

BACK TO BASICS

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- > Our growth forecasts have been downgraded, OCR expectations lowered even further, and we now expect a more pronounced currency cycle.

Page 4: Economic comment – global watch

- > More of the same on the global data front last week. The Euro-zone has been confirmed in recession, as has Hong Kong. Chinese industrial production is slowing, although retail sales appear to be holding up at present. Inflation gauges around the globe have turned.

Page 5: Interest rate strategy

- > We now expect the RBNZ to cut the cash rate by 100bps next month as they continue “front loading” rate cuts. Even though this is largely priced in, the recent Australian experience suggests the market will quickly move to price in larger follow up cuts. However, the forward curve is projecting term rates to bottom out in about 3 months, which seems too soon. Swap rates have a long way to fall if this projection gets pushed out, as we expect.

Page 6: Currency strategy

- > The G20 failed to provide near-term direction for currency markets. With economic data still deteriorating, risk aversion will again be the dominant theme (watch the JPY closely). Expect the NZD to struggle in this environment. With the RBA looking to draw a line in the sand with the AUD, the NZD/AUD now looks set to continue correcting to levels more consistent with their respective economies.

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- > Standard currency valuation metrics are breaking down, as they typically do when the cycle turns. While various structural approaches are still relevant, we are increasingly being drawn to macro-balance models of currency equilibrium. Such approaches suggest a more elongated currency adjustment for the NZD, which we have built into our forecasts.

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ECONOMIC OVERVIEW

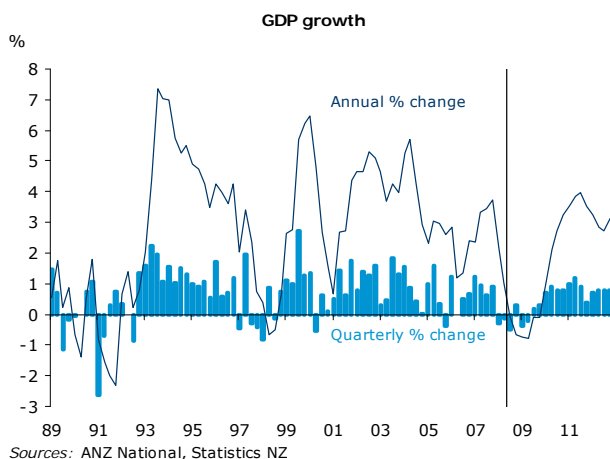
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What's ahead?

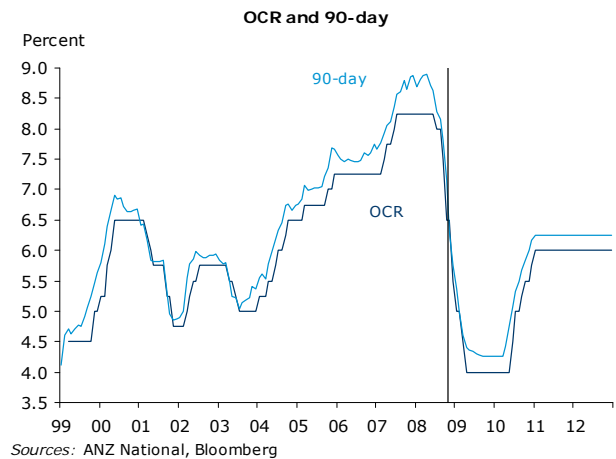
- > **October Food Price Index** (Monday 1045 NZDT). It is still too soon for the falls in global commodity prices to show up on the grocery bill just yet. We expect annual food price inflation to remain around 10 percent.
- > **September quarter Producer Price Index** (Wednesday 1045 NZDT). Just like the CPI, we expect a spike in the PPI due to high energy costs, but this will represent a peak. Margin compression will be a feature again.
- > **October Travel and Migration** (Friday 1045 NZDT). Visitor arrivals likely to remain subdued. Net migration inflows expected to be modestly positive, but this is looking touch-and-go judging from last month's data.
- > **October Electronic Card Transactions and Credit Card Billings** (Friday 1045 NZDT and 1500 NZDT respectively). A key reading to see whether tax cuts, lower petrol prices and mortgage rates are enticing consumers back into shops. We expect positive monthly growth but not a material rebound.

What's the view?

Last week, we flagged that our forecasts were under review. Over the week, the axe has come out. We now see growth in 2009 as being weaker than 2008, and that was hardly a year to smile about. This in turn results in a far quicker receding track for inflation (in combination with sharply lower oil prices), a higher unemployment rate (rising to 6.5 percent), and a more aggressive monetary policy easing cycle. All these despite our general expectation that fiscal policy will come to the party pre-Christmas.



We now expect the RBNZ to ease by 100bps at the upcoming December *Monetary Policy Statement*, and follow that up with successive 50bp cuts in January, March and April next year. This will take the OCR to a trough of 4 percent. A fair bit of the 100bp call is merely following the market. Last week 75bps looked to be on the cards following the RBA. With the market now pricing in 100bps, we expect the RBNZ to deliver. Now is simply not the time to be "disappointing" market expectations.



It is convenient to blame the global situation for the weak growth prognosis. It does account for a huge chunk of the growth downgrade, but to be fair, the slowdown was already underway and the global meltdown was the straw that broke the camel's back. The global environment remains turbulent. High volatility is very much the order of the day in financial markets, with large swings in either direction but no clear conviction by participants. What is growing increasingly clear is that the global economy looks headed for a deep synchronised recession in 2009, which hasn't been seen in a generation. The latest assessment from both the IMF and OECD were bleak, with deep recessions forecast for the developed economies and sharp slowdowns from developing ones.

For NZ, the lack of momentum going into the crisis, higher cost of credit, diminished appetites for risk, less demand for exports (including tourism) and lower commodity prices are all channels to watch. To be honest, with so much going on (not only the negatives but also some positives as well, such as interest rate and tax cuts), it is extremely difficult to predict how things could play out in the near-term at present.

In times like this we move back to basics, or more importantly, the fundamentals. And the big one we keep coming back to is the current account deficit. We are surprised that it does not feature more in recent commentary and analysis. Even before the global crisis intensified, NZ was already staring down the barrel of an elongated adjustment in order to return the external balance to what we would consider a sustainable position. Typically we

think of this as stabilising the ratio of net foreign liabilities as a share of GDP, which means the current account deficit needs to fall to broadly 5 percent of GDP. Considering a starting position of 8.4 percent of GDP, and the fact that the deficit actually widened despite the economy entering a domestic recession, any improvement to the external position is still some way off.

Global developments now change this on two levels. First, the rebalancing process itself is going to be stymied over 2009. The economy is like an aeroplane that has progressively lost engines, with the prospect of an export sector revival (volumes and terms of trade) the latest to drop off. Second, merely stabilising the net external position may not be sufficient in a global environment that continues to de-risk and de-leverage. Both suggest a more elongated economic adjustment, which we have built into our forecasts, despite traditional monetary conditions loosening substantially.

Of course, the sort of adjustment we are flagging for the economy, when it comes to the current account deficit, begs the obvious question: isn't our interest rate assessment and rapid loosening in monetary conditions at odds with the inevitable rebalancing process we are suggesting for the economy?

Our reply to this is simple. We still see an inevitable adjustment, but using monetary policy aggressively and relying on the macro framework will just help ensure it's not of the scorched earth variety. Over the coming year, the credit channel of monetary policy will play an equally, if not more, opposing role to conventional monetary policy than what it did over the preceding five. Too much focus is also being put on wholesale interest rates at present. To fully appreciate the significance of what is going on, people's attention needs to be directed at deposit rates. These are being kept high as people scramble for cash, and with a limited pool of savings within the economy, it's a bit like playing musical chairs: someone (or sectors) miss out. Then there is the disappearance of the mortgage equity withdrawal factor given correcting asset prices, global scene, and rising unemployment rate. These suggest to us monetary policy at best will be mitigating the extreme potential for the economic cycle.

In terms of the currency, we've now built in a steady 'saucer-shaped' cycle of pronounced weakness. While near-term indicators such as yield, commodity prices and macro momentum are influential, our thinking at present is really being dominated by macro balance style approaches (what is required to stabilise the external position) to equilibrium for the NZD (refer page 7). In a world of de-risking and de-leveraging, current accounts and external positions cannot be ignored. In the near-term we still technically have a bounce

for the NZD, but the real spirit is a sustained period of weakness ahead spread over 2009 and 2010, and the NZD/USD to have a four in front of it. In regards to near-term indicators such as commodity prices, something to keep an eye on at present is dairy prices: they are falling rapidly and we would not be surprised to see some sort of update from Fonterra over the coming weeks. As flagged last week, the payout now looks set to be below \$6/kg milk solid, and it may not necessarily be a high 5.

Looking to the week ahead, the local data calendar is rather light with only third tier data on offer. Of most interest to us will be the October electronic card transaction and credit card billings data. Retail sales volumes contracted over the past three consecutive quarters, but we expect a combination of tax cuts, lower petrol prices and falling mortgage rates to breathe some life into consumer spending in October. While we anticipate a rebound in the month, they will still be modest. October migration data is likely to show visitor arrival numbers increasingly being impacted by the global slowdown. And while we expect a modest inflow of net migration, the likelihood of a negative number remains on the cards. October food price and September quarter PPI numbers round off the other releases. It is still too soon to expect the former to fall in response to lower commodity prices, while the latter will show ongoing margin contraction faced by businesses.

The data calendar is very busy internationally, with CPI prints from the US and UK. We will also get Q3 GDP from Japan and various leading indicators on US economic activity such as industrial production and the Philly Fed. Australian retail sales data for Q3 will show whether consumers there are following the lead here in paring back their spending. In terms of central bank news, we get the minutes of the Fed, RBA and BoE's last board meetings. Given that the latter two surprised the market with more aggressive easings, the minutes will be closely perused. There are also a lot of officials giving speeches, but two that we will be paying close attention to will be from RBA Assistant Governor Malcolm Edey and RBA Governor Glenn Stevens, both on Wednesday.

Recent local data...

September quarter Retail Sales: Headline retail sales rose by 0.1 percent in the month, with core sales falling 0.5 percent. Retail sales volume fell 0.9 percent in the quarter.

October REINZ housing data: House sales fell a seasonally adjusted 2.8 percent in the month, while house prices rose from \$330k to \$335k. Days to sell shortened to a seasonally adjusted 51 from 56.

October Business NZ PMI: The PMI fell to its lowest reading of 43.5 from 46.7 previously.

GLOBAL WATCH

More of the same on the global data front last week. The Euro-zone has been confirmed in recession, as has Hong Kong. Chinese industrial production is slowing, although retail sales appear to be holding up at present. Inflation gauges around the globe have turned.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	IBD/TIPP Economic Optimism (Nov)	42.0	50.8	41.1	Stronger
	Initial Jobless Claims (w/e Nov 9)	480K	516K	484K	Weaker
	Import Price Index (Oct) – mom	-4.4%	-4.7%	-3.3%	Weaker
	Advance Retail Sales (Oct)	-2.1%	-2.8%	-1.3%	Weaker
	U. of Michigan Confidence (Nov P)	57.0	57.9	57.6	Stronger
	Business Inventories (Sep)	-0.1%	-0.2%	0.2%	Weaker
Euro-zone	Sentix Investor Confidence (Nov)	-33.0	-36.4	-27.8	Weaker
	ZEW Survey (Econ Sentiment) (Nov)	-60.5	-54.0	-62.7	Stronger
	Industrial Production (Sep) – mom	-1.8%	-1.6%	0.8%	Stronger
	CPI (Oct) – mom	0.1%	0.0%	0.2%	Weaker
	GDP (3Q A) – qoq	-0.2%	-0.2%	-0.2%	In-line
UK	PPI Input (Oct) – mom	-2.5%	-5.6%	-1.7%	Weaker
	PPI Output (Oct) – mom	-0.5%	-1.0%	-0.2%	Weaker
	RICS House Price Balance (Oct)	-86%	-82%	-85%	Stronger
	DCLG House Prices (Sep) – yoy	-5.4%	-5.1%	-4.6%	Stronger
	Jobless Claims Change (Oct)	40.0K	36.5K	36.3K	Stronger
	ILO Unemployment Rate (Sep)	5.8%	5.8%	5.7%	In-line
Asia Ex-Japan					
<i>China</i>	Producer Price Index (Oct) – yoy	8.6%	6.6%	9.1%	Weaker
	Consumer Price Index (Oct) – yoy	4.2%	4.0%	4.6%	Weaker
	Exports (Oct) – yoy	18.1%	19.2%	21.5%	Stronger
	Imports (Oct) – yoy	19.0%	15.6%	21.3%	Weaker
	Retail Sales (Oct) – yoy	22.0%	22.0%	23.2%	In-line
	Industrial Production (Oct) – yoy	11.1%	8.2%	11.4%	Weaker
<i>South Korea</i>	Unemployment Rate (Oct)	-	3.1%	3.1%	-
<i>Hong Kong</i>	GDP (3Q) – qoq	-0.2%	-0.5%	-1.4%	Weaker
<i>Singapore</i>	Retail Sales (Sep) – mom	3.4%	-1.0%	0.8%	Weaker
<i>Thailand</i>	Consumer Confidence Economic (Oct)	-	68.6	69.5	-
<i>Philippines</i>	Total Exports (Sep P) – yoy	2.6%	1.2%	6.6%	Weaker
<i>India</i>	Industrial Production (Sep) – yoy	4.1%	4.8%	1.4%	Stronger
<i>Indonesia</i>	M2-Money Supply (Sep) – yoy	-	16.9%	12.6%	-
Japan	Machine Orders (Sep) – mom	5.0%	5.5%	-14.5%	Stronger
	M3-Money Stock (Oct) – yoy	1.0%	0.6%	0.9%	Weaker
	Consumer Confidence (Oct)	29.5	29.8	31.8	In-line
	Domestic CGPI (Oct) – mom	-0.9%	-1.6%	-0.6%	Weaker
Australia	Home Loans (Sep)	-2.8%	-2.7%	-2.1%	In-line
	Investment Lending (Sep)	-3.0%	-1.1%	-5.2%	Weaker
	NAB Business Confidence (Oct)	-	-29	-8	-
	Westpac Consumer Confidence (Nov)	-	4.3%	-11.0%	-
	Wage Cost Index (3Q) – qoq	1.0%	0.9%	1.1%	In-line
	Consumer Inflation Expectation (Nov)	-	3.3%	4.4%	-

INTEREST RATE STRATEGY

We now expect the RBNZ to cut the cash rate by 100bps next month as they continue “front loading” rate cuts. Even though this is largely priced in, the recent Australian experience suggests the market will quickly move to price in larger follow up cuts. However, the forward curve is projecting term rates to bottom out in about 3 months, which seems too soon. Swap rates have a long way to fall if this projection gets pushed out, as we expect.

Market themes...

- > The market is now starting to toy with the idea of an RBNZ cut greater than 100bps next month. It's not our forecast, but we can't dismiss it, and need to be mindful of the risks.
- > The RBNZ injected \$500m of liquidity via the *Term Auction Facility* (TAF) last week, and will probably continue injecting liquidity.
- > As pleasing as it has been to see that historical data have tended to surprise on the upside (albeit at soft levels), it's the forward looking indicators that worry us.

Review and outlook ...

Interest rates have literally collapsed in the past fortnight, with the bellwether 2yr swap down a staggering 72bps over that period, as the market has shifted to price in a hefty series of front-loaded RBNZ easings. While this is more aggressive than our forecast, it's difficult to argue with the spirit of it, particularly if the RBNZ's modelling process give them a similar message that the Bank of England got when they ran their models – namely that without massive rate cuts, inflation will quickly fall back within the band, and may even undershoot it. That would certainly be consistent with the messages coming from forward looking indicators, even if historical data has tended to surprise on the strong side (albeit at weak levels).

Liquidity developments continue to be encouraging, and we look to this week's TAF to see how much more additional liquidity the RBNZ may inject. It's early days yet, but we note that at last week's auction the RBNZ injected \$500m, and then offered to withdraw \$700m via the RB Tender, attracting no bids. We doubt the RBNZ is unhappy about this.

We've long talked about the prospect of an L-shaped recovery, or at least one that will take a lot longer than usual. Despite this, forward interest rates project a “bottoming out” in interest rates in about 3 months, which we find slightly surprising. If this bottom gets pushed out and the market moves to price in a 4 percent OCR, we expect most swap rates to be sporting a 5 percent “big figure” before too long, possibly even December 31st.

Borrowing strategies we favour at present

Interest rates continue to fall, and our long held strategy to keep duration short remains appropriate, and will continue to be so until we see the economy (and thus the outlook for interest rates) begins to stabilise. It is too soon to consider extending the duration of hedges. Not only are swap rates likely to continue to fall, but as 3mth BKBM falls, fixing provides less of an “escape” from the inversion of the curve out to 1 year. Indeed, 3mth BKBM set at 6.166 percent on Friday, almost 1 percent lower than where it was 2 weeks ago, providing welcome relief to borrowers who have opted to remain floating.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↓↓	100bp cut likely in Dec, possibly more. Market pricing more, talk of 150bps!
NZ data	↔/↓	Weak, but not as weak as expected. Less relevant than forward looking indicators.
Fed Funds/ front end	↔/↓	More cuts almost certain, but still a month away. Liquidity in focus near term.
RBA	↔/↓	Another 100bp cut in Dec puts pressure on RBNZ.
US 10 year	↔/↓	High yields not sustainable given state of US economy.
NZ swap curve	↔/↓	Very gradual steepener. Will be a typical “bull steepener”
Flow	↔/↓	One way street – receivers.
Technicals	↔	Irrelevant. Volatility stems from equities, not technicals.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 4-Dec-08	-91	-105
Thu 22-Jan-09	-133	-170
Thu 5-Mar-09	-165	-213
Thu 23-Apr-09	-181	-223
Thu 4-Jun-09	-182	-223
Thu 30-Jul-09	-182	-214
Thu 10-Sep-09	-185	-208

Trading themes we favour at present

We're a little surprised by the market's eagerness to toy with a cut greater than 100bps, and as such we expected to see a larger rally at the long end of the OIS curve. It has rallied, but then so has the short end, and the 3mth – 1yr curve has only inverted by about 10bps in the past week. We still prefer to be long the 1yr OIS. It doesn't matter if the market starts pricing-in front loaded easings or an extended easing cycle, this trade will benefit either way.

CURRENCY STRATEGY

The G20 failed to provide near-term direction for currency markets. With economic data still deteriorating, risk aversion will again be the dominant theme (watch the JPY closely). Expect the NZD to struggle in this environment. With the RBA looking to draw a line in the sand with the AUD, the NZD/AUD now looks set to continue correcting to levels more consistent with their respective economies.

Market themes...

- > Currency markets still taking their cues off equity markets.
- > Economic data still deteriorating, with more countries entering technical recession.
- > G20 fails to provide a clear near-term steer.

Review and outlook...

Last week's NZD price action can be described as going up the stairs and coming down the elevator (shaft). Moves were characterised by small grinds higher during the NZ session, only for the NZD to get sold down during the NY session. Put simply, the NZD was following the fortunes of US equity markets, which had a dismal week.

Weakening economic data confirms that the global economy is heading for a deep synchronised downturn. Risk aversion is on the rise and the carry trade unwind continues. Yen strength in the near-term still look on the cards, particularly as the G20 did not back up the G7 statement of a few weeks back regarding concerns over the rise in the Yen. In fact, the G20 failed to provide any new measures to deal with the global financial crisis in the near-term. Hence, the currency market is left to its own devices, and this means taking its cue off equity markets.

With the gloss from the Chinese fiscal stimulus package over, and still negative newsflow coming out, we expect the NZD to continue to struggle. Real money remains net short the NZD, and Japanese retail margin traders appear to be sitting out of the NZDJPY trade. Not much buying support means the NZD is susceptible to further moves lower, particularly given that volumes are light. While we remain wary of the potential for a short squeeze higher at some stage, the risk averse nature of the current environment mean any moves higher will be short-lived. In this regard, the JPY will be a key gauge to watch.

The domestic dataflow is fairly light this week with mostly third tier data on offer. As such, we see the NZD's fortunes tied to offshore moves, particularly US equities. The NZDAUD has finally started to move lower. With the RBA active at the low 0.60's

for the AUD and the RBNZ absent, we can expect the cross to move more to the downside. The dataflow may be bad in Australia, but they are far worse in NZ.

Technically, the NZDUSD is now safely capped below 0.5750 and below 0.8630 versus the AUD. The NZD is now free to retest the 0.5360 lows seen in late October, with support there expected to be substantial. 0.8450 is the next level of support in the NZDAUD cross with a whippy range trade expected until this level is broken. Selling above 0.8600 gives the best risk reward we see. NZD has some support nearby versus the EUR and JPY, with confirmed breaks of 0.4350 and 52.50 support respectively suggesting the next leg lower has begun.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Should be lower based on fundamentals.
Yield	↔/↓	Both RBNZ and RBA expected to ease aggressively.
Commodities	↔/↓	Still falling.
Partial indicators	↓	NZ indicators still worse but Australia's not far behind?
Technicals	↔/↓	0.8450 next support.
Sentiment	↔/↓	Risk appetites very fickle.
Other	↔	Baltic dry bottoming out?
On balance	↓	Should be lower but subject to global scene.

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Fair value estimate revised down to 0.50-0.55 given external imbalance.
Fair value – short-term	↔/↓	Still above cyclical fair value level.
Yield	↔	Markets toying with greater than 100bps from RBNZ.
Commodities	↓	Global commodities selloff continues.
Risk aversion	↔/↓	Fragile and fickle.
Partial indicators	↔/↓	Weak.
Technicals	↔/↓	Capped below 0.5750.
AUD	↔/↓	AUD still looking vulnerable.
Sentiment	↔/↓	Very weak.
Other	↓	Equities still key driver.
On balance	↔/↓	Medium-term still bearish on NZD.

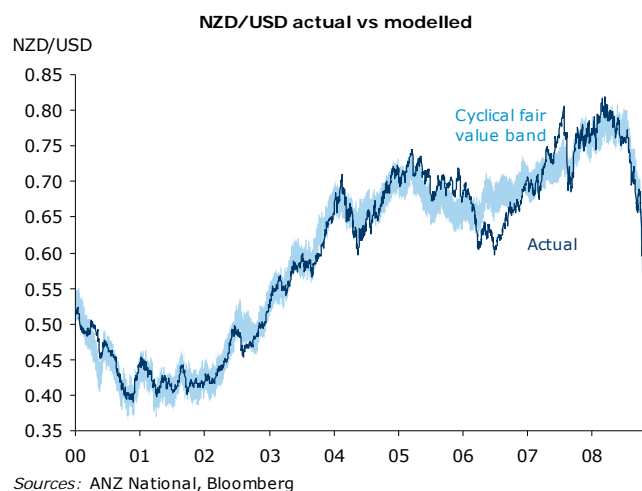
A QUESTION OF BALANCE

Standard currency valuation metrics are breaking down, as they typically do when the cycle turns. While various structural approaches are still relevant, we are increasingly being drawn to macro-balance models of currency equilibrium. Such approaches suggest a more elongated currency adjustment for the NZD, which we have built into our forecasts.

What is fair value for the currency? What long-term anchor do you use for currency forecasts? Where will the currency be in five years time? How will the currency evolve in this “new” global environment?

A host of models can be used for benchmarking currency forecasts. They can be based upon yield, PPP (purchasing power parity) estimates, commodity prices, structural measures that include productivity and the like, and of course the use of simple long-term averages to build a cycle around. But they all have their own benefits and shortcomings. There is a common phrase in economic circles: “use as many models as you can, but to trust none of them.” In sticking with this rationale, we use a number of different approaches to get a more comprehensive appreciation of the current dynamics in the currency market.

But we also know that drivers of currencies can ‘switch off’ just as quickly as they ‘switched on’. For example, yield based models are less relevant given the shift in focus in markets from yield to other areas. The carry trade is not as big a factor for the NZD as it was 24 months ago, as de-risking and de-leveraging takes hold. Commodity prices are important for New Zealand, but commodities appear to be lagging the movements in currencies at present given the latter trades in markets that are typically more liquid and well-informed – just look at the movement in the AUD! Our cyclical fair value model for the NZD is based upon yield differentials and commodity prices, and it shows that cyclical fair value has just played ‘catch-up’ over recent months to the move in the NZD. Hardly something we can base future moves off. Macro-momentum models are useful to a point (refer to a recent update in 3 November *Market Focus*), as are more structural estimates that the currency cycle can be built around. However, they tell us nothing about the potential undershoot. History can be a guide in this regard, but forecasters need to do better than that! Anchoring forecasts off where we have been before seems a bit of a cop out considering we’re going through a once in 80 year event. The onus is on forecasters to provide a bit of science or a more robust conceptual framework from which views can be built around.



We are increasingly turning to models of macroeconomic balance. The rationale for them is simple: they derive the level of the exchange rate (or real exchange rate) that is consistent with simultaneous internal and external equilibrium. In other words, they give us a level of the exchange rate that results in a sustainable level of the capital account (or current account).

Stepping beyond the current bout of de-risking and de-leveraging (which may be influential for taking tactical views on the currency in the near-term), current account deficits are now back in focus as the investors’ risk/reward profile adjusts to the new environment. Just think about the currencies that have been hit the hardest over recent times (NZD, AUD, GBP). They are all nations with relatively large current account deficits. With NZ’s current account deficit at 8.4 percent of GDP, and one that looks likely to remain large in the near-term, we are in no doubt it will be influential in determining the medium-term trend of the NZD.

While we won’t go into all the details of how the model is set up here, the “equilibrium” exchange rate is calculated by three steps as described in Brook and Hargreaves (2000).¹

- > An assumption around the *desired* capital account is needed. In the long-run the ratio of net foreign assets (NFA) to nominal GDP must be stable:

$$\% \Delta NFA = \% \Delta GDP \quad (\text{or})$$

$$\% \Delta NFA = (\% \Delta Y + \% \Delta P)$$

where % ΔY and % ΔP are the real growth and inflation respectively. We also know that any change in NFA for a period is equal to the

¹ See Brook, A. & D. Hargreaves (2000) “A macroeconomic balance measure of New Zealand’s equilibrium exchange rate” *RBNZ Discussion Paper Series DP2000/09*.

inverse of the capital account (i.e. the current account) excluding valuation changes.

Therefore:

$$-\frac{CA}{GDP} = (\% \Delta Y + \% \Delta P) \frac{NFA}{GDP}$$

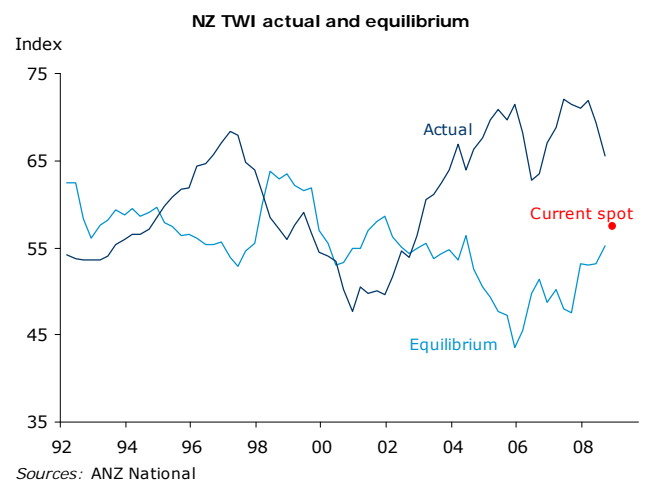
Making assumptions around the economy's potential growth rate, long-run inflation rate and equilibrium NFA to GDP ratio, we can then calculate the *equilibrium* capital account. Of course, such assumptions can leave the estimate open to considerable uncertainty. This is one of the draw backs of this type of analysis. However, sensitivity analysis can be performed to test the intuition. For our central scenario, a potential real growth rate of 2.5 percent, long-run inflation rate of 2.5 percent and a ratio of NFA to GDP of -0.9 were assumed. The latter is very close to its current level. This results in a desired capital account of 4.5 percent of GDP.

- > The next step is to calculate the *underlying* current account. The underlying current account can be thought of as the level of the current account where both the NZ and global economies were operating at potential and the pass-through from the NZD to the trade balance (both prices and volumes) was complete. This also relies on a number of assumptions around the elasticities of export and import volumes and prices to changes in the exchange rate, but we again follow a similar methodology to that described in Brook and Hargreaves (2000).
- > The final step is to calculate the exchange rate that would result in the underlying current account being equal to the desired capital account. This is done using the model created by Isard and Faruqee (1998).²

So what do the results show?

- > The model suggests that the equilibrium value of the TWI has fluctuated between 44 and 64 from 1992 to present – quite a large range. It also appears to be a larger range than presented in Brook and Hargreaves (2000). This could potentially be explained by our use of quarterly data rather than annual data, as well as the fact that Brook and Hargreaves (2000) make some adjustments to the underlying data to remove the volatile impact of droughts etc, as well as smoothing the investment income balance in the current account.

- > The actual NZ TWI exchange rate has been through periods where it deviates by quite a degree from the “equilibrium” rate. Generally however, the actual TWI tends to stay above the equilibrium rate, particularly after 2002, a symptom of the economy's tendency to run an excess current account deficit.
- > Smoothing through some of the volatility, the model suggests the equilibrium NZ TWI is currently within the 50 to 55 range, below even the current spot rate. Based on the assumptions above, the TWI was estimated to be around 16 percent overvalued as of the September 2008 quarter.



But what if we change some of the underlying assumptions, particularly the desired capital account? The above results are based on the NFA position remaining broadly unchanged from its current level (i.e. around -90 percent of GDP). However, what if the current backdrop of altered risk appetites and challenging credit conditions mean that investors demand NZ reduce its stock of net foreign liabilities? For example, if all other assumptions are left unchanged, but NZ is required to reduce its NFA to -50 percent of GDP, this would imply a desired capital account of 2.5 percent. The model then suggests the NZD on a TWI basis would have to see a sustained fall towards 45 to 50. Conversely, if NZ was able to run a larger stock of net foreign liabilities (incredibly unlikely in this environment), say 120 percent of GDP, then the desired capital account would be 6 percent and the NZD would not have to depreciate by as much (interesting though, the September quarter rate would still have been overvalued).

Implications

We are increasingly drawn to more traditional structural estimates of fair or equilibrium value for the NZD. Such approaches suggest a more elongated currency adjustment is required in order to return the external position to a more sustainable footing. While this type of analysis is

² Isard, P. & H. Faruqee (eds) (1998) “Exchange rate assessment: extensions of the macroeconomic balance approach” IMF Occasional Paper 167

vulnerable to the underlying assumptions made, the current implied level of the NZD from the central scenario suggests the TWI should be closer to 52. **Using this as a long-term anchor for our currency forecasts would suggest the NZD would need to head below 0.50 against the USD – something that we are now factoring into our core currency forecasts.**

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
17-Nov	NZ	Performance of Services Index (Sep)	-	46.9	10:30
		Food Prices (Oct) - mom	-	0.6%	10:45
	JN	GDP (3Q P) - qoq	0.0%	-0.7%	12:50
		Nominal GDP (3Q P) - qoq	-0.3%	-0.8%	12:50
		Tertiary Industry Index (Sep) - mom	-0.5%	-1.4%	12:50
	UK	Rightmove House Prices (Nov) - mom	-	1.0%	13:01
	AU	Retail Sales Volume (3Q) - qoq	0.4%	-0.6%	13:30
	EC	Euro-Zone Trade Balance (Sep)	-5.7B	-9.3B	23:00
18-Nov	US	Empire Manufacturing (Nov)	-26.0	-24.6	02:30
		Industrial Production (Oct)	-0.2%	-2.8%	03:15
		Capacity Utilization (Oct)	76.5%	76.4%	03:15
	JN	Housing Loans (3Q) - yoy	-	3.9%	12:50
	AU	RBA November Board Minutes	-	-	13:30
		Preliminary BoP Imports (Oct) - mom	-	-	13:30
	JN	Leading Index CI (Sep F)	-	89.2	18:00
		Coincident Index CI (Sep F)	-	100.8	18:00
		Tokyo Dept. Store Sales (Oct) - yoy	-	-4.6%	18:30
		Nationwide Dept. Sales (Oct) - yoy	-	-4.7%	18:30
	UK	CPI (Oct) - mom	0.1%	0.5%	22:30
		CPI (Oct) - yoy	4.8%	5.2%	22:30
		Core CPI (Oct) - yoy	2.2%	2.2%	22:30
		RPI (Oct) - mom	0.0%	0.6%	22:30
		RPI (Oct) - yoy	4.5%	5.0%	22:30
		RPI Ex Mort Int. Payments (Oct) - yoy	5.2%	5.5%	22:30
	EC	Construction Output (Sep) - mom	-	0.1%	23:00
19-Nov	NZ	Producer Prices- Inputs (3Q) - qoq	-	5.6%	10:45
		Producer Prices- Outputs (3Q) - qoq	-	3.5%	10:45
	US	PPI (Oct) - mom	-1.8%	-0.4%	02:30
		PPI Ex Food & Energy (Oct) - mom	0.1%	0.4%	02:30
		Net Long-term TIC Flows (Sep)	\$17.5B	\$14.0B	03:00
		Total Net TIC Flows (Sep)	-	-\$0.4B	03:00
		NAHB Housing Market Index (Nov)	14	14	07:00
	EC	ECB's Trichet Holds Speech in London	-	-	07:30
	JN	All Industry Activity Index (Sep) - mom	-0.1%	-1.8%	12:50
	AU	Westpac Leading Index (Sep) - mom	-	-0.1%	12:30
		Assistant RBA Governor Edey Gives Speech in Sydney	-	-	16:50
		Reserve Bank Governor Stevens Speaks in Melbourne	-	-	21:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
19-Nov cont.	UK	Bank of England Minutes	-	-	22:30
20-Nov	US	CPI (Oct) - mom	-0.8%	0.0%	02:30
		CPI Ex Food & Energy (Oct) - mom	0.1%	0.1%	02:30
		Consumer Price Index (Oct) - yoy	4.0%	4.9%	02:30
		CPI Ex Food & Energy (Oct) - mom	2.4%	2.5%	02:30
		Housing Starts (Oct)	780K	817K	02:30
		Building Permits (Oct)	772K	786K	02:30
		Fed's Kohn Speaks on Asset Prices at Cato Conference	-	-	03:00
		Fed's Lacker Speaks at Conference on Subprime Crisis	-	-	07:30
		Minutes of Oct. 28-29 FOMC Meeting	-	-	08:00
	JN	Merchandise Trade Balance Total (Oct)	¥71.8B	¥95.1B	12:50
	UK	Retail Sales (Oct) - mom	-0.9%	-0.4%	22:30
		Retail Sales (Oct) - yoy	1.4%	1.8%	22:30
		Public Finances PSNCR (Oct)	-2.5B	12.6B	22:30
		Public Sector Net Borrowing (Oct)	0.4B	8.1B	22:30
		M4 Money Supply (Oct) - mom	0.8%	1.5%	22:30
21-Nov	NZ	Visitor Arrivals (Oct) - mom	-	-6.0%	10:45
		Net Migration (Oct)	-	10	10:45
		Electronic Card Transactions (Oct) - mom	-	0.8%	10:45
		Credit Card Spending (Oct) - mom	-	1.1%	15:00
	US	Initial Jobless Claims (w/e Nov 16)	503K	516K	02:30
		Continuing Claims (w/e Nov 9)	3900K	3897K	02:30
		Philadelphia Fed. (Nov)	-35	-37.5	04:00
		Leading Indicators (Oct)	-0.6%	0.3%	04:00
		Treasury's Paulson to Speak On Economy, Markets In Washington	-	-	12:30
	JN	BOJ interest rate decision	0.3%	0.3%	-
		Cabinet Office Monthly Economic Report	-	-	-
	EC	PMI Manufacturing (Nov A)	40.5	41.1	22:00
		PMI Services (Nov A)	45.0	45.8	22:00
		PMI Composite (Nov A)	42.8	43.6	22:00
22-Nov	US	Fed's Lacker Speaks on Financial Conditions in Maryland	-	-	02:15
		Fed's Plosser Speaks About Financial Crisis in Philadelphia	-	-	06:15

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: Domestic data remains very weak and likely to confirm that the economy is not yet at the trough. The big releases prior to the RBNZ's *Monetary Policy Statement* at the start of December are the National Bank *Business Outlook*, and the RBNZ's Survey of Expectations. Further out, we will start to receive the partial indicators for Q3 GDP and these should reinforce the likelihood of another contraction.

Date	Data/Event	Economic Signal	Comment
Mon 17 Nov (10.45)	Food Price Index (Oct)	High	Recent declines in world commodity prices, including for dairy, mean lower prices are on their way. But not just yet. A more modest monthly rise in food prices expected in October.
Wed 19 Nov (10.45)	Producer Price Indices (Q3)	Close to peak	Further reasonable increases for input and output prices are expected. However, with oil prices now falling and wholesale electricity prices also well off their peaks, the top is near.
Fri 21 Nov (10.45)	External Migration (Oct)	Arrivals softening	Net migration inflows have been positive, but subdued. Of interest is visitor arrivals, which have been falling in recent months. Given the deteriorating global outlook, further declines look on the cards.
Tue 25 Nov (15.00)	RBNZ Survey of Expectations (Q4)	Still high but easing	Lower petrol prices should see inflation expectations fall from the last read of 3.0 percent. Still high, but at least in the right direction.
Thu 27 Nov (10.45)	Overseas Merchandise Trade (Oct)	Deficit	Another large monthly trade deficit is expected. We will be watching for signs of a capitulation in imports.
Thu 27 Nov (15.00)	NBNZ <i>Business Outlook</i> (Nov)	-	-
Thu 27 Nov (15.00)	Credit Growth (Oct)	Another record low?	September housing lending growth was the weakest on record. Given the state of the housing market, we would not rule out a further slowing.
Fri 28 Nov (10.45)	Building Consents (Oct)	Soft, watch commercial	The level of residential dwelling consent issuance will remain subdued. The bigger focus will be commercial issuance and we expect it to show further signs of easing.
Wed 3 Dec (15.00)	ANZ Commodity Price Index (Nov)	-	-
Thu 4 Dec (09.00)	RBNZ <i>Monetary Policy Statement</i>	100 basis point cut	While the domestic economy remains very weak, the global backdrop is dominating at present and warrants another aggressive interest rate cut.
Mon 8 Dec (10.45)	Value of Building Work Put in Place (Q3)	Another large contraction	Residential construction work is again expected to contract sharply in the quarter. Non-residential construction should hold up at a better level.
Wed 10 Dec (10.45)	Overseas Trade Indices (Q3)	Terms of trade down again	While oil prices started to fall in the September quarter, so to did the prices of NZ's commodity exports. This should contribute to another fall in the terms of trade.
circa 11 Dec	REINZ House Sales (Nov)	Sales stabilising, but prices still under downward pressure.	House sales may show some signs of recovery due to more realistic price expectations from vendors as well as lower mortgage rates. However, prices should remain under downward pressure.
Fri 12 Dec (10.45)	Retail Sales (Oct)	Underlying weakness	ECT and Credit Card data will provide some insight, but the underlying trend is likely to remain subdued.
On Balance		Key issue is the flow-on from the global scene.	Weakness now extending into Q4 according to lead indicators and lagging information is poor for Q3.

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
GDP (% qoq)	0.9	-0.3	-0.2	-0.5	0.3	-0.4	-0.2	0.2	0.3	0.7
GDP (% yoy)	3.7	2.2	1.1	-0.1	-0.7	-0.8	-0.8	-0.1	-0.1	1.0
CPI (% qoq)	1.2	0.7	1.6	1.5	-0.2	0.1	0.7	0.8	1.0	0.6
CPI (% yoy)	3.2	3.4	4.0	5.1	3.7	3.1	2.2	1.5	2.7	3.3
Employment (% qoq)	0.9	-1.3	1.3	0.1	-0.6	-0.4	-0.1	0.0	0.1	0.1
Employment (% yoy)	2.5	-0.2	0.7	1.0	-0.5	0.4	-1.0	-1.1	-0.4	0.1
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.7	5.1	5.5	5.8	6.0	6.3
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.5	-8.8	-8.7	-7.8	-7.4	-7.1	-7.1
Terms of Trade (% qoq)	2.9	4.2	-0.5	-1.0	-2.0	-1.6	-1.7	-1.6	-1.1	-0.8
Terms of Trade (% yoy)	8.8	11.6	10.6	5.6	0.5	-5.1	-6.2	-6.8	-5.9	-5.2

KEY ECONOMIC INDICATORS

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Retail Sales (% mom)	-0.7	-1.0	1.3	-1.1	0.9	-0.7	0.4	0.1	..	..
Retail Sales (% yoy)	7.7	-1.0	4.1	1.0	1.5	2.5	-0.9	2.2	..	..
Credit Card Billings (% mom)	0.3	-0.4	-0.2	0.6	0.0	0.3	-0.1	1.1	..	..
Credit Card Billings (% yoy)	7.5	5.8	5.4	6.0	4.0	4.2	2.6	2.6	..	..
Car Registrations (% mom)	-8.0	-12.7	11.4	-13.6	1.5	-6.9	-3.5	10.8	-1.2	..
Car Registrations (% yoy)	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	..
Building Consents (% mom)	-5.9	-14.0	81.4	-42.1	-12.6	-2.0	-6.8	8.4	..	..
Building Consents (% yoy)	-17.5	-27.0	30.6	-26.7	-46.0	-34.4	-42.9	-28.4	..	..
REINZ House Price (% yoy)	0.7	1.6	-1.1	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	..
Household Lending Growth (% mom)	0.9	0.4	0.4	0.5	0.3	0.3	0.4	0.2	..	..
Household Lending Growth (% yoy)	11.6	10.8	9.9	9.3	8.4	7.7	7.2	6.6	..	..
Roy Morgan Consumer Confidence	116.0	111.7	99.9	89.2	86.5	83.9	91.4	108.6	99.7	98.3
NBNZ Business Confidence	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	..
NBNZ Own Activity Outlook	2.4	-6.4	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4	..
Trade Balance (\$m)	243	-43	-293	-169	-215	-804	-846	-1183	..	..
Trade Balance (\$m annual)	-4422	-4526	-4604	-4782	-4479	-4475	-4374	-4985	..	..
ANZ World Commodity Price Index (% mom)	1.1	2.0	-0.3	0.9	0.0	1.8	-3.4	-5.1	-7.4	..
ANZ World Commodity Price Index (% yoy)	26.9	26.9	20.7	18.7	11.6	8.7	3.5	-2.1	-10.9	..
Net Migration (sa)	280	550	500	960	460	790	380	10	..	..
Net Migration (annual)	4643	4678	4666	4931	4732	5201	4938	4403	..	..

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)						
	Sep-08	Oct-08	17-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
NZD/USD	0.677	0.613	0.551	0.580	0.550	0.530	0.500	0.490	0.480	0.490
NZD/AUD	0.822	0.881	0.852	0.841	0.809	0.803	0.806	0.845	0.842	0.845
NZD/EUR	0.470	0.458	0.439	0.460	0.451	0.445	0.435	0.450	0.444	0.454
NZD/JPY	72.1	61.9	53.0	58.6	56.1	55.1	52.5	51.9	51.8	53.9
NZD/GBP	0.375	0.360	0.376	0.367	0.353	0.344	0.342	0.350	0.343	0.338
NZ\$ TWI	63.9	60.7	56.5	58.8	56.5	55.3	53.6	54.2	53.5	54.5
NZ interest rates	Sep-08	Oct-08	17-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
OCR	7.90	7.51	6.50	5.50	4.50	4.00	4.00	4.00	4.00	4.50
90 day bill	7.98	7.42	6.16	5.80	4.60	4.30	4.30	4.30	4.30	5.10
10 year bond	5.83	5.87	5.93	5.40	5.30	5.10	5.20	5.70	6.10	6.20
International	Sep-08	Oct-08	17-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
US Fed funds	2.00	1.00	1.00	0.75	0.75	0.75	0.75	1.00	1.25	1.50
US 3-mth	4.05	3.03	2.24	2.50	2.00	1.80	1.65	1.75	2.00	2.25
AU cash	7.00	6.00	5.25	4.75	4.25	4.00	4.00	3.50	3.50	3.50
AU 3-mth	7.32	5.81	4.75	5.10	4.40	4.20	4.20	3.80	3.80	3.80

KEY RATES

	14 Oct	10 Nov	11 Nov	12 Nov	13 Nov	14 Nov
Official Cash Rate	7.50	6.50	6.50	6.50	6.50	6.50
90 day bank bill	7.35	6.61	6.52	6.39	6.33	6.16
NZGB 07/09	5.84	5.57	5.57	5.48	5.41	5.41
NZGB 11/11	5.87	5.52	5.52	5.46	5.45	5.46
NZGB 04/13	6.00	5.71	5.71	5.66	5.66	5.68
NZGB 12/17	6.14	5.93	5.93	5.89	5.89	5.92
2 year swap	6.49	5.92	5.79	5.73	5.57	5.62
5 year swap	6.58	6.24	6.16	6.11	5.97	6.02
RBNZ TWI	60.9	59.1	59.1	58.8	57.6	57.5
NZD/USD	0.6198	0.5841	0.5841	0.5768	0.5627	0.5653
NZD/AUD	0.8773	0.8701	0.8701	0.8729	0.8736	0.8574
NZD/JPY	63.48	57.22	57.22	56.38	53.92	54.88
NZD/GBP	0.3543	0.3731	0.3731	0.3745	0.3760	0.3806
NZD/EUR	0.4535	0.4589	0.4589	0.4596	0.4503	0.4432
AUD/USD	0.7065	0.6713	0.6713	0.6608	0.6441	0.6593
EUR/USD	1.3668	1.2729	1.2729	1.2549	1.2496	1.2754
USD/JPY	102.42	97.96	97.96	97.74	95.82	97.08
GBP/USD	1.7492	1.5655	1.5655	1.5402	1.4966	1.4853
Oil	81.17	62.19	62.19	59.41	55.98	57.18
Gold	847.80	732.30	733.30	734.30	735.30	743.35
Electricity (Haywards)	3.16	7.62	6.56	6.07	6.36	7.38
Milk futures (US\$/contract)	101	90	90	90	90	89
Baltic Dry Freight Index	1809	820	818	824	838	841

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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