Global Markets Research
Fixed Income: **Weekly Strategy**
7 March 2011

Middle-East unrest doesn't stop Trichet threatening a rate rise

- The unrest in the Middle-East and North Africa continues to colour markets despite improving US data.
- The ECB has been exceptionally direct in indicating rates are likely to rise next month.
- We model the effect curve slopes have on swap spreads. Past a "tipping point", flatter curves widen spreads.
- The futures roll is approaching. The fair value for the 3Y is around 10.4bp and for the 10Y is around 2.7bp.

For the second week in a row, the economic data has been quite good, particularly in the US, but fears over political instability in the Middle-East and North Africa have diverted market attention. The situation in Libya remains very unstable and threatens to flare-up into a full-blown international crisis at any moment.

ECB President Trichet didn't see the Middle-East unrest and uncertainty as a reason to hold back – quite the opposite. In a surprise move Trichet virtually pre-announced that the ECB would raise rates at their next meeting in April. EUR interest rates responded sharply to this unexpected news. (2Y bund yields up 24bp and 10Y bund yields up 12bp.) Adam Donaldson and Alex Stanley discuss some of the broader implications of this move on page 3.

Despite the unrest in the Middle-East, the continuing strength in US data caused the US 2Y and 10Y bond yields to sell-off around 8bp over the week. Both the manufacturing and non-manufacturing ISM indices set new multi-year highs. Also, the Fed Beige book noted that retail pricing intentions were starting to rise – at odds with the Fed's ongoing concerns about deflation. The market pricing of inflation continues to indicate at inflation being more of a concern than deflation. The US Payrolls data didn't cause much of a reaction because the headline result of +192K was very near expectations of +196K.

In reaction to the US moves, Australian 3Y bonds have sold-off 3bp since last Monday and 10Y bonds have sold off 6.5bp. The fallout from the APRA announcement that Supras would not be counted as liquid assets became clear. Swap spreads widened and the Supras underperformed. Semis generally tightened about 4-5bp over the week.

The RBA left rates unchanged last week (as expected) but highlighted confidence in the medium-term growth outlook. A good indicator of that growth, the unemployment data, is scheduled to be released on Thursday. CBA economists expect the unemployment rate will fall to 4.9%. We still look for the ongoing strength in the Australian economy to trigger higher rates and flatter curves in the medium term.

Historically, higher rates and flatter curves have seen swap spreads widen in Australia, though this has not been entirely true over the recent past. Philip Brown examines the relationship between slopes and spreads in his article on page 6 and finds the relationship is likely to reassert as the market curve flattens.

The Australian bond futures roll will take place on Tuesday 15 March. We examine the early pricing of the roll on page 12. We also document an unusual feature of ACGB EFPs and their relationship to bond futures on page 13.

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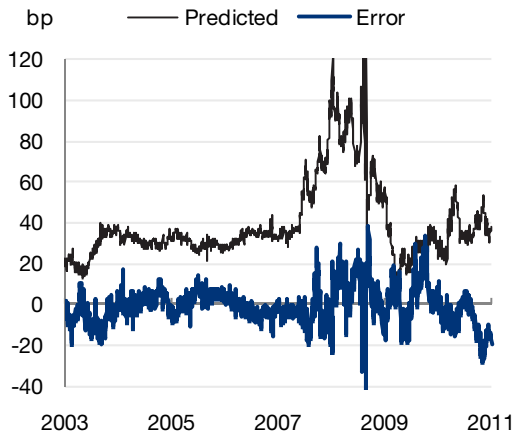
Model of 3Y swap spreads shows spreads should be widening



Source: CBA, Bloomberg

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Key Positions

The APRA announcement has seen longer-dated semis perform very well, though the impact has begun to fade and reverse over recent days. Supranational spreads have stabilised.

Few of our trades have moved particularly far in the past week. The 10Y vs 20Y*10Y spread has moved a few bp in our favour.

The AUD to NZD 3Y spread trade has continued to widen. The spread is now at 163bp. The most obvious potential catalysts for a change in the spread this week both occur on Thursday: the RBNZ meeting and the Australian employment data. Our NZ economists expect a 50bp cut and market pricing has shifted to expecting -31bp at the meeting. The most likely driver from the Australian side is the unemployment data, where CBA expects a fall in the rate to 4.9%. Once we are past the RBNZ meeting there are not many large catalysts in the short term. We can't see the market pricing shifting to an RBA rate hike soon. However, because the spread trade has large positive carry, we think it is worth keeping the trade even if the outright spread does stagnate a little. The trade can be profitable even when the spread isn't moving.

Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Buy the NSWTC Jun-20 (Government Guaranteed) as an ASW	-12bp (3-Feb-10)	-12bp	0bp	-35bp	0bp	**Hold**: A long-term buy-and-hold trade.
Buy the Suncorp Metway Govt Guaranteed Apr-11 Floater.	TM of 29.5bp	14.5bp	+15bp	0bp	40bp	**Hold:** This bond is Government Guaranteed. It should be much tighter. Repurchases of GG bank bonds becoming common.
But the KfW Dec-19 vs the IBRD Oct-19	33.5bp (31-Jan-11)	25bp	+8.5bp	20bp	40bp	**Hold:** The EU Sovereign CDS is improving, but the spread has not yet moved in AUD.
Pay the ASW of the ACGB Oct-14	31bp (14-Feb-11)	30bp	-1bp	40bp	25bp	**Hold:** We replace our 3Y EFP with this ASW instead. The bonds have lagged swap.
Buy the Feb-15 IBRD vs the Oct-14 IBRD	9bp (15-Feb-11)	7bp	2bp	2bp	12bp	**Hold:** The IBRD curve is too steep compared to the ACGB curve
Receive the 10Y swap vs the 20Y*10Y	-175bp (17-Feb-11)	-172bp	+3bp	-145bp	-195bp	**Hold:** The 30Y is too low in yield, the 20Y*10Y has pulled away from the 10Y spot rate.
Pay the AUD 3Y rate vs the NZD 3Y rate (carry 2.9bp per month)	132bp (21-Feb-11)	163bp	+23bp	210bp	140bp	**Hold:** The spread is relatively stable but should trend wider. There is strong positive carry so we can hold the trade for the medium term.
Buy the QTC 2020 against the IBRD 2020	20.5bp (28-Feb-11)	17.5bp	-3bp	28bp	15bp	**Hold:** We expect the APRA liquidity announcement will see the spread widen more.

ECB signals a rate hike

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- The ECB surprised markets by hinting at a rate hike as soon as next month.
- Early tightening raises questions about the US policy outlook.
- We expect policy tightening expectations to lead to flatter curves globally this year.

Trichet surprised the market by hinting at a rate hike.

ECB President Jean-Claude Trichet shocked markets last week by hinting at an April rate hike (the first move since 2009). We have pulled forward our forecast for ECB tightening to April, and envisage one further tightening before the end of the year (in Q4).

The ECB's focus on managing price stability has led to many hawkish remarks in the past, but few have been as explicit as the ECB message last week:

"The Governing Council remains prepared to act in a firm and timely manner to ensure that upside risks to price stability over the medium term do not materialise."

The ECB is concerned about possible second round effects.

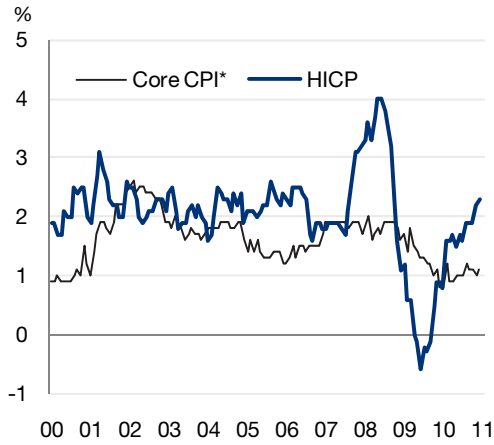
The ECB is clearly concerned about the recent pickup in EU inflation (Eurostat HICP) to 2.4% in February despite it being driven by higher food and commodity prices (Figure 1). The ECB targets year-on-year increases of less than 2% in the HICP to manage price stability. The market assumed the ECB would look through the recent rise in headline inflation, but Trichet's prepared message was clear:

"It is paramount that the rise in HICP inflation does not lead to second-round effects and thereby give rise to broad-based inflationary pressures over the medium term."

That's quite direct by Central Banker standards. Trichet was even more direct in answering questions at the press conference afterwards:

"The position of the Governing Council is that an increase in interest rates at the next meeting is possible."

Figure 1 – Euro area CPI (%, y/y)



**Excludes energy, food, alcohol and tobacco.*

**Non-seasonally adjusted*

Source: Eurostat, CBA

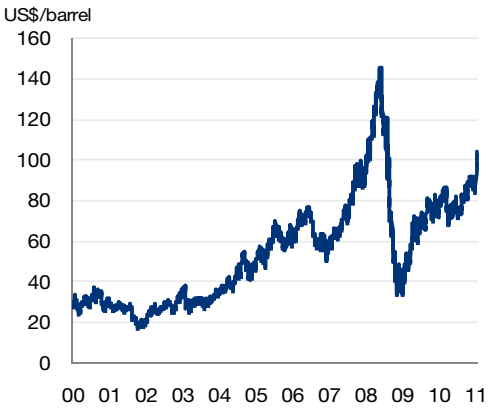
A different course for policy

The ECB's more hawkish stance raises questions about the Fed.

The early move raises some interesting questions about the response of policy to inflationary pressures and for the timing of US policy tightening.

The ECB's position on the transmission of spikes in inflation to more broad-based inflation stands in contrast to the Fed. In his testimony before congress last week, Bernanke said that there is likely to only be a modest increase in

Figure 2 – Oil Price (Nymex crude, 1st contract)



Source: Bloomberg, CBA

Higher commodity prices and upward revisions to growth are important themes for markets and central banks.

US CPI from higher commodity prices. The Fed typically focuses on ensuring that swings in the headline CPI do not affect underlying inflation trends or expectations. However the Fed's latest Beige book notes that some pass-through of higher non-wage input costs is underway. Similar to the Fed, the RBA acknowledge the risks to price stability from higher commodity prices, but tends to caution against reading too much into short-term spikes in headline CPI unless they impact inflation expectations.

Recent moves in the oil price and upward revisions to growth and inflation provide a clear rationale for the ECB's change in tone. The ECB revised up its mid-point inflation forecast from 1.8% to 2.3%. But they also revised their 2011 GDP forecast from 1.4% to 1.7% (mid points in range). While the recent surge in oil prices (Figure 2) presents a risk to growth as well as inflation, the change in forecasts show the ECB thinks the economy is now better placed to handle the growth risks.

We expect global yields to flatten markedly this year.

EONIA swap rates jumped following the ECB announcement (Figure 3) and French and German curves flattened noticeably. This has intensified the flattening in European curves that has been in place since late last year and highlights what is now a clear difference relative to the relatively steady US curve (Figure 4).

Broader implications?

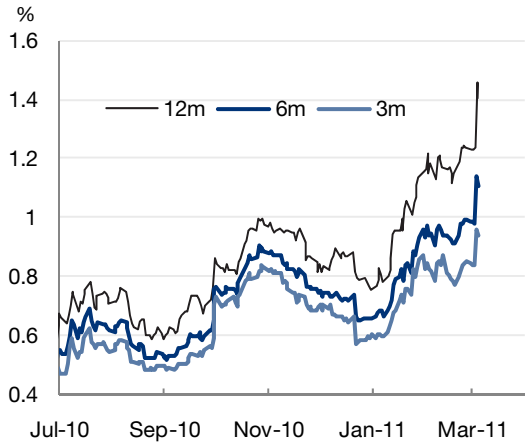
Trichet's comments bring to the fore some of the questions that were always likely to challenge markets this year. For policy, there is a broad issue revolving around liquidity supply, asset prices and managing long-term inflation expectations and bond yields. While raising near-term risks for growth, early but moderate action to tighten policy could do much to improve the longevity of the expansion. Most notably, early action would help control long-term inflation expectations.

The Fed will want to avoid keeping policy too accommodative for too long.

Criticism of Fed policy in the early 2000s centres around its lack of regard for liquidity and credit growth issues in the absence of an observable inflation problem. The ECB's history suggests greater regard for these issues even though they weren't cited last week and M3 growth is still moderate (see Figure 3). Another criticism of the Fed was that it supported excess credit growth and risk-taking by providing a virtual guarantee that tightening would be gradual (25bp per meeting). Perhaps the ECB is attempting to warn the market that it won't make the same mistake this cycle?

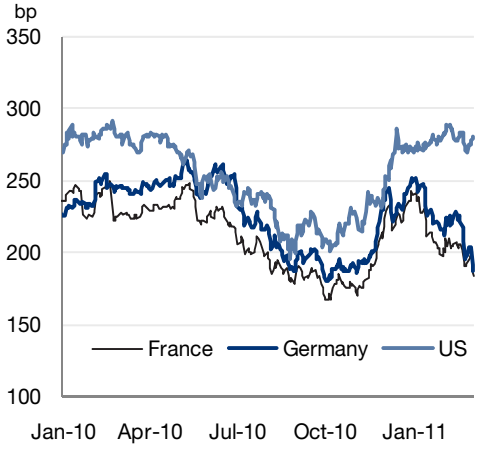
The key question in our view is whether similar thinking will also start to come through in the Fed's rhetoric and flatten the curve. We are

Figure 3 – EONIA Rates



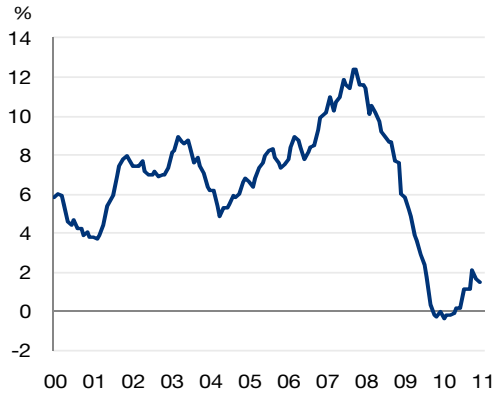
Source: Bloomberg, CBA

Figure 4 – Government bond slopes (2-10y)



Source: Bloomberg, CBA

Figure 5 – M3 Money Supply (y/y, seasonally adj)

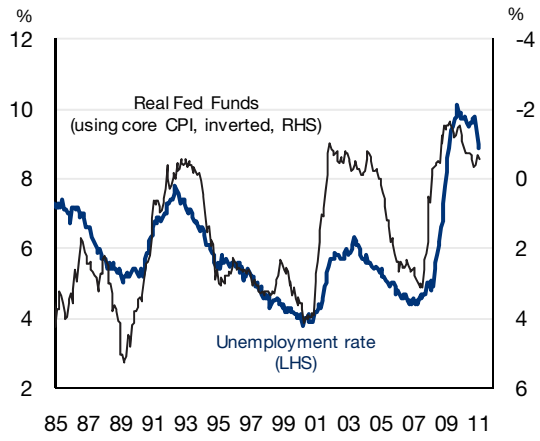


Source: Bloomberg, CBA

forecasting that the Fed will not extend QE2 past June and that they in fact start to tighten policy before the end of the year. The Fed's focus on its dual policy mandate (lowering unemployment) and avoiding deflation tail risks haven't provided much support for this view so far. (Governor Hoenig being a notable, if lonely, exception). The debate over US fiscal policy also complicates the outlook and tail risk analysis for the Fed. But we think the downward trend in the US unemployment rate and recognition of the long-run costs that super-easy policy could entail, will see the Fed start to change its tone before long. The ECB change could merely be a prelude.

We view early tightening as very helpful to containing long-term bond yields over time and expect global yield curves to flatten markedly this year.

Figure 6 – US unemployment and real Fed funds rate



Source: Bloomberg, CBA

The relationship between swap spreads and slopes has a tipping point

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- Usually, a flatter curve is assumed to promote pay-side interest and so widen swap spreads.
- Over the past six months we have observed spreads not widening despite a flattening of the curve.
- We believe a flatter curve widens the spreads eventually – but only after a "tipping-point" is reached.

Link between flattening of curve and spreads has been weak

We have been recommending a paid 3Y EFP position for some time. Our original rationale included (amongst other things) an expectation that the curve would flatten and that this would widen the swap spreads. The trade has had many incarnations and has performed moderately well – but not spectacularly. The curve has flattened. What has been missing is the link between the flattening of the curve and the 3Y swap spread widening.

In Figure 1 we show that over the middle and latter part of last year the slope was flattening quickly, but the EFP difference between 3Y swap and bond was also tightening. That is contrary to the "received wisdom" of swap spreads widening as the curve flattens.

We still expect a flatter curve – will this widen spreads or not?

We still look for the curve to flatten as the RBA raises rates over the remainder of 2011 and into 2012. We would normally say this is likely to lead to wider curves – but what about the recent behaviour? What's going on? It appears that the relationship between flatter curves and wider spreads gets stronger as the curve increases and flattens.

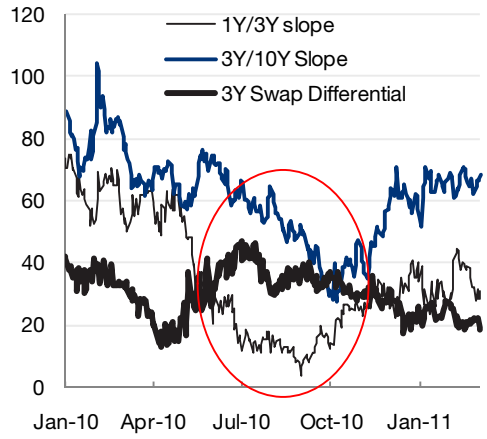
We find the relationship between slope and spreads is strongest when the curve is already flat. We suspect the market must either be feeling some "pain" from higher rates or see fixed rates as "cheap" compared to floating before large-scale fixing occurs. This creates a tipping point past which the relationship between slope and spreads is strong. As rates continue to rise we believe the relationship between slope and spreads will strengthen and the spreads will widen.

Some background and measurement issues

To avoid problems with the roll, we model the spread between 3Y swap and interpolated 3Y bond

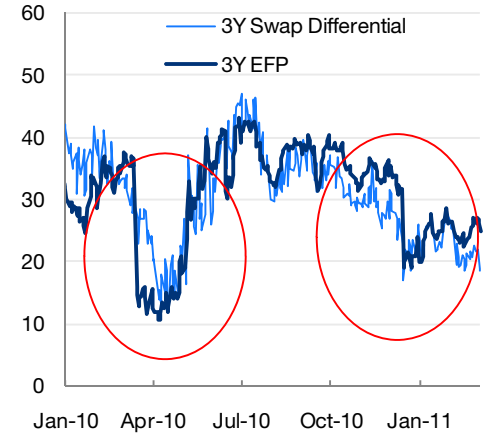
Measuring (and modelling) bond-swap spreads is not easy. In particular, the choice of the spread to be used is complicated. The most obvious measures have serious flaws when it comes to modelling. If you used the 3Y bond asset swap spread, then the spread will spike on the day the 3Y bond changes. Similarly, the EFP will spike on bond futures roll days. Instead, we have used a measure of the bond-

Figure 2 – Slopes and spreads



Source: CBA, Bloomberg

Figure 2 – Comparison between 3Y EFP and 3Y swap differential



Source: CBA, Bloomberg, Reuters

to-swap spread that is slightly removed from the real market, but is much easier to model.

We have chosen to model the difference between the 3Y swap rate and the interpolated, perfect 3Y bond rate available from Reuters. We refer to this measure as the "3Y Swap Differential". This differential measure is highly correlated to the EFP and to other measures of spreads, but it does not have the same difficulties around the choice of bonds (or bond futures). Figure 2 shows the Swap differential and the EFP tracking closely, but with the swap differential not as liable to massive changes around roll days. Please note that the differential is swap minus bond, so a swap underperformance widens (increases) the differential.

We use PCA realisations of Level and Slope to avoid artificially raising the r-squared

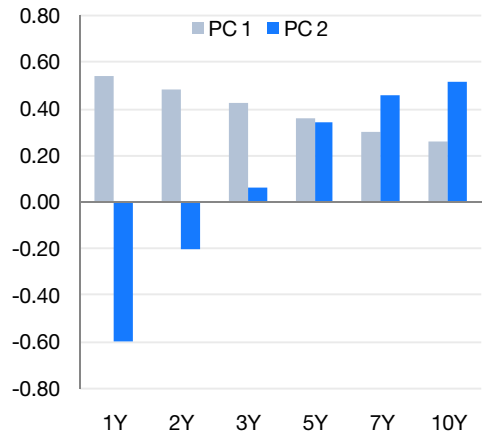
A second point is that the use of the level and slope of interest rates as independent variables is not, necessarily, an accurate way to model the swap spreads. Level and slope are clearly related to swap spreads, but again there are measurement problems. The most insidious problem is that using a simple definition of the slope, like the 10Y-3Y rate, can easily end up regressing the 3Y swap rate against itself. For example, if the dependent variable is the 3Y swap less the 3Y bond and the independent variable is the 10Y swap less the 3Y swap, then the 3Y swap is on both sides of the regression. This approach is flawed. In particular, such an approach artificially increases the R-squared and the individual significance of the slope and level variables

We use a Principal Components technique to avoid this measurement problem. The technical term is the "realisations" of the PCA components. These realisations are measures of the general level and slope of the curve. However, their generality avoids the issues of having the 3Y swap rate on both sides of the regression. It is worth noticing, however, that the variant for level, PC1, also includes some notion of slope. This result is very common and is attributed to the correlation between level and slope. Generally, in a sell-off, you would expect some flattening – i.e., a "parallel" shift in rates is not parallel at all. A parallel shift moves the front end more than the long end. Figure 3 shows precisely this response.

PC1 is highly related to level and PC2 is related to slope

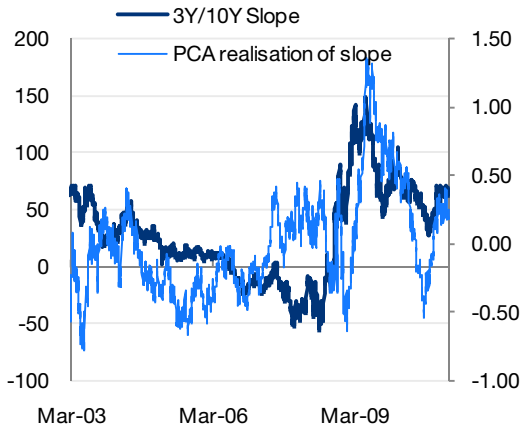
However, our use of PCA also means our measure of slope may not entirely tally with a "normal" definition of slope. PCs are uncorrelated, by definition, and PC1 includes some notion of slope. Hence, PC2 measures changes in slope over and above the changes expected because of changes in the level of rates. For the record, the long-run correlation between the PCA realisation of slope and the 3Y/10Y slope is 0.43. PC1 is clearly a measure of slope (see Figures 4 and 5).

Figure 3 – Results show PC1 is level and PC2 is slope



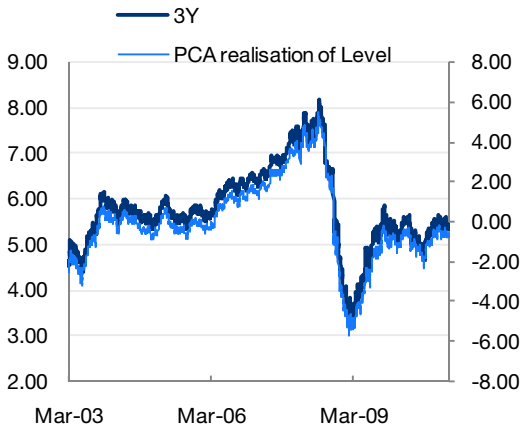
Source: CBA, Bloomberg, Reuters

Figure 4 – PCA measure of slope and the normal measure of slope



Source: CBA, Bloomberg, Reuters

Figure 5 – PCA measure of level and the 3Y



Source: CBA, Bloomberg, Reuters

We also collected and analysed data on ACGB issuance, the Bills-OIS spread, the CDS of the four major banks and the repo rate.

Long-term model results

The long-term model fulfils all our expectations about the directionality of the relationships with swap spreads

Using data from 1993 to present we found that all our variables were statistically significant and that all relationships were in the direction we expected. (See Figure 6.)

The Level is positively correlated

The intercept is positive (as expected). The Level of rates is positively related to the spread. This is expected because of the convexity of interest rates. At higher rates the dollar value of each basis point of differential is lower, but the dollar value of the differential should be the same because it is based on credit risk. In the same way as credit spreads are higher in currencies where yields are higher, so should swap differentials be higher in the same currency as yields rise.

The Slope is negatively correlated

The slope of the curve is negatively correlated to the spread. This is the standard result. Flatter curves are more attractive for hedging and so the extra pay-side pressure pushes spreads wider as curves flatten.

Bills/OIS is negatively correlated

The Bills-OIS spread correlates positively with swap differentials. The Bills-OIS spread measures bank risk, which is a large part of the swap differential.

ACGB issuance is negatively correlated

The amount of ACGB issuance over the previous month correlates negative with spreads. More issuance increases the yield on bonds and so decreases the swap differential.

Major bank CDS is positively correlated

The average of the four major banks' CDS spreads correlates positively with swap differentials, as you would expect.

Repo rates are negatively correlated

Finally, the repo rate correlates negative with the differential. When a bond goes special on repo the cause is normally scarcity of the bond. The scarcity lowers the bond yield which increases the swap differential. A lower repo rate thus leads to a higher swap differential.

The results are inconsistent across time, however

Our original motivating observation was that the swap slope no longer seemed to be driving spreads. Overall, the slope is negatively correlated, but the last period seems to be different.

Behaviour isn't consistent though

We examined the behaviour of the spread (see Figure 7) and noted that there were very different periods in the data. We divided the last eight years into four episodes. The episodes are: an "upswing" in spreads in 2003; a "flat"

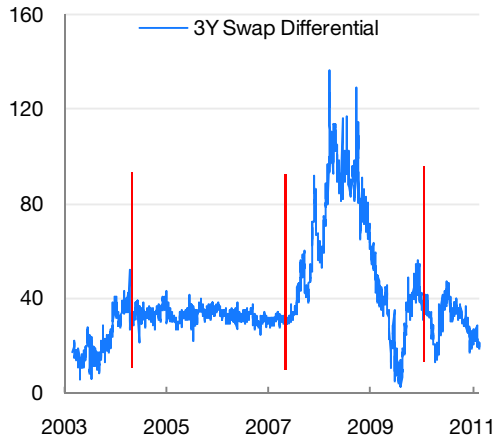
Figure 6 – 3Y differential results (all data)

Regression Statistics	
Multiple R	0.90
R Square	0.82
Adjusted R Square	0.82
Standard Error	9.29
Observations	1999

	Coefficients	t Stat	P-value
Intercept	19.959	45.55	0.00
Level	5.887	46.16	0.00
Slope	-7.170	-10.49	0.00
Bills-OIS	0.477	22.75	0.00
Rolling ACGB issuance	-0.003	-13.25	0.00
CDS	0.275	27.89	0.00
Repo Rate	-2.161	-8.71	0.00

Source: CBA, Bloomberg, Reuters

Figure 7 – 3Y Swap Differential



Source: CBA, Bloomberg, Reuters

period from Jan-04 to Mar-07; the "crisis" period from Apr-07 to Dec-09; and the "recovery" period from Jan-10 to present.

Figure 8 – Results broken by time period (unusual results highlighted)

Coefficient	Upswing Mar-03 to Dec-03		Flat Jan-04 to Mar-07		Crisis Apr-07 to Dec-09		Recovery Jan-10 to Present		Total Mar-03 to Present		Theory
	Co-eff	P-Value	Co-eff	P-Value	Co-eff	P-Value	Co-eff	P-Value	Co-eff	P-Value	
Intercept	13.73	0.00	32.10	0.00	21.05	0.00	16.08	0.00	19.96	0.00	+
Level	4.74	0.00	-1.50	0.00	6.90	0.00	-9.18	0.00	5.89	0.00	+
Slope	-20.17	0.00	-1.13	0.15	-8.94	0.00	-0.90	0.55	-7.17	0.00	-
Bills-OIS	0.65	0.00	-0.04	0.22	0.28	0.00	0.38	0.00	0.48	0.00	+
Rolling ACGB	6.15	0.00	-0.86	0.00	-2.74	0.00	-0.89	0.00	-2.83	0.00	-
CDS	-0.10	0.41	0.17	0.03	0.38	0.00	0.02	0.48	0.27	0.00	+
Repo Rate	-1.03	0.05	-0.15	0.38	0.98	0.08	-0.47	0.20	-2.16	0.00	-
R-Squared		52%		22%		84%		66%		82%	

Source: CBA, Bloomberg, Reuters

Level is not reliably positive

Slope stays negative but the significance waxes and wanes

In the sub-periods, not all the results are as significant as we would like. For example, the coefficient on the level, which should be positive, is negative in two of the four sub-periods. There are various possible explanations. Conceivably, the "flat" period is not volatile enough to allow the level to come through properly.

It is also possible that the Sovereign crisis, which is not directly measured in any variable, is interfering with the results.

The slope variable is negative in all sub-periods, but the significance waxes and wanes.

Why is this happening?

Is slope only significant above a "tipping point"?

The best explanation we can come up with for why the slope is inconsistent is a "tipping point" argument.

To test this theory, we re-estimated the data with the slope coefficient removed and obtained the residuals. This residual is the "unexplained" part of the model when the model has no slope variable.

Then, we divided the data into the times when the slope was less steep than average and when the slope was more steep than average. (Because of the way the PCA works, that split is at zero.) Finally, we checked the relationship between the residual and the slope within the two sub-groups.

In flat curves the correlation is strongly negative, as expected, but not in steep curves

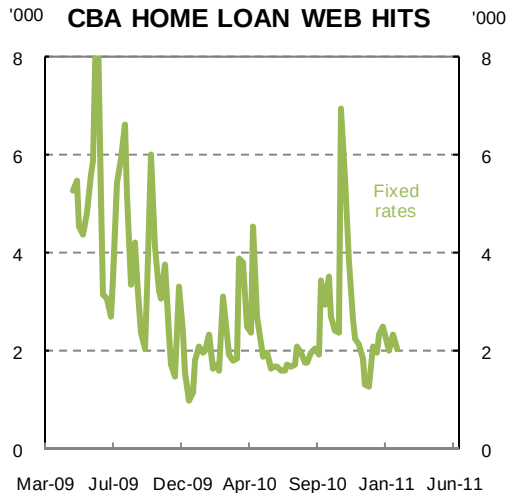
The correlation between the residual of the regression when the slope was steep and the spreads itself was nearly zero. In steep curves, changes of slope don't seem to matter. The correlation when the curve was flat was strongly negative. In flat curves the slope of the curve

Figure 9 – Results when split into "steep" and "flat" episodes

	Correlation
Steep	0.03
Flat	**-0.36**
Total	-0.18

Source: CBA, Bloomberg, Reuters

Figure 10 – Fixed rate website not generating hits



Source: CBA

does matter. The overall results fall somewhere in the middle. (See Figure 9.)

Since 2010 the curve has been relatively steep (See Figure 5). The "tipping point" part of the argument comes from the observation that a flattening of the curve doesn't necessarily encourage fixing of rates by homeowners or borrowers. The argument only works when the curve is already flatter than some (unknown) tipping point.

We postulate that homeowners will fix when one of two things is true. First, the fixed rate is lower than the floating rate (very uncommon, but has happened in NZ and Australia occasionally). Second, the homeowner is approaching the point that further rate hikes will cause serious financial difficulty.

The pay-side fixing which triggers the widening of spreads might only occur in curves that are flatter than average.

Because flat curves are associated with high rates, both the "free money" and "pain point" arguments only apply at quite flat levels of rates. That description perfectly matches the behaviour we observed in the swap differential significance results. Figures 10 and 11 show that over 2010, despite the flattening of the curve, the CBA fixed rate website received few extra hits and the proportion of total lending that is fixed rate remains low. (The spike in November 2010 relates to the more-tan-RBA rate increase following the RBA rate decision.)

However, as the RBA continues to raise rates and the curve continues to flatten, it seems likely that more interest rate hedging will come into the market. Since that hedging is overwhelmingly to pay fixed rates it tends to widen swap spreads.

Other possible explanations

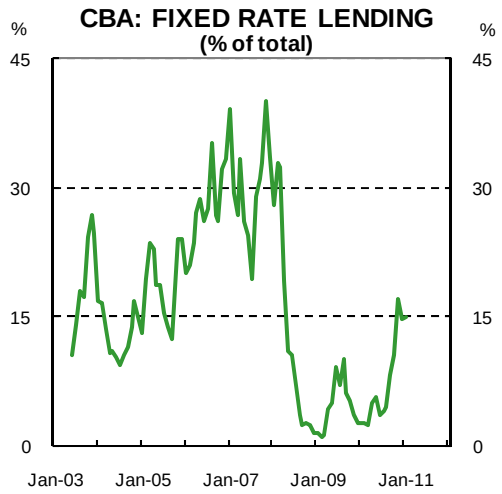
We have not included a variable to measure non-Government issuance

All models are simplified versions of reality. This is no exception. The largest point that we have excluded is that we have no measure of non-Government issuance. Large amounts of non-government issuance would tend to tighten swap curves if that issuance is subsequently swapped back to floating rates.

Markets being markets, even the expectation of a change in the total level of corporate issuance can impact swap spreads. Last week the APRA announcement lowered the market's expectation of future supranational issuance. Supras tend to issue with slightly longer bonds than your average issuer and 2018 maturities have been a recent favourite. Supras also tend to receive swap rats to swap all their bond issuance back into their home currencies. The market's expectation of reduced receive side flow caused 10Y swap spreads to push wider last week.

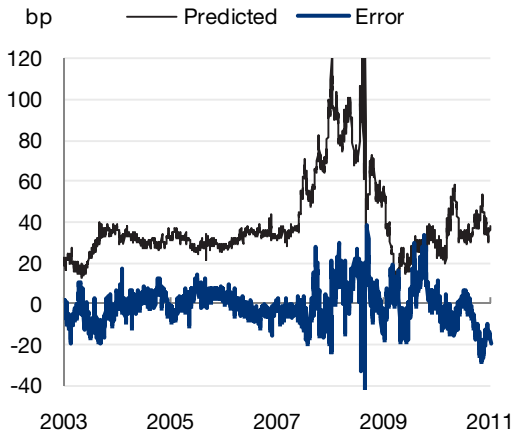
Other possible variables that might warrant

Figure 11 – Fixed rate lending a small proportion of the total



Source: CBA

Figure 12 – 3Y Swap differential, model and errors



investigation are the Sovereign CDS spread (though the history of the data is short) and the US swap spreads.

Conclusions

We think the relationship between slope and spread will reassert

There are good reasons to assume that the relationship between the slope of the curve and the swap spreads will reassert. In the long run the slope is negatively correlated to the curve and this becomes more apparent as the curve gets flatter. We cannot pinpoint exactly where the tipping point is, but each time the RBA raises rates we get closer.

3Y spreads remain too low

The current level of the swap differential is 19.5bp. The model suggests that the current 3Y swap differential should be closer to 37bp. That is a significant difference and around twice the model's standard error of estimate (9.29 bp). The model is suggesting that the 3Y spread remains statistically significantly too low.

The 15 March Futures Roll approaches

Philip Brown – Fixed Income Quantitative Strategist – 61 2 9118 1090 – philip.brown@cba.com.au

- The 3Y basket is changing. The May-13 will be dropped in favour of the Oct-14.
- We estimate the fair value of the 3Y roll is 10.4bp (helped by the change in bonds). The market price is 11bp.
- We estimate the fair value of the 10Y is 2.7bp. The market price is 2.25bp.

3Y bond basket is changing

10Y basket is unchanged

The next futures roll is 15 March. The 3Y bond basket will change, but the 10Y bond basket will stay the same. In the 3Y basket the May-13 has been dropped and replaced with the Oct-14.

We estimate the fair value of the 3Y roll to be 10.4bp. The market price for the 3Y roll is 11bp. We estimate the fair value of the 10Y roll to be 2.7bp. The market price for the 10Y roll is 2.25bp.

The lengthening of the 3Y bond basket, coupled with the upwards-sloping curve, makes the 3Y roll quite high. We estimate that the change in bonds alone is worth 6bp to the 3Y roll. The effect of the repo and the slope contributes the other 3.7bp.

Repo is having some effect on the roll, particularly the 3Y

There have been some bonds going special on repo over the last few weeks. The most important of these has been the May-13, which remains slightly scarce and his trading 25bp through cash. The Apr-15 has also been trading slightly under cash on repo.

The repo on the 3Y basket to June is now about 14bp under the cash rate. The AOFM is tendering $500m of the May-13 on Wednesday, though this new issuance won't be settled until Monday 14 March. There is some chance the 3Y roll may be affected by repo specialness.

A significant change in the level of rates would change the roll too

Although repo is a factor - particularly on the 3Y - we believe the most likely change to the rolls will come via a convexity move. "Convexity" refers to the fact that the fair value of the futures roll tends to change with the level of rates. Because the roll has elements of a forward rate, a 10bp sell-off tends to increase the 3Y roll by 0.9bp and to increase the 10Y roll by 0.3bp. The convexity of the roll is also symmetric and the roll tends to fall in a rally.

The most likely domestic driver of a large move in the near future is the Australian employment data scheduled for release on Thursday.

Figure 1: 3Y roll

3Y Roll	
Near Bond Basket	6.50 May-13, 5.50 Dec-13, 6.25 Jun-14, 6.25 Apr-15
Far Bond Basket	5.50 Dec-13, 6.25 Jun-14, 4.50 Oct-14, 6.25 Apr-15
Implied Price	10.4
Market Price	11
Roll Convexity (bp per 10bp sell-off)	0.9

Source: Reuters, CBA

Figure 2: 10Y roll

10Y Roll	
Near Bond Basket	4.50 Apr-20, 5.75 May-21, 5.75 Jul-22
Far Bond Basket	4.50 Apr-20, 5.75 May-21, 5.75 Jul-22
Implied Price	2.7
Market Price	2.25
Roll Convexity (bp per 10bp sell-off)	0.3

Source: Reuters, CBA

The difference between an ACGB and a bond future drives bond EFPs

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- The Dec-13 ACGB has not had a constant EFP over the past few months.
- EFPs compare a bond rate (which is spot) to a futures price, which is a type of forward rate.
- The difference between the two causes a roll-down effect and a consistent move wider in EFPs over time.

The EFP of a 3Y bond should have a predictable pattern – it is not constant

A client recently asked us to explain why the 3Y ACGB was not constant on an EFP basis. The 3Y bond future and the 3Y bond itself should have the same price, shouldn't they? So the EFP should be zero (or nearly zero) and constant?

The short answer is: not quite. The EFPs of the 3Y and 10Y physical ACGB physical bonds are very stable, but do have a predictable pattern over time. The fact a bond future resembles a forward rate affects the EFPs. The bond future rolls down the curve, tending to make physical bonds slowly underperform the bond futures, all else equal.

For bonds that are not near the centre of the bond futures basket the slope of the curve can change the EFP too.

The impact of the forward rates

A bond future has elements of a forward rate while the spot bond does not

An Australian bond future is like a forward rate. It measures the expected yield on the bond on the expiration of the futures contract.

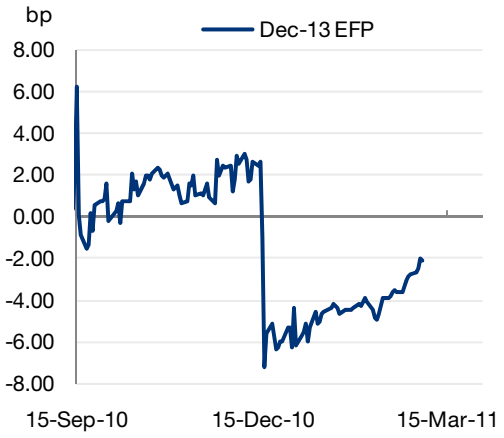
In an upward sloping yield curve environment the 3M repo rate will be lower than the 3Y or 10Y rate. This means that the forward yield of bonds on the maturity date of the futures contract is higher than the spot yields.

The EFP measure the relationship between the physical bond (a spot yield) and the futures price (a forward yield). Because the forward yield is higher than the spot yield the EFP is generally negative for a bond with the same length as the bond future. As time passes the bond future "rolls down" the curve and the EFP rises.

The "jump" associated with the 3Y roll is slowly undone over the following three months

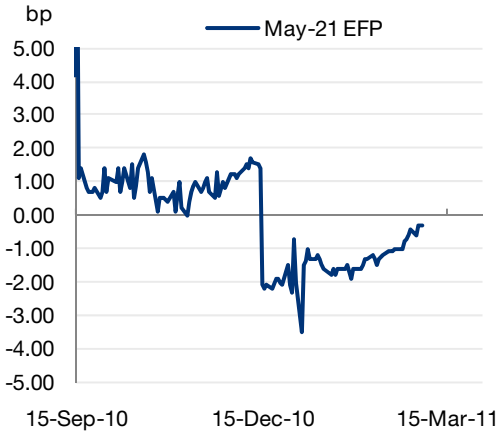
Figure 1 shows the Dec-13 bond's EFP to the 3Y futures contract. The EFP slowly rises as time passes, then falls a large amount on the roll day. Notice also that between both Sep-10 and Dec-10 and between Sep-10 and Mar-11 the EFP has increased around 3.5bp. The current contribution of the slope to the 3Y roll is around 4bp. This isn't a fluke, the 3Y roll is "undoing" in one go the last three months of accumulated roll-down. The actual 3Y roll tends to have a larger effect than the previous

Figure 1: 3Y EFPs in an upward sloping curve



Source: Bloomberg, CBA

Figure 2: 10Y EFPs in an upward sloping curve



Source: Bloomberg, CBA

forward-rate related roll-down because the bond basket is changing too.

Figure 2 shows the EFP of the bond nearest the 10Y point. Please notice that since 15 Dec it has increased its EFP by around 2bp. Again, this is, not by accident, quite near the value of the 10Y roll of 2.7bp.

The impact of slope

When bonds are not near the centre of the bond basket, the curve matters too

The slope can influence the EFP of a bond which is not at the centre of the maturity bucket. So far we have looked at the bonds which are quite near the centre of the bond basket (on a maturity basis).

Being near the centre of the basket means that a change in the slope tends to be offset. In a steepening move, the bonds shorter than average bond will outperform the average and the bonds longer than average will underperform the average. When the bond is near the centre of the maturity spread, these effects cancel out.

Dec-13 EFP is protected from slope effects because it is the centre of the basket

The Dec-13 is near the centre of the current 3Y basket. The basket stretches from May-13 to Apr-15. In Figure 3 we show the 3Y EFP of the Dec-13 and the difference between the Dec-13 yield and the average yield of the bonds in the bond basket. Although the EFP is trending higher, the difference between the Dec-13 yield and the average yield is almost unchanged over the past two months.

The Apr-15 is affected by the changes in the slope

We demonstrate a slope effect in Figure 4. The Apr-15 is the longest bond in the 3Y basket. The Apr-15 EFP has moved much further than the Dec-13 EFP. The steepening of the slope between the Dec-13 and the Apr-15 has also been driving the movements in the Apr-15 EFP. The slope between Dec-13 and Apr-15 has mostly been rising over the period we show, though it did also flatten in late September 2010.

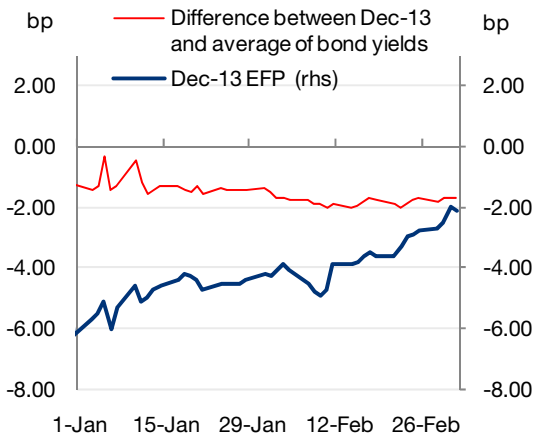
Conclusions

The EFPs of bonds that are very near the centre of bond baskets are affected by similar influences as bond futures rolls are. The bond future has elements of a forward rate and rolls down the curve faster than a spot rate does.

The bond roll is the pushing out of the bond futures maturity by three months. Every other day is the shortening of the bond futures maturity by one day. The futures roll is, in many ways, undoing the roll-down of the previous three months (assuming an unchanged futures basket).

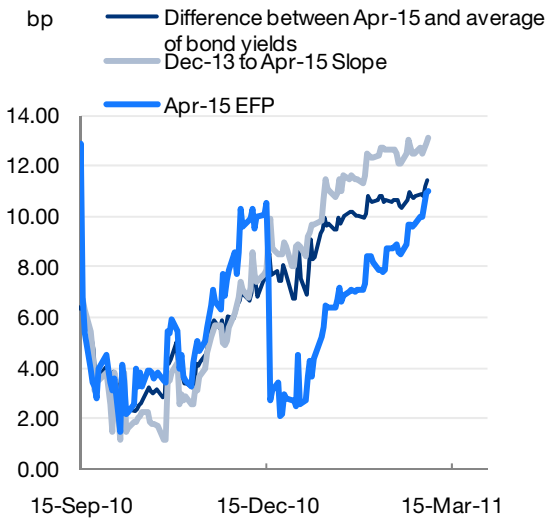
The slope of the curve can influence the EFP of

Figure 3: 3Y EFPs and average yields



Source: Bloomberg, CBA

Figure 4: 3Y EFPs and average yields



Source: Bloomberg, CBA

bonds which are not near the centre of the basket. Bonds in the centre of the basket are mostly protected from curve effects. For average maturity bonds the effects on bonds shorter than the average is offset by bonds longer than the average.

If a bond was to move against the fair value curve, this would affect the EFP too. However, generally speaking, only bonds which are relatively new and moving from cheap to the curve to on the curve display this property. Generally, these bonds are too new to be included in a futures basket.

Finally, all these variables are market variables, too, so there will be a small amount of random market variation.

When the futures roll takes place next week, the EFPs on bonds will fall. Between now and 15 June this EFP shift will slowly reverse. The bonds near the centre of the bond baskets will slowly cheapen (on an EFP basis) as the bond future rolls down the curve. Bonds not at the centre of the bond baskets will also display the property, but changes in the slope will also be affecting their EFPs at the same time, which obscures the pattern.

Key Views

United States

The underlying data in the US continues to improve. Both the manufacturing and non-manufacturing ISM indices set multi-year highs last week. The most recent payrolls data came in near expectations and the unemployment rate fell again to 8.9%. However, uncertainty about the continuing conflict in the Middle-East has kept bond yields down in the US. The US Government is also struggling to pass a budget which is adding to unease.

We expect a stronger economic recovery to take hold in mid or late 2011 and for bond yields to head higher as the situation becomes clearer. The Fed remains concerned about the very low level of inflation and the slow recovery in the labour market (though even this is now starting to show signs of life). The Fed is likely to be very slow to adjust its views and respond to recovery with tighter policy. When it does, we see room for the curve to flatten markedly. We expect the Fed will keep the current QE policy (dubbed "QE2") in place until it expires on 30 June.

Overall, higher US two-year bond yields are being met with higher two-year bond yields from the US's major trading partners (MTPs), putting mild downward pressure on the US-MTP two-year bond spread. The result is a mild weakening in the USD. As the Fed maintains their commitment to keep interest rates at historical low levels and run their QE2 easing policy until the end of June as scheduled, the USD will remain heavy. We see some upside in EUR/USD, particularly given the ECB's indication that they are likely to raise interest rates to offset inflation pressure, as early as next month.

	Tactical (<1 mth)	**Strategic** (>3 mths)
Policy rate	0.1%	0.1%
10yr bond	3.40%	3.60%
2/10 curve	280bp	270bp
USD/JPY	83.2	85
EUR/USD	1.41	1.45

Australia

Australia's economic health and lack of spare capacity continues to stand in stark contrast to the rest of the advanced world. RBA tightening in 2010 put substantial flattening pressure on the domestic curve and saw spreads to the US benchmark widen noticeably. But the impact of that tightening on both the retail sector and the AUD has curbed inflation pressure and contributed to a change in market trend in late 2010 (together with the US bond sell-off).

An important dynamic in the domestic markets is tension between a comparatively weak current picture of the economy and a very strong medium term outlook. The RBA has been highlighting the medium-term outlook repeatedly in recent communications. We see the fundamental strength exerted by high commodity prices and booming investment as dominating over the year and pushing the RBA to tighten another 75bp this year to ward off inflation pressure generated by the tight labour market. That will flatten the curve and could temporarily widen spreads to the US. However, with no "smoking gun" likely in the near term and a new flood levy on the way, timing on rate rises is harder to predict. The RBA's earlier action to tighten policy should help to narrow spreads to US bonds when they start to rise.

There appears little reason to get bearish on the AUD given the recent testimony and guidance from the RBA. The RBA remain comfortably on a tightening bias after considering growth and the balance of risks in both the global and local economies. As we approach the end of February, major Australian exporters will commence negotiation of their quarterly (and monthly) iron ore and hard coking coal contract prices. While the AUD has remained in a 0.9800-1.0200 range for some time, we think the risk is that the AUD breaks to the upside.

	Tactical (<1 mth)	**Strategic** (>3 mths)
Policy rate	4.75%	5.00%
10yr bond	5.60%	5.80%
3/10 curve	30bp	20bp
10yr EFP	52bp	55bp
10yr v US	220	220
AUD/USD	1.0200	1.0500

New Zealand

The Christchurch earthquake has completely changed the direction of the NZ economy. Our economists expect a 50bp emergency rate cut at the RBNZ meeting on March 10. The destruction in Christchurch is considerable and the recovery will be a very long, slow one.

The New Zealand economy was already weakening before the quake, however, and the rest of the year is likely to be a slow grind. Economic activity appears to have stalled over the second half of 2010. Inflation factors continue to suggest inflation is not a concern.

New Zealand's economy remains weak and may even be in a technical recession (we will find out for sure in a few weeks time). But the NZD/USD will remain supported courtesy of a weak USD and firm agricultural commodity prices, despite interest rate cuts being priced in. The AUD/NZD will continue to remain well-supported but risks spiking and peaking above 1.3950 on Thursday 10 March after the RBNZ board meeting. The RBNZ is unlikely to deliver a series of rate cuts. So markets will begin to price for the next move being a hike following the RBNZ outcome on Thursday. We would use the immediate post-meeting period to go short the AUD/NZD exchange rate.

	Tactical (<1 mth)	**Strategic** (>3 mths)
Policy rate	2.50%	2.50%
10yr bond	5.40%	5.60%
2/10 swap curve	185bp	195bp
10yr v US	200	200
10yr v AUS	+20	+20
NZD/USD	0.7350	0.7500
AUD/NZD	1.3950	1.3500

CBA Forecasts:

Cash rate	7-Mar	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.25	1.50
Australia	4.75	4.75	5.00	5.25	5.50	5.75	5.75	5.75	5.75
New Zealand	3.00	2.50	2.50	2.50	2.75	3.00	3.25	3.75	4.25
United Kingdom	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00	2.25
Eurozone	1.00	1.00	1.25	1.25	1.50	1.75	2.00	2.25	2.50
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
2-yr bond yield	**7-Mar**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	0.69	0.65	1.00	1.40	1.70	2.00	2.30	2.60	2.80
Australia	4.98	5.10	5.40	5.70	5.90	5.90	5.80	5.70	5.70
New Zealand	3.80	3.50	3.50	3.70	3.90	4.30	4.60	4.70	4.60
United Kingdom	1.39	1.50	2.00	2.40	2.60	2.80	3.00	3.10	3.20
Eurozone	1.76	1.50	1.70	1.90	2.20	2.50	2.80	3.00	3.00
Japan	0.24	0.20	0.20	0.25	0.25	0.35	0.65	0.75	0.75
10-yr bond yield	**7-Mar**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	3.48	3.40	3.60	3.90	4.00	4.10	4.20	4.30	4.30
Australia	5.53	5.60	5.80	5.90	6.00	6.00	5.90	5.90	5.90
New Zealand	5.58	5.40	5.60	5.70	5.80	5.90	5.90	5.80	5.80
United Kingdom	3.63	3.60	4.10	4.40	4.50	4.60	4.70	4.60	4.60
Eurozone	3.27	3.10	3.30	3.40	3.40	3.50	3.60	3.70	3.80
Japan	1.29	1.20	1.30	1.30	1.40	1.50	1.60	1.80	1.90

Currencies	7-Mar	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
AUD/USD	1.01	1.02	0.99	0.94	0.92	0.90	0.88	0.85	0.85
AUD/JPY	83.38	86.70	85.14	81.78	80.96	79.20	77.44	74.80	74.80
AUD/EUR	0.73	0.73	0.68	0.66	0.66	0.66	0.65	0.64	0.65
AUD/GBP	0.62	0.63	0.58	0.56	0.56	0.56	0.55	0.54	0.54
AUD/CAD	0.99	1.03	1.01	0.97	0.96	0.95	0.92	0.92	0.92
AUD/NZD	1.37	1.34	1.32	1.31	1.30	1.29	1.28	1.25	1.25
USD/JPY	82.26	85.00	86.00	87.00	88.00	88.00	88.00	88.00	88.00
USD/EUR	1.40	1.40	1.45	1.42	1.40	1.36	1.35	1.32	1.30
USD/GBP	1.62	1.62	1.70	1.68	1.65	1.60	1.59	1.58	1.58
USD/CAD	0.97	1.01	1.02	1.03	1.04	1.05	1.05	1.08	1.08
USD/NZD	0.74	0.76	0.75	0.72	0.71	0.70	0.69	0.68	0.68

Calendar – March 2011

Monday	*Tuesday*	*Wednesday*	*Thursday*	*Friday*
Central Bank Meetings AU RBA (1 Mar) CA Bank of Canada (1 Mar) EU ECB (3 Mar) UK BOE (10 Mar) NZ RBNZ (10 Mar) JP BoJ (15 Mar) US FOMC (15 Mar)	**1** **AU AI-Group PMI, Feb, Index, (46.7)** **AU Current acc deficit, QIV, $bn, -7.5, (-7.83)** **AU Net export contrib, QIV, ppt, 0.1, (-0.4)** **AU Retail trade, Jan, m%ch, 0.3, (0.2)** **AU Government Finance Statistics, QIV,** **AU RBA cash rate, %, 4.75, (4.75)** NZ Terms of Trade Index, QIV, q%ch, (3.0) CH PMI Manufacturing, Feb, Index, (52.9) EU/GE/UK PMI manufacturing, Feb, Index, (59/62.6/62) US ISM manufacturing, Feb, Index, (60.8) CA Bank of Canada, %, 1.00, (1.00)	**2** **AU HIA new home sales Jan, m%ch, , (-0.6)** **AU GDP, QIV, q/y%ch, 0.7/2.7 (0.2/2.7)** EU PPI, Jan, m/y%ch, (0.8/5.3) UK PMI construction, Feb, Index, (53.7) US Federal Reserve Beige Book	**3** **AU CBA/Ai-Group Perf of Serv Index, Feb, (45.5)** **AU Build approv, Jan, m%ch, 3.0, (8.7)** **AU Trade balance Jan, $bn, 1.5, (1.98)** CH Non-Manuf PMI Feb, Index, (56.4) EU PMI services/composite, Feb, Index, (57.2/58.4) EU GDP, QIV, q/y%ch, (0.3/2.0) EU Retail sales, Jan, m/y%ch, (-0.6/-0.9) EU ECB announces int. rate, %, 1.00, (1.00) GE/UK PMI services, Feb, Index, (59.5/54.5) US ISM non-manufacturing, Feb, Index, (59.4)	**4** UK New car registrations, Feb, y%ch, (-11.5) US Non-farm payrolls, Feb, '000, (36) US Unemployment rate, Feb, %, (9.0) US Avg hrly earnings, Feb, m/y%ch, (0.4/1.9) US Factory orders, Jan, m%ch, (0.2) CA Ivey purchasing manager index, Feb, , (41.4)
7 **AU Ai-Group PCI, Feb, Index, (40.2)** AU TD inflat gauge Feb, m/y%ch, , (0.4/3.4) AU ANZ Job ads, Feb, m%ch, (2.4) JP Leading / Coincident index CI, Jan, (101.4/103.5) US Consumer credit, Jan, $bn, ($6.1) CA Building permits, Jan, m%ch, (2.4)	**8** **AU NAB Bus conf/cond, Feb, Index, (4/-6)** NZ Manufacturing activity QIV, q%ch, (1.3) JP Curr a/c total/adjusted, Jan, ¥bn, (1195.3/1555.9) JP Trade balance - BOP basis, Jan, ¥bn, (768.8) GE Factory orders, Jan, m/y%ch, (-3.4/19.7) UK RICS house price balance, Feb, %, (-31.0) CA Housing starts, Feb, '000, (170.4)	**9** **AU RBA Ass Gov Philip Lowe speaks in Sydney** **AU MI/WBC Consumer Sent, Mar, Index, (106.6)** **AU Housing finance, Jan, m%ch** **No. of own-occupiers, %, 1.0, (2.1)** **Value of all loans, %, 1.0, (2.3)** **AU RBA Governor Glenn Stevens speaks in London** NZ Card spending, Feb, m%ch, (2.4) JP Machine orders, Jan, m/y%ch, (1.7/-1.6) GE Industrial production, Jan, m/y%ch, (-1.5/0.1) UK Total trade balance, Jan, £bn, (-4.8) US Wholesale inventories, Jan, m%ch, (1.0) CA Housing price index, Jan, m%ch, (0.1)	**10** **AU Labour force, Feb** **employment, '000, 20, (24.0)** **participation rate, %, 65.9, (65.9)** **unemployment rate, %, 4.9, (5.0)** **AU MI Consumer Inflation Expectat, Mar, %, (4.3)** **AU MI Unemp. Exp., Mar, Index (99.7)** NZ RBNZ official cash rate, %, 2.50, (3.00) NZ Business PMI, Feb, Index, (53.7) CH Trade balance Feb, US$bn, (6.45) JP GDP, QIV, q%ch, (-0.3) EU ECB Monthly report UK Industrial production, Jan, m/y%ch, (0.5/3.6) UK BoE announces rates, %, 0.50, (0.50) US Trade balance, Jan, $bn, (-40.6)	**11** NZ Food prices, Feb, m%ch, (1.8) CH PPI/CPI, Feb, y%ch, (6.6/4.9) CH Industrial production, Feb, y%ch CH Fxd Ass Investment, Feb, y%ch CH Retail sales, Feb, y%ch GE CPI, Feb, m/y%ch, (0.5/2.0) UK PPI Input/Output/core, Feb, y%ch, (13.4/4.8/3.2) US Retail sales, Feb, m%ch, (0.3) US Uni. Of Michigan confidence, Mar, Index US Business inventories, Jan, m%ch, (0.8) CA Net change in employment, Feb, '000, (69.2) CA Unemployment rate, Feb, %, (7.8)
14 NZ PSI, Feb, Index, (50.8) NZ Retail sales, Jan, m%ch, (-1.1) JP Industrial production, Jan JP Capacity utilisation, Jan, m%ch, (3.0) JP Consumer confidence, Feb, Index, (41.1) EU Industrial production Jan, m/y%ch, (-0.1/0.8)	**15** **AU RBA Ass Gov Guy Debelle speaks in Sydney** **AU RBA Board minutes for March** **AU New motor veh. sales, Feb, m/y%ch, (-1.9/-2.8)** JP BoJ target rate, %, 0-0.10, (0-0.10) EU/GE ZEW survey (econ. sentiment), Mar, (29.5/15.7) US Import price index, Feb, m/y%ch, (1.5/5.3) US NAHB housing market index, Mar, (16) US FOMC rate decision, %, 0-¼, (0-¼)	**16** **AU Dwelling Starts, QIV, q/y%ch, 10.0/5.5 (-13.2/12.4)** EU New car registrations Feb, y%ch, (-1.4) EU CPI, Feb UK ILO unemployment rate (3mths), Jan, %, (7.9) US Building permits, Feb, '000, (562) US Housing starts, Feb, '000, (596) US Producer price index Feb, m/y%ch, (0.8/3.6) US Current account balance, QIV, US$bn, (-127.2)	**17** **AU Labour force, Quartelry data** **AU RBA Bulletin - QI 2010** EU Construction output, Jan, m/y%ch, (-1.8/-1.2) US CPI, Feb, m/y%ch, (0.4/1.6); core, (0.2/1.0) US Capacity utilisation, Feb, %, (76.1) US Industrial production, Feb, m%ch, (-0.1) US Philadelphia Fed, Mar, Index, (35.9) CA Wholesale sales, Jan, m%ch, (0.8)	**18** JP Coincident / Coincident index CI, Jan, EU Current account, Jan, €bn, (-13.3) EU Trade balance Jan, €bn, (-2.3) GE Producer prices, Feb, m/y%ch, (1.2/5.7) CA CPI, Feb, m/y%ch, (0.3/2.3)
21 NZ Credit card spending, Feb, m/y%ch, (3.8/5.6) US Existing home sales, Feb	**22** UK CPI, Feb, m/y%ch, (0.1/0.4); core, y%ch, (3.0) US Richmond Fed, Mar, Index, (25) CA Leading indicators, Feb, m%ch, (0.3) CA Retail sales, Jan, m%ch, (-0.2)	**23** NZ Current account, QIV, % of GDP, (-3.1) EU Industrial new orders, Jan UK Bank of England minutes US New home sales, Feb	**24** **AU RBA Financial Stability Review** **AU RBA Ass Gov Malcolm Edey speaks in Sydney** NZ GDP, QIV, q/y%ch, (-0.2/1.5) UK Retail sales, Feb, m/y%ch, (1.9/5.3) US Durable goodes orders, Feb	**25** **AU Financial Accounts, QIV** JP CPI, Feb, GE IF .1.2) US G US Uni. Of Michigan confidence, Mar, Index
28 US Personal income/spending, Feb, US PCE deflator/core, Feb, US Pending home sales, Feb, US Dallas Fed, Mar, Index	**29** **AU RBA Ass Gov Malcolm Edey speaks in Sydney** **AU Population growth, QIII 2010, q/y%ch, (0.3/1.7)** NZ Trade balance, Feb, GE CPI, Mar, UK Current account balance QIV, (-9.6) UK GDP, QIV, UK Net consumer credit, Feb, US S&P/Case-Shiller home price ind., Jan, m%ch, (-4.1)	**30** **AU DEWR skilled vacancies, Mar, m%ch, (-0.012)** **AU HIA new home sales Feb, m%ch,** **AU ABS Job vacancies, Feb,** NZ Building permits, Feb, JP Industrial production, Feb, JP Vehicle production, Feb, CA Teranet House Prices, Jan,	**31** **AU Build approv, Feb** **AU Retail trade, Feb** **AU Private sector credit, Feb,** **AU RP Data house prices, Feb,** NZ NBNZ Business confidence, Mar, Index JP Housing starts/Construction orders, Feb, UK GfK consumer confidence survey, Mar, Index US Factory orders, Feb,	***Early April*** AU Trade in Goods & Services, Feb (5 Apr) AU Housing finance, Feb (6 Apr) AU Labour force, Mar (7 Apr)

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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