

AUSTRALIAN ECONOMICS

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13 MAY 2011

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CONTRIBUTORS

Warren Hogan
Chief Economist,
+61 2 9227 1562
Warren.Hogan@anz.com

Ivan Colhoun
Head of Australian
Economics and Property
Research
+61 2 9227 1780
Ivan.Colhoun@anz.com

Katie Dean
Head of Australian
Economics
+61 3 9273 1381
Katie.Dean@anz.com

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

Julie Toth
Senior Economist
+61 3 9273 6252
Julie.Toth@anz.com

David Cannington
Economist
+61 3 9273 4274
David.Cannington@anz.com

Andrew McManus
Analyst
+61 2 9227 1742
Andrew.McManus@anz.com

Dylan Eades
Analyst
+61 3 9273 2708
Dylan.Eades@anz.com

UPWARD PRESSURES ON AUD AND INFLATION TO CONTINUE

- Our *In Focus* article summarises this week's **Federal Budget**. The underlying cash balance is now forecast to be in larger deficit in 2011-12 at \$22.6 bn (due to lower tax receipts and higher expenditure), improving to a surplus of \$3.5 bn just a year later. While the Budget's forecasts seem credible, the projected surpluses are tiny and will be easily wiped out by any future natural disasters or other calls on the public purse. Measures to improve labour supply and other structural issues were relatively small.
- We also provide an extract from our forthcoming publication, *Australian Property Outlook*. Our analysis indicates that although house prices have flattened through 2010-11, the housing market will continue to tighten as new home building continues to fall well short of underlying housing demand. Nonetheless, rising interest rates, deteriorating affordability and the absence of an upside trigger to improve sentiment will keep house prices in their current range over 2011-12.
- Australian employment fell by 22.1K in April, mostly due to statistical volatility in full-time employment. The unemployment rate, which provides a more accurate read on the degree of tightness in the labour market, was unchanged at 4.9%.
- In light of persistent USD weakness in May and the recent pick-up in volatility, **we have made a modest upgrade to our AUD forecasts. We now expect AUD to average USD1.08 through the September quarter 2011.** The main reasons for this upgrade to our central forecast are: (1) the USD stayed weaker than we expected through Q2, when we last adjusted our forecasts in early April. The aggressive USD sell-off was based upon fears of USD debasement. We think that reaction was excessive and that the USD is now more likely to base. (2) The RBA clearly underlined its hawkish stance in the latest monetary policy statement. This is consistent with our view of the path of policy. We expect the next rate hike in June, which will provide further support to the AUD over the next few weeks.

THE WEEK AHEAD

- In **Australia**, minutes from the RBA's May meeting could shed further light on how close it was to hiking rates in May and by extension the likelihood of a June hike as we are forecasting. Wages data will also be closely watched given that growth in the wage price index (currently at 3.9% y/y) is approaching the 4% mark at which economists (and the RBA) become concerned about wages feeding more strongly into inflation. While we expect that growth in the wage price index was unchanged in Q1, further wage pressure is expected as the unemployment rate falls, and this should be no impediment to a near-term hike from our forward-looking central bank.
- In the **US**, attention will remain on the jobless claims figures after the welcome 44K this week. Meanwhile, US housing data remain weak and look to be the largest drag on US growth through 2011; housing starts and existing home sales data will be released next week. In **Canada**, CPI and retail sales data will be most important.
- In the **Euro zone**, the CPI and ZEW survey have the potential to shape monetary policy expectations. In the **UK**, the BoE minutes and retail sales will be the focus.
- In **Asia**, the April data will be impacted by the natural disasters. Chinese trade data for April confirmed that imports from Japan fell sharply in April and we are likely to see such trends across many economies. As a result, **Japanese** machine orders in March and Q1 GDP will have reduced significance for markets.
- In **New Zealand**, it will be a quiet week but markets will keep one eye on consumer confidence, producer prices and migration data.

Warren Hogan
Chief Economist

Ivan Colhoun
Head of Australian
Economics and Property
Research

Katie Dean
Head of Australian
Economics

FEDERAL BUDGET: A SMALL STEP IN THE RIGHT DIRECTION

SUMMARY OF BUDGET HEADLINES

The underlying cash balance for 2011-12 has deteriorated to a deficit of \$22.6bn (1.5%) of GDP. This reflects the unfavourable combination of natural disasters and weaker economic growth.

Despite this short-term deterioration, the Government has preserved its planned return to surplus in 2012-13. This has partly been achieved through automatic stabilisers (ie. better economic growth). But discrete policy changes, via both cuts to spending and increased savings (largely tax increases) have played an important role.

There are a number of positives in budget. There is a broad commitment to sound fiscal discipline and the economic assumptions seem reasonable. There is a focus on microeconomic reform, with the Government targeting the supply side of the economy via initiatives in education, skills training, infrastructure and participation. This is welcome. But, apart from the increase in skilled labour, most programs that aim to raise labour supply are too small and too slow!

Budget surpluses of under 0.5% of GDP in the projection period are also disappointing. There was nothing of note done to improve Australia's structural budget deficit. The challenge over coming years will be to continue to improve the structural budget position in case the terms of trade weakens substantially.

Overall, our assessment is that the Budget is not adding to demand in the economy, but nor is it doing enough to prevent inflationary pressures from rising. We therefore do not think the stance of the Budget is sufficient to dissuade the RBA from further interest rate hikes in the months ahead.

The larger deficits in the short-term mean that net debt is now expected to peak at 7.2% of GDP in 2011-12. The Government maintained a commitment to keep the Commonwealth Government Securities market at around 12 to 14% of GDP.

FIGURE 1. KEY BUDGET AGGREGATES

	2010-11 (e)	2011-12 (f)	2012-13 (f)	2013-14 (f)	2014-15 (f)
Underlying cash balance					
A\$bn	-49.4	-22.6	3.5	3.7	5.8
% of GDP	-3.6	-1.5	0.2	0.2	0.3

Source: Budget Papers 2011-12

OUR ASSESSMENT

The Budget has many elements within it that should be commended and are, in our view, entirely appropriate measures and policies for the current economic environment. However, the Government has failed to undertake any truly significant economic reform. Given the opportunity that the first budget in a new parliament represents for 'politically difficult' decisions, we see this as a missed opportunity. The Australian Government budget will remain highly vulnerable to a downturn in the global economy and commodity prices, and meaningful progress on tax and welfare reform will have to wait for another parliament.

*For further detail on the Federal Budget and our assessment of it, see our **Australian Federal Budget Report 2011-12**, released earlier this week.*

Paul Braddick
Head of Property and
Financial System Research

Ange Montalti
Senior Economist

David Cannington
Economist

Dylan Eades
Analyst

TESTING TIMES AHEAD FOR PROPERTY MARKET

SENTIMENT VS FUNDAMENTALS

House prices have flattened over 2010-11. The removal of the first home owner boost, a re-tightening of foreign investment rules and rising interest rates (particularly the '40 basis point' hit in November 2010) have been front-line triggers that have shifted trajectory. At the same time, we have witnessed a near-halving of net overseas migration, which has reduced underlying housing demand. A series of natural disasters have also weighed in, distorting underlying price patterns in Queensland.

Vacancy rates have risen in some cities, auction clearance rates are lower and the demand for finance has softened. Forward indicators of building are very weak. Importantly and not surprisingly, sentiment has shifted too.

The prospect of rising interest rates will drive a further deterioration in affordability in 2011-12 but the risk of significant falls in house prices remains remote.

Buoyed by the resources boom, the Australian economy is forecast to expand at an above trend rate in 2011 and 2012. The labour market will be well supported; unemployment will fall and skilled labour shortages will place further upward pressure on wages. Consequently, 'forced' selling of homes will remain at low levels.

In addition, **the housing market will continue to tighten** as new home building continues to fall well short of underlying housing demand. Already low rental vacancy rates are expected to fall further and will place upward pressure on rents and improve yields. Nonetheless, rising interest rates, deteriorating affordability and the absence of an upside trigger to improve sentiment will keep house prices in their current range over 2011-12.

HOUSE PRICES ARE STRUCTURALLY SOUND

A distinction needs to be made between structural influences (e.g. a lasting regulatory change or a 'permanent' shift in the cost of funds) and cyclical or transitory influences (e.g. temporary policy shifts or a within-cycle movement in interest rates). Incomes represent the most stable of structural influence for benchmarking house prices. That average household incomes have continued to rise over time, provides a solid basis for house prices to grow over time. If house prices had risen by the same percentage as average household incomes over the past quarter of a century (i.e. a constant house price to income ratio), the median price in 2011 would be around \$310,000 instead of \$554,000. A reversion to some historical 'house price to income' ratio suggests house prices need to fall some 44%. However, the fall in inflation and interest rates through the 1990s was another momentous structural shift that must be internalised.

When incomes and interest rates are taken into account, there are no obvious structural grounds upon which to validate a significant correction in house prices. If it were just interest rates and incomes that mattered to the determination of house prices (and 1985 is used as a benchmark for sustainability¹), one could argue house prices need to fall by 7% from March quarter 2011 levels. But there are more structural influences other than interest rates and incomes growth that have been playing out over the past two decades including financial deregulation, tax changes and more recently, a chronic shortage of dwellings. These influences all support a structural lift in house prices that is above and beyond that explained by incomes and interest rates.

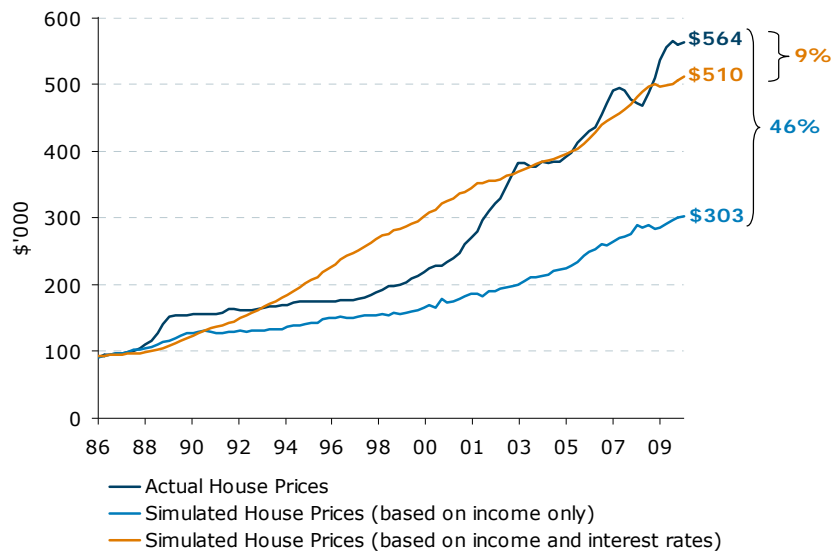
MODERATION AHEAD

Looking ahead, the transitory forces are delicately poised. Interest rate and sentiment headwinds have taken centre-stage for the time being and we expect

¹ 1985 was about two years after a recession and well before any hint of the ensuing boom in house prices. It is also an economic cycle mid-point, before the impact of deregulation and before structural falls in interest rates and inflation.

more of the same for 2011-12 as higher interest rates and more muted capital growth expectations play out against the economic and housing market fundamentals.

FIGURE 2: INCOMES AND INTEREST RATES 'VALIDATE' PRICES



Source: ANZ Research

While prices will be tested by these transitory influences, structural supports remain intact:

- Incomes are set to grow solidly over the medium-term, facilitating affordability.
- Inadequate supply-side policies will embed a 'shortage premium' in house price structure. Indeed, it is arguable this premium is yet to be reflected in values and will do so initially via rental market signals.
- Lending practices and taxation provisions are not expected to shift the underlying economics of house prices with the bulk of these changes having already filtered through the system over the past two decades.
- The greater propensity of dual income households has boosted the servicing capacity of households that has fed through to some extent into higher house prices. This structural shift may have run its course but by the same token, is unlikely to reverse.

It is not a stretch to argue that these last two structural influences, while being important drivers of solid house price growth over recent decades, present now as neutral influences for the decade ahead.

Significant changes to taxation arrangements affecting housing (e.g. negative-gearing) represent one of several key areas that have the potential to shift the structural foundation of house prices. However, the extent of any re-calibration is heavily dependent on the character and detail of the policy shift. On current reading, there appears to be little likelihood that any such a policy change is in prospect.

WILL 'BABY-BOOMERS' SELL UP BIG TIME?

Lastly and deserving great attention, net divestment of housing by 'baby-boomers' has been put forward by some as the 'Achilles heel' for the housing sector. This argument is intuitively appealing but overplayed. Portfolio re-allocation for pre-retirees and retirees is not new. While it is likely to occur in larger than usual numbers (given there are so many 'boomers') it is still very likely to be a gradual

process, blurring across age categories and over a long period of time. Critically, while baby-boomers represent 25% of total population, there are more Generation-Xs and Generation-Ys combined, suggesting the demand-side will be 'open for business'. More importantly, only a very small proportion of this population stock engages the housing market at any point in time. **There is little basis for suggesting net divestment by 'baby-boomers' will be a significant market mover (or will move markets at all).**

The likely price driver over the medium-term in this context will be the average income levels of Generation 'Xs' and 'Ys' who are in the prime home purchase (owner-occupier and investor) life stage.

In summary, the economy is on a healthy trajectory and conditions in the housing market are tight and likely to tighten further in the years ahead. House prices will be tested with further interest rate rises in prospect. But observed weakness will prove transitory as rental re-alignment occurs, instilling renewed confidence and creating the market conditions for moderate price recovery. **While sentiment will win the battle in 2011-12, fundamentals will win the war.**

OFFICE MARKET: RENTALS NEED TO MOVE BEFORE BUILDING RECOVERS

The office market is benefiting from robust fundamentals. Capital values have generally stabilised and are up around 6% since troughing in 2009². Rentals have also bottomed but considerable variation remains across capitals, reflecting among other things the unique condition and trajectory of individual office markets in the lead-up to the GFC.

The office market finding its feet so soon after a 'one in 100 year' financial shock reflects good luck. That the GFC and rising interest rates through 2008 occurred ahead of any substantial build-up in new office supply averted what was shaping up to be a typical boom/bust activity cycle. The impact on the office market can be characterised as a 'one in ten year' event, a kind of mini-cycle where vacancy rates have generally remained in single digits. Demand conditions remained relatively buoyant while the life blood of the supply-side – finance – was scarce, more discerning and more expensive.

Funds (both debt but mainly equity) are flowing more readily in 2011 and transaction activity has lifted. This is symptomatic of a renewed level of comfort in market conditions and suggests some price discovery is occurring. The market now feels more confident about making assessment of value and future value.

Unfortunately, the economics for a seismic shift in buildings does not yet stack up, which is one reason the supply pipeline is not building. But it is only a matter of time. While yield re-compression has started and will continue in 'baby steps', rental realignment is the other leg that needs to mobilise for the development equation to make sense across a greater number of proposals and to mobilise values more generally. **The good news is that persistent tightness in office markets should begin to signal this realignment over the next couple of years, bringing with it the seeds of the next building upturn.**

RETAIL PROPERTY: TREAD CAREFULLY

Persistent weakness in consumer spending, a strong dollar and a notable 'gear shift' in on-line shopping practices have combined with interest rate rises to define the next chapter for retailers in a post-GFC environment. A spate of natural disasters on top of the generally subdued atmospherics has generated short-term uncertainty for

² Weighted average of 6 capital cities (JLL data weighted by ANZ Research)

policy makers. These conditions expose the most vulnerable elements of the retail sector, cutting across all sub-sectors but generally imposing upon those with poor balance sheets, out-dated business models and product lines. An expected reticence over 2011 will place ongoing pressure on the most vulnerable operators. By the same token, opportunities present for innovative retailers who adapt business models to shifting consumer preferences.

Luckily, the property market implications of an evolving retail landscape, while important, are not revolutionary. Market rentals will continue to be driven primarily by vacancies. Yields and capital values will be influenced by broader financial market developments including finance availability, shifts in general risk aversion and asset allocation.

The retail property sector weathered the post-GFC period considerably better than other commercial sectors, with values dropping a modest 12% from peak to trough and yields 'softening' by just over 100bp since 2007. While Sydney retail yields have tightened across most sectors, other capital city retail centres have yet to turn convincingly. Yield re-compression should commence over the next half year. This will be the initial driver of valuation gains as risk aversion gradually subsides, ahead of an income-driven boost to values through 2012.

Ongoing concerns surrounding the willingness of the consumer to spend, the prospect of higher interest rates and shifting consumer buying patterns pose a challenge for retail property owners. What characterises good quality retail precincts (indeed tenants) is evolving quickly and in many respects unpredictably. **While there is light at the end of the tunnel and good medium-term prospects, conditions warrant a 'tread carefully' strategy in 2011-12.**

*This is an extract from our forthcoming quarterly publication, **Australian Property Outlook**. The full report will be released next week.*

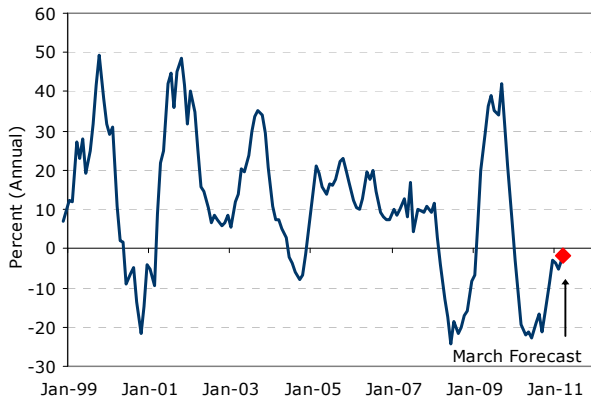
Andrew McManus
Analyst
+61 2 92271742
Andrew.McManus@anz.com

DATA WRAP

- **ANZ Job Ads** rose by 1.0% in April to be 20.5% higher than a year ago. Newspaper job ads fell 3.4% m/m. The unusual extended holiday period due to Easter and ANZAC Day falling on the same weekend appears to have led to overstated weakness in newspaper job advertising in Victoria, Queensland and the ACT. Meanwhile, internet job ads continued to grow in line with trend, rising 1.2% m/m.
- The monthly **NAB Business Survey** confirmed the widening divergence between activity and inflation in Australia. Business conditions eased in April, falling by 4pts to 5pts. Business confidence also eased, falling by 2pts to 7pts. A fall in business confidence and conditions is consistent with economic growth losing some momentum in the face of a 30-year high in the AUD and the ongoing impact of natural disasters (eg. Japanese earthquake and Queensland floods). We expect this loss of momentum to prove temporary as investment lifts growth over H2. More worryingly, the survey pointed to increased price pressures with a notable jump in labour costs in April. Flat retailing prices meanwhile suggest the full impact of AUD strength is yet to be passed through to consumers.
- There was muted market reaction to the **2011-12 Australian Budget** (see In Focus article on page 2 for further details). As expected, the Government maintained its forecast return to budget surplus in 2012-13, via a mixture of tax increases and spending cuts, including additional spending cuts to offset election commitments. The documents also include information about the future of the Australian Government bond market, which is expected to be maintained at 12-14% of GDP across time. Indexed bonds are anticipated to comprise some 10-15% of the total.
- The **trade balance** moved back into surplus in March to A\$1.74Bn, well above market expectations for a surplus of \$500Bn. This was due to an increase in export values of 9.2% m/m which more than offset a more modest increase in import values of 1.2% m/m. The rebound in exports was largely due to double-digit growth in coal and iron ore exports. Coal exports have bounced back strongly after the Queensland floods. Meanwhile, iron ore exports have also picked up as expected after the Chinese New Year. Imports rose predominantly due to the higher oil prices. Consumption goods fell 1.3% m/m, while capital goods fell 8.3% m/m in March.
- **Employment** dropped 22.1K in April. We think this was largely due to statistical payback in full-time employment, which declined by 49.1K following a net gain of 85.4K in the previous two months. The 26.9K increase in part-time employment only partly offset the fall in full-time employment. Despite lower employment, the **unemployment rate was unchanged at 4.9%**. This was due to a fall in the **participation rate** to 65.57% in April from 65.81% in March. Due to statistical and unusual seasonal impacts on the April employment data, we would focus on the unemployment rate as the better indicator of the state of the labour market.

DATA PREVIEW

HOUSING FINANCE (MAR)



16 MAY: HOUSING FINANCE (MAR)

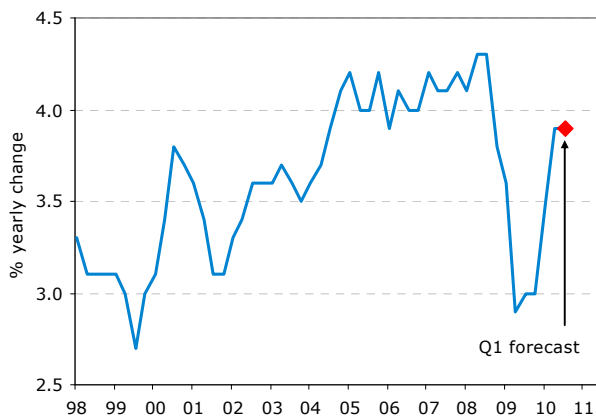
ANZ: +2.7% m/m, -1.6% y/y

Market: +2.0 m/m

Previous: -5.6% m/m, -7.2% y/y

Housing finance commitments are expected to increase in March following two months of contraction. Home lending activity is expected to post a monthly increase as the initial weakness in housing activity following the November rate hike softens, as does the negative impact of the Queensland floods. While house prices continue to post weak growth across capital cities, improved volumes of housing sales and solid clearance rates indicate increased demand for housing finance commitments in March. **(DC)**

WAGE PRICE INDEX (Q1)



18 MAY: WAGE PRICE INDEX (Q1)

ANZ: 1.0% q/q, 3.9% y/y

Market: 1.0% q/q, 4.0% y/y

Last: 1.0% q/q, 3.9% y/y

Relatively tight labour market conditions should ensure that the wage price index increased by 1.0% in Q1. However we don't expect another step up wages just yet, with pressures still relatively confined to industries exposed or competing with the mining/construction sectors. While the unemployment rate drifted lower over Q1 to an average 5.0% from 5.2% in the previous three quarters, wages tend to follow labour market developments with a lag. Inflation also eased off in the second half of last year.

On this forecast, the annual rate of wage growth will remain unchanged at 3.9%, just below the 4% rate at which economists (and the RBA) start to worry about wage pressures feeding more strongly back into inflation. This will not be an impediment to a near-term hike for the forward-looking RBA. A shift up in wages is still forecast in coming quarters, as the unemployment rate falls towards 4.5% by late 2013 on the RBA's forecasts (ANZ's unemployment rate forecasts are even lower). **(RP)**

DATA & EVENT CALENDAR

WEEK STARTING 16 MAY

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
15-May	US	Fed's Lockhart (non-voter) Speaks on U.S. Economic Outlook in Atlanta					19:45	05:45
16-18 MAY	CH	Actual FDI YoY	APR	36.1%	--	32.9%		
16-20 MAY	UK	Nationwide Consumer Confidence	APR	48	--	44		
	US	Mortgage Delinquencies	1Q	--	--	8.2%		
Monday	NZ	Performance of Services Index	MAY	--	--	50.8	22:30	08:30
16-May	AU	Housing Finance	MAR	2.0%	2.7%	-5.6%	01:30	11:30
		Investment Lending Value	MAR	--	--	-2.3%	01:30	11:30
		Owner-Occupied Home Loan Value	MAR	--	--	-4.8%	01:30	11:30
		New Motor Vehicle Sales YoY	APR	--	--	1.9%	01:30	11:30
	JN	Loans & Discounts Outstanding Corps YoY	MAR	--	--	-4.4%	23:50	09:50
		Machine Orders MoM	MAR	-10.2%	--	-2.3%	23:50	09:50
		Machine Orders YoY	MAR	-7.8%	--	7.6%	23:50	09:50
		Domestic CGPI MoM	APR	0.4%	--	0.6%	23:50	09:50
		Domestic CGPI YoY	APR	2.1%	--	2.0%	23:50	09:50
		Consumer Confidence	APR	36.7	--	38.6	05:00	15:00
	EU	Euro-Zone CPI MoM	APR	--	--	1.4%	09:00	19:00
		Euro-Zone CPI YoY	APR	--	--	2.8%	09:00	19:00
		Euro-Zone CPI - Core YoY	APR	--	--	1.3%	09:00	19:00
		Euro-Zone Trade Balance sa	MAR	--	--	-2.4B	09:00	19:00
		Euro-Zone Trade Balance	MAR	--	--	-1.5B	09:00	19:00
	US	Empire Manufacturing	MAY	20	--	21.7	12:30	22:30
		Total Net TIC Flows	MAR	--	--	\$97.7B	13:00	23:00
		Net Long-term TIC Flows	MAR	--	--	\$26.9B	13:00	23:00
		Bernanke (voter) Speaks at Forum on Intangible Assets in Washington					13:00	23:00
		NAHB Housing Market Index	MAY	17	--	16	14:00	00:00
	CA	Manufacturing Sales MoM	MAR	1.5%	--	-1.5%	12:30	22:30
		Bank of Canada Governor Carney speaks in Ottawa					16:45	02:45
		Bank of Canada Governor Carney Press Conference					18:05	04:05
Tuesday	AU	Reserve Bank Board Minutes (May)					01:30	11:30
17-May		Lending Finance	MAR	--	--	--	01:30	11:30
	JN	Machine Tool Orders YoY	APR F	--	--	32.3%	06:00	16:00
	EU	EU 25 New Car Registrations	APR	--	--	-5.0%	06:00	16:00
		ZEW Survey (Econ. Sentiment)	MAY	--	--	19.7	09:00	19:00
	GE	Zew Survey (Current Situation)	MAY	--	--	87.1	09:00	19:00
		ZEW Survey (Econ. Sentiment)	MAY	--	--	7.6	09:00	19:00
	UK	DCLG UK House Prices YoY	MAR	--	--	0.7%	08:30	18:30
		CPI MoM	APR	0.7%	--	0.3%	08:30	18:30
		CPI YoY	APR	4.1%	--	4.0%	08:30	18:30
		Core CPI YoY	APR	3.3%	--	3.2%	08:30	18:30
		Retail price index MoM	APR	1.0%	--	0.5%	08:30	18:30
		Retail price index YoY	APR	5.3%	--	5.3%	08:30	18:30
		RPI Ex Mort Int.Payments YoY	APR	5.3%	--	5.4%	08:30	18:30
	US	Housing Starts	APR	570K	--	549K	12:30	22:30
		Building Permits	APR	590K	--	585K	12:30	22:30
		Housing Starts MoM%	APR	3.8%	--	7.2%	12:30	22:30
		Building Permits MoM%	APR	0.9%	--	11.2%	12:30	22:30
		Industrial Production	APR	0.4%	--	0.8%	13:15	23:15
		Capacity Utilization	APR	77.6%	--	77.4%	13:15	23:15
	CA	Int'l Securities Transactions	MAR	--	--	2.502B	12:30	22:30
Wednesday	NZ	Producer Prices- Inputs QoQ	1Q	--	--	0.9%	22:45	08:45
18-May		Producer Prices- Outputs QoQ	1Q	--	--	0.2%	22:45	08:45
	AU	Westpac Consumer Confidence s.a. MoM	MAY	--	--	1.2%	00:30	10:30
		Westpac Consumer Confidence Index	MAY	--	--	105.3	00:30	10:30
		DEWR Skilled Vacancies MoM	MAY	--	--	1.7%	01:00	11:00
		International Merchandise Imports sa	APR	--	--	A\$18.4Bn	01:30	11:30
		Wage Price Index QoQ	1Q	1.0%	1.0%	1.0%	01:30	11:30
		Wage Price Index YoY	1Q	4.0%	3.9%	3.9%	01:30	11:30
		AOFM auctions A\$1bn April 2023 bonds						

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Wednesday	JN	Tertiary Industry Index MoM	MAR	-5.8%	--	0.8%	23:50	09:50
18-May cont		Tokyo Condominium Sales YoY	APR	--	--	0.0%	04:00	14:00
	EU	ECB's Stark Speaks in Athens					07:00	17:00
		ECB's Bini Smaghi Speaks in Milan					07:00	17:00
		Construction Output sa MoM	MAR	--	--	-0.7%	09:00	19:00
		Construction Output WDA YoY	MAR	--	--	3.5%	09:00	19:00
		ECB's Constancio Speaks at EU Conference in Brussels					09:30	19:30
	UK	Bank of England Monetary Policy Committee Minutes					08:30	18:30
		Claimant Count Rate	APR	4.5%	--	4.5%	08:30	18:30
		Jobless Claims Change	APR	1.0K	--	0.7K	08:30	18:30
		Average Weekly Earnings 3M/YoY	MAR	2.0%	--	2.0%	08:30	18:30
		Weekly Earnings exBonus 3M/YoY	MAR	2.2%	--	2.2%	08:30	18:30
		ILO Unemployment Rate (3mths)	MAR	7.9%	--	7.8%	08:30	18:30
	US	MBA Mortgage Applications	1-May	--	--	8.2%	11:00	21:00
		Fed Releases Minutes of April 26-27 FOMC Meeting					18:00	04:00
		Fed's Bullard (non-voter) Speaks in New York					23:00	09:00
	CA	Leading Indicators MoM	APR	--	--	0.8%	12:30	22:30
		Wholesale Sales MoM	MAR	1.5%	--	-0.6%	12:30	22:30
19-20 MAY		MBA Mortgage Foreclosures	1Q	--	--	4.6%	--	--
19-24 May	CH	HSBC Flash China Manufacturing	MAY	--	--	51.8	--	--
Thursday	NZ	ANZ Consumer Confidence Index	MAY	--	--	101.4	01:00	11:00
19-May		ANZ Consumer Confidence MoM	MAY	--	--	0.0%	01:00	11:00
		New Zealand Budget	2011-12				02:00	12:00
	AU	Average Weekly Earnings QoQ	FEB Qtr	1.2%	--	1.1%	01:30	11:30
		Average Weekly Earnings YoY	FEB Qtr	3.8%	--	3.9%	01:30	11:30
		WA State Budget	2011-12				04:30	14:30
	JN	Housing Loans YoY	1Q	--	--	3.2%	23:50	09:50
		GDP Deflator YoY	1Q P	-1.9%	--	-1.6%	23:50	09:50
		Nominal GDP QoQ	1Q P	-0.8%	--	-0.7%	23:50	09:50
		GDP Annualized	1Q P	-2.0%	--	-1.3%	23:50	09:50
		Gross Domestic Product QoQ	1Q P	-0.5%	--	-0.3%	23:50	09:50
		Japan Buying Foreign Bonds	1-May	--	--	¥541.3B	23:50	09:50
		Japan Buying Foreign Stocks	1-May	--	--	¥64.1B	23:50	09:50
		Foreign Buying Japan Bonds	1-May	--	--	¥1381.7B	23:50	09:50
		Foreign Buying Japan Stocks	1-May	--	--	¥109.8B	23:50	09:50
		Capacity Utilization MoM	MAR	--	--	2.9%	04:30	14:30
		Industrial Production MoM	MAR F	--	--	-15.3%	04:30	14:30
		Industrial Production YoY	MAR F	--	--	-12.9%	04:30	14:30
		Nationwide Dept. Sales YoY	APR	--	--	-14.7%	05:30	15:30
		Tokyo Dept. Store Sales YoY	APR	--	--	-21.5%	05:30	15:30
	EU	ECB's Trichet, Tumpel-Gugerell Speak in Frankfurt					13:00	23:00
	UK	Retail Sales Ex Auto FuelMoM	APR	--	--	0.2%	08:30	18:30
		Retail Sales Ex Auto FuelYoY	APR	--	--	0.9%	08:30	18:30
		Retail Sales w/Auto Fuel MoM	APR	1.0%	--	0.2%	08:30	18:30
		Retail Sales w/Auto Fuel YoY	APR	2.7%	--	1.3%	08:30	18:30
		CBI Trends Total Orders	MAY	--	--	-11	10:00	20:00
		CBI Trends Selling Prices	MAY	--	--	36	10:00	20:00
	US	US Treasury auctions 10-Year Tips					--	--
		Fed's Dudley (voter) to Speak in New Paltz, NY on Regional Economy					12:30	22:30
		Initial Jobless Claims	1-May	--	--	434K	12:30	22:30
		Continuing Claims	1-May	--	--	3756K	12:30	22:30
		Existing Home Sales	APR	5.20M	--	5.10M	14:00	00:00
		Existing Home Sales MoM	APR	2.0%	--	3.7%	14:00	00:00
		Leading Indicators	APR	0.1%	--	0.4%	14:00	00:00
		Philadelphia Fed.	MAY	20.5	--	18.5	14:00	00:00
		Fed's Dudley (voter) to Speak in Middletown, New York					16:00	02:00
		Fed's Fisher (voter) Speaks at Forum in Chicago					17:30	03:30
		Fed's Evans (voter) Speaks at Forum in Chicago					17:40	03:40
	CA	Bank of Canada Review Release					14:30	00:30
		Bank of Canada Governor Mark Carney in Washington DC					14:45	00:45
		Bank of Canada Deputy Governor Timothy Lane in Vancouver					20:15	06:15

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Friday 20-May	NZ	Net Migration sa	APR	--	--	-530	22:45	08:45
		Credit Card Spending sa MoM	APR	--	--	-1.6%	03:00	13:00
		Credit Card Spending YoY	APR	--	--	1.5%	03:00	13:00
	AU	RBA Foreign Exchange Transaction	APR	--	--	699M	01:30	11:30
		RBA Payments System Meeting					--	--
		AOFM auctions A\$750m of Oct 2014 bonds						
	JN	BOJ Target Rate	1-May	--	--	0.1%	14:00	00:00
		All Industry Activity Index MoM	MAR	--	--	0.7%	04:30	14:30
		Convenience Store Sales YoY	APR	--	--	7.7%	07:00	17:00
	EU	Mersch, Regling, Frieden Speak at Luxembourg Event					07:30	17:30
		Euro-Zone Current Account nsa	MAR	--	--	-9.5B	08:00	18:00
		ECB Euro-Zone Current Account sa	MAR	--	--	-7.2B	08:00	18:00
		Euro-Zone Consumer Confidence	MAY A	--	--	-11.6	14:00	00:00
	GE	Producer Prices MoM	APR	--	--	0.4%	06:00	16:00
		Producer Prices YoY	APR	--	--	6.2%	06:00	16:00
	US	Fed's Dudley (voter) to Speak in Fishkill, New York					04:00	14:00
	CA	Consumer Price Index	APR	--	--	119.4	11:00	21:00
		Consumer Price Index MoM	APR	0.5%	--	1.1%	11:00	21:00
		Consumer Price Index YoY	APR	3.4%	--	3.3%	11:00	21:00
		Bank Canada CPI Core MoM	APR	0.1%	--	0.7%	11:00	21:00
		Bank Canada CPI Core YoY	APR	1.6%	--	1.7%	11:00	21:00
		Retail Sales MoM	MAR	0.9%	--	0.4%	12:30	22:30
		Retail Sales Less Autos MoM	MAR	0.8%	--	0.7%	12:30	22:30

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>16 MAY AU: Housing Finance (Mar), Auto sales (Apr) 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 CH: Actual FDI YoY</p>	<p>17 MAY AU: RBA Board Minutes, Lending Finance (March) EU: Zew Survey (May), GE: Zew Survey (May) UK: CPI (Apr) US: Building Permits (Apr), Housing Starts (Apr), Industrial Production (Apr), Capacity Utilisation (Apr)</p>	<p>18 MAY NZ: PPI (Q1) AU: Cons. Conf. (May), DEWR Skilled Vacs (May), Wage Cost Index (Q1) JP: Tertiary Industry (Mar) EU: Constr'n Output (Mar), ECB's Constancio, Stark and Smaghi speak UK: BoE Minutes, ILO Unemp. (Mar), Earnings (Mar), Jobless Claims (Apr) US: FOMC Minutes, Fed's Bullard speaks</p>	<p>19 MAY NZ: ANZ Consumer Confidence (May), NZ Budget AU: WA State Budget EU: Trichet, Tumpel-Gugerell Speak JP: GDP (Q1), Ind. Prod'n (Mar F), Cap. Utilisation (Mar), House loans (Q1) UK: Retail Sales (Apr) US: Existing Home Sales (Apr), Philly Fed Survey (May), Fed's Dudley, Fisher and Evans speak</p>	<p>20 MAY NZ: Net Migration (Apr), Credit Card Spend (Apr) AU: RBA's Payments system board meeting JP: BoJ Target Rate EU: ECB's Mersch Speaks, Current Account, (Mar). Consumer Confidence (May) GE: PPI (Apr) US: Fed's Dudley speaks CA: CPI (Apr), Retail Sales (Mar)</p>
<p>23 MAY JP: Leading index CI (Mar F) EU: ECB's Ordonez speaks US: Chicago Fed Activity Index (Apr)</p>	<p>24 MAY NZ: Inflation expectations (Q2) EU: Ind New Order (Mar) GE: GDP (Q1 F), IFO Survey (May), Trade (Q1) UK: Public finance (Apr) US: New Home Sales (Apr), Richmond Fed Manufac (May), Fed's Bullard and Hoenig speak</p>	<p>25 MAY AU: W'pac Leading Index (Mar), Inflation Expectations (May), Construction work (Q1), JP: Trade (Apr) UK: GDP (Q1 P) UK: Trade (Q1 P) US: Capital & Durables Goods Orders (Apr), House prices (Mar), Fed's Korcherlakota speaks</p>	<p>26 MAY AU: CAPEX (Q1), ABARES minerals & energy major projects, RBA's Battelino Speaks 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), Retail Trade (Apr) EU: Consumer Confidence (May F), Eco, Ind & Ser Conf. (May), M3 (Apr) GE: CPI (May P) US: PCE Core (Apr), Personal Spending & Income (Apr), Pending Homes Sales, Uni of Michigan (May F)</p>
<p>30 MAY NZ: Trade (Apr) AU: Company Operating Profits (Q1), Inventories (Q1) JP: Construction Orders (Apr), Housing Starts (Apr) CH: Leading Index UK: Bank Holiday US: Memorial Day Holiday 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 Manufac (May)</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) GE & FR: Ascension Day Holiday US: Factory Orders (Apr)</p>	<p>3 JUNE CH: PMI Non-Manufac (May) EU: PMI Composite & Services (May F) GE: PMI Services (May F) UK: PMI Services (May) US: Non-Farm Payrolls (May), Unemployment (May), ISM Non-Manufact. (May)</p>
<p>6 JUNE NZ: Queen's Birthday Holiday AU: ANZ Job Ads (Apr), TD Securities Inflation gauge (May) CH: Dragon Boat Festival Public Holiday EU: Sentix Investor Conf. (May), PPI (Apr) US: Fed's Plosser and Fisher Speak CA: Building Permits (Apr), Ivey PMI (May)</p>	<p>7 JUNE AU: RBA Cash Rate, NAB Business Confidence (May) JP: Leading Index CI (Apr P), Investment Lending (Apr) EU: Retail Sales (Apr) GE: Factory Orders (Apr) US: JOLTs Job Openings (Apr), Consumer Credit (Apr)</p>	<p>8 JUNE AU: Westpac Consumer Confidence (Jun), Housing Finance (Apr) JP: Money Stock (May), Current Account (Apr), Trade (Mar) EU: GDP (Q1) GE: Current Account (Apr), Trade (Apr), Ind Production (Apr) US: Fed's Beige Book CA: Housing Starts (May)</p>	<p>9 JUNE NZ: RBNZ Cash Rate, Manufacturing Activity (Q1) AU: South Aust. Budget, Employment (May) JP: GDP (Q1 F), Consumer Confidence (May) EU: ECB Rates Decision, Trichet Speaks UK: BoE Rate Decision, Trade (Apr) US: Trade (Apr), Fed's Yellen and Plosser Speak CA: Merch Trade (Apr)</p>	<p>10 JUNE NZ: Card Spending (May) JP: Domestic CGPI (May) CH: Trade Balance (May) GE: CPI (May F) UK: NIESR GDP Est. (May), Ind Production (Apr), Manuf. Production (Apr), PPI (May) US: Import Price Index (May), Monthly Budget Statement (May) CA: Employment (May)</p>
<p>13 JUNE AU: Queens Birthday Holiday JP: Machine Orders (Apr) GE & FR: Whit Day Holiday UK: RICS House Price Balance (May)</p>	<p>14 JUNE NZ: Food Prices (May) AU: Queensland Budget JP: BoJ Target rate, Industrial Prod (Apr F) CH: PPI (May), CPI (May), Industrial Prod (May), Retail Sales (May) UK: CPI & RPI (May) US: PPI (May), Retail Sales (May), NFIB Small Business Survey (May), Business Inventories (Apr)</p>	<p>15 JUNE AU: Dwelling Starts (Q1), Inflation Expectation (Jun), RBA's Stevens Speaks EU: Industrial Prod. (Apr) UK: Average Weekly Earnings (Apr), ILO Unemp (Apr), Jobless Claims Change (May) US: PPI (May), Empire Manufacturing Index (May), Net Long-term TIC Flows (Apr), Industrial Prod (May)</p>	<p>16 JUNE NZ: ANZ Consumer Confidence (Jun), Business PMI (May) AU: TAS Budget EU: CPI (May), Employment (Q1) UK: Retail Sales (May) US: Building Permits (May), Housing Starts (May), Philly Fed Survey (Jun)</p>	<p>17 JUNE JN: BoJ Publish Minutes EU: Construction Output (Apr), Trade Balance (Apr), ECB Publishes Monthly Report (Jun) US: Leading Indicators (May), Univ of Michigan Consumer Confidence (Jun P)</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	3.1	5.3	5.9
Household consumption	2.7	2.3	2.9	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	3.4	4.8	4.9
Inventories (contribution to GDP)	0.4	-0.2	0.1	0.0
Gross National Expenditure (GNE)	4.1	3.2	4.8	4.9
Exports	5.3	1.8	10.3	10.6
Imports	13.2	10.7	14.7	9.6
Net Exports (contribution to GDP)	-1.6	-2.1	-1.3	-0.1
Gross Domestic Product (GDP)	2.7	1.5	3.8	4.3
Prices and wages (annual % change)				
Inflation:				
Headline CPI	2.8	3.3	2.7	3.1
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	2.4
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	5.00	5.00	5.25	5.25	5.50
90 day bill	5.04	5.25	5.30	5.50	5.60	5.80
3 year bond	5.06	5.50	5.40	5.60	5.80	6.00
10 year bond	5.36	5.80	5.70	5.80	5.90	6.00
3s10s yield curve	0.30	0.30	0.30	0.20	0.10	0.00
3 year swap	5.33	5.80	5.70	6.00	6.20	6.40
10 year swap	5.87	6.35	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	2.70	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	0.55	0.90	1.00	1.30	1.60	1.90
US 10 year note	3.22	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\$	1.06	1.06	1.08	1.04	1.02	1.00
NZ\$/US\$	0.79	0.76	0.77	0.75	0.74	0.72
A\$/¥	86.07	90.1	92.9	91.5	91.8	92.0
A\$/€	0.75	0.76	0.79	0.77	0.77	0.75
A\$/£	0.65	0.66	0.68	0.66	0.65	0.64
A\$/NZ\$	1.34	1.39	1.40	1.39	1.38	1.39
A\$/C\$	1.03	1.03	1.03	1.00	1.00	0.99
A\$/CHF	0.94	0.94	0.97	0.96	0.96	0.96
A\$/CNY	6.91	6.82	6.84	6.48	6.28	6.10
A\$ Trade weighted index	77.50	78.2	80.1	77.7	76.3	74.7
International cross rates						
US\$/¥	80.95	85.0	86.0	88.0	90.0	92.0
€/US\$	1.42	1.40	1.37	1.35	1.33	1.33
€/¥	114.96	119	118	119	120	122
£/US\$	1.62	1.61	1.60	1.58	1.57	1.57
€/£	0.87	0.87	0.86	0.85	0.85	0.85
US\$/C\$	0.96	0.97	0.95	0.96	0.98	0.99
US\$/CHF	0.89	0.89	0.90	0.92	0.94	0.96
US\$ index	75.36	76.6	77.4	78.6	80.4	80.1
Asia exchange rates						
US\$/CNY	6.50	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	8560	8900	9100	9000	8900	8800
US\$/INR	45.0	46.0	46.5	47.0	46.3	45.6
US\$/KRW	1091	1125	1155	1175	1150	1125
US\$/MYR	3.01	3.05	3.10	3.15	3.13	3.10
US\$/PHP	43.2	43.9	45.3	45.9	45.5	45.0
US\$/SGD	1.24	1.26	1.27	1.28	1.27	1.26
US\$/THB	30.24	29.50	30.00	30.50	30.25	30.00
US\$/TWD	28.66	30.35	30.90	31.70	31.50	31.30
US\$/VND	20590	20900	21400	21400	22000	22000
Pacific exchange rates						
PGK/US\$	0.418	0.378	0.385	0.378	0.372	0.366
FJD/US\$	0.567	0.541	0.548	0.538	0.530	0.522

IMPORTANT NOTICE

Australia and New Zealand Group Limited is represented in:

AUSTRALIA

Australia and New Zealand Banking Group Limited
 ABN 11 005 357 522
 ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands
 Victoria 3008, Australia
 Telephone +61 3 9273 5555 Fax +61 3 9273 5711

UNITED STATES OF AMERICA

ANZ Securities, Inc. is a member of FINRA (www.finra.org) and registered with the SEC.
 277 Park Avenue, 31st Floor, New York, NY 10172,
 United States of America
 Tel: +1 212 801 9160 Fax: +1 212 801 9163

UNITED KINGDOM BY:

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

NEW ZEALAND BY:

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

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