

# AUSTRALIAN ECONOMICS

## AUSTRALIAN ECONOMICS WEEKLY

27 MAY 2011

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### Q1 GDP – FINDING THE PULSE

- Ahead of next week's raft of data releases, our *In Focus* article previews **Q1 GDP**. We are expecting GDP to have fallen by 0.5% in Q1, primarily due to significant falls in net trade in the quarter. Inclement weather severely disrupted production and transport for coal and other key exports in the quarter. We also expect consumption to have been relatively weak, along with production, profitability and investment outside the mining sector.
- **Mixed economic conditions are likely to continue into Q2**, notwithstanding the bounce-back in Queensland following natural disasters. Higher petrol prices, the higher A\$ and further disruptions to coal exports in the wake of Japan's triple disaster are all negatives for Q2. With this week's CAPEX suggesting some delay in the mining investment pipeline (see below) and an easing in global growth, the lack of local momentum will make it harder for the economy to 'snap back' in Q2. This would confirm our forecast for below trend growth in 2011 as a whole.
- Australian **investment and construction** data released this week also confirmed the patchwork (and relatively weak) nature of activity in Q1. Engineering construction grew strongly and residential construction had a smaller, unexpected rise, but non-residential construction fell another 10%. Business investment estimates (CAPEX) for 2010-11 were downgraded, and are relatively weak outside the mining sector. There was also evidence of projects being delayed from 2010-11 to 2011-12. That said, the size of the mining investment pipeline for 2011-12 is growing ever larger, with the CAPEX survey and the ABARES half-yearly report on minerals and energy projects both pointing to record growth in the number and size of planned projects.
- In a wide-ranging speech on financial conditions this week, **RBA Deputy Governor Ric Battellino** concluded that the Australian banking sector remains resilient. Battellino argued that the risk to Australian banks from high offshore funding is overplayed and that this dependence on overseas wholesale funds will be reduced in the period ahead. He also noted that although some pockets of housing stress are emerging, aggregate housing arrears remain low. Consumer caution in the current environment is 'unsurprising' and there is scope for household savings to rise further, as the economy and household incomes strengthen through 2012.

### THE WEEK AHEAD

- In **Australia**, the focus will largely be on Q1 GDP (see *In Focus* article, p. 2). Trade, balance, retail sales, building approvals and private sector credit for April will all be released as well, giving a more timely update of the Australian economy.
- In the **US**, non-farm payrolls data for May is likely to be closely followed as jobless claims have trended higher since March. The ISM manufacturing is expected to weaken, while the ICSC chain store sales for May will be watched for an indication of retail sales. In **Canada**, the BoC is unanimously expected to keep rates on hold.
- In the **Euro zone**, unemployment data will be the focus with the disparities among regions likely to be large and widening. Manufacturing PMI's are largely expected to slow in the Euro zone as well as in the US.
- In Asia, **Chinese** PMI data is the key economic release amid concerns of slowing world growth. In **Japan**, vehicle production for April will be closely watched after decreasing 57.3% in March due to natural disasters.
- In **New Zealand**, April trade data, Q1 terms of trade and the Fonterra auction will all likely show strong external demand for New Zealand's agricultural products. The latest business confidence survey will also be released.

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**Q1 GDP PREVIEW**

**FINDING THE PULSE**

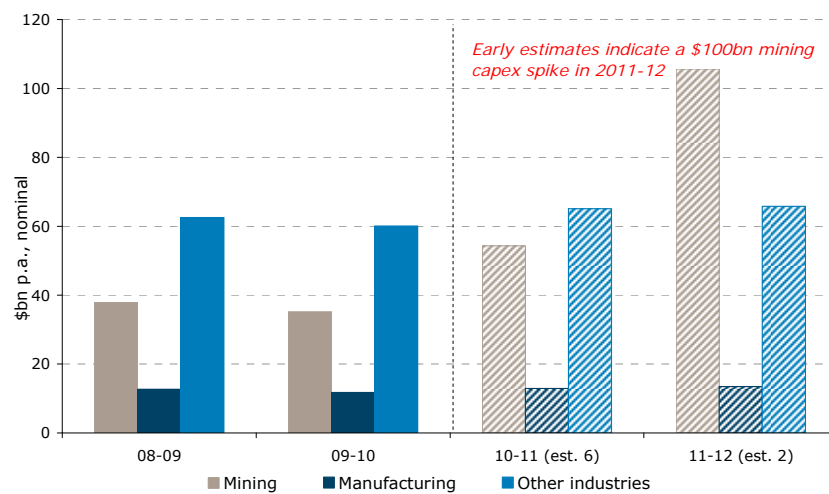
Next week's Q1 GDP headline result will be largely irrelevant given the expected large distortions from the natural disasters that hit the economy over the summer. Once we disentangle the large negative impact of these events, the figures are expected to show an economy that remains in transition, with the burgeoning investment upswing starting to become strong enough to offset a softening in the interest rate-sensitive parts of the economy (namely consumption). This should reveal a modest underlying pulse of growth.

The consensus expectation for an investment-led strengthening of Australian economic growth was confirmed in this week's capital expenditure (CAPEX) result. Whilst this survey doesn't translate literally into the national accounts, that it is predicting an unprecedented pipeline of mining investment (see Figure 1) sits consistently alongside the latest ABARE estimate of major projects (see Figure 2) as well as ANZ's own bottoms up estimates (outlined in last week's Australian Economics Weekly). We remain comfortable that this investment pipeline will drive above trend economic growth in 2012.

For 2011, the issue has always been around the timing of this investment pipeline and the pulse of growth in the non-mining economy in the interim. While we expect growth excluding natural disasters to be fairly steady in Q1, we would not be surprised to see some easing in the pulse of growth over Q2. Higher petrol prices, the higher A\$ and further disruptions to coal exports in the wake of Japan's triple disaster are all negatives for the quarter. This will at least partly counteract the impact of a bounce back in Queensland coal production (although preliminary data suggests that this is occurring more slowly than originally expected). Early data reads for other advanced economies over Q2 suggest high oil prices and the Japanese disaster have led to a loss of momentum. With this week's CAPEX suggesting some delay in the mining investment pipeline (see our *Australian Economic Update* from Thursday), then this possible easing in growth momentum will make it hard for the economy to 'snap back' in Q2.

For 2011 as whole, this would confirm a well below trend rate of growth. Our forecast, which at this stage is for GDP growth of under 2%, is below the current consensus of 2.7%. Such a growth profile would confirm the lack of urgency for a further tightening of monetary policy settings.

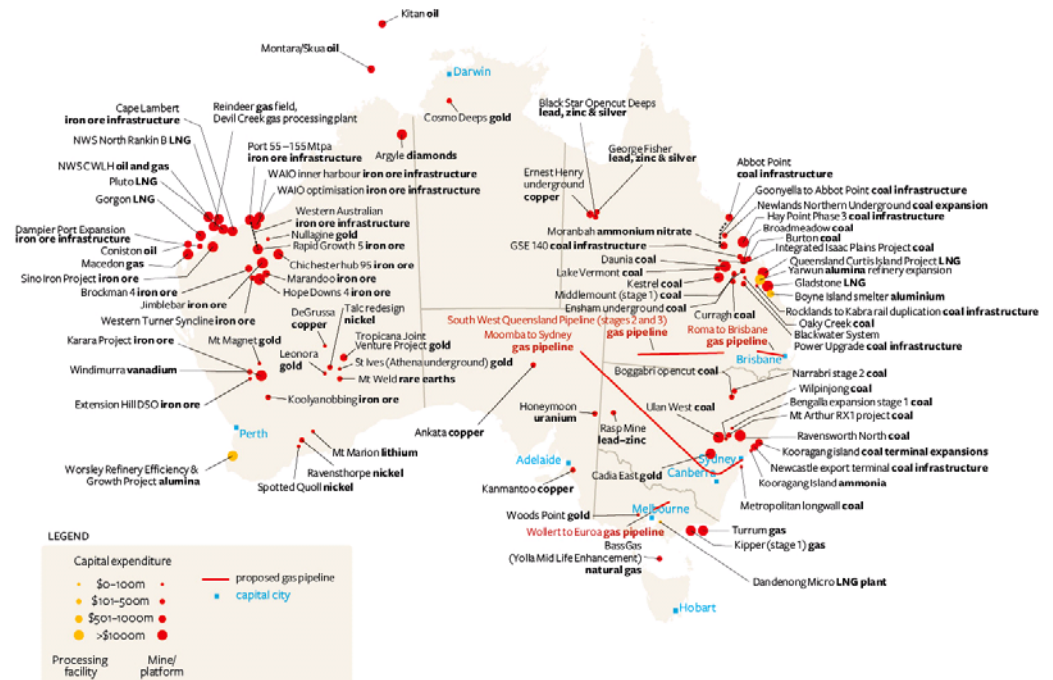
**FIGURE 1: CAPITAL EXPENDITURE EXPECTATIONS**



Source: ABS.



FIGURE 2: ENERGY AND RESOURCES CONSTRUCTION PROJECTS (APRIL 2011)



Source: ABARES, May 2011.

Q1 GDP FORECAST IN DETAIL

At this stage, we expect GDP to contract by 0.5% in Q1 with the annual pace of growth to slow to just 1.7%. This contraction will be led primarily by a sharp fall in exports, especially of coal, as a result of the Queensland floods. The impact of this and other natural disasters (Cyclone Yasi as well as flooding across Victoria) makes forecasting this quarter of GDP growth particularly tricky, with significant 'unknowns' having the potential to cause some potentially big surprises in next week's final swathe of partial data for net exports, corporate profitability and inventories.

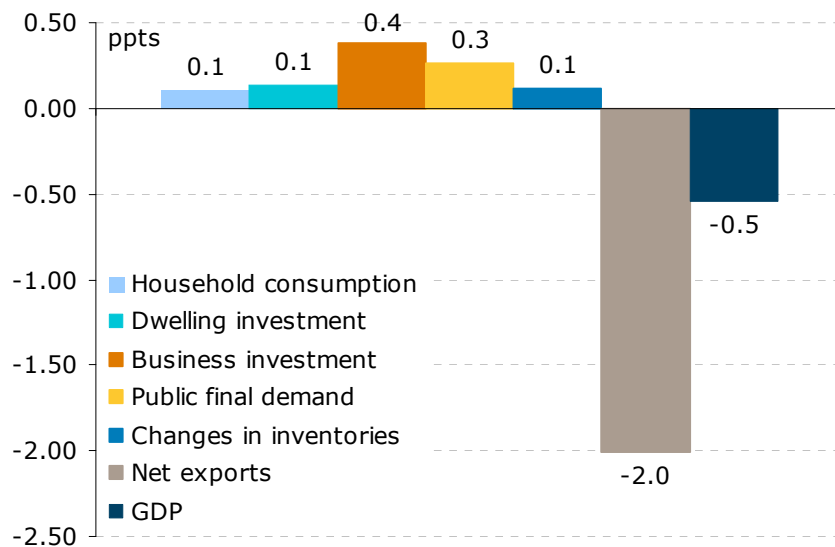
Our GDP forecast in detail assumes:

- **Net exports to subtract around 2ppt from GDP growth.** Disruptions to coal supply and transport links due to natural disasters look to have driven resource export volumes sharply lower and also resulted in relatively flat rural export volumes notwithstanding the bumper wheat crop. Import volumes meanwhile look to have been broadly flat, with a modest increase in goods imports offset by a fall in services imports due to increasing offshore travel encouraged by the higher AUD.
- **Weak production.** Whilst we don't explicitly forecast the production measure of GDP, we are expecting a sizeable contraction in this measure of activity, led by large hits to production in the mining and, to a less extent, the farm sector. We also expect the expenditure side of the economy (GDP(E)) to significantly under-perform the income side of the economy (GDP(I)), which will be supported by a record terms of trade.
- **A record terms of trade.** The terms of trade is forecast to have risen 4.5% q/q and 20.3% y/y to hit a new record high in Q1. This rise is predominantly due to stronger export prices (+5.2%) which more than offset a small uptick in import prices (+0.7%).

## IN FOCUS

- Mixed corporate profitability.** The record high terms of trade is likely to have supported some rebound in mining profits, notwithstanding the dent to profitability from the Queensland floods and the higher AUD. Profitability in the non-mining sector in contrast is likely to have remained subdued. Soft credit growth and natural disasters will hit financial sector profits while soft consumer spending (see below) will weigh on retailing profits. Overall, we expect the mining sector to cause total corporate profit growth to accelerate slightly to around 1.5% q/q.
- Consumer spending to slow further.** We have pencilled in just 0.2% growth in household consumption following flat retail sales volumes growth in the quarter. With household income growth expected to hold relatively steady, this soft consumer spending will likely see the household savings ratio rise further.
- Business investment to show the first signs of taking over.** This week's construction work done and CAPEX surveys showed strong growth in spending on plant and equipment and engineering construction in the first quarter. We expect business investment to have risen by around 2.5% in Q1, which will be the strongest component of growth on the expenditure side. Our outlook, confirmed by this week's strong capital expenditure intentions, is for business investment to pick up even more strongly in the year(s) ahead.
- Public spending to remain a strong support/driver of growth.** Public final demand is forecast to grow by around 1% in the quarter. This will be underpinned by a strong rise in government consumption due to natural disaster relief. Public investment in contrast is expected to drag on growth in the quarter as the government's schools building program winds down.
- Mixed fortunes for the farm sector.** Agricultural production and farm employment are both expected to be hurt by the natural disasters. But farm stocks are expected to rise strongly, reflecting a bumper wheat crop (wheat stocks were up about 30% y/y) as well as higher beef stocks (cattle trapped on pastures due to poor weather instead of being brought to market).

FIGURE 3: CONTRIBUTIONS TO GDP GROWTH, Q1 2011



Source: ANZ Research.

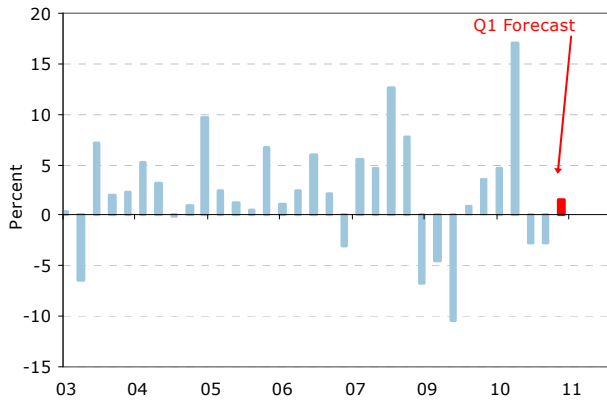
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## DATA WRAP

- The **conference board leading index** rose by 0.4% in March, with the volatile building approvals component contributing strongly to the headline figure. The sales to inventory ratio contributed 0.17% to the headline leading index.
- **Australia's Westpac leading index** rose 0.5% in March, with the trend growth rate remaining constant for 6 months now.
- Total **construction work done** grew by 0.7% in Q1, mainly driven by engineering construction, up a further 4.6%. This is a continuation of recent trends, with engineering construction now growing at 15.5% y/y. Residential construction also showed an unexpected rise of 1.9% q/q. Total non-residential building fell 10.2% q/q, led by a large contraction in public sector non-residential construction (-19.1% q/q) as the wind-down of the government's post-GFC stimulus spending (schools building project) continued. Private sector non-residential building was also weak, falling 3.0%q/q. This is consistent with flat building approvals in the office and retail sectors.
- **Private capital expenditure (capex)** survey showed total capex growth was stronger than expected in Q1 2011, at 3.4% q/q and 10.6% y/y. Based on our implied five year realisation ratios, the new estimates of capex expectations are showing a downward revision in estimated capex for 2010-11, but an upward revision for 2011-12, compared to the last survey. The increase in expected capex in 2011-12 is predominantly due to mining with non mining capex slowing to accommodate this mining boom.
- The **CBA- HIA housing affordability index** rose to 55.7 from 53.5 in Q1 2011. This was largely due to the fall in dwelling prices with only a slight rise in the interest rate. Meanwhile, average weekly earnings continued to grow at recent trend rates.

# DATA PREVIEW

## COMPANY OPERATING PROFIT (Q1)



## 30 MAY: COMPANY OPERATING PROFIT (Q1)

**ANZ: +1.5% q/q**

**Market: +2.0% q/q**

**Last: -2.8% q/q**

We expect the ABS measure of company profits to post a modest rise in Q1. The result is expected to be driven by a modest rebound mining profitability, which accounts for around 35% of this ABS survey. For miners, what should have been a bumper quarter for profitability, driven by sharp rises in contract commodity export prices, will likely be muted by (a) the disruption to coal production and exports from the Queensland floods and (b) the higher AUD, which has notably eroded the local currency returns of these high USD prices. The rise in overall profits is expected to disguise what will likely be further softness in non-mining sector profitability. The higher AUD is likely to have inflicted further damage on manufacturing profits while higher input costs (ie. raw commodities) will weigh on construction profits. Soft profitability also looks likely, although we would note that many retailers appear likely to have used the stronger AUD to protect margins, despite weaker sales. **(KD)**

## 30 MAY: INVENTORIES (Q1)

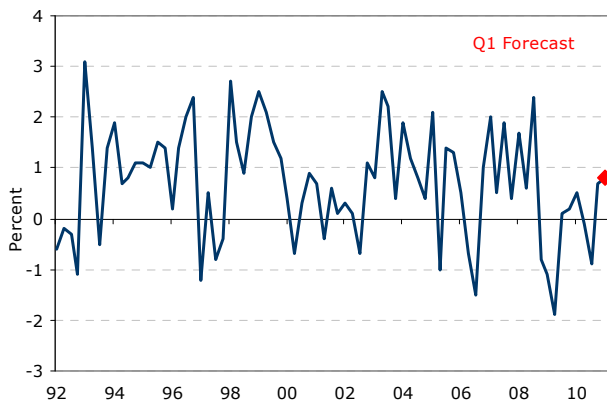
**ANZ: +0.8% q/q**

**Market: +0.1% q/q**

**ANZ: +0.7% q/q**

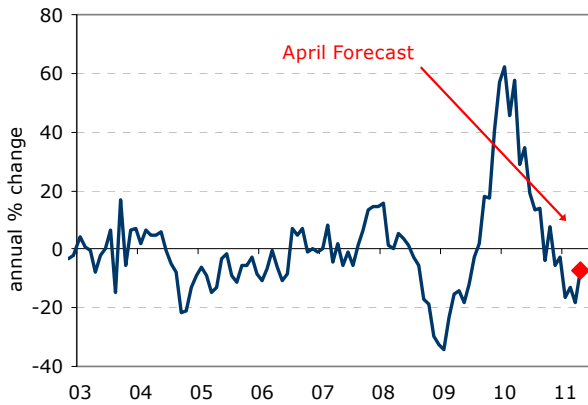
As usual, the inventories result will be one of the wildcards for GDP. Inventories rose solidly last quarter, driven by what was potentially an inadvertent stock build across retail and wholesale trade and manufacturing. We expect a further build in inventories in Q1, this time led by restocking throughout the mining industry, but especially in Queensland's coal industry after the January floods. We would also not be surprised to see a further inadvertent rise in retail stocks, given persistent weak retail sales over the quarter. If inventories rise as expected, they will add 0.1ppt to GDP growth in the quarter. **(KD)**

## INVENTORIES (Q1)



## DATA PREVIEW

## BUILDING APPROVALS (APR)



## 31 MAY: BUILDING APPROVALS (APR)

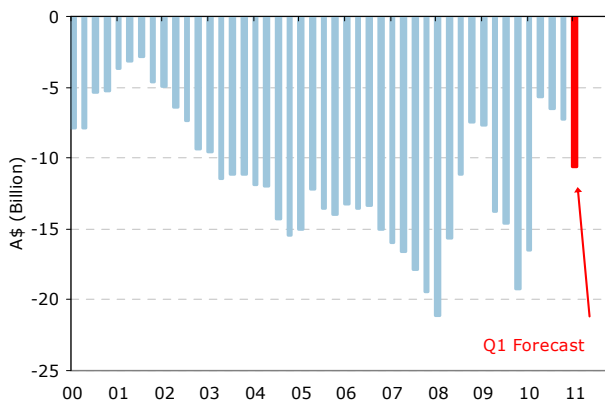
**ANZ: +4.0% m/m, -7.0% y/y**

**Market: -1.8% m/m, -12.7% y/y**

**Last: +9.1% m/m, -18.1% y/y**

Dwelling approvals are expected to increase by 4.0% in April, moderating slightly from last month's 9.1% gain. Housing approvals are forecasted to increase, following marginal declines in March, whilst the volatile other residential building sector (apartments, flats, units etc) is expected to slow following outsized gains. After three consecutive months of decline, approvals in Queensland look set to bounce back as the initial phase of the rebuilding process begins. **(DE)**

## CURRENT ACCOUNT BALANCE (Q1)



## 31 MAY: CURRENT ACCOUNT BALANCE (Q1)

**ANZ: -A\$10.6bn (-3.1% of GDP)**

**Market: -A\$10.0bn (-1.0% of GDP)**

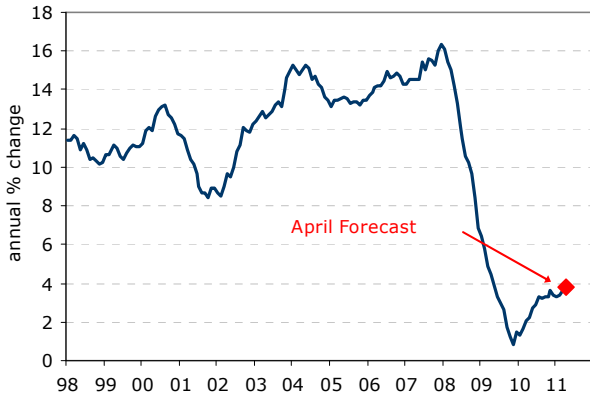
**Previous: -A\$7.30bn (0.0% of GDP)**

We expect the current account deficit to widen to A\$10.6bn (3.1% of GDP) in Q1 2011. This is largely due to a fall in export volumes, which have in turn driven the trade balance lower. This is largely due to the impact of the Queensland floods on coal exports. While we are forecasting a return of some coal production in Q2, this looks to be taking longer than first estimated. Flooding and transport disruptions are also expected to have resulted in soft rural export volumes, particularly for meat, notwithstanding the bumper wheat crop. Import volumes meanwhile are expected to have been flat; while capital and intermediate goods look to have increased solidly, weak consumer spending and increased overseas travel will have weighed on consumption and services imports. **Overall, we expect net exports to detract 2.0% from growth in Q1. The terms of trade on the other hand, is expected to rise by 5% offsetting the negative impact somewhat by adding to the nominal trade balance and earnings.**

We forecast the **net income deficit to remain steady at 4.0% of GDP**. The currency and equities remained steady on average through the quarter, suggesting little impact on net equity payments in A\$ terms. A rise in global bond yields indicate debt servicing was likely higher, but a fall in net debt (less reliance on external financing) will likely offset this effect. **(AM)**

# DATA PREVIEW

## PRIVATE SECTOR CREDIT (APR)



## 31 MAY: PRIVATE SECTOR CREDIT (APR)

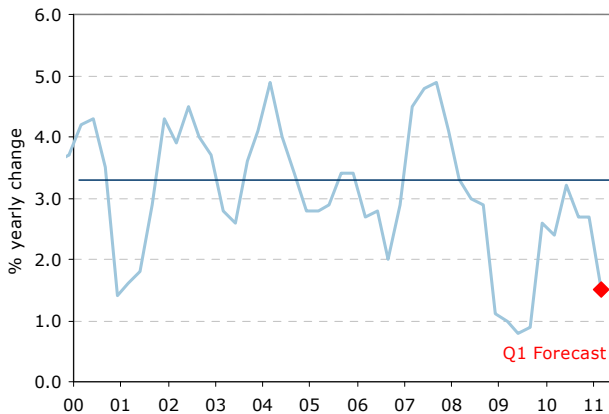
**ANZ:** +0.5% m/m, +3.8% y/y

**Market:** +0.5% m/m, +3.8% y/y

**Last:** +0.6% m/m, +3.6%y/y

Private sector credit is expected to post a solid increase of 0.5% m/m which will see it accelerate to 3.8% y/y. Business credit surprised on the upside last month and has begun to gain momentum, having posted three consecutive months of growth and we expect this to be carried into April. Housing sector credit is expected to remain relatively stable, although the weaker performance of the equity market over April is expected to weigh on personal credit. (DE).

## GDP (Q1)



## 1 JUNE: GDP (Q1)

**ANZ:** -0.5% q/q, +1.5% y/y

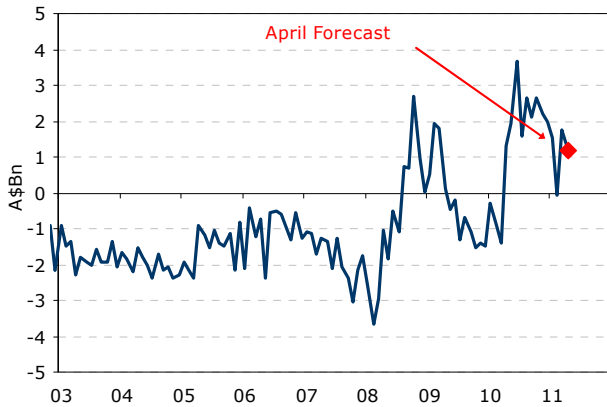
**Market:** -0.3% q/q, +1.8 % y/y

**Last:** +0.7% q/q, +2.7% y/y

See *In Focus* article (p2).

# DATA PREVIEW

## TRADE BALANCE (APR)



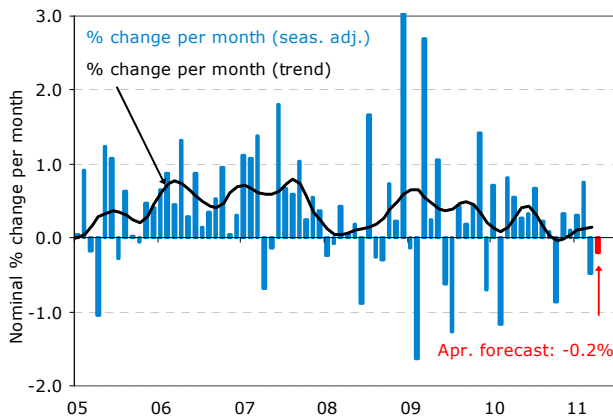
## 2 JUNE: TRADE BALANCE (APR)

**ANZ: +A\$1.2 bn**  
**Market: +A\$2.1 bn**  
**Previous: +A\$1.74 bn**

The trade surplus is expected to deteriorate to A\$1.2Bn in April, due to a fall in exports (-1.4% m/m) and modest rise in imports (+1.0% m/m). The fall in exports is largely due to a fall in coal exports to Japan, while the rise in imports is predominantly due to an increase in imports of civil aircraft. Imports from Japan likely fell sharply over the month due to supply disruptions.

The market (and RBA) will largely look through the natural disaster affected data and likely focus on the strong outlook for iron ore and coal into 2012. This strong outlook is driving the strong mining investment pipeline that we forecast to ramp up in 2012. (AM)

## RETAIL SALES (APR)



## 2 JUNE: RETAIL SALES (APR)

**ANZ: -0.2% m/m, +1.5% y/y**  
**Market: +0.4% m/m**  
**Previous: -0.5% m/m, +2.3% y/y**

Retail trade does not look to have improved in April, with almost all of the forward indicators pointing to another contraction. Although interest rates did not move and consumer confidence inched up in April (both mild positives), total employment fell, the all ordinaries index fell and petrol prices were up. ANZ's new Small Business Sales Trends series also indicates small retailers had a weak April (albeit slightly better than last year). In statistical terms, two consecutive months of nominal contraction (m/m) is relatively common in this data series. The wildcard this month is the extra long and late Easter holiday. This should have boosted tourism-related retailing and possibly DIY-related household goods but dampened other, larger sectors. The ABS's seasonal adjustment factor assumes April is normally a relatively weak month (and adjusts April up accordingly), but it might not entirely account for the full negative impact of this year's extra long break. (JT)

## DATA &amp; EVENT CALENDAR

## WEEK STARTING 23 MAY

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
30-31 MAY	CH	Leading Index	APR	--	--	101.71		
30 May - 03 June	GE	Retail Sales m/m	APR	1.5%	--	-2.7%		
Monday		Retail Sales y/y	APR	-0.1%	--	-3.5%		
30-May	NZ	Exports	APR	4.30B	4.6B	4.53B	22:45	08:45
		Imports	APR	3.70B	3.9B	4.07B	22:45	08:45
		Trade Balance	APR	600M	660M	464M	22:45	08:45
		Trade Balance 12 Mth YTD	APR	571	630	631	22:45	08:45
		Money Supply M3 y/y	APR	--	--	5.6%	03:00	13:00
	AU	Company Operating Profit q/q	1Q	2.0%	1.5%	-2.8%	01:30	11:30
		Inventories	1Q	0.2%	0.8%	0.7%	01:30	11:30
	JN	Small Business Confidence	MAY	--	--	36.1	01:00	11:00
	UK	Lloyds Business Barometer	MAY	--	--	30	23:01	09:01
		<b>Bank Holiday</b>						
	US	<b>Memorial Day Holiday</b>						
	CA	Current Account (BOP)	1Q	-\$3B	--	-\$11.0B	12:30	22:30
		Gross Domestic Product m/m	MAR	0.2%	--	-0.2%	12:30	22:30
		Gross Domestic Product y/y	MAR	--	--	2.9%	12:30	22:30
		Quarterly GDP Annualized	1Q	4.0%	--	3.3%	12:30	22:30
Tuesday	NZ	NBNZ Activity Outlook	MAY	--	--	29.5	01:00	11:00
31-May		NBNZ Business Confidence	MAY	--	--	14.2	01:00	11:00
	AU	RP Data-Rismark House Px m/m N	APR	--	--	0.2%	00:30	10:30
		RP Data-Rismark House Px m/m S	APR	--	--	0.2%	00:30	10:30
		Australia Net Exports of GDP	1Q	-0.9%	-2.0%	0.0%	01:30	11:30
		Current Account Balance	1Q	-10000M	-10600M	-7299M	01:30	11:30
		Building Approvals m/m	APR	0.0%	4.0%	9.1%	01:30	11:30
		Building Approvals y/y	APR	-12.0%	-7.0%	-18.1%	01:30	11:30
		Private Sector Credit m/m	APR	0.5%	0.5%	0.6%	01:30	11:30
		Private Sector Credit y/y	APR	3.8%	3.8%	3.6%	01:30	11:30
	JN	Markit/JMMA Manufacturing PMI	MAY	--	--	45.7	23:15	09:15
		Jobless Rate	APR	--	--	4.6%	23:30	09:30
		Job-To-Applicant Ratio	APR	--	--	0.63	23:30	09:30
		Overall Hhold Spending y/y	APR	--	--	-8.5%	23:30	09:30
		Industrial Production m/m	APR P	--	--	-15.5%	23:50	09:50
		Industrial Production y/y	APR P	--	--	-13.1%	23:50	09:50
		Labor Cash Earnings y/y	APR	--	--	-0.1%	01:30	11:30
		Vehicle Production y/y	APR	--	--	-57.3%	04:00	14:00
		Construction Orders y/y	APR	--	--	-11.0%	05:00	15:00
		Housing Starts y/y	APR	--	--	-2.4%	05:00	15:00
		Annualized Housing Starts	APR	--	--	0.807M	05:00	15:00
	EU	Euro-Zone CPI Estimate y/y	MAY	2.8%	--	2.8%	09:00	19:00
		<b>ECB's Draghi Speaks at Annual ECB Meeting in Italy</b>					<b>08:30</b>	<b>18:30</b>
		Euro-Zone Unemployment Rate	APR	9.9%	--	9.9%	09:00	19:00
		<b>ECB's Ewald Nowotny Speaks in Vienna</b>					<b>16:00</b>	<b>02:00</b>
	GE	Unemployment Change (000's)	MAY	-30K	--	-37K	07:55	17:55
		Unemployment Rate sa	MAY	7.0%	--	7.1%	07:55	17:55
	US	S&P/CaseShiller Home Price Ind	MAR	--	--	139.27	13:00	23:00
		S&P/Case-Shiller US HPI	1Q	--	--	130.38	13:00	23:00
		S&P/Case-Shiller US HPI y/y	1Q	--	--	-4.1%	13:00	23:00
		S&P/Case-Shiller 20 City m/m sa	MAR	-0.2%	--	-0.2%	13:00	23:00
		S&P/Case-Shiller Composite-20 y/y	MAR	-3.5%	--	-3.3%	13:00	23:00
		Chicago Purchasing Manager	MAY	63.0	--	67.6	13:45	23:45
		Consumer Confidence	MAY	66.4	--	65.4	14:00	00:00
		NAPM-Milwaukee	MAY	--	--	68	14:00	00:00
		Dallas Fed Manf. Activity	MAY	8.5	--	10.5	14:30	00:30
	CA	Industrial Product Price m/m	APR	0.7%	--	0.9%	12:30	22:30
		Raw Materials Price Index m/m	APR	4.2%	--	5.7%	12:30	22:30
		<b>Bank of Canada Rate Announcement</b>	<b>May-31</b>	<b>1.0%</b>	<b>--</b>	<b>1.0%</b>	<b>13:00</b>	<b>23:00</b>

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
01-02 JUN	JN	<b>BOJ International Conference on Monetary Policy</b>						
01-07 JUN	JN	Official Reserve Assets	MAY	--	--	\$1135.5B		
01-08 JUN	UK	Halifax House Price 3mths/y	MAY	--	--	-3.7%		
		Halifax House Prices sa m/m	MAY	--	--	-1.4%		
Wednesday 1-Jun	NZ	Terms of Trade Index q/q	1Q	--	--	0.6%	22:45	08:45
		Fonterra Global Dairy Auction	--	--	--		12:00	22:00
		ANZ Commodity Price	MAY	--	--	1.6%	01:00	11:00
	AU	AiG Performance of Mfg Index	MAY	--	--	48.4	23:30	09:30
		HIA New Home Sales m/m	APR	--	--	4.3%	01:00	11:00
		Gross Domestic Product q/q	1Q	-0.3%	-0.5%	0.7%	01:30	11:30
		Gross Domestic Product y/y	1Q	1.8%	1.5%	2.7%	01:30	11:30
		RBA Commodity Index SDR y/y	MAY	--	--	32.2%	06:30	16:30
		RBA Commodity Price Index Au	MAY	--	--	106.1	06:30	16:30
		<b>AOFM Auctions A\$750M of April 2020 Bonds</b>						
	JN	Loans & Discounts Corp y/y	APR	--	--	-2.2%	23:50	09:50
		Vehicle Sales y/y	MAY	--	--	-51.0%	05:00	15:00
	CH	PMI Manufacturing	MAY	51.6	52.4	52.9	01:00	11:00
		HSBC Manufacturing PMI	MAY	--	--	51.8	02:30	12:30
	EU	PMI Manufacturing	MAY F	54.8	--	54.8	08:00	18:00
		<b>ECB's Trichet Speaks in Aachen, Germany</b>					<b>13:00</b>	<b>23:00</b>
	GE	PMI Manufacturing	MAY F	58.2	--	58.2	07:55	17:55
	UK	M4 Ex OFCs 3M Annualised	APR	--	--	1.0%	08:30	18:30
		M4 Money Supply m/m	APR	--	--	0.1%	08:30	18:30
		M4 Money Supply y/y	APR	--	--	-1.1%	08:30	18:30
		Mortgage Approvals	APR	47.8K	--	47.6K	08:30	18:30
		Net Consumer Credit	APR	0.3B	--	0.1B	08:30	18:30
		Net Lending Sec. on Dwellings	APR	0.7B	--	0.4B	08:30	18:30
		PMI Manufacturing	MAY	54.3	--	54.6	08:30	18:30
		<b>BoE's Deputy Governor Tucker speaks in London</b>					17:35	03:35
	US	MBA Mortgage Applications	May-27	--	--	1.1%	11:00	21:00
		Challenger Job Cuts y/y	MAY	--	--	-4.8%	11:30	21:30
		ADP Employment Change	MAY	178K	--	179K	12:15	22:15
		Construction Spending m/m	APR	0.4%	--	1.4%	14:00	00:00
		ISM Manufacturing	MAY	58.0	--	60.4	14:00	00:00
		ISM Prices Paid	MAY	81.8	--	85.5	14:00	00:00
		<b>Fed's Pianaalto (non-voter) Speaks on Labor Markets in Columbus, OH</b>					<b>16:25</b>	<b>02:25</b>
		<b>Fed's Alvarez (non-voter) &amp; NY Fed's Baxter (non-voter) Testify</b>					<b>18:00</b>	<b>04:00</b>
		Domestic Vehicle Sales	MAY	9.80M	--	10.20M	21:00	07:00
		Total Vehicle Sales	MAY	12.80M	--	13.14M	21:00	07:00
Thursday 2-Jun	AU	Retail Sales sa m/m	APR	0.4%	-0.2%	-0.5%	01:30	11:30
		Trade Balance	APR	2150M	1200M	1740M	01:30	11:30
	JN	Capital Spending	1Q	--	--	3.8%	23:50	09:50
		Capital Spending excl Sftwre	1Q	--	--	4.8%	23:50	09:50
		Monetary Base y/y	MAY	--	--	23.9%	23:50	09:50
		<b>BOJ's Nakamura Speaks in Nara City</b>					<b>01:30</b>	<b>11:30</b>
	EU	<b>ECB's Trichet Speaks in Aachen, Germany</b>					<b>09:15</b>	<b>19:15</b>
	GE, FR	<b>Ascension Day Holiday</b>						
	UK	PMI Construction	MAY	--	--	53.3	08:30	18:30
	US	ICSC Chain Store Sales y/y	MAY	--	--	8.5%	--	--
		RBC Consumer Outlook Index	JUN	--	--	42.9	12:00	22:00
		Continuing Claims	May-21	--	--	3690K	12:30	22:30
		Initial Jobless Claims	May-28	--	--	424K	12:30	22:30
		Bloomberg Consumer Comfort	29-May	--	--	-48.4	13:45	23:45
		Nonfarm Productivity	1Q F	1.8%	--	1.6%	12:30	22:30
		Unit Labor Costs	1Q F	0.8%	--	1.0%	12:30	22:30
		Factory Orders	APR	-0.8%	--	3.4%	14:00	00:00
	CA	<b>BoC's Macklem Speaks in Toronto</b>					<b>16:00</b>	<b>02:00</b>

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Friday	NZ	Building Permits m/m	APR	0.5%	3.0%	2.2%	22:45	08:45
3-Jun	AU	AiG Performance of Service Index	MAY	--	--	51.5	23:30	09:30
		<b>AOFM Auctions A\$750M of March 2019 Bonds</b>						
	CH	China Non-manufacturing PMI	MAY	--	--	62.5	01:00	11:00
		China HSBC Services PMI	MAY	--	--	51.6	02:30	12:30
	EU	PMI Composite	MAY F	--	--	55.4	08:00	18:00
		<b>ECB's Paramo, Ordonez, Vinals, Campa Speak in Sitges</b>						
		PMI Services	MAY F	55.4	--	55.4	08:00	18:00
		<b>ECB's Gonzalez-Paramo Speaks in Barcelona</b>						
	GE	PMI Services	MAY F	54.9	--	54.9	07:55	17:55
	UK	Official Reserves (Changes)	MAY	--	--	\$1663M	08:30	18:30
		PMI Services	MAY	54.5	--	54.3	08:30	18:30
	US	Avg Hourly Earning m/m All Emp	MAY	0.2%	--	0.1%	12:30	22:30
		Avg Hourly Earning y/y All Emp	MAY	1.9%	--	1.9%	12:30	22:30
		Avg Weekly Hours All Employees	MAY	34.3	--	34.3	12:30	22:30
		Change in Manufact. Payrolls	MAY	15K	--	29K	12:30	22:30
		Change in Nonfarm Payrolls	MAY	195K	--	244K	12:30	22:30
		Change in Private Payrolls	MAY	220K	--	268K	12:30	22:30
		Chg in Household Survey Employment	MAY	--	--	-190	12:30	22:30
		Unemployment Rate	MAY	8.9%	--	9.0%	12:30	22:30
		ISM Non-Manf. Composite	MAY	54.3	--	52.8	14:00	00:00

## FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>30 MAY</b> NZ: Trade (Apr) AU: Company Operating Profits (Q1), Inventories (Q1) CH: Leading Index (Apr) UK: <b>Bank Holiday</b> US: <b>Memorial Day Holiday</b> CA: GDP (Mar), Current Account (Q1)	<b>31 MAY</b> NZ: Activity Outlook (May), Bus. Conf. (May) AU: Building Approvals (Apr), CA (Q1), Net Exports (Q1), Private Credit (Apr) JP: Jobless Rate (Apr), Ind Production (Apr P) EU: CPI Estimate (May), Unemp. (Apr), <b>ECB's Nowotny Speaks</b> GE: Unemployment (May) US: Case-Shiller (Mar & Q1), Cons. Conf. (May), Chicago PMI (May), Dallas Fed Manufac Survey (May) CA: <b>BoC Rates Decision</b>	<b>1 JUNE</b> NZ: ANZ Commodity Price (May), ToT (Q1) AU: GDP (Q1), Aig PMI (May) CH: PMI Manufac (May) EU: PMI Manufac (May F), <b>Trichet Speaks</b> GE: PMI Manufac (May F) UK: PMI Manufac (May), Mortgage Approvals (Apr) US: <b>Fed's Pinalto Speaks</b> , Challenger Job Cuts (May), ADP Employment (May), Construction Spending (Apr), ISM Manufac (May)	<b>2 JUNE</b> AU: Trade (Apr), Retail Sales (Apr) JP: Capital Spending (Q1) EU: <b>ECB's Trichet Speaks</b> UK: PMI Construction (May) GE & FR: <b>Ascension Day Holiday</b> US: Factory Orders (Apr), Non-farm Prod. (Q1 F)	<b>3 JUNE</b> NZ: Building Permits (Apr) CH: PMI Non-Manufac (May) EU: <b>ECB's Gonzalez-Paramo Speaks</b> , PMI Composite & Services (May F) GE: PMI Services (May F), Retail Sales (Apr) UK: PMI Services (May) US: Non-Farm Payrolls (May), Unemployment (May), ISM Non-Manufact. (May)
<b>6 JUNE</b> NZ: <b>Queen's Birthday Holiday</b> AU: ANZ Job Ads (Apr), TD Securities Inflation gauge (May) CH: <b>Dragon Boat Festival Public Holiday</b> EU: Sentix Investor Conf. (Jun), PPI (Apr) US: <b>Fed's Plosser and Fisher Speak</b> CA: Building Permits (Apr), Ivey PMI (May)	<b>7 JUNE</b> AU: <b>RBA Cash Rate</b> , NAB Business Confidence (May) JP: Leading Index CI (Apr P) EU: Retail Sales (Apr) GE: Factory Orders (Apr) US: <b>Fed's Lockhart speaks</b> , JOLTs Job Openings (Apr), Consumer Credit (Apr)	<b>8 JUNE</b> AU: Westpac Consumer Confidence (Jun), Housing Finance (Apr) JP: Money Stock (May), Current Account (Apr), Trade (Apr) EU: GDP (Q1 P) GE: Current Account (Apr), Trade (Apr), Ind Production (Apr) US: <b>Fed's Beige Book</b> CA: Housing Starts (May)	<b>9 JUNE</b> NZ: <b>RBNZ Cash Rate</b> , AU: <b>South Aust. Budget</b> , Employment (May) JP: GDP (Q1 F), Consumer Confidence (May) EU: <b>ECB Rates Decision</b> , <b>ECB's Trichet Speaks</b> UK: <b>BoE Rates Decision</b> , Trade (Apr) US: Trade (Apr), <b>Fed's Yellen and Plosser Speak</b> CA: Merch Trade (Apr)	<b>10 JUNE</b> NZ: Card Spending (May) JP: Domestic CGPI (May) CH: Trade Balance (May) GE: CPI (May F) UK: NIESR GDP Est. (May), Ind and Manuf. Production (Apr), PPI (May) US: Import Price Index (May), Monthly Budget Statement (May) CA: Employment (May)
<b>13 JUNE</b> AU: <b>Queens Birthday Holiday</b> JP: Machine Orders (Apr) CH: New Yuan Loans (May), Money Supply (May) GE & FR: Whit Day Holiday UK: RICS House Price Balance (May) US: <b>Fed's Lacker Speaks</b>	<b>14 JUNE</b> NZ: Food Prices (May) AU: <b>Queensland Budget</b> JP: <b>BoJ Target rate</b> , ABARES 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), Business Inventories (Apr), Small Business Optimism (May)	<b>15 JUNE</b> AU: Dwelling Starts (Q1), Inflation Expectation (Jun), <b>RBA's Stevens Speaks</b> , ABARES crop report (Q2) EU: IP (Apr) UK: Ave Weekly Earnings (Apr), ILO Unemp (Apr), Jobless Claims (May) US: CPI (May), Empire Manuf. Index (Jun), Net TIC Flows (Apr), IP (May)	<b>16 JUNE</b> NZ: ANZ Consumer Confidence (Jun), Business PMI (May) AU: <b>TAS Budget</b> EU: CPI (May), Employment (Q1) UK: Retail Sales (May) US: Building Permits (May), Housing Starts (May), Philly Fed Survey (Jun)	<b>17 JUNE</b> JN: <b>BoJ Publish Minutes</b> EU: Construction Output (Apr), Trade Balance (Apr), <b>ECB Publishes Monthly Report (Jun)</b> US: Leading Indicators (May), Univ of Michigan Consumer Confidence (Jun P)
<b>20 JUNE</b> NZ: Credit Card Spending (May) JP: Trade (May), Leading Index (Apr F) EU: Current Account (Apr) GE: Producer Prices (May)	<b>21 JUNE</b> NZ: Net Migration (Jun) AU: <b>RBA Board Minutes (Jun)</b> , ABARES commodities report (Q2) JP: Industry Activity Index (Apr) EU: ZEW Survey (Jun) GE: ZEW Survey (Jun) UK: Public Finances (May) US: Existing Home Sales (May) CA: Leading Indicators (May), Retail Sales (Apr)	<b>22 JUNE</b> NZ: Current Acc. Bal. (Q1) EU: Ind. New Orders (Apr), Consumer Conf. (Jun A) UK: <b>BoE Publish Minutes</b> US: <b>FOMC Rate Decision</b> , House Price Index (Apr), <b>Fed Chairman Bernanke Speaks</b>	<b>23 JUNE</b> AU: Skilled Vacancies (Jun), Leading Index (Apr) EU: PMI Composite, Manufac & Services (Jun A) GE: PMI Manufac & Services (Jun A) US: Chicago Fed Nat Activity Index (May), New Home Sales (May)	<b>24 JUNE</b> JP: Corp Service Index (May) CH: MNI Business Condition Survey (Jun) GE: IFO Bus. Climate, Current Assess. & Expectations (Jun) US: Durable & Capital Goods Orders (May), GDP (Q1 T), Personal Consumption (Q1 T), Core PCE (Q1 T)
<b>27 JUNE</b> CH: Industrial Profits (May) US: PCE Core (May), Dallas Fed Manf Activity (Jun), Personal Income (May), Personal Spending (May)	<b>28 JUNE</b> JP: Retail Trade (May) GE: CPI (Jun P) UK: GDP (Q1 F) US: Case-Shiller Index (Apr), Consumer Conf. (Jun), Richmond Fed Index (Jun)	<b>29 JUNE</b> AU: DEWR Skilled Vacancies (Jun), HIA New Home Sales (May) JP: IP (May P) EU: Business Climate Indicator (Jun), Consumer Conf. (Jun F), Indust, Services and Economic Conf. (Jun) UK: GFK Consumer Conf. (Jun), Consumer Credit (May), Mortgage Approvals (May) US: Pending Home Sales (May) CA: CPI (May)	<b>30 JUNE</b> NZ: Building Permits (May), Trade Balance (May), Business Confidence (Jun) AU: Job Vacancies (May), Private Sector Credit (May) JP: Housing Starts (May), Vehicle Production (May) EU: CPI Est. (Jun) GE: Unemployment Rate (Jun) US: Chicago PMI (Jun) CA: GDP (Apr)	<b>1 JULY</b> AU: AiG PMI (Jun) JP: CPI (Jun), Jobless Rate (May), Tankan Survey(Q2), Vehicle Sales (Jun) CH: PMI Mfg (Jun), <b>SAR Est. Day (HK)</b> EU: PMI Mfg (Jun F), Unemp. (May) GE: PMI Mfg (Jun F), Retail Sales (May) UK: PMI Mfg (Jun) US: U. of Michigan Conf. (Jun F), Const. Spending (May), ISM Manuf. (Jun) CA: <b>Canada Day Holi.</b>

## 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
<b>Economic activity (annual % change)</b>				
Private final demand	2.0	3.4	5.3	5.9
Household consumption	2.7	2.3	2.9	2.7
Dwelling investment	4.8	3.4	0.4	7.4
Business investment	-0.9	8.7	15.2	15.2
Public demand	9.1	3.6	3.0	2.0
Domestic final demand	3.6	3.5	4.7	5.0
Inventories (contribution to GDP )	0.4	-0.1	-0.1	0.0
Gross National Expenditure (GNE)	4.1	3.4	4.7	4.9
Exports	5.3	-1.7	10.5	10.6
Imports	13.2	10.2	14.7	9.6
Net Exports (contribution to GDP )	-1.6	-2.8	-1.4	-0.2
<b>Gross Domestic Product (GDP)</b>	<b>2.7</b>	<b>1.2</b>	<b>3.7</b>	<b>4.3</b>
<b>Prices and wages (annual % change)</b>				
Inflation:				
Headline CPI	2.8	3.3	2.7	3.1
Underlying*	2.6	2.7	3.1	3.0
Wages	3.3	3.8	4.1	4.3
<b>Labour market</b>				
Employment (annual % change)	2.7	2.5	2.5	2.4
Unemployment rate (annual average %)	5.2	4.9	4.5	4.1
<b>External sector</b>				
Terms of trade (annual % change)	16.2	17.7	2.7	-1.5
Current account balance: A\$bn	-34.5	-27.2	-36.7	-43.3
% of GDP	-2.6	-1.9	-2.4	-2.6

\* Average of RBA weighted median and trimmed mean statistical measure

AUSTRALIAN INTEREST RATES	CURRENT	JUN 11F	SEP 11F	DEC 11F	MAR 12F	JUN 12F
RBA cash rate	4.75	4.75	5.00	5.25	5.25	5.50
90 day bill	5.03	5.25	5.30	5.50	5.60	5.80
3 year bond	4.91	5.50	5.40	5.60	5.80	6.00
10 year bond	5.22	5.80	5.70	5.80	5.90	6.00
3s10s yield curve	0.31	0.30	0.30	0.20	0.10	0.00
3 year swap	5.25	5.80	5.70	6.00	6.20	6.40
10 year swap	5.77	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	2.69	2.65	2.69	3.14	3.67	3.75
US Fed funds note	0.25	0.25	0.25	0.25	0.75	1.50
US 2 year note	0.48	0.90	1.00	1.30	1.60	1.90
US 10 year note	3.06	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
<b>Australian exchange rates</b>						
A\$/US\$	1.06	1.06	1.08	1.04	1.02	1.00
NZ\$/US\$	0.81	0.76	0.77	0.75	0.74	0.72
A\$/¥	86.3	89.0	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\$	1.31	1.39	1.40	1.39	1.38	1.39
A\$/C\$	1.04	1.03	1.03	1.00	1.00	0.99
A\$/CHF	0.92	0.94	0.97	0.96	0.96	0.96
A\$/CNY	6.89	6.82	6.84	6.48	6.28	6.10
A\$ Trade weighted index	77.6	78.0	80.1	77.7	76.3	74.7
<b>International cross rates</b>						
US\$/¥	81.2	84.0	86.0	88.0	90.0	92.0
€/US\$	1.41	1.40	1.37	1.35	1.33	1.33
€/¥	115	118	118	119	120	122
£/US\$	1.64	1.61	1.60	1.58	1.57	1.57
€/£	0.86	0.87	0.86	0.85	0.85	0.85
US\$/C\$	0.98	0.97	0.95	0.96	0.98	0.99
US\$/CHF	0.87	0.89	0.90	0.92	0.94	0.96
US\$ index	75.6	76.6	77.4	78.6	80.4	80.1
<b>Asia exchange rates</b>						
US\$/CNY	6.49	6.43	6.33	6.23	6.16	6.10
US\$/HKD	7.78	7.78	7.78	7.80	7.80	7.80
US\$/IDR	8582	8900	9100	9000	8900	8800
US\$/INR	45.3	46.0	46.5	47.0	46.3	45.6
US\$/KRW	1084	1125	1155	1175	1150	1125
US\$/MYR	3.04	3.05	3.10	3.15	3.13	3.10
US\$/PHP	43.5	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	30.40	29.50	30.00	30.50	30.25	30.00
US\$/TWD	28.90	30.35	30.90	31.70	31.50	31.30
US\$/VND	20625	20900	21400	21400	22000	22000
<b>Pacific exchange rates</b>						
PGK/US\$	0.422	0.378	0.385	0.378	0.372	0.366
FJD/US\$	0.568	0.541	0.548	0.538	0.530	0.522

**IMPORTANT NOTICE**

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