

Government signals intention to change NZ Superannuation

- Prime Minister Bill English confirmed plans to change the eligibility criteria and start age for NZ Superannuation.
- Dairy prices fell at the latest GlobalDairyTrade event, and we revised down our 2016/17 Milk Price forecast to \$6/kgms.
- Next week's focus is on the US Federal Reserve, and the overwhelming majority of analysts expect a rate increase.

Last week Prime Minister Bill English confirmed plans to **change the eligibility criteria and start age for NZ Superannuation**. If re-elected in September, the National Party proposes to **change eligibility from 65 to 67 years old**. This will happen incrementally, with the age threshold being lifted by 6 months each year, starting in 2037 and ending in 2040. **Eligibility rules for New Zealand residents are also set to be changed**. The proposed changes make sense: **people are living longer and, combined with an aging population, the cost of NZ Superannuation will lift dramatically over the years ahead**. Flagging the changes well ahead of time makes sense too, allowing those impacted a long time to plan. We hope last week's announcement leads to more discussion about a range of NZ Superannuation and retirement savings issues ([read more here](#)).

The Government could maintain the status quo, but that would mean a trade-off: higher taxes, more debt, or major spending cuts elsewhere. This year's General Election could show if the electorate agrees with the current Government's priorities, and these issues have the potential to be key topics of debate over the upcoming campaign period before the country goes to the polls.

Another development of note last week was another weak GlobalDairyTrade auction. On the back of better-than-expected NZ dairy production this season, and the associated price declines, **we have revised our 2016/17 forecast down to \$6.00/kg** (more details in the Chart of the Week and [here](#)).

Offshore, the ECB and RBA meeting outcomes were as expected, with no changes made to the respective Banks' target rates. In the US last week the main event (beyond Trump watching) was Friday's Non-farm Payrolls data. The US labour market data showed jobs growth in February of 235,000 new jobs (200,000 expected). Unusually warm weather in the month appears to have spurred construction activity and employment. **The US unemployment rate dipped to 4.7% from 4.8%, just above last November's low of 4.6%.**

This week's main local release is Q4 GDP (preview [here](#)). **We expect GDP growth of 0.9% qoq**, which would mark yet another quarter of steady, solid growth. **The net impact of the Kaikoura earthquake on economic growth is the key uncertainty for the quarter**. Beyond that uncertainty, growth should be close to the RBNZ's 1% forecast at the February Monetary Policy Statement. Accordingly, the data are unlikely to have a major impact on the local interest rate market. **A bigger focus is on the US Federal Reserve's interest rate decision on Thursday (7am NZT), when a rate hike is widely expected.**

Foreign Exchange

- NZD/USD fell last week as market expectations for the Fed to raise rates as soon as March increased.

Interest Rates

- Longer-term interest rates move higher over the week, following US moves.

Week Ahead

- Q4 Balance of Payments & GDP, consumer confidence.

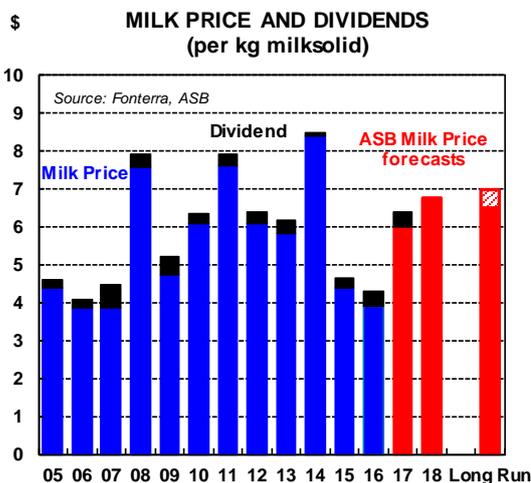
Week in Review

- GlobalDairyTrade auction, Manufacturing Survey, Electronic Card Transactions.

Global Calendars

- FOMC meeting, Bank of Japan and Bank of England rate decisions, US CPI and Australian jobs.

Chart of the Week: ASB's milk price forecast gets a trim



We have revised our 2016/17 forecast down by 50 cents to \$6.00/kg, back in line with Fonterra's latest forecast.

This summer has been a good one for the key NZ dairying regions. In fact, recent rain and moderate temperatures have helped farmers recoup some of the early season production losses. **We recently improved our production forecast for the season to a 2% decline on last season, from a 5% drop forecast earlier.** Higher production is a double-edged sword: **more milk supply than anticipated quickly translates into lower dairy prices.** Whole milk powder prices had already fallen 10% from where they finished 2016. The 12.4% price fall at last week's auction result then added to this year's decline.

That said, **weather can only have a temporary impact on production and prices** – eventually dairy fundamentals kick back in. On that front, we retain our positive medium-term outlook for the milk price. **We expect relatively healthy global dairy prices over the second half of 2017 and beyond. We retain our \$6.75/kg forecast for 2017/18.**

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.6934	0.7011	0.7191	0.7317	0.6691	FLAT	0.6850	0.7100
NZD/AUD	0.9192	0.9254	0.9396	0.9707	0.8933	FLAT	0.9100	0.9320
NZD/JPY	79.51	79.81	81.75	75.01	75.92	FLAT	77.00	81.00
NZD/EUR	0.6492	0.6609	0.6743	0.6508	0.5991	FLAT/DOWN	0.6400	0.6660
NZD/GBP	0.5700	0.5706	0.5749	0.5514	0.4686	FLAT/UP	0.5600	0.5750
TWI	76.1	76.8	78.4	77.9	71.6	FLAT	75.80	80.00

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

Much of last week was spent waiting for the US Non-farm Payrolls report, seen as the final data that could influence the Federal Reserve ahead of this week's rate decision. Ahead of the NFP, Thursday's very strong US ADP employment data pushed the market into more-or-less fully pricing in a 25bp rate hike for next week. **This gave the USD a further boost heading into the NZ weekend.** The payrolls result was strong, as expected, but not quite enough to push the USD even higher into the weekend, with markets showing a "buy the rumour, sell the fact" pattern. All this left the NZD trading towards the bottom end of recent ranges.

Looking ahead to this week and there is plenty to influence, but it is mainly concentrated on Thursday's mammoth session. That kicks off with the US rate decision and anything but a 25bp hike will disappoint the market, but there is potential for further disruption the updated interest rate views of Fed officials. **This is swiftly followed by NZ Q4 GDP and growth is expected to remain healthy.** However, the range of forecasts for this release is a little wider than usual, which could lead to greater volatility post-release. Also on Thursday, the Australian jobs "lottery" and Bank of Japan interest rate decision, before the UK interest rate decision overnight. All in all, 7am Thursday to 7am Friday could be a period of heavy volatility right across FX markets.

Short-term outlook:	Key data	Date	Time (NZT)	Market	
<p>NZ DOLLAR (past 3 months)</p> <p>Source: ASB</p>	NZ Q4 current account	15/03	10:45 am	-2.4bn	
	US CPI, February, % mom	16/03	1:30 am	0.0%	
	US Federal Reserve rate announcement	16/03	7:00 am	+25bp	
	NZ Q4 GDP, % qoq	16/03	10:45 am	0.7%	
	Australian unemployment, February	16/03	1:30 pm	5.7%	
	Bank of Japan rate announcement	16/03	No set time	No change	
	Bank of England rate announcement	17/03	1:00 am	No change	
	Key events: NZD: Q4 current account (Wed), Q4 GDP (Thu). AUD: Feb labour force (Thu). USD: Feb PPI (Tue), Mar Empire survey, Feb CPI, Feb retail sales (Wed), FOMC policy meeting (Thu), Feb industrial production (Sat). JPY: Bank of Japan policy meeting (Thu). CNY: Jan-Feb retail sales, industrial production, fixed asset investment (Tue), Feb property prices (Sat). EUR: Jan industrial production, ZEW survey (Tue). BoE: Feb jobless, Jan earnings (Wed), Bank of England (Thu).				
	Speakers: RBA: Bullock (Tue). ECB: Draghi (Tue).				

Medium-term outlook: Last Quarterly Economic Forecasts

Our FX forecasts were updated in mid-December with the short- and medium-term outlook tweaked. Further out, the NZD is now expected to depreciate vs. the USD over the next 18 months. The driver is USD strength due to the expected fiscal stimulus US President-elect Trump is forecast to deliver. This spending should be inflationary, pushing the US Federal Reserve into lifting the Fed Funds rate faster than previously expected. Capital inflows to the US are also expected to support the USD. We expect the UUSD to strengthen (NZD/USD weaken) once the fiscal policies are signed into effect. We now expect the US Federal Reserve to raise interest rates in March 2017.

Despite the revision, 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 0.94-0.96.

We revised our GBP forecast lower in late October and have pushed the Pound a touch lower again in December's update. We believe the fundamental down-trend in the GBP will remain intact, and expect the NZD/GBP to continue to gradually lift toward the mid-0.60's by 2018.

In the near term we continue to see NZD/JPY hold above 70. Further out, the prospect for more BOJ easing should weaken the JPY, pushing NZD/JPY above 84 in 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	1.96	1.99	2.02	2.26	2.39	FLAT
2-year swap	2.40	2.39	2.39	2.09	2.31	FLAT/UP
5-year swap	3.13	3.06	3.00	2.25	2.59	FLAT/UP
5-year benchmark gov't stock	2.62	2.58	2.54	1.99	2.39	FLAT/UP
NZSX 50	7178	7179	7101	7280	6514	FLAT

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

Last week was all about growing expectations that the US Federal Reserve would indeed raise interest rates at its March meeting. Hawkish comments from Yellen and other FOMC members in the previous week had seen market pricing lift higher. Last week, it was **stellar employment data that sealed the deal.** Exceptionally strong ADP employment as well as a better than expected Non-farm Payrolls report has seen the **market essentially price in a 100% chance of a rate hike this Thursday (the 16th of March).**

The cementing of expectations for a March hike saw US yields continue to push higher and drag NZ's longer-term yields with it. Yields for shorter-term interest rates were heavier, particularly due to the weak GlobalDairyTrade auction. The auction, where whole milk powder prices fell 12.4%, consequently saw a number of commentators, including ASB, **revise their final milk price forecasts for the 2016/17 season lower.** **In Australia, the Reserve Bank left rates on hold and maintained a neutral bias in the accompanying statement. As a result, interest rate markets were little changed.**

Short-term outlook:

Key data

Date

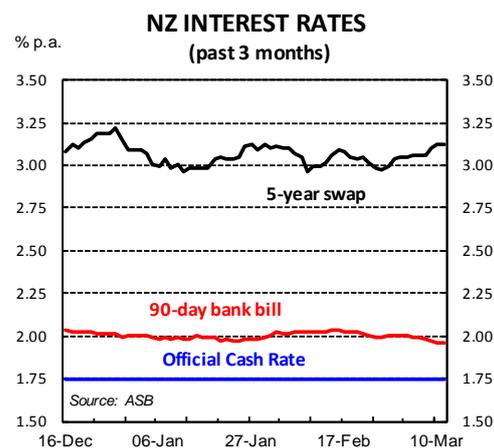
Time (NZT)

Market

NZ Q4 current account	15/03	10:45 am	n/c
US CPI, February, % mom	16/03	1:30 am	0.0%
US Federal Reserve rate announcement	16/03	7:00 am	+25bp
NZ Q4 GDP, % qoq	16/03	10:45 am	0.7%
Australian unemployment, February	16/03	1:30 pm	5.7%
Bank of Japan rate announcement	16/03	No set time	No change

Comment: It's going to be a busy week for markets this week, particularly on Thursday. Thursday morning starts with the US Federal Reserve's rate announcement. With expectations fully centred on a 25bp lift at the meeting, focus will instead be on the infamous dot plot chart of officials' interest rate expectations as well as Yellen's rhetoric around the outlook for any further rate hikes.

Domestic focus will quickly move to NZ's Q4 GDP release at 10.45 am on Thursday. Our forecast of +0.9% qoq is close to the RBNZ's forecast of 1.0%. As such, we expect the GDP result would only have limited implications for the RBNZ. Rate announcements from the Bank of Japan on Thursday and the Bank of England on Thursday night will also keep markets on their toes.



Medium-term outlook:

Last Quarterly Economic Forecasts

The RBNZ held the OCR at its record-low of 1.75% as widely expected, on February 9. The policy bias was the same as in November, with a neutral stance but 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 revised its growth outlook higher for 2017 and 2018, although continues to project a sharper slow-down in growth compared to ASB in 2019 and 2020. Growth is lifting due to accommodative monetary policy and high population growth. The RBNZ sees the key upside risk to the growth outlook as stronger net demand from net migration than we are currently seeing. **The RBNZ assumed that some of the recent dairy price gain is temporary** and, as in the November MPS, has whole milk powder prices settling at USD 3,000 per tonne.

The RBNZ's own OCR projections show the OCR remaining at 1.8% well into 2019, effectively a neutral stance. The RBNZ's outlook has a 25bp hike built in by early 2020. The flagging of a distant tightening is more realistic than its previous OCR forecast which held the OCR unchanged. But it should not be taken as a sign of an imminent tightening, given the RBNZ remains concerned about the high NZ dollar and sees the lift in long-term interest rates as an effective tightening.

We continue to view OCR increases as a long way off, towards the end of 2018. The RBNZ also noted premature tightening could undermine growth and stall the expected increase in inflation. In contrast, market pricing implies an early 2018 start, though has taken some heed of the RBNZ's caution.

Key international data for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Australia Business Confidence, Feb	14/03	-	-	-	-
China Retail Sales, February, %yoy	14/03	3:00 pm	10.4	10.6	11.0
China Industrial Production, February, %yoy	14/03	3:00 pm	6.0	6.2	6.2
US FOMC Interest Rate Announcement, %	16/03	7:00 am	0.50-0.75	0.75-1.00	0.75-1.00
US CPI, February, %yoy	16/03	1:30 am	2.5	2.7	2.7
US Retail Sales, ex-auto, February, %	16/03	1:30 am	0.8	0.1	-0.1
Australia Labour Force, February, 000s	16/03	1:30 am	13.5	16.0	18.5
Bank of Japan, Interest Rate Announcement, %	16/03	-	-0.1	-	-0.1
Bank of England Interest Rate Announcement, %	17/03	1:00 am	0.25	0.25	0.25

Australian business conditions and confidence surged in January to levels last seen in the pre-GFC boom. The result included a large increase in the employment conditions component.

China's retail sales growth is expected to stay solid on stable employment conditions. The country's industrial sector is also improving, according to the PMI survey.

Leading indicators point to continued **moderate jobs growth in Australia**. We are forecasting an 18.5k increase in employment in February. A slight lift in the participation rate would see the unemployment rate remain steady.

We expect **no change by the Bank of Japan** to either of its interest rate targets. With Japanese core inflation near 0.0%pa, we see little risk of the BoJ stepping back from its ultra-accommodative policy.

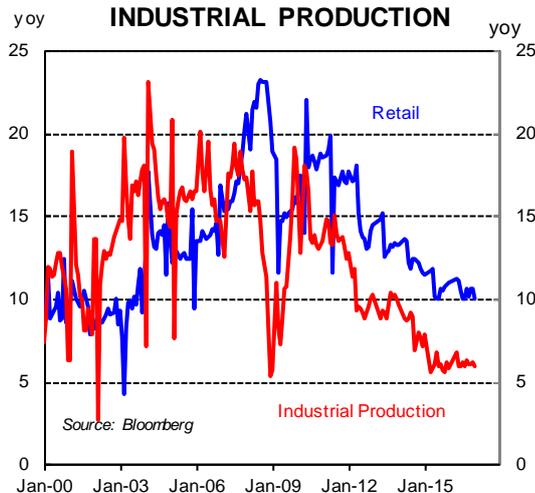
We expect the **US Federal Open Market Committee to increase the target range** on the Funds rate from 0.50-0.75% to 0.75-1.0%. We expect only modest changes to the FOMC's GDP, inflation, unemployment and Funds rate forecasts. We expect the FOMC to keep its description of the balance of risks to the economic outlook as "roughly balanced" given the uncertainty around fiscal policy. Market participants will be sensitive to discussion about prospective changes to the FOMC's large balance sheet.

US CPI inflation is being supported by higher energy prices. But even excluding energy and food prices, US CPI inflation has remained about 2% pa for more than one year. Nevertheless, the FOMC does not target CPI. The FOMC targets Private Consumption Expenditure inflation, which remains below the FOMC's 2%pa target.

Following January's very strong increase in **US retail sales**, we estimate little growth in February. Nevertheless, the outlook for retail sales is strong because the labour market is producing many jobs and accelerating growth in wages, all before the tax cuts arrive.

We expect **no change to the Bank of England's interest rate** and balance sheet targets. The UK economic outlook is very uncertain because the UK will leave the EU in coming years and inside of the BoE's forecast horizon.

CHINA RETAIL TRADE & INDUSTRIAL PRODUCTION



US RETAIL SALES EX-AUTO



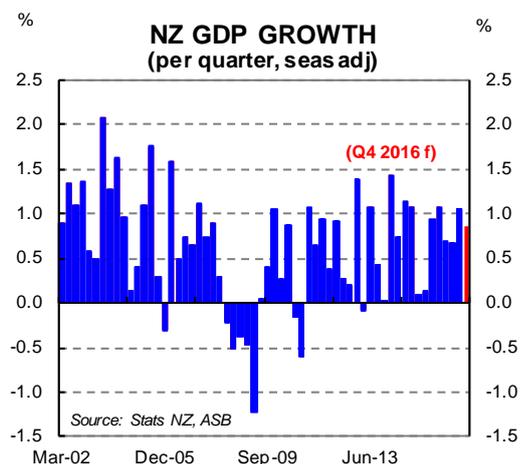
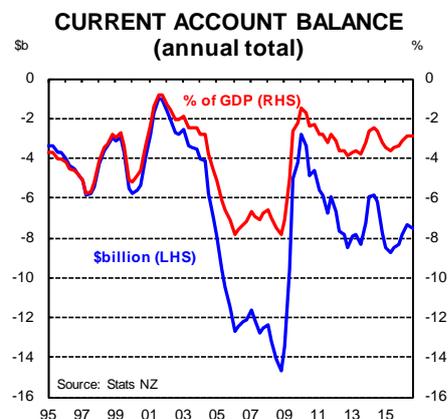
NZ Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Current account, Q4, % of GDP	15/03	10:45 am	-2.9	-	-2.9
GDP, Q4, % qoq	16/03	10:45 am	1.1	-	0.9
Consumer confidence, March	17/03	1:00 pm	127.4	-	-

We expect NZ's current account balance to track sideways over Q4. The Q3 deficit came in at 2.9% of GDP, also unchanged from Q2. Since then, the annual services balance has strengthened further, as the tourism sector boom rolls on. Meanwhile, we expect the annual goods balance will be largely unchanged from Q3. All up, **we expect the Q4 annual current account deficit to hold steady at 2.9% of GDP.** Heading into 2017, we expect the balance to continue to tread water at or around these levels.

We expect **Q4 GDP figures will confirm another solid quarter of growth. We expect quarterly growth of 0.9%**, and annual growth of 3.3%. **The RBNZ expected 1.0%** quarterly growth at the time of the February MPS. Construction activity continues to be a key source of economic growth. In addition, the services sector is also likely to be a key contributor to the strong end-of-year performance. In particular, strong growth in hours paid for public services such as health care and social assistance, as well as public administration and safety, suggest robust GDP growth in these sectors. Meanwhile, a fall in dairy production over the quarter is likely to be a mild drag on agricultural GDP. The wild card for the quarter will be the impact of the Kaikoura earthquake and associated disruption throughout the top of the South Island and bottom of the North Island.

Headline consumer confidence took a very small step back in February. However, the seasonally-adjusted measure moved higher for the second month in a row. There is very little reason for confidence to take a big step backwards in March, although developments offshore could temper gains a little. **Looking at the details, the net number of consumers who said they are better off than a year ago finally moved higher last month, hitting a high since January 2008. We look for this upbeat outlook to remain close to February's level.** Overall confidence remains supported by generally low interest rates, robust employment, the recovery in dairy sector incomes and a firm housing market.



Data Recap: weekly recap

Data	Date	Actual	Market forecast	ASB Forecast
GlobalDairyTrade auction, whole milk powder, % change	07/03	-12.4	-	-10 to -8
Manufacturing Survey, sales volumes ex-meat & dairy, Q4, %qoq	08/03	-0.6	-	-
Electronic Card Transactions, February, %mom	10/03	-0.6	-	0.4

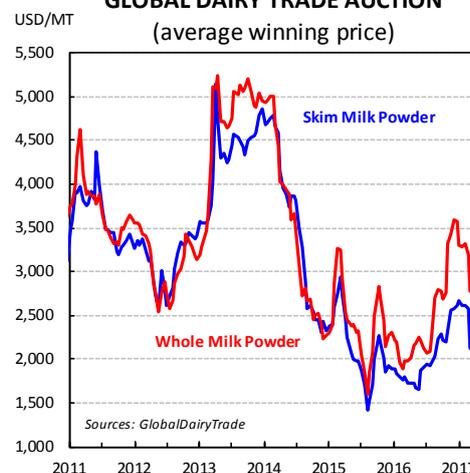
Dairy prices slid at last week's auction, largely in line with expectations.

Whole milk powder and skim milk powder led prices lower, dipping 12.4% and 15.5%, respectively. Overall auction prices fell 6.3%. The price weakness follows a partial turnaround in this season's production. For example, we lifted our nationwide production (i.e. for all dairy companies) forecast to a 2% decline – compared to last season – from a 5% decline previously. As a result, **we expect the price softness may remain over coming auctions.** We revise our 2016/17 milk price forecast back down to our original \$6.00/kg from \$6.50/kg. That said, we maintain our relatively healthy outlook for 2017/18 and our \$6.75/kg forecast.

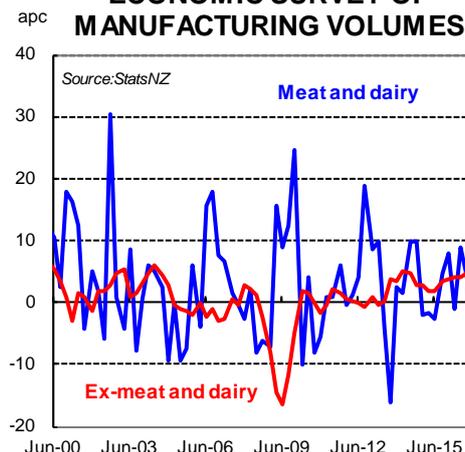
Manufacturing sales volumes contracted 1.8% over Q4, dragged lower by a 5.7% drop in meat and dairy volumes. Volumes were given some support by another move higher in sales of petroleum and coal product manufacturing – which are highly volatile. We use sales and inventory components from the Economic Survey of Manufacturing to derive an indicator for ex-primary manufacturing production within GDP. **Our preliminary Q4 GDP forecast currently sits at 0.9%, although there are some modest downside risks to that outlook.**

Spending growth took a step back in February after January's strong performance, coming in marginally lower than market expectations as well. Of the core metrics, only consumables added to the month prior, while petrol spending expanded in part due to increased prices at the pumps. Spending of -0.6% mom is the second-lowest result of the last 22 months, while core sales' 0.7% contraction is a joint 3-year low. However, it is worth noting that this comes after January's very strong result and as a result, trend spending growth remains decent. Looking forward, **we expect spending to remain supported by migration, the firm labour market and still historically-low interest rates.**

GLOBAL DAIRY TRADE AUCTION
(average winning price)



ECONOMIC SURVEY OF MANUFACTURING VOLUMES



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 13 Mar	12:50	JN	PPI	Feb	m%ch	0.6	0.2	~
	17:30	JN	Tertiary industry index	Jan	m%ch	-0.4	~	~
Tue 14 Mar	10:30	AU	RBA's Bullock speech at Bloomberg, Sydney					
	11:30	AU	ANZ Roy Morgan Weekly Consumer Confidence	Mar	Index	113.9	~	~
	13:30	AU	NAB business conditions	Feb	~	16.0	~	~
	15:00	CH	Retail sales	Feb	ytd	10.4	10.7	11.0
	15:00	CH	Industrial production	Feb	ytd	6.0	6.2	6.2
Wed 15 Mar	10:45	NZ	BoP current account balance	Q4	NZD bn	-4.9	-2.4	-2.9
	12:30	AU	WBC consumer confidence index	Mar	Index	99.6	~	~
	13:30	AU	New motor vehicle sales	Feb	m%ch	0.6	~	~
	17:30	JN	Industrial production	Jan F	m%ch	-0.8	~	~
Thu 16 Mar	~	JN	BOJ policy balance rate	Mar	%	-0.1	~	~
	10:45	NZ	GDP	Q4	q%ch	1.1	0.7	0.9
	13:00	AU	Consumer inflation expectation	Mar	%	4.1	~	~
	13:30	AU	Employment change	Feb	000	13.5	~	18.5
Fri 17 Mar	10:30	NZ	BusinessNZ manufacturing PMI	Feb	Index	51.6	~	~
	13:00	NZ	ANZ consumer confidence index	Mar	Index	127.4	~	~
	14:30	CH	China February Property Prices					

*P = Preliminary

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 13 Mar	13:30	EC	ECB President Mario Draghi speaks in Frankfurt					
Tue 14 Mar	10:00	EC	Industrial production	Jan	m%ch	-1.6	~	~
	10:00	EC	ZEW survey expectations	Mar	Index	17.1	~	~
	12:30	US	PPI final demand	Feb	m%ch	0.6	0.0	~
Wed 15 Mar	09:30	UK	Average weekly earnings 3M	Jan	y%ch	2.6		
	09:30	UK	ILO unemployment rate 3 months	Jan	%	4.8	~	~
	10:00	EC	Employment	Q4	q%ch	0.2	~	~
	12:30	US	Empire manufacturing	Mar	~	18.7	15.0	~
	12:30	US	CPI	Feb	m%ch	0.6	0.0	~
	12:30	US	Real average weekly earnings	Feb	y%ch	-0.6	~	~
	12:30	US	Retail sales advance	Feb	m%ch	0.4	-0.1	-0.1
	14:00	US	Business inventories	Jan	%	0.4	0.3	~
	18:00	US	FOMC rate decision	Mar	%	0.5-0.75	0.75-1.0	0.75-1.0
Thu 16 Mar	10:00	EC	CPI	Feb F	y%ch	1.8	~	~
	12:00	UK	Bank of England bank rate	Mar	%	0.25	~	~
	12:30	US	Housing starts	Feb	000	1,246	1,255	~
	12:30	US	Building permits	Feb	000	1,293	1,250	~
Fri 17 Mar	10:00	EC	Trade balance	Jan	€bn	24.5	~	~
	10:00	EC	Construction output	Jan	m%ch	-0.2	~	~
	13:15	US	Industrial production	Feb	m%ch	-0.3	0.2	~
	14:00	US	Uni. of Michigan sentiment	Mar P	~	96.3	97.0	~

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