

EXTENDED PERIOD

NZ Economics Team:

Cameron Bagrie

Chief Economist
Telephone: +64 4 802 2212
E-mail: bagriec@anz.com

Khoon Goh

Senior Markets Economist
Telephone: +64 4 802 2357
E-mail: gohk@anz.com

David Croy

Interest Rate Strategist
Telephone: +64 4 802 2286
E-mail: croyd1@anz.com

Philip Borkin

Economist
Telephone: +64 4 802 2199
E-mail: borkinp@anz.com

Steve Edwards

Economist
Telephone: +64 4 802 2217
E-mail: edwards1@anz.com

Kevin Wilson

Rural Economist
Telephone: +64 4 802 2361
E-mail: wilsonk1@anz.com

Page 2: Economic overview

- > Rising deposit (hence long-term borrowing) rates and a weaker USD (higher NZD) are tightening financial conditions. It's the latter that is most problematic. The onus now rests on the RBNZ not just to cut rates, but to "do a Fed" and say that they will be low for an extended period. Poor GDP and current account figures are in focus this week.

Page 4: Economic comment – servicing the burden

- > The household debt servicing ratio is set to decline sharply on the back of lower mortgage interest rates. But the overall stock of debt remains high. Thus, while borrowers are getting cashflow relief, it is within the context of a still historically high debt servicing burden which is often overlooked. With interest rates close to their nadir, improving the servicing ratio must come from less debt as opposed to altering the price.

Page 6: Data preview – December quarter GDP and BoP

- > NZ's Q4 current account numbers are expected to be poor, although the headline figures are likely to mask a small underlying improvement. NZ is expected to record its fourth, and largest, contraction in GDP in the December quarter. Weakness for manufacturing, construction and retail are the main contributors as both domestic and international challenges begin to impact.

Page 7: Global data watch

- > Some leading indicators in the US continue to improve, albeit off extremely depressed levels. Encouragingly, housing starts rose, although one month's data does not make a trend. With the US labour market continuing to deteriorate, any recovery is not likely to be a strong one. It was relatively quiet in terms of data in other regions last week.

Page 8: Interest rate strategy

- > There seems an inevitability about what the RBNZ will end up doing following the stance of the Fed who signalled that rates will remain low for an extended period. In addition, the Fed's quantitative easing move may help keep yields down at the back end in the near term. Hence, we continue to favour keeping borrowing short.

Page 9: Currency strategy

- > It's all about the US quantitative easing story at present and a prospective weaker USD. The story doesn't completely gel to us and we don't believe market conditions have improved sufficiently to warrant a higher NZ dollar. Yet we have to respect market nuances for now.

Page 10: Data and event calendar

Page 12: Data watch

Page 13: Key forecasts

ECONOMIC OVERVIEW

Rising deposit (hence long-term borrowing) rates and a weaker USD (higher NZD) are tightening financial conditions. It's the latter that is most problematic. The onus now rests on the RBNZ not just to cut rates, but to "do a Fed" and say that they will be low for an extended period. Poor GDP and current account figures are in focus this week.

What's ahead?

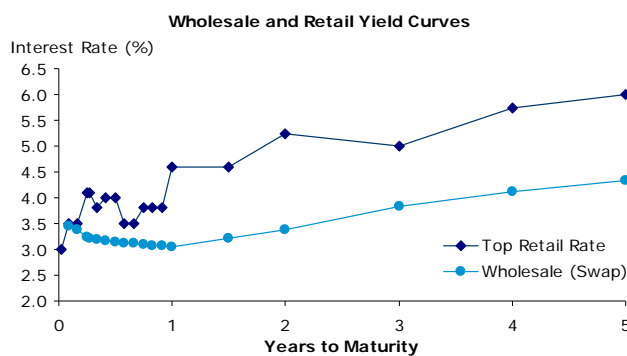
- > **Q1 Westpac McDermott-Miller Consumer Confidence** (Wednesday 1400 NZDT). Despite lower mortgage rates, the reality of the economic situation is likely to hit home and will see consumer sentiment remaining subdued.
- > **Q4 Balance of Payments** (Thursday 1045 NZDT). While the quarterly current account deficit is expected to improve, the annual deficit should deteriorate to around 9 percent of GDP (refer to page 6 for our preview).
- > **Q4 GDP** (Friday 1045 NZDT). The economy is expected to have contracted by 1.2 percent in the quarter – the fourth consecutive quarterly fall (refer to page 6 for our preview).

What's the view?

Last week unveiled a couple of positives which is encouraging, although we're viewing them with some caution. Migration showed a huge bounce-back in February, and this sort of assistance to natural population growth provides a natural floor to demand. At this stage we're not reading too much into this as the gain largely came from less New Zealanders departing, which is obviously a fundamentally different demand-side proposition to foreigners coming in or offshore New Zealanders returning with cash. Global dairy prices ticked up again, but under the guise of a stronger NZ dollar.

A couple of issues from last week are key. Deposit rates have ratcheted up again, as international credit costs places the same premium on domestic funds. You can see it clearly when eyeing the massive positive gap between retail deposit rates and the wholesale swaps curve. Hence we see pressure on fixed lending rates to move up, despite the RBNZ yet to end the easing cycle.

It's further clear evidence that this cycle is about the supply of money as opposed to the price of it. And in so far as relative prices are concerned, higher deposit rates and a more traditional shaped yield curve will assist with the rebalancing process we've been talking about.



The second issue is the rapid jump in the NZ dollar courtesy of a weaker greenback and, to some degree, mild return in risk appetites. Quantitative easing has seen wide-spread bearishness towards the USD return. The reasoning is simple: if you have more of something (USD's) the price should go down.

Traditionally this would make perfect sense, but these are hardly what we would call traditional times. For one, if the USD is going down, who goes up? Given (Eastern) Europe's prospects, we suspect the Euroland (and euro) will find the same quantitative easing end game at some stage. We've already seen the Swiss National Bank take extra-ordinary steps. Competitive devaluations anyone? Japan can hardly stand a stronger Yen. The Fed looks to be targeting credit itself as opposed to just driving the pure quantity of money, which is a different form of quantitative easing, although it's easy to characterise the end result as one in the same in terms of cash in the system.

This combination obviously has us chewing over our bearish assessment towards the NZD. On one hand, we have to acknowledge the sentiment prevailing in the market. Yet on the other, we remain wary of short-term noise and some inconsistencies in the argument. At one end, bigger nations such as the US are cited as having the flexibility to take extraordinary measures: size, reserve currency status and being a global benchmark all count in so far as being able to expand the balance sheet. They are rewarded by having their ratings affirmed and low risk premiums. NZ and other nations do not have the same capability on that front. Hence, NZ is on a negative ratings outlook. The economy's flexibility resides in the institutional frameworks themselves such as a credible central bank, prudent fiscal policy and free floating currency. But you have to wonder how this is going to unfold considering monetary and fiscal policy is constrained, and now, the key shock-absorber – the currency – is being dictated by wider USD sentiment.

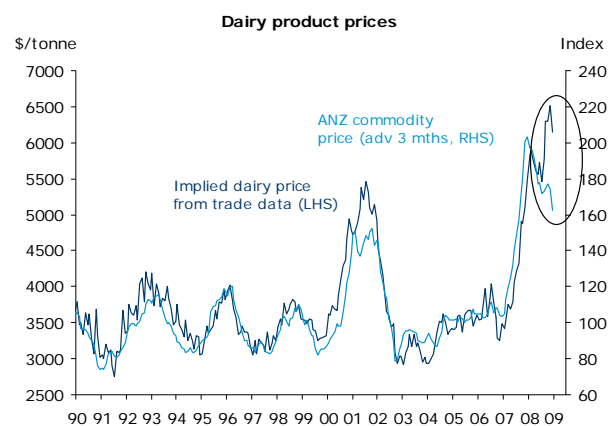
For now we'll resist making wholesale changes to our currency forecasts – particularly with a couple

of bellwether releases in the spotlight over the week. Any tweaking at this stage will simply be pushing the story out a quarter but we'll also be having a good think about our interest rate view at the same time. A 2 percent OCR may well be the end game now if the currency is not adjusting how we envisaged. There is an inevitability about what the RBNZ needs to do, and that is get the currency down. Of course the RBNZ cannot, and should not, target the currency. But they are not impotent and we all know that it's the key relative price that needs to fall, not only for the rebalancing process to take hold, but also to assist with the refinancing of external liabilities that totals 90 percent of GDP (one of the highest around the globe). When we eye the combination of rising term lending rates and renewed uplift in the currency, the solution is abundantly clear. Cutting the OCR will help, but only so far. They need to "do a Fed" and flag that rates will be low for an extended period. While much could be made of the quantitative easing aspect to USD weakness, recent price action may reflect the simple fact that the Fed said they planned to keep rates low for a long time. It seems incredible to think that NZ interest rates will be moving up in early 2010 while the Fed and the rest of the world is on hold, but this is exactly the inconsistency in market pricing at present.

Turning to the local data due this week there are a couple of important, albeit historical, releases that will enable us to close the book on the December quarter (and therefore 2008 as a whole). They are, of course, the GDP and the Balance of Payments releases. Both are again expected to reinforce the challenging position the NZ economy finds itself in. The former will show that for the fourth consecutive quarter, the NZ economy is headed backwards. We expect a 1.2 percent decline, therefore seeing NZ join a number of other countries around the globe in contracting in excess of 1 percent in the December quarter. The Balance of Payments data is expected to show the seasonally adjusted current account deficit again improving (and hence very early signs the economy is rebalancing). However, the annual deficit is projected to rise to 9.0 percent of GDP, reinforcing how much further this rebalancing (and de-leveraging process) has to go. For our full preview notes of both releases, refer to page 6.

The other data releases this week are the March quarter Westpac consumer confidence index and trade data for February. While we have seen massive interest rate reductions and tax cuts, consumer confidence is expected to remain subdued and even turn down slightly as the reality of the economic environment (particularly surrounding jobs) hits home. Improving confidence is one of the first signs that the economy is bottoming out, and this has yet to occur.

For the trade data, we are expecting a small monthly surplus of \$50 million (although it is due for release at the same time as GDP and could potentially be lost in the wash). In terms of the key focal point, we will be watching for the implied prices of a number of export commodities. Dairy exports look to be finally showing some signs that the lower international prices are having an influence (after timing issues saw them holding at elevated levels) and this is the same for other commodities like aluminium. This should have a dampening influence on export values as this "correction" plays out. However, imports are also now being influence by weaker domestic demand, and in February, we are also expecting lower crude oil imports following some large shipments over recent months.



Sources: ANZ National, Statistics NZ

Looking offshore, the focus this week will be on how markets continue to digest the events of last week and whether they feel the recent moves can be sustained. A number of policymakers in the US are also due to speak (either at events, or in front of lawmakers in official testimony) and we are still waiting on further details of the US administrations Financial Stability Plan. Whether these details are announced this week remains to be seen. In terms of data, US house sales and price information will be important. Closer to home, RBA Governor Stevens and Assistant Governor Lowe are both due to speak and we will look for any clues as to the next move from the RBA.

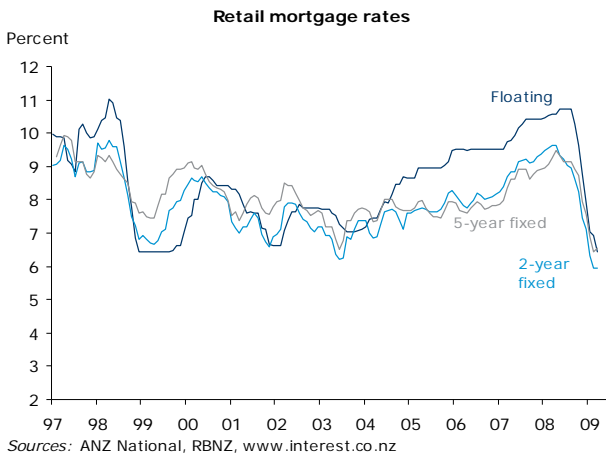
Recent local data...

- > **Economic Survey of Manufacturing (Dec quarter):** Total manufacturing sales fell 5.4 percent. Excluding meat and dairy manufacturing, sales fell 5.1 percent.
- > **External Migration (February):** Net migration rose by 1,670 people. Short-term visitor arrivals rose 2.9 percent, but are down 8.5 percent on a year ago.
- > **Credit Card Billings (February):** Total credit card billings rose by 0.5 percent.

SERVICING THE BURDEN

The household debt servicing ratio is set to decline sharply on the back of lower mortgage interest rates. But the overall stock of debt remains high. Thus, while borrowers are getting cashflow relief, it is within the context of a still historically high debt servicing burden which is often overlooked. With interest rates close to their nadir, improving the servicing ratio must come from less debt as opposed to altering the price.

Unlike in the US, where 30-year conventional mortgage rates have only fallen by 170bps, despite the Federal Reserve cutting the fed funds rate by 500bps, the traditional monetary policy transmission channel is functioning well in NZ. The RBNZ has reduced the OCR by 525bps since July, and we have seen floating mortgage rates fall by around 430bps since. Fixed rates have fallen as well, though to a lesser extent due to increased cost of offshore funding, and obviously it's taking time for people to roll-off previous fixed rates.

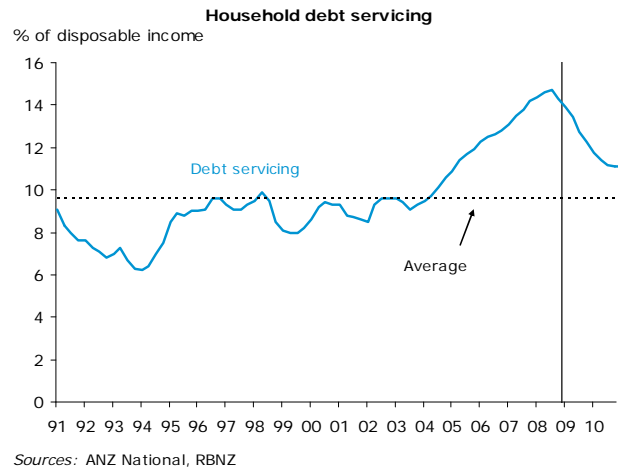
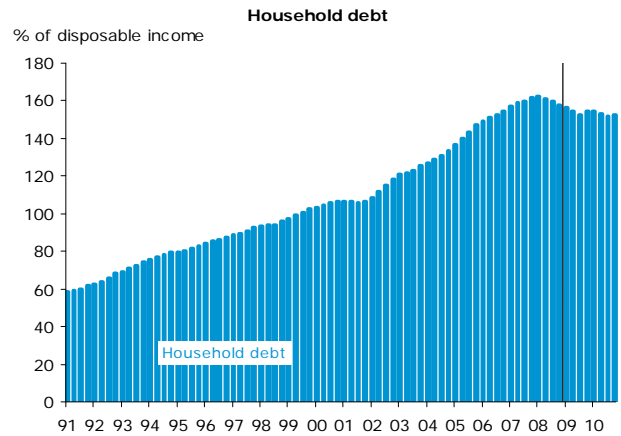


Over half of all fixed rate mortgages are due for refinancing over the next 12 months (\$62.7b currently at a weighted average rate of 8.36 percent). They will face substantially lower rates ranging between 5.5 to 7 percent (assuming the OCR keeps falling but competition for deposits and the return to a more traditional yield curve keeps longer-term rates elevated). As more fixed rate mortgages are refinanced at lower rates, the weighted average interest rate paid by borrowers will decline further. Hence, the household debt servicing burden is set to decline sharply. On top of this, there is also a huge physical cash injection into the economy in excess of a billion dollars in 2009 (on top of that already delivered in 2008), and of course monetary policy will continue to gain traction into 2010 as more mortgages roll-off.

At the end of last year, household debt servicing as a percent of disposable income stood at 14.3

percent. We estimate that the debt servicing ratio will fall towards 11 percent by the end of 2010. However, most of this decline is driven by interest rates at historically low levels, which are unlikely to be sustained (and we can already see pressure on borrowing rates to move up). Even then, the debt servicing ratio will still be above its historical average rate of 9.6 percent. Thus, while there is a lot of attention in terms of the cash-flow benefit from lower interest rates – a real positive in terms of the flow or change – it must be interpreted within the context of the overall level of debt servicing, which remains high.

What keeps the debt servicing burden still high by historical standards, despite low interest rates, is the high stock of household debt. Between March 2000 and 2008, household debt as a share of income rose by 54 percent. In absolute terms, we do not foresee the total stock of debt declining with recent credit growth “flattening”. Rather, the growth rate will ease and be at a slower pace than income growth, leading to a decline in the debt to income ratio. Even then, the decline is at a gradual pace, and we only see the debt to income ratio head towards 150 percent by the end of 2010, compared to the peak of 162 percent in early 2008.



What our estimates of future debt servicing highlight is the difficulty in getting it to fall towards



anywhere near historical averages. This reflects the stock of debt itself, as opposed to changes in the price. While de-leveraging by households will certainly improve serviceability over time, we need to be mindful that overly aggressive de-leveraging can be very disruptive for economic activity. In the absence of this, the only other avenues to lower debt servicing are for interest rates to head lower and to stay there for an extended period, and/or household disposable incomes rise at a faster rate. The latter option is unlikely in the next couple of years, given an expected large decline in dairy incomes, rising unemployment rate and lower wage growth. However, the former gives households the benefit of time and likely be the key mechanism over the next few years until the economy improves and incomes rise.

Implications

While low interest rates are providing cash-flow relief, overall servicing levels remain high and an active constraint to consumer spending. To return this ratio to historical norms requires households to continue de-leveraging. There is obviously a limit as to how quickly this can take place. However, the process could be assisted by keeping interest rates low for an extended period to allow households to work down their debt faster. While low interest rates obviously risk fostering a rise in borrowing if the housing market takes off, we find this difficult to envisage given the balance of payments constraint.

DATA PREVIEWS

Current account – December 2008 quarter (due Thursday 26 Dec 10.45am)

	ANZ National	RBNZ	Market
Quarter	-4,055	-	-4,100
Annual	-16,082	-	-16,082
% of GDP	-9.0	-8.5	-9.0

NZ's Q4 current account numbers are expected to be poor, although the headline figures are likely to mask a small underlying improvement.

It's hard to go past the big picture when it comes to the current account figures – a quarterly deficit of \$4 billion, and an increase in the annual deficit to 9.0 percent of GDP. A lot will be purely seasonal when looking at the quarterly figures, but clearly a 9 percent plus figure in the current environment is hard to step beyond given the global credit backdrop, the fact the NZ economy has been in recession for 12 months, and reality that NZ's terms of trade have yet to show the impact of falling commodity prices. Nevertheless, if anything positive can be taken, it is that this could potentially (we hope) be the peak for this cycle.

Data will nonetheless show an underlying improvement. The seasonally adjusted current account deficit should again improve slightly. This is largely driven by an improvement in the goods balance, which is expected to improve from a deficit of \$841 million to \$140 million. While this shows some early signs that the economy is rebalancing – as imports have recently fallen – part of it is also due to timing issues surrounding commodity prices, where recent falls are yet to be fully picked up in the trade data. This correcting of this dynamic should influence export performance over coming quarters and make it tougher – in the absence of further contractions in imports – to sustain trade balance gains. The investment income balance is also expected to improve slightly. While income from NZ's overseas investments are expected to fall following turmoil in financial markets, lower returns on foreign investment in NZ (for both equity and debt) should outweigh this. Close attention needs to be paid towards the service balance, with potential flow-on for Q4 GDP figures.

Financial market implications

De-leveraging remains a key focal point in our forecasts, and we expect Thursday's figures to reinforce how far this dynamic has to run, before the external position will be on a sustainable footing.

GDP – December 2008 quarter (due Friday 27 Dec 10.45am)

	ANZ National	RBNZ	Market
QoQ	-1.2	-0.8	-1.0
YoY	-2.1	-1.7	-1.9
Ann. Ave.	0.2	0.3	0.3

NZ is expected to record its fourth, and largest, contraction in GDP in the December quarter. Weakness for manufacturing, construction and retail are the main contributors as both domestic and international challenges begin to impact.

Production GDP is expected to fall by 1.2 percent in the December quarter. NZ looks set to join many other countries around the globe in printing a sharp contraction in GDP at the end of last year. In fact, NZ's contraction pails in comparison to some of its trading partners, where we estimate activity contracted by an export-weighted 1.7 percent. However, unlike many of NZ's trading partners, this will be NZ's fourth consecutive fall in GDP.

Both domestic and international factors are now weighing. NZ's recession over the first part of 2008 was domestically driven. A drought along with weakness in the housing market hampered growth. The latter is still having a clear impact, with the construction and retail sectors expected to fall by 7.5 and 0.5 percent respectively in the December quarter. However, international factors are also now contributing, with the manufacturing (excluding primary food) likely to contract by 5 percent. The mining sector is also expected to make a negative contribution in the quarter as production from the Tui oil field reduces.

On an expenditure basis, private consumption and investment drive the weakness. We expect GNE to contract by 1.6 percent, with the only positive contribution coming from government spending. Net exports also should make a positive contribution for the second quarter in a row.

The outlook for March also looks poor. Firms' own activity expectations have deteriorated further in 2009 and with NZ's trading partners now clearly being impacted by the financial market turbulence, the risks to NZ's near-term outlook are clear. We expect further contractions in GDP over H1 2009.

Financial market implications

With the RBNZ expecting a 0.8 percent fall, a larger decline in combination with the recent rise in the NZD will only intensify calls for a larger (50bps) move in April.

GLOBAL DATA WATCH

Some leading indicators in the US continue to improve, albeit off extremely depressed levels. Encouragingly, housing starts rose, although one month's data does not make a trend. With the US labour market continuing to deteriorate, any recovery is not likely to be a strong one. It was relatively quiet in terms of data in other regions last week.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
Australia	Westpac Leading Index (Jan)	-	-0.2%	-0.4%	-
	New Motor Vehicle Sales (Feb) – mom	-	-3.5%	-1.1%	-
US	Empire Manufacturing (Mar)	-30.8	-38.2	-34.7	Weaker
	Net Long-Term TIC Flows (Jan)	\$45.0B	-\$43.0B	\$34.7B	Weaker
	Industrial Production (Feb)	-1.3%	-1.4%	1.9%	In-line
	Producer Price Index (Feb) – mom	0.4%	0.1%	0.8%	Weaker
	Housing Starts (Feb)	450K	583K	477K	Stronger
	CPI (Feb) – mom	0.3%	0.4%	0.3%	Stronger
	Current Account Balance (4Q)	-\$137.1B	-\$132.8B	-\$181.3B	Stronger
	FOMC Rate Decision	0.25%	0.25%	0.25%	In-line
	Continuing Claims (w/e Mar 8)	5325K	5473K	5288K	Weaker
	Leading Indicators (Feb)	-0.6%	-0.4%	0.1%	Stronger
	Philadelphia Fed (Mar)	-39.0	-35.0	-41.3	Stronger
	Euro-zone	CPI (Feb) – mom	0.4%	0.4%	-0.8%	In-line
ZEW Survey (Econ. Sentiment) (Mar)		-12.0	-6.5	-8.7	Stronger
Industrial Production (Jan) – mom		-4.0%	-3.5%	-2.7%	Stronger
UK	DCLG House Prices (Jan) – yoy	-11.7%	-11.5%	-10.2%	In-line
	Jobless Claims Change (Feb)	84.8K	138.4K	93.5K	Weaker
	Avg Earnings inc Bonus (Jan) – 3m/yoy	3.0%	1.8%	3.1%	Weaker
	Public Sector Net Borrowing (Feb)	8.3B	9.0B	-2.6B	Stronger
	M4 Money Supply (Feb P) – mom	1.4%	1.4%	2.4%	In-line
Japan	Tertiary Industry Index (Jan) – mom	-0.5%	0.4%	-1.6%	Stronger
	BoJ Target Rate	0.10%	0.10%	0.10%	In-line
	All Industry Activity Index (Jan) – mom	-2.1%	-1.7%	-2.6%	Stronger
Asia Ex-Japan					
<i>China</i>	Actual FDI YTD (Feb) – yoy	-	-26.2%	-32.6%	-
<i>Singapore</i>	Non-Oil Domestic Exports (Feb) – mom	-1.9%	1.8%	-3.3%	Stronger
<i>South Korea</i>	Export Price Index (Feb) – mom	-	4.8%	-3.4%	-
	Import Price Index (Feb) – mom	-	3.9%	-1.8%	-
	Unemployment Rate (Feb)	3.4%	3.5%	3.3%	Weaker
<i>Hong Kong</i>	Unemployment Rate (Feb)	4.9%	5.0%	4.6%	Weaker
	CPI – Composite Index (Feb) – yoy	1.2%	0.8%	3.1%	Weaker
<i>Malaysia</i>	Manufacturing Sales Value (Jan) – yoy	-	-22.7%	-21.0%	-
<i>Philippines</i>	Unemployment Rate (Jan)	-	7.7%	6.8%	-
<i>Thailand</i>	Customs Exports (Feb) – yoy	-24.3%	-11.3%	-26.5%	Stronger
	Customs Imports (Feb) – yoy	-36.7%	-40.3%	-37.6%	Weaker

INTEREST RATE STRATEGY

There seems an inevitability about what the RBNZ will end up doing following the stance of the Fed who signalled that rates will remain low for an extended period. In addition, the Fed's quantitative easing move may help keep yields down at the back end in the near term. Hence, we continue to favour keeping borrowing short.

Market themes...

- > US Federal Reserve surprises the market with an explicit move towards quantitative easing.
- > Global bonds rally and USD punished.
- > Higher NZD doing the RBNZ no favours, and may get market re-thinking the OCR trough.

Review and outlook...

The selloff in the NZ rates market post the RBNZ MPS stopped in its tracks following the US Fed's decision to embark on quantitative easing. The Fed will purchase up to US\$300 billion worth of longer-term Treasury securities over the next six months. Global bonds rallied on the news, and this washed through into the NZ market as well. It is clear that the Fed intends to keep longer dated yields down and is committed to expanding their balance sheet to ensure that credit is flowing again.

But while the quantitative easing part of the Fed statement received the most attention, equally significant is their comment that *"The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period."* The Fed has committed to keeping rates at near zero for a long time to anchor the front end of the curve for as low as possible. A similar point was recently made by the Bank of Canada, and we believe this is the next step for our own RBNZ as well. The RBNZ are obviously mindful how low they can physically take the OCR to maintain competitiveness. So the next natural step once the OCR trough is reached, or is close to being reached, is to signal that the OCR will be left at low levels for an extended period of time to keep the belly of the curve down. Hence, we see limited scope for rates to selloff, and expect the 2-year swap yield to range trade between 3.15 to 3.55 percent. This strategy is becoming even more necessary at present given widespread competition domestically for savings (deposits), which is putting upwards pressure on term lending rates.

We are sticking to our favoured borrowing strategy of keeping borrowing short, benefiting from current

low rates for longer. With the Fed flagging low rates for an extended period, it's hard to agree with market pricing that implies the RBNZ will be hiking in H1 2010.

Borrowing strategies we favour at present

The Fed's quantitative easing move will help to keep the US long end yields low. This should flow through into NZ yields to some extent. But what will help to keep the NZ curve down is a signal by the RBNZ that rates will be staying low for an extended period of time – a similar message to what the Fed delivered last week. We believe this is forthcoming, which is why we continue to stay with our strategy of staying floating for now, and fixing later once it is clear that the economy no longer needs low rates.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ / OCR	↓	Given the NZD, market will err to 2 as opposed to 2.5.
NZ data	↔/↓	Data this week could disappoint on downside.
Fed Funds/ front end	↔	Fed moves to quantitative easing.
RBA	↔	RBA minutes showed March decision a coin toss. Same with April's.
US 10 year	↔/↓	Fed's move to keep long end yields down in near term.
NZ swap curve	↔/↑	Steeptenars still on. Keep the faith.
Flow	↔/↑	Still seeing strong corporate sector paying interest.
Technicals	↔	In range mode.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Apr-09	-25	-32
Thu 11-Jun-09	-50	-57
Thu 30-Jul-09	-50	-62
Thu 10-Sep-09	-50	-62
Thu 29-Oct-09	-50	-62
Thu 10-Dec-09	-50	-62
Thu 21-Jan-10	-50	-57

Trading themes we favour at present

We see the 2-year swap yield trading within a 3.15-3.55 percent range in the near term. We still favour steepeners despite the Fed's move, as we believe the back end of the NZ yield curve still has scope to rise by more than the front end. We continue to see limited scope for the front end to selloff as low rates are here to stay for some time.

CURRENCY STRATEGY

It's all about the US quantitative easing story at present and a prospective weaker USD. The story doesn't completely gel to us and we don't believe market conditions have improved sufficiently to warrant a higher NZ dollar. Yet we have to respect market nuances for now.

Market themes...

- > Risk appetites tail late in the week but equity market no longer dominant.
- > All about quantitative easing, and if the USD is going down, all, or who else is going up?

Review and outlook...

The NZD had a massive rally from 0.5120 to 0.5625 last week as a short market already being squeezed accelerated as the US began quantitative easing. With the US printing cash and reducing the cost of borrowing that cash, it is perhaps not surprising that we see a consequence, namely altering the value of that cash. To date, the US, UK, Switzerland and Japan (starting back in 2001) have printed money. Clearly the US quantitative easing is a key input into the value of the NZD. Not only is there the direct NZD/USD relationship but also the commodities we produce are priced in USD and therefore benefit from the debasement of the greenback.

Some aspects to the whole quantitative easing debate and implications for the USD look a bit hollow and appear questionable (refer page 2). It's hard to envisage risk sentiment returning given the state of credit markets. Yet we also have to respect market sentiment - for now, but would prefer to express this via being neutral as opposed to backing the NZ dollar taking a sustained upward lift.

The NZD is now trading in a range of 0.5525 to 0.5625. The break above 0.5550 on Thursday last week is significant and potentially sets up a further squeeze to target a high at 0.5850. Ideally this level will top out the recent explosive rally.

Turning back to equities as a proxy for risk appetites, we still need to see further signs of stabilisation (with the reverse in fact late last week) for the NZD's gains to be sustained. Levels around 780 are critical in the S&P as they have marked the major break down levels in equities. A weekly close above this level would force model buying and signal the recent move has more legs.

NZD/AUD has continued to squeeze and looks more comfortable above 0.8000 than we thought it

would. While NZ GDP (-1.2 percent) and BOP figures this weeks are expected to give no joy to NZD bulls, the reality is that it simply looks no worse than a host of others.

The current account deficit remains an issue – particularly given the state of credit markets. This week is test week. But given wider problems in a host of other nations around the globe, it seems lost in the wash, and the perception that it's best to be long-food.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↔	RBNZ now looking at "competitiveness".
Commodities	↔	Dairy looking better.
Partial indicators	↓	Bad data week for NZ.
Technicals	↑	0.8050 to 0.8200 range
Sentiment	↔/↑	Risk appetites are back.
Other	↔	Is the world a better place?
On balance	↔	Birds of a feather...

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Bigger current account deficit and rising currency?
Fair value – short-term	↔	In fair value range now.
Yield	↔/↑	Differential widens.
Commodities	↔	Dairy prices appear to be stabilising.
Risk aversion	↔	Credit markets and equities still flaky
Partial indicators	↓	Bad data week. High debt and fourth quarter of recession.
Technicals	↑	0.5620, 0.5770, 0.6030.
AUD	↑	Getting favourable reviews in some quarters.
Sentiment	↔	All about the USD for now.
Other	↑	USD under pressure.
On balance	↔	Hostage to QE for the USD and our own internal imbalances.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
23-Feb	EC	ECB's Trichet Speaks at Conference in Mexico City	-	-	12:30
		Construction Output (Jan) – mom	-	-2.2%	23:00
		Trade Balance s.a. (Jan)	-1.9B	-0.3B	23:00
	JN	BoJ Monetary Policy Meeting Minutes for February	-	-	12:50
		BSI Large All Industry (1Q) – qoq	-	-35.7	12:50
24-Feb	US	Existing Home Sales (Feb) – mom	-0.9%	-5.3%	03:00
		Geithner, Lagarde, Rudd Address Wall Street Journal Conference	-	-	11:00
		Fed's Evans Speaks on Economic Outlook at Czech National Bank	-	-	23:00
	AU	Assistant RBA Governor Lowe Gives Speech in Sydney	-	-	11:30
	GE	PMI Manufacturing (Mar A)	32.0	32.1	21:30
		PMI Services (Mar A)	41.0	41.3	21:30
	EC	ECB Current Account s.a. (Jan)	-	-7.3B	22:00
		PMI Manufacturing (Mar A)	33.5	33.5	22:00
		PMI Services (Mar A)	39.2	39.2	22:00
		ECB Council Member Liikanen Speaks in Helsinki	-	-	22:00
	UK	CPI (Feb) – mom	0.3%	-0.7%	22:30
		CPI (Feb) – yoy	2.6%	3.0%	22:30
		Core CPI (Feb) – yoy	1.3%	1.3%	22:30
		RPI (Feb) – mom	-0.1%	-1.3%	22:30
		RPI (Feb) – yoy	1.9%	0.1%	22:30
25-Feb	US	House Price Index (Jan) – mom	-0.9%	0.1%	03:00
		Richmond Fed Manufacturing Index (Mar)	-51	-51	03:00
		Bullard Speaks at Cass Business School in London	-	-	06:35
		Bernanke, Geithner Testify to House Financial Panel on AIG	-	-	07:00
	EC	ECB's Constancio Speaks at University in Lisbon	-	-	07:00
	JN	Adjusted Merchandise Trade Balance	-¥295.6	-¥364.9	12:50
		BoJ Deputy Governor Yamaguchi to Speak in Otaru City	-	-	15:00
	NZ	Westpac NZ Consumer Confidence	-	101.3	14:00
	AU	RBA Governor Stevens Gives Speech in Melbourne	-	-	20:30
	GE	IFO – Business Climate (Mar)	82.2	82.6	22:00
		IFO – Current Assessment (Mar)	82.5	84.3	22:00
		IFO - Expectations (Mar)	81.5	80.9	22:00
26-Feb	US	Durable Goods Orders (Feb)	-2.4%	-5.2%	01:30
		Durables Ex Transportation (Feb)	-2.0%	-2.5%	01:30
		New Home Sales (Feb) – mom	-2.9%	-10.2%	03:00
		Fed's Pianalto Speaks in Maumee, Ohio, on Economic Recovery	-	-	05:20
		Fed's Yellen Speaks in New York on U.S. Economy, Policy	-	-	06:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
26-Feb cont.	US	Fed's Lockhart Speaks at Banque de France Conference	-	-	22:00
	NZ	Current Account Balance (4Q)	-4.0B	-5.994B	10:45
		Account Deficit-GDP Ratio (4Q)	-9.0%	-8.6%	10:45
	AU	Conference Board Leading Index (Jan)	-	-0.9%	12:00
		Reserve Bank Releases Financial Stability Review	-	-	13:30
	JN	Corp Service Price (Feb) – yoy	-2.5%	-2.2%	12:50
	GE	GfK Consumer Confidence Survey (Apr)	2.5	2.6	20:10
	EC	M3 s.a. 3-mth average (Feb)	6.3%	7.0%	22:00
	UK	Total Business Investment (4Q F) – qoq	-3.9%	-3.9%	22:30
		Retail Sales (Feb) – mom	-0.4%	0.7%	22:30
27-Feb	US	GDP Annualised (4Q F)	-6.6%	-6.2%	01:30
		Core PCE (4Q) – qoq	0.8%	0.8%	01:30
		Initial Jobless Claims (w/e Mar-22)	650k	646k	01:30
		Continuing Claims (w/e Mar-15)	5480k	5473k	01:30
		Fed's Lacker Speaks to Students at College of Charleston	-	-	02:25
		Geithner Testifies to House Financial Panel on Regulation	-	-	03:00
		Fed's Fisher Speaks on Current Economic Crisis, Globalization	-	-	05:00
		Fed's Lacker Speaks on U.S. Economic Outlook in South Carolina	-	-	05:30
		Fed's Stern Speaks in Minneapolis on 'Too Big to Fail'	-	-	06:00
	NZ	GDP (4Q) – qoq	-1.1%	-0.4%	10:45
		GDP (4Q) – yoy	-2.0%	-0.1%	10:45
		Trade Balance (Feb)	25.5M	-187.0M	10:45
		Imports (Feb)	3.30B	3.36B	10:45
		Exports (Feb)	3.35B	3.18B	10:45
	JN	National CPI (Feb) – yoy	-0.1%	0.0%	12:30
		National CPI Ex-Fresh Food (Feb) – yoy	0.0%	0.0%	12:30
		National CPI Ex Food, Energy (Feb) – yoy	-0.2%	-0.2%	12:30
		Retail Trade (Feb) – mom	-0.6%	0.6%	12:50
	UK	GDP (4Q F) – qoq	-1.5%	-1.5%	22:30
		Current Account (BP) (4Q)	-5.9B	-7.7B	22:30
		Industrial New Orders (Jan) – mom	-5.6%	-5.2%	23:00
28-Feb	US	Personal Income (Feb)	-0.1%	0.4%	01:30
		Personal Spending (Feb)	0.2%	0.6%	01:30
		PCE Deflator (Feb) – yoy	0.8%	0.7%	01:30
		University of Michigan Confidence (Mar F)	56.8	56.6	03:00

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 countdown to December quarter GDP is on, which is expected to show the largest quarterly contraction since the recession started. Beyond that, we should get more data on how the March quarter is faring, which we expect to show ongoing weakness still.

Date	Data/Event	Economic Signal	Comment
Wed 25 Mar (13.00)	Westpac McDermott Miller Consumer Confidence (Jun qtr)	Reality check	Despite lower mortgage rates, the reality of the economic situation is likely to hit home and will see consumer sentiment remaining subdued.
Thu 26 Mar (10.45)	Balance of Payments (Dec qtr)	The wrong direction	A still large investment income deficit and deteriorating trade balance is expected to see the current account deficit widen to 9 percent of GDP.
Fri 27 Mar (10.45)	GDP (Dec qtr)	Another contraction	We expect GDP to contract by 1.2 percent – the fourth consecutive quarterly fall.
Fri 27 Mar (10.45)	Overseas Merchandise Trade (Feb)	Small monthly surplus	Despite lower commodity prices and a weak global economy weighing on exports, we expect a small monthly surplus due to a weak domestic economy hampering import demand. But this will mostly be a seasonal effect.
Mon 30 Mar (10.45)	Building Consents Issued (Feb)	Another fall?	With consents at record lows, a natural rebound is likely. But this will not signal a recovery, merely a base effect and monthly volatility. Commercial consents are still holding up well, but we suspect they will start to head lower.
Mon 30 Mar (15.00)	Credit Growth (Feb)	Flat	Household lending growth to stay close to flat. But lending growth to the agriculture and business sector is expected to remain elevated, though this is likely to do more with managing cashflows as opposed to new investment.
Tue 31 Mar (15.00)	NBNZ <i>Business Outlook</i> (Mar)	-	-
Thu 2 Apr (15.00)	ANZ Commodity Price Index (Mar)	-	-
Tue 7 Apr (10.00)	NZIER QSBO (Mar qtr)	Bottom found?	Domestic trading activity, investment and employment intentions, and profitability are all expected to remain at depressed levels. But this reading may be close to the bottom in the current cycle.
Thu 9 Apr (10.45)	Electronic Card Transactions (Mar)	Sitting on the sidelines	A small rebound in the value of ECT transactions expected, though the overall picture is one of weakness in consumer spending.
Tue 14 Apr (10.45)	Retail Sales (Feb)	Petrol fuelled rebound	Higher petrol prices in February will inflate headline retail sales, though this will be offset by further declines in car sales. Core spending to remain weak.
Fri 17 Apr (10.45)	CPI (Mar qtr)	Inflation under control	A 0.3 percent increase is expected, but apart from government related increases (tax indexation and education fees increases), inflation is will under control.
Tue 21 Apr (10.45)	International Travel and Migration (Mar)	Positive migration, but less visitors	Net migration inflows likely to remain positive as less NZ's choose to leave. We are also watching for an influx of ex-pats returning home, although there is little evidence of this yet. Tourism inflows will remain under pressure.
On Balance		Flow-on from the global scene in the dataflow.	Few signs of a base. Prospects still deteriorating and consumers not spending their windfall.

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
GDP (% qoq)	0.8	-0.3	-0.2	-0.4	-1.2	-1.5	-0.3	0.1	0.2	0.5
GDP (% yoy)	3.7	2.1	1.0	-0.1	-2.1	-3.2	-3.3	-2.9	-1.5	0.5
CPI (% qoq)	1.2	0.7	1.6	1.5	-0.5	0.3	0.8	0.6	0.7	0.5
CPI (% yoy)	3.2	3.4	4.0	5.1	3.4	3.0	2.2	1.3	2.5	2.7
Employment (% qoq)	1.0	-1.3	1.2	0.1	0.9	-1.5	-1.0	-0.8	-0.3	0.0
Employment (% yoy)	2.5	-0.2	0.7	1.0	0.9	0.7	-1.5	-2.4	-3.6	-2.1
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.6	5.1	6.1	6.8	7.2	7.6
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.6	-9.0	-8.9	-7.9	-7.1	-6.6	-6.6
Terms of Trade (% qoq)	2.9	4.2	-0.4	-1.0	-0.9	-3.0	-3.2	-3.0	-2.3	-1.6
Terms of Trade (% yoy)	8.8	11.6	10.7	5.8	1.8	-5.2	-7.9	-9.8	-11.0	-9.6

KEY ECONOMIC INDICATORS

	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Retail Sales (% mom)	0.7	-0.7	0.3	0.3	-1.3	0.0	-0.7	-1.1	..	..
Retail Sales (% yoy)	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9	-3.7	..	..
Credit Card Billings (% mom)	-0.1	0.1	-0.3	1.3	-1.7	-0.9	-2.2	1.7	0.5	..
Credit Card Billings (% yoy)	3.9	4.2	2.4	2.5	1.0	-0.9	-3.8	-2.2	-1.9	..
Car Registrations (% mom)	1.6	-7.0	-3.4	10.6	-0.7	-20.0	12.3	-13.1	-15.4	..
Car Registrations (% yoy)	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	..
Building Consents (% mom)	-13.2	-1.0	-6.9	8.2	-19.4	3.6	-7.1	-13.2	..	..
Building Consents (% yoy)	-45.8	-34.5	-43.2	-28.5	-42.8	-39.8	-41.4	-51.8	..	..
REINZ House Price (% yoy)	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	..
Household Lending Growth (% mom)	0.2	0.3	0.5	0.2	0.1	-0.1	0.2	0.1	..	..
Household Lending Growth (% yoy)	8.4	7.7	7.2	6.6	5.8	4.8	4.2	3.8	..	..
Roy Morgan Consumer Confidence	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8	95.9
NBNZ Business Confidence	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	..
NBNZ Own Activity Outlook	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	..
Trade Balance (\$m)	-215	-797	-848	-1252	-994	-594	-334	-187	..	..
Trade Balance (\$m annual)	-4478	-4468	-4369	-5048	-5269	-5235	-5607	-5483	..	..
ANZ World Commodity Price Index (% mom)	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	..
ANZ World Commodity Price Index (% yoy)	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	..
Net Migration (sa)	430	740	320	-40	10	-310	280	740	1670	..
Net Migration (annual)	4732	5201	4938	4403	4329	3569	3814	4538	6160	..

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)						
	Jan-09	Feb-09	23-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.553	0.515	0.559	0.450	0.430	0.410	0.420	0.430	0.440	0.460
NZD/AUD	0.816	0.794	0.810	0.776	0.768	0.759	0.778	0.768	0.759	0.767
NZD/EUR	0.417	0.402	0.410	0.375	0.364	0.360	0.382	0.410	0.419	0.438
NZD/JPY	50.0	47.6	53.4	41.0	37.8	35.3	37.0	37.8	39.6	42.3
NZD/GBP	0.382	0.358	0.387	0.341	0.331	0.328	0.336	0.344	0.346	0.354
NZ\$ TWI	54.9	52.3	55.4	47.6	45.8	44.3	46.0	47.3	48.2	50.2
NZ interest rates	Jan-09	Feb-09	23-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	5.12	3.71	3.00	2.50	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	4.37	3.40	3.26	3.00	3.00	3.00	3.00	3.00	3.70	4.70
10 year bond	4.49	4.53	4.77	4.40	4.30	4.30	4.70	4.80	5.50	5.70
International	Jan-09	Feb-09	23-Mar-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	1.18	1.28	1.23	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	4.25	3.50	3.25	2.75	2.25	2.00	2.00	2.00	2.00	3.00
AU 3-mth	3.46	3.68	3.01	2.90	2.10	2.30	2.30	2.40	2.60	3.80

KEY RATES

	20 Feb	16 Mar	17 Mar	18 Mar	19 Mar	20 Mar
Official Cash Rate	3.50	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.29	3.26	3.27	3.25	3.24	3.26
NZGB 07/09	3.10	3.16	3.20	3.21	3.10	3.14
NZGB 11/11	3.55	3.48	3.51	3.50	3.35	3.40
NZGB 04/13	3.94	3.98	4.01	4.02	3.86	3.92
NZGB 12/17	4.57	4.79	4.82	4.83	4.67	4.72
2 year swap	3.29	3.51	3.50	3.45	3.40	3.44
5 year swap	4.04	4.49	4.49	4.41	4.34	4.39
RBNZ TWI	51.8	53.6	54.1	53.9	54.2	55.1
NZD/USD	0.5050	0.5245	0.5311	0.5295	0.5408	0.5569
NZD/AUD	0.7875	0.7988	0.8037	0.8000	0.8036	0.8097
NZD/JPY	47.56	51.50	52.19	52.18	51.92	52.67
NZD/GBP	0.3546	0.3740	0.3762	0.3769	0.3814	0.3840
NZD/EUR	0.3999	0.4066	0.4085	0.4059	0.4028	0.4075
AUD/USD	0.6413	0.6566	0.6608	0.6619	0.6730	0.6878
EUR/USD	1.2629	1.2899	1.3001	1.3044	1.3425	1.3667
USD/JPY	94.18	98.18	98.27	98.54	96.01	94.58
GBP/USD	1.4240	1.4024	1.4118	1.4048	1.4181	1.4503
Oil	39.60	46.22	47.33	48.97	48.12	51.55
Gold	971.60	926.05	920.85	912.35	929.50	951.90
Electricity (Haywards)	1.44	3.78	5.09	5.34	4.04	n/a
Milk futures (US\$/contract)	82	83	83	83	83	83
Baltic Dry Freight Index	2099	2058	1974	1861	1795	1782

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.

This document is provided for informational purposes only and does not constitute an offer to sell or solicitation to buy any security or other financial instrument. No part of this document can be reproduced, altered, transmitted to, copied to or distributed to any other person without the prior express permission of the Bank.

This document has been prepared by ANZ National Bank Limited.

ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com

This document is a necessarily brief and general summary of the subjects covered and does not constitute advice. You should obtain professional advice before acting on the basis of any opinions or information contained in it. The information contained in this document is given in good faith, has been derived from sources perceived by it to be reliable and accurate and the Bank shall not be obliged to update any such information after the date of this document. Neither the Bank nor any other person involved in the preparation of this document accepts any liability for any opinions or information (including the accuracy or completeness thereof) contained in it, or for any consequences flowing from its use.

UNITED STATES DISCLAIMER

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of Australia and New Zealand Banking Group Limited ("ANZBG") and the Bank), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any fixed income securities referred to herein should contact ANZ S 1177 Avenue of the Americas, New York, NY 10036 USA, Tel: 1-212-801-9160, Fax: 1-212-801-9163, not its affiliates.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZBG, the Bank, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZBG, the Bank, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will be directly or indirectly related to specific recommendations or views expressed in this document. ANZBG, the Bank, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.