INTEREST RATE STRATEGY
NEW ZEALAND CREDIT FOCUS

11 October 2011

INSIDE

CONTRIBUTORS

David Croy
Senior Interest Rate Strategist
Telephone: +64 4 576 1022
E-mail: dc@anz.com

Kerry Duce
Senior Credit Strategist
Telephone: +61 2 9227 1101
E-mail: kerry.duce@anz.com

CONTACTS

Dean Spicer
Head of Debt Capital Markets
Telephone: +64 4 381 9884
E-mail: dean.spicer@anz.com

Ben Petro
Director, Credit Trading and Sales
Telephone: +64 4 473 4128
E-mail: ben.petro@anz.com

Steve Dundon
Director, Credit Sales
Telephone: +64 4 494 8587
E-mail: steven.dundon@anz.com

Glen Sorensen
Director, Syndicate
Telephone: +64 4 576 1029
E-mail: glen.sorensen@anz.com

Jason Green
Associate Director, Debt Capital Markets
Telephone: +64 4 802 2376
E-mail: jason.green@anz.com

Simon Eckhoff
Dealer, Credit Trading and Sales
Telephone: +64 4 439 2475
E-mail: simon.eckhoff@anz.com

"DANGEROUS NEW PHASE"

SEPTEMBER IN REVIEW

The sovereign debt crisis intensified in Europe as the IMF/ECB/EU troika delayed payment of the September's €8bn tranche of bailout funds promised to Greece. The highlight in the US was the Fed's decision to embark on Operation Twist, while in Switzerland it was the decision to draw a line in the sand at 1.20 on EURCHF. The Rugby World Cup was the highlight of the NZ calendar, while credit rating downgrades by Fitch Ratings and Standard & Poor's were the low points.

ECONOMIC AND MARKET BACKDROP

The New Zealand economy is showing resilience against a slowing global backdrop. While we are in no doubt global policymakers will do whatever it takes to address liquidity issues across the system, question marks surround the required steps to demonstrate fiscal solvency amid a backdrop of growing social unrest and potential adverse feedback loops between the European banking system and government debt. We still see growth for New Zealand, but of the slow hard grind variety.

PERFORMANCE MONITOR

All domestic asset classes we monitor posted gains in September, led by the All Swap Index. Equities performed the worst, but still managed to post positive returns, in contrast with global indices. Although the Government Bond Index was the best performing index over the quarter, the dramatic narrowing in swap spreads saw Govt Bond and Swap returns diverge markedly over the month.

FEATURE ARTICLE: THE IMPACT OF GLOBAL RISKS ON AUSTRALASIA

Global markets continue to be buffeted by a combination of heightened financial risk emanating from Eurozone sovereign and bank (crisis) risk, and a continued loss of global economic momentum. In what follows, we dimension both these risks and assess the implications for our region.

SWAP AND BASIS SWAP SPREAD UPDATE

Swap spreads have narrowed sharply since mid-August, stabilising around flat. Looking ahead, we expect spreads to normalise as bond and swap spreads move lower in tandem, with NZGS outperforming. By contrast, basis swap spreads are likely to be biased lower by a lack of offshore funding deals and a pickup in kauri issuance.

GOVERNMENT BOND TENDER WATCH

The DMO tendered $2.175bn of bonds in September, the largest monthly total since April. This brings total issuance for the first 3 months of the fiscal year to $3.775bn, putting the issuance "run rate" back on track, assuming a $13.5bn funding requirement. However, it is likely that the funding requirement will need to be increased at the PREFU, reflecting EQC cost increases and slower growth. Although the market is likely to be nervous ahead of the PREFU, it feels like much of the bad news is priced in.

SEPTEMBER IN REVIEW

SUMMARY

The sovereign debt crisis intensified in Europe as the IMF/ECB/EU troika delayed payment of the September's €8bn tranche of bailout funds promised to Greece. The highlight in the US was the Fed's decision to embark on Operation Twist, while in Switzerland it was the decision to draw a line in the sand at 1.20 on EURCHF. The Rugby World Cup was the highlight of the NZ calendar, while credit rating downgrades by Fitch Ratings and Standard & Poor's were the low points.

MAJOR GLOBAL EVENTS (IN CHRONOLOGICAL ORDER)

- The US ISM Manufacturing survey held above the key 50 level in August, defying expectations of a slump following a string of soft regional Fed surveys.
- US employment ground to a halt in August, with non-farm payrolls coming in at zero. The unemployment rate held steady at 9.1%.
- The US Federal Housing Finance Agency said it would sue 17 major banks for losses on MBS securities. The FHFA alleges that the banks misled investors about the quality of the underlying mortgage assets.
- Annoyed at the strength of the CHF, the Swiss National Bank took the unusual step of announcing a "maximum rate" for EURCHF. In a statement, the SNB said "The current massive overvaluation of the Swiss franc poses an acute threat to the Swiss economy and carries the risk of a deflationary development". They went on to say "The Swiss National Bank (SNB) is therefore aiming for a substantial and sustained weakening of the Swiss franc. With immediate effect, it will no longer tolerate a EURCHF exchange rate below the minimum of CHF 1.20. The SNB will enforce this minimum rate with the utmost determination and is prepared to buy foreign currency in unlimited quantities", adding "even at a rate of CHF 1.20 per euro, the Swiss franc is still high and should continue to weaken over time. If the economic outlook and deflationary risks so require, the SNB will take further measures".
- The Bank of England left the Bank Rate unchanged at 0.5% and maintained their asset purchase plan at £200bn. The minutes revealed that "for most members, the decision of whether to embark on further monetary easing at this meeting was finely balanced since the weakness and stresses of the past month had significantly strengthened the case for an immediate resumption of asset purchases. For some members, a continuation of the conditions seen over the past month would probably be sufficient to justify an expansion of the asset purchase programme at a subsequent meeting".
- The ECB maintained its key policy rate unchanged at 0.5%. The tone of ECB President Jean-Claude Trichet's opening statement was softer than in August. Notably, the ECB shifted to a neutral policy stance from its previous tightening bias.
- US President Obama announced the proposed American Jobs Act, a $447bn plan aimed at boosting employment. The plan (yet to be voted in) included cuts in payroll tax and employment incentives being funded with tax increases for wealthy individuals and corporations.
- French President Sarkozy and German Chancellor Merkel had a conference call with Greek PM Papandreou, and vowed to support

SEPTEMBER IN REVIEW

Greece, with the French statement noting that they "are convinced that the future of Greece is in the euro zone". During the call, Merkel and Sarkozy also stressed that Greece must adhere strictly to the austerity pledge it made as part of the bailout. A spokesperson for Merkel said that "that is a prerequisite for the payment of future tranches of the program", adding that "the Greek prime minister has reaffirmed the absolute determination of his government to take all necessary measures to put into practice given commitments in its entirety".

- US Treasury Secretary Geithner travelled to Poland to attend the Economic and Financial Affairs Council (Ecofin) meeting. Citing unnamed EU officials, media sources suggested that Geithner would 'float an idea to the Europeans of leveraging the EFSF along the lines of the US TALF programme'. However, it was reported afterward that the Europeans politely declined Mr Geithner's advice.
- The ECB, BoE, SNB, BoJ and the Fed announced enhanced measures to boost liquidity following fears that European banks were struggling to get funds over the year-end "turn". Three USD tenders will be held in October, November and December. Each fixed-rate tender will be at a term of around three months with full allotment.
- A rogue trader at UBS, Switzerland's largest bank racked up at least $2bn trading loss from unauthorised trading. The loss was subsequently revised up to $2.3bn. London police said they had arrested a 31 year old man in connection with the incident, which UBS warned could wipe out Q3 profits.
- US President Barack Obama unveiled a plan to cut the deficit by US$3 trillion over ten years, with half of those savings via higher taxes on the wealthy. The plan has yet to get support from the Republican-controlled Congress.
- Speaking at a press conference in Washington, IMF chief economist Olivier Blanchard warned that the world economy had entered what he called a "dangerous new phase".
- The US Federal Reserve announced that it would replace $400bn of shorter dated bonds with bonds with maturities between 6 and 30 years. The plan, dubbed "operation twist" by the market, was at least as large as the market was expecting, and saw Treasury bond yields fall to record lows.
- In an open letter to France, the chair of this year's G20, and the leaders of Australia, Canada, Indonesia, Britain, Mexico, South Africa and South Korea wrote "Euro zone governments and institutions must act swiftly to resolve the euro crisis and all European economies must confront the debt overhang to prevent contagion to the wider global economy".
- The EU said it was proposing a financial transactions tax from January 2014 that would raise €57bn a year. Stock and bond trades would be taxed at 0.1%, with derivatives taxed at 0.01%. All EU states will need to approve the plan, with Britain already stating it will only support it if it is implemented globally.

SEPTEMBER IN REVIEW

MAJOR NZ EVENTS (IN CHRONOLOGICAL ORDER)

- Finance Minister Bill English said that a High Court ruling that established that the EQC was liable for multiple claims on any one property as a result of separate earthquakes may add $1bn to the EQC's liability. However, he did say "I'd like to think that would be a worst case, about a billion, but EQC are sorting through the costs now".
- Prices at the mid September GlobalDairyTrade auction fell 1.4% on average compared to the previous event.
- The Rugby World Cup kicked off on September 9th, with the All Blacks opening against Tonga at Eden Park. The RBNZ had earlier estimated that the international visitors here for the tournament would spend up to $700m on local goods and services.
- The Reserve Bank left the OCR unchanged at the September *Monetary Policy Statement*, as expected, citing global economic uncertainty as grounds for caution. The Bank also removed any references to the 50bp rate cut in March, which had hitherto been described as an "insurance" cut, conveying the impression that it was temporary. The Bank also substantially downgraded its 90 day bank bill projections, which are now consistent with the OCR peaking at around 4.00%.
- Prices at the mid-September GlobalDairyTrade auction fell 2.1% on average compared to the previous event. This was the seventh consecutive decline with the weighted auction price down more than 18% since early June.
- Fitch Ratings downgraded New Zealand's long term foreign currency credit rating by a notch to AA, citing high levels of external debt as a "key vulnerability". The agency also cited high household indebtedness and eroding public finance as contributing factors.
- Standard & Poor's followed suit later the same day, downgrading New Zealand to AA and placing it on stable outlook. S&P also cited external imbalances. By contrast, Moody's (who look only at the public sector) affirmed its AAA rating and stable outlook.
- National Bank Business Confidence slipped 4 points in September, taking the index to +30. The key own activity measure fell further, from +43 to +35. Although this is a large fall, the activity outlook measure is still well above the historic average of +23. Inflation expectations also fell.

SEPTEMBER IN REVIEW

ISSUANCE

Issuance over the Previous Month (in chronological order)					
Issuer	Issue Rating	Amount	Coupon / Yield	Tenor	Spread
ANZ	AA	$125m	6.08%	7.0 yrs	Swap +180
Nordic Investment Bank (NIB)	AAA	$125m	FRN	10.0 yrs	Swap +40
Rentenbank	AAA	$75m	FRN	7.0 yrs	BKBM +72.5
Air New Zealand	Unrated	$150m	6.90%	5.2 yrs	Swap +270

UPCOMING MATURITIES (UP TO OCTOBER)

Details of Forthcoming Bond Maturities				
Issuer	Rating	Maturity	Coupon %	Amount
Dunedin City Treasury	AA	17/10/2011	FRN	$30m
Watercare Services	AA-	19/10/2011	6.86%	$50m
Auckland Council	AA	15/11/2011	8.50%	$125m
NZ Post	AA-	15/11/2011	7.10%	$100m
Rentenbank	AAA	15/11/2011	6.69%	$160m
Council of Europe Development Bank (COE)	AAA	15/11/2011	7.75%	$375m
Telstra	A	24/11/2011	6.99%	$100m
Hamilton City Council	AA-	15/12/2011	FRN	$25m
Westpac	AA-	19/12/2011	7.24%	$200m

NOTABLE RATINGS ACTIONS*

- **September 5** – Fitch affirms **Southland Building Society's** (SBS) Long Term Foreign and Local Currency ratings at 'BBB' and at the same time affirmed the issuer's other ratings, with a stable outlook. The affirmation reflects SBS's resilient and robust pre-impairment operating profitability, conservative risk management and ability to access and retain retail funding.

- **September 12** – After completing its counterparty criteria review Fitch ratings said that there is no rating impact on New Zealand mortgage **covered bonds** issued by **Bank of New Zealand** and **Westpac New Zealand** as well as no impact on the expected rating for the covered bonds to be issued by **ANZ National Bank Limited**.

- **September 20** – S&P raised its ratings on Auckland based utility **Watercare Services Ltd** to 'AA-/A-1+' from 'A/A-1'; the outlook is stable. The revision reflects S&P's view that the likelihood of sufficient and timely extraordinary support from Auckland Council is extremely high if Watercare were to experience financial distress.

SEPTEMBER IN REVIEW

- **September 29** – A.M Best Co. downgraded **Ansvar Insurance Limited** (New Zealand) financial strength to B++ (good) from A- and its issuer credit rating to 'BBB' from 'A-'. Both ratings have been placed on review with negative implications. The rating reflects the company's weakened risk-adjusted capitalisation and its significantly higher levels of reinsurance recoverables following the Christchurch earthquakes.
- **September 29** – S&P assigned a provisional rating of 'A-' to **Auckland International Airport's** (AIAL; A-/Stable/A-2) proposed issuance of NZ$100 million six year fixed-rate bonds. Once issued the bonds will rank *pari passu* with other senior unsecured debt issued by AIAL with the proceeds expected to be used partly to refinance debt maturing in January 2012.
- **September 30** – S&P lowered ratings on seven New Zealand local and regional governments and government-related entities following the lowering of the long-term foreign currency ratings on the New Zealand sovereign to 'AA' from 'AA+' and the long-term local currency ratings to 'AA+' from 'AAA'.
  - **New Plymouth District Council** – Long term foreign and local ratings lowered to 'AA' from 'AA+'. Outlook for both is stable.
  - **Wellington City Council** – Local currency rating lowered to 'AA' from 'AA+', stable outlook
  - **Auckland District Health Board, Counties Manukau District Health Board, Housing New Zealand Corporation** and **Housing New Zealand Ltd** - Long-term foreign currency rating lowered to 'AA' from 'AA+', long-term local currency rating lowered to 'AA+' from 'AAA'. Outlook on foreign currency rating for the four above is stable.
  - **Earthquake Commission** – Longer term local currency rating lowered to 'AA+' from 'AAA'. The outlook is stable.
- **September 30** – S&P lowered **Transpower New Zealand Ltd** long-term corporate credit rating to 'AA-' from 'AA' following the downgrade of its owner the New Zealand government. The outlook for Transpower's rating is stable. The 'AA-' rating reflects their view that there is a very high likelihood that timely and sufficient support from the Crown would be forthcoming if Transpower were to experience financial distress.

** Sources: Bloomberg, Reuters, Standard & Poor's RatingsDirect, Moody's, Fitch Ratings, ANZ.*

ECONOMIC AND MARKET BACKDROP

SUMMARY

The New Zealand economy is showing resilience against a slowing global backdrop. While we are in no doubt global policymakers will do whatever it takes to address liquidity issues across the system, question marks surround the required steps to demonstrate fiscal solvency amid a backdrop of growing social unrest and potential adverse feedback loops between the European banking system and government debt. We still see growth for New Zealand, but of the slow hard grind variety.

Global events continue to dominate the local scene. Tail risks from a global slowdown are growing with the US credit downgrade and growing concerns about the European debt situation pointing to slowdown in trading partner growth. While policymakers now have the experience of seeing 2008, the stark realities are that deleveraging is a pre-requisite to healing but also negative for growth in the short-term. Traditional policy support mechanisms such as interest rates have limited firepower left and we at a juncture where governments of the day need to show true leadership over populism.

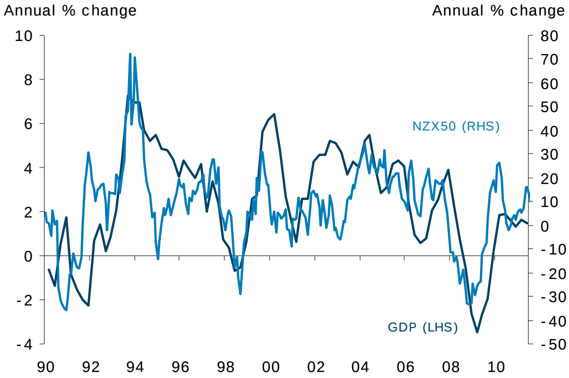
The New Zealand economy is not immune from global ructions but looks resilient to date. As a nation highly sensitive to turns in the global cycle we're naturally watching the four C's, namely credit costs, commodity prices, confidence and the currency. We're seeing confidence and commodity prices "roll over" but it's far from a collapse. They look remarkably resilient so far. It's clear that offshore funding costs have risen substantially but this is more theoretical than real given than limited issuance has taken place. The market appears to have taken the tweak in New Zealand's sovereign credit rating by S&P and Fitch in its stride. The NZD has naturally adjusted lower, providing a buffer. A fifth C, China, still remains in the wings too. It's clearly slowing, but unlike OECD peers it has the firepower to introduce direct policy stimulus.

Interest rate movements, the fall in the NZD and continued rhetoric by the Government that their fiscal consolidation strategy is on track herald an economic framework that is working well. Against a backdrop of global frailty, we think the spirit of our interest rate and growth assessment is what matters. And the messages here are simple. We are in a low trend growth environment that will be punctured by bouts of risk-on and risk-off. The bias for the OCR is up, but policy tightening will be slow and gradual, full of fits, stops and starts, with a historically low OCR end-point.

Indicator	Level	Direction	Comment
Hi-low beta stock index	Elevated	Falling	The NZX has been a star performer among global peers, evidence of underlying strength in the economy.
Sovereign risk	Aaa/AA	Improving	Although our index is improving, it does not capture EQC liabilities.
Macro momentum	High	Falling	Data continues to print on the strong side, but confidence is easing.
Financial conditions	Extremely supportive	Softening	Financial conditions tightening despite much weaker NZD. Margins widening.
Risk aversion	Negative	Deteriorating rapidly	Large increase in volatility. Sentiment ebbs and flows on a daily basis.
Cost of credit	High	Rising	CDS margins continue to widen, and are now above 2009 levels.
Liquidity conditions	Neutral	Improving	Back towards long-term averages, reflecting businesses deleveraging.

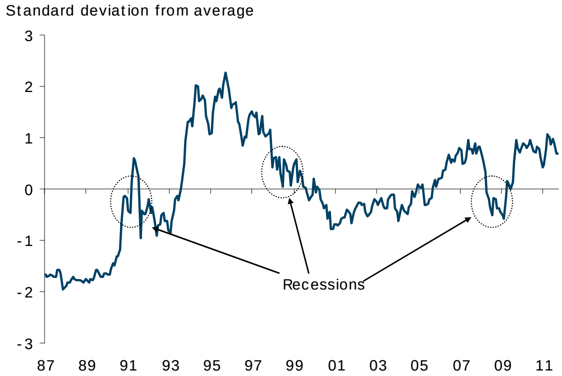
ECONOMIC AND MARKET BACKDROP

NZ equity market returns and GDP



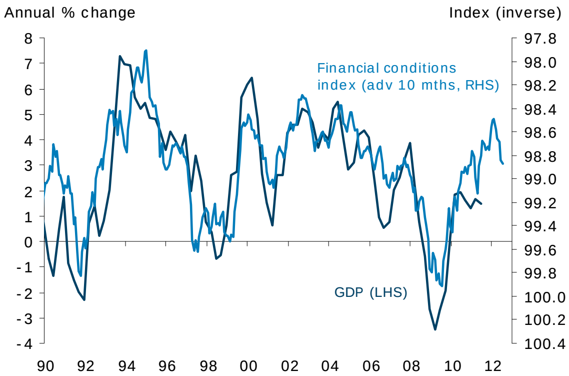
Sources: ANZ, Statistics NZ, Bloomberg

Equity beta



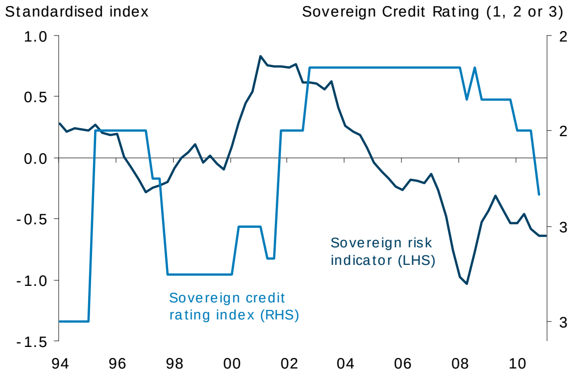
Sources: ANZ, NZX

Financial conditions and GDP



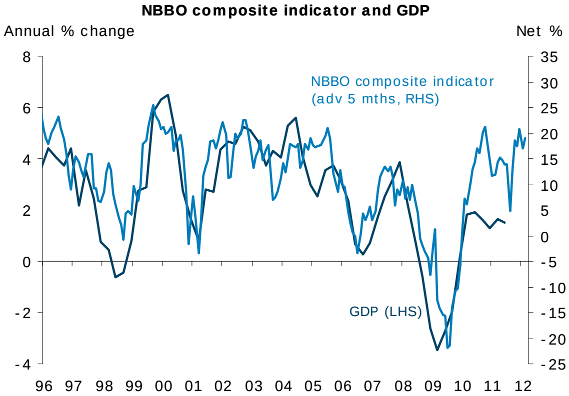
Sources: ANZ, Statistics NZ

Sovereign risk gauge



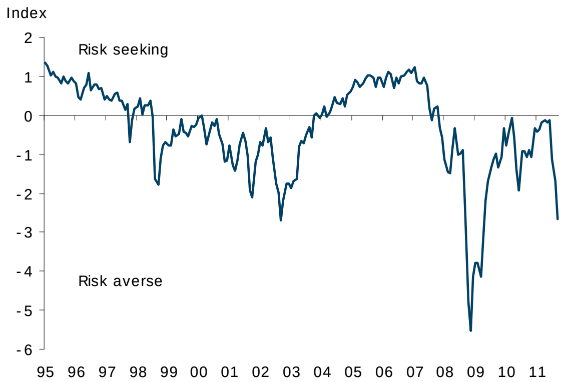
Sources: ANZ, NZ Treasury

NBBO composite indicator and GDP



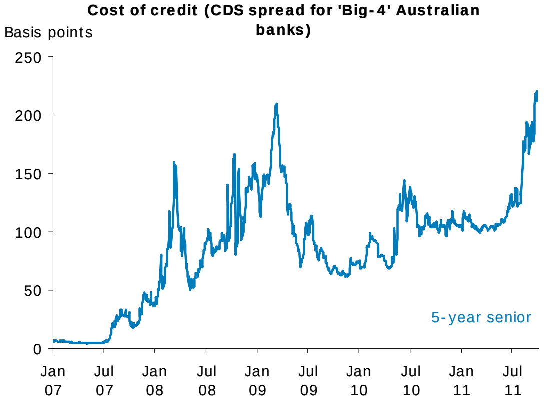
Sources: ANZ, Statistics NZ

Composite risk aversion measure



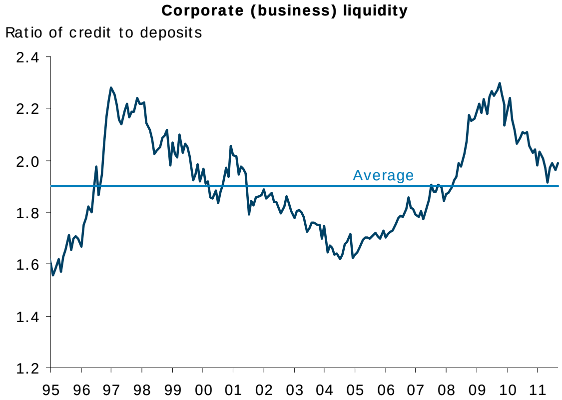
Sources: ANZ, Bloomberg

Cost of credit (CDS spread for 'Big-4' Australian banks)



Sources: ANZ, Bloomberg

Corporate (business) liquidity



Sources: ANZ, RBNZ

PERFORMANCE MONITOR

PERFORMANCE MONITOR – ANZ DEBT INDICES

All domestic asset classes we monitor posted gains in September, led by the All Swap Index. Equities performed the worst, but still managed to post positive returns, in contrast with global indices. Although the Government Bond Index was the best performing index over the quarter, the dramatic narrowing in swap spreads saw Govt Bond and Swap returns diverge markedly over the month. Widening credit spreads saw the corporate bond indices lag the swap indices, but high yield accrual saw the Investment Grade index post the highest annual returns.

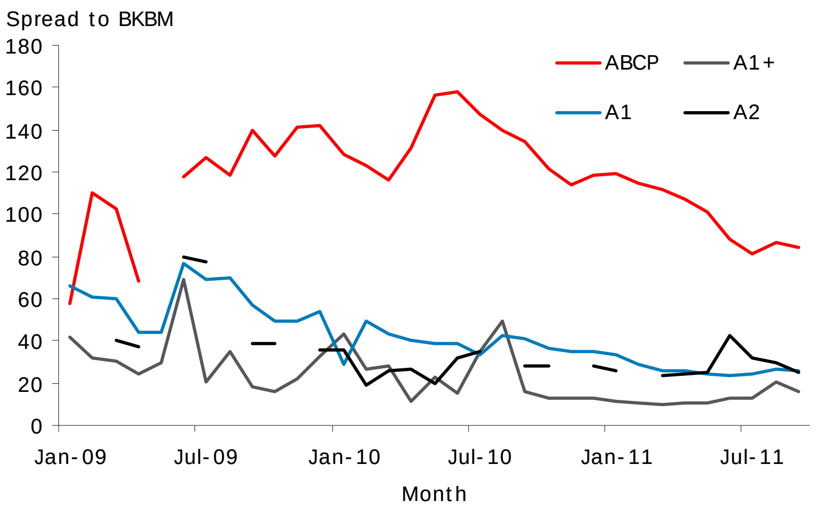
ANZ Index Returns for Periods Ended Last Month*			
Index	**Last month**	**Last 3 months**	**Last 12 Months**
ANZ Govt Bond Index	0.93%	3.51%	7.79%
ANZ All Swap Index	1.74%	3.40%	6.77%
ANZ Corp A Grade	1.10%	2.22%	7.74%
ANZ Corp Investment Grade	1.11%	2.25%	7.92%
NZX 50 Gross Index	0.61%	-3.04%	5.20%

Source: ANZ, Bloomberg, NZX

COMMERCIAL PAPER

- The month of September was no different to August, with a highly unstable global backdrop providing high volatility in global markets and credit spreads widening. Despite this CP margins managed to tighten slightly across the board.
- Despite the slight contraction in margins the secondary market slowed coming into the end of the financial year.
- We see the underlying trend of the market remaining constant with an ongoing degree of caution. Local bank balance sheets continue to hold higher-rated councils that are repo eligible whilst fund managers lean towards the wider spreads of corporates.

CP Margins



Sources: ANZ

PERFORMANCE MONITOR

3-month Commercial Paper Margins for the Previous Month				
Margin	A-1+ (excl ABCP)	A-1	A-2	A1+ ABCP
Median	16.0	26.2	25.4	83.9
Low	10.2	26.2	23.5	83.9
High	29.0	26.2	28.0	84.0

Upcoming Commercial Paper Maturities			
Issuer	Rating	Maturity	Amount
RFS	A-1+x	10-Oct	$28m
POT	A-2	11-Oct	$25m
Telstra	A-1	12-Oct	$50m
WCC	A-1+	14-Oct	$15m
AIAL	A-2	17-Oct	$36m
CCHL	A-1+	17-Oct	$28m
AIAL	A-2	19-Oct	$26m
Watercare	A-1+	19-Oct	$50m
Hutt City	A-1+	20-Oct	$16m
NPDC	A-1+	20-Oct	$15m
Telstra	A-1	20-Oct	$42.4m
Transpower	A-1+	21-Oct	$170m
RFS	A-1+x	25-Oct	$30m
CCC	A-1+	31-Oct	$5m

Commercial Paper Issuance Details for the Previous Month				
Issuer	Rating	Maturity	Amount	Weighted Average Margin (bps)
WCC	A-1+	1-Dec	$5m	16.0
Telstra	A-1	6-Dec	$50m	26.2
POT	A-2	7-Dec	$25m	28.0
CCHL	A-1+	7-Dec	$29m	29.0
RFS	A-1+*	8-Dec	$36m	83.9
WRCH	A-1+	12-Dec	$45m	14.6
DCT	A-1+	15-Dec	$20m	11.0
AIAL	A-2	15-Dec	$20m	23.5
POT	A-2	16-Sep	$20m	24.8
DCT	A-1+	20-Dec	$11m	10.2
Watercare	A-1+	20-Dec	$50m	15.0
RFS	A-1+*	22-Dec	$34m	84.0

**Asset-backed, Source: ANZ*

THE IMPACT OF GLOBAL RISKS ON AUSTRALASIA

Kerry Duce
Senior Credit Strategist
Telephone: +61 2 9227 1101
E-mail: kerry.duce@anz.com

FEATURE ARTICLE: DIMENSIONING THE IMPACT OF GLOBAL RISKS ON AUSTRALASIA

Global markets continue to be buffeted by a combination of heightened financial risk emanating from Eurozone sovereign and bank (crisis) risk, and a continued loss of global economic momentum. In what follows, we dimension both these risks and assess the implications for our region.

First, we will canvass where we consider we stand in resolving the EU bank and sovereign crisis. We then will turn to the possible implications of European banks deleveraging on regional capital flows. We will then round out by assessing a range of our global lead indicators.

Importantly, and these shorter term risks nestle within a medium term shift of economic and financial activity away from the high debt developed world to the emerging world. Economies like Australia, New Zealand, Canada, Scandinavia will continue to form a bridge between these two worlds and the inexorable shift towards a multi currency world less dependent on the US dollar.

Whilst we are seeing some movement by the Euro zone to address the twin bank capital and sovereign debt crisis, progress remains modest relative to the benchmark we established some months ago. To recap, recall that we set the following 5 criteria that would need to met before we could rebuild a more constructive view towards Eurozone assets (we have set our assessment regarding progress in square brackets after each of the criteria).

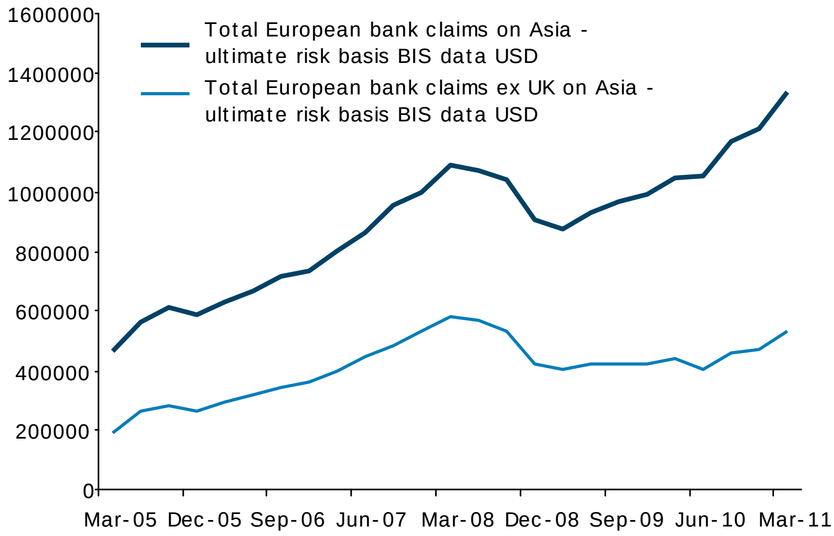
1. Broad-based capital injections into EU systemically important banks [has not been achieved but the ECB and individual governments have provided or pledged some support].
2. Greek debt restructuring within next 3-6 months, preferably with larger (e.g. 40%) rather than “lite” haircuts (e.g. 20%). However, we would accept “lite” haircuts if the were accompanied by all other measures [some progress].
3. EFSF given more capital or preferably allowed to employ leverage and act as a bank [no progress].
4. ECB supports Italy and Spain bond markets to cap yields [has been done, but the ECB is falling behind].
5. ECB symbolically cut rates, although liquidity provision more important [yes – except rates are not yet lower].

Whilst the timetable and progress that will be achieved are unclear, we consider that de-leveraging by European banks and a likely pull back to home markets will occur. This is one of the key global transmission mechanisms, and in this light we will now identify the magnitude and composition of European bank exposure into the Asian and Australasian region.

Our first chart shows total claims by European banks across the Asian region based on Bank for International Settlement data to March 2011. Total claims were around USD1.3tn. With respect to total claims for all European banks globally this is around 7% of total claims.

THE IMPACT OF GLOBAL RISKS ON AUSTRALASIA

However, in contrast to most other parts of the world, European bank claims on Asia have increased by around USD450bn over the last two years.



Sources: BIS, ANZ Estimates

That said, when we dig deeper into the Asian exposure of European banks we observe that British banks account for around USD750bn of the total claims of USD1.3tn. Importantly, British banks with exposure to Asia tend to be globally strong banks. Moreover, most of the expansion in European bank exposure has come from British banks.

We would expect that, in general, higher geographic exposure to European banks would be reflected in a higher correlation between Asian interbank rates and LIBOR rates. In general, the most developed regional economies tend to have higher exposure to European banks.

However, whilst markets may be focussed on European exposures, we note that a broad range of vulnerability indicators remain robust across the Asian region. For example Asian FX reserves exceed European bank exposures by a factor in excess of three times.

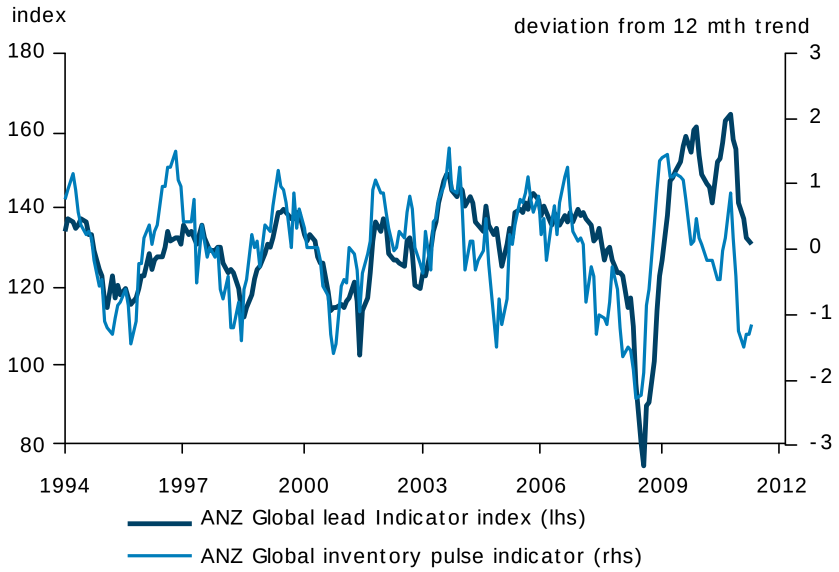
Despite highly volatile markets and elevated concerns regarding the growth outlook, ANZ global lead indicators have now been tracking sideways for around 3 months, albeit at levels moderately below trend.

Our first chart plots the ANZ global lead indicator (in level terms) and the ANZ inventory pulse, which is a gauge of global industrial momentum.

In level terms our global lead indicator peaked in February 2011 with the most rapid loss of momentum occurring through to June 2011. Whilst the ANZ inventory pulse (the ratio of new orders to inventory for the US, EU, China and Japan) normally leads the level indicator by around 3 months, both indicators peaked in February 2011.

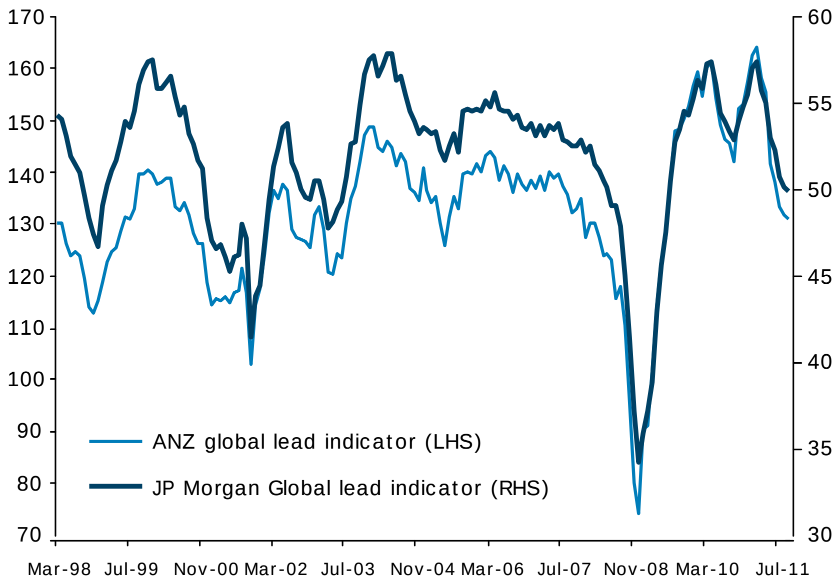
Similarly, both indicators have started to base around June 2011 and are now tracking broadly sideways.

THE IMPACT OF GLOBAL RISKS ON AUSTRALASIA



Sources: Thomson Reuters, ANZ estimates

A very similar pattern exists between the ANZ global lead indicator and the JP Morgan global lead indicator (both in level terms). Both indicators have settled around mid cycle in level terms and have been arrested their falls (at best) since June 2011.



Sources: Thomson Reuters, JP Morgan, ANZ estimates

This pattern is consistent with developed economies operating slightly below trend and the emerging world on or a tad above trend. Given that event and cycle risk remain elevated, the key issue for investors is to assess the balance of risks for both of these drivers going forward.

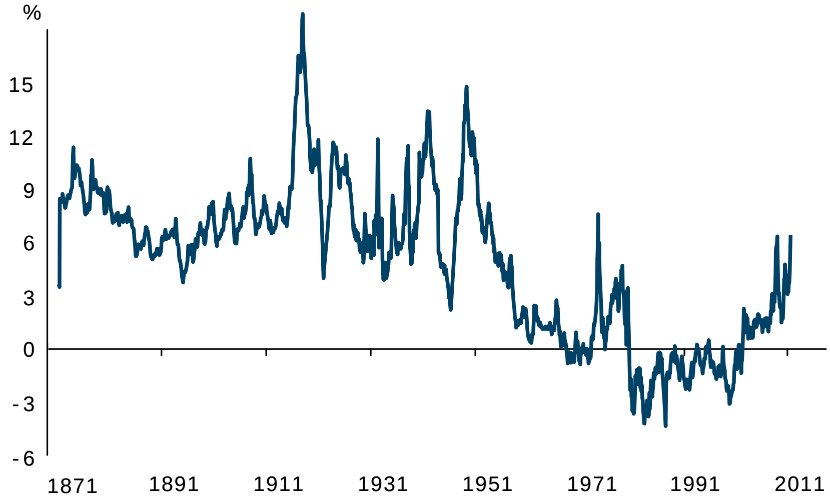
With respect to event risk, we clearly need to see much more decisive action against our five criteria before we would reduce the weight on this risk.

THE IMPACT OF GLOBAL RISKS ON AUSTRALASIA

Whilst early days, we are becoming more comfortable that cycle risk is basing around mid-cycle levels. That said, considerable potential exists for event risk to erode the cycle via credit rationing, fiscal austerity and household de-leveraging.

The chart below sets the current implied earnings yield on the S&P500 to the bond yield. Whilst equity valuations look highly attractive against history since the early 1990s, when we lengthen our perspective valuations have returned to around the late nineteenth levels century levels. The chart does suggest that the period from the early 1980s to 2000 when the spread was negative was the outlier and the new normal is the pre-leverage old normal.

Earnings Yield / Bond Yield Gap
S&P 500



Sources: Thomson Reuters, MSCI, ANZ estimates

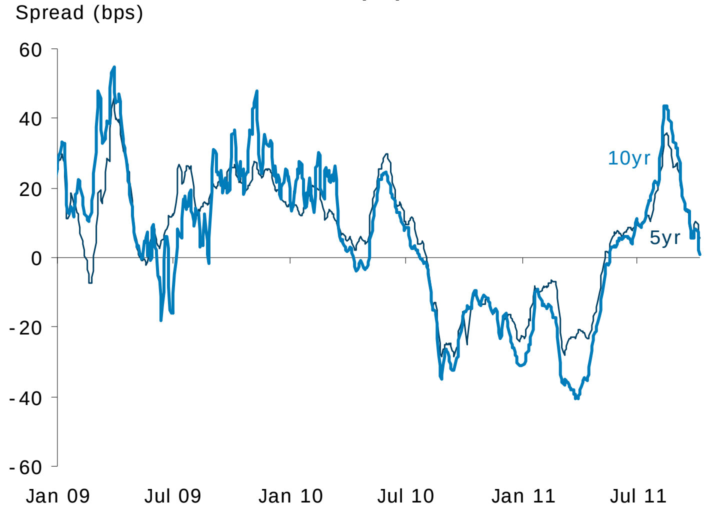
SWAP AND BASIS SWAP SPREAD UPDATE

SUMMARY

Swap spreads have narrowed sharply since mid-August, stabilising around flat. Looking ahead, we expect spreads to normalise as bond and swap spreads move lower in tandem, with NZGS outperforming. By contrast, basis swap spreads are likely to be biased lower by a lack of offshore funding deals and a pickup in kauri issuance.

SWAP SPREADS

NZD Swap Spreads



Sources: ANZ, Bloomberg

Swap spreads have narrowed substantially over the past month as outright swap yields moved to new lows, and NZGS bonds underperformed. Although the twin credit rating downgrades on September 30th were an important development, spreads had already narrowed significantly prior to the news, and the subsequent reaction has been fairly muted. In fact, tender demand has actually improved since the downgrades (albeit we have only had 1 tender).

The fact that outright swap rates drifted lower was not a huge surprise – this was always on the cards given the deteriorating global scene and the likelihood that it would delay RBNZ rate hikes. The recent widening in credit spreads only exacerbates the issue, as it makes the impact of global events more visible and real. As RBNZ Governor Bollard has reiterated, New Zealand banks are well funded and have no immediate need to raise funds, but if spreads remain high for an extended period, the banks will eventually have rollovers that need to be refinanced. As such, we view the widening of credit spreads as a warning shot.

We were slightly surprised at the extent of NZGS underperformance over the past month, particularly given the performance of core European bonds and US Treasuries. Indeed, one could be forgiven for assuming that a sharp rally in domestic swaps and a sharp rally in Treasuries would lead to solid NZGS performance, but in the event, the yield on the bellwether NZGS 5/21 bond fell by just 9bps in September.

In our view, swap spreads are set to normalise from here. Indeed, now that spreads have moved back towards flat, the relative attractiveness of NZGS should draw investors back to the market. As we note in the next section, NZGS bonds offer the highest expected return of the major markets.

SWAP AND BASIS SWAP SPREAD UPDATE

Last month's twin credit ratings downgrades did cast a shadow over swap spreads. However we note that spreads had already narrowed significantly prior to the announcement, and as such, it was not a surprise to see a fairly muted reaction following the announcements. Is it a case of "the damage having already been done – and things can only improve from here"? We suspect it is.

Those who have done deeper analysis know that New Zealand has some significant comparative advantages. These include our resource endowments, floating exchange rate, fiscal transparency, strong banking sector and independent central bank. Such characteristics should not be overlooked. For example, having an independent central bank is often cited as a positive in a throw-away manner, but at times like this, the RBNZ can chart its own course, free from interference from politicians and other states. Individual Eurozone nations cannot boast of this.

Looking ahead, we expect swap and bond yields both fall from here – with NZGS yields outperforming, normalising swap spreads. The latter will be driven in part by:

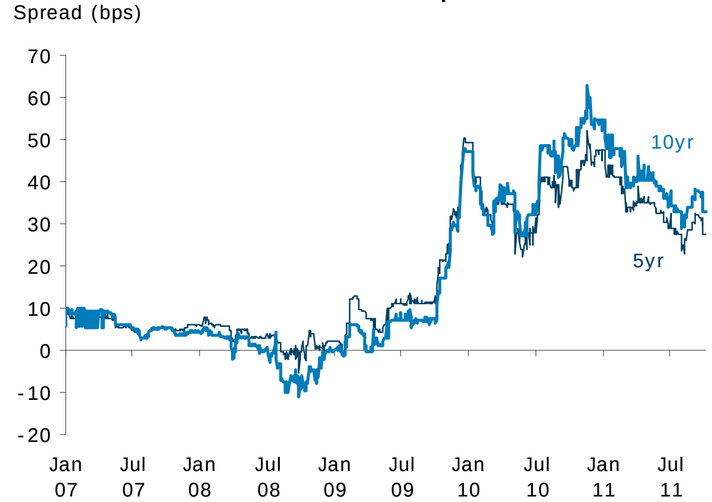
1. The RBA's decision to shift to an easing bias. While there is no mechanistic link between Australia and New Zealand, and there are unique points of differentiation with regards to the growth outlook, the market will look to the Australian experience as a road map for New Zealand (in terms of how much tightening is in store). Although global events have played a role, the Australian economy is now showing signs of slowing after "just" 175bps of rate hikes, which has seen the cash rate peak at a much lower level than the historic norm. As the NZ market moved to price in a lower OCR end-point, this should be supportive of lower swap yields.
2. Deteriorating global growth. Recent developments in Europe in relation to Greece and European banks cast a shadow over the global growth outlook. This deterioration has been central to the RBA's change of view, and it will be causing angst at the RBNZ as well. To give an idea of how much things have changed, the RBNZ's September *MPS* has trading partner growth dipping mildly from 4.3% in the year to March 2011 to 3.4% in the year to March 2012, before accelerating to 4.3% in 2013. By contrast, we see annual trading partner growth falling back to around 2.6% by the end of the year.
3. Widening credit spreads. This is the "canary in the coalmine" when it comes to gauging the immediate impact of the GFC. At the moment, funding markets are open, but if anything, to use an analogy, the door is swinging closed, not opening further. Spreads have certainly widened in recent weeks. While this is not of immediate concern, given that local banks are generally well funded, it will be of concern if spreads remain high for an extended period, as the banks will eventually have rollovers that need to be refinanced.

Finally, as we note in the next section, we expect to see an improvement in demand for NZGS by global investors now that the credit rating downgrades have occurred and we are on stable outlook, and now that the NZD has depreciated. Similarly, local fund manager demand for NZGS as the 11/11 bond matures and on the back of cautious re-allocations out of credit will provide support for the local market.

SWAP AND BASIS SWAP SPREAD UPDATE

BASIS SWAPS

NZD Basis Swaps



Sources: ANZ, Bloomberg

Basis swap spreads contracted over September. Although there was a brief spike higher on news of at least one USPP during the month, they look set to continue contracting as Kauri issuance picks up. The narrowing of swap spreads makes NZGS more attractive relative to SSAs, which one could argue would lead to less Kauri issuance. However, we suspect the credit rating downgrade, coupled with investor caution, will see Kauris well supported.

Looking ahead, we expect basis swap spreads to be more inversely correlated with credit spreads, and with the door on global funding markets closing rather than opening, spreads are biased lower.

GOVERNMENT BOND TENDER WATCH

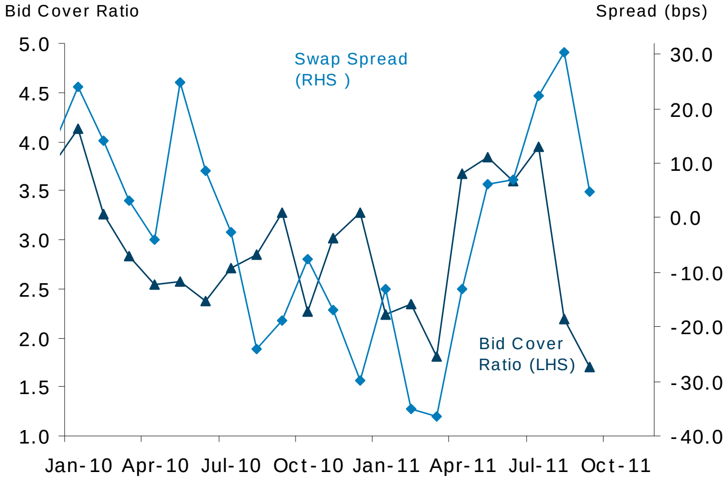
SUMMARY

The DMO tendered $2.175bn of bonds in September, the largest monthly total since April. This brings total issuance for the first 3 months of the fiscal year to $3.775bn, putting the issuance “run rate” back on track assuming a $13.5bn funding requirement. However, it is likely that the funding requirement will need to be increased at the PREFU, reflecting EQC cost increases and slower growth. Although the market is likely to be nervous ahead of the PREFU, it feels like much of the bad news is priced in.

There were 5 tenders in September, with individual tenders ranging from $200m to a record-equalling $1bn. Although it was pleasing to see the run rate get back on track, week to week volatility in tenders isn’t ideal, and we’d prefer to see more stability in volumes offered. Demand conditions were mixed over the month, but deteriorated overall, as we discuss in more detail later. In terms of composition, 2023s featured at every tender, but they were under-accepted twice, suggesting demand has been lukewarm. However, we note that there are now just over $1bn of 2023s in the market, and as result we may see liquidity improve over coming weeks. Oddly, the DMO has continued to issue 2013s. As this bond matures next fiscal year, we would expect it to become less of a feature in upcoming tenders, as any issuance now will just need to be rolled over next year.

Although NZGS bonds performed well in September as outright yields fell, capital gains have lagged those of the Australian and US market, and the local swap market. This largely reflects the narrowing of swap spreads discussed in the previous section. It is clear from analysis of tender statistics that demand for NZGS has slowed – indeed, as the chart below shows, overall bid cover for the month of September fell to just 1.7 times, the lowest level since we started compiling data in January 2009.

NZGS Tender Bid Cover and 10yr Swap Spread



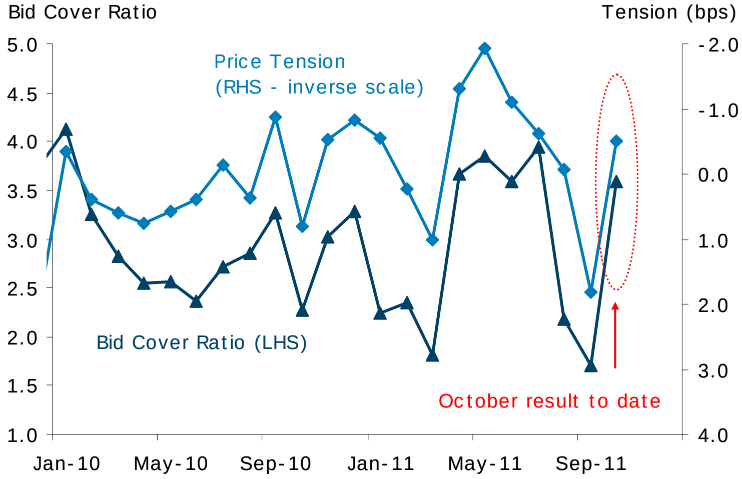
Sources: ANZ, NZDMO

As we have written about at length in the past, overall bid cover is far from a perfect statistic. However the fact that it has been falling for 2 months, and has been accompanied by a corresponding trend decline in price tension, is suggestive of an underlying drop in demand. It is therefore not surprising that swap spreads narrowed significantly over August and September, with long-end spreads moving negative at one point. The question is, is all the “bad news” now priced in, and are NZGS now set to outperform swap? We suspect they will.

GOVERNMENT BOND TENDER WATCH

Early signs certainly look good. As the chart below shows, bid cover improved markedly at the October 6th tender, the first to be held since the twin credit rating downgrades. This is encouraging, and given the extent of the narrowing in swap spreads prior to the downgrades, the market certainly has a "sell the rumour, buy the fact" feel about it.

NZGS Tender Statistics



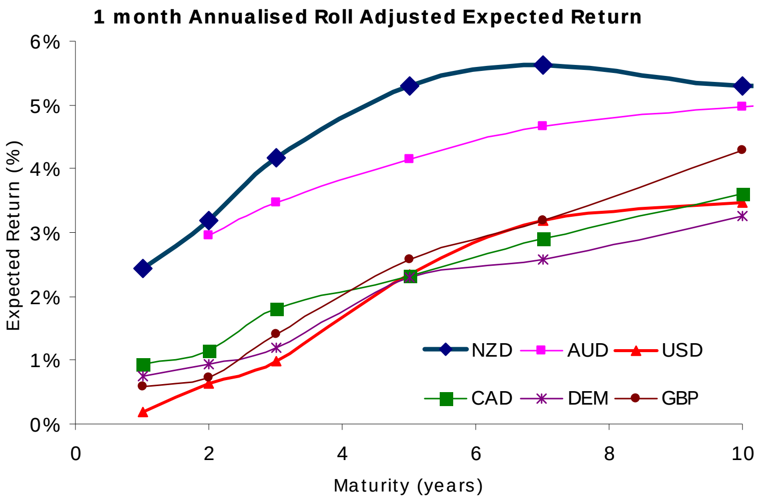
Sources: ANZ, NZDMO

Sentiment is likely to be somewhat fragile in the lead-up to the Pre-Election Economic and Fiscal Update or "PREFU" (which must, by law, be published between 20 and 30 days before the General Election – on 26th November). The circa $4bn EQC cost blowout is likely to see the bond programme increased this year (and possibly next), but as the blowout was announced in late August, this is hardly "new news" and as such, should be fully priced in.

Furthermore, the deteriorating global outlook is constructive for yields generally, and with the ECB, BOE and Fed all pursuing programmes to boost liquidity or drive physical bond yields lower, bonds are likely to be better supported than swaps.

We also suspect there will be a core of support for NZGS from both local real money investors and global reserve managers – particularly now that the NZD has eased back by more than 10 cents from its peak. We have long suspected that currency underperformance and the threat of a credit rating downgrade have made global investors cautious of the NZ market, but now that we have been downgraded, and seen the NZD fall, grounds for concern have presumably lessened. Ironically, for local fund managers, the credit rating downgrade may actually lead to increased relative demand for NZGS, particularly if funding concerns persist. This may sound strange, but once again, now that the downgrade has been announced, the scope for more bad news is limited, and if local managers allocate out of credit and into NZGS, demand may actually hold up. Don't forget that local managers may have a fair amount of bonds to buy to match the index duration lengthening as the NZGS 11/11 matures. As the chart below shows, expected returns in NZ are extremely attractive for real-money investors, particularly in the middle part of the curve. This will keep a lid on negative sentiment.

GOVERNMENT BOND TENDER WATCH



Sources: ANZ estimates, Bloomberg

Summary of NZGS Issuance for the Previous Month							
Date	**Bonds Offered**	**Bid Cover**	**Tail ~**	**Tension ^**	**Non-comp spread^^**	**Bids Accepted**	**Comment**
1 Sep	$100m 2017 $100m 2019 $100m 2023	1.3 1.8 0.5	2 5 2	1.5 2.5 3.0	2.5 2.5 0.0	$100m $150m $50m	Weak tender, with low bid-cover and poor price tension. Insufficient bids to clear 2023s saw $50m extra 2019s issued.
8 Sep	$50m 2013 $50m 2015 $100m 2023	3.0 1.1 0.9	3 6 5	1.5 7.0 4.0	7.0 7.0 5.3	$75m $50m $75m	Very poor tender with overall bid cover of just 1.5 times, and some of the widest tails we have seen in a while. 2023s under-allocated owing to insufficient bids.
16 Sep*	$150m 2013 $150m 2015 $50m 2023	1.3 2.3 1.7	2 3 4	3.0 0.0 5.0	4.8 0.4 5.7	$150m $150m $50m	Reasonably weak tender, with overall bid cover of just 1.8 times, and poor price tension. 2015 demand the best of the 3 bonds offered.
22 Sep	$200m 2015 $75m 2017 $50m 2023	2.5 3.4 2.2	6 2 4	-1.5 -2.0 4.0	-0.1 0.7 6.7	$200m $75m $50m	Overall bid cover of 2.7 times was very encouraging, and this was also reflected in good price tension. This could have been a factor encouraging the DMO to do such a large tender the following week.
29 Sep	$200m 2013 $750m 2015 $50m 2023	2.3 1.2 3.4	2 3 2	0.0 2.5 1.5	1.1 4.3 4.0	$200m $750m $50m	Successful tender given the global market mood, and the fact this was another $1bn record tender. Overall bid cover of 1.5 times was low. Price tension wasn't bad considering the volume.
Total / Average		**1.7**	**3.26**	**1.80**	**3.11**	**$2,175m**	

Source: ANZ, Debt Management Office.

** Delayed by one day following the MPS as is standard practice.*

*~ Tail refers to the total "width" of the successful range. For example, if the successful range is *5.70% to 5.73%, the tail is considered to be 4bp, spanning 5.70%, 5.71%, 5.72% and 5.73%*

^ Tension refers to the "width" of the successful range using the market mid rate during bidding as the lower bound. This removes the distortion above-market-yield bids can have on tails. Using the same example as above, if the market mid rate was at 5.72% during bidding, the tension is considered to be 2bp, spanning 5.72% and 5.73%.

^^ Non-comp spread refers to the spread between the market mid rate during bidding and the weighted average unsuccessful yield. Like the tension measure, this removes the distortion evident on occasion in tails.

MONTH END BOND PRICING: RATED ISSUES

Rates Issues	S&P Rating	Maturity	Coupon (%)	Mid yield (%)	Spread to swap	Spread to Govt
NZ Government	AA *	15-Nov-11	6.00%	2.51%	24	n/a
NZ Government	AA *	15-Apr-13	6.50%	2.95%	11	n/a
NZ Government	AA *	15-Apr-15	6.00%	3.44%	8	n/a
NZ Government	AA *	15-Dec-17	6.00%	4.05%	4	n/a
NZ Government	AA *	15-Mar-19	5.00%	4.32%	-2	n/a
NZ Government	AA *	15-May-21	6.00%	4.56%	-1	n/a
NZ Government	AA *	15-Apr-23	5.50%	4.73%	-7	n/a
* "AA+" Local currency rating, "AA" Foreign currency rating						
African Development Bank	AAA	28-Feb-13	7.75%	3.40%	37	49
Auckland Int'l Airport	A-	7-Nov-12	7.19%	4.17%	120	136
Auckland Int'l Airport	A-	28-Feb-14	7.25%	4.75%	150	159
Auckland Int'l Airport	A-	27-Nov-14	7.00%	4.97%	155	163
Auckland Int'l Airport	A-	7-Nov-15	7.25%	5.25%	160	169
Auckland Int'l Airport	A-	15-Nov-16	8.00%	5.59%	170	179
AMP	A-	15-May-14	9.80%	5.69%	240	248
ANZNB Callable sub	AA-	2-Mar-12	7.60%	4.85%	200	225
ANZNB Callable sub	AA-	23-Jul-12	8.23%	4.91%	200	219
ANZNB Senior	AA	18-Sep-12	5.63%	3.69%	75	92
ANZNB Senior	AA	18-Jun-13	6.32%	4.19%	110	120
ANZNB Senior	AA	9-Jun-14	8.50%	4.61%	130	138
ANZNB Senior	AA	31-Mar-15	6.60%	5.01%	150	158
ANZNB Senior	AA	13-Jul-15	6.51%	5.08%	150	158
ANZNB Senior	AA	16-Feb-16	6.32%	5.35%	163	172
ANZNB Senior	AA	16-Feb-18	6.85%	5.96%	182	187
ANZNB Senior	AA	20-Sep-18	6.08%	6.09%	185	187
ASB Bank	AA	16-Jul-13	8.52%	4.26%	115	125
ASB Bank	AA	18-Nov-13	5.51%	4.37%	119	128
ASB Bank	AA	17-Sep-14	8.22%	4.73%	135	143
ASB Bank	AA	20-Oct-15	6.10%	5.14%	150	159
ASB Bank	AA	8-Jun-17	6.06%	5.73%	172	180
ASB Bank Callable sub	AA-	15-Nov-12	8.77%	4.92%	195	211
Asian Development Bank	AAA	29-Jan-14	5.38%	3.47%	24	33
Auckland Council	AA	15-Nov-11	8.50%	3.06%	30	55
Auckland Council	AA	30-Mar-12	5.50%	3.34%	49	72
Auckland Council	AA	15-Nov-12	8.37%	3.59%	62	78
Auckland Council	AA	24-Mar-14	6.42%	4.06%	80	89
Auckland Council	AA	2-Oct-14	6.68%	4.27%	88	96
Auckland Council	AA	24-Mar-15	6.28%	4.43%	93	101
Auckland Council	AA	15-Sep-15	6.90%	4.62%	100	109
Auckland Council	AA	29-Sep-17	6.52%	5.17%	110	117
Auckland Healthcare	AA	15-Sep-15	7.75%	4.59%	97	106
Bank of America Corp	A	8-Mar-12	7.53%	6.35%	350	375

MONTH END BOND PRICING: RATED ISSUES

Issuer	S&P Rating	Maturity	Coupon (%)	Mid yield (%)	Spread to swap	Spread to Govt
Bank of New Zealand	AA	15-Sep-12	7.50%	3.69%	75	92
Bank of New Zealand	AA	27-May-13	8.56%	4.18%	110	121
Bank of New Zealand	AA	27-May-15	8.68%	4.97%	143	151
Bank of New Zealand	AA	13-Aug-15	6.17%	5.10%	150	159
Bank of New Zealand	AA	15-Sep-16	6.91%	5.58%	172	182
Bank of New Zealand (CB)	AAA	30-Jun-15	6.00%	4.54%	97	105
Bank of New Zealand (CB)	AAA	30-Jun-17	6.43%	5.17%	115	123
Bank of New Zealand (GG)	AAA	20-Feb-14	4.78%	3.68%	44	53
BNZ Callable sub	AA-	15-Jun-12	8.42%	4.85%	197	217
CHCH City Council	AA	2-Nov-12	5.75%	3.62%	65	81
CHCH City Council	AA	20-Apr-15	6.08%	4.72%	120	128
Citigroup Inc	A	18-May-12	7.83%	5.69%	282	302
Contact Energy	BBB	15-May-14	8.00%	4.88%	159	167
Contact Energy	BBB	13-Apr-17	7.86%	6.03%	205	213
Council of Europe	AAA	15-Nov-11	7.75%	2.96%	21	45
Council of Europe	AAA	12-Jun-14	5.50%	3.72%	41	49
Council of Europe	AAA	30-Apr-18	7.50%	4.74%	56	61
Dunedin City Tsy	AA	14-Jun-13	5.56%	3.79%	70	80
Dunedin City Tsy	AA	15-Nov-16	6.79%	4.94%	105	114
Dunedin City Tsy	AA	15-Oct-17	7.81%	5.28%	120	127
European Investment Bank	AAA	31-Jul-12	7.75%	3.13%	22	40
European Investment Bank	AAA	19-Feb-13	5.00%	3.39%	36	49
European Investment Bank	AAA	15-Dec-17	7.50%	4.59%	48	54
Eurofima	AAA	22-May-13	7.13%	3.47%	39	50
Fonterra Cooperative	A+	21-Apr-14	6.86%	4.26%	98	107
Fonterra Cooperative	A+	10-Mar-15	7.75%	4.53%	103	112
Fonterra Cooperative	A+	4-Mar-16	6.83%	4.93%	120	129
Genesis Energy	BBB+	15-Mar-14	7.25%	4.50%	125	134
Genesis Energy	BBB+	15-Mar-16	7.65%	5.19%	145	155
Genesis Energy	BBB+	15-Sep-16	7.19%	5.36%	150	160
Goodman+Bonds	BBB+	19-Jun-15	7.75%	5.81%	225	233
Goodman	BBB+	8-Sep-17	7.58%	6.46%	240	247
IADB	AAA	15-Apr-15	7.50%	3.75%	23	31
IADB	AAA	15-Dec-17	6.25%	4.62%	51	57
IAG	A+	21-Nov-12	9.11%	6.21%	324	339
IBRD (World bank)	AAA	16-Jul-12	7.06%	3.06%	16	35
IBRD (World bank)	AAA	30-Jul-14	7.50%	3.53%	19	27
IBRD (World bank)	AAA	15-Dec-14	5.38%	3.66%	22	30
IBRD (World bank)	AAA	16-Aug-16	4.50%	4.06%	22	31
IFC	AAA	23-Aug-12	7.75%	3.09%	16	34
IFC	AAA	19-Mar-15	5.38%	3.69%	19	27
IFC	AAA	25-May-16	4.63%	4.00%	22	31
IFC	AAA	15-Dec-17	6.25%	4.48%	37	43

MONTH END BOND PRICING: RATED ISSUES

Issuer	S&P Rating	Maturity	Coupon (%)	Mid yield (%)	Spread to swap	Spread to Govt
Kiwibank Ltd Callable sub	A+	20-Mar-12	7.72%	4.85%	200	224
Kiwibank Ltd Callable sub	A+	30-Sep-13	8.75%	5.25%	210	219
Kommunalbanken	AAA	3-Jul-14	5.75%	3.75%	42	51
Meridian Energy (MEL010)	BBB+	16-Mar-15	7.15%	4.60%	110	118
Meridian Energy (MEL020)	BBB+	16-Mar-17	7.55%	5.56%	160	168
Merrill Lynch (BofA)	A	4-Sep-13	7.16%	6.90%	376	386
Mighty River Power*	BBB+	15-May-13	8.36%	4.31%	124	135
Mighty River Power	BBB+	12-Oct-16	7.55%	5.27%	140	149
Morgan Stanley	A	6-Sep-12	6.86%	6.25%	332	349
Morgan Stanley	A	30-May-14	7.95%	6.60%	329	338
Nordic Investment Bank	AAA	26-Feb-14	5.25%	3.50%	26	35
Nordic Investment Bank	AAA	15-Apr-15	7.50%	3.75%	23	31
NZ Post	AA-	15-Nov-11	7.10%	3.06%	30	55
NZ Post Callable sub	A	15-Nov-14	7.50%	6.82%	340	348
Powerco Limited*	BBB	28-Sep-12	6.59%	4.54%	159	176
Powerco Limited*	BBB	29-Mar-13	6.39%	4.69%	164	175
Powerco Limited*	BBB	29-Jun-15	6.53%	5.30%	173	182
Powerco Limited*	BBB	28-Sep-17	6.74%	5.95%	188	195
Queensland Treasury Corp	AA+	18-Sep-17	7.13%	4.75%	69	76
Rabobank NZ	AAA	3-May-12	7.68%	3.51%	65	86
Rabobank NZ	AAA	19-Apr-13	5.47%	3.94%	88	99
Rabobank NZ	AAA	4-Sep-14	6.32%	4.34%	97	105
Rabobank NZ	AAA	24-Aug-15	4.98%	4.77%	117	126
Rabobank NZ	AAA	1-Mar-16	5.48%	5.08%	135	144
Rabobank NZ	AAA	16-May-18	6.25%	5.83%	165	169
Rentenbank	AAA	15-Nov-11	6.69%	3.02%	27	51
Rentenbank	AAA	15-Apr-13	7.75%	3.38%	32	43
Rentenbank	AAA	23-Sep-14	5.59%	3.78%	40	48
Rentenbank	AAA	15-Dec-17	7.49%	4.68%	57	63
Solid Energy	NR	7-Dec-16	8.00%	5.84%	193	202
Tauranga CC	A+	2-Dec-13	7.05%	4.04%	85	94
Tauranga CC	A+	15-Apr-16	6.25%	4.91%	115	125
Telecom (TCNZ Finance Ltd)	A	22-Mar-13	6.92%	4.74%	170	182
Telecom (TCNZ Finance Ltd)	A	15-Jun-13	8.50%	4.89%	180	190
Telecom (TCNZ Finance Ltd)	A	15-Jun-15	8.65%	5.46%	190	198
Telecom (TCNZ Finance Ltd)	A	22-Mar-16	7.04%	5.60%	185	195
Telstra Corp Ltd	A	24-Nov-11	6.99%	3.30%	53	79
Telstra Corp Ltd	A	24-Nov-14	7.15%	4.67%	125	133
Telstra Corp Ltd	A	11-Jul-17	7.52%	5.73%	170	177
Transpower Finance	AA	12-Nov-19	7.19%	5.57%	118	118
Transpower Finance	AA	10-Jun-20	6.95%	5.69%	123	124
Vector Ltd (VCT050)	BBB+	15-Oct-14	7.80%	5.10%	170	178
Warehouse (WHS010)	NR	15-Jun-15	7.37%	6.41%	285	293

MONTH END BOND PRICING: RATED ISSUES

Issuer	S&P Rating	Maturity	Coupon (%)	Mid yield (%)	Spread to swap	Spread to Govt
Watercare Services Ltd	AA	19-Oct-11	6.86%	2.96%	40	46
Watercare Services Ltd	AA	15-May-14	6.79%	4.24%	95	103
Watercare Services Ltd	AA	16-Feb-15	5.74%	4.58%	110	118
Watercare Services Ltd	AA	18-May-16	7.14%	4.98%	120	130
Wellington Int'l Airport	BBB+	15-Nov-13	7.50%	5.82%	264	273
Wellington Regional Council	AA	17-Feb-12	6.21%	3.40%	55	81
Wellington Regional Council	AA	16-Dec-13	5.60%	3.80%	60	69
Westpac NZ	AA	19-Dec-11	7.24%	3.39%	59	86
Westpac NZ	AA	28-Nov-13	7.05%	4.36%	117	126
Westpac NZ (GG)	AAA	22-Jul-14	5.74%	3.77%	44	52

Note: (*) denotes quarterly coupons; (a) denotes price

MONTH END BOND PRICING: UNRATED AND HYBRID ISSUES

Issuer	S&P Rating	Maturity	Coupon (%)	Mid yield (%)	Spread to swap	Spread to Govt
ANBHA	A+	Perp		107.70		
Air New Zealand	NR	15-Nov-16	6.90%	7.06%	317	326
APN Media (NZ) Ltd	NR	15-Mar-16	7.86%	10.47%	673	683
ASBPA	A-	Perp		73.00		
ASBPB	A-	Perp		70.00		
BISHA	A+	Perp		104.20		
BNZ Income Sec (II)	A+	Perp		108.00		
Prime Infrastructure (PIN020)	Ba3	30-Nov-12	9.00%	11.80%	882	897
CBA	A+	15-Apr-15	8.82%	92.75		
Fletcher Building (FBI080)	NR	15-Mar-12	7.50%	6.20%	337	359
Fletcher Building (FBI040)	NR	15-Mar-13	8.90%	6.50%	346	358
Fletcher Building (FBI050)	NR	15-May-14	9.00%	6.60%	330	339
Fletcher Building (FBI060)	NR	15-May-16	9.00%	6.80%	302	312
Fletcher Building (FBI100)	NR	15-Mar-17	7.50%	6.95%	300	307
FCGHA	NR	Perp	0.00%	80.00		
Genesis Capital	BB-	15-Jul-41	8.50%	106.25		
Goodman Fielder NZ Ltd	NR	16-May-16	7.54%	8.11%	433	443
GPG* (GFN030)	NR	15-Nov-12	8.30%	8.00%	503	518
GPG* (GFN020)	NR	15-Dec-13	9.00%	8.75%	555	564
Z Energy (ZEL010)	NR	15-Oct-16	7.35%	6.63%	275	284
Z Energy (ZEL020)	NR	15-Aug-18	7.25%	6.90%	268	271
Infratil* (IFT040)	NR	15-Nov-11	8.50%	6.80%	405	429
Infratil* (IFT060)	NR	15-Nov-12	7.75%	7.50%	453	468
Infratil* (IFT070)	NR	15-Sep-13	8.50%	7.50%	436	445
Infratil* (IFT013)	NR	15-Nov-15	8.50%	7.65%	399	408
Infratil* (IFT150)	NR	15-Jun-16	8.50%	8.00%	420	430
Infratil* (IFT160)	NR	15-Jun-17	8.50%	8.00%	400	407
Infratil* (IFT090)	NR	15-Feb-20	8.50%	8.90%	450	448
Kiwi Capital Securities	BBB	Perp		104.20		
Rabobank (RBOHA)	AA-	8-Oct-18		84.80		
Rabobank (RCSHA)	AA-	18-Jun-19		5.45		
Sky City* (SKC030)	NR	15-May-15	7.25%	6.80%	326	335
SKY TV (SKTFA)	NR	16-Oct-16		90.00		

Note: (*) denotes quarterly coupons; (a) denotes price

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e-mail nzeconomics@anz.com