

## Future budget surplus rests on recovery

14 May 2009

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### Macro Update: Budget contains few surprises

- This year's Budget contained no 'new surprises' in the sense that nearly all of the major policy initiatives, key financial aggregates and a broad sense of the underlying economic assumptions were leaked to the media in recent weeks.
- The Government's fiscal position has now changed dramatically over the 12 months since the last Budget. Last year's 2008-09 Budget forecast underlying cash surpluses totalling nearly \$80bn over the coming four years. This year's Budget now envisages cash deficits totalling more than \$191bn over the same period – a turnaround of some \$270bn.

### Interest Rate Markets: Medium-term outlook

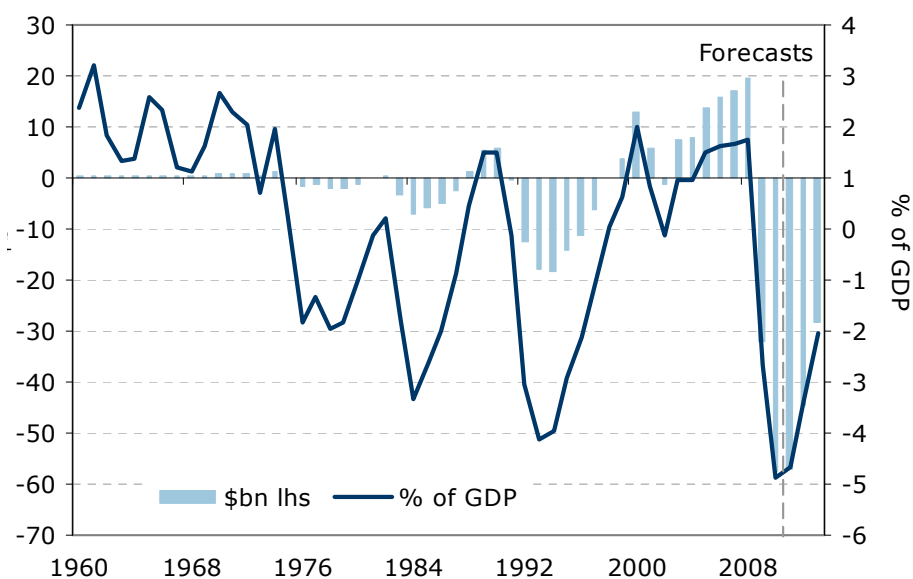
- The Government is forecasting headline cash Budget deficits of around \$60bn in 2009-10 and then again in 2010-11.
- These deficits will need to be funded through increased bond issuance. Commonwealth Government Securities (CGS) on issue are projected by the government to rise to \$300bn over the next five years.
- Persistently rising bond supply will keep swap spreads on a compression trend. Although supply has been readily absorbed, over time government bonds will need to cheapen to swap to attract new investors.

### FX: What does the Budget mean for the AUD?

- The AUD/USD has moved into a higher trading range for now, but the trading range remains wide. We recommend that natural sellers of AUD look to extend hedging duration if AUD/USD lifts above 0.7600.
- The 2009-10 Federal Budget could have a positive influence on the AUD. One of the major reasons is the impact of the increased issuance of government bonds to finance the projected budget deficits.

### Chart of the week

Figure 1: The biggest budget deficit since WWII



Source: Budget papers

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## Macro Update: Budget contains few surprises

This year's Budget contained no 'new surprises' in the sense that nearly all of the major policy initiatives, key financial aggregates and a broad sense of the underlying economic assumptions were leaked to the media in recent weeks. The only significant initiative which hadn't been mentioned in media speculation was the increase in the pension age from 65 to 67 between 2017 and 2023.

However the Government's success in massaging public and market expectations shouldn't be allowed to obscure how dramatically the Government's fiscal position has changed over the 12 months since the last Budget. The 2008-09 Budget forecast underlying cash surpluses totalling nearly \$80bn over the four years 2008-09 through 2011-12. This year's Budget now envisages cash deficits totalling more than \$191bn over the same period – a turnaround of some \$270bn. Instead of the \$20bn surplus foreshadowed this time last year for 2009-10, the Budget envisages a \$58bn deficit, equivalent to 4.9% of GDP (which exceeds the previous peak of 4.1% of GDP in 1992-93). And the Budget is expected to remain in deficit for a further five years.

Around \$173bn, or just under two-thirds, of this turnaround is the result of factors beyond the Government's direct control – in particular, the impact of the sharp downturn in the global economy (and the associated fall in commodity prices) on taxation revenues. Australia's national income (nominal GDP) will be an average of \$111bn per annum or 9% lower over the next three financial years than had been assumed in last year's Budget.

The vulnerability of the Budget to kind of shock which has occurred since this time last year was greatly increased by the Howard Government's willingness in its last two terms to use windfall revenue gains from the resources and asset price booms to fund permanent reductions in personal income tax and increases in cash payments to households (a practice which the current Government largely continued in last year's Budget).

As a result, there would have been a cash deficit of around \$26bn in 2009-10, rising to \$38bn in 2010-11, even had the Government made no policy decisions at all over the past 12 months. Needless to say, seeking to prevent the Budget from slipping into deficit would have required swingeing tax increases and spending cuts, which would have in turn exacerbated the economic downturn.

Instead, the Australian Government embarked on a series of discretionary stimulus packages, a third of which are contained in the 2008-09 Budget. This was, we hasten to add, absolutely appropriate, and consistent with what governments in most other advanced economies and many emerging economies have sought to do – even though there is room for argument as to whether the precise form of the various stimulus packages has been optimal. Treasury estimates that without these stimulus packages, real GDP would have been 2¾% and 1½% lower in 2009-10 and 2010-11, and that Australia's unemployment rate would have peaked at over 10% in 2010-11 rather than the 8½% currently forecast.

We don't necessarily endorse these calculations, but we don't deny that the stimulus packages have softened the impact of the global downturn. Nor do we have any concerns about the size of the deficits expected over the next few years, or the build-up in net debt which will result from them. Though the deficits are, at least for 2009-10 and 2010-11, large by Australian historical standards, they are almost modest by contemporary international standards, with advanced economies as a group running deficits averaging 7.7% of GDP in 2010 (and the US and UK deficits of over 10% of GDP). Similarly, although the forecast peak in net debt of 13.6% of GDP by 2013-14 is high by Australian historical standards (while falling short of the all-time high of 18.5% of GDP in 1996), it is almost virtuous by comparison with the corresponding figure for advanced economies as a group which, according to the IMF, will reach 107% of GDP by 2013.

These favourable international comparisons reflect Australia's much more advantageous starting point – for which the previous Government is entitled to take credit (even though this analyst believes it could and should have been even more advantageous). But having zero or even negative net debt is not an end in

itself, but rather something which is advisable during booms so as to have greater scope to borrow in order to soften the impact of subsequent downturns.

### But risks around the medium-term strategy to return to surplus

This year's Budget seeks to provide a third instalment of fiscal stimulus; to meet some other political commitments which the Government entered into (in particular, to increase pensions, a commitment which it made after last year's Budget); and to lay out a credible strategy for ensuring that the budget eventually returns to surplus over the medium term.

It is with regard to this third objective that this year's Budget may eventually raise some concerns in financial market circles. The medium-term strategy laid out in the Budget relies on three pillars:

- a series of measures aimed at restricting the access of high-income earners to welfare benefits, closing some tax loopholes and reducing the extent of fiscal support for superannuation savings;
- an assumption that economic growth will average 4½% per annum in 2011-12 and 2012-13, and that the 'revenue dividend' from this above-trend growth will be applied to deficit reduction; and
- a commitment to keep real growth in spending to less than 2% pa from 2011-12 onwards.

We have no particular quarrel with the savings measures foreshadowed in this Budget: we believe welfare benefits should, in general, be subjected to means tests, and if it is considered necessary to raise additional tax revenues then it is far preferable to do so by broadening the tax base (eliminating loopholes and concessions) than by raising tax rates. Our only concerns here are whether these measures will get through the Senate; and whether they go far enough. On the latter score, we note that even in 2011-12 and 2012-13, when the economy is supposed to be growing at an above-trend pace and the need for fiscal stimulus has passed, the bottom-line impact of all these savings measures will still be more than offset by new spending measures contained in this Budget, by over \$4bn and \$2bn respectively. That is, the Budget does not make net savings even three and four years out into the forward estimates period.

Similarly, an analysis of previous cycles supports Treasury's contention that there will probably be a period of above-trend growth after the current recession has ended. Treasury argues that the speed and size of the global policy responses to the financial crisis, together with Australia's exposure to rapid growth in China and India, add 'particular support' to that scenario. Against that, the fact that Treasury is forecasting this recession to be shallower than its two predecessors, and the comparative absence of growth-spurring micro-economic reforms in prospect for the next few years, might argue against growth being as strong as Treasury has assumed.

Third, it remains to be seen whether, as revenue recovers in line with a pick-up in economic growth, the Government really can remain committed to constraining spending growth to less than 2% in real terms, in the absence of further (and more wide-ranging) 'hard policy choices' than the ones contained in this Budget.

In short, while we see no grounds for concern about the foreshadowed deficits and net debt for the period immediately ahead, we suspect that the task of returning the budget to surplus by the middle of the next decade remains unfinished business which will require further attention in future Budgets.

### Data wrap

- The Reserve Bank's *Statement on Monetary Policy* on Friday was more balanced than recent upbeat commentary. The RBA revised down its growth and inflation forecasts further, with figures now consistent with the Government.
- The value of **housing finance approvals** increased by 6.7% in March, with approvals for owner-occupiers (+7.3%) and investors (+4.7%) up strongly.

## Interest Rate Markets: Bond issuance to surge

- The Government is forecasting headline cash Budget deficits of around \$60bn in 2009-10 and then again in 2010-11. This was broadly in line with market expectations.
- All of this will need to be funded through increased bond issuance. Commonwealth Government Securities (CGS) on issue are projected by the government to rise to \$300bn over the next five years.
- Persistently rising bond supply will keep swap spreads on a compression trend. Although supply has been readily absorbed, over time government bonds will need to cheapen to swap to attract new investors.

### Funding program

The funding program for the Australian Office of Financial Management will be \$60bn over each of the next two years and bonds on issue will rise to around \$300bn by 2013. These numbers have had little impact on pricing in the bond market highlighted by the successful AOFM tender this week (bid/cover of 4.4), lower bond yields and a strong currency

With little scope for further fiscal stimulus, the task of supporting a weaker than expected recovery will be left to monetary policy. We expect that there will be further rate cuts later in the year if the economy does not recover quickly and inflation comes down. At the very least rate hikes are no where to be seen right now.

We recommend using any rally in term rates to hedge floating rate debt exposures. While policy rates may remain low for some time surging bond supply in global markets just all the risks to long-term rates are skewed to the upside over the medium-term.

### Bond issuance to surge over the years ahead

The Government is estimating the Budget deficit will be \$32.1bn in 2008/09, a \$53.8bn turnaround from last year's Budget in which a \$21.7bn surplus was forecast. The current year deficit is being funded by increased bond issuance (approximately \$30bn), the running down of surplus cash holdings and the re-opening of Treasury note operations, which are expected to total \$17bn by the end of June 2009.

The Government is forecasting headline cash Budget deficits of around \$60bn in 2009/10 and then again in 2010/11. This was broadly in line with market expectations. All of this will need to be funded through increased bond issuance. Commonwealth Government Securities (CGS) on issue are projected by the government to rise to \$300bn over the next five years. In the short-term A\$ benchmark bonds on issue will rise to \$79bn by the end of June (from around \$50bn at the start of this year) and then to A\$133bn at June 2010.

The AOFM has provided an updated borrowing program today detailing the borrowing activities for the year ahead and outlining some of the issues they face in meeting the substantial funding task ahead. The key points are:

Of the \$60bn in new money required in 2009/10 just about all issuance (\$54bn) will be in A\$ nominal benchmark lines. Gross issuance will be \$60bn which includes the re-financing of \$6bn of the Sep-09 bond.

### A new 2022 bond will be issued.

All other issuance will be into existing lines taking the volume of each line to at least \$10bn by June 2010.

Bond tenders will continue to be twice a week (Wednesday and Friday). The tender size will increase to \$800m immediately and will range from \$700m to \$1bn next financial year.

T-Notes on issue will have a minimum outstanding level of \$10bn at any point in time.

The AOFM has flagged potential new issuance in Treasury Indexed Bonds and in longer maturities. The first step is consultation with market participants. In our view both initiatives would be welcome for a range of reasons. These include

greater diversity for both the issuer and the investor. Also, for the financial markets having longer maturity bonds and indeed, longer maturity indexed bonds will improve the liquidity and efficiency of associated derivative markets. This will effectively make funding in longer maturities, and/or using inflation protected securities, a cheaper option. This could be important for future infrastructure funding requirements.

### We do not expect the AOFM will issue in foreign currencies.

In the Table 1 below, we have made a reconciliation of the Government funding requirement, as denoted by the headline cash deficit, the AOFM borrowing program announcement from today and the expectations for bonds outstanding over the next four years.

We assume that a \$6bn annual indexed bond program will begin next year and be maintained.

**Table 1: Estimates of Commonwealth Government Securities Outstanding**

|  | 2008-09      | 2009-10      | 2010-11      | 2011-12      | 2012-13      |
|--|--------------|--------------|--------------|--------------|--------------|
| <b>Underlying Cash Balance</b>             | -32.1        | -54.7        | -54.2        | -41.8        | -25.4        |
| Net Advances*                              | -7.4         | -5.1         | -4.8         | -6.8         | 0.3          |
| Plus Future Fund Earnings                  | 3.6          | 2.9          | 2.9          | 2.8          | 2.8          |
| <b>Headline Cash Balance:</b>              | <b>-35.9</b> | <b>-59.8</b> | <b>-58.9</b> | <b>-48.5</b> | <b>-25.1</b> |
| Issuance for NBN**                         | 0.0          | 1.0          | 4.0          | 0.0          | 0.0          |
| Commonwealth Funding Task                  | -35.9        | -60.8        | -62.9        | -48.5        | -25.1        |
| <b>CGS Outstanding</b>                     |              |              |              |              |              |
| \$A Benchmark                              | 79.0         | 134.0        | 190.0        | 232.0        | 251.0        |
| T-Notes                                    | 17.0         | 17.0         | 17.0         | 17.0         | 17.0         |
| Indexed Bonds                              | 6.0          | 12.0         | 18.0         | 24.0         | 30.0         |
| <b>Total CGS Outstanding (end period):</b> | <b>102.0</b> | <b>163.0</b> | <b>225.0</b> | <b>273.0</b> | <b>298.0</b> |

\* Net Cash flows from investments in financial assets for policy purposes

\*\* National Broadband Network (NBN)

Source: Budget Papers and ANZ

### Maintain Bullish Rates Strategies

Despite recent stronger data we see no reason to think the economy is going to suddenly accelerate into a sustained recovery from here. Many challenges lie ahead for the Australian economy and with fiscal flexibility much diminished the outlook for interest rates remains skewed to easing, even if the RBA remain on hold for the next few months.

Indeed, the Budget reinforces to us the key thematic underpinning our strategic recommendations in recent months. The prospect of a fundamental turn in the rates cycle is low. Although long-term rates remain vulnerable to imbalances in global markets (QE and rising bond supply), we believe that short-to intermediate rate (2-5yrs) will be anchored by stable cash rate expectations.

We recommend using any rally in term rates to hedge floating rate debt exposures. While policy rates may remain low for some time surging bond supply in global markets just all the risks to long-term rates are skewed to the upside over the medium-term.

Persistently rising bond supply will keep swap spreads on a compression trend. Although supply has been readily absorbed, over time government bonds will need to cheapen to swap to attract new investors. This is particularly the case when there are other more attractively priced AAA securities on offer. We expect swaps spreads to continue to grind in over the medium-term.

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## FX: What does the Budget mean for the AUD?

### Recommendation

The AUD/USD has moved into a higher trading range for now, but the trading range remains wide. We recommend that natural sellers of AUD look to extend hedging duration if AUD/USD lifts above 0.7600. Although there is a chance the AUD could lift toward 0.7850 or even 0.8000, this probability is not our central view. We see clients favouring deferred option premiums to take advantage of this spike in AUD. Watch for AUD vulnerability on the JPY and EUR cross rates, as key levels to the downside have been broken.

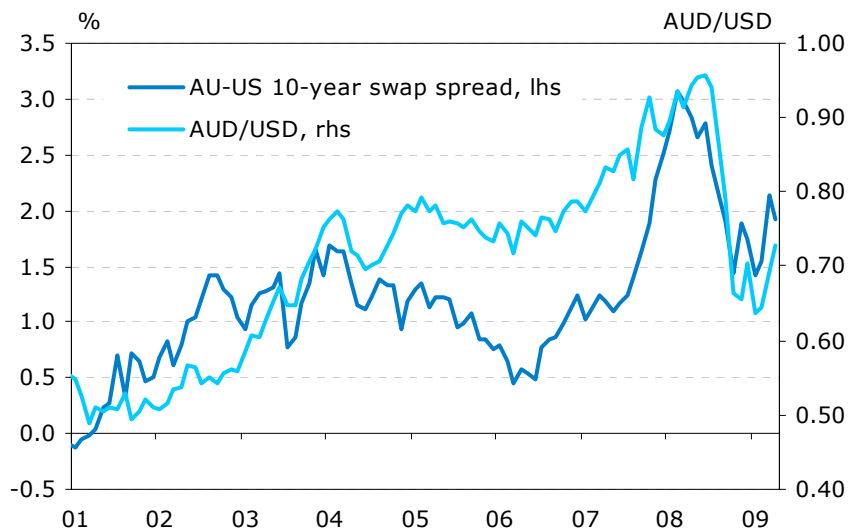
### Overview

The 2009-10 Federal Budget could have a positive influence on the AUD. One of the major reasons is the impact of the increased issuance of government bonds - \$60 bn worth in each of the next two years - to finance projected budget deficits.

Why would increased debt issuance be AUD positive? The logic is as follows: first, the increase in the stock of Commonwealth bonds on issue is likely to (and to some extent, has already) put upward pressure on yields. As the premium offered by Australian government bonds over US government bonds is a driver of the AUD/USD rate, the rise in yields is AUD-positive.

Second, any increased purchasing of Australian government bonds by overseas investors represents a capital inflow into Australia. Though many governments are issuing more bonds to finance bigger fiscal deficits, Australian Commonwealth bonds viewed as an attractive investment. Although debt is rising, the Australian government's net debt position is among the lowest in the G20 economies. From a creditworthiness perspective, S&P has reaffirmed the government's AAA rating following the Budget.

**Figure 1: AUD/USD and AU-US 10-year swap spreads (generally) in synch**



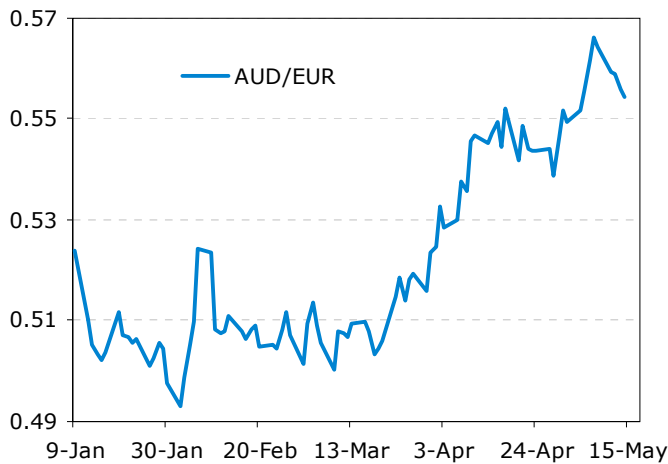
Source: ANZ, Bloomberg

The chart above shows just how influential relative yields are to the AUD, particularly longer-dated term spreads. While the mining boom tended to overpower the influence of term yield spreads between 2005 and 2007, in 2008 we saw this relationship re-establish, with movements in the AUD/USD occurring concurrently with developments in spreads. Combined with the rally in the AUD/USD to a seven-month high above 0.77 this week, October 2008's low just above 0.60 is becoming a faint shadow in the rear-view mirror.

Now that the Budget has been announced, the upward drift in yields that we have seen over the past few weeks may abate. The bottom line is, however, that increased government issuance is a positive, not a negative, for the AUD.

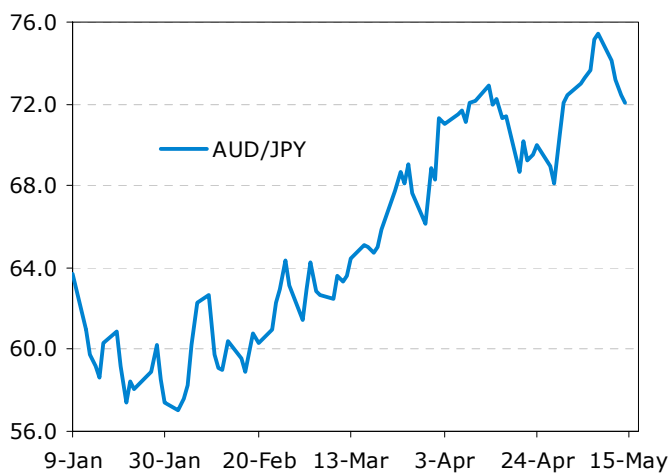
**AUD/USD Key levels: 0.7475 – 0.7700.** A break below 0.7475 opens up downside toward 0.7350, while a move above 0.7700 opens up a rise toward AUD/USD0.7930 (50% retracement level between the 2008 high and low).

## AUD cross view



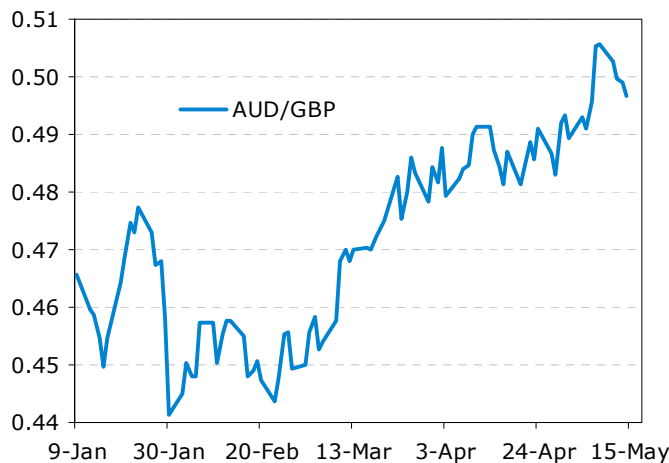
### AUD/EUR Key levels: 0.5360 – 0.5710

- AUD/EUR fell below an important level at 0.5550 overnight, as the AUD declined against major crosses following an equity market sell-off. The EUR has failed against EUR/USD1.37 twice in the past week, and could get through on another push. Watch for AUD/EUR downside risk.
- The very measured moves by the ECB in terms of cutting interest rates and expanding its balance sheet remain EUR supportive. With no ECB meeting now until June, current dynamics seem likely to continue. Watch for EU Q1 GDP release on Friday night.



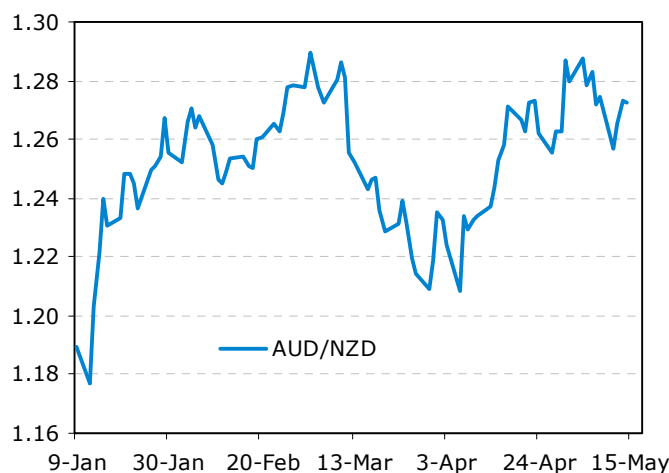
### AUD/JPY Key levels: 68.00 – 74.10

- The recent strength of the JPY has stepped up to the next level, with the fall of USD/JPY through 95.0 opening up potential for a move to 94.30. The re-emergence of the JPY as a safe-haven choice when equity markets retrace has led the AUD to underperform the JPY in this environment.
- Upcoming important data releases for Japan include machine orders, consumer confidence and final industrial production for March. However, the JPY is mainly moving on risk appetite, with the IMM data showing the speculative market has moved from a net short to a nearly flat position.



### AUD/GBP Key levels: 0.4790 – 0.5060

- The AUD/GBP has fallen from the peak reached last week, but the slight pullback to 0.4970 from a recent high of 0.5078 still leaves this cross well above its 50-day moving average. Though the GBP is appreciating gradually against the USD, it has not kept pace with AUD. The cross may come under further pressure, however, if risk appetite continues to deteriorate.
- Next week the Bank of England minutes may elaborate further on QE policies. We also have Q1 GDP, which could easily move the GBP with a surprise to the upside or downside.



### AUD/NZD Key levels: 1.2490 - 1.2940

- This cross has been held firmly below AUD/NZD1.28 this week, consistent with the downward pressure on the cross that is often seen during periods of weaker risk appetite. AUD/NZD remains firmly range bound for now.
- Our NZ colleagues have pushed back the timing for the next expected RBNZ rate cut to September. Similar pricing in the OIS curve has been NZD supportive, though this has had relatively little impact on the cross given a similar repricing of the RBA cash rate profile in Australia. Retail sales data are released tomorrow.

## ANZ economic and financial market forecasts

| Australian economic indicators             | 2007       | 2008       | 2009f       | 2010f      |
|--|------------|------------|-------------|------------|
| <b>Economic activity (annual % change)</b> |            |            |             |            |
| Private final demand                       | 6.0        | 3.9        | -2.5        | -1.8       |
| Household consumption                      | 4.3        | 2.1        | 0.4         | 1.0        |
| Dwelling investment                        | 2.7        | 2.0        | -6.5        | 9.0        |
| Business investment                        | 13.8       | 13.2       | -9.7        | -15.9      |
| Public demand                              | 2.8        | 5.0        | 2.0         | 5.8        |
| Domestic final demand                      | 5.4        | 4.1        | -1.5        | -0.1       |
| Inventories (contribution to GDP)          | 0.6        | -0.6       | -0.7        | 0.8        |
| Gross National Expenditure (GNE)           | 5.9        | 3.5        | -2.2        | 0.8        |
| Exports                                    | 3.2        | 4.7        | -4.9        | -1.3       |
| Imports                                    | 11.5       | 10.6       | -12.2       | 1.8        |
| Net Exports (contribution to GDP)          | -1.8       | -1.4       | 2.0         | -0.6       |
| <b>Gross Domestic Product (GDP)</b>        | <b>4.0</b> | <b>2.1</b> | <b>-0.9</b> | <b>0.6</b> |
| <b>Prices and wages (annual % change)</b>  |            |            |             |            |
| Inflation: Headline CPI                    | 2.3        | 4.4        | 1.6         | 2.6        |
| Underlying*                                | 3.1        | 4.5        | 3.7         | 2.7        |
| Wages                                      | 4.1        | 4.2        | 3.9         | 3.4        |
| <b>Labour market</b>                       |            |            |             |            |
| Employment (annual % change)               | 2.8        | 2.2        | -0.3        | -1.0       |
| Unemployment rate (%)                      | 4.4        | 4.2        | 6.1         | 8.1        |
| <b>External sector</b>                     |            |            |             |            |
| Current account balance: A\$ bn            | -68.1      | -50.1      | -52.2       | -77.4      |
| % 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                       | 3.00    | 3.00    | 2.50    | 2.00    | 2.00    | 2.00    |
| 90 day bill                         | 3.11    | 3.20    | 2.30    | 2.30    | 2.30    | 2.35    |
| 3 year bond                         | 3.80    | 3.55    | 3.35    | 3.15    | 3.55    | 3.70    |
| 10 year bond                        | 4.88    | 4.65    | 4.45    | 4.25    | 4.45    | 4.50    |
| 3s10s yield curve                   | 1.08    | 1.10    | 1.10    | 1.10    | 0.90    | 0.80    |
| 3 year swap                         | 4.13    | 3.90    | 3.65    | 3.45    | 3.85    | 4.00    |
| 10 year swap                        | 5.34    | 5.15    | 4.85    | 4.60    | 4.75    | 4.80    |
| <b>International interest rates</b> |         |         |         |         |         |         |
| RBNZ cash rate                      | 2.50    | 2.50    | 2.25    | 2.00    | 2.00    | 2.00    |
| NZ 90 day bill                      | 2.88    | 2.85    | 2.43    | 2.35    | 2.35    | 2.35    |
| US Fed funds note                   | 0.25    | 0.25    | 0.25    | 0.25    | 0.50    | 1.00    |
| US 2 year note                      | 0.86    | 0.75    | 0.80    | 0.85    | 1.25    | 1.50    |
| US 10 year note                     | 3.10    | 3.50    | 3.55    | 3.55    | 3.75    | 3.90    |
| Japan call rate                     | 0.10    | 0.10    | 0.10    | 0.25    | 0.50    | 0.50    |
| ECB refinance rate                  | 1.00    | 1.00    | 0.50    | 0.50    | 0.75    | 1.00    |
| 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 |
|--|----------|---------|---------|---------|---------|---------|
| <b>Australia and NZ exchange rates</b> |          |         |         |         |         |         |
| A\$/US\$                               | 0.7512   | 0.72    | 0.68    | 0.66    | 0.65    | 0.65    |
| NZ\$/US\$                              | 0.5903   | 0.54    | 0.51    | 0.48    | 0.47    | 0.47    |
| A\$/¥                                  | 71.74    | 75.60   | 73.44   | 72.60   | 75.40   | 75.40   |
| A\$/€                                  | 0.5543   | 0.56    | 0.56    | 0.55    | 0.55    | 0.56    |
| A\$/£                                  | 0.4969   | 0.49    | 0.46    | 0.45    | 0.43    | 0.42    |
| A\$/NZ\$                               | 1.273    | 1.33    | 1.33    | 1.38    | 1.40    | 1.38    |
| A\$/CA\$                               | 0.8832   | 0.89    | 0.84    | 0.83    | 0.83    | 0.83    |
| A\$/CHF                                | 0.8341   | 0.86    | 0.84    | 0.86    | 0.90    | 0.92    |
| A\$/CNY                                | 5.126    | 4.92    | 4.64    | 4.51    | 4.43    | 4.43    |
| A\$ Trade weighted index               | 61.20    | 61.23   | 58.85   | 57.40   | 56.89   | 56.65   |
| <b>International cross rates</b>       |          |         |         |         |         |         |
| US\$/¥                                 | 95.5     | 105     | 108     | 110     | 116     | 116     |
| €/US\$                                 | 1.355    | 1.28    | 1.22    | 1.20    | 1.18    | 1.16    |
| €/¥                                    | 129.4    | 134     | 132     | 132     | 137     | 135     |
| £/US\$                                 | 1.512    | 1.48    | 1.48    | 1.48    | 1.50    | 1.53    |
| €/£                                    | 0.8964   | 0.86    | 0.82    | 0.81    | 0.79    | 0.76    |
| US\$/CA\$                              | 1.176    | 1.23    | 1.24    | 1.25    | 1.27    | 1.28    |
| US\$/CHF                               | 1.110    | 1.19    | 1.24    | 1.30    | 1.38    | 1.41    |
| US\$ index                             | 82.79    | 87.8    | 90.8    | 92.1    | 93.8    | 94.6    |
| <b>Asia exchange rates</b>             |          |         |         |         |         |         |
| US\$/CNY                               | 6.823    | 6.83    | 6.83    | 6.83    | 6.82    | 6.82    |
| US\$/HKD                               | 7.750    | 7.75    | 7.75    | 7.76    | 7.76    | 7.77    |
| US\$/IDR                               | 10448    | 11500   | 11900   | 11500   | 11500   | 11000   |
| US\$/INR                               | 49.97    | 52.00   | 51.00   | 51.00   | 50.00   | 50.00   |
| US\$/KRW                               | 1268.7   | 1400    | 1450    | 1400    | 1325    | 1300    |
| US\$/MYR                               | 3.5545   | 3.70    | 3.75    | 3.75    | 3.70    | 3.65    |
| US\$/PHP                               | 47.76999 | 49.50   | 50.00   | 49.50   | 48.80   | 48.50   |
| US\$/SGD                               | 1.469    | 1.58    | 1.60    | 1.62    | 1.63    | 1.61    |
| US\$/THB                               | 34.61    | 36.50   | 37.50   | 37.00   | 36.50   | 36.00   |
| US\$/TWD                               | 32.95    | 32.70   | 32.00   | 32.00   | 31.00   | 30.00   |
| US\$/VND                               | 17782    | 18300   | 18800   | 18800   | 19300   | 19300   |
| <b>Pacific exchange rates</b>          |          |         |         |         |         |         |
| PGK/US\$                               | 0.362    | 0.35    | 0.34    | 0.35    | 0.35    | 0.36    |
| FJD/US\$                               | 0.465    | 0.43    | 0.42    | 0.40    | 0.39    | 0.39    |

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