AUSTRALIAN ECONOMICS
AUSTRALIAN ECONOMICS WEEKLY

21 OCTOBER 2011

INSIDE

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RATE CUT LOOKING INCREASINGLY LIKELY FOR AUSTRALIA

- In a quiet week for economic data in Australia, the Minutes of the RBA Board's October meeting were a major focus. **The minutes reaffirmed the central bank's readiness to ease, should conditions warrant.** The RBA is now less concerned about local inflation pressures than it was just a few months ago (partly because of historical revisions to the data), and more concerned about the extreme volatility in global financial markets emanating from Europe. Importantly, the Board sees local wages pressure outside of the resources sector as now easing, which gives greater scope for monetary policy to "*provide some support to demand, should that prove necessary*".
- The RBA has said it will review developments in international financial markets and further data on economic activity and prices in deciding appropriate policy settings. The Board signalled that confirmation of the improved inflation outlook will be a key factor influencing whether it has scope to cut rates. **Q3 CPI, to be released next Wednesday 26 October, therefore assumes very high importance.** ANZ forecasts underlying inflation to print at a modest 0.5% m/m. Such a result would be a slight step down from Q2's 0.6% result, and indeed would be the lowest quarterly underlying inflation print since Q3 2010. A 0.5%, or even 0.6%, print for underlying inflation next week would also make it increasingly likely that underlying inflation will significantly undershoot 3.0% by the end of 2011. Indeed, if underlying inflation averages 0.6% in Q3 and Q4, annual inflation will be just 2.7% by the end of 2011 (see our *In Focus* article for the key points and our *In Focus* article last week for more detail). Such a significant change in the short-term inflation outlook, with the RBA previously forecasting underlying inflation of 3¼% by the end of 2011, in our view suggests there is minimal cost to a small 'insurance' rate cut of 25 bps on Melbourne Cup Day (the first Tuesday in November). As our *In Focus* article outlines, **a worsening in financial conditions since the last Board meeting adds to the case for an 'insurance' easing**.

THE WEEK AHEAD

- **In Australia,** the focus will be on prices data ,with both CPI and PPI data to be released. ANZ forecasts core CPI rose by 0.5% q/q in Q3 (market: 0.6% q/q). A speech by the RBA's Battellino may also shape market expectations for the path of interest rates.
- **In New Zealand**, after a public holiday on Monday, Q3 CPI will be released on Tuesday. Again, inflation data will likely impact on the RBNZ, which meet later in the week.
- **In Japan**, the BoJ rates decision, industrial production and inflation data are all likely to gain market attention.
- **In Europe**, the EU leaders meeting that was due to be held on Sunday has been delayed until Wednesday. Market patience for a European solution is growing thin with hopes resting on a credible plan by the end of the G20 meeting on 3-4 November.
- **In the US**, the first reading of US Q3 GDP will be released, with the market expecting growth of 2.3% (annualised). Personal consumption is expected to have grown at 1.9% (annualised). Durable and capital goods orders will also be released, along with speeches by Fed members Duke, Dudley and Fisher.
- **In Canada**, the BoC will meet, with the market widely expecting no change to the policy rate.

IN FOCUS

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Q3 CPI: AN ESPECIALLY SIGNIFICANT NUMBER

Next week's Australian inflation data or Q3, due Wednesday 26th of October at 11:30am, has assumed an even higher than usual significance. The minutes from the RBA's October meeting, released earlier this week, implied that **a modest easing in interest rates will be contingent on a good (ie. low) inflation result for Q3.** This follows the recent downward revisions to the CPI by the ABS, which indicated that underlying inflation in Australia has been tracking notably lower over 2011 than first thought. As the RBA noted in its minutes, as a result of the new ABS methodology, "*underlying inflation over the year to the June quarter would have been 2¼ to 2½ per cent, rather than 2½ to 2¾ per cent.*"

We expect a 'good' number for underlying inflation on Wednesday would be 0.5 to 0.6% q/q in Q3. Our own forecast, detailed below, is for underlying inflation of 0.5% q/q. Such a result would take the yearly rate of underlying inflation to 2.6%, which is closer to the middle than the top of the RBA's 2 to 3% target band. This lower starting point raises further serious downside risks to the RBA's August forecasts for underlying inflation (ex-carbon tax) to breach 3% by the end of 2011, and stay at 3.0% for all of 2012.

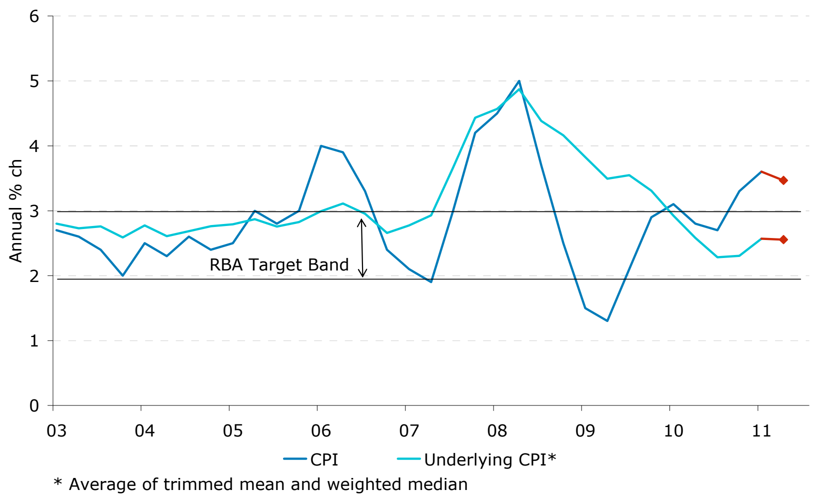
An underlying inflation result of 0.7%q/q or above, in contrast, would be problematic. Such a result would cause the yearly rate of underlying inflation to rise to 2¾%, an acceleration from the 2.6% y/y result in Q2 and 2.3% y/y result in Q1. Whilst not entirely ruling out a rate cut, it would mean such a decision would need to depend relatively more on the downside risks that global events and a soft non-mining economy will dampen Australia's short to medium-term outlook sufficiently to cap inflation from rising measurably further from here. Such a view may be difficult for the RBA to come to as early as November, given that:

(a) Australia's strong mining investment pipeline, the main driver of growth in 2012-13, remains largely intact and

(b) the local data in the last few weeks have been stabilising, particularly the unemployment rate and business and consumer confidence and

(c) China continues to hold up okay, with this week's 9.1% Q3 growth suggesting a 'soft landing' is still the most likely scenario.

FIGURE 1: ANNUAL INFLATION



Sources: ANZ, ABS

But perhaps the RBA minutes contained a strong hint that the central bank's inflation view is notably softening? One of the most significant parts of this week's minutes was the comment that "***outside the resources sector, there were few reports of labour shortages and liaison suggested that the upward pressure on wages was tending to ease***." This is a significant change in tone from the RBA Board, with the Minutes of the August and even September meetings focussing on the dangers to inflation from nominal wages growth in the face of poor productivity performances.

A MISREADING (OR OUT OF DATE READING) OF FINANCIAL CONDITIONS?

As well as the importance of the data flow, the minutes from the October Board meeting noted that prospects for a near-term rate cut would be highly dependent on developments in financial markets. By this, we believe the Board is referring to **local financial conditions**.

At the time of the October Board meeting, the Board judged that "*financial conditions had already eased somewhat*". We would argue that any local easing has reversed since that meeting, or has a strong prospect of reversing soon. In particular, the A$, which at US$0.93c was providing welcome relief to exporters, has now turned up sharply, to be back above US$1.02.

But perhaps the biggest concern remains the threat from higher wholesale funding costs. The RBA noted in its minutes that lending rates for businesses and householders had recently decreased, because of falling funding costs in financial markets. But this earlier source of downward pressure no longer exists. **Events in Europe are now raising the cost of funding across the global financial system, and particularly for banks.** Australian banks, whilst less reliant on global capital markets than in 2008, are not immune from these trends (Figure 2). A sustained rise in bank funding costs over the next three to six months will ultimately raise funding costs for all businesses across the Australian economy. If persistent, offsetting such a potential unexpected tightening of monetary policy provides another reason, and perhaps the key reason, for the RBA to deliver some 'insurance' rate cuts in the months ahead.

FIGURE 2: MAJOR AUSTRALIAN BANKS' CDS

Sources: Bloomberg and ANZ

Interestingly, it is not clear whether the RBA's view on funding pressures in the Australian economy are evolving in line with these developments. In a speech on bank funding this week, RBA Deputy Governor Debelle instead emphasised that Australia's bank funding conditions are currently in far better shape than conditions for their European counterparts, or relative to the Australian experience during the GFC.

THE EUROPEAN ROADMAP

And, or course, there is Europe. Will the RBA still be prepared to ease at its meeting on 2nd November if the Eurozone leaders deliver all that is promised before their 3-4 November G20 meeting and markets stabilise?

Markets have made it clear that Eurozone leaders will have to deliver a comprehensive plan to stabilise and contain banking and sovereign debt before the G20 conference in Cannes. Whilst we closely watch this weekend's leaders summit, the chance that a strong, coherent and credible policy solution will be agreed by all leaders by Monday (or even by next Wednesday's newly scheduled second meeting) seems extremely hopeful.

As our ANZ colleagues David Croy, Kerry Duce, Warren Hogan, Tom Kenny and Tim Riddell, outlined in a note earlier this week (See '*Navigating Europe: A ready reckoner*'), there are four key factors that are essential to an effective, credible and comprehensive medium-term sequenced plan:

1. EU Bank recapitalisation
2. Ring Fencing – prevent contagion impacting on the 'too big to fail' sovereigns (e.g. Italy and Spain)
3. A meaningful restructuring and rescheduling of peripheral sovereign debt to assist long-term economic recovery
4. Treaty reform (particularly relating to improving fiscal discipline).

Crucially, a credible plan needs to be accompanied by macroeconomic policies that support economic growth, even as banks de-leverage. Specifically, the current set of very tough fiscal austerity measures must be relaxed in the short term (to support and promote economic growth) and replaced with credible medium-term fiscal consolidation and ECB rate cuts.

AUSTRALIAN Q3 CPI PREVIEW: KEY POINTS REDUX

We are forecasting Q3 headline inflation to ease notably to 0.6% q/q in Q3. This will bring the yearly rate of headline inflation down slightly to 3.5%. This sharp easing in headline inflation reflects some notable moves across a range of categories (see below) and so is expected to put downward pressure on the underlying rate of inflation. ANZ is forecasting underlying inflation (the average of the trimmed mean and weighted median) to rise by 0.5% q/q. This would keep the yearly rate of inflation unchanged at 2.6% y/y (see Figure 3).

FIGURE 3: KEY Q3 INFLATION FORECASTS

	q/q % change		y/y % change
	Sep-11	Jun-11	Sep-11
Underlying measures			
Trimmed Mean	0.5	0.7	2.6
Weighted Median	0.5	0.5	2.5
Headline CPI (All Groups)	**0.6**	**0.9**	**3.5**
CPI ex volatiles*	0.9	0.5	2.4

* Fuel and fruit & vegetables

Sources: ANZ, ABS

The expected sharp easing in headline inflation in Q3 reflects some large price drops in fruit and vegetables (as flood-related shortages ease), lower petrol prices, a

IN FOCUS

seasonal fall in the price of pharmaceuticals and ongoing pass-through across a range of retail prices from the higher AUD over Q2 and Q1. These deflationary forces are expected to more than offset a sharp (double-digit) seasonal rise in electricity prices in Q3, as well as upward pressure on the price of rents, domestic holiday travel and accommodation (again seasonally related) and jewellery.

The expected moderation in headline inflation is consistent with a sharp fall across a range of surveyed measures of prices in recent months. The TD/MI inflation gauge eased to 0.4% 3mma in Q3 from 1.2% in Q2 and the NAB business survey measure of retail prices decelerated to -0.9% 3mma in September, from 1.0% in June. We also note that the recent Wesfarmers' results reported food and alcohol deflation of 1.8% in Q3.

Unfortunately, such a significant data point as next week's CPI is clouded in an unusual amount of uncertainty. The confidence of any forecast for Q3 inflation is lower than usual, with the ABS adopting both the new 16th series category weights for the CPI, and the new, broader seasonal adjustment process for the calculation of the trimmed mean and weighted median (ie. underlying inflation) measures. This means there is a greater than usual amount of 'unknowns' about the Q3 print (ie. what will be the new seasonal factors for the changed and new categories?). This implies the possibility of a greater than usual chance of an 'out of consensus' result for underlying inflation on Wednesday.

DATA WRAP

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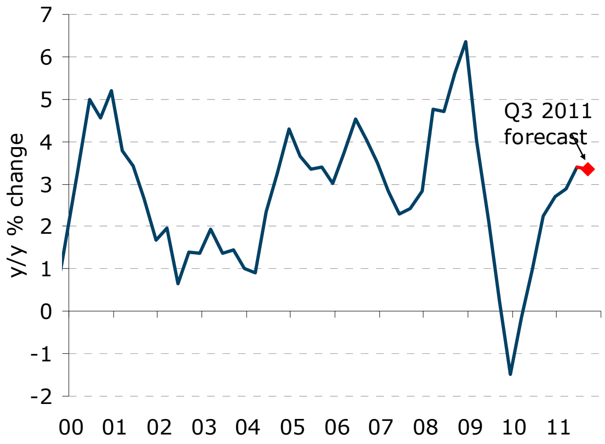
DATA WRAP

- **Trade price** data indicate that Australia's terms of trade likely rose a further 2% in Q3 2011. Export prices rose 6.0% q/q, while import prices were flat. A further rise in coal prices (+9.3% q/q) was the major driver of the higher export prices. Meanwhile, fuel prices eased (-2.5% q/q) and consumption goods import prices were flat (0.0%) in Q3.
- The **NAB business confidence index (quarterly)** fell to -4 in Q3 from 5 in Q2. The headline quarterly index was in line with the monthly surveys already released for Q3. Hiring intentions slowed in Q3 and forward orders also slowed. More positively, the expectations indicators were more upbeat than the current conditions indicators.
- **DEWR's Internet Skilled Vacancies** fell 1.3% in trend terms in September. The decline was widespread across occupations and states. The weakest trend rate was in New South Wales and in occupations linked to housing construction and finance. Professionals (-2.5% m/m) and labourers (-2.9% m/m) experienced the largest trend declines in vacancies in September.
- **New motor vehicle sales** fell 1.5% in September after rising 3.4% in August. New motor vehicle sales numbers were 1.3% higher than a year ago. Motor vehicle sales in September fell in all states except South Australia. However, in the larger states of New South Wales, Victoria and Queensland sales are still above July levels.
- The **Westpac Leading Index** rose 0.8% in August, which is the strongest monthly rise since March last year. A rebound in dwelling approvals, an increase in overtime worked and a rise in real corporate gross operating surpluses were the major drivers of the improvement.

DATA PREVIEW

FINAL STAGE PRODUCER PRICE INDEX



24 OCTOBER: PRODUCER PRICE INDEX (Q3)

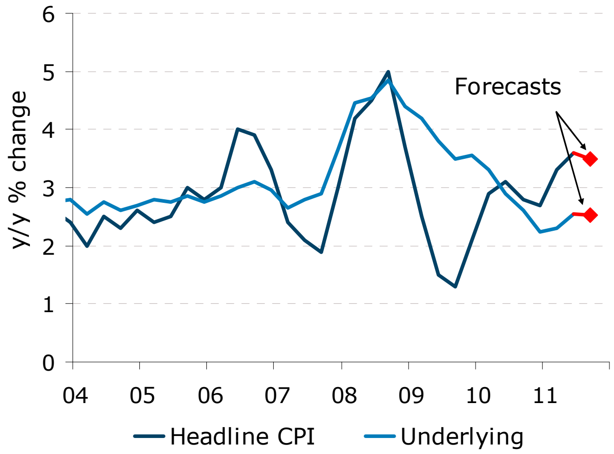
ANZ: +1.0% q/q, 3.1% y/y

Market: 0.8% q/q, 2.9% y/y

Last: +0.8% q/q, 3.4% y/y

Final stage input prices are expected to have been driven by higher domestic input prices, while imported prices are expected to be broadly flat. The latter will have been weighed down by a fall in fuel prices, although an average fall in the A$TWI of 3.1% in Q3 will have worked in the other direction. **(CM)**

CONSUMER PRICE INFLATION



26 OCTOBER: CONSUMER PRICE INDEX (Q3)

Headline CPI

ANZ: +0.6% q/q, +3.5% y/y

Market: +0.6% q/q, +3.5% y/y

Last: +0.9% q/q, +3.6% y/y

Trimmed mean

ANZ: +0.5% q/q, +2.5% y/y

Market: +0.6% q/q, +2.7% y/y

Last: +0.7% q/q, +2.5% y/y

Weighted Median

ANZ: +0.5% q/q, +2.6% y/y

Market: +0.6% q/q, +2.7% y/y

Last: +0.5% q/q, +2.5% y/y

We expect Q3 headline inflation to have eased sharply, reflecting some large price drops in fruit and vegetables (as flood-related shortages ease), lower petrol prices, a seasonal fall in the price of pharmaceuticals and ongoing pass-through across a range of retail prices from the higher AUD over Q2 and Q1. These deflationary forces are expected to more than offset a sharp (double-digit) seasonal rise in electricity prices in Q3, as well as upward pressure on the price of rents, domestic holiday travel and accommodation, and jewellery.

This expected moderation in headline inflation is consistent with a sharp fall across a range of surveyed measures of prices in recent months. The quarterly rate of change in the TD/MI inflation gauge eased to 0.4% in Q3 from 1.2% in Q2. The NAB business survey measure of retail prices has also dropped sharply, with the 3mma annualised rate falling to -0.9% in the month of September, from 1.0% in June.

Forecasting core inflation is subject to a greater than usual amount of uncertainty in Q3, given both the introduction of the new 16th series weighting pattern and the ABS' new, broader seasonal adjustment process for calculating the trimmed mean and weighted median measures of inflation.

For more detail, please see last week's *In Focus* article. **(CM)**

DATA & EVENT CALENDAR

WEEK STARTING 24 OCTOBER

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
22-Oct	US	**Fed's Duke Speaks in Virginia Beach, Virginia**					**14:00**	**01:00**
24-25 Oct	CA	**Fisher, Carstens Speak at Cities Forum in Toronto**					- -	- -
24-31 Oct	UK	BoE Housing Equity Withdrawal	2Q	-£6.0B	- -	-£5.8B	- -	- -
Monday	AU	Producer Price Index q/q	3Q	0.8%	1.0%	0.8%	00:30	11:30
24-Oct		Producer Price Index y/y	3Q	2.9%	3.1%	3.4%	00:30	11:30
	JN	Adjusted Merchndise Trade Balance	SEP	-¥147.8B	- -	-¥294.4B	23:50	10:50
		Merchandise Trade Balance Total	SEP	¥200.4B	- -	-¥777.2B	23:50	10:50
		Merchandise Trade Exports y/y	SEP	1.1	- -	2.8	23:50	10:50
		Merchandise Trade Imports y/y	SEP	12.6	- -	19.2	23:50	10:50
		Supermarket Sales y/y	SEP	- -	- -	-2.2%	05:00	16:00
	CH	HSBC Flash China Manufacturing PMI	OCT	- -	- -	49.9	02:30	13:30
	EU	PMI Composite	OCT A	- -	- -	49.1	08:00	19:00
		PMI Manufacturing	OCT A	48.2	- -	48.5	08:00	19:00
		PMI Services	OCT A	48.5	- -	48.8	08:00	19:00
		Industrial New Orders nsa y/y	AUG	- -	- -	8.4%	09:00	20:00
		Industrial New Orders sa m/m	AUG	-0.1%	- -	-1.7%	09:00	20:00
		ECB Calls for Bids in 6-Day Main Refinancing Tender					13:30	00:30
		EU's Juncker Speaks in Zurich					**22:00**	**09:00**
	GE	PMI Manufacturing	OCT A	50	- -	50.3	07:30	18:30
		PMI Services	OCT A	50	- -	49.7	07:30	18:30
	US	Chicago Fed Nat Activity Index	SEP	- -	- -	-0.43	12:30	23:30
		Fed's Dudley (voter) Speaks on the economy in the Bronx					**12:45**	**23:45**
		Fed's Fisher (voter) Speaks on the economy in Toronto					**13:00**	**00:00**
		Fed's Dudley (voter) to Speak to Bronx Chamber of Commerce					**17:00**	**04:00**
Tuesday	NZ	CPI q/q	3Q	0.7%	0.8%	1.0%	21:45	08:45
25-Oct		CPI y/y	3Q	4.9%	5.0%	5.3%	21:45	08:45
	AU	Conference Board Leading Index	AUG	- -	- -	-0.1%	23:00	10:00
		RBA's Battellino Speaks at Investment Conference in Sydney					**23:00**	**10:00**
	JN	Small Business Confidence	OCT	- -	- -	47.2	05:00	16:00
	EU	ECB Announces Allotment in 6-Day Main Refinancing Tender					09:15	20:15
		ECB Calls for Bids in 12-Month Refinancing Tender					13:30	00:30
		ECB Calls for Bids in 3-Month Tender					13:30	00:30
	GE	GfK Consumer Confidence Survey	NOV	5.1	- -	5.2	06:00	17:00
	UK	BBA Loans for House Purchase	SEP	- -	- -	35226	08:30	19:30
		Current Account (BP)	2Q	-10.8B	- -	-9.4B	08:30	19:30
	US	S&P/Case Shiller Home Price Ind	AUG	- -	- -	142.77	13:00	00:00
		S&P/CS 20 City m/m sa	AUG	0.2%	- -	0.1%	13:00	00:00
		S&P/CS Composite-20 y/y	AUG	-3.7%	- -	-4.1%	13:00	00:00
		Consumer Confidence	OCT	46	- -	45.4	14:00	01:00
		House Price Index m/m	AUG	0.0%	- -	0.8%	14:00	01:00
		Richmond Fed Manufacturing Index	OCT	- -	- -	-6	14:00	01:00
		US Treasury Auction 2-Year Note						
	CA	Retail Sales Less Autos m/m	AUG	0.4%	- -	0.0%	12:30	23:30
		Retail Sales m/m	AUG	0.4%	- -	-0.6%	12:30	23:30
		BoC Rate announcement	**OCT**	**1.0%**	**- -**	**1.0%**	**13:00**	**00:00**
26 Oct - 2 Nov	GE	Retail Sales m/m	SEP	1.0%	- -	-2.7%	- -	- -
		Retail Sales y/y	SEP	- -	- -	2.2%	- -	- -

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Wednesday	NZ	NBNZ Activity Outlook	OCT	- -	- -	35.4	00:00	11:00
26-Oct		NBNZ Business Confidence	OCT	- -	- -	30.3	00:00	11:00
	AU	CPI q/q	3Q	0.6%	0.5%	0.9%	00:30	11:30
		CPI y/y	3Q	3.5%	3.5%	3.6%	00:30	11:30
		CPI RBA Trimmed Mean q/q	3Q	0.6%	0.5%	0.7%	00:30	11:30
		CPI RBA Trimmed Mean y/y	3Q	2.7%	2.5%	2.5%	00:30	11:30
		CPI RBA Weighted Median q/q	3Q	0.6%	0.5%	0.5%	00:30	11:30
		CPI 'RBA Weighted Median y/y	3Q	2.7%	2.6%	2.6%	00:30	11:30
	JN	Corp Services Price Index y/y	SEP	-0.4%	- -	-0.4%	23:50	10:50
	EU	ECB Announces Allotment in 12-Month Refinancing Tender					09:15	20:15
		ECB Announces Allotment in 3-Month Tender					09:15	20:15
		ECB's Constancio Speaks at Event in London					**11:30**	**22:30**
		ECB's Coene Speaks at Belgian Parliament on Dexia					**13:30**	**00:30**
		ECB's Stark Speaks in Dortmund, Germany					**14:00**	**01:00**
	UK	CBI Business Optimism	OCT	- -	- -	-16	10:00	21:00
		CBI Trends Selling Prices	OCT	- -	- -	13	10:00	21:00
		CBI Trends Total Orders	OCT	-7	- -	-9	10:00	21:00
	US	MBA Mortgage Applications	OCT	- -	- -	-14.9%	11:00	22:00
		Cap Goods Orders Non Def Ex Air	SEP	0.3%	- -	1.1%	12:30	23:30
		Cap Goods Shipments Non Def Ex Air	SEP	- -	- -	2.8%	12:30	23:30
		Durable Goods Orders	SEP	-0.7%	- -	-0.1%	12:30	23:30
		Durables Ex Transportation	SEP	0.5%	- -	-0.1%	12:30	23:30
		New Home Sales	SEP	300K	- -	295K	14:00	01:00
		New Home Sales m/m	SEP	1.7%	- -	-2.3%	14:00	01:00
		US Treasury Auction 5-Year Note						
	CA	Teranet/National Bank HP Index	AUG	- -	- -	- -	13:00	00:00
		Teranet/National Bank HPI m/m	AUG	- -	- -	1.3%	13:00	00:00
		Teranet/National Bank HPI y/y	AUG	- -	- -	5.3%	13:00	00:00
		Monetary Policy Report					**14:30**	**01:30**
		Bank of Canada Governor Carney Speaks in New York					**21:15**	**08:15**
	IT	**ECB's Draghi and Italy's Tremonti Speak at World Saving Day Event in Rome**					**07:30**	**18:30**
	PO	Bank of Portugal Publishes Bank Survey on Credit Market					00:00	11:00
27-29 Oct	CH	Leading Index	SEP	- -	- -	101.83	- -	- -
27 Oct - 4 Nov	GE	Import Price Index m/m	SEP	0.8%	- -	-0.7%	- -	- -
		Import Price Index y/y	SEP	7.0%	- -	6.6%	- -	- -
Thursday	NZ	RBNZ Official Cash Rate	OCT	2.5%	2.5%	2.5%	20:00	07:00
27-Oct		Exports	SEP	3.51B	3.62B	3.44B	21:45	08:45
		Imports	SEP	3.90B	4.05B	4.08B	21:45	08:45
		Trade Balance	SEP	-440M	-430M	-641M	21:45	08:45
		Trade Balance 12 Mth YTD	SEP	1065	1100	1084	21:45	08:45
	JN	**BOJ Target Rate**	**OCT**	**0.1%**	**- -**	**0.1%**	**13:00**	**00:00**
		Foreign Buying Japan Bonds	OCT	- -	- -	-¥94.8B	23:50	10:50
		Foreign Buying Japan Stocks	OCT	- -	- -	¥86.2B	23:50	10:50
		Japan Buying Foreign Bonds	OCT	- -	- -	¥409.9B	23:50	10:50
		Japan Buying Foreign Stocks	OCT	- -	- -	¥20.9B	23:50	10:50
		Large Retailers' Sales	SEP	- -	- -	-2.6%	23:50	10:50
		Retail Trade m/m sa	SEP	-0.3%	- -	-1.7%	23:50	10:50
		Retail Trade y/y	SEP	0.1%	- -	-2.6%	23:50	10:50
	CH	Industrial Profits YTD y/y	SEP	- -	- -	28.2%	02:00	13:00
	EU	Euro-Zone M3 sa y/y	SEP	2.8%	- -	2.8%	08:00	19:00
		Euro-Zone M3 sa 3 mth ave.	SEP	2.6%	- -	2.3%	08:00	19:00
		Business Climate Indicator	OCT	-0.15	- -	-0.06	09:00	20:00
		Euro-Zone Consumer Confidence	OCT F	- -	- -	-19.9	09:00	20:00
		Euro-Zone Economic Confidence	OCT	94.1	- -	95	09:00	20:00
		Euro-Zone Industrial Confidence	OCT	-6.5	- -	-5.9	09:00	20:00
		Euro-zone Services Confidence	OCT	-1.3	- -	0	09:00	20:00
		ECB's Weidmann Gives Speech in Munich					**12:00**	**23:00**
	GE	Consumer Price Index m/m	OCT P	0.1%	- -	0.1%	00:00	11:00
		Consumer Price Index y/y	OCT P	2.6%	- -	2.6%	00:00	11:00
		CPI - EU Harmonised m/m	OCT P	0.1%	- -	0.2%	00:00	11:00
		CPI - EU Harmonised y/y	OCT P	2.8%	- -	2.9%	00:00	11:00

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Thursday	UK	CBI Reported Sales	OCT	- -	- -	-15	10:00	21:00
27-Oct		GfK Consumer Confidence Survey	OCT	-30	- -	-30	23:01	10:01
(cont.)	US	Continuing Claims	OCT	- -	- -	- -	12:30	23:30
		Core PCE q/q	3Q A	2.2%	- -	2.3%	12:30	23:30
		GDP Price Index	3Q A	2.4%	- -	2.5%	12:30	23:30
		GDP q/q (Annualized)	3Q A	2.3%	- -	1.3%	12:30	23:30
		Initial Jobless Claims	Oct-11	- -	- -	- -	12:30	23:30
		Personal Consumption	3Q A	1.9%	- -	0.7%	12:30	23:30
		Bloomberg Consumer Comfort	OCT	- -	- -	-48.4	13:45	00:45
		Pending Home Sales m/m	SEP	0.1%	- -	-1.2%	14:00	01:00
		Pending Home Sales y/y	SEP	- -	- -	13.1%	14:00	01:00
		Kansas City Fed Manf. Activity	OCT	- -	- -	- -	15:00	02:00
		US Treasury Auction 7-Year Note						
Friday	AU	**AOFM auctions $700m of January 2018 bonds**						
28-Oct	JN	Jobless Rate	SEP	4.5%	- -	4.3%	23:30	10:30
		Job-To-Applicant Ratio	SEP	0.66	- -	0.66	23:30	10:30
		Natl CPI Ex Food, Energy y/y	SEP	-0.3%	- -	-0.5%	23:30	10:30
		Natl CPI Ex-Fresh Food y/y	SEP	0.2%	- -	0.2%	23:30	10:30
		Natl CPI y/y	SEP	0.2%	- -	0.2%	23:30	10:30
		Overall Household Spending y/y	SEP	-3.7%	- -	-4.1%	23:30	10:30
		Tokyo CPI Ex-Fresh Food y/y	OCT	-0.4%	- -	-0.1%	23:30	10:30
		Tokyo CPI y/y	OCT	-0.4%	- -	-0.2%	23:30	10:30
		Industrial Production m/m	SEP P	-2.8%	- -	0.8%	23:50	10:50
		Industrial Production y/y	SEP P	-2.8%	- -	0.4%	23:50	10:50
		Vehicle Production y/y	SEP	- -	- -	- -	04:00	15:00
	CH	MNI October Business Condition Survey					01:35	12:35
	EU	ECB Calls for Bids in 8-Day Main Refinancing Tender					13:30	00:30
	US	Employment Cost Index	3Q	0.6%	- -	0.7%	12:30	23:30
		PCE Core m/m	SEP	0.2%	- -	0.1%	12:30	23:30
		PCE Core y/y	SEP	1.7%	- -	1.6%	12:30	23:30
		PCE Deflator y/y	SEP	- -	- -	2.9%	12:30	23:30
		Personal Income	SEP	0.3%	- -	-0.1%	12:30	23:30
		Personal Spending	SEP	0.6%	- -	0.2%	12:30	23:30
		U. of Michigan Confidence	OCT F	58	- -	57.5	13:55	00:55
29-31 Oct	UK	Nat'wide House pricesnsay/y	OCT	- -	- -	-0.3%		
		Nat'wide House prices sa m/m	OCT	- -	- -	0.1%		

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
24 OCTOBER NZ: **Labour Day Holiday** AU: PPI (Q3) JP: Trade (Sep) EU: Industrial New Orders (Aug) US: Chicago Fed Activity Index (Sep)	25 OCTOBER NZ: CPI (Q3) AU: **RBA's Battellino Speaks** EU: **EU's Juncker Speaks** GE: GfK Consumer Conf. (Nov) UK: CA (Q2) US: Case-Shiller House Prices (Aug), Conuk s. Conf. (Oct), Richmond Fed Manf. Index (Oct) CA: Retail Sales (Aug), **BoC Rates Decision**	26 OCTOBER NZ: NBNZ Business Conf. (Oct) AU: CPI (Q3) EU: European Council Meeting US: Durable Goods Orders (Sep), Capital Goods Orders (Sep), New Home Sales (Sep) CA: **Monetary Policy Report**	27 OCTOBER NZ: **RBNZ Cash Rate Decision**, Trade (Sep) JP: **BoJ Rates Decision**, Retail Sales (Sep) CH: Industrial Profits YTD (Sep) EU: Consumer Confidence (Oct F), Economic, Industrial & Service Confidence (Oct) GE: CPI (Oct P) US: GDP (Q3 A), Personal Consumption (Q3 A), Pending Home Sales (Sep), Kansas City Fed Manf (Oct)	28 OCTOBER JP: Jobless Rate (Sep), Household Spending (Sep), CPI (Sep), Industrial Production (Sep P) UK: GfK Consumer Conf. (Oct) US: Personal Income (Sep), Personal Spending (Sep), PCE Deflator (Sep), Uni of Michigan Conf. (Oct F)
31 OCTOBER NZ: Building Permits (Sep) AU: RP-Rismark House Prices (Sep), Private Credit (Sep) JP: Housing Starts (Sep), Construction Orders (Sep), EU: Unemployment (Sep), CPI est. (Oct) UK: Mortgage Approvals (Sep), Consumer Credit (Sep) US: Chicago PMI (Oct), Dallas Fed Manuf. (Oct) CA: GDP (Aug)	1 NOVEMBER NZ: Wages (Q3), Fonterra Global Diary Auction AU: House Prices (Q3), **RBA Cash Rate** JP: **BoJ minutes**, Vehicle Sales (Oct) CH: PMI Manuf. (Oct) EU: PMI Manuf. (Oct F), **Draghi takes over as ECB President** GE: PMI Manuf. (Oct F) UK: PMI Manuf. (Oct) US: ISM Manuf. (Oct), Construction Spending (Sep)	2 NOVEMBER AU: Building Approvals (Sep) GE: Unemployment (Oct) UK: PMI Construction (Oct) US: **FOMC Rates Decision, Fed's Bernanke Speaks**, ADP Employment (Oct)	3 NOVEMBER NZ: Employment (Q3) AU: Retail Sales (Sep), Real Retail Sales (Q3) CH: Non-manufacturing PMI (Oct) JP: **Culture Day Holiday** EU: PMI Services (Oct F), **ECB rates decision, ECB's Trichet Speaks** GE: PMI Services (Oct F) UK: PMI Services (Oct) US: ISCS Chain Store Sales (Oct), ISM non-manuf. (Oct), Factory Orders (Sep) **G20 Summit (Day 1)**	4 NOVEMBER AU: **RBA SoMP** EU: PPI (Sep) GE: Factory Orders (Sep) US: Nonfarm Payrolls (Oct) CA: Employment (Oct), Building Permits (Sep) **G20 Summit (Day 1)**
7 NOVEMBER AU: ANZ Job Ads (Oct), TD Sec. Inflation (Oct) EU: Retail Sales (Sep), **ECB's Stark Speaks, Eurozone Finance Ministers Meeting** GE: Industrial Production (Sep) US: Consumer Credit (Sep)	8 NOVEMBER AU: NAB Business Survey (Oct), Trade (Sep) EU: **ECB's Stark Speaks, ECONFIN Meeting** GE: Trade (Sep) UK Industrial Production (Sep) US: NFIB Small Bus. Optimism (Oct), JOLTs Job Openings (Sep), **Fed's Plosser, Kocherlakota Speak** CA: Housing Starts (Oct)	9 NOVEMBER NZ: Card Spending (Oct) AU: Westpac Consumer Confidence (Nov), Housing Finance (Sep) JP: Current Account (Sep) CH: Industrial Production (Oct), Retail Sales (Oct), CPI (Oct), PPI (Oct) UK: Trade (Sep)	10 NOVEMBER NZ: Business NZ PMI (Oct), ANZ Cons. Conf. (Nov) AU: Employment (Oct), **RBA's Lowe Speaks** JP: Machine Orders (Sep) CH: Trade (Oct) GE: CPI (Oct F) UK: **BoE Rates Decision** US: Trade (Sep) CA: Trade (Sep)	11 NOVEMBER NZ: Food Prices (Oct) UK: PPI (Oct) US: Uni of Michigan Conf. (Nov P)
14 NOVEMBER NZ: Real Retail Sales (Q3) AU: Building Approvals (Sep), Housing Finance (Sep) JP: GDP (Q3 P), IP (Sep F) EU: IP (Sep)	15 NOVEMBER NZ: Fonterra Global Diary Auction AU: **RBA Minutes** EU: GDP (Q3 A), ZEW Survey (Nov), Trade (Sep), **ECB's Praet Speaks** GE: GDP (Q3 P), ZEW Survey (Nov) UK: CPI (Oct) US: PPI (Oct), Retail Sales (Oct), Business Inventories (Sep), Empire Manufac. (Nov)	16 NOVEMBER AU: DEWR Skilled Vacancies (Oct), WPI (Q3) JP: **BoJ Rates Decision** EU: CPI (Oct) UK: Unemployment (Sep), **BoE Inflation Report** US: IP (Oct), CPI (Oct), TIC flows (Sep)	17 NOVEMBER NZ: PPI (Q3) AU: Ave Weekly Wages (Aug Q) EU: Construction Output (Sep) UK: Retail Sales (Oct) US: Housing Starts (Oct), Building Permits (Oct), Philly Fed Manuf. (Nov)	18 NOVEMBER GE: PPI (Oct) CA: CPI (Oct) **20 November: Spanish General Election**
21 NOVEMBER JP: Trade (Oct) EU: Current Account (Sep) US: Chicago Fed Nat Activity (Oct), Existing Home Sales (Oct)	22 NOVEMBER NZ: Net Migration (Oct) EU: **ECB's Coene Speaks** US: GDP (Q3 S), Richmond Fed Manuf. (Nov), **Fed's Kocherlakota Speaks** CA: Retail Sales	23 NOVEMBER AU: Construction Work Done (Q3) JP: **Thanksgiving Day Holiday** EU: Industrial New Orders (Sep) UK: **BoE Minutes** US: Durable & Capital Goods Orders (Oct), Personal Income & Spending (Oct), PCE Core (Oct), Kansas City Manuf. (Nov), **FOMC Minutes**	24 NOVEMBER NZ: Trade (Oct) GE: GDP (Q3), IFO Survey (Nov) UK: GDP (Q3 P) US: **Thanksgiving Day Holiday**	25 NOVEMBER JP: CPI (Oct) CH: MNI Business Conditions Survey (Nov)

CENTRAL BANK RELEASES FOR 2011-12

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

***Notes:** Entries are the dates of central bank interest rate announcements for 2011, unless specified as minutes or otherwise.
Dates are indicative only and are subject to change by central bank authorities.
Key: BoC: Bank of Canada, BoJ: Bank of Japan, BoE: Bank of England, ECB: European Central Bank, FOMC: Federal Open Market Committee, RBA: Reserve Bank of Australia, RBNZ: Reserve Bank of New Zealand, SNB: Swiss National Bank.
Source: Central bank websites.

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS		2010	2011F	2012F	2013F
Economic activity (annual % change)					
Private final demand		2.2	4.3	5.4	6.8
Household consumption		2.8	2.7	1.7	2.8
Dwelling investment		4.2	1.6	-2.0	7.6
Business investment		0.0	12.0	20.0	17.6
Public demand		9.1	1.9	2.9	2.0
Domestic final demand		3.8	3.7	4.8	5.6
Inventories (contribution to GDP)		0.4	0.3	-0.4	0.0
Gross National Expenditure (GNE)		4.2	4.0	4.3	5.6
Exports		5.7	-0.2	12.8	10.4
Imports		13.7	11.7	14.2	12.2
Net Exports (contribution to GDP)		-1.6	-2.8	-0.7	-0.9
Gross Domestic Product (GDP)		**2.7**	**1.3**	**3.1**	**4.0**
Prices and wages (annual % change)					
Inflation:	Headline CPI*	2.8	3.4	2.5	3.5
	Underlying*^	2.8	2.5	2.8	3.4
Wages:		3.3	3.8	3.7	4.1
Labour market					
Employment (annual % change)		2.7	1.7	0.8	2.2
Unemployment rate (annual average %)		5.2	5.1	5.5	5.3
External sector					
Terms of trade (annual % change)		16.2	16.3	5.1	-3.5
Current account balance:	A$bn	-36.0	-23.7	-7.8	-25.7
	% of GDP	-2.7	-1.6	-0.5	-1.6

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

AUSTRALIAN INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBA cash rate	4.75	4.50	4.25	4.25	4.25	4.25
90 day bill	4.70	4.70	4.60	4.55	4.50	4.50
3 year bond	3.83	3.40	3.20	3.30	3.50	3.60
10 year bond	4.47	4.10	4.00	4.00	4.10	4.20
3s10s yield curve	0.64	0.70	0.80	0.70	0.60	0.60
3 year swap	4.34	3.90	3.70	3.80	3.95	4.05
10 year swap	5.11	4.70	4.60	4.60	4.65	4.75

INTERNATIONAL INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBNZ cash rate	2.50	2.50	2.75	3.00	3.25	3.50
NZ 90 day bill	2.76	2.80	3.17	3.25	3.67	3.75
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.25
US 2 year note	0.26	0.20	0.20	0.20	0.20	0.40
US 10 year note	2.19	1.90	1.90	1.90	2.00	2.20
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.50	1.25	1.00	1.00	1.00	1.00
UK repo rate	0.50	0.50	0.50	0.50	0.50	0.50

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
Australian exchange rates						
A$/US$	1.02	0.97	1.00	1.05	1.10	1.10
NZ$/US$	0.79	0.77	0.80	0.83	0.86	0.89
A$/¥	78.6	72.8	75.0	75.6	79.2	79.2
A$/€	0.74	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$	1.29	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$/CHF	0.91	0.89	0.94	1.01	1.08	1.10
A$/CNY	6.53	6.09	6.19	6.42	6.63	6.55
A$ Trade weighted index	74.9	72.2	73.7	76.1	79.0	78.2
International cross rates						
US$/¥	76.9	75.0	75.0	72.0	72.0	72.0
€/US$	1.38	1.35	1.37	1.40	1.42	1.45
€/¥	106	101	103	101	102	104
£/US$	1.58	1.55	1.57	1.59	1.61	1.63
€/£	0.87	0.87	0.87	0.88	0.88	0.89
US$/C$	1.02	0.96	0.98	0.99	1.01	1.03
US$/CHF	0.89	0.92	0.94	0.96	0.98	1.00
US$ index	76.9	78.6	80.4	80.1	80.5	80.8
Asia exchange rates						
US$/CNY	6.38	6.28	6.19	6.11	6.03	5.95
US$/HKD	7.78	7.80	7.80	7.80	7.80	7.80
US$/IDR	8878	8925	8747	8572	8400	8232
US$/INR	49.8	49.4	48.4	47.4	46.5	45.6
US$/KRW	1145	1195	1171	1148	1125	1100
US$/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	1.27	1.31	1.30	1.28	1.27	1.26
US$/THB	30.99	31.20	31.00	30.90	30.70	30.60
US$/TWD	30.24	30.60	30.40	30.30	30.10	30.00
US$/VND	20943	21000	21400	21400	21400	21400
Pacific exchange rates						
PGK/US$	0.454	0.378	0.372	0.366	0.366	0.366
FJD/US$	0.558	0.538	0.530	0.522	0.522	0.522

IMPORTANT NOTICE

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