

Assessing the impact of the big announcement that wasn't

- Recent announcements about fiscal rectitude have not fundamentally changed the situation in Europe.
- We are lowering our bond forecasts. We now look for the 3Y rate to fall well under 3% in the first half of 2012.
- European volatility continues to impact on Australian high-grade credits. We exit a few trades, and provide a reckoning of this year's performance.

This will be our last Strategy Weekly for 2011. Look out for us again in early 2012.

Markets spent most of last week waiting for Friday's "big announcement" in Europe. In the end, enunciation of some loose principles on budget austerity underwhelmed most. (Including the ratings agencies, who were unkind enough to say so last night.)

There seem to be two main reasons for the small market reaction. First, it is unclear how threatening to fine a semi-solvent country improves their solvency, and even less clear how actually fining a semi-solvent country is of any use whatsoever. Second, this greater commitment to fiscal unity is actually old news – similar ideas were presented in the second Greek bailout on October 27th. (See the *Daily Wrap* of 28 October.) The concept of a supranational arbiter is new, but doesn't really change the tone of the announcement.

German bond yields have rallied substantially over the past week. Since last Monday, the 2Y yield is down 9bp to 0.25% and the 10Y is down 18bp to 2.02%, perhaps helped by their failure (and the ECB's) to render much assistance. The US bond market has been remarkably stable, considering. The US 10Y rallied 4bp to 2.02% and the US 2Y has also rallied 4bp, to 0.22%. In Australia, the weaker employment data helped our bonds to rally. The 3Y bond rallied 17bp to 3.10% and the 10Y bond has rallied 12bp to 3.87%.

We have revised our Australian bond forecasts lower in light of these events and the second consecutive RBA rate cut last week. We now look for rates to fall further into 2012, before slowly rising from Q3. Alex Stanley and Adam Donaldson give our detailed forecasts on page 3.

The continuing problems in Europe are likely to set the tone for the next few weeks, though liquidity is already starting to dry up as we approach Christmas and the end of the year. The volatility in Europe has contributed to further volatility in Australian high-grade space. Philip Brown discusses these impacts and the effect of the RBA's Committed Liquidity Facility beginning on page 7.

We also summarise our trade performance for the year on page 11.

There is not much data in the coming week. Highlights are the US FOMC meeting and US Retail Sales (both Wednesday morning), but the European political wrangling is the most likely to move markets. Italy is tendering bonds tomorrow, while Spain is selling bills tonight and bonds on Thursday. There is little Australian data of note between now and the end of the year. The RBA minutes on December 20 is the release most likely to affect markets. Retail Sales on January 9 is the first major Australian release of the new year.

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Revised Forecasts

	Current	Jun-12	Dec-12
Official Cash (%)	4.25	4.00	4.00
90-day BBSW (%)	4.56	3.80	4.10
3-year swap (%)	3.87	3.35	3.60
5-year swap (%)	4.32	3.90	3.90
10-year swap (%)	4.76	4.55	4.60
Aus 3yr bond (%)	3.05	2.70	3.10
Aus 10yr bond (%)	3.80	3.80	4.00
Aus 3-10yr Curve (bp)	75	110	90
US 2yr bond (%)	0.22	0.25	0.30
US 10yr bond (%)	2.01	2.10	2.20
AUS-US 10yr Spread (bp)	178	170	180

Source: CBA



Key Positions

We have closed four trades this week. Three of them are in the very volatile high-grade space. We are stopped out of two trades that were long SSAs against Semis (IBRD vs NSWTC and KFW vs QTC). We have also chosen to exit our QTC GG vs ACCGB trade. We have chosen to take profit on the Westpac steepener. The trade is old and has moved close to our target price.

Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Buy the NAB Apr-13 as an ASW against selling the NAB Apr-13 FRN	+11bp (3-Aug-11)	+15	-4bp	0bp	17bp	Hold: There is little reason for the ASW fixed rate to be different to the FRN price.
Pay 5Y ZCS against receiving BEI on the Aug-15 bond	+14bp (22-Aug-11)	+40bp	+26bp	+70bp	-5bp	Hold: An insurance trade, if the market keeps rallying, the spread should widen. It is currently mid-range
Implement a 1Y forward 2Y/10Y AUD swap steepener	85bp (5-Oct-11)	105bp	+20bp	120bp	70bp	Hold: The RBA's easing bias should keep steepening the curve.
Buy the Westpac May-16 against the Nov-16 at a spread of 6bp (May-16 lower in yield)	6bp (17-Oct-11)	17bp	+11bp	20bp	-2bp	Take Profit: It took longer than we were expecting, but this has mostly resolved now. Close enough to target
Receive 1Y ZCS	2.84% (10-Nov-11)	2.75%	+9bp	2.40	3.00	Hold: The combination of substitution bias and the falls in fruit prices should see ZCS fall.
Sell the SAFA May-21 Versus the QTC Jun-21	11bp (16-Nov-11)	9bp	2bp	0bp	22bp	Hold: We expect spreads to equalise given SA seems likely to lose its AAA rating. Wider stop implemented due to illiquidity in market.
Buy the IBRD Oct-20 against NSWTC May-20	28bp (16-Nov-11)	36bp	-8bp	18bp	34bp	Stopped Out: See article.
Buy the TCV Jun-20 vs NSWTC May-20	0.5bp (16-Nov-11)	0bp	-0.5bp	10bp	-5bp	Hold: TCV's AAA is safe and the funding task is modest. NSW is subject to some rating risk.
Pay the AUD versus NZD 2/10Y swap box (AUD 2/10Y steepener versus NZD 2/10Y flattener, quoted as AUD slope less NZD slope)	-56bp (23-Nov-11)	-37bp	19bp	-20bp	-70bp	Hold: The Aussie curve should remain steep, while the NZ curve should flatten.
Buy the QTC GG Oct-15 against ACGB Oct-15	76bp (23-Nov-11)	+82bp	-6bp	30bp	100bp	Exit Trade: Would perform poorly if there is even a hint of a new guarantee
Buy KFW Aug-20 against QTC Feb-20	+57bp (23-Nov-11)	+80bp	-23bp	25bp	75bp	Stopped Out: See article.



Bond and swap forecast revisions

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- The RBA is likely to cut rates in March 2012 and there is risk of further easing.
- We expect Aussie bond yields to reach new cycle lows and for the curve to remain steep in early 2012.
- We also make minor downward revisions to our global bond yield forecasts.

We have revised our Australian bond and swap forecasts. We expect the international backdrop, particularly in Europe, to drive ongoing solid demand for Australian bonds. Combined with further RBA easing, we expect yields to stay low throughout 2012.

We also make minor downward revisions to some of our international bond yield forecasts.

Further easing from the RBA in 2012

Following the RBA’s 25bp rate cut last week, our Economists have updated their cash rate forecast. They now expect one further 25bp rate cut at the RBA’s next meeting in February 2012, taking the cash rate to 4.00%.

The main risks to the cash rate call are clearly to the downside. The RBA have made it clear that inflation is no longer a barrier to lowering rates. The November and December meeting statements were similar in this regard. Arguably, the December statement opened the door further to easing by omitting any explicit reference to keeping rates for borrowers at a “neutral” level.

With inflation risks contained, the global and local growth outlook will be the main concern for the RBA. Our Economists recently lowered their 2012 global growth forecast by 0.4% to 3.5% (the IMF’s latest forecast is 4.0%). In the central case, we expect Asia to remain the key contributor to global growth and for China to experience only a mild downturn. We expect the Eurozone to fall into a recession in 2012.

In our view, only a very severe financial contagion from the EU crisis would cause a significant spill-over into growth outcomes for other regions, including Asia and Australia. We don’t expect a severe downturn in Asia in our base case, but it remains a risk. The progress towards a fiscal union in the EU announced on Friday and the ECB’s actions to support bank liquidity have been insufficient to ring-fence the total range of worst case outcomes.

Australia’s growth is likely to remain supported by the elevated level of the terms of trade. If, as we expect, global growth and commodity prices remain supported by Asia, then activity in the

We expect the RBA to cut rates in February 2012.

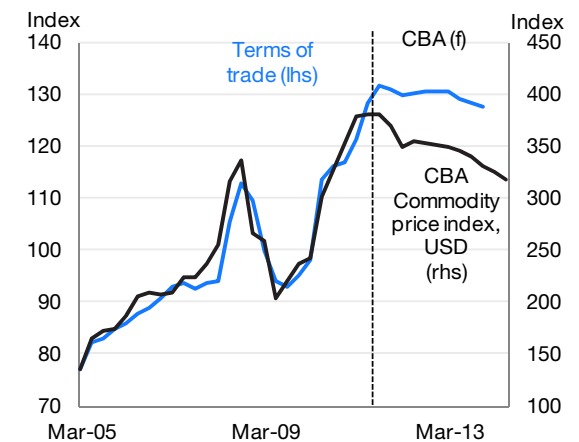
With inflation risks contained, the RBA will be concerned with growth.

Figure 1 – Revised Forecasts

	Current	Jun-12	Dec-12
Official Cash (%)	4.25	4.00	4.00
90-day BBSW (%)	4.56	3.80	4.10
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Source: CBA

Figure 2 – Commodity prices and the terms of trade



Source: CBA, ABS



resources sector should continue to be a support growth. However, as the slowdown in job creation demonstrates (Figures 3 and 4), the RBA will need to be vigilant about confidence and activity in the non-resources economy. Furthermore, unlike the last easing cycle, there is far less scope for fiscal support this time around. The Government has a lot of political credibility at stake with a 2012/13 surplus. This means the RBA is likely to have more work to do to support demand.

Money market rates to continue pricing aggressive RBA easing

Beyond the additional rate cut now forecast for February 2012, we expect the ongoing crisis in Europe and economic uncertainty will see the market price further easing from the RBA (as it has done consistently in recent months). Hence, we think the bank bill curve will remain inverted until late 2012.

In the short term, we expect financial system risks to remain elevated. In this environment, bank bill/OIS spreads are likely to remain volatile. As Figure 5 illustrates, there has been a widening trend in money market spreads over OIS through Q3 and Q4 of 2011. We expect that Australian spreads are nearing a peak and will return to more normal levels in early 2012. If they don't, then the cash rate will likely be much lower than forecast. Indeed, we see the tough environment for term bank funding as likely to keep the market alert to the risk of rapid easing by the RBA.

Figure 5 also shows a large degree of differentiation between Euribor/OIS spreads and other currency spreads, including AUD. We expect this differential between currencies to narrow from current wide levels, but to remain wider than normal for the foreseeable future. Recent actions by central banks to support liquidity argue for some reduction in counterparty risk premiums for short term rates.

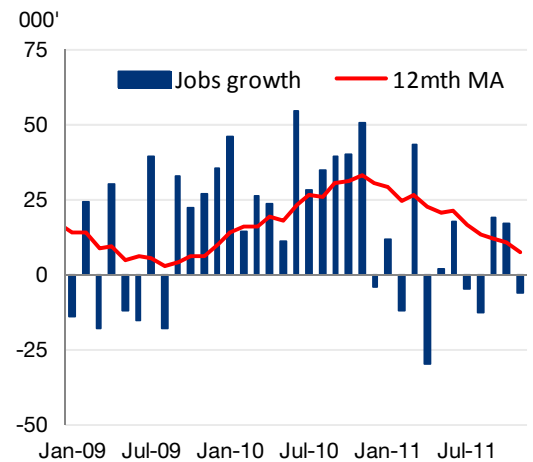
Australian bonds: short end yields to reach new cycle lows and the curve to remain steep

In recent months, the Eurozone debt crisis has underpinned strong demand for Aussie bonds. Combined with the RBA's shift to an easing stance, the Aussie bond curve has steepened sharply. As Figure 6 illustrates, up until late November, the short end rally led drove the curve steeper. As the front end of the curve became expensive relative to cash, the back end began to catch up and the curve has flattened slightly from its peaks. Figure 7 shows the Aussie 10Y has outperformed the equivalent US Treasury by a considerable margin over the last month.

The market is likely to continue pricing multiple RBA rate cuts.

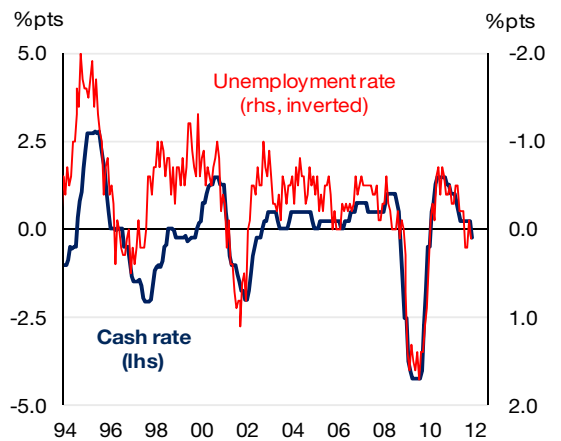
The bond curve is likely to remain steep.

Figure 3 – A worrying trend for the RBA



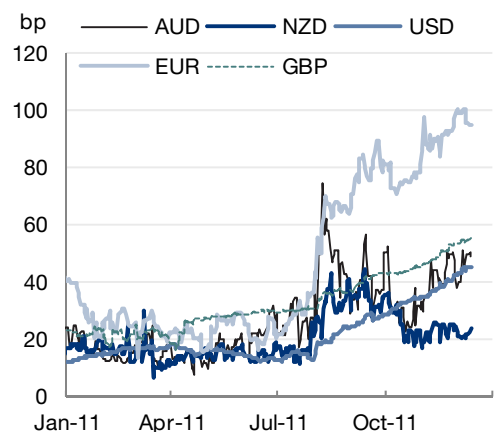
Source: CBA, ABS

Figure 4 – Change in the cash rate and unemployment



Source: CBA, Bloomberg

Figure 5 – 3 month money market spreads to OIS



Source: CBA, Bloomberg



The market has consistently priced a return to the previous cycle low in the cash rate around 3%. We're not expecting the RBA to completely validate this pricing in the next year. However, we do see plenty of scope for this expectation to remain embedded in the market over the first half of 2012. Combined with at least one actual rate cut, we think the 2Y and 3Y yields will rally to below 3%, but remain above 2009/09 lows.

EU troubles are likely to persist for most of 2012.

The EU debt crisis is likely to continue to rattle global market confidence. The latest agreement among EU Governments sets the path for fiscal coordination and repair in the region. Ultimately, this could pave the way for ECB assistance or a "Eurobond". But that's still a long way off and subject to very significant implementation risks. In the meantime, banks will probably rely on the ECB for funding, as might weaker sovereigns through the backdoor of the expanded ECB repo operations.

We don't think there will be strong demand for EU sovereign debt in the private market until the proof of fiscal reform and repairing budget positions becomes apparent. This view is supported by Rating Agency warnings that wide-spread downgrades in the EU are possible. But the tight March timeframe for revising the EMU treaty means hope for reform could keep yields relatively range-bound in Germany rather than plunging further.

In our view, the next three to six months are likely to be characterised by frequent bouts of uncertainty over the EU debt crisis and ongoing global growth concerns. In this environment, Australia's high yield and solid AAA rating will remain attractive to global investors.

We see Australian bond yields testing new lows in early to mid 2012. At the same time, the risk of substantial easing by the RBA is likely to keep the curve very steep. In late 2012 and into 2013, we expect only a slow rise in yields as the global economy remains lacklustre. We expect that the curve will flatten only gradually through this period.

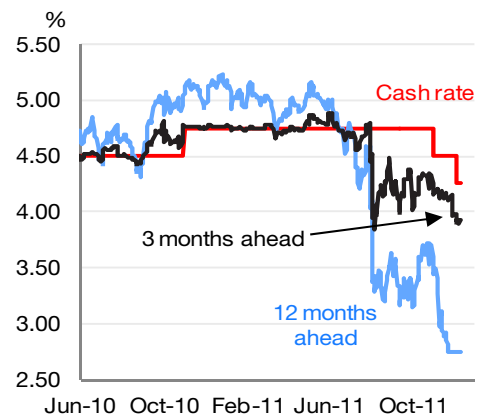
Australian swap spreads

Swap spreads should stay wide on heightened global credit concerns.

Swap spreads have widened substantially over the last month, following similar moves in global credit spreads. As European debt problems remain at the fore and benchmark rates reach new lows, we expect swap spreads to stay wide into early 2012. We forecast only a gradual fall in swap spreads from mid 2012 onwards.

Because we expect the short end of the curve to trade inverse for much of 2012 and for the RBA to cut rates, we don't expect pay-side pressure from hedging activity to exert a discernable impact on swap rates for at least the next year.

Figure 6 – The market has consistently priced aggressive RBA easing



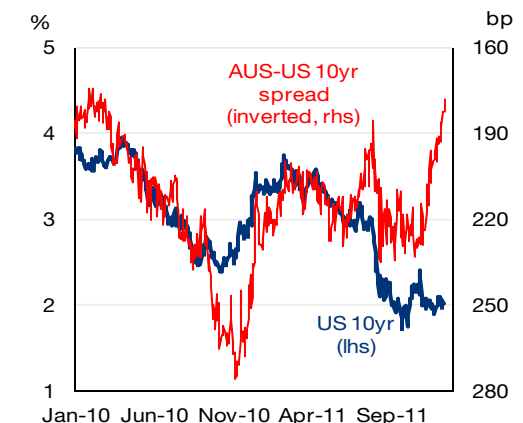
Source: CBA, Bloomberg

Figure 7 – The short end rally has steepened the bond curve



Source: CBA, Bloomberg

Figure 8 – Aussie 10Y bond have outperformed Treasuries



Source: CBA, Bloomberg



Global rates: lower for longer

We've made slight downward revisions to our forecasts for other major bond yields.

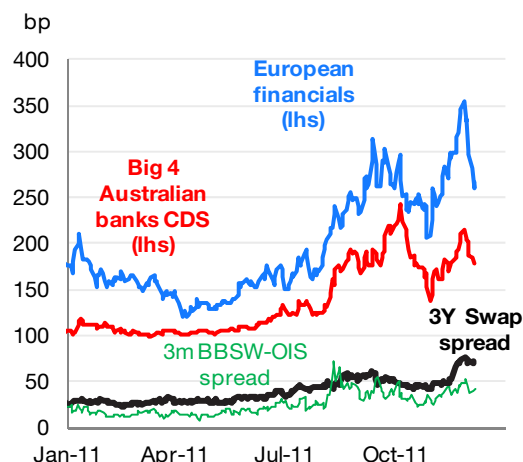
We've also updated our global rate forecasts. Details of our changes are in the table below and the new forecasts are on page 15 (as usual).

As the table below shows, the most significant changes are to our Australian and New Zealand bond forecasts. Like our Australian forecasts detailed above, we expect NZ bonds to be well bid into 2012. We see slightly less scope for NZ 2Y bonds to rally than Australian bonds, because the RBNZ cash rate is already at an historically low 2.5%.

We've made a slight 10-20bp downward revision to our US Treasury yield forecasts to reflect an ongoing safe-haven bid and weaker global economic environment. But we think that is counter-balanced by recent evidence that US growth has picked up slightly. There are similar small adjustments to our UK Gilt forecasts.

With the ECB embarking on further easing and the Eurozone economy likely to be in recession in 2012, we've reduced our bund yield forecasts by 30-40bp. That assumes that Germany retains its safe-haven status, which is no longer a certainty but still seems a fair bet given evidence that Germany and the ECB are only providing limited assistance to the weaker EU sovereigns.

Figure 9 – Credit Spreads



Source: CBA, Bloomberg

Figure 10 – CBA forecast changes

Cash rate	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	0.00	0.00	0.00	0.00	0.00
Australia	0.00	-0.25	-0.25	-0.25	-0.25
New Zealand	0.00	0.00	-0.25	-0.75	-0.75
United Kingdom	0.00	0.00	0.00	0.00	0.00
Eurozone	0.00	0.00	0.00	0.00	0.00
Japan	0.00	0.00	0.00	0.00	0.00
Canada	0.00	0.00	0.00	0.00	0.00
2-yr bond yield	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	-0.05	-0.05	-0.05	-0.05	0.00
Australia	-0.70	-1.00	-1.10	-1.15	-1.20
New Zealand	-0.80	-1.00	-1.20	-1.20	-1.00
United Kingdom	-0.20	-0.20	-0.10	-0.20	-0.30
Germany	-0.30	-0.30	-0.20	-0.40	-0.60
Japan	-0.10	-0.10	-0.05	-0.05	-0.05
Canada	-0.10	-0.20	-0.20	-0.10	0.00
10-yr bond yield	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	-0.20	-0.20	-0.10	-0.10	0.00
Australia	-0.50	-0.60	-0.70	-0.70	-0.80
New Zealand	-0.80	-0.90	-0.90	-1.00	-0.95
United Kingdom	-0.50	-0.40	-0.40	-0.40	-0.40
Germany	-0.15	-0.30	-0.30	0.00	0.00
Japan	-0.10	-0.10	0.00	0.00	-0.10
Canada	-0.30	-0.40	-0.30	-0.30	-0.20



High Grade Bonds: Making sense of a senseless world

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- After a brief improvement, SSAs have again moved wider in recent days as European news remains the driver.
- Euro-zone is pulling together. The averaging process benefits weaker members at the expense of the stronger.
- A second look at the CLF shows the 15bp fee is probably high enough to dissuade switching from Semis to SSAs.

The Australian high-grade bond market has been exceptionally volatile over recent weeks. The ongoing volatility in Europe is unlikely to recede anytime soon, so the flow-through impact to Australia seems likely to continue. However, at the same time, some larger long-term changes are taking place too, including Australian banks issuance of covered bonds and regulatory changes. For example, the RBA’s Committed Liquidity Facility (CLF) is perhaps not as beneficial for SSAs as first thought. Although the fee is low, the haircuts impact on preferences too.

European SSA Update

After a short consolidation period, SSAs are widening again

European SSAs consolidated a little around the end of November, but have since pushed wider again over recent days. S&P put most of the Euro-zone on Credit Watch Negative last week. Many of the main SSAs soon followed (including EIB, COE, Rentenbank and KFW).

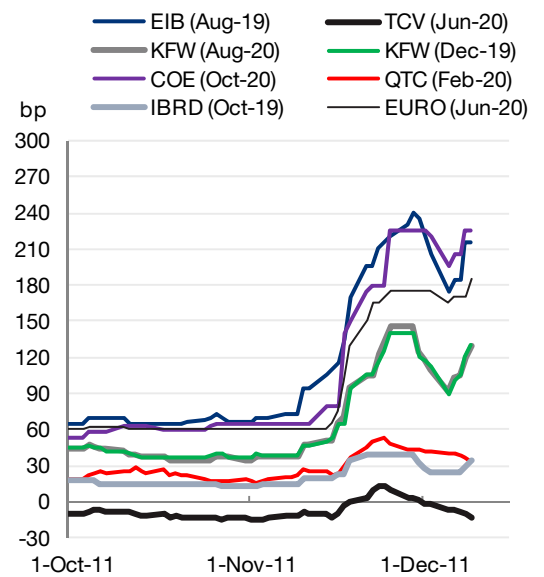
The sovereign downgrades reflected one of the more unfortunate corollaries of the concerted attempts to “save” Europe. Time and again European political leaders have been given the choice between pulling closer together or splitting apart. Time and again they have chosen to pull together. However, this averaging process does two things; it improves the lot of the weakest members and weakens the lot of the strongest members. Hence, the once-unthinkable has now happened and Germany is on Credit Watch Negative .

We have made the observation before that the Eurozone is not obviously AAA when considered as a whole. Figure 2 shows the weighted average CDS of the Eurozone, with and without Greece. Even without Greece, a CDS of over 250 is by no means risk-free.

EIB main talking point, but others performing poorly too

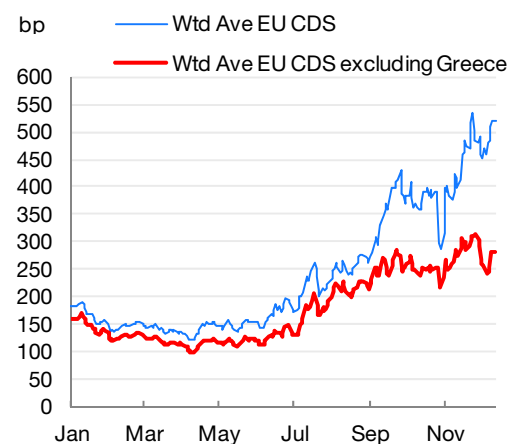
EIB has been the main talking point, though many other European SSAs have been widening too. KFW, for example, has widened from about 30bp to about 130bp at the 10Y point. In any other circumstance widening 100bp would look terrible, but compared to the other European names, the performance is actually quite good.

Figure 1: SSAs wild ride continues



Source: CBA

Figure 2: European weighted CDS



Source: CBA



However, the illiquidity in the market is still distinctly noticeable. Our traders report significant gaps in price action and, in some instances, a complete lack of bids. This is unfortunate but probably justifies APRA's decision not to allow SSAs as liquid assets. Under stress, the assets have not been liquid.

The so-called "Washington" Supras continue to outperform. IBRD, for example, has more-or-less kept pace with QTC for the last few weeks.

The Committed Liquidity Facility – not as beneficial to SSAs on a second look

The CLF fee is low, but the haircut matters too

The APRA and the RBA recently announced some details for the Committed Liquidity Facility (CLF). The fee for the facility will be 15bp. More detailed analysis shows that the haircut applied to the bonds in the CLF will be far more important than the 15bp fee.

The RBA haircuts applied are shown in Figure 3.

Figure 3: Haircuts (margins) on bonds

	Current Margins					New Margins (Effective 1 Feb 2012)			
	Min.	0-1	1-5	5-10	>10	0-1	1-5	5-10	>10
General Collateral									
CGS	n/a	2	2	2	2	1	2	2	2
Semis	n/a	2	2	2	2	1	2	2	2
Supras & sovereigns	AAA ^(b)	2	2	2	2	2	3	4	4
Aust govt-guaranteed	n/a	2	2	2	2	2	3	4	4
Foreign govt-guaranteed	AAA ^(c)	2	2	2	2	2	3	4	4
Private Securities									
ADI-issued securities ^{(a)(c)}	AAA	2	4	6	8	6	7	8	10
	AA-	2	4	6	8	10	12	14	16
	A-	2	5	7	9	12	14	16	18
	BBB+	2	n/a	n/a	n/a	15	17	20	23
	rated	2	n/a	n/a	n/a	20	n/a	n/a	n/a
Asset-backed Securities									
- Standard	AAA	10	10	10	10	10	10	10	10
- Other	AAA	2	n/a	n/a	n/a	10-20'	10-20'	10-20'	10-20'
Other	A-1 or A/	2	4	6	8	6	7	8	10

(a) For ADI-issued debt securities issued with only a short-term credit rating, the lesser of the margin applicable to the issuer's long-term unsecured credit rating, or 20 per cent, will apply.

(b) Minimum rating requirement waived for New Zealand.

(c) Includes covered bonds.

Source: CBA, RBA

A bank's Weighted Average Cost of Capital (or WACC) is much higher than the yields available on bonds which are eligible for the liquidity facility. A bank's WACC is generally higher than sub-debt yields, because it includes the cost of equity too. As a consequence, banks take a running loss whenever they buy bonds for the liquidity book. The greater the haircut, the more bonds must be held to achieve the same level of liquid funding and thus the greater the running loss will be. However, on the flip-side, the bonds which are eligible for the CLF have higher yields than CGS, which reduces the running loss.

This dual impact, both higher and lower running loss, allows us to create a form of breakeven calculation. We can ask what level of extra spread will equalise out the greater running loss from the increased margin? Conceptually, this process is the same as saying, "let's take a bank which holds 100% of its liquidity book in ACGBs. The liquidity book has a low yield, but it does not have to face either margining or the RBA fee. How much higher would the yield need to be on a CLF-eligible bond to make it worthwhile for the bank to pay both the higher running cost implied by the margining requirement and the 15bp fee?

A large pickup is necessary to make a switch worthwhile

Mathematically, this is:

$$\text{Pickup Needed} = \text{Repo Haircut} \times [\text{Bank WACC} - \text{Yield on sold bond}] + \text{RBA fee}$$

If the pickup available on a given bond is higher than the pickup needed, the bank will be financially better off selling the ACGBs and buying a CLF-eligible bond. Our equity colleagues



estimate that the WACC for a bank is approximately 12% (though it is generally not a meaningful concept for banks given their balance sheet structure). We also know what the margining requirements are (Figure 3). Substituting in the yield on the current CGS gives us everything we need to know to calculate the pick-ups needed in each asset class.

Figure 4: Pickups required to switching from CGS to other asset classes

Required Spread Pickup (in basis points)	Maturity Rating	Switch from CGS			
		0-1	1-5	5-10	>10
General Collateral					
CGS	n/a	23	33	32	31
Semis	n/a	23	33	32	31
Supras + Sovs	AAA	31	42	49	48
Aust Gov Gteed	n/a	31	42	49	48
Foreign Gov Gteed	AAA	31	42	49	48
Private Securities					
ADI - issued	AAA	64	78	83	97
	AA-	96	122	134	145
	A-	112	140	151	162
	BBB+	137	167	185	202
	unrated	177	15	15	15
Asset Backed Securities					
- Standard	AAA	96	104	100	97
- Other	AAA	137	149	143	137
Other	A-1	64	78	83	97

The switch from ACGBs to SSAs, though is probably too expensive in the new regime

Source: CBA, RBA

Figure 3 shows that there would be financial advantages to switching liquidity book assets from ACGBs to Supras. Most Supras trade at spreads well above 50bp over ACGB. If the question was solely financial, then there would be a huge advantage to owning SSAs and paying the extra fee.

However, ACGBs are not the only asset class in the APRA HQLA1. APRA has determined that semis are also in HQLA1. We have used the same logic to test whether it is attractive for a bank to switch from semis (in this case QTC) to SSAs and pay the fee.

Figure 5: Required pickup to justify switching from QTC to other asset classes

Required Spread Pickup (in basis points)	Maturity Rating	Switch from QTC			
		0-1	1-5	5-10	>10
General Collateral					
CGS	n/a	23	31	30	29
Semis	n/a	23	31	30	29
Supras + Sovs	AAA	31	39	44	43
Aust Gov Gteed	n/a	31	39	44	43
Foreign Gov Gteed	AAA	31	39	44	43
Private Securities					
ADI - issued	AAA	62	70	73	85
	AA-	94	110	117	126
	A-	109	126	132	140
	BBB+	133	150	161	175
	unrated	172	15	15	15
Asset Backed Securities					
- Standard	AAA	94	94	88	85
- Other	AAA	133	134	125	119
Other	A-1	62	70	73	85

Semis appear caught in the middle, though

Source: CBA, RBA

Figure 5 shows the extra pickup required on the new asset to justify switching from QTC (which does count as HQLA1). While there are plenty of SSAs that trade with spreads to QTC of much more than 40bp, most of those supras are now either implicit or explicit credit plays. For example, EIB trades with a pickup much wider than the 40bp necessary. However, EIB may well not retain



the AAA necessary and so the bond is a credit risk in a liquidity book. At the moment, we expect most banks will eschew this credit risk, even if there is, mathematically, a small advantage to buying liquidity bonds from the SSA space. In the future, this may change, but probably not quickly.

The Supra bonds which are currently considered “safe” do not have spreads wide enough to make them attractive, based on our analysis.

Trading implications and outlook

The news flow from Europe will continue to dominate SSA performance in the short run. Although there was a new fiscal pact announced late last week, the pact is designed to help ensure the current situation never repeats. However, that doesn’t really help Italy, which is already in trouble. Fitch and Moody’s have both made statements in the last 24 hours suggesting that while the new pact is nice, it’s not really a game-changer. We hold a similar view.

An additional consideration for high-grade bonds at present is the state of global funding markets for banks. We noted a few weeks ago the potential negative impact that issuance of AUD covered bonds could have on competing AUD high-grade paper such as SSA’s and Semi-governments. The recent closure of offshore funding markets for banks has only added to the likelihood that bank spreads will need to be marked wider when issuance occurs. Similarly, it could mean that banks move to tap the AUD covered market earlier than previously thought. That combination presents a warning signal that SSAs and Semi-government spreads will widen.

We have a number of trades currently in high-grade space. Of particular importance here, we are long IBRD vs NSWTC and long KfW vs QTC. Both these trades are now trading wider than their announced stops. The KfW trade has proved to be too highly linked to Europe and so we exit that trade now at a spread of 80bp, 5bp wider than the announced stop and a loss of 23bp. We have added the extra spread to recognise the increased volatility and difficulty in trading.

The IBRD to NSWTC trade is more complicated. We exit the IBRD to NSWTC trade at 36bp, slightly wider than our announced stop for a loss of 34bp. IBRD will be influenced by events in Europe, but not by as much as the European-based Supras. Moreover, we think NSWTC may be prone to widening on the outside chance they are downgraded (which is more likely in a global slowdown scenario). However, we can capture the NSWTC widening more easily in the TCV to NSWTC trade we already have recommended.

We also choose to exit the QTC GG to ACGB trade at this time, too. This trade has also lost money, moving 6bp wider to 82bp. There are a number of reasons to stay in the trade, but approaching the end of the year liquidity will be falling and we’d prefer not to be caught.

We are left with two trades in the high-grade space. We are long TCV vs NSWTC and short SAFA vs QTC.



Year-end Trade Idea Review: Good start, good finish, but a soft patch in the middle

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- Our recommended trades have performed well in 2011, making a total of 520bp in profit from closed trades.
- We started the year well, had a soft patch mid-year when the rally began, but performed well in the finish
- As well as the closed trades, our active trades have a further 71.5bp in profit once marked to market.

As this is the last *Strategy Weekly* of 2012, we thought we should review and summarise the performance of our trade ideas over the course of the year. Overall, we are quite happy with our performance and our recommended trades made, over the course of the year, 520bp.

Overall, a successful year

Our ideas are generally implemented in a zero cost manner or have had the appropriate carry costs included in the overall result. Our trading performance thus represents ‘alpha’. We are pleased to say that over the first few months of the year and the last few our performance was very good. For a period around the middle of the year, though, we were not as successful. (See Figure 1).

A weak spot mid-year

A strong start, followed by a weak patch

For the first part of the year, our trades were mostly biased to the short side. This was profitable early on, but with the benefit of hindsight, we maintained the short bias too long. The turn-around in rates mid-year damaged our generally short positions. Our performance from about May to August was poor, with many trades losing money and our cumulative profit retreating.

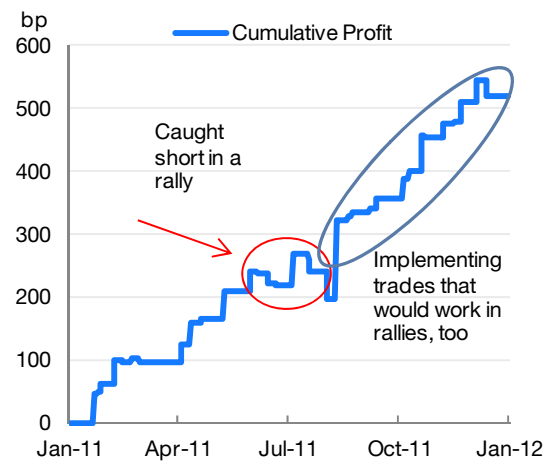
However, we had also started to shift our trading tack. Starting mid-year, we changed our trading style to include ongoing “insurance” against the possibility of a strong rally in bonds, caused by a European calamity.

This insurance was, for the most part, very effective. In sporting parlance, we “returned to form” in August and continued doing well in the later part of the year. We eventually reached 520bp of profit for the year. We measure the yearly performance as all trades exited for the year. We also have, at the time of writing, ongoing trades with a further 71.5bp profit when marked to market.

A very good second half

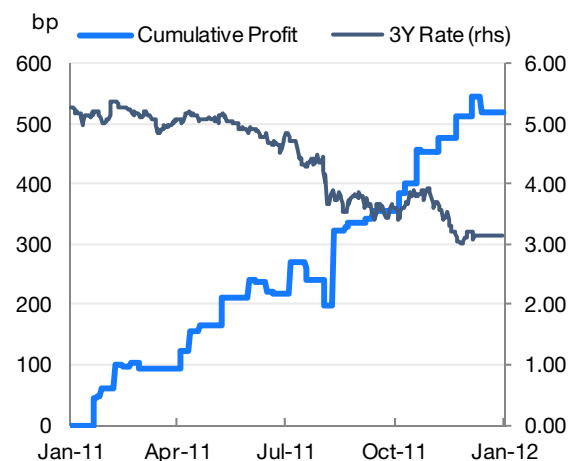
Our performance in the second half of 2011 was the best we have had for two years. Figure 3 shows our performance for trades closed in each half in 2010 and 2011.

Figure 1: Cumulative Profit from trade ideas



Source: CBA

Figure 2: Cumulative Profit and 3Y rate



Source: CBA, Bloomberg



Improvement in Q3 after we switched to trades which profited from rallies

Part of the reason for the improved performance is the increased volatility of rates in Australia. Our best trades were concentrated at the front end. We made 90bp by buying a 6M*1Y receiver swaption in April. Normally, the very front of the curve doesn't move terribly far, but the change in direction from the RBA made this a very profitable trade.

Best and worst trades

Similarly, our second best trade was a 1Y swap trade, paying AUD and receiving NZD. This trade was made profitable by a combination of the moves in NZ rates and the careful calibration of the carry on the trade. Although the RBA did eventually lower rates, they took a lot longer to do so than originally expected. This meant that the carry on the paid 1Y AUD rate was very high. The extra time it took for the RBA to cut rates (and the fact the RBNZ did not raise them) made this spread trade very profitable.

Our worst trades were mostly by shorting AUD rates in the middle of the year. Particularly, selling the 3Y bond and looking for a widening of the ACGB to UST 10Y spread. We were also burned by the movement wider in KFW in recent days.

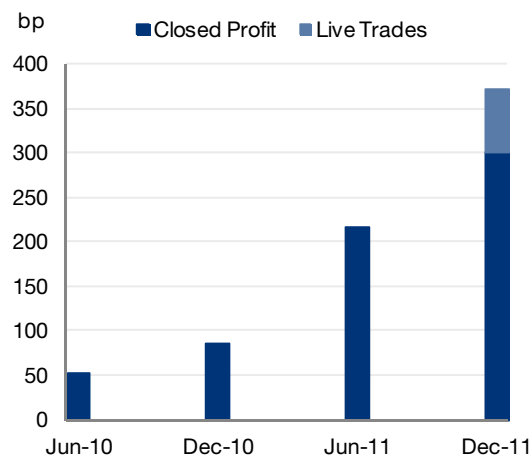
Descriptive statistics

Just for completeness we thought we should provide a set of statistics about our recommended trades this year. These are provided in the table in Figure 4.

We closed 65 trade recommendations, of which 59% were profitable. The average profit was just under 8bp. A couple of very high profits created a slightly positive skew in the data. The median result was a profit of 7bp.

Our results did have a fairly high standard deviation of 19.33bp, but this also reflects the skew, to some extent.

Figure 3: Performance by halves, 2010 - 2011



Source: CBA

Figure 4: Descriptive statistics of closed trades

Trade Performance in 2011	
Total Profit	520
Number of Trades	65
Average Profit	7.99
Std Dev	19.33
Max	90
Min	-23
Profits	59%
Losses	41%
Quartile 1	-4
Median	7
Quartile 3	17

Source: CBA



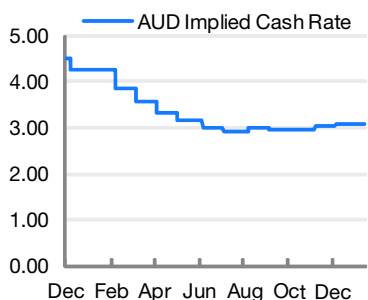
Key Views

United States		Tactical (<1 mth)	Strategic (>3 mths)
<p>The US economy appears to have picked up some momentum from the very weak first half. The recovery in the labour market continues, with the unemployment rate falling again to 8.6%, although the changes in the participation rate have made a small fall look larger than it otherwise might have. Despite sub-par economic growth, US inflation remains stronger than Fed predictions. The core CPI results are still trending higher, making it hard for the 10yr BEI to hold much below 2%.</p> <p>With 'Operation Twist' now in force and the Fed promising further action if required, we look for US 10yrs to hold around current levels for some time. Market direction should therefore continue to be dominated by the outlook for Europe. The EU Leaders summit produced an agreement for fiscal stability, but didn't contain significant new measures to support investor confidence in the region.</p> <p>As trading volumes thin, we expect EUR/USD to remain volatile with a downward bias. Influences bearing down on EUR/USD are lingering concerns about European sovereign debt and the relative outperformance of the US economy. In our view, the Eurozone is in recession while the US economy is accelerating towards trend growth. In this environment, we expect demand for USD denominated assets to continue growing and expect the USD to grind higher over coming weeks.</p>	Policy rate	0.1%	0.1%
	10yr bond	2.00%	2.00%
	2/10 curve	175bp	175bp
	USD/JPY	78.00	76.50
	EUR/USD	1.3000	1.3000
Australia		Tactical (<1 mth)	Strategic (>3 mths)
<p>The RBA cut rates at the November and December meetings, citing a lower inflation outlook as providing scope to assist the weak sectors of the economy. We expect another 25bp cut in February and for the market to continue to price aggressive easing in 2012.</p> <p>The negative impact of the ongoing problems in Europe on business and consumer confidence seem unlikely to recede given long-term solutions in Europe appear next to impossible. We expect continuing flare-ups in Europe will see another rate cut and bond markets well bid as a result. We expect 3yrs to be particularly well supported in this environment, outperforming both bill futures and 10yr bonds.</p> <p>We expect AUD to remain influenced by developments in Europe over the coming weeks. The slower global growth environment, though, makes it difficult for AUD to appreciate significantly when concerns about Europe temporarily fade into the background. China remains important to the medium term direction of commodity prices and the AUD. While commodity prices have eased, we still expect China's economy to hold-up despite Europe's recession, providing support to AUD.</p>	Policy rate	4.25%	4.00%
	10yr bond	3.90%	3.80%
	3/10 curve	80bp	100bp
	10yr EFP	85bp	80bp
	10yr v US	190bp	180bp
	AUD/USD	1.0200	0.9800
New Zealand		Tactical (<1 mth)	Strategic (>3 mths)
<p>The NZ economy is slowly recovering, but, like Australia, is suffering from global volatility. The NZ unemployment rate ticked up in Q3. However, digging beneath the headline were some encouraging outcomes. Outside of earthquake affected Christchurch, employment growth has been surprisingly strong, recording solid growth over the past 3 quarters. This suggests that the underlying economic recovery remains intact, despite some recent disappointing data. Q3 retail sales volumes were boosted by Rugby World Cup (RWC) spending, and Q4 sales should also receive a RWC boost. The RBNZ has indicated global developments remain the dominant factor for determining its interest rate outlook. We have moved our expectation for the first OCR increase out to December 2012. The first half of next year no longer looks soon enough for the RBNZ to have confidence that the risks to the global economy have been sufficiently defused, even assuming Europe contains the crisis very soon. In addition, we also expect the tightening cycle to be more gradual.</p> <p>We expect NZD direction to remain heavily influenced by developments in Europe over the coming weeks. We have adjusted our NZD forecasts to reflect the lower NZ interest rate outlook, a stronger USD, and the impact of downward revisions to global growth and commodity prices. Expectations of lower global growth are likely to weigh on New Zealand-specific commodity prices. The NZ terms of trade, which has been an important driver of the NZD, is expected to remain high but has likely peaked.</p>	Policy rate	2.50%	2.50%
	10yr bond	4.00%	4.00%
	2/10 swap curve	140	140
	10yr v US	200	210
	10yr v AU	10bp	30bp
	NZD/USD	0.7700	0.7500
	AUD/NZD	1.3200	1.3000

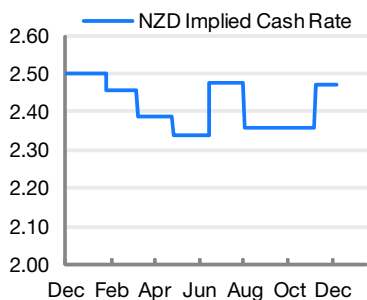


Cash Rate Pricing

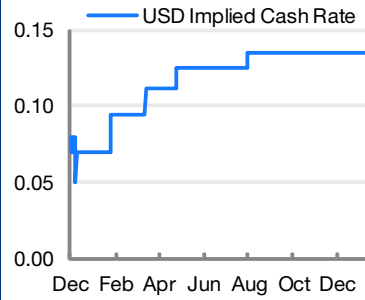
	Rate	Cum. % chance of +25bp
Current	4.25	0
7-Feb-12	3.84	-263
6-Mar-12	3.59	-366
3-Apr-12	3.31	-475
1-May-12	3.15	-538
5-Jun-12	3.02	-593
3-Jul-12	2.90	-638
7-Aug-12	3.00	-602
4-Sep-12	2.96	-616
2-Oct-12	2.97	-612



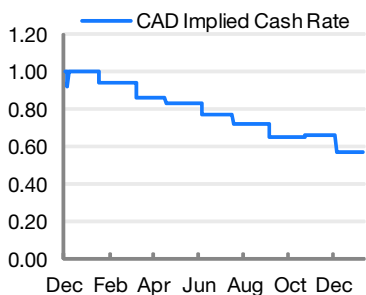
	Rate	Cum. % chance of +25bp
Current	2.50	0
26-Jan-12	2.45	-18
8-Mar-12	2.39	-46
26-Apr-12	2.34	-65
14-Jun-12	2.48	-10
1-Aug-12	2.36	-57
7-Nov-12	2.47	-12
13-Dec-12	-0.42	-1,169



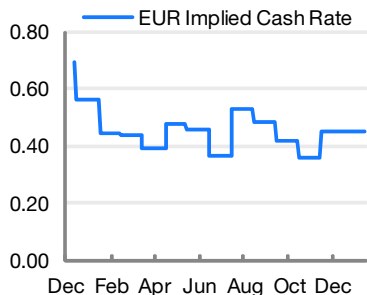
	Rate	Cum. % chance of +25bp
Current	0.07	0
25-Jan-12	0.09	10
13-Mar-12	0.11	17
25-Apr-12	0.13	22
20-Jun-12	0.13	22
31-Jul-12	0.13	26
12-Sep-12	0.14	26
24-Oct-12	0.14	26
11-Dec-12	0.14	26
30-Jan-13	0.14	28



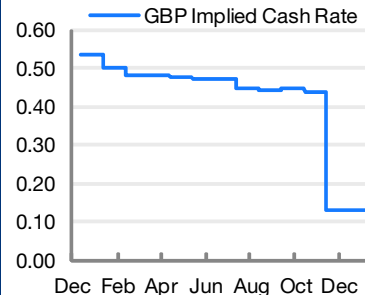
	Rate	Cum. % chance of +25bp
Current	1.00	0
17-Jan-12	0.94	-24
8-Mar-12	0.86	-56
17-Apr-12	0.83	-67
5-Jun-12	0.78	-90
17-Jul-12	0.72	-110
5-Sep-12	0.66	-137



	Rate	Cum. % chance of +25bp
1W repo	0.72	
12-Jan-12	0.45	-108
9-Feb-12	0.44	-108
8-Mar-12	0.39	-112
4-Apr-12	0.39	-131
3-May-12	0.48	-95
6-Jun-12	0.37	-104
5-Jul-12	0.37	-140
7-Feb-13	0.45	-108
7-Mar-13	0.45	-108



	Rate	Cum. % chance of +25bp
Current	0.54	0
5-Jan-12	0.54	0
8-Mar-12	0.48	-23
5-Apr-12	0.48	-22
10-May-12	0.47	-27
7-Jun-12	0.47	-27
5-Jul-12	0.47	-27
2-Aug-12	0.45	-36
6-Sep-12	0.44	-39
4-Oct-12	0.45	-35



Source: All data sourced from Bloomberg. Rates displayed are calculated using IB Futures (Australia), FF Futures (US) and OIS in all other currencies.



CBA Forecasts:

Cash rate	13-Dec	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
US	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Australia	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00
New Zealand	2.50	2.50	2.50	2.50	2.50	2.75	3.25	3.50	3.75	4.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50
Germany	1.00	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
China	6.31	6.56	6.56	6.81	6.81	7.06	0.00	0.00	0.00	0.00
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Canada	1.00	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.50	1.75
2-yr bond yield	13-Dec	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
US	0.22	0.25	0.25	0.25	0.25	0.30	0.30	0.40	0.50	0.60
Australia	3.17	3.10	2.80	2.80	2.95	3.10	3.30	3.50	3.70	3.90
New Zealand	2.58	2.50	2.60	2.70	3.00	3.30	3.60	3.70	3.80	3.90
United Kingdom	0.36	0.40	0.40	0.50	0.50	0.60	0.80	1.00	1.30	1.60
Germany	0.25	0.30	0.30	0.50	0.50	0.70	1.00	1.25	1.25	1.25
Japan	0.14	0.15	0.15	0.20	0.20	0.20	0.25	0.25	0.30	0.30
Canada	0.88	0.90	0.90	1.00	1.20	1.50	1.60	1.70	1.80	1.90
10-yr bond yield	13-Dec	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
US	2.03	2.00	2.00	2.10	2.10	2.20	2.30	2.40	2.50	2.50
Australia	3.81	3.90	3.80	3.80	3.90	4.00	4.10	4.20	4.30	4.40
New Zealand	3.87	4.00	4.10	4.20	4.20	4.30	4.30	4.30	4.30	4.30
United Kingdom	2.10	2.00	2.10	2.20	2.30	2.40	2.50	2.60	2.60	2.60
Germany	2.02	2.15	2.00	2.10	2.40	2.50	2.60	2.70	2.80	2.90
Japan	1.01	1.00	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20
Canada	2.01	2.00	2.00	2.20	2.30	2.50	2.60	2.65	2.70	2.70
Currencies	13-Dec	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
AUD/USD	1.01	1.03	0.98	0.95	0.97	1.00	1.00	0.98	0.98	0.95
AUD/JPY	78.42	79.31	75.46	73.15	75.66	79.00	80.00	80.36	82.32	80.75
AUD/EUR	0.76	0.77	0.75	0.75	0.76	0.77	0.77	0.75	0.75	0.73
AUD/GBP	0.65	0.66	0.65	0.64	0.65	0.67	0.66	0.64	0.64	0.63
AUD/CAD	1.03	1.04	1.05	1.05	1.05	1.05	1.04	1.02	1.02	1.02
AUD/NZD	1.32	1.32	1.31	1.30	1.29	1.28	1.28	1.27	1.29	1.28
USD/JPY	77.89	77.00	77.00	77.00	78.00	79.00	80.00	82.00	84.00	85.00
EUR/USD	1.32	1.33	1.30	1.27	1.28	1.30	1.30	1.30	1.30	1.30
GBP/USD	1.56	1.55	1.50	1.48	1.49	1.50	1.52	1.52	1.52	1.52
USD/CAD	1.03	1.01	1.07	1.10	1.08	1.05	1.04	1.04	1.04	1.07
NZD/USD	0.76	0.78	0.75	0.73	0.75	0.78	0.78	0.77	0.76	0.74



Calendar – December 2011

Monday	Tuesday	Wednesday	Thursday	Friday
Early January AU Trade in Goods & Services, Nov (5 Jan) AU Retail trade, Nov (9 Jan) AU Building approvals, Nov (10 Jan) AU Job vacancies, Nov (11 Jan) AU Housing finance, Nov (16 Jan) AU Labour force, Dec (19 Jan)	Central Bank Meetings AU RBA (6 Dec) CA Bank of Canada (7 Dec) UK BOE (8 Dec) EZ ECB (8 Dec) NZ RBNZ (8 Dec) US FOMC (14 Dec) JP BoJ (21 Dec)		1 AU AI-Group PMI, Nov, Index, (47.4) AU Retail trade, Oct, m%ch, 0.5, (0.4) AU Build approv, Oct, m%ch, 3, (-13.6) NZ Terms of Trade Index, QIII, q%ch, (2.3) CH PMI Manufacturing, Nov, Index, (50.4) EU/GE/UK PMI manufacturing, Nov, Index US ISM manufacturing, Nov, Index, (50.8) US Total vehicle sales, Nov, mn, (13.20)	2 EU PPI, Oct, m/y%ch, (0.3/5.8) UK PMI construction, Nov, Index, (53.9) US Non-farm payrolls, Nov, '000, (80) US Unemployment rate, Nov, %, (9.0) US Avg hrly earnings, Nov, m/y%ch, (0.2/1.8) CA Unemployment rate, Nov, % CA Net change in employment, Nov, '000, (-54.0)
5 AU CBA/AI-Group PSI, Nov, (48.8) AU Company profits, QIII, q%ch, 5.0, (6.7) AU Inventories, QIII, q%ch, 1.7, (2.5) AU ANZ Job ads, Nov, m%ch, (-0.7) AU TD inflat gauge Nov, m/y%ch, (0.1/2.6) CH Non-Manuf PMI Nov, Index, (57.7) EU PMI services/composite, Nov, Index EU Retail sales, Oct, m/y%ch, (-0.7/-1.5) GE/UK PMI services, Nov, Index US ISM non-manufacturing, Nov, Index, (52.9) US Factory orders, Oct, m%ch, (0.3)	6 AU Current acc deficit, QIII, \$bn, -6.1, (-7.4) AU Net export contrib, QIII, ppt, -0.6, (-0.5) AU RBA cash rate, Dec, %, 4.50, (4.50) EU GDP, QIII, q/y%ch, (0.2/1.4) GE Factory orders, Oct, m/y%ch, (-4.3/2.4) UK New car registrations, Nov, y%ch, (2.6) CA Building permits, Oct, m%ch, (-4.9) CA Bank of Canada, %, 1.00, (1.00)	7 AU AI-Group PCI, Nov, Index, (34.7) AU GDP, QIII, q/y%ch, 1.2/2.3 (1.2/1.4) JP Leading / Coincident index CI, Oct GE Industrial production, Oct, m/y%ch, (-2.7/5.4) UK Industrial production, Oct, m/y%ch, (0/-0.7) UK NIESR GDP estimate, Nov, m%ch, (0.5) US Consumer credit, Oct, \$bn, (7.386) CA Bank of Canada, %, 1.00, (1.00)	8 AU Labour Force, Nov employment, '000, 10, (10.1) participation rate, %, 65.6, (65.6) unemployment rate, %, 5.2, (5.2) AU RBA Gov Stevens speaks at the University of Sydney NZ Manufacturing activity QIII, q%ch, (2.1) NZ RBNZ official cash rate, %, 3.00, (2.5) JP Machine orders, Oct, m/y%ch, (-8.2/9.8) EU ECB announces int. rate, %, 1.00, (1.25) UK BoE announces rates, %, 0.50, (0.50) US Wholesale inventories, Oct, m%ch, (-0.1) CA Housing starts, Nov, '000, (207.6)	9 NZ Credit card spending, Nov, m%ch, (1.8) JP GDP, QIII, q%ch, (1.5) CH PPI/CPI, Nov, y%ch, (5.0/5.50) CH Industrial production, Nov, y%ch, (13.2) CH Retail sales, Nov, y%ch, (17.2) UK PPI Input/Output, Nov, y%ch, (14.1/5.7); core, y%ch (3.4) UK Total trade balance, Oct, \$bn, (-3.940) GE CPI, Nov, m/y%ch GE Trade bal, Oct, \$bn, (17.4) US Uni. Of Michigan confidence, Dec, Index US/CA Trade balance, Oct, \$bn/C\$bn, (-43.1/1.25) CA Trade balance Oct, CA\$bn, (1.25)
12 AU Housing Finance, Oct, m%ch No. of own-occupiers, %, 1.0, (2.2) Value of all loans, %, -2.0, (0.7) AU Trade balance Oct, \$bn, 2.0, (2.6) CH Trade balance Nov, US\$bn, (17.03) JP Domestic CGPI, Nov, m/y%ch, (-0.7/1.7) JP Consumer confidence, Nov, Index JP Machine tool orders, Nov, y%ch, (26.0)	13 AU Dwelling commence, QIII, q%ch, -2.0, (-4.7) AU NAB Bus conf/cond Nov, Index, (2/-1) AU HIA Housing Affordability Index, QIII, (56.2) NZ Food prices, Nov, m%ch, (-1.3) EU/GE ZEW survey (econ. sentiment), Dec, , (-59.1/-55.2) UK CPI, Nov, m/y%ch, (0.1/5.0); core y%ch, (3.4) UK RICS house price balance, Nov, %, (-24.0) US Business inventories, Oct, m%ch, (0) US Retail sales, Nov, m%ch, (0.5)	14 AU MI/WBC Consumer Sent, Dec, Index, (103.4) AU DEWR skilled vacancies, Nov, m%ch, (-1.9) AU RBA Dep. Gov Battellino speaks in Sydney JP Industrial production, Oct, m/y%ch EU CPI, Nov, m/y%ch, (0.3), core, y%ch, (1.6) EU Industrial production Oct, m/y%ch, (-2.0/2.2) UK ILO unemployment rate (3mths), Oct, %, (8.3) US Import price index, Nov, m/y%ch, (-0.6/11.0) CA Leading indicators, Nov, m%ch, (0.2) US FOMC rate decision, %, 0-¼, (0.25)	15 AU MI Consumer Inflation Expect., Dec, %, (2.5) AU MI Unemp. Expt., Dec, Index, (130.2) AU Motor veh. sales, Nov, m/y%ch, (1.1/4.4) AU Financial Accounts, QIII AU RBA Dep Gov Battellino speaks in Sydney NZ Business PMI, Nov, Index, (46.5) US Producer price index Nov, m/y%ch, (-0.3/5.9) US Current account balance, QIII, US\$bn, (-118.0) US Industrial production, Nov, m%ch, (0.7) US Capacity utilisation, Nov, %, (77.8)	16 EU New car registrations Nov, y%ch, (-1.8) EU Trade balance Oct, \$bn, (1.5), (2.1) US CPI, Nov, m/y%ch, (-0.1/3.5); core, m/y%ch, (0.1/2.1)
19 AU Population growth, QII, q/y%ch, (0.4/1.4) NZ PSI, Nov, Index, (50.6) NZ NBNZ Business confidence, Dec, Index EU Current account, Oct, €bn EU Construction output, Oct, m/y%ch, (-1.3/0.4) US NAHB housing market index, Dec, , (20) CA Wholesale sales, Oct, m%ch, (0.2)	20 AU RBA Board Minutes, Dec JP Leading / Coincident index CI, Oct GE Producer prices, Nov, m/y%ch, (0.2/5.3) GE IFO - Business climate, Dec, Index US Housing starts, Nov, '000, (628) US Building permits, Nov, '000, (653) CA CPI, Nov, m/y%ch, (0.2/2.9)	21 NZ Credit card spending, Nov, NZ Current account, QIII, % of GDP, (-3.7) JP Trade bal total/adj, Nov JP BoJ target rate, %, 0-0.10, (0.10) UK Bank of England minutes US Existing home sales, Nov, CA Retail sales, Oct, m%ch	22 NZ GDP, QIII, q/y%ch, (0.1/1.5) UK GDP, QIII, UK Total bus investment, QIII, UK Current account balance QIII, \$bn, (-2.0) US Uni. Of Michigan confidence, Dec, Index US Leading indicators, Nov, m%ch, (0.9) US GDP, QIII,	23 US Durable goods orders, Nov, US Personal income/spending, Nov, US PCE deflator/core, Nov, US New home sales, Nov,
26 Christmas Day Holiday	27 Boxing Day Holiday JP Housing starts / Construction orders, Nov, JP Vehicle production, Nov, US S&P/Case-Shiller home price index, Oct US Richmond Fed/Dallas Fed, Dec, Index	28 JP Retail sales, Nov, JP Industrial production, Nov, JP CPI, Nov, CA Teranet House Prices, Oct,	29 GE CPI, Dec, US Pending home sales, Nov,	30 AU RP Data house prices, Nov, AU Private sector credit, Nov, JP Markit/JMMA PMI, Dec, Index UK BoE Housing equity withdrawal, QIII,

Note: Figures in brackets represent previous result (if available). All information is preliminary and subject to revision. Chief Economist: Michael Blythe ph: 9118-1101 Economist: James McIntyre: 9118-1100



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