

## GROUNDHOG DAY

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### Page 2: Economic overview

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### Page 4: Economic comment – the good, the mediocre and the ugly

- > It has been another very mixed year for New Zealand agriculture. Weather, prices and profits have been quite variable between sectors. Agriculture remains a key driver of economic growth in New Zealand and is critical for the rebalancing process the economy is undertaking. With farm values now under pressure, a lot rests on the currency, particularly for the dairy industry.

### Page 6: Economic comment – global watch

- > Data last week provided a reminder that while forward looking gauges continue to point to signs of stabilisation in the US (although retail sales data was a hiccup), there remains a significant amount of weakness in other areas. Poor Q1 GDP results in Europe and Hong Kong last week as well as weaker than expected Chinese trade figures illustrates this.

### Page 7: Interest rate strategy

- > The big picture hasn't changed, but some of the attitudes around it have. Until last week, "green shoots" were in vogue, but now they're being questioned. As these get dismissed, the market will be in a better mood to entertain Governor Bollard's message. This is a significant step in the right direction, and should see interest rates remain biased lower.

### Page 8: Currency strategy

- > Has all the good news been seen? Is the recovery priced in before all the hard work is done? These are the questions that have to be decided this week. Expect the NZD to remain heavy as the recent green shoots thesis is questioned.

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## ECONOMIC OVERVIEW

Local economic data continues to point to stabilisation in some pockets, although it is not all one-way traffic, and it's off a bigger hold in Q1. Such stabilisation, in housing for instance, is off a low base. With structural imbalances yet to be purged, we struggle to see a sustained recovery taking hold. This week's data is expected to continue the theme of mixed messages, with migration positive, credit card billings showing a statistical bounce, but tourism inflows poor.

### What's ahead?

- > **April International Travel and Migration** (Thursday 10.45 NZST). Fewer New Zealanders choosing to leave will see net migration remain positive. Short-term visitor arrivals will likely head lower again as a consequence of the global backdrop.
- > **March quarter NBNZ Regional Trends** (Thursday 15.00 NZST).
- > **April Credit Card Billings** (Thursday 15.00 NZST). The data is notoriously volatile. However, considering the large 3.1 percent fall in March, we expect a degree of pull-back this month.

### What's the view?

Looking back over the past week, it really was a case of Groundhog Day. Evidence of stabilisation in some pockets continues to surface, and as we reported in last week's *Market Focus*, this is a trend that needs to be respected. REINZ housing data for April provided confirmation that the housing market is bouncing back and that green shoots are definitely sprouting for this sector. In fact, the numbers were quite strong, with seasonally adjusted house sales rising an impressive 19.6 percent in the month – although we again need to distinguish between the level and the rate of change. Nevertheless, the median number of days to sell a house – a key gauge we monitor – is also falling, and at 44 days, is not too far above the historical average of 39 days.

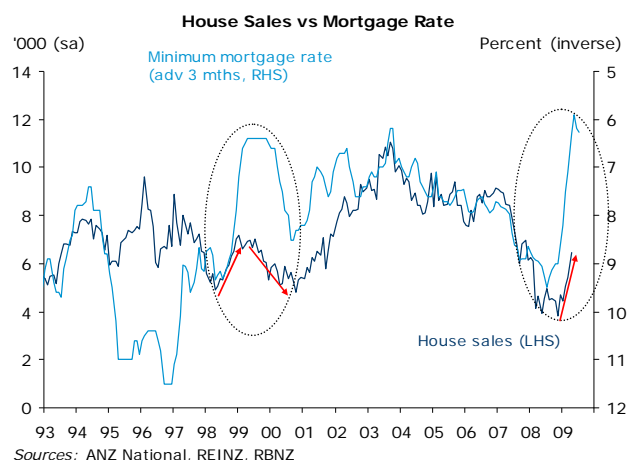
The Business NZ manufacturing PMI was another gauge to record an improvement, with the index rising 1.8 points to 43.7 in April. Yes, it is still well below the key 50 level and as such, the manufacturing sector is still contracting. But the PMI reading has reached its highest level since September 2008. And finally, retail spending is also showing some tentative signs of stabilisation, although admittedly it is far from cut and dry. We could pick up on the massive quarterly contraction in real retail spending of 2.9 percent, which sets up the likelihood of another large fall in GDP, as a sign that things remain very weak, and this would be

true. We have a 1.5 percent contraction for GDP in the March quarter, which is way out of consensus at present. So any recovery is climbing out of a deeper hole.

However, for the month of March itself, nominal "core" spending (which strips out motor vehicle related industries) rose 0.5 percent and does look to be forming a base, albeit at a low level. With income boosts coming from tax cuts and lower mortgage payments, we expect these signs of stabilisation in retail spending to continue.

Regular readers will be well aware of our views surrounding the outlook for the economy. But at the risk of repeating our messages from the past few weeks, we are encouraged by these signs of stabilisation – up to a point. A lot will reflect not only the pure base effect and bungy-cord dynamic, but also the stimulus from aggressive policy responses – both monetary and fiscal. While we expect the economy will trough in the June quarter this year, and hence begin to post positive GDP growth again from H2 2009, that growth will be tepid and won't necessarily feel like a recovery. Until we see sustained signs of improvement in those key structural indicators we keep harping on about, we struggle to see any sustained recovery taking hold.

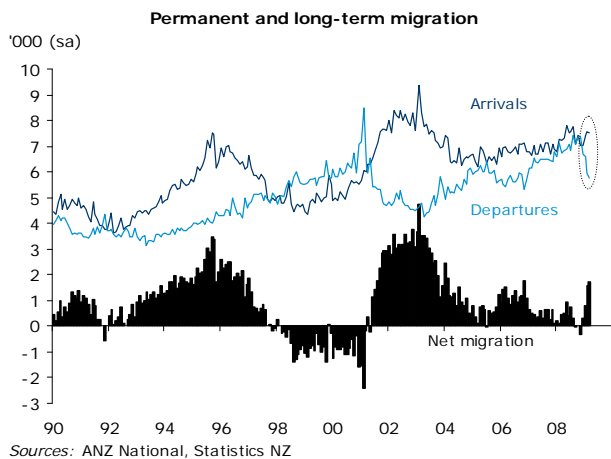
We are equally mindful that pockets of the economy showing stabilisation locally are not out of the woods yet. In the housing market for example, history does not suggest momentum will be sustained, even with the very low mortgage interest rates. Low interest rates over 1999 didn't stop house sales deteriorating again in the face of high unemployment, and there is a definite risk of this occurring again. The deteriorating labour market situation is also likely to be a massive headwind for any solid recovery in consumer spending, as naturally will the backdrop of household de-leveraging.



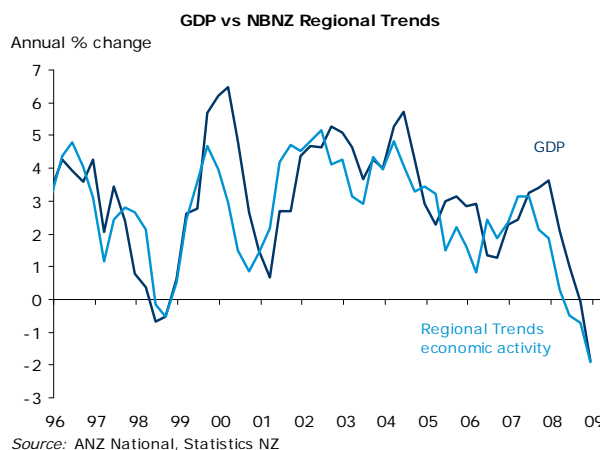
What this all means going forward is that we still think we are set for a period of continued extended volatility as markets both here and offshore grapple

with the signs of green shoots at present off deep declines, but also the structural challenges that remain. Using the words from last week, markets are moving from one of *trends* to *tensions*.

The data calendar is relatively quiet this week. However, it looks like it will be the calm before the storm. Next week is set to be very busy, with the *NZ Budget*, *NBNZ Business Outlook*, trade balance, *RBNZ Survey of Expectations*, building consents and credit growth all released. This week though, April migration data and the March quarter *NBNZ Regional Trends* results are the two main releases. The migration data is likely to continue the pattern of the past few months and show a reasonable monthly net inflow. This again is expected to be due to a lower number of New Zealanders choosing to leave, with arrivals remaining broadly unchanged. While there has been some speculation that a number of ex-pat New Zealanders will return home in the face of the global backdrop, there is little evidence of this occurring to date. The reality that they still need to find a job back in NZ before returning and this will no doubt be a big sway decision. As we have said in previous research pieces, positive net migration is obviously better than the alternative. However, with most of it being driven by fewer departures this time around, this represents a very different economic impetus than in previous cycles. In terms of short-term visitor arrivals, there is little doubt that the trend will continue to be downwards.



The *NBNZ Regional Trends* has provided a good gauge of actual changes in GDP growth over recent times (predicting the last four quarterly contractions). We will be watching what the March quarter numbers imply very closely when it is released on Thursday.



The final piece of domestic data this week is credit card spending for April. Given its remarkable volatility of late, it has lost some of its explanatory power for retail spending. Nonetheless, we will be interested in the proportion of interest bearing advances as a percentage of the total balances outstanding. This ratio has been rising over the past 18 months and is a sign that some households are struggling to meet regular repayments.

Internationally, it is also a relatively quiet week for data. The big releases in the US are April housing starts and building permits, as well as the Philadelphia Fed manufacturing index, which is a good leading gauge for US GDP. The minutes from the latest FOMC meeting are also released. In Australia, the minutes from the RBA's latest meeting will also be dissected for any clues on future policy moves, as will a speech from RBA Governor Stevens. In other parts of the globe, UK CPI and PMI surveys in the UK and Europe will also be of interest.

### Recent local data...

- > **Electronic Card Transactions (April):** Total retail spending rose 0.3 percent, while core retail spending rose 0.5 percent over the month.
- > **REINZ House Sales (April):** In seasonally adjusted terms, house sales rose 19.6 percent in the month to 6,469 and median days to sell fell 6 days to 44 days. The median sale price rose \$5,000 to \$340,000.
- > **BNZ-Business NZ PMI (April):** The index rose from 41.9 to 43.7.
- > **Retail Sales (March):** Total nominal sales fell 0.4 percent in the month, while core sales rose 0.5 percent. Quarterly real spending tumbled 2.9 percent.

## THE GOOD, THE MEDIOCRE AND THE UGLY

It has been another very mixed year for New Zealand agriculture. Weather, prices and profits have been quite variable between sectors. Agriculture remains a key driver of economic growth in New Zealand and is critical for the rebalancing process the economy is undertaking. With farm values now under pressure, a lot rests on the currency, particularly for the dairy industry.

### Rain - finally

The weather over the season can be described in all the terms in our title above. A wet, cold and windy spring ran into a dry spell, followed by reasonable rain in February, followed by another drier patch limiting autumn grass growth. Unusually, Marlborough had a very wet summer. This is great for pastoral agriculture, but not so good for viticulture.

Other parts of the east coast (both islands) and the Waikato were also dry in March and April. Southland had an overall reasonable year grass-wise. The West Coast was stop start. Finally, winter has arrived with a bang – but hey, it is the middle of May.

Feed conditions on many farms can be described as just adequate. Stock numbers are down (or still down) in districts that have been short of rain or in drought.

### The good

Sheep, meat and venison producers have had a much better year. Prices for prime lambs are at record highs (in nominal terms), being around \$30 per head higher than the last three year average of \$55. The offsets for some include fewer lambs to sell as the ravages of two or three consecutive years of drought or very dry weather take their toll on stocking rates and lambing percentages.

Export apple sales are off to a good start, albeit being early days in the 2009 selling season.

### The mediocre

Beef got off to a very good start in the spring but has faded as the year progressed. Prices are not that bad but recent vendors will be disappointed. Cereals have a similar story. International prices last year suggested boomer returns. The reality has been a bit different with hail damage to some crops and lower prices for growers who did not take a contract for sale.

Dairy comes close to the last descriptor in the title. Promising early forecasts won't be delivered on and cash flows for many dairy farmers are tight. The extent of the reduction in the farm gate price

forecast for milk within the season has been financially traumatic for some farmers. Fonterra reduced their May 2008 forecast of \$7/kg ms in three steps to \$5.10 by January 2009, subsequently revised to \$5.20 in April. Westland Milk Product's first (November 2008) forecast range was \$5.20 to \$5.60, revised shortly after to \$4.10 to \$4.50.

A significant proportion of dairy farm working expenditure is fixed and a high proportion of that is spent in the first half of the year. It is not a lot of comfort to many that the Fonterra forecast at \$5.20/kilogram of milk solids will be the third highest (nominal) payout ever. The cash flow received by dairy farmers within a season (1 June to 31 May) is a combination of the earnings carried forward from last season plus an advance payment on the current season. A profile of advance payments for the coming season is established with the first forecast. The initial advance is about 60 percent of the forecast annual price.

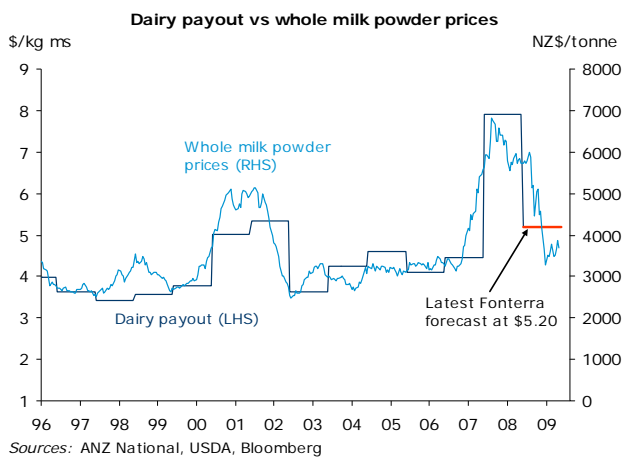
The drop in the forecast result for 2008/09 means that the earnings carried forward from 2008/09 into the 2009/10 season will be less than initially budgeted on, and a forecast of around \$5 will mean a lower initial advance than was paid in 2008. Dairy farm cash flows for the next eight months will require constrained discretionary expenditure against a reduced ability to extend overdrafts. Rural communities have felt immune from the global downturn to date, but this is likely to be a key litmus test.

Much has attempted to be made of the four percent fall in the Fonterra May auction price for whole milk powder after 16.6 and 3.5 percent increases in February and March respectively. Our view is that a four percent movement between months is nothing spectacular. Look at the volatility for example in the price of oil, wheat and currencies between months. Heightened volatility (i.e. bigger changes over shorter time frames) is the norm in today's economic environment, and is likely to be so for some time. Remember also that the payout is the average result of 12 months' sales.

Statistically, busts for commodity prices (if you can call +\$2,000 per tonne for milk powder a bust!) have lasted longer than the booms, with the latter tending to be short and sharp. We expect this cycle to be no different, so it looks like a question of getting used to something around \$5/kg milk solid for a couple of years. This will only accentuate cash-flow pressure on segments in the industry.

Our forecast for the 2009/10 average industry payout is \$5.20, little changed from the expected 2008/09 result. That forecast is premised on a lower exchange rate than current values (near NZD/USD 0.50) and company hedging policies

delivering a neutral result. Guidance given by Fonterra at the end of the month for 2009/10 will be closely perused. The currency leg is crucial and is not helping at present. There will be a lot of nervousness with the NZD around 60 cents.



## The ugly

Crossbred wool has to be the ugly. A solid improvement on opening season crossbred wool auction prices was snuffed out with a collapse in retail demand for all products, and auction prices have slumped 20 to 30 percent from a peak in September 2008. A (very) small consolation is that cotton prices have also slumped 30 percent from March 2008.

It is too early to tell what the impacts of the hail storms in the Bay of Plenty on the 12th of May will be. The consequences of fruit damage for those individuals affected may be significant. However for the industry, it may ease, but not eliminate, the pressure that an increase in the volume of fruit available and the global economic environment was expected to exert on the market.

Cost increases remain an issue. Fertiliser is still about double its longer run price. Fuel prices have eased, wages are up a bit and standing charges are also up. Grazing and feed purchases started out high. Contractual arrangements and relationships are being tested.

Anecdotal evidence has the price of land down by amounts varying from very little to down by over 20 percent. Certainly, the Real Estate Institute of New Zealand data gives an indication of the magnitude of the fall in the median prices for farmland and lifestyle blocks.

The all farms median price in April, at \$1.04 million, continued a downward trend that began from a peak of \$1.86 million in May 2008. This is a drop of 44 percent but a lot will represent noise and we doubt this is where the market actually sits, although anecdotes strongly suggest that prices have fallen, and materially so in some instances.

The number of sales ticked up in April from the previous month. However, the total three month sales to April 2009 was 266; one third of the comparable number for April 2008 (786) and is the second lowest number of sales since the data series began in March 1996. The three month volume of sales peaked in December 2007 at 753. The fact properties are not transacting is making it difficult to get a feel for where the market sits. Prices are down, but debate surrounds the degree. Waving our finger in the air, a 20 percent fall appears as good a judgement as any.

The fall in the exchange rate has helped agricultural export returns in the 2008/09 season but perhaps not as much as some had hoped. Currently there is a dichotomy between what should happen to the NZD exchange rates based on "fundamentals" versus what is actually happening. We have noted time and time again that the currency is a key relative release valve that must adjust to assist the economy's rebalancing process away from the spending side towards the earnings side. If it doesn't and continues to be frustrated by USD aspects to it, then pressure on rural farm gate returns and land prices will intensify further.

## The Rub

Agriculture in New Zealand is a diverse industry based on both pastoral farming and horticulture. Usually one or more sectors are enjoying better times while one or more of the remainder are faring not quite so well. That is the situation at present. As is also usual, some segments within a sector are usually better off than others.

Agriculture remains a key driver of economic growth in New Zealand and critical for the rebalancing process the economy is undertaking. With farm values now under pressure, a lot rests on the currency adjusting lower, particularly for the dairy industry.

## GLOBAL DATA WATCH

Data last week provided a reminder that while forward looking gauges continue to point to signs of stabilisation in the US (although retail sales data was a hiccup), there remains a significant amount of weakness in other areas. Poor Q1 GDP results in Europe and Hong Kong last week as well as weaker than expected Chinese trade figures illustrates this.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
<b>Australia</b>	NAB Business Confidence (Apr)	-	-14	-13	-
	Home Loans (Mar)	4.5%	4.9%	1.2%	Stronger
<b>US</b>	Trade Balance (Mar)	-\$29.0B	-\$27.6B	-\$26.1B	Stronger
	Monthly Budget Statement (Apr)	-\$20.0B	-\$20.9B	\$159.3B	In-line
	Import Price Index (Apr) – mom	0.6%	1.6%	0.2%	Stronger
	Advance Retail Sales (Apr) – mom	0.0%	-0.4%	-1.3%	Weaker
	Business Inventories (Mar)	-1.1%	-1.0%	-1.4%	In-line
	PPI (Apr) – mom	0.2%	0.3%	-1.2%	In-line
	Continuing Jobless Claims (w/e May-3)	6410K	6560K	6358K	Weaker
	CPI (Apr) – mom	0.0%	0.0%	-0.1%	In-line
	Empire Manufacturing (May)	-12.0	-4.6	-14.7	Stronger
	Net Long-Term TIC Flows	\$32.5B	\$55.8B	\$22.0B	Stronger
	Industrial Production (Apr)	-0.6%	-0.5%	-1.7%	In-line
	U. of Michigan Confidence (May P)	67.0	67.9	65.1	Stronger
<b>Euro-zone</b>	Industrial Production (Mar) – mom	-1.0%	-2.0%	-2.5%	Weaker
	CPI (Apr) – mom	0.4%	0.4%	0.4%	In-line
	GDP (1Q A) - qoq	-2.0%	-2.5%	-1.6%	Weaker
<b>UK</b>	Total Trade Balance (Mar)	-£3000M	-£2537M	-£2767M	Stronger
	Industrial Production (Mar) – mom	-0.9%	-0.6%	-0.8%	Stronger
	DCLG House Prices (Mar) – yoy	-13.0%	-13.6%	-12.3%	Weaker
	Jobless Claims Change (Apr)	85.0K	57.1K	65.5K	Stronger
	Average Earnings inc Bonus (Mar) – 3m/yoy	-1.0%	-0.4%	0.2%	Stronger
<b>Asia Ex-Japan</b>					
<i>China</i>	CPI (Apr) – yoy	-1.4%	-1.5%	-1.2%	In-line
	Money Supply – M2 (Apr) – yoy	25.3%	26.0%	25.5%	Stronger
	Exports (Apr) – yoy	-15.3%	-22.6%	-17.1%	Weaker
	Imports (Apr) – yoy	-22.4%	-23.0%	-25.1%	Weaker
	Retail Sales (Apr) – yoy	14.5%	14.8%	14.7%	In-line
	Industrial Production (Apr) – yoy	8.6%	7.3%	8.3%	Weaker
<i>South Korea</i>	Money Supply – M2 (Mar) – yoy	-	11.1%	11.4%	-
	BoK 7-Day Repo Rate	2.00%	2.00%	2.00%	In-line
	Unemployment Rate (Apr)	-	3.7%	3.7%	-
<i>Singapore</i>	Retail Sales (Mar) - mom	-7.5%	-5.1%	10.4%	Stronger
<i>Hong Kong</i>	GDP (1Q) – qoq	-2.6%	-4.3%	-1.9%	Weaker
<i>Thailand</i>	Consumer Confidence (Apr)	-	65.1	66.0	-
<i>Malaysia</i>	Industrial Production (Mar) – yoy	-15.0%	-14.4%	-14.6%	Stronger
<i>Indonesia</i>	GDP (1Q) – qoq	1.5%	1.6%	-3.6%	In-line
<i>India</i>	Industrial Production (Mar) – yoy	-0.7%	-2.3%	-0.7%	Weaker
<i>Philippines</i>	Total Exports (Mar P)- yoy	-34.5%	-30.9%	-39.1%	Stronger
<i>Vietnam</i>	Retail Sales YTD (Apr) – yoy	-	21.5%	21.9%	-

## INTEREST RATE STRATEGY

The big picture hasn't changed, but some of the attitudes around it have. Until last week, "green shoots" were in vogue, but now they're being questioned. As these get dismissed, the market will be in a better mood to entertain Governor Bollard's message. This is a significant step in the right direction, and should see interest rates remain biased lower.

### Market themes...

- > Market sentiment is moderating, and we expect this to continue this week. The distinct turn in the monetary policy cycle that was priced in a week ago is starting to be "ironed out".
- > While soft data helped the swing in sentiment, it's difficult to pinpoint any particular catalyst. We think it's simply a case of rational thought being brought to bear on market pricing.
- > Next week's *Budget* is crucial and should avert a downgrade. This will only be achieved by a less expansionary fiscal policy, which also points to looser monetary policy for longer.

### Review and outlook...

The "big picture" hasn't changed materially over the past week, but the same can't be said of sentiment. Broadly speaking, last week's US and European data dashed expectations, as did NZ retail sales. Surprising as these events (which tended to be much weaker than market expectations) were, the reality is that the various releases form only a very small part of the overall picture. We think this explains why none of last week's data releases had a material impact on pricing on their own. Rather, it appears that the market has concluded that enough was enough, and talk of "green shoots" had gone on for long enough. At the early stages of optimism, markets aren't particularly discerning, and tend to be highly correlated. It's almost as though everything moves together – interest rates rise, high yielding currencies rise, and share prices tend to rise in unison. However, at some stage, this "top down" optimism must be justified by "bottom up" realities, and eventually the market becomes much more discerning. This is what we believe is happening now, and as this occurs, the return of rational thought is likely to mean RBNZ Governor Bollard's comments get noticed, which has obvious implications for interest rates.

Finance Minister Bill English has publicly stated the importance of a credible Budget, and the need to avoid a credit rating downgrade. This is a strong signal that tough choices have been made. It is also exactly what ratings agencies are looking for to affirm NZ's rating, likely be announced the day of the *Budget*. Less expansionary fiscal policy also means monetary policy will be looser for longer.

### Borrowing strategies we favour at present

Patience remains appropriate. Not only are interest rates slowly drifting lower, but the steep yield curve and relatively low BKBM rate imply a large certainty premium. In the current environment, which is characterised by a high degree of business uncertainty, and a reasonable degree of market optimism, the premium to fix is simply too high. Optionality makes sense at times like now – when the market is keen to call a turn in the interest rate cycle. Consider basic strategies that offer upside protection, but a good degree of downside participation, as it is the latter that is most likely to eventuate. The persistence of a steep yield curve only adds to this.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓↓	Market now in a better mood to listen to the Governor's message. Rates will fall.
NZ data	↔	Retail sales data a reminder of the realities in NZ.
Fed Funds/ front end	↔	US front end rallying. Are the "green shoots wilting"?
RBA	↔/↓	Not in focus now, but long term risk is for more cuts.
US 10 year	↔/↓	Treasuries back in vogue, look set to rally back.
NZ swap curve	↔/↑	Yield curve will remain steep while credit crisis is in play.
Flow	↔/↑	Receivers absent. Patience.
Technicals	↔/↑	Lack of follow-through has been disconcerting.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 11-Jun-09	-9	-9
Thu 30-Jul-09	-13	-18
Thu 10-Sep-09	-12	-20
Thu 29-Oct-09	-5	-16
Thu 10-Dec-09	-5	-8
Thu 21-Jan-10	+2	-10
Thu 11-Mar-10	+5	-11

### Trading themes we favour at present

The avoidance of a downgrade should see demand for NZGS bonds return. Weekly tenders have had low bid cover and wide "tails". This has partly been driven by fear of a downgrade, but we'd expect to see sentiment change with an affirmation under our belts, particularly give the yields on offer. Illiquidity aside, the new 2021 bond offers exceptional yield, and will be liquid in a couple of months. Improved demand for long end NZGS bonds should also see swap spreads widen. Better acknowledgement of Bollard's message should also see outright short end swaps edge lower over the next few weeks.

## CURRENCY STRATEGY

Has all the good news been seen? Is the recovery priced in before all the hard work is done? These are the questions that have to be decided this week. Expect the NZD to remain heavy as the recent green shoots thesis is questioned.

### Market themes...

- > The 200 day moving average level will be key. This is currently at 0.5835.
- > Equities leading risk so keep following their lead.
- > Recent strength in the JPY has been impressive, but we are unsure of the implications of this for the NZD.

### Review and outlook...

The high in the NZD last week was an impressive 0.6125 as the model community had to adjust positions after a break and close above the 200 day moving average, which was at 0.5880 at the time. Equities peaked on weaker housing and employment data in the US, and weak GDP prints out of Germany and Europe. This forced the NZD lower as the "green shoots" looked like they may require more water than they are currently receiving. The forward looking data continues to suggest a global recovery is possible, but the actual historic data proves Q1 was a very weak quarter indeed.

Most commentators are happy to suggest a medium term top is now in place for the NZD with a test back to 0.5350 possible. But for this week we adopt a more cautious approach, noting that the equity markets are only grinding lower and have very little impulsive feel to them. Looking at the NZ dataflow ahead, Thursday's migration report will show continued inflows, though tourist numbers will be well down. Crucially for the NZD will be the upcoming *Budget* next week. With S&P putting NZ on negative outlook, the government is focused on constructing a budget to prevent a rating downgrade.

Why does a conservative budget matter so much? Because the sovereign wealth funds (SWF) of the world are the main new buyers of our bonds, and we will need to sell lots of them given the deteriorating near-term fiscal position. The SWFs are diversifying out of the US and their flows have to go some where. If NZ is successful in attracting these flows, the currency may hold up. The talk of large Uridashi maturities in July is well founded, but these flows are generally rolled if the interest rate differential is large enough. The JPY currency has benefited as coupon payments are remitted from the US, and this flow should subside this week.

Technically the 200 day moving average in the NZD, currently at 0.5830, has to be respected. This is an excellent indicator that doesn't break easily. With this thought in mind, we prefer to be bearish on the AUD if equities struggle as the market is positioned long AUD, with major support down around 0.7200. For the NZD, we prefer a range trade this week with smaller positions as we look to offshore developments for the next leg to unfold. A break below 0.5750 would suggest a move as low as 0.5350 is possible, while any move above 0.5970 would suggest the retracement is complete.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔/↑	Bottom of the range. No bad news priced into AUD.
Yield	↓	Yield advantage Australia.
Commodities	↔	Metals lower, milk lower.
Partial indicators	↔/↓	NZ data not as bad as feared, AU's even better.
Technicals	↔	0.7700 to 0.8000 range.
Sentiment	↔/↑	Risk appetites wane.
Other	↔	Is the FX market getting too far ahead of itself?
<b>On balance</b>	↔	<b>Market happy playing current ranges.</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔	At long term average.
Fair value – short-term	↔	Near cyclical fair value estimates.
Yield	↔/↓	Consolidating at narrow levels.
Commodities	↔	Fonterra auction was weak after a good run.
Risk aversion	↔/↓	Risk appetites wane.
Partial indicators	↔	Stabilisation occurring.
Technicals	↔/↑	Break of 200-day MA bullish sign.
AUD	↔/↑	AUD still holding up.
Sentiment	↔	Mixed.
Other	↔	Prefer to wait and see. 0.5750-0.5950 range.
<b>On balance</b>	↔/↑	<b>0.58 cent key level.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
18-May	NZ	Producer Prices- Inputs (1Q) - qoq	0.0%	-2.2%	10:45
		Producer Prices- Outputs (1Q) - qoq	0.5%	1.4%	10:45
	UK	Rightmove House Prices (May) - mom	-	1.8%	11:01
	JN	Consumer Confidence (Apr)	31.0	29.6	17:00
		Consumer Confidence Households (Apr)	32.0	28.9	17:00
		Nationwide Department Store Sales (Apr) - yoy	-	-13.1%	17:30
	EC	Trade Balance s.a. (Mar)	-3.8B	-4.0B	21:00
19-May	US	US Treasury's Geithner at Newsweek Magazine Event	-	-	03:30
		NAHB Housing Market Index (May)	16	14	05:00
	AU	RBA Governor Stevens Speaks in Sydney	-	-	10:10
		RBA's Board May Minutes	-	-	13:30
	JN	Industrial Production (Mar F) - mom	-	1.6%	16:30
		Capacity Utilization (Mar F) - mom	-	-11.9%	16:30
		Machine Tool Orders (Apr F) - yoy	-	-80.4%	18:00
	UK	CPI (Apr) - mom	0.4%	0.2%	20:30
		CPI (Apr) - yoy	2.4%	2.9%	20:30
		Core CPI (Apr) - yoy	1.6%	1.7%	20:30
		RPI (Apr) - mom	0.2%	0.0%	20:30
	GE	ZEW Survey (Econ. Sentiment) (May)	20.0	13.0	21:00
		ZEW Survey (Current Situation) (May)	-90.0	-91.6	21:00
	EC	ZEW Survey (Econ. Sentiment) (May)	18.0	11.8	21:00
		Construction Output (Mar) - mom	-	-1.80%	21:00
		ECB's Tumpel-Gugerell Speaks in Berlin	-	-	21:30
20-May	US	Housing Starts (Apr)	520K	510K	00:30
		Building Permits (Apr)	530K	516K	00:30
		Fed's Stern Speaks in Willmar, Minnesota	-	-	05:15
	JN	Housing Loans (1Q) - yoy	-	3.3%	11:50
		Gross Domestic Product (1Q P) - qoq	-4.3%	-3.2%	11:50
		Nominal GDP (1Q P) - qoq	-3.4%	-1.6%	11:50
		GDP Deflator (1Q P) - yoy	1.8%	0.7%	11:50
	AU	Westpac Consumer Confidence (May)	-	8.3%	12:30
		Wage Cost Index (1Q) - qoq	0.8%	1.2%	13:30
	GE	Producer Prices (Apr) - mom	0.0%	-0.7%	18:00
	UK	Bank of England Minutes	-	-	20:30
21-May	US	US Treasury's Geithner at Senate Hearing on TARP	-	-	01:30
		Minutes of April 29 FOMC Meeting	-	-	06:00
	NZ	Visitor Arrivals (Apr) - mom	-	-0.5%	10:45
		Credit Card Spending (Apr) - yoy	-	-5.0%	15:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
21-May cont.	JN	Tertiary Industry Index (Mar) - mom	1.5%	-0.8%	11:50
	AU	Consumer Inflation Expectation (May)	-	2.4%	13:00
		New Motor Vehicle Sales (Apr - mom)	-	-3.2%	13:30
		RBA Foreign Exchange Transactions (Apr)	-	718M	13:30
	GE	PMI Manufacturing (May A)	37.0	35.4	19:30
		PMI Services (May A)	44.2	43.8	19:30
	EC	PMI Manufacturing (May A)	38.3	36.7	20:00
		PMI Services (May A)	44.5	43.8	20:00
	UK	Total Business Investment (1Q P)	-4.0%	-1.5%	20:30
		Retail Sales (Apr) - mom	0.5%	0.3%	20:30
		M4 Money Supply (Apr P) - mom	-	0.2%	20:30
		Public Finances (PSNCR) (Apr)	2.5B	28.4B	20:30
		Public Sector Net Borrowing (Apr)	7.5B	19.1B	20:30
22-May	US	Initial Jobless Claims (w/e May-17)	625K	637K	00:30
		Continuing Claims (w/e May-10)	6650K	6560K	00:30
		Leading Indicators (Apr)	0.8%	-0.3%	02:00
		Philadelphia Fed (May)	-19.0	-24.4	02:00
		Fed's Plosser Speaks to Investors, Economists in New York	-	-	11:00
	JN	BoJ Target Rate	0.10%	0.10%	/2009
		Leading Index CI (Mar F)	-	76.6	17:00
		Coincident Index CI (Mar F)	-	84.9	17:00
	UK	GDP (1Q P) - qoq	-1.9%	-1.9%	20:30
		GDP (1Q P) - qoq	-4.1%	-4.1%	20:30
23-May	US	Bernanke Speaks at Boston College Law School Graduation	-	-	06:00

Key: AU: Australia, EC: 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:** Further signs of stabilisation is likely to be the theme for upcoming data. While encouraging, stabilisation doesn't necessarily mean recovery, and conditions are likely to remain challenging for some time yet. The *Budget* next week looks likely to contain some tough choices.

Date	Data/Event	Economic Signal	Comment
Mon 18 May (10.45)	Producer Price Index (Mar qtr)	Slight improvement in margins	Lower oil and wholesale electricity prices are expected to see input prices fall slightly in the quarter. Output prices should hold relatively steady.
Thu 21 May (10.45)	International Travel and Migration (Apr)	Net inflow	Less NZer's choosing to leave will see net migration remain positive. Visitor arrivals will head lower again.
Tue 26 May (10.45)	Overseas Merchandise Trade (Apr)	Rebalancing continues	Another monthly trade surplus is expected as the domestic economy continues to de-leverage, weighing on import growth.
Tue 26 May (15.00)	RBNZ <i>Survey of Expectations</i> (Jun qtr)	Not a concern for now	The key 2-year ahead measure of inflation expectations is expected to remain around the current level of 2.3 percent.
Wed 27 May (15.00)	NBNZ <i>Business Outlook</i> (May)	-	-
Thu 28 May (14.00)	<i>Budget Economic and Fiscal Update</i>	Ugly	The <i>Budget</i> should show a further sharp deterioration in the medium-term fiscal projections. Bigger deficits, more debt and larger bond tenders.
Thu 28 May (15.00)	Credit Growth (Apr)	De-leveraging	Household credit growth will remain subdued as de-leveraging continues. Business and rural lending is also likely to continue to show signs of moderation.
Fri 29 May (10.45)	Building Consents Issued (Apr)	Stabilising	The recent pick-up in house sales should see building consent issuance recover off its lows. Commercial consents though, will head lower.
Wed 3 Jun (10.00)	Financial Statements of the Government (10 months to April)	Further into the red	Lower tax revenue is expected to see the Government's underlying accounts head further into the red. Better returns in the month from Crown Financial Institutions will help stop the headline operating balance from deteriorating further.
Thu 4 Jun (15.00)	ANZ Commodity Price Index (May)	-	-
Tue 9 Jun (10.45)	Value of Building Work Put in Place (Mar qtr)	Still contracting	Residential building construction is likely to record another large quarterly contraction. Non-residential construction is expected to be largely unchanged.
Wed 10 Jun (10.45)	Overseas Trade Indexes (Mar qtr)	Terms of trade lower	Large falls in export commodity prices is expected to see the terms of trade fall in the quarter. Volume data is expected to confirm net exports will make a positive contribution to growth in the March quarter.
Thu 11 Jun (09.00)	RBNZ June <i>Monetary Policy Statement</i>	Temporary pause	While a case can be made for further immediate rate cuts, the green shoots need to be respected. However, we don't expect them to be sustained and hence rate cuts are likely to resume from H2 2009.
Fri 12 Jun (10.45)	Retail Trade Survey (Apr)	Finding a base	Second lot of tax cuts should give retail sales a bit of a kick.
Mon 15 Jun (10.45)	Economic Survey of Manufacturing (Mar qtr)	Weak	Manufacturing activity is likely to be weighed down by primary food, where less livestock slaughtering will impact.
<b>On Balance</b>		<b>Base forming?</b>	<b>There is a strong base effect appearing in some data, which suggests Q2 is the nadir in the cycle. But the jury is out on the speed of recovery.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
GDP (% qoq)	-0.3	-0.2	-0.5	-0.9	<b>-1.5</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.5</b>	<b>1.2</b>
GDP (% yoy)	2.1	1.0	-0.1	-1.9	<b>-3.1</b>	<b>-3.3</b>	<b>-2.9</b>	<b>-1.9</b>	<b>0.1</b>	<b>1.8</b>
CPI (% qoq)	0.7	1.6	1.5	-0.5	0.3	<b>0.7</b>	<b>0.6</b>	<b>0.6</b>	<b>0.5</b>	<b>0.5</b>
CPI (% yoy)	3.4	4.0	5.1	3.4	3.0	<b>2.1</b>	<b>1.1</b>	<b>2.2</b>	<b>2.4</b>	<b>2.2</b>
Employment (% qoq)	-1.0	1.2	0.2	0.6	-1.1	<b>-1.0</b>	<b>-0.9</b>	<b>-0.4</b>	<b>-0.2</b>	<b>0.0</b>
Employment (% yoy)	-0.2	0.8	1.1	0.9	0.8	<b>-1.3</b>	<b>-2.4</b>	<b>-3.4</b>	<b>-2.5</b>	<b>-1.5</b>
Unemployment Rate (% sa)	3.8	4.0	4.3	4.7	5.0	<b>5.6</b>	<b>6.4</b>	<b>7.0</b>	<b>7.5</b>	<b>7.7</b>
Current Account (% GDP)	-8.0	-8.4	-8.7	-9.0	<b>-8.5</b>	<b>-7.1</b>	<b>-6.1</b>	<b>-5.2</b>	<b>-5.0</b>	<b>-4.9</b>
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-0.9	<b>-5.0</b>	<b>-2.1</b>	<b>-1.4</b>	<b>-1.1</b>	<b>-0.7</b>	<b>-0.4</b>
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	<b>-7.1</b>	<b>-8.7</b>	<b>-9.1</b>	<b>-9.3</b>	<b>-5.2</b>	<b>-3.5</b>

## KEY ECONOMIC INDICATORS

	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09
Retail Sales (% mom)	0.3	0.3	-1.2	-0.1	-0.6	-1.2	0.3	-0.4	..	..
Retail Sales (% yoy)	-0.9	2.2	0.7	-4.1	-0.9	<b>-3.7</b>	<b>-6.9</b>	<b>-1.9</b>	..	..
Credit Card Billings (% mom)	-0.3	1.2	-1.8	-0.9	-2.1	1.4	0.6	-3.1	..	..
Credit Card Billings (% yoy)	2.5	2.5	1.0	-1.0	-3.8	<b>-2.4</b>	<b>-2.0</b>	<b>-5.0</b>	..	..
Car Registrations (% mom)	-3.7	11.1	-1.0	-19.7	12.7	<b>-14.1</b>	<b>-15.1</b>	7.3	-3.0	..
Car Registrations (% yoy)	-30.5	-15.6	-19.9	-34.4	-23.7	<b>-36.5</b>	<b>-44.6</b>	<b>-32.9</b>	<b>-41.0</b>	..
Building Consents (% mom)	-6.9	8.1	-19.4	3.8	-7.0	-12.9	11.6	-4.6	..	..
Building Consents (% yoy)	-43.2	-28.4	-42.8	-39.7	-41.4	<b>-51.7</b>	<b>-40.0</b>	<b>-34.5</b>	..	..
REINZ House Price (% yoy)	-5.7	-6.1	-4.3	-4.1	-4.8	<b>-4.4</b>	<b>-2.2</b>	<b>-4.0</b>	-1.4	..
Household Lending Growth (% mom)	0.4	0.2	0.2	-0.1	0.2	0.2	0.2	0.1	..	..
Household Lending Growth (% yoy)	7.2	6.6	5.8	4.8	4.2	3.8	3.1	2.8	..	..
Roy Morgan Consumer Confidence	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7	101.1	104.0
NBNZ Business Confidence	-20.5	1.6	-42.3	-43.0	-35.0	..	<b>-41.2</b>	<b>-39.3</b>	-14.5	..
NBNZ Own Activity Outlook	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2	-3.8	..
Trade Balance (\$m)	-848	-1252	-994	-594	-341	-103	487	324	..	..
Trade Balance (\$m annual)	-4369	-5048	-5269	-5234	-5614	<b>-5406</b>	<b>-5162</b>	<b>-4796</b>	..	..
ANZ World Commodity Price Index (% mom)	-3.4	-5.1	-7.6	-7.4	-7.4	<b>-4.3</b>	<b>-4.6</b>	1.0	2.5	..
ANZ World Commodity Price Index (% yoy)	3.5	-2.1	-11.1	-18.3	-24.3	<b>-26.5</b>	<b>-30.7</b>	<b>-31.4</b>	<b>-29.5</b>	..
Net Migration (sa)	330	-40	20	-300	320	810	1600	1720	..	..
Net Migration (annual)	4938	4403	4329	3569	3814	4538	6160	7482	..	..

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)						
	Mar-09	Apr-09	18-May-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.530	0.572	0.584	0.540	0.510	0.480	0.470	0.470	0.480	0.490
NZD/AUD	0.797	0.801	0.780	0.771	0.767	0.762	0.756	0.764	0.774	0.778
NZD/EUR	0.406	0.433	0.434	0.422	0.408	0.400	0.404	0.420	0.429	0.434
NZD/JPY	51.8	56.6	55.5	54.0	50.5	47.0	45.6	46.5	48.0	50.0
NZD/GBP	0.373	0.389	0.385	0.372	0.357	0.338	0.327	0.324	0.327	0.329
NZ\$ TWI	53.8	57.0	56.9	54.6	52.4	50.4	49.8	50.6	51.6	52.4
NZ interest rates	Mar-09	Apr-09	18-May-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	3.43	3.24	2.50	2.50	2.25	2.00	2.00	2.00	2.50	3.50
90 day bill	3.24	3.12	2.81	2.90	2.40	2.40	2.40	2.40	3.10	4.10
10 year bond	4.78	5.24	5.43	5.40	5.10	4.90	5.00	5.10	6.00	6.10
International	Mar-09	Apr-09	18-May-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
US 3-mth	1.19	1.02	0.83	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	3.25	3.00	3.00	3.00	2.50	2.00	2.00	2.00	2.00	2.75
AU 3-mth	3.14	3.08	3.16	3.20	2.30	2.30	2.30	2.40	2.60	3.30

## KEY RATES

	15 Apr	11 May	12 May	13 May	14 May	15 May
Official Cash Rate	3.00	2.50	2.50	2.50	2.50	2.50
90 day bank bill	3.17	2.92	2.90	2.89	2.88	2.84
NZGB 07/09	2.98	2.80	2.79	2.78	2.77	2.77
NZGB 11/11	3.74	3.66	3.60	3.58	3.50	3.52
NZGB 04/13	4.39	4.52	4.47	4.45	4.36	4.37
NZGB 12/17	5.28	5.62	5.57	5.54	5.44	5.40
2 year swap	3.78	3.58	3.53	3.46	3.44	3.41
5 year swap	4.95	4.88	4.83	4.75	4.72	4.69
RBNZ TWI	57.3	59.1	58.3	58.5	57.4	57.4
NZD/USD	0.5770	0.6099	0.6004	0.6056	0.5915	0.5927
NZD/AUD	0.8056	0.7941	0.7915	0.7888	0.7870	0.7813
NZD/JPY	56.74	59.95	58.40	58.34	56.49	56.88
NZD/GBP	0.3881	0.4006	0.3975	0.3958	0.3909	0.3894
NZD/EUR	0.4358	0.4465	0.4418	0.4428	0.4363	0.4348
AUD/USD	0.7162	0.7680	0.7586	0.7677	0.7516	0.7586
EUR/USD	1.3240	1.3659	1.3590	1.3676	1.3557	1.3630
USD/JPY	98.33	98.29	97.27	96.34	95.51	95.97
GBP/USD	1.4869	1.5225	1.5103	1.5301	1.5132	1.5219
Oil	49.51	58.58	57.79	58.81	58.00	58.58
Gold	892.30	915.50	912.25	927.00	924.30	927.05
Electricity (Haywards)	4.52	17.02	7.93	4.13	5.77	1.57
Milk futures (US\$/contract)	85	85	85	85	85	85
Baltic Dry Freight Index	1534	2215	2253	2332	2432	2544

## 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.
- 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.

#### **NEW ZEALAND DISCLAIMER**

The Bank does not provide investment advice tailored to an investor's personal circumstances. It is the investor's responsibility to understand the nature of the security subscribed for, and the risks associated with that security. To the maximum extent permitted by law, the Bank excludes liability for, and shall not be responsible for, any loss suffered by the investor resulting from the Bank's investment advice.

Each security (including the principal, interest or other returns of any security) the subject of investment advice given to the investor by the Bank or otherwise, is not guaranteed, secured or underwritten in any way by the Bank or any associated or related party except to the extent expressly agreed in the terms of the relevant security.

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