

## LENDING A HAND

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### Page 2: Economic overview

- > GDP data provided little new information in our eyes and we continue to look for an elongated adjustment phase for the economy. Most attention this week will reside in the package emerging from the US, which while providing a welcome floor in terms of sentiment, needs to be appreciated as exactly that, and not an immediate cure. We expect a mixed batch of data in New Zealand this week. Tax cuts due from October 1 are a positive, but need to be assessed within a wider context in terms of developments.

### Page 5: Economic comment – financial conditions

- > Our assessment of financial conditions in the US points to a recession. Conditions are pointing to a sharp deceleration in Australia. Financial conditions in NZ have stabilised, with the delivery of lower interest rates, and expectations of more, offsetting tighter conditions from other areas.

### Page 6: Economic comment – the other side of the ledger

- > The revised dairy payout has seen a lot of attention, and international dairy prices are falling sharply. However, this is only a part of the story at present, with net income for the sector being eroded materially by costs.

### Page 8: Economic comment – global watch

- > For the first time in some time, US data was softer than expected across the board last week. Another leg of domestic weakness is looking likely. Across Europe and Asia, it was fairly quiet and data was relatively mixed.

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- > Offshore issues continue to dominate. Global bond markets remain nervous awaiting the final details of the US Government's rescue package. The outlook is further complicated by escalating liquidity premia, and realisation that a long period of macro adjustment lays ahead no matter how robust the package is.

### Page 10: Currency strategy

- > Markets remain gridlocked, and while all are waiting the finalisation of the US Government's rescue package, we wonder whether it will actually be a panacea. The NZD remains on borrowed time given the domestic backdrop but is expected to once again remain in limbo for now. The dairy scene needs to be watched.

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## ECONOMIC OVERVIEW

GDP data provided little new information in our eyes and we continue to look for an elongated adjustment phase for the economy. Most attention this week will reside in the package emerging from the US, which while providing a welcome floor in terms of sentiment, needs to be appreciated as exactly that, and not an immediate cure. We expect a mixed batch of data in New Zealand this week. Tax cuts due from October 1 are a positive, but need to be assessed within a wider context in terms of developments.

### What's ahead?

- > **August Credit Growth** (Monday 1500 NZST). This should again be subdued, in line with the weak housing market.
- > **August Building Consents** (Tuesday 1045 NZST). This should rebound off last month's weakness, but the level will remain low. Watch commercial consent issuance for the potential next leg.
- > **September NBNZ Business Outlook** (Tuesday 1500 NZST).
- > **September ANZ Commodity Price Index** (Thursday 1500 NZST).

### What's the view?

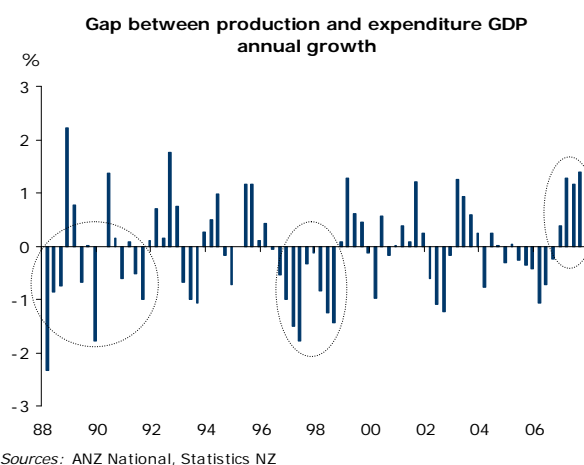
Last week we received confirmation of what we already really knew – the economy was in the dreaded “R” over the first half of the year. Of course the “R” we like to refer to is “rebalancing” – a process that is long overdue. Production GDP contracted by 0.2 percent in the June quarter, following a 0.3 percent fall in March. As expected, it was sectors closely aligned to the housing market where much of the weakness eventuated (construction, distribution and business services), although to be fair, the weakness was not as bad as the market, or ourselves, were envisaging.

Picking up on a couple of interesting points, we suspect there has been some “shuffling” of growth between quarters going on. Inventories grew by \$369 million over the June quarter, following an increase of a similar magnitude in Q1. Distribution stocks (up \$508 million) were a particularly big contributor. With consumer good imports holding up to date, but retail spending heading backwards, we are not at all surprised that stock levels are high across the country. The risks are now for this to be unwound over the second half of the year. We were previously expecting a 0.2 percent fall in September quarter GDP, but given the stocks story, we will now be revising this lower. We had forecast -0.5 percent and -0.2 percent for June and

September respectively, but it now seems appropriate to reverse these.

Another interesting point in our eyes is the fact that expenditure GDP once again recorded a weaker outturn, falling by 0.5 percent. A sizeable gap has opened up between the expenditure and production based measures of GDP. Annual growth in expenditure GDP is now negative, but still one percent according to the production series. Volatile stocks and the cycle can account for a lot of this difference. We expect to see a picture over the September quarter where the expenditure measure recovers, but weakness comes through production based GDP (distribution, manufacturing, transport), as the stock hangover is worked through.

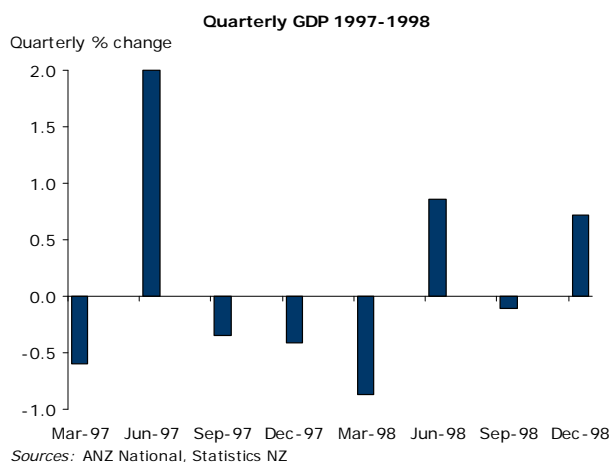
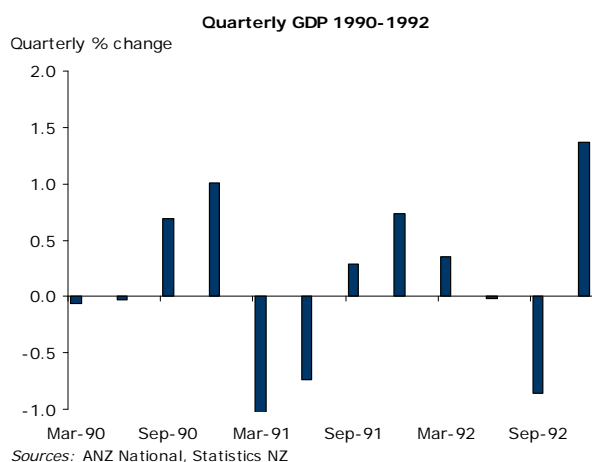
Indeed, previous cycles (1990 and 1997) have typically seen the production measure of GDP tail off in the first instance and the expenditure measure lag. This is normally a reflection of the fact that businesses have typically turned first in the cycle, and the catalyst has often been the global backdrop such as 1997/98. This economic cycle is shaping up in a fundamentally different manner, with households, and hence the expenditure measure, first in and production second. Strictly speaking the two should not be divorced, but within a small open economy, material gaps can exist. Unlike previous cycles, it is the household sector leading as opposed to lagging. A business driven slowdown (as was the case in 1997-98) is more likely to weigh on production GDP first up and not come through “expenditure” until later. What we are seeing at present is the reverse.



And on this note, we expect there to be plenty of “noise” looking forward. Some technical aspects such as drought, electricity generation and manufacturing, could play havoc with the quarterly data and there is the likelihood of a solid rebound in Q4 growth. Stepping beyond the noise, this slowdown and “adjustment” is a story of household de-leveraging and one that suggests a protracted and “U” shaped cycle. However, we are increasingly erring towards a “W” type economic

cycle given the risk of recent global events leading to another leg of weakness and as the business sector gets caught in the rip, both from offshore and from less domestic demand.

Based on previous economic cycles in NZ, you see a strong tendency for the economy to bounce along at a trough and remain wobbly for a while as we see a mixture of positive and negative GDP reads over a couple of years, as opposed to a clear trend. We expect to see a similar picture over the coming year.



In terms of the implications for monetary policy, the big picture still points towards policy returning to a more neutral setting, given the growth backdrop. However, we'd give a few caveats which need to be kept in mind in terms of how far policy can go relative to neutral in the current environment. The first is the opening position for the economy and extent of capacity pressure. Second, while demand growth is poor, we do not believe the supply side capacity (or potential growth) is 3 percent as some assume, given weak productivity trends. Hence, excess demand is being eliminated but not at the pace some would argue. Third, the RBNZ has to battle a higher proportion of inflation coming from non-demand linked pockets of the economy that are going through structural change (such as energy, ETS at some stage, local authority rates etc). The RBNZ

recently released their September *Bulletin*, and the key theme contained in this was inflation. It looks to be a timely reminder, both to markets and politicians as we look to the election.

Overall, we see little reason to back away from our call of two 50bp cuts before the end of the year, taking the OCR to 6.5 percent, and then a pause for six months. 6.5 percent is still high and hence restrictive, but our wariness towards the global scene have us looking for a leg beyond that – eventually.

The global backdrop is an area that we continue to ponder. A great deal of attention will no doubt be focused on the pending rescue package in the US this week. While final details are still to emerge on what the package entails, it will certainly help take the wide edges off markets. Once again around the globe last week we saw bills-LIBOR spreads under pressure. Will the package cure all ills? While it will certainly help, we struggle to see it being a panacea. It's about stopping the US economy going from the dreaded "R" to the 1930's "D", with the big difference between the two being the financial system.

What we said last week still applies. So we'll repeat it. First, as we've long stated, across Anglo-Saxon nations, this is by-and-large a household de-leveraging story, and it will continue to take time. Second, it's more than a US economic problem, with financial sector issues apparent in the UK and Europe. Third, we've yet to fully see the economic impact of financial system de-leveraging across real economies. This is the next leg. Fourth, the multiplier effects from the financial system are large, and even if conditions stabilise, balance sheet consolidation will remain the order of the day, which at a minimum will take out a huge layer of growth and keep momentum sluggish. Fifth, the complicated web of derivative structures associated with various failures is still being worked through. Sixth, if the plan involves assets being transferred from weakened financial sector balance sheets in the US to the taxpayers, what is the price and what are the hooks? There seems a lot to work through. Finally, the previous "accelerator" cycle moved valuations massively beyond the economic fundamentals. It was the behavioural aspect that drove markets. This was a dynamic we certainly saw in the NZ property market. We see the same dynamic as being influential in the reverse around the globe.

Looking forward to this week, there are a number of second tier data releases locally. We receive credit growth numbers for August this afternoon and these are likely to show a subdued picture, which is not at all surprising given the still weak housing market. We are viewing credit figures as a reasonably important indicator at present as the process of credit creation and distribution within an

economy involves widespread and large multiplier effects. In the absence of such creation, asset prices are not moving (certainly not up anyway), and this dampens spending.

We receive building consents figures on Tuesday. We'll be closely watching these on a couple of levels. Residential consents capitulated in the preceding months to early 1990's lows (which considering the economy is 65 percent bigger is no mean feat). We expect a mild bounce of 5 percent or so. A continuation of prior month's trends would not be comforting as we are already anticipating residential building work falling a further 5 percent in 2009 following a 19 percent fall over 2008, knocking nearly a full percentage point off GDP. We'll also be closely watching commercial issuance, which has also started to slow, although has a far more robust pipeline.

Also on Tuesday we get the latest business confidence reading from the National Bank *Business Outlook* and this will be looked towards for any further evidence of a stabilisation in sentiment. On Thursday, the ANZ Commodity Price Index for September is released.

This week we also receive the first endowment in the Government's tax package, worth around \$20 per week. While it's certainly encouraging in terms of potentially helping to mitigate some of the extreme pressure we are seeing across households, when seen in the context of falling house prices, growing anecdotes of rising unemployment and global events, it's hard to get excited.

On a different note, we also wouldn't be surprised to see more "leaks" in terms of the upcoming *Pre-Election Economic and Fiscal Update*. This is due out next Monday, and with cash deficits already forecast in the *Budget*, and the economic prognosis weaker since then, the cash position is expected to have deteriorated further. Moreover, developments over the past few weeks have been so fast moving that the core economic forecasts underlying the projections may well be already out of date.

Offshore this week, it is also a relatively busy one for data. One of the big focuses will be the ECB's interest rate announcement. While no change in rates is expected, policy officials will be expected to comment on this latest bout of financial market turbulence and how it is expected to impact on Euro-zone economies. Data last week showed the Irish economy has entered a recession and others within the region are expected to follow it. Other important data will be sentiment surveys out of Europe and the Tankan from Japan. In the US, the big one will be Non-Farm Payrolls. With the weekly jobless claims numbers continuing to trend higher, this should show the labour market in the US continuing to weaken.

### Recent local data...

**Electronic Card Transactions (August):** Retail ECT spending rose 1.1 percent, while core spending rose 1.7 percent.

**GDP (June quarter):** Production GDP contracted by 0.2 percent, taking year on year growth to 1.0 percent.

## FINANCIAL CONDITIONS

**Our assessment of financial conditions in the US points to a recession. Conditions are pointing to a sharp deceleration in Australia. Financial conditions in NZ have stabilised, with the delivery of lower interest rates, and expectations of more, offsetting tighter conditions from other areas.**

Regular readers will be familiar with our Financial Conditions Index<sup>1</sup>, which we monitor and provide periodic updates in this publication. It includes the currency (adjusted for commodity prices), the 90-day interest rates, along with other interest rates, a swap spread, equities, house prices, credit growth, and liquidity.

As an exercise, we've adopted a similar methodology to construct indexes for Australia and the United States, given their significance on the trading front for NZ, and also barometers of the global economy.

The Australian index includes the real 90-day interest rate (deflated by a weighted combination of house prices and inflation), the 3 year interest rate swap, AUD adjusted for commodity prices, US 2 year swap spread, house prices, equities, and credit.

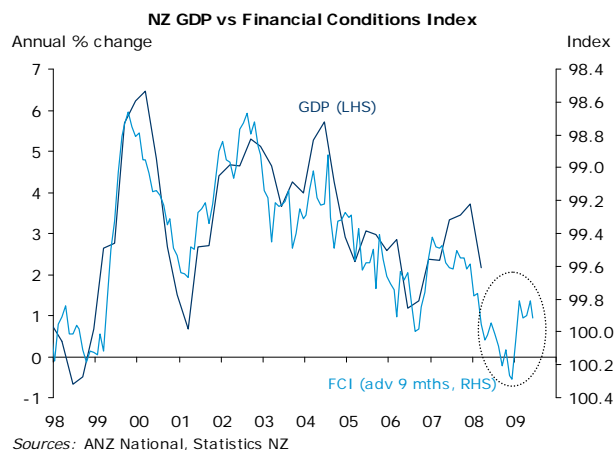
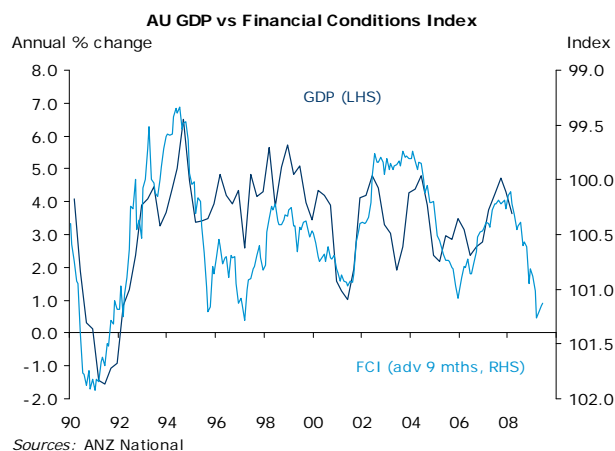
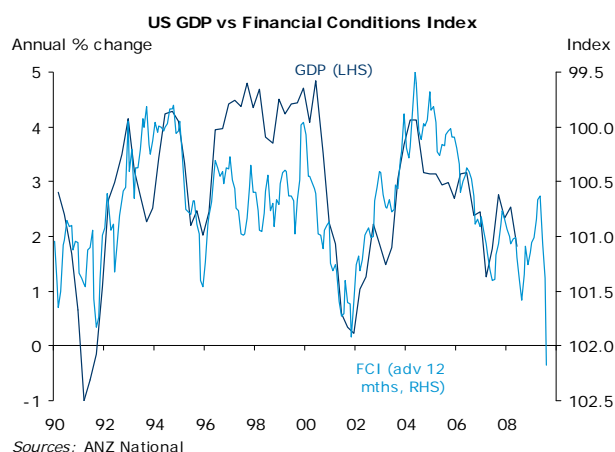
The US measure is built up similarly.

Key messages from our indexes include:

- > The US is set to enter recession. Considering the problems started in the US a year ago it should already be in that position. Looser monetary conditions in the early part of the year and the fiscal stimulus package mid this year deferred the day of reckoning. But based on the historical lag, US data is going to look poor in H1 2009.
- > Conditions have tightened a lot in Australia, despite the positive (stimulatory) impact of a lower \$A and altered views towards the RBA. We need to be careful when interpreting financial conditions in Australia as we can get different level messages and comparisons with GDP by playing with the weights (and scale on the charts). Irrespective, the direction of financial conditions is still telling us something important, and that is that growth is slowing rapidly. As New Zealand's largest trading partner, we need to be watchful with how Australia's prospects unfold. A slowdown was to be expected given the inflationary dynamic. However, tight financial conditions have shifted this beyond a mere slowdown.

<sup>1</sup> Our index is calibrated so that there is a 70 percent weighting towards the internal (e.g. interest rates) variables and 30 percent towards the external (e.g. currency and credit spreads).

- > Financial conditions have stabilised in NZ. Aggressive action by the RBNZ and forward pricing of more aggressive cuts have offset tighter financial conditions from other areas including equities, swap spreads, and house prices. In the absence of such an offset, financial conditions would be bordering on the ridiculous. Remember, the RBNZ needs to cut rates 50bps in October just to ratify current pricing, and our index is heavily skewed towards the 2 year swap as opposed to floating rates (the 90-day) given where most borrowing is undertaken (although borrowers are now, of course, shortening their duration).



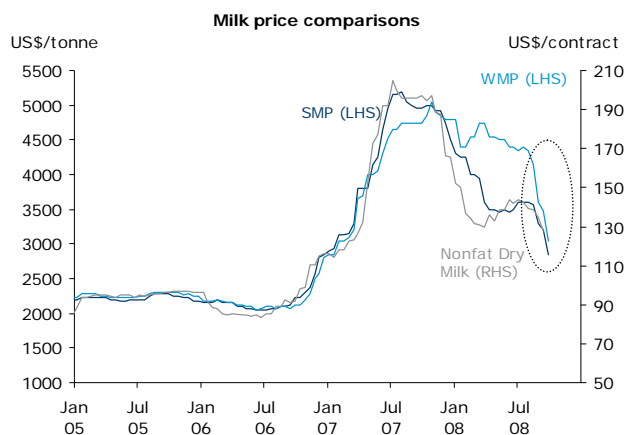
## THE OTHER SIDE OF THE LEDGER

The revised dairy payout has seen a lot of attention, and international dairy prices are falling sharply. However, this is only a part of the story at present, with net income for the sector being eroded materially by costs.

Last week we saw updated guidance from Fonterra towards the dairy payout for the 2008/09 season. This was lowered from \$7 to \$6.60/kgms. While down on early estimates, it still presents a huge income boost to the economy and sector, particularly with dairy volumes in this season set to recover from the prior year's drought. Yet the downgrade was also a subtle reminder the prior seasons whopping payout of \$7.90 is as good as it gets.

We also received the latest USDA dairy price figures last week.

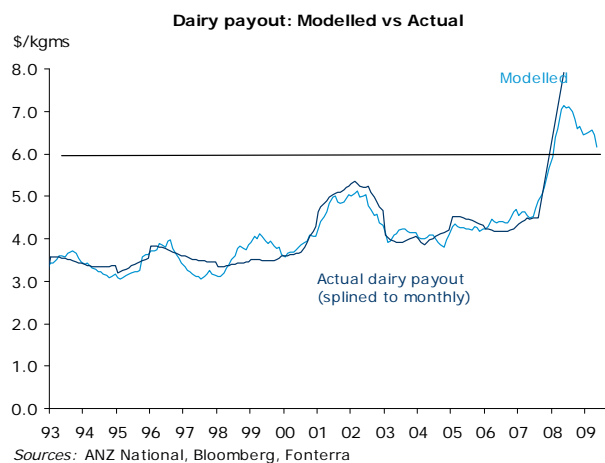
- > Butter is down 7 percent in two weeks, 10 percent in a month
- > Skim milk powder down 11 percent in two weeks and 14 percent since the end of August.
- > Whole milk powder down 12 percent in two weeks and 15 percent since last month.
- > Cheese down 6 percent in two weeks and just under 8 percent since last month.



Such movements clearly illustrate that the commodity story has turned sharply for dairy prices, although we also need to appreciate that overall dairy commodity prices are still massively up on where they resided two years ago.

Our rough and ready dairy model, which simplistically models the payout as a function of the currency and commodity prices (with a lag of around 8 months - refer chart below), is now flagging \$6.15 for the payout. This is of course on the assumption that the currency remains at current levels, along with dairy prices. Both are huge leaps of faith, and there remains a lot of uncertainty, with the payout influenced by a host of other factors. But it is clear at this stage that the

dairy payout is expected to be lower going forward. This doesn't really surprise us as our long-run working assumption regarding the equilibrium payout (which impacts on the ability to leverage) is under \$6.



The rural sector – and dairying in particular – is often touted as being one of the likely cornerstones for the NZ economy over the coming 24 months. With the economy entering a period of de-leveraging and household balance sheet consolidation, the rural sector is looked towards as a potential stabiliser and engine that will provide a floor under economic activity. We share this view to a degree, as the switching from the spending to the earning sector is a key part of the rebalancing process the economy is currently undertaking. However, there are three caveats to this at present.

Firstly, the global backdrop, which we believe means more downward pressure on commodity prices. On top of this, the escalating tainted milk situation in China (and reportedly across other parts of Asia) is not comforting.

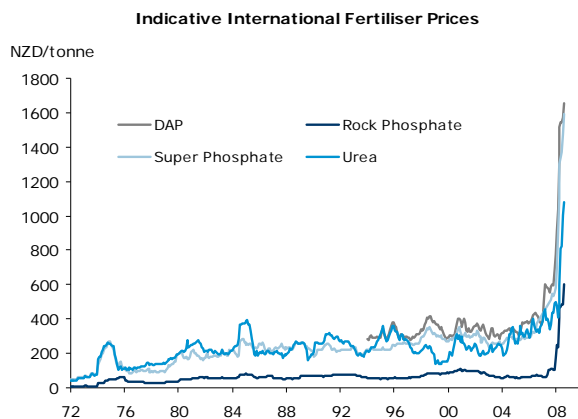
Second, what has already been capitalised into farm values. For the five years to December 2007, dairy land prices are up around 120 percent. We provided some analysis in September last year assessing the rate of return of converting to dairy. Our high level analysis suggested that the payout had to be sustained at around \$6.50 per kilogram milk solids to get the economic return near seven percent on the example investment. Of course since that assessment farm prices has risen further, as have the costs, including the opportunity cost of investing (interest rates), so the payout required would have to be higher.

Finally, costs, which are escalating rapidly, and putting pressure on the bottom line. According to Statistics NZ, dairy farm costs rose by 10.8 percent in the year to June 2008. This is the highest rate of increase since the mid-1980s. Fuel, fertiliser, livestock, feed, insurance, repairs, interest, and the list goes on, are all big inputs for farms, and have experienced large increases over the past year. In

fact, we suspect farmers would think an 11 percent increase in costs was cheap going by anecdotes. Fertiliser is one cost that we don't think has been fully factored into the numbers yet. World Bank data shows fertiliser prices (in NZD terms) up massively in the past 12 months, ranging from 180 to 450 percent!

same grin, particularly when costs are taken into account.

An investment in pastoral agricultural has different dynamics to other business e.g. the business works within restrictions applied by mother-nature. It can be a roller coaster. Land prices need to keep increasing for agriculture to realise a return on equity comparable with other investments. This is not likely to be the case over the coming years.



Sources: ANZ National, World Bank

Farm Price Index - Dairy Farms June 2008 quarter			
	Annual % change	Percentage point contribution	Compound annual growth 2005-2008
Administration	2.0	0.1	2.6
Animal health and breeding	2.2	0.2	3.5
Dairy shed expenses	3.3	0.1	3.0
Miscellaneous expenses	2.4	0.0	3.7
Electricity	11.3	0.3	8.6
Feed, grazing, cultivation and harvesting	17.3	1.5	5.1
Fertiliser, lime and seeds	15.6	1.5	5.9
Freight	6.3	0.0	6.7
Fuel	39.5	1.1	15.8
Insurance premiums	7.7	0.1	0.6
Rent and hire	3.9	0.1	1.5
Repairs, maintenance and motor vehicle repairs	7.7	0.9	4.0
Weed and pest control	4.5	0.1	2.4
Subtotal excluding livestock	11.0	-	5.0
Livestock purchases	21.9	2.1	7.6
Subtotal including livestock	12.5	-	5.3
Local and central government rates and fees	5.3	0.2	4.0
Interest rates	9.5	2.3	5.3
Wages and salaries	2.8	0.2	2.6
All inputs excluding livestock	9.7	8.8	4.8
<b>Total</b>	<b>10.8</b>	<b>10.8</b>	<b>5.0</b>

If we add in depreciation costs and high debt levels, the gross can be quickly taken off the strong income story.

Moreover, we need to appreciate that costs tend to be very sticky. Income to the sector can fluctuate widely with global commodity price trends, while costs tend to move with a lag, and seldom move down. Hence, you need flexibility with the balance sheet to be able to absorb such changes and cycles.

**The upshot**

The outlook for dairy is still positive when looking at medium-term trends. International prices could fall further and a lot within the sector will still be seeing strong income growth. Off a payout in excess of \$6, a lot will still be smiling. Yet, equally, a lot of this good news has already been factored into the equation, and has been quickly capitalised – both into stock and land, and a lot will not have the

## GLOBAL WATCH

We present a table of global data outturns over the past week given the significance of the international backdrop at present. For the first time in some time, US data was softer than expected across the board last week. Another leg of domestic weakness is looking likely. Across Europe and Asia, it was fairly quiet and data was relatively mixed.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<b>US</b>	House Price Index (Jul) – mom	-0.2%	-0.6%	-0.3%	Weaker
	Richmond Fed Manufacturing Index (Sep)	-12	-18	-16	Weaker
	Existing Home Sales (Aug) – mom	-1.2%	-2.2%	3.5%	Weaker
	Durable Goods Orders (Aug)	-1.9%	-4.5%	0.8%	Weaker
	Initial Jobless Claims (w/e Sep 21)	450K	493K	461K	Weaker
	New Home Sales (Aug) – mom	-1.0%	-11.5%	4.0%	Weaker
	GDP Annualised (2Q F)	3.3%	2.8%	3.3%	Weaker
	University of Michigan Confidence (Sep F)	70.8	70.3	73.1	Weaker
	<b>Europe</b>	PMI Manufacturing (Sep A)	47.3	45.3	47.6
PMI Services (Sep A)		48.0	48.2	48.5	In-line
Industrial New Orders (Jul) – mom		-0.6%	1.0%	-0.5%	Stronger
M3 Money Supply (Aug) – yoy		9.1%	8.8%	9.1%	Weaker
<b>UK</b>	Rightmove House Prices (Sep) – mom	-	-1.0%	-2.3%	-
<b>Asia Ex-Japan</b>					
<i>China</i>	Industrial Profits YTD (Aug)	-	19.4%	20.9%	-
<i>Hong Kong</i>	CPI – Composite Index (Aug) – yoy	5.5%	4.6%	6.3%	Weaker
	Exports (Aug) – yoy	7.8%	1.9%	11.1%	Weaker
	Imports (Aug) – yoy	8.9%	1.5%	15.4%	Weaker
<i>South Korea</i>	Consumer Confidence (Sep)	-	96.0	96.0	-
<i>Malaysia</i>	CPI (Aug) – yoy	8.4%	8.5%	8.5%	Stronger
	Unemployment Rate (2Q)	-	3.5%	3.6%	-
<i>Philippines</i>	Total Imports (Jul) – yoy	-	16.0%	12.7%	-
<i>Taiwan</i>	Unemployment Rate (Aug)	3.91%	3.93%	3.91%	In-line
	Export Orders (Aug) – yoy	5.20%	5.38%	5.52%	Stronger
	Benchmark Interest Rate	3.625%	3.500%	3.625%	Weaker
<i>Vietnam</i>	CPI (Sep) – yoy	-	27.9%	28.3%	-
	Exports YTD (Sep) – yoy	-	39.0%	39.1%	-
	Imports YTD (Sep) – yoy	-	48.3%	54.1%	-
<b>Japan</b>	All Industry Activity Index (Jul) – mom	0.8%	0.8%	-1.0%	In-line
	Corporate Service Price (Aug) – yoy	1.2%	1.4%	1.3%	Stronger
	National CPI (Aug) – yoy	2.1%	2.1%	2.3%	In-line
<b>Australia</b>	DEWR Skilled Vacancies (Sep) – mom	-	-3.5%	-2.0%	-
	Conference Board Leading Index (Jul)	-	0.0%	0.5%	-

## INTEREST RATE STRATEGY

Offshore issues continue to dominate. Global bond markets remain nervous awaiting the final details of the US Government's rescue package. The outlook is further complicated by escalating liquidity premia, and realisation that a long period of macro adjustment lays ahead no matter how robust the package is.

### Market themes...

- > In the short term two linked themes are dominating interest rate markets – the bailout package, and liquidity pressures. This is not just evident in higher USD LIBOR, it has also been observed in higher 3mth NZD BKBM.
- > Better than expected Q2 GDP data may bring out a fresh round of optimism now that the market is fully priced for a 50bp cut next month. It's not easy to be "long" with news like that, and roll and carry as negative as it is.
- > The fact that the September RBNZ bulletin has an inflation theme to it won't be lost on astute investors. Watch this space.

### Review and outlook...

NZ interest rates were choppy last week, with selling pressure exacerbated by liquidity pressures, but uncertainty surrounding the US rescue package. In the short term, these factors are likely to keep upward pressure on short term rates. Looking further out, we're not so sure, and we continue to be drawn to the negative consequences of a long period of de-leveraging, offshore and in NZ.

We're sticking with our forecast of back-to-back 50bp rate cuts from the RBNZ. However, we have to admit that some of the inflation nuances we are seeing around the country continue to bother us and represent a constraint on how far policy can react. Against this backdrop of course, a 6.5 percent cash rate will still be high, and how the global scene unfolds in 2009 (the real economy flow-on from current events in the financial system) will determine the next leg from that point.

### Borrowing strategies we favour at present

Keep the duration of new interest rate hedges short. This is the best way to balance the likelihood that interest rates move lower against the cost savings available against elevated 3mth BKBM rates. Forward starting hedges are below their spot equivalents, and may be attractive to some borrowers – but should only be considered as part of an "averaging in" process. Adding forward hedges will lower portfolio average yield, but it won't immediately lower funding costs.

### Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔/↑	We're still gunning for 50bps in Oct and Dec. But this is fully priced, so minimal scope for 1yr and 2yr rallies.
NZ data	↔/↓	Better than expected GDP argues for 25bps rather than 50bps from the RBNZ. But it's overshadowed by global (financial) considerations.
Fed Funds/ front end	↔/↓	Financial stability and the bail out are of greater concern, but there is more talk the Fed may cut again.
RBA	↔/↓	50bps is looking more likely from the RBA next month.
US 10 year	↔/↓	We keep saying it: long term de-leveraging will see long bond yields fall over time.
NZ swap curve	↔/↑	Forget steepeners, they don't make sense. Cuts are fully factored at the short end, and the long end is vulnerable to weak US news.
Flow	↔	We don't like steepeners, and the flow is against them. LIBOR pressure is holding up the short end, but the long end will rally on weak offshore news.
Technicals	↔	Volatility remains the key theme.

### Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 23-Oct-08	-51	-46
Thu 4-Dec-08	-76	-78
Thu 22-Jan-09	-100	-107
Thu 5-Mar-09	-121	-127
Thu 23-Apr-09	-125	-140
Thu 4-Jun-09	-137	-143
Thu 30-Jul-09	-140	-146

### Trading themes we favour at present

For some time now we have favoured being "long the long end". The broad thrust of that thinking hasn't changed. While there is scope for bond yields to drift higher across the curve if the bailout package is perceived to be robust, the long end is likely to get support from fundamentals. The package isn't a magic cure all. Negative roll and carry make the short end an unattractive place to invest, made worse by the fact that there are generous rate cuts already "priced in", which could be slightly at risk following the better than expected Q2 GDP data.

## CURRENCY STRATEGY

Markets remain gridlocked, and while all are waiting the finalisation of the US Government's rescue package, we wonder whether it will actually be a panacea. The NZD remains on borrowed time given the domestic backdrop but is expected to once again remain in limbo for now. The dairy scene needs to be watched.

### Market themes...

- > Markets awaiting the finalisation of the US Government's rescue package.
- > But there appears to be a lack of willingness to enter currency markets at present.
- > Volatility looks set to remain on thin liquidity.

### Review and outlook...

Across markets it's a story of gridlock. Currencies (and other markets to be fair) are continuing to play second fiddle to credit developments around the globe. The NZD had a very volatile and largely directionless week last week as liquidity remains thin and many sit on the sidelines lacking the willingness to take on risk. When equity markets go through big 2-3 percent plus swings from day to day, and oil experiences it's biggest ever one-day rally, you know you are in turbulent times. The NZD/AUD continues to frustrate.

While a deal has supposedly been reached on the US Government's rescue package, any vote seems unlikely until Monday (US time) and the Senate still needs to approve it on Wednesday. This sets the kiwi up for another likely choppy start to the week. The rescue package is seen as a step in the right direction by many officials around the globe as a means to shore up confidence if nothing else. However, it will be far from the cure-all as noted on page 3. We see the adjustment process as being protracted and policymaker action as a means of taking the edge off the extremes to the cycle, and notably what we are seeing across credit markets.

This leaves us mindful of what is going to drive the next leg across currencies, or where the next major theme will emerge from? Beyond the situation in the US, Europe and the UK are seeing financial dislocation. Foreign capital into emerging markets needs to be closely eyed, as do commodity and equity market trends. But the bottom line is that it is difficult to paint an overly optimistic picture, although we may well see a relief rally on actual delivery of any US package.

We continue to see the NZD on borrowed time, and developments last week in terms of lower dairy prices have cemented that view. As far as primary and food related produce is concerned, health safety is a huge, and not often understood or

acknowledged issue. But for now USD sentiment will continue to hold sway.

Data this week is likely to take a back seat. Nevertheless, the important ones locally will be building consents and the NBNZ *Business Outlook* on Tuesday. Internationally, the ECB interest rate announcement, while no change is expected, will be interesting to get European policymakers' take on recent financial market turbulence. Later in the week, we receive the key US non-farm payrolls report and markets are looking for another large fall in employment.

Technically, NZD is range-bound and we need a break of support at 0.6780 or resistance at 0.6920 to provide further direction.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Medium-term models are neutral.
Yield	↓	RBNZ set to trump RBA with 50.
Commodities	↓	Dairy story is a big negative.
Partial indicators	↓	NZ indicators still worse.
Technicals	↔	Range-bound.
Sentiment	↔/↓	Squaring of AUD complete.
Other	↔	Global backdrop means both tagged the same.
<b>On balance</b>	↓	<b>Should be lower but subject to global scene</b>

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↓/↔	Fair value 0.65 given a structural shift in commodity prices.
Fair value – short-term	↓/↔	Slightly overvalued on a cyclical sense.
Yield	↔	RBNZ cuts fully priced so dependent on US events.
Commodities	↓	Dairy story is a big negative.
Risk aversion	↔	Waiting for US officials.
Partial indicators	↔	NZ data still very weak, but US set for another leg.
Technicals	↔	0.6780-0.6920 range.
AUD	↔/↑	When will we see a recoil?
Sentiment	↔	Players on the sidelines.
Other	↔	Current account deficits will be punished, but the US has a big one too.
<b>On balance</b>	↔	<b>On borrowed time, but could hang in there.</b>

## DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
29-Sep	NZ	<b>Trade Balance (Aug)</b>	<b>-912.0M</b>	<b>-781.0M</b>	<b>10:45</b>
		<b>Imports (Aug)</b>	<b>4.15B</b>	<b>4.20B</b>	<b>10:45</b>
		<b>Exports (Aug)</b>	<b>3.24B</b>	<b>3.42B</b>	<b>10:45</b>
		<b>Money Supply M3 (Aug) - yoy</b>	<b>-</b>	<b>7.6%</b>	<b>15:00</b>
	JN	Retail Trade (Aug) - mom	-0.2%	0.0%	12:50
		BoJ Deputy Governor Nishimura to Speak in Tokyo	-	-	16:30
	UK	Net Consumer Credit (Aug)	1.0B	1.1B	21:30
		Net Lending Sec. on Dwellings (Aug)	2.8B	3.2B	21:30
		Mortgage Approvals (Aug)	30K	33K	21:30
	EU	Business Climate Indicator (Sep)	-0.50	-0.33	22:00
		Consumer Confidence (Sep)	-19	-19	22:00
		Economic Confidence (Sep)	87.3	88.8	22:00
		Industrial Confidence (Sep)	-12	-10	22:00
		Services Confidence (Sep)	2	3	22:00
30-Sep	US	Personal Income (Aug)	0.2%	-0.7%	01:30
		Personal Spending (Aug)	0.2%	0.2%	01:30
		PCE Deflator (Aug) - yoy	4.5%	4.5%	01:30
		PCE Core (Aug) - mom	0.2%	0.3%	01:30
		PCE Core (Aug) - yoy	2.4%	2.4%	01:30
		Fed's Hoenig Speaks in Gering, Nebraska, on Economy, Policy	-	-	13:45
	NZ	<b>Building Permits (Aug) - mom</b>	<b>-</b>	<b>4.7%</b>	<b>10:45</b>
		<b>NBNZ Business Outlook</b>	<b>-</b>	<b>-20.5</b>	<b>15:00</b>
	UK	GfK Consumer Confidence Survey (Sep)	-40	-36	12:01
		GDP (2Q F)	0.0%	0.2%	21:30
		Current Account (BP) (2Q)	-9.7B	-8.4B	21:30
	JN	Jobless Rate (Aug)	4.1%	4.0%	12:30
		Household Spending (Aug) - yoy	-1.3%	-0.5%	12:30
		Industrial Production (Aug P) - mom	-2.4%	1.3%	12:50
		Vehicle Production (Aug) - yoy	-	24.1%	17:00
		Housing Starts (Aug) - yoy	49.8%	19.0%	18:00
		Construction Orders (Aug)	-	42.3%	18:00
	AU	Private Sector Credit (Aug) - mom	0.5%	0.5%	14:30
		Building Approvals (Aug) - mom	-1.0%	-2.3%	14:30
		Retail Sales Trend (Aug) - mom	0.1%	0.1%	14:30
	GE	ILO Unemployment Rate (Aug)	7.3%	7.3%	19:00
		Unemployment Change (000's) (Sep)	-15K	-40K	20:55
		Unemployment Rate (Sep)	7.6%	7.6%	20:55

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
2-Oct cont.	EU	CPI Estimate (Sep) - yoy	3.6%	3.8%	22:00
1-Oct	US	S&P/CS Composite-20 YoY (Jul) - yoy	-16.0%	-15.9%	02:00
		Chicago Purchasing Manager (Sep)	53.0	57.9	02:45
		Consumer Confidence (Sep)	55.0	56.9	03:00
		Atlanta Fed's Lockhart Speaking on Economy in New Orleans	-	-	06:00
	GE	ECB's Trichet Speaks in Frankfurt	-	-	05:00
		PMI Manufacturing (Sep F)	48.1	48.1	20:55
		ECB's Trichet Speaks at Panel in Brussels	-	-	22:00
	JN	Tankan Large Manufacturers Index (3Q)	-2	5	12:50
		Tankan Large Mfg Outlook (3Q)	-3	4	12:50
		Tankan Non-Manufacturing (3Q)	5	10	12:50
		Tankan Non-Mfg Outlook (3Q)	2	8	12:50
	AU	RBA Commodity Index SDR (Sep) – yoy	-	45.2%	19:30
	EU	PMI Manufacturing (Sep F)	45.3	45.3	21:00
		Unemployment Rate (Aug)	7.3%	7.3%	22:00
	UK	PMI Manufacturing (Sep)	45.0	45.9	21:30
2-Oct	US	ADP Employment Change (Sep)	-53K	-33K	01:15
		ISM Manufacturing (Sep)	49.5	49.9	03:00
		ISM Prices Paid (Sep)	73.0	77.0	03:00
	JN	Monetary Base (Sep) - yoy	-	-0.2%	12:50
	AU	Trade Balance (Aug)	200M	-717M	14:30
	<b>NZ</b>	<b>ANZ Commodity Price (Sep)</b>	<b>-</b>	<b>-3.3%</b>	<b>15:00</b>
	UK	Nationwide House prices (Sep) – mom	-1.5%	-1.9%	19:00
		PMI Construction (Sep)	38.9	40.5	21:30
	EU	PPI (Aug) - mom	-0.5%	1.1%	22:00
3-Oct	EU	ECB Announces Interest Rates	4.25%	4.25%	00:45
		Trichet Speaks at ECB Monthly News Conference	-	-	01:30
		PMI Services (Sep F)	48.2	48.2	21:00
		PMI Composite (Sep F)	47.0	47	21:00
	US	Factory Orders (Aug)	-2.8%	1.3%	03:00
	AU	AiG Performance of Service Index (Sep)	-	39.3	12:30
		TD Securities Inflation (Sep) – mom	-	0.1%	13:30
	GE	PMI Services (Sep F)	49.3	49.3	20:55
	UK	PMI Services (Sep)	48.0	49.2	21:30
	EU	Retail Sales (Aug) - mom	0.1%	-0.4%	22:00
4-Oct	US	Change in Non-Farm Payrolls (Sep)	-105K	-84k	01:30
		Unemployment Rate (Sep)	6.1%	6.1%	01:30
		Average Hourly Earnings (Sep) - mom	0.3%	0.4%	01:30

Key: AU: Australia, EU: 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:** With Q2 GDP now out of the way, indicators for the third quarter move into focus. Given the composition of growth in Q2, we expect further weakness in Q3 and will be looking for indicators to confirm this. In the near-term, the big releases will be the Government's *PREFU* and NZIER's QSBO released next week.

Date	Data/Event	Economic Signal	Comment
Tue 30 Sep (10.45)	Building Consents (Aug)	Weak	Rebound, although the level of residential building consent issuance is likely to remain low. Commercial consent issuance is now also a key area to watch.
Tue 30 Sep (15.00)	NBNZ <i>Business Outlook</i> (Sep)	-	-
Thu 2 Oct (15.00)	ANZ Commodity Price Index (Sep)	-	-
Mon 6 Oct (14.00)	Pre-Election Fiscal and Economic Update	Not as rosy	The Treasury's economic and fiscal forecasts are likely to be revised lower. We expect larger cash deficits to be forecast.
Tue 7 Oct (10.00)	NZIER Quarterly Survey of Business Opinion (Q3)	Mixed	Headline confidence is likely to have improved in line with recent reads from the NBNZ <i>Business Outlook</i> . However, recent financial market turmoil may impact. Activity measures such as own activity, employment and investment are also likely to have risen, but remain at low levels.
Mon 13 Oct (10.45)	Retail Trade Survey (Aug)	Still weak	There may be a bounce from last month's weakness. However, with lower petrol prices, and soft spending foreshadowed by Credit Card Billings, this bounce is likely to be muted. The underlying trend will remain weak.
Mon 20 Oct (10.45)	Electronic Card Transactions (Sep)	Pull-back	After the solid increase last month, a natural pull-back could occur in September.
Tue 21 Oct (10.45)	Consumers Price Index (Q3)	Elevated	We expect another strong increase for the quarter and have a 1.2 percent increase pencilled in. This takes annual inflation to 4.8 percent. Key will be measures of core inflation and whether housing-related components are weakening.
Wed 22 Oct (10.45)	External Migration (Sep)	Stabilising, but watch tourism.	An annual base of around 5,000 appears to have formed. Visitor arrivals are now the key component to watch given the weakening global growth backdrop.
Thu 23 Oct (09.00)	RBNZ <i>OCR Review</i>	50bp cut	Given offshore developments in financial markets, we expect the RBNZ to again cut rates aggressively and signal further front-loading of the easing cycle.
<b>On Balance</b>		<b>Contracting economy yesterday's news with some signs of stabilisation in confidence. But will it take hold given global events?</b>	<b>Still a lot of imbalances to work through.</b>

## SUMMARY OF KEY ECONOMIC FORECASTS

	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09
GDP (% qoq)	0.9	0.6	0.9	-0.3	<b>-0.2</b>	<b>-0.2</b>	<b>0.2</b>	<b>0.3</b>	<b>0.5</b>	<b>0.5</b>
GDP (% yoy)	3.3	3.5	3.7	2.2	<b>1.1</b>	<b>0.2</b>	<b>-0.5</b>	<b>0.2</b>	<b>0.8</b>	<b>1.5</b>
CPI (% qoq)	1.0	0.5	1.2	0.7	1.6	<b>1.2</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>0.7</b>
CPI (% yoy)	2.0	1.8	3.2	3.4	4.0	<b>4.8</b>	<b>4.4</b>	<b>4.7</b>	<b>4.0</b>	<b>3.4</b>
Employment (% qoq)	0.3	-0.1	0.9	-1.3	1.3	<b>-0.6</b>	<b>-0.1</b>	<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
Employment (% yoy)	1.5	1.5	2.5	-0.2	0.7	<b>0.2</b>	<b>-0.7</b>	<b>0.6</b>	<b>-0.6</b>	<b>0.0</b>
Unemployment Rate (% sa)	3.6	3.5	3.4	3.7	3.9	<b>4.2</b>	<b>4.5</b>	<b>4.6</b>	<b>4.9</b>	<b>5.1</b>
Current Account (% GDP)	-8.4	-8.7	-8.2	-8.0	-8.3	<b>-7.7</b>	<b>-7.9</b>	<b>-7.9</b>	<b>-7.6</b>	<b>-7.3</b>
Terms of Trade (% qoq)	0.4	3.7	2.7	4.1	-0.1	<b>-1.0</b>	<b>0.0</b>	<b>-1.5</b>	<b>-1.2</b>	<b>-1.0</b>
Terms of Trade (% yoy)	2.3	8.4	8.5	11.3	10.7	<b>5.7</b>	<b>2.9</b>	<b>-2.7</b>	<b>-3.7</b>	<b>-3.7</b>

## KEY ECONOMIC INDICATORS

	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Retail Sales (% mom)	0.0	0.3	-0.7	-1.0	1.3	-1.3	1.0	-0.8	..	..
Retail Sales (% yoy)	5.4	6.3	7.7	-1.0	4.1	1.0	1.5	2.5	..	..
Credit Card Billings (% mom)	0.6	0.1	0.3	-0.4	-0.3	0.6	0.0	0.2	-0.1	..
Credit Card Billings (% yoy)	8.3	8.8	7.5	5.9	5.4	6.0	4.0	4.2	2.6	..
Car Registrations (% mom)	-2.8	10.2	-8.9	-12.8	11.4	-13.4	1.1	-7.7	-4.2	..
Car Registrations (% yoy)	1.4	1.7	1.9	-13.2	-1.0	-20.6	-15.9	-27.1	-30.5	..
Building Consents (% mom)	-4.3	3.7	-6.4	-14.3	82.7	-41.8	-18.8	4.8	..	..
Building Consents (% yoy)	-6.6	-5.0	-17.7	-27.5	31.1	-27.0	-47.0	-35.1	..	..
REINZ House Price (% yoy)	4.5	4.0	0.7	1.6	-1.1	-1.4	-2.2	-1.4	-5.7	..
Household Lending Growth (% mom)	0.7	0.7	0.9	0.4	0.4	0.4	0.3	0.3	..	..
Household Lending Growth (% yoy)	12.3	11.9	11.6	10.8	9.9	9.3	8.4	7.7	..	..
Roy Morgan Consumer Confidence	126.6	121.2	116.0	111.7	99.9	89.2	86.5	83.9	91.4	108.6
NBNZ Business Confidence	-24.9	..	-43.9	-57.9	-54.8	-49.7	-38.7	-43.2	-20.5	..
NBNZ Own Activity Outlook	18.2	..	2.4	-6.4	-3.8	-4.4	-4.0	-8.2	4.7	..
Trade Balance (\$m)	39	-311	243	-43	-293	-168	-207	-781	..	..
Trade Balance (\$m annual)	-5307	-4793	-4422	-4526	-4604	-4781	-4469	-4443	..	..
ANZ World Commodity Price Index (% mom)	0.0	-1.4	1.1	2.0	-0.3	0.9	0.0	1.8	-3.3	..
ANZ World Commodity Price Index (% yoy)	30.9	27.4	26.9	26.9	20.7	18.7	11.6	8.7	3.6	..
Net Migration (sa)	30	120	280	550	500	960	460	810	440	..
Net Migration (annual)	5491	4799	4643	4678	4666	4931	4732	5201	4938	..

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)						
	Jul-08	Aug-08	29-Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
NZD/USD	0.756	0.710	0.687	0.650	0.680	0.650	0.630	0.610	0.590	0.580
NZD/AUD	0.785	0.803	0.825	0.756	0.819	0.813	0.808	0.803	0.797	0.806
NZD/EUR	0.479	0.474	0.470	0.451	0.486	0.478	0.470	0.469	0.461	0.468
NZD/JPY	80.7	77.7	72.7	70.2	74.8	71.5	70.6	69.5	67.9	68.4
NZD/GBP	0.380	0.375	0.373	0.365	0.384	0.369	0.362	0.353	0.343	0.339
NZ\$ TWI	67.2	65.5	64.4	61.1	65.0	63.1	61.9	60.9	59.6	59.6
NZ interest rates	Jul-08	Aug-08	29-Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
OCR	8.18	8.00	7.50	6.50	6.50	6.25	6.00	6.00	6.00	6.00
90 day bill	8.46	8.20	8.09	6.90	6.80	6.30	6.20	6.20	6.20	6.20
10 year bond	6.17	6.13	5.75	5.70	5.70	5.60	5.60	5.70	5.80	6.00
International	Jul-08	Aug-08	29-Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10
US Fed funds	2.00	2.00	2.00	1.75	1.75	1.75	1.75	2.25	2.75	3.50
US 3-mth	2.79	2.81	3.76	2.00	1.75	2.00	2.50	3.00	3.50	4.00
AU cash	7.25	7.25	7.00	6.75	6.75	6.50	6.25	6.25	5.75	5.75
AU 3-mth	7.76	7.27	7.38	7.00	7.00	6.80	6.50	6.40	5.90	5.90

## KEY RATES

	26 Aug	22 Sep	23 Sep	24 Sep	25 Sep	26 Sep
Official Cash Rate	8.00	7.50	7.50	7.50	7.50	7.50
90 day bank bill	8.15	7.86	7.85	7.99	8.09	8.09
NZGB 07/09	6.83	6.00	5.88	5.88	5.90	5.92
NZGB 11/11	6.14	5.74	5.69	5.67	5.57	5.60
NZGB 04/13	6.13	5.79	5.74	5.72	5.61	5.64
NZGB 12/17	6.05	5.88	5.83	5.80	5.69	5.72
2 year swap	7.26	6.97	6.97	6.99	7.00	6.93
5 year swap	7.00	6.87	6.89	6.91	6.92	6.85
RBNZ TWI	65.1	64.7	64.1	63.6	64.0	64.3
NZD/USD	0.6970	0.6881	0.6886	0.6798	0.6863	0.6869
NZD/AUD	0.8109	0.8272	0.8195	0.8154	0.8180	0.8241
NZD/JPY	76.39	73.30	72.55	71.83	72.63	72.62
NZD/GBP	0.3775	0.3752	0.3711	0.3667	0.3697	0.3729
NZD/EUR	0.4738	0.4740	0.4658	0.4633	0.4666	0.4685
AUD/USD	0.8595	0.8318	0.8403	0.8337	0.8390	0.8335
EUR/USD	1.4712	1.4518	1.4782	1.4674	1.4709	1.4662
USD/JPY	109.60	106.53	105.36	105.67	105.83	105.72
GBP/USD	1.8464	1.8341	1.8556	1.8540	1.8566	1.8421
Oil	114.85	104.05	122.61	107.85	106.84	111.54
Gold	820.65	866.30	897.00	884.40	888.40	879.05
Electricity (Haywards)	13.91	2.47	4.64	2.38	3.01	1.24
Milk futures (US\$/contract)	135	124	123	121	120	119
Baltic Dry Freight Index	7115	4949	4782	4489	4163	3746

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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.

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**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.

**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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