



# ECONOMICS & MARKETS RESEARCH AUSTRALIAN ECONOMICS TOOLBOX

20 AUGUST 2010

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## A CLOSE CALL

- **Australia's Federal Election** on Saturday is shaping up for one of the closest results in 50 years, with the latest poll showing the two-party preferred vote is split 50-50.
- **The tightness of the race has raised the possibility of a hung parliament which would be the least desirable outcome for financial markets, most notably the AUD.**
- The Labor Party has promised to return the budget to surpluses of A\$3.5bn in 2012-13 and A\$4.5bn in 2013-14. The Coalition has refused to put its policies into the Commonwealth Treasury for official costing, instead choosing a private accounting firm. According to these figures, the Coalition will deliver surpluses of A\$6.2bn in 2012-13 and A\$7.3bn in 2013-14.
- Key differences on economic policy surround company tax rates, parental leave, mining taxation arrangements, broadband and superannuation (see *In Focus* article on page 2 for more details).
- **Australian economic data this week were generally on the soft side.** Most important for the inflation outlook, both measures of wages, the Wage Price Index and Average Weekly Ordinary Time Earnings both came in below expectations at 0.8% QoQ (see *Weekly Data Wrap* on page 9 for further detail). **No wonder the RBA seems relatively comfortable, with its August Board Meeting Minutes maintaining a fairly neutral tone.**
- However the RBA clearly retains a medium-term tightening bias, with a **speech by RBA Deputy Governor Ric Battellino** today fairly upbeat and focusing on Australia's positive growth outlook and the risks posed by capacity constraints. While believing that inflation may be a "*smaller problem*" than in previous commodity booms, Battellino believes that "*we need to remain alert to the risks.*"
- With this in mind, **global uncertainties have lowered bond yields in the US, Europe and Australia and are presenting an opportunity for Australian debt holders to fix rates current attractive levels** (see *In Focus* article on page 6 for more details).

## THE WEEK AHEAD

- In Australia, markets will monitor the release of Q2 private capital expenditure data to gain further guidance on Australia's investment pipeline. Key focus will be on the expectations figures, although these could be distorted by uncertainty generated by the proposed mining tax.
- **The Australian corporate reporting season continues.** Following BHP's hostile bid for Potash Corp, the market will pay close attention to its earnings result on Tuesday. Other companies making announcements include Westpac, Origin Energy, Woolworths, Santos, Fortescue Metals and Fosters.
- Internationally, following a recent string of weak data the markets will be looking for evidence to counter fears of a double dip. Key data releases for the **US** are durable goods orders, new homes sales and the second estimate of Q2 GDP. Given this week's awful economic data out of the US, a **speech by Fed Chairman Bernanke** on the Economic Outlook on 27 August will also be closely watched for any evidence that the US is on the verge of further extending QE.
- In **Japan** the jobless rate and the CPI are out. In Europe, the focus will be on **German** Q2 GDP details and the August PMI, the **UK** Q2 GDP breakdown, and **Euro-zone** PMI and consumer confidence data.

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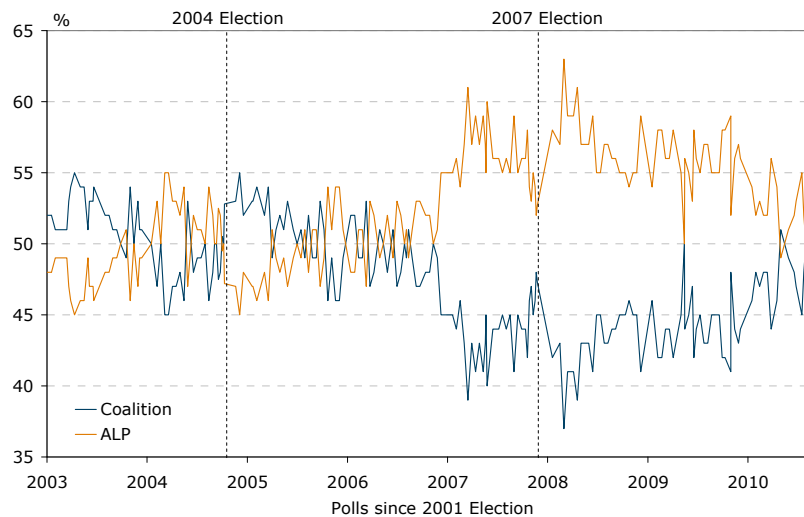
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## AUSTRALIAN FEDERAL ELECTION UPDATE 2010

### A CLOSE CALL

Following a five week campaign Australia heads to polls on Saturday to elect a new federal government. When Prime Minister Julia Gillard called the election her Labor party had arrested a recent poll decline and had a solid election leading position. The election campaign has seen polls sharply tighten. Two weeks ago polls suggested that the Liberal-National Party Coalition were set to achieve a historic electoral upset. However, polls have again shifted with the last Newspoll two-parties preferred poll (taken on 17-18 August) has Labor and the Coalition neck to neck at 50% of the vote each (See Figure 1 below). **This suggests one of the tightest electoral results in nearly fifty years, with a real possibility of a hung parliament.** (Note however that TAB betting figures strongly favour the Labor Party (the latest odds are 3.30:1 for the Coalition and 1.33:1 for Labor).

FIGURE 1: NEWSPOLL ELECTION POLL (LATEST TAKEN 17-18 AUG)



In the House of Representatives the polls suggest that Labor is ahead overall but the Coalition is doing well in marginal seats in the outer suburban and regional areas of NSW and Queensland. These two states have the majority of the country's marginal seats and hold the key to a Coalition victory. However, the latest Nielsen poll suggested that Labor appears to be stronger in Victoria and South Australia and could actually take several marginal seats from the Coalition, potentially protecting it from a large swing against in Queensland and NSW and enough to win with a reduced majority or at least enough for a hung parliament (see below).

Saturday will also see half of the Senate go to polls (those elected in 2004). The Senate does not get the same attention from pollsters as the House of Representatives but a poll recently conducted by Roy Morgan suggested that the Greens will hold the balance of power in the Senate, potentially securing up to 10 seats (up from 5 at present). A quirk of the Australian constitution means that the newly elected Senate will not begin sitting until 1 July 2011.

### A HUNG PARLIAMENT

The closeness of the election has raised the spectre of a hung parliament. A hung parliament, in which neither major political party holds a majority in the House of Representatives, is extremely rare in Australian politics. The last one occurred at a federal level in 1940 when Robert Menzies, then in his first term as prime minister, governed with the support of two independents. The tenuous arrangement only lasted a year and half.

**In the event of a hung parliament, the Coalition seems more likely to find the support to form government.** The balance of power will rest with independent candidates and the Greens. The Greens are expected to win a seat the House of Representatives and the three current independents - Bob Katter (Queensland), Rob Oakeshott and Tony Windsor (NSW) - are likely to retain their seats. These independent seats were once held by the National Party and all three politicians have at one time been members of the Party, suggesting a Coalition government is more likely.

The workings of a hung parliament usually require prolonged negotiation, suggesting the passage of legislation is likely to be slow. However this is probably not too much worse than working with a hostile Senate, although we note that whoever wins government will have to deal with the conservative independents in the lower house and the Greens in the upper house who are likely to take vastly different positions on many policy matters. However with both major parties bereft of many major fresh economic policy initiatives that would drive higher productivity and economic growth, it is unlikely that a hung parliament would actually do too much damage to the economy.

### MARKET REACTION

**A hung parliament would be the least desirable outcome for financial markets, most notably the AUD.** In the last British election, the GBP fell 2¼% in the two days after the announcement of a hung parliament. Note that this occurred against the backdrop of the European sovereign debt crisis. Nevertheless, the AUD would probably weaken more than the GBP due to the fact that AUD volatility tends to be greater than GBP volatility. We would expect these moves to be temporary however as global events reassert as the main AUD drivers.

If there is a clear election result, we expect an initial AUD boost should the Coalition win as offshore markets welcome the cancellation of Labor's mining tax proposals. A Labor victory would have minimal impact on the AUD.

For equity markets, the NBN and to a lesser extent the mining tax are the key issues. A Labor win would be welcome by Telstra investors, given the company is set to benefit greatly from the A\$11bn cash injection in return for its wholesale arm. A Coalition victory may see a small boost to coal, iron ore and petroleum stocks.

In terms of bond markets, there could potentially be a small rally in Australian government debt (and a fall in yield) under the Coalition given their lower government debt forecasts, although uncertainty around the accuracy of the Coalition's costings may diminish this impact. Any effect would be temporary however with offshore events dominating.

### BUDGET OUTCOMES

The Pre-Election Economic and Fiscal Outlook (PEFO) released on the 26 July showed a return to surplus by 2012-13 of A\$3.5bn (0.2% of GDP) followed by a A\$4.5bn surplus in 2013-14 (0.3% of GDP). With all Labor election promises fully funded, these figures can be taken as a baseline for what we can expect if the Labor party wins government on Saturday.

The Coalition has not put its election policy promises in to Treasury for official costing, instead choosing private accounting firm WHK Horwarth. If these costings are to be believed, the Coalition's A\$38bn in new spending promises will be more than fully funded with budget cuts and savings of almost A\$50bn over the four year estimates period. Overall, budget surpluses are projected to be A\$11bn higher than under a Labor government over four years, with a A\$6.2bn surplus in 2012-13 and a A\$7.3bn surplus in 2013-14. However given that the Coalition has not used official channels for costing, it is difficult to assess the validity of their figures and underlying assumptions. There would therefore seem greater scope for surprise on future budget outcomes under the Coalition. If the Coalition wins, we can expect an official Treasury budget update to be released in a few weeks time.

### KEY DIFFERENCES ON ECONOMIC POLICY

A list of the key policies of Labor, the Coalition and the Greens are listed in the table on pages 6 and 7. **On economic policy, the main differences between the two parties are:**

- **Mining Taxes** – Labor will implement a value based Minerals Resource Rent Tax on coal and iron ore producers and extend the existing Petroleum Resource Rent Tax to all onshore and offshore oil and gas projects (it now only covers offshore projects). The Coalition has vowed not to implement either tax change.
- **Parental leave** – Labor has committed to 18 weeks paid parental leave for the primary care giver at the minimum wage commencing from 1 July 2011, as well as 2 weeks leave at the minimum wage for fathers or partners of the primary care giver commencing from 1 July 2012. The Coalition has committed to 6 months paid parental leave to the primary care giver at the mother's salary, commencing from 1 July 2012. (The Coalition will also follow Labor's primary care giver plan from 1 July 2011 until 30 June 2012).
- **Company Tax** – Labor will cut the company tax rate to 29% from 1 July 2013 for most businesses and from 1 July 2012 for small businesses. The Coalition will cut the company tax rate to 28.5% from 1 July 2013 but will impose a 1.5% levy from 1 July 2012 on all businesses with annual turnover of greater than A\$5m to fund its parental leave scheme.
- **Carbon emissions** – Labor will not revisit the Carbon Pollution Reduction Scheme (CPRS) without community consensus, will not reconsider an emissions trading scheme (ETS) before 2012 and will not act until there is action by major carbon emitters. The Coalition will not implement an ETS and will establish an emissions reduction fund of A\$300mn increasing to A\$1bn in 2014-15 to provide incentives to business to reduce carbon emissions.
- **Broadband** – Labor remains committed to its A\$43bn National Broadband Network (NBN) (of which A\$26bn will be funded from the national purse) which will deliver Fibre to the Home to around 93% of Australian homes and businesses and force Telstra to sell its wholesale arm. The Coalition will abolish the NBN and establish a National Broadband Commission to promote development of broadband by the private sector. The Coalition will also invest A\$6.1b in investment in broadband services in regional and blackspot areas. The Coalition will allow Telstra to retain its wholesale business.
- **Superannuation and interest withholding tax** – Labor will raise the superannuation guarantee level from 9% to 12% by 2020. It will also phase down interest withholding tax. The Coalition has vowed not to make these changes, with the abolishment of the superannuation guarantee age limit the only major policy in this area.

### IMPACT ON ECONOMIC FORECASTS AND PROJECTIONS

**In terms of the outlook for GDP and inflation, there are few policies on either side which will materially impact our short to medium-term forecasts.** The key exception of relates to mining investment and profitability should the Coalition win government and scrap Labor's proposed mining tax changes. However the impact of the revised MRRT will be much less burdensome than under the original Resource Super Profits Tax (RSPT), with the increase in taxation for iron ore and coal producers relatively modest on our figuring and other mineral producers unaffected. The mining investment outlook would therefore be only marginally higher under the Coalition.

**Longer term, there is little from either side of politics in terms of major micro-economic reform or the structure of the economy which would boost Australia's long-run growth prospects.** Nevertheless, it is useful to assess the policies that have been announced in terms of the 3 Ps – namely population, participation and productivity.

## IN FOCUS

On population, both sides have rejected Kevin Rudd's "Big Australia" vision although neither have publically stated a population target. Julia Gillard's rhetoric surrounds a "Sustainable Australia". Tony Abbot has promised to cut the immigration intake to 170,000, although private sector modelling has suggested that Australia was on path to achieve such a reduction anyway.

Regarding participation, the main difference is on parental leave policy. While both policies will boost female labour force participation which at 58.7% is low by international standards, the Coalition policy goes much further. However with the Coalition funding this policy via a higher company tax rate, it is unclear whether these policies will be offset to a certain degree by lower rates of productivity profit and productivity.

In terms of productivity, both parties have announced a range of small infrastructure projects. Interestingly though, the Coalition has chosen to fund part of its debt reduction by means of running down existing capital funds including the Building Australia Fund, the education fund and the health fund, although it will create infrastructure bonds to help fund its infrastructure requirements. Labor's greater focus on education should also help to boost longer term productivity.

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## RISKS TO THE GLOBAL ECONOMY HAVE PROVIDED AUSTRALIAN RATES OPPORTUNITIES

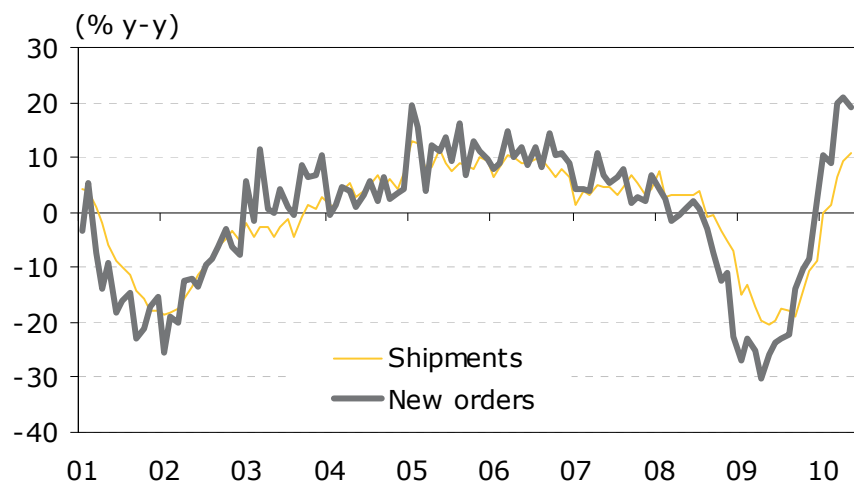
The global backdrop is again dominating local markets. The risks to the global economy are continuing to shift to the downside and the threat of deflation remains, to many, front of mind. Global interest rate markets, having started to stabilise from the extreme distress experienced in April/May during the height of European sovereign debt concerns, are now adjusting quickly to price a protracted period of very weak global growth.

This has seen a strong rally in longer-term government bonds in the US, Europe and Australia. The US 10-year treasury yield peaked just shy of 4% in the beginning of April and is now trading at 2.6%. An extension of the Federal Reserve's quantitative easing program now looks likely and the current rally in US bonds will likely continue until clarity over the next policy move is received. The next immediate target for 10-year yields is 2.50%, while a further fall towards 2.0% certainly cannot be ruled out (2.04% the low reached during the crisis on 30 December 2008).

The recent data flow highlights why US treasury markets have become so pessimistic. It is clear that the US recovery will not be smooth, but rather quite bumpy. We have been looking for a cashed-up corporate sector to drive an investment-led US recovery. However, despite a strong corporate reporting season with nearly three-quarters of companies in the S&P 500 posting stronger than expected earnings, the capital expenditure outlook is subdued. Moreover, we are yet to see sustained gains in employment or a significant fall in the unemployment rate (while the unemployment rate has declined to 9.5% from a peak of 10.1%, this has been partially due to people giving up on the search for work and leaving the labour force). The big question markets have been wrangling with is whether corporate America will start investing again and lift employment (and what would that trigger be?), or if growth has stumbled and we now face a double-dip recession.

The US economy enjoyed a typical 'V' shaped recovery in the early stages following the GFC as an inventory rebuild and extremely high levels of productivity generated strong growth and corporate profits. However, momentum has now slowed, and the US economy seems to be in a 'chicken versus egg' predicament: while corporates are waiting for consumers to ramp up spending before increasing investment, households are holding back spending until they see an improvement in investment and employment. Indeed the household savings rate is still around 10-year highs.

**FIGURE 2: US DURABLE GOODS ORDERS (EX DEFENCE & TRANSPORT) MAY HAVE PEAKED.**



Source: ANZ and Bloomberg

The lack of spending in the US was not initially a major economic concern as the deleveraging and repairing of household balance sheets was necessary. However, the risk is that a further rise in household savings will constrain an already weak consumer spending outlook. The housing market also remains a risk. Housing starts and new home sales in the US are at 10-year lows, and this means a slow correction in the US housing market is likely, keeping house prices subdued. US consumers are unlikely to increase spending until they see house prices stabilise and employment improve.

Likewise, concerns around European growth in H2 have arisen with austerity measures reducing public sector spending and investment. As credit conditions remain tight and European banks attempt to build up additional capital for balance sheets, the level of private investment needed to takeover from the public investment may be hampered. European consumers and sentiment are likely to remain weak, constrained by high unemployment, potential future tax increases, and general event risk relating to elevated sovereign debt concerns.

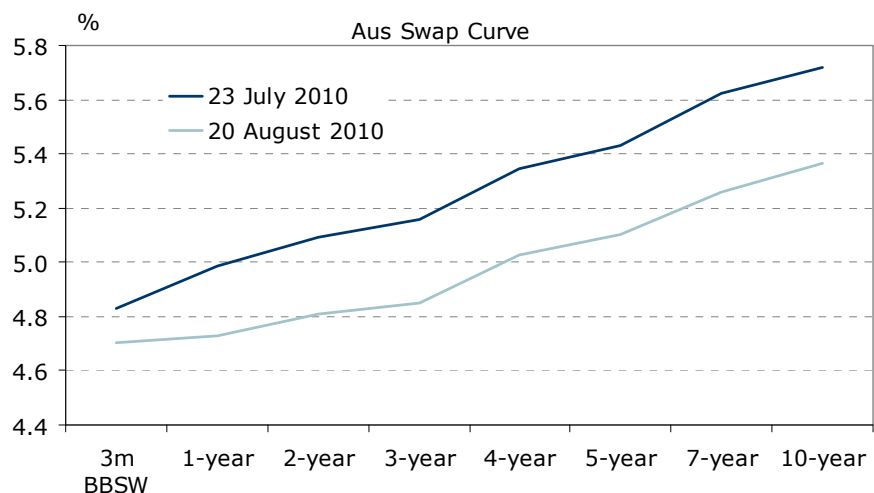
**AUSTRALIA TO RECEIVE SOME POSITIVES FROM THIS PESSIMISM**

The recent rally in US treasuries has prompted a relatively sharp move in Australian government bonds. Since late July, the yield on 3-year bonds has fallen by 33bps to 4.48% and the 10-year yield has fallen by 37bps to 4.905%, its lowest level since May 2009.

While local interest rate markets have been pricing in the downside risks to global growth, we consider the local Australian outlook to be in good shape, and indeed has some potential to surprise on the upside. While weak growth in advanced economies is concerning, we maintain our view that China can execute a soft landing. We also continue to expect Australian commodity export prices to remain at elevated levels, but note this is just not for resource commodities: Australia is one of the top five wheat exporters in the world and our producers (and the broader economy) will reap good gains from recent record wheat prices. Further, the strong mining investment outlook for Australia is in tact.

Australian economic growth therefore remains on track to accelerate to above trend rates next year. This will see core inflation rise and means the RBA will maintain a medium-term tightening bias. Current global events will add to the case for the RBA to remain on hold for now. But we continue to think that rates markets, which are pricing rates to stay on hold for at least the next six months, are underestimating the risks of a rise in the cash rate.

**FIGURE 3: AUSTRALIAN SWAP CURVE TAKES A DIVE**

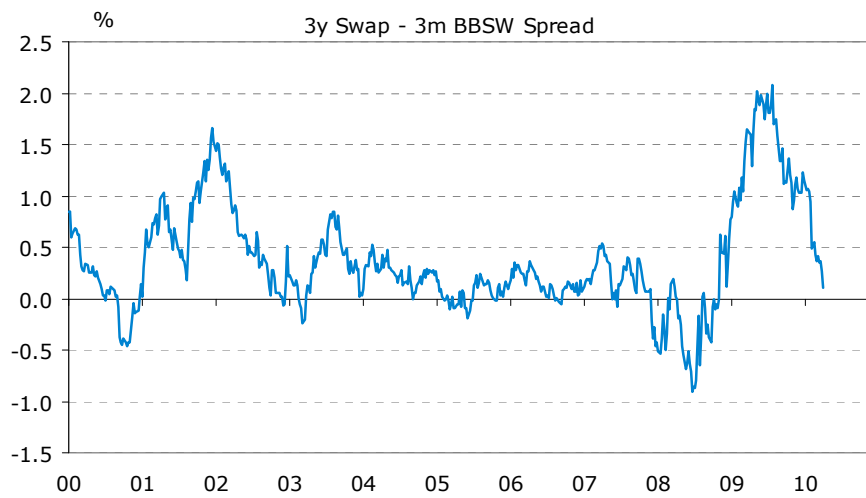


Source: ANZ and Bloomberg.



Within this context, the fall in Australian bond and swap rates, which are being driven by global forces, may be presenting favourable opportunities for Australian borrowers. Figure 1 below represents how the swap curve has fallen over the past four weeks. The swap curve has also seen a dramatic flattening as represented in Figure 3 above with the fall in the 3-year to BBSW spread. A narrowing in this spread has seen the option to fix interest rates become more appealing (a 3-year rate can be fixed at a premium over BBSW for under 30bps at the moment).

**FIGURE 4: FIXING RATES IN AUSTRALIA IS LOOKING APPEALING AGAIN**



Source: ANZ and Bloomberg

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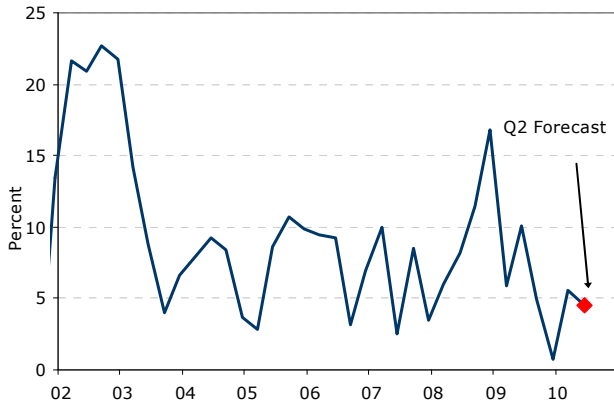
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## WEEKLY DATA WRAP

- **New motor vehicle sales** fell 2.6% in July as the end of the Government's tax incentives still played on the data. While motor vehicle sales have fallen for the past 3 months, much of this can be attributed to sales being brought forward in April (+8.7% MoM). Motor vehicle sales were still up 11.6% from a year earlier.
- **Minutes of the RBA's August Board Meeting kept a neutral tone**, with a longer-term tightening bias. The focus of the rhetoric was on heightened global uncertainty, although we expect local data will still ultimately determining policy decisions. The trigger for the RBA to raise rates is most likely going to come from a stronger than expected household sector. Therefore, we will be watching data on employment, consumer spending, house prices and household credit growth in the coming months.
- A **speech by RBA Deputy Governor Ric Battellino** was noticeably more upbeat than the August Minutes, focusing on Australia's positive growth outlook and risks posed by capacity constraints. In particular, Battellino seemed more optimistic about the outlook for non-mining business investment and household spending. Battellino suggested that the RBA is still "alert" to inflation risks although did suggest that the inflation may be a "smaller problem" than in previous commodities booms.
- The **Westpac Leading Index** for June was unchanged from May, which was revised up slightly from 0.2% to 0.3%. The annualised growth rate, which is supposed to lead economic activity in the coming 3 to 9 months, eased to 6.0% from 7.4% in May although is well above the long-term trend of 3.0%.
- **DEWR Skilled Vacancies** fell by 0.3% in August after July's figures were also revised lower to 0.0% (from 0.3%). A fall in openings for professionals (-3.4% MoM) was the greatest contributor to the fall, with vacancies for trades people rising 1%.
- The **CBAHIA Housing Affordability Index** fell to 108.3 in Q2 from 119.2 in Q1 representing a decline of 9.1%. The Index has seen a sharp decline since March 2009 as house prices and interest rate rises have outstripped increases in disposable income.
- The **Wage Price Index** expanded by 0.8% in Q2, as private sector wage growth (+0.8% QoQ, +4.0% YoY) continues to trail the public sector (+1.0% QoQ, 2.8% YoY). As wages growth continues to be subdued, this releases pressure on inflation and rate rises from the RBA.
- **Average Weekly Earnings** data showed that full-time adult ordinary time earnings (AWOTE) in the 3 months to May slowed to 0.8% during the February to May quarter (previous quarter +1.2%), with the annual rate slowing to 5.25% (from +5.8%). Over the past year the utilities, construction and admin and support sectors have seen the largest rises in wages. Full-time adult total earnings increased 0.9% QoQ while all employees total earnings were much stronger at 1.4% QoQ and 6.4% YoY suggesting that overtime and bonus payments are picking up.

# DATA PREVIEWS

**CHART 1: CONSTRUCTION WORK DONE (Q2)**



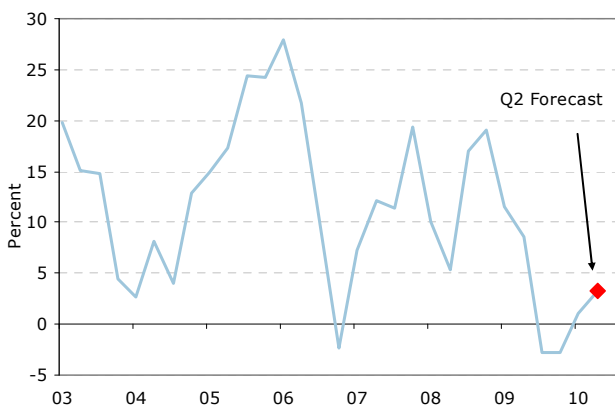
**25 AUGUST: CONSTRUCTION WORK DONE (Q2)**

**ANZ: +1.9% QoQ, +4.5% YoY**  
**Market: +3.0% QoQ**  
**Last: +1.9% QoQ, +5.6% YoY**

Construction work done is expected to remain solid in the June quarter, rising by an estimated 1.9%. The major driver of the rise is a decent bounce in dwelling investment and continued strength (albeit weaker than in recent quarters) in public investment.

However looking forward, softness in recent housing approvals data on the back of a normalisation of monetary policy could suggest that dwelling investment growth may ease over coming quarters, and add little to overall economic growth. Nonetheless, the outlook for non-residential building investment is strong, especially in the mining sector. Over coming quarters, engineering construction in particular is expected to make a robust contribution to growth given the substantial amount of investment in the pipeline that is yet to be completed. **(AR)**

**CHART 2: PRIVATE CAPEX (Q2)**



**26 AUGUST: PRIVATE CAPEX (Q2)**

**ANZ: +2.0% QoQ, +3.3% YoY**  
**Market: +2.3% QoQ**  
**Last: -0.2% QoQ, +1.0% YoY**

Private capital expenditure is forecast to rise by 2% in the June quarter, backed by a strong lift in spending on machinery and equipment which should offset a small decline in engineering construction. However, note that the release's data may be affected by the Federal Government's proposed mining tax so we could see some softening in the expectations figures for 2010-11.

That said, the outlook for business investment is buoyant, and capex in the resources, infrastructure and utilities sectors is forecast to be a major driver of growth over the years ahead. **(AR)**

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	ANZ	MARKET	LAST	GMT	AEST
23-27 Aug	CH	Leading Index	JUL	nf	na	102.8	-	-
	US	Mortgage Delinquencies	Q2	nf	na	10.1%	-	-
		MBA Mortgage Foreclosures	Q2	nf	na	4.6%	-	-
23.Aug	JP	Supermarket Sales YoY	JUL	nf	na	-1.4%	05:00	15:00
	EU	PMI Composite	AUG A	nf	56.4	56.7	08:00	18:00
		PMI Manufacturing	AUG A	nf	56.4	56.7	08:00	18:00
		PMI Services	AUG A	nf	55.5	55.8	08:00	18:00
		Euro-Zone Consumer Confidence	AUG A	nf	-13.0	-14.0	14:00	00:00
	GE	PMI Manufacturing	AUG A	nf	60.9	61.2	07:30	17:30
		PMI Services	AUG A	nf	56.2	56.5	07:30	17:30
	US	Chicago Fed National Activity Index	JUL	nf	na	-0.6	12:30	22:30
		<b>Fed's Hoenig speaks in Kansas</b>	-	-	-	-	<b>14:30</b>	<b>00:30</b>
		<b>US Treasury auctions 30-year TIPS</b>	-	-	-	-	-	-
24.Aug	NZ	RBNZ 2yr Inflation Expectation	Q3	nf	na	2.8%	03:00	13:00
		Industrial New Orders sa MoM	JUN	nf	1.5%	3.2%	09:00	19:00
		Industrial New Orders sa YoY	JUN	nf	24.2%	22.9%	09:00	19:00
	GE	GDP sa QoQ (Final)	Q2 F	nf	2.2%	2.2%	06:00	16:00
		GDP wda YoY (Final)	Q2 F	nf	3.7%	3.7%	06:00	16:00
		GDP nsa YoY (Final)	Q2 F	nf	4.1%	4.1%	06:00	16:00
		Private Consumption	Q2	nf	0.5%	-0.8%	06:00	16:00
		Government Spending	Q2	nf	na	1.1%	06:00	16:00
		Domestic Demand	Q2	nf	na	1.4%	06:00	16:00
		Imports	Q2	nf	na	6.1%	06:00	16:00
		Exports	Q2	nf	na	-10.5%	06:00	16:00
		Construction Investment	Q2	nf	na	-3.8%	06:00	16:00
		Capital Investment	Q2	nf	na	-1.6%	06:00	16:00
	UK	BBA Loans for House Purchase	JUL	nf	na	34813.0	08:30	18:30
	US	Existing Home Sales	JUL	nf	4.63M	5.37M	14:00	00:00
		Existing Home Sales MoM	JUL	nf	-13.9%	-5.1%	14:00	00:00
		Richmond Fed Manufacturing Index	AUG	nf	12.0	16.0	14:00	00:00
		ABC Consumer Confidence	22.Aug	nf	na	-45.0	21:00	07:00
		<b>Fed's Evans Speaks in Indianapolis</b>	-	-	-	-	<b>12:45</b>	<b>22:45</b>
		<b>US Treasury auctions 2-year Note</b>	-	-	-	-	-	-
	CA	Retail Sales MoM	JUN	nf	0.2%	-0.2%	12:30	22:30
		Retail Sales Less Autos MoM	JUN	nf	0.1%	-0.1%	12:30	22:30
25-31 Aug	UK	Nationwide House Prices sa MoM	AUG	nf	na	-0.5%	-	-
	UK	Nationwide House Prices nsa YoY		nf	na	6.6%	-	-
25.Aug	AU	Construction Work Done	Q2	1.9%	3.0%	1.9%	01:30	11:30
		<b>AOFM auctions A\$500mn of the April 2020 Bonds</b>	-	-	-	-	-	-
	JP	Corporate Services Price Index YoY	JUL	nf	na	-1.0%	23:50	09:50
		Merchandise Trade Balance Total	JUL	nf	¥541.8B	¥686.4B	23:50	09:50
		Adjusted Merchandise Trade Balance	JUL	nf	¥444.5B	¥456.0B	23:50	09:50
		Merchandise Trade Exports YoY	JUL	nf	21.9	27.7	23:50	09:50
		Merchandise Trade Imports YoY	JUL	nf	19.4	26.1	23:50	09:50
	GE	IFO - Business Climate	AUG	nf	105.5	106.2	08:00	18:00
		IFO - Current Assessment	AUG	nf	107.2	106.8	08:00	18:00
		IFO - Expectations	AUG	nf	104.3	105.5	08:00	18:00
	US	MBA Mortgage Applications	20.Aug	nf	na	13.0%	11:00	21:00
		Durable Goods Orders	JUL	nf	3.0%	-1.2%	12:30	22:30

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	ANZ	MARKET	LAST	GMT	AEST	
25.Aug	US	Durables Ex Transportation	JUL	nf	0.5%	-0.9%	12:30	22:30	
		Capital Goods Orders Nondefence Ex Aircraft & Parts	JUL	nf	na	0.2%	12:30	22:30	
		Capital Goods Shipments Nondefence Ex Aircraft & Parts	JUL	nf	na	0.5%	12:30	22:30	
		New Home Sales	JUL	nf	340K	330K	14:00	00:00	
		New Home Sales MoM	JUL	nf	0.0%	23.6%	14:00	00:00	
		House Price Purchase Index QoQ	Q2	nf	na	-1.9%	14:00	00:00	
		House Price Index MoM	JUN	nf	na	0.5%	14:00	00:00	
	<b>US Treasury auctions 5-year Note</b>								
		CA	Teranet/National Bank Home Price Index	JUN	nf		13.6%	13:00	23:00
	26.Aug	AU	Conference Board Leading Index	JUN	nf	na	0.3%	00:00	10:00
Private Capital Expenditure			Q2	2.0%	2.3%	-0.2%	01:30	11:30	
JP		Japan Buying Foreign Bonds	20.Aug	nf	na	¥2177.7B	23:50	09:50	
		Japan Buying Foreign Stocks	20.Aug	nf	na	¥8.0B	23:50	09:50	
		Foreign Buying Japan Stocks	20.Aug	nf	na	-¥40.3B	23:50	09:50	
		Foreign Buying Japan Bonds	20.Aug	nf	na	¥219.1B	23:50	09:50	
EU		Euro-Zone M3 sa YoY	JUL	nf	0.4%	0.2%	08:00	18:00	
		Euro-Zone M3 sa 3 mth ave.	JUL	nf	0.2%	0.0%	08:00	18:00	
GE		Gfk Consumer Confidence Survey	SEP	nf	4.0	3.9	06:00	16:00	
UK		CBI Reported Sales	AUG	nf	na	33.0	10:00	20:00	
US	Initial Jobless Claims	21.Aug	nf	485K	500K	12:30	22:30		
	Continuing Claims	14.Aug	nf	na	4478K	12:30	22:30		
	RPX Composite 28dy Index	30.Jun	nf	na	195.9	13:00	23:00		
	RPX Composite 28dy YoY	JUN	nf	na	2.1%	13:00	23:00		
	<b>US Treasury auctions 7-year Note</b>								
27.Aug	AU	<b>AOFM auctions A\$700mn of the December 2013 Bonds</b>	-	-	-	-	-	-	
	JP	Jobless Rate	JUL	nf	5.3%	5.3%	23:30	09:30	
Job-To-Applicant Ratio		JUL	nf	0.53	0.52	23:30	09:30		
Overall Household Spending YoY		JUL	nf	1.4%	0.5%	23:30	09:30		
Tokyo CPI YoY		AUG	nf	-1.1%	-1.2%	23:30	09:30		
Tokyo CPI Ex-Fresh Food YoY		AUG	nf	-1.2%	-1.3%	23:30	09:30		
Tokyo CPI Ex Food, Energy YoY		AUG	nf	-1.4%	-1.4%	23:30	09:30		
National CPI YoY		JUL	nf	-1.0%	-0.7%	23:30	09:30		
Natlonia CPI Ex-Fresh Food YoY		JUL	nf	-1.1%	-1.0%	23:30	09:30		
National CPI Ex Food, Energy YoY		JUL	nf	-1.5%	-1.5%	23:30	09:30		
CH		MNI Business Conditions Survey	AUG	nf	na	64.9	01:35	11:35	
GE	Consumer Price Index (CPI) MoM	AUG P	nf	0.2%	0.3%	-	-		
	Consumer Price Index YoY	AUG P	nf	1.1%	1.2%	-	-		
	CPI - EU Harmonised MoM	AUG P	nf	0.3%	0.3%	-	-		
	CPI - EU Harmonised YoY	AUG P	nf	1.2%	1.2%	-	-		
UK	GDP QoQ	Q2 P	nf	1.1%	1.1%	08:30	18:30		
	GDP YoY	Q2 P	nf	1.6%	1.6%	08:30	18:30		
	Total Business Investment QoQ	Q2 P	nf	na	7.8%	08:30	18:30		
	Total Business Investment YoY	Q2 P	nf	na	-7.7%	08:30	18:30		
	Private Consumption	Q2 P	nf	na	-0.1%	08:30	18:30		
	Government Spending	Q2 P	nf	na	1.5%	08:30	18:30		
	Gross Fixed Capital Formation	Q2 P	nf	na	4.5%	08:30	18:30		
	Exports	Q2 P	nf	na	-1.7%	08:30	18:30		
	Imports	Q2 P	nf	na	1.6%	08:30	18:30		
	Index of Services (3mth/3mth)	JUN	nf	na	0.8%	08:30	18:30		
US	GDP QoQ (Annualized)	Q2 S	nf	1.4%	2.4%	12:30	22:30		
	Personal Consumption	Q2 S	nf	1.7%	1.6%	12:30	22:30		
	GDP Price Index	Q2 S	nf	1.8%	1.8%	12:30	22:30		
	Core PCE QoQ	Q2 S	nf	1.1%	1.1%	12:30	22:30		
	University of Michigan Confidence	AUG F	nf	70.0	69.6	13:55	23:55		
	<b>Fed's Bernanke Speaks on economic outlook in Wyoming</b>								
						-	14:00	00:00	

# FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>30 AUGUST</b> NZ: Trade Balance (Jul), NBNZ Business Confidence (Aug) EU: Consumer confidence (Aug) US: Personal Income (Jul) CA: Industrial Product Price (Jul)	<b>31 AUGUST</b> NZ: Building Permits (Jul) AU: Building Approvals (Jul) JP: Retail Trade (Jul), Industrial Production (Jul) EU: UE Rate (Jul) GE: UE Rate (Aug) UK: Mortgage Approvals (Jul) US: Consumer Confidence (Aug) CA: GDP (Jun)	<b>1 SEPTEMBER</b> AU: GDP (Q2), Private Sector Credit (Jul), Current Account Balance (Q2) CH: PMI Manufacturing (Aug) US: ISM Manufacturing (Aug), MBA Mortgage Applications (Aug 27)	<b>2 SEPTEMBER</b> AU: Trade Balance (Jul) EU: <b>ECB Announces Interest Rates</b> US: Initial Jobless Claims (Aug 28)	<b>3 SEPTEMBER</b> EU: Retail Sales (Aug) GE: PMI Services (Aug) US: Change in Nonfarm Payrolls (Aug)
<b>6 SEPTEMBER</b> AU: TD Securities Inflation (Aug), ANZ Jobs Ads (Aug) EU: Trade Balance (Jul)	<b>7 SEPTEMBER</b> AU: <b>RBA CASH TARGET</b> JP: <b>BOJ Target Rate</b> GE: Factory Orders (Jul) US: <b>Fed's Beige Book</b>	<b>8 SEPTEMBER</b> NZ: Manuf. Activity (Q2) AU: Home Loans (Jul) JP: Current Account Total (Jul), Machine Orders (Jul), Trade Balance (Jul) GE: Trade Balance (Jul), Industrial Production (Jul) UK: Industrial Production (Jul) US: MBA Mortgage Applications (Sep 3), Consumer Credit (Jul) CA: <b>Bank of Canada Rate</b> , Ivey Purchasing Managers Index (Aug)	<b>9 SEPTEMBER</b> AU: Employment Change (Aug), Unemployment Rate (Aug) JP: Capital Spending (Q2) EU: <b>ECB Publishes Sept. Monthly Report</b> GE: CPI (Aug F) UK: <b>BOE ANNOUNCES RATES</b> US: Trade Balance (Jul), Initial Jobless Claims (Aug 28), CA: Housing Starts (Aug)	<b>10 SEPTEMBER</b> NZ: Terms of Trade (Q2) JP: GDP (Q2 F) CH: Trade Balance (Aug), Exports (Aug), Imports (Aug) UK: PPI (Aug) US: Wholesale Inventories (Jul) CA: Unemployment Rate (Aug)
<b>13 SEPTEMBER</b> NZ: House Prices (Aug) CH: PPI (Aug), CPI (Aug), Retail Sales (Aug), Industrial Production (Aug) EU: Industrial Production (Jul) UK: RICS House Price Balance (Aug) US: Monthly Budget Statement (Aug)	<b>14 SEPTEMBER</b> NZ: Retail Sales (Jul) AU: Business confidence (Aug) JP: Industrial Production (Jul F), Capacity Utilization (Jul F) EU: Zew Survey (Eco Sentiment (Sep)) GE: Zew Survey (Econ. Sentiment) (Sep) UK: CPI (Aug), RPI (Aug) US: Advance Retail Sales (Aug), Business I Inventories (Jul) CA: Capacity Utilization Rate (Q2)	<b>15 SEPTEMBER</b> AU: Consumer Confidence (Sep) EU: CPI (Aug) UK: Jobless Claims Change (Aug), Employment (Aug) US: MBA Mortgage Applications (Sep 10), Import Price Index (Aug), Industrial Production (Aug) CA: Manufacturing Sales (Jul)	<b>16 SEPTEMBER</b> NZ: <b>RBNZ Official Cash Rate</b> , Business PMI (Aug) AU: DEWR Skilled Vacancies (Sep), International Merchandise Imports (Aug) JP: Tertiary Industry Index (Jul) UK: Retail Sales (Aug) US: Initial Jobless Claims (Aug 7), PPI (Aug), Current Account Balance (Q2)	<b>17 SEPTEMBER</b> EU: Current Account (Jul) GE: Producer Prices (Aug) US: CPI (Aug), Consumer Confidence (Sep)
<b>20 SEPTEMBER</b> NZ: Confidence (Sep), Net Migration (Aug) JP: Public Holiday UK: M4 Money Supply (Aug P) US: NAHB Housing Market Index (Sep) CA: Wholesale Sales (Jul)	<b>21 SEPTEMBER</b> NZ: Current Account (Q2) AU: <b>RBA Board Minutes</b> , ABARE Australian Commodities Outlook JP: Leading Index (JUL F) UK: Public Sector Net Borrowing (Aug) UK: <b>FOMC Rates Decision</b> , ABC Consumer Confidence (Sep 19), Housing Starts (Aug), Building Permits (Aug)	<b>22 SEPTEMBER</b> NZ: GDP (Q2) AU: Westpac Leading Index (Jul) JP: All Industry Activity Index (Jul) EU: Industrial New Orders (Jul), Consumer Confidence (Sep) UK: <b>BoE Minutes</b> US: MBA Mortgage Applications (Sep 17), House Price Index (Jul)	<b>23 SEPTEMBER</b> AU: <b>RBA Foreign Exchange Transactions (AUG)</b> JP: Public Holiday UK: BBA Loans for House Purchase (Aug) US: Initial Jobless Claims (Sep 18), Leading Indicators (Aug), Existing Home Sales (Aug)	<b>24 SEPTEMBER</b> CH: MNI Business Conditions Survey (Sep) GE: IFO Business Climate (Sep) US: Durable Goods Orders (Aug), Capital Goods Orders (Aug), New Home Sales (Aug)
<b>27 SEPTEMBER</b> JP: Merchandise Trade Balance Total (Aug) CH: Industrial Profits (Aug) UK: Nationwide House prices (Sep)	<b>28 SEPTEMBER</b> GE: CPI (Sep) UK: GDP (Q2) US: Consumer confidence (Sep)	<b>29 SEPTEMBER</b> NZ: Trade Balance (Aug), Imports (Aug), Exports (Aug) JP: Tankan Large Manufacturers Index (Q3), Tankan Large All Industrial Capex (Q3) EU: Consumer Confidence (Sep) US: MBA Mortgage Applications (Sep 24)	<b>30 SEPTEMBER</b> NZ: Building Permits (Aug) AU: Private Sector Credit (Aug), Building Approvals (Aug) JP: Retail Trade (Aug), Industrial Production (Aug), House Starts (Aug) EU: CPI estimate (Sep) GE: Employment (Sep) US: GDP (Q2 T), Initial Jobless Claims (Sep 25) CA: GDP (Jul)	<b>1 OCTOBER</b> AU: Aig Performance of Manufact. Index (Sep) JP: Jobless Rate (Aug), Tokyo CPI (Sep), National CPI (Sep) CH: PMI Manufact. (Sep) EU: PMI Manufact. (Sep), Employment (Aug) GE: PMI Manufact. (Sep) US: Personal Income (Aug), ISM Manufact. (Sep)

# 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
<b>Economic activity (annual % change)</b>				
Private final demand	0.7	2.7	5.1	5.6
Household consumption	1.6	2.8	2.7	2.4
Dwelling investment	-4.6	4.9	1.8	2.3
Business investment	-0.8	1.7	14.1	16.1
Public demand	3.3	11.4	4.0	1.9
Domestic final demand	1.3	4.7	4.8	4.7
Inventories (contribution to GDP )	-0.5	0.6	0.0	-0.1
Gross National Expenditure (GNE)	0.7	5.3	4.8	4.6
Exports	1.4	2.1	6.0	7.3
Imports	-7.8	13.7	10.5	10.8
Net Exports (contribution to GDP)	2.0	-2.4	-1.2	-1.1
<b>Gross Domestic Product (GDP)</b>	<b>1.3</b>	<b>2.9</b>	<b>3.8</b>	<b>3.9</b>
<b>Prices and wages (annual % change)</b>				
Inflation:				
Headline CPI	1.8	2.9	2.8	3.3
Underlying *	3.7	2.7	2.9	3.2
Wages	3.6	3.3	4.0	4.2
<b>Labour market</b>				
Employment (annual % change)	0.7	2.4	2.4	2.3
Unemployment rate (annual average %)	5.6	5.1	4.8	4.5
<b>External sector</b>				
Current account balance: A\$bn	-51.4	-54.9	-68.6	-98.4
% of GDP	-4.1	-4.0	-4.7	-6.3

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

AUSTRALIAN INTEREST RATES	CURRENT	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F
RBA cash rate	4.50	4.50	5.00	5.25	5.50	5.75
90 day bill	4.70	4.85	5.30	5.60	6.00	6.0
3 year bond	4.40	4.90	5.10	5.50	5.70	6.00
10 year bond	4.91	5.40	5.50	5.70	5.80	6.00
3s10s yield curve	0.51	0.50	0.40	0.20	0.10	0.00
3 year swap	4.86	5.30	5.50	5.90	6.10	6.40
10 year swap	5.39	5.95	6.05	6.25	6.35	6.55
INTERNATIONAL INTEREST RATES	CURRENT	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F
RBNZ cash rate	3.00	3.25	3.25	3.50	4.00	4.5
NZ 90 day bill	3.24	3.50	3.50	3.92	4.42	4.92
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.5
US 2 year note	0.48	0.80	1.00	1.20	1.50	2.00
US 10 year note	2.57	3.20	3.20	3.30	3.30	3.60
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.00	1.00	1.00	1.00	1.00	1.00
UK repo rate	0.50	0.50	0.50	0.50	0.50	0.75

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

## FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	SEP 10 F	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F
<b>Australian exchange rates</b>						
A\$/US\$	0.8901	0.88	0.90	0.92	0.94	0.94
NZ\$/US\$	0.7054	0.70	0.71	0.72	0.73	0.73
A\$/¥	75.91	77.4	86.4	89.2	92.1	94.0
A\$/€	0.6952	0.70	0.75	0.81	0.84	0.84
A\$/£	0.5720	0.57	0.58	0.59	0.60	0.61
A\$/NZ\$	1.2618	1.26	1.27	1.28	1.29	1.29
A\$/C\$	0.9256	0.87	0.87	0.88	0.88	0.90
A\$/CHF	0.9179	1.03	1.07	1.11	1.16	1.18
A\$/CNY	6.0429	5.92	5.96	6.00	6.03	5.94
A\$ Trade weighted index	69.40	70.5	72.8	75.0	76.0	75.4
<b>International cross rates</b>						
US\$/¥	85.28	88.0	96.0	97.0	98.0	100.0
€/US\$	1.2803	1.25	1.20	1.14	1.12	1.12
€/¥	109.18	110	115	111	110	112
£/US\$	1.5562	1.55	1.55	1.57	1.57	1.54
€/£	0.8222	0.81	0.77	0.73	0.71	0.73
US\$/C\$	1.0399	0.99	0.97	0.96	0.94	0.96
US\$/CHF	1.0312	1.17	1.19	1.21	1.23	1.25
US\$ index	82.49	84.3	87.3	90.0	91.0	91.8
<b>Asia exchange rates</b>						
US\$/CNY	6.7884	6.73	6.62	6.52	6.42	6.32
US\$/HKD	7.7732	7.76	7.75	7.75	7.75	7.75
US\$/IDR	8971	9300	9500	9900	9600	9400
US\$/INR	46.57	48.0	49.0	49.9	48.0	46.00
US\$/KRW	1182	1270	1345	1390	1320	1275
US\$/MYR	3.1360	3.30	3.38	3.45	3.35	3.3
US\$/PHP	44.980	46.7	48.3	49.0	48.0	47.3
US\$/SGD	1.3544	1.41	1.45	1.48	1.44	1.4
US\$/THB	31.520	32.90	33.90	34.30	33.50	33.00
US\$/TWD	31.925	32.50	33.30	33.70	32.70	32
US\$/VND	19475	19000	19000	19000	20000	20000
<b>Pacific exchange rates</b>						
PGK/US\$	0.3680	0.395	0.386	0.372	0.358	0.34
FJD/US\$	0.5138	0.507	0.508	0.514	0.517	0.51

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