



ECONOMICS & GLOBAL MARKETS RESEARCH

AUSTRALIAN ECONOMICS TOOLBOX

25 OCTOBER 2010

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CONTRIBUTORS

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

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

Katie Dean
Head of Macro, Australia
+61 3 9273 1381
Katie.Dean@anz.com

Amber Rabinov
Senior Economist
+61 3 9273 4853
Amber.Rabinov@anz.com

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

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

David Cannington
Economist, Property and
Financial System Research
+61 3 92734274
David.Cannington@anz.com

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

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

AWAITING THE CPI

- **RBA Minutes this week revealed the decision to keep rates on hold in October was a “finely balanced” decision.** The case for higher rates could easily be made on the basis of the medium-term inflation outlook. However the Bank viewed that moderate near-term growth, weak credit growth and a tightening in financial conditions from the higher exchange rate afforded it time to wait and see how the balance of risks evolved.
- **Next week’s CPI will therefore be critical in determining whether the RBA has even more time up its sleeve.** The October Minutes foreshadowed an increase in underlying inflation of 2½% to 2¾% YoY. This is a fairly wide range and suggests QoQ core inflation would need to be 0.4% or below or 1.0% or above to fall outside RBA expectations. ANZ’s forecast is at the lower end of RBA expectations: we are expecting underlying inflation of 0.6% QoQ and 2.5% YoY and headline inflation of 0.8% QoQ and 2.9% YoY, with the balance of risks tilted to the downside. (For more detail, see last week’s *Australian Economics Toolbox*).
- With the AUD/USD touching parity last week, we thought it would be timely to re-examine various estimates of “fair-value.” Our analysis suggests that the **AUD/USD is becoming expensive** as explained by most of the traditional drivers of the currency (see *In Focus* article on p. 2). And indeed, the debate around exchange rate policies is set to heat up at **tonight’s G20 Finance Ministers’ meeting**. While US Treasury Secretary Geithner believes the major currencies to be “*roughly in alignment now*,” that view is not held for emerging market currencies.

THE WEEK AHEAD

- In **Australia**, the focus next week will be on prices. The CPI, PPI and private sector credit will be closely followed ahead of the RBA’s November rates decision. Currently, markets remain undecided on the RBA’s next meeting with the probability of a rate hike around a one-in-three chance.
- In the **US**, an update on the housing market will be given with home sales, Case Shiller house prices and the FHFA house price index due for release. Consumer confidence, durable and capital goods orders, the employment cost index and the advance read of Q3 GDP will all be closely watched ahead of the Fed’s next meeting on November 2-3, as will speeches from Fed Chairman Bernanke and voting FOMC members Dudley, Bullard and Hoenig.
- In **Asia**, the key **Japanese** data to watch are retail trade, unemployment, CPI, industrial production, trade and housing starts.
- **Euro zone** industrial new orders, consumer and business confidence, CPI and unemployment will take centre stage. **German** CPI and unemployment data will be of particular importance for Europe’s current outperformer. **UK** Q3 GDP, house price and consumer credit data are also released.

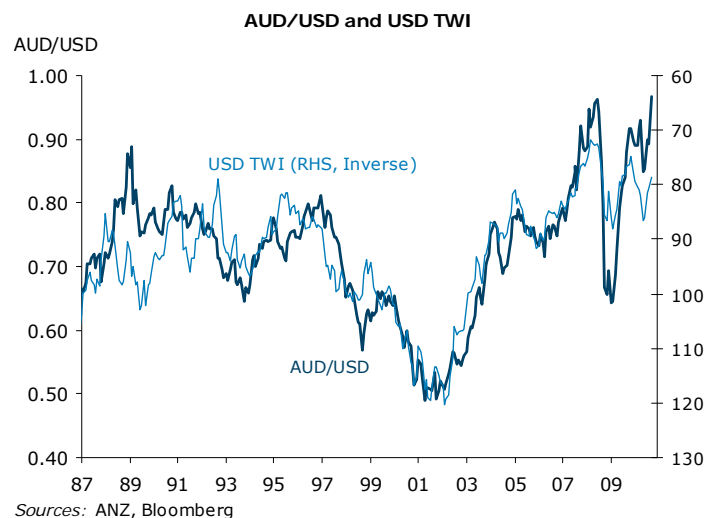
Grant Turley
Senior FX Strategist
+61 2 9227 1708
Grant.Turley@anz.com

REVISITING ESTIMATES OF AUD/USD "FAIR VALUE"

With the AUD touching parity late last week, we thought it an appropriate time to examine how the current level of the exchange rate compares to estimates of "fair" or longer-term value. While modelling the "fair value" of a currency is inherently difficult, the range of approaches we use all seem to suggest the AUD/USD is somewhat expensive compared to traditional drivers of the currency.

Our simplest model (Chart 1) shows that the AUD/USD has broadly followed the inverse of moves in the USD trade weighted index. Note how the AUD/USD became a little overvalued in the period immediately preceding the GFC and subsequently seriously undervalued during the GFC. Recently, AUD/USD has again traded at a significant premium to the rate suggested by the broad weakness in the USD TWI, but has retained the directional trading biases of moves in the USD. This raises the possibility that the AUD/USD may be somewhat vulnerable to correction in the short term, but equally encourages us to consider what set of circumstances might sustain or increase this divergence into the future.

FIGURE 1: AUD/USD VERSUS US\$ TRADE WEIGHTED INDEX

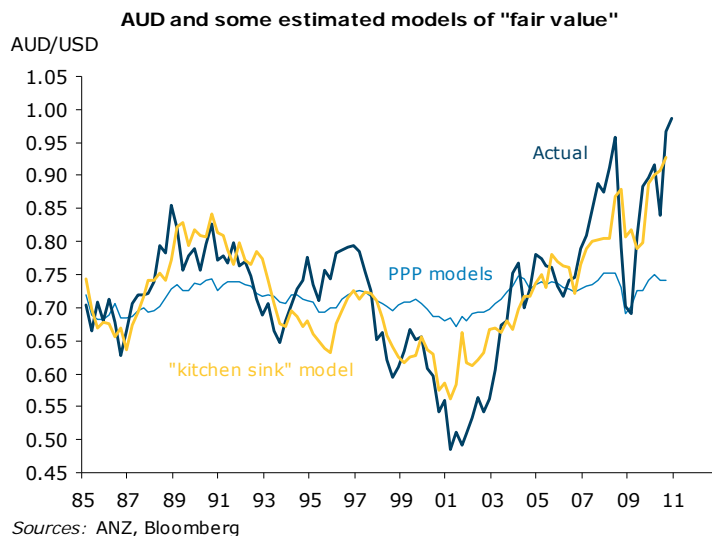


Simple models of the exchange rate such as Purchasing Power Parity (PPP) suggest that AUD/USD should be around the 0.70-0.75 level and thus is significantly extended. However, as the second chart shows, the AUD often deviates from PPP "valuations" for significant periods, and in fact rarely trades at levels suggested by PPP models. PPP is therefore not especially useful for timing the changes in trend for the currency, however, it is an important concept to keep in mind when constructing longer term assumptions for budgets, business plans or project proposals.

Deviations from PPP also encourage further investigation to understand the particular set of circumstances or key drivers that are causing the departure of the AUD from PPP. In an attempt to capture the more dynamic drivers of the exchange rate, we adopted a "kitchen sink" approach, whereby we examined the main explanatory variables that one might expect to be driving the near-term developments of the currency. Explanatory variables that were tested included Australian and US differentials for the terms of trade, inflation, real 90-day interest rates, M3 and unit labour costs. Our preferred "kitchen sink" (or momentum) model produced a result

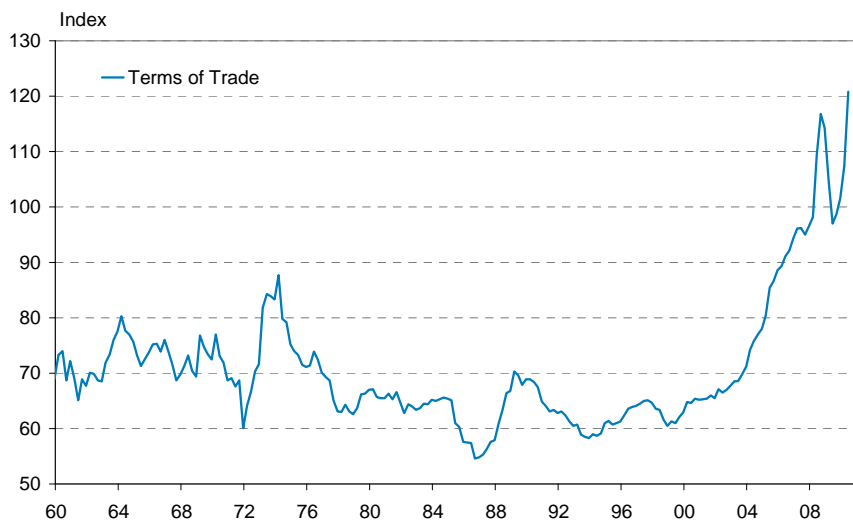
which suggested an exchange rate fair value that is closer to .9270. While significantly higher than PPP estimates, this approach also suggested that the AUD is currently expensive relative to most of the traditional fundamental drivers of the exchange rate.

FIGURE 2: AUD/USD VERSUS MEASURES OF "FAIR VALUE"



The "kitchen sink" model reveals that the key driver of the rise in the AUD since 2006 has been the terms of trade, which has surged by 44 per cent and has lifted this "momentum fair value" estimate for the unit by around 25 US cents. Chart 3 shows developments in the terms of trade over the past 50 years – the current boom makes previous terms of trade cycles pale into virtual insignificance, including the rather large mining boom of the early 1980s.

FIGURE 3: THE TERMS OF TRADE HAS SOARED SINCE 2004



Source: ABS

It is the size of the terms of trade boom that is behind the massive investment plans of the mining sector, the RBA's desire to further tighten interest rates and ANZ's forecasts of continuing medium-term upward pressure on inflation and interest rates.

The above charts and models highlight two important considerations:

- First, the importance of USD cycles (or the trend for the USD) in explaining the AUD. In the late 1990s/early 2000s, the Australian dollar was extremely weak as the tech boom encouraged the fallacy that "Australia was old economy" and consequently the AUD would remain very weak for an extended period. In the chart above, it's worth noting that the terms of trade at that time, while relatively weak was not significantly weaker than in the mid 1990s and it was the strength of the US\$ that was the main factor at play, slightly augmented by modest weakness in the terms of trade; and
- Second, currently, the AUD is reflecting not only the weakening trend for the USD, but also the outsized terms of trade boom.

CONCLUSION

The AUD/USD is currently benefiting from two very powerful tailwinds, namely the weakening trend for the USD (which captures Quantitative Easing expectations) and the very substantial rise in Australia's terms of trade, which is reflective of China's emergence in the world economy. At this stage it remains the case that while China's economy continues to record high single digit growth rates, the USD remains weak and with the supply-side response in commodities delayed somewhat by the GFC, the prospects are strong that the AUD will remain well supported and a move beyond parity next year appears likely. The main risks to this scenario would include:

- Much slower growth in China; or
- A short-term unwind of the over-valuation compared to broad US\$ weakness (this could be triggered not only by stronger US economic growth, but also by any instability in markets).

WEEKLY DATA WRAP

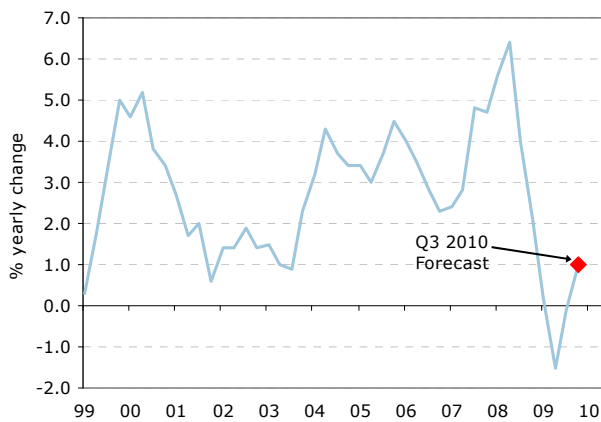
Andrew McManus
Analyst, Economics
+61 2 92271742
Andrew.McManus@anz.com

DATA WRAP

- **New motor vehicle sales** rose 0.9% in September, taking the annual growth rate to 8.6%.
- The **RBA board minutes** highlighted that the case for an October rate rise was *'finely balanced'*, with the Bank maintaining its tightening bias.
- The **Westpac Leading Index** fell 0.1% in August, but the index remains 5.3% higher in annualised terms, which is well above the long term trend of 3.1%. The coincident index rose 0.5% in the month, with the annualised rate of growth improving to 4.8% in August from 4.3% in July.
- The **DEWR Skilled Vacancies** index declined 0.5% MoM in October to be 10.3% higher over the year. By industry class, vacancies fell 0.5% MoM for professionals (-25.6% YoY), 3.6% MoM for associate professionals (-16.6% YoY) and 0.3% for trades (+34.0% YOY).
- The **trade price indices** for Q3 highlighted the continuing boost to the Australian economy from the mining boom, with the terms of trade likely to hit a new record high in Q3. The **export price index** rose 7.8% QoQ, driven primarily by prices received for metalliferous ores and metal scrap (+14.6%) and coal, coke and briquettes (+17.4%). The **import price index** rose 0.7% QoQ, but with consumption goods prices rising just 0.1%, the result does not suggest upside risk to next week's CPI.

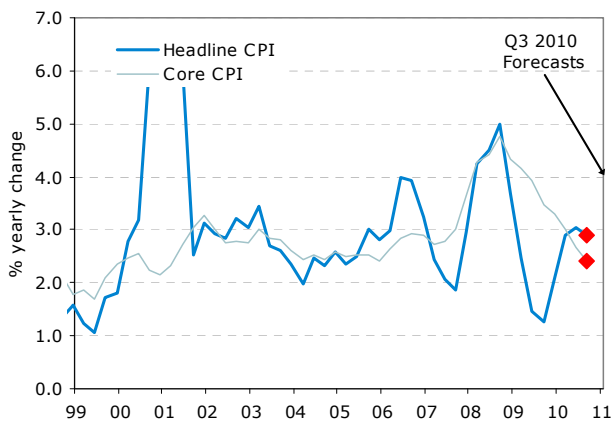
DATA PREVIEWS

CHART 1: PRODUCER PRICE INDEX (PPI)

**25 OCTOBER: PRODUCER PRICE INDEX (Q3)****ANZ: +0.4% QoQ, +1.7% YoY****Market: +0.5% QoQ, +1.4% YoY****Last: +0.3% QoQ, +1.0% YoY**

Upstream price pressures are expected to have remained moderate in Q3, with the final stage producer price index increasing 0.4% QoQ. The appreciation of the AUD in Q2 and Q3 is expected to have maintained downward pressure on the price of imported goods. This will partly offset a small pick up in domestic inflation pressures in response to a step up in producer prices at the preliminary and intermediate stages in the previous two quarters. Upstream price pressures probably increased in the quarter as import prices accelerated to 1.9% QoQ the economy continued to use up spare capacity. The unemployment rate fell from 5.3% to 5.1% during the quarter and the NAB's measure of capacity utilisation increased to 82.2% from 81.4% in Q1. Last quarter, building construction and utilities added to final stage producer prices, while downward pressure on prices came from food production. This broad composition of price movements should be repeated in Q2. (RP)

CHART 2: CONSUMER PRICE INDEX (CPI)

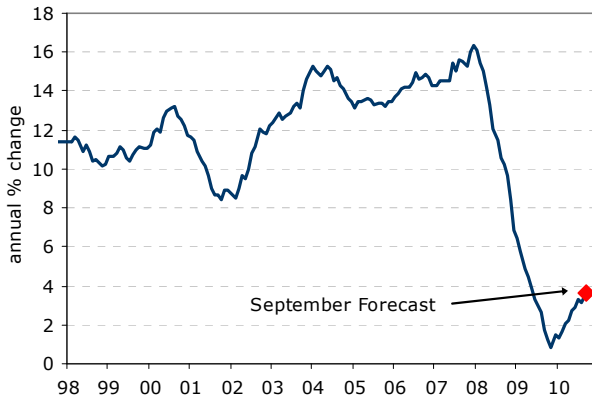
**27 OCTOBER: CONSUMER PRICE INDEX (Q3)****Headline CPI:****ANZ: +0.7% QoQ, +2.9% YoY****Market: +0.8% QoQ, +2.9% YoY****Last: +0.6% QoQ, +3.1% YoY****Trimmed Mean****ANZ: +0.6% QoQ, +2.4% YoY****Market: +0.7% QoQ, +2.6% YoY****Last: +0.5% QoQ, +2.7% YoY****Weighted Median****ANZ: +0.6% QoQ, +2.5% YoY****Market: +0.7% QoQ, +2.6% YoY****Last: +0.7% QoQ, +2.6% YoY**

We expect headline inflation of 0.7% QoQ and 2.9% YoY in Q3. This would be broadly in line with the RBA's latest expectation of 3% YoY in the October board meeting minutes. The principal contributor to the quarterly increase in headline inflation will be housing costs which are expected to add 0.5ppt in the quarter, with a particularly pronounced increase in utility prices. This will be partly offset by a 4.1% decline in petrol prices, which will subtract 0.2ppt.

The underlying inflation pulse, as measured by growth in the average of the trimmed mean and weighted median, is expected to have picked up only marginally to 0.6% QoQ and 2.5% YoY. Trends in the NAB business survey series for retail prices and reports of price deflation in food this week suggest the risk is on the downside for this forecast. If realised, this is at the lower end (but not inconsistent with the RBA's forecast of 2½% to 2¾% in the October Board meeting minutes. (RP)

DATA PREVIEWS

CHART 3: RBA CREDIT AGGREGATES

**29 OCTOBER: CREDIT AGGREGATES (AUG)****ANZ: +0.3% MoM , +3.6% YoY****Market: 0.3% MoM , +3.4% YoY****Last: +0.1% MoM , 3.1% YoY**

Following a month of weak growth in total private sector credit in August, we expect credit growth to remain relatively soft in September. Aggregate business use of intermediated credit is expected to remain largely unchanged in September as uncertainty in the outlook for major developed economies continues. However, growth in aggregate household use of credit is expected to be maintained in September, with recent data showing continued strength in employment growth, stabilising housing finance and solid momentum in retail sales. (DC)

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEDT
22-29 Oct	NZ	AON 1-Year Inflation Expectations	OCT	--	--	--	--	--
	GE	Import Price Index MoM	SEP	0.1%	--	0.2%	--	--
		Import Price Index YoY	SEP	9.7%	--	8.6%	--	--
24-28 Oct	CH	Leading Index	SEP			101.91	--	--
25-Oct	AU	Producer Price Index QoQ	Q3	0.5%	0.4%	0.3%	00:30	11:30
		Producer Price Index YoY	Q3	1.4%	1.3%	1.0%	00:30	11:30
		RBA Governor Glenn Stevens speaks in Canberra					00:25	11:25
	JP	Merchnds Trade Balance Total	SEP	¥717.0B	--	¥86.0B	23:50	10:50
		Adjusted Merchnds Trade Bal.	SEP	¥495.5B	--	¥589.7B	23:50	10:50
		Merchnds Trade Exports YoY	SEP	9.60%	--	15.5	23:50	10:50
		Merchnds Trade Imports YoY	SEP	7.40%	--	17.9	23:50	10:50
	EU	Industrial New Orders sa MoM	AUG	2.0%	--	-1.8%	09:00	20:00
		Industrial New Orders sa YoY	AUG	--	--	11.7%	09:00	20:00
	UK	BBA Loans for House Purchase	SEP	--	--	31767	08:30	19:30
	US	Chicago Fed Nat Activity Index	SEP	--	--	-0.53	12:30	23:30
		Existing Home sales	SEP	4.28M	--	4.13M	14:00	01:00
		Existing Home sales MoM	SEP	3.6%	--	7.6%	14:00	01:00
		Dallas Fed Manf. Activity	OCT	-8	--	-17.7	14:30	01:30
		Fed's Cumming to Speak in Brussels, Belgium					12:00	23:00
		Bernanke Speaks at Housing Conference in Virginia					12:30	23:30
		Fed's Dudley (V) to Visit Business Site in Ithaca, NY					14:30	01:30
		Fed's Bullard (V) to Give Welcome at St. Louis Conference					17:30	04:30
		Fed's Dudley (V) to Speak at Cornell University					20:30	07:30
		Former Fed Governor Kohn Speaks on Financial Regulation					21:15	08:15
26-Oct	AU	NAB Business Confidence	Q3	--	--	3	00:30	11:30
	JP	Corp Service Price Index YoY	SEP	-1.0%	--	-1.1%	23:50	10:50
	GE	GfK Consumer Confidence Survey	NOV	5.1	--	4.9	06:00	17:00
	UK	GDP QoQ	Q3 A	0.4%	--	1.2%	08:30	19:30
		GDP YoY	Q3 A	2.4%	--	1.7%	08:30	19:30
		Index of Services MoM	AUG	--	--	-0.2%	08:30	19:30
		Index of Services (3mth/3mth)	AUG	--	--	0.5%	08:30	19:30
	US	S&P/Case Shiller Home Price Ind	AUG	--	--	148.91	13:00	00:00
		S&P/CS 20 City MoM sa	AUG	--	--	-0.1%	13:00	00:00
		S&P/CS Composite-20 YoY	AUG	2.5%	--	3.2%	13:00	00:00
		Consumer Confidence	OCT	49.5	--	48.5	14:00	01:00
		House Price Index MoM	AUG	-0.2%	--	-0.5%	14:00	01:00
		Richmond Fed Manufact. Index	OCT	--	--	-2	14:00	01:00
		ABC Consumer Confidence	24-Oct	--	--	-46	21:00	08:00
		Fed's Hoenig (V) to Speak at University of Kansas					00:00	11:00
		Fed's Dudley (V) to Speak at University of Rochester					20:30	07:30
		US Treasury Auctions 2 Year Bond					--	--
27-29 Oct	GE	IFO Oct. Business Climate Survey by Industry					--	--
27-Oct	NZ	NBNZ Activity Outlook	OCT	--	--	--	02:00	13:00
		NBNZ Business Confidence	OCT	--	--	--	02:00	13:00
	AU	Consumer Prices QoQ	Q3	0.8%	0.8%	0.6%	00:30	11:30
		Consumer Prices YoY	Q3	2.9%	2.9%	3.1%	00:30	11:30
		RBA Trimmed Mean QoQ	Q3	0.7%	0.6%	0.5%	00:30	11:30
		RBA Trimmed Mean YoY	Q3	2.6%	2.4%	2.7%	00:30	11:30
		RBA Weighted Median QoQ	Q3	0.7%	0.6%	0.5%	00:30	11:30
		RBA Weighted Median YoY	Q3	2.6%	2.5%	2.7%	00:30	11:30
	JP	Small Business Confidence	OCT	--	--	47.3	01:00	12:00
		BoJ Deputy Chief Nishimura to Speak in Tokyo					00:00	11:00
	EU	Euro-Zone M3 sa 3 mth ave.	SEP	0.9%	--	0.5%	08:00	19:00
		Euro-Zone M3 sa YoY	SEP	1.4%	--	1.1%	08:00	19:00
		ECB's Costa speaks in Lisbon					09:00	20:00

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEDT
27-Oct cont.	GE	Consumer Price Index MoM	OCT P	0.1%	--	-0.1%	--	--
		Consumer Price Index YoY	OCT P	1.3%	--	1.3%	--	--
		CPI - EU Harmonised MoM	OCT P	0.1%	--	-0.2%	--	--
		CPI - EU Harmonised YoY	OCT P	1.3%	--	1.3%	--	--
	US	MBA Mortgage Applications	22-Oct	--	--	-10.5%	11:00	22:00
		Durable Goods Orders	SEP	2.0%	--	-1.5%	12:30	23:30
		Durables Ex Transportation	SEP	0.5%	--	1.7%	12:30	23:30
		Cap Goods Orders Nondef Ex Air	SEP	--	--	5.1%	12:30	23:30
		Cap Goods Ship Nondef Ex Air	SEP	--	--	1.7%	12:30	23:30
		New Home sales	SEP	300K	--	288K	14:00	01:00
New Home sales MoM		SEP	4.0%	--	0.0%	14:00	01:00	
Fed's Dudley (V) to Speak at University at Buffalo							20:00	07:00
US Treasury Auctions 5 Year Bond						--	--	
CA	Teranet/National Bank HPI MoM	AUG	--	--	0.5%	13:00	00:00	
	Teranet/National Bank HPI YoY	AUG	--	--	12.4%	13:00	00:00	
28-Oct	NZ	RBNZ Official Cash Rate	28-Oct	3.0%	3.0%	3.0%	20:00	07:00
		Money Supply M3 YoY	SEP	--	--	-3.3%	02:00	13:00
AU	Conference Board Leading Index	AUG	--	--	0.8%	00:00	11:00	
	RBA Annual Report 2010						04:30	15:30
JP	Retail Trade MoM sa	SEP	-0.5%	--	1.4%	23:50	10:50	
	Retail Trade YoY	SEP	3.2%	--	4.3%	23:50	10:50	
	Large Retailers' sales	SEP	-2.5%	--	-1.8%	23:50	10:50	
	Japan Buying Foreign Bonds	22-Oct	--	--	¥919.8B	23:50	10:50	
	Japan Buying Foreign Stocks	22-Oct	--	--	-¥3.9B	23:50	10:50	
	Foreign Buying Japan Bonds	22-Oct	--	--	¥188.6B	23:50	10:50	
	Foreign Buying Japan Stocks	22-Oct	--	--	¥133.8B	23:50	10:50	
BOJ Target Rate			0.10%	--	0.10%	--	--	
EU	Business Climate Indicator	OCT	--	--	0.77	09:00	20:00	
	Euro-Zone Consumer Confidence	OCT F	--	--	-11	09:00	20:00	
	Euro-Zone Economic Confidence	OCT	--	--	103.2	09:00	20:00	
	Euro-Zone Indust. Confidence	OCT	--	--	-2	09:00	20:00	
	Euro-zone Services Confidence	OCT	--	--	8	09:00	20:00	
GE	Unemployment Change (000's)	OCT	-25K	--	-40K	07:55	18:55	
	Unemployment Rate sa	OCT	7.4%	--	7.5%	07:55	18:55	
UK	Nationwide House Prices sa MoM	OCT	--	--	0.1%	06:00	17:00	
	Nationwide House Prices nsa YoY	OCT	--	--	3.1%	06:00	17:00	
US	CBI Reported sales	OCT	--	--	49	10:00	21:00	
	Initial Jobless Claims	23-Oct	453K	--	452K	12:30	23:30	
	Continuing Claims	16-Oct	--	--	4441K	12:30	23:30	
	US Treasury Auctions 7 Year Bond						--	--

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEDT
29-Oct	NZ	Building Permits MoM	SEP	--	5.0%	-17.8%	21:45	08:45
		Trade Balance	SEP	--	-500M	-437M	21:45	08:45
		NZ Trade Balance 12 Mth YTD	SEP	--	-900M	866	21:45	08:45
		Exports	SEP	--	--	3.15B	21:45	08:45
		Imports	SEP	--	--	3.59B	21:45	08:45
AU	AU	HIA New Home sales MoM	SEP	--	--	-2.6%	00:00	11:00
		Private Sector Credit MoM	SEP	0.3%	0.3%	0.1%	00:30	11:30
		Private Sector Credit YoY	SEP	3.4%	3.6%	3.1%	00:30	11:30
		RP Data-Rismark Med Val MoM	SEP	--	--	0.0%	00:30	11:30
		RP Data-Rismark Med Val sa	SEP	--	--	--	00:30	11:30
AOFM Auctions \$700m of December 2013 Bonds								
JP	JP	Nomura/JMMA Manufacturing PMI	OCT	--	--	49.5	23:15	10:15
		Job-To-Applicant Ratio	SEP	0.55	--	0.54	23:30	10:30
		Jobless Rate	SEP	5.1%	--	5.1%	23:30	10:30
		Overall Hhold Spending YoY	SEP	0.8%	--	1.7%	23:30	10:30
		Tokyo CPI YoY	OCT	-0.2%	--	-0.6%	23:30	10:30
		Tokyo CPI Ex-Fresh Food YoY	OCT	-0.8%	--	-1.0%	23:30	10:30
		Tokyo CPI Ex Food, Energy YoY	OCT	-1.0%	--	-1.3%	23:30	10:30
		Natl CPI YoY	SEP	-0.7%	--	-0.9%	23:30	10:30
		Natl CPI Ex-Fresh Food YoY	SEP	-1.0%	--	-1.0%	23:30	10:30
		Natl CPI Ex Food, Energy YoY	SEP	-1.5%	--	-1.5%	23:30	10:30
		Industrial Production MoM	SEP P	-0.6%	--	-0.5%	23:50	10:50
		Industrial Production YoY	SEP P	12.3%	--	15.1%	23:50	10:50
		Vehicle Production YoY	SEP	--	--	20.8%	04:00	15:00
		Housing Starts YoY	SEP	15.3%	--	20.5%	05:00	16:00
		Annualized Housing Starts	SEP	0.820M	--	0.829M	05:00	16:00
Construction Orders YoY	SEP	--	--	0.0%	05:00	16:00		
CH	CH	MNI Business Condition Survey	OCT			69.54	01:35	12:35
EU	EU	Euro-Zone CPI Estimate YoY	OCT	--	--	1.8%	09:00	20:00
		Euro-Zone Unemployment Rate	SEP	--	--	10.1%	09:00	20:00
UK	UK	GfK Consumer Confidence Survey	OCT	--	--	-20	23:01	10:01
		M4 Ex OFCs 3M Annualised	SEP	--	--	4.5%	08:30	19:30
		Net Consumer Credit	SEP	--	--	-0.1B	08:30	19:30
		Net Lending Sec. on Dwellings	SEP	--	--	1.7B	08:30	19:30
		Mortgage Approvals	SEP	46.0K	--	47.4K	08:30	19:30
US	US	M4 Money Supply MoM	SEP F	--	--	--	08:30	19:30
		M4 Money Supply YoY	SEP F	--	--	--	08:30	19:30
		GDP QoQ (Annualized)	Q3 A	2.2%	--	1.7%	12:30	23:30
		Personal Consumption	Q3 A	2.3%	--	2.2%	12:30	23:30
		GDP Price Index	Q3 A	1.9%	--	1.9%	12:30	23:30
		Core PCE QoQ	Q3 A	1.1%	--	1.0%	12:30	23:30
		Employment Cost Index	Q3	0.5%	--	0.5%	12:30	23:30
		Chicago Purchasing Manager	OCT	58	--	60.4	13:45	00:45
		U. of Michigan Confidence	OCT F	68	--	67.9	13:55	00:55
		NAPM-Milwaukee	OCT	--	--	50	14:00	01:00
CA	CA	Bloomberg FCI Monthly	OCT	--	--	--	20:15	07:15
		Gross Domestic Product MoM	AUG	--	--	-0.1%	12:30	23:30
		Industrial Product Price MoM	SEP	--	--	0.4%	12:30	23:30
		Raw Materials Price Index MoM	SEP	--	--	2.2%	12:30	23:30

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 NOVEMBER NZ: ANZ Commodity Price (Oct), Wages (Q3) AU: NAB Business Survey (Oct), House Price Index (Q3), RBA Commodity Index (Oct) JP: Wages (Sep), Vehicle Sales (Oct) CH: PMI Manuf. (Oct) EU: Manuf. PMI (Oct) US: Incomes (Sep), ISM Manufacturing (Oct), Construction Spending (Sep)	2 NOVEMBER AU: Melbourne Cup (Victorian Public Holiday) , RBA Cash Rate , AIG Performance of Service Index (Oct) US: ABC Consumer Confidence (Oct 31)	3 NOVEMBER NZ: Employment (Q3) AU: Building Approvals (Sep) JP: Culture Day Public Holiday CH: Non-Manufacturing PMI (Oct) EU: Non-Manufacturing PMI (Oct) US: MBA Mortgage Applications (Oct 29), Factory Orders (Sep) FOMC Target Rate , ADP Employment (Oct)	4 NOVEMBER AU: Retail Sales (Sep), International Trade (Sep), Performance of Construction Index (Oct) EU: PPI (Sep), ECB Target Rate UK: New car registrations (Oct), BoE Target Rate US: Jobless claims (Oct 30), Nonfarm Productivity (Q3 P),	5 NOVEMBER AU: RBA Quarterly SOMP , Foreign Reserves (Oct) EU: Retail Sales (Sep) GE: Retail Sales (Sep), Factory Orders (Sep) UK: PPI (Oct) US: Ave Hourly Earnings (Oct), Nonfarm Payrolls (Oct), Pending Home Sales (Sep), Consumer Credit (Sep)
8 NOVEMBER AU: ANZ Job Ads (Oct) JP: Coincident Index (Sep) GE: Trade (Sep), IP (Sep) CA: Housing Starts (Oct)	9 NOVEMBER NZ: Card Spending JP: Money Stock (Oct) GE: CPI (Oct F) UK: RICS House Price Balance (Oct), Trade Balance (Sep), IP (Sep), Manufacturing Production (Sep), NIESR GDP estimate (Oct) US: NFIB Small business optimism (Oct), Wholesale inventories (Sep) CA: New House Prices (Oct)	10 NOVEMBER AU: Westpac Consumer Confidence (Nov), Housing Finance (Sep) JP Consumer Confidence (Oct) CH: Trade (Oct) UK: BoE Quarterly Inflation Report US: Trade balance (Sep), Jobless Claims (Nov 6), monthly budget statement (Oct) CA: Trade (Sep)	11 NOVEMBER NZ: Business PMI (Oct), Food Prices (Oct) AU: Labour Force (Oct) JP: Machine Orders (Sep), Domestic CGPI (Oct) CH: PPI (Oct), CPI (Oct), Retail Sales (Oct), IP (Oct) US: Veterans Day Holiday CA: Remembrance Day Holiday	12 NOVEMBER NZ: REINZ House Price Index (Oct) EU: GDP (Q3 A), IP (Sep) GE: GDP (Q3 P) US: University of Michigan consumer confidence (Nov P)
15 NOVEMBER AU: New Motor Vehicle Sales (Oct) JP: IP (Sep F), Housing Loans ((Q3), Tertiary Industry Index (Sep) EU: Trade Balance (Sep) UK: CPI (Oct), Retail Price Index (Oct) US: Retail Sales (Oct), Empire Manufacturing (Nov), Business Inventories (Sep)	16 NOVEMBER AU: RBA Board Minutes (Nov) , Westpac Leading Index (Sep) JP: BoJ Target Rate CH: Leading Index EU: CPI (Oct), ZEW Survey (Nov) GE ZEW Survey (Nov) UK: BoE minutes , Jobless Claims (Oct), Ave Weekly Earnings (Sep), ILO Unemployment Rate (Sep) US: PPI (Oct) IP (Oct),	17 NOVEMBER NZ: PPI (Q3) AU: DEWR Skilled Vacancies (Nov), Wage Cost Index (Q3) JP: Leading Index (Sep F) EU: Construction Output (Sep) US: CPI (Oct), Housing Starts (Oct), Building Permits (Oct)	18 NOVEMBER NZ: ANZ Consumer Confidence (Nov) EU: Current Account (Sep) UK Major Bank Mortgage Approvals (Oct), Retail Sales (Oct), Public Sector Borrowing (Oct) US: Jobless Claims (Nov 13), Leading Indicators (Oct), Philli Fed (Nov) CA: Leading Indicators (Oct), Wholesale Sales (Sep)	19 NOVEMBER NZ: Credit Card Spending (Oct) JP: Activity Index (Sep) GE: Producer Prices (Oct)
22 NOVEMBER EU: Consumer Confidence (Nov A) US: Chicago Red National Activity Index (Oct)	23 NOVEMBER NZ: Net Migration (Oct) GE: GDP (Q3 F) US: GDP (Q3 S), Existing Home Sales (Oct), Richmond Fed Manufacturing Index (Nov) CA: CPI (Oct), Retail Sales (Sep)	24 NOVEMBER NZ: RBNZ 2yr Inflation Expectation (Q4) AU: Conference Board Leading Index (Sep) EU: Ind.I New Orders (Sep) GE: IFO Bus. Survey (Nov) UK: GDP (Q3 P) US: FOMC minutes , Capital and Durable Goods Orders (Oct), Personal Incomes (Oct), U of Mich. Confidence (Nov F), New Home Sales (Oct),	25 NOVEMBER AU: Private Capital Expenditure (Q3) JP: Merchandise Trade Balance (Oct), Corporate Service Price Index (Oct)	26 NOVEMBER JP: CPI (Oct), Tokyo CPI (Nov) CH: MNI Business Condition Survey (Nov) EU: M3 (Oct) JP: CPI (Nov)
29 NOVEMBER NZ: Trade Balance (Oct), NBNZ Business Confidence AU: Corporate profits (Q3), Inventories (Q3) JP: Retail Trade (Oct) EU: Bus. Confidence (Nov), Consumer Confidence (Nov) UK: Consumer Credit (Oct), Mortgage Approvals (Oct)	30 NOVEMBER NZ: Building Permits (Oct) AU: Building Approvals (Oct), Private Credit (Oct), CA (Q3), RP-Rismark House Prices (Oct) JP: Jobless Rate (Oct), IP (Oct P), Vehicle production (Oct), Constr. Orders (Oct) EU: CPI (Nov), Unemployment (Oct) GE: Unemployment (Nov) US: Cons. Conf. (Nov) CA: GDP (Sep)	1 DECEMBER NZ: ANZ Commodity Prices (Nov) AU: AiG PMI (Nov), GDP (Q3), RBA Commodity Prices (Nov) JP: Vehicle Sales (Nov) CH: PMI Manu. (Nov) EU/UK/GE: PMI Manufacturing (Nov F) US: ISM Manuf. (Nov), Nonfarm productivity (Q3F), Construction Spending (Oct),	2 DECEMBER AU: Retail Sales (Oct), ABARE Commodity Statistics JP: Capital Spending (Q3) EU: GDP (Q3 P), PPI (Oct), ECB Rates Decision UK: PMI Construction (Nov) US: Pending Home Sales (Oct), Jobless Claims (Nov 27)	3 DECEMBER AU: AIG Performance of Services Index (Nov) CH: Non-manufacturing PMI (Nov) EU: PMI Services (Nov F), Retail Sales (Oct) GE: PMI Services (Nov F) UK: PMI Services (Nov) US: Payrolls (Nov), Factory Orders (Oct) CA: Employment (Nov)

CENTRAL BANK RELEASES FOR 2010

JANUARY	FEBRUARY	MARCH	APRIL
6th - FOMC Minutes 7th - BoE 14th - ECB 19th - BoC 20th - BoE Minutes 25-26th - BoJ 27th - FOMC 28th - RBNZ	2nd - RBA 4th - BoE 4th - ECB 5th - RBA MP Statement 16th - RBA Minutes 17th - BoE Minutes 17th - FOMC Minutes 17-18th - BoJ 18th - ECB 23rd - BoJ Minutes	2nd - BoC 2nd - RBA 4th - BoE 4th - ECB 11th - RBNZ 11th - RBNZ MP Statement 11th - SNB 16th - FOMC 16th - RBA Minutes 17th - BoE Minutes 16-17th - BoJ 18th - ECB 23rd - BoJ Minutes	6th - RBA 6-7th - BoJ 8th - BoE 8th - ECB 12th - BoJ Minutes 20th - BoC 20th - RBA 21st - BoE Minutes 22nd - ECB 28th - FOMC 29th - RBNZ 30th - BoJ
MAY	JUNE	JULY	AUGUST
4th - RBA 6th - ECB 7th - RBA MP Statement 10th - BoE 10th - BoJ Minutes 18th - RBA Minutes 19th - BoE Minutes 20th - ECB 20-21st - BoJ 26th - BoJ Minutes	1st - BoC 1st - RBA 10th - BoE 10th - ECB 10th - RBNZ 10th - RBNZ MP Statement 14-15th - BoJ 15th - RBA Minutes 17th - SNB 18th - BoJ Minutes 23rd - BoE Minutes 23rd - FOMC 24th - ECB	6th - RBA 8th - BoE 8th - ECB 20th - RBA Minutes 20th - BoC 21st - BoE Minutes 22nd - ECB 29th - RBNZ	3rd - RBA 5th - BoE 5th - ECB 6th - RBA MP Statement 10th - FOMC 17th - RBA Minutes 18th - BoE Minutes
SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
2nd - ECB 7th - RBA 8th - BoC 9th - BoE 16th - ECB 16th - RBNZ 16th - RBNZ MP Statement 16th - SNB 21st - RBA Minutes 21st - FOMC 22nd - BoE Minutes	5th - RBA 7th - BoE 7th - ECB 19th - RBA Minutes 19th - BoC 20th - BoE Minutes 21st - ECB 28th - RBNZ	2nd - RBA 3rd - FOMC 4th - BoE 4th - ECB 5th - RBA MP Statement 16th - RBA Minutes 17th - BoE Minutes 18th - ECB	2nd - ECB 7th - RBA 9th - BoE 9th - RBNZ 9th - RBNZ MP Statement 14th - FOMC 16th - ECB 16th - SNB 21st - RBA Minutes 22nd - BoE Minutes

***Notes:** Entries are the dates of central bank interest rate announcements for 2010, unless specified as minutes or otherwise. Dates are indicative only and are subject to change by central bank authorities.

BoJ data are available only to June.

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	2009	2010 F	2011 F	2012 F
Economic activity (annual % change)				
Private final demand	0.4	2.9	5.2	5.4
Household consumption	1.7	3.3	2.8	2.3
Dwelling investment	-4.5	5.0	2.3	2.3
Business investment	-2.3	1.2	14.2	15.9
Public demand	3.2	11.4	2.3	1.8
Domestic final demand	1.0	4.8	4.5	4.6
Inventories (contribution to GDP)	-0.5	0.5	0.0	0.0
Gross National Expenditure (GNE)	0.5	5.3	4.5	4.5
Exports	0.9	3.8	5.7	6.7
Imports	-8.3	14.3	10.6	10.0
Net Exports (contribution to GDP)	2.0	-2.2	-1.3	-1.0
Gross Domestic Product (GDP)	1.2	3.3	3.8	4.0
Prices and wages (annual % change)				
Inflation:				
Headline CPI	1.8	2.9	2.8	3.3
Underlying *	3.7	2.7	2.8	3.0
Wages	3.6	3.2	3.9	4.1
Labour market				
Employment (annual % change)	0.7	2.4	2.4	2.3
Unemployment rate (annual average %)	5.6	5.1	4.8	4.5
External sector				
Terms of trade (annual % change)	100.3	119.4	131.0	129.0
Current account balance: A\$bn	-51.4	-41.9	-49.3	-75.8
% of GDP	-4.1	-3.1	-3.3	-4.8

*Average of RBA weighted median and trimmed mean statistical measure

AUSTRALIAN INTEREST RATES	CURRENT	DEC 10F	MAR 11F	JUN 11F	SEP 11F	DEC 11F
RBA cash rate	4.50	4.75	5.25	5.50	5.75	6.00
90 day bill	4.77	5.10	5.60	6.00	6.00	6.20
3 year bond	4.89	5.00	5.40	5.70	5.90	6.00
10 year bond	5.16	5.20	5.40	5.60	5.80	5.80
3s10s yield curve	0.26	0.20	0.00	-0.10	-0.10	-0.20
3 year swap	5.30	5.40	5.80	6.10	6.30	6.40
10 year swap	5.70	5.75	5.95	6.15	6.35	6.35

INTERNATIONAL INTEREST RATES	CURRENT	DEC 10F	MAR 11F	JUN 11F	SEP 11F	DEC 11F
RBA cash rate	3.00	3.00	3.25	3.75	4.00	4.25
90 day bill	3.20	3.25	3.67	4.17	4.25	4.7
3 year bond	0.25	0.25	0.25	0.25	0.25	0.25
10 year bond	0.35	0.40	0.40	0.60	0.80	1.00
3s10s yield curve	2.53	2.20	2.00	2.30	2.50	3.00
3 year swap	0.10	0.10	0.10	0.10	0.10	0.10
10 year swap	1.00	1.00	1.00	1.00	1.00	1.00

For additional information on interest rates please refer to ANZ's *Interest Rate Strategy Weekly*.



FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F	DEC 11 F
Australian exchange rates						
A\$/US\$	0.9811	0.95	0.94	0.98	1.00	0.98
NZ\$/US\$	0.7486	0.72	0.72	0.73	0.74	0.72
A\$/¥	79.65	76.0	73.3	73.5	75.0	76.4
A\$/€	0.7045	0.68	0.66	0.69	0.69	0.69
A\$/£	0.6246	0.60	0.59	0.61	0.62	0.61
A\$/NZ\$	1.3107	1.32	1.31	1.34	1.35	1.35
A\$/C\$	1.0061	0.95	0.93	0.96	0.98	0.98
A\$/CHF	0.9507	1.01	1.02	1.07	1.10	1.09
A\$/CNY	6.5315	6.29	6.13	6.29	6.32	6.09
A\$ Trade weighted index	73.20	72.0	71.2	72.9	73.2	71.4
International cross rates						
US\$/¥	81.18	80.0	78.0	75.0	75.0	78.0
€/US\$	1.3925	1.40	1.42	1.42	1.45	1.42
€/¥	113.06	112	111	107	109	111
£/US\$	1.5708	1.58	1.60	1.60	1.62	1.60
€/£	0.8866	0.89	0.89	0.89	0.90	0.89
US\$/C\$	1.0255	1.00	0.99	0.98	0.98	1.00
US\$/CHF	0.9691	1.06	1.08	1.09	1.10	1.11
US\$ index	77.42	77.0	75.9	75.3	74.3	76.0
Asia exchange rates						
US\$/CNY	6.6572	6.62	6.52	6.42	6.32	6.21
US\$/HKD	7.7649	7.75	7.75	7.75	7.75	7.75
US\$/IDR	8940	9250	9500	9200	9000	8900
US\$/INR	44.54	47.5	49.9	48.0	46.0	44.0
US\$/KRW	1131	1200	1250	1200	1100	1000
US\$/MYR	3.1130	3.25	3.31	3.20	3.15	3.10
US\$/PHP	43.300	46.0	48.0	46.0	45.5	45.0
US\$/SGD	1.3025	1.36	1.38	1.37	1.36	1.34
US\$/THB	29.900	32.50	33.30	32.00	31.50	31.00
US\$/TWD	30.796	32.00	32.30	32.00	31.50	31.00
US\$/VND	19495	19500	20000	20000	20000	20000
Pacific exchange rates						
PGK/US\$	0.3800	0.386	0.372	0.358	0.344	0.330
FJD/US\$	0.5425	0.508	0.514	0.517	0.508	0.500

IMPORTANT NOTICE

Australia and New Zealand Group Limited is represented in:

AUSTRALIA

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

UNITED KINGDOM BY:

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

UNITED STATES OF AMERICA

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

NEW ZEALAND BY:

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

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