

# Weekly Market & Strategy Update

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## The impact of high fuel prices on Australian industries

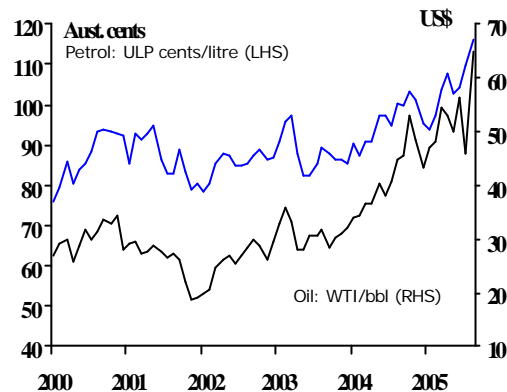
Australian fuel prices have been increasing steadily since late 2001 in response to rising world oil prices. Over the period from November 2001 to the end of August 2005, the cost of oil (West Texas Intermediate) increased from a low of USD17/bbl to a high of just over USD70/bbl, before easing in recent weeks to around USD63/bbl.

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Over the same period, the average cost of standard unleaded petrol in Australia rose from 80c a litre in 2001 to \$1.16 a litre in August 2005 (and as high as \$1.40 a litre in Sydney and Melbourne in September). Global oil and Australian petrol prices are expected to remain at around current prices for at least the remainder of 2005.

Oil and petrol prices



Sources: Motormouth; Economics@ANZ

### Macro Overview

Higher fuel costs have an impact on the Australian economy through a number of channels. The first is the impact on consumption. Higher oil prices (higher petrol prices for the consumer) effectively erode the household budget, reducing expenditure on other goods and services. There can also be an impact on the pattern of demand, with consumers switching to more fuel efficient goods and services.

Higher fuel prices also affect input costs to industry, including in particular transport (passenger and freight), plastics and pharmaceuticals. The issue for business is whether these higher costs can be passed on to end consumers or must be absorbed in lower profit margins. Another channel of transmission is through the impact on economic growth in Australia's export partners, which in turn effects both the volume of exports and the prices paid.

So how are Australian industries faring?

### Consumers' retail spending spree has slowed

Consumer spending on petrol varies widely across Australian households but, on average, petrol purchases comprise about 3% of total household consumption. A 10% rise in petrol prices (with no consequent reduction in petrol usage) could therefore be expected to detract about 0.3% from household consumption. Consumers will also pay indirectly for higher petrol and oil prices, through increased business costs for transport, materials and production that are then passed on to them.

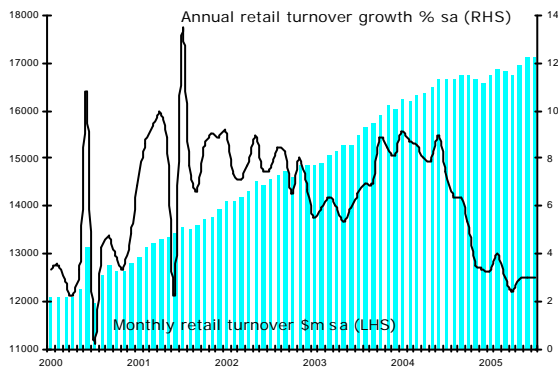
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Growth in consumer spending has slowed over the past year, from an annual rate of around 8% in mid 2004, to around 3% in recent months. Reflecting this slowdown, the Cashcard Retail Activity Index (based on EFTPOS transactions) grew by only 1.0% over the year to July 2005, compared with 7.1% the year before.

Higher fuel prices were not the only drag on spending – higher interest rates and the ending of the residential property boom also played a part – but costlier fuel contributed to the erosion of household budgets.

**Retail turnover growth**

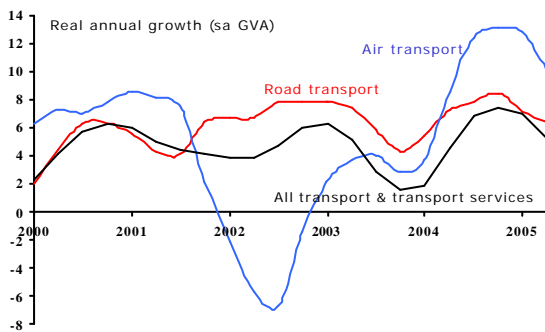


Source: ABS

**Road and air transport growth has peaked but remains relatively strong**

Road freight transports about 70% of total freight in Australia. The remainder goes by air, rail or sea. Passenger transport is mainly by air. Fuel is a major cost component for all modes of transport, but particularly for air transport. Qantas estimates that fuel will account for almost 30% of its operating costs in 2005-06, up from 19% in 2004-05 and 15% in 2003-04. Other domestic and international airlines face similar cost increases.

**Transport growth (annual real GVA)**

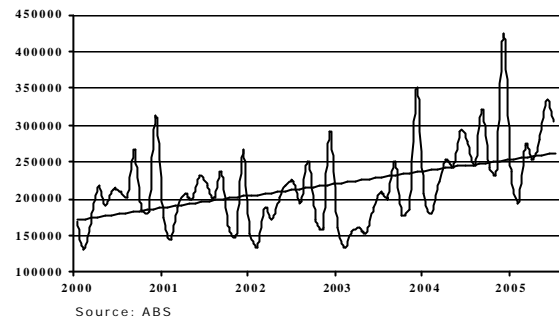


Source: ABS; Economics@ANZ

These cost increases slowed transport growth in the first half of 2005, but have certainly not halted it. Domestic road and air transport (passenger travel and freight) both grew very strongly in 2004, with real annual growth of 8.9% and 13.1% respectively. In the first two quarters of 2005, their growth slowed from this 2004 peak, but remained relatively strong, at 6.4% real growth for road and 10.1% real growth for air for the year to June 2005 (seasonally adjusted GVA).

Interestingly, holiday travel, which is arguably the most discretionary element of air transport, showed few signs of weakening in 2004-05. Leaving aside the seasonal peaks around public and school holidays, short term resident departures from Australia for 'holiday' or 'family and friends' purposes continued to trend upwards through 2004-05 (although new fuel levies have yet to fully hit Australian holiday travellers). Indeed, despite recent international events that might have put some Australians off overseas holidays, such departures were more numerous in each month in 2005 (January to July) than in the equivalent months of 2004 or 2003.

**Short term resident departures from Australia for holidays or family & friends**

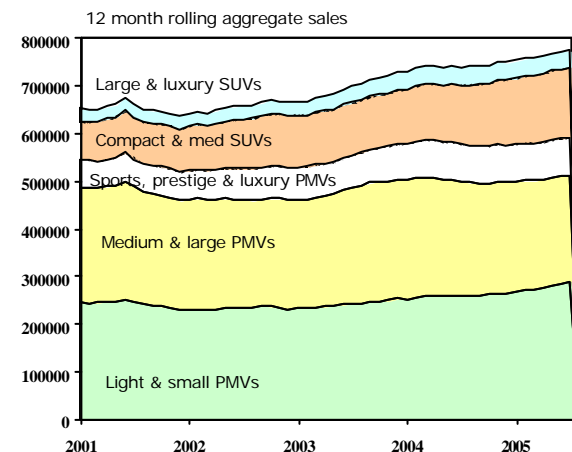


Source: ABS

**New motor vehicle sales are still growing**

New PMV and SUV sales have grown almost without pause since 2002, reaching 792,000 in the 12 months to August 2005. Within this trend, the influence of rising petrol prices can be seen in the growing preference for smaller and more fuel efficient passenger motor vehicles (PMVs) and SUVs over larger models. Small and light PMVs have held around 36% of the new PMV and SUV market since 2001. Compact and medium SUVs have grown from around 12% in 2001 to 18% in 2005. Medium to large PMVs and large and luxury SUVs have lost both sales and market share (12 month rolling aggregates).

**New passenger cars and SUV sales**



Source: VFACTS; Economics@ANZ

Dealers specialising in commercial vehicles (light trucks, vans and buses or heavy trucks and buses) face a business rather than consumer market and may be less affected by these trends. Reflecting the continuing growth of road transport, the number of new heavy trucks and buses sold in 2004-05 was 13.9% higher than in 2003-04. Sales of new light trucks, buses and vans were up 4.3%.

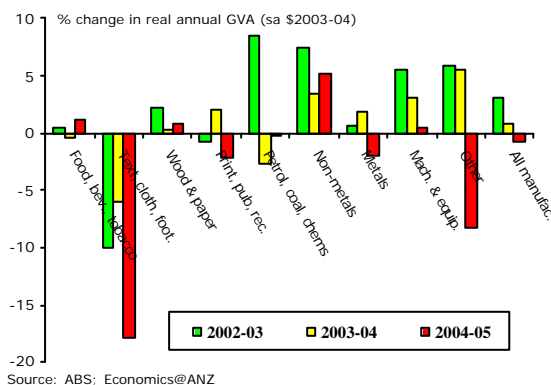
The changes in new car preferences will affect output at Australia's onshore car assemblers, all of whom specialise in manufacturing larger cars. In August, GMH announced plans to reduce production from 800 cars per day to 620 cars by mid-2006, with a loss of 1400 positions.

**Manufacturing is in retreat**

After a period of moderate growth in Australian manufacturing during 2000 to 2004, real annual growth has been negative since the December quarter of 2004. Despite real growth of 1.3% in the June quarter of 2005, manufacturing shrank by 0.8% in 2004-05 (seasonally adjusted real GVA). The largest declines were in textiles, clothing and footwear and furniture manufacturing. Only glass, ceramic and concrete manufacturing grew by more than 5% in 2004-05.

It is difficult to say how much of this trend in manufacturing is attributable to high fuel prices. Most likely, the continued strength of the AUD and intense competition from lower cost manufacturers offshore have been more important influences. The decline of TCF manufacturing in Australia is part of a long-term trend in that sector, and is not directly related to recent oil price rises.

**Manufacturing growth (annual real GVA)**



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**Commodity price negotiations this year end may not go as well as expected**

As always at this time of year, one key aspect of our trip is the message we get from our mining clients as to the likely outcome of bulk commodity price negotiations at year end. The view from the optimists was that prices for iron ore in particular could stay robust, and that prices may simply roll over at current high prices, or fall marginally by say 5%.

The core body of opinion was that prices would likely fall by about 10%, and that many producers would still record record profit numbers if that was the case, primarily because of a corresponding rise in volumes. However the rise in volumes was one of the concerns of a small minority of clients, who suggested that price declines could be of at least 15%, given that it highlighted a recurring theme we have touched on throughout '05, namely that supplies were no longer excessively tight in the same manner as they were in '04.

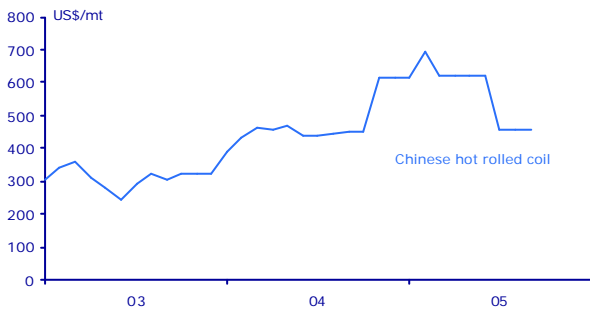
The expectation was that the increased bargaining power of the Chinese steel mills - they've recently formed larger co-ordinated buying groups - and the Japanese would translate into lower prices, especially given that the buying groups simply could not afford to have input prices remain at last year's levels given the 30-40% fall in steel prices recently, as outlined in the chart below. This theme, while apparent for the iron ore market, also reflects what is evident in the coal markets, where spot thermal prices have already fallen by 15%, and coking prices have also recently recorded sharp falls.

As a result, our expectations for commodity price negotiations, and prices for next year may look a little high, although our estimates are currently in line with market consensus in that regard (we forecast modest 5% declines in coking coal, 7% decline in thermal coal and a 3% fall in iron ore for '06). Indeed, if our anecdotal discussions are to be followed, there may be a risk of larger falls than we expect by year end, when negotiations conclude. Only time will tell in this regard.

If we are correct, this may be key for the AUD\$, as it was last year. In June '04, our client visits suggested substantial contract price rises were on the cards, and that the AUD\$ level of around .68 cents at that time was unlikely to be sustained. Accordingly, once the market woke up to the story, the AUD rallied hard into the negotiation conclusions around December, but then peaked. A similar story may unfold this time, in that as we move into year end, markets will likely start to factor in modest commodity price declines, and that outlook may well weigh on the AUD\$ accordingly. We've consistently argued this view all year, and our recent visits give us no real cause for concern that our scenario analysis is askew.

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**Easing steel prices suggest bulk commodity contracts will come under downward pressure**



## Japan's continuing surprises

This week saw even more positive news out of Japan on the political and economic front. The Liberal Democratic Party (LDP) fared far better in the election than anyone had anticipated, garnering the largest majority in the lower house in modern political history. The news of the win – viewed as a positive step toward ongoing economic reform – was further bolstered by Monday's news of a significant upward revision in second quarter GDP.

Both developments contribute to the growing possibility that the world's second largest economy will soon emerge from its prolonged slump. Considering our forecast for a slowing Chinese economy, a ramp up of activity in Japan could provide the rest of the region with a welcome source of new demand.

### Election results positive, though questions remain

First, the elections. Although the vote was ostensibly about the reform of Japan Post, in fact this election represents a watershed in Japanese politics. By kicking out the members of the LDP who opposed the postal privatisation bill and replacing them with so-called "assassins" on the LDP ballot, Koizumi turned on its head the post-WWII political maxim in Japan that all policy decisions require group consensus. The election proved that Japanese voters do not necessarily want consensus-driven policies; that they do seek strong leaders; and that they are in favour of economic reform.<sup>1</sup>

The postal privatisation bill is likely to be put back to parliament by the end of this month, and will certainly pass in the lower house. Even a veto by the upper house could potentially be overridden by the 2/3 majority in lower house held by the LDP and their coalition partners. However, the most important outcome of the election is the shift in the LDP towards charismatic leadership and an expansion of its base from rural to urban areas.

Going forward, the most important question will be whether the LDP will continue this leadership trend and reform drive in the post-Koizumi era. Koizumi's term as party leader ends in September 2006, and he has said repeatedly that he will step down. The favourite to succeed Koizumi at the moment is the charismatic Shinzo Abe, Secretary General of the LDP, but this is because of his popularity and not because of any clear efforts by Koizumi to groom a successor.

Although postal reform has been a major objective for PM Koizumi during his term in office, it should be understood that the bill to be re-submitted in the coming weeks is not a "big bang" approach to privatization. Rather, the bill envisages the separation of Japan Post into four government-owned businesses. Over time these may be partially or completely privatized, but this process is expected to take a decade. Meanwhile, the bill does not include much in the way of regulation to ensure that the successor firms of Japan Post do not abuse what is currently their monopoly power as the financial sector is further opened up to competition. Japan's next Prime Minister will have a lot of work to do.

## Economic performance more robust than anticipated

The LDP's landslide victory on Sunday was followed with nearly equally stunning news on Monday, as the government announced that second quarter GDP growth had been revised up from an early estimate of 1.1% to a final 3.3% on an annualised basis. Both private consumption and business investment continued to grow solidly, underscoring the fact that the main driver of Japan's growth is domestic and not external demand. Although net exports turned positive in the second quarter, the contribution to growth was minimal.

Japan's economy, as the most energy efficient in the region, has been largely able to shake off higher oil prices. Its domestic-led recovery means the current upturn in the business cycle does not appear all that vulnerable to a downturn in the US and, by extension, China. This will be welcome news for exporters across Asia, Australia and New Zealand given Japan's major trade relationships across the region.

### So what about the yen?

Perhaps the biggest surprise of last week was the failure of the Yen to rally past the USD/JPY109 level. Aside from the positive news that sent the equity market soaring, several policymakers at Bank of Japan made rather explicit statements indicating growing expectations that quantitative easing would end soon – perhaps even by the end of this year – and that interest rates in Japan could turn positive within the next 12 months. Deputy Governor Iwata also speculated about the possible introduction of an inflation target. The ANZ forecast is for the overnight call rate to rise from 0.0% currently to 0.25% by the end of 2006.

Under these circumstances, a further strengthening of the currency would seem to be warranted. However, that did not occur on Monday, or for the rest of the week; after reaching a high of USD/JPY109 on Monday, the Yen ended the week at USD/JPY110.5. The seeming lack of price action on Monday was noted by many market participants, amid speculation that the cause could be related to China's new foreign exchange regime in which currencies other than the USD included in the reference basket are to remain with a band of +/-1.5% on either side of central parity (USD/CNY rate) through a single trading day. Although direct intervention by the PBOC has not been noted, it is difficult to preclude the possibility that this has been a factor in the Yen's noted stability since 21 July 2005. We continue to monitor this development, keeping in mind the import should the PBOC begin to "anchor" foreign exchange market volatility in the same way that it has the US Treasury market.

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<sup>1</sup> For insight into Japanese politics, I am indebted to Aurelia George Mulgan, Associate Professor at the Australian Defence Force Academy School of Politics.

## Weekly data preview

### Tuesday 20<sup>th</sup> September

*US FOMC Rate Decision:* It is expected that the current tightening cycle will continue with another 25bp increase, lifting the Fed Funds rate to 3.75%. This is despite speculation that the FOMC may pause this meeting to assess the impact of Hurricane Katrina. August, 'pre-Katrina', employment and retail sales (ex auto) figures were strong and any direct negative impact of the disaster on the economy is likely to be regional and temporary.

*US Housing Starts & Building Permits (Aug):* House building activity, driven by low mortgage rates, should continue to stimulate the housing market. Housing starts and building permits are both expected to come off marginally in August to 2,028K and 2,147K respectively, however levels remain high. Permits continue to outpace starts suggesting US contractors are struggling to keep up with the demand.

*German ZEW economic sentiment survey (Sep):* This important cyclical indicator of the German economy surged to a 17-month high in August as the lower euro and stronger domestic and global economy spurred the confidence of German businesses. The rise in oil prices to record levels earlier this month however is expected to have eroded confidence a little in September with the market looking for the ZEW survey to drop 5pts to 45.

### Wednesday 21<sup>st</sup> September

*Australian DEWR Skilled Vacancy Report (Sep):* Although the last two reports showed slight upward movements in the aggregate Australian index, the series has been on a strengthening downward trend since April. The skilled vacancies index is in fact at its lowest level since July 2003 in trend terms. Based on a count of advertisements in major metropolitan newspapers for selected occupations, such continuing falls in the data imply that there are fewer advertised vacancies.

*Australian New Motor Vehicle Sales (Aug):* Sales of new motor vehicles have been on a roll this year. July experienced a 0.4% monthly increase in the number of new motor vehicle sales, taking total sales 5.1% higher over the year. We are anticipating a further 4.9% increase in August, with the market expecting a more modest 3% rise.

*NZ Current Account Balance (Q2):* The appalling state of New Zealand's current account - deteriorating to 7.4 percent of GDP - will be reinforced this week, highlighting the headwinds facing the New Zealand dollar. The lion's share of the current account deficit continues to come from the Investment Income Balance, which is expected to record a deficit around 6½ percent of GDP. Going forward, we are mindful of how long this balance can remain at such lofty levels, particularly as the New Zealand economy slows, with negative ramifications for corporate profitability. New Zealand dollar strength has continued eroding the value of export price gains in international markets, and with higher oil prices pushing up the cost of imports, the trade balance is expected to deteriorate towards 2 percent of GDP. Nevertheless, there is potential for the services balance to surprise on the upside and cap the deterioration.

*UK BoE Minutes (Sep):* These minutes should outline the reasons behind the Bank of England's decision to keep interest rates unchanged at 4.5% earlier this month. After the downside risks to consumer spending sparked the BoE to cut rates in August, the decision to hold in September most likely occurred as the upside risks to inflation from higher oil prices moved to the forefront of the central bank's concerns. Recent reports showing that the housing market might be picking up is also likely to have alleviated some of the BoE's concerns about the downside risks to UK economic growth.

### Thursday 22<sup>nd</sup> September

*Japanese All Industry and Tertiary Industries Index (Jul):* These Japanese leading indicators have been trending upwards recently, although the month-to-month results have been choppy. After rising by a strong 1.3% in June, the market is looking for the all industry index to correct with a 0.5% fall in July. Likewise, the tertiary industries index is expected to drop 0.3% in July following a strong 1.0% rise in June. These corrections should nevertheless be enough to keep the positive trend in these series' intact, providing further good signs for the Japanese economy.

### Friday 23<sup>rd</sup> September

*NZ External Migration (Aug):* External migration data due on Friday is expected to record a small net (seasonally adjusted) outflow of 100 long term and permanent migrants to New Zealand. This would see the annual net inflow ease to around 6,500. Visitor arrival numbers are expected to record a fall, reflecting the departure of Lions tour supporters during July.

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**EXCHANGE RATE FORECASTS**

|  | Actual |        | Current   |        | Forecast |        |        |        |        |
|--|--------|--------|-----------|--------|----------|--------|--------|--------|--------|
|  | Jul-05 | Aug-05 | 16-Sep-05 | Sep-05 | Dec-05   | Mar-06 | Jun-06 | Sep-06 | Dec-06 |
| <b>AUD-NZ FX rates</b>                   |        |        |           |        |          |        |        |        |        |
| AUD/USD                                  | 0.76   | 0.75   | 0.77      | 0.78   | 0.76     | 0.74   | 0.71   | 0.69   | 0.68   |
| NZD/USD                                  | 0.68   | 0.69   | 0.71      | 0.72   | 0.67     | 0.65   | 0.63   | 0.61   | 0.57   |
| AUD/JPY                                  | 85.39  | 83.45  | 84.96     | 85.02  | 81.70    | 81.77  | 81.65  | 82.80  | 79.56  |
| AUD/EUR                                  | 0.63   | 0.62   | 0.63      | 0.64   | 0.59     | 0.58   | 0.58   | 0.59   | 0.57   |
| AUD/GBP                                  | 0.43   | 0.42   | 0.42      | 0.42   | 0.40     | 0.40   | 0.39   | 0.41   | 0.40   |
| AUD/NZD                                  | 1.11   | 1.09   | 1.09      | 1.08   | 1.13     | 1.13   | 1.13   | 1.13   | 1.19   |
| AUD/CAD                                  | 0.93   | 0.89   | 0.91      | 0.92   | 0.89     | 0.89   | 0.89   | 0.90   | 0.87   |
| AUD/CHF                                  | 0.98   | 0.95   | 0.97      | 0.94   | 0.90     | 0.89   | 0.87   | 0.88   | 0.86   |
| A\$ TWI                                  | 64.3   | 63.3   | 64.4      | 63.1   | 60.7     | 59.5   | 58.3   | 57.8   | 56.5   |
| <b>AUD vs Asian FX rates</b>             |        |        |           |        |          |        |        |        |        |
| AUD/CNY                                  | 6.16   | 6.05   | 6.22      | 6.30   | 6.10     | 5.86   | 5.61   | 5.41   | 5.29   |
| AUD/HKD                                  | 5.91   | 5.80   | 5.96      | 6.05   | 5.91     | 5.72   | 5.53   | 5.37   | 5.29   |
| AUD/IDR                                  | 7454   | 7655   | 7781      | 8190   | 7467     | 7162   | 6860   | 6611   | 6460   |
| AUD/INR                                  | 33.1   | 33.0   | 33.7      | 34.4   | 33.4     | 32.0   | 30.5   | 29.3   | 28.6   |
| AUD/KRW                                  | 781    | 776    | 789       | 800    | 768      | 753    | 738    | 725    | 700    |
| AUD/MYR                                  | 2.9    | 2.8    | 2.9       | 2.9    | 2.8      | 2.7    | 2.6    | 2.5    | 2.5    |
| AUD/PHP                                  | 42.7   | 42.0   | 43.1      | 43.9   | 42.9     | 41.7   | 40.4   | 39.7   | 38.9   |
| AUD/SGD                                  | 1.26   | 1.26   | 1.29      | 1.30   | 1.26     | 1.22   | 1.19   | 1.17   | 1.14   |
| AUD/THB                                  | 31.7   | 30.9   | 31.5      | 31.9   | 30.4     | 30.5   | 30.4   | 29.7   | 28.6   |
| AUD/TWD                                  | 24.3   | 24.5   | 25.3      | 25.4   | 24.6     | 23.8   | 23.1   | 22.8   | 22.1   |
| AUD/VND                                  | 12062  | 11857  | 12204     | 12459  | 12236    | 11889  | 11538  | 11264  | 11152  |
| <b>Pacific AUD rates</b>                 |        |        |           |        |          |        |        |        |        |
| PGK/AUD                                  | 0.430  | 0.443  | 0.434     | 0.424  | 0.432    | 0.442  | 0.455  | 0.467  | 0.463  |
| FJD/AUD                                  | 0.769  | 0.792  | 0.770     | 0.767  | 0.774    | 0.782  | 0.790  | 0.792  | 0.794  |
| <b>NZ\$ rates</b>                        |        |        |           |        |          |        |        |        |        |
| NZD/AUD                                  | 0.899  | 0.920  | 0.919     | 0.923  | 0.882    | 0.884  | 0.887  | 0.884  | 0.838  |
| NZD/EUR                                  | 0.567  | 0.568  | 0.575     | 0.591  | 0.519    | 0.516  | 0.512  | 0.521  | 0.475  |
| NZD/JPY                                  | 76.8   | 76.8   | 78.1      | 78.5   | 72.0     | 72.3   | 72.5   | 73.2   | 66.7   |
| NZD/GBP                                  | 0.389  | 0.385  | 0.390     | 0.389  | 0.354    | 0.352  | 0.350  | 0.361  | 0.331  |
| NZ\$ TWI                                 | 69.3   | 70.2   | 70.2      | 70.2   | 64.5     | 63.8   | 63.1   | 62.9   | 58.1   |
| <b>International regional FX crosses</b> |        |        |           |        |          |        |        |        |        |
| USD/JPY                                  | 112.32 | 111.74 | 110.56    | 109.00 | 107.50   | 111.25 | 115.00 | 120.00 | 117.00 |
| EUR/USD                                  | 1.21   | 1.21   | 1.23      | 1.22   | 1.29     | 1.26   | 1.23   | 1.17   | 1.20   |
| EUR/JPY                                  | 135.38 | 135.10 | 135.73    | 132.89 | 138.68   | 140.18 | 141.45 | 140.40 | 140.40 |
| GBP/USD                                  | 1.76   | 1.78   | 1.81      | 1.85   | 1.89     | 1.85   | 1.80   | 1.69   | 1.72   |
| EUR/GBP                                  | 0.69   | 0.68   | 0.68      | 0.66   | 0.68     | 0.68   | 0.68   | 0.69   | 0.70   |
| USD/CAD                                  | 1.23   | 1.19   | 1.18      | 1.18   | 1.17     | 1.21   | 1.25   | 1.30   | 1.28   |
| USD/CHF                                  | 1.29   | 1.27   | 1.26      | 1.20   | 1.18     | 1.21   | 1.23   | 1.28   | 1.27   |
| US\$ index (*)                           | 85.47  | 84.37  | 83.39     | 82.88  | 80.64    | 82.99  | 85.39  | 89.39  | 87.59  |
| <b>Asian FX Rates</b>                    |        |        |           |        |          |        |        |        |        |
| USD/CNY                                  | 8.11   | 8.10   | 8.09      | 8.08   | 8.03     | 7.97   | 7.91   | 7.84   | 7.78   |
| USD/HKD                                  | 7.77   | 7.77   | 7.76      | 7.76   | 7.78     | 7.79   | 7.79   | 7.78   | 7.78   |
| USD/IDR                                  | 9805   | 10250  | 10125     | 10500  | 9825     | 9744   | 9663   | 9581   | 9500   |
| USD/INR                                  | 43.50  | 44.14  | 43.85     | 44.09  | 44.00    | 43.50  | 43.00  | 42.50  | 42.00  |
| USD/KRW                                  | 1027   | 1039   | 1027      | 1025   | 1010     | 1025   | 1040   | 1050   | 1030   |
| USD/MYR                                  | 3.75   | 3.77   | 3.77      | 3.73   | 3.73     | 3.72   | 3.71   | 3.69   | 3.68   |
| USD/PHP                                  | 56.15  | 56.31  | 56.13     | 56.25  | 56.50    | 56.71  | 56.97  | 57.50  | 57.25  |
| USD/SGD                                  | 1.66   | 1.69   | 1.68      | 1.67   | 1.66     | 1.67   | 1.67   | 1.70   | 1.68   |
| USD/THB                                  | 41.68  | 41.36  | 41.00     | 40.91  | 40.00    | 41.50  | 42.75  | 43.00  | 42.00  |
| USD/TWD                                  | 31.96  | 32.75  | 32.94     | 32.60  | 32.40    | 32.43  | 32.50  | 33.00  | 32.50  |
| USD/VND                                  | 15868  | 15877  | 15881     | 15973  | 16100    | 16175  | 16250  | 16325  | 16400  |
| <b>Pacific FX Rates</b>                  |        |        |           |        |          |        |        |        |        |
| PGK/USD                                  | 0.327  | 0.331  | 0.333     | 0.331  | 0.328    | 0.325  | 0.323  | 0.322  | 0.315  |
| FJD/USD                                  | 0.585  | 0.592  | 0.592     | 0.598  | 0.588    | 0.575  | 0.561  | 0.547  | 0.540  |

(\*) US Federal Reserve's US\$ "major currency" index. Forecasts based on ANZ currency forecasts. End month values/ forecasts.

**INTEREST RATE FORECASTS**

|                          | Actual |        | Current   |        | Forecast |        |        |        |        |
|--------------------------|--------|--------|-----------|--------|----------|--------|--------|--------|--------|
|                          | Jul-05 | Aug-05 | 16-Sep-05 | Sep-05 | Dec-05   | Mar-06 | Jun-06 | Sep-06 | Dec-06 |
| <b>Australia</b>         |        |        |           |        |          |        |        |        |        |
| Unofficial cash          | 5.50   | 5.50   | 5.50      | 5.50   | 5.50     | 5.50   | 5.50   | 5.50   | 5.75   |
| 90 day bill              | 5.65   | 5.62   | 5.63      | 5.60   | 5.60     | 5.60   | 5.60   | 5.60   | 5.80   |
| 3 year bond              | 5.13   | 4.99   | 5.13      | 5.25   | 5.40     | 5.30   | 5.40   | 5.30   | 5.45   |
| 10 Year bond             | 5.13   | 5.05   | 5.19      | 5.35   | 5.50     | 5.40   | 5.40   | 5.25   | 5.35   |
| Cash spread to US        | 2.25   | 2.00   | 2.00      | 1.75   | 1.25     | 1.00   | 1.00   | 1.00   | 1.25   |
| 10yr spread to US        | 0.85   | 1.03   | 0.98      | 1.10   | 1.00     | 0.90   | 0.90   | 1.00   | 1.10   |
| 3/10yrs yield curve      | 0.00   | 0.05   | 0.06      | 0.10   | 0.10     | 0.10   | 0.00   | -0.05  | -0.10  |
| 3yr swap rate            | 5.54   | 5.42   | 5.56      | 5.65   | 5.80     | 5.70   | 5.80   | 5.70   | 5.80   |
| 10yr swap rate           | 5.61   | 5.52   | 5.68      | 5.85   | 5.95     | 5.85   | 5.85   | 5.70   | 5.80   |
| 3yr swap spread to bond  | 0.41   | 0.42   | 0.43      | 0.40   | 0.40     | 0.40   | 0.40   | 0.40   | 0.35   |
| 10yr swap spread to bond | 0.49   | 0.47   | 0.49      | 0.50   | 0.45     | 0.45   | 0.45   | 0.45   | 0.45   |
| <b>New Zealand</b>       |        |        |           |        |          |        |        |        |        |
| Official cash rate       | 6.75   | 6.75   | 6.75      | 6.75   | 6.75     | 6.75   | 6.50   | 6.00   | 6.00   |
| 90 day bill              | 7.03   | 7.03   | 7.08      | 6.99   | 6.90     | 6.90   | 6.57   | 6.15   | 6.15   |
| <b>United States</b>     |        |        |           |        |          |        |        |        |        |
| Fed funds target         | 3.25   | 3.50   | 3.50      | 3.75   | 4.25     | 4.50   | 4.50   | 4.50   | 4.50   |
| 3-mth LIBOR              | 3.70   | 3.87   | 3.89      | 4.10   | 4.60     | 4.65   | 4.60   | 4.55   | 4.50   |
| 2 year bond              | 4.02   | 3.81   | 3.89      | 3.95   | 4.25     | 4.50   | 4.50   | 4.15   | 4.05   |
| 10 year bond             | 4.28   | 4.01   | 4.2       | 4.25   | 4.50     | 4.50   | 4.50   | 4.25   | 4.25   |
| 2/10yrs yield curve      | 0.26   | 0.20   | 0.32      | 0.30   | 0.25     | 0.00   | 0.00   | 0.10   | 0.20   |
| <b>International</b>     |        |        |           |        |          |        |        |        |        |
| Jap. call rate target    | 0.00   | 0.00   | 0.00      | 0.00   | 0.00     | 0.00   | 0.00   | 0.00   | 0.25   |
| ECB refinance rate       | 2.00   | 2.00   | 2.00      | 2.00   | 2.00     | 2.00   | 2.00   | 2.00   | 2.00   |
| EUR 3-mth LIBOR          | 2.1    | 2.1    | 2.1       | 2.0    | 2.0      | 2.0    | 2.0    | 2.0    | 2.0    |
| UK repo rate             | 4.75   | 4.50   | 4.50      | 4.50   | 4.50     | 4.50   | 4.50   | 4.50   | 4.50   |
| Euro-GBP 90 day          | 4.5    | 4.5    | 4.5       | 4.6    | 4.6      | 4.6    | 4.6    | 4.6    | 4.6    |

**COMMODITY PRICE FORECASTS\***

|                           | Jul-05 | Aug-05 | 16-Sep-05 | Sep-05 | Dec-05 | Mar-06 | Jun-06 | Sep-06 | Dec-06 |
|---------------------------|--------|--------|-----------|--------|--------|--------|--------|--------|--------|
| <b>Metals/ ore</b>        |        |        |           |        |        |        |        |        |        |
| Gold, US\$/oz             | 424.7  | 438.1  | 456.5     | 427.0  | 425.0  | 422.0  | 421.0  | 422.0  | 419.0  |
| Aluminium, US\$/t         | 1778   | 1868   | 1809      | 1787   | 1757   | 1719   | 1702   | 1701   | 1684   |
| Iron ore, US\$/t          | 62.7   | 62.7   | 62.7      | 62.7   | 62.7   | 62.7   | 61.5   | 61.5   | 61.5   |
| Copper, US\$/t            | 3,614  | 3,799  | 3,717     | 3,400  | 3,000  | 2,899  | 2,800  | 2,734  | 2,600  |
| Nickel, US \$'000/t       | 14.60  | 14.90  | 13.20     | 14.90  | 14.30  | 13.70  | 13.30  | 12.80  | 12.50  |
| Zinc, US\$/t              | 1,194  | 1,300  | 1,355     | 1,305  | 1,309  | 1,304  | 1,300  | 1,292  | 1,268  |
| Lead, US\$/t              | 854    | 887    | 878       | 880    | 863    | 803    | 762    | 724    | 700    |
| <b>Coal/ energy</b>       |        |        |           |        |        |        |        |        |        |
| Coking coal, US\$/t       | 125.0  | 125.0  | 125.0     | 125.0  | 125.0  | 125.0  | 120.0  | 120.0  | 120.0  |
| Thermal coal, US\$/t      | 53.0   | 53.0   | 53.0      | 53.0   | 53.0   | 53.0   | 49.0   | 49.0   | 49.0   |
| Crude oil (WTI), US\$/bbl | 58.9   | 65.0   | 64.8      | 70.0   | 70.0   | 67.5   | 65.0   | 62.5   | 60.0   |
| <b>Rural</b>              |        |        |           |        |        |        |        |        |        |
| Wool (EMI, A\$)           | 727    | 705    | 724       | 744    | 750    | 746    | 742    | 738    | 735    |
| Beef, US\$/lb             | 313    | 308    | 308       | 302    | 280    | 276    | 272    | 268    | 264    |
| Wheat, US\$/t             | 168    | 178    | 178       | 168    | 163    | 160    | 158    | 158    | 155    |
| Sugar, US\$/lb            | 10.9   | 11.1   | 8.9       | 10.0   | 9.2    | 9.1    | 9.0    | 8.9    | 8.8    |
| Cotton, US\$/lb           | 55.1   | 53.9   | 46.3      | 54.0   | 59.0   | 62.0   | 64.0   | 66.0   | 67.0   |

\* Quarterly average

**Economic and Financial Calendar**
**Major Statistics and Financial Market Events: Week Commencing 19 September 2005**

| Monday 19  | Tuesday 20  | Wednesday 21  | Thursday 22  | Friday 23   |
|--|---|---|--|---|
| <p><b>NZ:</b> Non Resident Bond Holdings, Aug<br/>L: 68.6%, A:___<br/>0300 GMT 1300 AEST</p> <p><b>EURO:</b> Latvian Central Bank holds conference on economic growth</p> <p><b>EURO:</b> ECB Vice President Papademos speaks in Riga<br/>No set time</p> <p><b>UK:</b> Rightmove House Prices, Sep<br/>L: -0.2%mm, +2.1%yy<br/>A:___<br/>2300 GMT 0900 AEST</p> <p><b>US:</b> NABH Housing Market Index, Sep<br/>L: 67, F: 67, A:___<br/>1700 GMT 0300 AEST</p> <p><b>CAN:</b> International Securities Transactions, Jul<br/>L: -\$2.1bn, F: +C\$2.0bn<br/>A:___<br/>1230 GMT 2230 AEST</p> <p><b>Cont'd from Tuesday</b></p> <p><b>US:</b> ABC/WashPost consumer confidence w/e 18 Sep, L: -20, A:___<br/>2100 GMT 0700 AEST</p> <p><b>CAN:</b> Wholesale Sales, Jul<br/>L: +0.5%, F: +0.6%, A:___<br/>1230 GMT 2230 AEST</p> <p><b>CAN:</b> Leading Indicators, Aug<br/>L: +0.3%, F: +0.3%, A:___<br/>1230 GMT 2230 AEST</p> | <p><b>GER:</b> Producer Prices, Aug<br/>L: +0.5%mm, +4.6%yy<br/>F: +0.4%mm, +4.7%yy<br/>A:___<br/>20-23 Sep</p> <p><b>GER:</b> ZEW Economic Sentiment Survey, Sep<br/>L: 50, F: 45, A:___<br/><i>Current Situation</i><br/>L: -61.1, F: -60.5, A:___<br/>0900 GMT 1900 AEST</p> <p><b>EURO:</b> ECB's Mersch holds press conference on Luxembourg economy<br/>0700 GMT 1700 AEST</p> <p><b>EURO:</b> ECB's Constancio speaks at African Central Bank conference<br/>0830 GMT 1830 AEST</p> <p><b>EURO:</b> Eurozone Trade Balance, Jul<br/>L: +€3.4bn<br/>F: +€3.0bn, A:___<br/>0900 GMT 1900 AEST</p> <p><b>EURO:</b> ZEW Economic Sentiment Survey, Sep<br/>L: 41.6, A:___<br/>0900 GMT 1900 AEST</p> <p><b>UK:</b> RICS House Price Balance, Aug<br/>L: -36%, F: -34%, A:___<br/>2330 GMT 0930 AEST</p> <p><b>UK:</b> Public Sector Net Borrowing, Aug<br/>L: -£2.9bn, F: +£5.8bn<br/>A:___<br/><i>Public Finances (PSNCR)</i><br/>L: -£8.2bn, F: +£3.3bn<br/>A:___<br/>0830 GMT 1830 AEST</p> <p><b>UK:</b> CML, BBA &amp; BSA Mortgage Lending Figures<br/>0830 GMT 1830 AEST</p> <p><b>US:</b> Housing Starts, Aug<br/>L: 2042k, F: 2028k, A:___<br/><i>Building Permits</i><br/>L: 2171k, F: 2147k, A:___<br/>1230 GMT 2230 AEST</p> <p><b>US:</b> FOMC Rate Decision<br/>L: 3.50%, ANZ: 3.75%<br/>F: 3.75%, A:___<br/>1815 GMT 0415 AEST</p> <p><b>Cont'd on Monday</b></p> | <p><b>AUST:</b> MI/Westpac Leading Economic Index, Jul, A:___<br/>0030 GMT 1030 AEST</p> <p><b>AUST:</b> DEWR Skilled Vacancy Report, Sep<br/>L: +2.0%mm, -5.4%yy<br/>A:___<br/>0100 AEST 1100 AEST</p> <p><b>AUST:</b> New Motor Vehicle Sales, Aug<br/>L: +0.4%mm<br/>ANZ: +4.9%mm<br/>F: +3.0%mm, A:___<br/>0130 GMT 1130 AEST</p> <p><b>NZ:</b> Current Account Balance, Jun quarter<br/>L: -NZ\$1.42bn<br/>F: -NZ\$2.83bn, A:___<br/>2245 GMT 0845 AEST</p> <p><b>EURO:</b> ECB Eurozone Current Account, Jul<br/>L: -€2.5bn(sa)<br/>-€2.1bn(nsa), A:___<br/>0800 GMT 1800 AEST</p> <p><b>EURO:</b> Eurozone Labour Costs, Jun quarter<br/>L: +3.1%yy, F: +2.8%yy<br/>A:___<br/>0900 GMT 1900 AEST</p> <p><b>UK:</b> BoE release minutes from September meeting<br/>0830 GMT 1830 AEST</p> <p><b>US:</b> Mortgage market index w/e 16 Sep 2005<br/>L: -1.4%, A:___<br/>1100 GMT 2100 AEST</p> <p><b>US:</b> EIA weekly petroleum stocks<br/>1530 GMT 0130 AEST</p> <p><b>CAN:</b> Retail Sales, Jul<br/>L: +1.1%mm<br/>F: +1.1%mm, A:___<br/><i>Less Autos</i><br/>L: +0.4%mm<br/>F: +0.4%mm, A:___<br/>1230 GMT 2230 AEST</p> | <p><b>JPN:</b> Merchandise Trade Balance, Aug<br/>A:___<br/>2350 GMT 0950 AEST</p> <p><b>JPN:</b> All Industry Activity Index, Jul<br/>L: +1.3%mm, F: -0.7%mm<br/>A:___<br/><i>Tertiary Industry Index</i><br/>L: +1.0%mm, F: -0.7%mm<br/>A:___<br/>2350 GMT 0950 AEST</p> <p><b>EURO:</b> Industrial New Orders, Jul<br/>L: +3.1%mm, +4.9%yy<br/>F: +1.3%mm, +5.5%yy<br/>A:___<br/>0900 GMT 1900 AEST</p> <p><b>EURO:</b> Eurozone Budget Deficit/GDP Ratio<br/>L: -2.7%, A:___<br/><i>Govt Debt/GDP Ratio</i><br/>L: 71.3%, A:___<br/>0900 GMT 1900 AEST</p> <p><b>EURO:</b> ECB's Papademos speaks on EU growth and competitiveness<br/>1700 GMT 0300 AEST</p> <p><b>UK:</b> CBI Industrial Trends Survey<br/>1000 GMT 2000 AEST</p> <p><b>US:</b> Initial Jobless Claims, w/e 17 Sep, L: 398k, A:___<br/>1230 GMT 2230 AEST</p> <p><b>US:</b> Leading Indicators, Aug<br/>L: +0.1%, F: -0.3%, A:___<br/>1400 GMT 0000 AEST</p> <p><b>CAN:</b> CPI, Aug<br/>L: +0.2%mm, +2.0%yy<br/>F: +0.5%mm, +2.7%yy<br/>A:___<br/><i>Ex Core 8</i><br/>L: 0.0%mm, +1.4%yy<br/>F: +0.1%mm, +1.6%yy<br/>A:___<br/>1100 GMT 2100 AEST</p> <p><b>CAN:</b> Bank of Canada Governor Dodge speaks<br/>1650 GMT 0250 AEST</p> | <p><b>AUST:</b> HIA New Home Sales, Aug<br/>No set time</p> <p><b>NZ:</b> Visitor Arrivals, Aug<br/>L: -16.0%, A:___<br/>2245 GMT 0845 AEST</p> <p><b>GER:</b> CPI, Sep (prelim.)<br/>L: +0.1%mm, +1.9%yy<br/>F: +0.1%mm, +2.3%yy<br/>A:___<br/>23-26 Sep</p> |

Note: L=last, F=market forecast, ANZ=ANZ forecast, nf=not forecast, sa=seasonally adjusted, nsa=not seasonally adjusted, mm=change on previous month, qq=change on previous quarter, yy=change on previous year, P=preliminary. The release dates of German and Japanese statistics are often subject to change by the relevant authorities. Times: AEDT, Australian Eastern Daylight Saving Time (GMT +11 hrs); Japan (GMT +9 hrs); EST US Eastern time (GMT -5hrs), NZST NZ standard time (GMT +12 hrs)

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