



# ECONOMICS & MARKETS RESEARCH

## AUSTRALIAN ECONOMICS TOOLBOX

3 SEPTEMBER 2010

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### THE SPENDATHON

- **The Australian economy is running hot, with real GDP growth of 1.2% QoQ and 3.3% YoY in Q2.** "Commodities Boom Mark II" was a strong driver of the result, with net exports adding 0.4ppts to growth and the terms of trade rising 12.5% QoQ to exceed the peak reached during the pre-financial crisis commodities boom. Incomes soared, with real gross domestic income rising 4% to be 8.2% higher in annual terms. But the surprising (and concerning) feature of the release was the resounding strength of the household sector, with **household consumption climbing 1.6%**. Moreover, households dipped into savings to fund these purchases, with the savings rate falling to 1.5% in Q2 from 3.4% in Q1. Ultimately, this will be a concern for the RBA, as it is all too aware that **Australia cannot accommodate a twin household consumption and terms of trade boom**, and in our view, will therefore need to lift interest rates before year-end (see *In Focus* article on page 2 for more detail).
- In addition to the strong Q2 GDP print, **this week's July data roll call showed that the economy has maintained solid momentum entering Q3.** Retail sales rose by a solid 0.7% in July, the best monthly rise since March. Meanwhile, building approvals increased 2.3% in the month, while house prices were up 0.4% and private sector credit rising 0.1%.
- **Another week has passed, and we are still yet to know the outcome of the Federal election.** Currently, the ALP has the backing of Greens MP Adam Bandt and Independent MP Andrew Wilkie, meaning that it can count on the support of 74 seats, while the Coalition has 73. Both major parties can thus still form government with the support of the three remaining independent MPs, with a decision possible by early next week (see *In Focus* piece on page 4 for more).

### THE WEEK AHEAD

- After a week of strong **Australian** economic data, markets will look to the RBA's rate decision on Tuesday ahead of employment data later in the week. With the market unanimous that the cash rate will remain on hold at 4.50%, the key focus of the RBA rates decision will be on the language used in the Governor's statement, with the risk that a more hawkish tone could creep into the text. Markets will also look for further hints toward future policy moves in RBA Assistant Governor Debelle's speech on Thursday. We think the August employment data will surprise markets to the upside given the impact of temporary hiring for the Federal election – see our full analysis on pp. 3-4. Other key data releases include ANZ Job Ads, housing finance and the AIG Performance of Construction Index.
- Internationally, we have a slow start to the week with the **US and Canada enjoying public holidays** on Monday. The data flow intensifies later in the week as **trade figures for China, Germany, Japan, the UK and the US** are released, which should give an indication of the relative strength of global trade.
- In North America, the **US** Fed's Beige Book, consumer credit, ISM services and wholesale inventories data are released, while a rates decision from the BoC (watch for a forecast hike to 1.00%) and employment data are due in **Canada**.
- There is a host of data out in **Japan** next week with machine orders, lending data, and consumer confidence, plus the final read on Q2 GDP and a rates decision from the BoJ.
- In Europe, **Euro zone** retail sales and investor confidence data will be released, as well as the ECB's monthly report. The **German** data flow sees factory orders and industrial production released. In the **UK**, the BoE will have its monthly MPC meeting to review rates and asset purchases, while the data flow will see producer prices and manufacturing and industrial production figures released.

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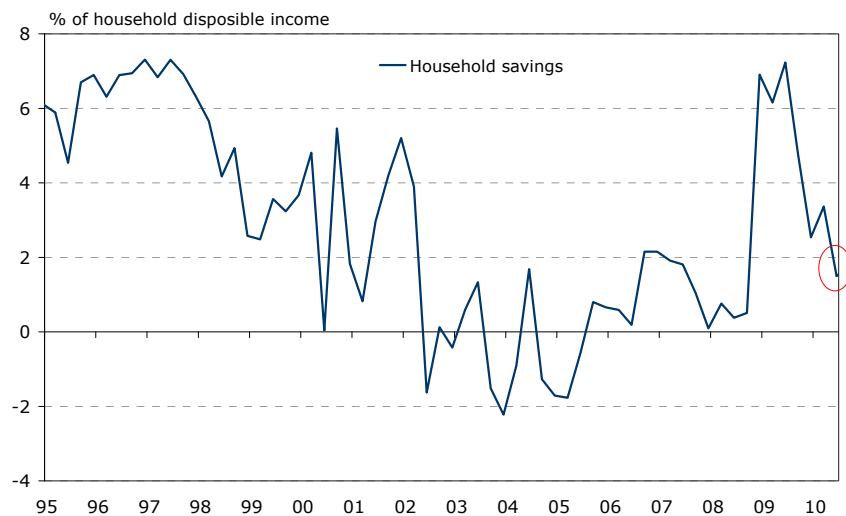
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## THE SPENDATHON

This week we received a resounding reminder about Australia's relative outperformance. The strength of economic growth, and in particular the surprise acceleration in household spending, strongly suggests that the RBA will need to lean further into the consumer to tame upward pressures on Australia's already relatively high inflation pulse. We therefore maintain our view that official interest rates will have to rise to 5.00% by year-end. If we are wrong, we suspect it is a matter of timing, not direction. Financial market pricing, which is still for a greater chance of an interest rate cut than an interest rate rise, is ripe for a sharp reversal in the coming months.

The biggest surprise (and concern) in the strong 1.2% rise in June quarter GDP was the booming household. Consumer spending surged 1.6% in Q2, the strongest result since December 2007, and an incredible outturn given policy was actually working against household income (i.e. higher interest rates, no tax cuts). Indeed, household disposable income rose just 0.1% in the quarter. This means households dipped into their savings to fund their spendathon, such that the household savings rate more than halved to 1.5% from 3.4% in Q1. This is a big danger sign for the RBA, which has previously stressed the need for household savings rates to remain elevated (and indeed rise further) if Australia is to accommodate a mining investment boom without inflationary consequences. That household spending has maintained strong momentum so far into H2, with retail sales rising by a higher than expected 0.7% in July, suggests we could see some change in language towards a more hawkish tone in next week's RBA policy statement.

**FIGURE 1: HOUSEHOLD SAVINGS RATIO SLASHED IN Q2**



Source: Australian Bureau of Statistics, ANZ.

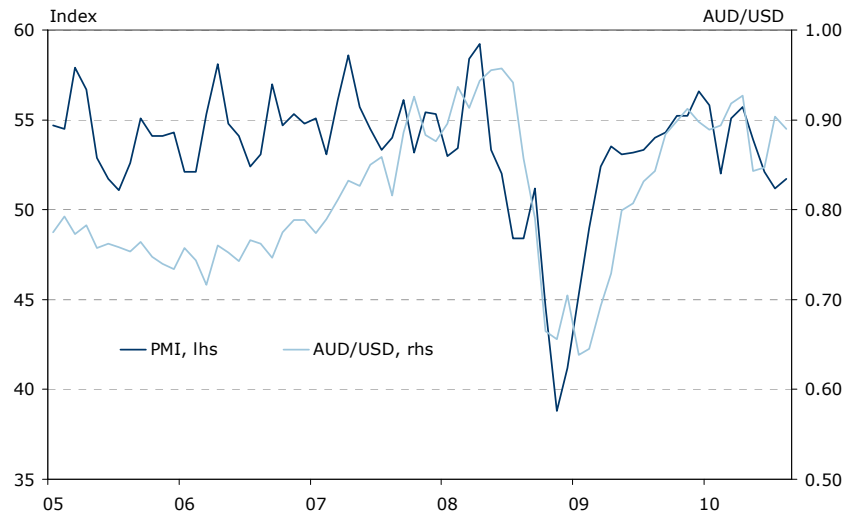
## EXTERNAL ENVIRONMENT STILL SUPPORTIVE

Offshore also provided some positive data for Australia. The Chinese PMI rebounded to 51.7 in August after four consecutive monthly declines. The rise in the output and new orders indices was particularly encouraging for Australian exporters. This provides us with further comfort that China is not heading for the hard landing some had feared. We continue to expect Chinese growth will moderate to a 'sustainable' pace by the end of the year, which in our view would still be supportive for the broad commodity complex.

We maintain our view that the terms of trade will not peak until mid to late 2011. Partly this is a strong global demand story. But it is also supply-driven. The interruption to mining investment over 2009-10 from the global financial crisis will leave big gaps in the supply of bulk commodities, in particular iron ore, next year. Note that this is stronger than the RBA's forecast, which is for the terms of trade to

peak in 2010. It is a clear source of upside risk to the RBA's already high inflation forecasts.

**FIGURE 2: THE REBOUND IN CHINESE PMI IS YET ANOTHER POSITIVE**



Source: Australian Bureau of Statistics, ANZ.

That said, this upward risk to inflation over 2011 doesn't (so far) mean much for local interest rate markets which in the short-term will remain driven by events in the US. Tonight's payrolls will be crucial in determining whether the Federal Reserve is likely to extend quantitative easing. Even if the payrolls data surprises to the upside, markets are unlikely to give up on the idea of further policy easing from the Fed. Long-dated US yields are therefore expected to remain low going into the upcoming FOMC meeting on 21 September.

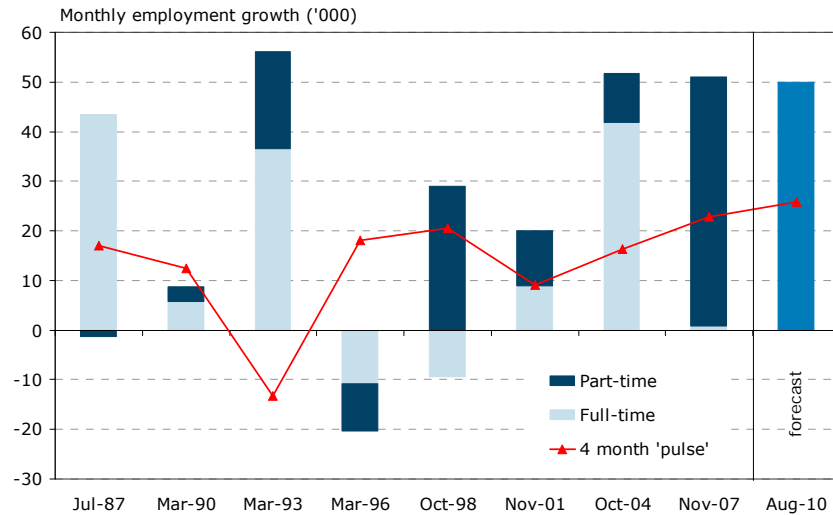
For Australian markets, this means continued downward pressure on term rates from the US market. Next week's employment data, due Thursday, could however provide some disruption. We are looking for a very strong employment report due to the impact of temporary election workers (see below). The trick will be look through this temporary worker effect to gauge the underlying pulse of employment.

To this end, indicators of labour demand, such as ANZ Job Ads (due on Monday) will be increasingly critical. ANZ Job Ads have picked up recently. A further pick up in coming months would suggest the unemployment rate could fall faster and further than the RBA had been expecting. This would yet another clear risk to the 'subdued consumer' the Bank is hoping to see. We believe indicators of labour demand will become increasingly critical to policy formulation in the coming months.

### **AUGUST EMPLOYMENT READ SET TO BE A WHOPPER**

Next week's August labour force release is set to show a surge in employment growth due to the impact of temporary election workers. Since the mid-1980s, there has been a distinct, positive impact on the aggregate employment data in the month of a Federal election. Not surprisingly, the effect is more apparent in the part-time than full-time figures. We know that for the latest Federal election, the Australian Electoral Commission (AEC) aimed to recruit over 70,000 people to work as polling officials on 21 August. While many of the people hired would already hold other jobs (and thus already be counted in the employment figures), there are others that would not, such as students and retirees. As the labour force employment data reflect the number of *people employed* in the Australian economy (not the number of *jobs*), the net impact of the temporary election hires on the August result will be somewhat less than the 70,000-odd employed by the AEC.

FIGURE 3: HISTORY SUGGESTS THAT ELECTIONS ARE GOOD FOR JOBS



Source: Australian Bureau of Statistics, ANZ.

Moreover, the fact that additional people can be expected to be entering the labour force as part of the AEC's temporary jobs should see the participation rate step up a tick to 65.6% in August from 65.5% in July. This increase in labour force participation will, all other things being equal, have an upward impact on the unemployment rate. However, given the acceleration in Australian economic activity, and the fact that the current 'pulse' in the monthly employment growth numbers is around 25,000, we think that we could see employment growth of around 50,000 in August. The strength of this forecast would, in turn, actually nudge the unemployment rate down to 5.2% from 5.3% in July.

Having said that, the downside to August's forecast bumper employment growth number is that in the month following a Federal election, there tends to be some payback in the data. Watch out for weaker (but not necessarily negative) employment growth figures in the September release.

## AUSTRALIAN FEDERAL ELECTION UPDATE 2010

### GRINDING TO A CONCLUSION

The post election deadlock has continued into a second week with neither major party yet able to form government. There are however signs that there could be a conclusion early next week. Two recent announcements have strengthened the position of the ruling Labor party (ALP). This week the ALP signed an alliance with the Greens party. Although not a formal coalition, the deal locks in the support of the Greens' Adam Bandt in the House of Representatives and guarantees supply through the new Senate (effectively allowing the Government to pass its budget), were the Greens will hold the balance of power. In return the Greens have received commitments from the ALP on a range of issues including parliamentary reform, dental health, and the environment. The alliance gives the Greens greater involvement in policy and more access to the senior ministers.

Late Thursday, the Tasmanian independent Andrew Wilkie announced that he will support the ALP to form government. In pledging his support he specified that it only guaranteed that the ALP could pass supply and that he would not support no-confidence motions against a Gillard government. He has retained his independence for all other pieces of legislation. In return the ALP has promised extra funding for Tasmanian hospitals and action to tackle problem gambling. These deals mean that at this stage, the ALP can count on the support of 74 seats whereas the Coalition has 73 in the parliament, with both remaining short of the 76 required for government.

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Both parties could still form government with the support of the three rural independents. The independents Bob Katter, Tony Windsor and Rob Oakeshott are yet to give an indication as to who they will support. Last night Windsor told the media that he was aiming to make a decision by Monday. Oakeshott was also indicating that he intended to make a decision early next week.

Independent MP Katter continues to call for a weaker currency. He has submitted his own 'wish list' for policy changes. There is a chance Katter will continue to 'go it alone,' that is, that the other independents (who are much more 'moderate') will seek to distance themselves from him. Thus, there is no guarantee that all three independents will go the same way. Note that the ALP only needs two out of the three independents to secure power, but the Coalition needs all three.

Moreover, Katter's demands suggest a Labor minority government that doesn't rely on Katter would be the better outcome for markets and the AUD.

### WEEKLY DATA WRAP

- **HIA New Private Home Sales** of Australia's five largest states, declined 7.0% in July to 7081, after a fall in June of 5.1%. Both unit sales (-4.1% MoM) and ex-unit sales (-7.3% MoM) recorded falls, with the largest declines in Victoria (-12.9% MoM) and Queensland (-7.6% MoM). This is the third straight fall in the series.
- **The Business Indicators Survey** reported a surge in **company operating profits** of 18.9%, and a decline in **inventories** of 0.5% in Q2. Profits were led by a 62.7% rise in mining profits, largely as a result of strong contract commodity prices. Other notable profits gains were in construction (+30.5% QoQ), financial and insurance services (+28.9% QoQ) and professional services (+20.8% QoQ). Meanwhile, the fall in inventories was again led by the mining sector with a drop of 4.4% in Q2.
- **The Current Account Balance** improved significantly to -A\$5.6bn in Q2, a massive \$11bn turnaround from Q1's balance of -A\$16.6bn. This was predominantly due to a record 14.7% rise in the terms of trade. Exports rose 4.5%, more than offsetting the 1.7% rise in imports in the quarter. The net income deficit narrowed to A\$11.9bn in Q2 from A\$13bn in Q1, while the goods and services trade balance recorded a surplus of A\$6.5bn.
- **Building Approvals** edged up 2.3% in July after a 3.3% decline in June, to be 11% higher than year earlier levels. There was a marginal fall in private sector detached house building approvals (-0.1%) while other private sector dwelling approvals (apartments, units etc) increased 7.7%.
- **Private Sector Credit** was broadly unchanged in July (+0.1%) with annual growth remaining at 2.8%. Business credit fell by 0.4% to be 5.0% lower in annual terms, personal credit remained unchanged over the month, while housing credit rose 0.5% in July.
- **RP Data-Rismark** data for July showed national home prices increased a meagre 0.4% MoM, to be up 9.7% in annual terms. Home prices were higher across all capital cities except Brisbane and Perth. While Melbourne home price growth continues to outperform in annual terms (+13.6%), the baton for monthly price growth has been passed to Sydney (+0.8% for the month). Home prices in the top 20% price range of capital city suburbs have been falling since March 2010, while prices in the bottom 80% rose in July.
- **Retail Sales** rose 0.7% in July, the strongest monthly rise since March, to raise the annual growth rate up to 4.0%. That said, sharp disparities continue to persist across spending categories: sales were strongest in cafes, restaurants and takeaway food (+5.3%) and 'other' retailing (+1.4%), but lacklustre in household goods (-1.7%) and department stores (-0.7%). By State, sales surged in Victoria (+1.7%) and Queensland (+1.5%) but disappointed in Western Australia (-1.8%).

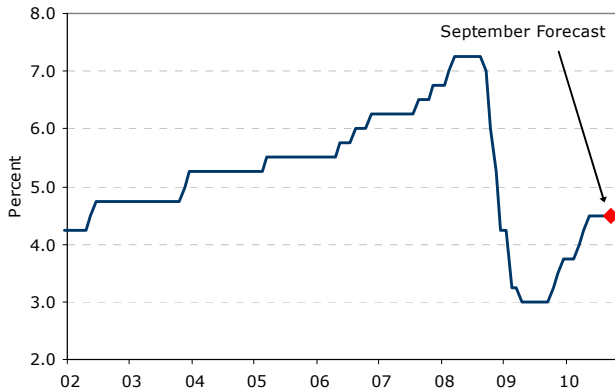
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## IN FOCUS

- **Real GDP** accelerated in Q2 to 1.2% QoQ, with an upward revision to Q1 growth to 0.7% QoQ from 0.5% QoQ. This saw annual growth pick up to 3.3% YoY, the fastest pace since Q1 2008. All components fired with non-farm GDP 1.2% higher and farm GDP up 0.7%. Domestic demand was supported by strong dwelling investment (+5.0% QoQ) and a pick up in household consumption (+1.6% QoQ). The income measure of GDP (+1.4% QoQ) had a stronger rise than the production (+1.2% QoQ) and expenditure (1.0% QoQ) measures.
- **The RBA Commodity Price Index** rose by 0.8% in AUD terms, after increasing 2.1% in July. The largest contributors to the rise were increases in the prices of iron ore and coal, and sharp increases in wheat and barley prices.
- The **AIG Performance of Manufacturing Index** fell to 51.7 in August from 54.4 in July, while the **AIG Performance of Services Index** rose to 47.5 from 46.6 over the same period.
- **The Trade Balance** almost halved to A\$1.89bn in July from June's record surplus of A\$3.44bn. Exports dropped 4.5% MoM on the back of a collapse in coal exports due to the shutting down of Chinese steel mills for maintenance. Rural goods exports were 4.6% stronger, but manufacturing exports declined 4.2%, and services exports were 0.3% weaker. Imports were 1.6% stronger over the month, driven by an 8.7% rise in intermediate and other merchandise goods imports.

# DATA PREVIEWS

**CHART 1: RBA CASH RATE (SEPTEMBER)**

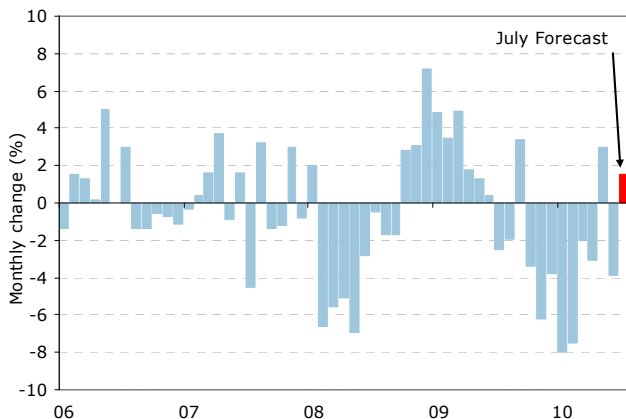


**7 SEPTEMBER: RBA CASH RATE (SEP)**

**ANZ: 4.50%**  
**Market: 4.50%**  
**Last: 4.50**

The market is unanimous in its expectation that the RBA will keep the cash rate on hold at 4.50% when its September Board meeting is concluded next week. However, with the strong data released over the past week, and in particular, the re-acceleration in household spending, the risk is that we will see a subtle shift in the RBA's language to take on a slightly more hawkish tilt. Moreover, with the Australian economy forecast to gain even more momentum over coming months, we expect to see the RBA hike rates to 5% by the end of the year. **(AR)**

**CHART 1: HOUSING FINANCE (JULY)**



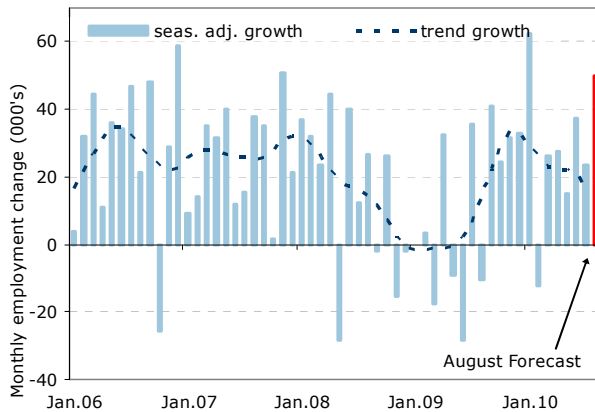
**8 SEPTEMBER: HOUSING FINANCE (JUL)**

**ANZ: +1.5% MoM, -25.7% YoY**  
**Market: +1.0% MoM**  
**Last: -3.9% MoM, -28.6% YoY**

Housing finance data were surprisingly weak in June. However, the stabilisation of housing market activity of late should see housing finance commitments settle from the recent weakness we have seen in H2 2009 and H1 2010 to moderate levels of growth. This should confirm what we saw from this week's building approvals data, with residential approvals posting a 2.3% gain in July. With RBA holding the cash rate unchanged since May 2010 and ongoing global economic and financial market uncertainty, we expect that housing finance will post modest growth of 1.5% in July. **(DC)**

## DATA PREVIEWS

CHART 2: EMPLOYMENT (AUG)



## 9 SEPTEMBER: LABOUR FORCE (AUG)

**Employment growth**

**ANZ: +50K**  
**Market: +20K**  
**Last: +23.5K**

**Unemployment rate**

**ANZ: 5.2%**  
**Market: 5.2%**  
**Last: 5.3%**

**Participation rate**

**ANZ: 65.6%**  
**Market: 65.5%**  
**Last: 65.5%**

Australian employment growth has been humming along nicely over the past few months, ticking over at an annual rate of 2¾% despite the heightened uncertainty in financial markets. Next week's August release will be interesting as it is expected that there will be a 'Federal election impact,' with the Australian Electoral Commission recruiting over 70,000 people to work as polling officials on 21 August. Our analysis of the impact of previous Federal elections suggests that there is a consistent and significant positive affect on the employment growth numbers. Having said that, the downside is that in the month following a Federal election, there tends to be some payback in the data, so watch out for weaker (but not necessarily negative) jobs numbers in the September read. Given recent momentum in the economy *plus* the election impact, we forecast employment growth of 50k in August. With the participation rate stepping up a tick to 65.6% (to incorporate the additional people entering the labour force, such as students and retirees), this will nudge the unemployment rate down 0.1ppt to 5.2%. **(AR)**

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	ANZ	MARKET	LAST	GMT	AEST
2-10 Sep	UK	Halifax House Price 3Mths/Year	AUG	nf	4.4%	4.9%	-	-
		Halifax House Prices sa MoM	AUG	nf	-0.4%	0.6%	-	-
6-Sep	AU	AIG Performance of Construction Index	AUG	nf	na	43.3	23:30	09:30
		TD Securities Inflation MoM	AUG	nf	na	0.1%	00:30	10:30
		TD Securities Inflation YoY	AUG	nf	na	2.8%	00:30	10:30
		ANZ Job Advertisements MoM	AUG	nf	na	1.3%	01:30	11:30
	JP	<b>BoJ Monetary Policy Meeting</b>	-	-	-	-	<b>04:00</b>	<b>14:00</b>
	EU	Sentix Investor Confidence	SEP	nf	10.0	8.2	08:30	18:30
	UK	New Car Registrations YoY	AUG	nf	na	-13.2%	-	-
		BRC August Retail Sales Monitor	6-Sep	-	-	-	23:01	09:01
	US	<b>Labor Day Public Holiday</b>	-	-	-	-	-	-
	CA	<b>Labour Day Public Holiday</b>	-	-	-	-	-	-
7-Sep	AU	<b>RBA CASH TARGET</b>	SEP	<b>4.50%</b>	<b>4.50%</b>	<b>4.50%</b>	<b>04:30</b>	<b>14:30</b>
	JP	Official Reserve Assets	AUG	nf	na	\$1063.5B	23:50	09:50
		Leading Index CI	JUL P	nf	98.2	99.0	05:00	15:00
		Coincident Index CI	JUL P	nf	101.8	101.3	05:00	15:00
		<b>BOJ Target Rate</b>	SEP	<b>0.10%</b>	<b>0.10%</b>	<b>0.10%</b>	-	-
	CH	China Manpower Survey	Q4	nf	na	27.0%	-	-
	EU	<b>ECB's Stark Speaks in Wiesbaden</b>	-	-	-	-	<b>16:01</b>	<b>02:01</b>
	GE	Factory Orders MoM sa	JUL	nf	0.5%	3.2%	10:00	20:00
		Factory Orders YoY nsa	JUL	nf	20.9%	24.6%	10:00	20:00
	UK	BRC August Shop Price Index	7-Sep	-	-	-	23:01	09:01
	US	ABC Consumer Confidence	5-Sep	nf	na	-45.0	11:00	07:00
		<b>US Treasury auctions 3-year Note</b>	-	-	-	-	-	-
8-Sep	NZ	Manufacturing Activity	Q2	nf	na	0.9%	22:45	08:45
	AU	Housing Finance	JUL	1.5%	1.0%	-3.9%	01:30	11:30
		<b>AOFM auctions A\$500mn of April 2020 Bonds</b>	-	-	-	-	-	-
	JP	Japan Money Stock M2 YoY	AUG	nf	2.6%	2.7%	23:50	09:50
		Japan Money Stock M3 YoY	AUG	nf	1.9%	2.0%	23:50	09:50
		Bank Lending Banks Adjust YoY	AUG	nf	na	-1.7%	23:50	09:50
		Bank Lending Ex-Trusts YoY	AUG	nf	na	-1.9%	23:50	09:50
		Bank Lending incl Trusts YoY	AUG	nf	na	-1.8%	23:50	09:50
		Machine Orders MoM	JUL	nf	2.2%	1.6%	23:50	09:50
		Machine Orders YoY	JUL	nf	8.1%	-2.2%	23:50	09:50
		Current Account Total	JUL	nf	¥1534B	¥1047.1B	23:50	09:50
		Adjusted Current Account Total	JUL	nf	¥1362.9B	¥1362.1B	23:50	09:50
		Trade Balance (BoP Basis)	JUL	nf	¥865.08B	¥769.0B	23:50	09:50
		Bankruptcies YoY	AUG	nf	na	-23.1%	04:30	14:30
		Eco Watchers Survey: Current	AUG	nf	49.9	49.8	05:00	15:00
		Eco Watchers Survey: Outlook	AUG	nf	46.4	46.6	05:00	15:00
	EU	<b>Mersch, Juncker, Maystadt speak in Luxembourg</b>	-	-	-	-	<b>16:00</b>	<b>02:00</b>
	GE	Trade Balance	JUL	nf	12.8B	14.1B	06:00	16:00
		Imports sa MoM	JUL	nf	0.3%	1.6%	06:00	16:00
		Current Account (EURO)	JUL	nf	11.8B	12.9B	06:00	16:00
		Exports sa MoM	JUL	nf	0.0%	3.7%	06:00	16:00
		Industrial Production MoM sa	JUL	nf	1.0%	-0.6%	10:00	20:00
		Industrial Production YoY nsa wda	JUL	nf	13.2%	10.9%	10:00	20:00
	UK	Industrial Production MoM	JUL	nf	0.4%	-0.5%	08:30	18:30
		Industrial Production YoY	JUL	nf	2.0%	1.3%	08:30	18:30
		Manufacturing Production MoM	JUL	nf	0.3%	0.3%	08:30	18:30
		Manufacturing Production YoY	JUL	nf	4.9%	4.1%	08:30	18:30
		NIESR GDP Estimate	AUG	nf	na	0.9%	-	-
	US	MBA Mortgage Applications	3-Sep	nf	na	2.7%	11:00	21:00
		<b>Fed's Beige Book released</b>	-	-	-	-	<b>18:00</b>	<b>04:00</b>
		Consumer Credit	JUL	nf	-\$5.4B	-\$1.3B	19:00	05:00
		<b>Reserve Bank of Minneapolis President Kocherlakota speaks in Montana</b>	-	-	-	-	<b>18:30</b>	<b>04:30</b>
		<b>US Treasury auctions 10-year Note</b>	-	-	-	-	-	-

## DATA &amp; EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	ANZ	MARKET	LAST	GMT	AEST
8-Sep	CA	Building Permits MoM	JUL	nf	-6.0%	6.5%	12:30	22:30
		<b>Bank of Canada Rate</b>	<b>8-Sep</b>	<b>1.0%</b>	<b>1.0%</b>	<b>0.75%</b>	<b>13:00</b>	<b>23:00</b>
		Ivey Purchasing Managers Index	AUG	nf	55.5	54.0	14:00	00:00
9-Sep	NZ	Card Spending MoM	AUG	nf	na	-0.1	22:45	08:45
		QV House Prices YoY	AUG	nf	na	4.1%	12:00	22:00
	AU	Employment Change	AUG	50.0K	24.0K	23.5K	01:30	11:30
		Unemployment Rate	AUG	5.2%	5.2%	5.3%	01:30	11:30
		Full Time Employment Change	AUG	nf	na	-4.2K	01:30	11:30
		Part Time Employment Change	AUG	nf	na	27.7K	01:30	11:30
		Participation Rate	AUG	65.6%	65.5%	65.5%	01:30	11:30
		<b>RBA Assistant Governor Debelle speaks in Sydney</b>					<b>03:00</b>	<b>13:00</b>
	JP	BSI Large All Industry QoQ	Q3	nf	na	4.0	23:50	09:50
		BSI Large Manufacturing QoQ	Q3	nf	na	10.0	23:50	09:50
		Consumer Confidence	AUG	nf	na	43.4	05:00	15:00
		Consumer Confidence Households	AUG	nf	43.6	43.3	05:00	15:00
	EU	<b>ECB Publishes Monthly Report</b>	<b>SEP</b>				<b>08:00</b>	<b>18:00</b>
		<b>ECB's Ordonez speaks in Madrid</b>					<b>17:00</b>	<b>03:00</b>
		<b>Mersch presents ECB's Second Quarter Bulletin</b>			-	-	-	-
	GE	Consumer Price Index MoM	AUG F	nf	0.0%	0.0%	06:00	16:00
		Consumer Price Index YoY	AUG F	nf	1.0%	1.0%	06:00	16:00
		CPI - EU Harmonised MoM	AUG F	nf	0.0%	0.0%	06:00	16:00
		CPI - EU Harmonised YoY	AUG F	nf	0.9%	0.9%	06:00	16:00
	UK	Visible Trade Balance GBP/Mn	JUL	nf	-£7600	-£7401	08:30	18:30
		Trade Balance Non EU GBP/Mn	JUL	nf	-£4300	-£4262	08:30	18:30
		Total Trade Balance GBP/Mln	JUL	nf	na	-£3260	08:30	18:30
		<b>BoE Asset Purchase Target</b>	<b>SEP</b>	<b>nf</b>	<b>200B</b>	<b>200B</b>	<b>11:00</b>	<b>21:00</b>
		<b>BoE Announces rates</b>	<b>SEP</b>	<b>0.5%</b>	<b>0.5%</b>	<b>0.5%</b>	<b>11:00</b>	<b>21:00</b>
	US	Trade Balance	JUL	nf	-\$47.8B	-\$49.9B	12:30	22:30
		Initial Jobless Claims	4-Sep	nf	472K	472K	12:30	22:30
		Continuing Claims	28-Aug	nf	4445K	4456K	12:30	22:30
		<b>US Treasury auctions 30-year bond</b>	-	-	-	-	-	-
	CA	Housing Starts	AUG	nf	184.5K	189.1K	12:15	22:15
		New Housing Price Index MoM	JUL	nf	0.1%	0.1%	12:30	22:30
		Int'l Merchandise Trade	JUL	nf	-1.0B	-1.1B	12:30	22:30
10-12 Sep	CH	China NDRC Housing Prices	AUG	9.3	10.0	10.3	-	-
10-Sep	NZ	Terms of Trade Index QoQ	Q2	3.9%	na	5.9%	22:45	08:45
	AU	Foreign Reserves	AUG	nf	na	47.5B	06:30	16:30
		<b>AOFM auctions A\$1.2bn of October 2014 Bonds</b>		-	-	-	-	-
	JP	Gross Domestic Product QoQ	Q2 F	nf	na	0.1%	23:50	09:50
		GDP Annualized	Q2 F	nf	na	0.4%	23:50	09:50
		Nominal GDP QoQ	Q2 F	nf	na	-0.9%	23:50	09:50
		GDP Deflator YoY	Q2 F	nf	na	-1.8%	23:50	09:50
		Domestic CGPI MoM	AUG	nf	-0.1%	-0.1%	23:50	09:50
		Domestic CGPI YoY	AUG	nf	-0.2%	-0.1%	23:50	09:50
	CH	Trade Balance (USD)	AUG	\$25.70B	\$26.70B	\$28.73B	-	-
		Exports YoY	AUG	31.9%	33.1%	38.1%	-	-
		Imports YoY	AUG	26.2%	26.2%	22.7%	-	-
	UK	PPI Input nsa MoM	AUG	nf	0.0%	-1.0%	08:30	18:30
		PPI Input nsa YoY	AUG	nf	na	10.8%	08:30	18:30
		PPI Output nsa MoM	AUG	nf	0.1%	0.1%	08:30	18:30
		PPI Output nsa YoY	AUG	nf	4.8%	5.0%	08:30	18:30
		PPI Output Core nsa MoM	AUG	nf	na	0.2%	08:30	18:30
		PPI Output Core nsa YoY	AUG	nf	na	4.7%	08:30	18:30
	US	Wholesale Inventories	JUL	nf	0.4%	0.1%	14:00	00:00
	CA	Net Change in Employment	AUG	nf	17.8K	-9.3K	11:00	21:00
		Unemployment Rate	AUG	nf	8.0%	8.0%	11:00	21:00
		Full Time Employment Change	AUG	nf	na	-139.0	11:00	21:00
		Part Time Employment Change	AUG	nf	na	129.7	11:00	21:00
		Participation Rate	AUG	nf	na	67.3	11:00	21:00

## FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<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: <b>Public Holiday</b> 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) CA: CPI (Aug)	<b>22 SEPTEMBER</b> NZ: GDP (Q2) AU: Westpac Leading Index (Jul) CH: <b>Market Closed</b> 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) CA: Leading Indicators (Aug), Retail Sales (Jul)	<b>23 SEPTEMBER</b> AU: <b>RBA Foreign Exchange Transactions (AUG)</b> JP: <b>Public Holiday</b> CH: <b>Market Closed</b> 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: <b>Market Closed</b> , 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: <b>Market Closed</b> , PMI Manufact.(Sep) EU: PMI Manufact. (Sep), Employment (Aug) GE: PMI Manufact. (Sep) US: Personal Income (Aug), ISM Manufact. (Sep)
<b>4 OCTOBER</b> NZ: ANZ Commodity Price (Sep) AU: <b>Labour Day (NSW, ACT, SA)</b> AiG Performance of Service Index (Sep) JP: Monetary Base (Sep) CH: <b>Market Closed</b> , HSBC Manufact. PMI (Sep) EU: PPI (Aug)	<b>5 OCTOBER</b> AU: <b>RBA CASH TARGET</b> , ANZ Job Ads (Sep), Business Confidence and conditions (Sep) JP: <b>BoJ Target Rate</b> EU: PMI Composite (Sep), PMI Services (Sep), Retail Sales (Aug) CH: <b>Market Closed</b> GE: PMI Services (Sep) UK: PMI Services (Sep) US: ISM Non-Manf.	<b>6 OCTOBER</b> CH: <b>Market Closed</b> EU: GDP (Q2), Household Consumption (Q2) GE: Factory Orders (Aug) US: MBA Mortgage Applications (Oct 1) CA: Ivey Purchasing Managers Index (Sep)	<b>7 OCTOBER</b> AU: Employment (Sep) CH: <b>Market Closed</b> EU: <b>ECB Announces Interest Rates</b> GE: Industrial Prod. (Aug) UK: <b>BoE ANNOUNCES RATES</b> , Industrial Prod. (Aug) US: Initial Jobless Claims (Oct 2), Consumer Credit (Aug) CA: Building Permits	<b>8 OCTOBER</b> GE: Trade Balance (Aug), Imports (Aug), Exports (Aug), Current Account (Aug) UK: PPI (Sep) US: Change in Nonfarm Payrolls (Sep), Employment (Sep), Wholesale Inventories (Aug) CA: Housing Starts (Sep), Employment
<b>11 OCTOBER</b> JP: <b>Market Closed</b> UK: RICS House Price Balance (Sep)	<b>12 OCTOBER</b> GE: CPI (Sep F) UK: CPI (Sep), Retail Price Index (Sep)	<b>13 OCTOBER</b> 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)	<b>14 OCTOBER</b> NZ: Retail Sales (Aug), Business NZ PMI (Sep) JP: Domestic CGPI (Sep) EU: <b>ECB Publishes Oct. Monthly Report</b> US: Trade Balance (Aug), Producer Price Index (Sep), Initial Jobless Claims (Oct 9) CA: Int'l Merchandise Trade (Aug)	<b>15 OCTOBER</b> 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)

## 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	0.4	2.8	5.0	5.5
Household consumption	1.7	3.3	2.9	2.4
Dwelling investment	-4.5	5.0	2.3	2.3
Business investment	-2.3	0.6	13.6	16.4
Public demand	3.2	11.9	3.7	1.9
Domestic final demand	1.0	4.8	4.7	4.6
Inventories (contribution to GDP )	-0.5	0.5	0.1	-0.1
Gross National Expenditure (GNE)	0.5	5.4	4.8	4.6
Exports	0.9	5.4	7.1	7.5
Imports	-8.3	13.2	9.6	10.8
Net Exports (contribution to GDP)	2.0	-1.6	-0.7	-1.0
<b>Gross Domestic Product (GDP)</b>	<b>1.2</b>	<b>3.4</b>	<b>4.0</b>	<b>3.9</b>
<b>Prices and wages (annual % change)</b>				
Inflation:				
Headline CPI	1.8	2.9	2.8	3.3
Underlying *	3.6	2.7	2.9	3.2
Wages	3.6	3.2	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	4.6	4.4
<b>External sector</b>				
Current account balance: A\$bn	-51.4	-30.7	-34.3	-59.2
% of GDP	-4.1	-2.2	-2.3	-3.7

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

AUSTRALIAN INTEREST RATES	CURRENT	DEC.10	MAR.11	JUN.11	SEP.11	DEC.11
RBA cash rate	4.50	5.00	5.25	5.50	5.75	6.00
90 day bill	4.72	5.30	5.60	6.00	6.00	6.2
3 year bond	4.38	5.10	5.50	5.70	6.00	6.00
10 year bond	4.86	5.50	5.70	5.80	6.00	5.90
3s10s yield curve	0.48	0.40	0.20	0.10	0.00	-0.10
3 year swap	4.82	5.50	5.90	6.10	6.40	6.40
10 year swap	5.32	6.05	6.25	6.35	6.55	6.45
INTERNATIONAL INTEREST RATES	CURRENT	DEC.10	MAR.11	JUN.11	SEP.11	DEC.11
RBNZ cash rate	3.00	3.25	3.50	4.00	4.50	5.00
NZ 90 day bill	3.22	3.50	3.92	4.42	4.92	5.4
US Fed funds note	0.25	0.25	0.25	0.25	0.25	0.25
US 2 year note	0.49	1.00	1.20	1.50	2.00	2.30
US 10 year note	2.62	2.80	3.00	3.00	3.20	3.20
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	MAR.11	JUN.11	SEP.11	DEC.11
<b>Australian exchange rates</b>						
A\$/US\$	0.9077	0.90	0.92	0.94	0.94	0.92
NZ\$/US\$	0.7140	0.71	0.72	0.73	0.73	0.72
A\$/¥	76.46	73.8	80.0	83.7	86.5	86.5
A\$/€	0.7079	0.75	0.77	0.78	0.78	0.78
A\$/£	0.5890	0.58	0.59	0.60	0.61	0.59
A\$/NZ\$	1.2712	1.27	1.28	1.29	1.29	1.28
A\$/C\$	0.9574	0.95	0.97	0.98	0.98	0.96
A\$/CHF	0.9187	0.98	1.01	1.05	1.06	1.05
A\$/CNY	6.1747	5.96	6.00	6.03	5.94	5.71
A\$ Trade weighted index	69.00	70.8	73.3	74.4	74.1	72.1
<b>International cross rates</b>						
US\$/¥	84.23	82.0	87.0	89.0	92.0	94.0
€/US\$	1.2823	1.20	1.20	1.20	1.20	1.18
€/¥	108.01	98	104	107	110	111
£/US\$	1.5410	1.55	1.57	1.57	1.54	1.56
€/£	0.8321	0.77	0.76	0.76	0.78	0.76
US\$/C\$	1.0548	1.05	1.05	1.04	1.04	1.04
US\$/CHF	1.0123	1.09	1.10	1.12	1.13	1.14
US\$ index	82.41	85.8	86.3	86.6	87.2	88.2
<b>Asia exchange rates</b>						
US\$/CNY	6.8030	6.62	6.52	6.42	6.32	6.21
US\$/HKD	7.7727	7.75	7.75	7.75	7.75	7.75
US\$/IDR	9008	9500	9900	9600	9400	9250
US\$/INR	46.70	49.0	49.9	48.0	46.0	44.0
US\$/KRW	1176	1345	1390	1320	1275	1200
US\$/MYR	3.1230	3.38	3.45	3.35	3.25	3.20
US\$/PHP	44.780	48.3	49.0	48.0	47.3	46.9
US\$/SGD	1.3472	1.45	1.48	1.44	1.39	1.37
US\$/THB	31.170	33.90	34.30	33.50	33.00	32.50
US\$/TWD	31.974	33.30	33.70	32.70	32.20	32.20
US\$/VND	19490	19000	19000	20000	20000	20000
<b>Pacific exchange rates</b>						
PGK/US\$	0.3680	0.386	0.372	0.358	0.344	0.330
FJD/US\$	0.5186	0.508	0.514	0.517	0.508	0.500

## IMPORTANT NOTICE

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