

ANZ Economic Monthly

The moment of truth

- November data will be watched carefully for signs of slowing growth and rising inflation
- For Australia, the first week of November is key with an RBA decision looming
- For Asia, US consumer and business demand leading indicators are the ones to watch
- US Fed will keep raising rates

As discussed last month, ANZ's economic forecasts call for growth to slow to at or below trend across Australia, NZ and Asia while inflation will rise. Some stronger than expected data across the G7 and Asia in October have not changed this view, as much of the data was backward looking and does not as yet provide a sufficient temperature gauge for the fourth quarter. These are the data we await this month.

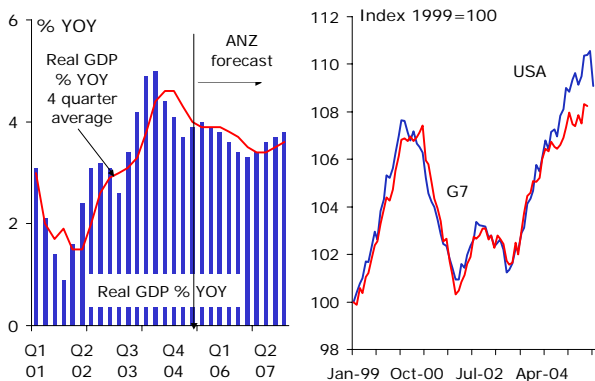
First, the good news

Economic data held positive surprises in October, particularly early reports for third quarter growth. China reported growth of 9.4%, barely a slowdown from the 9.5% growth rate in Q2. Given China's reliance upon global demand, strong GDP results imply global growth was solid in Q3. Korea's higher than expected 4.4% YOY GDP growth was due to net exports, while the US economy beat expectations to grow at a 3.8% YOY pace.

Global GDP peaks in Q3 this year

Global GDP

IP in the G7



Sources: Datastream, Economics@ANZ

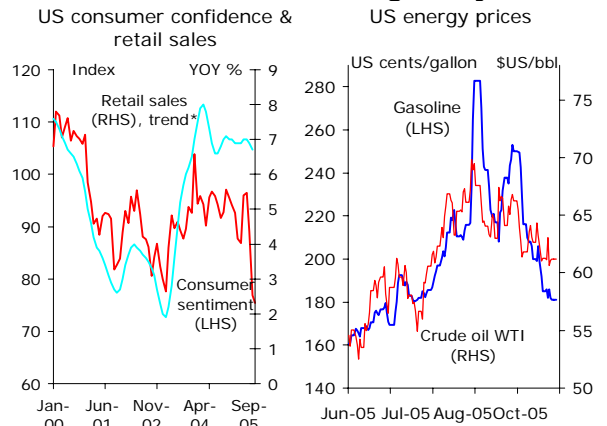
The above left-hand chart shows our expectation that the third quarter will mark the high point in the business cycle through the end of 2007. The right hand chart shows partly why; IP in the G7 is slowing, and in the US most of all.

And now the bad

Although energy prices have come off their post-Katrina highs, consumer sentiment is still generally

weak. In the US, for example, the University of Michigan's index dropped precipitously in October, to lows not seen since 1992. Other measures of consumer confidence also showed sharp declines, even though gasoline prices fell to under US\$2/gallon by mid-month.

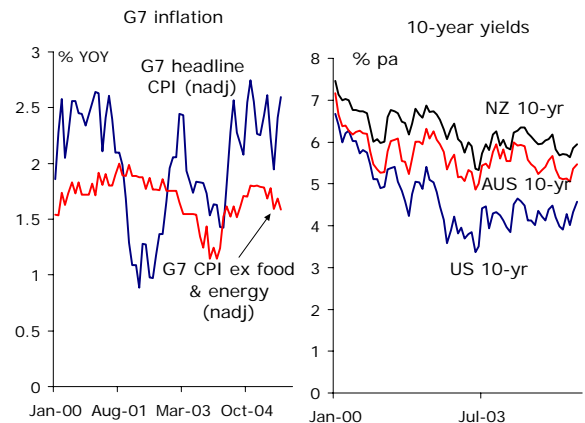
US consumer feeling shaky



Sources: Datastream, Bloomberg Economics@ANZ.

Consumer sentiment in the US and elsewhere is being dampened not just by higher energy prices, but also higher interest rates. The Fed began raising interest rates more than a year ago, but it is only now that long-term yields are beginning to reflect rising inflation expectations resulting from the pass through of energy prices. Central banks in New Zealand, Korea, Thailand, Indonesia, the Philippines and India all raised rates in October, and markets will be actively watching the RBA and Fed in the next few days. Higher long-term yields affect consumption through the housing market, not just in the US but also in Australia and New Zealand.

Long term yields on the rise



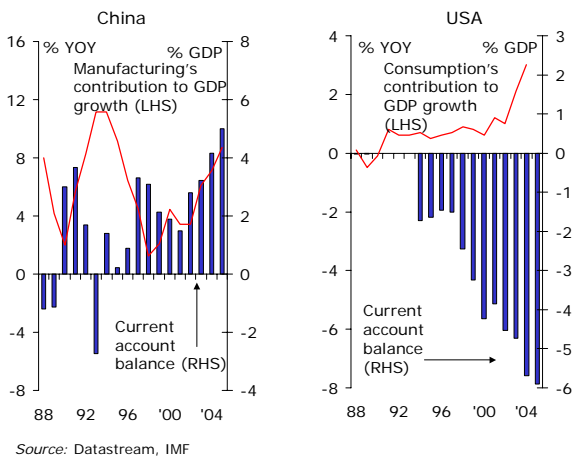
Sources: Datastream, Economics@ANZ.

What we will be watching for in November is the direction of consumer sentiment – a rebound is a possibility given still strong employment data – and businesses activity. There may be evidence that corporates, squeezed by rising costs and potentially declining demand, will reduce investment and possibly production.

Asia and the US still tied at the hip

When the US economy starts to cough, Asia will feel a bit wheezy. The economic relationship between the US and China was discussed in this publication last month. However, it bears repeating: China’s phenomenal growth rate is still largely dependent upon the US consumer to keep export growth strong.

China and the US: mirror economies

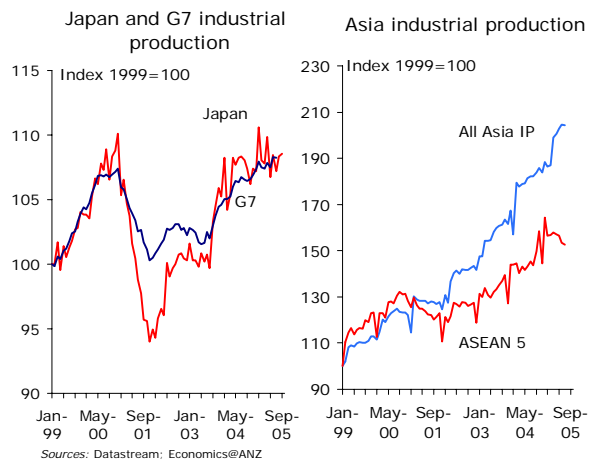


The Chinese government recognises this vulnerability, as evidenced by the strategies in the Eleventh Five-Year Plan published by the Chinese Communist Party after its October plenary meeting. The Plan stresses the need to diversify the economy into higher value-add production, and also into services. Importantly, the Plan retained the target established in 2000 to double per-capita income by 2010. Since per capita income has already risen by nearly 50%, this implies that headline growth can now be permitted to slow while keeping the target within reach. This is in line with our forecast for China’s growth to slow toward 7.5% in 2007.

Manufacturing elsewhere still declining

The rest of the region is increasingly dependent upon China as a main export market, particularly as the manufacturing sector outside China has shrunk in the face of Chinese competition. Particularly vulnerable is SE Asia, which has no real alternative to low-cost manufacturing to turn to as a growth engine. Manufacturing in areas such as textiles is also on the decline Australia and New Zealand, but the commodities boom is shielding these economies from manufacturing declines being felt elsewhere in the region.

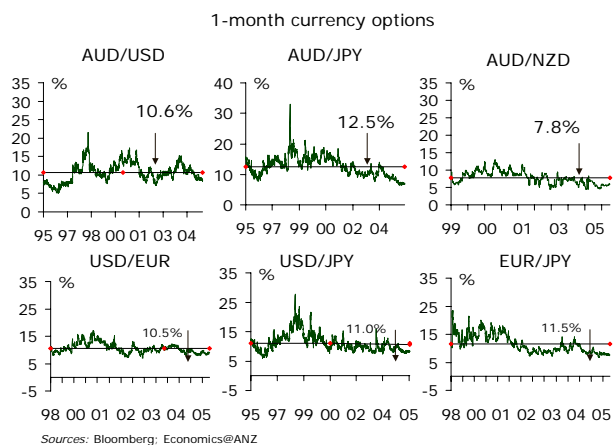
SE Asia will suffer



Will volatility return to the markets?

One of the more interesting aspects of the high growth, low inflation and low interest rate environment of the past several years is that it has engendered an extended period of financial market stability. The below charts show the daily volatility for major currency pairs against the historic average. In all cases, volatility has been below its long term trend since at least mid-2004.

Currency markets starting to realign

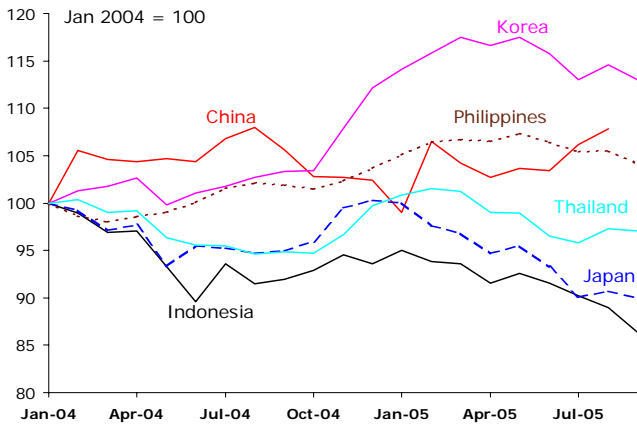


Global bond and equity markets have also been quite stable, trading in limited ranges for the past 12-18 months. Here again, November data could well provide clear evidence that we are on the downward slope of the business cycle. In that case, equity markets will start to come under pressure, while bond yields are likely to rise further and credit events will occur with increasing regularity. While we anticipate a strong US dollar trend through the end of the year, speculation on the timing for interest rates to become positive in Japan could inject a dose of volatility into the yen.

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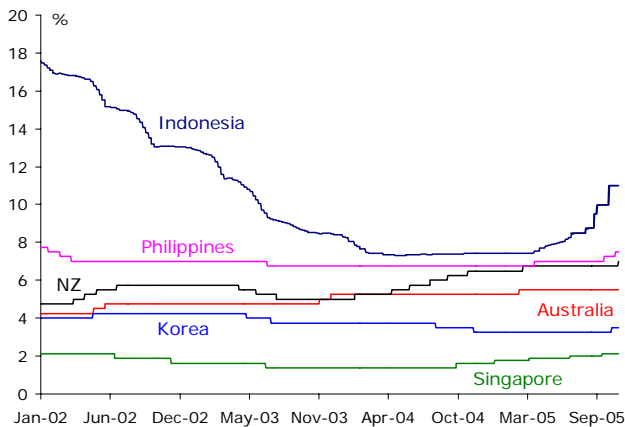
Financial Markets Update

Real Exchange rates, US\$ per local currency unit, indexed



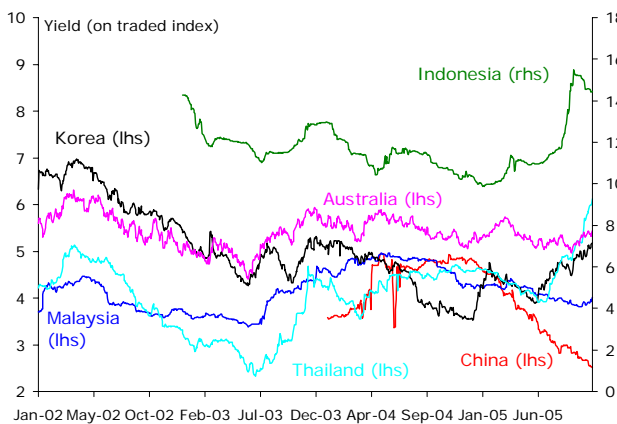
Source: Datastream

Policy rates



Source: Bloomberg

Government Bond Index



Source: JP Morgan

Exchange rates

- The US dollar has resumed its strengthening trend on the back of a tightening US Federal Reserve and rising long-term US yields.
- In Asia, the Japanese yen and Korean won have weakened markedly over the past month. Rising interest rates in Southeast Asia have helped to keep these currencies more steady, particularly the baht and the peso.
- The Indonesian rupiah has regained stability following significant volatility in August and September.
- China's yuan continues to steadily and slowly revalue, with the real exchange rate appreciation assisted by the inflation differential. Discussion of further revaluation is expected with upcoming bilateral meetings.

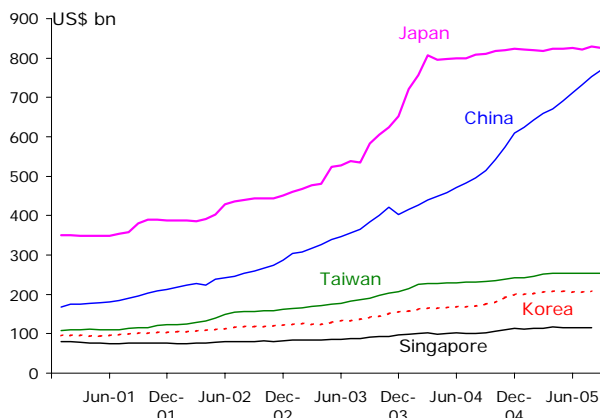
Policy rates

- As expected, New Zealand raised its cash rate in October by 25 bps to 7%.
- The RBA meets in the first week of November. Although CPI rose in the September quarter, it is only just at the top of the band. The RBA is therefore likely to keep rates on hold for now, since core inflation remains muted.
- Policy rates elsewhere in Asia continue to rise as inflation accelerates. For many of the Asian economies, inflation reached highs last seen in the aftermath of the Asian crisis.
- Indonesia, Korea, Thailand and the Philippines were among those economies that lifted rates in October by between 25-100 bps.
- Energy prices have steadied, but are expected to remain high. Further pass through and therefore rate rises are likely.

Bond markets

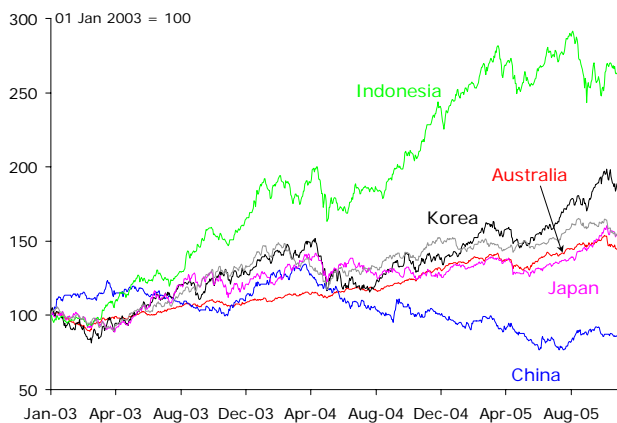
- The chart at left shows the yield on traded government bonds included in JP Morgan's Government Bond Index (GBI) of local currency bonds.
- Yields on longer-term government bonds in Thailand have risen above Australian long term yields for the first time in recent years; Korea's rates have risen above Australia's for the first time since 2003.
- Rising long term yields across most of Asia suggests rising inflation expectations, and are consistent with patterns across the G7.
- Only Malaysia and China, which continue to rely on heavily managed exchange rates to dampen inflation expectations, are bucking the trend.

International reserves



Source: Datastream

Share price indices



Source: Datastream

International reserves

- China's level of reserves is fast closing the gap with Japan. Data since July indicates indicate capital inflows have accelerated following the revaluation, having risen to a pace of US\$19.3 bn on average per month versus US\$16.8 bn per month in the first half of the year.
- Including Hong Kong, Greater China now holds more than US\$890 bn of international reserves, the largest stock in the world.
- Reserve accumulation in other economies has been less pronounced as current account surpluses have narrowed with rising oil import bills. Reserves for Taiwan, Korea and Singapore collectively stood at US\$576 bn as of August, about 70% of Japan's reserves.
- The level of reserves in Indonesia and the Philippines has declined in recent months.

Equity markets

- Most Asian stock markets dipped in October following a turn in sentiment in the US market as the threat of inflation and higher energy prices exacerbated concerns of further margin compression affecting corporate profitability.
- US equity markets took cheer at the end of the month from higher than expected US growth in the third quarter. The strong rally fed through to Asia and Australia.
- Equity markets could come under pressure again however as energy prices will start to rise with the onset of the North American winter, while long term yields are likely to continue to rise at a gradual pace.
- Asian equity markets will take their tone from export data, which we expect to soften, and the path of oil prices.

FX and policy interest rate forecasts

	Sep-05	Oct-05	Nov-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
China								
USD/CNY, eop	8.09	8.08	8.05	8.03	7.97	7.91	7.84	7.78
AUD/CNY, eop	6.16	6.05	5.98	5.98	5.66	5.38	5.41	5.45
Short term rates*	5.6	5.5	5.5	5.5	5.5	5.6	5.7	5.8
Hong Kong								
USD/HKD, eop	7.76	7.75	7.75	7.75	7.77	7.79	7.78	7.78
AUD/HKD, eop	5.90	5.81	5.76	5.77	5.52	5.29	5.37	5.45
Short term rates**	5.25	5.5	5.75	5.75	6.0	6	6.0	5.75
India								
USD/INR, eop	44.02	45.09	45.54	45.50	46.00	43.00	42.50	42.00
AUD/INR, eop	33.50	33.77	33.86	33.90	32.66	29.24	29.33	29.40
Short term rates	5	5.25	5.25	5.25	5.5	5.5	5.5	5.5
Indonesia								
USD/IDR, eop	10,290	10,025	9,928	10,000	9,875	9,750	9,625	9,500
AUD/IDR, eop	7,831	7,508	7,382	7,450	7,011	6,630	6,641	6,650
Short term rates***	10	11	11.5	12	11.5	10	9.5	8
Korea								
USD/KRW, eop	1042	1042	1047	1055	1025	1040	1050	1030
AUD/KRW, eop	793	781	778	786	728	707	725	721
Short term rates****	3.25	3.5	3.5	3.5	3.75	3.75	3.75	3.5
Malaysia								
USD/MYR, eop	3.77	3.77	3.77	3.75	3.72	3.71	3.69	3.68
AUD/MYR, eop	2.87	2.83	2.80	2.79	2.64	2.52	2.55	2.58
Short term rates****	2.7	2.7	2.7	2.7	2.7	2.7	2.5	2.5
Philippines								
USD/PHP, eop	56.06	54.90	55.27	56.00	57.00	56.50	56.00	55.50
AUD/PHP, eop	42.66	41.11	41.09	41.72	40.47	38.42	38.64	38.85
Short term rates****	7.25	7.5	7.5	7.75	7.75	7.5	7	6.75
Singapore								
USD/SGD, eop	1.69	1.69	1.70	1.71	1.73	1.70	1.68	1.67
AUD/SGD, eop	1.29	1.27	1.26	1.27	1.23	1.16	1.16	1.17
Short term rates ⁺	2.2	2.2	2.3	2.3	2.2	2.2	2.1	2
Taiwan								
USD/TWD, eop	33.2	33.6	33.8	33.8	34.0	34.3	34.5	33.0
AUD/TWD, eop	25.3	25.2	25.1	25.2	24.2	23.3	23.8	23.1
Short term rates+++	2.2	2.2	2.2	2.2	2.4	2.4	2.3	2.2
Thailand								
USD/THB, eop	41.08	40.77	41.08	42.00	43.00	42.50	42.00	41.50
AUD/THB, eop	31.26	30.53	30.54	31.29	30.53	28.90	28.98	29.05
Short term rates++	3.25	3.75	3.75	4.0	4.0	3.75	3.75	3.5
Vietnam								
USD/VND, eop	15,895	15,908	16,058	16,100	16,175	16,250	16,325	16,400
AUD/VND, eop	12,096	11,913	11,940	11,995	11,484	11,050	11,264	11,480
Japan								
USD/JPY, eop	113.4	115.7	117.9	120.0	123.0	119.0	115.0	111.0
AUD/JPY, eop	86.3	86.7	87.7	89.4	87.3	80.9	79.4	77.7
Short term rates	0	0	0	0	0	0	0	0.25
Australia								
AUD/USD, eop	0.76	0.75	0.74	0.75	0.71	0.68	0.69	0.70
Short term rates [^]	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.75
New Zealand								
NZD/USD, eop	0.69	0.70	0.70	0.68	0.63	0.57	0.58	0.60
AUD/NZD, eop	1.10	1.07	1.06	1.10	1.13	1.19	1.19	1.17
Short term rates [^]	6.75	6.75	7.0	7.0	7.0	7.0	6.75	6.25

*:One-year base lending rate; **: HKMA discount rate; ***: One-month lending rate; ****: Overnight rate
 +: 3-month rate; ^: cash rate; ++: 14-day repurchase rate; +++: discount rate

Real GDP Growth (%)

	2004	2005f	2006f	2007f
Australia	3.3	2.6	3.5	3.6
Cambodia	7.7	6.9	6.4	6.4
China	9.5	9.3	8.0	7.6
Hong Kong	8.2	6.2	3.3	3.3
India ⁺	6.9	7.5	7.4	6.8
Indonesia	5.1	5.4	5.6	5.5
Japan	2.6	2.3	2.0	1.9
Korea	4.6	3.8	3.5	3.0
Malaysia	7.1	4.6	4.1	3.8
New Zealand	4.8	2.3	1.7	2.8
Philippines	6.1	4.6	4.1	3.7
Singapore	8.4	4.7	4.5	4.5
Taiwan	5.7	3.0	3.5	3.4
Thailand	6.1	3.6	3.8	4.1
Vietnam	7.7	7.3	7.4	7.1

Nominal GDP (US\$ bn)

	2004	2005f	2006f	2007f
Australia	616.4	686.6	674.4	736.0
Cambodia	4.9	5.2	5.4	5.6
China	1653.0	1,853.6	2,114.4	2,358.8
Hong Kong	165.7	171.8	179.1	187.0
India ⁺	670	750	840	930
Indonesia	257.6	281.0	325.0	350.0
Japan	4674.7	4,692.0	4,546.0	4,861.0
Korea	681.5	814.0	852.6	880.7
Malaysia	118.3	125.7	135.6	145.4
New Zealand	98.5	105.1	91.6	97.3
Philippines	86.1	97.2	104.3	113.2
Singapore	108.8	111.0	117.0	125.0
Taiwan	305.4	336.0	357.0	385.0
Thailand	163.4	178.0	197.0	216.0
Vietnam	45.3	52.5	57.5	60.2

Inflation (%)

	2004	2005f	2006f	2007f
Australia	2.3	2.7	2.7	2.3
Cambodia	3.8	5.7	5.0	4.3
China	3.9	1.6	2.6	3.9
Hong Kong	0.0	0.8	1.8	1.0
India	3.8	4.0	4.5	3.5
Indonesia	6.1	9.0	6.3	7.8
Japan	0.0	0.0	0.1	0.6
Korea	3.6	3.3	4.4	4.0
Malaysia	1.4	2.9	3.5	2.0
New Zealand	2.3	3.7	2.5	1.7
Philippines	5.9	7.5	6.8	6.5
Singapore	1.7	0.2	0.6	0.5
Taiwan	1.6	2.6	3.0	2.0
Thailand	2.8	4.6	4.8	30.0
Vietnam	7.8	8.0	6.8	6.5

Fiscal Balance (% of GDP)*

	2004	2005f	2006f	2007f
Australia	0.8	0.8	0.8	0.8
Cambodia	-5.6	-5.6	-5.8	-6.0
China	-2.3	-2.0	-1.8	-1.9
Hong Kong	1.7	0.7	-0.4	-1.4
India ⁺	-4.5	-4.3	-4.0	-3.7
Indonesia	-1.5	-1.2	-1.1	-0.9
Japan	-7.1	-6.9	-6.5	-6.0
Korea	-0.9	-1.5	-1.8	-1.5
Malaysia	-5.0	-3.8	-4.0	-3.5
New Zealand	5.3	3.9	4.0	2.9
Philippines	-3.9	-3.4	-3.5	-3.4
Singapore	-0.2	0.1	0.1	0.1
Taiwan	-3.1	-3.3	-4.0	-3.7
Thailand	0.1	-1.2	-1.7	-1.4
Vietnam	-3.0	-3.9	-4.2	-4.3

Current Account (% of GDP)

	2004	2005f	2006f	2007f
Australia	-6.4	-6.2	-6.2	-6.4
Cambodia	-10.1	-10.9	-10.6	-10.3
China	16.6	18.2	10.0	4.8
Hong Kong	8.7	9.3	5.6	2.1
India ⁺	-0.9	-1.5	-1.0	-0.8
Indonesia	1.1	1.6	1.0	0.7
Japan	3.7	3.3	3.0	2.5
Korea	4.0	1.8	1.0	0.2
Malaysia	12.6	9.5	5.9	4.1
New Zealand	-6.4	-6.8	-6.8	-6.4
Philippines	4.0	3.6	3.6	3.5
Singapore	26.1	24.5	24.0	23.0
Taiwan	6.9	4.9	4.4	4.0
Thailand	4.5	-0.3	-1.5	-0.8
Vietnam	-2.2	-4.7	-5.7	-5.2

Foreign Exchange Reserves (US\$ bn)

	2004	2005f	2006f	2007f
Australia	35.8	n.a.	n.a.	n.a.
Cambodia	0.95	0.94	0.92	0.93
China	609	810	900	780
Hong Kong	123.6	120	118	105
India	125.0	140	147	155
Indonesia	34.9	34.5	35.5	36.0
Japan	833.9	828	815	800
Korea	199.8	215.5	236.7	230
Malaysia	66.6	78.0	75.6	70.2
New Zealand	5.3	n.a.	n.a.	n.a.
Philippines	13.5	13.8	13.6	13.4
Singapore	112.2	120	124	126
Taiwan	241.7	260	265	270
Thailand	48.7	48	49	51
Vietnam	6.8	7.0	7.2	7.5

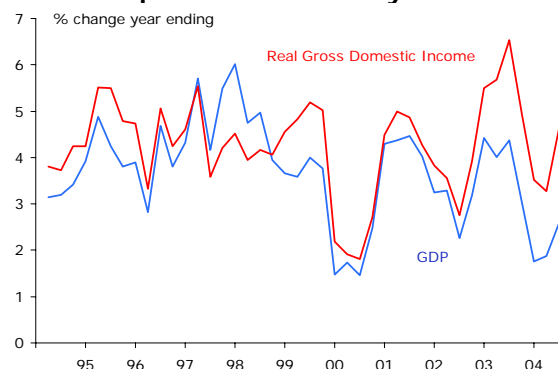
+ : Fiscal year beginning April; * : Fiscal balance for Australia, New Zealand, Malaysia and Singapore corresponds to fiscal year

Long Term Foreign Currency Debt Ratings

Investment Grade		Sub-Investment Grade	
Moody's	S&P	Moody's	S&P
Aaa Australia Canada France Germany Japan New Zealand Singapore United Kingdom United States	AAA Australia Canada France Germany Singapore United Kingdom United States	Ba1 Bulgaria Costa Rica Egypt Morocco Panama Romania	BB+ Egypt El Salvador India Morocco
Aa1 Belgium	AA+ Belgium New Zealand	Ba2 Colombia Fiji Guatemala Jordan	BB Colombia Costa Rica Jordan Panama Peru
Aa2 Italy	AA	Ba3 Peru Vietnam Brazil	BB- Brazil Cook Islands Guatemala Philippines Serbia Turkey Ukraine Vietnam
Aa3 Cayman Islands Taiwan	AA- Hong Kong Italy Japan Taiwan	B1 Papua New Guinea Philippines Suriname Turkey Ukraine	B+ Ghana Indonesia Pakistan Venezuela
A1 Czech Republic Hong Kong Hungary Macau Qatar UAE	A+ Qatar Kuwait	B2 Honduras Indonesia Pakistan Venezuela	B Papua New Guinea Uruguay
A2 China Cyprus Israel Kuwait Poland	A Chile Cyprus Korea Saudi Arabia	B3 Argentina Belize Bolivia Lebanon Uruguay	B- Argentina Bolivia Lebanon Paraguay Suriname
A3 Korea Malaysia	A- China Czech Republic Hungary Israel Malaysia	Caa1 and below Cuba Ecuador Nicaragua Paraguay	CCC and below Belize Ecuador
Baa1 Chile Mexico South Africa Thailand Oman	BBB+ Oman Poland Thailand South Africa		
Baa2 Saudi Arabia Mauritius Tunisia Russia	BBB Mexico Tunisia		
Baa3 El Salvador India	BBB- Bulgaria Russia Romania		

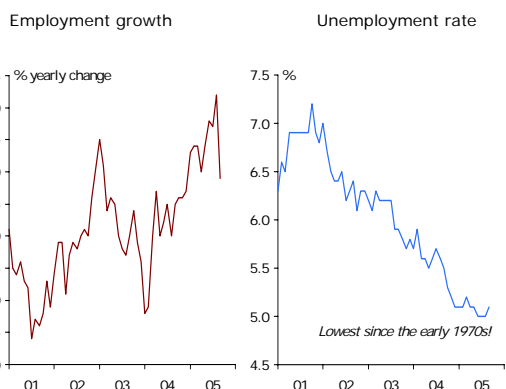
Country Update Australia

Economic activity picks up from the slow spot in late 04/early 05



Sources: Australian Bureau of Statistics

Labour market remains tight



Source: Australian Bureau of Statistics

- The Australian economy is accelerating from the soft spot in late 2004/early 2005 on the back of the commodity price boom. This is feeding into Australian economic activity through a number of channels. There has been a substantial lift in the earnings and profits of mining companies. This in turn has contributed to an investment boom as companies seek to increase supply and production to meet increased foreign demand. This is helping to buoy employment and earnings, and is boosting governments' revenues through higher company and personal income tax receipts, and higher mining royalties.
- In the June quarter GDP increased by 1.3%, the strongest quarterly increase since December quarter 2003. The annual rate of growth lifted to 2.6%, a step up from the lows of just under 2% in the previous two quarters. An alternative measure of growth, which better reflects the impact of the mining boom as it takes into account improvements in the terms of trade, is Real Gross Domestic Income. Over the year to the June quarter this grew by 4.6%.
- Recent data on building construction permits suggest the bottom in the dwelling construction cycle may not yet have been reached. Total dwelling construction permits declined in June, July and August for a cumulative fall of 18%.
- The labour market remains tight, although the long expected slowing in employment growth is now showing through. In September the trend monthly increase in employment was 8,000, about one quarter the pace of late 2004. The unemployment rate edged up to 5.1%, after 3 months at a 3 decade low of 5%.
- Headline inflation in the September quarter rose to 3% YOY, the top of the Reserve Bank's target range. The various measures of core inflation remained muted at around 2.5% YOY. For now, we are maintaining our view that there will be no need to further lift cash rates until late in 2006.

Tony Pearson

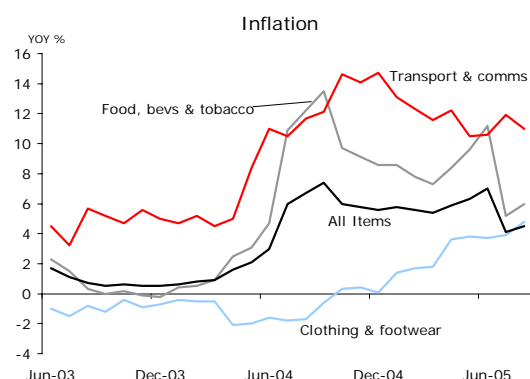
Economic data – Australia

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Building Approvals, 000's	13.3	12.7	13.0	14.2	13.9	12.8	11.8	n/a
Retail Sales, % YOY	3.9	3.1	2.2	3.0	3.1	2.9	3.5	n/a
Exports, % YOY	16.6	14.1	16.5	16.6	9.4	16.6	12.1	n/a
Imports, % YOY	17.2	15.3	10.4	10.2	5.5	7.2	8.0	n/a
Trade Balance, AUD bn	-2.22	-2.40	-1.33	-1.34	-1.34	-1.33	-1.64	n/a
Foreign Exchange Reserves, US\$ bn	34.7	36.4	40.5	42.3	42.9	43.4	40.4	35.9
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	4.4	4.0	4.4	3.0	1.8	1.9	2.6	n/a
- Private consumption	5.5	6.4	5.9	5.6	4.0	3.2	3.0	n/a
- Government consumption	3.4	4.1	3.3	3.1	3.0	2.1	3.6	n/a
- Gross fixed capital expenditure	6.5	6.8	8.5	7.5	13.4	12.2	15.9	n/a
Consumer Price Index, % YOY	2.4	2.0	2.5	2.3	2.6	2.4	2.5	3.0
Current Account, AUD bn	-12.2	-10.5	-11.9	-15.6	-16.0	-13.1	-12.5	n/a
Capital Account, AUD bn	12.0	11.4	11.3	15.5	15.9	13.6	11.8	n/a

Sources: Bloomberg, RBA, ANZ Bank

Country Update Cambodia

Transport and Food costs are driving inflation

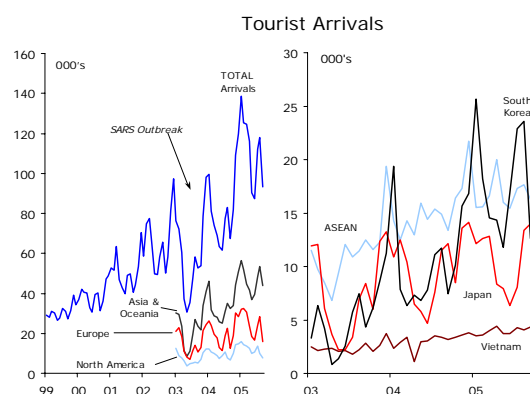


Source: National Institute of Statistics of Cambodia

- Inflation has persisted at above 4% in Cambodia since mid-2004, driven by the transport and communications sector which averaged over 10% YOY inflation over the period, a result of higher world oil prices. Cambodian, gasoline prices are the second highest in South East Asia, after Singapore, at 3,800 riels per litre (around 90 US cents). This around 30% higher than neighbouring Vietnam and Thailand where gasoline is approx. 60-65 US cents per litre. This disparity is largely due to high government taxation, however, it is argued that revenues could be increased by decreasing the tax rate as reduced prices would discourage the currently thriving trade in smuggled oil products from neighbouring countries.

- The higher fuel prices have permeated across several areas of the economy especially agriculture/food and manufacturing, (the latter being predominantly the garment industry). The World Bank estimates that 44% and 63% of small and large manufacturing firms respectively, and 54% of exporters, employ diesel-burning electricity generators in preference to accessing power from the national grid. The resultant increase in production costs are now pushing up prices in the clothing and footwear sector. Inflation in food prices has been driven not only by oil related cost increases, but drought, which has impacted agricultural prices and well as meat prices due to the scarcity of beef, chicken and fish.

Tourism growing, but vulnerable



Source: Cambodian Ministry of Tourism

- Tourism has provided a significant source of growth for the Cambodian economy in recent years, with the average number of tourist arrivals per month doubling since 2001. The majority of arrivals come from South Korea, Japan and ASEAN nations as Cambodia fosters improved political and economic ties within the region. Despite 60% of tourists arriving by air, evenly spread between Phnom Penh and Siam Reap (near the popular Angkor Wat complex), Cambodia has so far not been able to sustain its own airline. Similar to its neighbours, Cambodia's tourist industry is vulnerable to the threat of bird flu, as seen with the significant drop in tourist arrivals due to the SARs outbreak in 2003.

Alex Joiner

Economic data – Cambodia

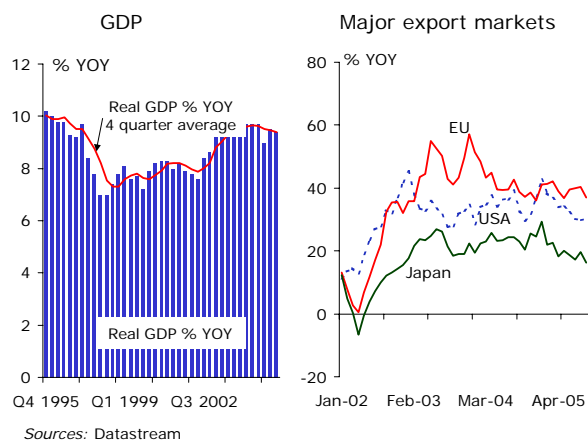
Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Consumer Price Index, % YOY	5.6	5.4	5.9	6.3	7.0	4.1	4.5	n/a
-Transport & Communication	12.3	11.6	12.2	10.5	10.6	11.9	11.0	n/a
-Food & Beverages	7.8	7.3	8.4	9.6	11.2	5.2	6.0	n/a
Exports, % YOY	13.7	18.3	18.1	12.4	n/a	n/a	n/a	n/a
Imports, % YOY	9.4	18.1	8.6	19.8	n/a	n/a	n/a	n/a
Trade Balance, US\$ mn	-53.2	-146.5	-148.3	-197.4	n/a	n/a	n/a	n/a
Foreign Exchange Reserves, US\$ bn	956.3	959.8	948.4	957.2	943.1	936.7	n/a	n/a
Tourist Arrivals, % YOY	54.7	68.4	68.5	42.5	41.9	44.4	42.3	37.8

GDP Composition	2004	Trading Partners	Exports	Imports		
Real GDP, % YOY	7.7	2004 % share	US	55.9	Vietnam	10.9
- Agriculture, % YOY	-2.0		Germany	11.7	Thailand	22.5
- Industry, % YOY	16.1		UK	6.9	Singapore	10.8
- Services, % YOY	9.2		Vietnam	4.4	China	13.6
Nominal GDP, US\$ bn	4.89		Japan	3.5	Hong Kong	14.1

Sources: Datastream, National Institute of Statistics of Cambodia

Country Update China

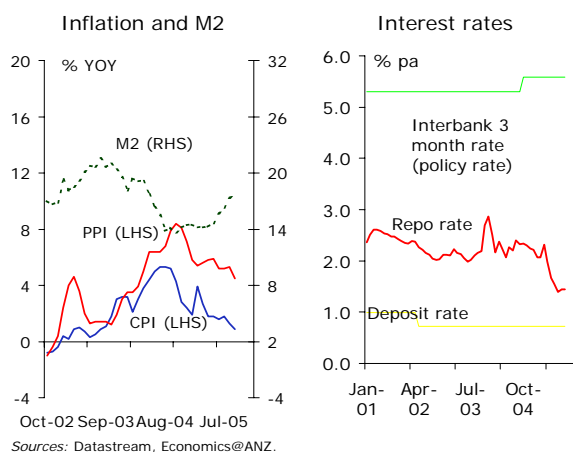
China's growth will soften as export slowdown feeds through



- Third quarter GDP results showed that the economy expanded by a stronger than expected 9.4% YOY (2.9% QOQ) in the third quarter. Growth was only very slightly below the 9.5% pace of growth recorded in the first and second quarters. Underscoring the strength of the economy toward the end of the quarter, industrial production was up 30% YOY.

- Despite the strong results, the ANZ forecast is for growth to slow to 8.6% YOY in Q4 as global consumer demand softens. There are some preliminary indicators; cumulative fixed asset investment moderated from 27.4% YOY in August to 26.1% YOY in September, while export growth slowed to an 18-month low of 25% YOY in September. Despite Katrina, exports to the US rose at a 31.5% YOY rate, while export growth to the EU and Japan fell markedly. Our forecast for China's 2005 GDP growth is 9.1%. However, should the economy expand at the 9% pace forecast by the statistics bureau in Q4, year-end growth would reach at least 9.2%.

Authorities trying to boost prices and rates



- Since growth remains export-led and domestic fuel prices capped at below-market levels, there is little evidence of either demand-led or cost-push inflation. The CPI rose only 0.9% YOY in September, while PPI declined to 4.5%. Authorities are viewing disinflation as a potential indicator of low demand, and allowed M2 to rise nearly 18% YOY in September. At the same time, officials have indicated a desire for higher money market rates to help develop the capital markets.

- The 2006-2011 Five Year Plan resulting from the CP's Central Committee Meeting in October focused on reducing growing income disparities, as well as on managing some of the fallout of rapid growth including environmental damage. Hints of a slowdown on economic reform are beginning to appear. On the CNY, the Plan foresees very gradual liberalisation, including of the capital account.

Amy Auster

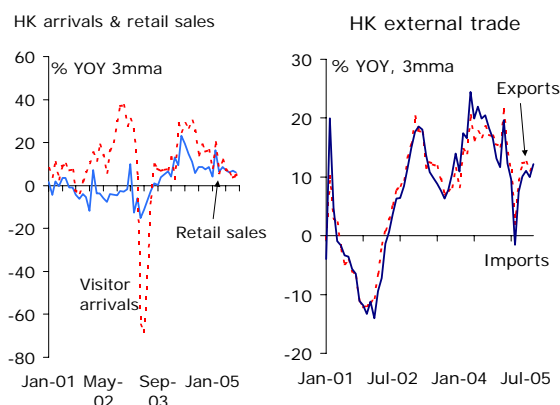
Economic data -China

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	14.7	25.8	29.2	32.3	34.4	31.8	31.3	30.4
Retail Sales, % YOY	15.8	13.9	12.2	12.8	12.9	12.7	12.5	12.7
Consumer Price Index, % YOY	3.9	2.7	1.8	1.8	1.6	1.8	1.3	0.9
Exports, % YOY	30.0	32.7	31.8	30.3	30.5	28.7	33.2	25.9
Imports, % YOY	-5.0	18.8	16.4	15.0	15.0	12.2	23.5	23.5
Trade Balance, US\$ bn	4.4	5.6	4.4	9.0	9.7	10.6	10.6	7.6
Foreign Exchange Reserves, US\$ bn	642.6	659.1	670.8	691.0	711.0	732.7	753.2	769.0
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	9.9	9.8	9.6	9.1	9.5	9.4	9.5	9.4
- Primary sector	2.5	4.5	4.9	5.5	6.3	4.6	5.0	5.0
- Secondary sector	12.7	11.6	11.5	11.1	11.1	11.1	11.2	11.1
- Tertiary sector	7.8	8.0	8.1	8.1	8.3	7.7	7.8	8.1
Nominal GDP, US\$ bn	371.0	385.2	401.6	420.0	446.1	436.0	453.8	481.5
Current Account, US\$ bn	50.9	46.1	51.6	76.1	100.8	128.6	103.8	91.9
FDI, US\$ bn	13.3	12.2	19.1	14.8	15.3	13.4	15.2	14.7

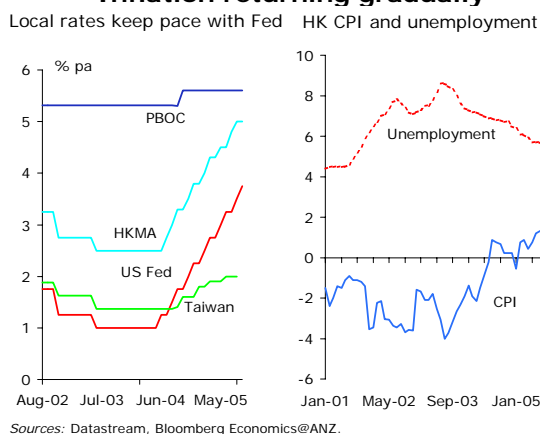
Sources: Datastream, Bloomberg

Country Update: Hong Kong

Retail sales, tourism and trade supporting growth



Inflation returning gradually



- China's rapid growth is good news for Hong Kong. Demand for Hong Kong's exports as well as port activity is up with global trade through Asia still very strong. In September, export growth reached a recent high of 17% YOY, with domestic exports up 24% YOY while re-exports were up 16.5% YOY. Imports growth, while positive, has been lower over the past few months, allowing the trade deficit to narrow from HK\$7 bn in June to HK\$4.2 bn in September. Growth in Asia is also contributing to ongoing strength in the tourism sector. While tourist arrivals for September failed to surge with the opening of Disneyland, numbers are still strong for both arrivals and retail spending.
- With strong growth in the services sector, unemployment has fallen to a four-year low of 5.5%. Officials said they believe real GDP growth will reach 5.5% this year, the top of the official forecast range and in line with our forecast, which calls for annual growth of 5.5% in the third quarter and 4.4% growth in the fourth quarter.
- The CPI rose at the fastest pace in September since Hong Kong emerged from deflation last year. The main cause is higher housing costs, which comprise nearly 30% of the CPI, which is in turn due to the recovery of the property market. The pass through from energy costs and slightly higher import goods cost due to China's revaluation could bring about further price pressures. HKMA will continue to raise its policy rate in line with the US Federal Reserve.
- In his first major policy address, Chief Executive Donald Tsang discussed the need to improve the quality of life in the SAR, including the potential introduction of minimum wages and air quality standards. He also noted an agreement with the mainland that will raise limits on yuan transactions, potentially bringing greater capital inflows to Hong Kong's financial markets from the mainland.

Amy Auster

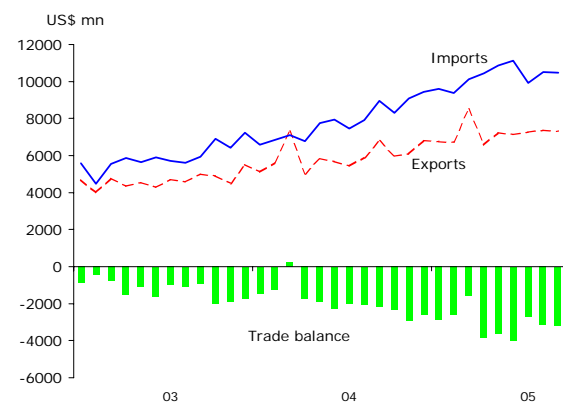
Economic data – Hong Kong

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Visitor Arrivals, %YOY	20.0	5.7	11.9	7.5	5.8	3.8	4.6	5.9
Retail Sales, % YOY	16.4	6.2	8.6	7.1	6.1	7.1	6.1	n/a
Consumer Price Index, % YOY	1.1	1.2	0.8	0.9	1.4	1.4	1.5	n/a
Exports, % YOY	-5.7	3.4	7.8	17.0	12.9	8.4	12.7	17.0
Imports, % YOY	-11.2	2.4	3.8	16.1	10.8	6.9	12.9	15.1
Trade Balance, US\$ bn	-1.3	-1.8	-1.3	-1.2	-0.9	-0.4	-0.5	-0.5
Foreign Exchange Reserves, US\$ bn	123.9	122.4	122.6	122.4	122.0	121.9	122.8	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	4.9	7.1	12.1	6.8	7.1	6	6.6	n/a
- Private consumption	3.9	5.7	10.8	5.2	5.8	4.4	2.7	n/a
- Government consumption	5.5	5.7	0	-1.3	-1.7	-4.8	-2.3	n/a
- Gross fixed capital expenditure	2.7	5.1	11.5	2.1	-1.4	0.4	3.5	n/a
Nominal GDP, US\$ bn	40.3	41.1	41.5	41.2	42.0	42.8	43.9	n/a
Current Account, US\$ bn	4.2	2.1	1.0	6.7	6.5	4.3	3.8	n/a
Capital Account, US\$ bn	-0.3	0.0	0.0	-0.2	-0.1	-0.3	n/a	n/a

Source: Datastream

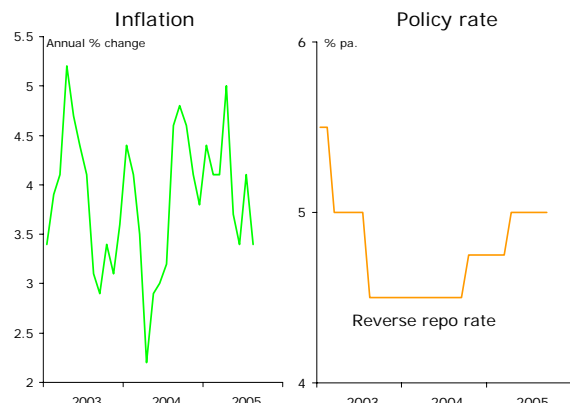
Country Update: India

Trade balance to deteriorate as imports soar



Source: Datastream

Demand pressures fuel inflation and tighter monetary stance



Source: Datastream

- India's economy is powering ahead, with real GDP in the second quarter exceeding market expectations and expanding by 8.1% YOY, higher than the annual 7% growth in Q1 05. Growth has been underpinned by robust activity in both the manufacturing and services sectors. India's growth outlook remains upbeat as private consumption stays strong and exports gain momentum. We expect the economy to expand by 7.5% in FY2005/06 (fiscal year beginning April) compared with 6.9% in FY2004/05.
- The country's strong economic expansion and high oil prices have, however, led to a sharp rise in imports and pushed the current account back into deficit despite strong export growth. The merchandise trade deficit was US\$20.5 bn during April-September. Exports were up by 24% YOY but imports surged by 35% YOY during the same period. The large trade shortfall has been partly offset by an invisibles surplus thanks to strong earnings from software exports and remittances but the current account deficit, which was recorded at US\$6.4 bn in FY2004/05, is forecast to widen this fiscal year as the trade deficit continues to deteriorate.
- Nevertheless, financing the current account is unlikely to pose a concern given the strong pace of capital inflows seen over the past two years. Foreign exchange reserves have risen significantly in recent years and stood at US\$125 bn at end-2004, equivalent to 12.6 months of imports of goods and services. Reserves were US\$138 bn as at August 2005, up 10% from end-2004.
- Buoyant domestic demand and high oil prices have also fuelled inflation, which has accelerated in recent months compared with past trends. While still below the Reserve Bank of India's inflation range of 5-5.5%, growing concerns over price pressures prompted the RBI to lift the reverse repo rate by 25 bps to 5.25% on 25 October, the second rate hike this year.

Jasmine Robinson

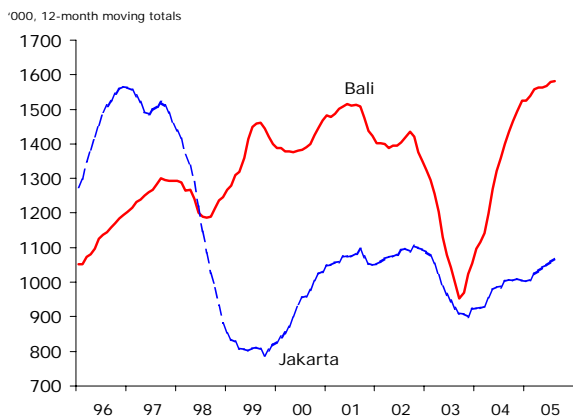
Economic data – India

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	6.1	10.7	7.9	10.8	11.4	6.8	7.4	n/a
Passenger car sales, % YOY	37.3	29.3	33.7	30.7	35.0	44.4	37.4	41.7
Consumer Price Index, % YOY	4.1	4.1	5.0	3.7	3.4	4.1	3.4	n/a
Exports, % YOY	20.0	16.5	31.0	24.1	25.3	33.3	24.9	7.5
Imports, % YOY	37.1	42.4	54.3	40.2	39.8	33.3	32.4	17.2
Trade Balance, US\$ bn	-2.6	-1.6	-3.9	-3.6	-4.0	-2.7	-3.1	-3.2
Foreign Exchange Reserves, US\$ bn	130.0	136.0	136.0	133.0	132.0	135.0	138.0	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY (at factor cost)	11.0	8.4	7.6	6.7	6.4	7.0	8.1	n/a
- Agriculture	18.2	10.4	3.8	0.0	-0.5	1.8	2.0	n/a
- Industry	6.4	7.9	7.6	9.1	9.2	7.3	10.1	n/a
- Services	9.9	8.0	9.5	8.1	8.9	9.3	9.8	n/a
Nominal GDP, US\$ bn	151.3	151.4	143.4	140.6	171.9	175.0	166.5	n/a
Current Account, US\$ bn	0.2	0.3	0.4	0.3	-0.5	-0.6	0.0	n/a
Capital Account, US\$ bn	0.6	0.4	0.7	0.4	0.4	1.2	1.2	n/a

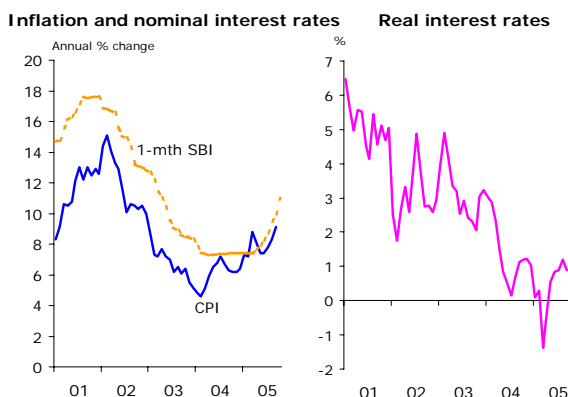
Source: Datastream, Bloomberg

Country Update: Indonesia

Tourist arrivals to Bali likely to suffer in coming months



Inflation expectations rise with hikes in energy prices



- The start of October saw two major events occur in Indonesia. First, Bali was struck by another bombing incident, representing another blow to the people of Bali and its tourism-dependent economy. Second, energy prices were raised on 1 October for the second time this year and by a much higher rate than anticipated. Expectations were for energy prices to rise by 30-50%. However, kerosene prices were raised by a hefty 186% while auto diesel prices were lifted by 105%. Although there were protests, the situation remained stable. The price adjustments were in line with moves to cap subsidies this year to Rp89.2 tn (US\$8.7 bn) and to keep the budget deficit at Rp24.9 tn or 0.9% of GDP for 2005.
- Inflation is expected to accelerate in coming months reflecting the direct impact of energy price increases as well as the pass-through effects from higher production and transport costs. For the first 9 months of the year, annual inflation averaged 7.9%. Annual inflation hit 9.1% in September.
- Higher inflation expectations have added pressure on the central banks to raise rates. After raising the Bank Indonesia rate by 50 bps to 10% on 6 September, the central bank responded quickly to the 1 October energy price announcement, lifting rates by 100 bps to 11% on 4 October.
- Considering the significant events in October, the rupiah has held up well, reflecting investor recognition of better crisis management and willingness to put through hikes in fuel prices. The USD/IDR rate has averaged IDR10,100 in the month compared with IDR10,189 in September.
- President Yudhoyono completed his first year in office on 20 October. A cabinet reshuffle is imminent and there has been a lot of speculation about possible replacements in the economics team given the slow progress on key aspects of the government's agenda, such as infrastructure reform.

Jasmine Robinson

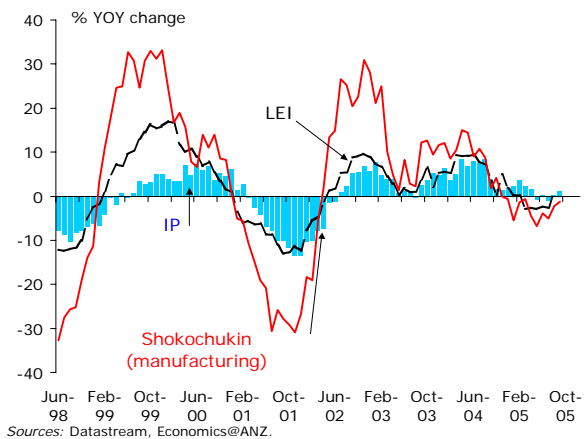
Economic data - Indonesia

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	10.6	7.2	3.5	5.2	4.6	2.2	7.4	n/a
Motor cycle sales, % YOY	29.3	33.7	30.7	35.0	44.4	37.4	41.7	21.5
Consumer Price Index, % YOY	7.2	8.8	8.1	7.4	7.4	7.8	8.3	9.1
Exports, % YOY	30.0	44.8	28.7	28.5	13.4	17.2	10.0	n/a
Imports, % YOY	26.3	43.5	41.5	44.8	24.7	14.9	31.7	n/a
Trade Balance, US\$ bn	2.1	2.4	1.8	2.2	2.0	2.2	1.6	n/a
Foreign Exchange Reserves, US\$ bn	35.2	34.6	34.9	33.2	32.5	30.8	29.7	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	4.8	4.4	4.4	5.1	6.5	6.2	5.6	n/a
- Private consumption	4.9	5.7	5.3	5.0	3.8	3.2	3.5	n/a
- Government consumption	13.7	10.0	5.1	-3.5	-2.8	-8.7	-6.2	n/a
- Gross fixed capital expenditure	-0.5	11.8	13.3	19.2	18.4	13.9	13.0	n/a
Nominal GDP, US\$ bn	61.9	63.3	62.9	64.1	67.2	68.3	69.0	n/a
Current Account, US\$ bn	2.4	-2.2	2.2	2.8	0.3	1.4	-0.5	n/a
Capital & Financial Account, US\$ bn	0.8	1.6	-0.7	1.0	1.1	-0.6	n/a	n/a

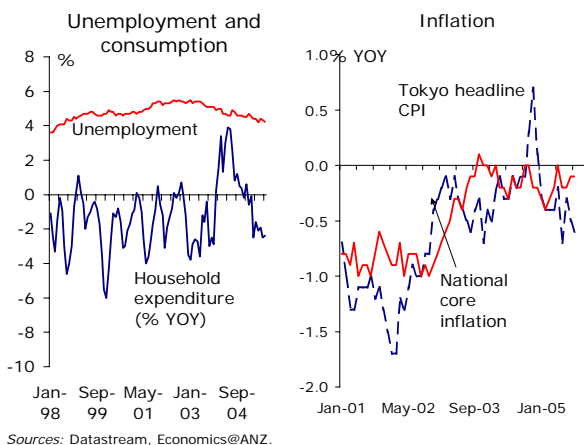
Sources: Bloomberg, Datastream, Bank Indonesia

Country Update: Japan

IP likely to remain solid



Unemployment falling, prices approaching positive territory



- Although some aspects of September and October data have been a bit disappointing in Japan, the general trend toward recovery and a return of inflation remains in place. Sceptics of the recovery point to the fact that industrial production rose a lower than expected 0.2% MOM in September (from 1.1% in August), with shipments falling and inventories rising from the previous month. The Tankan and Shokochukin indices came in below expectations. However, the chart at right shows how actual IP has outperformed expectations for much of this year.
- However, the most important data to watch in terms of the recovery is employment and consumer confidence, and there the data look better. Employment reached a level last seen in mid-2001, while the unemployment rate fell to a 7-year low. Household spending in September was softer, but this is perhaps to be expected after strong gains in previous months. October data on consumer confidence and retail spending will indicate whether improving employment is still translating into higher domestic consumption.
- Bank of Japan policy makers continue to build expectations that inflation will soon return, and that the BoJ will normalise monetary policy during 2006. Tokyo consumer prices have been flat on a monthly basis for the past few months. Headline and core CPI were slightly positive on a monthly basis in September, but negative on an annual basis.
- The postal privatisation bill passed both houses of parliament in October. PM Koizumi is expected to reshuffle his cabinet this month, with pro-reform candidates expected to be chosen. Heir apparent Shinzo Abe should receive a post.

Amy Auster

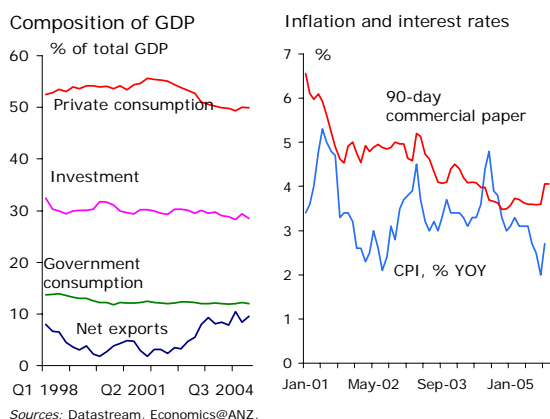
Economic data - Japan

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	3.7	2.2	1.5	-0.9	0.2	-1.1	0.3	1.1
Retail Sales, % YOY	-2.7	0.3	3.8	2.9	3.0	0.6	1.6	0.1
Consumer Price Index, % YOY	-0.3	-0.2	0.0	0.2	-0.5	-0.3	-0.3	-0.3
Exports, % YOY	3.3	9.3	8.2	6.5	4.2	2.0	8.8	7.7
Imports, % YOY	13.2	11.0	13.3	24.6	11.8	9.2	20.9	16.2
Trade Balance, US\$ bn	10.4	10.6	8.9	2.7	8.0	7.8	1.0	8.6
Foreign Exchange Reserves, US\$ bn	820.5	818.6	824.2	823.9	825.0	821.7	829.9	824.9
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	2.2	4.1	3.1	2.4	0.9	1.0	2.2	n/a
- Private consumption	1.0	1.8	2.0	1.8	0.3	0.9	1.5	n/a
- Government consumption	0.9	2.1	3.0	2.5	3.0	2.3	1.9	n/a
- Gross fixed capital formation	3.5	5.0	1.1	1.4	-1.5	-0.3	3.5	n/a
Nominal GDP, US\$ bn	4617.1	4737.5	4601.0	4587.1	4773.1	4869.1	4889.7	0.0
Current Account, US\$ bn	158.6	172.9	171.2	170.6	174.1	171.3	164.8	0.0
Capital Account, US\$ bn	-2.6	-8.5	-1.1	-2.5	-7.0	-4.7	-2.7	0.0

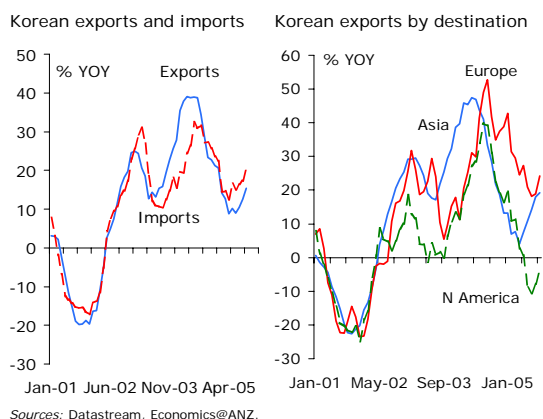
Source: Datastream

Country Update: Korea

Recent growth due to exports; BoK starts to raise rates



External demand likely to slow



- Real GDP rose 1.8% QOQ in the third quarter, above consensus expectations of 1.4% and ANZ's forecast of 1.5%. A breakdown shows that net exports were the primary driver, rising a much higher than forecast 16% YOY. By contrast, private consumption growth was tepid at 1.2% QOQ (3.9% YOY) while gross fixed capital formation actually declined 1.5% QOQ. Of particular note is weakness in the labour market, with unemployment climbing to 4.0% on a seasonally adjusted basis in September, from 3.7% in August. Over the first three quarters of the year, net exports contributed 9.4% of GDP, a post-war record.
- We are leaving our Q4 forecast for Korea's GDP growth at 1.0% QOQ (4.0% YOY), which would bring the full year growth rate to 3.8%. This incorporates another significant rise in export growth despite what we anticipate will be a softer external environment, in addition to slightly higher consumption and a positive contribution from investment. Export data through the end of September showed strong growth to the EU and rest of Asia, but we believe this strength will dissipate in the fourth quarter.
- Bank of Korea, the last of the holdouts among Asian central banks, raised its overnight call rate from 3.25% to 3.5%. The economy, only just in the recovery phase, is not experiencing significant price pressures; headline CPI rose just 0.7% MOM and 2.7% YOY in September. Nonetheless, as activity regains strength, producers could start to pass on more cost rises. Producer prices rose 1.6% in September from 1.4% in August, as Korea's import prices index rose 6.3% YOY in September.
- Elections for four parliamentary seats left vacant through convictions for offences to electoral laws saw a considerable victory handed to the opposition Grand National Party. PM Roh and the Uri Party are struggling to regain voter support given relatively poor sentiment around the economy and perceptions of corruption in the government.

Amy Auster

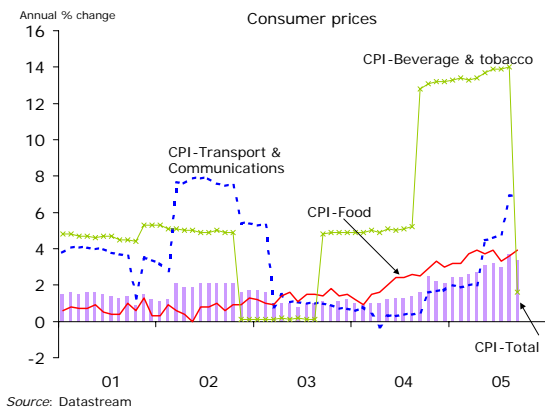
Economic data - Korea

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	-7.3	4.9	3.9	4.2	4.1	7.0	5.5	7.2
Retail Sales, % YOY	10.3	6.1	5.5	4.6	3.7	3.5	4.1	n/a
Consumer Price Index, % YOY	3.3	3.1	3.1	3.1	2.7	2.5	2.0	2.7
Exports, % YOY	6.6	13.1	6.5	11.0	9.5	10.7	18.1	18.7
Imports, % YOY	5.1	19.0	12.7	18.1	14.3	16.5	20.5	24.5
Trade Balance, US\$ bn	2.0	1.2	1.7	2.0	2.5	1.8	1.5	2.1
Foreign Exchange Reserves, US\$ bn	201.3	204.6	205.6	205.3	204.2	204.9	206.0	206.0
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	4.2	5.2	5.6	4.9	3.0	2.8	3.4	4.4
- Private consumption	-2.3	-1.3	-0.5	-0.7	0.5	1.4	2.8	3.9
- Government consumption	3.8	3.0	4.2	2.9	1.9	3.2	4.1	4.5
- Gross fixed capital expenditure	4.3	2.2	4.3	3.0	-1.2	0.1	2.1	2.0
Nominal GDP, US\$ bn	158.8	163.2	166.1	170.4	181.8	191.4	197.6	n/a
Current Account, US\$ bn	7.3	6.1	7.0	7.1	7.4	6.0	2.8	2.5
Capital Account, US\$ bn	-0.3	-0.4	-0.5	-0.4	-0.5	-0.5	-0.7	-0.7

Source: Datastream

Country Update: Malaysia

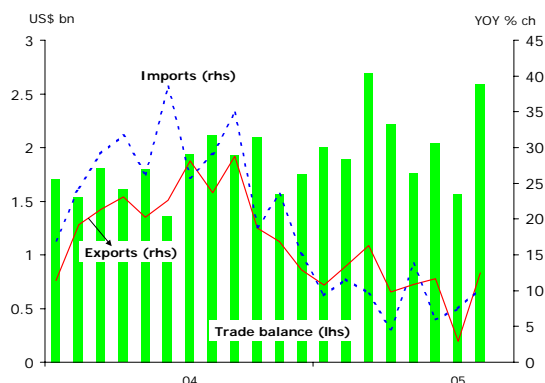
Inflation edges up



- The budget, unveiled by PM Badawi on 30 September, proposes a deficit target of around 3.5% of GDP from an estimated 3.8% of GDP in 2005. Revenue is expected to rise by around 9% while total expenditure is projected to rise by smaller 4.7% compared with an estimated 7% increase in 2005. In particular, government subsidies on fuel and other goods and services, which represent about 11% of operating expenditure, are forecast to decline by 6.9% to RM11 bn after expenditure on subsidies more than doubled in 2005 from the September 2004 forecast of RM5.3 bn to an estimated RM11.8 bn.

- Further subsidy cuts in 2006 and higher duties on cigarettes and alcohol are expected to keep inflation elevated. Annual inflation in September was 3.4%, slightly lower than the August rate of 3.7%. Beverage and tobacco prices returned to a single-digit growth rate after the impact of last September's increase in excise duties fell away. Transport prices rose by 7%, reflecting the effect of increases in fuel prices, while food prices crept up to 3.9%. We have forecast inflation to reach 3.5% in 2006 from an estimated 2.9% in 2005.

Trade surplus strengthens in August



- Malaysia recorded another strong trade surplus in August, reaching US\$2.6 bn, up 65% from July. Export growth for the first eight months of this year was up 10.9% from the same period in 2004 but imports grew by 8.9% during the same period, generating an even bigger trade balance of US\$16.8 bn compared with US\$13.9 bn during January-August 2004. The outlook for 2006, however, is for a moderation in export growth and the trade surplus as external demand, particularly US consumer demand, slows.

- There is growing speculation that a cabinet reshuffle is at hand following the departure of the Federal Territory Minister over corruption charges and as PM Badawi enters his third year in office in November.

Jasmine Robinson

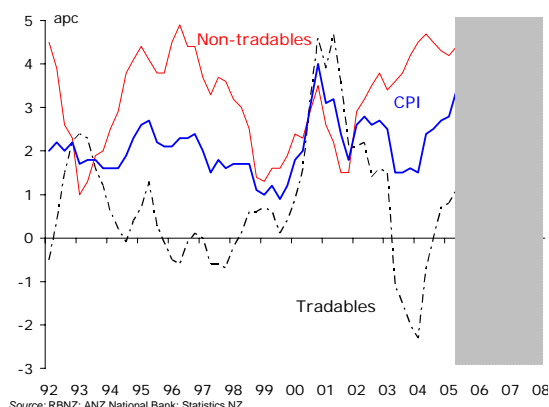
Economic data - Malaysia

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	7.6	5.5	4.1	-0.1	3.2	0.9	4.1	n/a
Motor Vehicle sales, % YOY	29.4	21.6	6.7	17.3	1.8	-3.0	21.2	14.7
Consumer Price Index, % YOY	2.4	2.6	2.7	3.1	3.2	3.0	3.7	3.4
Exports, % YOY	13.6	16.4	9.9	10.9	11.7	3.0	13.5	n/a
Imports, % YOY	11.6	9.6	4.7	13.8	6.0	7.6	11.3	n/a
Trade Balance, US\$ bn	1.9	2.7	2.2	1.8	2.0	1.6	2.6	n/a
Foreign Exchange Reserves, US\$ bn	71.8	72.4	73.7	74.9	75.2	78.7	80.8	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	6.9	7.8	8.3	6.7	5.8	5.6	4.0	n/a
- Private consumption	8.6	8.9	11.9	11.2	10.2	10.1	7.4	n/a
- Government consumption	13.3	11.8	9.5	1.1	4.2	-2.3	-2.4	n/a
- Gross fixed capital expenditure	3.6	3.5	3.5	3.2	2.3	2.0	6.7	n/a
Nominal GDP, US\$ bn	27.2	28.2	29.3	30.2	30.7	31.0	31.7	n/a
Current Account, US\$ bn	2.8	3.8	3.3	4.4	3.4	5.5	4.7	n/a
Capital & Financial Account, US\$ bn	-0.6	2.3	0.0	-0.9	2.7	0.9	0.1	n/a

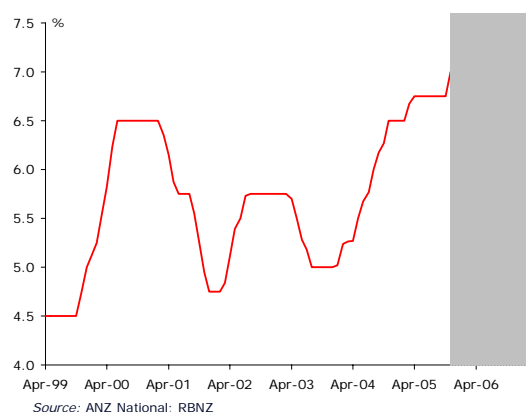
Sources: Datastream, Bloomberg

Country Update: New Zealand

Inflation



Official cash rate forecast



- Momentum within the economy remains solid, although the pace of expansion has eased from a resource sapping 5 percent pace in 2004 to a more respectable 2.6 percent at present. We expect the pace of growth within the New Zealand economy to continue easing, and growth to trough at around 1½ percent next year.
- Inflation remains the key theme shaping this deceleration and necessitating a period of sombre growth going forward to remove excess demand within the economy. Inflation is heading towards 4 percent in 2006, the key drivers being higher oil prices and persistent domestic demand.
- The Reserve Bank increased the Official Cash rate again in response to inflation pressure and has not yet ruled out an additional hike in December. We still believe the next move in interest rates looks set to be down, but not before late 2006 given a backdrop of persistent inflation for a while yet.
- Imbalances within the economy are of increasing concern. The current account deficit has blown out to 8 percent of GDP. Such a position is untenable. Restoring some balance to growth requires a lower currency to stimulate export growth and slower domestic demand to restrict import growth, with the later likely to be assisted by monetary policy remaining in a restrictive stance for some time.
- A new Government has been formed after four weeks of discussion, with the incumbent Labour party running a minority coalition with support on confidence and supply from other parties. An area of concern at present is some of the policy accommodations that have been made to shore up political support. These include raising the Superannuation entitlement for pensioners and increasing the minimum wage. However, on balance we expect the policy framework to remain largely centralist.

Cameron Bagrie

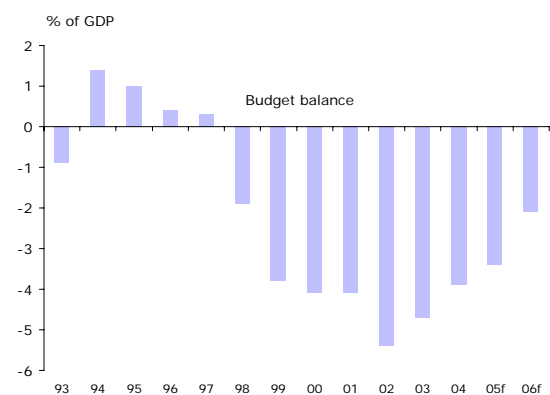
Economic data – New Zealand

Monthly data	Jan 05	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05
Retail Sales, % YOY	4.4	6.9	6.5	6.7	7.0	7.3	6.3	9.2
Building consents (% YOY)	-29.0	-15.2	-0.3	-36.4	-22.3	-38.2	-15.4	0.2
Exports, % YOY	10.8	5.8	0.5	4.1	-12.9	-5.4	-1.6	-0.2
Imports, % YOY	-2.2	14.0	9.2	1.9	11.7	-0.8	7.2	12.7
Trade Balance, US\$ bn	-0.21	-0.08	-0.14	-0.10	-0.05	-0.36	-0.43	-0.82
Quarterly data	Sep 03	Dec 03	Mar 03	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05
Real GDP, % YOY	3.4	3.2	4.8	5.4	4.2	3.4	2.3	2.6
- Private consumption	6.1	5.8	7.2	6.3	6.3	5.6	5.2	5.2
- Government consumption	2.6	4.3	5.1	5.8	4.1	6.7	5.6	4.1
- Gross fixed capital expenditure	9.9	10.6	21.9	14.8	15.2	9	2.5	10.2
Nominal GDP, US\$ bn	19.9	21.6	23.9	22.9	24.1	26.0	26.7	27.4
Current Account, US\$ bn	-3.2	-3.4	-3.7	-4.6	-5.6	-6.8	-7.8	-8.5
Consumer Price Index, annual % change	1.5	1.6	1.5	2.4	2.5	2.7	2.8	2.8

Sources: Statistics NZ, ANZ National Bank

Country Update: Philippines

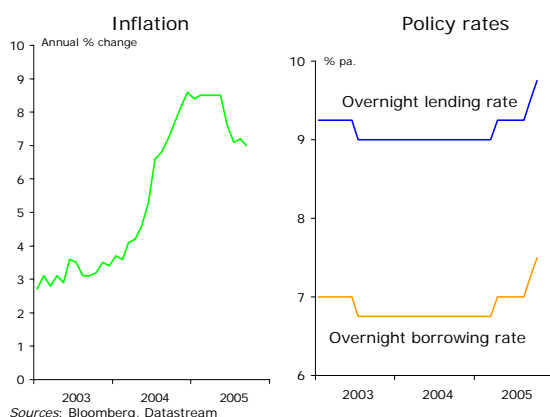
Budget deficit improves further



Source: Datastream

- The Supreme Court lifted the freeze on the implementation of the Expanded Value Added Tax (EVAT) on 18 October, paving the way for the government to continue with fiscal reform. The programme includes raising the VAT rate from 10% to 12% in January 2006, expanding the coverage to include previously-exempt goods and services such as medical fees, petroleum products, air and shipping fees, and increasing the maximum corporate tax rate to 35% from 32% for three years before phasing in a reduction to 30% by 2009. This will be a significant step towards reducing borrowing needs and the debt service burden. The government expects the deficit to narrow to 2.1% of GDP in 2006 compared with a projected 3.4% in 2005.
- Meanwhile, latest data suggests that the budget deficit is well on track to come within the government's target of PS180 bn for 2005. The fiscal deficit for the first nine months of 2005 was PS108.5 bn, down about 24% from the same period in 2004. The sharp improvement in the fiscal position is, however, premised on no further delays in the implementation of the EVAT. There are concerns that the government may consider postponing the EVAT given fuel-related pressures on consumer prices.

Consumer prices likely to stay elevated



Sources: Bloomberg, Datastream

- Annual inflation was high at the start of the year – 8.4% in January - largely reflecting escalating food prices and an increase in utilities charges. It has since eased to 7% in September. Inflation for 2005, however, is likely to average 7.5% compared with 4.5% over 2000-2004. With oil prices likely to stay elevated and with the implementation of the EVAT, inflation pressures are likely to persist over 2006.
- The central bank has been vigilant in its watch over inflation risks, having raised policy interest rates three times this year. The latest, on 20 October, saw the overnight borrowing rate go up by 25 bps to 7.5% and the overnight lending rate to 9.75%.

Jasmine Robinson

Economic data - Philippines

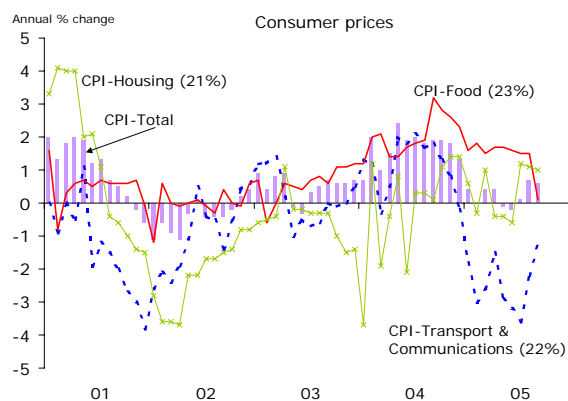
Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Manufacturing Production, %YOY	2.2	-0.9	4.6	3.1	-2.9	0.5	7.3	n/a
Motor Vehicle sales, % YOY	-1.2	13.6	33.9	15.7	25.2	0.7	12.6	10.2
Consumer Price Index, % YOY	8.5	8.5	8.5	8.5	7.6	7.1	7.2	7.0
Exports, % YOY	-0.6	-2.8	8.8	1.1	1.2	11.4	0.8	n/a
Imports, % YOY	-4.8	-4.0	6.5	9.4	6.0	-3.1	10.1	n/a
Trade Balance, US\$ mn	132.0	-179.0	-451.0	-289.0	-647.0	-182.0	-603.0	n/a
Foreign Exchange Reserves, US\$ bn	13.5	13.7	13.9	14.7	15.0	14.9	n/a	n/a

Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	4.6	6.1	6.3	6.3	5.4	4.5	4.8	n/a
- Private consumption	5.5	5.7	6.3	5.5	5.7	5.0	4.9	n/a
- Government consumption	5.4	4.1	-1.2	-7.2	5.6	0.6	13.2	n/a
- Gross fixed capital expenditure	0.7	5.0	4.0	3.6	4.3	-4.4	-1.5	n/a
Nominal GDP, US\$ bn	20.2	20.5	21.2	21.9	22.5	23.1	24.1	n/a
Current Account, US\$ bn	1.0	-0.1	0.3	1.4	1.7	0.7	0.4	n/a
Capital Account, US\$ mn	-1.1	-0.5	0.8	-1.2	-1.2	1.1	0.5	n/a

Sources: Datastream, Bloomberg

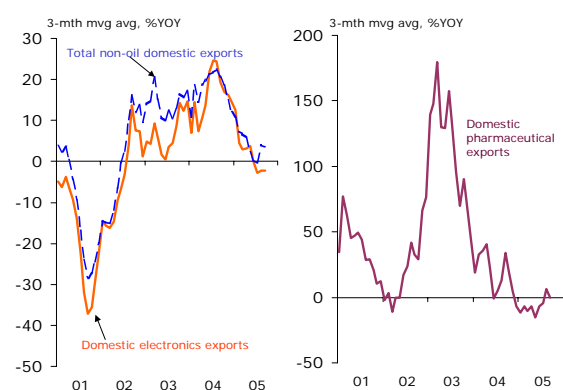
Country Update: Singapore

Inflation edges up



Figures in brackets refer to weights
Sources: Datastream, Department of Statistics

Exports expected to pick up



*: Electronics exports : disk drives, integrated circuits, PCs, parts of PCs & telecom. eqpt
Source: Datastream

- Advance estimates for GDP in the third quarter show the economy continuing to power ahead, with growth estimated at 6% YOY compared with 5.4% YOY in Q2 2005. The manufacturing sector is estimated to have grown by 10% YOY, underpinned by strong biomedical manufacturing activity while the services-producing industries are likely to have grown at a similar pace to Q2 2005 of 5.1% YOY.
- That said, recent trade data suggests that the third quarter GDP growth outcome may be slightly softer. Non-oil exports for September rose by just 4.4% YOY due to a decline in non-oil domestic exports which fell by 0.4% YOY as a result of weak non-electronics exports. Growth in industrial production for July and August averaged 9% YOY and the median consensus forecast for September is 9.5% YOY following news of the weaker-than-expected export performance.
- While inflation has continued to edge up, the picture remains benign compared with its regional neighbours. Annual inflation was 0.6% in September, bringing the average for the first nine months of this year to 0.3%. This is in line with the central bank's inflation range of 0-0.5% for 2005. However, it is expected to edge higher in 2006 to between 0.5% and 1.5% as second-round effects of higher fuel prices become more evident. However, the latest forecasts represent less of an up-tick in inflation than earlier projected by the central bank. The previous forecast was average inflation of 0-1% this year and 1-2% in 2006.
- As expected, the Monetary Authority of Singapore, in its policy statement released on 11 October, maintained the policy of a modest and gradual appreciation of the S\$NEER policy band which has been adopted since April 2004.

Jasmine Robinson

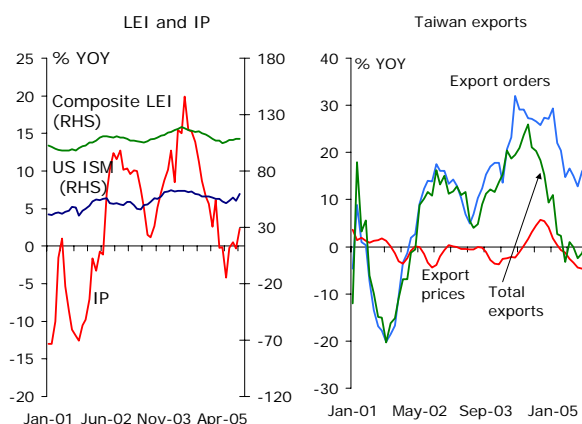
Economic data - Singapore

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	-10.5	9.2	4.6	2.3	11.8	6.1	11.9	21.1
Retail Sales, % YOY	-4.8	13.6	12.8	6.7	9.6	10.2	7.4	n/a
Consumer Price Index, % YOY	0.0	0.4	0.4	-0.1	-0.2	0.1	0.7	0.6
Exports, % YOY	8.0	16.9	12.7	15.5	11.9	11.2	23.0	10.3
Imports, % YOY	7.4	16.7	12.5	11.7	15.9	7.1	21.7	16.4
Trade Balance, US\$ bn	1.7	1.0	1.0	1.7	1.2	1.3	1.7	1.6
Foreign Exchange Reserves, US\$ bn	113.2	112.9	115.3	115.9	115.7	115.8	116.4	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	5.5	7.9	12.3	7.3	6.5	2.7	5.2	n/a
- Private consumption	3.1	8.1	12.8	7.2	6.6	2.7	2.3	n/a
- Government consumption	4.2	4.3	-6.8	-6.3	-0.9	11.6	-1.5	n/a
- Gross fixed capital expenditure	-0.7	11.9	10.8	10.0	0.2	-5.1	-4.3	n/a
Nominal GDP, US\$ bn	24.2	26.2	26.1	26.0	28.6	28.1	29.0	n/a
Current Account, US\$ bn	6.7	5.8	6.3	7.9	7.9	7.5	9.2	n/a
Capital & Financial Account, US\$ bn	-6.8	-0.1	-3.7	-7.5	-1.8	-5.7	-2.8	n/a

Sources: Bloomberg, Datastream, Economic Survey of Singapore

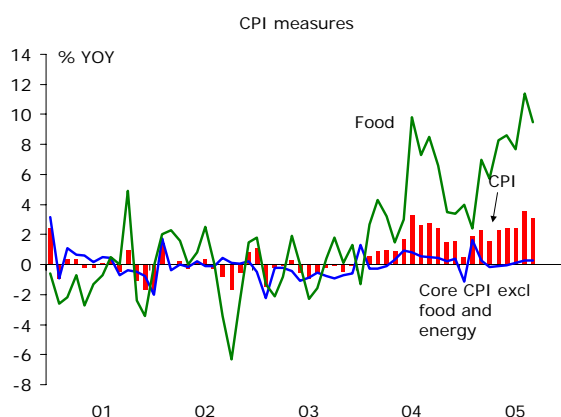
Country Update: Taiwan

Improvement in exports and IP may be short-lived



Sources: Datastream, Economics@ANZ.

Price pressures subside in September



Sources: Datastream, Economics@ANZ.

- September data showed a resurgence in demand in high tech. The Institute for Supply Management PMI survey in the US, a forward indicator for microchips, rose to its highest level in September since this time last year. Taiwan's LEI, which tracks closely with the US ISM, also rose. A short term rise in exports will help ensure that industrial production growth remains in positive territory through the rest of this year, but growth is likely to remain only moderate. The strong data for September raise the possibility that third quarter growth will come in at higher than the 2.9% YOY that we have projected.
- The outlook for the rest of this year is unclear vis-à-vis demand from the United States given poor consumer confidence readings in October, the rise of long term bond yields and the decline in the stock market. A warning signal is also coming through Taiwan's export price index, which shows prices are failing to keep pace with orders growth.
- September price data showed moderation following strong rises in August. Core inflation fell slightly from 0.27% YOY to 0.26% YOY, while headline CPI declined from 3.6% to 3.1%. Nonetheless, CBC will remain on the lookout for pass through from higher energy prices as well as increases in prices of other imported goods.
- Local headlines in October focused on the government's political troubles, as charges of corruption in government led President Chen Shui-bian to sack two senior government advisors. The President's approval ratings are at an all time low, which is worrying members of his DPP party ahead of local elections to take place before the end of this year.
- Also making headlines this month were statements from Vice Premier Wu Rong-I that he does not expect to see reunification with China during his lifetime.

Amy Auster

Economic data – Taiwan

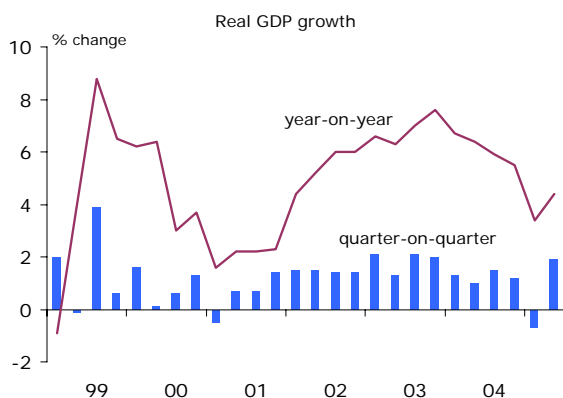
Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production, %YOY	-13.4	-0.2	0.9	-1.3	2.0	-1.7	6.5	6.3
Retail Sales, % YOY	7.1	8.1	5.0	4.6	4.8	7.4	n/a	n/a
Consumer Price Index, % YOY	1.9	2.3	1.6	2.3	2.4	2.4	3.6	3.1
Exports, % YOY	-11.0	6.1	11.0	4.0	2.7	5.0	6.5	6.9
Imports, % YOY	-17.5	14.1	18.5	11.3	2.1	9.4	10.0	7.5
Trade Balance, US\$ bn	0.9	-0.5	0.0	0.1	-0.2	0.3	0.4	0.7
Foreign Exchange Reserves, US\$ bn	246.6	251.1	252.6	253.2	253.6	253.6	254.1	253.8

Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	6.1	6.9	7.8	5.1	3.2	2.4	2.8	n/a
- Private consumption	2.4	4.0	4.1	1.3	3.1	3.2	3.0	n/a
- Government consumption	0.9	0.6	-0.7	-1.6	-1.0	-0.9	0.8	n/a
- Gross fixed capital expenditure	7.0	12.0	19.9	12.8	17.0	9.7	8.4	n/a
Nominal GDP, US\$ bn	74.3	75.6	76.2	75.6	78.0	82.2	82.5	n/a
Current Account, US\$ bn	8.0	5.9	5.5	5.3	1.8	4.4	1.7	n/a
Capital Account, US\$ bn	-6.4	-5.7	-5.0	-4.8	-4.4	-5.3	-4.0	n/a

Sources: Bloomberg, Datastream, National Statistics

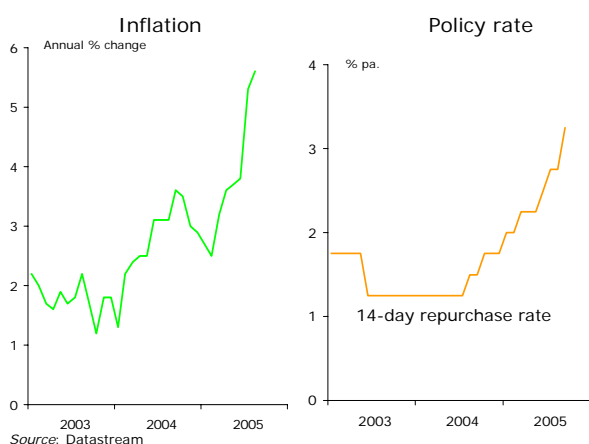
Country Update: Thailand

Growth strengthens in June quarter



Sources: Datastream, Economics@ANZ

Accelerating inflation prompts further monetary tightening



Source: Datastream

- Partial indicators suggest that while domestic demand moderated in Q3 2005, exports have been stronger than expected. Preliminary estimates show that Thailand posted a strong trade surplus in September, the highest so far this year and the second successive monthly surplus. The trade surplus was estimated at US\$820 mn with exports rising by 22% from a year earlier while imports climbed by 20%. For the first nine months of this year, the trade deficit is likely to be US\$7.4 bn. The trade picture is likely to continue to improve over the coming months as exports strengthen while import growth slows assisted by local energy-conservation measures.
- According to the National Economic and Social Development Board (NESDB), real GDP is expected to have expanded by 4.5-5% YOY in the third quarter, supported by a rise in exports and growth in agriculture output. This would bring average growth for the first nine months of this year to around 4¼%.
- Inflation pressures, however, persist and the central bank is expected to maintain a tightening bias in coming months. In response to accelerating inflation, the Bank of Thailand raised rates yet again on 19 October, bringing the key 14-day repurchase rate to 3.75% from 3.25%, the eighth interest rate increase since August 2004. Annual inflation hit 6% in September, the highest rate since September 1998, due largely to high petrol prices. However, anecdotal evidence suggests that petrol prices are easing slightly thanks to the decline in the price of crude oil from a peak of US\$70.85/bbl on 30 August to just over US\$60/bbl currently and efforts to cut fuel consumption. PTT Pcl, Thailand's biggest energy firm, reduced gasoline prices for the second time this week but left the diesel price unchanged.

Jasmine Robinson

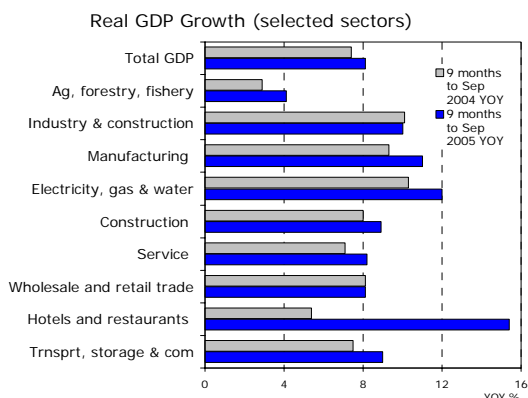
Economic data - Thailand

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Manufacturing Production, %YOY	0.6	8.1	5.2	8.4	9.3	4.7	11.9	n/a
Car Sales, % YOY	-4.1	24.1	9.0	21.9	25.6	12.3	21.0	n/a
Consumer Price Index, % YOY	2.5	3.2	3.6	3.7	3.8	5.3	5.6	6.0
Exports, % YOY	5.5	20.3	13.1	12.5	9.4	16.3	22.9	n/a
Imports, % YOY	22.0	29.8	30.0	36.4	35.4	18.4	19.6	n/a
Trade Balance, US\$ bn	-0.5	-1.1	-1.6	-1.8	-1.9	-0.1	0.0	n/a
Foreign Exchange Reserves, US\$ bn	48.5	47.5	48.1	47.1	47.2	47.3	48.2	n/a
Quarterly data	Dec 03	Mar 04	Jun 04	Sep 04	Dec 04	Mar 05	Jun 05	Sep 05
Real GDP, % YOY	7.6	6.7	6.4	5.9	5.5	3.4	4.4	n/a
- Private consumption	7.6	6.2	5.8	5.5	5.5	4.5	4.7	n/a
- Government consumption	7.2	6.8	4.9	0.3	4.8	15.8	9.3	n/a
- Gross fixed capital expenditure	19.3	16.5	13.1	12.5	15.5	15.0	14.4	n/a
Nominal GDP, US\$ bn	38.4	40.2	40.5	40.4	42.4	44.0	43.6	n/a
Current Account, US\$ bn	2.5	2.2	0.6	1.2	3.1	-1.5	-4.7	n/a
Capital & Financial Account, US\$ bn	-2.0	-1.6	0.3	0.3	1.8	-0.5	4.0	n/a

Sources: Bloomberg, Datastream, ANZ Bank

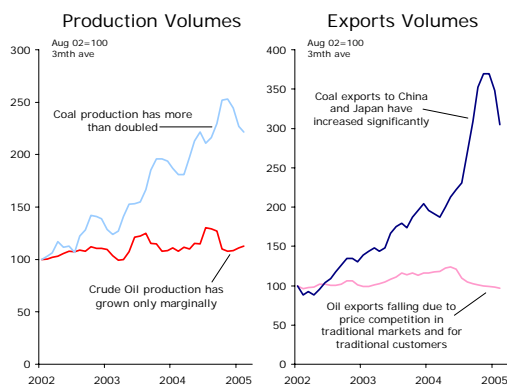
Country Update: Vietnam

GDP growth relatively stable across most sectors



Source: General Statistics Office of Vietnam

Oil exports stable, coal providing growth



Source: General Statistics Office of Vietnam, Datastream

- The Vietnamese economy grew by 8.1 percent Jan-Sept compared to the same period last year, exceeding Government expectations. The industry and construction sector expanded by 10% 3qtr-YOY on the back of very strong growth in manufacturing of 11% (this sector accounts for 23% of the economy). Utilities (electricity, gas & water) also contributed significantly adding 12% 3qtr-YOY. With around 8% annual GDP growth expected in coming years, demand for electricity is estimated to run at 16% per annum. To keep up with this demand the government has several fossil-fuelled power plants slated for completion in 2010 and is now looking at the feasibility of a nuclear power plant to be completed between 2017-2020.
- The services sector expanded by 8.2% 3qtr-YOY led by a 19.7% increase in retail sales. Growth in the retail sector is particularly important in Vietnam with private consumption accounting for over 65% of GDP, relatively high amongst Asian nations. Tourism experienced strong growth with arrival numbers increasing by 20.6% 3qtr-YOY driving a 15.4% growth in the Hotels & restaurants sector. However, with Vietnam so far having the highest number of cases and deaths from bird flu, future growth in tourist numbers is by no means assured.
- The value of exports grew by 21% 3qtr-YOY with strong growth in manufactured goods, high value of oil exports and a 78% jump in coal exports. Much of this increased demand for coal has been driven by Chinese companies pre-empting a planned price increase by Vietnamese producers in 2006.
- In the 10 months of 2005, FDI reached US\$4.58bn exceeding the Government target of US\$4.5bn for the year, pushed up by significant new investments from Luxembourg. Further investment is expected to be stimulated by the Governments plan to offer US\$750 million worth of 10-year bonds, 50% more than was originally planned.

Alex Joiner

Economic data - Vietnam

Monthly data	Feb 05	Mar 05	Apr 05	May 05	Jun 05	Jul 05	Aug 05	Sep 05
Industrial Production ⁺ , %YOY	16.1	14.4	15.1	15.4	15.6	16.0	18.1	16.5
Retail Sales ⁺ , % YOY	18.5	18.5	18.7	18.8	18.9	19.0	19.1	19.7
Consumer Price Index, % YOY	9.1	8.4	8.5	8.1	7.6	7.5	7.3	7.8
Exports ⁺ , % YOY	16.2	16.2	23.2	20.4	17.4	18.1	18.7	21.1
Imports ⁺ , % YOY	24.2	18.5	22.4	21.2	22.0	20.5	20.0	19.2
Trade Balance ⁺ , US\$ bn	-0.8	-1.1	-1.8	-2.6	-3.6	-3.5	-3.8	-3.9
Tourist Arrivals ⁺ , %YOY	12.4	22.8	20.1	19.4	23.7	23.8	22.7	20.6
China, number of visitors ⁺	-	211,930	246,066	302,439	408,817	478,195	527,138	559,790
US, number of visitors ⁺	-	94,787	115,161	134,243	166,875	204,051	230,937	230,937

Quarterly data	Growth Q1-Q3 2005	Contributions to Growth (ppts)
Real GDP ⁺ , % YOY	8.1	
Agriculture, forestry, fishery, % YOY	4.1	0.8
Industry & construction, % YOY	10.0	4.0
Services, % YOY	8.2	3.3

+ : January-to date vs same period in previous year * : January to date ^ : US\$ bn

Source: General Statistics Office of Vietnam

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