

## MOVING HEAVEN AND EARTH

### NZ Economics Team:

#### Cameron Bagrie

Chief Economist  
Telephone: +64 4 802 2212  
E-mail: [bagriec@anz.com](mailto:bagriec@anz.com)

#### Khoon Goh

Senior Markets Economist  
Telephone: +64 4 802 2357  
E-mail: [gohk@anz.com](mailto:gohk@anz.com)

#### David Croy

Interest Rate Strategist  
Telephone: +64 4 802 2286  
E-mail: [croyd1@anz.com](mailto:croyd1@anz.com)

#### Philip Borkin

Economist  
Telephone: +64 4 802 2199  
E-mail: [borkinp@anz.com](mailto:borkinp@anz.com)

#### Steve Edwards

Economist  
Telephone: +64 4 802 2217  
E-mail: [edwards1@anz.com](mailto:edwards1@anz.com)

#### Kevin Wilson

Rural Economist  
Telephone: +64 4 802 2361  
E-mail: [wilsonk1@anz.com](mailto:wilsonk1@anz.com)

### Page 2: Economic overview

- > Last Monday's sympathy with a 150 basis point cut became reality mid-week. While convenient to point to some sort of catalyst, the main reasoning resides in the ever extending anecdotes and real time evidence we are seeing across the country. The economy is far weaker than is commonly perceived, and we are entering a significant current account realignment process. Natural stabilisers need to work aggressively to mitigate the intensity of the adjustment.

### Page 4: Economic comment – NBNZ *Business Outlook* update

- > Headline business confidence from the November National Bank *Business Outlook* survey may have been unchanged from the previous month, but own activity and other key indicators showed a further deterioration.

### Page 6: Economic comment – financial conditions update

- > The ongoing rally in global rates has resulted in a further loosening in financial conditions over November. Based on our Financial Conditions Index, economic growth in NZ and Australia could start to pick up from the second half of 2009, though any recovery in the US still looks to be subdued. But we have to acknowledge that financial conditions gauges are "underweight" the credit channel of monetary policy. Hence, in the current environment it may be overstating the easing in financial conditions.

### Page 8: Economic comment – global watch

- > It was a busy week for data across the globe last week. Data generally surprised on the downside in the US, with durable goods orders particularly weak. Euro-zone business confidence continues to deteriorate. In Asia, the data was mixed, but industrial production was weaker than expected for Singapore, Taiwan and Japan.

### Page 10: Interest rate strategy

- > The market hasn't yet fully "priced in" a 150bp RBNZ cut, implying more scope for swap yields to adjust lower. Rates are likely to continue heading lower until the market senses the RBNZ has done enough. While we and other commentators believe that's likely to be before mid 2009, for now the market is focussing on immediate central bank actions.

### Page 11: *Monetary Policy Statement* preview

- > A rapidly deteriorating economic picture means the Reserve Bank will now seek to take monetary policy into the "stimulatory" zone. We expect a 150 basis point cut to further front-load the easing cycle, and the spirit of the assessment will be to keep the market looking for more.

### Page 12: Currency strategy

- > Expectations of a big rate cut from the RBNZ will weigh on the NZD this week. The continued poor local dataflow will similarly prevent any technical short-squeeze rebound from going too far. Beyond that, it is a case of the NZD taking its cues off US equity moves.

### Page 13: Data and event calendar

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## ECONOMIC OVERVIEW

Last Monday's sympathy with a 150 basis point cut became reality mid-week. While convenient to point to some sort of catalyst, the main reasoning resides in the ever extending anecdotes and real time evidence we are seeing across the country. The economy is far weaker than is commonly perceived, and we are entering a significant current account realignment process. Natural stabilisers need to work aggressively to mitigate the intensity of the adjustment.

### What's ahead?

- > **November ANZ Commodity Price Index** (Wednesday 1500 NZDT).
- > **RBNZ Monetary Policy Statement** (Thursday 0900 NZDT). We are now calling for a 150bp cut from the RBNZ (refer to page 11 for our full preview note).
- > **Q3 Wholesale Trade Survey** (Friday 1045 NZDT). Following a further contraction in retail sales volumes, we expect wholesale trade to also have headed backwards in the September quarter.

### What's the view?

The convoy of policymaker actions to support a sharply deteriorating global economy continued to rumble on last week. More of the same is expected this week. When trawling through the economic headlines, the stories were dominated by either tails of woe (weak data and struggles for businesses) or details of further stimulus or rescue packages from governments and central banks around the globe. Of course the two cannot be divorced. But it is encouraging to see policymakers backing up the talk following the G20 and APEC meetings with some decisive action and of course we saw equity markets stabilise and recover.

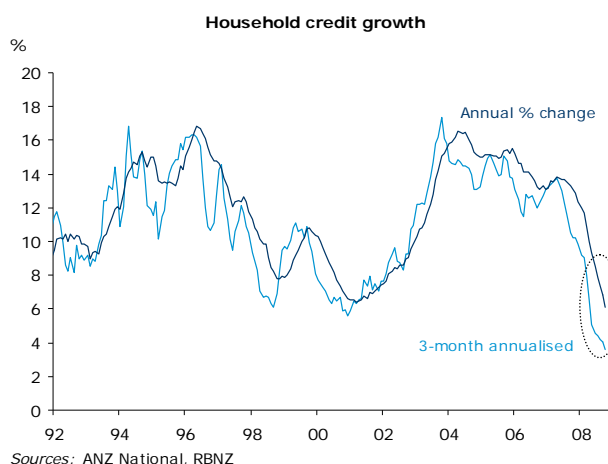
The People's Bank of China slashed interest rates by 108 basis points – the largest cut in 11 years. The US Federal Reserve proposed two new initiatives totalling US\$800bn. The UK government unveiled a new £20 billion stimulus package including cutting VAT (which is equivalent to GST). Australian, European and NZ Ministers also signalled their intentions to roll out more fiscal stimulus to support growth. The list goes on and we are bound to have forgotten some. But there is little doubt that policymakers are pulling out all the stops. Heaven and earth is being moved in response to the most challenging economic conditions in a generation.

Yet, we have to be mindful that despite all the interventions to date, and more to come, all it will do is put a floor to global growth. We are in no

doubt the de-leveraging process will continue, as global excesses built up over the preceding years are purged. At best, policymakers' attempts will make the adjustment process that much more orderly. Sure, equity markets last week recovered, which is a good sign, but within the context of a general bath over weeks prior.

The stark reality of the global situation is hitting home to businesses here in NZ. The National Bank *Business Outlook* survey may have shown a stabilisation in headline confidence, but the key activity gauges deteriorated further. If there was any post-election euphoria, it was certainly short-lived. It is abundantly clear from the survey that the coming 12 months will be the most challenging this economy has faced in more than two decades. We will not be going through a recession "lite". Not when we have a current account deficit of 8.4 percent of GDP, which is not showing any signs of improvement in the near term, judging from another dismal trade deficit of \$942 million recorded in October. Consumption good imports are massively at odds with retailing, and point to a sizable de-stocking process.

Last week, we outlined our credit impulse measure which points to a contraction in private final domestic demand over the year ahead. The building consents and credit growth numbers for October strongly suggests this is rapidly becoming the case. Credit growth to households slowed further, and the slowing in the growth rate is sharper if you take a 3-month annualised rate (now 3.6 percent compared to 6.1 percent on a year-on-year basis). Building consent issuance plummeted in October to its lowest level on record (in seasonally adjusted terms), and points to a substantial contraction in residential investment over the coming 12 months. This will act as a huge drag on economic growth, which is unlikely to be fully offset, even with a large increase in infrastructure spending by the government. And while commercial consent issuance is still holding up (in dollar terms anyway), we wonder for how much longer.



Turning to this week, the spotlight is on central bank actions, with the RBA, RBNZ, ECB and BoE all announcing interest rate decisions. Cuts of various magnitudes are expected across the board. After sympathising with a 150 basis point cut last week but maintaining a view of 100 basis points, sympathy became reality mid-week. See page 11 for our full preview of the December *Monetary Policy Statement*. While it is convenient to point to specific data that made us "cross the line" such as business confidence (well, we conducted the survey, so we already knew that anyway), building consents or the global scene, it's the anecdotes and real time information we are receiving on our travels around the country that are weighing more heavily. The economy is far weaker than commonly perceived. Typically, coming after three negative quarters of GDP growth (two printed, one to come), we'd expect a floor to growth to be developing. This is not occurring.

In such a situation, exercising caution seems pointless, and the bias will remain to do more when it comes to monetary policy, which was precisely what we have seen across central banks of late. The RBNZ has shown how responsive it can be in situations like this. When the penny finally dropped in regard to the Asian crisis in 1998, we saw the 90 day bank bill rate fall from over 9 percent to 4 percent in the space of six months. Admittedly the starting position then was exaggerated by the Monetary Conditions Index framework at the time. But the key point is that large moves in interest rates are not unusual when it comes to dealing with exceptional circumstances.

On that note, what about monetary or financial conditions? They have eased massively and indicate a strong recovery from H2 2009 (page 6 provides an update on our financial conditions index). This would normally be a strong argument towards a more subdued cut, if we can call 100 basis points subdued! It's an indicator we place a lot of weight on. Yet something we are also struggling with within such indicators is the credit channel of monetary policy. This is increasingly where the action is turning to. In fact that's a major problem for models in general. By including credit growth and a liquidity proxy, we have the semblance of the credit channel. But the weights on these areas are small, and they are also heavily influenced by demand as opposed to supply. Bottom line is that we're still closely watching financial conditions, but also mindful of any indicator and model limitations at present.

Finally, we have to acknowledge market pricing. While loathe to follow the herd, the reality in the current environment is that with the market now drawing towards a larger move, the path of least resistance for the RBNZ is to deliver 150.

Turning to offshore, the RBA has surprised by easing more than expected at their last two meetings. The question is whether they do the same on Tuesday. Our Australian colleagues are looking for a 75 basis point cut from the RBA, taking the cash rate to 4.5 percent, though market pricing is for something closer to a 100 basis point cut. Certainly, another more aggressive move by the RBA cannot be ruled out. The current environment appears to favour more, as opposed to less, policy action by central banks.

In terms of the domestic dataflow, it is relatively quiet with the ANZ Commodity Price Index for November released on Wednesday and September quarter Wholesale Trade Survey on Friday. The latter is a partial indicator we use for our GDP expectations. Given that retail sales volumes once again contracted in the September quarter, we would expect a similar result for wholesale trade.

Internationally, the data calendar contains some important releases in addition to the official policy rate decisions. Across the Tasman, Australian Q3 GDP is due, with our Australian economists picking growth of 0.2 percent, in line with the market. In the US, the key ISM surveys and non-farm payrolls report are released, with the latter again likely to show another rise in the unemployment rate considering the trend occurring in weekly jobless claims numbers. As always, how equity markets perform will dictate the moves across other asset classes. We shall see whether US bourses are able to maintain their pre-Thanksgiving holiday rally early in the week.

### Recent local data...

**RBNZ Survey of Expectations (December quarter):** One-year and 2-year ahead inflation expectations fell 0.8 and 0.3 percentage point to 2.8 and 2.7 percent respectively.

**Overseas Merchandise Trade (October):** A trade deficit of \$942 million was recorded, taking the annual deficit to \$5,220 million.

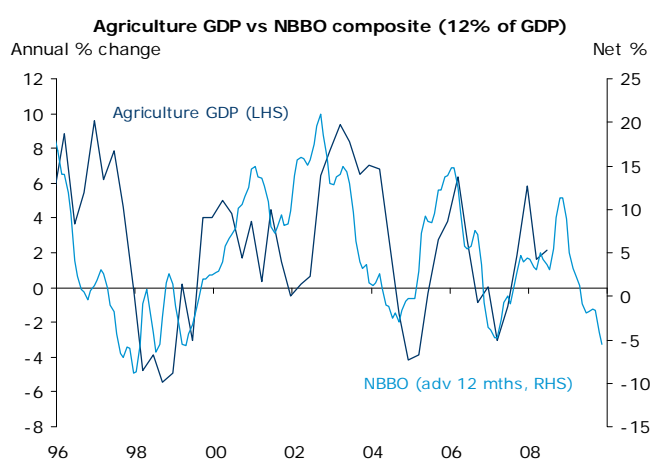
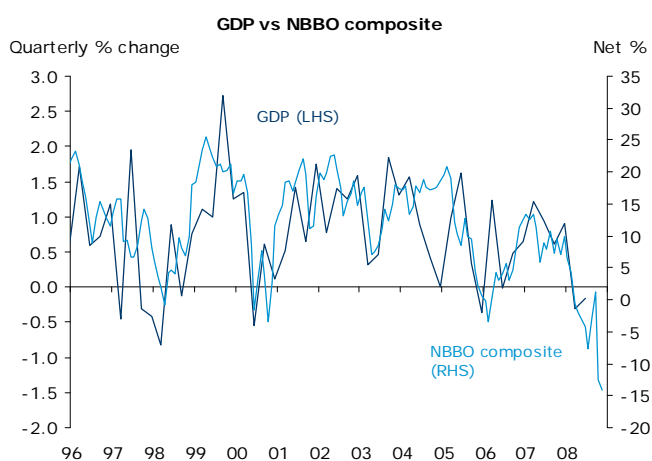
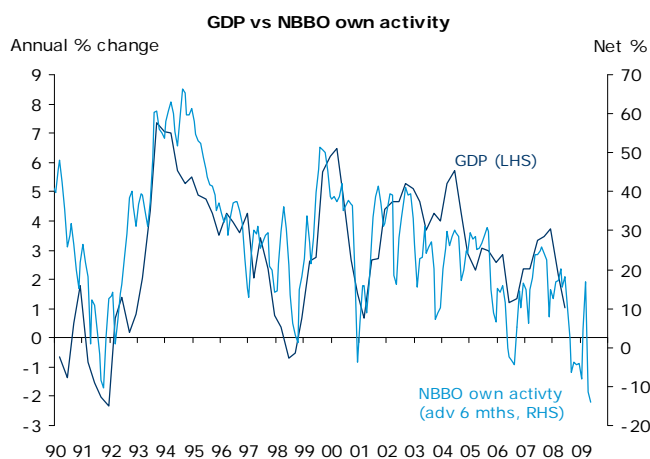
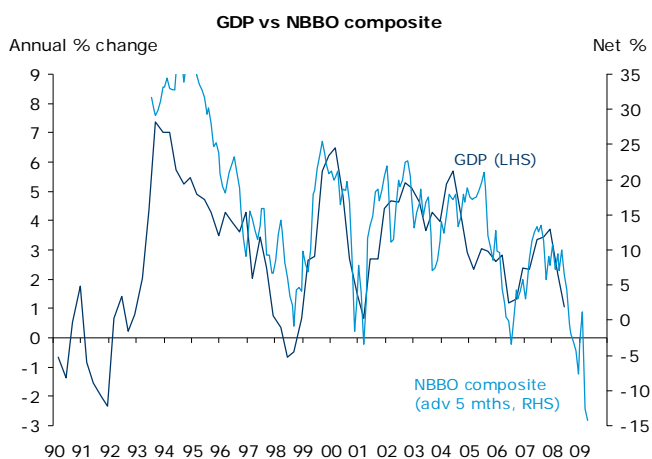
**Credit Growth (October):** Total household claims grew by just 0.2 percent in the month, down from a revised 0.3 percent in September.

**RBNZ Business Outlook (November):** Headline confidence stabilised in the month. However, activity gauges remain extremely poor.

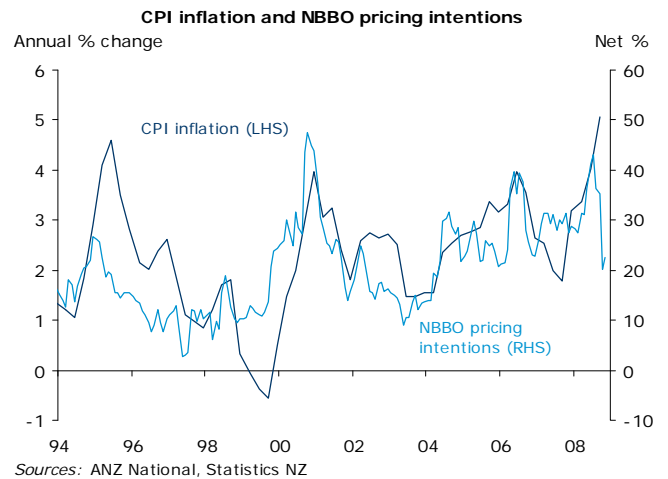
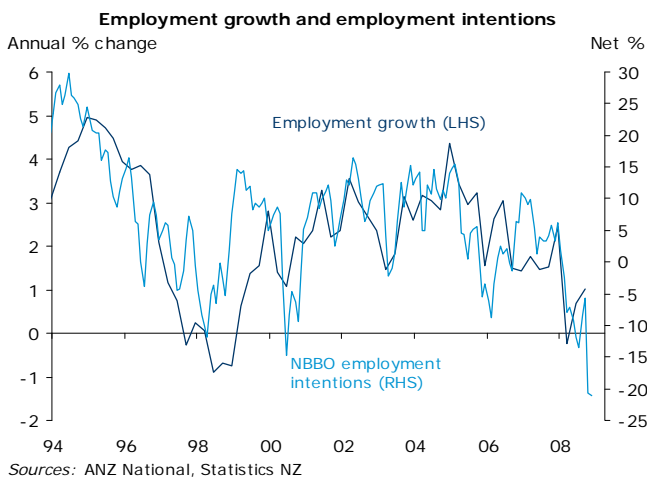
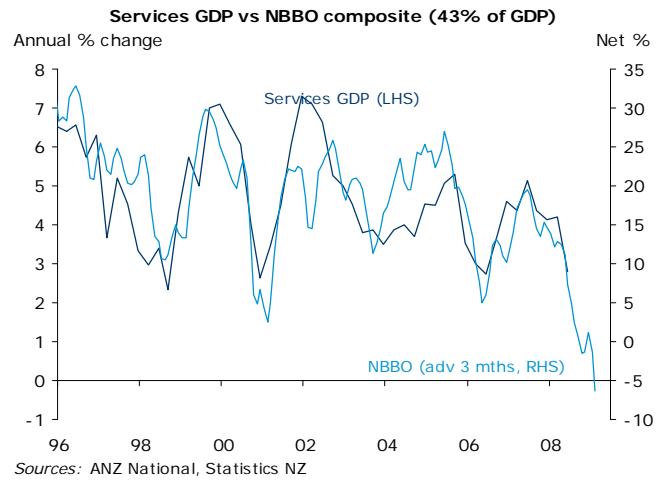
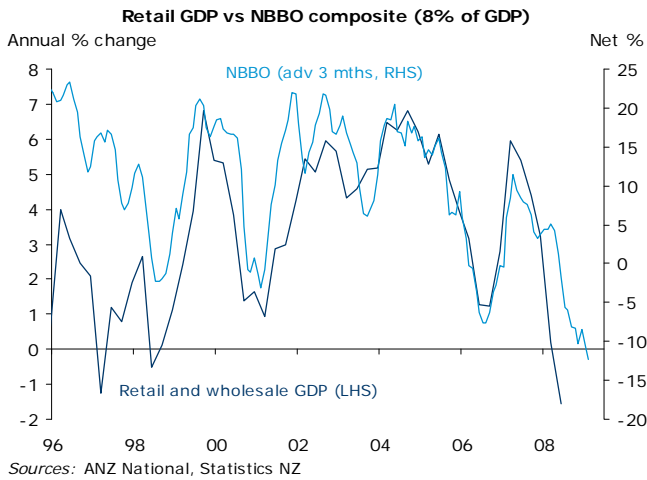
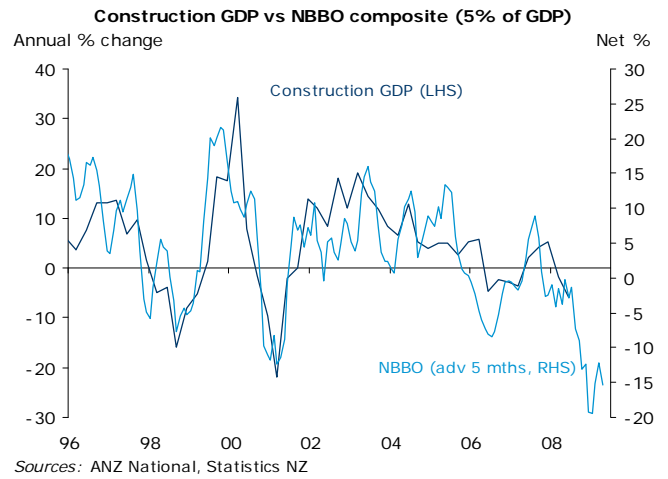
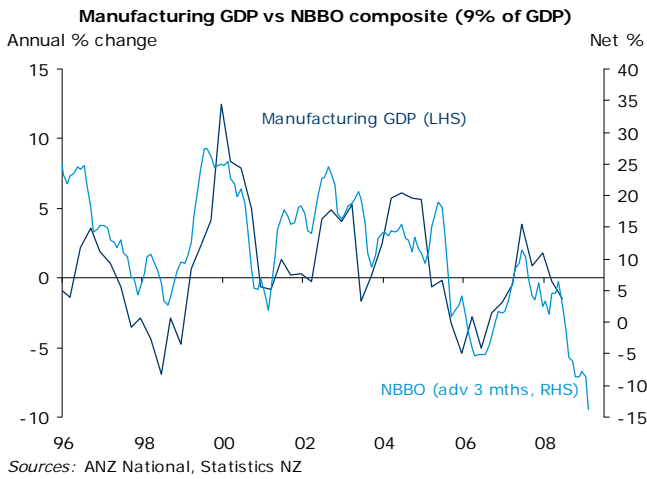
**Building Consents Issued (October):** Building consents fell 21.9 percent. On an ex-apartment basis, the fall was 7.1 percent.

## NATIONAL BANK BUSINESS OUTLOOK UPDATE

Headline business confidence from the November National Bank *Business Outlook* survey may have been unchanged from the previous month, but own activity and other key indicators showed a further deterioration. Our NBBO composite indicator<sup>1</sup> (which has a better correlation with growth in recent times) suggests that Q4 GDP could not only stay in negative territory, but possibly deteriorate further as well. This is putting some doubts into our initial thinking of a technical rebound in economic growth in the final quarter of this year. Moreover, the additional contraction in GDP for H1 2009 we have built in may not be deep enough. In terms of the sectoral breakdown, there looks to be further weakness across the board, indicating the broad-based nature of this downturn in the economic cycle. Employment intentions fell again following the sharp drop in the previous month, indicating that firms are moving beyond a hiring freeze. The biggest decline in employment intentions occurred in the manufacturing sector. Pricing intentions may have ticked up slightly, but is still consistent with a return of headline inflation towards the RBNZ's target band fairly quickly.



<sup>1</sup> Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.

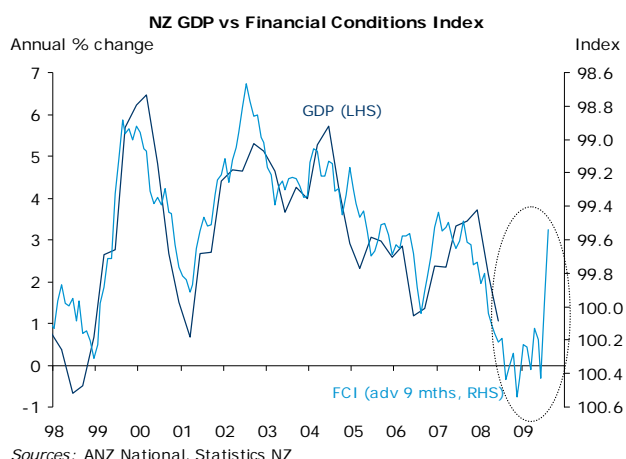


## FINANCIAL CONDITIONS UPDATE<sup>1</sup>

The ongoing rally in global rates has resulted in a further loosening in financial conditions over November. Based on our Financial Conditions Index, economic growth in NZ and Australia could start to pick up from the second half of 2009, though any recovery in the US still looks to be subdued. But we have to acknowledge that financial conditions gauges are “underweight” the credit channel of monetary policy. Hence, in the current environment it may be overstating the easing in financial conditions.

### NZ financial conditions eased massively...

We have seen a massive loosening in financial conditions in NZ. A lower currency and rapidly falling wholesale interest rates were responsible for most of the loosening, though a lower US 2-year swap spread also contributed as well. Offsetting these were further declines in asset prices (both housing and equities), a further slowing in credit growth, and higher bank funding costs (based on the credit default swap spread of the big-four Australian banks as a proxy).



The easing in financial conditions is the most aggressive we have seen since the 1998 period, when the currency and interest rates fell sharply in response to the Asian crisis. Back then, the loosening in financial conditions set the stage for a sharp rebound in economic activity. It suggests we could see a similar strong rebound in growth from the second half of next year, possibly accelerating to 3 percent based on the historical relationship between economic growth and our NZ Financial Conditions Index. But activity is still set to contract in the near-term.

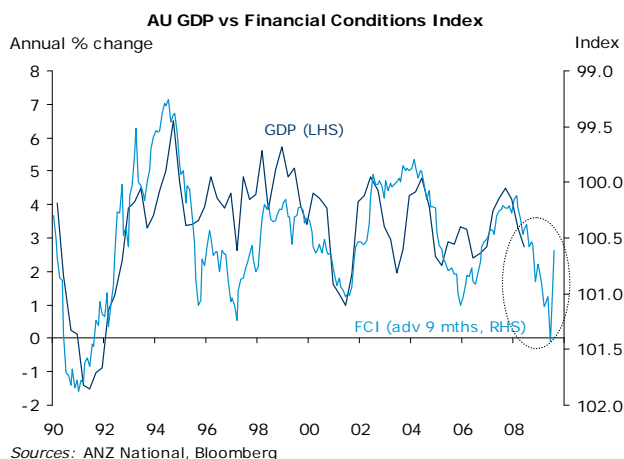
<sup>1</sup> Our Financial Conditions Index includes the currency (adjusted for commodity prices or terms of trade movements), interest rates, asset prices, credit growth, and measures of credit cost and liquidity. It provides a timely leading gauge of economic activity, and more importantly it has been successful in predicting key turning points in the growth cycle.

We place a lot of emphasis on our financial conditions gauge. Yet we are also increasingly mindful of the role the credit channel of monetary policy will play in the current cycle.<sup>2</sup> Financial conditions gauges contain aspects of the credit channel by including wealth, credit growth and liquidity. Yet in general, financial conditions gauges are still heavily skewed towards the traditional monetary channel. For instance, even if we make a huge leap of faith and assume that house prices, credit and liquidity capture half of the credit channel effect, the relative weights within our index are still skewed towards the monetary transmission mechanism by a ratio of 8:1. Hence, while respecting our gauge, we have to acknowledge that it will likely be overstating the loosening in financial conditions in the current environment.

### ... as has Australia's

In a similar vein to NZ, Australia's financial conditions have also loosened substantially. In the Australian case, almost all of the loosening came courtesy of falling wholesale interest rates following the RBA's surprise 75bp cut in early November. The Australian trade weighted exchange rate was largely unchanged over the month, while some tightening came through via falling asset prices and higher bank funding costs.

Our Australian Financial Conditions Index suggests a rapid slowing in growth over the next few quarters seem inevitable. But the loosening in financial conditions currently underway could set the stage for a rebound in growth over the second half of next year, in a similar manner to NZ. However, a similar caution with regards to the credit channel effects noted above stands.

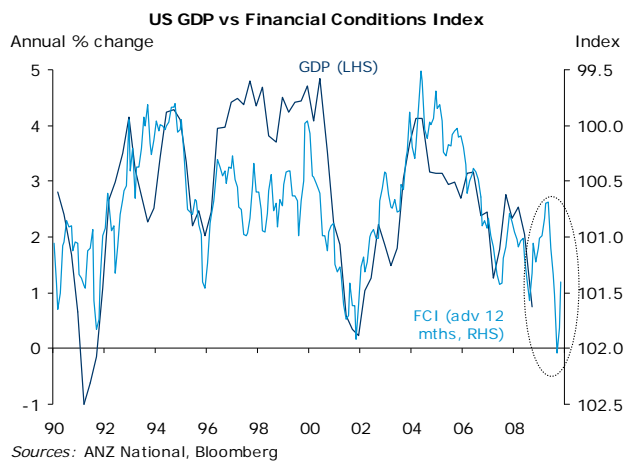


<sup>2</sup> There are two standard credit channels. The first is the balance sheet channel, which notes that deteriorating financial conditions affects borrowers' net worth, either reducing current cash flows or securable assets, thereby influencing their external finance premium. The second is the bank (or any financial intermediary) channel influencing investment behaviour by the cost and availability of credit.

## US recovery still looking shaky

Financial conditions have been volatile for the US, but it has shown some signs of easing in the past two months. Falling interest rates have helped, though we are starting to come to a natural limit in terms of how much further US rates could fall. Asset prices continue to fall, but in the case of the equity market, a rebound late in the month helped.

US growth looks likely to contract in Q4 and Q1 next year. But our US Financial Conditions Index provides some hope that perhaps a recovery can start to take hold by late 2009. Even then, the rebound is likely to be subdued for a start.



## GLOBAL WATCH

It was a busy week for data across the globe last week. Data generally surprised on the downside in the US, with durable goods orders particularly weak. Euro-zone business confidence continues to deteriorate. In Asia, the data was mixed, but industrial production was weaker than expected for Singapore, Taiwan and Japan.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market	
<b>US</b>	Existing Home Sales (Oct) – mom	-3.5%	-3.1%	4.7%	Stronger	
	GDP Annualised (3Q P)	-0.5%	-0.5%	-0.3%	In-line	
	Core PCE (3Q P) – qoq	2.9%	2.6%	2.9%	Weaker	
	S&P/CS Composite-20 (Sep) – yoy	-16.9%	-17.4%	-16.6%	Weaker	
	Consumer Confidence (Nov)	38.0	44.9	38.8	Stronger	
	Richmond Fed Manufacturing Index (Nov)	-27	-38	-26	Weaker	
	House Price Index (Sep) – mom	-0.7%	-1.3%	-0.8%	Weaker	
	Durable Goods (Oct)	-3.0%	-6.2%	-0.2%	Weaker	
	Personal Income (Oct)	0.1%	0.3%	0.1%	Stronger	
	Personal Spending (Oct)	-1.0%	-1.0%	-0.3%	In-line	
	PCE Deflator (Oct) – yoy	3.3%	3.2%	4.1%	In-line	
	Continuing Jobless Claims (w/e Nov-16)	4080K	3962K	4016K	Stronger	
	Chicago Purchasing Manager (Nov)	37.0	33.8	37.8	Weaker	
	University of Michigan Confidence (Nov F)	57.5	55.3	57.9	Weaker	
New Home Sales (Oct) - mom	-5.0%	-5.3%	0.7%	Weaker		
<b>Euro-zone</b>	Industrial New Orders (Sep) – mom	-2.8%	-3.9%	-1.5%	Weaker	
	M3- Money Supply (Oct) - yoy	8.1%	8.7%	8.7%	Stronger	
	Business Climate Indicator (Nov)	-1.58	-2.14	-1.34	Weaker	
	Economic Confidence (Nov)	78.0	74.9	80.0	Weaker	
	CPI Estimate (Nov) - yoy	2.4%	2.1%	3.2%	Weaker	
	Unemployment Rate (Oct)	7.6%	7.7%	7.6%	Weaker	
<b>UK</b>	Total Business Investment (3Q P) – qoq	-1.9%	-0.2%	-1.0%	Stronger	
	GDP (3Q P) – qoq	-0.5%	-0.5%	-0.5%	In-line	
	Nationwide House Prices (Nov) – mom	-1.7%	-0.4%	-1.3%	Stronger	
	GfK Consumer Confidence (Nov)	-37	-35	-36	Stronger	
<b>Asia Ex-Japan</b>						
	<i>Hong Kong</i>	Exports (Oct) – yoy	0.3%	9.4%	3.6%	Stronger
		Imports (Oct) - yoy	1.0%	11.3%	3.9%	Stronger
	<i>Singapore</i>	CPI (Oct) – mom	0.4%	1.0%	0.0%	Stronger
		Industrial Production (Oct) - mom	-5.2%	-12.7%	7.1%	Weaker
		M2- Money Supply (Oct) - yoy	-	12.1%	10.5%	-
	<i>Taiwan</i>	Export Orders (Oct) – yoy	-3.03%	-5.56%	2.82%	Weaker
		Unemployment Rate (Oct)	4.30%	4.29%	4.12%	In-line
		Industrial Production (Oct) - yoy	-4.65%	-12.55%	-1.22%	Weaker
	<i>South Korea</i>	Industrial Production (Oct) – mom	-0.7%	-2.3%	-0.5%	Weaker
	<i>Philippines</i>	Total Imports (Sep) - yoy	-	2.5%	1.1%	-
		GDP (3Q) - qoq	0.5%	0.9%	1.9%	Stronger
	<i>Malaysia</i>	Overnight Rate	3.50%	3.25%	3.50%	Weaker
		GDP (3Q) – yoy	4.5%	4.7%	6.7%	Stronger
	<i>Thailand</i>	GDP (3Q) – qoq	0.4%	0.6%	0.8%	Stronger
		Total Exports (Oct) – yoy	-	4.7%	-19.5%	-

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Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<i>Thailand cont.</i>	Total Imports (Oct) – yoy	-	23.5%	38.6%	-
	Manufacturing Production (Oct) - yoy	2.0%	2.0%	4.3%	In-line
<i>Vietnam</i>	Exports YTD (Nov) - yoy	-	34.0%	36.7%	-
	Imports YTD (Nov) - yoy	-	38.0%	42.0%	-
	CPI (Nov) – yoy	-	24.2%	26.7%	-
<i>India</i>	GDP (3Q) - yoy	7.2%	7.6%	7.9%	Stronger
<b>Japan</b>	Corporate Service Price (Oct) – yoy	-0.5%	-1.4%	0.1%	Weaker
	Jobless Rate (Oct)	4.2%	3.7%	4.0%	Stronger
	Household Spending (Oct) – yoy	-3.3%	-3.8%	-2.3%	Weaker
	National CPI (Oct) – yoy	1.7%	1.7%	1.7%	In-line
	Industrial Production (Oct) – mom	-2.5%	-3.1%	1.1%	Weaker
	Retail Sales (Oct) - mom	-0.7%	-0.6%	-0.3%	In-line
	Housing Starts (Oct) - yoy	30.0%	19.8%	54.2%	Weaker
<b>Australia</b>	Construction Work Done (3Q)	1.5%	4.4%	-0.4%	Stronger
	Private Capital Expenditure (3Q)	0.8%	0.6%	7.4%	Weaker
	Private Sector Credit (Oct) - mom	0.5%	0.6%	0.8%	In-line

## INTEREST RATE STRATEGY

The market hasn't yet fully "priced in" a 150bp RBNZ cut, implying more scope for swap yields to adjust lower. Rates are likely to continue heading lower until the market senses the RBNZ has done enough. While we and other commentators believe that's likely to be before mid 2009, for now the market is focussing on immediate central bank actions.

### Market themes...

- > The RBNZ is about to embark on its boldest move yet, taking the BoE's lead.
- > History tells us that interest rate markets are forward looking. However, they also tend to overshoot, and sometimes aren't forward looking enough, presenting downside risks.
- > A 150bp cut isn't fully "priced in" and it probably won't be until after the event given we've never seen a move of that magnitude.

### Review and outlook ...

The RBNZ *Monetary Policy Statement* on Thursday is clearly the major event of the week, and we now expect a 150bp cut. As detailed in our *Preview* on page 11, what we're seeing on our travels around the country tells us that there's an urgency to act, and now is not the time to be disappointing the market. Equity markets may have stabilised over the past week, but, it remains to be seen if this is a turning point in market sentiment (we doubt it), or just a short covering rally. Mortgage rates are coming down too, and given the rate cuts that are already "priced in", any disappointment will mean they stall here, or even go higher. The RBNZ could, of course, meet the bulls and bears halfway and deliver a 125bp cut, but it's the language they use that will steer the market.

Looking beyond the immediate decision, for now the familiar themes remain in place – swap rates are headed lower yet, and the curve will undergo more "bull steepening". It's too soon for borrowers to start extending duration, and similarly, it's too soon for investors to be lightening up. Given the likelihood that the OCR goes to a new low and that US 10yr Treasury yields are at a 45 year low, this is the best possible environment one could hope for if we want to see rates go lower.

While this easing cycle will be far from "typical", there will be familiar elements to it, including the likelihood that the long end will bottom out before the last easing. This has strategic implications. For borrowers, it means implementing long term hedges before finessing short term hedges. For investors, this means switching out of outright longs and into steepeners.

### Borrowing strategies we favour at present

While we are no doubt getting closer and closer to the point where it'll be appropriate to extend the duration of hedges, we're not quite there. "Front loaded" RBNZ easings will see the OCR bottom out late in Q1 or early in Q2 2009. Historical experience suggests the 5yr swap will continue to fall until a few weeks prior to the final easing, which is at least three months away. Furthermore, the OCR is likely to be headed below the circa 4% end point that's currently priced in, which suggests term rates can go lower yet. Take a long term view, and don't get blind-sided by the size of recent rate falls. Stick with the "game plan" and keep duration short.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↓↓	RBNZ to cut OCR by 150bps. It's not yet fully priced in.
NZ data	↓	NBBO data paints a very weak picture going forward.
Fed Funds/ front end	↔/↓	FOMC meeting not the immediate focus. NZ short end rates can go lower.
RBA	↔/↑	A 75bp RBA cut may temper bullish RBNZ expectations.
US 10 year	↔/↓	US bond yields are at record lows, and won't hold NZ back from making new lows.
NZ swap curve	↔/↓	Will steepen, but major rally in the US has seen long end rally strongly too.
Flow	↓	Pay-side flow lacking.
Technicals	↔/↓	Momentum strong.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 4-Dec-08	-114	-127
Thu 22-Jan-09	-185	-202
Thu 5-Mar-09	-221	-237
Thu 23-Apr-09	-244	-237
Thu 4-Jun-09	-243	-267
Thu 30-Jul-09	-241	-261
Thu 10-Sep-09	-239	-237

### Trading themes we favour at present

Quantitative easing in the US, temporarily lower inflation expectations, and a more subdued recovery all imply lower than otherwise long bond yields, but these same factors suggest that the RBNZ have more work to do. Steepeners therefore remain appropriate, but will be less rewarding than if it had been "business as usual" outside NZ. Consider going long the 12mth NZ OIS into this week's MPS, on the view that a 150bp cut will see 100bp+ follow up cuts start to get priced in.

## MONETARY POLICY STATEMENT PREVIEW

(due 9.00am 4 December)

A rapidly deteriorating economic picture means the Reserve Bank will now seek to take monetary policy into the "stimulatory" zone. We expect a 150 basis point cut to further front-load the easing cycle, and the spirit of the assessment will be to keep the market looking for more.

### The market is split between 100 versus 150.

Recent falls in mortgage rates across the curve, lower petrol prices, a massive loosening in financial conditions, a prospective sizable fiscal package to be announced before Christmas (with talk of the fiscal impulse being in the order of 4 percent of GDP over two years), and improved liquidity which has shaved between 25 and 40bps off interbank rates so far, argue for a more conservative move, if we can term 100bps as such!

### The global scene and the domestic dataflow make the case for a more aggressive policy response.

Leaning in the direction of a bigger rate cut is a massively deteriorating global outlook and ongoing financial market turbulence. A third of NZ's top 12 trading partners are already in technical recession (Japan, Eurozone, Hong Kong and Singapore), with the US and UK not very far behind. The rest have hit brick walls. There are clear signs of the flow-on impact from the global scene to the NZ economy via commodity prices and tourism. The dairy payout has been cut from \$6.60/kg ms to \$6.00 for this season, and further reductions look likely. The national carrier is cutting international air capacity as a result of reduced demand. The latest National Bank *Business Outlook* showed a further deterioration in the key activity gauges, and points to a substantial contraction in growth in the year ahead, despite 175bps of rate cuts so far. Real time anecdotes are now pointing towards the recession extending into 2009 – an unheralded sequence.

**The scale of current events means the RBNZ can clearly aim to bring monetary policy into the stimulatory zone.** Generally we think about the neutral policy rate as residing around six

percent, and stimulatory south of that. Given dislocation across credit markets that has raised the external finance premium, we'd be erring more towards neutral being 5.5 percent at this juncture, and policy needing to be far south of that.

**Headline inflation is set to return to the RBNZ's target band by Q1 next year**, thanks to the sharp falls in petrol prices. Inflation expectations have also nudged lower. Though evidence of actual reductions in domestic cost pressures are still absent, the medium-term drivers of inflation have improved markedly, and we expect the RBNZ's projections to flag a much higher unemployment rate. The currency could typically provide some inflationary palpitations, but not in the current commodity and growth environment. Then there is the issue of the emissions trading scheme (ETS), which has effectively been put on hold by the new government pending a review. The ETS added as much as 0.6 percentage points to headline inflation by early 2011.

### We are more inclined towards a move at the more aggressive end, and are calling a 150bps cut.

The big swing factor for us is the anecdotes we overwhelmingly received around our recent Roadshow. This is real time information which ties in with the National Bank business confidence survey results, and we are only early days into seeing the impact of the global scene. In such a situation, the bias will remain to do more when it comes to monetary policy as opposed to exercising caution, which was precisely what we have seen across central banks of late.

**In terms of the forecasts themselves**, we expect a more sustained downturn within the core forecasts. Our forward looking Taylor Rule estimates (which can proxy the RBNZ's model) suggests the OCR will have an endgame well below 5 percent. But given the uncertain environment, the risks are still very much skewed to the downside and we are leaning towards sub 4 percent. We expect the spirit of the projections and the Governor's assessment to keep the market looking for more support from monetary policy over the coming three months.

**Our forecasts of RBNZ Projections for December MPS (September 2008 MPS Projections in brackets)**

Half year average	H2 2008	H1 2009	H2 2009	H1 2010	H2 2010
90 day	7.2 (8.0)	5.0 (7.4)	5.0 (7.2)	5.3 (7.1)	6.2 (6.9)
TWI	61.5 (65.3)	53.0 (63.6)	52.0 (62.5)	55.0 (61.6)	58.0 (61.2)
March years	2008(a)	2009	2010	2011	
CPI (ann % chg)	3.4 (3.4)	2.7 (4.5)	2.3 (2.8)	2.4 (3.0)	
GDP (ann ave % chg)	3.2 (3.0)	0.0 (0.3)	1.0 (1.9)	3.0 (2.9)	

## CURRENCY STRATEGY

Expectations of a big rate cut from the RBNZ will weigh on the NZD this week. The continued poor local dataflow will similarly prevent any technical short-squeeze rebound from going too far. Beyond that, it is a case of the NZD taking its cues off US equity moves.

### Market themes...

- > Equities still the dominant driver of currency moves, but correlation weakening.
- > Economic data still poor, but its shock effect on currencies appears to be waning.
- > USD retracement underway, but up-channel still intact.

### Review and outlook...

The NZD managed to push higher through last week, again largely tracking US equities, which managed to put on a pre-Thanksgiving weekend rally. As we have seen of late, such rallies could prove to be short-lived. The economic dataflow internationally remains very poor. But markets appear to be cheering the firm action being taken by various governments in the form of substantial fiscal stimulus, hoping that it will provide a floor to global growth.

We view the move higher in the NZD last week as part of a technical rebound, not the start of a new uptrend. As we mentioned last week, after falling so far so fast, a rebound towards the 0.56-0.58 range is possible. Even then, the NZD will still remain firmly entrenched in its downtrend channel. This week could see the technical rebound come to a halt, as the RBNZ decision looms large.

Expectations of a 150bp cut will see NZ's yield advantage narrow further, taking away the only real attraction of owning NZD at this stage. With October's large trade deficit indicating no near-term improvement in NZ's external imbalance in sight, and the poor building consents and National Bank business confidence survey last week indicating deteriorating economic momentum, the bias is for the NZD to stay heavy this week. Another surprise large move by the RBA on Tuesday could see the NZD dragged lower by the AUD.

After puzzling over the strength in the NZDAUD, we have finally seen it move south. Given the fact that the dataflow in NZ continues to underperform, and Australia has run trade surpluses in recent months compared to NZ's large deficits, we can expect the NZDAUD to keep heading down. Given the relatively light domestic data calendar this week (apart from the RBNZ), offshore data will provide more leads for the NZD. AU Q3 GDP and retail sales, and US ISM and payrolls data will provide plenty for currency markets to chew over. The USD

index retracement appears to be underway, and ongoing poor US data could see this continue. But we have to be mindful that after rising so fast in such a short space of time, such retracements are only natural. The uptrend channel for the USD very much remains firmly intact.

Technically, the NZD's weak attempt to rally suggests the break of last week's up trend will cap any rally. Ideally sell as close to 0.5550 with stop-loss above 0.5620 would be ideal. NZDAUD has decent support at the 0.8333 level (1.2000 AUD NZD) which is also the 200 day MA. We expect a serious test of this level this week with a break targeting 0.8100.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Should be lower based on fundamentals.
Yield	↔	RBNZ and RBA expected to ease aggressively.
Commodities	↔	Bad news for both.
Partial indicators	↓	NZ indicators still worse.
Technicals	↔/↓	0.8333 support.
Sentiment	↔/↓	Last week was notable for kiwi specific inquiries from offshore.
Other	↑	Equities stabilisation helping AUD for now.
<b>On balance</b>	↓	<b>Should be lower but subject to global scene</b>

### 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	↔/↓	Above cyclical fair value level at present.
Yield	↓	150bps from RBNZ.
Commodities	↓	Still under pressure.
Risk aversion	↔/↓	Fragile and fickle.
Partial indicators	↔	Awful for both.
Technicals	↔/↓	0.5550 topside cap.
AUD	↔	AUD has some support.
Sentiment	↔	Very weak.
Other	↑	Equities stabilised (for now) and USD being questioned in some pockets.
<b>On balance</b>	↔/↓	<b>Near-term bounce limited, medium-term still bearish.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
1-Dec	AU	AiG Performance of Manufacturing Index (Nov)	-	40.4	11:30
		TD Securities Inflation (Nov) - mom	-	-0.2%	12:30
		Company Operating Profit (3Q) – qoq	3.0%	14.3%	13:30
		Inventories (3Q)	0.7%	0.3%	13:30
		RBA Commodity Index SDR (Nov) - yoy	-	32.4%	18:30
	JN	Labour Cash Earnings (Oct) - yoy	0.1%	0.1%	14:30
		Vehicle Sales (Nov) – yoy	-	-13.1%	18:00
	GE	Retail Sales (Oct) - mom	0.5%	-2.3%	20:00
		PMI Manufacturing (Nov F)	36.7	36.7	21:55
	UK	M4 Money Supply (Oct F) – mom	-	2.3%	22:30
		Net Consumer Credit (Oct)	0.5B	0.3B	22:30
		Net Lending Sec. on Dwellings (Oct)	1.8B	2.2B	22:30
		Mortgage Approvals (Oct)	32K	33K	22:30
		PMI Manufacturing (Nov)	36.2	41.5	22:30
2-Dec	US	ISM Manufacturing (Nov)	37.0	38.9	04:00
		ISM Prices Paid (Nov)	32.0	37.0	04:00
		Construction Spending (Oct) – mom	-1.0%	-0.3%	04:00
	AU	Current Account Balance (3Q)	-11100M	-12774M	13:30
		Retail Sales Trend (Oct) - mom	0.1%	0.2%	13:30
		Retail Sales s.a. (Oct) - mom	-0.2%	-1.1%	13:30
		RBA Interest Rate Announcement	4.50%	5.25%	16:30
	UK	PMI Construction (Nov)	33.5	35.1	22:30
	EC	PPI (Oct) - mom	-0.3%	-0.2%	23:00
3-Dec	US	Philadelphia Fed's Plosser to Speak on Economy in Rochester	-	-	06:30
	AU	AiG Performance of Service Index (Nov)	-	42.1	11:30
		Gross Domestic Product (3Q) - qoq	0.2%	0.3%	13:30
		Gross Domestic Product (3Q) - yoy	1.9%	-	13:30
	UK	Nationwide Consumer Confidence (Nov)	54	55	13:01
	<b>NZ</b>	<b>ANZ Commodity Price (Nov)</b>	<b>-</b>	<b>-7.4%</b>	<b>15:00</b>
	GE	PMI Services (Nov F)	46.2	46.2	21:55
	EC	PMI Services (Nov F)	43.3	43.3	22:00
		Retail Sales (Oct) – mom	-0.4%	-0.2%	23:00
	UK	PMI Services (Nov)	41.2	42.4	22:30
		Official Reserves (Changes) (Nov)	-	-\$1485M	22:30
4-Dec	US	ADP Employment Change (Nov)	-198K	-157K	02:15
		Non-Farm Productivity (3Q F)	0.9%	1.1%	02:30
		Unit Labour Costs (3Q F)	3.6%	3.6%	02:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
4-Dec cont.	US	ISM Non-Manufacturing Composite (Nov)	42.0	44.4	04:00
		Fed's Beige Book	-	-	08:00
	<b>NZ</b>	<b>RBNZ OCR Announcement</b>	<b>5.00%</b>	<b>6.50%</b>	<b>09:00</b>
	JN	Capital Spending (3Q)	-9.8%	-6.5%	12:50
	AU	Trade Balance (Oct)	1410M	1460M	13:30
		Building Approvals (Oct) – mom	0.0%	-7.2%	13:30
	EC	GDP s.a. (3Q P) - qoq	-0.2%	-0.2%	23:00
5-Dec	UK	BOE Interest Rate Announcement	2.00%	3.00%	01:00
	EC	ECB Interest Rate Announcement	2.75%	3.25%	01:45
		Trichet Speaks at ECB Monthly News Conference in Brussels	-	-	02:30
	US	Initial Jobless Claims (w/e Nov-30)	540K	529K	02:30
		Continuing Claims (w/e Nov-23)	4025K	3962K	02:30
		Factory Orders (Oct)	-4.3%	-2.5%	04:00
		Fed's Bernanke Speaks on Housing, Housing Finance at Fed Conference	-	-	05:15
	AU	AiG Performance of Construction Index (Nov)	-	36.4	11:30
		Foreign Reserves (Nov)	-	44.9B	18:30
6-Dec	GE	Factory Orders (Oct) - mom	-0.5%	-8.0%	00:00
	US	Change in Non-Farm Payrolls (Nov)	-320K	-240K	02:30
		Unemployment Rate (Nov)	6.8%	6.5%	02:30
		Change in Manufacturing Payrolls (Nov)	-80K	-90K	02:30
		Average Hourly Earnings (Nov) – mom	0.2%	0.2%	02:30
		Consumer Credit (Oct)	\$1.8B	\$6.9B	09:00

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:** The RBNZ is obviously the key focus this week. We now expect a 150bp cut given the weakness in the domestic economy and deteriorating global backdrop. Further partial indicators for Q3 GDP are also due over the coming weeks and are expected to reinforce that Q3 GDP growth was negative. With leading indicators also weak, NZ is staring down the barrel of an unheralded succession of contractions in GDP.

Date	Data/Event	Economic Signal	Comment
Wed 3 Dec (15.00)	ANZ Commodity Price Index (Nov)	-	-
Thu 4 Dec (09.00)	RBNZ <i>Monetary Policy Statement</i>	150 basis point cut	The domestic economy remains weak and our travels around the country highlight that things are yet to stabilise. Another aggressive interest rate cut is warranted.
Mon 8 Dec (10.45)	Value of Building Work Put in Place (Q3)	Another large contraction	Residential construction work is again expected to contract sharply in the quarter. Non-residential construction should hold up at a better level.
Wed 10 Dec (10.45)	Overseas Trade Indices (Q3)	Terms of trade down again	While oil prices started to fall in the September quarter, so too did the prices of NZ's commodity exports. This should contribute to another fall in the terms of trade.
circa 11 Dec	REINZ House Sales (Nov)	Sales stabilising, but prices still under downward pressure.	House sales may show some signs of recovery due to more realistic price expectations from vendors as well as lower mortgage rates. However, prices should remain under downward pressure.
Fri 12 Dec (10.45)	Retail Sales (Oct)	Underlying weakness	ECT and credit card data painted a mixed picture for retail spending over October. Nevertheless, we expect a small rise in spending in the month, although headline sales will be weighed down by sharply lower petrol prices.
Mon 15 Dec (10.45)	Economic Survey of Manufacturing (3Q)	Weak	Despite a lower NZD, recent PMI surveys have shown the manufacturing sector heading backwards.
Wed 17 Dec (15.00)	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.
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.
<b>On Balance</b>		<b>Key issue is the flow-on from the global scene.</b>	<b>Weakness now extending into Q4 and 2009 according to lead indicators.</b>

## 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	<b>-0.5</b>	<b>0.3</b>	<b>-0.4</b>	<b>-0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.7</b>
GDP (% yoy)	3.7	2.2	1.1	<b>-0.1</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.1</b>	<b>-0.1</b>	<b>1.0</b>
CPI (% qoq)	1.2	0.7	1.6	1.5	<b>-0.2</b>	<b>0.1</b>	<b>0.7</b>	<b>0.8</b>	<b>1.0</b>	<b>0.6</b>
CPI (% yoy)	3.2	3.4	4.0	5.1	<b>3.7</b>	<b>3.1</b>	<b>2.2</b>	<b>1.5</b>	<b>2.7</b>	<b>3.3</b>
Employment (% qoq)	0.9	-1.3	1.3	0.1	<b>-0.6</b>	<b>-0.4</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
Employment (% yoy)	2.5	-0.2	0.7	1.0	<b>-0.5</b>	<b>0.4</b>	<b>-1.0</b>	<b>-1.1</b>	<b>-0.4</b>	<b>0.1</b>
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	<b>4.7</b>	<b>5.1</b>	<b>5.5</b>	<b>5.8</b>	<b>6.0</b>	<b>6.3</b>
Current Account (% GDP)	-8.2	-8.0	-8.4	<b>-8.4</b>	<b>-8.7</b>	<b>-8.6</b>	<b>-7.5</b>	<b>-7.0</b>	<b>-6.6</b>	<b>-6.5</b>
Terms of Trade (% qoq)	2.9	4.2	-0.5	<b>-1.0</b>	<b>-2.0</b>	<b>-1.6</b>	<b>-1.8</b>	<b>-1.5</b>	<b>-1.1</b>	<b>-0.8</b>
Terms of Trade (% yoy)	8.8	11.6	10.6	<b>5.6</b>	<b>0.5</b>	<b>-5.1</b>	<b>-6.3</b>	<b>-6.8</b>	<b>-5.9</b>	<b>-5.2</b>

## KEY ECONOMIC INDICATORS

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Retail Sales (% mom)	-0.7	-1.0	1.3	-1.1	0.9	-0.7	0.4	0.1	..	..
Retail Sales (% yoy)	7.7	-1.0	4.1	1.0	1.5	2.5	-0.9	2.2	..	..
Credit Card Billings (% mom)	0.4	-0.5	-0.3	0.5	-0.1	0.2	-0.2	0.9	-1.1	..
Credit Card Billings (% yoy)	7.5	5.8	5.5	6.0	4.0	4.2	2.4	2.4	1.1	..
Car Registrations (% mom)	-8.0	-12.7	11.4	-13.6	1.5	-6.9	-3.5	10.8	-1.2	..
Car Registrations (% yoy)	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	..
Building Consents (% mom)	-6.3	-13.0	79.8	-42.3	-12.8	-1.4	-7.5	11.1	-22.0	..
Building Consents (% yoy)	-17.7	-26.8	29.9	-27.0	-45.5	-34.6	-43.2	-27.9	-43.2	..
REINZ House Price (% yoy)	0.7	1.6	-1.1	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	..
Household Lending Growth (% mom)	0.8	0.4	0.3	0.5	0.3	0.3	0.4	0.3	0.2	..
Household Lending Growth (% yoy)	11.7	10.9	10.0	9.4	8.5	7.8	7.3	6.8	6.0	..
Roy Morgan Consumer Confidence	116.0	111.7	99.9	89.2	86.5	83.9	91.4	108.6	99.7	98.3
NBNZ Business Confidence	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	-43.0
NBNZ Own Activity Outlook	2.4	-6.4	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4	-14.1
Trade Balance (\$m)	243	-43	-293	-169	-215	-797	-843	-1260	-942	..
Trade Balance (\$m annual)	-4422	-4526	-4604	-4782	-4478	-4468	-4364	-5052	-5220	..
ANZ World Commodity Price Index (% mom)	1.1	2.0	-0.3	0.9	0.0	1.8	-3.4	-5.1	-7.4	..
ANZ World Commodity Price Index (% yoy)	26.9	26.9	20.7	18.7	11.6	8.7	3.5	-2.1	-10.9	..
Net Migration (sa)	270	550	510	970	460	780	370	-10	10	..
Net Migration (annual)	4643	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	1-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
NZD/USD	0.613	0.566	+0.5463	0.550	0.530	0.500	0.490	0.480	0.490	0.490
NZD/AUD	0.881	0.860	0.837	0.809	0.803	0.806	0.845	0.842	0.845	0.817
NZD/EUR	0.458	0.445	0.430	0.451	0.442	0.424	0.430	0.436	0.467	0.480
NZD/JPY	61.9	55.0	52.1	50.6	48.8	48.0	48.0	48.0	49.0	50.0
NZD/GBP	0.360	0.369	0.355	0.367	0.358	0.347	0.350	0.343	0.350	0.345
NZ\$ TWI	60.7	57.5	55.5	55.8	54.3	52.5	52.9	52.7	54.2	54.4
NZ interest rates	Oct-08	Nov-08	1-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
OCR	7.51	6.72	6.50	4.00	4.00	4.00	4.00	4.50	5.50	6.00
90 day bill	7.42	6.24	5.70	4.60	4.40	4.30	4.30	5.10	6.10	6.30
10 year bond	5.87	5.71	5.09	5.30	5.00	5.00	5.30	5.70	5.60	5.80
International	Oct-08	Nov-08	1-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	0.75	0.75	0.75	1.00	1.25	1.50	2.00
US 3-mth	3.03	2.18	2.22	2.00	1.80	1.65	1.75	2.00	2.25	2.70
AU cash	6.00	5.25	5.25	4.00	4.00	4.00	3.50	3.50	3.50	3.50
AU 3-mth	5.81	4.56	4.72	4.20	4.20	4.20	3.80	3.80	3.80	4.20

## KEY RATES

	28 Oct	24 Nov	25 Nov	26 Nov	27 Nov	28 Nov
Official Cash Rate	6.50	6.50	6.50	6.50	6.50	6.50
90 day bank bill	7.07	5.85	5.82	5.82	5.82	5.80
NZGB 07/09	5.49	4.93	4.94	4.86	4.85	4.78
NZGB 11/11	5.60	4.90	4.92	4.86	4.81	4.67
NZGB 04/13	5.74	5.09	5.11	5.05	4.96	4.82
NZGB 12/17	5.92	5.37	5.39	5.33	5.25	5.08
2 year swap	6.34	5.13	5.19	5.15	5.13	5.08
5 year swap	6.45	5.55	5.59	5.55	5.53	5.49
RBNZ TWI	56.3	54.5	55.3	55.4	55.8	55.7
NZD/USD	0.5455	0.5295	0.5435	0.5478	0.5524	0.5514
NZD/AUD	0.8999	0.8479	0.8447	0.8496	0.8476	0.8409
NZD/JPY	50.90	50.39	52.51	52.06	52.59	52.52
NZD/GBP	0.3516	0.3558	0.3597	0.3567	0.3590	0.3579
NZD/EUR	0.4394	0.4199	0.4230	0.4224	0.4273	0.4274
AUD/USD	0.6062	0.6245	0.6434	0.6448	0.6517	0.6557
EUR/USD	1.2414	1.2610	1.2848	1.2970	1.2927	1.2902
USD/JPY	93.30	95.17	96.61	95.04	95.21	95.25
GBP/USD	1.5515	1.4881	1.5110	1.5357	1.5386	1.5405
Oil	62.02	49.22	53.63	50.02	54.20	54.05
Gold	734.20	792.05	812.75	813.20	816.35	814.50
Electricity (Haywards)	2.76	6.14	2.41	3.13	4.14	3.50
Milk futures (US\$/contract)	100	88	88	88	n/a	88
Baltic Dry Freight Index	982	824	804	763	733	715

## 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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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail [ecnmcs@anz.com](mailto:ecnmcs@anz.com)

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