ANZ RESEARCH

NEW ZEALAND ECONOMICS
MARKET FOCUS

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INSIDE

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ON A STRONGER FOOTING

ECONOMIC OVERVIEW

Evidence is growing that the economy, particularly ex Canterbury, was and is on a stronger footing, both before and after the February 22 earthquake. Looking through the volatility in quarterly labour market outturns, earnings are pretty respectable and the fall in HLFS unemployment mirrors marginal falls in registered unemployed. We seem to have semblances of consistency, but challenges remain for the economy. Recent global ructions and volatility reinforce the long drawn-out nature of the recovery post the GFC. This week's spending-centric data is expected to reaffirm the split personality of the economy. With the Budget around the corner, watch for the usual pre-budget announcements, which will be centred on the need for fiscal austerity.

SWAP AND BASIS SWAP SPREAD UPDATE

Spectacular demand for NZGS bonds has seen swap spreads start to normalise, and is a clear sign of changing attitudes to New Zealand as a sovereign borrower. The current situation is unusual and is a positive development, given the Crown's unexpected need to borrow in order to fund the earthquake.

MONTHLY INFLATION GAUGE

Our monthly inflation gauge was unchanged in April, following a 0.2 percent increase in March. For now, there is little evidence of price increases becoming more generalised. There is a risk, however, that higher headline inflation rates will start to filter through into price and wage setting behaviour.

INTEREST RATE STRATEGY

Global long term interest rates continue to fall, led by the US, with 10 year Treasury yields now at a new low for the year. This move has been exacerbated in New Zealand by strong demand for NZGS bonds at the weekly tenders. However, the story at the short end is quite different, with fears of a RBA rate hike and better than expected HLFS jobs data keeping the bellwether 2 year swap yield up. Looking ahead, we expect the short end to be biased higher, but the long end to be well supported, flattening the curve.

CURRENCY STRATEGY

Strong NZ employment data and a hawkish RBA failed to lift the NZD. Instead, the rout in commodity markets has taken the shine off the risk currencies. With a less hawkish ECB, EUR sovereign debt concerns reappearing and some stronger data in the US, the USD is coming back into vogue. Coincidentally, the adage "sell in May and go away…" may also be having some impact as speculators reduce positions for the northern summer. With risk sentiment dented, NZD could again struggle this week.

EFFECTIVE EXCHANGE RATE UPDATE

Strengthening export commodity prices were offset by a stronger NZD in April, resulting in less enhancing trading conditions for half of the eight groups. Disparities in trading conditions remain, with trading conditions more enhancing than average for four groups but more restrictive than average for three groups.

ECONOMIC OVERVIEW

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NEXT WEEK'S EVENTS

- **SNZ Electronic Card Transactions – April** (Tuesday, May 10, 10:45am). We are expecting a 1.8 percent monthly increase for the value of retail transactions.
- **RBNZ Financial Stability Report – May 2011** (Wednesday, May 11, 9:00am). The RBNZ will reaffirm the stability of the financial system.
- **SNZ Food Price Index – April** (Thursday, May 12, 10:45am). A 0.2 percent increase is expected.
- **REINZ Housing Market Report - April** (Between May 10-12, 10:00am). We expect a 3 percent increase in sales volumes. Prices are expected to be broadly unchanged.

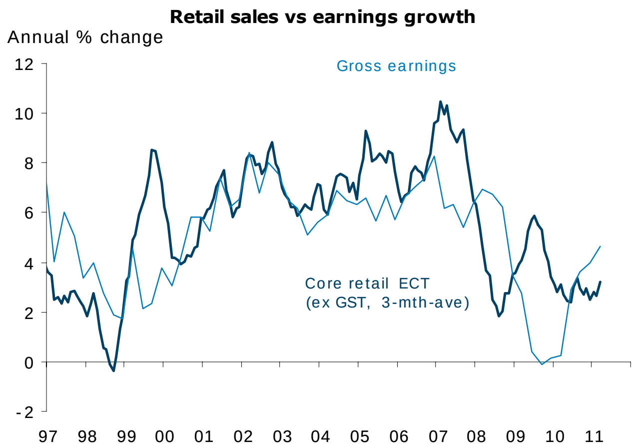
WHAT'S THE VIEW?

Last week's events were a timely reminder that the road to global recovery is paved with challenges and we'd be remiss to disconnect NZ from that reality. Last week was characterised by a considerable amount of market volatility, with risk taken off the table. The global dataflow was mixed and not the primary catalyst. Investors appear to have taken the view that the run-up in commodity prices and risk currencies was overdone, and squared back on these positions. The NZD fell back around 2 percent against the USD. Commodity prices, as measured by the CRB index, fell 9 percent last week, with oil prices down almost 15 percent to under $100 per barrel. Global interest rates fell, with US 10-year government bond yields reaching a new low for the year. The MSCI World Equity Index dropped 2.1 percent, partly reversing the surge seen since mid March.

Such forces are expected to continue and the spirit of our bathtub with waves shaped cycle we used two years ago to describe the post GFC recovery lives on.

Sources: ANZ, National Bank, Bloomberg

Against this backdrop we're taking encouragement on the local front. We started 2011 making references to the economy being at an inflection point and data is bearing this out. The unemployment rate nudged down in March, employment was up (albeit somewhat buoyed by census workers we suspect) and excluding Canterbury hours worked rose 1.4 percent in the March quarter. Full-time employment has risen for five successive quarters. The Quarterly Employment Survey showed a 0.7 percent rise in hours paid in Q1 and gross earnings are up 4.6 percent on a year ago. It is not a lack of income growth that is holding back consumer spending.



Sources: ANZ, National Bank, Statistics NZ

Of course we can't ignore Canterbury developments. We are looking at the entire economy after all. Economy wide, hours worked were down 0.9 percent in Q1. Visitor arrivals capitulated in March. We recorded a net migration outflow – the largest for a decade. The 1,000

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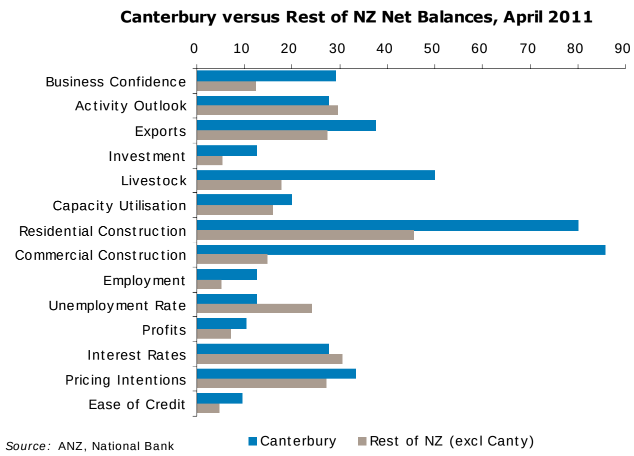
turnaround in permanent and long-term migration to a net outflow of 530 persons in March largely reflected a pick-up in departures. Fewer people mean less spending power. Around three quarters of the turnaround was due to a surge in departures to Australia. Jobs will be one draw-card to Australia but Christchurch was a huge beneficiary of immigration from Australia in years prior and we suspect this reversed sharply. This was one dynamic we predicted in our depopulation prognosis for Christchurch two months ago (see our March 14 *Market Focus*).

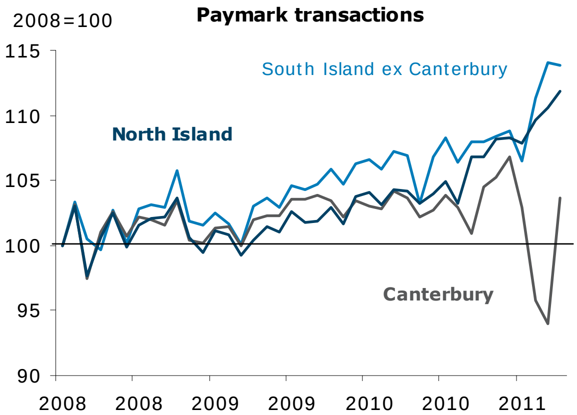
Of course there are other challenges too. Pockets of the commercial property market remains under pressure, particularly in Wellington. Incomes are being squeezed by the high cost of staples. Residential consent issuance remains weak and suggests residential construction sector activity will contract over the first half of this year. We have yet to see the unemployment fallout from the quake, and this will be a Q2 story. We'll be keeping a close eye on official benefit numbers (we should get April figures this week) as a timely gauge of the labour market. The April and May numbers will give some insight into how next quarter's HLFS report is shaping up. Time-wise this is likely to capture the real unemployment fallout from Christchurch.



Source: ANZ, National Bank

Our overall prognosis is not upbeat, rather simply that relative to six weeks ago it's becoming clear that the outlook is less negative than feared. In fact we're in the process of re-examining our near-term quarterly GDP profile (i.e. for June and September) and will almost certainly be bumping up June. The April National Bank Business Outlook showed a healthy bounce in the Canterbury activity outlook, but also signs of strengthening momentum elsewhere. In a growth sense, Canterbury is set to become a star performer – though off a weak base given a massive fall in growth in the March quarter. The upshot will be diverging rates of investment, employment and activity, with resources set to move where they are needed. This will not be a seamless process and there will be tensions.

This week's local data calendar has a household-centric theme. **We are expecting April Electronic Card Transaction data to reveal solid consumer spending,** with a 1.8 percent increase envisaged. Transaction values from Paymark (which rose a seasonally adjusted 1.6 percent) revealed a strong pick up in Canterbury, and while spending in the rest of the South Island dipped, it was not by much. There were also signs of solidity in North Island centres. The key remains a turnaround in consumer confidence, which has not yet recovered from seismically induced falls in March. The retail story for the moment appears to be one of households choosing to limit their spending, rather than being constrained. **Future readings on consumer sentiment will provide a useful steer on the willingness of consumers to convert higher incomes into spending.**



Source: ANZ, National Bank, Paymark

We envisage food prices will stage a small increase in April, with the announced increase in dairy prices not likely to appear in the published food price data until May. Given the surge in global food commodity prices, the direction for local food prices looks one-way.

The May RBNZ Financial Stability Report (released on Wednesday) is expected to reaffirm the soundness of the New Zealand financial system. The FSR is usually a low-key event for markets and we do not expect the RBNZ to provide too many surprises. The RBNZ will reiterate that the New Zealand financial system remains in good shape, although they may voice concerns over the high NZD TWI and its impact on

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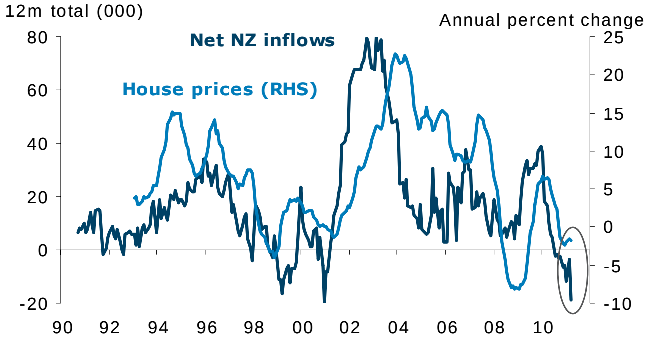
slowing the economic rebalancing.

We note that while commodity prices dipped last week, the NZD was not knocked down too badly. A positive impact of this has been lower NZD-denominated import prices, with the announced 6 cent cut for petrol particularly welcome for motorists. However, as our analysis of effective exchange rates on page 12 shows, parts of the export sector that have not benefited from the commodity price buffer are finding the going tough.

Net NZ population inflows and house prices



Sources: ANZ, National Bank, Statistics NZ, REINZ

REINZ figures later this week are expected to show further improvements in the housing market. We expect a 3 percent lift in April REINZ residential sales volumes, as suggested by lifting mortgage approvals. Sales volumes remain low, with a low stock of listings underpinning prices. One potential downside risk to prices could be a sizeable increase in property listings bought about by rising emigration. If emigrants decide to offload properties, we could have instances where sales volumes are increasing but house prices are falling. This would be very unusual in the New Zealand context.

Finally, we'll draw readers attention to the upcoming Budget. Next week's *Market Focus* will contain our preview. For now we expect the normal array of leaks, rumours and pre-Budget announcements to emerge. The temptation is always to get caught in the rip of allocation decisions - where the spending is going (or rather not going at present). Rather than focusing on this, our attention is on the bigger picture and there are broadly four areas we're paying attention to, including:

- **Steps to assist the necessary rebuild of Christchurch** and other assistance along the way.
- **Initiatives to support the supply-side capacity of the economy.** We envisage the Government will move quickly to streamline processes and help avert a shortage of builders when the Christchurch rebuild gets into gear – and likely stay in gear for 5 to 10 years! The latest Labour Force Statistics reported youth unemployment of 27 percent. That's a large group who could pick up a hammer. The alternative – and one of our worries for 2012 - is that the economy hits capacity constraints early and this necessitates firmer action from the RBNZ.
- **The shift from expansionary to tighter fiscal policy** and the process of returning to surplus. Fiscal policy looks set to move to a contractionary stance from 2012/13, which will take the pressure off monetary policy. The 2011 Budget is expected to be strong on austerity and reprioritisation rhetoric.
- **Steps to turbo-charge the economy.** As far as we are concerned seismic events now leave the Government (and any future governments) with limited alternatives but to really push on aggressively in a number of growth areas. These include unlocking the hidden value in water, mining and other areas of natural endowment. This does not mean we plough ahead irrespective of consequences, with the Government aware of potentially negative externalities of taking things too far. For example, unfettered mining access could have a negative impact on New Zealand tourism, as well as its environment. There is a balance to be struck. However, the quake has changed everything. New Zealand, both the private and public sector, was not fully insured, and has taken a massive hit to its balance sheet. The effect will be felt for years. Now more than ever we need income generation. The alternative is deeper spending cuts and hunkering down.

RECENT LOCAL DATA

- **SNZ Labour Cost Index – 2011Q1**. Private sector wage rates rose by 0.4 percent in the March quarter (2.0 percent y/y).
- **SNZ Quarterly Employment Survey – 2011Q1.** Average private sector hourly earnings rose 0.3 percent (2.5 percent y/y). Filled jobs rose 0.6 percent s.a. with paid hours rising 0.7 percent s.a. Total gross earnings rose 4.6 percent in the March year.

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- ***globalDairyTrade* online auction.** Whole milk powder prices eased 1.7 percent to an average of US $3,859 per tonne.
- **Building Consents – March.** The number of residential building consents rose a seasonally adjusted 2.2 percent (2.4 percent excluding apartments. Non-residential consent values rose 13 percent to $315m, but the area of consent issuance fell 5.9 percent s.a.
- **External Migration – March.** There was a net permanent and long-term outflow of 530 persons, following a monthly inflow of 470 persons in February. Visitor arrivals fell a seasonally adjusted 7.1 percent to be 7.6 percent lower than 12 months earlier.
- **Household Labour Force Survey – 2011Q1.** Employment increased 1.4 percent with the unemployment rate easing to 6.6 percent. Hours worked fell a seasonally adjusted 0.9 percent, but outside of Canterbury they rose by 1.4 percent.

SWAP AND BASIS SWAP SPREAD UPDATE

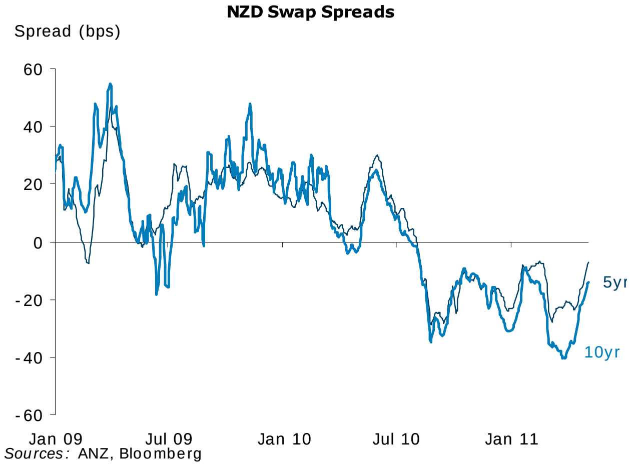
SUMMARY

Spectacular demand for NZGS bonds has seen swap spreads start to normalise, and is a clear sign of changing attitudes to New Zealand as a sovereign borrower. This is a positive development, and the timing of it has been fortuitous given the Crown's unexpected need to borrow in order to fund the earthquake. The current situation is unusual in two ways: first, swap spreads are inverse, with swap yields lower than bond yields, and second, changes in the spread are being driven by bond yields, not swaps. This article is a reprint of an article on interest rate swap and basis swap spreads that appeared in this month's *Credit Focus* (available on request)

SWAP SPREADS

Before we get started we thought it might be useful to be specific on exactly what is meant by a swap spread. The swap spread is the spread between the government bond yield and the swap yield for any given maturity. This spread has long been viewed as a measure of risk, with the government bond yield the rate at which the government borrows (generally considered to be risk free) and the swap yield a proxy for bank risk. In the past, the swap yield was higher than the government bond yield of the same maturity. But the situation changed markedly in New Zealand after the GFC. A surge in government borrowing saw government bond yields rise. By contrast, swap yields fell (or rose by less) as funding margins rose following regulatory changes, on the view that higher margins meant less need for OCR rises. As a result, swap yields moved below government bond yields, taking swap spreads "inverse". However, strong demand for bonds over the last few weeks has seen swap spreads start to normalise, and is a clear sign of changing attitudes towards New Zealand on the part of international investors.

Swap spreads have become significantly less inverted in the past month, as the chart below illustrates. Although the correlation between swap and bond yields remains high, it is somewhat coincidental that swap yields rose while bond yields fell. Indeed, the real story is one of bond out-performance. This has been spurred on by massive demand for NZGS bonds at the DMO's weekly bond tenders, and the "demand-driven supply" dynamic that we have spoken about at length in previous issues of the *Credit Focus*.



Sources: ANZ, Bloomberg

Key questions are first, what is behind excess demand for bonds, and second will it continue? In our last issue we argued that it was questionable how much more "bad" news there was to come, and warned that the news flow in months to come would start to support the normalisation of swap spreads. This process now appears to be in full swing. But will it continue?

As we did last month, we believe it is useful examining the various factors at play, as follows:

1) **The potential for a credit rating downgrade:** To be sure, the risk of this cannot be underestimated. But we remain staunchly of the view that anyone who is surprised by a downgrade, if one does eventuate, has not been watching the market closely enough. As such, a downgrade would probably cause a minor stir. But it would perhaps be a bigger surprise if New Zealand was *not* downgraded. Although S&P and Fitch both have New Zealand on negative outlook, recent comments by Moody's (who do not have NZ on negative outlook) suggest that New Zealand may escape a downgrade provided the upcoming Budget is sufficiently austere. Indeed, Moody's said on May 2nd that NZ was likely to keep its Aaa rating and stable outlook so long as the Budget contained measures to offset the impact of recent shocks (like the earthquake). Indeed, it noted that "What we are looking for in the budget is to see whether the government is going to come up with measures to offset the costs of these shocks that (New Zealanders) have experienced in the past year or so".

2) **Funding and supply:** We noted last month that at the then-current run rate the DMO could be on track to issue $20.4bn of bonds this fiscal

SWAP AND BASIS SWAP SPREAD UPDATE

year. As it happens, the DMO have just increased the year's target to $20bn. This increase (and the one before it) was neither surprising nor poorly received. In fact, the market quickly cottoned on to the idea that this increased supply was in response to an increase in investor demand, fortuitous as that has been for the Crown. Perhaps more importantly, this latest (and seemingly final) increase in the annual issuance target implies tenders of around $400m on average for the remainder of the fiscal year, well down on the past few months.

3) **Demand:** Given record levels of pre-funding, as the DMO pares back issuance, we expect bonds to become rather short in supply relative to demand. The recent announcement by S&P that it has placed the USA on negative outlook has only increased the level of interest in the New Zealand market, from both a credit quality and diversification perspective. Indeed, recent comment and analysis from academic sources and the OECD have certainly singled out NZ favourably (along with other countries) for having a plan to deal with the deficit. This is in stark contrast to the USA and Japan, which most analysts believe are in denial.

4) **Positioning and carry:** The need to repo bonds means it is not practical to be short the bond and long the swap (i.e. positioned for swap spreads inverting further). By contrast, there are no impediments to being long the bond and short the swap. However, only mid curve asset swap trades now have positive roll and carry (of between 0.5 and 1.0bps per month for the NZGS 2015s, 2017s and 2019s). NZGS 2021 asset swaps now have negative R+C. With long swap spreads having moved from -42 in late March to -13bps at the end of June, it would be fair to say that much of the value is gone from this trade. Although this suggests (from a relative value perspective at least) that spreads are under less pressure to normalise, we see no reason why spreads would need to invert again.

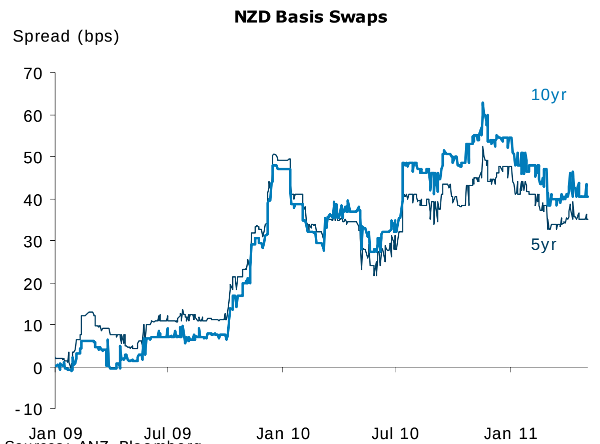
5) **Corporate paying:** It is clear from the RBNZ's assessment at the time of the April OCR Review that they are in no hurry to raise the OCR. This has, for the time being, effectively "parked" the debate regarding the timing of the RBNZ's next move. Consequently, we do not expect mortgage borrowers or corporates to actively add to interest rate hedges over the next few months. But this will be only a temporary reprieve – and we suspect the Bank's hand may eventually be forced by higher than expected inflation outcomes, into raising the OCR by the end of the year. So while corporate paying may be light in the near future, we expect it to build as we approach the end of the year.

Taken together, these factors suggest that swap spreads are likely to continue normalising, albeit at a slower pace than that observed over the past month. The bears will argue that spreads have gone too far too fast, and are set to re-invert. However, the main factor behind the massive inversion in spreads in the first place – supply – is now no longer seen as a negative, and supply is set to dwindle now that the Crown's cash reserves are at record levels.

BASIS SWAPS

As we did with swap spreads, it is worthwhile defining what basis swap spreads are. They are the spread payable (receivable) when swapping a set of USD cashflows for NZD cashflows for a given term, as a NZ borrower who needs NZD funds may do having raised USD funds. Although theoretically this spread should be zero, it can and often does deviate from zero for long periods of time, reflecting flow. Generally speaking, a positive spread points to a shortage of NZD funding, and vice versa. Things have started to change in the basis swap market, reinforcing signals observed in the vanilla swap market.

Basis swap spreads have been reasonably stable over the past month, having widened briefly in the middle of the month before reverting back to levels prevailing earlier in the month.



Sources: ANZ, Bloomberg

Looking ahead, we expect spreads to continue narrowing over the next year or two. This is not a strong conviction, but rather a bias that reflects:

SWAP AND BASIS SWAP SPREAD UPDATE

1) Less pressure on banks to fund offshore as balance sheets stabilise in size as consumer deleveraging continues;

2) Increased demand for NZD assets by offshore investors (thus lessening the need for banks and borrowers to access foreign currency markets, and swap the proceeds back to NZD). Having built up record levels of excess cash reserves, the NZDMO has announced that it is "most unlikely" that it will increase this year's bond programme. As NZGS supply winds down, there will inevitably be a spill-over of demand into high quality bank and corporate bonds;

3) Increased supply of NZD in the domestic market and NZD/USD FX swap market as a result of significant pre-funding by the NZDMO. Indeed, the DMO may have started to accumulate foreign sovereign bonds, with a view to hedging them back to NZD in the FX forwards market. Incidentally, at current levels, the running yield on buying US 7-10yr Treasuries and hedging them back to NZD is above the DMO's funding costs, making it an attractive (and duration-neutral) proposition;

4) The negative correlation between vanilla swap spread and basis swap spreads. This correlation is not "tight", but it does stand at about 70 percent in level terms over the past 2 years. And with swap spreads set to normalise, it seems reasonable that basis swap spreads will narrow.

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MONTHLY INFLATION GAUGE

SUMMARY

Our monthly inflation gauge was unchanged in April, following a 0.2 percent increase in March. There were few price changes, with these price movements generally offsetting. Price increases were of the cost-push variety, and more price increases of this kind are in prospect over the next few months. For now, there is little evidence of price increases becoming more generalised. There is a risk, however, that higher headline inflation rates will start to filter through into price and wage setting behaviour. Our gauge remains a useful early warning indicator.

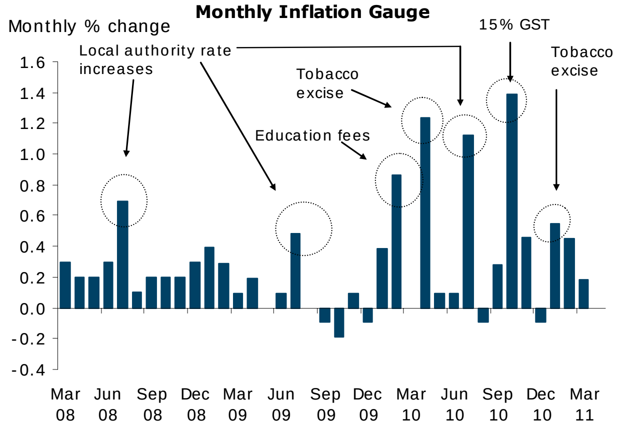
RETURN TO NORMAL?

Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI, differences in methodology and coverage mean the gauge will not exactly mirror the official series. However, it is proving to be a useful indicator of the broad direction of domestic inflationary trends.

Our April gauge was unchanged, the lowest monthly print since the small decline in December. There were offsetting movements, with higher prices for four of the eight groups in the gauge being offset by lower tobacco and alcohol prices. A scattering of price increases was evident: 3.7 percent for domestic airfares, 0.6 percent for electricity, 2.3 percent for Pay TV subscriptions, 0.3 percent for vehicle insurance and 1.8 percent for broadband internet subscriptions. Tobacco and alcohol prices declined 1.2 percent, with prices for beer, wine and spirits unwinding some of the post-Christmas price increases. In the housing group, a 0.2 percent increase in rents and a 0.6 percent increase for electricity were partly offset by a small decline in construction costs.

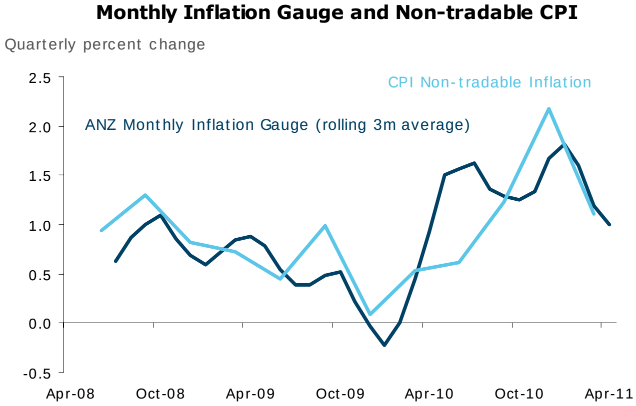
There is no guarantee such movements will appear in the CPI itself, although **the gauge has proved to be a useful bellwether of inflationary trends.** The 1.0 percent rise in the gauge for the March quarter was close to the 1.1 percent quarterly print for non-tradable CPI inflation.

The April OCR assessment noted that the benign core inflation outlook provides the RBNZ with the flexibility to take a patient approach to moving the OCR higher. While evidence of broad-based price increases is still inconclusive, there is the risk of generalised inflationary pressures emerging if one-off cost increases start to affect wage and price setting behaviour. **However, at present it remains a risk as opposed to reality.** Hence the RBNZ can afford the luxury of patience. **We will be closely watching our Gauge as an early warning indicator of changes in pricing behaviour.**



Source: ANZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Dec-09	1040	-0.1	-0.2	0.1
Jan-10	1044	0.4		
Feb-10	1053	0.9		
Mar-10	1053	0.0	0.9	0.5
Apr-10	1066	1.2		
May-10	1067	0.1		
Jun-10	1068	0.1	1.6	0.6
Jul-10	1080	1.1		
Aug-10	1079	-0.1		
Sep-10	1082	0.3	1.2	1.2
Oct-10	1097	1.4		
Nov-10	1102	0.5		
Dec-10	1101	-0.1	1.8	2.2
Jan-11	1107	0.5		
Feb-11	1112	0.5		
Mar-11	1114	0.2	1.0	1.1
Apr-11	1114	0.0		



Source: Statistics NZ, ANZ, National Bank

INTEREST RATE STRATEGY

SUMMARY

Global long term interest rates continue to fall, led by the US, with 10 year Treasury yields now at a new low for the year. This move has been exacerbated in New Zealand by strong demand for NZGS bonds at the weekly tenders. However, the story at the short end is quite different, with fears of a RBA rate hike and better than expected HLFS jobs data keeping the bellwether 2 year swap yield up. Looking ahead, we expect the short end to be biased higher, but the long end to be well supported, flattening the curve.

MARKET THEMES

- US 10 year bonds have rallied hard over the past month, taking yields to new lows for the year. The question is, will the rally continue?
- With the RBNZ reasonably comfortable with policy settings, and domestic data (like retail sales) delayed, expect the NZ market to tread water, taking guidance from offshore.
- Spectacular demand for NZGS bonds continues, and has helped drive swap spreads back towards positive territory.

REVIEW AND OUTLOOK

Friday's US labour market data was mixed, not dispelling the market's fears that the pace of US data may be slowing. Although the number of jobs created in April soundly beat market expectations, the unemployment rate rose, and points to a job market that remains stubbornly sluggish. It's certainly not the sort of environment the Fed will be comfortable with as it contemplates raising rates, even if the trade-off between jobs and inflation is not as attractive as it might ideally be. **As such, the market is probably right to push back the timing of Fed tightening**. But with now a few weeks of generally weaker data, has the market gotten ahead of itself, making it vulnerable to an upside surprise? We certainly have a lot of sympathy for that view, and if the recent slow-down in US data has its root in auto parts supply disruptions owing to the Japan earthquake, it may be a "head fake". But evidence of that won't be available any time soon, and for now, **with the Fed on hold, expect carry to be the primary driver of investment, keeping a lid on yields**.

Local rates continue to be well supported by strong demand at the Government's weekly bond tenders. We wrote about this in last week's Market Focus, and since then, demand has only solidified. **As global investors diversify out of the US, and troubled markets in Europe, NZ is set to benefit, again keeping a lid on yields, especially at the long end**. The most visible sign of this demand has been the narrowing of swap spreads, which is the subject of a special report on page 6.

But it's not all plain sailing. The OCR Review was rather dovish, and next week's Budget is set to be austere. **But data continues to surprise on the upside, and the RBA may well hike rates next month. All of this is likely to add upward pressure to short end rates**, flattening the curve.

PREFERRED BORROWING STRATEGIES

The broad thrust of our thinking remains the same – that is, we favour higher than usual exposure to floating rates, and like optionality. But it's always darkest before the dawn, as the saying goes, and we are inching closer to the day when we need to seriously consider paying up to hedge. Most of the monetary policy tightening that is priced in is front loaded, with a low terminal rate. From a value perspective, it is thus debatable how much protection a 2-3 year swap offers. Given the move lower in medium to long term rates (5-10yr swaps have fallen 20-30bps in the past month), it would be worth considering adding to long term hedges.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	OCR Review dovish, watch this week's FSR.
NZ data	↔/↑	Risks point to stronger data.
Fed Funds / front end	↔	9% unemployment rate just delays Fed hike even longer.
RBA	↔/↑	June hike on the cards.
US 10 year	↔/↓	Carry still en vogue.
NZ swap curve	↔	Likely to flatten near term as short/long ends diverge.
Flow	↔	"Buy bonds, wear diamonds"
Technicals	↔/↓	Swap spread normalisation may slow around zero.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 9-Jun-11	0	0
Thu 28-Jul-11	0	+1
Thu 15-Sep-11	+3	+3
Thu 27-Oct-11	+10	+12
Thu 8-Dec-11	+14	+20
Thu 26-Jan-12	+35	+33
Thu 8-Mar-12	+46	+44

TRADING THEMES WE FAVOUR AT PRESENT

Bonds remain in hot demand and we continue to favour being long. Although progress through swap from here may be slow, we see no fundamental reason for bonds to remain cheap, and it looks increasingly like NZ will escape a credit rating downgrade. Tactically, we expect the yield curve to flatten.

CURRENCY STRATEGY

SUMMARY

Strong NZ employment data and a hawkish RBA failed to lift the NZD. Instead, the rout in commodity markets has taken the shine off the risk currencies. With a less hawkish ECB, EUR sovereign debt concerns reappearing and some stronger data in the US, the USD is coming back into vogue. Coincidentally, the adage "sell in May and go away…" may also be having some impact as speculators reduce positions for the northern summer. With risk sentiment dented, NZD could again struggle this week.

MARKET THEMES

- Commodities collapse leaves risk currencies vulnerable.
- Less hawkish ECB and re-emergence of EU debt concerns undermines EUR.
- US data improvement supports USD.
- Hawkish RBA forecasts give AUD short term support.

REVIEW AND OUTLOOK

The rout in commodities prices (particularly silver) seriously undermined the risk currencies and leaves them vulnerable to further losses. While last week the direction was decidedly one way – down – for the risk currencies, this week is a little less certain. We expect the downward pressure to continue in NZD and AUD but the markets are likely a little more balanced, so expect some support locally.

The EUR appears to be back in the firing line with EU debt concerns back on the agenda. Combine this with a less hawkish ECB and rumours that Greece will have to leave the common currency and the EUR (finally) does not look so good. To be fair, the EUR had been surprising with its relative strength so it appears that normal transmission has resumed. Indeed the drop through key support at 1.4500 has seriously undermined the EUR and could see a deeper correction to the 1.37-1.39 zone (between the 100 and 200 day moving averages).

Is the USD bear market coming to an end? Given the correlation of currencies and commodity prices during the last 9 months, it is hard to argue that the reason for the commodities boom was not USD weakness (as opposed to demand from Asia). With commodities suffering savage losses and driving risk currencies lower, along with the end of QE2 creeping much closer, it seems many of the reasons for forecasting further USD weakness are abating. US data may have been taking on a generally weaker tone, but Friday's non-farm payrolls data suggests the dataflow is certainly not all one way.

We note the unusual activity by the CME with regard to initial margins for silver contracts. The CME has raised the initial margin for silver from US$12,500 to US$21,600 in a week. For those who remember when the Hunt brothers tried to corner the silver market in the 1980s, perhaps the exchange has decided to pre-empt a repeat. This could well see speculators think twice about taking further large net long positions in any commodities.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↓	RBNZ on hold for some time.
Commodities	↓	Commodities rout leaves NZD & AUD vulnerable.
Partial indicators	↓	RBNZ & RBA in opposing directions again.
Technicals	↔	Support at 0.7300.
Sentiment	↔	Commodities out, USD in.
Other	↑	Terms of trade continue to support.
On balance	↔	**Rangebound 0.7300 - 0.7450.**

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Yield differentials suggest NZD should be lower.
Commodities	↓	Commodities rout leaves NZD & AUD vulnerable.
Risk aversion	↔	Risk gauges turning higher.
Partial indicators	↔/↑	Employment data strong.
Technicals	↓	Short term high in place.
AUD	↔/↓	AUD in correction mode.
Sentiment	↓	Commodity currencies out of favour, risk off.
Other	↑	Strong demand for NZ bonds.
On balance	↔/↑	**Strong about-face in commodities and USD put pressure on NZD.**

EFFECTIVE EXCHANGE RATE UPDATE

SUMMARY

Our effective exchange rate (EER) measures take into account the world prices of our exports (e.g. commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Strengthening export commodity prices were offset by a stronger NZD in April, resulting in less enhancing trading conditions for half of the eight groups. Disparities in trading conditions remain, with trading conditions more enhancing than average for four groups but more restrictive than average for three groups. For individual exporters, however, competitiveness will depend on who you sell to as well as what you are selling.

THE BUFFERING IMPACT OF THE NZD

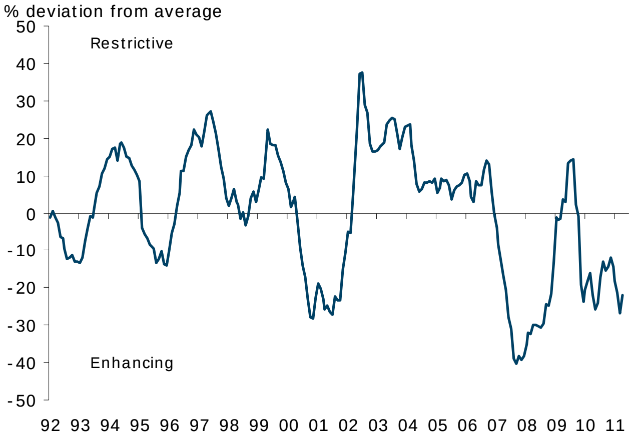
In April broad-based strengthening in the ANZ Commodity Price Index was offset by a rising NZD. The largest gain in competitiveness was for horticulture sector, on account of the 41 percent increase in apple prices for the new season. Large increases in skin, wool and lamb prices marginally improved conditions in meat, skins and wool sector. Not all commodity prices went up, with dairy and seafood prices weakening. Contributing to less enhancing conditions in some sectors, particularly crude, was a stronger NZD, which gained 3.9 percent against the USD, 8.3 percent against the yen, 4.9 percent against the pound, 1.6 percent against the AUD, and 0.9 percent against the euro in April.

Sizeable disparities in trading conditions are evident in the various export groups.

Conditions remain stimulatory for four groups: meat, skins and wool, dairy, crude and seafood. **Conditions for the meat, skins and wool group are the most favourable since at least the early 1990s.** Increasing oil prices have moved conditions for crude into enhancing territory. Largely as a result of the lower NZD/AUD, conditions for manufacturers have moved into marginally less restrictive territory. While parts of the export sector are doing very well, there are still pockets of weakness, particularly for those sectors not benefiting from the upswing in export commodity prices. Despite this month's increase in apple prices, conditions remain challenging for horticulture. Due to the high NZD against the USD, GBP and euro, conditions remain very difficult for services exporters (e.g. tourism, education), with seismic events adding to the challenges facing the sector.

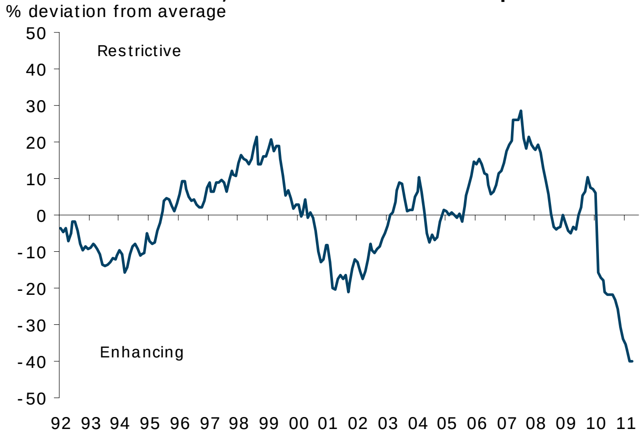
Our analysis is illustrative only as it does not take into account of currency hedging, particularly for sectors such as dairy. And even within sector groups, trading conditions are likely to be quite variable. The low NZD/AUD, for example, is likely to benefit manufacturers selling to the Australian market, and for trans-Tasman tourism. Conversely, a NZD/USD above the 75 cent level (it is currently around 79 cents) makes the going tough for firms selling into USD-denominated markets, especially those with little pricing power or those not benefiting from historically high export commodity prices. **The picture is also complicated by the fact that some exporters have imported inputs, providing a natural buffer against exchange rate moves.** This is difficult to measure and is not taken into account in this analysis.

Sector: Dairy ≈ 22% of exports



Sources: ANZ, Bloomberg, Statistics NZ

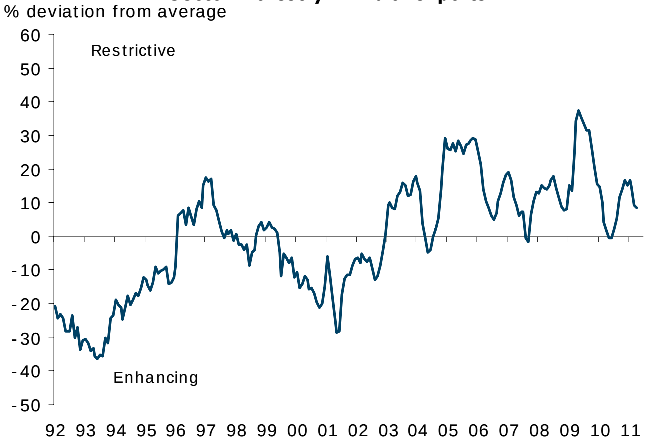
Sector: Meat, Skins and Wool ≈ 14% of exports



Sources: ANZ, Bloomberg, Statistics NZ

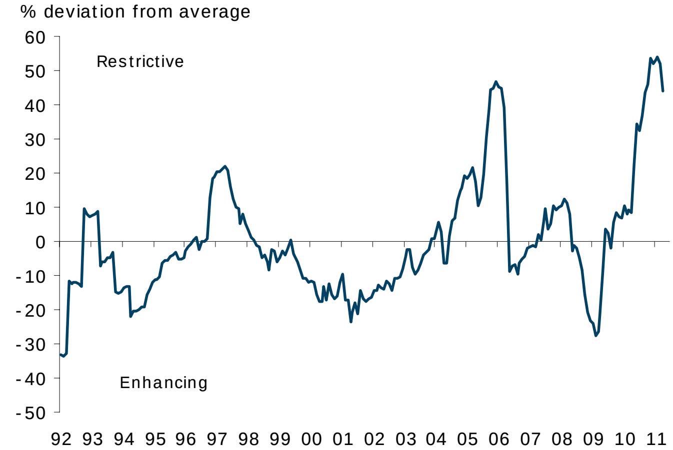
EFFECTIVE EXCHANGE RATE UPDATE

Sector: Forestry ≈ 7% of exports



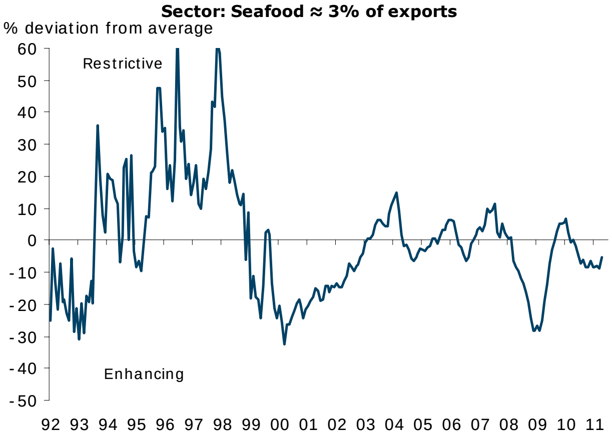
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports



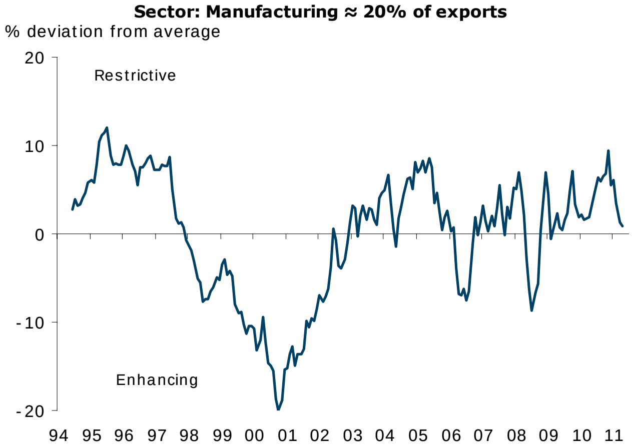
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports



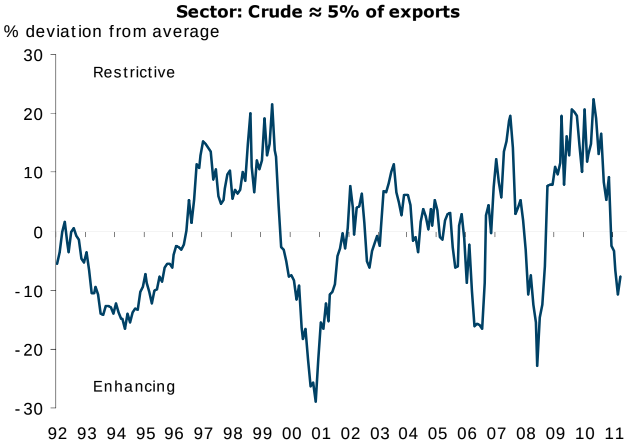
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports



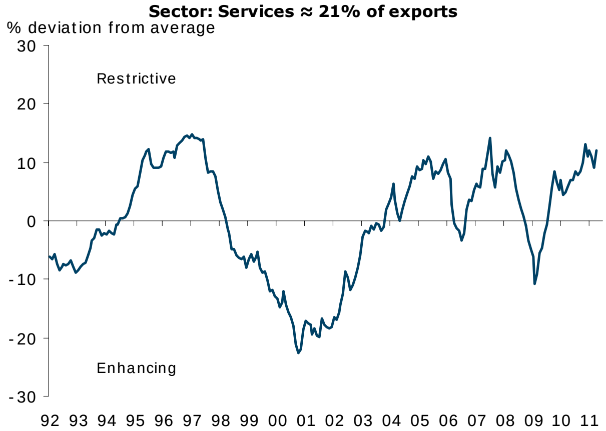
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services ≈ 21% of exports



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
9-May	AU	ANZ Job Advertisements (MoM) - APR	- -	1.30%	13:30
	GE	Exports SA (MoM) - MAR	1.10%	2.70%	18:00
	GE	Imports SA (MoM) - MAR	0.80%	3.70%	18:00
	GE	Current Account (EURO) - MAR	13.3B	8.9B	18:00
	GE	Trade Balance - MAR	11.8B	12.1B	18:00
	UK	Halifax House Prices sa (MoM) - APR	0.10%	0.10%	19:00
	UK	Halifax House Price 3Mths/Year - APR	-3.00%	-2.90%	19:00
	EC	Sentix Investor Confidence - MAY	13.8	14.2	20:30
10-May	NZ	NZ Card Spending - Retail MoM - APR	- -	1.30%	10:45
	NZ	NZ Card Spending - Total MoM - APR	- -	0.50%	10:45
	UK	BRC Sales Like-For-Like YoY - APR	2.50%	-3.50%	11:01
	UK	RICS House Price Balance - APR	-23%	-23%	11:01
	NZ	QV House Prices YoY% - APR	- -	-2.00%	12:00
	AU	Trade Balance - MAR	500M	-205M	13:30
	AU	NAB Business Conditions - APR	- -	9	13:30
	AU	NAB Business Confidence - APR	- -	9	13:30
	CH	Trade Balance (USD) - APR	$3.20B	$0.14B	14:00
	CH	Exports YoY% - APR	29.50%	35.80%	14:00
	CH	Imports YoY% - APR	28.90%	27.30%	14:00
	AU	Australia Federal Budget -			21:30
11-May	NZ	REINZ Housing Price Index - APR	- -	3209.7	UNCONFIRMED
	NZ	REINZ House Sales YoY% - APR	- -	-5.10%	UNCONFIRMED
	US	Import Price Index (MoM) - APR	1.80%	2.70%	00:30
	US	Import Price Index (YoY) - APR	10.50%	9.70%	00:30
	JN	Official Reserve Assets - APR	- -	$1116.0 B	11:50
	CH	Consumer Price Index (YoY) - APR	5.20%	5.40%	14:00
	CH	Producer Price Index (YoY) - APR	7.00%	7.30%	14:00
	CH	Industrial Production (YoY) - APR	14.60%	14.80%	14:00
	CH	Retail Sales (YoY) - APR	17.60%	17.40%	14:00
	CH	Fixed Assets Inv Excl. Rural YTD YoY - APR	24.90%	25.00%	14:00
	JN	Coincident Index CI - MAR P	103.7	106.8	17:00
	JN	Leading Index CI - MAR P	99.8	104.2	17:00
	GE	Consumer Price Index (MoM) - APR F	0.20%	0.20%	18:00
	GE	Consumer Price Index (YoY) - APR F	2.40%	2.40%	18:00
	GE	CPI - EU Harmonised (MoM) - APR F	0.20%	0.20%	18:00
	GE	CPI - EU Harmonised (YoY) - APR F	2.60%	2.60%	18:00
	GE	Wholesale Price Index (MoM) - APR	- -	1.30%	18:00
	GE	Wholesale price Index (YoY) - APR	- -	10.90%	18:00
	UK	Trade Balance Non EU GBP/Mn - MAR	-£3500	-£2849	20:30
	UK	Total Trade Balance (GBP/Mln) - MAR	-£3250	-£2443	20:30
	UK	Bank of England Inflation Report -			21:30
	US	MBA Mortgage Applications - 38838	- -	4.00%	23:00
12-May	CH	New Yuan Loans - APR	700.0B	679.4B	UNCONFIRMED
	CH	Money Supply - M0 (YoY) - APR	- -	14.80%	UNCONFIRMED
	CH	Money Supply - M1 (YoY) - APR	15.50%	15.00%	UNCONFIRMED
	CH	Money Supply - M2 (YoY) - APR	16.60%	16.60%	UNCONFIRMED
	US	Trade Balance - MAR	-$47.0B	-$45.8B	00:30
	US	Monthly Budget Statement - APR	-$62.B	-$188B	06:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
12-May	NZ	Business NZ PMI - APR	- -	50.1	10:30
	NZ	Food Prices (MoM) - APR	- -	0.30%	10:45
	JN	Japan Money Stock M3 YoY - APR	2.00%	2.00%	11:50
	JN	Adjusted Current Account Total - MAR	¥1016.2B	¥1209.8 B	11:50
	JN	Trade Balance - BOP Basis - MAR	¥305.0B	¥723.3B	11:50
	AU	Part Time Employment Change - APR	- -	5.7K	13:30
	AU	Full Time Employment Change - APR	- -	32.1K	13:30
	AU	Employment Change - APR	17.0K	37.8K	13:30
	AU	Participation Rate - APR	65.80%	65.80%	13:30
	AU	Unemployment Rate - APR	4.90%	4.90%	13:30
	EC	ECB Publishes May Monthly Report -			20:00
	UK	Industrial Production (MoM) - MAR	0.80%	-1.20%	20:30
	UK	Industrial Production (YoY) - MAR	1.10%	2.40%	20:30
	UK	Manufacturing Production (MoM) - MAR	0.30%	0.00%	20:30
	UK	Manufacturing Production (YoY) - MAR	2.80%	4.90%	20:30
	EC	Euro-Zone Ind. Prod. wda (YoY) - MAR	6.30%	7.30%	21:00
	EC	Euro-Zone Ind. Prod. sa (MoM) - MAR	0.30%	0.40%	21:00
13-May	US	Initial Jobless Claims - 39203	428K	474K	00:30
	US	Continuing Claims - 11049	3698K	3733K	00:30
	US	Producer Price Index (MoM) - APR	0.60%	0.70%	00:30
	US	PPI Ex Food & Energy (MoM) - APR	0.20%	0.30%	00:30
	US	Producer Price Index (YoY) - APR	6.50%	5.80%	00:30
	US	PPI Ex Food & Energy (YoY) - APR	2.10%	1.90%	00:30
	US	Advance Retail Sales - APR	0.60%	0.40%	00:30
	US	Retail Sales Less Autos - APR	0.60%	0.80%	00:30
	US	Retail Sales Ex Auto & Gas - APR	0.50%	0.60%	00:30
	US	Business Inventories - MAR	0.90%	0.50%	02:00
	CH	Conf Brd China Leading Econ Index - MAR			14:00
	NZ	Non Resident Bond Holdings - APR	- -	62.80%	15:00
	GE	GDP s.a. (QOQ) - 1Q P	0.90%	0.40%	18:00
	GE	GDP wda (YoY) - 1Q P	4.20%	4.00%	18:00
	EC	Euro-Zone GDP s.a. (QoQ) - 1Q A	0.60%	0.30%	21:00
	EC	Euro-Zone GDP s.a. (YoY) - 1Q A	2.20%	2.00%	21:00
14-May	US	Consumer Price Index (MoM) - APR	0.40%	0.50%	00:30
	US	CPI Ex Food & Energy (MoM) - APR	0.20%	0.10%	00:30
	US	Consumer Price Index (YoY) - APR	3.10%	2.70%	00:30
	US	CPI Ex Food & Energy (YoY) - APR	1.30%	1.20%	00:30
	US	U. of Michigan Confidence - MAY P	70	69.8	01:55

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: Last week's labour market data was hard to interpret given seismic interruptions and seasonal volatility, but the key take outs were that the demand for labour is picking up whilst wage growth remains well contained. Seismic influences were behind the March weakness in migration and visitor numbers. This week's household-centric data is expected to reflect an improving tone but the critical factor behind a more substantive pick-up would be increased willingness by consumers to convert increasing incomes into spending. Economic data over the coming months will remain noisy, but we will watch for signs of strengthening activity within interest rate sensitive sectors.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 10 May (10:45am)	Electronic Card Transactions - April	Improving	Paymark data suggests a 1.8 percent climb in retail transaction values.
Wed 11 May (09:00am)	RBNZ Financial Stability Report - May	On message	The RBNZ should note that the New Zealand financial system remains in sound shape. The high NZD may get a mention.
Tue-Thur 10-12 May (10:00am)	REINZ housing market data – April	Firming	We expect a 3 percent increase in sales numbers. Days to sell are expected to ease further, with prices broadly stable.
Thur 12 May (10:45an)	Food Price Index - April	Trending up	We expect a 0.2 percent increase. Higher dairy prices will feature in May. Prices are set to move higher over 2011.
Wed 18 May (6:00am)	*globalDairyTrade* auction	Consolidation	We expect whole milk powder prices to consolidate around the US $3,700-3,800 per tonne level.
Wed 18 May (10:45am)	Producers Price Index – 2011Q1	Up	Higher oil and commodity prices should boost input prices by 1 percent. Output prices should rise by around 0.8 percent.
Wed 18 May (10:45am)	Capital Goods Price Index – 2011Q1	Down	The high NZD/USD should lower capital prices by 0.3 percent. Construction costs could fall, but look set to firm over 2011.
Wed 18 May (1:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Fri 20 May (10:45am)	International Travel and Migration – April	Seismic hit	A net PLT outflow of 300 persons is expected. Visitor arrival numbers should remain weak.
Mon 30 May (10:45am)	Overseas Merchandise Trade- April	Up	Seasonal patterns and high commodity prices are expected to deliver a monthly surplus of around $600m.
Tue 31 May (1:00pm)	National Bank Business Outlook	- -	- -
Wed 1 June (6:00am)	*globalDairyTrade* auction	Consolidation	We expect whole milk powder prices to consolidate around the US $3,700-3,800 per tonne level.
Wed 1 June (10:45am)	Overseas Trade Indexes – 2011Q1	TOT positive, net trade negative	We expect a 2 percent increase in the terms of trade, with export prices rising 5 percent. Export volumes should remain flat, with import volumes up 5 percent.
Wed 1 June (1:00pm)	ANZ Commodity Price Index - May	- -	- -
Fri 3 June (10:45am)	Building Consents – April	Building	Residential consents are expected to rise 5 percent. Strengthening construction sector activity will be a feature of H2.
On Balance		**Mixed**	**A real economy and pricing side dichotomy may start to emerge. Recent signs of life in housing and retail.**

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.2	**-0.4**	**0.1**	**1.4**	**1.8**	**0.7**	**0.9**	**0.9**	**0.8**	**0.7**
GDP (% yoy)	0.8	**-0.3**	**-0.3**	**1.3**	**2.9**	**4.1**	**4.9**	**4.4**	**3.3**	**3.3**
CPI (% qoq)	2.3	0.8	**1.0**	**0.8**	**0.7**	**0.6**	**0.8**	**0.7**	**0.6**	**0.8**
CPI (% yoy)	4.0	4.5	**5.3**	**5.0**	**3.3**	**3.1**	**2.9**	**2.7**	**2.6**	**2.9**
Employment (% qoq)	-0.4	1.4	**-0.2**	**0.4**	**0.5**	**0.5**	**0.4**	**0.5**	**0.4**	**0.4**
Employment (% yoy)	1.3	1.8	**1.8**	**1.2**	**2.1**	**1.2**	**1.8**	**1.9**	**1.8**	**1.7**
Unemployment Rate (% sa)	6.7	6.6	**6.6**	**6.3**	**6.3**	**6.2**	**6.2**	**6.0**	**6.0**	**6.0**
Current Account (% GDP)	-2.3	**0.3**	**0.2**	**-1.8**	**-1.6**	**-4.7**	**-5.0**	**-5.3**	**-5.6**	**-5.8**
Terms of Trade (% qoq)	0.6	**2.5**	**1.5**	**1.5**	**0.5**	**-0.8**	**-0.8**	**-0.8**	**-0.9**	**-0.7**
Terms of Trade (% yoy)	12.2	**8.3**	**7.8**	**6.3**	**6.1**	**2.8**	**0.5**	**-1.8**	**-3.2**	**-3.2**

	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11
Retail ECT (% mom)	0.3	-0.7	2.3	0.9	1.0	-0.9	2.4	-0.2	1.3	..
Retail ECT (% yoy)	4.4	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6	..
Credit Card Billings (% mom)	-1.1	0.8	0.8	0.5	0.0	-1.0	2.6	-0.4	-0.5	..
Credit Card Billings (% yoy)	2.7	2.4	4.3	4.2	3.1	2.1	4.8	4.4	2.2	..
Car registrations (% mom)	-6.3	0.1	2.8	-3.8	12.4	-7.9	0.7	-1.7	-0.5	-5.7
Car registrations (% yoy)	16.0	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5
Building consents (% mom)	3.3	-17.6	0.9	-2.0	8.0	-18.4	9.0	-9.8	2.2	..
Building consents (% yoy)	25.1	-3.1	-9.4	-17.5	-9.1	-26.5	-14.9	-29.0	-26.3	..
REINZ House Price Index (% yoy)	1.8	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	..
Household Lending Growth (% mom)	0.2	0.1	0.2	0.1	0.0	0.0	0.1	0.1	-0.1	..
Household Lending Growth (% yoy)	2.5	2.3	2.3	2.0	1.8	1.6	1.6	1.5	1.2	..
ANZ Roy Morgan Consumer Confidence	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4	101.4
NBNZ Business Confidence	27.9	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7	14.2
NBNZ Own Activity Outlook	32.4	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7	29.5
Trade Balance ($m)	-186	-430	-455	-220	-177	-218	10	193	464	..
Trade Balance ($m ann)	585	871	978	1259	1363	1172	911	775	631	..
ANZ World Commodity Price Index (% mom)	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	2.7	4.8	..
ANZ World Commodity Price Index (% yoy)	47.3	38.6	32.9	31.4	23.7	23.0	27.2	25.9	29.6	..
Net migration (sa)	980	850	1000	540	590	720	440	470	-540	..
Net migration (annual)	15221	14507	13914	12610	11519	10451	8689	8249	6554	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.752	0.762	0.791	0.74	0.75	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.739	0.737	0.738	0.73	0.71	0.73	0.73	0.72	0.72	0.73
NZD/EUR	0.545	0.538	0.551	0.53	0.55	0.56	0.56	0.54	0.53	0.52
NZD/JPY	61.53	63.31	63.89	62.9	64.5	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.463	0.475	0.483	0.46	0.47	0.47	0.47	0.46	0.45	0.45
NZ$ TWI	66.4	66.7	68.1	65.6	66.4	67.3	67.0	65.7	64.9	64.4
INTEREST RATES	Feb-11	Mar-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	3.00	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.86	2.63	2.66	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.54	5.66	5.24	5.80	5.90	6.10	6.20	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00
US 3-mth	0.31	0.30	0.27	0.35	0.35	0.35	0.85	1.60	2.10	2.10
AU Cash Rate	4.75	4.75	4.75	5.00	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.97	4.93	4.98	5.25	5.30	5.50	5.60	5.80	6.00	6.00

	6 Apr	2 May	3 May	4 May	5 May	6 May
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.64	2.65	2.65	2.65	2.65	2.65
NZGB 04/13	3.45	3.31	3.32	3.30	3.23	3.23
NZGB 04/15	4.41	4.30	4.31	4.29	4.19	4.18
NZGB 03/19	5.51	5.27	5.28	5.25	5.08	5.06
NZGB 05/21	5.68	5.43	5.44	5.42	5.27	5.24
2 year swap	3.31	3.34	3.36	3.34	3.34	3.36
5 year swap	4.50	4.53	4.53	4.50	4.45	4.46
RBNZ TWI	67.7	68.6	68.4	67.7	67.5	67.6
NZD/USD	0.7723	0.8066	0.8037	0.7943	0.7926	0.7878
NZD/AUD	0.7445	0.7369	0.7361	0.7342	0.7378	0.7367
NZD/JPY	65.90	65.71	65.13	64.29	63.80	63.38
NZD/GBP	0.4728	0.4841	0.4835	0.4823	0.4796	0.4807
NZD/EUR	0.5416	0.5453	0.5431	0.5365	0.5332	0.5415
AUD/USD	1.0374	1.0946	1.0918	1.0818	1.0743	1.0693
EUR/USD	1.4259	1.4792	1.4799	1.4805	1.4866	1.4549
USD/JPY	85.33	81.47	81.04	80.94	80.50	80.45
GBP/USD	1.6334	1.6663	1.6623	1.6468	1.6527	1.6389
Oil (US$/bbl)	107.82	113.39	113.03	110.60	108.79	99.89
Gold (US$/oz)	1454.75	1550.50	1549.05	1532.80	1521.35	1485.45
Electricity (Haywards)	5.23	6.63	6.97	6.12	6.44	6.90
Baltic Dry Freight Index	1430	1269	1292	1302	1314	1340
Milk futures (USD)	158	163	163	162	162	162

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing

Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;

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- 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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