

AUSTRALIAN ECONOMICS

AUSTRALIAN ECONOMICS WEEKLY

9 DECEMBER 2011

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AUSTRALIAN ECONOMY RESILIENT, BUT GROWTH PATHS ARE DIVERGING

- This week in Australia **the RBA cut the cash rate by 25 bps for a second consecutive month, taking the cash rate to 4.25%**. The decision to cut was based on the deteriorating global environment, with the RBA warning that "*the likelihood of a further material slowing in global growth has increased*". The RBA is now particularly concerned that the troubles in Europe are spreading to Asia via a slowdown in trade, and also warned that global financing conditions have become "*much more difficult*", especially in Europe.
- **ANZ now expects the RBA will cut its cash rate by a further 25bps, to 4.0%, at the February 2012 Board meeting.** With global risks likely to remain heightened (and still potentially worsen), Australian price pressures well contained, and domestic unemployment still likely to head higher, we see little risk that domestic inflation will be ignited by the further boost to growth afforded by another modest monetary policy easing.
- This week's data saw **a healthy headline number for Q3 GDP (+1.0% q/q) but very mixed messages coming from the detail.** In Q3, the driver of economic growth clearly switched from government stimulus to resources-related investment, with business investment contributing 2.0 ppts to growth. Divergence in growth is increasing, however, with just 0.2% q/q growth in real production outside the mining and construction sectors. Household consumption volumes remain quite strong, despite ongoing weakness in monthly retail sales (which has likely been affected by significant discounting). Recent RBA rate cuts should help to support consumption in Q4 and Q1 2012.
- Of most immediate concern in this week's data is the fact that **the current pattern of economic growth is not sustaining employment growth.** In November, employment growth was only 4k per month (trend) and the unemployment rate continues to slowly drift up. The ANZ Job Advertisement and SEEK new internet job advertisement series both improved in November but still suggest continuing weak labour demand ahead.
- Anecdotal evidence from our **latest internal client survey** confirms the story of increasing divergence painted by these data. A summary of results is *In Focus* this week.
- Also *In Focus* this week, we provide an excerpt from our **forthcoming property report.** Australian house prices have drifted lower over the past year, reflecting increased stock for sale and weakened buyer sentiment. While we expect prices to ease further in the next 12 months, we maintain a cautiously optimistic medium term house price view, supported by a robust economic outlook, low unemployment, flat to falling mortgage rates, improved affordability and a significant tightening of the housing demand/supply balance.

THE WEEK AHEAD

- In **Australia**, the major data releases will be the NAB business survey and the Westpac consumer confidence survey. The NAB forward orders index has risen the last two months while the inventories index has fallen. This is a positive sign for the headline index over coming months. Likewise, the Westpac Consumer confidence survey has improved since September. The RBA rate cuts in November and December should be a further boost to local confidence in coming months, notwithstanding global developments. The RBA's Bulletin will be released and the RBA's Battellino will also be speaking.
- In **Europe**, the EU summit will conclude tonight, and markets will assess whether announcements amount to a credible plan to contain the debt crisis. What we would like to see is a commitment to medium term fiscal consolidation, since a plan for a fiscal union is looking unlikely at this stage. Data releases include CPI, industrial production, employment and trade. ANZ forecast negative growth in Europe for Q4 2011 and Q1 2012.
- In the **US**, the Philly Fed manufacturing index will be the key data release. The market is expecting a further improvement to 5.0 in December from 3.6 in November. Thus far, the US data have continued to improve, but with Europe still dominating headlines the market reactions have been somewhat muted in recent weeks.

KEY INSIGHTS FROM OUR DECEMBER SURVEY

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In this week's key data release, **Australian GDP for Q3 surprised on the upside**, with quarterly growth of 1.0%. Strong growth evident in **mining-related business investment drove most of this growth**, which was partly offset by falls in inventories and net exports (with the latter partly reflecting strong import growth in capital goods). While these drivers were broadly anticipated, what most surprised us (and probably most forecasters) was **the continued strength in household consumption**. But behind the strong headline result, we continue to see divergence across industries and regions, with non-mining states and some services sectors clearly underperforming. The agricultural sector was a drag on growth in Q3 as was the public sector. We expect the latter drag (government spending) will continue as the earlier fiscal stimulus unwinds and as governments tighten their belts.

While the GDP data is fairly dated, **more timely indicators have generally shown signs of stabilising** after weakening earlier in the year. Surveyed business conditions are around their long-run average, both consumer and business confidence have recently improved to be slightly above average, and the earlier deceleration in employment growth appears to have turned around slightly. Yesterday's labour market data for November, however, was somewhat less positive, with employment falling 6.3k in the month (although this followed an upwardly revised 16.8k in October). With the fall in employment, the unemployment rate rose to 5.3% (it has been oscillating between 5.2% and 5.3% over the last four months). In trend terms, **employment continues to grow at very modest rates. A continuation of this very modest growth is likely to see the unemployment rate tick up a little further**, with forward indicators of labour demand continuing to point to some weakness. While this week's GDP data confirmed that the massive pipeline of mining investment is having a positive impact on the economy, this sector is highly capital-intensive, and other more labour-intensive sectors (such as retail and manufacturing) are likely to continue to exhibit weakness.

Looking ahead, **we remain concerned about the downside risks to growth from the global economy**. Europe appears to have entered recession and we are still waiting for a credible plan to contain Europe's sovereign debt problems. Meanwhile, the downside risks to Chinese growth have increased, although the authorities there have already begun easing monetary policy. Our China-based economists expect to see further policy easing over the coming few months.

Against this backdrop, **the results of our latest regular internal survey** come as no great surprise. This survey is essentially a collection of economics anecdotes from across ANZ. We ask for internal feedback from across the Australian corporate and institutional business, sampling a couple of hundred bank staff from many different regions of Australia.

The latest survey, taken in November / December, **confirms Australia's economic activity is increasingly been driven by a narrower range of industries**. Labour demand within the **mining and resources sector remains strong**, with firms continuing to suffer acute skills shortages. Firms are increasingly turning to international labour markets to fill their labour requirements. Further, the ongoing economic uncertainty has had little impact on investment decisions within this sector.

In contrast, **conditions outside of the mining and resources sector remain soft**. Firms across a range of industries (non-resources related construction, finance, professional services) have begun shedding staff in order to control costs. Weaker consumer confidence is providing a headwind for the property sector, while the elevated A\$ is continuing to weigh on trade-exposed industries. Investment plans in some industries are also being reconsidered. At the time of the survey, the November rate cut had yet to precipitate a marked improvement in activity.

Overall, conditions appear to have deteriorated slightly since our last survey. 20% of respondents reported that business conditions deteriorated, up from the 15% last month. Some 50% of respondents stated that conditions remained the same, which was down from 58%. However, the proportion of respondents who reported that business conditions had improved edged slightly higher to 30% from 27%. The higher proportion of respondents who reported a deterioration in conditions suggests that the economy remains on more fragile ground.

Demand for labour within the mining and resource sectors remains robust and firms are continuing to report difficulties in acquiring and retaining quality staff. In fact, firms are increasingly looking to international labour markets to try and fill positions. Interestingly, some firms in South Australia have begun to voice concerns in relation to the impact that the Olympic Dam project may have on the state's labour market and their ability to successfully compete for and attract quality staff.

Outside of the mining and resource sectors, labour market conditions are very soft, and in some instances, firms within in the construction, finance and professional services sectors are actively shedding labour in order to control costs. Not surprisingly, wages growth in the manufacturing sector remains restrained, given the limited job prospects for unskilled workers outside of manufacturing.

In aggregate, **the residential property sector remains in a soft patch**, with ongoing global economic uncertainty continuing to weigh on consumer confidence. As a result, sales activity is weak, although the most recent interest rate cut has piqued the interest of some buyers who are showing tentative signs of returning to the market. That said, in geographic areas dominated by the mining sector, the housing market is outperforming. In some instances, rents are increasing at double digit growth rates, and there have been reports that rents are now being decided on an auction-type basis.

The fall in term rates has seen the costs of funds decline for firms. Firms' appetite for debt is also waning, with some firms instead deciding to fund business opportunities through profits. Meanwhile, others are actively reducing debt levels and consolidating their balance sheets.

Investment within the mining and resources sector has been largely unaffected (to date) by the ongoing global economic uncertainty, and recent falls in commodity prices. This is not particularly surprising given the long-term framework mining and resource companies utilise, in determining the viability of investment projects. Encouragingly, in WA there is increasing interest in infrastructure investment by both public and private sector parties. Other sectors within the economy, however, are striking a more cautious tone in relation to their investment plans.

The elevated A\$ continues to pose significant challenges for currency sensitive areas of the economy, such as manufacturing. Recent volatility in the A\$ has resulted in some firms taking a more cautious approach in regards to managing their FX exposures and cash flows, resulting in an increase in hedging activity.

Many firms consider the **recent interest rate cuts by the RBA** as long overdue (November's rate cut had already occurred at the time of this survey), with some firms expecting further cuts. At the time of the survey, the reduction in interest rates had yet to precipitate a marked improvement in activity.

Manufacturing firms are struggling to remain competitive. This is especially true of firms that produce basic materials, with many now deciding to import goods from overseas rather than manufacture them domestically. Encouragingly, the upswing in mining activity is creating opportunities for some firms manufacturing more elaborate or specialised products.

Conditions remain mixed across states. In Queensland, areas directly benefiting by the mining and resources sector are outperforming. In these sectors and regions labour market conditions are tight and employers are struggling to fill job vacancies across a range of industries. Further, house prices and rents are also growing at very quick rates. Outside of the resources locations, the Queensland economy appears to be imbued with similar characteristics to other states. Indeed, many firms remain cautious about the international outlook and in some instances are reducing labour and deferring investment.

Labour market conditions are weaker in Victoria with professional service firms shedding labour. Conditions in Victoria's once heated property market also remain soft, with weakened consumer confidence weighing on activity. That said, demand within the first home buyer price range (\$450k - \$650k) has remained solid.

Similarly, **property market conditions in NSW remain restrained.** Property developers are reporting difficulty in obtaining finance, whilst sales activity in the residential market remains subdued.

IN FOCUS

The Western Australia economy, is, for the most part, continuing to power on. There is no evidence of firms shelving investment plans in the mining sector, and firms appear little troubled by the recent pullback in commodity prices.

In general, sentiment within South Australia remains upbeat due to government approval for the Olympic Dam project. There are some areas of weakness, however, with the elevated A\$ adversely affecting the manufacturing and to a lesser degree agricultural sectors. There is also evidence that some firms will focus on cost reductions in the year ahead.

FIGURE 1. BUSINESS ACTIVITY COMPARED WITH TWO MONTHS AGO

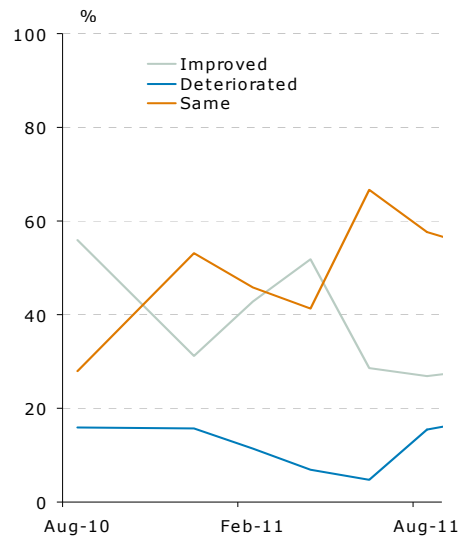
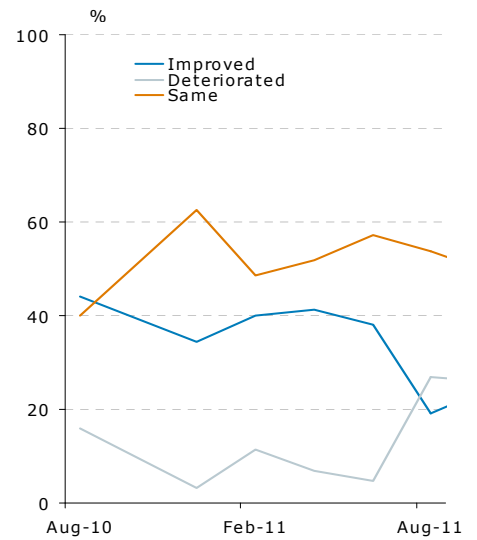


FIGURE 2. FINANCING CONDITIONS COMPARED WITH TWO MONTHS AGO

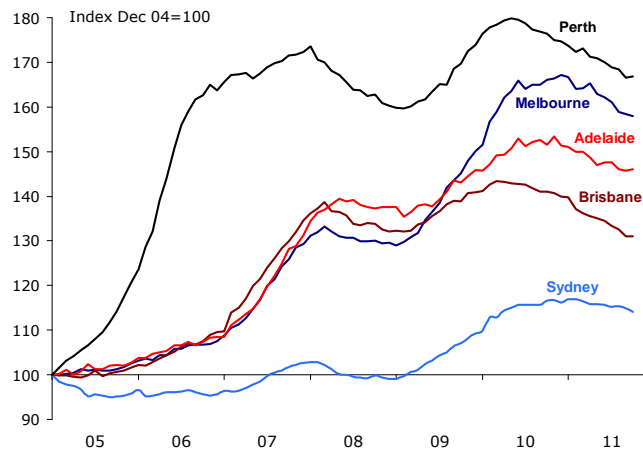


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HOUSING: CONFIDENCE WEAK AND PRICES ARE DOWN

Australian house prices have drifted lower in most capital cities over the past year reflecting increased stock for sale and weakened buyer sentiment. Economic and financial market uncertainty has been fanned by the European debt crisis, a slowdown in China and the threat of a renewed global downturn. This has combined with a marked slowdown in the domestic labour market to heighten concerns over job security. Furthermore, a plethora of doomsayers predicting an imminent collapse in Australian house prices has weighed on market confidence.

FIGURE 2: HOUSE PRICES



Sources: RP Data-Rismark, ANZ

Initially, falls were concentrated in Perth and Brisbane but more recently Melbourne and Adelaide prices have declined. House prices in all these cities experienced outsized gains in earlier years and are now reverting to 'fair value'. Western Australia and Queensland are expected to lead the two-speed economy in the years ahead, and buoyant labour demand and rapid gains in household incomes will limit further downside to house prices and eventually drive them higher. However, the Victorian economy is forecast to slow sharply in 2012 placing further downward pressure on prices. Sydney home prices, in contrast, have been resilient, reflecting their softer run up in the past seven years along with an unprecedented tightening of housing supply.

Declining auction clearance rates and rising days on market reflect the mismatch between buyer and vendor expectations. However, the absence of wide-scale 'forced' selling has, to date, protected measured price outcomes. Rising unemployment, however, presents a clear risk to loan delinquencies and house prices.

FUNDAMENTALS IMPROVING

While we expect prices to ease further in the 12 months ahead, we maintain a cautiously optimistic medium term house price view supported by a robust economic outlook, low unemployment, flat to falling mortgage rates, improved affordability and a significant tightening of the housing demand/supply balance.

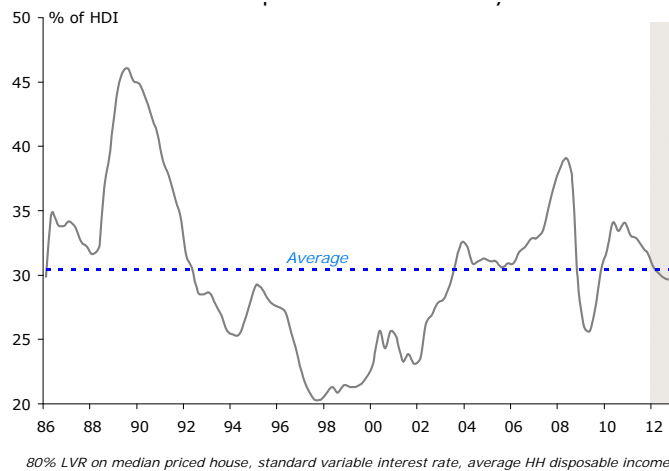
A combination of lower interest rates, falling house prices and rising household incomes has improved house purchase affordability. From a recent peak of 34% of income in 2010, average mortgage payments on the median priced home have declined to 32% of average household income at present and are expected to fall beneath the long term average of 30% by the end of next year.

A longer term perspective on affordability shows all the growth in house prices since the mid-1980s is explained by just two factors: gains in average household incomes and a structural decline in the cost of borrowing.

The median house price has risen by almost 6 times from \$93,000 in 1986 to \$550,000 now. Over the same period, average household incomes rose by 3½ times. Simply using the house price to income ratio, many analysts conclude that Australian house prices are currently 40-

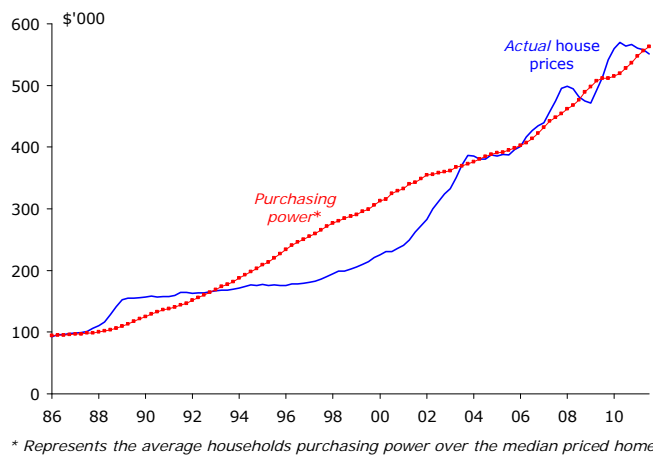
50% overvalued relative to the 1980s. However, when the halving of mortgage rates is taken into account, the average household's purchasing power¹ over the median priced home is almost exactly the same as it was in the mid-1980s. A multitude of factors influence house prices, including population growth, dwelling supply, rents, investor yields, tax incentives, the availability of credit and market sentiment.

FIGURE 3: HOUSE PURCHASE AFFORDABILITY



Sources: ABS, RBA, RP Data-Rismark, ANZ

FIGURE 4: HOUSE PRICES VS PURCHASING POWER



Sources: ABS, RBA, RP Data-Rismark, ANZ

However, over recent decades, median values have tended to vary around home purchasing power², suggesting housing affordability is the key determinant of house prices. House prices were actually significantly under-valued for much of the 1990s before 'catching up' with purchasing power between 2001 and 2003. Buoyed by stimulatory public policy, house prices moved marginally above purchasing power in 2009-10, but have fully retraced this in the past 18 months.

RIISING RENTS TO DRIVE RECOVERY

Five years of under-building relative to buoyant population growth has resulted in a clear shortage of housing in most capital cities. Some analysts have argued there is no housing shortage given the rising stock of 'unsold' homes. However, this confuses the fundamental

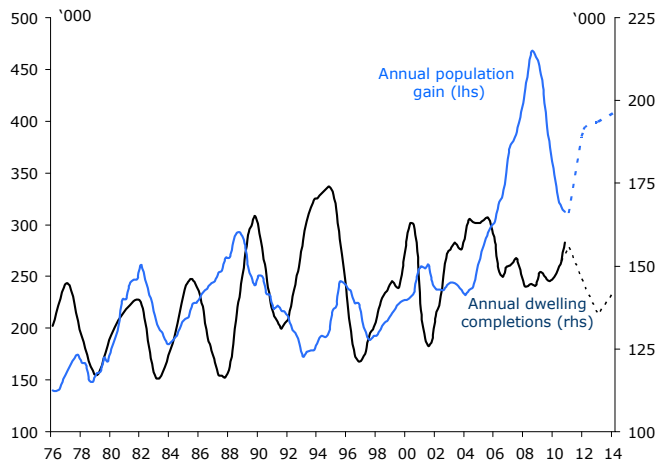
¹ As measured by standard mortgage repayments relative to average household income

² Underpinned by average household income and mortgage interest rates

demand and supply of housing with the home sales market. In large part, home sales simply represents a 'shuffling of the deck chairs' within the existing market and tells us little or nothing about the number of households desiring homes (whether owner-occupied, rental or holiday homes) relative to the available dwelling supply.

The physical housing shortage is clearly reflected in rental markets where vacancies have been driven well below long-term averages, placing upward pressure on rents. In recent years, a marked reduction in net overseas migration combined with a modest rise in home completions to narrow the gap between housing demand and supply.

FIGURE 5: UNDER-BUILDING: POPULATION GROWTH VS DWELLING COMPLETIONS

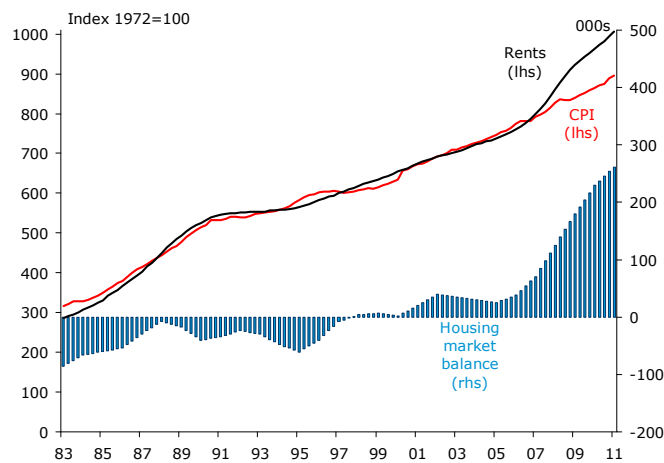


Sources: ABS, ANZ

However, dwelling approvals have fallen sharply and net overseas arrivals have rebounded suggesting the gap between underlying demand and housing supply will re-widen in the years ahead. With rental vacancies already at or near record lows in most capital cities, we continue to expect a strong acceleration of rents in the years ahead.

Ongoing equity market volatility, a deepening housing shortage and improved rental yields should steadily attract investors back into residential property, particularly in NSW. Rapidly rising rents, supportive demographics and improved affordability should also drive a rebound in first-homebuyer demand.

FIGURE 6: CPI RENTS VS CPI TOTAL



Sources: ABS, ANZ

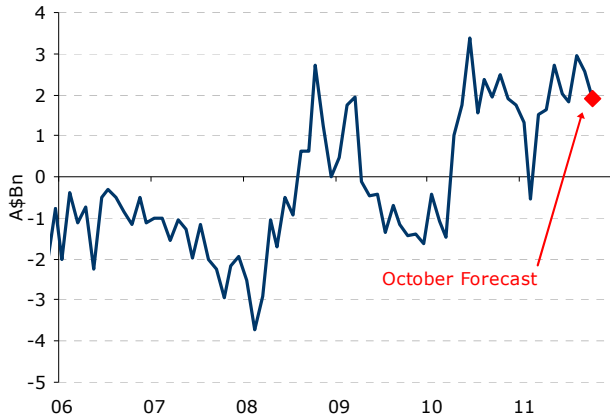
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DATA WRAP

- **The RBA cut the cash rate by 25bps to 4.25%.** In its accompanying statement, the RBA suggested the move was based on a deteriorating global environment, warning "*the likelihood of a further material slowing in global growth has increased*". The statement pointed to the slowing of trade in Asia, which was seeing the effects of slower growth in Europe. Furthermore, inflation in Australia is likely to be within the 2-3% target in 2012 and 2013.
- The **unemployment rate** rose to 5.3% in November from 5.2% in October. The increase in the unemployment rate was driven by a 6.3k decline in **employment**, underpinned by a 39.9k decrease in full-time employment and a 33.6k increase in part-time employment. Employment in October was upwardly revised by 6.7k to 16.8k. The **participation rate** decreased to 65.5% from 65.6% in seasonally adjusted terms.
- **GDP** beat market expectations, rising in the September quarter by 1.0% q/q to be in line with RBA forecasts. GDP growth for Q2 was also revised upwards to 1.4% q/q (previously 1.2%), taking annual growth to 2.5% (from an upwardly revised 1.9%). **Real gross domestic income** rose 1.2% q/q and 3.0% y/y, underpinned by the record terms of trade. Corporate non-financial profits continue to drive this income growth, rising 5.7% q/q and 10.7% y/y. **Total household consumption** grew 1.2% q/q in Q3, whilst the household savings ratio edged up over 10% again after falling to 9.1% in Q2. **Private sector business investment** was up 12.9% q/q and 22.7% y/y, reflecting non-residential construction growth of 24.4% q/q and 32.7% y/y. Strong growth in WA (+8.4% q/q) and Queensland (+3.5% q/q) offset weaker activity in NSW (+0.5% q/q) and a contraction in Victoria (-0.1% q/q).
- The **current account** deficit narrowed in Q3 to A\$5.6Bn, driven by a 2.3% q/q rise in export prices widening the trade surplus by A\$583mn to A\$6.8Bn. The net income deficit was A\$12.4Bn, narrowing by A\$420mn. Export volume growth (+2.0% q/q) was outpaced by import volume growth (4.3% q/q) to give a net contribution to Q3 growth of 0.6% q/q. The rise in import volumes was due to capital goods (+10.8% q/q) and consumption goods (+6.0% q/q), highlighting the second stage of the mining boom.
- The **ANZ Job Advertisement Series** was broadly unchanged in November. In trend terms, total job ads fell by 0.3% m/m in November, to be 0.5% lower than year ago levels. In November, the trend in job ads declined for the eighth consecutive month, albeit at a slowing pace.
- **Company profits** rose strongly in Q3, beating market expectations and rising 4.8% q/q. Growth was broadly based across industries, with mining (+5.0% q/q after Q2's 16.5% q/q rise), finance and insurance services (+12.5% q/q) along with professional services (+11.5% q/q) posting solid growth in trend terms. Profits were above average in utilities and construction, however were unsurprisingly weaker in retail and hospitality, with manufacturing contracting 2.4% q/q. Meanwhile **inventories** fell 1.1% in Q3, following a 1.6% q/q inventory build in Q2. The big inventory draw downs were concentrated in retail and wholesale trade.
- The **TD Securities Inflation Gauge** fell 0.1% m/m in November, taking the annual inflation rate to 2.1% y/y, the lowest since October 2010.
- The **AiG Performance of Service Index** fell by 1.1pts to 47.7 in November. However, the component data was more positive with new orders rising 1.0 point to 50.4, while inventories fell 4.8 points to 43.2.
- The **AiG Performance of Construction Index** rose by 1.9pts to 39.6 in November. New orders rose 6.7pts to 38.6.

DATA PREVIEW

TRADE BALANCE



12 DEC: TRADE BALANCE (OCT)

ANZ: +A\$1.9Bn

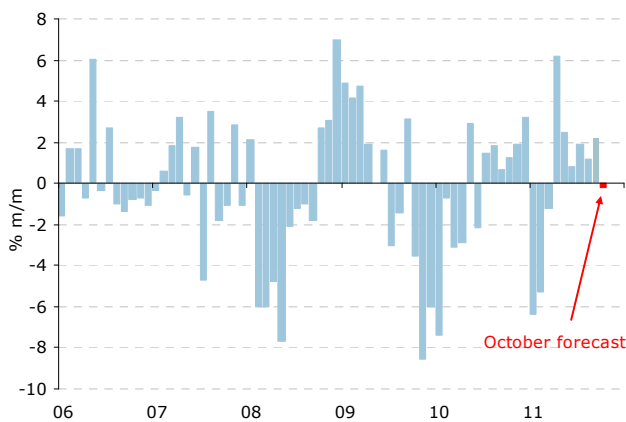
Market: +A\$2.0Bn

Last: +A\$2.56Bn

The trade surplus is expected to narrow further in October due to solid imports growth of 2½%, while exports remain broadly flat. The strength in imports is partly due to rebounds in non-monetary gold and fuels and lubricants imports, but also modest rises in both consumption and capital goods imports. During the current investment stage of the mining boom, capital goods exports are expected to rise significantly through 2012.

In contrast, exports are likely to be flat to down slightly in October. A fall in iron ore exports are likely to be somewhat offset by rises in non-monetary gold exports and rural exports. Meanwhile, services exports are again likely to be weak due to the higher AUD and global uncertainties. Iron ore prices to China fell sharply in October, but quarterly contract prices are likely to see this impact dampened somewhat. We will continue to monitor the trend of Australian miners moving toward spot prices and away from contract prices. This does bring some potential downside risks to resources exports over coming months. (AM)

HOUSING FINANCE



12 DEC: HOUSING FINANCE (OCT)

ANZ: -0.2% m/m, +5.7% y/y

Market: 0.0% m/m

Last: +2.2% m/m, +7.6% y/y

The number of housing finance commitments is expected to post a marginal decline in October. This data pre-dates both the November and December interest rate cuts and is expected to reflect ongoing weakness in housing sales activity and softening house prices. Recent growth in owner-occupier housing finance, particularly in the first home buyer segment, shows the strength of underlying housing market drivers (i.e. undersupply of housing, stable household finance) in the face of current sentiment-driven weakness. Looking forward, consecutive interest rate cuts and improving housing affordability should support moderate housing finance growth in the medium term. (DC)

DATA & EVENT CALENDAR

WEEK STARTING 12 DECEMBER

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST	
10-Dec	CH	Exports y/y	NOV	10.9%	9.1%	15.9%	14:00	00:00	
		Imports y/y	NOV	18.8%	17.3%	28.7%	14:00	00:00	
		Trade Balance (USD)	NOV	\$15.20B	\$14.3B	\$17.03B	14:00	00:00	
11-15 DEC	CH	Money Supply - M0 y/y	NOV	--	--	11.9%			
		Money Supply - M1 y/y	NOV	8.6%	--	8.4%			
		Money Supply - M2 y/y	NOV	12.8%	--	12.9%			
		New Yuan Loans	NOV	550.0B	--	586.8B			
12-16 DEC	JN	Nationwide Dept. Sales y/y	NOV	--	--	-0.5%			
		Tokyo Dept. Store Sales y/y	NOV	--	--	-1.9%			
	GE	Wholesale Price Index m/m	NOV	--	--	-1.0%			
		Wholesale price Index y/y	NOV	--	--	5.0%			
	UK	Nationwide Consumer Confidence	NOV	--	--	36			
		NZ	Westpac NZ Consumer Confidence	4Q	--	109	112	22:00	08:00
Monday	AU	Home Loans m/m	OCT	0.0%	-0.2%	2.2%	01:30	11:30	
12-Dec		Owner-Occupied Home Loan Value m/m	OCT	--	--	0.7%	01:30	11:30	
Tuesday	JN	Trade Balance	OCT	2000M	1900M	2564M	01:30	11:30	
		Domestic CGPI m/m	NOV	-0.2%	--	-0.7%	00:50	10:50	
		Domestic CGPI y/y	NOV	1.5%	--	1.7%	00:50	10:50	
	EU	Consumer Confidence	NOV	--	--	38.6	06:00	16:00	
		Machine Tool Orders y/y	NOV P	--	--	26.0%	07:00	17:00	
	US	ECB Calls for Bids in 1-Month Tender					15:30	01:30	
		ECB Calls for Bids in 7-Day Main Refinancing Tender					15:30	01:30	
		France's Coeure at EU Parliament Hearing on ECB Appointment					19:45	05:45	
		Monthly Budget Statement	NOV	-\$140.0B	--	-\$150.4B	20:00	06:00	
			US Treasury auctions 3-year notes						
	13-Dec	NZ	Food Prices m/m	NOV	--	0.2%	-1.3%	22:45	08:45
			New Zealand Manpower Survey	1Q	--	--	23.0%	05:01	15:01
		AU	CBAHIA House Affordability	3Q	--	--	56.2	01:00	11:00
Investment Lending			OCT	--	--	1.9%	01:30	11:30	
Dwelling Starts			3Q	-1.0%	--	-4.7%	01:30	11:30	
NAB Business Conditions			NOV	--	--	-1	01:30	11:30	
NAB Business Confidence			NOV	--	--	2	01:30	11:30	
Australia Manpower Survey			1Q	--	--	16.0%	05:01	15:01	
JN		ABARES Agricultural Commodities Report							
		Tertiary Industry Index m/m	OCT	0.4%	--	-0.7%	00:50	10:50	
CH		Japan Manpower Survey	1Q	--	--	10	02:00	12:00	
		China Manpower Survey	1Q	--	--	25.0%	01:01	11:01	
EU	ECB's Reserve Maintenance Period Ends					00:00	10:00		
	ZEW Survey (Econ. Sentiment)	DEC	--	--	-59.1	11:00	21:00		
	ECB Announces Allotment in 1-Month Tender					11:15	21:15		
	ECB Announces Allotment in 7-Day Main Refinancing Tender					11:15	21:15		
	ECB Allotment of 7-Day Term Deposits to Offset Bond Purchases					13:00	23:00		
	ECB's Mersch Speaks at Event in London							13:00	23:00
	ECB'S Weidmann Speaks in Frankfurt							18:30	04:30
	GE	Germany First Quarter Manpower Employment Outlook (Table)					00:01	10:01	
		Zew Survey (Current Situation)	DEC	--	--	34.2	11:00	21:00	
		ZEW Survey (Econ. Sentiment)	DEC	-55	--	-55.2	11:00	21:00	
UK	RICS House Price Balance	NOV	--	--	-24.0%	01:01	11:01		
	Core CPI y/y	NOV	3.3%	--	3.4%	10:30	20:30		
	CPI m/m	NOV	0.1%	--	0.1%	10:30	20:30		
	CPI y/y	NOV	4.8%	--	5.0%	10:30	20:30		
	DCLG UK House Prices y/y	OCT	--	--	-1.4%	10:30	20:30		
	Retail Price Index	NOV	--	--	238	10:30	20:30		
	RPI m/m	NOV	0.1%	--	0.0%	10:30	20:30		
	RPI y/y	NOV	5.1%	--	5.4%	10:30	20:30		
	RPI Ex Mort Int.Payments y/y	NOV	5.3%	--	5.6%	10:30	20:30		

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Tuesday 13-Dec	US	NFIB Small Business Optimism	NOV	--	--	90.2	13:30	23:30
		Advance Retail Sales	NOV	0.6%	--	0.5%	14:30	00:30
		Retail Sales Ex Auto & Gas	NOV	0.5%	--	0.7%	14:30	00:30
		Retail Sales Less Autos	NOV	0.5%	--	0.6%	14:30	00:30
		Business Inventories	OCT	0.4%	--	0.0%	16:00	02:00
		IBD/TIPP Economic Optimism	DEC	42	--	40.6	16:00	02:00
		JOLTs Job Openings	OCT	--	--	3354	16:00	02:00
		FOMC Rate Decision	Dec-11	0.25%	--	0.25%	20:15	06:15
		US Treasury auctions 10-year notes						
14-17 DEC	CH	Actual FDI y/y	NOV	--	--	8.8%		
Wednesday 14-Dec	NZ	Non Resident Bond Holdings	NOV	--	--	61.4%	03:00	13:00
	AU	Westpac Consumer Confidence Index	DEC	--	--	103.4	00:30	10:30
		Westpac Consumer Confidence sa m/m	DEC	--	--	6.3%	00:30	10:30
		DEWR Internet Skilled Vacancies m/m	NOV	--	--	-1.9%	01:00	11:00
		RBA's Battellino Speaks at Banking Conference in Sydney					02:30	12:30
	JN	Capacity Utilization m/m	OCT F	--	--	-3.6%	05:30	15:30
		Industrial Production m/m	OCT F	--	--	2.4%	05:30	15:30
		Industrial Production y/y	OCT F	--	--	0.4%	05:30	15:30
	CH	Conference Board China October Leading Economic Index					03:00	13:00
	EU	Euro-Zone Ind. Prod. sa m/m	OCT	-0.3%	--	-1.9%	11:00	21:00
		Euro-Zone Ind. Prod. wda y/y	OCT	--	--	2.4%	11:00	21:00
		ECB's Mersch Presents BCL's Quarterly Report					09:00	19:00
	GE	Germany's Schaeuble, Weidmann Speak on Euro Cash Anniversary					14:30	00:30
	UK	Average Weekly Earnings 3M/y/y	OCT	2.0%	--	2.3%	10:30	20:30
		Claimant Count Rate	NOV	5.1%	--	5.0%	10:30	20:30
		ILO Unemployment Rate (3mths)	OCT	8.3%	--	8.3%	10:30	20:30
		Jobless Claims Change	NOV	13.6K	--	5.3K	10:30	20:30
		Weekly Earnings exBonus 3M/y/y	OCT	1.7%	--	1.7%	10:30	20:30
	US	MBA Mortgage Applications	Dec-11	--	--	12.8%	13:00	23:00
		Fed's Lockhart (non-voter) Speaks about Midtown Atlanta					14:30	00:30
		Import Price Index m/m	NOV	1.0%	--	-0.6%	14:30	00:30
		Import Price Index y/y	NOV	--	--	11.0%	14:30	00:30
		US Treasury auctions 30-year bonds						
	CA	Leading Indicators m/m	NOV	--	--	0.2%	14:30	00:30
		Manufacturing Sales m/m	OCT	--	--	2.6%	14:30	00:30
Thursday 15-Dec	NZ	Business NZ PMI	NOV	--	--	46.5	22:30	08:30
	AU	Consumer Inflation Expectation	DEC	--	--	2.5%	00:30	10:30
		New Motor Vehicle Sales m/m	NOV	--	--	1.1%	01:30	11:30
		New Motor Vehicle Sales y/y	NOV	--	--	4.4%	01:30	11:30
		RBA Foreign Exchange Transactn	NOV	--	--	401M	01:30	11:30
		RBA Bulletin - December Quarter 2011						
	JN	Foreign Buying Japan Bonds	Dec-11	--	--	-¥222.4B	00:50	10:50
		Foreign Buying Japan Stocks	Dec-11	--	--	¥59.0B	00:50	10:50
		Japan Buying Foreign Bonds	Dec-11	--	--	¥261.1B	00:50	10:50
		Japan Buying Foreign Stocks	Dec-11	--	--	¥89.9B	00:50	10:50
		Tankan Large All Indust Capex	4Q	2.5%	--	3.0%	00:50	10:50
		Tankan Lge Manufacturers Index	4Q	-2	--	2	00:50	10:50
		Tankan Lge Mfg Outlook	4Q	-3	--	4	00:50	10:50
		Tankan Non-Manufacturing	4Q	1	--	1	00:50	10:50
		Tankan Non-Mfg Outlook	4Q	1	--	1	00:50	10:50
		Tokyo Condominium Sales y/y	NOV	--	--	-9.3%	05:00	15:00
		Machine Tool Orders y/y	NOV F	--	--	--	07:00	17:00
	CH	HSBC Flash China Manufacturing PMI	DEC	--	--	48	03:30	13:30
	EU	PMI Composite	DEC A	--	--	47	10:00	20:00
		PMI Manufacturing	DEC A	--	--	46.4	10:00	20:00
		PMI Services	DEC A	--	--	47.5	10:00	20:00
		Euro-Zone CPI - Core y/y	NOV	--	--	1.6%	11:00	21:00
		Euro-Zone CPI m/m	NOV	--	--	0.3%	11:00	21:00
		Euro-Zone CPI y/y	NOV	--	--	3.0%	11:00	21:00
		Eurozone Employment q/q	3Q	--	--	0.3%	11:00	21:00
		Eurozone Employment y/y	3Q	--	--	0.4%	11:00	21:00
		ECB President Draghi Speech on Social Market Economy: Berlin					12:25	22:25
		ECB Publishes Dec. Monthly Report					10:00	20:00
		ECB's Erkki Liikanen Speaks at Bank of Finland Quarterly Event					10:00	20:00

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST		
Thursday 15-Dec	GE	PMI Manufacturing	DEC A	--	--	47.9	09:30	19:30		
		PMI Services	DEC A	--	--	50.3	09:30	19:30		
	UK	BoE/GfK Inflation Next 12 Mths	NOV	--	--	4.2%	10:30	20:30		
		Retail Sales Ex Auto Fuelm/m	NOV	-1.0%	--	0.6%	10:30	20:30		
		Retail Sales Ex Auto Fuely/y	NOV	--	--	0.9%	10:30	20:30		
		Retail Sales w/Auto Fuel m/m	NOV	-0.4%	--	0.6%	10:30	20:30		
		Retail Sales w/Auto Fuel y/y	NOV	0.4%	--	0.9%	10:30	20:30		
		CBI Trends Total Orders	DEC	--	--	-19	12:00	22:00		
		Service Production y/y WDA	DEC	--	--	2	12:00	22:00		
	US	Continuing Claims	Dec-11	--	--	--	14:30	00:30		
		Current Account Balance	3Q	-\$107.8B	--	-\$118.0B	14:30	00:30		
		Empire Manufacturing	DEC	2.5	--	0.61	14:30	00:30		
		Initial Jobless Claims	Dec-11	390K	--	--	14:30	00:30		
		PPI Ex Food & Energy m/m	NOV	0.2%	--	0.0%	14:30	00:30		
		PPI Ex Food & Energy y/y	NOV	2.8%	--	2.8%	14:30	00:30		
		Producer Price Index m/m	NOV	0.2%	--	-0.3%	14:30	00:30		
		Producer Price Index y/y	NOV	5.9%	--	5.9%	14:30	00:30		
		Net Long-term TIC Flows	OCT	--	--	\$68.6B	15:00	01:00		
		Total Net TIC Flows	OCT	--	--	\$57.4B	15:00	01:00		
		Capacity Utilization	NOV	77.9%	--	77.8%	15:15	01:15		
		Industrial Production	NOV	0.2%	--	0.7%	15:15	01:15		
		Bloomberg Consumer Comfort	Dec-11	--	--	-50.3	15:45	01:45		
		Philadelphia Fed.	DEC	5	--	3.6	16:00	02:00		
		Fed's Lockhart (non-voter) to Give Commencement Speech in Atlanta							21:20	07:20
		US Treasury auctions 5-year TIPS								
		Friday 16-Dec	CA	Capacity Utilization Rate	3Q	--	--	78.4%	14:30	00:30
	EU		EU 25 New Car Registrations	NOV	--	--	-1.8%	08:00	18:00	
Euro-Zone Labour Costs y/y			3Q	--	--	3.6%	11:00	21:00		
Euro-Zone Trade Balance			OCT	--	--	2.9B	11:00	21:00		
Euro-Zone Trade Balance sa			OCT	--	--	2.1B	11:00	21:00		
ECB's Draghi, King, Bini Smaghi, Visco, Regling at Rome Conference										
US	Consumer Price Index m/m		NOV	0.1%	--	-0.1%	14:30	00:30		
	Consumer Price Index y/y		NOV	3.5%	--	3.5%	14:30	00:30		
	Consumer Price Index nsa		NOV	--	--	226.421	14:30	00:30		
	CPI Core Index sa		NOV	--	--	226.444	14:30	00:30		
	CPI Ex Food & Energy m/m		NOV	0.1%	--	0.1%	14:30	00:30		
	CPI Ex Food & Energy y/y		NOV	2.1%	--	2.1%	14:30	00:30		
	Fed's Evans (voter) Speaks on Econometric Policy Tools in Italy							17:15	03:15	
Fed's Fisher (voter) Speaks on Economy in Austin, Texas							18:00	04:00		
CA	Int'l Securities Transactions	OCT	--	--	7.35B	14:30	00:30			

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
12 DECEMBER AU: Housing Finance (Oct), Trade (Oct)	13 DECEMBER NZ: Food Prices (Nov) AU: Dwelling Starts (Q3), NAB Business Survey (Nov) EU: ZEW (Dec) UK: CPI (Nov) US: NFIB Small Business Optimism (Nov), Retail Sales (Nov), Business Inventories (Oct), FOMC Rates Decision	14 DECEMBER AU: Westpac Consumer Confidence (Dec), RBA's Battellino Speaks JP: Industrial Production (Oct F) EU: Industrial Production (Oct) UK: Jobless Claims (Nov)	15 DECEMBER NZ: Business NZ PMI (Nov) AU: RBA Bulletin JP: Tankan Manufacturing Index (Q4) EU: CPI (Nov), Employment (Q3) UK: Retail Sales (Nov) US: PPI (Nov), Current Account (Q3), Empire Fed Manufacturing Index (Dec), Philly Fed Manufacturing Index (Dec), Industrial Production (Nov)	16 DECEMBER EU: Trade (Oct), ECB's Draghi, King, Bini Smaghi Speak US: CPI (Nov)
19 DECEMBER NZ: Performance of Services Index (Nov), NBNZ Business Confidence (Dec) EU: CA (Oct), Construction Output (Oct) US: NAHB Housing Market Index (Dec), Fed's Lacker Speaks	20 DECEMBER AU: RBA Minutes JP: Leading Index (Oct) GE: PPI (Nov), IFO (Dec), US: Housing Starts (Nov), Building Permits (Nov) CA: CPI (Nov)	21 DECEMBER NZ: CA (Q3), Net Migration (Nov) JP: BoJ Rates Decision , Merchandise Trade (Nov) EU: Consumer Confidence (Dec A) GE: GfK Consumer Confidence (Dec) UK: GfK Consumer Confidence (Dec), BoE minutes US: Existing Home Sales (Nov) CA: Retail Sales (Oct)	22 DECEMBER NZ: GDP (Q3) UK: GDP (Q3 F), CA (Q3) US: GDP (Q3 T), Personal Consumption (Q3 T), Uni of Michigan Confidence (Dec F)	23 DECEMBER JP: Emperor's birthday holiday UK: Index of Services (Oct) US: Durable Goods Orders (Nov), Capital Goods Orders (Nov), Personal Income & Spending (Nov), Core PCE (Nov), New Home Sales (Nov) CA: GDP (Oct)
26 DECEMBER AU, NZ, UK, GE, IT, US, CA: Christmas day holiday	27 DECEMBER NZ, AU, CA: Boxing day holiday JP: Vehicle Production (Nov), Construction Orders (Nov), Housing Starts (Nov) US: Case Shiller Home Prices (Oct), Consumer Confidence (Dec), Richmond Fed Manufacturing Index (Dec), Dallas Fed Manufacturing Index (Dec)	28 DECEMBER JP: Jobless Rate (Nov), CPI (Nov), Retail Trade (Nov), Industrial Production (Nov P)	29 DECEMBER GE: CPI (Dec P) US: Chicago PMI (Dec), Pending Home Sales (Nov), Kansas City Fed Manufacturing Activity Index (Dec)	30 DECEMBER AU: RP-Rismark House Prices (Nov), Private Credit (Nov) 1 January CH: PMI Manufacturing (Dec)
2 JANUARY NZ, AU, CH, JP, UK, US, CA: New Years' Day Holiday	3 JANUARY UK: PMI Manufacturing (Dec) US: ISM Manufacturing (Dec), FOMC Minutes , Construction Spending (Nov)	4 JANUARY US: ADP Employment (Dec), Factory Orders (Nov)	5 JANUARY UK: PMI Services (Dec) US: Chain Store Sales (Dec)	6 JANUARY GE: Factory Orders (Nov) US: Non-farm Payrolls (Dec) CA: Employment (Dec)
9 JANUARY NZ: Trade (Nov) AU: Retail Sales (Nov) JP: Coming of Age Day Holiday US: Consumer Credit (Nov) CA: Building Permits (Nov)	10 JANUARY NZ: Building Permits (Nov) AU: Trade (Nov), Building Approvals (Nov) CH: Trade (Dec) US: NFIB Small Business Optimism (Dec)	11 JANUARY AU: Westpac Consumer Confidence (Jan) UK: Trade Balance (Nov)	12 JANUARY JP: Current Account (Nov) EU: ECB Rates Decision UK: Industrial Production (Nov), BoE Rates Decision US: Retail Sales (Dec), Business Inventories (Nov) CA: New House Price Index (Nov)	13 JANUARY UK: PPI (Dec) US: Trade (Nov) CA: Trade (Nov)

CENTRAL BANK RELEASES FOR 2011-12

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

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

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

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

Source: Central bank websites.

FORECASTS

AUSTRALIAN ECONOMIC INDICATORS	2010	2011F	2012F	2013F
Economic activity (annual % change)				
Private final demand	2.0	5.6	7.0	5.9
Household consumption	2.9	3.6	2.9	2.6
Dwelling investment	4.2	-1.8	-0.8	7.6
Business investment	-1.1	17.5	23.4	15.0
Public demand	8.7	-1.0	-0.6	1.7
Domestic final demand	3.6	4.0	5.3	5.0
Inventories (contribution to GDP)	0.4	0.3	-0.1	0.0
Gross National Expenditure (GNE)	4.1	4.3	5.1	5.0
Exports	5.8	-1.6	10.1	9.9
Imports	14.1	11.6	14.7	13.6
Net Exports (contribution to GDP)	-1.5	-2.8	-1.4	-1.4
Gross Domestic Product (GDP)	2.6	2.0	3.9	3.3
Prices and wages (annual % change)				
Inflation: Headline CPI	2.8	3.4	2.4	3.4
Underlying (RBA core)	2.8	2.5	2.8	3.4
Wages:	3.3	3.7	3.5	4.1
Labour market				
Employment (annual % change)	2.7	1.7	1.4	2.3
Unemployment rate (annual average %)	5.2	5.1	5.4	5.0
External sector				
Terms of trade (annual % change)	16.4	14.8	-4.4	-5.5
Current account balance: A\$bn	-38.5	-30.6	-61.1	-95.5
% of GDP	-2.8	-2.1	-4.0	-6.0

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

AUSTRALIAN INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBA cash rate	4.25	4.25	4.00	4.00	4.00	4.00
90 day bill	4.54	4.60	4.20	4.20	4.20	4.20
3 year bond	3.09	3.07	2.90	3.00	3.10	3.20
10 year bond	3.85	3.92	3.80	3.80	3.90	4.00
3s10s yield curve	0.76	0.84	0.90	0.80	0.80	0.80
3 year swap	3.85	3.90	3.50	3.50	3.55	3.65
10 year swap	4.72	4.79	4.50	4.40	4.45	4.55

INTERNATIONAL INTEREST RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
RBNZ cash rate	2.50	2.50	2.50	2.50	2.50	2.75
NZ 90 day bill	2.67	2.73	2.73	2.75	2.75	3.17
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.25
US 2 year note	0.22	0.25	0.20	0.20	0.20	0.40
US 10 year note	1.99	2.05	1.90	1.90	2.00	2.20
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.00	1.25	1.00	1.00	1.00	1.00
UK repo rate	0.50	0.50	0.50	0.50	0.50	0.50

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	DEC 11F	MAR 12F	JUN 12F	SEP 12F	DEC 12F
Australian exchange rates						
A\$/US\$	1.02	0.97	1.00	1.05	1.10	1.10
NZ\$/US\$	0.77	0.77	0.80	0.83	0.86	0.89
A\$/¥	79.1	72.8	75.0	75.6	79.2	79.2
A\$/€	0.76	0.72	0.73	0.75	0.77	0.76
A\$/£	0.65	0.63	0.64	0.66	0.68	0.67
A\$/NZ\$	1.32	1.26	1.25	1.27	1.28	1.24
A\$/C\$	1.04	0.93	0.98	1.04	1.11	1.13
A\$/CHF	0.94	0.89	0.94	1.01	1.08	1.10
A\$/CNY	6.48	6.17	6.35	6.60	6.85	6.79
A\$ Trade weighted index	76.0	70.4	72.1	74.5	77.4	76.6
International cross rates						
US\$/¥	77.7	75.0	75.0	72.0	72.0	72.0
€/US\$	1.34	1.35	1.37	1.40	1.42	1.45
€/¥	104	101	103	101	102	104
£/US\$	1.56	1.55	1.57	1.59	1.61	1.63
€/£	0.85	0.87	0.87	0.88	0.88	0.89
US\$/C\$	1.02	0.96	0.98	0.99	1.01	1.03
US\$/CHF	0.93	0.92	0.94	0.96	0.98	1.00
US\$ index	78.8	78.6	77.0	75.6	75.1	74.3
Asia exchange rates						
US\$/CNY	6.36	6.36	6.35	6.29	6.23	6.17
US\$/HKD	7.78	7.80	7.80	7.80	7.80	7.80
US\$/IDR	9000	8925	8747	8572	8400	8232
US\$/INR	51.8	49.4	48.4	47.4	46.5	45.6
US\$/KRW	1139	1195	1171	1148	1125	1100
US\$/MYR	3.15	3.19	3.16	3.13	3.10	3.06
US\$/PHP	43.3	43.9	43.2	42.6	42.0	41.3
US\$/SGD	1.29	1.31	1.30	1.28	1.27	1.26
US\$/THB	30.82	31.20	31.00	30.90	30.70	30.60
US\$/TWD	30.16	30.60	30.40	30.30	30.10	30.00
US\$/VND	21008	21000	21400	21400	21400	21400
Pacific exchange rates						
PGK/US\$	0.468	0.378	0.372	0.366	0.366	0.366
FJD/US\$	0.552	0.538	0.530	0.522	0.522	0.522

IMPORTANT NOTICE

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