

NEW ZEALAND ECONOMICS ANZ MARKET FOCUS

4 April 2011

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KNEE-JERK VERSUS SUBSTANCE

ECONOMIC OVERVIEW

The decline in business confidence in the March National Bank Business Outlook was expected, given recent seismic events. We anticipate a similar message to emerge from this week's QSBO. More important will be whether declines in confidence are sustained into the second quarter and we won't know that for another month. Regular aftershocks and challenges aside, by then businesses should have a clearer steer on things, and confidence readings should be more substance rather than knee-jerk. Until then, the economic picture is going to remain murky, though we're more optimistic over what progress fiscal policy and reconstruction will deliver in the back-half of 2011 vis-à-vis the consensus. Overseas central bank announcements are likely to highlight the challenges posed by rising price pressures in an environment of modest growth.

WHAT ARE FTAS WORTH TO NZ AGRICULTURE?

New Zealand paid nearly \$1.5 billion in tariffs on \$18.5 billion worth of exports in 2010. This is effectively an 8 percent reduction in revenue to this critical sector and an even larger hit to farmer/grower net profits. With progress on multilateral agreements stymied, New Zealand is pursuing bilateral agreements, and regional negotiations, including the Trans Pacific Partnership, are well advanced. If current negotiations are successful, New Zealand could have free access to over half the world's population, accounting for close to half of global GDP. This represents a big playground for a country of just 4.4 million people, and a large reduction in our \$1.5 billion tariff bill.

INTEREST RATE STRATEGY

With the RBNZ on hold for now and backward looking data being discounted, markets continue to look offshore for direction. Global moves typically have a greater impact on the long end, and the correlation between the slope of the curve and outright global rates is high. Domestic data is helping to build a better picture, particularly timely data like confidence and commodity prices. However, until we actually move into the next phase of activity all the market can do is debate the likely outcomes, and this far out, that discussion won't generate volatility.

CURRENCY STRATEGY

NZD looks set to continue testing resistance levels this week, helped along by a rampant AUD. A weak QSBO print tomorrow could see a pullback, but as we have seen over the past couple of weeks, good buying support is likely to emerge on any dips. The broad USD weakness theme is likely to continue pervading through currency markets, with only the JPY looking even weaker. A hike by the ECB could see EUR gain further strength, despite Irish banking woes and Portuguese fiscal and political worries.

ECONOMIC OVERVIEW

SUMMARY

The decline in business confidence in the March National Bank Business Outlook was expected, given recent seismic events. We anticipate a similar message to emerge from this week's QSBO. More important will be whether declines in confidence are sustained into the second quarter and we won't know that for another month or two. Regular aftershocks and challenges aside, by then businesses should have a clearer steer on things, and confidence readings should be of more substance rather than knee-jerk. Until then, the economic picture is going to remain murky, though we're more optimistic over what progress fiscal policy and reconstruction will deliver in the back-half of 2011, vis-à-vis the consensus. Overseas central bank announcements are likely to highlight the challenges posed by rising price pressures in an environment of modest growth.

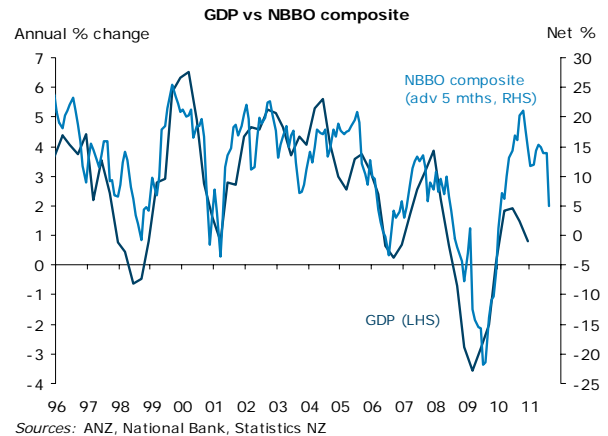
THIS WEEK'S EVENTS

- **ANZ Commodity Price Index – March** (Monday, April 4, 3:00pm).
- **NZIER QSBO – March 2011 quarter** (Tuesday, April 5, 10:00am). We expect a tangible earthquake impact on confidence, with sizeable falls in expected and actual domestic trading activity and profitability. We expect capacity utilisation, pricing intentions and skill shortages to increase.
- **globalDairyTrade online auction** (Wednesday, April 6, 6:00am). We expect whole milk powder prices to fall by 5 percent, to around US \$3,900 per tonne.

WHAT'S THE VIEW?

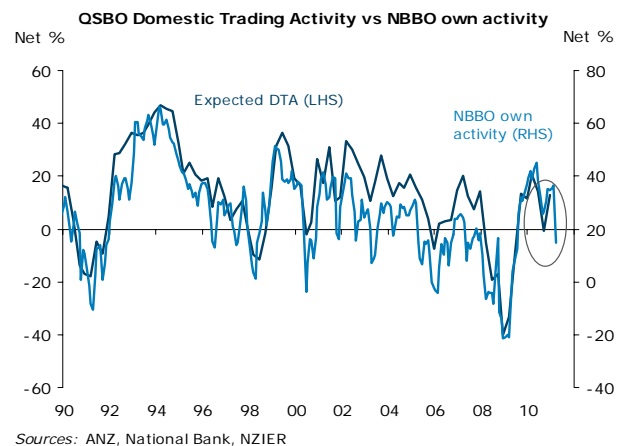
Seismic events will continue to make interpretation of data very difficult over the next few months. Last week's sizeable decline in business confidence from the March National Bank Business Outlook was a case in point. Given that the dust had barely settled before the survey was taken, a large fall was to be expected. Because of the strong starting point for confidence readings prior to the disaster, a steep decline in sentiment does not yet consign the first half of this year to the scrapheap. Encouragingly, investment intentions remained in positive territory, but they remain low

for this stage in the cycle.



Tomorrow's March quarter NZIER QSBO

should mirror the March NBBO, with a tangible earthquake impact on confidence. QSBO measures for general business confidence and expected domestic trading activity should take a hit. Given the likely implications of the February quake, we expect measures of capacity utilisation, pricing intentions and skill shortages to increase. This could be important as it would be the first real sign of a pending dichotomy between real and pricing gauges across the economy. Signals for the former are weak, but pressures on the latter are set to rise, and in advance of the economic upswing. This is likely to make the medium-term inflation outlook somewhat problematic once the upswing does arrive. It's one of the reasons we're sticking to our view the RBNZ will need to raise the OCR in 2011, as opposed to 2012.



ECONOMIC OVERVIEW

More important than the size of the fall in confidence revealed tomorrow will be whether declines in confidence in Q1 are sustained into the second quarter. Exceptional events pretty well demand a corresponding confidence response and we certainly got that within the National Bank survey. Much of this is likely to reflect increased uncertainty immediately following a major shock, so caution is needed in extrapolating this forward. While we never want to downplay the magnitude of the challenges that a weak starting point and seismic events present, we are more interested in assessing future trends in confidence as opposed to some near-term wobbles. Q2 confidence readings, particularly the National Bank survey reports for April and May, will be important to establish whether the March fall was a one-off. Regular aftershocks may cloud this somewhat, but the spirit of these confidence readings should be more substance than knee-jerk. **We won't know the answer to that for another month.**

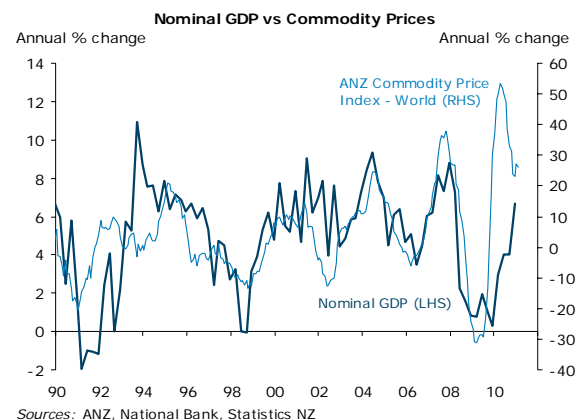
We continue to pay close attention to the pending fiscal policy response, and the potential speed of the rebuild. The Government means business, with the establishment of Canterbury Earthquake Recovery Authority (CERA) to assist with the rebuilding efforts. CERA has been given wide powers to relax, suspend or extend laws and regulations in order to help the region recover. We don't doubt that reconstruction work is a multi-year process. However, our gut feeling is that reconstruction activity will generate more economic activity over 2011 than most (including the RBNZ) expect.

Our expectations of more reconstruction-related activity in 2011 should not be confused with a view that the rebuild itself will be starting in 2011. It seems like an oxymoron to say this, but new construction and economic activity can be distinct. Extensive triage work for core services being undertaken at present in Christchurch will add to economic activity. The relocation of business premises is stepping up. So too is the construction and installation of between five and ten thousand temporary homes and utility blocks, with the successful bidder expected to be announced next week. All of this work is not the

keystone of the rebuild, which will be more of an early 2012 story. **But the main key point is that reconstruction-related work is not suddenly going to accelerate from zero to boom-times straight away.** It make take **time for economic activity to reach a peak**, but the coming quarters will see a steady climb.

The mobilisation of resources for the Canterbury rebuild is not without cost.

- **Consumption will be sacrificed.** We've noted earlier that an economy that must now be "overweight" construction, given the resource demand of the rebuild, must be counterbalanced by something being underweight. The alternative is a blow-out in the external position once again. The sacrificial lamb here is consumption, which must grow at a slower rate than the rest of the economy.
- **Fiscal policy faces few easy choices over the next five years and the cupboard is effectively bare.** With the November 26 election fast approaching, there are hard decisions to be made, with the axe falling on other areas of government spending. The Government appear to be on the ball and have signalled their intention to hasten public sector reform, with lower value-add spending in the firing line. Either we make these hard decisions now or we lump the next generation to higher debt and taxes. It's that simple. We expect further tough talk ahead of the May 19 Budget.

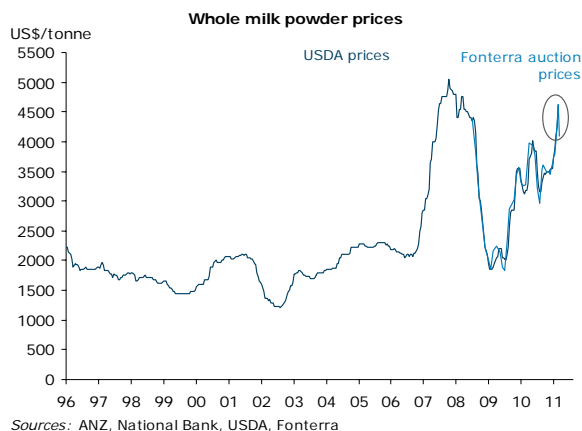


Today's ANZ Commodity Price Index should also reaffirm the good news story for NZ.Inc.

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Commodity prices have been, and will continue to be, a key driver of the NZ business cycle. The flow-through into domestic spending is currently being curtailed by ongoing deleveraging, but eventually we expect higher rural spending to filter through the economy. We have also been struck by the broad-based nature of the strengthening commodity price story – it is not just dairying. Much of the export sector appears to be doing very, very well. As our feature article on Free Trade Agreements on page 6 notes, a more level playing field would make for even richer pickings.

The pullback in dairy prices in the last *globalDairyTrade* online auction was a reminder that prices cannot continue increasing at the rate they had been. We expect whole milk powder prices to average around US \$3,900 per tonne in this week's event, a fall of around 5 percent but still more than two-thirds above the average for the last 15 years. Structurally higher demand for what we produce is a key part of the positive medium-term story for NZ.Inc.



The April Bank of England ECB and interest rate decisions (at 11.00pm and 11.45pm Thursday respectively) will take on more prominence than usual this week. Although economists' expectations are unanimous for both (with no change expected for the BOE and a hike expected from the ECB), there is a high degree of nervousness surrounding both meetings, with a wide spread of views among committee/council members at both banks.

Markets were looking for early hikes in the UK as recently as a month ago, fearful that the BOE was getting "behind the curve" and was losing control of inflation. However, **Governor King has taken every opportunity to remind the government and markets that he views the rise in inflation as temporary**, suggesting that raising rates in response may derail the fragile recovery. But dissension among MPC members remains high, and although a hike seems unlikely, markets may get spooked if more members join the hawkish camp. At the moment, the market is pricing in 50 percent odds of a hike next month, with a full hike priced in by July.

The situation in Europe couldn't be more different. Inflation is closer to target in Europe than it is in the UK, but it has been trending higher, and ECB President Trichet has made no secret of the fact that he has been frustrated with the permanence of what were supposed to be temporary liquidity facilities (to help mitigate the effects of the GFC), and is not comfortable with what he describes as a "very accommodative stance of monetary policy".

At last month's introductory statement (following the February decision) he upped the tone of his language, saying that "strong vigilance is warranted with a view to containing upside risks to price stability", adding that "the Governing Council remains prepared to act in a firm and timely manner". **That was his strongest hint yet of an impending move, and the market quickly jumped on the hike bandwagon.** However, it may have jumped the gun – although a hike this week seems more likely than not, some council members have said publicly that it is not a foregone conclusion. Furthermore, the market is pricing in at least four 25bps hikes by the end of the year. While this may be on the right track in terms of direction, it may be a bit heavy in terms of magnitude.

Although the next US monetary policy meeting is a few weeks away, with the next FOMC meeting scheduled for April 28th (NZ time), with the end of QE2 in June fast approaching, markets are beginning to more seriously consider the Fed's next move. Having fired a "shot across the bow" of inflation at the last FOMC meeting with

ECONOMIC OVERVIEW

the comment that the committee “will pay close attention to the evolution of inflation and inflation expectations”, recent comments by Fed officials have been closely scrutinised.

As in Europe and in the UK, views among Fed members (voting and non-voting) remain varied, but in the space of little more than a month, the debate has shifted from whether to cut QE2 back, or whether it is appropriate to extend QE2 into QE3 to when it may be appropriate to contemplate lifting the Fed Funds rate. This may seem like a subtle shift, but the debate has in effect moved away from “if” and towards “when” the Fed should start removing policy accommodation.

However Fed policy evolves, one thing seems certain – and that’s that **the excess liquidity created by almost infinitely loose monetary policy will not last forever**. Commodity markets should be on notice here. While there is a strong secular commodity price story in place courtesy of Asia’s growth story, we are in no doubt cyclical excesses in commodity prices are partly liquidity driven. When the Fed starts reining in liquidity and normalising monetary policy, this will have an impact on asset markets, and there will be a knock-on effect here in New Zealand. The immediate consequences may be obvious, and as noted, commodity prices spring to mind. But the effects may run deeper. Whether this is, for instance, less of a preparedness to participate in our market because our high interest rates may not offer the appeal they once had, or perhaps whether we come under increased scrutiny for running a persistent current account deficit is difficult to say. But the days of easy liquidity seem numbered, and it is increasingly looking like 2011 will be the year during which we start to see significant policy changes offshore.

RECENT LOCAL DATA

- **SNZ Overseas Merchandise Trade – February.** There was a monthly trade surplus of \$194m, with the annual trade surplus narrowing to \$759m.
- **SNZ Building Consents – February.** The number of residential consents fell by a

seasonally adjusted 9.7 percent (-7.7 percent excluding apartments). The value of non-residential building consents fell 5.7 percent (s.a.) to \$277m.

- **National Bank Business Outlook – March.** General business confidence fell 43 points (to -9). Firms’ own activity dropped 22 points (to plus 15), with employment intentions dropping 11 points (to -3) and expected profitability down 15 points (to 0). Investment intentions declined 3 points to +6.
- **RBNZ Credit Aggregates – February.** Resident Private Sector Credit (ex-repo) increased 0.1 percent (+1.3 percent y/y). Agricultural (+0.8 percent y/y) and household credit growth eased (+1.5 percent y/y). Business credit rose 0.5 percent (s.a.), but is 0.4 percent down on a year ago.
- **SNZ Economic Survey of Manufacturing – 2010Q4.** Manufacturing volumes rose 3.3 percent as compared to the 2.5 percent rise in manufacturing volumes reported in the Q4 GDP release.
- **SNZ Wholesale Trade Survey – 2010Q4.** Wholesale sales rose a seasonally adjusted 2 percent, with stocks rising 2.5 percent. The Q4 GDP release showed a 2.7 percent fall in wholesale trade volumes.

WHAT ARE FTAS WORTH TO NZ AGRICULTURE?

SUMMARY

New Zealand paid nearly \$1.5 billion in tariffs on \$18.5 billion worth of exports in 2010. This is effectively an 8 percent reduction in revenue to this critical sector and an even larger hit to farmer/grower net profits. With progress on multilateral agreements stymied, New Zealand is pursuing bilateral agreements, and regional negotiations, including the Trans Pacific Partnership, are well advanced. If current negotiations are successful, New Zealand could have free access to over half the world's population, accounting for close to half of global GDP. This represents a big playground for a country of just 4.4 million people, and a large reduction in our \$1.5 billion tariff bill.

SOME GOOD NEWS AT LAST FOR NZ.INC

Amongst all the descending doom and gloom we thought it timely to look at an area of considerable medium-term benefit for New Zealand, namely progress being made towards trade liberalisation, via free trade agreements. This may seem surprising with the Doha round pretty well defunct. However, substantial progress is being made in bilateral and regional agreements, as distinct from global-style accords. This article is a summary of a longer research piece published in our latest *Rural Focus*. Please contact us if you would like a copy.

HISTORY

Academic literature confirms that growth in a country's gross domestic product (GDP) tends to be closely aligned to growth in exports. New Zealand is no different: having access to many Anglo-Saxon economies from when Abel Tasman and James Cook first graced our shores played a key role in the economic development of the New Zealand economy, and more specifically the agricultural sector. It is no coincidence that the last time New Zealand stood amongst the richest nations in terms of GDP per capita, we had unfettered access to major markets. A combination of external (i.e. lower commodity prices and protectionism) and internal factors (i.e. policy mistakes) saw New Zealand's standing in the OECD wealth stakes fall.

In 1960, our GDP per capita was some 10 percent higher than the average for OECD countries. By 2010 it had fallen to 30 percent below the OECD average. Over the same period, GDP per capita over the entire OECD nearly tripled, while New Zealand's did not even double. **All else equal, if growth in exports from New Zealand between 1960-2010 had matched the OECD average, we would have enjoyed a 250 percent increase in GDP per capita rather than 195 percent. That would have translated into a higher standard of living, more jobs and better pay.**

Obviously we need to be mindful of causality here. Exports alone do not deliver economic nirvana. A lot has happened over the past 50 year period. Policy mistakes were made. But the underlying message is simple: back then New Zealand had strong commodity prices and a lot of preferential trade access. Conditions on both fronts deteriorated massively. Right now commodity prices are strengthening. Restoring the same degree of trade access could deliver a wining quinella.

WHAT IS A FREE TRADE AGREEMENT?

FTAs, also known as Closer Economic Partnerships, or Strategic Economic Partnerships, are agreements between a designated group of countries to get rid of tariffs, quotas and preferences on most (if not all) goods and services traded between them. Such relationships deliver potential benefits including:

- **increased access to markets;**
- **new markets where tariff levels have previously been prohibitive to trade;**
- **parity with competitors who have already obtained FTA concessions;**
- **increased competitiveness through reducing various costs;**
- **increased access through harmonising or eliminating technical standards; and**
- **increased confidence in New Zealand products.**

WHAT ARE FTAS WORTH TO NZ AGRICULTURE?

FTAs are not new; the World Trade Organisation (WTO), with its goal of liberalising world trade, was born out of the Uruguay Round of trade negotiations in 1986-94. However, the WTO negotiations to liberalise trade involve 150 countries and can be described as arduous at the best of times. Because FTA negotiations are conducted between two or a few countries, they can make more effective and timely gains than WTO negotiations, giving a country a beachhead for exports before others arrive. **Since 2000, there has been a proliferation of FTAs world-wide, in part due to the slow progress seen in the WTO negotiations. The WTO reports there are now 474 FTAs or regional FTAs signed and in effect.**

WHAT ARE FTAS POTENTIALLY WORTH TO THE NZ AGRICULTURAL INDUSTRY AND AVERAGE FARMER/GROWER?

Focusing on the major agricultural sectors in New Zealand, table 1 calculates the total dollar value in tariffs paid by each sector during 2010. The table then breaks this down into an effective applied tariff paid on 2010 exports (on a percentage basis), the foregone revenue for the average farmer/grower, as well as a per unit cost at the farm/orchard gate.

The analysis shows that three of our largest export industries (dairy, beef and kiwifruit), paid the largest absolute amount in tariffs in 2010 of \$1,073, \$183 and \$105 million respectively. This translates into an effective tariff of 10.7, 9.8 and 10.8 percent on total export earnings in 2010.

When broken down to a per farmer/grower level this translates into foregone revenue of nearly \$50,000 per kiwifruit grower and \$15,500 per average sheep and beef farmer (approximately a third of New Zealand's beef comes from the dairy herd, so the tariff cost is likely to be roughly spread between the two sectors on this split).

The real hit comes when these figures are compared with the net profit of these operations for the 2010-11 season. Adding together all the tariffs paid for an average meat and fibre farmer amounts to \$21,000 per farm in 2010. After deducting about a third of the beef cost and attributing it to the dairy farmer, **you are left with foregone revenue of \$15,900 in 2010. With a net profit forecast of around \$85,000 for the 2010/11 season (the highest since the early 2000s), this amounts to around a 19 percent hit on the back pocket.**

Table 1: Tariff costs in 2010 for major agricultural sectors.

Commodity	2010 tariffs paid (\$NZ million)	Value of exports in 2010	Tariff paid as % of total exports	Cost per farmer/grower	Cost per unit of product
Dairy	1,073	10,032	10.7%	94,950	0.75 \$ per kg milksolid
Sheepmeat	35.1	2,691	1.3%	2,971	0.07 \$ per kg carcass weight
Beef	182.5	1,853	9.8%	15,466	0.30 \$ per kg carcass weight
Venison	2.5	211	1.2%	212	0.09 \$ per kg carcass weight
Velvet	6.0	31	19.4%	508	13.92 \$ per kg velvet
Other Animal Products ¹	18.7	1,000	1.9%	1,587	–
Wool	3.0	570	0.5%	254	0.02 \$ per kg wool (clean)
Kiwifruit	105.3	975	10.8%	49,741	1.07 \$ per tray
Pipfruit	21.4	373	5.7%	41,932	0.07 \$ per kg of product
Vegetables	22.3	630	3.5%	–	–
Fresh Fruit	4.3	143	3.0%	8,525	–
Total	1,474.1	18,509	8.0%	–	–

¹ Includes things such as Hides, Skins and Offal

Sources: ANZ, National Bank, Beef + Lamb NZ, Fonterra, DINZ, Statistics NZ, Horticulture NZ & MFAT

WHAT ARE FTAS WORTH TO NZ AGRICULTURE

For the average dairy farmer who is looking to enjoy a record payout in 2010/11 and net profit in the region of \$300,000, forgone revenue of \$100,950 (around 10 percent) is still very significant. The 34 percent hit on 2010/11 profitability is greater still. Kiwifruit growers are one of the hardest hit with foregone revenue of nearly \$50,000 per grower. When compared with a cash operating surplus of \$74,000 in the 2010 season, **this is a whopping 67 percent hit.**

Looking at the individual export markets, the highest tariff rates are in Asian markets – **with tariff rates of 45 percent in Korea, 20 percent in Taiwan and 13.3 percent in China.** In the larger export markets of the European Union and Japan, tariff rates are somewhat lower at 8.8 and 6.4 percent respectively. **This reinforces the need to focus FTA efforts in the Asia-Pacific region.** While this is a static snapshot, and there are a number of dynamic changes from the liberalisation of trade, these statistics provide plenty of food for thought.

WHAT LIES AHEAD?

New Zealand has an ambitious programme for establishing additional FTAs of a bilateral nature. This is encouraging, given that the Doha trade rounds have stalled.

The major negotiations are for the Trans Pacific Partnership (TPP), which aims to establish free trade between nine countries – USA, Chile, Peru, Australia, New Zealand, Brunei, Malaysia, Vietnam, and Singapore. As with other FTAs negotiated by New Zealand, the TPP's aim is to be comprehensive in its coverage of goods and services, as well as resolving a wide range of issues around investment, competition, standards and customs rules. The objective is to substantially complete the TPP by November 2011 at the Honolulu APEC meeting. **A long-term goal is for a TPP to cover all of APEC.** This will provide an important route through which New Zealand can rapidly expand market access to the Asia-Pacific region.

New Zealand-India FTA negotiations are underway and offer an opportunity for New Zealand agriculture exporters to obtain significantly improved market access to the large Indian market. Negotiations between South Korea and New Zealand commenced in mid-2009 and are continuing. Again, this is a mechanism for New Zealand exporters to achieve increased export sales for dairy, meat and kiwifruit. Last year New Zealand commenced talks with Russia/Belarus/Kazakhstan on a FTA. This has added

significance as Russia is not yet a member of the WTO.

CONCLUSION

The countries with which New Zealand has a FTA cover almost 2 billion people (29 percent of global population), 15 percent of global GDP (in current prices), account for almost half of New Zealand's merchandise trade, and importantly, have been growing at a much faster rate than global growth. The FTAs under negotiation cover a further 1.8 billion people (27 percent of global population), 32 percent of global GDP and currently account for around 20 percent of New Zealand's trade. If all of them prove successful, then New Zealand will have free access to over half the world's population accounting for close to half of global GDP. This represents a big playground for a country of just 4.4 million people.

An immense expansion of world trade has taken place in recent decades, but New Zealand has not fully participated in it. The expansion of trade in the Asia-Pacific region will outperform over the coming 20 years and if we want to be part of this party, we must lift our game.

Table 2: New Zealand's current and future free trade partners.

	GDP (US\$b in current prices)	Population (million)	Average real GDP growth past 10-years	% of NZ exports	% of NZ imports
FTA in force or about to be in force					
Australia	1,220	22	3.0%	23.7%	18.8%
Singapore	217	5	5.7%	2.6%	3.6%
Thailand	313	68	4.3%	1.4%	3.2%
Brunei	12	0	1.3%	0.0%	1.3%
Chile	199	17	3.8%	0.1%	0.1%
China	5,745	1,341	10.5%	10.3%	15.7%
Myanmar	36	61	10.3%	0.0%	0.0%
Philippines	189	94	4.7%	1.7%	0.3%
Vietnam	102	88	7.2%	1.0%	0.5%
Cambodia	11	14	7.7%	0.0%	0.0%
Indonesia	695	235	5.2%	2.2%	1.5%
Laos	6	6	7.1%	0.0%	0.0%
Malaysia	219	28	4.6%	1.8%	3.6%
Hong Kong	226	7	4.0%	2.0%	0.3%
Total	9,190	1,988	5.7%	46.8%	48.9%
FTA under negotiation					
Bahrain	22	1	5.9%	0.2%	0.0%
Oman	54	3	4.9%	0.1%	0.1%
Kuwait	117	4	5.5%	0.2%	0.5%
Saudi Arabia	434	26	3.3%	1.3%	0.7%
UAE	240	5	5.4%		2.6%
Qatar	127	2	13.7%	0.1%	2.1%
Korea	986	49	4.1%	3.2%	3.2%
India	1,430	1,216	7.4%	1.8%	0.9%
Russia	1,477	140	4.9%	0.5%	1.2%
Belarus	53	9	7.4%	0.0%	0.0%
Kazakhstan	130	16	8.1%	0.0%	0.0%
Peru	154	30	5.7%	0.1%	0.1%
US	14,624	310	1.7%	8.9%	9.7%
Total	19,848	1,811	6.0%	16.4%	21.1%

Sources: ANZ, National Bank, IMF, Statistics NZ.

INTEREST RATE STRATEGY

SUMMARY

With the RBNZ on hold for now and backward looking data being discounted, markets continue to look offshore for direction. Global moves typically have a greater impact on the long end, and the correlation between the slope of the curve and outright global rates is high. Domestic data is helping to build a better picture, particularly timely data like confidence and commodity prices. However, until we actually move into the next phase of activity all the market can do is debate the likely outcomes, and this far out, that discussion won't generate volatility.

MARKET THEMES

- Local markets are like a dog without a bone to chew, with domestic data providing nothing useful on account of quakes, and flow reasonably light. As such, look offshore for direction.
- US bond traders are playing a dangerous game, trading one Fed mandate (inflation) against the other (employment). This can't go on forever.
- This week's ECB meeting will be key for near term sentiment in European bond markets, giving finality over whether sovereign debt problems will interfere with monetary policy.

REVIEW AND OUTLOOK

Last week was a fairly quiet week for the local fixed income market, with very light flow relative to the post Christchurch and post Japan earthquake periods. There was some reaction to business confidence data, but the reality is that the RBNZ will be on hold for a while, and the market remains comfortable pricing in broadly 50/50 odds of a hike by December. **Even though we believe the RBNZ will deliver 25bps by December, that's still 8 months away, and as such, we would not expect the market to fully price it in.** We also note that the market has done away with pricing in further cuts, which also seems reasonable – after all, the last cut was an insurance cut.

Looking ahead, we expect price action to be fairly muted, particularly at the short end. The market will debate the timing and effect of the rebuild phase, but until we get within visual range of it, it's more likely to sway markets, as opposed to define new levels. It certainly feels like we're treading water ahead of the Budget, which will be a defining moment.

US non-farm payroll data failed to excite the market. **The focus has instead shifted back to comments by Fed officials – in particular, whether the Fed are in effect prepared to trade off higher**

inflation in order for lower unemployment. If this proves to be the case, it will be to the detriment of bond holders. Similarly, we will be watching closely to see **whether ECB President Trichet's well publicised plans to raise rates will be derailed by debt concerns.** That would also be a blow to bond holders.

PREFERRED BORROWING STRATEGIES

We remain cautious and circumspect with regard to hedge strategies, for two reasons. First, there is the high degree of uncertainty in the business environment – if nothing else, this argues against adding fixed costs to the business. The second is the degree to which traditional hedges have been "undermined" by an ultra-low OCR. That is, outright swap rates may be low, but 3mth BKBM is even lower, tilting the playing field in favour of floating especially for cashflow constrained borrowers. But that doesn't mean one should not hedge. However, the form of that hedging will become increasingly important, with optionality preferred. Consider extendible swaps as a way of extending duration at current levels, but in a way that provides an out should future rates prove to be lower than what's priced in.

GAUGES FOR NZ INTEREST RATES

GAUGE	GAUGE	GAUGE
RBNZ / OCR	↔	Not a factor. Budget next month the main focus.
NZ data	↔	Quite a bit of data this week but likely to be discounted.
Fed Funds / front end	↑	Rhetoric has turned more hawkish in the past week.
RBA	↔/↑	Hike this week off the cards. But likely later in year.
US 10 year	↔/↑	Biased higher on inflation.
NZ swap curve	↔/↑	Curves steep, but carry on steepeners still seductive.
Flow	↔	Quiet week last week.
Technicals	↔	2yr seems glued to 3.30%.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 28-Apr-11	-1	0
Thu 9-Jun-11	-1	0
Thu 28-Jul-11	-6	-2
Thu 15-Sep-11	+1	-1
Thu 27-Oct-11	+6	+4
Thu 8-Dec-11	+13	+13
Thu 26-Jan-12	+23	+29

TRADING THEMES WE FAVOUR AT PRESENT

Although the 2-5yr and 2-10yr spreads have steepened considerably in the past 2 weeks, they are well below 2009 extremes (the last time the OCR was here), and continue to benefit for significant positive roll and carry. Tempting as it is to take profit, we favour holding on to such trades, looking for higher US Treasury bond yields to add value.

CURRENCY STRATEGY

SUMMARY

NZD looks set to continue testing resistance levels this week, helped along by a rampant AUD. A weak QSBO print tomorrow could see a pullback, but as we have seen over the past couple of weeks, good buying support is likely to emerge on any dips. The broad USD weakness theme is likely to continue pervading through currency markets, with only the JPY looking even weaker. A hike by the ECB could see EUR gain further strength, despite Irish banking woes and Portuguese fiscal and political worries.

MARKET THEMES

- Risk back on, sending commodity currencies higher.
- USD weakness continues despite solid payrolls data.
- EUR shrugging off Irish banking and Portuguese woes, focusing on ECB decision this week.
- NZD set to test resistance levels, with any dips to find good buying support.

REVIEW AND OUTLOOK

Judging from the NZD's strength last week, you wouldn't have known that the NZ economy was recently hit by a massive shock. NZDUSD has already retraced a large part of the downward move between early February and mid-March, and look to be on track for a full retracement which could take it towards 0.78 in the near-term. Reinsurance flows and exporter demand no doubt continues to keep a bid in the NZD. But some short position squaring has also lent support. With speculators now largely squared up, there is the potential for further upside in NZD should speculators decide to establish fresh long positions. However, given how quickly the NZD has risen off its 17 March low (up 7.9 percent since then), not many will be tempted to go long right at this moment. Tomorrow's QSBO is likely to mirror the National Bank Business Outlook survey and print weak right across the board. As with the National Bank survey, we are likely to see a slight pullback in the NZD, but this will prove to be short-lived as buying support will emerge on any dips.

AUD strength and generalised USD weakness additional influencers for higher NZD. The AUD remains the carry king among the major currencies. With risk appetites strong, the AUD is very much the flavour of the month with fresh post-float highs being reached – 1.04 was hit in early morning NZ trading today. The RBA decision this week will not shed much new light on the timing of their next move. But a strong employment report later in the week could be another catalyst for a further move higher in the

AUD. Positioning suggests the market is very long the AUD, and there is the potential for a corrective pullback. But it is hard to go against the market herd at present, especially when shorting the AUD is costly.

The USD finds itself not being able to do anything right. Only the JPY has been weaker. As a funding currency of choice at present, the USD finds itself weak despite strong payrolls data late last week. Even the EUR is holding up well despite Irish banking woes and the need for a potential bailout of Portugal. Should the ECB follow up their rhetoric and deliver a hike this week, EUR will push higher and the USD will find itself lagging further behind.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↑	Below fair value.
Yield	↓	AU yields will be higher than NZ's for a while.
Commodities	↔	Both hard and softs still highly correlated.
Partial indicators	↓	Post earthquake uncertainty in NZ continues.
Technicals	↔	Support at 0.7300.
Sentiment	↑	Reinsurance flows support.
Other	↑	Terms of trade continue to support.
On balance	↔	Are 20 year lows really justified?

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 differentials suggest NZD should be lower.
Commodities	↑	Soft commodities driving more exporter hedging.
Risk aversion	↔	Risk back on.
Partial indicators	↔	Sentiment indicators soft.
Technicals	↑	Enroute to 0.7725. 0.7570 & 0.7665 resistance levels.
AUD	↑	Yield play.
Sentiment	↑	Reinsurance flows support.
Other	↑	Terms of trade support.
On balance	↑	Reinsurance and export demand, strong AUD and weak USD keeping NZD up.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
4-Apr	JN	Monetary Base (YoY) - MAR	--	5.60%	11:50
	AU	TD Securities Inflation MoM% - MAR	--	0.20%	12:30
	AU	TD Securities Inflation YoY% - MAR	--	3.60%	12:30
	AU	ANZ Job Advertisements (MoM) - MAR	--	1.20%	13:30
	NZ	ANZ Commodity Price - MAR	--	2.70%	15:00
	UK	PMI Construction - MAR	54.8	56.5	20:30
	UK	BoE Housing Equity Withdrawal - 4Q	-£5.7B	-£6.1B	20:30
	EC	Sentix Investor Confidence - APR	16	17.1	20:30
	EC	Euro-Zone PPI (MoM) - FEB	0.80%	1.50%	21:00
	EC	Euro-Zone PPI (YoY) - FEB	6.70%	6.10%	21:00
5-Apr	NZ	NZIER Business Opinion Survey - 1Q	--	8	10:00
	AU	AiG Performance of Service Index - MAR	--	48.7	11:30
	AU	Trade Balance - FEB	1200M	1875M	13:30
	AU	RBA CASH TARGET	4.75%	4.75%	16:30
	GE	PMI Services - MAR F	60.1	60.1	19:55
	EC	PMI Composite - MAR F	57.5	57.5	20:00
	EC	PMI Services - MAR F	56.9	56.9	20:00
	UK	PMI Services - MAR	52.6	52.6	20:30
	EC	Euro-Zone Retail Sales (MoM) - FEB	0.10%	0.40%	21:00
	EC	Euro-Zone Retail Sales (YoY) - FEB	0.60%	0.70%	21:00
6-Apr	US	ISM Non-Manf. Composite - MAR	59.5	59.7	02:00
	US	Minutes of FOMC Meeting -			06:00
	AU	Home Loans - FEB	-2.00%	-4.50%	13:30
	AU	Investment Lending - FEB	--	-6.80%	13:30
	AU	Owner-Occupied Home Loan Value - FEB	--	-4.60%	13:30
	CH	China HSBC Services PMI - MAR	--	51.9	14:30
	UK	Industrial Production (MoM) - FEB	0.40%	0.50%	20:30
	UK	Industrial Production (YoY) - FEB	4.30%	4.40%	20:30
	EC	Euro-Zone GDP s.a. (QoQ) - 4Q F	0.30%	0.30%	21:00
	EC	Euro-Zone GDP s.a. (YoY) - 4Q F	2.00%	2.00%	21:00
	GE	Factory Orders YoY (nsa) - FEB	17.40%	16.00%	22:00
	GE	Factory Orders MoM (sa) - FEB	0.50%	2.90%	22:00
	US	MBA Mortgage Applications	--	-7.50%	23:00
7-Apr	AU	AiG Perf of Construction Index - MAR	--	44.6	11:30
	JN	Official Reserve Assets - MAR	--	\$1091.5B	11:50
	AU	Part Time Employment Change - MAR	--	-57.7K	13:30
	AU	Full Time Employment Change - MAR	--	47.6K	13:30
	AU	Employment Change - MAR	24.0K	-10.1K	13:30
	AU	Participation Rate - MAR	65.70%	65.70%	13:30
	AU	Unemployment Rate - MAR	5.00%	5.00%	13:30
	GE	Industrial Production MoM (sa) - FEB	0.50%	1.80%	22:00
	UK	BOE Asset Purchase Target - APR	200B	200B	23:00
	UK	BOE ANNOUNCES RATES - APR	0.50%	0.50%	23:00
	EC	ECB Announces Interest Rates - APR	1.25%	1.00%	23:45
	JN	BOJ Target Rate - APR	--	0.10%	/2011
8-Apr	US	Initial Jobless Claims - 2 APR	385K	388K	00:30
	US	Continuing Claims - 26 MAR	3700K	3714K	00:30
	JN	Adjusted Current Account Total - FEB	¥1329B	¥1089B	11:50

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
8-Apr	JN	Current Account Balance YOY% - FEB	7.90%	- -	11:50
	JN	Trade Balance - BOP Basis - FEB	¥746.9B	-¥394.5B	11:50
	GE	Exports SA (MoM) - FEB	2.00%	-1.00%	18:00
	GE	Imports SA (MoM) - FEB	1.00%	2.30%	18:00
	GE	Current Account (EURO) - FEB	12.0B	7.2B	18:00
	GE	Trade Balance - FEB	13.0B	10.1B	18:00
	UK	PPI Input NSA (YoY) - MAR	12.50%	14.60%	20:30
	UK	PPI Output n.s.a. (YoY) - MAR	5.10%	5.30%	20:30
	UK	PPI Output Core NSA (YoY) - MAR	2.90%	3.10%	20:30
9-Apr	US	Wholesale Inventories - FEB	1.00%	1.10%	02:00
10-Apr	CH	Trade Balance (USD) - MAR	-\$4.00B	-\$7.30B	14:00
	CH	Exports YoY% - MAR	24.20%	2.40%	14:00
	CH	Imports YoY% - MAR	18.00%	19.40%	14:00

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: The February 22 earthquake was a game changer and is likely to delay the recovery by 6 months. The March NBBO fall in business confidence showed an immediate impact on sentiment, with this week's Q1 NZIER QSBO expected to mirror that theme. The economic data over the coming months will be noisy and we continue to watch upcoming confidence readings for signs of any stabilisation and hint of rebuilding activity starting to flow through.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon Apr 4 (3:00pm)	ANZ Commodity Price Index – March	- -	- -
Tue Apr 5 (10:00am)	NZIER QSBO – Q1	Earthquake hit	Earthquake disruptions will be evident, with falls in headline business confidence and domestic trading activity. Capacity utilisation and skill shortage measures should move higher.
Wed Apr 6 (6:00am)	<i>globalDairyTrade</i> auction	Down	We expect prices for whole milk power to decline by around 5 percent from the mid-March event to around US \$3,900/tonne.
Mon Apr 11 (10:45am)	Electronic Card Transactions - March	Down	Card transaction values are expected to decline 1 to 2 percent due to earthquake disruptions. Consumers remain cautious.
Wed Apr 13 *(10:45am)	External Migration – Feb	Down	A lower net PLT monthly inflow of 200 persons is expected. Visitor arrivals to ease 1 to 2 percent.
Wed Apr 13 (10:45am)	Food Price Index - March	Up	We expect a 0.2 percent increase in food prices, with upside risks. Stronger rises over 2011 are in prospect.
Thur Apr 14 (10:30am)	BNZ – Business NZ PMI – March	Down	The resumption of this survey after the earthquake induced cancellation should see weakness on a number of fronts.
Thur Apr 14 (10:45am)	REINZ housing market data – March	Down	Sales volumes are expected to decline nationwide as activity in Christchurch stalls. But an improvement in Auckland housing market activity should be evident.
Mon Apr 18 (10:45am)	Consumer Price Index – 2011Q1	Up	We expect a 1.1 percent quarterly increase. Higher petrol prices are expected to contribute 0.5 percentage points.
Wed Apr 6 (6:00am)	<i>globalDairyTrade</i> auction	Consolidation	We expect whole milk powder prices to consolidate at around US \$3,900 tonne.
Thur Apr 21 (10:45am)	External Migration – March	Quake impacts	No additional net immigration is envisaged, with risks of a monthly net outflow. Visitor arrivals are expected to remain weak in the immediate quake aftermath.
Thur Apr 21 (3:00pm)	ANZ-Roy Morgan Consumer Confidence	- -	- -
Thur Apr 28 (9:00am)	April OCR Review	On hold	The RBNZ will want to give March MPS insurance cuts time to work. We expect the RBNZ to remain on hold until December.
Fri Apr 29 (10:45am)	Overseas Merchandise Trade- March	Seasonal	We expect a monthly surplus of about \$500m. The annual trade surplus should widen to \$800m.
Fri Apr 29 (10:45am)	Building Consents- March	Holding	We expect residential consent numbers to hold at weak levels of around 1,000 consents. A strong Q3 pick-up looms on the back of rebuilding.
On Balance		Weak H1	The Christchurch earthquake will result in continuing weakness over the first half of 2011, with the recovery pushed out at least 6 months.

KEY FORECASTS AND RATES

	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12
GDP (% qoq)	0.1	-0.2	0.2	-0.4	0.1	1.4	1.8	0.7	0.9	0.9
GDP (% yoy)	1.9	1.5	0.8	-0.3	-0.3	1.3	2.9	4.1	4.9	4.4
CPI (% qoq)	0.2	1.1	2.3	1.1	1.0	0.8	0.7	0.6	0.8	0.7
CPI (% yoy)	1.7	1.5	4.0	4.8	5.7	5.4	3.7	3.1	2.8	2.7
Employment (% qoq)	-0.3	1.1	-0.5	0.9	0.2	0.5	0.5	0.5	0.4	0.5
Employment (% yoy)	0.0	1.9	1.3	1.2	1.7	1.1	2.1	1.7	1.9	1.9
Unemployment Rate (% sa)	6.9	6.4	6.8	6.5	6.7	6.6	6.4	6.3	6.2	6.1
Current Account (% GDP)	-3.0	-2.2	-2.2	0.5	0.2	-1.2	-1.2	-4.2	-4.8	-4.8
Terms of Trade (% qoq)	2.0	3.0	0.6	2.5	1.5	1.5	0.5	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.7	17.9	12.2	8.3	7.8	6.3	6.1	2.8	0.5	-1.8

	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11
Retail ECT (% mom)	0.5	0.3	-0.7	2.3	0.8	1.0	-0.8	2.4	-0.2	..
Retail ECT (% yoy)	4.2	4.4	1.7	5.0	4.8	6.3	4.4	5.7	6.2	..
Credit Card Billings (% mom)	1.2	-1.2	0.7	1.0	0.6	0.0	-1.7	3.4	-0.3	..
Credit Card Billings (% yoy)	4.5	2.6	2.2	4.2	4.7	3.8	2.1	5.5	5.3	..
Car registrations (% mom)	5.6	-6.3	0.0	2.5	-3.8	13.7	-8.7	0.8	-1.0	..
Car registrations (% yoy)	35.8	16.0	19.0	19.2	9.4	23.5	6.4	6.8	2.8	..
Building consents (% mom)	1.5	3.3	-17.6	0.9	-1.9	8.0	-18.4	9.1	-9.7	..
Building consents (% yoy)	27.1	25.1	-3.1	-9.5	-17.4	-9.1	-26.5	-14.8	-28.9	..
REINZ House Price Index (% yoy)	4.2	1.8	0.9	-1.3	-3.5	-1.9	-1.6	-2.6	-0.7	..
Household Lending Growth (% mom)	0.2	0.2	0.1	0.2	0.1	0.0	0.0	0.1	0.1	..
Household Lending Growth (% yoy)	2.6	2.5	2.3	2.3	2.0	1.8	1.6	1.6	1.5	..
ANZ Roy Morgan Consumer Confidence	122.0	115.6	116.3	116.4	113.6	114.5	112.2	117.1	108.1	101.4
NBNZ Business Confidence	40.2	27.9	16.4	13.5	23.7	33.2	29.5	..	34.5	-8.7
NBNZ Own Activity Outlook	38.5	32.4	25.7	26.7	30.5	35.3	34.5	..	36.6	14.7
Trade Balance (\$m)	221	-186	-430	-455	-220	-177	-223	-3	194	..
Trade Balance (\$m ann)	593	585	871	978	1259	1363	1166	893	758	..
ANZ World Commodity Price Index (% mom)	-1.6	-0.8	-1.4	2.8	3.5	4.5	2.0	3.8	2.7	..
ANZ World Commodity Price Index (% yoy)	50.1	47.3	38.6	32.9	31.4	23.7	23.0	27.2	25.9	..
Net migration (sa)	200	930	870	1010	510	600	720	450
Net migration (annual)	16504	15221	14507	13914	12610	11519	10451	8689

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	Jan-11	Feb-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZD/USD	0.773	0.752	0.769	0.74	0.75	0.75	0.74	0.72	0.71	0.70
NZD/AUD	0.775	0.739	0.739	0.73	0.71	0.73	0.73	0.72	0.72	0.73
NZD/EUR	0.564	0.545	0.540	0.53	0.55	0.56	0.56	0.54	0.53	0.52
NZD/JPY	63.41	61.53	64.71	62.9	64.5	66.0	66.6	66.2	66.0	66.5
NZD/GBP	0.483	0.463	0.477	0.46	0.47	0.47	0.47	0.46	0.45	0.45
NZ\$ TWI	68.7	66.4	67.3	65.6	66.4	67.3	67.0	65.7	64.9	64.4
INTEREST RATES	Jan-11	Feb-11	Today	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
NZ OCR	3.00	3.00	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
NZ 90 day bill	3.21	2.86	2.64	2.70	2.70	3.10	3.70	3.80	4.20	4.30
NZ 10-yr bond	5.48	5.54	5.67	5.70	6.00	6.10	6.20	6.10	6.20	6.10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.75	1.50	2.00
US 3-mth	0.30	0.31	0.30	0.35	0.35	0.35	0.35	0.85	1.60	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	4.92	4.97	4.89	5.00	5.30	5.50	5.60	5.90	6.00	6.00

	1 Mar	28 Mar	29 Mar	30 Mar	31 Mar	1 Apr
Official Cash Rate	3.00	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.88	2.62	2.63	2.62	2.63	2.63
NZGB 11/11	3.61	3.47	3.44	3.45	3.46	3.46
NZGB 04/13	4.42	4.34	4.33	4.34	4.40	4.40
NZGB 12/17	5.39	5.44	5.43	5.44	5.48	5.49
NZGB 05/21	5.61	5.63	5.62	5.63	5.66	5.68
2 year swap	3.42	3.33	3.29	3.30	3.29	3.32
5 year swap	4.42	4.45	4.42	4.44	4.46	4.49
RBNZ TWI	66.4	65.9	65.9	66.4	66.5	66.7
NZD/USD	0.7520	0.7509	0.7505	0.7565	0.7591	0.7609
NZD/AUD	0.7381	0.7317	0.7327	0.7355	0.7353	0.7360
NZD/JPY	61.65	61.37	61.35	62.72	62.87	63.69
NZD/GBP	0.4619	0.4689	0.4690	0.4734	0.4718	0.4743
NZD/EUR	0.5443	0.5340	0.5329	0.5371	0.5373	0.5371
AUD/USD	1.0188	1.0262	1.0243	1.0286	1.0324	1.0338
EUR/USD	1.3816	1.4062	1.4084	1.4084	1.4128	1.4168
USD/JPY	81.98	81.73	81.74	82.91	82.82	83.71
GBP/USD	1.6280	1.6015	1.6002	1.5981	1.6090	1.6044
Oil (US\$/bbl)	97.10	104.89	103.54	104.34	103.80	106.19
Gold (US\$/oz)	1412.45	1425.80	1418.73	1417.00	1427.30	1432.50
Electricity (Haywards)	3.95	2.53	3.00	2.83	3.30	3.88
Baltic Dry Freight Index	1262	1585	1572	1545	1530	1520
Milk futures (US\$/contract)	155	160	160	160	160	158

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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