Global Markets Research

Fixed Income: Weekly Strategy

22 November 2010

Ireland asks for help while the Fed faces criticism

- The Australian markets have been buffeted by the Irish Sovereign news, but also the volatility in US yields.
- US volatility has been the large influence this time, with more reaction to the criticism of the Fed than Ireland's news.
- We examine the US policy response and find that the volatility in US rates is likely to continue

Global Fixed Income markets have been responding to two different issues over the past two weeks: Irish Sovereign concerns and US yield volatility.

The Irish Sovereign issue seems to be near a resolution. Details are still coming to hand, but it appears there will be a full bailout by the EU / IMF, effectively removing Ireland from the debt markets. Despite the obvious severity for Ireland, this round of the European Debt Crisis hasn't had the same impact globally as the first episode in May. Australian spreads have been very well behaved. (See Figure at right.)

Instead, the volatile movements in the US Treasury yields have been more significant for Australia this week. Shortly after our last weekly was published the US 10Y yield spiked to a 3 month high of 2.96%. It visited those heights a further two times over the week before falling back to around 2.87% currently. These movements in US Treasuries (including sharp intraday movements) have been the main driver Australian bonds over the past week. Since last Monday's close, the Australian 3Y yield has risen 6bp to 5.21% and the 10y yield has risen 9bp to 5.52%. After steepening early last week, the 3-10y curve has been relatively steady at 32bp. The Aus-US spread is at 261bp, after reaching a low of 245bp last week.

Although there is no chance of a US default, analysing the recent US volatility through a similar lens to the European Sovereigns gives some interesting insights. Philip Brown examines how US markets are switching from expecting austere fiscal policy to some small possibility of an inflation response to QE in his article on page 3. There is now a growing opposition to QE forming in the US which is increasing volatility globally.

The coming week will see relatively important data and events in the US and Australia. On Wednesday morning the minutes of the November FOMC meeting are released. The strength of the Fed's conviction and justification are likely to receive greater than usual attention in the US, due to heavy criticism of the program last week. On Wednesday night Durable Goods orders, Personal Consumption Expenditure, University of Michigan Confidence and New Home Sales data are released.

In Australia the Q3 Construction work done figures are released on Wednesday and CBA economists are forecasting a 3% increase. On Thursday, our economists are expecting Private Capital Expenditure data to show a strong rise of 6% for Q3. Finally, on Friday RBA Governor Glenn Stevens appears before the House of Representatives Standing Committee on Economics. It will be Stevens' first appearance before the committee since the August election. Given the media coverage on the November rate hike, it will be unsurprising to see many questions directed at Stevens over the role of bank funding costs in setting monetary policy.

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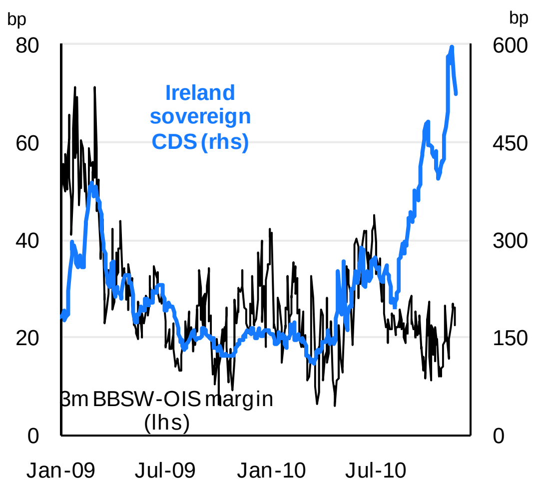
European sovereign issues having less effect on Australia this time around



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Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Buy the NSWTC Jun-20 (Government Guaranteed) as an ASW	*-12bp (3-Feb-10)*	*-12.5bp*	*+0.5bp*	*-35bp*	*0bp*	***Hold**: 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)*	*-5bp*	*+6bp*	*3bp*	*-20bp*	***Hold:** Taking longer than we thought – but with Dec-13 included in March 2011 Basket should work eventually.*
Pay 3yr AUD EFP	*35bp (9 August)*	*32.5bp*	*-2.5bp*	*45bp*	*30bp*	***Hold**: Increased mortgage fixing may force this wider as curve flattens. Has come back as 15th passes.*
10yr ACGB BEI widening	*255 bp (18 August)*	*290bp*	*35bp*	*300bp*	*260bp*	***Hold:** Spread has widened in the sell-off, inflation expectations growing.*
*OTM Conditional Steepener. 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)*	*5.52 and 6.03*	*-0.4bp (prem-ium)*			***Hold:** An insurance trade for a global double dip. Very unlikely to be used now, but 0.4bp well spent.*
Buy the Suncorp Metway Govt Guaranteed Apr-11 Floater.	*TM of 29.5bp*	*24bp*	*+5bp*	*0bp*	*40bp*	***Hold:** 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 and Citi have repurchased A$1.2b of the Jun-12.*
Buy the Jan-15 ADB against the Apr-15 ACGB	*58bp (1 Nov)*	*61bp*	*-3bp*	*40bp*	*70bp*	***Hold:** A buy and hold trade to capture the extra yield on offer from Supras. Suffered in Irish scare.
*Pay 6M*1Y AUD swap*	*5.29% (3 Nov)*	*5.39%*	*+10bp*	*5.65%*	*5.15%*	***New Trade:** The front of the curve is expecting too little from the RBA.*
Sell ACGB Jun-14 vs ACGB Jul-22	*23bp (4 Nov)*	*33bp*	*-10bp*	*-10bp*	*35bp*	***New Trade:** We think the RBA will continue to raise rates, flattening the curve eventually.*
Pay the 20Y AUD swap vs 10Y and 30Y in a butterfly	*23.5bp (8 Nov)*	*24bp*	*0.5bp*	*27bp*	*20bp*	***New Trade**: The 20Y has rallied too far on what appears to be a short-term flow.*
Sell 3M, 20bp OTM bond option on Apr-20 ACGB, strike is 5.61%	*5.61 / 10bp (15 Nov)*	*Current yield is 5.51*	*n/a*	*na*	*5.71bp*	***New Trade:** Bond options are better to sell for investors than swaps. We think the top of the range isn't far away.*
*Pay 6M*2Y vs Buying the May-21*	*111bp (30 August)*		*-24bp*	*50bp*	*135bp*	***Stopped Out:** Stopped out on Wednesday 17 November at 135bp.*
Pay the AUD 10Y swap vs NZ 10Y swap	*58bp*	*53bp*	*-5bp*	*90bp*	*45bp*	***Hold:*** The recent rally in AUD seems overdone vs. NZ. Carry is also very attractive at circa 5bp per month.

Analysing the US policy response using a European paradigm

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- The Irish Sovereign has shown the difficulty of strategies to reduce Sovereign debt.
- While the US will not default, they will need to reduce their deficit materially at some point.
- In the US, questions of fiscal austerity vis a vie inflation are driving current US volatility too.

As I write Ireland has announced it will apply for aid, but no details have yet been released. Ireland is not the first Sovereign to reach this point since the Financial crisis began – that "honour" goes to Greece. Unfortunately, we fear that Ireland won't be the last either. Portugal and Spain are likely to follow at some point unless their debt issues can be dealt with.

It should be remembered that the task of a Sovereign facing debt issues is to first stabilise, then reduce, the debt to nominal GDP ratio. This can be done by either reducing debt or growing nominal GDP. In the absence of demographic changes it is actually possible to reduce this ratio whilst running Government deficits – as long as the growth in the nominal GDP is fast enough.

A Sovereign whose condition has deteriorated so far that it is facing a risk of default has, in our view, three possible strategies: Austerity, Inflation, or Default. I do not regard "grow your way out" as a legitimate strategy for the purposes of this article. All countries are always pursing this "growth" strategy all the time - because all countries are always trying to maximise economic growth. As such, the "grow your way out" strategy is a moot point. Similarly, we regard a bailout as being a formalised version of the austerity strategy – the money from the EU and IMF comes with significant strings attached.

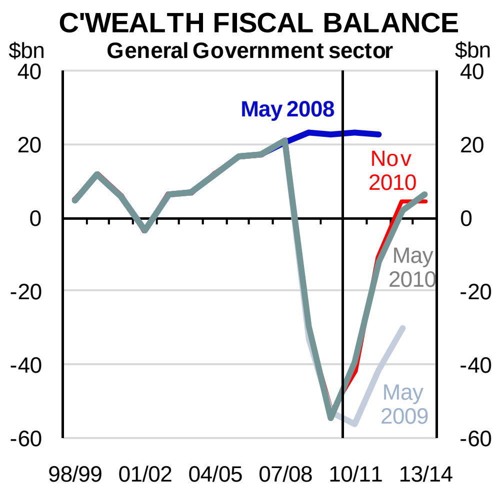
All three strategies have predictable effects on rates, credit and inflation markets – though they are very different effects (see Figure 4 for a summary). When the strategy a sovereign will pursue is unclear, the result is an increase in volatility as markets switch from one expectation and set of movements to another; and then back again.

This article will outline the options, in theory, of a sovereign approaching such a decision and will discuss the likely market reactions in response to that Sovereign's decision. However, we hope the analysis will also help explain the dynamics in other markets where defaults are not likely. For example, the US. Although we emphatically do not expect the US to default, we do expect the US to take some reasonably extreme actions to restore their ongoing creditworthiness at some point in the next few years. So although the rationale is different, the concepts which are currently being used to explain the European market are actually useful in explaining the US market too, though in a watered down way.

The current political and policy discussion in the US about the likely inflation or exchange rate effects of QE reflects an uncertainty about future Government choices. Some - like the writers of the two recent open letters to the Fed - have advocated extreme austerity. Others fear QE will lead to inflation. So even though the US will not default, understanding the dynamics of the other main approaches to avoiding default assists our understanding of the US market.

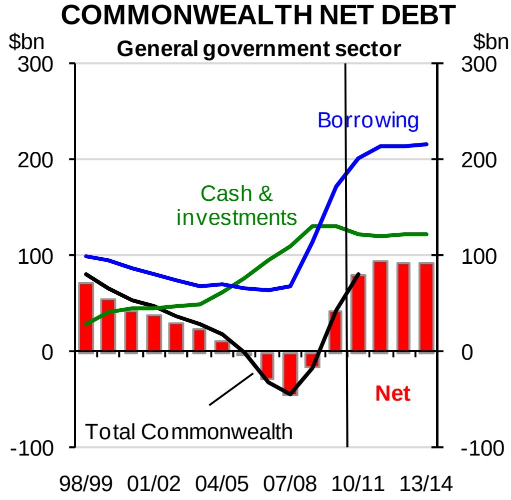
It should not need to be said, but obviously, Australia's Government does not face this stark choice. Our debt levels remain exceptionally low by world standards. With very low net debt and a Government surplus likely in the relatively near future the effect on Australia will be thanks to the decisions made by other countries – not our own.

Figure 1: Australian fiscal balance not at issue



Source: *Bloomberg, CBA*

Figure 2: Australian net debt very low



Source: *Bloomberg, CBA*

So, in detail, the three options a sovereign in difficulty has are:

Option 1: Austerity

This strategy is, conceptually at least, the easiest to undertake. The Sovereign simply raises taxes and cuts expenditure. They bring the annual Government budget back to (or near) surplus. Once at (or near) surplus the Sovereign waits for GDP to grow and reduce the Debt/GDP ratio. If a surplus is achieved the excess can be used to speed debt reduction. However, in most instances, the growth of nominal GDP will be the more important factor in reducing the Debt/GDP ratio.

The difficulty with the austerity strategy is that it can take a number of years to implement. During that period the Sovereign requires continuing access to financing and the ability to roll their debt. (The US has an advantage on this point as a global reserve currency.) Moreover, if the market begins to doubt the efficacy of the Austerity strategy, the interest rates will begin to rise, making the deficit larger as income costs increase. A Government with significant debt must also overcome the compound interest effects implicit in rolling debt.

A severe austerity package will likely involve cutting the jobs of government employees and generally reducing expenditure. This approach decreases overall employment and lowers the overall level of demand in the economy which can have the effect of lowering taxation revenue. The overall reduced level of demand should see inflation fall.

If the market believes the austerity measures are likely to be successful, then the risk inherent in the sovereign falls.

In total, the austerity strategy should see yields on bonds fall. The reduction in inflation should see the quoted breakeven inflation in a Zero-Coupon Swap (ZCS) fall. Finally, the reduced sovereign risk should see Sovereign CDS fall. (See Figure 4.)

Option 2: Inflation

A second option for Sovereigns is to deliberately debase the currency and cause inflation. This grows the value of nominal GDP and reduces the real value of the debt owed. As such, the Debt/GDP ratio falls.

This solution carries significant risks. Although this approach can be used to easily reduce the value of the initial debt, a high level of inflation can damage the economy. Also, once set in motion the inflation can usually only be brought under control with a period of punishingly high interest rates and (usually) a recession of some description.

If a Sovereign pursued a inflation based strategy the yields on Government bonds and ZCS would rise. Most likely, the default risk implicit in the CDS would fall. That should see the quoted CDS yield fall. (Note that there is a small chance that longer CDS quotes rise to reflect the lower DV01s implicit in the newly higher interest rates – though this would be a somewhat pathological result.)

Option 3: Default

The option of last resort is to default. For Sovereigns, this generally means a partial default where bond holders are repaid less than 100 cents in the dollar (or euro, as the case may be).

In a default scenario the bond yields would rise, as would the CDS. We're not sure on the outcome for ZCS, but would suggest it is likely to fall. Before a default is considered the risk of an inflation strategy is real and likely to be reflected in ZCS. Moreover, the general slowing of the economy that can be expected to accompany a Government default

Figure 3: European sovereign issues having less effect on Australia this time around

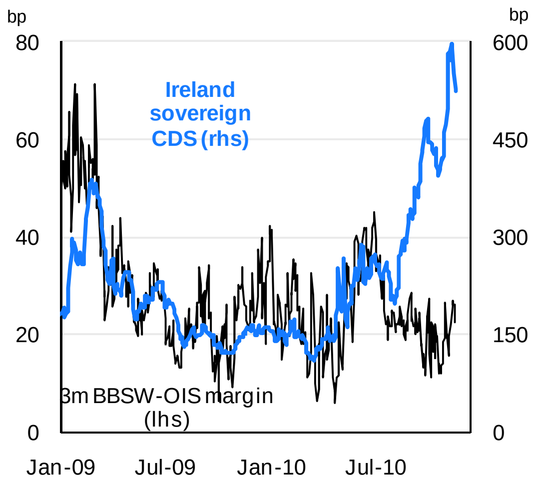
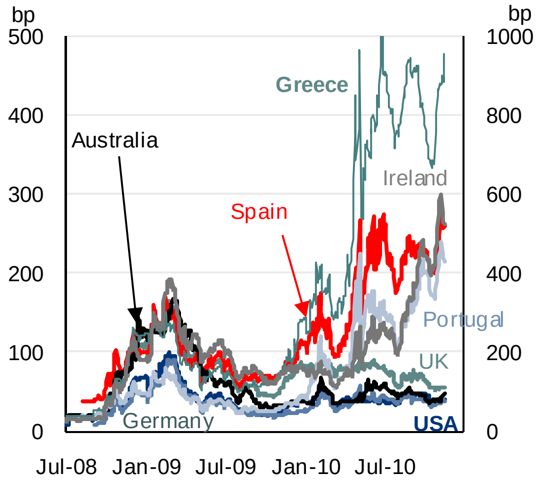


Figure 4: Likely response of different markets to different types of Government action

	Govt Bond Yields	Sov CDS	ZCS (inflation)
Austerity	DOWN	DOWN	DOWN
Inflation	UP	DOWN	UP
Default	UP	UP	DOWN(?)

Source: CBA

Figure 5: European CDS rates



Source: Bloomberg, CBA

would usually see inflation fall.

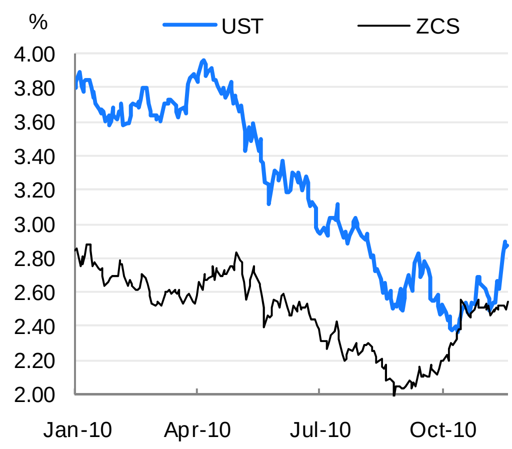
Europe choosing Austerity over Default (when it gets the choice)

In Europe, the single currency effectively takes inflation option off the table but also means the ZCS can't be monitored for an individual sovereign. This leaves countries like Ireland choosing between Austerity (or bailout-assisted austerity) and Default. No country has yet chosen to default. All countries have been choosing austerity courses for as long as possible (while the market lets them).

Unfortunately, as the Irish experience shows, the austerity approach can appear to be working well and then come unstuck very quickly. The Irish market was reacting with an Austerity-style response in mid-2010 (lower yields and lower CDS). However, this very quickly gave way to a default-style response (higher yields and higher CDS). The choice was not, in the end, really Ireland's to make. As we noted above, the Austerity approach requires the co-operation of the market. For better or worse, the market has decided that Ireland will no longer receive such co-operation.

Unlike the full euro-zone countries, the UK, however, could, in theory, pursue any of the three options. However, so far, they seem fairly intent on the Austerity approach, too.

Figure 6: US 10Y rates



Source: Bloomberg, Reuters, CBA

Even without a risk of default, this paradigm helps explain the US moves too

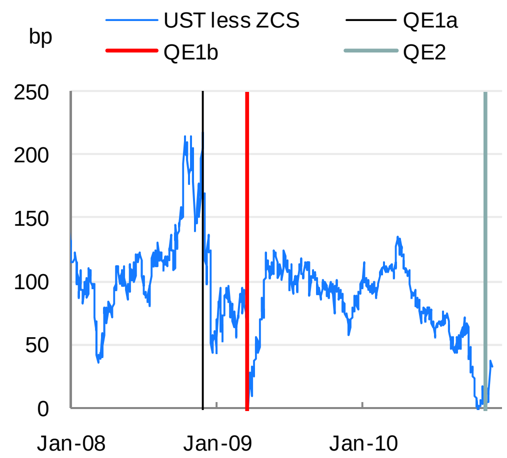
These tools and mindset are actually quite useful in analysing the current situation in the US. Not because the US is likely to default – it isn't – but the US has, until now, been considered likely to use an austerity response to solve its deficit problems. However, a large number of market participants are now looking for the Fed's QE to cause an inflation spike. The shift between the austerity response and the inflation response is clear. After rallying significantly and having inflation expectations trimmed noticeably between April and September, both these trends have since reversed. (See Figure 5.)

Note that we don't actually think the Fed's QE program will cause rampant inflation or a massive fall in the US dollar. It's just that it appears a number of other market participants do expect that result. At this point, the market's expectation is probably more important than any actual announced Government (or Fed) policy.

The US market is trying to decide whether it thinks the US actions will be "austerity" or an "inflation" reaction. The resulting uncertainty is triggering large bouts of volatility.

We are confident that the market has not truly switched to an "inflation" scenario just yet because, despite the change in direction, the outright yields on UST and ZCS are relatively low. (See Figure 6.)

Figure 7: US 10Y Treasury and ZCS spread shows expectations of QE



Source: Bloomberg, Reuters, CBA

To this end, the current criticism by US politicians of the Fed's QE policy is distinctly unhelpful. While economic and monetary policy is always subject to some risk, the possibility that the Fed may be bludgeoned into changing its QE stance is only adding fuel to the volatility fire. We expect the minutes of the November FOMC meeting (released on Wednesday morning Sydney time) to be fascinating reading.

The FOMC appeared to be split going into the meeting and Governor Hoenig continues to dissent. However, judging by the views espoused in various speeches, there appears to have been an even broader rift in the FOMC that has not yet been fully detailed publically. The FOMC minutes do, on occasion, detail points of contention during a meeting and

Wednesday's release will be closely watched for this reason.

Somewhat perversely, despite the strong sell-off over the past two weeks, the data has confirmed that QE was probably necessary. The core inflation rate fell again to only 0.6% year-on-year. While the early signs of a US recovery are visible (if you look hard) the point of QE was to speed the recovery and to avoid deflation. Both these aims remain worthwhile goals for the Fed.

Last week's CPI result (and a continuing stream like it) should (eventually) convince the market that the US is not pursuing an inflation strategy. Next cab off the rank is the October PCE, which is scheduled for release on Thursday morning Australian time.

Until the market decides which strategy the US policy-makers are pursuing the outlook for US treasuries is particularly uncertain. Figure 6 shows that the announcement of QE2 marked the low point in the ZCS to UST spread and that the spread has been rising since. However, the spread is still very low in absolute terms. After the announcement of QE1b (the one with Treasuries involved) the spread rose over 100bp. So far, it has only around 30bp. (See Figure 7.) There is more than enough space for the market to continue to price a recovery and to increase both the term premium implicit in US Treasuries and the underlying inflation rate implicit in US markets.

However, with US inflation expectations also well above current results (2.5% 10Y expectations vs 1.2% realised headline CPI) there is scope for a rally too. While the market continues to oscillate between these two outcomes - austerity and inflation - the volatility will remain.

Implications for Australia

The increased volatility of US rates is meaning that Australian rates are moving more overnight (though days are still relatively quiet). This will remain true as long as the US policy outlook is unclear. That is likely to be a long time yet.

If the US sell-off continues the Australian long-end will continue to rise in yield and the steepening of the last couple of weeks will continue. We don't expect this to happen, but the risk is growing.

Key Views

United States

		Tactical (<1 mth)	Strategic (>3 mths)
The US market continues to sell-off as the underlying data hints at a recovery. However, there is a long way to go yet in reducing the unemployment rate or increasing the underlying rate of inflation. Last week the CPI (1.2% y/y) reminded the market that it is hard to trigger inflation in an environment of excess supply (like the US). The Fed's preferred measure of inflation, the core PCE, will be released this week.	Policy rate	0.1%	0.1%
Ultimately, we expect QE2 will keep real bond yields low. We think the recent back-up in inflation expectations (as the Fed 'targets' higher inflation) will be reversed as weak growth and persisting disinflation pressure are revealed in the data. We expect the curve to flatten as 10Y yields rally, though uncertainty remains very high.	10yr bond	2.50%	2.25%
We expect the USD to correct higher in the near term as short USD positions are further unwound. With volatility low, upside to USD/JPY in particular is considerable. We expect the USD to garner support this week if the Fed minutes show that there were misgivings about an increase in quantitative easing amongst several policy makers.	2/10 curve	210bp	190bp
	USD/JPY	86	90
	EUR/USD	1.38	1.35

Australia

		Tactical (<1 mth)	Strategic (>3 mths)
Australian markets will mostly likely be responding to global developments this week (Irish Sovereign developments and US 10Y moves the prime candidates). The discussion of bank competition policy is likely to continue as Governor Stevens speaks to the Economics Committee in Canberra.	Policy rate	4.75%	5.00%
Australia's economic growth remains strong and is supported by the high terms of trade. Despite the lower CPI, the RBA opted to raise rates in November. That all the major banks increased mortgage rates more than 25bp takes near-term rate hikes off the table for a while.	10yr bond	5.30%	5.20%
The RBA believes it is ahead of the curve on interest rates, which makes picking the exact timing of moves very difficult. However, the RBA is likely to continue raising rates. We forecast 5.75% by end 2011.	3/10 curve	20bp	0bp
With minimal RBA hikes priced in (5.20% by end 2011), we look for the former curve flattening and AUS-US spread widening trends to resume. We have established medium term flattening (Jun-14 to Jul-22 flattener) and hawkish (Pay 6M*1Y) trades.	10yr EFP	57bp	65bp
With the USD likely to consolidate, the AUD/USD is going to be on the back foot in the near term. Further interest rate hikes or lifts in China's Reserve Requirement Ratio (RRR) will also apply some short-term downward pressure on the AUD. We expect any spillage from NZD to AUD from S&P's decision to change the outlook on New Zealand's sovereign credit rating to be short-lived.	10yr v US	280	290
	AUD/USD	0.99	1.00

New Zealand

		Tactical (<1 mth)	Strategic (>3 mths)
The RBNZ remains on hold, but the income boost coming through from solid growth in Asia points to extension of the cycle and further RBNZ tightening thereafter. The employment result is already showing some improvement in Q3 (+1% employment change, unemployment falling to 6.4%) and the Retail Sales results were stronger than anticipated (+1.6% m/m).	Policy rate	3.00%	3.00%
The RBNZ is comfortable that inflation expectations will remain in check as further tax increases push inflation above 5%, but this remains a key source of risk to the outlook. We look for the RBNZ to resume rate hikes early in 2011.	10yr bond	5.20%	5.10%
News that S&P changed the outlook on New Zealand's foreign currency credit rating from stable to negative led to knee-jerk selling of the NZD across the board. But we do not expect the NZD selling to last though a move down to 0.75 is possible. We expect the data to remain the focus. On that score, the Reserve Bank of New Zealand is unlikely to lift interest rates again until March 2011 at the earliest. In line with some expected short-term strength in the USD, the NZD is likely to head lower in the short-term. The AUD/NZD exchange rate should head. While our forecasts have AUD/NZD heading higher over the next six months, the risk is AUD/NZD stays below 1.3000, rather than gets above it again.	2/10 swap curve	110bp	100bp
	10yr v US	270	280
	10yr v AUS	-10	-20
	NZD/USD	0.75	0.77
	AUD/NZD	1.2950	1.2950

CBA Forecasts:

Cash rate	22-Nov	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	4.75	4.75	5.00	5.25	5.50	5.75	5.75	5.75	5.75	5.75
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	**22-Nov**	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	0.52	0.30	0.35	0.65	1.50	1.75	2.00	2.30	2.60	2.75
Australia	5.02	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	1.09	0.50	0.75	2.00	2.70	2.95	3.25	3.45	3.55	3.65
Eurozone	1.11	0.80	1.00	1.20	1.40	1.70	2.00	2.30	2.50	2.50
Japan	0.16	0.15	0.15	0.20	0.30	0.60	0.70	0.70	0.80	0.80
10-yr bond yield	**22-Nov**	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	2.90	2.25	2.25	2.40	2.80	3.00	3.20	3.30	3.40	3.50
Australia	5.50	5.10	5.20	5.30	5.40	5.50	5.50	5.50	5.50	5.40
New Zealand	5.74	5.10	5.20	5.30	5.50	5.70	5.50	5.50	5.40	5.40
United Kingdom	3.39	2.75	2.80	3.00	3.90	4.00	4.20	4.40	4.50	4.60
Eurozone	2.70	2.30	2.40	2.60	2.80	3.00	3.10	3.20	3.30	3.40
Japan	1.14	0.80	0.90	1.20	1.40	1.50	1.60	1.70	1.80	1.80

AUD Swap Rates	22-Nov	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	5.43	5.55	5.80	6.00	6.15	6.20	6.10	6.10	6.10	6.00
3-year	5.54	5.55	5.75	5.95	6.05	6.15	6.00	5.95	5.95	5.95
5-year	5.89	5.70	5.80	5.95	6.00	6.10	6.00	6.00	6.00	5.95
10-year	6.04	5.70	5.85	5.95	6.05	6.15	6.10	6.10	6.10	6.00

NZD Swap Rates	22-Nov	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	3.98	3.95	4.20	4.55	5.00	5.10	5.10	5.10	5.10	5.10
3-year	4.35	4.15	4.40	4.75	5.15	5.25	5.20	5.20	5.15	5.15
5-year	4.83	4.35	4.60	4.95	5.35	5.45	5.40	5.40	5.35	5.35
10-year	5.50	4.95	5.10	5.30	5.70	5.90	5.75	5.75	5.70	5.70

Calendar – November 2010

Monday	Tuesday	Wednesday	Thursday	Friday
1 **AU AI-Group PMI, Oct, Index, (47.3)** **AU TD inflat gauge Oct, m/y%ch, (0.1/3.2)** **AU NAB Bus conf/cond, Oct, Index, (10/7)** **AU ABS House price ind., QIII, q%ch,(3.1)** CH PMI Manufacturing, Oct, Index, (53.8) JP Vehicle sales, Oct, y%ch, (-4.1) UK PMI manufacturing, Oct, Index, (53.4) US Personal income/spending, Sep, m%ch, (0.5/0.4) US PCE deflator/core, Sep, y%ch, (1.5/1.4) US ISM manufacturing, Oct, Index, (54.4) US Construction spending, Sep, m%ch, (0.4)	2 **AU RBA cash rate, %, 4.75, (4.50)** NZ Avg Hourly Earnings, QIII, q%ch, (0.6) EU/GE/UK PMI manufacturing, Oct, Index, (54.1/56.1/53.4)	3 **AU CBA/Ai-Group Perf of Serv Index, Oct, (45.6)** **AU Build approv, Sep, m%ch, 2.0, (-4.7)** CH Non-Manuf PMI Oct, Index, (61.7) UK PMI services, Oct, Index, (52.8) US ISM non-manufacturing, Oct, Index, (53.2) US Factory orders, Sep, m%ch, (-0.5) US FOMC rate decision, %, 0-¼, (0-¼) US Total vehicle sales, Oct, mn, (11.73)	4 **AU Retail trade, Sep, m%ch, 0.7 (0.3)** **AU Retail trade volumes, QIII, q%ch, 1.0 (0.8)** **AU Trade balance Jul, $bn, 1.5, (2.3)** NZ Emp Growth/Unemp Rate, QIII, q%ch, (-0.3/6.8) EU PMI services/composite, Oct, Index, (53.2/53.4) EU PPI, Sep, m/y%ch, (0.1/3.6) EU ECB announces int. rate, %, 1.00, (1.00) GE PMI services, Oct, Index, (56.6) UK New car registrations, Oct, y%ch UK BoE announces rates, %, 0.50, (0.50) CA Ivey purchasing manager index, Oct, (70.3)	5 **AU Ai-Group PCI, Oct, Index, (40.8)** **AU RBA Statement on Monetary Policy** EU Retail sales, Sep, m/y%ch, (-0.4/0.6) GE Factory orders, Sep, m/y%ch, (3.4/20.3) UK PPI Input/Output/core, Oct, y%ch, (9.5/4.4/4.6) US Avg hrly earnings, Oct, m/y%ch, (0.0/1.7) US Non-farm payrolls, Oct, '000, (-95) US Unemployment rate, Oct, %, (9.6) US Pending home sales, Sep, m/y%ch, (4.3/-18.4) US Consumer credit, Sep, $bn, (-3.3) CA Net change in employment, Oct, '000, (-6.6) CA Unemployment rate, Oct, %, (8.0) CA Building permits, Sep, m%ch, (-9.2)
8 **AU ANZ Job ads, Oct, m%ch, (0.7)** JP Leading / Coincident index CI, Sep GE Trade bal, Sep, €bn, (9.0) GE Industrial production, Sep, m/y%ch, (1.7/10.7) CA Housing starts, Oct, '000, (186.4)	9 NZ Card spending, Oct, m%ch, (1.5) JP Curr a/c total/adjusted, Sep, ¥bn, (1,114.2/1,179.0) JP Trade balance - BOP basis, Sep, ¥bn, (195.9) GE CPI, Oct UK RICS house price balance, Oct, %, (-36) UK Total trade balance, Sep, £bn, (-4,643) UK Industrial production, Sep, m/y%ch, (0.3/4.2) UK NIESR GDP estimate, Oct, m%ch, (0.5) US Wholesale inventories, Sep, m%ch, (0.8) CA Housing price index, Sep, m%ch, (0.1)	10 **AU MI/WBC Consumer Sent, Nov, Index, (117.0)** **AU Housing finance, Sep, m%ch** **No. of own-occupiers, %, x.x, (1.0)** **Value of all loans, %, x.x, (0.0)** NZ RBNZ Financial Stability Report CH Trade balance Oct, US$bn, (16.9) JP Consumer confidence, Oct, Index, (41.4) UK Bank of England Quarterly Inflation Report US Trade balance, Sep, $bn, (-46.3) US Import price index, Oct, m/y%ch, (-0.3/3.5) CA Trade balance Sep, C$, (-1.3)	11 **AU MI Consumer Inflation Expectat, Nov, %, (3.8)** **AU MI Unemp. Expt., Nov, Index, (102.0)** **AU Labour force, Oct** **employment, '000, 20 (49.5)** **participation rate, %, 65.5 (65.6)** **unemployment rate, %, 5.0 (5.1)** NZ Business PMI, Oct, Index, (49.2) NZ Food prices, Oct, m%ch, (0.7) CH PPI/CPI, Oct, y%ch, (4.3/3.6) CH Retail sales/Ind. Prodn, Oct, y%ch, (18.8/13.3) CH Fxd Ass Investment, Oct, y%ch, (24.5) JP Machine orders, Sep, m/y%ch, (10.1/24.1) EU ECB Monthly report	12 EU GDP, QIII, q/y%ch, (0.1/1.9) EU Industrial production Sep, m/y%ch, (1.0/7.9) GE GDP, QIII US Uni. Of Michigan confidence, Nov, Index
15 **AU New motor veh. sales, Oct, m/y%ch, (0.9/8.** NZ PSI, Oct, Index, (54.8) NZ Retail sales ex inflation, QIII, q%ch, (1.3) NZ Retail sales, Sep, m/y%ch, (0.0/-0.6) JP GDP, QIII, q%ch, (0.4) JP Industrial production, Sep JP Capacity utilisation, Sep, m%ch, (-0.9) EU Trade balance Sep, €bn, (-1.4) US Retail sales, Oct, m%ch, (0.6) US Business inventories, Sep, m%ch, (0.6)	16 **AU RBA Board Minutes** JP BoJ target rate, %, 0-0.10 (0-0.10) EU New car registrations Oct, y%ch, (-9.6) EU CPI, Oct, m/y%ch, (0.2/1.9); core, y%ch, (1.0) EU/GE ZEW survey (econ. sentiment), Nov, (1.8/-7.2) UK CPI, Oct, m/y%ch, (0.0/3.1); core, y%ch, (2.7) US Producer price index Oct, m/y%ch, (0.4/4.0) US Industrial production, Oct, m%ch, (-0.2) US Capacity utilisation, Oct, %, (74.7) US NAHB housing market index, Nov, (16)	17 **AU DEWR skilled vacancies, Nov, m%ch, (-0.005)** **AU WPI QIII, q/y%ch, 1.2/3.4 (0.8/3.0)** JP Leading / Coincident index, Sep EU Construction output, Sep, m/y%ch, (-0.4/-8.5) UK Bank of England minutes UK ILO unemployment rate (3mths), Sep, %, (7.77) US CPI, Oct, m/y%ch, (0.1/1.1); core, (0.0/0.8) US Housing starts, Oct, '000, (610) US Building permits, Oct, '000, (539)	18 **AU RBA Dep Gov Battellino speaks in Perth** **AU AWE Aug, q/y%ch, 1.1/5.4 (0.5/5.2)** NZ Producer prices, in/outputs, QIII, q%ch, (1.4/1.1) EU Current account, Sep, €bn, (-7.5) UK Retail sales, Oct, m/y%ch, (-0.2/0.5) US Leading indicators, Oct, m%ch, (0.3) US Philadelphia Fed, Nov, Index, (1.0) CA Leading indicators, Oct, m%ch, (-0.1) CA Wholesale sales, Sep, m%ch, (1.2)	19 **AU State Annual National Accounts** NZ Credit card spending, Oct, m/y%ch, (0.9/4.1) GE Producer prices, Oct, m/y%ch, (0.3/3.9)
22	23 GE GDP, QIII, q/y%ch, (2.2/3.7) US GDP, QIII, q%chsaar, (1.7) US Existing home sales, Oct, mn/m%ch, (4.53/10.0) US Richmond Fed, Nov, Index CA CPI, Oct, m/y%ch, (0.2/1.9) CA Retail sales, Sep, m%ch, (0.5)	24 **AU Construction Work Done, QIII** **AU HIA Housing Affordability Index, QIII, (108.3)** EU Industrial new orders, Sep, m/y%ch, (5.3/24.4) GE IFO - Business climate, Nov, Index UK GDP, QIII, q/y%ch, (0.8/2.8) US Personal income/spending, New home sales, Oct US PCE deflator/core, Oct US Durable goodes orders, Oct US Uni. Of Michigan confidence, Nov, Index US FOMC Minutes CA Teranet House Prices, Sep	25 **AU Capex, QIII, q/y%ch, 6.0/6.5, (-4.0/-4.8)** JP Trade bal total/adj, Oct	26 JP CPI, Oct GE CPI, Nov
29 **AU HIA new home sales Oct** **AU Company profits, QIII, q%ch, 5.0, (18.9)** **AU Inventories, QIII, q%ch, 0.4, (-0.5)** **GDP contrib, %, 0.2 (0.0)** **AU RBA Gov. Stevens speaks in Melbourne** NZ Trade balance, Oct NZ NBNZ Business confidence, Nov, Index JP Retail sales, Oct UK Net consumer credit, Oct US Dallas Fed, Nov, Index CA Current account, QIII, C$bn, (-11.0)	30 **AU RBA Ass. Gov. Debelle speaks in Sydney** **AU Build approv, Oct** **AU Current acc deficit, QIII, $bn, -5.5, (-5.6)** **AU Net export contrib, QIII, ppt, -0.3, (0.4)** **AU Govt Finance Statistics, QIII** **AU Private sector credit, Oct** **AU RP Data-Rismark house price index, Oct** NZ Building permits, Oct JP Industrial/vehicle production, Oct JP Housing starts/Construction orders, Oct US S&P/Case-Shiller home price ind., Sep CA GDP, QIII, q%chsaar, (2.0)	***Also due in November*** AU Mid-Year Economic and Fiscal Outlook EU OECD Economic Outlook (18 Nov)	***Early December*** AU GDP, QIII (1 Dec) AU Retail trade, Oct (2 Dec) AU Trade balance, Oct (2 Dec) AU RBA cash target, Dec (7 Dec) AU Housing finance, Oct (8 Dec) AU Labour force, Nov (9 Dec)	***Central Bank Meetings*** AU RBA (2 Nov) US FOMC (3 Nov) UK BOE (4 Nov) EZ ECB (4 Nov) JP BoJ (16 Nov) CA Bank of Canada (7 Dec) NZ RBNZ (9 Dec)

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

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).

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