

## THE NEXT LEG

### NZ Economics Team:

#### Cameron Bagrie

Chief Economist  
Telephone: +64 4 802 2212  
E-mail: [bagriec@anz.com](mailto:bagriec@anz.com)

#### Khoon Goh

Senior Markets Economist  
Telephone: +64 4 802 2357  
E-mail: [gohk@anz.com](mailto:gohk@anz.com)

#### David Croy

Interest Rate Strategist  
Telephone: +64 4 802 2286  
E-mail: [croyd1@anz.com](mailto:croyd1@anz.com)

#### Philip Borkin

Economist  
Telephone: +64 4 802 2199  
E-mail: [borkinp@anz.com](mailto:borkinp@anz.com)

#### Steve Edwards

Economist  
Telephone: +64 4 802 2217  
E-mail: [edwards1@anz.com](mailto:edwards1@anz.com)

#### Kevin Wilson

Rural Economist  
Telephone: +64 4 802 2361  
E-mail: [wilsonk1@anz.com](mailto:wilsonk1@anz.com)

### Page 2: Economic overview

- > While financial markets recovered slightly last week, local data showed that we are still in for a challenging time ahead. The focus this week is on the labour market and data is likely to confirm it has turned sharply weaker. This represents the next leg of adjustment for the domestic economy.

### Page 5: Economic comment – financial conditions update

- > Aggressive easings by the US Federal Reserve, RBA and RBNZ has seen swap yields fall. Yet, while financial conditions have eased in NZ and Australia, they remain extremely tight in the US. Falling equity and house prices remain a key drag on financial conditions.

### Page 6: Economic comment – National Bank Business Outlook update

- > The October National Bank *Business Outlook* survey showed a complete reversal of the rebound in the previous month. With Q3 GDP looking to have contracted, the October NBBO survey suggests Q4 is off to a very rocky start.

### Page 8: Economic comment – global watch

- > Global data last week again reinforced the picture of a slowing world economy.

### Page 9: Interest rate strategy

- > Fed Funds is now back at a historic low, potentially raising the hurdle to future cuts. Liquidity is improving, and LIBOR is coming down. Ironically, this is having much more of an impact on everyday borrowing rates than rate cuts. As such, expect more liquidity initiatives from global central banks. However, the problem is less severe in NZ, so stay focussed on monetary policy and the yield curve, which hasn't yet adjusted to our economic prognosis.

### Page 10: Currency strategy

- > Last week's technical rebound in the NZD is expected to be thwarted by weak Q3 labour market data this week. But offshore events, especially how emerging market equities perform, will dictate the near-term direction.

### Page 11: Currency comment – macro-momentum gauge

- > Our currency macro-momentum gauge (a composite growth index that has tracked the NZD over the past decade) is pointing lower. While offshore influences are obviously having a huge say on the NZD, the gauge also reinforces that there are strong domestic forces behind the movement, and these are set to continue pointing south.

### Page 12: Data and event calendar

### Page 14: Data watch

### Page 15: Key forecasts

## ECONOMIC OVERVIEW

While financial markets recovered slightly last week, local data showed that we are still in for a challenging time ahead. The focus this week is on the labour market and data is likely to confirm it has turned sharply weaker. This represents the next leg of adjustment for the domestic economy.

### What's ahead?

- > **September quarter Labour Cost Index (LCI) and Quarterly Employment Survey** (Monday 1045 NZDT). We expect the LCI measure of private sector ordinary time wages to rise by 0.8 percent, taking annual growth to 3.4 percent.
- > **ANZ October Commodity Price Index** (Tuesday 1500 NZDT).
- > **September quarter Household Labour Force Survey** (Thursday 1045 NZDT). The HLFS is expected to confirm a sharply weaker labour market. Employment growth is expected to fall by 1.0 percent and the unemployment rate to rise to 4.3 percent.

### What's the view?

Should we start with the good news or the bad news? Let's start with the good seeing as the messages we have been writing about of late have generally been of the latter variety. Trust us; it has been a story that is just as discouraging to write as it has been for you to read.

Global financial markets showed some encouraging signs over the past week. Equity markets staged a recovery after the considerable sell-off that has seen indices like the Nikkei at its lowest level since the early 1980s. Bourses from the US to Europe to Asia all rose solidly (although they remain volatile). Inter-bank lending rates also continue to ease, with the key US 3-month LIBOR rate down a further 49 basis points. Credit spreads, while still very wide, also narrowed slightly. The Australian iTraxx index fell 62 basis points to 318. Frozen credit markets now look to be slowly thawing off panic driven extremes mind you, but this is still a positive development. The unprecedented measures taken by policymakers (with further swap lines with various central banks and the US Federal Reserve being announced last week) appear to be doing just what they were put in place for.

So have we seen the worst? Of course we have to be cognisant about making sweeping assessments. The past few months have shown that sentiment can turn incredibly quickly. Many commentators have also put much of the recovery in equity markets down to end of month portfolio re-weighting by big pension funds and there remains a

considerable amount of uncertainty over whether the recovery will be sustained once this re-weighting is completed. We also hold concerns over recent events in emerging markets who still look vulnerable to the process of de-leveraging.

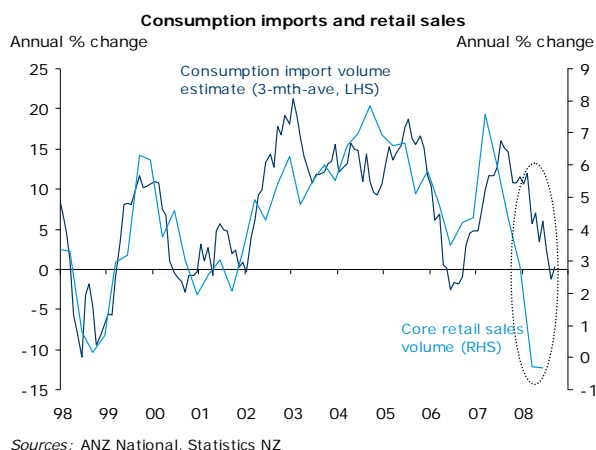
Unfortunately, that is where the good news ended. The data released last week, particularly in NZ, does not make for pleasant viewing and reinforces our belief that while financial markets will slowly correct, the impact on real economies has only just begun. The NZ economy is already heading backwards and we don't think we are yet at the trough. But the key message still remains one of a recovery looking some way off. We continue to back an "L" shaped economic cycle.

The latest National Bank *Business Outlook* survey really sums up the current state of play. Basically every measure within the survey whether it is headline confidence, own activity expectations, employment, investment, profit or export intentions, all tumbled in the month. Some reached record lows or experienced their biggest ever monthly falls. Our composite growth indicator is suggesting GDP growth will contract sharply in the third quarter, with the possibility of a contraction in the fourth also (refer to page 6 for a sectoral breakdown of the survey). To be fair, the above indicators have probably moved down too far, just as the recovery in confidence over the previous two months was a false hope. But given the significant uncertainty both domestically and internationally no one can be blamed for not knowing what to make of it all or what to do next. Facing exceptional times, we should hardly be surprised to see exceptional movements in confidence.

The other data released last week also highlights the weak domestic situation at present. Building consent issuance remains at very low levels and monthly household credit growth was the weakest on record. The data reinforces that sectors aligned to the housing market are struggling and we do not envisage any marked improvement in the near term. While lower mortgage rates will of course help, factors such as the global credit backdrop, falling house prices, low net migration, and just plain old uncertainty will continue to weigh.

The final piece of data was September overseas trade. Once again a large monthly deficit was recorded. This was not really a surprise, but the fact that imports of consumption goods are still holding up is. While consumption good imports have slowed, this has not been to the extent one would have thought considering the weakness we have seen in retail spending. The fact that the weaker domestic economy has not yet flowed through into import demand does not bode well for the current account deficit. It is quite possible that we will see a further deterioration in the current

account balance in the September quarter – not a good sign given the credit centric nature of global events.



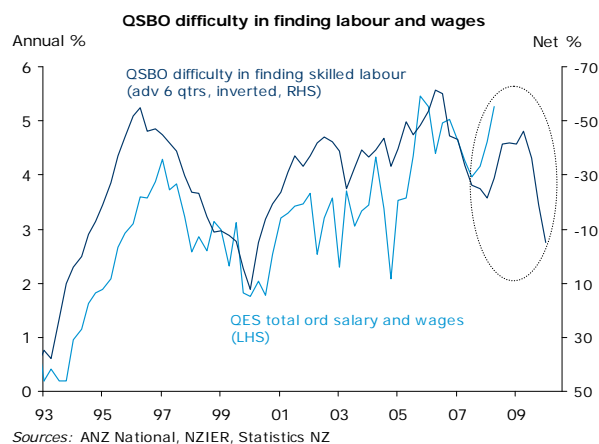
Looking to this week's events, it is all about the labour market. The data takes on added importance following the RBNZ's latest *OCR Review*. Despite the aggressive interest rate cut by the RBNZ, the Bank took the time to remind all of its focus on medium-term inflation and the concern at the recent stickiness shown. While this appears to be largely targeted at non-contestable pockets (which are arguably beyond the Bank's control), labour costs were also explicitly singled out. The RBNZ has stated that further monetary policy easing is warranted, but this is conditional on "evidence of actual reductions in domestic cost pressures". As a key driver of medium-term inflation, the labour market outlook will be a key focus and be watched to provide this "evidence".

Unfortunately, the labour market data in NZ is extraordinarily volatile and this can make interpretation difficult. Employment growth has swung about widely over the past two quarters, and we struggle to see this as being actual job creation and destruction. Following a 1.3 percent increase in employment in the June quarter, we expect a sizeable 1.0 percent pull back in the September quarter. But the big theme from the data will be how it emphasises the speed at which the labour market is turning. The unemployment rate is a cleaner measure and we expect it to increase to 4.3 percent – the highest level since December 2003. We even see upside risk to our expectation of unemployment given anecdotes and trends in business surveys. A weaker labour market is now the next leg of the domestic "adjustment" story. Remember, house prices were already retreating and retail spending heading backwards before the labour market turned. Rising unemployment means there is still another leg to go.

But before we go writing off a rising unemployment rate as completely bad news, we need to remember two dynamics. First, it'll help dampen inflation pressure. Second, fewer labour inputs will be

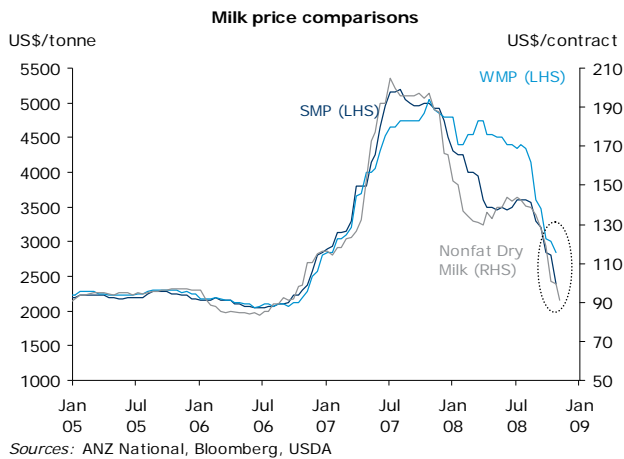
associated with improving productivity growth, which is the "missing" leg of the eventual recovery.

Wage growth is expected to remain elevated, but this should just be a case of typical late-cycle persistence. Wage growth is expected to be very near a peak, if it hasn't peaked already. The sharp easing in firms reporting it difficult to find staff as well as a higher unemployment rate will provide workers with less bargaining power to push for the wage increases they have experienced over recent years. Annual wage growth (on an LCI basis) is expected to fall below 3 percent by the middle of next year.



It is this type of dynamic that should give the RBNZ further confidence to continue to front-load the easing cycle.

The other thing to keep an eye on this week will be commodity prices, with the ANZ commodity price index out on Tuesday. The fall in the NZD is getting a lot of attention, but we need to fully understand the reasons for the fall before we get carried away with the potential support it will provide. Commodity prices are a key factor behind the fall in the NZD, and need to be closely watched, particularly given the expectations that have been built into rural land values. We also noted on Friday evening that the non-fat dry milk futures series we track showed another large fall – easing nearly US\$9 in the night to US\$91 per contract. It is now at a 25-month low, and portends of further weakness in skim-milk and whole-milk powder prices into November.



Internationally, the big events for the week are the ECB, RBA and BoE interest rate decisions. Many market commentators are expecting all three to cut by 50bps, although markets look to be testing the idea of larger cuts. October labour market data will be the other big focus for our neighbours across the Tasman. Our Australian colleagues expect a 14k contraction in employment, and for the unemployment rate to rise to 4.5 percent. Further a field, the US ISM and non-farm payrolls reports will be of interest, with the latter expected to show another large contraction in employment and rise in the unemployment rate.

### Recent local data...

**Overseas Merchandise Trade (September):** A trade deficit of \$1,183 million was recorded, increasing the annual deficit to \$4,985 million.

**Building Consent Issuance (September):** Residential consent issuance rose 8.4 percent, but excluding apartments, consents fell 0.8 percent.

**NBNZ Business Outlook (October):** Confidence and all activity gauges were sharply weaker over the month.

**Credit Growth (September):** Household credit growth was 0.2 percent in the month, the lowest rate of growth since this series began in 1991.

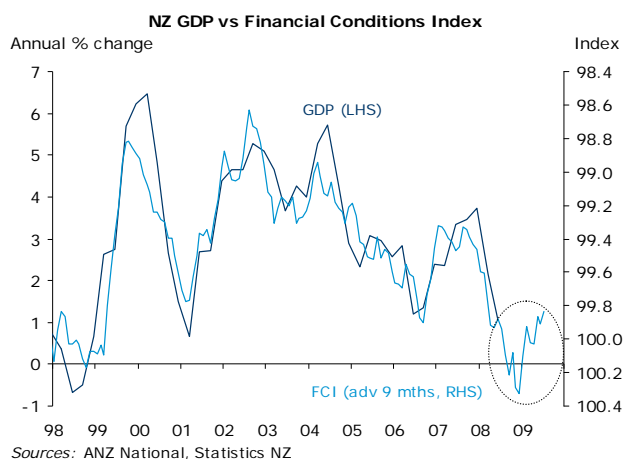
## FINANCIAL CONDITIONS UPDATE

**Aggressive easings by the US Federal Reserve, RBA and RBNZ has seen swap yields fall. Yet, while financial conditions have eased in NZ and Australia, they remain extremely tight in the US. Falling equity and house prices remain a key drag on financial conditions.**

Regular readers will be familiar with our Financial Conditions Index, which we monitor and provide periodic updates in this publication.<sup>1</sup>

Last month, we extended our methodology to cover financial conditions for the US and Australia in order to give us better insight on how the credit turmoil is impacting on two of NZ's largest trading partners. We provide an update on what our financial conditions indexes are telling us about growth prospects for NZ, Australia and the US.

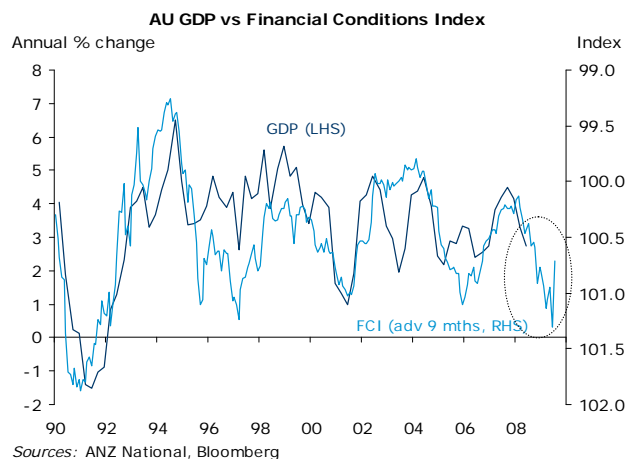
- > Financial conditions continue to ease in NZ. The 100bp rate cut by the RBNZ and market pricing of more to come, together with a falling currency, have been sufficient to offset tighter financial conditions stemming from falling house prices, a selloff in equity markets, slowing credit growth and higher bank funding costs (based on an elevated US 2-year swap spread). Judging from where the NZ financial conditions currently reside, it suggests we could see a rebound in year-on-year GDP growth towards 1 to 1¼ percent by late next year. But not before we see a further sharp slowdown in activity in the coming quarters.



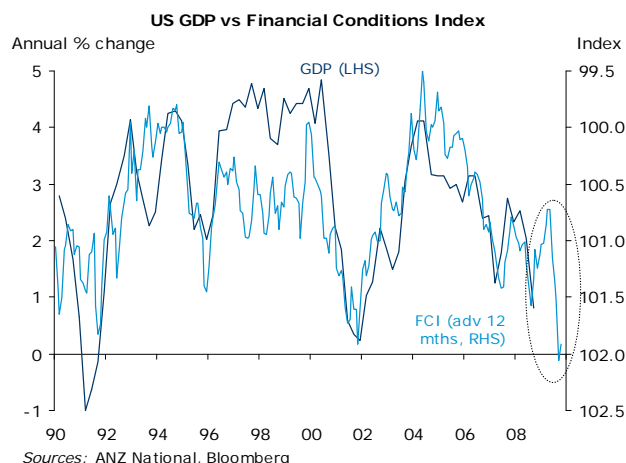
- > Australian financial conditions were pointing towards a severe slowdown in growth when we first reported it last month. Since then, the surprise 100bp rate cut from the RBA and a sharply lower Aussie dollar have helped ease

<sup>1</sup> Our Financial Conditions Index includes the currency (adjusted for commodity prices or terms of trade movements), interest rates, asset prices, credit growth, and measures of credit cost and liquidity. It provides a timely leading gauge of economic activity, and more importantly it has been successful in predicting key turning points in the growth cycle.

financial conditions. However, it may not be sufficient to avoid further weakening activity in the near-term. But judging by our financial conditions index, Australia looks set to avoid the dreaded "R". Certainly, Australia's commodity prices have been hit particularly hard, as have their equity market. But house prices have not fallen to the same extent as those in NZ or US, credit growth while slowing remains reasonable, and the credit default swap spread of the big-four Australian banks have fallen following the announcement of the government guarantee.



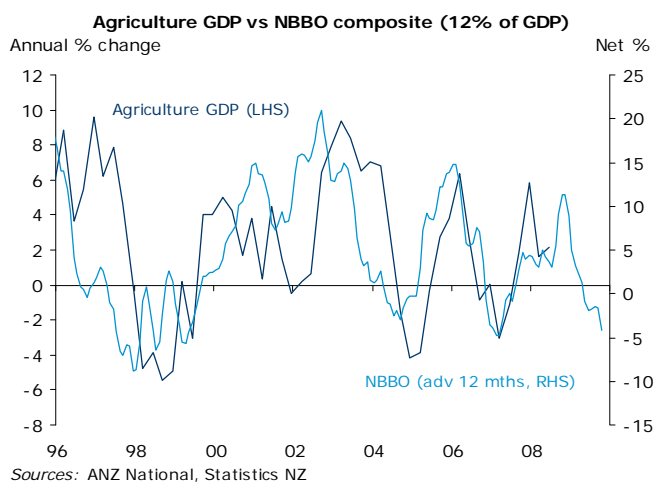
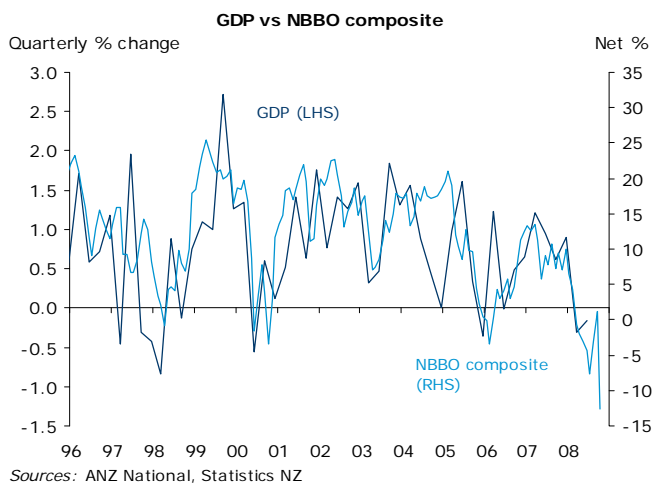
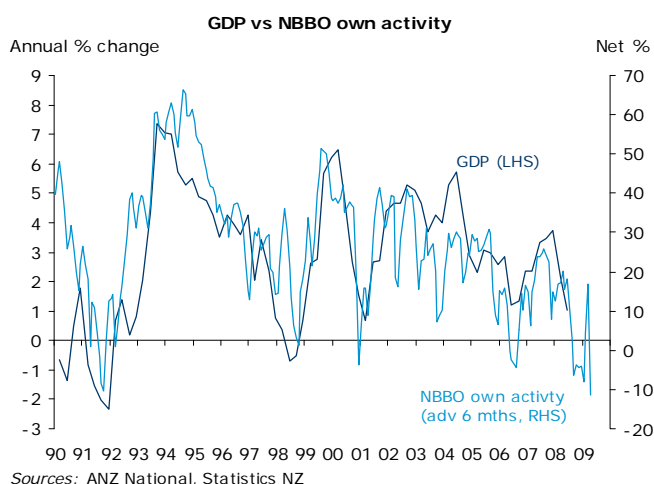
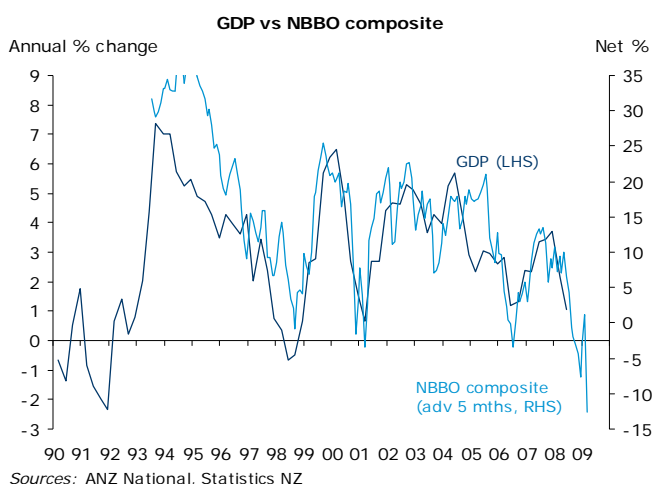
- > Our financial conditions index points to the US economy being well on its way to recession, despite the kitchen sink being thrown by the Fed and US government in response to the credit crisis, including the fed funds rate falling to 1 percent. The rather muted contraction in Q3 GDP is perhaps merely the start of worse to come.



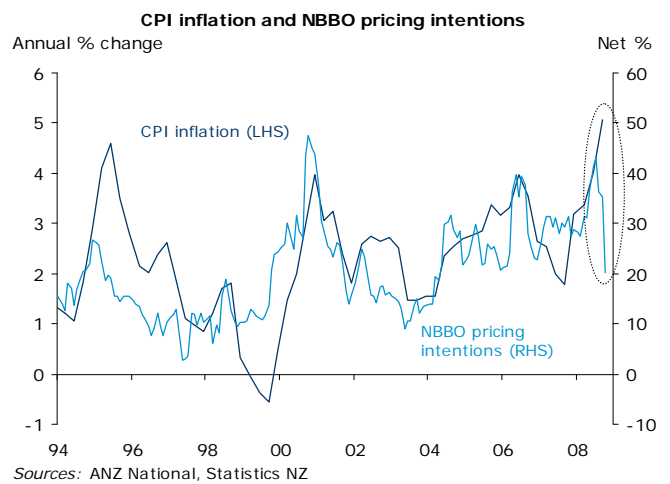
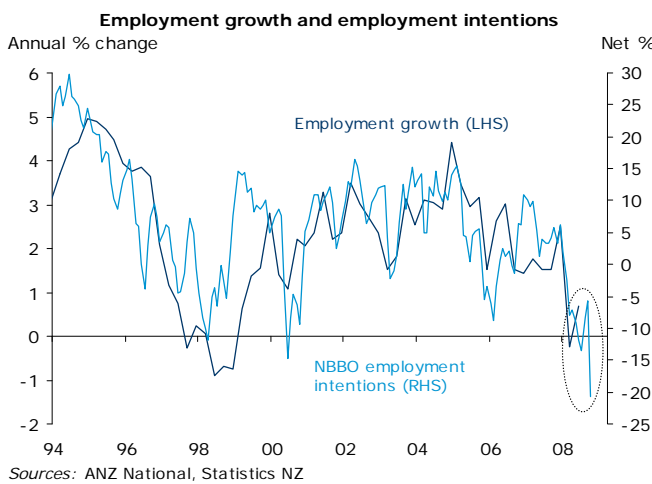
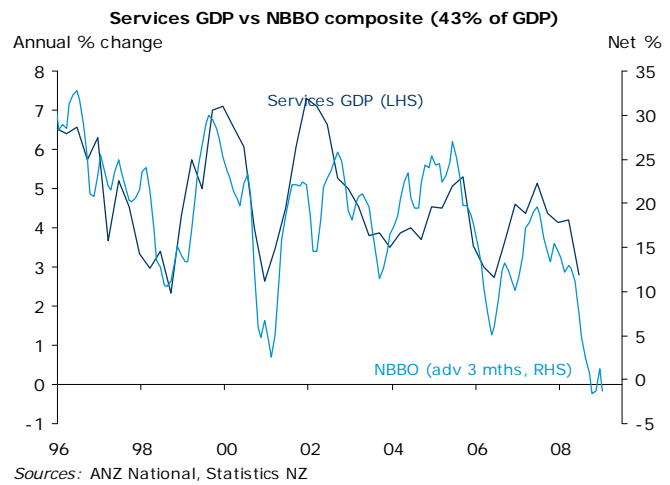
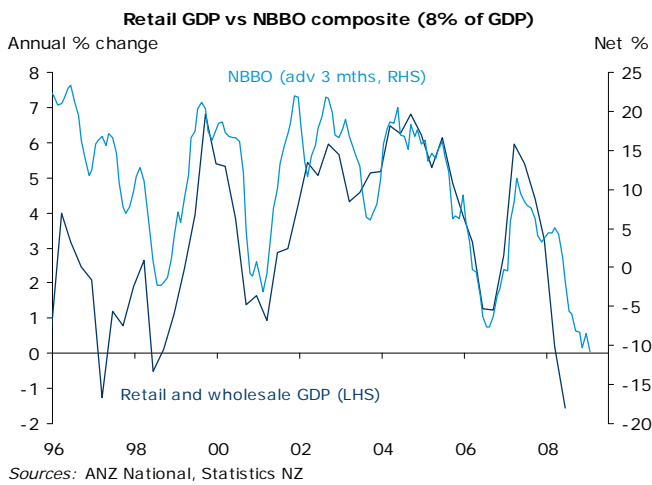
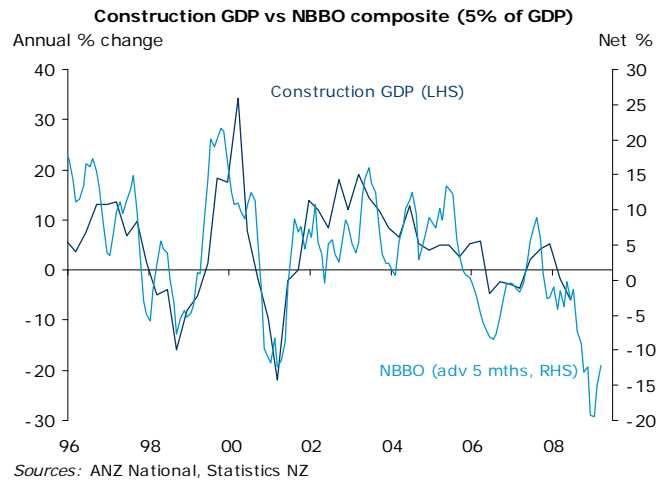
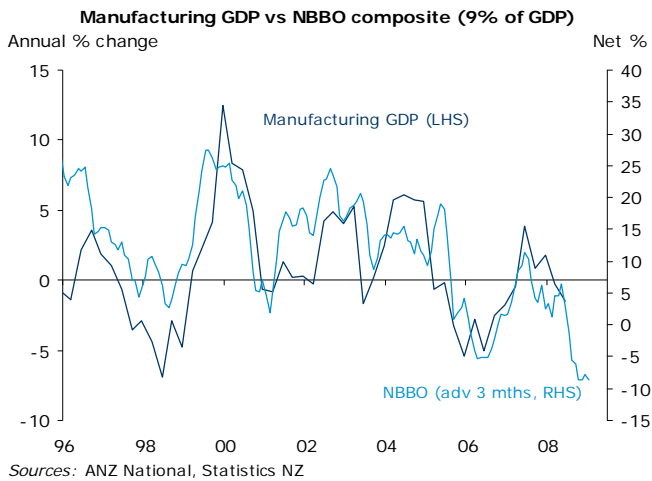
Collectively, our measures reinforce a couple of key dynamics. While monetary policy is acting aggressively in all cases, the credit channel of monetary policy and weak asset prices are still hugely restrictive forces on financial conditions. The latter look set to remain for a while yet.

## NATIONAL BANK *BUSINESS OUTLOOK* UPDATE

The October National Bank *Business Outlook* survey showed a complete reversal of the rebound in the previous month. With Q3 GDP looking to have contracted, the October NBBO survey suggests Q4 is off to a very rocky start. While we still think we will have positive growth in Q4 due to a rebound from earlier drought effects, it could be more muted and “technical” in nature. Both the own activity and our NBBO composite indicator<sup>2</sup> (which has a better correlation with growth in recent times) measures are pointing towards negative annual growth over the first half of next year – not a pleasant prospect. In terms of the sectoral breakdown, just about all sectors look set to contract in a synchronised fashion. The construction composite has improved, but is still pointing to further weakness in the year ahead. And our services sector composite has just dipped into negative territory. Overall employment intentions suggest we could be headed for the sharpest decline in job growth since the early 1990s. A bright spot is that pricing intentions have come off recent peaks, a sign that headline inflation is set to fall towards the RBNZ’s target band.



<sup>2</sup> Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.



## GLOBAL WATCH

Global data last week again reinforced the picture of a slowing world economy. While slightly better than expected, US GDP contracted in the third quarter. Forward looking gauges such as consumer confidence and the Chicago Purchasing Manager suggest growth could be even weaker in Q4. Europe and UK data was limited last week, while Asian data was relatively mixed.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<b>US</b>	New Home Sales (Sep) – mom	-2.2%	2.7%	-12.6%	Stronger
	S&P/CS Composite-20 (Aug) – yoy	-16.60%	-16.62%	-16.32%	In-line
	Consumer Confidence (Oct)	52.0	38.0	64.4	Weaker
	Durable Goods Orders (Sep)	-1.1%	0.8%	-5.5%	Stronger
	FOMC Rate Decision	1.00%	1.00%	1.00%	In-line
	GDP (Annualised) (3Q)	-0.5%	-0.3%	2.8%	Stronger
	Initial Jobless Claims (w/e Oct 26)	475K	479K	479K	In-line
	Personal Income (Sep)	0.1%	0.2%	0.4%	Stronger
	Personal Spending (Sep)	-0.2%	-0.3%	0.0%	Weaker
	Chicago Purchasing Manager (Oct)	48.0	37.8	56.7	Weaker
	University of Michigan Confidence (Oct F)	57.5	57.6	57.5	In-line
	<b>Europe</b>	M3 Money Supply (Sep) – yoy	8.5%	8.6%	8.8%
Economic Confidence (Oct)		86.0	80.4	87.5	Weaker
CPI Estimate (Oct) – yoy		3.2%	3.2%	3.6%	In-line
Unemployment Rate (Sep)		7.5%	7.5%	7.5%	In-line
<b>UK</b>	Net Consumer Credit (Sep)	1.0B	0.3B	1.1B	Weaker
	Nationwide House Prices (Oct) – yoy	-14.7%	-14.6%	-12.4%	In-line
	GfK Consumer Confidence (Oct)	-36	-36	-32	In-line
<b>Asia Ex-Japan</b>					
<i>South Korea</i>	Consumer Confidence (Oct)	-	88.0	96.0	-
	Business Survey – Manufacturing (Nov)	-	65	78	-
<i>Singapore</i>	Industrial Production (Sep) - mom	-0.4%	-0.6%	-2.2%	Weaker
	Unemployment Rate (3Q)	2.6%	2.2%	2.2%	Stronger
	<i>Thailand</i>	Total Exports (Sep) – yoy	-	19.5%	15.5%
Total Imports (Sep) – yoy		-	38.6%	26.9%	-
Manufacturing Production (Sep) - yoy		7.0%	4.6%	7.6%	Weaker
<i>Hong Kong</i>	Exports (Sep) – yoy	2.0%	3.6%	1.9%	Stronger
	Imports (Sep) – yoy	1.6%	3.9%	1.5%	Stronger
<b>Japan</b>	Retail Trade (Sep) – mom	-0.2%	-0.5%	0.7%	Weaker
	Industrial Production (Sep P) – mom	0.3%	1.2%	-3.5%	Stronger
	Jobless Rate (Sep)	4.2%	4.0%	4.2%	Stronger
	Household Spending (Sep) – yoy	-4.0%	-2.3%	-4.0%	Stronger
	National CPI (Sep) – yoy	2.1%	2.1%	2.1%	In-line
	BoJ Target Rate	0.25%	0.30%	0.50%	Stronger
	Housing Starts (Sep) – yoy	52.0%	54.2%	53.6%	Stronger
<b>Australia</b>	Conference Board Leading Index (Aug)	-	0.4%	0.4%	-
	Private Sector Credit (Sep) – mom	0.4%	0.7%	0.5%	Stronger

## INTEREST RATE STRATEGY

Fed Funds is now back at a historic low, potentially raising the hurdle to future cuts. Liquidity is improving, and LIBOR is coming down. Ironically, this is having much more of an impact on everyday borrowing rates than rate cuts. As such, expect more liquidity initiatives from global central banks. However, the problem is less severe in NZ, so stay focussed on monetary policy and the yield curve, which hasn't yet adjusted to our economic prognosis.

### Market themes...

- > There's a finite limit to how much more US monetary policy can do. What signal would an even lower Fed Funds rate send? However, liquidity initiatives have plenty of work to do.
- > The RBNZ has broadly endorsed market expectations for the OCR. While the global financial scene has improved, the domestic outlook has worsened.

### Review and outlook...

Last week's FOMC decision came and went with very little fanfare, and for good reason. While the Fed Funds rate is back to a historic low, and the Fed has all but swept away any concerns it had about inflation, what really matters now are the interest rates that everyday borrowers face. These have skyrocketed in the US, with LIBOR still at around 3.0 percent despite Fed Funds now at 1 percent. The story in NZ is quite different. Not only does a high cash rate mean that monetary policy still has plenty of scope to make a contribution, but it hasn't thus far been hampered by widening liquidity spreads to anywhere near the extent seen in the US. And it's not likely to either, thanks to several pre-emptive steps taken by the RBNZ, such as the establishment of a swap line with the Fed.

To be sure, monetary policy still has plenty of work to do, as last week's NBNZ *Business Outlook* made clear. But it won't be a race to the bottom. Inflation matters, and far from being something to avoid, a long period of rebalancing is part of the cure. This means only one thing: easier policy, but in a sensible manner. It also means market pricing has some way to go. Indeed, we believe the yield curve is more consistent with a soft landing, rather than an extended period of adjustment and weakness. Mid to long end yields haven't yet adjusted fully to the "L-shaped" cycle we envisage.

Some of the steepening bias will reflect growing expectations that inflation – courtesy of aggressive quantitative easing - will become tomorrow's problem. We have a lot of sympathy for this, but that's something to worry about then. For now, growth fears dominate.

### Borrowing strategies we favour at present

Our broad thinking hasn't changed and nor has our advice – keep hedges short in duration. The economy is slowing quickly, and as such, it is still way too early in the cycle to be contemplating extending the duration of hedges. Now that Fed Funds is at 1 percent, we expect the Fed and other monetary authorities to concentrate on initiatives designed to improve liquidity and lower the cost of "floating" funding. This is good news for borrowers who opt to stay un-hedged.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↓	More rate cuts coming. Still not enough priced in.
NZ data	↔/↓	NBBO data was appalling, HLFS likely to be no better.
Fed Funds/ front end	↔	Fed policy about as easy as it can be. Look for liquidity initiatives to do more work.
RBA	↔/↑	The RBA is quietly trying to rein in bullish expectations.
US 10 year	↔/↓	High yields not sustainable given state of US economy.
NZ swap curve	↔/↓	Will steepen gradually. Will be a typical "bull steepener".
Flow	↔	Steeperners/longs still encountering profit takers.
Technicals	↔	Extreme volatility. Equity/EM price action dominates.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 4-Dec-08	-41	-51
Thu 22-Jan-09	-84	-76
Thu 5-Mar-09	-96	-99
Thu 23-Apr-09	-117	-122
Thu 4-Jun-09	-116	-123
Thu 30-Jul-09	-111	-123
Thu 10-Sep-09	-111	-121

### Trading themes we favour at present

Yields are headed lower, and while this will be led by the short end initially, we expect long end rates to continue rallying, and to remain stable once the easing cycle has ended. This is because we don't expect a rebound in activity, and instead see the economy remaining soft for a long period. Inflation is set to move much lower eventually (and it's critical that it does). This means the long end is the place to be, especially for real money investors. The curve will steepen, but gradually, so be careful. It's also a crowded trade. Given RBA warnings last week, consider shorting AU OIS against NZ.

## CURRENCY STRATEGY

Last week's technical rebound in the NZD is expected to be thwarted by weak Q3 labour market data this week. But offshore events, especially how emerging market equities perform, will dictate the near-term direction.

### Market themes...

- > Rebound in global equities sees risk appetites return.
- > Month-end portfolio rebalancing likely a contributor.
- > Volatility still set to remain high. Politics key focus this week.

### Review and outlook...

USD strength reversed last week, as a rebound in global equities saw risk appetites return, albeit cautiously. For the week, the USD fell against all the other major currencies bar the Yen and the Swiss franc. The NZD, after starting the week on the back foot, benefited from the global equity market rally despite some poor domestic economic data, including a slump in the National Bank *Business Outlook* survey to its second lowest ever own activity reading.

There was a lot of market talk that month-end portfolio rebalancing was the reason for the equity market rally. With liquidity thin, any buying would have caused prices to move sharply higher. If this is true, then once this "forced buying" stops, equity prices could find themselves vulnerable once again. With currencies still largely tracking equities, this could see the recent NZD strength wane. Indeed, together with poor NZ Q3 labour market data expected this week, including a sharp fall in jobs growth and a rise in the unemployment rate, the NZD could find itself on the back foot. While the currency market seemed to have shrugged off last week's poor business confidence result, it is unlikely to do so again with the labour market data.

There are also plenty of offshore developments to keep currency markets occupied. The US Presidential Election, interest rate decisions from the RBA, BoE and ECB, and key US economic data culminating with Friday's Non-Farm payrolls should see continued volatility. We may well see most market participants stay on the sidelines in the lead-up to the Presidential Election result, contributing to further reduced liquidity. And rate cuts in Australia and Europe, alongside dovish statements should see the USD back in favour again. Even expected weak US economic data might cause more safe-haven flows into US assets as global recession fears are stoked once more.

We remain medium-term bears on the NZD given its external imbalance, weak dataflow and falling

interest rates. But global equities will still have a huge say on short-term direction. The NZDAUD has puzzled us of late and the RBA's decision tomorrow will be influential. They look to be reining market expectations in, but now is not the time to surprise markets. A 50bp cut looks likely.

The technical outlook remains cloudy. On a daily basis the NZD looks significantly oversold and the risk of a further rebound should not be discounted. Support levels are 0.5750/0.5800 with resistance at 0.5974 and 0.6040. NZDAUD broke its recent trading range of 0.8700/0.9050 to the downside. While we have tracked back inside the range, risk remains for a further move down to 0.8450.

#### NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Should be lower based on fundamentals.
Yield	↔/↓	RBA to cut 50bps tomorrow, but RBNZ to follow in December.
Commodities	↔	Stabilising for now?
Partial indicators	↓	NZ indicators still worse.
Technicals	↔	Risk of a move to 0.8450.
Sentiment	↔	Risk appetites still fragile for both.
Other	↑	Baltic dry still falling, which tags AUD more.
<b>On balance</b>	↓	<b>Should be lower but subject to global scene</b>

#### NZD vs USD: monthly directional gauges

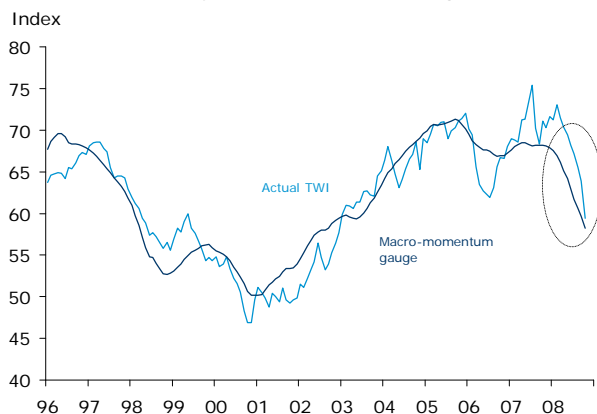
Gauge	Direction	Comment
Fair value – long-term	↔/↑	Fair value 0.65 given terms of trade (but it's now falling).
Fair value – short-term	↔/↓	Still above cyclical fair value level.
Yield	↔	RBNZ validates market pricing.
Commodities	↓	Milk futures prices still falling.
Risk aversion	↔/↓	Fragile.
Partial indicators	↔/↓	Weak.
Technicals	↔/↓	Support still at 0.5800.
AUD	↔/↑	AUD still primed for a corrective move.
Sentiment	↔/↓	Weak.
Other	↓	Equities still influential.
<b>On balance</b>	↔/↓	<b>Medium-term still bearish on NZD.</b>

## MACRO-MOMENTUM CURRENCY GAUGE

Our currency macro-momentum gauge (a composite growth index that has tracked the NZD over the past decade) is pointing lower. While offshore influences are obviously having a huge say on the NZD, the gauge also reinforces that there are strong domestic forces behind the movement, and these are set to continue pointing south.

Over a year ago we developed a currency macro-momentum gauge in recognition of the fact currencies are hugely responsive to more timely data nowadays.<sup>3</sup> Our indicator gives a useful guide and benchmark as to whether the NZD has diverged materially from where it should be in a cyclical sense, and whether the tenor of the data says it should be going up or down. While we can often see divergences from month to month (and last week the currency market ignored data altogether) these do not tend to persist, particularly if the interest rate market is taking note.

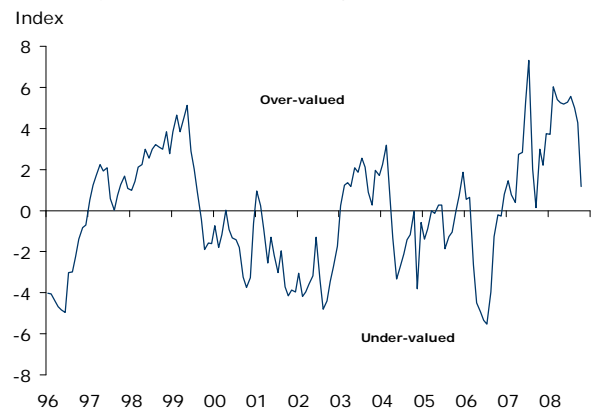
Currency Macro-Momentum Gauge



Sources: ANZ National, RBNZ

<sup>3</sup> The gauge is in effect an extension of our leading and composite growth indicators, overlaid on the NZ dollar. The macro-momentum gauge uses timely indicators that we know the currency market tends to react to. These include monthly trend information from confidence surveys, retail sales, the housing market, commodity prices and imports. We use two measures for each – one being directional (positive or negative), and the other the relative magnitude of either weakness or strength. The measures are then weighted to give us an impression of the overall tenor of the data. The results are then overlaid on the currency (on a TWI basis) using cumulative movements. We use cumulative movements because ultimately it is the trend in the data over time that is influential, such as sustained weakness or strength. Just as sub-par performance sees a share price fall, sub-par (trend) performance over time should see a currency decline. A simple regression links the index more explicitly to the actual TWI.

Currency Macro-Momentum Gauge - deviation from TWI



Sources: ANZ National

Like last month, the gauge is giving a direction (trend) signal lower, but a neutral reading on the level having snapped back from the extended readings over the preceding months. Despite the massive moves seen in the NZD of late, it is still only at levels consistent with where it should be on a “macro-momentum” sense. That does not mean the trend will not remain south, merely that the rubber band influence and potential to snap back is less of an influence.

**Where to from here for the NZD?** In the near term this is a difficult question to answer. We are mindful that the trend is normally the market's friend, and de-leveraging continues to dominate around the globe. USD sentiment, portfolio re-weighting, equity performance, commodity prices, risk appetites etc all have major influences on the performance of the kiwi. Intra-day movements remain large and volatile. We continue to expect to see a bounce in the NZD at some stage simply on the basis that currency markets do not move in linear-type fashions but timing remains uncertain.

**Looking further out, we remain bearish the kiwi's prospects.** While the general consensus is that global forces are dominating movements in the NZD, our macro-momentum gauge highlights a strong domestic element as well. With growth set to remain weak, at least into early 2009, we remain structurally bearish the NZD. At present our forecasts have the NZD/USD troughing at 55 cents – a mild cycle assuming fair value is just above 60 cents and particularly considering we've already touched that level already. But some work we are doing on macroeconomic balance models for currencies suggest the correction could go far further, and have a four in front of it. The implied elasticity of the NZ trade balance is around 0.2 to 0.3. Hence if we are to look at returning the current account deficit to a “sustainable position” of broadly less than 5 percent of GDP, the currency needs to go a long way from the current juncture. More on that down the track.

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
3-Nov	NZ	Labour Cost Index Private Sector (3Q) - qoq	0.8%	0.8%	10:45
		Average Hourly Earnings (3Q) - qoq	1.2%	2.0%	10:45
	AU	AiG Performance of Mfg Index (Oct)	-	47.2	11:30
		TD Securities Inflation (Oct) – mom	-	0.4%	12:30
		ANZ Job Advertisements (Oct) – mom	-	-1.4%	13:30
		Retail Sales Trend (Sep) - mom	0.2%	0.3%	13:30
		Retail Sales s.a. (Sep) - mom	-0.5%	-	13:30
		House Price Index (3Q) - qoq	-0.5%	-0.3%	13:30
		RBA Commodity Index SDR (Oct) - yoy	-	43.3%	18:30
	US	Fed's Lacker Speaks on Monetary Policy in Israel	-	-	21:45
	GE	PMI Manufacturing (Oct F)	43.3	43.3	21:55
	EU	PMI Manufacturing (Oct F)	41.3	41.3	22:00
		European Commission Releases Economic Growth Forecasts	-	-	23:45
	UK	PMI Manufacturing (Oct)	40.1	41.0	22:30
4-Nov	US	ISM Manufacturing (Oct)	41.5	43.5	04:00
		ISM Prices Paid (Oct)	48.0	53.5	04:00
		Construction Spending (Sep) - mom	-0.8%	0.0%	04:00
	UK	King, Darling, Turner to Testify to UK Treasury Committee	-	-	05:00
		PMI Construction (Oct)	37.8	38.8	22:30
	JN	Labour Cash Earnings (Sep) – yoy	0.2%	-0.3%	14:30
		Vehicle Sales (Oct) - yoy	-	-5.3%	18:00
	NZ	ANZ Commodity Price (Oct) - mom	-	-4.9%	15:00
	AU	RBA Interest Rate Announcement	5.50%	6.00%	16:30
	EU	PPI (Sep) - mom	-0.1%	-0.5%	23:00
5-Nov	US	Factory Orders (Sep)	-1.0%	-4.0%	04:00
		Fed's Fisher Speaks in Grapevine, Texas on Economic Challenges	-	-	05:45
	AU	AiG Performance of Service Index (Oct)	-	44.9	11:30
		Trade Balance (Sep)	500M	1364M	13:30
		Building Approvals (Sep) - mom	-1.0%	-3.70%	13:30
	JN	Monetary Base (Oct) - yoy	-	0.9%	12:50
	UK	Nationwide Consumer Confidence (Oct)	47	50	13:01
		Industrial Production (Sep) – mom	-0.2%	-0.6%	22:30
		Manufacturing Production (Sep) – mom	-0.3%	-0.4%	22:30
		Official Reserves (Changes) (Oct)	-	\$575M	22:30
		PMI Services (Oct)	44.5	46.0	22:30
	GE	PMI Services (Oct F)	49.7	49.7	21:55
	EU	PMI Services (Oct F)	46.9	46.9	22:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
5-Nov cont.	EU	PMI Composite (Oct F)	44.6	44.6	22:00
		Retail Sales (Sep) - mom	-0.4%	0.3%	23:00
6-Nov	US	ADP Employment Change (Oct)	-100K	-8K	02:15
		ISM Non-Manufacturing Composite (Oct)	47.2	50.2	04:00
	<b>NZ</b>	<b>Unemployment Rate (3Q)</b>	<b>4.3%</b>	<b>3.9%</b>	<b>10:45</b>
		<b>Employment Change (3Q) - qoq</b>	<b>-0.6%</b>	<b>1.3%</b>	<b>10:45</b>
	JN	BoJ Monetary Policy Meeting Minutes for October	-	-	12:50
		Leading Index CI (Sep P)	89.2	89.0	18:00
		Coincident Index CI (Sep P)	100.8	100.6	18:00
	UK	NIESR GDP Estimate (Oct)	-	-0.2%	13:01
	AU	Unemployment Rate (Oct)	4.4%	4.30%	13:30
		Employment Change (Oct)	-10.0K	2.2K	13:30
		Participation Rate (Oct)	65.1%	65.1%	13:30
7-Nov	UK	BoE Announces Interest Rates	4.00%	4.50%	01:00
	EU	ECB Announces Interest Rates	3.25%	3.75%	01:45
		Trichet Speaks at ECB Monthly News Conference	-	-	02:30
	US	Non-farm Productivity (3Q P)	0.9%	4.3%	02:30
		Unit Labour Costs (3Q P)	2.8%	-0.5%	02:30
		Initial Jobless Claims (w/e Nov-2)	477K	479K	02:30
		Continuing Claims (w/e Oct-26)	3,475K	3,715K	02:30
		Fed's Warsh Speaks to Investors, Economists in New York	-	-	13:30
	AU	AiG Performance of Construction Index (Oct)	-	31.8	11:30
		Foreign Reserves (Oct)	-	36.0B	18:30
	GE	Trade Balance (Sep)	13.5B	10.6B	20:00
		Current Account (EURO) (Sep)	10.3B	7.3B	20:00
		Imports (Sep) - mom	-1.0%	-2.5%	20:00
		Exports (Sep) - mom	0.6%	-0.5%	20:00
8-Nov	GE	Industrial Production (Sep) - mom	-0.5%	3.4%	00:00
	<b>NZ</b>	<b>General Election</b>	-	-	-
	US	Change in Non-farm Payrolls (Oct)	-200K	-159k	02:30
		Unemployment Rate (Oct)	6.3%	6.1%	02:30
		Change in Manufacturing Payrolls (Oct)	-62K	-51K	02:30
		Average Hourly Earnings (Oct) - mom	0.2%	0.2%	02:30
		Wholesale Inventories (Sep)	0.3%	0.8%	04:00
		Pending Home Sales (Sep) - mom	-3.7%	7.4%	04:00
		Fed's Lockhart Speaks on US Economic Outlook in Palm Beach	-	-	06:00
		Consumer Credit (Sep)	-\$0.4B	-\$7.9B	09:00

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:** It is all about the labour market this week. With labour costs being highlighted by the RBNZ as a source of domestically generated inflation pressure, the wage inflation read will be important. We expect evidence of a weakening labour market to be confirmed in the HLF5 employment report, giving the RBNZ some confidence that wage inflation will start to ease off and not add further upward pressure on inflation.

Date	Data/Event	Economic Signal	Comment
Mon 3 Nov (10.45)	Labour Cost Index and Quarterly Employment Survey (Q3)	Wage inflation peaking	Wage growth will remain strong, but this is a typical late cycle dynamic. Recent evidence of easing labour shortages suggests wage growth is close to peaking, if it hasn't already.
Tue 4 Nov (15.00)	ANZ Commodity Price Index (Oct)	-	-
Thu 6 Nov (10.45)	Household Labour Force Survey (Q3)	Unemployment on the up	After the surprise surge in employment growth last quarter, we expect a reversal. Volatility aside, the overall report is expected to point to a sharply weaker labour market, with the unemployment rate continuing to move higher.
circa 11 Nov	REINZ House Sales (Oct)	Will a base be found?	Housing market activity remains weak, and recent declines in mortgage rates may start to entice more prospective buyers into the market. Even if house sales do pick up, we expect house prices to remain under downward pressure.
Thu 13 Nov (10.45)	Retail Trade Survey (Sep)	Volume contraction again	ECT and credit card data suggest modest growth in monthly nominal retail spending, led by a rebound in car sales. For the quarter though, we are expecting a third consecutive contraction in volume terms.
Mon 17 Nov (10.45)	Food Price Index (Oct)	High	Recent declines in world commodity prices, including for dairy, mean lower prices are on their way. But not just yet. A more modest monthly rise in food prices expected in October.
Tue 19 Nov (10.45)	Producer Price Indices (Q3)	Close to peak	Further reasonable increases for input and output prices are expected. However, with oil prices now falling and wholesale electricity prices also well off their peaks, the top is near.
Fri 21 Nov (10.45)	External Migration (Oct)	Arrivals softening	Net migration inflows have been positive, but subdued. Of interest is visitor arrivals, which have been falling in recent months. Given the deteriorating global outlook, further declines look on the cards.
Tue 25 Nov (15.00)	RBNZ Survey of Expectations (Q4)	Still high but easing	Lower petrol prices should see inflation expectations fall from the last read of 3.0 percent. Still high, but at least in the right direction.
Thu 27 Nov (10.45)	Overseas Merchandise Trade (Oct)	Deficit	Another large monthly trade deficit is expected. We will be watching for signs of a capitulation in imports.
Thu 27 Nov (15.00)	NBNZ <i>Business Outlook</i> (Nov)	-	-
Thu 27 Nov (15.00)	Credit Growth (Oct)	Another record low?	September housing lending growth was the weakest on record. Given the state of the housing market, we would not rule out a further slowing.
Fri 28 Nov (10.45)	Building Consents (Oct)	Soft, watch commercial	The level of residential dwelling consent issuance will remain subdued. The bigger focus will be commercial issuance and we expect it to show further signs of easing.
<b>On Balance</b>		<b>Key issue is the flow-on from the global scene.</b>	<b>Weakness now extending into Q4 according to lead indicators and lagging info is poor for Q3.</b>

## 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)	0.9	-0.3	-0.2	<b>-0.5</b>	<b>0.5</b>	<b>0.2</b>	<b>-0.1</b>	<b>0.2</b>	<b>0.6</b>	<b>0.7</b>
GDP (% yoy)	3.7	2.2	1.1	<b>-0.1</b>	<b>-0.5</b>	<b>0.0</b>	<b>0.1</b>	<b>0.8</b>	<b>0.9</b>	<b>1.4</b>
CPI (% qoq)	1.2	0.7	1.6	1.5	<b>0.2</b>	<b>0.4</b>	<b>0.8</b>	<b>0.7</b>	<b>0.8</b>	<b>0.7</b>
CPI (% yoy)	3.2	3.4	4.0	5.1	<b>4.1</b>	<b>3.7</b>	<b>2.9</b>	<b>2.1</b>	<b>2.8</b>	<b>3.1</b>
Employment (% qoq)	0.9	-1.3	1.3	<b>-1.0</b>	<b>0.2</b>	<b>-0.2</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>
Employment (% yoy)	2.5	-0.2	0.7	<b>-0.2</b>	<b>-0.9</b>	<b>0.2</b>	<b>-1.0</b>	<b>0.1</b>	<b>0.0</b>	<b>0.4</b>
Unemployment Rate (% sa)	3.4	3.7	3.9	<b>4.3</b>	<b>4.6</b>	<b>4.9</b>	<b>5.2</b>	<b>5.4</b>	<b>5.6</b>	<b>5.8</b>
Current Account (% GDP)	-8.2	-8.0	-8.4	<b>-8.7</b>	<b>-9.2</b>	<b>-9.2</b>	<b>-8.4</b>	<b>-7.8</b>	<b>-7.4</b>	<b>-7.3</b>
Terms of Trade (% qoq)	2.9	4.2	-0.5	<b>-1.0</b>	<b>-2.0</b>	<b>-1.5</b>	<b>-1.1</b>	<b>-1.1</b>	<b>-0.9</b>	<b>-0.7</b>
Terms of Trade (% yoy)	8.8	11.6	10.6	<b>5.6</b>	<b>0.5</b>	<b>-5.0</b>	<b>-5.6</b>	<b>-5.6</b>	<b>-4.5</b>	<b>-3.7</b>

## KEY ECONOMIC INDICATORS

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Retail Sales (% mom)	0.3	-0.7	-1.1	1.3	-1.2	0.9	-0.7	0.4	..	..
Retail Sales (% yoy)	6.3	7.7	-1.0	4.1	1.0	1.5	2.5	-0.9	..	..
Credit Card Billings (% mom)	0.1	0.3	-0.4	-0.2	0.6	0.0	0.3	-0.1	1.1	..
Credit Card Billings (% yoy)	8.8	7.5	5.8	5.4	6.0	4.0	4.2	2.6	2.6	..
Car Registrations (% mom)	4.9	-4.5	-13.0	12.5	-14.3	1.3	-7.2	-3.6	10.9	..
Car Registrations (% yoy)	1.7	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	..
Building Consents (% mom)	3.3	-5.9	-14.0	81.4	-42.1	-12.6	-2.0	-6.8	8.4	..
Building Consents (% yoy)	-5.5	-17.5	-27.0	30.6	-26.7	-46.0	-34.4	-42.9	-28.4	..
REINZ House Price (% yoy)	4.0	0.7	1.6	-1.1	-1.4	-2.2	-1.4	-5.7	-6.1	..
Household Lending Growth (% mom)	0.7	0.9	0.4	0.4	0.5	0.3	0.3	0.4	0.2	..
Household Lending Growth (% yoy)	11.9	11.6	10.8	9.9	9.3	8.4	7.7	7.2	6.6	..
Roy Morgan Consumer Confidence	121.2	116.0	111.7	99.9	89.2	86.5	83.9	91.4	108.6	99.7
NBNZ Business Confidence	..	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3
NBNZ Own Activity Outlook	..	2.4	-6.4	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4
Trade Balance (\$m)	-311	243	-43	-293	-169	-215	-804	-846	-1183	..
Trade Balance (\$m annual)	-4793	-4422	-4526	-4604	-4782	-4479	-4475	-4374	-4985	..
ANZ World Commodity Price Index (% mom)	-1.4	1.1	2.0	-0.3	0.9	0.0	1.8	-3.3	-4.9	..
ANZ World Commodity Price Index (% yoy)	27.4	26.9	26.9	20.7	18.7	11.6	8.7	3.6	-1.9	..
Net Migration (sa)	120	280	550	500	960	460	790	380	10	..
Net Migration (annual)	4799	4643	4678	4666	4931	4732	5201	4938	4403	..

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)						
	Sep-08	Oct-08	3-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
NZD/USD	0.677	0.653	0.584	0.620	0.640	0.610	0.580	0.560	0.550	0.550
NZD/AUD	0.822	0.933	0.871	0.849	0.889	0.897	0.906	0.933	0.887	0.859
NZD/EUR	0.470	0.469	0.458	0.456	0.478	0.466	0.453	0.452	0.466	0.458
NZD/JPY	72.1	68.4	57.7	63.2	64.6	63.4	62.6	61.6	61.6	63.3
NZD/GBP	0.375	0.368	0.363	0.352	0.370	0.355	0.341	0.335	0.331	0.333
NZ\$ TWI	63.9	64.1	59.0	60.5	62.9	61.3	59.7	59.1	58.6	58.2
NZ interest rates	Sep-08	Oct-08	3-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
OCR	8.00	7.68	6.50	6.00	5.50	5.00	4.75	4.75	4.75	4.75
90 day bill	8.19	7.97	7.06	6.50	5.80	5.30	5.20	5.10	5.00	5.00
10 year bond	6.13	5.83	5.92	5.40	5.10	5.20	5.30	5.30	5.50	5.60
International	Sep-08	Oct-08	3-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
US Fed funds	2.00	2.00	1.50	1.50	1.25	1.25	1.25	1.25	1.75	2.00
US 3-mth	2.81	4.05	3.54	2.50	2.00	1.80	1.65	1.75	2.10	2.30
AU cash	7.25	7.00	6.00	5.25	5.00	4.50	4.50	4.50	4.50	4.50
AU 3-mth	7.27	7.32	5.89	5.60	5.40	4.80	4.80	4.80	4.70	4.70

## KEY RATES

	31 Sep	27 Oct	28 Oct	29 Oct	30 Oct	31 Oct
Official Cash Rate	7.50	n/a	6.50	6.50	6.50	6.50
90 day bank bill	8.00	n/a	7.07	7.12	7.15	7.14
NZGB 07/09	5.88	n/a	5.49	5.49	5.50	5.51
NZGB 11/11	5.53	n/a	5.60	5.65	5.69	5.72
NZGB 04/13	5.57	n/a	5.74	5.79	5.83	5.86
NZGB 12/17	5.68	n/a	5.92	5.97	6.01	6.04
2 year swap	6.75	n/a	6.34	6.34	6.34	6.34
5 year swap	6.68	n/a	6.45	6.45	6.45	6.44
RBNZ TWI	63.5	n/a	56.3	58.2	59.0	59.2
NZD/USD	0.6699	n/a	0.5455	0.5717	0.5928	0.5879
NZD/AUD	0.8386	n/a	0.8999	0.8908	0.8669	0.8765
NZD/JPY	69.80	n/a	50.90	55.51	58.25	57.84
NZD/GBP	0.3722	n/a	0.3516	0.3568	0.3585	0.3594
NZD/EUR	0.4668	n/a	0.4394	0.4496	0.4494	0.4584
AUD/USD	0.7988	n/a	0.6062	0.6418	0.6838	0.6707
EUR/USD	1.4352	n/a	1.2414	1.2717	1.3192	1.2825
USD/JPY	104.20	n/a	93.30	97.09	98.27	98.39
GBP/USD	1.7996	n/a	1.5515	1.6024	1.6537	1.6358
Oil	96.29	n/a	62.02	62.83	67.48	65.82
Gold	902.05	n/a	734.20	749.80	765.35	734.85
Electricity (Haywards)	3.20	1.67	2.76	3.72	4.22	5.01
Milk futures (US\$/contract)	118	100	100	100	100	91
Baltic Dry Freight Index	3217	1048	982	925	885	851

## NEW ZEALAND DISCLOSURE INFORMATION

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

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

### *Qualifications, experience and professional standing*

#### **Experience**

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

#### **Relevant professional body**

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

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

#### **Professional indemnity insurance**

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

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

The insurer is ANZcover Insurance Pty Limited.

#### **Dispute resolution facilities**

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

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

#### **Criminal convictions**

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

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

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

#### **Fees**

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

#### **Other interests and relationships**

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

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

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

#### **Securities about which investment advice is given**

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

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

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

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

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

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

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

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

#### Record Keeping

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

#### Auditing

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

#### Use of Money and Property

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

#### NEW ZEALAND DISCLAIMER

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

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

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

This document has been prepared by ANZ National Bank Limited.

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

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

#### UNITED STATES DISCLAIMER

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

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

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

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