

AUSTRALIAN ECONOMICS

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6 MAY 2011

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RBA TO HIKE RATES NEXT MONTH, FEDERAL BUDGET UNLIKELY TO RELIEVE INFLATIONARY PRESSURES

- In its *Statement on Monetary Policy* today, the RBA signalled via its underlying inflation forecasts that a **rate hike is imminent**. Underlying inflation is now expected to reach 3% as early as Dec-11 and is expected to rise to 3¼%, above the top of the RBA's target band, by Dec-13. As such, **we have brought forward our forecast for the next rate hike from July to June**.
- Our *In Focus* article also looks at the **Federal Budget next Tuesday**. We estimate a budget deficit of \$49.4bn (3.6% of GDP) in 2010-11 and \$16bn (1.0% of GDP) in 2011-12 (a deterioration from the MYEFO estimates of \$41.5bn and \$12.3bn in 2010-11 and 2011-12 respectively). A return to Budget surplus is still expected in 2012-13. The weaker budget starting point reflects a combination of unfavourable economic developments (lower GST receipts and a higher AUD) and higher spending (mainly due to flood disaster relief). Little fiscal tightening is expected and thus the structural budget deficit (the budget balance adjusted for the economic cycle) will remain large for many years to come. Government gross debt is expected to peak in the year ahead at just over \$200bn on issue. The Government's net debt position is forecast to peak at around 6.6% of GDP in 2011-12, which compares favourably to a G-7 average of 74.8% of GDP.
- **The A\$** had a wild week on the back of rapid changes in the global outlook, the US\$ and commodities. It began the week at an all-time record high of US\$1.1012 but has since tumbled, in response to growing concerns about slowing global growth and a resurgent mood of caution across markets. The US\$ strengthened in this latter environment, oil has slid back under US\$100 per barrel, and gold and silver have taken a hammering. The A\$ ends this week trading under US\$1.07.

THE WEEK AHEAD

- In **Australia**, after the RBA's upgrade to its inflation forecasts, labour force data will be of greater importance for rate markets that look to be underestimating the probability of a near-term hike. We note the possibility of a negative number due to statistical payback following extraordinarily robust full-time employment in the past two months (see 'Data Previews'). ANZ Job Advertisements data on Monday will be another key indicator future trends in employment. The Commonwealth Budget on Tuesday night, whilst not typically market moving, deserves close attention as the Government reveals its fiscal stance. The NAB Business survey for April will also be released; we will be watching for any impact on business confidence/conditions from the high A\$.
- In the **US**, we turn our focus to the NFIB small business survey and retail sales data. These are both large employment areas for the US economy. CPI and PPI data will also be released but with the focus of the Fed on the core PCE deflator, we place less importance on this data. In **Canada**, housing starts and house price data are released.
- In the **euro zone**, activity data will be the focus with industrial production for the euro zone and the UK, as well as initial Q1 GDP reads for the euro zone and Germany.
- In **Asia**, we will receive the **Chinese** data dump for April. This will include the CPI, PPI, industrial production, trade and retail sales. Another poor (ie. high) CPI result will increase market expectations for further policy tightening in China. In **Japan**, trade data for March is likely to show the impact of the recent natural disaster and may have some temporary implications for global growth.
- In **New Zealand**, it looks to be a quiet week for data with business PMI's, food prices and card spending the focus.

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RBA TO HIKE RATES NEXT MONTH

The RBA has today signalled via its underlying inflation forecasts that a rate hike is imminent. As such we have brought forward our forecast for the next rate hike from July to June. This will take the cash rate to 5%. We still expect a further 25bp hike later in the year, probably November. We have the cash rate plateauing at 5.75% from late 2012.

Inflation is forecast to be at 3% until 2013 and will then rise to 3.25% on the 'technical assumption' that the cash rate will move in line with market pricing. This tells us that the RBA expects that it will ultimately need to do more than the two 25bp rate hikes currently factored into their forecasts (one by early 2012 and one by mid 2013 in line with recent market pricing). This tells us that the RBA would have an even higher CPI forecast (that is probably above 3.5%) if they did not assume some further rate adjustments.

These technical features of the forecast change as well as the tone of the Statement suggest that the RBA is not prepared to wait for another CPI data release to change policy. From our perspective there is no reason that we can see to wait until July. The Bank has probably paused in May so as to get the message out to the broader community that a rate move is likely. They have now been achieved this via the Minutes following the May meeting and today's latest quarterly *Statement on Monetary Policy* report.

The main focus of the RBA remains the medium-term inflation risk emanating from the current economic boom. Policy failure for the RBA is getting behind the curve on inflation. The RBA's latest quarterly monetary policy statement contained the following key points:

- an upgrade to the Bank's forecast for inflation: up a quarter of a percentage point across each time horizon out to 2012, and now at 3pct for 2011 and 2012, but more importantly, a forecast of 3.25% for the year to December 2013;
- a growing risk that global inflation pressures will rise further in the period ahead;
- economic growth is expected to be at or above trend over much of the forecast horizon;
- acknowledgement that within the above profile for GDP growth, "large differences in the performance of the different sectors are likely to continue. Some areas of the economy are expected to be very strong, while conditions will be quite difficult in others ... spare capacity in the overall economy is relatively limited".

Today's *Statement* makes even clearer that **higher rates are likely to be needed if the economy continues to evolve as the Bank expects**. The upgrade to the RBA's inflation forecasts has not been driven by a fundamental change to the outlook for growth. Indeed, the RBA has revised down its GDP forecasts slightly, largely due to the impact of the higher currency. Instead, the main reasons for the upward revision to the inflation forecasts appear to be: higher global commodity prices; an acceleration in global manufactured prices; a higher starting point in Q1 2011; and a potentially tighter labour market (with unemployment now forecast to drop to 4 ¼% by December 2013 instead of 4 ½% by June 2013). These influences will be offset by the further disinflationary impact of the higher currency in the near term at least. The new forecasts are based on the assumption of the AUDUSD at 1.07 and the A\$TWI at 78 compared with February forecasts of AUDUSD 1.00 and the A\$TWI at 74.

Other than these changes, the broad thrust of the domestic forecasts remains the same. The economy will continue to be driven by the mining investment boom and income boost from the surging terms of trade. This will see capacity utilisation rise and the labour market tighten further, which will add to labour costs and inflationary pressures. Mildly restrictive policy and the higher A\$ will provide some offset to this, and will mean that economic conditions across the broader economy remain quite mixed. In particular, household spending will be restrained, with the household savings rate expected to remain at current high levels (near 10%).

For more detail, see today's *ANZ Monetary Policy Update*.

The RBA's full report can be found at the following link:

<http://www.rba.gov.au/publications/smp/2011/may/html/index.html>

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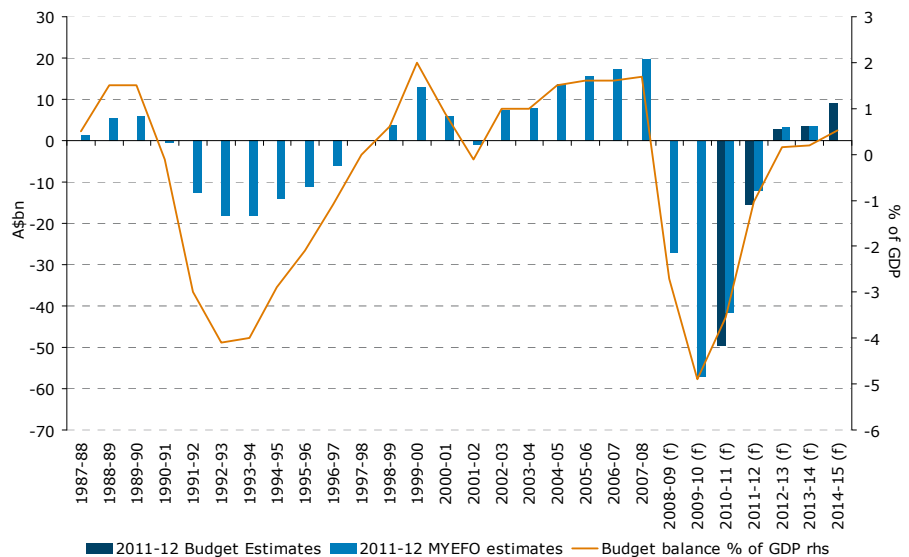
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FEDERAL BUDGET UNLIKELY TO TAKE PRESSURE OFF THE RBA

For the past 8 years the Australian Commonwealth Government has failed to save enough of the financial benefit from what now looks like being a 'once in two hundred year' natural resources boom. Not only does this mean that the Government has very little to financially show for this economic boom, but this lack of financial discipline has added to inflation pressures and imbalances in the economy at various times in the past decade. Fiscal policy played a central role in the surge in inflation in Australia between 2006 and 2008. As the RBA's forecasts show, inflation pressures are now rising once again and over the next two years will intensify. Without a substantive tightening of policy settings, the government will leave itself open to the criticism that it added to upward pressures on inflation and interest rates. Getting the Budget back to balance by 2012-13 is helpful and necessary but we suspect more is needed. For ANZ's detailed preview of the Budget, please see our report from earlier this week *2011-12 Federal Budget Preview: Weaker Starting Point Limits the Policy Potential*.

We expect the Government will be able to maintain the objective of returning the Budget to balance by 2012-13 despite some headwinds over the past year. ANZ estimates a budget deficit of \$16bn (1.0% of GDP) in 2011-12, a deterioration from the \$12bn deficit expected at MYEFO. A return to Budget surplus of \$2.7bn (0.2% of GDP) is expected in 2012-13, broadly consistent with the \$3.1bn surplus predicted at MYEFO (Figure 1). The economy is being buffeted by economic and financial forces which make forecasting government revenues and expenditures very difficult. We have seen a further unexpected surge in our terms of trade offset by a weaker domestic economy, soft financial markets and a rapidly rising Australian dollar. The funding of recovery from natural disaster hasn't helped the bottom line despite the temporary increase in the Medicare levy and delays in investment spending announced after the floods.

FIGURE 1: UNDERLYING CASH BALANCE



Source: Treasury, ABS and ANZ

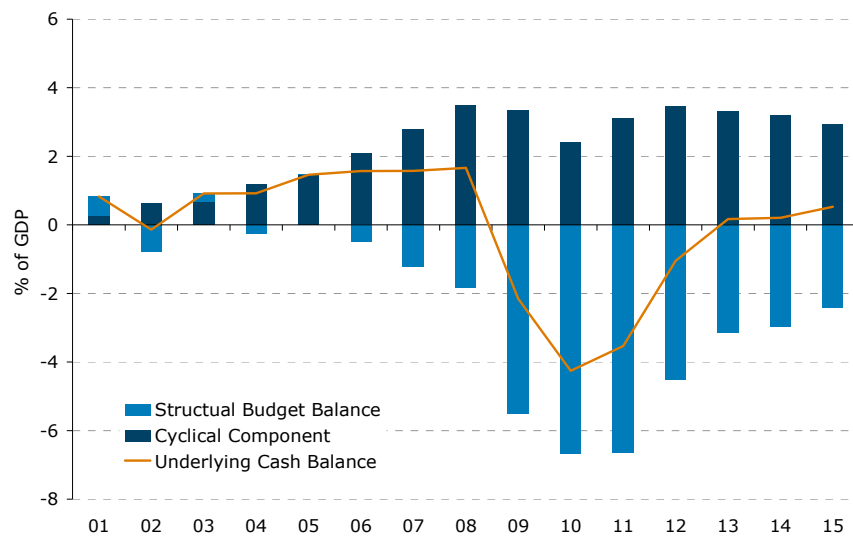
The expected deterioration in the budget over the next few years reflects a combination of unfavourable economic developments and higher spending. Higher spending is mostly attributable to reconstruction spending following this summer's natural disasters. This spending is expected to add between \$7bn and \$8bn over the next four years. It will likely only be partly offset by the flood levy (+\$1.8bn) and various other spending cuts/savings. This disaster relief means the government is unlikely to meet its commitment to cap real spending at 2% p.a. until the budget returns to surplus. Abstracting from this natural disaster



spending, we would actually look for real spending growth of below 2% p.a. in 2011-12 as the government seeks to maximise its chances of returning to surplus.

No further progress on fiscal tightening is expected and thus the structural budget deficit (the budget balance adjusted for the economic cycle) will remain large for many years to come (Figure 2). Government gross debt meanwhile is expected to peak in the year ahead at just over \$200bn on issue. On a net debt basis (taking into account our modest 'sovereign wealth' type funds like the Future Fund) the Australian government's net debt position is forecast to peak at around 6.6% of GDP in 2011-12. This compares favourably to a G-7 average of 74.8% of GDP.

FIGURE 2: STRUCTURAL BUDGET BALANCE – ANZ ESTIMATES



Source: Treasury, ABS and ANZ

Economic assumptions crucial to determining the Budget's path

The government treatment of the economic outlook will be critical to framing the overall Budget aggregates. This is because the projected return to small surplus in 2012-13 can be easily wiped out by a small change in underlying economic conditions. Overall assumptions about growth and inflation for the next few years are unlikely to be controversial. It is the assumptions about how the terms of trade corrects and the path for the Australian dollar that will be scrutinised heavily. We hope that budget surpluses in 2012-13 to 2014-15 are not dependent on unrealistic assumptions about these variables.

We expect the Budget is likely to contain the following economic assumptions:

- GDP growth of around 3¾% for 2011-12, as the economy bounces back from the natural disasters of early 2011;
- CPI inflation at the top of the RBA's 2-3% target band in the next two years. Historically it has been usual for the Treasury not to forecast lower inflation than the RBA. This year the forecasts seem more likely to be in accordance with each other, which may help with the sale of a tight budget when many sections of the economy are already pressured by high interest rates and the high A\$; and
- An unemployment rate that will fall to 4.5% over the next two financial years, with around 500,000 new jobs created. ANZ expects a more significant fall in the unemployment rate over the same period to the low 4% mark.
- A rise in the terms of trade of around 18% in 2010-11 and 6% in 2011-12.

- An A\$TWI of 75.7 (the average of the three months to April). This compares with a MYEFO forecast of 74.

Policy to focus on microeconomic reform

The policy focus will be on microeconomic efforts to prepare the economy for further structural change as the mining investment boom and the high currency have an impact on the economy. We will be looking for policies that assist, rather than resist, this adjustment process. The focus should be skills, immigration and participation. It will be these microeconomic policies that determine whether the 2011-12 Budget adds or detracts from the current Government's economic policy credentials.

We expect to see this Budget focus on three key policy areas:

- **Flood recovery.** This will include the one-off Flood Levy, to be paid by higher-income households, and associated payments to State Governments and various other agencies, mainly located in Queensland. \$2bn has already been paid to Queensland and will appear as expenditure in the current year, but the remainder of the expected \$7bn is yet to be allocated.
- **The 'three P's of economic growth, mostly relating to the labour market: population, participation and productivity.** This policy group is likely to include a variety of relatively small sticks and carrots to encourage higher labour force participation from women and older workers (e.g. changes to childcare, superannuation arrangements and single parent benefits), education and training measures (e.g. access to education for single parents), workforce mobility and flexibility measures (e.g. a revamp of relocation allowances for jobseekers or changes to skilled migration and temporary entry migration programs). Some of this is likely to be co-funded by the private sector.
- **Tightening up of 'untargeted' welfare programs and payments.** We expect to see a raft of small changes to existing welfare payments, aimed at saving expenditure and better targeting the national welfare system. This will include introducing means testing for some programs and tightening eligibility for others. Likely targets are the private health insurance rebate (which Labor has unsuccessfully tried to cut in the past), the baby bonus (already shifted from a one-off bonus to fortnightly payments), upfront HECS discounts for university students, childcare rebates and other family benefits. Payments related to childcare and maternity leave will be problematic, as any cuts could be counter-productive to the Government's stated aim of improving workforce participation. While each measure in this policy group is likely to be small, their cumulative effect could be significant, both for the Government's coffers and for the individual households affected.

DATA WRAP

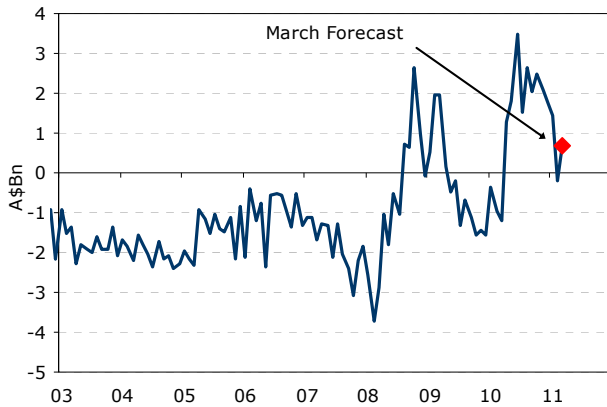
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DATA WRAP

- The **AiG performance of manufacturing index** rose 0.5 points to 48.4 in April, but it is still indicating net contraction (under 50 points). Manufacturing new orders slipped (-2.7 points) but production (+2.4 points), employment (+1.3 points) and exports (+1.3 points) all improved.
- The **AiG performance of services index** rose 5 points to 51.5 in April into net expansion (over 50 points). Services new orders rose 2.7 points, wages rose 8.4 points and employment rose 10.4 points.
- The **AiG performance of construction index** dropped from 39.4 to 37.9 points, even further into contraction (under 50 points).
- The **TD inflation** gauge rose 0.3% in April, to take the annual to 3.6%.
- **ABS House price index** data declined 1.7% across the eight capital cities in Q1. The falls were widespread except in Perth (+0.5% and Hobart (+0.4%). Australian house prices fell 0.2% in annual terms, driven largely by falls in Brisbane (-3.6% y/y) and Perth (-3.2% y/y).
- The **RBA commodity price index** rose 7.6% in SDR terms in April. This index is now 32.3% higher than a year ago, down from an upwardly revised 42.2% annual growth rate in March.
- The **RBA** kept rates on hold at 4.75% but the statement read more hawkishly. In summary the RBA noted, "*In future meetings, the Board will continue to assess carefully the evolving outlook for growth and inflation*".
- The state budget of **Victoria** resulted in smaller surpluses and a larger debt. However, the added bond issuance program is unlikely to be significantly greater for the market.
- The **ACT** budget gave a neutral outlook, while the **Northern Territory** budget highlighted a strong investment and public spending pipeline.
- **HIA new home sales** rose 4.3% in March after rising 0.6% in February. The last two monthly rises have come through ex-unit sales that rose 5.8% in March. However, this data tends to be quite volatile.
- **Retail Sales** (nominal monthly value) fell 0.5% in March (+2.3% y/y). A sharp fall in Queensland retail sales was the main surprise (these had been expected to hold up for another month after the floods). Ex-Queensland, retail sales rose 0.2% m/m.
- **Retail trade volumes** were flat in Q1. This suggests the likely contraction in Q1 GDP may be even deeper than previously expected, since household consumption remains weak.
- **Building Approvals** rose 9.1% in March to be 18.1% lower than a year ago. House approvals were 1.3% lower in the month while the volatile other dwellings sector increased 29.3% (following a 34.5% decrease from December 2010 to February 2011). The value of non-residential building approvals increased 20.8% (seasonally adjusted) in March to be 10.7% higher than a year ago.

DATA PREVIEW

TRADE BALANCE (MAR)



10 MAY: TRADE BALANCE (MAR)

ANZ: +A\$0.7Bn

Market: +A\$0.5Bn

Last: +A\$0.2Bn

The trade balance is expected to bounce back in March to a surplus of a\$700m due to a rise in exports of around 6%, outweighing the rise in imports of around 2%. Part of the bounce back is due to coking coal exports, which are returning after the low in February due to the Queensland floods. Iron Ore exports are also expected to pick up strongly post the Chinese New Year. The Chinese new year seems to have had a larger impact than previous years, impacting on the seasonally adjusted data. We would expect some weakness in services and manufacturing exports as has been the trend with the AUD/USD over parity.

The modest rise in imports is dominated by fuel imports and non-monetary gold imports. We are expecting consumption goods to be weaker in March, possibly due to some crowding with higher oil prices. **(AM)**

12 MAY: LABOUR FORCE (APR)

Employment:

ANZ: -5K

Market: +17k

Last: +37.8K

Unemployment Rate:

ANZ: 4.9%

Market: 4.9%

Last: 4.9%

Participation Rate:

ANZ: 65.7%

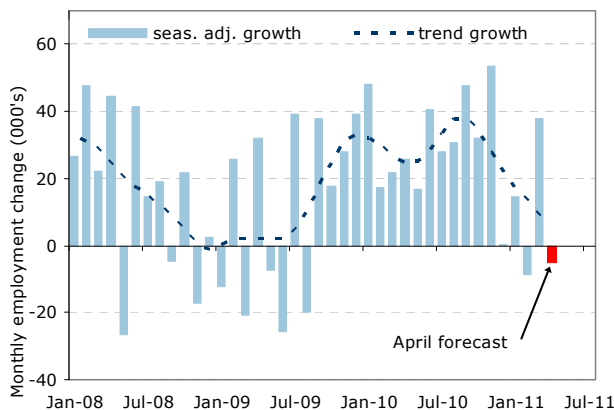
Market: 65.8%

Last: 65.8%

After a marked softening in employment growth in the three months to February, employment rebounded sharply in March (+37.8K). According to the RBA, employment outcomes early in the year possibly understated the true pace of employment growth. However, the magnitude of gains in full-time employment in the past two months (+82.5K in total) highlights the significant chance of statistical payback in April. The extra long weekend in April due to Easter and ANZAC Day is also expected to have weighed on employment; the longer shut-down of many businesses is likely to have delayed hiring, and the seasonal factors may not fully account for this.

Our forecast for employment to fall 5K in April will see annual growth in employment ease to 2.6%, down from 2.9% in March and a peak of 3.7% last November. This slowdown is consistent with most forward looking indicators of the labour market which suggest that while employment growth will remain robust, it is slowing. Despite the forecast fall in employment in April, we expect the unemployment rate to have remained steady at 4.9%. This is partly because of weak population growth (0.1% m/m in line with the past three months). It is also due to a slight forecast decline in the participation rate to 65.7% given the tendency for weak employment outcomes to occur in tandem with falls in participation. **(RP)**

EMPLOYMENT (APR)



DATA & EVENT CALENDAR

WEEK STARTING 9 MAY

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST	
6-12 May	UK	Halifax House Price 3m/year	APR	-2.9	--	-2.9	--	--	
		Halifax House Prices sa (MoM)	APR	0.1	--	0.1	--	--	
Sunday	UK	Lloyds Employment Confidence	APR	--	--	-65	23:01	09:01	
8-May		Bi-monthly Meeting of Bank for International Settlements					22:00	08:00	
09-13 MAY	JN	Bankruptcies YoY	APR	--	--	-10.0%	--	--	
		Tokyo Avge Office Vacancies (%)	APR	--	--	9.19	--	--	
Monday	AU	ANZ Job Advertisements MoM	APR	--	--	1.3%	01:30	11:30	
9-May	JN	BOJ to Publish Minutes of April Board Meeting					23:50	09:50	
	EU	Sentix Investor Confidence	MAY	--	--	14.2	08:30	18:30	
10-12 MAY	GE	Exports sa MoM	MAR	--	--	2.80%	06:00	16:00	
		Imports sa MoM	MAR	--	--	4.0%	06:00	16:00	
			Current Account (EURO)	MAR	--	--	8.9B	06:00	16:00
			Trade Balance	MAR	--	--	12.1B	06:00	16:00
	UK	BRC Sales Like-For-Like YoY	APR	--	--	-3.5%	23:01	09:01	
			RICS House Price Balance	APR	--	--	-23.0%	23:01	09:01
	CA	Housing Starts	APR	183K	--	185.1K	12:15	22:15	
	NZ	REINZ Housing Price Index	APR	--	--	3209.7	--	--	
		REINZ Housing Price Index MoM	APR	--	--	0.5%	--	--	
	Tuesday	NZ	NZ Card Spending - Retail MoM	APR	--	--	1.3%	22:45	08:45
NZ Card Spending - Total MoM			APR	--	--	0.5%	22:45	08:45	
10-May	QV	House Prices YoY	APR	--	--	-2.0%	00:00	10:00	
				Federal Budget 2011-12				09:30	19:30
	AU	Trade Balance	MAR	500M	700M	-205M	01:30	11:30	
			NAB Business Conditions	APR	--	--	9	01:30	11:30
			NAB Business Confidence	APR	--	--	9	01:30	11:30
	CH	Trade Balance (USD)	APR	\$4.20B	--	\$0.14B	02:00	12:00	
			Exports YoY	APR	29.8%	--	35.8%	02:00	12:00
			Imports YoY	APR	29.0%	--	27.3%	02:00	12:00
	EU	ECB's Bini Smaghi Speaks at Festival of Europe in Florence						09:00	19:00
	US	US Treasury auctions 3-Year Note						--	--
		NFIB Small Business Optimism	APR	--	--	91.9	11:30	21:30	
		Import Price Index MoM	APR	1.8%	--	2.7%	12:30	22:30	
		Import Price Index YoY	APR	10.3	--	9.7%	12:30	22:30	
		Fed's Duke (voter) Speaks on Community Development in St. Louis					13:30	23:30	
		IBD/TIPP Economic Optimism	MAY	--	--	40.8	14:00	00:00	
		Wholesale Inventories	MAR	1.0%	--	1.0%	14:00	00:00	
		Fed's Lacker (non-voter) Speaks on Economic Outlook in Arlington, VA					16:45	02:45	
Wednesday	AU	AOFM auctions A\$600m of April 2020 Bonds							
11-May	JN	Official Reserve Assets	APR	--	--	\$1116.0B	23:50	09:50	
		Coincident Index CI	MAR P	103.7	--	106.8	05:00	15:00	
			Leading Index CI	MAR P	99.8	--	104.2	05:00	15:00
	CH	Producer Price Index YoY	APR	7.0%	--	7.3%	02:00	12:00	
		Industrial Production YTD YoY	APR	14.5%	--	14.4%	02:00	12:00	
		Industrial Production YoY	APR	14.6%	--	14.8%	02:00	12:00	
		Consumer Price Index YoY	APR	5.2%	--	5.4%	02:00	12:00	
		Fixed Assets Inv Excl. Rural YTD YoY	APR	24.9%	--	25.0%	02:00	12:00	
		Retail Sales YTD YoY	APR	16.7%	--	16.3%	02:00	12:00	
		Retail Sales YoY	APR	17.5%	--	17.4%	02:00	12:00	

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Wednesday 11-May (cont.)	EU	ECB's Bini Smaghi Speaks in Prato, Italy					09:45	19:45
		ECB's Stark Speaks in London					10:30	20:30
		ECB's Orphanides Speaks at Brussels Finance Conference					15:15	01:15
	GE	Consumer Price Index MoM	APR F	--	--	0.20%	06:00	16:00
		Consumer Price Index YoY	APR F	--	--	2.4%	06:00	16:00
		CPI - EU Harmonised MoM	APR F	--	--	0.2%	06:00	16:00
		CPI - EU Harmonised YoY	APR F	--	--	2.6%	06:00	16:00
	UK	Visible Trade Balance GBP/Mn	MAR	£7700	--	£6776	08:30	18:30
		Trade Balance Non EU GBP/Mn	MAR	£4000	--	£2849	08:30	18:30
		Total Trade Balance (GBP/Mln)	MAR	£3400	--	£2443	08:30	18:30
		Bank of England Releases Quarterly Inflation Report					09:30	19:30
		Bank of England Inflation Report					09:30	19:30
	US	US Treasury auctions 10-Year Note					--	--
		MBA Mortgage Applications	6-May	--	--	4.0%	11:00	21:00
		Trade Balance	MAR	-\$47B	--	-\$45.8B	12:30	22:30
		JOLTs Job Openings	MAR	--	--	3093	14:00	00:00
		Fed's Lockhart (non-voter) speaks on U.S. Economic Outlook in Atlanta					16:15	02:15
		Fed's Kocherlakota (voter) speaks on Monetary Policy in New York					17:00	03:00
		Monthly Budget Statement	APR	-\$65B	--	-\$188.2B	18:00	04:00
	CA	Int'l Merchandise Trade	MAR	0.0B	--	0.0B	12:30	22:30
Thursday 12-May	NZ	Business NZ PMI	APR	--	--	50.1	22:30	08:30
		Food Prices MoM	APR	--	--	0.3%	22:45	08:45
	AU	Part Time Employment Change	APR	--	--	5.7K	01:30	11:30
		Full Time Employment Change	APR	--	--	32.1K	01:30	11:30
		Employment Change	APR	17.0k	-5K	37.8K	01:30	11:30
		Participation Rate	APR	65.7%	65.7%	65.8%	01:30	11:30
		Unemployment Rate	APR	4.9%	4.9%	4.9%	01:30	11:30
	JN	Japan Money Stock M2 YoY	APR	2.7%	--	2.7%	23:50	09:50
		Japan Money Stock M3 YoY	APR	2.0%	--	2.0%	23:50	09:50
		Bank Lending Banks Adjust YoY	APR	--	--	-1.6%	23:50	09:50
		Bank Lending Ex-Trusts YoY	APR	--	--	-1.8%	23:50	09:50
		Bank Lending incl Trusts YoY	APR	--	--	-1.7%	23:50	09:50
		Current Account Total	MAR	¥1750.0B	--	¥1641.0B	23:50	09:50
		Adjusted Current Account Total	MAR	¥986.3B	--	¥1209.8B	23:50	09:50
		Current Account Balance YoY	MAR	-32.0%	--	3.0%	23:50	09:50
		Trade Balance - BOP Basis	MAR	¥305.0B	--	¥723.3B	23:50	09:50
		Eco Watchers Survey: Current	APR	--	--	27.7	05:00	15:00
		Eco Watchers Survey: Outlook	APR	--	--	26.6	05:00	15:00
		Machine Tool Orders YoY	APR P	--	--	49.6%	06:00	16:00
	EU	Euro-Zone Ind. Prod. wda YoY	MAR	0.5%	--	7.5%	09:00	19:00
		Euro-Zone Ind. Prod. sa MoM	MAR	--	--	0.5%	09:00	19:00
		ECB Publishes May Monthly Report					09:00	19:00
		ECB's Gonzalez-Paramo speaks in Madrid					09:30	19:30
	UK	NIESR GDP Estimate	APR	--	--	0.7%	--	--
		Industrial Production MoM	MAR	0.8%	--	-1.2%	08:30	18:30
		Industrial Production YoY	MAR	1.1%	--	2.4%	08:30	18:30
		Manufacturing Production MoM	MAR	0.4%	--	0.00%	08:30	18:30
	Manufacturing Production YoY	MAR	2.8%	--	4.9%	08:30	18:30	

DATA & EVENT CALENDAR

DATE	COUNTRY	DATA/EVENT	PERIOD	MARKET	ANZ	LAST	GMT	AEST
Thursday	US	US Treasury auctions 30-Year Bond					--	--
12-May		Fed's Plosser (voter) Speaks on Economic Outlook in Aventura, Florida					12:30	22:30
(cont.)		Initial Jobless Claims	7-May	--	--	474K	12:30	22:30
		Continuing Claims	30-Apr	--	--	3733K	12:30	22:30
		Producer Price Index MoM	APR	0.6%	--	0.7%	12:30	22:30
		Producer Price Index YoY	APR	6.5%	--	5.8%	12:30	22:30
		PPI Ex Food & Energy MoM	APR	0.2%	--	0.3%	12:30	22:30
		PPI Ex Food & Energy YoY	APR	2.1%	--	1.9%	12:30	22:30
		Advance Retail Sales	APR	0.6%	--	0.4%	12:30	22:30
		Retail Sales Less Autos	APR	0.6%	--	0.8%	12:30	22:30
		Retail Sales Ex Auto & Gas	APR	0.5%	--	0.6%	12:30	22:30
		Bloomberg Consumer Comfort	8-May	--	--	-46.2	13:45	23:45
		Annual Revisions: Business Inventories (retail portion)					14:00	00:00
		Business Inventories	MAR	0.9%	--	0.5%	14:00	00:00
		Fed's Bernanke (voter) and Bair (non-voter) speak at Senate Hearings					14:00	00:00
	CA	New Housing Price Index MoM	MAR	--	--	0.4%	12:30	22:30
		New Housing Price Index YoY	MAR	--	--	2.1%	12:30	22:30
Friday		Non Resident Bond Holdings	APR	--	--	62.8%	03:00	13:00
13-May	AU	AOFM auctions A\$600m of June 2014 Bonds						
	CH	Conference Board China March Leading Economic Index					02:00	12:00
	EU	ECB's Odonez speaks in Madrid					07:50	17:50
		ECB's Trichet speaks in Madrid					08:00	18:00
		ECB's Bini-Smaghi speaks in Florence					09:00	19:00
		Euro-Zone GDP sa QoQ	1Q A	0.6%	--	0.3%	09:00	19:00
		Euro-Zone GDP sa YoY	1Q A	2.3%	--	2.0%	09:00	19:00
		ECB's Stark speaks in Aachen, Germany					16:30	02:30
	GE	GDP nsa YoY	1Q P	--	--	4.0%	06:00	16:00
		GDP sa QoQ	1Q P	--	--	0.4%	06:00	16:00
		GDP wda YoY	1Q P	--	--	4.0%	06:00	16:00
	US	Consumer Price Index MoM	APR	0.4%	--	0.5%	12:30	22:30
		CPI Ex Food & Energy MoM	APR	0.2%	--	0.1%	12:30	22:30
		CPI Ex Food & Energy YoY	APR	3.1%	--	1.2%	12:30	22:30
		Consumer Price Index YoY	APR	1.3%	--	2.7%	12:30	22:30
		CPI Core Index sa	APR	--	--	223.331	12:30	22:30
		Consumer Price Index nsa	APR	--	--	223.467	12:30	22:30
		U. of Michigan Confidence	MAY P	70	--	69.8	13:55	23:55
		Annual Revisions: Durable Goods					14:00	00:00

FIVE WEEKS AT A GLANCE

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<p>9 MAY AU: ANZ Job Ads (Apr) JP: BoJ Minutes EU: Sentix Investor Confidence (May) GE: Trade (Mar), Current Account (Mar) CA: Housing Starts (Apr)</p>	<p>10 MAY NZ: Card Spending (Apr), House prices (Apr) AU: Trade (Mar), nab Bus Confidence (Apr), Federal Budget CH: Trade (Apr) EU: ECB's Bini-Smaghi Speaks US: NFIB Small Business Survey (Apr), Import Price Index (Apr), Economics Optimism (May), Wholesale Inventories (Mar), Fed's Duke & Lacker Speaks</p>	<p>11 MAY NZ: RBNZ Financial Stability Report CH: PPI (Apr), Ind Production (Apr), CPI (Apr), Retail Sales (Apr) JP: Leading Index (Mar P) EU: ECB's Stark & Orphanides Speaks GE: CPI (Apr F) UK: Trade (Mar), BoE Inflation Report US: Trade (Mar), JOLTs Job Openings (Mar) Fed's Korcherlakota and Lockhart Speaks CA: Merch Trade (Mar)</p>	<p>12 MAY NZ: Business NZ PMI (Apr) AU: Employment (Apr) JP: M2 & M3 (Apr), Bank Lending (Apr), Trade (Mar), Current Account (Mar) EU: ECB Monthly Report (May), ECB's Gonzalez - Paramo Speaks, Ind Production (Mar) UK: Ind Production (Mar), Manuf. Production (Mar), NIESR GDP Estimate (Apr) US: PPI (Apr), Retail Sales (Apr), Bus Inventories, Fed's Plosser, Bernanke & Bair Speaks CA: New house price (Mar)</p>	<p>13 MAY CH: Conf. Board Leading Index (Mar) EU: GDP (Q1 A), ECB's Trichet, Ordenez, Stark and Bini-Smaghi Speaks GE: GDP (Q1 P) US: CPI (Apr), Univ of Michigan Consumer Confidence (May P) 15/05 US: Fed's Lockhart Speaks</p>
<p>16 MAY AU: Housing Finance (Mar), Auto sales (Apr) JP: Machine Orders (Mar), Domestic CGPI (Apr), Consumer Confidence (Apr) EU: CPI (Apr), Trade (Mar) US: Empire Manufac (May), Net TIC Flows (Mar), Fed's Bernanke speaks</p>	<p>17 MAY AU: RBA Board Minutes EU: Zew Survey (May) GE: Zew Survey (May) UK: CPI (Apr) US: Building Permits (Apr), Housing Starts (Apr), Industrial Production (Apr), Capacity Utilisation (Apr)</p>	<p>18 MAY NZ: PPI (Q1) AU: Cons. Conf. (May), DEWR Skilled Vacs (May), Wage Cost Index (Q1) JP: Tertiary Industry (Mar) EU: Constr'n Output (Mar), ECB's Constancio speaks UK: BoE Minutes, ILO Unemp. (Mar), Earnings (Mar), Jobless Claims (Apr) US: FOMC Minutes, Fed's Bullard speaks</p>	<p>19 MAY NZ: ANZ Consumer Confidence (May), NZ Budget AU: WA State Budget JP: GDP (Q1), Ind. Prod'n (Mar F), Cap. Utilisation (Mar), House loans (Q1) UK: Retail Sales (Apr) US: Existing Home Sales (Apr), Philly Fed Survey (May), Fed's Dudley and Evans speak</p>	<p>20 MAY NZ: Net Migration (Apr), Credit Card Spend (Apr) JP: BoJ Target Rate EU: ECB's Mersch Speaks, Current Account, (Mar). Consumer Confidence (May) GE: PPI (Apr) US: Fed's Dudley speaks CA: CPI (Apr), Retail Sales (Mar)</p>
<p>23 MAY JP: Leading index CI (Mar F) US: Chicago Fed Activity Index (Apr) EU: ECB's Ordenez speaks</p>	<p>24 MAY NZ: Inflation expectations (Q2) EU: Ind New Order (Mar) GE: GDP (Q1 F), IFO Survey (May), Trade (Q1) UK: Public finance (Apr) US: New Home Sales (Apr), Richmond Fed Manufac (May), Fed's Bullard and Hoenig speak</p>	<p>25 MAY AU: W'pac Leading Index (Mar), Conf. Board Leading Index (Mar), Inflation Expectations (May), Construction work (Q1) JP: Trade (Apr), BoJ Minutes UK: GDP (Q1 P) US: Capital & Durables Goods Orders (Apr), House prices (Mar), Fed's Korcherlakota speaks CH: Leading Index (Apr)</p>	<p>26 MAY AU: CAPEX (Q1) GE: GfK Consumer Confidence (Jun) UK: GfK Consumer Confidence (May) US: GDP (Q1 S), Core PCE (Q1 S), Personal Consumption (Q1 S)</p>	<p>27 MAY CH: Business Conditions (May), Ind Profits (Apr) JP: CPI (Apr), Tokyo CPI (May), Retail Trade (Apr) EU: Consumer Confidence (May F), Eco, Ind & Ser Conf. (May), M3 (Apr) GE: CPI (May P) US: PCE Core (Apr), Personal Spending & Income (Apr), Pending Homes Sales, Uni of Michigan (May)</p>
<p>30 MAY NZ: Trade (Apr) AU: Company Operating Profits (Q1), Inventories (Q1), Sales (Q1) JP: Construction Orders (Apr), Housing Starts (Apr) CA: GDP (Mar), Current Account (Q1)</p>	<p>31 MAY NZ: Building Permits (Apr) AU: Building Approvals (Apr), Current Account Balance (Q1), Net Exports (Q1), Private Credit (Apr) JP: Jobless Rate (Apr), Ind Production (Apr P) EU: CPI Estimate (May), Unemployment (Apr) GE: Unemployment (May) US: Case-Shiller Index (Mar & Q1), Chicago PMI (May), Consumer Confidence (May), Dallas Fed Manufac Activity (May) CA: BoC Rates Decision</p>	<p>1 JUNE NZ: ANZ Commodity Price (May) AU: Aig PMI (May), GDP (Q1) CH: PMI Manufac (May) EU: PMI Manufac (May F) GE: PMI Manufac (May F) UK: PMI Manufac (May), Mortgage Approvals (Apr) US: Challenger Job Cuts (May), ADP Employment (May), Construction Spending (Apr), ISM Manufac (May)</p>	<p>2 JUNE AU: Trade (Apr), Retail Sales (Apr) JP: Capital Spending (Q1) UK: PMI Construction (May) US: Factory Orders (Apr)</p>	<p>3 JUNE CH: PMI Non-Manufac (May) EU: PMI Composite & Services (May F) GE: Import Price Index (Apr), Retail Sales (Apr), PMI Services (May F) UK: PMI Services (May) US: Non-Farm Payrolls (May), Unemployment (May), ISM Non-Manufact. (May)</p>
<p>6 JUNE NZ: Queen's Birthday Holiday AU: ANZ Job Ads (Apr), TD Securities Indlation gauge (May) CH: Dragon Boat Festival Public Holiday EU: Sentix Investor Conf. (May), PPI (Apr) US: Fed's Plosser Speaks CA: Building Permits (Apr), Ivey PMI (May)</p>	<p>7 JUNE AU: RBA Cash Rate, NAB Business Confidence (May) JP: Leading Index CI (Apr P) EU: Retail Sales (Apr) GE: Factory Orders (Apr) US: JOLTs Job Openings (Apr), Consumer Credit (Apr)</p>	<p>8 JUNE AU: Westpac Consumer Confidence (Jun), Housing Finance (Apr) JP: Money Stock (May), Current Account (Apr), Trade (Mar) EU: GDP (Q1) GE: Current Account (Apr), Trade (Apr), Ind Production (Apr) US: Fed's Beige Book CA: Housing Starts (May)</p>	<p>9 JUNE NZ: RBNZ Cash Rate, Manufacturing Activity (Q1) AU: South Aust. Budget, Employment (May) JP: GDP (Q1 F), Consumer Confidence (May) EU: ECB Rates Decision, ECB Monthly Report (Jun) UK: BoE Rate Decision, Trade (Apr) US: Trade (Apr), Fed's Plosser Speaks CA: Merch Trade (Apr)</p>	<p>10 JUNE NZ: Card Spending (May) JP: Domestic CGPI (May) CH: Trade Balance (May) GE: CPI (May F) UK: NIESR GDP Est. (May), Ind Production (Apr), Manuf. Production (Apr), PPI (May) US: Import Price Index (May), Monthly Budget Statement (May) CA: Employment (May)</p>



CENTRAL BANK RELEASES FOR 2011

JANUARY	FEBRUARY	MARCH	APRIL
5th – FOMC Minutes 13th – BoE 13th – ECB 25th – BoJ 26th – FOMC 26th – BoE Minutes 27th – RBNZ 28th – BoJ Minutes	1st – RBA 3rd – ECB 4th – RBA MP Statement 10th – BoE 15th – RBA Minutes 15th – BoJ 22nd – BoJ Minutes 23rd – BoE Minutes	1st – RBA 1st – BoC 3rd – ECB 10th – RBNZ 10th – RBNZ MP Statement 10th – BoE 15th – BoJ 15th – RBA Minutes 15th – FOMC 17th – SNB 18th – BoJ Minutes 23rd – BoE Minutes	5th – RBA 7th – BoJ 7th – BoE 7th – ECB 12th – BoJ Minutes 12th – BoC 19th – RBA Minutes 20th – BoE Minutes 27th – FOMC 28th – RBNZ 28th – BoJ
MAY	JUNE	JULY	AUGUST
3rd – RBA 6th – RBA MP Statement 5th – BoE 5th – ECB 9th – BoJ Minutes 17th – RBA Minutes 18th – BoE Minutes 20th – BoJ 25th – BoJ Minutes 31st – BoC	7th – RBA 9th – RBNZ 9th – RBNZ MP Statement 9th – BoE 9th – ECB 14th – BoJ 16th – SNB 17th – BoJ Minutes 21st – RBA Minutes 22nd – BoE Minutes 22nd – FOMC	5th – RBA 7th – ECB 7th – BoE 12th – BoJ 13th – FOMC Minutes 15th – BoJ Minutes 19th – RBA Minutes 19th – BoC 20th – BoE Minutes 28th – RBNZ	2nd – RBA 4th – ECB 4th – BoE 5th – BoJ 9th – FOMC 10th – BoJ Minutes 16th – RBA Minutes 17th – BoE Minutes 30th – FOMC Minutes
SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
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

***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	3.5	5.3	5.9
Household consumption	2.7	2.8	3.0	2.7
Dwelling investment	4.8	-0.9	0.4	7.4
Business investment	-0.9	8.7	15.2	15.2
Public demand	9.1	4.3	3.1	2.0
Domestic final demand	3.6	3.7	4.8	4.9
Inventories (contribution to GDP)	0.4	-0.2	0.1	0.0
Gross National Expenditure (GNE)	4.1	3.5	4.8	4.9
Exports	5.3	2.0	10.8	10.7
Imports	13.2	10.7	14.7	9.6
Net Exports (contribution to GDP)	-1.6	-2.0	-1.2	0.0
Gross Domestic Product (GDP)	2.7	1.6	3.9	4.3
Prices and wages (annual % change)				
Inflation:				
Headline CPI	2.8	3.3	2.7	3.1
Underlying*	2.6	2.7	3.1	3.0
Wages	3.3	4.0	4.1	3.9
Labour market				
Employment (annual % change)	2.7	2.5	2.5	2.4
Unemployment rate (annual average %)	5.2	4.9	4.4	4.0
External sector				
Terms of trade (annual % change)	16.2	16.6	2.7	-1.5
Current account balance: A\$bn	-34.5	-42.0	-53.5	-45.2
% of GDP	-2.6	-2.9	-3.4	-2.7

* Average of RBA weighted median and trimmed mean statistical measure

AUSTRALIAN INTEREST RATES	CURRENT	JUN 11F	SEP 11F	DEC 11F	MAR 12F	JUN 12F
RBA cash rate	4.75	5.00	5.00	5.25	5.25	5.50
90 day bill	4.98	5.25	5.30	5.50	5.60	5.80
3 year bond	5.12	5.50	5.40	5.60	5.80	6.00
10 year bond	5.42	5.80	5.70	5.80	5.90	6.00
3s10s yield curve	0.30	0.30	0.30	0.20	0.10	0.00
3 year swap	5.41	5.80	5.70	6.00	6.20	6.40
10 year swap	5.95	6.35	6.25	6.35	6.45	6.55

INTERNATIONAL INTEREST RATES	CURRENT	JUN 11F	SEP 11F	DEC 11F	MAR 12F	JUN 12F
RBNZ cash rate	2.50	2.50	2.50	2.75	3.25	3.50
NZ 90 day bill	2.66	2.65	2.69	3.14	3.67	3.75
US Fed funds note	0.25	0.25	0.25	0.25	0.75	1.50
US 2 year note	0.59	0.90	1.00	1.30	1.60	1.90
US 10 year note	3.18	3.60	3.70	3.90	4.10	4.20
Japan call rate	0.10	0.10	0.10	0.10	0.10	0.10
ECB refinance rate	1.25	1.25	1.50	1.50	1.50	1.75
UK repo rate	0.50	0.50	0.75	1.00	1.00	1.25

FORECASTS

FOREIGN EXCHANGE RATES	CURRENT	JUN 11F	SEP 11F	DEC 11F	MAR 12F	JUN 12F
Australian exchange rates						
A\$/US\$	1.07	1.05	1.05	1.03	1.02	1.00
NZ\$/US\$	0.79	0.75	0.75	0.75	0.74	0.72
A\$/¥	86.17	89.3	90.3	90.6	91.8	92.0
A\$/€	0.73	0.74	0.77	0.76	0.77	0.75
A\$/£	0.65	0.65	0.66	0.65	0.65	0.64
A\$/NZ\$	1.36	1.40	1.40	1.37	1.38	1.39
A\$/C\$	1.03	1.02	1.00	0.99	1.00	0.99
A\$/CHF	0.93	0.93	0.95	0.95	0.96	0.96
A\$/CNY	6.95	6.75	6.65	6.42	6.28	6.10
A\$ Trade weighted index	77.70	77.4	77.9	77.0	76.3	74.7
International cross rates						
US\$/¥	80.51	85.0	86.0	88.0	90.0	92.0
€/US\$	1.46	1.42	1.37	1.35	1.33	1.33
€/¥	117.24	121	118	119	120	122
£/US\$	1.64	1.61	1.60	1.58	1.57	1.57
€/£	0.89	0.88	0.86	0.85	0.85	0.85
US\$/C\$	0.96	0.97	0.95	0.96	0.98	0.99
US\$/CHF	0.87	0.89	0.90	0.92	0.94	0.96
US\$ index	74.01	76.6	77.4	78.6	80.4	80.1
Asia exchange rates						
US\$/CNY	6.49	6.43	6.33	6.23	6.16	6.10
US\$/HKD	7.77	7.78	7.78	7.80	7.80	7.80
US\$/IDR	8588	8900	9100	9000	8900	8800
US\$/INR	44.8	46.0	46.5	47.0	46.3	45.6
US\$/KRW	1084	1125	1155	1175	1150	1125
US\$/MYR	3.00	3.05	3.10	3.15	3.13	3.10
US\$/PHP	43.1	43.9	45.3	45.9	45.5	45.0
US\$/SGD	1.23	1.26	1.27	1.28	1.27	1.26
US\$/THB	30.20	29.50	30.00	30.50	30.25	30.00
US\$/TWD	28.66	30.35	30.90	31.70	31.50	31.30
US\$/VND	20625	20900	21400	21400	22000	22000
Pacific exchange rates						
PGK/US\$	0.416	0.378	0.385	0.378	0.372	0.366
FJD/US\$	0.569	0.541	0.548	0.538	0.530	0.522

IMPORTANT NOTICE

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