

2 elections down, 3 to go

- The French election resulted in defeat for the Euro-sceptic Le Pen, mirroring the Dutch result from March.
- Next up is the UK, on June 8, which is likely to result in a greater majority for PM May's Conservative Party.
- Further out, the NZ and German elections both carry a degree of uncertainty.

The second round of the French Presidential election was concluded in the small hours of Monday morning (NZT) and has proven to be a victory for Emmanuel Macron, of the centre-left En Marche! Party. The former Socialist Party member and Minister of Economy, Industry and Digital Affairs, takes over from François Hollande and in doing so has prevented a dramatic swing towards the extreme political right. It also prevented a euro-sceptic leader assuming office. However, given neither of the final two candidates, Macron and former National Front leader Le Pen were from the established parties, the result does show there is a sizeable proportion of French citizens dissatisfied with the current situation.

The result mirrors the situation seen in The Netherlands' March election, which resulted in defeat for the euro-sceptic candidate. Both results offer some stability to the Eurozone and global financial markets. However, there is only a short period of time for markets to get their breath back before the next political event on the horizon: the UK's general election on June 8. Prime Minister Theresa May's Conservative Party is firmly expected to increase its majority from the current slender 18 seats (of 650 possible seats) and in the process this will dilute the share of those MP's which favour a hard Brexit. This will, in theory, give PM May the mandate to negotiate a softer Brexit, although what Europe thinks of that we wait to see. Even so, the election and early polling has given the Pound a lift and further gains could be ahead (see our updated FX forecasts in our quarterly [here](#)).

The fourth major election of 2017 comes just a few months later, on September 23 and is held in New Zealand. Recent polling shows this election could be closer than many people may think at this point. Should Labour and the Green Party form a coalition then they are only a few percentage points behind National. While there are still months to go and many policy announcements to come, at this stage it would leave NZ First, and Winston Peters, currently polling around 7%, as the king-makers. All this offers a degree of uncertainty around the NZ election and the composition of the next Government. Financial markets are not usually big fans of uncertainty and as such investment, the housing market and the NZD could all see some election-generated wobbles closer to polling day.

Just one day later, Germany goes to the polls. An election in the Eurozone's largest economy could be a potential cause for concern for New Zealand. However, while it is not at all clear Chancellor Merkel will retain her job, the other main candidate, is, in contrast to elections in Holland and France, also supportive of Europe. So while the change in government could have repercussions for Germany and the Eurozone, its impact on NZ is likely to be somewhat limited.

Foreign Exchange

- NZD regained some ground against the USD last week on strong domestic data.

Interest Rates

- Interest rates lift over the week on positive developments both internationally and locally.

Week Ahead

- Electronic card transactions, RBNZ OCR decision and MPS.

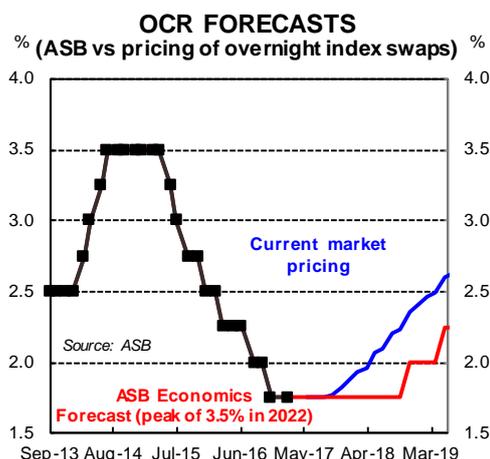
Week in Review

- French election victory for Marco, FOMC unchanged decision, RBNZ inflation expectations higher.

Global Calendars

- US trade and inflation data, plus the Bank of England's rate announcement and statement.

Chart of the Week: No change expected by the RBNZ to the 1.75% OCR



The RBNZ is set to announce its latest OCR decision on Thursday, but no change to the current 1.75% is expected by us or by the market (read our full preview [here](#)). However, there could be adjustments to the outlook for the NZD, inflation and the OCR track. All of these could impact the market's pricing for the next move for the OCR.

As it stands, the market expects increases to begin in March 2018, much earlier than our November 2018 forecast. Should the RBNZ bring forward its OCR outlook track from the current late 2019 start point, into 2018, this could be taken as a hawkish signal by the market. This would then, in turn, bring pricing even further forward. The chance of a rate hike in November 2017 is currently 28%, but that could lift considerably higher, should the RBNZ's OCR track come into 2018.

However, should the OCR track continue to indicate a start time for hiking in 2019, then market pricing is likely to be little changed by Thursday's events.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6908	0.6855	0.6973	0.7313	0.6848	FLAT	0.6800	0.7000
NZD/AUD	0.9319	0.9160	0.9255	0.9525	0.9268	FLAT	0.9200	0.9400
NZD/JPY	78.04	76.52	77.07	76.25	73.39	FLAT	77.00	79.50
NZD/EUR	0.6270	0.6294	0.6548	0.6599	0.6005	FLAT/DOWN	0.6180	0.6400
NZD/GBP	0.5320	0.5310	0.5591	0.5870	0.4729	FLAT	0.5250	0.5400
TWI	75.4	74.5	76.0	78.5	72.9	FLAT	75.00	76.50

^Weekly support and resistance levels * Current is as at 9.30 am Monday; week ago as at Monday 5pm.

The NZD regained some lost ground last week, largely driven by solid New Zealand data. Last week's GlobalDairyTrade auction saw whole milk powder prices rise by more than expected. Shortly afterwards, Q1 employment grew by more than expected while unemployment shrank by more than analysts had expected. **Finally, Q2 2-year-ahead inflation expectations lifted by more than expected on Friday.** The US Federal Reserve's rate announcement (on hold, but with the door open for a June hike) did create some USD strength, but this proved to be short-lived. The NZD also strengthened against the AUD last week on a combination of the strong NZ data and weak commodity prices weighing on the AUD.

Looking ahead, this week is likely to be a slightly quieter week for global foreign exchange markets with a lack of first-tier data due for release. In New Zealand, however, attention will be firmly on Thursday's RBNZ Official Cash Rate and Monetary Policy Statement. If the RBNZ brings forward the first forecast OCR hike from late 2019 to early 2019, the NZD could move higher. The Bank of England is also likely to leave rates on hold and maintain a neutral bias following mixed UK data so far over 2017.

Short-term outlook:	Key data	Date	Time (NZT)	Market
NZ DOLLAR (past 3 months) 	NZ Electronic Card Spending, % mom	10/05	10.45 am	0.6
	CH CPI, %yoy	10/05	1.30 pm	1.1
	RBNZ OCR and MPS	11/05	9.00 am	1.75%
	BoE Rate announcement	11/05	11.00 pm	0.25%
	US CPI % mom	13/05	12.00 am	0.2
	Key events: NZD: RBNZ meeting & Monetary Policy Statement (Thu). AUD: Mar building approvals (Mon); Apr business conditions & Mar retail sales (Tue). CH: Apr trade balance (Mon). USD: Apr CPI & retail sales (Fri). JPY: Mar current account (Thu). GBP: BoE meeting & inflation report (Fri).			
	Speakers: FOMC non-voters Bullard & Mester (Mon), non-voter Rosengren (Tue & Wed), voter Evans (Fri). BoJ: Governor Kuroda (Thu), Harada (Fri). ECB: Mersch (today).			

Medium-term outlook:

Last Quarterly Economic Forecasts

Our FX forecasts were updated in early May to reflect the weaker near-term outlook for the USD. Expected fiscal stimulus from US President Trump was the main driver of near-term USD strength in our previous FX forecasts. However, difficulties in getting other reforms through Congress have highlighted uncertainties around the timing of the fiscal stimulus. **As a result, we expect the NZD/USD to now appreciate to around 0.7300 by the end of 2017. Further out, the NZD is now expected to further appreciate vs. the USD over the next 18 months.** Firstly, the risk of the RBNZ starting a tightening cycle is rising, but the first hike is still not expected until the end of 2018. Further, the ongoing recovery in dairy prices and continued increase in tourism earnings will help the current account deficit narrow even further, supporting the NZD. While we are expecting ongoing NZD/USD strength, further policy rate hikes by the Federal Reserve (which we expect in June and September) will limit NZD strength over 2017. **We expect the USD to stabilise (NZD/USD weaken) once the fiscal policies are signed into effect, however, this may now not occur until 2019.**

The NZD remains supported by relatively high Terms of Trade, relatively high interest rates, increased offshore investor demand and a structural improvement in the current account deficit. **Given these factors are NZD-supportive, combined with the fact the RBNZ signalled it had finished its easing cycle at the November MPS, we see little sustained downward pressure on the NZD.** Over 2017, we expect the NZD/AUD to remain in a relatively high range of 0.93-0.96.

We revised our GBP forecast higher in May on the basis that the UK economy has held up better than expected following the UK's vote to leave the EU in mid-2016. Further, polls suggest that the UK election, on the 8th of June, will give the Government a strong majority in the House of Commons, reducing the risk that Brexit is not ratified. We expect the NZD/GBP to continue to gradually lift toward 0.60 by the end of 2018.

In the near term we continue to see NZD/JPY hold above 75. Further out, the prospect for more BOJ easing should weaken the JPY, pushing NZD/JPY towards 77 over 2017.

Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	1.75	1.75	1.75	2.00	2.25	FLAT
90-day bank bill	1.98	1.99	2.00	2.12	2.36	FLAT
2-year swap	2.37	2.34	2.29	2.27	2.20	UP
5-year swap	2.97	2.93	2.84	2.59	2.42	UP
5-year benchmark gov't stock	2.44	2.41	2.38	2.31	2.09	UP
NZSX 50	7366	7392	7236	6874	6898	FLAT

^Weekly support and resistance levels * Current is as at 9.30am Monday; week ago as at Monday 5pm.

Interest rates headed higher over the week, with both offshore and domestic events positive for interest rates. The **Federal Reserve announcement indicated a rate hike in June was still on the table** as the Fed's view of the US economy remains robust, with recent deceleration in US GDP labelled transitory. Market participants were also encouraged as **US Congress finally managed to pass a health care bill on Thursday night**, providing hope that some progress can also be achieved on tax reforms.

NZ economic data were also positive in the lead-up to the RBNZ's OCR announcement this week. The unemployment rate fell by more than expected, boosted by strong employment growth. In addition, the **RBNZ survey of inflation expectations** showed a surge in 2-year-ahead inflation expectations to 2.2% from 1.9%.

Short-term outlook:	Key data	Date	Time (NZT)	Market
<p>NZ INTEREST RATES (past 3 months)</p> <p>Source: ASB</p>	NZ Electronic Card Spending, % mom	10/05	10.45 am	0.6
	CH CPI, %yoy	10/05	1.30 pm	1.1
	RBNZ OCR and MPS	11/05	9.00 am	1.75%
	BoE Rate announcement	11/05	11.00 pm	0.25%
	US CPI % mom	13/05	12.00 am	0.2
	Comment: All eyes on the RBNZ's OCR announcement and Monetary Policy Statement this week. The market will first look to the RBNZ's published OCR forecast then to the tone of the statement. We expect the RBNZ will bring forward its first rate hike by at least 6 months from its previously published late 2019 . However, we expect the RBNZ to maintain a fairly neutral tone. Key factors boosting the inflation outlook include the lower NZD, higher headline inflation and strong lift in 2-year-ahead inflation expectations. However, the RBNZ will likely still emphasise downside risks stemming from offshore uncertainties.			

Medium-term outlook:

Last Quarterly Economic Forecasts

The RBNZ continued to hold the OCR at its record-low of 1.75% at its March OCR Review. The RBNZ retained its neutral policy stance, as in February and November, whilst keeping a cautious eye on global developments: "numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly." **The RBNZ sees the global environment as a key downside risk.**

The RBNZ **dismissed the recent weak GDP figures as partly due to temporary factors** and remains confident in NZ's growth outlook will be supported by population growth, construction and increased household spending. **The RBNZ was pleased with the recent depreciation in the TWI**, although noted further depreciation is required. **The RBNZ remains cautious on the dairy price outlook.**

The RBNZ addressed **likely volatility in upcoming headline inflation figures**. Higher petrol and food prices are supporting inflation in the near term and have pushed headline annual inflation back above to 2%. However, given these price-lifts are one-off moves, their impact on inflation is not likely to be sustained. As a result, inflation is likely to dip back below 2% over 2017. **The RBNZ reminded that a sustainable move to the 2% mid-point of the target band is not likely until the medium term.**

The RBNZ's March Monetary Policy Statement OCR projections show the OCR remaining at 1.8% well into 2019. The RBNZ's outlook has a 25bp hike built in by early 2020. **We continue to view OCR increases as a long way off, towards the end of 2018.** In contrast, market pricing implies an early 2018 start.

Key international data for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Australia Building Approvals, March, %mom	08/05	1:30 pm	8.3	-4	-5
Australia Retail Trade, March, %mom	09/05	1:30 pm	-0.1	0.3	0.3
Australian Government Budget, 2017-18 deficit, \$AUD bn	09/05	9:30 pm	28.7	28.0	28.2
Japan Current Account, March, bn	11/05	11:50 am	¥2,210.9	¥1,731.9	¥1,500
Bank of England Interest Rate Announcement, %	11/05	11:00 pm	0.25	0.25	0.25
Eurozone Industrial Production, March, %mom	12/05	9:00 pm	-0.3	0.3	-0.5
US CPI, April, Headline %p.a.	13/05	12:30 am	2.4	2.3	2.3

We expect a **5% fall in Australian building approvals** in March. This follows February's strong 8% rise. Residential approvals will trend lower after an extended peak near the annual total of 220k.

Widespread discounting is slowing nominal **retail sales growth in Australia**. We expect Q1 volume and nominal measures to be near 0.5%.

We expect the **Australian government budget** for 2017/18 to indicate how a near \$28bn deficit will reduce to \$10 in 3 years.

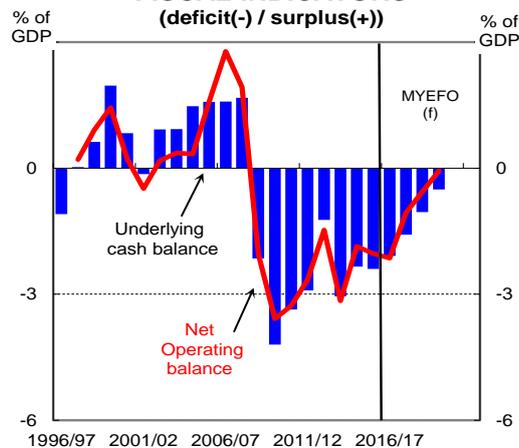
Already-released customs data suggest **Japan's trade balance** corrected lower in March. However, the trade balance will still be large enough to keep the current account surplus elevated above 3% of GDP.

The **Bank of England is widely expected to make no change to its policy rate** whilst reiterating its neutral stance. Inflation expectations have declined in conjunction with the Pound's recent appreciation, so the BoE is in no rush to normalise policy. We also do not expect any material revision to the BoE's GDP and inflation projections in the May inflation report. UK economic data have been mixed since February.

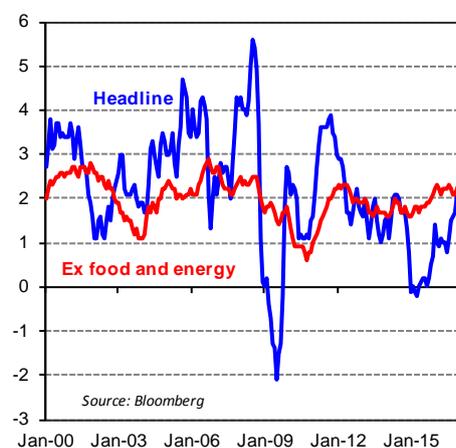
In an otherwise quite week for **Eurozone** data, we expect **industrial production** (March) data to continue the improvement seen in February (1.2% yoy). This is consistent with recent survey and PMI data. Expectations are for a print of -0.5% mom.

A tightening **US** labour market along with a gradual pick-up in wage growth is adding to **inflation** pressures.

AUSTRALIAN FISCAL INDICATORS (deficit(-) / surplus(+))



US ANNUAL CPI INFLATION



NZ Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Electronic Card Transactions, April, %mom	10/05	10:45 am	-0.3	-	0.3
RBNZ Monetary Policy Statement	11/05	9:00 am	1.75%	1.75%	1.75%

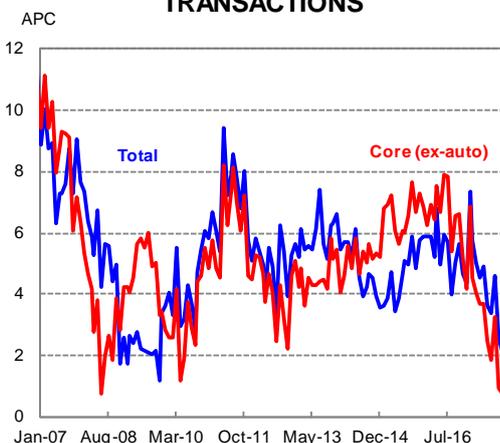
Electronic Card Spending recorded consecutive negative results in February and March, the first time such an event has been seen in over 13 years. In addition, the core measure has been negative for 4 of the last 5 months and durable spending has been negative for 5 of the last 6 results. Even the bright spot of hospitality has dimmed in recent months. All this points to another downbeat result in April, although there is still some potential for a bit of a bounce back. Fuel prices increased over April. The World Masters Games in Auckland - towards the back end of the month - could also support tourism-related spending. As such, we look for overall card spending growth to step back above zero, although not by too much.

We expect another on-hold decision from the RBNZ, with the OCR unchanged at 1.75% for the third meeting in a row. Inflation has continued to firm since the February MPS, which will comfort the RBNZ, both in terms of mitigating the risks of low inflation and also in terms of aiding an increase in inflation expectations. **There are, however, a number of risks to the outlook**, including the potential for US President Donald Trump's policies to adversely impact NZ growth and inflation.

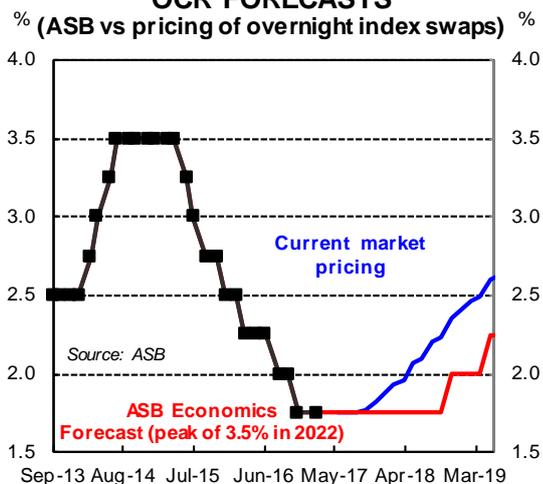
We expect the RBNZ's OCR track to show a slightly earlier start to future OCR increases compared to the February MPS. This after the Q1 CPI firmed to 2.2% yoy from 1.3%, with non-tradable inflation also stronger than the RBNZ had anticipated. **However, we continue to expect the track to show that any change in the OCR is still a long way off.**

Once again, the RBNZ needs to walk the tightrope of being encouraged by recent developments in inflation, but not so enthusiastic the market brings forward even further its expectations of an OCR hike. To this end, the RBNZ will again be looking to strike a neutral tone in its statement. **There is also likely to be a slight tweaking of the language around the NZD, considering its recent depreciation.**

RETAIL ELECTRONIC CARD TRANSACTIONS



OCR FORECASTS



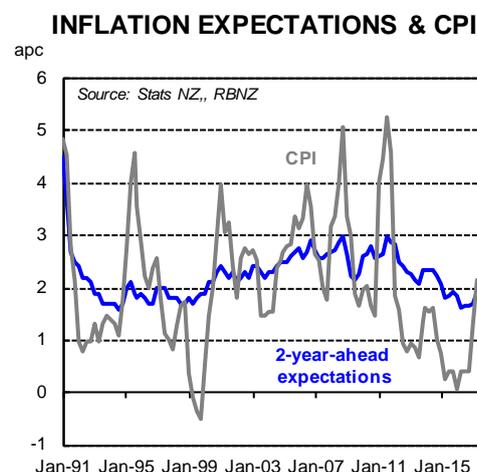
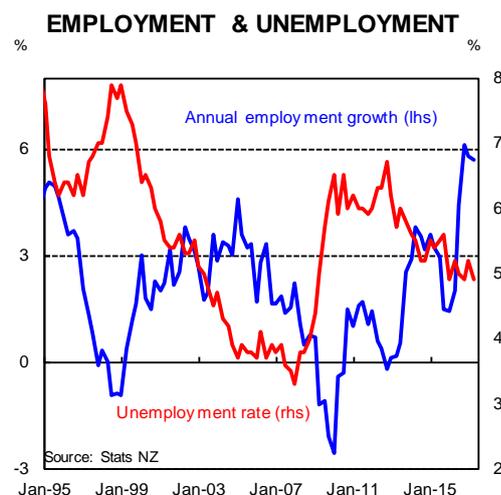
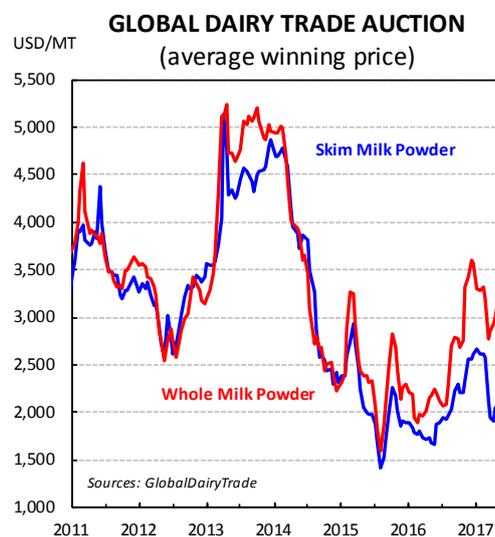
Data Recap: weekly recap

Data	Date	Actual	Market forecast	ASB Forecast
GlobalDairyTrade auction, whole milk powder, % change	02/05	+5.2	-	0 to +2
Employment, Q1, %qoq	03/05	1.2	0.8	0.8
RBNZ Inflation Expectations, Q2, 2-year-ahead %	05/05	2.17	-	-

Dairy prices jumped by more than expected last week. Whole milk powder (up 5.2%), anhydrous milk fat (up 4.7%) and butter milk powder (up 21.8%) led the way. Overall auction prices lifted 3.6%. **Price rises over the past few weeks, however, feel a little overdone – as a result, we expect some pullback in prices over coming auctions.** Dairy markets have reacted to the recent very wet weather, sending WMP prices 11.5% higher over the last three auctions. While the severe weather has stymied an otherwise strong end to the NZ season, the lateness of the season is likely to limit the impact on production. Moreover, key dairying regions have largely escaped the worst of the weather. Nonetheless, this boost to auction prices and the lateness in the season raises the possibility of a higher milk price this season. As result, we place our 2016/17 milk price under review. **In terms of next season's milk price, we stick to \$6.75/kg,** with the recent auction price strength offset by our view that the NZD is likely to climb over 2017.

The unemployment rate in the Household Labour Force Survey stepped back below 5% despite yet another record high in the labour participation rate. **Labour participation stepped up to 70.6%,** above both the market and our own forecast. However, the robust employment growth of 1.2% was enough to offset the increased participation rate and push the jobless rate back down to the same level as Q3 last year. **Taking some of the shine off the increase in employment is the fact that much of the rise is in part-time work.** Those employed part time increased 3.1% qoq, compared to -2.0% in Q4. However, full-time employment only pushed up 0.6% qoq, the second-weakest lift in the last 6 quarters.

The **RBNZ's 2-year-ahead measure of inflation expectations** lifted above the 2% midpoint of the target in Q2 for the first time in over two years. The RBNZ will **no longer be viewing inflation expectations as a downside risk.** However, with inflation set to only briefly rise above the 2% midpoint of the inflation target, and a number of downside risks remaining, we expect the RBNZ will leave the OCR on hold until late 2018. However, if inflation expectations lift substantially above 2% the RBNZ may start to become concerned that inflation will lift faster than its May forecasts are likely to show.



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 8 May	~	CH	Trade balance	Apr	CNY bn	164.3	161.2	~
	07:18	CH	Foreign direct investment	Apr	CNY	6.7	~	~
	13:30	AU	Building approvals	Mar	m%ch	8.3	~	-5.0
	13:30	AU	NAB business conditions	Apr	~	14.0	~	~
	17:00	JN	Consumer confidence index	Apr	Index	43.9	~	~
Tue 9 May	11:30	AU	ANZ Roy Morgan Weekly Consumer	May	Index	111.3	~	~
	12:00	JN	Labor cash earnings	Mar	y%ch	0.4	0.4	~
	13:30	AU	Retail sales	Mar	m%ch	-0.1	~	0.3
	21.30	AU	Federal Budget 2017-18					
Wed 10	07:14	NZ	REINZ house sales	Apr	y%ch	-10.7	~	~
	07:15	CH	Money supply M2	Apr	y%ch	10.6	10.8	~
	10:45	NZ	Card spending retail	Apr	m%ch	-0.3	~	~
	13:30	CH	CPI	Apr	y%ch	0.9	1.1	~
	13:30	CH	PPI	Apr	y%ch	7.6	6.7	~
	17:00	JN	Leading index CI	Mar P	Index	104.8	105.5	~
Thu 11 May	09:00	NZ	RBNZ official cash rate	May	%	1.75	1.75	1.75
	10:45	NZ	Food prices	Apr	m%ch	-0.3	~	~
	11:5	JN	BoP current account balance	Mar	¥bn	2,813	2,593.0	~
	17:00	JN	Eco watchers survey current	Apr	Index	47.4	47.8	~
Fri 12 May	10:30	NZ	Business NZ manufacturing PMI	Apr	Index	57.8	~	~
	11:50	JN	Money stock M2	Apr	y%ch	4.3	4.3	~

*P = Preliminary

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 8 May	05:12	US	Mortgage delinquencies	Q1	%	4.8	~	~
	05:12	US	MBA mortgage foreclosures	Q1	%	1.5	~	~
	08:30	UK	Halifax house price 3 months/year	Apr	%	3.8	3.6	~
	09:30	EC	Sentix investor confidence	May	Index	23.9	~	~
	13:35	US	Fed's Bullard speaks on Panel on Interest Rate					
	13:45	US	Fed's Mester speaks at Chicago Council on Global Affairs					
	15:00	US	Labor market conditions index change	Apr	~	0.4	~	~
Tue 9 May	00:01	UK	BRC sales like-for-like	Apr	y%ch	-1.0	~	~
	11:00	US	NFIB Small Business Optimism	Apr	Index	104.7	~	~
	15:00	US	JOLTS job openings	Mar	~	5,743.0	~	~
	15:00	US	Wholesale inventories	Mar F	m%ch	-0.1	~	~
	18:00	US	Fed's Rosengren speaks at NYU Conference on Risk Management					
	21:15	US	Fed's Kaplan speaks to Dallas Regional Chamber					
Wed 10 May	12:00	EC	ECB's Draghi speaks in Dutch Parliament					
	13:30	US	Import price index	Apr	m%ch	-0.2	0.2	~
	17:00	US	Fed's Rosengren to speak on Economy at Vermont Business Group					

Thu 11 May	19:00	US	Monthly Budget Statement	Apr	\$bn	-176.2	~	~
	00:01	UK	RICS house price balance	Apr	%	22.0	~	~
	09:00	EC	ECB Publishes Economic Bulletin					
	09:30	UK	Industrial production	Mar	m%ch	-0.7	~	~
	09:30	UK	Trade balance	Mar	£mn	-3,663	~	~
	10:00	EC	European Commission Economic Forecasts					
	11:25	US	Fed's Dudley speaks on Globalization in Mumbai					
	12:00	UK	Bank of England bank rate	May	%	0.25	~	~
	13:00	UK	NIESR GDP estimate	Apr	%	0.5	~	~
	13:30	US	PPI final demand	Apr	m%ch	-0.1	0.2	~
Fri 12 May	13:30	US	Initial jobless and continuing claims	May	~	~	~	~
	10:00	EC	Industrial production	Mar	m%ch	-0.3	~	~
	13:30	US	CPI	Apr	m%ch	-0.3	0.3	~
	13:30	US	Real average weekly earnings	Apr	y%ch	0.0	~	~
	13:30	US	Retail sales ex auto and gas	Apr	%	0.1	~	~
	14:00	US	Fed's Evans speaks in Dublin					
	15:00	US	Uni. of Michigan sentiment	May P	Index	97.0	97.0	~
	15:00	US	Business inventories	Mar	%	0.3	0.2	~
17:30	US	Philadelphia Fed's Harker speaks at Drexel University						

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