

Forecasts revisions, including impact of US rally and NZ earthquake

- The bond rally could last a little longer if the US government shuts down, but we have raised our 2H-11 forecasts.
- APRA liquidity rules point to near-term bid for Semi-governments at expense of Supras.
- We detail our economists' thoughts on the Christchurch earthquake and implications for our AUD-NZD trade.
- We examine whether narrow Bills-OIS spreads will persist.

Global bond markets have received strong support from heightened risk aversion over the past week as Middle East tensions continue to rise. The Australian market has performed well, with the 14bp fall in 10yrs almost matching that of the US benchmark (-18bp). Still, the spread has widened slightly and the curve has flattened as one would expect. Interestingly, the softer tone in global markets hasn't stopped the AUD trading near the top of its recent band v the USD.

Uncertainty in the Middle East remains high. The market is fretting that there could be further 'dominoes' to fall, with consequent impacts on oil prices and possibly global growth. But we find it difficult to make this our base case. We look for the safety bid to fall away before long. But, in taking stock of our forecasts this week, we are holding to the view that Treasuries could rally a little further in the near-term as Budget gridlock in the US Congress threatens to shutdown non-essential US Government services (see Philip Brown's article from page 4).

More broadly, we have raised our US bond forecasts to account for the sheer strength of the US economic data coming through. We expect the Fed to let QE2 lapse in mid-year before finally reverses direction and tightening policy late in the year. We now look for US 10yrs to head to 4.0% by the end of the year (was 3.5%) and 2yrs to reach 1.7%.

We have let only a small part of these revisions flow through to our Australian bond forecasts, which are largely on track. The near-term path for the RBA remains cloudy due to the floods and retail softness. But we believe that the medium-term call for 75bp more tightening this year is broadly on track due to the "unstoppable" capex boom (which looks set to lift another leg in 2011-12 based on last week's ABS data).

That relatively clear outlook has meant that most of the fluctuations in US bond yields over the past year have been absorbed by changes in AUS-US bond spreads. So it is with our forecasts – we now tip the spread will widen only slightly when the RBA comes back into play, before resuming its downward trend in 2H-11. The curve should flatten markedly, aided by strong global demand for our relatively high yields.

That demand looks to have received a small boost today following APRA's decision to nominate only CGS and semi-government bonds (along with cash & RBA reserves) as qualifying assets for Basel III bank liquidity purposes. The main surprise was that high-grade AUD Supranational bonds didn't qualify, which led to some under-performance on the day. We think that trend can continue, as Adam Donaldson discusses on page 3.

Our forecast revisions also embody a lower path for NZ bond yields than previously expected, as a result of the terrible earthquake that struck Christchurch last week (and our economists' tip that the RBNZ will now cut the OCR 50bp). We detail our updated thinking on NZD-AUD spreads. Finally, Alex Stanley also surveys the outlooks for the BBSW-OIS spread.

Contents:

Key Positions.....	2
APRA clarification on global liquidity standards prompts us to buy QTC versus IBRD	3
Bond Forecast Review – Higher in the US, Lower in NZ	4
Changing the target on our AUD-NZD spread trade	10
Bills/OIS spread contained by lower bank issuance	13
New Zealand Economic Perspective: Canterbury earthquake update	15
Key Views.....	17
CBA Forecasts:	18
Calendar – March 2011.....	19

Figure 1 – Summary of new Forecasts

(%)	Now	March	June	Dec
Official Cash	4.75	4.75	5.00	5.50
90-day BBSW	4.97	5.00	5.30	5.80
3-year swap	5.37	5.65	5.95	6.35
5-year swap	5.73	6.05	6.25	6.60
10-year swap	6.01	6.15	6.40	6.65
Aus 3yr bond	5.13	5.30	5.60	5.90
Aus 10yr bond	5.50	5.60	5.80	6.00
Aus 3-10yr (bp)	37	30	20	10
US 2yr bond	0.70	0.65	1.00	1.70
US 10yr bond	3.39	3.40	3.60	4.00
AUS-US 10yr spread (bp)	211	220	220	200

Source: CBA, Bloomberg

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

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

Alex Stanley Associate Analyst, Fixed Income T. +612 9118 1125 E. alex.stanley@cba.com.au

Chris Tennent-Brown CBA NZ Economist T. +64 9374 8819 E. chris.tennent-brown@asb.com.co.nz



Key Positions

The APRA announced a new position about supranational bonds and the liquidity rules this morning. The fact that APRA does not consider Supras to be liquid assets prompted a shift wider in the 10Y basis has stopped us out of our Bills/LIBOR flattening trade. We have also been stopped out of the ACGB Butterfly.

Our deep OTM conditional steepener has expired, as expected, out of the money.

The earthquake in Christchurch has triggered a significant rally in NZ. We are shifting our target for the 3Y AUD to NZD swap spread trade to 210bp. (See article on page 10.)

Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Buy the NSWTC Jun-20 (Government Guaranteed) as an ASW	-12bp (3-Feb-10)	-11.5bp	-0.5bp	-35bp	0bp	Hold: A long-term buy-and-hold trade.
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-Aug-10)		-0.4bp (premium)			Trade Expired Out of the Money:
Buy the Suncorp Metway Govt Guaranteed Apr-11 Floater.	TM of 29.5bp	17bp	+12.5bp	0bp	40bp	Hold: This bond is Government Guaranteed. It should be much tighter. Repurchases of GG bank bonds becoming common.
Buy the Jun-16 vs the May-13 and May-21	+11bp (24-Jan-11)	+15bp	-4bp	+3bp	+15bp	Stopped Out:
But the KfW Dec-19 vs the IBRD Oct-19	33.5bp (31-Jan-11)	28bp	+5.5bp	20bp	40bp	Hold: The EU Sovereign CDS is improving, but the spread has not yet moved in AUD.
Receive 10Y AUD-USD basis vs 3Y	8bp (31-Jan-11)	12bp	-4bp	3bp	10bp	Stopped Out: The mismatch between issuance and borrowing suggests the curve should flatten
Pay the ASW of the ACGB Oct-14	31bp (14-Feb-11)	32bp	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)	-175bp	0bp	-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)	155bp	+23bp	210bp	140bp	Hold – New Target and Stop: 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)	20.5bp	--	28bp	15bp	New Trade: We expect the APRA liquidity announcement will see the spread widen more.



APRA clarification on global liquidity standards prompts us to buy QTC versus IBRD

Adam Donaldson – Head of Debt Research– 61 2 9118 1095 – adam.donaldson@cba.com.au

- APRA has advised that only cash, RBA reserves, CGS and semi-governments will qualify for LCR purposes.
- Banks will still be able to count other repo-eligible assets for liquidity purposes, subject to an unknown fee.
- We look for semis such as the QTC 2020s to outperform Supranationals such as the IBRD 2020s.

APRA announced new details about Supra bonds and liquidity books

APRA released an update on its implementation of the Basel global liquidity standards today. The statement outlined APRA's treatment of qualifying high quality assets for the Liquidity Coverage Ratio (LCR) that will be introduced from January 2015. APRA has stated that the only assets available to Australian banks will be cash, balances held with the RBA, and Commonwealth and Semi-Government securities (with none of the slightly lower-grade level 2 Basel III assets qualifying at this stage). Failure to allow even the highest grade and most liquid AUD Supranationals as eligible liquidity was a surprise, given these qualify under Basel III (multi-lateral development banks being a level 1 asset).

CGS and semis have an advantage

The review places non-CGS and semi paper at a disadvantage. Banks will in future still have the option of repo-ing non-qualifying liquid assets under the RBA's committed secured lending facility (announced on December 17). However, the facility is subject to a fee of an unknown size. This fee shouldn't be too onerous given a lack of qualifying sovereign-type assets in Australia and the need to encourage some diversity within liquid asset portfolios. But APRA does say it "will require the larger ADIs to demonstrate that they have taken all reasonable steps towards meeting their LCR requirements through their own balance sheet management, before relying on the RBA facility."

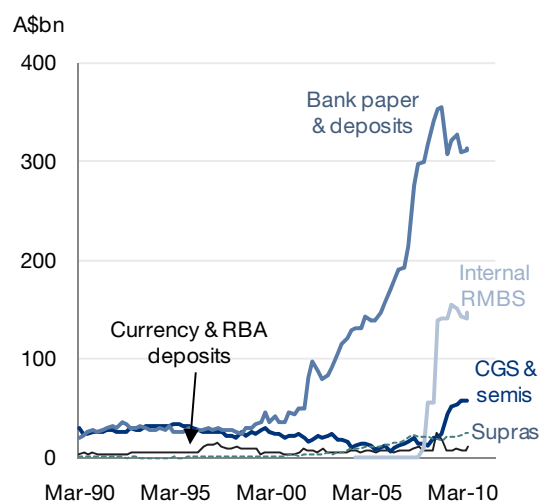
SSAs can still be made into liquid assets via the RBA facility, but this attracts a fee

We expect IBRD 2020 to widen against QTC 2020

APRA stated they don't expect their treatment of level one and two assets to "have a material impact on the status of marketable instruments in the Australian capital market". APRA also noted that it was possible for other assets to become eligible before the implementation in 2015. However, it's difficult to see what would prompt a change other than substantial issuance and increases in turnover that might change the regulator's perceptions on liquidity (and that is now more difficult to see given APRA's decision, at least ahead of the disclosure of the liquidity facility fee later in the year). We have seen semi-government spreads tighten 1-2bp today while SSAs are out 3-5bp across the board.

Without knowing the value of the fee or any restrictions APRA might place on banks using the repo facility, it's difficult to know the full extent of the impact on the market. However, APRA's decision is likely to reduce the attractiveness of SSA paper with maturities longer than 2015. We expect the underperformance of SSA's relative to semis to continue for the time being and have moved to short the IBRD 2020s versus QTC 2020s today (at a spread of 20.5bp, targeting 28bp) as a result. Figure 1 shows that banks still have substantial work to do to make any meaningful change in the composition of their liquid assets. We can also expect to see issuance of kangaroos, which has been heavy, to lighten up until the situation is clearer.

Figure 1: ADI Liquid Asset Holdings



Source: APRA, CBA



Bond Forecast Review – Higher in the US, Lower in NZ

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

- We expect the US market to rally a little over the next month, before selling off over the remainder of 2011.
- The Australian market will also be selling off, though not as quickly. The Aust-US spread will tighten slowly.
- The earthquake in NZ has completely changed our NZ outlook. We expect a rate cut will steepen the curve.

We are updating our bond forecasts today for two reasons; one pleasant and one decidedly not.

The US recovery has proved stronger than we originally anticipated

The pleasant reason is that the US recovery has proved stronger than we anticipated and we are revising up our forecasts of US bond rates. The much more unpleasant reason is that the second Christchurch earthquake has caused more than just devastation and loss of life in Christchurch. The earthquake has caused an economic impact significant enough to prompt our NZ economists to call for an emergency rate cut. The outlook for New Zealand has completely changed and our bond forecasts are reduced to reflect the new outlook.

We lower our NZ forecasts because of the NZ earthquake

In Australia, our forecasts have been increased a little as the future becomes clearer, but there is no change to the underlying rationale. We still expect the RBA to raise rates over the latter part of 2011 and into 2012. The recovery in the US and higher rates in Europe have prompted us to nudge up our forecasts for Australian bonds rates by a small amount.

We have revised our AUD bond forecasts higher, as well as other currencies

We have made smaller revisions to the other countries' trajectories too. Generally speaking, the other countries bond rates have been increased too because of the higher US forecasts.

United States: A short-term Shutdown

The United States economy is definitely improving. Perhaps the most eye-catching improvement in US data has been in the weekly Initial Jobless Claims (IJC) series. Although still elevated by historical standards, the series has been trending down for a while now. The series is volatile, but does tend to lead changes in the unemployment rate. (See Figure 2.)

US economic data is showing improvement, including the notoriously lagging employment indicators

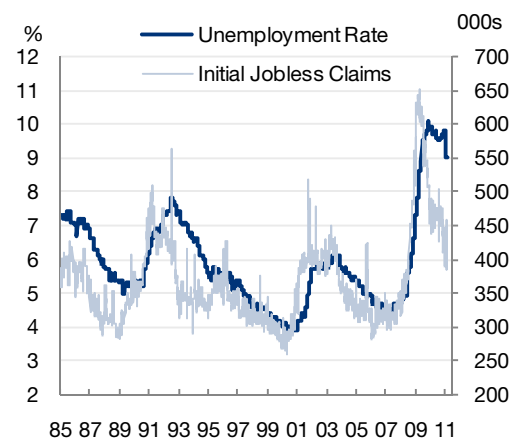
The IJC data is not the only improvement we have seen recently in the US data, though. The various Fed manufacturing series have generally been very strong, while consumer confidence has been improving rapidly. The consumer confidence stats still have a long way to go before they are in expansionary territory, it must be said, but the overall trajectory is definitely heading towards recovery.

Figure 1 – Summary of new Forecasts

(%)	Now	March	June	Dec
Official Cash	4.75	4.75	5.00	5.50
90-day BBSW	4.97	5.00	5.30	5.80
3-year swap	5.37	5.65	5.95	6.35
5-year swap	5.73	6.05	6.25	6.60
10-year swap	6.01	6.15	6.40	6.65
Aus 3yr bond	5.13	5.30	5.60	5.90
Aus 10yr bond	5.50	5.60	5.80	6.00
Aus 3-10yr (bp)	37	30	20	10
US 2yr bond	0.70	0.65	1.00	1.70
US 10yr bond	3.39	3.40	3.60	4.00
AUS-US 10yr spread (bp)	211	220	220	200

Source: CBA, Bloomberg

Figure 2 – US Unemployment improving



Source: CBA, Bloomberg



Middle-east politics remains a risk

However there is more than one bump in the road to be negotiated before then. The multiple revolutions in the Middle East have put markets on edge. There is also likely to be a US Government shutdown in March or April and then the Fed will likely end QE in June. Each of these will have significant effect on the market.

Despite the comparatively muted response so far, middle east politics will continue to drive the US bond market, we believe. Figure 3 shows that while Oil has made a decisive break higher in price since the Libyan uprising, the 10Y US Treasury has only drifted slightly lower in yield. If the middle east unrest continues (which seems very likely) then the US rates will likely continue to trend slowly down.

Though the oil-price reaction tempers the rally

One of the reasons the 10Y treasury has not reacted that much in price terms to the unrest is that bonds suffer contradictory impulses in response to mid-east unrest. Normally, uncertainty and unrest would trigger a large rally in US bonds. However, when the oil price is rising this triggers inflation fears, which keep bond rates higher. The combination of the two has been, so far, a moderate rally in the US. We expect the mid-east to remain volatile and for the markets to continue to focus on that volatility. However, the fears of inflation will temper any further rally.

A US Government shutdown is also a distinct possibility

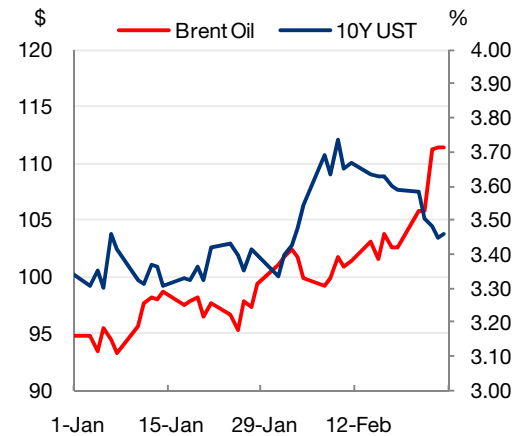
The other political problem in the United States is home grown. There is intense disagreement between the Republican House of Representatives, the Democratic Senate and President Obama about the budget. The US did not pass a budget in 2010-11, instead relying on continuing resolutions – a form of temporary stop-gap - to get as far as we have through the year. The current resolution lasts until March 4. If no agreement is forthcoming (and that seems the most likely outcome) then the US Government will “shutdown”.

There is ample precedent for a US Government shutdown and most Government services continue. However, the market tends to react badly to the shutdown. Over the Christmas and New Year period of 1995-96 the US Federal Government shut down for two separate periods. The first was from 14 to 19 November 1995 and the second was from 16 December 1995 to 6 January 1996. During both periods the US bond market rallied. After the second shutdown there was a pretty significant “relief sell-off”. (See Figure 4.)

We conclude that there is a strong chance that a US Government Shutdown, should one occur, would trigger a rally in US Treasuries.

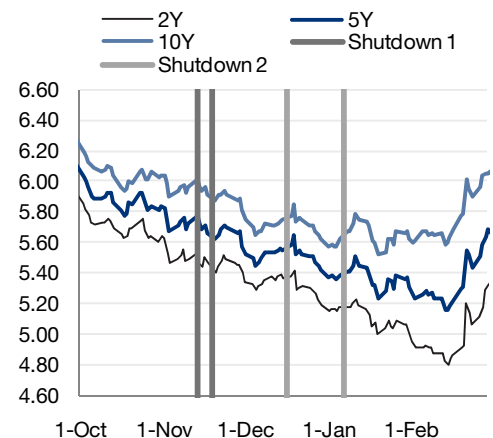
The other complication when discussing the US Government shutdown is that the US debt ceiling is also getting awkwardly close. The US

Figure 3 – Oil responding faster than UST



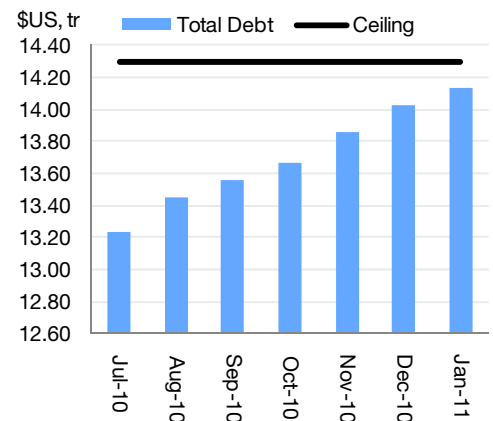
Source: CBA, Bloomberg

Figure 4 – US bonds rallied over 1995-96 shutdowns



Source: CBA, Bloomberg

Figure 5 – Debt Ceiling approaching



Source: CBA, Bloomberg



The debt ceiling is close too

Treasury cannot, by law, have more bonds outstanding in total than the debt ceiling. If the ceiling is reached, then payments to some areas will stop (bonds will not default, however). We expect there will be a shutdown, but that after the shutdown a new agreement which will raise the debt ceiling will be reached. However, this is going to be a tough negotiation on both sides.

A short-term rally is likely

There is more at stake than only the budget for March-September 2011. The US Health Care reform has been passed by Congress, but the money to fund most of the reforms has not yet been allocated. There is likely to be a knock-em-down, drag-em-out fight over this. The Treasury market is likely to rally from the uncertainty, in the short term.

United States: A longer term rebound

The medium term outlook in the US is for a sell-off

Once we are past the political machinations, however, the US outlook is much brighter. The next major event is likely to be the Fed discontinuing QE when the current program expires in June. The Fed has consistently pointed to the lack of improvement in the unemployment rate and the decidedly low inflation outlook as reasons to continue the existing QE policy. However, both these arguments are now getting a little thin. As we noted above, the IJC data has improved significantly recently and tends to lead improvements in the unemployment rate.

The inflation expectations are trickier. There is a disconnect between the Fed's outlook and the market's outlook.

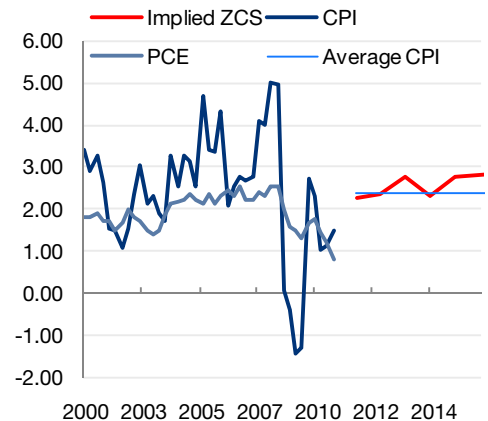
Employment is improving (slowly) but inflation is tricky

The Fed focuses on the PCE deflator, a measure of inflation which is usually under the CPI. (See Figure 6.) The Fed released forecasts for PCE inflation as part of the minutes to the January 25-26 meeting. The FOMC members' forecasts were for PCE inflation to remain about 1.5% until 2013. In contrast, the FOMC members' estimate of long-run PCE growth is closer to 1.9%. (These are estimates, the data is presented as a grouped histogram and we can't be exact.)

In contrast, the market is expecting CPI inflation to be higher than average over the next few years. (See Figure 6.) In fact, the US real swap and bond rates are well below CPI expectations (at least, well below ZCS). Figure 7 shows that the market expects CPI to be higher than bond or swap until about a 5Y or 6Y maturity. The market seems concerned that the Fed will leave easy monetary policy in place for too long and trigger a bought of inflation down the track.

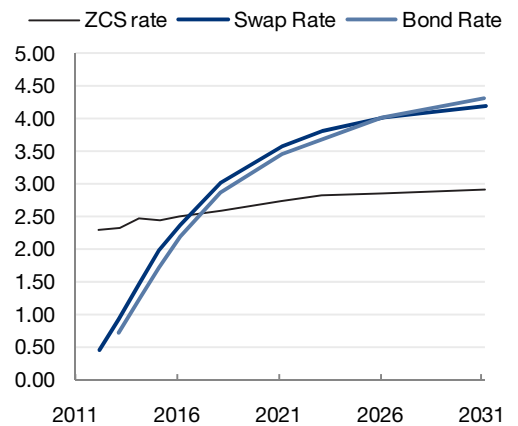
The market expectation of inflation is now back to only just under long-term averages (see Figure 8). However, the 10Y US Treasury

Figure 6 – Implied ZCS not far below average



Source: CBA, Bloomberg

Figure 7 – US ZCS and other rates



Source: CBA, Bloomberg

Figure 8 – US ZCS and UST history



Source: CBA, Bloomberg



remains very low compared to the bond yields over the same time frame. We have been using the spread between the 10Y UST and the 10Y ZCS as a measure of the effect of QE. Figure 9 shows that the spread between US Treasuries and ZCS is low.

The Fed will keep QE2 until June

We believe the Fed will end QE2 when the current program expires in June. The end of QE2 should see a reasonably significant sell-off over the period between June and September. Most of that widening will be felt as a bond sell-off, however, some will be a (comparative) rally in the ZCS. The market's fear that the Fed is behind the curve on inflation will likely be somewhat calmed once the Fed ends QE.

Removing QE2 will trigger a sell-off

The Fed is also right that the US economy has a long way to go before inflation is really a true concern, though. The end of QE will trigger a sell-off, but the overall slack in the US economy and the continuing high unemployment rate will ensure the 10Y US Treasury doesn't peak too high in yield, in our view. We expect the sell-off to slow once the yield gets to around 4.20% in mid-2012.

Australia: Investment led boom taking rates higher

In Australia our existing bond forecasts have proved quite accurate and we have only adjusted them marginally. The RBA has paused temporarily in the hiking cycle, but seems likely to return to hiking later in the year. The consumer part of the Australian economy remains subdued, but the investment side of the economy is running very hot.

We increase our Australian bond forecasts based on total demand – not consumer consumption

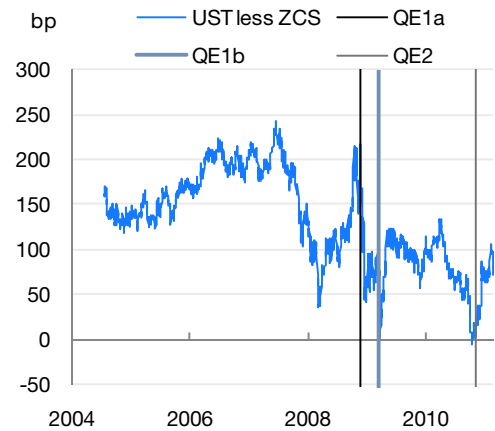
Figure 10 shows just how high mining investment is expected to be over the medium term. In short, the RBA will need to raise rates to keep space in the economy to allow all this investment. We expect the RBA will make comments to this effect in tomorrow's statement.

We have increased our Australian bond forecasts slightly because of the increase in our US forecasts, but the rationale is unchanged. The RBA will be raising rates over the course of 2011 and this will increase bond yields and flatten the curve. We expect the 10Y yield to peak at approximately 6% in late 2011, as RBA policy becomes decidedly 'restrictive'.

The 10Y Aus-US bond spread will slowly tighten

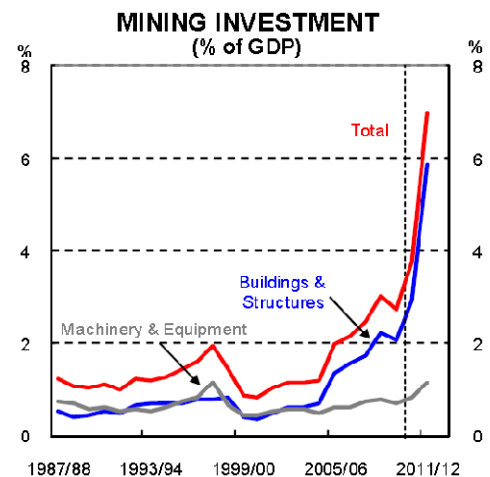
We expect the 10Y spread between Australia and US bonds to remain approximately constant at around 220bp in the short term. The spread movements are relatively small in 2011 because we expect the RBA and the Fed to both be tightening policy at similar times. While the RBA move should be well ahead of the Fed, the extent of the adjustment eventually

Figure 9 – Spread between ZCS and UST shows QE2 still having an effect



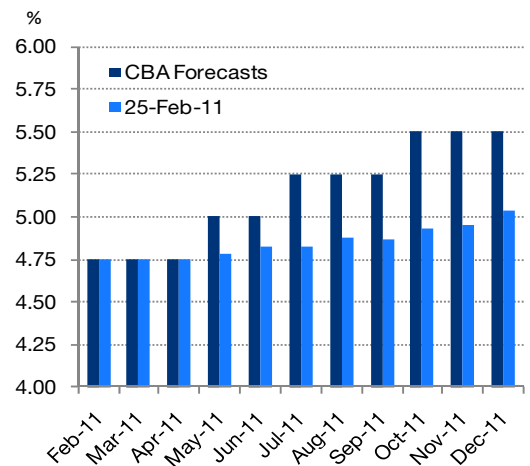
Source: CBA, Bloomberg

Figure 10 – Spike in Mining investment



Source: CBA, ABS

Figure 11 – RBA pricing under forecasts



Source: CBA, Bloomberg



required in the US is much larger. The net result of the dual move is that the spread is relatively stable. However, the Fed is likely to continue increasing rates through 2012 while the RBA will slow.

We expect the 10Y spread will likely tighten to 200bp by Dec-2011, before dropping quickly in 2012. The movements in spreads at the front of the curve are slightly more exaggerated. We expect the 2Y spread to tighten to 420bp by the end of 2011. The spread will tighten quickly in 2012 once if the Fed continues raising rates but the RBA does not.

We still expect Aust swap spreads to slowly widen

There has been no change to our view about Australian swap spreads. We expect swaps spreads will continue to widen as the curve flattens, particularly at the front end of the curve. As the RBA moves rates more into restrictive territory the desirability of hedging borrowing costs increases (both for commercial borrowers and homeowners). We expect the 3Y spreads to move about 15bp wider over the next year, while the 10Y spread is likely to move about 5-10bp wider.

New Zealand: An RBNZ emergency cut could see rates fall even lower

An emergency RBNZ cut and lower, steeper rates for longer

The Christchurch earthquake has been devastating and will seriously impact the entire NZ economy. Even prior to the quake, the NZ data had been poor and consumer spending was looking particularly weak. The earthquake has prompted our NZ economists to call for a 50bp emergency rate cut at the 10 March RBNZ meeting. Although the expected pricing of the RBNZ implied in the OIS curve has continued to rally, it is still much higher than the path forecast by our economists.

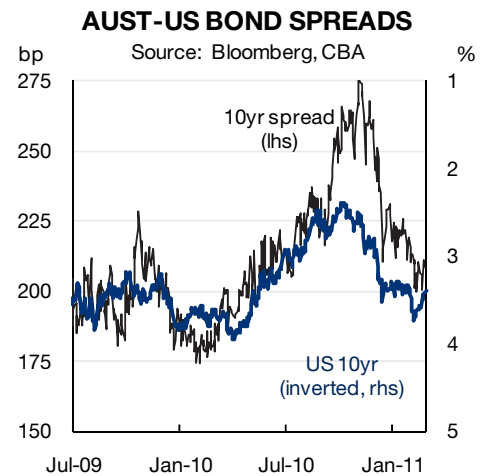
Although the market reaction to the quake has already been a significant rally we think the rally has further to go. We have priced a continuation of the current rally in NZ through to a low in March around 30bp below current levels (at the 2Y point). We expect the curve to steepen to reflect the 50bp rate cut. However, once that cut is delivered we expect a long slow recovery will increase rates and flatten the curve over the remainder of 2011 and 2012.

We have also shifted the target on our existing AUD to NZD spread trade to reflect the new reality in New Zealand post the quake. (See the article beginning on page 10.)

Other Jurisdictions: Central Banks likely to be active earlier

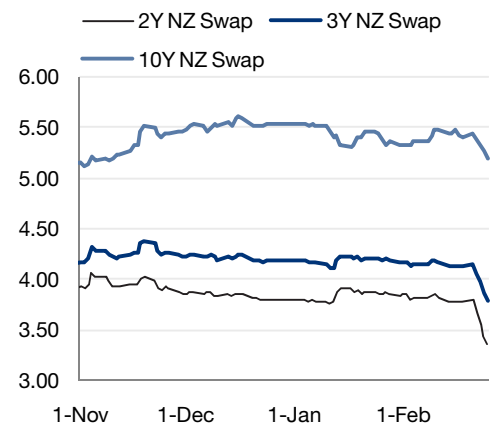
We have also reconsidered the potential paths for the Bank of England and the European Central Bank. We now think these banks will be

Figure 12 – Aust-US bond spreads



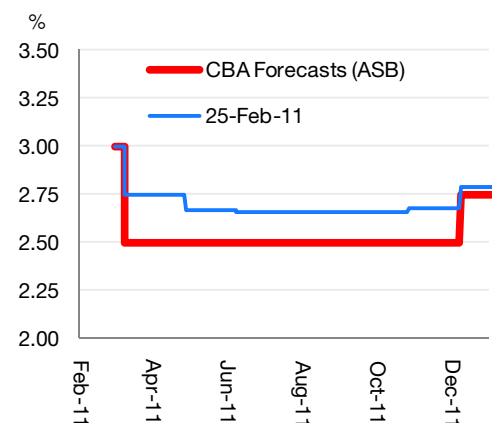
Source: CBA, Bloomberg

Figure 13 – A significant NZ rally already



Source: CBA, Bloomberg

Figure 14 – RBNZ emergency easing would lower rates further



Source: CBA, Bloomberg



BoE and ECB likely to raise rates earlier than we had previously forecast

raising rates slightly earlier than we had previously expected.

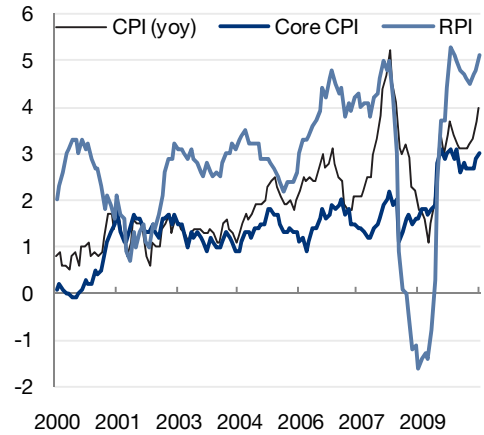
In the UK, the high inflation prints are starting to impact on inflation expectations. The Bank of England is likely to react sooner because of this development. We now expect the BoE to raise rates for the first time during the June quarter of 2011.

We also find some improvement in the European outlook. The performance of Germany, in particular, has been strong. The ECB are still likely to be raising rates after the BoE and Fed, but we now expect the gap to be smaller. We expect both the Fed and the ECB to be raising rates in December quarter of 2011.

Bond forecasts increased too

We have shifted our bond forecasts for GBP and Euros as well, based on these improving outlooks. In both currencies we expect bond rates to be rising earlier than we had previously. Our detailed forecasts are provided on page 18.

Figure 15 – Inflation in the UK stubbornly high



Source: CBA, Bloomberg



Changing the target on our AUD-NZD spread trade

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

- We entered an AUD-NZD spread trade because we expected the spread to widen and the trade had positive carry.
- The NZ earthquake has changed the NZ economic outlook significantly.
- We now look for a target spread of 210bp.

This article is adapted from ideas first published in the Fixed Income Daily Wrap of 24 February.

We entered the 3Y spread trade at 132bp on Feb 21

On February 21 we recommend receiving the 3Y NZD swap rate against the 3Y AUD swap rate. Our rationale (before the earthquake) was that the NZ economy was showing signs of weakness and the RBA was likely to raise rates faster than the RBNZ did. As well as the expectation the spread would slowly increase, there was the benefit of the trade having a very high positive carry. The slope of the NZ curve was steeper than the AUD curve, which meant all spread trades had positive carry, but the carry was highest around the 2Y and 3Y section of the curve.

The earthquake has shifted the outlook for New Zealand rates. The spread trades is still the right trade, in our view, but the rationale and target have changed.

The earthquake has hampered the NZ economy

The more we learn about the NZ earthquake the worse it becomes. Our New Zealand Economists are now expecting the RBNZ to cut the cash rate by 50bp at the March 10 meeting.

The RBNZ is likely to cut rates 50bp in March

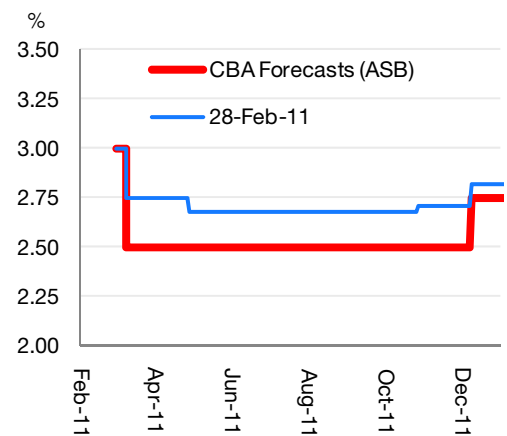
The destruction caused by the earthquake in Christchurch looks like it will lead to a far greater economic disruption than the September earthquake. While insurance is likely to cover a large portion of the cost, our economists are expecting a large diversion of resources to the Canterbury region. Prior to the disaster, New Zealand economic activity was lacklustre. Recent data has been poor, including: Q3 GDP, labour data and credit growth. The RBNZ had even flagged a potential rate cut during the cycle before the earthquake.

Now the earthquake has occurred, that rate cut looks significantly more likely. Our economists expect a one-off rate cut in March (of 50bp) to counteract the contractionary influence of the quake. They expect the rate to remain 2.50% until December, before slowly rising to a peak of 4.50 in January 2013.

We now target 210bp

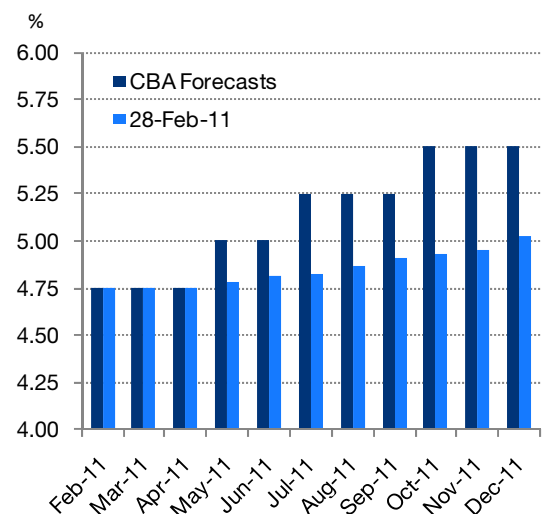
Our AUD to NZD spread trade has performed

Figure 1: Implied RBNZ Pricing from the OIS curve



Source: Bloomberg, CBA

Figure 2: RBA pricing



Source: Bloomberg, CBA



very well. Mostly because of the earthquake in New Zealand, though the strong Capex investment forecast for 2011-12 also triggered a sell-off in AUD rates. The spread is currently just under our original target 160bp (though it has already spent some time above it). We shift our target to 210bp and the stop to 140bp.

This is, deliberately, a very large shift in our target. The NZ economy is going to be seriously affected and, if our economists are right and the RBNZ cuts 50bp, there will be a further large rally in NZ swap. (See Figure 1.)

Australian outlook remains strong

Our impression of the Australian economy has not changed since the original trade recommendation. If anything, the strong Capex forecasts for 2011-12 released last week suggest we had slightly underplayed the medium term strength of the Australian economy.

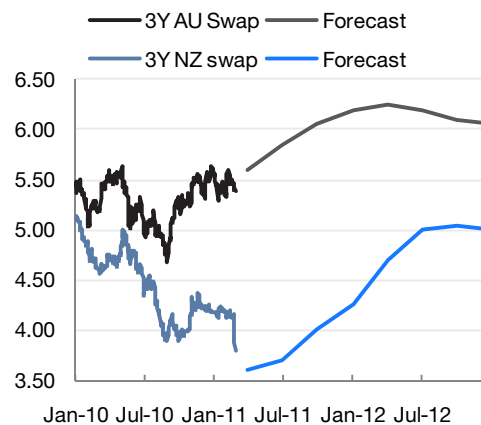
We have outlined in the article revising our bond forecasts (starting page 4) the overall rationale for a rising AUD interest rate. Simply, the Australian consumer economy remains a little lacklustre, but there is a boom of truly outrageous proportions expected in investment. In order to prevent inflation taking hold, the RBA will need to raise rates consistently over 2011 and 2012.

Our new forecasts suggests a spread in excess of 200bp

Our original target of 160bp was based on a sell-off in both currencies, but with NZ selling-off a smaller amount. The shift to rate cuts in NZ means that there is a strong possibility of a very large shift in spread as the Australian swap curve shifts higher and the NZ swap curve shifts lower. Our previous trade was predicated as a long-term stable trade, with a generally beneficial trend and beneficial carry. However, the outlook in NZ now differs markedly from the outlook in Australia and the spread could change significantly over coming months.

Our basic forecasts suggest the 2Y bond spread should get to 200bp in mid 2011. However, NZ swaps sit much tighter above (or often below) NZ Government bonds than Australian swaps do compared to Australian bonds. The extra swap spread in Australia means that swap differentials are wider than bond differentials. We are forecasting the 3Y swap spread to peak at 210bp in around June 2011. (See Figure 4.)

Figure 4: 3Y swap spreads and forecast trajectories



Source: Bloomberg, CBA

Figure 5: Carry on the NZ Swap curve

Length	NZD Roll-Down	NZD Ratset-Carry	Total Carry
1Y	1.7	0.6	2.4
2Y	4.4	2.3	6.7
3Y	4.6	3.2	7.7
4Y	2.8	3.2	6.1
5Y	2.4	3.2	5.5
6Y	1.8	3.1	4.9
7Y	1.9	3.0	4.9
8Y	1.3	2.9	4.1
9Y	1.3	2.8	4.1
10Y	1.3	2.8	4.0

Source: Bloomberg, CBA

Figure 6: Carry on the Australian Swap curve

Length	AUD Roll-Down	AUD Ratset-Carry	Total Carry
1Y	2.0	1.5	3.6
2Y	1.5	1.7	3.2
3Y	1.2	1.6	2.8
4Y	2.0	1.5	3.5
5Y	1.1	1.5	2.6
6Y	0.8	1.5	2.2
7Y	0.8	1.4	2.2
8Y	0.3	1.3	1.7
9Y	0.3	1.3	1.6
10Y	0.3	1.2	1.6

Source: Bloomberg, CBA

The RBA is likely to continue raising rates in Australia

The character of the spread move has changed



Carry is still positive

Carry is still positive
(in fact higher)

The spread trade still has positive carry, too, of course. A new 3Y trade started today would have carry of 5bp per month. That is because the New Zealand curve has steepened and the rate-set has fallen. The steepening of the curve increases the carry on our trade, too, of course, but our original rate-set is already locked in. The carry on our older trade has risen to 4.5bp per month because of the steepening of the curve.

Conclusions

The earthquake in New Zealand has completely changed the trajectory of rates there. The 3Y swap differential is now likely to peak at around 210bp sometime around mid-year. Our original trade was designed as a long term buy-and-hold strategy with positive carry. There is no reason to change that now. The outlook for the respective direction of rates indicates to us that a target of 210bp is more appropriate for the trade than our original target of 160bp (which has already been reached).



Bills/OIS spread contained by lower bank issuance

Alex Stanley – Associate Analyst Fixed Income– 61 2 9118 1125 – alex.stanley@cba.com.au

- The bills/OIS spread was considerably lower and less volatile in February than in recent months.
- In the absence of systemic risk, the spread is likely to be kept low by limited bank wholesale funding requirements.

The Bills/OIS spread was and less volatile in February

Throughout February, the bills/OIS spread was lower and less volatile than in recent experience. Over the last month, the average 3 month bills/OIS spread was around 15bp, which is the lowest monthly average spread since April last year (using historical end of day bill and OIS rates).

Figure 1 illustrates a longer term history of the 3 month bills/OIS spread. Recent spread volatility pales in comparison with the extreme observations at the height of the financial crisis. Since then, spreads have trended lower and have generally been contained within a lower range. Through February the spread reached pre-crisis levels.

The extreme observations of recent years were driven by global systemic financial stress. Over the last year, there has been some re-emergence of this source of risk. European sovereign problems led to a sharp widening of the bills/OIS spread in May and June 2010. While there are still concerns over sovereign risk in Europe, action by the EU and IMF has limited contagion into the banking system.

There is an absence of systemic risk to push the spread wider.

Figure 3 illustrates that, in recent months, very little variation in 3 month BBSW is attributable to cash rate expectations. The 3 month OIS rate has been steady since the surprise RBA rate hike in November (after the surprise on hold decision in October). RBA Governor Stevens' recent testimony re-enforced the market's on-hold view.

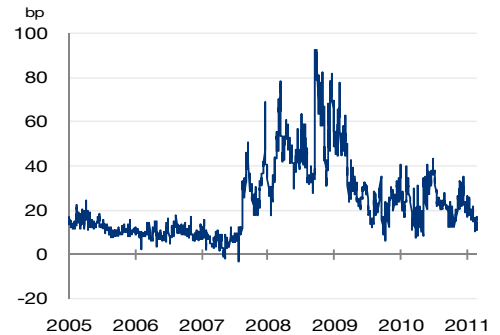
The bills/OIS spread exhibits significant intra-month volatility, often because of seasonality. Around the middle and end of the month, the spread has a tendency to widen as the market switches between early and late bill maturities. Figure 3 shows that intra-month volatility in bank bills was considerably lower in February than in preceding months.

Bank wholesale funding requirements

Beyond seasonality and systemic risk, the volume and composition of bank funding is an important driver of the bills/OIS spread. After strong growth in 2009, total bank debt issuance slowed through the second half of 2010. The wholesale funding requirements of banks have fallen because of slower system lending growth and a strong pickup in deposits (see Figure 4).

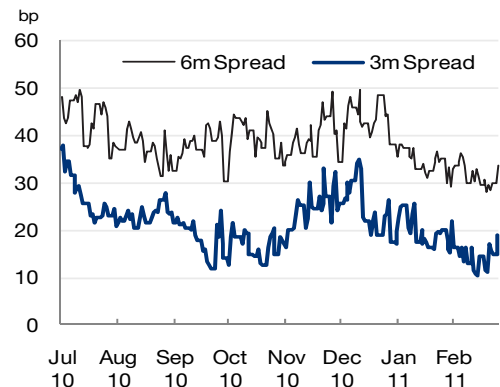
Bank wholesale issuance has slowed.

Figure 1 – 3 month Bills/OIS spread (long term)



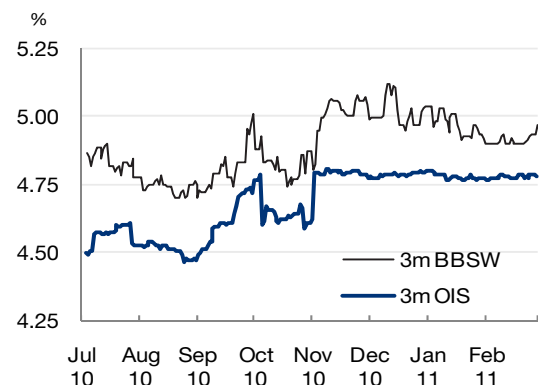
Source: Bloomberg, CBA

Figure 2 – Bills/OIS spread (short term)



Source: Bloomberg, CBA

Figure 3 – 3m BBSW and OIS rates



Source: Bloomberg, CBA



Banks deposit growth has outpaced lending growth.

As we suggested recently (see Weekly Strategy 19 January), there doesn't appear to be a strong requirement for banks to increase wholesale issuance (especially term issuance) in the near term. Looking ahead, system credit growth of around 6% looks achievable this year, which should be largely funded by deposit growth.

Banks are less reliant on short term wholesale funding.

Since the GFC, there has been a structural shift in the composition of bank funding sources. Short term wholesale issuance has declined in favour of term debt and deposits (see Figure 5). Regulatory change has been an important driver of the shift away from short term wholesale funding. Credit risk is another factor.

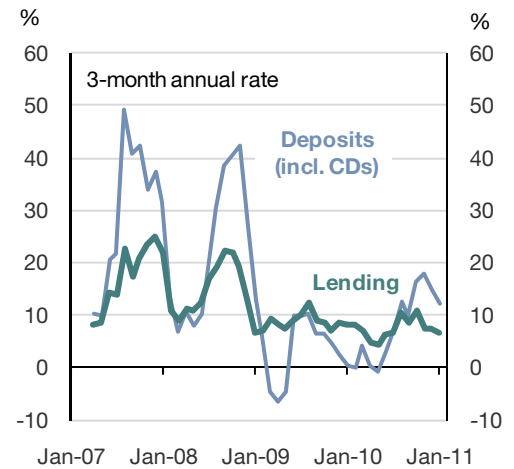
Recently, Moody's placed the major banks ratings on "review for possible downgrade". A downgrade would only equalise the rating with S&P and is likely to have no material impact on the majors. However, a key motivation from Moody's was "the Australian banking system's structural sensitivity to conditions in the wholesale funding market". This type of rhetoric further supports the shift in bank funding away from short term to long term wholesale funding and deposits.

The reduction in the total funding requirement and the longer term shift in the composition of bank funding are reducing supply pressure on the bank bill market. This is putting downward pressure on the Bills/OIS spread.

Lower supply pressure should continue to keep the bills/OIS spread low.

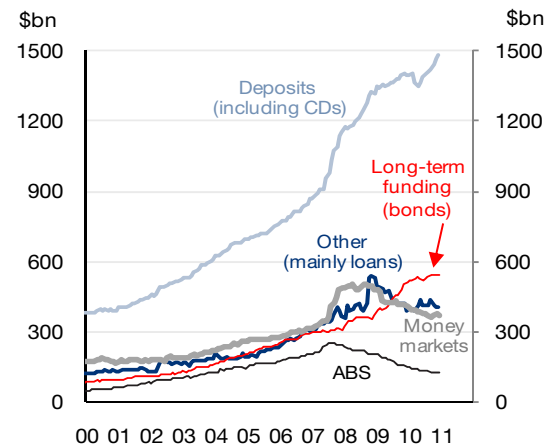
The lower wholesale funding requirement suggests to us that the bills/OIS spread should remain relatively well contained in the coming weeks and months. There was a slight push wider in today's rateset, by around 3bp. However, this is almost certainly because of seasonality (end of month) rather than the start of a decisive move wider. The real test of this theory will come when the March bill futures expire on March 10 (for delivery on March 11).

Figure 4 – Major Bank deposits and lending



Source: APRA, CBA

Figure 5 – Australian Bank Liabilities



Source: RBA, CBA



New Zealand Economic Perspective: Canterbury earthquake update

Chris Tennant-Brown – CBA NZ Economist – 64 9374 8819 – chris.tennant-brown@asbbank.co.nz

- Christchurch’s second major earthquake, on February 22, was more devastating and deadly than September 4’s.
- There is likely to be a greater extent of business disruption; reconstruction boost delayed.
- A 50bpt cut from the RBNZ would provide some insurance/confidence.

The implications of the earthquake are worsening.

Our thoughts are with all New Zealanders and in particular those living in Christchurch who have had to endure another horrendous earthquake.

The personal, economic and financial ramifications for the entire economy from the latest earthquake are becoming increasingly severe as more information comes to hand.

At a time of national crisis, when the underlying economy is already proving frustratingly weak, a rate cut would potentially be very helpful to the recovery of the economy. We expect the RBNZ to deliver a 50 basis point rate cut at the March 10 meeting, if not sooner.

Economic impact – short-term disruption

QIII GDP was clearly affected by short-term disruption as a result of the September Earthquake, although accurately quantifying the impact is difficult. Rough estimates ranged from 0.1 to 0.2 percentage points. Many businesses were forced to close for a number of weeks until it was deemed safe to return to work. Likewise, people were unable to return to work straight away as they need time at home to sort out damage or to recover from trauma. The extent of damage caused by the February quake suggests that the physical and personal impact is likely to be much higher and disruption is likely to persist for longer.

Retailing and manufacturing impact negative.

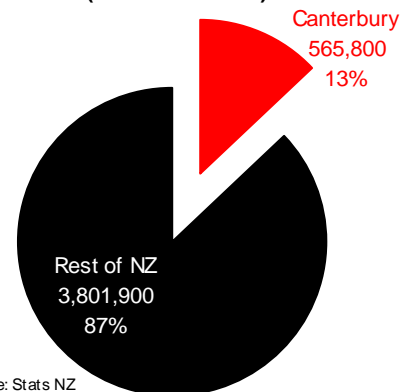
Retailing is likely to be disrupted. In addition, summer is one of the peak times for tourism. With most tourists likely to be quickly evacuated to Wellington or elsewhere, the struggling industry will now have to deal with a loss in activity (along with destruction of property) at a crucial time of year.

Christchurch’s large manufacturing base will likely be disrupted. At this time, the damage remains unclear. This industry suffered minimal damage in September, and was able to return to business relatively quickly. Manufacturing is concentrated west of the city and away from water. However, this quake appeared to be more violent, so there is potentially greater scope for damage to equipment which could see production halted for longer.

Activity spike from emergency work.

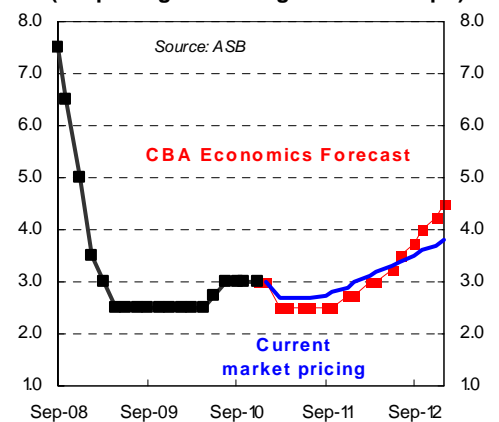
There are some offsets to the disruption described above. A large amount of emergency repair work has to be done in a short amount of time, including getting key infrastructure back

POPULATION
(as at June 2010)

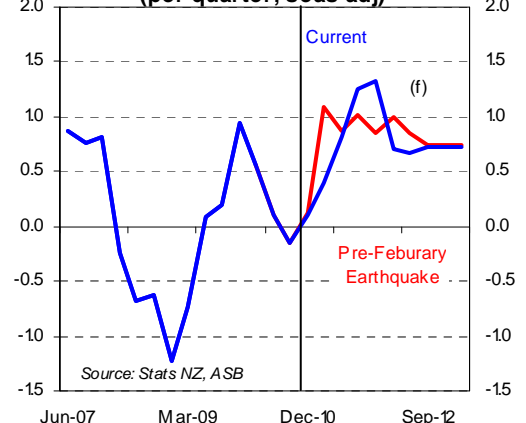


Source: Stats NZ

OCR FORECASTS
(vs. pricing of overnight index swaps)



NZ GDP GROWTH
(per quarter, seas adj)





on line. Various agencies will be working frantically to return water and power to households, and to restore waste processing facilities as quickly as possible. In addition, there is likely to be a lift in transport activity around the country, as goods have to be relocated to replace damaged stock and goods in Christchurch. There will be a surge in communications as people contact each other.

Medium-term economic impact – reconstruction delayed further.

Nearly 6 months on since the September earthquake, we now have a better understanding of how the February quake will impact activity in Christchurch. Much of the GDP growth we had pencilled in for this year was underpinned by reconstruction activity in Christchurch, and improving confidence more generally. The February earthquake serves a major blow to both. We had previously expected that building activity in Christchurch would be starting to pick up around Q1 (i.e. now) as the assessment process over the past 6 months has taken much longer than first anticipated. However, with the most recent quake and the increased scale of destruction, repair work is unlikely to get underway in a meaningful sense until later this year. Moving the timing of this activity will reduce growth over H1 2011, but boost growth over the second half of the year.

Situation is still evolving.

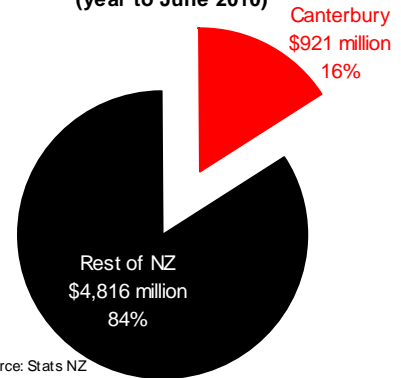
Overall, many details remain sketchy, and NZ continues to face huge uncertainties. But we can conclude that this earthquake will take a larger toll on both Canterbury and the wider national economy. The financial cost is likely to be much higher than the September quake. Much of it will be insured. However, there will still need to be a large diversion of private and public funds and resources to the Canterbury region. The cost to the Government is likely to be much larger, at a time where the economic back drop is posing challenges to the Government in meeting its Budget. Fiscal policy may be tighter than ideal for the broader economy, and monetary policy can provide some offset.

Official Cash Rate cut could provide a shot in the arm.

Prior to the earthquake, the RBNZ had already flagged the possibility of an OCR decrease over this cycle should domestic conditions continue to deteriorate. This followed a raft of underwhelming data, which indicated economic activity stalled over the second half of 2010. Inflation indicators point to inflation pressures being contained for now, suggesting the RBNZ still have breathing space on the inflation front at the moment.

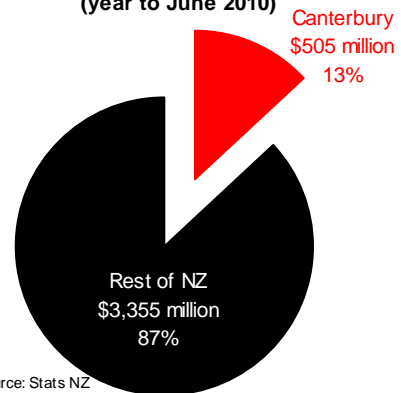
Overall, the patchiness of the underlying activity in the NZ economy means that continued monetary policy stimulus is appropriate. The latest Canterbury earthquake adds to this uncertainty, and suggests lower interest rates would be helpful to the economy.

RESIDENTIAL BUILDING
(year to June 2010)



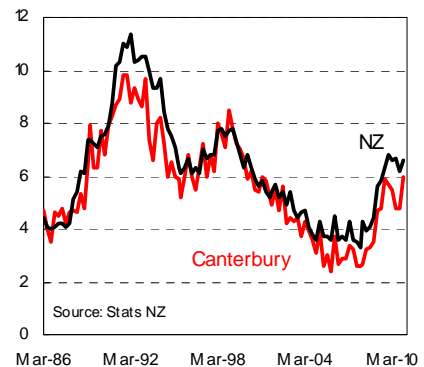
Source: Stats NZ

NON-RESIDENTIAL BUILDING
(year to June 2010)



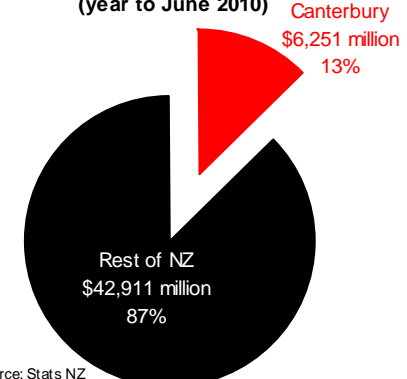
Source: Stats NZ

UNEMPLOYMENT RATE



Source: Stats NZ

EX-AUTO RETAIL SALES
(year to June 2010)



Source: Stats NZ



Key Views

United States		Tactical (<1 mth)	Strategic (>3 mths)
<p>The outlook for US yields is changing. After a significant sell-off in late 2010, markets have been rallying for the past few weeks. In the short-term, concerns about Middle-East political instability and a possible US government shutdown suggest a continuation of the current rally is possible.</p> <p>However, the underlying economic data has been improving. 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.</p> <p>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 but for USD/JPY to remain range-bound close to current levels for another month.</p>	Policy rate	0.1%	0.1%
	10yr bond	3.40%	3.60%
	2/10 curve	280bp	270bp
	USD/JPY	83.2	85
	EUR/USD	1.38	1.41
Australia		Tactical (<1 mth)	Strategic (>3 mths)
<p>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).</p> <p>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. 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.</p> <p>There appears little reason to get bearish on the AUD given the recent testimony and guidance from the RBA. The RBA remain comfortable 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 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.</p>	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	1.0100	1.0200
New Zealand		Tactical (<1 mth)	Strategic (>3 mths)
<p>The Christchurch earthquake has completely changed the direction of the NZ economy. Our economists expect a 50bpo emergency rate cut at the next RBNZ meeting on March 10. The destruction in Christchurch is considerable and the recovery will be a very long, slow one.</p> <p>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.</p> <p>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. The AUD/NZD will continue to remain well-supported while the RBNZ interest rate outlook remains steady (at least until September) and the RBA remains on a tightening bias.</p>	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	0.76	0.77
	AUD/NZD	1.34	1.32



CBA Forecasts:

Cash rate	28-Feb	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	0.50	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
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
2-yr bond yield	28-Feb	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	0.72	0.65	1.00	1.40	1.70	2.00	2.30	2.60	2.80
Australia	4.97	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	1.41	1.50	2.00	2.40	2.60	2.80	3.00	3.10	3.20
Eurozone	1.54	1.50	1.70	1.90	2.20	2.50	2.80	3.00	3.00
Japan	0.25	0.20	0.20	0.25	0.25	0.35	0.65	0.75	0.75
10-yr bond yield	28-Feb	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	3.41	3.40	3.60	3.90	4.00	4.10	4.20	4.30	4.30
Australia	5.49	5.60	5.80	5.90	6.00	6.00	5.90	5.90	5.90
New Zealand	5.54	5.40	5.60	5.70	5.80	5.90	5.90	5.80	5.80
United Kingdom	3.62	3.60	4.10	4.40	4.50	4.60	4.70	4.60	4.60
Eurozone	3.15	3.10	3.30	3.40	3.40	3.50	3.60	3.70	3.80
Japan	1.25	1.20	1.30	1.30	1.40	1.50	1.60	1.80	1.90
Currencies	28-Feb	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
AUD/USD	1.02	1.02	0.99	0.94	0.92	0.90	0.88	0.85	0.85
AUD/JPY	83.04	86.70	85.14	81.78	80.96	79.20	77.44	74.80	74.80
AUD/EUR	0.74	0.73	0.68	0.66	0.66	0.66	0.65	0.64	0.65
AUD/GBP	0.63	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	1.35	1.34	1.32	1.31	1.30	1.29	1.28	1.25	1.25
USD/JPY	81.65	85.00	86.00	87.00	88.00	88.00	88.00	88.00	88.00
USD/EUR	1.38	1.40	1.45	1.42	1.40	1.36	1.35	1.32	1.30
USD/GBP	1.61	1.62	1.70	1.68	1.65	1.60	1.59	1.58	1.58
USD/CAD	0.98	1.01	1.02	1.03	1.04	1.05	1.05	1.08	1.08
USD/NZD	0.75	0.76	0.75	0.72	0.71	0.70	0.69	0.68	0.68



Calendar – March 2011

Monday	Tuesday	Wednesday	Thursday	Friday
<p>Central Bank Meetings</p> <p>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)</p>	<p>1</p> <p>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)</p>	<p>2</p> <p>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</p>	<p>3</p> <p>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) 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)</p>	<p>4</p> <p>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)</p>
<p>7</p> <p>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)</p>	<p>8</p> <p>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)</p>	<p>9</p> <p>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)</p>	<p>10</p> <p>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)</p>	<p>11</p> <p>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) NZ 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)</p>
<p>14</p> <p>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)</p>	<p>15</p> <p>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)</p>	<p>16</p> <p>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 IL0 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)</p>	<p>17</p> <p>AU Labour force, Quarterly data AU RBA Bulletin - Q1 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)</p>	<p>18</p> <p>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)</p>
<p>21</p> <p>NZ Credit card spending, Feb, m/y%ch, (3.8/5.6) US Existing home sales, Feb</p>	<p>22</p> <p>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)</p>	<p>23</p> <p>NZ Current account, QIV, % of GDP, (-3.1) EU Industrial new orders, Jan UK Bank of England minutes US New home sales, Feb</p>	<p>24</p> <p>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 goods orders, Feb</p>	<p>25</p> <p>AU Financial Accounts, QIV JP CPI, Feb. GE IF (1.2) US G US Uni. Of Michigan confidence, Mar, Index</p>
<p>28</p> <p>US Personal income/spending, Feb, US PCE deflator/core, Feb, US Pending home sales, Feb, US Dallas Fed, Mar, Index</p>	<p>29</p> <p>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)</p>	<p>30</p> <p>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,</p>	<p>31</p> <p>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,</p>	<p>Early April</p> <p>AU Trade in Goods & Services, Feb (5 Apr) AU Housing finance, Feb (6 Apr) AU Labour force, Mar (7 Apr)</p>

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



Please view our website at www.research.commbank.com.au. The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as "the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

US Investors: If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the "US Broker-Dealer"), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC ("US Broker-Dealer") is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability. The US Broker-Dealer is not authorized to engage in the underwriting of securities and does not make markets or otherwise engage in any trading in the securities of the subject companies described in our research reports. The US Broker-Dealer is the distributor of this research report in the United States under Rule 15a-6 of the Exchange Act and accepts responsibility for its content. Global Markets Research and the US Broker-Dealer are affiliates under common control. Computation of 1% beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act. The securities discussed in this research report may not be eligible for sale in all States or countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in States and countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. The preparer of this research report is employed by Global Markets Research and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, the New York Stock Exchange, Inc., any other U.S. self-regulatory organization, or the laws, rules or regulations of any State.

European Investors: This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd ("CBAE"). The Bank and CBAE are both registered in England (No. BR250 and 05687023 respectively) and authorised and regulated in the UK by the Financial Services Authority ("FSA"). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available to them. The products and services referred to in this report may put your capital at risk. Investments, persons, matters and services referred to in this report may not be regulated by the FSA. CBAE can clarify where FSA regulations apply.

Singapore Investors: This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

Hong Kong Investors: This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

All investors: Analyst Certification and Disclaimer: Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). No inducement has been or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed on 132221.

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



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
	+612 9117 0341	Asia	+613 9675 6967
Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	Corporate	Telephone
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145