

NEW ZEALAND ECONOMICS MARKET FOCUS

3 October 2011

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A FIRM REMINDER

ECONOMIC OVERVIEW

A credit rating downgrade for New Zealand by S&P and Fitch had long been in the wings, but that it happened last week tells us something about the global environment in which we find ourselves. A continued long, hard grind for the global economy remains on the cards, as the realities of debt payback hit home. The pressure will remain on fiscal policy to deliver, both here and abroad. We expect the New Zealand economy to stack up better than most, but this view will be put to the test with this week's commodity price data. The QSBO is expected to show the local economy continuing to move forward, but not expecting to remain unscathed from global jitters. With a number of key overseas central bank interest rate decisions this week, the global scene is set to dominate once more.

THE CHANGING FACE OF WATER MANAGEMENT IN NZ

One of New Zealand's key comparative advantages resides in an abundance of water. This article looks at the changing face of water management in New Zealand, and the implications for rural water users and the wider New Zealand economy. The key message is that changes are in the wind for water policy and its management in New Zealand. Therefore, landowners should make sure they are up to speed with what regional councils are doing in their area. They will also need to ensure they have access to future water needs via having a resource consent in place, even if there are costs involved. Users will need to factor in water access and potential water restrictions into their planning and financial decision making process. And if in doubt, seek professional advice.

INTEREST RATE STRATEGY

Global market uncertainty remains a key stress in markets, but the level of uncertainty just jumped a notch following Friday's credit rating downgrades by Fitch and S&P. The timing isn't great – we had seen signs that demand for NZGS at the weekly tenders was improving. This is a key bellwether. Although global optimism did improve last week, the major issues (insolvency in Europe and joblessness in the US) remain unresolved, and it will be some time before they are. As such, expect the yield environment to remain subdued for a while yet.

CURRENCY STRATEGY

Global markets are still flighty and are quick to panic. Greece and associated contagion concerns dominate market thinking. We should see resolution to a number of key event risks in Europe this week (Troika review and final EFSF votes). Central banks will be in focus, with the RBA, ECB and BOE all meeting this week, and all are expected to be dovish. US data will round out the week with non-farm payrolls and unemployment data likely to disappoint on Friday. In all, momentum and sentiment are pointing to further risk reduction. Positive China PMIs at the weekend have been overlooked, but if Asian growth holds up, a soft landing seems likely, which would be good for NZD and AUD.

ECONOMIC OVERVIEW

SUMMARY

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THIS WEEK'S EVENTS

ANZ Commodity Price Index – September.
(Monday, October 3, 1:00pm).

QSBO – 2011Q3 (Tuesday, October 4, 10:00am).
General business confidence, domestic trading activity and profitability are expected to fall to between March and June levels. Small falls are expected for employment and investment intentions, with capacity-based metrics providing mixed signals.

GlobalDairyTrade online auction (early am, Wednesday, October 5). We expect average dairy prices to be unchanged, with higher wholemilk powder prices offsetting falls in other components.

WHAT'S THE VIEW

With New Zealand receiving a credit downgrade from two rating agencies some comments are required.

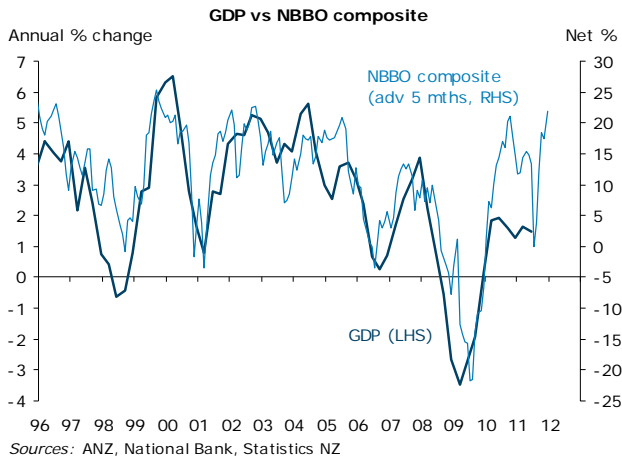
- **Don't panic.** Whether our sovereign rating is AA or AA+ we are still within the margins of excellence, and market reaction so far has been relatively muted. We don't expect any material market consequences. The NZD is certainly down, but the broader global scene is dominating here, and will continue to do so. The goal-posts look to have moved and a host of nations are being moved down.
- **It removes one layer of uncertainty.** The downgrades themselves are not helpful but neither was being on a negative outlook for two years (in the case of Fitch). Unlike the USA and other nations we've at least been put on a stable outlook, albeit on a lower rating.
- **It's a firm reminder New Zealand faces a big task getting its house back in order.** We've

made considerable progress on a number of fronts, including rebuilding the household saving rate (which makes the downgrades appear somewhat odd) but net external debt to GDP of 70 percent is still too high. This means structural imperatives such as the required deleveraging (which can occur via income generation) will act as a restraining force on growth. The likes of the property market is going nowhere until these structural headwinds ease.

- **Implicitly, the rating agencies seem sceptical regarding whether we are truly seeing a structural change in behaviour by New Zealand households (i.e. becoming a more savings-centric society).** If it's just cyclical, the current account and net external debt will soon move back up – a worrying trend in a fickle global scene. We certainly think there is going to be tension in the economy when we eye what the likes of the earthquake rebuild will do to the current account, but we view the change in household behaviour as structural.
- **It is imperative the Government delivers on its tight fiscal rhetoric and forges ahead with policies that hasten the rebalancing of the economy.** The former will crimp growth somewhat but will also deliver some certainty for business. To see the importance of this witness developments in the USA: political gridlock is unfriendly for growth.

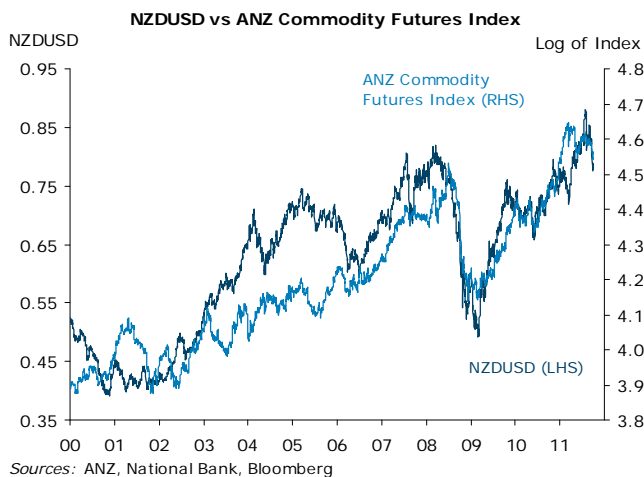
While a rating downgrade is an unwelcome development, New Zealand continues to stack up well in other respects. Last week's National Bank Business Outlook showed signs of continued resilience. Admittedly, own activity and construction sector sentiment dipped, and export intentions for manufacturers fell to their lowest point since the depths of the GFC. But on the whole, it could have been much, much worse – confidence readings in some of our key trading partners look very weak. Our composite indicator is still pointing to a strengthening in activity, and while the link between confidence and activity is not always exact (as Q2 GDP reminded us), prospects for the economy remain solid. Strengthening residential consent issuance also portends a late 2011/early 2012 construction sector recovery.

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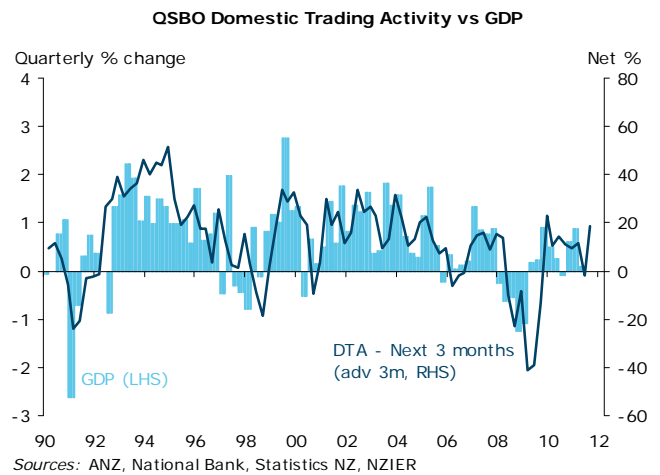


We continue to watch out for the transmission of a weak global scene to New Zealand. This sounds like a broken record each week but it remains the order of the day.

- So far global prices for New Zealand's export commodities have remained fairly firm, supported by beneficial supply-side factors. However, the direction of risk is clear, particularly if US and European weakness flows through into the emerging economies. Starting off with today's ANZ Commodity Price Index we will be able to gauge the extent of commodity price resilience, which will have important implications for our terms of trade and general wellbeing as a country. Wednesday's *GlobalDairyTrade* auction will be the first real test of the market since Fonterra announced a higher 2010/11 dairy payout and confirmed their \$6.75/kgMS milk price forecast for 2011/12. Strong demand from emerging economies is expected to provide a bulwark against financial market wobbles, with overall dairy prices broadly unchanged at US \$3,500/tonne. Strengthening prices for wholemilk powder are expected to be offset by falls for other categories.



- Tomorrow's QSBO for Q3 will provide a useful reference point for how domestic confidence is holding up.** The primary question is whether the chaos and carnage offshore is going to derail what have been remarkably solid intentions regarding activity, employment and investment. Momentum gauges are expected to mimic the National Bank Business Outlook (NBBO), suggesting a remarkably solid performance, but growing anxiety.



- General business confidence is likely to pare recent sharp gains but not to collapse.** Domestic trading activity (past and expected) and investment intentions improved last quarter but may well take a breather this time. We will be closely watching gauges for investment, particularly architects' work in their own offices, to get a sense of the impending impact of the Christchurch rebuild.

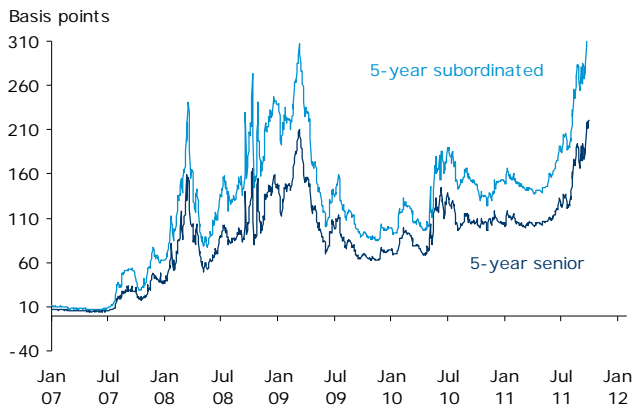
The QSBO is also important for its wider capacity metrics such as skill shortages and factor constraints. While the demand side is the traditional driver of the business cycle and inflation, the supply side matters too. We are sceptical of the ability of the NZ economy to accommodate rebuilding Christchurch and growing Auckland at the same time without generating significant bottlenecks.

- Funding markets are open, but spreads have risen sharply in recent weeks.** While this is not of immediate concern, given that local banks are generally well funded, it will be of concern if spreads remain high for an extended period, as the banks will eventually have rollovers that need to be refinanced. A key barometer to watch in the near term is the margin banks are prepared to pay in the local term deposit market – if we see these margins start to rise they will be indicative of

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funding pressures. A win for savers, but not for the broader economy. Of course, while this all sounds very dire, bear in mind that outright interest rates have fallen substantially, offsetting the rise in margins. This does soften the blow somewhat for borrowers (including the banks themselves).

CDS spreads for "Big four" Australian Banks



Sources: ANZ, National Bank, Bloomberg

As has been the case for the past few weeks, global events looks set to dominate this week, with some key central bank meetings. While our Australian economists believe the RBA will remain on hold this week, they see global concerns as likely to leave the RBA more open to interest rate cuts should the global outlook deteriorate further. With inflation rising and outgoing ECB President Trichet noting "price stability is the only needle in our compass", an ECB interest rate cut this month looks a stretch, but interest rate cuts down the line remain the most likely course of action given their woeful growth outlook. A similar course of action appears to be on the cards for the Bank of England.

As we have been warning for some time now, there are no quick fixes to resolving issues caused by high levels of debt. What is needed both in Europe and the US is a long-run commitment to fiscal consolidation, but this is not without cost and sacrifice. With the global economy standing at the precipice, this will be a true test of leadership as opposed to populism. History shows that it requires an accident before true leadership emerges when it comes to tough decisions. We hope this is not the case this around, but get the feeling it might be the endgame.

RECENT LOCAL DATA

SNZ National Employment Indicator – July. The number of seasonally adjusted filled jobs declined 0.3 percent, with the number of filled jobs 1 percent higher than 12 months earlier.

SNZ Building Consents – August. The number of residential consents rose a seasonally adjusted 12.5 percent (up 16.9 percent s.a. on an ex-apartment basis). Non-residential consent values fell 17 percent s.a. to \$277m.

National Bank Business Outlook – September. General business confidence fell 4 points to +30, with own activity falling 8 points to +35. Pricing and investment intentions eased 1 point (to +20 and +11 respectively), while employment intentions rose 3 points to +12.

RBNZ Credit Aggregates – August. Private sector credit (R) ex repo remained at a 11 percent annual rate. Annual household credit growth and business credit growth eased (to +1.0 percent and 0.9 percent respectively). Falls in annual credit tapered off, with credit levels 0.6 percent below 12 months earlier (versus -0.9 percent in July).

THE CHANGING FACE OF WATER MANAGEMENT IN NZ

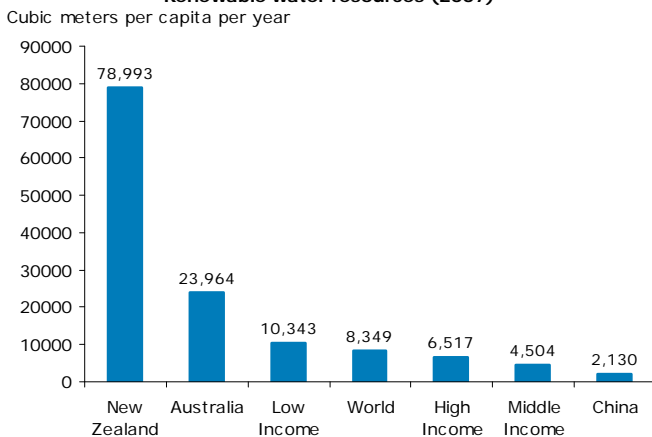
SUMMARY

One of New Zealand's key comparative advantages resides in an abundance of water. This article looks at the changing face of water management in New Zealand, and the implications for rural water users and the wider New Zealand economy. The key message is that changes are in the wind for water policy and its management in New Zealand. Therefore, landowners should make sure they are up to speed with what regional councils are doing in their area. They will also need to ensure they have access to future water needs via having a resource consent in place, even if there are costs involved. Users will need to factor in water access and potential water restrictions into their planning and financial decision making process. And if in doubt, seek professional advice.

BACKGROUND

Water is one of New Zealand's key natural resource advantages. Compared to our trading partners we stack up very well. Each year over 500 billion cubic metres of water falls on New Zealand as either rain or snow. Directly and indirectly, it is the fuel for much of our business activity. Outside of primary production, water drives much of our electricity generation, features heavily in tourism activities, and plays a significant part in much of our social, cultural and recreational identity.

Renewable water resources (2007)

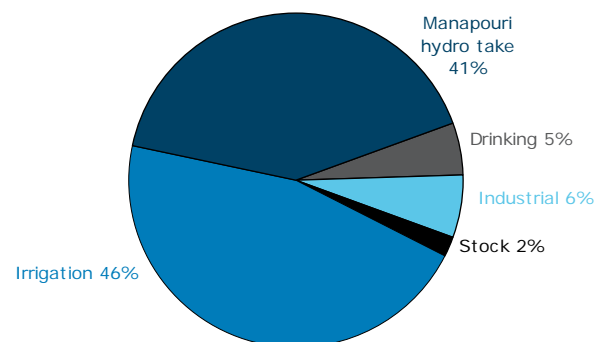


Changing community objectives, increased competition for water, and quality and allocation limits being reached in some New Zealand catchments have pushed the Government into reviewing the framework for how we manage our water resources. Both the previous and current governments have made the review and refresh of water policy a key focus. With the work of the Land and Water Forum, everything points towards a significant shift in water policy in the short to medium

term. **The timeframe in which any change in policy occurs and the manner in which various water users prepare and respond to this change will have major impacts on the primary sector and its support industries.**

Many argue that the existing framework of first in-first served (where access to the water resource went to the first in line who applied for it until the resource was fully allocated) is flawed. While this approach has worked in the past, what has now changed is the realisation that water resources are at their limits in some areas, and any further demand for water will need to be addressed either by water storage, better management and use of the existing resource, or by providing priority of use to specific water users. **The conflicting demands of recreationalists, environmentalists, existing water users and those who need access in the future also place significant strain on regional councils when allocating water. While science-based decisions on the resource are (relatively) simple, political pressures driven by growing populations, or the needs of key industries, make the situation one of conflict.** Water is so vital to so many different groups that direct conflict between many users is already apparent, and is likely to become more so as demands on allocable water and water quality intensify over time.

Use of weekly allocated water in NZ, 2010



Sources: ANZ, National Bank, Ministry for the Environment

THE CHANGING FACE OF FRESH WATER MANAGEMENT IN NEW ZEALAND

Increasing community concerns over the management of New Zealand's waterways and a realisation of the strategic importance of water resources to our future economic success have seen both the current and previous governments focus on improving water management in New Zealand. The recent activities of the Land and Water Forum, and a desire to see economic growth enabled through access to increased water in the Canterbury region, have seen this

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programme of work deliver its first concrete outcomes. **Two recent policy changes are already beginning to impact the primary sectors:** the National Policy Statement for Freshwater Management, and the Measurement and Reporting of Water Takes Regulations 2010.

The Measurement and Reporting of Water Takes Regulations 2010 has had the smallest impact at this stage. The aim of this regulation is to provide enough information to allow councils to manage water resources appropriately and within limits.

By November 2016 all consented water takes of greater than 5 litres per second will be required to be measured and annually reported to the regional council on the volume and rate of water taken. This works out to 432 cubic metres per day, enough drinking and shed water for over 3,000 cows – but not much irrigation-wise. At that time this will mean 98 percent of consented water takes will be operating under this system. The provision of this information will allow regional councils to better understand the impacts of water takes on individual waterways and catchments, and ensure water is being taken within the bounds of consent conditions.

For the individual water user affected, generally those taking volumes of water for irrigation or processing purposes, this will mean ensuring they have the appropriate water measurement device(s) in place in order to report their water use.

The National Policy Statement for Fresh Water Management (NPS) was released in May of this year and is likely to have a much more obvious effect on rural water users. **It has several objectives, all of which will have direct impacts on rural water use:**

- safeguarding the life-supporting capacity of freshwater;
- maintaining or improving freshwater quality, including where the quality has been degraded by human activities to the point of being over-allocated;
- avoiding over-allocation of water, and phasing out any existing over-allocation;
- improving and maximizing the efficient allocation and use of water; and
- protecting significant wetlands.

Regional councils are now required to implement a range of policies to achieve these objectives. Some requirements have immediate impacts,

while others can be phased in over the next 19 years at each council's discretion.

WHAT DOES THIS MEAN FOR RURAL WATER USERS?

So what do these two freshwater policy changes mean for the farm or orchard? Potentially quite a lot.

It is likely to mean water users will need to operate within very clear limits as to the volume they can access, and that once allocation limits have been met, increased productivity can only occur through greater water use efficiency. In those regions where limits are already being exceeded, the ability of land users requiring high levels of water to operate at current levels will be at risk.

It is also likely to mean a greater Regional Council interest in how the primary sector operates as users of the land to ensure the impacts on water quality are acceptable. Operating within limits may require changes to farm systems, and may mean some land uses are unable to take place in certain areas.

Water will become a key driver of the potential of land use, its productivity and therefore its value. While this has always been the case, this will now become explicit. The absence of an ability to legally access more water will affect more people, while limits on impacts on water quality will require greater consideration of the potential management practices available to mitigate off-site losses. Rather than being taken for granted, water will need to become one of the first considerations when thinking about the suitability of rural land for specific uses.

In the short term the primary sector will need to grapple with the issue of "allocation" – either accessing water or the ability to negatively impact water quality.

Being able to show that you are using water efficiently will become a necessity to maintain ongoing access to water. Where reasonable and responsible water use is not shown, others wanting to access more water will argue they are the more responsible user of the public resource. Efficient water use will also become necessary to allow for increased production. Therefore, making the water you have now go further will be the way to grow if no further water is available.

A key question is whether the primary sector, especially at the landowner and rural professional level, have the tools and information to meet the coming challenge at this time.

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RECENT EXAMPLES

VARIATION 6 – WAIKATO REGION

Over the past 5 years Waikato Regional Council has been developing and implementing a new water allocation plan, known as Variation 6. The aim of Variation 6 is to ensure that the water allocated within the Waikato did not exceed set limits. Key issues for the groups involved in Variation 6 were:

- the impact of regional councils providing some water users with higher priority access than others; and
- the potential impacts of setting limits where current water use exceeds those limits.

As a highly developed dairy region, also containing the majority of the North Island's hydro-generation capacity and a large number of growing urban areas, the Waikato provides an example of the issues water resource managers will commonly face in the future.

In the Waikato a decision was made by the Regional Council to favour hydro-generation and municipal water use over all other water uses.

As a consequence, no further water would be made available for use in the catchment between the Karapiro Dam and the Huka Falls control gates at Taupo. **The resulting loss of the potential for land use change within that catchment was fundamental. There could be no change to current land uses that would require access to additional water, such as pine to pasture dairy conversion.** The potential to increase stock numbers and access to water for shed use for dairy conversions was problematic, if not impossible, as was any increase in the area under irrigation.

It was estimated that there is approximately 120,000 hectares of land suitable for conversion to un-irrigated dairying within this catchment alone, but which could not be converted without access to both stock and shed water. A further 40,000 hectares of expected irrigated dairy conversions was also at risk. At current national stocking rates of 2.8 cows per hectare this equates to potentially 450,000 fewer dairy cows. At a long-run farm-gate milk price of \$6.50 per kg MS, this is about \$1 billion less in gross farm-gate returns that the local community and wider New Zealand economy forgoes. **At the time, the net economic impact was assessed at \$800 million when the loss of other economic activity associated with forestry was deducted.**

In catchments where water allocation limits are met, increased population growth mean the water available for non-municipal needs will have to decline. The

ability to intensify or change land use to industries with higher water demand in the future would be constrained and business certainty diminished.

In other catchments, modeling showed that current water use exceeded the proposed water allocation limits, in some instances by a massive 200 to 500 percent. Often this occurred in highly productive catchments where land uses with high water demand and asset values such as dairying and horticulture occurred. **Evidence provided during the related Environment Court case showed that in the Piako catchment alone, the expected reduction in dairy cow numbers required to operate within the water limits would have seen 65,000 cows removed from the catchment, for a loss of 21 million kg MS per annum in production.** Such a loss would have significant impacts on the viability of continuing to operate a dairy farm in the region, through a decrease in farm incomes and land values.

During this process it also became evident how few rural water users within the Waikato region had confirmed their authority to access water through a resource consent. While it was conservatively estimated that **2,000-3,000 dairy farmers alone would need a consent to access the volumes of water needed for their herd, only 65 consents had been issued across the entire region for farm-related water takes.** This left those farmers without consents highly exposed to losing access to water to other users who had a consent in fully or over-allocated catchments.

The conflicting needs of water users within the region saw the Plan changes reach the Environment Court, where the case was heard earlier this year. It is estimated that the various parties to the case, who include Mighty River Power, the district and city councils of the Waikato, Iwi, industrial and farming interests, would have spent several tens of millions of dollars on the case in an effort to protect their current and future water interests. The Environment Court is expected to release its decision in November of this year.

HORIZONS ONE PLAN

Achieving water quality targets will be another key issue for the primary sector. With point source discharges under control, regional councils are turning their attention to diffuse discharges i.e. those that come from general land use, such as nutrient loss from horticulture or pastoral farming.

Within the Whanganui/Manawatu region, the regional council proposed a regional plan seeking to achieve

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specific water quality targets in a number of catchments. These would be met by reducing the levels of nutrients lost in those catchments from land use. An acceptable volume of loss was proposed for each catchment and then allocated to the landowners within the catchment on the basis of Land Use Capability. **While both the effectiveness of the process and the level of nutrient loss were questioned by the primary sector, two key issues were highlighted:**

- how do you fairly allocate nutrient loss across land uses in a catchment; and
- what is a reasonable expectation of a farmer when they need to change farm practices to achieve their limits?

The question of allocation remains unanswered. If you allocate proportionally against current land use then you reduce the opportunity for land use change to higher intensity uses (e.g. it is harder to change from a low loss land use such as sheep production to a higher loss land use such as dairying). If you allocate proportionally on the basis of land area, then high loss land uses are likely to receive a smaller allocation than they need and be required to make more significant changes to their farm systems or purchase allocations from others.

Either allocation method favours one group over another, impacting on the potential to increase productivity, and hence land values. For example, a drystock property unable to access sufficient nutrient loss allocation may no longer be able to convert to dairying, reducing its potential value significantly.

Operating within limits may also require changes to farm systems to ensure those limits are not breached. **There are a number of actions that can be taken to reduce nutrient loss from pasture, at different levels of cost. At certain nutrient limits the cost of mitigation will begin to impact bottom lines to an unsustainable degree. But how the competing economic objectives of the individual land owners, local community and the country are to be balanced is unclear.**

WHAT SHOULD THE RURAL SECTOR AND INDIVIDUAL LANDOWNERS BE DOING?

Ensuring ongoing access to water should be a key risk management focus for all rural water users. Those sectors that require reliable access to large volumes of water, especially irrigators (pastoral and horticultural) and dairy farmers, are probably at the greatest risk. The primary sector as a whole, and individual land owners and their representative bodies especially, need to ensure they are actively engaged in

water management decisions at a national and regional level.

Those without a legal authority to the water they require are more likely to miss out on water, either in part or altogether, if water allocation limits in their catchment are reached or breached. The economic sustainability of the farm/orchard at that point becomes questionable. **All water users should ensure they understand the rules of water access as they apply to them, and have the legal authority necessary to access the water they need.** While obtaining resource consents comes at a cost, it also offers a key risk management opportunity. Rural professionals can play a key role through the provision of advice and information.

Water use efficiency should become a consideration on farm. Knowing how much water is being used, what is being produced from that use and how that can be improved will become a more important management consideration. Being able to demonstrate your water use efficiency against sector benchmarks, or minimizing losses is likely to become necessary for continued access.

Possible policy changes to water management and its potential impact will need to be factored into asset (land) values. The changes to asset values will come through current or possible future income streams for a property, which will influence rates of return and debt carrying capacity. Most of the suggested policy changes would limit intensification, making future growth reliant on new technology or water infrastructure. Therefore, the impact on incomes and asset values in many cases is likely to be negative.

Weighing this economic cost against the possible erosion of a natural resource such as water, which all New Zealanders are dependent upon, is a difficult choice for the local community and country. Ultimately it involves trade-offs for all involved.

As an example, consider whether or not we want to forgo the irrigation potential on the eastern seaboard of New Zealand, where there is approximately one million hectares of potential irrigable land. Assuming that 50 percent of the area is irrigated for dairy use, at an average production level of 1,200 kg MS per hectare, this represents a potential opportunity of 600 million kg of extra MS production (i.e. a 40 percent increase in national milk production compared with the 2010-11 season). Assuming the vast majority of this land is currently operating as meat and fibre, the additional net farm-gate revenue for the country from such land use change **would be \$3.5 billion per**

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annum based on a \$6.50 per kg MS milk price. To put that in perspective, this is nearly sufficient income (i.e. exports) to fund all our car imports 1.3 times over. But at what cost? Land-use changes have to be sustainable or everybody loses from wasted investment.

Ultimately, changes to the management of water by each regional council comes down to a community's willingness to pay, either directly or through forgone opportunities. However, the benefits from addressing water issues flow directly to the local community also. In a world of over-stretched budgets, there are no easy choices. But water is **one natural resource where finding solutions and a path forward is particularly important. No one can ignore the cost of the erosion of a natural resource such as water.** Assessment of the costs to a large degree comes down to an ethical consideration on the state in which we want to leave such natural resources for future generations.

CONCLUSIONS

Land owners collectively have been treating water as if supplies were infinite. They are not, and change is in the wind for water policy. The timeframe in which any change in policy occurs and the manner in which various water users prepare and respond to this change will have major impacts.

Land owners should be proactive by:

- Ensuring they are up to speed with what regional councils are doing in their area.
- Ensuring they have access to current and future water needs via a resource consent, even if it costs now.
- Factoring in the ability to access water and any other possible water quality restrictions into financial decisions (e.g. when purchasing a new block of land in a 'sensitive' catchment for possible intensification).
- Asking for professional advice if in doubt.

While science-based decisions on water resources are (relatively) simple, political pressures driven by growing populations, or the needs of key industries make the situation one of conflict. **How the competing economic and environmental objectives of the individual land owners, local community and the country are to be balanced is unclear and involves trade-offs.**

INTEREST RATE STRATEGY

SUMMARY

Global market uncertainty remains a key stress in markets, but the level of uncertainty just jumped a notch following Friday's credit rating downgrades by Fitch and S&P. The timing isn't great – we had seen signs that demand for NZGS at the weekly tenders was improving. This is a key bellwether. Although global optimism did improve last week, the major issues (insolvency in Europe and joblessness in the US) remain unresolved, and it will be some time before they are. As such, expect the yield environment to remain subdued for a while yet.

MARKET THEMES

- Friday's twin credit rating downgrades add to the general feeling of uncertainty.
- Europe remains a problem for markets. Politicians continue to disagree on how to "solve" the problem and the ECB is likely to be worried about inflation. The US is also a long way away from correcting.

REVIEW AND OUTLOOK

Global uncertainty remains the predominant concern for local markets. Although we did see some optimism return to markets in the middle of last week, driving local yields higher, this was more a function of flow and positioning rather than a directional change in sentiment. **Yields have lifted off all-time lows reached earlier in the week, but they remain low and the mood in the market is very circumspect.**

The question is, where do we go from here? While the exact timing of Friday's credit rating downgrades was a bit surprising (it would have made sense for them to wait till the PREFU – due late this month or early next month), **a downgrade was always a possibility. The good news is, now that we've had a downgrade, and have been placed on stable outlook, a source of uncertainty has been removed.** That is, we don't have the risk of a downgrade hanging over us any more – provided the structural shift in household behaviour towards savings continues and the Government delivers on their promise of fiscal austerity. Market reaction so far has been reasonably constructive – government bond yields rose by a few basis points, and swap spreads narrowed, as you'd expect. As such, the news was pretty well received, and in fact we have seen bigger moves after other global events.

Looking ahead, what really matters is not the price change, but more the attitude and appetite change. In that regard, we'll be keeping a close eye on NZGS bond tender demand, and on NZ credit spreads in general. **Our sense is that AA+ and AA credit ratings are tweaks in what we'd call degrees of excellence, but it remains to be seen**

whether international investors will be as positive. Remember, the RBNZ have identified the credit channel as a key source of concern.

The news flow out of Europe is mixed. **Although markets have been buoyed by approvals to changes in the EFSF, the main issue – sovereign insolvency – remains, and it would be foolish to expect speedy resolution.** A key immediate question is, will the BOE and ECB ease policy this week? They might. US yields have risen too, but this week's jobs numbers will be a big test – until the labour market improves, Fed policy will be directed towards keeping rates low. Worse still, we have yet to see politicians agree on budget cuts agreed as part of the debt ceiling extension. If these are not found, the US will go into automatic fiscal contraction mode as tax cuts and benefit extensions are cancelled. **Central banks have done all they can. Politicians are in the driving seat now.**

PREFERRED BORROWING STRATEGIES

Although rates are close to record lows, we do not favour adding to fixed cover. The business environment remains uncertain, and with the RBNZ now on hold for the foreseeable future, we question the urgency to fix. Liquidity matters more – we'd be more concerned about the term of funding than the term of hedges.

GAUGES FOR NZ INTEREST RATES

GAUGE	DIRECTION	COMMENT
RBNZ/OCR	↔/↑	On hold till 2012.
NZ data	↔	Mixed. Confidence eased.
Fed Funds / front end	↔/↓	On hold. Focus this week is on non-farm payrolls.
RBA	↔/↓	Cut unlikely <i>this</i> month.
US 10 year	↔/↓	Top end of trading ranges.
NZ swap curve	↔/↓	Bond curve steeper, swap curve flatter.
Flow	↔	Some pay side returning.
Technicals	↔/↑	2yr break of 3% key test.

MARKET EXPECTATIONS FOR RBNZ OCR (BPS)

OCR DATES	LAST WEEK	THIS WEEK
Thu 15-Sep-11	+6	+4
Thu 27-Oct-11	+12	+10
Thu 8-Dec-11	+21	+18
Thu 26-Jan-12	+31	+25
Thu 8-Mar-12	+35	+29
Thu 26-Apr-12	+38	+38
Thu 14-Jun-12	+45	+39

TRADING THEMES WE FAVOUR AT PRESENT

Expect swap spreads to narrow further as the downgrade sinks in. The 2yr-5yr-10yr butterfly looks unsustainable at current levels, at around -6bps.

CURRENCY STRATEGY

SUMMARY

Global markets are still flighty and are quick to panic. Greece and associated contagion concerns dominate market thinking. We should see resolution to a number of key event risks in Europe this week (Troika review and final EFSF votes). Central banks will be in focus, with the RBA, ECB and BOE all meeting this week, and all are expected to be dovish. US data will round out the week with non-farm payrolls and unemployment data likely to disappoint on Friday. In all, momentum and sentiment are pointing to further risk reduction. Positive China PMIs at the weekend have been overlooked, but if Asian growth holds up, a soft landing seems likely, which would be good for NZD and AUD.

MARKET THEMES

- The European impasse continues. This week the Eurogroup and EcoFin meet Monday/Tuesday, and whilst the official news from the Troika regarding the 5th review for Greece is not expected until 13th October, we look for earlier announcements.
- Central bank week with the RBA Tuesday, ECB and BOE on Thursday. Economic fragility, cuts and QE2 respectively are on the agenda.
- US Non-Farm Payrolls round out the week, with expectations that the unemployment rate is unchanged.

REVIEW AND OUTLOOK

Greece fears continue to dominate Europe with the market still pricing in a default for Greece and the probability of contagion. This week the last of the key short-term event risks should dissipate, with the so-called "Troika" (the EC, ECB and IMF) expected to provide Greece with the 6th tranche of aid provided the Greek government approves austerity measures. **Eurogroup and Ecofin meetings are scheduled for tonight and tomorrow night.** This timeline has proved changeable, but the market continues to hold out hope that these meetings will provide a concrete plan to deal with contagion and/or default. Those more sceptical don't expect anything material. But headlines from the meetings will be market moving. This is important for NZ as big moves have tended to follow global events of late.

Closer to home, the key event is the RBA board meeting tomorrow, with no change universally expected. However, the market will focus on whether there is a change in rhetoric from the RBA. So far the RBA have been steadfast in their inflation watch and dismissive of economic threats. Looking ahead, jobs data will dictate how the RBA respond, with all eyes on unemployment data next week. Any hit of possible

rate cuts will lead to further AUD weakness. Further afield, we have the **ECB and BOE rates decisions on Thursday.** With Eurozone inflation running hot at 3 percent it is hard to see an ECB cut in the offing, but it will be a focus for the market. Equally the market will be focusing on QE2 from the BOE. QE2 is increasingly being seen as inevitable.

The NZD has underperformed most peers on both risk sentiment and a credit downgrade. We expect the flow-on consequences of the latter to be limited, with market attention quickly returning to the broader global scene.

NZD VS AUD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value	↔	Close to our fair value estimates.
Yield	↑	The markets still believe the next rate move is up NZD and down AUD.
Commodities	↔/↑	Whilst commodities have negative momentum, soft commodities are outperforming hard.
Partial indicators	↔/↑	Data still holding well in NZ. And decaying in AUD.
Technicals	↔/↑	Range bound 0.78250 - 0.8050.
Sentiment	↔	Balanced.
Other	↓	Now a two notch rating gap.
On balance	↑	Yield and undervaluation support NZD.

NZD VS USD: MONTHLY DIRECTIONAL GAUGES		
GAUGE	DIRECTION	COMMENT
Fair value – long-term	↓	Above structural fair value of 0.67.
Fair value – short-term	↔	Pretty close to short-term FV.
Yield	↑	Official rates to stay low but investable yields support.
Commodities	↓	Negative global momentum in commodities at present.
Risk aversion	↓	Global recession prospect driving risk off.
Partial indicators	↑	NZ data consistently better than US data.
Technicals	↔/↓	Momentum currently points negative. Range extension signals NZD is oversold.
AUD	↓	AUD undermined by data.
Sentiment	↑/↓	Growth vs potential QE3 vs EU debt crisis = confusion.
Other	↑/↓	Risk-off position squaring.
On balance	↔/↓	Global issues remain the focus.

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
3-Oct	AU	AiG Performance of Mfg Index - SEP	--	43.3	11:30
	UK	Hometrack Housing Survey (MoM) - SEP	--	-0.1%	12:01
	UK	Hometrack Housing Survey (YoY) - SEP	--	-3.7%	12:01
	AU	TD Securities Inflation MoM% - SEP	--	-0.1%	12:30
	AU	TD Securities Inflation YoY% - SEP	--	2.9%	12:30
	JN	Tankan Lge Manufacturers Index - 3Q	2	-9	12:50
	JN	Tankan Non-Manufacturing - 3Q	2	-5	12:50
	JN	Tankan Lge Mfg Outlook - 3Q	3	2	12:50
	JN	Tankan Non-Mfg Outlook - 3Q	2	-2	12:50
	JN	Tankan Large All Indust Capex - 3Q	4.3%	4.2%	12:50
	NZ	ANZ Commodity Price - SEP	--	-1.2%	13:00
	CH	China Non-manufacturing PMI - SEP	--	57.6	14:00
	GE	PMI Manufacturing - SEP F	50	50	20:55
	EC	PMI Manufacturing - SEP F	48.4	48.4	21:00
	UK	PMI Manufacturing - SEP	48.5	49.0	21:30
	UK	Halifax House Price 3Mths/Year - SEP	-2.1%	-2.6%	03-08 Oct
	UK	Halifax House Prices sa (MoM) - SEP	0.2%	-1.2%	03-08 Oct
4-Oct	US	Construction Spending MoM - AUG	-0.2%	-1.3%	03:00
	US	ISM Manufacturing - SEP	50.3	50.6	03:00
	US	ISM Prices Paid - SEP	54.0	55.5	03:00
	NZ	NZIER Business Opinion Survey - 3Q	--	27	10:00
	US	Total Vehicle Sales - SEP	12.60M	12.10M	10:00
	US	Domestic Vehicle Sales - SEP	9.80M	9.52M	10:00
	AU	Trade Balance - AUG	A\$2.0B	A\$1.8B	13:30
	AU	Building Approvals (MoM) - AUG	1.0%	1.0%	13:30
	JN	Labor Cash Earnings YoY - AUG	--	-0.2%	14:30
	AU	RBA CASH TARGET - OCT	4.75%	4.75%	16:30
	AU	RBA Commodity Price Index - SEP	--	113.3	18:30
	AU	RBA Commodity Index SDR YoY% - SEP	--	25.2%	18:30
	UK	PMI Construction - SEP	51.6	52.6	21:30
	EC	Eurozone PPI (MoM) - AUG	-0.2%	0.5%	22:00
	EC	Eurozone PPI (YoY) - AUG	5.8%	6.1%	22:00
5-Oct	US	Factory Orders - AUG	0.0%	2.4%	03:00
	AU	AiG Performance of Service Index - SEP	--	52.1	11:30
	UK	BRC Shop Price Index YoY - SEP	--	2.7%	12:01
	AU	Retail Sales s.a. (MoM) - AUG	0.2%	0.5%	13:30
	GE	PMI Services - SEP F	50.3	50.3	20:55
	EC	PMI Composite - SEP F	49.2	49.2	21:00
	EC	PMI Services - SEP F	49.1	49.1	21:00
	UK	PMI Services - SEP	50.5	51.1	21:30
	UK	Official Reserves (Changes) - SEP	--	\$2237M	21:30
	UK	GDP (QoQ) - 2Q F	0.2%	0.2%	21:30
	UK	GDP (YoY) - 2Q F	0.7%	0.7%	21:30
	UK	Private Consumption - 2Q	-0.3%	-0.6%	21:30
	UK	Government Spending - 2Q	-0.1%	0.5%	21:30
	UK	Gross Fixed Capital Formation - 2Q	0.7%	-2.0%	21:30
	UK	Exports - 2Q	-0.1%	2.4%	21:30
	UK	Imports - 2Q	-1.0%	-2.4%	21:30

Continued on following page

DATA EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	MKT.	LAST	NZ TIME
5-Oct	UK	Current Account (BP) - 2Q	-11.0B	-9.4B	21:30
	UK	Total Business Investment(QoQ) - 2Q	-	-3.2%	21:30
	UK	Total Business Investment(YoY) - 2Q	-	2.7%	21:30
	EC	Eurozone Retail Sales (MoM) - AUG	-0.3%	0.2%	22:00
	EC	Eurozone Retail Sales (YoY) - AUG	-0.7%	-0.3%	22:00
6-Oct	US	MBA Mortgage Applications - 11202	-	9.3%	00:00
	US	Challenger Job Cuts YoY - SEP	-	47.0%	00:30
	US	ADP Employment Change - SEP	70K	91K	01:15
	US	Treasury's Brainard Speaks in Washington	-	-	03:00
	US	ISM Non-Manf. Composite - SEP	52.8	53.3	03:00
	US	Secretary Geithner Speaks in Washington	-	-	09:20
	UK	BoE Housing Equity Withdrawal - 2Q	-£6.0B	-£5.8B	21:30
	UK	Index of Services (MoM) - JUL	-0.1%	-0.1%	21:30
	UK	Index of Services (3mth/3mth) - JUL	0.9%	0.5%	21:30
	GE	Factory Orders YoY (nsa) - AUG	4.7%	8.7%	23:00
	GE	Factory Orders MoM (sa) - AUG	0.0%	-2.8%	23:00
7-Oct	UK	BOE Asset Purchase Target - OCT	£200B	£200B	00:00
	UK	BOE ANNOUNCES RATES - OCT	0.50%	0.50%	00:00
	EC	ECB Announces Interest Rates - OCT	1.50%	1.50%	00:45
	US	RBC Consumer Outlook Index - OCT	-	40.2	01:00
	US	Initial Jobless Claims - 1-OCT	410K	-	01:30
	US	Continuing Claims - 24-SEP	3725K	-	01:30
	AU	AiG Perf of Construction Index - SEP	-	32.1	11:30
	JN	Leading Index CI - AUG P	103.5	104.6	18:00
	AU	Foreign Reserves - SEP	-	A\$43.8B	18:30
	UK	PPI Input NSA (MoM) - SEP	1.2%	-1.9%	21:30
	UK	PPI Input NSA (YoY) - SEP	17.1%	16.2%	21:30
	UK	PPI Output n.s.a. (MoM) - SEP	0.2%	0.1%	21:30
	UK	PPI Output n.s.a. (YoY) - SEP	6.2%	6.1%	21:30
	UK	PPI Output Core NSA (MoM) - SEP	0.1%	0.2%	21:30
	UK	PPI Output Core NSA (YoY) - SEP	3.7%	3.6%	21:30
	GE	Industrial Prod. YoY (nsa wda) - AUG	6.4%	10.1%	23:00
	GE	Industrial Production MoM (sa) - AUG	-2.0%	4.0%	23:00
	JN	BOJ Target Rate - OCT	-	0.1%	Unspecified
	US	ICSC Chain Store Sales YoY - SEP	-	4.6%	Unspecified
8-Oct	US	Change in Nonfarm Payrolls - SEP	50K	0K	01:30
	US	Change in Private Payrolls - SEP	90K	17K	01:30
	US	Change in Manufact. Payrolls - SEP	-3K	-3K	01:30
	US	Unemployment Rate - SEP	9.1%	9.1%	01:30
	US	Avg Hourly Earning MOM All Emp - SEP	0.2%	-0.1%	01:30
	US	Avg Hourly Earning YOY All Emp - SEP	1.90%	1.90%	01:30
	US	Avg Weekly Hours All Employees - SEP	34.2	34.2	01:30
	US	Chg in Household Survey Empl - SEP	-	331	01:30
	US	Wholesale Inventories - AUG	0.6%	0.8%	03:00
	US	Consumer Credit - AUG	\$7.50B	\$11.97B	08:00
	CH	China HSBC Services PMI - SEP	-	50.6	15:30

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

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

Note: All surveys are preliminary and subject to change.

LOCAL DATA WATCH

Key focus over the next few weeks: Last week's credit downgrades by S&P and Fitch dominated local events, overshadowing the resilience shown by domestic business confidence. Our external debt remains too high, leaving us vulnerable to adverse global shocks. Reducing debt will depend on growing our income generating capacity and more knuckling down. This week's commodity price data will show the extent to which global ructions have impacted. We expect tomorrow's QSBO to show a hit to domestic confidence, but for price side gauges to provide mixed signals. The timing of the first OCR hike will be largely dependent on the global outlook, with the RBNZ likely to remain on hold until global volatility subsides. We expect the first OCR hike to take place in March 2012, but this is conditional on the global outlook improving – a big ask. Higher domestic inflation is likely to be the sacrificial lamb in the risk trade-off. Irrespective of the timing of the first OCR hike, the spirit of our assessment is for a gradual path of policy tightening and a historically low OCR endpoint.

DATE	DATA/EVENT	ECONOMIC SIGNAL	COMMENT
Mon 3 Oct (1:00pm)	ANZ Commodity Price Index – Sep	- -	- -
Tues 4 Oct (10:00am)	NZIER QSBO – 2011Q3	Under pressure	Domestic confidence is likely to take a hit from the global gloom, with pricing intentions easing. Domestic focused indicators should hold up better, with capacity indicators warning of rising inflationary pressure.
Wed 5 Oct	<i>GlobalDairyTrade</i> online auction	Holding	We expect dairy prices to hold at current levels, providing a breather from recent falls.
Tues 11 Oct (10:45am)	Electronic Card Transactions - Sep	RWC boost	We expect a 2.5 percent increase in retail Electronic Card Transaction (ECT) spending, underpinned by sizeable increases for hospitality and services spending.
Thur 13 Oct (10:45am)	Food Price Index – Sep	Up	A slight reversal from last month's fall is expected, with the 0.5 percent increase driven by higher meat and grocery prices.
Thur 13 Oct (10:45am)	ANZ job ads - Sep	- -	- -
Thur 13 Oct (1:00pm)	ANZ-Roy Morgan Consumer Confidence - Oct	- -	- -
Fri 14 Oct (10:45am)	REINZ Residential Sales - Sep	Up	We expect a 2 percent strengthening in house sales, with days to sale easing towards the high 30s. No change in prices is expected.
Fri 21 Oct (10:45am)	International Travel and Migration - Sep	RWC boost	A net permanent and long-term inflow of 300 persons is expected. Visitor arrivals are expected to surge 15 percent s.a.
Fri 21 Oct (10:45am)	RBNZ Credit Card Statistics – Sep	RWC boost	Card spending is expected to climb 2.5 percent, with spending on overseas issued cards surging.
Tue 25 Oct (10:45am)	Consumers Price Index – 2011Q3		We expect a 0.8 percent quarterly increase, with the annual rate of headline inflation down to 5 percent. Core inflation looks to set to remain in the 2.5 to 3 percent zone over the next year or so.
Wed 26 Oct (1:00pm)	National Bank Business Outlook - Oct	- -	- -
Thur 27 Oct (10:45am)	Overseas Merchandise Trade – Sep	Supported	A monthly deficit of \$430m is expected, with the annual trade surplus holding up at \$1.1bn.
On Balance		Local vs global	Domestic gauges for H2 should remain positive but global concerns suggest some caution further out.

KEY FORECASTS AND RATES

	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
GDP (% qoq)	0.6	0.9	0.1	0.9	1.5	0.4	1.0	0.9	0.8	0.7
GDP (% yoy)	1.3	1.7	1.5	2.5	3.4	2.9	3.9	3.9	3.1	3.4
CPI (% qoq)	2.3	0.8	1.0	0.8	0.7	0.6	0.8	0.7	0.6	0.8
CPI (% yoy)	4.0	4.5	5.3	5.0	3.3	3.1	2.9	2.8	2.7	2.9
Employment (% qoq)	-0.3	1.3	0.0	0.7	0.6	0.7	0.5	0.5	0.4	0.4
Employment (% yoy)	1.3	1.8	2.0	1.7	2.6	2.0	2.5	2.3	2.1	1.8
Unemployment Rate (% sa)	6.7	6.5	6.5	6.2	5.9	5.6	5.5	5.3	5.3	5.3
Current Account (% GDP)	-3.5	-3.6	-3.7	-4.0	-3.7	-4.1	-4.3	-4.6	-4.9	-5.0
Terms of Trade (% qoq)	0.8	0.8	2.3	3.0	1.0	-0.9	-0.8	-0.8	-0.8	-0.8
Terms of Trade (% yoy)	12.3	6.7	7.0	7.1	7.3	5.5	2.3	-1.4	-3.3	-3.1

	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11
Retail ECT (% mom)	-0.9	2.4	-0.1	1.5	1.4	-0.7	1.1	0.3	-0.7	..
Retail ECT (% yoy)	4.4	5.7	6.2	6.6	10.0	6.8	9.0	8.0	8.4	..
Credit Card Billings (% mom)	-1.7	3.1	-0.2	0.1	1.2	0.5	0.6	0.7	-1.2	..
Credit Card Billings (% yoy)	2.4	5.8	5.1	2.9	6.2	5.9	5.8	7.9	4.9	..
Car registrations (% mom)	-8.8	1.3	-2.0	0.0	-5.5	3.6	-2.0	-1.0	6.5	..
Car registrations (% yoy)	6.4	6.8	2.8	-1.0	-10.5	-3.7	-9.5	-6.0	1.9	..
Building consents (% mom)	-18.0	9.1	-9.8	2.4	-1.1	3.8	-0.5	14.3	12.5	..
Building consents (% yoy)	-26.5	-14.9	-28.9	-25.9	-32.4	-21.8	-25.2	-15.2	18.1	..
REINZ House Price Index (% yoy)	-1.6	-2.6	-0.7	-1.8	-0.4	-0.7	0.0	0.5	0.7	..
Household Lending Growth (% mom)	0.1	0.1	0.1	-0.1	0.2	0.1	0.1	0.2	0.1	..
Household Lending Growth (% yoy)	1.6	1.5	1.5	1.2	1.2	1.2	1.2	1.2	1.1	..
ANZ Roy Morgan Consumer Confidence	112.2	117.1	108.1	101.4	101.4	103.3	112.5	109.4	113.3	112.6
NBNZ Business Confidence	29.5	..	34.5	-8.7	14.2	38.3	46.5	47.6	34.4	30.3
NBNZ Own Activity Outlook	34.5	..	36.6	14.7	29.5	39.7	38.7	43.7	43.3	35.4
Trade Balance (\$m)	-218	9	184	583	1158	550	200	111	-641	..
Trade Balance (\$m ann)	1172	909	765	741	1238	1019	998	1295	1084	..
ANZ World Commodity Price Index (% mom)	1.6	4.3	2.7	4.7	1.6	0.4	-1.2	-0.2	-1.4	..
ANZ World Commodity Price Index (% yoy)	12.1	16.2	20.3	23.5	19.8	19.6	20.6	22.2	22.0	..
Net migration (sa)	720	430	430	-510	-120	-340	-260	-150	210	..
Net migration (annual)	10451	8689	8249	6554	5508	4625	3867	2867	2257	..

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

KEY MARKET FORECASTS AND RATES

	ACTUAL			Forecast (end month)						
FX RATES	Jul-11	Aug-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZD/USD	0.879	0.854	0.762	0.91	0.92	0.93	0.93	0.93	0.92	0.90
NZD/AUD	0.799	0.798	0.788	0.81	0.82	0.83	0.82	0.82	0.82	0.80
NZD/EUR	0.610	0.594	0.569	0.61	0.61	0.61	0.60	0.60	0.60	0.59
NZD/JPY	67.54	65.48	58.73	68.3	69.0	67.0	67.0	67.0	68.1	67.5
NZD/GBP	0.536	0.526	0.490	0.55	0.54	0.55	0.53	0.53	0.53	0.51
NZ\$ TWI	74.2	73.0	68.2	75.9	76.3	76.7	75.8	75.8	75.7	74.4
INTEREST RATES	Jul-11	Aug-11	Today	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13
NZ OCR	2.50	2.50	2.50	2.50	2.75	3.00	3.25	3.50	3.75	4.00
NZ 90 day bill	2.95	2.99	2.87	2.80	3.20	3.30	3.70	3.80	4.20	4.30
NZ 10-yr bond	4.93	4.52	4.42	4.40	4.50	4.60	4.80	4.90	5.00	5.00
US Fed funds	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
US 3-mth	0.26	0.33	0.37	0.35	0.35	0.35	0.35	0.35	0.35	0.35
AU Cash Rate	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
AU 3-mth	5.07	4.87	4.92	4.90	4.90	4.90	4.90	4.90	4.90	4.90

	30 Aug	26 Sep	27 Sep	28 Sep	29 Sep	30 Sep
Official Cash Rate	2.50	2.50	2.50	2.50	2.50	2.50
90 day bank bill	2.97	2.82	2.80	2.83	2.83	2.85
NZGB 04/13	3.05	2.80	2.84	2.87	2.81	2.87
NZGB 04/15	3.61	3.25	3.29	3.32	3.29	3.35
NZGB 03/19	4.35	4.00	4.05	4.10	4.09	4.20
NZGB 05/21	4.54	4.22	4.26	4.32	4.31	4.43
2 year swap	3.41	3.06	3.11	3.13	3.10	3.12
5 year swap	4.18	3.67	3.74	3.76	3.73	3.78
RBNZ TWI	72.7	68.9	69.2	69.6	68.9	68.1
NZD/USD	0.8518	0.7728	0.7811	0.7852	0.7766	0.7653
NZD/AUD	0.7987	0.7919	0.7926	0.7962	0.7952	0.7848
NZD/JPY	65.48	59.06	59.61	60.10	59.41	58.62
NZD/GBP	0.5193	0.4997	0.5014	0.5025	0.4977	0.4910
NZD/EUR	0.5868	0.5756	0.5766	0.5792	0.5716	0.5656
AUD/USD	1.0665	0.9759	0.9855	0.9862	0.9766	0.9751
EUR/USD	1.4516	1.3425	1.3546	1.3557	1.3587	1.3531
USD/JPY	76.87	76.42	76.31	76.54	76.50	76.60
GBP/USD	1.6403	1.5464	1.5579	1.5627	1.5604	1.5587
Oil (US\$/bbl)	87.18	79.90	79.90	84.08	80.91	81.87
Gold (US\$/oz)	1792.55	1630.00	1644.55	1644.95	1617.95	1627.60
Electricity (Haywards)	7.11	14.54	9.62	9.27	14.87	15.75
Baltic Dry Freight Index	1537	1928	1927	1920	1913	1899
Milk futures (USD)	150	150	149	148	148.5	145.5

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