

# NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

21 February 2011

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## WHIPPED UP

### ECONOMIC OVERVIEW

Last week's strong dairy prices and better manufacturing-related data augur well for the income-earning side of the economy. At present the flow-on to the broader economy is being curtailed by the deleveraging dynamic. This process has further to run. However, our internal anecdotes continue to strike a better tone across the early part of 2011 and we continue to believe the economy is near a turning point. At present we are wary of getting overly excited, given last year's false dawn. This week's local data is expected to confirm a good January month for retail, but retailers should keep the champagne on ice, given structural headwinds. While tomorrow's RBNZ expectations survey is expected to convey a contained inflation theme, upside risks to the medium-term outlook lurk.

### THE REGIONAL GAP

Our regional output gap measures still show broad-based idle capacity across the regions, with some regional divergences. Of some concern, the margin of spare capacity has failed to widen during a period of contracting economic activity and this has us pondering whether we are underestimating supply-side influences in H2 2010. The Canterbury earthquakes will partly account for this but it also underscores concerns we have over the ability of the supply side of the economy to accommodate a pending cyclical upswing in economic activity over 2011.

### INTEREST RATE STRATEGY

Yields continue to fall at the short end, having been spurred on by weaker domestic data last week. US long end rates are also off a touch, but this has not done much to flatten the NZ curve. The search for carry remains a motivating factor in our market, and given the muted economic environment, the market seems happy to be long. This does of course bring risks, but with no major data out this week, barring surprises, it should be "steady as she goes". Or put another way, the market will trade on the news flow.

### CURRENCY STRATEGY

The NZD brushed off a weak retail sales print, social unrest in the Middle East and North Africa (MENA) and another hike in the reserve ratio requirement by the PBOC. It is clear that the NZD continues to attract good support on any dips towards the 0.75 area. For this week, we expect the NZD to remain supported on expectations of an increased Fonterra payout announcement. The yuan will continue appreciating as the PBOC responds to increased inflationary pressure. US data returning to normality and ECB comments suggest the end of "abnormal" monetary policy may be closer than we think. Implications for a short USD FX market could be a U-turn in positioning over the coming months.

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### SUMMARY

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### THIS WEEK'S EVENTS

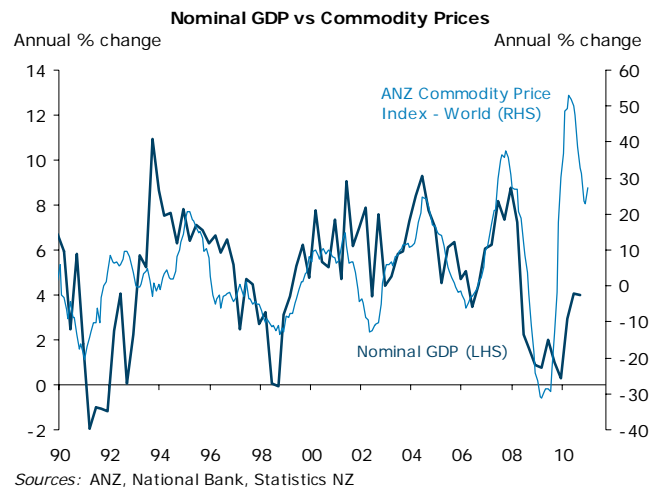
- **RBNZ Credit Card Statistics – January 2011** (Monday, February 21, 3:00pm). We expect a 2 percent monthly increase in credit card billings. Higher food and petrol prices will be influential.
- **RBNZ Survey of Expectations – 2011Q1** (Tuesday, February 22, 3:00pm). We envisage the survey will show a contained inflation environment, with the 2-year ahead inflation forecast expected to slightly undershoot the 2.6 percent registered in the 2010Q4 survey.

### WHAT'S THE VIEW?

**Prospects for the income-earning side of the economy remain upbeat.** Manufacturing activity looks to be getting a broader base going by the Business NZ PMI. The strong mid February *globalDairyTrade* online auction result took USD whole milk powder prices to their highest since mid-2008. We expect Fonterra to make an announcement within the next few weeks to raise the 2010/11 payout, providing another shot in the arm for the dairy sector.

**The income boost is real, even if it is not being spent.** Higher feed costs and lower production are taking away some of the cream a high payout year is providing. However, the income generation and prospects of the same in 2011/12 are greatly assisting an orderly adjustment across rural farm values. While there are still some pockets of stress across the rural sector (where a mismatch between asset values and cash-flow remains), the broad-based nature of soft commodities strength is keeping the adjustment orderly. Anecdotally, more buyers of rural land are around at present. A necessary condition for the terms of trade boost to filter through to the broader economy is stabilisation and

improvement in rural property values. We are not there yet, but we are getting close.



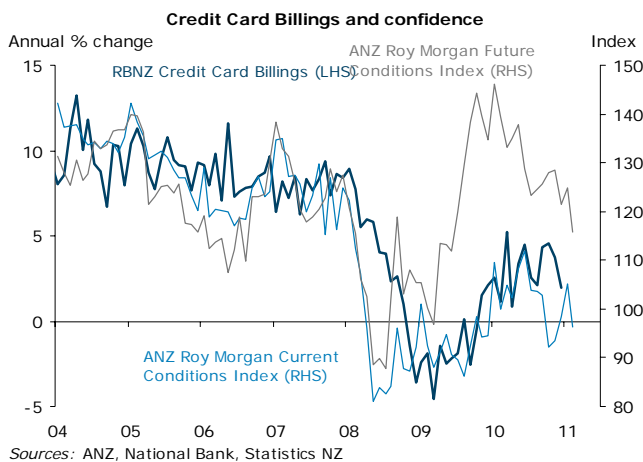
**Despite some confirmation that the economy is moving in the right direction, a lot of weakness remains – the legacy of extended balance sheets.** Deleveraging and the process of balance sheet repair remain dominant influences, with very little happening in residential and rural property markets. So far there is little evidence of a generalised pick-up in rural spending, but we expect a boost to rural spending later in the year, as commodity price gains filter through the rural economy and rural balance sheets improve.

**Consumers remain cautious.** The 9 point pullback in February consumer sentiment was worthy of note, even though the decline was exacerbated by seasonal patterns. Abstracting from seasonal patterns the trend for the past six months is clear: there is no trend! The key to spending tomorrow is perceptions today (which is represented by the current conditions component of headline consumer confidence), and consumers remain very lukewarm over how they view current conditions. Here again, New Zealand is not alone: the February RBA minutes showed a similar mood is pervasive amongst consumers in Australia, and consumer caution is the dominant mood in the UK, US and Europe. However, things can turn around quickly.

**On a different note, we can't pass up the opportunity to comment on the decision last week to effectively freeze domestic milk prices.** We have no intention of jumping into the question of whether the decision was appropriate or not. Rather, we'll leave readers with one thought: if a nation that is a net food exporter (and major beneficiary of rising food prices) feels the need to "intervene" in the market to protect consumers, then spare a thought for what a host of other nations must be grappling

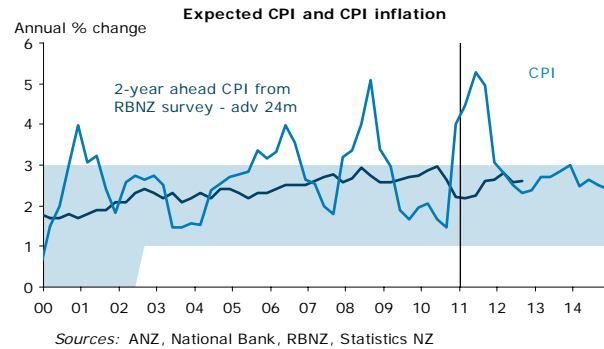
## ECONOMIC OVERVIEW

with. This is particularly so in emerging markets where the food bill can top 30-40 percent of income. We “buy” the long-term rising trend in commodity prices story. But mini-cycles are going to manifest from year to year. And when you start seeing “intervention” responses – and we expect more, given the politics of food (though hopefully not of a pure protectionism variety) – **it looks like recent soft commodity price movements have simply gone too far, too fast.**



**This week, the local focus will be on RBNZ data releases. Credit card billings for January** are expected to follow the rebound seen in January Electronic Card Transactions. We are expecting a 2 percent monthly increase. **Higher food and petrol prices will have boosted the January figures, and are set to be a major influence over 2011.** With petrol prices increasing again last week and with airfares going up, we are seeing further evidence of the commodity price impact on consumer prices. The key will be the extent to which these first round effects flow through into price and wage setting behaviour throughout the economy. Last week’s producer price data showed producer margins are bearing the brunt of a rising cost environment. However, pricing pressures are building and the RBNZ will have to be on guard. When the economy turns (and remember we view the economy as being close to an inflection point in early 2011) pricing pressure is likely to emerge quickly.

**For the time being, however, the RBNZ survey of expectations is expected to show a contained inflation environment.** Despite recently publicised price increases, we see some potential downside to the 2-year-ahead inflation forecast of 2.6 percent in the 2010Q4 survey. This is likely to be about as good as it gets for the time being, though.



**Next week’s RBNZ credit aggregates are keenly awaited.** 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. Given the looming boost to demand from one-offs over the latter part of this year, this can’t come too soon.

### RECENT LOCAL DATA

- **globalDairyTrade online auction.** Whole milk powder prices rose by an average 7.9 percent in the mid-February event to US \$4,320 per tonne.
- **BNZ - Business NZ Manufacturing PMI — January.** The headline PMI rose 0.6 points to 53.7. Employment and new orders increased, production was unchanged, and finished stocks and deliveries eased.
- **NBNZ Regional Trends — 2010Q4.** The nationwide composite measure of economic activity eased 0.2 percent. Ten out of 14 regions recorded a decline in activity.
- **NZ Government Financial Statements — 6 months ended December 31, 2010.** The core operating deficit, at \$5,968m, was \$169m lower than forecast in the December HYEFU.
- **SNZ Producers Price Index — 2010Q4.** Input prices rose 0.9 percent (4.4 percent y/y). Output prices rose 0.2 percent (4.3 percent y/y).
- **SNZ Capital Goods Price Index — 2010Q4.** Capital goods prices fell 0.7 percent (-0.3 percent y/y).
- **ANZ – Roy Morgan Consumer Confidence — February.** Headline consumer confidence eased 9 points to 108.1. The current conditions measure fell 9 points (to 96.5), with future conditions down 9 points (to 115.9).

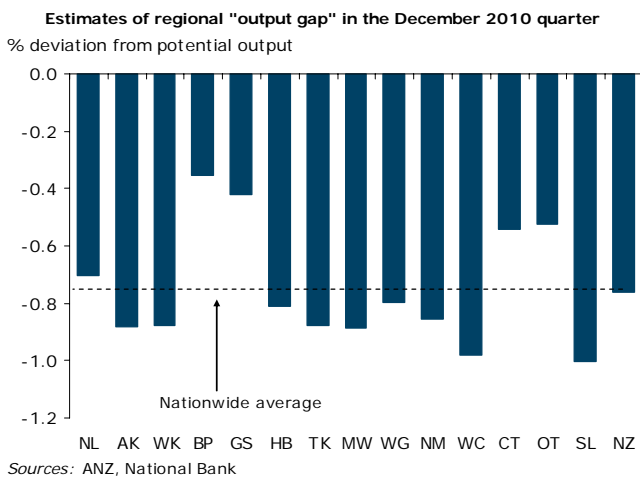
# THE REGIONAL GAP

## SUMMARY

Our regional output gap measures still show broad-based idle capacity across the regions, with some regional divergences. Of some concern, the margin of spare capacity has failed to widen during a period of contracting economic activity and this has us pondering whether we are underestimating supply-side influences in H2 2010. The Canterbury earthquakes will partly account for this but it also underscores concerns we have over the ability of the supply side of the economy to accommodate a pending cyclical upswing in economic activity over 2011.

## THE REGIONAL GAP

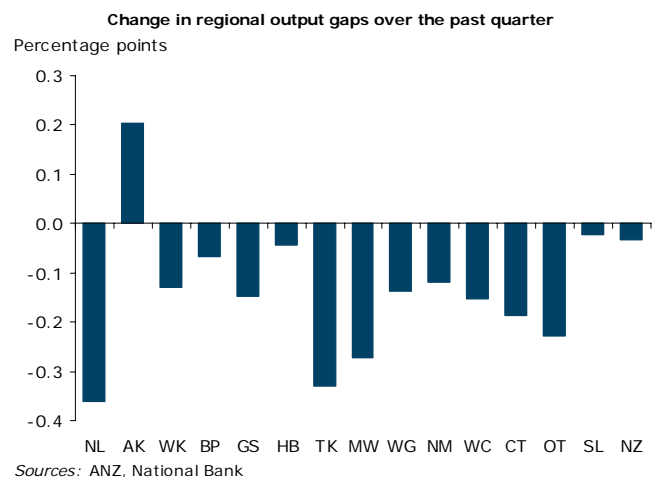
We present our updated regional output gap measures for the December 2010 quarter.<sup>1</sup> **The regional measures provide us with a richer picture of how geographically concentrated nationwide trends are.** Regional measures are prone to a larger degree of uncertainty than nationwide data. But it is the broad trends and the regional variations that are the main focus.



<sup>1</sup> Our regional output gap estimates are generated using economic activity data from the National Bank *Regional Trends*, unemployment rates from Statistics NZ's *HLFS*, and capacity utilisation measures from the National Bank *Business Outlook* survey. We chose a broad approach for two reasons. First, it minimises some of the error that typically surrounds statistics at the regional level. Second, the RBNZ uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For the unemployment rate, activity, and surveyed capacity utilisation, we use a band-pass filter to derive trend estimates. The regional unemployment rates are advanced two quarters, prior to filtering as this is a lagging indicator. Individual activity, unemployment and capacity utilisation gaps for each region are then given an equal weighting.

Key points from the updated analysis are:

- **There is still broad-based idle capacity across the regions.** All regions continued to experience a fairly sizeable negative output gap for the ninth consecutive quarter. Southland, the West Coast, Auckland and Waikato are the regions with the largest negative output gap. Regions with the smallest negative output gap are the Bay of Plenty, Gisborne, Otago and Canterbury.
- **All of the regions bar one experienced a more negative output gap.** The major influence behind this was weaker demand, with economic activity in 10 of the 14 regions contracting in the December quarter and with low to moderate positive growth rates for the remainder. Moves in surveyed capacity utilisation were limited, with most regions having slightly more unused capacity. Whilst capacity utilisation eased slightly in Canterbury following the Q3 earthquake-induced spike, it remains well above trend. The narrowing Auckland output gap was largely due to the narrowing margin of labour market slack.
- **At the nationwide level the negative output gap barely moved despite regional output declining 0.2 percent.** While the activity gap moved further into negative territory, capacity utilisation remains only slightly below trend levels. The unemployment rate spiked in Q4 2010, but we use a smoothed measure given recent volatility in the HLFS.



Note: NL = Northland, AK = Auckland, WK = Waikato, BP = Bay of Plenty, GS = Gisborne, HB = Hawke's Bay, TK = Taranaki, MW = Manawatu-Whanganui, WG = Wellington, NM = Nelson-Marlborough, WC = West Coast, CT = Canterbury, OT = Otago, SL = Southland.

## THE UPSHOT

The broad-based nature of our regional output gap estimates confirm ample idle capacity to absorb a

## THE REGIONAL GAP

modest pick-up in demand. But our estimates are also indicating restricted supply-side performance. Given pronounced weakness in H2 2010, we'd have expected not only the economy-wide output gap to have turned more negative but the regional picture to have done the same, as a consistency check. The fact it hasn't has us musing over:

- The supply-side capacity of the economy.
- What really drove weakness in H2 2010? In particular, are we underestimating the impact of supply side factors (such as changes to the tax system and the Canterbury earthquakes), in dampening H2 2010 momentum? If so, it suggests the economy has even greater potential to springboard in H1 2011.

# INTEREST RATE STRATEGY

## SUMMARY

Yields continue to fall at the short end, having been spurred on by weaker domestic data last week. US long end rates are also off a touch, but this has not done much to flatten the NZ curve. The search for carry remains a motivating factor in our market, and given the muted economic environment, the market seems happy to be long. This does of course bring risks, but with no major data out this week, barring surprises, it should be "steady as she goes". Or put another way, the market will trade on the news flow.

## MARKET THEMES

- Offshore events will dominate headlines and market sentiment this week, with no major domestic data releases due. But speculation of a Fonterra announcement hangs over the market.
- US bonds yields remain lofty, but have retreated since peaking 10 days ago. The opposing forces of a strong safe-haven bid and improving economic data mean only one thing – volatility.

## REVIEW AND OUTLOOK

**Last week's poor retail sales readings and the mild dip in consumer confidence have taken their toll on the market**, taking the bellwether 2yr swap to 3.76% at one stage. But while there has been "more buyers than sellers", the market remains reluctant to push lower, mindful of how squeezed expectations have become, the inflation picture, and **speculation Fonterra may announce a higher payout this week**. But with very little domestic data, the focus will remain on offshore events.

**Talking of offshore - we need to stress the power that political tensions can wield over markets**. As noted in the themes dot point, geopolitical tensions in the Middle East have provided a safe-haven bid to Treasuries over the past few weeks. We're not experts on the region, but we can't help but notice that discontent is growing, and spreading rapidly. Anyone who says they can predict what will happen next is simply pulling your chain - but what's happening does look serious, and **we would rate tensions in the Middle East as the primary risk to markets and the global economy**. We are particularly mindful of the impact reduced risk appetite and higher oil prices would have on the global economy.

One development we found particularly interesting was **the comment by Dallas Fed Governor Fisher, who has suggested that it makes sense to unwind policy actions in reverse. That is, unwind QE by selling bonds, before raising rates**. This has intuitive appeal – but it also has

significant ramifications as to how the US yield curve may respond as the Fed embarks on its exit strategy. **Indeed, we may see the curve steepen, instead of flatten, challenging the text book theories.**

## PREFERRED BORROWING STRATEGIES

With the RBNZ on the sidelines until September, and with eventual rate hikes to be fairly muted when they come, the hurdle for fixing remains high – particularly for long terms. Indeed, with the margin between BKBM and the 5yr at 1.5%, the cashflow implications of hedging are significant. Given the high degree of uncertainty surrounding other aspects of the outlook (Middle East tensions, European sovereign debt concerns) we prefer the flexibility that options offer. The flattening of the FRA strip makes collars attractive. With rates set to rise rather than fall, giving up some downside in order to protect against upside certainly appeals. We would however note one area of caution: the market is pricing in a very demure economic picture with just 36bps of hikes priced over the coming year. This seems light despite obvious risks surrounding the outlook. Once we see some consistency in NZ data outturns, the market has the potential to reprice quickly. Consistency is at least 6 weeks away, but it is something we are wary of.

## GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔	On hold till September.
NZ data	↔/↓	Historic data remains poor. But watch leading indicators.
Fed Funds / front end	↔	Fed on hold for a long time. But data has been strong.
RBA	↔/↓	Out of action for now.
US 10 year	↔	Yields look to be in new, higher trading range.
NZ swap curve	↔/↑	Steepening becomes self reinforcing if hikes delayed.
Flow	↔/↓	Receive side flow has picked up. 2yr likely to edge lower.
Technicals	↔	2yr needs to break 3.75% looming as the next test.

## MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 10-Mar-11	0	0
Thu 28-Apr-11	0	0
Thu 9-Jun-11	+5	+2
Thu 28-Jul-11	+10	+9
Thu 15-Sep-11	+17	+15
Thu 27-Oct-11	+27	+25
Thu 8-Dec-11	+38	+36

## TRADING THEMES WE FAVOUR AT PRESENT

The 2yr-5yr swap curve continues to steepen and this remains a favoured trade. But the contrarian in us also thinks it's worth paying the OIS for the June RBNZ meeting as a hedge against better data over the next few months). 2bps just seems too cheap to pass up.

# CURRENCY STRATEGY

## SUMMARY

The NZD brushed off a weak retail sales print, social unrest in the Middle East and North Africa (MENA) and another hike in the reserve ratio requirement by the PBOC. It is clear that the NZD continues to attract good support on any dips towards the 0.75 area. For this week, we expect the NZD to remain supported on expectations of an increased Fonterra payout announcement. The yuan will continue appreciating as the PBOC responds to increased inflationary pressure. US data returning to normality and ECB comments suggest the end of “abnormal” monetary policy may be closer than we think. Implications for a short USD FX market could be a U-turn in positioning over the coming months.

## MARKET THEMES

- Backward-looking domestic data continues to be weak, but seeing some light on the horizon.
- NZ's role as a food producer has the market focussed forward as food price rises continue.
- China inflation concerns to the fore again but Chinese authorities respond.
- MENA tensions spread to more states.
- US data continues to improve.

## REVIEW AND OUTLOOK

### Backward-looking NZ data continues to be weak following a shocking retail sales data release.

Despite this the NZD was quite resilient, only falling by 50 points before recovering all of that fall by the end of the day. This week the focus will be on the Fonterra board meeting on Tuesday with high expectations for a positive milk payout announcement.

**The Chinese Authorities increased their reserve ratio requirement for the 8<sup>th</sup> time in the past 12 months.** Although this was widely expected, the timing was interesting coming during the G20 meeting. The Chinese central bank governor also upped the rhetoric saying that policymakers may also use means “including rates and currency” to tackle inflation. Indeed, with rising food prices a primary source of imported inflation for China, a stronger currency will go a long way to mitigating that risk. While the G20 continued to insist China do more to allow the yuan to rise, a quick look at a yuan chart shows the direction is clear and that the currency is slowly appreciating.

**US data continues to return to more normal levels of activity.** As this trend continues it must be questioned how much longer the US can run

“abnormal” monetary policy settings given that “normal” economic conditions appear to have been restored. The implications for the USD and a market that is very short USD should not be underestimated going forward.

**The spread of social unrest through other MENA states will be a destabilising influence for the region.** While it has been surprising how little impact these events have had on currency markets, we should keep a watching brief for further developments here.

### NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Below fair value.
Yield	↔/↓	Yields less supportive as NZ growth prospects soften.
Commodities	↑	Soft commodities continue to rise.
Partial indicators	↓	Anaemic NZ data continues.
Technicals	↔	Support at 0.7480 and 0.7400.
Sentiment	↓↔	Weak NZ data continues vs. upbeat Australia's.
Other	↑	Fonterra payout expectations to support.
<b>On balance</b>	↑	<b>0.7480 - 0.7600 with a positive bias.</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	↓	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	↓	Weak data still at the fore.
Other	↑	Fonterra payout expectations to support.
<b>On balance</b>	↔↑	<b>Corporate activity to provide support for NZD.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
21-Feb	NZ	Performance Services Index - JAN	--	52.5	10:30
	AU	CBAHIA House Affordability - 4Q	--	54.4	12:30
	UK	Rightmove House Prices (MoM) - FEB	--	0.30%	13:01
	UK	Rightmove House Prices (YoY) - FEB	--	0.40%	13:01
	NZ	Credit Card Spending SA (MoM) - JAN	--	-1.40%	15:00
	NZ	Credit Card Spending (YoY) - JAN	--	2.00%	15:00
	JN	All Industry Activity Index (MoM) - DEC	--	-0.10%	17:30
	GE	PMI Manufacturing - FEB A	60.3	60.5	21:30
	GE	PMI Services - FEB A	60.2	60.3	21:30
	EC	PMI Composite - FEB A	56.9	57	22:00
	GE	IFO - Business Climate - FEB	110.3	110.3	22:00
	GE	IFO - Current Assessment - FEB	113	112.8	22:00
	GE	IFO - Expectations - FEB	107.5	107.8	22:00
	EC	PMI Manufacturing - FEB A	57.2	57.3	22:00
	EC	PMI Services - FEB A	55.9	55.9	22:00
22-Feb	NZ	RBNZ 2yr Inflation Expectation - 1Q	--	2.60%	15:00
	UK	Public Sector Net Borrowing - JAN	-0.3B	15.3B	22:30
23-Feb	US	S&P/CS 20 City MoM% SA - DEC	-0.50%	-0.54%	03:00
	US	S&P/CS 20 City YoY% SA - DEC	-2.40%	-1.59%	03:00
	US	Consumer Confidence - FEB	65	60.6	04:00
	US	Richmond Fed Manufact. Index - FEB	18	18	04:00
	JN	Merchnds Trade Balance Total - JAN	¥49.3B	¥727.7B	12:50
	JN	Merchnds Trade Exports YoY - JAN	7.4	13	12:50
	JN	Merchnds Trade Imports YoY - JAN	8.1	10.6	12:50
	AU	Construction Work Done - 4Q	1.50%	-2.10%	13:30
	AU	Wage Cost Index QoQ - 4Q	0.90%	1.10%	13:30
	AU	Wage Cost Index YoY - 4Q	3.80%	3.50%	13:30
	UK	Bank of England Minutes -			22:30
	UK	BBA Loans for House Purchase - JAN	29250	28726	22:30
	EC	Industrial New Orders NSA (YoY) - DEC	16.20%	19.90%	23:00
	EC	Industrial New Orders SA (MoM) - DEC	-1.00%	2.10%	23:00
24-Feb	US	MBA Mortgage Applications - Feb 18	--	-9.50%	01:00
	US	Existing Home Sales - JAN	5.20M	5.28M	04:00
	US	Existing Home Sales MoM - JAN	-1.50%	12.30%	04:00
	AU	Conference Board Leading Index - DEC	--	0.30%	12:00
	AU	Private Capital Expenditure - 4Q	2.20%	6.20%	13:30
	AU	Average Weekly Wages (QoQ) - NOV	--	0.40%	13:30
	AU	Average Weekly Wages (YoY) - NOV	--	4.50%	13:30
	GE	GDP s.a. (QOQ) - 4Q F	0.40%	0.40%	20:00
	GE	GDP wda (YoY) - 4Q F	4.00%	4.00%	20:00
	EC	Business Climate Indicator - FEB	1.61	1.58	23:00
	EC	Euro-Zone Consumer Confidence - FEB F	-10	-11.2	23:00
	EC	Euro-Zone Economic Confidence - FEB	106.8	106.5	23:00
	EC	Euro-Zone Indust. Confidence - FEB	6.5	6	23:00
	EC	Euro-zone Services Confidence - FEB	9.5	9.2	23:00
25-Feb	UK	CBI Reported Sales - FEB	28	37	00:00
	US	Chicago Fed Nat Activity Index - JAN	0.18	0.03	02:30
	US	Initial Jobless Claims - 19 Feb	405K	410K	02:30

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
25-Feb	US	Durable Goods Orders - JAN	3.00%	-2.50%	02:30
	US	Durables Ex Transportation - JAN	0.50%	0.50%	02:30
	US	Cap Goods Orders Nondef Ex Air - JAN	-1.00%	1.40%	02:30
	US	Cap Goods Ship Nondef Ex Air - JAN	- -	1.70%	02:30
	US	New Home Sales - JAN	300K	329K	04:00
	US	New Home Sales MoM - JAN	-8.80%	17.50%	04:00
	US	House Price Purchase Index QoQ - 4Q	-1.50%	-1.60%	04:00
	US	House Price Index MoM - DEC	-0.10%	0.00%	04:00
	JN	Natl CPI YoY - JAN	-0.10%	0.00%	12:30
	JN	Natl CPI Ex Food, Energy YoY - JAN	-0.60%	-0.70%	12:30
	UK	GfK Consumer Confidence Survey - FEB	-27	-29	13:01
	CH	MNI Business Condition Survey - FEB	- -	61.11	14:35
	NZ	Money Supply M3 YoY - JAN	- -	1.80%	15:00
	EC	Euro-Zone M3 s.a. 3 mth ave. - JAN	2.00%	1.60%	22:00
	EC	Euro-Zone M3 s.a. (YoY) - JAN	2.10%	1.70%	22:00
	UK	GDP (QoQ) - 4Q P	-0.50%	-0.50%	22:30
	UK	GDP (YoY) - 4Q P	1.70%	1.70%	22:30
	UK	Index of Services (MoM) - DEC	-1.10%	0.00%	22:30
	UK	Index of Services (3mth/3mth) - DEC	-0.40%	0.50%	22:30
	UK	Total Business Investment(QoQ) - 4Q P	-0.40%	3.10%	22:30
	UK	Total Business Investment(YoY) - 4Q P	12.60%	8.90%	22:30
	GE	Consumer Price Index (MoM) - FEB P	- -	-0.40%	22:30
	GE	Consumer Price Index (YoY) - FEB P	- -	2.00%	22:30
26-Feb	US	GDP QoQ (Annualized) - 4Q S	3.30%	3.20%	02:30
	US	GDP Price Index - 4Q S	0.30%	0.30%	02:30
	US	Core PCE QoQ - 4Q S	0.40%	0.40%	02:30
	US	Personal Consumption - 4Q S	4.20%	4.40%	02:30
	US	U. of Michigan Confidence - FEB F	75.4	75.1	03:55

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

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

Note: All surveys are preliminary and subject to change.

## LOCAL DATA WATCH

**Key focus over the next few weeks:** With the March MPS approaching, we expect more of the data pertaining to 2011 to convey a more positive tone for NZ.Inc. But the RBNZ and market will remain wary of a soft Q4 GDP with a strong possibility of a negative number.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 21 Feb (3:00pm)	RBNZ Credit Card statistics – Jan	Up	We expect an increase of about 2 percent, given the strength of January Electronic Card Transactions.
Tue 22 Feb (3:00pm)	RBNZ Survey of Expectations – Q1	Contained for now	The 2-year-ahead inflation measure is expected to ease slightly from the 2.6 percent in the Q4 survey.
Mon 28 Feb (10:45am)	Overseas Merchandise Trade – Jan	Up	We expect a monthly trade surplus of around \$200m, with an annual trade surplus of \$1.0bn.
Mon 28 Feb (10:45am)	Building Consents - Jan	Bounce	It's hard not to expect a bounce in the January figures after capitulation in December. The level will remain low, however.
Mon 28 Feb (3:00pm)	RBNZ 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 (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.
Thur 3 Mar (10:45am)	External Migration -	Steady	A monthly net PLT inflow of around 700 persons is expected.
Mon 7 Mar (10:45am)	Wholesale Trade – 2010Q4		Weak retail and export volumes suggest a flat quarter at best.
Tue 8 Mar (10:45am)	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. This will accentuate perceived risks 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	Pullback	We expect a small fall in retail spending levels from the strong January result.
Thur 10 Mar (9:00am)	RBNZ March MPS	On hold	The RBNZ to maintain their commitment to keep the OCR low until the recovery becomes more robust.
Thur 10 Mar (10:30am)	BNZ Business NZ PMI – Manufacturing	Improving	We expect further signs of improvement.
Thur 10 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.
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	Up	We expect sales volumes to tick up from very low levels. Prices to continue trending lower.
Thur 17 Mar (3:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
<b>On Balance</b>		<b>An improving tone</b>	<b>Q4 data to be weak. We continue to look for forward-looking gauges to convey an improving tone for 2011.</b>

## 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	<b>0.5</b>	<b>0.8</b>	<b>1.0</b>	<b>1.7</b>	<b>1.5</b>	<b>0.1</b>	<b>0.4</b>	<b>0.4</b>
GDP (% yoy)	1.8	1.5	<b>1.0</b>	<b>1.3</b>	<b>2.2</b>	<b>4.1</b>	<b>5.1</b>	<b>4.4</b>	<b>3.7</b>	<b>2.4</b>
CPI (% qoq)	0.2	1.1	2.3	<b>0.8</b>	<b>1.0</b>	<b>0.8</b>	<b>0.5</b>	<b>0.5</b>	<b>0.7</b>	<b>0.6</b>
CPI (% yoy)	1.7	1.5	4.0	<b>4.5</b>	<b>5.3</b>	<b>5.0</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>2.3</b>
Employment (% qoq)	-0.3	1.1	-0.5	<b>1.1</b>	<b>0.3</b>	<b>0.6</b>	<b>0.7</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>
Employment (% yoy)	0.0	1.9	1.3	<b>1.4</b>	<b>2.0</b>	<b>1.5</b>	<b>2.7</b>	<b>2.1</b>	<b>2.2</b>	<b>1.9</b>
Unemployment Rate (% sa)	6.9	6.4	6.8	<b>6.3</b>	<b>6.4</b>	<b>6.2</b>	<b>5.8</b>	<b>5.7</b>	<b>5.6</b>	<b>5.7</b>
Current Account (% GDP)	-3.0	-3.1	<b>-2.3</b>	<b>-2.3</b>	<b>-2.0</b>	<b>-2.6</b>	<b>-2.3</b>	<b>-2.2</b>	<b>-2.1</b>	<b>-2.3</b>
Terms of Trade (% qoq)	2.0	3.0	<b>2.9</b>	<b>2.5</b>	<b>1.1</b>	<b>-0.1</b>	<b>-0.8</b>	<b>-0.9</b>	<b>-0.8</b>	<b>-0.8</b>
Terms of Trade (% yoy)	12.7	17.9	<b>14.7</b>	<b>10.8</b>	<b>9.8</b>	<b>6.5</b>	<b>2.7</b>	<b>-0.8</b>	<b>-2.6</b>	<b>-3.2</b>

	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	0.763	0.73	0.73	0.75	0.74	0.73	0.72	0.71
NZD/AUD	0.775	0.763	0.753	0.73	0.73	0.74	0.74	0.75	0.74	0.75
NZD/EUR	0.572	0.583	0.559	0.56	0.57	0.59	0.57	0.55	0.54	0.53
NZD/JPY	62.14	63.22	63.24	62.1	63.5	66.0	66.6	67.2	67.7	67.5
NZD/GBP	0.477	0.500	0.469	0.47	0.48	0.48	0.47	0.46	0.45	0.44
NZ\$ TWI	68.1	69.2	67.7	66.4	67.0	68.6	67.7	67.1	66.1	65.4
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	3.00	3.00	3.25	3.50	4.00	4.25	4.50
NZ 90 day bill	3.20	3.18	3.19	3.20	3.20	3.50	3.90	4.40	4.50	4.90
NZ 10-yr bond	5.66	5.87	5.61	5.50	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	4.90	5.10	5.20	5.50	5.70	6.00	6.00	6.00

	18 Jan	14 Feb	15 Feb	16 Feb	17 Feb	18 Feb
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.19	3.20	3.20	3.18	3.19	3.17
NZGB 11/11	3.86	3.89	3.88	3.88	3.88	3.88
NZGB 04/13	4.53	4.53	4.52	4.53	4.52	4.52
NZGB 12/17	5.27	5.42	5.42	5.45	5.43	5.40
NZGB 05/21	5.44	5.62	5.62	5.66	5.64	5.61
2 year swap	3.88	3.79	3.77	3.78	3.78	3.78
5 year swap	4.61	4.67	4.67	4.69	4.67	4.67
RBNZ TWI	69.4	67.7	67.6	67.4	67.4	67.7
NZD/USD	0.7715	0.7585	0.7572	0.7542	0.7547	0.7603
NZD/AUD	0.7773	0.7541	0.7531	0.7540	0.7521	0.7518
NZD/JPY	63.73	63.09	63.07	63.16	63.08	63.36
NZD/GBP	0.4844	0.4719	0.4715	0.4666	0.4685	0.4702
NZD/EUR	0.5806	0.5602	0.5599	0.5572	0.5554	0.5591
AUD/USD	0.9925	1.0059	1.0054	1.0003	1.0034	1.0113
EUR/USD	1.3287	1.3541	1.3523	1.3536	1.3588	1.3599
USD/JPY	82.60	83.18	83.29	83.75	83.58	83.33
GBP/USD	1.5927	1.6073	1.6061	1.6163	1.6108	1.6171
Oil (US\$/bbl)	91.03	84.39	83.66	83.13	83.80	85.05
Gold (US\$/oz)	1364.45	1357.60	1363.93	1373.60	1378.00	1384.85
Electricity (Haywards)	12.74	5.36	2.88	2.37	3.95	2.81
Baltic Dry Freight Index	1432	1206	1236	1271	1292	1301
Milk futures (US\$/contract)	129	159	159	158	158	158

## 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.
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### 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.

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