

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

28 February 2011

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BIGGER THAN BEN HUR

OUR THOUGHTS ARE WITH THE RESIDENTS OF CHRISTCHURCH, THEIR FAMILIES AND FRIENDS.

ECONOMIC OVERVIEW

Last Tuesday's earthquake in Christchurch was a national disaster of epic proportions. The scale of the devastation and loss of life makes it one of the darkest days in our history. When the circumstances change so does the economic view. The inflection point view of the economy in 2011 we had been running is history. The pending recovery has been pushed out by 6 months – and will be coming off a lower base with negative growth in H1 2011 virtually assured. The economy now faces not just one structural adjustment (rebalancing) but two, and there will be tensions between them. The effect will be felt for years. We expect a sizeable fiscal package to be announced soon and while the Government should do most of the heavy lifting in terms of policy support up front, we expect the RBNZ to cut the OCR in March as well.

CHRISTCHURCH EARTHQUAKE IMPACT

Early estimates of the direct cost of the earthquake in terms of destroyed infrastructure and buildings are in the order of \$10 billion, with higher numbers mooted. Our expectations of the economy being at a turning point in Q1 2011 have been pushed out by six months, with the quake likely to knock up to 1 percent off GDP in the first half of 2011. We are also back to square one in terms of the rebuild effort, but a rebuild effort bigger than *Ben Hur* will support growth from 2012. The broader impacts on the economy are more difficult to estimate. But they will be negative, substantial and long lasting. Monetary policy plays second fiddle to fiscal policy in events like this, but should still do its part. We believe the RBNZ should cut rates by 50bps, with at least 25bps of this coming at the March Monetary Policy Statement. We see little prospect of policy restarting a process of normalisation until 2012.

INTEREST RATE STRATEGY

The Christchurch earthquake has fundamentally altered the economic picture, snuffing out any chance of the recovery earlier anecdotes were pointing to. As a result, we have abandoned our call for gradual rate rises from Q3 this year, and instead we now expect the RBNZ to cut the OCR and not tighten until 2012. But it's fiscal policy and the on the ground response that will do most of the heavy lifting, placing pressure on Crown finances at a time when the Government was looking to tighten the purse strings.

CURRENCY STRATEGY

The disaster in Christchurch has overshadowed all other events globally from a NZ perspective. The NZD will be torn between a negative bias from the earthquake and the ongoing improvement in our terms of trade. The Irish election has seen a dramatic shift away from the reigning Fianna Fail. Rhetoric from the successful parties suggests a move to "burden sharing" with senior debt holders, which may undermine the EUR. China's new and lower 7 percent GDP growth target for the period to 2015 could weigh on the AUD.

ECONOMIC OVERVIEW

SUMMARY

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THIS WEEK'S EVENTS

- **National Bank Business Outlook – February** (Monday, February 28, 3:00pm).
- **RBNZ Credit Aggregates – January** (Monday, February 28, 3:00pm). Deleveraging by the household and agriculture sectors will remain the dominant theme. We are looking for further increases in business credit.
- **SNZ Overseas Trade Indexes – 2010Q4** (Tuesday, March 1, 10:45am). A 3 percent increase in the terms of trade is expected. We expect a 1 percent increase in export volumes, with import volumes increasing by 5 percent.
- **ANZ Commodity Price Index – February** (Tuesday, March 1, 3:00pm).
- **globalDairyTrade online auction** (Wednesday March 2, 6:00am). We expect whole milk powder prices to stabilise around the US \$4,300/tonne level.
- The following releases were due this week, but have been delayed until further notice by the Christchurch earthquake:
 - **SNZ Building Consents – January.** The number of residential consents is expected to rise a seasonally adjusted 10 percent from very weak December levels. Non-residential consent values are expected to remain around the \$350m mark.
 - **SNZ International Travel and Migration – January.** A net permanent and long-term migration inflow of 700 persons is expected. Visitor arrivals are envisaged to increase by at least 1 percent.

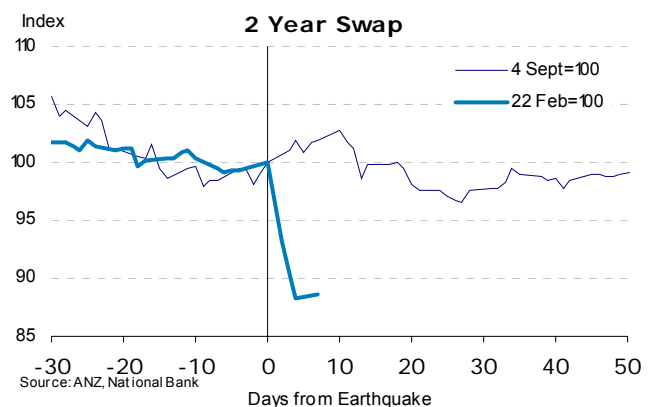
- **SNZ Value of Building Work Put in Place – 2010Q4.** The volume of residential and non-residential work is expected to decline 3 percent.

WHAT'S THE VIEW?

Last Tuesday's earthquake in Christchurch was a national disaster of epic proportions. On page 5 we summarise the key takeouts of our research on the impacts of the quake. It makes for sober reading and illustrates some of the challenges faced.

It is impossible to be precise at this juncture regarding the impact. Suffice to say it's very bad, it's very big, and it will endure for some time.

The earthquake has naturally led to a huge change to our economic assessment. Prior to the quake there were signs that the economy was gathering momentum – our inflection point thesis. But the earthquake has effectively put paid to an early 2011 recovery. It has raised the likelihood (we'd go so far as saying it is almost a certainty) of a fall in GDP in Q1, and ongoing weakness cannot be ruled out if the negative impacts off the quake prove more enduring. We are back to square one in terms of the rebuild effort, and we do not expect signs of a construction sector recovery to be evident until well into the second half of this year. The broader impacts on the economy are more difficult to estimate. But they will be negative, substantial, and long lasting.



Fiscal policy needs to do the initial heavy lifting in response. We've seen proactive signs so far including invoking a national state of emergency: this is hardly comforting but gives scope for fast-tracking decisions, which is critical at this juncture. **We expect a sizable fiscal package to be announced soon and believe it is critical that something substantial is delivered.** There are concerns over a credit downgrade. In our mind this is a second order consideration and Tuesday's events will make one difficult to avert. Ratings agencies

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have announced the normal wait and see approach but it's hard to see how we can avoid a downgrade, given we were already on negative outlook by two agencies. The Government has a big balance sheet: \$220 billion of assets and net debt is below 20 percent of GDP. Now is the time to make greater use of this balance sheet – even more so than the support provided during the GFC.

We expect the RBNZ to cut the OCR in March.

We are seeing a co-ordinated approach by businesses and Government. It is hard to see the RBNZ not coming to the party. Whether it's a 25 basis point cut or 50 is irrelevant – it's about sending a signal that policymakers are on the ball. While there is no clear prescribed policy response to such a shock, and taking a wait and see approach can be appealing, the RBNZ have an important role to play in restoring (or at least stabilising) confidence. Governor Bollard noted at the start of the year that greater consumer caution could lead them to reassess monetary conditions: Tuesday's event has surely cemented such caution.

Financial markets have responded appropriately to events. The NZDAUD is down 2.4 percent, the NZDUSD down 1.0 percent and interest rate markets have swung 180 degrees and now expect a cut in the OCR and little prospect of it moving higher till 2012. We concur with that.

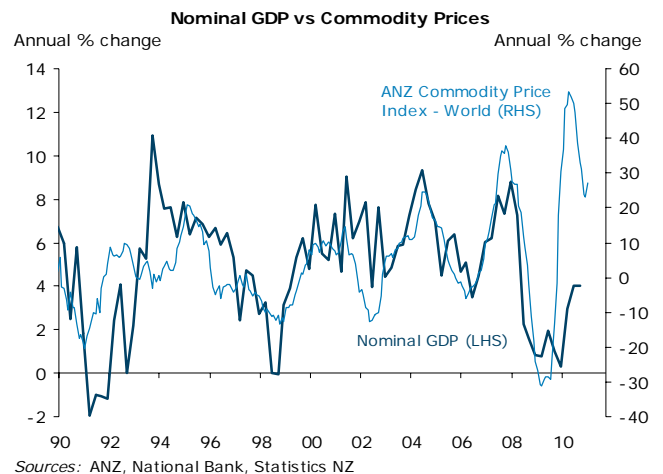
The market response is testament to the critical importance of the current policy regime including an independent central bank and floating currency. Heaven help NZ.Inc if we heed the calls of those calling for a fixed exchange rate. We'd really be in a pickle. The current framework is far from perfect but its response to events is exactly why it is superior to the alternatives.

The economy now faces not just one structural adjustment (rebalancing) but two, and there will be tensions between them. We've written at length about the broad rebalancing process for NZ.Inc, which includes deleveraging, the physical re-mobilisation of capital and labour as the economy seeks more balanced growth, and how this transition will result in a lower trend growth rate.

In some ways Tuesday's events will assist the adjustment: the currency has fallen, shifts in household behaviour will be accentuated and policy initiatives will be put in place more quickly. **In general, however, the rebalancing of the New Zealand economy has been pushed back, with growth more reliant on policy stimulus and borrowing rather than income generation.** We are looking for more monetary relief; the rebuild will chew up massive pools of domestic labour; and we've

no choice but to re-leverage more via fiscal policy to repair the destroyed capital stock. **The interaction of such dynamics will accentuate tensions within the economy.** This will make it particularly hard for the Reserve Bank and Government for years to come. There will be few easy decisions.

While the earthquake was a showstopper, there are still positive signs out there and it would be amiss not to take a glass half full approach. The 60 cent per kg/ms lift in the milk price payout by Fonterra is set to provide an \$800m boost to rural incomes and provide impetus to the necessary rebalancing of the New Zealand economy. This week's *globalDairyTrade* online auction is expected to emphasise the good news story, with whole milk powder prices likely to remain around mid-February peaks. The ANZ Commodity Price index for February is expected to reinforce the good news story for the earnings side of the economy. Earthquake rebuilding when it does arrive will provide a significant boost, and the Rugby World Cup is a little more than six months away. **The "springboard" effect we'd previously talked about is set to be even bigger.** **When growth kicks in it will be off a lower base, with more policy stimulus underpinning it and with a longer pipeline ahead of it.** But to many, this will be cold comfort. We'll be emerging out of a far deeper hole.

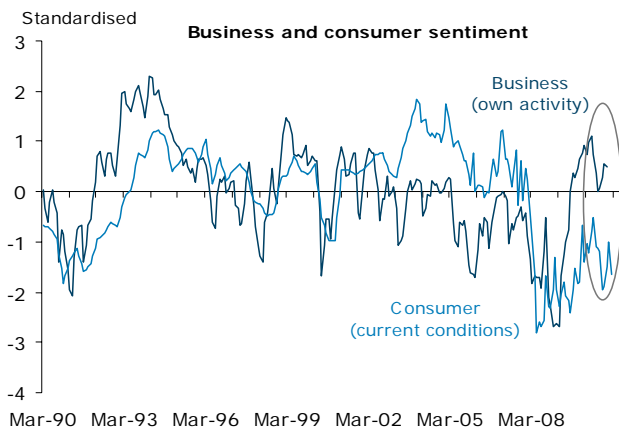


This will create some issues for policymakers, including the RBNZ. One could argue that a focus on the medium term, including pending capacity issues, could see them stick to holding the OCR in March. We don't buy into this, as we are not sure the RBNZ would want to look back 10 years down the track at their sole contribution to supporting the economy following our biggest natural disaster having been to ensure that ATMs are adequately stocked with cash. This is not a dig at the RBNZ. They support the financial system in a huge number of critical areas. **But not using your primary**

ECONOMIC OVERVIEW

policy instrument following such as large disaster doesn't pass the smell test. For sure, at some stage, with higher demand, a limited margin of spare capacity and a worrisome short-term inflation trajectory, **the OCR will eventually need to move higher – and cutting in 2011 implies the first move up in 2012 may well be a 50 bp move.**

Earthquake impacts will make interpretation of data for the next few months extremely difficult. Soft leading gauges will provide some directional assistance and we'll be paying close attention to business confidence and consumer confidence over the coming months. Today we release the National Bank Business Outlook for February, but given that the results preceded the quake the results are already out of date. Nonetheless, they'll provide some guide as to what sort of momentum the economy had in early 2011.



Source: ANZ, National Bank, Roy Morgan, Westpac McDermott Miller

Today's January credit aggregates will provide a stock-take on the deleveraging dynamic. We have not seen much to suggest households are about to throw caution to the wind, with January property market activity very weak indeed. Agricultural credit should also remain subdued. On a more positive note, the lift in business credit since November suggests firms are getting on with it and starting to rebuild capacity. This is encouraging. The risk is that businesses now retreat back into their shells, which will only compound near-term weakness.

Tomorrow's Overseas Trade Indexes are expected to show the good news story for NZ.Inc, with the terms of trade having increased by 3 percent in Q4. Higher primary sector exports are likely to see a small increase in overall export volumes. However, large increases in transport imports are expected to underpin a 5 percent increase in import volumes, with a negative net export contribution to Q4 growth pending.

RECENT LOCAL DATA

- **SNZ Merchandise Trade – January 2011.** A monthly merchandise trade surplus of \$11m was recorded, with the annual trade surplus narrowing to \$865m.
- **RBNZ Credit Card Statistics – January 2011.** The value of total billings increased by 3.8 percent (s.a) to be 5.6 percent higher than 12 months earlier. Spending on domestic cards jumped 3.9 percent (s.a.), with spending on overseas cards up 2.9 percent (s.a.).
- **RBNZ Survey of Expectations – 2011Q1** Expected inflation 2-years ahead ticked up to 2.64 percent from 2.6 percent. One-year-ahead CPI inflation expectations fell to 2.9 percent (from 3.4 percent).

THE CHRISTCHURCH EARTHQUAKE

SUMMARY

Early estimates of the direct cost of the earthquake in terms of destroyed infrastructure and buildings are in the order of \$10 billion, with higher numbers mooted. We are leaning towards the high side. Our expectations of the economy being at a turning point in Q1 2011 have been pushed out by six months, with the quake likely to knock up to 1 percent off GDP in the first half of 2011. We are also back to square one in terms of the rebuild effort, but the reconstruction, once it gets underway, will be bigger than *Ben Hur* and will support growth from 2012. The broader impacts on the economy are more difficult to estimate. But they will be negative, substantial and long lasting. Monetary policy plays second fiddle to fiscal policy in events like this, but should still do its part. The RBNZ has every justification to cut the OCR but needs to do so in a manner than will support confidence. We believe the RBNZ should cut rates by 50bps, with at least 25bps of this coming at the March *Monetary Policy Statement*. We see little prospect of policy restarting a process of normalisation until 2012.

The following is a synopsis from our initial reaction to the Christchurch quake, which we released last Thursday. The situation continues to evolve (and damage estimates rise). A copy of the full report is available by emailing bagriec@anz.com

THE STATE OF PLAY

At 12:51pm on Tuesday February 22, a magnitude 6.3 earthquake occurred 10km south-east of Christchurch. While this was smaller than the magnitude 7.1 earthquake that struck on September 4 last year, its shallower depth (focal depth of 5km versus 10km) and closer proximity to Christchurch (10km versus 40km) created more significant damage to Christchurch City. Other areas in the Canterbury region were less affected, with rural areas relatively unscathed.

Initial assessments have largely been contained to key infrastructure and the CBD. But beyond this, key parts of the city and the Eastern suburbs have been materially damaged. Significant disruptions were suffered to roads, telecommunications, Lyttleton Port, electricity and water supplies.

Early estimates put the cost of the earthquake at between \$5 and \$12 billion. The final bill could easily be towards the top end of this range. **Simple bottom up estimates suggest something past \$12 billion.**

THE ECONOMIC IMPACT

Christchurch City accounts for roughly two-thirds of the Canterbury region, and is New Zealand's second largest city. As a rough guide we estimate the Christchurch economy accounts for around a tenth of New Zealand's GDP.

Estimates for key metrics (2010 year)	Canterbury region	% of NZ
Regional GDP (\$b)	27	15
Population (000)	566	13
Number of business enterprises (000)	65	13
Retail sales (\$b)	8.5	13
Employment (000)	335	15
House Sales	7903	14
Expenditure by international visitors (\$b)	1.5	16
Expenditure by domestic visitors (\$b)	1.8	14
Visitor guest nights (m)	5.1	16
Overseas visitor guest nights (m)	2.4	18
Value of sea freight (\$b)	7.2	10
Value of air freight (\$b)	2.1	14
Passenger movements at Christchurch Airport (000)	1578	17

Sources: ANZ, National Bank, Tourism Research Council, NZIER, REINZ, Statistics NZ.

There are three broad channels by which the earthquake will influence the economy.

- The near-term hit to GDP.
- The rebuild, which will be a large undertaking and take years.
- The interaction between the headwinds that will arise from the earthquake, and the rebuild and policy response.

There will be an immediate direct negative impact on 2011 Q1 GDP from the disruptions caused by the earthquake, which we estimate to be at least 0.5 percent and more than likely up to 1 percent. There is now a high probability of a negative quarter for March GDP. Depending on how quickly things get back to normality, this weakness could easily flow into Q2.

Our previously held view for 2011 was that the economy was at an inflection point. Prospects in 2011 were looking fundamentally better than the close of 2010. Some of the key themes still apply: financial conditions are supportive, commodity prices are at record highs and the global economy is recovering nicely. 2011 looks to have a better base than how 2010 closed, but the earthquake is a game-changer.

THE CHRISTCHURCH EARTHQUAKE

When the circumstances change, so must our economic view. Our expectations of the economy being at a positive turning point in Q1 2011 have been pushed out by six months. We are back to square one in terms of the rebuild effort. There will be significant unavoidable bureaucratic delays from here, although experience and resources on the ground from the last earthquake will help.

The estimated cost of last year's September 4 earthquake is around \$5 billion. If we add on the cost of Tuesday's earthquake of at least \$10 billion, then **we are looking at a sizeable rebuilding effort of at least \$15 billion, which is equivalent to 8 percent of GDP or approximately 2.5 percent of the nation's capital stock. The estimates seem to be rising by the day and are likely to exceed the estimates we have here.**

The non-monetary cost is likely to be far more significant.

There is currently an abundance of construction resources to absorb the initial stages of the recovery process. Residential building consents issued last year totalled only 15,500, and the pipeline for non-residential work is relatively short. **But the story gets trickier beyond one year.** That rate of building consent issuance is opening up supply-demand imbalances, particularly in Auckland.

When we look at the potential rebuild requirement, and what the industry can feasibly absorb each year, we are talking an extended multi-year reconstruction process. This is going to impact not only on the rate of GDP itself (we assume a 1 percent boost to GDP for the next five years at least), but also on the mix of growth. **Essentially, for the economy to meet this demand for resources, output will have to be sacrificed elsewhere.** Mechanisms by which this will occur include higher prices for construction-related labour and capital, and the reshuffling of government spending.

While the rebuild will act to boost economic activity once it gets underway, there is uncertainty over the timing. Reconstruction efforts from last year's earthquake had already hit delays, and the extensive nature of this week's quake suggests it may not be until Q3 2011 that major work can really get underway. With the EQC still processing claims from the September earthquake (126,000 of 183,000 claims paid out so far, totalling \$0.8 billion), we should not kid ourselves into thinking that it will not be a long and hard road ahead. If severe aftershocks continue, it will further delay any rebuilding effort. **We expect the reconstruction effort, once it gets underway, to take a number of years.**

A basic analysis of the earthquake's economic impact suggests a negative near-term hit, followed by a boost to activity. **But there are also other interactions to bear in mind. The earthquake has adversely affected balance sheets.**

Insurance will mitigate the losses to some extent, but higher insurance premiums and more uninsurable premises are likely to be the result. Intra-regional migration patterns are going to change enormously. This will provide huge structural challenges to policymakers. The earthquake is also likely to deliver a further hit to residential property values and household balance sheets in the region, weighing on consumer spending. **For a lot of businesses, Tuesday's event is going to be the last straw.** Even those that survive have limited prospects for an exit strategy with few willing buyers.

There remain lots of unanswered questions and considerable uncertainties over how authorities, firms, households and tourists will respond. Our core view is that H1 2011 growth will be negative, coming off a flat H2 2010. While we still expect growth to pick up in H2 2011, and for activity to be supported throughout 2012 and into 2013 from the reconstruction effort, it won't be the feel-good kind of growth. This highlights the inadequacy of GDP as a measure of economic well-being – it does not capture the hit to the nation's wealth.

FISCAL POLICY IMPLICATIONS

The financial burden of the earthquake will be massive. **Exactly who shoulders the burden of the earthquake depends on what is damaged, and whether it is insured.** The more public buildings, houses and infrastructure damaged, the larger the burden on the Crown.

So far, the EQC has made \$0.8 billion of claims relating to the September quake, leaving at least \$4.6 billion of assets, giving it ample capacity to absorb the claims that will arise from Tuesday's quake. **As such, we do not expect a fire sale of EQC assets.** The real issue for the Crown is if the damage to insured residential property exceeds \$4 billion (i.e. the EQC's \$1.5 billion plus the \$2.5 billion from reinsurance). Anything above this figure, as well as damage to national infrastructure and public buildings, is the Crown's liability.

Fiscal policy needs to do most of the heavy lifting in response to a natural disaster. We expect such action. **Unfortunately, the earthquake has come at a time when the Crown was looking at ways to consolidate fiscal policy.** Indeed, *Budget 2011* was intended to be all about savings and investment. Tuesday's earthquake has

THE CHRISTCHURCH EARTHQUAKE

effectively put paid to this. Not only is the Crown going to be liable for damage over and above what the EQC and reinsurance covers, but the reduction in tax revenue from weaker economic activity will make it difficult for the Crown to return to surplus earlier than planned. **A much slower return to surplus will be the end result** (possibly 2016/17, as opposed to 2013/14, which was previously flagged). A credit rating downgrade will be difficult to avert. However, focus should be on using the Crown balance sheet to support the economy and finance rebuilding rather than tightening policy settings to try to avert a downgrade.

The fiscal policy response needs to be more than a direct cash and balance sheet response. There are going to be strategic challenges related to the rebuild that will require some outside the square thinking. **One challenge is to find the necessary skills and labour for the rebuilding effort.**

Challenges here will include competition with the Queensland flood rebuild effort. While construction-related demand will be abundant in Christchurch for years, mobilising resources will have a tangible impact on other regions and sectors of the economy.

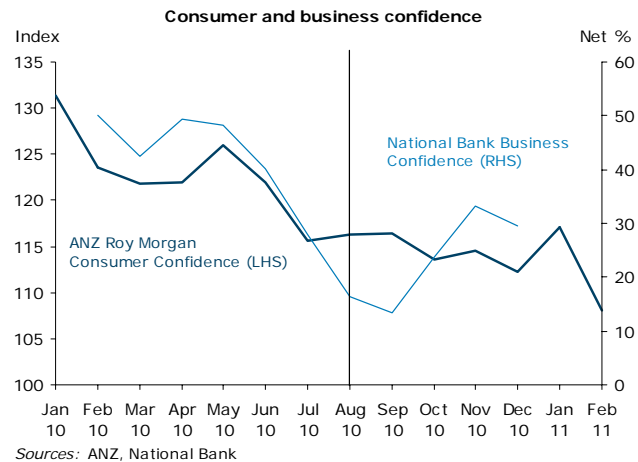
While the initial focus is at the macroeconomic level, attention needs to turn immediately to microeconomic issues. Front and centre are pending resource issues that will hobble future economic performance if not addressed from the supply side. We favour greater incentives to encourage people into skills-based training such as core trades. There is certainly a large pool of idle labour – typically of younger age cohorts – that should be mobilised into meeting rebuild demands via apprenticeships and the like. NZ (and Christchurch) faces a huge multi-year adjustment period. Now is not the time to dilly-dally on the policy front.

MONETARY POLICY IMPLICATIONS

The immediate priority for the RBNZ has been the availability of critical financial services and liquidity provision. The RBNZ has already responded, coordinating with the Government's National Crisis Management Centre, and stands ready to act further via its cash reserves and cash issuance.

A strong fiscal policy response takes some pressure off the RBNZ (and calls for emergency OCR cuts). Fiscal policy – via infrastructure and welfare assistance – represents a more direct and efficient mechanism to deliver support than lowering the OCR. **Nevertheless, the RBNZ still has every justification it needs to cut the OCR,** and we believe they should cut at the March *Monetary Policy Statement*. Tuesday's events will have delivered a

sizeable hit to consumer and business confidence, and a carefully worded statement and 25 basis point cut – at a minimum – will help improve sentiment (or help prevent a pending plunge in confidence).



For now, inflation concerns should take a back seat. Under clause 3(a) of the Policy Targets Agreement, the RBNZ have scope to accommodate temporarily higher prices associated with natural disasters. We believe they will utilise the greater amount of flexibility afforded to them.

The risk of falling behind the curve will be of secondary importance. The RBNZ has taken a lot of comfort from the shape of the yield curve and the falling average duration of fixed rate mortgages, with more and more people on floating rates. Cutting appears a low-risk strategy that, if required, could be reversed quickly.

FINANCIAL MARKET IMPLICATIONS

Financial markets have responded quickly and far more vigorously than to the September quake. The NZD has fallen and the market is now expecting a 25 basis point cut in the OCR in March and the possibility of a further cut. As such, delivering on market expectations with a 25bp cut and leaving the door open to more (but contingent on confidence and inflation) may well be the path of least resistance for the RBNZ. With the OCR potentially heading lower, short-end interest rates have scope to continue to move lower. At the moment the 2 year swap is around 3.37 percent, as opposed to 3.80 percent at the start of last week. With the OCR likely to remain at low levels through the remainder of this year, the 2-year swap rate is likely to move lower still. Not surprisingly, a lower OCR and signalling by the RBNZ to remain on hold for some time would lead to further steepening of the yield curve – which, ironically, should give the RBNZ more comfort in cutting the OCR.

INTEREST RATE STRATEGY

SUMMARY

The Christchurch earthquake has fundamentally altered the economic picture, snuffing out any chance of the recovery earlier anecdotes were pointing to. As a result, we have abandoned our call for gradual rate rises from Q3 this year, and instead we now expect the RBNZ to cut the OCR and not tighten until 2012. But it's fiscal policy and the on the ground response that will do most of the heavy lifting, placing pressure on Crown finances at a time when the Government was looking to tighten the purse strings. At the margin, this is a negative for bonds.

MARKET THEMES

- Last week's Christchurch earthquake was a game changer. Although fiscal policy and emergency assistance will do most of the heavy lifting, monetary policy has a role to play.
- Rates can still go lower yet. But we've already seen a large move, and the key judgement the market needs to make is the speed of the eventual normalisation of policy.
- Fiscal policy and the Crown's financial position will increasingly come into focus. A credit rating downgrade seems likely. But the market can take this in its stride.

REVIEW AND OUTLOOK

Interest rates have been quick to react to the earthquake. Indeed, in the past 6 days the market has moved from pricing in hikes from Q3 to pricing in a cut of at least 25bps in March. In our view, this is fully justified – whereas we were encouraged by some of the anecdotes we had been receiving over the past six weeks, and looking for the rebuild following the September 4th earthquake to provide stimulus, we now have to consider the consequences of an earthquake that has taken roughly 10 percent of the economy out of action.

But cool heads must prevail. **It's appropriate for the RBNZ to wait until the MPS before cutting. Disaster relief is all about an on the ground response, not monetary policy.** Furthermore, estimates of the impact are patchy, but we will have a better idea by next week, allowing a more considered response.

The main thing to be aware of is how much lower rates can go. **At the moment, the market is only toying with 50bps of cuts,** with policy normalising from June. We think this is nonsense, and as a longer period of policy on hold gets priced in, rates will fall further. But with fiscal policy doing plenty of work, bonds will likely underperform.

PREFERRED BORROWING STRATEGIES

For smaller borrowers and those making one-off decisions, we see little point in adding to hedge cover using swaps until we get a clearer idea of the scale of the devastation of the Christchurch quake, and the impact it will have on monetary and fiscal policy. This is not just because the scale of the impact seems to worsen by the day, but also because the quake was such an economic climate game-changer that we'd urge borrowers to consider what impact the quake will have on their business before making hedge decisions. However, larger borrowers with a portfolio of hedges may view the recent fall in rates as an opportunity, and given how far rates have fallen, it may be prudent to do so. But to be frank, we do think the entire term structure of swap rates will ratchet lower yet. The 2yr has gone a long way, but the 3-5yr part of the curve can go lower if the market prices in a more delayed normalisation of policy. We still like options, but volatility has increased, making them more expensive than they were last week.

GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔/↓	We expect the RBNZ to cut the OCR in March and April.
NZ data	↔/↓	Historic data remains poor, and the earthquake means 2011 will be just as bad.
Fed Funds / front end	↔	Fed remains comfortably on hold. Data is improving.
RBA	↔/↓	RBA on hold. Not a factor.
US 10 year	↔	Data suggests higher yields, but can't ignore safe haven bid. Watch the Middle East.
NZ swap curve	↔/↑	Substantial further steepening in store.
Flow	↔/↓	The only pay flow has been longs taking profit.
Technicals	↔	2yr break through 3% looks to be a big ask initially.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Mar-11	0	-28
Thu 28-Apr-11	0	-33
Thu 9-Jun-11	+2	-36
Thu 28-Jul-11	+9	-33
Thu 15-Sep-11	+15	-32
Thu 27-Oct-11	+25	-30
Thu 8-Dec-11	+36	-21

TRADING THEMES WE FAVOUR AT PRESENT

Broadly speaking we continue to favour being long, particularly at the short end. Indeed, with two rate hikes on their way and global long bonds yields in a higher trading range, the curve is set to continue steepening. Swap spreads are also likely to invert further as the quake both defers the eventual normalisation of monetary policy, and puts pressure on the Crown fiscal position.

CURRENCY STRATEGY

SUMMARY

The disaster in Christchurch has overshadowed all other events globally from a NZ perspective. The NZD will be torn between a negative bias from the earthquake and the ongoing improvement in our terms of trade. The Irish election has seen a dramatic shift away from the reigning Fianna Fail. Rhetoric from the successful parties suggests a move to "burden sharing" with senior debt holders, which may undermine the EUR. China's new and lower 7 percent GDP growth target for the period to 2015 could weigh on the AUD.

MARKET THEMES

- Christchurch earthquake undermines NZD but terms of trade still supportive.
- Uncertainty surrounding the policy direction of the new Irish government could weigh on EUR.
- China authorities shift focus from export economy to consumer economy.
- Libyan tensions cause oil to spike.
- US GDP data disappointed but confidence indicators continue to improve.

REVIEW AND OUTLOOK

The Christchurch earthquake has changed the landscape for the NZD. While it appears to have performed well, only falling by about 1 percent against the USD, the decline against other currencies has been more marked. NZDAUD fell below 0.74. The relative efficiency of the currency markets means the negative effects of the earthquake are largely priced. Looking forward, NZ still has an improving terms of trade with global food prices continuing to hold up well.

The Irish election has seen a landslide shift away from the incumbent Fianna Fail party.

While it is still very early days, some discussion regarding "burden sharing" the cost of debt recovery with senior bondholders may serve to undermine the EUR in the short term.

US data has been mixed during the last week.

With GDP data coming in weaker than expected but forward looking indicators showing improvement, the FX market remains confused about the USD. With uncertainty the markets tend to continue the trend.

China has revised its 5 year GDP growth target to 7 percent.

They also want a shift in focus from being an export driven to domestic consumer driven economy. The potential impact on the AUD is uncertain but with the AUD already overvalued, it is likely to weigh on the currency. Increased domestic

demand in China could benefit the NZ economy however, raising demand for food products.

The situation in Libya continues to deteriorate causing oil to spike about US\$10 to well over US\$100 per barrel. Gaddafi seems more determined to "dig in" than other former heads of state in the region, so we may see these elevated oil prices for an extended period.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Below fair value.
Yield	↓	NZ markets pricing in RBNZ rate cuts.
Commodities	↑	Soft commodities continue to rise.
Partial indicators	↓	Anaemic NZ data continues and this was before the earthquake.
Technicals	↔	Support at 0.7480 and 0.7400.
Sentiment	↓↔	Earthquake has dented NZD sentiment.
Other	↑	Terms of trade continue to support.
On balance	↔	0.7350 - 0.7500 range.

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	↓	Higher US bond yields whereas NZ's turn lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔	Political instability drives USD higher.
Partial indicators	↔/↓	US data improves while NZ still anaemic.
Technicals	↔	Rangebound with negative bias.
AUD	↓	AUD sentiment turned bearish.
Sentiment	↓	Earthquake has dented NZD sentiment.
Other	↑	Terms of trade continue to support.
On balance	↔	Earthquake sentiment counteracting corporate support for NZD.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
28-Feb	NZ	Trade Balance - JAN	-25M	-250M	10:45
	NZ	Exports - JAN	3.62B	3.80B	10:45
	NZ	Imports - JAN	3.37B	4.05B	10:45
	AU	TD Securities Inflation MoM% - FEB	-	0.40%	12:30
	AU	TD Securities Inflation YoY% - FEB	-	3.40%	12:30
	JN	Industrial Production (MoM) - JAN P	4.00%	3.30%	12:50
	JN	Industrial Production YOY% - JAN P	6.00%	4.90%	12:50
	JN	Retail Trade MoM SA - JAN	2.70%	-4.10%	12:50
	JN	Retail Trade YoY - JAN	-1.50%	-2.00%	12:50
	AU	CBAHIA House Affordability - 4Q	-	54.4	13:00
	AU	Company Operating Profit QoQ% - 4Q	1.00%	-1.50%	13:30
	AU	Inventories - 4Q	-0.50%	-0.80%	13:30
	AU	Private Sector Credit MoM% - JAN	0.30%	0.20%	13:30
	AU	Private Sector Credit YoY% - JAN	3.20%	3.40%	13:30
	AU	RP Data-Rismark House Px MoM NSA - JAN	-	-0.70%	13:30
	NZ	NBNZ Activity Outlook - FEB	-	34.5	15:00
	NZ	NBNZ Business Confidence - FEB	-	29.5	15:00
	NZ	Money Supply M3 YoY - JAN	-	1.80%	15:00
	GE	Import Price Index (MoM) - JAN	1.10%	2.30%	20:00
	GE	Import Price Index (YoY) - JAN	11.20%	12.00%	20:00
	EC	Euro-Zone CPI - Core (YoY) - JAN	1.20%	1.10%	23:00
	EC	Euro-Zone CPI (MoM) - JAN	-0.60%	0.60%	23:00
	EC	Euro-Zone CPI (YoY) - JAN	2.40%	2.40%	23:00
1-Mar	US	Personal Income - JAN	0.40%	0.40%	02:30
	US	Personal Spending - JAN	0.40%	0.70%	02:30
	US	PCE Core (YoY) - JAN	0.80%	0.70%	02:30
	US	Chicago Purchasing Manager - FEB	67.5	68.8	03:45
	US	NAPM-Milwaukee - FEB	59.9	57	04:00
	US	Pending Home Sales MoM - JAN	-2.30%	2.00%	04:00
	US	Dallas Fed Manf. Activity - FEB	12.6	10.9	04:30
	NZ	Terms of Trade Index (QoQ) - 4Q	-	3.00%	10:45
	AU	AiG Performance of Mfg Index - FEB	-	46.7	11:30
	JN	Jobless Rate - JAN	4.90%	4.90%	12:30
	AU	Current Account Balance - 4Q	-7000M	-7830M	13:30
	AU	Australia Net Exports of GDP - 4Q	0.1	-0.4	13:30
	AU	Retail Sales s.a. (MoM) - JAN	0.30%	0.20%	13:30
	CH	PMI Manufacturing - FEB	52.1	52.9	14:00
	NZ	ANZ Commodity Price - FEB	-	3.80%	15:00
	CH	HSBC Manufacturing PMI - FEB	52.5	54.5	15:30
	AU	RBA CASH TARGET - MAR	4.75%	4.75%	16:30
	JN	Vehicle Sales (YoY) - FEB	-	-22.00%	18:00
	AU	RBA Commodity Index SDR YoY% - FEB	-	48.70%	18:30
	UK	Nat'wide House prices sa (MoM) - FEB	-0.20%	-0.10%	20:00
	UK	Nat'wide House prices nsa(YoY) - FEB	-0.20%	-1.10%	20:00
	GE	Unemployment Change (000's) - FEB	-18K	-13K	21:55
	GE	Unemployment Rate (s.a) - FEB	7.40%	7.40%	21:55
	GE	PMI Manufacturing - FEB F	62.6	62.6	21:55
	EC	PMI Manufacturing - FEB F	59	59	22:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Mar	UK	PMI Manufacturing - FEB	61	62	22:30
	UK	Mortgage Approvals - JAN	42.9K	42.6K	22:30
	UK	M4 Money Supply (MoM) - JAN	- -	-1.30%	22:30
	UK	M4 Money Supply (YoY) - JAN	- -	-1.50%	22:30
	EC	Euro-Zone CPI Estimate (YoY) - FEB	2.40%	2.40%	23:00
	EC	Euro-Zone Unemployment Rate - JAN	10.00%	10.00%	23:00
2-Mar	US	ISM Manufacturing - FEB	60.8	60.8	04:00
	US	ISM Prices Paid - FEB	83	81.5	04:00
	JN	Monetary Base (YoY) - FEB	- -	5.50%	12:50
	AU	HIA New Home Sales (MoM) - JAN	- -	-0.60%	13:00
	AU	Gross Domestic Product (QoQ) - 4Q	0.60%	0.20%	13:30
	AU	Gross Domestic Product (YoY) - 4Q	2.60%	2.70%	13:30
	US	Fed's Beige Book -			18:00
	UK	PMI Construction - FEB	52.8	53.7	22:30
	EC	Euro-Zone PPI (MoM) - JAN	1.10%	0.80%	23:00
	EC	Euro-Zone PPI (YoY) - JAN	5.70%	5.30%	23:00
3-Mar	US	Challenger Job Cuts YoY - FEB	- -	-46.10%	01:30
	US	ADP Employment Change - FEB	180K	187K	02:15
	AU	AiG Performance of Service Index - FEB	- -	45.5	11:30
	UK	Hometrack Housing Survey (MoM) - FEB	- -	-0.50%	13:01
	UK	Hometrack Housing Survey (YoY) - FEB	- -	-2.20%	13:01
	AU	Building Approvals (MoM) - JAN	-3.30%	8.70%	13:30
	AU	Building Approvals (YoY) - JAN	-6.60%	-5.00%	13:30
	AU	Trade Balance - JAN	1550M	1981M	13:30
	CH	China Non-manufacturing PMI - FEB	- -	56.4	14:00
	CH	China HSBC Services PMI - FEB	- -	- -	15:30
	GE	Retail Sales (MoM) - JAN	0.50%	-0.30%	20:00
	GE	Retail Sales (YoY) - JAN	1.70%	-1.30%	20:00
	GE	PMI Services - FEB F	59.5	59.5	21:55
	EC	PMI Composite - FEB F	58.4	58.4	22:00
	EC	PMI Services - FEB F	57.2	57.2	22:00
	UK	PMI Services - FEB	53.7	54.5	22:30
	UK	Official Reserves (Changes) - FEB	- -	-\$384M	22:30
	EC	Euro-Zone GDP s.a. (QoQ) - 4Q P	0.30%	0.30%	23:00
	EC	Euro-Zone GDP s.a. (YoY) - 4Q P	2.00%	2.00%	23:00
	EC	Euro-Zone Retail Sales (MoM) - JAN	0.30%	-0.60%	23:00
	EC	Euro-Zone Retail Sales (YoY) - JAN	0.00%	-0.90%	23:00
4-Mar	EC	ECB Announces Interest Rates - MAR	1.00%	1.00%	01:45
	US	Initial Jobless Claims - 26 Feb	395K	391K	02:30
	US	Continuing Claims - 19 Feb	3845K	3790K	02:30
	US	Nonfarm Productivity - 4Q F	2.60%	2.60%	02:30
	US	ISM Non-Manf. Composite - FEB	59.4	59.4	04:00
5-Mar	US	Change in Nonfarm Payrolls - FEB	190K	36K	02:30
	US	Change in Private Payrolls - FEB	200K	50K	02:30
	US	Change in Manufact. Payrolls - FEB	25K	49K	02:30
	US	Unemployment Rate - FEB	9.10%	9.00%	02:30
	US	Factory Orders - JAN	2.00%	0.20%	04:00

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: Last week's earthquake was a game changer and is likely to delay the recovery by at least 6 months, if not longer. We expect the RBNZ to cut the OCR by 25 basis points in the March MPS, with another 25 basis point cut in April.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 28 Feb (3:00pm)	NBNZ Business Outlook – Feb	- -	- -
Mon 28 Feb (3:00pm)	RBNZ Credit Aggregates – Jan	Still deleveraging	The focus on balance sheet repair is expected to continue. Watch business lending for further signs of improvement.
Tue 1 Mar (10:45am)	Overseas Trade Indexes – 2010Q4	Higher	A 3 percent increase in the terms of trade is expected. Stronger primary exports will be offset by surging transport imports, leading to a negative net export contribution to Q4 growth.
Tue 1 Mar (3:00pm)	ANZ Commodity Price Index- Feb	- -	- -
Wed 2 Mar (6:00am)	<i>globalDairyTrade</i> online auction	Firm	We expect a consolidation of whole milk powder prices of around US \$4,300 per tonne.
Delayed	External Migration – Jan	Steady	A monthly net PLT inflow of around 700 persons is expected. Visitor arrivals should benefit from more Chinese visitors.
Mon 7 Mar (10:45am)	Wholesale Trade – 2010Q4	Flat	Weak retail volumes suggest a flat quarter at best.
Delayed	Value of Building Work Put in Place – 2010Q4	Down	We expect a 3 percent fall in residential volumes, with non-residential volumes falling by a similar magnitude. Larger falls will raise the possibility of a negative Q4 GDP read.
Tue 8 Mar (10:45am)	Economic Survey of Manufacturing – Q4	Up	We expect Q4 manufacturing volumes to increase by around 1 percent. Risks look higher and are required if a positive read on Q4 GDP is to be achieved.
Wed 9 Mar (10:45am)	Electronic Card Transactions - Feb	Cash is king	We expect a fall in retail ECT spending levels from the strong January result, largely on account of Earthquake disruptions.
Thur 10 Mar (9:00am)	RBNZ March MPS	Cut	We are expecting a 25 basis point cut in the OCR. A 50 point cut cannot be ruled out.
Thur 10 Mar (10:30am)	BNZ Business NZ PMI – Manufacturing - Feb	Down	The Christchurch earthquake impact will be evident. Production gauges are expected to move well below 50.
Fri 11 Mar (10:45am)	Food Price Index - Feb	Flat	No change in monthly food prices is expected, but food prices are likely to move higher in the coming months.
Mon 14 Mar (10:00am)	REINZ housing market report - Feb	Down	We expect a 5 percent fall in volumes. Ex-Canterbury sales are expected to tick up slightly from low levels, with Canterbury volumes sales down one-third. Prices to continue trending lower.
Thur 17 Mar (3:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Mon 21 Mar (10:45am)	Overseas Travel and Migration – Feb	Easing	A lower monthly net PLT inflow of around 500 persons is expected, but the trend is down. Visitor arrivals to fall.
Wed 23 Mar (10:45am)	Balance of payments – 2010Q4	Lower	We expect the annual deficit to ease to 2.6 percent of GDP. The positive trade balance will be offset by large invisibles deficit.
Wed 24 Mar (10:45am)	Gross Domestic Product – 2010Q4	Soft	We expect a 0.2 percent increase, with risks to the downside. Large sector divergences will remain, with declining construction activity offset by higher agricultural and services output.
On Balance		Weak H1	Q4 data to be weak. The Christchurch earthquake will result in continuing weakness over the first half of 2011, with the recovery pushed out at least 6 months.

KEY FORECASTS AND RATES

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
GDP (% qoq)	0.1	-0.2	0.2	-0.1	0.2	1.4	1.8	0.7	0.9	0.8
GDP (% yoy)	1.8	1.5	0.7	0.1	0.2	1.7	3.3	4.2	4.9	4.3
CPI (% qoq)	0.2	1.1	2.3	0.8	1.0	0.8	0.5	0.5	0.7	0.6
CPI (% yoy)	1.7	1.5	4.0	4.5	5.3	5.0	3.1	2.8	2.5	2.3
Employment (% qoq)	-0.3	1.1	-0.5	0.9	0.2	0.5	0.5	0.5	0.4	0.5
Employment (% yoy)	0.0	1.9	1.3	1.2	1.7	1.1	2.1	1.7	1.9	1.9
Unemployment Rate (% sa)	6.9	6.4	6.8	6.5	6.7	6.6	6.4	6.3	6.2	6.1
Current Account (% GDP)	-3.0	-3.1	-2.3	-2.3	-2.0	-2.6	-2.3	-2.2	-2.1	-2.3
Terms of Trade (% qoq)	2.0	3.0	3.0	2.5	1.4	1.5	0.5	-0.8	-0.9	-0.8
Terms of Trade (% yoy)	12.7	17.9	14.8	10.9	10.2	8.7	6.1	2.7	0.3	-2.0

	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11
Retail ECT (% mom)	0.3	0.5	0.2	-0.7	2.3	0.9	1.0	-0.8	2.4	..
Retail ECT (% yoy)	2.5	4.2	4.4	1.7	5.0	4.8	6.3	4.4	5.7	..
Credit Card Billings (% mom)	1.8	1.1	-1.3	0.7	1.0	0.5	-0.1	-1.4	..	..
Credit Card Billings (% yoy)	3.4	4.5	2.6	2.1	4.3	4.6	3.7	2.0	..	..
Car registrations (% mom)	-4.0	5.6	-6.4	0.0	2.7	-3.7	13.4	-8.3	0.9	..
Car registrations (% yoy)	30.5	35.8	16.0	19.0	19.2	9.4	23.5	6.4	6.8	..
Building consents (% mom)	-9.7	1.5	3.2	-17.8	0.8	-2.2	7.9	-18.6	..	..
Building consents (% yoy)	11.3	26.9	25.4	-3.1	-9.3	-17.4	-9.2	-26.4	..	..
REINZ House Price Index (% yoy)	2.3	4.2	1.8	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	..
Household Lending Growth (% mom)	0.2	0.2	0.2	0.1	0.2	0.1	0.0	0.0	..	..
Household Lending Growth (% yoy)	2.6	2.6	2.5	2.3	2.3	2.0	1.8	1.6	..	..
ANZ Roy Morgan Consumer Confidence	126.0	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1
NBNZ Business Confidence	48.2	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..	..
NBNZ Own Activity Outlook	45.3	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..	..
Trade Balance (\$m)	770	221	-186	-430	-455	-219	-186	-250	..	..
Trade Balance (\$m ann)	41	593	585	871	978	1260	1355	1131	..	..
ANZ World Commodity Price Index (% mom)	1.2	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	..
ANZ World Commodity Price Index (% yoy)	51.8	50.1	47.3	38.6	32.9	31.4	23.7	23.0	27.2	..
Net migration (sa)	370	170	930	870	1010	520	620	750	..	..
Net migration (annual)	17967	16504	15221	14507	13914	12610	11519	10451	..	..

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	Nov-10	Dec-10	Today	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
NZD/USD	0.743	0.780	0.749	0.73	0.73	0.75	0.74	0.73	0.72	0.71
NZD/AUD	0.775	0.763	0.740	0.73	0.73	0.74	0.74	0.75	0.74	0.75
NZD/EUR	0.572	0.583	0.546	0.55	0.56	0.59	0.57	0.55	0.54	0.53
NZD/JPY	62.14	63.22	61.23	61.3	63.5	66.0	66.6	65.7	66.2	66.7
NZD/GBP	0.477	0.500	0.467	0.46	0.46	0.48	0.47	0.46	0.45	0.44
NZ\$ TWI	68.1	69.2	66.4	65.8	66.6	68.6	67.7	66.9	65.9	65.3
INTEREST RATES	Nov-10	Dec-10	Today	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
NZ OCR	3.00	3.00	3.00	2.75	2.50	2.50	2.50	3.00	3.50	3.75
NZ 90 day bill	3.20	3.18	2.86	2.80	2.70	2.70	2.70	3.40	3.80	4.20
NZ 10-yr bond	5.66	5.87	5.53	5.60	5.80	6.00	6.20	6.20	6.10	6.20
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50
US 3-mth	0.30	0.30	0.31	0.35	0.35	0.35	0.35	0.35	0.85	1.60
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75
AU 3-mth	5.04	5.04	4.93	5.10	5.20	5.50	5.70	6.00	6.00	6.00

	25 Jan	21 Feb	22 Feb	23 Feb	24 Feb	25 Feb
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.18	3.19	3.17	3.01	2.92	2.86
NZGB 11/11	3.93	3.88	3.76	3.70	3.60	3.53
NZGB 04/13	4.60	4.54	4.46	4.43	4.41	4.34
NZGB 12/17	5.38	5.42	5.37	5.36	5.33	5.30
NZGB 05/21	5.56	5.62	5.59	5.57	5.55	5.52
2 year swap	3.86	3.81	3.66	3.55	3.44	3.36
5 year swap	4.67	4.69	4.61	4.56	4.47	4.40
RBNZ TWI	68.2	67.8	67.1	66.5	66.2	66.4
NZD/USD	0.7654	0.7636	0.7522	0.7481	0.7474	0.7516
NZD/AUD	0.7691	0.7540	0.7501	0.7466	0.7424	0.7418
NZD/JPY	63.10	63.47	62.66	61.85	61.38	61.57
NZD/GBP	0.4780	0.4705	0.4654	0.4626	0.4601	0.4653
NZD/EUR	0.5602	0.5584	0.5537	0.5465	0.5427	0.5436
AUD/USD	0.9952	1.0127	1.0028	1.0020	1.0068	1.0132
EUR/USD	1.3663	1.3674	1.3585	1.3690	1.3771	1.3826
USD/JPY	82.44	83.12	83.30	82.67	82.13	81.92
GBP/USD	1.6011	1.6231	1.6162	1.6173	1.6243	1.6154
Oil (US\$/bbl)	86.74	85.03	90.25	92.65	96.04	95.83
Gold (US\$/oz)	1334.20	1395.18	1403.55	1399.30	1410.30	1404.82
Electricity (Haywards)	2.50	10.38	12.79	4.32	3.27	2.65
Baltic Dry Freight Index	1292	1295	1279	1253	1242	1245
Milk futures (US\$/contract)	136	158	158	158	158	155

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;



IMPORTANT NOTICE

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

NEW ZEALAND DISCLAIMER

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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