

## CPI and GDP lead into next week's big Central Bank meetings

- The RBA and the Fed will meet next week – though both will be watching major data this week. (CPI and GDP)
- We continue to expect the RBA will raise rates and that the Fed will announce an increase in QE.
- We show that the GG semis provide the best way to mimic day-to-day movements in AUD swap spreads.

There is a curious symmetry between the US and Australian outlook over the next two weeks. Our current expectation is that the RBA will raise rates on 2 November. The main data between now and then is Wednesday's CPI release.

In the US, our current expectation is that the FOMC will increase Quantitative Easing on November 3 (morning of November 4, Sydney time). The main data between now and then is Friday night's GDP release, though the October ISM will also be out on November 2.

In each case the main focus of the market is next week. The data will be important but, in both cases, may be inconclusive. The RBA can tighten without a "smoking gun" CPI figure. They very nearly did so last month and, but for a surging Aussie Dollar, may have done so. But they probably can't stay on the sidelines if the CPI is high. Our economists expect a reading of 0.8% headline and 0.7% underlying and for the RBA to raise rates in response (see Michael Blythe's preview on page 7). An underlying CPI of 0.6% or under would see semi-annual inflation near the bottom of the band and the RBA likely leave rates on hold.

Likewise, the FOMC will be watching the GDP and PCE data, but the final decision about QE appears to be more about how long the patience of the Fed will hold in the face of mediocre data. The general consensus of FOMC speakers is "not that much longer", but there's a circular argument in danger of developing.

The FOMC may not want to actively lower rates by undertaking QE – but they may not be faced with that question. The current market is so fully priced for QE that the de-facto question put to the FOMC will be to choose between a small QE and no change in rates on one hand, or no QE and a significant sell-off on the other. Equities also look fully priced for QE. We expect the FOMC will choose a moderately sized QE. The seeds of this movement can already be seen in the pressure on US yields to rise as Fed speakers have begun hosing down the exuberance of bond bulls. The US 10Y Treasury has reversed an earlier rally to sell-off 2bp on the week, while the 2Y is unchanged at 35bp.

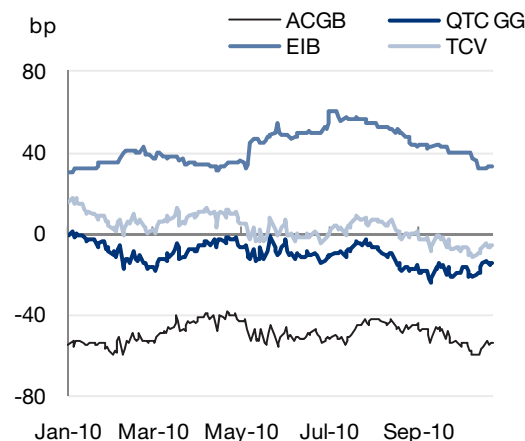
Until this morning's high PPI results (+1.3% q/q and 2.2% y/y), there had been very little movement in Australian bond rates. As we write, the 3Y bond has sold-off 10bp on the week while the 10Y has sold off 4bp. The data supports our curve flattening and wider BEI spread trades.

The flattening of the Australian curve has seen swap spreads move wider today. In the feature article, Philip Brown examines how to position for wider swap spreads if you can't trade swap directly. He finds that the GG semis provide a good association, without too much idiosyncratic credit risk.

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### Semis and Supras generally move in line with swap spreads



Source: CBA Spectrum

**Philip Brown** Quantitative Strategist T. +612 9118 1090 E. philip.brown@cba.com.au

**Adam Donaldson** Head of Debt Research T. +612 9118 1095 E. adam.donaldson@cba.com.au

**Michael Blythe** Chief Economist T. +612 9118 1101 E. michael.blythe@cba.com.au



## Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Buy the NSWTC Jun-20 (Government Guaranteed) as an ASW	-12bp (3-Feb-10)	-21bp	+9bp	-35bp	0bp	<b>Hold:</b> A long term buy and hold trade. The NSWTC budget suggests borrowing will reduce. QTC has started to consolidate GG bonds.
Sell the May-13 ACGB against the Nov-12 and Dec-13	-11bp (25 May)	-10bp	+1bp	3bp	-20bp	<b>Hold:</b> Taking longer than we thought – but with Dec-13 included in March 2011 Basket should work eventually.
Pay 3yr AUD EFP	35bp (9 August)	34.25bp	-0.75bp	45bp	30bp	<b>Hold:</b> Increased mortgage fixing may force this wider as curve flattens.
Sell the May-13 ACGB vs the Apr-20	62bp (5 July)	21bp	41bp	15bp	33bp	<b>Hold:</b> The PPI saw a sell-off and flattening this morning. The RBA next week will cause more flattening if they raise rates, as we expect.
10yr ACGB BEI widening	255 bp (18 August)	277bp	22bp	<b>300bp</b>	<b>260bp</b>	<b>Hold:</b> Spread has widened in the sell-off, inflation expectations growing.
OTM Conditional Stepeener. 6M*2Y vs 6M*10Y. Buy 100m 6M*2Y 3.75% receiver. Sell 24.1M 6M*10Y 4.28% receiver.	3.75% and 4.28% 0.4bp premium (25 August)	5.28 and 5.68	-0.4bp (premium)			<b>Hold:</b> An insurance trade for a global double dip.
Buy the Suncorp Metway Govt Guaranteed Apr-11 Floater.	TM of 29.5bp	25bp	+4.5bp	0bp	40bp	<b>Hold:</b> This bond is Government Guaranteed. It should be much tighter. Can hold to maturity in 6 months. Investec have announced a repurchase of their Feb-12 line.
Pay 6M*2Y vs Buying the May-21	111bp (30 August)	103bp	-8bp	50bp	135bp	<b>Hold:</b> Not performing well, but longer-term outlook is still good.



## What instruments mimic swap spreads?

Philip Brown – Fixed Income Quantitative Strategist – 61 2 9118 1090 – [philip.brown@cba.com.au](mailto:philip.brown@cba.com.au)

- Australian Semi-Government and Supranational bonds are routinely used to mimic swap spreads.
- We find that the QTC GG curve is the best way to mimic spreads – it has the least idiosyncratic risk.
- In the longer term we would not use QTC GG bonds to express spread widening as growing scarcity could see them outperform.

What is the best way to mimic swap spreads without using swap?

At the CBA Fixed Income conference last week, a question was asked at one of the panel discussions: “For an investor who can’t trade swaps, which instruments should be used to best mimic a swap spread trade?”

At first this might seem like a relatively straightforward question and in some ways it is. The answer at the panel discussion was “Semi-Governments or Supras”. However, I decided to look into the question a little more closely – and I’m very glad I did. Figure 1 shows the 10Y swap spreads of ACGBs and a number of other Semis and Supras.

This question is one that becomes much more interesting the longer you look at it, because, at least recently, the answer is one that may surprise: the best way to mimic a swap spread trade without using a swap is to use the QTC GG curve. This outperformed the other contenders we checked.

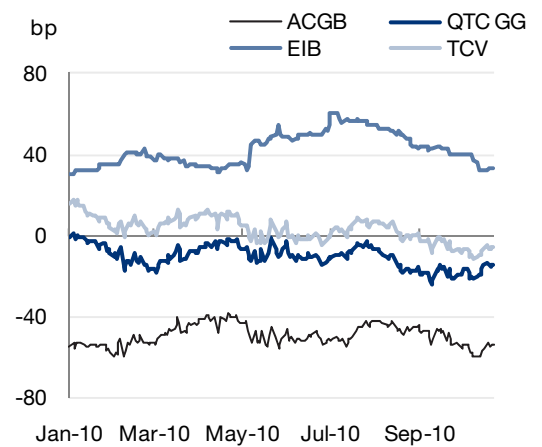
Perhaps, with the benefit of hindsight, this should have been obvious. The QTC GG curve trades relatively close to swap in absolute yield, but is insulated from the credit risk in QTC by the Government guarantee. That turns out to be a pivotal point – although semis as a whole class, and supras as a whole class, tend to move with swap, any individual bond has idiosyncratic credit risk. That idiosyncratic credit risk can overwhelm the tendency of the class to move in the same way as the ACGB swap spread.

### The main “ingredients” of the Australian interest rate market

We use PCA to find the most common movements in the curve

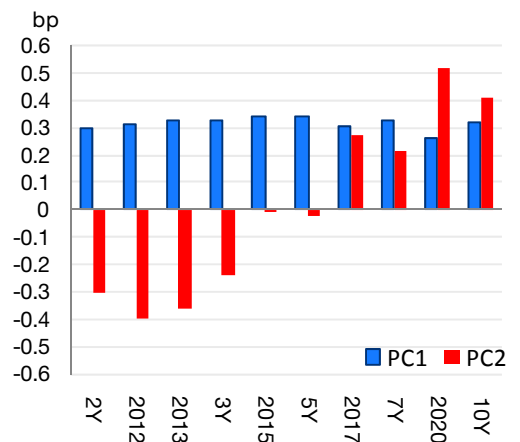
My favourite technique for these situations is Principal Components Analysis (PCA). PCA decomposes the movements of the interest rate curve into its main component parts. The most common movements are then ranked according to their importance. We began by considering 5 bonds and 5 swaps. The two most common moves (PC1 and PC2) are shown in Figure 2. The most common movement, PC1, is a parallel shift in the level of the curve. The second most common movement, PC2, is a change in the

Figure 1: 10Y Swap spreads of various names



Source: CBA Spectrum

Figure 2: PC1 is level and PC2 is slope



Source: CBA, Bloomberg



PC3 picks the widening of swap spreads

slope. These are very common results, occurring in pretty much every PCA analysis I have ever done.

It's normally the third most common movement, PC3, where things get interesting – and this is no exception. In this analysis PC3 clearly represents a widening of swap spreads. The swaps (indicated as 2Y, 3Y, etc) push higher in yield while the bonds (indicated by the maturity year) move lower. The combination, of course, is a widening of swap spreads. So the challenge is to find another set of instruments that would increase with the swaps when the swaps widen and does not bring with it another form of risk.

QTC GG performs well

The closest we have come is the QTC GG curve. In Figure 4 we see the third PC of a 15-instrument space that includes the 5 swaps, 5 bonds and 5 QTC GG bonds. It may not be immediately apparent why this is the best result. Figure 3 shows that when the bonds are falling in yield but the swaps are rising, the QTC GG bonds are falling marginally. However, importantly, the QTC bonds do not move as far as the ACGB. These results are describing a situation where the spread between QTC GG and swap is closely mimicking the spread between ACGB and swap.

TCV is too similar to bond

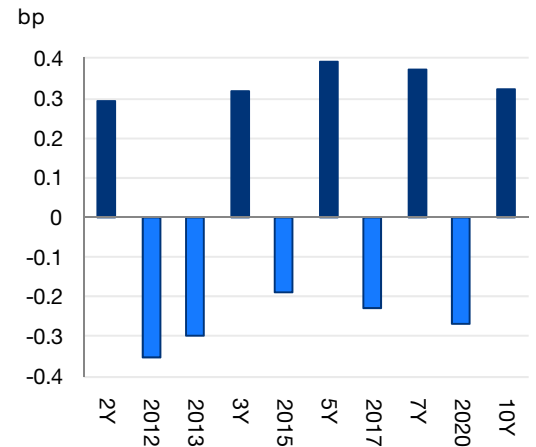
We also show the TCV results and the EIB results in figures 5 and 6. TCV performs too much like a Government bond. When the swap spreads are widening against the ACGB, the TCV is moving in the same direction as the ACGB. However, unlike the QTC GG case, the TCV bonds are moving with about the same total size as the ACGB. Put simply, the swap tends to move against TCV and ACGB together – i.e. the TCV is not following the swap in a spread sense, it is following the bond.

EIB has too much idiosyncratic risk

The EIB curve is another typical response. Figure 6 shows what has gone wrong with using the EIB curve to mimic the swap spreads. The EIB curve has been too reactive to changes in the EIB name. This can be seen in Figure 6 by the way that the EIB moves in one direction while both swap and bond move in the other. There is too much idiosyncratic credit risk in EIB for it to mimic swap spreads.

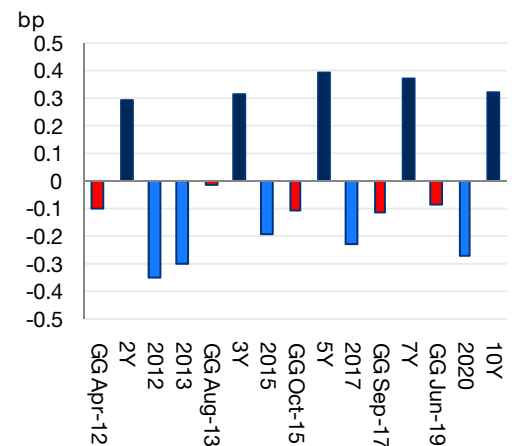
Of the curves we examined the QTC GG was the best correlated with swap spreads. However, we were focussed on the individual names. A diversified holding of many semis and supras would likely diversify away the idiosyncratic risk. But this would be hard to enter and exit, as it would take a comparatively large amount of bonds.

Figure 3: PC3 is a widening of swap spreads



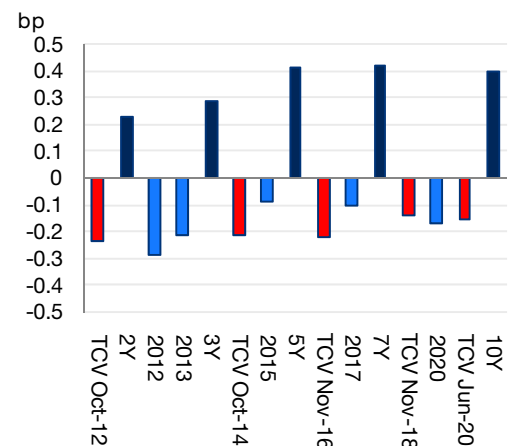
Source: CBA, Bloomberg

Figure 4: Including the QTC GG Curve (PC3)



Source: CBA, Bloomberg

Figure 5: Including the TCV Curve (PC3)



Source: CBA, Bloomberg

Figure 6: Including the EIB Curve (PC2)



**Our view on spreads**

We expect spreads to continue to widen

We continue to believe that in the longer-term swap spreads are likely to be pushing wider in Australia. The Australian rate curve is likely to flatten over the medium term. The RBA is forecast to continue raising rates and so the curve will flatten, particularly if the Fed undertakes significant QE, as we expect. A flatter curve tends to push swap spreads wider as more people try to hedge debt.

On that score, increases in bank mortgage rates may trigger a renewed interest in fixed rate mortgages. Currently, the flattening front end means that fixed mortgages are still higher than floating, but a move in the floating rate of 40-45bp would change that relationship fairly quickly. (To get a 40-45bp change would require 25bp from the RBA plus the media-specified 15-20bp from banks). Obviously, an increase in fixed rate loans will create paying interest from banks, which would widen the swap spreads too (though this is more likely to be at the front of the curve).

**Long-term vs Short-term spread moves**

QTC GG should have growing scarcity value and so may outperform. It is appropriate for short-term trades though

At his point we reach an unfortunate contradiction. In the short term, the above analysis shows that the QTC GG bonds are some of the most reliable when it comes to mimicking the swap spreads. Also, our medium term view is that the swap spreads will widen. However, it is not obvious that in the medium term the best way to position for swap spread widening is via a QTC GG to ACGB spread. In the short term this spread responds to swap spread moves, but we expect that the QTC GG will outperform more generally as the scarcity factor grows.

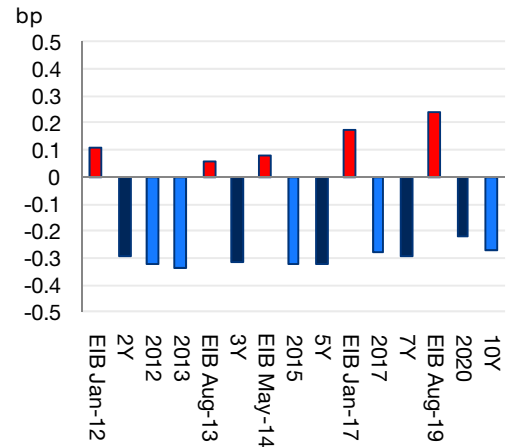
This makes us reticent to suggest positioning for a spread widening using the QTC GG as a substitute for swap if you are looking for a medium term trade. In the short term, yes, the QTC GG is an excellent substitute, but less so for the longer term. Unless, of course, you disagree and think that the medium term outlook for swap spreads is for them to tighten, but that is not our core view.

**Recap of PCA Cheap/Dear Analysis**

The Cheap/Dear results we published on Thursday are still valid

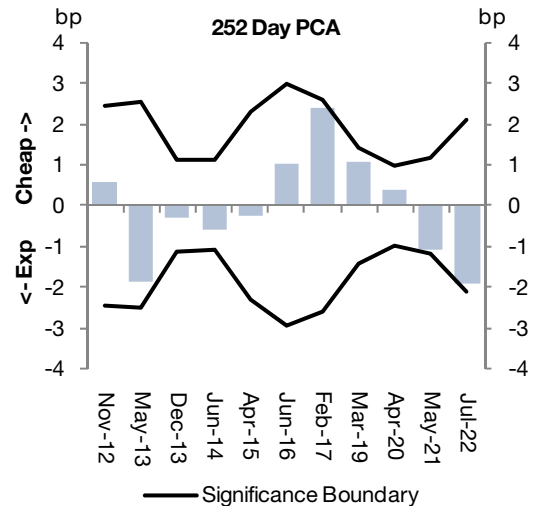
The other reason we use PCA analysis is to create a Cheap/Dear measure. PCA can be used to identify the most common movements in the curve and then rebuild the curve using those theoretical movements. The Cheap/Dear is then a comparison of the actual curve to the theoretical.

On Thursday last week we wrote in the daily



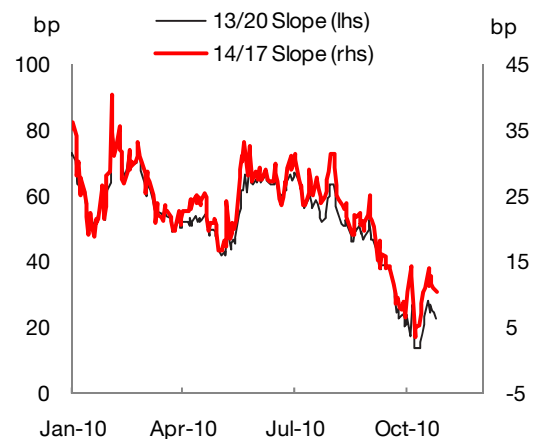
Source: CBA, Bloomberg

Figure 7: Cheap dear on the ACGB curve



Source: CBA, Bloomberg

Figure 8: The 14/17 slope is too steep



Source: CBA, Bloomberg



that the PCA of the ACGB curve suggested the Jun-14 to Feb-17 slope was too steep. This continues to be the case, though the Feb-17 has richened slightly.

As we noted last week, the 14/17 slope is much steeper than you would expect given the position of the 13/20 (see Figure 8). However, given we have already recommended the 13/20 we do not wish to double up on the trades.

Those who are interested in truly RV trades should trade the condor, positioning for the 14/17 slope to flatten while the 13/20 steepens. The trade is highly attractive to those who participate in these markets, but the total expected profit (around 4bp) makes it more appropriate for highly leveraged accounts.



## CPI Preview – QIII 2010

Michael Blythe – Chief Economist – 61 2 9118 1101 – [michael.blythe@cba.com.au](mailto:michael.blythe@cba.com.au)

- We expect the headline CPI to rise by 0.8% in QIII (2.9%pa).
- Higher government taxes and charges will boost the headline result.
- The underlying CPI on our forecasts will print at 0.7% (2.5%pa).

The RBA surprised market participants and most economic commentators by leaving the cash rate unchanged at its October Board meeting. The minutes of that meeting revealed that the decision was close and “finely balanced”. Not surprisingly, the RBA’s Melbourne-Cup-day meeting is seen as “live”.

The advantage of waiting for November is that the QIII price data will be available. Data on international trade prices was released last week. The Producer Price Index (PPI) was published today and the CPI on Wednesday. These price readings provide the starting point for any re-assessment of RBA inflation forecasts. And it is those forecasts that will drive the 2 November interest-rate decision.

We suspect that the QIII CPI data will show a relatively benign picture for current inflation. But the broader inflation picture suggests that we are around the low point for the current cycle.

PPI readings are one example. The QIII PPI surprised on the high side. On a six-month-ended basis, producer prices were running at an annualised pace of 3.5%. The data showed evidence of high commodity prices filtering into the production chain. It showed that import prices *rose*, despite a stronger AUD. It showed that prices in economic hotspots such as construction are accelerating. And that higher government charges (such as utilities) are having a significant impact.

Rising capacity pressures across the economy suggests that the growth in producer prices should proceed more rapidly from here.

The trade price data is another case in point. Export prices rose by 7.8% in QIII. And import prices rose by 0.7%. The implication is that our already elevated terms-of-trade rose further in the September quarter. So the net income injection into the economy from higher commodity prices continues.

Policy makers face the challenge of dealing with:

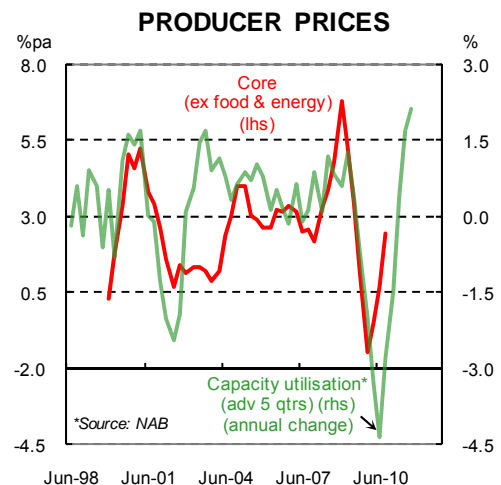
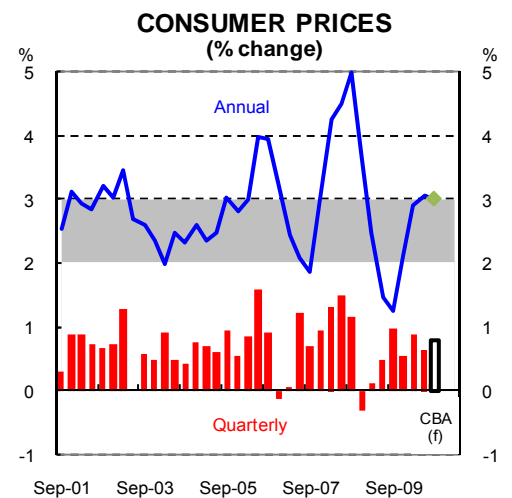
- the inflation risks in a fully-employed economy where incomes are growing rapidly; and
- the resource allocation pressures in a fully-employed economy facing an unstoppable mining boom.

Both these challenges are acknowledged by policy makers. Both these challenges point to a need for interest rates to move beyond current average levels and into genuine restrictive territory.

As a result, we expect a 25bpt rise at the November RBA Board meeting, lifting the cash rate to 4¼%.

	Release date	CBA (f)	Market consensus	Market range
CPI	27 Oct	0.8% (2.9%pa)	0.9%	0.6-1.0%
Underlying CPI	27 Oct	0.7% (2.5%pa)	0.7%	0.5-0.9%

*As at 22 October*





## CPI forecasts.

The QIII CPI data will be published on 27 October. We expect the QIII *underlying* CPI to rise by 0.7% in the quarter. Annual growth should stand at 2.5%, comfortably within the RBA's 2-3% target range.

It could be difficult to "sell" a rate rise against that backdrop. It would take a CPI rise of  $\geq 0.9\%$  to make it look like underlying inflation was picking up again. But the case for higher rates rests on the inflation outlook and evolving upside risks. Recent experience is also important. With all the benefit of 20:20 hindsight, for example, low CPI readings released in HI 2007 probably delayed policy moves that should have been made at the time.

The *headline* inflation rate should print a little higher – at 0.8% in the quarter or 2.9%pa.

## The model.

A top-down modelling approach shows the QIII CPI outcome driven by a lift in unit labour costs. Lower import prices is the main offset. And the main source of uncertainty in the forecasts.

## The risks.

The degree of flow through of lower import prices to the retail level is difficult to judge. Substantial retail discounting, assisted by lower import prices, contributed to the good inflation outcomes in HI 2010. Any unwinding of that discounting is an upside risk to the QIII CPI.

## The detail.

The volatile items that influence headline outcomes should have a small restraining influence in QIII. A 3.6% fall in petrol prices will more than offset a small rise in fruit & veg prices and broadly unchanged deposit & loan facilities charges.

The housing component is set to make the largest positive contribution to CPI growth. A rise in utilities charges (seasonal and structural) and property rates & charges are the key drivers. Electricity charges across the States rose by 6-13% and water bills were up by 7-17%. Tight housing and rental markets will also have an influence.

Other government charges will also boost the CPI outcome. The lagged effects of an earlier rise in tobacco excise will be apparent. Higher stamp prices will lift the communication component. Some items in the transportation sub component will rise courtesy of increases in public transport charges, vehicle registration fees, parking space levies and taxi fares.

Anecdotes from major retailers suggest food price inflation remains very low. Although the experience elsewhere is that food prices are growing more rapidly. The recent NZ CPI, for example, surprised on the high side because of a 2.4% rise in food prices.

Seasonally low outcomes in some categories like education and pharmaceuticals will help.

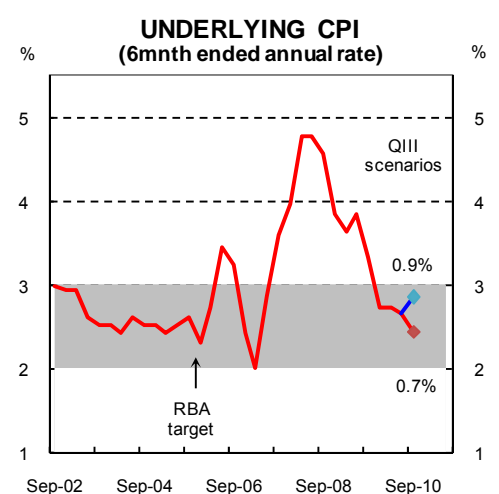
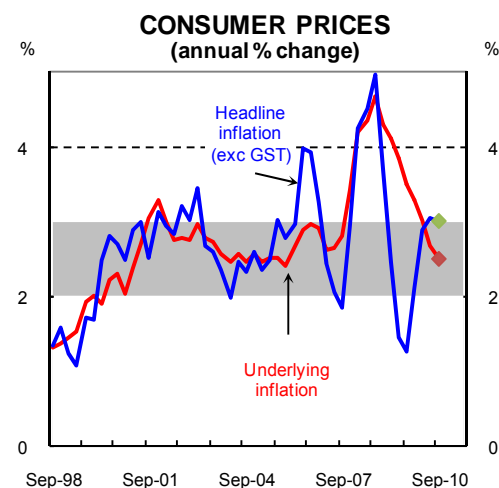


Table: CPI Components – QIII 2010 forecast

	% change	Contrib (ppts)
Food	0.6	0.10
Alcohol & tobacco	2.7	0.20
Clothing	0.0	0.00
Housing	2.5	0.53
H/hold contents	-0.1	-0.01
Health	-0.3	-0.02
Transportation	-1.0	-0.13
Communication	0.3	0.01
Recreation	0.9	0.09
Education	0.0	0.00
Fin & Insurance	0.3	0.03



## Key Views

United States		Tactical (<1 mth)	Strategic (>3 mths)
<p>The US bond market continues to price a significant amount of Quantitative Easing. The FOMC will meet next week, but will be paying significant attention to the Q3 GDP release on Friday night (Sydney time). Not only will the GDP be scrutinised, the Fed's preferred measure of inflation, the PCE deflator, is part of this release.</p> <p>Recent US data has been mixed, with Fed speakers tending to have more impact on the market as we approach the FOMC meeting. A common theme from the speakers has been that "QE is not a done deal". We expect that the Fed will increase QE, but there is obviously still a wide range of opinions on the FOMC. It is possible that the FOMC announces a smaller QE than the market expects— and that could trigger a sell-off.</p> <p>Simultaneously, Treasury Secretary Geithner is trying to cajole the Chinese into loosening the peg on the Yuan. He didn't have a great deal of luck at the G20 meeting in Seoul, but will travel to China this week to continue discussions.</p> <p>With currency volatility at the lower end of recent experience and the US economic data generally soft, we see the USD easing further. There is a high risk the Fed implements additional QE at its November meeting. The market is short the USD going into the Fed meeting. We expect some position squaring in the run up to the Fed meeting and for the USD to receive a boost. The EUR has been the main beneficiary of the softer USD, particularly as further BoJ intervention to sell yen is possible.</p>	Policy rate	0.1%	0.1%
	10yr bond	2.35%	2.25%
	2/10 curve	195bp	190bp
	USD/JPY	82	84
	EUR/USD	1.39	1.32
Australia		Tactical (<1 mth)	Strategic (>3 mths)
<p>The Australian economy continues to perform well. The most recent employment figures were strong and Q3 PPI was much higher than expected. We expect the Q3 CPI on October 27 to finalise the case for tightening at the November RBA meeting, with a hike more likely than not at this stage. The RBA does not need a higher-than-expected CPI to justify a hike. The RBA central forecasts include more rate rises.</p> <p>More tightening is likely through 2011 as policy-makers make room for the resources boom and inherent inflation risks.</p> <p>The Aus-US spread will be dominated by the US QE question, with the spread contracting over the past week as the US10Y sold-off. The contrast between the US and the Australian outlook points to a flatter Australian curve and wider swap spreads.</p> <p>The combination of a softening USD, declining vol., and Australia's relative economic health are boosting the AUD. Stronger than expected economic outcomes in China and Asia compared with the economic outcomes in the US and Europe will feed into AUD strength, particularly if vol. remains low. But position squaring is likely to see AUD/USD softer in the near term.</p>	Policy rate	4.75%	4.75%
	10yr bond	5.10%	5.20%
	3/10 curve	10bp	0bp
	10yr EFP	57bp	65bp
	10yr v US	280	290
	AUD/USD	0.97	1.00
New Zealand		Tactical (<1 mth)	Strategic (>3 mths)
<p>The earthquake in Christchurch has left a significant re-building task. In economic terms the result is that near-term growth is reduced, but medium term GDP is given a boost by the rebuilding effort.</p> <p>After a much weaker than expected Q2 GDP reading our economists look for the RBNZ to be on-hold this week and all the way through to the March meeting in 2011. Recent data has been mixed. There was a weak retail sales report (flat in August) but also a higher than expected +1.1% q/q CPI result in Q3 (with the implementation of the Emissions Trading Scheme raising energy prices). The annual rate rose only +1.5%, after Q3 of 2009 rolled out of the annual calculation.</p> <p>The growing contrast between the Australian and New Zealand economies is likely to push AUD/NZD higher. The moderately soft US and New Zealand economies suggest NZD/USD will range-trade. In the future, a weaker USD and firmer dairy prices may work in the NZD's favour.</p>	Policy rate	3.0%	3.0%
	10yr bond	5.0%	5.1%
	2/10 swap curve	110bp	100bp
	10yr v US	280	290
	10yr v AUS	0	-10
	NZD/USD	0.74	0.75
	AUD/NZD	1.3000	1.3200



## CBA Forecasts:

Cash rate	25-Oct	Dec-10	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	1.00	1.50	1.75	2.00	2.25
Australia	4.50	4.75	5.00	5.25	5.50	5.75	6.00	6.00	6.00	6.00
New Zealand	3.00	3.00	3.25	3.75	4.25	4.50	4.50	4.50	4.50	4.50
United Kingdom	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
Eurozone	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.00
Japan	0.05	0.05	0.05	0.05	0.05	0.05	0.30	0.30	0.30	0.30
2-yr bond yield	25-Oct	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	0.35	0.30	0.35	0.65	1.50	1.75	2.00	2.30	2.60	2.75
Australia	4.91	5.10	5.30	5.45	5.60	5.70	5.60	5.60	5.60	5.60
New Zealand	3.80	4.00	4.20	4.60	4.90	5.00	4.80	4.80	4.70	4.70
United Kingdom	0.64	0.50	0.75	2.00	2.70	2.95	3.25	3.45	3.55	3.65
Eurozone	1.00	0.80	1.00	1.20	1.40	1.70	2.00	2.30	2.50	2.50
Japan	0.15	0.15	0.15	0.20	0.30	0.60	0.70	0.70	0.80	0.80
10-yr bond yield	25-Oct	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	2.54	2.25	2.25	2.40	2.80	3.00	3.20	3.30	3.40	3.50
Australia	5.18	5.10	5.20	5.30	5.40	5.50	5.50	5.50	5.50	5.40
New Zealand	5.10	5.10	5.20	5.30	5.50	5.70	5.50	5.50	5.40	5.40
United Kingdom	2.95	2.75	2.80	3.00	3.90	4.00	4.20	4.40	4.50	4.60
Eurozone	2.47	2.30	2.40	2.60	2.80	3.00	3.10	3.20	3.30	3.40
Japan	0.90	0.80	0.90	1.20	1.40	1.50	1.60	1.70	1.80	1.80
AUD Swap Rates	25-Oct	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	5.28	5.55	5.80	6.00	6.15	6.20	6.10	6.10	6.10	6.00
3-year	5.35	5.55	5.75	5.95	6.05	6.15	6.00	5.95	5.95	5.95
5-year	5.60	5.70	5.80	5.95	6.00	6.10	6.00	6.00	6.00	5.95
7-year	5.68	5.70	5.82	5.95	6.02	6.12	6.04	6.04	6.04	5.97
10-year	5.71	5.70	5.85	5.95	6.05	6.15	6.10	6.10	6.10	6.00
NZD Swap Rates	25-Oct	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	3.77	3.95	4.20	4.55	5.00	5.10	5.10	5.10	5.10	5.10
3-year	3.99	4.15	4.40	4.75	5.15	5.25	5.20	5.20	5.15	5.15
5-year	4.34	4.35	4.60	4.95	5.35	5.45	5.40	5.40	5.35	5.35
7-year	4.64	4.65	4.85	5.13	5.53	5.68	5.58	5.58	5.53	5.53
10-year	4.93	4.95	5.10	5.30	5.70	5.90	5.75	5.75	5.70	5.70



## Calendar – October 2010

Monday	Tuesday	Wednesday	Thursday	Friday
<b>Early November</b> AU House price index, QIII (1Nov) AU RBA cash target, Nov (2 Nov) AU Building approval, Sep (3 Nov) AU Retail trade, Sep, QIII (4 Nov) AU Trade balance, Sep (4 Nov) AU RBA SMP (5 Nov) AU Housing finance, Sep (10 Nov) AU Labour force, Oct (11Nov)	<b>Central Banking Meetings</b> AU RBA (5 Oct) EZ ECB (7 Oct) UK BOE (7 Oct) JP BoJ (4/5 Oct, 28 Oct) CA Bank of Canada (10 Oct) NZ RBNZ (28 Oct) US FOMC (2-3 Nov)			<b>1</b> <b>AU AI-Group PMI, Sep, Index, (51.7)</b> CH PMI manufacturing, Sep, Index, (51.7) JP CPI, Aug, y%ch, (-0.9), Vehicle sales, Sep, y%ch, (46.7) EU/GE/UK PMI manufacturing, Sep, Index, (53.6/55.3/54.3) US Personal income/spending, Aug, m%ch, (0.2/0.4) US PCE deflator/core, Aug, y%ch, (15/14) US Uni. Of Michigan confidence, Sep, Index, (66.6) US manufacturing, Sep, Index, (56.3) US Construction spending, Aug, m%ch, (-1.0) US Total vehicle sales, Sep, mn, (1146)
<b>4</b> <b>AU Labour Day (NSW, ACT, SA)</b> <b>AU TD inflat gauge Sep, m/y%ch, , (0.2/3.0)</b> EU PPI, Aug, m/y%ch, (0.2/4.0) UK PMI construction, Sep, Index, (52.1) US Factory orders, Aug, m%ch, (0.1) US Pending home sales, Aug, m/y%ch, (5.2/-20.1)	<b>5</b> <b>AU CBA/Ai-Group Perf of Serv Index, Sep, (47.5)</b> <b>AU ANZ Job ads, Sep, m%ch, (2.6)</b> <b>AU Retail trade, Aug, m%ch, 0.3, (0.7)</b> <b>AU NAB Bus conf/cond, Sep, Index, (11/5)</b> <b>AU RBA cash rate, %, 4.75, (4.50)</b> NZ NZIER Business opinion survey QIII, index, (18) JP BoJ target rate, % 0.10, (0.10) EU PMI services/composite, Sep, Index, (53.6/53.8) EU Retail sales, Aug, m/y%ch, (0.1/1.1) GE/UK PMI services, Sep, Index, (54.6/51.3) US ISM non-manufacturing, Sep, Index, (51.5)	<b>6</b> <b>AU Ai-Group PCI, Sep, Index, (43.2)</b> <b>AU RBA Fin. Stab. Head Luci Ellis speaks in Brisbane</b> EU GDP, QIII, q/y%ch, (10/19) GE Factory orders, Aug, m/y%ch, (-2.2/17.7) UK New car registrations, Sep, y%ch, (-17.5) IMF World Economic Outlook released CA Ivey purchasing manager index, Sep, (65.9)	<b>7</b> <b>AU Labour force, Sep employment, '000, 20, (30.9)</b> <b>unemployment rate, %, 5.1, (5.1)</b> <b>participation rate, %, 65.4, (65.4)</b> JP Leading / Coincident index CI, Aug, JP Machine tool orders, Sep EU ECB announces int. rate, %, 100, (100) GE/UK Industrial production, Aug, y%ch, (10.9/19) UK BoE announces rates, %, 0.50, (0.50) US Consumer credit, Aug, \$bn, (-3.6) CA Building permits, Aug, m%ch, (-3.3)	<b>8</b> <b>AU RBA Dep Gov Battellino speaks in Brisbane</b> JP Current account/Trade balance, Aug GE Trade bal, Aug, €bn, (13.5) UK PPI Input/Output/core, Sep, y%ch, (8.1/4.7/4.6) US Avg hrly earnings, Sep, m/y%ch, (0.3/1.7) US Non-farm payrolls, Sep, '000, (-54) US Unemployment rate, Sep, % (9.6) US Wholesale inventories, Aug, m%ch, (1.3) CA Net change in employment, Sep, '000, (35.8) CA Unemployment rate, Sep, % (8.1) CA Housing starts, Sep, '000, (13.3)
<b>11</b> <b>AU Housing finance, Aug, m%ch</b> No. of own-occupiers, % 2.0 (1.7) Value of all loans, % 10, (2.3) NZ Card spending, Sep, m%ch, (-0.2)	<b>12</b> JP Consumer confidence, Sep, Index, (42.5) GE CPI, Sep, m/y%ch, (-0.2/1.3) UK RICS house price balance, Sep, % (-0.32) UK CPI, Sep, m/y%ch, (0.5/3.1); core, y%ch, (2.8) UK Total trade balance, Aug, £bn, (-4.9) US FOMC Minutes	<b>13</b> <b>AU MI/WBC Consumer Sent, Oct, Index, (113.2)</b> NZ Food prices, Sep, m%ch, (-0.1) CH Trade balance Sep, US\$bn, (20.0) JP Machine orders, Aug, m/y%ch, (8.8/15.9) EU Industrial production Aug, m/y%ch, (0.0/7.1) UK ILO unemployment rate (3mths), Aug, % (7.8) US Import price index, Sep, m/y%ch, (0.6/4.1) CA Housing price index, Aug, m%ch, (-0.1)	<b>14</b> <b>AU MI Consumer Inflation Exp., Oct, %, (3.1)</b> <b>AU MI Unemp. Expt., Oct, Index, (102.0)</b> NZ Retail sales, Aug, m%ch, (-0.4) NZ Business PMI, Sep, Index, (49.3) EU ECB Monthly report US Producer price index Sep, m/y%ch, (0.4) US Trade balance, Aug, \$bn, (-42.8) US Producer price index Sep, m/y%ch, (0.4/3.1) CA Trade balance Aug, C\$bn, (-2.7)	<b>15</b> JP Industrial production/Capacity Utilisation, Aug EU New car registrations Sep, y%ch, (-12.9) EU CPI, Sep, m/y%ch, (0.2/1.6); core, y%ch, (1.0) EU Trade balance Aug, €bn, (-0.2) US CPI, Sep, m/y%ch, (0.3/1.1); core, (0.0/0.9) US Retail sales, Sep, m%ch, (0.4) US Empire manufacturing, Oct, Index, (4.1) US Uni. Of Michigan confidence, Oct, Index US Business inventories, Aug, m%ch, (1.0)
<b>18</b> <b>AU New motor veh. sales, Sep, m/y%ch, (0.3/1.0)</b> NZ CPI, QIII, q/y%ch, (0.3/1.8) US Industrial production, Sep, m%ch, (0.2) US Capacity utilisation, Sep, %, (74.7) US NAHB housing market index, Oct, (13)	<b>19</b> <b>AU RBA Board Minutes</b> EU Current account, Aug, €bn, (-3.8) EU Construction output, Aug, m/y%ch, (-3.1-7.5) EU/GE ZEW survey (econ. sentiment), Oct, Index, (4.4/-4.3) US Housing starts, Sep, '000, (598) US Building permits, Sep, '000, (569) CA Bank of Canada, %, 100, (100)	<b>20</b> <b>AU DEWR skilled vacancies, Oct, m%ch, (0.1)</b> <b>AU RBA Ass. Gov. Edey speaks in Sydney</b> JP Leading / Coincident index CI, Aug GE Producer prices, Sep, m/y%ch, (0.0/3.2) UK Bank of England minutes US Federal Reserve Beige Book CA Wholesale sales, Aug, m%ch, (-0.1) CA Bank of Canada Monetary Policy Report	<b>21</b> <b>AU HIA Housing Afford. Index, QIII, (108.3)</b> NZ Credit card spending, Sep, m/y%ch, (0.5/2.0) CH GDP, QIII, y%ch, (10.3) CH PPI/CPI, Sep, y%ch, (4.3/3.5) CH Retail sales/Ind Prodn, Sep, y%ch, (18.4/13.9) CH Fxd Ass Investment, Sep, y%ch, (24.8) UK Retail sales, Sep, m/y%ch, (-0.5/0.4) US Leading indicators, Sep, m%ch, (0.3) US Federal Reserve Beige Book CA Leading indicators, Sep, m%ch, (0.5)	<b>22</b> <b>AU Int'l trade price indexes, QIII, q%ch export prices, 1.0 (16.1) import prices, 0.0 (1.9)</b> GE IFO - Business climate, Oct, Index CA CPI, Sep, m/y%ch, (-0.1-1.7) CA Retail sales, Aug, m%ch, (-0.1) G20 Finance Ministers' meeting - 22-23 Oct, Korea
<b>25</b> <b>AU PPI QIII, q/y%ch, 0.3/1.4, (0.3/1.0)</b> <b>RBA Governor Glenn Stevens speaks in Canberra</b> JP Trade balance, Sep EU Industrial new orders, Aug, m/y%ch, (-2.4/11.2) US Existing home sales, Sep, mn/m%ch, (4.1/7.6) US Dallas Fed, Oct, Index	<b>26</b> UK GDP, QIII US S&P/Case-Shiller home price ind., Aug, US Richmond Fed, Oct, Index	<b>27</b> <b>AU CPI, QIII, q/y%ch</b> <b>- Headline 0.8/2.9 (0.6/3.1)</b> <b>- Trim mean 0.6/2.5 (0.5/2.7)</b> <b>- Wgtd median 0.7/2.6 (0.5/2.7)</b> NZ NBNZ Business confidence, Oct, Index GE CPI, Oct US Durable goods orders, Sep US New home sales, Sep CA Teranet House Prices, Aug	<b>28</b> NZ RBNZ official cash rate, %, 3.00, (3.00) JP Retail sales, Sep JP BoJ target rate, %, 0.10 (0.10)	<b>29</b> <b>AU Annual National Accounts, 2009-10</b> <b>AU HIA new home sales Sep</b> <b>AU Private sector credit, Sep</b> NZ Building permits/Trade Balance, Sep JP Industrial production, vehicle production, Sep JP CPI/Housing starts/Construction orders, Sep UK Net consumer credit, Sep US GDP, QIII US Employment cost index, QIII, q%ch, (0.5) US Uni. Of Michigan confidence, Oct, Index

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

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

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
Michael Bors	Credit Research Analyst	+612 9118 1108	borsma@cba.com.au
Steve Shoober	Credit Research Analyst	+612 9118 1096	steve.shoober@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		Telephone	Email Address
Richard Grace	Chief Currency Strategist	+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

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
Chris Tennent-Brown	CBA NZ Economist	+64 9374 8819	chris.tennent-brown@asb.co.nz
Nick Tuffley	ASB Chief Economist	+64 9374 8604	nick.tuffley@asb.co.nz
Jane Turner	Economist	+64 9374 8185	jane.turner@asb.co.nz
Christina Leung	Economist	+64 9369 4421	christina.leung@asb.co.nz

## Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
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