

Time will tell

- A Trump victory this week will likely be associated with a short-term fall in the USD and equity markets.
- In the longer term, Trump policies are likely to have the opposite impact through being inflationary.
- The RBNZ is widely expected to cut the OCR on Thursday to a record low 1.75%.

Markets are currently struggling to focus on anything other than the impending US presidential election. It is now only three days until America votes for its 45th President. Throughout the process, Trump's popularity has continued to surprise. With Hillary only just edging ahead in polls and an estimated 13% of American voters still undecided, markets are on edge.

Recently we have seen increased volatility in the USD and USD-denominated assets. Particularly, we have seen a fall in the USD and global equity markets as the race tightens (i.e. Trump support gains traction). **Should Donald Trump win the election on Wednesday (NZT), we would expect to see the USD fall further in the short term.** The same will go for equity markets in many countries. As we all know, with Brexit a recent lesson, markets do not like uncertainty. And the consequences of a Trump presidency are very uncertain as he is unknown in a political sense. On the other hand, Hillary Clinton offers little change to the current US direction.

Interestingly, while the short-term impacts of a Trump election will likely be a weaker USD etc, in the long term the impacts could be quite the opposite. That is, **the longer-term consequences of some of Trump's proposed policies (including reducing company and personal income taxes) are likely to be inflationary and support the USD and USD-denominated assets.** For example, a sharp reduction in company taxes will increase American companies' net profit after tax, lead to equity revaluations and encourage capital flows back into the US. They could also encourage US multinationals to repatriate profits back to the US.

It is not only Trump's domestic policies, but also his **foreign policies that would be inflationary and USD-supportive.** If he follows through on his proposal to put a 45% tariff on Chinese imports, the costs of imports from China would lift, adding to inflation pressures. **Chinese economic growth would be slower,** with implications for those countries (including New Zealand and Australia) who rely heavily on trade with China. But even **more concerning for New Zealand is the protectionist undertone of Trump's foreign policies and the implications of these for our small, open economy.**

The US election is not the only key event happening this week. Shortly after the dust settles (or as the storm grows, depending on the outcome), **the RBNZ widely expected to cut the OCR by 25bp to a record low 1.75% on Thursday.** Inflation remains incredibly low, for example the CPI rose a meagre 0.4% in the year to September 2016. **While we expect the RBNZ to maintain a mild easing bias, we think that there is a high threshold for further cuts beyond 1.75%.**

And hot off the press: Statistics NZ has revised annual inflation to 0.4% from 0.2%, after an error in vehicle registration fees.

Foreign Exchange

- The NZD pushed higher, powered by the strong GDT and employment data.

Interest Rates

- Interest rates continue to climb as strong economic data suggests OCR cuts beyond 1.75% unlikely.

Week Ahead

- RBNZ OCR and MPS, electronic card spending, BusinessNZ PMI, food prices.

Week in Review

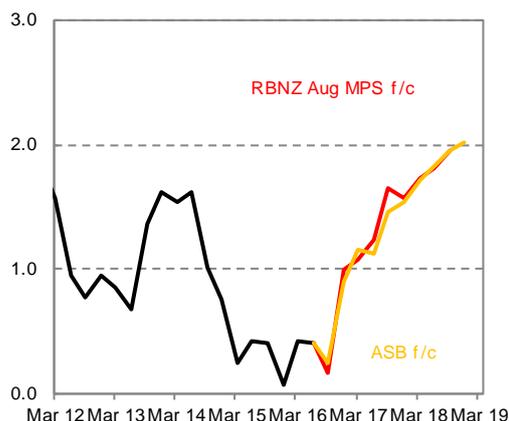
- Unemployment rate falls, 2-year-ahead inflation expectations steady, dairy prices higher.

Global Calendars

- US Presidential election, China trade data and CPI.

Chart of the Week: Things can change

CONSUMER PRICE INDEX



The RBNZ is currently in an interesting position. **Inflation is on the cusp of picking up, but the risks are such that this could be snatched away at any point.** For the first time in a long time, our inflation forecasts almost mirror that of the RBNZ (as shown in the chart opposite). The key positive of this for the RBNZ is the speed at which inflation could pick up again, and soon, if nothing changes.

However, in markets there are always risks, and currently **the various risks are that inflation may stay lower for longer.** For example, if the NZD remains elevated or lifts further, if inflation expectations fall or funding costs lift higher, the RBNZ could be forced to cut the OCR beyond 1.75%. Not to mention the risks associated with the current global environment.

At the moment, we think that Thursday's cut will be the last for some time.

However, given the number of moving parts in the global economy at the moment, we cannot be certain that this will be the bottom of the cycle. But we do think there is a high threshold for the RBNZ to cut beyond 1.75%.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7353	0.7153	0.7130	0.6842	0.6610	FLAT/UP	0.7100	0.7480
NZD/AUD	0.9569	0.9393	0.9409	0.9266	0.9249	FLAT/UP	0.9400	0.9700
NZD/JPY	76.71	74.95	74.00	73.48	80.40	FLAT/ UP	74.60	76.80
NZD/EUR	0.6649	0.6520	0.6414	0.5994	0.6071	FLAT	0.6490	0.6680
NZD/GBP	0.5905	0.5868	0.5736	0.4737	0.4344	FLAT	0.5760	0.5940
TWI	78.8	77.1	76.3	72.8	71.6	FLAT	75.00	79.00

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

It was a strong week for the NZD, with the currency moving higher from Tuesday night onwards. **This was in part due to the extraordinarily firm GDT auction**, with dairy prices 11% higher and Whole Milk Powder up an incredible 20%. This news was followed by the **Q3 labour report, with unemployment dropping below 4.9%, an almost 8-year low**, although we caution that some of this may have been due to the changes in the HLFS survey. Nonetheless, the market ran with the number heading into the Q4 inflation expectations release. This saw little change, leaving predictions for a cut this week unchanged but also not lifting the chances of further easing next year.

Looking to the week ahead and there are two major events. First, voting in the US election closes late on November 9, NZT, with the result likely to arrive before the RBNZ's rate decision, due Thursday at 9am. **The RBNZ is expected to cut the OCR another 25bp, to 1.75%**, with the move already 75-80% priced in. The statement could provide more interest, with many looking for this to be the final cut in the current cycle and will be looking for hints that this is also part of the RBNZ's thinking. Not to be forgotten, the RBA's inflation expectations are also due on Thursday and could have a bearing on NZD/AUD's direction.

Short-term outlook:	Key data	Date	Time (NZT)	Market	
<p>US cents</p> <p>NZ DOLLAR (past 3 months)</p> <p>Source: ASB</p>	US Presidential Election voting closes	09/11	7.00 pm	-	
	NZ Electronic card spending, October, mom%	09/11	10.45 am	0.4%	
	China CPI, October, yoy%	09/11	2.30 pm	2.1%	
	RBNZ rate announcement	10/11	09.00 am	1.75%	
	Australian consumer inflation expectations,	10/11	1.00 pm	-	
	NZ Business Manufacturing PMI, October	11/11	10.45 am	-	
	NZ Food prices, October, mom%	11/11	10.45 am	-	
	Key events: NZD: RBNZ meeting & Monetary Policy Statement (Thu); Oct manufacturing PMI (Fri). USD: Oct labour market conditions index (Tue); US Elections (Tue). AUD: Oct business conditions (Tue); Sep home loans (Thu). CNY: Oct trade balance (Tue); Oct CPI (Wed). JPY: Sep balance of payments (Wed); BoJ November meeting Summary of Opinions (Thu). EUR: n.a. UK: Sep industrial & manufacturing production (Tue); Sep trade balance (Wed)				
	Speakers: RBNZ: Wheeler (Thu). FOMC: non-voter Evans (Tue & Wed); non-voter Kashkari (Thu); non-voter Williams (Thu); voter Bullard (Fri); voter Fischer (Sat). RBA: Ryan (Tue); Debelle (Fri). ECB: Constancio (Mon & Fri); Lautenschlaeger (Tue & 15 Nov); Praet (Wed & 18 Nov); Nouy & Coeure (Thu). BoE: Haldane (Wed, Thu & Fri).				
	Medium-term outlook:	<u>Last Quarterly Economic Forecasts</u>			

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.** While we expect the RBNZ to cut interest rates once more in 2016 (in November), we see little sustained downward pressure on NZD given the support from the previously mentioned factors. 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.

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.

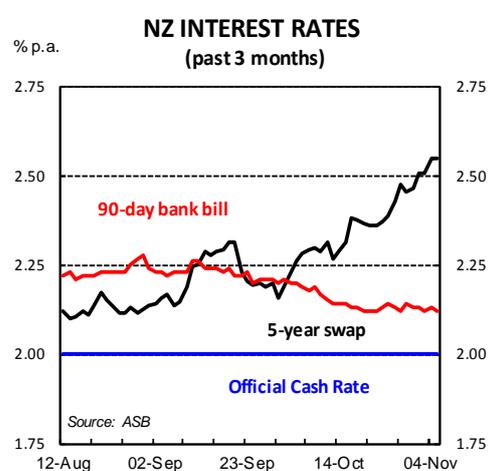
Interest Rate Market

Wholesale interest rates	Current	Week ago	Month ago	6 mths ago	Year ago	ST Bias
Cash rate	2.00	2.00	2.00	2.25	2.00	FLAT
90-day bank bill	2.12	2.14	2.18	2.36	2.12	FLAT
2-year swap	2.25	2.18	2.13	2.21	2.25	FLAT
5-year swap	2.55	2.46	2.30	2.44	2.55	FLAT
5-year benchmark gov't stock	2.29	2.18	2.07	2.11	2.29	FLAT
NZSX 50	6706	6961	7151	6885	6706	FLAT

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

NZ interest rates have started to rise across the curve on the back of stronger economic data that imply **further OCR cuts below 1.75% are increasingly unlikely**. However, this lift has been **exacerbated by corporate hedging flow**. Corporates have been holding off locking in fixed-term rates until they are confident interest rates have reached lows. Now, as longer-term rates have started to lift, there has been a flurry of demand from corporates to fix in recent weeks. However, with limited market interest on the other side of the transaction, this increased hedging demand and unbalanced flow has exacerbated this lift in NZ rates.

Short-term outlook:



Key data

	Date	Time (NZT)	Market
US Presidential Election voting closes	09/11	7.00 pm	-
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China CPI, October, yoy%	09/11	2.30 pm	2.1%
RBNZ rate announcement	10/11	09.00 am	1.75%
NZ Business Manufacturing PMI, October	11/11	10.45 am	-
NZ Food prices, October, mom%	11/11	10.45 am	-

Comment: There are two key events for rate markets this week. The first is **the US Presidential Election** and **markets are likely to be nervous ahead of the result** for fears of a Brexit type event. A Clinton victory should sooth markets, but **a Trump victory may trigger an initial flight to safety which could lower interest rates**.

The second event is the **RBNZ OCR and Monetary Policy Statement**. The RBNZ is widely expected to cut the OCR 25 basis points. The risk is if the RBNZ does not sound dovish enough, longer-end rates are likely to lift higher given it will be seen as the end of an easing cycle. **To keep rates anchored the RBNZ will need to tactically deliver a reasonably strong easing bias.**

Medium-term outlook:

Last Quarterly Economic Forecasts

The RBNZ left the OCR on hold at 2%, as widely expected, on September 22. In addition, **the RBNZ maintained a firm easing bias** of "our current projections and assumptions indicate that further policy easing will be required." The market was expecting a strong easing bias and, combined with "a lower exchange rate is needed", financial markets were not disappointed.

The RBNZ's concerns were very much in line with those raised in the August MPS. Although the RBNZ is still concerned about housing risks, it is also now more concerned about the downside inflation risks, particularly if inflation expectations were to fall further. The NZD Trade Weighted Index assumes the NZD will gently depreciate from around 76 beyond year-end, and there is a risk that the RBNZ will have to ease to a greater extent if the NZD doesn't follow that path. The NZD was again called out as making it difficult for the RBNZ to meet its inflation objective and in need of depreciation. However, at the same time, the RBNZ did acknowledge that some of the recent strength of the NZD was due to the gains in dairy prices.

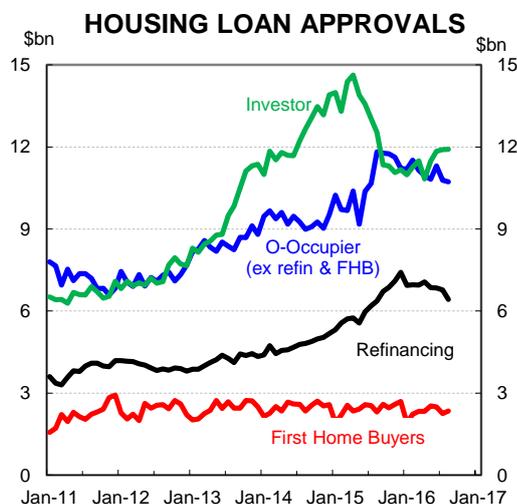
We continue to expect the RBNZ to cut once further, in November, when the RBNZ has received the next set of key economic data, including key long-term inflation expectations, and has comprehensively redone its forecasts. **In addition, the risks remain skewed to a lower OCR than 1.75%, particularly if the NZD persists above the RBNZ's assumed level, inflation expectations weaken or funding pressures limit the extent to which banks pass on November's OCR cut.**

Key international data for the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Australia Housing Finance, Sep, Loans to Owner, %mom	10/11	1:30pm	-1.6	-	-2.4
US Presidential elections	09/11	overnight	-	-	-

We expect a modest fall in Australian lending to owner-occupiers but some firmness on the investor side. Overall lending into the housing sector appears to be sliding in annual growth terms nationally. House price data are still showing some robust monthly rises but the annual rate of growth is below that a year ago. National data are being driven by Melbourne and Sydney housing markets.

The US election result will dominate financial markets in the coming week. The polls have narrowed but, when averaged, they still indicate a Clinton win. The outcomes in the Congress and the Senate races will also be of great interest. Any signs that the Democrats will have majorities in both Houses will most probably be seen as positive for growth but negative for bond markets because of concerns that higher deficits and inflation will follow.

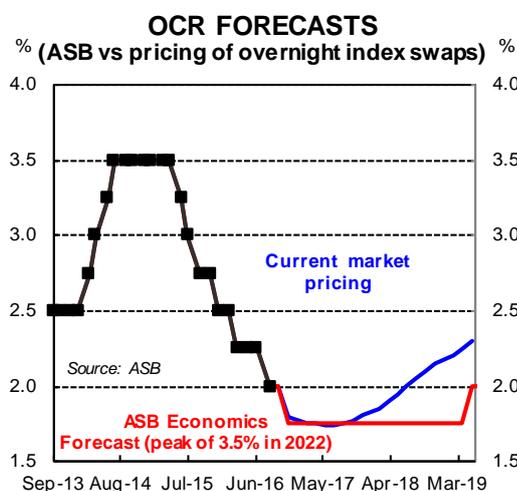


NZ Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
Electronic card spending, October, % mom	9/11	10:45 am	1.9	-	0.8
RBNZ MPS review	10/11	9:00 am	2.00%	1.75%	1.75%

Electronic card spending moved much higher in September, but much of this was due to hefty revisions by StatsNZ, owing to an earlier error. As such, we look for a slowdown in October compared to September. Nevertheless, we still see spending growth trending higher. Spending in consumables, hospitality and apparel should all be aided by the fact there were 5 full weekends in the month, mirroring the effect seen as recently as July. Petrol prices also increased through October. **With new housing construction still in full swing there is potential for durables to grow.**

We expect the RBNZ to cut the OCR by 25bp to 1.75% at the November Monetary Policy Statement, a widely-anticipated outcome. From here, we expect the RBNZ to signal that any further easing is still where the risks lie, but that a further cut is not the RBNZ's base case. **Getting across this message without prompting a spike in wholesale interest rates and the NZD is a tricky sell.** But the strength of recent economic data has increasingly pushed market pricing to largely rule out the prospect of a sub-1.75% OCR.



Data Recap: weekly recap

Data	Date	Actual	Market forecast	ASB Forecast
ANZ Business Confidence, October, Index	31/10	24.5	-	-
Credit growth, September, household, %mom	31/10	+0.8	-	-
GlobalDairyTrade auction, whole milk powder, % change	01/11	+19.8	-	+8 to +10
Unemployment, Q3, %	02/11	4.9	5.1	5.1
RBNZ inflation expectations, Q4, 2-year ahead	02/11	1.68	-	-

Business confidence took a step back in October, although it still remains around recent highs and is consistent with sustained and robust economic growth. Despite this, **inflation indicators remain at very low levels**. Inflation pressures should rise as growth sustains a strong base, but there has been little evidence of price increases in recent months. That reinforces **the RBNZ will retain an easing bias until it has evidence of inflation pressures firming**.

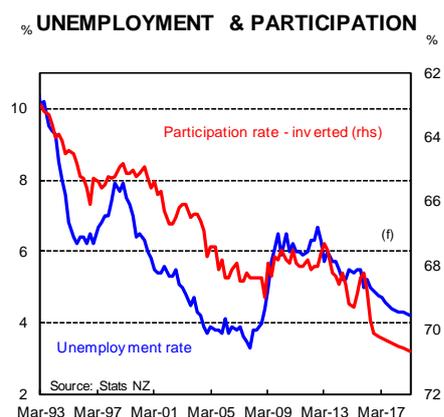
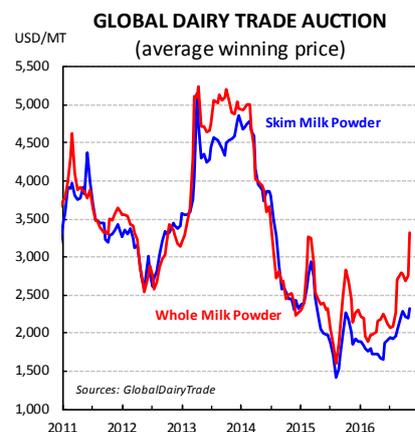
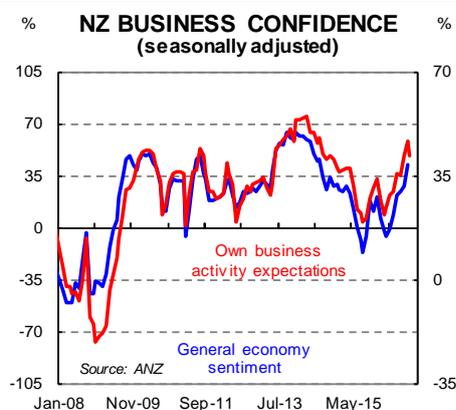
Housing credit growth slowed to a slightly more modest pace in September, but demand remains healthy. However, we do **expect the pace of housing credit growth to slow going forward**. Housing data suggests that activity is starting to slow. **We continue to expect the RBNZ to cut the OCR to 1.75%** in November, in response to the weak inflation outlook. Unadjusted housing lending increased by \$1.58 billion in September. This lending growth is slightly more modest than the lending growth seen in May, June and August (close to or above \$2bn per month). Housing credit remains 9.2% above year-ago levels.

Dairy prices jumped last week. Key WMP prices surged 19.8% (the sixth largest rise in auction history). Other price rises were more modest, with SMP and butter, for example, lifting 6.5% and 4.0%, respectively. **The surge follows a rapid decline in NZ production on the back of very wet weather**. At this juncture, we point out that prices have lifted a little earlier, and higher than we anticipated. As a result, if NZ production is indeed as weak as we now anticipate, then prices are likely to remain at current levels or lift further. In this respect, we see an increasing probability that this season's milk price lifts above our current \$6.00/kg forecast.

The unemployment rate declined to 4.9% in Q3, following a downward revision to Q2 to 5.0% from 5.1%. Employment growth registered a sturdy 1.4% qoq. Q3 marks the first sub-5% unemployment read since December 2008 in the new measure of unemployment. **The reason why the fall in unemployment was so mild, despite strong jobs growth, was because of strong labour force growth and a lift in labour force participation to a record high of 70.1%**. However, StatsNZ cautioned that some of the lift in labour participation may be due to survey changes – but is unable to break out exactly what this influence might be. In turn, that raises questions around exactly what the 'true' shift in unemployment is, and how tight the labour market is in effect.

The RBNZ's 2-year-ahead measure of inflation expectations was largely unchanged in Q4. 2-year-ahead inflation expectations lifted marginally to 1.68% in Q4 from 1.65% in Q3, but remain near record lows. Despite inflation expectations being low and well below the RBNZ's 2% target, the RBNZ will be relieved inflation expectations have remained steady since Q1's sharp drop.

This morning, Statistics NZ revised the Q3 CPI higher to 0.3% qoq from 0.2% qoq. As a result, annual inflation was also revised higher to 0.4% from 0.2%. This was a result of a manual error regarding the vehicle registration fees. Stats NZ stated that the fall in ACC fees was overestimated and, as a result, the Q3 CPI was underestimated. At this point in time, we do not think this changes the case for the RBNZ cutting the OCR to 1.75% on Thursday. The underlying state of inflation pressures has not been changed by this revision, which was isolated to the magnitude of a one-off drop in a government charge.



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 7 Nov	12:50	JN	BOJ Minutes of September 20-21 meeting					
	18:30	AU	Foreign reserves	Oct	\$bn	65.8	~	~
Tue 8 Nov	~	CH	Trade balance	Oct	CNY bn	42.0	51.8	~
	10:00	NZ	ANZ Truckometer Heavy	Oct	m%ch	-1.4	~	~
	11:30	AU	ANZ Roy Morgan Weekly Consumer Confidence	Nov	Index	114.1	~	~
	13:30	AU	NAB business confidence	Oct	~	6.0	~	~
	14:00	JN	Bloomberg November Japan Economic Survey					
	18:00	JN	Leading index CI	Sep P	Index	100.9	100.2	~
Wed 9 Nov	19:15	AU	RBA's Chris Ryan speech in Hong Kong					
	10:45	NZ	Card spending retail	Oct	m%ch	1.9	~	~
	12:50	JN	BoP current account adjusted	Sep	¥bn	1,975.7	1,586.3	~
	13:14	JN	Machine tool orders	Oct P	y%ch	-6.3	~	~
	14:30	CH	CPI	Oct	y%ch	1.9	2.1	~
Thu 10 Nov	17:00	JN	Eco watchers survey current	Oct	~	44.8	~	~
	09:00	NZ	RBNZ official cash rate	Nov	%	2.0	1.75	~
	11:50	JN	Machine orders	Sep	m%ch	-2.2	-2.0	~
	12:50	JN	Money stock M2	Oct	y%ch	3.6	3.7	~
	13:00	AU	Consumer inflation expectation	Nov	%	3.7	~	~
	13:14	NZ	REINZ house sales	Oct	y%ch	-9.5	~	~
	13:15	CH	Money supply M0	Oct	y%ch	6.6	6.3	~
	13:15	CH	Money supply M2	Oct	y%ch	11.5	11.4	~
	13:30	AU	Value of loans	Sep	m%ch	-1.6	~	-2.0
	Fri 11 Nov	10:30	NZ	BusinessNZ manufacturing PMI	Oct	Index	57.7	~
10:45		NZ	Food prices	Oct	m%ch	-0.9	~	~
12:50		JN	Loans & discounts corp	Sep	y%ch	2.1	~	~
12:50		JN	PPI	Oct	m%ch	0.0	0.0	~
14:00		AU	RBA's Debelle panel participation in Melbourne					
17:30		JN	Tertiary industry index	Sep	m%ch	0.0	-0.2	~

*P = Preliminary

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Mon 7 Nov	08:30	UK	Halifax house prices	Oct	m%ch	0.1	~	~
	09:10	EC	Markit Eurozone retail PMI	Oct	Index	49.6	~	~
	09:15	EC	ECB's Constancio on Panel at EU Macro-Prudential Hearing					
	09:30	EC	Sentix investor confidence	Nov	~	8.5	~	~
	10:00	EC	Retail sales	Sep	m%ch	-0.1	~	~
	11:10	US	Mortgage delinquencies	Q3	%	4.7	~	~
	15:00	US	Labor Market conditions index change	Oct	Index	-2.2	~	~
	16:00	EC	ECB's Lautenschlaeger speaks in Munich					
	20:00	US	Consumer credit	Sep	\$bn	25.9	18.0	~
Tue 8 Nov	00:01	UK	BRC sales like-for-like	Oct	y%ch	0.4	~	~
	09:30	UK	Industrial production	Sep	m%ch	-0.4	~	~
	09:30	UK	Manufacturing production	Sep	m%ch	0.2	~	~
	11:00	US	NFIB small business optimism	Oct	~	94.1	~	~
	12:45	US	Fed's Evans speaks on Economy and Policy in New York					
	15:00	UK	NIESR GDP estimate	Oct	%	0.4	~	~
	15:00	US	JOLTS job openings	Sep	~	5,443	~	~
	17:20	US	Fed's Evans speaks on Economy and Policy in New York					
Wed 9 Nov	08:00	EC	ECB's Praet speaks in Brussels					
	09:30	UK	Visible trade balance	Sep	£mn	-12,112	~	~
	10:00	EC	European commission economic forecasts					
	14:00	EC	ECB's Nouy speaks in Brussels					
	15:00	US	Wholesale inventories	Sep F	m%ch	0.2	0.2	~
	16:45	EC	ECB's Coeure speaks at Panel Discussion in Lyon, France					
	18:30	US	Fed's Kashkari speaks in Eau Claire, Wisconsin					
Thu 10 Nov	~	EC	ECB's Mersch gives speech in Windsor, England					
	00:01	UK	RICS house price balance	Oct	%	17.0	~	~
	02:00	US	Fed's Williams speaks on Economic Outlook in San Francisco					
	13:30	US	Initial jobless and continuing claims	Nov	~	~	~	~
	14:15	US	Fed's Bullard speaks on U.S. Economic Outlook in St. Louis					
	14:50	EC	ECB's Constancio gives speech in Stockholm					
Fri 11 Nov	19:00	US	Monthly Budget Statement	Oct	\$bn	33.4	-88.7	~
	09:30	UK	Construction output	Sep	m%ch	-1.5	~	~
	15:00	US	Uni. of Michigan Sentiment	Nov P	Index	87.2	87	~
	15:00	US	Uni. of Michigan Current Conditions	Nov P	Index	103.2	~	~

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