

## SHOULD I STAY OR SHOULD I GO?

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- > We could be on the verge of a new migration upswing, although a lot of uncertainty remains. But the composition of the current cohort, where lower departures are the main driver and recent arrivals tend to be less wealthy on average, suggests this next wave will provide less stimulus for the economy than initially hoped.

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- > The dataflow was again relatively mixed last week. There continue to be encouraging signs that the US housing market is slowly stabilising. However, other pockets of the economy continue to contract (although at a less dramatic rate). Leading indicators and confidence surveys in Europe continue to improve off depressed levels, while Asian trade data remains very subdued.

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- > This week's *OCR Review* is the must see event of the week, and we expect it to be decisive. We expect the Bank to build on its April 1st comments with a view to correcting the disparity between its views and market pricing. This should have major consequences for short end pricing and the yield curve.

### Page 9: Currency strategy

- > With the market split between a 25 and 50bp cut from the RBNZ this week, expect a NZD reaction either way. However, it will be the statement that will be critical to longer term direction and with the RBNZ thinking long term rates are too high, the tones need to be soft and hence NZD negative. The rest of the week will be spent squaring positions. The international focus will switch more and more to the stress test results due on 4 May.

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## ECONOMIC OVERVIEW

While the RBNZ *OCR Review* takes centre stage this week, expect the market to pay close attention to data for signs that the economy has bottomed.

### What's ahead?

- > **March Overseas Merchandise Trade** (Wednesday 1045 NZST). Signs of rebalancing continue to come through. While exports are falling, imports are falling faster and we expect a monthly trade surplus of \$350 million.
- > **NBNZ April Business Outlook** (Wednesday 1500 NZST).
- > **March Credit Growth** (Wednesday 1500 NZST). Household lending statistics are likely to confirm the recent pick-up in mortgage fixing. However, this will not be sustained.
- > **RBNZ OCR Review** (Thursday 0900 NZST). The RBNZ is expected to cut the OCR by 50bps to 2.50 percent and intensify the rhetoric that rates will remain low for an extended period (see page 6 for our full preview note).
- > **March Building Consents Issued** (Thursday 1045 NZST). We expect a base to begin to form around current depressed levels. As has been the case of late, we will be watching commercial issuance closely.

### What's the view?

It was a relatively quiet week in terms of domestic economic developments last week. There was a lack of major data released, and unsurprisingly markets are in a holding pattern awaiting the RBNZ's decision this week. In some regards, these "lull" periods are welcome as it enables one to catch their breath and consolidate their economic views.

We continue to be encouraged by signs of stabilisation in some pockets of the economy (or at least evidence that things aren't getting any worse). However, we haven't lost sight of the general challenging backdrop and an economy that continues to de-leverage. The small amount of data that was released last week in fact highlights this dichotomy well, with migration inflows accelerating further and running at an annualised rate of 16,520 people in the March quarter, equivalent to 0.4 percent of the population. Conversely, credit card spending recording a sharp 3.1 percent decline – reinforcing that households remain under pressure despite disposable income boosts from tax cuts and lower mortgage rates.

In the past, migration cycles have been a very important component of New Zealand's business cycle and the recent inflow is obviously a positive

for the economy, which is crying out for any type of support at present. At the risk of discounting the benefit of higher migration inflows, which is obviously better than the opposite (and something that happened to a small degree late last year), we expect the economic stimulus from higher net migration will be different to those of previous migration cycles. But it's obviously a positive surprise risk to our forecasts that we are closely watching. We present a discussion on our economic views surrounding migration on page 4.

In another development last week, Minister of Finance Bill English reminded us of the significant challenges faced by fiscal policy at present, stating that *"the government's books are undoubtedly in worse shape now than Treasury predicted in the December downside forecast"*. The *December Update* forecasts foreshadowed sustained deficits of 4.5 percent of GDP. Along with expecting the economy to now be in its sixth consecutive quarter of contraction, he expects the nominal value of the economy to fall by \$50b over the three years to 2012. This is either a bit mischievous, misreported, misunderstood, or based on an incredible set of economic forecasts, as the economy will not be falling \$50 billion at all – \$50 billion represents 25 percent of our total economy! It's simply stating that the combination of a dip in real growth, slow recovery, and less inflation delivers an economy \$50 billion smaller than previously thought, cumulatively over the three years to 2012. Even then we struggle to see how you can get to \$50 billion less. We'll be closely watching the Treasury's economic forecasts which underpin the *Budget* (out on 28 May).

Without policy changes, the Minister said that government gross debt would hit 45 percent of GDP by 2013. Considering gross debt sits at 25 percent at present, it's the rate of accumulation over three years that is most disconcerting. Even then it's tempting to discount this fiscal deterioration, as relative to our peers, NZ's fiscal position is far stronger. However, it is a deteriorating fiscal position in combination with a huge external deficit that is the problem – and has the ratings agencies on alert.

The implications are two-fold. First, it suggests some tough decisions to be made at the upcoming *Budget* if the deteriorating trend in the fiscal accounts is to be reversed and NZ's sovereign rating is to be maintained. As noted in our *Market Focus* on 26 January, when we presented a range of fiscal scenarios, turning the fiscal position around is likely to prove a non-trivial task. Second, apart from shuffling the timing of expenditure and reallocating across expenditure groups, there is pretty well zero scope for further fiscal largesse or expansionary policy at this juncture. This leaves

monetary policy to carry the stimulatory load for far longer.

Moving to the events this week, the RBNZ's *OCR Review* (on Thursday) is clearly the major focus. We expect the Bank to cut the OCR by 50bps to 2.50 percent. While it's easy to argue the decision either way (housing has firmed, but financial conditions have tightened), the swing factor for us is simple: the RBNZ told us a few weeks ago that long-term interest rates were out of line with expectations. Delivering a 25bp rate cut appears inconsistent with getting the belly of the curve to price in a more extended period of low rates, although they could always pull a "Bank of Canada" bunny out of the hat! Page 6 contains our full preview note.

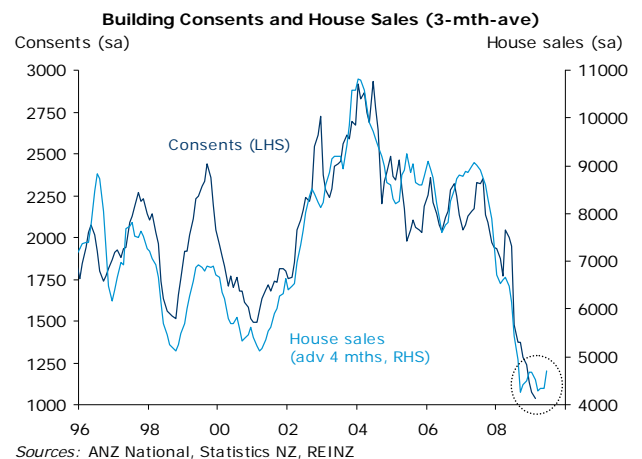
There are also a number of other potentially interesting pieces of local information due this week. At the top of this list is the NBNZ *Business Outlook* survey for April. We don't have to remind regular readers of the importance we place on this survey given its excellent track record as an early indicator for the economy. The focus this month will be on whether any improvement in sentiment is recorded or instead confidence remains in the doldrums.

The other data this week is slightly more second-tier in nature, with March overseas merchandise trade, credit growth and building consents issued all due out. The trade figures are expected to show that the economy is slowly rebalancing. While the weak global economy is undoubtedly impacting on export demand through both the volume and prices received (although the timing issues around commodity prices and the prices for NZ exports appears to have corrected), the weak domestic economy is expected to see imports fall by more as retailers respond to the significant build up in inventory levels that has occurred over the past year or so. We expect a monthly trade surplus of \$350 million in the month, and for the annual trade deficit to reduce to \$4,768 million, from \$5,161 million in February.

Credit growth data could potentially show a pick up in lending to households. However, rather than being a sign of a turning point, this will instead be reinforcing the significant amount of mortgage fixing that occurred in the month and also increased housing market activity. This type of dynamic is unlikely to be sustained and we expect lending to households to again soften over the coming months as de-leveraging continues. Business and rural lending are still set to report good annual percent changes (the base effect), but more telling will be softness in underlying quarterly trends.

Finally, building consent data could possibly show further signs of stabilisation, albeit at incredibly

depressed levels, given the same appears to be occurring in housing market activity. Remember, over the past couple of months consents have fallen to 1960s lows – an incredible feat. Hence, any bounce from these levels should be discounted. At this stage, we are not envisaging a sharp recovery just yet as the incentives to build remain relatively low, with house prices continuing to fall, and credit conditions remaining difficult. Commercial consent issuance will also be a significant focus and despite it holding up much better than we had envisaged, we still expect a correction lower at some stage.



The big international release this week is the advanced March quarter result for US GDP, with the market expecting a 4.9 percent (annualised) fall. Other US data includes personal income and spending, house prices and the key ISM manufacturing survey. The latter will be of interest to see whether recent signs of stabilisation are being maintained. The FOMC are also due to announce their interest rate decision, although there is unlikely to be anything new that arises from this considering that rates are already effectively at zero and quantitative easing has begun.

#### Recent local data...

- > **External Migration and International Visitor Arrivals (March):** A seasonally adjusted net inflow of 1,720 people was recorded in the month, taking the annual inflow to 7,482, from 4,678 a year ago. Visitor arrivals fell 0.5 percent and are down 10 percent on a year ago.
- > **Credit Card Spending (March):** Total spending fell 3.1 percent, to be down 5.0 percent on a year ago.

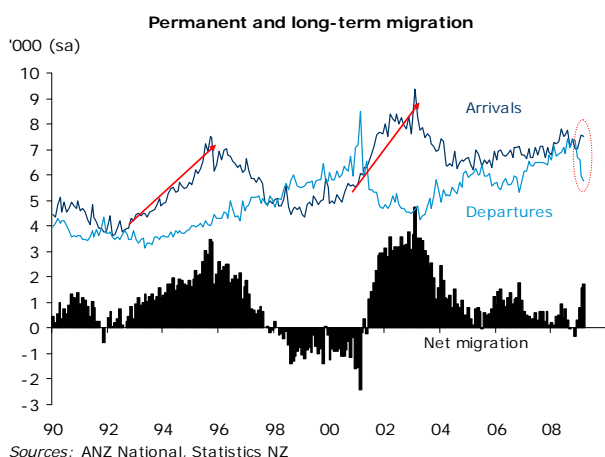
## MIGRATION TO THE RESCUE? MAYBE

We could be on the verge of a new migration upswing, although a lot of uncertainty remains. But the composition of the current cohort, where lower departures are the main driver and recent arrivals tend to be less wealthy on average, suggests this next wave will provide less stimulus for the economy than initially hoped.

Recent migration data has shown a continued acceleration in net migration since the end of last year. NZ gained a net 1,720 people in the month of March, taking the annual gain to 7,482 compared to 4,678 a year ago. But in the March quarter, net migration was running at an annualised rate of 16,520 people, equivalent to 0.4 percent of the population. Many are pinning their hopes on a new migration boom to lend support to the economy at a time when it lacks any engine of growth, with the historical link to the housing market well documented.

### Composition matters

A rise in net migration driven by increased arrivals has different implications for domestic demand compared to one that is driven by a drop-off in departures. Newly arrived migrants need to spend to get set up in a new country, and require accommodation immediately, be it renting or buying. Therefore, the demand impact of recent arrivals is immediate and can be sizeable. In contrast, less New Zealanders leaving may mean they continue to spend in this country, but they will not be boosting their spend like a newly arrived migrant would.

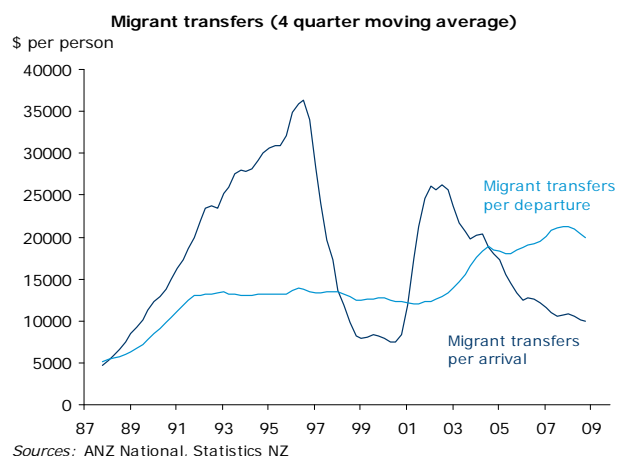


Looking at the recent spike in net migration, it is clearly being driven by a sharp drop-off in departures. Arrivals have certainly risen, but at nowhere near the rate of the past two migration cycles (at least, not yet anyway). In fact, when you look at the net migration boom of the mid-1990s and over the 2002-2004 period, a strong

sustained rise in arrivals was the main driver, with a drop in departures giving it an additional kick.

### How much money they bring matters

Most commentators focus on the number of bodies arriving or leaving the country. But how much money or capital migrants bring (or take) with them is equally as important, in terms of the potential impact on the economy. We can get an estimate of this using the migrant transfers data collected by Statistics NZ, and dividing it by the number of permanent arrivals and departures.<sup>1</sup>



What is very apparent is that the recent arrivals bring far less funds with them compared to the previous cycles – only \$10,000 per person currently compared to as much as \$35,000 per person during the mid-1990s cycle and \$25,000 during the early part of this decade. More surprisingly perhaps is the fact that the average New Zealander departing is permanently taking more money out of the country (\$20,000 per person compared to around \$13,000 on average over the 1990s). In aggregate terms, despite there being a net gain of 3,800 people into the country in calendar 2008, net migrant transfers was -\$800m or equivalent to -0.4 percent of GDP. From a cashflow perspective, net migration could have been a net drag last year, rather than being a net boost to the economy.

### The causality process?

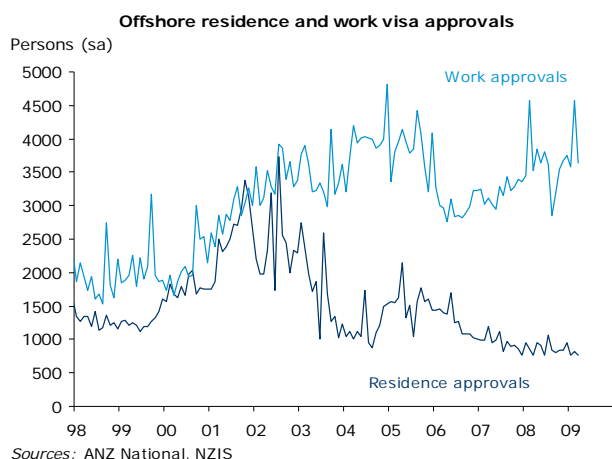
What comes first, the chicken or the egg? Does economic growth drive migration or the other way around? Historically, migration flows have tended to deteriorate during times of economic weakness or rising unemployment. In that situation it is only natural to pack your bags and look overseas, as was the case over the 1970s, 1980s, early 1990's and 1997/98. This has tended to make migration a consequence and accelerant of the economic cycle, as opposed to the determinant.

<sup>1</sup> Migrant transfers are the funds which immigrants bring with them to New Zealand and emigrants take to other countries.

So, based on the traditional relationship and prospects for fewer job opportunities in NZ over the year ahead, we may well see migration numbers slide. Yet we must also recognise that this economic cycle is also different. It's a deep global downturn. NZ is suffering, but looks better than most, particularly those in the Northern Hemisphere. Hence, it is possible that migration will hold up better than it has in the past.

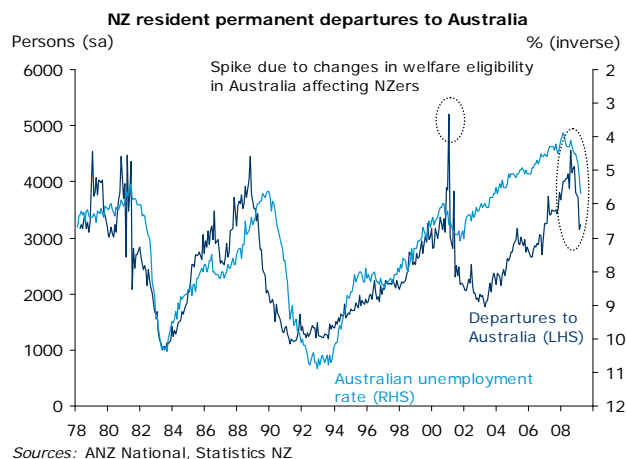
The fact that NZ can continue to attract migrants despite the economy being in recession since early 2008 is comforting. Obviously, NZ offers some key factors that will always encourage people to migrate here. However, there is the potential for NZ's attractiveness to be marginalised over the coming months by a few factors.

First, there is the reality that people will still have to find a job once they arrive. Recent survey evidence and anecdotes point to a labour market that is rapidly deteriorating and most would consider it a major risk to uplift the family and resettle around the globe in the absence of work (although it, of course, depends on where you are coming from!). Second, many potential migrants offshore have taken a big hit to their wealth portfolios and so are no longer as "cashed up" (which could partly explain the recent downward trend in migrant transfers per arrivals noted above). And it also may be difficult for some to move given the requirement to sell a property in the country where they currently live. This could particularly be a case for those from the UK (the biggest source country, where a fifth of permanent arrivals come from), where house prices have fallen by up to 20 percent. And third, we are starting to hear protectionist type chatter emerge such as "NZ jobs for New Zealanders". Given that the bulk (around 80 percent) of offshore visa approvals for people to come permanently into NZ is for work permits, the number of approvals is likely to start dropping off as labour demand and skill shortages disappears.



There is one large potential offset though to all these factors and that is the possibility of a number of ex-pat New Zealanders returning home as economic prospects remain weak offshore (particularly with the Rugby World Cup around the corner). However, there is limited evidence of this occurring as yet.

On the departure side, the recent drop off has been due to less people packing their bags and heading off to Australia, which is where over half of all permanent departures head to. The deteriorating labour market outlook across the Tasman is a key driver, and we can expect further declines in the next few months judging from the rapid rise in the unemployment rate in Australia. Fewer New Zealanders heading off to the US, UK and Europe (which is the destination of around 20 percent of permanent departures) is also likely given the bleak economic outlooks there.



Hence, on balance, we continue to expect net migration to continue rising – driven principally by declines in departures, with prospects of a pick-up in arrivals somewhat more tepid.

### The upshot

There is little doubt that rising net migration inflows is a positive for the economy as a whole. It is certainly better for the economy compared to a net migration loss! From this point of view, the recent increase in net migration is welcome. But the fact that the current migration cycle is primarily driven by lower departures as opposed to a surge in arrivals, and that recent arrivals bring far less funds with them compared to the past, suggests that the economy will not be getting as big a boost as initially hoped.

All up, we are not negative on the outlook for migration, merely more attuned to the idea that recent gains are likely to struggle to kick-on in a sustained fashion similar to previous upswings.

## OCR REVIEW PREVIEW

(due 9.00am 30 April)

**We expect the RBNZ to cut the OCR by 50bps to 2.50 percent and reiterate that rates are set to remain low for an extended period. At the same time, we expect the assessment to be more neutral towards policy moves from this juncture, and very much data dependent.**

Much has happened since the RBNZ's March *Monetary Policy Statement* (MPS), when the Bank signalled that policy was on a "glide path" towards 2½ percent.

**The NZ economic outlook is looking softer than what the RBNZ forecast.** Though Q4 GDP came in only slightly weaker than the RBNZ's -0.8 percent forecast, the latest QSBO survey suggests the strong sustained recovery from H2 of this year which the Bank projected is under threat. This is particularly so with the currency at present not providing as much of a boost to exporters as the RBNZ had assumed, and households facing higher borrowing costs. And unlike in Australia, the NZ Government's May *Budget* will not contain any new stimulus to help the economy along. In fact, recent comments from the Minister of Finance suggest that the next two year's tax cuts are likely to be deferred given the deteriorating fiscal position.

**But there have been some better than expected developments as well.** While forecasts for our major trading partners continue to be downgraded, there have been comforting signs of stabilisation and even improvements in some of the key indicators from offshore. Equity markets have bounced off lows, although the battle between the bulls and the bears continues. Commodity prices look to have bottomed, with dairy prices starting to recover (though still well off their boom highs).

**Domestically, the housing market has recovered off its precipitous lows** and recent housing loan approvals data suggest a continued pick-up in activity into April. Net migration has well and truly turned around and will provide some much needed support to the economy, though not as much compared to previous migration cycles (see our migration comment on page 4).

**However, the major developments, and in our view the more significant influence on Thursday's decision, is the decoupling of wholesale interest rates from the RBNZ's view of where they should be; and the prospect of rapidly rising unemployment.**

We have written before about the shift in balance away from borrowers towards savers, and the fact that this cycle is as much about the supply of credit as it is about the price. The increased demand for cash is forcing deposit rates above wholesale rates,

and with it the cost of borrowing as well. This is not to say monetary policy has lost its potency. Merely that some of its traction has been diminished somewhat. The fact that swap yields are as much as 49bps higher now, and fixed mortgage rates in the 2 to 5 year space is between 30 and 100bps higher than on the day of the March *MPS* highlight this point. Such tightening in monetary conditions is clearly at odds with the RBNZ's monetary policy outlook, particularly with a jump in the currency as well.

**Rapidly rising unemployment is the key risk to early signs of stabilisation in the housing sector.** While the labour market is a lagging indicator, the steep jumps in unemployment rates overseas, particularly in Australia, portend of what is to come in NZ over the course of this year. From this point you can expect an adverse feedback loop into an already weak economy.

**The RBNZ had a game-plan in March** to cut to 2.5 percent but maintain 50bps of firepower up their sleeve, recognising that there was a floor as to how low rates could go. **Much will depend now on the Bank's assessment as to whether the weight of information has changed materially to use such ammunition.**

**The RBNZ already appears to have answered that question on 1 April**, taking the unusual step of commenting intra-meeting, noting that long-term interest rates were out of line with expectations and reinforcing that rates would remain low for an extended period. In the absence of some sort of explicit commitments towards keeping rates low for sometime in a similar fashion to the Bank of Canada (until the end of Q2 2010) and Riksbank (early 2011), it's hard to see how a smaller 25bp move will reinforce such a message. A key dynamic the RBNZ should be mindful of is the market itself. Since the April 1 announcement, the 2 and 5 year swap yield has fallen by around 30 and 40bps, but are still 38bps higher than levels prevailing in early March. This tells us that natural receivers are absent, and need a clear signal to re-enter. Each rally seems to walk into payside pressure. Where the currency sits at the moment also looks vulnerable on the topside to a smaller than expected move in rates.

**Collectively we expect the April 1 statement to be the template from which this week's OCR Review statement will be crafted.** That is, rates to remain low for an extended period, and a gradual recovery. We would also expect some of the positive news to be acknowledged, within the normal array of uncertainty and risks surrounding the outlook. However, previous assessments have clearly signalled that rates were headed lower. Subject to a 50bps move being delivered, we would expect any guidance from this juncture to be more neutral and very much data dependant.

## GLOBAL DATA WATCH

The dataflow was again relatively mixed last week. There continue to be encouraging signs that the US housing market is slowly stabilising. However, other pockets of the economy continue to contract (although at a less dramatic rate). Leading indicators and confidence surveys in Europe continue to improve off depressed levels, while Asian trade data remains very subdued.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
<b>Australia</b>	CPI (1Q) – qoq	0.5%	0.1%	-0.3%	Weaker
	RBA Trimmed Mean (1Q) – qoq	0.8%	1.0%	0.6%	Stronger
<b>US</b>	Leading Indicators (Mar)	-0.2%	-0.3%	-0.2%	Weaker
	House Price Index (Feb) – mom	-0.7%	0.7%	1.0%	Stronger
	Continuing Claims (w/e Apr 12)	6120K	6137K	6044K	Weaker
	Existing Home Sales (Mar)	4.65M	4.57M	4.71M	Weaker
	Durable Goods (Mar)	-1.5%	-0.8%	2.1%	Stronger
	New Home Sales (Mar)	337K	356K	358K	Stronger
	<b>Euro-zone</b>	ZEW Survey (Econ. Sentiment) (Apr)	0.0	11.8	-6.5
	Current Account (Feb)	-10.7B	-8.1B	-12.3B	Stronger
	PMI Manufacturing (Apr A)	34.7	36.7	33.9	Stronger
	PMI Services (Apr A)	41.4	43.1	40.9	Stronger
	Industrial New Orders (Feb) – mom	-2.2%	-0.6%	-2.0%	Stronger
<b>UK</b>	CPI (Mar) – mom	0.2%	0.2%	0.9%	In-line
	Jobless Claim Change (Mar)	116.0K	73.7K	136.6K	Stronger
	Avg Earning inc Bonus (Feb) – 3m/yoy	1.4%	0.1%	1.7%	Weaker
	Public Finances (Mar)	18.0B	24.4B	4.7B	Stronger
	GDP (1Q A) – qoq	-1.5%	-1.9%	1.6%	Weaker
	Retail Sales (Mar) – mom	-0.3%	0.3%	-2.0%	Stronger
<b>Japan</b>	Merchandise Trade Exports (Mar) – yoy	-46.6	-45.6	-49.4	In-line
	Merchandise Trade Imports (Mar) – yoy	-37.3	-36.7	-43.0	In-line
	Corp Services Price (Mar) – yoy	-2.6%	-2.1%	-2.6%	Stronger
	All Industry Activity Index (Feb) – mom	-2.0%	-2.0%	-1.7%	In-line
<b>Asia Ex-Japan</b>					
<i>China</i>	Wholesale Prices (Mar) – yoy	-	-6.6%	-6.0%	-
<i>South Korea</i>	GDP (1Q P) – qoq	-0.2%	0.1%	-5.1%	Stronger
<i>Singapore</i>	CPI (Mar) – mom	-0.2%	-0.4%	-0.5%	Weaker
	Industrial Production (Mar) – mom	-0.3%	-13.9%	3.5%	Weaker
<i>Hong Kong</i>	Composite Interest Rate (Mar)	-	0.3%	0.3%	-
	CPI – Composite Index (Mar) – yoy	1.1%	1.2%	0.8%	Stronger
<i>India</i>	Reserve Repo Rate	3.50%	3.25%	3.50%	Weaker
<i>Malaysia</i>	CPI (Mar)	3.6%	3.5%	3.7%	Weaker
<i>Philippines</i>	Total Imports (Feb) – yoy	-	-31.9%	-34.5%	-
<i>Thailand</i>	Customs Exports (Mar) – yoy	-14.0%	-23.1%	-11.3%	Weaker
	Customs Imports (Mar) – yoy	-35.6%	-35.1%	-40.3%	In-line
<i>Vietnam</i>	CPI (Apr) – yoy	-	9.2%	11.3%	-
	Exports YTD (Apr) – yoy	-	-0.1%	2.4%	-
	Imports YTD (Apr) – yoy	-	-41.0%	-45.0%	-
	Industrial Output YTD (Apr) – yoy	-	3.3%	2.1%	-

## INTEREST RATE STRATEGY

This week's *OCR Review* is the must see event of the week, and we expect it to be decisive. We expect the Bank to build on its April 1<sup>st</sup> comments with a view to correcting the disparity between its views and market pricing. This should have major consequences for short end pricing and the yield curve.

### Market themes...

- > The market has been reluctant to embrace a 50bp cut this week. Anything less risks sending a confusing signal to that delivered on April 1<sup>st</sup>.
- > RBNZ words will remove rate hikes priced in from late 2009. It's not about cutting by more, rather it's about staying lower for longer.
- > A radical re-pricing of the short end of the yield curve is coming, implying a large steepening.

### Review and outlook...

Following an earlier attempt to jawbone rates lower, which has only been mildly successful, attention now turns to what the RBNZ does and says, rather than just what it says.

On April 1<sup>st</sup> Governor Bollard took the unusual step of saying that "*long-term interest rates out of line with RBNZ expectations*", before going on to say that the OCR would remain low for "*an extended period*". Despite being very direct, the market hasn't fully embraced these comments. As such, the natural step is to do more – namely a larger cut. Of course, it is possible that the RBNZ decide to follow the Bank of Canada's lead, and make a conditional statement that is specific about actions and time frames in combination with a smaller 25 basis point move. However, they may be reluctant to do so before they reach the end point of the easing cycle, which isn't far away (probably June). What is overwhelmingly clear is that they strongly need to reiterate their expectation that when the easing does finally stop, policy is likely to be on hold for some time. This is where they will get further "bang for their buck", particularly if delivered in combination with a larger move on the day. While we don't think there is quite enough easing priced in (for this week and it total), it's in the ball park, and that's not the major issue. The serious anomaly at present is that the curve is pricing in hikes from late 2009, and these threaten to considerably blunt monetary policy. We'd expect the short end to be the most impacted, with the end result being lower and steeper swap and mortgage curves. This will not only provide relief for those borrows that really need it, but by lowering the average term of fixed mortgages, the RBNZ will be better placed to control rates once they finally do find themselves needing to hike.

### Borrowing strategies we favour at present

If ever there was a time when borrowers should listen to the RBNZ, this week is it. When the RBNZ says it expects the OCR to remain low for an "extended period", what they are really trying to do is to encourage borrowers to ask whether there is validity in paying more for the certainty of being fixed. With 90 day bills likely to be sub 3 percent for several quarters, and the curve likely to steepen, even if there is a long term case to be made for fixing, the cashflow benefits from being floating can't be ignored. And with a large re-pricing of the short end due later in the week, we see no benefit in going to the market ahead of the *OCR Review*.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓↓	50bps cut likely, and RBNZ will clarify their "OCR to stay lower for longer" message.
NZ data	↔	Migration data a surprise lift. Global data stabilising.
Fed Funds/ front end	↔/↓	LIBOR and TED spread both falling. Canada makes a conditional statement.
RBA	↔	Minutes showed April decision was choice between cut and hold. Not in focus.
US 10 year	↔	The tug of war between supply/inflation and safe-haven/QE continues.
NZ swap curve	↔/↑	Words will speak volumes. Short end could rally hard if RBNZ cut by 50bps.
Flow	↔/↑	Not everyone convinced that 50bps appropriate, and are taking profit ahead of Thurs.
Technicals	↔	Downward progress slow.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Apr-09	-36	-37
Thu 11-Jun-09	-52	-54
Thu 30-Jul-09	-56	-60
Thu 10-Sep-09	-60	-60
Thu 29-Oct-09	-55	-60
Thu 10-Dec-09	-54	-59
Thu 21-Jan-10	-57	-34

### Trading themes we favour at present

We're not surprised that the steepening that has been a hallmark of the past six months has paused. Not only has the market been too timid to embrace the prospect of a 50bp cut and more jawboning, but mortgage flow and profit taking have kept the short end elevated. However we expect a substantial steepening after Thursday and this is our preferred trade. Also consider an outright long 1yr OIS.

## CURRENCY STRATEGY

With the market split between a 25 and 50bp cut from the RBNZ this week, expect a NZD reaction either way. However, it will be the statement that will be critical to longer term direction and with the RBNZ thinking long term rates are too high, the tones need to be soft and hence NZD negative. The rest of the week will be spent squaring positions. The international focus will switch more and more to the stress test results due on 4 May.

### Market themes...

- > How is the market positioned into RBNZ?
- > US financial news better than expected – is the US first in and first out? Are these truly green shoots?
- > What happens to our yield curve? Money is seeking high yields.

### Review and outlook...

The market range traded last week with multiple support levels around 0.5500 against the USD holding. The range trade looks in vogue heading into Thursday's OCR decision, with offshore noise and market positioning being the main drivers until that announcement.

It is very difficult to see the RBNZ doing anything that will support the currency, given that they have openly stated longer-term yields are too high. To redress this they need to cut more, and/or reaffirm that rates will be low for a considerable period. The former was glossed over by the market last time and so the bias to deliver action as opposed to words this time around. It is therefore hard to be NZD bulls at these levels given likely sentiment from the central bank. The market is sitting happily short NZD versus the crosses and the easier road out of recession is through an export led recovery via a lower currency. The news that China will be buying large amounts of milk powder from NZ suggests there is some life in our export sector, but global demand in general is muted. The NZ economy, by nature of our current account deficit, needs foreign cash. At 50 cents it needs 16.7 percent less in USD terms than it does at 60 cents, all things being equal. This simple fact must weigh heavily.

The trouble with currencies is that there are two sides to a currency trade and the USD side continues to have long term problems. The Chinese and Brazilian governments are making more sounds about diversifying their reserves and the SDR model used by the IMF would suggest a more diverse portfolio. The US is slowly losing its global economic dominance, and as that wanes,

then so too does the USD as the world's reserve currency.

The NZD should trade the same range as last week, with resistance levels at 0.5770 and 0.5830 and support still strong at 0.5460. The NZD/AUD cross is also in a range and a test of the pivot at 0.8000 can be expected before the RBNZ decision. We will look at this as a level to sell this cross. If the NZD/USD trajectory is constrained by the path of the latter, and it's clear given NZ's external position that the TWI needs to fall, then the NZD/AUD will become a key focal point.

### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↓	RBNZ set to head lower than RBA and stay there.
Commodities	↓	Hards outperforming softs.
Partial indicators	↔/↓	Australian core CPI still running high.
Technicals	↔/↓	0.7750 to 0.8000 range.
Sentiment	↔	Very flaky.
Other	↔	More stimulus in the Australian Budget?
<b>On balance</b>	↔/↓	<b>Grinds lower as yield baton passes to AUD.</b>

### NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↑	Just below long term average
Fair value – short-term	↔	At cyclical fair value range.
Yield	↓	Set to narrow following RBNZ decision.
Commodities	↔	Dairy prices look to have bottomed.
Risk aversion	↔/↑	On the improve, but very flaky.
Partial indicators	↔	US data stabilising but Q1 GDP could shock.
Technicals	↔/↓	0.5460-0.5830 outside levels this week.
AUD	↔/↑	Getting dragged higher by the AUD.
Sentiment	↔	Can turn on a dime.
Other	↔	RBNZ this week, US stress test next week.
<b>On balance</b>	↔/↓	<b>Big trend is still lower.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
27-Apr	UK	Hometrack Housing Survey (Apr) - mom	-	-0.6%	11:01
		Bank of England to Release Quarterly APF Report	-	-	20:30
	GE	GfK Consumer Confidence Survey (May)	2.3	2.4	18:10
	EC	ECB's Constancio Speaks at Conference in Lisbon	-	-	22:00
		ECB's Trichet Speaks at Chatham House Conference, New York Fed	-	-	22:45
28-Apr	US	Dallas Fed Manufacturing Activity (Apr)	-46.0%	-49.0%	02:30
	JN	Retail Trade (Mar) - mom	-0.4%	-0.2%	11:50
		BoJ to Release Semi-Annual Economic Outlook Report	-	-	18:00
29-Apr	US	S&P/CaseShiller Home Price Index (Feb)	-	146.4	01:00
		S&P/CS Composite-20 (Feb) - yoy	-18.7%	-19.0%	01:00
		Consumer Confidence (Apr)	29.5	26.0	02:00
		Richmond Fed Manufacturing Index (Apr)	-15	-20	02:00
	EC	ECB's Bini Smaghi Speaks at Conference in Geneva	-	-	04:30
		M3 s.a. 3 mth ave (Mar)	5.9%	6.5%	20:00
		Business Climate Indicator (Apr)	-3.53	-3.58	21:00
		Economic Confidence (Apr)	65.6	64.6	21:00
	<b>NZ</b>	<b>Trade Balance (Mar)</b>	<b>250.0M</b>	<b>489.0M</b>	<b>10:45</b>
		<b>Imports (Mar)</b>	<b>3.34B</b>	<b>2.97B</b>	<b>10:45</b>
		<b>Exports (Mar)</b>	<b>3.55B</b>	<b>3.46B</b>	<b>10:45</b>
		<b>Money Supply M3 (Mar) - yoy</b>	<b>-</b>	<b>8.7%</b>	<b>15:00</b>
		<b>NBNZ Business Outlook (Apr)</b>	<b>-</b>	<b>-39.3</b>	<b>15:00</b>
30-Apr	US	GDP (Annualized) (1Q A) - qoq	-4.7%	-6.3%	00:30
		Personal Consumption (1Q A)	0.9%	-4.3%	00:30
		GDP Price Index (1Q A)	1.7%	0.5%	00:30
		Core PCE (1Q A) - qoq	1.2%	0.9%	00:30
		FOMC Rate Decision	0.25%	0.25%	06:15
	GE	ECB's Stark Speaks in Siegen, Germany	-	-	03:30
		ILO Unemployment Rate (Mar)	7.5%	7.4%	18:00
		Unemployment Change (000's) (Apr)	65K	69K	19:55
		Unemployment Rate (Apr)	8.2%	8.1%	19:55
	<b>NZ</b>	<b>RBNZ Official Cash Rate</b>	<b>2.50%</b>	<b>3.00%</b>	<b>09:00</b>
		<b>Building Permits (Mar) - mom</b>	<b>-</b>	<b>11.6%</b>	<b>10:45</b>
	UK	GfK Consumer Confidence Survey (Apr)	-28	-30	11:01
	JN	Nomura/JMMA Manufacturing PMI (Apr)	-	33.8	11:15
		Industrial Production (Mar P) - mom	0.8%	-9.4%	11:50
		BoJ Target Rate	0.10%	0.10%	-
		Vehicle Production (Mar) - yoy	-	-56.2%	16:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZST)
30-Apr cont.	JN	Housing Starts (Mar) - yoy	-22.6%	-24.9%	17:00
		Construction Orders (Mar) - yoy	-	-24.9%	17:00
	AU	Conference Board Leading Index (Feb)	-	-0.6%	12:00
		HIA New Home Sales (Mar) – mom	-	3.9%	13:00
		Private Sector Credit (Mar) – mom	0.3%	0.0%	13:30
		NAB Business Confidence (1Q)	-	-42	13:30
	EC	ECB's Nowotny Speaks at Briefing in Vienna	-	-	19:30
		CPI Estimate (Apr) – yoy	0.7%	0.6%	21:00
		Unemployment Rate (Mar)	8.7%	8.5%	21:00
1-May	US	Personal Income (Mar)	-0.2%	-0.2%	00:30
		Personal Spending (Mar)	-0.1%	0.2%	00:30
		PCE Deflator (Mar) - yoy	0.7%	1.0%	00:30
		PCE Core (Mar) - mom	0.2%	0.2%	00:30
		PCE Core (Mar) - yoy	1.8%	1.8%	00:30
		Employment Cost Index (1Q)	0.5%	0.5%	00:30
		Initial Jobless Claims (w/e Apr-26)	645K	640K	00:30
		Continuing Claims (w/e Apr-19)	6230K	6137K	00:30
		Chicago Purchasing Manager (Apr)	34.9	31.4	01:45
		NAPM-Milwaukee (Apr)	-	30	02:00
	AU	AiG Performance of Manufacturing Index (Apr)	-	33.4	11:30
	JN	Jobless Rate (Mar)	4.5%	4.4%	11:30
		Household Spending (Mar) – yoy	-2.7%	-3.5%	11:30
		National CPI (Mar) - yoy	-0.3%	-0.1%	11:30
		National CPI Ex-Fresh Food (Mar) - yoy	-0.2%	0.0%	11:30
		National CPI Ex Food, Energy (Mar) - yoy	-0.2%	-0.1%	11:30
		Labour Cash Earnings (Mar) - yoy	-2.8%	-2.4%	13:30
		Vehicle Sales (Apr) - yoy	-	-31.5%	17:00
	UK	Net Consumer Credit (Mar)	0.1B	-0.2B	20:30
		Mortgage Approvals (Mar)	40K	38K	20:30
		M4 Money Supply (Mar F) - mom	-	0.0%	20:30
		PMI Manufacturing (Apr)	40.0	39.1	20:30
2-May	US	University of Michigan Confidence (Apr F)	61.9	61.9	02:00
		ISM Manufacturing (Apr)	34.0	36.3	02:00
		Factory Orders (Mar)	-0.6%	1.8%	02:00

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:** The big event is the RBNZ's *OCR Review*. We expect a 50bp cut and for the rhetoric to be reasonably dovish. Looking forward, there are signs of a base beginning to form. The big uncertainty is whether this can be sustained with the labour market turning rapidly.

Date	Data/Event	Economic Signal	Comment
Wed 29 Apr (10.45)	Overseas Merchandise Trade (Mar)	Signs of rebalancing	While the weak global backdrop is impacting export growth, import growth is slowing faster as the domestic economy de-leverages. We expect another monthly trade surplus.
Wed 29 Apr (15.00)	Credit Growth (Mar)	Temporary pick-up in mortgage lending	Some pick-up in mortgage lending from the rush of people to take advantage of low fixed rates and increased housing market activity. This is unlikely to be sustained.
Wed 29 Apr (15.00)	NBNZ <i>Business Outlook</i> (Apr)	-	-
Thu 30 Apr (09.00)	RBNZ <i>OCR Review</i>	50bp cut	The weak QSBO survey suggests the economy continues to contract into Q2. On top of this, monetary conditions are tighter now than what the RBNZ forecast in March. We now expect the Bank to cut by 50bps.
Thu 30 Apr (10.45)	Building Consents Issued (Mar)	A base?	We expect a base to begin to form around current depressed levels.
Mon 4 May (10.45)	LCI & QES (Mar qtr)	Past the peak	On an annual sense, wage growth will remain elevated, but there will be increasing evidence that wage pressures are easing.
Tue 5 May	ANZ Commodity Price Index (Apr)	-	-
Thu 7 May (10.45)	Household Labour Force Survey (Mar qtr)	Reversing the surprise	Following the surge in employment in Q4, we expect a sharp unwind in the quarter. The unemployment rate will continue to head rapidly higher.
circa 11 May	REINZ House Sales (Apr)	Further signs of stabilisation	The data is likely to confirm the anecdotes, with further improvement seen in house sales. Prices should remain under downward pressure though.
Fri 15 May (10.45)	Retail Sales (Mar)	Stabilising?	It has been clear that households have been largely saving the benefits of recent tax cuts and lower mortgage payments. However, we are expected to see signs now that a base to spending is beginning to form.
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 are likely to continue to trend lower.
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.
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. Credit rating agencies will be watching closely.
Thu 28 May (15.00)	NBNZ <i>Business Outlook</i> (May)	-	-
Thu 28 May (15.00)	Credit Growth (Apr)	De-leveraging	The blip of mortgage fixing in March should reverse, with credit growth remaining subdued.
Fri 29 May (10.45)	Building Consents Issued (Apr)	Stabilising	Further evidence that a base is forming.
<b>On Balance</b>		<b>Base forming?</b>	<b>There is a strong base effect appearing in some data, which suggests the June quarter 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)	-1.3	1.2	0.2	0.9	<b>-1.5</b>	<b>-1.0</b>	<b>-0.8</b>	<b>-0.4</b>	<b>0.0</b>	<b>0.1</b>
Employment (% yoy)	-0.2	0.8	1.1	1.0	<b>0.8</b>	<b>-1.4</b>	<b>-2.4</b>	<b>-3.7</b>	<b>-2.2</b>	<b>-1.1</b>
Unemployment Rate (% sa)	3.8	4.0	4.3	4.7	<b>5.4</b>	<b>6.3</b>	<b>7.0</b>	<b>7.5</b>	<b>7.9</b>	<b>8.0</b>
Current Account (% GDP)	-8.0	-8.4	-8.7	-8.9	<b>-8.6</b>	<b>-7.3</b>	<b>-6.5</b>	<b>-5.8</b>	<b>-6.0</b>	<b>-6.3</b>
Terms of Trade (% qoq)	4.2	-0.4	-1.0	-0.9	<b>-3.0</b>	<b>-3.1</b>	<b>-3.0</b>	<b>-2.2</b>	<b>-1.6</b>	<b>-0.9</b>
Terms of Trade (% yoy)	11.6	10.7	5.8	1.8	<b>-5.2</b>	<b>-7.8</b>	<b>-9.7</b>	<b>-10.8</b>	<b>-9.5</b>	<b>-7.4</b>

## KEY ECONOMIC INDICATORS

	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Retail Sales (% mom)	-0.7	0.3	0.3	-1.3	0.0	-0.6	-1.2	0.2	..	..
Retail Sales (% yoy)	2.5	-0.9	2.2	0.7	-4.1	-0.9	-3.7	-6.9	..	..
Credit Card Billings (% mom)	0.0	-0.3	1.2	-1.8	-0.9	-2.1	1.4	0.6	-3.1	..
Credit Card Billings (% yoy)	4.0	2.5	2.5	1.0	-1.0	-3.8	-2.4	-2.0	-5.0	..
Car Registrations (% mom)	-7.1	-3.5	10.7	-0.6	-20.0	12.8	-13.8	-15.1	6.8	..
Car Registrations (% yoy)	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	-32.9	..
Building Consents (% mom)	-1.0	-6.9	8.2	-19.5	3.6	-7.0	-13.1	11.7	..	..
Building Consents (% yoy)	-34.4	-43.2	-28.4	-42.8	-39.7	-41.4	-51.7	-40.0	..	..
REINZ House Price (% yoy)	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	-4.0	..
Household Lending Growth (% mom)	0.3	0.4	0.3	0.2	-0.1	0.1	0.2	0.2	..	..
Household Lending Growth (% yoy)	7.7	7.2	6.6	5.9	4.8	4.2	3.8	3.1	..	..
Roy Morgan Consumer Confidence	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8	94.7	101.1
NBNZ Business Confidence	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	-39.3	..
NBNZ Own Activity Outlook	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	-21.2	..
Trade Balance (\$m)	-797	-848	-1252	-994	-594	-342	-104	489	..	..
Trade Balance (\$m annual)	-4468	-4369	-5048	-5269	-5234	-5614	-5408	-5161	..	..
ANZ World Commodity Price Index (% mom)	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	1.0	..
ANZ World Commodity Price Index (% yoy)	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	-31.4	..
Net Migration (sa)	750	330	-40	20	-300	320	810	1600	1720	..
Net Migration (annual)	5201	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)						
	Feb-09	Mar-09	27-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.515	0.530	0.567	0.540	0.510	0.480	0.470	0.470	0.480	0.490
NZD/AUD	0.794	0.797	0.788	0.818	0.810	0.814	0.824	0.819	0.822	0.817
NZD/EUR	0.402	0.406	0.429	0.422	0.408	0.400	0.404	0.420	0.429	0.434
NZD/JPY	47.6	51.8	54.9	54.0	50.5	47.0	45.6	46.5	48.0	50.0
NZD/GBP	0.358	0.373	0.387	0.372	0.357	0.338	0.327	0.324	0.327	0.329
NZ\$ TWI	52.3	53.8	56.2	55.3	53.0	51.1	50.7	51.3	52.2	53.0
NZ interest rates	Feb-09	Mar-09	27-Apr-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	3.71	3.43	3.00	2.25	2.25	2.25	2.25	2.25	2.75	3.75
90 day bill	3.40	3.24	3.05	2.70	2.70	2.70	2.70	2.70	3.50	4.40
10 year bond	4.53	4.78	5.31	4.20	4.00	4.10	4.40	4.60	5.50	5.70
International	Feb-09	Mar-09	27-Apr-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	1.26	1.19	1.07	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	3.25	3.25	3.00	2.75	2.50	2.00	2.00	2.00	2.00	2.75
AU 3-mth	3.16	3.14	3.07	2.70	2.30	2.30	2.30	2.40	2.60	3.30

## KEY RATES

	24 Mar	20 Apr	21 Apr	22 Apr	23 Apr	24 Apr
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.33	3.04	3.05	3.04	3.02	3.05
NZGB 07/09	3.15	2.96	2.94	2.95	2.95	2.96
NZGB 11/11	3.53	3.64	3.50	3.50	3.56	3.68
NZGB 04/13	4.05	4.34	4.20	4.20	4.26	4.38
NZGB 12/17	4.87	5.26	5.11	5.10	5.16	5.28
2 year swap	3.56	3.66	3.61	3.59	3.59	3.62
5 year swap	4.63	4.79	4.73	4.70	4.70	4.73
RBNZ TWI	56.5	56.6	55.8	55.8	55.8	56.0
NZD/USD	0.5723	0.5673	0.5551	0.5554	0.5563	0.5627
NZD/AUD	0.8092	0.7884	0.7916	0.7894	0.7886	0.7889
NZD/JPY	55.97	56.07	54.52	54.52	54.40	54.68
NZD/GBP	0.3899	0.3846	0.3818	0.3799	0.3842	0.3842
NZD/EUR	0.4187	0.4360	0.4292	0.4298	0.4279	0.4281
AUD/USD	0.7072	0.7196	0.7012	0.7036	0.7054	0.7133
EUR/USD	1.3669	1.3012	1.2933	1.2923	1.3002	1.3144
USD/JPY	97.79	98.83	98.21	98.17	97.79	97.17
GBP/USD	1.4680	1.4752	1.4538	1.4619	1.4479	1.4645
Oil	53.05	50.36	45.82	46.65	47.41	48.46
Gold	942.75	869.35	886.45	883.65	892.30	910.70
Electricity (Haywards)	5.86	3.62	5.25	6.88	5.21	4.06
Milk futures (US\$/contract)	83	85	85	85	84	83
Baltic Dry Freight Index	1758	1737	1797	1869	1897	1873

## 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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