

SEPTEMBERITIS

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Page 2: Economic overview

- > While the RBNZ takes centre stage this week, a 25 basis point cut is widely expected, and we expect limited reaction. Our attention is now glued to Asia, and how markets take the "conservatorship" of Fannie Mae and Freddie Mac. Is it the circuit breaker?

Page 4: Economic comment – quarterly forecast summary

- > Key themes underpinning our latest set of forecasts include: a very modest rebound in 2009, as structural headwinds and household deleveraging dominate pro-cyclical support factors and gradually easing monetary conditions; a huge degree of uncertainty surrounding the global picture; a sticky, yet receding inflationary dynamic; a staggered easing cycle from the RBNZ; and a long overdue currency correction as an inevitable part of the rebalancing process.

Page 5: RBNZ Monetary Policy Statement preview

- > We expect the RBNZ to cut the OCR by 25bps to 7.75 percent, as does the market. A weak growth outlook will invariably see medium-term projection "hockey-sticking" back inside the band. In effect, this will endorse market expectations of lower interest rates. However, we also expect the tenor to reinforce a lot of uncertainty surrounding the outlook. The lower NZD muddies the waters somewhat, but we expect the Bank to adopt a cautious stance until the reasons behind the depreciation are more fully understood.

Page 7: Economic comment – global watch

- > US data was mixed last week, with poor labour market data showing the economy is not yet out of the woods. UK data was generally stronger than expected, although still consistent with a contracting economy and expectations were very weak. It was a mixed story across Asia.

Page 8: Interest rate strategy

- > The reassessment of global growth prospects and the consequent weakening of equity and commodity markets have seen interest rates fall across major markets, particularly the US and Australia. In the near term, a cautious RBNZ will restrain the short end.

Page 9: Currency strategy

- > After a heavy week last week, the NZD has opened on the front foot with news of US government's support of Fannie and Freddie. We expect this to dominate trading this week, and in particular whether such action acts as a stabiliser and restores risk appetites. With the market also wary of equity "Septemberitis" we expect to see continued volatility.

Page 10: Currency comment – effective exchange rates

- > Excluding dairy and crude, all sectors expected more enhancing conditions last month.

Page 12: Data and event calendar

Page 14: Data watch

Page 15: Key forecasts

ECONOMIC OVERVIEW

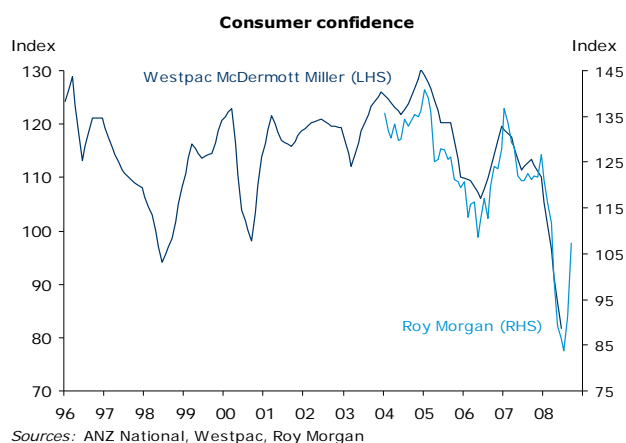
While the RBNZ takes centre stage this week, a 25 basis point cut is widely expected, and we expect limited reaction. Our attention is now glued to Asia, and how markets take the “conservatorship” of Fannie Mae and Freddie Mac. Is it the circuit breaker?

What's ahead?

- > **Q2 Overseas Trade Indexes** (Wednesday 1045 NZST). Both export and import prices are expected to rise relatively strongly in the quarter, with a lower currency but also high commodity and oil prices contributing. The net effect is the terms of trade is expected to rise by only 0.2 percent.
- > **RBNZ Monetary Policy Statement** (Thursday 0900 NZST). We expect another 25bp cut in the OCR. The Bank's near-term growth forecasts are likely to be revised lower although inflation will remain sticky and elevated. The accompanying statement is likely to be relatively cautious.
- > **REINZ House Sales** (circa 11 September). House sales may show further signs of stabilisation, although we expect days to sell to remain elevated and house prices to face downward pressure.
- > **July Retail Sales** (Friday 1045 NZST). Headline sales are expected to rise by 0.3 percent, while core sales are expected to increase by a slightly stronger 0.6 percent.

What's the view?

There was limited local data out last week to alter our view on the economy. We received further evidence of stabilisation, with the latest Roy Morgan consumer confidence index showing a rebound, rising to its highest level since early March. This follows on from the recovery in the NBNZ *Business Outlook* reported a week prior.



As we have discussed in last week's *Market Focus* these signs of stabilisation within the economy are

encouraging, although regular readers of ours will be well aware that we are not getting carried away with this reflation theme just yet. Put simply, in the current global environment, build-up of imbalances such as inflation and a high current account deficit, and household de-leveraging process (which will take time) we struggle to see a strong rebound taking hold. Our latest *Quarterly Economic Forecasts* were released last week, and page 4 provides a brief summary of the major themes.

But that was not the major focus last week. The key development is what we were seeing on the currency front. Increased risk aversion has seen the NZD sold down heavily, falling over 5 percent against the USD and over 7 percent against the Japanese yen last week alone (although the NZD has recovered slightly this morning). The AUD, GBP and EUR did not escape unscathed either. Financial woes, carry trade unwind, global growth woes and a dash of 'Septemberitis' weighed.

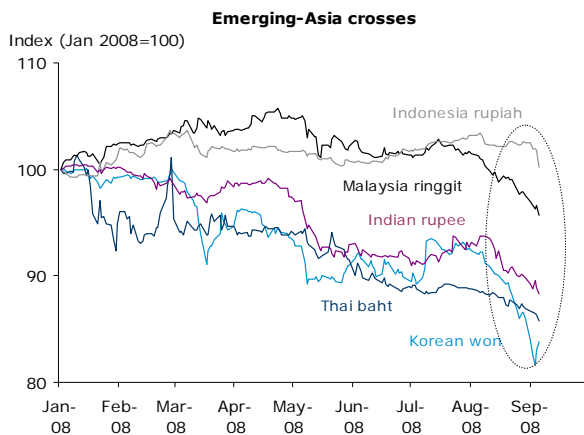
From a monetary conditions perspective, the lower NZD suggests the RBNZ is now under less pressure to loosen monetary policy (particularly given the potential inflation repercussions of a lower NZD). Remember in July they made reference to only being able cut rates if the currency did not fall too far. Of course such assessments are based on traditional monetary conditions indices (MCI), and NZ's history with such gauges is not exactly encouraging.

Before we overreact to the lower currency, we must ask ourselves why it is falling in the first place. To be fair, the NZD has been under pressure for some time given the weak domestic economic backdrop and monetary policy outlook. But this story has not changed over the past week. Recent movements look to be entirely a result of global gyrations.

Indeed, looking around the globe at present:

- > Global growth continues to weaken.
- > Equity markets remaining extremely volatile.
- > The AUD is struggling.
- > Commodities continue to fall, with oil off 8 percent last week. Industrials such as copper (down 5.5 percent), nickel (down 3.6 percent) and lead (down 6.7 percent) were weak.
- > NZ's commodity prices are also easing (down 3.3 percent in world prices terms in August, although up 2.2 percent in NZD terms).
- > A lot of speculation about Asian currencies. The Korean won hit a 4-year low last week (but bounced on Friday) and there is increasing speculation that the country will face some challenges as overseas bond holdings mature. While we think these concerns are overdone and policymakers (including the IMF) have been

very active this past week to try to allay these concerns, we wonder when there is smoke, is there fire? The Malaysia ringgit, Taiwanese dollar and Thai baht have also faced increased selling pressures and newswires have suggested many central banks are attempting to support their currencies by selling USD's. Just how much this is a USD versus emerging Asia story remains the million dollar question.



Now that is a pretty clear picture that there is a lot more going on, hence we need to be careful of applying strict MCI style analysis. Currency markets are liquid, well-informed and tend to lead other markets so movements must be respected.

Price action in the currency market this morning also highlights uncertainty and is indeed a post-script to last week. Following the recently announced "conservatorship" of Fannie Mae and Freddie Mac we've seen the NZD spike 1 cent. Now, two schools of thoughts can apply to the "assistance" being provided. In one instance, it is strong evidence that policymakers will do whatever it takes to make sure the financial system continues to function. However, sceptics note that the reason it's happening in the first place is the counter view. Markets seem to have sided with the former for now (although appear to lack conviction), and we'll be eying price action closely to see whether it is truly being interpreted as a circuit breaker. We suspect not. But the bottom line is that when you see the NZD being buffeted around by global forces, you need to be careful in your assessments.

Looking forward to this week, it is a much busier one locally. The major domestic event is the RBNZ's *Monetary Policy Statement*. Another 25bp cut in the OCR is widely expected, and this is also where our forecasts sit. We expect the Bank to deliver another relatively cautious statement, highlighting the challenging environment currently for policymaking. Our full preview is on page 5.

Data-wise, it is also busy week with a couple of important partial indicators for June quarter GDP released. Looking at Wednesday's trade figures,

we expect net exports will again detract from growth over the quarter, with weak primary goods exports. On the price side, both export and import prices are forecast to rise strongly in the quarter. Part of this strength is just a consequence of a lower NZD. But elevated NZ commodity prices boosting exports, and peaking oil prices boosting imports are also big contributors. The net effect – or the terms of trade – is expected to be relatively muted, rising only 0.2 percent in the quarter, although it is still up over 11 percent on a year ago.

For completeness, the other data due for release is the REINZ house sales report for August and retail sales data for July. The former is likely to confirm similar messages that have been present over recent months. Although Barfoot and Thompson data showed Auckland house sales falling sharply in the month, this is probably a result of a high number of apartment sales in the month prior. The REINZ data may show further evidence of house sales stabilising. However, the more important measure of the length of time it takes to sell a house should remain extended, suggesting that house prices will remain under pressure. Retail sales data is expected to show a small increase in headline sales (which we think is largely price-related) as suggested by Electronic Card Transactions data and credit card billings. Core sales – which exclude motor-vehicle related components – are expected to rise slightly stronger and be up 0.6 percent in the month.

Internationally, the US calendar is relatively quiet this week, although it gets busier later on with the release of PPI, retail sales and consumer confidence on Saturday morning (NZST). Australian labour market, business confidence and retail sales data will be the focus over the Tasman, along with the half-year testimony of RBA Governor Stevens. In Europe, there are a number of speeches from ECB officials and so markets will look to these for any clues on the future monetary policy outlook.

Recent local data...

ANZ Commodity Price Index (August): The World Price Index slumped 3.3 percent, although a lower NZD saw the NZD Price Index up 2.0 percent.

Barfoot & Thompson House Sales (August): Seasonally adjusted Auckland house sales fell by 19 percent in the month. Average house prices managed to tick up to \$524,248.

Roy Morgan Consumer Confidence (early September): The confidence index rose from 94.9 in mid-August to 107.3.

Wholesale Trade Survey (June quarter): Sales rose 3.1 percent, while stocks rose 6.2 percent.

Quotable Value House Prices (Aug): Prices were down 4.5 percent on a year ago.

QUARTERLY FORECAST SUMMARY

Key themes underpinning our latest set of forecasts include: a very modest rebound in 2009, as structural headwinds and household de-leveraging dominate pro-cyclical support factors and gradually easing monetary conditions; a huge degree of uncertainty surrounding the global picture, which carries asymmetric risks to New Zealand; a sticky, yet receding inflationary dynamic; a staggered and cautious easing cycle from the Reserve Bank, subject to global conditions; and a long overdue currency correction as an inevitable part of the rebalancing process.

Our latest *Quarterly Economic Forecasts* were released on Friday. (Page 15 includes our updated figures). Here are the key themes.

We continue to be drawn towards an elongated period of subdued activity as households de-leverage and imbalances within the economy are purged. We have pencilled in flat growth in 2008, a very modest rebound in 2009, and trend activity in 2010 as cyclical forces become more pronounced and structural headwinds subside. While we remain circumspect with regard to prospects at present, the curbing of imbalances and excesses will eventually underpin a more robust medium-term outlook.

Domestically, imbalances will take time to purge. Non-tradable inflation remains high. Remember, the RBNZ can only cut rates if they believe growth is slow enough to dampen inflation so the economy cannot yet recover strongly. The current account deficit remains large despite a terms of trade boom, and narrowing the deficit is looking like a slow grind. The imbalances in the economy have taken several years to build up, and it is perhaps wishful thinking to expect those imbalances to be purged over just a few quarters.

This is a household consolidation story. Households enter this slowdown the most exposed. Unlike corporate sector equivalents (who have multiple levers to pull to restore balance sheet health), households have few choices, and hence the consolidation process will be far more protracted.

The global scene is a key risk, and this has us closely watching the dairy sector (commodity prices), and tourism (as a wealth sensitive sector).

Our core prognosis is built around a "U" (or saucer-shaped) cycle as opposed to the "V" (or sharp in, bounce out) scenario, which was what manifested in 1997/98. Improved export performance is a critical component of the rebalancing process the economy is embarking upon over 2009. Any spanners coming from global growth and/or credit dislocation and we may well

be staring down the barrel of a "W". The currency and monetary policy would of course respond, but both typically kick-in too late.

We see a host of positives out of the adjustment process. While there is a lot of attention towards the dreaded "R" word, in our minds it stands for rebalancing. Relative price signals (deposit rates and lending rates, a lower currency – with more to come, capital investment being favoured over labour) are now fostering a steady rebalancing of growth away from the spending side of the economy towards the earnings sector. Such a rotation will bring some much needed balance and spine to growth. As the going gets tough, businesses are increasingly re-examining their business model, cost structures, and looking at consolidation. It's all about driving the key elixir of wealth creation and higher living standards, which is better productivity growth.

Inflation is set to stay high for a while yet. However, the medium-term outlook is more favourable given weak prospects for the economy. In the absence of a significant fall in commodity prices (a risk at present), inflation pressure will only be dampened via squeezed margins as weak demand dominates considerable cost-push pressures. This is a key judgement that underpins our more favourable medium-term outlook.

We continue to see a long overdue currency correction as an inevitable part of the rebalancing process the economy is embarking upon. The speed of this adjustment will be determined by perception towards the global economy (commodity prices) and the de-leveraging process occurring across asset markets. We expect the NZD/USD to continue to track lower, although the pace of the decline will be stymied somewhat by structural USD headwinds. We expect further currency weakness over the months ahead but a "bounce" in early 2009. Currencies do not extend in a linear type fashion, and the NZD and AUD look oversold, and the USD overbought. However, with the RBNZ cutting – even in a slow and steady fashion – it's hard to paint a bullish kiwi picture, particularly with commodity prices now easing. Fair value for the NZD/USD resides at 65 cents in our view (weak productivity growth has capped upside pressure on fair value from a higher terms of trade), and this is the anchor we build a modest currency cycle around.

We expect a staggered and cautious approach from the Reserve Bank this easing cycle. While the big picture is pointing towards a substantial easing cycle, such as have been seen in history, we are also mindful of the sticky inflationary dynamic. We expect the Reserve Bank to deliver a further three rate cuts before year end, before pausing for six months. The key to a substantial easing cycle looks to hinge on how the global scene unfolds.

SEPTEMBER MONETARY POLICY STATEMENT PREVIEW

(due 9.00am 11 September)

We expect the RBNZ to cut the OCR by 25bps to 7.75 percent, as does the market. GDP forecasts will be lowered again, and while near term CPI forecast will remain high, a weak growth outlook will invariably see medium-term projection “hockey-sticking” back inside the band. In effect, this will endorse market expectations of lower interest rates. However, we also expect the tenor to reinforce a lot of uncertainty surrounding the outlook. The contrasting forces shaping policy include upside inflation risks and downside growth risks. The lower NZD muddies the waters somewhat, but we expect the Bank to adopt a cautious stance until the reasons behind the depreciation are more fully understood.

When the RBNZ cut rates in July for the first time in five years, it did despite formally acknowledging that inflation was likely to head as high as 5 percent. Instead, the Bank focussed on the likelihood that the economy would slow sufficiently over the medium term to contain inflation pressures. The Bank also highlighted financial market turbulence, and the consequent tightening of financial conditions. Finally, the Bank noted that there was scope for the OCR to fall further so long as the inflation outlook improved, and the NZD didn't depreciate excessively.

Big picture events since the July OCR Review have generally been mixed. At one extreme, we continue to see a considerable deterioration in the global economic environment. Credit spreads continue to widen. While the currency has fallen materially, and all other things being equal would represent an inflationary problem, things are obviously not that clear-cut. The currency has dropped – aggressively – but we need to understand the reasoning before making comments in terms of overall monetary conditions. Notably that commodity prices have started to fall (an inflationary suppressant) and global growth concerns are intensifying. Net-on-net however, financial conditions have still eased but this is appropriate given the extreme tightening seen.

In terms of the domestic news, building consents have capitulated. House prices continue to fall. Encouragingly, we have started to see some signs of stabilisation in confidence, although this looks dependent on expectations of lower interest

rates. Petrol prices have receded, but so too has the currency of late. The RBA has had a massive change in sentiment over the past month, and such U-turns obviously do not occur for no reason. It begs the question what suddenly spooked them. On the inflation front, inflation expectations have nudged up, but pricing intentions down.

Once again the Reserve Bank finds itself facing a delicate balancing act as a huge amount of uncertainty remains. In terms of the forecast themselves, an even weaker growth prognosis relative to what was espoused in June, is expected to keep the CPI forecasts showing the hockey stick cycle despite a near-term blip to 5 percent. A favourable medium-term outlook will in turn see the interest rate projections trend lower, steadily, effectively endorsing market expectations of a continuation easing cycle.

In the current environment, and facing contrasting growth and inflation risks, we expect the tenor to reinforce a lot of uncertainty surrounding the outlook, a degree of conditionality over how far monetary policy can respond, and a heavy emphasis on taking guidance from data and unfolding events.

Financial market implications

The market is fully priced for rate cuts at each of the next three RBNZ meetings, with another two rate cuts spread over the remainder of H1 2009. This seems reasonable, and we doubt the RBNZ will say anything this week to significantly alter these expectations. **Some stronger conditionality, and highlighting of inflationary pressures suggest risk-return is pointing to a slight backup in current pricing.** However, the magnitude of this will obviously be capped in the current global-wary environment. Certainly, the Australian market wasn't rattled by the RBA last week. And if we continue to see more equity market weakness and greater financial market uncertainty, interest rates aren't likely to respond higher. Given the degree to which the NZD has been belted over the last 2 weeks, we suspect a cautious *MPS* will lend it some support, especially if equity markets settle down over the next few days following the US Government's support of Fannie Mae and Freddie Mac.

Our forecasts of RBNZ Projections for September MPS (June 2008 MPS Projections in brackets)					
<i>Half year average</i>	H2 2008	H1 2009	H2 2009	H1 2010	H2 2010
90 day	7.8 (8.8)	7.3 (8.5)	7.0 (8.1)	6.8 (7.8)	6.6 (6.7)
TWI	65 (67.8)	64 (65.9)	62 (64.5)	63 (62.9)	62 (61.8)
<i>March years</i>	2008	2009	2010	2011	
CPI (ann % chg)	3.4 (3.4)	4.6 (4.4)	3.2 (3.0)	2.5 (2.6)	
GDP (ann ave % chg)	3.0 (3.1)	0.0 (0.9)	1.8 (1.4)	3.0 (2.5)	

GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. US data was mixed last week, with poor labour market data showing the economy is not yet out of the woods. UK data was generally stronger than expected, although still consistent with a contracting economy and expectations were very weak. It was a mixed story across Asia.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	ISM Manufacturing (Aug)	50.0	49.9	50.0	In-line
	ISM Prices Paid (Aug)	82.0	77.0	88.5	Weaker
	Construction Spending (Jul) – mom	-0.4%	-0.6%	0.3%	Weaker
	Factory Orders (Jul)	1.0%	1.3%	2.1%	Stronger
	ISM Non-Manufacturing (Aug)	49.5	50.6	49.5	Stronger
	Change in Non-Farm Payrolls (Aug)	-75k	-84k	-60k	Weaker
	Unemployment Rate (Aug)	5.7%	6.1%	5.7%	Weaker
	Europe	PPI (Jul) – mom	1.2%	1.1%	1.0%
Retail Sales (Jul) – mom		0.1%	-0.4%	-0.9%	Weaker
GDP (2Q P) – qoq		-0.2%	-0.2%	-0.2%	In-line
ECB Interest Rate Announcement		4.25%	4.25%	4.25%	In-line
UK	PMI Manufacturing (Aug)	44.0	45.9	44.3	Stronger
	PMI Construction (Aug)	36.0	40.5	36.7	Stronger
	PMI Services (Aug)	47.0	49.2	47.4	Stronger
	Nationwide Consumer Confidence (Aug)	49	52	52	Stronger
	BoE Interest Rate Announcement	5.00%	5.00%	5.00%	In-line
Asia Ex-Japan					
<i>China</i>	PMI Manufacturing (Aug)	-	48.4	48.4	-
<i>Singapore</i>	PMI (Aug)	50.8	50.6	51.6	In-line
<i>South Korea</i>	Exports (Aug P) – yoy	23.3%	20.6%	36.0%	Weaker
	Imports (Aug P) – yoy	35.6%	37.0%	47.2%	Stronger
	CPI (Aug) – mom	0.5%	-0.2%	0.7%	Weaker
	Retail Sales (Jul) – yoy	-	12.3%	6.8%	-
<i>Thailand</i>	CPI (Aug) – mom	-0.9%	-3.0%	0.3%	Weaker
<i>Malaysia</i>	Exports (Jul) – yoy	15.4%	25.4%	18.6%	Stronger
	Imports (Jul) - yoy	9.1%	14.8%	12.5%	Stronger
<i>Philippines</i>	CPI (Aug) – mom	0.7%	0.3%	1.6%	Weaker
<i>Taiwan</i>	CPI (Aug) – yoy	5.00%	4.78%	5.91%	Weaker
<i>India</i>	Exports (Jul) - yoy	-	31.2%	23.5%	-
	Imports (Jul) - yoy	-	48.1%	26.0%	-
<i>Indonesia</i>	Inflation (Aug) – mom	0.7%	0.5%	1.4%	Weaker
	Exports (Jul) – yoy	30.0%	25.0%	34.9%	Weaker
	Imports (Ex Trade Zones) (Jul) – yoy	55.0%	68.8%	63.4%	Stronger
	Bank of Indonesia Reference Rate	9.25%	9.25%	9.00%	In-line
Japan	Labour Cash Earnings (Jul) – yoy	0.3%	0.3%	0.4%	In-line
	Capital Spending (2Q)	0.9%	6.5%	-4.9%	Weaker
Australia	Company Operating Profit (2Q) – qoq	2.3%	14.3%	3.1%	Stronger
	Building Approvals (Jul) – mom	0.5%	-2.3%	2.2%	Weaker
	RBA Interest Rate Announcement	7.00%	7.00%	7.25%	In-line
	GDP (2Q) – qoq	0.4%	0.3%	0.7%	Weaker

INTEREST RATE STRATEGY

The reassessment of global growth prospects and the consequent weakening of equity and commodity markets have seen interest rates fall across major markets, particularly the US and Australia. In the near term, a cautious RBNZ will restrain the short end, but prospects for the long end look good.

Market themes...

- > Strong rallies in the US and Australia need to be acknowledged. These are liquid and well informed markets, and tend to be the first to react to changing circumstances.
- > The Australian market has been reluctant to back away from aggressive easings. By contrast, the NZ market has been cautious.
- > As much as a confidence booster as the Fannie Mae and Freddie Mac news is, the big picture remains cautious.

Review and outlook...

NZ interest rates held reasonably steady over the course of last week despite strong rallies offshore, which intensified on Friday. However, bearish fever was stopped dead in its tracks following the US Government's announcement on Friday (after the NZ close) that it was taking control of Fannie Mae and Freddie Mac. US yields have since backed up, but remain around 10bps lower than this time a week ago. Clearly the comprehensive support package for Fannie and Freddie will shore up confidence, but don't lose sight of what led to this action. We therefore wonder how long the optimism will last, especially as both entities need to substantially reduce their balance sheets over the next few years.

The major event *Downunder* last week was supposed to be the RBA board meeting, but as it turned out, it had very little impact. The RBA cut by 25bps as expected, but even a circumspect and neutral press release couldn't rein in a market eager to follow global bond markets lower in yield. In fact, as the week progressed, expectations for rate cuts actually intensified further, mirroring moves in other markets.

Looking ahead domestically, we expect the short end to be restrained by the RBNZ. With rate cuts already fully factored in for each of the next four RBNZ meetings, there is a limit to how much lower interest rates can go. Unlike the Australian market, which has been eager to get ahead of, and test the RBA, the NZ market seems more comfortable taking guidance from the RBNZ.

We still like the long end of the yield curve. As we noted last week, the downside risks to growth are substantial, and while the Fannie Mae and Freddie

Mac news is a welcome confidence boost, the big picture globally and domestically remains one of caution.

Gauges for NZ interest rates		
Gauge	Direction	Comment
RBNZ	↔/↓	Near term expectations are realistic. However, the market hasn't priced in a long enough cycle.
NZ data	↔	No data last week, and the market will tread water ahead of the MPS this week.
Fed Funds/ front end	↔/↓	The market has pushed out the first hike to June 2009.
RBA	↔	Market pricing is now consistent with a follow up cut next month, and a second one by Christmas.
US 10 year	↔/↓	Yields have backed up after the Fannie/Freddie news, but had been rallying hard.
NZ swap curve	↔/↓	The long end can follow global yields lower – but the short end can't realistically anticipate any more easings in the near term.
Flow	↔/↓	Stale longs have been cleared, or have retreated. Expect receivers to dominate.
Technicals	↔	Looking better now after a few days of gradual rallies.

Borrowing strategies we favour at present

Keep cover short in duration. 1yr and 2yr yields incorporate an expectation of lower rates, and offer immediate cost savings. The level of rates remains historically high, and there's not enough of a saving to make the long end appealing.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Sep-08	-28	-31
Thu 23-Oct-08	-50	50
Thu 4-Dec-08	-75	-74
Thu 22-Jan-09	-101	-96
Thu 5-Mar-09	-115	-116
Thu 23-Apr-09	-121	-117
Thu 4-Jun-09	-135	-135

Trading themes we favour at present

Use any back up in yields as an opportunity to extend duration, especially at the long end. The Fannie/Freddie news is a step in the right direction, but it doesn't make everything suddenly alright.

CURRENCY STRATEGY

After a heavy week last week, the NZD has opened on the front foot this morning with news of US government's support of Fannie and Freddie. We expect this to dominate trading this week, and in particular whether such action acts as a stabiliser and restores risk appetites. With the market also wary of equity "Septemberitis" we expect to see continued volatility. This week's MPS is expected to deliver some support to the kiwi, although global forces look to hold sway.

Market themes...

- > Wider global gyrations weighed heavily on the kiwi last week and look set to play a key role again this week.
- > Digesting of news of Freddie and Fannie "conservatorship" may dominate early on.
- > Domestically a busy week, with RBNZ's MPS a key focus.

Review and outlook...

With limited local data, the NZD was clearly hostage to offshore sentiment last week and this resulted in some big moves. From starting the week at just over 0.70 against the USD, the kiwi dipped below 0.66 at one stage. Global growth concerns, improving USD sentiment, falling oil prices, risk aversion, carry trade liquidation and growing concerns over emerging-market Asia were all key factors. The NZD moves were not unique, the GBP was smashed and the EUR and AUD were also sold down heavily. The only currencies really benefiting in this environment were the greenback and the yen. Breaking it down, there was also a fair amount of "Septemberitis" with little appetites for risk into quarter or year end.

The NZD has opened this morning slightly bid, following news that the US government has placed the massive mortgage providers Freddie Mac and Fannie Mae into "conservatorship". To date, markets have taken the news positively although a lot of uncertainty remains as markets digest the implications. Will it be a circuit breaker to some of the global themes discussed above, or is it a sign of more to come? Only time will tell, but our suspicion is that focus will return to the big picture once initial optimism fades. What is likely though, is that this week is unlikely to be any less volatile than the last week.

It is these global events that risk overshadowing what is likely to be quite a busy week here locally. The RBNZ, at their *Monetary Policy Statement* on Thursday, is expected to deliver another 25bp rate cut and lower their near-term growth forecasts. At the market, we see the assessment as being mildly

supportive the NZD. Building work put in place (Monday) and OTI data (Thursday) should help confirm that June quarter GDP contracted. Rounding out the week is July retail sales and while we expect a small bounce, the underlying trend will remain soft. But the key this week looks to centre offshore and how the globe performs.

Technically, the bounce seen this morning will have the market looking to consolidate recent losses. The first resistance level in NZD has been tested this morning at 0.6830. The next major level topside is at 0.7210. The NZDAUD cross continues to consolidate in a 0.8100-0.8250 range. We see this continuing at least till the RBNZ on Thursday.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Growth differentials still favouring AUD but closing.
Yield	↔	Aussie market nervous ahead of RBA.
Commodities	↔	Commodities weak for both.
Partial indicators	↓	NZ indicators still worse.
Technicals	↔	Range trading.
Sentiment	↔/↓	Japanese margin traders still net long AUD.
Other	↔	AUD in the RBA's hands.
On balance	↓	Aus curve relative to NZ still looks odd in terms of pricing for rate cuts

NZD vs USD: monthly directional gauges

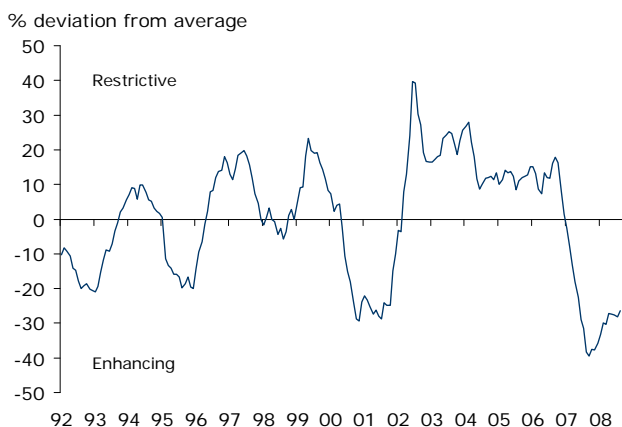
Gauge	Direction	Comment
Fair value – long-term	↓	Fair value 0.65 (and rising) given a structural shift in commodity prices.
Fair value – short-term	↑	NZD starting to look cheap in cyclical sense now.
Yield	↔/↑	RBNZ now easing but fully factored.
Commodities	↓	The big one to watch closely.
Risk aversion	↔/↓	Crumbling, although Fannie/Freddie a potential catalyst.
Partial indicators	↓	US data stabilising, NZ data still very weak.
Technicals	↔/↓	Resistance at 0.7210.
AUD	↔/↑	Watch out for recoil.
Sentiment	↔	Changes daily.
Other	↔	Freddie and Fannie watch.
On balance	↔	On the sidelines this week.

EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures take into account the world prices that exporters are able to command (commodity prices in the case of commodity exporters), and adjust them by currency movements based on the export destinations. While it is generally acknowledged that a high NZD is eroding the competitiveness of the export sector, our real effective exchange rate measures show a contrasting impact on different sectors of the export community.

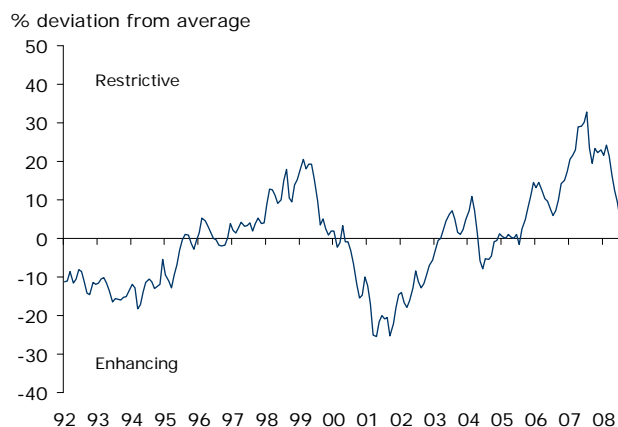
With world dairy and aluminium prices falling sharply last month, and more than offsetting movements lower in the NZD, these two sectors experienced a deterioration in their commodity adjusted real exchange rates (i.e. they became more restrictive), although the respective levels still remain enhancing. All other commodity adjusted currencies became more enhancing over the month. Looking at the levels, it is clear now that the only sector really facing difficult conditions is forestry, with its effective real exchange rate still well above its historical average. The horticultural sector is also facing restrictive conditions, but much less so than the start of the year.

Sector: Dairy, ≈18% of exports



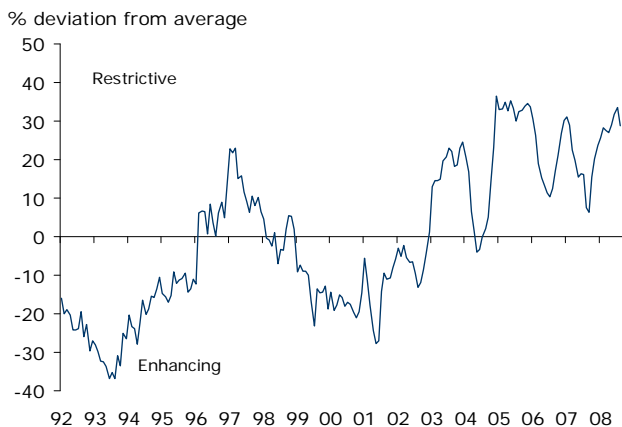
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat, ≈8% of exports



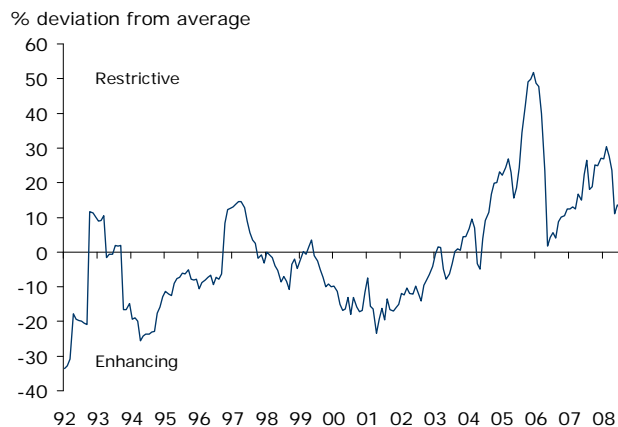
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry, ≈10% of exports



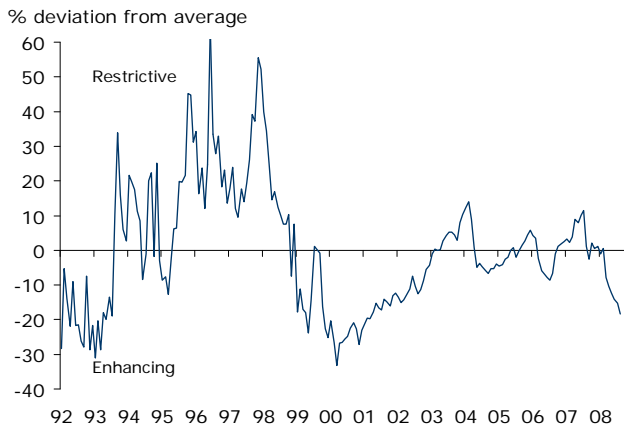
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture, ≈4% of exports



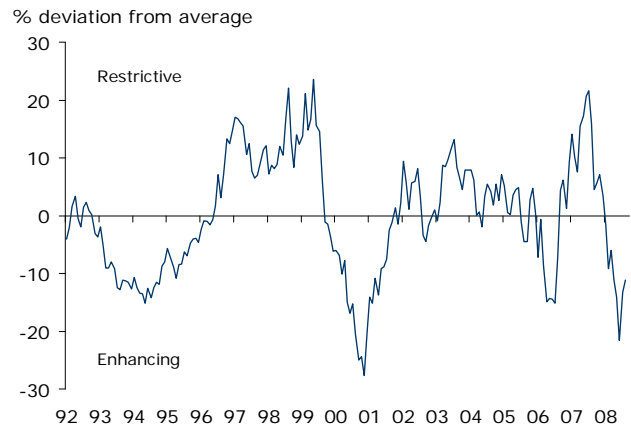
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood, ≈3% of exports



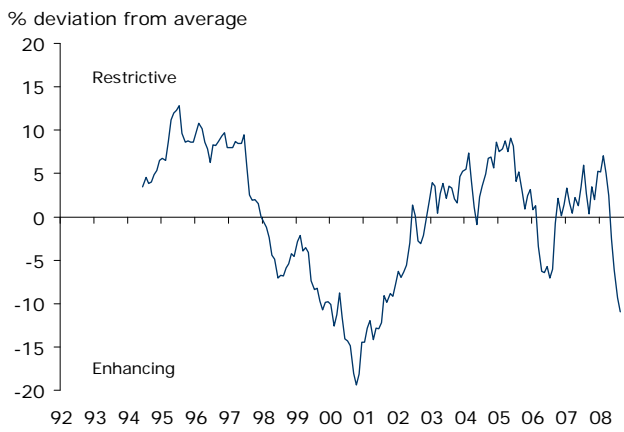
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude, ≈5% of exports



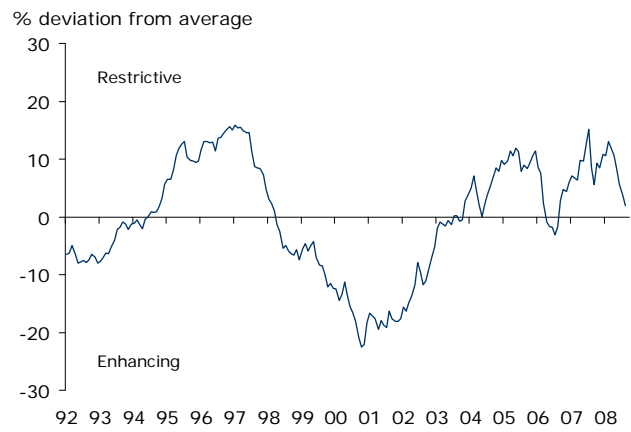
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Manufacturing, ≈20% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Services, ≈24% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
8-Sep	AU	RBA Governor Stevens Half-Yearly Testimony	-	-	11:00
		ANZ Job Advertisements (Aug) - mom	-	-0.3%	13:30
	JN	Money Stock M3 (Aug) - yoy	0.9%	0.8%	11:50
		Bank Lending incl Trusts (Aug) - yoy	-	1.8%	11:50
		Bank Lending Banks ex-Trust (Aug) - yoy	-	2.0%	11:50
	EU	Bimonthly Meeting of Bank for International Settlements	-	-	18:00
		Sentix Investor Confidence (Sep)	-18.3	-15.3	20:30
		ECB's Stark Speaks in Denmark	-	-	23:00
	UK	PPI Input s.a. (Aug) - mom	-1.2%	-0.6%	20:30
		PPI Output n.s.a. (Aug) - mom	0.1%	0.4%	20:30
		PPI Output Core s.a. (Aug) - mom	0.3%	0.3%	20:30
9-Sep	EU	ECB's Tumpel-Gugerell Speaks in Frankfurt	-	-	02:30
		ECB's Gonzalez-Paramo Gives Speech on Markets in London	-	-	11:00
	US	Fed's Fisher Speaks in Austin at Community Forum	-	-	05:00
		Consumer Credit (Jul)	\$8.6B	\$14.3B	07:00
	UK	RICS House Price Balance (Aug)	-85.0%	-83.9%	11:01
		Industrial Production (Aug) - mom	-0.1%	-0.2%	20:30
		Manufacturing Production (Aug) - mom	-0.1%	-0.5%	20:30
	AU	NAB Business Confidence (Aug)	-	-9	13:30
		NAB Business Conditions (Aug)	-	-5	13:30
		Home Loans (Jul)	0.0%	-3.7%	13:30
		Retail Sales (Jul)	-	-1.0%	13:30
		Investment Lending (Jul)	-	-0.3%	13:30
	JN	Machine Tool Orders (Aug P) - yoy	-	-8.9%	18:00
	GE	Trade Balance (Jul)	17.5B	19.7B	18:00
		Current Account (Jul)	15.0B	18.5B	18:00
		Imports (Jul) - mom	0.3%	-0.1%	18:00
		Exports (Jul) - mom	-1.1%	4.2%	18:00
10-Sep	US	Pending Home Sales (Jul) - mom	-1.3%	5.3%	02:00
		IBD/TIPP Economic Optimism (Sep)	44.0	42.8	02:00
		Wholesale Inventories (Jul)	0.7%	1.1%	02:00
	NZ	Terms of Trade Index (2Q) - qoq	-1.7%	4.1%	10:45
	UK	NIESR GDP Estimate (Aug)	-	0.1%	11:01
	JN	Domestic CGPI (Aug) - mom	0.0%	2.0%	11:50
		Adjusted Current Account Total (Jul)	¥1,350.0B	¥1290.7B	11:50
		Leading Index CI (Jul P)	91.9	91.3	17:00
		Coincident Index CI (Jul P)	102.5	101.6	17:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
10-Sep cont.	AU	Westpac Consumer Confidence (Sep)	-	9.1%	12:30
	EU	ECB's Trichet Speaks in Brussels	-	-	19:00
		ECB Council Member Liikanen Speaks in Helsinki	-	-	21:00
	UK	Total Trade Balance (Jul)	-£4200m	-£4414m	20:30
11-Sep	NZ	RBNZ Monetary Policy Statement	7.75%	8.00%	09:00
		Food Prices (Aug) - mom	-	0.6%	10:45
		Business NZ PMI (Aug)	-	48.8	12:00
	JN	Machine Orders (Jul) - mom	-4.0%	-2.6%	11:50
	AU	Consumer Inflation Expectation (Sep)	-	4.9%	13:00
		Unemployment Rate (Aug)	4.4%	4.3%	13:30
		Participation Rate (Aug)	65.3%	65.3%	13:30
		Employment Change (Aug)	5.9K	10.9K	13:30
	EU	ECB's Papademos Speaks in Hamburg	-	-	19:15
		ECB Publishes Monthly Report	-	-	20:00
		European Commission Releases Economic Growth Forecasts	-	-	21:45
	UK	BoE Quarterly Inflation Attitudes Survey	-	-	20:30
12-Sep	US	Trade Balance (Jul)	-\$58.0B	-\$56.8B	00:30
		Import Price Index (Aug) - mom	-1.5%	1.7%	00:30
		Initial Jobless Claims (w/e 7 Sep)	440k	444k	00:30
		Continuing Claims (w/e 31 Aug)	3,445k	3,435k	00:30
		Monthly Budget Statement (Aug)	-\$105.0B	-\$117.0B	06:00
	EU	ECB's Tumpel-Gugerell Speaks in Nice	-	-	00:30
		ECB's Trichet Speaks in Nice	-	-	06:00
		Employment (2Q) - qoq	-	0.3%	21:00
		Industrial Production (Jul) - mom	-0.2%	0.0%	21:00
	NZ	Retail Sales (Jul) - mom	-0.3%	0.9%	10:45
		Retail Sales Ex-Auto (Jul) - mom	0.2%	0.0%	10:45
	JN	Gross Domestic Product (2Q F) - qoq	-0.9%	-0.6%	11:50
		GDP Annualized (2Q F)	3.5%	-2.4%	11:50
		Industrial Production (Jul F) - mom	-	0.9%	16:30
		Capacity Utilization (Jul F) - mom	-	-1.7%	16:30
13-Sep	US	Producer Price Index (Aug) - mom	-0.5%	1.2%	00:30
		PPI Ex Food & Energy (Aug) - mom	0.2%	0.7%	00:30
		Advance Retail Sales (Aug)	0.3%	-0.1%	00:30
		Retail Sales Less Autos (Aug)	-0.2%	0.4%	00:30
		University of Michigan Confidence (Sep P)	64.0	63.0	02:00
		Business Inventories (Jul)	0.5%	0.7%	02:00

Key: AU: Australia, EU: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States. Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: There are two key focuses over the coming month. Firstly the RBNZ *Monetary Policy Statement* this Thursday, where we expect the Bank to cut rates by another 25 basis points and revise down their near-term growth forecasts further. The second are the final partial indicators of Q2 GDP, which we expect to confirm the economy again contracted.

Date	Data/Event	Economic Signal	Comment
Mon 8 Sep (10.45)	Value of Building Work Put in Place (Q2)	Contraction	Both residential and non-residential construction activity are expected to have fallen over the June quarter.
Wed 10 Sep (10.45)	Overseas Trade Indexes (Q2)	Elevated terms of trade	Still elevated prices of NZ key commodity exports is expected to see the terms of trade post a small increase in the quarter.
Thu 11 Sep (09.00)	RBNZ <i>Monetary Policy Statement</i>	25bp cut	We expect another 25bp cut in the OCR. The Bank's near-term GDP forecasts are likely to be revised even lower.
Fri 12 Sep (10.45)	Retail Trade Survey (Jul)	Underlying weakness	Credit card and ECT data suggest a rebound in July sales. We suspect much of this will be price related. An underlying weak trend should remain.
Mon 15 Sep (10.45)	Economic Survey of Manufacturing (Q2)	Soft	Primary food manufacturing is expected to rebound from last quarter's weakness, although activity for the remainder of manufacturing sector is expected to remain weak as illustrated by the Business NZ PMI survey.
Fri 19 Sep (10.45)	Balance of Payments (Q2)	Slow grind	The current account deficit is again expected to record a small improvement over the quarter as a result of a lower annual trade deficit.
Fri 19 Sep (10.45)	External Migration (Aug)	Stabilising	The annual inflow is expected to remain around its current 5,000 level. The timelier 3-mth annualised rate has been improving and currently sits around 9,000.
Fri 19 Sep (15.00)	Credit Card Billings (Aug)	Weak	Given slightly lower petrol prices in August, this may see the value of credit card billings ease slightly for the month. Volatility aside, the underlying trend for retailing should remain weak.
Mon 22 Sep (10.45)	Electronic Card Transactions (Aug)	Weak	Similar themes to the credit card data.
Fri 25 Sep (10.45)	Gross Domestic Product (Q2)	Contraction	We have pencilled in activity falling by 0.5 percent for the quarter, with residential investment and private consumption again expected to be weak. The risk is pointed to a larger contraction.
Mon 29 Sep (10.45)	Overseas Merchandise Trade (Aug)	Monthly deficit	Another monthly trade deficit is expected, although the annual deficit should continue to slowly improve.
Tue 30 Sep (10.45)	Building Consents (Aug)	Weak	Rebound, although the level of residential building consent issuance is likely to remain low. Commercial consent issuance is now also a key area to watch.
Tue 30 Sep (15.00)	NBNZ <i>Business Outlook</i> (Sep)	-	-
Thu 2 Oct (15.00)	ANZ Commodity Price Index (Sep)	-	-
On Balance		Contracting economy yesterday's news with some signs of stabilisation in confidence?	Still a lot of imbalances to work through.

SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
GDP (% qoq)	0.8	0.5	0.8	-0.3	-0.5	-0.2	0.2	0.3	0.5	0.5
GDP (% yoy)	3.2	3.3	3.5	1.9	0.6	-0.2	-0.8	-0.2	0.8	1.5
CPI (% qoq)	1.0	0.5	1.2	0.7	1.6	1.2	0.8	0.9	0.9	0.7
CPI (% yoy)	2.0	1.8	3.2	3.4	4.0	4.8	4.4	4.7	4.0	3.4
Employment (% qoq)	0.3	-0.1	0.9	-1.3	1.3	-0.6	-0.1	0.0	0.1	0.1
Employment (% yoy)	1.5	1.5	2.5	-0.2	0.7	0.2	-0.7	0.6	-0.6	0.0
Unemployment Rate (% sa)	3.6	3.5	3.4	3.7	3.9	4.2	4.5	4.6	4.9	5.1
Current Account (% GDP)	-8.1	-8.3	-7.9	-7.8	-7.7	-7.6	-7.5	-7.3	-6.6	-6.3
Terms of Trade (% qoq)	0.4	3.7	2.7	4.1	0.2	-1.0	0.0	-1.5	-1.2	-1.0
Terms of Trade (% yoy)	2.3	8.4	8.5	11.3	10.7	5.7	2.9	-2.7	-3.7	-3.7

KEY ECONOMIC INDICATORS

	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
Retail Sales (% mom)	1.8	0.0	0.3	-0.7	-1.1	1.2	-1.1	0.9
Retail Sales (% yoy)	7.2	5.4	6.3	7.7	-1.0	4.1	1.0	1.5
Credit Card Billings (% mom)	1.1	0.7	-0.4	0.7	-2.5	2.9	-0.9	-0.4	0.4	..
Credit Card Billings (% yoy)	9.4	7.7	8.6	7.9	3.5	8.0	5.9	3.4	3.8	..
Car Registrations (% mom)	-3.7	-2.7	9.8	-8.5	-12.8	11.4	-13.5	1.4	-7.5	..
Car Registrations (% yoy)	2.3	1.4	1.7	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	..
Building Consents (% mom)	0.5	-4.3	3.7	-6.4	-14.3	82.7	-41.8	-18.8	4.8	..
Building Consents (% yoy)	-4.7	-6.6	-5.0	-17.7	-27.5	31.1	-27.0	-47.0	-35.1	..
REINZ House Price (% yoy)	6.7	4.5	4.0	0.7	1.6	-1.1	-1.4	-2.2	-1.4	..
Household Lending Growth (% mom)	0.8	0.7	0.7	0.9	0.4	0.4	0.4	0.3	0.3	..
Household Lending Growth (% yoy)	12.8	12.3	11.9	11.6	10.8	9.9	9.3	8.4	7.7	..
Roy Morgan Consumer Confidence	121.9	126.6	121.2	116.0	111.7	99.9	89.2	86.5	83.9	91.4
NBNZ Business Confidence	-19.6	-24.9	..	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2	-20.5
NBNZ Own Activity Outlook	15.7	18.2	..	2.4	-6.4	-3.8	-4.4	-4.0	-8.2	4.7
Trade Balance (\$m)	-628	39	-311	243	-43	-293	-168	-207	-781	..
Trade Balance (\$m annual)	-5691	-5307	-4793	-4422	-4526	-4604	-4781	-4469	-4443	..
ANZ World Commodity Price Index (% mom)	0.8	0.0	-1.4	1.1	2.0	-0.3	0.9	0.0	1.8	-3.3
ANZ World Commodity Price Index (% yoy)	35.9	30.9	27.4	26.9	26.9	20.7	18.7	11.6	8.7	3.6
Net Migration (sa)	460	30	120	260	540	480	960	480	850	..
Net Migration (annual)	6588	5491	4799	4643	4678	4666	4931	4732	5201	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jul-08	Aug-08	8-Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
NZD/USD	0.756	0.710	0.679	0.650	0.680	0.650	0.630	0.610	0.590	0.580
NZD/AUD	0.785	0.803	0.820	0.756	0.819	0.813	0.808	0.803	0.797	0.806
NZD/EUR	0.479	0.474	0.473	0.451	0.486	0.478	0.470	0.469	0.461	0.468
NZD/JPY	80.7	77.7	73.6	70.2	74.8	71.5	70.6	69.5	67.9	68.4
NZD/GBP	0.380	0.375	0.381	0.365	0.384	0.369	0.362	0.353	0.343	0.339
NZ\$ TWI	67.2	65.5	64.4	61.1	65.0	63.1	61.9	60.9	59.6	59.6
NZ interest rates	Jul-08	Aug-08	8-Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
OCR	8.18	8.00	8.00	7.25	7.25	7.00	6.50	6.00	6.00	6.00
90 day bill	8.46	8.20	8.06	7.60	7.60	7.10	6.50	6.20	6.20	6.20
10 year bond	6.17	6.13	6.03	6.00	6.00	5.80	5.70	5.70	5.80	6.00
International	Jul-08	Aug-08	8-Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
US Fed funds	2.00	2.00	2.00	1.75	1.75	1.75	1.75	2.25	2.75	3.50
US 3-mth	2.79	2.81	2.81	2.00	1.75	2.00	2.50	3.00	3.50	4.00
AU cash	7.25	7.25	7.00	6.75	6.75	6.50	6.25	6.25	5.75	5.75
AU 3-mth	7.76	7.27	7.20	7.00	7.00	6.80	6.50	6.40	5.90	5.90

KEY RATES

	5 Aug	1 Sep	2 Sep	3 Sep	4 Sep	5 Sep
Official Cash Rate	8.00	8.00	8.00	8.00	8.00	8.00
90 day bank bill	8.29	8.09	8.10	8.08	8.08	8.09
NZGB 07/09	6.91	6.83	6.83	6.83	6.83	6.81
NZGB 11/11	6.15	6.06	6.05	6.04	6.01	5.96
NZGB 04/13	6.14	6.03	6.03	6.00	5.97	5.92
NZGB 12/17	6.15	6.00	5.99	5.97	5.96	5.92
2 year swap	7.29	7.33	7.29	7.28	7.27	7.23
5 year swap	7.08	7.07	7.05	7.07	7.05	7.00
RBNZ TWI	65.6	65.2	65.0	64.0	64.4	63.4
NZD/USD	0.7271	0.6964	0.6921	0.6745	0.6824	0.6673
NZD/AUD	0.7837	0.8154	0.8156	0.8167	0.8179	0.8176
NZD/JPY	78.67	75.54	74.91	73.47	73.69	71.21
NZD/GBP	0.3709	0.3855	0.3863	0.3807	0.3844	0.3795
NZD/EUR	0.4681	0.4754	0.4748	0.4674	0.4702	0.4675
AUD/USD	0.9278	0.8541	0.8486	0.8259	0.8343	0.8162
EUR/USD	1.5533	1.4648	1.4576	1.4431	1.4514	1.4275
USD/JPY	108.20	108.47	108.23	108.92	107.98	106.71
GBP/USD	1.9602	1.8064	1.7916	1.7717	1.7753	1.7582
Oil	121.45	115.55	109.63	109.63	109.38	107.99
Gold	891.65	830.90	804.45	800.55	801.85	795.60
Electricity (Haywards)	7.52	14.10	7.59	3.04	4.62	6.51
Milk futures (US\$/contract)	139	n/a	134	134	134	131
Baltic Dry Freight Index	8100	6691	6466	6146	5874	5663

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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.

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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.

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- Associate Member of Investment Savings & Insurance Association of NZ;
- Financial Markets Operations Association; and
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Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

- ANZ Investment Services (New Zealand) Limited (ANZIS), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ANZIS may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- UDC Finance Limited (UDC), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. UDC may receive remuneration from a third party relating to a security sold by the Investment Adviser.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

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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