

NEW ZEALAND ECONOMICS MARKET FOCUS

13 June 2011

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ANYTHING GOES

ECONOMIC OVERVIEW

The June MPS put a cat amongst the pigeons with the more upbeat nuances and higher published 90 day interest rate track catching the market off-guard. While the RBNZ appears to be somewhat surprised at the market reaction, we don't think it looks at all out of sorts. The New Zealand story continues to stack up well against our trading partners, but the challenge will be to ensure the market (via a strengthening NZD) does not overly front-run the story, thereby choking the recovery off via tighter monetary conditions. While financial conditions tightened following the June MPS, overall conditions remain very accommodative. This week's Q1 retail and manufacturing data will highlight the theme of wide sector divergences, with manufacturing and consumer sentiment holding out the allure of improvement.

FINANCIAL CONDITIONS UPDATE

Our financial conditions indexes are flagging strong growth in the US and New Zealand. While the former goes against the tenor of existing data, we look for forward looking metrics to show signs of improvement over the coming months as various one-offs are worked through. Financial conditions have tightened in Australia and China, although both appear still on track for respectable growth. Europe appears set for tepid growth.

MONTHLY INFLATION GAUGE

Our monthly inflation gauge rose 0.4 percent in May. There were a few scattered price increases, which were more symptomatic of cost push influences than strengthening demand. While there is still not much evidence of price increases becoming more generalised, the list of one-off cost increases seems to be growing. The risk remains that these cost increases will be joined by demand-side influences, which will push inflation expectations and core inflation higher.

INTEREST RATE STRATEGY

Last week's Reserve Bank Monetary Policy Statement was about as upbeat as one could expect given the risk of markets front-running the recovery too far via a higher currency. While it still caught the market off guard, the subsequent rise in the NZD and the high cost of carry has prevented interest rates from moving up too much. As the RBNZ's thesis gets validated, there will be pressure on interest rates to keep rising. But for now global concerns cloud the outlook, and are keeping a lid on yields.

CURRENCY STRATEGY

The currency market read last week's RBNZ Statement as hawkish, but perhaps more surprising was the Governor's comments regarding the NZD later that day. The Governor's wish for a lower NZD may be fulfilled this week as global factors and a "risk off" theme take hold. But we see the NZD outperforming on the crosses. The RBA was sanguine enough to add a negative tone for the AUD and the risk off theme will add downward pressure. The EUR is finally succumbing to Greek debt woes, and while the USD has recovered, the greenback could yet struggle should the US dataflow continue to disappoint.

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The June MPS put a cat amongst the pigeons with the more upbeat nuances and higher published 90 day interest rate track catching the market off-guard. While the RBNZ appears to somewhat surprised at the market reaction, we don't think it looks at all out of sorts. The New Zealand story continues to stack up well against our trading partners, but the challenge will be to ensure the market (via a strengthening NZD) does not overly front-run the story, thereby choking the recovery off via tighter monetary conditions. While financial conditions tightened following the June MPS, overall conditions remain very accommodative. This week's Q1 retail and manufacturing data will highlight the theme of wide sector divergences, with manufacturing and consumer sentiment holding out the allure of improvement.

NEXT WEEK'S EVENTS

REINZ Housing Market Report – May. (Tuesday, June 14, 10:00am). We expect a 2 percent increase in sales volumes, with prices to be broadly unchanged.

SNZ Food Price Index - May (Tuesday, June 14, 10:45am). We expect a 0.7 percent increase, underpinned by announced increases in dairy prices and the usual seasonal pattern.

SNZ Retail Trade Survey – 2011Q1 (Wednesday, June 15, 10:45am). Retail volumes are expected to increase 1.5 percent, with core volumes up 1.0 percent.

Westpac Consumer Confidence – 2011Q2 (Thursday June 16, 10:00am). We expect headline confidence to recover towards the key 100 level, but for the current conditions measure to remain in the low 90s.

BNZ/Business NZ Manufacturing PMI – May (Thursday, June 16, 10:30am). We expect the headline PMI to remain in the low 50's range.

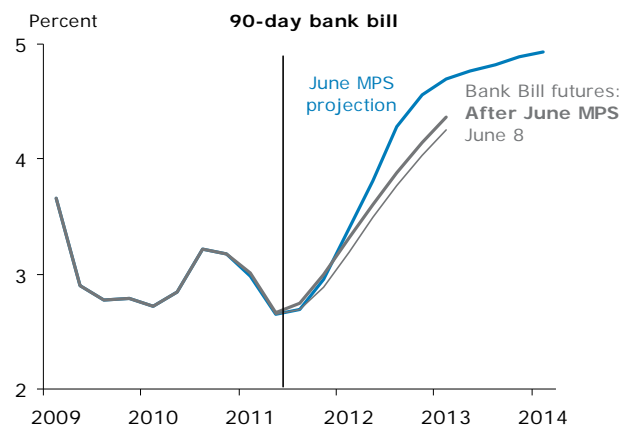
SNZ Economic Survey of Manufacturing – 2011Q1 (Thursday, June 16, 10:45am). Ex-primary manufacturing volumes are expected to decline by around 2 percent. No change is expected for primary manufacturing volumes.

SNZ Wholesale Trade Survey – 2011Q1 (Thursday, June 16, 10:45am). We expect a 0.3 percent increase in wholesale trade volumes, underpinned by stronger retail volumes.

ANZ Roy Morgan Consumer Confidence – June (Thursday, June 16, 1:00pm).

WHAT'S THE VIEW?

As widely expected, the RBA, RBNZ, ECB and BOE stuck to the script and left their policy rates on hold. **However, the RBNZ surprised the market by the notably less downbeat tone in the June MPS.** It does not take a rocket scientist to work out that an improving economic outlook (underpinned by a historically high terms of trade, sky-high commodity prices, solid income growth and a number of positive growth one-offs) is not compatible with the OCR remaining at 2.5 percent. Nevertheless, the published 90-day bank bill path in the MPS was a little more forthcoming than the market had been expecting.



Sources: ANZ, National Bank, RBNZ

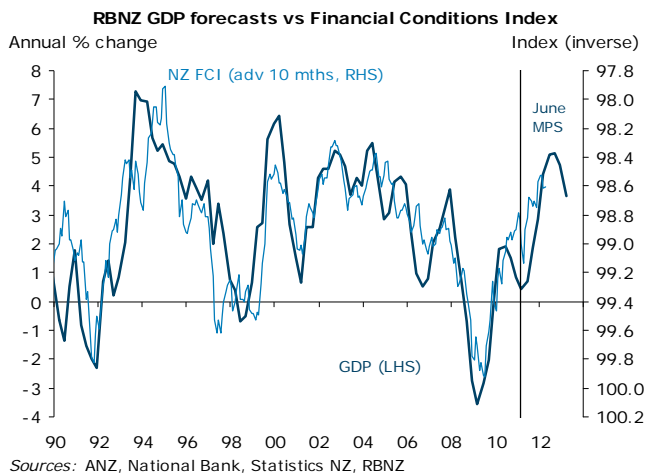
Post MPS comments from the RBNZ give the impression of some concern over the market reaction and this is only natural: the better economic story is somewhat conditional on supportive financial conditions. So to see the market react (i.e. the NZD push up) puts the economic story somewhat at risk. While we can sympathise with some sectors of the economy, namely those suffering from the elevated NZD/USD, and we agree that it's extended (more on that on the page overleaf) **we don't think the RBNZ should be at all surprised with the market reaction.**

- There were some clear changes in tone. In April, the RBNZ said that "the current level of the OCR is likely to remain appropriate for some time". This phrase was removed last week, with the RBNZ now noting "the pace and timing of increases will be guided by the speed of recovery". This gives the impression that everything is now on the table.
- Based on the RBNZ's own 90-day bank-bill projections, "fair-value" for the 2 year and 3 year swap is 3.6 and 4.0 percent respectively. Yes, the market went from 3.36 to 3.50 and back to 3.45

ECONOMIC OVERVIEW

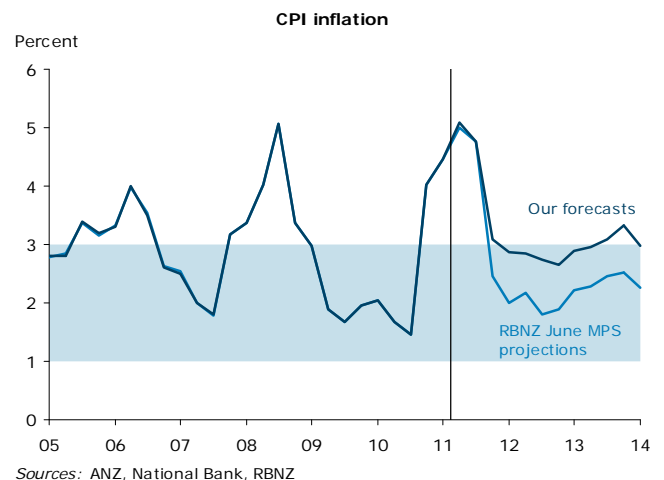
percent (after the Governor said the market had overreacted), but this is still well below where the RBNZ's own projections say it should be.

- Abstracting from fair value style analysis, the market reaction on the day gives us some idea on positioning, and clearly most in the interest rate market were of the view the economy was weaker than the RBNZ's assessment.
- Financial conditions are still very supportive (refer to page 6) and consistent with the published growth profile by the RBNZ.
- The NZ story simply stacks up quite well against many of our trading partners. The NZD/USD reached (yet another) post-float high of just over 83 cents. This is not merely a case of the NZ story looking entirely good, rather that on a relative basis it looks pretty solid. The solid NZ outlook (albeit off a low base) contrasted with a more modest outlook for the Australian economy, which was consistent with the neutral tones peppering last week's RBA statement. With a cash rate at 4.75 percent the RBA seem content to sit on the sidelines.



We agree with the spirit of the RBNZ's assessment. The June MPS projections showed higher growth over the next few years amidst the backdrop of very slow growth in productive capacity, with estimates for annual potential output growth trimmed to 1.6 percent over the projection period. The greater discussion on inflation expectations throughout the statement accorded with our view that containing wage and price setting behaviour will be a key battleground for the Bank. The projections also showed the sacrificial lamb for the March emergency OCR cut will be a delay in the economic rebalancing, with the current account deficit at the end of the RBNZ's projection period having a 5 percent handle.

We're still not so optimistic on the inflation outlook. The June MPS inflation projections showed inflation remaining close to the midpoint of the target band. But higher projections for the 90-day interest rate and the NZD TWI, and some asymmetric assumptions on inflation expectations, household spending and construction cost inflation were needed to achieve that. The change in RBNZ terminology on the underlying inflation outlook to being "constrained" from "contained" and increasing discussion on inflation expectations indicate that the Bank are mindful of upside inflation risks. **With the increasing policy traction available to them the RBNZ are prepared to take a punt, but we can see clear upside risks.** For some time we have voiced our concerns that a perfect storm of cost and demand side influences will feed through into price and wage setting behaviour with the climb in inflation expectations a precursor to this. Our May monthly inflation gauge on page 8 shows the sources of cost-related pressures are increasing. We expect the May Food Price Index to provide further evidence of this dynamic in action, with higher dairy prices a key contributor behind the 0.7 percent increase in food prices.



An obvious tension point at present is the NZD. There appears to be so much confusion at present we thought we'd offer some broad thoughts.

- **The NZD is not elevated.** The NZD/USD is way above conventional fair value metrics (which we put at just under 0.70) but not when you look at the broader TWI and especially when you augment the TWI for the terms of trade. Of course this will be cold comfort for exporters not benefitting from high commodity prices who are selling to USD markets. Forget about FX intervention.
- **Not enough attention is paid to the NZD/AUD.** The NZD/AUD has moved nearly 5

ECONOMIC OVERVIEW

cents in 5 weeks. However, in contrast to the NZD/USD, which is trading well above long-run fair value estimates, the NZD/AUD remains closer to fair value (of around 0.75).

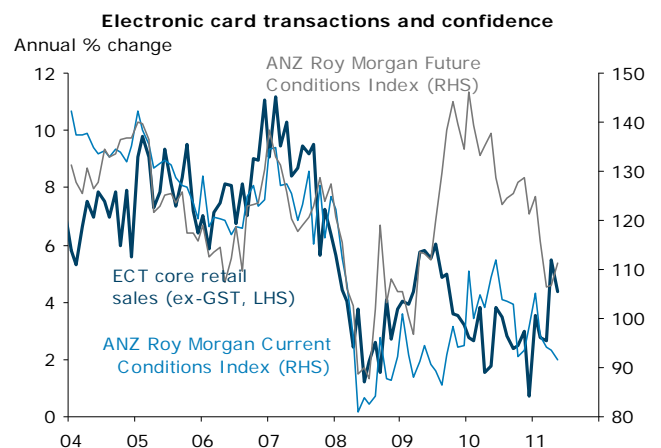
- **Abstracting from domestic influences on the NZD (which tend to be temporary), to turn the NZDUSD around requires:**
 1. **The European sovereign situation to turn nasty.** Greece in itself is trivial. If problems get into Spain et al then it is game-on. Until then, it's a simple question of relevance. Our sovereign analysis (refer to our January 17 *Market Focus*) continues to highlight that major nations in Europe will eventually be impacted, so we have a euro centric secular bias.
 2. **The US Government to present a credible fiscal austerity package. We can't see this anytime soon.** In fact the debt ceiling now needs to be raised, which will make the journey towards fiscal solvency longer.
 3. **We see a turn in US data.** The "market" is increasingly of the view that recent weakness is more structural (i.e. endemic of wider problems) than the result of temporary displacement (i.e. disruptions to the manufacturing supply chain caused by the Japanese earthquake and Tsunami). As such, growing calls for QE3 are appearing. We respect US-centric economic challenges but suspect the mispricing in the market is underplaying the significance of these temporary events. We look for a solid turn in US data from late July and August.

Turning to the week ahead, this week's data will shed more light on Q1 GDP data, which provides useful information on the starting point for economic activity. The June MPS estimates for activity in the first half of this year (increases of 0.3 and 0.4 percent for Q1 and Q2 respectively) are consistent with our overall view of activity in the first half of the year, although we are still opting for a weaker Q1/stronger Q2 mix. Incidentally, if growth in Q1 post quake is expected to be 0.3 percent, one wonders what the counter-factual (ex-quake) number would have been!

Weaker building work put in place volumes suggest a contraction in construction sector activity in Q1, although better times lie ahead. **We also expect manufacturing sector activity to contract in Q1**, given the likelihood for some payback from the stronger Q4 for ex-primary volumes. Disruptions from the Christchurch earthquake may also have an

impact at the margin. Primary manufacturing volumes should hold their own.

Solid increases in Q1 retail electronic card Transaction (ECT) data and earlier momentum in car registrations **suggest a reasonably robust March quarter increase for retail volumes.** As implied by last week's May decline in Electronic Card Transaction spending, retail spending temporarily took a breather, although more resilience was evident in pockets of core retail. Whether or not this caution will persist (a cornerstone of the June MPS projections) remains to be seen. The soft retail story for the moment appears to be one of households choosing not to spend. This can turn around quickly if the consumer mood improves. This is why we will continue to place considerable weight on sentiment gauges despite the "head fakes" provided by sentiment readings last year. This week's consumer confidence releases will be closely watched, even if most of the survey responses would have been collected prior to the June MPS.



This week's REINZ housing market data for May is expected to stick close to the June MPS script. We expect sales volumes to climb 2 percent from historically low levels. Prices are expected to remain unchanged and are unlikely to provide much support to consumer spending. To us, however, developments in the income part of the economy will remain the key determinant of household spending. **The May fall in unemployment benefit numbers and continued strengthening in job ads suggests the labour market is continuing to recover.** A declining unemployment rate and strengthening wage growth look set to follow.

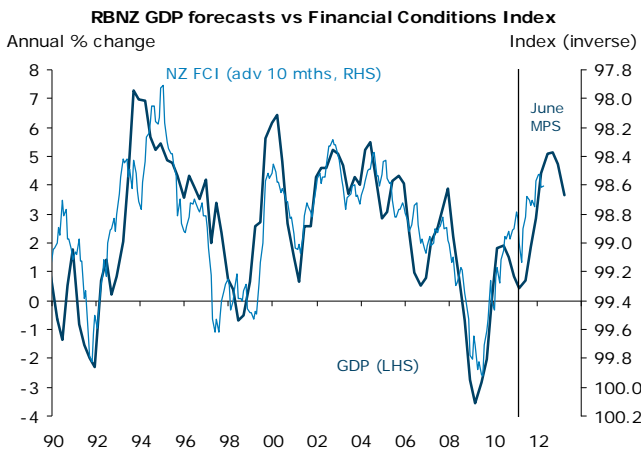
FINANCIAL CONDITIONS UPDATE

SUMMARY

Our financial conditions indexes are flagging strong growth in the US and New Zealand. While the former goes against the tenor of existing data, we look for forward looking metrics to show signs of improvement over the coming months as various one-offs are worked through. Financial conditions have tightened in Australia and China, although both appear still on track for respectable growth. Europe appears set for tepid growth.

MOMENTUM BUILDING IN NZ

Our proprietary Financial Conditions Index¹ (FCI) for NZ is supportive of a growth recovery over the next 12 months. Very low interest rates and strong commodity prices form the basis of supportive financial conditions.



Sources: ANZ, National Bank, Statistics NZ, RBNZ

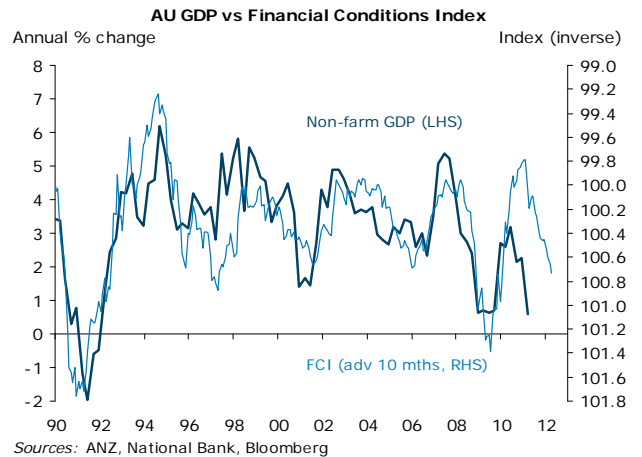
Financial conditions were largely unchanged in June. A lower NZD TWI, further climbs in the terms of trade, and the relaxation in lending standards reported in the Fed Senior Loan Officer Survey, were offset by easing equity values and widening in CDS spreads for the big 4 Australasian banks.

Financial conditions still imply annual GDP growth of around 4.5 percent by early next year, which is consistent with the June MPS projections.

NOT SO ROSY ACROSS THE TASMAN

Australian financial conditions have been on a tightening trajectory, underpinned by rising short-

term interest rates and a strengthening currency, which has offset strengthening commodity prices. Conditions tightened further in June, with a higher AUD (in commodity price adjusted terms), widening swap spreads, higher CDS spreads, declining equity values and property prices, offsetting a relaxation in lending standards.

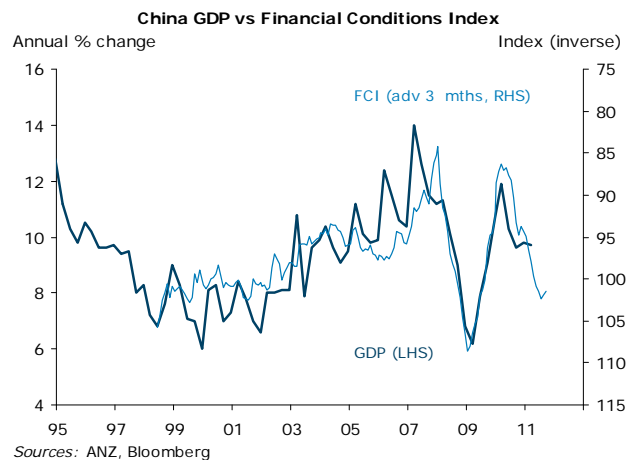


Sources: ANZ, National Bank, Bloomberg

Our Australian FCI is now flagging a moderate pace of expansion of around 2 percent by early 2012. A sizeable boost to mining investment (which is not captured in the FCI) suggests Australian growth will probably be higher than implied by our FCI, but it is not a particularly upbeat picture.

MODERATION IN CHINA

Financial conditions eased back marginally in June, largely driven by a weaker real exchange rate, which was partially offset by continued moderation in credit growth.



Sources: ANZ, Bloomberg

Chinese financial conditions are considerably more restrictive than this time last year. They continue to point towards a slowdown in annual growth to around 8 percent.

¹ A financial conditions index summarises a range of financial variables into a single series that can be used to predict the future path of the economy. Where available, our FCI includes the currency adjusted for commodity prices or terms of trade movements, interest rates, asset prices, credit growth and proxies for the cost and availability of credit.

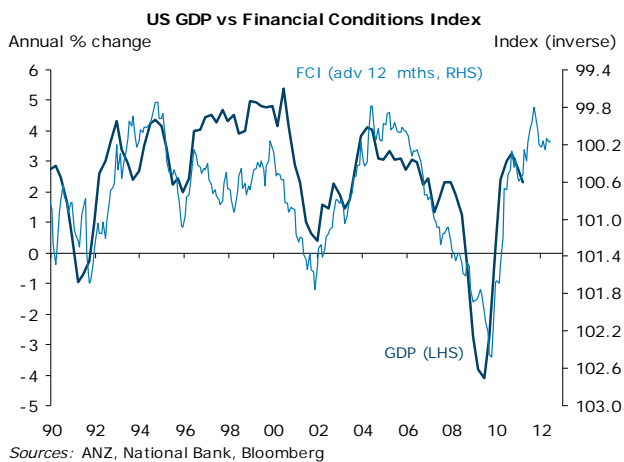


FINANCIAL CONDITIONS UPDATE

Contributing to the tightening in financial conditions since the start of the year have been falls to real equity and property prices, which account for half of the weightings in our Chinese FCI. This is likely the consequence of measures by the Chinese authorities to prevent overheating.

BETTER TIMES AHEAD FOR THE US?

US financial conditions were broadly unchanged in June and remain very supportive. A weaker USD, lower 10-year bond yields and a relaxation in lending standards from the Fed Senior Loan Officer Survey was offset by falls to equity and house prices.



US financial conditions have been firming since the end of last year, driven in part by a steepening yield curve and falling house prices. They remain at levels consistent with a strengthening in annual growth to around 3 ½ percent in 12 months time. Historically low real interest rates and a low USD are key drivers, as are narrow swap spreads and abundant liquidity.

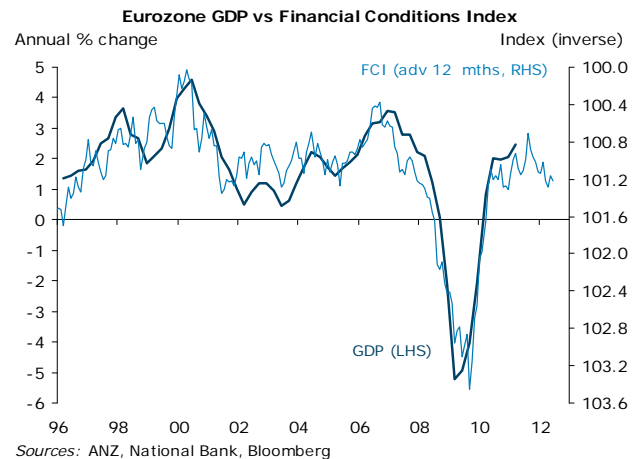
The reasonably upbeat picture implied by accommodative financial conditions has contrasted with a weaker US dataflow of late.

In a speech last week Fed Chairman Ben Bernanke admitted that the economic recovery had recently suffered a "loss of momentum" and, more generally, was proving to be "uneven" and "frustratingly slow". However, he still expects growth to pick up in the second half of this year, as the impact of rapidly rising commodity prices fades and the Japan-related supply disruptions begin to ease. We expect forward looking data to show signs of improvement and realign somewhat with the lead provided by our financial conditions gauge over the coming months as various one-offs (i.e.

the hit to the supply-chain from the Tsunami) are worked through.

EURO ZONE IN THE DOLDRUMS

Financial conditions for the Euro zone firmed slightly in June, driven by increases to the terms of trade adjusted euro, rising short and long-term interest rates, falls to equity values and low credit growth. This continues the firming in conditions that began since mid-way through last year when the euro and short-term interest rates started to move higher. Our FCI continues to suggest a slowing in Euro Zone growth momentum over the next 12 months and tepid growth in aggregate.



THE UPSHOT

Financial conditions measures present a disparate picture across the regions. Prospects for reasonably upbeat recoveries in New Zealand and the US, contrast with signs of moderation in China, Australia, and the euro zone.

Optimists would say that our financial conditions measures are likely to understate future growth prospects for New Zealand as they do not directly take into account the boost provided by earthquake reconstruction or the Rugby World Cup. The boost to mining investment in Australia would also be missed by our measure. Pessimists would counter that the expansionary impact implied by low interest rates and high export commodity prices is overstated due to ongoing deleveraging, with policy support needed to offset the impact of recent natural disasters. **While no economic indicator captures all dynamics, our measures have proved adept at picking turning points in business cycles** and we expect this to remain the case going forward.

MONTHLY INFLATION GAUGE

SUMMARY

Our monthly inflation gauge rose 0.4 percent in May. There were a few scattered price increases, which were more symptomatic of cost push influences than strengthening demand. While there is still not much evidence of price increases becoming more generalised, the list of one-off cost increases seems to be growing. The risk remains that these cost increases will be joined by demand-side influences, which will push inflation expectations and core inflation higher.

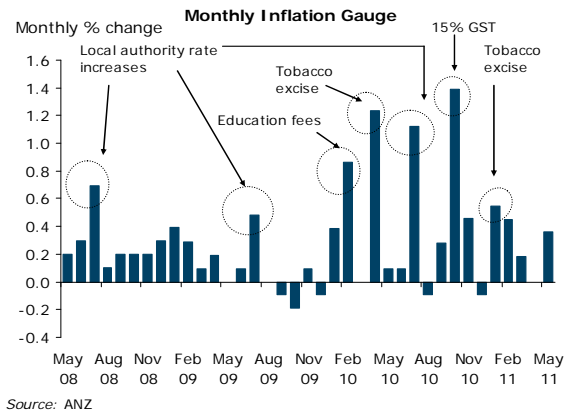
RETURN TO NORMAL?

Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI, differences in methodology and coverage mean the gauge will not exactly mirror the official series. However, it is proving to be a useful indicator of domestic inflationary trends.

Following no change in April, prices in the gauge rose 0.4 percent in May. Prices increased in five of the eight groups, with two unchanged and prices in one group falling. Price increases were scattered throughout the gauge: a 20 percent increase in dwelling insurance and 13 percent rise in contents insurance, higher beer and wine prices after price cuts in previous months, higher prices for rents and property maintenance, rising parking fees and newspaper prices. There were only a few price declines, with a 3 percent fall for dental services the most sizeable. Price falls elsewhere were minor and had generally followed previous price rises.

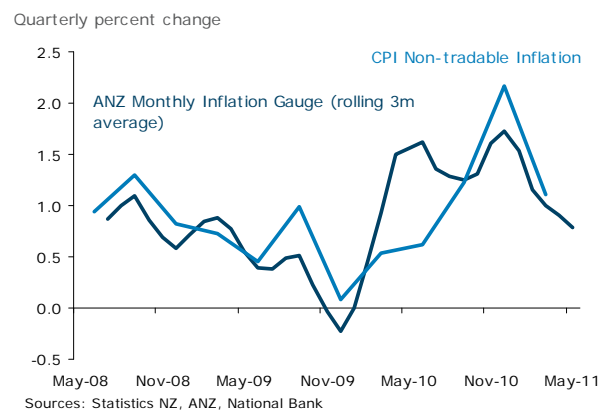
The gauge has proven to be a useful bellwether of inflationary trends. The 1.0 percent rise in the gauge for the March quarter was close to the 1.1 percent quarterly print for non-tradable CPI inflation. Taking a rolling average of the last three months from the gauge shows quarterly inflation moderating to 0.8 percent in the three months to May. This is heading in the right direction for the RBNZ but is still considerably above the 0.4 percent quarterly print for underlying Q2 non-tradeable inflation implied in the June MPs. **The cost-push nature of price increases remain the most evident source of price increases in our gauge.** The RBNZ believe there is sufficient economic slack to contain non-tradeable inflation for the time being, with a key judgement that construction cost inflation will not reach the peaks during the mid-2000s construction boom. So far, so good according to our gauge, but it is still early days.

We remain attuned to the risk of generalised inflationary pressures emerging. For now the RBNZ can afford to be patient, but there are limits to this. We will be closely watching our Gauge as an early warning indicator of changes in pricing behaviour.



	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non tradable CPI (q/q%)
Jan-10	1044	0.4		
Feb-10	1053	0.9		
Mar-10	1053	0.0	0.9	0.5
Apr-10	1066	1.2		
May-10	1067	0.1		
Jun-10	1068	0.1	1.6	0.6
Jul-10	1080	1.1		
Aug-10	1079	-0.1		
Sep-10	1082	0.3	1.2	1.2
Oct-10	1096	1.3		
Nov-10	1101	0.5		
Dec-10	1100	-0.1	1.7	2.2
Jan-11	1106	0.5		
Feb-11	1111	0.5		
Mar-11	1113	0.2	1.0	1.1
Apr-11	1113	0.0		
May-11	1117	0.4		

Monthly Inflation Gauge and Non-tradable CPI



INTEREST RATE STRATEGY

SUMMARY

Last week's Reserve Bank Monetary Policy Statement was about as upbeat as one could expect given the risk of markets front-running the recovery too far via a higher currency. While it still caught the market off guard, the subsequent rise in the NZD and the high cost of carry has prevented interest rates from moving up too much. As the RBNZ's thesis gets validated, there will be pressure on interest rates to keep rising. But for now global concerns cloud the outlook, and are keeping a lid on yields.

MARKET THEMES

- The RBNZ's 90-day bill projection was revised up substantially, implying hikes by December, and back to back hikes in 2012.
- Carry continues to exert its influence, as is evident in bond performance and NZD strength. It has also contained market reaction to the MPS.
- All three G3 economies are in a pickle of some sort, oil prices are elevated, and sovereign risk is back to the fore. This is an uneasy global backdrop.

REVIEW AND OUTLOOK

It was clear from the initial market reaction that few expected Thursday's RBNZ MPS to be as upbeat as it was. We won't dwell on the details, which are discussed in full on page 2, but suffice to say the higher 90 day bill track caught the market on the hop. Indeed, **with a 0.27 percent jump in the projections between Q3 and Q4, with a further 0.85 percent jump between Q4 and Q2 2012, it is clear that the RBNZ expects to be raising rates by year end, and more so in 2012.** But it didn't take long for carry concerns to come to the fore: by the end of the day, the bellwether 2yr swap was barely 5bps higher.

It's not that the market doesn't believe the RBNZ – it's just that **it costs too much to be "short" (about 8bps per month for the 2 year).** When combined with significant global uncertainties, the appeal of being short diminishes quickly. Of note is the outlook for the US economy. Opinion is divided at the moment, as to whether it is a temporary slowdown or something much more entrenched. With Japanese growth stagnant, and sovereign debt concerns dominating Europe, it is critical that the US growth starts to show signs of improving following the recent dip. This has, in turn, flared up the debate about whether or not the US Fed will adopt "QE3".

The bottom line is, whether locally or globally domiciled, there are significant upside risks to

interest rates – the only uncertainty is timing. But as they say, timing is everything.

PREFERRED BORROWING STRATEGIES

The RBNZ has made it clear that late 2011 hikes are on the cards, with even more to come in 2012. Hikes in late 2011 are also on the cards. Ideally, borrowers will be able to stay floating for a few more months, but be fixed by the time the RBNZ starts hiking. The trouble is; this is easier said than done. Indeed, if you wait, you will get the benefit of low floating rates in the meantime – but of course there is no guarantee that fixed rates will still be here by the time you go to extend. Although rates have moved higher since the MPS, the move has been pretty muted relative to the shift in tone from the RBNZ. More importantly, swap rates remain well below where they "should" be if the RBNZ's projections come into fruition, particularly out to 3 years. As such, we see value in adding to hedges here. Mid curve swap rates are also low relative to their long term averages, and offer a good mix of value and protection. By contrast, although long end rates are low by historical standards, they are substantially higher than floating rates, and it would take a brave borrower to pay up.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↑	Last week's MPS was hawkish, have no doubts.
NZ data	↑	General tone improving.
Fed Funds / front end	↔	Has the Fed sleep-walked into QE3. Bonds assume so.
RBA	↔	On hold for a long time.
US 10 year	↔	Carry supportive, but yields at long-time lows.
NZ swap curve	↓	Massive flattening coming.
Flow	↔	Carry holding payers back.
Technicals	↔	2yr 3.50% line in the sand.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Jul-11	+1	+1
Thu 15-Sep-11	+1	+3
Thu 27-Oct-11	+4	+6
Thu 8-Dec-11	+20	+22
Thu 26-Jan-12	+29	+32
Thu 8-Mar-12	+45	+46
Thu 26-Apr-12	Not forecast	+57

TRADING THEMES WE FAVOUR AT PRESENT

The 2-10yr swap curve remains reasonably steep despite last week's relatively hawkish MPS. Short end swap rates did move higher immediately after the MPS, but came back on profit taking and carry concerns, and the market is reluctant to be short. Still, we prefer flatteners, especially trades like the 1-4yr, which has positive carry, and will benefit from significant mispricing over 2013. We also continue to favour NZGS 4/15 asset swaps.

CURRENCY STRATEGY

SUMMARY

The currency market read last week's RBNZ *Statement* as hawkish, but perhaps more surprising was the Governor's comments regarding the NZD later that day. The Governor's wish for a lower NZD may be fulfilled this week as global factors and a "risk off" theme take hold. But we see the NZD outperforming on the crosses. The RBA was sanguine enough to add a negative tone for the AUD and the risk off theme will add downward pressure. The EUR is finally succumbing to Greek debt woes, and while the USD has recovered, the greenback could yet struggle should the US dataflow continue to disappoint.

MARKET THEMES

- Equity markets lead a "risk off" theme giving the USD support.
- NZDUSD sidelined, which should see NZD crosses (and NZTWI) gain ground.
- AUD remains fully priced and will suffer in a "risk off" environment.
- Greek saga continues with second bailout not a done deal yet. Even the ECB signalling a hike in July failed to support the EUR.

REVIEW AND OUTLOOK

The RBNZ's June *Monetary Policy Statement* is behind us and a global risk off theme will undermine NZDUSD this week. The market read the RBNZ as more hawkish, sending NZD to fresh post-float highs. The Governor's comments expressing surprise at the NZD's reaction to the *Statement* was temporary. But the NZD came off its highs late in the week as global themes took over again. In a favourable USD environment, it is difficult for the NZD to thrive. But we expect the NZD to perform well on the crosses. Q1 retail sales data this week is expected to show solid volume growth, which should provide support to NZD.

The RBA indicated that interest rates are at "appropriate" levels, giving more reason to believe the AUD is fully priced. Indeed anecdotes suggest the Australian consumer may be reaching a "tipping point" as inflation bites and house prices roll over. Add to that what seems to be a change in fortunes for employment and the AUD indeed looks fully priced. This week's business conditions and consumer confidence data should quantify these anecdotes. Weaker equities and risk off should further undermine the AUD this week.

Equities seem to be leading the currency markets, giving the USD a bid tone. The dovish

chatter from Bernanke was not enough to undermine the prospect of the end of QE2. And Bernanke was not dovish enough to give the markets a sense that QE3 was likely. Given that it could be argued that QE2 has driven financial asset prices higher and undermined the USD, the end of QE2 gives plenty of reason for those trends to be brought into question.

We still have no new news on a solution to Greece's financial woes. In the absence of confirmation of a second bailout package for Greece, EUR has lost its shine. And this despite the ECB clearly signalling that another hike in July is on the cards. Technically the EUR is setting up a correction possibly to as low as 1.3825 with support at 1.4150 and 1.3980.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Close to our fair value estimates.
Yield	↔/↓	Yield convergence favouring AUD less.
Commodities	↔	Weak commodities leave NZD and AUD vulnerable.
Partial indicators	↓	RBNZ and RBA in opposing directions again.
Technicals	↑	Support at 0.7680.
Sentiment	↔	Risk off.
Other	↑	Terms of trade support.
On balance	↔	Trending higher 0.7680 - 0.7910.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔/↓	Still above our cyclical fair value estimates.
Yield	↓	Yield support improving.
Commodities	↔	Commodities rangebound but supportive.
Risk aversion	↔	Equities softer.
Partial indicators	↑	NZ data better, US data worsening.
Technicals	↓	Bearish divergence.
AUD	↔/↓	AUD in correction mode.
Sentiment	↔	Post float highs encourage sellers.
Other	↑	Strong demand for NZ bonds.
On balance	↔	Soft tone this week.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
13-Jun	NZ	REINZ Housing Price Index MoM% - MAY	- -	1.10%	10:00
	NZ	REINZ House Sales YoY% - MAY	- -	-4.20%	10:00
	CH	Actual FDI (YoY) - MAY	- -	15.20%	UNCONFIRMED
	CH	New Yuan Loans - MAY	650.0B	739.6B	UNCONFIRMED
	CH	Money Supply - M0 (YoY) - MAY	- -	14.70%	UNCONFIRMED
	CH	Money Supply - M1 (YoY) - MAY	13.70%	12.90%	UNCONFIRMED
	CH	Money Supply - M2 (YoY) - MAY	15.50%	15.30%	UNCONFIRMED
14-Jun	NZ	Food Prices (MoM) - MAY	- -	0.10%	10:45
	UK	RICS House Price Balance - MAY	-20%	-21%	11:01
	CH	China Manpower Survey - 3Q	- -	29%	12:01
	AU	NAB Business Conditions - MAY	- -	5	12:30
	AU	NAB Business Confidence - MAY	- -	7	13:30
	CH	Producer Price Index (YoY) - MAY	6.50%	6.80%	14:00
	CH	Consumer Price Index (YoY) - MAY	5.50%	5.30%	14:00
	CH	Retail Sales (YoY) - MAY	17.00%	17.10%	14:00
	CH	Retail Sales YTD YoY - MAY	16.90%	16.50%	14:00
	CH	Industrial Production (YoY) - MAY	13.10%	13.40%	14:00
	CH	Industrial Production YTD YoY - MAY	14.00%	14.20%	14:00
	CH	Fixed Assets Inv Excl. Rural YTD YoY - MAY	25.20%	25.40%	14:00
	NZ	Non Resident Bond Holdings - MAY	- -	- -	15:00
	JN	Capacity Utilization (MoM) - APR	- -	-21.50%	16:30
	JN	Industrial Production (MoM) - APR F	- -	1.00%	16:30
	JN	Industrial Production YOY% - APR F	- -	-14.00%	16:30
	UK	DCLG UK House Prices (YoY) - APR	-0.20%	0.90%	20:30
	UK	CPI (MoM) - MAY	0.20%	1.00%	20:30
	UK	CPI (YoY) - MAY	4.50%	4.50%	20:30
	UK	Core CPI YOY - MAY	3.50%	3.70%	20:30
	JN	BOJ Target Rate - JUN	0.10%	0.10%	UNCONFIRMED
15-Jun	US	Producer Price Index (MoM) - MAY	0.10%	0.80%	00:30
	US	PPI Ex Food & Energy (MoM) - MAY	0.20%	0.30%	00:30
	US	Producer Price Index (YoY) - MAY	6.80%	6.80%	00:30
	US	PPI Ex Food & Energy (YoY) - MAY	2.10%	2.10%	00:30
	US	Advance Retail Sales - MAY	-0.50%	0.50%	00:30
	US	Retail Sales Less Autos - MAY	0.30%	0.60%	00:30
	US	Retail Sales Ex Auto & Gas - MAY	0.30%	0.20%	00:30
	US	Business Inventories - APR	0.90%	1.00%	02:00
	NZ	Retail Sales Ex Inflation(QoQ) - 1Q	0.90%	-0.40%	10:45
	UK	Nationwide Consumer Confidence - MAY	45	43	11:01
	AU	Westpac Leading Index (MoM) - APR	- -	0.50%	12:30
	AU	Westpac Consumer Confidence Index - JUN	- -	103.9	12:30
	AU	Consumer Inflation Expectation - JUN	- -	3.30%	13:00
	AU	Dwelling Starts - 1Q	-0.80%	-5.30%	13:30
	UK	Claimant Count Rate - MAY	4.60%	4.60%	20:30
	UK	Jobless Claims Change - MAY	6.5K	12.4K	20:30
	UK	Average Weekly Earnings 3M/YoY - APR	2.10%	2.30%	20:30
	UK	Weekly Earnings exBonus 3M/YoY - APR	2.10%	2.10%	20:30
	UK	ILO Unemployment Rate (3mths) - APR	7.70%	7.70%	20:30
	EC	Euro-Zone Ind. Prod. sa (MoM) - APR	-0.20%	-0.20%	21:00

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
16-Jun	US	Consumer Price Index (MoM) - MAY	0.10%	0.40%	00:30
	US	CPI Ex Food & Energy (MoM) - MAY	0.20%	0.20%	00:30
	US	Consumer Price Index (YoY) - MAY	3.40%	3.20%	00:30
	US	CPI Ex Food & Energy (YoY) - MAY	1.40%	1.30%	00:30
	US	CPI Core Index SA - MAY	-	223.745	00:30
	US	Consumer Price Index NSA - MAY	-	224.906	00:30
	US	Empire Manufacturing - JUN	12.65	11.88	00:30
	US	Total Net TIC Flows - APR	-	\$116.0B	01:00
	US	Net Long-term TIC Flows - APR	\$35.0B	\$24.0B	01:00
	US	Industrial Production - MAY	0.20%	0.00%	01:15
	US	Capacity Utilization - MAY	77.00%	76.90%	01:15
	US	NAHB Housing Market Index - JUN	16	16	02:00
	NZ	Westpac NZ Consumer Confidence - 2Q	-	97.9	10:00
	NZ	Business NZ PMI - MAY	-	51.5	10:30
	NZ	Manufacturing Activity - 1Q	-	3.10%	10:45
	NZ	Manufacturing Activity Volume SA (QoQ) - 1Q	-	3.30%	10:45
	NZ	ANZ Consumer Confidence Index - JUN	-	103.3	13:00
	NZ	ANZ Consumer Confidence MoM - JUN	-	1.90%	13:00
	AU	New Motor Vehicle Sales MoM - MAY	-	-3.50%	13:30
	AU	New Motor Vehicle Sales YoY - MAY	-	-8.40%	13:30
	AU	RBA Foreign Exchange Transactn - MAY	-	570M	13:30
	UK	Retail Sales Ex Auto Fuel(MoM) - MAY	-0.60%	1.20%	20:30
	UK	Retail Sales Ex Auto Fuel(YoY) - MAY	1.70%	2.70%	20:30
	UK	Retail Sales w/Auto Fuel (MoM) - MAY	-0.60%	1.10%	20:30
	UK	Retail Sales w/Auto Fuel (YoY) - MAY	1.50%	2.80%	20:30
	EC	Euro-Zone CPI - Core (YoY) - MAY	1.60%	1.60%	21:00
	EC	Euro-Zone CPI (MoM) - MAY	0.00%	0.60%	21:00
	EC	Euro-Zone CPI (YoY) - MAY	2.70%	-	21:00
	EC	Eurozone Employment (QoQ) - 1Q	-	0.10%	21:00
	EC	Eurozone Employment (YoY) - 1Q	-	0.30%	21:00
17-Jun	US	Initial Jobless Claims - 11 Jun	420K	427K	00:30
	US	Continuing Claims - 4 Jun	3670K	3676K	00:30
	US	Housing Starts - MAY	545K	523K	00:30
	US	Housing Starts MOM% - MAY	4.20%	-10.60%	00:30
	US	Building Permits - MAY	557K	551K	00:30
	US	Building Permits MOM% - MAY	-1.20%	-4.00%	00:30
	US	Current Account Balance - 1Q	-\$130B	-\$113B	00:30
	US	Philadelphia Fed. - JUN	8	3.9	02:00
	JN	Nationwide Dept. Sales (YoY) - MAY	-	-1.50%	17:30
	EC	Construction Output SA MoM - APR	-	-0.30%	21:00
	EC	Construction Output WDA YoY - APR	-	-4.90%	21:00
	EC	Euro-Zone Trade Balance sa - APR	-2.7B	-0.9B	21:00
	EC	Euro-Zone Trade Balance - APR	-1.9B	2.8B	21:00
18-Jun	US	U. of Michigan Confidence - JUN P	74	74.3	01:55
	EC	ECB Publishes June Monthly Report -			02:00
	US	Leading Indicators - May	0.3%	-0.3%	02:00

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: While the OCR remained on hold, the less downbeat nuances of the statement and higher published 90-day track took the market by surprise with the NZD/USD reaching (another) post-float high. Construction and retail data was weak, with this week's retail and manufacturing data is expected to highlight sector differences. Forthcoming consumer and manufacturing sentiment data is expected to show improvement from a low base. Data over the coming months is expected to continue this theme.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 14 June (10:45am)	Food Price Index - May	Cost-push	We expect a 0.7 percent increase, largely due to higher dairy prices.
Wed 15 June (10:45am)	Retail Trade Survey - Q1	Up	Retail volumes are expected to rise 1.5 percent, with core volumes up 1.0 percent.
Thur 16 June (10:30am)	Manufacturing PMI - May	Rising	We expect a small climb into the low mid 50s. The May NBBO suggests more improvement but global gauges have weakened.
Thur 16 June (10:45am)	Wholesale Trade - Q1	Sideways	We expect a 0.3 percent increase in wholesale trade volumes, on account of expansion in retail activity versus flat export volumes.
Thur 16 June (10:45am)	Economic Survey of Manufacturing - Q1	Down	Ex-primary manufacturing volumes are expected to fall 2 percent. Primary manufacturing volumes should track sideways.
Thur 16 June (1:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Tue 21 June (10:45am)	International Travel and Migration - May	Up	We expect a net PLT inflow of 100 persons in May. Visitor arrival numbers should stabilise, with wide country divergences.
Wed 22 June (10:45am)	Current Account Balance - Q1	As good as it gets	A \$6bn reinsurance flow will produce a \$5.7bn surplus, with the first annual surplus (0.6 percent of GDP) since the early 1970s.
Wed 22 June (3:00pm)	Credit Card Statistics - May	Easing	We expect a modest 0.2 percent increase.
Mon 27 Jun (10:45am)	Overseas Merchandise Trade - May	Commodity price boost	A monthly surplus of around \$800m is forecast, with the annual surplus widening towards \$700m.
Thur 30 Jun (10:45am)	Building Consents - May	Lifting	We expect a 3 percent increase in residential consent numbers.
Thur 30 June (1:00pm)	National Bank Business Outlook	- -	- -
Mon 4 July (1:00pm)	ANZ Commodity Price Index - June	- -	- -
Wed 6 July (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate around the US \$3,800 per tonne level.
Thur 7 July (10:45am)	Gross Domestic Product - 2011Q1	Down	We expect a 0.4 percent fall in activity. Weakness will be concentrated in some pockets, including net trade, construction, and services.
Mon 11 July (10:45am)	Electronic Card Transactions - June	Down	A 4 percent fall in fuel prices will contribute to a small fall in retail ECT. A small increase is expected for core spending.
Wed 13 July (10:45am)	Food Price Index - June	Up	Seasonal rises in meat and fruit and vegetable prices will underpin a 0.7 percent monthly increase.
Thur July (10:00am)	REINZ Housing Market data - June	Inching up	Prices flat, with increasing property listings expected to translate into a 1 to 2 percent increase in sales volumes.
Thur 14 July (10:30am)	Manufacturing PMI - June	Expansion	We expect the headline measure in the low 50's but are conscious of weakness in overseas gauges.
On Balance		On the up	Hard data relating to Q1 mixed. But soft leading gauges will point towards better data in Q2 and beyond.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.2	-0.4	0.8	1.5	1.8	0.7	0.9	0.9	0.8	0.7
GDP (% yoy)	0.8	-0.3	0.4	2.1	3.7	4.9	5.0	4.4	3.3	3.3
CPI (% qoq)	2.3	0.8	0.8	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.1	4.8	3.1	2.9	2.9	2.7	2.6	2.9
Employment (% qoq)	-0.4	1.4	-0.2	0.4	0.5	0.5	0.4	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	1.8	1.2	2.1	1.2	1.8	1.9	1.8	1.7
Unemployment Rate (% sa)	6.7	6.6	6.6	6.3	6.3	6.2	6.2	6.0	6.0	6.0
Current Account (% GDP)	-2.3	0.5	0.2	-1.6	-1.3	-4.5	-4.6	-4.9	-5.1	-5.2
Terms of Trade (% qoq)	0.8	0.9	3.0	3.0	0.9	-0.9	-0.7	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.3	6.8	7.9	7.9	8.0	6.1	2.2	-1.6	-3.2	-3.1

	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11
Retail ECT (% mom)	-0.5	2.2	0.8	1.0	-0.8	2.4	-0.1	1.4	1.5	-0.8
Retail ECT (% yoy)	1.7	5.0	4.8	6.3	4.4	5.7	6.2	6.6	10.0	6.8
Credit Card Billings (% mom)	0.7	1.0	0.6	0.0	-1.8	3.6	-0.5	-1.4	1.6	..
Credit Card Billings (% yoy)	2.3	4.2	4.7	3.8	2.0	5.6	5.3	1.6	6.0	..
Car registrations (% mom)	0.0	2.6	-3.9	12.8	-8.3	0.9	-1.7	-0.3	-5.6	3.2
Car registrations (% yoy)	19.0	19.2	9.4	23.5	6.4	6.8	2.8	-1.0	-10.5	-3.7
Building consents (% mom)	-17.7	0.9	-2.0	8.0	-18.4	9.1	-9.9	2.0	-1.7	..
Building consents (% yoy)	-3.1	-9.4	-17.4	-9.1	-26.5	-14.8	-29.0	-26.3	-32.5	..
REINZ House Price Index (% yoy)	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	-1.8	-0.4	..
Household Lending Growth (% mom)	0.1	0.2	0.1	0.0	0.0	0.1	0.1	-0.1	0.2	..
Household Lending Growth (% yoy)	2.3	2.3	2.0	1.8	1.6	1.6	1.5	1.2	1.2	..
ANZ Roy Morgan Consumer Confidence	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4	101.4	103.3
NBNZ Business Confidence	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7	14.2	38.3
NBNZ Own Activity Outlook	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7	29.5	39.7
Trade Balance (\$m)	-430	-455	-220	-177	-218	9	182	578	1113	..
Trade Balance (\$m ann)	871	978	1259	1363	1172	909	763	734	1187	..
ANZ World Commodity Price Index (% mom)	-1.1	2.6	3.0	2.1	1.6	4.3	2.7	4.7	1.6	0.3
ANZ World Commodity Price Index (% yoy)	30.8	25.1	23.1	13.1	12.1	16.3	20.3	23.5	19.8	19.5
Net migration (sa)	860	1000	390	600	720	440	450	-520	-90	..
Net migration (annual)	14507	13914	12610	11519	10451	8689	8249	6554	5508	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.762	0.810	0.821	0.80	0.77	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.737	0.738	0.779	0.75	0.71	0.72	0.73	0.72	0.72	0.73
NZD/EUR	0.538	0.547	0.573	0.57	0.56	0.56	0.56	0.54	0.53	0.52
NZD/JPY	63.31	65.75	65.96	68.0	66.2	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.475	0.485	0.506	0.50	0.48	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	66.7	68.6	71.0	70.2	67.8	67.1	67.0	65.7	64.9	64.4
INTEREST RATES	Mar-11	Apr-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	2.63	2.68	2.68	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.66	5.44	5.08	5.50	5.70	5.90	6.10	6.20	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00	2.00
US 3-mth	0.30	0.27	0.25	0.35	0.35	0.35	0.85	1.60	2.10	2.10
AU Cash Rate	4.75	4.75	4.75	4.75	5.00	5.25	5.25	5.50	5.75	5.75
AU 3-mth	4.93	4.92	5.03	5.30	5.30	5.50	5.60	5.80	6.00	6.00

	10 May	6 Jun	7 Jun	8 Jun	9 Jun	10 Jun
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.66	2.66	2.64	2.64	2.64	2.63
NZGB 04/13	3.23	3.24	3.25	3.22	3.28	3.23
NZGB 04/15	4.18	4.07	4.08	4.06	4.08	4.03
NZGB 03/19	5.04	4.90	4.91	4.92	4.90	4.86
NZGB 05/21	5.23	5.10	5.11	5.13	5.10	5.06
2 year swap	3.35	3.37	3.39	3.36	3.43	3.41
5 year swap	4.45	4.41	4.43	4.41	4.42	4.40
RBNZ TWI	68.2	70.1	70.0	70.0	70.4	71.0
NZD/USD	0.7933	0.8153	0.8169	0.8171	0.8205	0.8253
NZD/AUD	0.7362	0.7637	0.7621	0.7667	0.7752	0.7792
NZD/JPY	63.78	65.84	65.54	65.33	65.69	66.15
NZD/GBP	0.4838	0.4989	0.4996	0.4979	0.5000	0.5054
NZD/EUR	0.5534	0.5629	0.5590	0.5576	0.5614	0.5694
AUD/USD	1.0776	1.0713	1.0719	1.0657	1.0584	1.0592
EUR/USD	1.4335	1.4576	1.4613	1.4655	1.4616	1.4495
USD/JPY	80.40	80.10	80.23	79.95	80.06	80.15
GBP/USD	1.6397	1.6357	1.6352	1.6412	1.6410	1.6329
Oil (US\$/bbl)	100.32	99.01	99.07	99.18	100.77	101.95
Gold (US\$/oz)	1509.20	1544.58	1545.00	1540.95	1536.20	1542.00
Electricity (Haywards)	5.31	2.59	3.22	2.81	6.12	6.35
Baltic Dry Freight Index	1344	1484	1456	1434	1428	1418
Milk futures (USD)	162	161	161	161	161	162

IMPORTANT NOTICE

NEW ZEALAND DISCLOSURE INFORMATION

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

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

Qualifications, experience and professional standing Experience

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

Relevant professional body

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

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

Professional indemnity insurance

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

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

The insurer is ANZcover Insurance Pty Limited.

Dispute resolution facilities

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

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

Criminal convictions

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

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

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

Fees

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

Other interests and relationships

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

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

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

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

- Providing cash;



IMPORTANT NOTICE

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

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

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

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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