑	NZ consumer confidence on the up.
Technicals	↑	Support at 0.7600.
Sentiment	↔	Risk off.
Other	↓	Aftershock weighing.
On balance	↔	Trending higher 0.7600 - 0.7730.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	NZ Bonds have more fun.
Commodities	↓	Commodities have turned down.
Risk aversion	↔	Equities softer.
Partial indicators	↑	NZ data better, US data worsening.
Technicals	↓	Bearish divergence.
AUD	↔/↓	AUD in correction mode.
Sentiment	↔	Post-float highs encourage sellers.
Other	↔	External factors to drive NZD this week.
On balance	↔	Soft tone this week.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
20-Jun	NZ	Performance Services Index - MAY	- -	52.6	10:30
	NZ	Manufacturing Activity - 1Q	- -	3.10%	10:45
	NZ	Manufacturing Activity Volume SA (QoQ) - 1Q	- -	3.30%	10:45
	UK	Rightmove House Prices (MoM) - JUN	- -	1.30%	11:01
	UK	Rightmove House Prices (YoY) - JUN	- -	0.70%	11:01
	JN	Adjusted Merchnds Trade Bal. - MAY	-¥538.5B	¥496.4B	11:50
	JN	Leading Index CI - APR F	- -	96.4	17:00
	GE	Producer Prices (MoM) - MAY	0.10%	1.00%	18:00
	GE	Producer Prices (YoY) - MAY	6.30%	6.40%	18:00
	EC	ECB Euro-Zone Current Account SA - APR	- -	-4.7B	20:00
	EC	Euro-Zone Labour Costs (YoY) - 1Q	1.90%	1.60%	21:00
21-Jun	NZ	Net Migration SA - MAY	- -	-100	10:45
	AU	Reserve Bank's Board June Minutes -			13:30
	UK	Public Sector Net Borrowing - MAY	16.5B	7.7B	20:30
	GE	Zew Survey (Current Situation) - JUN	90	91.5	21:00
	EC	ZEW Survey (Econ. Sentiment) - JUN	6.1	13.6	21:00
	GE	ZEW Survey (Econ. Sentiment) - JUN	-3	3.1	21:00
	UK	CBI Trends Total Orders - JUN	-5	-2	22:00
	UK	CBI Trends Selling Prices - JUN	26	24	22:00
22-Jun	US	Existing Home Sales MoM - MAY	-5.00%	-0.80%	02:00
	NZ	Current Account Balance - 1Q	3.903B	-3.524B	10:45
	NZ	Account Deficit-GDP Ratio - 1Q	0.40%	-2.30%	10:45
	AU	Westpac Leading Index (MoM) - APR	- -	0.50%	12:30
	NZ	Credit Card Spending SA (MoM) - MAY	- -	1.60%	15:00
	NZ	Credit Card Spending (YoY) - MAY	- -	6.00%	15:00
	UK	Bank of England Minutes - MAY			20:30
	EC	Industrial New Orders NSA (YoY) - APR	14.00%	14.10%	21:00
	EC	Industrial New Orders SA (MoM) - APR	1.00%	-1.80%	21:00
23-Jun	EC	Euro-Zone Consumer Confidence - JUN A	-10.4	-9.8	02:00
	US	House Price Index MoM - APR	-0.30%	-0.30%	02:00
	US	FOMC Rate Decision - JUN	0.25%	0.25%	04:30
	AU	Conference Board Leading Index - APR	- -	0.40%	12:00
	GE	PMI Manufacturing - JUN A	57	57.7	19:30
	GE	PMI Services - JUN A	55.7	56.1	19:30
	EC	PMI Composite - JUN A	55.2	55.8	20:00
	EC	PMI Manufacturing - JUN A	53.8	54.6	20:00
	EC	PMI Services - JUN A	55.3	56	20:00
	UK	CBI Reported Sales - JUN	13	18	22:00
24-Jun	US	Chicago Fed Nat Activity Index - MAY	-0.03	-0.45	00:30
	US	Initial Jobless Claims - JUN 18	412K	- -	00:30
	US	Continuing Claims - JUN 11	3668K	- -	00:30
	US	New Home Sales MoM - MAY	-4.00%	7.30%	02:00
	CH	MNI Business Condition Survey - JUN	- -	61.22	13:35
	GE	IFO - Business Climate - JUN	113.4	114.2	20:00
	GE	IFO - Current Assessment - JUN	120.8	121.4	20:00
	GE	IFO - Expectations - JUN	106.3	107.4	20:00
20-Jun	NZ	Performance Services Index - MAY	- -	52.6	10:30
	NZ	Manufacturing Activity - 1Q	- -	3.10%	10:45

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
	GE	Retail Sales (MoM) - MAY	0.70%	0.60%	UNCONFIRMED
	GE	Retail Sales (YoY) - MAY	- -	3.60%	UNCONFIRMED
25-Jun	US	Durable Goods Orders - MAY	1.60%	-3.60%	00:30
	US	Durables Ex Transportation - MAY	1.00%	-1.50%	00:30
	US	Cap Goods Orders Nondef Ex Air - MAY	1.10%	-2.60%	00:30
	US	Cap Goods Ship Nondef Ex Air - MAY	- -	-1.70%	00:30
	US	GDP QoQ (Annualized) - 1Q T	1.90%	1.80%	00:30
	US	Personal Consumption - 1Q T	2.20%	2.20%	00:30
	US	GDP Price Index - 1Q T	1.90%	1.90%	00:30
	US	Core PCE QoQ - 1Q T	1.40%	1.40%	00:30

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: Another large aftershock in Christchurch and overseas ructions dominated last week, with markets pushing out the timing of RBNZ rate hikes. Retail, housing turnover and consumer sentiment showed a respectable recovery, with good income prospects evident in spending. A return to the first annual current account surplus since the 1970s beckons. Data over the coming months is expected to continue to hold out the promise of improvement, but with continued volatility from seismic events.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 21 June (10:45am)	International Travel and Migration – May	Flat	We expect a net PLT inflow of zero persons in May. Visitor arrival numbers should fall 2 percent, with wide country divergences.
Wed 22 June (10:45am)	Current Account Balance – Q1	As good as it gets	A \$6bn reinsurance flow will produce a \$5.1bn surplus, with the first annual surplus (0.3 percent of GDP) since the early 1970s.
Wed 22 June (3:00pm)	Credit Card Statistics - May	Down	We expect a fall of 0.5 percent, consistent with the May fall reported in electronic card transaction data.
Mon 27 Jun (10:45am)	Overseas Merchandise Trade – May	Commodity price boost	A monthly surplus of around \$1,000m is forecast, with the annual surplus widening towards \$1,500m.
Thur 30 Jun (10:45am)	Building Consents – May	Lifting	We expect a 3 percent increase in residential consent numbers.
Thur 30 June (1:00pm)	National Bank Business Outlook	- -	- -
Thur 30 June	RBNZ Credit Aggregates – May	Low	Low annual rates of credit growth expected, with business credit climbing and agricultural credit easing. Housing credit up 0.2 percent m/m.
Mon 4 July (1:00pm)	ANZ Commodity Price Index – June	- -	- -
Wed 6 July (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US \$3,800 per tonne level.
Thur 7 July (10:45am)	Gross Domestic Product – 2011Q1	Down	We expect a 0.4 percent fall in activity. Weakness will be concentrated in some pockets, including net trade, construction, and services.
Mon 11 July (10:45am)	Electronic Card Transactions - June	Down	A 4 percent fall in fuel prices will contribute to unchanged retail ECT spending. A small increase is expected for core spending.
Wed 13 July (10:45am)	Food Price Index – June	Up	Seasonal rises in meat and fruit and vegetable prices will underpin a 0.7 percent monthly increase.
Thur July (10:00am)	REINZ Housing Market data – June	Inching up	Prices flat, with increasing property listings expected to translate into a 1 to 2 percent increase in sales volumes.
Thur 14 July (10:30am)	Manufacturing PMI – June	Expansion	We expect the headline measure in the low 50's but are conscious of weakness in overseas gauges.
Mon 18 July (10:45am)	Consumers Price Index – 2011Q2	5 percent+	A 0.8 percent increase is expected, taking annual CPI inflation to 5.1 percent. Annual inflation ex one-offs should hit 2.6 percent.
Thur 21 July (10:45am)	International Travel and Migration - June		We expect a net inflow of 100 persons. Visitor arrival numbers will remain at low levels.
Thur 21 July (1:00pm)	ANZ/Roy Morgan Consumer Confidence	- -	- -
Thur 21 July (1:00pm)	RBNZ Credit Statistics – June	Flat	No change in monthly billings expected.
On Balance		On the up	Hard data relating to Q1 mixed. But soft leading gauges will point towards better data in Q2 and beyond.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.2	-0.4	0.8	1.5	1.8	0.7	0.9	0.9	0.8	0.7
GDP (% yoy)	0.8	-0.3	0.4	2.1	3.7	4.9	5.0	4.4	3.3	3.3
CPI (% qoq)	2.3	0.8	0.8	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.1	4.8	3.1	2.9	2.9	2.7	2.6	2.9
Employment (% qoq)	-0.4	1.4	-0.2	0.4	0.5	0.5	0.4	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	1.8	1.2	2.1	1.2	1.8	1.9	1.8	1.7
Unemployment Rate (% sa)	6.7	6.6	6.6	6.3	6.3	6.2	6.2	6.0	6.0	6.0
Current Account (% GDP)	-2.3	0.5	0.2	-1.6	-1.3	-4.5	-4.6	-4.9	-5.1	-5.2
Terms of Trade (% qoq)	0.8	0.9	3.0	3.0	1.0	-0.8	-0.9	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.3	6.8	7.9	7.9	8.0	6.2	2.2	-1.6	-3.2	-3.3

	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Retail ECT (% mom)	-0.5	2.2	0.8	1.0	-0.8	2.4	-0.1	1.4	1.5	-0.8
Retail ECT (% yoy)	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6	10.0	6.8
Credit Card Billings (% mom)	0.7	1.0	0.6	0.0	-1.8	3.6	-0.5	-1.4	1.6	..
Credit Card Billings (% yoy)	2.3	4.2	4.7	3.8	2.0	5.6	5.3	1.6	6.0	..
Car registrations (% mom)	0.0	2.6	-3.9	12.8	-8.3	0.9	-1.7	-0.3	-5.6	3.2
Car registrations (% yoy)	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5	-3.7
Building consents (% mom)	-17.7	0.9	-2.0	8.0	-18.4	9.1	-9.9	2.0	-1.7	..
Building consents (% yoy)	-3.1	-9.4	-17.4	-9.1	-26.5	-14.8	-29.0	-26.3	-32.5	..
REINZ House Price Index (% yoy)	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	..
Household Lending Growth (% mom)	0.1	0.2	0.1	0.0	0.0	0.1	0.1	-0.1	0.2	..
Household Lending Growth (% yoy)	2.3	2.3	2.0	1.8	1.6	1.6	1.5	1.2	1.2	..
ANZ Roy Morgan Consumer Confidence	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4	101.4	103.3
NBNZ Business Confidence	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7	14.2	38.3
NBNZ Own Activity Outlook	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7	29.5	39.7
Trade Balance (\$m)	-430	-455	-220	-177	-218	9	182	578	1113	..
Trade Balance (\$m ann)	871	978	1259	1363	1172	909	763	734	1187	..
ANZ World Commodity Price Index (% mom)	-1.1	2.6	3.0	2.1	1.6	4.3	2.7	4.7	1.6	0.3
ANZ World Commodity Price Index (% yoy)	30.8	25.1	23.1	13.1	12.1	16.3	20.3	23.5	19.8	19.5
Net migration (sa)	860	1000	390	600	720	440	450	-520	-90	..
Net migration (annual)	14507	13914	12610	11519	10451	8689	8249	6554	5508	..

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	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.762	0.810	0.811	0.80	0.77	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.737	0.738	0.765	0.75	0.71	0.72	0.73	0.72	0.72	0.73
NZD/EUR	0.538	0.547	0.568	0.57	0.56	0.56	0.56	0.54	0.53	0.52
NZD/JPY	63.31	65.75	64.91	68.0	66.2	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.475	0.485	0.501	0.50	0.48	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	66.7	68.6	70.1	70.2	67.8	67.1	67.0	65.7	64.9	64.4
INTEREST RATES	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.63	2.68	2.67	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.66	5.44	4.97	5.20	5.60	5.80	6.00	6.10	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00
US 3-mth	0.30	0.27	0.25	0.35	0.35	0.35	0.85	1.60	2.10	2.10
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.93	4.92	4.99	5.30	5.30	5.50	5.60	5.80	6.00	6.00

	17 May	13 Jun	14 Jun	15 Jun	16 Jun	17 Jun
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.65	2.63	2.66	2.67	2.66	2.66
NZGB 04/13	3.17	3.17	3.17	3.18	3.14	3.12
NZGB 04/15	4.10	3.98	3.98	3.98	3.92	3.90
NZGB 03/19	4.99	4.82	4.82	4.84	4.78	4.77
NZGB 05/21	5.19	5.02	5.02	5.05	4.99	4.97
2 year swap	3.30	3.34	3.34	3.36	3.32	3.31
5 year swap	4.42	4.34	4.35	4.36	4.29	4.29
RBNZ TWI	67.8	70.3	70.4	70.1	69.7	69.8
NZD/USD	0.7814	0.8128	0.8184	0.8151	0.8030	0.8029
NZD/AUD	0.7386	0.7714	0.7695	0.7619	0.7606	0.7631
NZD/JPY	63.37	65.45	65.68	65.60	65.00	64.75
NZD/GBP	0.4823	0.5009	0.4987	0.4980	0.4956	0.4984
NZD/EUR	0.5516	0.5669	0.5670	0.5656	0.5661	0.5676
AUD/USD	1.0580	1.0537	1.0636	1.0698	1.0557	1.0522
EUR/USD	1.4167	1.4338	1.4435	1.4412	1.4185	1.4145
USD/JPY	81.10	80.53	80.25	80.48	80.95	80.64
GBP/USD	1.6201	1.6228	1.6412	1.6366	1.6202	1.6109
Oil (US\$/bbl)	96.91	99.30	97.20	99.37	94.83	94.95
Gold (US\$/oz)	1494.15	1530.45	1520.20	1524.00	1526.28	1526.35
Electricity (Haywards)	2.92	2.87	2.10	2.47	6.00	4.79
Baltic Dry Freight Index	1274	1412	1400	1405	1424	1423
Milk futures (USD)	160	161	161	162	162	162

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.
- OnePath (NZ) Limited, as a wholly owned subsidiary of the Bank, is an associated person of the Bank. OnePath and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- Direct Broking Limited (DBL), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. DBL may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;



IMPORTANT NOTICE

- 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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