NEW ZEALAND ECONOMICS
ANZ MARKET FOCUS

6 September 2010

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EMERGENCY MEASURES

ECONOMIC OVERVIEW

Weakening confidence, the collapse of a major non-bank financial institution and earthquake ructions should have sealed the deal on a no-change decision at the September monetary policy deliberations. We emphasise, however, that it will only be a temporary respite. The RBNZ is expected to resume removing policy stimulus either late this year or early next year, with some dynamics such as a potential boost to construction activity in 2011 as Canterbury rebuilds following the earthquake pointing to a more accelerated profile once we get beyond current ructions. This week sees the release of key pieces of the Q2 GDP jigsaw. The general spirit will be one of modest improvement, although divergences will remain stark.

CANTERBURY EARTHQUAKE IMPACT

We see the near-term impact of the Canterbury earthquake as negative, but the precise magnitude is impossible to quantify. Of immediate concern is the impact on confidence, which requires decisive leadership and pragmatism by policymakers to support. While there will be increased construction activity in 2011 and 2012 as rebuilding commences, we suspect the displacement effects from other areas such as tourism will mitigate the aggregate economic flow-on. We see limited financial market consequences of financing the rebuilding effort.

MONTHLY INFLATION GAUGE

Following the government charges induced spike in July, our monthly inflation gauge posted a 0.1 percent decline in August. Price movements appear well behaved, with the odd increase being recorded. But the July spike ensures that the non-tradable CPI print for Q3 will still be sizeable.

INTEREST RATE STRATEGY

Weaker business confidence and the disruptive effect of the Canterbury earthquake have almost certainly sidelined the RBNZ for at least the next two meetings, keeping a lid on short-term interest rates. However, the long end is a completely different story, with rates moving higher as market enthusiasm for further quantitative easing (QE) in the US has waned somewhat. But while the hurdle for further QE is clearly high, we doubt the debate is over just yet, and are viewing the stiff rise in long end rates as a typical market correction.

CURRENCY STRATEGY

The Canterbury earthquake is obviously our main focus this week. However, New Zealand's structural and financial preparedness for such an event means we will see very little (perhaps no) negative impact on the NZD. Globally the data flow last week was generally more positive, lending support to the NZD, AUD and EUR as many perceive the world to be a better place. JPY remains quiet with intervention discussion waning.

ECONOMIC OVERVIEW

SUMMARY

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THIS WEEK'S EVENTS

- **SNZ Wholesale Trade Survey – Q2** (Tuesday September 7, 10:45am). Rising motor vehicle registrations and higher Q2 retail sales suggest a further climb in wholesale sales. We expect a 2 percent increase in nominal wholesale sales. Wholesale stocks are expected to continue climbing from their mid-2009 nadir.
- **SNZ Value of Work Put in Place – Q2** (Wednesday September 8, 10:45am). We expect the volume of residential work to increase by 2 percent, with non-residential work to fall by 5 percent.
- **SNZ Economic Survey of Manufacturing – Q2** (Wednesday September 8, 10:45am). We are looking for a 1 to 1.5 percent increase in ex-primary volumes. Primary manufacturing volumes are anticipated to be weighed down as a consequence of dry weather conditions during the early part of the year. Manufacturing stocks are expected to continue improving.
- **SNZ Electronic Card Transactions – August** (Thursday September 9, 10:45am). Stronger July core ECT spending suggests retailing is finding its feet, although the weakness in fuel retailing is suspicious. We expect a one percent increase in core retail ECT. We are still waiting for a tangible Rugby World Cup effect to show through.
- **SNZ Overseas Trade Indexes – Q2** (Friday September 10, 10:45am). The terms of trade are expected to continue their upward march with a near 4 percent lift, courtesy of climbing export commodity prices. We expect export volumes to rise by 2 percent. Improving domestic demand and restocking is expected to contribute to a 3.5 percent increase in import volumes.

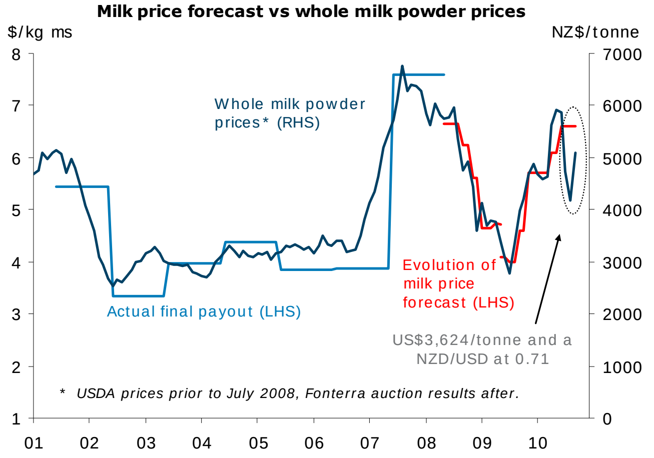
WHAT'S THE VIEW?

Two developments dominated last week, namely the collapse of South Canterbury Finance (SCF) and the 7.1 magnitude earthquake that hit Canterbury. **Both events should pretty well seal the deal on a no-change decision at the September monetary policy deliberations.**

While some may point to the $1.6 billion government payout to SCF investors, courtesy of the Crown retail deposit guarantee, as a sizeable fiscal injection, it is hard to think that this money will end up being physically injected into the economy. People were investing this money in the first place and are likely to do so again, but we suspect in a more conservative manner (read: lower yield) this time around. For those relying on higher interest rates to supplement their other income, this could mean altering their spending patterns. There are also clearly material issues to work though in regard to how far SCF's tentacles spread. But it is not our place to comment or speculate on that.

The immediate priority is to make sure the receivership is handled in an orderly fashion. The government's swift response in facilitating repayment of all of SCF's debt-security holders effectively puts the Crown in control of the receivership process. This will ensure that the unwinding of SCF's assets will be done in the least disruptive manner. But with a sizeable portion of non-performing loans across SCF's portfolio, there will inevitably be further "adjustments" to come in some areas. And **it is hard to imagine confidence not being impacted in some shape or form.** Last week's National Bank *Business Outlook* was already confirming that the economy is stepping down a gear. While firms' own activity expectations remains consistent with trend growth, employment and investment intentions remain well below where they should be at this point in the cycle. Of course, we must also recognise the positive developments. The sizeable jump in the early September *global*DairyTrade online auction was encouraging, and justifies Fonterra's decision to hold the 2010/11 season forecast payout unchanged a few weeks back.

ECONOMIC OVERVIEW



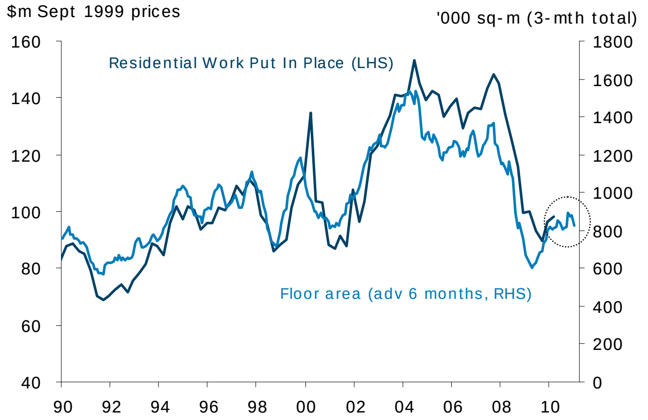
Sources: ANZ, National Bank, Fonterra, Bloomberg

Speculation is rife about the impact of the Canterbury earthquake. We outline our thoughts on page 5. **Suffice to say that we see the immediate impact as negative, but construction spending should support prospects in 2011.** The latter is not, however, a free-lunch boom for the economy. Specifically, there is still a limit to how fast the economy can expand over the coming years given the supply-side capacity at present of 2 percent or so per year. Or put another way, where are the resources to undertake that sort of construction going to come from? If construction spending ramps up (or more likely fills a growth void for the likes of non-residential investment in 2011), keeping the economy in check (or non-inflationary) will require offsets somewhere else. In practice, this may mean a tad less consumption, and we see South Island tourism in-flows at some risk over the coming 12 months as well, given the importance of Christchurch as a gateway to the South.

These developments are another reason for the RBNZ to be cautious. The RBNZ has scope to look through the inflationary impact of natural disasters. When faced with significant shocks, the near-term imperative is to support confidence. It may well be that policy needs to accelerate its normalisation path further down the track. But that is precisely that – down the track in 2011 – and we have a lot of sympathy for the notion that the RBNZ does a 50 basis point hike at some stage. As we have detailed in prior weeks, taking a cautious stance now in recognition of the risks that abound must be compensated by a preparedness to act decisively later. At present, we have still pencilled in the next hike for December, but the risk is that this gets deferred until Q1 2011.

This week sees the release of key data that will be used as an input into Q2 GDP. Wholesale Trade data is expected to benefit from improved retail trade figures and continued strength in motor vehicle registrations. Improving export sales are also expected to boost sales. Wholesale trade stocks are expected to continue climbing from exceptionally low levels.

The value of work put in place for the June 2010 quarter is expected to show that construction activity has yet to make significant inroads since the recession, with the volume of construction activity still around 25 percent below its December 2007 peak.



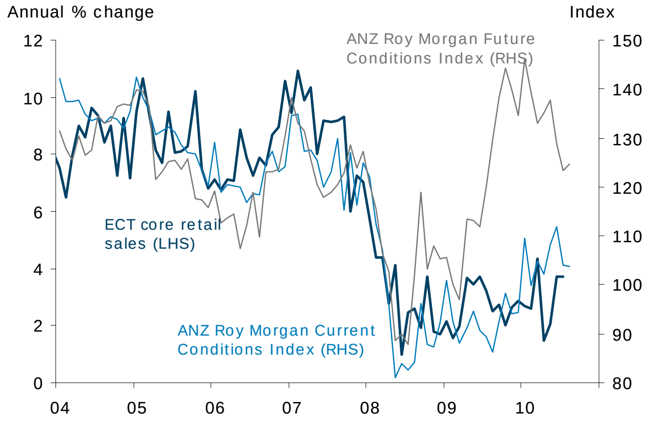
Sources: ANZ, National Bank, Statistics NZ

We expect the volumes of residential work put in place to increase by 2 percent in the June quarter. According to consent issuance for new dwellings, activity in the sector has been very flat indeed, but we expect some support from additional work on alterations and additions. Consent data for new dwellings have remained listless and we are not detecting evidence of a beat the GST dynamic for new home building as yet. Non-residential work put in place is expected to reflect the soggy consent issuance earlier in the year, with non-residential volumes forecast to drop by 5 percent. While the 20 percent increase in the value of non-residential consents in July was a step in the right direction we will need for this to continue to be assured that the sector is heading for better times.

Electronic Card Transaction data for August is anticipated to show signs of gradual improvement in retail spending. As last week's RBNZ credit aggregates attested to, deleveraging by households remains ongoing. Related to this has been the continued deterioration of households' assessments of their financial position. Until we see households feeling that the worst is over, we are unlikely to see sentiment lift, as household finances continue to be knocked back. Last month we were on the lookout for evidence of a Rugby World Cup

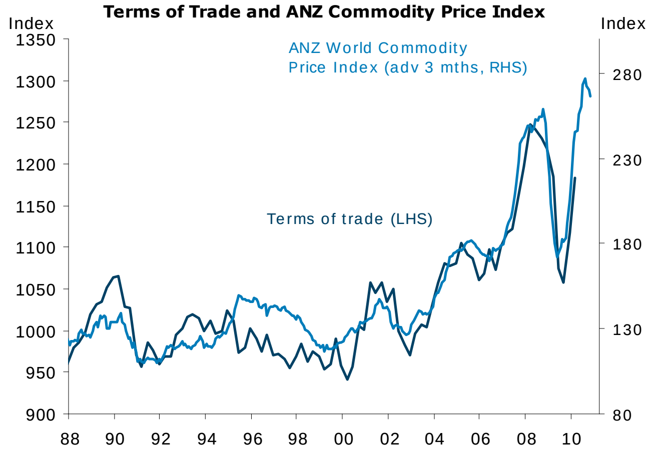
ECONOMIC OVERVIEW

impact on card spending, which failed to materialise. Chances are that this will surface in the August data.



Sources: ANZ, National Bank, Statistics NZ

Friday sees the release of overseas trade indices for Q2. Largely due to the lagged effect of higher export commodity prices, the terms of trade are expected to commence their upward march. We expect a 4 percent increase, with export prices rising by 5 percent and import prices by 1 percent. We expect export volumes will increase by 2 percent, weighed down by lower primary production. Imports are expected to continue firming, with volumes envisaged to rise by 4 percent.



Sources: ANZ, National Bank, Statistics NZ

Internationally, we will be focused on the interest rate decisions coming out of Australia and Canada this week. The RBA is widely tipped to leave the cash rate unchanged at 4.5 percent. However, we will be keeping an especially close eye on the Bank of Canada decision on Thursday. Recent global jitters have not put off some central banks from hiking, with the Riksbank the latest to move last week. The consensus among the Canadian economists is for a 25 basis point hike by the BoC, with the market somewhat more uncertain with only a 60 percent chance priced in. Before this weekend, a hike by the BoC may well have provided food for thought for the local market with regard to the RBNZ's decision next week. But given events over the weekend, what the BoC decides to do will have no bearing at all on the RBNZ.

RECENT LOCAL DATA

- **SNZ Merchandise Trade – July.** The monthly trade balance slipped back into a deficit of $186m. Export values declined by 5.9 percent (to $3.57b), whereas import values rose 4.9 percent (to $3.75b). The annual trade surplus narrowed slightly to $573m from $581m in June.
- **National Bank *Business Outlook* – August.** A net 16 percent expect business conditions to improve over the next 12-months (down 12 points). Firms' assessment of own activity fell to a net 26 percent (down 6 points). Investment and employment intentions eased to net balances of plus 3 and plus 4 percent respectively. Pricing intentions were broadly unchanged at plus 32 percent, with expectations of inflation one year ahead easing slightly to 3.1 percent.
- **RBNZ Credit Aggregates – July.** Resident Private Sector Credit excluding repos rose by 0.1 percent (0.4 percent y/y). Household credit increased by 0.2 percent in July (2.6 percent y/y), with agricultural credit growth slowing to 2.3 percent y/y and business credit declining by 7.4 percent in the 12-months to July.
- **SNZ Building Consents – July.** The number of residential consents increased by 3.1 percent, whereas excluding apartments the number of consents issued fell by 5.1 percent. The value of non-residential consents issued rose by 20.1 percent, to $293m (-21.4 percent y/y).
- **ANZ Commodity Price Index – August.** Commodity export prices fell 1.4 percent to be 3.7 percent below their May peak, but are 38.6 percent above July 2009 levels. In NZD terms, commodity prices fell by 1.5 percent (+28.9 percent y/y).
- ***global*DairyTrade online auction – September.** The weighted average price (gDT-TWI) rose 16.9 percent from the previous event. Whole milk powder prices averaged US$3,522 per tonne, an increase of 18.4 percent from the August event. Increases ranged from 13.7 to 24.9 percent over the three contract horizons.

CANTERBURY EARTHQUAKE IMPACT

SUMMARY

We see the near-term impact of the Canterbury earthquake as negative, but the precise magnitude is impossible to quantify. Of immediate concern is the impact on confidence, which requires decisive leadership and pragmatism by policymakers to support. While there will be increased construction activity in 2011 and 2012 as rebuilding commences, we suspect the displacement effects from other areas such as tourism will mitigate the aggregate economic flow-on. We see limited financial market consequences of financing the rebuilding effort.

On Saturday morning, a 7.1 magnitude earthquake struck Canterbury, causing extensive damage. Thankfully, there was no loss of life.

List of major NZ earthquakes

Date	Location	Magnitude	Deaths
Jan 1855	Wairarapa	8.2	5-10
Jun 1929	Murchison	7.8	17
Feb 1931	Hawke's Bay	7.9	256
Mar 1934	Pahiatua	7.6	2
May 1968	Inangahua	7.0	3
Dec 2007	Gisborne	6.8	1
Sep 2010	Canterbury	7.1	0

NZ Regional GDP and Population Estimates 2010

Region	Regional GDP ($b)	% of total	Popn ('000)	% of total
Northland	5	3.0	158	3.6
Auckland	58	32.5	1454	33.3
Waikato	16	8.9	411	9.4
Bay of Plenty	9	5.0	276	6.3
Gisborne-Hawke's Bay	8	4.2	202	4.6
Taranaki	5	2.6	109	2.5
Manawatu-Whanganui	9	4.9	233	5.3
Wellington	23	13.1	484	11.1
Upper South Island	8	4.3	172	3.9
Canterbury	***27***	***15.0***	***566***	***13.0***
Otago	7	4.1	208	4.8
Southland	4	2.3	95	2.2
TOTAL	**180**	**100.0**	**4368**	**100.0**

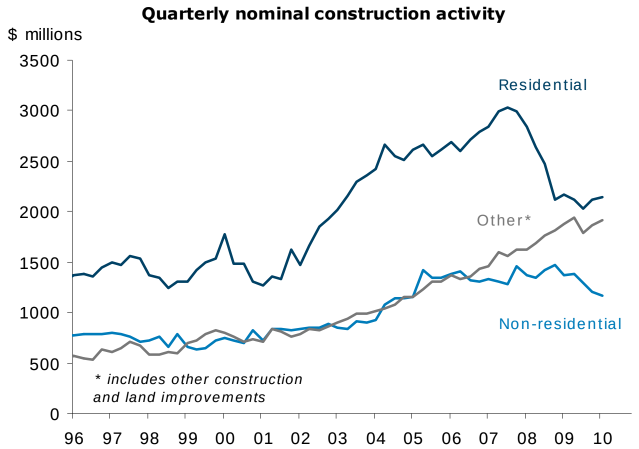
Sources: ANZ, National Bank, NZIER, Statistics NZ

FIRST INITIAL THOUGHTS

We make the following observations regarding the potential economic impact:

- **Damages have been estimated at $2 billion**, which is around 0.3 percent of the country's net capital stock. At first glance, this estimate looks light to us. In reality, it will be some time before we get a more accurate tally on the exact cost.
- **There will be an immediate negative impact on economic activity.** However, there is simply not enough information to make an informed estimate at present. Usual business activity will not be happening in the impacted areas for some time, with key areas of Christchurch non-operational. Some of this activity can be diverted to other areas. Other activities are simply being deferred for the time being (i.e. surgical procedures) while others are permanently lost (i.e education hours through temporary school closures). The Canterbury region accounts for 15 percent of national GDP (around $27 billion) and is home to 13 percent of the population, so the near-term impact will not be insignificant.
- **A more immediate concern is the impact on confidence, which has already been slipping for five months**, albeit off respectable levels. Policymakers have a key role to play here in demonstrating leadership, decisiveness and a preparedness to act. This seems to be occurring with the government committing resources and indicating a willingness to use its balance sheet for the cause.
- **We are likely to see a boost in construction activity in 2011 and into 2012.** Assuming the $2 billion figure is correct, this is around 1 percent of GDP. Chunky, **but we would caution against expecting this to filter through the broader economy.** Total annual construction work at present is around $21 billion, down from the 2008 peak of $23.7 billion. Building consent issuance is currently running around 30 percent below historical average when adjusted for the size of the population, indicating ample spare capacity, but it is not all in Canterbury. In addition, there was a void of pipeline work for non-residential construction next year, which is likely to be filled by the Canterbury earthquake reconstruction work. While on the face of it, there is certainly a lot of slack in the construction industry at present, the concentration of the work will quickly eat into it, as the physical availability of resources and the economy's capacity constraints get stretched.

CANTERBURY EARTHQUAKE IMPACT



Sources: ANZ, National Bank, Statistics NZ

- **There will be displacement effects, particularly via tourism.** International tourists spend around $0.9 billion in the Canterbury region a year, with domestic tourists spending a further $1.4 billion. In addition, Christchurch acts as the gateway for tourism into the South Island, accounting for 22 percent of all offshore arrivals. While visitors can still go to other parts of NZ, the reality is that the Canterbury region as a tourist destination will be affected for some time.
- **Small to medium-sized enterprises will be most at risk.** While the economic flow-on is generic across an array of industries, SMEs look most vulnerable as they are unlikely to have the resources to bounce back as quickly or at all. Moreover, the shock is coming at a time when balance sheets look weak in some pockets.

FINANCIAL MARKET CONSEQUENCES

We see limited longer-term financial market consequences of financing the reconstruction. We expect the interest rate impact to come via three channels.

- **The first is via the Earthquake Commission (EQC) and its activities.** It is difficult to assume how much of the $2 billion estimated loss will be covered by the EQC, but it is safe to assume that since they cover the first $100k of damage to buildings and properties, it will be the lion's share. The EQC has (via the Natural Disaster Fund) $6.1 billion of assets as at May 2010, with around 30 percent in global equities, 63 percent in NZ Government stock and 7 percent in cash. They are also reinsured, so are extremely well positioned to compensate for any losses. The claims process will also take time, and they have ample liquidity to cover claims in the near-term, bearing in mind that it will take several years for the claims process to fully run its course. It is likely that the EQC may eventually need to liquidate some of it's NZGS and equity holdings - but neither event is likely to be market moving, and we need to remember that this may be offset by reinsurance - which may even be payable to the EQC before it pays out claims. But if the EQC does need to sell its bonds, it will likely do so "off market" to the DMO. And while this implies more bond issuance, it is worth noting that DMO issuance has been ahead of schedule, and any impact will be spread out. Similarly, any sales of offshore equities will be orderly, and if anything will be a NZD positive event, as these holdings are not offshore hedged.
- **The second impact is via the insurance companies,** which will be liable for insured properties sustaining damage over $100k. Much of this cover is provided by foreign-owned companies, and as a large portion of this will be reinsured, it is not likely to lead to wholesale liquidation of NZD assets.
- **The third channel - the impact on confidence - is the most difficult to quantify.** But with the RBNZ now highly unlikely to raise rates for at least the next two meetings, there is clearly scope for the front end of the curve to move lower. Indeed, the 2 year swap yield has fallen by 5 basis points this morning.

These developments are another reason for the RBNZ to be cautious. The RBNZ has scope to look through the inflationary impact of natural disasters. When faced with significant shocks, the near-term imperative is to support confidence. It may well be that policy needs to accelerate its normalisation path further down the track. But that is precisely that – down the track in 2011 – and we have a lot of sympathy for the notion that the RBNZ does a 50 basis point hike at some stage. As we have detailed in prior weeks, taking a cautious stance now in recognition of the risks that abound must be compensated by a preparedness to act decisively later. At present, we have still pencilled in the next hike for December, but the risk is that this gets deferred until Q1 2011.

MONTHLY INFLATION GAUGE

SUMMARY

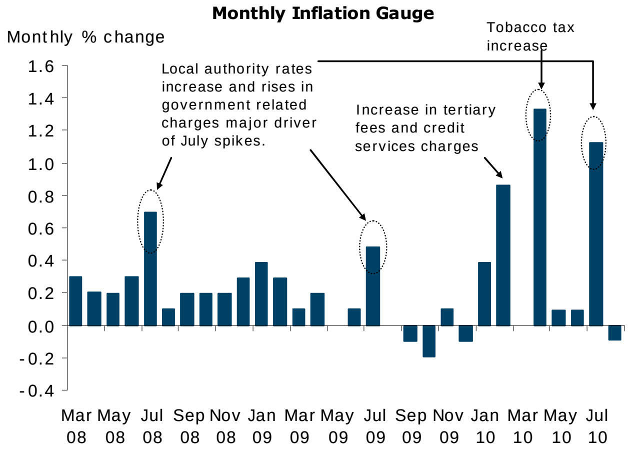
Following the government charges induced spike in July, our monthly inflation gauge posted a 0.1 percent decline in August. Price movements appear well behaved, with the odd increase being recorded. But the July spike ensures that the non-tradable CPI print for Q3 will still be sizeable.

A PULLBACK BEFORE THE NEXT SPIKE

Our Monthly Inflation Gauge is intended to provide a timely indication of broad trends in CPI non-tradable inflation. While designed to be as comparable as possible to the official quarterly non-tradable CPI, differences in methodology and coverage mean the gauge will not exactly mirror the official series. However, it is proving to be a useful indicator of the broad direction of domestic inflationary trends. In particular, it is highlighting the impact that various "one off" government related price increases have had.

After the strong 1.1 percent increase in July – which was influenced by increases in local authority rates, higher electricity prices due to the introduction of the emissions trading scheme and higher motor vehicle registration and licensing fees – our monthly inflation gauge fell by 0.1 percent in August. Only two of the eight groups we monitor recorded increases, with two seeing prices fall. Leading the charge of lower prices were the alcoholic beverages and tobacco group. In the previous month, we noted that a return to normal pricing were the reason for the price increase in July. It seems that some of the specials returned in August, especially for beer. Other notable price declines were recorded for insurance premiums and some professional services fees. Declines in the latter is most unusual, and could be a sign of price adjustments due to soft demand. On the price increase front, health costs posted increases, which is not unusual. Rents also continue to edge higher, while the cost of reading the daily newspaper has risen.

We have noted that some of the price increases that normally occur during August have not been put through – motor vehicle insurance and golf course green fees for example. We suspect that rather then reflecting a desire to hold prices down, it is more the case that with GST increases coming up, some firms are choosing to hold off making price changes until 1 October. If this is the case, then some of the price increases will reflect not only the 2.5 percent increase in GST, but other increases on top of that. If that is the case, then we can expect to see another soft read in our monthly inflation gauge in September, with the October print likely to see something more than just the GST rise. **We will be watching closely for any signs of a more generalised spill over in pricing behaviour in October and the months after.**



Source: ANZ

	Monthly Inflation Gauge (Index)	Monthly Inflation Gauge (m/m%)	Implied Inflation Gauge (q/q%)	Actual non-tradable CPI (q/q%)
Feb-08	1000			
Mar-08	1003	0.3		1.1
Apr-08	1005	0.2		
May-08	1007	0.2		
Jun-08	1010	0.3	0.6	0.9
Jul-08	1017	0.7		
Aug-08	1018	0.1		
Sep-08	1020	0.2	1.1	1.3
Oct-08	1022	0.2		
Nov-08	1024	0.2		
Dec-08	1027	0.3	0.6	0.8
Jan-09	1031	0.4		
Feb-09	1034	0.3		
Mar-09	1035	0.1	0.9	0.7
Apr-09	1037	0.2		
May-09	1037	0.0		
Jun-09	1038	0.1	0.4	0.5
Jul-09	1043	0.5		
Aug-09	1043	0.0		
Sep-09	1042	-0.1	0.5	1.0
Oct-09	1040	-0.2		
Nov-09	1041	0.1		
Dec-09	1040	-0.1	-0.2	0.1
Jan-10	1044	0.4		
Feb-10	1053	0.9		
Mar-10	1053	0.0	0.9	0.5
Apr-10	1067	1.3		
May-10	1068	0.1		
Jun-10	1069	0.1	1.7	0.6
Jul-10	1081	1.1		
Aug-10	1080	-0.1		

INTEREST RATE STRATEGY

SUMMARY

Weaker business confidence and the disruptive effect of the Canterbury earthquake have almost certainly sidelined the RBNZ for at least the next two meetings, keeping a lid on short-term interest rates. However, the long end is a completely different story, with rates moving higher as market enthusiasm for further quantitative easing (QE) in the US has waned somewhat. But while the hurdle for further QE is clearly high, we doubt the debate is over just yet, and are viewing the stiff rise in long end rates as a typical market correction.

MARKET THEMES

- The Canterbury earthquake on the weekend, while a significant loss event, is not expected to have a large impact on the market. However the impact on sentiment could be large.
- Better than expected US data and the consequent equity market rally has seen US bond yields rise. But with unemployment rising again and inflation low, QE is still a possibility.

REVIEW AND OUTLOOK

Short-term interest rates hit a cycle low last week on weaker data and as economists abandoned expectations of a RBNZ hike next week. And while short end rates remain low, they are mildly higher this week, driven by rising global interest rates, which have had a significant impact on the long end, steepening the yield curve as a consequence.

Looking to the immediate future we expect earthquake considerations to take centre stage. As we described in more detail on page 5, while this is exactly the kind of event markets tend to panic over and can be quick to judge, on this occasion we don't expect a major market reaction. Thankfully the quake occurred at a time when the city and markets were closed – saving lives and allowing the market more time to digest the news. The good news is that the EQC is well resourced to cover its liabilities, which are not only likely to be heavily reinsured, but will be spread out over several years. As such **we don't expect to see wholesale liquidation of the EQC's NZGS bond portfolio. However, we do think the earthquake has kicked any talk of RBNZ hikes into touch for now**, and that should see short end rates fall. But the big unknown is the impact the quake will have on confidence. Rebuilding Christchurch will be positive for the ailing construction sector, but it will take time, and the near term disruption could be significant. We'll be watching this closely – mindful that the region is a tourism and export hub.

Offshore considerations will also be critical. US rates have moved sharply higher (although they are still very low) and this has driven our rates higher. The big question is, is this a correction, or a fundamental change in expectations? We think it's more of the former. Indeed, ISM manufacturing data may have improved, but the ISM services data disappointed, and the US unemployment rate rose. The debate on QE is not over yet, and we may well see US rates retreat lower as the dust settles.

PREFERRED BORROWING STRATEGIES

The recent rise in long-term swap rates has been sudden and swift, and pay side flow has been significant. But with rates at unrealistically low levels (that imply an almost permanent recession), there was always scope for panic, and we have seen evidence of a mild panic. What the move does tell us is that our preferred strategy of progressively adding to hedges as rates move lower is working well, and those that have hedged will be pleased. We expect more volatility and still see value in sticking with this strategy. Indeed, we would not be surprised to see rates move lower again, opening up new opportunities.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ / OCR	↔	The quake has kicked talk of a Sep OCR rise into touch.
NZ data	↔	Confidence disappointing.
Fed Funds / front end	↓	QE still on the cards. US unemployment up at 9.6%.
RBA	↔/↑	Solid GDP shocked market.
US 10 year	↔/↓	Knee-jerk rise significant. But will it last?
NZ swap curve	↔/↓	Steepening for now, but getting stretched.
Flow	↔/↓	Corporate paying significant. But quake may see it slow.
Technicals	↔/↓	10yr need to hold below 5%

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 16-Sep-10	+5	+5
Thu 28-Oct-10	+12	+10
Thu 9-Dec-10	+17	+16
Thu 27-Jan-11	+22	+24
Thu 10-Mar-11	+27	+36
Thu 28-Apr-11	+34	+43
Thu 9-Jun-11	+47	+47

TRADING THEMES WE FAVOUR AT PRESENT

Look to instigate flatteners as momentum behind curve steepening fades. The RBNZ is on hold in the near-term, but there's not much more tightening to price out, and we still see good chances of more Fed support in the US, which will keep a lid on long end yields.

CURRENCY STRATEGY

SUMMARY

The Canterbury earthquake is obviously our main focus this week. However, New Zealand's structural and financial preparedness for such an event means we will see very little (perhaps no) negative impact on the NZD. Globally the data flow last week was generally more positive, lending support to the NZD, AUD and EUR as many perceive the world to be a better place. JPY remains quiet with intervention discussion waning.

MARKET THEMES

- Despite the earthquake, NZD to remain supported along with AUD.
- NZD/AUD cross support at 0.7800 held again. Broader range still 0.7800 - 0.8050.
- Last week's strong Australian GDP data provides more support to AUD.
- Generally positive global data releases provide support for NZD, AUD and EUR.

REVIEW AND OUTLOOK

The Canterbury earthquake is a focus for the NZD this morning but is unlikely to have a negative impact on the NZD. New Zealand is very well prepared (both structurally and financially) for natural disasters of this nature. Our focus is now on the likely NZD flows emanating from the insurance industry and the Earthquake Commission (EQC). Given reinsurance offshore by domestic insurance companies and EQC, we can expect a positive impact on the NZD as these policies are invoked and the funds flow into NZ. Further down the track the rebuilding process will result in a large fiscal stimulus to the real economy. Expect a range this week of 0.7120 to 0.7350.

Australia is inching closer to an election result which looks to be a success for the incumbents. Given the precarious nature of the government that will be cobbled together, we can expect policy inertia in Australia for an extended period. On the data front Australia continues to outperform as demonstrated by the much stronger GDP data released last week. Range 0.9100 to 0.9350.

Generally positive global data releases have provided support to the EUR. In particular positive revisions to US non-farm payrolls data in the US has the world looking a better place. While there seems less reason these days for a "risk on/risk off" trade, the market continues to trade currencies with that vane. Consequently positive US data continues to have a negative impact on USD.

On JPY discussion of intervention to weaken the JPY has waned. In a currency world that features competitive devaluation (everyone wants their currency weaker to enhance exports), the BoJ has noted that without the support (or at least blessing) of the Fed or the ECB, any intervention has a very limited chance of success.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	**DIRECTION**	**COMMENT**
Fair value	↔	Not that far off fair value.
Yield	↔	RBA on hold, RBNZ the same too.
Commodities	↔	Soft commodities performing better, lending support to NZD.
Partial indicators	↓	Australian data outperforming NZ's.
Technicals	↔	Support at 0.7800, resistance at 0.8000.
Sentiment	↔	Equities and China still influential.
Other	↑	Earthquake insurance flows to support NZD.
On balance	↔	**Range trade 0.78-0.82.**

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	↑	FOMC to hold long end down.
Commodities	↔/↑	Remain supportive overall.
Risk aversion	↑	Positive global data supporting risk-taking.
Partial indicators	↔/↓	NZ data still largely disappointing.
Technicals	↔	Support at 0.7120. Resistance at 0.7350.
AUD	↑	Australian economic data to lift.
Sentiment	↔/↓	Euro sovereign concerns starting to emerge again.
Other	↔/↑	Earthquake insurance flows to support NZD.
On balance	↔/↑	**Remains overall supported sub 0.70.**

EFFECTIVE EXCHANGE RATE UPDATE

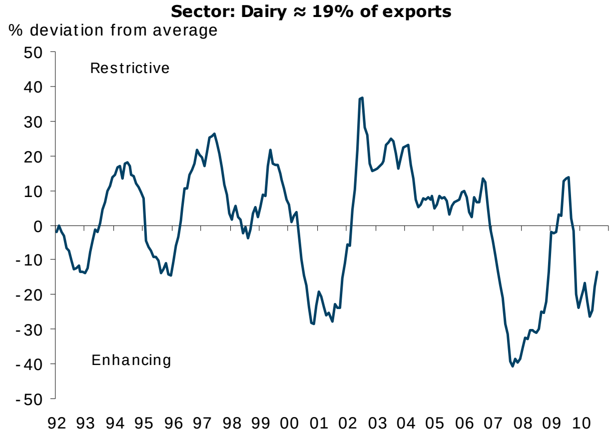
SUMMARY

Our effective exchange rate (EER) measures take into account the world prices of our exports (commodity prices in the case of commodity exporters), adjusted for currency movements based on their main destinations. Five of the eight industry groups experienced a less enhancing EER in August, mostly due to lower export commodity prices. The largest declines in competitiveness were for dairy and horticulture products. Sizeable disparities in trading conditions for our major export groups remain, with conditions in enhancing territory for meat, dairying and seafood. However the EER is in restrictive territory for the other five groups.

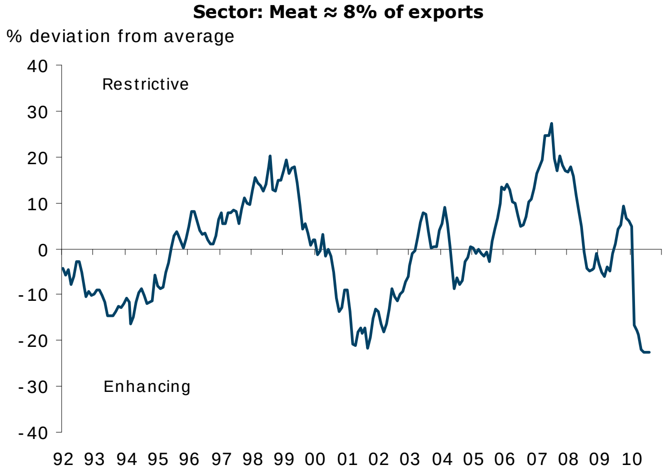
LOWER COMMODITY PRICES CONTRIBUTE TO REDUCED COMPETITIVENESS

Five of the eight industry groups experienced a less enhancing exchange rate in August. Lower commodity prices for dairy products (down 4 percent), horticultural products (down 3 percent), forestry products (down 3 percent), and crude (down 4 percent) resulted in deteriorating competitiveness for these sectors, whereas a strengthening in the NZD against the euro resulted in reduced competitiveness for seafood exports. **Currency movements were largely offsetting. The NZD fell by roughly 2 percent against the Australian dollar, pound and yen, but rose by 0.6 percent against the USD and by 4.6 percent against the euro.**

Sizeable disparities in trading conditions are evident in the various export groups. Conditions are in enhancing territory for three of the groups we monitor namely dairy, meat and seafood. However, conditions are in restrictive territory for five of the eight groups, most evidently for horticulture and crude. These disparities show little signs of closing, notwithstanding recent falls to dairy export prices. The significant improvement in competitiveness for meat exports in recent months mostly reflects sizeable price increases for skins, although venison prices rose sharply in August. Conversely, weakness in horticultural export prices and a stronger NZD/EUR has contributed to declining competitiveness for that sector. With the NZD/USD remaining above 70 cents but commodity export prices 3.7 percent off their May highs, the buffering role of the exchange rate is becoming less evident.



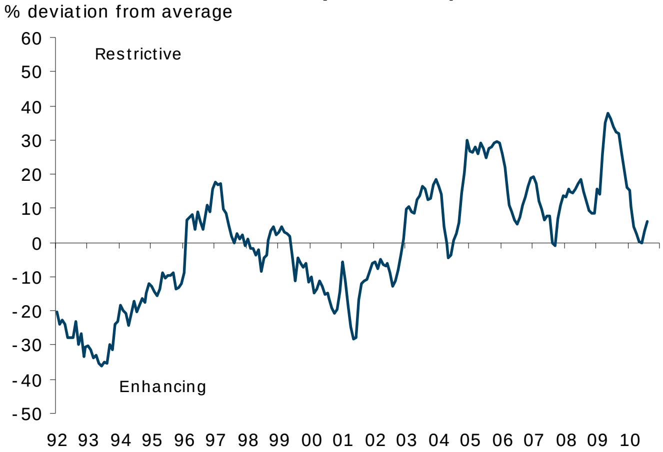
Sources: ANZ, Bloomberg, Statistics NZ



Sources: ANZ, Bloomberg, Statistics NZ

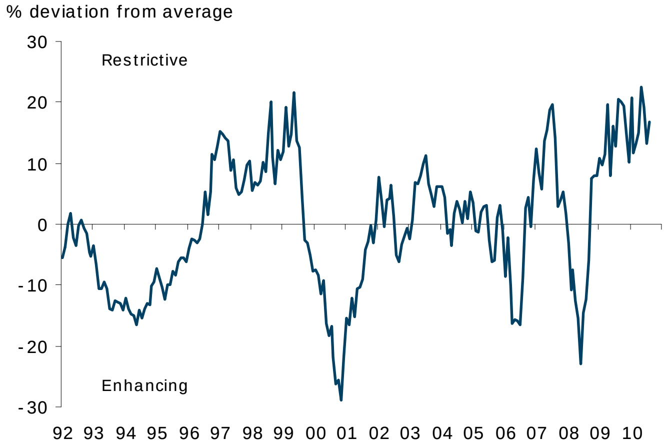
EFFECTIVE EXCHANGE RATE UPDATE

Sector: Forestry ≈ 9% of exports



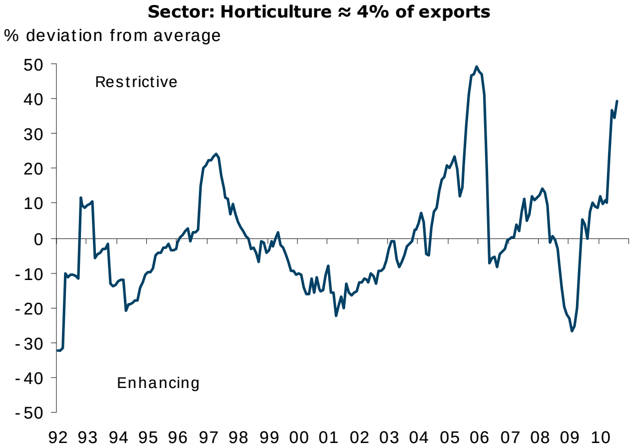
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Crude ≈ 5% of exports



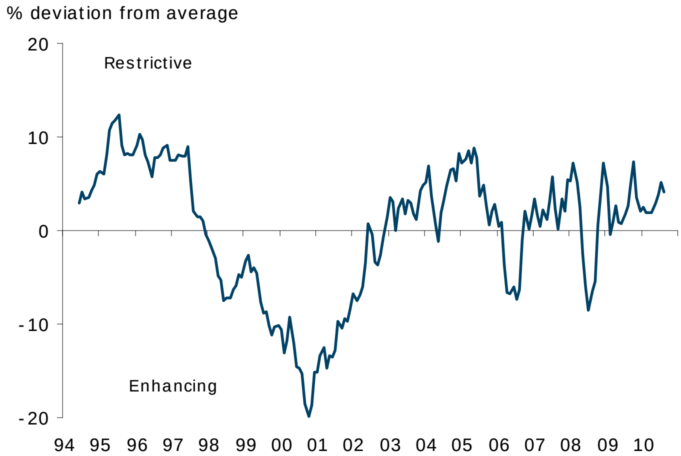
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Horticulture ≈ 4% of exports



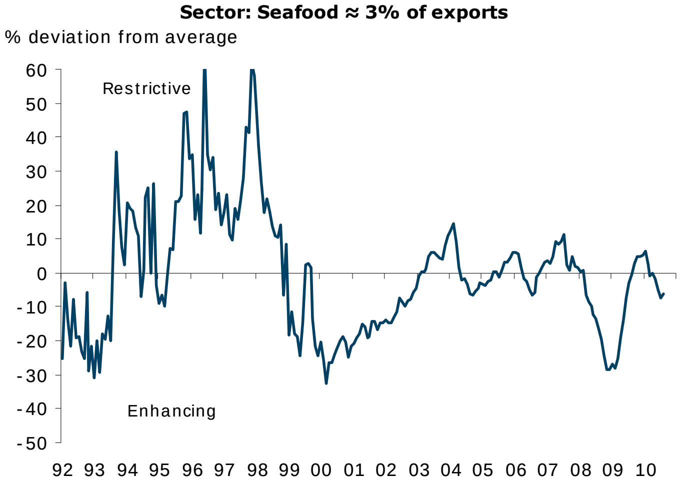
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Manufacturing ≈ 20% of exports



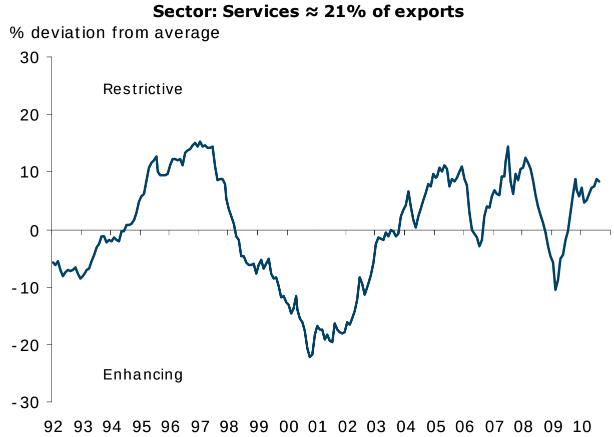
Sources: ANZ, Bloomberg, Statistics NZ

Sector: Seafood ≈ 3% of exports



Sources: ANZ, Bloomberg, Statistics NZ

Sector: Services ≈ 21% of exports



Sources: ANZ, Bloomberg, Statistics NZ

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
6-Sep	AU	TD Securities Inflation MoM% - AUG	- -	0.10%	12:30
	AU	TD Securities Inflation YoY% - AUG	- -	2.80%	12:30
	AU	ANZ Job Advertisements (MoM) - AUG	- -	1.30%	13:30
	JN	BoJ Monetary Policy Meeting - SEP	- -	- -	16:00
7-Sep	CH	China Manpower Survey - 4Q	- -	27%	04:01
	UK	BRC August Retail Sales Monitor - SEP	- -	- -	11:01
	AU	AiG Perf of Construction Index - AUG	- -	43.3	11:30
	JN	Official Reserve Assets - AUG	- -	$1063.5B	11:50
	AU	RBA CASH TARGET - SEP	4.50%	4.50%	16:30
	JN	Leading Index CI - JUL P	98.2	99	17:00
	JN	Coincident Index CI - JUL P	101.8	101.3	17:00
	GE	Factory Orders MoM (sa) - JUL	0.50%	3.20%	22:00
	JN	BOJ Target Rate - SEP	0.10%	0.10%	22:00
8-Sep	**NZ**	**Manufacturing Activity - 2Q**	**- -**	**0.90%**	**10:45**
	JN	Japan Money Stock M3 YoY - AUG	1.90%	2.00%	11:50
	JN	Machine Orders (MoM) - JUL	2.00%	1.60%	11:50
	JN	Current Account Total - JUL	¥1534.6B	¥1047.1B	11:50
	JN	Trade Balance (BoP Basis) - JUL	¥865.0B	¥769.0B	11:50
	AU	Home Loans - JUL	1.00%	-3.90%	13:30
	GE	Trade Balance - JUL	13.0B	14.1B	18:00
	GE	Current Account (EURO) - JUL	11.5B	12.9B	18:00
	UK	Industrial Production (MoM) - JUL	0.40%	-0.50%	20:30
	UK	Manufacturing Production (MoM) - JUL	0.30%	0.30%	20:30
	GE	Industrial Production MoM (sa) - JUL	1.00%	-0.60%	22:00
9-Sep	**NZ**	**QV House Prices YoY% - AUG**	**- -**	**4.10%**	**00:00**
	UK	NIESR GDP Estimate - AUG	- -	0.90%	- -
	US	Fed's Beige Book - SEP	- -	- -	06:00
	US	Consumer Credit - JUL	-$4.3B	-$1.3B	07:00
	NZ	**NZ Card Spending (MoM) - AUG**	**- -**	**-0.1**	**10:45**
	AU	Employment Change - AUG	25.0K	23.5K	13:30
	AU	Unemployment Rate - AUG	5.20%	5.30%	13:30
	AU	Full Time Employment Change - AUG	- -	-4.2K	13:30
	AU	Part Time Employment Change - AUG	- -	27.7K	13:30
	AU	Participation Rate - AUG	65.50%	65.50%	13:30
	JN	Consumer Confidence - AUG	- -	43.4	17:00
	GE	Consumer Price Index (MoM) - AUG F	0.00%	0.00%	18:00
	GE	CPI - EU Harmonised (MoM) - AUG F	0.00%	0.00%	18:00
	GE	CPI - EU Harmonised (YoY) - AUG F	0.90%	0.90%	18:00
	EC	ECB Publishes Sept. Monthly Report - SEP	- -	- -	20:00
	UK	Visible Trade Balance GBP/Mn - JUL	-£7500	-£7401	20:30
	UK	Trade Balance Non EU GBP/Mn - JUL	-£4300	-£4262	20:30
	UK	Total Trade Balance (GBP/Mln) - JUL	-£3300	-£3260	20:30
	UK	BOE Asset Purchase Target - SEP	200B	200B	23:00
	UK	BOE ANNOUNCES RATES - 40057	0.50%	0.50%	23:00
10-Sep	US	Trade Balance - JUL	-$47.0B	-$49.9B	00:30
	US	Initial Jobless Claims - 4 SEP	470K	472K	00:30
	US	Continuing Claims - 28 AUG	4445K	4456K	00:30
	NZ	**Terms of Trade Index (QoQ) - 2Q**	**- -**	**5.90%**	**10:45**

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
	JN	Gross Domestic Product (QoQ) - 2Q F	0.40%	0.10%	11:50
	CH	Trade Balance (USD) - AUG	$26.80B	$28.73B	- -
	AU	Foreign Reserves - AUG	- -	47.5B	18:30
	UK	PPI Input NSA (YoY) - AUG	8.90%	10.80%	20:30
	UK	PPI Output n.s.a. (YoY) - AUG	4.80%	5.00%	20:30
	UK	PPI Output Core NSA (YoY) - AUG	4.60%	4.70%	20:30
	JN	Cabinet Office Monthly Economic Report - AUG	- -	- -	- -
	CH	Exports YoY% - AUG	34.50%	38.10%	- -
	CH	Imports YoY% - AUG	27.00%	22.70%	- -
11-Sep	US	Wholesale Inventories - JUL	0.40%	0.10%	02:00

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

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

Note: All surveys are preliminary and subject to change.

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: Last week's data showed further moderation in business sentiment, with commodity prices continuing their downward trend. It wasn't all bad news though, with the trade data hinting at a recovery in business spending and the *global*DairyTrade auction showing a sizeable bounce in whole milk powder prices. This week's data includes many of the partial indicators for Q2 GDP, which we expect will confirm a respectable expansion. Data readings for Q3 should highlight moderate expansion, and we will closely watch the soft gauges for signs of direction beyond that.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Tue 7 Sep (10:45am)	SNZ Wholesale Trade Survey – Q2	Improving	Rising motor vehicle registrations and higher Q2 retail sales suggest a further climb in wholesale sales. Wholesale stocks are expected to continue climbing from their mid-2009 nadir.
Wed 8 Sep (10:45am)	SNZ Value of Work put in place -Q2	Heading down	Residential work put in place volumes are expected to register a further small increase. Reflecting low consent issuance, non-residential work is expected to contract by around 5 percent.
Wed 8 Sep (10:45am)	SNZ Economic Survey of Manufacturing – Q2	Dry weather effect	We expect around a 1 to 1.5 percent increase in ex-primary volumes. Primary manufacturing volumes are anticipated to be weighed down by lower dairy production.
Thur 9 Sep (10:45am)	SNZ Electronic Card Transactions - Aug	Rising	Stronger July core spending suggests retailing is finding its feet, although households remain cautious. The weakness on fuel retailing is suspicious. Still waiting for a tangible Rugby World Cup effect.
Fri 10 Sep (10:45am)	Overseas Trade Indexes – Q2	Still on the up	The terms of trade are expected to rise by 4 percent, driven by a 5 percent increase in export prices. Import volumes to increase by roughly 4 percent, twice the increase for exports.
Mon 13 Sep (10:45am)	Food Price Index - Aug	Easing	Weather related price increases have been evident in the past few months as have lagged-commodity price increases for dairy and meat. We expect some reversal of this.
Tue 14 Sep (10:00am)	REINZ Housing Market Statistics – Aug	Flat	The stand-off between buyers and sellers is likely to continue, with only a small increase in sales volumes expected to eventuate. Prices are expected to remain flat to falling.
Tue 14 Sep (10:45am)	Retail Trade Survey – Jul	Flat	The June report highlighted more vigour. Retail indicators suggest the possibility of a slight pullback in July. The spirit remains of a strengthening trend in retail spending till October, followed by a period of consolidation.
Tue 21 Sep (10:45am)	International Travel and Migration - Aug	Up	Last month's 1,000 net inflow was a welcome development. We expect a similarly sized inflow but risks of a pick-up in departures (after last month's fall) point to a smaller net inflow.
Tue 21 Sep (10:45am)	RBNZ Credit Card Billings - Aug	Improving	We expect a 1 percent increase in billings, partly reversing the lower July. Retail spending is still not off to the races.
Wed 22 Sep (10:45am)	Balance of Payments – Q2	Back to usual	Despite a large trade surplus we expect a large investment income deficit to deliver a quarterly deficit. The annual deficit is expected to climb to 3.7 percent of GDP.
Fri 24 Sep (10:45am)	Gross Domestic Product – Q2	Respectable	We expect a 0.7 percent increase. Lower primary sector production to be offset by firming services output.
Wed 29 Sep (10:45am)	Overseas Merchandise Trade - Aug	In the red	We expect a monthly deficit of $400m. Seasonal factors, a higher NZD/USD, and lower commodity prices should weigh on export values. The annual trade surplus should climb to $900m.
Wed 29 Sep (3:00pm)	RBNZ Credit Aggregates - Aug	Subdued	Deleveraging is ongoing with the subdued housing market likely to keep housing credit growth low.
Thur 30 Sep (10:45am)	Building Consents - Aug	Rising	Some reversal of the July fall in ex-apartment consents is expected. The key will be whether non-residential consents maintain recent vigour.
On Balance		**Building**	**Recovery continuing but signs of momentum easing.**

ECONOMIC FORECASTS AND INDICATORS

	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
GDP (% qoq)	0.3	0.9	0.6	**0.7**	**1.5**	**-0.1**	**1.1**	**1.3**	**1.6**	**0.5**
GDP (% yoy)	-1.5	0.5	1.9	**2.5**	**3.7**	**2.7**	**3.2**	**3.9**	**4.0**	**4.6**
CPI (% qoq)	1.3	-0.2	0.4	0.3	**1.1**	**2.8**	**0.6**	**1.0**	**0.8**	**0.5**
CPI (% yoy)	1.7	2.0	2.0	1.8	**1.6**	**4.6**	**4.8**	**5.6**	**5.3**	**3.0**
Employment (% qoq)	-0.8	0.0	1.0	-0.3	**0.5**	**0.4**	**0.6**	**0.7**	**0.6**	**0.4**
Employment (% yoy)	-1.8	-2.4	-0.1	0.0	**1.3**	**1.6**	**1.2**	**2.2**	**2.3**	**2.3**
Unemployment Rate (% sa)	6.5	7.1	6.0	6.8	**6.6**	**6.4**	**6.1**	**5.7**	**5.5**	**5.4**
Current Account (% GDP)	-3.2	-2.9	-2.4	**-2.9**	**-3.7**	**-2.8**	**-3.0**	**-3.1**	**-2.9**	**-2.9**
Terms of Trade (% qoq)	-1.6	5.8	5.8	**3.9**	**2.4**	**1.0**	**-0.6**	**-0.6**	**0.1**	**-1.0**
Terms of Trade (% yoy)	-14.1	-8.2	-0.2	**14.4**	**19.1**	**13.7**	**6.8**	**2.2**	**-0.2**	**-2.0**

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10
Retail Sales (% mom)	0.7	-0.5	0.7	-0.6	0.5	-0.3	0.4	0.9	..	..
Retail Sales (% yoy)	2.4	2.0	2.3	2.4	4.4	2.7	1.9	3.4	..	..
Credit Card Billings (% mom)	0.8	-1.2	1.6	-0.2	0.8	-1.7	1.9	1.0	-1.2	..
Credit Card Billings (% yoy)	1.6	1.9	2.6	1.1	5.2	0.8	3.4	4.4	2.7	..
Car Registrations (% mom)	2.3	6.8	-0.6	0.4	5.2	2.9	-3.8	5.6	-6.4	-0.2
Car Registrations (% yoy)	2.4	0.3	15.9	31.4	31.7	40.5	30.5	35.8	16.0	19.0
Building Consents (% mom)	0.8	-3.7	-2.7	6.1	-0.3	8.5	-9.2	3.3	3.2	..
Building Consents (% yoy)	20.3	22.7	35.4	29.9	33.3	32.0	11.1	27.9	26.5	..
REINZ House Price (% yoy)	5.2	9.6	7.7	6.1	7.6	4.7	3.7	3.7	2.6	..
Household Lending Growth (% mom)	0.0	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	..
Household Lending Growth (% yoy)	2.7	2.7	2.7	2.7	2.8	2.7	2.5	2.5	2.3	..
ANZ-Roy Morgan Consumer Confidence	121.5	118.6	131.4	123.6	121.8	121.9	126.0	122.0	115.6	116.3
NBNZ Business Confidence	43.4	38.5	..	50.1	42.5	49.5	48.2	40.2	27.9	16.4
NBNZ Own Activity Outlook	33.7	36.9	..	41.9	38.6	43.0	45.3	38.5	32.4	25.7
Trade Balance ($m)	-280	-26	271	328	608	660	765	214	-186	..
Trade Balance ($m annual)	-863	-549	-176	-330	-160	178	37	581	573	..
ANZ World Commodity Price Index (% mom)	11.0	2.5	0.3	3.7	1.8	5.1	1.2	-1.6	-0.8	-1.4
ANZ World Commodity Price Index (% yoy)	17.8	30.4	36.7	48.6	49.5	53.2	51.8	50.1	47.3	38.6
Net Migration (sa)	1750	1690	1840	1000	950	760	300	140	970	..
Net Migration (annual)	20021	21253	22588	21618	20973	19954	17967	16504	15221	..

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	Jul-10	Aug-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZD/USD	0.726	0.699	0.719	0.710	0.720	0.730	0.730	0.720	0.710	0.700
NZD/AUD	0.802	0.785	0.786	0.789	0.783	0.777	0.777	0.783	0.789	0.795
NZD/EUR	0.556	0.551	0.558	0.592	0.600	0.608	0.608	0.610	0.602	0.583
NZD/JPY	62.78	58.86	60.70	58.22	62.64	64.97	67.16	67.68	69.58	70.00
NZD/GBP	0.463	0.455	0.465	0.458	0.459	0.465	0.474	0.462	0.449	0.432
NZ$ TWI	67.5	65.5	66.7	67.1	68.3	69.2	69.6	69.4	69.2	68.3
INTEREST RATES	Jul-10	Aug-10	Today	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12
NZ OCR	3.00	3.00	3.00	3.25	3.50	4.00	4.50	5.00	5.50	5.50
NZ 90 day bill	3.27	3.21	3.20	3.50	3.90	4.40	4.90	5.40	5.80	5.80
NZ 10-yr bond	5.33	5.13	5.38	5.50	5.60	5.80	6.20	6.20	6.10	6.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	0.75	1.25	1.75
US 3-mth	0.45	0.30	0.29	0.35	0.35	0.35	0.60	0.85	1.35	1.85
AU Cash Rate	4.50	4.50	4.50	5.00	5.25	5.50	5.75	6.00	6.00	6.00
AU 3-mth	4.78	4.75	4.72	5.30	5.60	6.00	6.00	6.20	6.10	6.10

	3 Aug	30 Aug	31 Aug	1 Sep	2 Sep	3 Sep
Official Cash Rate	3.00	3.00	3.00	3.00	3.00	3.00
90 day bank bill	3.30	3.26	3.24	3.23	3.22	3.21
NZGB 11/11	3.67	3.59	3.55	3.62	3.65	3.69
NZGB 04/13	4.15	3.99	3.96	4.03	4.06	4.10
NZGB 12/17	5.06	4.84	4.83	4.91	4.95	4.99
NZGB 05/21	5.36	5.15	5.14	5.22	5.26	5.29
2 year swap	4.03	3.78	3.78	3.73	3.76	3.80
5 year swap	4.68	4.28	4.28	4.30	4.35	4.40
RBNZ TWI	67.7	66.5	65.8	65.7	66.4	66.4
NZD/USD	0.7324	0.7105	0.7025	0.7026	0.7132	0.7139
NZD/AUD	0.8049	0.7905	0.7867	0.7818	0.7865	0.7865
NZD/JPY	63.26	60.70	59.16	59.31	60.04	60.19
NZD/GBP	0.4613	0.4574	0.4544	0.4565	0.4618	0.4631
NZD/EUR	0.5562	0.5576	0.5552	0.5530	0.5575	0.5569
AUD/USD	0.9099	0.8988	0.8930	0.8987	0.9068	0.9077
EUR/USD	1.3168	1.2741	1.2652	1.2705	1.2793	1.2820
USD/JPY	86.37	85.43	84.22	84.42	84.18	84.31
GBP/USD	1.5877	1.5534	1.5460	1.5392	1.5444	1.5416
Oil (US$/bbl)	81.25	75.17	74.69	71.93	73.97	74.99
Gold (US$/oz)	1182.10	1236.00	1235.60	1247.90	1246.35	1251.63
Electricity (Haywards)	5.63	3.91	2.85	3.50	4.47	5.05
Milk futures (US$/contract)	117	116	116	116	116	120
Baltic Dry Freight Index	1964	..	2713	2741	2835	2876

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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.
- ING (NZ) Holdings Limited (ING), as a wholly owned subsidiary of the Bank, is an associated person of the Bank. ING and its related companies, including ING (NZ) Limited, 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;

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- 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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