

THE GLIDE PATH

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Page 2: Economic overview

- > Key themes within the RBNZ's forecasts resonate closely with our own. We likewise envisage a lower currency, structural adjustment process, and a floor on how low rates can go. However, we differ over the speed of the anticipated recovery. This would normally leave us erring towards a sub 2.5 percent OCR end-point, although we continue to back the currency as the release valve.

Page 4: Economic preview – financial conditions update

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Page 6: Global data watch

- > We may be starting to see some signs of stabilisation in the economic data, though they remain at very depressed levels. Export performance from the Asian economies continue to be weak, but there may be early signs that US consumers are starting to open their wallets a little, after keeping them firmly shut over the past few months. Chinese industrial production and retail sales data were weaker than expected, but stronger money supply growth may hint at a pick-up in investment and spending down the line.

Page 8: Interest rate strategy

- > The easing cycle is close to an end. With market pricing now in line with the RBNZ's (and our) view, rates are expected to consolidate and range trade. For borrowers, time remains on your side.

Page 9: Currency strategy

- > The short-dated squeeze eventuated, and for now the question will remain whether equities and risk appetites can sustain recent gains. The market currently looks to be questioning the USD safe haven status as the world begins to put money back to work, and preservation concerns wane. We are dubious but have to respect sentiment for now. Beyond this we see little to alter our generally bearish medium-term assessment towards the NZD.

Page 10: Currency comment – currency macro-momentum and risk indexes

- > While our macro-momentum index suggests that the currency is (slightly) front-running future negative economic data, our currency risk index points to further downward moves in the TWI towards the sub-50 level. Abstracting from levels, both measures are directional in nature and show few signs a trough has yet been reached.

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ECONOMIC OVERVIEW

Key themes within the RBNZ's forecasts resonate closely with our own. We likewise envisage a lower currency, structural adjustment process, and a floor on how low rates can go. However, we differ over the speed of the anticipated recovery. This would normally leave us erring towards a sub 2.5 percent OCR end-point, although we continue to back the currency as the release valve.

What's ahead?

- > **February Visitor Arrivals and Migration** (Friday 1045 NZDT). Lower tourist arrivals expected, though net migration should start to recover, driven by less departures.
- > **February Credit Card Billings** (Friday 1500 NZDT). We are looking for a modest increase in the month, driven by higher petrol prices. Abstracting from that, the underlying story is still one of weakness in consumer spending.

What's the view?

A lot of the themes we've been writing about of late were apparent in the RBNZ's latest forecasts. They too see a clear structural adjustment process away from spending towards the earnings side of the economy over time. That means anaemic consumption growth for a number of years. The Bank is attuned to the reality of how far a small open capital-reliant nation such as NZ can cut interest rates. Explicitly, the RBNZ is signalling that we are nearing the end of the easing cycle, and that the Governor is no longer in any rush to get there at once. "Competitiveness" in capital markets is obviously an issue, hence watch the RBA. The end game looks to be a 2.5 percent trough in the OCR, via two 25bp cuts in April and June. Their core forecasts have a 10 percent fall in the currency. All are themes we agree with in terms of our forecasts and the spirit of our view, although in so far as differences are concerned, we have a far deeper near-term contraction over 2009, and a more elongated period of subdued growth.

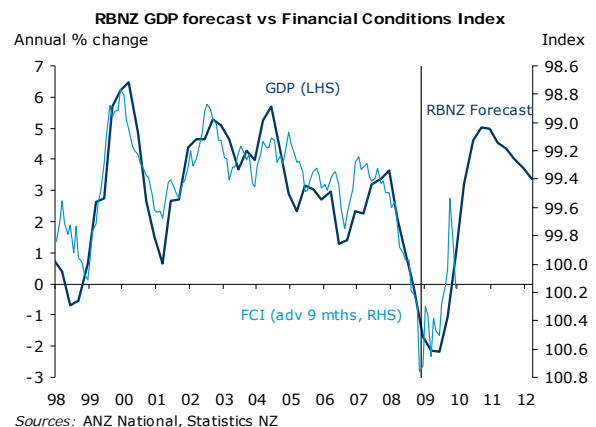
With the RBNZ expecting more bad news in the coming months, and some of the easings done in anticipation of this, the hurdle is fairly high to get the RBNZ to take the OCR beyond 2.5 percent. The Governor left that option open, but it is clear that we will need to see a marked deterioration in prospects for that to transpire.

The main focal point will remain the global scene. A lot of the negative international news has already been factored into the RBNZ's latest projections. They forecast major trading partner growth for 2009 of -1.7 percent, in line with the latest

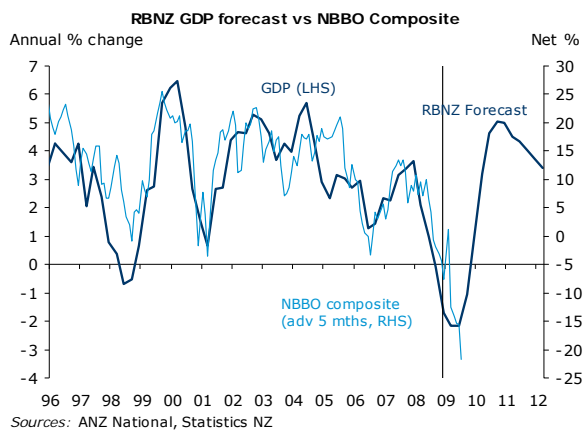
Consensus forecasts (released on Friday). But the Bank sees a more modest rebound in 2010 at 1.6 percent versus *Consensus* of 2 percent. Indeed, with recent international dataflow starting to show some signs of stabilising (the second derivative), we may well be at the end of the massive downgrades to trading partner growth from month to month, although this does not necessarily mean we are on an improving trajectory.

But if there is an Achilles heel to the RBNZ's view, it is their anticipated speed of the rebound in the NZ economy from the second half of this year. To hit the RBNZ's early 2010 growth estimates you need the economy humming around 0.8 to 1 percent per quarter from H2 2009. In some ways, it's easy to envisage such a scenario, given that it has been the historical experience. As confidence returns, pent up demand can often lead to strong upturns. NZ already has dwelling investment – a heavily pro-cyclical part of the economy – sitting at a historical low relative to the size of economy.

Of course there are challenges to it as well. First and foremost, we struggle to see any sector that will light up the economy over the next year. Domestic growth is at odds with the de-leveraging process – both from the household and business sector, which takes out consumption and business investment. Even on a best-case scenario that the global scene is getting no worse, the export scene will remain tough. That leaves the Government, which while providing massive fiscal stimulus, is also becoming increasingly cash-constrained.



Second, the RBNZ will need to see some almost immediate improvement in key leading indicators over the coming months to validate its view. Financial conditions need to loosen a long way, and confidence (firms' own activity expectations) bounce up sharply over the coming months. Both look a way off.



This is not to say that the rebound the RBNZ projects will not occur. We actually hope they are correct. Yet our suspicion and core view is that the recovery process will be more elongated. There will be growth in H2 2009, just not of the above trend variety, and it certainly won't feel like a recovery given how the labour market will be tracking.

In this environment, there is no doubt the market will remain attuned to the potential for a 2 percent OCR, and, abstracting from noise, it remains the endgame for a lot of forecasts. We'd be inclined to concur, except for three reasons. First, our long-held view is that the currency is the relative price that needs to give, and will eventually do so. We are not reacting to last week's currency noise. Second, our more elongated weakness story is heavily linked to the de-leveraging process, and monetary policy can (and should) only do so much. So we continue to back a 2.5 percent end-game for the OCR, but a critical aspect to this is our assumption that we see another run in the currency in the next six months. Finally, tweaking the OCR is not the only tool in the RBNZ's armoury, it also matters how long rates are kept low. To suppress the upwards pressure on longer dated rates from higher funding costs, this may well be the next leg the RBNZ needs to embark on.

Turning to the week ahead, it is a quiet one on the local data front. On Friday, we receive the February visitor arrivals and net migration data. We expect tourist numbers to continue falling, driven particularly by those economies hardest hit by the global recession – Northern America, UK, Europe and Japan. Offsetting this will be increased tourists from Australia, encouraged by a lower NZD/AUD and also by competitive trans-Tasman airfares. And the dimmed job prospects in Australia and further a field should dissuade more New Zealanders from permanently heading offshore, leading to higher net migration numbers (although off a low base). Also out on Friday is credit card billings data for February. A modest increase is expected partly due to higher petrol prices, but the

underlying pulse of consumer spending remains one of weakness.

Across the Tasman, Tuesday sees the release of the RBA's board minutes from their March meeting, in which they decided to pause. With the markets still pricing in close to a 50bp cut in April, the minutes will be dissected for clues as to whether the RBA is firmly in pause mode, or whether more cuts are in the offing. RBA Assistant Governor Malcolm Edey's speech on Thursday will also be a focus. Australian data this week are mainly third tier in nature.

Further a field, the BoJ and US Federal Reserve hold their policy board meetings, though with rates in both countries effectively at zero, we shall see whether they decide to use other unconventional tools to support their respective economies. For the Fed, the market will be on the lookout for whether they will be prepared to purchase Treasuries outright. In the US, we get industrial production, PPI, CPI, housing starts and building permits data. The Bank of England minutes from their last interest rate decision will be released, and we get more indications of the extent of house price weakness. In the Eurozone, CPI and industrial production data will be the big focus.

Recent local data...

- > **Value of Building Work put in Place (December quarter):** Real residential construction activity fell 13.4 percent from the previous quarter. Commercial construction managed a 1.6 percent increase.
- > **REINZ housing market data (February):** Seasonally adjusted house sales rose 8.3 percent in the month, and house prices are down 2.2 percent from a year ago.
- > **Overseas Trade Index (December quarter):** The terms of trade fell 0.9 percent in the quarter. Export volumes fell 1.8 percent while import volumes fell 4.8 percent.
- > **Food Price Index (February):** Food prices rose 0.2 percent in the month to be 8.8 percent higher from a year ago.
- > **Retail Sales (January):** Headline retail sales fell by 1.1 percent. Core retail sales recorded a 0.3 percent increase.

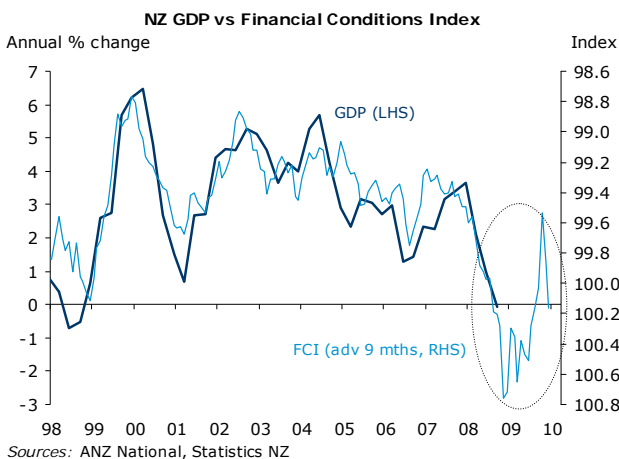
FINANCIAL CONDITIONS UPDATE

Our financial conditions indices are pointing to a very subdued recovery in economic activity over the second half of this year, if any, for NZ and Australia. And while our US financial conditions index may suggest positive growth for the US economy by early next year, the ineffectiveness of monetary policy there leave us coy about reading too much into it at this stage.

Last month, we unveiled our revamped financial conditions index (see 16 February edition of the *Market Focus*). The improved version still contains the wide array of variables used to capture the different channels through which monetary policy influences the economy (currency adjusted for commodity prices, interest rates, asset prices, credit growth and measures of credit cost and liquidity). But the inclusion of the US Federal Reserve’s Senior Loan Officer Opinion Survey on Bank Lending Practices in our financial conditions index means our measure now better captures the impact that the supply of credit (via changes to lending standard and criteria) has on economic activity. Below, we provide an update of what our financial conditions indexes are suggesting for growth in the year ahead.

Back in the leash

After loosening substantially (though from very tight levels) over the past few months on the back of lower interest rates and a falling currency, our NZ Financial Conditions Index has turned south again. Falling asset prices partly accounted for the turnaround, with both equity and house prices continuing to decline. And a recovering NZD did not assist either. But it was the recent widening in the credit default swap spread (CDS) for the big four Australian banks that contributed to most of the tightening in conditions.



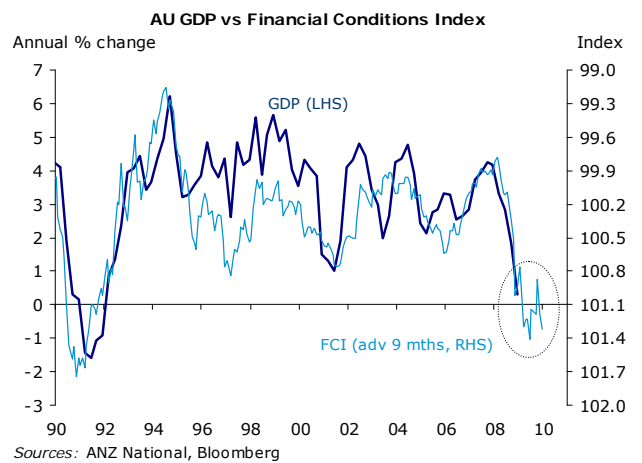
At current levels, our financial conditions index suggests any rebound in NZ’s economic growth over the second half of this year could prove to be short-lived. Should financial conditions stay at current levels for a while, it is pointing towards economic activity remaining at very low levels heading into 2010.

With monetary policy in NZ getting close to the trough, it will increasingly fall on the currency and improved credit conditions to engineer an easing in financial conditions.

Avoiding a hard landing?

Our Australian Financial Conditions Index had been pointing towards a sharp slowdown in growth, and the Q4 outturn was in line with what our index had been alluding to. The tightening in conditions recently, again on the back of a widening in the CDS for the big four Australian banks as well as falling asset prices, suggest Australia will record negative year-on-year growth in the coming quarters. However, Australia could yet avoid the kind of hard landings being experienced by some other major economies, and looks likely to continue outperforming the NZ economy.

But the financial conditions index is not pointing to a rebound anytime soon for the Australian economy, suggesting very subdued activity for the rest of this year and into early next year.



Small returns from so much effort

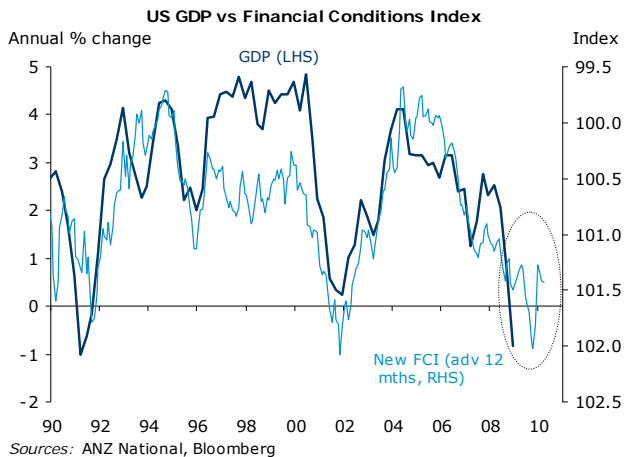
Despite the Fed taking interest rates to zero, the Obama administration unleashing a huge stimulus spending plan, re-working the bank rescue plan and generally throwing the kitchen sink at the economy, our US Financial Conditions Index showed a small tightening. It is rather disheartening to see so much effort being put in for so little return, thus far.

More worryingly to us is the divergence seen in US GDP growth and our index of late, suggesting that

traditional financial conditions (and even the credit supply aspects) are not providing as good a guide on future economic activity as in the past. We note that during the tech boom years between 1997 and 2000, US growth was far stronger than what was implied by our financial conditions index. No doubt some "irrational exuberance", as Alan Greenspan so famously said, at that time saw growth power along at a stronger rate than what pure financial conditions suggest was warranted. We might now start to see the opposite occur in the next few years, where a dysfunctional financial sector and generalised fear amongst consumers and businesses lead to far weaker economic growth than what our financial conditions index is pointing to.

With the Fed not able to cut interest rates further and the USD remaining strong by default, we would need to see a substantial relaxation of lending standards and a big recovery in asset prices if our financial conditions index were to ease materially.

A key problem at present though is that it is impossible for all countries to see their currencies depreciate! In this situation, we see what needs to happen on the current/capital account front as being equally, if not more, important than what policymakers would like to happen to support individual export performance.



Implications

Despite considerable monetary policy easings in NZ and Australia to date, alongside assistance from a lower currency and fiscal policy, our financial conditions indices are still pointing to a very subdued recovery in economic activity over the second half of this year. This cements the importance of watching non-traditional monetary mechanisms, which heavily influence financial conditions, including the credit channel of monetary policy. And while our US Financial Conditions Index may suggest positive growth for the US economy by early next year, the ineffectiveness of monetary policy there leaves us coy about reading too much into it at this stage.

With monetary policy getting closer to a trough in NZ and Australia (and no where else to go in the US), in the absence of a turn in the credit channel of monetary policy and asset prices, we see little alternative but for the currency to be the main avenue that can help ease financial conditions.

GLOBAL DATA WATCH

We may be starting to see some signs of stabilisation in the economic data, though they remain at very depressed levels. Export performance from the Asian economies continue to be weak, but there may be early signs that US consumers are starting to open their wallets a little, after keeping them firmly shut over the past few months. Chinese industrial production and retail sales data were weaker than expected, but stronger money supply growth may hint at a pick-up in investment and spending down the line.

Country/ Area	Indicator	Market	Actual	Last	Outturn vs market
Australia	NAB Business Confidence (Feb)	-	-22	-32	-
	NAB Business Conditions (Feb)	-	-20	-11	-
	ANZ Job Ads (Feb) – mom	-	-10.4%	-6.3%	-
	Westpac Consumer Confidence (Mar)	-	-0.2%	-4.6%	-
	Value of Loans (Jan) – mom	4.0%	2.3%	7.6%	Weaker
	Consumer Inflation Expectations (Mar)	-	2.2%	2.3%	-
	Employment Change (Feb)	-20.0K	1.8K	0.3K	Stronger
	Unemployment Rate (Feb)	5.0%	5.2%	4.8%	Weaker
	US	Wholesale Inventories (Jan) – mom	-1.0%	-0.7%	-1.5%	Stronger
Monthly Budget Statement (Feb)		-\$205B	-\$192.8B	-\$175.6B	Stronger
Retail Sales (Feb) – mom		-0.5%	-0.1%	1.8%	Stronger
Retail Sales ex-autos (Feb) – mom		-0.1%	0.7%	1.6%	Stronger
Initial Jobless Claims (w/e Mar 8)		654K	644K	645K	Stronger
Continuing Claims (w/e Mar 1)		5140K	5317K	5124K	Weaker
Business Inventories (Jan) – mom		-1.0%	-1.1%	-1.6%	In-line
Trade Balance (Jan)		-\$38.0B	-\$36.0B	-\$39.9B	Stronger
Import Price Index (Feb) – mom		-0.7%	-0.2%	-1.2%	Stronger
U of Michigan Confidence (Mar P)		55.0	56.6	56.3	Stronger
Euro-zone	Sentix Investor Confidence (Mar)	-38.0	-42.7	-36.1	Weaker
	Eurozone PPI (Jan) – mom	-0.2%	-0.8%	-1.5%	Weaker
	Labour Costs (Q4) – yoy	3.6%	3.8%	4.2%	Stronger
	Retail Sales (Jan) – mom	0.2%	0.1%	-0.3%	In-line
UK	RICS House Price Balance	-75%	-78%	-77%	Weaker
	Industrial Production (Jan) – mom	-1.2%	-2.6%	-1.5%	Weaker
	Manufacturing Production (Jan) – mom	-1.4%	-2.9%	-1.9%	Weaker
	Total Trade Balance (Jan)	-£3700m	-£3585m	-£3248m	Stronger
Japan	M3 (Feb) – yoy	0.9%	1.1%	0.9%	Stronger
	Current Account (Jan)	-¥15.3B	-¥172.8B	¥125.4B	Weaker
	Eco Watchers Survey: Current (Feb)	17.3	19.4	17.1	Stronger
	Leading Index CI (Jan P)	77.4	77.1	79.4	In-line
	Coincident Index CI (Jan P)	89.8	89.6	92.2	In-line
	Machine Orders (Jan) – mom	-4.8%	-3.2%	-1.7%	Stronger
	GDP (Q4 F) – qoq	-3.5%	-3.2%	-3.3%	Stronger
	Industrial Production (Jan F) – mom	-	-10.2%	-10.0%	-
	Consumer Confidence Households (Feb)	26.5	26.7	26.4	In-line
Asia Ex-Japan					
	<i>China</i>				
	PPI (Feb) – yoy	-4.5%	-4.5%	-3.3%	In-line
	CPI (Feb) – yoy	-1.0%	-1.6%	1.0%	Weaker

Continued over page

Country/ Area	Indicator	Mkt	Actual	Last	Outturn vs market
<i>China cont.</i>	Exports (Feb) – yoy	-1.0%	-25.7%	-17.5%	Weaker
	M2 (Feb) – yoy	19.2%	20.5%	18.8%	Stronger
	Retail Sales YTD (Feb) – yoy	17.0%	15.2%	21.6%	Weaker
	Industrial Production YTD (Feb) – yoy	6.0%	3.8%	12.9%	Weaker
<i>South Korea</i>	PPI (Feb) – yoy	-	4.4%	4.7%	-
	M2 (Jan) – yoy	-	12.0%	13.1%	-
	BoK repo rate decision	1.75%	2.00%	2.00%	No change surprise
<i>Taiwan</i>	Exports (Feb) – yoy	-26.2%	-28.6%	-44.1%	Weaker
<i>Singapore</i>	Retail Sales (Jan) – mom	-1.2%	-12.2%	-1.6%	Weaker
<i>Hong Kong</i>	Industrial Production (Q4) – yoy	-	-10.4%	-6.7%	-
	PPI (Q4) – yoy	-	3.9%	5.6%	-
<i>Malaysia</i>	Industrial Production (Jan) – yoy	-19.8%	-20.2%	-15.9%	Weaker
<i>Indonesia</i>	M2 (Jan) – yoy	-	17.1%	14.7%	-
<i>Philippines</i>	Exports (Jan P) – yoy	-43.0%	-41.0%	-40.3%	Stronger
<i>India</i>	Industrial Production (Jan) – yoy	-0.9%	-0.5%	-0.6%	Stronger

INTEREST RATE STRATEGY

The easing cycle is close to an end. With market pricing now in line with the RBNZ's (and our) view, rates are expected to consolidate and range trade. For borrowers, time remains on your side.

Market themes ...

- > Global bonds still caught between safe haven and issuance fears. Markets will await whether the Fed decision this week will signal outright purchases of Treasuries.
- > RBNZ eased by 50bps, disappointing the bulls, which had priced in some 70bps.
- > Credit default swap spreads for large Australasian banks widening, indicating that there may be further upward pressure on credit margins.

Review and outlook ...

The RBNZ has clearly signalled a 2.5 percent trough in the OCR, and given the Governor's comment that *"any future cuts will be much smaller than observed recently"*, we will be getting there via two 25bp cuts in April and June. The Governor left the door open to a move towards 2 percent should prospects deteriorate by more than expected. But near zero rates have been ruled out. While most of the focus has been on how low rates could go, what many have overlooked is another important question – how long will rates stay low? The RBNZ was silent on this, but looking at their economic projections, the Bank has the 90-day rate bottoming at 3 percent and staying there until early 2010. Even then, the normalisation in the 90-day rate is very gradual, despite the RBNZ's expectation of a very strong rebound in growth from H2 of this year.

For corporate borrowers, time still looks to be on your side. For one, we struggle to see the RBNZ's projected rebound in H2 2009 taking hold (as noted on page 2). We must not lose sight of the fact that de-leveraging resides at the heart of the correction, and the sacrificial lamb in the near-term will be growth. And so long as the unemployment rate is moving up, the bias for policy will be lower, not higher. Even if long term swap rates don't fall from here, and it turns out that we have seen the lows for the cycle, it doesn't automatically follow that the opportunity to participate in low rates has passed. On the contrary, if your objective is to minimise the overall cost of funds over the medium term (as opposed to picking the absolute low in a particular swap rate), then we believe this will be best achieved by remaining floating for now, and fixing at a later date. Even if swap rates do rise, the lower floating rates you will pay in the mean time

will more than make up for any price erosion (if it even occurs).

Borrowing strategies we favour at present

The RBNZ is forecasting a bottom in the 90-day rate of 3% until early next year, and there is no reason to expect why BKBM will not be heading there soon. Though the easing cycle is nearing an end, there is no real urgency to rush into paying fixed at this stage. Longer-term yields may well drift higher in the near-term – indeed, this is our expectation that the curve will steepen. Yet, to fix now would be to miss out on low floating rates (and expected to go a bit lower still), and the RBNZ is signalling that rates will stay low for a while. Our favoured strategy remains - if the objective is to obtain the lowest cost of funds over the medium term, we favour remaining floating for now, and fixing later once it is clear that the economy is properly on the mend.

Gauges for NZ interest rates

Gauge	Direction	Comment
RBNZ	↔	On glide path to 2.5%, in line with market pricing.
NZ data	↔/↓	Still very poor, Q4 GDP may shock.
Fed Funds/ front end	↔	Focus on what other "unconventional" tools the Fed will now employ.
RBA	↔/↓	Minutes this week to cement expectations of cuts.
US 10 year	↔	Caught between safe haven flows and issuance fears.
NZ swap curve	↔/↑	Steepteners still on. Keep the faith.
Flow	↔/↑	Corporate sector paying of fixed to accelerate.
Technicals	↔	In range mode.

Market expectations for RBNZ OCR (bps)

OCR dates	Last week	This week
Thu 30-Apr-09	-26	-25
Thu 11-Jun-09	-45	-50
Thu 30-Jul-09	-46	-50
Thu 10-Sep-09	-47	-50
Thu 29-Oct-09	-47	-50
Thu 10-Dec-09	-48	-50
Thu 21-Jan-10	-48	-50

Trading themes we favour at present

We continue to favour steepeners, and still look for a move beyond 200bps. This will rely on the back end to do more of the work, given that the front end has already priced in the OCR trough. By the same token, not much scope for a selloff in the front end as low rates are here to stay for some time.

CURRENCY STRATEGY

The short-dated squeeze eventuated, and for now the question will remain whether equities and risk appetites can sustain recent gains. The market currently looks to be questioning the USD safe haven status as the world begins to put money back to work, and preservation concerns wane. We are dubious but have to respect sentiment for now. Beyond this we see little to alter our generally bearish medium-term assessment towards the NZD.

Market themes...

- > Risk appetites improving courtesy of equities, but questions remain whether it can continue.
- > RBNZ sets a floor on rates, and helps out the bird.

Review and outlook...

The scene is set for a period of global currency consolidation. The USD index has risen on safe haven flows for the past six months as capital access and preservation have been paramount in investors' minds. The massive depth and liquidity of the US market as well as the USD reserve currency status has been the big attraction for investors. These factors are beginning to wane. The break of key breakout support at 88.00 suggests the USD now faces headwinds with the VIX index turning south and the equity markets stabilising. These trends have to be respected as the market shows tendency to run in weekly strings when it comes to responding to news.

The NZD has already benefited from this stabilisation with a move off the lows of 0.49 above key resistance levels at 0.5175 given the better risk sentiment and preparedness of the RBNZ to flag a floor on interest rates. This has seen the 2 year IRS selling off from 3.20 percent to 3.45 percent currently. Provided equity market sentiment remains stable the next upwards leg from for this move is from 0.5175 to as high as 0.5550 over the coming weeks. But the key question is whether equities can hold last week's recovery.

In this environment, the market – which was sitting short NZD – is now looking to square. The NZDJPY cross has closed above 50.50, and given the offshore interest in our bond tenders over the last week suggests this cross now has upside. NZDAUD has hit resistance at the 0.8000 level and sellers are noted in that region.

The G20 over the weekend also confirmed it's commitment to aid emerging markets, which suggests European banks with massive exposures to the Eastern block will take comfort. How the

market reacts in Europe tonight will set the stage NZD this week given our correlation to equity markets of late and particularly financial stocks.

Beyond near-term noise – and in particular nightly equity market sentiment – we see little to alter our generally bearish medium-term assessment towards the NZD. Even if the all clear has been given across risk gauges, this doesn't change the fundamental assessment that across Anglo-Saxon nations this is primarily a household de-leveraging story. In this environment the low savers will see their currency remain under pressure over time.

NZD vs AUD: monthly directional gauges		
Gauge	Direction	Comment
Fair value	↔	Back in the fair value zone.
Yield	↔	RBNZ now looking at "competitiveness".
Commodities	↔	Dairy looking better.
Partial indicators	↔	Australian Q4 GDP surprisingly weak, NZ's to come.
Technicals	↓	0.7750 to 0.8000 range.
Sentiment	↔/↑	Risk appetites are back.
Other	↔	Is the world a better place?
On balance	↔	RBNZ sets a floor, for now.

NZD vs USD: monthly directional gauges		
Gauge	Direction	Comment
Fair value – long-term	↔/↓	Erring towards macro-balance fair value models.
Fair value – short-term	↔	In fair value range now.
Yield	↔/↑	Differential widens.
Commodities	↔	Dairy prices appear to be stabilising.
Risk aversion	↔/↑	World looks better – today anyway.
Partial indicators	↔	US's still nasty but NZ's starting to compete.
Technicals	↔/↓	0.4980 support.
AUD	↔	Australian data not pretty either.
Sentiment	↔	All about the USD for now.
Other	↓	Hard to go past current / capital account necessities.
On balance	↔/↓	Near-term noise but big trend is still lower.

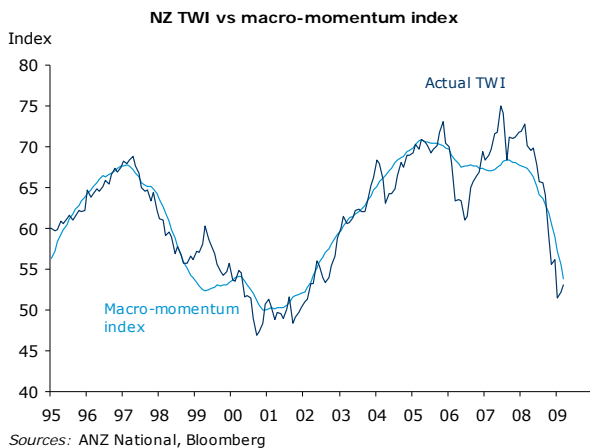
CURRENCY MACRO-MOMENTUM AND RISK INDEXES

While our macro-momentum index suggests that the currency is (slightly) front-running future negative economic data, our currency risk index points to further downward moves in the TWI towards the sub-50 level.

Abstracting from levels, both measures are directional in nature and show few signs a trough has yet been reached.

In the past few years, we have developed (and regularly provided updates on) two gauges for tracking where the currency should be heading.

The first gauge is the currency macro-momentum index, which uses timely economic indicators that the market tends to react to. These include retail sales, GDP, employment growth, CPI, business confidence, as well as other second tier data such as building consents, house sales etc. We use the deviation of the economic indicators from their historical average, and weight them to provide an overall impression of the direction of the dataflow – i.e. the momentum of the macro-economic data. The rationale is simple. Ultimately, the currency will react to economic developments. Sub-par economic performance will eventually see the currency come under downward pressure, while the opposite will also be true. We use a simple regression to link the macro-momentum index more explicitly to the actual TWI.

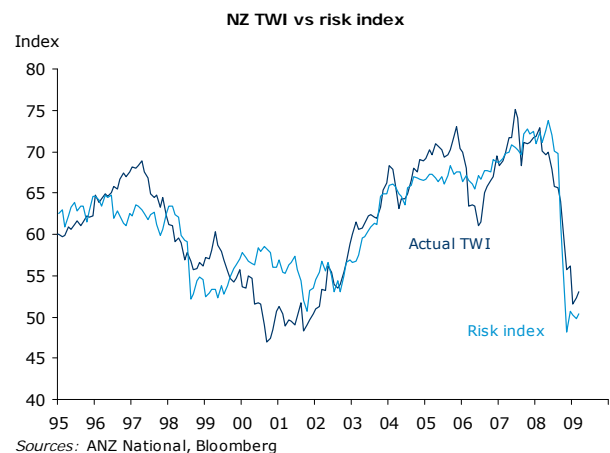


The second gauge is the currency risk index (formerly our cash and carry index). We know that in the near-term, currencies are influenced by things like yield differentials and risk appetites. Our currency risk index comprises four components:

- > **Commodity risk.** We use an average of the ANZ Commodity Price Index, the CRB index and the Baltic Dry index to recognise the influence that commodity price movements have on the NZD.

- > **Interest rate risk.** We use the 2-year swap differential, relative monetary policy expectations and the relative shape of the yield curve to measure the attractiveness of carry.
- > **Global risk.** We use the average of the VIX, emerging market bond spreads and corporate bond spreads as an indicator for the degree of risk taking by market participants.
- > **Domestic risk.** We use the trade balance, the National Bank *Business Outlook* composite index and net migration as a proxy for domestic economic risk.

Such tools provide unique insights into different aspects of the NZ dollar.



At current TWI levels, the currency appears to already be (slightly) front-running future negative economic data, according to our macro-momentum index. This suggests that it will take weaker than expected data to push the TWI down further. And we certainly believe the NZ economy has yet to trough, yet alone return to a neutral or trend reading when it comes to growth. However, our risk index suggests further downside potential for the TWI still, with a move below 50 looking likely in the near-term.

It should be noted that both our macro-momentum and risk indexes do not tell us where the currency should be in a structural sense. We rely on a host of other structural models to tell us that.

Our indices, however, provide a very useful guide as to whether the NZ dollar has diverged materially from where it should be in a cyclical sense, and whether the tenor of the economic data or risk measures says it should be going up or down.

But more importantly, both our gauges are directional. And on this basis, neither is giving us any indication a turning point has been reached or is upon us.

DATA AND EVENT CALENDAR

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
16-Mar	NZ	Performance of Services Index (Feb)	-	42.7	10:30
		Manufacturing Activity (Q4) – qoq	-	1.3%	10:45
		Non Resident Bond Holdings (Feb)	-	74.0%	15:00
	UK	Rightmove House Prices (Mar) – mom	-	1.2%	13:01
	JN	Tokyo Condominium Sales (Feb) – yoy	-	-24.1%	17:00
	EC	Euro-Zone CPI (Feb) – mom	0.4%	-0.8%	23:00
		Euro-Zone CPI (Feb) – yoy	1.2%	1.1%	23:00
		Euro-Zone CPI – Core (Feb) – yoy	1.6%	1.6%	23:00
		Euro-zone Employment (Q4) – qoq	-	-0.1%	23:00
		Euro-zone Employment (Q4) – yoy	-	0.8%	23:00
17-Mar	US	Empire Manufacturing (Mar)	30.8	-34.7	01:30
		Net Long-term TIC Flows (Jan)	\$45.0B	\$34.8B	02:00
		Total Net TIC Flows (Jan)	-	\$74.0B	02:00
		Industrial Production (Feb)	-1.3%	-1.8%	02:15
		Capacity Utilization (Feb)	71.0%	72.0%	02:15
		NAHB Housing Market Index (Mar)	9	9	06:00
	EC	ECB's Trichet Speaks on European Integration, in Frankfurt	-	-	-
	AU	Reserve Bank Board's March Minutes	-	-	13:30
	JN	Tertiary Industry Index (Jan) – mom	-0.5%	-1.6%	12:50
		Machine Tool Orders (Feb F) – yoy	-	-83.9%	19:00
	UK	DCLG UK House Prices (Jan) – yoy	-11.7%	-10.2%	22:30
	GE	ZEW Survey (Econ. Sentiment) (Mar)	-8.0	-5.8	23:00
		ZEW Survey (Current Situation) (Mar)	-90.0	-86.2	23:00
	EC	ZEW Survey (Econ. Sentiment) (Mar)	-12.0	-8.7	23:00
18-Mar	US	Producer Price Index (Feb) – mom	0.4%	0.8%	01:30
		Producer Price Index (Feb) – yoy	0.1%	-1.0%	01:30
		PPI Ex Food & Energy (Feb) – mom	-1.4%	0.4%	01:30
		PPI Ex Food & Energy (Feb) – yoy	3.8%	4.2%	01:30
		Housing Starts (Feb)	450K	466K	01:30
		Building Permits (Feb)	500K	521K	01:30
	AU	Westpac Leading Index (Jan) – mom	-	-0.4%	12:30
	JN	BoJ Target Rate	0.10%	0.1%	-
		BoJ Monthly Report	-	-	18:00
		Leading Index CI (Jan F)	-	77.1	18:00
		Coincident Index CI (Jan F)	-	89.6	18:00
	UK	Bank of England Minutes	-	-	22:30
		Claimant Count Rate (Feb)	4.0%	3.8%	22:30

Continued over page

Date	Country	Data/Event	Mkt.	Last	Time (NZDT)
18-Mar cont.	UK	Jobless Claims Change (Feb)	84.8%	73.8K	22:30
		Average Earnings inc bonus (Jan) – 3M/yoy	3.0%	3.2%	22:30
		Average Earnings ex bonus (Jan) – 3M/yoy	3.5%	3.6%	22:30
		ILO Unemployment Rate (Jan) – 3 mths	6.5%	6.3%	22:30
		Manufacturing Unit Wage Cost (Jan) – 3M/yoy	-	6.6%	22:30
19-Mar	US	Consumer Price Index (Feb) – mom	0.3%	0.3%	01:30
		CPI Ex Food & Energy (Feb) – mom	0.1%	0.2%	01:30
		Consumer Price Index (Feb) – yoy	0.0%	0.0%	01:30
		CPI Ex Food & Energy (Feb) – yoy	1.7%	1.7%	01:30
		Current Account Balance (Q4)	-\$137.4B	-	01:30
		FOMC Rate Decision	0.2%	0.25%	07:15
	AU	Assistant RBA Governor Edey Gives Speech in Sydney	-	-	09:50
		New Motor Vehicle Sales (Feb) – mom	-	-1.1%	13:30
		Dwelling Starts (Q4)	-	-	13:30
		Preliminary BoP Imports (Feb) – mom	-	-8.0%	13:30
	JN	All Industry Activity Index (MoM)	-2.1%	-2.7%	12:50
	UK	Public Finances (PSNCR) (Feb)	4.5B	-25.1B	22:30
		Public Sector Net Borrowing (Feb)	8.3B	-3.3B	22:30
		M4 Money Supply (Feb P) – mom	1.4%	2.5%	22:30
		M4 Money Supply (Feb P) – yoy	-	17.5%	22:30
20-Mar	NZ	Visitor Arrivals (Feb) – mom	-	-3.0%	10:45
		Credit Card Spending (Feb) – yoy	-	-2.2%	15:00
	US	Initial Jobless Claims (w/e Mar 15)	659K	654K	01:30
		Continuing Claims (w/e Mar 8)	5325K	5317K	01:30
		Leading Indicators (Feb)	-0.6%	0.4%	03:00
		Philadelphia Fed. (Mar)	-38.9	-41.3	03:00
	GE	Producer Prices (Feb) – mom	-0.2%	-1.2%	20:00
		Producer Prices (Feb) – yoy	1.3%	2.0%	20:00
	EC	Euro-Zone Industrial Production (Jan) – mom	-4.0%	-2.6%	23:00
		Euro-Zone Industrial Production (Jan) – yoy	-15.5%	-12.0%	23:00
21-Mar	US	Bernanke Speaks on Panel at Convention in Phoenix	-	-	04:00

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: The countdown to December quarter GDP is on, which is expected to show the largest quarterly contraction since the recession started. Beyond that, we should get more data on how the March quarter is faring, which we expect to show ongoing weakness still.

Date	Data/Event	Economic Signal	Comment
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 a weak domestic economy hampering import demand.
Mon 30 Mar (10.45)	Building Consents Issued (Feb)	Another fall?	With consents at record lows, a natural rebound is likely. But this will not signal a recovery, merely a base effect and monthly volatility. Commercial consents are still holding up well, but we suspect they will start to head lower.
Mon 30 Mar (15.00)	Credit Growth (Feb)	Flat	Household lending growth to stay close to flat. But lending growth to the agriculture and business sector is expected to remain elevated, though this is likely to do more with managing cashflows as opposed to new investment.
Tue 31 Mar (15.00)	NBNZ <i>Business Outlook</i> (Mar)	-	-
Thu 2 Apr (15.00)	ANZ Commodity Price Index (Mar)	-	-
Tue 7 April (10.00)	NZIER QSBO (Mar qtr)	Bottom found?	Domestic trading activity, investment and employment intentions, and profitability are all expected to remain at depressed levels. But this reading may be close to the bottom in the current cycle.
Thu 9 April (10.45)	Electronic Card Transactions (Mar)	Sitting on the sidelines	A small rebound in the value of ECT transactions expected, though the overall picture is one of weakness in consumer spending.
Tue 14 April (10.45)	Retail Sales (Feb)	Petrol fuelled rebound	Higher petrol prices in February will inflate headline retail sales, though this will be offset by further declines in car sales. Core spending to remain weak.
Fri 17 April (10.45)	CPI (Mar qtr)	Inflation under control	A 0.3 percent increase is expected, but apart from government related increases (tax indexation and education fees increases), inflation is will under control.
On Balance		Flow-on from the global scene in the dataflow.	No signs of a base. Prospects still deteriorating and consumers not spending their windfall.

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	-1.0	-0.9	-3.0	-3.2	-3.0	-2.3	-1.6
Terms of Trade (% yoy)	8.8	11.6	10.7	5.8	1.8	-5.2	-7.9	-9.8	-11.0	-9.6

KEY ECONOMIC INDICATORS

	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Retail Sales (% mom)	0.7	-0.7	0.3	0.3	-1.3	0.0	-0.7	-1.1	..	..
Retail Sales (% yoy)	1.5	2.5	-0.9	2.2	0.7	-4.1	-0.9	-3.7	..	..
Credit Card Billings (% mom)	-0.1	0.1	-0.3	1.3	-1.7	-0.9	-2.2	1.7	..	..
Credit Card Billings (% yoy)	3.9	4.2	2.4	2.5	1.0	-0.9	-3.8	-2.2	..	..
Car Registrations (% mom)	1.6	-7.0	-3.4	10.6	-0.7	-20.0	12.3	-13.1	-15.4	..
Car Registrations (% yoy)	-15.9	-27.1	-30.5	-15.6	-19.9	-34.4	-23.7	-36.5	-44.6	..
Building Consents (% mom)	-13.2	-1.0	-6.9	8.2	-19.4	3.6	-7.1	-13.2	..	..
Building Consents (% yoy)	-45.8	-34.5	-43.2	-28.5	-42.8	-39.8	-41.4	-51.8	..	..
REINZ House Price (% yoy)	-2.2	-1.4	-5.7	-6.1	-4.3	-4.1	-4.8	-4.4	-2.2	..
Household Lending Growth (% mom)	0.2	0.3	0.5	0.2	0.1	-0.1	0.2	0.1	..	..
Household Lending Growth (% yoy)	8.4	7.7	7.2	6.6	5.8	4.8	4.2	3.8	..	..
Roy Morgan Consumer Confidence	86.5	83.9	91.4	108.6	99.7	99.0	102.9	103.7	98.8	95.9
NBNZ Business Confidence	-38.7	-43.2	-20.5	1.6	-42.3	-43.0	-35.0	..	-41.2	..
NBNZ Own Activity Outlook	-4.0	-8.2	4.7	16.7	-11.4	-14.1	-21.5	..	-20.1	..
Trade Balance (\$m)	-215	-797	-848	-1252	-994	-594	-334	-187	..	..
Trade Balance (\$m annual)	-4478	-4468	-4369	-5048	-5269	-5235	-5607	-5483	..	..
ANZ World Commodity Price Index (% mom)	0.0	1.8	-3.4	-5.1	-7.6	-7.4	-7.4	-4.3	-4.6	..
ANZ World Commodity Price Index (% yoy)	11.6	8.7	3.5	-2.1	-11.1	-18.3	-24.3	-26.5	-30.7	..
Net Migration (sa)	430	750	330	-30	30	-320	240	660	..	..
Net Migration (annual)	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-09	Feb-09	16-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
NZD/USD	0.553	0.515	0.523	0.450	0.430	0.410	0.420	0.430	0.440	0.460
NZD/AUD	0.816	0.794	0.798	0.776	0.768	0.759	0.778	0.768	0.759	0.767
NZD/EUR	0.417	0.402	0.406	0.375	0.364	0.360	0.382	0.410	0.419	0.438
NZD/JPY	50.0	47.6	51.3	41.0	37.8	35.3	37.0	37.8	39.6	42.3
NZD/GBP	0.382	0.358	0.374	0.341	0.331	0.328	0.336	0.344	0.346	0.354
NZ\$ TWI	54.9	52.3	53.5	47.6	45.8	44.3	46.0	47.3	48.2	50.2
NZ interest rates	Jan-09	Feb-09	16-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
OCR	5.12	3.71	3.00	2.50	2.50	2.50	2.50	2.50	3.00	4.00
90 day bill	4.37	3.40	3.26	2.90	2.80	2.80	2.80	2.80	3.60	4.60
10 year bond	4.49	4.53	4.78	4.40	4.30	4.30	4.70	4.80	5.50	5.70
International	Jan-09	Feb-09	16-Mar-09	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.50	1.00	1.50	2.00
US 3-mth	1.18	1.28	1.32	0.90	0.70	0.50	0.70	1.25	1.75	2.25
AU cash	4.25	3.50	3.25	2.75	2.25	2.00	2.00	2.00	2.00	3.00
AU 3-mth	3.46	3.68	3.16	2.90	2.10	2.30	2.30	2.40	2.60	3.80

KEY RATES

	13 Feb	9 Mar	10 Mar	11 Mar	12 Mar	13 Mar
Official Cash Rate	3.50	3.50	3.50	3.50	3.00	3.00
90 day bank bill	3.49	3.15	3.15	3.12	3.33	3.33
NZGB 07/09	3.18	3.00	3.00	3.01	3.20	3.16
NZGB 11/11	3.46	3.30	3.32	3.39	3.44	3.45
NZGB 04/13	3.87	3.74	3.77	3.88	3.94	3.95
NZGB 12/17	4.55	4.45	4.49	4.63	4.75	4.76
2 year swap	3.31	3.18	3.16	3.24	3.34	3.44
5 year swap	4.00	4.09	4.06	4.16	4.27	4.38
RBNZ TWI	52.8	52.0	51.5	51.9	52.5	53.2
NZD/USD	0.5237	0.5039	0.4972	0.5035	0.5125	0.5205
NZD/AUD	0.7953	0.7850	0.7791	0.7778	0.7898	0.7951
NZD/JPY	47.76	4.15	49.16	49.55	49.39	50.86
NZD/GBP	0.3644	1.2201	0.3591	0.3653	0.3690	0.3735
NZD/EUR	0.4053	1.8774	0.3922	0.3957	0.3993	0.4026
AUD/USD	0.6585	0.6419	0.6382	0.6473	0.6489	0.6546
EUR/USD	1.2922	0.2684	1.2677	1.2724	1.2835	1.2929
USD/JPY	91.20	8.23	98.88	98.41	96.38	97.71
GBP/USD	1.4371	0.4130	1.3845	1.3785	1.3888	1.3934
Oil	34.03	45.68	45.68	45.68	42.46	46.91
Gold	940.30	896.10	897.50	898.05	914.45	925.55
Electricity (Haywards)	5.83	2.51	3.02	3.06	2.43	2.96
Milk futures (US\$/contract)	83	83	83	83	83	83
Baltic Dry Freight Index	1908	2262	2298	2271	2201	2122

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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