

The bull returns

- Sharemarkets around the world performed well in April.
- Bond yields rose further during the month.
- The New Zealand dollar continued to strengthen, and hit a post float high against the US dollar.

Global sharemarkets rallied in April, with all the main markets posting gains. Sharemarkets have shrugged off the slump in late February, and are in positive territory for 2007. The NZX 50 index has set new 2007 highs, and posted a 2% gain for the month. Across the Tasman, the Australian economy continues to perform well, and their sharemarket returned 3% for the month. The US sharemarket continued to perform well, with all the main indices posting solid gains of over 4% for the month. US rates remain choppy, and 10-year yields rose 5 points in April. The volatility is a result of conflicting concerns about the slowing US economy, but still present inflation risks. Local long-term NZ fixed interest rates rose over April, reflecting another rate hike from the Reserve Bank of New Zealand, and ongoing mortgage fixing activity from banks. Ongoing strength in the housing market leads to high levels of borrowing, which in turn puts upward pressure on interest rates. High New Zealand yields remain attractive, and offshore investors continued to show interest in buying NZ dollars to access investments. The NZ dollar hit a post float high of US \$0.7493 in April. We expect the currency will continue to show strength over the coming months. At this level, life becomes difficult for many New Zealand exporters, and in April several NZ companies expressed their concerns about the currency's impact on their earnings. We expect the NZ dollar to eventually retreat from these levels, but New Zealand's high interest rates mean that this process may take some time. Although we expect a lower NZD by year end, there is still a risk the currency presses higher in the short-term. The high NZ dollar is currently detracting from offshore investments, but an eventual depreciation will provide a tailwind for returns.

Date	Instrument	30-Apr-07	Month %	Quarter %	Year %	5-Year %
Cash	NZ cash rate	7.75	0.25	0.50	0.50	2.50
	NZ 90-day bank bill	8.07	0.16	0.40	0.57	2.36
	US 90-day bank bill	5.36	0.01	0.00	0.21	3.46
	NZ - US 90-day bank bill	2.71	0.15	0.40	0.36	-1.10
Fixed Interest	NZ 5-year gov't stock	6.77	0.17	0.40	0.88	0.20
	NZ 10-year gov't	6.17	0.19	0.14	0.37	-0.55
	NZ 10-year swap	7.39	0.12	0.33	0.81	0.06
	AUS 10-year gov't	5.89	-0.01	-0.05	0.21	-0.19
	US 10-year gov't	4.70	0.05	-0.12	-0.36	-0.36
Equities	NZ - NZX50 (NZ\$)	3214	2.0%	-0.3%	5.5%	62.5%
	AUS - All Ords (A\$)	6158	3.0%	7.0%	18.3%	86.6%
	JAP - Nikkei (¥)	17400	0.7%	0.1%	2.9%	51.4%
	UK - FT100 (£)	6449	2.2%	4.0%	7.1%	24.8%
	US - S&P500 (US\$)	1482	4.3%	3.1%	13.1%	37.6%
	WORLD - MSCI (US\$)	1578	4.2%	5.2%	14.9%	63.0%
	MSCI in NZD (NZ\$)	2138	0.8%	-2.0%	-1.3%	-1.1%
Exchange Rates	NZD/USD	0.738	3.4%	7.3%	16.4%	64.7%
	NZD/AUD	0.892	1.0%	0.1%	6.3%	7.6%
	NZD/JPY	88.2	4.9%	5.5%	21.8%	53.8%
	NZD/GBP	0.370	1.8%	5.5%	5.1%	20.4%
	NZD/EUR	0.541	1.2%	1.9%	7.0%	9.1%
	NZ TWI	0.715	2.5%	4.1%	12.0%	34.4%
	EUR/USD	1.364	2.2%	5.2%	8.8%	50.9%

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General Advice Warning

As this advice has been prepared without considering your objectives, financial situation or needs, and before acting on the advice, you should consider its appropriateness to your circumstances. The Bank as a provider of investment, borrowing and other financial services undertakes financial transactions with many local corporate entities. This may include any corporate issuer referred to in this report.

Cash

- The RBNZ raised the official cash rate (OCR) on March 8th, then again on April 26th.
- The OCR now stands at 7.75%.
- The NZ 90-day bank bill steadily increased in the run up to the meetings, and is now trading at the highest level since the OCR was introduced in 1999.
- The 90-day bank bill ended the month at 8.07, up 16 basis points.
- The two recent rate hikes will reduce the risk of an unsustainable rebound in domestic spending activity.
- Financial markets are currently pricing a 20% probability of an increase in the Official Cash Rate in the coming months.

Fixed interest

- Local long-term fixed interest rates rose over March, with the 10-year NZ Government Bond yield rising 19 basis points.
- Continued mortgage fixing activity from banks saw wholesale swap rates rise 5 to 12 points.
- US rates continue to rise. 10-year yields rose 5 points in the month, building on the rise of 9 points in March. Volatility continues as a result of conflicting concerns about the slowing US economy, but still-present inflation risks. On balance, we expect US long-term rates can edge higher.
- US 10-year Government stock is now trading around 4.68%, 56 basis points shy of the 2006 peak, and 35 points off the lows. In contrast, the NZ 10-year rate is trading at higher levels than seen in 2006. We expect a period of volatile sideways action in interest rate markets, including NZ fixed rates.

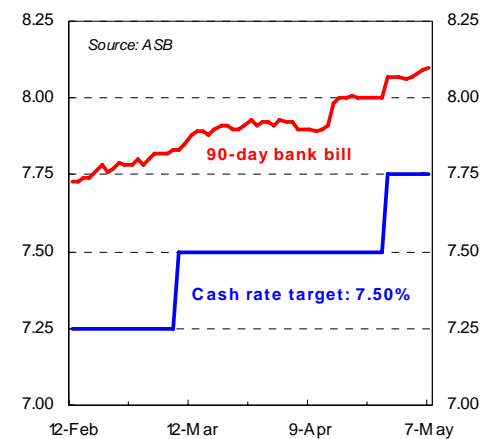
Equities

- April was positive for global shares, with all the major markets posting gains.
- The US market leads the charge, with the Dow Jones Index hitting fresh highs, and gaining 5.7% in the month.
- The Australian and New Zealand sharemarkets both performed well, and have also set new highs, gaining 3% and 2% respectively.
- Unfortunately, once again offshore sharemarket gains were offset in part for local investors by a strengthening in the NZ dollar. The MSCI index of world shares posted a 4.2% return in US dollars but the gain was reduced to 0.8% in New Zealand dollars for the month.

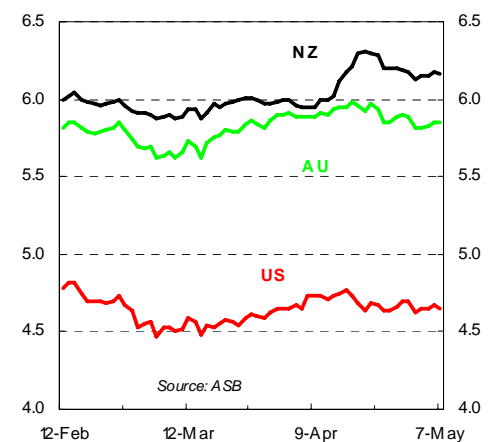
Exchange rates

- The NZ dollar has rallied through April, and set a post float high just shy of US \$0.75. The NZ dollar is trading around US\$ 0.726 at the time of writing.
- The NZ dollar traded between USD \$0.72 to 0.75, and AUD \$0.88 to \$0.89 during the month.
- Many exporters struggle with the exchange rate at these levels. Our 12 month outlook is for a lower NZ dollar. However, the rate hike from the RBNZ, and ongoing tightening bias is expected to hold up the NZ dollar for the coming months.
- We expect the local currency will continue to trade between USD \$0.72 and 0.75 for several months.

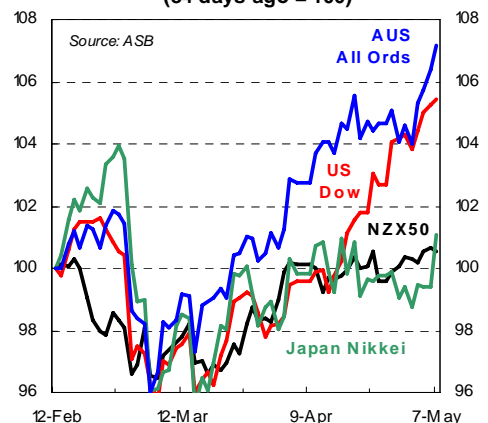
% p.a. **NZ SHORT-TERM RATES**



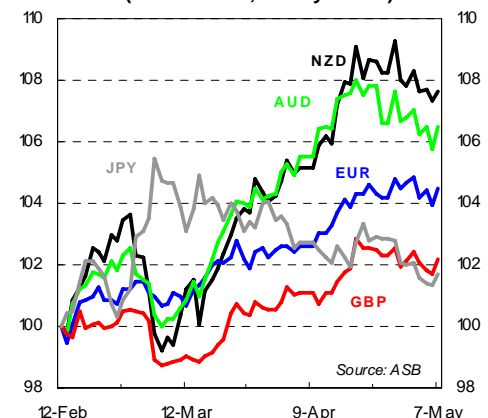
% p.a. **10-YEAR BOND YIELDS**



SHARE INDICES
(84 days ago = 100)



EXCHANGE RATE INDICES
(versus USD, 84 days =100)



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