

## Data points to rate cuts despite improving sentiment (except for bank and semi spreads)

- Improving sentiment in Europe has caused sell-offs in US Treasuries and Australian rate markets.
- Using a Taylor rule we find it hard to justify market pricing of a terminal cash rate below 3.50%.
- The 2Y/5Y/10Y butterfly is quite cheap compared to recent history.

Market sentiment is improving, as EU financial conditions stabilise. Firmer EU sentiment is prompting some unwinding of late 2011 safe-haven buying. Over the last week, the US 10Y yield rose back above 2% - the top of its two month trading range. Australian yields also moved higher over the week, led by the long end. Since last Monday's close, the 3Y yield is up 17bp and the 10Y yield is up 21bp.

Aussie front end bonds remain at relatively expensive levels. The market struggled to rally after jobs data disappointed last Thursday because 100bp of RBA rate cuts are already priced for 2012. The headline figures showed 29k of job losses in December (though the breakdown was slightly more positive, with full time +25k and part-time -54k). Also, the unemployment rate was steady at 5.2%. Still, the decline in employment adds to the case for a February rate cut, in our view.

As the EU crisis stabilises, the Aussie economic picture is coming back into focus. Ultimately, local economic data needs to keep on disappointing to justify the RBA rate cuts priced in. On page 3, Alex Stanley reconciles market pricing with economic data and finds that a terminal rate below 3.5% is only justified in a severe downturn.

Semis underperformed CGS and swap late last week, as AAA covered bond issuance weighed on a market that was already long semis. QTC widened by around 10bp on Friday alone. SAFA has finally been marked out to QTC levels as well, so we take profit on our short SAFA v QTC 2021s trade. Senior bank paper is also in the process of being re-marked, though to date has held tighter than might have been expected.

QTC also released its mid-year funding update last week, showing a smaller task than was expected at Budget time. But there is generally still a lot of semi issuance to hit the market. We think semi spreads could remain under pressure for a little while yet, with SSAs less affected.

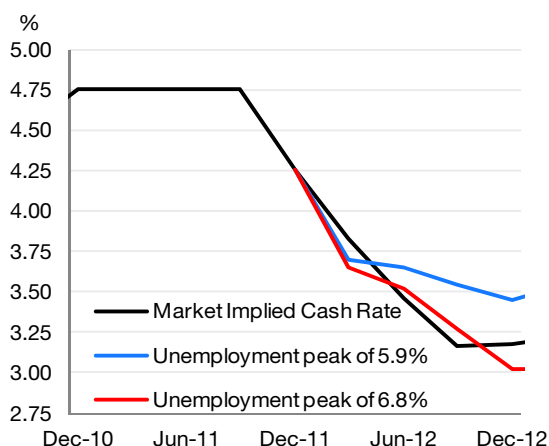
In Australia, the Q4 CPI data is released on Wednesday. Our Economists expect underlying inflation to rise 0.7% in the quarter, to be up 2.6% over the prior year. However, new concurrent seasonal adjustment for the CPI could play havoc with both this quarter's result and history. Look out for revisions. For the non-seasonally adjusted headline rate, the call is 0.2%. We expect low inflation to pave the way for the RBA to cut rates another 25bp in a couple of weeks, with room for more later.

There is a Finance Ministers meeting in Europe tonight, but we don't expect much market impact. Greek debt re-structuring talks could also wind up in the next few days. In the US, the main focus will be on the FOMC on Thursday. Members will present funds rate forecasts for the first time, but only on an annual basis. It's hard to see those forecasts being too different from market expectations for a hike sometime in 2014, so we don't expect much impact on Treasuries.

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### How the Taylor Rule suggests the RBA would move in different unemployment rate scenarios



Source: CBA, Bloomberg



## Key Positions

We have introduced one new trade this week, paying the 5Y as part of the 2Y/5Y/10Y butterfly. The butterfly has been above zero on all but a handful of days in the last year. It is currently sitting at +1.5bp.

We also wish to take profit on our SAFA vs QTC trade today. We had been waiting for SAFA to be marked at the same level as QTC. Although this didn't quite happen, the most recent closing spread of +1bp is close enough to flat for us.

Otherwise it wasn't a particularly good week for us. We are generally long the front of the AUD curve, either outright via IBs, or implicitly via Australian steepeners. The rise in yields has meant that a few of our trades have lost a little this week.

## 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)	+16	-5b+5bp carry = +0bp	0bp	17bp	<b>Hold:</b> 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)	+28bp	+15bp	+70bp	-5bp	<b>Hold:</b> 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)	95bp	+10bp	120bp	70bp	<b>Hold:</b> The RBA's easing bias should keep steepening the curve.
Receive 1Y ZCS	2.84% (10-Nov-11)	2.65%	+19bp	2.40	3.00	<b>Hold:</b> 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 (quote is QTC less SAFA)	11bp (16-Nov-11)	1bp (as at Fri Close)	+10bp	0bp	22bp	<b>Take Profit:</b> We expect spreads to equalise given SA seems likely to lose its AAA rating. Wider stop implemented due to illiquidity in market.
Buy the TCV Jun-20 vs NSWTC May-20	0.5bp (16-Nov-11)	0bp	-0.5bp	10bp	-5bp	<b>Hold:</b> 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)	-64bp	-8bp	-20bp	-70bp	<b>Hold:</b> The Aussie curve should remain steep, while the NZ curve should flatten.
Buy the ACGB Apr-23 versus the Apr-20.	31bp (12-Jan-12)	29bp	+2bp	20bp	37bp	<b>Hold:</b> RV analysis reveals the Apr-23 is cheap against the Apr-20
Buy the QTC Aug-13 versus the QTC Nov-14	11bp (12-Jan-12)	15bp	+4bp	20bp	5bp	<b>Hold:</b> RV analysis reveals the QTC Nov-14 is dear relative to the Aug-13
Buy the April IB Cash Futures Contract	96.34 (16-Jan-12)	96.28	-6bp	96.50	96.25	<b>Hold:</b> The market may expect more RBA rate cuts after the February meeting because of higher bank funding costs.
Pay the 5Y in the AUD 2Y/5Y/10Y butterfly	+1.5bp (23-Jan-12)	+0.5bp		+12bp	-5bp	<b>New Trade:</b> RV scan suggests butterfly is too low.



## Refocusing on Australian Fundamentals (first published Friday January 20)

Alex Stanley – Associate Analyst Fixed Income – 61 2 9118 1125 – [alex.stanley@cba.com.au](mailto:alex.stanley@cba.com.au)

- EU negative surprises have receded in recent weeks.
- In the next few weeks the CPI, February RBA meeting and SOMP, will bring Australia's economic outlook back into the market's focus.
- We model RBA cash rate outcomes for different Australian economic scenarios. On this basis, we find it hard to justify terminal cash rate pricing below 3.5%.
- A more severe downturn in the economy than what we expect could imply a return to a 3.0% cash rate in this easing cycle.
- We maintain our tactical long position in the April IB contract.

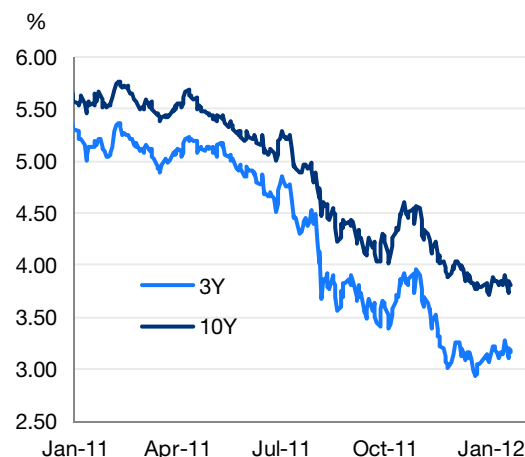
### Checking back in with the domestic economy ahead of the February RBA meeting

So far in 2012, market sentiment has improved and the extreme volatility of the second half of 2011 has receded. This period of relative calm can be attributed, in part, to a lack of new, troubling developments about the EU debt crisis. The biggest EU event of note in 2012 has been the downgrade of EU sovereigns by S&P. But this wasn't a big surprise to the market, given the CreditWatch negative status placed on the countries late last year.

Of course, a lack of new EU surprises doesn't mean that the debt crisis situation has improved measurably. In fact, as we highlighted last week in our *2012 Interest Rate Outlook*, we think the progress that has been made towards repair in Europe is subject to many set-backs. The Greek bond re-structure negotiations loom as just one near-term possibility. We still expect that this ongoing uncertainty will keep the high credit quality Aussie Government bonds well bid.

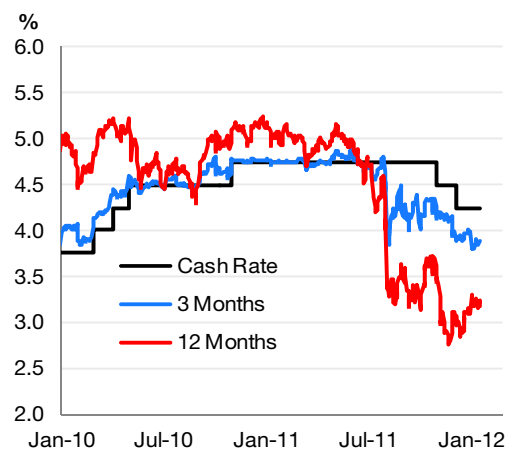
Aussie 10Y bond yields have recently consolidated near late 2011 lows (Figure 1), partly reflecting the impact of no new surprising EU developments, but a still high degree of uncertainty about the end-game. The 3Y bond yields have increased slightly to sit just above the late 2011 lows. If this recent tendency of the EU to be surprise-free continues, the domestic economic picture will likely come back into focus for the market. This domestic economic theme could easily take hold in the coming weeks given the data schedule. Last week's labour force figures added to the case for a rate cut in February. But rates across the curve didn't have scope to move much, given the easing already priced. The final piece of key data for the February RBA meeting comes next week, with the release of the Q4 CPI figures.

Figure 1 – Australian 3Y and 10Y bond yields



Source: CBA, Bloomberg

Figure 2 – Cash Rate pricing



Source: CBA, Bloomberg



**Market pricing is starting to normalise**

Since mid-December, market pricing for the path of the cash rate has lifted from what most consider “emergency” levels under 3%. The terminal rate is now some 40-50bp higher at 3.20% (Figure 2). This pull-back in emergency pricing has caused the whole curve to flatten (Figure 3).

Market pricing for the terminal cash rate in the cycle has increased.

What we’re left with is a more normal implied path for the cash rate. The IB futures rate curve now implies that the RBA will cut rates by 25bp at least once per quarter in 2012. That’s less rate cuts, at a slower rate than what was expected a few months ago. This moderation in pricing suggests some re-focus from the market on the domestic fundamentals is already underway. The problem is, of course, that these fundamentals also reflect the global backdrop. The uncertainty over the global outlook is a key reason why there are a wide range of potential outcomes for the Australian economy in 2012. Economists generally expect a more positive year for growth than what market pricing suggests.

We reconcile the difference between market pricing and forecasters by considering a range of economic scenarios.

**Modelling cash rate scenarios**

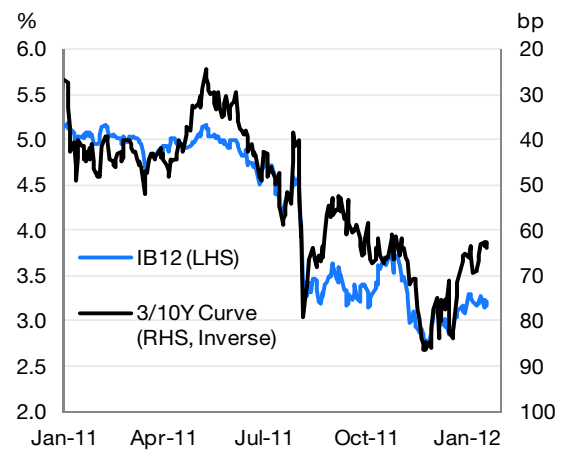
We use a modified Taylor rule to model the cash rate.

We consider a simple, modified version of the Taylor rule to provide us with a guide on where the cash rate is headed under a range of economic scenarios. Of course, no model is perfect and modelling monetary policy settings at present is subject to a fair degree of error. Still, we find that the Taylor rule, with a few modifications, is a useful tool for modelling the RBA cash rate.

In its original form, the Taylor rule used inflation and growth rates to arrive at an optimal level for the Fed Funds rate. Inflation, using the GDP price deflator, is measured as a variation to an assumed target (2% for the Fed). Real GDP Growth enters the model as a deviation to its long run potential (or trend) to produce an estimate for the output gap. A real equilibrium or neutral rate is also used in the Taylor calculation.

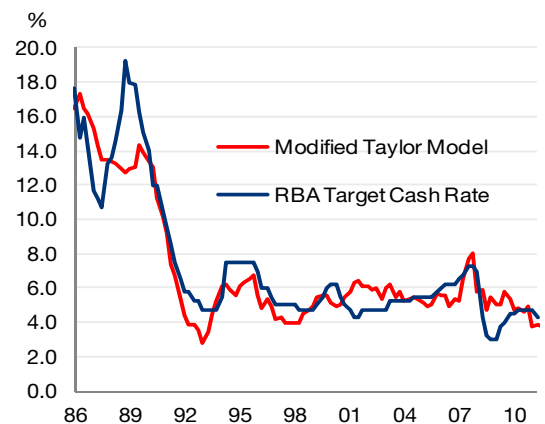
Like other Australian researchers, we’ve modified the Taylor rule to fit Australia’s economic and policy circumstances. We use the average of the RBA’s underlying CPI measures for the inflation estimate and 2.5% as the inflation target. Instead of GDP, we use deviations in the unemployment rate from estimates of full employment (NAIRU) as a proxy for the output gap. We use time-varying estimates for NAIRU and the real neutral cash rate to capture the changing dynamics of the

Figure 3 – Year ahead implied cash rate and 3/10Y curve



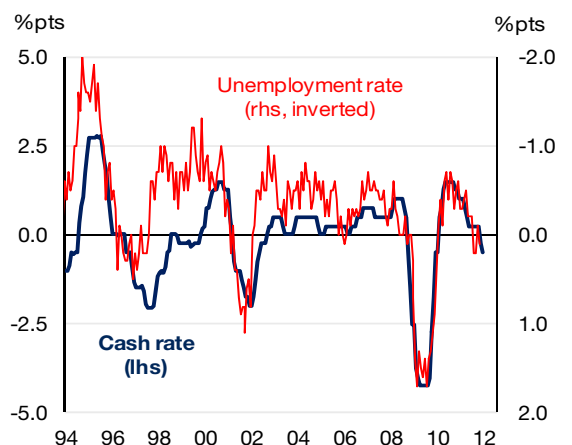
Source: CBA, ABS, Melbourne Institute

Figure 4 – Modified Taylor rule and actual cash rate



Source: CBA, RBA

Figure 5 – The cash rate and unemployment rate



Source: CBA, Bloomberg



The 2008/09 period requires some adjustments to the Taylor rule.

economy over time.

Figure 4 illustrates the fit of our modified Taylor rule since the mid-eighties. Over the full sample, the Taylor rule correlates over 90% with the actual cash rate. A mechanical read of the rule didn't provide a good guide for the cash rate during the last easing cycle. This misread arises partly because of the lags in CPI data. Inflation was very high in 2008 and the RBA shifted policy (correctly) in advance of the turn lower in CPI (which is subject to long lags). To partly correct for the lag effects in CPI, we incorporated a 2.5% underlying inflation rate into the model for the last easing cycle. Our rationale is that the RBA expected inflation to eventually fall into the middle part of the band when they started cutting rates.

Still, the Taylor rule suggests that the cash rate should have only fallen to a low of 4.25% in the last easing cycle (3% worth of rate cuts). This difference highlights the difficulty with the Taylor rule (and many macro models) in that they can't fully capture the forward-looking dynamics of RBA policy. The RBA sets policy for what it expects the economy to be like in the short-to-medium term future, while the Taylor Rule uses the data most recently released. Sometimes, that difference matters a lot.

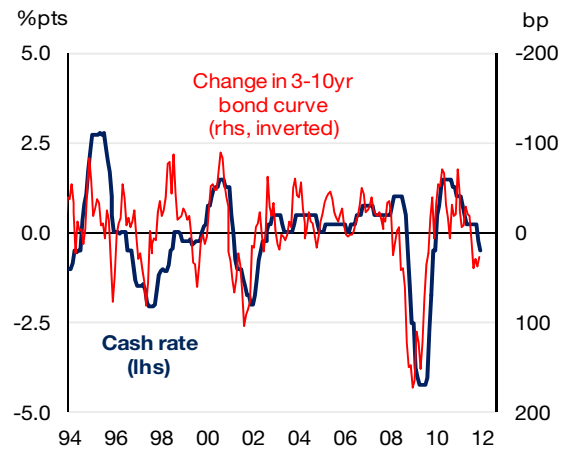
When the RBA cut rates in 2008 they were preparing for a 2009 that was expected to be much worse than what eventually occurred. The Australian economy surprised the RBA and many forecasters with its resilience during that period. If we substitute a lower CPI forecast and Treasury's forecast for the peak in the unemployment rate of 8.5% into the Taylor Rule, then we arrive at a cash rate close to 3%.

**Reconciling current market pricing with the unemployment rate**

Next week, the CPI data could well give the market a new direction on the cash rate. But it would have to be a number that is particularly surprising. The RBA's forecasts for a 2.5% underlying inflation rate over the next two years (adjusting for the carbon tax) suggests that employment outcomes are now the more relevant variable to model. Figures 5 and 6 illustrate the importance of employment outcomes for the cash rate and the curve.

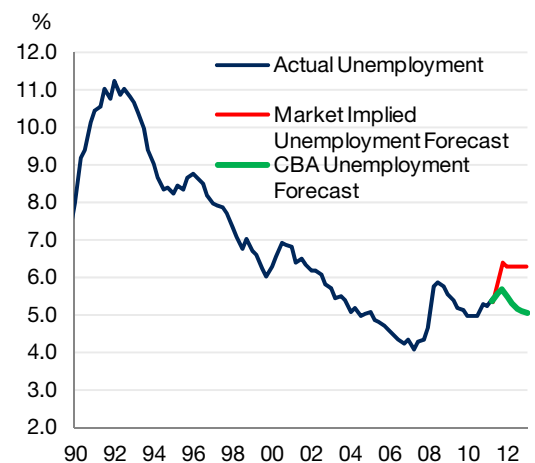
If we keep inflation steady at 2.5%, we can estimate the level of unemployment that's consistent with current cash rate pricing. We estimate that the unemployment rate would need to rise beyond 6% this year to validate a terminal cash rate of 3.25%. That's not a totally unforeseeable outcome, but it's higher than our Economists expected peak of 5.6% (Figure 7).

Figure 6 – The cash rate and 3/10Y curve



Source: CBA, Bloomberg

Figure 7 – Estimated unemployment rate implied by cash rate pricing



Source: CBA, ABS

The unemployment rate would need rise beyond 6% to justify current market pricing.



**What does a 2008/09 unemployment scenario imply for the cash rate?**

A return to an unemployment rate of 5.9% implies a cash rate of around 3.5%.

Comparing unemployment in the current easing cycle with the 2008/09 episode provides a useful guide for assessing the downside risks to our economic outlook. If unemployment rises back to a peak of 5.9%, as it did in the last cycle, then the modified Taylor rule suggests that the cash rate can fall to 3.5-3.75%. Clearly, in the last cycle, the cash rate got below that level, but as we've explained, that period of easing was different to the current cycle. The 3.5-3.75% range for the cash rate is slightly above current market expectations. This difference to the current terminal rate suggests some room for the market to sell-off, even if this downside scenario eventuates.

It takes an unemployment rate of 6.8% for the cash rate to return to 3.0%.

A more pessimistic way to overlay the 2008/09 period with the current situation is to add the total increase in the unemployment rate during the last easing cycle to the current unemployment rate of 5.2%. That implies a 1.6% increase to 6.8%. That's quite a serious increase in unemployment and using our simple Taylor rule, implies a cash rate as low as 3.0% (equal to the low in the last cycle). Figure 8 illustrates the implied path of the downside scenario with current market pricing.

Our core view isn't for a return to either downside scenario for the cash rate. Moreover, so far this easing cycle, employment growth has weakened, but the unemployment rate has been steady. Still, there are some signs that if confidence in the domestic economy doesn't improve, then a return to a 2008/09 peak in the unemployment rate isn't unforeseeable. For instance, the Melbourne Institute unemployment expectations index is pointing to a return to an unemployment rate of 6% within the next 6-12 months (Figure 9).

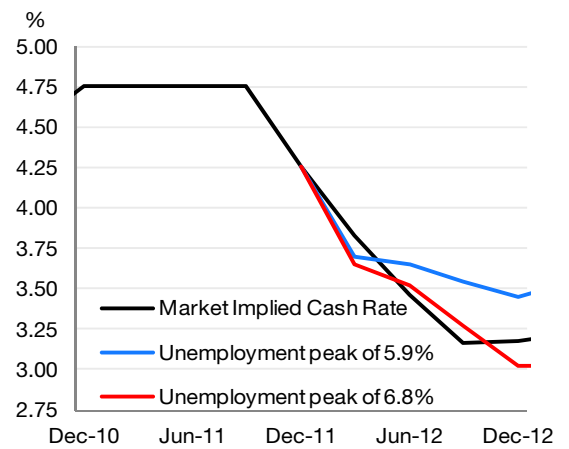
Also, in the last easing cycle, fiscal support and the front-loaded nature of the RBA's easing provided an important backstop to economic conditions, helping to prevent the unemployment rate from rising above 5.9%. This time around, we see far less chance of fiscal support, given the Government's political imperative to regain a surplus in 2012/13. So there remains a risk that the RBA eases rates faster than we currently expect.

**Implications of scenario analysis for market pricing**

On the current economic evidence, it's hard to rationalise a cash rate below 3.5%.

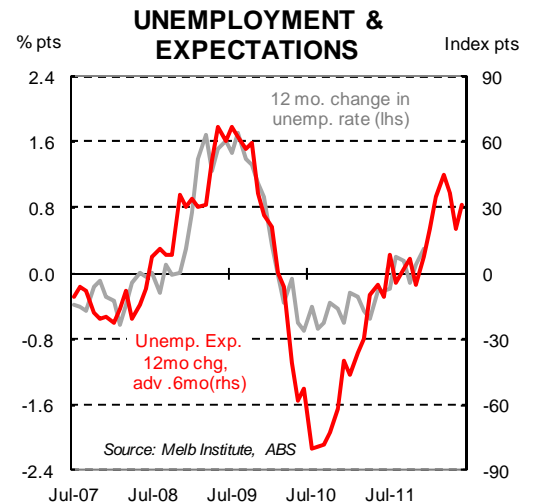
Reconciling cash rate outcomes with a range of scenarios for unemployment provides a useful guide to assessing market pricing. On the current domestic economic evidence, we find it hard to rationalise an implied cash rate below

Figure 8 – Cash rate outcomes from scenarios for cycle peaks in unemployment



Source: CBA, Bloomberg

Figure 9 – Confidence surveys suggest unemployment can return to its 2009 peak



Source: CBA, Melbourne Institute, ABS



3.5%. However, as the last six months demonstrates, market pricing can diverge significantly from Australia's perceived economic fundamentals.

A big factor driving the current cash rate pricing is an underlying fear about developments in Europe. Our core view remains that the re-emergence of EU issues and higher bank funding costs leaves room for further rate cuts to be priced in the short term. However, in the absence of EU shocks, the domestic economic outlook should take some precedence in the next few weeks, as we approach the February RBA meeting and quarterly policy statement. The domestic outlook favours some further increase in the terminal cash rate pricing. However, as we outlined last week (*Weekly Strategy*, 16-Jan), an increase in bank funding costs argues for a long position in IB futures. We maintain our long April IB position.



## Relative Value Review: Pay the body of the AUD 2Y/5Y/10Y

Philip Brown – Fixed Income Quantitative Strategist – 61 3 9675 7522 – [philip.brown@cba.com.au](mailto:philip.brown@cba.com.au)

- The PCA analysis of the PCA suggests a cheap 2Y, dear 5Y and cheap 10Y.
- We recommend paying the 2Y/5Y/10Y butterfly at the current spread of +0.5bp.
- The bond scan shows the Apr-20 to Apr-23 flattener is worth keeping.

We run our standard Relative Value scans and find that the 2Y/5Y/10Y swap butterfly in AUD looks quite cheap. Most bonds curves are fairly priced, other than the ACGB Apr-20 to Apr-23. But we have already identified that trade previously.

### Swaps

2Y, 5Y and 10Y all suggest butterfly

The PCA analysis of the swap curve suggests that the best trade is to pay the 5Y in the 2Y/5Y/10Y butterfly. The 2Y is just on the border of significantly cheap, the 5Y is on the dear side and the 10Y is on the cheap side. Although none of the three is hugely significant, the combination of three moderate results, all the “right” way around, creates a fairly strong result for the butterfly.

The butterfly is shown in Figure 2. The extremeness of the current reading of +0.5bp is obvious. Other than two sharp drop below zero the butterfly has been well above zero for the last four months. Both those drops have been temporary and the first was immediately reversed by the butterfly rising to +15bp.

Other than a handful of extreme observations, the butterfly has remained positive since January 2011

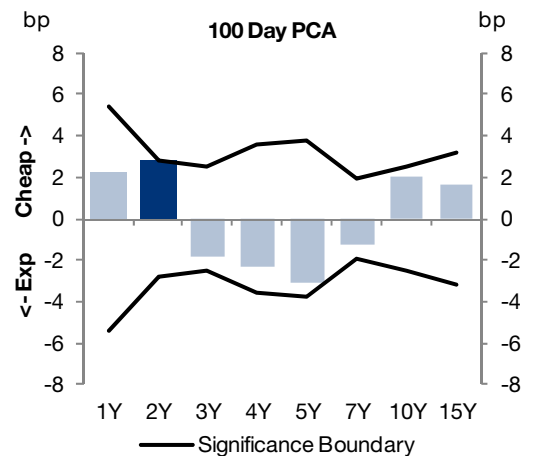
Figure 2 also shows that the current 2Y/5Y/10Y butterfly is showing very little correlation with the slope of the rates curve. This is not completely a surprise. The RBA has been affecting the front end slope, while international events have been influencing the 5Y/10Y part of the curve. The two different drivers are opposing each other and so the total result is very little correlation between slope and curve. (See the *Strategy Weekly* of 11 March 2011 for a more thorough analysis of this behaviour.)

However, given that the butterfly is now quite extreme compared to the last year, we recommend paying the 5Y in the 2Y/5Y/10Y butterfly at the current level of +0.5bp. We target 12bp with a stop at -5bp.

### Bonds

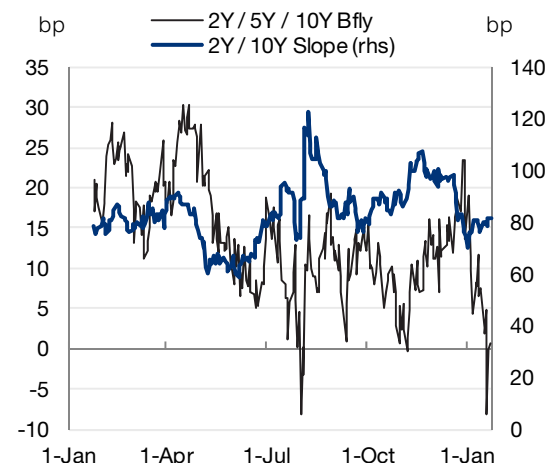
Our normal PCA review is showing the February 17 ACGB is a little dear. (See Figure 3.) The Nelson-Seigel fit also supports the idea that the Feb-17 is a little on the dear side. (See Figure

Figure 1: PCA results for the swap curve



Source: Bloomberg, CBA

Figure 2: AUD 2Y/5Y/10Y butterfly vs Slope



Source: Bloomberg, CBA



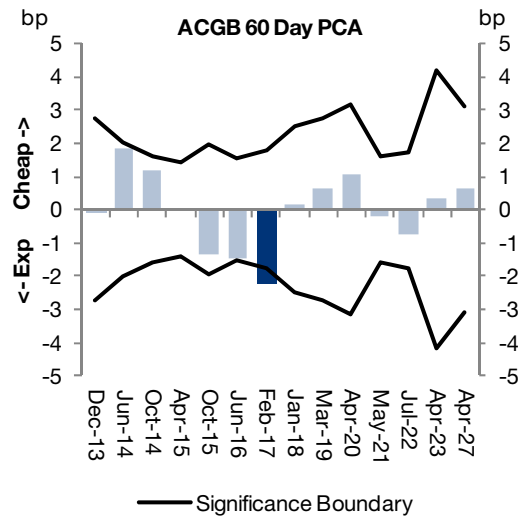
Apr-20 to Apr-23 flattener still looks attractive

4). However, the Nelson-Siegel fit also suggests that the extra volume on issue in the Feb-17 line might be contributing to the dearness, too. Once we adjust for volume on issue, the Feb-17 isn't overly dear.

The strongest result we can see in the bond space is the Apr-20 to Apr-23 slope at +29bp. However, we have already recommended this trade on 12 January (at 31bp, as it happens). We are happy to stay in the slope trade at current levels. The Apr-23 should be slowly richening as the AOFM increases volume in the new comparatively new Apr-23 line.

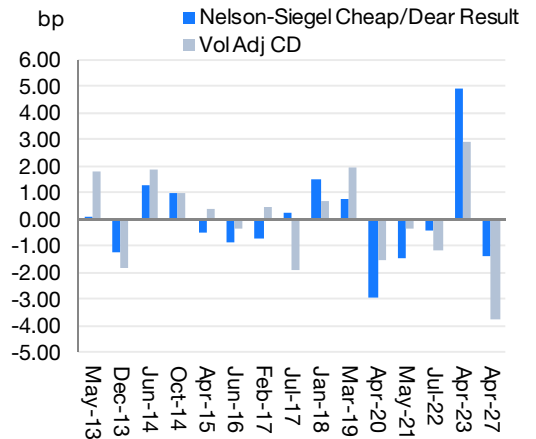
We also scanned the major semi curves, and found a few interesting and significant results. However, there has been a re-pricing of the curve underway since the launch of the AUD covered bond market last week. We suspect these RV opportunities would not be possible to transact in the current market, so steer clear for the moment. Overall, we suspect semis may remain under pressure in the near term as the new market becomes established, and competes against the relatively heavy semi issuance that remains to be done this financial year.

Figure 3: PCA result shows the Feb-17 is looking dear



Source: Bloomberg, CBA

Figure 4: Nelson-Siegel fits agree



Source: Bloomberg, CBA

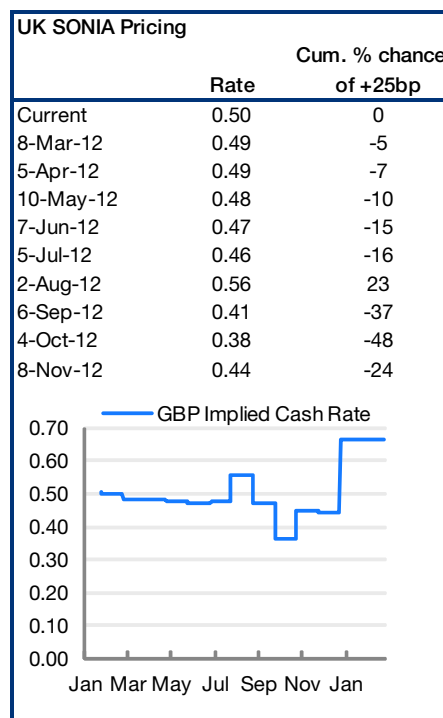
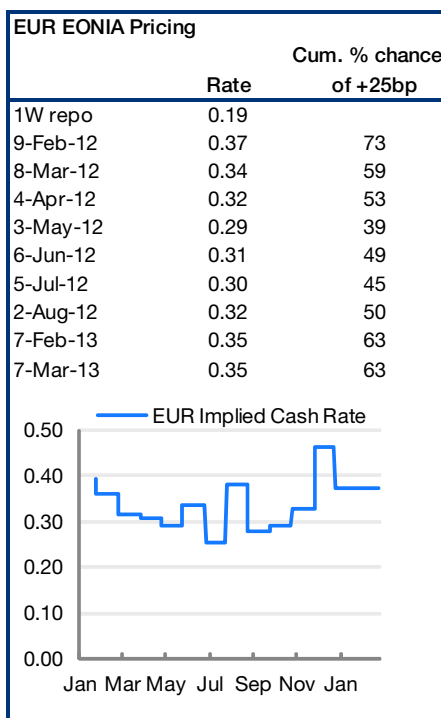
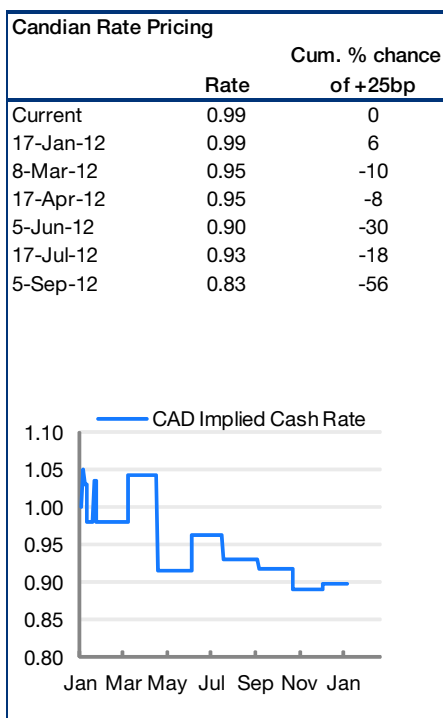
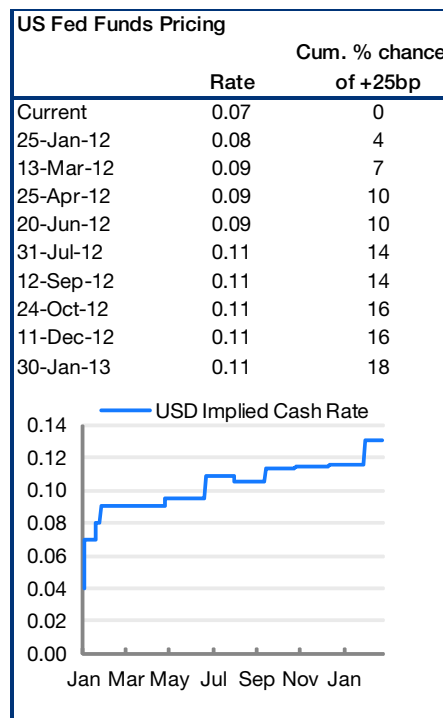
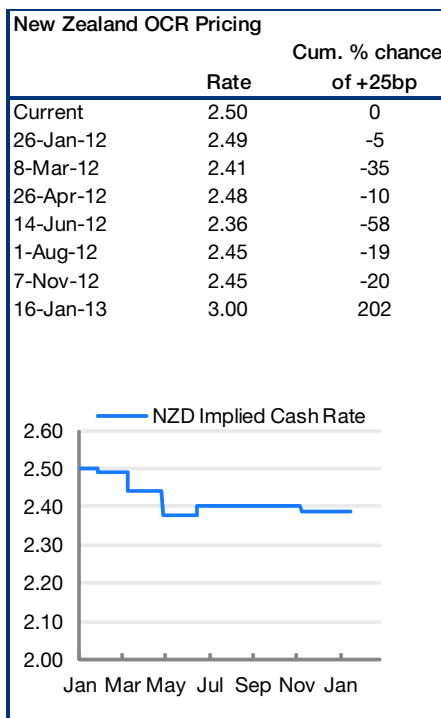
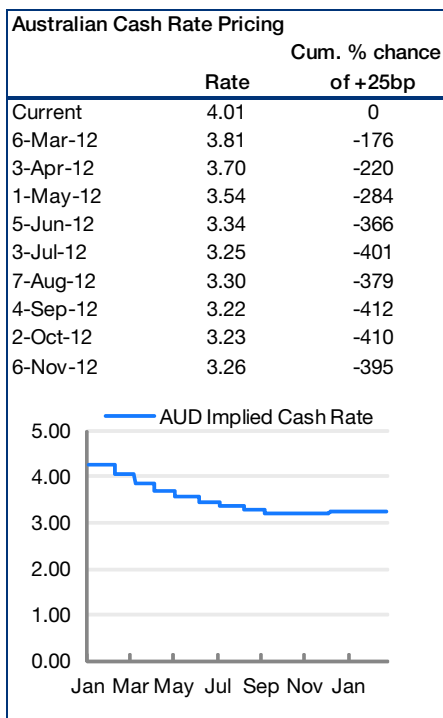


## Key Views

United States		Tactical (<1 mth)	Strategic (>3 mths)
<p>The US economic outlook has improved in recent months. The recovery in the labour market continues, with the unemployment rate falling from 9.0% to 8.5% over the past three months. 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>While the recent trend in US economic data argues for higher yields, Treasuries are likely to remain supported due to the ongoing crisis in Europe. After embarking on 'Operation Twist', the Fed promised further action if required. Fed policy is showing no signs of changing from its very accommodative stance. We look for US 10yrs to hold around current levels for some time.</p> <p>S Greece's debt restructure and Eurozone sovereign debt auctions have the potential to renew Eurozone concerns over the coming weeks. However, at present financial market volatility is low, and USD demand has eased over 2012. Whilst the risk of disappointment in Europe is the likely catalyst for USD demand increasing, the USD should also benefit from continued signs of improvement in the US economy. In our view, the Eurozone is in recession while the US economy is improving. We expect the widening growth and yield differentials between the US and Eurozone to continue to support the USD.</p>	Policy rate	0.1%	0.1%
	10yr bond	2.00%	2.00%
	2/10 curve	175bp	175bp
	USD/JPY	77.50	76.00
	EUR/USD	1.2700	1.2700
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. Recent weakness in the labour market and likely soft Q4 inflation data this week leave the door open for more. 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 seems unlikely to recede given the difficulty in finding long-term solutions. We expect continuing flare-ups in Europe will see markets focus on the potential for further rate cuts, keeping bond markets well bid. The Aussie market continues to attract very strong demand on a diversification basis. We expect 3yrs to be particularly well supported in this environment, outperforming both bill futures and 10yr bonds during crisis periods.</p> <p>We expect AUD to remain heavily influenced by developments in Europe over the coming weeks. The AUD should continue trending higher this week while currency volatility keeps easing and the USD consolidates near current levels. However, renewed volatility and concerns about slower global growth prospects could quickly return and weigh on the AUD over the months ahead. In this environment we would expect the AUD to fall against the strengthening USD.</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	180bp	170bp
	AUD/USD	1.0750	1.0200
New Zealand		Tactical (<1 mth)	Strategic (>3 mths)
<p>The NZ economy is slowly recovering, but, like Australia, is suffering from uncertainty over the global outlook. Recently, the Q3 GDP figures showed that the boost from the Rugby World Cup was smaller than expected, but there were signs of stronger underlying momentum in the economy.</p> <p>The RBNZ has indicated global developments remain the dominant factor for determining its interest rate outlook. Our expectation for the first OCR increase is December 2012. The first half of 2012 looks too soon 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. There must also be doubt over the pace of the Christchurch rebuild. We expect the tightening cycle to be more gradual than we had earlier anticipated. However, we still look for the OCR to eventually peak at 4.00% in late 2013. The latest inflation data affirms our view that the RBNZ will be in no hurry to lift the cash rate from a historically low level of 2.5%.</p> <p>We expect NZD direction to remain heavily influenced by developments in Europe over the coming weeks. In the current environment of improving risk appetite, the NZD can press higher, if market volatility remains low. However, we expect over the coming months that lower global growth prospects are likely to weigh on New Zealand-specific commodity prices and in turn the NZD. The NZ terms of trade, which has been an important driver of the NZD, is expected to remain high but appears to have peaked.</p>	Policy rate	2.50%	2.50%
	10yr bond	4.00%	4.10%
	2/10 swap curve	140bp	140bp
	10yr v US	190bp	210bp
	10yr v AU	10bp	30bp
	NZD/USD	0.8250	0.7850
	AUD/NZD	1.3000	1.3000



Cash Rate Pricing



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-Jan	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
Australia	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	2.75	3.25	3.50	3.75	4.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50
Germany	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.75	0.75
China	6.31	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
Canada	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.50	1.75
2-yr bond yield	13-Jan	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
US	0.23	0.25	0.25	0.25	0.30	0.30	0.40	0.50	0.60
Australia	3.31	2.80	2.80	2.95	3.10	3.30	3.50	3.70	3.90
New Zealand	2.58	2.60	2.70	3.00	3.30	3.60	3.70	3.80	3.90
United Kingdom	0.40	0.40	0.50	0.50	0.60	0.80	1.00	1.30	1.60
Germany	0.16	0.30	0.50	0.50	0.70	1.00	1.25	1.25	1.25
Japan	0.13	0.15	0.20	0.20	0.20	0.25	0.25	0.30	0.30
Canada	0.98	0.90	1.00	1.20	1.50	1.60	1.70	1.80	1.90
10-yr bond yield	13-Jan	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
US	1.93	2.00	2.10	2.10	2.20	2.30	2.40	2.50	2.50
Australia	3.84	3.80	3.80	3.90	4.00	4.10	4.20	4.30	4.40
New Zealand	3.87	4.10	4.20	4.20	4.30	4.30	4.30	4.30	4.30
United Kingdom	2.02	2.10	2.20	2.30	2.40	2.50	2.60	2.60	2.60
Germany	1.84	2.00	2.10	2.40	2.50	2.60	2.70	2.80	2.90
Japan	0.95	1.00	1.10	1.10	1.10	1.10	1.20	1.20	1.20
Canada	1.98	2.00	2.20	2.30	2.50	2.60	2.65	2.70	2.70
Currencies	13-Jan	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
AUD/USD	1.03	0.98	0.95	0.97	1.00	1.00	0.98	0.98	0.95
AUD/JPY	79.31	74.48	71.25	74.69	78.00	80.00	80.36	82.32	80.75
AUD/EUR	0.80	0.75	0.75	0.76	0.77	0.77	0.75	0.75	0.73
AUD/GBP	0.67	0.65	0.64	0.65	0.67	0.66	0.64	0.64	0.63
AUD/CAD	1.05	1.05	1.05	1.05	1.05	1.04	1.02	1.02	1.02
AUD/NZD	1.30	1.31	1.30	1.29	1.28	1.28	1.27	1.29	1.28
USD/JPY	76.70	76.00	75.00	77.00	78.00	80.00	82.00	84.00	85.00
EUR/USD	1.29	1.30	1.27	1.28	1.30	1.30	1.30	1.30	1.30
GBP/USD	1.54	1.50	1.48	1.49	1.50	1.52	1.52	1.52	1.52
USD/CAD	1.02	1.07	1.10	1.08	1.05	1.04	1.04	1.04	1.07
NZD/USD	0.79	0.75	0.73	0.75	0.78	0.78	0.77	0.76	0.74



## Calendar – January 2012

Monday	Tuesday	Wednesday	Thursday	Friday
2 CH/EU/GE PMI Manufacturing, Dec, Index, (49/46.9/48.1)	3 <b>AU AI-Group PMI, Dec, Index, (47.8)</b> CH Non-Manuf PMI Dec, Index, (49.7) UK PMI manufacturing, Dec, Index, (47.6) US Construction spending, Nov, m%ch, (0.8) US ISM manufacturing, Dec, Index, (52.7) US FOMC Minutes	4 EU PMI services/composite, Dec, Index, (48.3/47.9) GE PMI services, Dec, Index, (52.7) UK PMI construction, Dec, Index, (52.3) UK Net consumer credit, Nov, £bn, (0.0) US Factory orders, Nov, m%ch, (-0.4) US Total vehicle sales, Dec, mn, (13.6)	5 <b>AU CBA/AI-Group Perf of Serv Index, Dec, (47.7)</b> <b>AU HIA new home sales Nov, m%ch, (5.5)</b> <b>AU Trade balance Nov, \$bn, 2.0, (1.6)</b> JP Vehicle sales, Dec, y%ch, (24.1) EU Industrial new orders, Oct, y%ch, (1.6) EU PPI, Nov, m/y%ch, (0.1/5.5) UK PMI services, Dec, Index, (52.1) US ISM non-manufacturing, Dec, Index, (52)	6 <b>AU AI-Group PCI, Dec, Index, (39.6)</b> EU Retail sales, Nov, m/y%ch, (0.4/-0.4) GE Factory orders, Nov, m/y%ch, (5.2/5.4) US Non-farm payrolls, Dec, '000, (120) US Unemployment rate, Dec, %, (8.6) US Avg hrly earnings, Dec, m/y%ch, (-0.1/1.8) CA Net change in employment, Dec, '000, (-18.6) CA Unemployment rate, Dec, %, (7.4)
9 <b>AU Retail trade, Nov, m%ch, 0.5, (0.2)</b> NZ Trade balance, Nov, \$mn, (-282) CH PPI/CPI, Dec, y%ch, (2.70/4.20) GE Trade bal, Nov, €bn, (11.6) GE Industrial production, Nov, m/y%ch, (0.8/4.1) US Consumer credit, Nov, \$bn, (7.6) CA Building permits, Nov, m%ch, (11.9)	10 <b>AU Build approv, Nov, m%ch, 10.0, (-10.7)</b> NZ Building permits, Nov, m%ch, (11.2) CH Trade balance Dec, US\$bn, (14.5) UK RICS house price balance, Dec, %, (-17.0) US Wholesale inventories, Nov, m%ch, (1.6) CA Housing starts, Dec, '000, (181.1)	11 <b>AU ABS Job vacancies, Nov, m%ch, (3.2)</b> JP Leading / Coincident index CI, Nov UK Total trade balance, Nov, £bn, (-1.6)	12 JP Curr a/c total/adjusted, Nov, ¥bn, (562.4/518.6) JP Machine tool orders, Dec, y%ch, (15.8) EU Industrial production Nov, m/y%ch, (-0.1/1.3) EU ECB announces int. rate, %, 0.75, (1.00) UK Industrial production, Nov, m/y%ch, (-0.7/-1.7) UK BoE announces rates, %, 0.50, (0.50) US Retail sales, Dec, m%ch, (0.2) US Business inventories, Nov, m%ch, (0.8) CA Housing price index, Nov, m/y%ch, (0.2/2.5)	13 CH Industrial production, Dec, y%ch, (12.4) CH GDP, QIV, y%ch, (9.1) CH Retail sales, Dec, y%ch, (17.3) EU Trade balance Nov, €bn, (0.3) UK PPI Input/Output/core, Dec, y%ch, (13.4/5.4/3.2) US Import price index, Dec, m/y%ch, (0.7/9.90) US Trade balance, Nov, \$bn, (-43.5) US Uni. Of Michigan confidence Index, Jan CA Trade balance, Nov, C\$, (-0.9)
16 <b>AU Housing Finance, Nov, m%ch</b> <b>No. of own-occupiers, %, 3.0, (0.7)</b> <b>Value of all loans, %, 2.0, (-1.2)</b> <b>AU ANZ Job ads, Dec, m%ch, (0.0)</b> <b>AU TD inflat gauge Dec, y%ch, (2.1)</b> NZ Food prices, Dec, m%ch, (0.2) JP Machine orders, Nov, m/y%ch, (-6.9/1.5) JP Consumer confidence, Dec, Index, (38.1)	17 NZ NZIER Business opinion survey, QIV, (25) NZ Credit card spending, Dec, m%ch, (-0.2) JP Machine tool orders, Dec GE/EU ZEW survey (econ. sentiment), Jan, (-53.8/-54.1) EU CPI, Dec, m/y%ch, (0.1/3.0), core, y%ch, (1.6) EU New car registrations Dec, y%ch, (-3.5) US Empire manufacturing, Jan, Index, (9.53) UK CPI, Dec, m/y%ch, (0.2/4.8), core, y%ch, (3.2) CA Bank of Canada, %, 1.00, (1.00)	18 <b>AU Motor veh. sales, Dec, m/y%ch, (-0.7/2.9)</b> <b>AU MI/WBC Consumer Sent, Jan, Index, (94.8)</b> JP Industrial production, Nov JP Capacity utilisation, Nov, m%ch, (4.1) EU Construction output, Nov, m/y%ch, (-1.4/-2.8) US Producer price index Dec, m/y%ch, (0.3/5.7) US Capacity utilisation, Dec, %, (77.8) US Industrial production, Dec, m%ch, (-0.2) UK ILO unemployment rate (3mths), Nov, %, (8.3) US NAHB housing market index, Jan	19 <b>AU Labour Force, Dec</b> <b>employment, '000, 13.0, (-6.3)</b> <b>unemployment rate, %, 5.3, (5.3)</b> <b>participation rate, %, 65.5, (65.5)</b> <b>AU MI Consumer Inflation Expect., Jan, %, (2.4)</b> <b>AU MI Unemp. Expect., Jan, Index, (139.9)</b> NZ CPI, QIV, q/y%ch, (0.4/4.6) EU ECB Monthly report EU Current account, Nov, €bn, (-7.5) US CPI, Dec, m/y%ch, (0.0/3.4), core, m/y%ch, (0.2/2.20) US Housing starts/Building Permits, Dec, '000, (685/681)	20 <b>AU Int'l trade price indexes, QIV, q%ch</b> <b>export prices, 0.0, (4.0)</b> <b>import prices, 0.6, (0)</b> JP Leading / Coincident index CI, Nov GE Producer prices, Dec, m/y%ch, (0.1/5.2) UK Retail sales, Dec, m/y%ch, (-0.4/0.7) US Existing home sales, Dec CA CPI, Dec, m/y%ch, (0.1/2.9) CA Wholesale sales, Nov, m%ch, (0.9)
23 <b>AU PPI QIV, q/y%ch, 0.6/3.2, (0.6/2.7)</b> CA Leading indicators, Dec, m%ch, (0.8)	24 JP BoJ target rate, %, 0-0.10, (0-0.10) EU Industrial new orders, Nov US Richmond Fed Index, Jan CA Retail sales, Nov	25 <b>AU CPI, QIV, q/y%ch</b> <b>Headline (nsa), 0.2/3.3, (0.6/3.5)</b> <b>RBA Underlying, 0.8/2.7, (0.3/2.5)</b> <b>AU DEWR skilled vacancies, Dec, m%ch, (-1.0)</b> JP Trade bal total/adj, Dec, ¥bn, (-684.7/-537.9) UK Bank of England minutes UK GDP, QIV US Pending home sales, Dec US FOMC rate decision, %, 0-0.25, (0.25) CA Teranet House Prices, Nov	26 NZ RBNZ official cash rate, %, 2.50 (2.50) NZ Business PMI, Dec, Index, (45.7) US Durable goods orders, Dec US New home sales, Dec	27 NZ Trade balance, Dec JP CPI, Dec, JP Retail sales, Dec UK GfK consumer confidence survey, Jan US GDP, QIV US Uni. Of Michigan confidence, Jan
30 NZ PSI, Dec, Index, (56.6) GE Retail sales, Dec GE CPI, Jan US Personal income/spending, Dec US PCE deflator/core, Dec, y%ch, (2.7/1.7) US Dallas Fed, Jan, Index	31 <b>AU Private sector credit, Dec</b> <b>AU NAB Bus conf/cond Dec, Index, (2/1)</b> NZ Building permits, Dec JP Vehicle/Industrial production/Construction Orders/Housing Starts, Dec US Employment cost index, QIV, q%ch, (0.3) US S&P/Case-Shiller home price ind., Nov		<b>Early February</b> AU House prices, QIV 2011 (1 Feb) AU Building approvals, Dec (2 Feb) AU Trade balance, Dec (2 Feb) AU Retail trade, Dec (6 Feb) AU RBA cash target, Feb (7 Feb) AU RBA Statement on Monetary Policy (10 Feb)	<b>Central Bank Meetings</b> UK BOE (12 Jan) EZ ECB (12 Jan) CA Bank of Canada (17 Jan) JP BoJ (24 Jan) NZ RBNZ (25 Jan) US FOMC (25 Jan)

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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## Research

Commodities		Telephone	Email Address
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au
Paul Hodsmen, CFA	Mining & Energy Commodities	+613 9675 8532	paul.hodsmen@cba.com.au

Economics		Telephone	Email Address
Michael Blythe	Chief Economist	+612 9118 1101	michael.blythe@cba.com.au
Michael Workman	Senior Economist	+612 9118 1019	michael.workman@cba.com.au
John Peters	Senior Economist	+612 9117 0112	john.peters@cba.com.au
James McIntyre	Economist	+612 9118 1100	james.mcintyre@cba.com.au
Diana Mousina	Associate Economist	+612 9118 6394	diana.mousina@cba.com.au

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Associate Analyst, Fixed Income	+612 9118 1125	alex.stanley@cba.com.au
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitized Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange and International Economics		Telephone	Email Address
Richard Grace	Chief Currency Strategist & Head of International Economics	+612 9117 0080	richard.grace@cba.com.au
Joseph Capurso	Currency Strategist	+612 9118 1106	joseph.capurso@cba.com.au
Peter Dragicevich	FX Economist	+612 9118 1107	peter.dragicevich@cba.com.au
Andy Ji	Asian Currency Strategist	+65 6349 7056	andy.ji@cba.com.au
Chris Tennent-Brown	FX Economist	+612 9117 1378	chris.tennent.brown@cba.com.au
Martin McMahon	Economist Europe	+44 20 7710 3918	martin.mcmahon@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
Ai-Quynh Mac	Information Services	+612 9118 1102	maca@cba.com.au

New Zealand		Telephone	Email Address
Nick Tuffley	ASB Chief Economist	+649 301 5659	nick.tuffley@asb.co.nz
Jane Turner	Economist	+649 301 5660	jane.turner@asb.co.nz
Christina Leung	Economist	+649 301 5661	christina.leung@asb.co.nz
Daniel Smith	Economist	+649 301 5853	daniel.smith@asb.co.nz

## Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
	+612 9117 0341	Asia	+613 9675 6967
	Credit +612 9117 0020	Lon/Eu	+44 20 7710 3573
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Corporate	Telephone
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VIC	+612 9675 7737
SA	+618 8206 4155
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NZ	+64 9375 5738
Metals Desk	+612 9117 0069
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