

AUSTRALIAN ECONOMICS

AUSTRALIAN ECONOMICS WEEKLY

28 OCTOBER 2011

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RBA RATE CUT ALL BUT ASSURED FOR CUP DAY

- This week's CPI release shaped up to be the most important data release in Australia this year, with the latest RBA Board minutes indicating that the RBA's scope to cut interest rates, if needed to support demand, hinged on a benign Q3 inflation outcome. As it turned out, the underlying measures printed at a very modest 0.3% q/q. This result will require the RBA to revise down its inflation forecast, which should now bring it within its target band for end-2011. The Board has also pointed to easing wages pressures outside of the resources sector, and the employment outlook is still soft. All in all, **the Board should feel comfortable that it has scope to reduce the policy rate to a more neutral setting from its current 'mildly restrictive' level.** See our *In Focus* article for more details.
- Whilst we do expect the RBA to cut the cash rate next Tuesday, **developments in Europe this week make a sharp reduction in the RBA's policy rate, as currently priced in by the market, even less likely.** European policymakers finally announced a plan to tackle the sovereign debt problems plaguing the euro zone. Policymakers have reached agreement on a number of key elements: (1) banks will be required to build capital buffers to 9% core tier 1 ratio by June 2012, which the EBA calculates will require an additional €106 billion in capital; (2) the EFSF will be leveraged to around €1 trillion; (3) policymakers and financial institutions have agreed on 50% voluntary haircuts on Greek debt; and (4) policymakers announced that treaty change options would be explored, in the hope of bringing about greater convergence amongst member countries. There is still a lot of detail to be resolved, and in particular the firepower of the leveraged-up EFSF and the ECB is as yet unclear. Given this, we consider that much will rely on the credibility of Spain and Italy to honour their pledges to structural and fiscal reform. Market responses to the latest European announcements have been broadly positive. As of the end of this week, key market indicators – including AUD, oil prices and 10-year bond yields – had returned to levels similar to those seen in late July, prior to this latest episode of market volatility.

THE WEEK AHEAD

- **In Australia**, the focus will be on the RBA decision on Tuesday. Building approvals (ANZ: -8.5% m/m; market: -5.0%) and real retail sales (ANZ: +0.8% q/q; market: 0.6%) will be released later in the week. Also, the RBA will release its quarterly *Statement on Monetary Policy* on Friday and we will be looking to see their new inflation forecasts, which should be downgraded.
- **In New Zealand**, employment (ANZ: 0.2% q/q; market: 0.6%), private wages (ANZ: 0.7%q/q, market: 0.9% q/q) and building permits (ANZ: 2.0% m/m; market: 2.0%) will be released.
- In Asia, the **Chinese** manufacturing PMI will be released. In **Japan**, the BoJ minutes and housing starts data are published, and Japan has a public holiday on Thursday.
- **In Europe**, the ECB will decide on interest rates, with no change expected. Markets will be watching speeches by various ECB members (including new president Draghi) for any further details on measures to tackle the euro zone's debt problems, and possibly how the ECB now sees its role in supporting Europe's financial system in light of the recent deal reached by European officials. We will also see the release of data on unemployment, CPI and the manufacturing PMI.
- **In the US**, the outcome of the FOMC meeting and Bernanke's following statement will be key. The main economic data releases will be ISM manufacturing and non-farm payrolls (market: +100K).

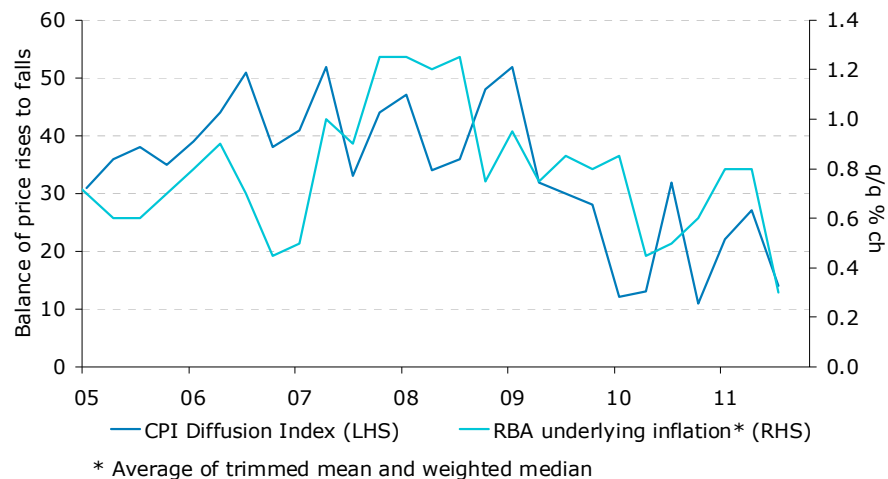
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INFLATION AND MONETARY POLICY UPDATE: RBA EXPECTED TO MAKE FINE-TUNING ADJUSTMENT TO MONETARY POLICY AT NOVEMBER MEETING

In recent communications, the RBA has noted that **an improved inflation track, if confirmed by the Q3 CPI, would provide scope for monetary policy to support demand should that prove necessary.** The backdrop for this comment was one of softer than expected near-term Australian growth amid rising financial market uncertainty and increased downside risks for global growth.

The Q3 CPI results certainly fulfilled the RBA's test in our opinion. The core measures of inflation printed at a much better than expected 0.3% q/q rate. Even with an upwardly revised Q2 outcome of 0.8% q/q, taken together, these two quarters indicate that core inflation was running at or below the middle of the RBA's 2 to 3% target band over the past six months. As Figure 1 shows, abstracting from a somewhat unusual oscillating quarterly pattern for underlying inflation, inflation broadly continues to run at around 0.5% q/q in underlying terms.

FIGURE 1: CORE INFLATION AND ANZ DIFFUSION INDEX



Sources: ANZ, ABS

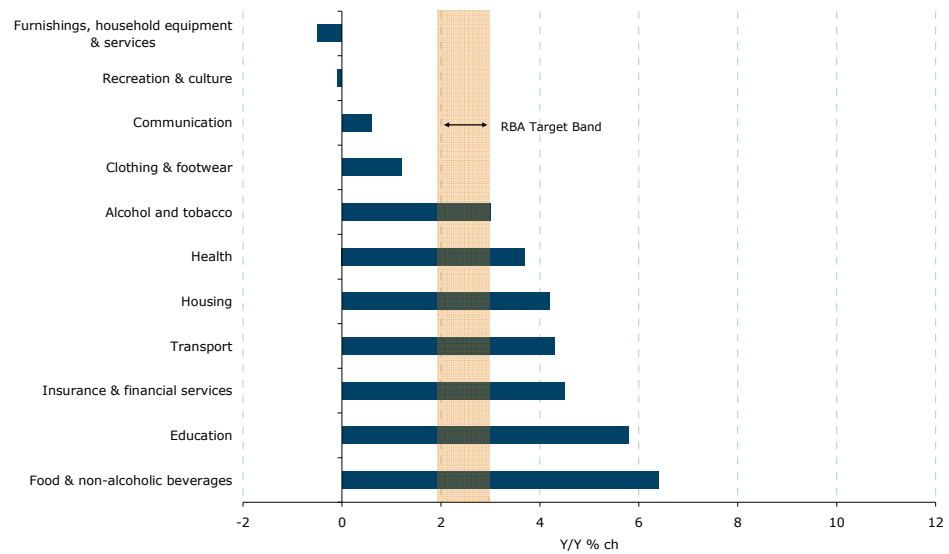
The other important takeaways from this week's CPI release were:

- **Non-tradeables inflation** continues to run considerably more strongly than tradeables inflation. It will be important for tradeables inflation to remain contained in coming quarters, something which we expect as there still seems to be less exchange rate pass-through than our models would suggest;
- At face value, few components of the headline CPI are currently running at rates at or below the RBA's target (see Figure 2). However, both the Food and Alcohol & Tobacco sub-groups should record more moderate inflation readings in coming quarters as the effects of the Queensland floods and cyclone and tobacco excise increases drop out of the figures; and
- Most importantly, with the recent improvements to inflation outcomes, our (and most importantly the RBA's) **inflation forecasts are likely to have been revised lower.** After abstracting from the additional effects of the carbon tax (as the RBA has indicated it will do), inflation now remains consistent with the target band until at least late 2013.

The importance of this latter development is that, arguably **it is no longer necessary for the RBA to run a restrictive monetary policy**, given global growth uncertainties and a

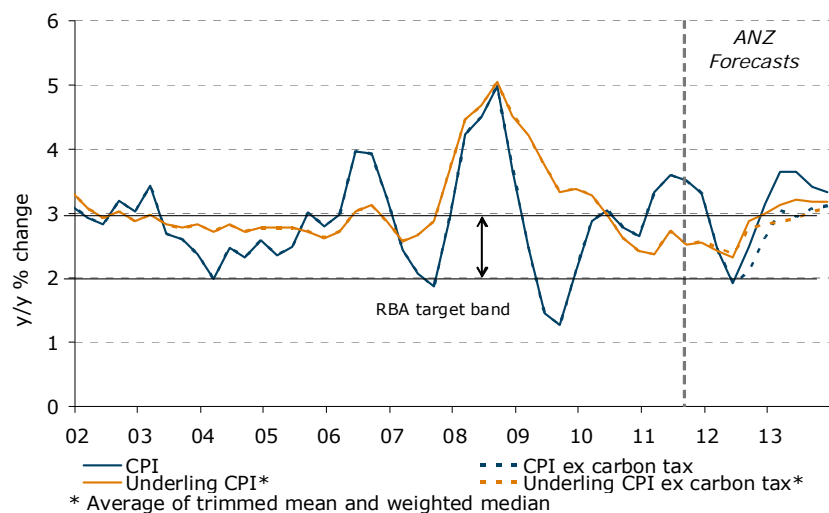
forecast for inflation consistent with the Bank’s target. As such, monetary policy could be returned to a more neutral setting. This is the debate we expect to occur at the November Board meeting.

FIGURE 2: COMPONENTS OF INFLATION (Y/Y % CHANGE)



Sources: ABS

FIGURE 3: ANZ INFLATION FORECASTS



Sources: ANZ, ABS

But what about the “should that prove necessary” part of the RBA’s recent communications? This statement can be considered in two ways:

- Firstly, in relation to the potential for a significant slowing of global growth driven presumably by a further financial market meltdown originating in Europe, the RBA would

be in a position to cut rates aggressively, as was the case during the GFC. Importantly, however, **large interest rate cuts would require this eventuality to actually take place and not just be a threat.** The RBA has recently stressed that developments to date have been quite different to those witnessed in 2008 (e.g. no cessation of trade in credit this time and the continuing strength of mining investment plans). As such, the arguments for early and large interest rate cuts are not strong at this point;

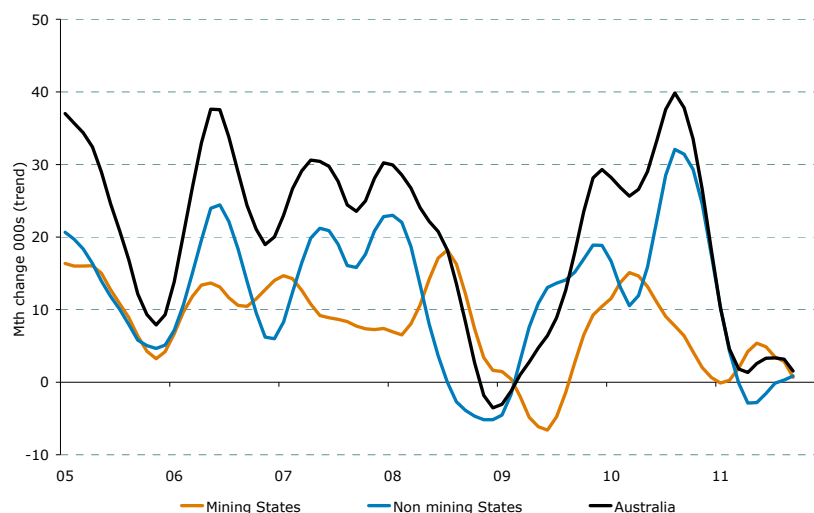
- Secondly, there is the question about whether there is a need to 'support demand'. Here, a recent line in the 25 October speech by Deputy Governor Battellino caught our eye. To paraphrase, Battellino noted that **demand is running close to trend in Australia, but the high import content of many resource projects means that GDP growth is below trend. As a consequence, employment growth has slowed and unemployment has risen.**

The latter seems an important change in the Bank's perspective. And indeed it reminds us very strongly of the period in 1996-97 when then Governor Fraser repeatedly asked the question 'could the Australian economy afford to grow more quickly without threatening inflation?' Back then the answer was yes.

A number of indicators suggest that if the same question were asked today, the answer would again be in the affirmative. This is because:

1. **employment growth has slowed sharply** since mid 2010 and is currently trending at around zero employment growth each month (see Figure 4). This is below trend and if sustained, would see the unemployment rate continue to rise. While this would further reduce pressures on wages, it does not seem to make any sense for Australia to have a significant mining investment boom and to see unemployment rise. As such it would appear that there is some room for slightly stronger employment growth at the present time.

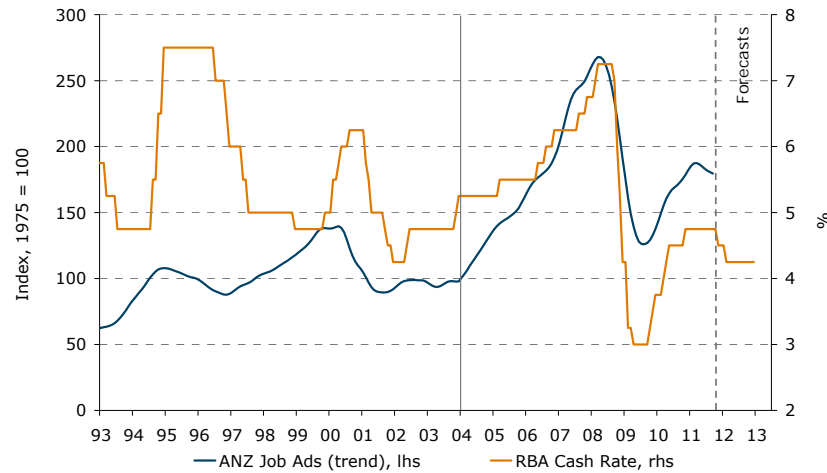
FIGURE 4: EMPLOYMENT GROWTH (TREND)



Sources: ANZ, ABS

2. **Job advertising has been softening in recent months**, a trend that historically has been consistent with rising unemployment and lower interest rates (see Figure 5). However, the pace of the decline in advertising in recent months has been relatively mild (certainly nothing like the collapse in advertising that occurred during the GFC or even in 2000-01). The more modest decline to date coupled with the low starting level for unemployment supports at best a modest decline in interest rates, not large and aggressive rate cuts at this stage.

FIGURE 5: JOB ADVERTISING AND INTEREST RATES

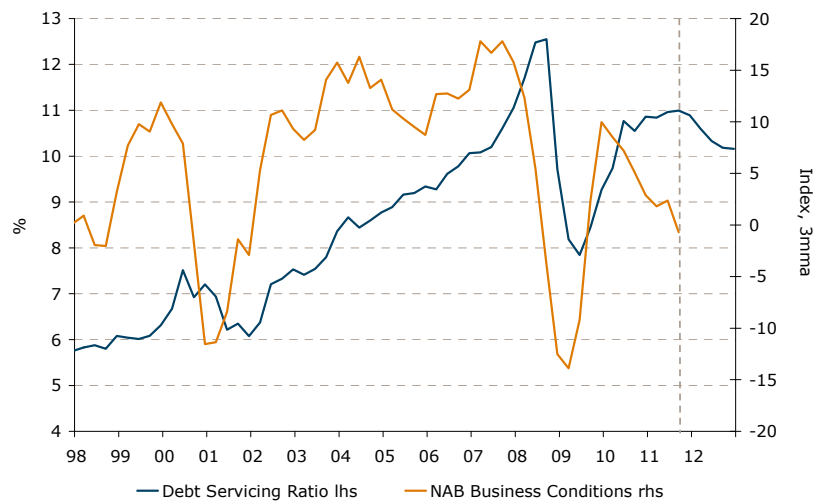


*Newspaper Job Ads till 2004. Total Job Ads from 2004.

Sources: ANZ, ABS

3. **Business conditions are much weaker** than during the first phase of the commodities boom (see Figure6), in part because the RBA has run very tight policy. In fact, one can probably argue that the RBA, with hindsight, has been a bit tight for the overall economy, given recent trends in employment growth and unemployment. With employment growth soft and unemployment rising modestly, it does not seem necessary for the Bank to be quite as tight as it has been.

FIGURE 6: DEBT SERVICING RATIO AND BUSINESS CONDITIONS



Sources: ANZ, ABS

For all of these reasons, **the data support the case for some modest reduction in interest rates**. But the case for a more significant easing of monetary policy (as still being priced in by markets) is not strong, because (1) the growth outlook remains reasonable, (2) the inflation forecast is good without being exceptional, and (3) unemployment remains at a very low starting point, The latter would seem to require ongoing weakness in employment growth and/or renewed financial market

troubles and significantly weaker world growth. As usual, we will be guided by the ongoing trends in job advertising as a reliable guide to future developments in the labour market.

How does the positive response of the markets to the European rescue package affect our thinking about monetary policy? In the short term, the positive response must increase the risk that the RBA may sit and watch the incoming data on inflation and growth a little longer. We suspect however, that the greater impact should be to further reduce the likelihood of the aggressive sequence of rate cuts priced by the market.

CONCLUSION

The debate on Tuesday will likely be about a small adjustment to policy, which many may consider to be fine-tuning, something the RBA has typically shied away from. However, given all the information available, we still expect such a move, notwithstanding the positive response by markets to the European rescue package. The move will be justified on an improved inflation track and the fact that the Australian economy can afford to grow a little more strongly than currently, in part due to the large import content of mining projects.

Looking ahead, whether a follow-up fine tuning move will occur in February will be determined by the response to November's move in the form of consumer and business confidence and most importantly, employment.

DATA WRAP

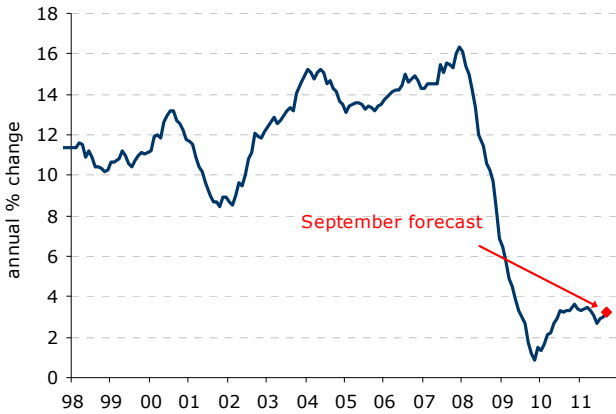
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DATA WRAP

- Headline **CPI** rose by 0.6% q/q to an annual rate of 3.3% y/y (from 3.6% y/y in Q2). Underlying inflation rose just 0.3% q/q in Q3 as the annual rate eased to 2.5% in Q3 from 2.8% in Q2. Goods inflation rose by only 0.2% q/q as food prices, pharmaceuticals prices and the higher A\$ eased inflationary pressures. However, services prices rose 1.2% q/q, predominantly due to higher utilities prices.
- The final stage **Producer Price Index** increased 0.6% q/q and 2.7% y/y in the September quarter. This was driven by higher domestic prices (0.7% q/q), with utilities, commercial fishing and 'other agriculture' the major contributors. These were partly offset by lower building construction costs. In the earlier stages of production, input price inflation was very weak in Q3, with input price growth broadly flat (0.1% q/q in both intermediate and preliminary stages). In year-ended terms, however, price growth for these remain more elevated than for final stage prices.
- The **Conference Board Leading Index** fell by 0.1% in August. A fall in the equity market was the major drag on the index but a rise in building approvals offset this fall somewhat.

DATA PREVIEW

PRIVATE SECTOR CREDIT



31 OCT: PRIVATE SECTOR CREDIT (SEP)

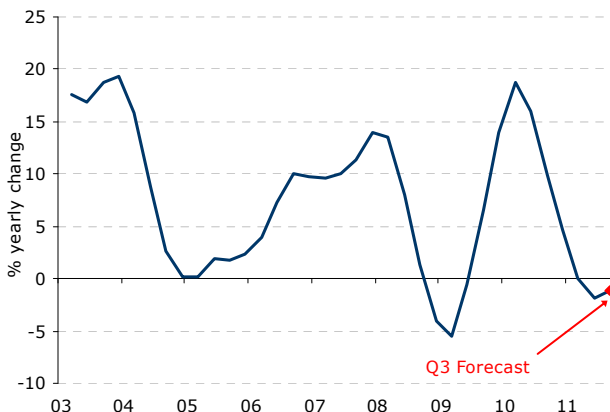
ANZ: +0.3% m/m, +3.2% y/y

Market: +0.3% m/m, 3.1% y/y

Last: +0.2% m/m, +3.0% y/y

Private sector credit is expected to post a moderate monthly increase of 0.3% in September with annual growth edging higher to 3.2%. With commercial finance approvals gaining momentum, monthly business credit growth is expected to be positive for the first time in six months. Softening house prices, weak housing market activity and an appetite to repay outstanding household debt is expected to keep housing credit growth subdued in September. Personal credit growth is expected to post negative monthly growth for the sixth straight month reflecting ongoing consumer caution and weak margin lending activity with ongoing equity market volatility. (DC)

HOUSE PRICES



1 NOV: HOUSE PRICE INDEX (Q3)

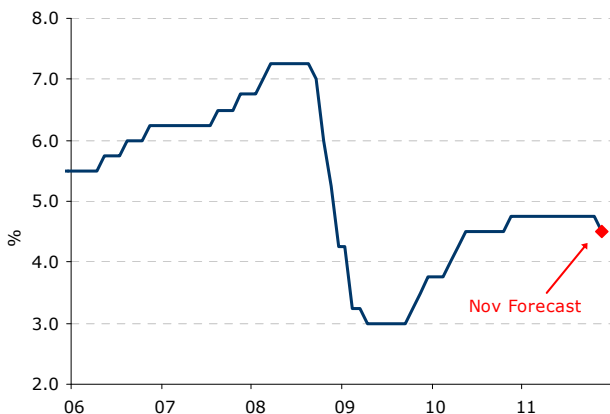
ANZ: -0.5% q/q, -1.2% y/y

Market: -1.5% q/q, -1.8% y/y

Last: -0.1% m/m, -1.9% y/y

Conditions in the housing market remain soft and we are forecasting house prices to fall across all of the major capital cities. The biggest quarterly price falls are expected in Brisbane and Perth, with other major capital cities recording more modest declines. Despite the current softness in the housing market, the long term fundamentals remain strong, driving tightening vacancy rates and accelerating rental growth. Moreover, with softer house prices and an increasing likelihood of RBA rate cuts, housing affordability is likely to become less of a constraint on future market activity. Combined with stable domestic economic conditions and tight housing market fundamentals, this should support future housing market activity in the face of continuing weakness in market sentiment. (DC)

RBA CASH RATE



1 NOVEMBER: RBA CASH RATE (OCT)

ANZ: 4.50%

Market: 4.50%

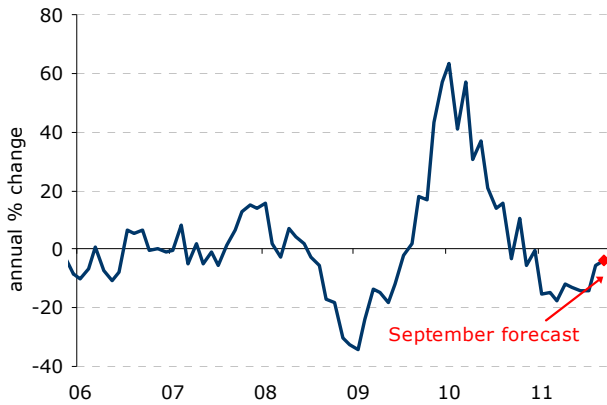
Last: 4.75%

We expect the RBA to cut its official cash rate by 25 bps to 4.50% next Tuesday. Q3 CPI this week confirmed inflation is markedly lower than previously thought, global risks remain high, Australian bulk commodity export prices have dropped sharply, offshore credit costs are elevated and Australian employment is at a standstill. In this environment, the path of least regret for the RBA would appear to be to modestly adjust current "mildly restrictive" policy settings to a more neutral level. If the RBA does cut as expected, we would still expect the central bank to maintain its upbeat medium-term view of the Australian economy, with this to be outlined in both the statement following the decision and in next Friday's quarterly Statement on Monetary Policy. This would be a strong signal that, without a significant worsening in global conditions, the current aggressive rate cuts over 2012 that are still priced into financial markets remain highly unlikely. (KD)



DATA PREVIEW

BUILDING APPROVALS



2 NOV: BUILDING APPROVALS (SEP)

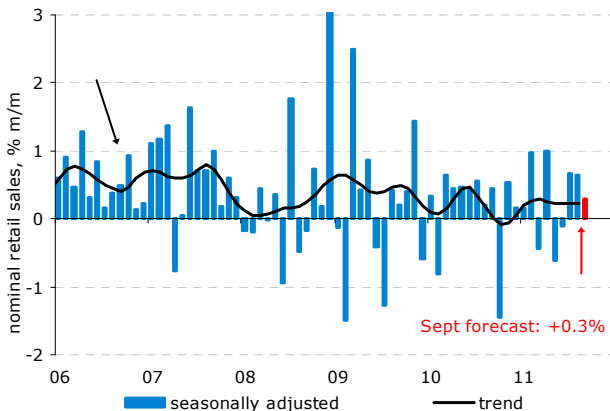
ANZ: -8.5% m/m, -3.8% y/y

Market: -5.0% m/m, 0.2% y/y

Last: +11.4% m/m, -5.5% y/y

Building approvals are expected to decrease in September, largely unwinding the strong growth in small dwelling approvals in August. Despite expectations of moderate growth in house approvals in September, ongoing uncertainty in the short-term economic outlook, a soft bias in housing market activity and weak house prices are expected to continue to weigh on developer sentiment in the short-term future. Nonetheless, increased competition in the mortgage lending market and an increasing potential for RBA rate cuts should add further downward bias to mortgage rates, buoying future residential building plans. (DC)

RETAIL SALES, NOMINAL



3 NOVEMBER: RETAIL SALES, NOMINAL (SEP)

ANZ: +0.3% m/m, +1.8% y/y

Market: +0.4% m/m

Last: +0.6% m/m, +2.1% y/y

Retail sales have the potential to surprise on the upside again in September, after two months of (unexpectedly) stronger growth. Consumer sentiment recovered somewhat (up by 8.1 points after falling 3.4 points in August and 8.3 points in July) and 'time to buy a household item' also ticked up again in September, despite continuing falls in the ASX and other wealth indicators. Employment levels recovered in September, the unemployment rate stayed steady and the cash rate stayed on hold. Unseasonably wet and/or warm spring weather in several cities may also have provided a positive impetus, particularly for clothing retailers who have had sales declines in each of the past four months. Food price deflation in Q3, on the other hand, may detract from this month's nominal sales growth for food retailers. (JT)

RETAIL SALES, REAL



3 NOVEMBER: RETAIL SALES, REAL (Q3)

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

Market: +0.6% q/q

Last: +0.3% q/q, +0.6% y/y

Nominal sales growth of 0.3% m/m in September implies **nominal** growth of 0.9% q/q and 1.8% y/y in Q3. The latest CPI data indicated price *deflation* for food and beverages of -0.2% q/q in Q3, balanced against price *inflation* of around 1.3% q/q on average for clothing, household goods and other retail items. With food retailers accounting for 40% of total nominal retail spending, food price deflation will largely counter the stronger price rises seen elsewhere. This means 0.9% q/q growth in nominal sales could translate into **real quarterly sales growth of 0.8% q/q and 0.8% y/y**. If it is realised, such a result would be the strongest quarter of growth in real sales for retailers since last June. Stronger than expected food price deflation is probably the key downside risk to this forecast. (JT)

DATA & EVENT CALENDAR

WEEK STARTING 31 OCTOBER

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Monday	NZ	Building Permits m/m	SEP	2.0%	2.0%	12.5%	22:45	08:45
31-Oct		NZ Treasury monthly economic indicators					02:00	12:00
		Money Supply M3 y/y	SEP	--	--	5.5%	03:00	13:00
	AU	AiG Performance of Construction Index	OCT	--	--	30	23:30	09:30
		RPData-Rismark House Px Raw	SEP	--	--	-0.1%	00:30	10:30
		RPData-Rismark House Px S.A	SEP	--	--	-0.4%	00:30	10:30
		TD Securities Inflation m/m	OCT	--	--	0.1%	00:30	10:30
		TD Securities Inflation y/y	OCT	--	--	2.8%	00:30	10:30
		Private Sector Credit m/m	SEP	0.3%	0.3%	0.2%	01:30	11:30
		Private Sector Credit y/y	SEP	3.1%	3.2%	3.0%	01:30	11:30
	JN	Markit/JMMA Manufacturing PMI	OCT	--	--	49.3	00:15	10:15
		Annualized Housing Starts	SEP	0.906M	--	0.934M	06:00	16:00
		Construction Orders y/y	SEP	--	--	9.3%	06:00	16:00
		Housing Starts y/y	SEP	7.6%	--	14.0%	06:00	16:00
	EU	Euro-Zone CPI Estimate y/y	OCT	2.8%	--	3.0%	10:00	20:00
		Euro-Zone Unemployment Rate	SEP	10.0%	--	10.0%	10:00	20:00
		ECB Announces Allotment in 8-Day Main Refinancing Tender					10:15	20:15
		OECD releases pre-G20 summit economic forecasts					11:00	21:00
		Bundesbank's Boehmler Speaks in Schwabisch Gmund, Germany					18:00	04:00
	UK	Hometrack Housing Survey m/m	OCT	--	--	-0.1%	00:01	10:01
		Hometrack Housing Survey y/y	OCT	--	--	-3.5%	00:01	10:01
		Lloyds Business Barometer	OCT	--	--	7	00:01	10:01
		Mortgage Approvals	SEP	50.5K	--	52.4K	09:30	19:30
		Net Consumer Credit	SEP	0.4B	--	0.5B	09:30	19:30
		Net Lending Securities on Dwellings	SEP	0.5B	--	0.6B	09:30	19:30
	US	Chicago Purchasing Manager	OCT	59.0	--	60.4	13:45	23:45
		NAPM-Milwaukee	OCT	56.0	--	55.4	14:00	00:00
		Dallas Fed Manf. Activity	OCT	-2.5	--	-14.4	14:30	00:30
	CA	Gross Domestic Product m/m	AUG	0.2%	--	0.3%	12:30	22:30
		Gross Domestic Product y/y	AUG	--	--	2.3%	12:30	22:30
		Industrial Product Price m/m	SEP	0.1%	--	0.5%	12:30	22:30
		Raw Materials Price Index m/m	SEP	-3.0%	--	-3.2%	12:30	22:30
		Treasury Board head Clement speaks in Toronto					01:00	23:00
31-Oct to 3-Nov	GE	Retail Sales m/m	SEP	1.0%	--	-2.7%		
		Retail Sales y/y	SEP	1.7%	--	2.2%		
25-31 Oct	UK	BoE Housing Equity Withdrawal	2Q	-£6.0B	--	-£5.8B		
Tuesday	NZ	Average Hourly Earnings q/q	3Q	--	0.8%	1.2%	22:45	08:45
1-Nov		Private Wages Exc Overtime q/q	3Q	0.9%	0.5%	0.5%	22:45	08:45
		Private Wages Inc Overtime q/q	3Q	0.5%	0.5%	0.5%	22:45	08:45
		ANZ Commodity Price	OCT	--	--	-1.3%	01:00	11:00
		Fonterra Global Dairy Auction					12:00	22:00
	AU	Melbourne Cup Day Holiday (Vic)						
		AiG Performance of Manufacturing Index	OCT	--	--	42.3	23:30	09:30
		House Price Index q/q	3Q	-1.5%	-0.5%	-0.1%	01:30	11:30
		House Price Index y/y	3Q	-1.8%	-1.2%	-1.9%	01:30	11:30
		RBA CASH TARGET	Nov-01	4.50%	4.50%	4.75%	04:30	14:30
		RBA Commodity Index SDR y/y	OCT	--	--	26.6%	06:30	16:30
		RBA Commodity Price Index Au	OCT	--	--	115.4	06:30	16:30
	JN	Labor Cash Earnings y/y	SEP	--	--	-0.4%	02:30	12:30
		Vehicle Sales y/y	OCT	--	--	1.7%	06:00	16:00
	CH	PMI Manufacturing	OCT	--	--	51.2	02:00	12:00
		HSBC Manufacturing PMI	OCT	--	--	49.9	03:30	13:30

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Tuesday	UK	Nat'wide House prices sa m/m	OCT	0.0%	--	0.1%	07:00	17:00
1-Nov		Nat'wide House prices nsa y/y	OCT	0.5%	--	-0.3%	07:00	17:00
(cont.)		GDP q/q	3Q A	0.3%	--	0.1%	09:30	19:30
		GDP y/y	3Q A	0.3%	--	0.6%	09:30	19:30
		Index of Services m/m	AUG	--	--	0.2%	09:30	19:30
		Index of Services (3mth/3mth)	AUG	--	--	1.3%	09:30	19:30
		PMI Manufacturing	OCT	50	--	51.1	09:30	19:30
	US	Construction Spending m/m	SEP	0.3%	--	1.4%	14:00	00:00
		ISM Manufacturing	OCT	52.3	--	51.6	14:00	00:00
		ISM Prices Paid	OCT	55.0	--	56.0	14:00	00:00
		Domestic Vehicle Sales	OCT	10.30M	--	10.17M	21:00	07:00
		Total Vehicle Sales	OCT	13.10M	--	13.04M	21:00	07:00
01-04 NOV	UK	Halifax House Prices sa m/m	OCT	0.1%	--	-0.5%		
01-08 NOV	JN	Official Reserve Assets	OCT	--	--	\$1200.6B		
Wednesday	NZ	Fonterra Milk Powder Auction Results					16:00	02:00
2-Nov	AU	HIA New Home Sales m/m	SEP	--	--	1.1%	01:00	11:00
		Building Approvals m/m	SEP	-5.0%	-8.5%	11.4%	01:30	11:30
		Building Approvals y/y	SEP	0.2%	-3.8%	-5.5%	01:30	11:30
		AOFM auctions \$700mn in April 2023 bonds						
	JN	Monetary Base y/y	OCT	--	--	16.7%	00:50	10:50
	EU	PMI Manufacturing	OCT F	47.3	--	47.3	09:00	19:00
	GE	PMI Manufacturing	OCT F	48.9	--	48.9	08:55	18:55
		Unemployment Change (000's)	OCT	-10K	--	-26K	08:55	18:55
		Unemployment Rate (s.a)	OCT	6.9%	--	6.9%	08:55	18:55
	UK	PMI Construction	OCT	--	--	50.1	09:30	19:30
	US	MBA Mortgage Applications	Oct-28	--	--	4.9%	11:00	21:00
		Challenger Job Cuts y/y	OCT	--	--	211.5%	11:30	21:30
		ADP Employment Change	OCT	101K	--	91K	12:15	22:15
		FOMC Rate Decision	NOV	0.25%	0.25%	0.25%	16:30	02:30
		Fed's Bernanke (V) Speaks at Fed Press Conference					18:15	04:15
Thursday	NZ	Employment Change q/q	3Q	0.6%	0.2%	0.0%	22:45	08:45
3-Nov		Employment Change y/y	3Q	1.6%	1.2%	2.0%	22:45	08:45
		Participation Rate q/q	3Q	68.5%	68.3%	68.4%	22:45	08:45
		Unemployment Rate	3Q	6.4%	6.4%	6.5%	22:45	08:45
	AU	AiG Performance of Service Index	OCT	--	--	50.3	23:30	09:30
		Retail Sales sa m/m	SEP	0.4%	0.3%	0.6%	01:30	11:30
		Retail Sales ex Inflation q/q	3Q	0.6%	0.8%	0.3%	01:30	11:30
	CH	China Non-manufacturing PMI	OCT	--	--	59.3	02:00	12:00
		China HSBC Services PMI	OCT	--	--	53	03:30	13:30
	EU	ECB's Draghi Speaks at ECB Monthly News Conference					12:30	22:30
		ECB Announces Interest Rates	Nov-03	1.50%	1.50%	1.50%	12:45	22:45
	UK	Official Reserves (Changes)	OCT	--	--	-\$2444M	09:30	19:30
		PMI Services	OCT	52.0	--	52.9	09:30	19:30
		BOE Testifies on Financial-Services Bill					09:45	19:45
	US	ICSC Chain Store Sales y/y	OCT	--	--	5.5%	00:00	10:00
		RBC Consumer Outlook Index	NOV	--	--	39.2	12:00	22:00
		Continuing Claims	21-Oct	--	--	--	12:30	22:30
		Initial Jobless Claims	28-Oct	--	--	--	12:30	22:30
		Fed's Lockhart (non-voter) Opens Emory Economic Conference in Atlanta					12:30	22:30
		Nonfarm Productivity	3Q P	2.5%	--	-0.7%	12:30	22:30
		Unit Labor Costs	3Q P	-0.4%	--	3.3%	12:30	22:30
		Bloomberg Consumer Comfort	30-Oct	--	--	-51.1	13:45	23:45
		Factory Orders	SEP	-0.1%	--	-0.2%	14:00	00:00
		ISM Non-Manufacturing Composite	OCT	54	--	53	14:00	00:00

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Friday	AU	RBA Statement on Monetary Policy	NOV				23:30	09:30
4-Nov		AOFM auctions \$700mn in June 2014 bonds						
	JN	Foreign Buying Japan Bonds	28-Oct	--	--	-¥499.1B	00:50	10:50
		Foreign Buying Japan Stocks	28-Oct	--	--	-¥41.7B	00:50	10:50
		Japan Buying Foreign Bonds	28-Oct	--	--	¥1020.2B	00:50	10:50
		Japan Buying Foreign Stocks	28-Oct	--	--	-¥21.0B	00:50	10:50
	EU	PMI Composite	OCT F	--	--	47.2	09:00	19:00
		PMI Services	OCT F	47.2	--	47.2	09:00	19:00
		Euro-Zone PPI m/m	SEP	0.3%	--	-0.1%	10:00	20:00
		Euro-Zone PPI y/y	SEP	5.8%	--	5.9%	10:00	20:00
	GE	PMI Services	OCT F	52.1	--	52.1	07:55	17:55
		Factory Orders m/m sa	SEP	0.0%	--	-1.4%	11:00	21:00
		Factory Orders y/y nsa	SEP	7.9%	--	3.9%	11:00	21:00
	UK	New Car Registrations y/y	OCT	--	--	-0.8%	00:00	10:00
	US	Avg Hourly Earning m/m All Emp	OCT	0.2%	--	0.2%	12:30	22:30
		Avg Hourly Earning y/y All Emp	OCT	1.9%	--	1.9%	12:30	22:30
		Avg Weekly Hours All Employees	OCT	34.3	--	34.3	12:30	22:30
		Change in Manufacturing Payrolls	OCT	5K	--	-13K	12:30	22:30
		Change in Nonfarm Payrolls	OCT	100K	--	103K	12:30	22:30
		Change in Private Payrolls	OCT	125K	--	137K	12:30	22:30
		Change in Household Survey Employment	OCT	--	--	398	12:30	22:30
		Unemployment Rate	OCT	9.1%	--	9.1%	12:30	22:30
		Fed's Tarullo (voter) Speaks in Washington on Regulation					17:00	03:00
	CA	Full Time Employment Change	OCT	--	--	63.8	11:00	21:00
		Net Change in Employment	OCT	20.0K	--	60.9K	11:00	21:00
		Part Time Employment Change	OCT	--	--	-2.9	11:00	21:00
		Participation Rate	OCT	--	--	66.8	11:00	21:00
		Unemployment Rate	OCT	7.2%	--	7.1%	11:00	21:00
		Building Permits m/m	SEP	--	--	-10.4%	12:30	22:30
		Ivey Purchasing Managers Index sa	OCT	56	--	55.7	14:00	00:00

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>31 OCTOBER NZ: Building Permits (Sep) AU: RP-Rismark House Prices (Sep), Private Credit (Sep) JP: Housing Starts (Sep), Construction Orders (Sep), EU: Unemployment (Sep), CPI est. (Oct) UK: Mortgage Approvals (Sep), Consumer Credit (Sep) US: Chicago PMI (Oct), Dallas Fed Manuf. (Oct) CA: GDP (Aug)</p>	<p>1 NOVEMBER NZ: Wages (Q3), Fonterra Global Dairy Auction AU: House Prices (Q3), TD Sec. Inflation (Oct), RBA Cash Rate JP: BoJ minutes, Vehicle Sales (Oct) CH: PMI Manuf. (Oct) EU: PMI Manuf. (Oct F), Draghi takes over as ECB President UK: PMI Manuf. (Oct) US: ISM Manuf. (Oct), Construction Spending (Sep)</p>	<p>2 NOVEMBER AU: Building Approvals (Sep) GE: PMI Manuf. (Oct F), Unemployment (Oct) UK: PMI Construction (Oct) US: FOMC Rates Decision, Fed's Bernanke Speaks, ADP Employment (Oct)</p>	<p>3 NOVEMBER NZ: Employment (Q3) AU: Retail Sales (Sep), Real Retail Sales (Q3) CH: Non-manufacturing PMI (Oct) JP: Culture Day Holiday EU: ECB rates decision, ECB's Trichet Speaks UK: PMI Services (Oct) US: ISCS Chain Store Sales (Oct), ISM non-manuf. (Oct), Factory Orders (Sep), Fed's Lockhart Speaks</p> <p>G20 Summit (Day 1)</p>	<p>4 NOVEMBER AU: RBA SoMP EU: PPI (Sep), PMI Services (Oct F), GE: PMI Services (Oct F), Factory Orders (Sep) US: Nonfarm Payrolls (Oct), Fed's Tarullo Speaks CA: Employment (Oct), Building Permits (Sep)</p> <p>G20 Summit (Day 2)</p>
<p>7 NOVEMBER AU: ANZ Job Ads (Oct), EU: Retail Sales (Sep), ECB's Stark Speaks, Eurozone Finance Ministers Meeting GE: Industrial Production (Sep) US: Consumer Credit (Sep)</p>	<p>8 NOVEMBER AU: NAB Business Survey (Oct), Trade (Sep) EU: ECB's Stark Speaks, ECONFIN Meeting GE: Trade (Sep) UK Industrial Production (Sep) US: NFIB Small Bus. Optimism (Oct), JOLTs Job Openings (Sep), Fed's Plosser, Kocherlakota Speak CA: Housing Starts (Oct)</p>	<p>9 NOVEMBER NZ: Card Spending (Oct) AU: Westpac Consumer Confidence (Nov), Housing Finance (Sep) JP: Current Account (Sep) CH: Industrial Production (Oct), Retail Sales (Oct), CPI (Oct), PPI (Oct) UK: Trade (Sep) US: Bernanke Speaks</p>	<p>10 NOVEMBER NZ: Business NZ PMI (Oct), ANZ Cons. Conf. (Nov) AU: Employment (Oct), RBA's Lowe Speaks JP: Machine Orders (Sep) CH: Trade (Oct) GE: CPI (Oct F) UK: BoE Rates Decision US: Trade (Sep) CA: Trade (Sep)</p>	<p>11 NOVEMBER NZ: Food Prices (Oct) UK: PPI (Oct) US: Uni of Michigan Conf. (Nov P)</p>
<p>14 NOVEMBER NZ: Real Retail Sales (Q3) JP: GDP (Q3 P), IP (Sep F) EU: IP (Sep)</p>	<p>15 NOVEMBER NZ: Fonterra Global Dairy Auction AU: RBA Minutes EU: GDP (Q3 A), ZEW Survey (Nov), Trade (Sep), ECB's Praet Speaks GE: GDP (Q3 P), ZEW Survey (Nov) UK: CPI (Oct) US: PPI (Oct), Retail Sales (Oct), Business Inventories (Sep), Empire Manuf. (Nov)</p>	<p>16 NOVEMBER AU: DEWR Skilled Vacancies (Oct), WPI (Q3) JP: BoJ Rates Decision EU: CPI (Oct) UK: Unemployment (Sep), BoE Inflation Report US: IP (Oct), CPI (Oct), TIC flows (Sep)</p>	<p>17 NOVEMBER NZ: PPI (Q3) AU: Ave Weekly Wages (Aug Q), RBA's Stevens Speaks EU: Construction Output (Sep) UK: Retail Sales (Oct) US: Housing Starts (Oct), Building Permits (Oct), Philly Fed Manuf. (Nov)</p>	<p>18 NOVEMBER GE: PPI (Oct) CA: CPI (Oct)</p> <p>20 November: Spanish General Election</p>
<p>21 NOVEMBER AU: RBA's Debelle Speaks JP: Trade (Oct) EU: Current Account (Sep) US: Chicago Fed Nat Activity (Oct), Existing Home Sales (Oct)</p>	<p>22 NOVEMBER NZ: Net Migration (Oct) EU: ECB's Coene Speaks US: GDP (Q3 S), Richmond Fed Manuf. (Nov), Fed's Kocherlakota Speaks CA: Retail Sales</p>	<p>23 NOVEMBER AU: Construction Work Done (Q3) JP: Thanksgiving Day Holiday EU: Industrial New Orders (Sep) UK: BoE Minutes US: Durable & Capital Goods Orders (Oct), Personal Income & Spending (Oct), PCE Core (Oct), Kansas City Manuf. (Nov), FOMC Minutes</p>	<p>24 NOVEMBER NZ: Trade (Oct) AU: RBA's Stevens Speaks GE: GDP (Q3), IFO Survey (Nov) UK: GDP (Q3 P) US: Thanksgiving Day Holiday</p>	<p>25 NOVEMBER JP: CPI (Oct) CH: MNI Business Conditions Survey (Nov)</p>
<p>28 NOVEMBER NZ: RBNZ Business Confidence (Nov) GE: CPI UK: Hometrack Housing Survey (Nov) US: New Home sales (Oct), Dallas Fed Manufacturing (Nov)</p>	<p>29 NOVEMBER JP: Jobless Rate (Oct), Retail Trade (Oct) EU: Consumer & Business Confidence (Nov) UK: Mortgage Approvals (Oct) US: CaseShiller House Prices (Sep), Consumer Confidence (Nov) CA: Current Account (Q3)</p>	<p>30 NOVEMBER NZ: Building Permits (Oct) AU: Private Sector Credit (Oct), RP-Data Rismark House Prices (Oct) JP: Industrial Production (Oct), Housing Starts (Oct) EU: CPI Estimate (Nov), Unemployment (Oct) GE: Unemployment (Oct) US: Fed's Beige Book, ADP Employment (Nov), Chicago PMI (Nov), Pending Home Sales (Oct) CA: GDP (Q3)</p>	<p>1 DECEMBER NZ: Terms of Trade (Q3) AU: Retail Sales (Oct) CH: PMI Manufacturing (Nov) EU: PMI Manufacturing (Nov F) GE: PMI Manufacturing (Nov F) UK: PMI Manufacturing (Nov) US: ICSC Chain Store Sales (Nov), ISM Manufacturing (Nov), Construction Spending (Oct)</p>	<p>2 DECEMBER AU: Building Approvals (Oct) JP: Capital Spending (Q3) EU: PPI (Oct) UK: PMI Construction (Nov) US Non-farm Payrolls (Nov) CA: Employment (Nov)</p>

CENTRAL BANK RELEASES FOR 2011-12

SEPTEMBER 2011	OCTOBER 2011	NOVEMBER 2011	DECEMBER 2011
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
JANUARY 2012	FEBRUARY 2012	MARCH 2012	APRIL 2012
4th – FOMC Minutes 12th – BoE 12th – ECB 18th – BoC 26th – FOMC 25th – BoE Minutes 25th – BoJ Monthly Report 25th – FOMC 26th – RBNZ 27th – BoJ Minutes	7th – RBA 8th – RBNZ 8th – RBNZ MP statement 9th – BoE 9th – ECB 16th – RBA Minutes 15th – BoE Inflation Report 15th – BoJ Monthly Report 13th – BoJ 17th – BoJ Minutes 21st – RBA minutes 22nd – BoE Minutes	6th – RBA 9th – BoC 8th – ECB 8th – BoE 12th – BoJ 13th – FOMC 14th – BoJ Monthly Report 16th – BoJ Minutes 21st – BoE Minutes 20th – RBA minutes	3rd – RBA 4th – ECB 5th – BoE 9th – BoJ 11th – BoJ Monthly Report 13th – BoJ Minutes 17th – BoC 17th – RBA Minutes 18th – BoE Minutes 25th – FOMC 26th – RBNZ 27th – BoJ
MAY 2012	JUNE 2012	JULY 2012	AUGUST 2012
1st – RBA 3rd – ECB 7th – BoJ Minutes 10th – BoE 15th – RBA Minutes 16th – BoE Inflation Report 22nd – BoJ 23rd – BoE Minutes 24th – BoJ Monthly Report 28th – BoJ Minutes	5th – RBA 5th – BoC 14th – RBNZ 14th – RBNZ MP Statement 7th – BoE 6th – ECB 14th – BoJ 18th – BoJ Monthly Report 19th – RBA Minutes 20th – BoE Minutes 20th – BoJ Minutes 20th – FOMC	3rd – RBA 5th – ECB 5th – BoE 17th – RBA Minutes 17th – BoC 18th – BoE Minutes 26th – RBNZ 31st – FOMC	1st – FOMC 2nd – ECB 2nd – BoE 7th – RBA 8th – BoE Inflation Report 21st – RBA Minutes 15th – BoE 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	2.2	4.3	5.4	6.8
Household consumption	2.8	2.7	1.7	2.8
Dwelling investment	4.2	1.6	-2.0	7.6
Business investment	0.0	12.0	20.0	17.6
Public demand	9.1	1.9	2.9	2.0
Domestic final demand	3.8	3.7	4.8	5.6
Inventories (contribution to GDP)	0.4	0.3	-0.4	0.0
Gross National Expenditure (GNE)	4.2	4.0	4.3	5.6
Exports	5.7	-0.2	12.8	10.4
Imports	13.7	11.7	14.2	12.2
Net Exports (contribution to GDP)	-1.6	-2.8	-0.7	-0.9
Gross Domestic Product (GDP)	2.7	1.3	3.1	4.0
Prices and wages (annual % change)				
Inflation: Headline CPI*	2.8	3.4	2.7	3.3
Underlying*^	2.8	2.5	2.7	3.2
Wages:	3.3	3.8	3.7	4.1
Labour market				
Employment (annual % change)	2.7	1.7	0.8	2.2
Unemployment rate (annual average %)	5.2	5.1	5.5	5.3
External sector				
Terms of trade (annual % change)	16.2	16.3	5.1	-3.5
Current account balance: A\$bn	-36.0	-23.7	-7.8	-25.7
% of GDP	-2.7	-1.6	-0.5	-1.6

* Includes carbon tax. ^ Average of RBA trimmed mean and weighted statistical measures

AUSTRALIAN INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBA cash rate	4.75	4.50	4.25	4.25	4.25	4.25
90 day bill	4.75	4.70	4.60	4.55	4.50	4.50
3 year bond	3.96	3.40	3.20	3.30	3.50	3.60
10 year bond	4.57	4.10	4.00	4.00	4.10	4.20
3s10s yield curve	0.61	0.70	0.80	0.70	0.60	0.60
3 year swap	4.44	3.90	3.70	3.80	3.95	4.05
10 year swap	5.23	4.70	4.60	4.60	4.65	4.75

INTERNATIONAL INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBNZ cash rate	2.50	2.50	2.75	3.00	3.25	3.50
NZ 90 day bill	2.72	2.80	3.17	3.25	3.67	3.75
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.25
US 2 year note	0.30	0.20	0.20	0.20	0.20	0.40
US 10 year note	2.37	1.90	1.90	1.90	2.00	2.20
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.50	1.25	1.00	1.00	1.00	1.00
UK repo rate	0.50	0.50	0.50	0.50	0.50	0.50



FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
Australian exchange rates						
A\$/US\$	1.07	0.97	1.00	1.05	1.10	1.10
NZ\$/US\$	0.82	0.77	0.80	0.83	0.86	0.89
A\$/¥	80.9	72.8	75.0	75.6	79.2	79.2
A\$/€	0.75	0.72	0.73	0.75	0.77	0.76
A\$/£	0.66	0.63	0.64	0.66	0.68	0.67
A\$/NZ\$	1.30	1.26	1.25	1.27	1.28	1.24
A\$/C\$	1.06	0.93	0.98	1.04	1.11	1.13
A\$/CHF	0.92	0.89	0.94	1.01	1.08	1.10
A\$/CNY	6.77	6.09	6.19	6.42	6.63	6.55
A\$ Trade weighted index	76.5	72.2	73.7	76.1	79.0	78.2
International cross rates						
US\$/¥	75.9	75.0	75.0	72.0	72.0	72.0
€/US\$	1.42	1.35	1.37	1.40	1.42	1.45
€/¥	107	101	103	101	102	104
£/US\$	1.61	1.55	1.57	1.59	1.61	1.63
€/£	0.88	0.87	0.87	0.88	0.88	0.89
US\$/C\$	0.99	0.96	0.98	0.99	1.01	1.03
US\$/CHF	0.86	0.92	0.94	0.96	0.98	1.00
US\$ index	75.0	78.6	76.7	75.3	74.8	74.0
Asia exchange rates						
US\$/CNY	6.35	6.28	6.19	6.11	6.03	5.95
US\$/HKD	7.77	7.80	7.80	7.80	7.80	7.80
US\$/IDR	8825	8925	8747	8572	8400	8232
US\$/INR	49.5	49.4	48.4	47.4	46.5	45.6
US\$/KRW	1107	1195	1171	1148	1125	1100
US\$/MYR	3.08	3.19	3.16	3.13	3.10	3.06
US\$/PHP	42.6	43.9	43.2	42.6	42.0	41.3
US\$/SGD	1.25	1.31	1.30	1.28	1.27	1.26
US\$/THB	30.55	31.20	31.00	30.90	30.70	30.60
US\$/TWD	29.89	30.60	30.40	30.30	30.10	30.00
US\$/VND	21009	21000	21400	21400	21400	21400
Pacific exchange rates						
PGK/US\$	0.462	0.378	0.372	0.366	0.366	0.366
FJD/US\$	0.573	0.538	0.530	0.522	0.522	0.522

IMPORTANT NOTICE

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