

AUSTRALIAN ECONOMICS

AUSTRALIAN ECONOMICS WEEKLY

29 APRIL 2011

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SURPRISINGLY HIGH CPI INCREASES NEAR-TERM RATE RISE RISK

- In our *In Focus* article this week, we outline what this week's surprisingly high CPI data for Q1 means for the RBA's outlook and for the rate tightening cycle. With the RBA keenly watching the labour market as well as inflation, we take a look at how the Australian labour market may evolve over the next year. On many measures and on the forward indicators, the labour market is not (yet) as tight as in 2007 and 2008, when inflation last broke out of the target band. Nevertheless, the expectation that unemployment will continue to drift lower is consistent with the continuation of the monetary policy tightening cycle in Q3. While no rate hike is expected next week, the higher than expected CPI does suggest that the risk of a near-term move is greater than current market pricing. Watch out for a shift towards more hawkish RBA commentary next week.
- This week the AUD surged in response to the unexpectedly high inflation data on Wednesday, and then hit a new post-float high of USD 1.0948 on Thursday night (Australian time). While the higher than expected local inflation data provided support, the surge largely reflected USD weakness. This followed US Fed Chairman Bernanke's announcement that the Fed is keeping rates on hold for now, and that the QE 2 program will continue to its scheduled conclusion. US data including Q1 GDP (weaker than expected) and weekly jobless claims (a third week of increases and the highest level since January) confirmed Bernanke's stance.

THE WEEK AHEAD

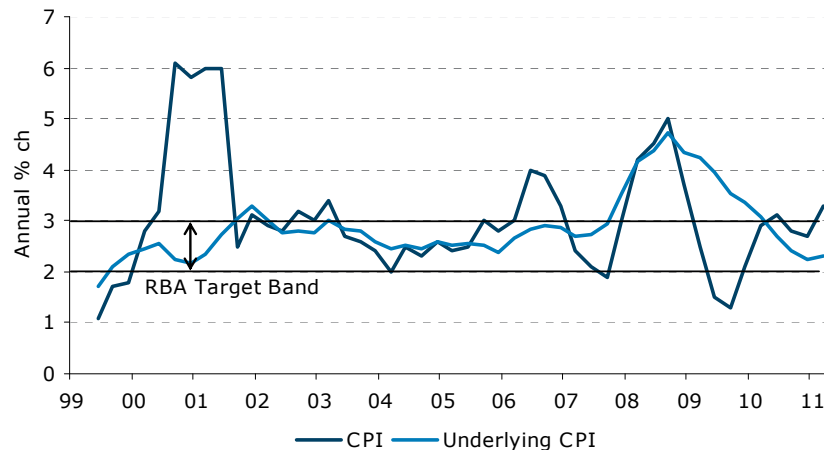
- In **Australia**, the RBA board meeting will have heightened importance after inflation accelerated at a greater pace than the market had anticipated for Q1. Comments on how headline inflation may feed through into core inflation along with wages pressures will be closely monitored by markets (see our RBA preview below). Retail sales and building approvals will also be closely watched as a return of the consumer to higher levels of spending and pick up in the housing market will certainly add pressure on the RBA to raise rates sooner than market expectations. The Victorian, ACT and NT State Governments will release their Budgets on Tuesday.
- In **New Zealand**, wages and employment data will be the focus but are unlikely to provide the RBNZ with a reason to raise rates as Q1 data will be largely impacted by the Christchurch earthquake.
- In the **US**, non-farm payrolls data will again likely shape market expectations for any Fed policy tightening. We believe a series of +300k payrolls reads will be needed before a Fed rate rise. Speeches by voting members of the US Fed will include Bernanke, Yellen, Dudley and Kocherlakota. In **Canada**, labour market data will be the focus.
- In the **Euro zone**, PPI and retail sales will be a precursor to the ECB rates decision. In **Germany**, PMI data, factory orders and industrial production will also likely shape monetary policy expectations over the next few months. The ECB look to be focussing on the core of Europe when setting policy, which has shown more robust growth than the smaller peripherals. In the **UK**, the BoE decision will take centre stage but we will also look toward consumer credit for any change in trend (February data spiked higher).
- In Asia, **Japanese** vehicle sales for April will be watched for any rebound in consumption after the earthquake. Japan will have three days of public holidays next week as part of 'Golden Week' on 3, 4 and 5 May. In **China**, PMI data will be the focus. Our economists in China expect the PMI manufacturing to print at 54.1, slightly higher than the market (53.9).

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SURPRISINGLY HIGH CPI INCREASES NEAR-TERM RATE RISE RISK

This week's stronger than expected inflation data have increased the odds of a near-term interest rate rise by the Reserve Bank. Both headline and underlying inflation picked up notably. Headline inflation increased to 1.6% in the quarter and 3.3% over the year.

FIGURE 1: CONSUMER PRICE INFLATION



Sources: ABS, RBA

A strong number for headline inflation had been expected (Market: 1.2% q/q, ANZ: 1.3% q/q) due to flood-related increases in fruit and vegetable prices (banana prices increased 100%), high petrol prices and seasonal increases in health and education costs. However there were also some other **key upside surprises in the release**. These included:

- (1) **A sharp 4.6% increase in deposit and loan facilities prices** which alone added 0.3ppt to the headline CPI. This is a category which is soon to be removed from the CPI as it is notoriously volatile, difficult to forecast and shows a strong degree of correlation with earlier moves in the RBA cash rate. We therefore suspect the RBA may look through this outsized movement in this series for now.
- (2) **A sudden shift up in rental growth** to 1.3% q/q from 0.8% q/q in the previous quarter. While the rental market remains tight, vacancy rates had been more or less steady in recent quarters and had not foreshadowed such a sudden pick up in rents.
- (3) **A surprise 2.1% jump in tobacco prices**. The ABS partly attributes this to excise changes, but this was still a higher rise than can be explained by policy changes alone.
- (4) **Less widespread discounting for food excluding fruit and vegetables**. This was despite very high profile reports from large retailers pointing to significant price deflation for most categories in the quarter. We were aware that food prices in the CPI do not fully capture the extent of discounting as they only include discounts on single items as the ABS has no way of accounting for 2 for x\$ or 2 for 1 type deals. Nevertheless, we were surprised by how narrowly based the food price falls were: excluding fruit and vegetables and meals out and takeaway foods, food prices increased 0.8%. In addition, there were price gains in 15 out of the 22 categories (excluding fruit and vegetables and meals out and takeaway foods), with price rises of over 1.5% q/q in 7 of those categories.
- (5) **Deflation for clothing and footwear was also less pronounced than expected** at -0.7%. It was also less widespread, with 5 out of the 10 categories increasing in price. This is in contrast with the usual seasonal pattern due to the timing of sales; clothing and footwear prices have fallen an average 2.4% in the previous three March quarters. This pattern had been expected to continue into 2011, particularly given that we did not see full pass-through from the higher AUD in the December quarter.

Underlying inflation was also higher than expected. The RBA's favoured measure (the average of the trimmed mean and weighted median) increased by 0.85% q/q, up from 0.4% q/q in the December quarter. This was largely because there were more components with a high CPI weight experiencing large price increases in the quarter than had been expected (see points 1, 2 and 3 above). As such, some components which would ordinarily have been stripped out of the underlying measures were instead included (including a number of categories which rose by more than 2% including tobacco and hospital and medical services). It was also critically because of less widespread discounting (points (4) and (5) above). This pushed the whole distribution of prices higher than had been expected, with fewer price falls therefore included in the underlying measures than anticipated.

This week's figures suggest that **underlying inflation has passed its trough**, with annual rates to increase from here. The higher starting point suggests that core inflation would now need to average just 0.6% per quarter for the next three quarters to achieve the RBA's previous forecast for core inflation of 2¾% by yearend. We expect such persistently low quarterly numbers will be difficult to achieve. This is particularly given that **the cautious consumer is arguably not keeping a lid on inflationary pressures as much as had been anticipated and because we are not seeing full currency pass-through**, with retailers perhaps trying to use the higher AUD to attempt to maintain margins (or offset margin compression elsewhere).

It now looks as if the deflationary impact of the higher AUD may not be enough to outweigh the inflationary impact of higher oil and other upstream price pressures, higher global inflation (especially from China) and further upward pressure on utility prices. As a result, it is likely that the **RBA will be forced to upgrade its annual underlying inflation forecasts to 3%** by the end of 2011.

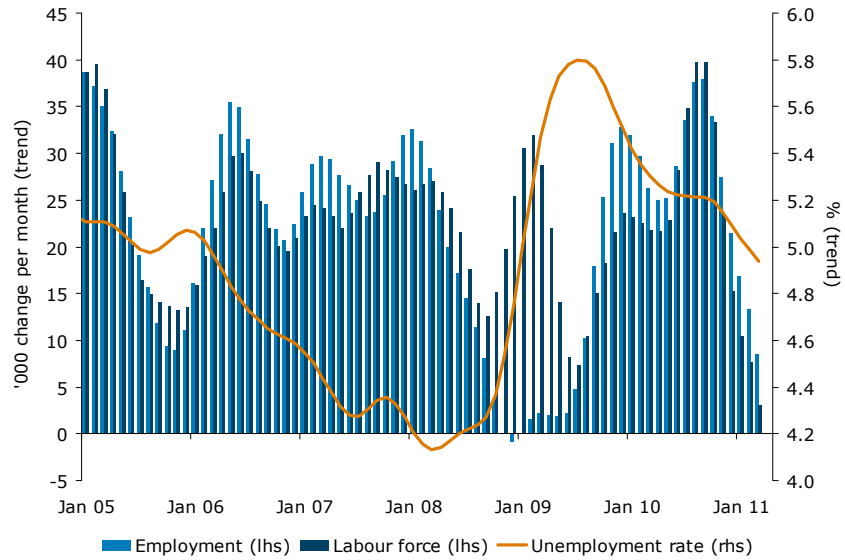
It is important to note however that **this forecast change is not likely to be predicated by any significant change to the outlook for the labour market or economic growth.** These are also vital inputs into the RBA's inflation forecasts, with unit labour costs in particular still the key driver of most inflation models.

A TIGHTENING LABOUR MARKET IS THE NEXT BIG RISK

In assessing how the labour market may evolve over the next year, it is worthwhile reviewing the degree of tightness in the labour market. The charts below show that while unemployment is declining gradually (see Figure 2 below) and wage growth is increasing (Figure 3 below), **the labour market is not as tight as in 2007 and 2008 when inflation last broke out of the target band.** This is also in line with forward looking indicators of labour demand: Figure 4 shows that the number of Seek job advertisements relative to the number of unemployed people is increasing, but is well below that in 2008. The ANZ job advertisements series meanwhile is running at a level consistent with a strong pace of employment, although it has eased more recently.

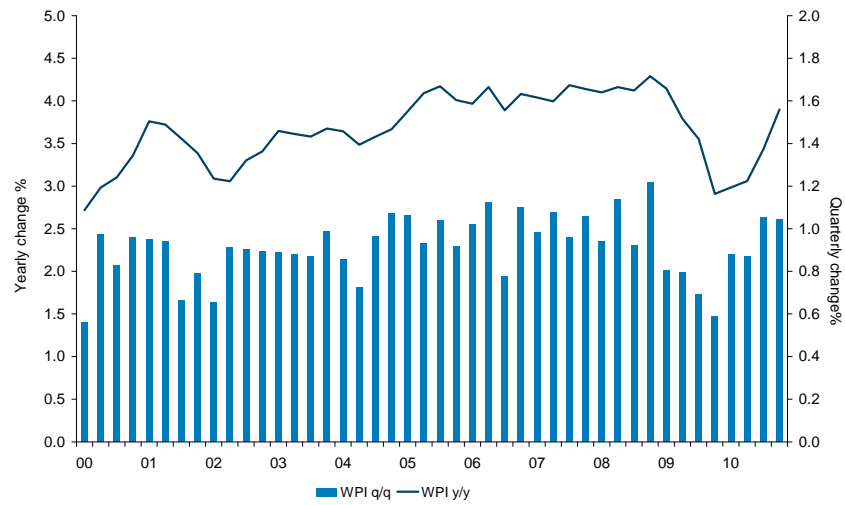
Developments in labour supply are also critical in determining the outlook for the labour market. Growth in the labour force has slowed recently because of slower population growth (Figure 2 below). Monthly growth in the civilian population over 15+ has slowed to 19K per month compared with 32K per month in August 2010. Unless the government quickly increases immigration levels or implements some large-scale reforms which increase labour force participation (rather than tinkering with the welfare system), this weaker pace of population growth is expected to persist. **Slower population growth suggests that the unemployment rate may begin to fall more quickly than the labour demand indicators above may suggest.** Indeed, employment gains of just 12K per month are now enough to keep the unemployment rate steady, compared with over 25K per month a year ago.

FIGURE 2: TREND LABOUR FORCE DATA



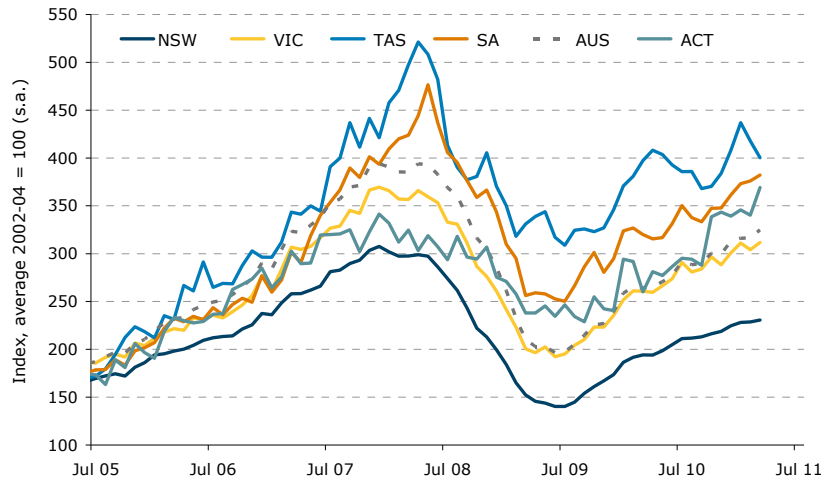
Sources: ABS

FIGURE 3: WAGE PRICE INDEX



Sources: RBA, NAB

FIGURE 4: SEEK JOB ADS TO UNEMPLOYMENT (NON-RESOURCES STATES)



Sources: Seek, ABS

FIGURE 5: SEEK JOB ADS TO UNEMPLOYMENT (RESOURCES STATES)

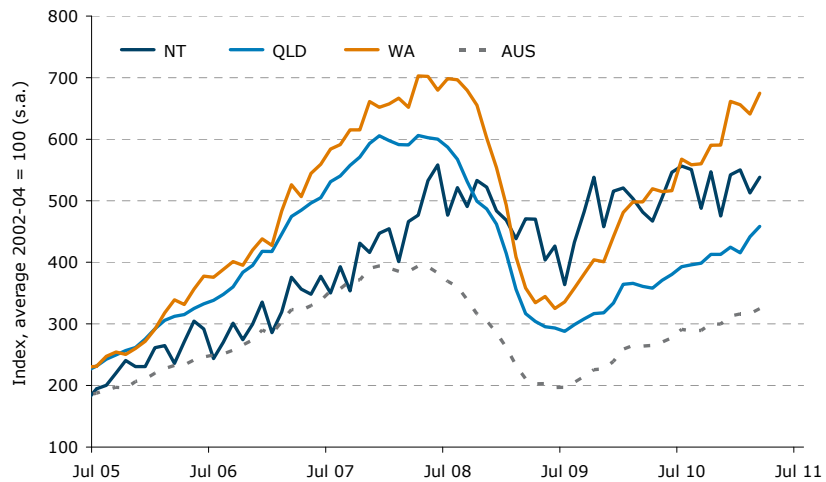
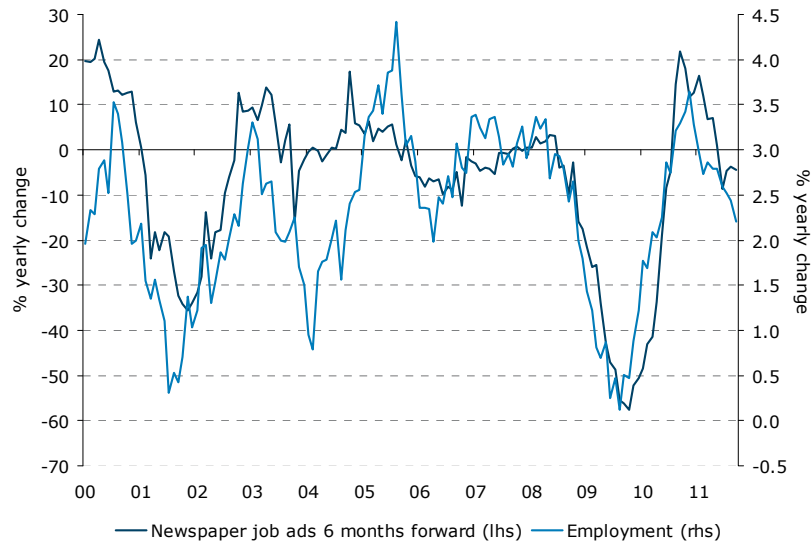


FIGURE 6: ANZ JOB ADS VS EMPLOYMENT



Sources: ANZ, ABS

Overall, we continue to expect the unemployment rate to decline to below 4¾% by end-2011 and to 4½% by mid-2012. Falling unemployment will be associated with faster growth in wages and unit labour costs, especially once unemployment falls below the natural rate of unemployment (the NAIRU) which is currently estimated at somewhere below 4½%.

Lower unemployment is consistent with further tightening of monetary policy. However the outlook for the labour market has not materially changed in recent months and is broadly evolving in line with RBA expectations. This includes the more moderate growth in labour demand than in the previous cycle, the slowdown in labour supply and falling unemployment.

As such, and despite this week’s high inflation result, we are not expecting the RBA to hike rates at next week’s meeting. However, we remain comfortable with our expectation that the next hike will come by August, with labour market tightening and inflation pressures clearer by that point. That said, this week’s inflation data and a likely upgrade to the RBA’s inflation forecasts do suggest that the risk of a tightening in the next few months is higher than current market pricing and we will be watching closely for what we expect will be a slightly more hawkish tone to the RBA’s commentary at next week’s Board meeting and May Monetary Policy Statement.

DATA WRAP

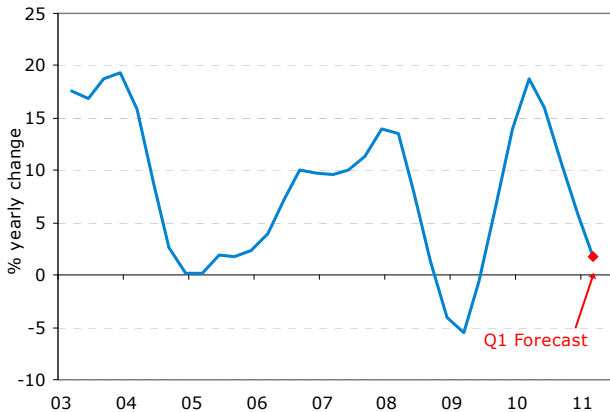
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DATA WRAP

- The **Conference board leading index** rose by 0.6% in February after rising 0.1% in January. The largest contributor to the rise in the leading index was rural goods exports (contributed 0.3% of the 0.6% rise). The yield spread, share prices and money supply all contributed to the rise, with building approvals detracting from the index.
- Headline **CPI** rose 1.6% in Q1, pushing the annual rate to 3.3% (highest rate since late 2008). This was higher than the +1.2% q/q that the market expected. Food and oil price rises were the largest contributors to headline inflation. While the high headline CPI outcome was partly driven by some one-off and unusual factors, underlying inflation also picked up sharply. The RBA's favoured measure of underlying inflation (the average of the trimmed mean and weighted median) picked up to 0.85% q/q from 0.4% q/q in the December quarter.
- Total **private sector credit** growth accelerated in March (+0.6%) with annual growth increasing to 3.6% (historically quite weak growth). Business credit continued to improve, posting the largest monthly growth since October 2008 (+1.0%). Personal credit also posted solid monthly growth of 0.6%, while housing credit growth was slightly weaker in March (+0.4% in the month).
- **RP Data-Rismark house price** data showed dwelling prices fell in March (-0.2% seasonally adjusted) and are now down 0.6% from 12 months ago. This is the first annual decline in dwelling prices since March 2009. However, dwelling price growth continues to differ across capital cities. In annual terms, Sydney (+2.1%) and Melbourne (+1.0%) home prices continue to grow while Brisbane (-6.8%) and Perth (-6.4%) home prices are showing the largest declines.

DATA PREVIEW

ABS HOUSE PRICES (Q1)

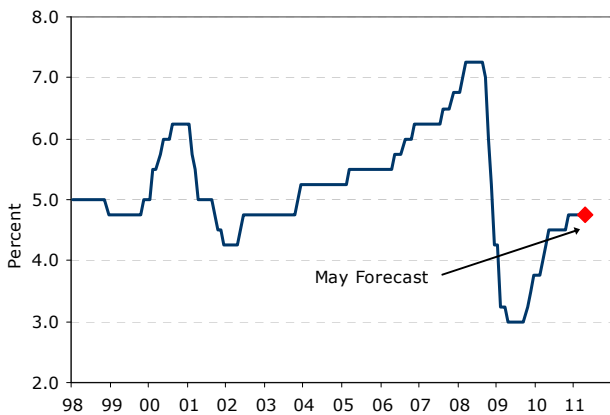


2 MAY: ABS HOUSE PRICES (Q1)

ANZ: -0.5% q/q, +1.8% y/y
Market: -0.5% q/q, 1.6% y/y
Last: +0.7% q/q, +5.8% y/y

National house prices are expected to fall by 0.5% in the March quarter. Falls are expected across all major capital cities, with the largest falls likely in Brisbane and Perth. While the November interest rate hikes continued to impact March quarter housing market activity, housing market conditions should improve through 2011. Indications of tightening vacancy rates putting upward pressure on rental growth combined with the outlook for continued solid growth in employment and household incomes should support housing market activity and prevent a major correction in house prices. **(DC)**

RBA CASH RATE (MAY)



3 MAY: RBA CASH RATE (MAY)

ANZ: 4.75%
Market: 4.75%
Last: 4.75%

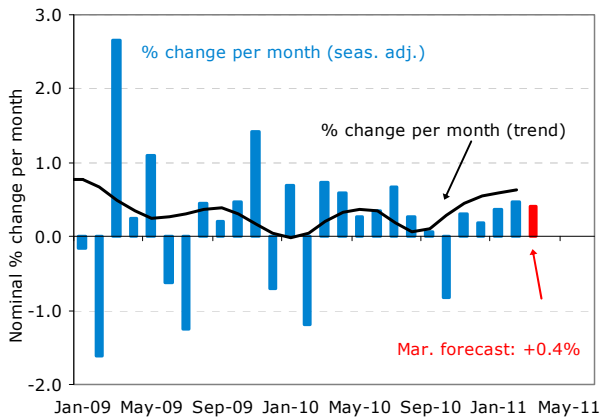
The market is currently pricing a near zero probability that the RBA will lift rates in May, and less than a 15% chance that rates will increase in June. While we are not forecasting the RBA to move in either of these months, we do think the odds of a move are considerably higher than current market pricing. This is because of the risk that the RBA could now be forced to raise its core inflation forecasts, to 3% Y/Y by end-2011 after this week's surprisingly high inflation result. We say risk because the 10% appreciation in the A\$ over the last three months might provide just enough offset to keep the RBA's 2011 inflation forecasts unchanged. Another important take-away from this week's inflation report, which also has implications for monetary policy, is that, so far, we aren't seeing the degree of discounting/deflation, in retail goods that we would have expected given the cautious consumer and the elevated level of the A\$.

At the very least, even if it doesn't prompt a formal inflation forecast change, this week's CPI data is probably making the RBA less comfortable about current monetary policy settings than they were feeling at the April meeting. In our view, the arguments between the need for a pre-emptive rate rise (higher inflation starting points) is finely balanced against the reasons to keep rates on hold (uncertainty about the full negative impact of natural disasters and the higher AUD, capacity that is not nearly as tight (yet) as during Commodity Boom I). Hence, while we don't look for a 'surprise' rate rise in May, we are alert to a (possibly subtle) change in language from neutral to mildly hawkish. **(KD)**

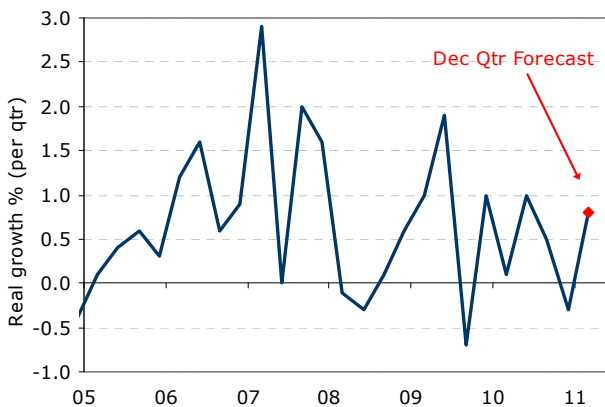


DATA PREVIEW

RETAIL TRADE (MAR)



RETAIL TRADE VOLUMES (Q1)



5 MAY: RETAIL TRADE (MAR)

ANZ: +0.4% m/m, +3.2% y/y

Market: +0.5% q/q

Last: +0.5% m/m, +3.5% y/y

We expect another patchy month across the retail trade segments, with good growth in some locations and segments but weak performance elsewhere. We expect stronger sales again in Queensland for example, as flood-damaged items continue to be replaced. Forward indicators and anecdotal evidence are extremely mixed this month, with positive factors such as good labour market growth and lower unemployment weighed down by rising petrol prices and relatively poor consumer sentiment. Reports of better sales for small retailers contrast with further sales warnings from the larger players. Monthly trend growth in non-food retailing is still negative, but it appears to have bottomed out. Strong food inflation in Q1 is driving up nominal sales values for food retailers and cafes, restaurants and take-aways.

5 MAY: RETAIL TRADE VOLUMES (Q1)

ANZ: +0.8% q/q, +1.9% y/y

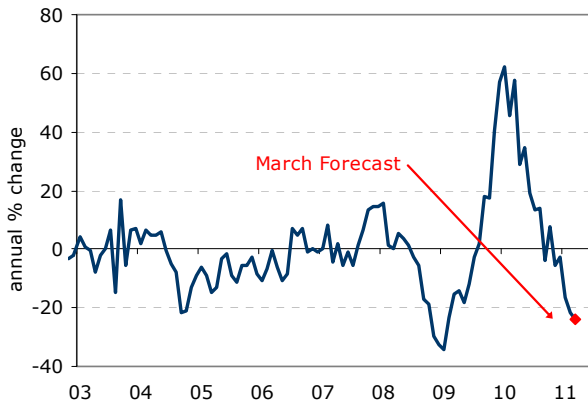
Market: +0.6 % q/q

Last: -0.3% q/q, +1.1% y/y

Monthly growth of around 0.4% for nominal retail sales in March will imply quarterly nominal growth of 1.0% in Q1. Rising food prices balanced against ongoing price discounting among non-food retailers in Q1 implies that real growth for all retailers is likely to have been a touch lower than the nominal rate, at around 0.8% q/q. Highly divergent price movements across the retail categories in this quarter however, make an appropriate price assumption hard to pin down. Volume growth of 0.8% would be an improvement on Q4's contraction (-0.3%) but is still relatively weak. Within this total, rising food prices may have stalled food volumes growth, as people substituted out of more expensive items. Household goods retailers appear to have had better trading conditions in February and March after a large contraction in January. Sales volumes growth for clothing, department store and 'other goods' is likely to be weakly positive. (JT)

DATA PREVIEW

BUILDING APPROVALS (MAR)



5 MAY: BUILDING APPROVALS (MAR)

ANZ: +5.5% q/q, -24.2% y/y

Market: +5.0% q/q, -25.2% y/y

Last: -7.4% q/q, -21.8% y/y

Dwelling approvals are expected to increase around 5.5% in March with the initial stages of the rebuilding phase from the Queensland floods expected to provide a welcome boost to Queensland building activity. With the negative impact of the November interest rate hike expected to be fading by March, approvals for both house and apartment building should improve after two months of declining approvals. However, while we expect positive growth in March building approvals, underlying weak building approval levels will continue to support underlying market drivers of house price growth through 2011. **(DC)**

DATA & EVENT CALENDAR

WEEK STARTING 2 MAY

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST		
Sunday	CH	PMI Manufacturing	APR	53.9	--	53.4	01:00	11:00		
1-May	UK	Hometrack Housing Survey MoM	APR	--	--	-0.1%	23:01	09:01		
		Hometrack Housing Survey YoY	APR	--	--	-3.2%	23:01	09:01		
Monday	NZ	ANZ Commodity Price Index	APR	--	--	4.7%	01:00	11:00		
2-May	AU	ABS House Price Indexes	MAR				01:30	11:30		
		AiG Performance of Manufacturing Index	APR	--	--	47.9	23:30	09:30		
		TD Securities Inflation MoM	APR	--	--	0.6%	00:30	10:30		
		TD Securities Inflation YoY	APR	--	--	3.8%	00:30	10:30		
		House Price Index QoQ	1Q	-0.5%	-0.5%	0.7%	01:30	11:30		
		House Price Index YoY	1Q	1.6%	1.8%	5.8%	01:30	11:30		
		RBA Commodity Price Index Au	APR	--	--	101.6	06:30	16:30		
		RBA Commodity Index SDR YoY	APR	--	--	41.3%	06:30	16:30		
		JP	Labour Cash Earnings YoY	MAR	--	--	0.3%	01:30	11:30	
		Vehicle sales YoY	APR	--	--	-37.0%	05:00	15:00		
	EU	ECB's Constancio, EU's Rehn, Barnier Speak at Conference						07:45	17:45	
			PMI Manufacturing	APR F	57.7	--	57.7	08:00	18:00	
			ECB's Trichet, Germany's Schaeuble Speak at Bundesbank						09:00	19:00
			ECB's Wellink Speaks at Tilburg University						10:30	20:30
			ECB's Constancio Speaks at EU Parliament Panel in Brussels						15:15	01:15
	GE		PMI Manufacturing	APR F	--	--	61.7	07:55	17:55	
	UK	May Bank Holiday								
		Lloyds Business Barometer	APR	--	--	1.0	23:01	09:01		
		King, Enria Testify to European Parliament						13:00	23:00	
US		Construction Spending MoM	MAR	0.3%	--	-1.4%	14:00	00:00		
		Annual Revisions: Construction Spending					14:00	00:00		
		ISM Manufacturing	APR	59.6	--	61.2	14:00	00:00		
		ISM Prices Paid	APR	83.0	--	85.0	14:00	00:00		
CA		Industrial Product Price MoM	MAR	--	--	0.7%	12:30	22:30		
		Raw Materials Price Index MoM	MAR	--	--	1.8%	12:30	22:30		
3-5 May	JP	Golden Week Public Holidays (3 days)								
3-7 May	UK	Halifax House Price 3Mths/Year	APR	-3.0%	--	-2.9%	00:00	10:00		
		Halifax House Prices sa MoM	APR	0.1%	--	0.1%	00:00	10:00		
Tuesday	NZ	Average Hourly Earnings QoQ	1Q	0.5%	0.5%	0.6%	22:45	08:45		
3-May		Private Wages Exc Overtime QoQ	1Q	0.6%	0.6%	0.6%	22:45	08:45		
		Private Wages Inc Overtime QoQ	1Q	0.5%	0.6%	0.6%	22:45	08:45		
AU	RBA CASH TARGET		MAY	4.75%	4.75%	4.75%	04:30	14:30		
		State Government Budgets for Victoria, NT and ACT								
CH		Non-manufacturing PMI	APR	--	--	60.2	01:00	11:00		
		HSBC Manufacturing PMI	APR	--	--	51.8	02:30	12:30		
EU		Euro-Zone PPI MoM	MAR	0.6%	--	0.8%	09:00	19:00		
		Euro-Zone PPI YoY	MAR	6.5%	--	6.6%	09:00	19:00		
UK		PMI Manufacturing	APR	57.2	--	57.1	08:30	18:30		
		CBI Reported Sales	APR	17.0	--	15.0	10:00	20:00		
		BRC Shop Price Index YoY	APR	--	--	2.4%	23:01	09:01		
		Fed's Hoenig (non-voter) Speaks to Community Bankers in Washington						12:30	22:30	
US		Factory Orders	MAR	1.7%	--	-0.1%	14:00	00:00		
		Total Vehicle Sales	APR	12.95M	--	13.06M	21:00	07:00		
		Domestic Vehicle Sales	APR	9.80M	--	9.94M	21:00	07:00		

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST		
Wednesday 4-May	NZ	Building Permits MoM	MAR	--	--	-9.7%	22:45	08:45		
		Net Migration SA	MAR	--	--	470.0	22:45	08:45		
	AU	AiG Performance of Service Index	APR	--	--	46.5	23:30	09:30		
		HIA New Home Sales MoM	MAR	--	--	0.6%	01:00	11:00		
		AOFM Auctions A\$600m of March 2019 Bonds								
		EU	PMI Composite	APR F	57.8	--	57.8	08:00	18:00	
			PMI Services	APR F	56.9	--	56.9	08:00	18:00	
			Euro-Zone Retail Sales MoM	MAR	0.1%	--	-0.1%	09:00	19:00	
			Euro-Zone Retail Sales YoY	MAR	0.2%	--	0.3%	09:00	19:00	
		GE	PMI Services	APR F	--	--	57.7	07:55	17:55	
		UK	Nat'wide House prices sa MoM	APR	0.1%	--	0.5%	06:00	16:00	
			Nat'wide House prices nsa YoY	APR	-0.7%	--	0.1%	06:00	16:00	
			PMI Construction	APR	55.4	--	56.4	08:30	18:30	
			Net Consumer Credit	MAR	0.5B	--	0.8B	08:30	18:30	
			Net Lending Sec. on Dwellings	MAR	1.2B	--	1.2B	08:30	18:30	
			Mortgage Approvals	MAR	48.3K	--	47.0K	08:30	18:30	
		US	Average Retail Prices of Selected Items	MAR				11:30	21:30	
			MBA Mortgage Applications	1-Apr	--	--	-5.6%	11:00	21:00	
			Challenger Job Cuts YoY	APR	--	--	-38.6%	11:30	21:30	
			Fed's Rosengren (non-voter) to Speak at Real Estate Conference in Boston						12:00	22:00
			ADP Employment Change	APR	200K	--	201K	12:15	22:15	
			ISM Non-Manufacturing Composite	APR	58.0	--	57.3	14:00	00:00	
			Fed's Williams (non-voter) Makes First Policy Speech						19:30	05:30
			Fed's Lockhart (non-voter) Speaks on U.S. Economic Outlook in Atlanta						23:00	09:00
	Thursday 5-May	NZ	Participation Rate QoQ	1Q	68.1%	68.1%	67.9%	22:45	08:45	
			Employment Change YoY	1Q	0.8%	1.2%	1.3%	22:45	08:45	
			Employment Change QoQ	1Q	0.6%	0.9%	-0.5%	22:45	08:45	
			Unemployment Rate	1Q	6.7%	6.5%	6.8%	22:45	08:45	
		AU	Building Approvals MoM	MAR	5.0%	5.5%	-7.4%	01:30	11:30	
			Building Approvals YoY	MAR	-25.5%	-24.2%	-21.8%	01:30	11:30	
			Retail Sales sa MoM	MAR	0.5%	0.4%	0.5%	01:30	11:30	
			Retail Sales Ex Inflation QoQ	1Q	0.6%	0.8%	-0.3%	01:30	11:30	
			Foreign Reserves	APR	--	--	35.7B	06:30	16:30	
CH		China HSBC Services PMI	APR	--	--	51.7	02:30	12:30		
EU		ECB Announces Interest Rates						11:45	21:45	
		Trichet Speaks at ECB Monthly News Conference						12:30	22:30	
GE		Factory Orders YoY nsa	MAR	--	--	20.1%	10:00	20:00		
		Factory Orders MoM sa	MAR	--	--	2.4%	10:00	20:00		
UK		PMI Services	APR	55.8	--	57.1	08:30	18:30		
		Official Reserves (Changes)	APR	--	--	\$2253M	08:30	18:30		
		BOE Asset Purchase Target						11:00	21:00	
		BOE ANNOUNCES RATES						11:00	21:00	
		BoE's Bailey Speaks at BSA Annual Conference						00:30	10:30	
US		Nonfarm Productivity	1Q P	1.0%	--	2.6%	12:30	22:30		
		Unit Labor Costs	1Q P	0.8%	--	-0.6%	12:30	22:30		
		Initial Jobless Claims	30-Apr	--	--	429K	12:30	22:30		
		Continuing Claims	30-Apr	--	--	3641K	12:30	22:30		
		Fed's Evans (voter) Gives Welcome Remarks in Chicago						13:15	23:15	
		Bernanke (voter) Speaks at Chicago Fed Banking Conference						13:30	23:30	
		Bloomberg Consumer Comfort	1-May	--	--	--	13:45	23:45		
		Fed's Kocherlakota (voter) Speaks on Monetary Policy in California						17:15	03:15	
		ICSC Chain Store Sales YoY	APR	--	--	2.0%	00:00	10:00		
CA		Building Permits MoM	MAR	--	--	9.9%	12:30	22:30		
		Ivey Purchasing Managers Index	APR	--	--	73.2	14:00	00:00		
		Ivey Purchasing Managers Index sa	APR	--	--	73.2	14:00	00:00		

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
6-7 May	UK	New Car Registrations YoY	APR	--	--	-7.9%	--	--
Friday	AU	AiG Performance of Construction Index	APR	--	--	39.4	23:30	09:30
6-May		RBA Statement on Monetary Policy					01:30	11:30
		AOFM Auctions A\$600m of July 2022 Bonds						
	GE	Industrial Production YoY nsa wda	MAR	--	--	14.8%	10:00	20:00
		Industrial Production MoM sa	MAR	--	--	1.6%	10:00	20:00
	UK	PPI Input nsa MoM	APR	1.7%	--	3.7%	08:30	18:30
		PPI Input nsa YoY	APR	16.4%	--	14.6%	08:30	18:30
		PPI Output nsa MoM	APR	0.7%	--	0.9%	08:30	18:30
		PPI Output nsa YoY	APR	5.1%	--	5.4%	08:30	18:30
		PPI Output Core nsa MoM	APR	0.3%	--	0.4%	08:30	18:30
		PPI Output Core nsa YoY	APR	3.0%	--	3.0%	08:30	18:30
		BoE's King Speaks in Finland					09:30	19:30
	US	Fed's Yellen (voter) speaks in Finland					11:30	21:30
		Change in Nonfarm Payrolls	APR	180K	--	216K	12:30	22:30
		Change in Private Payrolls	APR	200K	--	230K	12:30	22:30
		Change in Manufact. Payrolls	APR	20K	--	17K	12:30	22:30
		Avg Hourly Earning MOM All Emp	APR	0.2%	--	0.0%	12:30	22:30
		Avg Hourly Earning YoY All Emp	APR	1.7%	--	1.7%	12:30	22:30
		Avg Weekly Hours All Employees	APR	34.3	--	34.3	12:30	22:30
		Unemployment Rate	APR	8.8%	--	8.8%	12:30	22:30
		Change in Household Survey Employment	APR	--	--	291.0	12:30	22:30
		Fed's Dudley (voter) to Speak at Regional Economic Briefing in NYC					14:00	00:00
		Consumer Credit	MAR	\$5.000B	--	\$7.617B	19:00	05:00
	CA	Net Change in Employment	APR	15K	--	-1.5K	11:00	21:00
		Participation Rate	APR	--	--	66.9	11:00	21:00
		Unemployment Rate	APR	7.7%	--	7.7%	11:00	21:00

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>2 MAY NZ: ANZ Commodity Prices (Apr) AU: TD Inflation Gauge (Apr), ABS House Price Index (Q1), PMI (Apr) CH: Market Holiday EU: PMI Manuf (Apr F), ECB's Trichet, Wellink, Constancio & Draghi Speak GE: PMI Manuf (Apr F) UK: May Bank Holiday BoE Governor King testifies to EP US: ISM Manuf (Apr), Construction Spending</p>	<p>3 MAY NZ: Wages, earnings (Q1) AU: RBA Cash Rate, Vic., NT, ACT State Budgets CH: PMI Non-manufac. (Apr) EU: PPI (Mar) GE: Retail Sales (Mar) UK PMI Manufacturing (Apr) US: Factory Orders (Mar), Vehicle sales (Apr), Fed's Hoenig Speaks 2-3 May: CA General Election</p>	<p>4 MAY NZ: Building Permits (Mar), Net Migration (Q1) AU : HIA New Home Sales (Mar), PSI (Apr) EU: PMI (Apr F), Retail Sales (Mar) GE: PMI Services (Apr F) UK: PMI Construc. (Apr), Mortgage Approvals (Mar), Consumer Credit (Mar), House Prices (Apr) US: Job Cuts (Apr), ADP Employment (Apr), ISM Non-Manufac. (Apr), Fed's Rosengren, Lockhart and Williams Speak</p>	<p>5 MAY NZ: Employment (Q1) AU: Building Approvals (Mar), Retail Sales (Mar) CH: Non-Manufac PMI (Apr) EU: ECB Rates Decision, Trichet Speaks GE: Factory Orders (Mar) UK: PMI Services (Apr), BoE Rates Decision, US: Labour costs (Q1), non-farm prod. (Q1), Fed's Bernanke, Evans and Korcherlakota Speak CA: Building Permits (Mar), Ivey PMI (Apr)</p>	<p>6 MAY AU: Statement on Monetary Policy GE: Industrial Production (Mar) UK: PPI (Apr), BoE's King Speaks US: Non-Farm Payrolls (Apr) Unemployment (Apr), Earnings (Apr), Consumer Credit (Mar), Fed's Dudley and Yellen Speak CA: Employment (Apr)</p>
<p>9 MAY AU: ANZ Job Ads (Apr) JP: BoJ Minutes EU: Sentix Investor Confidence (May) GE: Trade (Mar), Current Account (Mar) CA: Housing Starts (Apr)</p>	<p>10 MAY NZ: Card Spending (Apr) AU: Trade (Mar), Bus Confidence (Apr), Federal Budget CH: Trade (Apr) EU: ECB's Bini-Smaghi Speaks US: NFIB Small Business Survey (Apr), Import Price Index (Apr), Economics Optimism (May), Wholesale Inventories (Mar), Fed's Duke & Lacker Speaks</p>	<p>11 MAY NZ: RBNZ Financial Stability Report CH: PPI (Apr), Ind Production (Apr), CPI (Apr), Retail Sales (Apr) JP: Leading Index (Mar P) EU: ECB's Stark & Orphanides Speak GE: CPI (Apr F) UK: Trade (Mar), BoE Inflation Report US: Trade (Mar), JOLTs Job Openings (Mar) Fed's Korcherlakota and Lockhart Speak CA: Merch Trade (Mar)</p>	<p>12 MAY NZ: Bus PMI (Apr) AU: Employment (Apr) JP: Money Stock (Apr), Trade (Mar), Current Account (Mar) EU: ECB Monthly Report (May), Ind Production (Mar) UK: Ind Production (Mar), Manuf. Production (Mar), NIESR GDP Estimate (Apr) US: PPI (Apr), Retail Sales (Apr), Bus Inventories, Fed's Plosser Speaks</p>	<p>13 MAY NZ: Retail Sales Ex-Inflation (Q1) EU: GDP (Q1 A) GE: GDP (Q1 P) US: CPI (Apr), Univ of Michigan Consumer Confidence (May P)</p>
<p>16 MAY AU: Housing Finance (Mar) JP: Machine Orders (Mar), Domestic CGPI (Apr), Consumer Confidence (Apr) EU: CPI (Apr), Trade (Mar) US: Empire Manufac (May), Net TIC Flows (Mar), Fed's Bernanke Speaks</p>	<p>17 MAY AU: RBA Board Minutes EU: Zew Survey (May) GE: Zew Survey (May) UK: CPI (Apr) US: Building Permits (Apr), Housing Starts (Apr), Industrial Production (Apr)</p>	<p>18 MAY NZ: PPI (Q1) AU: Consumer Confidence (May), DWER Skilled Vacancies (May), Wage Cost Index (Q1) JP: Tertiary Industry (Mar) EU: Constr'n Output (Mar) UK: BoE Minutes, ILO Unemployment Rate (Mar), Jobless Claims (Apr) US: FOMC Minutes, Bullard Speaks</p>	<p>19 MAY NZ: ANZ Consumer Confidence (May), NZ Budget AU: WA State Budget JP: GDP (Q1), Capacity Utilisation (Mar), Industrial Production (Mar F) UK: Retail Sales (Apr) US: Existing Home Sales (Apr), Philly Fed Survey (May), Fed's Evans Speaks</p>	<p>20 MAY NZ: Net Migration (Apr), Credit Card Spending (Apr) JP: BoJ Target Rate EU: ECB's Mersch Speaks, Current Account, (Mar). Consumer Confidence (May) GE: Producer Prices (Apr) CA: CPI (Apr), Retail Sales (Mar)</p>
<p>23 MAY US: Chicago Fed Activity Index (Apr)</p>	<p>24 MAY EU: Ind New Order (Mar) GE: GDP (Q1 F), IFO Survey (May) US: New Home Sales (Apr), Richmond Fed Manufac (May), Fed's Hoenig Speaks</p>	<p>25 MAY AU: Westpac Leading Index (Mar) JP: Trade (Apr), BoJ Minutes UK: GDP (Q1 P) US: Capital & Durables Goods Orders (Apr), Fed's Korcherlakota Speaks</p>	<p>26 MAY AU: CAPEX (Q1) GE: GfK Consumer Confidence (Jun) UK: GfK Consumer Confidence (May) US: GDP (Q1 S), Core PCE (Q1 S), Personal Consumption (Q1 S)</p>	<p>27 MAY CH: Business Conditions (May), Ind Profits (Apr) JP: CPI (Apr), Tokyo CPI (May), Large Retailer Sales (Apr) EU: Consumer Confidence (May F), Eco, Ind & Ser Confidence (May) GE: CPI (May P) US: PCE Core (Apr), Personal Spending (Apr), Personal Income (Apr), Pending Homes Sales</p>
<p>30 MAY NZ: Trade (Apr) AU: Company Operating Profits (Q1), Inventories (Q1) JP: Construction Orders (Apr), Housing Starts (Apr) CA: GDP (Mar), Current Account (Q1)</p>	<p>31 MAY NZ: Building Permits (Apr) AU: Building Approvals (Apr), Current Account Balance (Q1), Net Exports (Q1), Private Credit (Apr) JP: Jobless Rate (Apr), Ind Production (Apr P) EU: CPI Estimate (May), Unemployment (Apr) GE: Unemployment (May) US: Case-Shiller Index (Mar & Q1), Chicago PMI (May), Consumer Confidence (May), Dallas Fed Manufac Activity (May) CA: BoC Rates Decision</p>	<p>1 JUNE NZ: ANZ Commodity Price (May) AU: Aig PMI (May), GDP (Q1) CH: PMI Manufac (May) EU: PMI Manufac (May F) GE: PMI Manufac (May F) UK: PMI Manufac (May), Mortgage Approvals (Apr) US: Challenger Job Cuts (May), ADP Employment (May), Construction Spending (Apr), ISM Manufac (May)</p>	<p>2 JUNE AU: Trade (Apr), Retail Sales (Apr) JP: Capital Spending (Q1) UK: PMI Construction (May) US: Factory Orders (Apr)</p>	<p>3 JUNE CH: PMI Non-Manufac (May) EU: PMI Composite & Services (May F) GE: Import Price Index (Apr), Retail Sales (Apr), PMI Services (May F) UK: PMI Services (May) US: Non-Farm Payrolls (May), Unemployment (May), ISM Non-Manufact (May)</p>

CENTRAL BANK RELEASES FOR 2011

JANUARY	FEBRUARY	MARCH	APRIL
5th – FOMC Minutes 13th – BoE 13th – ECB 25th – BoJ 26th – FOMC 26th – BoE Minutes 27th – RBNZ 28th – BoJ Minutes	1st – RBA 3rd – ECB 4th – RBA MP Statement 10th – BoE 15th – RBA Minutes 15th – BoJ 22nd – BoJ Minutes 23rd – BoE Minutes	1st – RBA 1st – BoC 3rd – ECB 10th – RBNZ 10th – RBNZ MP Statement 10th – BoE 15th – BoJ 15th – RBA Minutes 15th – FOMC 17th – SNB 18th – BoJ Minutes 23rd – BoE Minutes	5th – RBA 7th – BoJ 7th – BoE 7th – ECB 12th – BoJ Minutes 12th – BoC 19th – RBA Minutes 20th – BoE Minutes 27th – FOMC 28th – RBNZ 28th – BoJ
MAY	JUNE	JULY	AUGUST
3rd – RBA 6th – RBA MP Statement 5th – BoE 5th – ECB 9th – BoJ Minutes 17th – RBA Minutes 18th – BoE Minutes 20th – BoJ 25th – BoJ Minutes 31st – BoC	7th – RBA 9th – RBNZ 9th – RBNZ MP Statement 9th – BoE 9th – ECB 14th – BoJ 16th – SNB 17th – BoJ Minutes 21st – RBA Minutes 22nd – BoE Minutes 22nd – FOMC	5th – RBA 7th – ECB 7th – BoE 12th – BoJ 13th – FOMC Minutes 15th – BoJ Minutes 19th – RBA Minutes 19th – BoC 20th – BoE Minutes 28th – RBNZ	2nd – RBA 4th – ECB 4th – BoE 5th – BoJ 9th – FOMC 10th – BoJ Minutes 16th – RBA Minutes 17th – BoE Minutes 30th – FOMC Minutes
SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
6th – RBA 7th – BoJ 7th – BoC 8th – ECB 8th – BoE 12th – BoJ Minutes 15th – RBNZ 28th – RBNZ MP Statement 15th – SNB 20th – RBA Minutes 20th – FOMC 21st – BoE Minutes	4th – RBA 6th – ECB 6th – BoE 7th – BoJ 11th – FOMC Minutes 13th – BoJ Minutes 18th – RBA Minutes 19th – BoE Minutes 25th – BoC 27th – RBNZ 27th – BoJ	1st – RBA 1st – BoJ Minutes 2nd – FOMC 3rd – ECB 10th – BoE 16th – BoJ 18th – RBA Minutes 21st – BoJ Minutes 22nd – FOMC Minutes 23rd – BoE Minutes	6th – RBA 6th – BoC 8th – RBNZ 8th – RBNZ MP Statement 8th – ECB 8th – BoE 13th – FOMC 15th – SNB 20th – RBA Minutes 21st – BoJ 21st – BoE Minutes 27th – BoJ Minutes

***Notes:** Entries are the dates of central bank interest rate announcements for 2011, unless specified as minutes or otherwise.

Dates are indicative only and are subject to change by central bank authorities.

Key: BoC: Bank of Canada, BoJ: Bank of Japan, BoE: Bank of England, ECB: European Central Bank, FOMC: Federal Open Market Committee, RBA: Reserve Bank of Australia, RBNZ: Reserve Bank of New Zealand, SNB: Swiss National Bank.

Source: Central bank websites.

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS	2010	2011F	2012F	2013F
Economic activity (annual % change)				
Private final demand	2.0	3.5	5.3	5.9
Household consumption	2.7	2.8	3.0	2.7
Dwelling investment	4.8	-0.9	0.4	7.4
Business investment	-0.9	8.7	15.2	15.2
Public demand	9.1	4.3	3.1	2.0
Domestic final demand	3.6	3.7	4.8	4.9
Inventories (contribution to GDP)	0.4	-0.2	0.1	0.0
Gross National Expenditure (GNE)	4.1	3.5	4.8	4.9
Exports	5.3	2.0	10.8	10.7
Imports	13.2	10.7	14.7	9.6
Net Exports (contribution to GDP)	-1.6	-2.0	-1.2	0.0
Gross Domestic Product (GDP)	2.7	1.6	3.8	4.1
Prices and wages (annual % change)				
Inflation:				
Headline CPI	2.8	3.4	3.1	3.2
Underlying*	2.6	2.7	3.1	3.0
Wages	3.3	4.0	4.1	3.9
Labour market				
Employment (annual % change)	2.7	2.5	2.5	2.5
Unemployment rate (annual average %)	5.2	4.9	4.4	4.0
External sector				
Terms of trade (annual % change)	16.2	16.6	2.7	-1.5
Current account balance: A\$bn	-34.5	-42.0	-53.5	-45.2
% of GDP	-2.6	-2.9	-3.4	-2.7

* Average of RBA weighted median and trimmed mean statistical measure

AUSTRALIAN INTEREST RATES	CURRENT	JUN 11F	SEP 11F	DEC 11F	MAR 12F	JUN 12F
RBA cash rate	4.75	4.75	5.00	5.25	5.25	5.50
90 day bill	4.92	5.00	5.30	5.50	5.60	5.85
3 year bond	5.07	5.30	5.40	5.60	5.80	6.00
10 year bond	5.42	5.70	5.70	5.80	5.90	6.00
3s10s yield curve	0.36	0.40	0.30	0.20	0.10	0.00
3 year swap	5.35	5.60	5.70	6.00	6.20	6.40
10 year swap	5.96	6.25	6.25	6.35	6.45	6.55

INTERNATIONAL INTEREST RATES	CURRENT	JUN 11F	SEP 11F	DEC 11F	MAR 12F	JUN 12F
RBNZ cash rate	2.50	2.50	2.50	2.75	3.25	3.50
NZ 90 day bill	2.69	2.65	2.69	3.14	3.67	3.75
US Fed funds note	0.25	0.25	0.25	0.25	0.75	1.50
US 2 year note	0.62	0.90	1.00	1.30	1.60	1.90
US 10 year note	3.31	3.60	3.70	3.90	4.10	4.20
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.25	1.25	1.50	1.50	1.50	1.75
UK repo rate	0.50	0.50	0.75	1.00	1.00	1.25

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	JUN 11F	SEP 11F	DEC 11F	MAR 12F	JUN 12F
Australian exchange rates						
A\$/US\$	1.09	1.05	1.05	1.03	1.02	1.00
NZ\$/US\$	0.80	0.75	0.75	0.75	0.74	0.72
A\$/¥	88.87	89.3	90.3	90.6	91.8	92.0
A\$/€	0.74	0.74	0.77	0.76	0.77	0.75
A\$/£	0.66	0.65	0.66	0.65	0.65	0.64
A\$/NZ\$	1.36	1.40	1.40	1.37	1.38	1.39
A\$/C\$	1.04	1.02	1.00	0.99	1.00	0.99
A\$/CHF	0.95	0.93	0.95	0.95	0.96	0.96
A\$/CNY	7.08	6.75	6.65	6.42	6.28	6.10
A\$ Trade weighted index	79.1	77.8	78.4	77.4	76.7	75.1
International cross rates						
US\$/¥	81.5	85.0	86.0	88.0	90.0	92.0
€/US\$	1.48	1.42	1.37	1.35	1.33	1.33
€/¥	120.89	121	118	119	120	122
£/US\$	1.66	1.61	1.60	1.58	1.57	1.57
€/£	0.89	0.88	0.86	0.85	0.85	0.85
US\$/C\$	0.95	0.97	0.95	0.96	0.98	0.99
US\$/CHF	0.87	0.89	0.90	0.92	0.94	0.96
US\$ index	73.11	76.6	77.4	78.6	80.4	80.1
Asia exchange rates						
US\$/CNY	6.49	6.43	6.33	6.23	6.16	6.10
US\$/HKD	7.77	7.78	7.78	7.80	7.80	7.80
US\$/IDR	8580	8900	9100	9000	8900	8800
US\$/INR	44.4	46.0	46.5	47.0	46.3	45.6
US\$/KRW	1074	1125	1155	1175	1150	1125
US\$/MYR	2.97	3.05	3.10	3.15	3.13	3.10
US\$/PHP	42.9	43.9	45.3	45.9	45.5	45.0
US\$/SGD	1.23	1.26	1.27	1.28	1.27	1.26
US\$/THB	29.94	29.50	30.00	30.50	30.25	30.00
US\$/TWD	28.68	30.35	30.90	31.70	31.50	31.30
US\$/VND	20546	20900	21400	21400	22000	22000
Pacific exchange rates						
PGK/US\$	0.409	0.378	0.385	0.378	0.372	0.366
FJD/US\$	0.574	0.541	0.548	0.538	0.530	0.522

IMPORTANT NOTICE

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