

New Zealand Financial Markets

January 2012

Currency

- The real trade-weighted NZD is above its historical average.
- The dollar is not systematically above or below its long term averages against the other major currencies.
- Compared with six months ago, the NZD is not clearly higher or lower against the other major currencies.

90 Day Rates

- The 90 day bank bill futures strip has flattened during the past six months.
- The Overnight Cash Rate is priced to rise from the current 2.5% towards 3.0% during the coming year.
- The yield curve is no longer particularly steep compared to historical norms.

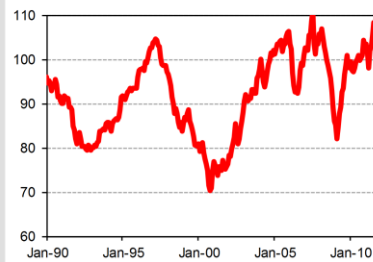
10 Year Yields

- Yields are 1.2% lower than six months ago. At 3.9%, they are extremely low by historical standards.
- NZ yields have fallen by more than global yields so bond spreads have declined during the past six months.
- Bond spreads are not systematically different from their historical norms against the other major countries.

Equities

- Equities have declined in recent months and have returned slightly more than 0% in the past year.
- NZ returns were higher than in all other major markets except the US during the past year.
- A cumulative return of close to -20% in the past five years is in line with other major markets.

Real Trade-Weighted Index (BIS index)

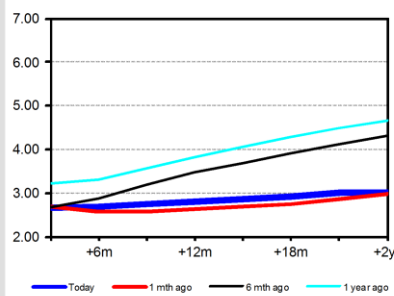


NZD: Now vs History

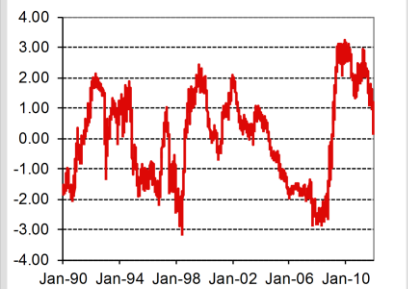
	Now	Average	Difference
USD	0.79	0.60	25%
EUR	0.62	0.50	20%
JPY	61	69	-12%
STG	0.51	0.36	30%
CHF	0.75	0.80	-6%
SEK	5.47	4.45	19%
NOK	4.75	4.06	15%
CAD	0.81	0.77	4%
AUD	0.77	0.84	-9%
TWI	105	91	15%

(average refers to 1990-2010)

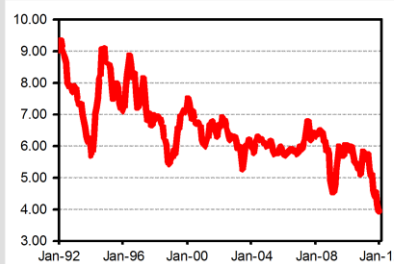
90 Day Future Strips (%)



Yield Curve (10 year – 90 day)



10 Year Bond Yields (%)

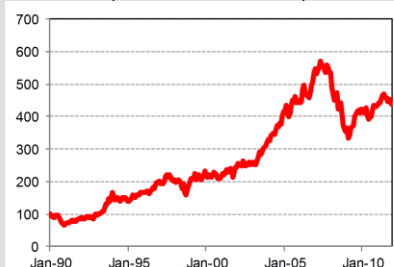


Bond Spreads: Now vs History

	Now	Average	Difference
USA	1.89	1.56	33bp
Ger	1.98	1.89	9bp
Japan	2.88	4.68	-180bp
UK	1.78	1.20	59bp
Swiss	3.17	3.42	-25bp
Swede	2.17	1.34	82bp
Nor	1.83	1.16	67bp
Can	1.88	1.35	53bp
Aus	-0.04	0.29	-33bp

(average refers to 1995-2010)

NZ Equity Market (Total return index)



Recent Equity Returns

	6m	1 year	5 years
US	-4%	2%	-1%
Euro	-18%	-17%	-34%
Japan	-13%	-17%	-52%
UK	-14%	-9%	5%
Swiss	-6%	-11%	-33%
Swede	-13%	-15%	-3%
Nor	-6%	-9%	-12%
Can	-10%	-11%	-7%
Aus	-6%	-9%	-5%
NZ	-4%	1%	-18%