

THE STRUCTURAL ASPECT

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Page 2: Economic overview

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Page 4: Economic comment – NBBO update

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Page 6: Economic comment – global watch

- > Global December quarter GDP data continues to print extremely weak. US data generally took a turn for the worst last week, and the housing market remains very poor. Australian data appeared to be the sole exception to weak data around the globe, with it printing stronger than expected across the board.

Page 8: Interest rate strategy

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Page 9: Currency strategy

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Page 10: Currency research – Fair value update

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Page 13: Data and event calendar

Page 15: Data watch

Page 16: Key forecasts

ECONOMIC OVERVIEW

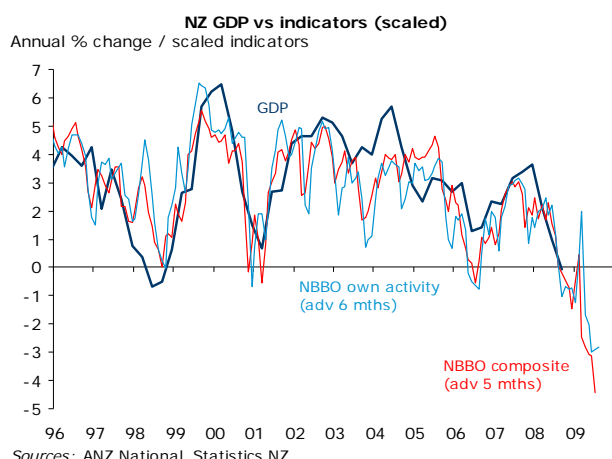
We continue to differentiate ourselves from our peers in relation to the structural as well as the cyclical aspects to this economic cycle. In a de-leveraging world, the sacrificial pawn is growth. Most attention this week will centre on the RBA. There is no doubt NZ is weaker than Australia, but a smaller RBA move or pause may leave the market second guessing the RBNZ a week later.

What's ahead?

- > **February ANZ Commodity Price Index** (Wednesday 1500 NZDT).
- > **March quarter Wholesale Trade Survey** (Thursday 1045 NZDT). Given weak retail trade results, we expect this survey to paint a similar picture.

What's the view?

The domestic dataflow continues to disappoint, but is consistent with the downward revisions made to our growth forecasts last week. We may be sticking out by a long way compared to other forecasters at present by calling for a close to 3 percent contraction in GDP for 2009, but we expect others to start playing catch-up fairly soon. Indeed, last week's National Bank *Business Outlook* survey, which is the best timely leading barometer of the economy and the first real economic read of 2009, points to a very tough year ahead. Throw in poor building consents (the lowest since the series began in April 1965), easing tourist numbers and weak credit growth and there is not much to cheer about. Credit card billings recovered, but this was after December's big fall and if you average out the two months they're down overall. And there is now official recognition of the extent of the weakness in the NZ economy (or as they put it, there are downside risks to Treasury's downside scenario).



But the key message we really want to hammer home is that this cycle is more than the conventional or traditional downturn. For sure it's deeper and more pronounced than normal, which in itself is a differentiating factor from most cycles. However, we should not lose track of the structural aspect, namely returning NZ's external position to a more sustainable footing.

NZ faces significant structural weakness within the economy, namely, a huge current account deficit (and deteriorating in the near-term), dismal household saving rates (and by implication over-consumption by consumers), still over-inflated housing value relative to income and high household debt levels.

When the imbalances were building up, all sorts of reasons were given as to why it can continue. An excess glut of savings from emerging Asia meant we could run current account deficits in excess of 7 or 8 percent indefinitely, so some thought. And since the assumption back then was that asset prices only go up, households adjusted their consumption and savings behaviour by indulging in the former and depleting the latter, relying on their paper wealth to see them through.

Of course the global financial crisis has put paid to many such wisdoms. The world has changed. Global capital is now scarce, so you need to work harder (and pay more) to secure it. NZ needs to adapt to meet the new economic paradigm, where attention is focused back on traditional fundamentals and the balance between risk and return.

There are those who think otherwise, believing that the world will quickly go back to the way things were. No doubt these people probably think mum and dad investors will soon flock back to finance companies and in another two years the numbers in the industry will return to 80 plus (no disrespect to the good players in the sector), and we'll see 2000-2007 behaviour all over again. Yeah right! Regulators are having something to say about that in the first instance. Yet it's also a simple domestic corollary to the global financial crisis and confidence/trust aspect to it. Wounds take time to heal. We should not underestimate the significance of the largest financial crisis since the 1930s, which hit home again in the weekend when it was announced that the US government was set to boost its equity stake in a large financial services group to 36 percent, and another two smaller regional banks in the US failed.

Indeed, we were amused last week with some commentators saying now was the time to buy houses. The reasoning looks secure when you consider low mortgage rates, poor investment alternatives such as falling term deposit rates and

potentially recovering migration. Rather ironically, little mention was made of rising unemployment, the extended nature of NZ house prices relative to income, the global de-leveraging process currently underway and attention being paid to fundamentals. The reality is that if this is indeed the trough to house prices, it would be the shortest cycle on record. If NZ manages to "house" or borrow its way out of this financial jam, then the current account deficit will be going up during the biggest credit crisis of our lifetime. To us, this doesn't stack up and rating agencies would hardly view such a dynamic in a positive light anyway.

So while we may well see some fits and starts, intertwined with bouts of euphoria when it comes to housing (as is normally the case with NZ'ers), we'd encourage people to look at the big picture.

In so far as macro themes go for NZ, we can't go past the need to de-leverage, particularly in the household sector. These are critical aspects to improving NZ's external position by running a smaller current account deficit. Such an adjustment will no doubt extend over a number of years, just as the imbalances that have built up occurred over a period of time. The end result will be sub-par growth over the next few years. So while we look for a deep and pronounced recession in 2009 (but bungy cord induced recovery in 2010) we are also pencilling in lower trend growth on average over a number of years; that is we expect growth to average around 2 percent per annum over the next four years, compared to the 3 percent average of the past decade. The sacrificial lamb for a de-leveraging economy is growth.

Another area where we stick out from consensus is our view on the currency. Our mid-year target is 45 cents against the USD, heading to the low 40s by the end of the year. We will not rule out a move sub-40, and indeed suspect that there is a big risk of that occurring. Our currency view is influenced by our downbeat global picture, but is also heavily dictated by what we see as an inevitable structural adjustment process for the NZ economy. And when we start thinking about how quickly the NZD can move, it also leaves us coy about flagging the OCR as low as 2 percent or below over coming months.

Looking ahead to this week, it is a rather quiet one locally, but a busy one across the Tasman. In NZ, we have the ANZ Commodity Price Index for February out on Wednesday. Following six consecutive monthly declines, commodity prices for NZ's major exports are down 30 percent from their July 2008 peak so far. Of interest will be whether prices are starting to show signs of stabilising. The only other local data is the December quarter wholesale trade survey on Thursday. This is not a market moving release, but nonetheless is used as an input into our GDP estimates. Given the

weakness in retailing, we expect the wholesale trade data to display similar weakness.

The big event in Australia is the RBA decision on Tuesday. Our Australian colleagues are expecting a 25bp cut, taking the cash rate to 3 percent. Market expectations are more consistent with a 50bp cut, though there has been recent talk about whether the RBA may actually pause, in light of the recent run of positive Australian data and a more upbeat assessment by RBA Governor Stevens two weeks ago. While there is no doubt that material differences exist between NZ and Australia in so far as momentum is concerned, early and aggressive moves by the RBA were key factors dragging the NZ market towards the same. A smaller RBA move or pause may leave the local market second guessing the size of the RBNZ's cut a week later.

The content of the RBA statement, as always, will be influential in terms of re-pricing market expectations of the terminal cash rate. Australian Q4 GDP data is also due on Wednesday. GDP prints around the world have been dismal, but Australia is expected to fare much better, with our Australian economists expecting a flat print.

Further a field, the BoE and ECB also make interest rate announcements, with the market expecting 50bp cuts from both. For the US, speeches from a number of policymakers as well as key ISM and non-farm payrolls data will be the focus.

Recent local data...

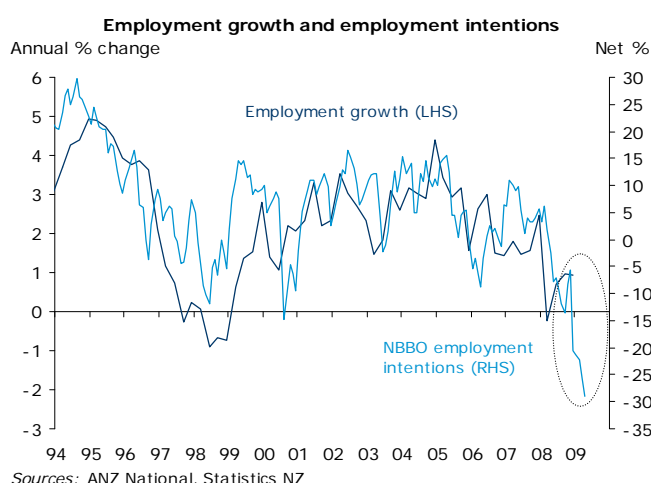
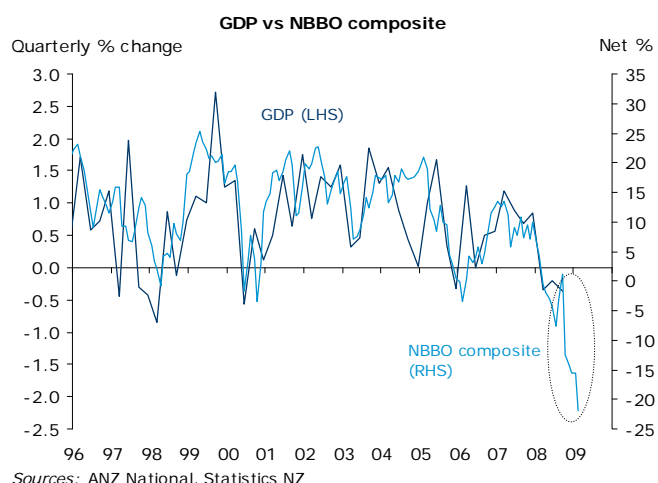
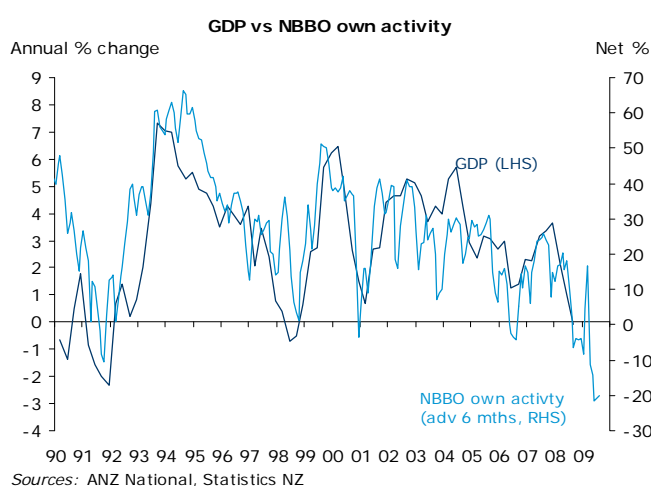
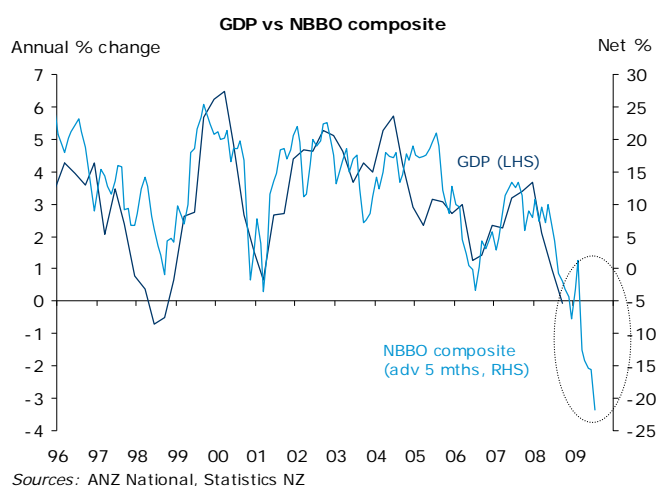
- > **Credit Card Spending (January):** A 1.7 percent rebound was recorded following the 2.2 percent decline the previous month.
- > **RBNZ Survey of Expectations (March qtr):** Two-year ahead inflation expectations fell from 2.7 percent to 2.3 percent.
- > **Overseas Merchandise Trade (January):** A trade deficit of \$187 million was recorded, taking the annual deficit to \$5,483 million.
- > **NBNZ Business Outlook (February):** Headline business confidence fell 6 points to -41. Other activity gauges remain at, or near, historical lows.
- > **Credit Growth (January):** Total household claims rose by 0.1 percent, following growth of 0.2 percent in December.
- > **Building Consents Issued (January):** Residential consent issuance fell 13.1 percent to be down 53.4 percent from a year ago.
- > **External Migration (January):** A net gain of 660 people was recorded for the month, taking the annual gain to 4,538.

NATIONAL BANK *BUSINESS OUTLOOK* UPDATE

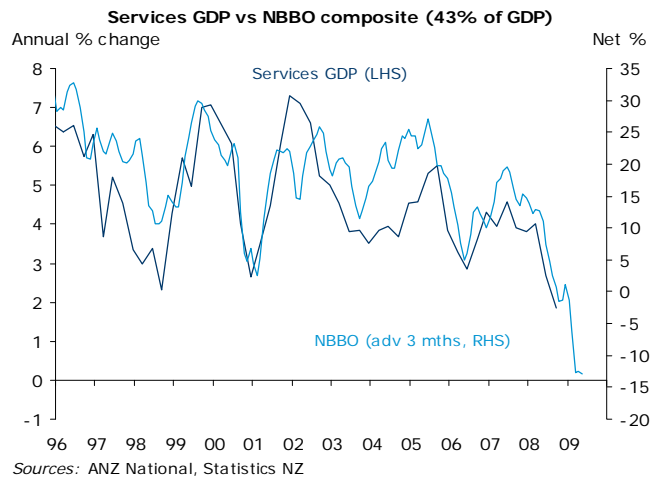
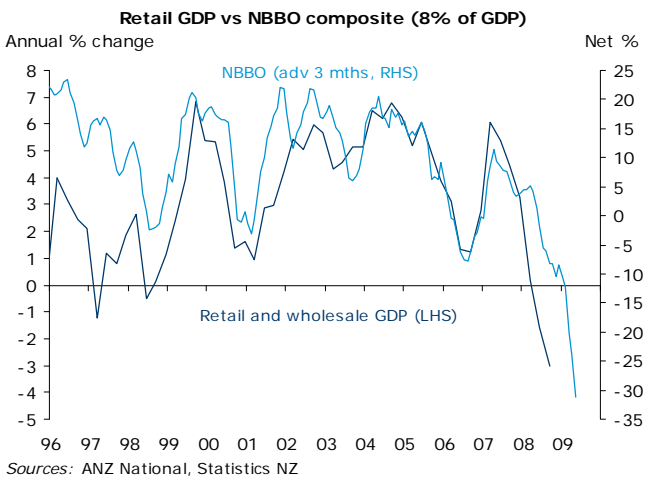
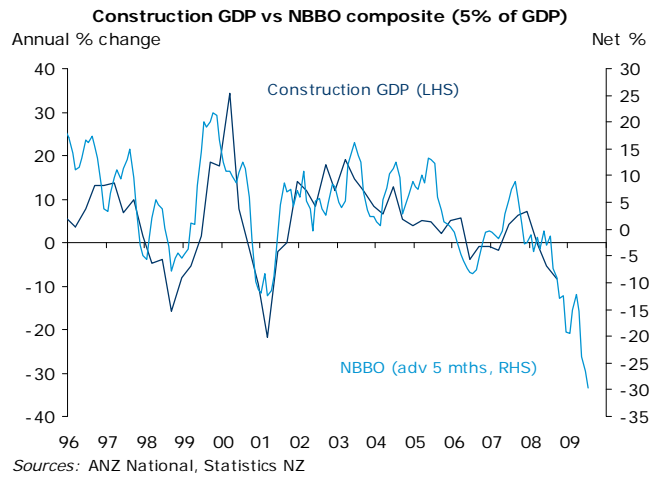
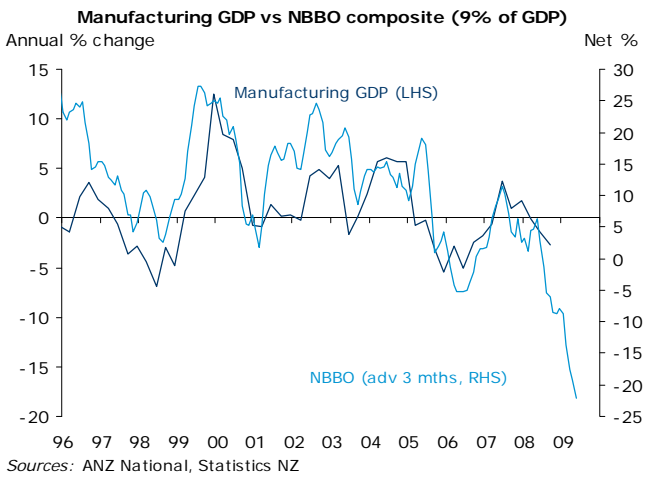
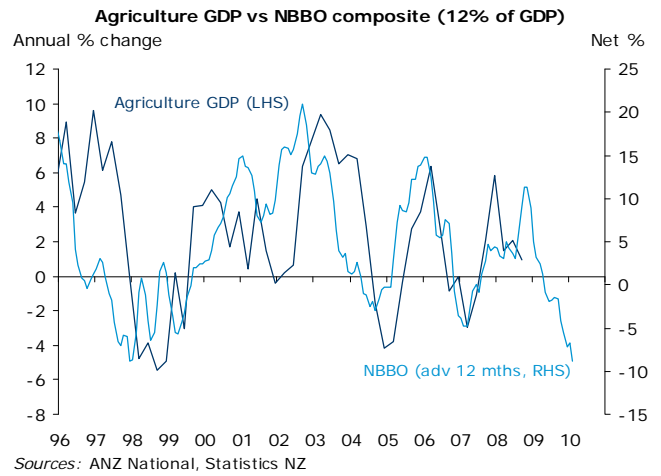
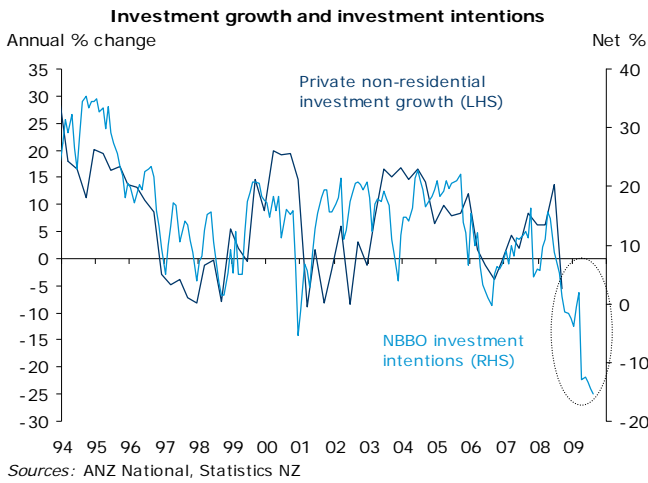
The first National Bank *Business Outlook* survey of 2009 showed a uniform deterioration across the board. The own activity reading may have been up very slightly, but investment and employment intentions continue to plumb new lows. Overall, our NBBO composite indicator¹ (which has a strong correlation with GDP growth) is pointing to deteriorating prospects early this year and is extensive across sectors.

Our NBBO composite indicator is pointing towards GDP contracting in excess of 3 percent (in annual percent terms). This in itself is worrying, but it is now also showing weakness extending across sectors, and also recently – across regions. And despite resilient employment growth towards the end of last year, the employment intentions reading suggests some sharp quarterly contractions lie ahead. And we could well be set to see the sharpest fall in private investment (ex-residential) since the early 1990s.

Looking at the sectoral breakdown, it was a case of every sector in the economy experiencing declining activity. Construction and manufacturing are, once again, set to experience the deepest contraction in economic activity – according to our sectoral composite indicators. The lower NZD is clearly not much of a help to manufacturers facing falling export demand as the global recession bites. The retail sector continues to fare poorly, and the services sector, which accounts for over 40 percent of GDP, will do well to achieve flat growth this year.



¹ Our composite measure uses the forward looking activity indicators from the National Bank Business Confidence Survey (own activity, investment intentions, employment intentions and profit expectations), combining them into a single index. The sectoral composite indicators use the same methodology as the economy-wide indicator.



GLOBAL WATCH

Global December quarter GDP data continues to print extremely weak. US data generally took a turn for the worst last week, and the housing market remains very poor. Australian data appeared to be the sole exception to weak data around the globe, with it printing stronger than expected across the board.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	S&P/CS Composite-20 (Dec) – yoy	-18.3%	-18.6%	-18.2%	Weaker
	Consumer Confidence (Feb)	35.0	25.0	37.4	Weaker
	House Price Purchase Index (4Q) – qoq	-2.0%	-3.4%	-2.0%	Weaker
	Richmond Fed Manufacturing Index (Feb)	-49	-51	-49	Weaker
	Durable Goods (Jan)	-2.5%	-5.2%	-4.6%	Weaker
	Continuing Claims (w/e Feb-15)	5029K	5112K	4998K	Weaker
	New Home Sales (Jan) – mom	-2.1%	-10.2%	-9.5%	Weaker
	GDP Annualised (4Q P)	-5.4%	-6.2%	-3.8%	Weaker
	Chicago Purchasing Manager (Feb)	33.0	34.2	33.3	Stronger
	University of Michigan Confidence (Feb F)	56.0	56.3	56.2	Stronger
Euro-zone	Industrial New Orders (Dec) – mom	-4.9%	-5.2%	-5.4%	Weaker
	M3 Money Supply (Jan) – yoy	6.9%	5.9%	7.5%	Weaker
	Economic Confidence (Feb)	68.5	65.4	67.2	Weaker
	CPI (Jan) - mom	-0.8%	-0.8%	-0.1%	In-line
	Unemployment Rate (Jan)	8.1%	8.2%	8.1%	Weaker
UK	GDP (4Q P) – qoq	-1.6%	-1.5%	-1.5%	In-line
	GfK Consumer Confidence (Feb)	-39	-35	-37	Stronger
Asia Ex-Japan					
<i>South Korea</i>	Business Survey – Manufacturing (Mar)	-	50	49	-
<i>Singapore</i>	CPI (Jan) – mom	-0.6%	-0.1%	-0.6%	Stronger
	GDP Annualised (4Q F)	-	-16.4%	-16.9%	-
	Industrial Production (Jan) – mom	-3.4%	-4.4%	-7.6%	Weaker
<i>Hong Kong</i>	M2 Money Supply (Jan) - yoy	-	12.8%	12.0%	-
	GDP (4Q) – qoq	-2.1%	-2.0%	-0.7%	In-line
	Exports (Jan) – yoy	-20.5%	-21.8%	-11.4%	Weaker
	Imports (Jan) - yoy	-23.5%	-27.1%	-16.2%	Weaker
	M3 Money Supply (Jan)	-	0.4%	-1.2%	-
<i>Taiwan</i>	Export Orders (Jan) – yoy	-38.0%	-41.7%	-33.0%	Weaker
	Industrial Production (Jan) - yoy	-37.7%	-43.1%	-32.0%	Weaker
	Unemployment Rate (Jan)	5.2%	5.3%	5.0%	Weaker
<i>India</i>	GDP (4Q) - yoy	6.1%	5.3%	7.6%	Weaker
<i>Philippines</i>	Total Imports (Dec) – yoy	-	-34.2%	-31.5%	-
<i>Thailand</i>	GDP (4Q) - qoq	-4.7%	-6.1%	0.4%	Weaker
	Benchmark Interest Rate	1.50%	1.50%	2.00%	In-line
	Exports (Jan) – yoy	-	-25.3%	-15.7%	-
	Imports (Jan) – yoy	-	-36.5%	-8.8%	-
	Manufacturing Production (Jan)	-23.0%	-21.3%	-18.5%	Stronger
Japan	Jobless Rate (Jan)	4.6%	4.1%	4.3%	Stronger
	Household Spending (Jan) – yoy	-5.5%	-5.9%	-4.6%	Weaker
	National CPI (Jan) – yoy	0.0%	0.0%	0.4%	In-line

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Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
Japan cont.	Industrial Production (Jan P) – yoy	-10.0%	-10.0%	-9.8%	In-line
	Retail Sales (Jan) – mom	-0.5%	0.6%	-1.9%	Stronger
	Housing Starts (Jan) – yoy	-14.9%	-18.7%	-5.8%	Weaker
Australia	Wage Cost Index (4Q) – qoq	0.9%	1.2%	1.0%	Stronger
	Construction Work Done (4Q)	-1.5%	1.7%	5.5%	Stronger
	Private Capital Expenditure (4Q)	-3.0%	6.0%	1.6%	Stronger
	Private Sector Credit (Jan) – mom	0.3%	0.6%	-0.2%	Stronger

INTEREST RATE STRATEGY

The past week has been one of consolidation for the swap market. However, this masks more sinister considerations (credit ratings, inflation and issuance) that have knocked the bond market's confidence, steepening the yield curve. With a 75bp rate cut now fully priced in for next week's RBNZ MPS, immediate prospects for lower rates are limited. However, with term rates set to remain low, borrowers should take the opportunity to enjoy low floating rates.

Market themes ...

- > Global bond markets have been disappointed by Quantitative Easing (QE), which has done little to keep a lid on yields thus far.
- > Instead, long term risk premiums are rising on possible sovereign credit ratings downgrades, the massive issuance that lies ahead, and the potential for a rise in long term inflation.
- > While we remain circumspect with regard to the economy, and are mindful of the downside risks, we are nearing a low in the easing cycle.

Review and outlook ...

The economy remains on a weak footing, and while downside risks dominate, it is likely that we have seen the bulk of the move lower in interest rates. However, as always, this time will be different. In the past, interest rates have tended to start rising several weeks before the last rate cut. That time would be about now if you believed our view (and the markets'), which has the RBNZ making its last cut in April. So what's different this time? Plenty of things, but the most destructive are blockages in the credit market, the potential for a sharp rise in unemployment, and the synchronised nature of the global downturn. These factors will tend to blunt the effectiveness of monetary policy, and delay the eventual recovery. Low rates aren't much use if you can't get hold of credit; a low exchange rate isn't much use if there's no demand for exports. It is therefore likely that interest rates won't be under the same pressure to anticipate the eventual recovery this time. And as the recovery gets further delayed, there will be scope for medium term rates (i.e. 3-5 year swaps) to fall as an extended (rather than lower) OCR gets priced in.

Looking immediately ahead – the key event this week is tomorrow's RBA meeting, where some commentators are calling for a pause. A pause is possible, but would be de-stabilising. Instead, we favour a 25bp cut, and a reasonably stern tone. Whatever happens, anything short of 50bps is likely to disappoint the market. That could set the tone

for next week's MPS, but it's worth remembering that so far this cycle, Bollard hasn't disappointed.

Borrowing strategies we favour at present

While the 2 year and 3 year swap have held steady over the past week, the 1 year has moved to a new low, and the long end has moved higher. This "pivoting" of the curve makes decision making more difficult for borrowers. What's the best strategy? Riding the short end lower, or hedging now before the long end gets away on you? We favour the former. Not only does the latter strategy assume the long end does get away, but it also comes at a reasonably high opportunity cost – namely lower rates now. Not only are these likely to be a welcome breath of fresh air for businesses under pressure, but they are likely to more than make up for mild rises in term rates.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔	75bps is priced in, and that's a lot.
NZ data	↔/↓	NBBO Survey a shocker.
Fed Funds/ front end	↔	0% FF puts focus on QE, but this hasn't yet impacted. US payrolls set to be very soft.
RBA	↔/↑	Market still gunning for a 50bp cut, seems aggressive.
US 10 year	↔/↑	Bond yields are starting to buckle under the pressure of issuance, long term inflation.
NZ swap curve	↔/↑	Steeptenors still very much in focus. Keep the faith.
Flow	↔	Market is consolidating.
Technicals	↔/↓	Short term range trade. Medium term rally potential.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 12-Mar-09	-69	-75
Thu 30-Apr-09	-121	-126
Thu 11-Jun-09	-130	-127
Thu 30-Jul-09	-131	-128
Thu 10-Sep-09	-125	-126
Thu 29-Oct-09	-127	-125
Thu 10-Dec-09	-131	-125

Trading themes we favour at present

The 2yr–10yr steepener remains a favoured trade. Progress is set to be reasonably slow, but steady nonetheless. We had been of the view that QE would be a limiting factor for this trade. However the past week has made it clear that the market has reservations about a possible increase in long term inflation, and is scared of the supply that's coming. We also think there's very little upside in betting on more than a 75bps cut, and on that basis we see value in paying the 2mth OIS ahead of the MPS.

CURRENCY STRATEGY

The NZD will remain under pressure this week, as waning risk appetites sees peripheral currencies shunned. We could be set for a big move against the AUD should the RBA and Australian Q4 GDP data surprise.

Market themes...

- > More bleak economic data around the world.
- > US government set to take an increased equity stake in a troubled financial institution.
- > Yen weakness the big standout.
- > Safe haven flows dominating still.

Review and outlook...

The NZD moved below 0.50 at the end of last week, and looks vulnerable as a new trading week starts. We remain wary of a technical short-squeeze higher at some point, as tends to occur when a key support level breaks. Irrespective of whether the NZD stays sub-0.50 or not this week, the medium-term direction is clear. We remain bearish on the NZD, and have been for a while. We are comfortable with our mid-year target of 0.45 and end of year target of 0.41. Indeed, we will not rule out a move below 0.40 at some point this year.

In terms of the short-term influences, we can't get past increased safe haven flows. The global economic dataflow continues to be bleak, and as yet there is no sign that things are stabilising. In fact, based on the forward looking indicators, it appears that prospects are deteriorating in Q1, after an already dismal Q4 last year. There is only one safe haven play at present, and it is the USD. Even gold, which benefited from safe haven buying, has lost some lustre of late. And the yen, which earlier this year was seen as the primary safe haven destination, has fallen by the wayside as it became clear that the Japanese economy is contracting on a scale not seen for some time. And so, the USD strengthens by default. And with that, the NZD heads lower.

From a fundamental perspective, the state of NZ's external imbalances and weakness in the economy (as evidenced by last week's National Bank business survey and plummeting building consents data) highlight the need for a lower NZD. With fiscal policy being constrained by structural deficits and our view that the OCR will not have too much further to fall, it falls on the currency to do more.

This week, the local dataflow is light, so the NZD will again be dictated to by offshore. It could get some lift from the RBA decision tomorrow and

Australian Q4 GDP release on Wednesday, should both surprise. But this will only serve to accentuate the differences between the two economies, leading to a further move in the NZD/AUD cross lower. The BoE and ECB decisions may have some influence on the currency market, but it will be developments in Eastern Europe and Western bank's exposures there that will drive the GBP and EUR. In the US, ISM and payrolls are the key releases. More nasty reads will see risk aversion rise again, and with it the USD.

From a technical perspective, the NZD continues to struggle and is expected to trade at a lower range of 0.4960 to 0.5170 for the week ahead. The NZD/AUD cross appears happy to trade the current 0.7800 to 0.8050 range, though we still see downside potential.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↔/↓	RBA pause this week a risk.
Commodities	↔/↓	Hards still outperforming softs.
Partial indicators	↓	NZ indicators still worse but Australia's can't be far behind.
Technicals	↓	0.4960 to 0.5170 range.
Sentiment	↔	Risk aversion dominating.
Other	↔	Dairy prices look to be stabilising.
On balance	↔/↓	Decline could extend in the near-term.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models
Fair value – short-term	↔/↑	Moved below short-term fair value model.
Yield	↓	Differential still narrowing.
Commodities	↔/↓	Dairy prices appear to be stabilising at low levels.
Risk aversion	↔/↓	To remain high given US bank concerns.
Partial indicators	↔	US's still nasty but NZ's starting to compete.
Technicals	↔/↓	0.7800-0.8050 range.
AUD	↔/↑	RBA and Australia Q4 GDP could assist.
Sentiment	↔	All about risk aversion.
Other	↔/↓	USD still king of safe haven destinations.
On balance	↔/↓	Are we seeing the next leg lower now?

CURRENCY FAIR VALUE UPDATE

We derive 'structural' fair value estimates across a range of currencies, based on an average of seven different specifications. These specifications suggest fair value for the NZD/USD sits at the top of the commonly quoted 0.60 to 0.65 cent range, and this typically forms the medium-term anchor behind our forecasts. Our estimates also suggest the AUD and GBP are considerably undervalued, and the JPY overvalued. While we need to keep such specifications in the back of our minds when looking at currency movements, history has shown that currencies can deviate from equilibrium for considerable periods, and we expect this cycle to be no different.

Long-run currency anchors are an essential tool to assist with currency forecasting. They help provide a guide as to where the currency is likely to reside on average over the currency cycle. There are an array of alternative approaches or inputs that can be used in estimating long-run currency models. In light of this we follow the approach of a former Fed Governor and "use as many models as possible but trust none of them".

Long-run anchors are necessary for three reasons.

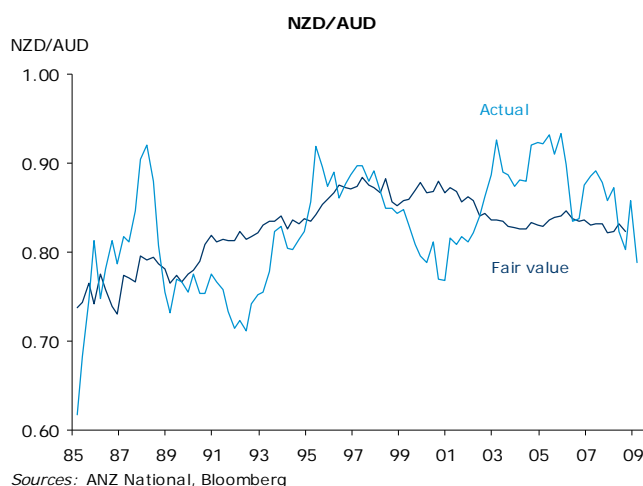
- > They influence where currency forecasts inherently return to in the medium-term as the economic fundamentals gradually reassert themselves.
- > They are of interest for long-term budgeting purposes (investment decisions are long-term in nature) as they typify where the currency is likely to sit on average.
- > They communicate a degree of risk surrounding the currency outlook. Large deviations from fair value raise the risk profile on a sharp correction.

Moreover, some "science" to forecasting is essential. It's simply not acceptable to pull numbers out of the air. While most are on a hiding to nothing in trying to pick near-term currency movements, and we know currency cycles can persist for some time, economists and strategists need to be on top of major macro currency drivers within a medium-term context. Using models with structural specifications help to assess inevitable tensions as forces pull in opposing directions. Often we forget that currencies are two sided coins, driven by relativities on both sides. In the case of the NZD/USD for instance, this means it is the relativity across both NZ and US macro variables that is important, and the same applies for the EUR/USD and USD/JPY.

In determining fair value, we use an array of specifications that include inputs such as relative inflation, terms of trade, current account balances, productivity, unit labour costs, GDP volatility and short and long-term interest rates. All are couched in some form or another in economic theory, although some specifications also involve a kitchen sink style approach. We then simply average across seven specifications to derive fair value.

The key results from our modelling are that:

- > The USD is overvalued against a number of "risk" currencies, namely the NZD, AUD and GBP. This is not all too surprising given the bout of risk aversion that has weighed on these currencies over recent times.
- > The USD is found to be broadly around fair value against the EUR (1.25), the CHF (1.23) and the CAD (1.22).
- > The broad fair value of the USD has generally fallen over time. For the NZD and AUD fair value has generally trended up.
- > Fair value for the NZD resides around 0.65, which is around 5 cents higher than it was in 2003. This is higher than other fair value specifications we have looked at of late, namely the macro-balance approach, which potentially suggests fair value is in the lower 50s. Going forward we would expect the structural estimate to fall a bit given an expected decline in NZ's terms of trade. However, our models already capture a degree of this with terms of trade inputs into the model de-trended to remove cyclical effects.
- > In a relative sense, the NZD is undervalued against the majority of other currencies, and as much as 31 percent against the likes of the JPY. However, it is broadly around fair value against the AUD (0.82) and GBP (0.37). What is interesting against the AUD though is that fair value has fallen from as high as 0.88 in 1998.



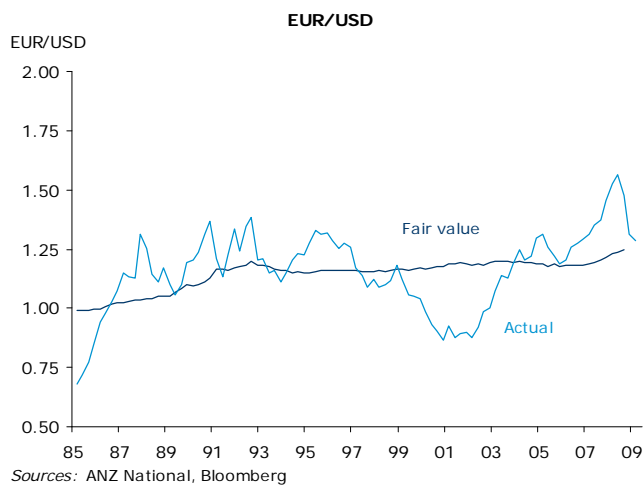
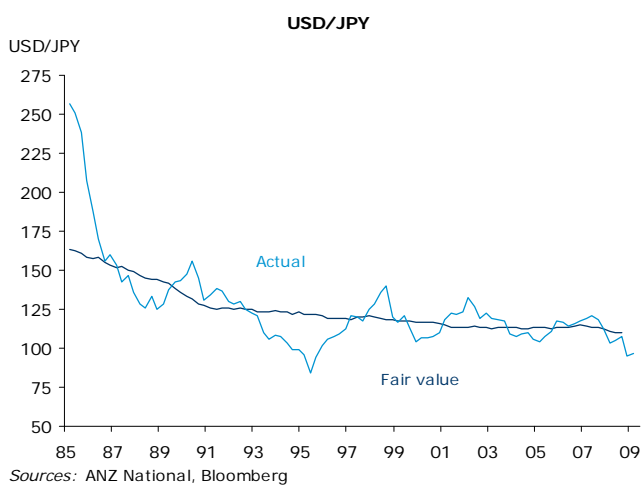
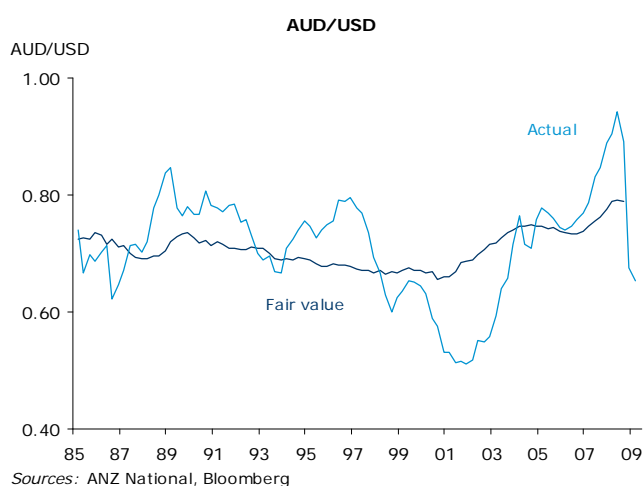
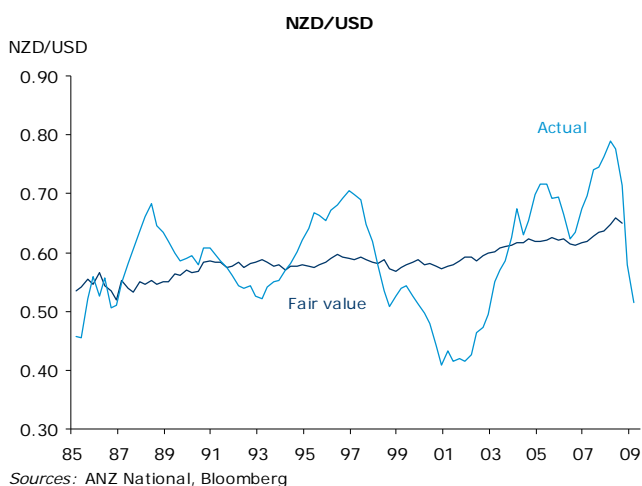
Currency	Spot	Fair value	Deviation from fair value (%)
NZD/USD	0.50	0.65	-23.4
AUD/USD	0.64	0.79	-19.4
EUR/USD	1.26	1.25	1.2
USD/JPY*	97.6	110.0	-11.3
GBP/USD	1.43	1.76	-19.0
USD/CAD*	1.28	1.22	4.5
USD/CHF*	1.17	1.23	-5.0
USD/SEK*	9.07	7.81	16.2

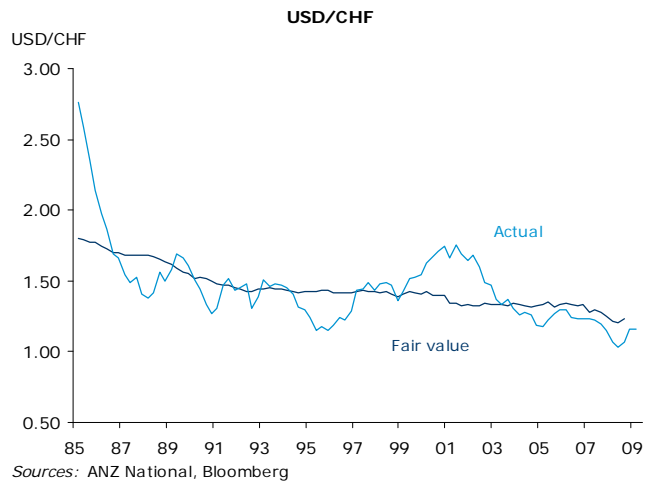
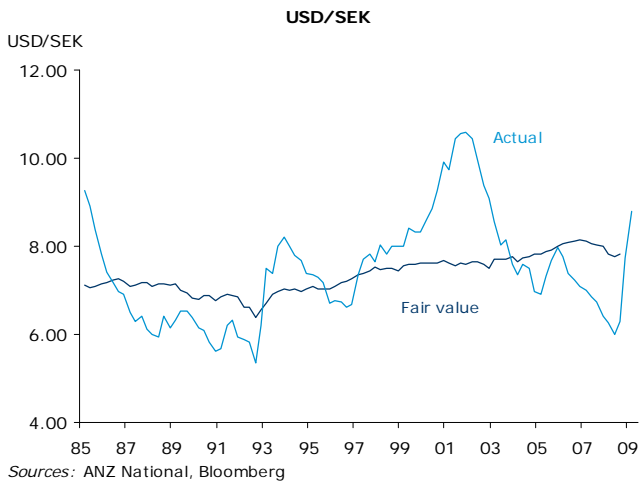
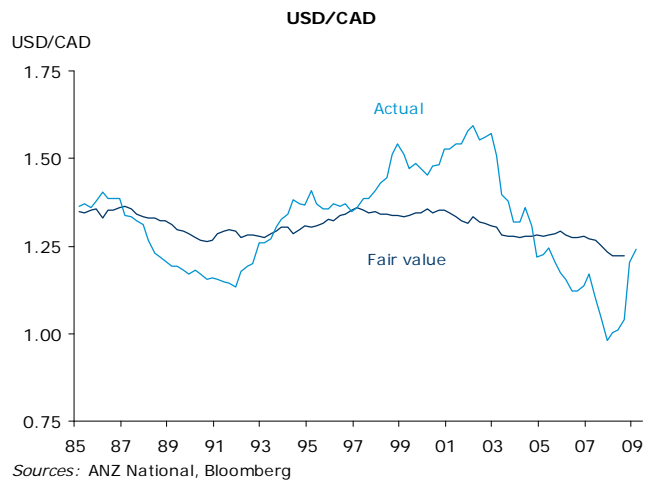
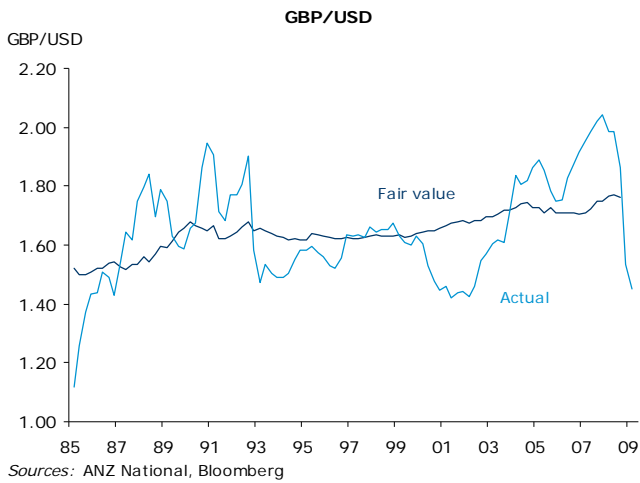
* A positive deviation from fair value for these currencies represents undervalued.

Collectively, a lot of the results pass simple eye-ball and common sense tests, and appear relatively stable, as you would expect or hope when thinking about structural aspects to the currency.

While we need to keep such specifications in the back of our minds when looking at currency movements, history has shown that currencies can deviate from equilibrium for considerable periods, and we expect this cycle to be no different. Hence, we don't see our fair value estimates as any reason to alter our bearish stance towards the NZD over the coming years.

In thinking about key currency drivers at present (both in a cyclical and structural sense) we remain strongly biased towards macro (external) balance measures of fair value considering the global credit backdrop. And as our recent research has shown, this implies a fair value for the NZD in the low 50s as opposed to the average across a multitude of equations.





DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
2-Mar	AU	AiG Performance of Manufacturing Index (Feb)	-	36.6	11:30
		TD Securities Inflation (Feb) – mom	-	0.8%	12:30
		HIA New Home Sales (Jan) – mom	-	-1.1%	12:30
		Company Operating Profit (4Q) - qoq	-2.0%	5.2%	13:30
		Inventories (4Q)	0.3%	0.7%	13:30
		RBA Commodity Index SDR (Feb) – yoy	-	29.1%	18:30
	JN	Labour Cash Earnings (Jan) – yoy	-1.2%	-0.8%	14:30
		Vehicle Sales (Feb) – yoy	-	-27.9%	18:00
	GE	PMI Manufacturing (Feb F)	32.2	32.2	21:55
	EC	PMI Manufacturing (Feb F)	33.6	33.6	22:00
		CPI Estimate (Feb) - yoy	1.0%	1.1%	23:00
	UK	Net Consumer Credit (Jan)	0.5B	0.3B	22:30
		PMI Manufacturing (Feb)	35.0	35.8	22:30
		Mortgage Approvals (Jan)	33K	31K	22:30
		M4 Money Supply (Jan F)	-	2.5%	22:30
3-Mar	US	Personal Income (Jan)	-0.2%	-0.2%	02:30
		Personal Spending (Jan)	0.4%	-1.0%	02:30
		PCE Deflator (Jan) – yoy	0.5%	0.6%	02:30
		PCE Core (Jan) - mom	0.1%	0.0%	02:30
		ISM Manufacturing (Feb)	34.0	35.6	04:00
		ISM Prices Paid (Feb)	33.5	29	04:00
		Construction Spending (Jan) - mom	-1.5%	-1.4%	04:00
		Fed's Rosengren Speaks to Bankers in Washington	-	-	05:30
		Fed's Lacker Speaks to Economists in Arlington, Virginia	-	-	06:45
	JN	Monetary Base (Feb) – yoy	-	3.9%	12:50
	AU	Current Account Balance (4Q)	-7350M	-9736M	13:30
		Retail Sales (Jan) - mom	-0.5%	3.8%	13:30
		Retail Sales Trend (Jan) - mom	-	0.0%	13:30
		RBA Cash Rate Target	3.00%	3.25%	16:30
	UK	PMI Construction (Feb)	34.2	34.5	22:30
4-Mar	US	Fed's Lockhart Speaks on US Economy, Central Bank at Tampa	-	-	02:00
		Pending Home Sales (Jan) - mom	-3.0%	6.3%	04:00
	NZ	RBNZ Governor Bollard appears before Select Committee	-	-	10.15
	EC	ECB's Trichet Speaks at Event in Frankfurt	-	-	06:30
		PMI Services (Feb F)	38.9	38.9	22:00
		PMI Composite (Feb F)	36.2	36.2	22:00
	AU	AiG Performance of Service Index (Feb)	-	41	11:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
4-Mar cont.	AU	Assistant RBA Governor Edey Gives Speech in Sydney	-	-	12:20
		Gross Domestic Product (4Q) - qoq	0.1%	0.1%	13:30
		Gross Domestic Product (4Q) - yoy	1.1%	1.9%	13:30
	UK	Nationwide Consumer Confidence (Feb)	38	40	13:01
		PMI Services (Feb)	41.9	42.5	22:30
		Official Reserves (Changes) (Feb)	-	-\$166M	22:30
	NZ	ANZ Commodity Price (Feb)	-	-4.3%	15:00
	GE	PMI Services (Feb F)	41.6	41.6	21:55
5-Mar	US	ADP Employment Change (Feb)	-640K	-522K	02:15
		Fed's Fisher Speaks at Texas Christian University	-	-	02:30
		ISM Non-Manufacturing Composite (Feb)	41.0	42.9	04:00
		Fed's Lockhart Speaks on US Economic Outlook in Miami	-	-	06:00
		Fed's Beige Book	-	-	08:00
	JN	Capital Spending (4Q)	-16.1%	-13.0%	12:50
	AU	Trade Balance (Jan)	1100M	589M	13:30
		Building Approvals (Jan) - mom	1.0%	-2.9%	13:30
	EC	GDP (4Q P) - qoq	-1.5%	-1.5%	23:00
6-Mar	UK	BoE Interest Rate Announcement	0.50%	1.00%	01:00
		PPI Input (Feb) - mom	0.2%	1.5%	22:30
		PPI Output (Feb) - mom	0.1%	0.1%	22:30
		PPI Output Core (Feb) - mom	0.2%	0.4%	22:30
	EC	ECB Announces Interest Rates	1.50%	2.00%	01:45
		Trichet Speaks at ECB Monthly News Conference	-	-	02:30
		ECB's Tumpel-Gugerell Speaks at Event in Frankfurt	-	-	05:00
	US	Non-Farm Productivity (4Q)	1.4%	3.2%	02:30
	US	Unit Labour Costs (4Q)	3.5%	1.8%	02:30
		Initial Jobless Claims (w/e Mar-1)	650K	667K	02:30
		Continuing Claims (w/e Feb-22)	5170K	5112K	02:30
		Factory Orders (Jan)	-35.5%	-3.9%	04:00
		Geithner Testifies at Hearing on US Treasury Budget	-	-	04:00
		Fed's Lockhart Speaks on U.S. Economy at Kennesaw State Forum	-	-	06:45
	AU	AIG Performance of Construction Index (Feb)	-	34.1	11:30
7-Mar	US	Change in Non-Farm Payrolls (Feb)	-650K	-598K	02:30
		Unemployment Rate (Feb)	7.9%	7.6%	02:30
		Average Hourly Earnings (Feb) - mom	0.2%	0.3%	02:30
		Consumer Credit (Jan)	-\$4.0B	-\$6.6B	09:00

Key: AU: Australia, EC: Euro-zone, GE: Germany, JN: Japan, NZ: New Zealand, UK: United Kingdom, US: United States.
Sources: Dow Jones, Reuters, Bloomberg, ANZ National Bank. All \$ values in local currency. (Note: all surveys are preliminary and subject to change).

NEW ZEALAND DATA WATCH

Key focus over the next four weeks: It is a quiet week locally this week. The next major focus is obviously the RBNZ's March *Monetary Policy Statement*, where we expect a 75 basis point cut. The other theme will be indicators for Q4 GDP, which we expect to confirm another contraction.

Date	Data/Event	Economic Signal	Comment
Wed 4 Mar (15.00)	ANZ Commodity Price Index (Feb)	-	-
Mon 9 Mar (10.45)	Value of Building Work Put in Place (Dec qtr)	Sharply lower residential construction	Residential construction work put in place is likely to contract sharply again. Non-residential construction will be key to watch.
Tue 10 Mar (10.45)	Electronic Card Transactions (Feb)	Still an underlying weak trend	The data can be volatile on a monthly basis. Nevertheless, we expect the trend of underlying weakness to remain.
circa 11 May	REINZ House Sales (February)	House price weakness	House sales to show some further signs of stabilisation, but house prices should face downward pressure.
Wed 11 Mar (10.45)	Overseas Trade Indexes (Dec qtr)	Terms of trade down again	While a lower NZD will see both export and import prices rise in the quarter (despite lower global commodity prices), import prices are likely to outperform and see the terms of trade fall.
Thu 12 Mar (10.45)	RBNZ <i>Monetary Policy Statement</i>	75bp cut	The domestic economy remains very weak, but it is the global scene that continues to concern. We expect a 75bp cut and for the door to be left open for more. We will be looking for any guidance on how long rates will remain low.
Fri 13 Mar (10.45)	Retail Trade Survey (Jan)	Still subdued	A small recovery may be possible after the fall recorded in December. Nevertheless, the broad trend will remain one of consumers' wallets generally remaining shut.
Mon 16 Mar (10.45)	Economic Survey of Manufacturing (Dec qtr)	Weak again	Recent PMI surveys as well as jobs growth for the manufacturing sector have been weak. This survey should reinforce this.
Fri 20 Mar (10.45)	External Migration (Feb)	Tourism under pressure	Visitor arrivals should remain under downward pressure give the global backdrop.
Fri 20 Mar (15.00)	Credit Card Spending (Feb)	Underlying weakness	While volatile on a monthly basis, the underlying trend should remain soft.
Wed 25 Mar (13.00)	Westpac McDermott Miller Consumer Confidence (Jun qtr)	Reality check	Despite lower mortgage rates, the reality of the economic situation is likely to hit home and will see consumer sentiment remaining subdued.
Thu 26 Mar (10.45)	Balance of Payments (Dec qtr)	The wrong direction	A still large investment income deficit and deteriorating trade balance is expected to see the current account deficit widen to 9 percent of GDP.
Fri 27 Mar (10.45)	GDP (Dec qtr)	Another contraction	At this stage we have a contraction of 0.9 percent pencilled in.
Fri 27 Mar (10.45)	Overseas Merchandise Trade (Feb)	Small monthly surplus	Despite lower commodity prices and a weak global economy weighing on exports, we expect a small monthly surplus due to low a weak domestic economy hampering import demand.
On Balance		Flow-on from the global scene in the dataflow.	No signs of a base. Prospects still deteriorating.

SUMMARY OF KEY ECONOMIC FORECASTS

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
GDP (% qoq)	0.8	-0.3	-0.2	-0.4	-0.9	-1.5	-0.5	0.0	0.1	0.5
GDP (% yoy)	3.7	2.1	1.0	-0.1	-1.8	-2.9	-3.2	-2.9	-1.9	0.1
CPI (% qoq)	1.2	0.7	1.6	1.5	-0.5	0.3	0.8	0.6	0.7	0.5
CPI (% yoy)	3.2	3.4	4.0	5.1	3.4	3.0	2.2	1.3	2.5	2.7
Employment (% qoq)	1.0	-1.3	1.2	0.1	0.9	-1.5	-1.0	-0.8	-0.3	0.0
Employment (% yoy)	2.5	-0.2	0.7	1.0	0.9	0.7	-1.5	-2.4	-3.6	-2.1
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.6	5.1	6.1	6.8	7.2	7.6
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.6	-9.0	-8.9	-7.9	-7.1	-6.6	-6.6
Terms of Trade (% qoq)	2.9	4.2	-0.4	-2.3	-1.6	-2.8	-2.8	-2.4	-1.7	-1.2
Terms of Trade (% yoy)	8.8	11.6	10.7	4.4	-0.2	-6.8	-9.0	-9.1	-9.3	-7.8

KEY ECONOMIC INDICATORS

	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09
Retail Sales (% mom)	-1.1	0.8	-0.7	0.4	0.3	-1.2	0.2	-1.0
Retail Sales (% yoy)	1.0	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9
Credit Card Billings (% mom)	0.4	-0.1	0.1	-0.3	1.3	-1.7	-0.9	-2.2	1.7	..
Credit Card Billings (% yoy)	5.9	3.9	4.2	2.4	2.5	1.0	-0.9	-3.8	-2.2	..
Car Registrations (% mom)	-13.4	1.4	-7.2	-3.6	11.2	-1.3	-19.9	12.9	-8.0	..
Car Registrations (% yoy)	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	..
Building Consents (% mom)	-42.1	-13.2	-1.0	-6.9	8.2	-19.4	3.6	-7.1	-13.2	..
Building Consents (% yoy)	-26.8	-45.8	-34.5	-43.2	-28.5	-42.8	-39.8	-41.4	-51.8	..
REINZ House Price (% yoy)	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	..
Household Lending Growth (% mom)	0.5	0.2	0.3	0.5	0.2	0.1	-0.1	0.2	0.1	..
Household Lending Growth (% yoy)	9.2	8.4	7.7	7.2	6.6	5.8	4.8	4.2	3.8	..
Roy Morgan Consumer Confidence	89.2	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8
NBNZ Business Confidence	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2
NBNZ Own Activity Outlook	-4.4	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1
Trade Balance (\$m)	-169	-215	-797	-848	-1252	-994	-594	-334	-187	..
Trade Balance (\$m annual)	-4782	-4478	-4468	-4369	-5048	-5269	-5235	-5607	-5483	..
ANZ World Commodity Price Index (% mom)	0.9	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	..
ANZ World Commodity Price Index (% yoy)	18.7	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	..
Net Migration (sa)	930	430	750	330	-30	30	-320	240	660	..
Net Migration (annual)	4931	4732	5201	4938	4403	4329	3569	3814	4538	..

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

SUMMARY OF KEY MARKET FORECASTS

NZ FX rates	Actual		Current	Forecast (end month)						
	Jan-08	Feb-09	2-Mar-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
NZD/USD	0.553	0.506	0.497	0.500	0.450	0.430	0.410	0.420	0.430	0.440
NZD/AUD	0.816	0.784	0.782	0.794	0.776	0.768	0.759	0.778	0.768	0.759
NZD/EUR	0.417	0.398	0.394	0.400	0.375	0.364	0.360	0.382	0.410	0.419
NZD/JPY	50.0	49.4	48.5	47.0	41.0	37.8	35.3	37.0	37.8	39.6
NZD/GBP	0.382	0.354	0.348	0.357	0.341	0.331	0.328	0.336	0.344	0.346
NZ\$ TWI	54.9	51.9	51.4	51.5	47.6	45.8	44.3	46.0	47.3	48.2
NZ interest rates	Jan-08	Feb-09	2-Mar-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
OCR	5.12	3.50	3.50	2.75	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	4.37	3.20	3.07	3.20	3.00	2.80	2.80	2.80	3.60	4.60
10 year bond	4.49	4.49	4.54	4.30	4.60	4.70	4.80	5.20	5.20	5.70
International	Jan-08	Feb-09	2-Mar-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50
US 3-mth	1.18	1.28	1.26	1.20	0.90	0.70	0.50	0.70	1.25	1.75
AU cash	4.25	3.50	3.25	3.00	2.75	2.50	2.50	2.50	2.50	3.50
AU 3-mth	3.46	3.68	3.16	3.50	2.80	2.80	2.80	3.20	3.90	4.40

KEY RATES

	27 Jan	23 Feb	24 Feb	25 Feb	26 Feb	27 Feb
Official Cash Rate	5.00	3.50	3.50	3.50	3.50	3.50
90 day bank bill	4.00	3.28	3.26	3.28	3.25	3.19
NZGB 07/09	3.40	3.10	3.00	3.00	2.98	2.97
NZGB 11/11	3.45	3.54	3.50	3.53	3.49	3.49
NZGB 04/13	3.73	3.90	3.87	3.90	3.88	3.88
NZGB 12/17	4.27	4.52	4.47	4.50	4.49	4.49
2 year swap	3.49	3.28	3.27	3.30	3.27	3.23
5 year swap	3.99	4.03	4.01	4.05	4.04	4.08
RBNZ TWI	52.9	52.0	52.0	52.4	52.4	51.9
NZD/USD	0.5291	0.5135	0.5091	0.5136	0.5109	0.5055
NZD/AUD	0.7977	0.7902	0.7907	0.7889	0.7864	0.7840
NZD/JPY	47.37	47.70	48.30	49.77	49.96	49.24
NZD/GBP	0.3766	0.3536	0.3496	0.3533	0.3584	0.3544
NZD/EUR	0.3996	0.3975	0.4001	0.3995	0.4013	0.3976
AUD/USD	0.6633	0.6498	0.6439	0.6510	0.6497	0.6448
EUR/USD	1.3241	1.2919	1.2724	1.2856	1.2732	1.2715
USD/JPY	89.53	92.90	94.88	96.90	97.79	97.41
GBP/USD	1.4050	1.4524	1.4561	1.4538	1.4255	1.4265
Oil	46.50	39.35	37.66	38.86	41.64	43.18
Gold	903.00	986.90	985.90	964.90	952.75	939.25
Electricity (Haywards)	9.89	1.81	2.89	3.47	4.31	4.13
Milk futures (US\$/contract)	84	82	82	82	82	83
Baltic Dry Freight Index	1004	2084	2010	1960	1950	1986

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.
- The Bank has a joint venture relationship with ING (NZ) Holdings Limited (ING). ING and its related companies may receive remuneration from a third party relating to a security sold by the Investment Adviser.

Securities about which investment advice is given

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

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

PROCEDURES FOR DEALING WITH INVESTMENT MONEY OR INVESTMENT PROPERTY

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

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

Investment property (other than money) may be delivered to the Bank by lodging the relevant property (for example, share certificates) with any branch of the Bank offering a safe custody

service, or by posting (using registered post) the documents or other property to a branch of the Bank, identifying your name, account number and investment purpose.

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

Record Keeping

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

Auditing

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

Use of Money and Property

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

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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