



ECONOMICS & GLOBAL MARKETS RESEARCH

AUSTRALIAN ECONOMICS TOOLBOX

1 OCTOBER 2010

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CONTRIBUTORS

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

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

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

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

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

David Cannington, Economist
+61 3 9273 4274
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

BREAKING THE NEXUS

- Weak building approvals, house price and credit data saw market pricing for a 25bp cash rate hike next Tuesday dip to 50% from 70% earlier in the week.
- However, to use the short-term data flow to determine the chance of a near-term rate rise is to miss the point. **The RBA is poised to hike the cash rate to 4.75% on Tuesday on the basis of the *medium-term outlook*.** This would aim to break the nexus between monetary policy moves and the release of historical CPI figures.
- A follow-up hike in the cash rate to 5% in November would also be a strategic attempt to get ahead of the curve. Nevertheless, we accept the risk that a set of circumstances could develop ahead of the November meeting which would alter the medium-term outlook and keep the RBA on hold. (See *In Focus* article on page 2 for more details.)
- **The Australian dollar hit new highs this week, breaching AUD/USD 0.97.** On our forecasts, the AUD is set for continued strength over the years ahead and could breach parity with the USD in 2011, if only briefly.
- However on a risk-reward basis, the chance of a short-term correction for the AUD on all major crosses is significant. We recommend selling ahead of USD 0.9850. In the absence of a global financial disruption, we see this likely correction as limited in scope and would be buying the AUD at USD 0.92/93. (See page 3)
- **The RBA's mandate has been clarified to explicitly outline its financial system responsibilities.** While this does not equate to a responsibility to bail out financial institutions, the RBA will still provide crucial support as the "*ultimate provider of liquidity to the system.*" The RBA's responsibility to keep inflation in a band between 2 and 3% on average over the cycle was unchanged.
- The RBA's bi-annual **Financial Stability Review on Thursday emphasised the "relatively strong condition" of the Australian financial system.** In particular, bad debt charges on banking loans have peaked, household balance sheets are sound and businesses have deleveraged.

THE WEEK AHEAD

- In **Australia**, key focus will be on the RBA decision at 2:30pm AEST on Tuesday. It is also a big week for economic data with the release of international trade and retail sales data for August, the ANZ Job Ads Series and employment and unemployment data for September, and the NAB business survey for August released. This could drive market pricing for rate hikes beyond October (See *Data Previews* on page 5 for more details).
- In **Asia**, **Chinese** non-manufacturing PMI data is released on the weekend ahead of the National Holidays that continue until October 6. In **Japan**, the market will be watching the BoJ rates announcement closely given recent attempts to devalue the Yen.
- In **Europe**, Eurozone PMIs and retail sales will give indications of the region's momentum into Q4. Meanwhile, German PMIs, factory orders, industrial production and trade data should demonstrate the strength of the Europe's largest economy.
- With speculation of further QE continuing, **US** data will be closely watched. Factory orders, pending home sales, ISM non-manufacturing, payrolls and consumer credit should give a widespread update of the US economy.

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

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

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

BREAKING THE NEXUS

Unless the RBA's communication strategy has gone seriously wrong, the **RBA is poised to raise the cash rate at its Board meeting on Tuesday**. Financial markets are not completely convinced. Market pricing has dipped to around a 50% chance of a rate rise in October, down from nearly 70% earlier in the week. The fall away in market pricing follows some weaker than expected data on the housing market this week, with building approvals and house prices both falling in August.

However, to use the short-term data flow to determine the chance of a near-term rate rise is to miss the point. Recent communication from the RBA has made it clear that the Bank intends to deliver a pre-emptive interest rate rise to ensure monetary policy settings are appropriate for the medium-term outlook. The RBA is confident that the huge national income boost from Australia's record terms of trade will drive strong economic growth in 2011-12. If policy doesn't lean into this boom, inflation will rise.

A pre-emptive strike from the RBA is appropriate given the long and variable lags between the moves in the cash rate and inflation. **It would be a deliberate move by the RBA to avoid the perceived mistakes of 2007-08, when policy settings were driven too much by the concurrent domestic data flow instead of the medium-term risks.** At that time, a couple of soft inflation reads saw the RBA (and most economists!) underestimate the inflationary consequences of surging national income. The RBA then suddenly found itself behind the curve as core inflation subsequently burst above 4.0%.

Such a 'data-driven' monetary policy approach in this commodity boom would conceivably see interest rates on hold for another six months. This would occur, say, should inflation remain contained and the concurrent data print stabilise or disappoint - a possibility as the economy transitions from the public to the private sector. While an extended period of rates on hold would comfort for rate-sensitive sectors in the short-term, it would carry a sting in the tail. Keeping rates on hold now would raise the risk of a more aggressive increase in rates later in 2011.

NOVEMBER?

We will be reading the RBA Governor's Statement on Tuesday with a fine tooth comb for any clues about the likelihood of a follow-up 25bp rate hike in November as per our forecasts.

A 25bp hike in October would take the cash rate to 4.75%, which is still arguably on the 'easy side of neutral'. Rates need to be closer to a restrictive setting given the magnitude of the investment / terms of trade boom underway. The RBA needs to be ahead of the game.

Nevertheless, we do accept the risk that a set of circumstances could develop in which RBA's medium-term outlook changes, thereby reducing the urgency of a November move:

1. **The re-emergence of global financial market uncertainty.** Concerns about the credit-worthiness of Ireland and Portugal have re-surfaced this week. Bond spreads for these sovereigns have hit record wides in recent days. Renewed financial market distress would have significant ramifications for Australia, impacting our currency and the cost and availability of credit in global capital markets. Such an event would not only ensure no further rate rises this year, it would see financial markets move swiftly to price in the chance of interest rate cuts.
2. **China.** This week's rise in the PMI suggests China is on track for a soft landing. Indeed, we look for a seasonally strong Q4 in Chinese industrial production to drive higher commodity demand and prices into year-end. Nevertheless, with Australia's fortunes now so closely tied to China, it would be remiss to completely dismiss the chance of a downside shock. Any

interruption to China's strong growth outlook would give the RBA a reason to pause.

3. **A de-facto tightening of monetary policy.** The European debt crisis has raised the risk premia in global capital markets. This has increased the cost of Australian bank's wholesale funding. There is a risk that some of these higher costs could be passed onto the end-users of credit. Depending on the magnitude, such a de-facto tightening of monetary policy could be enough to keep the RBA on the sidelines until early-2011.
4. **Weak local data.** The RBA appears intent to set monetary policy for the medium-term outlook. But, this does not mean the current data flow is completely irrelevant! Employment and inflation will be the key data to watch going into the November meeting. Lower than expected reads for one or both of these indicators could well see the RBA decide they have a little more time to get ahead of the inflation dragon. This could see policymakers move to a restrictive policy stance more gradually.
5. **The appreciation of the AUD (if it holds).** The RBA's latest forecasts published in August were based on an AUD/USD of 0.92 and a TWI of 70. This compares to an AUD/USD of 0.9641 and a TWI of 73.0 at the time of writing. This is an almost 5% appreciation in the AUD. Even though the relationship between the currency and inflation has weakened over time, our modelling suggests that, if sustained, this 5% currency appreciation could reduce core inflation by up to 0.5%, albeit over an extended period. That said, we note there are corresponding upside risks to inflation from the non-tradeables sector, including from utilities, rents, health and, most of all, wages. Indeed, our inflation forecasts are above the RBA's despite the fact that our currency forecasts are higher. Nevertheless, **we will not discount the possibility that the recent rise in the AUD will prompt the RBA to downgrade its inflation forecast.** It would be difficult to justify back-to-back interest rate rises if this was the case.

THE AUSSIE DOLLAR OUTLOOK

This week saw the AUD/USD push to its highest level since before the global financial crisis (GFC). The AUD hit a high of over AUD/USD 0.97 on Thursday and is currently trading at 0.9668.

The AUD's rise has been driven by a combination of factors including a period of pronounced USD weakness as the Fed has held out the prospect of further quantitative easing in the latest FOMC statement – the "QEII hope trade". The AUD has also been buoyed by the income boost to Australia from strong commodities prices and demand linked to China's infrastructure "super cycle".

Our view in the short-term is that AUD/USD will continue to trade with a buoyant tone as the USD remains under pressure. However it is unlikely to breach the pre-GFC high of 0.9850 in a sustained manner. AUD has already had a strong run and seems more likely to consolidate its recent gains. We believe much of the "good news" in the recent data and hawkish RBA commentary is already incorporated into the current level. Long positions in AUD are also stretched as they are higher than July 2008 levels when AUD/USD last approached this level.

While we remain positive on the AUD over the medium-term, on a risk-reward basis, we think the risk of short-term correction is significant and would look to sell ahead of 0.9850. Picking the timing of a correction is difficult given the market's focus on USD weakness on expectations of near-term QE. Possible other drivers of a correction could be external factors such as concerns over European banks and sovereigns flaring further. There are also simmering trade/currency tensions between China, Japan and the US lurking in the background.

We expect further AUD/USD strength in mid-2011 with AUD expected to again trade towards 0.9800 as the US economy rebounds and the global recovery becomes more synchronised. This will boost the USD against all currencies but our

expectations of an aggressive rate hike cycle from the RBA and further rises in the terms of trade through 2011 will mean that the AUD will continue to outperform. **A move through parity looks likely at some stage, if only briefly.** (For more detail on our latest AUD/USD view, please see our *ANZ AUD/USD Outlook* released on Thursday).

HIGHER AUD – A HELP OR A HINDERANCE?

We suspect the RBA will not be displeased with a higher AUD. It will assist the Bank's goal to tighten financial conditions. As outlined above, it should also exert some downward pressure on a set of inflation forecasts that currently appear dominated by upside risk.

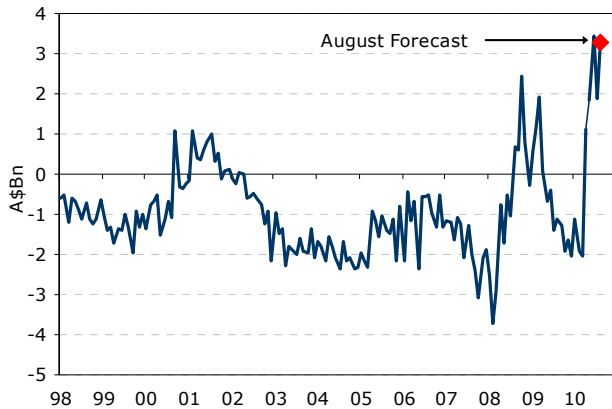
But the higher AUD will not be welcomed by all. Non-mining exporters are the obvious losers. Manufacturing and services (particularly tourism and education) are already being hit by weaker global demand and now risk a sharp erosion in price-competitiveness. The big risk of course is that a sustained higher AUD accelerates a 'hollowing out' of the Australian economy, encouraging more resources into the mining sectors at the expense of the non-mining sectors. This is one of the big medium-term structural challenges for the Australian economy. In the short-term, this structural challenge could be a yet another source of volatility in Australia's economic growth path.

DATA WRAP

- The **Conference Board Leading Index** rose 0.8% in July after an upwardly revised 0.6% rise in June. Increases in the sales to inventory ratio, share prices and yield spread contributed 0.39%, 0.17% and 0.10% respectively.
- **HIA New Home Sales** declined by a further 2.6% in August after falling 7.1% in July.
- Meanwhile, **RP Data - Rismark median city home price** values fell 0.2% in August (seasonally adjusted) to be 8.0% higher than a year ago. Home prices fell across all capital cities except Sydney (+0.1%) and Canberra (+3.2%) over the month. The largest monthly price fall was posted in Perth (-2.7%), with house prices 0.8% higher over the year to August. Melbourne home price growth continues to outperform in annual terms (+13.2%). Since the peak of the recent price cycle in May 2010, home prices in the top 20% of capital city suburbs have decreased 2.1% compared to the middle 60% (-1.2%) and the bottom 20% (-0.4%).
- **Building approvals** continued to decline in August, falling 4.7%. This is the seventh decline in eight months taking the annual growth rate to +4.4% from 58.8% in March. The monthly decline was led by private sector house approvals (-4.3%), with other private sector dwelling approvals improving marginally (+1.4%).
- **Private sector credit** was broadly flat in August (+0.1% MoM). Business credit had the largest monthly fall since November 2009, to be down 4.0% over the year. Personal credit growth slowed in August to +2.6% YoY, while housing credit growth was solid to be 8.1% higher than a year ago.
- The **AiG Performance of Manufacturing Index** fell 4.4 points in September to 47.3. This is the first time the index has fallen below 50 since December 2009, representing a decline in manufacturing for September. The decline in the headline index was led by falls in production (-5.3 points to 46.2), new orders (-4.1 points to 46.5) and employment (-6.5 points to 44.8).

DATA PREVIEWS

CHART 1: TRADE BALANCE



5 OCTOBER: TRADE BALANCE (AUG)

ANZ: +A\$3.3bn

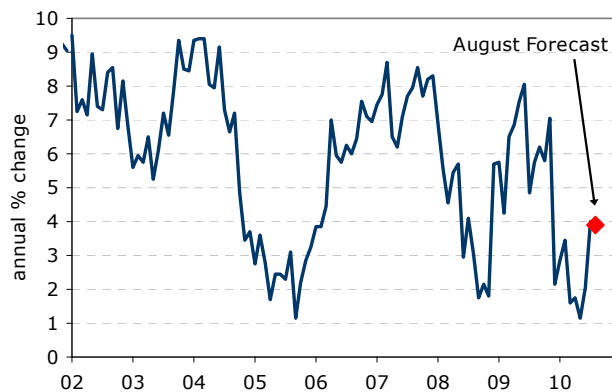
Market: +A\$2.3bn

Last: +A\$1.9bn

The trade balance in Australia switched from deficit to surplus in April as higher contract prices for coal and iron ore kicked in. It has stayed in the black since that time although it eased off from a record high of A\$3.4bn in June to \$1.9bn in July.

The surplus is forecast to revisit its June highs in August, largely due to a sharp drop in imports; ABS preliminary figures show a 6.0% MoM fall in goods import values. On the export side, resource exports are expected to gain modestly with the one-off impact on coking coal exports in July, due to the shutting down of Chinese steel mills for cleaning, partly unwound. Meanwhile, agricultural export values are likely to gain, primarily due to the strength of wheat and dairy exports. Beef export values are likely to detract somewhat from the trade balance this month with a stronger AUD hurting this industry. Similarly, the strengthening of the AUD is likely to keep manufacturing and services exports values weak in August. **(AM)**

CHART 2: RETAIL SALES



5 OCTOBER: RETAIL SALES (AUG)

ANZ: +0.4% MoM, +3.9% YoY

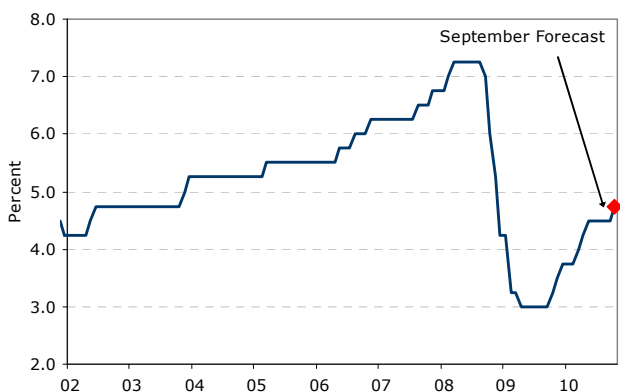
Market: 0.4% MoM

Last: +0.7% MoM, +4.0% YoY

Retail sales have been fairly solid in nominal terms in the five months to July, averaging monthly growth of 0.6%. This is notwithstanding widespread evidence of discounting.

In August, we expect a slightly softer 0.4% gain. The fundamentals underpinning consumer spending are solid; consumer confidence increased strongly in both July and August, employment was strong and petrol prices declined. However we also expect some uncertainty surrounding the federal election as well as some unwinding of a sharp increase in sales at cafes, restaurants and takeaway foods of 5.3% in July to be partly unwound in August. This will see annual growth in retail sales broadly unchanged at around 4%, up from a low of 1.2% in May. **(RP)**

CHART 1: RBA CASH RATE TARGET



5 OCTOBER: RBA CASH RATE TARGET

ANZ: 4.75% p.a.

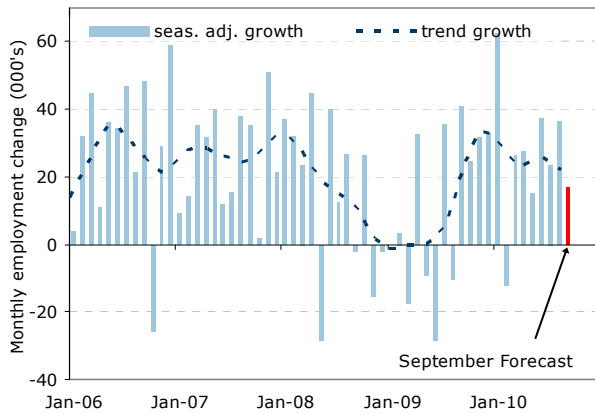
Market: 4.75% p.a.

Last: 4.5% p.a.

A pre-emptive 25bp increase in the cash rate to ward off medium-term inflationary risks stemming from the impending terms of trade and investment boom is highly likely (see page 2 for further details).

DATA PREVIEWS

CHART 4: EMPLOYMENT



5 OCTOBER: LABOUR FORCE (SEP)

Employment:

ANZ: +17.0K
Market: +20K
Last: +30.9K

Unemployment Rate:

ANZ: 5.1%
Market: 5.1%
Last: 5.1%

Participation Rate:

ANZ: 65.4%
Market: 65.4%
Last: 65.4%

Employment gains ramped up in the three months to August, averaging 32.4K a month compared with gains of 22.9K a month in the three months to May. Unfortunately, this pace of growth is unlikely to have continued into September with a 17K increase anticipated. This is largely because we expect some modest statistical payback in full-time employment after its 50K surge in August. This will leave the unemployment rate unchanged at 5.1% assuming a steady participation rate.

This softer monthly result does not alter our view that employment growth will remain solid over the coming period. However we note that a pick up in hours worked may minimise some growth in 'new' jobs given the labour underutilisation rate is still fairly high at 12.5% in August. (RP)

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEDT
2-Oct	AU	Daylight Savings commences	--	--	--	--	--	--
3-Oct	AU	Labour Day Holiday (NSW, ACT, SA)						
4-Oct	CH	China Non-manufacturing PMI	SEP	--	--	60.1	01:00	12:00
	NZ	ANZ Commodity Price Index	SEP	--	--	-1.4%	02:00	13:00
	AU	TD Securities Inflation Gauge MoM	SEP	--	--	0.2%	00:30	11:30
		TD Securities Inflation Gauge YoY	SEP	--	--	3.0%	00:30	11:30
	JP	Monetary Base YoY	SEP	--	--	5.4%	23:50	10:50
		Labor Cash Earnings YoY	AUG	--	--	1.4%	01:30	12:30
		BoJ Monetary Policy Meeting					04:00	15:00
	CH	National Day Public Holiday						
	EU	Sentix Investor Confidence	OCT	--	--	7.6	08:30	19:30
		Euro-Zone PPI MoM	AUG	0.2%	--	0.2%	09:00	20:00
		Euro-Zone PPI YoY	AUG	3.7%	--	4.0%	09:00	20:00
	UK	PMI Construction	SEP	51.8	--	52.1	08:30	19:30
	US	Factory Orders	AUG	-0.4%	--	0.1%	14:00	01:00
		Pending Home sales MoM	AUG	2.1%	--	5.2%	14:00	01:00
	Pending Home sales YoY	AUG	--	--	-20.1%	14:00	01:00	
	NY Fed's sack Speaks in Newport Beach, CA					15:30	02:30	
5-Oct	NZ	NZIER Business Opinion Survey	Q3	--	--	18	--	--
	AU	AiG Performance of Services Index	SEP	--	--	47.5	22:30	09:30
		ANZ Job Advertisements MoM	SEP	--	--	2.6%	00:30	11:30
		Retail sales sa MoM	AUG	0.4%	0.4%	0.7%	00:30	11:30
		Trade Balance	AUG	3300M	2300M	1888M	00:30	11:30
		NAB Business Conditions	SEP	--	--	5	00:30	11:30
		NAB Business Confidence	SEP	--	--	11	00:30	11:30
		RBA CASH TARGET	OCT	4.75%	4.75%	4.5%	03:30	14:30
	JP	BOJ Target Rate	OCT	0.1%	0.1%	0.1%	--	--
	CH	National Day Public Holiday					--	--
		China HSBC Services PMI	SEP	--	--	57.6	02:30	13:30
	EU	PMI Composite	SEP F	--	--	53.8	08:00	19:00
		PMI Services	SEP F	53.6	--	53.6	08:00	19:00
		Euro-Zone Retail sales MoM	AUG	0.2%	--	0.1%	09:00	20:00
	Euro-Zone Retail sales YoY	AUG	--	--	1.2%	09:00	20:00	
GE	PMI Services	SEP F	54.6	--	54.6	07:55	18:55	
UK	PMI Services	SEP	51.2	--	51.3	08:30	19:30	
	Official Reserves (Change)	SEP	--	--	\$754M	08:30	19:30	
US	ISM Non-Manufacturing Composite	SEP	52	--	51.5	14:00	01:00	
	ABC Consumer Confidence	3-Oct	--	--	-45	14:00	01:00	
	BoC Snr Deputy Governor Macklem speaks in Montreal					17:00	04:00	
6-Oct	AU	RBA's Ellis speaks on Financial Stability in Brisbane					23:40	10:40
		Engineering construction activity	Q2	--	--	-1.7%	00:30	11:30
		AOFM Auctions \$500m of April 2020 bonds					00:00	11:00
	EU	Euro-Zone GDP sa QoQ	Q2 F	1.0%	--	1.0%	09:00	20:00
		Euro-Zone GDP sa YoY	Q2 F	1.9%	--	1.9%	09:00	20:00
		Euro-Zone Household Consumption QoQ	Q2 F	--	--	0.5%	09:00	20:00
		Euro-Zone Gross Fixed Capital Formation QoQ	Q2 F	--	--	1.8%	09:00	20:00
		Euro-Zone Government Expenditure QoQ	Q2 F	--	--	0.5%	09:00	20:00
	GE	Factory Orders MoM sa	AUG	1.0%	--	-2.2%	10:00	21:00
		Factory Orders YoY nsa	AUG	--	--	17.7%	10:00	21:00
	UK	New Car Registrations YoY	SEP	--	--	-17.5%	--	--
	US	MBA Mortgage Applications	1-Oct	--	--	-0.8%	11:00	22:00
		Challenger Job Cuts YoY	SEP	--	--	-54.5%	11:30	22:30
		ADP Employment Change	SEP	20K	--	-10K	12:15	23:15
CA	Ivey Purchasing Managers Index	SEP	62	--	65.9	14:00	01:00	
							11:00	
7-Oct	AU	AiG Performance of Construction Index	SEP	--	--	43.2	22:30	09:30
		Employment (change)	SEP	20K	17K	30.9K	00:30	11:30
		Unemployment Rate	SEP	5.1%	5.1%	5.1%	00:30	11:30
		Part Time Employment (change)	SEP	--	--	-22.1K	00:30	11:30
		Full Time Employment (change)	SEP	--	--	53.1K	00:30	11:30
		Participation Rate	SEP	65.4%	65.4%	65.4%	00:30	11:30
	JP	Coincident Index CI	AUG P	103.5	--	--	05:00	16:00
		Leading Index CI	AUG P	99.1	--	--	05:00	16:00
		Machine Tool Orders YoY	SEP P	--	--	--	06:00	17:00

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEDT
7-Oct cont.	EU	ECB Announces Interest Rates		1.0%	1.0%	1.0%	11:45	22:45
		ECB's Trichet Speaks at Monthly News Conference					12:30	23:30
	GE	Industrial Production MoM sa	AUG	0.5%	--	0.1%	10:00	21:00
		Industrial Production YoY (nsa wda)	AUG	--	--	10.9%	10:00	21:00
	UK	Industrial Production MoM	AUG	0.3%	--	0.3%	08:30	19:30
		Industrial Production YoY	AUG	3.7%	--	1.9%	08:30	19:30
		Manufacturing Production MoM	AUG	0.1%	--	0.3%	08:30	19:30
		Manufacturing Production YoY	AUG	5.6%	--	4.9%	08:30	19:30
		BOE ANNOUNCES RATES	OCT	0.5%	0.5%	0.5%	11:00	22:00
		BOE Asset Purchase Target	OCT	200B	200B	200B	11:00	22:00
		NIESR GDP Estimate	SEP	--	--	0.7%	--	--
	US	Initial Jobless Claims	2-Oct	455K	--	453K	12:30	23:30
		Continuing Claims	25-Sep	--	--	4457K	12:30	23:30
		ICSC Chain Store Sales YoY	SEP	--	--	3.2%	14:30	01:30
		Consumer Credit	AUG	-\$3.0B	--	-\$3.6B	19:00	06:00
		Fed's Fisher Speaks in Minneapolis					17:20	04:20
		Fed's Hoenig Speaks in Nebraska					17:30	04:30
	CA	Building Permits MoM	AUG	-2.0%	--	-3.3%	12:30	23:30
								11:00
8-Oct	AU	Foreign Reserves	SEP	--	--	42.1B	05:30	16:30
		RBA's Battellino speaks to the Property Council in Brisbane					04:05	15:05
		AOFM Auctions \$700m of May 2013 bonds						11:00
	JP	Current Account Total	AUG	¥1025B	--	¥1675.9B	23:50	10:50
		Adjusted Current Account Total	AUG	¥1082B	--	¥1463.6B	23:50	10:50
		Trade Balance (BoP Basis)	AUG	¥239B	--	¥916.1B	23:50	10:50
		Bankruptcies YoY	SEP	--	--	-14.3%	04:30	15:30
		Eco Watchers Survey: Current	SEP	44.5	--	45.1	05:00	16:00
		Eco Watchers Survey: Outlook	SEP	--	--	40	05:00	16:00
	GE	Exports sa MoM	AUG	-0.8%	--	-1.6%	06:00	17:00
		Imports sa MoM	AUG	0.4%	--	-2.2%	06:00	17:00
		Trade Balance	AUG	11.3B	--	13.5B	06:00	17:00
		Current Account (EURO)	AUG	--	--	9.0B	06:00	17:00
	UK	PPI Input nsa MoM	SEP	--	--	-0.5%	08:30	19:30
		PPI Input nsa YoY	SEP	--	--	8.1%	08:30	19:30
		PPI Output nsa MoM	SEP	0.1%	--	0.0%	08:30	19:30
		PPI Output nsa YoY	SEP	4.3%	--	4.7%	08:30	19:30
		PPI Output Core nsa MoM	SEP	0.1%	--	0.1%	08:30	19:30
		PPI Output Core nsa YoY	SEP	4.2%	--	4.6%	08:30	19:30
	US	Nonfarm Payrolls (change)	SEP	5K	--	-54K	12:30	23:30
		Private Payrolls (change)	SEP	75K	--	67K	12:30	23:30
		Manufacturing Payrolls (change)	SEP	6K	--	-27K	12:30	23:30
		Unemployment Rate	SEP	9.7%	--	9.6%	12:30	23:30
		Average Hourly Earnings MoM All Emp	SEP	0.2%	--	0.3%	12:30	23:30
		Average Hourly Earnings YoY All Emp	SEP	1.8%	--	1.7%	12:30	23:30
		Avg Weekly Hours All Emp	SEP	34.2	--	34.2	12:30	23:30
		Wholesale Inventories	AUG	0.6%	--	1.3%	14:00	01:00
	CA	Employment (change)	SEP	10.0K	--	35.8K	11:00	22:00
		Unemployment Rate	SEP	8.0%	--	8.1%	11:00	22:00
		Full Time Employment (change)	SEP	--	--	79.9	11:00	22:00
		Part Time Employment (change)	SEP	--	--	-44.1	11:00	22:00
		Participation Rate	SEP	--	--	67.4	11:00	22:00
		Housing Starts	SEP	179.5K	--	183.3K	12:15	23:15
		Business Outlook Future sales	Q3	--	--	25	14:30	01:30
		BoC Senior Loan Officer Survey	Q3	--	--	-24.8	14:30	01:30

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
11 OCTOBER JP: Market Closed UK: RICS House Price Balance (Sep)	12 OCTOBER GE: CPI (Sep F) UK: CPI (Sep), Retail Price Index (Sep)	13 OCTOBER NZ: Food Prices (Sep) AU: Consumer Confidence (Oct) JP: Machine Orders (Aug) CH: Trade Balance (Sep) UK: Claimant Count Rate (Sep), Jobless Claims Change (Sep) US: MBA Mortgage Applications (Oct 8)	14 OCTOBER NZ: Retail Sales (Aug), Business NZ PMI (Sep) JP: Domestic CGPI (Sep) EU: ECB Publishes Oct. Monthly Report US: Trade Balance (Aug), Producer Price Index (Sep), Initial Jobless Claims (Oct 9) CA: Int'l Merchandise Trade (Aug)	15 OCTOBER JP: Industrial Production (Aug), Capacity Utilization (Aug) EU: CPI (Sep) US: CPI (Sep), Advance Retail Sales (Sep), Retail Sales Less Autos (Sep), Empire Manufacturing Survey (Oct), U. of Michigan Confidence (Oct), Business Inventories CA: Manufacturing Sales (Aug)
18 OCTOBER NZ: CPI (Q3) JP: Tertiary Industry Index (Aug) US: Industrial Production (Sep), NAHB Housing Market Index (Oct), Capacity Utilization (Sep)	19 OCTOBER AU: RBA Board Minutes (Oct) EU: CA (Aug), Construction Output (Aug) GE : ZEW Survey (Oct) US : Housing Starts(Sep), Building Permits (Sep), ABC Consumer Confidence (Oct 17) CA: BoC rate decision	20 OCTOBER AU DEWR Skilled Vacancies (Oct), Westpac Leading Index (Aug) JP: Leading Index (Aug F) GE: PPI (Sep) UK: BoE Minutes, Public Finances (Sep) US: MBA Mortgage Applications (Oct 15), Fed's Beige Book Ca: Wholesale Sales (Aug)	21 OCTOBER NZ: ANZ Consumer Confidence (Oct) AU: CBAHIA Housing Affordability (Q3) CH: GDP (Q3), PPI (Sep), CPI (Sep), Retail Sales (Sep), Industrial Production (Sep) EU: Cons. Conf. (Oct A) UK: Retail Sales (Sep) US: Philli Fed (Oct), Leading Indicators (Sep)	22 OCTOBER EU: Govt debt/GDP ratio (Dec 31) GE: IFO Business Survey (Oct) CA: CPI (Sep), Retail Sales (Aug)
25 OCTOBER AU: PPI (Q2) EU: Industrial new orders (Aug) US : Chicago Fed Nat Activity Index (Sep), Existing home sales (Sep), Dallas Fed Manf Activity (Oct)	26 OCTOBER JN: Corp service price index (Sep) UK: GDP (Q3) US: S&P/CaseShiller home price (Aug) US: Consumer confidence (Oct), House price index (Aug), Richmond Fed manufact index (Oct)	27 OCTOBER AU: CPI (Q3) NZ: NBNZ Business Confidence (Oct) GE: CPI (Oct) US: MBA Mortgage Applications (Oct 22), Capital Goods Orders (Sep), Durable Goods Orders (Sep), New Home Sales (Sep)	28 OCTOBER NZ: RBNZ Official Cash Rate (Oct) JN: Retail Trade (Sep), BOJ Monetary Policy Meeting and BOJ Target Rate GE: Unemployment Rate (Oct) EU: Consumer Confidence (Oct), Business Climate Indicator (Oct) US: Trade Balance (Aug), Producer Price Index (Sep), Initial Jobless Claims (Oct 23)	29 OCTOBER NZ: Trade balance (Sep) AU: Private Sector Credit (Sep) JN: Unemployment rate (Sep) Household Spending (Sep), CPI (Sep), Industrial Production (Sep), Housing Starts (Sep), Construction Orders (Sep) EU: Unemployment rate (Sep) UK: House prices (Oct) CA: GDP (Aug)
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 Manuf. (Oct),	2 NOVEMBER AU: Melbourne Cup (Victorian Public Holiday), RBA Cash Target , 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)	4 NOVEMBER AU: Retail Sales (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 Housing Price Index (Oct)	10 NOVEMBER AU: Westpac Consumer Confidence (Nov), Home Loans (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: Employment (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)

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	2.5	5.2	5.4
Household consumption	1.6	2.7	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)	-8.6	19.6	9.3	-1.6
Current account balance: A\$bn	-51.4	-41.8	-49.3	-75.8
% of GDP	-4.1	-3.0	-3.3	-4.8

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

AUSTRALIAN INTEREST RATES	CURRENT	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F	DEC 11 F
RBA cash rate	4.50	5.00	5.25	5.50	5.75	6.00
90 day bill	4.88	5.30	5.60	6.00	6.00	6.2
3 year bond	4.82	5.10	5.50	5.70	6.00	6.00
10 year bond	5.04	5.50	5.70	5.80	6.00	5.90
3s10s yield curve	0.22	0.40	0.20	0.10	0.00	-0.10
3 year swap	5.25	5.50	5.90	6.10	6.40	6.40
10 year swap	5.57	6.05	6.25	6.35	6.55	6.45
INTERNATIONAL INTEREST RATES	CURRENT	DEC 10 F	MAR 11 F	JUN 11 F	SEP 11 F	DEC 11 F
RBNZ cash rate	3.00	3.00	3.25	3.75	4.00	4.25
NZ 90 day bill	3.18	3.25	3.67	4.17	4.25	4.7
US Fed funds note	0.25	0.25	0.25	0.25	0.50	0.75
US 2 year note	0.42	1.00	1.20	1.50	2.00	2.30
US 10 year note	2.49	3.20	3.30	3.30	3.60	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	0.75	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\$	0.9674	0.94	0.96	0.98	0.96	0.94
NZ\$/US\$	0.7368	0.71	0.72	0.73	0.73	0.72
A\$/¥	80.73	79.9	83.5	87.2	88.3	88.4
A\$/€	0.7080	0.72	0.77	0.78	0.77	0.74
A\$/£	0.6145	0.61	0.62	0.63	0.62	0.60
A\$/NZ\$	1.3130	1.32	1.33	1.34	1.32	1.31
A\$/C\$	0.9966	0.99	1.01	1.02	1.00	0.98
A\$/CHF	0.9489	1.00	1.04	1.07	1.06	1.04
A\$/CNY	6.4601	6.22	6.26	6.29	6.07	5.84
A\$ Trade weighted index	73.00	73.0	75.5	76.3	74.2	71.8
International cross rates						
US\$/¥	83.46	85.0	87.0	89.0	92.0	94.0
€/US\$	1.3664	1.30	1.25	1.25	1.25	1.27
€/¥	114.03	111	109	111	115	119
£/US\$	1.5741	1.54	1.55	1.55	1.55	1.56
€/£	0.8681	0.84	0.81	0.81	0.81	0.81
US\$/C\$	1.0301	1.05	1.05	1.04	1.04	1.04
US\$/CHF	0.9809	1.06	1.08	1.09	1.10	1.11
US\$ index	78.67	82.1	84.2	84.5	84.9	84.3
Asia exchange rates						
US\$/CNY	6.6840	6.62	6.52	6.42	6.32	6.21
US\$/HKD	7.7606	7.75	7.75	7.75	7.75	7.75
US\$/IDR	8918	9300	9525	9200	9000	8900
US\$/INR	44.73	48.6	49.9	48.0	46.0	44.0
US\$/KRW	1131	1245	1290	1200	1100	1000
US\$/MYR	3.0840	3.25	3.31	3.20	3.15	3.10
US\$/PHP	43.860	46.9	48.3	46.0	45.5	45.0
US\$/SGD	1.3152	1.40	1.43	1.39	1.36	1.34
US\$/THB	30.220	32.50	33.30	32.00	31.50	31.00
US\$/TWD	31.110	32.90	33.30	32.70	32.20	31.00
US\$/VND	19490	19500	20000	20000	20000	20000
Pacific exchange rates						
PGK/US\$	0.3750	0.386	0.372	0.358	0.344	0.330
FJD/US\$	0.5347	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 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

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

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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