

# NEW ZEALAND ECONOMICS MARKET FOCUS

29 August 2011

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## NZ ECONOMICS TEAM

**Cameron Bagrie**  
Chief Economist  
Telephone: +64 4 802 2212  
E-mail: Cameron.Bagrie@anz.com

**Khoon Goh**  
Head of Market Economics and Strategy  
Telephone: +64 4 802 2357  
E-mail: Khoon.Goh@anz.com

**David Croy**  
Senior Interest Rate Strategist  
Telephone: +64 4 576 1022  
E-mail: David.Croy@anz.com

**Sharon Zöllner**  
Senior Economist  
Telephone: +64 4 576 1062  
E-mail: Sharon.Zollner@anz.com

**Mark Smith**  
Economist  
Telephone: +64 4 802 2199  
E-mail: Mark.Smith2@anz.com

**Steve Edwards**  
Economist  
Telephone: +64 9 357 4065  
E-mail: Steve.Edwards@anz.com

**Con Williams**  
Rural Economist  
Telephone: +64 4 802 2361  
E-mail: Con.Williams@anz.com

## ROUGH SEAS

### ECONOMIC OVERVIEW

Global developments continue to overshadow local considerations. Little apparent appetite for QE part 3 from the Fed and messages from Jackson Hole that politicians need to lift their game accentuate a key facet of our economic view – namely years of hard slog for Western societies on the growth front. New Zealand remains vulnerable to global developments but is clearly out of sync with the global business cycle – a welcome dynamic at present. For now, we remain in data watch mode, with this week's business confidence and commodity price data having more relevance than usual.

### NZ DATA SURPRISE UPDATE

Our New Zealand Data Surprise Index summarises the evolution of the local dataflow relative to market expectations. After improving over May, our index has started to fluctuate around a flattish trend since late July, although surprises for the pricing side of the economy tend to remain upward. Global growth is slowing, and if this persists it is likely to be only a matter of time before this starts to be reflected in the NZ data, with "soft" local data the canary in the coalmine. While NZ remains better placed than many of our global peers, we will be paying close attention to leading indicators over the next few months for signs of slowing domestic economic momentum.

### INTEREST RATE STRATEGY

Although the focus had been on Bernanke's Jackson Hole speech, the reality is that Europe is the more pressing issue. The Fed may well make changes to its policy framework or tweak policy at the next FOMC meeting, but essentially, despite being in a dip, the US looks like it can recover. By contrast, decision-makers in Europe have dithered from one crisis to the next, and constitutional issues in Germany could see the sovereign debt crisis escalate. This is important for NZ, as market stability is a key "gate opener" for RBNZ action.

### CURRENCY STRATEGY

In contrast to last year, the Jackson Hole symposium over the weekend has been a real fizzer. With details lacking from both Bernanke and Trichet, the FX markets have decided to stay with the incumbent view and sell USD. Europe continues to struggle through its sovereign debt crisis and cracks are appearing in the ruling coalition in Germany. Despite this, EUR continues to be supported. NZD and AUD will continue to be swayed by offshore factors but data this week will cause some short-term swings.

## ECONOMIC OVERVIEW

### SUMMARY

Global developments continue to overshadow local considerations. Little apparent appetite for QE part 3 from the Fed and messages from Jackson Hole that politicians need to lift their game accentuate a key facet of our economic view – namely years of hard slog for Western societies on the growth front. New Zealand remains vulnerable to global developments but is clearly out of sync with the global business cycle – a welcome dynamic at present. For now, we remain in data watch mode, with this week's business confidence and commodity price data having more relevance than usual.

### THIS WEEK'S EVENTS

**SNZ Dwelling Consents – July** (Tuesday, August 30, 10:45am). A 2 percent increase in residential consent numbers is envisaged. Stronger increases are expected for ex-apartment consents. Non-residential consent values of around \$275m are expected.

**National Bank Business Outlook – August** (Wednesday, August 31, 1:00pm).

**RBNZ Credit Aggregates – July** (Wednesday, August 31, 3:00pm). We expect household and business credit annual growth of around 1 percent, with a fall in agricultural credit.

**SNZ Overseas Trade Indexes – 2011Q2** (Thursday, September 1, 10:45am). The OTI terms of trade are forecast to rise 1.5 percent. A 2 percent increase in export volumes is forecast, with import volumes down 2 percent.

**ANZ Commodity Price Index - August** (Thursday, September 1, 1:00pm).

### WHAT'S THE VIEW

**The focus last week remained firmly on the global outlook and we continue to get fractured messages.** It is clear the global economy – the Western part anyway, has little momentum but there has really been no new information of late to say we've taken another leg down. Financial markets remain on edge, however, amidst the challenges of establishing where the eventual pain of sovereign excesses will be borne.

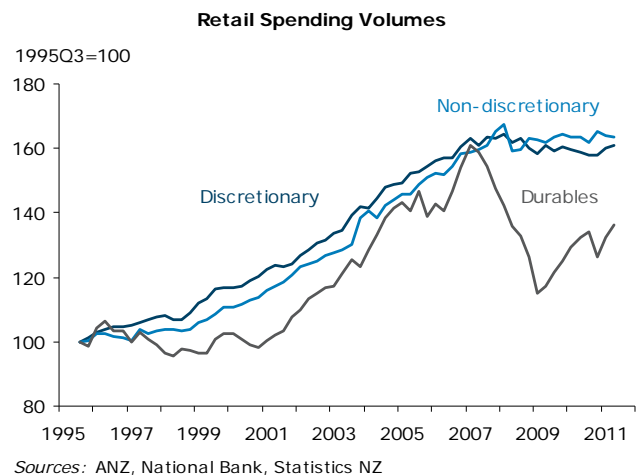
**With a backdrop of hard slog on the growth front as a leveraging tailwind becomes a deleveraging headwind, such fracturing amidst a lower trend rate of growth for the global economy remains the order of the day.** And a host of volatility to boot.

Market attention has been directed to what policymakers would offer, with the hope that the Jackson Hole symposium would display signs of

leadership and direction, or rather the (market) hope and desire for another sugar pill policy response in the form of QE3. What they got was a reluctance to refill the punchbowl and an implicit message that it's the politicians who need to up their game. We concur with both of these messages.

**Our focus remains on the impact on New Zealand. To date, signs have been muted.** Commodity prices are off a tad, but nothing startling. We'll get a reading on business confidence this week (refer to page 4).

**Our update of NZ data surprises on page 6 shows that there is as yet little sign of global ructions spilling over in the local dataflow.** Admittedly, recent data has become less one-sided than in June/July, but it still suggests the economy is moving forward. Our analysis continues to highlight the persistent string of upside surprises on the pricing side of the economy, with the surge in July food prices a case in point.



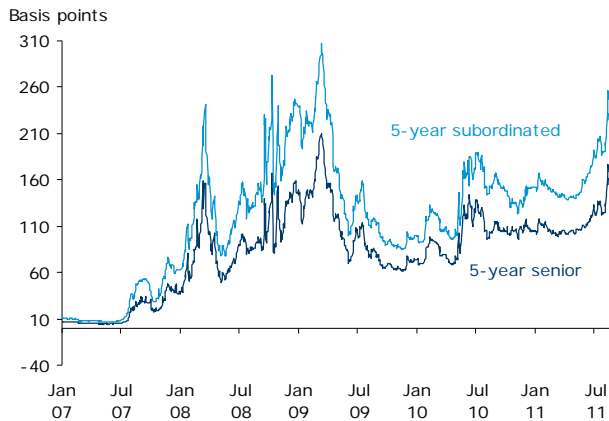
Last week's activity data continued to paint a picture of ongoing momentum. The first July monthly trade surplus since 1991 and a strengthening in capital goods imports were clear positives. Parts of the manufacturing sector seem to be benefiting from strong demand and the more attractive NZDAUD, although other sectors are likely to remain under pressure given the high NZDUSD. Retail volumes for Q2 showed resilience.

**Consumers continue to remain opportunistic rather than constrained.** The strengthening in discretionary retail is a sign of things to come as households relax the purse strings ahead of the Rugby World Cup. Durable volumes also strengthened as consumers took advantage of the discounts on offer. In such an environment a key barometer for consumer spending is sentiment and we will continue to closely follow readings for consumer confidence.

## ECONOMIC OVERVIEW

Such data and outturns precede the recent escalation in global uncertainty, but are still important, for they indicate reasonable momentum heading into a challenging environment. Unlike a host of peers NZ is not at stall speed and such momentum means you can often "roll" with the punches.

CDS spreads for "Big four" Australian Banks

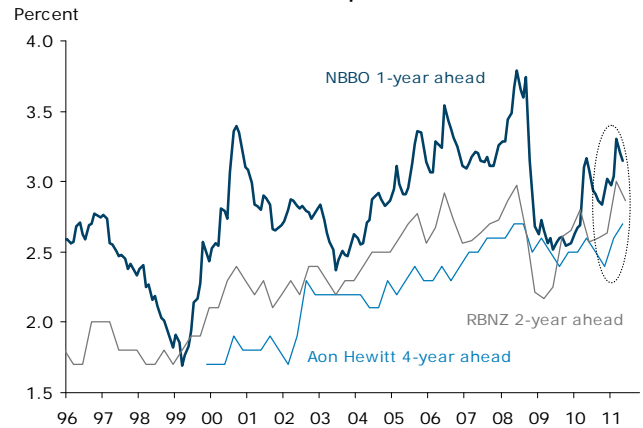


Sources: ANZ, National Bank, Bloomberg

To date, the most obvious channel to New Zealand from global ructions has been a sharp lift in bank funding costs though with no deals of note, it is difficult to ascertain where the real market resides pricing wise. Credit Default Swap (CDS) spreads for Australasian banks have widened markedly. This is only an approximate proxy for bank funding costs and will not be an issue until actual funding is needed and bank balance sheets have ample liquidity at present. However, the longer these sorts of metrics remain at elevated levels, the more of an issue it could eventually become over time for current account deficit and indebted nations.

Indeed, some CDS spreads are starting to approach the stressed levels seen in early 2009. While you can't discount these sort of movements there are clearly some specific aspects at play. In particular, the move has been exaggerated by a lack of liquidity on the "buy" side of synthetic credit protection (recall that CDS are derivatives). We know this because traditional cash bond spreads have fared better. **Nonetheless, what such developments do tell us is that there is increased nervousness in the market, and this is an unwelcome sign no matter how you read it.** The one positive comment you can make is that if liquidity conditions were to deteriorate, central banks have had plenty of experience in calming markets, having taken bold steps during the GFC. But intervention is no substitute for well-functioning markets.

NZ inflation expectations



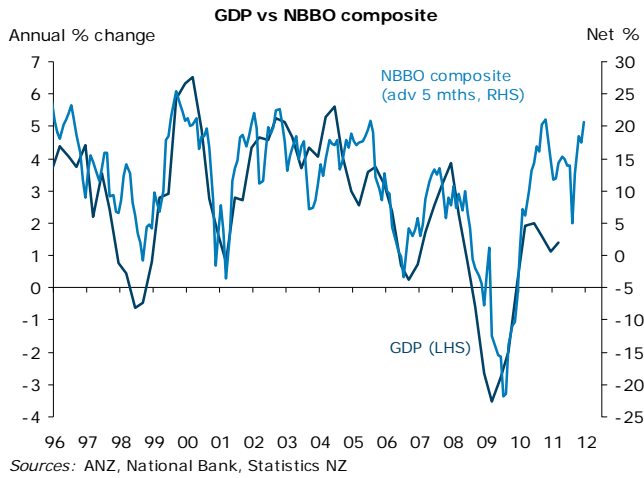
Sources: ANZ, National Bank, RBNZ, Aon Hewitt

The RBNZ survey of expectations was also a timely reminder not to forget developments on the pricing side of the economy. The 2-year-ahead reading for CPI inflation eased, but at 2.86 percent was still one of the highest readings in the history of the survey. Other inflation expectation survey measures have been trending up, and this week's National Bank Business Outlook will provide a useful update.

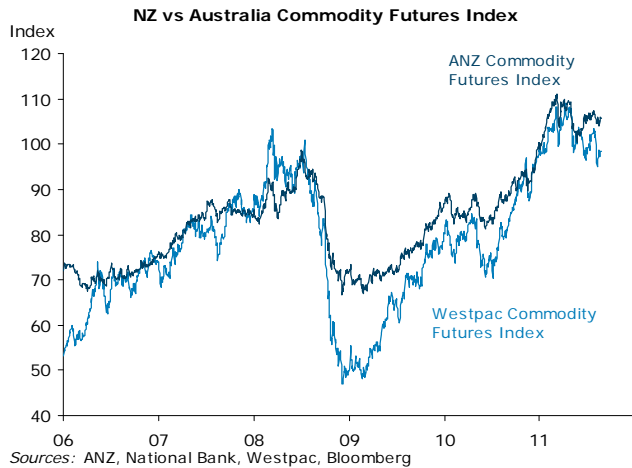
With the RBNZ putting considerable emphasis on its (lower) core measure of inflation as an expectations anchor, **the battle for the hearts and minds of wage and price setters is underway.** With the global economy looking wobbly, the Bank is probably of the view that this "expectations gamble" is a risk worth taking, with the RBNZ having the ability to rein in things fairly quickly if matters get out of hand. However, if price and wage setting does not turn out to be as contained as the RBNZ would like, and if the global scene stabilises, a higher OCR is on the cards. A high inflation outlook is one of the key factors behind our December MPS rate hike view, but this is conditional on global market ructions subsiding.

For now it remains a question of stepping back and watching developments. This is something of a contradiction because forecasters should always have a view or framework as to what is going on. A key anchor behind our view is a sustained period of grumpy growth for the global economy. We continue to find European developments (and prospects) troubling. Hence we have a fair bit of caution anchoring our assessment, and such forces limit the speed by which we eventually think interest rates will rise. It is the swings and developments from our baseline that is the new information, rather than the market swings themselves.

# ECONOMIC OVERVIEW



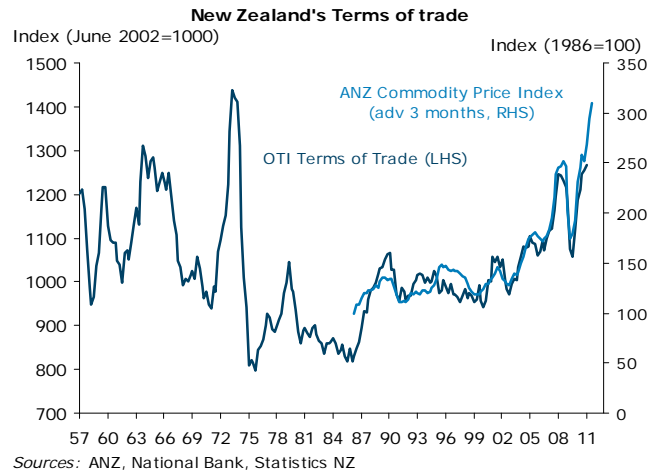
This week's emphasis is on "soft" leading indicators, notably business confidence and export commodity prices. As luck would have it, August readings for both will be released this week. The National Bank Business Outlook (NBBO) will be worth examining for signs of whether global wobbles are having an impact on business activity or their willingness to invest and take on more staff. The growth picture suggested by recent NBBO surveys has been noticeably upbeat. The August survey was taken during the tumultuous times experienced in the first half of the month so it'll be a key benchmark.



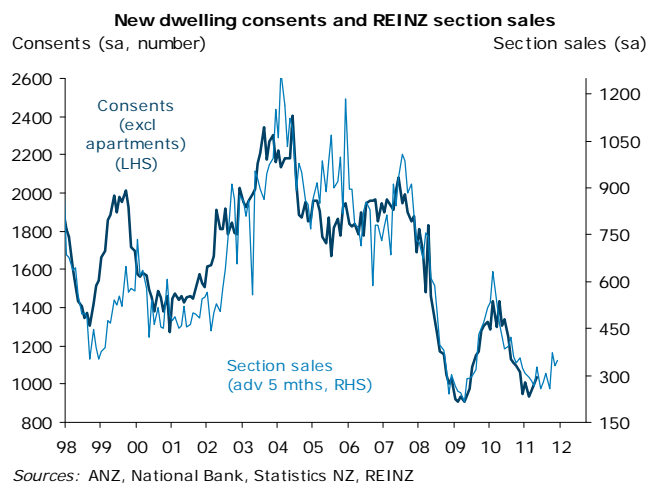
Commodity prices for August will be watched closely for signs of global influences. So far soft commodity prices have held up well, but we are mindful of the potential for slippage and the impact of hard commodity price falls on the health of the Australian economy.

The NZ overseas trade data for Q2 has a distinctly historical feel to it given recent global wobbles and the fact that we are more than halfway through Q3. We

expect a 1.5 percent increase in the OTI terms of trade, underpinned by a 2.5 percent increase in export prices. **The lagged impact of commodity export strength is still expected to push the goods terms of trade to new multi-decade highs by the end of the year.** Rising export volumes are also expected to support our forecast of a significantly higher than trend rate for Q2 GDP, which will erode spare capacity within the economy.



The RBNZ credit data for July is expected to confirm ongoing deleveraging. Agricultural credit levels should fall as farmers use the proceeds of high returns to retire debt. Household credit and business credit should continue to deliver small increases. Investment intentions and capital goods imports are on an improving path, part of which is likely to be debt funded.



July consent data is envisaged to show recovery from cyclically low levels. Residential section sales have been picking up and we expect this to translate into residential construction activity. Earthquake reconstruction and a likely turnaround in migration



## ECONOMIC OVERVIEW

inflows (with the NZ economy becoming a more attractive location given its relative economic outperformance) should provide support. If the global economy continues to look fragile the upshot is likely to be the RBNZ remaining on the sidelines. **The irony will be that low interest rates will provide more support to sectors in which slower growth is required to achieve the rebalancing of the New Zealand economy.** As a country we have made great strides into reducing our external vulnerability, but the journey is not yet complete.

### RECENT LOCAL DATA

**RBNZ Survey of Expectations – Q3.** The key two-year-ahead measure for CPI annual inflation eased to 2.86 percent. The one-year-ahead measure eased to 2.94 percent.

**SNZ Merchandise Trade – July.** A monthly trade surplus of \$129m was record, with the annual trade surplus widening to \$1,314m.

**SNZ Retail Trade – Q2.** Retail values rose a seasonally adjusted 1.7 percent (4.1 percent y/y), with core retail values up 1.4 percent (3.1 percent y/y). Retail sales volumes increased 0.9 percent (4.1 percent y/y), with core retail volumes up 1.0 percent (1.9 percent y/y).

**SNZ Food Price Index – July.** Food prices rose 2 percent in July (7.9 percent y/y).

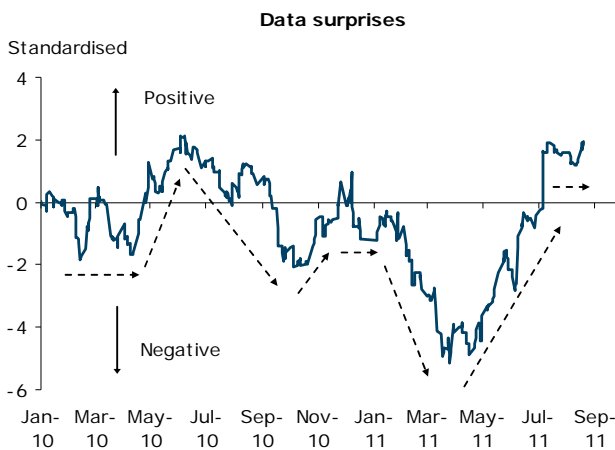
# NZ DATA SURPRISE UPDATE

## SUMMARY

Our New Zealand Data Surprise Index summarises the evolution of the local dataflow relative to market expectations. After improving over May, our index has started to fluctuate around a flattish trend since late July, although surprises for the pricing side of the economy tend to remain upward. Global growth is slowing, and if this persists it is likely to be only a matter of time before this starts to be reflected in the NZ data, with “soft” local data the canary in the coalmine. While NZ remains better placed than many of our global peers, we will be paying close attention to leading indicators over the next few months for signs of slowing domestic economic momentum.

## A BETTER STRING OF DATA

Our Data Surprise Index is designed to summarise the impact of individual New Zealand data surprises on medium-term inflationary pressure.<sup>1</sup> It uses a wide range of domestic data outturns, and we place proportionately more weight on data that will have a bearing on medium-term inflationary pressure. The RBNZ, as part of their normal monetary policy deliberations, will go through a similar assessment weighing up the aggregate tone of economic information received of late.



Sources: ANZ, National Bank, Bloomberg

The dataflow tends to move in strings, with data tending to undershoot and then overshoot market expectations at various stages. It is the slope of the line that matters as opposed to whether it is above or below zero. In the first few months of this year, a string of weaker data was observed as sentiment and activity measures weakened in response to disruptions caused by the February 22 earthquake.

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

Our index troughed in late March/early April, and while it has not been smooth sailing since, the tone of data has been more upbeat, culminating in the stronger than expected Q1 GDP and Q2 CPI prints. Data since then has been more balanced, with some positive and negative data surprises (i.e. the index is moving around a flattish trend).

## CONTINUING DIVERGENCES

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

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

Data surprises by type



Sources: ANZ, National Bank, Bloomberg

## Our analysis continues to show wide discrepancies according to the type of data.

Forward-looking “soft” economic data weakened between February and March, tracked sideways until June (when it strengthened), with offsetting surprises since then. Improving business and consumer sentiment has been partly offset by declining commodity prices. Less timely “hard” activity data has mimicked the improvement suggested by the “soft” data, although data since the Q1 GDP release (14<sup>th</sup> July) has slightly disappointed expectations. In part this may reflect markets revising up their expectations. With the leading “soft” data showing signs of resilience, the likelihood is that the activity dataflow will retain its solid run, at least over the next few months.

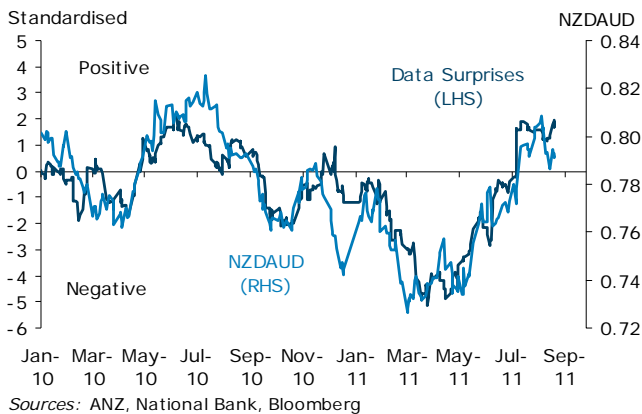
## NZ DATA SURPRISE UPDATE

The string of price side data has no longer been one-sided, with a few pieces of softer data emerging (although these are sector-specific and more related to the housing market). Of concern, however, is that pricing surprises have continued to trend up at a time when the “soft” data and activity dataflow have been more balanced. This is hardly encouraging for the RBNZ.

### DATA SURPRISES AND FINANCIAL MARKET PRICES

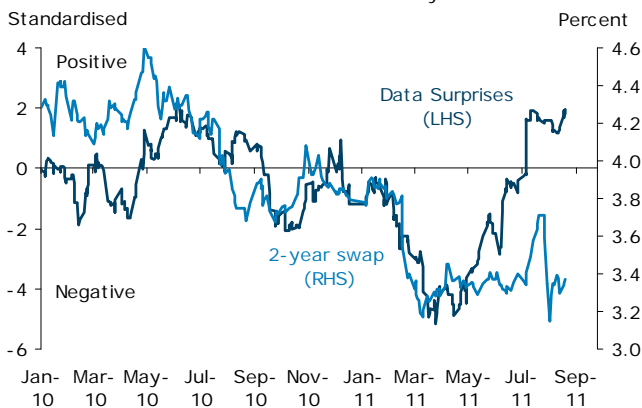
Financial market prices tend to be influenced by a host of local and external factors, with the NZ dataflow only one of those. Nevertheless, **our surprise index has tended to broadly track movements in wholesale interest rates and the NZDAUD.**

**Data surprises and the NZDAUD**  
Balance of data since January 2010



Our index has continued to closely track the NZDAUD, with the better run of NZ data occurring during a period of NZDAUD strengthening. July also saw the NZD gain against the USD, suggesting local factors had played a part in the strengthening NZD. The mixed run of NZ data has coincided with the NZDAUD cross flattening off, and the NZD falling against the USD.

**Data surprises and wholesale interest rates**  
Balance of data since January 2010



Wholesale interest rates, however, have been a different story. Despite the improving run of domestic data, wholesale interest rates have remained low. In part this reflects the expectation that the weaker global growth outlook will start to weigh on domestic economic prospects, necessitating ongoing policy support. As yet, this has not been borne out in the domestic dataflow.

### THE UPSHOT

**Our surprise index has shown the dataflow has become less one-sided over the last month, after steadily improving from May.** This is due in part to expectations being revised up rather than the data being weak. Despite the mixed run of activity and “soft” data, price side surprises have tended to be on the upside. This is hardly a welcome development for a RBNZ seeking to rein in price and wage setting behaviour. Based on domestic data, an OCR at 2.5 percent is on borrowed time.

This is all very well for now, but we (and the RBNZ no doubt) like to look ahead. What we are seeing globally provides considerably less cause for cheer. **Global growth is slowing, and if this persists it is likely to be only a matter of time before this starts to be reflected in the “soft” local data.** We will be paying close attention to business confidence and commodity prices over the next few months for an early indication of a weakening in the local activity dataflow and the potential moderation in domestic inflationary pressure.

**New Zealand is not immune from increasing global headwinds, but we remain better placed than many of our global peers and we appear in better shape than in past episodes.** The NZ economy is in an early stage of expansion. Economic momentum remains sound, and there are a number of factors that will support domestic economic activity. Accommodative financial conditions, and the pending boost to activity from earthquake reconstruction and Rugby World Cup, are likely to provide a counter to global weakness, for the time being at least. It looks as if NZ will be going against the flow in terms of having accelerating momentum over the second half of this year. We will continue to closely monitor the global economy and leading indicators to see whether the NZ economy will be able to forge ahead on its own, or whether there is a greater need for continued policy support.

# INTEREST RATE STRATEGY

## SUMMARY

Although the focus had been on Bernanke's Jackson Hole speech, the reality is that Europe is the more pressing issue. The Fed may well make changes to its policy framework or tweak policy at the next FOMC meeting, but essentially, despite being in a dip, the US looks like it can recover. By contrast, decision-makers in Europe have dithered from one crisis to the next, and constitutional issues in Germany could see the sovereign debt crisis escalate. This is important for NZ, as market stability is a key "gate opener" for RBNZ action.

## MARKET THEMES

- Bernanke did not hint at any new initiatives, but he did note that the next FOMC meeting will be extended to 2 days "to allow a fuller discussion".
- The Europe sovereign debt crisis remains the main concern. US growth is sluggish, but America is not broken like Europe is. We suspect this means that the ECB will pursue QE on its own, without the Fed.
- Local data continue to print on the strong side of expectations, reinforcing the need for rate hikes provided global growth fears don't escalate.

## REVIEW AND OUTLOOK

Much of last week was spent looking forward to Fed chair Ben Bernanke's Jackson Hole speech. But in the end, it was a tame affair, and **apart from a dig at politicians**, and the chairman's characteristically upbeat view of the long term, **there were no hints at further action**. What is needed now, of course, is time, and as Bernanke pointed out, progress has been made, and with the US economy in much better shape than it was a few years ago. But it is clear that there is frustration regarding the short-term outlook.

However, Bernanke did say that **the next FOMC meeting would be extended to 2 days**. This is a clear signal that we may see a major announcement. But we will not be holding our breaths for QE, and would expect if we see action, it will take the form of tweaking, such as cutting interest payable on excess reserves. **Whatever happens, we cannot look to the Fed to deliver a silver bullet, and when we acknowledge this, it is suggestive of a long period of slow growth and low bond yields**. This will also be felt in New Zealand – not just because global yields are low – but because the policy cycle here will be muted, as we have long argued.

While the US has been in focus, **Europe is where the real problems lie, and QE seems likely there. Although Europe and the US are similarly indebted, Europe is less structurally sound and**

**more fractured**. It is also not clear who is in charge. In that regard, **we are not encouraged by German constitutional challenges to bailouts, which threaten to escalate the debt crisis**.

All of this does of course just make calling policy here in NZ that much more difficult. Indeed, it is clear from recent data that the OCR is on borrowed time here. However, **as the RBNZ have cited market stability as a pre-condition to tightening, this just makes for more volatility and range trading locally**.

## PREFERRED BORROWING STRATEGIES

Time remains on the borrower's side, and we do not favour adding to hedges just yet. Despite our expectation for rate hikes from December, as the RBNZ have highlighted, this is conditional on global market turmoil dying down, and on a clear direction for global growth emerging. This is less about being spooked by volatility and more about acknowledging that uncertainty means floating rates are likely to be lower for longer. It is possible that rates rise from here, and we may look back on the current level of rates and view them as an opportunity lost. However, the issues that are troubling markets (most notably the European sovereign debt crisis) run deep, and we doubt it will be resolved quickly. As such, we doubt we're about to see rates spike sustainably higher to the point where the benefits of acting now outweigh the benefit of awaiting clarity. Remember, floating does come at a substantial discount to fixed.

## GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↑	Dec hike still on the cards.
NZ data	↑	Keeps coming in strong.
Fed Funds / front end	↔/↓	The Fed has done all it can. Time is what is needed now.
RBA	↔	On hold, but happy for the market to sway the curve.
US 10 year	↔/↓	Safe haven, carry, slow growth to support yields.
NZ swap curve	↔/↓	Neutral, with a mild steepening bias.
Flow	↔	Remains extremely quiet.
Technicals	↔/↑	2yr 3.10/3.40% range.

## MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 15-Sep-11	+4	+4
Thu 27-Oct-11	+10	+10
Thu 8-Dec-11	+18	+20
Thu 26-Jan-12	+25	+30
Thu 8-Mar-12	+29	+37
Thu 26-Apr-12	+38	+40
Thu 14-Jun-12	+39	+45

## TRADING THEMES WE FAVOUR AT PRESENT

We favour trades like 1yr-2yr steepeners that will benefit from an upside rerating and perform well into strong data.

# CURRENCY STRATEGY

## SUMMARY

In contrast to last year, the Jackson Hole symposium over the weekend has been a real fizzer. With details lacking from both Bernanke and Trichet, the FX markets have decided to stay with the incumbent view and sell USD. Europe continues to struggle through its sovereign debt crisis and cracks are appearing in the ruling coalition in Germany. Despite this, EUR continues to be supported. NZD and AUD will continue to be swayed by offshore factors but data this week will cause some short-term swings.

## MARKET THEMES

- Huge week ahead for US data to give more clues about potential for double-dip recession.
- Germany to face constitutional tests during the coming weeks.
- Next FOMC meeting extended to two days, sparking QE3 fears for USD.
- NZ business confidence survey could cap NZD.

## REVIEW AND OUTLOOK

**The Jackson Hole central bank symposium was a complete fizzer with a total lack of any detail in the speeches from both Bernanke and Trichet.** If anything, the prospect of the next FOMC meeting increasing from one day to two has given a risk-on bias to currency markets. Perhaps Chairman Bernanke is losing patience with the increased dissent of FOMC members and wants to spend more time "beating them into submission". The US has a massive data week this week including FOMC minutes, housing, employment, and confidence data. It could be another rollercoaster for the USD.

**The European sovereign debt crisis continues to bubble away but the EUR is unfazed.** Watch for pressures in the German Bundestag as a potential constitutional crisis looms from the push-back by German citizens on the plan to grant the EFSF more power to buy European bonds. Given the state of the European situation we remain surprised that the EUR has been able to remain relatively strong.

**The NZDUSD has been trading in a 0.8150/0.8415 range for the last month (with a brief dip below 80 cents).** The NZD continues to trade on the whims of global factors in a "risk on/risk off" fashion with Friday's move to the top of the range being no exception. Technically there is a resistance "zone" between 0.8415 and 0.8465. With the domestic data suggesting the NZD should be higher but global concerns dragging it down, expect the NZD

to continue to be choppy during this week. Supports are at 0.8370, 0.8330 and 0.8265.

**The CHF has slipped as short-term interest rates turn negative in Switzerland.** There is talk that one of the big Swiss banks has moved to negative rates on deposits, undermining the CHF (which we are sure the SNB is very happy with). **The JPY has traded in a 1.5 percent range for most of this month with the BOJ absent.**

### NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↔	Close to our fair value estimates.
Yield	↑	Opposing policy direction favours NZD.
Commodities	↔	Wary of cracks appearing here.
Partial indicators	↔/↑	Data still good in NZ.
Technicals	↔	Rangebound 0.7880 - 0.8050.
Sentiment	↔	Risk off.
Other	↔	Global sentiment big driver.
<b>On balance</b>	↑	<b>Yield and undervaluation support NZD.</b>

### NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↑	September RBNZ hike off for now but yield still supports.
Commodities	↔	Starting to be wary of turns in key NZ-related commodities.
Risk aversion	↓	US double-dip recession prospect driving risk off.
Partial indicators	↑	NZ data better, US data worsening.
Technicals	↔	Wide range continues 0.8150 – 0.8415.
AUD	↔	AUD at resistance.
Sentiment	↑	Risk on following Bernanke speech.
Other	↑	USD weakness the key driver for NZD this week.
<b>On balance</b>	↔	<b>Technical resistance to be tested by global sentiment.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
29-Aug	UK	Hometrack Housing Survey (MoM) - AUG	- -	-0.1%(a)	11:01
	AU	HIA New Home Sales (MoM) - JUL	- -	-8.7%	13:00
	CH	Leading Index - JUL	- -	101.76	UNCONFIRMED
	GE	Consumer Price Index (MoM) - AUG P	-0.1%	0.4%	UNCONFIRMED
	GE	Consumer Price Index (YoY) - AUG P	2.3%	2.4%	UNCONFIRMED
30-Aug	US	Personal Income - JUL	0.3%	0.1%	00:30
	US	Personal Spending - JUL	0.5%	-0.2%	00:30
	US	PCE Deflator (YoY) - JUL	2.7%	2.6%	00:30
	US	PCE Core (MoM) - JUL	0.2%	0.1%	00:30
	US	PCE Core (YoY) - JUL	1.4%	1.3%	00:30
	US	Pending Home Sales MoM - JUL	-0.9%	2.4%	02:00
	US	Pending Home Sales YoY - JUL	13.6%	17.3%	02:00
	US	Dallas Fed Manf. Activity - AUG	-8.5	-2.0	02:30
	NZ	Building Permits MoM - JUL	- -	-1.4%	10:45
	JN	Jobless Rate - JUL	4.6%	4.6%	11:30
	JN	Retail Trade MoM SA - JUL	0.5%	2.9%	11:50
	JN	Large Retailers' Sales - JUL	0.5%	-0.5%	11:50
	AU	Building Approvals (MoM) - JUL	2.0%	-3.5%	13:30
	AU	Building Approvals (YoY) - JUL	-12.4%	-15.5%	13:30
	UK	Net Consumer Credit - JUL	£0.4B	£0.4B	20:30
	UK	Net Lending Sec. on Dwellings - JUL	£0.8B	-£0.1B	20:30
	UK	Mortgage Approvals - JUL	49.0K	48.4K	20:30
	UK	M4 Money Supply (MoM) - JUL	- -	-0.5%	20:30
	EC	Business Climate Indicator - AUG	0.10	0.45	21:00
	EC	Euro-Zone Consumer Confidence - AUG F	-16.6	-16.6	21:00
	EC	Euro-Zone Economic Confidence - AUG	100.2	103.2	21:00
	EC	Euro-Zone Indust. Confidence - AUG	-2.0	1.1	21:00
	EC	Euro-zone Services Confidence - AUG	6.0	7.9	21:00
31-Aug	US	S&P/CS Composite-20 YoY - JUN	-4.6%	-4.5%	01:00
	US	S&P/Case-Shiller US HPI YOY% - 2Q	- -	-5.1%	01:00
	US	S&P/Case-Shiller US HPI - 2Q	- -	125.4	01:00
	US	Consumer Confidence - AUG	52.0	59.5	02:00
	US	Minutes of FOMC Meeting - JUL	- -	- -	06:00
	UK	GfK Consumer Confidence Survey - AUG	-33	-30	11:01
	JN	Industrial Production (MoM) - JUL P	1.4%	3.8%	11:50
	JN	Industrial Production YOY% - JUL P	-1.9%	-1.7%	11:50
	AU	RPData-Rismark House Price Raw - JUL	- -	-0.6%	12:30
	AU	RPData-Rismark House Price S.A - JUL	- -	-0.2%	12:30
	NZ	NBNZ Activity Outlook - AUG	- -	43.7	13:00
	NZ	NBNZ Business Confidence - AUG	- -	47.6	13:00
	JN	Labor Cash Earnings YoY - JUL	-0.5%	-0.7%	13:30
	AU	Private Sector Credit MoM% - JUL	0.2%	-0.1%	13:30
	AU	Private Sector Credit YoY% - JUL	2.7%	2.7%	13:30
	NZ	Money Supply M3 YoY - JUL	- -	7.3%	15:00
	JN	Housing Starts (YoY) - JUL	4.9%	5.8%	17:00
	GE	Retail Sales (MoM) - JUL	-1.5%	4.5%	18:00
	GE	Unemployment Change (000's) - AUG	-10K	-11K	19:55

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
31-Aug	GE	Unemployment Rate (s.a) - AUG	7.0%	7.0%	19:55
	EC	Euro-Zone CPI Estimate (YoY) - AUG	2.5%	2.5%	21:00
	EC	Euro-Zone Unemployment Rate - JUL	9.9%	9.9%	21:00
	US	Challenger Job Cuts YoY - AUG	- -	59.4%	23:30
1-Sep	US	ADP Employment Change - AUG	100K	114K	00:15
	US	Chicago Purchasing Manager - AUG	53.5	58.8	01:45
	US	Factory Orders - JUL	1.8%	-0.8%	02:00
	US	NAPM-Milwaukee - AUG	52.9	57.6	02:00
	NZ	Terms of Trade Index (QoQ) - 2Q	- -	0.9%	10:45
	AU	AiG Performance of Mfg Index - AUG	- -	43.4	11:30
	NZ	ANZ Commodity Price - AUG	- -	-0.10%	13:00
	CH	PMI Manufacturing - AUG	51.0	50.7	13:00
	AU	Private Capital Expenditure - 2Q	4.0%	3.4%	13:30
	AU	Retail Sales s.a. (MoM) - JUL	0.3%	-0.1%	13:30
	CH	HSBC Manufacturing PMI - AUG	- -	49.3	14:30
	GE	GDP nsa (YoY) - 2Q F	2.8%	- -	18:00
	GE	Exports - 2Q	1.6%	2.3%	18:00
	GE	Imports - 2Q	2.3%	1.5%	18:00
	GE	Private Consumption - 2Q	-0.2%	0.4%	18:00
	GE	GDP s.a. (QoQ) - 2Q F	0.1%	0.1%	18:00
	GE	GDP wda (YoY) - 2Q F	2.7%	- -	18:00
	UK	Nat'wide House prices sa (MoM) - AUG	0.0%	0.2%	18:00
	AU	RBA Commodity Price Index - AUG	- -	108.3	18:30
	AU	RBA Commodity Index SDR YoY% - AUG	- -	27.6%	18:30
	GE	PMI Manufacturing - AUG F	52	52	19:55
	EC	PMI Manufacturing - AUG F	49.7	49.7	20:00
	UK	PMI Manufacturing - AUG	49.0	49.1	20:30
2-Sep	US	Nonfarm Productivity - 2Q F	-0.5%	-0.3%	00:30
	US	Unit Labor Costs - 2Q F	2.3%	2.2%	00:30
	US	Initial Jobless Claims - 27-AUG	408K	417K	00:30
	US	Continuing Claims - 20-AUG	3685K	3641K	00:30
	US	Construction Spending MoM - JUL	0.2%	0.2%	02:00
	US	ISM Manufacturing - AUG	48.5	50.9	02:00
	US	ISM Prices Paid - AUG	55	59	02:00
	US	Total Vehicle Sales - AUG	12.10M	12.20M	09:00
	US	Domestic Vehicle Sales - AUG	9.50M	9.62M	09:00
	UK	PMI Construction - AUG	53.2	53.5	20:30
	EC	Euro-Zone PPI (MoM) - JUL	0.5%	0.0%	21:00
3-Sep	US	Change in Nonfarm Payrolls - AUG	75K	117K	00:30
	US	Change in Private Payrolls - AUG	105K	154K	00:30
	US	Change in Manufact. Payrolls - AUG	0K	24K	00:30
	US	Unemployment Rate - AUG	9.1%	9.1%	00:30
	US	Avg Hourly Earning MOM All Emp - AUG	0.2%	0.4%	00:30
	US	Avg Weekly Hours All Employees - AUG	34.3	34.3	00:30
	US	Chg in Household Survey Empl - AUG	- -	-38	00:30
	CH	China Non-manufacturing PMI - AUG	- -	59.6	13:00

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

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

Note: All surveys are preliminary and subject to change.



## LOCAL DATA WATCH

**Key focus over the next few weeks:** While global markets were looking ahead to Jackson Hole for clues of policymaker direction, last week's local data remained upbeat, with retail resilience in evidence and the first July trade surplus in a decade, although climbing pricing-related data highlights future policy challenges. Business confidence and commodity prices will provide an important steer on how well the NZ economy is weathering global volatility. We expect a hike in the December *MPS*, but this is conditional on global volatility subsiding.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 30 Aug (10:45am)	Building Consents – July	Building	A 2 percent increase in residential consents is envisaged. Stronger increases are expected for ex-apartments.
Wes 31 Aug (1:00pm)	National Bank Business Outlook – Aug	- -	- -
Wed 31 Aug (3:00pm)	RBNZ Credit Aggregates - July	Ongoing deleveraging	We expect household and business annual credit growth of around 1 percent, with a fall in agricultural credit as debt is repaid.
Thur 1 Sep (10:45am)	Overseas Trade Indexes - Q2	Peaking?	The OTI terms of trade is forecast to rise 1.5 percent. A 2 percent rise in export and 2 percent fall in import volumes is forecast.
Thur 1 Sep (1:00pm)	ANZ Commodity Price Index - Aug	- -	- -
Wed 7 Sep (early am)	<i>GlobalDairyTrade</i> dairy auction	Holding	We expect overall dairy prices to stabilise following recent declines.
Wed 7 Sep (10:45am)	SNZ Wholesale Trade Survey – Q2	Up	We expect a 1.5 percent increase in wholesale sales, with volumes rising approximately 0.8 percent.
Thur 8 Sep (10:45am)	SNZ Economic Survey of Manufacturing – Q2	Sector differences	Ex-primary manufacturing volumes are forecast to fall 1 percent q/q, with primary manufacturing volumes up 3 percent q/q.
Thur 8 Sep (10:45am)	SNZ Value of Building Work Put in Place – Q2	Down	Residential and non-residential volumes are expected to decline 2 percent.
Thur 8 Sep (1:00pm)	ANZ Job Ads - August	- -	- -
Fri 9 Sep (10:45am)	SNZ Electronic Card Transactions - Aug	Increasing	A 0.4 percent increase in retail ECT spending is expected, while core ECT spending is envisaged to rise by 0.5 percent.
Mon 12 Sep (10:45am)	REINZ Residential Sales - August	Off the floor	A 2 percent recovery in sales volumes is anticipated. Prices are expected to remain broadly unchanged.
Thur 15 Sep (9:00am)	RBNZ September MPS	On hold for now	Global considerations will encourage patience. Providing global ructions subside we expect a 50 basis point hike in the Dec MPS.
Thur 15 Sep (10:30)	BNZ Business NZ Manufacturing PMI	Global concerns	Global economy concerns should see a low 50s print.
Fri 16 Sep (1:00pm)	ANZ Roy Morgan Consumer Confidence	- -	- -
Wed 21 Sep (10:45am)	Balance of Payments – 2011Q2	Stable	A quarterly deficit of \$900m is forecast, with the annual deficit stable at 4.2 percent of GDP.
Wed 21 Sep (10:45am)	RBNZ Credit Card Billings - Aug	Moving up	A 0.5 percent increase is forecast. Overseas billings look set to surge next month with the start of the Rugby World Cup.
Thur 22 Sep (10:45am)	Gross Domestic Product – 2011Q2	Resilience	A 0.7 percent increase is expected. Higher primary sector and services production will offset lower goods production.
<b>On Balance</b>		<b>Local vs global</b>	<b>Domestic gauges still resilient, but global concerns suggest some caution further out.</b>

## KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.5	0.8	<b>0.7</b>	<b>1.1</b>	<b>1.5</b>	<b>0.7</b>	<b>1.0</b>	<b>0.9</b>	<b>0.8</b>	<b>0.7</b>
GDP (% yoy)	1.1	1.4	<b>1.9</b>	<b>3.1</b>	<b>4.2</b>	<b>4.1</b>	<b>4.4</b>	<b>4.2</b>	<b>3.4</b>	<b>3.4</b>
CPI (% qoq)	2.3	0.8	1.0	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>	<b>0.7</b>	<b>0.6</b>	<b>0.8</b>
CPI (% yoy)	4.0	4.5	5.3	<b>5.0</b>	<b>3.3</b>	<b>3.1</b>	<b>2.9</b>	<b>2.8</b>	<b>2.7</b>	<b>2.9</b>
Employment (% qoq)	-0.3	1.3	0.0	<b>0.7</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>
Employment (% yoy)	1.3	1.8	2.0	<b>1.7</b>	<b>2.6</b>	<b>2.0</b>	<b>2.5</b>	<b>2.3</b>	<b>2.1</b>	<b>1.8</b>
Unemployment Rate (% sa)	6.7	6.5	6.5	<b>6.2</b>	<b>5.9</b>	<b>5.6</b>	<b>5.5</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>
Current Account (% GDP)	-4.1	-4.2	<b>-4.2</b>	<b>-4.2</b>	<b>-3.7</b>	<b>-4.0</b>	<b>-4.3</b>	<b>-4.6</b>	<b>-4.9</b>	<b>-5.1</b>
Terms of Trade (% qoq)	0.8	0.9	<b>1.5</b>	<b>3.0</b>	<b>1.1</b>	<b>-0.7</b>	<b>-0.8</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-0.7</b>
Terms of Trade (% yoy)	12.3	6.8	<b>6.3</b>	<b>6.3</b>	<b>6.5</b>	<b>4.8</b>	<b>2.4</b>	<b>-1.3</b>	<b>-3.2</b>	<b>-3.2</b>

	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11
Retail ECT (% mom)	1.0	-0.8	2.4	-0.2	1.4	1.5	-0.7	1.1	0.4	..
Retail ECT (% yoy)	6.3	4.4	5.7	6.2	6.6	10.0	6.8	9.0	8.0	..
Credit Card Billings (% mom)	0.1	-1.7	3.9	-0.5	-1.2	1.8	0.4	0.5	1.0	..
Credit Card Billings (% yoy)	4.3	2.4	6.2	5.9	2.1	6.6	5.5	4.6	7.3	..
Car registrations (% mom)	13.2	-8.9	1.1	-1.8	0.0	-5.6	3.3	-2.3	-1.9	..
Car registrations (% yoy)	23.5	6.4	6.8	2.8	-1.0	-10.5	-3.7	-9.5	-6.0	..
Building consents (% mom)	8.3	-18.5	9.2	-9.7	2.5	-1.2	2.3	-1.4	..	..
Building consents (% yoy)	-8.9	-26.4	-14.9	-28.8	-26.1	-32.1	-21.9	-25.7	..	..
REINZ House Price Index (% yoy)	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	0.5	..
Household Lending Growth (% mom)	0.0	0.1	0.1	0.1	-0.1	0.2	0.1	0.1	..	..
Household Lending Growth (% yoy)	1.8	1.6	1.5	1.5	1.2	1.2	1.2	1.1	..	..
ANZ Roy Morgan Consumer Confidence	114.5	112.2	117.1	108.1	101.4	101.4	103.3	112.5	109.4	113.3
NBNZ Business Confidence	33.2	29.5	..	34.5	-8.7	14.2	38.3	46.5	47.6	..
NBNZ Own Activity Outlook	35.3	34.5	..	36.6	14.7	29.5	39.7	38.7	43.7	..
Trade Balance (\$m)	-177	-218	9	184	583	1158	554	197	129	..
Trade Balance (\$m ann)	1363	1172	909	765	741	1238	1022	999	1314	..
ANZ World Commodity Price Index (% mom)	2.1	1.6	4.3	2.7	4.7	1.6	0.4	-1.2	-0.1	..
ANZ World Commodity Price Index (% yoy)	13.1	12.1	16.3	20.3	23.5	19.8	19.6	20.6	22.3	..
Net migration (sa)	600	700	420	440	-530	-120	-320	-290	-220	..
Net migration (annual)	11519	10451	8689	8249	6554	5508	4625	3867	2867	..

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	Jun-11	Jul-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZD/USD	0.829	0.879	0.841	0.88	0.91	0.92	0.93	0.93	0.93	0.92
NZD/AUD	0.773	0.799	0.795	0.80	0.81	0.82	0.83	0.82	0.82	0.82
NZD/EUR	0.572	0.610	0.580	0.60	0.61	0.61	0.61	0.60	0.60	0.60
NZD/JPY	66.80	67.54	64.59	66.0	68.3	69.0	67.0	67.0	67.0	68.1
NZD/GBP	0.517	0.536	0.515	0.53	0.55	0.54	0.55	0.53	0.53	0.53
NZ\$ TWI	71.2	74.2	72.0	74.1	75.9	76.3	76.7	75.8	75.8	75.7
INTEREST RATES	Jun-11	Jul-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZ OCR	2.50	2.50	2.50	2.50	3.00	3.25	3.50	3.75	4.00	4.50
NZ 90 day bill	2.67	2.95	2.92	2.80	3.40	3.50	3.90	4.00	4.40	4.90
NZ 10-yr bond	5.07	4.93	4.51	4.40	4.40	4.50	4.60	4.80	4.90	5.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.25	0.26	0.32	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
AU 3-mth	5.03	5.07	4.84	4.90	4.90	4.90	4.90	4.90	4.90	4.90

	26 Jul	22 Aug	23 Aug	24 Aug	25 Aug	26 Aug
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.74	2.87	2.88	2.88	2.88	2.90
NZGB 04/13	3.39	2.94	3.01	3.05	3.05	3.02
NZGB 04/15	4.07	3.51	3.58	3.62	3.62	3.59
NZGB 03/19	4.89	4.25	4.32	4.36	4.36	4.34
NZGB 05/21	5.07	4.42	4.49	4.53	4.53	4.51
2 year swap	3.64	3.27	3.31	3.33	3.37	3.37
5 year swap	4.53	4.08	4.12	4.14	4.18	4.16
RBNZ TWI	74.1	70.3	71.0	71.1	71.3	71.4
NZD/USD	0.8688	0.8180	0.8269	0.8297	0.8301	0.8313
NZD/AUD	0.7966	0.7862	0.7912	0.7903	0.7936	0.7928
NZD/JPY	67.83	62.78	63.50	63.62	63.88	64.26
NZD/GBP	0.5319	0.4962	0.5017	0.5028	0.5069	0.5095
NZD/EUR	0.6003	0.5692	0.5755	0.5757	0.5759	0.5767
AUD/USD	1.0906	1.0404	1.0451	1.0498	1.0460	1.0485
EUR/USD	1.4472	1.4370	1.4369	1.4412	1.4413	1.4416
USD/JPY	78.07	76.75	76.79	76.68	76.95	77.30
GBP/USD	1.6334	1.6485	1.6482	1.6502	1.6375	1.6316
Oil (US\$/bbl)	98.97	82.33	84.30	85.40	84.99	85.28
Gold (US\$/oz)	1614.50	1879.05	1903.70	1845.15	1731.05	1779.00
Electricity (Haywards)	8.40	9.61	8.43	6.17	9.37	9.27
Baltic Dry Freight Index	1310	1515	1565	1602	1582	1541
Milk futures (USD)	155	151	151	150	150	150

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