

Inflation quintuples within 6 months

- Inflation figures later this week will show a pace close to the mid-point of the RBNZ's target.
- But the RBNZ will still keep a close eye out, as inflation pressures have yet to show signs of becoming widespread.
- Dairy prices are set to have a stronger auction result.

The RBNZ could be marking off a key milestone on Thursday. **We expect annual inflation to hit 2.1% for Q1, the first reading at or above 2% since 2011** when the impact of the late 2010 GST increase was still washing its way through. 2% is the mid-point of the inflation target band, so hitting around that figure marks a return to a more 'normal' pace. Just 6 months earlier inflation was a mere 0.4%.

Does that mean the RBNZ can go on holiday with the job done? Potentially the current Governor will, given he has less than 6 months to go until he steps down. But his successors **will still need to be vigilant to ensure inflation holds up around this rate.** **Some of the factors contributing to inflation's estimated 0.9% quarterly rise are one-hit wonders** rather than inflation pressures that will be sustained. Petrol prices lifted an estimated 6% over the quarter, though have broadly stabilised since. Food prices have soared more than they usually do for the time of year – for those of you wanting to see better in the dark, a kilo of carrots cost \$3.53 this February against \$2.34 the year before. And a further 10% tobacco tax excise increase rounded out the bumps.

There are **some signs of capacity pressures emerging in the inflation figures.** Construction costs remain one. And pressures in service sector catering to the strong tourism market are another, with accommodation costs the most notable example. A degree of pricing power is also returning to some retail segments.

But capacity pressures are yet to become widespread, and nominal wage inflation is still modest. **There is a long way to go before the RBNZ will be confident inflation will be able to sustain a pace near the target mid-point.** And the inflation rate is likely to dip back towards 1.5% by this time next year, as the recent one-off lifts fade. So the RBNZ will be watchful for a while yet in case inflation doesn't hold up. For that reason **we expect the RBNZ will be comfortably on hold until late 2018. That will give the next permanent Governor plenty of time to get his or her feet firmly under the desk.**

Dairy prices will also be in focus again this week. NZ has been battered by the weather over the past month, which will raise some question marks over the impact on dairy production. At this point it appears the impact has been localised and small, with major dairying regions avoiding the brunt. There may be near-term challenges to harvesting maize and re-grassing pastures. But water sources have been well and truly replenished, potentially setting up for a good spring. **We expect whole milk powder prices to lift around 6-8% in Tuesday night's auction.**

Foreign Exchange

- The USD trends lower on Trump comments and soft US inflation figures.

Interest Rates

- Geo-political tensions weigh on global yields.

Week Ahead

- Dairy prices likely to rise at this week's auction while NZ CPI inflation to lift over 2%.

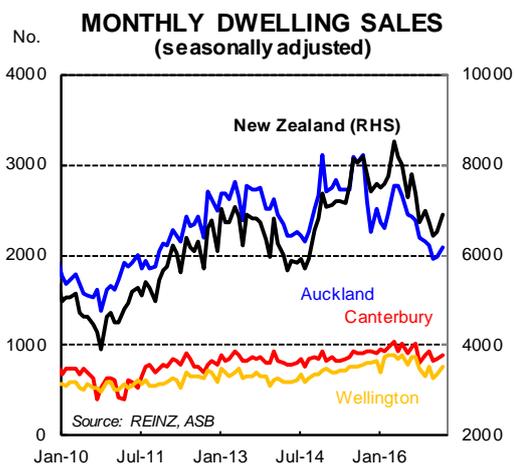
Week in Review

- Electronic card spending weaker than expected, house sales rise in March.

Global Calendars

- Relatively quiet week internationally, with market focus on the French first-round of voting.

Chart of the Week: House sales starting to lift



Down and out, or making a comeback? That is the question many people are asking of the housing market. Last week **the REINZ's March figures showed house sales lifted that month in most regions around the country,** with overall sales up slightly for the second month in a row. The median of days taken to sell edged down in Auckland after a recent spike. Prices also ticked higher, including in Auckland.

What we are seeing are tentative signs that the slowdown in the housing market, prompted by last year's investor loan restrictions and higher mortgage rates, is fading. But, as we noted 2 weeks ago, sales inventory levels have ticked higher. Some of the tension has come out of the market compared to 6 months or more ago.

We had expected that the impact of last year's lending restrictions would wear off, though **we'll need another couple of months of data to be more certain.** But we expect the housing market will be muted this year after the widespread gains of recent years.

Foreign Exchange Market

FX Rates	Current*	Week ago	Month ago	6 mths ago	Year ago	ST Bias	Support^	Resistance^
NZD/USD	0.7009	0.6952	0.6988	0.7185	0.6922	FLAT	0.6900	0.7100
NZD/AUD	0.9234	0.9268	0.9091	0.9364	0.9019	DOWN	0.9120	0.9320
NZD/JPY	76.43	76.90	79.28	74.59	74.77	FLAT/DOWN	75.20	77.50
NZD/EUR	0.6584	0.6564	0.6487	0.6518	0.6131	FLAT	0.6490	0.6680
NZD/GBP	0.5578	0.5596	0.5656	0.5876	0.4884	FLAT	0.5490	0.5660
TWI	76.3	76.0	76.0	77.1	73.1	FLAT/DOWN	75.00	76.50

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

The USD ended the week on a downbeat note after March's US inflation was softer than expected. The Dollar was already on the way south after **US President Trump said earlier in the week that the USD "is getting too strong"**. That prompted the Dollar to sell-off across the board. Trump also said he likes the low interest rate policy and that he will not name China as a FX manipulator, as he says China has not engaged in such activity since he came into office. All this pushed NZD/USD back over 0.70. The **NZD did ease down against the Australian Dollar**, which was additionally supported by the very strong March employment report.

Looking ahead **the main local event of the week is Thursday's Q1 CPI**. A stronger than expected result is likely to embolden those looking for rate hikes early next year. This despite forecasts (both ASB and elsewhere) showing that inflation will ease back slightly later in the year, with the RBNZ not expected to tighten until late 2018. Elsewhere, **Tuesday's night's GDT dairy auction** is expected to show a strong lift in milk prices, which may support the NZD. Further afield the data agenda is relatively light. That does not mean it will be a quiet week though, with geo-political tension (or the fading of it) still a major driving force.

Short-term outlook:	Key data	Date	Time (NZT)	Market
<p>NZ DOLLAR (past 3 months)</p> <p>US cents (LHS), Index (RHS)</p> <p>Trade-Weighted Index (RHS)</p> <p>NZD/USD (LHS)</p> <p>Source: ASB</p>	RBA minutes	18/04	1.30 pm	-
	Global Dairy Trade auction	18/04	Overnight	-
	NZ CPI, Q1 % qoq	20/04	10.45 am	0.8%
	NZ Consumer confidence, April	21/04	1.00 pm	-
	Key events: NZD: Global Dairy Trade auction (Tue); Q1 CPI (Thu); Apr consumer confidence (Fri). AUD: RBA minutes of April Monetary Policy Meeting (Tue); IMF World Economic Outlook (Tue). USD: Mar building permits & housing starts (Tue); Apr Fed Beige book (Thu). CNY: Mar house prices (today). JPY: Mar trade balance (Thu). EUR: Mar CPI (Wed); Feb balance of payments (Fri); Apr PMIs (Fri); French 1st round election (Sun). GBP: Mar retail sales (Fri). CAD: Mar CPI (Fri).			
Speakers: FOMC: non-voter George (Tue), non-voter Rosengren (Thu); voter Kashkari (Fri). BoJ: Aso (Thu). ECB: Coeure (Wed & Fri), Praet (Thu), Draghi (Fri).				

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 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 USD to strengthen (NZD/USD weaken) once the fiscal policies are signed into effect. Meanwhile, also supporting the USD, the Federal Reserve hiked policy rates in March and signalled two more rate hikes were likely in 2017 (which we expect in June and December).

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	1.96	1.96	2.13	2.33	FLAT
2-year swap	2.32	2.30	2.34	2.17	2.29	FLAT
5-year swap	2.85	2.85	3.03	2.39	2.53	FLAT
5-year benchmark gov't stock	2.35	2.39	2.54	2.10	2.21	FLAT
NZSX 50	7230	7240	7169	6966	6846	FLAT

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

Developments in Syria and North Korea, plus the tension between the US and Russia, once again had an impact on rates markets last week. This helped to push yields lower as investors headed towards safe-haven assets, with the US 10-year yield losing around 15bp over the week. Trump's sort-of endorsement of current Federal Reserve policy and the low rates environment also kept some of the downward pressure on yields in the US, which, as usual, bled across borders.

However, domestically yields are more-or-less unchanged on the week, especially at the shorter-end. This was in part due to a distinct lack of local data or events to force a rethink on the current outlook, at least for now. There is also a reasonable amount of support for NZ yields around current levels. The Easter break plus forthcoming school holidays left markets a little light over the period, something reflected in the also-static NZX50.

Short-term outlook:	Key data	Date	Time (NZT)	Market
<p>NZ INTEREST RATES (past 3 months)</p> <p>Source: ASB</p>	RBA minutes	18/04	1.30 pm	-
	Global Dairy Trade auction	18/04	Overnight	-
	NZ CPI, Q1 % qoq	20/04	10.45 am	0.8%
	NZ Consumer confidence, April	21/04	1.00 pm	-
	Comment: Once again geopolitical events are likely to have a major bearing on rates markets. Events in Syria and North Korea, plus US-Russia relations are the main potential flash-points, while there is also potential for further Trump comments on China, given the events at the end of last week. Elsewhere, the end of the week brings France's 1st Round Presidential election and the polls are showing an increasingly tight race in Round 1. However, political polls have not exactly had a great recent track record in recent elections.			
Domestically, Q1 CPI is in focus and a result near the mid-point of the RBNZ's 1-3% target band is likely to further support calls for a rate hike in the next 12 months. While CPI is expected to firm, the move is being heavily driven by temporary factors, but that might not be enough to temper market expectations.				

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 will likely see headline annual inflation lift close to 2% in upcoming figures. However, given these are one-off moves, the 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
RBA Board meeting minutes	18/04	1.30 pm	-	-	-
Federal Reserve Beige Book	20/04	6.00 am	-	-	-
EU Provisional Markit PMI's, April	21/04	8.00 pm	56.4	56.4	-
UK Retail Sales, March, % mom	21/04	8.30 pm	1.3	-0.5	-
French Election, first round of voting	23/04	6.00 pm	-	-	-

The **Reserve Bank of Australia Board April meeting minutes** are likely to largely replicate the central bank's sentiments and concerns expressed in the press release in wake of its on-hold decision.

The RBA noted that, "a reduced reliance on interest-only housing loans in the Australian market would be a positive development." These comments came in the wake of APRA's additional supervisory measures, announced at the end of March, to address risks that continue to build within the mortgage lending market. The new rules will limit new interest-only lending to 30% of new lending (currently ~40%) and limit the number of loans with high LVRs. At the margin, the changes should cool investor-related demand for housing, but not sufficiently so to put a rate cut back on the table.

The US Beige Book is the Fed's qualitative survey of US business conditions. This month's survey is likely to show the economy continues to grow at a modest pace. However, the survey could also reveal concerns around the unknowns of trade, tax and regulatory reform. The impact of a potential border-adjustment tax has been cited by many retailers and several manufacturers in Bloomberg's 'Orange Book'.

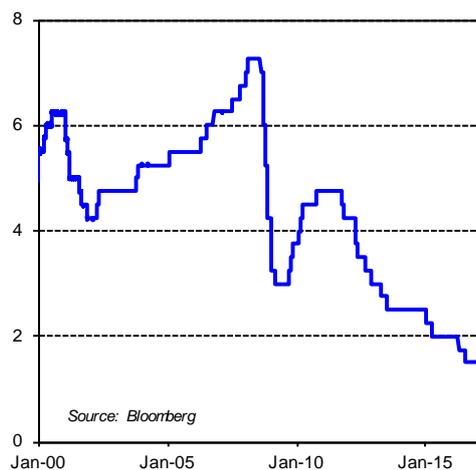
We see some risk that UK March retail sales will surprise on the downside compared to market expectations. Market expectations are centred on a 0.3% contraction in core retail sales over the March month, and a 0.5% contraction in headline sales.

The EU Composite PMI survey ended Q1 on a strong note and may remain elevated in April. Current levels of the composite indicator suggest acceleration in EU GDP growth over Q1. However, the decline in industrial production in January and February raises some doubt if the Eurozone economy can maintain its current pace of growth.

French voters head to the polls this weekend for the first of two voting rounds. Polling booths are open from 8am-7pm Sunday 23th April Paris time (6pm Sunday – 5am Monday NZT). We expect "exit polls" to be released shortly after polling booths close.

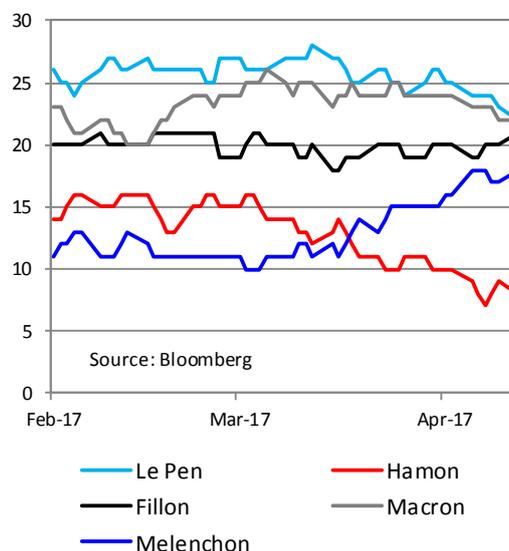
Polls continue to suggest that Emmanuel Macron and Eurosceptic Front National leader Marine Le Pen will make it through Sunday's first election round. Far-left leader Jean-Luc Melenchon's odds of making it to the first round are low as his voting intention appears to have stabilised under 20%. More importantly, the latest French polls continue to show that Le Pen is overwhelmingly expected to lose whether she runs against Macron or Francois Fillon in the 7 May election run off.

AUSTRALIAN CASH RATE



France: 1st Round Polls

% of respondents



NZ Data Preview: a look at the week ahead

Data	Date	Time (NZT)	Previous	Market expects	ASB expects
GlobalDairyTrade auction, whole milk powder, % change	18/04	Overnight	2.4	-	+6 to 8
CPI, Q1, %qoq	20/04	10:45 am	0.4	0.8	0.9
Consumer confidence, April	21/04	1:00 pm	125.2	-	-

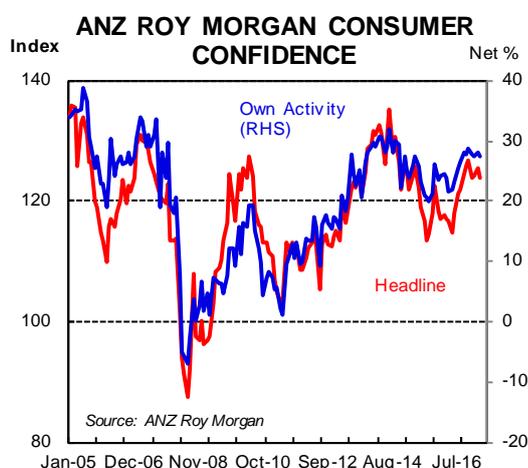
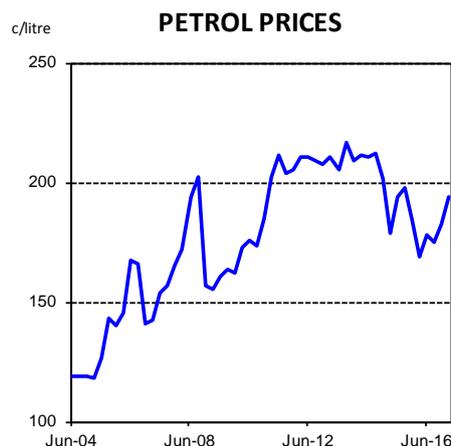
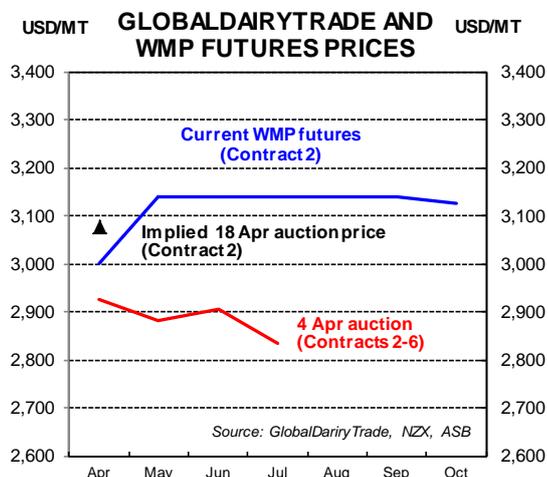
We expect prices to lift at the GlobalDairyTrade auction overnight Tuesday. With Cyclone Debbie and now Cyclone Cook, hitting NZ over successive weekends, there is potential for milk production to be impacted. However, reports to date suggest that the impact on milk production is likely to be small. Nonetheless, the dairy futures market is taking a better-safe-than-sorry approach, with **current futures pricing suggesting whole milk powder prices will rise by between 6% and 8% at the auction.** Beyond the auction and looking over the rest of the year, we expect prices to remain firm.

We expect the CPI to print at 0.9% qoq in Q1, substantially stronger than the RBNZ's 0.3% qoq forecast in February's Monetary Policy Statement (MPS). **Q1's lift in prices largely reflects a continuation of Q4's key trends, exacerbated by a number of temporary price increases. Tight capacity pressures in the construction and services (tourism) sectors,** combined with a further lift in petrol prices, remain key drivers of inflation over Q1. **In addition, a 10% tobacco tax increase and a lift in food prices will combine to push annual inflation to 2.1%.**

Despite annual inflation returning to the RBNZ's 2% target, **we caution that part of this lift in inflation is temporary.** Higher petrol, food (largely fruit and vegetables) and tobacco prices are transitory and, as a result, we expect inflation to dip again before grinding back up to the midpoint of the inflation target over the medium term. **The RBNZ itself noted in March's OCR statement that inflation is likely to be volatile over the near term. With broader inflation pressures still muted, we expect the RBNZ to leave OCR unchanged until late 2018.**

Headline consumer confidence in the ANZ Roy Morgan Survey took another small step back in March, although remained towards the upper end of the range seen over the last 6 months. The seasonally-adjusted measure though marked a joint low for the same period, but still remained well clear of the 5- and 10-year averages.

There is potential for both measures to slip a little for April, given the soft Q4 GDP result for New Zealand as well as increased military and terrorist activity offshore. Even so, the domestic outlook remains bright. Confidence remains supported by generally low interest rates, robust employment, the recovery in dairy sector incomes and a firm housing market. **Looking at the details, the net number of consumers who said they are better off than a year ago ticked lower again last month,** but was still the joint second-best result since January 2008 and a major move lower would be a surprise.



Data Recap: weekly recap

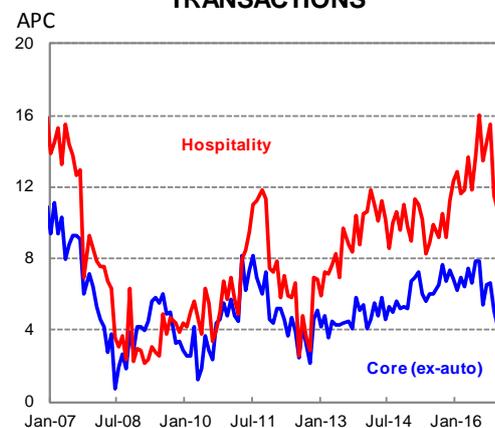
Data	Date	Actual	Market forecast	ASB Forecast
Electronic Card Transactions, March, %mom	11/04	-0.3	+0.5	+0.5
REINZ House Sales, March, %mom s.a.	13/04	5.9%	-	-
Food Price Index, March, % mom	13/04	-0.3%	-	-1.0%

Electronic card spending was much weaker than expected, falling 0.3% in March and extending the previous month's decline, in contrast to market and ASB expectations of a modest rebound of 0.5%. Behind some of the fall was a 1.9% fall in fuel spending, in line with lower petrol prices. However, **the main surprise lay in the 0.1% decline in core spending, and in particular the continued decline in spending on durables**. Given the high demand for new housing, we would have expected this to continue trending higher, rather than track sideways. **Looking forward, we expect spending growth to remain supported by migration, the firm labour market and still historically-low interest rates**. However, in the near term, consumer spending growth may be weaker than we had previously expected.

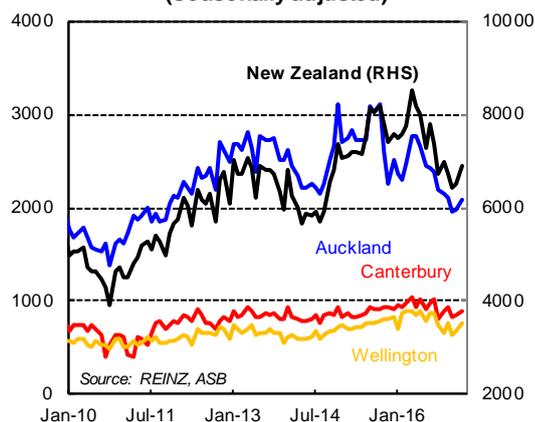
Seasonally-adjusted REINZ house sales activity lifted strongly in March, up nearly 6% over the month. However, house sales remain nearly 11% lower than they were in March 2016. **The lift was reasonably broad based across NZ**. Auckland recorded sales growth of 5.6% while **Wellington sales surged 12% over the month** (both ASB seasonally-adjusted estimates). The lift in demand over March saw the **median number of days to sell fall in a number of regions**, including Auckland, confirming the NZ housing market remains fairly tight.

Food prices dipped 0.3% mom in March, (-0.4% seasonally adjusted), largely driven by a 1.8% mom fall in fruit and vegetable prices. On an annual basis, higher prices for milk, cheese and butter as well as higher fruit and vegetable prices have driven food prices 1.3% higher than a year ago. **Food prices lifted strongly over Q1 and will contribute 0.4ppts to Q1's CPI** (released Thursday 20th April).

RETAIL ELECTRONIC CARD TRANSACTIONS



MONTHLY DWELLING SALES (seasonally adjusted)



Global Data Calendars

Calendar - Australasia, Japan and China

Date	Time (NZT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Tue 18 Apr	13:30	AU	RBA April Rate Meeting Minutes					
Wed 19 Apr	02:00	NZ	Global Dairy Trade Auction	April	Index	2.4	~	+6-8
	10:30	NZ	Performance Services Index	Mar	Index	58.8	~	~
	12:30	AU	Westpac Leading Index MoM	Mar	m%ch	-0.1	~	~
	13:30	AU	New Motor Vehicle Sales MoM	Mar	m%ch	-2.7	~	~
	13:30	AU	New Motor Vehicle Sales YoY	Mar	y%ch	-4.1	~	~
Thu 20 Apr	10:45	NZ	CPI QoQ	Q1	q%ch	0.4	0.8	0.9
	10:45	NZ	CPI YoY	Q1	y%ch	1.3	2.0	2.1
	11:50	JN	Trade Balance	Mar	¥bn	813.5	~	~
	11:50	JN	Trade Balance Adjusted	Mar	¥bn	680.3	~	~
	11:50	JN	Exports YoY	Mar	y%ch	11.3	~	~
	11:50	JN	Imports YoY	Mar	y%ch	1.2	~	~
	13:30	AU	NAB Business Confidence	Q1	~	5.0	~	~
Fri 21 Apr	12:30	JN	Nikkei Japan PMI Mfg	Apr P	Index	52.4	~	~
	13:00	NZ	ANZ Consumer Confidence Index	Apr	Index	125.2	~	~
	13:00	NZ	ANZ Consumer Confidence MoM	Apr	m%ch	-1.7	~	~

*P = Preliminary

Calendar - North America & Europe

Date	Time (UKT)	Eco	Event	Period	Unit	Last	Forecast	
							Market	ASB
Tue 18 Apr	13:30	US	Housing starts	Mar	000	1,288	1,260	~
	13:30	US	Building permits	Mar	000	1,216	1,258	~
	14:00	CA	Existing home sales	Mar	m%ch	5.2	~	~
	14:00	US	Fed's George speaks at Bard College					
	14:15	US	Industrial production	Mar	m%ch	0.1	0.5	~
	14:15	US	Capacity utilization	Mar	%	75.9	76.2	~
	14:15	US	Manufacturing (SIC) production	Mar	%	0.5	0.2	~
Wed 19 Apr	10:00	EC	Trade balance	Feb	€bn	15.7	~	~
	10:00	EC	CPI	Mar	m%ch	0.4	~	~
	10:00	EC	CPI core	Mar F	y%ch	0.7	~	~
	17:00	US	Fed's Rosengren speaks at Bard College					
	19:00	US	U.S. Federal Reserve releases Beige Book					
Thu 20 Apr	10:00	EC	Construction output	Feb	m%ch	-2.3	~	~
	13:30	US	Initial jobless and continuing claims	Apr	~	~	~	~
	13:30	US	Philadelphia Fed business outlook	Apr	~	32.8	25.0	~
	14:45	US	Bloomberg economic expectations	Apr	Index	54.0	--	~
	15:00	EC	Consumer confidence	Apr A	Index	-5.0	--	~
	15:00	US	Leading index	Mar	%	0.6	0.2	~

Fri 21 Apr	09:00	EC	Markit Eurozone manufacturing PMI	Apr P	Index	56.2	~	~
	09:00	EC	Markit Eurozone services PMI	Apr P	Index	56.0	~	~
	09:00	EC	Markit Eurozone composite PMI	Apr P	Index	56.4	~	~
	09:00	EC	ECB current account	Feb	€bn	25.4	~	~
	09:00	EC	Current account	Feb	€bn	2.5	~	~
	09:30	UK	Retail sales ex auto fuel	Mar	m%ch	1.3	0.0	~
	09:30	UK	Retail sales inc. auto fuel	Mar	m%ch	1.4	-0.2	~
	13:30	CA	CPI	Mar	m%ch	0.2	~	~
	14:30	US	Fed's Kashkari participates in Q&A in St. Paul, MN					
	14:45	US	Markit US manufacturing PMI	Apr P	Index	53.3	~	~
	14:45	US	Markit US services PMI	Apr P	Index	52.8	~	~
	14:45	US	Markit US composite PMI	Apr P	Index	53.0	~	~
	15:00	US	Existing home sales	Mar	\$mn	5.5	5.6	~

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