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Page 2: Economic overview

- > Last week's "inflation" reminder by the Reserve Bank has done nothing to alter our interest rate view. While certainly timely, the global backdrop and weakness we are seeing across the general economy hold sway. We struggle to see pricing pressure remaining elevated in such an environment. This week's Fiscal Update is expected to confirm higher deficits, debt, and bond tender programmes. The National Bank *Business Outlook* survey will be closely eyed for signs of stability.

Page 4: Economic comment – quarterly forecast summary

- > The dynamics of a current account rebalancing process and the global scene dominate our view of the NZ economy. While natural shock absorbers, including a weaker currency, fiscal policy and lower interest rates, are responding, particularly to the latter – and will help cushion the adjustment – we must be realistic. The adjustment process will be a lengthy one, with a further contraction in 2009 before recovery takes hold.

Page 6: NZ Government's Budget Policy Statement and updated economic and fiscal forecasts preview

- > There is little doubt that this week's updated Treasury forecasts will show a more subdued economic picture, lower tax revenue and larger operating deficits than that presented in October. Our attention will be on the details and size of the fiscal stimulus package. We expect a large increase in the bond tender programme to be announced.

Page 8: Economic comment – global watch

- > US, European and UK data was mixed last week. The big theme was further signs of weakness in Asia. Chinese trade data reinforces that not only is the globe slowing, but so too is the Chinese domestic economy. Industrial production continues to slow around the globe, and the Bank of Korea and Central Bank of Taiwan both cut rates more than expected.

Page 9: Interest rate strategy

- > Interest rates continue to follow global trends, and have moved back towards the lows reached earlier last week. We expect interest rates to continue to fall, spurred on by soft US data, concerns over the speed it's spilling into Asia, and the bullish "fever" that has gripped the Australian market. Righting our external imbalance does imply a higher risk premium for NZ, but the NZD is likely to bear the brunt of the adjustment, with higher margins offset by a lower OCR.

Page 10: Currency strategy

- > The technical rebound we have been anticipating is underway, although it lacks any strong conviction at this stage. The domestic dataflow continues to be bearish, and we expect that to eventually drag the NZD to another leg lower. Key theme to watch at the moment is a pullback in the USD, and a resurgent EUR and JPY, as the currency markets start to favour economies with current account surpluses.

Page 11: Data and event calendar

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ECONOMIC OVERVIEW

Last week's "inflation" reminder by the Reserve Bank has done nothing to alter our interest rate view. While certainly timely, the global backdrop and weakness we are seeing across the general economy hold sway. We struggle to see pricing pressure remaining elevated in such an environment. This week's Fiscal Update is expected to confirm higher deficits, debt, and bond tender programmes. The National Bank *Business Outlook* survey will be closely eyed for signs of stability.

What's ahead?

- > **September quarter Economic Survey of Manufacturing** (Monday 1045 NZDT). Despite the lower NZD improving export competitiveness, recent PMI surveys have shown manufacturing activity contracting and we expect this to be mirrored in this survey.
- > **NZ Government's Half-Year Economic and Fiscal Update** (Thursday 1100 NZDT). Economic and fiscal forecasts will be revised lower. Refer to page 6 for our full preview.
- > **December NBNZ Business Outlook** (Thursday 1500 NZDT).
- > **November External Migration** (Friday 1045 NZDT). The past two months has seen net migration effectively flat. Will it turn negative? It cannot be ruled out. Visitor arrivals, while volatile, are also expected to continue heading lower.
- > **November Credit Card Spending** (Friday 1500 NZDT). The credit card data did not provide a good lead on core retail spending in October. Given the volatility, we expect billings to rebound in the month.

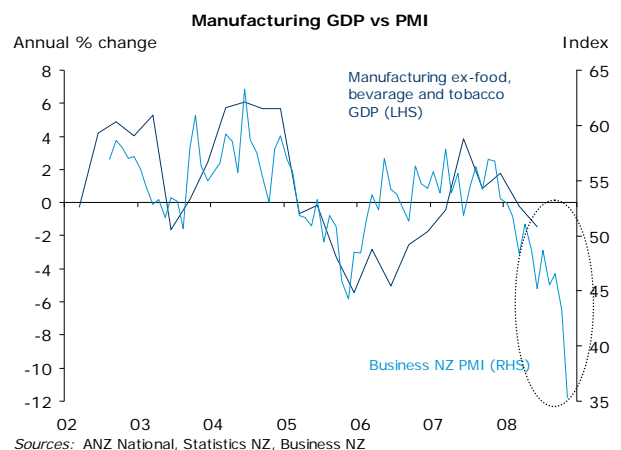
What's the view?

Dr Bollard hit the headlines again last week, but not for the reasons we have come accustomed to over recent months. Less than a week after delivering the largest OCR cut in history, RBNZ Governor Bollard took the opportunity to remind everyone in a speech that inflation isn't dead and buried. He noted that while "for some commentators, concerns over inflation appear to have taken a back seat", inflation remains "very high", and the RBNZ "need to see inflationary pressures reducing significantly across the board, if we are to keep on easing monetary policy". A pretty clear statement indeed! He even went as far as to single out certain sectors where inflation pressures remain a concern (particularly in non-contestable pockets).

Should we be rushing out and thinking twice about the cash rate falling below 4 percent? Not by what we are seeing around the country. While a timely

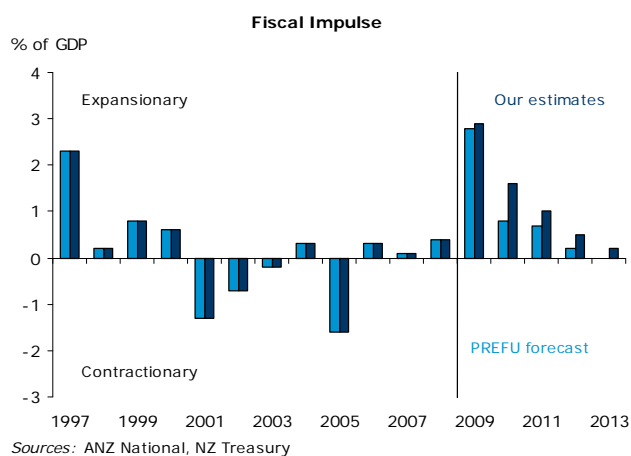
reminder about the Reserve Bank's inflation mandate, we can't help but feel that the speech was directed at throwing the issue of sticky domestic inflation pressure into the court of public opinion. After all, consumers ought to be the best judges! Moreover, the wider global picture continues to dominate our economic and interest rate view. To that, can be added the dynamics of a current account rebalancing process. The combination of these two together actually results in a bit of "tension" within our interest rate view, with low rates required to support the former, but restrained domestic demand also required for the latter. Page 4 provides a snapshot of our recently released *Quarterly Economic Forecasts*.

Looking to the events this week, the first is the September quarter manufacturing survey this morning. This is the final partial indicator we use for our GDP forecast (although occasionally the Balance of Payments data can result in some tweaking if the services balance surprises) and is expected to again paint a downbeat picture. While a lower currency (although to be fair not against the AUD, which is an important cross for manufacturing exporters) will have improved competitiveness globally, slowing demand will likely have more than offset this benefit. Recent PMI surveys, although not a perfect indicator, clearly show that the manufacturing sector is in contraction mode. In fact, the latest BNZ-Business NZ PMI survey hit a new low in November suggesting an even worse performance over Q4. At this stage we are comfortable with our expectation that Q3 GDP will contract by a further 0.5 percent.

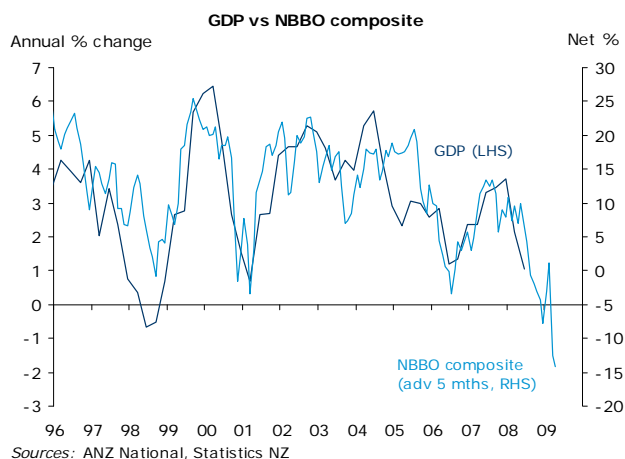


The second, and arguably biggest, event of the week is the release of the Government's updated economic and fiscal forecasts on Thursday. We have little doubt (and in fact this has been foreshadowed by Treasury officials and the Minister of Finance himself) that the Government's fiscal position will have deteriorated further since the *Pre-Election Update* in October. Operating deficits, higher debt levels, and larger bond tender programmes will become the norm as the sharply

deteriorating domestic economy place pressure on the fiscal purse. We will be looking out for further details on the new Government's fiscal stimulus measures announced last week (refer to page 6 for our full preview).



The final data are the NBNZ *Business Outlook* for December and external migration numbers for November. The former is something we place much weight on and we suspect there'll be a lot of interest given the close relationship with GDP.



The previous *Business Outlook* survey did not paint a pleasant picture for the economy. A competitor survey points to a rebound so people will naturally be looking to see if some stability or improvement returns. The main focus for the migration numbers will be overseas visitor arrivals. Our view on the tourism sector has been made quite clear in earlier editions of the *Market Focus*, but recent data has shown that this is now coming to fruition. Visitor arrivals are down 10 percent from their recent peak at the start of the year and we expect this theme to continue.

The main focus offshore this week will be the US FOMC meeting and the associated interest rate announcement. The consensus among economists is for a 50bp rate cut to 0.50 percent. It's difficult to determine what the market expects, mainly because the effective Fed Funds rate (where it actually trades in the market) has traded

consistently below the target rate (the rate the FOMC set) for some time, having averaged just 0.9 percent (according to brokers) last week. So while we can say that the market expects Fed Funds to fall to 0.30 percent after the FOMC meeting, it's difficult to say how much of this is a rate cut, and how much is a reflection of cash trading below target. Whatever happens, as Fed Funds approaches zero, the Fed will find itself running even lower on "ammunition" in the traditional monetary policy sense, and as such, we'd expect to hear more talk of alternatives. The other big data releases offshore are sentiment surveys out of Japan (Tankan) and Germany (IFO), as well as being "CPI week", with the US, Europe and UK releasing inflation data.

Recent local data...

Value of Building Work Put in Place

(September quarter): Real residential building work put in place fell 7.9 percent, while non-residential building work rose 5.8 percent.

Overseas Trade Indexes (September quarter):

The merchandise terms of trade fell 2.3 percent. Export volumes fell 2.3 percent, while import volumes fell 5.0 percent.

Food Price Index (November): Food prices rose 0.8 percent in the month, to be up 10.3 percent on a year ago.

REINZ House Sales (November): In seasonally adjusted terms, house sales fell 13.1 percent, median days to sell fell to 47 days, and the medium house price rose slightly to \$337,500.

BNZ-Business NZ PMI (November): The index fell to a record low of 35.4.

Retail Sales (October): Headline sales fell 1.3 percent, driven by a 14.5 percent fall in car sales. Core spending rose a modest 0.8 percent.

QUARTERLY FORECAST SUMMARY

The dynamics of a current account rebalancing process and the global scene dominate our view of the NZ economy. While natural shock absorbers, including a weaker currency, fiscal policy and lower interest rates, are responding, particularly to the latter – and will help cushion the adjustment – we must be realistic. The adjustment process will be a lengthy one, with a further contraction in 2009 before recovery takes hold.

Our latest *Quarterly Economic Forecasts* publication was released on Friday. Here are the key themes:

The dynamics of a current account rebalancing process dominates the outlook. Even prior to current global malaise, the unbalanced nature of growth always meant that the NZ economy was set for an “adjustment” where the composition of growth shifted away from the spending side of the economy towards the earnings sector. When we analyse historical current account alignment experiences around the globe, there are two key dynamics that are common. First, the currency depreciates significantly. Second, the economy experiences a period of very weak domestic demand.

We need to recognise the scale of global developments. The global economy is in the midst of the worst financial crisis in 80 years. Asset prices are tumbling, major financial institutions have announced large write-downs and losses, some have failed or have been gobbled up, and others are crying out for capital. The credit decelerator is now in full force after being in “accelerator” mode over the preceding five years. Lending criteria is being tightened. While policymakers have been incredibly busy with unprecedented moves to try to stabilise and break the cycle of fear and mistrust that has developed, the global economy is still on the brink of a deep and synchronised recession – the worst since 1982, and deteriorating by the day. Financial markets are de-risking and de-leveraging, and it is something that will also be mirrored in real economies. Hence, the very nature of the current global shock exposes NZ’s Achilles’ heel, namely a huge reliance on offshore capital to fund a savings shortfall.

When we roll the two together, it does not change the broad adjustment hypothesis, but it undoubtedly changes the magnitude. As forecasters, we typically look for an orderly adjustment and benign correction for an economy over the forecast period, with an associated discussion around the risk profile. While our previous quarterly assessment painted a reasonably downbeat view of the economic outlook, the next 12-18 months looks like it could be anything but orderly. The downside risks for the domestic

economy in particular, foreshadowed earlier in the year, are now reality. Moreover, in the current global environment, NZ can no longer look to the export sector in 2009 as a means of supporting growth.

The economy has yet to find a base. After contracting over the first half of 2008, the outlook is subdued to say the least. Firms’ activity expectations, investment and employment intentions are at, or close to, historical lows. Residential building consents have collapsed to early 1980s lows – a remarkable feat considering the economy is now close to twice as large! Consumer confidence looks perkier, but the disconnect between businesses and consumers appears to reside in the still low unemployment rate, which going by forward indicators and anecdotes, is set to rise rapidly in the New Year. This means ‘round two’ for the housing market, that, for the past couple of months, did look like it was finding a base of sorts.

Stepping beyond global malaise, this is primarily a household realignment process. Household balance sheets enter this cycle looking the most extended, whereas corporate balance sheets look robust, a major difference compared with previous cycles. Unlike businesses, households have limited levers (effectively only one – reduced discretionary spending) to restore balance sheet health. Hence, household de-leveraging tends to be a more elongated process. But eyes now turn to the labour market as this represents the next leg of vulnerability for households. Businesses are responding to the current backdrop by putting a greater focus on costs.

Further monetary policy relief is expected. While interest rates have fallen a long way already, there is still more work to do. We are increasingly drawn to the OCR printing with a ‘three-handle’ given the global backdrop, the credit channel of monetary policy leaning against the RBNZ’s efforts to stabilise, and also the lack of momentum the economy had entering this global malaise. **However, (and while it may be the furthest thought from the mind at present) we are also starting to think about when the inevitable policy normalisation will come.** Given the extent of reflationary measures taken around the globe, one eye has to be kept on inflation pressures, with “inflation” looking odds-on as the easiest and most convenient way of restoring health to household balance sheets. One thing seems for sure. Interest rates, when they start to move back up, will not rise in the 25bp increments that was the trajectory during the previous RBNZ tightening cycle. We have built in an aggressive rise in rates, but with the tightening cycle starting from mid 2010.

The currency is expected to go through an extended correction. The dynamics of rebalancing weigh heavily on our medium-term currency projections. A lower NZD is an inevitable part of the rebalancing process for the NZ economy. We have the NZD/USD falling to below 45 cents, the NZD/JPY getting close to 40, and the NZD/EUR falling below 0.40.

Such forces will merely stabilise rather than reflate immediately. A weaker currency is irrelevant if there is limited global demand for NZ's exports in the first place. Fiscal policy will assist, but timing-wise is likely to be too late. Net on net we continue to see the global backdrop and stark reality of an inevitable current account rebalancing process, as dominating.

However, we are in no doubt the seeds of recovery are being sown both via an aggressive loosening in financial conditions such as interest rates and the currency, but also – and critically – through a much stronger focus on productivity growth across the business sector. A stronger global economy is a critical part of any recovery, with the holy grail of economics for the economy to be built around earning as opposed to spending our

way to growth. This is looking like a late 2010 story. The Rugby World Cup is also around the corner, and a weaker global scene looks set to turn New Zealanders back home (or at least keep a few from departing!). When combined with a degree of pent up demand – which is typical when the economy wraps itself in cotton wool in response to global developments – we fully expect 2011 to be a boomer of a year with 4 percent growth.

All the bad news can become overpowering but we need to be mindful of the trend.

Stepping beyond the business cycle, we need to appreciate the strong medium-term story for the economy. The massive wealth shift occurring around the globe that is seeing Asia grow in importance, can only be good news for NZ. While commodity prices are going through a corrective phase at present, we remain long-term commodity bulls. Asia looks set to remain a key engine for global growth over the next decade and given NZ's close proximity (and an exporter of products that Asia is increasingly demanding) we stand to benefit. Throw in water's ever increasing importance, a natural resource base, and there is huge potential for NZ to leverage; just not in our usual borrow and spend sense.

Calendar years	2006	2007	2008(f)	2009(f)	2010(f)	2011(f)	2012(f)
NZ Economy (annual average % change)							
Real GDP	2.0	3.2	0.6	-1.1	2.2	4.0	3.1
Employment	2.1	1.8	0.2	-1.5	0.2	1.5	1.7
Unemployment Rate (Dec qtr)	3.8	3.4	4.7	6.2	6.8	6.4	6.1
Terms of Trade	-2.9	6.5	3.2	-4.4	0.7	2.8	2.2
Global Growth (annual average % change)							
United States	2.8	2.0	1.3	-1.1	1.3	2.6	2.9
Australia	2.9	4.0	2.3	0.5	2.1	3.1	3.5
Japan	2.0	2.4	0.1	-0.7	1.4	1.5	1.6
China	10.7	11.7	9.5	7.5	8.8	10.0	10.1
Trading Partner Growth	3.7	4.0	2.2	0.5	2.6	3.5	3.7
NZ Inflation (annual % change)							
CPI Inflation	2.6	3.2	3.6	2.8	2.7	2.5	2.4
Non-tradable Inflation	3.8	3.5	4.3	2.7	2.7	3.1	3.3
Tradable Inflation	1.2	2.8	2.8	2.8	2.2	1.4	1.5
NZ Financial Markets (December quarter averages)							
TWI	68.0	71.6	54.9	47.8	54.8	61.8	64.2
NZD/USD	0.69	0.77	0.54	0.44	0.50	0.58	0.62
NZD/AUD	0.88	0.88	0.82	0.81	0.83	0.83	0.82
Official Cash Rate	7.3	8.3	5.0	3.5	6.0	6.0	6.0
90-day bank bill rate	7.7	8.9	5.3	3.8	6.3	6.3	6.3
10-year bond rate	5.8	6.4	4.7	5.0	5.7	6.2	6.2
Fiscal and External Balance							
Current Account Balance (\$m)	-14,200	-14,300	-16,100	-11,600	-12,500	-11,500	-10,200
as % of GDP	-8.7	-8.2	-8.9	-6.5	-6.7	-5.8	-4.9
Govt. Operating Balance (\$m)*	9,500	8,000	2,400	-4,200	-5,600	-5,300	-5,400
as % of GDP	6.0	4.7	1.3	-2.3	-3.1	-2.8	-2.7

NZ GOVERNMENT'S *BUDGET POLICY STATEMENT AND UPDATED ECONOMIC AND FISCAL FORECASTS PREVIEW*

(due 11.00am 18 December)

There is little doubt that this week's updated Treasury forecasts will show a more subdued economic picture, lower tax revenue and larger operating deficits than that presented in October. Our attention will be on the details and size of the fiscal stimulus package. We expect a large increase in the bond tender programme to be announced, with projected outcomes close to \$12b.

The broad outline of the Government's top priorities in their first term, including the fiscal stimulus package to assist the economy, was announced at the Governor General's *Speech from the Throne* last week. Our focus for this Thursday's release of the *Budget Policy Statement (BPS)* and updated forecasts will be on:

- > The details and size of the fiscal stimulus package that has already been announced (some of them, including the tax cuts, were recently passed by Parliament under urgency).
- > The extent of the deterioration to the fiscal position, and the size of the increase to the DMO's bond tender programme as a result.
- > Any guidance on the Government's new approach to fiscal strategy, given that the ones put in place by the previous government will not be achieved under the current economic environment.

The Government faces two big challenges. The first is the near-term challenge of coming up with a policy response to the deteriorating economic situation. The second is a longer-term challenge to lift NZ's productivity growth performance, which has deteriorated over the past decade, and to that we can probably add how they plan to turn the projected fiscal deficits around.

Policy was already responding to the first challenge with the fiscal stance in the 2008 *Budget* turning expansionary to the tune of 2.3 percent of GDP in the current fiscal year, 0.5 in 2009/10 and 0.2 in 2010/2011.

Since the *Budget* and election, a broad outline of initiatives including tax cuts, a transitional relief package for those hit by redundancies, bringing forward of infrastructure spending, have been announced. This is likely to only nudge the 2008/09 fiscal stance a little higher (tax cuts only come in from April 1), but materially influence the 2009/10 and 2010/11 injections towards 1-2 percent of GDP.

The bottom line is that fiscal policy cannot be accused of sitting idly by. In the current environment monetary policy needs friends and given the NZ Government's still strong balance sheet situation (which the previous Government should be given some credit for), fiscal policy is in a sound position to respond. This does not mean policy can respond unencumbered: deficits today have to be paid back at some stage! We'll be closely eyeing the medium-term projections in that regard. Printing deficits for a couple of years is one thing: allowing them to extend for more than a decade is another. Hence, we'll be paying close attention to the medium-term objectives and how the Government plans to return the fiscal position to better health.

In terms of the actual projections, a downgrade to Treasury's growth estimates has already been flagged, but rather amusingly this seems to centre on the year to March 2009: the year that has pretty well gone! Most attention will centre on 2009/10, which while we suspect they'll be shaved as well, they'll remain on the positive side of the ledger, whereas our expectations are in the red.

In terms of the fiscal numbers, we expect underlying deficits of 2.5-3 percent over the next few years. Gross debt will be forecast to exceed 30 percent of GDP by the end of the forecast period, due to a combination of bigger operating deficits and also increased spending on infrastructure.

We expect cash deficits of around \$10b, which will require much larger bond tender programmes than what was flagged by the DMO in October. We anticipate bond tenders of around \$12b, much larger than the \$9b announced at the *Pre-election Update* and far higher than the \$2-\$2.5b bond tenders of the past few years. This will mark a key shift in how NZ's current account deficit is funded.

Financial Market Implications

The *BPS* and Treasury's end of year updated forecasts typically induces little more than a murmur in financial markets. However, any large additional stimulus measures announced may get some folks thinking about the implications for monetary policy. The RBNZ, at their latest *MPS*, highlighted that fiscal policy, along with already delivered interest rate cuts and a lower NZD, will provide some support to the economy over the period ahead. We still expect monetary policy to have more work to do, but at least some of this burden will be shared by fiscal policy. Of more interest will be how the bond market takes the increase in future issuance. Around the globe, investors are literally "spoilt for choice". Going forward, NZ is going to have to work far harder to sell itself.

Economic and Fiscal Forecasts – ANZ National's expectations of Treasury's forecasts (<i>PREFU</i> forecasts in brackets)						
March Years	2007/08 (a)	2008/09	2009/10	2010/11	2011/12	2012/13
Real GDP (ann. ave. % chg., production)	3.2	0.0 (0.1)	0.4 (1.8)	3.5 (3.3)	3.1 (3.4)	3.0 (3.1)
CPI (ann. % chg.)	3.4	2.9 (4.5)	2.6 (2.3)	2.3 (2.4)	2.4 (2.4)	2.4 (2.4)
June Years	2007/08 (a)	2008/09	2009/10	2010/11	2011/12	2012/13
Operating Balance – \$ million	2,384	-2,900 (1,909)	-3,100 (374)	-3,200 (-71)	-3,900 (-396)	-4,000 (-382)
- % GDP	1.3	-1.6 (1.0)	-1.7 (0.2)	-1.6 (-0.0)	-1.9 (-0.2)	-1.9 (-0.2)
OBEGAL - \$ million	5,637	-1,900 (-64)	-4,600 (-1,746)	-4,700 (-2,481)	-5,400 (-3,092)	-5,500 (-3,374)
- % GDP	3.1	-1.0 (-0.0)	-2.5 (-0.9)	-2.4 (-1.2)	-2.6 (-1.5)	-2.6 (-1.5)
Core Crown residual cash - \$ million	2,057	-7,800 (-5,909)	-8,200 (-5,300)	-8,800 (-6,603)	-9,100 (-6,815)	-10,000 (-7,307)
Gross Sovereign-Issued Debt - % of GDP	17.4	19.0 (17.4)	24.0 (18.0)	28.0 (21.9)	30.0 (23.1)	32.0 (24.3)
Bond tender - \$ million	1,757	6,000 (4,048)	9,000 (6,070)	11,000 (9,114)	12,000 (9,189)	12,000 (9,216)

– (a) actual

GLOBAL WATCH

US, European and UK data was mixed last week. The big theme was further signs of weakness in Asia. Chinese trade data reinforces that not only is the globe slowing, but so too is the Chinese domestic economy. Industrial production continues to slow around the globe, and the Bank of Korea and Central Bank of Taiwan both cut rates more than expected.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Pending Home Sales (Oct) – mom	-3.0%	-0.7%	-4.3%	Stronger
	Wholesale Inventories (Oct)	-0.2%	-1.1%	-0.4%	Weaker
	Monthly Budget Statement (Nov)	-\$171.0B	-\$164.4B	-98.2B	Stronger
	Import Price Index (Nov) – mom	-4.9%	-6.7%	-5.4%	Weaker
	Continuing Jobless Claims (w/e 7 Dec)	4100K	4429K	4091K	Weaker
	PPI (Nov) – mom	-2.0%	-2.2%	-2.8%	Weaker
	Advance Retail Sales (Nov)	-2.0%	-1.8%	-2.9%	Stronger
	University of Michigan Confidence (Dec P)	54.8	59.1	55.3	Stronger
Euro-zone	Sentix Investor Confidence (Dec)	-40.0	-42.3	-36.4	Weaker
	ZEW Survey (Economic Sentiment) (Dec)	-59.0	-43.1	-54.0	Stronger
	Labour Costs (3Q) – yoy	2.8%	4.0%	2.8%	Stronger
	Industrial Production (Oct) – mom	-1.0%	-1.2%	-1.8%	Weaker
UK	PPI Input (Nov) – mom	-3.0%	-3.3%	-4.3%	Weaker
	PPI Output (Nov) – mom	-0.7%	-0.7%	-1.0%	In-line
	Industrial Production (Oct) – mom	-0.5%	-1.7%	-0.3%	Weaker
	DCLG House Prices (Oct) – yoy	-6.5%	-7.4%	-5.1%	Weaker
Asia Ex-Japan					
<i>China</i>	PPI (Nov) – yoy	4.5%	2.0%	6.6%	Weaker
	Exports (Nov) – yoy	14.8%	-2.2%	19.2%	Weaker
	Imports (Nov) – yoy	12.0%	-17.9%	15.6%	Weaker
	CPI (Nov) – yoy	3.3%	2.4%	4.0%	Weaker
	Retail Sales (Nov) – yoy	20.5%	20.8%	22.0%	In-line
<i>Hong Kong</i>	Industrial Production (3Q) – yoy	-	-6.7%	-4.1%	-
	Producer Prices (3Q) – yoy	-	5.5%	6.7%	-
<i>Taiwan</i>	Total Exports (Nov) – yoy	-12.4%	-23.3%	-8.3%	Weaker
	Total Imports (Nov) – yoy	-8.5%	-13.2%	-7.0%	Weaker
	Benchmark Interest Rate	2.25%	2.00%	2.75%	Weaker
<i>South Korea</i>	Unemployment Rate (Nov)	-	3.3%	3.1%	-
	BoK 7-Day Repo Rate	3.50%	3.00%	4.00%	Weaker
<i>Philippines</i>	Total Exports (Oct P) – yoy	-5.0%	-14.9%	1.1%	Weaker
<i>Malaysia</i>	Industrial Production (Oct) – yoy	-2.8%	-3.1%	-1.7%	Weaker
Japan	GDP (3Q F) – qoq	-0.2%	-0.5%	-0.1%	Weaker
	Leading Index CI (Oct P)	85.0	85.0	89.2	In-line
	Coincident Index (Oct P)	98.1	97.6	100.1	Weaker
	Machine Orders (Oct)	-3.9%	-4.4%	5.5%	Weaker
	Consumer Confidence (Nov)	28.0	28.7	29.8	Stronger
Australia	Home Loans (Oct)	1.0%	1.3%	-2.4%	Stronger
	Unemployment Rate (Nov)	4.4%	4.4%	4.3%	In-line
	Employment Change (Nov)	-15.0K	-15.6K	36.5K	In-line
	NAB Business Conditions (Nov)	-	-17	-11	-

INTEREST RATE STRATEGY

Interest rates continue to follow global trends, and have moved back towards the lows reached earlier last week. We expect interest rates to continue to fall, spurred on by soft US data, concerns over the speed it's spilling into Asia, and the bullish "fever" that has gripped the Australian market. Righting our external imbalance does imply a higher risk premium for NZ, but the NZD is likely to bear the brunt of the adjustment, with higher margins offset by a lower OCR.

Market themes...

- > RBNZ Governor Bollard warned us last week of unwelcome inflation pressure in some sectors. Inflation's stickiness in some pockets is an issue, but it won't sideline near-term rate cuts.
- > Global data continue to deteriorate, and point to more difficulty ahead. While there's plenty of news priced in, it tends to have been concentrated on the US.
- > The major breaking story is the speed and severity with which Asia is being dragged under by the US downturn and credit crunch. This seems to have been underestimated.
- > Interest rate cuts are still on the agenda, and we're looking to the Australian market for guidance. We can't comprehend why so much easing is priced into Australia, but not in NZ.

Review and outlook ...

US data have been extremely poor. While backwards looking as they are by definition, it's difficult to argue that things are getting better while data continue to point to a contraction in jobs, retail sales and output. Confidence may have improved, but it's still deep in negative territory. And as if that wasn't enough, economic data out of Asia (China in particular) suggest that the downturn isn't just having an effect, it's having a meaningful impact, and quickly. What sort of environment is that for a country that's heavily reliant on exports, heavily reliant on foreign funding, and identifies as being on Asia's back door? Not a very good one.

The Australian market has cottoned on to this, and according to our analysis, is now "pricing in" 102bps of rate cuts by February. This seems very reasonable, and the RBA have pinned earlier cuts on slowing global growth, as have the RBNZ. It therefore seems inconsistent that such a wide gap in expectations has opened up.

Finally, we note that government guarantees have helped re-ignite demand for bank paper, but it has also seen risk premiums on non-guaranteed paper rise. This is shaping up to be a major issue, and one that only has downside risks to the OCR.

Borrowing strategies we favour at present

Tempting as it is to extend hedges at current (near record low) interest rates, don't let historical ranges completely dominate thinking. We have sympathy for those who feel it's appropriate to slowly start adding to hedges at these levels, and in some ways it would be prudent to do so. However, by the same token, we do see rates heading lower, and while the market has less easing "priced in" than our forecasts, we're not inclined to change our long standing strategy just yet. At the moment our sense is that term swap rates will bottom out early in the New Year. We're close, but we're not quite there. Await lower yields before extending duration.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↓	Some catch-up required against Australia.
NZ data	↔/↓	National Bank <i>Business Outlook</i> this week critical.
Fed Funds/ front end	↔/↓	FOMC statement likely to include some discussion of the "where to from here" with FF close to 0%. Where? Quantitative easing.
RBA	↔/↓	Looking increasingly likely to cut "inter-meeting" in the absence of a Jan meeting.
US 10 year	↔/↓	The Fed is working hard to get term rates lower.
NZ swap curve	↔	Medium term steepening to continue.
Flow	↔/↑	Rate at historic lows will attract corporate payers.
Technicals	↔/↓	The slow grid lower in rates continues. Momentum solid.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 22-Jan-09	-55	-63
Thu 5-Mar-09	-100	-104
Thu 23-Apr-09	-106	-116
Thu 4-Jun-09	-114	-125
Thu 30-Jul-09	-114	-125
Thu 10-Sep-09	-109	-124
Thu 29-Oct-09	-109	-123

Trading themes we favour at present

If you took our advice and went long the 12mth OIS at 4.37% two weeks ago it has performed well (it's marked at 4.08%). We think it can do better – and won't be tempted to take profit. NZD OIS trades also look great against Australia – especially around the 3mth part of the curve, which is trading at a very wide +103bps. We don't think it's feasible for the RBA to be cutting and for the RBNZ to not be.

CURRENCY STRATEGY

The technical rebound we have been anticipating is underway, although it lacks any strong conviction at this stage. The domestic dataflow continues to be bearish, and we expect that to eventually drag the NZD to another leg lower. Key theme to watch at the moment is a pullback in the USD, and a resurgent EUR and JPY, as the currency markets start to favour economies with current account surpluses.

Market themes...

- > Technical rebound in the NZD underway, but still within the downchannel.
- > Local dataflow remains poor, and unlikely to change anytime soon.
- > USD retracement underway. Markets to increasingly favour current account surplus currencies.

Review and outlook...

The NZD may have gained 2.7 percent over the week, but the move lacked strong conviction. Indeed, it only spent a brief period of time above the key resistance level of 0.5550, failing to make a push beyond that. We remain bearish on the NZD based on fundamentals. The domestic dataflow continues to print poorly, and we do not expect this to turn around anytime soon. In addition, a large external imbalance, which is set to show further deterioration when the Q3 current account deficit is released next week, will start to get more attention.

Indeed, one theme developing is a shift in currency markets in favour of current account surplus countries. The risk aversion theme of the past couple of months saw the USD strengthen at the expense of most other currencies. But with economic weakness in the US deteriorating, attention is starting to turn towards fundamentals. The credit-centric nature of the current global shock means that economies with surplus funds will benefit. To this end, we have seen strong gains in the EUR and JPY. In regards to the latter, we note that the JPY/USD90 level is regarded as a key level which the Japanese authorities do not want to see the Yen heading below, given the impact it will have on the Japanese economy. There is already talk of intervention, which could limit the extent that the Yen could appreciate further. Hence, it looks increasingly like the EUR will have more to gain, with a push towards 1.40 a possibility.

This week in domestic news, the NBNZ *Business Outlook* and Government's updated forecasts will be the main attraction. But it will be offshore news that will dominate the NZD early in the week. With the failure of the US auto bailout, it will be up to

the White House to put together an interim rescue package, dipping into the TARP. Whether this will prevent a bad start to the week for US equities remains to be seen. So too any possible effects of a hedge fund fraud which reportedly cost investors US\$50b, which was uncovered over the weekend. Something else to keep an eye on is the Yen.

Technically the NZD has stalled and consolidates within a range with major resistance at 0.5560 with support now at 0.5370. It is very difficult to see which side is more likely to break. The longer the NZD lasts below 0.5600 the more likely the move is lower. The NZD/AUD cross is capped at 0.8350 and contained at the downside at 0.8150. It's tough to see a lot of movement this week.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↓	Should be lower based on fundamentals.
Yield	↔/↑	More rate cuts priced in for the RBA.
Commodities	↔/↓	NZ's fall bigger so far.
Partial indicators	↓	NZ indicators still worse.
Technicals	↔/↓	Capped at 0.8350 for now.
Sentiment	↔/↓	Changes by the day.
Other	↓	Commodity price recovery helping out AUD more.
On balance	↓	Should be lower, but subject to global scene.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models in this environment. They say low 0.50s.
Fair value – short-term	↔/↓	Still above cyclical fair value level at present.
Yield	↓	More cuts to come but at a more measured pace.
Commodities	↓	Dairy prices still falling.
Risk aversion	↔	Been more stable of late, but can change quickly.
Partial indicators	↔/↑	Worse in the US.
Technicals	↔/↓	Major resistance at 0.5560.
AUD	↔	AUD getting support.
Sentiment	↔	Very weak and fragile.
Other	↑	USD retracement underway.
On balance	↔/↓	Near-term bounce limited, medium-term still bearish.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
15-Dec	NZ	Manufacturing Activity (3Q) – qoq	-	-0.6%	10:45
		Non Resident Bond Holdings (Nov)	-	74.7%	15:00
	JN	Tankan Large Manufacturers Index (4Q)	-23	-3	12:50
		Tankan Large Mfg Outlook (4Q)	-27	-4	12:50
		Tankan Non-Manufacturing (4Q)	-9	1	12:50
		Tankan Non-Mfg Outlook (4Q)	-12	-1	12:50
		Tankan Large All Indust Capex (4Q)	-0.7%	1.7%	12:50
	UK	Rightmove House Prices (MoM) (Dec) – mom	-	-2.9%	13:01
16-Dec	US	Empire Manufacturing (Dec)	-27.3	-25.4	02:30
		Net Long-term TIC Flows (Oct)	\$40.0B	\$66.2B	03:00
		Total Net TIC Flows (Oct)	-	\$143.4B	03:00
		Industrial Production (Nov)	-0.8	1.3%	03:15
		Capacity Utilization (Nov)	75.6%	76.4%	03:15
		NAHB Housing Market Index (Dec)	10	9	07:00
	EC	ECB's Papademos Speaking in Frankfurt	-	-	02:30
		PMI Manufacturing (Dec A)	34.2	35.6	22:00
		PMI Services (Dec A)	41.4	42.5	22:00
		PMI Composite (Dec A)	37.8	38.9	22:00
		Employment (3Q) – qoq		0.2%	23:00
	JN	Tertiary Industry Index (Oct) – mom	-0.2%	-0.6%	12:50
	AU	Dwelling Starts (3Q)	-	-3.7%	13:30
		RBA Board December Minutes	-	-	13:30
	GE	PMI Manufacturing (Dec A)	34.6	35.7	21:30
		PMI Services (Dec A)	44.0	45.1	21:30
	UK	CPI (Nov) – mom	-0.3%	-0.2%	22:30
		CPI (Nov) – yoy	3.9%	4.5%	22:30
		Core CPI (Nov) – yoy	1.9%	1.9%	22:30
		RPI (Nov) – mom	-0.6%	-0.3%	22:30
		RPI (Nov) – yoy	3.1%	4.2%	22:30
17-Dec	US	Consumer Price Index (Nov) – mom	-1.3%	-1.0%	02:30
		CPI Ex Food & Energy (Nov) – mom	0.1%	-0.1%	02:30
		Consumer Price Index (Nov) – yoy	1.5%	3.7%	02:30
		CPI Ex Food & Energy (Nov) – yoy	2.1%	2.2%	02:30
		Housing Starts (Nov)	735K	791K	02:30
		Building Permits (Nov)	700K	708K	02:30
		FOMC Rate Decision	0.50%	1.00%	08:15
	AU	Westpac Leading Index (Oct) – mom	-	-1.0%	12:30
		DEWR Skilled Vacancies (Dec) – mom	-	-4.8%	13:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)	
17-Dec cont.	AU	Preliminary BoP Imports (Nov) – mom	-	1.0%	13:30	
		HIA New Home Sales (Nov) – mom	-	4.5%	14:00	
	JN	Leading Index CI (Oct F)	-	85	18:00	
		Coincident Index CI (Oct F)	-	97.6	18:00	
	UK	Bank of England Minutes	-	-	22:30	
		Claimant Count Rate (Nov)	3.1%	3.0%	22:30	
		Jobless Claims Change (Nov)	44.5K	36.5K	22:30	
		Average Earnings inc bonus (Oct) – 3M/YoY	3.2%	3.3%	22:30	
		ILO Unemployment Rate (3mths) (Oct)	6.0%	5.8%	22:30	
		EC	CPI (Nov) – mom	-0.5%	0.0%	23:00
	CPI (Nov) – yoy		2.1%	3.2%	23:00	
	CPI – Core (Nov) – yoy		1.9%	1.9%	23:00	
	18-Dec	US	Current Account Balance (3Q)	-\$179.0B	-\$183.1B	02:30
		NZ	Government's Half-Year Economic and Fiscal Update	-	-	11:00
NBNZ Business Confidence (Dec)			-	-43	15:00	
AU		RBA Foreign Exchange Transactions (Nov)	-	-\$3150M	13:30	
JN		Machine Tool Orders (Nov F) – yoy	-	-62.2%	19:00	
GE		IFO – Business Climate (Dec)	84.0	85.8	22:00	
		IFO – Current Assessment (Dec)	90.8	94.8	22:00	
		IFO – Expectations (Dec)	77.0	77.6	22:00	
UK		Retail Sales (Nov) – mom	-0.7%	-0.1%	22:30	
		Public Finances (PSNCR) (Nov)	11.0B	-4.9B	22:30	
		Public Sector Net Borrowing (Nov)	13.4B	1.4B	22:30	
		M4 Money Supply (Nov P) – mom	1.8%	2.8%	22:30	
EC		Trade Balance sa (Oct)	-4.5B	-5.7B	23:00	
19-Dec		US	Initial Jobless Claims (w/e Dec 14)	555K	573K	02:30
	Continuing Claims (w/e Dec 7)		4375K	4429K	02:30	
	Philadelphia Fed (Dec)	-40.0	-39.3	04:00		
	Leading Indicators (Nov)	-0.4%	-0.8%	04:00		
		Fed's Fisher Speaks in Dallas on Current Economic Crisis	-	-	07:30	
	NZ	Visitor Arrivals (Nov) – mom	-	0.7%	10:45	
		Credit Card Spending (Nov) – yoy	-	1.1%	15:00	
	JN	All Industry Activity Index (Oct) – mom	-0.8%	-0.1%	12:50	
		BoJ Target Rate	0.30%	0.30%	-	
	UK	GfK Consumer Confidence Survey (Dec)	-39	-35	13:01	
	GE	Producer Prices (Nov) – mom	-0.8%	0.0%	20:00	

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

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: A couple of big releases are due in the lead up to the Christmas and New Year break. The first is the Government's *Half-Year Economic and Fiscal Update* this week, which is likely to show a more downbeat picture and see the fiscal numbers further in the red. Next week sees the release of Q3 Balance of Payments and GDP. The former is expected to show a still large deficit, while the latter a contracting economy.

Date	Data/Event	Economic Signal	Comment
Mon 15 Dec (10.45)	Economic Survey of Manufacturing (3Q)	Weak	Despite a lower NZD, recent PMI surveys have shown the manufacturing sector is heading backwards.
Thu 18 Dec (11.00)	Government's Half-Year Economic and Fiscal Update.	Well in the red	We expect the economic and fiscal forecasts to be revised lower (although still not in-line with our own view). The bond tender programme is likely to rise to around \$12 billion per year.
Thu 18 Dec (15.00)	NBNZ <i>Business Outlook</i> (Dec)	-	-
Fri 19 Dec (10.45)	External Migration (Nov)	Visitor arrivals likely to head lower	While net migration has been effectively zero over the past two months, visitor arrivals are now the key to watch. They are likely to continue to head south given the global backdrop.
Mon 22 Dec (10.45)	Balance of Payments (Q3)	No improvement in the near-term	A lack of improvement in the trade balance, and the ever-present large investment income deficit, are expected to see the current account deficit deteriorate slightly in the quarter.
Tue 23 Dec (10.45)	Gross Domestic Product (Q3)	Third contraction in a row	Residential investment and private consumption again lead the weakness and we have pencilled in a 0.5 percent contraction.
Wed 23 Dec (14.00)	Westpac/McDermott Miller Consumer Confidence (4Q)	Pull-back as reality of economic situation hits home	Following the large rebound in the previous survey, and despite lower petrol prices and mortgage rates, we expect the reality of the economic situation to hit home and for consumer confidence to pull back.
Tue 30 Dec (15.00)	Credit Growth (Nov)	Weak	Household lending growth will remain subdued, with near record low growth. Business and rural lending is also likely to show slowing.
Wed 7 Jan (10.45)	Overseas Merchandise Trade (Nov)	Needing to improve	Another relatively large trade deficit is expected in the month.
On Balance		Flow-on from the global scene starting to appear in the dataflow.	Weakness now extending into Q4 and 2009 according to lead indicators.

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	0.1	-0.6	-0.5	0.0	0.3	0.6
GDP (% yoy)	3.7	2.2	1.1	-0.1	-0.9	-1.2	-1.5	-1.0	-0.8	0.4
CPI (% qoq)	1.2	0.7	1.6	1.5	-0.3	-0.2	0.9	1.0	1.0	0.6
CPI (% yoy)	3.2	3.4	4.0	5.1	3.6	2.7	2.0	1.5	2.8	3.6
Employment (% qoq)	0.9	-1.3	1.3	0.1	-0.9	-0.7	-0.6	0.0	0.0	0.1
Employment (% yoy)	2.5	-0.2	0.7	1.0	-0.8	-0.2	-2.1	-2.2	-1.3	-0.5
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.7	5.0	5.6	5.8	6.2	6.4
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.6	-8.9	-8.8	-7.7	-7.0	-6.5	-6.5
Terms of Trade (% qoq)	2.9	4.2	-0.4	-2.3	-3.1	-1.5	-1.7	-1.6	-1.1	-0.7
Terms of Trade (% yoy)	8.8	11.6	10.7	4.4	-1.8	-7.1	-8.4	-7.7	-5.8	-5.0

KEY ECONOMIC INDICATORS

	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08
Retail Sales (% mom)	-1.0	1.3	-1.1	0.8	-0.7	0.3	0.3	-1.3	..	..
Retail Sales (% yoy)	-1.0	4.1	1.0	1.5	2.5	-0.9	2.2	0.7	..	..
Credit Card Billings (% mom)	-0.5	-0.3	0.5	-0.1	0.2	-0.2	0.9	-1.1	..	..
Credit Card Billings (% yoy)	5.8	5.5	6.0	4.0	4.2	2.4	2.4	1.1	..	..
Car Registrations (% mom)	-12.7	11.9	-13.9	1.3	-7.2	-3.5	11.1	-0.2	-20.3	..
Car Registrations (% yoy)	-13.2	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	..
Building Consents (% mom)	-13.0	79.8	-42.3	-12.8	-1.4	-7.5	11.1	-22.0	..	..
Building Consents (% yoy)	-26.8	29.9	-27.0	-45.5	-34.6	-43.2	-27.9	-43.2	..	..
REINZ House Price (% yoy)	1.6	-1.1	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	..
Household Lending Growth (% mom)	0.4	0.3	0.5	0.3	0.3	0.4	0.3	0.2	..	..
Household Lending Growth (% yoy)	10.9	10.0	9.4	8.5	7.8	7.3	6.8	6.0	..	..
Roy Morgan Consumer Confidence	111.7	99.9	89.2	86.5	83.9	91.4	108.6	99.7	99.0	105.6
NBNZ Business Confidence	-57.9	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	..
NBNZ Own Activity Outlook	-6.4	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4	-14.1	..
Trade Balance (\$m)	-43	-293	-169	-215	-797	-843	-1260	-942	..	..
Trade Balance (\$m annual)	-4526	-4604	-4782	-4478	-4468	-4364	-5052	-5220	..	..
ANZ World Commodity Price Index (% mom)	2.0	-0.3	0.9	0.0	1.8	-3.4	-5.1	-7.4	-7.2	..
ANZ World Commodity Price Index (% yoy)	26.9	20.7	18.7	11.6	8.7	3.5	-2.1	-10.9	-18.0	..
Net Migration (sa)	550	510	970	460	780	370	-10	10	..	..
Net Migration (annual)	4678	4666	4931	4732	5201	4938	4403	4329	..	..

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)						
	Oct-08	Nov-08	15-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
NZD/USD	0.613	0.566	0.546	0.520	0.470	0.450	0.440	0.450	0.460	0.480
NZD/AUD	0.881	0.860	0.823	0.825	0.810	0.804	0.815	0.833	0.821	0.828
NZD/EUR	0.458	0.445	0.408	0.426	0.392	0.381	0.386	0.409	0.438	0.457
NZD/JPY	61.9	55.0	49.9	47.8	43.2	41.4	41.4	43.2	45.1	48.0
NZD/GBP	0.360	0.369	0.365	0.347	0.318	0.313	0.314	0.321	0.329	0.338
NZ\$ TWI	60.7	57.5	54.3	53.5	49.4	47.9	47.8	49.6	51.1	53.1
NZ interest rates	Oct-08	Nov-08	15-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
OCR	7.51	6.72	5.00	4.00	3.50	3.50	3.50	3.50	4.00	5.00
90 day bill	7.42	6.24	5.24	4.10	3.80	3.80	3.80	3.80	4.60	5.60
10 year bond	5.87	5.71	4.96	4.30	4.30	4.80	5.00	5.10	5.40	5.70
International	Oct-08	Nov-08	15-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
US Fed funds	1.00	1.00	1.00	0.50	0.50	0.50	0.50	0.75	1.25	1.75
US 3-mth	3.03	2.18	1.92	1.80	1.20	0.90	0.70	0.95	1.50	2.00
AU cash	6.00	5.25	4.25	3.75	3.50	3.50	3.50	3.50	3.50	3.50
AU 3-mth	5.81	4.56	4.53	4.00	3.80	3.70	3.80	3.80	3.80	4.20

KEY RATES

	12 Nov	8 Dec	9 Dec	10 Dec	11 Dec	12 Dec
Official Cash Rate	6.50	5.00	5.00	5.00	5.00	5.00
90 day bank bill	6.39	5.35	5.37	5.32	5.34	5.24
NZGB 07/09	5.48	4.56	4.57	4.55	4.57	4.57
NZGB 11/11	5.46	4.55	4.60	4.53	4.61	4.61
NZGB 04/13	5.66	4.55	4.52	4.51	4.64	4.64
NZGB 12/17	5.89	4.81	4.77	4.76	4.94	4.94
2 year swap	5.73	4.75	4.78	4.81	4.79	4.70
5 year swap	6.11	5.07	5.10	5.12	5.11	5.04
RBNZ TWI	58.8	54.1	54.7	54.8	54.8	54.6
NZD/USD	0.5768	0.5328	0.5432	0.5445	0.5459	0.5495
NZD/AUD	0.8729	0.8157	0.8242	0.8263	0.8319	0.8276
NZD/JPY	56.38	49.45	50.38	50.32	50.47	50.13
NZD/GBP	0.3745	0.3613	0.3659	0.3687	0.3673	0.3660
NZD/EUR	0.4596	0.4171	0.4220	0.4209	0.4184	0.4123
AUD/USD	0.6608	0.6532	0.6591	0.6590	0.6562	0.6640
EUR/USD	1.2549	1.2774	1.2872	1.2938	1.3048	1.3327
USD/JPY	97.74	92.81	92.75	92.41	92.46	91.22
GBP/USD	1.5402	1.4748	1.4845	1.4770	1.4864	1.5015
Oil	59.41	41.01	43.69	42.00	43.10	47.77
Gold	734.30	763.80	772.85	778.95	803.90	814.65
Electricity (Haywards)	6.07	4.66	4.83	4.57	3.59	3.50
Milk futures (US\$/contract)	90	85	85	85	85	85
Baltic Dry Freight Index	824	671	679	691	711	764

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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