

## THE BASE EFFECT

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### Page 2: Economic overview

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### Page 5: Economic comment – financial conditions update

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### Page 6: Data preview – March 2009 quarter CPI

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### Page 7: Economic comment – global watch

- > It appeared to be a relatively mixed, albeit quiet, week for data last week. All-in-all however, the data highlight a weak global economy, but one that is not deteriorating as quickly as was the case a few months ago.

### Page 8: Interest rate strategy

- > Ordinarily, we would expect the fact that our forecast of a 50bp cut is more than what's priced in would be reason enough to expect a significant reaction in the broad interest rate market. However, this time we expect the market to take note of the rationale for such a large cut – namely a desire to get long term everyday interest rates (i.e. mortgage rates) down. This has enormous implications for the market.

### Page 9: Currency strategy

- > The VIX index has broken lower and reasonable economic data out of China and the US over the past few weeks has mitigated the very weak local QSBO and Australian employment result. The NZD held support levels and now feels comfortable above the 0.5850 level. Major resistance exists at 0.6030. But the AUD looks northwards after a break above the critical 0.7230 level and could drag the NZD for at least a test of this level in the absence of a turn in equity market sentiment.

### Page 10: Data and event calendar

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## ECONOMIC OVERVIEW

We now expect the RBNZ to cut by 50 basis points at the end of the month and a terminal OCR of 2.25 percent. While last week's *Quarterly Survey of Business Opinion* was grim, it is the elevated currency and rapidly weakening labour market that are also very influential. Friday's CPI is expected to provide little barrier to a larger move.

### What's ahead?

- > **March quarter CPI** (Friday 1045 NZST). The headline CPI is expected to rise by 0.3 percent taking annual inflation to 3.0 percent. Refer to page 6 for our full preview note.

### What's the view?

Developments last week were enough to tip us towards a larger (50 basis point) OCR cut by the RBNZ at the end of the month.

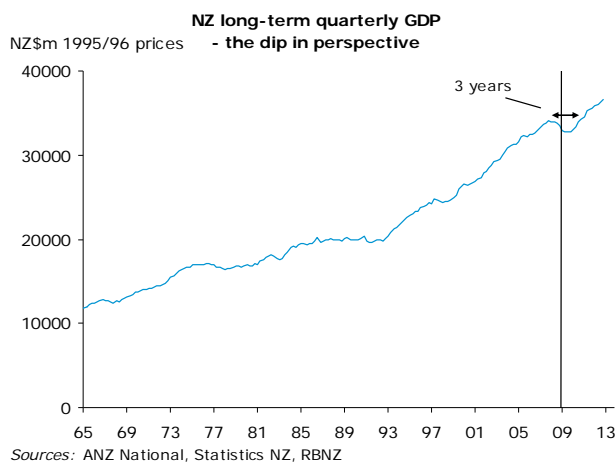
Obviously last week's *Quarterly Survey of Business Opinion* was grim. The economy continues to deteriorate. While tempting to tweak our economic forecasts on the back of it, the reality was that the survey was broadly in line with what we were expecting as opposed to providing new information on that front. Activity gauges not only suggest that the economy again contracted in the March quarter, and potentially bigger than the December quarter's 0.9 percent fall, but the economy is set to head backwards in the June quarter also, and not by a small margin. The weakness is widespread, with most sectors highlighting deteriorating conditions.

If there is a positive spin to put on such an outcome it is that it may well help the recovery in H2 2009. Why? There is a huge base effect to be mindful of when you look at statistics and prepare forecasts, particularly when natural population increase provides a floor to growth. It's easier to bounce off lows when they are deep or weakness lasts for a considerable period of time.

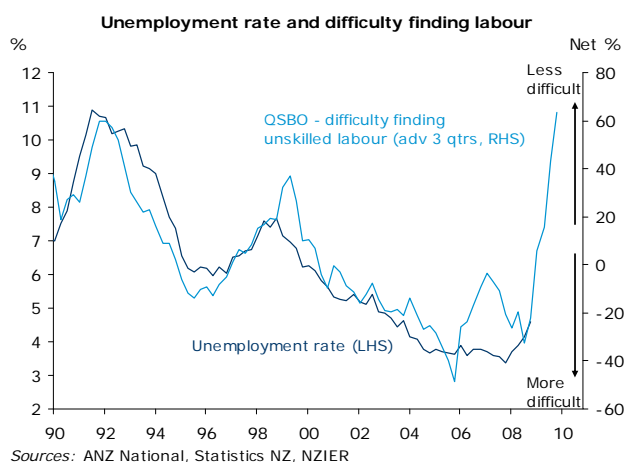
We should also not lose sight of the fact that there are also very clear signs that housing activity is firming. House sales in March rose 6.8 percent and are now up 30.5 percent on a year ago. The median number of days to sell fell to 48 from 55 days. These developments, as well as the pick-up in mortgage approvals, are encouraging. Last week's Electronic Card Transactions data for March portends of some base-finding in retailing.

This tells us that monetary policy is working (and consistent with a 25bp OCR cut), but we view this as more consistent with the bouncing off lows and bungy-cord dynamics, as distinct from a widespread recovery. Another way to think about this is the overall level of GDP or activity. On our current forecasts we don't have the level of GDP

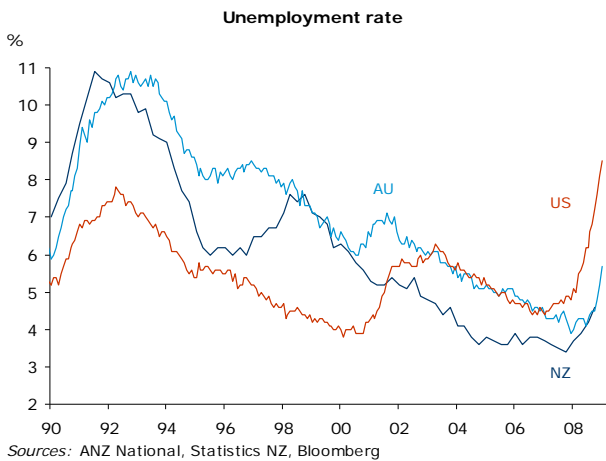
returning to the peak of late 2007 until the end of 2010 (and this is based on the economy etching out positive growth from H2 2009). In per capita terms, the level does not return until 2012.



What is really disconcerting, but not entirely unexpected, is the rapid turns we are seeing in the labour market. Evidence comes from the *QSBO*, widespread anecdotes, and offshore experience. Survey evidence is telling us that more than one in three firms expect to shed staff over the next three months. Firms (those that are still looking anyway) are reporting that finding both skilled and unskilled staff has not been easier in over thirty years.



The US and Australian unemployment rates have risen 1.3 and 1.2 percentage points respectively since December! We strongly suspect the March quarter HLFs (due 7 May) will show a deterioration of a similar magnitude.

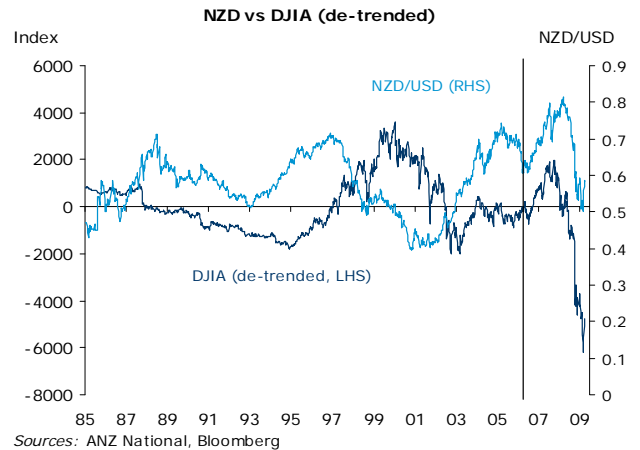


To be fair, both the unemployment rates in Australia and New Zealand are low – and this needs to be acknowledged. We also know that the labour market is a lagging indicator. But we also know that it is households' balance sheets that are in most need of repair and jobs are critical to this process. We continue to ponder the behavioural aspects that are inherent in every economic cycle. Strong job security (along with access to credit and excessive appetites for risk) contributed to the length and strength of the economic cycle on the way up. The risk is the reverse develops on the way down. These non-linear type responses are often why cycles are either stronger or deeper than expected. Indeed the Fed explicitly highlighted in the minutes from their latest meeting, that there is the risk that an adverse feedback loop could develop that will see the weaker labour market further impact on the domestic economy. *"Most participants [of the FOMC] viewed downside risks as predominating in the near term, mainly owing to potential adverse feedback effects as reduced employment and production weighed on consumer spending."*

Of course monetary policy cannot specifically "target" the labour market; and nor should it. But the extent of weakness in this pocket is telling us clearly that any anticipated, or hoped for, recovery (and those pinning their hopes on the housing market) simply will not take hold.

Our downbeat (below consensus) view remains intact. However, we are constantly scratching our heads over how to express it in our financial forecasts. The NZ economy is very weak and highly unbalanced. Our core view remains predicated on the currency being the relative price that must, and eventually will, adjust to assist the economy and the whole rebalancing process. Global gyrations and the recent pop up in the NZD is unwelcome, to put things politely. With fiscal policy constrained by a need to maintain our sovereign credit rating, and deposit rates dictating long-term borrowing rates, the currency is the key shock absorber that must adjust. Hence, our bias towards a far weaker currency.

In so far as the NZD is concerned (including its recent elevation), it is not just equity market gyrations (toss a coin from night to night), risk appetites or waxing and waning sentiment towards the USD that is problematic. Clearly the NZD is following equity market sentiment but the long-term correlation in regard to this is poor. At some stage we are in no doubt the market will shift as it always does, and we are pondering at present what that next catalyst to trigger that shift will be.



Another feature we continue to eye is the AUD (the riding in kanga's pouch effect), with the Australian economy looking better relative to OECD peers and the tallest pygmy dynamic across all the economies in recession. We'll be taking a close look at AUD fair value calculations over the week, for it's difficult to imagine the NZD falling if the AUD is not doing the same. Specifically, what is required for the AUD to have a five handle in front of it from this juncture, which looks a pre-requisite to the NZD having a four handle, and that's nowhere near where it is now.

For now we've simply tweaked our currency forecasts higher (but still with a downward trend) given the higher starting position. But we are more explicit in our expectations towards the RBNZ at the end of the month. The RBNZ has to do more. We thought and hoped they would have got more bang for their buck in their jawboning attempt and statement that rates would remain low for an extended period. Rather, it had a shelf life of 24 hours. If words are not enough, it needs action. We now expect the Bank to cut by 50bps at the end of the month and the OCR to eventually trough at 2.25 percent. Going 50bp is simply a form of additional insurance or risk mitigation to make sure the base effect turns into something more concrete.

The domestic data this week is dominated by the March quarter CPI on Friday. Other developments mean that inflation is nowhere near the focus it once was, although we shouldn't forget that the RBNZ remains an inflation targeter, and so in this regard, it is still an important piece of information. We are expecting the headline CPI to rise by 0.3

percent in the quarter, taking annual inflation to 3.0 percent. This is the first time annual inflation has been within the Bank's target band since June 2007. Given the rapid turn in a number of important medium-term drivers of inflation (capacity, unemployment and inflation expectations), we expect inflation to remain comfortably within the target band for the foreseeable future (refer to page 6 for our full preview note).

Internationally, the week starts relatively quietly in terms of data, as much of the English-speaking world returns from the Easter break. However, it starts to get busier later in the week, with US retail sales and CPI due. CPI data is also expected in Europe. However, rather than economic data, we suspect that the big focus for the next few weeks will be the US earnings reporting season, with a couple of large financials due to announce this week. This earnings announcement season is likely to be the make-or-break for whether the recent strong rally in stock markets can be sustained.

#### Recent local data...

- > **NZIER Quarterly Survey of Business Opinion (March quarter):** Seasonally adjusted business confidence improved from -77 to -58. However, activity gauges deteriorated sharply and to record lows in a number of cases.
- > **Electronic Card Transactions (March):** Headline retail spending rose by 0.3 percent, while core spending rose 0.7 percent.
- > **REINZ House Sales (March):** On a seasonally adjusted basis, house sales rose 6.8 percent and days to sell fell to 48, from 55 days. The median house price rose 1.5 percent to \$335,000.

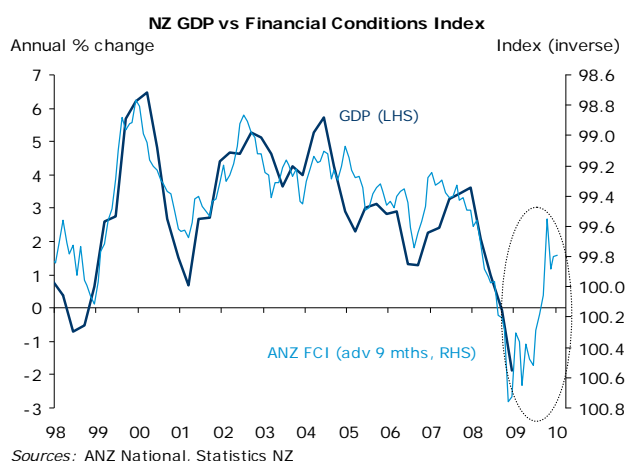
## FINANCIAL CONDITIONS UPDATE

Continued thawing of credit markets and a strong rally in equities over the past month has helped eased financial conditions somewhat. But in the case of NZ though, a selloff in rates and a resurgent NZD has provided an offset. Our financial conditions index is pointing to a recession "lite" for Australia and a potential 2010 recovery for the US.

### "Unwarranted and inconsistent"

Monetary conditions in NZ have tightened in the past month as the NZD has risen and longer-term swap rates have sold off aggressively. The RBNZ's statement expressing concern over these movements has not had much effect so far. While disconcerting, at least the continued improvement in global credit markets and the rally in equity markets have helped to offset the tightening in conditions coming from the currency and interest rates and these forces need to be acknowledged.

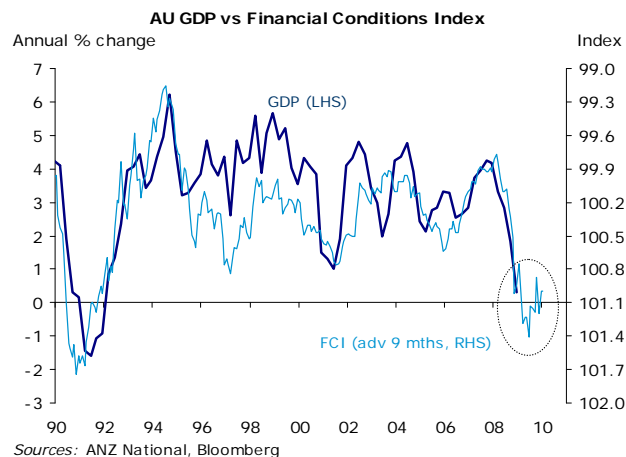
One of the biggest improvements has come via a narrowing in the credit default swap (CDS) spreads for the big four Australian banks – from over 180bps in February towards 150bps currently. And though our Financial Conditions Index (FCI) is still hinting of a late 2009/early 2010 recovery, the magnitude of the recovery looks subdued given the depth of the downturn with deeper dips typically fostering more cyclical upswings, particularly as policymakers swing into action. The -1.9 percent year-on-year growth rate that the NZ economy recorded in Q4 was consistent with what our FCI has been flagging and continues to point to most of 2009 remaining extremely tough.



### "GDP is likely to fall in 2009"

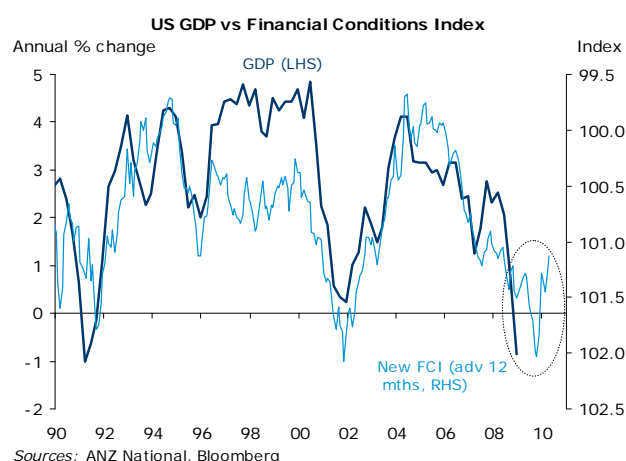
The rise in the AUD has tightened conditions in the Australian economy as well, but like NZ, a narrowing of CDS spread and strong rally in equities have helped to counter this. Yet, our FCI is not pointing to much of a rebound later this year. In fact, at current reading, it is suggesting flat

year-on-year growth rates. In the near-term though, our FCI is not indicating that the Australian economy will contract sharply either – though a second consecutive quarterly contraction looks likely, meaning a technical recession. But such an outcome should very much be considered of the recession "lite" variety.



### "Potential adverse feedback effects"

The US Federal Reserve's decision to use the nuclear option in the form of quantitative easing appears to be working – at least in so far as loosening financial conditions. Our FCI for the US is pointing to a 2010 recovery. However, as we have cautioned previously, we are wary of a potential breakdown in the correlation between financial conditions and growth owing to the troubled financial sector in the US. In addition, with the unemployment rate in the US seemingly headed towards double digits, there is the danger of a potential adverse feedback loop, as the latest FOMC minutes warned.



### The upshot

Financial conditions are easing in a directional sense, which is encouraging. Yet overall conditions remain tight and it's clear that with monetary policy at or near lows, continued loosening will need to come via the credit channel of monetary policy and stabilising asset prices.

## MARCH 2009 QUARTER CPI PREVIEW (due Friday 17 Apr 10.45am)

Annual inflation is expected to return to the target band for the first time since June 2007. A sharply weaker economy and increasing spare capacity will ensure it remains there for the foreseeable future.

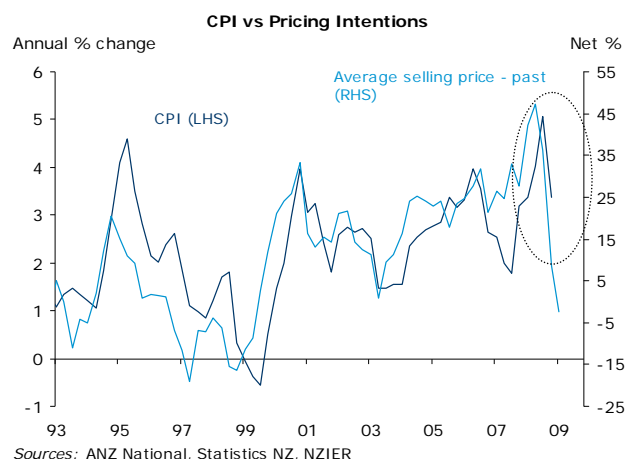
	ANZ	RBNZ	Market
Q1 CPI forecast	<b>0.3% qoq</b> <b>3.0% yoy</b>	0.4% qoq 3.1% yoy	0.3% qoq 3.0% yoy

**Inflation pressure continues to ease.** Following five quarters where annual inflation has been above the top of the RBNZ's target band, it is expected to return to the band in the March quarter. Like the market, we expect the CPI to rise by 0.3 percent in the quarter, taking annual inflation to 3.0 percent. This is not as low as it potentially looked at the end of last year as a result of recent petrol price increases over February and March. However, lower petrol prices (based on quarter averages) are still expected to knock 0.1 percentage points off the headline CPI in the quarter. In addition, seasonal decreases in international airfares and aggressive retail discounting are also expected to weigh on the headline CPI. Offsetting this, will be increases in school and university fees (which typically come into force in the March quarter), energy price rises, and further rises in food prices. Despite recent falls in global commodity prices, the latter is showing a degree of persistence and is expected to make a 0.2 percentage point contribution to the CPI in the quarter.

**There should also be further proof that domestic inflation pressures are waning.** Prices within an economy are typically sticky. There is a reasonable time delay between firms' response to demand and spare capacity developments and their pricing decisions. However, it is now becoming clear that the sharply weaker domestic economy is reducing domestic inflation pressures. Construction prices fell 0.2 percent in the December quarter and we expect them to remain subdued in March as the poor state of the housing market impacts. Services inflation is also expected to show signs that the turn in the labour market is now weighing. Our Monthly CPI gauge to date has been consistent with the Statistics NZ measure of non-tradable inflation as we reported in last week's *Market Focus*. Ignoring seasonal spikes due to lumpy increases – such as when local authority rates or education fee increases come in – our index has also picked a definite easing in domestic inflation pressures. Our inflation gauge is implying a 0.8 percent print for March quarter non-tradable CPI and this is our expectation also.

	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Mar-08	0.4		1.1
Apr-08	0.3		
May-08	0.3		
Jun-08	0.4	1.0	0.9
Jul-08	1.0		
Aug-08	0.2		
Sep-08	0.2	1.4	1.3
Oct-08	0.2		
Nov-08	0.2		
Dec-08	0.2	0.7	0.8
Jan-09	0.4		
Feb-09	0.3		
<b>Mar-09</b>	<b>0.1</b>	<b>0.8</b>	

**The medium-term outlook for inflation remains favourable.** The unemployment rate is set to rise to close to 8 percent. The economy is expected to contract sharply and remain sub-trend until mid-2010. The considerable slack opening up in the economy will cap pricing power. Inflation expectations should continue to fall as headline inflation rates ease. Even businesses that faced significant margin pressure over the past five years and are looking to increase prices will struggle as the reality of weak demand takes hold. Weakness in contestable areas is far outweighing persistence in non-contestable pockets (something we continue to keep an eye on), although the political reality should play a considerable role in behaviour for the latter.



CPI Components	Quarterly % change	%-point contrib.	Annual % change
Food	1.2	0.2	8.8
Alcohol and Tobacco	1.4	0.1	2.9
Clothing and Footwear	-1.1	0.0	0.0
Housing and Household Utilities	0.5	0.1	3.8
Household Contents and Services	-0.9	0.0	0.7
Health	0.7	0.0	3.8
Transport	-1.3	-0.2	-2.4
Communication	-0.2	0.0	-1.2
Recreation and Culture	-0.5	-0.1	1.3
Education	3.6	0.1	3.8
Miscellaneous Goods and Services	1.2	0.1	2.7
<b>All Groups</b>	<b>0.3</b>	<b>0.3</b>	<b>3.0</b>
<b>Tradables</b>	<b>-0.3</b>	<b>-0.1</b>	<b>1.8</b>
<b>Non-tradables</b>	<b>0.8</b>	<b>0.4</b>	<b>3.8</b>

## GLOBAL DATA WATCH

It appeared to be a relatively mixed, albeit quiet, week for data last week. All-in-all however, the data highlight a weak global economy, but one that is not deteriorating as quickly as was the case a few months ago.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
<b>Australia</b>	RBA Cash Rate	3.25%	3.00%	3.25%	Weaker
	Home Loans (Feb)	2.0%	0.4%	4.3%	Weaker
	Employment Change (Mar)	-25.0K	-34.7K	1.1K	Weaker
	Unemployment Rate (Mar)	5.4%	5.7%	5.2%	Weaker
<b>US</b>	Consumer Credit (Feb)	-\$3.0B	-\$7.5B	\$8.1B	Weaker
	Wholesale Inventories (Feb)	-0.7%	-1.5%	-0.9%	Weaker
	Trade Balance (Feb)	-\$36.0B	-\$26.0B	-\$36.2B	Stronger
	Import Price Index (Mar) – mom	0.9%	0.5%	-0.1%	Weaker
	Continuing Jobless Claims (w/e Mar-29)	5810K	5840K	5745K	In-line
<b>Euro-zone</b>	PPI (Feb) – mom	-0.5%	-0.5%	-1.1%	In-line
	Retail Sales (Feb) – mom	-0.4%	-0.6%	0.1%	Weaker
	GDP (4Q F) – qoq	-1.5%	-1.6%	-1.5%	Weaker
<b>UK</b>	Industrial Production (Feb) – mom	-1.5%	-0.9%	-3.0%	Stronger
	Nationwide Consumer Confidence (Mar)	45	41	43	Weaker
	PPI – Input (Mar) – mom	0.9%	1.0%	0.9%	In-line
	PPI – Output (Mar) – mom	0.1%	0.1%	0.0%	In-line
	Total Trade Balance (Feb)	-£3450m	-£3248m	-£3143m	Stronger
	BoE Interest Rate	0.50%	0.50%	0.50%	In-line
<b>Japan</b>	Leading Index CI (Feb P)	75.3	75.2	77.2	In-line
	BoJ Target Rate	0.10%	0.10%	0.10%	In-line
	Eco Watchers Survey: Current (Mar)	20.9	28.4	19.4	Stronger
	Machine Orders (Feb) – mom	-6.9%	1.4%	-3.2%	Stronger
	M3 Money Stock (Mar) – yoy	1.2%	1.3%	1.2%	In-line
<b>Asia Ex-Japan</b>					
<i>China</i>	M2 Money Supply (Mar) - yoy	21.5%	25.5%	20.5%	Stronger
<i>South Korea</i>	M2 Money Supply (Feb) – yoy	-	11.4%	12.0%	-
	Bank of Korea Repo Rate	2.00%	2.00%	2.00%	In-line
<i>Taiwan</i>	Producer Prices (Mar) – yoy	-	3.5%	4.4%	-
	CPI (Mar) – yoy	-0.5%	-0.2%	-1.3%	Stronger
	Total Exports (Mar) – yoy	-35.5%	-35.7%	-28.6%	In-line
	Total Imports (Mar) – yoy	-44.0%	-49.5%	-31.6%	Weaker
<i>Malaysia</i>	Industrial Production (Feb) - yoy	-13.5%	-14.7%	-19.8%	Weaker
<i>Philippines</i>	CPI (Mar) – yoy	6.6%	6.4%	7.3%	Weaker
<i>Indonesia</i>	Consumer Confidence Index (Mar)	-	98.6	96.4	-
<i>Thailand</i>	Thai Central Bank Interest Rate	1.00%	1.25%	1.50%	Stronger

## INTEREST RATE STRATEGY

Ordinarily, we would expect the fact that our forecast of a 50bp cut is more than what's priced in would be reason enough to expect a significant reaction in the broad interest rate market. However, this time we expect the market to take note of the rationale for such a large cut – namely a desire to get long term everyday interest rates (i.e. mortgage rates) down. This has enormous implications for the market.

### Market themes...

- > When the RBNZ cuts the OCR by 50bps on April 30<sup>th</sup>, it will undoubtedly echo earlier comments. That is, they'll reiterate that the OCR will be "*at relatively low levels for an extended period*".
- > The RBNZ needs to get some "bang for buck" out of policy, and this is even more crucial now that financial conditions (i.e. mortgage rates and the NZD) have started heading higher.
- > The short end can't hide from the RBNZ's comments, and will adjust lower. However time will be the key ingredient in getting long end yields down. Not everyone is a believer.
- > Residual mortgage related pay-side interest will linger for a little longer, but now that the mortgage curve has steepened, new paying beyond 2 years will be very limited.

### Review and outlook...

Recent economic data confirms that the economy is on a precarious footing, and judging by leading indicators, it will be some time before it recovers in a meaningful way. The exception is the housing market – but that's to be expected when mortgage rates fall as fast as they did. At the same time, the RBNZ is warning that rates will stay low for a long time. Yet one glance at market pricing reveals that the market doesn't believe it either. Indeed, the market is pricing in a "turn" in policy in October – and that's just six months away! What do we make of this? Is the market wrong, or is it just digesting a flow? We think it's more of the latter. It's not only brave (and potentially stupid) to say the market is wrong, but recent price action tends to support the flow thesis. Indeed, since the March MPS, rates are higher across the board, having been led by the 5 year swap. Moreover, every time the market rallies, it tends to be met by local paying interest – which is highly suggestive of mortgage activity. As this wanes, we expect the short end rally will resume, taking the 1yr swap to a new low (and the 2 year swap won't be far behind). However, the long end won't follow with any conviction until we reach a trough in the OCR, and it's only then that the curve steepening trades will be exhausted.

### Borrowing strategies we favour at present

Regular readers will be well familiar with our view – which is now more closely aligned to RBNZ rhetoric than ever. Rates may take some time to fall, but they will, and we see no value in paying at current levels, which incorporate a high "panic" premium.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓↓	Not enough priced in for the next meeting, and for the remainder of the cycle.
NZ data	↓↓	QSBO suggest Q1 was the worst in a generation, and the outlook is downbeat.
Fed Funds/ front end	↔	Fed QE keeping term bond yields down.
RBA	↔/↓	The cut was a surprise, and data since has been weak.
US 10 year	↔/↓	Market is reluctant to take 10yr yields much above 3%.
NZ swap curve	↔/↑	Steeper to resume, but not with gusto.
Flow	↔/↑	Progress lower in yield to be choppy. Still payers around.
Technicals	↔/↑	Downward progress has been slow. Discouraging.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Apr-09	-28	-31
Thu 11-Jun-09	-41	-52
Thu 30-Jul-09	-41	-56
Thu 10-Sep-09	-40	-54
Thu 29-Oct-09	-39	-48
Thu 10-Dec-09	-29	-42
Thu 21-Jan-10	-16	-26

### Trading themes we favour at present

Our view of how the market will digest the RBNZ's actions and comments is strongly suggestive of further yield curve steepening. We're confident that a reversion to the steepening trend will be the main macro trade of the next six months. However, it will be complicated by how households respond to the upcoming reversal in mortgage rates. If they see falling rates as the start of a trend decline (i.e. they "believe" the RBNZ), then we wouldn't expect much fixing. However, any fixing would likely be at the short end, which would hamper the steepener. But if households see lower mortgage rates as a virtual second bite of the cherry, then we could see more mass fixing, which is likely to be focussed on the 5 year again. This would help steepeners, especially 1yr-5yr and 2yr-5yr trades. We also find it difficult to reconcile a 1 year swap that's 30bps+ off its lows, yet the RBNZ is telling us they expect to keep rates lower for longer!

## CURRENCY STRATEGY

The VIX index has broken lower and reasonable economic data out of China and the US over the past few weeks has mitigated the very weak local QSBO and Australian employment result. The NZD held support levels and now feels comfortable above the 0.5850 level. Major resistance exists at 0.6030. But the AUD looks northwards after a break above the critical 0.7230 level and could drag the NZD for at least a test of this level in the absence of a turn in equity market sentiment.

### Market themes...

- > Local data weak, but not a focus at present.
- > US Quantitative Easing continuing. Double benefit to NZD of added world stimulus and more supply of USDs.
- > Equity markets – is risk appetite returning?

### Review and outlook...

The NZD traded a choppy range last week. Expanding yield differentials caused by sustained mortgage paying (which thankfully may have subsided now) overextended a move to 0.5980 on Monday morning. This was followed by a move to weekly lows around 0.5690 by Wednesday on a few equity jitters. US Q1 earning announcements this week will be teh directional for global investment flows, with both Wells Fargo and now Goldman Sachs beating estimates. The real test comes later in the month with the stress testing results of the US banks being announced.

The VIX index measures volatility of the S&P and has always been an excellent inverse measure of risk aversion i.e. the higher the volatility the higher the perceived benefit of holding risky assets. The break of the VIX below year to date support at 38.50 is vitally important to the NZD progress going forward as the yield differential continues to narrow. Simply you need to assume lower volatility going forward in order to get people to invest in NZD at lower yield premium.

The NZD had a perfect opportunity to sell off last week particularly after the RBNZ's recent statement that it was not the time to fix your mortgage. The NZD tried to sell off and managed a near perfect 0.618 percent Fibonacci retracement of the recent 0.5530-0.5980 range at 0.5700. If anything, this suggests the NZD is set for another leg higher with the 200 day moving at 0.6039 coinciding with the early January high being the real level to be tested this week. Support exists at 0.5850.

Of course all this is subject to equity market sentiment which looks a night by night proposition. While the recent rally bares all the hallmarks of a bear-market rally, the trends are too be respected for now. Locally there just doesn't seem anything on the horizon (for the next few weeks anyway) to knock the NZD off its perch. Event risk seems to surround the *Budget* given NZ's negative sovereign rating outlook, but this remains a month-and-a-half away.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Fair value range.
Yield	↓	RBNZ to head below RBA?
Commodities	↔	Commodity base in place.
Partial indicators	↔/↓	Local data weak, but not the focus.
Technicals	↔	0.80 large support.
Sentiment	↔	Market happily long AUD.
Other	↔/↓	AUD break above 0.7230 significant.
<b>On balance</b>	↔/↓	<b>Cross stable but 0.80 to be tested.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Top of fair value range.
Fair value – short-term	↔/↓	Limited upside from here.
Yield	↓	Differential narrowing currency lags rates.
Commodities	↔	Dairy prices appear to be stabilising.
Risk aversion	↑	VIX Index break yearly lows, equities still doing well.
Partial indicators	↔	US/China data improving. NZ's not yet.
Technicals	↔	Major resistance at 0.6030.
AUD	↔/↑	AUD looks set for higher as China demand improves.
Sentiment	↔/↑	All about risk aversion.
Other	↔/↑	Kiwi undeservedly being dragged higher.
<b>On balance</b>	↔	<b>Large range trade to result.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
14-Apr	NZ	Retail Sales (Feb) - mom	-0.5%	-1.1%	10:45
		Retail Sales Ex-Auto (Feb) - mom	-0.1%	0.3%	10:45
	AU	NAB Business Confidence (Mar)	-	-22	13:30
		NAB Business Conditions (Mar)	-	-20	13:30
15-Apr	US	Producer Price Index (Mar) - mom	0.0%	0.1%	00:30
		PPI Ex Food & Energy (Mar) - mom	0.1%	0.2%	00:30
		Advance Retail Sales (Mar)	0.3%	-0.1%	00:30
		Retail Sales Less Autos (Mar)	0.0%	0.7%	00:30
		Business Inventories (Feb)	-1.2%	-1.1%	02:00
		Fed's Evans Speaks on Risk Management for Banks in Chicago	-	-	02:30
		Fed's Stern Speaks on Risk Management for Banks in Chicago	-	-	08:45
	UK	RICS House Price Balance (Mar)	-77%	-78%	11:01
		DCLG UK House Prices (Feb) - yoy	-	-11.5%	20:30
	AU	RBA Head of Financial Stability Ellis Speaks in Melbourne	-	-	11:15
		Westpac Leading Index (Feb) - mom	-	-0.2%	12:30
	JN	Industrial Production (Feb F) - mom	-	-9.4%	16:30
		Capacity Utilization (Feb F) - mom	-	-12.9%	16:30
16-Apr	US	Consumer Price Index (Mar) - mom	0.1%	0.4%	00:30
		CPI Ex Food & Energy (Mar) - mom	0.1%	0.2%	00:30
		Empire Manufacturing (Apr)	-35.0	-38.23	00:30
		Net Long-term TIC Flows (Feb)	\$10.0B	-\$43.0B	01:00
		Industrial Production (Mar) - mom	-0.9%	-1.5%	01:15
		Capacity Utilization (Mar)	69.6%	70.2%	01:15
		NAHB Housing Market Index (Apr)	10	9	05:00
		Fed's Beige Book	-	-	06:00
	NZ	<b>Business NZ Publishes Performance of Manufacturing Index</b>	-	-	10:30
	JN	Machine Tool Orders (Mar F) - yoy	-	-	18:00
	EC	ECB Council Member Liikanen Speaks in Helsinki	-	-	18:00
		CPI (Mar) - mom	0.4%	0.4%	21:00
		CPI (Mar) - yoy	0.6%	1.2%	21:00
		CPI - Core (Mar) - yoy	1.4%	1.7%	21:00
		Industrial Production (Feb) - mom	-2.5%	-3.5%	21:00
17-Apr	US	Housing Starts (Mar)	540K	583K	00:30
		Building Permits (Mar)	549K	564K	00:30
		Initial Jobless Claims (w/e Apr-12)	655K	654K	00:30
		Continuing Claims (w/e Apr-5)	5893K	5840K	00:30
		Philadelphia Fed (Apr)	-32	-35	02:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
17-Apr cont.	US	Lockhart to Speak on Financial Crisis at New York Conference	-	-	05:00
		Fed's Yellen Speaks on Economic Crisis in New York City	-	-	12:00
	<b>NZ</b>	<b>Food Prices (Mar)</b>	-	<b>0.2%</b>	<b>10:45</b>
		<b>Consumer Prices (1Q) - qoq</b>	<b>0.3%</b>	<b>-0.5%</b>	<b>10:45</b>
		<b>Consumer Prices (1Q) - yoy</b>	<b>3.0%</b>	<b>3.4%</b>	<b>10:45</b>
		<b>Non Resident Bond Holdings (Mar)</b>	-	<b>74.3%</b>	<b>15:00</b>
	JN	Tertiary Industry Index (Feb) - mom	-0.8%	0.4%	11:50
		ECB's Trichet Speaks in Tokyo	-	-	15:00
		Consumer Confidence (Mar)	30.0	27.6	17:00
	AU	Import price index (1Q)	-	10.8%	13:30
		Export price index (1Q)	-	15.9%	13:30
	EC	Trade Balance s.a. (Feb)	-4.9B	-5.5B	21:00
		Construction Output (Feb)	-	1.3%	21:00
18-Apr	US	Fed's Hoenig Speaks at Fed Conference in Washington	-	-	00:30
		University of Michigan Confidence (Apr P)	58.5	57.3	02:00
		Bernanke Speaks at Fed Conference in Washington	-	-	04:00
	JN	ECB's Trichet Speaks in Tokyo	-	-	15:30
19-Apr	US	Fed's Kohn Speaks in Nashville on Monetary Policy	-	-	02:30
		Fed's Dudley Speaks in Nashville on Liquidity Programs	-	-	03:45
		Fed's Stern Speaks in Nashville on U.S. Economic Outlook	-	-	05:45

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 QSBO painted a very grim picture of an economy that is still contracting. However, there are also signs of stabilisation and recovery in some pockets. The key theme over the coming weeks is whether this stabilisation can be sustained, particularly with the labour market.

Date	Data/Event	Economic Signal	Comment
Fri 17 Apr (10.45)	CPI (Mar qtr)	Inflation under control	A 0.3 percent increase is expected, but apart from government related increases (tax indexation and education fees increases), inflation is well under control.
Tue 21 Apr (10.45)	International Travel and Migration (Mar)	Positive migration, but less visitors	Net migration inflows likely to remain positive as less NZer's choose to leave. We are also watching for an influx of ex-pats returning home, although there is little evidence of this yet. Tourism inflows will remain under pressure.
Wed 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Signs of rebalancing	While the weak global backdrop is impacting export growth, import growth is slowing faster as the domestic economy de-leverages. We expect another monthly trade surplus.
Wed 29 Apr (15.00)	Credit Growth (Mar)	Clear signs of de-leveraging	Household credit growth to remain subdued.
Wed 29 Apr (15.00)	NBNZ <i>Business Outlook</i> (Apr)	-	-
Thu 30 Apr (09.00)	RBNZ <i>OCR Review</i>	50bp cut	The weak QSBO survey highlights the economy continues to contract. On top of this, higher wholesale interest rates and NZD have tightened monetary conditions. We now expect the Bank to cut by 50bps.
Thu 30 Apr (10.45)	Building Consents Issued (Mar)	A base?	We expect a base to begin to form around current depressed levels.
Mon 4 May (10.45)	LCI & QES (Mar qtr)	Past the peak	On an annual sense, wage growth will remain elevated, but there will be increasing evidence that wage pressures are easing.
Thu 7 May (10.45)	Household Labour Force Survey (Mar qtr)	Reversing the surprise	Following last quarter's surprise on employment, we expect a sharp unwind in the quarter. The unemployment rate will continue to head rapidly higher.
Fri 15 May (10.45)	Retail Sales (Mar)	Stabilising?	It has been clear that households have been largely saving the benefits of recent tax cuts and lower mortgage payments. However, we are expected to see signs now that a base to spending is beginning to form.
<b>On Balance</b>		<b>Flow-on from the global scene in the dataflow.</b>	<b>We are detecting a base effect in some data, which suggests the June quarter is the nadir in the cycle. But the jury is out on the speed of recovery.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
GDP (% qoq)	-0.3	-0.2	-0.5	-0.9	<b>-1.5</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>1.2</b>
GDP (% yoy)	2.1	1.0	-0.1	-1.9	<b>-3.1</b>	<b>-3.3</b>	<b>-2.9</b>	<b>-1.9</b>	<b>0.1</b>	<b>1.8</b>
CPI (% qoq)	0.7	1.6	1.5	-0.5	<b>0.3</b>	<b>0.8</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.5</b>
CPI (% yoy)	3.4	4.0	5.1	3.4	<b>3.0</b>	<b>2.2</b>	<b>1.3</b>	<b>2.5</b>	<b>2.7</b>	<b>2.4</b>
Employment (% qoq)	-1.3	1.2	0.1	0.9	<b>-1.5</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-0.4</b>	<b>0.0</b>	<b>0.1</b>
Employment (% yoy)	-0.2	0.7	1.0	0.9	<b>0.7</b>	<b>-1.5</b>	<b>-2.4</b>	<b>-3.7</b>	<b>-2.2</b>	<b>-1.1</b>
Unemployment Rate (% sa)	3.7	3.9	4.2	4.6	<b>5.1</b>	<b>6.1</b>	<b>6.8</b>	<b>7.3</b>	<b>7.7</b>	<b>7.8</b>
Current Account (% GDP)	-8.0	-8.4	-8.7	-8.9	<b>-8.6</b>	<b>-7.3</b>	<b>-6.5</b>	<b>-5.8</b>	<b>-6.0</b>	<b>-6.3</b>
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-0.9	<b>-3.0</b>	<b>-3.2</b>	<b>-3.0</b>	<b>-2.2</b>	<b>-1.6</b>	<b>-0.9</b>
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	<b>-5.2</b>	<b>-7.9</b>	<b>-9.8</b>	<b>-10.9</b>	<b>-9.6</b>	<b>-7.4</b>

## KEY ECONOMIC INDICATORS

	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Retail Sales (% mom)	0.7	-0.7	0.3	0.3	-1.3	0.0	-0.7	-1.1	..	..
Retail Sales (% yoy)	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9	-3.7	..	..
Credit Card Billings (% mom)	-0.1	0.2	-0.4	1.3	-1.6	-0.9	-2.3	1.8	0.5	..
Credit Card Billings (% yoy)	3.9	4.2	2.4	2.5	1.1	-0.9	-3.9	-2.2	-1.9	..
Car Registrations (% mom)	1.5	-7.1	-3.5	10.7	-0.6	-20.0	12.8	-13.8	-15.1	6.8
Car Registrations (% yoy)	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9
Building Consents (% mom)	-13.0	-1.0	-6.9	8.2	-19.5	3.6	-7.0	-13.1	11.7	..
Building Consents (% yoy)	-45.8	-34.4	-43.2	-28.4	-42.8	-39.7	-41.4	-51.7	-40.0	..
REINZ House Price (% yoy)	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0
Household Lending Growth (% mom)	0.2	0.3	0.4	0.3	0.2	-0.1	0.1	0.2	0.2	..
Household Lending Growth (% yoy)	8.4	7.7	7.2	6.6	5.9	4.8	4.2	3.8	3.1	..
Roy Morgan Consumer Confidence	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7
NBNZ Business Confidence	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	-39.3
NBNZ Own Activity Outlook	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2
Trade Balance (\$m)	-215	-797	-848	-1252	-994	-594	-342	-104	489	..
Trade Balance (\$m annual)	-4478	-4468	-4369	-5048	-5269	-5234	-5614	-5408	-5161	..
ANZ World Commodity Price Index (% mom)	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	1.0
ANZ World Commodity Price Index (% yoy)	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4
Net Migration (sa)	430	740	320	-40	10	-310	280	740	1670	..
Net Migration (annual)	4732	5201	4938	4403	4329	3569	3814	4538	6160	..

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)						
	Feb-09	Mar-09	14-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.515	0.530	0.592	0.54	0.51	0.48	0.47	0.47	0.48	0.49
NZD/AUD	0.794	0.797	0.809	0.82	0.81	0.81	0.82	0.82	0.82	0.82
NZD/EUR	0.402	0.406	0.443	0.42	0.41	0.40	0.40	0.42	0.43	0.43
NZD/JPY	47.6	51.8	59.2	54.0	50.5	47.0	45.6	46.5	48.0	50.0
NZD/GBP	0.358	0.373	0.399	0.37	0.36	0.34	0.33	0.32	0.33	0.33
NZ\$ TWI	52.3	53.8	58.6	55.2	52.9	50.9	50.3	51.0	52.0	52.8
NZ interest rates	Feb-09	Mar-09	14-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	3.71	3.00	3.00	2.25	2.25	2.25	2.25	2.25	2.75	3.75
90 day bill	3.40	3.25	3.19	2.70	2.70	2.70	2.70	2.70	3.50	4.40
10 year bond	4.53	4.78	5.43	4.20	4.00	4.10	4.40	4.60	5.50	5.70
International	Feb-09	Mar-09	14-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
US 3-mth	1.26	1.19	1.13	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	3.25	3.25	3.00	2.75	2.50	2.00	2.00	2.00	2.00	2.75
AU 3-mth	3.16	3.14	3.13	2.70	2.30	2.30	2.30	2.40	2.60	3.30

## KEY RATES

	10 Mar	6 Apr	7 Apr	8 Apr	9 Apr	10 Apr
Official Cash Rate	3.50	3.00	3.00	3.00	3.00	n/a
90 day bank bill	3.15	3.20	3.20	3.23	3.19	n/a
NZGB 07/09	3.00	3.10	3.10	3.01	3.01	n/a
NZGB 11/11	3.32	3.89	3.82	3.93	3.89	n/a
NZGB 04/13	3.77	4.46	4.41	4.52	4.51	n/a
NZGB 12/17	4.49	5.24	5.22	5.35	5.40	n/a
2 year swap	3.16	3.92	3.90	3.92	3.85	n/a
5 year swap	4.06	5.05	5.07	5.09	5.03	n/a
RBNZ TWI	51.5	58.8	58.0	57.3	57.8	n/a
NZD/USD	0.4972	0.5945	0.5817	0.5738	0.5801	n/a
NZD/AUD	0.7791	0.8264	0.8217	0.8101	0.8176	n/a
NZD/JPY	49.16	59.97	58.45	57.47	57.95	n/a
NZD/GBP	0.3591	0.3978	0.3960	0.3902	0.3942	n/a
NZD/EUR	0.3922	0.4379	0.4355	0.4344	0.4374	n/a
AUD/USD	0.6382	0.7194	0.7079	0.7083	0.7095	n/a
EUR/USD	1.2677	1.3577	1.3358	1.3208	1.3261	n/a
USD/JPY	98.88	100.88	100.48	100.16	99.89	n/a
GBP/USD	1.3845	1.4944	1.4691	1.4707	1.4716	n/a
Oil	45.68	51.10	51.10	49.37	49.37	n/a
Gold	897.50	871.40	877.30	880.50	884.30	n/a
Electricity (Haywards)	3.02	5.10	4.93	4.95	5.93	n/a
Milk futures (US\$/contract)	83	86	85	86	86	n/a
Baltic Dry Freight Index	2298	1486	1466	1463	1478	n/a

## 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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