Fixed Income: Weekly Strategy

31 January 2011

CommonwealthBank

Assessing EU Sovereign impact on SSAs

- The RBA is expected to sit pat this week following tame CPI data and the floods.
- Queensland's AAA rating looks further away after last week's MYFER.
- Calming EU nerves point to narrower EU SSA spreads in Australia. We update our thinking on this relationship.

The two main themes driving the Aussie bond market in the last week were inflation and deficits. A low CPI print and a new tax contributed to a rally in Australia and a narrowing of the Aus-US spread. US Treasuries rallied on mixed data and Obama's pledge to tackle the fiscal deficit. In New Zealand, bonds also rallied. The RBNZ kept rates on-hold, which was widely expected, and we think they'll stay on-hold until September.

We highlighted the risk of a low Q4 CPI print in last week's strategy note. The release showed annual core inflation of 2 1/4% – in the lower half of the RBA's 2-3% target range. Because of the low reading, our received 1 year ZCS trade recorded a healthy 13bp profit. Unsurprisingly, the low rate of inflation also reinforced our view, and the market's, that the RBA will stay on hold tomorrow. The ZCS trade offset some damage in out AUD-US spread and paid 1Y*1Y trades.

The Australian Government announced that spending cuts and a new temporary income tax will fund the flood damage bill. The Government still forecasts a budget surplus in 2012-13 and we don't think there'll be a meaningful increase in CGS issuance. The income tax hike is expected to raise $1.8b. Households are already a soft part of the Australian economy and this could keep them subdued for a while. The strong labour market means there is potential for households to eventually lift their level of spending, though.

The strong federal government support for flood-affected areas limits fiscal damage to the Queensland Government. QLDs' mid-year budget update reinforced this message. We think QLD will maintain its AA+ rating, but the floods have removed its chances of an upgrade to AAA. QTC are likely to release a funding update in the coming days. (See Adam Donaldson's article on page 9.) This week Philip Brown examines some of the drivers of Supranational and Agency performance in Australian markets on page 3. He also prices up NSWTC's new 7Y bond.

The Australian data calendar is busy this week. We're expecting no change in the cash rate at tomorrow's RBA meeting. We'll be interested to see the RBA's message on the economic impact of the floods and the lower than expected Q4 CPI. Friday's quarterly Statement of Monetary Policy will probably take care of that. Our economists expect a 2% lift in total building approvals. We're expecting Thursday's Trade Balance figures to report a narrowing of the surplus from $1.9b to $1.8b in December, mostly because of higher import spending.

In the absence of new supply this week, the US market will be watching the key ISM indices and Non-Farm Payrolls data. Last month, payrolls disappointed and reminded the market that high unemployment isn't going away fast. US economists are looking for a gain of 140k in December (Nov 103k), but for the unemployment rate to rise to 9.5%.

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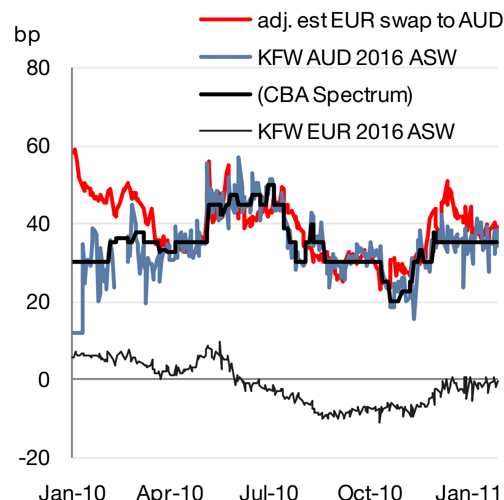
General sentiment and the basis drive Australian SSA performance



Source: Bloomberg, CBA

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

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Key Positions

We took profit on our ZCS trade on Thursday. This trade was intended to capture the risk that the CPI release would be lower than expected and it had served its purpose.

A number of our trades which were designed with the longer-term carry in mind are performing well. For example, our sold put on the ACGB Apr-20 and the AUD to NZD 10Y spread are both performing well.

We implement a new KfW position versus IBRD, looking for the European names to outperform as market conditions and sentiment continue to settle.

We also look for the AUD-USD basis spread to flatten.

Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Buy the NSWTC Jun-20 (Government Guaranteed) as an ASW	-12bp (3-Feb-10)	-6bp	-6bp	-35bp	0bp	**Hold**: A long-term buy-and-hold trade. The NSWTC budget suggests borrowing will reduce. QTC has started to consolidate GG bonds.
Pay 3yr AUD EFP	35bp rolls to 27 bp (9-Aug-10)	26.25bp	-0.75bp (roll was 8bp)	45bp	30bp	**Hold**: Increased mortgage fixing may force this wider as curve flattens.
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)	5.23 and 5.95	-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	21bp	+8.5bp	0bp	40bp	**Hold:** This bond is Government Guaranteed. It should be much tighter. Repurchases of GG bank bonds becoming common.
Sell 3M, 20bp OTM bond put on Apr-20 ACGB, strike is 5.61%	5.61 / 10bp (15 Nov-10)	Current yield is 5.48	n/a	n/a	5.71bp	**Hold:** Bond options are better to sell for investors than swaps. We think the top of the range isn't far away.
Sell the ACGB Apr-20 against the UST 2.625% Nov-20	219bp (19-Jan-11)	215bp	-4bp	250bp	200bp	**Hold:** We think the US market will rally but see little scope for the Aus market to follow given our RBA call.
Pay AUD 1Y*1Y	5.41% (19-Jan-11)	5.37%	-4bp	5.70%	5.20%	**Hold:** The Australian market is underpricing the RBA.
Receive 1Y AUD ZCS	3.43% (24-Jan-11)	3.30%	+13bp			**Profit Taken:** We took profit on Thursday.
Buy the Jun-16 vs the May-13 and May-21	+11bp (24-Jan-11)	+7bp	+4bp	+3bp	+15bp	**Hold:** PCA analysis suggests this is likely to fall. A flattening would also assist the trade.
But the KfW Dec-19 vs the IBRD Oct-19	33.5bp (31-Jan-11)			20bp	40bp	**New Trade:** 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)			3bp	10bp	**New Trade:** The mismatch between issuance and borrowing suggests the curve should flatten
Pay the AUD 10Y swap vs NZ 10Y swap	58bp (1-Nov-11)	65bp	+7bp (+15bp carry)	90bp	45bp	**Hold:** The recent rally in AUD seems overdone vs. NZ. Carry is also very attractive at circa 5bp per month.

Supra Kitchen – Everything we can cook up about Supras, but it still leaves us feeling a little empty

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

- Australia's SSA market is not linked to the credit of its final guarantors.
- Instead, the overall sentiment of the credit market and the level of the basis swaps make more impact.
- The peripheral CDS spreads usually capture market sentiment and currently indicate KfW should outperform IBRD.

Many European sovereign issuers are experiencing ongoing credit difficulties. The AUD SSA market is, in many ways, Australia's most direct link to these European concerns. However, we found that the links are murky and not as clearly credit related as we might hope.

The link between the AUD ASW of an Agency and its Guarantor's CDS is weak

The relationships between the Agency bonds and their final guarantor's CDS seem weak. Given that so much of the recent market activity was driven by Sovereign concerns, we were surprised to find this.

There are a large number of financial parity relationships that drive the AUD pricing of supranational and agency bonds in Australian markets. Most obviously, there is a link between the price of a particular credit in Euros, the price of the same credit in AUD and the AUD to EUR cross-currency basis swap. This is an arbitrage relationship and, generally speaking, holds very well. (It would be more newsworthy if the relationship did not hold.)

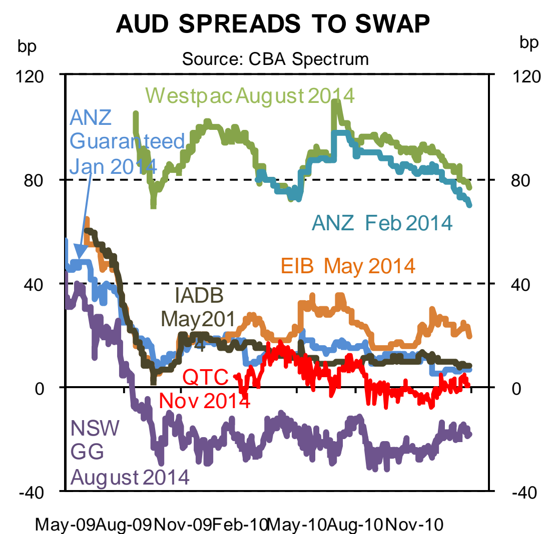
The market sentiment and cross-currency basis are both important

We have previously highlighted the links between the SSA bonds and other high-grade AUD bonds, for example Semis or GG Banks. (See Figure 1.) This observation remains true. The "animal spirits" of financial markets can turn for or against the whole classes of assets. When these movements happen, the SSA bonds suffer alongside the other AAA assets.

Peripheral CDS has a link to SSA performance

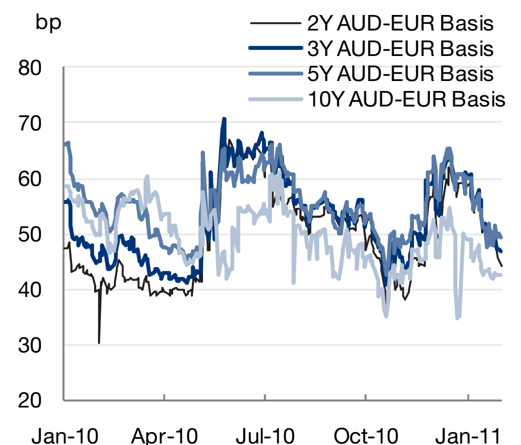
A similar dynamic appears to be at play in Europe. The CDS of the countries who actually guarantee the agencies does not correlate well with the agencies' performance. Yet, the CDS of the more "problematic" peripheral sovereigns correlates very well with the agencies. We do not interpret this result as suggesting that Spain's credit quality has a literal impact on the probability of default by KfW, (two random examples). Instead, we infer that the Spanish CDS is a good measure of the general risk appetite of the market – which then drives the KfW spread. These bouts of risk aversion affect the cross-currency basis too, effectively doubling the risk exposure of the Australian dollar version of the credit.

Figure 1 – European Supras respond to similar domestic drivers as Semis and GG banks



Source: Bloomberg, CBA

Figure 2 –AUD-EUR Basis Swaps



Source: Bloomberg, CBA

Guarantor CDS does not predict SSA performance well

There is limited relationship between Germany and KfW; or between the Netherlands and BNG;

We were surprised to find this, but there is surprisingly little linking the performance of sovereign CDS with the performance of the Agencies those same Sovereigns provide with a guarantee. Our expectation was that there would be a strong link. We examined a number of institutions which carry the implicit or explicit guarantee of a Sovereign European government(s). However, there was only a limited relationship between the performance of the sovereign CDS and the Agency's ASW. We show BNG (Netherlands) and KfW (Germany) in Figures 3 and 4. In both cases, the push wider in the Sovereign CDS in early 2009 was mimicked by the Agency's ASW. However, since the spreads tightened in mid-to-late 2009 the link has, more-or-less, broken.

France and CADES; Various Nordic countries and NIB

We found the same pattern of weakening correlation to the Sovereign was also true of CADES (France) and NIB (various Nordic countries).

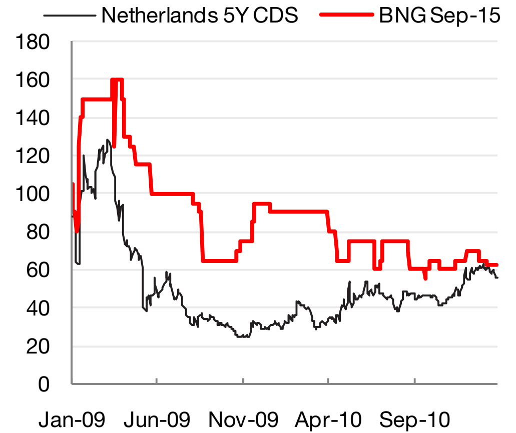
At this point, we checked to make sure that it wasn't the basis between cash bonds and CDS that was causing the problem. It wasn't. In the example of CADES and France we show that two other measures of the "riskiness" of France show very little correlation with the CADES AUD ASW. (See Figure 5.) The CADES spread is not strongly related to either the France-Bund spread or the French Government bond to swap spread. The France-Bund spread has trended downwards over the past few months - as has the CADES spread. However, the CADES spread managed to completely miss the spike wider In May/June 2010. For this reason we don't believe the fit is particularly strong.

NIB provides another example. NIB is supported by a number of Nordic Governments including, amongst others, Norway, Finland and Iceland. We have selected these three names because they demonstrate an important principle when dealing with multi-name supras. The strongest names have the relationship (such as it is) with the Supra, not the weaker names. The Icelandic Government's partial ownership of NIB is unimportant to NIB's overall credit rating or spread (see Figure 6).

The strongest guarantor defines the spread

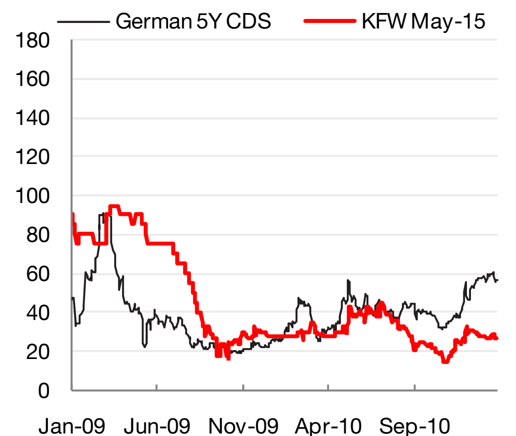
The rating of the strongest countries is what defines the spread on NIB. (Of course, NIB may well have a better credit rating than Iceland on its own before any Sovereign support is considered.) This property should be remembered when considering the new EFSF bonds which are being issued this year.

Figure 3 –The Netherlands and BNG



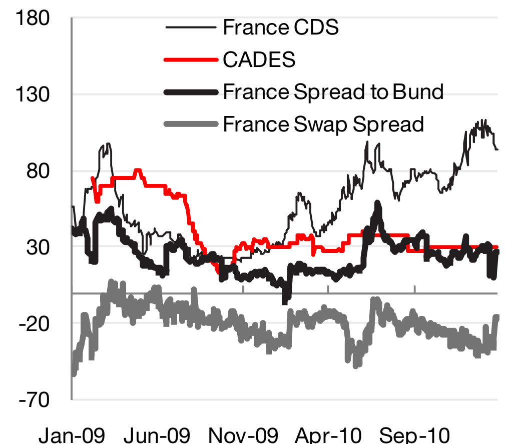
Source: Bloomberg, CBA

Figure 4 –Germany and KFW



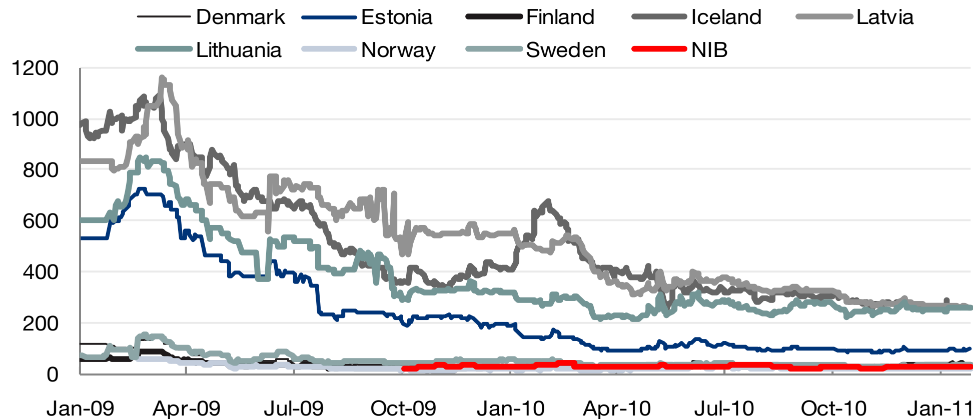
Source: Bloomberg, CBA

Figure 5 –France and CADES



Source: Bloomberg, CBA

Figure 6 – NIB and the various Nordic owners



Source: Bloomberg, CBA

Influences from the European Market

The behaviour of the "home currency" bonds influences AUD bonds

We have identified two reasons the CDS of the parent Sovereign is such a poor guide of the Agency's behaviour in AUD markets. Both reasons relate to the market processes of the European markets. First, in the same way as Australian high grade bonds concertina with the movements of swap spreads, so do the European high-grade bonds. Second, the AUD-EUR basis swap exerts influence on the AUD pricing of the bonds. The basis swap, in particular, creates an arbitrage relationship between the domestic and foreign pricing.

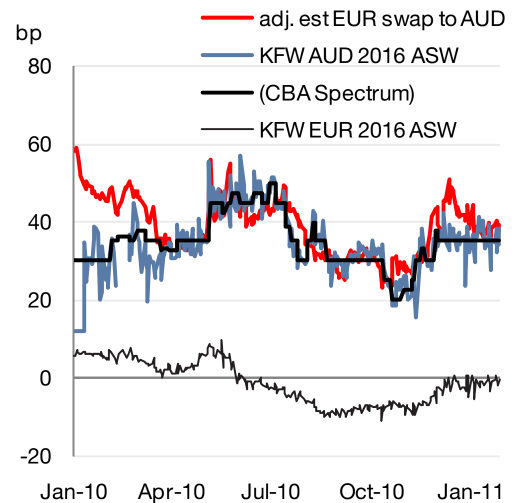
Figure 7 shows a KfW 2016 bond with the appropriate adjustments made for the swaps that need to be undertaken to get the bond into AUD. This adjusted AUD price of the 2016 Euro issued bond closely tracks the actual Australian bond. Figure 7 also shows that the Australian bond is influenced by the underlying movements of the credit, but also heavily influenced by the basis swap.

The peripheral sovereign CDS correlates with SSA performance. It seems a measure of market sentiment.

Figure 8 shows the 2016 Bund ASW being strongly influenced by the Spanish CDS (contrasted with KfW's stable Euro ASW). The result is a significant widening in KfW to the Bund benchmark. We believe the link between KfW and Spain is about the market's overall tolerance for risk – not about any explicit link between the two names. The "credit" risk of an Australian SSA is more correlated to the overall assessment of credit risk in the market than to the actual credit of its final guarantor.

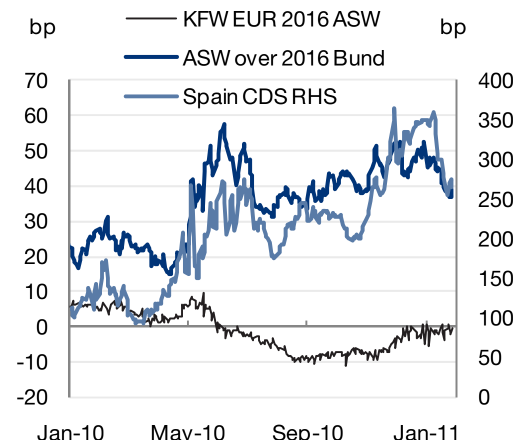
In Figure 7 we observe that the KfW AUD bond trends in the same direction as the EUR bond, but seems to move further in both directions. We believe this leveraged-style behaviour is due to the influence of the cross-currency basis

Figure 7 – KfW and the basis



Source: Bloomberg, CBA

Figure 8 – KfW and Spain CDS



Source: Bloomberg, CBA

swap. The basis adds another level of risk for the AUD issuance over and above the original credit. There is also a positive correlation between the basis swap and the average CDS spread of Portugal, Italy, Ireland, Greece and Spain. A widening in spreads both widens the underlying credit spread and widens the basis – which creates the leveraged-style behaviour.

Peripheral CDS also correlates with the basis

In Figure 9 we show the very strong correlation between the AUD-EUR cross currency basis swap and the average CDS spread of the peripheral countries. We have de-trended the CDS series. In our view the de-trended series functions more as a barometer of market sentiment. Unsurprisingly, when the sentiment about Europe is poor the basis widens.

The combination of Figures 7, 8 and 9 shows us that a significant driver of the Australian bonds of the European issuers is overall sentiment about Europe. This is not a credit relationship, the CDS of the parent or guaranteeing entity is not that important. Instead, the pivotal relationship appears to be through overall market sentiment, expressed partly through the parent entity's spread in domestic currency (Figure 8) but also partly through the cross-currency basis (Figure 9). Volatility in the later seems to be most important for AUD SSA pricing in the short term.

Cross-currency basis will continue to drive SSAs

The cross-currency basis is likely to continue to have a disproportionate impact on the AUD SSA space. The AUD-EUR basis swap is likely to remain relatively volatile due to both Australian and European factors. The Australian factor is the well known mismatch between Australia's capital flows. We borrow significantly more from offshore than they borrow from us (See Figure 10). Despite the recent record issuance of Kangaroos (affected by the wide basis swap), the dominant flow is still the offshore issuance of Australian borrowers (predominantly banks).

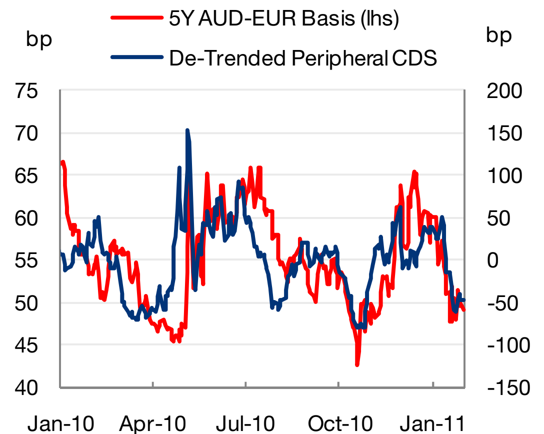
The European factors stem from the continuing concern about sovereigns. When the market is concerned about European stability, the flight to quality is from EUR and to USD – driving the EUR to USD basis lower (and the AUD to EUR basis higher).

We expect the AUD-EUR basis curve to tighten and flatten

Our expectation is that the AUD to EUR basis will fall and flatten over 2011. The European markets are likely to quieten and the bond issuance should stabilise. These two effects should allow the EUR to USD basis to rise. Figure 10 shows that there is a mismatch of maturities between Kangaroo issuance and offshore issuance. The offshore issuance tends to be shorter. We feel this mismatch will help the AUD-EUR basis spread to flatten.

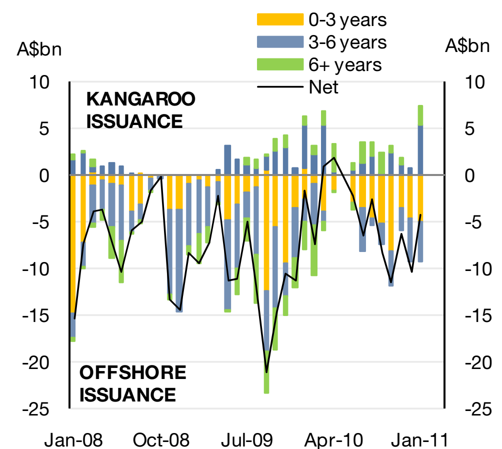
We expect the stabilisation should help narrow

Figure 9 – Cross-currency Basis and Spain CDS



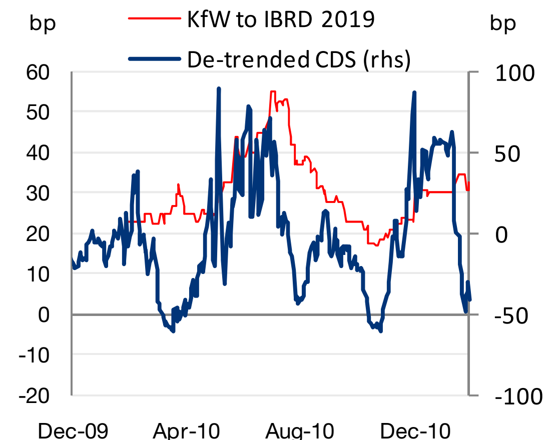
Source: Bloomberg, CBA

Figure 10 – Net issuance still flowing offshore



Source: Bloomberg, CBA

Figure 11 – KfW to IBRD spread lagging peripheral Sovereign CDS move



Source: Bloomberg, CBA

SSA spreads relative to other AUD AAA bonds. The bias of kangaroo issuance to the long-end versus offshore bank issuance at the short-end and the move in the basis that is likely to result suggest a long-dated SSA name will perform best. In this instance we've opted for the KfW 2019 versus the IBRD Oct-2019. Figure 11 shows recent moves in the peripheral sovereign CDS have not yet been reflected in the spread and a narrowing may be imminent.

NSWTC starts the year with a new 2018 bond

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

- NSWTC has announced it will issue a new 2018 bond.
- They have indicated a spread of 48-51bp over ACGB Jan-18.
- The spread to WATC and the NSWTC fitted curve both suggest the 48-51bp spread is a likely outcome.

NSWTC has announced the first major new Semi-Government bond of the year. The bond will be guaranteed by the State of NSW (only). The program for the Commonwealth Guarantee of state borrowing expired on December 31 2010 (though the existing bonds are still guaranteed).

The new NSWTC SG bond will likely be priced on the morning of 1 February. NSWTC have indicated a minimum issuance amount of AUD$1bn. The bond will be issued via a bookbuild*.

According to the materials issued by NSWTC, the bond is, indicatively, a 6% coupon, 1 February 2018. They are indicating a likely spread of 48-51bp over the ACGB January 2018.

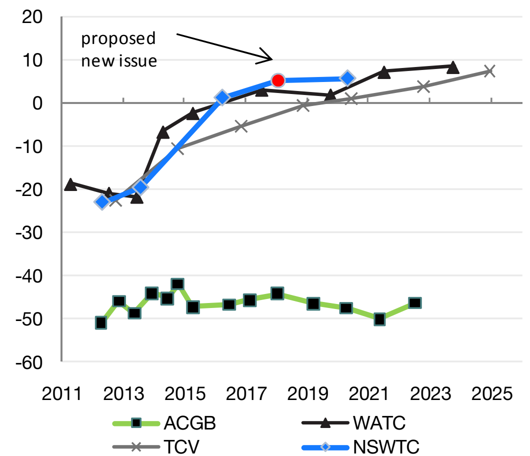
We have performed a Relative Value analysis of the proposed bond and found that the indicated margin of 48-51bp seems a likely outcome. Figure 1 shows the semi-quarterly asset swaps of a number of bonds. The figure includes the proposed new NSWTC with a margin of 49.5bp, the middle of the band indicated. The proposed margin makes the bond marginally wider than WATC bonds with similar maturities, which is to be expected given that this is a new bond. (New bonds generally attract some form of new bond premium.)

In Figure 2 we take a different approach. The proposed new bond is plotted against the existing NSWTC curve and against a fitted Nelson-Siegel curve. This generic curve with matched maturities shows that a "pure" expectation of the new bond's yield would in fact be slightly lower than the yield suggested by NSWTC.

However, a pure RV approach such as used in Figure 2 does not include any liquidity or new-issue premium. We would expect these premiums would make a new bond price slightly cheaper than the fitted model. Broadly speaking, this spread is normally between 2 and 5bp. NSWTC have indicated a range of 3bp for the new issue. The 3bp band corresponds to between 3bp and 6bp wider than our fitted model.

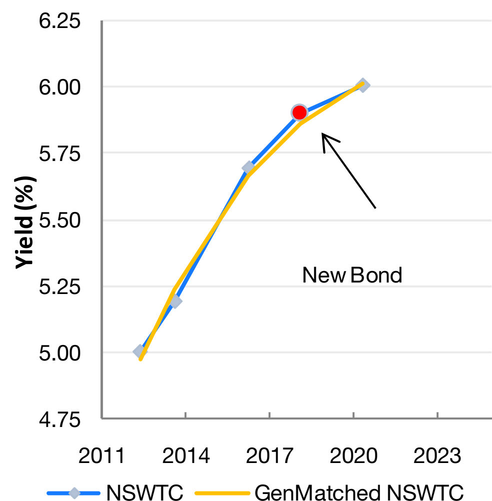
**Disclaimer: CBA is a Co-Manager of this deal and will receive fees.*

Figure 1: Asset Swaps of various bonds



Source: CBA, Bloomberg, Reuters

Figure 2: A fitted NSWTC curve



Source: CBA, Bloomberg, Reuters

Queensland Mid Year Fiscal and Economic Review

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

- Queensland's Fiscal outlook is adversely impacted by the recent floods, but the Federal Government will meet a significant portion of the flood damage costs.
- The federal support will have a positive impact on Queensland's net operating balance in 2010-11, but the deficit will worsen before reaching a surplus in 2015-16.
- The floods have offset the positive impact of asset sales.
- We think Queensland's credit rating will be unchanged.

Queensland's fiscal position is impacted by the recent floods.

The Queensland Government released the MYFER on Friday, which contains the Government's estimates of the fiscal and economic impact of the recent floods. The QTC update on Queensland's funding task has not yet been released, but is likely to be in the next few days.

The Federal Government will meet a significant portion of the repair bill.

On the fiscal front, Queensland is projecting a net operating surplus by 2015-16 – just as they were in the 2010-11 Budget. However, in the 2010-11 to 2012-13 financial years, Queensland is dealing with the additional cost of flood damage. The total cost of the damage is estimated to be $5 billion, but there are some important offsets. Notably, the Australian Government will meet around 75% of the total cost (on January 27 the Prime Minister announced a new levy and spending cuts to help pay for it).

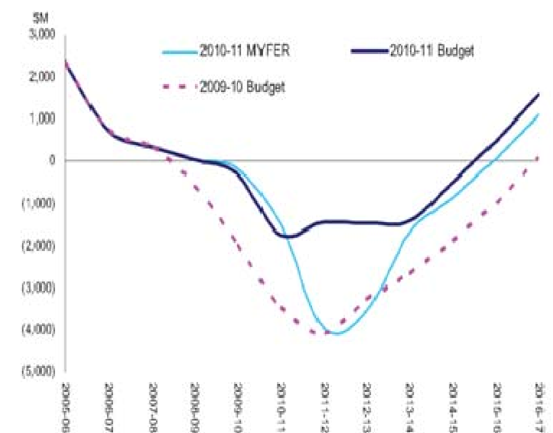
The Federal support improves Queensland's near term fiscal position.

Relative to last June's Budget, the upfront payment of the Federal Government support boosts Queensland's grants revenue by $2.0 billion in 2010-11. The general government operating deficit is expected to be $300m less than previously forecast at $1.47 billion. However, the operating deficit is expected to reach $4 billion in 2011-12 (when much of the flood-related spending will actually occur), as opposed to $1.4 billion previously forecast. A similar deficit is expected in 2012-13 ($3.5 billion) before it falls to $1.7 billion in 2013-14 (See Figure 1).

The floods offset the impact of asset sales on the key financial liabilities/operating revenue ratio.

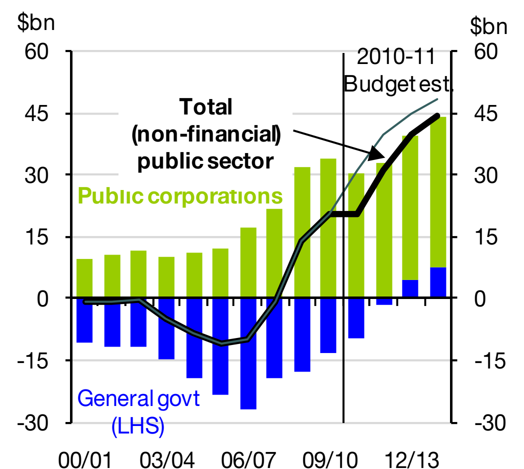
The asset sales that have been finalised are included in the fiscal outlook. The QR National ($4.6b), Port of Brisbane ($2.1b) and Forestry Plantations Queensland ($0.6b) proceeds count in the fiscal projections. But other sales, such as the Abbot Point Coal terminal, are not yet included. Net debt (for the total non-financial public sector) is now projected to be $20.4 billion in June 2011, down from $31.1 billion previously forecast (Figure 2). But the higher deficits means the improvement shrinks to $4 billion by June 2014 (when net debt is projected to reach $44.1 billion).

Figure 1: QLD Government Net Operating Balance



Source: Queensland Government MYFER

Figure 2: Queensland state (non-financial public sector) net debt



Source: Budget papers

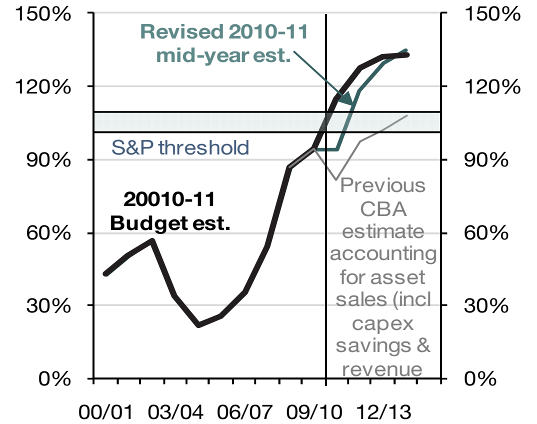
With operating revenue now forecast to be about $5 billion lower in 2014 than previously estimated ($52.1 billion), the rise in net debt means that the key net financial liabilities/operating revenue ratio is forecast to be little different to the estimates back in June – ie. the floods have offset the impact of the asset sales (Figure 3).

We think Queensland's credit rating will be unchanged.

We suggested in a recent Weekly Strategy (19 January 2011) that the floods reduce Queensland's chances of an upgrade to AAA. The update was worse than we had anticipated and indicates that the upgrade is now a long way off. The timing of the cash flows makes the Net Financial Liabilities to Operating Revenue ratio volatile. In 2011-12, the ratio is expected to be 118%, which is well above the S&P upgrade zone of 100-110%. The trajectory is upward sloping to 135% in 2014.

A downgrade is also unlikely. Both S&P and Moody's have recently stated that the floods will not impact the respective AA+ and Aa1 ratings.

Figure 3: Queensland net financial liabilities/operating revenue



Source: Budget papers

Key Views

United States

	Tactical (<1 mth)	Strategic (>3 mths)
Policy rate	0.1%	0.1%
10yr bond	3.10%	3.00%
2/10 curve	240bp	250bp
USD/JPY	81.5	85
EUR/USD	1.40	1.45

The outlook for US yields is more uncertain than usual. The Fed is worried about excess capacity in product and particularly the labour market and concentrating on warding off deflation risks. But the data is brighter and the market is embracing recovery, while concerned about the fiscal backdrop and potential inflation impacts of QE.

Overall, we expect a stronger economic recovery to take hold in 2011 and for bond yields to head higher as the situation becomes clearer. But the market has run far quickly, and appears to be pricing an excessive inflation profile given the risks and capacity at hand. We look for a pull-back in the near-term as data continues to unveil a weak pricing an employment environment. The Fed is likely to be very slow to adjust its views and respond to such a recovery with tighter policy. When it does, we see room for the curve to flatten markedly.

In our view, concerns over what impact unrest in Egypt may have on oil supplies are likely to provide entry points for long EUR/USD positions. Judging by recent bond auctions, investors appear to be satisfied with European authorities' attempts to deal with the debt crisis. Rising German bond yields relative to US yields are supporting EUR/USD. We expect USD/JPY to remain relatively firm and stable because low levels of Japanese offshore investment and the short term pull back in US yields will limit upside in USD.

Australia

	Tactical (<1 mth)	Strategic (>3 mths)
Policy rate	4.75%	5.00%
10yr bond	5.50%	5.50%
3/10 curve	40bp	25bp
10yr EFP	52bp	55bp
10yr v US	240	250
AUD/USD	0.97	0.99

Australia's economic health 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 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).

The main dynamic in the domestic markets is tension between a comparatively weak current picture of the economy and a very strong medium term outlook. And between a very strong labour market and consumers' reluctance to spend. 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.

Relative to the subdued US picture, this outlook points to a flatter curve and wider AUS-US bond spreads at some point. We also favour a paid 1Y/1Y position to directly capture the lack of RBA risk being priced.

We expect AUD to fluctuate around parity (0.97-1.02) over the next few months. Concerns about disruption to oil supplies in Egypt are likely to be temporary. In the medium term, we expect the AUD to begin easing once the Fed indicates it is preparing to withdraw its loose policy stance and the USD firms, but we expect to see 1.02 trade again before then.

New Zealand

	Tactical (<1 mth)	Strategic (>3 mths)
Policy rate	3.00%	3.00%
10yr bond	5.50%	5.50%
2/10 swap curve	145bp	145bp
10yr v US	260	250
10yr v AUS	+10	0
NZD/USD	0.76	0.77
AUD/NZD	1.29	1.32

The RBNZ is on hold and our economists believe it will remain so until the third quarter. The income boost coming through from growth in Asia points to extension of the cycle and further RBNZ tightening thereafter. Our economists expect the RBNZ statement, released Thursday, to retain the same cautious tone present in the December MPS.

The NZD is likely to face headwinds while there is a bid for USD is the latest round of risk aversion care of the unrest in Egypt but we do not envisage the dip in NZD to be large. We think the soft NZ economy is likely to be reflected in gains in AUD/NZD and expect the recent dip in AUD/NZD to have been exhausted.

CBA Forecasts:

Cash rate	31-Jan	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	3.00	3.00	3.25	3.50	3.75	4.25	4.50	4.50
United Kingdom	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75
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	**31-Jan**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	0.55	0.50	0.80	1.10	1.40	1.70	2.00	2.30	2.50
Australia	4.90	5.10	5.40	5.60	5.70	5.70	5.70	5.65	5.60
New Zealand	3.80	3.80	4.00	4.20	4.60	4.90	5.00	4.80	4.80
United Kingdom	1.26	1.20	1.20	1.40	1.60	1.80	1.90	2.00	2.10
Eurozone	1.37	0.90	1.00	1.20	1.40	1.70	2.00	2.30	2.50
Japan	0.21	0.15	0.15	0.20	0.20	0.30	0.60	0.70	0.70
10-yr bond yield	**31-Jan**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	3.34	3.00	3.10	3.30	3.50	3.70	3.80	3.90	4.00
Australia	5.51	5.50	5.60	5.70	5.75	5.80	5.75	5.70	5.70
New Zealand	5.48	5.50	5.70	5.80	5.90	5.90	5.90	5.80	5.80
United Kingdom	3.65	3.30	3.30	3.50	3.60	3.60	3.70	3.80	4.00
Eurozone	3.15	2.80	2.80	2.90	2.90	3.00	3.10	3.20	3.30
Japan	1.22	1.00	1.10	1.10	1.20	1.30	1.40	1.60	1.70

AUD Swap Rates	31-Jan	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	5.21	5.45	5.75	6.00	6.15	6.10	6.00	6.05	6.00
3-year	5.31	5.60	5.85	6.05	6.20	6.25	6.20	6.10	6.05
5-year	5.67	5.85	6.05	6.25	6.30	6.25	6.15	6.15	6.15
10-year	5.99	6.05	6.20	6.35	6.40	6.40	6.35	6.30	6.30

NZD Swap Rates	31-Jan	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	3.84	3.80	3.95	4.30	4.70	5.20	5.30	5.20	5.20
3-year	4.17	4.25	4.40	4.80	5.15	5.30	5.20	5.25	5.15
5-year	4.62	4.70	4.90	5.21	5.49	5.57	5.52	5.52	5.47
10-year	5.34	5.25	5.50	5.70	5.90	5.90	5.90	5.85	5.85

Calendar – January 2011

Monday	Tuesday	Wednesday	Thursday	Friday
3 **AU New Years Day public holiday** EU/GE PMI manufacturing, Dec, Index US Construction spending, Nov, m%ch, (0.7) US ISM manufacturing, Dec, Index, (56.6)	4 **AU AI-Group PMI, Dec, Index, (47.6)** UK PMI manufacturing, Dec, Index, (58) UK Net consumer credit, Nov, £bn, (0.3) US Factory orders, Nov, m%ch, (-0.9) US FOMC Minutes US Total vehicle sales, Dec, mn, (12.26)	5 JP Vehicle sales, Dec, y%ch, (-30.7) EU PMI services/composite, Dec, Index EU Industrial new orders, Oct, m/y%ch, (-3.9/13.3) EU PPI, Nov, m/y%ch, (0.4/4.4) GE PMI services, Dec, Index, (59.2) UK PMI construction, Dec, Index, (51.8) US ISM non-manufacturing, Dec, Index, (55)	6 **AU CBA/Ai-Group PSI, Index, Dec, (46.2)** **AU Build approv, Nov, m%ch, -2.0, (9.3)** EU Retail sales, Nov, m/y%ch, (0.5/1.8) GE Factory orders, Nov, y/y%ch, (0.179) GE Factory orders, Nov, m/y%ch, (1.6/17.9) UK PMI services, Dec, Index, (53) CA Ivey purchasing manager index, Dec, (57.5)	7 EU GDP, QIII, q/y%ch, (0.4/1.9) GE Trade bal, Nov, €bn, (14.2) GE Industrial production, Nov, m/y%ch, (2.9/11.7) US Avg hrly earnings, Dec, m/y%ch, (0.0/1.6) US Non-farm payrolls, Dec, '000, (39) US Unemployment rate, Dec, %, (9.8) US Consumer credit, Nov, $bn, (3.4) CA Net change in employment, Dec, '000, (15.2) CA Unemployment rate, Dec, %, (7.6)
10 **AU Retail trade, Nov, m%ch, 1.0, (-1.1)** NZ Trade balance, Nov CA Building permits, Nov, m%ch, (-6.5)	11 **AU Trade balance Nov, $bn, 2.0 (2.6)** NZ NZIER Business opinion survey QIV NZ Building permits, Nov JP Leading / Coincident index CI, Nov US Wholesale inventories, Nov, m%ch, (1.9) CA Housing starts, Dec, '000, (187.2)	12 **AU Housing finance, Nov, m%ch** **Value of all loans, %, -0.5, (2.8)** **No. of own-occupiers, %, +0.5, (1.9)** **AU Job vacancies, Nov** JP Curr a/c total/adjusted, Nov, ¥bn, (1,436.2/1,462.6) JP Trade balance - BOP basis, Nov, ¥bn, (912.9) EU Industrial production Nov, m/y%ch, (0.7/6.9) UK Total trade balance, Nov, £bn, (-3.946) US Import price index, Dec, m/y%ch, (1.3/3.7) CA Housing price index, Nov, m%ch, (0.1)	13 **AU Labour force, Dec** **employment, '000, 25, (54.6)** **participation rate, %, 66.0, (66.1)** **unemployment rate, %, 5.0, (5.2)** NZ Card spending, Dec JP Machine orders, Nov, m/y%ch, (-1.4/7.0) EU ECB announces int. rate, %, 1.00, (1.00) UK Industrial production, Nov, m/y%ch, (-0.2/3.3) UK BoE announces rates, %, 0.50, (0.50) US Producer price index Dec, m/y%ch, (0.8/3.5) US Trade balance, Nov, $bn, (-38.7)	14 JP Domestic CGPI, Dec, m/y%ch, (0.1/0.9) EU CPI, Dec, m/y%ch, (0.1/1.9); core, y%ch, (1.1) EU Trade balance Nov, €bn GE CPI, Dec UK PPI Input/Output/core, Dec, y%ch, (9.0/3.9/3.3) US CPI, Dec, m/y%ch, (0.1/1.1); core (0.1/0.8) US Retail sales, Dec, m%ch, (0.8) US Capacity utilisation, Dec, %, (75.2) US Industrial production, Dec, m%ch, (0.4) US Uni. Of Michigan confidence, Jan, Index US Business inventories, Nov, m%ch, (0.7)
17 **AU Lending finance, Nov** **AU Motor veh. sales, Dec, m/y%ch, (0.2/-0.9)** NZ Food prices, Dec JP Consumer confidence, Dec, Index, (40.6)	18 JP Industrial production, Nov JP Capacity utilisation, Nov, m%ch, (-2.3) JP Machine tool orders, Dec GE ZEW survey (econ. sentiment), Jan, (4.3) UK CPI, Dec, m/y%ch, (0.4/3.3); core, y%ch, (2.7) US NAHB housing market index, Jan, (16) CA Bank of Canada, %, 1.00, (1.00)	19 **AU MI/WBC Consumer Sent, Jan, Index, (111)** **AU Engineering Construction Activity, QIII** EU Construction output, Nov UK ILO unemployment rate (3mths), Nov, %, (7.9) US Building permits, Dec, '000, (530) US Housing starts, Dec, '000, (555) CA Bank of Canada Monetary Policy Report	20 **AU MI Unemp. Exp., Jan, Index (108.8)** **AU MI Consumer Inf. Exp, Jan, %, (2.8)** **AU Building activity, QIII** NZ CPI, QIV, q/y%ch, (1.1/1.5) JP Leading / Coincident index CI, Nov, GE Producer prices, Dec US Existing home sales, Dec CA Wholesale sales, Nov	21 **AU Int'l trade price indexes, QIV, q%ch** **export prices, -1.0, (7.8)** **import prices, -0.9, (0.7)** NZ Retail sales, Nov CH GDP, QIV, y%ch, (9.6) UK Retail sales, Dec, m/y%ch, (0.3/1.1) CA Retail sales, Nov
24 **AU PPI QIV, q/y%ch, 0.8/3.4, (1.3/2.2)**	25 **AU CPI, QIV, q/y%ch** **Headline , 0.7/3.0, (0.7/2.8)** **RBA Underlying , 0.8/2.7 (0.6/2.5)** JP BoJ target rate, %, 0-0.10, (0-10) UK GDP, QIV US S&P/Case-Shiller home price ind., Nov, CA CPI, Dec	26 **AU Australia Day public holiday** UK Bank of England minutes US New home sales, Dec US FOMC rate decision, %, 0-¼, (0-¼) CA Teranet House Prices, Nov	27 NZ RBNZ official cash rate, %, 3.00, (3.00) JP Trade bal total/adj, Dec US Durable goodes orders, Dec US Pending home sales, Dec	28 JP CPI, Dec, JP Retail sales, Dec US Employment cost index, QIV, q%ch, (0.4) US GDP, QIV US Uni. Of Michigan confidence, Jan, Index
31 **AU Private sector credit, Dec** NZ Building permits, Dec NZ Trade balance, Dec JP Industrial/vehicle production, Dec JP Housing starts/construction orders, Dec UK GfK consumer confidence survey, Jan, Index			***Early February*** AU House price indexes, QIV (1 Feb) AU Building approvals, Dec (3 Feb) AU Trade in Goods & Services, Dec (3 Feb) AU Retail trade, Dec (7 Feb) AU Labour force, Jan (10 Feb) AU Housing finance, Dec (14 Feb)	***Central Bank Meetings*** UK BOE (13 Jan) EZ ECB (13 Jan) CA Bank of Canada (18 Jan) JP BoJ (25 Jan) US FOMC (26 Jan) NZ RBNZ (27 Jan) AU RBA (4 Feb)

Note: Figures in brackets represent previous result (if available). All information is preliminary and subject to revision. Chief Economist: Michael Blythe ph: 9118-1101 Economist: James McIntyre: 9118-1100

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Research

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

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

Fixed Income		Telephone	Email Address
Adam Donaldson	Head of Debt Research	+612 9118 1095	adam.donaldson@cba.com.au
Philip Brown	Fixed Income Quantitative Strategist	+612 9118 1090	philip.brown@cba.com.au
Alex Stanley	Associate Analyst, Fixed Income	+612 9118 1125	alex.stanley@cba.com.au
Michael Bors	Credit Research Analyst	+612 9118 1108	borsma@cba.com.au
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitised 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
Syd	FX	+612 9117 0190
		+612 9117 0341
	Credit	+612 9117 0020
	Japan Desk	+612 9117 0025
Melb		+613 9675 6815
		+613 9675 7495
		+613 9675 6618
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Equities	Telephone
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Asia	+613 9675 6967
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Corporate	Telephone
NSW	+612 9117 0377
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SA	+618 8206 4155
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QLD	+617 3015 4525
NZ	+64 9375 5738
Metals Desk	+612 9117 0069
Agri Desk (Corp)	+612 9117 0157
Agri Desk	+612 9117 0145