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In this issue

ANZ

US: Laying the foundations for growth

A housing recovery and a potential pick up in business spending are positives for the US economy and corporate profitability.

The foundations for a sustained recovery in the US economy appear to be falling into place. Perhaps in recognition of this, the S&P500 has managed to climb 10% this year, compared to the MSCI Asia ex Japan's 2% loss over the same period. This is an even more impressive performance if we take into account the gains of almost 30% already made over the last three years.

As a result, with a 12-month forward PER of 13.7x, the US market's valuations now appear somewhat "rich", making it vulnerable to disappointing economic data, as we saw with the release of the weak non-farm payrolls reading in March. Indeed, our proprietary leading economic indictor is pointing to a consolidation in the US's economic momentum which started in mid-2012.

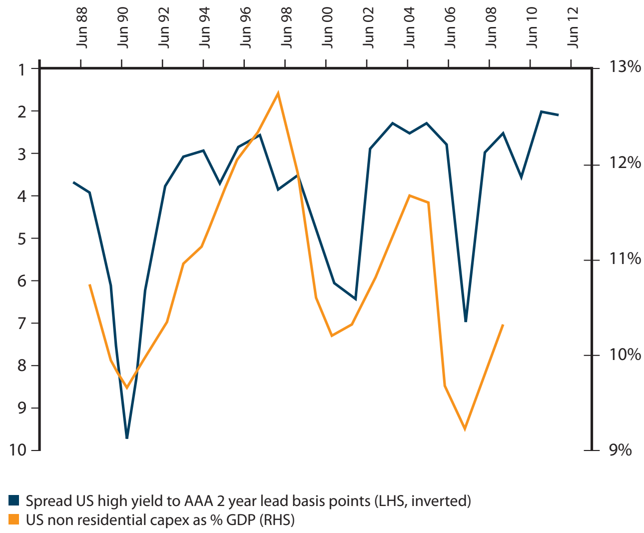
In fact, we see the potential for further headwinds to the labour market arising from the upcoming sequester cuts. The Congressional Budget Office (CBO) estimates these cuts will remove 750,000 jobs from the US economy over the coming two years, with the majority front loaded into the next six months.

However, we believe these to be temporary headwinds, noting that US household deleveraging has probably run its course. To support this, we would point to the USD31 billion increase in aggregate consumer debt in 4Q12, a reversal of the downward trend that had been in place since 4Q08. Greater consumer confidence arising from the improvement in housing fundamentals is likely to be, at least partially, behind this shift. As the housing recovery plays out, reflating asset prices may persuade the banks to lend more. This would allow the positive impact of the Fed's low rate policy to filter through other parts of the economy.

Given the health of US corporate balance sheets, there is also significant room for business investment to pick up. For example, low bond yields have historically been associated with rising non-residential capital spending. The chart below shows the extent to which US capital spending has lagged the compression in bond spreads in the last couple of years. While US corporate margins have been boosted by restrained investment spending and cost cutting, this cannot continue forever. We believe that rising business confidence will eventually lift the US capex cycle, which in turn can be expected to boost the US economic recovery and corporate earnings.

Against this backdrop, investors with little exposure to US equities may want to consider buying on dips. In addition, those able to tolerate higher levels of volatility can consider US small caps. Assuming that the US continues to lead the global recovery process, the tendency for small cap companies to be less dependant on a global recovery may allow them to outperform their larger counterparts. In addition, improving economic prospects, coupled with strong balance sheets, is historically a recipe for Merger & Acquisition activity. Small and medium sized companies are the potential benefactors of such a trend.

US capital spending has lagged



Source: Thomson Reuters, Datastream, Bloomberg, ANZ. April 2013.

Investment Summary

The markets appear to have navigated the events in Cyprus and Italy, as well as disappointing US non-farm payrolls, relatively well. That said, markets have run up considerably over the last few months, and some consolidation should therefore not be ruled out in the near term.

Over the medium term however, G3 central banks can be expected to stay accommodative, thus supporting risk taking and eventually growth. With this in mind, investors may want to view periods of market consolidation as opportunities to gain exposure in selected equity markets and sectors. We currently favour the US equity market, as well as the global technology, energy and healthcare sectors.

In the fixed income space, despite the market's earlier concerns over an earlier-than-expected end to global quantitative easing, Japan now seems to have joined the party. The BoE and ECB are also likely to ease further, although not to the same extent, while a US programme pullback still looks some way off. This lower-for-longer scenario for G3 bond yields leads us to favour high quality corporate bonds in the US, Europe and Asia.

Our analysis of the US' balance of payments position suggest that the USD remains structurally vulnerable. While this may not imply a weak dollar against all currencies all of the time, it does suggest continued strength among quality currencies such as the AUD and NZD. Meanwhile, the euro is expected to trend higher in the longer term as eurozone growth returns, assuming debt reduction and product/labour market reforms proceed as anticipated.

Finally, the commodity market will likely continue to be caught between stronger US economic growth on the one hand, and slower-than-expected Chinese growth on the other. Ongoing issues in Europe could also add to price volatility. In the near term however, excessive bearishness could spark a relief rally in selected commodities, such as copper.

Equities

ANZ indicators are signalling a potential lift in Japanese economic momentum, in contrast to the consolidation expected in China and other major economies. This could increase investor interest in Japanese equities.

Eurozone PMIs are showing renewed weakness, which does not bode well for earnings. In fact, European markets have rallied 23% since June last year without any substantial recovery in earnings. This suggests to us that the market could underperform in the near term.

Besides the weak activity data, the clumsy handling of the Cyprus bailout also points to a delayed recovery of the Eurozone economy, possibly further into the year. Over the medium term however, easing austerity measures and the ongoing recovery in the US could provide some offset. At the same time, in light of the recent softening in economic data, the ECB appears more open to ease monetary policy if needed. In particular, the ECB is examining ways to extend the flow of credit to small and medium sized enterprises, which continue to experience tight credit conditions. This would be a welcome and necessary initiative to support growth.

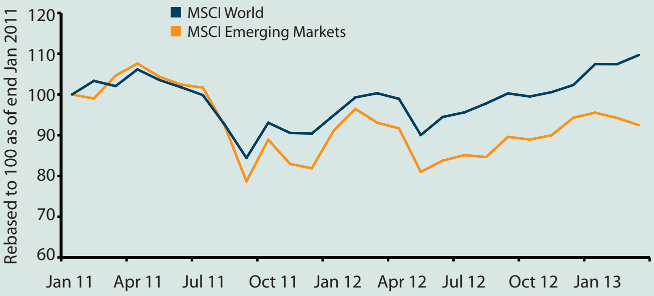
Over in Japan, the market rose a further 7% in March, leading to a total rise of 41% over the last seven months. Under Governor Kuroda, the BoJ has embarked on a bold new path to reflate the Japanese economy. By aggressively expanding its balance sheet, the central bank aims to achieve its 2%yoy inflation target within two years (more details can be found in the JPY currency section).

We believe that Japan's monetary policies will need to be combined with other structural policies aimed at improving its growth potential, if the large negative output gap is to be closed. Prime Minster Abe will be addressing this and unveiling his growth strategy in June. Going forward, rising consumer and corporate leverage could be a signal that Japan's reflation strategy is bearing fruit.

Having previously highlighted the potential offered by Japanese equities, we would reiterate that the prospects for the market look attractive should genuine reforms take hold. Notably, corporate profitability as well as foreign equity ownership levels is coming off a low base. Valuations, on a price to book basis, also look attractive (1.1x) relative to MSCI World (1.9x).

The emerging markets are facing a double whammy: concerns over China's policy tightening and Asian exporters' potential loss of competitiveness against a weaker yen. The loss of momentum in Europe could further depress confidence.

Emerging Market Equities have underperformed Developed Market Equities



Source: ANZ. Bloomberg. April 2013.

China/Hong Kong – China's economic recovery remains a modest affair and most Chinese corporates have yet to see a strong demand recovery for their products. The government's focus on eradicating corruption has also started to hurt retail sales. We believe that it will be challenging for the property developers to rally on a sustainable basis as long as the government keeps a tight rein on the property sector and housing prices. Meanwhile, recent moves to clamp down on wealth management products could dampen the banking sector's profitability, and make it more difficult for property developers and local governments to access funding, further dampening growth.

That said, there is room for fiscal spending to rise should China's growth start to deteriorate significantly. The government may also announce new reforms at the third Central Committee Meeting of the Chinese Communist Party, likely to be held in October, which could lift investor sentiment. Until then, investors may need to navigate their way through soft patches of macro data, as well as fears of rising inflation. We have downgraded our view on the Chinese market to neutral.

India – The DMK's exit from India's ruling coalition will have weakened the ruling party's position and ability to pass reforms. This in turn may necessitate rate cuts to boost growth, which further hinges on the outlook for inflation. The central bank delivered a rate cut in March, but with India's headline WPI inflation rising 6.84%yoy in February against market expectations, further rate cuts may be more challenging. Finally, a heavy political calendar - there will be nine state elections plus a national election from now till the middle of 2014 - leads us to stay neutral on the market.

Korea – Our leading economic indicators point to a loss in the global growth momentum causing us to downgrade our outlook on the Korean market. The fact that Korean exports have been weak despite reasonably strong US ISM manufacturing readings also suggests that the weaker yen is starting to hurt Korea's competitiveness.

At the point of writing, geopolitical tensions in the Korean Peninsula show no signs of abating. While we have seen Korean equities and currency rebound strongly once geopolitical tensions ease, it is anyone's guess as to how long current tensions will persist.

Taiwan – We retain our slightly positive outlook on the Taiwan equity market. Yen weakness is not expected to hurt Taiwan's competitiveness as much, as the two countries compete directly only in a few sectors. Meanwhile, as one of Japan's largest importers in the region, a weak yen is expected to help lower Taiwan's costs of imports in the months ahead. Our constructive view for the Taiwan market is further underpinned by our positive view of the global technology sector.

Singapore – We expect the ongoing restructuring of the economy to weigh on the equity market. Tougher regulations surrounding the hiring of foreign workers are likely to intensify wage cost pressures in an already tight labour market - the unemployment rate currently stands at 1.8%. This would in turn narrow margins and hurt profitability, particularly for the labour intensive sectors, while higher wage costs could feed into inflation. Notably, inflation jumped 4.9%yoy in February and is likely to stay elevated. Given these factors, the central bank is likely to maintain the SGD's current appreciation bias, not good news for the manufacturing and export related sectors.

Malaysia – The Malaysian prime minister promised more cash handouts for the poor and offered improved transportation, healthcare and education as campaigning for Malaysia's next general election begins in earnest. With the market under-owned by foreign investors and underperforming year to date, there is potential for some catch up in the months ahead. Nevertheless, the fact that these election results could have important ramifications for ongoing projects and awarded contracts is a good reason to exercise caution until current political uncertainties have lifted.

Philippines – This market is currently the best performing in Asia although valuations are not cheap relative to long term averages. That said, earnings forecasts for 2013 are surprisingly muted (+7.9%) and there could be room for earnings to be revised higher as the economy continues to hum along. We note that inflationary pressures are building on the back of healthy domestic consumption and strong capital inflows. This potentially bears monitoring although the central bank appears to favour the use of macro prudential measures over rate hikes to combat inflation. We continue to like the market but prefer to gain exposure on dips.

Indonesia – We expect headline inflation to remain elevated on the back of electricity tariff hikes and adjustments to the fuel subsidy. As a result, the central bank appears to be shifting towards a tightening stance. While this could help stabilise the IDR and anchor inflation expectations, a tightening bias tends to be negative for equities. Finally, fuel subsidy adjustments could also hurt disposable income and potentially depress growth. We remain neutral on the market.

Thailand – Having rallied by about 13% (in local currency terms) year to date, the Thai market faces a number of headwinds. Investor positioning appears stretched and retail participation in the market is elevated, although not to record highs. The strong baht (up 4.3% year to date) could also hurt exports, which has historically accounted for 50% of GDP.

On the other hand, Thailand's role as an important supply chain to Japan's auto sector could help offset the negative impact of the strong currency and may appeal to investors looking for an indirect exposure to Japan's reflation theme. Finally, liquidity remains ample and the market is still the most attractively priced within the ASEAN region.

Market	6-12 month view
China	Neutral
Hong Kong	Neutral
India	Neutral
Indonesia	Neutral
Korea	Neutral
Singapore	Neutral
Taiwan	Slightly positive
Thailand	Slightly positive

Source: ANZ. Apr 2013.

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Fixed Income

Highly accommodative G3 monetary policy is helping anchor bond yields, and could contribute to regional growth. While this would embolden markets to price in exit strategies, that prospect remains some distance away.

Over the quarter, market chatter over the likelihood of an earlier than expected Fed exit from its quantitative easing program saw the US 10-yr Treasury bond yield reach a high of 2.06% before falling back to around 1.7% currently. Events in Cyprus and patchy US data reminded investors that the outlook for the global economy remains far from rosy.

In his recent speeches, Fed Chairman, Ben Bernanke, has outlined his expectation for US 10-year Treasury yields to lift gradually, as long as inflation forecasts remain contained and the Fed Funds rate normalises slowly. In our opinion, these are reasonable assumptions. Given that the US output gap is large and closing only slowly, widespread inflation pressures appear to be some way off. In fact, looking back over the last 20 years, inflation only becomes a worry when the output gap narrows to less than 1% of GDP. The Fed has also made clear that a premature hiking of the Fed Funds rate risks short-circuiting the recovery and creating financial instability.

In our view therefore, a repeat of the sharp bond sell-off of 1994 seems unlikely. Even if bond yields were to rise substantially ahead of a sustainable economic recovery, the Fed has the ability to use its forward guidance and balance sheet to contain the situation, tools that were not available to the Fed back in the early 1990s.

Our base scenario remains one of accommodative monetary policies globally, and lower rates for longer. At the point of writing, the BoJ has just announced an aggressive expansion of its balance sheet. Under governor Kuroda's new asset purchasing programme, the BoJ's assets could reach 60% of GDP by 2014, far surpassing the Fed's. Meanwhile, faced with an economy in the doldrums, the ECB is becoming more receptive to further easing measures.

Against this backdrop, bonds issued by sovereigns that retain a strong focus on fiscal discipline are likely to remain attractive and New Zealand is a prime example. With the RBNZ expected to stay on hold for an extended period, New Zealand government bonds' positive sloping yield curve and positive real interest rates appear compelling. Furthermore, rather than resorting to rate hikes, we expect the central bank to use macro-prudential tools in 2Q13 to help stabilise the housing market going forward. We remain relatively comfortable with a longer duration exposure, given the limited issuance expected in longer maturity bonds.

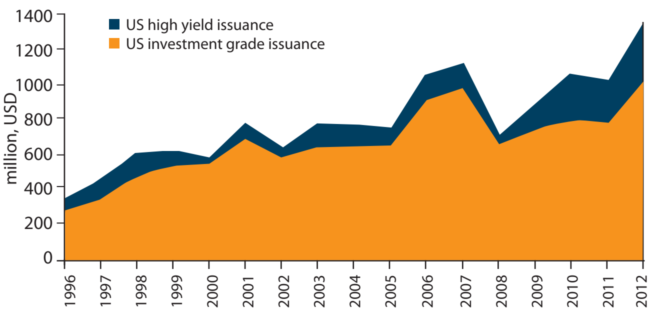
Australian government bonds have underperformed with bond yields trending higher over the last six months to March 2013. This can be partially attributed to profit taking by Japanese investors, following the sharp depreciation in the JPY. Another factor is the ratcheting down of rate cuts expectations following better than expected domestic retail and labour data. The RBA is currently in a wait and see mode, and while we have not ruled out a mid year rate cut, the odds of such a move are diminishing. Nevertheless, Australian government bonds have the potential to rally over the next three to six months in the event of poorer than expected global macro newsflow, thereby providing investors with some portfolio "insurance".

Over in Asia, following Fitch's upgrade of the Philippines to investment grade in March, we expect both Standard & Poor's and Moody's to follow suit in the coming months. This could result in renewed interest in Philippine assets as most passive and index based investors typically increase their allocations only when at least two rating agencies are aligned. At present, the percentage allocated to the Philippines in Global Emerging Market Bond Funds is less than half of that allocated to Indonesia. We see room for the Philippines allocation to rise, potentially at the expense of Indonesia.

While Indonesian government bonds could look attractive, especially to Japanese retail funds, inflation is a concern in the near term. Likewise, India may benefit from the hunt for yield but near term supply concerns are expected to keep longer dated yields in India elevated. That said, more RBI rate cuts amid a tepid growth outlook could be supportive of Indian fixed income. Finally, we favour Thai government bonds given relatively high nominal and real yields. In addition, the steep yield curve is compensating investors for taking on more duration risk.

Meanwhile global corporate issuances have been skewed to lower quality credit as global bond yields race to the bottom. See chart. The yields now offered by high yield bonds may not be adequately compensating investors for the risks they are taking. While this asset class could still provide positive returns in 2013, a prudent approach is warranted. In particular, we remain cautious on the Chinese property developers, viewing the Chinese government's continued efforts to cool the property market to be credit negative.

Corporate bond issuance shifts to lower quality credit



Source: Thomson Reuters, Datastream, Bloomberg, ANZ. April 2013.

On the other hand, while corporate spreads have the potential to widen in 2Q13 should global growth momentum start to consolidate, we believe that this represents an opportunity for investors to bargain hunt high quality US, Europe and Asian corporate bonds, albeit within a relatively short duration range.

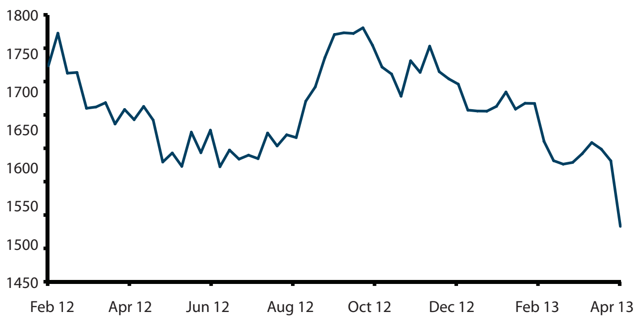
Commodities

The commodity market is faced with stronger US economic growth on the one hand, and slower than expected Chinese growth on the other. In the near term, excessive bearishness could spark a relief rally in selected commodities, such as copper.

Gold experienced its largest ever daily decline in early April and is down 20% for the year, at the point of writing. Sentiment towards gold has turned, with the key reasons to own gold over the last decade currently missing. Gold's price struggle in recent months has coincided with the large increase in fund allocations towards the US dollar, while 'safe-haven' flows have unwound as financial concerns emanating from Cyprus diminish. Inflation concerns have also taken a backseat, as leading global economic indicators start to lose momentum and upstream price pressures ease.

Our fundamental view is the current gold sell-off looks oversold. Quantitative easing by global central banks could still result in higher inflation over the longer term, and potentially boost gold prices. However, given the extent of the existing momentum, picking the low point would be challenging. We think a base in ETF selling and fresh ETF buying would be required to restore much better confidence. Fundamentally, prices could test the estimated cost price for the industry ~US$1300/oz.

Gold price (US$/oz)



Source: Bloomberg. ANZ. April 2013.

Moving onto the platinum group of metals (PGMs), we have had a constructive view over the last few months based on stronger automobile demand in China and the impact of disruptive strike activity in the South African mines. However, levels of investor positioning in these two metals are elevated, suggesting that much of the good news is already priced in. Any improvement in South African supply could potentially trigger a bout of profit taking.

We believe that oil markets will stabilise in April, although prices may decline slightly amid a potential consolidation in the global growth momentum.

Having rallied almost 6% in the first quarter, WTI benchmark prices could take a breather in the months ahead. That said, we expect any easing in prices to be relatively short-lived as investor positioning in oil is not overly stretched, leaving room for long positions to be rebuilt if investor sentiment improves.

Brent prices are likely to be better supported than its WTI counterpart. The former continues to be affected by tighter supplies from the North Sea and Middle East/North Africa. Meanwhile, technical and security issues continue to hamper oil production in Libya. On the other hand, WTI prices will probably be weighed down by a seasonal increase in supplies while refiners undergo maintenance. US crude stockpiles are also only a touch below record high levels last seen in 1990. Our year end forecasts for Brent and WTI stand at US$119/oz and US$101.5/oz respectively.

Base metals have had a challenging few months against a backdrop of high inventory levels and a still patchy demand recovery. However, significant downside risks appear to have been priced in for selected metals.

Given record levels of short positions in the copper market, better than expected macro readings out of China may require speculators to cover their shorts, triggering a sharp spike in copper prices. Reports of rising copper inventories should also be viewed cautiously as these could be partially due to hoarding by large traders ahead of the seasonal pickup in China in the second quarter. With this in mind, we see the potential for copper prices to reach US$8000/t over the next few months.

Lead and zinc could also see higher prices, having been heavily sold off in February. Encouragingly, inventory levels for these metals have declined recently. The same cannot be said for Nickel, which continues to see stubbornly high inventory levels. Finally, there could be a reduction in capacity from loss-making Aluminium producers, which would be supportive of prices.

The outlook for agricultural commodities is mixed, with soy bean and sugar prices looking better supported. On the other hand, a second quarter rally in grains appears increasingly unlikely.

Brazil is set to export a record volume of soybeans over the next four months, raising the upside risk for soybean prices in the event of disruptions to Brazil's transport and port logistics.

Meanwhile, global supplies of sugar could tighten on the back of seasonal factors although a spike in prices appears unlikely, given consumers' current ample supply. The recently announced increase in the price of gasoline in Brazil could feed through to sugar prices, although the impact is unlikely to be felt before 3Q13.

The three-month price rally in cotton prices has caused the net positioning to be at an extreme long. These positions could be unwound in the near term, especially if prices fail to extend their gains. In our view, cotton prices peaked in mid March amid deteriorating sentiment in China's textile industry.

Finally, the outlook for grain is dependent on weather conditions. For now, the yield outlook appears constructive in Ukraine and Russia, although seemingly less than ideal in the US. Meanwhile, the increased supply of wheat from India and scope for more rice exports from Thailand can be expected to weigh on grain prices.

Currencies

The Bank of Japan's commitment to monetary expansion suggests further JPY softness. Potential winners are currencies of economies where competition with Japan and resistance to currency appreciation is low, in particular the AUD and NZD.

The dollar rally in February this year has led some analysts to call for further dollar strength. They reason that the recovery momentum in the US economy will naturally translate into a stronger dollar. We disagree. In our opinion, the recent dollar strength was a reflection of the mild risk-off tone in financial markets, resulting from heightened political issues in Italy and signs of a tightening bias in the Chinese economy. See chart.

USD – While the US economy seems to be on a firmer footing relative to its other regional peers, the US balance of payments remains structurally weak. We would acknowledge that the basic balance (which is the current account plus net foreign direct investment) has improved meaningfully in 4Q12, but the quarterly reading can be volatile. On an annual basis, the deficit over the last few years has been broadly stable at 4-4.5% of GDP.

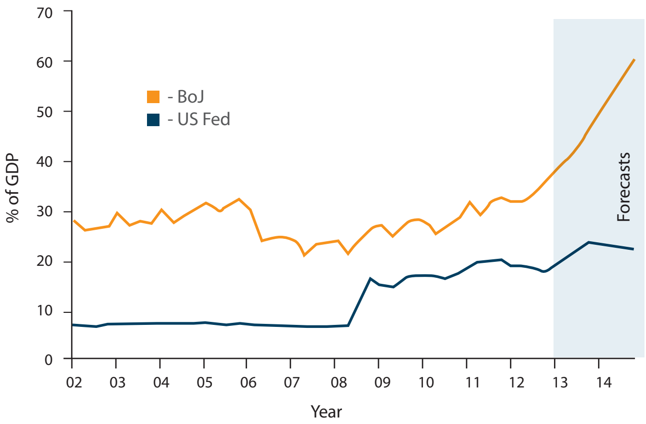
Drilling deeper into the basic balance, what we find does not make us bullish the dollar. For one, the current account is only improving gradually, helped by higher domestic oil production. Meanwhile, net Foreign Direct Investment (FDI), the largest swing factor behind the basic balance, remains muted. Finally, demand for US Treasuries tends to increase only on the back of flight to safety buying. On balance therefore, we continue to believe that the USD retains its broadly negative correlation to risk.

GBP – Despite some respite in March, having depreciated substantially since the start of the year, we remain bearish Sterling. The latest budget showed that the Chancellor has no room to expand fiscal policy to support growth, which suggests that monetary policy would have to be eased further. With inflation at 2.8% and the economy floundering, we expect the Bank of England to ease soon. We therefore see little upside potential for the pound outside of short term euro concerns. We are therefore looking to sell on rallies. We have revised our year end forecast for the GBPUSD to 1.52.

EUR – Our year end forecast for the EURUSD stands at 1.37. While Europe faces significant headwinds to growth, these challenges are expected to recede with time. A slower pace of austerity would help to rebalance growth and the ECB appears more receptive to an easing in policy to support growth. Finally, the crisis in Cyprus again demonstrated the degree of political commitment to the euro zone project.

JPY – The BoJ intends to achieve its 2%yoy inflation target within two years by significantly boosting its monetary base by JPY60-70 trillion per year. The BoJ will also extend the average maturity of its JGB holdings from around three years currently to about seven years by end of 2014. Additionally, the BoJ intends to acquire JPY1 trillion of ETFs and JPY30 billion of JREITs annually.

Central bank balance sheets



Source: ANZ. Bloomberg. April 2013.

This buying spree represents a significant expansion of the central bank's balance sheet. We estimate that the BoJ's balance sheet could reach 60% of GDP by end 2014, far exceeding the Fed's 20% of GDP forecast for the same period. Accordingly, we have revised our forecasts and see the USDJPY reaching 105 by year end.

AUD – The RBA left the cash rate unchanged at 3.00% in March. While the central bank retains an easing bias, it now appears to be somewhat more confident of the stimulatory impact of its earlier rate cuts. The odds of a mid year rate cut, as per our earlier forecasts, appear to be diminishing, but we still see little risk of a rate rise this year.

Furthermore, looking at Australia's employment data by sectors, it appears that despite the high AUD, the level of employment in externally-exposed sectors such as accommodation, education and gambling have been surprisingly stable. This may be behind the RBA's recent comments that Australian businesses are adjusting to the high value of the currency, which decreases the pressure to cut rates.

In addition, with the global financial market flushed with liquidity for some time to come, in part as a consequence of the BoJ's new monetary policy, the AUD is likely to remain elevated. Finally, re-emerging diversification flows in the wake of the Cyprus debacle and still robust FDI flows are positives for the AUD. Our year end forecast for the AUDUSD stands at 1.05.

NZD – Offshore demand for New Zealand government bonds has been one of the key drivers of NZD strength this year, with total offshore holdings of NZ sovereigns at a record high this quarter. We see demand for high quality NZ sovereigns, and therefore for the NZD, remaining elevated as long as global central banks remain in "stimulus" mode.

That said, the outlook for the NZD appears more challenging as we head into 2H13. The economic impact of the drought remains to be seen, although our initial forecast is a shaving of 0.5-1.0% off the country's GDP for 2013, potentially spilling over into 2014. We are also mindful of the adverse impact a strong NZD could have on the economy and jobs. On this front, implementation of a macro-prudential policy could take some pressure off the policy rate, and hence the NZD. On balance, we see the NZD staying around current levels, ending the year around 0.84.

Within Asia, we see further potential yen weakness likely impacting currencies linked to baskets (e.g. CNY and SGD) or currencies of economies that are key export competitors with Japan (e.g. KRW and TWD).

CNY – We have had a modestly positive view on the CNY on the back of the PBoC's monetary tightening bias and a return of capital inflows but we believe that the central bank is unlikely to allow substantial CNY appreciation against the yen. As such, we are now forecasting USDCNY to reach 6.15 by year-end. Furthermore, with China's recent inflation reading lower than expected, and our proprietary indicators pointing to further downward pressure on input prices, we think the current tightening bias could ease off significantly in the next few months, thereby limiting CNY appreciation in the near term.

INR – The RBI delivered a 25bp rate cut in March but indicated that further easing would be limited. The pull-out of coalition partner DMK from the government has also clouded the political picture. Going forward, the odds of further fiscal reforms (which would be positive for the rupee and economic growth) are low in an election year. While the rupee's high yield could attract flows out of Japan, in the near term the currency is likely to be weighed down by India's current account deficit. Our revised year-end forecast for the USDINR stands at 53.

IDR – Indonesia saw another trade deficit in March while headline inflation rose above the central bank's target level for the first time since April 2011. However, with the presidential election set for 2014, fiscal and economic reforms needed to attract foreign portfolio flows may not be forthcoming in the near term. Without these flows to cover its basic balance deficit, the currency is likely to be weighed down.

On the other hand, a tightening bias to tame inflation expectations would be viewed positively. Increased flows from Japan into the high yielding rupiah could also lend the currency some support. We have revised our year end forecast for the USDIDR marginally lower to 9750.

SGD –We see the SGD underperforming its regional peers in 2013. Analysis by our economists suggests that Singapore's potential growth rate will fall from 5.5% to around 3.0% due to lower productivity growth and reduced ability to employ foreign workers. That said, the downside for the currency is likely to be limited by the central bank's inflation concerns. Headline inflation continues to be driven by accommodation and private road transport costs. We see the USDSGD trading at around 1.26 towards the end of the year.

TWD – The TWD was the second worst performing Asian currency in1Q13, the first is the KRW, with which the TWD is highly correlated. This is not surprising as the two economies are close competitors in the electronics space. Going forward, we believe that Korea is likely to resist further sharp appreciation of the KRW against the JPY, and Taiwan is likely to follow suit. We have revised our year end forecast for the USDTWD marginally higher to 30.6.

Returns

Country Equity Markets	YTD	1-Yr	3-Yr
ASX 200	6.8%	14.3%	1.4%
FTSE 100	8.7%	10.4%	12.3%
Hang Seng	-1.6%	6.8%	5.0%
India Sensex	-3.0%	10.0%	6.3%
Jakarta Comp	14.5%	20.8%	76.8%
Korea KOSPI	-0.2%	-1.9%	17.8%
Malaysia KLCI	-0.9%	5.7%	26.9%
Nikkei 225	18.7%	21.1%	12.3%
S&P 500	10.0%	11.6%	33.8%
Shanghai-A	-1.4%	-2.1%	-28.4%
Singapore ST	4.5%	9.7%	12.9%
Taiwan Weighted	2.2%	-2.1%	-1.0%

Regional Equity Markets	YTD	1-Yr	3-Yr
MSCI World	6.0%	7.9%	17.2%
MSCI Europe	2.1%	6.9%	5.1%
MSCI BRIC	-3.2%	-5.5%	-13.3%
MSCI Emerging Market	-2.1%	-1.1%	2.9%
MSC AP ex Japan	1.3%	6.9%	11.4%

Fixed Income	Yield	1-mth chg	YTD chg
Aust Govt (10Y)	3.42	7	15
Bunds (10Y)	1.29	-17	-3
Gilts (10Y)	1.77	-21	-6
JGB (10Y)	0.51	-15	-28
NZ Govt (10Y)	3.49	-24	-3
SG Govt (10Y)	1.54	2	24
US Trsy (2Y)	0.24	1	0
US Trsy (10Y)	1.85	-3	9

Currencies	Level	1-mth chg	YTD chg
USD-JPY	94.22	-2.2%	-8.6%
EUR-USD	1.28	-2.4%	-3.0%
AUD-USD	1.04	1.6%	0.3%
USD-SGD	1.24	-0.5%	-1.6%
NZD-USD	0.84	0.9%	1.1%
GBP-USD	1.51	-0.4%	-7.0%
USD-CAD	1.02	0.8%	-2.4%
USD-TWD	29.91	-0.9%	-3.0%
USD-IDR	9740.00	-0.7%	0.5%
USD-INR	54.28	0.1%	1.3%
USD-KRW	1113.15	-2.8%	-4.6%

Source: Bloomberg. As of 28 March 2013.

Commodities	Level	1-mth chg	YTD chg
Aluminium	1904	-5.0%	-8.2%
Copper	7540	-3.5%	-4.9%
Gold	1595	1.1%	-4.8%
Lead	2112	-7.4%	-9.4%
Nickel	16660	0.4%	-2.3%
WTI Oil	97	5.6%	5.9%
Zinc	1897	-8.1%	-8.8%

Forecasts

Base Metals (US$/lb)	Jun-13	Sep-13	Dec-13
Aluminium	0.96	1.00	1.03
Copper	3.82	3.95	4.02
Nickel	8.25	8.65	9.15
Zinc	0.98	1.00	1.03
Lead	1.08	1.06	1.06
Tin	10.05	10.20	10.40

Precious Metals (US$/oz)	Jun-13	Sep-13	Dec-13
Gold	1625	1690	1755
Platinum	1718	1783	1833
Palladium	750	770	790
Silver	29.9	31	32.3

Energy (US$/bbl)	Jun-13	Sep-13	Dec-13
WTI Nymex	99	100.5	101.5

Currencies	Jun-13	Sep-13	Dec-13
USD-JPY	100	105	105
EUR-USD	1.32	1.34	1.37
GBP-USD	1.50	1.47	1.52
AUD-USD	1.05	1.05	1.05
NZD-USD	0.84	0.84	0.84
USD-SGD	1.25	1.25	1.26
USD-TWD	30.2	30.4	30.6
USD-IDR	9850	9800	9750
USD-INR	54	53.5	53

Cross Rates	Jun-13	Sep-13	Dec-13
AUDNZD	1.25	1.25	1.25
AUDSGD	1.31	1.31	1.32
NZDSGD	1.05	1.05	1.06
EURSGD	1.65	1.68	1.73
SGDJPY	80.00	84.00	83.33
GBPSGD	1.88	1.84	1.92
AUDIDR	10343	10290	10238
NZDIDR	8274	8232	8190
EURIDR	13002	13132	13358
JPYIDR	99	93	93
GBPIDR	14553	14896	15288

Source: ANZ Economics & Markets Research. As of 10 April 2013. Forecasts are quarterly averages.

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