

Delivering Sustainable Financial Performance

ASIA-PACIFIC

R I S K M A N A G E M E N T

<h1>Strategy and Tactics</h1>	Tuesday, 3 November 2009 Fortnightly Report Published Tuesday 12.00 pm
<h2>Australian dollar market overview</h2> <p>Please Note: This market report is confidential to our clients and must not be forwarded to third parties outside your company.</p>	Current spot rate: 0.7945 One fortnight ago spot rate: 0.8146 One month ago spot rate: 0.8330

<p><b>APRM's Central View</b></p> <ul style="list-style-type: none"> <li>RBA has begun to tighten monetary policy and interest rate market pricing for considerable increases over next 12 months are largely justified</li> <li>RBNZ continues to communicate stable policy over next 9-12 months</li> <li>NZD has started to diverge from AUD in global foreign exchange markets consistent with NZD/AUD cross rate lower.</li> </ul>	<p><b>Risks to Central View</b></p> <ul style="list-style-type: none"> <li><b>Upside Risk:</b> Weakness in Chinese economy AUD negative (appears less likely).</li> <li><b>Downside Risk:</b> New Zealand economy not able to sustain stronger currency to same extent as Australia</li> <li>Both NZD and AUD appear overvalued relative to still unbalanced and relatively weak global economic outlook</li> </ul>
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<p><b>Exporter hedging recommendations (Generic)</b></p> <ul style="list-style-type: none"> <li>0 – 12 months = Existing clients should be at maximums of policy consistent with previous recommendations. Policy midpoints for new cover at current levels.</li> <li>12+ month receipts = Existing clients should be at maximums of policy consistent with previous recommendations. Target 0.7750 for long-term top-up.</li> </ul>	<p><b>Importer hedging recommendations (Generic)</b></p> <ul style="list-style-type: none"> <li>0 – 12 month payments = policy midpoints for new cover at current levels.</li> <li>12 months+ = no new cover.</li> </ul>
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The strategy described above represents our view of risk management actions which may, as at the date of this report, be appropriate for a range of borrowing and investing (importing and exporting) clients. The strategy is necessarily general and should not be pursued by individual clients without specific reference to us for consideration of the client's particular circumstances. Our opinions as expressed in this strategy and tactics report are subject to change at any time as variations in market circumstances occur.

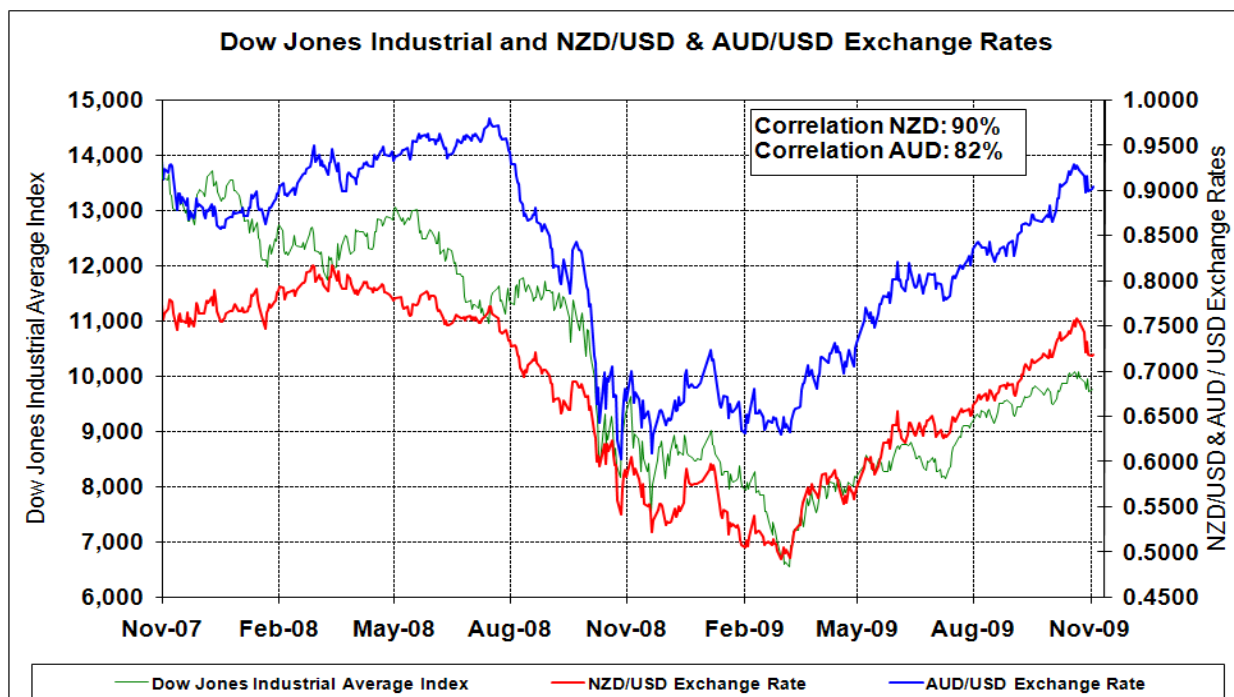
### NZD weaker against AUD as divergence in Reserve Bank stances becomes more marked

The NZD has weakened sharply from AUD 0.8145 to 0.7945 over the last fortnight in which the nexus appears to have finally been broken with regards the NZD following the AUD in global foreign exchange markets. Such developments have occurred following latest respective Reserve Bank monetary policy decisions being for ongoing increases to the OCR in Australia and no urgency to consider raising the OCR in New Zealand.

Both the NZD and AUD had traded strongly against the USD over much of October (and indeed considerably longer) reaching highs above 0.7600 and 0.9300 respectively propelled by generally buoyant financial market sentiment globally that has supported these (and other) risk sensitive assets higher. The antipodean currencies have retraced from their highs in following the likes of the US Dow Jones Industrial Average Index lower over the last week or so. This movement lower has been more profound in the NZD currently at USD 0.7185 as compared to the AUD at USD 0.9045 generating the lower NZD/AUD cross rate. On a forward looking basis there is a strong potential over the next three to nine months for the global financial markets to revert to a less optimistic outlook relative to what is already priced-in. The relative economic and monetary policy outlooks for New Zealand and Australia suggests more profound downside for the NZD therefore a weaker NZD/AUD cross rate, but in an environment where the AUD itself may also be weaker against the USD.

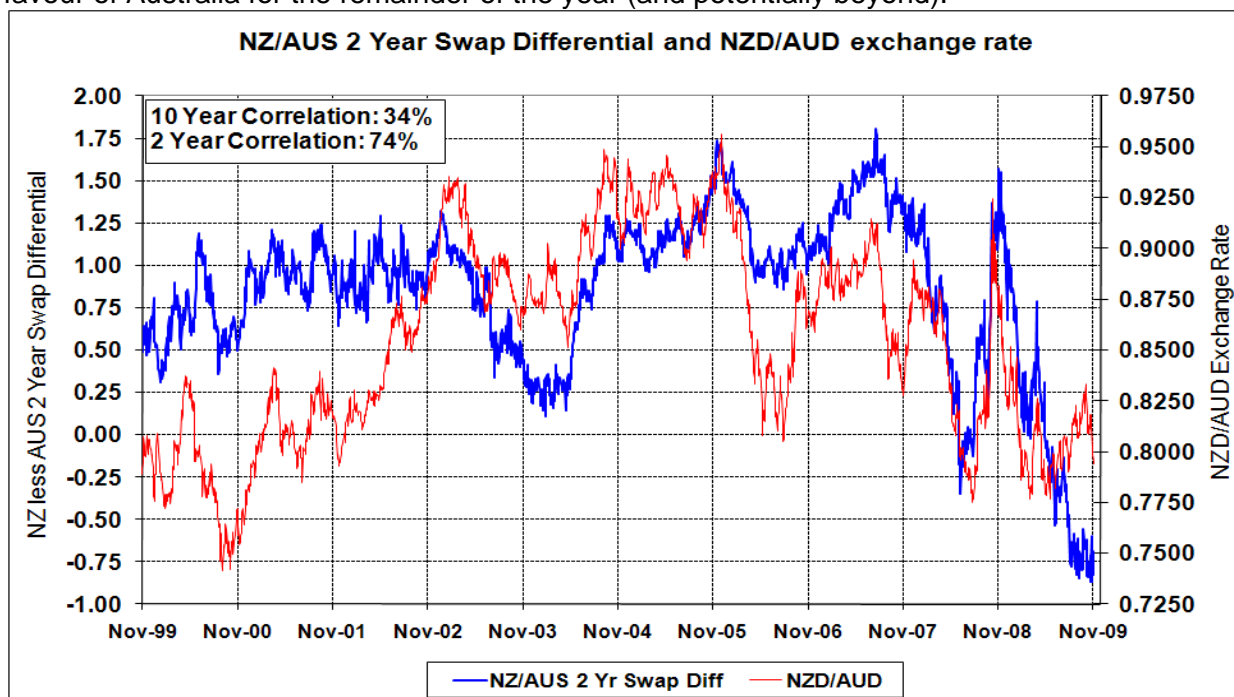
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### RBNZ Governor Bollard surprises market with dovishness

The 29 October OCR Review saw RBNZ Governor Bollard maintain a dovish stance (in contrast to foreign exchange and interest rate market pricing) highlighting the high level of the NZD itself as limiting the scope for an export recovery and thus questionable sustainability around the current composition of economic growth in New Zealand. APRM largely share these concerns and expect the improvement in business confidence seen over the last three to six months to turn lower over the remainder of the year and early next year due to the unwarranted elevation of the currency at this time in the economic cycle. The removal of a reasonable sized element of support for domestic interest rates and the NZD has the potential to run some way further given the extent these have dislocated from economic fundamentals. In contrast the RBA seems intent on a path to remove the emergency monetary policy stimulus currently in place. Debate will remain on the pace of interest rate increases by the RBA however the further widening of interest rate differentials appears likely to continue in favour of Australia for the remainder of the year (and potentially beyond).



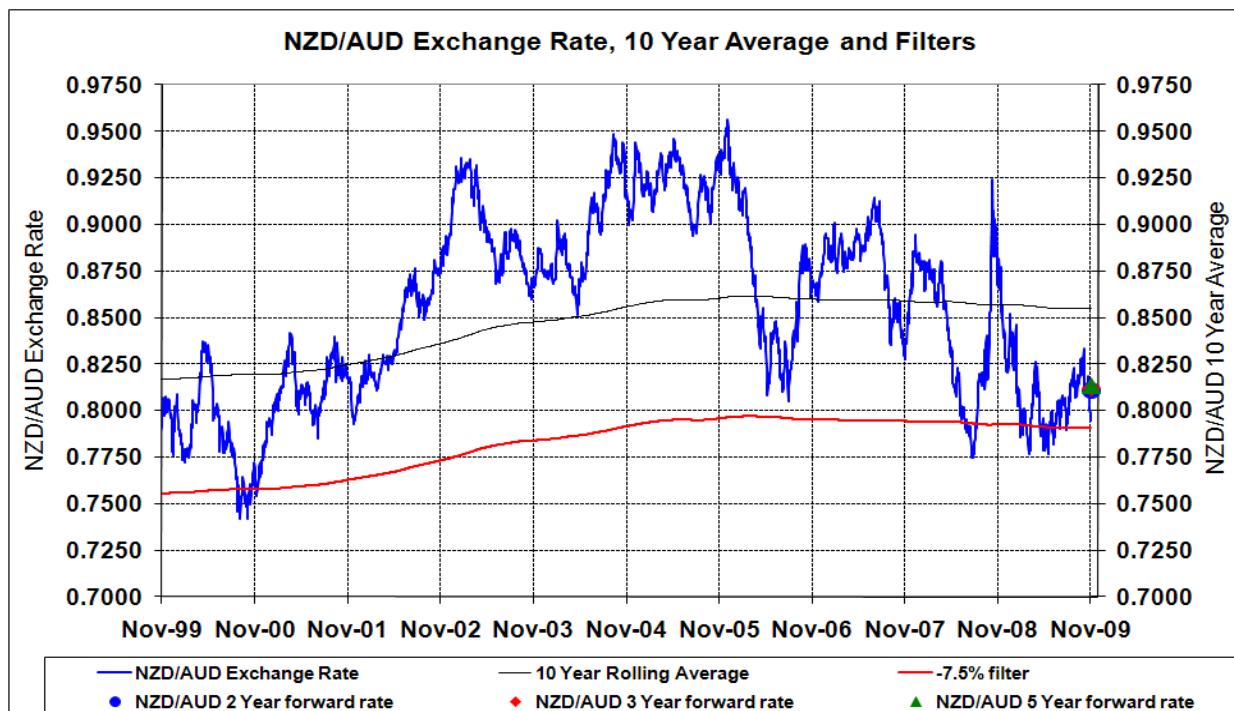
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### NZD/AUD long-term filters not yet triggered but will do from spot rate of 0.7750 (or lower)

The sharp movement lower in the NZD/AUD cross rate from above 0.8300 prior to the October RBA interest rate decision to the current 0.7945 has brought long-term exporter filter levels closer to being triggered again. (-7.5%) filter levels for New Zealand exporters to Australia for hedging beyond 12 months are activated at a forward rate of 0.7910, however to achieve this currently requires a NZD/AUD spot rate somewhat below this level at 0.7750 level given the forward point premium that currently applies with Australian interest rates above those in New Zealand. Given the current divergent paths between the Australian and New Zealand Reserve Bank outlooks the interest rate differential is more likely to continue to widen in favour of Australia (i.e. the forward premium for exporters to Australia is likely to increase). The implication is that a spot rate below 0.7750 may be necessary to achieve filter activation. APRM recommends exporters to Australia leave orders from 0.7750 lower to top-up longer dated cover once such levels become closer. Clients should contact us for specific recommendations.



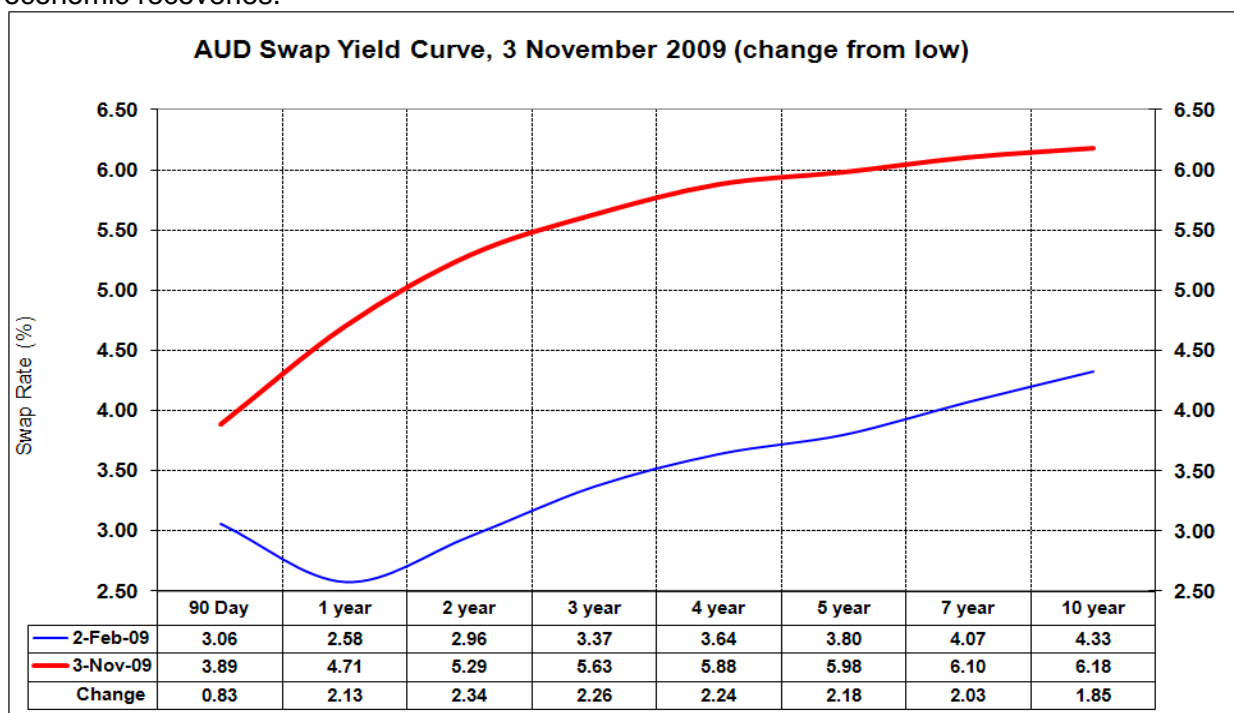
NZD/AUD Filter Activation	2 Year	3 Year	5 Year
Filter Criteria	7.5% below ave	7.5% below ave	7.5% below ave
<b>Current Spot (2 Nov 2009)</b>	<b>0.7945</b>	0.7945	0.7945
Forward Points (exporter)	162.3	177.0	190.5
Forward Rate	0.8107	0.8122	0.8136
10 year rolling average	0.8551	0.8551	0.8551
Filter activation level	0.7910	0.7910	0.7910
<b>Activated?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Necessary spot rate for activation</b>	<b>0.7748</b>	<b>0.7733</b>	<b>0.7719</b>
Further move needed	0.0197	0.0212	0.0226
Forward Rate relative to 10 year rolling average?	-5.2%	-5.0%	-4.9%

### Australian swap yield curve remains sharply higher (but slightly below peak)

The Australian swap yield curve has moved substantially higher in anticipation and now delivery of the increases to the OCR by the RBA. Australian swap rates eased modestly lower following the CPI inflation data for Q3. Whilst the headline was slightly stronger than expected at 1.0%qoq / 1.3%yoy the underlying measure favoured by the RBA at 0.8%qoq / 3.5%yoy showed the composition of the CPI data not as symptomatic of rampant inflation pressures as had been feared reducing the prospect for a 50 basis point increase to the OCR by the RBA later today (Tuesday 4 November 4.30pm NZT). With the Australian monetary policy tightening cycle now underway the slope of the Australian swap yield curve is likely to flatten by way of the progressive increases in the short-term swap rates. Market

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pricing across the curve is already consistent with significant tightening and there must be little inclination to now fix with swaps in the likes of the two year and three year swaps if earlier opportunities had not been taken. The great unknown for interest rate markets in Australia (and elsewhere) is where the terminal OCR rate(s) will be over coming years. There is reason to believe these will be lower than recent history due to now wider credit margins and also only moderate economic recoveries.



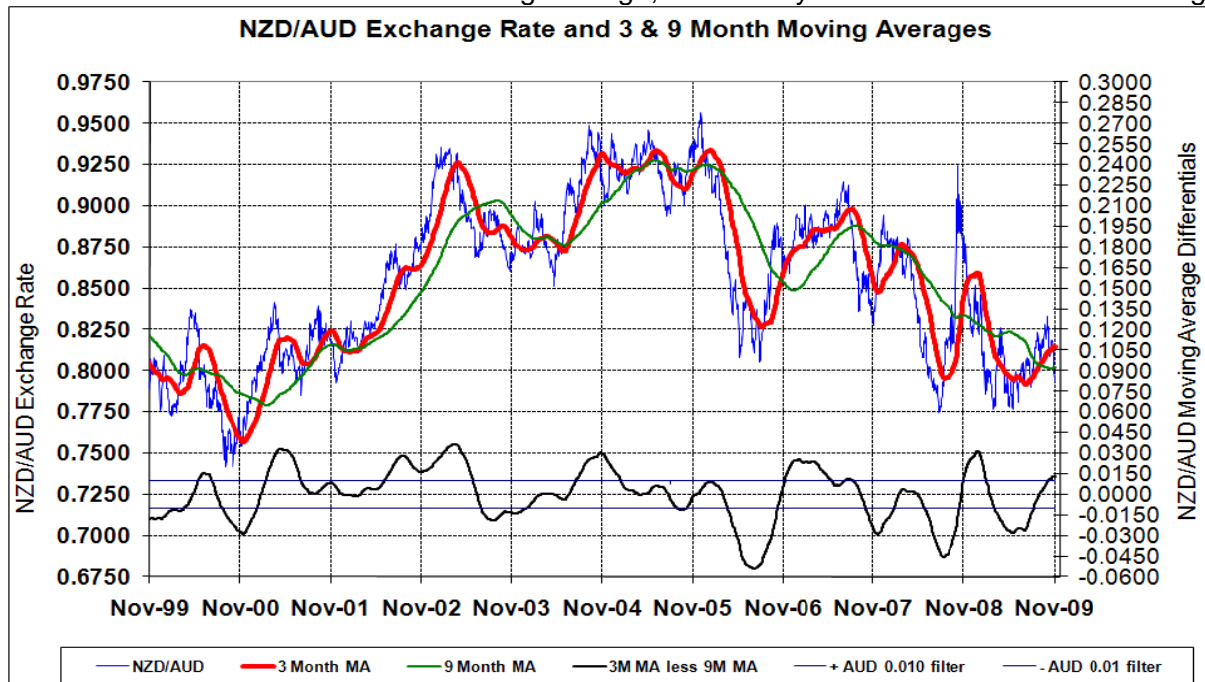
- Likely trading range this month:           **0.7900 – 0.8250** Bias: ↓ / →
- Likely trading range next six months:   **0.7750 – 0.8350** Bias: ↓ / →

#### Upcoming key economic data releases (AUD & CAD)

Date (NZT)	Statistic	Previous	Deutsche Forecasts	Impact on NZD rates ↓↑
3/11	ANZ World Commodity Prices (Oct)	6.8%mom		→
	RBA Interest Rate Decision	+25bps (3.25%)	+25bps (3.50%)	→
4/11	AUS Building Approvals (September)	-0.1%mom/0.0%yoy	4.0%mom/10.3%yoy	→
	AUS Retail Sales (September)	0.9%mom/5.8%yoy	-0.5mom/6.4%yoy	→
5/11	NZ Employment Change (Q3)	-0.4%qoq/-0.9%yoy	-0.3%qoq (consensus)	→ / ↓
	NZ Unemployment Rate (Q3)	6.0%	6.4%	↓
	AUS Trade Balance (September)	-AUD1.5bn	-AUD1.5bn	→ / ↑

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The NZD/AUD Trend Test is currently in an 'up-trend' whereby the 3 month moving average is at least 1.0 cent above the 9 month moving average, but is likely to soon move to 'non-trending'

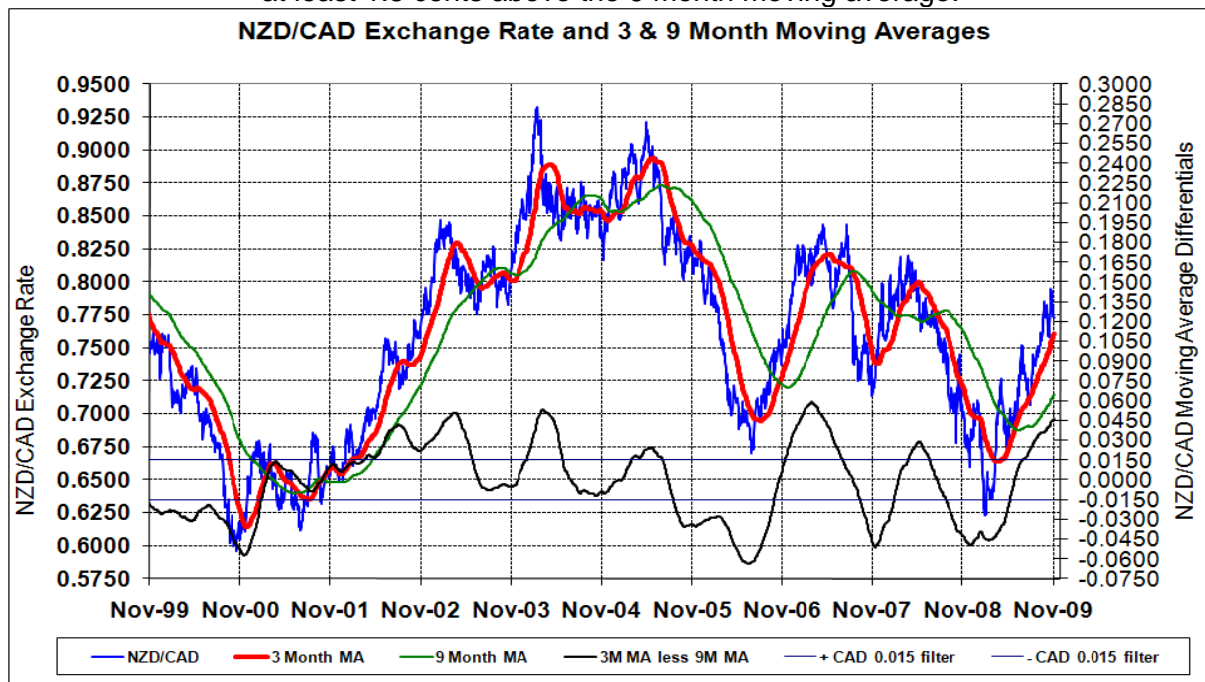


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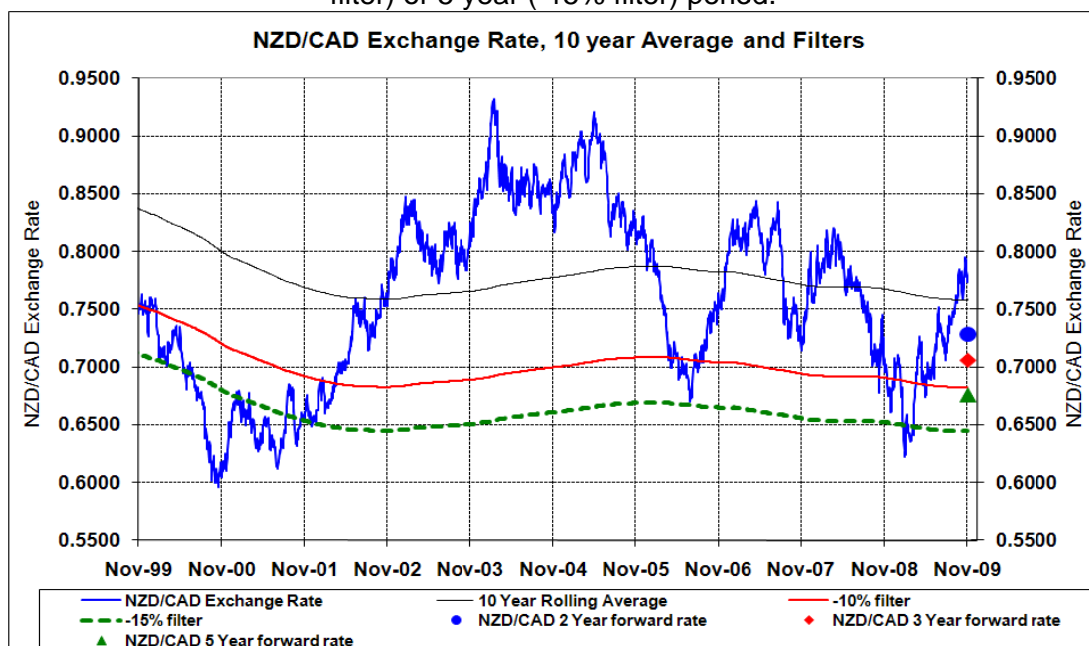
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The NZD/CAD Trend Test currently signals an 'up-trend' whereby the 3 month moving average is at least 1.5 cents above the 9 month moving average.



The NZD/CAD Filter Test for exporters is **not triggered** in the 2 year (-10% filter), 3 year (-10% filter) or 5 year (-15% filter) period.



NZD/CAD Filter Activation	2 Year	3 Year	5 Year
Filter Criteria	10% below ave	10% below ave	15% below ave
<b>Current Spot (2 Nov 2009)</b>	<b>0.7731</b>	0.7731	0.7731
Forward Points (exporter)	-449.2	-669.6	-975.0
Forward Rate	<b>0.7282</b>	<b>0.7061</b>	<b>0.6756</b>
10 year rolling average	0.7585	0.7585	0.7585
Filter activation level	0.6826	0.6826	0.6446
<b>Activated?</b>	<b>No</b>	<b>No</b>	<b>No</b>
<b>Necessary spot rate for activation</b>	<b>0.7275</b>	<b>0.7496</b>	<b>0.7421</b>
Further move needed	0.0456	0.0235	0.0310
Forward Rate relative to 10 year rolling average?	-4.0%	-6.9%	-10.9%

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