

NEW ZEALAND ECONOMICS MARKET FOCUS

23 May 2011

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PUBLIC VERSUS PRIVATE SAVING

ECONOMIC OVERVIEW

The Budget was fiscally responsible, projecting a return to surplus a year earlier than the 2010 Budget, placating rating agencies for now. A tight fiscal stance from 2012/13 will assist monetary policy. We saw little aggregate change to alter our core prognosis. This week's data calendar is light. We expect the RBNZ 2-year-ahead measure for CPI inflation to tick up but to remain well within the inflation target band.

LABOUR MARKET INDICATORS

The official data describing the state of the labour market has been extremely volatile of late, meaning other indicators have taken on heightened importance. Job advertisement statistics, business surveys, and registrations for the unemployment benefit all give useful reads on the balance of demand and supply in the labour market. These indicators can be combined into an overall index of labour conditions that tracks the trend change in the unemployment rate in a relatively timely manner. The collective approach suggests a labour market that is steady to mildly improving.

THE REGIONAL GAP

Our regional output gap measures still show broad-based idle capacity across most regions, with some regional divergences. However, despite subdued activity, the margin of spare capacity has failed to widen much. The Canterbury earthquakes will partly account for this being a supply-side shock but it underscores wider concerns we have over the ability of the supply side to accommodate a pending cyclical upswing from the second half of this year.

INTEREST RATE STRATEGY

Last week's Budget delivered on market expectations in terms of its austerity, and has been well received by credit rating agencies – up to a point, with concerns still expressed over the external position. On the face of it the Budget provides support to the concept of lower interest rates and a 2012 hike view, which the market has been quick to latch on to. Getting some positive consistency to data outturns will challenge this view, but remains six weeks off.

CURRENCY STRATEGY

Last week's NZ Government Budget was market friendly, and helped the NZD outperform other major currencies. We could see ongoing interest in NZD, especially if offshore demand for NZ government bonds increases, but the 0.80 level should serve as a cap for now. Greek restructuring talk will keep the EUR under pressure, and the AUD will likely head sideways as prospects for a June RBA hike dwindle. The US debt ceiling issue continues to bubble away in the background, creating a currency tug-of-war. All these suggest the NZD could again be a standout performer this week.

ECONOMIC OVERVIEW

SUMMARY

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NEXT WEEK'S EVENTS

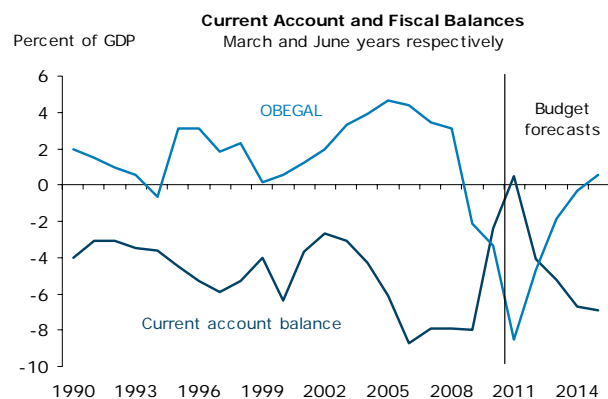
- **RBNZ Survey of Expectations – Q2** (Tuesday, May 24, 3pm). We expect a small tick up in the 2-year-ahead expectation for CPI inflation to 2.7 percent.

WHAT'S THE VIEW?

The Government played with a straight bat, with not many surprises in last week's Budget. Key takeouts included:

- **Some pretty rosy fiscal numbers including a projected return to surplus by 2014/15**, with 4 percent GDP growth in the coming year and 3 percent per year beyond that for the following five years. We agree with the short-term boost but struggle to believe this growth rate will endure given deleveraging and transitional headwinds for the economy. Yes, we all know the boost from Christchurch is massive, but we simply don't believe the economy has the supply-side capacity to keep expanding at 3 percent per year. And on the demand side, debt run-ups in the scale we've seen tend to be followed by up to a decade of lower trend growth. The piper's bill isn't paid yet.
- **The Budget went further than being of the zero variety, with a net \$1.2 billion of savings identified.** On the face of it this is a far tighter fiscal stance than expected a few months ago, and will help keep interest rates lower for longer. However, the \$1.2 billion was spread over five years (0.12 percent of GDP per annum) and these figures excluded some support to Canterbury.
- Officially, the Treasury's calculations show the fiscal stance being far more expansionary in 2011/12 but more contractionary from 2012/13. **However, when you eye up reinsurance flows from EQC and the infrastructure bond, which are more capital-related items, we're not convinced the fiscal stance is as reliable as a proxy for the degree of demand pressure exerted by fiscal policy.** Such measures focus on the operational side of Government activities, whereas the real story at present is balance sheet related.

- **Rating agencies gave the Budget the big tick, but then waved the big stick.** As we noted last week, the challenge was to ensure an improvement in the fiscal accounts was not offset by a corresponding deterioration in the external accounts. Treasury's projections of the current account deficit returning to 7 percent of GDP (and rise in net external debt from 82 to 85 percent of GDP) did nothing to allay those concerns. **S&P and Fitch will be in no hurry to remove New Zealand from negative outlook, with all eyes on the external position.** Implicitly, Treasury views cautious household behaviour as cyclical and temporary as opposed to structural. We tend to lean towards the latter.
- **The policy emphasis has gone from looking at fostering a "step-change" for the economy to "tilting" it.** In effect this looks to be an acknowledgement that magic potions don't exist; they tend to be snake oil.



Source: Treasury, ANZ, National Bank, Statistics New Zealand

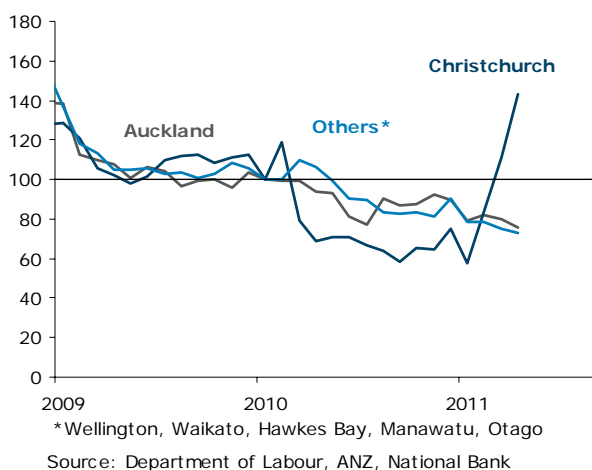
Looking at the general economy, the theme of mixed sector and regional performances continues to be highlighted in recent local data. Last week's NBNZ Regional Trends showed nationwide activity slipping by 0.1 percent in Q1, largely on account of a 2.8 percent fall in activity in the Canterbury region. New Zealand excluding Canterbury recorded a 0.2 percent rise in economic activity – okay, but nothing to write home about. Our analysis of regional output gaps on page 7 shows spare capacity across all regions, and idle capacity expanded in most regions in the March quarter. This is more evidence pointing to time being on the RBNZ's side, though as we point out, the margin of spare capacity has failed to widen much during a period of weak economic activity, and we think this is telling us something about the supply-side of the equation. Unfortunately the supply-side is unobservable and this makes inferences all the more difficult.

ECONOMIC OVERVIEW

The labour market is critical going forward, both in terms of stimulating household spending, and what it tells us about supply-side capacity. The volatility in the Household Labour Force Survey has been somewhat perplexing and as a result, we have taken the following two steps:

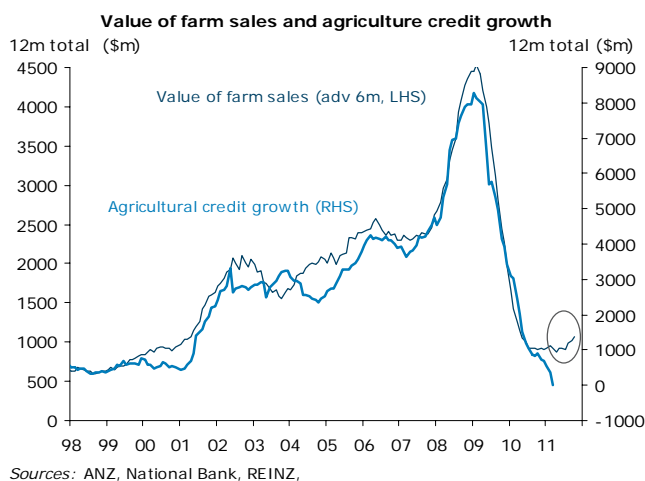
- First, we're looking again at job ads and have taken back the formal production of the series.** The indicator value of job ads died a natural death a few years ago. The rapid growth in internet ads and conflicting directional signals between newsprint job ads and employment growth (the former down and the latter up!) saw it downplayed as a gauge of labour market developments. With question marks over soft leading data, and hard data coming with too much of a lag, we're always on the lookout for timely real-time data and this has led us back to job ads as a barometer. It's far from perfect, but still informative. **An interesting aspect we've noted of late has been a surge in Christchurch job listings, although admittedly this is off a low base.** We'll be looking at May benefit numbers closely: if they don't spike (given the wind down in Government assistance), it'll corroborate the message from job ads and show evidence of resilience in the Christchurch area on the job front.

2010=100 **New Zealand Job Advertisements**



- Second, we've developed a timely labour market gauge, which effectively averages across an array of measures.** On page 5 we outline the derivation of a monthly labour demand index, which uses information from a number of sources to provide a timely steer on the direction of the labour market.

Last week's *globalDairyTrade* online auction reaffirmed the positive news for the income-generating part of the economy. USD denominated dairy prices have managed to hold up despite higher local and US/European production, which is testament to the role being played by structurally higher demand from emerging markets. There was also good news on the production side, with Fonterra announcing that favourable autumn conditions have contributed to production levels now running 4 percent ahead of last season. Higher Q2 dairy production will make a decent contribution to Q2 GDP. It will also provide another boost to rural incomes, worth an additional \$450m on top of the extra \$2bn increase from the higher payout.

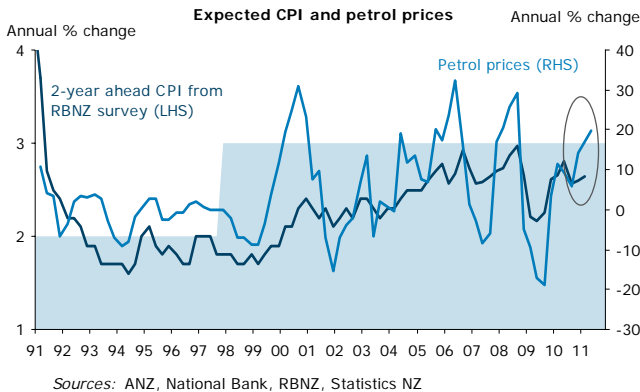


The wider impacts on the economy will depend on the extent to which dairy farmers open their wallets. **Ongoing rural deleveraging is continuing to drive a wedge between solid income growth and spending.** The credit aggregates indicate rural borrowers are continuing to work off debt relative to income. However, low interest rates and high commodity export prices are a potent mix. Behind the scenes we're hearing whispers of signs of life returning to the rural property market, and potentially spending throughout the provinces. It's small in scale at present, lacking critical mass, but still a positive sign. A key factor influencing rural spending decisions will be confidence that the surge in export commodity prices is not a flash in the pan affair. Fonterra are due to make an announcement soon on next season's payout forecast, and we expect an upbeat outlook for dairy prices to underpin rural confidence and spending.

This week's local data calendar is sparse, with the major local highlight being the RBNZ survey of expectations for Q2. We are expecting a small tick-up in the 2-year-ahead forecast for CPI inflation to around 2.7 percent from 2.64 percent currently.

ECONOMIC OVERVIEW

Moving higher, but not of immediate concern. Our soon to be published work on inflation expectations has found that commonly purchased items tend to have more influence on the RBNZ survey readings for expected inflation. The RBNZ survey for Q2 was conducted a few days before recent cuts to petrol prices were announced.



With little on the local horizon we thought it a good opportunity to step back and re-examine our core views. We've seen global ructions – both good and bad. A tight Budget has been delivered. To be honest, recent data has been all over the place!

Suffice to say that at present we see little reason to change our core view. The key planks of our economic view remain intact and they include:

- **A springboard style recovery in H2 2011 and into 2012.** One-offs are influential but we're encouraged by a lot of the balance sheet repair we've seen at the same time. This is allowing scope for some pent-up demand to be unleashed. We say "some" because there is still a deleveraging headwind, just of less intensity relative to prior years.
- **Within the spirit of a springboard recovery we've still got a conservative view of trend growth for the next five years.** The economy is still facing deep-rooted structural change as it rebalances. It takes time for resources to adjust, and this applies to a host of nations around the globe.
- **Christchurch is a huge source of growth over the coming years, but for this to be absorbed without creating imbalances** (i.e. a blow-out in the current account deficit or higher interest rates than currently expected) **something has to give. Consumption growth has to expand slower than the rest of the economy for**

years to come.

- **We're still picking the RBNZ to be hiking in 2011.** We are in the process of upgrading our 2011 growth outlook and expect the RBNZ's June forecasts to be revised higher compared to the March MPS projections.
- **The boost to nationwide purchasing power from higher export commodity prices is a massive event.** The medium-term outlook for the New Zealand economy is good, but there will be volatility as the economy transitions to a new equilibrium.

RECENT LOCAL DATA

- **globalDairyTrade online auction.** Prices fell 1.1 percent from the early May event to US \$4,443/tonne. Whole milk powder prices rose 0.1 percent.
- **SNZ Producer Price Index – Q1.** Producer input prices rose 2.2 percent (5.3 percent y/y), with output prices rising 1.7 percent (4.2 percent y/y).
- **SNZ Capital Goods Price Index – Q1.** Capital goods rose 0.2 percent (-0.1 percent y/y).
- **NBNZ Regional Trends – 2011Q1.** The nationwide measure of economic activity dipped 0.1 percent s.a. (1.2 percent year on year). Eight regions recorded a quarterly rise in economic activity, while six regions registered a drop.
- **ANZ – Roy Morgan Consumer Confidence – May.** Headline consumer confidence rose 2 points to 103.3.
- **May 2011 Budget.** The OBEGAL is forecast to move from a deficit of \$16.7bn in 2010/11 to a surplus of \$1.3bn in 2014/15. Net public debt is expected to reach 29.6 percent of GDP by 2014/15, before declining further out.
- **SNZ External Migration – April.** A net PLT outflow of 100 persons saw the annual net PLT inflow slow to 5,508 persons. Visitor arrivals rebounded a seasonally adjusted 8.2 percent, to be 5.2 percent higher than a year earlier.
- **RBNZ Credit Card Spending – April.** Credit card spending rose a seasonally adjusted 1.6 percent (6.0 percent y/y). Spending on overseas issued cards rose 7.6 percent s.a., whereas spending on domestic cards rose 0.8 percent.

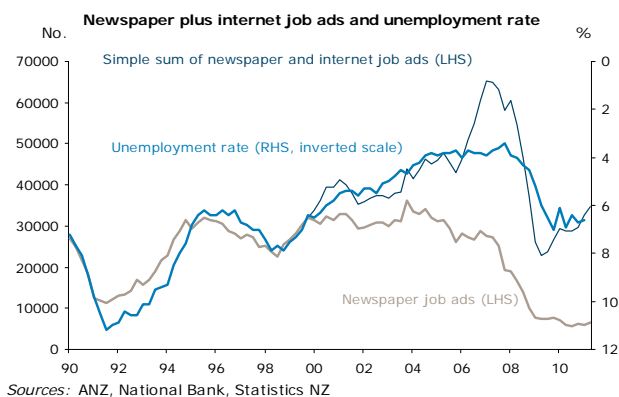
LABOUR MARKET INDICATORS

SUMMARY

The official data describing the state of the labour market has been extremely volatile of late, meaning other indicators have taken on heightened importance. Job advertisement statistics, business surveys, and registrations for the unemployment benefit all give useful reads on the balance of demand and supply in the labour market. These indicators can be combined into an overall index of labour conditions that tracks the trend change in the unemployment rate in a relatively timely manner. The collective approach suggests a labour market that is steady to mildly improving.

ANZ JOB ADVERTISEMENTS RESURRECTED

ANZ Job Advertisements used to be a closely watched indicator of labour demand. Unfortunately, the relationship with unemployment broke down, and the series has not been published for some time. Newspaper ads alone were clearly understating labour market strength for a while with the series tailing off from 2004. As the labour market tightened, the marginal cost of advertising (relative to the number of applicants) rose. Or put another way, there seemed little point shelling out on costly advertising given the limited pool of labour at the time. At the same time we saw a literal explosion in internet based advertising. Because many jobs were advertised across both media (and often jobs are listed on more than one website), a job ads series made from summing the two *overstated* the strength of the labour market from 2006 (see chart).



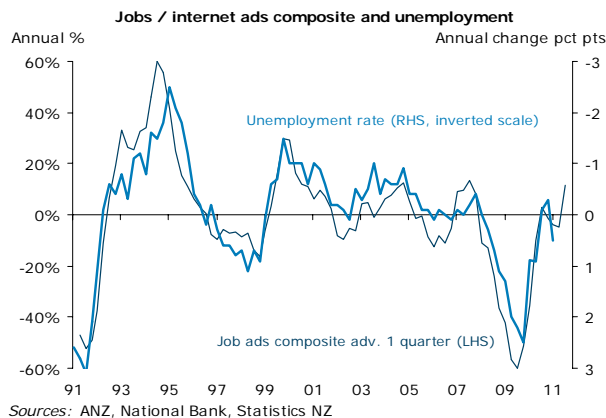
However, we believe the bulk of the structural shift between newspaper and internet job advertisements has run its course, meaning that the **growth in these series can again be informative.**

Simply eyeballing the following chart shows a couple of interesting dynamics. First, the number of jobs ads remains low, though the trend has been one of

small improvement each month since September last year. Internet ads have been rising solidly since 2009 but off a low base.



We combine newspaper and internet job advertisements at the ratio of 1:5; i.e. one newspaper ad is “worth” five internet ads. This reflects the fact that newspaper advertising is considerably more costly and often jobs are advertised on more than one internet site. This produces an index that does quite a reasonable job of explaining the annual change in the unemployment rate (see the chart below).

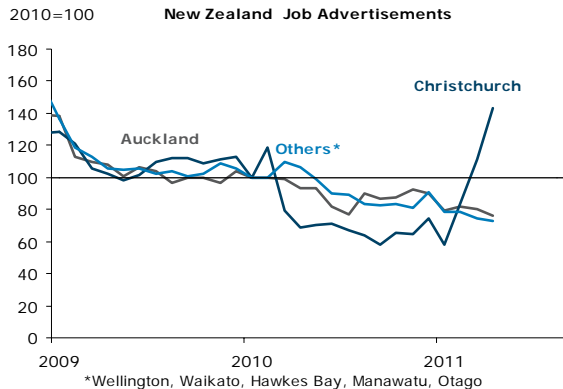


The indicator is suggesting the labour market is slowly recovering and we can expect further falls in the unemployment rate.

Where are signs of rebound coming from? Christchurch, it turns out. Internet job ads are not available on a regional basis, but newspaper advertisements have picked up sharply in the Garden City – a promising sign for the post-quake labour market and evidence of the resilience of the city, though we need to acknowledge it is off a low base.

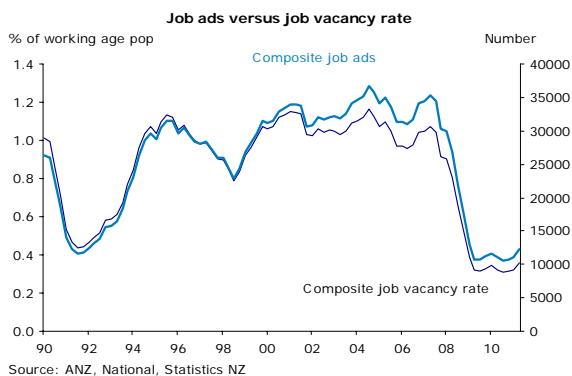


LABOUR MARKET INDICATORS



Source: Department of Labour, ANZ, National Bank

We also construct a “job vacancy” rate – job ads as a proportion of the working age population. Such a series is a better conceptual fit to the notion of the unemployment rate as it controls for the size of the labour force. If, for example, the population doubled, the trend level of job ads would double but the trend unemployment rate would not. There is not a large divergence between the two series over our relatively short sample, but we will continue to report both. Such a measure suggests ample labour market capacity.



LABOUR DEMAND INDEX

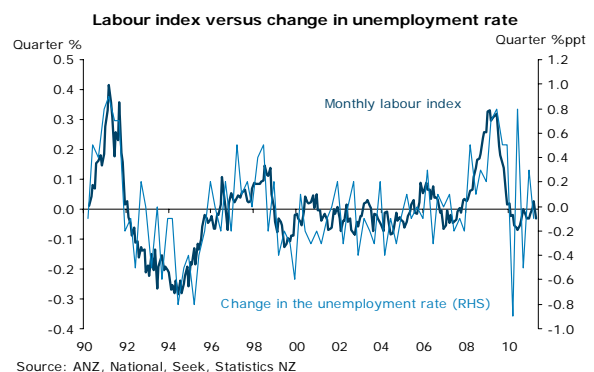
The Household Labour Force Survey has been extremely volatile of late. The surveyed unemployment rate has lurched in consecutive quarters from 7.0 percent to 6.1 percent, and back up to 6.9 percent before settling just over the 6½ percent mark. We simply don't believe these numbers represent actual labour market developments, and fully expect the volatility to be revised away over time. But in the meantime, it is useful to know whether a given reported unemployment rate is credible or not, and it is also important to have timely barometers of the labour market.

We have derived a monthly labour demand index that tracks the change in the

unemployment rate. We include:

- Our composite job ads series as discussed in the previous section (current and lagged);
- Number of people receiving the unemployment benefit – a real-time barometer (from 1996);
- Employment intentions from the National Bank Business Outlook Survey (NBBO, from 1993, current and lagged);
- The NBBO own activity measure (from 1990); and
- The tentative strength or weakness in firms own activity expectations, versus employment intentions from the NBBO. Expressing activity and employment in a relative sense (relative to their means and to each other) controls somewhat for overstated/ understated employment sentiment readings.

This approach effectively “averages” across an array of measures, or more succinctly, uses heaps of measures but trusts none of them individually! The weights are derived by regressing the change in the unemployment rate on each of the variables in turn. Notably, even though the index is monthly, it is considerably less volatile than the surveyed unemployment rate. In the early years, not all of the components are available. The index adds them in as they start.



Our composite index captures all the major directional trends in the labour market, and is far more stable than the unemployment rate itself. This in itself is intuitively appealing. **Only the first month of Q2 is available at present, but it is consistent with a steady unemployment rate.** Looking forward, we plan to release the job ads series and also our composite indicator on a monthly basis. Both have key characteristics that offer value at present. They include real time inputs and can be obtained in a timely fashion.

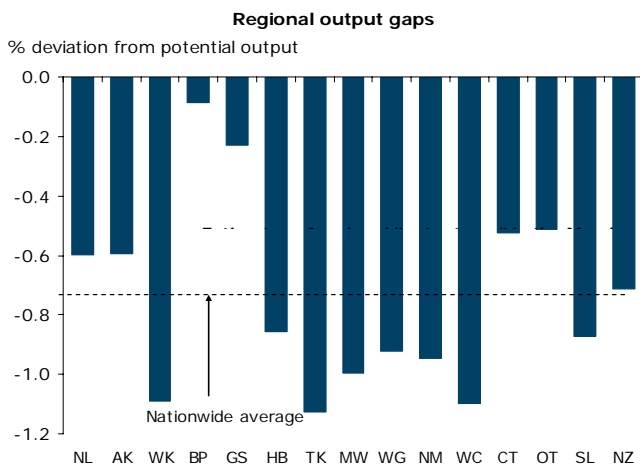
THE REGIONAL GAP

SUMMARY

Our regional output gap measures still show broad-based idle capacity across most regions, with some regional divergences. However, despite subdued activity, the margin of spare capacity has failed to widen much. The Canterbury earthquakes will partly account for this, being a supply-side shock, but it underscores wider concerns we have over the ability of the supply side to accommodate a pending cyclical upswing from the second half of this year.

THE REGIONAL GAP

We present our updated regional output gap measures for the March 2011 quarter.¹ **The regional measures provide us with a richer picture of how geographically concentrated nationwide trends are.** Regional measures are prone to a larger degree of uncertainty than nationwide data. But it is the broad trends and the regional variations that are the main focus.

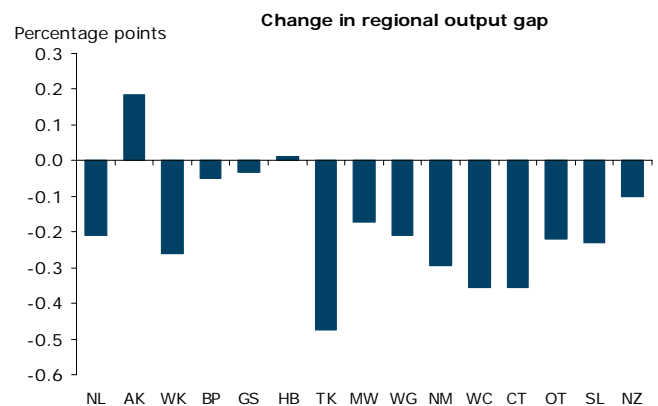


Sources: ANZ, National Bank

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

Key points from the updated analysis are:

- **There is still idle capacity across most regions.** All regions continued to experience a negative output gap for the tenth consecutive quarter. The Waikato, Taranaki, and West Coast are regions with the largest negative output gap. Regions with the smallest negative output gap are the Bay of Plenty, Gisborne, Otago and Canterbury.
- **At the nationwide level the negative output gap barely moved despite economic activity declining 0.1 percent.** Activity-based measures continue to show a large and growing degree of spare capacity. By contrast, the degree of resource utilisation in the labour market increased slightly, with a small margin of available slack currently in place. On average, survey-based capacity utilisation measures were broadly unchanged, and are currently at slightly higher levels than trend.



Sources: ANZ, National Bank

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

- **All of the regions except one experienced a more negative output gap.** Regions experiencing a large widening in their output gaps tended to be those that experienced weaker demand (such as Canterbury, Taranaki, and Nelson/Marlborough), with regional activity contracting in six of the 14 regions in March. Those regions experiencing a smaller decline in their output gaps generally experienced reasonably solid rates of Q1 activity (as in Gisborne, the Bay of Plenty, Manawatu and Auckland), with the lower degree of labour market slack in Auckland also resulting in less overall capacity in that region relative to the December quarter.

THE REGIONAL GAP

- **Although activity in the Canterbury region declined 2.8 percent in the March quarter, the overall negative output gap only widened by 0.4 percentage points.** Offsetting this weak demand was a fall in supply-side capacity, no doubt the consequence of recent seismic events. Surveyed capacity utilisation in Canterbury increased further above trend to be the highest of any of the regions. The degree of labour market slack also eased slightly in Canterbury.

THE UPSHOT

Our regional output gap estimates show idle capacity remains in most regions that will be sufficient to absorb a modest pick-up in demand. However, there remain marked differences depending on the capacity indicator used, with the demand-based approaches (NBNZ Regional Trends) showing a much greater margin of spare capacity than more supply-side approaches (i.e. NBBO capacity utilisation and the HLFS unemployment rate).

Our approach emphasises the importance of also examining the supply side of the economy when assessing the degree of medium-term inflationary pressure. There are also differences in resource pressures throughout the economy. While monetary policy can do little to influence the mix, there is a greater role for supply-side policy.

We continue to ponder over the following areas, notably:

- Is the supply-side capacity of the economy as truncated as implied by our regional capacity indicators? If so, the margin of spare capacity may be insufficient to accommodate the increase in demand we see occurring in the second half of 2011, which could impede the durability of the recovery.
- How quickly will supply-side capacity be rebuilt following the Christchurch earthquake? To what degree will the reconstruction affect resource allocation in other regions/sectors?

INTEREST RATE STRATEGY

SUMMARY

Last week's Budget delivered on market expectations in terms of its austerity, and has been well received by credit rating agencies – up to a point, with concerns still expressed over the external position. On the face of it the Budget provides support to the concept of lower interest rates and a 2012 hike view, which the market has been quick to latch on to. Getting some positive consistency to data outturns will challenge this view, but remains six weeks off.

MARKET THEMES

- Budget 2011 was market friendly, and has bought the Government time to deliver on its austerity plan.
- Brave choices in the Budget are likely to keep the RBNZ on the sidelines in the near term.
- The global picture appears to be getting darker, with Japan back in recession, slowing momentum in the US, and debt problems in Europe. But we remain "hitched to the Australia/China train".

REVIEW AND OUTLOOK

Interest rates have edged lower in the past week on tight fiscal policy, which leaves the RBNZ more able to keep the OCR low for longer. This is somewhat ironic because the Treasury's forecasts actually showed semblances of the consumer falling back into "old" habits. This implies the net external debt position rising again and a clear shuffle between public sector savings and a return to private sector dis-saving (read: a wider current account deficit). **This switch was not lost on rating agencies – while they have welcomed the austerity plan, they were quick to note that the external position remains problematic.**

For now the market looks happy to run with a "lower for longer" view, shying away from a recovery theme. But this is not because the market is in denial. Rather it is because the market has cottoned into the idea that the RBNZ would rather be slightly behind as opposed to being well ahead of the curve, preferring not to run the risk that they derail the recovery with an early rate hike. That's not to criticise the RBNZ – it's a key judgement, and the RBNZ are not the only central bank who have taken that particular stance. Indeed, the Fed and the BOE are "there" too. **A test of this view requires positive consistency in the tone of data, which could be 6 weeks away.**

Global market developments also rate a mention – particularly the further deterioration of US data, the Japan quake, and ongoing stress in European

sovereign debt markets. Unwelcome as these developments are, they only add to New Zealand's appeal. **Not only are we increasingly being seen to be firmly "hitched to the Australia/China train", but our overall low levels of Government debt are a positive point of differentiation.** The rating agencies certainly appear to like the Budget, subject to wariness over the current account deficit.

PREFERRED BORROWING STRATEGIES

Swap rates have been broadly stable over the past week, and remain at fairly low levels relative to levels of the past 18 months. Although inflation risks have been dismissed for the time being, and the market is focussing on a fair to middling growth outlook now, the underlying growth outlook is building, and that has upside risk for interest rates. As such, we favour adding to hedges here, particularly in the 5-7 year part of the curve, where rates are well below 5 percent.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	Budget will add to caution for most people.
NZ data	↔	No data this week except inflation expectations.
Fed Funds / front end	↔/↓	Collapse in Philly Fed a worrying development.
RBA	↔/↓	Hike likely to be delayed till August after weak jobs data.
US 10 year	↔/↓	Carry and momentum point to lower yields.
NZ swap curve	↔	Neutral. Both ends of curve biased lower.
Flow	↔	Receive side still dominant.
Technicals	↔/↓	3% US 10yr Treasury bond yield beckons.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 9-Jun-11	0	0
Thu 28-Jul-11	0	0
Thu 15-Sep-11	+2	+2
Thu 27-Oct-11	+9	+7
Thu 8-Dec-11	+18	+14
Thu 26-Jan-12	+30	+24
Thu 8-Mar-12	+44	+38

TRADING THEMES WE FAVOUR AT PRESENT

NZGS asset swaps (ASW) continue to perform, and now that the Budget looks to have averted a credit rating downgrade, we expect more progress. The NZGS 4/15 ASW is our preferred trade – it is largely immune to supply, which will be concentrated at the long end, and the ASW itself enjoys positive roll+carry. Expect the curve to remain steep until the US market is ready to entertain significantly higher Treasury bond yields.

CURRENCY STRATEGY

SUMMARY

Last week's NZ Government Budget was market friendly, and helped the NZD outperform other major currencies. We could see ongoing interest in NZD, especially if offshore demand for NZ government bonds increases, but the 0.80 level should serve as a cap for now. Greek restructuring talk will keep the EUR under pressure, and the AUD will likely head sideways as prospects for a June RBA hike dwindle. The US debt ceiling issue continues to bubble away in the background, creating a currency tug-of-war. All these suggest the NZD could again be a standout performer this week.

MARKET THEMES

- NZD outperforms as Budget 2011 signals earlier return to surplus than the market expected.
- European sovereign debt crisis to continue to undermine EUR.
- The end of QE2 creeps closer, lessening reasons to sell USD.
- FX markets have gone quiet so "Sell in May and go away..." comes to mind.

REVIEW AND OUTLOOK

Budget 2011 was viewed positively by the market, and importantly, by the credit rating agencies. A credit downgrade has been averted, and the NZD gained as a result. The fact that the NZD was the standout performer last week probably owed more to the fact that the market (especially offshore participants) was short NZD heading into the Budget in anticipation of a worse state of fiscal affairs. But with the Budget showing more expenditure restraint and a return to surplus by 2014/15, shorts got squeezed out.

For the week ahead, there is a lack of domestic data to provide a steer. Technically the outlook remains downward while we are still below the key 0.8015 pivot level. The outperformance on a TWI basis has brought an interesting technical picture into play. An inverted "head and shoulders" formation suggests a break of 69.30 could signal a move to 72.52 en route to 75.74. However, resistance between 69.30 and 69.80 is massive.

From a fundamental point of view, we are likely to see ongoing interest in NZ government bonds from offshore investors, especially for the new 2023s that the DMO intends to issue. If so, then NZD could outperform in the near term, though the 0.80 level could prove difficult to break for now.

The EUR continues to be vulnerable as Greek restructuring talk intensifies. After ignoring sovereign concerns for the early part of last week, EUR finally succumbed. Fitch cut Greece's rating by 3 notches to B+, placing it well below investment grade. Spanish elections are not going well for the ruling party, with suggestions the new regime may "get honest" about the state of Spain's books. Italy was placed on negative watch by S&P. With so much negative news going on, and speculators still holding relatively large net long positions in EUR, we could see another leg lower in the single currency soon with a move below 1.40 likely.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↓	RBA set to move. RBNZ on hold for a while.
Commodities	↓	Weaker commodities leave NZD and AUD vulnerable.
Partial indicators	↓	RBNZ and RBA in opposing directions again.
Technicals	↔	Support at 0.7350.
Sentiment	↔	Commodities out, USD in.
Other	↑	Terms of trade continue to support.
On balance	↔	Rangebound 0.7350 - 0.7500.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES

GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Yield differentials suggest NZD should be lower.
Commodities	↓	Weaker commodities leave NZD and AUD vulnerable.
Risk aversion	↔	Risk gauges turning higher.
Partial indicators	↔	Economic data still patchy.
Technicals	↓	Short-term high in place.
AUD	↔/↓	AUD in correction mode.
Sentiment	↓	Commodity currencies out of favour, risk off.
Other	↑	Strong demand for NZ bonds.
On balance	↔/↓	External factors and technical picture weigh on NZD.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
23-May	CH	HSBC Flash China Manufacturing PMI - MAY	- -	51.8	14:30
	JN	Coincident Index CI - MAR F	- -	103.6	17:00
	JN	Leading Index CI - MAR F	- -	99.5	17:00
	GE	PMI Manufacturing - MAY A	61	62	19:30
	GE	PMI Services - MAY A	57	56.8	19:30
	EC	PMI Composite - MAY A	57.3	57.8	20:00
	EC	PMI Manufacturing - MAY A	57.5	58	20:00
	EC	PMI Services - MAY A	56.5	56.7	20:00
24-May	US	Chicago Fed Nat Activity Index - APR	0.2	0.26	00:30
	NZ	RBNZ 2yr Inflation Expectation - 2Q	- -	2.60%	15:00
	GE	GDP nsa (YoY) - 1Q F	5.20%	5.20%	18:00
	GE	GDP s.a. (QoQ) - 1Q F	1.50%	1.50%	18:00
	GE	GDP wda (YoY) - 1Q F	4.90%	4.90%	18:00
	GE	IFO - Business Climate - MAY	113.7	114.2	20:00
	GE	IFO - Current Assessment - MAY	120.7	121	20:00
	GE	IFO - Expectations - MAY	107	107.7	20:00
	UK	PSNB ex Interventions - APR	6.5B	18.6B	20:30
	UK	Public Sector Net Borrowing - APR	4.4B	16.4B	20:30
	EC	Industrial New Orders NSA (YoY) - MAR	12.90%	21.30%	21:00
	EC	Industrial New Orders SA (MoM) - MAR	-1.10%	0.90%	21:00
25-May	US	New Home Sales MoM - APR	0.00%	11.10%	02:00
	US	Richmond Fed Manufact. Index - MAY	9	10	02:00
	JN	Adjusted Merchns Trade Bal. - APR	-¥695.9B	¥96.3B	11:50
	AU	Conference Board Leading Index - MAR	- -	0.60%	12:00
	AU	Westpac Leading Index (MoM) - MAR	- -	0.40%	12:30
	AU	Construction Work Done - 1Q	1.40%	0.80%	13:30
	GE	GfK Consumer Confidence Survey - JUN	5.6	5.7	18:00
	UK	Total Business Investment(QoQ) - 1Q P	- -	0.00%	20:30
	UK	Total Business Investment(YoY) - 1Q P	- -	12.20%	20:30
	UK	GDP (QoQ) - 1Q P	0.50%	0.50%	20:30
	UK	GDP (YoY) - 1Q P	1.80%	1.80%	20:30
	UK	Index of Services (3mth/3mth) - MAR	0.90%	-0.30%	20:30
	UK	Index of Services (MoM) - MAR	0.50%	0.60%	20:30
	UK	BBA Loans for House Purchase GBP bn - APR	32.25	31.66	20:30
26-May	US	Durable Goods Orders - APR	-2.50%	2.50%	00:30
	US	Durables Ex Transportation - APR	0.50%	1.30%	00:30
	US	Cap Goods Orders Nondef Ex Air - APR	-2.00%	3.70%	00:30
	US	Cap Goods Ship Nondef Ex Air - APR	- -	2.20%	00:30
	US	House Price Index MoM - MAR	-0.50%	-1.60%	02:00
	US	House Price Purchase Index QoQ - 1Q	-1.00%	-0.80%	02:00
	JN	Corp Service Price Index (YoY) - APR	-1.10%	-1.20%	11:50
	AU	CBAHIA House Affordability - 1Q	- -	53.5	12:30
	AU	Private Capital Expenditure - 1Q	2.70%	1.30%	13:30
	GE	Import Price Index (MoM) - APR	0.70%	1.10%	18:00
	GE	Import Price Index (YoY) - APR	9.90%	11.30%	18:00
27-May	US	GDP QoQ (Annualized) - 1Q S	2.20%	1.80%	00:30
	US	Personal Consumption - 1Q S	2.80%	2.70%	00:30
	US	GDP Price Index - 1Q S	1.90%	1.90%	00:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
27-May	US	Core PCE QoQ - 1Q S	1.50%	1.50%	00:30
	US	Initial Jobless Claims - 21 MAY	400K	409K	00:30
	US	Continuing Claims - 14 MAY	3700K	3711K	00:30
	UK	GfK Consumer Confidence Survey - MAY	-31	-31	11:01
	JN	Natl CPI YoY - APR	0.30%	0.00%	11:30
	JN	Natl CPI Ex-Fresh Food YoY - APR	0.60%	-0.10%	11:30
	JN	Natl CPI Ex Food, Energy YoY - APR	-0.10%	-0.70%	11:30
	JN	Retail Trade YoY - APR	-6.20%	-8.50%	11:50
	JN	Retail Trade MoM SA - APR	2.60%	-7.80%	11:50
	CH	MNI Business Condition Survey - MAY	-	69.28	13:35
	CH	Industrial Profits YTD YoY - APR	-	32.00%	14:00
	UK	Nat'wide House prices sa (MoM) - MAY	0.10%	-0.20%	18:00
	UK	Nat'wide House prices nsa(YoY) - MAY	-1.70%	-1.30%	18:00
	EC	Euro-Zone M3 s.a. 3 mth ave. - APR	2.30%	2.00%	20:00
	EC	Euro-Zone M3 s.a. (YoY) - APR	2.40%	2.30%	20:00
	EC	Business Climate Indicator - MAY	1.2	1.28	21:00
	EC	Euro-Zone Consumer Confidence - MAY F	-	-9.7	21:00
	EC	Euro-Zone Economic Confidence - MAY	105.7	106.2	21:00
	EC	Euro-Zone Indust. Confidence - MAY	5.3	5.8	21:00
	EC	Euro-zone Services Confidence - MAY	10	10.4	21:00
	GE	Consumer Price Index (MoM) - MAY P	0.00%	0.20%	UNCONFIRMED
	GE	Consumer Price Index (YoY) - MAY P	2.30%	2.40%	UNCONFIRMED
28-May	US	Personal Income - APR	0.40%	0.50%	00:30
	US	Personal Spending - APR	0.50%	0.60%	00:30
	US	PCE Deflator (YoY) - APR	2.20%	1.80%	00:30
	US	PCE Core (MoM) - APR	0.20%	0.10%	00:30
	US	PCE Core (YoY) - APR	1.00%	0.90%	00:30
	US	U. of Michigan Confidence - MAY F	72.4	72.4	01:55
	US	Pending Home Sales MoM - APR	-1.00%	5.10%	02:00
	US	Pending Home Sales YoY - APR	-	-11.50%	02:00

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: Last week's Budget was tight, with a forecast return to surplus by 2014/15. Consumer sentiment remained mixed, but high dairy auction prices were a reminder of the positives for the income generating part of the economy. Data over the coming months will remain noisy, but we will watch for signs of strengthening in interest rate sensitive sectors.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 24 May (3:00pm)	RBNZ Survey of Expectations - Q2	Ticking up	We expect the 2-year-ahead measure to tick up to 2.7 percent. The RBNZ can afford to be patient for now.
Mon 30 May (10:45am)	Overseas Merchandise Trade- April	Holding firm	Seasonal patterns and high commodity prices are expected to deliver a monthly surplus of around \$650m.
Tue 31 May (1:00pm)	National Bank Business Outlook	- -	- -
Tue 31 May (3:00pm)	RBNZ Credit Aggregates – April	Deleveraging	Low credit growth rates are expected. Deleveraging still drives a wedge between income and spending, but for how much longer?
Wed 1 June (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US \$3,700-3,800 per tonne level.
Wed 1 June (10:45am)	Overseas Trade Indexes – 2011Q1	TOT positive, GDP negative	A 2 percent increase in the terms of trade is expected. Export volumes should remain flat, with import volumes up 5 percent.
Wed 1 June (1:00pm)	ANZ Commodity Price Index - May	- -	- -
Fri 3 June (10:45am)	Building Consents – April	Building	Residential consents are expected to rise 5 percent. Strengthening construction sector activity will be a feature of H2.
Thur 8 June (10:45am)	SNZ Value of Building Work Put in Place – Q1	Down in the dumps	We expect a 7 percent decline in residential volumes. A 3 percent fall in non-residential building volumes is expected.
Thur 9 June (9:00am)	RBNZ June MPS	Patience	The RBNZ will be in no hurry to move the OCR higher. A more detailed set of projections will show a stronger pick-up in activity over 2012, but with core inflation under control.
Fri 10 June (10:45am)	REINZ housing market data – May	Creeping up	We expect a small increase in volumes, but with strong regional divergences. The upward trend in prices should run out of puff.
Fri 10 June (10:45am)	Electronic Card Transactions – May	Rolling along	Past readings have shown the resilience of retail spending. A 0.3 percent increase in retail spending is expected.
Wed 15 June (10:45am)	Retail Trade Survey - Q1	Up	Retail volumes are expected to rise 1.5 percent, with core volumes up 1.0 percent.
Thur 16 June (10:45am)	SNZ Wholesale Trade – Q1	Sideways	We expect a 0.2 percent increase in wholesale trade volumes.
Thur 16 June (10:45am)	SNZ Economic Survey of Manufacturing – Q1	Down	Ex-primary manufacturing volumes are expected to fall 2 percent. Primary manufacturing volumes should track sideways.
Thur 16 June (1:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Tue 21 June (10:45am)	International Travel and Migration – May	Up	We expect a net PLT inflow of 100 persons in May. Visitor arrival number should stabilise, with wide country divergences.
Wed 22 June (10:45am)	Current Account Balance – Q1	As good as it gets	A \$6bn reinsurance flow will produce a \$5.4bn surplus, with the first annual surplus (0.4 percent of GDP) since the early 1970s.
Thur 23 June (10:45am)	GDP – Q1	Down but far from out	We expect a 0.4 percent contraction in activity. Weakness will be concentrated in some pockets, including construction, and services.
On Balance		Mixed	A real economy and pricing side dichotomy may start to emerge. Signs of life in retail.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.2	-0.4	0.1	1.4	1.8	0.7	0.9	0.9	0.8	0.7
GDP (% yoy)	0.8	-0.3	-0.3	1.3	2.9	4.1	4.9	4.4	3.3	3.3
CPI (% qoq)	2.3	0.8	1.0	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.7	2.6	2.9
Employment (% qoq)	-0.4	1.4	-0.2	0.4	0.5	0.5	0.4	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	1.8	1.2	2.1	1.2	1.8	1.9	1.8	1.7
Unemployment Rate (% sa)	6.7	6.6	6.6	6.3	6.3	6.2	6.2	6.0	6.0	6.0
Current Account (% GDP)	-2.3	0.3	0.2	-1.8	-1.6	-4.7	-5.0	-5.3	-5.6	-5.8
Terms of Trade (% qoq)	0.6	2.5	1.5	1.5	0.6	-0.8	-0.8	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.2	8.3	7.8	6.3	6.2	2.8	0.5	-1.9	-3.3	-3.3

	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Retail ECT (% mom)	-0.6	2.3	0.8	0.9	-0.8	2.4	0.0	1.6	1.5	..
Retail ECT (% yoy)	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6	10.0	..
Credit Card Billings (% mom)	0.7	1.0	0.6	0.0	-1.8	3.6	-0.5	-1.4	1.6	..
Credit Card Billings (% yoy)	2.3	4.2	4.7	3.8	2.0	5.6	5.3	1.6	6.0	..
Car registrations (% mom)	0.1	2.8	-3.8	12.4	-7.9	0.7	-1.7	-0.5	-5.7	..
Car registrations (% yoy)	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5	..
Building consents (% mom)	-17.6	0.9	-2.0	8.0	-18.4	9.0	-9.8	2.2	..	..
Building consents (% yoy)	-3.1	-9.4	-17.5	-9.1	-26.5	-14.9	-29.0	-26.3	..	..
REINZ House Price Index (% yoy)	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	..
Household Lending Growth (% mom)	0.1	0.2	0.1	0.0	0.0	0.1	0.1	-0.1	..	..
Household Lending Growth (% yoy)	2.3	2.3	2.0	1.8	1.6	1.6	1.5	1.2	..	..
ANZ Roy Morgan Consumer Confidence	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4	101.4	103.3
NBNZ Business Confidence	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7	14.2	..
NBNZ Own Activity Outlook	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7	29.5	..
Trade Balance (\$m)	-430	-455	-220	-177	-218	10	193	464	..	..
Trade Balance (\$m ann)	871	978	1259	1363	1172	911	775	631	..	..
ANZ World Commodity Price Index (% mom)	-1.4	2.8	3.5	4.5	2.0	3.8	2.7	4.8	1.6	..
ANZ World Commodity Price Index (% yoy)	38.6	32.9	31.4	23.7	23.0	27.2	25.9	29.6	25.4	..
Net migration (sa)	860	1000	390	600	720	440	450	-520	-90	..
Net migration (annual)	14507	13914	12610	11519	10451	8689	8249	6554	5508	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.762	0.810	0.794	0.76	0.77	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.737	0.738	0.746	0.72	0.71	0.72	0.73	0.72	0.72	0.73
NZD/EUR	0.538	0.547	0.562	0.54	0.56	0.56	0.56	0.54	0.53	0.52
NZD/JPY	63.31	65.75	64.95	64.6	66.2	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.475	0.485	0.490	0.47	0.48	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	66.7	68.6	69.0	66.6	67.8	67.1	67.0	65.7	64.9	64.4
INTEREST RATES	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.63	2.68	2.66	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.66	5.44	5.15	5.50	5.70	5.90	6.10	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00
US 3-mth	0.30	0.27	0.26	0.35	0.35	0.35	0.85	1.60	2.10	2.10
AU Cash Rate	4.75	4.75	4.75	5.00	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.93	4.92	5.00	5.30	5.30	5.50	5.60	5.80	6.00	6.00

	20 Apr	16 May	17 May	18 May	19 May	20 May
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.65	2.65	2.65	2.65	2.65	2.66
NZGB 04/13	3.50	3.18	3.17	3.18	3.17	3.17
NZGB 04/15	4.54	4.11	4.10	4.09	4.05	4.05
NZGB 03/19	5.60	5.00	4.99	4.99	4.92	4.92
NZGB 05/21	5.74	5.20	5.19	5.18	5.12	5.12
2 year swap	3.39	3.30	3.30	3.29	3.29	3.31
5 year swap	4.68	4.42	4.42	4.40	4.40	4.42
RBNZ TWI	68.7	68.3	67.8	68.3	68.6	68.5
NZD/USD	0.7931	0.7847	0.7814	0.7895	0.7932	0.7916
NZD/AUD	0.7495	0.7433	0.7386	0.7410	0.7433	0.7423
NZD/JPY	65.83	63.55	63.37	64.04	64.69	64.63
NZD/GBP	0.4852	0.4849	0.4823	0.4851	0.4901	0.4879
NZD/EUR	0.5511	0.5568	0.5516	0.5527	0.5546	0.5533
AUD/USD	1.0582	1.0557	1.0580	1.0655	1.0672	1.0664
EUR/USD	1.4392	1.4093	1.4167	1.4285	1.4302	1.4308
USD/JPY	83.00	80.98	81.10	81.11	81.56	81.65
GBP/USD	1.6347	1.6184	1.6201	1.6276	1.6186	1.6226
Oil (US\$/bbl)	107.18	99.21	96.91	96.40	99.52	97.99
Gold (US\$/oz)	1499.60	1489.80	1494.15	1492.70	1497.65	1496.80
Electricity (Haywards)	5.79	2.90	2.92	4.41	1.14	2.78
Baltic Dry Freight Index	1262	1291	1274	1271	1329	1349
Milk futures (USD)	161	160	160	160	160	160

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;



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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

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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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