

US Fed surprises again

19 March 2009

Authors:

Warren Hogan
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

Katie Dean
Senior Economist
+61 3 9273 1381
Katie.Dean@anz.com

Tony Morriss
Senior Market Strategist
+61 2 92266757
Tony.Morriss@anz.com

Riki Polygenis
Economist
+61 3 9273 4060
Riki.Polygenis@anz.com

Dr. Alex Joiner
Economist,
+61 3 9273 6123
Alex.Joiner@anz.com

Amber Rabinov
Economist
+61 3 9273 4853
Amber.Rabinov@anz.com

Daniel Bae
Analyst
Daniel.Bae@anz.com
+61 2 9227 1272

Our Vision:

For ANZ Economics & Markets Research to be the most respected, sought-after and commercially valued source of economics and markets research and information on Australia, New Zealand, the Pacific and Asia.

Macro Update: Another unprecedented week

- The Fed has announced plans to purchase longer-term US Treasuries and to substantially increase its purchase of mortgage-backed securities. This move should help ease global credit conditions, but it also underscores the dire state of the global economy.
- Easing global credit conditions is an important consideration for RBA policy. It supports the view for a more measured pace of easing, and that rates in Australia will not have to fall as far as in the G7.

Interest Rate Markets: The local implications of US quantitative easing

- The Fed is now trying to keep US Treasury rates low and stable.
- The RBA is extremely unlikely to follow other global economies and adopt quantitative easing, mainly due to Australia's more effective monetary policy transmission mechanism.
- But these offshore policy moves support our long-held view that Australian yields will be range-bound for this year. It may be difficult for local yields to make new lows, but they are also now unlikely to rise sharply for now.

FX: Time to take advantage of lower volatility

- Improved risk appetite, especially following the Fed's policy decision, and a global equity market rally has sent the AUD sharply higher.
- The rise in the AUD/USD has occurred in conjunction with a continued decline in both realised and implied volatility, creating good opportunities to hedge against forecast depreciation in the AUD/USD in coming months.

Chart of the week

Figure 1: US yields fall sharply after the Fed surprises with plans to purchase US Treasuries



Source: Bloomberg and ANZ

Katie Dean
 Senior Economist
 +61 3 9273 1381
 Katie.Dean@anz.com

Macro Update: Another unprecedented week

- The Fed has announced plans to purchase longer-term US Treasuries and to substantially increase its purchase of mortgage-backed securities. This move should help ease global credit conditions, but it also underscores the dire state of the global economy.
- Easing global credit conditions is an important consideration for RBA policy. It supports the view of a more measured pace of easing, and that rates in Australia will not have to fall as far as in the G7.
- Queensland goes to the polls this weekend. Expectations are growing for a post-election announcement for increased Commonwealth assistance to the State government investment requirement.

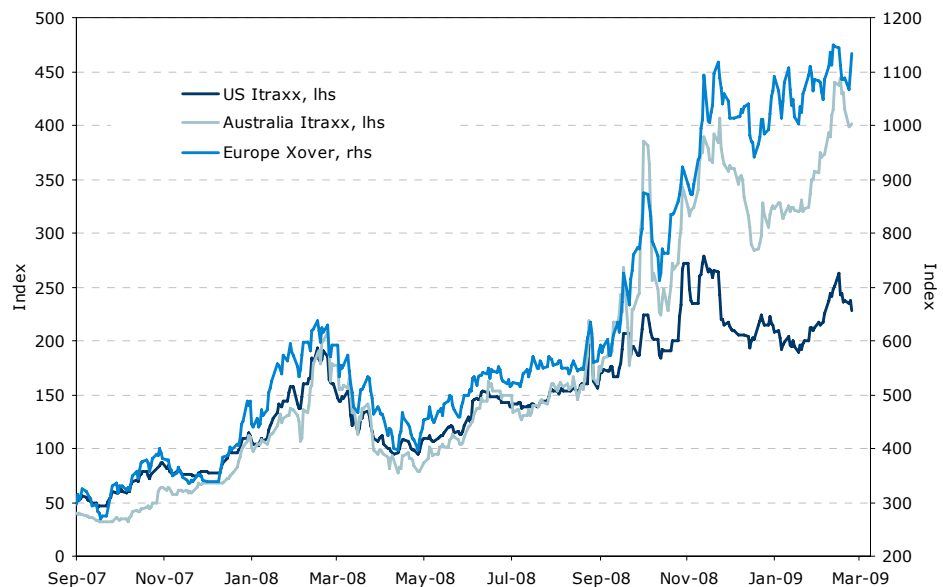
More unprecedented policy support

This week saw more unprecedented policy action to try and support the global economy. The US Federal Reserve announced early this morning that it would purchase US\$300 billion of longer-term US Treasuries over the next six months. The Fed will also purchase an additional US\$750 billion of mortgage-backed securities (MBS) to total US\$1.25 trillion of MBS this year as well as an additional US\$100 billion of US Government agency debt.

The aim of these policies is to cap long-term US term rates at low levels and to, by purchasing MBS, further reduce the risk premia on household borrowing. This, it is hoped, will spark the credit creation process in the US, to spur a recovery in lending and ultimately economic growth.

So far the policy decision has sparked a sharp rise in risk appetite. This has pushed the A\$ higher and sustained the rally in global equities with the S&P 500 now up 17% from its lows. These moves have also, importantly, prompted an easing in global credit conditions, albeit to still very tight levels (see figure 2).

Figure 2: Global credit concerns easing from recent highs



Source: Bloomberg

The Fed's unprecedented move highlights the profound distress the US economy continues to suffer. It has come as forecasts of global economic growth continue to be marked down. The IMF now reportedly expects the global economy to contract by 0.6% this year while the World Bank has again marked down its forecast for 2009 Chinese economic growth to 6.5% from 7.5%. The Fed's move overnight should help to shore up the eventual economic recovery. This week Fed Chairman Bernanke stated that "we'll see the recession coming to an end probably this year. We'll see recovery beginning next year". That is still some way from here.

RBA to take note of easing credit conditions

For the RBA, the Fed's move overnight provides conflicting signals. On the one hand, it underscores the dire situation in the global economy. On the other, it is helping to ease global credit conditions and confirms policy-makers commitment to resolve this issue, supporting prospects for a recovery.

The positive impact of these offshore developments is being felt in Australia. Australian term rates have fallen (see *Interest Rate Markets* from p4), the ASX is up 10% from its low, Aussie ITRAXX is easing (see chart above) and 3-month interbank lending margins over OIS rates (a proxy for interbank lending risk) have narrowed to just 26bps, almost half the monthly average of 54bps in February. Importantly, corporate debt issuance has recommenced with two large Australian corporates tapping debt markets in large deals this week, albeit at elevated costs relative to pre-crisis levels.

The RBA will take careful note of the easing in local financial conditions. Such improvements, if sustained, will allow an even more effective monetary policy transmission mechanism in Australia. This not only supports a more measured pace of easing from the RBA from here, it also strongly suggests official interest rates in Australia will not be required to be cut to the unprecedented near-zero rates now in place in other major economies. Our forecast remains for the cash rate to hit a low of 2.0% by the fourth quarter of the year.

We continue to look for a 25bps ease from the RBA Board in April. While it is a tough call, at this stage we believe a pause may be more likely than a 50bps cut, mainly because of the easing in credit markets. The minutes from the Board's March meeting, which stressed the need to "*leave adequate flexibility for policy at future meetings*" also suggests smaller moves, and further pauses are more likely in the short-term as the RBA waits to respond to any sharp deterioration in growth and/or unemployment, which we expect will be most acute in the second half of this year.

States and the public investment need

This weekend Queensland goes to the polls. While State elections are usually decided on local issues, this will be the first opportunity to judge any political fall out from the sharp economic slowdown. Polls point to a knife-edge result.

There is growing speculation that once the Queensland election passes, the Commonwealth Government may announce further policy support for the State governments, and in particular the State government infrastructure investment requirement. Sharp falls in State revenue collections (as a result of the weaker economy), the surprise downgrade of Queensland's debt rating and more broadly tough global credit conditions (notwithstanding some recent improvement) is severely inhibiting States' abilities to raise funds. This is a severe constraint on the progress of State investment projects, which of course has negative implications for growth and employment.

The Commonwealth Government has a number of options to support this unwelcome hit to the economy, by for example extending its government-guarantee to State government funding or by providing higher levels of direct investment, either independently or in partnership with the States, for example using the Building Australia Fund (which reportedly has US\$12.5 billion in available funds). This will be an important policy development to watch in the weeks ahead.

Data wrap

- The **minutes from the RBA's March meeting** confirmed an easing bias with the Board pausing to "*leave adequate flexibility for policy at future meetings*".
- The **WBC Leading Index** fell by 0.2% in January.
- **New motor vehicle sales** fell 3.5% in February and 18.6% over the year.
- **Preliminary BOP goods imports** were flat in February as falls in consumption goods and motor vehicles were offset higher gold and capital goods.
- **Dwelling starts** fell 9.9% in Q4, suggesting dwelling investment will subtract significantly from GDP growth in the first half of 2009.

Tony Morriss
 Senior Rates Strategist
 +61 2 9226 6757
 tony.morriss@anz.com

Interest Rate Markets

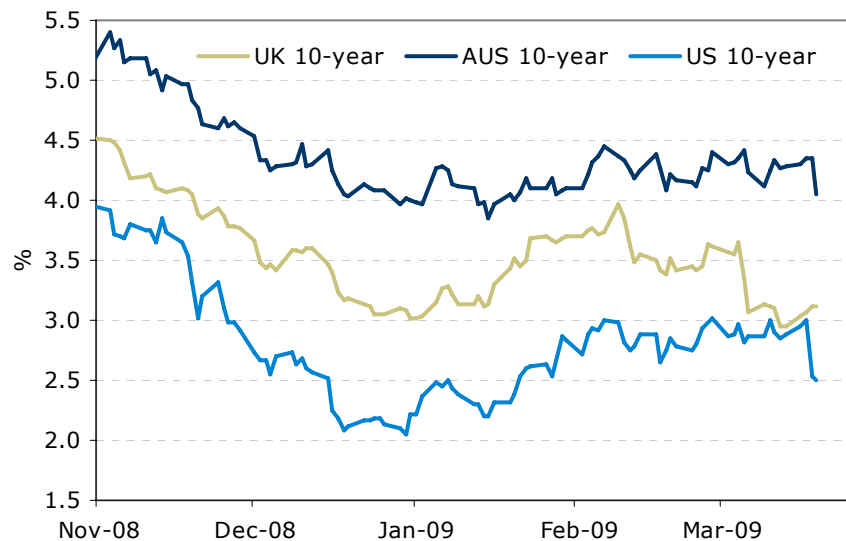
Quantitative easing in major economies is unlikely to be repeated here. But there are implications for local markets.

The US, UK, Japan and Switzerland have now all moved decisively to take monetary policy into new territory with large-scale purchases of debt. Central Banks will purchase government, corporate and mortgage debt to engineer a significant easing in financial conditions for corporate and household borrowers.

The news that the US Federal Reserve plans to buy \$US300bn of Treasuries, up to \$750bn of mortgage-backed securities and another \$100bn of Agency paper was a surprise for the market, mostly in terms of timing and scope as there did not appear to be a consensus on this issue in recent Fed commentary. Bernanke passed up two major opportunities to prepare the market for this decision in recent weeks and there has been one dissenter at recent Fed meetings arguing for this policy.

The apparent success of the Bank of England's bond purchasing operations and mounting problems in getting new funding for financial sector support through an increasingly enraged Congress might help explain the shift in priorities. The impact has been impressive with yields on US 10-year bonds falling by more than 50bps at one stage overnight, a similar experience to the UK policy announcement on March 5th (Figure 3).

Figure 3: 10-year bond yields



Source: ANZ & Bloomberg

These developments are significant as the scope of the bond purchases has short-circuited the recent impulse for longer-dated yields to rise in the face of ever-mounting supply pressures. In the case of the UK this has been sufficient for bond yields to hit new lows. Even with the 50bps rally in the US last night US yields are still well above the lows seen in December. The US Treasury is due to auction up to \$100bn of bonds next week. The \$US has weakened sharply to reflect less attractive US rate differentials and the prospect of increased supply of \$US into the international system. At least the Fed's decision today should provide some near-term assurance to nervous international investors in US debt.

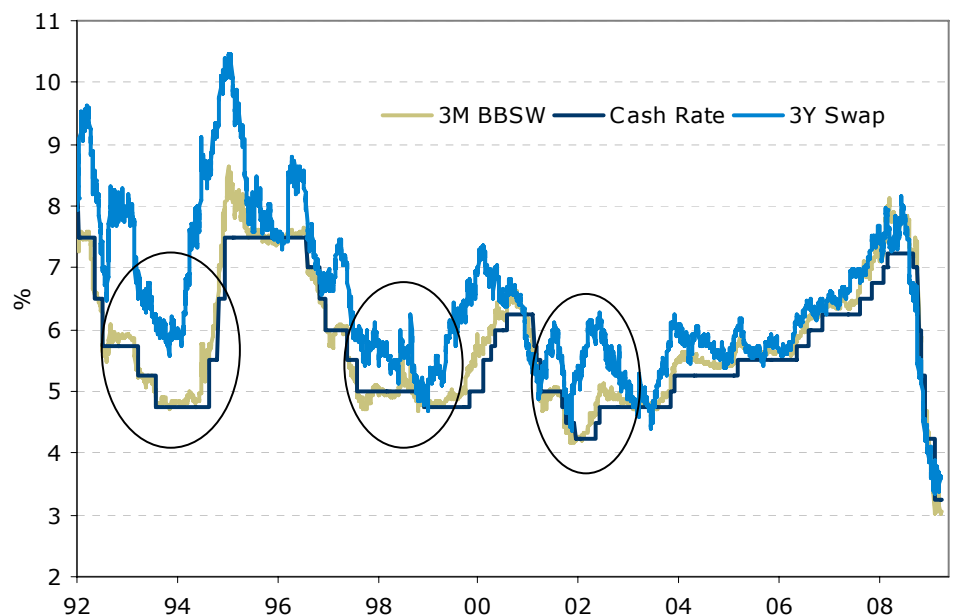
The Fed's policy move is designed to keep US treasury rates low and stable. US 10-year Treasury yields now look capped in a 2½-3.0% trading range for some time. Having flattened significantly by around 20bp last night, the US 2s10s curve is likely to maintain a 170-200bp trading range.

It is extremely unlikely that Australia will follow the US and UK down this path. Monetary policy is far more efficient in this country as lower mortgage rates have fallen sharply and fiscal measures are already shoring up activity, notably at the lower and mid-end of the housing sector.

With the international outlook such a central driver of the RBA view, it could be argued that the significant easing of financial conditions in key economies will improve global growth prospects in the year ahead, even if there is a higher degree of uncertainty around the timing and extent of the economic impact of these unconventional policy measures.

The Fed's policy move supports our long-held view that Australian yields will be range-bound for this year. The Fed's operations are capping the rise in domestic longer-dated bond yields, especially as the RBA remains in easing mode. Local 3-year and 10-year bonds are still holding to ranges established over the past 3 months. Without unexpected weakness in the domestic economy that could push official cash rates below 2.0%, conditions for a move to new lows for yields do not appear to be in place. Given the Fed's actions, a notable rise in local yields is also not in prospect. Australia's 3s10s curve has flattened by around 8bps since the Fed announcement. While further flattening is in prospect in the short-term, we do not expect moves to be as big as in the US.

Figure 4: 3-year swap rates through easing cycles



Source: ANZ & Bloomberg

This latest rally provides a fresh opportunity for borrowers to target attractive levels to lock funding rates. Figure 4 above highlights how swap rates have performed through previous easing cycles. Rates have bottomed ahead of, or coincidentally with, the end of the easing cycle over the last two cycles. The chart also highlights the extraordinary scale of the easing of policy to date. Most striking in each of the easing cycles has been the speed of the rise in market rates once it is clear the easing cycle is over. We would still see 2-year swaps around 3.0%, 3-years around 3.4% and 5-years around 4.0% as good target levels.

The Fed's purchase of Treasuries should get underway as soon as next week while the UK programme is already underway. The longer-term impact of these policies remains uncertain although it is interesting to note that UK yields had stopped falling after the announcement impact.

The domestic focus should now shift to Government funding issues for infrastructure following the Queensland election this weekend and a raft of RBA speeches over the next two weeks ahead of the next RBA board meeting on April 7th. RBA Governor Stevens will have an opportunity to guide expectations in a speech next Wednesday. But given the speech is on "Public Policy and the Payments System", the Governor may provide little comment on the monetary policy outlook.

FX: Time to take advantage of lower volatility

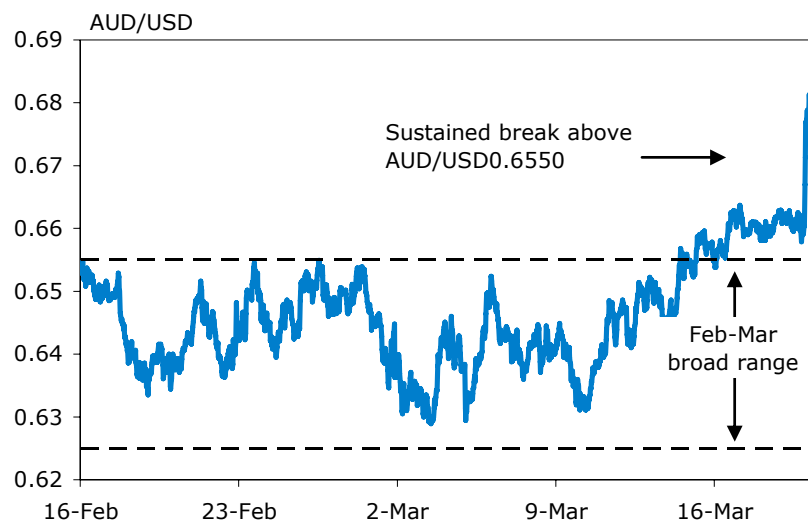
Recommendation

The AUD has surged above its four-week trading range towards AUD/USD0.68. AUD sellers are presented with good opportunities to transact on the current rally above 0.6750 and should look to hedge against a forecast depreciation in coming months. Current AUD/JPY levels, at a near ten-week high, also look attractive for AUD sellers. No domestic events are scheduled that may be likely to influence the AUD over the coming week, although keep an eye out for February US durable goods orders to be released on Wednesday.

Overview

The AUD has made a clean break above its February-March range of AUD/USD0.6250 - 0.6550 this week, reaching a high of 0.6817 this morning. As discussed in last week's analysis, the move higher has been largely predicated on a steady improvement in risk appetite and a global equity market rally. However, it was this morning's announcement by the US Federal Reserve that it will buy longer-dated Treasuries that gave market sentiment an additional boost and sent the AUD sharply higher to around AUD/USD0.68. In the short term, the risk is that the AUD/USD could head higher towards its early February peak of 0.6849.

Figure 1: AUD/USD has broken above its month-long trading range



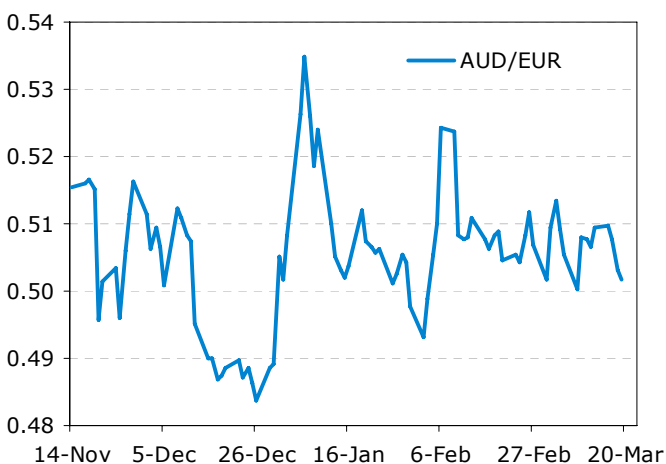
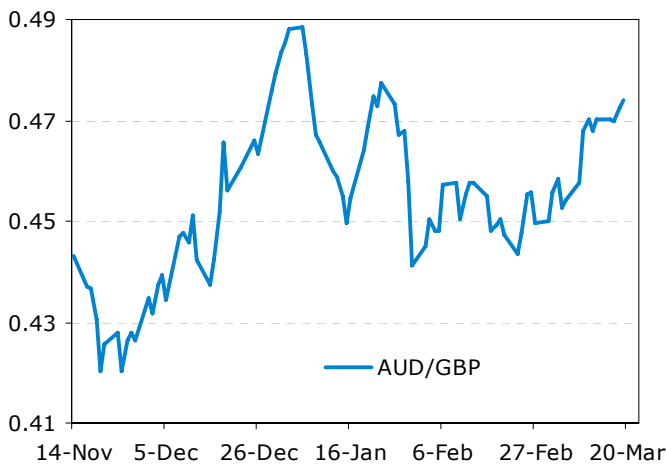
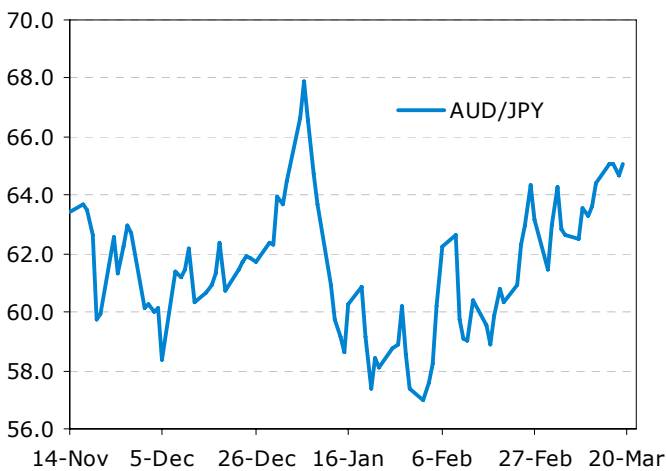
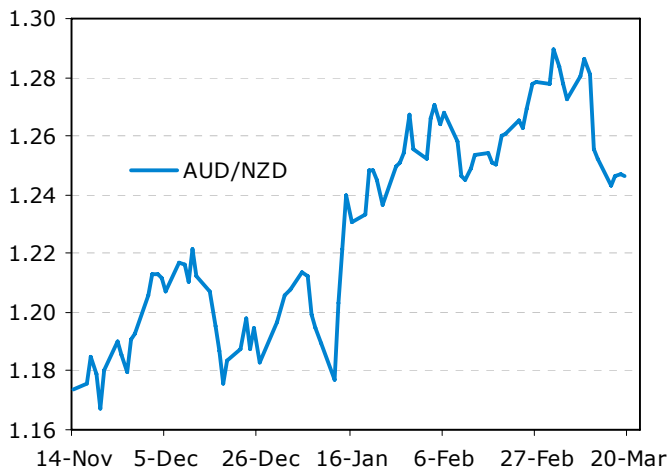
Source: ANZ, Bloomberg

With the AUD/USD range-bound since mid February, this has meant that realised volatility has steadily declined, and in turn, implied volatility has followed. The relationship between AUD/USD spot moves and implied volatility is such that volatility tends to be higher on downward moves in the AUD rather than on rallies. This is because the AUD is considered to be a higher-yielding "risk" currency, so when sentiment turns, it turns sharply and the AUD can sell-off very quickly. In comparison, AUD/USD rallies tend to be more steady. Therefore the rise of the AUD/USD over the past week has occurred in conjunction with a continued decline in both realised and implied volatility (that said, this morning's sharp jump higher in the AUD/USD has seen volatility tick up a notch).

So how can businesses take advantage of current pricing levels? While the AUD/USD is trading at its highest level in nearly six weeks, the underlying economic drivers suggest that the currency should return to its downward trend and head lower over the course of the year. Moreover, relative to the past few weeks, lower volatility has made options cheaper, in particular for importers with a narrowing in the risk reversal making puts even more affordable.

AUD/USD Key levels: 0.6550 – 0.6850. AUD/USD0.6550, the top of the recent trading range, should provide good downside support over the coming sessions. We see 0.6850 then 0.6990 as key levels for the AUD/USD to break through on the upside.

AUD cross view



AUD/NZD Key levels: 1.2260 - 1.2610

- A rebound in global risk appetite has encouraged a sustained rally in the NZD which has rebounded to above NZD/USD0.52. This has weighed on the AUD/NZD and driven it to a seven-week low. Some consolidation in the cross has been expected following a recent surge towards 1.30, and the risk is that the AUD/NZD could head lower towards 1.2260 over the coming sessions. However, the medium-term outlook remains AUD/NZD positive.
- We need to see a push through AUD/NZD1.2530 then 1.2610 for the cross to return to its recent higher trading range. NZ current account and GDP data for Q4 due out next week are of key interest.

AUD/JPY Key levels: 61.00 – 67.90

- With the JPY falling out of favour with market participants, the AUD/JPY rally has persisted. A sustained break above 65.50 could see the cross push toward this year's peak around 67.90, although the fundamentals suggest that the opportunities for further topside moves are limited. Downside support exists around 63.80 and then 62.30.
- Look out for Japanese trade data to be released on Wednesday. While a return to a merchandise trade surplus in February is unlikely, a better than expected result could support the USD/JPY and weigh on the AUD/JPY.

AUD/GBP Key levels: 0.4550 – 0.4800

- The past 1½ weeks has seen the AUD/GBP trade in a very tight band, surging to 0.4750 this morning. Both the AUD and GBP have been supported on global equity market moves and today's US Fed announcement, although the AUD has outperformed the GBP. If the cross continues to rally on renewed GBP/USD weakness and sustains a move above 0.4800, the next level higher is the January peak of 0.4940. Strong support exists at AUD/GBP0.4690 and then lower at 0.4650
- UK data next week include February inflation and retail sales, Q4 final GDP and the current account.

AUD/EUR Key levels: 0.4980 – 0.5110

- The AUD/EUR remains directionless, trading in a tight 0.5000-0.5150 range. The EUR has outperformed the AUD in recent sessions, pushing the cross below 0.50 for only the second time this month. If AUD/EUR weakness persists and pushes below 0.4980, the next key level is 0.4900. Topside resistance remains at 0.5100-0.5110.
- The risk of better than expected data releases in the Euro zone could weigh on the AUD/EUR. Attention will be on January industrial production tomorrow, trade figures on Monday, and the March Manufacturing Purchasing Managers' Index on Tuesday.

ANZ economic and financial market forecasts

Australian economic indicators	2007	2008	2009f	2010f
Economic activity (annual % change)				
Private final demand	6.0	3.9	-1.9	-0.8
Household consumption	4.3	2.1	-0.4	0.9
Dwelling investment	2.7	2.0	-5.1	9.6
Business investment	13.8	13.2	-4.7	-10.5
Public demand	2.8	5.0	3.2	5.2
Domestic final demand	5.4	4.1	-0.7	0.6
Inventories (contribution to GDP)	0.6	-0.6	-0.3	0.2
Gross National Expenditure (GNE)	5.9	3.5	-1.0	0.7
Exports	3.2	4.7	-4.2	0.4
Imports	11.5	10.6	-6.9	1.0
Net Exports (contribution to GDP)	-1.8	-1.4	0.8	-0.1
Gross Domestic Product (GDP)	4.0	2.1	-0.4	0.9
Prices and wages (annual % change)				
Inflation: Headline CPI	2.3	4.4	2.8	2.8
Underlying*	3.1	4.3	2.7	2.8
Wages	4.1	4.2	3.9	3.4
Labour market				
Employment (annual % change)	2.8	2.2	-0.2	-0.8
Unemployment rate (%)	4.4	4.2	5.6	7.4
External sector				
Current account balance: A\$ bn	-68.1	-50.1	-52.9	-79.5
% of GDP	-6.3	-4.2	-4.4	-6.5

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

Australian interest rates	Current	Jun 09f	Sep 09f	Dec 09f	Mar 10f	Jun 10f
RBA cash rate	3.25	2.75	2.25	2.00	2.00	2.00
90 day bill	3.01	2.93	2.10	2.30	2.30	2.35
3 year bond	3.04	3.15	3.20	3.35	3.65	3.85
10 year bond	4.07	4.25	4.30	4.45	4.55	4.65
3s10s yield curve	1.04	1.10	1.10	1.10	0.90	0.80
3 year swap	3.48	3.50	3.50	3.65	3.95	4.15
10 year swap	4.69	4.65	4.65	4.75	4.85	4.95
International interest rates						
RBNZ cash rate	3.00	2.50	2.50	2.50	2.50	2.50
NZ 90 day bill	3.24	2.89	2.84	2.80	2.77	2.75
US Fed funds note	0.25	0.25	0.25	0.25	0.50	1.00
US 2 year note	0.83	0.85	0.95	1.25	1.50	1.75
US 10 year note	2.54	3.60	3.70	3.95	4.00	4.15
Japan call rate	0.10	0.10	0.10	0.25	0.50	0.50
ECB refinance rate	1.50	1.25	1.25	1.25	1.75	2.00
UK repo rate	0.50	0.50	0.50	0.50	0.75	1.50

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

Foreign exchange rates	Current	Jun 09f	Sep 09f	Dec 09f	Mar 10f	Jun 10f
Australia and NZ exchange rates						
A\$/US\$	0.6754	0.58	0.56	0.54	0.54	0.56
NZ\$/US\$	0.5413	0.45	0.43	0.41	0.42	0.43
A\$/¥	64.83	58.00	56.56	55.08	56.70	60.48
A\$/€	0.5021	0.48	0.50	0.49	0.50	0.51
A\$/£	0.4753	0.40	0.38	0.36	0.35	0.35
A\$/NZ\$	1.248	1.29	1.30	1.32	1.29	1.30
A\$/CA\$	0.8423	0.78	0.77	0.78	0.78	0.80
A\$/CHF	0.7728	0.73	0.75	0.76	0.77	0.81
A\$/CNY	4.613	3.97	3.83	3.69	3.69	3.82
A\$ Trade weighted index	56.30	50.39	49.39	47.88	47.95	49.41
International cross rates						
US\$/¥	96.0	100	101	102	105	108
€/US\$	1.345	1.20	1.12	1.10	1.08	1.10
€/¥	129.1	120	113	112	113	119
£/US\$	1.421	1.46	1.48	1.50	1.55	1.60
€/£	0.9445	0.82	0.76	0.73	0.70	0.69
US\$/CA\$	1.247	1.34	1.38	1.44	1.44	1.42
US\$/CHF	1.144	1.25	1.34	1.40	1.42	1.45
US\$ index	84.42	91.6	95.7	97.2	98.3	97.1
Asia exchange rates						
US\$/CNY	6.836	6.84	6.84	6.84	6.84	6.82
US\$/HKD	7.752	7.76	7.76	7.76	7.78	7.80
US\$/IDR	11900	12000	11900	11600	11600	11300
US\$/INR	50.88	49.00	48.00	48.00	47.00	47.00
US\$/KRW	1381	1400	1400	1375	1350	1300
US\$/MYR	3.66	3.74	3.80	3.80	3.80	3.75
US\$/PHP	48.29	49.50	50.00	49.50	48.80	48.50
US\$/SGD	1.517	1.58	1.62	1.66	1.66	1.63
US\$/THB	35.64	37.60	39.40	39.40	38.80	38.80
US\$/TWD	33.83	36.00	36.00	35.50	35.50	35.00
US\$/VND	17487	17800	18100	18500	18500	18000
Pacific exchange rates						
PGK/US\$	0.344	0.35	0.34	0.35	0.35	0.36
FJD/US\$	0.547	0.50	0.48	0.47	0.47	0.48

Contacts

ANZ Economics & Markets Research

Saul Eslake	Chief Economist	+61 3 9273 6251	Saul.Eslake@anz.com
Fiona Allen	Business Manager	+61 3 9273 6224	Fiona.Allen@anz.com

Australian Economics and Interest Rates Research

Warren Hogan	Head of Australian Economics and Interest Rates Research	+61 2 9227 1562	Warren.Hogan@anz.com
Tony Morriss	Senior Rates Strategist	+61 2 9226 6757	Tony.Morriss@anz.com
Katie Dean	Senior Economist	+61 3 9273 1381	Katie.Dean@anz.com
Riki Polygenis	Economist	+61 3 9273 4060	Riki.Polygenis@anz.com
Dr. Alex Joiner	Economist	+61 3 9273 6123	Alex.Joiner@anz.com
Daniel Bae	Analyst	+61 2 9227 1272	Daniel.Bae@anz.com

Foreign Exchange and International Economics Research

Amy Auster	Head of Foreign Exchange and International Economics Research	+61 3 9273 5417	Amy.Auster@anz.com
Amber Rabinov	Economist	+61 3 9273 4853	Amber.Rabinov@anz.com

Commodities and Industry Research

Mark Pervan	Head of Commodities Research	+61 3 9273 3716	Mark.Pervan@anz.com
Julie Toth	Senior Economist	+61 3 9273 6252	Julie.Toth@anz.com
Doug Whitehead	Soft Commodity Strategist	+61 3 9273 6684	Doug.Whitehead@anz.com
Paul Deane	Rural and Regional Economist	+61 3 9273 6295	Paul.Deane@anz.com

Property and Financial System Research

Paul Braddick	Head of Property and Financial System Research	+61 3 9273 5987	Paul.Braddick@anz.com
Ange Montalti	Senior Economist	+61 3 9273 6288	Ange.Montalti@anz.com
Dr. Alex Joiner	Economist	+61 3 9273 6123	Alex.Joiner@anz.com

Foreign Exchange and Interest Rates Research (London)

Tim Riddell	Currency and Interest Rate Strategist		Tim.Riddell@anz.com
-------------	---------------------------------------	--	--

Asian Economics Research (Singapore)

Paul Gruenwald	Head of Asian Economics	+65 6419 7902	Paul.Gruenwald@anz.com
Ivy Tan	Associate Director, Credit Research	+65 6419 7914	Ivy.Tan@anz.com
Tamara Henderson	Director, Currency & Rates Strategy	+65 6216 1845	Tamara.Henderson@anz.com
Chang Wei Liang	Research Intern, Markets Asia	+65 6216 1838	WeiLiang.Chang@anz.com

New Zealand Economics Research (Wellington)

Cameron Bagrie	Chief Economist, New Zealand	+64 4 802 2212	Cameron.Bagrie@anz.com
Khoon Goh	Senior Economist	+64 4 802 2357	Khoon.Goh@anz.com
Philip Borkin	Economist	+64 4 802 2199	Philip.Borkin@anz.com
Steve Edwards	Economist	+64 4 802 2217	Steve.Edwards@anz.com
Kevin Wilson	Rural Economist	+64 4 802 2361	wilsonk1@anz.com
David Croy	Interest Rate Strategist	+64 4 802 2286	David.Croy@anz.com

Research and Information Services

Marilla Rough	Senior Information Officer	+61 3 9273 6263	Marilla.Rough@anz.com
Manesha Jayasuriya	Publications Coordinator	+61 3 9273 4121	Manesha.Jayasuriya@anz.com

Important Notice

Australia and New Zealand Banking 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 3 9273 6224 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:

ANZ Securities, Inc. (Member of NASD and SIPC)

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 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 for the information of its market counterparties and intermediate customers only. It is not intended for and must not be distributed to private customers. In the UK, ANZ is regulated by the FSA. 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.