Market Focus
New Zealand
8 December 2008

Open partnerships
Open possibilities

A SELECTION OF COLD CUTS

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ECONOMIC OVERVIEW

Last week's RBNZ assessment has done nothing to alter our view that rates will continue to move lower. While everyone seems to be on this bandwagon, our attention is also focused on wider imbalances and implications for policy. Data this week is expected to cement expectations for a very weak Q3 GDP result. While historical, this will confirm NZ's weakness heading into the global shock, and rising resource slack.

What's ahead?

> **September quarter Value of Building Work Put in Place** (Monday 1045 NZDT). We expect a fall of 5-10 percent for residential construction given the weak trend in building consent issuance. Non-residential construction should hold at a better level.

> **September quarter Overseas Trade Indices** (Wednesday 1045 NZDT). The terms of trade is expected to fall by nearly 2 percent in the quarter. Volume data is expected to confirm that net exports will make a small positive contribution to Q3 GDP growth.

> **November Food Price Index** (Thursday 1045 NZDT). While volatile on a monthly basis and subject to seasonally variation, annual food price growth is likely to ease further.

> **November REINZ House Sales** (circa 11 December). House sales are again likely to show they are stabilising, but at a very subdued level. House prices should remain under downward pressure.

> **October Retail Sales** (Friday 1045 NZDT). ECT and credit card data painted a mixed picture for retail spending over October. Nevertheless, we expect a small rise in spending in the month, although headline sales will be weighed down by lower petrol prices.

What's the view?

Central banks hogged the limelight last week with more unparalleled moves around the globe. As the title of last week's *Market Focus* reiterates, policymakers are "moving heaven and earth" at present in response to the most challenging economic conditions in a generation.

Although really a meaningless number to quote, central banks' policy rates fell by a cumulative 800 basis points last week. Our own RBNZ cut the OCR by an unprecedented (but fully expected) 150bps, the Reserve Bank of Australia cut by 100, the Bank of England also by 100, the European Central Bank cut by 75, the Swedish Riksbank by a whopping 175bps, the Danish central bank by 75bps, the Bank of Indonesia by 25 and the Bank of Thailand by 100. Phew, we think we got them all. We doubt there has been a week like that across monetary policy circles before!

Looking more closely at our own central bank, the RBNZ has cut a total of 325bps and now see rates in "expansionary" territory at 5 percent. But despite this, and an acknowledgement of a lower NZD and further fiscal stimulus to come, further rate cuts have been signalled, although the moves are likely to be considerably smaller than what has been recently delivered. We think this is the prudent strategy to take, although of course the big caveat remains the global backdrop and as our regular readers will be well aware, we still hold a number of [huge] concerns on that front.

The big picture remains that interest rates will continue to move lower given the risks that we see manifesting into reality for inflation and growth. We expect the RBNZ to continue moving early as opposed to later, but in a more steady manner (if we could term 50bps moves as steady!) going forward, subject of course to the normal caveats about the global environment. But the endgame ultimately looks set to involve the OCR falling below 4 percent. We are looking for a 50bp cut in January, subject to no further substantial deterioration in the global scene (a big assumption at present) and the government delivering a sizeable fiscal stimulus package before Christmas to assist monetary policy in stabilising the economy.

One danger we are acutely wary of at present is the risk of interest rate cuts being hyped up as a consequence of an awful economic environment, and ignoring some wider considerations. Around the globe there is a huge amount of reflationary stimulus being thrown at the international economy. The RBNZ (in a similar fashion to the RBA) acknowledged the *"substantial support to demand over the period ahead"* that is set to hit the NZ economy.

Certainly, this stimulus is currently required given the international scene. Yet, at the danger of responding to one crisis (and policymakers can only manage one at a time), another risks being created down the track, namely inflation. This seems a tall ask at present given the dis-inflationary (deflationary?) forces that are dominating, including collapsing demand, falling commodity prices and easing inflation expectations. We are certainly of the view that rates will move lower from here. But we must not lose sight of the bigger picture: consumer driven excess resides at the heart of global imbalances, and there is of course the risk that by stimulating the spending tap via monetary and fiscal policy, we create a further problem down the track. It would be truly ironic if we managed to spend our way out of a binge spending driven jam in the first place! Our *Quarterly Economic Forecasts* will be out this week, and one issue dominates, namely, the dynamics and reality of a current account realignment process.

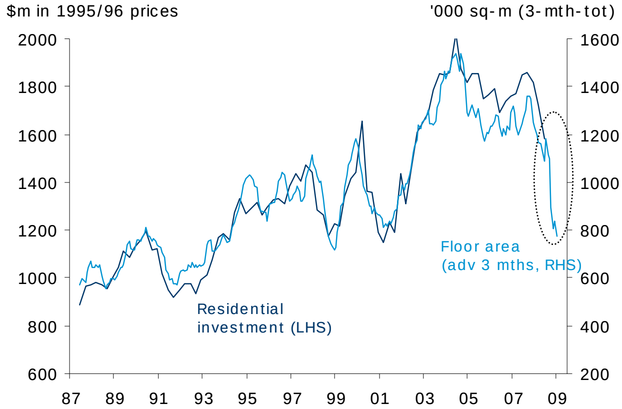
Of course central banks are not mandated to curb such excesses, and there is also a strong political reality to policy actions they are taking at present as they try to temper the extreme downside risks for the economic outlook. It's simply not tenable for central banks to stand idly by and expect households to take their bitter medicine.

But we are in no doubt that we need to keep one eye on the wider picture: the global stimulus package is massive, with quantitative easing now being adopted in a number of nations, and reflationary forces are stoking the spending side of the economy. At some stage, this will portend of inflation, which historically has been how household (and corporate) balance sheets have been repaired. Moreover, the Governor of the Reserve Bank alluded to some of the wider macro issues facing central banks when he was quoted in the weekend, noting *"I think some of the G3 rates were kept too low for too long."* A potential spanner in the works in terms of potentially how far policymakers can and should respond to the current crisis.

So while we continue to look for rate cuts near-term, we are also mindful as to when the potential turning point could be. One thing seems for sure. Interest rates, when they start to move back up, will not rise in the 25bp increments that was the trajectory during the previous RBNZ tightening cycle. Yes, we know the global scene is facing an elongated adjustment as households de-leverage. Yet we also know NZ has the Rugby World Cup around the corner, there are flow-on effects from the current crisis translating into less supply side capacity for the global economy, the market is focusing too much on demand when it comes to assessing inflation risks, and there is a historical tendency for pent-up demand to take hold as soon as confidence returns.

Turning to the data this week, there is a bit to keep us busy. First up this morning is data on the Value of Building Work Put in Place for the September quarter. This has a very good relationship with residential investment and hence is a key partial indicator we use for our quarterly GDP models. The residential construction numbers are expected to be dire considering the trend in building consent issuance. We would not rule out a 10 percent contraction for the quarter and if this eventuates would obviously set the scene for GDP to experience its third consecutive quarterly fall. The non-residential construction numbers are likely to be better, but considering this only makes up around one quarter of total construction, it is unlikely to provide enough of an offset. The construction sector looks set to remain a significant drag on economic prospects over the next 12 months. When looking for incentives for builders at present, they are few and far between. House prices are falling, credit is more difficult to obtain and a lack of confidence remains.

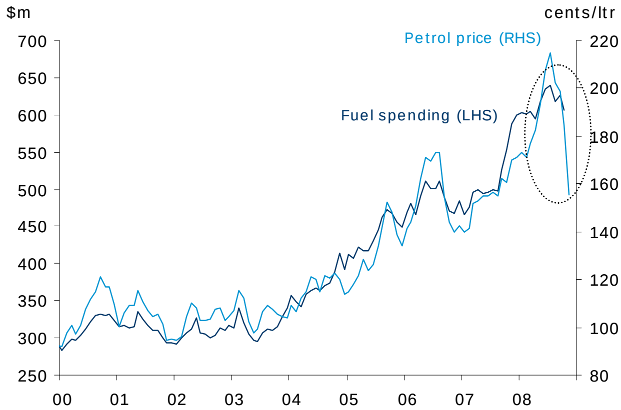
Residential investment vs floor area consents



Sources: ANZ National, Statistics NZ

We also receive September quarter Overseas Trade Indices this week, which is another important partial indicator for GDP. Contained within these numbers are the terms of trade and it is growing increasingly clear that we have passed the peak (for this cycle anyway). While oil prices (which NZ is a net importer of) have fallen, so too have the prices of NZ's key exports. We expect the terms of trade to fall in the vicinity of 2 percent in the quarter and remain under pressure for some time. The problem at the moment is that this lower terms of trade is going to be another factor weighing against the economy's ability to improve the external position.

Fuel retailing and petrol prices



Sources: ANZ National, Statistics NZ, MED

Other data released includes November food prices, REINZ house sales and October retail sales. Food price inflation is likely to remain high in an annual sense, although off its peaks. The REINZ data will be interesting to assess whether the recent cuts to mortgage rates have improved confidence in the market. We expect house sales to likely show some further signs of stability (albeit at a very depressed level) but for house prices to remain under pressure. Finally, retail spending for October is expected to bounce. While poor motor vehicle sales and lower petrol prices will weigh on the headline number, core retail spending is expected to rise by 1 percent. This is partly a result of many now starting to respond to the aggressive discounting that is occurring.

The final thing to watch for locally this week will be details of a fiscal stimulus package from the new Government. With parliament re-convening and a speech from the throne delivered by the Governor General on Tuesday, which should outline the new Government's agenda and objectives for the coming term, some details of a fiscal package may be outlined in this. As we mention above, we expect something sizable.

Offshore this week, it should be a quieter one. Australian labour market data for November will be the big focus over the Tasman. Central banks will also again get plenty of attention with a number of policymakers due to make speeches. There is limited major data released from the US or Europe this week.

Recent local data…

ANZ Commodity Price Index (November): The world prices of NZ's key exports fell by 7.2 percent, while in NZ dollar terms, prices fell by 1.8 percent.

RBNZ December Monetary Policy Statement: The OCR was cut by 150bps to 5.00 percent.

THE D WORD

Drought conditions existed (2 Dec) on the east coast of both islands. The position is more serious than simple rainfall models might suggest.

Background

An available soil moisture model for pastoral farming in various districts is derived from weekly rainfall and evapo-transpiration. Droughts are obviously more common in some parts of the country than others. The severity of a drought can be partially assessed by the probability that it will occur at a specific time of the year and for how long it has persisted relative to what is 'normal'.

Current position

Whangarei, East Coast, Hawke's Bay, Canterbury, North Otago and Dunedin are in drought. The outlier here is Whangarei which has a low probability of drought at this time of the year (and in any other part of the year). The rest of the group can be expected to be in a drought or very close to drought at this time of the year.

Drought ranking 2-Dec 2008		
Locality	**Probability**	**Weeks of drought**
Adequate		
Blenheim	80	
Nelson	50	
Wellington	50	
Gore	20	
Manapouri	20	
Levin	10	
Palmerston	10	
Hamilton	10	
Invercargill	10	
New Plymouth	0	
Green Drought		
Taratahi	70	2
Rotorua	50	1
Whakatane	50	2
Tauranga	40	2
Pareoa	10	1
Drought		
Oamaru	100	1
Timaru	100	4
Christchurch	100	5
Napier	90	5
Gisborne	90	5
Kaikoura	80	1
Dunedin	80	2
Whangarei	20	1

Note: Probability is of drought at this time of the year

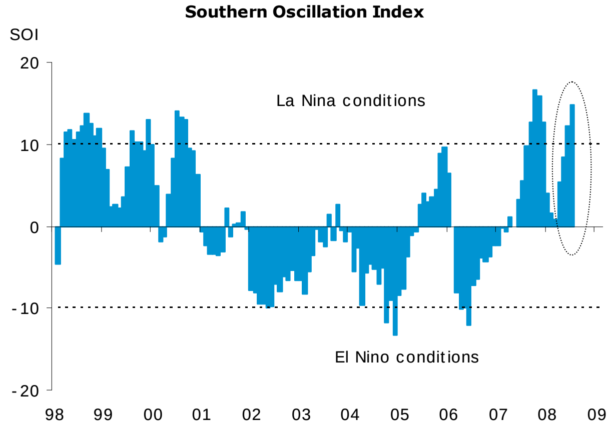
The position is worse than a simple rainfall model might suggest. Several of the affected districts are not well placed to cope with another drought as the carry over effects of the last summer/autumn drought on pastures and livestock (droughts in the case of Hawke's Bay) combined with a difficult spring has left little/no surplus feed to conserve or carry forward into the summer.

Thames, the Bay of Plenty and the Wairarapa need rain. The outlier here is Thames which is not usually in this situation at this time of the year.

A reasonable rain now will bring respite but summer evapo-transpiration rates require around 30mm of rain a week to maintain soil moisture. Two or more good rains spread out over 10 days or so would ease the situation considerably. Pastures are not decimated and would respond quite quickly. However, the longer a drought persists, the more rain is needed and the longer it takes to restore pasture growth.

Likelihood of Serious Drought in 2008/09

We pass on this forecast. We note that the Southern Oscillation Index (SOI) is now in the La Nina phase. The fact that the SOI is in one phase or another (El Nino) does not say that a drought is a certainty. *"A La Nina is associated with a greater frequency of northerly conditions, often leading to dry weather on the east coast of both islands. There is also the chance of tropical storms from the north"* (quote by the late Dr Neil Cherry who was a meteorologist at Lincoln University).



Sources: ANZ National, Australian Government Bureau of Meteorology

The topography of NZ, combined with the fact that the SOI is not the only influence on the weather, mean the SOI is not a consistent indicator of the weather over a period of time in specific localities.

Impact of Drought on the Economy

Profits are dented. There are commonly fewer livestock to sell when droughts are consecutive. The flow on is that the farm business restricts expenditure on services and discretionary expenditure to the detriment of other business in the community. Given other headwinds, drought conditions are simply adding to the uncertainty and discomfort for pockets of the rural sector.

MONTHLY INFLATION GAUGE[1]

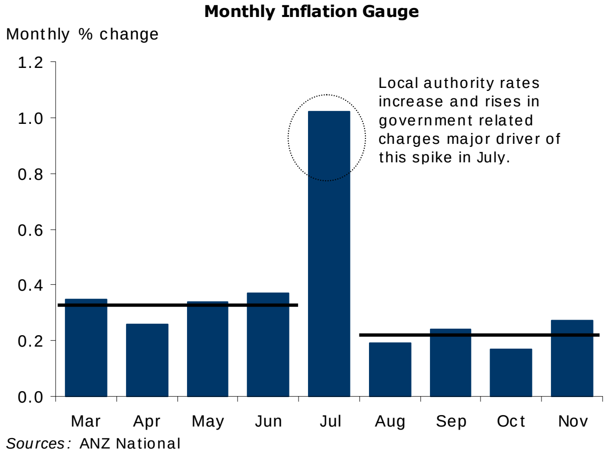
Our experimental monthly inflation gauge continues to show reasonable stability, recording a rise of 0.3 percent in November. As yet, there is still no firm evidence that domestic demand pressures are easing. But equally important is the lack of renewed inflation pressure, outside of electricity prices.

Following three consecutive monthly increases of 0.2 percent, our experimental monthly inflation gauge rose by 0.3 percent in November. Overall, our monthly inflation gauge has shown considerable stability since August. As we alluded to last month, a large increase in electricity prices was a key contributor to the rise in November. This is not going to be the last of it, with another power company recently announcing price increases starting from January next year.

There were sporadic increases here and there amongst the prices we collected, including from major newspapers and magazines, and accommodation costs. But there was nothing of note. Going the other direction were falls in transport costs. Rents continue to flatline, while our modelled construction costs showed a small rise. Overall, our inflation gauge suggests that domestic inflation may be starting to moderate slightly.

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

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



Should we see another similar print in December, this suggests we could see non-tradable CPI rise by around 0.8 to 0.9 percent in the December quarter. As we have noted before, our inflation gauge has been very close to the official Statistics NZ non-tradable CPI print over the past two quarters (see table). However, it will be a while before we can confidently assess its value in giving an accurate lead on the official statistics.

Most of the action on the pricing front, in terms of headline CPI in the December quarter and the March quarter next year, will be in the tradable space, with the falls in petrol prices to date set to result in negative prints for both quarters. But signs of further moderation in our monthly inflation gauge will be welcome news for the RBNZ, as they continue to seek out evidence of easing domestic inflation pressures.

The two areas of domestically generated inflation that the RBNZ have singled out in recent communication (electricity prices and local authority rates) look set to continue in the near term. Recent electricity price announcements will stay in the CPI calculation for some time, and there is growing upward pressure on local authority rates for next year, as councils around the country seek to offset declining revenues from consent and development fees. Of course, there is pressure coming from the other side, from the likes of the RBNZ and public sentiment against hefty council rates increases. Ultimately, it looks increasingly the case that the contestable parts of the economy will be the ones to bear the brunt of the easing in domestic inflation pressures.

GLOBAL WATCH

Data was weak across the globe. ISM surveys in the US continue to deteriorate suggesting further contractions in GDP and firms continue to shed a large number of staff. Retail spending is retreating sharply across Europe, while export growth in Asia is slowing as global demand wanes.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	ISM Manufacturing (Nov)	37.0	36.2	38.9	Weaker
	Construction Spending (Oct) – mom	-1.0%	-1.2%	0.0%	Weaker
	Non-Farm Productivity (3Q F)	0.9%	1.3%	1.1%	Stronger
	Unit Labour Costs (3Q F)	3.6%	2.8%	3.6%	Weaker
	ISM Non-Manufacturing Composite (Nov)	42.0	37.3	44.4	Weaker
	Continuing Claims (w/e Nov-23)	4,030K	4,087K	3,998K	Weaker
	Factory Orders (Oct)	-4.5%	-5.1%	-3.1%	Weaker
	Change in Non-Farm Payrolls (Nov)	-335K	-533K	-320K	Weaker
	Unemployment Rate (Nov)	6.8%	6.7%	6.5%	Stronger
	Average Hourly Earnings (Nov) - mom	0.2%	0.4%	0.3%	Stronger
Euro-zone	PMI Manufacturing (Nov F)	36.2	35.6	36.2	Weaker
	PPI (Oct) – mom	-0.3%	-0.8%	-0.3%	Weaker
	PMI Services (Nov F)	43.3	42.5	43.3	Weaker
	Retail Sales (Oct) – mom	-0.4%	-0.8%	0.0%	Weaker
	GDP (3Q P) – qoq	-0.2%	-0.2%	-0.2%	In-line
	ECB Interest Rate Announcement	2.75%	2.50%	3.25%	Weaker
UK	Net Consumer Credit (Oct)	0.5B	0.8B	0.3B	Stronger
	Mortgage Approvals (Oct)	32K	32K	33K	In-line
	PMI Manufacturing (Nov)	39.7	34.4	40.7	Weaker
	PMI Construction (Nov)	33.5	31.8	35.1	Weaker
	PMI Services (Nov)	41.2	40.1	42.4	Weaker
	BoE Interest Rate Announcement	2.00%	2.00%	3.00%	In-line
Asia Ex-Japan					
China	PMI Manufacturing (Nov)	-	38.8	44.6	-
Hong Kong	Retail Sales – Volume (Oct) – yoy	-0.8%	-4.3%	-1.9%	Weaker
Singapore	Purchasing Managers Index (Nov)	44.0	44.3	45.8	Stronger
	Electronic Sectors Index (Nov)	46.6	46.2	49.0	Weaker
Taiwan	CPI (Nov) - yoy	2.1%	1.9%	2.4%	Weaker
South Korea	Exports (Nov P) – yoy	-11.1%	-18.3%	8.5%	Weaker
	Imports (Nov P) – yoy	-4.2%	-14.6%	10.4%	Weaker
	CPI (Nov) – mom	-0.3%	-0.3%	-0.1%	Weaker
	GDP (3Q F) – qoq	-	0.5%	0.6%	-
Philippines	CPI (Nov) – mom	-0.4%	-0.6%	-0.4%	Weaker
Malaysia	Exports (Oct) – yoy	6.6%	-2.6%	15.0%	Weaker
	Imports (Oct) – yoy	2.0%	-5.3%	11.4%	Weaker
Thailand	CPI (Nov) – mom	-0.5%	-1.2%	-1.2%	Weaker
	BoT Interest Rate Announcement	3.25%	2.75%	3.75%	Weaker
India	Exports (Oct) – yoy	-	-12.1%	10.4%	-
	Imports (Oct) – yoy	-	10.6%	43.3%	-
Indonesia	Inflation (Nov) – mom	0.17%	0.12%	0.45%	Weaker
	Exports (Oct) – yoy	16.3%	4.9%	28.5%	Weaker

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Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
Indonesia cont.	Imports (Oct) – yoy	40.6%	40.3%	38.5%	In-line
	BoI Interest Rate Announcement	9.50%	9.25%	9.50%	Weaker
Japan	Labour Cash Earnings (Oct) – yoy	0.1%	-0.1%	0.2%	Weaker
	Capital Spending (3Q)	-9.9%	-13.0%	-6.5%	Weaker
Australia	Company Operating Profit (3Q) – qoq	3.0%	5.2%	15.7%	Stronger
	Inventories (3Q)	0.7%	0.7%	0.8%	In-line
	Retail Sales (Oct) – mom	-0.2%	0.7%	-1.0%	Stronger
	RBA Interest Rate Announcement	4.50%	4.25%	5.25%	Weaker
	GDP (3Q) – qoq	0.2%	0.1%	0.4%	Weaker
	Building Approvals (Oct) – mom	0.0%	-5.4%	-5.9%	Weaker

INTEREST RATE STRATEGY

The RBNZ's decision to cut the OCR by 150bps last week was a bold step, and it takes monetary policy into "expansionary" territory. But more rate cuts are likely, and we see plenty of downside risks to the OCR profile currently "priced in". The long end is likely to take its lead from offshore markets, which continue to trend lower in yield. While the long term inflation outlook isn't good for long term interest rates, they will probably fall in the near term as the US Federal Reserve starts to buy back Treasuries and other bonds.

Market themes…

> We expect the RBNZ to ease by 50bps in January, March and April, taking the OCR to 3.5 percent. That's more that what's "priced in".

> NZ swap yields are approaching historic lows and are starting to look attractive to hedgers. However we still think yields can go lower.

> Global long term interest rates continue to tumble, taking NZ rates with them. Record low US 10yr bond yields and the prospect of a record low OCR should see this trend continue.

Review and outlook …

The slump in US non-farm payrolls and associated downward revision to previous releases is a timely reminder of the realities of the current environment. The US economy is deeper in recession than many thought, and while jobs lag the real economy, the pace of job losses is hardly encouraging. US interest rates actually sold off, despite the negative surprise, on account of widespread long positioning. We doubt this will last, and don't regard it as a potential sign that things have changed. On the contrary, we believe global interest rates are headed lower.

While inflation expectations are set to remain subdued in most economies in the near term as actual inflation starts to fall, the long term outlook is far less rosy. Fighting the credit crunch with excess liquidity is, of course, the only realistic solution. However, it brings with it the likelihood of an upsurge in inflation down the track. This isn't something that the market is considering right now (and it arguably won't have any impact on US bond pricing for some time if the Fed start buying Treasuries), but it is something that will come into focus down the track. And when it does kick in, it will likely have an impact in countries like NZ, where the Government is not buying back bonds. On the contrary – the NZ government will be actively issuing bonds. However for now, we expect additional liquidity to drive all long end interest rates lower, including in NZ – it's just that the impact will be dampened.

Borrowing strategies we favour at present

Interest rates fell to post-OCR lows across the yield curve on Friday, and are at very tempting levels for borrowers. However we still believe there's more downside, particularly at the short end of the curve, which will simply follow the OCR lower. Long end rates will continue to fall as global yields fall (and they're falling quickly). Await lower levels before extending duration, bearing in mind that because long end rates lead the cycle, if any hedging is to be done, start at the long end. "Blend and extend" trades are starting to look attractive, but the forward curve still has too much "recovery" priced in, so they're not as good as the rally might imply.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔/↓	RBNZ cuts won't be nearly as aggressive from here.
NZ data	↔/↓	Data schedule has been light. Anecdotes poor.
Fed Funds/ front end	↔/↓	FOMC unlikely to disappoint. Flood of liquidity driving short end rates lower, US data extremely poor.
RBA	↔/↑	Have sought to rein in bullish expectations.
US 10 year	↔/↓	Will continue to head lower as Fed buying kicks in.
NZ swap curve	↔	Medium term steepening bias offset by profit taking.
Flow	↔/↑	Rate close to historic lows will attract corporate payers.
Technicals	↔/↓	The slow grid lower in rates continues. Momentum solid.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 4-Dec-08	-127	-150 (actual)
Thu 22-Jan-09	-202	-55 (from 5%)
Thu 5-Mar-09	-237	-100
Thu 23-Apr-09	-237	-106
Thu 4-Jun-09	-267	-114
Thu 30-Jul-09	-261	-114
Thu 10-Sep-09	-237	-109

Trading themes we favour at present

Tempting as it may be to take profit on last week's OIS trade (long 12mth OIS at 4.37%) for a profit of around 17bps, we still think it has some way to go. The market still hasn't really embraced the idea of an OCR sub 3.5%, and as it does, long end OIS will continue to rally. It's also worth considering 3mth – 12mth OIS inverters, as there is plenty priced into the next 2 meetings, but not enough further out by comparison. Pricing just looks inconsistent.

CURRENCY STRATEGY

The NZD's correlations with equities and commodities look to be weakening a tad. While they will no doubt remain big picture drivers to a degree, we need to be cognisant that the NZD has come a long way, quickly, and the USD faces challenges. Play in the current environment looks to be a weaker NZD/AUD. Nonetheless, current account fundamentals continue to point to protracted weakness for the NZD medium-term, including against the greenback.

Market themes…

> Equity and yield correlations starting to break down.

> Offshore developments to still drive NZD near-term.

> But focus on the fundamentals should start to exert, which is bearish for the NZD.

Review and outlook…

The NZD managed to do well to end the week on a slightly higher note, despite a 150bp rate cut from the RBNZ (with more to come) and a sizeable fall in the ANZ Commodity Price Index. Were it not for a late rally in the Dow Jones, which helped drag the NZD higher, the kiwi would have started the week knocking at the key 0.52 support level.

Despite the pulling power of the Dow Jones late last week, the NZD's strong correlation with equity and yields has started to break down. So too has the relationship with risk appetites and even the USD index. This suggests the NZD might be getting set for a big move soon. The kiwi has been getting less support of late, with CFTC data showing real money still sitting on net short positions, and Japanese margin traders have been reluctant to go long on the NZD, having pared back their massive positions of late. With domestic demand very weak leading to reduced imports in the near term, there is very little natural demand for the NZD.

The big picture remains bearish for the NZD. The reality is that faced with a large current account deficit, falling commodity prices and reduced external demand, the NZD is set for a protracted period of weakness. Comments from the NZ Prime Minister John Key that his personal view is that the NZD heads below 0.50 against the USD and below 0.80 against the AUD could also weigh. But we only need to look at the continual decline in dairy prices (both the USDA and also the non-fat dry futures) and the Baltic Dry to see that the barometers for the global economy are very weak. This should further set the tone for NZD weakness.

On the NZD/AUD cross, we have finally seen a move lower, and we expect this to continue. The divergence in the dataflow is obvious. Yes, the Australian economy was essentially flat in Q3. But NZ is headed backwards. And the trade surpluses that Australia has been running these past few months contrasts with NZ's large deficits. Data this week should keep the NZD heavy, but as usual, it will be global developments that will dominate.

Technically the NZD should struggle around the 0.5400 cent level this week with a confirmed daily close below 0.5200 suggesting we are heading sub 0.5000. The 0.5200 level is now critical. The 0.8333 level of NZD/AUD is now major resistance and is a sell anywhere near this level for an attack on 0.8000 cents.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Should be lower based on fundamentals.
Yield	↔	RBNZ and RBA ease aggressively. More to come.
Commodities	↔/↓	NZ's fall bigger.
Partial indicators	↓	NZ indicators still worse.
Technicals	↔/↓	0.8333 now resistance.
Sentiment	↔/↓	Still fickle.
Other	↑	Equities stabilisation helping AUD for now.
On balance	↓	**Should be lower but subject to global scene**

NZD vs USD: monthly directional gauges

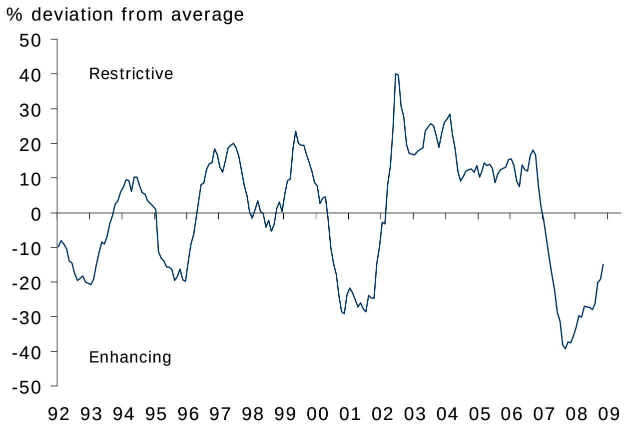
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models in this environment. They say low 0.50s.
Fair value – short-term	↔/↓	Still above cyclical fair value level at present.
Yield	↓	150bp from RBNZ and more to come.
Commodities	↓	Dairy prices still falling.
Risk aversion	↔/↓	Fragile and fickle.
Partial indicators	↔	Awful for both.
Technicals	↔/↓	0.5200 critical level.
AUD	↔	AUD has some support.
Sentiment	↔	Very weak.
Other	↑	Mrs Watanabe looks to be throwing in the towel.
On balance	↔/↓	**Near-term bounce limited, medium-term still bearish.**

EFFECTIVE EXCHANGE RATES UPDATE

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

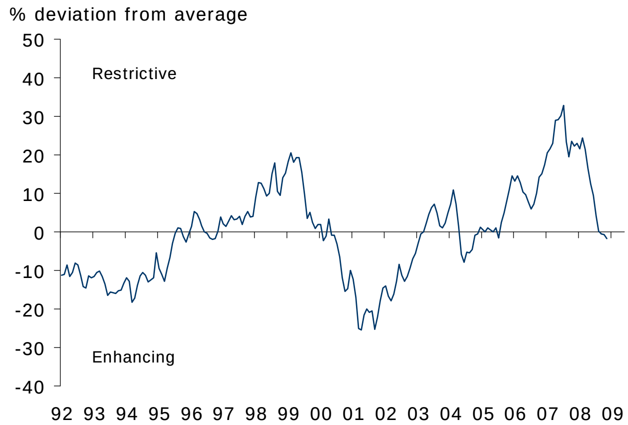
For four months now, the broad story is the same. Large falls in world dairy and aluminium prices, more than offsetting movements lower in the NZD, see these two sectors experience a deterioration in their commodity adjusted real exchange rates (they become more restrictive). All other commodity adjusted real currencies became more enhancing over November, with a generally lower NZD offsetting falls for some commodity groups. The seafood sector is experiencing near record enhancing conditions, while conditions for the meat industry are gradually moving into a more enhancing environment.

Sector: Dairy, ≈18% of exports



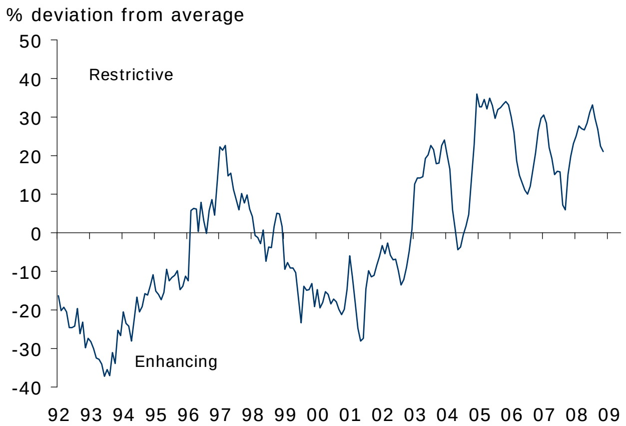
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat, ≈8% of exports



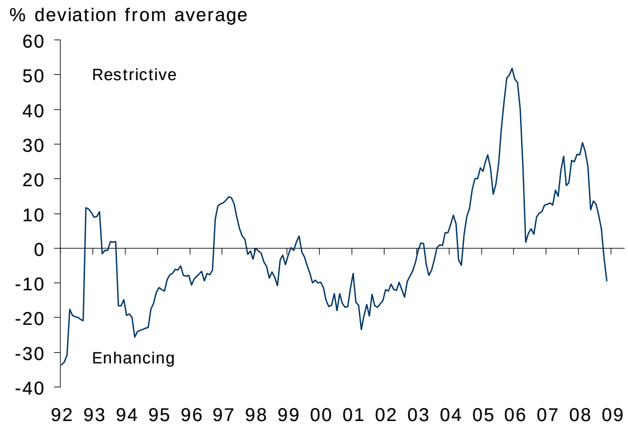
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry, ≈10% of exports



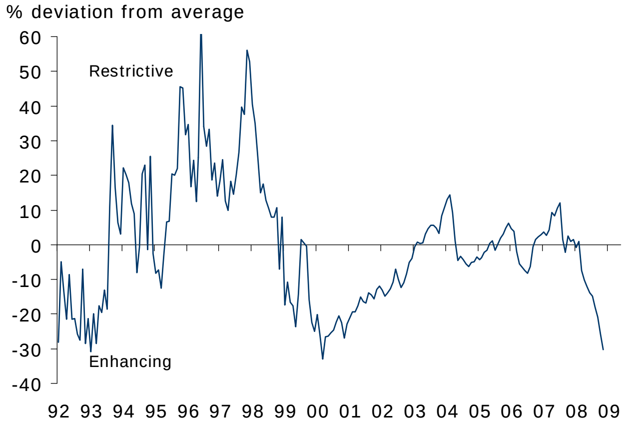
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture, ≈4% of exports



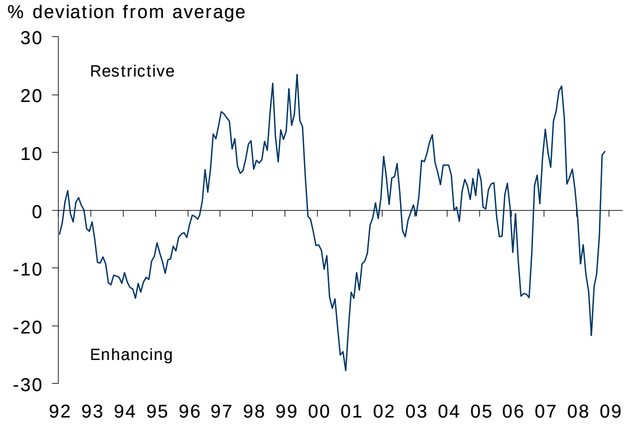
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood, ≈3% of exports



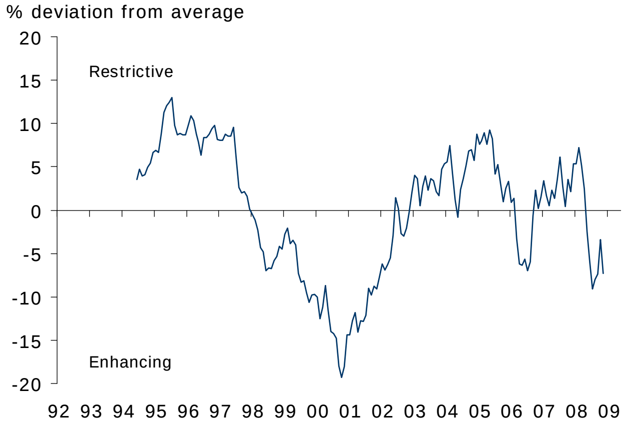
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude, ≈5% of exports



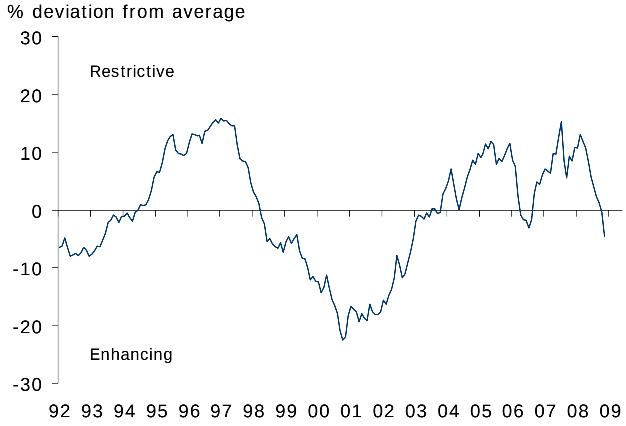
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Manufacturing, ≈20% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Services, ≈24% of exports



Sources: ANZ National, Bloomberg, Statistics NZ

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
8-Dec	**NZ**	**Value of Building Work Put in Place (3Q)**	**-**		**10:45**
		Parliament Re-convenes	**-**	**-**	**14:00**
	JN	Money Stock M3 (Nov) - yoy	0.6%	0.6%	12:50
		Adjusted Current Account Total (Oct) - yoy	¥1158.9B	¥970.5B	12:50
		Bankruptcies (Nov) - yoy	-	13.4%	17:30
		Eco Watchers Survey: Current (Nov)	20.0	22.6	18:00
		Eco Watchers Survey: Outlook (Nov)	-	25.2	18:00
	AU	ANZ Job Advertisements (Nov) - mom	-	-5.9%	13:30
	UK	PPI Input (Nov) - mom	-3.0%	-5.6%	22:30
		PPI Output (Nov) - mom	-0.7%	-1.0%	22:30
		PPI Output Core (Nov) - mom	-0.4%	-0.5%	22:30
	EC	Sentix Investor Confidence (Dec)	-40.0	-36.4	22:30
9-Dec	GE	Industrial Production (Oct) - mom	-1.9%	-3.6%	00:00
		Trade Balance (Oct)	14.0B	15.0B	20:00
		Current Account (Oct)	14.0B	15.0B	20:00
		Imports (Oct) - mom	-2.7%	0.9%	20:00
		Exports (Oct) - mom	-1.1%	0.7%	20:00
		ZEW Survey (Econ. Sentiment) (Dec)	-57.0	-53.5	23:00
		ZEW Survey (Current Situation) (Dec)	-60.0	-50.4	23:00
	EC	ECB's Trichet Speaks at European Parliament	-	-	03:00
		ECB's Bonello Attends Event in Luxembourg	-	-	05:00
		ECB Council Member Liikanen Speaks in Helsinki	-	-	22:00
		ZEW Survey (Econ. Sentiment) (Dec)	-59.0	-54.0	23:00
	US	Fed's Kohn Speaks on Regulatory Panel in Washington	-	-	05:00
		Fed's Fisher Speaks in Addison, Texas, on Financial Crisis	-	-	07:45
	JN	Gross Domestic Product (3Q F) - qoq	-0.2%	-0.1%	12:50
		Leading Index CI (3Q P)	85.0	89.4	18:00
		Coincident Index CI (3Q P)	98.2	100.9	18:00
		Machine Tool Orders (Nov P) - yoy	-	-40.0%	19:00
	AU	NAB Business Confidence (Nov)	-	-29	13:30
		NAB Business Conditions (Nov)	-	-11	13:30
		Reserve Bank Governor Stevens Speaks in Sydney	-	-	22:00
	UK	RICS House Price Balance (Nov)	-83%	-82%	13:01
		Total Trade Balance (Oct)	-£4000m	-£3863m	22:30
		Industrial Production (Oct) - mom	-0.5%	-0.2%	22:30
		Manufacturing Production (Oct) - mom	-0.5%	-0.8%	22:30
		DCLG UK House Prices (Oct) - yoy	-6.5%	-5.1%	22:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
10-Dec	US	IBD/TIPP Economic Optimism (Dec)	45.0	50.8	04:00
		Pending Home Sales (Oct) - mom	-3.0%	-4.6%	04:00
	NZ	**Terms of Trade Index (3Q) - qoq**	**-2.6%**	**-0.5%**	**10:45**
	JN	Machine Orders (Oct) - mom	-4.0%	5.5%	12:50
		Domestic CGPI (Nov) - mom	-1.7%	-1.6%	12:50
	UK	NIESR GDP Estimate (Nov)	-	-0.5%	13:01
	AU	Westpac Consumer Confidence (Dec)	-	4.3%	13:30
		Home Loans (Oct)	1.0%	-2.7%	13:30
		Investment Lending (Oct)	-2.0%	-1.1%	13:30
		Value of Loans (Oct) - mom	1.3%	-1.9%	13:30
11-Dec	US	Wholesale Inventories (Oct)	-0.2%	-0.1%	04:00
		Monthly Budget Statement (Nov)	-$175.0B	-	08:00
	NZ	**Business NZ PMI (Nov)**	**-**	**43.5**	**10:30**
		Food Prices (Nov) – mom	**-**	**-0.3%**	**10:45**
	AU	Consumer Inflation Expectation (Dec)	-	3.3%	13:00
		Unemployment Rate (Nov)	4.4%	4.3%	13:30
		Employment Change (Nov)	-15.0K	34.3K	13:30
		Participation Rate (Nov)	65.2%	65.3%	13:30
	EC	ECB's Trichet Speaks at Forum in Frankfurt	-	-	21:05
		ECB Publishes Dec. Monthly Report	-	-	22:00
	UK	Bank of England Quarterly Inflation Attitudes Survey	-	-	22:30
12-Dec	US	Trade Balance (Oct)	-$53.5B	-$56.5B	02:30
		Import Price Index (Nov) - mom	-4.8%	-4.7%	02:30
		Initial Jobless Claims (w/e Dec-7)	522K	509K	02:30
		Continuing Claims (w/e Nov-30)	4100K	4087K	02:30
	EC	ECB's Tumpel Gugerell speaks in Vienna	-	-	06:00
	NZ	**Retail Sales (Oct) - mom**	**0.0%**	**0.1%**	**10:45**
		Retail Sales Ex-Auto (Oct) - mom	**0.8%**	**-0.5%**	**10:45**
	JN	Industrial Production (Oct F) - mom	-	-3.1%	17:30
		Capacity Utilization (Oct F) - mom	-	1.6%	17:30
		Consumer Confidence (Nov)	-	29.8	18:00
	EC	Industrial Production (Oct) - mom	-1.0%	-1.6%	23:00
13-Dec	US	Producer Price Index (Nov) - mom	-2.0%	-2.8%	02:30
		PPI Ex Food & Energy (Nov) - mom	0.1%	0.4%	02:30
		Advance Retail Sales (Nov)	-2.0%	-2.8%	02:30
		Retail Sales Less Autos (Nov)	-1.8%	-2.2%	02:30
		U. of Michigan Confidence (Dec P)	55.0	55.3	04:00
		Business Inventories (Oct)	-0.2%	-0.2%	04:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States. Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All $ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: The dataflow over the coming weeks is expected to remain weak and confirm the likelihood of another contraction in GDP realised just prior to Christmas. In fact, we would not rule out the September quarter GDP result as being the "shocker" we have expected to arrive at some stage.

Date	Data/Event	Economic Signal	Comment
Mon 8 Dec (10.45)	Value of Building Work Put in Place (Q3)	Another large contraction	Residential construction work is again expected to contract sharply in the quarter. Non-residential construction should hold up at a better level.
Wed 10 Dec (10.45)	Overseas Trade Indices (Q3)	Terms of trade down again	While oil prices started to fall in the September quarter, so too did the prices of NZ's commodity exports. This should contribute to another fall in the terms of trade.
circa 11 Dec	REINZ House Sales (Nov)	Sales stabilising, but prices still under downward pressure.	House sales may show some signs of recovery due to more realistic price expectations from vendors as well as lower mortgage rates. However, prices should remain under downward pressure.
Fri 12 Dec (10.45)	Retail Sales (Oct)	Underlying weakness	ECT and credit card data painted a mixed picture for retail spending over October. Nevertheless, we expect a small rise in spending in the month, although headline sales will be weighed down by sharply lower petrol prices.
Mon 15 Dec (10.45)	Economic Survey of Manufacturing (3Q)	Weak	Despite a lower NZD, recent PMI surveys have shown the manufacturing sector heading backwards.
Wed 17 Dec (15.00)	Westpac/McDermott Miller Consumer Confidence (4Q)	Pull-back as reality of economic situation hits home.	Following the large rebound in the previous survey, and despite lower petrol prices and mortgage rates, we expect the reality of the economic situation to hit home and for consumer confidence to pull back.
Thu 18 Dec (15.00)	NBNZ *Business Outlook* (Dec)	-	-
Fri 19 Dec (10.45)	External Migration (Nov)	Visitor arrivals likely to head lower	While net migration has been effectively zero over the past two months, visitor arrivals are now the key to watch. They are likely to continue to head south given the global backdrop.
Mon 22 Dec (10.45)	Balance of Payments (Q3)	No improvement in the near-term	A lack of improvement in the trade balance, and the ever-present large investment income deficit, are expected to see the current account deficit deteriorate slightly in the quarter.
Tue 23 Dec (10.45)	Gross Domestic Product (Q3)	Third contraction in a row	Residential investment and private consumption again lead the weakness and we have pencilled in a 0.5 percent contraction.
On Balance		**Key issue is the flow-on from the global scene.**	**Weakness now extending into Q4 and 2009 according to lead indicators.**

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	**-0.5**	**0.1**	**-0.6**	**-0.5**	**0.0**	**0.3**	**0.6**
GDP (% yoy)	3.7	2.2	1.1	**-0.1**	**-0.9**	**-1.2**	**-1.5**	**-1.0**	**-0.8**	**0.4**
CPI (% qoq)	1.2	0.7	1.6	1.5	**-0.3**	**-0.2**	**0.9**	**0.9**	**0.8**	**0.4**
CPI (% yoy)	3.2	3.4	4.0	5.1	**3.6**	**2.7**	**2.0**	**1.4**	**2.5**	**3.1**
Employment (% qoq)	0.9	-1.3	1.3	0.1	**-0.9**	**-0.7**	**-0.5**	**0.0**	**0.1**	**0.1**
Employment (% yoy)	2.5	-0.2	0.7	1.0	**-0.8**	**-0.2**	**-2.0**	**-2.1**	**-1.1**	**-0.3**
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	**4.7**	**5.0**	**5.5**	**5.7**	**6.0**	**6.2**
Current Account (% GDP)	-8.2	-8.0	-8.4	**-8.4**	**-8.7**	**-8.5**	**-7.4**	**-6.8**	**-6.3**	**-6.3**
Terms of Trade (% qoq)	2.9	4.2	-0.5	**-1.9**	**-3.2**	**-1.6**	**-1.7**	**-1.5**	**-1.1**	**-0.8**
Terms of Trade (% yoy)	8.8	11.6	10.6	**4.6**	**-1.7**	**-7.1**	**-8.2**	**-7.7**	**-5.9**	**-5.1**

KEY ECONOMIC INDICATORS

	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08
Retail Sales (% mom)	-0.7	-1.0	1.3	-1.1	0.9	-0.7	0.4	0.1	..	..
Retail Sales (% yoy)	7.7	-1.0	4.1	1.0	1.5	2.5	-0.9	2.2	..	..
Credit Card Billings (% mom)	0.4	-0.5	-0.3	0.5	-0.1	0.2	-0.2	0.9	-1.1	..
Credit Card Billings (% yoy)	7.5	5.8	5.5	6.0	4.0	4.2	2.4	2.4	1.1	..
Car Registrations (% mom)	-4.5	-12.7	11.9	-13.9	1.3	-7.2	-3.5	11.1	-0.2	-20.3
Car Registrations (% yoy)	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4
Building Consents (% mom)	-6.3	-13.0	79.8	-42.3	-12.8	-1.4	-7.5	11.1	-22.0	..
Building Consents (% yoy)	-17.7	-26.8	29.9	-27.0	-45.5	-34.6	-43.2	-27.9	-43.2	..
REINZ House Price (% yoy)	0.7	1.6	-1.1	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	..
Household Lending Growth (% mom)	0.8	0.4	0.3	0.5	0.3	0.3	0.4	0.3	0.2	..
Household Lending Growth (% yoy)	11.7	10.9	10.0	9.4	8.5	7.8	7.3	6.8	6.0	..
Roy Morgan Consumer Confidence	116.0	111.7	99.9	89.2	86.5	83.9	91.4	108.6	99.7	98.3
NBNZ Business Confidence	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	-43.0
NBNZ Own Activity Outlook	2.4	-6.4	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4	-14.1
Trade Balance ($m)	243	-43	-293	-169	-215	-797	-843	-1260	-942	..
Trade Balance ($m annual)	-4422	-4526	-4604	-4782	-4478	-4468	-4364	-5052	-5220	..
ANZ World Commodity Price Index (% mom)	1.1	2.0	-0.3	0.9	0.0	1.8	-3.4	-5.1	-7.4	-7.2
ANZ World Commodity Price Index (% yoy)	26.9	26.9	20.7	18.7	11.6	8.7	3.5	-2.1	-10.9	-18.0
Net Migration (sa)	270	550	510	970	460	780	370	-10	10	..
Net Migration (annual)	4643	4678	4666	4931	4732	5201	4938	4403	4329	..

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

SUMMARY OF KEY MARKET FORECASTS

	Actual		Current	Forecast (end month)						
NZ FX rates	Oct-08	Nov-08	8-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
NZD/USD	0.613	0.566	0.534	0.520	0.470	0.450	0.440	0.450	0.460	0.480
NZD/AUD	0.881	0.860	0.826	0.825	0.810	0.804	0.815	0.833	0.821	0.828
NZD/EUR	0.458	0.445	0.420	0.426	0.392	0.381	0.386	0.409	0.438	0.457
NZD/JPY	61.9	55.0	49.7	47.8	43.2	41.4	41.4	43.2	45.1	48.0
NZD/GBP	0.360	0.369	0.363	0.347	0.318	0.313	0.314	0.321	0.329	0.338
NZ$ TWI	60.7	57.5	54.1	53.5	49.4	47.9	47.8	49.6	51.1	53.1
NZ interest rates	Oct-08	Nov-08	8-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
OCR	7.51	6.72	5.00	4.00	3.50	3.50	3.50	4.00	5.00	6.00
90 day bill	7.42	6.24	5.33	4.10	3.80	3.80	3.80	4.60	5.60	6.30
10 year bond	5.87	5.71	4.83	4.30	4.30	4.80	5.00	5.10	5.40	5.70
International	Oct-08	Nov-08	8-Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
US Fed funds	1.00	1.00	1.00	0.50	0.50	0.50	0.50	0.75	1.25	1.75
US 3-mth	3.03	2.18	2.19	1.80	1.20	0.90	0.70	0.95	1.50	2.00
AU cash	6.00	5.25	4.25	3.75	3.50	3.50	3.50	3.50	3.50	3.50
AU 3-mth	5.81	4.56	4.66	4.00	3.80	3.70	3.80	3.80	3.80	4.20

KEY RATES

	5 Nov	1 Dec	2 Dec	3 Dec	4 Dec	5 Dec
Official Cash Rate	6.50	6.50	6.50	6.50	5.00	5.00
90 day bank bill	6.68	5.47	5.39	5.35	5.32	5.33
NZGB 07/09	5.38	4.74	4.71	4.64	4.55	4.54
NZGB 11/11	5.61	4.59	4.47	4.45	4.45	4.50
NZGB 04/13	5.77	4.74	4.61	4.59	4.59	4.55
NZGB 12/17	6.01	5.00	4.86	4.84	4.84	4.80
2 year swap	6.07	4.97	4.87	4.87	4.86	4.78
5 year swap	6.36	5.39	5.29	5.29	5.23	5.12
RBNZ TWI	60.7	55.2	54.0	54.0	54.1	54.1
NZD/USD	0.6051	0.5424	0.5292	0.5322	0.5327	0.5338
NZD/AUD	0.8729	0.8364	0.8299	0.8240	0.8230	0.8272
NZD/JPY	60.41	51.70	49.48	49.68	49.67	49.38
NZD/GBP	0.3786	0.3538	0.3546	0.3567	0.3606	0.3638
NZD/EUR	0.4670	0.4281	0.4188	0.4183	0.4191	0.4181
AUD/USD	0.6932	0.6485	0.6377	0.6459	0.6473	0.6453
EUR/USD	1.2958	1.2669	1.2637	1.2724	1.2710	1.2766
USD/JPY	99.83	95.31	93.50	93.34	93.25	92.51
GBP/USD	1.5982	1.5331	1.4923	1.4922	1.4774	1.4674
Oil	70.44	55.21	49.34	47.05	46.79	43.80
Gold	757.45	811.35	771.50	778.20	771.00	767.40
Electricity (Haywards)	4.22	3.70	3.70	3.31	4.23	3.48
Milk futures (US$/contract)	90	88	88	88	88	85
Baltic Dry Freight Index	826	700	684	672	666	663

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing

Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

- Convicted of an offence under the Securities Markets Act 1988, or the Securities Act 1978 or of a crime involving dishonesty (as defined in section 2(1) of the Crimes Act 1961);
- A principal officer of a body corporate when that body corporate committed any of the offences or crimes involving dishonesty as described above;
- Adjudicated bankrupt;
- Prohibited by an Act or by a court from taking part in the management of a company or a business;
- Subject of an adverse finding by a court in any proceeding that has been taken against them in their professional capacity;
- Expelled from or has been prohibited from being a member of a professional body; or
- Placed in statutory management or receivership.

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

NEW ZEALAND DISCLAIMER

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

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

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