

A \$6 bright spot in an otherwise hard week

- Last Monday's earthquake caused extensive damage to infrastructure and buildings around the middle of NZ.
- Disruption is ongoing in both the South Island and Wellington.
- Fonterra's milk price forecast revision to \$6/kgMS gave a few something to smile about.

Last week, New Zealand's focus remained firmly on the 14th of November's devastating M7.8 earthquake in the upper South Island. Kaikoura has been largely cut off and State Highway 1 and the main trunk rail link between Picton and Christchurch have been severely damaged. It will still be some time before we get an idea of the total repair cost from the earthquake (and subsequent aftershocks). For more information on the economic impacts of the quake, click [here](#). Given the uncertainty around the cost of repairs, **there is a possibility that the government's Half-Year Economic and Fiscal update, set for December 8, is delayed for a week (to the 15th December).** However, we are **waiting for this to be confirmed.**

The government has **already announced a \$7.5 million stimulus package for small businesses in Kaikoura, Cheviot, Waiau, Rotherham, Mt Lyford and Ward.** Firms with less than 20 employees can apply for wage subsidy grants of up to \$500 a week per employee for eight weeks to ensure that firms can continue to employ their staff. While this will undoubtedly help small businesses, there is likely to be ongoing business disruption for some time.

This disruption is still being felt in Wellington as well, where on-going building closures are making a return to business as usual difficult for a number of Wellington-based businesses. For example, Statistics NZ's building was damaged and its website crashed following the earthquake. However, by late Friday evening, Stats NZ's website had been partially restored and a number of delayed data releases were published. **Stats NZ is also updating its release calendar daily to let users know of any further delays.** However, it does not expect there to be any delays to December's data releases, which includes Q3 GDP.

However, it wasn't all bad news last week. **On Friday, Fonterra revised its 2016/17 milk price forecast up to \$6.00/kgMS.** After starting the season with a forecast of \$4.25/kg, a combination of lower production in New Zealand and Europe has seen milk prices lift strongly over the last few months. **This means that farmers will see an immediate lift in income of 50c/kgMS and is likely bringing a smile to farmers' faces around the country.** Here at ASB, the fall in NZ production due to wet weather in the Waikato has pushed prices higher than we were expecting at this point in the season. As a result, **we have officially placed our \$6/kg forecast under review.**

This week is likely to remain a bit stop and start as the country continues to get back on its feet post-quake. International travel and migration data and the trade balance (due Tuesday and Friday respectively) may be delayed, but we will keep you updated with any changes. Overseas, the **actions of US President-elect Donald Trump will also continue to be closely watched.**

Foreign Exchange

- The NZD succumbed to general strength against the US dollar last week.

Interest Rates

- NZ rates quiet after the earthquake, but longer-term rates pushed higher by offshore moves.

Week Ahead

- Migration and trade balance data (assuming no delays).

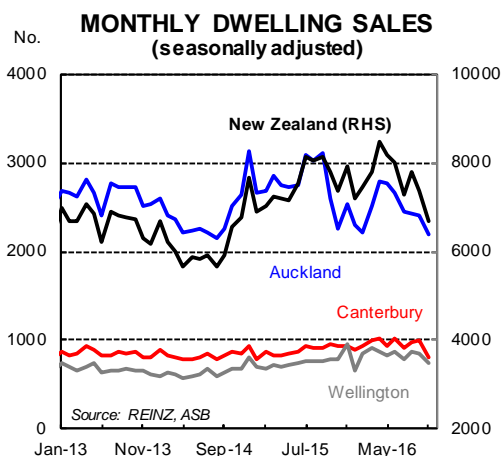
Week in Review

- Dairy prices and consumer confidence lift, retail sales growth slows.

Global Calendars

- Australian construction work done, Japan CPI, Eurozone PMIs.

Chart of the Week: Slower housing market activity on the cards



Last week, Real Estate Institute of New Zealand data for October showed that nationwide house sales had slowed for the second consecutive month. This comes as the third round of Loan-to-Value ratios (LVRs) take some heat out of the market. In the past, LVR restrictions have tended to cool market activity for around 6 months before sales and prices lift again.

However, **the earthquake on the 14th of November is likely to further disrupt house sales.** That is, current sales in earthquake-affected areas have frozen mid-settlement because insurers require new building reports post the earthquake (as happened after the Canterbury earthquakes). And banks will not issue mortgages without insurance.

The number and strength of aftershocks is also impacting on this process and it is likely that some sales also fall through. As a result, **sales activity for November could be even lower than it would have been with just the ongoing LVR impacts.**

Foreign Exchange Market

| FX Rates | Current* | Week ago | Month ago | 6 mths ago | Year ago | ST Bias | Support^ | Resistance^ |
|----------|----------|----------|-----------|------------|----------|-----------|----------|-------------|
| NZD/USD | 0.6994 | 0.7096 | 0.7168 | 0.6794 | 0.6586 | DOWN | 0.6880 | 0.7100 |
| NZD/AUD | 0.9543 | 0.9394 | 0.9394 | 0.9366 | 0.9151 | UP | 0.9400 | 0.9700 |
| NZD/JPY | 77.60 | 76.18 | 74.60 | 74.65 | 80.93 | FLAT/ UP | 76.50 | 78.80 |
| NZD/EUR | 0.6598 | 0.6571 | 0.6573 | 0.6049 | 0.6144 | FLAT/DOWN | 0.6500 | 0.6700 |
| NZD/GBP | 0.5665 | 0.5649 | 0.5857 | 0.4679 | 0.4307 | FLAT | 0.5570 | 0.5770 |
| TWI | 77.4 | 77.2 | 77.2 | 73.1 | 71.4 | DOWN | 76.00 | 79.00 |

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

The NZD succumbed to general strength against the US dollar last week, with the USD adding to gains made at the end of the prior week. **It was boosted by talk that Donald Trump's economic policies will be inflationary**, prompting the Federal Reserve to lift interest rates faster than the market was expecting. The NZD also weakened slightly in the earthquake aftermath. **Some support for the NZD was found later in the week, with Fonterra's upwards revision to its milk price forecast.** Elsewhere the AUD was under pressure, with the currency finding itself acting as somewhat of a proxy for Asian emerging market currencies and, as such, was sold off.

The week ahead lacks in major economic releases, either here or offshore. **The minutes from the Federal Reserve's November meeting could all-but seal-the-deal for a December rate hike in the US though, adding to USD strength.** However, estimates of the cost of New Zealand's earthquake, who will pick up the bill and how it will be funded, could have a major bearing on the NZD. **Further details on who will be on Trump's team and what sort of economic policies will be pursued will impact the USD and ripple through the global FX markets.**

| Short-term outlook: | Key data | Date | Time (NZT) | Market | |
|--|---|-------|------------|--------|--|
| <p>NZ DOLLAR (past 3 months)</p> <p>US cents (LHS) Index (RHS)</p> <p>Source: ASB</p> | EU Consumer confidence, November | 23/11 | 04:00 am | -7.8 | |
| | US Existing home sales, October | 23/11 | 04:00 am | 5.43m | |
| | US New home sales, October | 24/11 | 04:00 am | 590k | |
| | US FOMC meeting minutes, November | 24/11 | 08:00 am | - | |
| | UK GDP, Q3, qoq% | 25/11 | 10:30 pm | 0.5% | |
| | Key events: NZD: Oct trade balance (Fri). USD: Oct durable goods (Thu), FOMC minutes (Thu). AUD: n.a. JPY: Oct trade balance (today), Oct CPI (Fri). EUR: Nov PMIs (Wed). UK: 2nd estimate Q3 GDP (Fri). | | | | |
| | Speakers: RBNZ: Bascand (Tue). FOMC: Fischer (Tue).RBA: Aylmer and Kent (Tue). ECB: Draghi (Tue). | | | | |
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Medium-term outlook:

Last Quarterly Economic Forecasts

In late October we tweaked our near-term FX forecasts but left the medium-term forecasts broadly unchanged. 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 the RBNZ signalled it has finished its easing cycle at the November MPS, we see little sustained downward pressure on NZD given the support from the previously mentioned factors, barring any developments from the November 14 earthquake.** Over 2017, we expect the NZD/AUD to remain in a relatively high range of 0.93-0.96.

Meanwhile, we see the NZD/USD remaining elevated in a range of 0.70-0.73. We believe the USD has peaked and will drift slightly lower over 2017. However, the future impact of 'Trumponomics' on the USD is uncertain.

We revised our GBP forecast lower in late October as the weakness in the GBP occurred somewhat earlier than expected. 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 85 in 2017.

Interest Rate Market

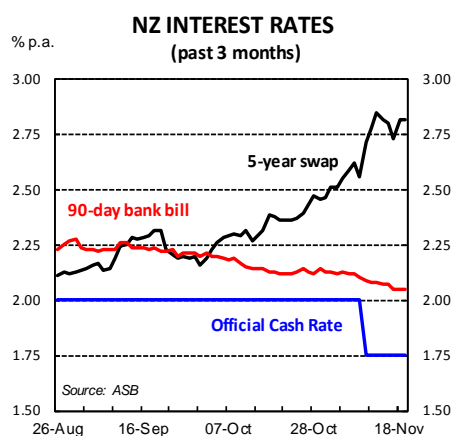
| Wholesale interest rates | Current | Week ago | Month ago | 6 mths ago | Year ago | ST Bias |
|------------------------------|---------|----------|-----------|------------|----------|---------|
| Cash rate | 1.75 | 1.75 | 2.00 | 2.25 | 2.75 | FLAT |
| 90-day bank bill | 2.05 | 2.08 | 2.12 | 2.39 | 2.87 | FLAT |
| 2-year swap | 2.31 | 2.32 | 2.13 | 2.38 | 2.78 | UP |
| 5-year swap | 2.82 | 2.85 | 2.36 | 2.58 | 3.13 | UP |
| 5-year benchmark gov't stock | 2.46 | 2.50 | 2.08 | 2.27 | 2.99 | UP |
| NZSX 50 | 6858 | 6729 | 6948 | 6908 | 6009 | UP |

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

During the first half of the week, **focus was on the fall-out from the Kaikoura earthquake**, but given the likely limited economic impact (relative to the 2010/11 Canterbury earthquakes) there was **limited reaction from markets**. Indeed, NZ markets were very quiet in the immediate aftermath given the absence of many Wellington-based market participants. The damage, particularly to infrastructure, is likely to cost the Government at least a couple of billion. But **given the otherwise healthy state of the NZ economy and Government finances, this additional cost can be easily absorbed**. At this stage, it's too early to have an accurate cost estimate.

Longer-term interest rates continued to rise, dragged higher by offshore moves in the wake of the election of Donald Trump as US President. **Mid-week, this upward momentum was suddenly halted** and longer-term NZ interest rates fell. Thin trading liquidity may have exacerbated the dip, as **the fall proved short lived** and longer-term rates have lifted once again. Short-end interest rates remain reasonably anchored by the expectation the RBNZ will be on hold and as a result we **continue to see a steepening in NZ's yield curve**.

Short-term outlook:



Key data

| | Date | Time (NZT) | Market |
|-----------------------------------|-------|------------|--------|
| EU Consumer confidence, November | 23/11 | 04:00 am | -7.8 |
| US Existing home sales, October | 23/11 | 04:00 am | 5.43m |
| US New home sales, October | 24/11 | 04:00 am | 590k |
| US FOMC meeting minutes, November | 24/11 | 08:00 am | - |
| UK GDP, Q3, qoq% | 25/11 | 10:30 pm | 0.5% |

Comment: Given the substantial damage to Statistics NZ building, all major NZ data releases have been delayed until further notice. Fonterra's upgraded milk price forecast to \$6 per kg will remind markets that NZ's economic fundamentals remain solid despite the set-back for many NZer's as a result of last week's devastating earthquake.

From here, focus will turn away from NZ and remain on guessing what policies Donald Trump will actually implement and how the US Federal Reserve may react. Market volatility is likely to remain elevated for some time. The Thanksgiving holiday in the USA (24th) could mean a quieter week, with US market participants squaring up positions before the holiday.

Medium-term outlook:

Last Quarterly Economic Forecasts

The RBNZ cut the OCR to a record-low 1.75% as widely expected, on November 10. In addition, **the RBNZ reduced its easing bias** to "numerous uncertainties remain, particularly in respect of the international outlook, and policy may need to adjust accordingly." At the same time, the RBNZ signalled that it was not expecting to cut interest rates any further in its new OCR forecast track.

While the RBNZ remains concerned about the strength of the NZD, the inflation outlook has improved since September. Inflation is likely to be back within the 1-3% target band at the next read (due January) and economic growth is running at an above-trend pace. However, the RBNZ remains aware that the risks remain skewed to the downside. Interestingly, the RBNZ reminded that, if the NZD exceeds the RBNZ's assumptions going forward, it is the reasons for that lift that matter for any response. For example, stronger NZ fundamentals wouldn't imply a need for offsetting OCR cuts. However, further lifts in the NZD for other reasons, falling inflation expectations, bank funding costs and any deterioration in the global growth outlook could force the RBNZ into cutting the OCR beyond 1.75%.

We now expect the RBNZ to remain on hold for the foreseeable future. However, recent events including Donald Trump's successful US Presidential campaign and North Canterbury's 7.5 magnitude earthquake on the 14th of November, have increased the degree of uncertainty.

Key international data for the week ahead

| Data | Date | Time (NZT) | Previous | Market expects | ASB expects |
|--|-------|------------|----------|----------------|-------------|
| RBA's Christopher Kent to speak on Economic Transition | 22/11 | - | - | - | - |
| Australia Construction Work Done, Q3, %qoq | 23/11 | 1:00 pm | -3.7 | -1.6 | -2.5 |
| Eurozone PMIs, November, Index | 23/11 | 10:00 pm | 53.5 | 53.3 | - |
| US Durable Goods Orders, October, %mom | 24/11 | 2:30 pm | -0.3 | 1.2 | - |
| Japan, CPI, % | 25/11 | 12:30 pm | -0.5 | 0.0 | 0.3 |

The Reserve Bank of Australia's Christopher Kent, Assistant Governor (Economic), is due to speak on Australia's Economic Transition – State by State, at the Australian Business Economists (ABE) Conference Dinner in Sydney.

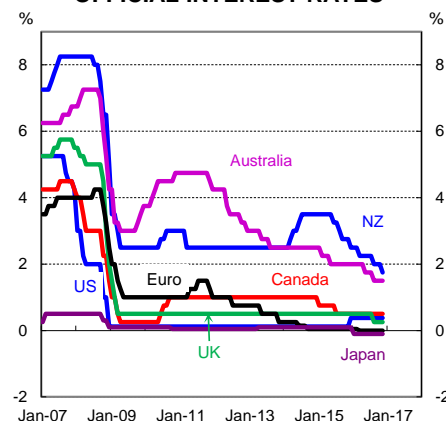
Australian engineering construction is likely to post a fall while residential construction is expected to lift. The net result should see Construction Work Done decline over Q3.

Already-released inflation for Tokyo in October suggests **Japanese national inflation** will lift modestly in October from the weak rates in September. Despite the expected acceleration, Japanese national inflation will remain very low and a long way from the Bank of Japan's 2% p.a. inflation target. We expect the government to announce another supplementary budget early in 2017 to help support the economy.

Eurozone manufacturing and services PMIs are expected to remain firm in November, consistent with further modest expansion in economic activity.

The October pick-up in the **US ISM manufacturing new orders-to-inventory** ratio points to a modest increase in capital goods shipment non-defence excluding aircraft (a good proxy for business investment).

OFFICIAL INTEREST RATES



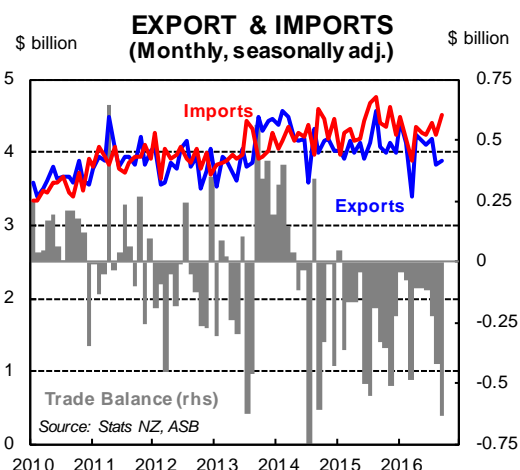
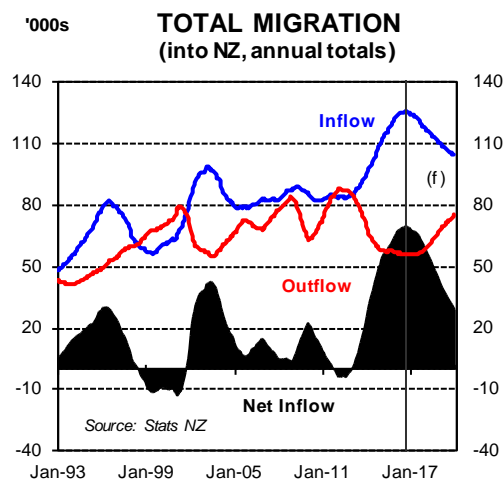
NZ Data Preview: a look at the week ahead

| Data | Date | Time (NZT) | Previous | Market expects | ASB expects |
|-----------------------------|--------|------------|----------|----------------|-------------|
| Net migration, October | 22/11* | 10:45 am | 6,340 | - | 5,750 |
| Trade Balance, October, \$m | 25/11* | 10:45 am | -1436 | -950 | -600 |

NOTE: All NZ data release dates are subject to revision following the recent earthquakes and closure of Statistics NZ's head office.

Annual net migration marked yet another record high in September, mainly due to a spike in arrivals, with departures within recent ranges. We continue to expect net migration to remain around these levels for some months to come. The Government's recently-announced reduction in resident visas to be granted should contain growth at the margin, although many arrivals are returning NZ citizens. We look for annual departures to very slowly start to increase as some of the arrivals over the last few years leave. This includes groups such as students and those on working holiday visas. We look for annual migration to slow to around 68,000 by the end of the year from the current 70,000 area. The risks to this are mainly around expected departures, with many of those arriving on student visas appearing to be staying on after graduation.

We expect a **trade deficit of \$600m in October**. After two months of surprisingly large deficits, we expect some rebound over October; and for the deficit to be lower than in October 2015. NZ normally records an October deficit as agricultural exports remain low on a seasonal basis. On the export side, we expect to see the recovery in spot dairy prices to begin to flow through to dairy export prices and values. At the same time, import values remain constrained by low global inflation. Looking at the broader trend, the **annual goods trade deficit is likely to narrow to \$3.1 billion**.



Data Recap: weekly recap

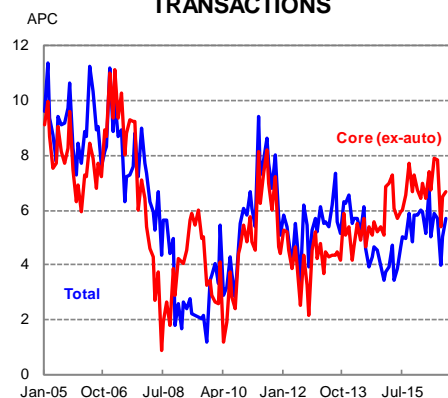
| Data | Date | Actual | Market forecast | ASB Forecast |
|---|-------|--------|-----------------|--------------|
| GlobalDairyTrade auction, whole milk powder, % change | 15/11 | 3.2 | - | +3-5 |
| Consumer confidence, November | 17/11 | -14.2 | - | - |
| Retail sales, Q3, % qoq | 18/11 | 0.9 | - | 1.2% |

Retail trade slowed in Q3, with volumes expanding 0.9% qoq compared to 2.2% in Q2 (revised from 2.3%). This was in line with market estimates and slightly below ASB’s 1.2% prediction. However, core retail sales (excluding fuel and automobiles) sharply slowed to just 0.3% qoq from 2.5% prior. Of the 13 core categories, 5 dropped into negative territory and only 2, accommodation and recreational goods, improved on Q2. Neither of those is a major category but **it is worth highlighting that Q2’s growth was the fastest for almost 10 years and as such a step back is not a major surprise.**

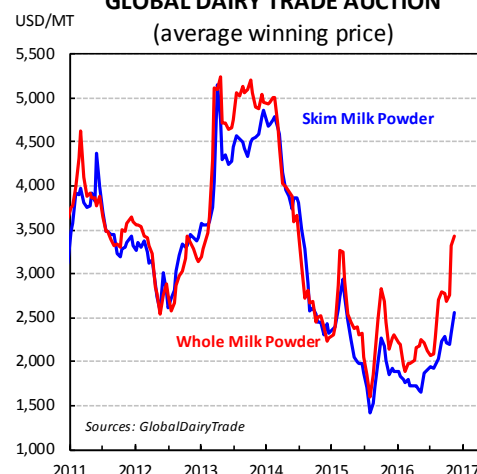
Dairy prices rose solidly last week. Overall prices ticked up 4.5%, while key whole milk powder prices rose a more modest 3.2% (although that is on top of the whopping 19.8% lift a fortnight ago). **The solid result reflects the continued impact of wet weather on NZ production.** Fonterra has reported that milk volumes across the central and upper North Island over October were very weak, with this weakness continuing into November. At this juncture, we point out that prices have lifted earlier and higher than we anticipated. As a result, if NZ production over the course of the full season is indeed as weak as we now anticipate, then **prices are likely to remain at current levels, if not lift further.**

Consumer confidence continued its recent upbeat trend in November, marking a high since April 2015. Headline consumer confidence continued to firm up in November, rising to 127.2 from 122.9. The index remains well clear of 5- and 10-year average levels. On a seasonally-adjusted basis, confidence extended its recent winning run to 6 months, climbing to 128.6 from 126.1. That’s a high since September 2014 and is well clear of recent averages. Note, the survey was undertaken prior to Monday’s earthquake, while the full impact of Trump’s surprise victory in the US election would not have been captured. Thus **we look for confidence to dip in the coming months,** although still remain fairly buoyant overall.

RETAIL ELECTRONIC CARD TRANSACTIONS



GLOBAL DAIRY TRADE AUCTION
(average winning price)



Global Data Calendars

Calendar - Australasia, Japan and China

| Date | Time (NZT) | Eco | Event | Period | Unit | Last | Forecast | |
|------------|------------|-----|---|--------|--------|--------|----------|-------|
| | | | | | | | Market | ASB |
| Mon 21 Nov | 12:50 | JN | Trade balance adjusted | Oct | ¥bn | 349.0 | 383.0 | ~ |
| | 14:30 | JN | BOJ Masai makes a speech in Saitama-city | | | | | |
| | 15:00 | NZ | Credit card spending | Oct | m%ch | 2.6 | ~ | ~ |
| | 17:30 | JN | All industry activity index | Sep | m%ch | 0.2 | ~ | ~ |
| | 18:00 | JN | Supermarket sales | Oct | y%ch | -3.2 | ~ | ~ |
| Tue 22 Nov | 03:00 | CH | Conference Board China October Leading Economic Index | | | | | |
| | 10:45* | NZ | Net migration (Note: may be delayed) | Oct | ~ | 6,340 | ~ | 5,750 |
| | 11:30 | AU | ANZ Roy Morgan Weekly Consumer Confidence | Nov | Index | 118.2 | ~ | ~ |
| | 12:25 | AU | RBA's Aylmer speech in Sydney | | | | | |
| | 18:30 | JN | Nationwide department sales | Oct | y%ch | -5.0 | ~ | ~ |
| | 20:45 | AU | RBA's Kent speech at ABE Event in Sydney | | | | | |
| Wed 23 Nov | 13:00 | AU | Skilled vacancies | Oct | m%ch | -1.2 | ~ | ~ |
| | 13:30 | AU | Construction work done | Q3 | % | -3.7 | ~ | ~ |
| | 14:45 | CH | MNI November business indicator | | | | | |
| Thu 24 Nov | 13:30 | JN | Nikkei Japan PMI manufacturing | Nov P | Index | 51.4 | ~ | ~ |
| | 14:00 | CH | Swift global payments CNY | Oct | % | 2.0 | ~ | ~ |
| | 18:00 | JN | Leading index CI | Sep F | Index | 100.5 | ~ | ~ |
| Fri 25 Nov | 10:45* | NZ | Trade balance (Note: may be delayed) | Oct | NZD mn | -1,436 | ~ | -600 |
| | 12:30 | JN | National CPI | Oct | y%ch | -0.5 | ~ | ~ |
| | 12:50 | JN | PPI services | Oct | y%ch | 0.3 | ~ | ~ |
| Sun 27 Nov | 14:30 | CH | Industrial profits | Oct | y%ch | 7.7 | ~ | ~ |

*P = Preliminary

Calendar - North America & Europe

| Date | Time (UKT) | Eco | Event | Period | Unit | Last | Forecast | |
|------------|------------|-----|--|--------|-------|-------|----------|-----|
| | | | | | | | Market | ASB |
| Mon 21 Nov | 09:30 | EC | Bank of Portugal's Costa speaks at Conference on Economy | | | | | |
| | 13:30 | US | Chicago Fed National Activity Index | Oct | Index | -0.1 | ~ | ~ |
| | 16:00 | EC | ECB's Draghi speaks at European Parliament in Strasbourg | | | | | |
| Tue 22 Nov | 15:00 | US | Richmond Fed manufacturing index | Nov | Index | -4.0 | 0.0 | ~ |
| | 15:00 | EC | Consumer confidence | Nov A | Index | -8.0 | ~ | ~ |
| | 15:00 | US | Existing home sales | Oct | \$mn | 5.5 | 5.5 | ~ |
| Wed 23 Nov | 09:00 | EC | Markit Eurozone manufacturing PMI | Nov P | Index | 53.5 | ~ | ~ |
| | 12:00 | US | MBA mortgage applications | Nov | % | -9.2 | ~ | ~ |
| | 13:30 | US | Durable goods orders | Oct P | % | -0.3 | 1.0 | ~ |
| | 13:30 | US | Initial jobless and continuing claims | Nov | ~ | ~ | ~ | ~ |
| | 14:00 | US | House price purchase index | Q3 | q%ch | 1.2 | ~ | ~ |
| | 14:00 | US | FHFA house price index | Sep | m%ch | 0.7 | 0.5 | ~ |
| | 14:45 | US | Markit US manufacturing PMI | Nov P | Index | 53.4 | ~ | ~ |
| | 15:00 | US | New home sales | Oct | 000 | 593.0 | 588.0 | ~ |

| | | | | | | | | |
|------------|-------|----|--|-------|-------|-------|-------|---|
| | 15:00 | US | Uni. of Michigan sentiment | Nov F | ~ | 91.6 | 91.6 | ~ |
| | 19:00 | US | U.S. Fed releases Minutes from November 1-2 FOMC Meeting | | | | | |
| Fri 25 Nov | 09:30 | UK | GDP | Q3 P | q%ch | 0.5 | ~ | ~ |
| | 13:30 | US | Advance goods trade balance | Oct | \$bn | -56.1 | -59.0 | ~ |
| | 13:30 | US | Wholesale inventories | Oct P | m%ch | 0.1 | ~ | ~ |
| | 14:45 | US | Markit US services PMI | Nov P | Index | 54.8 | ~ | ~ |

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