

# NEW ZEALAND ECONOMICS MARKET FOCUS

30 May 2011

## INSIDE

Economic Overview	2
NZ Surprise Index Update	5
Interest Rate Strategy	7
Currency Strategy	8
Data Event Calendar	9
Data Watch	11
Key Forecasts	12

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## AN IMPROVING RUN

### ECONOMIC OVERVIEW

Last week's Fonterra announcement continued the good news story for the income-generating part of the economy. This week's export-centric data is expected to re-emphasise this positive medium-term theme. Business confidence for May is the key event this week, with interest to see if the recovery in sentiment following seismic events continues. The RBNZ awaits firm evidence from hard data on the recovery as opposed to soft leading gauges that they remain sceptical about. However, the massive rural income boost and rising inflation expectations make it difficult to present a totally benign inflationary trajectory, NZD elevation aside.

### NZ SURPRISE INDEX UPDATE

This week we provide an update of our New Zealand Data Surprise Index, which is designed to summarise the evolution of the local dataflow relative to market expectations. Our index of data surprises tends to move in strings, with periods of stronger than expected outturns typically followed by weaker data outturns. It shows a palpable impact of the February 22 earthquake, particularly on the forward looking "soft" data. We are now seeing an improving run of data, with the "hard" activity data starting to exceed somewhat pessimistic expectations. Of some concern, "price" related data is tending to overshoot expectations, suggesting pressures in the pricing side of the economy are not as contained as the RBNZ would like them to be. The improving run of recent soft data raises the possibility of a sequence of positive hard data surprises continuing over the next few months.

### INTEREST RATE STRATEGY

Stronger than expected inflation expectations data and a record final Fonterra payout has undermined the market's relaxed attitude. Market positioning appears to be long still, and with a heavy data schedule this week, it won't take much to catch the market off guard. US bond yields continue to pull at our market, particularly for NZGS, which remain in strong demand.

### CURRENCY STRATEGY

The NZD was indeed the standout performer last week, benefiting from upside surprises on the data front and spurred on by reports of Chinese interest in buying NZ assets. A heavy domestic data calendar this week holds the potential for the NZD to reach new post-float highs, though we suspect profit taking will prevent the NZD from getting too carried away to the topside. In the NZDAUD cross, important resistance at 0.7690 looms which if broken, could see a test of the top of the range at 0.78 come into focus. Among the major currencies, Greek debt woes still weigh on the EUR, but disappointing US data is similarly holding USD back. CHF has become the default destination for flows as a result.

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### NEXT WEEK'S EVENTS

- **National Bank Business Outlook – May** (Tuesday, May 31, 1pm).
- **RBNZ Credit Aggregates – April.** Very subdued growth for household credit is expected. Agricultural credit levels should ease further, whereas a small increase is expected for business credit levels.
- **globalDairyTrade online auction** (early am, Wednesday, June 1). We expect whole milk powder prices to consolidate at around the US \$3,800 per tonne level.
- **SNZ Overseas Trade Indexes – 2011Q1** (Wednesday, June 1, 10:45am). A 2 percent increase in the terms of trade is expected, driven by a 5 percent increase in export prices. Export volumes should remain flat, with import volumes up 5 percent.
- **ANZ Commodity Price Index – May** (Wednesday, June 1, 1:00pm).
- **SNZ Building Consents – April** (Friday, June 3, 10:45am). Residential consent numbers are expected to rise 5 percent. Non-residential consent values of around \$300m are expected.

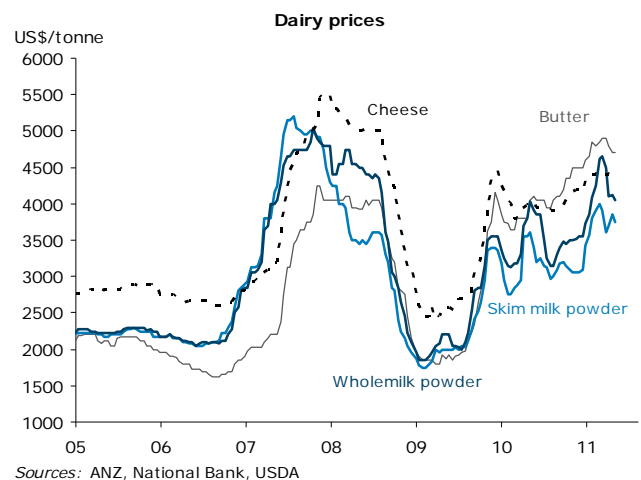
### WHAT'S THE VIEW?

**What a week that was. There were only a couple of major local developments last week, but they sure packed some punch.**

As we noted last week, the boost to nationwide purchasing power from higher export commodity prices is a massive event. **Last week's bullish announcement from Fonterra continued the good news story.** Not only did Fonterra raise the 2010/11 payout by 10 cents (worth an extra \$140m) but they also announced the highest opening price in their history for next season. Admittedly, the \$7.15-

7.25 per kg range for 2011/12 (before retentions) is lower than the \$8+ handle for this season, but it is not a bad starting point. We are looking at a close to \$12b dairy season for farmers this year and something in excess of \$10b next season, which looks to again surpass the boomer 2007/08 season.

**Coming on top of this has also been a kind Mother Nature.** Feedback from a number of regions is that they've never seen late autumn conditions looking better, though the downside to this is a slow looking start to the ski season! Today's monster April trade surplus confirmed that it is turning into a golden period for much of the primary export sector.

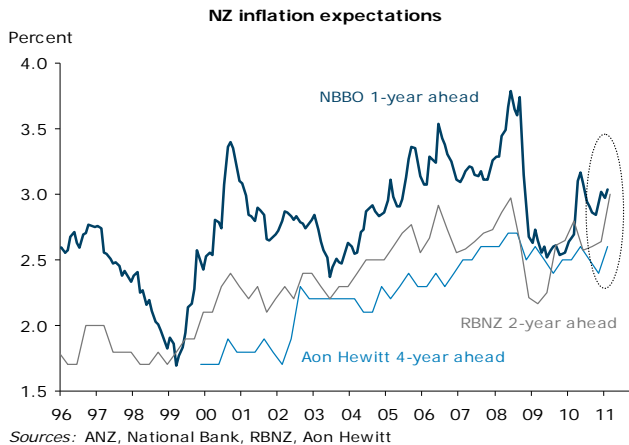


The early June *globalDairyTrade* auction is expected to reaffirm solid demand. **We expect whole milk powder prices to consolidate at around the US \$3,800 per tonne level.** These prices are falling but the real story is that dairy products with a higher fat content have been outperforming, and we expect this to continue. **While some negative issues in the rural sector continue to percolate** (i.e. a high concentration of debt in some pockets), **the combination of strong prices and good volumes is now giving some real critical mass on the positive side of the ledger.** We expect more anecdotes of on-farm spending to manifest over the coming months.

**Inflation expectations are rising and on the face of it this appears at odds with the benign RBNZ inflation assessment.** Not only was the 3 percent expectation for CPI inflation in 2 years time from the Q2 RBNZ survey the highest since early 1991, but the 0.4 percentage point increase from the previous survey was the most sizeable jump. The 1-year-ahead measure for CPI inflation also moved further above the top of the 1 to 3 percent inflation target. Admittedly the small sample size of the RBNZ survey (there were 66 responses for the 2-year-ahead CPI inflation question) suggests caution in interpreting this

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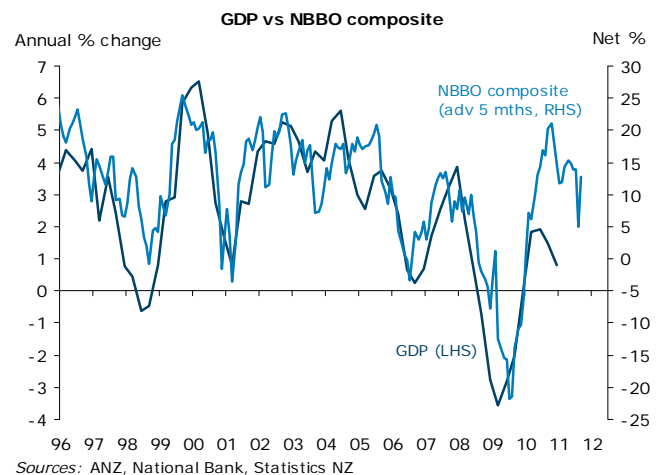
inflation spike, and petrol prices have come down by 16 cents per litre since the Q2 RBNZ survey took place (our research highlights a significant role for fuel prices in the formation of inflation expectations). But it would still have come as an unwelcome surprise.



**Looking around the various short and longer-term inflation expectation measures show an upward trend in recent months has been widespread.** As our update of domestic data surprises on page 5 shows, there has been a string of upside surprises on the pricing side of the economy. The key for medium-term inflation will be the extent to which they are incorporated into wage and pricing decisions. We will have to wait until the June MPS to see if this latest data has a palpable impact - on the RBNZ's view of the world anyway - but at the very least we would expect the RBNZ to acknowledge a challenging cost-push inflation environment.

**The combination of booming incomes and rising inflation expectations mean the backdrop to the June MPS has more "certainty" than was apparent in March.** Both make it difficult to present a benign inflation trajectory. Uncertainty about the situation in Canterbury remains, though initial indicators regarding the degree of disruption are promising. The global economy remains topsy-turvy and highly uncertain. And the New Zealand economy continues to have a split personality, with some sectors booming while others struggle. But on balance, it seems pretty clear that the case for higher rates is strengthening. Then we have the stronger NZD, with the RBNZ seemingly unprepared to flag anything major yet for fear of igniting the currency further. Suffice to say, just as April's OCR Review was marginally less downbeat on March, we'd expect June's assessment to be more positive relative to April, but not of sufficient magnitude for the RBNZ to shoot itself in the foot currency-wise.

**The key event this week will be the release of the May National Bank Business Outlook.** April saw a strong bounce from the seismically induced March weakness, with readings for Canterbury and the rest of the country recovering. There was also a sizeable pick-up in construction sector sentiment inside and outside of Canterbury, with the NBBO composite suggesting a solid recovery from a low base. The May reading will provide further insights. Simply eyeballing the chart below one can see the recent disconnect between expectations and reality, with the deleveraging consumer headwind tempering the 2010 pick-up implied by the composite expectations indicator. A key question many are toying with at present is whether we're set for a repeat of that, or whether the deleveraging dynamic has progressed sufficiently for some real hard data pick-up to follow the lead of the soft data. The 7 percent seasonally adjusted fall in April merchandise imports were partly the consequence of the strengthening NZD/USD (up 6 percent in April), no large one-off imports and seismically induced falls of car imports. Encouragingly, capital goods maintained recent strength and consumption goods managed to recover some of their March fall.

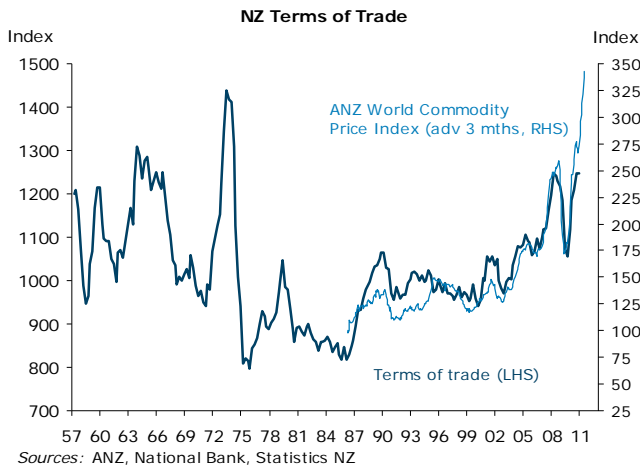


Wednesday sees the May ANZ Commodity Price Index. **A key takeout of late has not just been historically high levels of export commodity prices, but their broad-based nature.** This will have implications for the diffusion of the income boost throughout the tradable sector and the broader economy.

**Ongoing rural and household deleveraging has been a counterweight to rising incomes, and we expect the April credit aggregates to confirm this.** We are unlikely to see a substantive turnaround until we see a firming in residential and rural property market activity. But the latter may not be that far away if anecdotes are anything to go

## ECONOMIC OVERVIEW

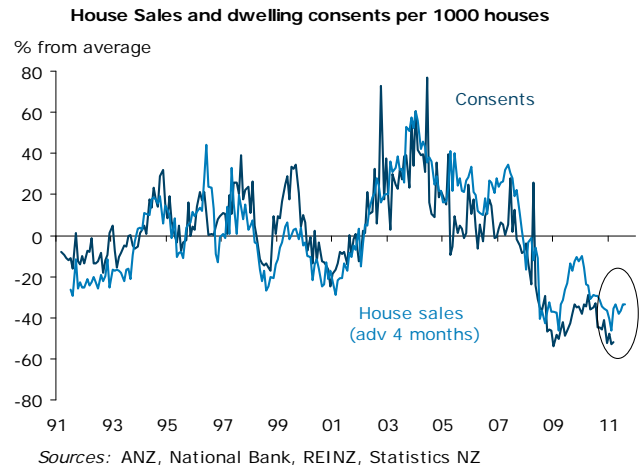
by. We will be closely watching the business credit figures to see if the 3.1 percent increase in lending since last September is added to. April capital goods imports (at \$680m) retained momentum, with values in the three months till April around 9 percent higher than the preceding three months. Improving business sentiment, recovery from a low base, and a strong NZD/USD are a powerful mix.



Overseas trade indexes for the March quarter are expected to confirm the commodity price induced boost to the purchasing power of NZ.Inc. We expect a 2 percent climb in the terms of trade, with climbing export commodity prices suggesting further gains in prospect. However, net trade looks set to detract from Q1 GDP, and we will now have to wait till early July to have this confirmed.

**April consent numbers are expected to confirm signs of recovery but from historically low levels.** We expect a 5 percent increase in residential consent numbers. Strengthening construction sector activity will be a major feature of the second half of this year, with our internal anecdotes suggesting a large margin of construction sector capacity currently in place. The scale of the task ahead posed by earthquake reconstruction is such that resources will need to shift into the construction sector. This will present considerable challenges but also opportunities if more emphasis is placed on building up technical skills within the economy.

**Looking forward, building consents will be a critical barometer of pending activity.** The current low level implies huge recovery potential (the 14,600 consents for the March 2011 year were around 50 percent below historical averages as a portion of the dwelling stock). This fits with our springboard view of the general economy.



### RECENT LOCAL DATA

- Merchandise Trade – April.** April recorded a monthly surplus of \$1,113m, the highest monthly surplus ever recorded. The annual trade surplus rose to \$1,187m.
- RBNZ Survey of Expectations – 2011Q2.** One year ahead expected CPI inflation rose from 2.87 percent to 3.12 percent. The 2-year-ahead forecast for CPI inflation rose from 2.64 percent to 3.00 percent.
- Fonterra forecast payout announcement for 2010/11 and 2011/12.** The 2010/11 forecast payout range before retentions was increased 10 cents to \$8.00-\$8.10 kgMS. For the 2011/12 season Fonterra is forecasting a milk price of \$6.75 kgMS plus a distributable profit of 40-50 cents.

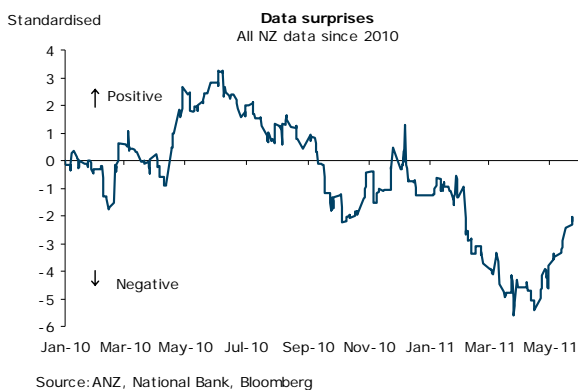
# NZ SURPRISE INDEX UPDATE

## SUMMARY

This week we provide an update of our New Zealand Data Surprise Index, which is designed to summarise the evolution of the local dataflow relative to market expectations. Our index of data surprises tends to move in strings, with periods of stronger than expected outturns typically followed by weaker data outturns. It shows a palpable impact of the February 22 earthquake, particularly on the forward looking “soft” data. We are now seeing an improving run of data, with the “hard” activity data starting to exceed somewhat pessimistic expectations. Of some concern, “price” related data is tending to overshoot expectations, suggesting pressures in the pricing side of the economy are not as contained as the RBNZ would like them to be. The improving run of recent soft data raises the possibility of a sequence of positive hard data surprises continuing over the next few months.

## A BETTER STRING OF DATA

Our Data Surprise Index is designed to summarise the impact of individual New Zealand data surprises on medium-term inflationary pressure.<sup>1</sup> It uses a wide range of domestic data outturns, and we place proportionately more weight on data that will have a bearing on medium-term inflationary pressure.



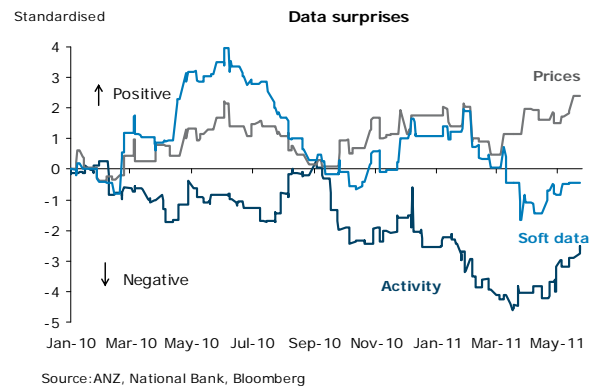
The dataflow tends to move in strings, with data tending to undershoot and then overshoot market expectations at various stages. It is the slope of the line that matters as opposed to whether it is above or below zero. After moving to an improving sequence from last September (i.e. the index was trending up), domestic data since the start of this year has tended to undershoot expectations (the index has

been trending down), although more recently a string of positive surprises has been observed.

## BROAD-BASED RECOVERY

One of the advantages of our approach is that we can divide the domestic data surprises into different types of data. These include:

- “Activity” surprises, relating to various measures of economic activity typically published by Statistics New Zealand;
- “Price” surprises, which reflect the news content of recent price releases; and
- Surprises on the “soft” leading information captured in a range of sentiment and commodity price measures.



Our analysis continues to show wide discrepancies according to the type of data. Since the start of last year, activity surprises have predominantly been to the downside (the activity line has fallen since last September), price surprises to the upside, with soft leading data somewhere in between.

Over the last couple of months, however, all of the data types are now trending upward.

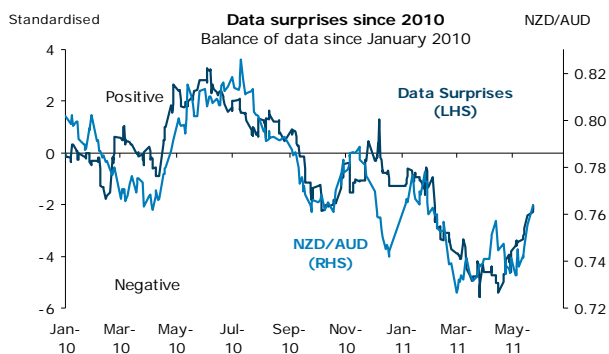
Forward looking “soft” economic data weakened in the period immediately following the February 22 earthquake, but more recent improvement in business and consumer sentiment has seen a recovery of sorts, along with strong readings for commodity prices. We are seeing a positive string of data on the activity front emerging, although admittedly this is from low levels. Surprises on the pricing side of the economy have been predominantly on the upside and do not suggest as benign an inflation environment as some would like, particularly considering economic activity is still below pre-recession levels.

<sup>1</sup> See our November 22, 2010 *Market Focus* for more detail on how our surprise index is put together. The process is a mix of art and science.

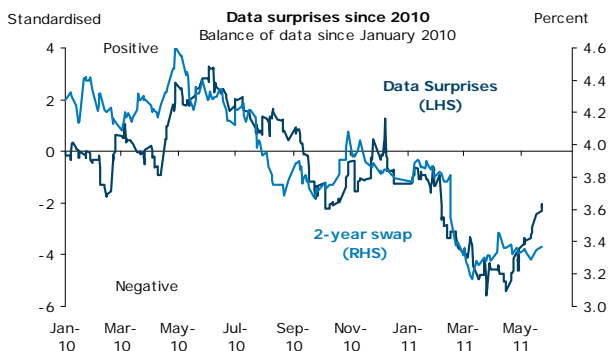
## NZ SURPRISE INDEX UPDATE

### DATA SURPRISES AND FINANCIAL MARKET PRICES

**Our surprise index tends to broadly track movements in wholesale interest rates and the NZD/AUD.** The string of negative data surprises was consistent with falls in the NZD/AUD and lower wholesale interest rates seen since the start of the year, but clearly there are other local and external events at play. A positive string of data surprises would imply a firming in wholesale interest rates and the NZD/AUD from here on and we are starting to see signs of this occurring.



Source: ANZ, National Bank, Bloomberg



Source: ANZ, National Bank, Bloomberg

### THE UPSHOT

Our surprise index showed a palpable impact in the aftermath of the February 22 earthquake, with weaker soft data contributing to a fall in the index. Over the last couple of months we have seen a turnaround of sorts.

**Forward-looking data has been steadily improving since April.** Very accommodative financial conditions, the pending boost to activity from earthquake reconstruction, and the Rugby World Cup, hold out the prospect of this improving run continuing to be evident in the activity data.

**The key will be whether the pick-up in activity implied by our gauge is sustained.** Given the

false dawns in the data this time last year, the RBNZ will be loathe to move pre-emptively, particularly considering the large degree of policy traction they currently have available to them.

**Once again soft data is presenting the allure of improvement: this time, however, we think there is more substance behind it.** As the hard data is typically the last to turn, we will closely monitor leading indicators to see if the positive string of activity surprises is maintained.

**Our surprise index also confirms a worrying sequence of upside surprises for the pricing side of the economy.** This may well overstate the implications for core inflation, given the impact of higher oil and other commodity prices. However, if the improvement in economic activity implied by the forward indicators comes into fruition and higher headline inflation rates spill over into wage and price setting, the medium-term inflation outlook will look less benign than the RBNZ would have hoped. Financial market pricing is starting to come around to this realisation, with increasing odds being placed on a late-2011 hike.

# INTEREST RATE STRATEGY

## SUMMARY

Stronger than expected inflation expectations data and a record final Fonterra payout has undermined the market's relaxed attitude. Market positioning appears to be long still, and with a heavy data schedule this week, it won't take much to catch the market off guard. US bond yields continue to pull at our market, particularly for NZGS, which remain in strong demand.

## MARKET THEMES

- Last week's jump in inflation expectations was a shot across the bow, and should not be ignored.
- We need to acknowledge that low US bond yields are pulling on the NZ market like a rubber band.
- We believe the normalisation of swap spreads has some way to go with it. Indeed, it could become self-fulfilling as credit quality of NZGS is affirmed, and borrowers look to hedge against rising rates.

## REVIEW AND OUTLOOK

The slow grind lower in domestic interest rates came to a halt last week following the release of higher than expected inflation expectations, and news of a record Fonterra payout. The fact that they had such an impact suggests it caught the market by surprise. And rightly so – the market had become far too complacent, in our view, and these two developments are “proof” that it's not all bad out there. We consider the rise in inflation expectations was particularly important – and along with the fact that the real (i.e. inflation adjusted) OCR is negative, is a clear sign that the OCR is on borrowed time at 2.5 percent. With a heavy data schedule this week, a test of the complacent view is certainly on the cards – and while it looks like a stretch to call it now, with the election muddying the prospects for a September hike, that only increases the possibility of at least a 25bp start to the tightening cycle in December.

US bond yields remain low and look set to test the key 3 percent level. At issue is whether the slowing of data is “real” or just a temporary blip, mainly related to the auto sector. It'll be a while before this is resolved – but we are mindful of it as it is having an unduly large impact on local yields.

The spread between swap and bonds continues to normalise, driven by stronger data, widespread talk of Asian demand for NZGS, Moody's downgrade of NZ bank credit ratings, and the likelihood that NZ's sovereign credit rating is affirmed at some stage in the next week or so. This should provide further support for NZGS bonds.

## PREFERRED BORROWING STRATEGIES

Last week's duo of a higher Fonterra payout and a jump in inflation expectations has put us on guard. Both were noteworthy developments, and when we throw them into the mix with other positive anecdotes, it all serves to underline our view that the OCR is on borrowed time down here. Long end interest rates have also been held down by strong demand for NZ government bonds and much lower US bond yields. While neither situation is expected to change any time soon, the influence they are having must be recognised, because interest rates would be much higher had that not been the case. As such, we view interest rates as being at fairly opportunistic levels here, particularly in the 4-5 year part of the curve, which offers a good mix of value and certainty, as we discuss in detail in our *Borrower's Strategy* (which is available on request).

## GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	RBNZ seems to be happy being behind the curve.
NZ data	↑	Better Fonterra payout and higher inflation expectations are warning signs.
Fed Funds / front end	↔/↓	US data continues to print on the soft side.
RBA	↔	Hike next week unlikely.
US 10 year	↔/↓	Carry and momentum point to lower yields, but 10yr break of 3% a hard ask.
NZ swap curve	↔/↓	Will flatten as short end rises, long end follows US.
Flow	↔	Payers now dominate.
Technicals	↔	2yr in middle of range.

## MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 9-Jun-11	0	0
Thu 28-Jul-11	0	+1
Thu 15-Sep-11	+2	+2
Thu 27-Oct-11	+7	+8
Thu 8-Dec-11	+14	+18
Thu 26-Jan-12	+24	+29
Thu 8-Mar-12	+38	+48

## TRADING THEMES WE FAVOUR AT PRESENT

The 2y-10yr swap curve has flattened substantially, but it looks set to go further, with US 10yr bonds testing new yield lows, and the short end still vulnerable to paying as strong data percolates. NZGS asset swaps continue to normalise. Short and middle curve asset swaps have been the best performers so far, and are likely to be going ahead, with NZGS supply concentrated at the long end, and roll and carry better in the mid curve. The RBNZ's move to Open Bank Resolution also weakens the link between the Crown and banks at times of stress, adding to the allure of NZGS, helping swap spreads normalise.

# CURRENCY STRATEGY

## SUMMARY

The NZD was the standout performer last week, benefiting from upside surprises on the data front and spurred on by reports of Chinese interest in buying NZ assets. A heavy domestic data calendar this week holds the potential for the NZD to keep hitting new post-float highs, though we suspect profit-taking will prevent the NZD from getting too carried away to the topside. In the NZDAUD cross, important resistance at 0.7690 looms which, if broken, could see a test of the top of the range at 0.78 come into focus. Among the major currencies, Greek debt woes still weigh on the EUR, but disappointing US data is holding USD back. CHF has become the default destination for flows as a result.

## MARKET THEMES

- NZD storms ahead on better data and positive news reports.
- European sovereign debt crisis continues but EUR buoyed (short term) by Greek austerity chatter.
- The mixed nature of US data hinders any USD recovery (for now). The end of QE2 is upon us. What next?

## REVIEW AND OUTLOOK

**The NZDUSD seems to have only technical headwinds as it hits fresh post-float highs.** A week of very positive news – a strong forecast Fonterra payout, higher inflation expectations, and a news report of strong interest from China in NZ assets – provided the impetus to drive the NZD higher. A downgrade by Moody's of NZ banks did not prevent the march higher in NZD.

**Any market chatter around the potential for RBNZ intervention should be discounted.** While the NZDUSD is 8 percent higher than the level at which the RBNZ first intervened, the TWI is around 5 percent lower than at that time (June 2007). Also, NZ commodity prices are a good deal stronger now (up 50 percent since based on the ANZ Commodity Price Index), so a higher NZD can be justified on that basis. **With the NZD exceeding the previous 0.8214 high seen in February 2008 during early trading today, we are in uncharted waters.** But expect profit taking to cap the extent of any initial gains. On the TWI the head and shoulders formation mentioned last week is now in play. There is some resistance at 70.75 but first target is 72.52.

**This week is also crucial for the AUD, and therefore on prospects for the NZDAUD cross.** Australian Q1 GDP and April retail sales will determine the near-term directional view for the

AUD. Weakness in both could see AUD head towards near-term support levels, which would see NZDAUD break above the important 0.7690 resistance level and see 0.78 come into play.

**The European debt crisis continues to weigh on financial markets,** as various official comments cause the EUR to wax and wane. But EUR has held up remarkably well, in part because of the prospect of a July hike by the ECB and also due to the USD being dragged lower by the recent run of data which has tended to be on the weaker side of expectations. In this environment, CHF was the standout performer, benefiting from safe haven flows.

### NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↓	RBA set to move. RBNZ on hold for a while.
Commodities	↔	Commodities recovering.
Partial indicators	↓	RBNZ and RBA in opposing directions again.
Technicals	↑	Support at 0.7580.
Sentiment	↑	Positive in light of news of China interest in NZ assets.
Other	↑	Terms of trade continue to support.
<b>On balance</b>	↔/↑	<b>Rangebound 0.7580 - 0.7800.</b>

### NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Yield differentials suggest NZD should be lower.
Commodities	↔/↑	Commodities recovering.
Risk aversion	↔	Risk gauges turning higher.
Partial indicators	↔/↑	NZ data starting to get better.
Technicals	↑	Positive momentum strong.
AUD	↔	AUD off support levels.
Sentiment	↑	Offshore investment and inflation indicators driving support.
Other	↑	Strong demand for NZ bonds.
<b>On balance</b>	↑	<b>NZD the market darling. More post-float highs beckon.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
30-May	NZ	Trade Balance - APR	600M	464M	10:45
	UK	Hometrack Housing Survey (MoM) - MAY	- -	0.00%	11:01
	UK	Hometrack Housing Survey (YoY) - MAY	- -	-3.30%	11:01
	AU	Company Operating Profit QoQ% - 1Q	2.00%	-2.80%	13:30
	AU	Inventories - 1Q	0.10%	0.70%	13:30
	NZ	Money Supply M3 YoY - APR	- -	5.60%	15:00
	CH	Leading Index - APR	- -	101.71	UNCONFIRMED
31-May	JN	Markit/JMMA Manufacturing PMI - MAY	- -	45.7	11:15
	JN	Jobless Rate - APR	4.70%	4.60%	11:30
	JN	Industrial Production (MoM) - APR P	2.20%	-15.50%	11:50
	JN	Industrial Production YOY% - APR P	-12.40%	-13.10%	11:50
	AU	RP Data-Rismark House Px MoM N - APR	- -	0.20%	12:30
	AU	RP Data-Rismark House Px MoM S - APR	- -	0.20%	12:30
	NZ	NBNZ Activity Outlook - MAY	- -	29.5	13:00
	NZ	NBNZ Business Confidence - MAY	- -	14.2	13:00
	AU	Building Approvals (MoM) - APR	-1.80%	9.10%	13:30
	AU	Building Approvals (YoY) - APR	-12.70%	-18.10%	13:30
	AU	Current Account Balance - 1Q	-10000M	-7299M	13:30
	AU	Australia Net Exports of GDP - 1Q	- -	0	13:30
	AU	Private Sector Credit MoM% - APR	0.50%	0.60%	13:30
	AU	Private Sector Credit YoY% - APR	3.80%	3.60%	13:30
	JN	Construction Orders (YoY) - APR	- -	-11.00%	17:00
	JN	Annualized Housing Starts - APR	0.776M	0.807M	17:00
	JN	Housing Starts (YoY) - APR	-3.10%	-2.40%	17:00
	GE	Retail Sales (MoM) - APR	1.80%	-2.10%	18:00
	GE	Retail Sales (YoY) - APR	1.50%	-3.50%	18:00
	GE	Unemployment Rate (s.a) - MAY	7.00%	7.10%	19:55
	EC	Euro-Zone CPI Estimate (YoY) - MAY	2.80%	2.80%	21:00
	EC	Euro-Zone Unemployment Rate - APR	9.90%	9.90%	21:00
1-Jun	US	S&P/CS 20 City MoM% SA - MAR	-0.24%	-0.18%	01:00
	US	S&P/CS Composite-20 YoY - MAR	-3.40%	-3.33%	01:00
	US	Chicago Purchasing Manager - MAY	62	67.6	01:45
	US	Consumer Confidence - MAY	66.5	65.4	02:00
	US	NAPM-Milwaukee - MAY	60.5	68	02:00
	US	Dallas Fed Manf. Activity - MAY	8	10.5	02:30
	NZ	Terms of Trade Index (QoQ) - 1Q	- -	0.60%	10:45
	AU	AiG Performance of Mfg Index - MAY	- -	48.4	11:30
	NZ	ANZ Commodity Price - MAY	- -	1.60%	13:00
	CH	PMI Manufacturing - MAY	51.6	52.9	13:00
	AU	HIA New Home Sales (MoM) - APR	- -	4.30%	13:00
	AU	Gross Domestic Product (QoQ) - 1Q	-0.30%	0.70%	13:30
	AU	Gross Domestic Product (YoY) - 1Q	1.80%	2.70%	13:30
	CH	HSBC Manufacturing PMI - MAY	- -	51.8	14:30
	JN	Vehicle Sales (YoY) - MAY	- -	-51.00%	17:00
	AU	RBA Commodity Index SDR YoY% - MAY	- -	32.30%	18:30
	GE	PMI Manufacturing - MAY F	58.2	58.2	19:55
1-Jun	EC	PMI Manufacturing - MAY F	54.8	54.8	20:00
	UK	PMI Manufacturing - MAY	54.1	54.6	20:30

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-June	UK	Net Consumer Credit - APR	0.2B	0.1B	20:30
	UK	Net Lending Sec. on Dwellings - APR	0.7B	0.4B	20:30
	UK	Mortgage Approvals - APR	47.0K	47.6K	20:30
	UK	M4 Money Supply (MoM) - APR	- -	0.10%	20:30
	UK	M4 Money Supply (YoY) - APR	- -	-1.10%	20:30
	US	Challenger Job Cuts YoY - MAY	- -	-4.80%	23:30
2-Jun	US	ADP Employment Change - MAY	175K	179K	00:15
	US	Construction Spending MoM - APR	0.30%	1.40%	02:00
	US	ISM Manufacturing - MAY	57.6	60.4	02:00
	US	ISM Prices Paid - MAY	81.5	85.5	02:00
	US	Total Vehicle Sales - MAY	12.50M	13.14M	09:00
	US	Domestic Vehicle Sales - MAY	9.85M	10.20M	09:00
	JN	Monetary Base (YoY) - MAY	- -	23.90%	11:50
	JN	Capital Spending excl Sftwre - 1Q	-1.00%	4.80%	11:50
	JN	Capital Spending - 1Q	3.00%	3.80%	11:50
	AU	Trade Balance - APR	2100M	1740M	13:30
	AU	Retail Sales s.a. (MoM) - APR	0.40%	-0.50%	13:30
	UK	PMI Construction - MAY	53.5	53.3	20:30
3-Jun	US	RBC Consumer Outlook Index - JUN	- -	42.9	00:00
	US	Nonfarm Productivity - 1Q F	1.70%	1.60%	00:30
	US	Unit Labor Costs - 1Q F	0.80%	1.00%	00:30
	US	Initial Jobless Claims - 28 MAY	417K	424K	00:30
	US	Continuing Claims - 21 MAY	3675K	3690K	00:30
	US	Factory Orders - APR	-1.00%	3.00%	02:00
	NZ	Building Permits MoM - APR	0.50%	2.20%	10:45
	AU	AiG Performance of Service Index - MAY	- -	51.5	11:30
	CH	China Non-manufacturing PMI - MAY	- -	62.5	13:00
	CH	China HSBC Services PMI - MAY	- -	51.6	14:30
	GE	PMI Services - MAY F	54.9	54.9	19:55
	EC	PMI Composite - MAY F	55.4	55.4	20:00
	EC	PMI Services - MAY F	55.4	55.4	20:00
	UK	PMI Services - MAY	54.2	54.3	20:30
	UK	Official Reserves (Changes) - MAY	- -	\$1663M	20:30
4-Jun	US	Change in Nonfarm Payrolls - MAY	185K	244K	00:30
	US	Change in Private Payrolls - MAY	210K	268K	00:30
	US	Change in Manufact. Payrolls - MAY	13K	29K	00:30
	US	Unemployment Rate - MAY	8.90%	9.00%	00:30
	US	Avg Hourly Earning MOM All Emp - MAY	0.20%	0.10%	00:30
	US	Avg Hourly Earning YOY All Emp - MAY	1.90%	1.90%	00:30
	US	Avg Weekly Hours All Employees - MAY	34.3	34.3	00:30
	US	Chg in Household Survey Empl - MAY	- -	-190	00:30
	US	ISM Non-Manf. Composite - MAY	54	52.8	02:00
6-Jun	UK	Lloyds Employment Confidence - MAY	- -	- -	11:01
	AU	TD Securities Inflation YoY% - MAY	- -	3.60%	12:30
	AU	ANZ Job Advertisements (MoM) - MAY	- -	1.00%	13:30
	EC	Sentix Investor Confidence - JUN	- -	10.9	20:30
	EC	Euro-Zone PPI (YoY) - APR	- -	6.70%	21:00

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

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

Note: All surveys are preliminary and subject to change.



## LOCAL DATA WATCH

**Key focus over the next few weeks:** The Fonterra announcement continued the good news story for the income-generating part of the economy, with higher surveyed inflation expectations providing the RBNZ with more food for thought. This week's Business Confidence readings will show whether sentiment is continuing to build from March lows, with commodity price data expected to affirm the positive story for NZ.Inc. Data over the coming months will remain noisy and will highlight sector differences.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 31 May (1:00pm)	National Bank Business Outlook	- -	- -
Tue 31 May (3:00pm)	RBNZ Credit Aggregates – April	Deleveraging	Deleveraging still drives a wedge between income and spending, but we expect business credit growth to continue picking up.
Wed 1 June (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US 3,800 per tonne level.
Wed 1 June (10:45am)	Overseas Trade Indexes – 2011Q1	TOT positive, GDP negative	A 2 percent increase in the terms of trade is expected. Export volumes should remain flat, with import volumes up 5 percent.
Wed 1 June (1:00pm)	ANZ Commodity Price Index - May	- -	- -
Fri 3 June (10:45am)	Building Consents – April	Building	Residential consents are expected to rise 5 percent. Strengthening construction sector activity will be a feature of H2.
Thur 8 June (10:45am)	SNZ Value of Building Work Put in Place – Q1	Down in the dumps	We expect a 7 percent decline in residential volumes. A 3 percent fall in non-residential building volumes is expected.
Thur 9 June (9:00am)	RBNZ June MPS	Patience	The RBNZ will be in no hurry to move the OCR higher. A more detailed set of projections will show a stronger pick-up in activity over 2012, but with core inflation under control.
Fri 10 June (10:45am)	REINZ housing market data – May	Creeping up	We expect a small increase in volumes, but with strong regional divergences. The upward trend in prices should run out of puff.
Fri 10 June (10:45am)	Electronic Card Transactions – May	Rolling along	Past readings have shown the resilience of retail spending, but we expect a smaller 0.2 percent increase in May.
Wed 15 June (10:45am)	Retail Trade Survey - Q1	Up	Retail volumes are expected to rise 1.5 percent, with core volumes up 1.0 percent.
Thur 16 June (10:45am)	Wholesale Trade – Q1	Sideways	We expect a 0.2 percent increase in wholesale trade volumes.
Thur 16 June (10:45am)	Economic Survey of Manufacturing – Q1	Down	Ex-primary manufacturing volumes are expected to fall 2 percent. Primary manufacturing volumes should track sideways.
Thur 16 June (1:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Tue 21 June (10:45am)	International Travel and Migration – May	Up	We expect a net PLT inflow of 100 persons in May. Visitor arrival number should stabilise, with wide country divergences.
Wed 22 June (10:45am)	Current Account Balance – Q1	As good as it gets	A \$6bn reinsurance flow will produce a \$5.4bn surplus, with the first annual surplus (0.4 percent of GDP) since the early 1970s.
Thur 30 Jun (10:45am)	Building Consents – May	Lifting	We expect a 5 percent increase in residential consent numbers.
Thur 30 Jun (10:45am)	Overseas Merchandise Trade – May	Commodity price boost	A monthly surplus of around \$800m is forecast, with the annual surplus widening towards \$700m.
Thur 30 June (1:00pm)	National Bank Business Outlook	- -	- -
<b>On Balance</b>		<b>Mixed</b>	<b>A real economy and pricing side dichotomy may start to emerge. Signs of life in retail.</b>

## KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.2	<b>-0.4</b>	<b>0.1</b>	<b>1.4</b>	<b>1.8</b>	<b>0.7</b>	<b>0.9</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>
GDP (% yoy)	0.8	<b>-0.3</b>	<b>-0.3</b>	<b>1.3</b>	<b>2.9</b>	<b>4.1</b>	<b>4.9</b>	<b>4.4</b>	<b>3.3</b>	<b>3.3</b>
CPI (% qoq)	2.3	0.8	<b>1.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>
CPI (% yoy)	4.0	4.5	<b>5.3</b>	<b>5.0</b>	<b>3.3</b>	<b>3.1</b>	<b>2.9</b>	<b>2.7</b>	<b>2.6</b>	<b>2.9</b>
Employment (% qoq)	-0.4	1.4	<b>-0.2</b>	<b>0.4</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>
Employment (% yoy)	1.3	1.8	<b>1.8</b>	<b>1.2</b>	<b>2.1</b>	<b>1.2</b>	<b>1.8</b>	<b>1.9</b>	<b>1.8</b>	<b>1.7</b>
Unemployment Rate (% sa)	6.7	6.6	<b>6.6</b>	<b>6.3</b>	<b>6.3</b>	<b>6.2</b>	<b>6.2</b>	<b>6.0</b>	<b>6.0</b>	<b>6.0</b>
Current Account (% GDP)	-2.3	<b>0.3</b>	<b>0.2</b>	<b>-1.8</b>	<b>-1.6</b>	<b>-4.7</b>	<b>-5.0</b>	<b>-5.3</b>	<b>-5.6</b>	<b>-5.8</b>
Terms of Trade (% qoq)	0.6	<b>2.5</b>	<b>1.5</b>	<b>1.5</b>	<b>0.6</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.8</b>
Terms of Trade (% yoy)	12.2	<b>8.3</b>	<b>7.8</b>	<b>6.3</b>	<b>6.2</b>	<b>2.8</b>	<b>0.5</b>	<b>-1.9</b>	<b>-3.3</b>	<b>-3.3</b>

	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Retail ECT (% mom)	-0.6	2.3	0.8	0.9	-0.8	2.4	0.0	1.6	1.5	..
Retail ECT (% yoy)	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6	10.0	..
Credit Card Billings (% mom)	0.7	1.0	0.6	0.0	-1.8	3.6	-0.5	-1.4	1.6	..
Credit Card Billings (% yoy)	2.3	4.2	4.7	3.8	2.0	5.6	5.3	1.6	6.0	..
Car registrations (% mom)	0.1	2.8	-3.8	12.4	-7.9	0.7	-1.7	-0.5	-5.7	..
Car registrations (% yoy)	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5	..
Building consents (% mom)	-17.6	0.9	-2.0	8.0	-18.4	9.0	-9.8	2.2	..	..
Building consents (% yoy)	-3.1	-9.4	-17.5	-9.1	-26.5	-14.9	-29.0	-26.3	..	..
REINZ House Price Index (% yoy)	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	..
Household Lending Growth (% mom)	0.1	0.2	0.1	0.0	0.0	0.1	0.1	-0.1	..	..
Household Lending Growth (% yoy)	2.3	2.3	2.0	1.8	1.6	1.6	1.5	1.2	..	..
ANZ Roy Morgan Consumer Confidence	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4	101.4	103.3
NBNZ Business Confidence	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7	14.2	..
NBNZ Own Activity Outlook	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7	29.5	..
Trade Balance (\$m)	-430	-455	-220	-177	-218	9	182	578	1113	..
Trade Balance (\$m ann)	871	978	1259	1363	1172	909	763	734	1187	..
ANZ World Commodity Price Index (% mom)	-1.4	2.8	3.5	4.5	2.0	3.8	2.7	4.8	1.6	..
ANZ World Commodity Price Index (% yoy)	38.6	32.9	31.4	23.7	23.0	27.2	25.9	29.6	25.4	..
Net migration (sa)	860	1000	390	600	720	440	450	-520	-90	..
Net migration (annual)	14507	13914	12610	11519	10451	8689	8249	6554	5508	..

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

## KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.762	0.810	0.819	0.76	0.77	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.737	0.738	0.764	0.72	0.71	0.72	0.73	0.72	0.72	0.73
NZD/EUR	0.538	0.547	0.572	0.54	0.56	0.56	0.56	0.54	0.53	0.52
NZD/JPY	63.31	65.75	66.13	64.6	66.2	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.475	0.485	0.497	0.47	0.48	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	66.7	68.6	70.6	66.6	67.8	67.1	67.0	65.7	64.9	64.4
INTEREST RATES	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.63	2.68	2.68	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.66	5.44	5.08	5.50	5.70	5.90	6.10	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00
US 3-mth	0.30	0.27	0.25	0.35	0.35	0.35	0.85	1.60	2.10	2.10
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.93	4.92	5.03	5.30	5.30	5.50	5.60	5.80	6.00	6.00

	27 Apr	23 May	24 May	25 May	26 May	27 May
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.65	2.65	2.65	2.67	2.67	2.68
NZGB 04/13	3.41	3.13	3.19	3.19	3.25	3.23
NZGB 04/15	4.44	4.01	4.06	4.05	4.10	4.07
NZGB 03/19	5.48	4.90	4.95	4.93	4.94	4.90
NZGB 05/21	5.63	5.11	5.16	5.14	5.15	5.09
2 year swap	3.38	3.27	3.33	3.35	3.40	3.38
5 year swap	4.63	4.37	4.42	4.41	4.44	4.42
RBNZ TWI	69.0	68.9	69.4	69.2	70.2	70.7
NZD/USD	0.8069	0.7903	0.7952	0.7923	0.8072	0.8180
NZD/AUD	0.7448	0.7480	0.7542	0.7559	0.7626	0.7650
NZD/JPY	65.79	64.77	65.06	64.94	66.05	66.32
NZD/GBP	0.4891	0.4877	0.4936	0.4899	0.4949	0.4976
NZD/EUR	0.5495	0.5617	0.5657	0.5642	0.5703	0.5740
AUD/USD	1.0834	1.0565	1.0543	1.0482	1.0585	1.0693
EUR/USD	1.4684	1.4071	1.4057	1.4043	1.4153	1.4250
USD/JPY	81.53	81.95	81.82	81.96	81.83	81.07
GBP/USD	1.6498	1.6205	1.6111	1.6173	1.6311	1.6438
Oil (US\$/bbl)	111.72	99.15	97.06	99.13	100.78	100.18
Gold (US\$/oz)	1509.20	1511.00	1517.50	1523.60	1529.55	1525.81
Electricity (Haywards)	6.60	2.29	1.32	1.84	4.75	4.25
Baltic Dry Freight Index	1259	1369	1398	1446	1467	1474
Milk futures (USD)	161	160	160	161	161	162

# IMPORTANT NOTICE

## NEW ZEALAND DISCLOSURE INFORMATION

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

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

### Qualifications, experience and professional standing Experience

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

### Relevant professional body

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

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

### Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

### Dispute resolution facilities

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

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

### Criminal convictions

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

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

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

### Fees

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

### Other interests and relationships

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

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

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

### Securities about which investment advice is given

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

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

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

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

- Providing cash;



## IMPORTANT NOTICE

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

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

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

### Record Keeping

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

### Auditing

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

### Use of Money and Property

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

### NEW ZEALAND DISCLAIMER

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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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