

AUSTRALIAN ECONOMICS

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2 DECEMBER 2011

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GLOBAL RISKS INTENSIFY, RBA TO CUT CASH RATE NEXT WEEK

- The Government's *Mid-Year Economic and Fiscal Outlook* (MYEFO), released this week, imposed a range of net spending cuts to deliver the Government's oft-promised return to surplus in 2012-13, despite a hit to revenues from a slower economy and lower equity prices. The deficit in 2011-12 will be larger than predicted in the May Budget, and **net debt is now expected to peak at 8.9% of GDP in 2011-12** (compared to 7.2% at Budget). While a notable upward revision, net debt nevertheless remains low by global standards. ANZ estimates that the policy decisions taken in MYEFO to return the budget to surplus will impose **an additional tightening of discretionary fiscal policy of around ¼ppt of GDP per annum from 2012-13 to 2014-15**.
- In last week's *Australian Economics Weekly*, we concluded that the risk of an easing by the RBA in December had continued to rise. While the arguments are likely again to remain reasonably close between no change and a 25bps cut, the chance of an insurance move by the RBA is now higher than we assessed earlier this week. Indeed, it is now above a 50/50 probability.
- As such, we are bringing forward the 25bps cut we previously factored in for February 2012 to next week's Board meeting on 6 December 2011.** As the Board sits down to discuss monetary policy on Tuesday - and the coordinated international policy actions taken by other central banks worldwide this week - the key points for discussion are likely to be: the global outlook, inflation, the domestic economy and financial conditions. These factors are examined in our *In Focus* article this week.

THE WEEK AHEAD

- In **Australia**, GDP and employment will be released after the **RBA decision on Tuesday**. As noted above, we now expect the RBA to cut the cash rate by 25 bps next week. The growing global uncertainties have seen the market put little emphasis on the (improving) domestic data. Indeed, the market is now fully priced for a 25bps cut to 4.25% next Tuesday and over 150bps by June 2012. On Q3 GDP and employment, ANZ is looking for weaker domestic growth rates than the market, at 0.7% q/q for GDP (market (+1.0%q/q) and +5k for employment in November (market: +10k). Other Australian data next week will include inventories, company profits, the current account and ANZ Job Advertisements. See *In Focus* and *Data Previews* inside for more details.
- In **Europe**, both the ECB and the BoE will meet. ANZ expect a 25bps cut from the ECB to 1.0%. However, market focus will remain on European politicians ahead of the EU leaders' summit over the weekend. Data to watch include German and UK industrial production.
- In Asia, **Chinese** CPI (ANZ: 4.5%, market: 4.5%), industrial production (ANZ: 13%, market: 12.8%) and retail sales data (ANZ: 17%, market: 16.8%) will be the focus. The recent weaker than expected run of activity data and easing of inflationary pressures have seen Chinese authorities reduce the bank reserve requirement ratio (RRR) by 50bps this week. However, further monetary policy easing will be required for China to execute a soft-landing. ANZ expects a further RRR cut is possible in December followed by three more RRR cuts in H1 2012.
- In the **US**, there is little in the way of market moving data. However, in **Canada** the BoC will meet on monetary policy.

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In last week's *Australian Economics Weekly*, we concluded that the risks of an easing by the RBA in December had continued to rise.

While the arguments are likely again to remain reasonably close between no change and a 25bps cut, the chance of an insurance move by the RBA is now higher than we assessed earlier this week and is now above a 50/50 probability. As such, we are bringing forward the 25bps cut we had previously factored in for February 2011 to December 2012.

As the Board sits down to discuss monetary policy on Tuesday - and the coordinated international policy actions taken this week - the key points for discussion are likely to be:

- **The Global Outlook.** Last month, the Bank concluded that the pace of global growth was running below earlier expectations and that the risks to the global economy seemed to lie predominantly to the downside. A month since then, while the improvement in US economic data continues, incoming indicators of European growth prospects remain very weak, while indications and anecdotes of Chinese growth prospects have tended to surprise on the downside (with negative implications for Australia's terms of trade). **Global growth developments therefore support a further moderate easing in the Bank's policy stance**, but to date still seem far from the dramatic and extremely negative developments experienced in the second half of 2008.
- **On the inflation front**, there has been little new news; however, measures of quarterly wages growth were somewhat better than expected, and leading indicators of labour demand continue to suggest a moderate further easing of the labour market and slight drift upwards in the unemployment rate. While employment in aggregate continues to grow, trend employment growth of around 6,000 per month remains below the 10-12,000 jobs per month necessary to prevent unemployment rising and frequent anecdotes of job cuts continue. Again, the situation is currently developing in a noticeably less dramatic fashion than in 2008 when job advertising collapsed and the unemployment rate rose sharply, but remains **consistent with the suggestion that the RBA will be able to ease interest rates further across time, notwithstanding the mining boom, in order to try to 'fine-tune' the unemployment rate** (i.e. to attempt to keep it relatively low around 5.25%, providing inflation remains moderate).
- In terms of the Bank's view of the **domestic economy**, the suite of data witnessed over the inter-meeting period has been a fraction firmer, with retail sales improving again and confirmation that the expected very strong pick up in mining and energy investment is occurring in the quarterly capex and construction data. As such, the Bank is unlikely to have changed its view of the domestic economy markedly and its confidence in the mining construction and investment story will have been reaffirmed. That said, the terms of trade are more clearly softening and, while still at high levels, will be less of a positive for nominal growth and incomes than previously expected, while the Government has modestly tightened fiscal policy. **Net, there is no substantial change to the mining investment view, but other domestic developments are slightly supportive of lower interest rates.**
- Last month the Bank noted that **financial conditions** had already been easing somewhat, with lending rates edging down, but that, on balance, financial conditions appeared to remain somewhat tighter than normal. Developments inter-month have seen many lending rates decline due to the RBA's November interest rate cut, but funding and credit markets have since developed negatively and, if sustained, would unwind part of the recent reduction in lending rates. In an environment of softer global growth, rising funding pressures mean that the RBA needs to reduce official interest rates in order to keep lending rates unchanged, and this is another argument in favour of a further precautionary easing in monetary policy at the present time, though international policy actions this week have softened some of the European funding stresses in particular. **While the coordinated international policy action and China's RRR move can also be argued as improving the medium-term outlook for international growth, such action is designed to offset the negative**

market effects and emerging softer growth outlook. As such, these actions are on balance more likely to prompt the RBA to also cut rates in the near term as occurred during the GFC.

The final section of last month's Board minutes examined the case for no change in policy (that is, unless the world economy turned down in a serious way, the expansionary effects of the terms of trade and the associated investment build-up would, in time, reassert themselves and tighter than normal policy would be required) against the case for easing policy (which reflected a material change to the outlook for underlying inflation, increased downside risks to the global economy and the conclusion that in these circumstances a restrictive setting of policy was no longer appropriate).

The first hurdle implicit in this discussion is the need for the RBA to move explicitly to a slightly stimulatory monetary policy stance (though arguably, with financial conditions still previously assessed as tighter than normal and some deterioration in funding pressures over the past month, **a further cut in the cash rate could still be considered as only moderating financial conditions to a less tight than normal setting**).

Relative to last month's assessment, most of the global factors considered have developed in a less constructive fashion, notwithstanding the domestic data flow, with mining investment in particular remaining very strong. Weighing up these factors and especially considering the international balance of risks remain tilted to the downside, it seems likely that the RBA Board will consider the case for a further easing of policy at next month's Board meeting.

While the arguments are likely again to remain reasonably close between no change and a 25bps cut, the chance of an insurance move by the RBA is now higher than we assessed earlier this week and now above a 50/50 probability. As such, we are bringing forward the 25bps cut previously factored in for February. Given international policy actions and the strength of mining investment, we see very little chance of a 50bps move; that is, no move in December is still a far larger probability than the market is factoring. The RBA is still likely to be of the view that the market is pricing for excessive rate cuts. A lot still has to go wrong before market expectations for the cash rate to fall to 3.0% will be met.

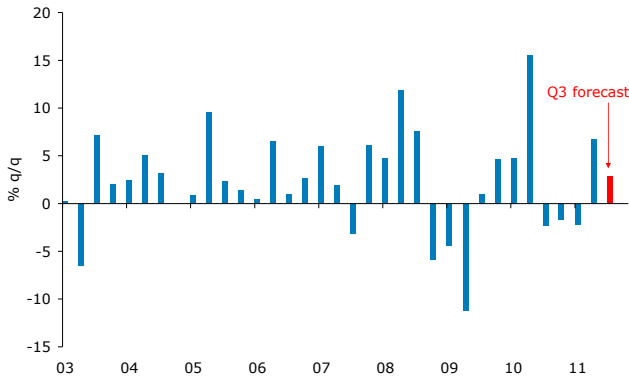
DATA WRAP

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- The **Australian budget update (MYEFO)** contained few surprises. Weaker economic growth and some new policy decisions (e.g. the carbon tax) have stripped around \$21bn off the budget bottom line over the forward estimates. Net debt is now expected to peak at 8.9% of GDP in 2011-12 (still well below the average net debt in G7 economies, which is forecast to rise to 80% by the end of 2011). The government continues to forecast a return to surplus (albeit of just 0.1% of GDP) by 2012-13, by bringing forward some spending into 2011-12 (and therefore worsening that year's deficit to 2.5% of GDP) and announcing a range of spending cuts.
- **Private capital expenditure (CAPEX)** actual expenditure in Q3 surged by 12.3% q/q, to be 31.1% up from a year ago (inflation adjusted). While most of this growth was in spending by the mining sector, the manufacturing sector also showed a good recovery in CAPEX spending. CAPEX expectations for 2011-12 (estimate 4, in nominal terms) suggest CAPEX will grow by 34.7% y/y in 2011-12.
- **Nominal retail sales** grew by 0.2% m/m in October (seasonally adjusted), which, while low, is the fourth consecutive monthly rise. Annual growth rose to 3.4% y/y but is still below long-term averages. Food retailing continues to dominate nominal sales growth, with growth of 0.5% m/m this month compared with sales growth of just +0.1% m/m in non-food retailing (+0.3% m/m trend). Among the non-food retailers, department stores lost ground again, with sales falling 0.7% m/m to be -3.3% y/y. Clothing retailers saw a welcome lift (+1.2% m/m) but remain 2.2% down on last year's sales.
- **Residential building approvals** decreased 10.7% in October. The decline in approvals was broad-based with both house and flat/unit/townhouse approvals declining. Total residential approvals remain significantly lower in annual terms (-29.8% y/y). Non-residential building approvals increased 4.7% m/m in October but remain 19.3% lower in annual terms.
- **Total private sector credit** growth increased 0.2% m/m in October. Monthly credit growth was weaker across all segments. Business credit was unchanged (0.0% m/m), personal credit decreased by 0.3% m/m and housing credit growth increased by 0.4% m/m. However, looking through the monthly volatility, business credit activity is gathering moderate momentum (+3.1% annualised quarterly growth). Meanwhile, household credit growth remains weak, particularly for personal lending (margin lending and personal loans).
- **RP-Rismark house prices** fell in all capital cities, except Sydney (0.0%) and Canberra (+1.6%) in October. The largest monthly declines were in Brisbane (-1.6%) and Adelaide (-1.3%). Melbourne home prices were 0.6% lower in the month. Home price falls have been concentrated at top end of the market over the past year. However, the softening in house prices has also impacted at the middle and lower end to a lesser degree. The top 20% of capital city suburbs, by average house price, saw prices fall by 1.0% in October to be down 7.3% over the year, while falls were also recorded in the middle 60% of suburbs for the seventh consecutive month (-0.2% m/m, -3.6% y/y). The bottom 20% of suburbs saw prices increase in October (+0.1% m/m, -2.9% y/y).
- **HIA new home sales** rose by 5.5% m/m in October but remain lower than June 2011 levels. Sales rose strongly in Queensland (+20.8% m/m) but also rebounded in New South Wales (+1.2% m/m), South Australia (+1.6% m/m) and Western Australia (+4.8% m/m) during October. Sales in Victoria fell 1.2% m/m.
- The **AiG performance of manufacturing index** rose 0.4pts to 47.8 in November. A rise in production (+3.7pts to 49.6), new orders, (+1.2pts to 48.1) and exports (+6.4pts to 53.4) are promising but the headline index continues to point towards contraction in the manufacturing industry.

DATA PREVIEW

COMPANY PROFITS



5 DEC: COMPANY PROFITS (Q3)

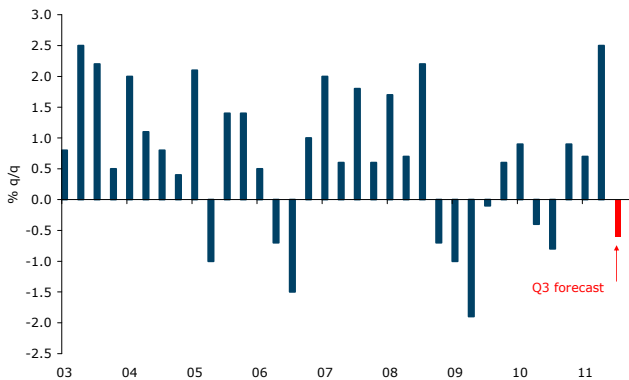
ANZ: +3.5% q/q

Market: +3.0% q/q

Last: +6.7% q/q

Company profits are expected to record a moderate rise in Q3, driven mainly by the mining sector after the terms of trade likely hit another record high (and peaked) in Q3. A further pick-up in flood-affected Queensland coal exports should also support profits. Outside of mining, trade-exposed sectors may have benefited from the average decline in the A\$ (although it was extremely volatile in Q3), while retail trade figures suggest that the retail sector will perform better this quarter. Weaker profits from the finance sector however, amidst sharp moves in financial markets and ongoing weak credit growth, present the major downside risk. (CM)

INVENTORIES



5 DEC: INVENTORIES (Q3)

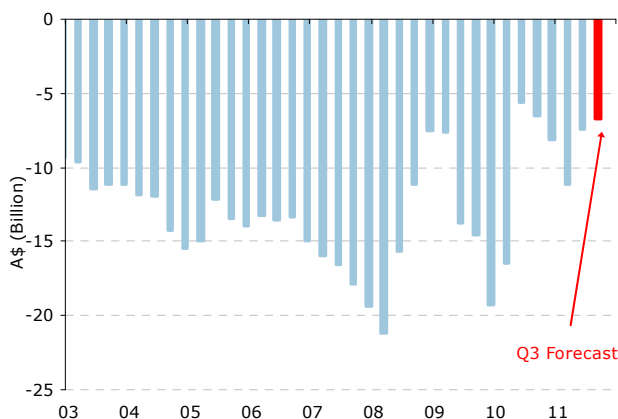
ANZ: -0.6% q/q

Market: +1.2% q/q

Last: +2.5% q/q

We expect inventories to fall sharply in Q3, given the strong accumulation of inventories in the previous quarter (+0.8% q/q). The Q2 rise reflected a build-up of inventories in the wholesale and mining sectors, with the latter affected by weather-related interruptions to shipping of bulk commodities earlier in the year. This rise in mining stocks is likely to be partly unwound over Q3 as coal and iron ore exports resumed. A modest improvement in retail sales should also see a draw down in inventories in this sector. The risk to our forecast appears weighted to the upside (i.e. a smaller fall in inventories), with the possibility that bulk commodity exports do not recover (and thus mining inventories are not drawn down) as much as expected. (CM)

CURRENT ACCOUNT BALANCE (Q3)



6 DEC: BALANCE OF PAYMENTS (Q3)

Current account balance

ANZ: -A\$6.7bn (-1.8% of GDP)

Market: -A\$5.6bn

Previous: -A\$7.4bn (-2.1% of GDP)

Net exports (% of GDP)

ANZ: -0.7% q/q

Market: -0.6% q/q

Last: -0.5% q/q

Australia's current account deficit is likely to have narrowed to A\$6.7bn or 1.8% of GDP in Q3, largely due to a further improvement in export prices.

The slow return to full production by Queensland coal producers was again seen in Q3 export volumes. Meanwhile, import volumes of both capital and consumption goods are forecast to have been strong in Q3. We forecast export volumes growth (+2% q/q) to be outpaced by import volumes growth (4½% q/q). This will likely see net trade detract 0.7ppts from GDP growth in Q3.

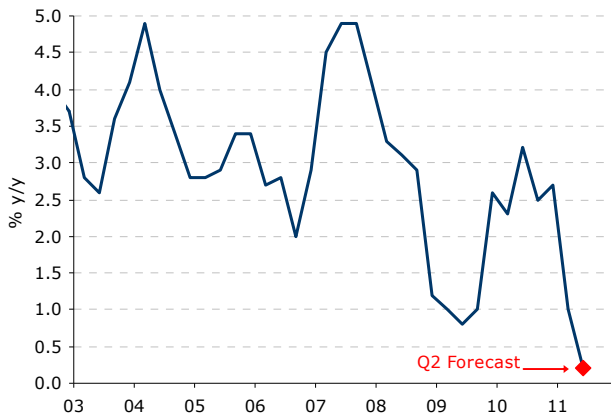
It is the rise in export prices (+3.0% q/q), while import prices remained broadly flat, that likely saw the current account narrow in Q3. Indeed, Australia's terms of trade is estimated to have risen by a further 3.0% q/q. However,

DATA PREVIEW

ANZ believes we have now seen the peak in the terms of trade as we enter the next stage of the mining boom (the investment and production stage).

The net income deficit is much less volatile and is expected to remain around 3.5% of GDP (A\$12.9bn). A continued low global interest rate environment and high Australian dollar is likely to see the net income deficit remain around 3.5% of GDP for some time. **(AM)**

GDP

**7 DEC: GDP(Q3)**

ANZ: +0.7% q/q, +1.8% y/y

Market: +1.0% q/q, +2.1% y/y

Last: -1.2%, +1.0% y/y

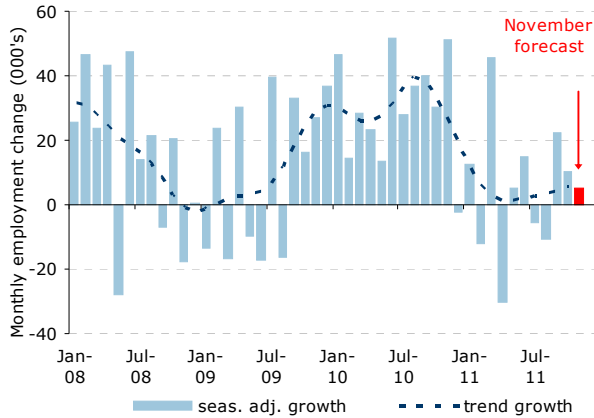
We forecast GDP growth of 0.7% in Q3, a solid result following Q2's 1.2% rebound. Growth is expected to be driven largely by the income side of the national accounts, particularly company profits which should be supported by a new record high in the terms of trade. Growth in the expenditure side of GDP, in contrast, is expected to soften, dragged lower by a subtraction to growth from both net exports (as imports outstrip exports) and inventories (which should experience some run-down after Q2's big rebuild). These drags will offset an expected surge in growth in business investment, as confirmed by the 12.3% quarterly rise in the survey measure of Capex, as well as what looks like another decent quarter of household consumption (with retail volumes up 0.6%).

The risks to this forecast appear evenly balanced. For us, the greatest source of upside surprise would most likely be household consumption (which was the cause of significant upside surprise last quarter) and inventories, with a less than stellar export volume performance suggesting the potential for a smaller run down in stocks than our current forecasts. On the downside, we are concerned that company profits could undershoot our expectations (dragged down by weakness in the non-mining economy). A further correction in government investment (due to the end of the schools building program) is also a downside risk.

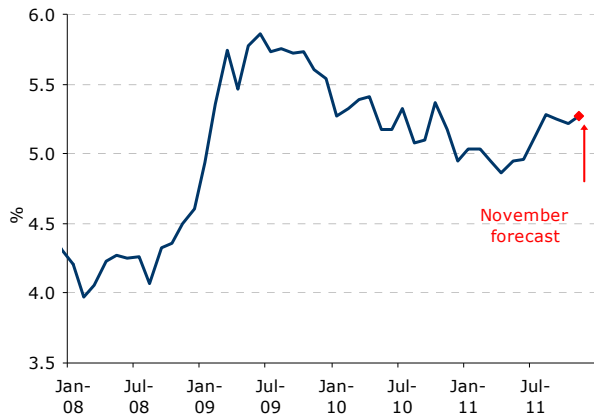
Quarterly growth of 0.7% will boost the yearly rate of growth up to 1.8%. We note that such a result would still probably be tracking below RBA expectations, which in the November *Statement on Monetary Policy* was for GDP growth to accelerate to 2¾% by Dec-11. Meeting this target requires quarterly growth to average 1.2% per quarter in the second half of this year – a big ask given subdued local confidence, escalating global risks, and a prolonged recovery in weather-affected bulk commodity exports. **(KD)**

DATA PREVIEW

EMPLOYMENT



UNEMPLOYMENT RATE



8 DEC: LABOUR FORCE (NOV)

Employment:

ANZ: +5.0K

Market: +10K

Last: +10.1k

Unemployment Rate:

ANZ: 5.3%

Market: 5.2%

Last: 5.2%

Participation Rate:

ANZ: 65.6%

Market: 65.6%

Last: 65.6%

The last two months of stronger employment growth (plus some small upward revisions to earlier months) have pulled trend employment growth up to around 6k per month. The forward indicators (primarily job advertisements) however, continue to point to very weak employment growth over the next few months. As such, we expect employment growth to come in below trend this month, at around 5k.

The participation rate has remained relatively stable at around 65.6% over the past 6 months. But an acceleration in population growth has meant labour force growth has picked up to around 12k per month (trend). This is almost double the current rate of employment growth, so the unemployment rate is continuing to slowly edge up. We expect it to move back to 5.3% this month. (JT)

DATA & EVENT CALENDAR

WEEK STARTING 5 DECEMBER

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
01-07 DEC	JN	Official Reserve Assets	NOV	--	--	\$1209.9B		
01-08 DEC	UK	Halifax House Price 3Mths/Year	NOV	--	--	-1.8%		
		Halifax House Prices sa m/m	NOV	--	--	1.2%		
3-Dec	CH	China Non-manufacturing PMI	NOV	--	--	57.7	23:00	12:00
05-09 DEC	JN	Tokyo Avg Office Vacancies (%)	NOV	--	--	8.78		
Monday	NZ	Value of All Buildings sa	3Q	--	-3.1%	-6.6%	22:45	08:45
5-Dec	AU	AiG Performance of Service Index	NOV	--	--	48.8	22:30	09:30
		TD Securities Inflation m/m	NOV	--	--	0.1%	23:30	10:30
		TD Securities Inflation y/y	NOV	--	--	2.6%	23:30	10:30
		ANZ Job Advertisements m/m	NOV	--	--	-0.7%	00:30	11:30
		Company Operating Profit q/q	3Q	3.0%	3.5%	6.7%	00:30	11:30
		Inventories	3Q	1.2%	-0.6%	2.5%	00:30	11:30
	JN	Loans & Discounts Corp y/y	OCT	--	--	-0.7%	23:50	10:50
	CH	China HSBC Services PMI	NOV	--	--	54.1	02:30	13:30
	EU	PMI Composite	NOV F	47.2	--	47.2	08:00	19:00
		PMI Services	NOV F	47.8	--	47.8	08:00	19:00
		Sentix Investor Confidence	DEC	-19.7	--	-21.2	08:30	19:30
		Euro-Zone Retail Sales m/m	OCT	0.1%	--	-0.6%	09:00	20:00
		Euro-Zone Retail Sales y/y	OCT	-0.6%	--	-1.4%	09:00	20:00
		ECB Calls for Bids in 7-Day Main Refinancing Tender					13:30	00:30
	GE	PMI Services	NOV F	51.4	--	51.4	07:55	18:55
	UK	Lloyds Employment Confidence	NOV	--	--	-72	23:01	10:01
		Official Reserves (Changes)	NOV	--	--	\$1387M	08:30	19:30
		PMI Services	NOV	50.7	--	51.3	08:30	19:30
	US	Factory Orders	OCT	-0.3%	--	0.3%	14:00	01:00
		ISM Non-Manf. Composite	NOV	53.5	--	52.9	14:00	01:00
		Fed's Evans (voter) Speaks in Muncie, Indiana					16:10	03:10
Tuesday	NZ	Fonterra Global Dairy Auction						
6-Dec	AU	Australia Net Exports of GDP	3Q	-0.6	-0.7	-0.5	00:30	11:30
		Current Account Balance	3Q	-5600M	-6700M	-7419M	00:30	11:30
		RBA CASH TARGET	Dec-11	4.25%	4.25%	4.5%	03:30	14:30
		ABARES Crop Report						
	EU	ECB's Coene Speaks at Bruegel Conference in Brussels					07:00	18:00
		Euro-Zone GDP sa q/q	3Q P	0.2%	--	0.2%	09:00	20:00
		Euro-Zone GDP sa y/y	3Q P	1.4%	--	1.4%	09:00	20:00
		Euro-Zone Govt Expend q/q	3Q P	--	--	-0.1%	09:00	20:00
		Euro-Zone Gross Fix Cap q/q	3Q P	--	--	0.1%	09:00	20:00
		Euro-Zone Household Cons q/q	3Q P	--	--	-0.2%	09:00	20:00
		ECB Announces Allotment in 7-Day Main Refinancing Tender					09:15	20:15
	GE	Factory Orders m/m sa	OCT	1.0%	--	-4.3%	10:00	21:00
		Factory Orders y/y nsa	OCT	1.8%	--	2.4%	10:00	21:00
	UK	New Car Registrations y/y	NOV	--	--	2.6%	23:00	10:00
		BRC Sales Like-For-Like y/y	NOV	--	--	-0.6%	23:01	10:01
		Bank of England Publishes Record of Interim FPC Meeting					08:30	19:30
	US	Fed's Tarullo (voter) Testifies at Senate Banking Committee					14:00	01:00
		IBD/TIPP Economic Optimism	DEC	--	--	40.6	14:00	01:00
	CA	Building Permits m/m	OCT	--	--	-4.9%	12:30	23:30
		Bank of Canada Rate	Dec-11	1.0%	--	1.0%	13:00	00:00
		Ivey Purchasing Managers Index sa	NOV	55	--	54.4	14:00	01:00

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Wednesday 7-Dec	AU	AiG Perf of Construction Index	NOV	--	--	34.7	22:30	09:30
		Gross Domestic Product q/q	3Q	1.0%	0.7%	1.2%	00:30	11:30
Gross Domestic Product y/y		3Q	2.1%	1.8%	1.4%	00:30	11:30	
Foreign Reserves		NOV	--	--	A\$44.9B	05:00	16:00	
		AOFM auctions \$700 million of July 2017 bonds						
	JN	Coincident Index CI	OCT P	90.2	--	89	05:00	16:00
		Leading Index CI	OCT P	91.5	--	91.5	05:00	16:00
	EU	ECB Announces Allotment in 3-Month Dollar Tender					09:00	20:00
	GE	Industrial Prod. y/y (nsa wda)	OCT	3.2%	--	5.4%	10:00	21:00
		Industrial Production m/m sa	OCT	0.3%	--	-2.7%	10:00	21:00
	UK	BRC Shop Price Index y/y	NOV	--	--	2.1%	23:01	10:01
		Industrial Production m/m	OCT	-0.3%	--	0.0%	08:30	19:30
		Industrial Production y/y	OCT	-0.6%	--	-0.7%	08:30	19:30
		Manufacturing Production m/m	OCT	-0.2%	--	0.2%	08:30	19:30
		Manufacturing Production y/y	OCT	1.4%	--	2.0%	08:30	19:30
		NIESR GDP Estimate	NOV	--	--	0.5%	14:00	01:00
	US	ECB Calls for Bids in 3-Month Dollar Tender					07:15	18:15
		MBA Mortgage Applications	Dec-11	--	--	-11.7%	11:00	22:00
		Consumer Credit	OCT	\$7.000B	--	\$7.386B	19:00	06:00
Thursday 8-Dec	NZ	RBNZ Official Cash Rate	Dec-11	2.5%	2.5%	2.5%	20:00	07:00
		Manufacturing Activity	3Q	--	-1.7%	2.1%	21:45	08:45
Manufacturing Activity Volume sa q/q		3Q	--	-0.8%	-0.7%	21:45	08:45	
QV House Prices y/y		NOV	--	1.5%	1.2%	23:00	10:00	
	AU	Employment Change	NOV	10.0K	5.0K	10.1K	00:30	11:30
		Full Time Employment Change	NOV	--	--	20.0K	00:30	11:30
		Part Time Employment Change	NOV	--	--	-9.9K	00:30	11:30
		Participation Rate	NOV	65.6%	65.6%	65.6%	00:30	11:30
		Unemployment Rate	NOV	5.2%	5.3%	5.2%	00:30	11:30
		RBA's Stevens Speaks						
	JN	Eco Watchers Survey: Current	NOV	--	--	45.9	13:00	00:00
		Eco Watchers Survey: Outlook	NOV	--	--	45.9	13:00	00:00
		Adjusted Current Account Total	OCT	¥516.6B	--	¥1186.6B	23:50	10:50
		Bank Lending Banks Adjust y/y	NOV	--	--	-0.016	23:50	10:50
		Bank Lending Ex-Trusts y/y	NOV	--	--	0.1%	23:50	10:50
		Bank Lending incl Trusts y/y	NOV	--	--	--	23:50	10:50
		Current Account Balance y/y	OCT	-0.632	--	--	23:50	10:50
		Current Account Total	OCT	¥507.2B	--	¥1584.8B	23:50	10:50
		Foreign Buying Japan Bonds	Dec-11	--	--	-¥259.1B	23:50	10:50
		Foreign Buying Japan Stocks	Dec-11	--	--	-¥134.8B	23:50	10:50
		Japan Buying Foreign Bonds	Dec-11	--	--	-¥101.4B	23:50	10:50
		Japan Buying Foreign Stocks	Dec-11	--	--	¥13.7B	23:50	10:50
		Machine Orders m/m	OCT	-0.5%	--	-8.2%	23:50	10:50
		Machine Orders y/y	OCT	8.1%	--	9.8%	23:50	10:50
		Trade Balance - BOP Basis	OCT	-¥192.9B	--	¥373.2B	23:50	10:50
		Bankruptcies y/y	NOV	--	--	-14.1%	04:30	15:30
		EU	ECB Announces Interest Rates	Dec-11	1.0%	--	1.3%	11:45
	ECB Monthly News Conference						12:30	23:30
	ECB's Constancio Speaks at Conference in Frankfurt						14:30	01:30
	UK	Bank of England Monetary Policy Committee Decision					11:00	22:00
		BOE ANNOUNCES RATES	Dec-11	0.5%	--	0.5%	11:00	22:00
		BOE Asset Purchase Target	DEC	275B	--	275B	11:00	22:00
	US	Continuing Claims	Nov-11	--	--	--	12:30	23:30
		Initial Jobless Claims	Dec-11	--	--	402K	12:30	23:30
		Bloomberg Consumer Comfort	Dec-11	--	--	-50.2	13:45	00:45
		Wholesale Inventories	OCT	0.4%	--	-0.1%	14:00	01:00
		Flow of Funds Third Quarter					16:00	03:00
	CA	Housing Starts	NOV	200.0K	--	207.6K	12:15	23:15
		New Housing Price Index m/m	OCT	--	--	0.2%	12:30	23:30
		New Housing Price Index y/y	OCT	--	--	2.3%	12:30	23:30
		Bank of Canada Publishes Financial System Review					14:30	01:30

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
09-16 DEC	GE	Wholesale Price Index m/m	NOV	--	--	-1.0%		
		Wholesale price Index y/y	NOV	--	--	5.0%		
Friday	NZ	NZ Card Spending - Retail m/m	NOV	--	-1.0%	--	21:45	08:45
9-Dec		NZ Card Spending - Total m/m	NOV	--	-0.9%	1.8%	21:45	08:45
		ANZ Consumer Confidence Index	DEC	--	--	109	00:00	11:00
		ANZ Consumer Confidence m/m	DEC	--	--	-2.9%	00:00	11:00
	AU	AOFM auctions 700 million of March 2019 bonds						
	JN	BSI Large All Industry q/q	4Q	--	--	6.6	23:50	10:50
		BSI Large Manufacturing q/q	4Q	--	--	10.3	23:50	10:50
		GDP Annualized	3Q F	--	--	6.0%	23:50	10:50
		GDP Deflator y/y	3Q F	--	--	-1.9%	23:50	10:50
		Gross Domestic Product q/q	3Q F	--	--	1.5%	23:50	10:50
		Japan Money Stock M2 y/y	NOV	2.7%	--	2.7%	23:50	10:50
		Japan Money Stock M3 y/y	NOV	2.2%	--	2.3%	23:50	10:50
		Nominal GDP q/q	3Q F	--	--	1.4%	23:50	10:50
	CH	Fixed Assets Inv Excl. Rural YTD y/y	NOV	24.8%	--	24.9%	13:00	00:00
		Industrial Production y/y	NOV	12.8%	13.0%	13.2%	13:00	00:00
		Industrial Production YTD y/y	NOV	14.0%	--	14.1%	13:00	00:00
		Retail Sales y/y	NOV	16.8%	17.0%	17.2%	13:00	00:00
		Retail Sales YTD y/y	NOV	17.0%	--	17.0%	13:00	00:00
		Consumer Price Index y/y	NOV	4.5%	4.5%	5.5%	02:00	13:00
		Producer Price Index y/y	NOV	3.2%	3.0%	5.0%	02:00	13:00
	GE	Consumer Price Index m/m	NOV F	0.0%	--	0.0%	06:00	17:00
		Consumer Price Index y/y	NOV F	2.4%	--	2.4%	06:00	17:00
		CPI - EU Harmonised m/m	NOV F	0.0%	--	0.0%	06:00	17:00
		CPI - EU Harmonised y/y	NOV F	2.8%	--	2.8%	06:00	17:00
		Current Account (EURO)	OCT	14.0B	--	15.7B	06:00	17:00
		Exports sa m/m	OCT	-1.0%	--	1.0%	06:00	17:00
		Imports sa m/m	OCT	0.1%	--	-0.5%	06:00	17:00
		Labor Costs Seas. Adj. q/q	3Q	--	--	1.4%	06:00	17:00
		Labor Costs Workday Adj y/y	3Q	--	--	4.4%	06:00	17:00
		Trade Balance	OCT	15.0B	--	17.4B	06:00	17:00
	UK	PPI Input nsa m/m	NOV	--	--	0.8%	08:30	19:30
		PPI Input nsa y/y	NOV	--	--	0.8%	08:30	19:30
		PPI Output Core nsa m/m	NOV	--	--	0.3%	08:30	19:30
		PPI Output Core nsa y/y	NOV	--	--	0.3%	08:30	19:30
		PPI Output n.sa m/m	NOV	0.1%	--	0.0%	08:30	19:30
		PPI Output n.sa y/y	NOV	5.4%	--	5.7%	08:30	19:30
		Total Trade Balance (GBP/Mln)	OCT	--	--	-£3940	08:30	19:30
		Trade Balance Non EU GBP/Mn	OCT	--	--	-£5715	08:30	19:30
		Visible Trade Balance GBP/Mn	OCT	-£9600	--	-£9814	08:30	19:30
	US	Trade Balance	OCT	-\$43.0B	--	-\$43.1B	12:30	23:30
		U. of Michigan Confidence	DEC P	65.5	--	64.1	13:55	00:55
	CA	Int'l Merchandise Trade	OCT	0.80B	--	1.25B	12:30	23:30
		Labor Productivity q/q	3Q	--	--	-0.9%	12:30	23:30
	NE	ECB's Knot Speaks in Parliament in The Hague						
							08:00	19:00

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
5 DECEMBER AU: Inventories (Q3), Company Profits (Q3), ANZ Job Ads (Nov) EU: PMI Services (Nov F), Retail Sales (Oct), Sentix Investor Confidence (Dec) GE: PMI Services (Nov F) UK: PMI Services US: ISM Non-Manuf. (Nov), Factory Orders (Oct), Fed's Evans Speaks	6 DECEMBER AU: Current Account (Q3), ABARES Crop Report (Q4), RBA Rates Decision EU: GDP (Q3 P) GE: Factory Orders (Oct) CA: Building Permits (Oct), Ivey PMI (Nov), BoC Rates Decision	7 DECEMBER AU: GDP (Q3) GE: Ind. Production (Oct) UK: Ind. Production (Oct), Manuf. Production (Oct) US: Consumer Credit (Oct)	8 DECEMBER NZ: RBNZ Rates Decision , Manufacturing Activity (Q3) AU: Employment (Nov), RBA's Stevens Speaks JP: Current Account (Oct), Machine Orders (Oct) EU: ECB Rates Decision UK: BoE Rates Decision CA: Housing Starts (Nov), House Prices (Oct), BoC Publishes Financial System Review	9 DECEMBER NZ: ANZ Consumer Confidence (Dec) JP: GDP (Q3 F) CH: Industrial Production (Nov), Retail Sales (Nov), CPI (Nov) GE: Trade (Oct), Current Account (Oct), CPI (Nov F) UK: PPI (Nov), Trade (Oct) US: Trade (Oct), Uni Michigan Confidence (Dec P) CA: Merch. Trade (Oct) EU Leaders Summit
12 DECEMBER AU: Housing Finance (Oct), Trade (Oct)	13 DECEMBER NZ: Food Prices (Nov) AU: Dwelling Starts (Q3), NAB Business Survey (Nov) EU: ZEW (Dec) UK: CPI (Nov) US: NFIB Small Business Optimism (Nov), Retail Sales (Nov), Business Inventories (Oct), FOMC Rates Decision	14 DECEMBER AU: Westpac Consumer Confidence (Dec), RBA's Battellino Speaks JP: Industrial Production (Oct F) EU: CPI (Nov), Industrial Production (Oct) UK: Jobless Claims (Nov)	15 DECEMBER NZ: Business NZ PMI (Nov) AU: RBA Bulletin JP: Tankan Manufacturing Index (Q4) EU: Employment (Q3) UK: Retail Sales (Nov) US: PPI (Nov), Current Account (Q3), Empire Fed Manufacturing Index (Dec), Philly Fed Manufacturing Index (Dec), Industrial Production (Nov)	16 DECEMBER EU: Trade (Oct), ECB's Draghi, King, Bini Smaghi Speak US: CPI (Nov)
19 DECEMBER NZ: Performance of Services Index (Nov), NBNZ Business Confidence (Dec) EU: CA (Oct), Construction Output (Oct) US: NAHB Housing Market Index (Dec), Fed's Lacker Speaks	20 DECEMBER AU: RBA Minutes JP: Leading Index (Oct) GE: PPI (Nov), IFO (Dec), US: Housing Starts (Nov), Building Permits (Nov) CA: CPI (Nov)	21 DECEMBER NZ: CA (Q3), Net Migration (Nov) JP: BoJ Rates Decision , Merchandise Trade (Nov) EU: Consumer Confidence (Dec A) GE: GfK Consumer Confidence (Dec) UK: GfK Consumer Confidence (Dec), BoE minutes US: Existing Home Sales (Nov) CA: Retail Sales (Oct)	22 DECEMBER NZ: GDP (Q3) AU: RBA Bulletin UK: GDP (Q3 F), CA (Q3) US: GDP (Q3 T), Personal Consumption (Q3 T), Uni of Michigan Confidence (Dec F)	23 DECEMBER JP: Emperor's birthday holiday UK: Index of Services (Oct) US: Durable Goods Orders (Nov), Capital Goods Orders (Nov), Personal Income & Spending (Nov), Core PCE (Nov), New Home Sales (Nov) CA: GDP (Oct)
26 DECEMBER AU, NZ, UK, GE, IT, US, CA: Christmas holiday	27 DECEMBER NZ, AU, CA: Boxing Day holiday JP: Vehicle Production (Nov), Construction Orders (Nov), Housing Starts (Nov) US: Case Shiller Home Prices (Oct), Consumer Confidence (Dec), Richmond Fed Manufacturing Index (Dec), Dallas Fed Manufacturing Index (Dec)	28 DECEMBER JP: Jobless Rate (Nov), CPI (Nov), Retail Trade (Nov), Industrial Production (Nov P)	29 DECEMBER GE: CPI (Dec P) US: Chicago PMI (Dec), Pending Home Sales (Nov), Kansas City Fed Manufacturing Activity Index (Dec)	30 DECEMBER AU: RP-Rismark House Prices (Nov), Private Credit (Nov) 1 January CH: PMI Manufacturing (Dec)
2 JANUARY NZ, AU, CH, JP, UK, US, CA: New Years Day Holiday	3 JANUARY UK: PMI Manufacturing (Dec) US: ISM Manufacturing (Dec), FOMC Minutes , Construction Spending (Nov)	4 JANUARY US: ADP Employment (Dec), Factory Orders (Nov)	5 JANUARY UK: PMI Services (Dec) US: Chain Store Sales (Dec)	6 JANUARY GE: Factory Orders (Nov) US: Non-farm Payrolls (Dec) CA: Employment (Dec)

CENTRAL BANK RELEASES FOR 2011-12

SEPTEMBER 2011	OCTOBER 2011	NOVEMBER 2011	DECEMBER 2011
6th – RBA 7th – BoJ 7th – BoC 8th – ECB 8th – BoE 12th – BoJ Minutes 15th – RBNZ 28th – RBNZ MP Statement 15th – SNB 20th – RBA Minutes 20th – FOMC 21st – BoE Minutes	4th – RBA 6th – ECB 6th – BoE 7th – BoJ 11th – FOMC Minutes 13th – BoJ Minutes 18th – RBA Minutes 19th – BoE Minutes 25th – BoC 27th – RBNZ 27th – BoJ	1st – RBA 1st – BoJ Minutes 2nd – FOMC 3rd – ECB 10th – BoE 16th – BoJ 18th – RBA Minutes 21st – BoJ Minutes 22nd – FOMC Minutes 23rd – BoE Minutes	6th – RBA 6th – BoC 8th – RBNZ 8th – RBNZ MP Statement 8th – ECB 8th – BoE 13th – FOMC 15th – SNB 20th – RBA Minutes 21st – BoJ 21st – BoE Minutes 27th – BoJ Minutes
JANUARY 2012	FEBRUARY 2012	MARCH 2012	APRIL 2012
4th – FOMC Minutes 12th – BoE 12th – ECB 18th – BoC 26th – FOMC 25th – BoE Minutes 25th – BoJ Monthly Report 25th – FOMC 26th – RBNZ 27th – BoJ Minutes	7th – RBA 8th – RBNZ 8th – RBNZ MP statement 9th – BoE 9th – ECB 16th – RBA Minutes 15th – BoE Inflation Report 15th – BoJ Monthly Report 13th – BoJ 17th – BoJ Minutes 21st – RBA minutes 22nd – BoE Minutes	6th – RBA 9th – BoC 8th – ECB 8th – BoE 12th – BoJ 13th – FOMC 14th – BoJ Monthly Report 16th – BoJ Minutes 21st – BoE Minutes 20th – RBA minutes	3rd – RBA 4th – ECB 5th – BoE 9th – BoJ 11th – BoJ Monthly Report 13th – BoJ Minutes 17th – BoC 17th – RBA Minutes 18th – BoE Minutes 25th – FOMC 26th – RBNZ 27th – BoJ
MAY 2012	JUNE 2012	JULY 2012	AUGUST 2012
1st – RBA 3rd – ECB 7th – BoJ Minutes 10th – BoE 15th – RBA Minutes 16th – BoE Inflation Report 22nd – BoJ 23rd – BoE Minutes 24th – BoJ Monthly Report 28th – BoJ Minutes	5th – RBA 5th – BoC 14th – RBNZ 14th – RBNZ MP Statement 7th – BoE 6th – ECB 14th – BoJ 18th – BoJ Monthly Report 19th – RBA Minutes 20th – BoE Minutes 20th – BoJ Minutes 20th – FOMC	3rd – RBA 5th – ECB 5th – BoE 17th – RBA Minutes 17th – BoC 18th – BoE Minutes 26th – RBNZ 31st – FOMC	1st – FOMC 2nd – ECB 2nd – BoE 7th – RBA 8th – BoE Inflation Report 21st – RBA Minutes 15th – BoE Minutes

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

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

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

Source: Central bank websites.

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS	2010	2011F	2012F	2013F
Economic activity (annual % change)				
Private final demand	2.2	4.9	6.0	6.0
Household consumption	2.8	3.0	2.1	2.6
Dwelling investment	4.2	2.4	-1.1	7.6
Business investment	0.0	14.0	21.2	14.8
Public demand	9.1	1.5	1.6	1.7
Domestic final demand	3.8	4.1	5.0	5.0
Inventories (contribution to GDP)	0.4	0.4	-0.5	0.0
Gross National Expenditure (GNE)	4.2	4.5	4.4	5.0
Exports	5.7	-1.9	10.5	10.3
Imports	13.7	12.5	14.9	13.4
Net Exports (contribution to GDP)	-1.6	-3.4	-1.5	-1.4
Gross Domestic Product (GDP)	2.7	1.5	3.6	3.4
Prices and wages (annual % change)				
Inflation: Headline CPI	2.8	3.4	2.4	3.3
Underlying (RBA core)	2.8	2.5	2.8	3.4
Wages:	3.3	3.7	3.5	4.1
Labour market				
Employment (annual % change)	2.7	1.7	1.4	2.3
Unemployment rate (annual average %)	5.2	5.1	5.4	5.0
External sector				
Terms of trade (annual % change)	16.2	15.1	-4.9	-5.9
Current account balance: A\$bn	-36.0	-33.4	-65.0	-99.4
% of GDP	-2.7	-2.3	-4.3	-6.3

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

AUSTRALIAN INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBA cash rate	4.50	4.25	4.25	4.25	4.25	4.25
90 day bill	4.57	4.45	4.45	4.45	4.45	4.45
3 year bond	3.26	3.10	3.10	3.20	3.30	3.60
10 year bond	4.04	3.90	3.90	3.90	4.00	4.20
3s10s yield curve	0.79	0.80	0.80	0.70	0.70	0.60
3 year swap	3.97	3.70	3.70	3.70	3.75	4.05
10 year swap	4.83	4.60	4.60	4.50	4.55	4.75

INTERNATIONAL INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBNZ cash rate	2.50	2.50	2.50	2.50	2.50	2.75
NZ 90 day bill	2.73	2.72	2.73	2.75	2.75	3.17
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.25
US 2 year note	0.26	0.20	0.20	0.20	0.20	0.40
US 10 year note	2.09	1.90	1.90	1.90	2.00	2.20
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.25	1.25	1.00	1.00	1.00	1.00
UK repo rate	0.50	0.50	0.50	0.50	0.50	0.50

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
Australian exchange rates						
A\$/US\$	1.02	0.97	1.00	1.05	1.10	1.10
NZ\$/US\$	0.78	0.77	0.80	0.83	0.86	0.89
A\$/¥	79.6	72.8	75.0	75.6	79.2	79.2
A\$/€	0.76	0.72	0.73	0.75	0.77	0.76
A\$/£	0.65	0.63	0.64	0.66	0.68	0.67
A\$/NZ\$	1.31	1.26	1.25	1.27	1.28	1.24
A\$/C\$	1.04	0.93	0.98	1.04	1.11	1.13
A\$/CHF	0.94	0.89	0.94	1.01	1.08	1.10
A\$/CNY	6.50	6.09	6.19	6.42	6.63	6.55
A\$ Trade weighted index	75.9	70.2	71.7	74.0	76.8	76.0
International cross rates						
US\$/¥	77.9	75.0	75.0	72.0	72.0	72.0
€/US\$	1.35	1.35	1.37	1.40	1.42	1.45
€/¥	105	101	103	101	102	104
£/US\$	1.57	1.55	1.57	1.59	1.61	1.63
€/£	0.86	0.87	0.87	0.88	0.88	0.89
US\$/C\$	1.01	0.96	0.98	0.99	1.01	1.03
US\$/CHF	0.92	0.92	0.94	0.96	0.98	1.00
US\$ index	78.3	78.6	77.0	75.6	75.1	74.3
Asia exchange rates						
US\$/CNY	6.36	6.28	6.19	6.11	6.03	5.95
US\$/HKD	7.77	7.80	7.80	7.80	7.80	7.80
US\$/IDR	9090	8925	8747	8572	8400	8232
US\$/INR	51.5	49.4	48.4	47.4	46.5	45.6
US\$/KRW	1128	1195	1171	1148	1125	1100
US\$/MYR	3.13	3.19	3.16	3.13	3.10	3.06
US\$/PHP	43.3	43.9	43.2	42.6	42.0	41.3
US\$/SGD	1.28	1.31	1.30	1.28	1.27	1.26
US\$/THB	30.85	31.20	31.00	30.90	30.70	30.60
US\$/TWD	30.16	30.60	30.40	30.30	30.10	30.00
US\$/VND	21008	21000	21400	21400	21400	21400
Pacific exchange rates						
PGK/US\$	0.465	0.378	0.372	0.366	0.366	0.366
FJD/US\$	0.554	0.538	0.530	0.522	0.522	0.522

IMPORTANT NOTICE

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