

# NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

29 November 2010

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## A BUMPY RIDE

### ECONOMIC OVERVIEW

Having our sovereign credit rating placed on negative outlook by Standard & Poor's last week is a timely reminder that the economy faces a multi-year period of deleveraging to get our national balance sheet in order. This will cap our trend rate of growth over a number of years and we refer to it as "grumpy growth". Within the spirit of a subdued five-year prognosis we continue to look for a stronger 2011 with one-offs obviously influential. However, given recent developments, we now expect the RBNZ to resume tightening in Q2. Our shift to a Q2 call (from March) more accurately reflects the risk profile, with more downside factors emerging of late. This week's data is expected to reinforce that the building blocks for a better 2011 are falling into place, although our attention at this stage is more directed at offshore events.

### THE REGIONAL GAP

Our regional output gap measures still show broad-based idle capacity across the regions, with some regional divergences. Of some concern, supply-side capacity within the economy actually went backwards in Q3, with the regional output gap broadly unchanged. While we harbour concerns over demand within the economy we have equal unease over the ability of the supply side of the economy to accommodate a pending cyclical upswing in economic activity when it does eventuate.

### INTEREST RATE STRATEGY

We have changed our view and now expect the RBNZ to wait until June before resuming with rate hikes. While it is clear from what's priced in that the market has been pondering this, the conversation has not yet hit the mainstream, and when it does, interest rate are likely to push lower yet. While markets reacted badly to S&P's announcement that it had put NZ on negative outlook, it is clear from the level of demand for NZGS at last week's bond tender that the market remains comfortable with New Zealand as a credit risk, particularly given what's happening in Europe.

### CURRENCY STRATEGY

The Irish bailout has failed to assure investor concerns that the crisis engulfing the Eurozone could be contained at the River Liffey. Details of the debt financing have emerged this morning, resulting in a short covering rally in the EUR. But we suspect this will be short lived. The focus has quickly shifted to Portugal and Spain, and our bias is for the recent safety bid in the USD to extend as the Eurozone concerns continue to play out. Against this backdrop are geopolitical concerns on the Korean peninsula and Chinese tightening measures which have added to the broader risk unwind. Expect the NZD to remain biased to the downside this week as risk takes a backseat.

## ECONOMIC OVERVIEW

### SUMMARY

Having our sovereign credit rating placed on negative outlook by Standard & Poor's last week is a timely reminder that the economy faces a multi-year period of deleveraging to get our national balance sheet in order. This will cap our trend rate of growth over a number of years and we refer to it as "grumpy growth". Within the spirit of a subdued five-year prognosis we continue to look for a stronger 2011 with one-offs obviously influential. However, given recent developments, we now expect the RBNZ to resume tightening in Q2. Our shift to a Q2 call (from March) more accurately reflects the risk profile, with more downside factors emerging of late. This week's data is expected to reinforce that the building blocks for a better 2011 are falling into place, although our attention at this stage is more directed at offshore events.

### THIS WEEK'S EVENTS

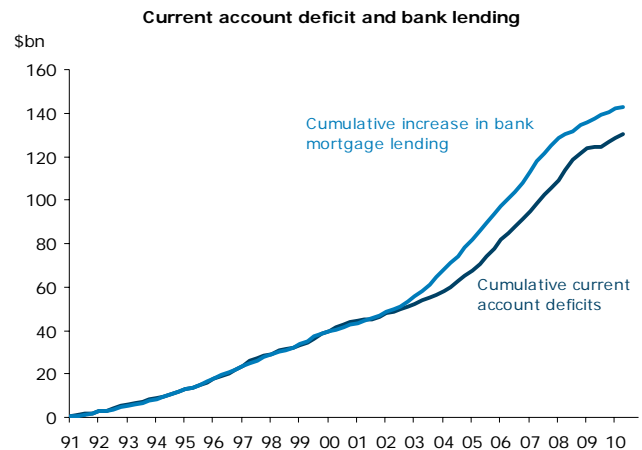
- **National Bank Business Outlook – November** (Monday, November 29, 3:00pm).
- **SNZ Building Consents – October** (Tuesday, November 30, 10:45am). We expect residential consent numbers to be unchanged. The value of non-residential consents is expected to come in at around \$300m.
- **globalDairyTrade online auction** (Wednesday, December 1, 6:00am). Whole milk powder prices are expected to remain around the US \$3,500 per tonne level.
- **ANZ Commodity Price Index - October** (Wednesday, December 1, 3:00pm).

### WHAT'S THE VIEW?

Having our sovereign credit rating being placed on negative outlook by Standard & Poor's last week is a timely reminder that the economy faces a multi-year period of deleveraging to get our national balance sheet in order. Like most, we were somewhat taken by surprise by the action. After all, S&P took New Zealand off negative outlook in May 2009, and in September noted that the Canterbury earthquake will not affect the country's ratings. The decision also seems harsh when you look at New Zealand's fiscal position vis-à-vis global peers. But as S&P note, the problem is the external position, and most forecasters – including ourselves, the RBNZ and Treasury - have it deteriorating from this point.

In their submission to the Savings Working Group, the RBNZ noted "no one is quite sure how much vulnerability a net international investment position

(NIIP) of around 90 percent of GDP implies. But we are not aware of any other advanced country having a NIIP position that high in modern times, without some fairly difficult subsequent transitions". Associated imbalances and high external debt cannot be fixed overnight. **The message is simple: brace for a bumpy ride ahead.**



**The economic consequences of S&P's action is trivial.** AA+ versus AA is within the margins of excellence when it comes to the cost of funding. The NZD/USD has fallen but this mostly reflects movements in the latter beyond the immediate reaction on the day. The NZD/AUD was down over a cent last week, implying some NZD specifics, but positioning and flows could easily account for this. Both have helped to ease financial conditions. The NZD/EUR has been broadly unchanged, with sovereign debt concerns weighing on the euro. **The real issue with the S&P announcement is around the timing.** It is far from ideal when you consider what is going on across Europe, with global investors looking for points of differentiation and creditworthiness.

**The Government faces more pressure to present a responsible fiscal message in the upcoming Half Year Economic and Fiscal Update and Budget Policy Statement** (read: make sure they keep to their tight spending script) **without undermining the recovery** (read: tighten policy too much). In practice this is like getting stuck between the proverbial rock and a hard place, with 2011 being an election year.

**We continue to express a similar view to S&P. Repairing our national balance sheet is expected to contribute to a lower trend growth rate over a number of years – a dynamic we refer to as "grumpy growth".** There will be growth but not at the rate we've been used to, or in

## ECONOMIC OVERVIEW

the areas that have tended to drive growth in the past. Current weakness in housing and retailing are two obvious examples of the transition in growth away from the spending side of the economy, with historically high commodity export prices holding the prospect of the earning side of the economy driving things forward. Today's large annual trade surplus is a sign of the adjustment underway, but there is a long journey ahead. Strictly speaking, S&P's decision and comments are nothing new in terms of the spirit of what we've been saying. But it is a timely reminder that we need to adjust, either voluntarily or otherwise. So grumpy growth, and our bathtub with waves (a few ups and downs) remain the spirit of our economic assessment.

### **Given recent developments, we now expect the RBNZ to hike again in Q2 (previously March).**

Risks to the global economy are intensifying. The US looks to be stabilising, but Europe faces enormous challenges and growth in Asia (ex-China) slowed sharply in Q3 (see table below). China looks to be taking a more proactive inflationary stance, though this means taking growth from a gallop to a canter. The domestic economy in Australia is slowing as well in response to the RBA rate hikes this year. Locally, domestic demand – the pocket most influenced by the RBNZ - remains very weak. If anecdotes and the degree of retail discounting are anything to go by, the hard data outturns (which lag anecdotes by 1-2 months) are going to show the same into at least December and January. Anecdotes from our travels around the country suggest the economy is not moving with any great impetus or underlying momentum. Some of this reflects the culmination of niggly factors such as a lower lamb kill, PSA, a cruel turn in climatic conditions from being too wet to now too dry, and slightly longer lags associated with reconstruction-related activity in Christchurch.

GDP QOQ	Q4'09	Q1'10	Q2'10	Q3'10
Hong Kong	2.4	2.1	1.4	0.7
Indonesia	1.7	1.3	1.6	1.1
Malaysia	3.0	1.6	1.6	-1.0
Philippines	1.7	3.8	1.4	-0.5
Singapore	-0.2	9.9	6.2	-5.1
Taiwan	4.3	4.1	0.5	0.0
Thailand	3.8	3.6	-0.6	-0.2

Source: Bloomberg, ANZ, National Bank

**It is far from one-way traffic in recent developments.** We see momentum starting to recover nicely in the United States – though sporadically and off lows. China is still growing at 9.6 percent! Ironically, problems in Europe are helping to

weaken the NZD/USD with the correlations to the EUR/USD strong. Commodity price gains for NZ.Inc are remarkably good, though once again our travels are failing to detect any appetite to express this via opening the cheque-book, with farm values still under downward pressure. But at least high commodity prices are helping to offset lower agricultural production volumes. And we should not forget the fact that the OCR is still remarkably low.

### **The market will remain very sensitive to data surprises and the outlook looks balanced relative to market pricing.**

Any remaining prospects for a March hike stem largely from the potential for a Q4 inflation surprise while the Q4 employment (HLFS) result due in February could deliver anything!<sup>1</sup> Receding pricing intentions post GST, rising numbers of people on the unemployment benefit (seasonally adjusted) and downside risks around both Q3 and Q4 GDP provide strong counters.

### **Resuming the policy tightening in Q2 as opposed to Q1 more accurately reflects the risk profile.**

We wouldn't dogmatically rule out a March move and neither will the RBNZ in their December Monetary Policy Statement. But building global sovereign risk dynamics – there is a huge funding requirement for 2011 - could arguably also have the RBNZ on hold for more of 2011.

### **Q2 seems a pragmatic position to take at present, with a number of ducks needing to line up,**

including no major offshore dramas, signs of better confidence manifesting in the hard data and actual decisions, and clear signs that housing activity has turned the corner. This is **possible, but it is not the central scenario at present.** Changing our view prior to a RBNZ Monetary Policy Statement obviously risks having those who ultimately make the OCR decision expressing a counter view. But with so many conflicting signals around, we don't think the hurdle for resuming OCR hikes will have been cleared by March 10 next year.

### **Looking to the week ahead, this afternoon sees the release of the National Bank Business Outlook for November.**

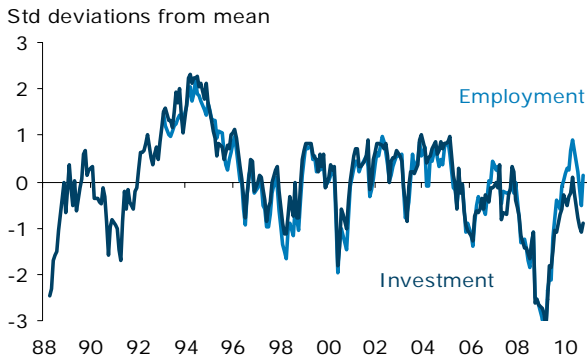
We will not comment on this here, suffice to say that we will be looking closely at the employment and investment intentions components which will provide us with some guidance on prospects for next year. Confidence turned the corner two months ago but the telling factor will be whether this manifests in actual decisions. The earliest we are likely to see this is in January/February next year. **A key problem the**

<sup>1</sup>The past four unemployment readings have been 7.1, 6, 6.8 and 6.8 percent.

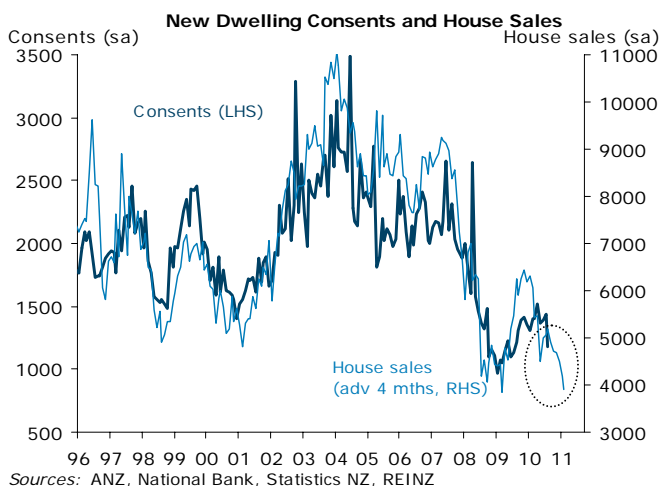
## ECONOMIC OVERVIEW

economy faces at present is not confidence itself – which is actually not bad - but the preparedness to act on it. This is where the global scene and niggly factors we described earlier are playing havoc. Businesses want to see stability over 3 to 5 months. We seem to get 2 or 3, and then all bets are off!

### Employment and Investment intentions

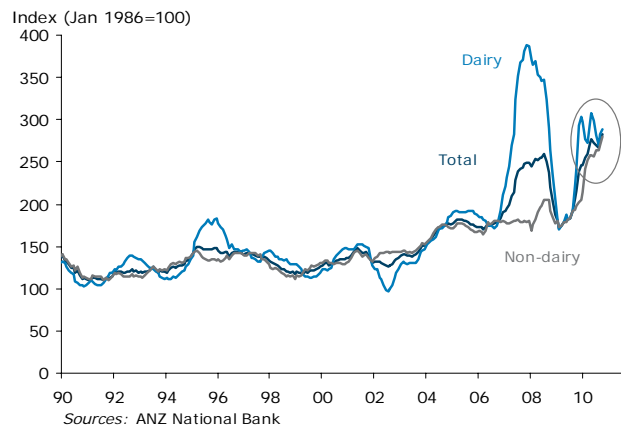


Dwelling consent issuance is expected to reflect the subdued state of the housing market. We expect the number of dwelling consents to be broadly unchanged from weak September levels. Very low house sales imply continued weakness in consent issuance over the next few months. There was no evidence of a beat-the-GST-rise spike in September dwelling consent issuance, which fell by 2.6 percent (s.a.) on an ex-apartment basis. The fall was 2.4 percent (s.a.) outside of the Canterbury region, suggesting earthquake disruptions had a minimal impact. We think an earthquake-related bounce in new dwelling consent issuance is likely to be a few months away yet. Non-residential consent values are expected to ease back to around \$300m, although the trend remains one of gradual improvement.



Wednesday returns the focus to the earning side of the economy. We expect the twice-monthly *globalDairyTrade* online auction to show whole milk powder prices continuing to hover around US \$3,500 per tonne. The ANZ Commodity Price Index for November follows at 3pm. **One of the key take-outs over the last few months has been a broadening in commodity export price strength.** A greater dispersion of the commodity price windfall can only be a positive development for firing up the income - generating side of the economy. Not everyone has a balance sheet in need of serious repair. Eventually this income boost will flow into the general economy, but this is likely to occur later in 2011 than we had thought a few months ago.

### NZ Commodity Price Indices (world currency terms)



Overseas developments take centre stage this week. Our Australian colleagues are expecting a broadly flat result for Q3 Australian GDP, which is likely to keep the RBA on the sidelines well into 2011. The ISM manufacturing gauge and payrolls data headline this week's US data, with both expected to highlight improvement in the world's largest economy. With momentum in our part of the world slowing, geopolitical tensions evident, sovereign debt concerns in Europe but activity in the US starting to pick up, the next few months will be a bumpy ride.

### RECENT LOCAL DATA

- **SNZ Merchandise Trade – October.** A monthly trade deficit of \$319m was registered, with the annual surplus widening to \$1,176m.
- **SNZ International Travel and Migration – October.** A net inflow of 680 persons (s.a.) was recorded (12,610 for the year to October). Overseas visitor arrivals fell 2.0 percent (s.a.).
- **RBNZ Survey of Expectations – Q4.** One-year-ahead inflation eased from 3.9 to 3.4 percent. Two-year-ahead expectations of CPI inflation ticked up from 2.57 to 2.6 percent.

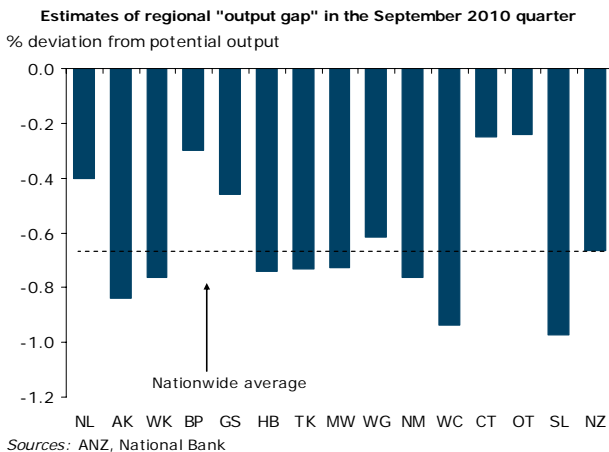
# THE REGIONAL GAP

## SUMMARY

Our regional output gap measures still show broad-based idle capacity across the regions, with some regional divergences. Of some concern, supply-side capacity within the economy actually went backwards in Q3, with the regional output gap broadly unchanged. While we harbour concerns over demand within the economy we have equal unease over the ability of the supply side of the economy to accommodate a pending cyclical upswing in economic activity when it does eventuate.

## THE REGIONAL GAP

We present our updated regional output gap measures for the September 2010 quarter.<sup>2</sup> **The regional measures provide us with a richer picture of how geographically concentrated nationwide trends are.** Regional measures are prone to a larger degree of uncertainty compared to nationwide data. But it is the broad trends and the regional variations that are the main focus.



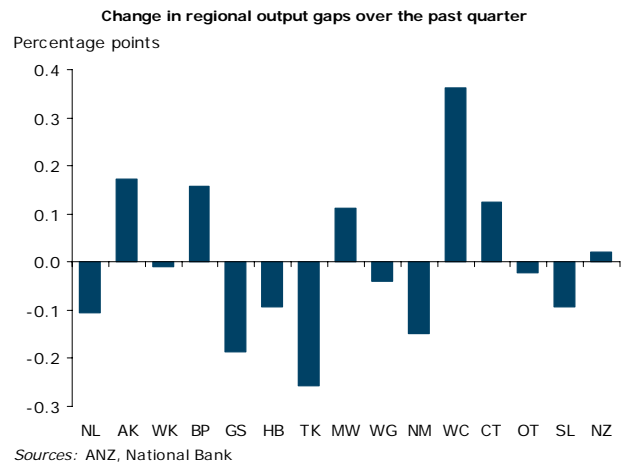
Key points from the updated analysis are:

- **There is still broad-based idle capacity across the regions.** All regions continued to experience a fairly sizeable negative output gap for the eighth consecutive quarter. Auckland, the West Coast

<sup>2</sup> Our regional output gap estimates are generated using economic activity data from the National Bank Regional Trends, unemployment rates from Statistics NZ's HLFS, and capacity utilization measures from the National Bank *Business Outlook* survey. We chose a broad approach for two reasons. First, it minimises some of the error that typically surrounds statistics at the regional level. Second, the RBNZ uses a similar combination to derive its multivariate filter measure of the output gap for the entire economy. For the unemployment rate, activity, and surveyed Capacity utilization, we use a band-pass filter to derive trend estimates. The regional unemployment rates are advanced two quarters prior to filtering as this is a lagging indicator. Individual activity, unemployment and capacity utilisation gaps for each region are then given an equal weighting.

and Southland are the regions with the largest negative output gap. Regions with the smallest negative output gap are the Bay of Plenty, Otago and Canterbury.

- **Nine regions experienced a more negative output gap.** Economic activity in these regions either fell or registered low quarterly growth rates. Taranaki and Gisborne fall into this category.
- **Five regions reported a less negative output gap.** This is a mixture of news. On the positive side, activity in Manawatu/Whanganui and the West Coast posted solid quarterly growth. Conversely, truncated supply-side capacity appeared to be partly responsible for narrowing output gaps in Canterbury and Auckland.
- **At the nationwide level the negative output gap barely moved despite regional output declining 0.2 percent.** This implies that the supply-side of the economy is falling, hardly a promising sign for a strong cyclical upswing.



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

## THE UPSHOT

**There is still spare capacity across the economy.** Of concern is the fact that supply-side capacity within the economy is barely growing. Some of this is likely to have been temporary, with the narrowing in the Canterbury gap partly the consequence of the earthquakes impact on supply-side capacity. With business investment now recovering there are hopes that supply-side capacity will pick-up. Given that the rebound in business investment is still quite muted, a major risk is that limited supply-side capacity will result in strengthening demand from 2011 being more evident in the inflation side of the economy. We will continue to closely monitor inflation measures and business surveys for evidence of this occurring.

# INTEREST RATE STRATEGY

## SUMMARY

We have changed our view and now expect the RBNZ to wait until June before resuming with rate hikes. While it is clear from what's priced in that the market has been pondering this, the conversation has not yet hit the mainstream, and when it does, interest rate are likely to push lower yet. While markets reacted badly to S&P's announcement that it had put NZ on negative outlook, it is clear from the level of demand for NZGS at last week's bond tender that the market remains comfortable with New Zealand as a credit risk, particularly given what's happening in Europe.

## MARKET THEMES

- Market pricing has changed markedly, with the resumption of the rate hike cycle now expected to occur in June, as opposed to a toss up between March and April, as it was last week. We concur.
- US 10yr Treasury bonds have settled into a new trading range just below 3%, protected on the top side by Fed buying and safe haven demand, and on the downside by inflation fears.

## REVIEW AND OUTLOOK

Two things dominated interest rate markets last week – Standard and Poor's announcement that it had placed New Zealand on negative outlook; and the Irish government debt bailout. Neither was a positive development, but both should be put in perspective. While it's obviously not great to be put on negative outlook, it's a lot better than being put on CreditWatch negative, as some in the market seemed to think had occurred. Indeed, **being placed on negative outlook is subjective and we may be on negative outlook for many months**, as we were for 18 months between September 1998 and March 2001 (with no downgrade). By contrast, S&P state that around two-thirds of entities placed on CreditWatch negative get downgraded within one month. So **there is a difference, and with the fiscal purse strings likely to be tightened further in a bid to maintain our rating, more of the burden will fall on monetary policy, and that means less scope for rate rises.**

With regard to Ireland, **we doubt New Zealand will get tarred with the same brush.** We do face challenges, but there are key differences, most importantly our relatively low levels of government debt and healthy banking sector. We were therefore not surprised to see good demand at last week's NZGS bond tender, which we regard as a credible sign of strength. Is NZ a safe haven? Probably not, but we're in relatively good shape.

Looking ahead though, **outright direction is likely to be to the downside, with the market focussed on the significant positive roll and carry available at the short end.** We expect this to be provocative given the likely subdued tone of data as we approach Christmas.

## PREFERRED BORROWING STRATEGIES

With rates set to drift lower at the short end, the curve will steepen, making it even more expensive to put forward cover in place. Given the extent to which the long end has already moved higher, the focus will inevitably shift to the short end. We don't see value here at this stage, but this will change if the market overshoots. For those who have shared our view, and added long term cover during the pre-QE rally, adding short end cover at lower levels will complement hedge portfolios well. For those without cover, our preferred strategy is to be patient.

## GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔/↓	Rate hikes not expected to resume till June at earliest.
NZ data	↔/↓	Data flow has been light, but as we look ahead we wonder when things will improve.
Fed Funds / front end	↔	Inflation data has justified QE. Fed minutes dovish.
RBA	↔/↓	Rates at "appropriate setting for the period ahead".
US 10 year	↔/↑	Volatile, and likely to remain that way. Inflation a threat.
NZ swap curve	↔/↑	Will continue to steepen as short end rallies.
Flow	↔/↑	Few receivers down here, for now anyway.
Technicals	↔/↑	Sustained break of 3.90% in 2yr needed to get bullish.

## MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 9-Dec-10	+0	+0
Thu 27-Jan-11	+4	+2
Thu 10-Mar-11	+12	+7
Thu 28-Apr-11	+33	+20
Thu 9-Jun-11	+43	+29
Thu 28-Jul-11	+57	+41
Thu 15-Sep-11	+68	+54

## TRADING THEMES WE FAVOUR AT PRESENT

Given our view change, we now see scope for the 2yr swap to rally another 10-15bps, with scope to extend further as momentum gathers, and as investors focus on roll and carry. With US rates stable, we should see a classic bull steepening.

# CURRENCY STRATEGY

## SUMMARY

The Irish bailout has failed to assure investor concerns that the crisis engulfing the Eurozone could be contained at the River Liffey. Details of the debt financing have emerged this morning, resulting in a short covering rally in the EUR. But we suspect this will be short lived. The focus has quickly shifted to Portugal and Spain, and our bias is for the recent safety bid in the USD to extend as the Eurozone concerns continue to play out. Against this backdrop are geopolitical concerns on the Korean peninsula and Chinese tightening measures which have added to the broader risk unwind. Expect the NZD to remain biased to the downside this week as risk takes a backseat.

## MARKET THEMES

- EUR remains under pressure as sovereign debt crisis stays in the headlines.
- North Korean sabre rattling sees risk aversion spike and safety bidding in USD's.
- Commodity prices under pressure as Chinese authorities tighten liquidity measures.
- S&P places NZ's rating on negative outlook, but more important drivers currently dominate.

## REVIEW AND OUTLOOK

**Our bias is for the recent USD strength trend to extend in the short-term.** The EUR closed last week below key uptrend support at 1.3240, and now appears vulnerable to a deeper correction with initial support at the 200 day moving average level of 1.3133, with a break lower targeting 1.2850 increasingly likely. Geopolitical tensions in Korea add to the favourable backdrop for the USD as risk is unwound. **Overall, we expect elevated volatility across currency markets this week as tensions across the Eurozone and Korea play out.**

The surprise S&P decision to put NZ's AA+ rating on negative outlook saw a short-lived sell off across NZD crosses. But with bigger drivers at play, the NZD took a backseat to global developments. **We expect the NZD to remain under pressure this week given the less supportive global backdrop.** We see the break of key uptrend support at 0.7620 as significant and this should now act as strong resistance on the week. Exporter and corporate demand should emerge at 0.7410, with a move to the 100 day moving average of 0.7385 likely to prove very strong support on the week.

The NZD/AUD survived another test of support last week post the S&P announcement, holding the 0.7725 level (55 day moving average). We suspect

the market is short on this cross, and the failure to break the 0.7725 pivot level will frustrate weaker shorts. A corrective bounce towards 0.7825 resistance looks increasingly likely, but important Australian data points will prove key for direction this week, with Q3 GDP on Wednesday and October retail sales out on Thursday.

**Overall, expect another week of elevated volatility with risk aversion and further USD bidding the dominant theme.**

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔	Close to fair value.
Yield	↔/↓	Yields less supportive as NZ growth prospects soften.
Commodities	↔/↓	Hard commodities leading softs lower.
Partial indicators	↑	Downside risk to Australian data this week.
Technicals	↑	Pivot base at 0.7725 holding for now.
Sentiment	↔/↑	Short-term favours a bounce.
Other	↑	At historically low levels.
<b>On balance</b>	↑	<b>0.7725 - 0.7820 range to play out.</b>

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↔/↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Higher US bond yields whereas NZ's turn lower.
Commodities	↓	Soft commodities retain recent weakness.
Risk aversion	↓	Elevated on Korean concerns.
Partial indicators	↔/↓	US data has been getting better.
Technicals	↓	Broken below key 0.7620 support, lower levels beckon.
AUD	↓	AUD sentiment turned bearish.
Sentiment	↓	Softer tone due to external factors.
Other	↓	USD correction is under way.
<b>On balance</b>	↓	<b>Sell rallies as USD strength extends.</b>

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
29-Nov	NZ	Trade Balance - OCT	-400M	-532M	10:45
	NZ	NZ Trade Balance 12 Mth YTD - OCT	979.5	921	10:45
	NZ	Exports – OCT	3.31B	3.16B	10:45
	NZ	Imports – OCT	3.78B	3.69B	10:45
	JN	Retail Trade MoM SA - OCT	-0.70%	-3.00%	12:50
	JN	Retail Trade YoY - OCT	0.70%	1.20%	12:50
	AU	HIA New Home Sales (MoM) - OCT	- -	0.60%	13:00
	UK	Hometrack Housing Survey (MoM) - NOV	- -	-0.90%	13:01
	AU	Company Operating Profit QoQ% - 3Q	4.00%	18.90%	13:30
	AU	Inventories - 3Q	0.40%	-0.50%	13:30
	NZ	NBNZ Activity Outlook - NOV	- -	30.5	15:00
	NZ	NBNZ Business Confidence - NOV	- -	23.7	15:00
	NZ	Money Supply M3 YoY - OCT	- -	- -	15:00
	UK	Mortgage Approvals - OCT	47.0K	47.5K	22:30
	UK	M4 Money Supply (YoY) - OCT	- -	1.00%	22:30
	EC	Euro-Zone Consumer Confidence - NOV F	-10	-10	23:00
	EC	Euro-Zone Economic Confidence - NOV	105	104.1	23:00
	EC	Euro-Zone Indust. Confidence - NOV	2	0	23:00
	EC	Euro-zone Services Confidence - NOV	9	8	23:00
30-Nov	EC	European Commission GDP Forecasts - NOV			00:00
	US	Dallas Fed Manf. Activity - NOV	3	2.6	04:30
	NZ	Building Permits MoM - OCT	1.40%	0.50%	10:45
	JN	Nomura/JMMA Manufacturing PMI - NOV	- -	47.2	12:15
	JN	Jobless Rate – OCT	5.00%	5.00%	12:30
	AU	RP Data-Rismark Med Val (MoM) - OCT	- -	0.40%	12:30
	JN	Industrial Production YOY% - OCT P	3.10%	11.50%	12:50
	UK	GfK Consumer Confidence Survey - NOV	-19	-19	13:01
	AU	Building Approvals (YoY) - OCT	-8.50%	-11.60%	13:30
	AU	Current Account Balance - 3Q	-6600M	-5640M	13:30
	AU	Australia Net Exports of GDP - 3Q	-0.8	0.4	13:30
	AU	Private Sector Credit MoM% - OCT	0.20%	0.10%	13:30
	JN	Labor Cash Earnings YoY - OCT	0.70%	0.90%	14:30
	JN	Vehicle Production (YoY) - OCT	- -	11.40%	17:00
	JN	Construction Orders (YoY) - OCT	- -	-15.00%	18:00
	GE	Unemployment Change (000's) - NOV	-20K	-3K	21:55
	GE	Unemployment Rate (s.a) - NOV	7.50%	7.50%	21:55
	EC	Euro-Zone CPI Estimate (YoY) - NOV	1.90%	1.90%	23:00
	EC	Euro-Zone Unemployment Rate - OCT	10.10%	10.10%	23:00
1-Dec	US	S&P/CS 20 City MoM% SA - SEP	-0.40%	-0.28%	03:00
	US	S&P/CS Composite-20 YoY - SEP	1.00%	1.70%	03:00
	US	Chicago Purchasing Manager - NOV	60	60.6	03:45
	US	Consumer Confidence - NOV	52.6	50.2	04:00
	US	NAPM-Milwaukee - NOV	- -	56	04:00
	AU	AiG Performance of Mfg Index - NOV	- -	49.4	11:30
	AU	Gross Domestic Product (QoQ) - 3Q	0.50%	1.20%	13:30
	AU	Gross Domestic Product (YoY) - 3Q	3.40%	3.30%	13:30
	CH	PMI Manufacturing - NOV	- -	+3.5%	14:00
	NZ	ANZ Commodity Price - NOV	54.8	54.7	15:00

Continued on following page

## DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
1-Dec	CH	HSBC Manufacturing PMI - NOV	55.4	54.8	15:30
	JN	Vehicle Sales (YoY) - NOV	-	-26.70%	18:00
	AU	RBA Commodity Index SDR YoY% - NOV	-	46.00%	18:30
	AU	RBA Commodity Price Index Au - NOV	-	92.2	19:30
	GE	Retail Sales (MoM) – OCT	1.20%	-2.30%	20:00
	GE	Retail Sales (YoY) – OCT	1.30%	0.40%	20:00
	UK	Nat'wide House prices nsa(YoY) - NOV	0.50%	1.40%	20:00
	GE	PMI Manufacturing – NOV F	58.9	58.9	21:55
	EC	PMI Manufacturing – NOV F	55.5	55.5	22:00
	UK	PMI Manufacturing – NOV	54.7	54.9	22:30
2-Dec	US	Challenger Job Cuts YoY - NOV	-	-31.80%	01:30
	US	ADP Employment Change - NOV	65K	43K	02:15
	US	Nonfarm Productivity – 3Q F	2.30%	1.90%	02:30
	US	Unit Labor Costs - 3Q F	-0.20%	-0.10%	02:30
	US	ISM Manufacturing – NOV	56.5	56.9	04:00
	US	ISM Prices Paid – NOV	71	71	04:00
	US	Construction Spending MoM - OCT	-0.40%	0.50%	04:00
	US	Fed's Beige Book – Dec 1			08:00
	AU	Trade Balance – OCT	2000M	1760M	13:30
	AU	Retail Sales s.a. (MoM) - OCT	0.40%	0.30%	13:30
	UK	PMI Construction – NOV	51.3	51.6	22:30
	EC	Euro-Zone GDP s.a. (QoQ) - 3Q P	0.40%	0.40%	23:00
	EC	Euro-Zone GDP s.a. (YoY) - 3Q P	1.90%	1.90%	23:00
	EC	Euro-Zone PPI (YoY) - OCT	4.30%	4.20%	23:00
3-Dec	EC	ECB Announces Interest Rates	1.00%	1.00%	01:45
	US	ICSC Chain Store Sales YoY - NOV	-	1.60%	/2010
	US	Initial Jobless Claims – Nov27	425K	407K	02:30
	US	Continuing Claims – Nov 20	4200K	4182K	02:30
	US	Pending Home Sales MoM - OCT	-1.00%	-1.80%	04:00
	AU	AiG Performance of Service Index - NOV	-	50.7	11:30
	CH	China Non-manufacturing PMI - NOV	-	60.5	14:00
	CH	China HSBC Services PMI - NOV	-	56.4	15:30
	GE	PMI Services - NOV F	58.6	58.6	21:55
	EC	PMI Composite - NOV F	55.4	55.4	22:00
	EC	PMI Services - NOV F	55.2	55.2	22:00
	UK	PMI Services – NOV	53.2	53.2	22:30
	EC	Euro-Zone Retail Sales (MoM) - OCT	0.20%	-0.20%	23:00
	EC	Euro-Zone Retail Sales (YoY) - OCT	1.00%	1.10%	23:00
4-Dec	US	Change in Nonfarm Payrolls - NOV	145K	151K	02:30
	US	Change in Private Payrolls - NOV	155K	159K	02:30
	US	Change in Manufact. Payrolls - NOV	1K	-7K	02:30
	US	Unemployment Rate – NOV	9.60%	9.60%	02:30
	US	Avg Hourly Earning MOM All Emp - NOV	0.20%	0.20%	02:30
	US	Avg Hourly Earning YOY All Emp - NOV	1.70%	1.70%	02:30
	US	Avg Weekly Hours All Employees - NOV	34.3	34.3	02:30
	US	ISM Non-Manf. Composite - NOV	54.8	54.3	04:00
	US	Factory Orders – OCT	-1.10%	2.10%	04:00

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

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

Note: All surveys are preliminary and subject to change.



## LOCAL DATA WATCH

**Key focus over the next few weeks:** Last week's announcement by Standard & Poor's was a timely reminder of the need for the New Zealand economy to rebalance. This week's data will provide an update on export prices and activity which are a key ingredient in the rotation of the economy towards being more income driven. Next week sees the release of inputs for Q3 GDP, with the December MPS presenting a downbeat outlook for domestic spending, with the OCR on hold. A key focus for December will also be the Treasury's HYEPU, which will present a responsible fiscal message. We continue to watch the soft gauges for signs of direction, with the November National Bank Business helping to provide an insight into the duration of the recovery and whether the high NZD/USD is having an impact on sentiment.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 29 Nov (3:00pm)	National Bank Business Outlook	- -	- -
Tue 30 Nov (10:45am)	Building Consents – Oct	Up	Support from earthquake related alterations and additions. Low house sales figures and higher GST suggest a fall in residential issuance.
Wed 1 Dec (6:00am)	<i>globalDairyTrade</i> online auction	Holding	Contract prices for whole milk powder are expected to average around US \$3,500 per tonne.
Wed 1 Dec (3:00pm)	ANZ Commodity Price Index - Nov	- -	- -
Tue 7 Dec (10:45am)	Wholesale Trade Survey- Q3	Rising	We expect a 2 percent increase in operating income underpinned by higher primary wholesale trade. A more sedate increase is expected from wholesale volumes.
Wed 8 Dec (10:45am)	Work Put in Place- Q3	Lower	We expect up to a 5 percent fall in the volume of residential work, to be partly offset by higher non-residential volumes.
Wed 8 Dec (10:45am)	Economic Survey of Manufacturing – Q3	Rebound	A 3 percent rebound in ex-primary manufacturing volumes is expected, with a small increase for primary manufacturing.
Thur 9 Dec (9:00am)	December MPS	On hold	The RBNZ are expected to affirm their downbeat message for domestic spending. However, they are likely to reiterate that the OCR is still going up "at some stage".
Thur 9 Dec (10:45am)	Electronic Card Transactions – Nov	Crawling up	We expect a small increase in retail related ECT spending.
Fri 9 Dec (10:45am)	Overseas Trade Indexes- Q3	Purchasing power rising	The terms of trade will rise by around 3 percent. A larger fall in export volumes is expected due to weaker primary sector exports. Rising capital good imports are a positive sign for 2011.
Mon 13 Dec (10:45am)	Food Price Index - Nov	Rising	We expect a small increase. Lower prices for fresh fruit and vegetables to be offset by higher prices for meat and dairy.
Tue 14 Dec (10:00am)	REINZ Housing Market Data - Nov	Weak	A small increase in sales from historically low levels is expected. Prices are expected to continue their downward trend.
Tue 14 Dec	Half Year Economic and Fiscal Update	Hard yards	More of the budget deficit appears structural implying a harder road ahead to return the public finances to a stronger position.
Tue 14 Dec (10:45am)	Retail Trade Survey - Oct	Post GST blues	We expect a monthly fall in values of around 1.5 percent.
Wed 15 Dec (6:00am)	<i>globalDairyTrade</i> online auction	Holding	Contract prices for whole milk powder are expected to average around US \$3,500 per tonne.
<b>On Balance</b>			<b>Data for Q3 still looking subdued but we will be looking for an improving tone over Q4.</b>

## KEY FORECASTS AND RATES

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.2	1.0	0.5	0.2	<b>0.4</b>	<b>0.5</b>	<b>1.2</b>	<b>1.4</b>	<b>1.6</b>	<b>0.5</b>
GDP (% yoy)	-1.6	0.5	1.9	1.9	<b>2.1</b>	<b>1.6</b>	<b>2.3</b>	<b>3.5</b>	<b>4.8</b>	<b>4.8</b>
CPI (% qoq)	1.3	-0.2	0.4	0.2	1.1	<b>2.4</b>	<b>0.6</b>	<b>1.0</b>	<b>0.8</b>	<b>0.5</b>
CPI (% yoy)	1.7	2.0	2.0	1.7	1.5	<b>4.1</b>	<b>4.4</b>	<b>5.2</b>	<b>4.9</b>	<b>2.9</b>
Employment (% qoq)	-0.8	0.0	1.0	-0.2	1.0	<b>0.3</b>	<b>0.5</b>	<b>0.7</b>	<b>0.6</b>	<b>0.4</b>
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	1.8	<b>2.1</b>	<b>1.7</b>	<b>2.5</b>	<b>2.1</b>	<b>2.2</b>
Unemployment Rate (% sa)	6.5	7.1	6.0	6.9	6.4	<b>6.3</b>	<b>6.2</b>	<b>5.8</b>	<b>5.6</b>	<b>5.5</b>
Current Account (% GDP)	-3.2	-2.8	-2.4	-3.0	<b>-3.7</b>	<b>-3.0</b>	<b>-3.1</b>	<b>-3.0</b>	<b>-3.1</b>	<b>-3.1</b>
Terms of Trade (% qoq)	-1.6	5.8	6.1	2.0	<b>3.0</b>	<b>0.9</b>	<b>-0.6</b>	<b>-0.6</b>	<b>0.0</b>	<b>-0.9</b>
Terms of Trade (% yoy)	-14.1	-8.2	0.1	12.7	<b>17.9</b>	<b>12.4</b>	<b>5.4</b>	<b>2.6</b>	<b>-0.3</b>	<b>-2.1</b>

	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10
Retail sales (% mom)	-0.6	0.5	-0.4	0.4	1.0	-0.5	0.0	1.6	..	..
Retail sales (% yoy)	2.4	4.4	2.7	1.9	3.4	2.2	2.3	4.4	..	..
Credit Card Billings (% mom)	-0.2	0.9	-1.6	1.9	1.0	-1.1	0.8	0.9	0.6	..
Credit Card Billings (% yoy)	1.1	5.2	0.8	3.5	4.4	2.8	2.1	4.2	4.6	..
Car registrations (% mom)	0.6	4.9	3.1	-4.0	5.6	-6.4	-0.2	2.3	-4.1	..
Car registrations (% yoy)	31.4	31.7	40.5	30.5	35.8	16.0	19.0	19.2	9.4	..
Building consents (% mom)	6.6	0.1	8.4	-10.1	2.0	3.0	-17.9	0.6	..	..
Building consents (% yoy)	29.9	32.7	32.6	11.5	26.6	26.1	-3.1	-9.5	..	..
REINZ House Price (% yoy)	6.1	7.6	4.7	3.7	3.7	2.6	0.9	0.0	-1.4	..
Household Lending Growth (% mom)	0.2	0.0	0.2	0.2	0.2	0.2	0.1	0.2	..	..
Household Lending Growth (% yoy)	2.9	2.9	2.8	2.6	2.6	2.5	2.3	2.3	..	..
ANZ Roy Morgan Consumer Confidence	123.6	121.8	121.9	126.0	122.0	115.6	116.3	116.4	113.6	114.5
NBNZ Business Confidence	50.1	42.5	49.5	48.2	40.2	27.9	16.4	13.5	23.7	..
NBNZ Own Activity Outlook	41.9	38.6	43.0	45.3	38.5	32.4	25.7	26.7	30.5	..
Trade Balance (\$m)	328	608	660	770	221	-182	-413	-532	-319	..
Trade Balance (\$m ann)	-330	-160	178	41	593	589	892	921	1,174	..
ANZ World Commodity Price Index (% mom)	3.7	1.8	5.1	1.2	-1.6	-0.8	-1.4	2.8	3.5	..
ANZ World Commodity Price Index (% yoy)	48.6	49.5	53.2	51.8	50.1	47.3	38.6	32.9	31.4	..
Net migration (sa)	1000	950	750	330	230	900	850	1040	680	..
Net migration (annual)	21618	20973	19954	17967	16504	15221	14507	13914	12610	..

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

## KEY MARKET FORECASTS AND RATES

FX RATES	ACTUAL			FORECAST (END MONTH)						
	Sep-10	Oct-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.734	0.752	0.752	0.72	0.72	0.73	0.74	0.72	0.71	0.70
NZD/AUD	0.759	0.770	0.778	0.76	0.77	0.75	0.74	0.74	0.74	0.74
NZD/EUR	0.539	0.540	0.566	0.51	0.51	0.52	0.51	0.51	0.51	0.51
NZD/JPY	61.33	62.38	62.94	57.6	56.2	55.1	55.5	56.5	56.8	57.4
NZD/GBP	0.467	0.474	0.481	0.46	0.45	0.46	0.46	0.45	0.44	0.44
NZ\$ TWI	66.3	67.0	68.1	64.1	63.7	64.1	63.8	63.5	63.0	63.0
INTEREST RATES	Sep-10	Oct-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.00	3.00	3.25	3.75	4.00	4.25	4.50
NZ 90 day bill	3.17	3.19	3.20	3.20	3.20	3.70	4.20	4.30	4.70	4.80
NZ 10-yr bond	5.01	5.24	5.65	5.60	5.60	5.90	5.90	5.90	5.80	5.80
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75
US 3-mth	0.29	0.29	0.29	0.35	0.35	0.35	0.35	0.35	0.35	0.85
AU Cash Rate	4.50	4.50	4.75	4.75	4.75	5.00	5.25	5.50	5.75	5.75
AU 3-mth	5.01	4.87	5.06	5.00	5.10	5.20	5.50	5.70	6.00	6.00

	26 Oct	22 Nov	23 Nov	24 Nov	25 Nov	26 Nov
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.17	3.17	3.16	3.17	3.18	3.18
NZGB 11/11	3.93	4.29	4.27	4.25	4.23	4.18
NZGB 04/13	4.41	4.90	4.89	4.87	4.85	4.80
NZGB 12/17	5.01	5.59	5.58	5.58	5.56	5.52
NZGB 05/21	5.12	5.74	5.73	5.73	5.70	5.66
2 year swap	3.79	3.98	3.92	3.90	3.93	3.91
5 year swap	4.36	4.83	4.75	4.71	4.75	4.74
RBNZ TWI	66.6	69.1	69.0	68.7	68.4	68.7
NZD/USD	0.7522	0.7748	0.7696	0.7625	0.7574	0.7593
NZD/AUD	0.7601	0.7803	0.7806	0.7786	0.7750	0.7789
NZD/JPY	60.76	64.64	64.14	63.45	63.24	63.61
NZD/GBP	0.4783	0.4839	0.4829	0.4815	0.4806	0.4821
NZD/EUR	0.5393	0.5632	0.5668	0.5689	0.5687	0.5696
AUD/USD	0.9896	0.9929	0.9859	0.9793	0.9773	0.9748
EUR/USD	1.3948	1.3756	1.3578	1.3402	1.3319	1.3330
USD/JPY	80.78	83.43	83.34	83.21	83.49	83.78
GBP/USD	1.5728	1.6011	1.5937	1.5836	1.5759	1.5751
Oil (US\$/bbl)	82.60	81.65	81.24	80.79	83.21	83.21
Gold (US\$/oz)	1338.18	1359.70	1361.55	1374.70	1370.46	1373.65
Electricity (Haywards)	1.84	4.02	5.75	7.74	7.29	7.31
Baltic Dry Freight Index	2778	2179	2199	2213	2200	2170
Milk futures (US\$/contract)	117	118	118	118	118	118

# IMPORTANT NOTICE

## NEW ZEALAND DISCLOSURE INFORMATION

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

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

### Qualifications, experience and professional standing Experience

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

### Relevant professional body

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

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

### Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

### Dispute resolution facilities

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

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

### Criminal convictions

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

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

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

### Fees

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

### Other interests and relationships

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

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

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

### Securities about which investment advice is given

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

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

### PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;



## IMPORTANT NOTICE

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

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

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

### Record Keeping

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

### Auditing

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

### Use of Money and Property

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

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