

WINDS OF CHANGE

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Page 2: Economic overview

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- > International dairy prices are falling, and fast. The farm gate dairy payout now looks set to be less than \$6 per kilogram of milk solids. This is still a good payout relative to past years, but it won't be welcome news to recent investors in the industry. Historically, the rural sector has responded to reduced income by simply putting away the chequebook. Expect the current downturn to be no different.

Page 7: Economic comment – monthly inflation gauge

- > Our experimental monthly inflation gauge has shown stability in the past three months, increasing at a modest 0.2 percent monthly pace. While there is still a lack of the evidence of actual reductions in domestic cost pressures that the RBNZ is looking for, our gauge at least suggests non-tradable inflation has eased off compared to earlier in the year.

Page 8: Economic comment – global watch

- > Global data was generally weaker than expected across all countries last week.

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- > Expectations for RBNZ policy have shifted dramatically in the space of a week, courtesy mainly of last week's 75bp RBA rate cut, and an even more aggressive 150bp cut in the UK. We now expect the RBNZ to cut the OCR by 75bps in December and 50bps in January. While these cuts are slightly less than what's priced in, they are supplemented by a host of liquidity initiatives.

Page 10: Currency strategy

- > The NZD could well find support in the near-term following a clear election result over the weekend. But global developments (fiscal stimulus packages notwithstanding), and ongoing poor domestic dataflow, mean the overall trend for the NZD remains to the downside.

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- > For three months in a row, the broad story is the same. With the exception of the dairy and crude sectors, all sectors recorded an improvement in their commodity adjusted real exchange rates.

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ECONOMIC OVERVIEW

Last week's RBA decision to cut by 75 basis points ups the ante on the RBNZ delivering a similar move. While the RBNZ should not be slavishly following its trans-Tasman counterpart, it is hard to go beyond the similarities between the two nations at the current juncture. We now expect a 75 basis point cut in December. With the 2008 election delivering a centre right majority, attention will now turn to the potential for an additional fiscal package, and sooner rather than later.

What's ahead?

- > **REINZ October House Sales** (circa 11 November). Housing market activity remains weak. Recent declines in mortgage rates may start to entice more prospective buyers into the market (although this is at odds with the latest Barfoot and Thompson data). Even if house sales do pick up, we expect house prices to remain under downward pressure.
- > **RBNZ Financial Stability Report** (Wednesday 0900 NZDT). While the report will obviously pick up on the challenging credit backdrop, it is likely to reinforce that the local banking sector remains sound.
- > **September Retail Trade Survey** (Thursday 1045 NZDT). Spending over the month is likely to be modest, with headline sales expected to rise by 0.7 percent. However, quarterly volumes are expected to fall 1.1 percent – the third successive decline.

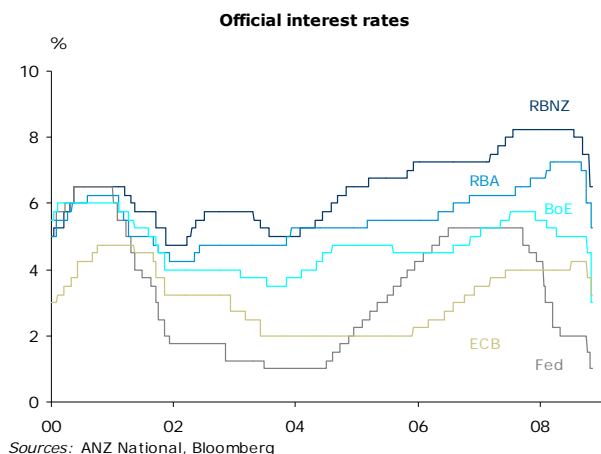
What's the view?

The economic environment remains "fluid" to say the least. While it is tempting to focus on recent developments, with so much going on, we are simply going to concentrate on how we are now seeing things so far as it impacts on the NZ economy.

The global environment continues to deteriorate. This is very clear in the actions that central banks are taking as a response. They are cutting interest rates aggressively for an obvious reason: to mitigate extreme downside risks to growth. The RBA cut by a larger than expected 75bps, the BoE by a staggering 150bps, and the Bank of Korea cut rates for the third time in a month. All are moving more aggressively than the market expected. The exception was the ECB, which cut by a more sedate 50bps, and we doubt anyone is sure what is going on there.

However, if there is one area to keep an eye on at present it is the growing preparedness to use fiscal policy as a stabiliser. Over the weekend we saw China initiate an US\$586 billion package (13.9

percent of GDP). Certainly such dynamics will provide the semblance of a floor to activity, but within the context of a major global de-leveraging dynamic.



Net on net, our growth forecasts for NZ are under further review, and our 0.5 percent view of growth over calendar 2009 (while at the low end of the market, which sits at 1.3 percent) still feels too high in the current global environment. With each passing day we are hearing growing anecdotes and seeing evidence of the flow-on impact from the global scene to tourism, commodity prices (watch dairy), and the economy in general.

For NZ, we now expect the RBNZ to do more as opposed to less. Following the RBA's 75bps decision last week, we quickly changed to the same for the RBNZ. Previously we were already at the bottom end of the market, expecting the OCR to have a (high) four in front of it. We're now biased towards a low 4, and expect 75bps in December, and another couple of 50bp moves thereafter. Part of the reason we included a 50bp move in January is also to provide some "cover" for what we see as the risk of 100bps in December.

Following the RBA's footsteps may seem a bit poor, but the stone cold reality is that the two countries are remarkably similar in makeup, running big current account deficits, a strong reliance on Asia (commodity prices), and existing capacity constraints (4.2 percent unemployment rate in NZ, 4.3 percent in Australia). Hence, if the RBA feels the need to front-load the easing cycle to the degree they already are (completely on global concerns and some notable comments towards Asia), then it is the sort of barometer the RBNZ will no doubt be taking notice of.

Now, a lot have been quick to remind us what the RBNZ said in October, namely that "... the timing and extent of OCR reductions over the coming months will depend on evidence of actual reductions in domestic cost pressures as well as how the global financial developments play out." Fair point (for the first half of the sentence), and

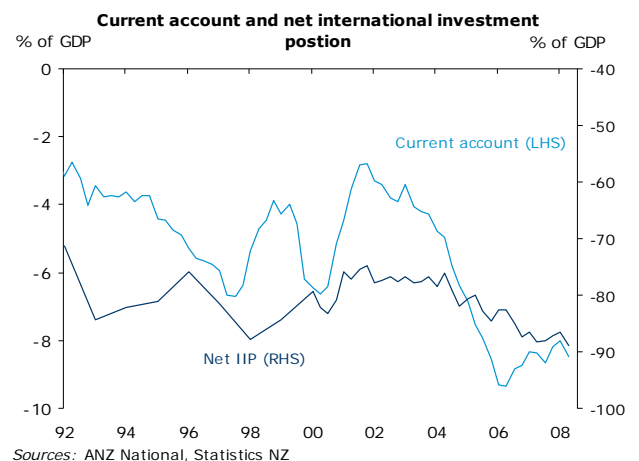
argues for potentially 50bps as a degree of caution prevails. But the RBNZ also noted in July and September that further easings would be dependent on exchange rate adjustments (and inflation of course), and we all know where the currency ended up! So we need to interpret RBNZ speak with a sense of realism given the reality that economic conditions are evolving rapidly. And they certainly are on the global front (the second leg of the above sentence). This doesn't mean we ignore the RBNZ. But our reading at present is simply that conditions are changing so rapidly, and so too will the required policy response be.

Attention will also now turn to post election fiscal policy, with the centre-right result giving the new government a clear mandate, and scope to act quickly. Additional tax cuts from April 1 next year have already been flagged and the debate will now shift to what other measures are possible. Additional infrastructure is likely but the reality is that the lags are probably too long to influence economic prospects in 2009, which is when the real impact of the global scene will be felt. It may well be a case of bringing forward planned state house maintenance, simplifying the approval process for school maintenance, or even dusting off a major project such as Aqua as complimentary to the tax package. But clearly there are more alternatives than simply pulling the tax lever. While this of course will result in higher fiscal deficits, with a starting position for net debt of effectively zero, the new Government has a lot of scope to leverage off their own balance sheet.

Strictly speaking, expansionary fiscal policy, and the additional measures taken by the RBNZ last week to support local banking system liquidity (by announcing a Term Auction Facility and a Reserve Bank Bill tender), should lessen pressure on monetary policy itself. But we continue to see all the various liquidity measures as merely dampening the "extreme" potential trough for the business cycle, as the fallout from the altered global environment filters through.

At this juncture it is the currency that is presenting more conceptual issues for us. Not in terms of the trend (which our macro momentum currency model is giving a clear downward signal on, as detailed last week), but how far it extends. Commodity prices (and hence models) are lagging. Interest rate models have now switched "off", as they tend to do every five or so years, as capital preservation dominates return. Structural models including PPP estimates are useful to a point, but tell us nothing about the potential undershoot. A lot of models are pointing to historical lows for the NZD and other currencies, but such reasoning is like asking a mountaineer why he climbed Mount Everest, and getting a response: "because it was there".

When it comes to the 'science' behind currency views we are increasingly erring towards macroeconomic balance models for currencies. That is, what level is required to stabilise or improve the external position, from a gargantuan current account deficit of 8.4 percent of GDP and 89 percent of GDP for net external liabilities. There are a lot of assumptions (analysis) to work through including the implied elasticity of the NZ trade balance to the currency, and what is a sustainable external position in the current environment. A lot of judgment is involved. But our preliminary analysis suggests the NZD/USD may well end up with a four in front of it. The last time we were in that position the USD was of course going gangbusters, the AUD was dropping as well, the EUR was sub 1.00, and the USD/JPY was plus 110. Hence, while we are looking closely at the NZD/USD track, we are also looking at the overall consistency of the currency projections. We struggle to see the EUR hitting sub 1.00 and a rising USD/JPY to 110, which just doesn't seem right if de-leveraging is going to continue.



Bottom line is that macro-balance models are calling the NZD way lower but that's on a TWI basis. We need to think carefully about the G3 currency outlook to get the correct mix. For now we'll hold off making changes, but the general spirit of our currency view at present is tilted towards a lot more downside risk.

Looking forward to this week, we expect recent themes to continue. Domestic data is expected to come in weak, but likely to remain overshadowed by the global scene. REINZ house sales data is likely to confirm the housing market remains very weak. We would not rule out the possibility of house sales recovering slightly in the month, as lower interest rates encourage some potential buyers back into the market (although this would go against the trend in the Barfoot & Thompson data released last week). The days to sell will remain elevated and house prices under continued downward pressure. Retail sales for September are expected to show a modest increase in the month,

both for the core and headline. However, the quarterly volume data should show another large fall for the third consecutive quarter. Strictly speaking we prefer to focus on monthly figures as they are timelier, but they are also volatile from month to month, and there seems little yet to change the trend, which is flat to down.



The other local event this week that should get some attention is the RBNZ's *Financial Stability Report*. Given the backdrop, this could potentially get more focus than typically would be the case. While there is unlikely to be anything too new that we have not already picked up from recent Bank rhetoric (particularly that the local banking sector remains sound), it will be interesting nevertheless to get the RBNZ's latest take on global financial conditions.

Internationally, equity markets appear to be the key bellwether at present and a directional guide for other markets. As a result, they are key to watch. Data-wise, the big release will be Euro-zone Q3 GDP, with the market expecting a small contraction. If this eventuates, it would be the second negative quarter in a row and by definition, place the region in recession. The other releases of interest will be the RBA's quarterly *Statement on Monetary Policy* and retail sales and consumer confidence data from the US.

Recent local data...

Labour Cost Index (September quarter):

Private sector ordinary time wage rates rose by 1.1 percent, taking annual growth to 3.7 percent.

Quarterly Employment Survey (September quarter):

Private sector ordinary time hourly earnings rose 1.1 percent, taking annual growth to 5.2 percent.

ANZ Commodity Price Index (October): The World Price Index fell 7.4 percent, while the NZD Price Index managed to gain 0.7 percent.

Household Labour Force Survey (September quarter): Employment rose 0.1 percent in the quarter, while the unemployment rate rose to 4.2 percent, from 3.9 percent.

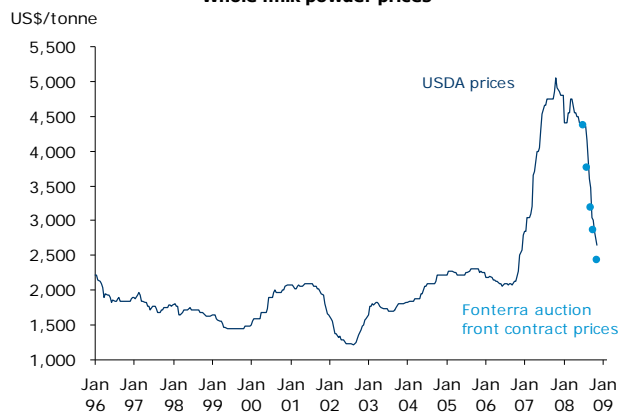
DAIRY UPDATE

International dairy prices are falling, and fast. The farm gate dairy payout now looks set to be less than \$6 per kilogram of milk solids. This is still a good payout relative to past years, but it won't be welcome news to recent investors in the industry. Historically, the rural sector has responded to reduced income by simply putting away the chequebook. Expect the current downturn to be no different.

Overview

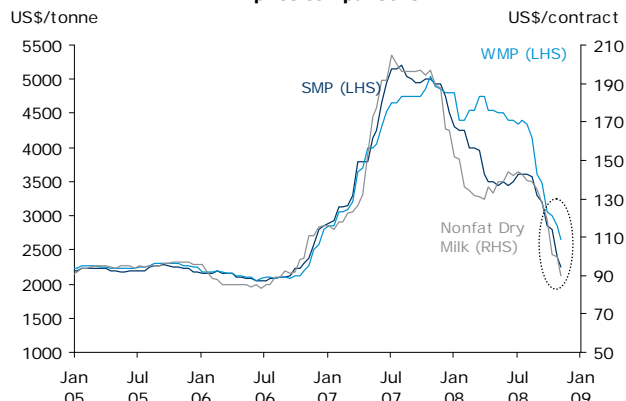
Dairy prices are falling rapidly. Whole Milk Powder at last Tuesday's Fonterra auction fell around 15 percent from US\$2,860/tonne at last month's sale in October to US\$2,435/tonne.

Whole milk powder prices



Sources: ANZ National, USDA, Fonterra

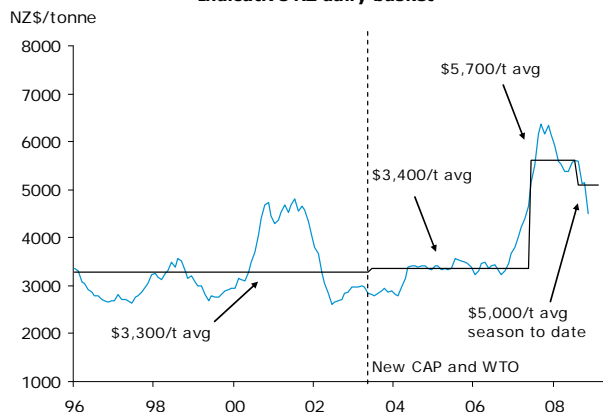
Milk price comparisons



Sources: ANZ National, Bloomberg, USDA

USDA data released last Friday confirms the ongoing downward trend for a wider range of dairy commodities. Milk production is increasing in the US and the EU. Extra production appears to be going into milk powders. Anecdotal evidence suggests the initial downturn in prices was an end user reaction to the price spike. More latterly, buyers are thought to be running inventory down to fine just in time margins. The availability and cost of credit may also be impacting on buyer cash flows and hence purchasing power.

Indicative NZ dairy basket



Sources: ANZ National, USDA

A weaker currency is mitigating but not eliminating the price falls for the NZ dairy industry. An indicative NZD dairy basket price at \$4,500/tonne is now only 70 percent of its November 2007 peak of \$6,300/tonne. The USD equivalent is down 44 percent. Admittedly, the decline needs to be put in perspective. The current NZD price is still nearly 50 percent above those three years prior to the price spike.

Payout

The dairy payout is the result of twelve months trading and there are still nine months of the current season to run. However, the trend cannot be ignored for a forecast. Fonterra's reduced forecast (August 2008) of \$6.60/kilogram milk solids (kg ms) before any retention has to be under threat.

Summary of Oceania dairy data

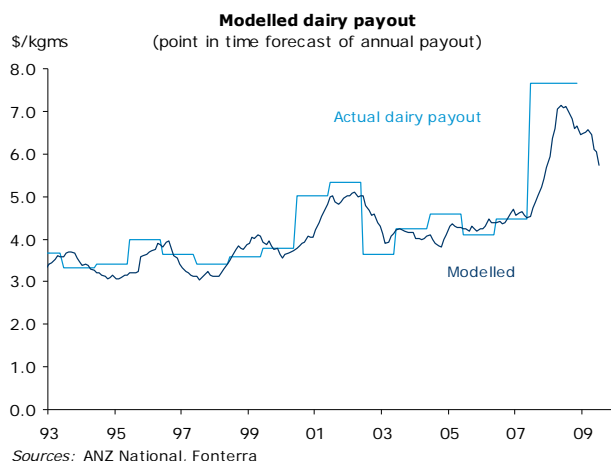
	Three YE May 2007	14 months end July 2008	2008/09 YTD
<i>Indicative NZ dairy basket</i>			
USD/t	2,250	4,300	3,300
NZD/t	3,400	5,700	5,000
Euro/t	1,800	2,900	2,350
<i>Other measures</i>			
Avg spot NZD/USD	0.68	0.76	0.67
Fonterra payout	4.40	7.66	6.60f

Notes: Payout after retentions and FX gains; f Fonterra forecast \$kg ms (before any retention)

A forecast payout for 2008/09 at current prices and exchange rate has a range of \$5.50 to \$6.00/kg ms but has all the caveats, especially in the current stormy economic climate.

Underlying demand for dairy product is still assessed as strong. Food safety scandals are usually short lived, with the damage confined to the brand(s) involved rather than to underlying demand

for the product. Recent media articles suggest that this is the case with infant milk in China.

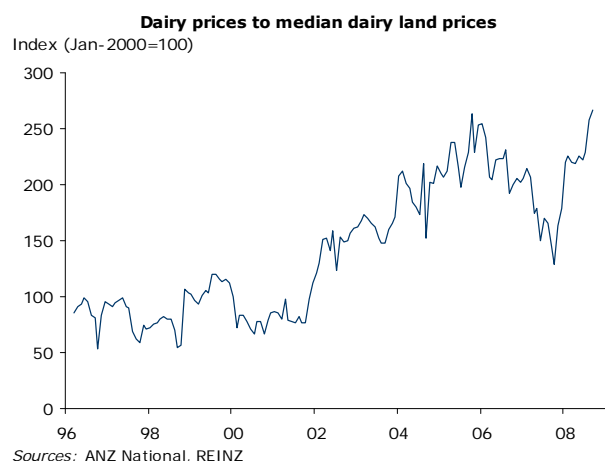


Farm Gate

A payout of just under \$6/kg ms is still a good result based on history. But those who recently invested new or additional assets in the industry might not think so. Yes unit costs have jumped but some are easing (e.g. fuel). Grains look like being nowhere near their peaks last autumn. The price of components for fertiliser have collapsed, although that of the key components for New Zealand (rock phosphate) is likely to respond slower due to longer term buy/sell arrangements.

Our long-run working assumption for the equilibrium payout has a five in front of it, so what we are seeing at present is not much more than reversion. In fact we wouldn't be surprised to see the actual payout undershoot the equilibrium on the downside, just as it did on the topside.

High farm payouts have been capitalised into farm values. We can portray this simply by looking at the NZD commodity price relative to dairy land prices. However, the story goes wider than dairy land prices. The ripple effects of surging dairy commodity prices also dragged up the prices for stock, ancillary services, farm industry building materials costs etc. We fully expect to see downward pressure on rural land prices over the coming years as a result of altered risk appetites.



The Nub

Expect the dairy industry to be more circumspect about spending in 2008/09. The effects of the 2008 autumn drought in the North Island are still being felt by many farmers in pasture growth, animal health, milk production and cash flows. The underlying productive base is sound but the distortions created by the dairy commodity price spike will take a little time to clear. Historically, the industry responds to a downturn by cutting expenditure. Expect this time around to be no different. This in turn will remove a key source of economic support.

MONTHLY INFLATION GAUGE

Our experimental monthly inflation gauge has shown stability in the past three months, increasing at a modest 0.2 percent monthly pace. While there is still a lack of the evidence of actual reductions in domestic cost pressures that the RBNZ is looking for, our gauge at least suggests non-tradable inflation has eased off compared to earlier in the year.

A few weeks ago, we introduced our experimental monthly inflation gauge in our *Market Focus* publication (see 24 October edition). To recap, since early this year, we have been collecting price information on a regular basis (weekly, fortnightly and monthly) through the internet and via direct surveys of bank clients who have kindly volunteered. For simplicity, we have limited ourselves to a domestic or non-tradable inflation measure. Our monthly inflation gauge is intended to provide a timely indication of domestic inflation trends¹. So far, it 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. But our gauge seems to be off to a promising start.

	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		

Our gauge recorded a 0.2 percent increase in the month of October. This is a similar increase to the previous two months, suggesting some stability in terms of domestic pricing developments. There are still price increases coming through some of the service related areas such as medical services, insurance and vehicle services and repairs. Electricity prices also continued to increase in

October. We expect the announced 10 percent increase in electricity prices from one company, which will affect consumers in Wellington and some parts of the South Island from 1 November, will likely lead to a spike in the November inflation gauge reading.

Construction cost rose slightly, though it must be noted that we use modelled results for this, and it underestimated the actual Q3 construction costs. Rents continue to flatline, and indeed, could even fall slightly in coming months as more houses which fail to sell become available to rent.

Overall, there is nothing in the October inflation gauge numbers to suggest that domestic inflation pressures are easing rapidly. Indeed, the "evidence" of falling domestic cost pressures that the RBNZ is looking for is still absent from our inflation gauge and also from the Q3 wage inflation data. But at least our monthly inflation gauge seems to have gone from 0.3 to 0.4 percent monthly prints towards 0.2 percent.

As mentioned above, November's number will be influenced by higher electricity prices, just as the high July reading was caused by local authority rates. It will likely be early next year before we start to see our monthly inflation gauge ease further, given the usual lags between when weakening economic activity starts to exert downward pressure on prices. We remain of the view that demand-pull forces will dominate the cost-push pressure, leading eventually to lower non-tradable inflation. In the near-term at least, falling petrol prices (which fell 10c/ltr last week) will take a lot of pressure off headline CPI in the next two quarters. Based on current prices, petrol is set to shave around 0.9 percentage points off Q4 CPI, giving a flat read on the quarterly headline increase and taking annual inflation from 5.1 percent in Q3 to under 4 percent in Q4.

¹ 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.

GLOBAL WATCH

Global data was generally weaker than expected across all countries last week. The US labour market is slowing sharply and ISM surveys show the economy is retreating. Interestingly, export growth from emerging market Asia looks to be slowing.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	ISM Manufacturing (Oct)	41.0	38.9	43.5	Weaker
	ISM Non-Manufacturing (Oct)	47.0	44.4	50.2	Weaker
	Non-Farm Productivity (3Q P)	0.7%	1.1%	3.6%	Stronger
	Change in Non-Farm Payrolls (Oct)	-200k	-240k	-284k	Weaker
	Unemployment Rate (Oct)	6.3%	6.5%	6.1%	Weaker
	Pending Home Sales (Sep) – mom	-3.4%	-4.6%	7.5%	Weaker
Europe	PMI Manufacturing (Oct F)	41.3	41.1	41.3	Weaker
	PMI Services (Oct F)	46.9	45.8	46.9	Weaker
	Retail Sales (Sep) – mom	-0.4%	-0.2%	0.3%	Stronger
	ECB Interest Rate Announcement	3.25%	3.25%	3.75%	In-line
UK	PMI Manufacturing (Oct)	40.1	41.5	41.2	Stronger
	PMI Construction (Oct)	37.8	35.1	38.8	Weaker
	Industrial Production (Sep) – mom	-0.2%	-0.2%	-0.6%	In-line
	PMI Services (Oct)	44.5	42.4	46.0	Weaker
	BoE Interest Rate Announcement	3.00%	4.00%	4.50%	Weaker
Asia Ex-Japan					
<i>South Korea</i>	Exports (Oct P) – yoy	12.5%	10.0%	28.2%	Weaker
	Imports (Oct P) – yoy	16.5%	12.0%	45.8%	Weaker
	Consumer Price Index (Oct) – mom	-0.1%	-0.1%	0.1%	In-line
	Retail Sales (Sep) – yoy	-	4.6%	10.5%	-
	Bank of Korea 7-day Repo Rate	4.00%	4.00%	4.25%	In-line
<i>Hong Kong</i>	Retail Sales – Volume (Sep) – yoy	3.0%	1.8%	3.7%	Weaker
<i>Taiwan</i>	CPI (Oct) – yoy	1.3%	2.4%	3.1%	Stronger
	Total Exports (Oct) – yoy	-4.2%	-8.3%	-1.6%	Weaker
	Total Imports (Oct) – yoy	7.8%	-7.0%	10.4%	Weaker
<i>Singapore</i>	Purchasing Managers Index (Oct)	48.3	45.8	49.5	Weaker
<i>Thailand</i>	Consumer Price Index (Oct) – mom	-0.3%	-1.2%	0.2%	Weaker
<i>Philippines</i>	CPI (Oct) – mom	-0.3%	-0.4%	-0.4%	Weaker
<i>India</i>	Exports (Sep) – yoy	-	10.4%	27.0%	-
	Imports (Sep) – yoy	-	43.3%	51.0%	-
<i>Indonesia</i>	Inflation (Oct) – mom	0.45%	0.45%	0.97%	In-line
	Exports (Sep) – yoy	26.7%	28.5%	30.3%	Stronger
	Imports (Ex Trade Zones) (Sep) – yoy	44.5%	38.5%	45.4%	Weaker
	Bank of Indonesia Reference Rate	9.50%	9.50%	9.50%	In-line
Japan	Labour Cash Earnings (Sep) – yoy	0.2%	0.1%	0.1%	Weaker
Australia	Retail Sales (Sep) – mom	-0.5%	-1.1%	0.5%	Weaker
	House Price Index (3Q) – qoq	-0.5%	-1.8%	-0.2%	Weaker
	RBA Interest Rate Announcement	5.50%	5.25%	6.00%	Weaker
	Building Approvals (Sep) – mom	-1.0%	-7.2%	-3.4%	Weaker
	Employment Change (Oct)	-10.0k	34.3k	-3.3k	Stronger
	Unemployment Rate (Oct)	4.4%	4.3%	4.3%	Stronger

INTEREST RATE STRATEGY

Expectations for RBNZ policy have shifted dramatically in the space of a week, courtesy mainly of last week's 75bp RBA rate cut, and an even more aggressive 150bp cut in the UK. We now expect the RBNZ to cut the OCR by 75bps in December and 50bps in January. While these cuts are slightly less than what's priced in, they are supplemented by a host of liquidity initiatives.

Market themes...

- > Monetary policy still has a significant role to play at this early stage of the cycle, but so to do liquidity initiatives, where the RBNZ has been extremely proactive.
- > Market pricing is closely aligned to a 100bp cut in December and a 25bp cut in January, slightly more aggressive than our expectation, but broadly similar in spirit.
- > This week's data wrap (Retail Sales and House Prices) will be crucial in directing near term market expectations.

Review and outlook...

Monetary policy remains reasonably tight in New Zealand, both by historical standards, and by contemporary international standards. This is an enviable position to be in, not in the least because it means that the RBNZ have plenty of "bullets" left. But that doesn't mean that monetary policy should be left to do all the work – liquidity initiatives also have a significant role to play. While the OCR remains the crucial determinant of key borrowing rates like BKBM, business and mortgage rates, rising funding costs have blurred the picture, and blunted the market's response to OCR moves. As a result, the RBNZ has taken a number of significant steps (the latest being the announcement of a TAF on Friday) to improve liquidity. These mirror moves offshore that have had a significant impact on spreads, and form a key part of the RBNZ's response to events unfolding. Fiscal policy also has a role, and will be topical given the Election result.

In the absence of liquidity initiatives it would be compelling to call for a more aggressive OCR cut in December. However, liquidity *is* improving and that takes *immediate* pressure off monetary policy. But policy still has a lot of work to do, and looking beyond finessing the pace and timing of the next two or three rate cuts, we still feel that the market has underestimated the full extent of this easing cycle, and the speed and manner in which the economy responds. Because we see the economy responding to rate cuts less quickly and with less vigour (on account of de-leveraging), this implies much lower long end interest rates, and a less steep (albeit normal) yield curve.

Borrowing strategies we favour at present

Other than the fact that interest rates are continually grinding lower, as we expected, our broad thinking hasn't changed. Keep the duration of hedges short, and wait until swap rates move towards historic lows before extending duration. While the 2yr swap has moved below 6 percent in the last few days (a very welcome development), it is headed lower yet, as are longer term rates. The steady reduction in 3mth BKBM makes "holding off" much more palatable. Don't jump the gun!

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↓↓	Dec a line call (75bps likely, maybe 100bps), Beyond that, not enough priced in.
NZ data	↔/↓	NBBO data poor, HLFS not so bad. Retail Sales completes the picture this week.
Fed Funds/ front end	↔/↓	Fed to cut again, liquidity initiatives more important.
RBA	↔/↓	To cut quickly, but priced in.
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	↔/↓	Mortgage paying all but dried up. Bulls in play.
Technicals	↔	Extreme volatility. Equity rally a dead cat bounce?

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 4-Dec-08	-51	-91
Thu 22-Jan-09	-76	-133
Thu 5-Mar-09	-99	-165
Thu 23-Apr-09	-122	-181
Thu 4-Jun-09	-123	-182
Thu 30-Jul-09	-123	-182
Thu 10-Sep-09	-121	-185

Trading themes we favour at present

Our analysis of the OIS market shows that the 3mth – 12mth OIS curve should be much more inverted. Essentially, all the "good" monetary policy news is priced in to the next few meetings at the expense of later meetings. Monetary policy will be front-loaded, but not to the degree priced in, and RBNZ rhetoric confirms this. Our monetary policy scenario implies slightly lower front end swap rates (more easing) and much lower long end swap rates (policy being easy for longer), and while this implies a steeper yield curve, it will be a bull steepener, and the curve won't steepen as much as it would have in a "normal" cycle.

CURRENCY STRATEGY

The NZD could well find support in the near-term following a clear election result over the weekend. But global developments (fiscal stimulus packages notwithstanding), and ongoing poor domestic dataflow, mean the overall trend for the NZD remains to the downside.

Market themes...

- > Global equities still dictating direction of currency markets, and they remain volatile.
- > Decisive election results in the US and NZ removes one element of uncertainty.
- > US dataflow goes from bad to worse. Safe haven flows to dominate currency markets in the very near term.

Review and outlook...

Markets hate uncertainty, and last week at least, we managed to get the political uncertainty out of the way. Decisive outcomes in the US and NZ election mean the currency market can once again turn its attention to economic developments. The story there, however, remains poor.

Equity markets continue to dictate currency movements in the very near term. Sentiment remains poor and fickle, with risk appetites returning one day and driving equities strongly higher, causing the USD and Yen to weaken; only to completely unwind the following day. Yet despite all this volatility, the big underlying macroeconomic backdrop is one of continued de-leveraging. This process will take some time, and will involve an unwinding of leveraged positions that have been funded in USD, Yen and CHF. We are likely to see further repatriation of funds as investments in risky assets are liquidated, and this should continue to provide support to the USD and Yen.

We suspect the USD strengthening theme is far from over yet. As for the Yen strength, this is obviously a source of concern for Japanese policymakers. But given the extent of leverage funded in Yen over the past several years which drove Yen weakness, a reversal currently underway still has some way to run. It may well take coordinated intervention, something hinted at by the G7 a few weeks back, to turn the tide. But we doubt we are near that critical level as yet. So there is still ample room for Yen weakness in the near term.

As for the NZD, we are likely to see near-term support following a clear election result. The announced fiscal stimulus package from China worth US\$586b (equivalent to 13.9 percent of China's GDP or 1 percent of global GDP) will

certainly lend support to commodity currencies. We still see the 0.60 level being taken out and a further grind higher cannot be ruled out. However, we continue to hold a medium-term bearish view on the NZD. The domestic dataflow remains poor, and deteriorating global prospects (the IMF is now formally forecasting a global recession) will further affect the NZ economy. The NZD does not tend to perform well in those circumstances.

Technically, the NZD broke out of a downtrend last week and now has important support at 0.5800 with a topside target of near 0.6400 before we turn south again as longer term structural issues outweigh. The NZDAUD cross is now trading a defined narrowing range of 0.8700-0.8850 with a break out perceived as important. But with lack of position takers and momentum traders remaining, this cross may remain stable for some time.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↓	Should be lower based on fundamentals.
Yield	↔/↓	Markets toying with 100bps from RBNZ.
Commodities	↔	Still not stabilising yet.
Partial indicators	↓	NZ indicators still worse.
Technicals	↔/↓	Within a 0.87-0.8850 range
Sentiment	↔/↓	Risk appetites very fickle.
Other	↔	Baltic dry still falling.
On balance	↓	Should be lower but subject to global scene

NZD vs USD: monthly directional gauges

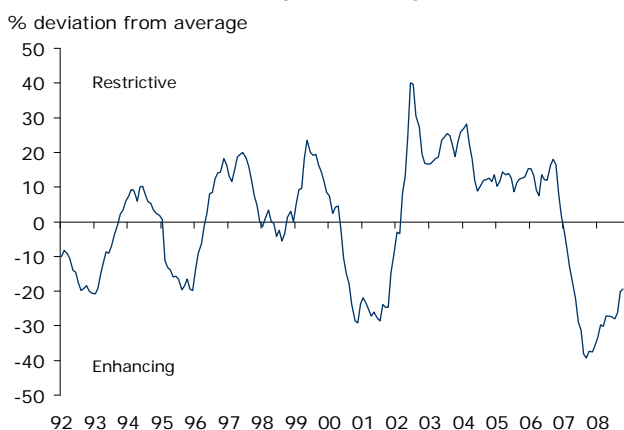
Gauge	Direction	Comment
Fair value – long-term	↔	Fair value 0.65 given a structural shift in commodity prices.
Fair value – short-term	↔/↓	Still above cyclical fair value level.
Yield	↔	Markets toying with 100bps from RBNZ.
Commodities	↓	Dairy prices continue to fall.
Risk aversion	↔/↓	Fragile and fickle.
Partial indicators	↔/↓	Weak.
Technicals	↔/↓	Support still at 0.5800.
AUD	↔/↑	AUD still primed for a corrective move.
Sentiment	↔/↓	Weak.
Other	↓	Equities still influential.
On balance	↔/↓	Medium-term still bearish on NZD

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.

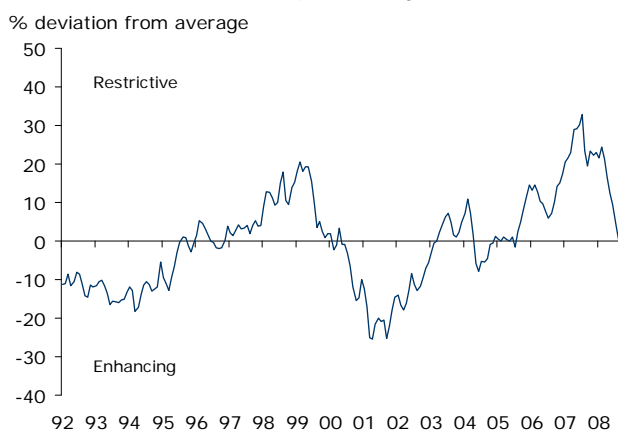
For three months in a row, the broad story is the same. Large falls in world dairy and aluminium prices, more than offsetting movements lower in the NZD, see these two sectors experience a deterioration in their commodity adjusted real exchange rates (they become more restrictive). In fact, the crude sector's commodity adjusted real exchange rate has moved into "restrictive" territory. All other commodity adjusted real currencies became more enhancing over October, with a lower NZD (against all but the AUD) offsetting falls for some commodity groups. The manufacturing and services sectors are interesting. While the NZD/AUD is an important cross (and it appreciated 7.1 percent in October), the falls in other currency crosses was enough to see their adjusted exchange rates become slightly more enhancing.

Sector: Dairy, ≈18% of exports



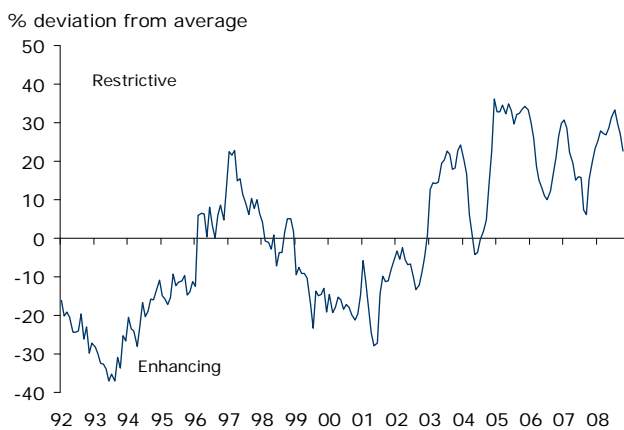
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Meat, ≈8% of exports



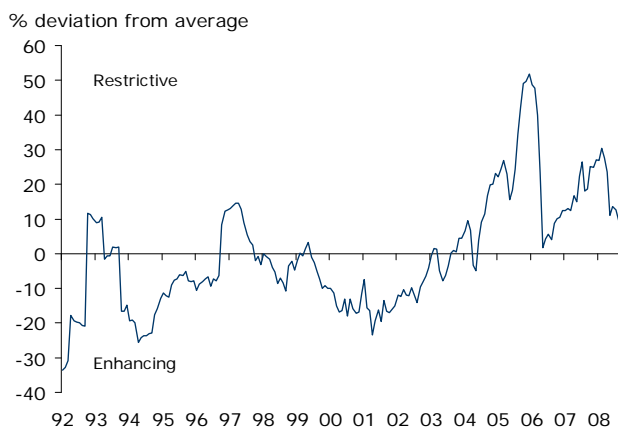
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Forestry, ≈10% of exports



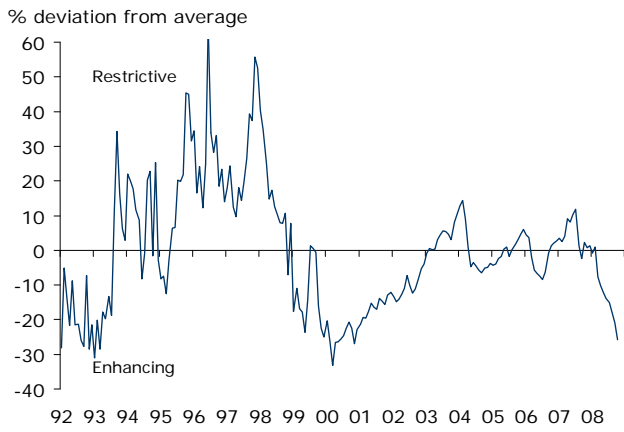
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Horticulture, ≈4% of exports



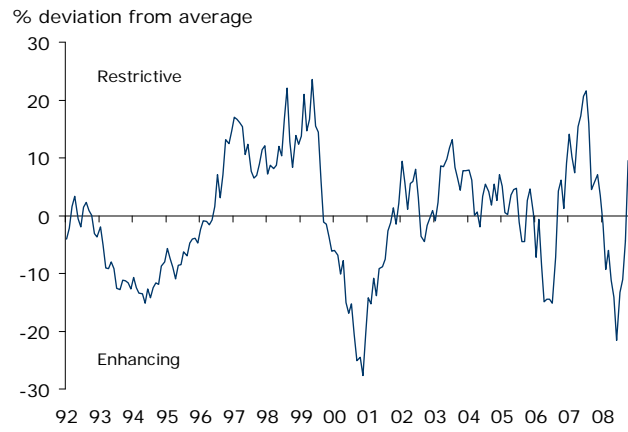
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Seafood, ≈3% of exports



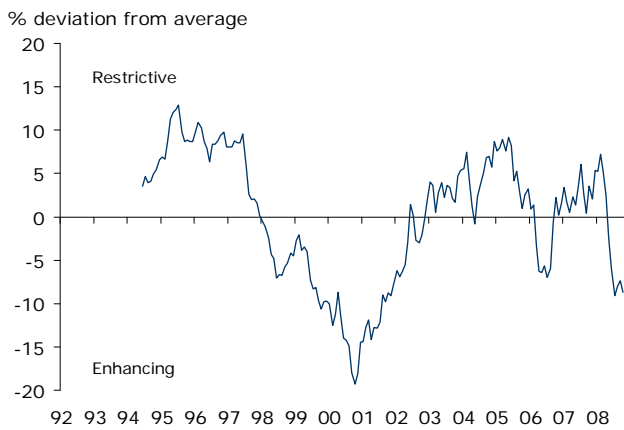
Sources: ANZ National, Bloomberg, Statistics NZ

Sector: Crude, ≈5% of exports



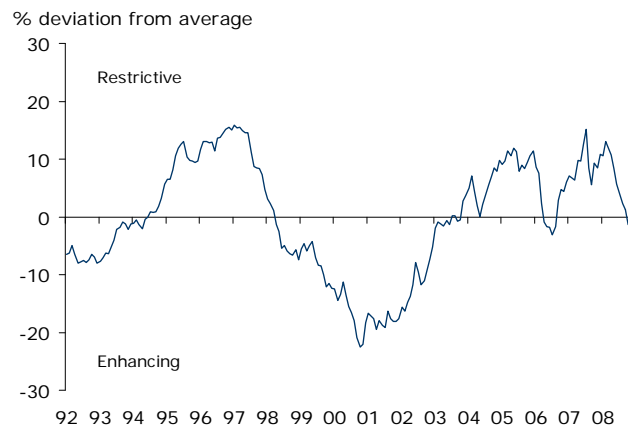
Sources: ANZ National, Bloomberg, Statistics NZ

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)
10-Nov	JN	Machine Orders (Sep) - mom	5.0%	-14.5%	12:50
		Official Reserve Assets (Oct)	-	\$995.9B	12:50
	AU	Home Loans (Sep)	-2.8%	-2.2%	13:30
		Investment Lending (Sep)	-3.0%	-5.0%	13:30
		Value of Loans (Sep) - mom	-2.0%	-2.1%	13:30
		RBA Quarterly Monetary Policy Statement	-	-	13:30
	UK	PPI Input (Oct) - mom	-2.5%	-1.2%	22:30
		PPI Output (Oct) - mom	-0.5%	-0.3%	22:30
		PPI Output Core (Oct) - mom	-0.2%	-0.1%	22:30
	EC	Sentix Investor Confidence (Dec)	-33.0	-27.8	22:30
11-Nov	US	Treasury's Kashkari Speaks on TARP Program in New York	-	-	04:00
	JN	Money Supply - M3 (Oct) - yoy	1.0%	0.9%	12:50
		Current Account Total (Sep)	¥1400.0B	¥988.8B	12:50
		Adjusted Current Account Total (Sep)	¥1024.0B	¥903.2B	12:50
		Bank Lending Banks Adjust (Oct) - yoy	-	2.2%	12:50
		Bankruptcies (Oct) - yoy	-	34.4%	17:30
		Eco Watchers Survey: Current (Oct)	27.4	28.0	18:00
		Eco Watchers Survey: Outlook (Oct)	-	32.1	18:00
	UK	RICS House Price Balance (Oct)	-86.0%	-84.0%	13:01
		Total Trade Balance (Sep)	-£4000m	-£4737m	22:30
		DCLG House Prices (Sep) - yoy	-5.4%	-3.4%	22:30
	AU	NAB Business Confidence (Oct)	-	-8	13:30
		NAB Business Conditions (Oct)	-	-1	13:30
	GE	ZEW Survey (Econ. Sentiment) (Nov)	-63.0	-63	23:00
		ZEW Survey (Current Situation) (Nov)	-45.0	-35.9	23:00
	EC	ZEW Survey (Econ. Sentiment) (Nov)	-60.5	-62.7	23:00
12-Nov	US	IBD/TIPP Economic Optimism (Nov)	40.0	41.1	04:00
	NZ	RBNZ Financial Stability Report	-	-	09:00
	AU	Westpac Consumer Confidence (Nov)	-	-11.0%	13:30
		Wage Cost Index (3Q) - qoq	1.0%	1.2%	13:30
		Wage Cost Index (3Q) - yoy	4.2%	4.2%	13:30
	JN	Consumer Confidence (Oct)	-	31.8	18:00
	UK	Claimant Count Rate (Oct)	3.0%	2.9%	22:30
		Jobless Claims Change (Oct)	40.0K	31.8K	22:30
		Average Earnings inc Bonus (Oct) - 3m/yoy	3.3%	3.4%	12:50
	UK	ILO Unemployment Rate (3mths)	5.8%	5.7%	22:30
		Bank of England Inflation Report	-	-	23:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
12-Nov cont.	EC	Industrial Production (Sep) - mom	-1.6%	1.1%	23:00
13-Nov	US	Fed's Stern Speaks in Minneapolis	-	-	07:00
	NZ	Business NZ PMI (Oct)	-	-	10:30
		Retail Sales (Sep) - mom	-	0.4%	10:45
		Retail Sales Ex-Auto (Sep) - mom	-	0.8%	10:45
		Retail Sales Ex Inflation (3Q) - qoq	-	-1.5%	10:45
	JN	Domestic CGPI (Oct) - mom	-0.9%	-0.4%	12:50
	AU	Consumer Inflation Expectation (Nov)	-	4.4%	13:00
		Average Weekly Wages (3Q) - qoq	-	0.7%	13:30
	JN	Industrial Production (Sep F) - mom	-	1.2%	17:30
		Capacity Utilisation (Sep F) - mom	-	-3.5%	17:30
	GE	GDP (3Q P) - qoq	-0.2%	-0.5%	20:00
	EC	ECB Publishes Monthly Report	-	-	22:00
14-Nov	US	Trade Balance (Sep)	-\$57.0B	-\$59.1B	02:30
		Initial Jobless Claims (w/e Nov-09)	480K	481K	02:30
		Continuing Claims (w/e Nov-02)	3838K	3843K	02:30
		Fed's Plosser to Speak on Economy in Pittsburgh	-	-	06:00
		Monthly Budget Statement (Oct)	-\$101.1B	-\$56.8B	08:00
	EC	ECB's Weber Speaks at Event in Frankfurt	-	-	04:00
		ECB's Quaden Speaks at a Conference in Mons, Belgium	-	-	06:00
		CPI (Oct) - mom	0.1%	0.2%	23:00
		CPI (Oct) - mom	3.2%	3.6%	23:00
		CPI - Core (Oct) - yoy	1.9%	1.9%	23:00
		GDP (3Q) - qoq	-0.2%	-0.2%	23:00
	NZ	Non Resident Bond Holdings (Oct)	-	74.3%	15:00
	GE	Consumer Price Index (Oct F) - mom	-0.2%	-0.2%	20:00
		CPI - EU Harmonised (Oct F) - mom	-0.3%	-0.3%	20:00
		ECB's Trichet, Stark, Orphanides in Frankfurt	-	-	21:00
		ECB's Stark Speaking in Berlin	-	-	21:00
15-Nov	US	Import Price Index (Oct) - mom	-4.4%	-3.0%	02:30
		Advance Retail Sales (Oct) - mom	-2.1%	-1.2%	02:30
		Retail Sales Less Autos (Oct) - mom	-1.2%	-0.6%	02:30
		Fed's Bernanke, Trichet Speak at ECB Conference in Frankfurt	-	-	02:30
		University of Michigan Confidence (Nov P)	56.3	56.0	04:00
		Business Inventories (Sep)	0.0%	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: Domestic data remains very weak and likely to confirm that the economy is not yet at the trough. The big releases prior to the RBNZ's *Monetary Policy Statement* at the start of December will be retail sales data this week, the National Bank *Business Outlook*, and the RBNZ's Survey of Expectations.

Date	Data/Event	Economic Signal	Comment
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.
Wed 3 Dec (15.00)	ANZ Commodity Price Index (Nov)	-	-
Thu 4 Dec (09.00)	RBNZ <i>Monetary Policy Statement</i>	75 basis point cut	The move by the RBA is a big bellwether for the RBNZ. We expect them to follow suit with a cut of the same magnitude.
On Balance		Key issue is the flow-on from the global scene.	Weakness now extending into Q4 according to lead indicators and lagging information is poor for Q3.

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	0.5	0.2	-0.1	0.2	0.6	0.7
GDP (% yoy)	3.7	2.2	1.1	-0.1	-0.5	0.0	0.1	0.8	0.9	1.4
CPI (% qoq)	1.2	0.7	1.6	1.5	0.1	0.4	0.7	0.7	0.8	0.6
CPI (% yoy)	3.2	3.4	4.0	5.1	4.0	3.6	2.7	1.9	2.7	3.0
Employment (% qoq)	0.9	-1.3	1.3	0.1	-0.6	-0.2	-0.1	0.1	0.1	0.1
Employment (% yoy)	2.5	-0.2	0.7	1.0	-0.5	0.6	-0.7	-0.8	-0.1	0.2
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.7	4.9	5.2	5.5	5.7	6.0
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.7	-9.2	-9.2	-8.4	-7.8	-7.4	-7.3
Terms of Trade (% qoq)	2.9	4.2	-0.5	-1.0	-2.0	-1.5	-1.1	-1.1	-0.9	-0.7
Terms of Trade (% yoy)	8.8	11.6	10.6	5.6	0.5	-5.0	-5.6	-5.6	-4.5	-3.7

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)	8.7	-8.0	-12.7	11.4	-13.6	1.5	-6.9	-3.5	10.8	-1.2
Car Registrations (% yoy)	1.7	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9
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	-3.4	-5.1	-7.4
ANZ World Commodity Price Index (% yoy)	27.4	26.9	26.9	20.7	18.7	11.6	8.7	3.5	-2.1	-10.9
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	10-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
NZD/USD	0.710	0.677	0.598	0.620	0.640	0.610	0.580	0.560	0.550	0.550
NZD/AUD	0.803	0.822	0.875	0.861	0.901	0.897	0.906	0.933	0.887	0.859
NZD/EUR	0.474	0.470	0.467	0.470	0.485	0.466	0.453	0.452	0.466	0.458
NZD/JPY	77.7	72.1	59.1	63.2	64.6	63.4	62.6	61.6	61.6	63.3
NZD/GBP	0.375	0.375	0.379	0.365	0.379	0.363	0.349	0.337	0.331	0.333
NZ\$ TWI	65.5	63.9	60.3	61.3	63.4	61.4	59.8	59.1	58.6	58.2
NZ interest rates	Sep-08	Oct-08	10-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
OCR	8.00	7.68	6.50	5.75	4.75	4.50	4.50	4.50	4.50	4.50
90 day bill	8.19	7.98	6.61	6.20	5.20	5.00	4.90	4.80	4.80	4.80
10 year bond	6.13	5.83	5.96	5.40	5.00	4.70	4.80	5.10	5.40	5.50
International	Sep-08	Oct-08	10-Nov-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
US Fed funds	2.00	2.00	1.00	0.75	0.75	0.75	0.75	1.00	1.25	1.50
US 3-mth	2.81	4.05	2.29	2.50	2.00	1.80	1.65	1.75	2.00	2.25
AU cash	7.25	7.00	5.25	4.75	4.25	4.00	4.00	3.50	3.50	3.50
AU 3-mth	7.27	7.32	4.99	5.10	4.40	4.20	4.20	3.80	3.80	3.80

KEY RATES

	7 Oct	3 Nov	4 Nov	5 Nov	6 Nov	7 Nov
Official Cash Rate	7.50	6.50	6.50	6.50	6.50	6.50
90 day bank bill	8.00	7.01	6.95	6.68	6.65	6.65
NZGB 07/09	5.90	5.52	5.51	5.38	5.44	5.65
NZGB 11/11	5.57	5.81	5.78	5.61	5.61	5.60
NZGB 04/13	5.65	5.95	5.92	5.77	5.77	5.72
NZGB 12/17	5.79	6.13	6.09	6.01	5.99	5.93
2 year swap	6.73	6.32	6.31	6.07	6.07	5.93
5 year swap	6.71	6.42	6.42	6.36	6.37	6.26
RBNZ TWI	61.9	59.6	59.9	60.7	59.7	59.1
NZD/USD	0.6310	0.5923	0.5888	0.6051	0.5917	0.5826
NZD/AUD	0.8759	0.8676	0.8765	0.8729	0.8847	0.8803
NZD/JPY	64.46	58.85	58.16	60.41	57.89	56.47
NZD/GBP	0.3613	0.3638	0.3745	0.3786	0.3747	0.3734
NZD/EUR	0.4669	0.4611	0.4685	0.4670	0.4607	0.4585
AUD/USD	0.7204	0.6827	0.6718	0.6932	0.6688	0.6618
EUR/USD	1.3514	1.2845	1.2569	1.2958	1.2843	1.2708
USD/JPY	102.16	99.36	98.78	99.83	97.83	96.92
GBP/USD	1.7464	1.6281	1.5724	1.5982	1.5793	1.5603
Oil	88.15	68.10	63.96	70.44	65.44	60.75
Gold	863.50	735.70	724.50	757.45	738.65	731.30
Electricity (Haywards)	1.58	3.82	3.72	4.22	4.93	7.85
Milk futures (US\$/contract)	107	91	90	90	90	90
Baltic Dry Freight Index	2922	827	815	826	839	829

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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