



ECONOMICS & MARKETS RESEARCH

ANZ AUSTRALIAN MARKETS WEEKLY

28 JANUARY 2010

INSIDE

Economic Update	2
FX	4
AUD Cross View	5
Forecasts	6

CONTRIBUTORS

Warren Hogan
Acting Chief Economist &
Head of Australian
Economics and Interest
Rates Research
+61 2 9227 1562
Warren.Hogan@anz.com

Amy Auster
Head of Foreign Exchange
and International
Economics Research
+61 3 9273 5417
Amy.Auster@anz.com

Amber Rabinov
Economist, Foreign
Exchange and
International Economics
Research
+61 3 9273 4853
Amber.Rabinov@anz.com

Julie Toth
Senior Economist,
Australian Economics and
Interest Rates Research
+61 3 9273 6252
Julie.Toth@anz.com

Shane Lee
Senior Economist
Australian Economics and
Interest Rates Research
Shane.Lee@anz.com

Dr. Alex Joiner
Economist, Australian
Economics and Interest
Rates Research
+61 3 9273 6123
Alex.Joiner@anz.com

Melissa Fenech
Research Analyst,
Australian Economics and
Interest Rates Research
+61 3 9273 1590
Melissa.Fenech0@anz.com

GLOBAL FORECASTS MOVE ONWARDS AND UPWARDS

ECONOMIC UPDATE: A STRONGER WORLD ECONOMY IS GOOD FOR AUSTRALIA

- The IMF has upgraded its global economic growth forecasts for the next two years to 3.9% in 2010 (0.8% higher than previously forecast) and 4.3% in 2011 (0.1% higher than previously forecast).
- Developing Asia is expected to be the economic out-performer, driven by China, India and the ASEAN 5, with these economies forecast to expand 8.4% p.a. in each of 2010 and 2011.
- The Australian economy is extraordinarily well-placed to take advantage of economic expansion in Asia, and particularly China. This relationship will define Australia's economic growth for decades to come.

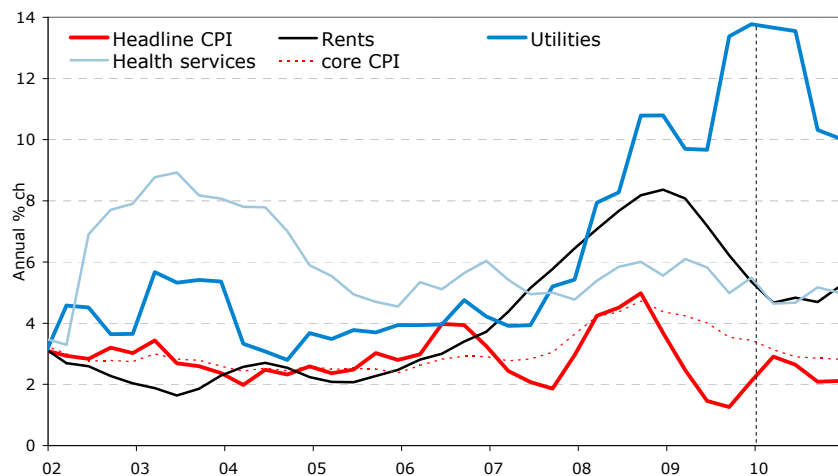
FX: THE CONSOLIDATION PHASE

- The AUD/USD is consolidating in a lower range of 0.8950-0.9150, thanks to a resurging US dollar. Pushes below the bottom of the range should be met by good demand from natural buyers, while natural sellers are probably ratcheting down their strike price.
- Trade volumes have been relatively light in January compared with recent years, so we look for a pickup in hedging activity in the coming weeks.

CHART OF THE WEEK: AUSTRALIAN INFLATION IS NOT JUST AN RBA ISSUE

Price rises for many non-tradeable, non-discretionary, household staples continue to track at far higher rates than either core or headline CPI, including price rises for rents, health services and especially utilities (electricity, gas and water).

FIGURE 1. INFLATION RATES FOR CPI AND SELECTED COMPONENTS



Sources: ABS and ANZ.

ECONOMIC UPDATE

Dr. Alex Joiner
Economist, Australian
Economics and Interest
Rates Research
+61 3 9273 6123
Alex.Joiner@anz.com

A STRONGER WORLD ECONOMY IS GOOD FOR AUSTRALIA

- The IMF has upgraded its global economic growth forecasts for the next two years to 3.9% in 2010 (0.8% higher than previously forecast) and 4.3% in 2011 (0.1% higher than previously forecast).
- Developing Asia is expected to be the economic out-performer, driven by China, India and the ASEAN 5, with these economies forecast to expand 8.4% p.a. in each of 2010 and 2011.
- The Australian economy is extraordinarily well-placed to take advantage of economic expansion in Asia, and particularly China. This relationship will define Australia's economic growth for decades to come.

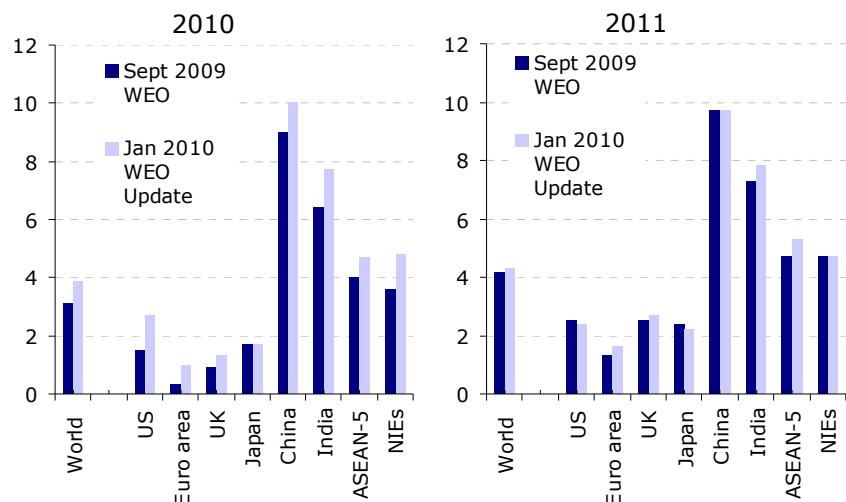
IMF UPGRADES WORLD OUTLOOK

This week the IMF released its 'World Economic Outlook' update and revised up its economic expectations for the global economy going forward. The IMF has revised up its forecasts for the next two years significantly. Economic growth in 2010 is forecast to come in at 3.9% (0.8% higher than previously forecast) and 4.3% in 2011 (0.1% higher than previously forecast).

The IMF's forecasts highlight the divergent performances of the advanced economies, especially those in which the financial crisis hit hardest, and the emerging economies. Recovery from the financial crisis will continue to weigh on advanced nation growth, with fiscal stimulus and financial bailouts coming at a heavy cost. Further, given the still-fragile state of many of these economies the IMF highlights the need for these stimulatory policies to be maintained. Advanced nation growth is expected to come in at 2.1% and 2.4% in 2010 and 2011 respectively, limping out of recession rather than a sharp upswing in growth that is usually associated with economic recovery.

In stark contrast, the emerging nations are driving global growth. Domestic fiscal stimulus packages have, in the main, insulated most emerging economies from the worst of the external shock. Emerging economies are expected to expand 6.4% and 6.9% in 2010 and 2011 respectively (c.f. with previous forecasts of 6.0% and 6.3%). This level of growth has been able to again attract inflows of capital yet the downside is that these factors combined are now starting to see both consumer price and asset price inflation emerge.

FIGURE 2. IMF – GDP GROWTH FORECASTS. JANUARY 2010



Sources: ABS and ANZ.

The good news here is the region in which Australia is becoming ever more economically entrenched, developing Asia, is expected to be the out performer in coming years, driven by China, India and the ASEAN 5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam). Together, these economies are forecast to expand 8.4% in each of 2010 and 2011. This directly benefits the Australian economy with these seven countries alone accounting for 34% of Australia's two-way trade. And this is backed up by solid recovery in the newly industrialized Asian nations (Korea, Hong Kong, Taiwan and Singapore) that

ECONOMIC UPDATE

Dr. Alex Joiner
Economist, Australian
Economics and Interest
Rates Research
 +61 3 9273 6123
 Alex.Joiner@anz.com

account for another 15% of Australia's trade flows. Even Japan (accounting for 17% of our trade), will post solid (if uninspiring growth) in coming years.

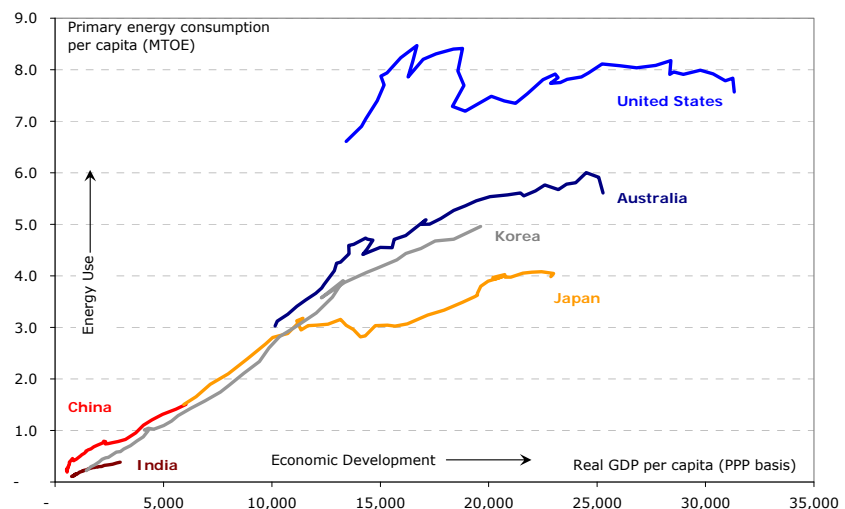
This stellar growth in Asia bodes well for Australian trade growth, higher commodities prices and the economy generally. However, IMF forecasts highlight a downside for these nations, the re-emergence of inflationary pressure. This is in contrast with advanced nations that have significant spare capacity and consequently their inflation outlook is still relatively anaemic. The IMF forecast average price growth to be 1.4% p.a. in advanced nations but 5.4% p.a. in emerging nations.

For Australia, this issue has been crystallized in the recent performance of our largest trading partner – China. In recent weeks China showed the world that its economy could expand strongly, despite the global downturn, driven by fiscal stimulus and domestically sourced growth. The Chinese economy grew 10.7%YoY in the December quarter (8.7% annual growth, c.f. the Government target of 8%).

However, positive sentiment towards these figures was tempered by inflation surging from 0.6%YoY to 1.9%YoY, up 1% in November alone. These data seemed to bring into sharp focus concerns over asset price inflation and 'excessive' lending. This gave markets another bout of jitters regarding the sustainability of Chinese economic growth. However, currently asset bubbles are seemingly the exception rather than the rule. Indeed, home price to income ratios in China are relatively low with annual growth in prices in line with what has historically taken place in Western countries. Concerns around rampant credit growth are also similarly tenuous with loan to deposit ratios in China well below what is currently being experienced in the US, thanks to high levels of saving. With this in mind, when Chinese authorities take measures to tighten credit (through recent increases in the reserve requirement and edging up short term rates) the market again greets this negatively – concerned these measures will reign in economic growth. When the market is bearish it seems the China story can't win either way.

For Australia's real economy over the medium to long-term perhaps such short-term swings in sentiment are a moot point. Our current forecasts for the Chinese economy are for an average of 9% p.a. growth over the next decade at least. As such, China's demand for our commodity exports will run at pace over this period with their economy only in the early stages of development, urbanisation and industrialisation (as proxied by energy use per capita in the chart below).

FIGURE 3. CHINA'S DEVELOPMENT HAS A LONG WAY TO GO



Sources: ANZ, IMF, Groningen Growth and Development Centre.

The Australian economy is extraordinarily well placed to take advantage of this expansion for decades to come. Feeding off what will be a renewed resources boom, massive investment, productivity gains and continued strong population growth over the coming decade will drive expansion in the broader economy. Indeed, unlike other advanced nations it is likely that potential GDP in Australia will rise over the next decade - up from just over 3% p.a. to something closer to 4% p.a.

Amy Auster
 Head of Foreign
 Exchange and
 International Economics
 Research
 +61 3 9273 5417
 Amy.Auster@anz.com

Amber Rabinov
 Economist, Foreign
 Exchange and
 International Economics
 Research
 +61 3 9273 4853
 Amber.Rabinov@anz.com

Melissa Fenech
 Research Analyst,
 Australian Economics
 and Interest Rates
 Research
 +61 3 9273 1590
 Melissa.Fenech0@anz.com

THE CONSOLIDATION PHASE

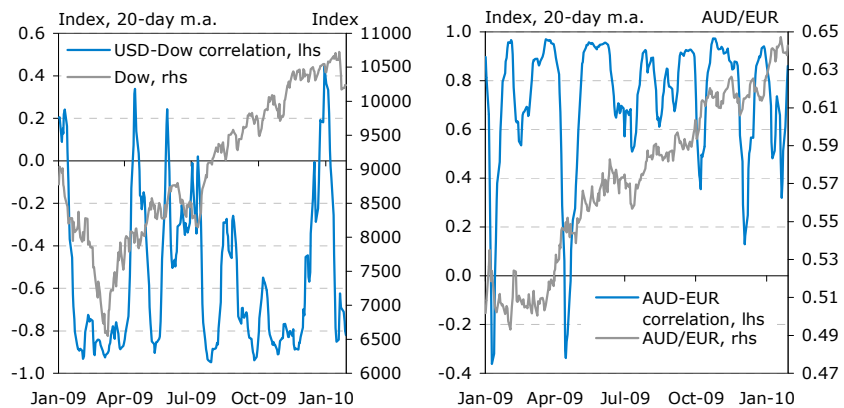
The AUD/USD is consolidating in a lower range of 0.8950-0.9150, thanks to a resurging US dollar. Pushes below the bottom of the range should be met by good demand from natural buyers, while natural sellers are probably ratcheting down their strike price toward the 0.9250-0.9300 level. With volumes having been relatively light in January compared with recent years, we look for a pickup in hedging activity in the coming weeks.

AUD/USD Key Levels: 0.8950 – 0.9150

AUD DRIVEN BY BROADER TURN IN USD

We have seen quite a significant turn in the USD over the past few weeks. Over the second half of 2009, the USD was out of favour as investors bought into global equity and commodity markets, and favoured high-yielding currencies such as the AUD. A couple of events in the past few weeks have shifted this dynamic considerably. First, the global equity markets are taking a breather, mainly due to a weak first quarter corporate earnings season. This has tempered risk appetite in the broader markets, which has boosted demand for the safe-haven USD. Thus we see in the chart below that the correlations between weaker equity markets, a stronger USD and weaker commodity prices that dominated in early 2009 have returned.

FIGURE 4. CORRELATIONS BETWEEN FX AND EQUITY MARKETS

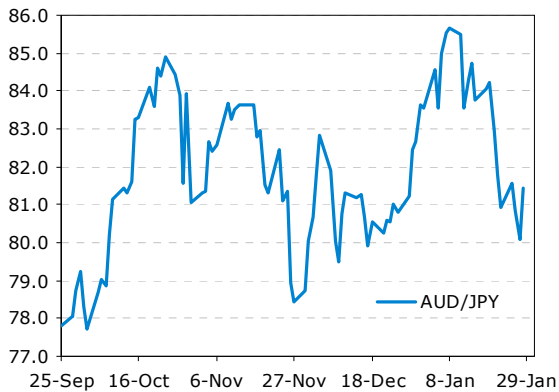


Sources: Bloomberg and ANZ

A second series of events suggests that the nascent strength in the USD may be extended, even if and when risk appetite returns. Although it may seem a strange connection, Greece's large budget deficits and growing debt burden have started to really weigh on the EUR. The possibility that Greece may be downgraded to below BBB+ by S&P – which has Greece on Negative CreditWatch – and require fiscal support from other Euro zone members has raised questions around some of the core rules that have governed Europe's monetary union. Greece's budget woes do not appear to have an easy fix, and over the past several weeks we have seen the yields on Greece's sovereign securities rise to historic levels. As the EUR is the main competitor to the USD and makes up more than 50% of the most-watched USD trade-weighted index (the DXY), Greece's drag on the EUR has significantly benefited the USD. Meanwhile, weaker data runs out of the UK and Japan have also weighed on these currencies. This once again leaves the USD as the tallest pygmy.

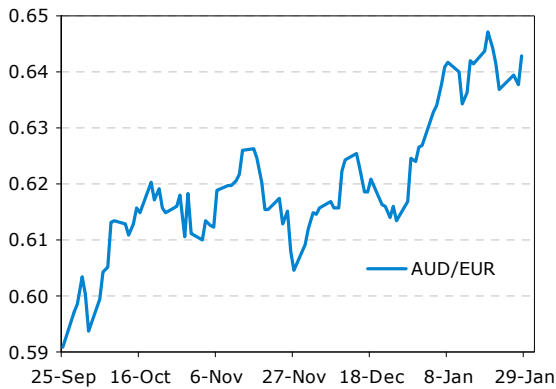
Pricing action on the night of the FOMC meeting this week highlighted the change in trend for the USD. Equity markets in Europe reacted badly to a string of weak data, and the USD rallied. The FOMC statement came out, upgrading somewhat the Fed's assessment of the US economy. The US equity markets rallied, and so did the USD. For the moment, bad news is good for the USD and good news is also good for the USD. For the AUD, this is likely to translate into a consolidation of an AUD/USD range, with the potential for some further upside on cross rates.

AUD CROSS VIEW



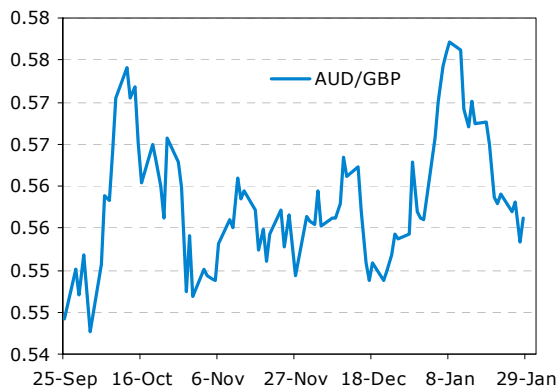
AUD/JPY KEY LEVELS: 80.00 – 83.80

- Renewed risk aversion and declining market confidence has seen the AUD/JPY fall 4% in the last seven days, with the cross remaining supported above 80.00. The AUD/JPY will continue to remain volatile to further comments from China, and sensitive to market risk appetite.
- A flurry of data out of Japan in the next seven days will probably fail to direct the AUD/JPY, with the RBA's interest rate announcement on Tuesday being the key driver for the currency pair. Should the RBA increase interest rates we may see the AUD/JPY extend towards 83.20 with downside support found at 80.00.



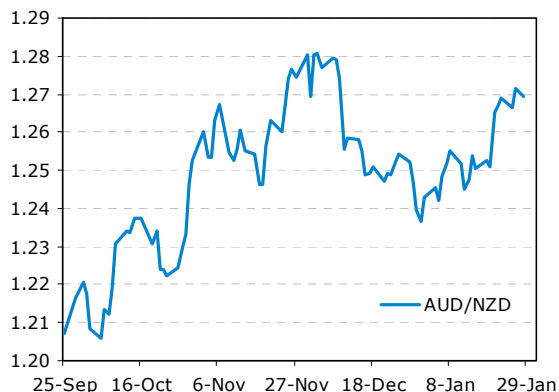
AUD/EUR KEY LEVELS: 0.6280 – 0.6480

- The AUD/EUR is off its recent highs amid a downbeat week for AUD. However, continued EUR weakness limits downside for the cross, with the potential for a short-term break out of this range to the upside on negative news out of Europe. New highs for Greece's sovereign CDS spreads continue to weigh heavily on the EUR and are the key to the performance of the cross in the short term.
- There is a flurry of data out of the European Union in the coming week that will drive the AUD/EUR. The cross could reach back toward recent highs if German and French data surprise significantly to the downside. Greece CES spreads will also be closely watched. The cross should be well supported at 0.6340, with extensions likely capped to 0.6480.



AUD/GBP KEY LEVELS: 0.5450– 0.5780

- With Britain publishing its first quarter of positive GDP growth since Q1 2008, the GBP has strengthened and caused AUD/GBP to fall by 1%. Markets will be looking towards Tuesday's RBA rate announcement. An RBA rate hike could see the AUD/GBP extend back towards 0.5700.
- The BoE is also meeting next week, and is widely expected to keep interest rates on hold. The market will be looking for the accompanying statement for any change in tone, or hint of future policy direction to maintain Britain's positive momentum. A hawkish statement may see the AUD/GBP test downside support at 0.5450.



AUD/NZD KEY LEVELS: 1.2500 – 1.2780

- The AUD/NZD has made moderate gains, up 1% from last week as the RBNZ left interest rates on hold this morning while confirming that they are unlikely to remove policy stimulus until mid 2010. Should the cross come under pressure with further market risk aversion, dips should be limited to 1.2540.
- A busy week ahead for New Zealand with December's trade balance, visitor's arrivals and unemployment rate all scheduled for release. However expect these to be overshadowed by the RBA's announcement, an increase in interest rate differentials between the nations may see the AUD/NZD extend towards 1.2800.

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS	2008	2009 F	2010 F	2011 F
Economic activity (annual % change)				
Private final demand	4.1	0.2	2.8	4.6
Household consumption	2.4	1.4	1.8	3.0
Dwelling investment	2.6	-5.5	9.5	6.0
Business investment	12.4	-2.2	3.4	9.2
Public demand	6.7	2.1	7.0	4.6
Domestic final demand	4.5	0.7	3.7	4.6
Inventories (contribution to GDP)	-0.4	-0.5	0.6	-0.1
Gross National Expenditure (GNE)	4.3	0.1	4.3	4.5
Exports	3.8	1.1	2.3	5.4
Imports	11.4	-7.7	9.5	9.2
Net Exports (contribution to GDP)	-1.6	2.0	-1.5	-0.9
Gross Domestic Product (GDP)	2.2	0.9	3.0	3.4
Prices and wages (annual % change)				
Inflation: Headline CPI	4.4	1.8	2.3	2.8
Underlying *	4.4	3.7	2.9	2.7
Wages	4.1	4.1	3.6	2.9
Labour market #				
Employment (annual % change)	2.2	2.2	0.3	2.0
Unemployment rate (annual average %)	4.3	4.3	5.6	5.6
External sector				
Current account balance: A\$bn	-54.3	-54.3	-50.3	-58.1
% of GDP	-4.4	-4.4	-4.0	-4.4

* Average of RBA weighted median and trimmed mean statistical measure.

Actual labour market data for 2008 and 2009, forecasts for 2010 and 2011.

AUSTRALIAN INTEREST RATES	CURRENT	MAR 10 F	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F
RBA cash rate	3.75	4.00	4.25	4.50	4.75	4.75
90 day bill	4.30	4.45	4.75	4.85	5.00	5.00
3 year bond	4.67	4.90	5.10	5.15	5.30	5.55
10 year bond	5.47	5.40	5.50	5.45	5.60	5.75
3s10s yield curve	0.80	0.50	0.40	0.30	0.30	0.20
3 year swap	5.34	5.35	5.55	5.60	5.75	6.00
10 year swap	6.09	6.00	6.05	6.00	6.15	6.30
INTERNATIONAL INTEREST RATES	CURRENT	MAR 10 F	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F
RBNZ cash rate	2.50	2.50	3.00	3.75	4.00	4.00
NZ 90 day bill	2.79	2.80	3.63	4.22	4.30	4.30
US Fed funds note	0.25	0.25	0.25	0.25	0.75	1.25
US 2 year note	0.94	1.20	1.50	1.75	2.20	2.65
US 10 year note	3.68	4.10	4.30	4.25	4.40	4.45
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.00	1.00	1.00	1.00	1.50	1.75
UK repo rate	0.50	0.50	0.50	0.50	1.00	1.25

For additional information on interest rates please refer to ANZ's *Interest Rate Strategy Weekly*.



FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	MAR 10 F	JUN 10 F	SEP 10 F	DEC 10 F	MAR 11 F
Australian exchange rates						
A\$/US\$	0.9016	0.94	0.96	0.92	0.90	0.87
NZ\$/US\$	0.7097	0.72	0.73	0.71	0.70	0.68
A\$/¥	81.40	85.5	84.5	82.8	82.8	81.8
A\$/€	0.6433	0.64	0.65	0.64	0.64	0.62
A\$/£	0.5570	0.57	0.58	0.56	0.55	0.52
A\$/NZ\$	1.2704	1.31	1.32	1.30	1.29	1.28
A\$/C\$	0.9563	0.98	0.98	0.96	0.95	0.92
A\$/CHF	0.9474	0.97	0.97	0.95	0.96	0.95
A\$/CNY	6.1549	6.42	6.56	6.20	5.99	5.72
A\$ Trade weighted index	69.90	72.0	73.2	70.6	68.7	66.4
International cross rates						
US\$/¥	90.29	91.0	88.0	90.0	92.0	94.0
€/US\$	1.4014	1.46	1.48	1.43	1.41	1.40
€/¥	126.54	133	130	129	130	132
£/US\$	1.6186	1.64	1.66	1.64	1.65	1.66
€/£	0.8658	0.89	0.89	0.87	0.85	0.84
US\$/C\$	1.0607	1.04	1.02	1.04	1.05	1.06
US\$/CHF	1.0508	1.03	1.01	1.03	1.07	1.09
US\$ index	78.73	76.4	75.1	77.2	78.2	78.8
Asia exchange rates						
US\$/CNY	6.8270	6.83	6.83	6.74	6.66	6.58
US\$/HKD	7.7718	7.75	7.76	7.77	7.77	7.76
US\$/IDR	9375	9300	9500	9300	9000	8800
US\$/INR	46.27	46.5	46.0	46.0	45.0	44.5
US\$/KRW	1152	1100	1150	1175	1050	1000
US\$/MYR	3.4105	3.34	3.37	3.40	3.40	3.35
US\$/PHP	46.681	46.0	46.5	46.0	45.0	45.0
US\$/SGD	1.4031	1.39	1.40	1.41	1.41	1.40
US\$/THB	33.070	33.00	33.00	32.50	32.50	32.50
US\$/TWD	31.968	31.50	31.90	31.50	30.50	30.00
US\$/VND	18472	18500	18500	18500	19300	19300
Pacific exchange rates						
PGK/US\$	0.3775	0.392	0.381	0.395	0.386	0.372
FJD/US\$	0.5168	0.545	0.540	0.530	0.523	0.510

IMPORTANT NOTICE

Australia and New Zealand Group Limited is represented in:

AUSTRALIA BY:

Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 100 Queen Street, Melbourne, Victoria, 3000, Australia
 Telephone +61 2 9226 4647 Fax +61 3 9273 5711

UNITED KINGDOM BY:

Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 40 Bank Street, Canary Wharf, London, E14 5EJ, United Kingdom
 Telephone +44 20 3229 2121 Fax +44 20 7378 2378

UNITED STATES OF AMERICA BY:

UNITED STATES OF AMERICA by:
 ANZ Securities, Inc. (Member of FINRA [www.finra.org] and SEC)
 6th Floor 1177 Avenue of the Americas
 New York, NY 10036, United States of America
 Tel: +1 212 801 9160 Fax: +1 212 801 9163

NEW ZEALAND BY:

ANZ National Bank Limited
 Level 7, 1-9 Victoria Street, Wellington, New Zealand
 Telephone +64 4 802 2000

This document ("document") is distributed to you in Australia and the United Kingdom by Australia and New Zealand Banking Group Limited ABN 11 005 357 522 ("ANZ") and in New Zealand by ANZ National Bank Limited ("ANZ NZ"). ANZ holds an Australian Financial Services licence no. 234527 and is authorised in the UK and regulated by the Financial Services Authority ("FSA").

This document is being distributed in the United States by ANZ Securities, Inc. ("ANZ S") (an affiliated company of ANZ), which accepts responsibility for its content. Further information on any securities referred to herein may be obtained from ANZ S upon request. Any US person(s) receiving this document and wishing to effect transactions in any securities referred to herein should contact ANZ S, not its affiliates.

This document is being distributed in the United Kingdom by ANZ solely for the information of its eligible counterparties and professional clients (as defined by the FSA). It is not intended for and must not be distributed to any person who would come within the FSA definition of "retail clients". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the FSA.

This document is issued on the basis that it is only for the information of the particular person to whom it is provided. This document may not be reproduced, distributed or published by any recipient for any purpose. This document does not take into account your personal needs and financial circumstances. Under no circumstances is this document to be used or considered as an offer to sell, or a solicitation of an offer to buy.

In addition, from time to time ANZ, ANZ NZ, ANZ S, their affiliated companies, or their respective associates and employees may have an interest in any financial products (as defined by the Australian Corporations Act 2001), securities or other investments, directly or indirectly the subject of this document (and may receive commissions or other remuneration in relation to the sale of such financial products, securities or other investments), or may perform services for, or solicit business from, any company the subject of this document. If you have been referred to ANZ, ANZ NZ, ANZ S or their affiliated companies by any person, that person may receive a benefit in respect of any transactions effected on your behalf, details of which will be available upon request.

The information herein has been obtained from, and any opinions herein are based upon, sources believed reliable. The views expressed in this document accurately reflect the author's personal views, including those about any and all of the securities and issuers referred to herein. The author however makes no representation as to its accuracy or completeness and the information should not be relied upon as such. All opinions and estimates herein reflect the author's judgement on the date of this document and are subject to change without notice. No part of the author's compensation was, is or will directly or indirectly relate to specific recommendations or views expressed about any securities or issuers in this document. ANZ, ANZ NZ, ANZ S, their affiliated companies, their respective directors, officers, and employees disclaim any responsibility, and shall not be liable, for any loss, damage, claim, liability, proceedings, cost or expense ("Liability") arising directly or indirectly (and whether in tort (including negligence), contract, equity or otherwise) out of or in connection with the contents of and/or any omissions from this communication except where a Liability is made non-excludable by legislation.

Where the recipient of this publication conducts a business, the provisions of the Consumer Guarantees Act 1993 (NZ) shall not apply.