

RBNZ IN FOCUS

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- > While the RBNZ takes centre stage this week, domestic data is expected to provide little joy on the economic front. Our economic prognosis continues to be swayed by structural and rebalancing aspects to this economic cycle as the economy de-leverages.

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- > We expect the RBNZ to cut the OCR by 50bps and leave the door open for further reductions, but in a more circumspect manner. The economic projections themselves will see substantial downward revisions to growth.

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- > Heartland NZ now has a few more smiles. Good and early autumn rains will relieve one of the pressures of farming. There are also a lot of other positives about agriculture that are often overlooked - especially if cash flows are being squeezed. We remain confident that the medium-term outlook for NZ agriculture is good, but not before we see a correction in land prices first.

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- > Last week's decision by the RBA to pause has put the cat amongst the pigeons. With 68bps priced in, there is scope for disappointment at the upcoming MPS. However looking beyond the immediate decision, it is clear that policy still has work to do yet. With the recovery some way off, borrowers should take the opportunity to enjoy low floating rates. We still favour steepeners, but suggest protecting them with paid OIS trades near term.

Page 12: Currency strategy

- > The NZD still looks to be stuck in a narrow range needing a further catalyst from here. The NZD has held up well all things (risk appetites) considered, which points to a short-dated squeeze. But keep a track of the big picture: the world is de-leveraging which means economies which are poor savers will end up with lower currencies over time.

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ECONOMIC OVERVIEW

While the RBNZ takes centre stage this week, domestic data is expected to provide little joy on the economic front. Our economic prognosis continues to be swayed by structural and rebalancing aspects to this economic cycle as the economy de-leverages.

What's ahead?

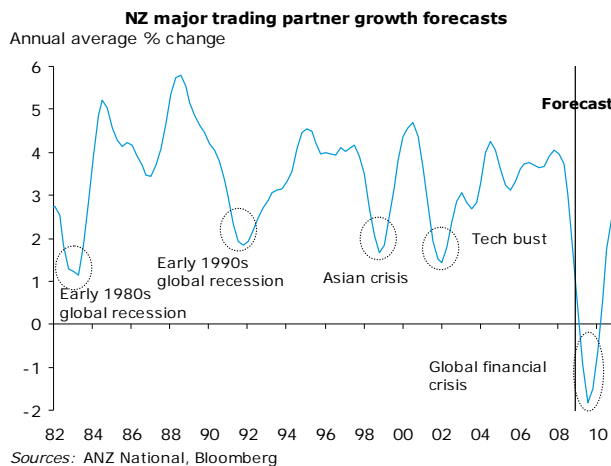
- > **February Electronic Card Transactions** (Tuesday 1045 NZDT). The data can be volatile on a monthly basis. Nevertheless, we expect the trend of underlying weakness to remain.
- > **February REINZ House Sales** (circa 11 March). House sales volumes to show some further signs of stabilisation, but house prices should face downward pressure.
- > **December quarter Overseas Trade Indexes** (Wednesday 1045 NZDT). While a lower NZD will see both export and import prices rise in the quarter, import prices are likely to rise by more and see the terms of trade fall by around 1.5 percent.
- > **RBNZ Monetary Policy Statement** (Thursday 1045 NZDT). The domestic economy remains very weak, but it is the global scene that continues to concern. We expect a 50bp cut. See page 4 for our full preview.
- > **January Retail Trade Survey** (Friday 1045 NZDT). We expect a small recovery in retail spending following the sharp drop in December, helped by higher petrol prices. Headline sales are expected to rise by 0.2 percent, while core sales should rise by 0.4 percent.

What's the view?

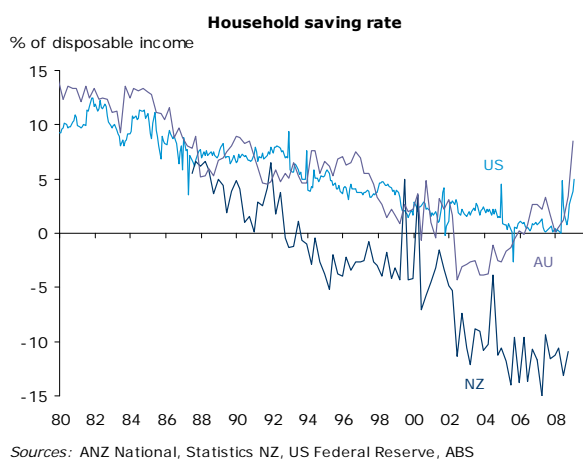
There was generally a lack of local data and new economic information released last week. But unfortunately – unlike the old adage – no news is not good news in this case. The challenges facing the economy have not disappeared and our views on NZ's economic outlook remain the same. We've just started to kick-off on another roadshow around the country, and one point is already clear: labour market anecdotes are becoming more "real-time".

Regular readers will be well aware of our rather downbeat prognosis. But to refresh, with the economy facing a structural adjustment (correcting a massive current account deficit), at the same time as being in the middle of a cyclical downturn (both globally and domestically), the sacrificial lamb will be growth. The economy is facing its weakest period in over thirty years. The fact that 11 of NZ's 12 largest trading partners (with

Australia the last to report in the past week, contracting by 0.5 percent) all recorded negative growth in the December quarter highlights where the risks for NZ currently reside. On an export weighted basis, we estimate that NZ's trading partners contracted by 1.7 percent in the December quarter.



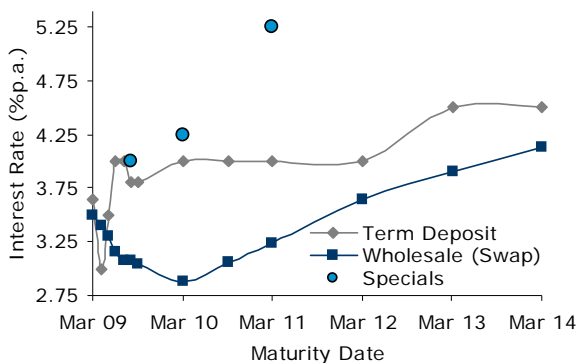
We are not surprised that there continues to be plenty of debate on NZ's economic prospects, not only in the media, but we are sure also across various dinner tables around the country. What should the RBNZ be doing? When will we see a recovery? Should we be spending or saving? Is it a good time to buy a house? It is the latter question, in particular, that appears to be stirring up a considerable emotional response from many. We welcome this debate and the many views that are being put forward. However, in our eyes, it is relatively clear. Fundamentals are back in focus, and in a world that is de-risking and de-leveraging, NZ needs (or will be forced) to do the same.



For an example of the de-leveraging process at work, look no further than the recent big improvements to the US and Australian household savings rate. After consistently declining for the best part of almost three decades, US households have improved their saving rate from near zero to 5 percent of disposable incomes. Australian

households have improved theirs to 8.5 percent of disposable income. At this stage, there is no clear sign of NZ households doing the same, though at least the dis-saving rate has stopped getting worse. Part of the household de-leveraging (and current account rebalancing) process involves an improvement to the saving rate. The US and Australian households appear to be getting this message. NZ households need to follow suit.

Wholesale and Retail Yield Curves



Around the globe there has been a massive swing in the balance of power, away from borrowers towards savers. Domestically, you can see it simply by eye-balling the yields on various corporate bond offers. Yet, the equally visible aspect is retail term deposit rates, which are now substantially higher than wholesale interest rates, as the chart above shows. In this sort of environment, the OCR is becoming somewhat redundant for borrowing rates. Instead, these are being determined by what is required to attract deposits. Moreover, investors have a nominal yield expectation as opposed to caring about where the wholesale curve resides. This factor suggests the fall in long-term borrowing rates may well have done their dash, although we're still looking for one final leg lower, given our economic prognosis.

Looking at the week ahead, there is plenty to focus on. The RBNZ's *Monetary Policy Statement* on Thursday is the main event. We have revised our expectations for the RBNZ following the pause from the RBA last week. We now expect a 50bp cut taking the OCR to 3 percent. While of course the RBNZ does not (and should not) take its policy direction from the RBA, the pause across the Tasman does reinforce the massive stimulus already delivered, and the need to keep something up the sleeve for that "what-if" scenario. Refer to page 4 for our preview note.

Data-wise, we receive more partial data this week that will help firm up our view on Q4 GDP. We get the Overseas Trade Indices on Wednesday. On the volume side, we expect merchandise exports to record a modest fall in the quarter, with most

components contracting. However, imports are expected to surpass this fall (led by passenger cars and other consumption goods), to likely see net exports make a positive contribution to growth in the quarter (for the second quarter in a row). On the price side, both export and import prices are expected to rise strongly, largely due to the lower NZD. This impact should more than offset lower world commodity prices (both for NZ's export basket and also imported oil prices). Nevertheless, the rise in import prices is likely to surpass that of exports and see the terms of trade fall for the third quarter in a row. This represents a purchasing power hit to the economy, and a key channel we are watching going forward. For one there is the hit on wealth, and second, a falling terms of trade will only make it that much difficult to turn the current account deficit around, or "earn" our way to growth.

Other data this week includes February REINZ housing data and January Retail Trade Survey. We expect the latter to record a small rebound from the weakness seen in December. While part of this is a result of good old volatility in NZ data, we are also expecting supermarket and grocery stores sales to rebound considering that food prices rose by 0.8 percent in the month. Headline sales are expected to rise by 0.2 percent, while core sales are expected to rise 0.4 percent. The REINZ data could potentially show further signs of stabilisation in house sales volumes. We are hearing more anecdotes of the lower mortgage rates encouraging more into the market. However, we still expect prices to remain under downward pressure.

Internationally this week, there is not a lot of major data due. The big focus will be on Australian labour market data for February, with our Australian colleagues expecting a 29K decline in employment. Retail sales data, and also a speech from Fed Chairman Bernanke will be the focus in the US.

Recent local data...

- > **ANZ Commodity Price Index (February):** The world price index fell by 4.6 percent. However, a lower currency ensured the NZD index rose by 1.9 percent.
- > **Wholesale Trade Survey (December quarter):** Nominal sales fell 2.3 percent. Adjusting for price changes shows a 1.6 percent increase in real terms.
- > **Crown Financial Statements (seven months to 31 January 2009):** A headline operating deficit of \$5.5 billion was reported. Excluding valuation changes, an underlying operating surplus of \$0.6 billion was recorded.

- > **QV House Prices (February):** An 8.9 percent decline recorded, from -8.3 percent previously.

RBNZ MARCH MONETARY POLICY STATEMENT PREVIEW

(due 0900 NZDT Thursday 12 March)

We expect the RBNZ to cut the Official Cash Rate by 50bps and leave the door open for further reductions, but in a more circumspect manner. The economic projections themselves will see substantial downward revisions to growth.

A lot has happened since the last full economic update from the RBNZ in December. Most significantly, growth around the globe has weakened markedly, and it is clear the world is in the midst of the deepest and most pronounced recession since the Second World War.

While tempting to put a list of positives and negatives since the December or even January assessment, we believe such an exercise is fruitless. For one, there are not too many positives, although we have noticed credit markets freeing up (though sporadically), employment surprised on the upside in Q4, dairy prices are showing tentative signs of bottoming, and after hitting rock bottom, activity in the housing market is starting to recover (although we'd put this down to a base effect).

But, abstracting from such factors, the picture is complicated by the credit channel of monetary policy, competition for scarce capital (de-leveraging process) and non-linear type dynamics within the economy. Moreover, you can see from corporate bond issuance rates and the levels that financial intermediaries are now paying for deposits that the OCR is becoming somewhat less of a benchmark in a world where capital is scarce. And it's a cycle that is about the supply of money as opposed to the price. All are aspects to the economic cycle that cannot possibly hope to be captured within formal models of the economy, and hence we are at that juncture where the art of monetary policy will overrule the science.

This doesn't mean monetary policy is impotent, or doesn't have work to do. Simply that we need to be realistic about what is going on and how effective policy can be.

At this juncture we believe (and being mindful of the 475bps of front-loading so far) a more conservative 50bps cut appears to strike an appropriate balance between responding to the scale of challenges, yet remaining aware as to more tactical considerations including undermining the currency, the structural and heavy behavioural aspects to this economic cycle, and keeping some ammunition in reserve, particularly following the RBA's pause.

While there are certainly light-years between the NZ and Australian economy, the latter has nonetheless been influential in so far as easing expectations in NZ are concerned. A point the RBA has also been at pains to emphasise is that we need to distinguish between poor near-term data which near-term policy moves cannot hope to stymie, versus significant new information that alters the medium-term outlook. We would not be surprised to see this message relayed by the RBNZ as well.

In so far as the RBNZ's economic projections are concerned, we expect to see some major downward revisions to growth, resulting in a significantly larger negative output gap. This sees the medium-term inflation outlook improve, remaining comfortably within the target band. The 90-day profile is expected to settle at around 3 percent which will tease of potentially more to come.

This will keep the market looking for more, particularly if the near-term data points to a more marked deterioration than what the RBNZ is projecting. A more downbeat assessment by the RBNZ will also have the market second guessing the likely downward revisions to Treasury's numbers, as we and rating agencies look towards the 2009 Budget projections.

Financial market implications

With the market divided between 50 and 100, the scene is set for a modest movement on the day. However, given the tenor of the likely economic data and the challenges facing the economy, we expect a smaller than expected cut to be "absorbed" by the market, which will continue to assume that less now just means more later.

The Australian experience last week was instructive. Even though the RBA paused and delivered a completely neutral statement, the market is still pricing in substantial rate cuts.

Our end-point call for the OCR remains 2.5 percent, somewhat higher than the consensus. Rather than reflecting pure differences in underlying economic assessments (we are at the bottom end of Consensus expectations for growth) this primarily reflects our view that the currency needs to be, and will be, the next vehicle that weakness in the economy will be expressed through.

Our forecasts of RBNZ Projections for March MPS (December 2008 MPS Projections in brackets)					
<i>Half year average</i>	H1 2009	H2 2009	H1 2010	H2 2010	H1 2011
90 day	3.3 (5.4)	3.0 (5.1)	3.0 (5.3)	4.2 (5.7)	5.0 (..)
TWI	52.0 (54.3)	50.0 (52.8)	51.5 (52.7)	52.8 (53.8)	53.8 (..)
<i>March years</i>	2008(a)	2009	2010	2011	2012
CPI (ann % chg)	3.4	2.8 (3.1)	1.9 (2.7)	2.0 (2.3)	2.1 (..)
GDP (ann ave % chg)	3.1	-0.7 (0.1)	-0.8 (1.3)	3.0 (4.3)	4.1 (..)

POSITIVE ABOUT AGRICULTURE

Heartland NZ now has a few more smiles. Good and early autumn rains will relieve one of the pressures of farming. There are also a lot of other positives about agriculture that are often overlooked - especially if cash flows are being squeezed. We remain confident that the medium-term outlook for NZ agriculture is good, but not before we see a correction in land prices first.

Huey...

... has delivered well and early this autumn. Good rains over the past three weeks on top of warm soils will produce a great flush of grass and benefit winter feed crops. Ewes should now be in good condition for mating, setting up the potential for a good lambing in spring 2009. Other livestock should also start the winter in good condition.

Farmers by nature are a hardy lot, but seeing livestock lose condition at the wrong time of the year is psychologically tough! The converse also applies and will be enjoyed. The memories of the wet and cold spring are fading fast.

Markets

There are mixed signals as usual, but the weighting is assessed as positive.

Indicative international lamb and venison markets are doing quite well. Reduced supply of product from New Zealand is one factor. A weaker NZ dollar against the Pound and euro is a second. A weaker Pound against the euro is a third for the lamb market and overlooked by some. Meat is exported from the UK and Ireland to Europe. Farmers in these countries are receiving a better price expressed in Pounds. UK retail markets have had to lift prices accordingly.

Beef and milk producers in the US are bowing to cost price squeezes in larger numbers. The cull cow kill is up and impacting negatively on the manufacturing beef price in the short term. Underlying demand has been steady as consumers eat more lower cost takeaways.

Prices for whole milk powder (WMP) at Fonterra's March internet sale averaged US\$2,160/tonne, up 16 percent from the low US\$1,850/tonne in February. That is an encouraging result after WMP prices fell rapidly from a peak near US\$4,900/tonne in November 2007. While much is made of the extent of the fall in price, it has to be remembered that the price was only US\$2,100/tonne just 14 months earlier (September 06). While it is obviously too early to say the worst is past,

anecdotal evidence suggests buyer inquiry is rebuilding.

Indicative prices for European apples are at or just above levels that were being obtained at the same time last year. That is encouraging for the 2009 harvest of NZ apples and kiwi fruit.

Wool is a sad story at present. Wool is a great product but has a long supply chain to the end product. It also has a very long shelf life. So when demand falls, existing inventory keeps indefinitely and new supply is shunned. Both fine and coarse wools have been affected. The NZ strong wool indicator looked very promising in September 2008 when it regained \$4/kg clean, a level last seen in August 2004 and above the estimated 2007/08 season average of \$3.30. The indicator price subsequently slumped to a low of \$2.84 in late February before a small recovery at the last sale to \$2.91.

Cash Flows

...are not quite so good. Better prices for lamb and beef (depending on timing of sale) are helping offset lower livestock numbers available for sale in districts still recovering from consecutive droughts in 2006/07 and 2007/08. Other offsets are poor wool prices and higher costs for fertilizer albeit the latter are off their peak. Sheep and beef regions less affected by drought are more comfortable from a cash perspective.

Role reversal is very evident in the dairy industry. The sharp and progressive falls in Fonterra's dairy payout forecast from \$7/kilogram milk solids in May 2008 to \$5.10 in January 2009 is playing havoc with cash flow. A sharp contrast from 12 months ago when the forecast payout was being revised upwards.

A lot of on-farm dairy expenditure is fixed in the first half of the season or was committed to on the basis of a higher forecast return. The forecast for 2009/10 season determines the advance rate of payment. While a \$5 plus payout in 2009/10 is quite likely, the initial advance would only be around \$3.10 compared to \$4.05 currently being paid. Tight cash flow may well last into 2010 for dairy farmers.

Positives

It is easy to get buried in the day-to-day negative stories and forget the many positives that NZ agriculture (and other businesses) has as a background environment. Amongst our normal demure assessments, we remain upbeat about the future of agriculture.

New Zealand has:

- > A sound, stable parliamentary system.
- > Robust and enforceable commercial laws.
- > No corruption.
- > Competition in financial services, processing, merchandising and services.
- > An envied land tenure system.
- > No subsidies.
- > Good infrastructure at the macro and micro level where farmers own a significant share.
- > Favourable soils and climate.
- > Good and improving genetics in plants and animals.
- > Top quality products.
- > A naturally growing demand. Over 50 percent of the world population is now deemed to be "middle class".
- > A low incidence of plant and animal disease. This is agriculture's biggest risk.
- > And from a macro perspective, NZ's future is tied to earning as opposed to spending its way to growth, and the rural sector will be an integral part of that. Relative price signals such as the currency will simply foster that realignment.

Of course there are challenges and these should not be discounted.

Challenges

Big picture challenges for agriculture include:

- > Environment issues including nitrate levels and carbon trading.
- > The availability of water for agricultural production including challenges from regulators and city dwellers on existing use let alone new irrigation development.
- > Animal welfare.
- > The steady march of cost increases including standing charges.
- > Availability of labour.
- > The level of inventory levels in international dairy markets and the threat that parked export subsidies may be re-imposed.

Most of the challenges have been around for some time but that does not make them any easier to deal with.

What does need to be considered in any investment decisions is that we expect revenue price volatility to be subject to bigger changes over shorter time periods than in the past. And the past has seen some big price swings.

Rural Land Sales

Anecdotal evidence suggests a 10 to 15 percent drop in farm land prices with the volume of sales halved. The variation in this measure will be wide. Good quality farms tend to hold their value in a downturn. Lower quality or more remote farms tend rise faster in price than one might expect in good times but fall further in a downturn.

Economics suggests the land prices should fall further as we have mentioned before, and we expect this to unfold over the coming year. Yields are simply too low to justify the investment. A positive outlook for agriculture will hold up vendor expectations of future revenue in some areas, particularly those with good balance sheets and an eye to the history of capital gains over the long-term. Buyers will be looking at costs, a bigger buffer for risk (increased volatility in revenue) and hopefully a bigger emphasis on cash returns. Some vendors will need to sell for all sorts of reasons. Buyers will want to get a good deal. A classic Mexican stand-off! But it's hard to go past the essentials of good business in the current environment, and it all centres around cash-flow and getting an appropriate return on the investment. There is a lot of land in the market and it is simply not shifting. The world has changed, and the agriculture sector, like others in the economy, needs to adapt and return to more traditional benchmarks.

Implications

There is no change our previous expectation that tight farm cash flows will have a negative impact on the economy.

Increased volatility will require bigger buffers in business plans.

The industry needs to adapt from a capital gain to yield and cash-flow mantra in line with structural changes around the globe.

The lower volume of farm sales, tightened rural cash-flow and falling farm values will be a key factor transferring this downturn to the hinterland.

MONTHLY INFLATION GAUGE¹

Our experimental monthly inflation gauge recorded a 0.3 percent increase in February. Electricity price and education fee increases drove most of the increase during the month. There still appears to be some stickiness in certain services sector inflation, but they are not prevalent. Barring an unexpected rise in March, a sub-1 percent quarterly increase for Q1 non-tradable CPI looks on the cards.

Following the 0.4 percent increase in January (boosted by the annual indexation of tobacco and cigarette excise taxes), our experimental monthly inflation gauge eased to a 0.3 percent rise for February. This is still slightly higher than the string of 0.2 percent increases over the second half of last year, but February's figure was influenced by a 5.5 percent increase in education fees. This increase tends to occur in February when a new year starts at schools and tertiary institutions across the country. This year's fee increase is broadly in line with the rise seen last year.

The other major influence on February's inflation gauge reading was electricity prices. We noted that January's soft electricity reading could have been due to timing issues in terms of when we conducted the survey. This appears to be the case, with our February electricity reading recording a near 3 percent increase. Thus far, there have been no further public announcements of further price increases (at least, none that we are aware of), so we are hopeful that the strong electricity price increases seen over the past 12 months are behind us.

Both the education fee and electricity price increases accounted for most of the rise in our inflation gauge. There appears to still be some stickiness in certain services sector inflation. Insurance premiums continue to rise, as do the fees for some professional services. Rents remain soft, and our modelled measure of construction costs showed another small decline in the month.

¹ Our monthly inflation gauge is intended to provide a timely indication of domestic inflation trends. For simplicity, we have limited ourselves to a domestic or non-tradable inflation measure. It should be noted that our monthly inflation gauge will not exactly mirror the official non-tradable CPI due to coverage and methodological issues. Our main priority is to come up with a gauge that is timely and able to provide an indication of domestic inflation trends. This will allow us to assess whether inflation pressures remain, or whether they are starting to ease. Our gauge, however, is designed to be as comparable as possible to the official Statistics NZ series. Note that our gauge is still in the experimental stages, and is subject to further refinements.

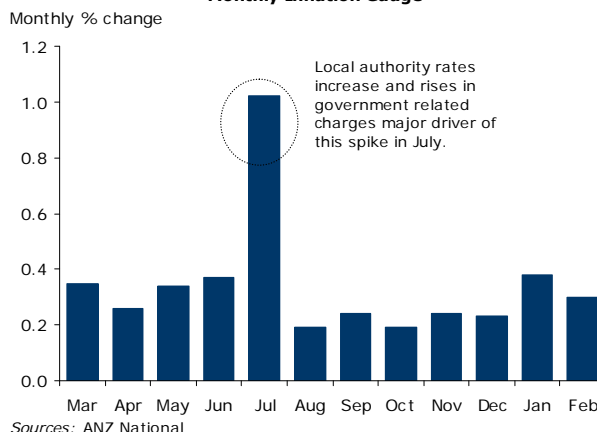
There were other price declines as well coming from alcohol, tobacco and domestic airfares. The introduction of a new competitor to the domestic aviation market (or should we say the replacement of one brand with another?) has resulted in lower air fares during February, and further declines in domestic airfares over the coming months is expected. However, there is more to the advertised fares than meet the eye. The fact that passengers have to pay for "extras" such as check-in baggage means Statistics NZ will seek to make some quality adjustments. But for our purposes at present, we have not sought to make any adjustments as yet.

Our experimental inflation gauge series has been running for close to a year now, and has been fairly close to the official Statistics NZ non-tradable CPI print over the past three quarters (see table), which gives us confidence that we are on the right track.

Barring an unexpectedly strong rise in March, a sub-1 percent non-tradable CPI print in Q1 looks on the cards (due 17 March). Given that tradable inflation tends to be weak during Q1 due to the seasonal decline in international airfares, and with petrol prices also expected to record a modest decline, we look set for a fairly soft headline CPI print.

	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Mar-08	0.4		1.1
Apr-08	0.3		
May-08	0.3		
Jun-08	0.4	1.0	0.9
Jul-08	1.0		
Aug-08	0.2		
Sep-08	0.2	1.4	1.3
Oct-08	0.2		
Nov-08	0.2		
Dec-08	0.2	0.7	0.8
Jan-09	0.4		
Feb-09	0.3		

Monthly Inflation Gauge



GLOBAL WATCH

The global dataflow was mixed last week, with some coming in better than expectations. However, the actual levels or growth rates are still weaker than the previous readings, indicating that global economic activity is still contracting. But the pace of deterioration seems to have eased. Though the much anticipated US non-farm payrolls came in as expected, large historical revisions suggest the labour market was in worse shape than first thought – confirmed by a higher than expected unemployment rate.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market	
US	Personal Income (Jan)	-0.2%	0.4%	-0.2%	Stronger	
	Personal Spending (Jan)	0.4%	0.6%	-1.0%	Stronger	
	PCE Deflator (Jan)	0.5%	0.7%	0.8%	Stronger	
	ISM Manufacturing (Feb)	33.8	35.8	35.6	Stronger	
	Construction Spending (Jan) – mom	-1.5%	-3.3%	-2.4%	Weaker	
	Pending Home Sales (Jan) – mom	-3.5%	-7.7%	4.8%	Weaker	
	ISM Non-Manufacturing Composite (Feb)	41.0	41.6	42.9	Stronger	
	Non-Farm Productivity (4Q F)	1.0%	-0.4%	3.2%	Weaker	
	Unit Labour Costs (4Q F)	3.8%	5.7%	1.8%	Stronger	
	Continuing Claims (w/e Feb 22)	5150K	5106K	5120K	In-line	
	Factory Orders (Jan)	-3.5%	-1.9%	-4.9%	Stronger	
	Change in Non-Farm Payrolls	-650K	-651K	-655K	In-line	
	Unemployment Rate (Feb)	7.9%	8.1%	7.6%	Weaker	
	Consumer Credit (Jan)	-\$5.0B	\$1.8B	-\$7.5B	Stronger	
Euro-zone	PMI Manufacturing (Feb F)	33.6	33.5	33.6	In-line	
	CPI Estimate (Feb) – yoy	1.0%	1.2%	1.1%	Stronger	
	PMI Services (Feb F)	38.9	39.2	38.9	Stronger	
	GDP (4Q P) – qoq	-1.5%	-1.5%	-1.5%	In-line	
	ECB Interest Rate	1.50%	1.50%	2.00%	In-line	
UK	PMI Manufacturing (Feb)	35.0	34.7	35.8	Weaker	
	Mortgage Approvals (Jan)	33K	31K	31K	Weaker	
	PMI Construction (Feb)	34.2	27.8	34.5	Weaker	
	PMI Services (Feb)	41.9	43.2	42.5	Stronger	
	HBOS House Prices (Feb) – mom	-2.0%	-2.3%	2.0%	Weaker	
	BoE Interest Rate	0.50%	0.50%	1.00%	In-line	
	PPI Input (Feb) – mom	0.2%	0.6%	0.9%	Stronger	
PPI Output (Feb) - mom	0.1%	0.1%	0.1%	In-line		
Asia Ex-Japan						
	<i>China</i>	CLSA Manufacturing PMI (Feb)	-	45.1	42.2	-
		PMI Manufacturing (Feb)	-	49.0	45.3	-
	<i>South Korea</i>	Exports (Feb) – yoy	-24.5%	-17.1%	-33.8%	Stronger
		Imports (Feb) – yoy	-27.5%	-30.9%	-31.9%	Weaker
		Industrial Production (Jan) – mom	-8.0%	1.3%	-9.6%	Stronger
		Consumer Price Index (Feb) – mom	0.1%	0.7%	0.1%	Stronger
	<i>Singapore</i>	Purchasing Managers Index (Feb)	44.9	45.0	45.0	In-line
		Electronic Sector Index (Feb)	43.5	43.8	43.6	In-line
	<i>Hong Kong</i>	Retail Sales – Volume (Jan) – yoy	0.1%	5.4%	-0.5%	Stronger
<i>Taiwan</i>	CPI (Feb) – yoy	-0.4%	-1.3%	1.5%	Weaker	

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Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<i>Indonesia</i>	Inflation (Feb) – mom	0.2%	0.2%	-0.1%	In-line
	Exports (Jan) – yoy	-30.1%	-35.5%	-20.0%	Weaker
	Imports (Jan) – yoy	-27.9%	-32.0%	-7.5%	Weaker
<i>Indonesia cont.</i>	Bank of Indonesia Reference Rate	8.00%	7.75%	8.25%	Weaker
<i>Philippines</i>	CPI (Feb) – mom	0.1%	0.5%	0.3%	Stronger
	Overnight Borrowing Rate	4.50%	4.75%	5.00%	Stronger
<i>India</i>	Exports (Jan) – yoy	-	-16.0%	-1.1%	-
	Imports (Jan) - yoy	-	-18.2%	8.8%	-
<i>Malaysia</i>	Exports (Jan) – yoy	-22.4%	-27.8%	-14.9%	Weaker
	Imports (Jan) - yoy	-28.0%	-32.0%	-22.8%	Weaker
<i>Thailand</i>	Consumer Price Index (Feb) – mom	1.0%	1.0%	0.0%	In-line
Japan	Labour Cash Earnings (Jan) – yoy	-1.2%	-1.3%	-0.8%	In-line
	Capital Spending (4Q)	-15.5%	-17.3%	-13.0%	Weaker
Australia	Company Operating Profit (4Q)	-2.0%	-6.5%	7.3%	Weaker
	Inventories (4Q)	0.3%	-1.9%	1.1%	Weaker
	Retail Sales (Jan) – mom	-0.5%	0.2%	3.8%	Stronger
	Current Account Balance (4Q)	-\$7350m	-\$6499m	-\$9498m	Stronger
	RBA Cash Rate	3.00%	3.25%	3.25%	Stronger
	GDP (4Q) – qoq	0.2%	-0.5%	0.1%	Weaker
	Building Approvals (Jan) – mom	1.0%	-3.7%	-1.9%	Weaker

INTEREST RATE STRATEGY

Last week's decision by the RBA to pause has put the cat amongst the pigeons. With 68bps priced in, there is scope for disappointment at the upcoming MPS. However looking beyond the immediate decision, it is clear that policy still has work to do yet. With the recovery some way off, borrowers should take the opportunity to enjoy low floating rates. We still favour steepeners, but suggest protecting them with paid OIS trades near term.

Market themes ...

- > Global bond markets are struggling to work out what matters most – issuance and inflation, or safe haven buying and quantitative easing.
- > This week is set to test the market. On the one hand Governor Bollard hasn't disappointed us yet with rate cuts, but on the other hand, the RBA chose to pause.
- > Our growth forecasts for NZ are at or near the bottom of consensus, but there's only so far monetary policy will go. Worse still, credit margins are widening again.

Review and outlook ...

The global bond market continues to be torn between two opposing forces. On the one hand, the market needs to consider the price erosion effects and long term inflationary consequences of fiscal deficits and issuance, which imply much higher yields. On the other hand, they also need to consider the impact of quantitative easing, a period of unusually low policy rates, and the impact of safe-haven demand, all of which imply lower yields. The battle lines between the "vigilantes" and the "doves" are still being drawn. We're extremely fearful of the former, but we find it difficult to look away from the allure of bonds in an environment when the global economy is slowing, particularly when we're still being bombarded with negative surprises. Some commentators are saying that the second derivative is improving (i.e. the global economy is slowing at a *slower* rate). That is quite likely to be true, even in lagging indicators like US jobs. However whereas in the past, boom has followed bust quite quickly, this time around the recovery is likely to be some way off, hampered by de-leveraging, and a completely different attitude toward investment in assets like housing. Even if a "bottom" is near, we're likely to bounce along at sub-par growth for some time. This will ultimately delay the rise in term interest rates, and flatten the curve. However, in the near term, there's enough worry to keep the back end held up, but the short end will follow policy lower.

Borrowing strategies we favour at present

The short end of the swap curve continues to drift lower, or is holding steady at historic lows. 3mth BKBM is also falling steadily, and the yield curve is steepening. 5 and 10 year swap rates are well off their lows, and to some this represents something of a missed opportunity. However, we believe the yield curve is pricing in a "normal" boom-bust recovery, and will ultimately be disappointed by how long it takes for the economy to get back on its feet. We expect more upward pressure on long end swaps over the next couple of months on corporate paying and steepening trades. However, if the objective is to obtain the lowest cost of funds over the medium term, we favour remaining floating for now, and fixing later once it is clear that the economy is properly on the mend.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔/↑	Scope for disappointment on Thursday.
NZ data	↔/↓	Still very poor, but reality seems to have sunken in.
Fed Funds/ front end	↔	UK more in focus than the US, and the BOE have shifted to Quant Easing.
RBA	↔/↓	Pause a surprise, but soft data suggests more cuts.
US 10 year	↔	What's the driver? Issuance or safe haven demand?
NZ swap curve	↔/↑	Steepeners still very much in focus. Keep the faith.
Flow	↔/↑	Corporate sector starting to consider paying fixed.
Technicals	↔/↓	Still in consolidation mode.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 12-Mar-09	-75	-68
Thu 30-Apr-09	-126	-94
Thu 11-Jun-09	-127	-113
Thu 30-Jul-09	-128	-114
Thu 10-Sep-09	-126	-115
Thu 29-Oct-09	-125	-115
Thu 10-Dec-09	-125	-116

Trading themes we favour at present

Generally speaking, we favour curve steepeners and paid OIS positions. We believe the 2s10s can steepen well beyond 200bps. However with 68bps priced in for this week's MPS, there is scope for disappointment. As such, consider replacing (or protecting) steepeners with a paid 2 month OIS trade. We can't see the RBNZ cutting by more than what's priced in.

CURRENCY STRATEGY

The NZD still looks to be stuck in a narrow range needing a further catalyst from here. The NZD has held up well all things (risk appetites) considered, which points to a short-dated squeeze. But keep a track of the big picture: the world is de-leveraging which means economies which are poor savers will end up with lower currencies over time.

Market themes...

- > Risk appetites remain flaky but NZD holds up well all things considered.
- > Australian economy and AUD not immune to global events.
- > G3 jostling as pygmy trading resumes.

Review and outlook...

The NZD survived another week testing around the key 50 levels. Considering weakness we've seen across equities around the globe, the NZD's "robustness", if we can call it that, looks somewhat impressive, and suggests we're set for further topside squeezes.

Jostling amongst the G3 continues will have a major say in the near term currency movements. Sentiment (concerns) towards Eastern Europe and hence the euro is either over or under-blown depending on which commentator you listen to. Japan is capital (reserve) rich, but cash-flow (export) poor as the global picture questions their fundamental export dependent model. At the same time the US economy continues to weaken, the nation faces significant structural issues, and it looks to be socialising some of the problems, which risks giving investors the gripes.

At times like this it pays to step away from the noise. The world is de-leveraging which means economies which are poor savers will end up with lower currencies over time. The picture across the G3 is clearly complicated by the USD's reserve currency status around the globe. But it is pretty obvious when you consider other peripherals such as the NZD. So for now it's simply a question of buying time until we see the next leg of the inevitable adjustment.

For now, we see little on the horizon this week to fundamentally alter recent ranges. While the RBNZ will take centre stage this week, and the market is somewhat skewed in terms of its expectations (50 versus 100 basis points), the market is expected to

take a smaller cut in its stride by simply pushing out expectations into Q2.

From a technical perspective, the NZD has a window of opportunity to rally early in the week. We see 0.4980 as the base and any test as high as 0.5170 is possible before Thursday's RBNZ decision. This is based on a number of indicators including key day reversal, divergence and Ichimoku cloud support. The NZD/AUD cross has good resistance above 0.8000 but we can expect a range trade between 0.7750 and 0.8000 as momentum wanes.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↔/↓	RBNZ to head below RBA?
Commodities	↓	NZ prices still falling faster than Australia's
Partial indicators	↔/↑	Australian Q4 GDP surprisingly weak.
Technicals	↓	0.7750 to 0.8000 range.
Sentiment	↔	Risk aversion dominating.
Other	↔	Dairy prices look to be stabilising.
On balance	↔/↓	Decline should extend but AUD trajectory now

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models
Fair value – short-term	↔/↑	Moved below short-term fair value model.
Yield	↓	Differential narrowing.
Commodities	↔	Dairy prices appear to be stabilising.
Risk aversion	↔/↓	Still dominating FX markets.
Partial indicators	↔	US's still nasty but NZ's starting to compete.
Technicals	↔/↓	0.4980 support.
AUD	↔/↓	Australian data not pretty either
Sentiment	↔	All about risk aversion.
Other	↔	USD king of late, but G3 story is precariously placed
On balance	↔/↓	Big trend is still lower

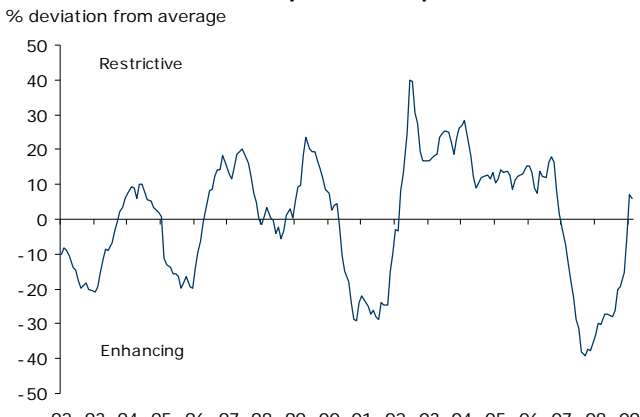
EFFECTIVE EXCHANGE RATES UPDATE

We present an update of our real effective exchange rate measures across New Zealand's main export industries. The measures takes into account the world prices that exporters are able to command (commodity prices in the case of commodity exporters), and adjust them by currency movements based on the export destinations. While recent falls in the NZD is helping to improve competitiveness, this is offset by falling commodity prices in some sectors.

The NZD came to the rescue of exporters last month. Despite lower world commodity prices, a sharply lower NZD ensured that all the commodity adjusted real effective exchange rates became more enhancing, although to be fair, the moves were not large. Conditions in the dairy sector remain mildly restrictive, as is the case for the crude sector. The forestry sector continues to face difficult trading conditions. However, the meat, horticulture, seafood and services sectors are all experiencing "enhancing" conditions.

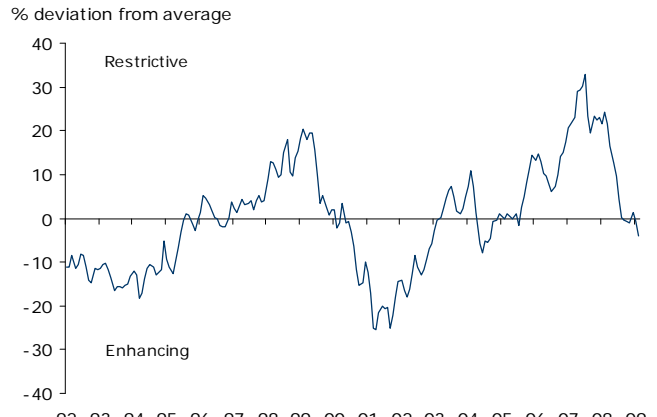
We must not forget though, these measures are a gauge of "price". They do not directly take into account "demand", and it is this factor that is most important for exporters at present. With 11 of NZ's 12 largest trading partners recording negative growth in the December quarter, it clearly shows that the demand backdrop is very challenging.

Sector: Dairy ≈ 18% of exports



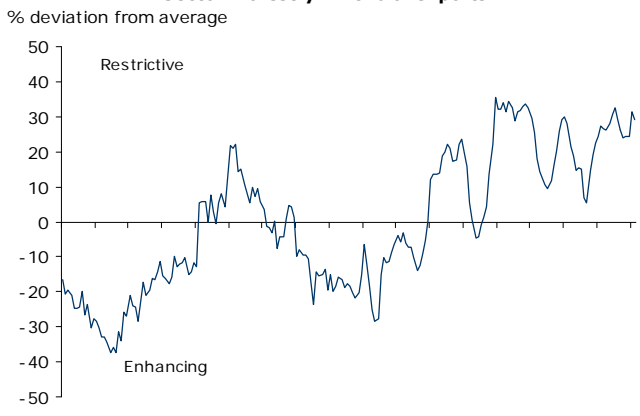
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat ≈ 8% of exports



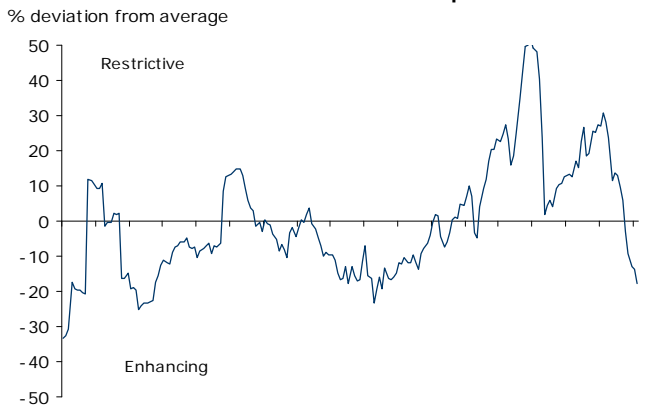
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry ≈ 10% of exports



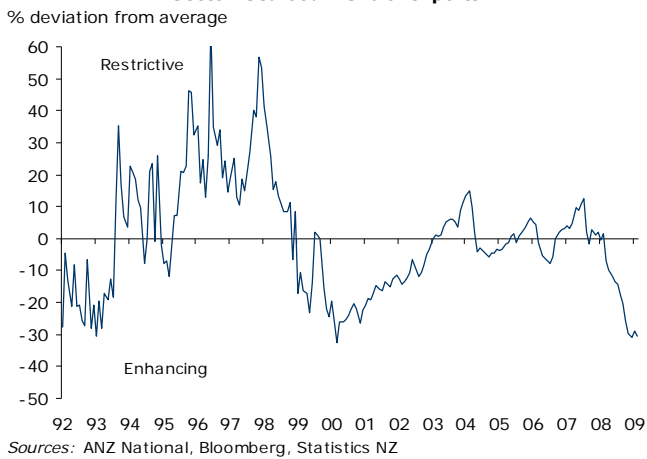
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports

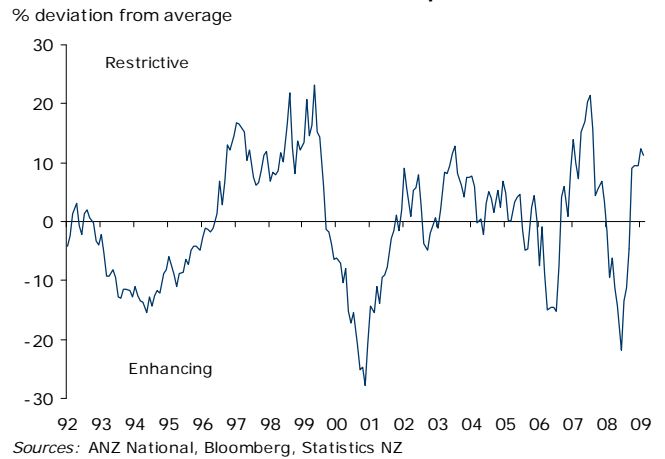


Sources: ANZ National, Bloomberg, Statistics NZ

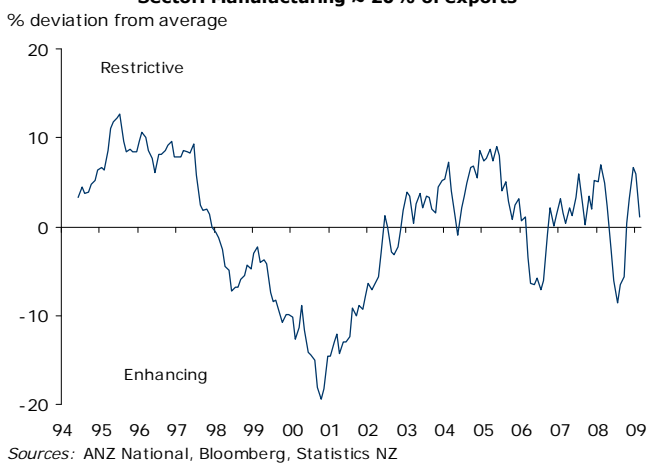
Sector: Seafood \approx 3% of exports



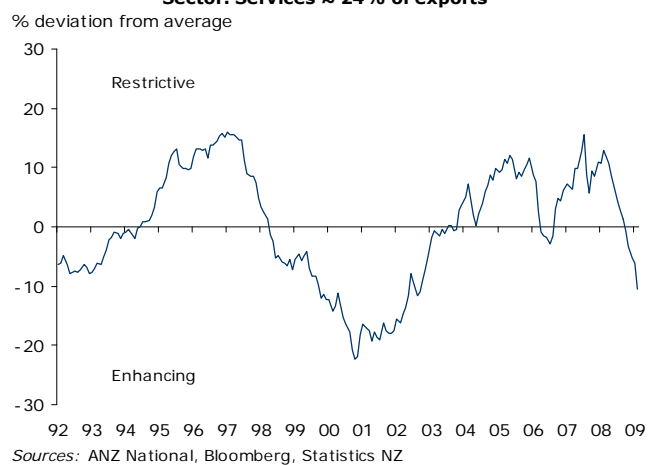
Sector: Crude \approx 5% of exports



Sector: Manufacturing \approx 20% of exports



Sector: Services \approx 24% of exports



DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
9-Mar	NZ	Value of Building Work Put in Place (4Q)	-	-2.1%	10:45
	JN	Money Stock M3 (Feb) - yoy	0.9%	0.9%	12:50
		Adjusted Current Account Total (Jan)	¥420.0B	¥498.5B	12:50
		Trade Balance - BOP Basis (Jan)	-¥811.6B	-¥197.9B	12:50
		Bankruptcies (Feb) - yoy	-	15.8%	17:30
		Eco Watchers Survey: Current (Feb)	17.3	17.1	18:00
		Eco Watchers Survey: Outlook (Feb)	-	22.1	18:00
	EC	ECB's Stark Speaks in Luxembourg	-	-	22:00
		Sentix Investor Confidence (Mar)	-38.0	-36.1	22:30
10-Mar	NZ	Electronic Card Transactions (Feb)	-	0.0%	10:45
	UK	RICS House Price Balance (Feb)	-75%	-76%	13:01
		Industrial Production (Jan) – mom	-1.2%	-1.7%	22:30
	AU	NAB Business Confidence (Feb)	-	-32	13:30
		NAB Business Conditions (Feb)	-	-11	13:30
		ANZ Job Advertisements (Feb) – mom	-	-6.3%	13:30
	JN	Leading Index CI (Jan P)	77.4	80	18:00
		Coincident Index CI (Jan P)	89.8	92.4	18:00
		Machine Tool Orders (Feb P) – yoy	-	-84.1%	19:00
	GE	Consumer Price Index (Feb F) – mom	0.6%	-0.5%	20:00
		Trade Balance (Jan)	9.5B	6.9B	20:00
		Current Account (Jan)	9.2B	12.3B	20:00
		Imports (Jan) – mom	-3.5%	-4.8%	20:00
		Exports (Jan) - mom	-4.0%	-4.0%	20:00
		ECB's Weber Speaks at Bundesbank Annual Press Conference	-	-	22:00
	EC	PPI (Jan) – mom	-0.2%	-1.3%	23:00
11-Mar	US	Bernanke Speaks on Bank Regulation in Washington	-	-	01:30
		Wholesale Inventories (Jan)	-1.0%	-1.4%	03:00
	NZ	Terms of Trade Index (4Q) – qoq	-3.7%	-2.3%	10:45
	AU	Westpac Consumer Confidence (Mar)	-	-4.6%	12:30
	AU	Home Loans (Jan)	4.0%	6.4%	13:30
		Investment Lending (Jan)	3.5%	2.9%	13:30
		Value of Loans (Jan) – mom	4.0%	7.1%	13:30
	JN	Machine Orders (Jan) – mom	-5.0%	-1.7%	12:50
		Domestic CGPI (Feb) – mom	-0.6%	-1.0%	12:50
	UK	NIESR GDP Estimate (Feb)	-	-1.7%	13:01
		Total Trade Balance (Jan)	-£3700	-£3611m	22:30
12-Mar	GE	Factory Orders (Jan) - mom	-2.0%	-6.9%	00:00

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Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
12-Mar cont.	EC	ECB Council Member Liikanen Speaks in Helsinki	-	-	00:00
		Industrial Production (Jan) - mom	-1.4%	-2.6%	23:00
	US	Monthly Budget Statement (Feb)	-\$205.0B	-\$175.6B	07:00
	NZ	RBNZ Official Cash Rate	3.0%	3.5%	09:00
		Business NZ PMI (Feb)	-	42	10:30
		Food Prices (Feb) - mom	-	0.8%	10:45
	JN	Gross Domestic Product (4Q F) - qoq	-3.5%	-3.3%	12:50
	AU	Consumer Inflation Expectation (Mar)	-	2.3%	13:00
		Employment Change (Feb)	-20.0K	1.2K	13:30
		Unemployment Rate (Feb)	5.0%	4.8%	13:30
		Participation Rate (Feb)	65.0%	65.1%	13:30
	UK	BoE Releases Quarterly Inflation Attitudes Survey	-	-	22:30
13-Mar	GE	Industrial Production (Jan) - mom	-3.0%	-4.6%	00:00
	US	Advance Retail Sales (Feb)	-0.5%	1.0%	01:30
		Retail Sales Less Autos (Feb)	-0.1%	0.9%	01:30
		Initial Jobless Claims (w/e 8 Mar)	642K	639K	01:30
		Continuing Claims (w/e 1 Mar)	5150K	5106K	01:30
		Business Inventories (Jan)	-1.1%	-1.3%	03:00
	NZ	Retail Sales (Jan) - mom	-0.1%	-1.0%	10:45
		Retail Sales Ex-Auto (Jan) - mom	0.2%	-0.6%	10:45
	JN	Industrial Production (Jan F) - mom	-	-10.0%	17:30
		Capacity Utilization (Jan F) - mom	-	-11.8%	17:30
		Consumer Confidence (Feb)	-	27	18:00
	EC	Retail Sales (Jan) - mom	0.2%	0.0%	23:00
14-Mar	US	Trade Balance (Jan)	-\$38.0B	-\$39.9B	01:30
		Import Price Index (Feb) - mom	-0.7%	-1.1%	01:30
		University of Michigan Confidence (Mar P)	55.0	56.3	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: This week the RBNZ's March *Monetary Policy Statement* is the main focus. Beyond that, we get more partial indicators relating to Q4 GDP, which is released at the end of the month. The Balance of Payments and GDP data for the December quarter will likely reinforce the challenges the economy faces, with a contracting economy and still very large external deficit.

Date	Data/Event	Economic Signal	Comment
Tue 10 Mar (10.45)	Electronic Card Transactions (Feb)	Still an underlying weak trend	The data can be volatile on a monthly basis. Nevertheless, we expect the trend of underlying weakness to remain.
circa 11 May	REINZ House Sales (February)	House price weakness	House sales to show some further signs of stabilisation, but house prices should face downward pressure.
Wed 11 Mar (10.45)	Overseas Trade Indexes (Dec qtr)	Terms of trade down again	While a lower NZD will see both export and import prices rise in the quarter (despite lower global commodity prices), import prices are likely to outperform and see the terms of trade fall.
Thu 12 Mar (10.45)	RBNZ <i>Monetary Policy Statement</i>	50bp cut	The domestic economy remains very weak, but it is the global scene that continues to concern. We expect a 50bp cut and for the door to be left open for more. We will be looking for any guidance on how long rates will remain low.
Fri 13 Mar (10.45)	Retail Trade Survey (Jan)	Still subdued	A small recovery may be possible after the fall recorded in December. Nevertheless, the broad trend will remain one of consumers' wallets generally remaining shut.
Mon 16 Mar (10.45)	Economic Survey of Manufacturing (Dec qtr)	Weak again	Recent PMI surveys as well as jobs growth for the manufacturing sector have been weak. This survey should reinforce this.
Fri 20 Mar (10.45)	External Migration (Feb)	Tourism under pressure	Visitor arrivals should remain under downward pressure give the global backdrop.
Fri 20 Mar (15.00)	Credit Card Spending (Feb)	Underlying weakness	While volatile on a monthly basis, the underlying trend should remain soft.
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	At this stage we have a contraction of 0.9 percent pencilled in.
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 low a weak domestic economy hampering import demand.
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 is still holding up well, but we suspect they will start to head lower.
Tue 31 Mar (15.00)	NBNZ <i>Building Outlook</i> (Mar)	-	-
Thu 2 Apr (15.00)	ANZ Commodity Price Index (Mar)	-	-
On Balance		Flow-on from the global scene in the dataflow.	No signs of a base. Prospects still deteriorating.

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	-0.9	-1.5	-0.5	0.0	0.1	0.5
GDP (% yoy)	3.7	2.1	1.0	-0.1	-1.8	-2.9	-3.2	-2.9	-1.9	0.1
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	-2.3	-1.6	-2.8	-2.8	-2.4	-1.7	-1.3
Terms of Trade (% yoy)	8.8	11.6	10.7	4.4	-0.2	-6.8	-9.0	-9.1	-9.3	-7.9

KEY ECONOMIC INDICATORS

	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
Retail Sales (% mom)	-1.1	0.8	-0.7	0.4	0.3	-1.2	0.2	-1.0
Retail Sales (% yoy)	1.0	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9
Credit Card Billings (% mom)	0.4	-0.1	0.1	-0.3	1.3	-1.7	-0.9	-2.2	1.7	..
Credit Card Billings (% yoy)	5.9	3.9	4.2	2.4	2.5	1.0	-0.9	-3.8	-2.2	..
Car Registrations (% mom)	-13.6	1.6	-7.0	-3.4	10.6	-0.7	-20.0	12.3	-13.1	-15.4
Car Registrations (% yoy)	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6
Building Consents (% mom)	-42.1	-13.2	-1.0	-6.9	8.2	-19.4	3.6	-7.1	-13.2	..
Building Consents (% yoy)	-26.8	-45.8	-34.5	-43.2	-28.5	-42.8	-39.8	-41.4	-51.8	..
REINZ House Price (% yoy)	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	..
Household Lending Growth (% mom)	0.5	0.2	0.3	0.5	0.2	0.1	-0.1	0.2	0.1	..
Household Lending Growth (% yoy)	9.2	8.4	7.7	7.2	6.6	5.8	4.8	4.2	3.8	..
Roy Morgan Consumer Confidence	89.2	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8
NBNZ Business Confidence	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2
NBNZ Own Activity Outlook	-4.4	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1
Trade Balance (\$m)	-169	-215	-797	-848	-1252	-994	-594	-334	-187	..
Trade Balance (\$m annual)	-4782	-4478	-4468	-4369	-5048	-5269	-5235	-5607	-5483	..
ANZ World Commodity Price Index (% mom)	0.9	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	..
ANZ World Commodity Price Index (% yoy)	18.7	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	..
Net Migration (sa)	930	430	750	330	-30	30	-320	240	660	..
Net Migration (annual)	4931	4732	5201	4938	4403	4329	3569	3814	4538	..

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	9-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.553	0.515	0.503	0.450	0.430	0.410	0.420	0.430	0.440	0.460
NZD/AUD	0.816	0.794	0.784	0.776	0.768	0.759	0.778	0.768	0.759	0.767
NZD/EUR	0.417	0.402	0.397	0.375	0.364	0.360	0.382	0.410	0.419	0.438
NZD/JPY	50.0	47.6	49.4	41.0	37.8	35.3	37.0	37.8	39.6	42.3
NZD/GBP	0.382	0.358	0.357	0.341	0.331	0.328	0.336	0.344	0.346	0.354
NZ\$ TWI	54.9	52.3	52.0	47.6	45.8	44.3	46.0	47.3	48.2	50.2
NZ interest rates	Jan-09	Feb-09	9-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	5.12	3.71	3.50	2.50	2.50	2.50	2.50	3.00	4.00	5.00
90 day bill	4.37	3.40	3.16	2.90	2.80	2.80	2.80	3.60	4.60	5.60
10 year bond	4.49	4.53	4.54	4.20	4.20	4.20	4.60	4.90	5.70	5.90
International	Jan-09	Feb-09	9-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	1.40	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	3.33	2.90	2.10	2.30	2.30	2.40	2.60	3.80

KEY RATES

	5 Feb	2 Mar	3 Mar	4 Mar	5 Mar	6 Mar
Official Cash Rate	3.50	3.50	3.50	3.50	3.50	3.50
90 day bank bill	3.51	3.04	3.07	3.13	3.16	3.16
NZGB 07/09	3.16	3.00	3.00	3.01	3.00	3.01
NZGB 11/11	3.45	3.45	3.40	3.41	3.42	3.36
NZGB 04/13	3.86	3.86	3.81	3.83	3.86	3.80
NZGB 12/17	4.54	4.47	4.42	4.49	4.57	4.51
2 year swap	3.36	3.25	3.24	3.27	3.26	3.25
5 year swap	4.04	4.15	4.16	4.17	4.14	4.14
RBNZ TWI	51.7	51.1	51.2	51.3	51.8	51.9
NZD/USD	0.5108	0.4940	0.4948	0.4938	0.4986	0.5018
NZD/AUD	0.7948	0.7788	0.7795	0.7802	0.7810	0.7816
NZD/JPY	45.59	48.22	48.19	48.60	48.89	49.25
NZD/GBP	0.3542	0.3472	0.3518	0.3524	0.3528	0.3539
NZD/EUR	0.3983	0.3926	0.3926	0.3953	0.3976	0.3990
AUD/USD	0.6427	0.6343	0.6348	0.6329	0.6383	0.6420
EUR/USD	1.2826	1.2584	1.2603	1.2493	1.2540	1.2575
USD/JPY	89.26	97.62	97.40	98.43	98.07	98.14
GBP/USD	1.4422	1.4230	1.4064	1.4012	1.4118	1.4178
Oil	40.27	44.15	40.07	41.57	43.60	43.54
Gold	904.00	952.15	923.00	912.65	932.40	935.05
Milk futures (US\$/contract)	83	83	83	83	83	83
Baltic Dry Freight Index	1498	2014	2034	2084	2167	2225

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing

Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody

service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

NEW ZEALAND DISCLAIMER

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

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

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