

DIFFERENT WEEK SAME STORY

NZ Economics Team:

Cameron Bagrie

Chief Economist
Telephone: +64 4 802 2212
E-mail: bagriec@anz.com

Khoon Goh

Senior Markets Economist
Telephone: +64 4 802 2357
E-mail: gohk@anz.com

David Croy

Interest Rate Strategist
Telephone: +64 4 802 2286
E-mail: croyd1@anz.com

Philip Borkin

Economist
Telephone: +64 4 802 2199
E-mail: borkinp@anz.com

Steve Edwards

Economist
Telephone: +64 4 802 2217
E-mail: edwards1@anz.com

Kevin Wilson

Rural Economist
Telephone: +64 4 802 2361
E-mail: wilsonk1@anz.com

Page 2: Economic overview

- > While our core economic view sits at the bottom end of consensus, we believe it still contains more downside risk. Rather than play OCR leapfrog with other commentators in regards to how low rates go, we continue to prefer expressing a weak economy and adjustment process via a lower currency.

Page 4: Economic comment – financial conditions revamp

- > We have re-engineered our Financial Conditions Index. The key change is the introduction of a new variable to proxy the supply of credit. This has greatly altered what our financial conditions index implies for growth over the coming year. This reinforces our view that, while traditional monetary conditions have loosened aggressively, the credit channel remains tight and is leaning heavily against efforts to reflate the economy. Our below consensus view of the NZ economy for 2009 still feels too optimistic.

Page 6: Economic comment – listings update

- > Sections and apartments are often talked about as the most vulnerable parts of the property market, being more “speculative”. We have updated our regular analysis which records which regions have the most sections and apartments for sale, relative to total property listings.

Page 8: Economic comment – global watch

- > It was generally a quiet, albeit mixed, week for data around the globe. US retail sales surprisingly rose, while European GDP contracted sharply. Asian trade flows remain exceptionally weak.

Page 9: Interest rate strategy

- > Dissatisfaction with the various US rescue and stimulus packages, and the Bank of England’s stark assessment of prospects for the UK economy has prompted rapid change in sentiment. As a result, the correction in local interest rates was stopped dead in its tracks, and the focus is now back on the downside risks, which we believe remain significant.

Page 10: Currency strategy

- > Currency markets appear to be marking time. Risk aversion and equities continue to dictate near-term moves. A rally in the Baltic Dry Index was supportive of commodity currencies at the margins, though the CRB index remains under pressure. Lack of local data this week means the NZD will be largely range bound, taking its cues from offshore. Prospects for Eastern Europe and spillover to the EUR are a key focal point.

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ECONOMIC OVERVIEW

While our core economic view sits at the bottom end of consensus, we believe it still contains more downside risk. Rather than play OCR leapfrog with other commentators in regards to how low rates go, we continue to prefer expressing a weak economy and adjustment process via a lower currency.

What's ahead?

- > **December quarter Producer Price Index** (Monday 1045 NZDT). Input prices are expected to be flat, while output prices are expected to fall by 0.6 percent.
- > **December quarter NBNZ Regional Trends** (Thursday 1500 NZDT).

What's the view?

We continue to take a downbeat view towards economic prospects. Apart from the array of normal bad news that seems to feature each week (declining equities and poor profit guidance, poor data, last week's speculation of Russian debt difficulties, our own RBNZ Governor's reference to the global scene being "very bad") a few other aspects underpin our view.

- > We continue to ponder the impact of non-linear drivers to the economic cycle (job security, health of the financial system, the credit channel of monetary policy etc), which are now setting off a chain reaction of decline and stress, leading to more decline. And it's becoming systemic in certain pockets.
- > The starting position for the economy, having negative momentum heading into the deepest global downturn in three decades, and also significant leverage in certain pockets (households especially).
- > The dynamics of the inevitable current account rebalancing process. Timing wise, the current global recession couldn't have been worse.

Of course it's not all bad news with credit markets continuing to free-up, judging from the narrowing in Libor-OIS spreads. And the recovery in the Baltic Dry Index, which was up over 16 percent last week, giving hope that global trade is starting to pick up after seemingly hitting a brick wall at the end of last year.

Our NZ growth forecasts for 2009 are currently at the bottom end of consensus (close to -2 percent versus consensus of -0.9 percent), and yet we are still inclined to shave our core view down even further. In fact it's under review at present. Even prospects for additional monetary policy stimulus does not alter this prognosis given the significant headwinds from other areas, the role the credit

channel of monetary policy is playing in terms of overall financial conditions (refer page 4 for an update) and non-linear dynamics.

Like most other analysts, we continue to expect further monetary policy relief. Fiscal policy is also coming to the party but last week's \$500 million infrastructure package was really about bringing forward expenditure as opposed to more stimulus per se. Clearly, having NZ's credit rating being placed on negative outlook ties the Government's hands somewhat.

Yet we also wonder how low rates can go. Two percent remains the magic number if you think about trying to achieve zero real rates (2 percent nominal interest rates less the middle of the policy target band for inflation). Alternatively it is where NZ rates have typically ended up relative to trading partners during recessions, that is, around one percent higher.

For now we're siding with something slightly higher – 2.5 percent – but it's really much the same in terms of the spirit. To us, the real issue, and something no one is talking about at present, is how long rates stay low. History tells us that major global events are typically accompanied by regime shifts in terms of the overall level of interest rates for a period. Moreover, casting our minds back to late 2007, the RBNZ introduced the little gem expecting to keep rates *"higher for longer than previously thought"*. Obviously the global scene (and local economy) saw this reassessed with the RBNZ cutting eight months later. But the point is that soon we are going to be entering the realm where policy ends up somewhat constrained in terms of how low rates can physically go. This doesn't mean policy is impotent, merely that it will need to look for alternative avenues, such as delivering relief via the yield curve, and the simple passage of time.

Moreover, when we think about how NZ (and other nations) is going to climb out of the current jam (leverage, current account deficit) in a structural sense (like some other nations), we eventually keep coming back to more inflation (and how policymakers are going to achieve it). It seems incredible to be even mentioning this sort of thing at present in the current deflationary and de-leveraging world. But if there is one thing we know from history, it is that there is a time honoured tradition when it comes to fixing leverage; inflate your way out of it by having rates very low. Or in the case of overseas counterparts, go the whole hog, take rates to zero and just print money – lots of it. It's the path of least resistance. We also know that NZ prices are relatively more sticky compared to overseas counterparts given a lack of contestability in a number of areas. A by-product of this economic cycle is that we see more consolidation as firms seek to survive by bulking

up, which in our minds also delivers more pricing power. We note the potential disappearance of one major oil company from our shores given their decision to review the ownership of all its downstream businesses – a sign of things to come across other sectors? At some stage, global velocity is also going to turn. The process of de-leveraging will constrain velocity for a considerable while yet and certainly keep markets looking for lower interest rates. But when it does turn, there will be ample excess liquidity.

Of course we know that inflation comes with a cost down the track. But it is the lesser of alternative evils at present. For sure, this is a far-into-the-future story with the threat of deflation dominating for now. But it is sometimes worth keeping these thoughts relevant in terms of how cycles will pan out.

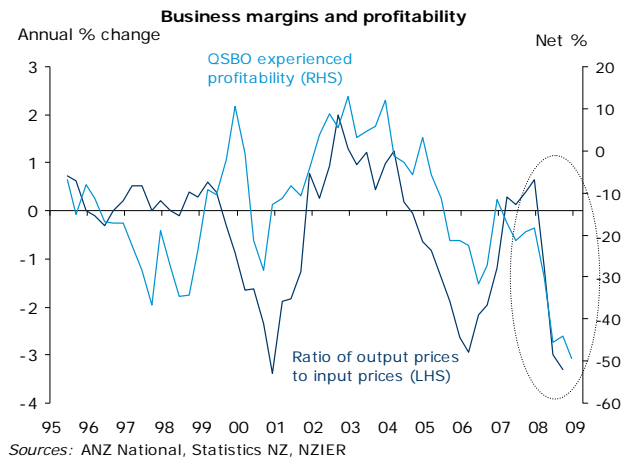
In the meantime, and between musings, we continue to resist playing OCR leapfrog with our competitors by maintaining our 2.5 percent OCR trough call. This is despite signs emerging last week that more central banks will soon be joining the Fed and Japan at zero interest rates. Rather, we'd be more inclined to look at how long rates are expected to remain low for which seems the inevitable next leg at some stage. Moreover, we continue to prefer to play or express the economic weakness story via a more elongated and deeper currency correction, which is the common denominator linking a cyclical downturn and structural rebalancing process. The latter is a key differentiator in our core view relative to others.

Looking at the week ahead, it is relatively quiet for local data. This morning we receive Producer Price Index numbers for the December quarter. Seeing as the CPI data was received around a month ago, there is unlikely to be much "new" information. But just like with the CPI, we expect producer prices to have peaked. The data will also likely reinforce that there remains pressure on business margins. Input prices are expected to be flat in the quarter, while output prices are expected to fall by 0.6 percent. Lower oil prices, falling commodities and also significantly lower wholesale electricity prices will be the key drivers of the lower prices (for both input and outputs) in the quarter. Looking forward, it is hard to envisage the pressure on margins easing to a great degree. While some cost pressures are easing as the economy slows, it will be difficult for firms to push through price increases in a very weak demand environment. This could be particularly evident for the retail sector over the coming year where a sharply lower NZD will push up imported costs.

The last piece of domestic data out this week is the NBNZ *Regional Trends* for the December quarter. This has provided a reasonable gauge of actual changes in GDP growth over recent times

(predicting the last three quarterly contractions) and so we will be watching what it implies very closely.

Finally, something that is always worth monitoring is the earnings reporting season that is currently underway. Given the challenging business environment it will be little surprise to see many announcing lower profits (and dividends) this year. Of most interest to us will be what guidance the companies provide for the year ahead, and some of the challenges identified.



Internationally, given the significant announcements by policymakers and central bankers last week, markets will be watching for any similar statements this week. More wild swings in markets could be in store. US Federal Reserve Chairman Ben Bernanke is due to speak, as are other Fed officials, as well as policymakers from Australia and Europe. Data-wise, the major releases will be central bank meeting minutes from the Fed, RBA and BoE, while CPI data from the UK and US will also get some attention.

Recent local data...

- > **Electronic Card Transactions (January):** Total retail ECT spending fell by 0.6 percent, while core spending fell 0.2 percent.
- > **Food Prices (January):** Prices rose 0.8 percent in the month, taking annual growth to 9.5 percent.
- > **Business NZ-BNZ PMI (January):** The index fell from 42.5 to 42.0.
- > **REINZ House Sales (January):** In seasonally adjusted terms, house sales fell 9.4 percent and median days to sell eased to 48. The median house price eased \$3,500 to \$325,000.
- > **Retail Sales (December):** Headline nominal sales fell 1.0 percent, while core sales fell 0.6 percent. For the quarter, real spending contracted 0.6 percent.

FINANCIAL CONDITIONS REVAMP

We have re-engineered our Financial Conditions Index. The key change is the introduction of a new variable to proxy the supply of credit. This has greatly altered what our financial conditions index implies for growth over the coming year. This reinforces our view that, while traditional monetary conditions have loosened aggressively, the credit channel remains tight and is leaning heavily against efforts to reflate the economy. Our below consensus view of the NZ economy for 2009 still feels too optimistic.

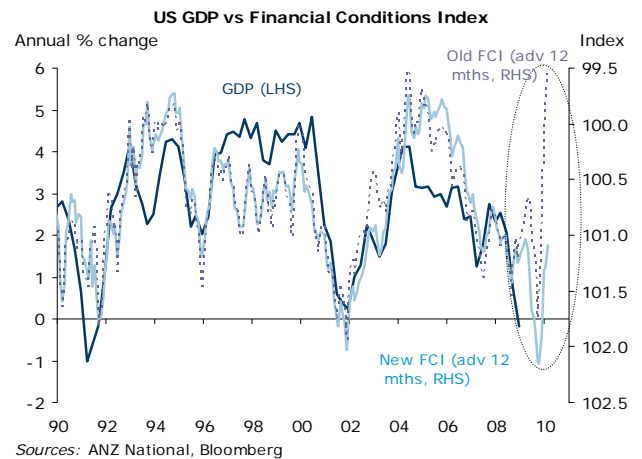
We continually seek to improve our Financial Conditions Index.¹ While it has performed well to date, we are mindful of the fact that our gauges do not adequately capture the credit channel of monetary policy very well. This has not been a major issue in the past. But the current global financial crisis has highlighted the prominence that the credit channel is playing, and the reduced impact of the traditional monetary policy transmission mechanism. This current economic cycle is as much about the supply of money as well as the price. While our Financial Conditions Index includes asset prices as variables that try to capture the credit channel, it only does so in a lagging fashion. Moreover, our index also contains swap spreads as a proxy for risk (lending appetites). In a world of government guarantees, such a notion is becoming redundant.

To better capture the credit channel directly, we have introduced a new variable into our Financial Conditions Index. We use the US Federal Reserve's Senior Loan Officer Opinion Survey on Bank Lending Practices as a proxy. The survey directly asks financial institutions whether they are tightening lending standards on loans, and is the most direct and timely measurement on credit supply.

The inclusion of the opinion survey in our US Financial Conditions Index has not greatly changed the historical profile, but shows a marked difference in terms of what it implies for US growth in the year ahead. Our old index was pointing to a massive loosening in conditions, given the US Federal Reserve's efforts in taking the fed funds rate effectively to zero and utilising their balance sheet to keep longer dated yields low. But our revamped index shows a more modest easing in overall

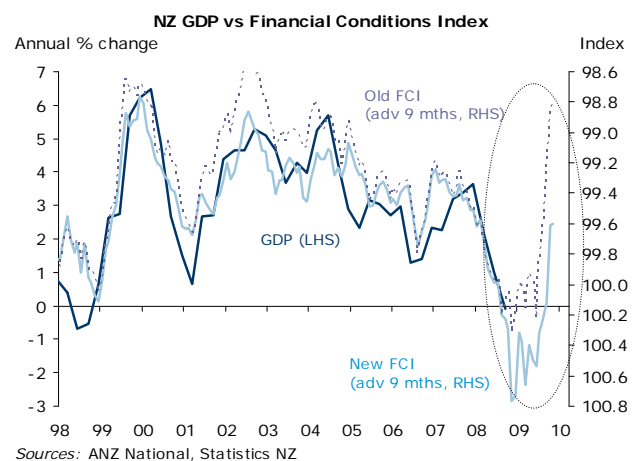
¹ Our Financial Conditions Index includes a wide array of variables to recognise the different channels through which monetary policy influences the economy. Our index includes the currency (adjusted for commodity prices or terms of trade movements), interest rates, asset prices, credit growth, and measures of credit cost and liquidity. It provides a timely leading gauge of economic activity, and more importantly it has been successful in predicting key turning points in the growth cycle.

financial conditions given tighter lending standards by banks.



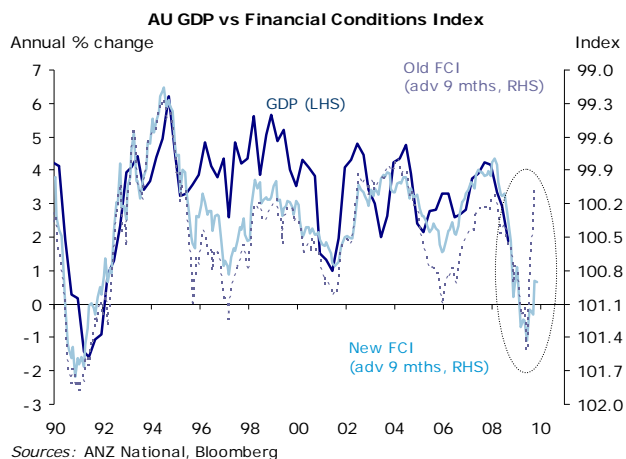
Since there is no similar survey of loan officers in NZ or Australia, we have used the Fed survey in our NZ and Australian Financial Conditions Index. We assume that, in a globalised world, credit conditions in the US is a reasonable approximation for those in NZ and Australia as well. While a major assumption, it is common knowledge that loan-to-value ratios and other lending standards have changed in NZ.

There are obvious differences within the core banking system in the US compared to NZ and Australia. But we need to appreciate that both NZ and Australia have obviously seen a massive withdrawal in available credit following turmoil across non-bank financials (in the case of NZ). The financial turmoil is also seeing global players reassess their presence in peripheral markets such as the well publicised withdrawal of motor vehicle funding in NZ, and withdrawal by some offshore institutions from the commercial property lending space in Australia. Hence, we believe the Fed loan officer survey captures the spirit of what is happening in NZ and Australia. Moreover, when we include the proxy, our Financials Conditions Index continued to show a tight fit with historical GDP outturns.



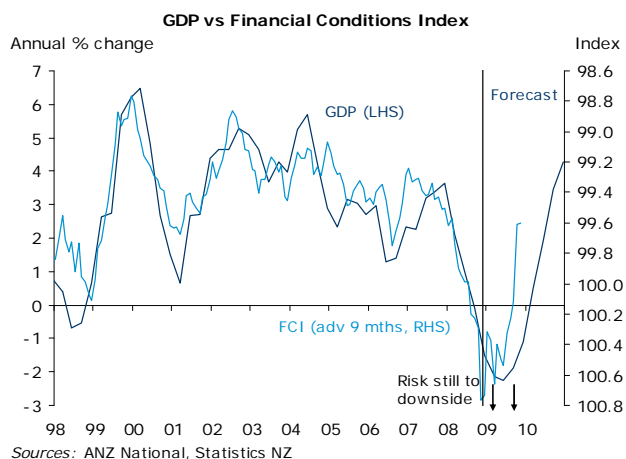
The revamped NZ Financial Conditions Index suggests a deeper trough in the economic cycle ahead, with a more muted rebound late this year or early next compared to what the old index was portraying. In a similar vein, our Australian Financial Conditions Index, incorporating the loan officer survey, points to a sharper slowing in growth this year, with prospects of a recovery still looking dim.

towards the traditional monetary policy channel. The credit channel is not only a cyclical influence on economic prospects, but we suspect it is also going to be a more structurally important one as well in future. Hence the weights within our index are not going to be constants. We will continue to assess how far they need to change or be re-weighted away from the monetary channel and towards the credit channel. But at a minimum, such a dynamic suggests our index may still be overly optimistic regarding prospects over the coming year.



Implications

As noted, our updated Financial Conditions Index is suggesting a deeper trough to the economic cycle than is currently built into our core forecasts for NZ. This reinforces our view that, while traditional monetary conditions have loosened aggressively, the credit channel remains tight and is leaning heavily against traditional monetary policy efforts to reflate the economy. We continue to believe our well-below consensus view of the economy (close to -2 percent annual average growth for 2009 compared to consensus view of -0.9 percent) contains further downside risk.



There is one final aspect to overall financial conditions that we continue to ponder. We are in no doubt that the world has changed. In so far as the weights within our index are concerned, there has been a structural shift. At present, the majority of our index continues to be weighted

LISTINGS UPDATE

Sections and apartments are often talked about as the most vulnerable parts of the property market, being more “speculative”. We have updated our regular analysis which records which regions have the most sections and apartments for sale, relative to total property listings.

The section and apartment sectors of the property market – traditionally more speculative areas – are often touted as being the pockets that are the most vulnerable at this stage in the property cycle and for good reason. Higher interest rates or changes in the credit cycle often mean large price swings, relative to other types of property, as demand wanes.

The table overleaf shows the number of sections and apartments for sale, relative to the total number of properties on the market across the regions. It is based on data from the Trade Me website (which provides easy access to this type of data). Although it is somewhat of a crude indicator, we feel it is still reasonably effective nonetheless as a proxy not of what is being listed, but rather focusing on the proportions. The table ranks the various regions from highest to lowest and also records the rankings in June and October last year. We have updated the following table to January 2009.

So what does it show?

- > Once again Queenstown tops the rankings, a position it has retained since February 2008. The proportion of property sales in either apartments or sections has eased slightly, but remains above 50 percent. Second place on the table is retained by the Far North, while the West Coast moves up one ranking into third place. Kaikoura recorded a swift lift into fourth position, up from tenth position three months earlier. At the other end of the scale, the composition of the bottom three regions was unchanged (although the order changed slightly). Manukau City recorded the largest slide down the rankings. The proportion of sales in the apartment and section sales has halved from 34 percent to 16 percent between October and January.
- > It's the holiday or retirement destinations that dominate the top end of the rankings, with a high exposure to sections and apartments.
- > This isn't a strict rule however, as Auckland City and West Coast are still high on the table. Auckland City ranks highly, with a large number of apartments listed (as you would expect) and the West Coast with a large proportion of sections for sale.

- > Compared with October, sixteen of the forty regions have shown a decrease in the proportion of section and apartment listings relative to totals in January 2009, while 23 have recorded a rise in apartment and section sales. Nationwide, the ratio of sections and apartments for sale relative to total properties was 30:1 in January, unchanged from three months earlier.

The upshot

The nationwide supply of sections and apartments relative to the total stock of houses for sale remained unchanged in January. This segment of the real estate market is one area where we expect the housing market “correction” to play out. With both types of properties exposed to high carry costs and the likely diminished appetites to lend by financial intermediaries, expect to hear more and more anecdotes of these types of properties coming under increased downward price pressure.

Number of sections and apartments for sale, relative to total properties for sale

Rank	Region	Number of apartment and sections as % of total listings			Percentage point change from	Oct-08 rank	Jun-08 rank
		Jan-09	Oct-08	Jun-08	Oct-08		
1	Queenstown Lakes	51.8	53.8	52.1	-2.0	1	1
2	Northland - Far North	45.4	46.2	42.7	-0.8	2	3
3	West Coast	43.2	42.9	36.6	0.3	4	5
4	Kaikoura	43.2	38.5	32.0	4.8	10	15
5	Auckland City	41.9	44.1	43.8	-2.2	3	2
6	Nelson City	41.8	42.6	26.2	-0.8	6	22
7	Selwyn	40.5	36.2	26.3	4.3	13	21
8	Thames / Coromandel	39.9	41.2	39.4	-1.3	7	4
9	Northland -Whangarei	39.7	40.6	33.1	-0.9	8	12
10	Wellington City	38.1	38.1	28.0	0.0	11	18
11	Hurunui - Hanmer	36.8	28.5	32.5	8.4	26	13
12	Rodney	36.0	35.2	32.4	0.8	14	14
13	Upper Hutt	34.8	31.3	15.9	3.5	20	32
14	Franklin	34.3	32.1	16.7	2.3	18	31
15	Taupo	33.2	36.8	35.2	-3.6	12	8
16	Hauraki	32.5	31.5	28.9	1.0	19	16
17	Waitakere	32.1	32.3	22.5	-0.2	16	27
18	Western BOP	31.9	29.1	28.4	2.8	22	17
19	Central Otago	31.7	42.7	36.1	-11.1	5	7
20	Marlborough	31.3	18.1	14.0	13.2	34	36
21	Tasman	30.5	39.2	36.5	-8.7	9	6
22	Whakatane	30.1	28.6	26.8	1.5	25	20
23	North Shore City	29.7	28.9	23.7	0.8	23	26
24	Papakura	29.4	32.1	33.2	-2.7	17	11
25	Tauranga City	29.3	30.6	25.4	-1.3	21	23
26	Kapiti Coast	28.3	23.4	20.7	5.0	30	29
27	Hamilton City	27.8	22.0	21.5	5.8	32	28
28	Gisborne	27.6	24.8	27.2	2.9	29	19
29	Waitaki	26.8	28.8	33.8	-2.0	24	9
30	Taranaki	25.4	25.0	23.8	0.4	28	25
31	Southland	23.9	21.7	24.1	2.2	33	24
32	Waimakariri	23.5	26.5	20.3	-2.9	27	30
33	Dunedin City	19.6	22.1	15.0	-2.5	31	34
34	Manawatu / Wanganui	19.1	18.0	15.2	1.1	35	33
35	Hawke's Bay	17.8	16.9	14.9	0.8	36	35
36	Christchurch City	16.4	16.1	10.8	0.2	37	37
37	Manukau City	16.4	34.4	33.5	-18.0	15	10
38	Timaru	15.6	8.6	9.4	7.0	40	38
39	Rotorua	13.2	12.6	9.4	0.5	38	38
40	Lower Hutt	11.5	11.3	7.8	0.2	39	40

GLOBAL WATCH

It was generally a quiet, albeit mixed, week for data around the globe. US retail sales surprisingly rose, while European GDP contracted sharply. Asian trade flows remain exceptionally weak.

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
US	Wholesale Inventories (Dec)	-0.7%	-1.4%	-0.9%	Weaker
	Advance Retail Sales (Jan)	-0.8%	1.0%	-3.0%	Stronger
	Continuing Jobless Claims (w/e Feb-1)	4800K	4810K	4799K	In-line
	Business Inventories (Dec)	-0.9%	-1.3%	-1.1%	Weaker
	University of Michigan Confidence (Feb P)	60.0	56.2	61.2	Weaker
Euro-zone	Sentix Investor Confidence (Feb)	-31.5	-36.1	-34.4	Weaker
	Industrial Production (Dec) – mom	-2.5%	-2.6%	-2.2%	In-line
	GDP (4Q A) - qoq	-1.3%	-1.5%	-0.2%	Weaker
UK	Claimant Count Rate (Jan)	3.8%	3.8%	3.6%	In-line
	Jobless Claims Change (Jan)	89.0K	73.8K	79.9K	Stronger
	Average Earnings inc Bonus (Dec) – 3m/yoy	3.0%	3.2%	3.2%	Stronger
Asia Ex-Japan					
<i>China</i>	Leading Index (Dec)	-	98.0	96.8	-
	Producer Price Index (Jan) – yoy	-2.6%	-3.3%	-1.1%	Weaker
	Consumer Price Index (Jan) – yoy	0.8%	1.0%	1.2%	Stronger
	Exports (Jan) – yoy	-14.0%	-17.5%	-2.8%	Weaker
	Imports (Jan) – yoy	-25.4%	-43.1%	-21.3%	Weaker
<i>South Korea</i>	Producer Price Index (Jan) – yoy	-	4.7%	5.6%	-
	Money Supply – M2 (Dec)	-	13.1%	14.0%	-
	Unemployment Rate (Jan)	3.5%	3.3%	3.3%	Stronger
	Bank of Korea Repo Rate	2.00%	2.00%	2.50%	In-line
<i>Singapore</i>	Retail Sales (Dec) - yoy	-5.6%	-1.6%	-3.3%	Stronger
<i>India</i>	Annual GDP Constant Prices (1Q A)	6.8%	7.1%	9.0%	Stronger
<i>Indonesia</i>	Consumer Confidence Index (Jan)	-	92.8	90.6	-
	Money Supply – M2 (Dec)	-	14.6%	18.3%	-
<i>Thailand</i>	Consumer Confidence (Jan)	-	68.3	67.5	-
<i>Malaysia</i>	Industrial Production (Dec) – yoy	-10.7%	-15.6%	-8.2%	Weaker
	Exports (Dec) – yoy	-9.0%	-14.9%	-4.9%	Weaker
	Imports (Dec) - yoy	-11.9%	-23.1%	-8.6%	Weaker
<i>Philippines</i>	Total Exports (Dec P) – yoy	-23.9%	-40.4%	-11.4%	Weaker
Japan	M3 Money Stock (Jan) – yoy	0.8%	0.9%	0.7%	In-line
	Machine Orders (Dec) – mom	-8.6%	-1.7%	-16.2%	Stronger
	Consumer Confidence Households (Jan)	25.2	26.4	26.2	Stronger
	Domestic CGPI (Jan) – mom	-0.6%	-1.0%	-1.2%	Weaker
Australia	NAB Business Confidence (Jan)	-	-32	-20	-
	Westpac Consumer Confidence (Feb)	-	-4.6%	-2.2%	-
	Home Loans (Dec)	3.5%	6.4%	1.8%	Stronger
	Employment Change (Jan)	-18.0K	1.2K	0.0K	Stronger
	Unemployment Rate (Jan)	4.7%	4.8%	4.5%	Weaker

INTEREST RATE STRATEGY

Dissatisfaction with the various US rescue and stimulus packages, and the Bank of England's stark assessment of prospects for the UK economy has prompted rapid change in sentiment. As a result, the correction in local interest rates was stopped dead in its tracks, and the focus is now back on the downside risks, which we believe remain significant.

Market themes ...

- > While swap rates are likely to edge lower, and possibly make new lows, the same can't be said for NZGS bond yields. The scale of issuance that lies ahead will be a major challenge.
- > As the next 100bps or so of rate cuts get delivered, the debate over the appropriate mix of exchange and interest rates required to right the economy's imbalances will heat up.
- > The implications for the slope of the yield curve are significant, and it's difficult to see anything other than a steeper yield curve.
- > Rate cut expectations have been "spread out" over the past week. This "feels" right.

Review and outlook ...

While the global economic outlook has tended to deteriorate, and is suggestive of easier monetary policy in Europe and Asia-Pacific, the key issue for the US bond market is supply. Are the so-called "bond vigilantes" back? They could well be. Inflation may not be an imminent threat, but bond markets are really starting to take a dim view of the potential inflationary consequences that lie ahead, and are struggling to absorb massive issuance, particularly in the US. New Zealand is also feeling effects of this phenomenon. Inflation isn't so much the focus, but issuance is. After starting the year with a roar, the (now weekly) NZ government stock tenders are attracting fewer bids as each week passes. This trend cannot continue without significant price erosion in an environment where the government is looking to *increase* the size of its borrowing programme. At the moment the issue of supply is sufficiently "down the track" that it hasn't had a huge impact. However with the fiscal projections likely to deteriorate further at the *Budget*, it could become an issue very quickly if the 2010 bond programme is expanded significantly. More than anything else, this is the one factor that could put a floor under long term interest rates, with obvious implications for the yield curve.

Looking to the immediate week ahead, our sense is that the "correction" in interest rates has run its course. Notwithstanding the above, the bias is for rates to nudge lower towards previous lows as the market contemplates policy being easier for longer.

Borrowing strategies we favour at present

What a difference a week makes. This time last week the rates market was in a state of near panic, and many were wondering whether we had seen the lows in swap rates. However it didn't take long for the familiar feeling of pessimism to return, and with it came much lower interest rates. What's the point? Market can be fickle. When markets move violently and behave in a manner inconsistent with fundamentals, it pays to be patient, and not to panic. Corrections can be very uncomfortable, but they do force you to test your thinking. As we noted last week, we are looking for concrete signs that the economy was showing signs of stabilising before we abandoned our preference for remaining floating, and so far they are lacking. The economy will take some time to stabilise, and even longer to improve, which implies that the OCR will be lower for longer. This is therefore not the environment where we favour extending the duration of hedges. Let's see a period of stability first.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔/↓	Bollard very concerned about the global outlook.
NZ data	↔/↓	Retail Sales and REINZ housing data reinforce our view of a difficult 2009.
Fed Funds/ front end	↔/↓	Quant Easing on the agenda, BOE joining in now too.
RBA	↔	Not in immediate focus.
US 10 year	↔	Market was asking too much of stimulus packages, bonds have rallied back as a result.
NZ swap curve	↔/↑	Curve to steepen as short end rallies on global malaise, long end sells on supply.
Flow	↔/↓	Receivers returning now that the market has corrected.
Technicals	↔/↓	Correction looks complete.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 12-Mar-09	-71	-67
Thu 30-Apr-09	-94	-102
Thu 11-Jun-09	-102	-112
Thu 30-Jul-09	-103	-116
Thu 10-Sep-09	-104	-117
Thu 29-Oct-09	-94	-111
Thu 10-Dec-09	-91	-106

Trading themes we favour at present

Curve steepeners are the only really convincing trades at the moment, although they are slightly crowded. A core long in the 12mth OIS is an efficient way to benefit from downside risk.

CURRENCY STRATEGY

Currency markets appear to be marking time. Risk aversion and equities continue to dictate near-term moves. A rally in the Baltic Dry Index was supportive of commodity currencies at the margins, though the CRB index remains under pressure. Lack of local data this week means the NZD will be largely range bound, taking its cues from offshore. Prospects for Eastern Europe and spillover to the EUR are a key focal point.

Market themes...

- > US stimulus and bank rescue plans fail to impress.
- > G7 also fails to inspire, and largely silent on currencies.
- > Global economic data continues to print weak and no respite in sight yet.
- > Risk flows dominating markets at present, with the USD benefiting but Yen struggles on poor economy.

Review and outlook...

Currency markets remain volatile, with no clear direction either way. Early optimism about the US stimulus plan and the bank rescue package soon evaporated when details (or rather, the lack of) were announced. Indeed, the ongoing toing and froing by US politicians did not help market confidence. In the end, the US\$787b stimulus plan was passed, but markets had already given their verdict.

The G7 meeting over the weekend also failed to give much lead. The usual talk about cooperation and the need to avoid protectionist policies was there, but whether they follow through, given the worsening economic situation in each G7 economy, remains to be seen. There was no mention about currencies, apart from a brief comment about the yuan in language which looks conciliatory, especially in light of US Treasury Secretary's earlier accusations of China as currency manipulators.

So currency markets are, once again, left to the whims of equity moves and risk related flows. The USD continues to benefit as a safe haven destination, no doubt by default rather than by merit. Eurozone GDP contracted by more than expected in Q4, and BoE Governor King's bearish assessment of the UK economy leave us in no doubt where the GBP is heading. Should further issues over Russian debt emerge, this could trigger further risk related flows and see another leg lower in the EUR. Yen failed to benefit from recent risk aversion, weakening towards 92 against the USD. Ongoing weak data out of Japan is weighing on the Yen, but by the same token we continue to see the

Yen benefiting from the current global malaise given its large external surplus and as an exporter of capital.

Our views towards the NZD remain unchanged. We are still bearish and see a move towards the low 0.40s. For now though, the NZD will find itself range bound. A lack of local data this week means offshore news will dictate. Technically, the support zone around 0.5170 remains key with a potential head and shoulders bottom forming short term. Expect a weekly range of 0.5150/0.5450 but a break of either side should be traded on as break outs after this period of consolidation. Likewise NZDAUD has a defined 0.7830-0.8060 range, though we prefer this range to hold for this week.

NZD vs AUD: monthly directional gauges

Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↔	Markets looking at similar end-points for cash rates.
Commodities	↔/↓	Hards outperforming softs.
Partial indicators	↓	NZ indicators still worse.
Technicals	↓	0.7830-0.8060 range.
Sentiment	↔	Risk aversion dominating.
Other	↔/↓	Baltic Dry improving.
On balance	↔/↓	Further declines expected, though likely to be a slow grind down.

NZD vs USD: monthly directional gauges

Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models in this environment. They say low 0.50s.
Fair value – short-term	↔	Close to our cyclical fair value level.
Yield	↓	Differential still narrowing.
Commodities	↓	NZ's commodity basket not joining the global rally.
Risk aversion	↔/↓	US plans and G7 fail to provide direction.
Partial indicators	↔	NZ's starting to compete with the US's.
Technicals	↔/↓	Support at 0.5170.
AUD	↔/↑	Recovers on commodity rally and rates selloff.
Sentiment	↔	Fickle.
Other	↔/↓	USD still king of safe haven destinations.
On balance	↔/↓	Consolidation in the near-term, before the next leg lower.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
16-Feb	NZ	Producer Prices- Inputs (4Q) - qoq	0.2%	3.7%	10:45
		Producer Prices- Outputs (4Q) - qoq	0.2%	2.8%	10:45
		Non Resident Bond Holdings (Jan)	-	73.4%	15:00
	JN	Gross Domestic Product (4Q P) – qoq	-3.1%	-0.5%	12:50
		Nominal GDP (4Q P) – qoq	-2.1%	-0.7%	12:50
		GDP Deflator (4Q P) - yoy	0.2%	-1.6%	12:50
		Tokyo Condominium Sales (Jan) – yoy	-	-18.2%	17:00
		Industrial Production (Dec F) - mom	-	-9.6%	17:30
		Capacity Utilization(Dec F) - mom	-	-9.4%	17:30
	UK	Rightmove House Prices (Feb) - mom	-	-1.9%	13:01
	AU	RBA's Ryan Gives Speech in Sydney	-	-	17:30
17-Feb	EC	ECB's Trichet Speaks in Brussels	-	-	03:45
	JN	Tertiary Industry Index (Dec) – mom	-1.5%	-0.9%	12:50
		Machine Tool Orders (Jan F) - yoy	-	-84.4%	19:00
	AU	Reserve Bank's Board February Minutes	-	-	13:30
	UK	CPI (Jan) - mom	-1.0%	-0.4%	22:30
		CPI (Jan) - yoy	2.7%	3.1%	22:30
		Core CPI (Jan) - yoy	1.0%	1.1%	22:30
		RPI (Jan) - mom	-1.4%	-1.4%	22:30
		DCLG UK House Prices (Dec) – yoy	-10.1%	-8.6%	22:30
	GE	ZEW Survey (Econ. Sentiment) (Feb)	-25.0	-31	23:00
		ZEW Survey (Current Situation) (Feb)	-82.0	-77.1	23:00
	EC	ZEW Survey (Econ. Sentiment) (Feb)	-27.5	-30.8	23:00
		Trade Balance s.a. (Dec)	-5.3B	-4.9B	23:00
18-Feb	US	Empire Manufacturing (Feb)	-23.8	-22.2	02:30
		Net Long-term TIC Flows (Dec)	\$20.0B	-\$21.7B	03:00
		Total Net TIC Flows (Dec)	-	\$56.8B	03:00
		NAHB Housing Market Index (Feb)	8	8	07:00
		St. Louis Fed's Bullard Speaks to Economists in New York	-	-	07:00
	AU	Assistant RBA Governor Edey Gives Speech in Sydney	-	-	11:20
		Westpac Leading Index (Dec) – mom	-	-1.0%	12:30
		Retail Sales Ex Inflation (4Q) – qoq	1.0%	0.1%	13:30
		Preliminary BoP Imports (Jan) – mom	-	-2.0%	13:30
	JN	Leading Index CI (Dec F)	-	79.8	18:00
		Coincident Index CI (Dec F)	-	92.3	18:00
	UK	Bank of England Minutes	-	-	22:30
	EC	Construction Output (Dec) - mom	-	-1.1%	23:00

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
19-Feb	US	Import Price Index (Jan) – mom	-1.0%	-4.2%	02:30
		Housing Starts (Jan)	530K	550K	02:30
		Building Permits (Jan)	525K	547K	02:30
		Cleveland Fed's Pinalto Speaks to Developers in Ohio	-	-	03:00
		Industrial Production (Jan)	-1.5%	-2.0%	03:15
		Capacity Utilization (Jan)	72.4%	73.6%	03:15
		Fed's Bernanke Speaks at National Press Club in Washington	-	-	06:30
		Chicago Fed's Evans Speaks in Illinois on Economic Outlook	-	-	07:20
		Minutes of Jan. 28 FOMC Meeting	-	-	08:00
	EC	ECB's Bini Smaghi Speaks in Berlin	-	-	03:40
	AU	New Motor Vehicle Sales (Jan) – mom	-	1.8%	13:30
	JN	BoJ Target Rate	0.10%	0.10%	/2009
		Tokyo Dept. Store Sales (Jan) - yoy	-	-10.4%	18:30
		Nationwide Dept. Sales (Jan) – yoy	-	-9.4%	18:30
	UK	Public Finances (PSNCR) (Jan)	-7.7B	44.2B	22:30
		Public Sector Net Borrowing (Jan)	-7.0B	14.9B	22:30
		M4 Money Supply (Jan P) – mom	1..%	1.4%	22:30
20-Feb	US	Producer Price Index (Jan) - mom	0.2%	-1.9%	02:30
		PPI Ex Food & Energy (Jan) - mom	0.1%	0.2%	02:30
		Initial Jobless Claims (w/e Feb-15)	620K	603K	02:30
		Continuing Claims (w/e Feb-20)	4818K	4810K	02:30
		Leading Indicators (Jan)	0.0%	0.3%	04:00
		Philadelphia Fed. (Feb)	-25.0	-24.3	04:00
		Fed's Lockhart Speaks on US Economy in Birmingham, Alabama	-	-	07:15
	AU	Reserve Bank Governor's Semi-Annual Parliament Testimony	-	-	11:00
	JN	All Industry Activity Index (Dec) – mom	-2.7%	-2.3%	12:50
		BoJ Monthly Report	-	-	18:00
	GE	PMI Manufacturing (Feb A)	32.5	32	21:30
		PMI Services (Feb A)	45.0	45.2	21:30
	EC	PMI Manufacturing (Feb A)	35.0	34.4	22:00
	UK	Retail Sales (Jan)	-0.1%	42.2	22:00
21-Feb	US	Consumer Price Index (Jan) - mom	0.3%	1.6%	22:30
		CPI Ex Food & Energy (Jan) - mom	0.1%	-0.7%	02:30
		Consumer Price Index (Jan) - yoy	-0.1%	0.0%	02:30
		CPI Ex Food & Energy (Jan) - yoy	1.5%	0.1%	02:30
	EC	ECB's Draghi Speaks in Milan at Forex Conference	-	1.8%	02:30

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 relatively quiet on the domestic data front for the next couple of weeks. The February NBNZ *Business Confidence* survey is the next key release and will provide a good gauge on how the economy has performed in the March quarter to date. Indicators of December quarter GDP are expected to reinforce the likelihood of another contraction.

Date	Data/Event	Economic Signal	Comment
Mon 16 Feb (10.45)	Producer Price Index (Dec qtr)	Passed the peak	Like with the CPI, producer price inflation is expected to have peaked. We expect output prices to fall by around 0.6 percent, and input prices to be relatively flat – still indicative of margin pressure.
Thu 19 Feb (15.00)	NBNZ <i>Regional Trends</i> (Dec qtr)	-	-
Wed 25 Feb (15.00)	RBNZ Survey of Expectations (Mar qtr)	Inflation concerns easing	Expectations of future inflation outcomes are expected to fall in light of declining headline inflation. We think the key 2-year ahead reading will fall from 2.7 percent to 2.2 percent.
Thu 26 Feb (10.45)	Overseas Merchandise Trade (Jan)	Watching export levels	A monthly trade deficit is expected. However, we will be watching the absolute level of exports given the weakness in the global economy and slowing in global trade flows.
Thu 26 Feb (15.00)	NBNZ <i>Business Outlook</i> (Feb)	-	-
Thu 26 Feb (15.00)	Credit Growth (Jan)	De-leveraging	Household credit growth is expected to remain very weak, as households de-leverage and balance sheet repair continues.
Fri 27 Feb (10.45)	Building Consents (Jan)	Another record low?	Residential consent issuance could start to stabilise at these very depressed levels. However, we expect commercial consent issuance to now also trend lower.
Fri 27 Feb (10.45)	External Migration (Jan)	Visitor arrivals heading downhill	We will be watching permanent departures closely for signs of a turnaround. Visitor arrivals are also expected to continue to head lower in the face of the global economic slowdown.
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.
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.
On Balance		Flow-on from the global scene in the dataflow.	No signs of a base.

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	-0.6	-1.0	-0.3	0.0	0.2	0.6
GDP (% yoy)	3.7	2.1	1.0	-0.1	-1.5	-2.2	-2.3	-1.9	-1.1	0.5
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	-0.2	0.2
Employment (% yoy)	2.5	-0.2	0.7	1.0	0.9	0.7	-1.5	-2.4	-3.5	-1.8
Unemployment Rate (% sa)	3.4	3.7	3.9	4.2	4.6	5.1	6.1	6.7	7.0	7.1
Current Account (% GDP)	-8.2	-8.0	-8.4	-8.6	-8.9	-8.8	-7.7	-7.0	-6.5	-6.5
Terms of Trade (% qoq)	2.9	4.2	-0.4	-2.3	-3.1	-1.6	-1.7	-1.6	-1.1	-0.7
Terms of Trade (% yoy)	8.8	11.6	10.7	4.4	-1.8	-7.2	-8.5	-7.8	-5.9	-5.0

KEY ECONOMIC INDICATORS

	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09
Retail Sales (% mom)	1.2	-1.1	0.8	-0.7	0.4	0.3	-1.2	0.2	-1.0	..
Retail Sales (% yoy)	4.1	1.0	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9	..
Credit Card Billings (% mom)	-0.3	0.4	-0.1	0.1	-0.4	1.3	-1.7	-1.0	-2.2	..
Credit Card Billings (% yoy)	5.5	6.0	3.9	4.2	2.4	2.5	1.0	-0.9	-3.9	..
Car Registrations (% mom)	10.8	-13.4	1.4	-7.2	-3.6	11.2	-1.3	-19.9	12.9	-8.0
Car Registrations (% yoy)	-1.0	-20.6	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5
Building Consents (% mom)	81.9	-42.3	-12.6	-1.8	-6.8	8.4	-19.2	4.0	-5.9	..
Building Consents (% yoy)	30.5	-26.8	-46.0	-34.4	-43.1	-28.3	-43.1	-39.5	-41.0	..
REINZ House Price (% yoy)	-1.1	-1.4	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4
Household Lending Growth (% mom)	0.3	0.5	0.2	0.3	0.4	0.2	0.1	-0.1	0.2	..
Household Lending Growth (% yoy)	9.9	9.2	8.4	7.7	7.2	6.6	5.8	4.7	4.2	..
Roy Morgan Consumer Confidence	99.9	89.2	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7
NBNZ Business Confidence	-54.8	-49.7	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..
NBNZ Own Activity Outlook	-3.8	-4.4	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..
Trade Balance (\$m)	-293	-169	-215	-797	-848	-1252	-995	-588	-347	..
Trade Balance (\$m annual)	-4604	-4782	-4478	-4468	-4369	-5048	-5269	-5230	-5615	..
ANZ World Commodity Price Index (% mom)	-0.3	0.9	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3
ANZ World Commodity Price Index (% yoy)	20.7	18.7	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5
Net Migration (sa)	490	940	450	780	360	-30	-20	-450	270	..
Net Migration (annual)	4666	4931	4732	5201	4938	4403	4329	3569	3814	..

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)						
	Dec-08	Jan-09	16-Feb-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
NZD/USD	0.557	0.553	0.522	0.500	0.450	0.430	0.410	0.420	0.430	0.440
NZD/AUD	0.831	0.816	0.799	0.794	0.776	0.768	0.759	0.778	0.768	0.759
NZD/EUR	0.414	0.417	0.407	0.400	0.375	0.364	0.360	0.382	0.410	0.419
NZD/JPY	50.9	50.0	47.6	44.0	38.7	36.6	34.9	36.1	37.8	39.6
NZD/GBP	0.373	0.382	0.367	0.357	0.341	0.331	0.328	0.336	0.344	0.349
NZ\$ TWI	55.1	54.9	52.9	51.0	47.2	45.5	44.3	45.8	47.3	48.3
NZ interest rates	Dec-08	Jan-09	16-Feb-09	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10
OCR	5.42	5.12	3.50	2.75	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	5.22	4.37	3.45	3.10	2.90	2.80	2.80	2.80	3.60	4.60
10 year bond	4.87	4.49	4.59	4.30	4.60	4.70	4.80	5.20	5.20	5.70
International	Dec-08	Jan-09	16-Feb-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	1.43	1.18	1.24	1.20	0.90	0.70	0.50	0.70	1.25	1.75
AU cash	4.25	4.25	3.25	3.00	2.75	2.50	2.50	2.50	2.50	3.50
AU 3-mth	4.15	3.46	3.15	3.50	2.80	2.80	2.80	3.20	3.90	4.40

KEY RATES

	13 Jan	9 Feb	10 Feb	11 Feb	12 Feb	13 Feb
Official Cash Rate	5.00	3.50	3.50	3.50	3.50	3.50
90 day bank bill	4.52	3.54	3.63	3.54	3.51	3.49
NZGB 07/09	3.60	3.19	3.19	3.14	3.18	3.18
NZGB 11/11	4.04	3.52	3.52	3.47	3.45	3.46
NZGB 04/13	4.26	3.93	3.93	3.88	3.86	3.87
NZGB 12/17	4.70	4.61	4.61	4.55	4.53	4.55
2 year swap	4.00	3.49	3.48	3.38	3.34	3.31
5 year swap	4.44	4.12	4.10	4.04	4.01	4.00
RBNZ TWI	55.8	52.9	53.5	52.8	53.0	52.8
NZD/USD	0.5647	0.5274	0.5330	0.5237	0.5260	0.5237
NZD/AUD	0.8333	0.7880	0.7948	0.8002	0.8012	0.7953
NZD/JPY	50.50	48.33	48.77	47.36	47.36	47.76
NZD/GBP	0.3821	0.3571	0.3588	0.3612	0.3658	0.3644
NZD/EUR	0.4234	0.4074	0.4150	0.4065	0.4075	0.4053
AUD/USD	0.6777	0.6693	0.6706	0.6545	0.6565	0.6585
EUR/USD	1.3337	1.2945	1.2843	1.2884	1.2908	1.2922
USD/JPY	89.42	91.64	91.51	90.44	90.03	91.20
GBP/USD	1.4779	1.4770	1.4855	1.4497	1.4380	1.4371
Oil	37.65	40.24	37.54	37.54	34.03	34.03
Gold	826.50	906.05	915.05	912.45	941.20	940.30
Electricity (Haywards)	4.64	4.29	4.64	5.03	5.10	4.77
Milk futures (US\$/contract)	84	83	83	83	83	83
Baltic Dry Freight Index	911	1815	1974	2055	1989	1908

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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ANZ (part of ANZ National Bank Limited), Level 7, 1 Victoria Street, Wellington 6011, New Zealand Phone 64-4-802 2000 Fax 64-4-496 8639 <http://www.anz.co.nz> e-mail ecnmcs@anz.com

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