

The Week Ahead

- Australia's economy grew 0.7% in QIV 2010, despite a 0.5%pt drag from natural disasters.
- RBNZ expected to cut rates by 50bp next week to assist the NZ economy recover from the Christchurch earthquake.
- US Non-farm payrolls should bounce following January weather. China's monthly data releases resume.

The devastating impacts of Australia's summer of disaster are well known. Many are still suffering the impacts, and reconstruction is underway. The first signs of the impact on the economy are beginning to materialise. This week's GDP data was dealt a heavy blow.

Mining production suffered a significant hit, with the fall in output shaving 0.4%pts off the QIV outcome. Impacts across other sectors mean that the RBA's *Statement on Monetary Policy* estimates of a 0.5%pt impact on QIV GDP are probably a reasonable starting point. Some have interpreted the 2.7% annual growth pace the economy clocked in QIV as weak. This ignores the reality that given the economy was hamstrung by a 0.5%pt flood impact, the growth outcome achieved was actually quite strong. When considering the quarterly growth outcome of 0.7%, the detraction from the floods in QIV suggests an underlying outcome more like 1.2%. We find it difficult to characterise the flood-affected pace of economic growth as weak. Potential growth in the economy is usually estimated at around 3¼%pa. Given that the disaster impact knocked out 0.5%pts of that growth the QIV annual growth rate of 2.7% is actually bang on trend. We take a look at some of the flood impacts on recent economic data from page two.

Another misplaced critique of the QIV GDP figures is the suggestion that the strong contribution to growth from the rebuild in inventories is a sign of weakness in the economy. The change in inventories contributed 0.8%pts to the QIV outcome. Part of the reason for the outsized contribution to growth was the turnaround from the unexpected inventory drawdown in QIII. Closer inspection of the underlying inventory drivers tells of an increase in non-farm inventories in line with the increase in non-farm sales. Rather than the QIV rise being an "unintentional" inventory accumulation, the constant non-farm inventory-to-sales ratio (incidentally at record lows) signals that firms boosted inventories to meet growth in demand. On the farm side, the lift in inventories in QIV should also support rural exports in coming quarters.

The week ahead brings a slower pace of Australian economic data releases. But for monetary policy there remain some key data points. The February labour force figures will hold significant sway over policy deliberations. We are expecting a 20k rise in employment in the month. This pace of jobs growth is well above the pace that we estimate will put downward pressure on the unemployment rate (12k per month). Trends evident in the January labour force release are concerning. If the January pace of jobs growth and inflows into the labour force continue, the unemployment rate could fall significantly over coming months. A lift in labour supply (higher migration or participation) or a slowdown in labour demand (higher interest rates) are the necessary outcomes to redress the underlying imbalances present in a tight labour market.

We expect to see a fall in the January housing finance figures, which are due on Wednesday. Flood impacts, along with weakness in housing turnover, are likely to be a drag on the data, which has risen strongly over the past six months. We will be taking a close look at the March consumer confidence figures, not for the monthly movement, but for the quarterly survey outcomes. In particular we will be looking for any movement in consumers' attitudes towards debt repayment and savings, which could be a sign that the slight decline in the savings rate in QIV could accelerate in the current quarter. Business confidence figures for February are due next Tuesday. RBA Governor Glenn Stevens and Assistant Governor Philip Lowe both step up to the plate to speak next week as well.

We have recently change our outlook for monetary policy across a number of regions. Across the Tasman, we have shifted our rates call to a 50bp cut next week as the New Zealand economy deals with the massive impacts of the Christchurch earthquake. Our New Zealand Economist, Chris Tennent-Brown, reviews our updated economic and policy outlook for New Zealand from page nine. We are now expecting rate rises elsewhere to be earlier than previously expected. Following recent commentary and economic developments we have brought forward our expectation for rate hikes by the Bank of England and the European Central Bank to QII 2011. We are also expecting the next hike by Bank of Canada to be delivered sometime in QII.

US non-farm payrolls are scheduled for release tonight, and are expected to rise strongly following the weather-affected January outcome. Next week also brings the January/February update of China's monthly economic data releases.

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Australian Economic Perspective

Floods and the economy – surveying the damage

- First signs of the flood impact on the economy are now available. Disasters look to have shaved 0.5%pts from growth.
- Outside of the impact zones the rest of the economy is performing quite well.
- Economic indicators are likely to rebound strongly over coming months as activity resumes and reconstruction begins.

Australia was struck by a string of natural disasters over summer. Floods and cyclones in Queensland attracted significant attention, for good reason. But most Australian states have experienced tragedy in the form of flood, storm or bushfires.

While the damage bills are still being tallied, and recovery and reconstruction beginning, the first signs of the economic impacts are emerging. Queensland's economy bore the brunt of the impacts. We examine the suite of economic data to assess the impact.

Flood impacted on Queensland labour market outcomes in January.

The labour market is widely regarded as the best high frequency indicator of the broad health of the economy. Disruptions in Queensland saw a 5.1k fall in employment in January. Firms that would have hired additional workers potentially put recruitment on hold as focus shifted to disaster and recovery. Jobs growth in the rest of the economy was particularly buoyant, with an additional 29.1k jobs created.

Labour market strength continued in rest of Australia.

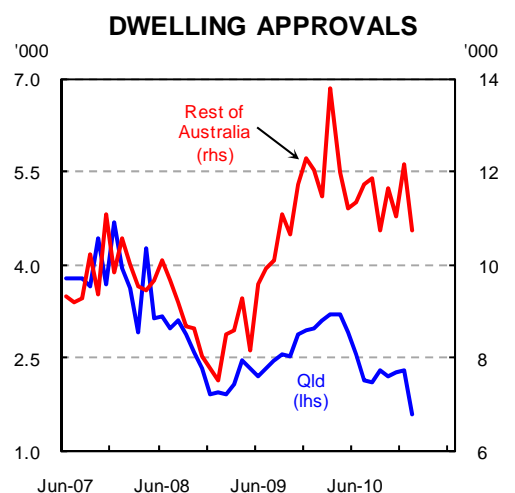
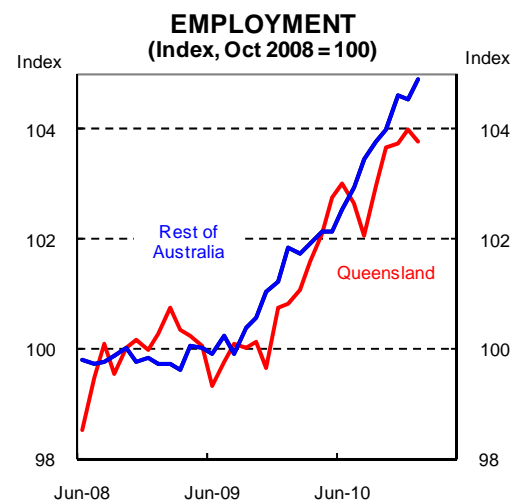
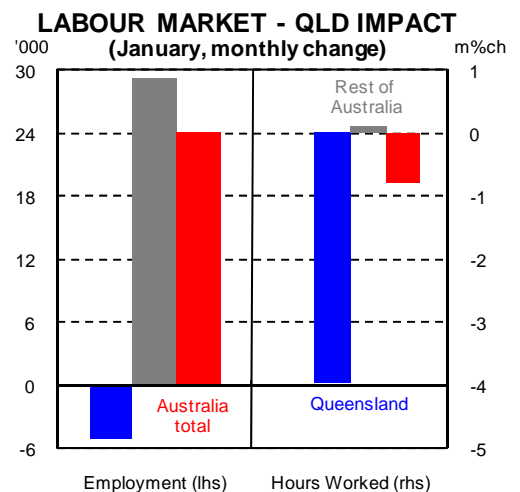
The disasters meant many businesses were unable to operate, and employees were unable, in many cases, to make it to work. Hours worked fell 0.8% in January 2010. This decline was driven by a 4.0% fall in hours worked in Queensland. When the Queensland impact is excluded, hours worked for the rest of Australia rose 0.1%.

Queensland building approvals slumped to record low in January.

Queensland's disasters are likely to require a significant amount of residential repairs, in Brisbane and also through cyclone-devastated North Queensland. Queensland's building approvals fell dramatically during January, slumping 29.9%. The number of dwellings approved in Queensland in January, 1,609, was the lowest in the 28-year history of the monthly building approvals data.

Approvals in the rest of Australia also fell. But, this was mostly due to the volatile private "other" dwelling segment. Private house approvals ex-Queensland actually rose in January, lifting 0.7%.

Queensland's floods began in December, with the deluge beginning in the central Queensland coalfields, and Rockhampton downstream. The disruptions reduced GDP growth in QIV.





Fall in mining output shaved 0.4%pts from QIV GDP growth.

On the production side of the economy the impact was obvious in the mining sector. Mining production fell 3.7% in QIV. On a production basis, GDP rose 0.5% in QIV, to be 3.2% higher than a year ago. The non-mining economy grew 0.9%, a very strong outcome. On our estimates, the fall in mining production shaved 0.4%pts from total GDP growth in QIV.

Queensland export slump dented expenditure-side GDP.

The flood impact can also be seen from the expenditure side of the GDP figures. Export volumes rose 3.0% in QIV, contributing 0.7%pts to GDP growth. However there was a 7.1% fall in Queensland exports. The fall in Queensland exports equates to a 0.3%pt reduction from GDP.

Queensland exports would have been hit harder had it not been for a reduction in port inventories. Shipments continued out of stocks held at ports, contributing to a rundown in inventory levels. This inventory rundown held down the contribution to QIV GDP by the lift in inventories in other sectors. But the impact on GDP would have been offset by the sharper fall in export volumes.

Trade impact continued in January, with large fall in coal and meat exports.

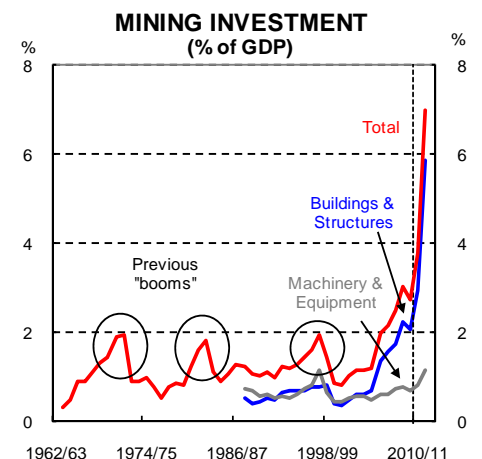
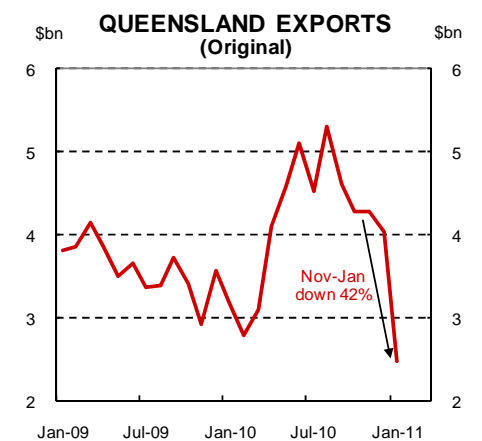
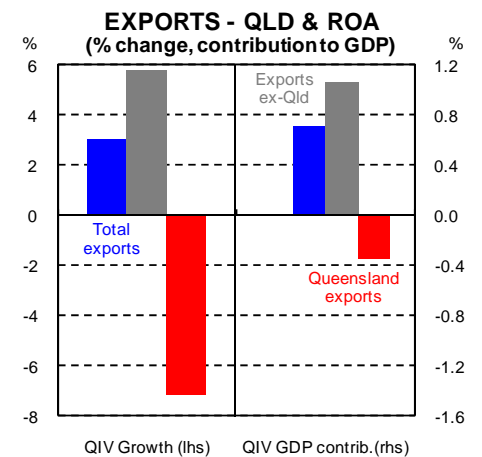
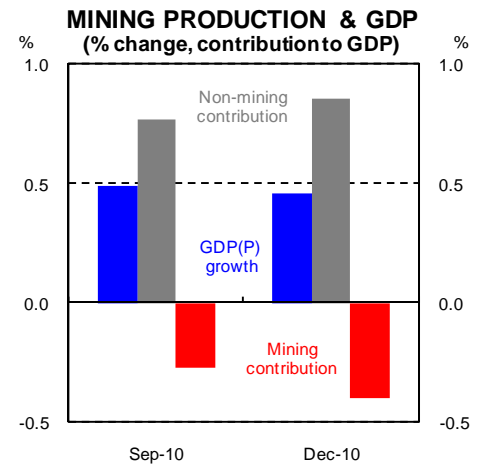
That fall in exports looks to have come through in the January trade data. On a nominal basis, hard coking coal exports fell 37% from December 2010 to January 2011, compared to an average decline of 14% over the previous 5 years. Thermal coal exports were down 33%, compared to an average 5% increase over the previous 5 years. Rockhampton is proudly known as Australia's beef capital. Meat and meat preparation exports fell 71%, compared with an average decline of 58% over the previous 5 years.

Lost production impact means GDP actually running at trend in QIV.

The 0.4%pt detraction from QIV GDP growth from mining is likely to have been accompanied by impacts in other sectors. We think that the RBA's estimates of a 0.5%pt detraction from GDP growth are probably about right. The QIV GDP figures look very healthy when this impact is taken into account. The economy's "trend" or potential growth over the year to QIV would have been 2.75%. We think the 2.7% annual growth pace should be viewed in this context. Rather than being "weak", the economy grew by as much as was possible in QIV given the disaster impacts.

Noise in economic data to keep RBA on hold until May.

The natural disasters have introduced a significant amount of noise into the economic data. Volatility stemming from the disruptions will complicate determinations of the underlying performance of the economy. Labour market trends and the business investment outlook continue to pave the way for further rate rises. We expect the RBA will hold fire until May. As the capex momentum builds, and the unemployment rate falls further, we expect rates to lift to 5.50% by the end of 2011.





Australian Economic Perspective

Western Australia (WA) Economic Outlook

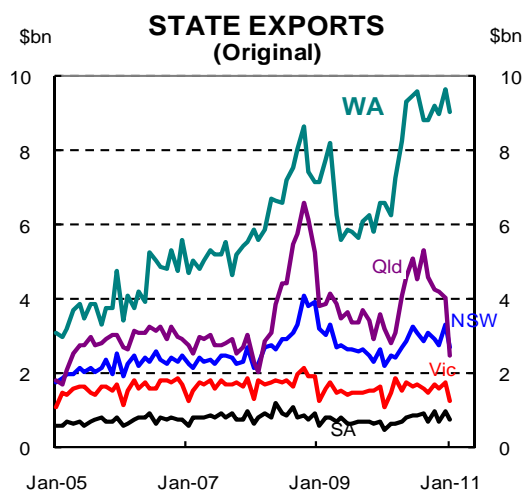
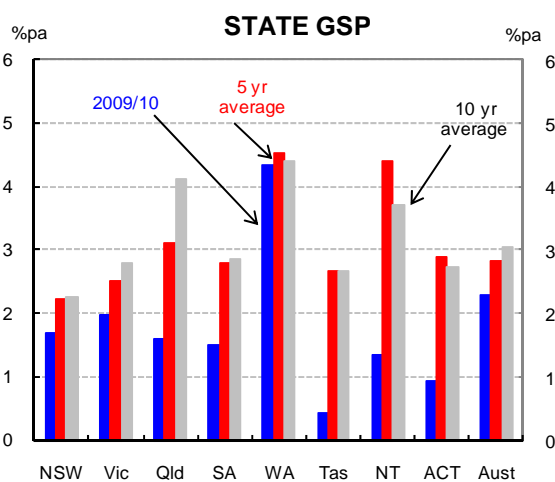
- WA's robust overall growth outlook is ensured by the planned new mining and LNG projects and related construction.
- But it will also feature conspicuous weakness in some sectors driven by expected higher interest rates & a high AUD.
- The unemployment rate expected to fall to 4% by the end of 2011 and then lower over 2012.
- The housing market and retail spending are expected to gradually improve over 2011 as jobs growth stays firm.

Summary

Western Australia's economy is expected to perform quite strongly in the next few years. In our view it is likely to have Gross State product (GSP) growth of around 5.5%pa, which is above the 4.5% average of the past five years. The pattern of growth across the sectors could remain quite uneven. The divergence in outcomes will be caused by various factors. Strong growth outcomes are clearly in place for mining, oil and gas, mining services and related engineering and construction. But there are factors restraining activity in other sectors. One of them is an expected rise in Australia's interest rate structures as the RBA addresses the emerging inflation pressures from stronger activity levels. Another is the relatively high AUD which is causing lower cost imports, including overseas travel and steel fabrication, to be preferred to local suppliers. WA's rural output has been undermined by one of the worst droughts on record. It's a stark contrast to the extraordinarily wet weather on the other side of the nation.

The striking feature of WA's economic growth outlook is the vast scale of planned new investment in iron ore mines and Liquefied Natural Gas (LNG) plants. There will also be significant other expenditures on ports, both new and expanded, rail lines and roads, and loading facilities. Utilities investment needs to keep pace with expected higher demand levels. Housing, feeding and transporting the people involved will require large initial and ongoing outlays. The Gorgon LNG plant alone has planned capital expenditure of \$40bn over the next five years. Our estimate of WA's planned investment projects over the next fifteen years is around \$220bn, or about 120% of WA's 2009/10GSP of \$184bn.

WA's export receipts are forecast to grow strongly in the next ten years. Monthly export receipts are now just under \$10bn with iron ore as the major driver. That's double the level of a few years ago. LNG exports are forecast to rise considerably as the new LNG plants come on stream and expansions of existing plants proceed. Based on (favourable) price and volume projections the monthly exports figures could be near \$15bn in 2018. Some of the other sectors of the WA economy have faced challenges through 2010. Retail spending has been relatively weak in WA, but in line with the national outcome. Commercial construction activity is most likely to run at much weaker levels in 2011 than in 2009 and 2010. There may be some positive news on the commercial construction outlook in coming months, which will impact building activity in 2012 and beyond, if vacancy rates peak at around 10% in the first half of 2011.





Growth, retail and dwelling construction

Growth was 3.1% in 2010.

WA's quarterly growth measure, State Final Demand, was running at 3.1%pa by the end of 2010. While overall household spending and State Government capital works lifted the growth data there was a noticeable level of weak growth in the business investment data over the past year.

Business investment covers not just the mining area but also commercial and other parts of construction activity. The commercial property spending levels are down noticeably on a year ago. And they could slide further before they recover in 2012.

New commercial property demand is likely to improve through 2011 and could provide the spark for more lending and development activity. Commercial property vacancies look close to a peak in Perth. It is a relatively favourable shift given the outlook that was prevalent about a year ago for vacancy rates.

Retail spending was quite weak.

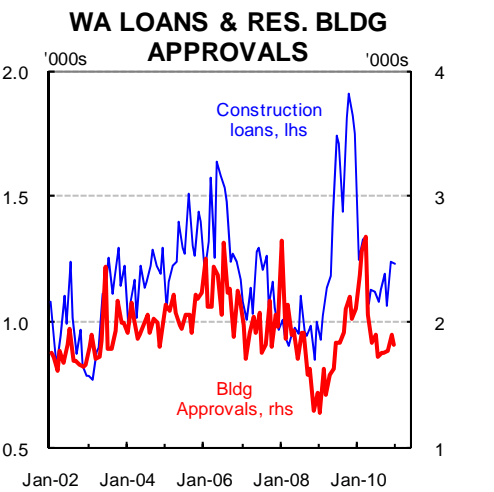
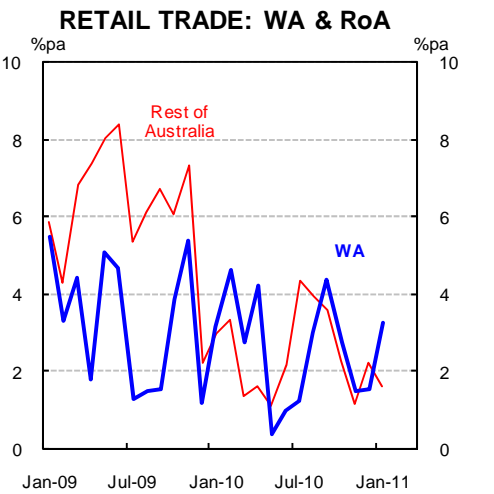
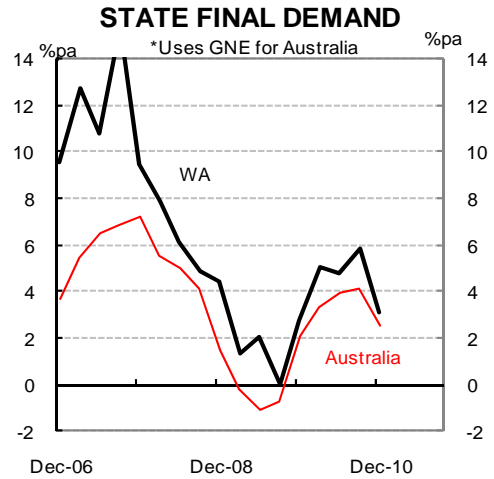
Within the household spending area, traditional retail spending is relatively weak with the year to December 2010 figures at under 2%pa. The non-retail areas were much stronger. Higher utility bills explained some of that non-retail strength. But there also appears to be a preference on the part of households for higher spending in the overseas travel and new car sales areas.

WA's relatively firm jobs and wages growth outcomes over 2010 would usually mean that traditional retail spending would be around the 6%pa level. But there has been a decided shift by consumers to more repayment of mortgage and credit card debt and higher personal savings levels since the GFC.

New residential construction activity could weaken.

Lending for new dwelling construction has picked up in recent months. It took a sharp hit in the mid 2010 around the time that the Federal Government proposed the new mining tax. We expect to see new dwelling construction gradually ease lower through 2011 as mortgage rates rise. WA looks set to build about 24k new dwellings in 2011, including about 17k detached houses.

The result could be a rental squeeze through 2011 and 2012 if jobs and population growth runs in line with our forecasts. It appears that the influx of workers and their families for jobs in the oil, gas and mining industry will continue to build. Generally they rent rather purchase accommodation. The undersupply of dwellings means continued upward pressure on rents in a period when house prices may only rise by close to the inflation rate.





Resilient WA labour markets

Labour market strong.

Underscoring the Western Australian economy's very credible performance in the wake of the GFC has been the resilient labour market conditions. From a cyclical low point of 2.3% in October 2008, WA unemployment climbed to 5.7% by September 2009 as the GFC impact washed over the national and WA economies. However, by December 2010, WA's unemployment rate had dipped to 4.4%. Further falls are likely in 2011 and 2012 as the national and WA economies accelerate further, powered by the strongest terms of trade in over a century.

Unemployment falls to 4.4%.

A WA unemployment rate in 3-4% range is not that far away. Further strong employment outcomes will boost WA consumer confidence and spending in the coming year or two. Over the year to January 2011, jobs growth was a very strong 4.5% with 52.4k new jobs created (including 35k full-time positions). Recovering equity prices and superannuation balances should also help bolster WA consumer spending generally later in HII 2011 and 2012.

Very strong business investment mainly in mining and ongoing solid WA public infrastructure spending will help drive WA job markets in the coming years.

Perth CPI running at 2.6% in QIV....

Perth CPI

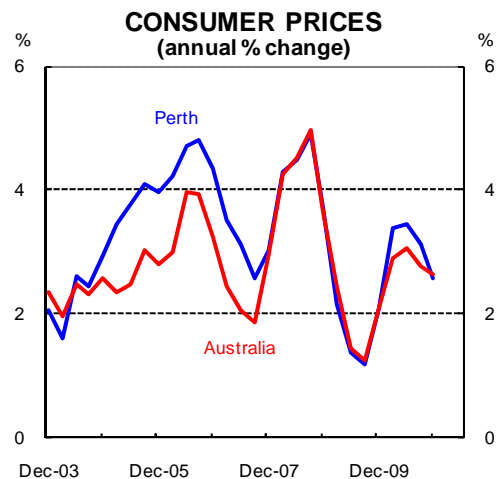
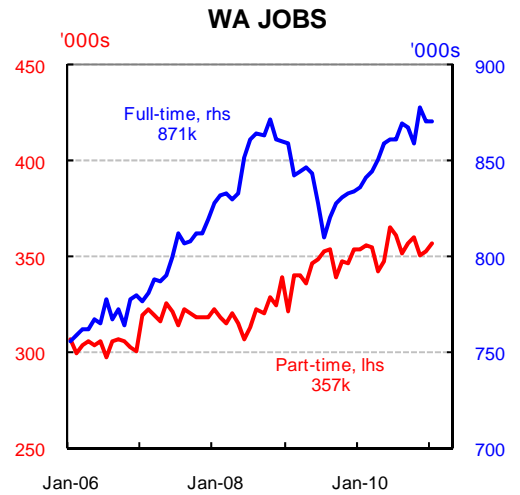
The national CPI rose a relatively well-behaved 2.7% in the year to QIV 2010. At a state level, the largest positive movement was recorded in Melbourne (+3.1%pa) followed closely by Brisbane (+ 3.0%pa) due to relatively higher increases in housing, alcohol and tobacco and transportation. Canberra (+2.1%pa) recorded the smallest positive movement. Perth's annual inflation rate was running at 2.6%pa in QIV 2010.

...just below national CPI of 2.7%pa.

The most significant contributor to WA's lift in the CPI in QIV was the increase in utilities' prices and rentals costs. Falling clothes prices and soft house prices in Perth in QIV helped offset these solid increases in prices.

The near term outlook for inflation is mixed. House prices are expected to remain soft, and the high AUD which is presently at post-float highs is likely to continue to bear down on import prices. On the upside, solid wages growth on the back of ever tightening labour markets, and ever rising utilities' prices and housing rents, will exert upward pressure on WA inflation levels in 2011 and 2012.

Further out as the mining and investment boom gains momentum, increasing market tightness





will intensify wage and general price pressures. We see WA inflation heading to the 3-4% range in the coming year or two.

WA Wages

Despite strengthening WA labour market conditions as Mining Boom Mark II has got under way, the latest available data suggest that the resource state's broad based wages are rising but still in check in terms of a threat to inflation. The QIV 2010 wage cost index (WCI) showed WA's total wage costs running at an annual 4% rate, a touch above the national rate of increase of 3.9%pa.

Looking ahead though, WA wage pressures are likely to intensify as the WA economic growth pulse quickens and increasing skilled and general labour shortages materialises. We see the WPI rising to 4.5%pa in 2011, and moving higher still to over 5% in 2012. These wage growth levels, if replicated nationally, would see the RBA in quite a funk and lifting official rates to help snuff out inflation threatening to break above the central bank's 2-3% target zone.

Population growth

The latest comprehensive ABS population data (released for QII 2010) showed strong, albeit moderating, population growth across the states and the nation in 2009/10 in wake of the GFC. WA's population growth in the year to June 2010 was still a relatively robust 2.2% (easily outpacing national population growth of 1.7% and NSW growth of 1.5%). Although this outcome was well shy of WA population growth rates of near 3.5%pa in late 2008 and 2009 before the full impact of the GFC was felt.

Australia's (& WA's) relatively high population growth in recent years also demonstrates one of the reasons why Australia avoided the housing market implosions and meltdowns that pole-axed housing sectors in the advanced G7 economies, and many of their economic satellites, particularly in Europe (i.e. Ireland and Spain).

Australia's strong population growth in recent years and tepid residential construction over 2002 to 2009 has resulted in a significant undersupply of dwellings. This undersupply has created pent-up demand pressures that were released as the RBA cut interest rates through 2008 and 2009.

So, while the US and UK witnessed 30% falls in house prices from 2007 to 2009 as their unemployment rates spiked higher and the housing markets were negatively impacted by significant oversupply, Australian house prices recorded on average 20% rises. On our estimates, national underlying annual housing demand is around 185-195k, while new construction has been accelerating in the past year, the gap between underlying demand and supply is still significant (around 30k).

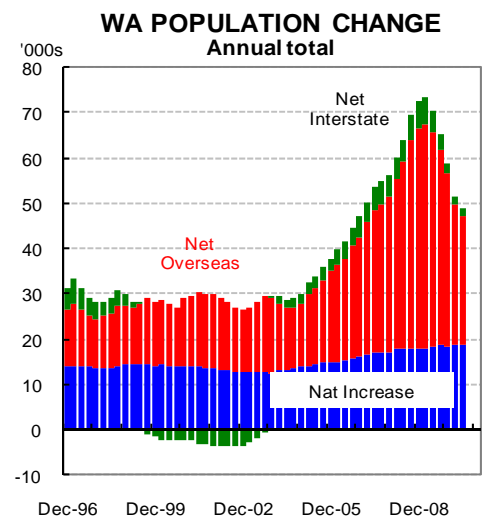
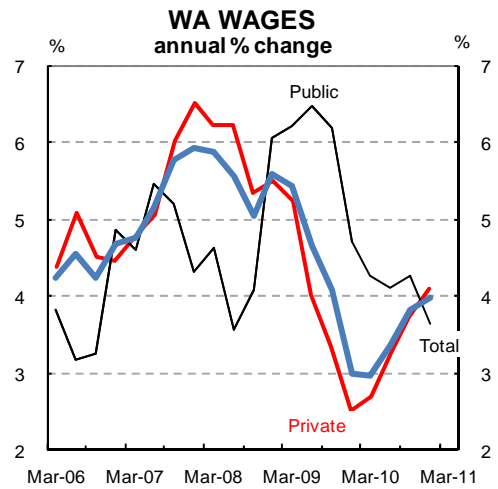
Net overseas migration was boosted substantially by the Federal Government from 2002 due to fears of widespread labour shortages which could lead to inflationary wages growth. The Global Financial Crisis (GFC) calmed these fears temporarily. But now the re-emergence of the mining boom will most probably require net overseas migration maintained around the 250k level in coming years. The major impact from this strong population growth will be ongoing upward pressures on housing costs via rising house prices and rents, particularly in Melbourne and Sydney

WA wages still tame at 4% despite tightening labour markets.

WA's population grew at a relatively brisk 2.2% in 2009/10.

Strong population growth has created pent up demand for housing.

Net overseas migration to re-accelerate in coming years.





where vacancy rates are already at record lows.

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Table 1: Economic projections

| CBA forecasts | 2009-10 actual | 2010-11f | 2011-12f | Comment |
|-------------------------------------|-----------------------|-----------------|-----------------|--|
| Real Gross State Product (GSP)% | 4.1 | 5.1 | 5.7 | Growth driven by higher exports and investment |
| Employment Growth % June | 4.3 | 4.0 | 3.5 | Jobs growth firm |
| Unemployment Rate % June | 4.0 | 4.2 | 3.7 | Sliding unemployment rate |
| CPI (Perth) %pa | 3.5 | 4.0 | 3.5 | Inflation reflects high growth |
| Wages Price Index %pa | 4.0 | 4.5 | 5.5 | Wages growth edging higher |
| Exports \$bn annual | 83 | 103 | 121 | Exports rising strongly |
| Dwelling starts, '000s annual | 25 | 26 | 24 | Dwelling construction moderating |
| Population growth %pa June | 2.2 | 2.0 | 1.8 | Population growth moderate |
| CBA median house price Perth \$000s | 681 | 700 | 720 | Subdued housing market |

Table 1 Sources: ABS, CBA

Table 2 Fiscal projections

| WA Fiscal Projections | 2009-10 Outcomes | 2010-11 Estimates Mid Year | 2011-12 Estimates | 2012-13 Estimates | 2013-14 Estimates |
|------------------------------|-------------------------|---------------------------------------|--------------------------|------------------------------|------------------------------|
| Total Revenue \$mn | 22,039 | 23,373 | 24,384 | 25,468 | 25,913 |
| Total Expenses \$mn | 21,208 | 22,614 | 23,321 | 24,528 | 25,766 |
| Operating Balance (GFS)\$mn | 831 | 758 | 1,063 | 940 | 147 |
| Net Debt \$mn | 9,896 | 14,009 | 16,774 | 18,305 | 19,886 |
| Capital Works Spending \$bn | 6.8 | 7.6 | 7.0 | 6.1 | 5.8 |

Table 2 Sources: State budgets, CBA



New Zealand Economic Perspective

Earthquake changes outlook for economy, and monetary policy.

- Underlying economy proving very weak prior to February's earthquake.
- Devastating earthquake pushes back economic recovery, adds uncertainty.
- We expect a 50bp rate cut from the RBNZ.

50 basis point rate cut expected.

We expect the RBNZ to deliver a 50 basis point rate cut at the March 10 announcement. The personal, economic and financial ramifications for the entire economy from the February 22nd earthquake appear 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. Furthermore, Alan Bollard has proved to be pragmatic when faced with a large degree of uncertainty.

February's earthquake causes devastating damage.

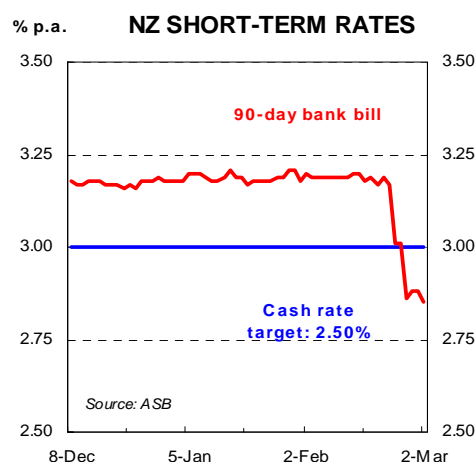
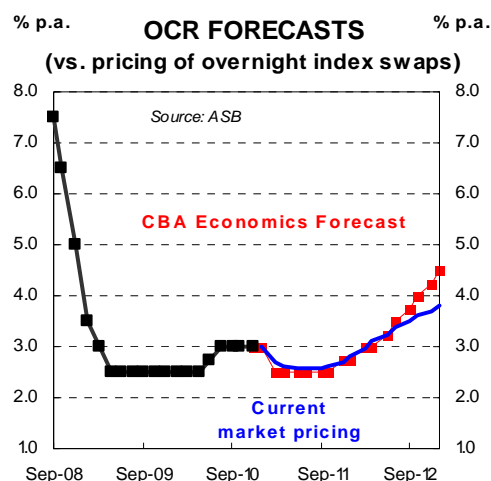
Christchurch, particularly the CBD, faces destruction far beyond that experienced in the September earthquake. As a result, the level of disruption to economic activity will be far greater. The damage to infrastructure has been greater than the September 4th earthquake and the CBD may be out of action for a number of months. Tourism will be severely affected at a key time of the year for the industry.

Financial cost high.

A large degree of uncertainty remains, including the extent of the damage and the financial cost to Government. Nonetheless, we can conclude that this earthquake will take a large toll on both Canterbury and the wider national economy. The financial cost is likely to be much higher than the September quake. Insurance will cover much of it. However, there will still need to be a large diversion of private and public funds and resources to the Canterbury region. New Zealand households and businesses are set to face higher insurance premiums and fiscal policy risks being tighter for the wider economy.

Government to reprioritise spending to Christchurch.

The cost to the Government is likely to be large, at a time when the economic back-drop is posing challenges to the Government in reducing fiscal deficits. The Government will need to prioritise rebuilding Christchurch and this is likely to come at the expense of government investment or spending in other areas. Already, it has been announced that projects in Auckland will be put on hold to free up capacity for Christchurch. Fiscal policy is likely to find itself in a position where it may be tighter than ideal for the broader economy, and monetary policy can provide some offset.





Economic outlook weaker as reconstruction pushed back.

Economic growth is likely to be much weaker over 2011 than previously thought, largely as the rebuilding recovery initially pencilled in for Christchurch is likely to be pushed back. It may not be until the end of this year until we see a pick up in construction. The clean-up job in the CBD is massive, as is the number of claims assessments that need to be done. The process for rebuilding damaged commercial property is likely to take a long time. It could be a decade before the CBD is back to a pristine condition.

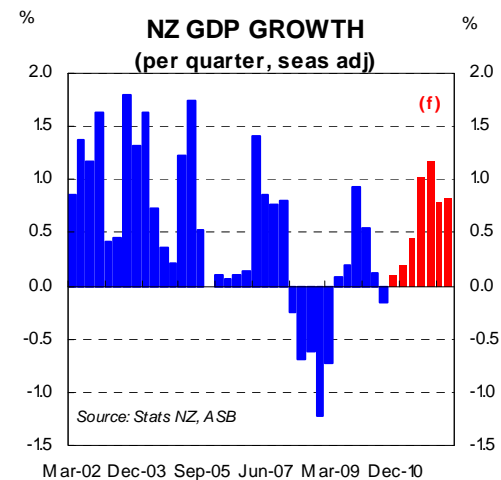
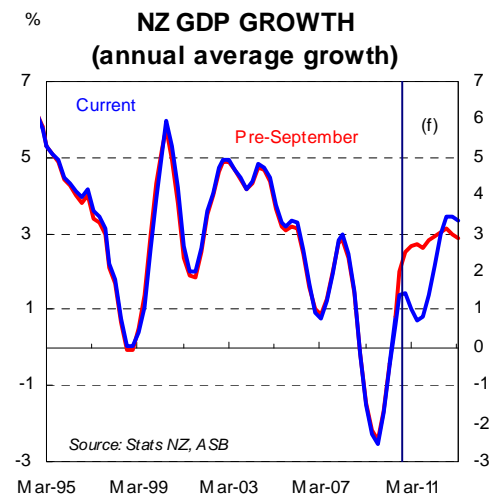
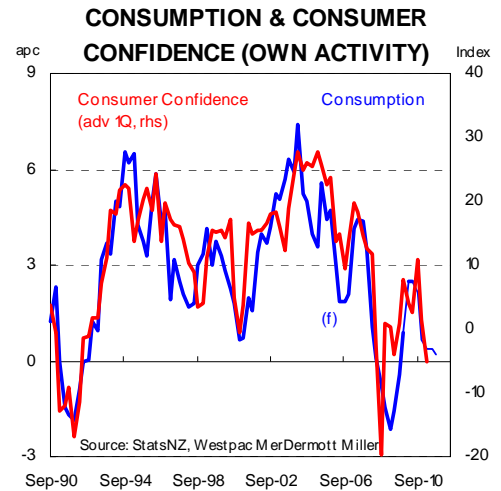
Risk to tourism spending.

The boost to tourism expected from hosting the Rugby World Cup is also in jeopardy. Christchurch may not be in a position to help host the Cup. Suitable accommodation is likely to be lacking and infrastructure is likely to be still compromised. More concerning, devastating images may see visitors reluctant to come to NZ at all. The visitors who do make it to NZ may cut trips shorter, perhaps skipping a tour of the South Island altogether.

Underlying economy weakening

Underlying economy weak prior to earthquake.

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. GDP data showed the NZ economy contracted in QIII, and the recovery in the labour market shows signs of slowing more recently. The continued weakness in credit growth is also of concern, as households and businesses remain focused on paying down debt.



Furthermore, the rising cost of non-discretionary items such as food and fuel, add downside risk to the activity outlook. The extent of weakness in the domestic economy suggests there was a small but growing chance of a 25 basis point cut prior to earthquake.

Inflation: earthquake impact looked through

Current inflation pressures low. Time to address future inflation pressures later.

The earthquake will be inflationary. Damaged and unusable buildings will take time to replace, and this will put upward pressure on rents (and with some Cantabrians opting to leave, this may not be confined to Christchurch). Then as the rebuilding process begins, limited capacity will put upward pressure on construction costs. However, the RBNZ's Policy Targets Agreement allows it to look through first-round inflation impact that results from a natural disaster. Regardless, it is



too early for the RBNZ to get concerned about spill-over inflation pressures stemming from future construction activity. The reconstruction process is unlikely to reach full gear until 2012, by which time the RBNZ could easily remove the additional stimulus if needed. Importantly, the RBNZ still has breathing space on the inflation front at the moment as inflation indicators show pressures being contained for now. When economic activity proved surprisingly weak over 2010, so did underlying inflation pressures.

Given the weak outlook, lower interest rates would be helpful for recovery.

If it wasn't for the weakness of the underlying economy, this type of national disaster would not necessarily prompt us to expect a rate cut. Targeted assistance, not a blunt monetary tool, provides the best type of support in this scenario. However, with the benefit of hindsight, the two OCR increases during the middle of 2010 were not appropriate as the economic recovery stalled over the second half of the year. Indeed, the combination of February's earthquake along with the pre-existing underlying weakness in the economy has seen the outlook for growth deteriorate substantially over the past 6 months (see chart). The run of devastating events, at a time when underlying activity and confidence is weak, suggest that unwinding these increases may be helpful in bringing the recovery back on track. Now is a time for a pragmatic response.

Market considerations

Banks pre-empt rate cut with lower mortgage rates.

A number of economists are calling for rate cuts of various sizes from the RBNZ, and wholesale interest rates have fallen sharply reflecting the expectation of a cut. The big four Banks have all dropped fixed mortgage rates substantially, with some rates down 50 basis points. This indirectly adds more pressure on the RBNZ. It would be a hard message to sell if the RBNZ took back 50 basis points of mortgage relief in light of the economic outlook.

50bp cut could limit unnecessary volatility.

We expect a 50 basis point cut by the RBNZ. In our view, a 25 basis point would add too much uncertainty to markets. With 2.5% being the previous low in the OCR, the market is likely to widely accept that no further rate cuts are likely after a 50 basis point move. Emergency settings at a time of national emergency is a fairly clear message. However, a 25 basis point cut runs the risk of adding unnecessary volatility to the market: markets will swing between pricing a further cut or none at all as news rolls out.

It may take months to gauge the total financial and economic ramifications, and if the RBNZ is serious about providing a shot of confidence to the economy, we don't see much advantage in waiting around. We see the biggest scope for regret being not cutting rates and the finding the economy has foundered. A sizable cut, made explicitly in response to the disaster, can be taken back at any stage if unneeded.

Market risk: high scope for volatility

Rate cut also path of least regret.

There is potential for considerable market volatility on the day, given there is a wide variety of possible outcomes. The RBNZ may decide to leave rates on hold, cut 25 basis points or cut 50 basis points. In addition, the tone of the accompanying statement is likely to be a substantial driver of the market reaction.

At the time of writing, the market was pricing in 30 basis points of OCR cuts for March 10. Swap interest rates have fallen considerably, with the 2-year down over 40 basis points and the 5-year down 30 basis points.

Wide range of possible outcomes, potential for market volatility on Thursday.

There is potential for rates to fall slightly further on a 50bp cut. But if there was no rate cut, market rates will rise dramatically. If the RBNZ goes half way and delivers a 25 basis point cut, the content of the RBNZ's statement will be the major influence on pricing of further rate cuts as well as the timing for the eventual reversal of cuts.

Note: The forecasts published by the RBNZ in the March Monetary Policy Statement may not incorporate the impact of February's quake. Given the large number of uncertainties, the RBNZ's timeline for producing the document may have been too tight to incorporate last-minute revisions. Rather, the RBNZ may address considerations in a special box, as was done in the September MPS.



The Week Ahead

Calendar - Australasia, Japan and China

| Date | Time | | Event | Period | Unit | Last | Forecast | |
|------------|-------|---------|--------------------------------|--------|----------|---------|----------|------|
| | AEST | Econ | | | | | Market | CBA |
| Mon 7 Mar | 08.45 | NZ | Building permits | Jan | m%ch | -18.6 | ~ | ~ |
| | 10.30 | AU | AiGroup PCI | Feb | Index | 40.2 | ~ | ~ |
| | 11.30 | AU | ANZ job advertisements | Feb | m%ch | 2.4 | ~ | ~ |
| | 16.00 | JP | Coincident index CI | Jan | Index | 103.5 | 106.0 | ~ |
| | 16.00 | JP | Leading index CI | Jan | Index | 101.4 | 102.3 | ~ |
| Tue 8 Mar | 08.45 | NZ | Value of all buildings | QIV | q%ch | -3.2 | ~ | ~ |
| | 10.50 | JP | Adjusted current account total | Jan | ¥bn | 1,555.9 | 1313.0 | ~ |
| | 10.50 | JP | Trade balance - BOP basis | Jan | ¥bn | 768.8 | -372.8 | ~ |
| | 11.30 | AU | NAB business conditions | Feb | Index | -6.0 | ~ | ~ |
| | 11.30 | AU | NAB business confidence | Feb | Index | 4.0 | ~ | ~ |
| Wed 9 Mar | 00.00 | NZ | Net migration | Jan | No. | 750 | ~ | ~ |
| | 10.00 | NZ | QV house prices | Feb | y%ch | -1.5 | ~ | ~ |
| | 10.30 | AU | Westpac consumer confidence | Mar | Index | 106.6 | ~ | ~ |
| | 10.50 | JP | Machine orders | Jan | y%ch | -1.6 | 4.8 | ~ |
| | 11.30 | AU | Home loans | Jan | % | 2.1 | 0.0 | -3.0 |
| | 11.30 | AU | Owner-occupied home loan value | Jan | % | 2.3 | ~ | -3.0 |
| | 17.00 | JP | Machine tool orders | Feb | y%ch | 89.8 | ~ | ~ |
| Thu 10 Mar | 07.00 | NZ | RBNZ official cash rate | Mar | % | 3.0 | 2.88 | 2.50 |
| | 10.50 | JP | GDP deflator | QIV | y%ch | -1.6 | ~ | ~ |
| | 10.50 | JP | Nominal GDP | QIV | q%ch | -0.6 | ~ | ~ |
| | 10.50 | JP | GDP annualized | QIV | % | -1.1 | ~ | ~ |
| | 11.30 | AU | Employment change | Feb | '000 | 24.0 | 20.0 | 20.0 |
| | 11.30 | AU | Unemployment rate | Feb | % | 5.0 | 5.0 | 4.9 |
| | 11.30 | AU | Participation rate | Feb | % | 65.9 | 65.9 | 65.9 |
| | 13.00 | CH | Trade balance | Feb | USD \$bn | 6.5 | 4.95 | ~ |
| | 13.00 | CH | Exports | Feb | y%ch | 37.7 | 25.0 | ~ |
| 13.00 | CH | Imports | Feb | y%ch | 51.0 | 32.4 | ~ | |
| Fri 11 Mar | 08.45 | NZ | Food prices | Feb | m%ch | 1.8 | ~ | ~ |
| | 13.00 | CH | PPI | Feb | y%ch | 6.6 | 7.0 | ~ |
| | 13.00 | CH | CPI | Feb | y%ch | 4.9 | 4.8 | ~ |
| | 13.00 | CH | Retail sales | Feb | y%ch | 18.7 | 18.9 | ~ |
| | 13.00 | CH | Industrial production | Feb | y%ch | 13.0 | 13.3 | ~ |
| | 13.00 | NZ | Non resident bond holdings | Mar | % | 63.3 | ~ | ~ |



Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

| Date | Time | | Event | Period | Unit | Last | Forecast | |
|------------|-------|------|-----------------------------------|--------|-------|----------|----------|-----|
| | UK | Econ | | | | | Market | CBA |
| Mon 7 Mar | 07.00 | EZ | Sentix investor confidence | Mar | Index | 16.7 | ~ | ~ |
| | 13.30 | CA | Building permits | Jan | % | 2.4 | ~ | ~ |
| | 20.00 | US | Consumer credit | Jan | \$bn | 6.1 | 3.3 | ~ |
| Tue 8 Mar | 00.01 | UK | BRC sales like-for-like | Feb | y%ch | 2.3 | ~ | ~ |
| | 00.01 | UK | RICS house price balance | Feb | % | -31.0 | -26.0 | ~ |
| | 11.00 | GE | Factory orders | Jan | m%ch | -3.4 | 2.5 | ~ |
| | 13.15 | CA | Housing starts | Feb | '000 | 170.4 | 174.0 | ~ |
| | 15.00 | US | IBD/TIPP economic optimism | Mar | Index | 50.9 | ~ | ~ |
| Wed 9 Mar | 00.01 | UK | BRC shop price index | Feb | y%ch | 2.5 | ~ | ~ |
| | 09.30 | UK | Visible trade balance | Jan | £mn | -9,247.0 | -8450 | ~ |
| | 09.30 | UK | Trade balance non EU | Jan | £mn | -5,817.0 | -5200 | ~ |
| | 09.30 | UK | Total trade balance | Jan | £mn | -4,831.0 | -3900 | ~ |
| | 12.00 | GE | Industrial production | Jan | m%ch | -1.5 | 1.6 | ~ |
| | 13.30 | CA | New housing price index | Jan | m%ch | 0.1 | ~ | ~ |
| | 15.00 | US | Wholesale inventories | Jan | % | 1.0 | 1.0 | ~ |
| Thu 10 Mar | ~ | UK | NIESR GDP estimate | Feb | % | -0.1 | ~ | ~ |
| | 08.00 | GE | Trade balance | Jan | €bn | 11.9 | 12.3 | ~ |
| | 09.30 | UK | Industrial production | Jan | m%ch | 0.5 | 0.4 | ~ |
| | 09.30 | UK | Manufacturing production | Jan | m%ch | -0.1 | 0.6 | ~ |
| | 12.00 | UK | BOE Asset purchase target | Mar | £bn | 200.0 | 200.0 | ~ |
| | 12.00 | UK | BOE Announces Rates | Mar | % | 0.5 | 0.5 | ~ |
| | 13.30 | CA | International merchandise trade | Jan | C\$bn | 2.3 | ~ | ~ |
| | 13.30 | US | Initial jobless claims | 5 Mar | '000 | 368 | ~ | ~ |
| | 13.30 | US | Continuing claims | 26 Feb | '000 | 3774 | ~ | ~ |
| | 13.30 | US | Trade balance | Jan | \$bn | -40.6 | -41.2 | ~ |
| | 19.00 | US | Monthly budget statement | Feb | \$bn | -49.8 | -240.5 | ~ |
| Fri 11 Mar | 09.30 | UK | PPI input | Feb | m%ch | 1.7 | 1.4 | ~ |
| | 09.30 | UK | PPI output | Feb | m%ch | 1.0 | 0.7 | ~ |
| | 12.00 | CA | Net change in employment | Feb | '000 | 69.2 | 30.0 | ~ |
| | 12.00 | CA | Unemployment rate | Feb | % | 7.8 | 7.7 | ~ |
| | 13.30 | US | Advance retail sales | Feb | % | 0.3 | 0.8 | ~ |
| | 13.30 | US | Retail sales ex auto & gas | Feb | % | 0.2 | 0.5 | ~ |
| | 14.55 | US | University of Michigan confidence | Mar | Index | 77.5 | 76.8 | ~ |
| | 15.00 | US | Business inventories | Jan | % | 0.8 | 0.7 | ~ |



Calendar – Key Events To Watch

Australia and New Zealand

Monday 7 March

NZ Building Consents, Jan, m%ch, (-18.6 prev)

Residential consent issuance was very weak in late 2010 and finished the year on a low in December with the weakest month recorded since January 2009. We expect both residential and non-residential consents to remain low over the coming months.

Prior to the February earthquake in Canterbury, reconstruction activity from the September earthquake was underpinning our construction outlook for this year. We had previously expected that building activity in Christchurch would be starting to pick up around now. However, with the increased scale of destruction following the February quake, repair work is unlikely to get underway in a meaningful sense until late this year.

Outside of Canterbury, the current national level of consent issuance is broadly consistent with our weak residential construction forecasts for late 2010 and early 2011. But, should consents (ex-Canterbury) remain low for much longer there is a growing risk insufficient houses are built to meet the needs of areas growing in population.

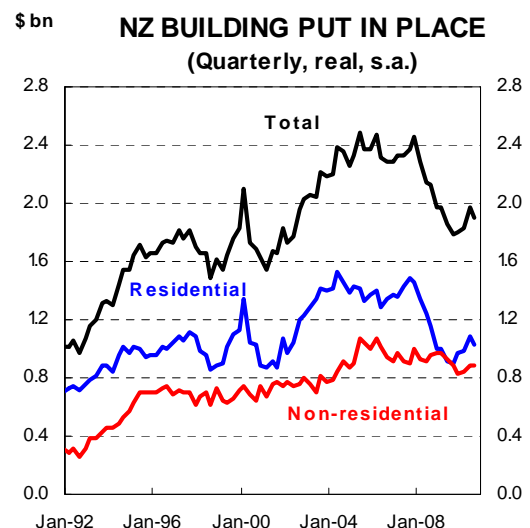
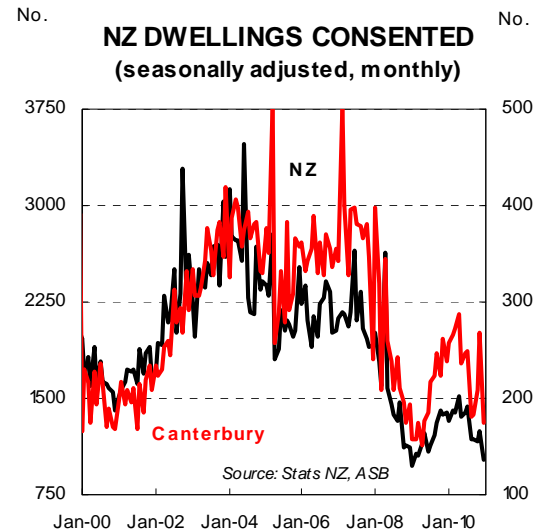
The value of non-residential consents issued for the three months to December was down 3.5% on the corresponding period a year earlier. We expect this weakness to continue in early 2011.

Tuesday 8 March

NZ Building work put in place, QIV, q%ch, (-3.2 prev)

Overall construction has been slowly recovering from the low point reached during the recession. Construction volumes lifted for three consecutive quarters, before contracting in Q3 2010. Q3 Building Work Put in Place volumes were down 3.2% from the previous quarter, largely due to a 5.3% quarterly contraction in the volume of residential construction. Non-residential volumes dipped 0.7%. The total volume of building work done in Q3 was 22% down on the Q4 2007 peak.

Low residential and non-residential consent issuance over the preceding year is a precursor to the weakness in building work done continuing in Q4. We expect a 4% contraction in residential construction volume in Q4, reflecting a sharp drop in Q3 consent issuance. Non-residential construction is also expected to remain weak, slipping another 2% on Q3's weak volume. Some of the repairs to earthquake damage from September's earthquake in Canterbury got started in Q4, though the bulk of new construction was expected to commence over 2011. The February earthquake will delay reconstruction further.





Wednesday 9 March

NZ International travel and migration, Jan, (750 prev)

The pace of annual net migration has slowed over the past year, reflecting a higher number of departures particularly to Australia. Meanwhile, the number of new arrivals has also been weak, reflecting the slack in the NZ labour market.

Given the patchy recovery in the NZ labour market reflecting the weak NZ economy over the second half of 2010, we expect departures to Australia will continue to lift. The recent devastating earthquake in Christchurch increases the likelihood of further departures later this year.

Meanwhile, short-term visitor arrivals continue to grow weakly. Anecdotes suggest the Queensland floods caused a ripple effect of holiday cancellations from travellers' planning visits tack to NZ onto Australian holiday. Meanwhile, the Canterbury earthquake is also likely to result in a large decline in visitor arrivals from March, with numbers unlikely to recover until the Rugby World cup later this year.

Wednesday 9 March

AU Housing finance, Jan

- **No. of own-occupiers, m%ch, (f) -3.0 (2.1 prev)**
- **Value of all loans, m%ch, (f) -3.0 (2.3 prev)**

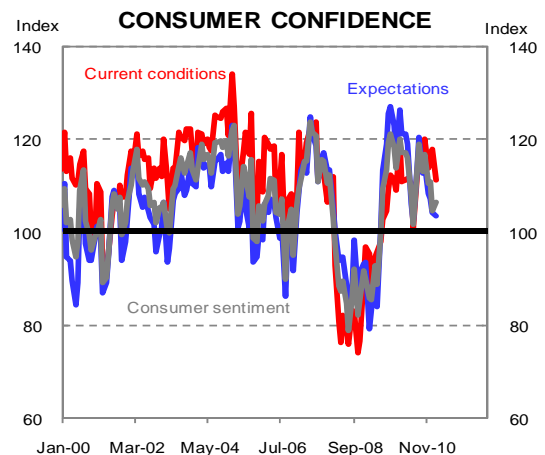
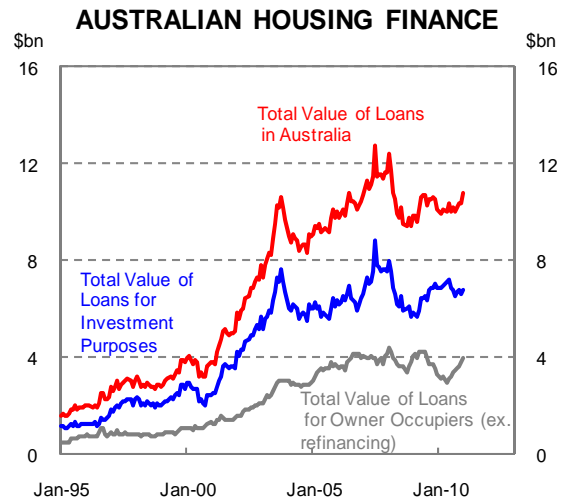
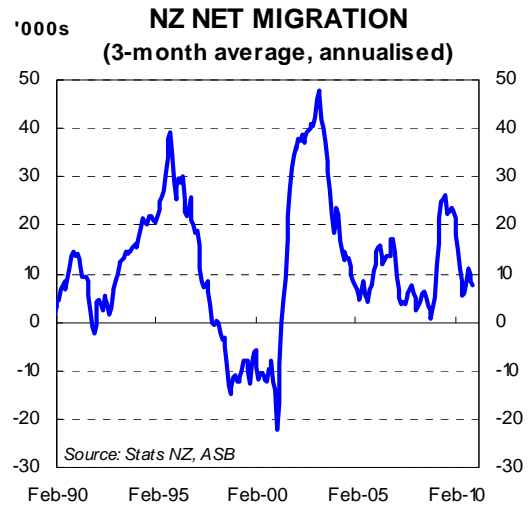
In December, the rise in home-loans exceeded market expectations. The number of loans granted to build or purchase homes increased by 2.1% in the month. First-home buyers accounted for 15.8% of loan approvals in December, remaining below the 18.7% ten-year average and lower than the 21.5% proportion a year ago. The expiration of the first home buyers grant and increased borrowing costs appears to have softened first home buyer demand.

Signs of stabilization across the wider housing finance spectrum have appeared. We continue to expect Australia's tight labour market and robust domestic economy to buoy gains in housing finance approvals in 2011. But, the decline in January building approvals, coupled with recent softness in house prices and the Queensland floods point to a fall in January housing financing. We are anticipating a 3% fall in the total value of loans.

Wednesday 9 March

AU Consumer confidence, Mar, Index, (106.6 prev)

Australian consumer confidence has softened over the past few months. But the February result bucked the recent trend. Consumer sentiment rebounded by 1.9% in February. The modest pickup comes after a strong reaction to the Queensland floods in January. Signs of consumer caution remain throughout the economy. The QIV national accounts indicated that the household savings ratio is holding near 10%. But, the underlying strength in the Australia economy, as illustrated by the robust labour market, is likely to place a floor on any significant drop in consumer confidence.





Thursday 10 March

NZ RBNZ OCR announcement, %, (f) 2.5 (3.0 prev)
NZ RBNZ Monetary Policy Statement

We expect the RBNZ to deliver a 50 basis point rate cut at the March 10 announcement. The personal, economic and financial ramifications for the entire economy from the February 22nd earthquake appear 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. Furthermore, Alan Bollard has proved to be pragmatic when faced with a large degree of uncertainty.

Given the large variety of potential outcomes, there is risk of considerable market volatility following the March 10 announcement.

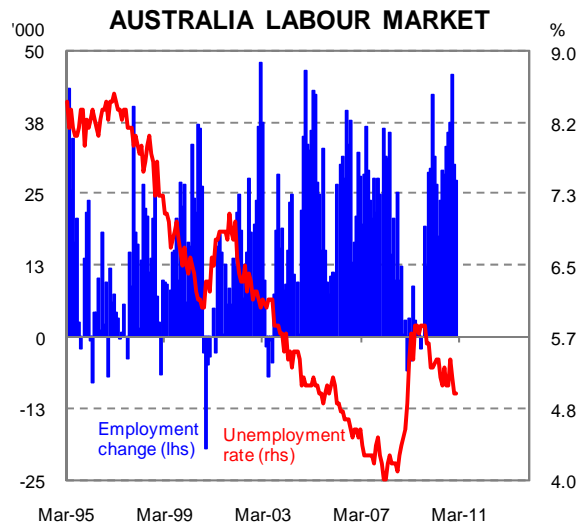
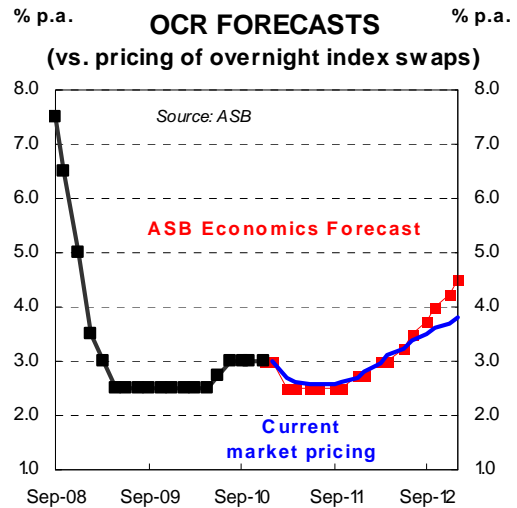
Thursday 10 March

AU Labour force, Feb

- **Employment, '000, (f) 20 (24.0 prev)**
- **Participation rate, %, (f) 65.9 (65.9 prev)**
- **Unemployment rate, %, (f) 4.9 (5.0 prev)**

The Australian labour market added more jobs than expected in January, expanding by 24,000. Markets had been expecting a 17,500 increase. Part-time employment led the rise, increasing by 32,000. There were 8,000 full-time jobs lost in January, 6,100 of which were in Queensland.

The underlying strength in the Australian economy has been illustrated by the lift in the labour force participation rate to record levels. We expect this to remain in 2011. CBA's forward indicators continue to point to jobs growth of at least 20,000 over the coming months. When coupled with slower population growth, the unemployment rate is likely to fall into the 4's in 2011.





International

Monday 7 March

US Consumer credit, Jan, US\$bn, (6.1 prev)

US consumer credit rose by US\$6.1bn in December. It was the third consecutive monthly increase. Significantly, the December result was led by the first increase in revolving credit since August 2008. But, even with the inclusion of the QIV 2010 increases, consumer borrowing has declined by \$165.7bn since October 2008.

As credit markets continue to thaw, consumer spending is likely to lift further. This is significant, as consumption accounts for some 70% of the US economy. But, the sluggish US labour market recovery is likely to weigh on any significant short-term gains in consumer credit.

Wednesday 9 March

UK Trade balance, Jan, £bn, (-4.83 prev)

The UK's trade deficit widened to a record £4.83bn in December. Although visible exports rose to £24.2bn, visible imports also lifted, increasing to a record £33.4bn. The rise in imports was driven by a strong increase in aircraft imports, which increased by £652mn in the month.

The relative weakness of the GBP continues to support UK exports, which have risen by 16.4% in the past 12 months. But, the patchy economic recovery in a number of the UK's trading partners is limiting export growth. In contrast, the recovery in UK domestic demand continues to place upward pressure on imports. Imports have risen by 19.6% in the past year.

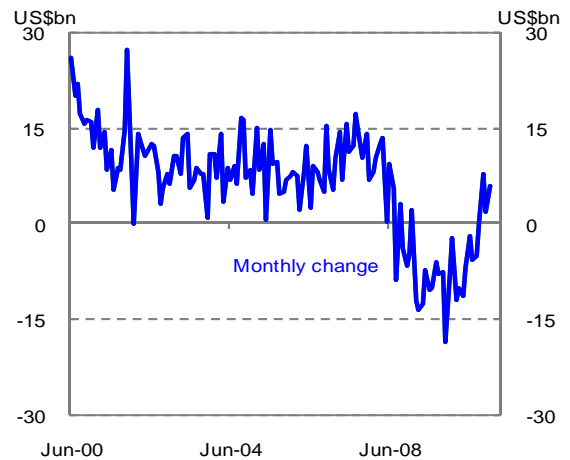
Wednesday 9 March

US Wholesale inventories, Jan, m%ch, (1.0 prev)

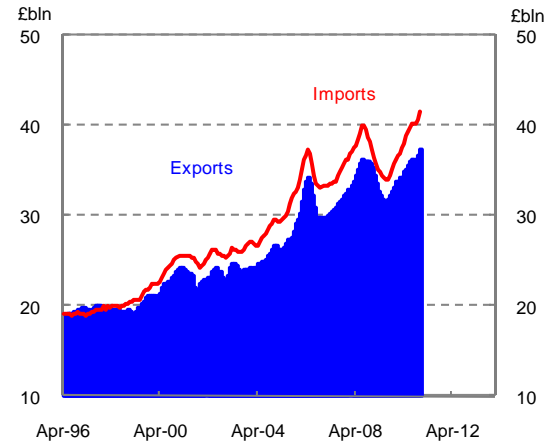
Wholesale inventories unexpectedly increased in December. The 1.0% (MoM) increase was the largest in three months. Inventory rebuilding, which was an early driver in the recovery, slowed in QIV as sales spiked. Inventories subtracted 0.9ppts from GDP growth in QIV. As demand increases, orders to factories are likely to continue climbing. As a result, manufacturing is set to remain a driver of the US economic recovery in 2011.

In December, wholesale sales rose to the strongest level since September 2008, up 11.6% in the year. As a result, the inventory to sales ratio came in at 1.16 months in December, just above the record low (1.13 months) reached in April 2010.

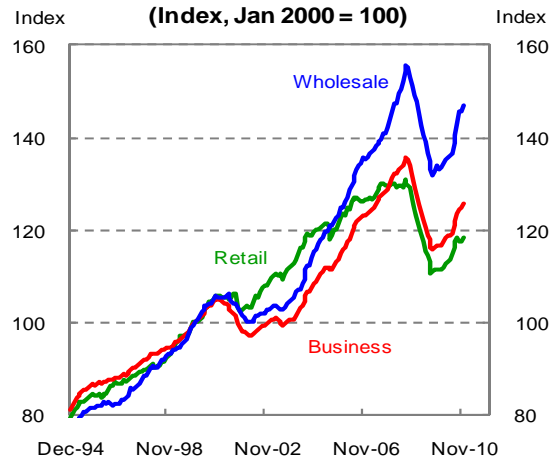
USA: CONSUMER CREDIT



UK TOTAL TRADE



USA: INVENTORIES (Index, Jan 2000 = 100)

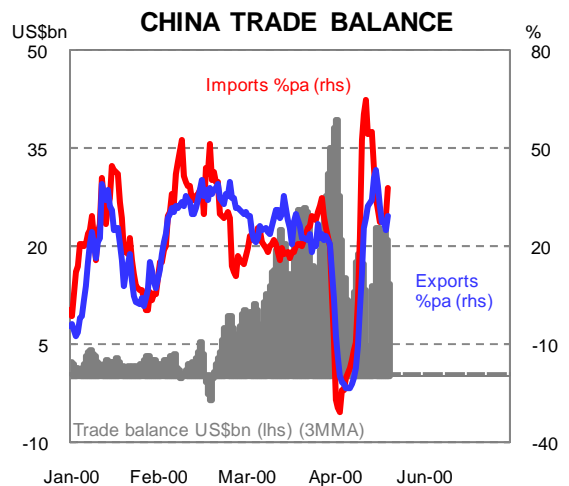




Thursday 10 March

CH Trade balance, Feb, US\$bn, (6.45 prev)

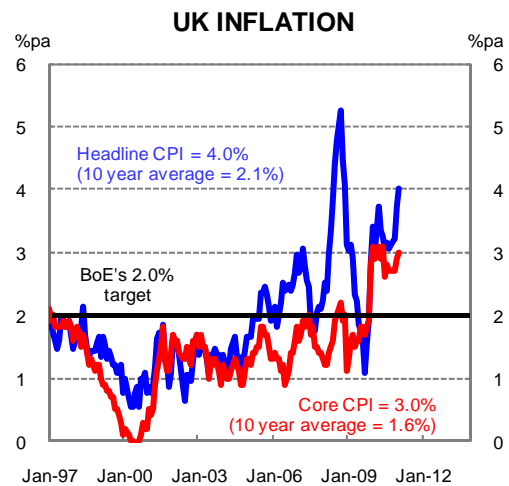
China's trade balance underperformed market expectations in January, coming in at US\$6.45bn, down from US\$13.1bn in December. The January result was the smallest trade surplus since April 2010, continuing the recent downward trend. In the year to January, China's exports rose 37.7%, while imports lifted 51.4% (to US\$144bn). A rush to trade before the holiday period appears to be behind the recent volatility. China trade data is difficult to assess at this time of year due to distortions created by the Lunar New Year holiday.



Thursday 10 March

UK Bank of England, Mar, %, (f) 0.5 (0.5 prev)

The Bank of England (BoE) is expected to remain on hold at its March policy meeting. The BoE has kept interest rates at 0.5% since March 2009. We are forecasting BoE policy tightening to commence in QII 2011. But, risks of earlier rate increases are present. In January, UK inflation accelerated to 4%, doubling the BoE's 2% target. Elevated UK inflation appears to be making the BoE uncomfortable. The BoE February policy meeting minutes indicated that three Monetary Policy Committee members voted for a rate rise, with one asking for a 50bpt increase. Significantly, a majority of the dissenters indicated that the case for a rate rise had "grown in strength". The Overnight Index Swap market is pricing in 87bpts worth of BoE rate hikes in the next 12 months.

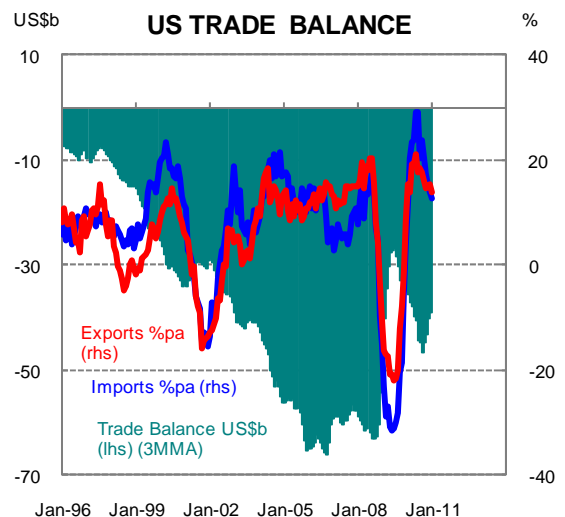


Thursday 10 March

US Trade balance, Jan, US\$bn, (-40.6 prev)

The US trade deficit widened in December, rising to US\$40.6bn. Increased global demand and the relatively weak USD helped lift US exports to US\$163bn, the highest level since July 2008. US exports increased by 13.7% in 2010. This was the largest calendar year gain since 1988.

However, the improving US economy continues to place upward pressure on imports. Imports increased to US\$203.5bn in December, up 12.8% from a year earlier. As the US economic recovery continues to gather momentum, imports are likely to rise further. The US trade deficit is anticipated to widen over 2011. The trade deficit remains some 39% (or US\$25.8bn) off its August 2008 peak.





Friday 11 March

CH PPI/CPI, Feb, y%ch, (6.6/4.9 prev)

CH Industrial production, Feb, y%ch, (13.5 prev)

CH Retail sales, Feb, y%ch, (18.4 prev)

China's annual CPI lifted to 4.9% in January. The increase in CPI continues to be driven by rising food prices, which rose 10.3% in the year to January. Non-food CPI increased by only 2.6% (YoY) in January.

The key risk around China's inflation outlook is the possibility of second-round effects developing from the elevated commodity prices. In an attempt to curb inflation and prolong the robust economic expansion Chinese authorities have been tightening policy by increasing the banks capital reserve requirement ratio and the benchmark lending and deposit rates. The possibility of further PBoC policy tightening will remain in focus while inflation remains above the government's 4% 2011 target and asset price growth continues.

Friday 11 March

US Retail sales, Feb, m%ch, (0.3 prev)

US retail sales have trended higher since mid-2009. But, in January retail sales lifted less than forecast, up only 0.3% in the month. It is likely that the recent bad weather in the US may have played a part in the slowdown. Core retail sales (ex autos and gasoline) also increased, lifting by 0.2% in January. But, the previous month was revised lower.

Improved US economic conditions are likely to support higher retail sales, particularly sales volumes, in the coming months. The US Federal government's decision to extend the previous administrations tax cuts is likely to provide a further boost to consumption levels over 2011. This is important, as consumption accounts for approximately 70% of the US economy.

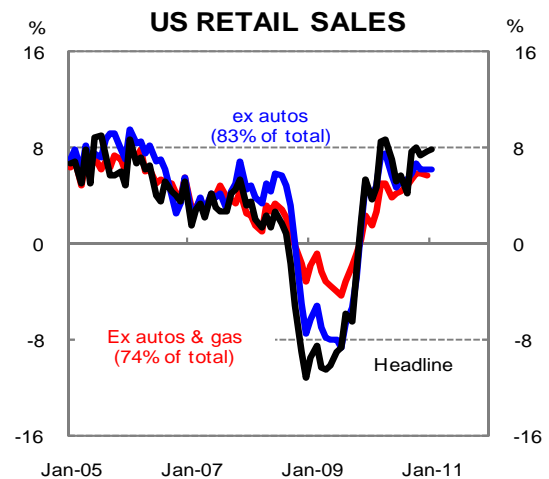
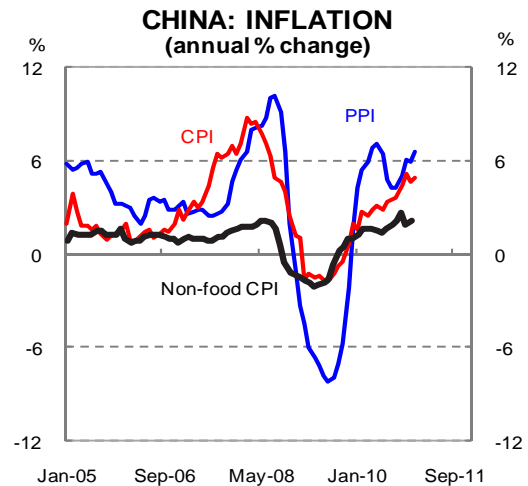
Friday 11 March

CA Net change in employment, Feb, '000, (69.2 prev)

CA Unemployment rate, Feb, %, (7.8 prev)

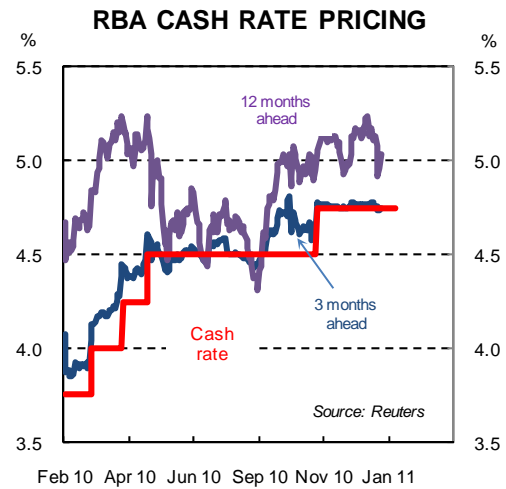
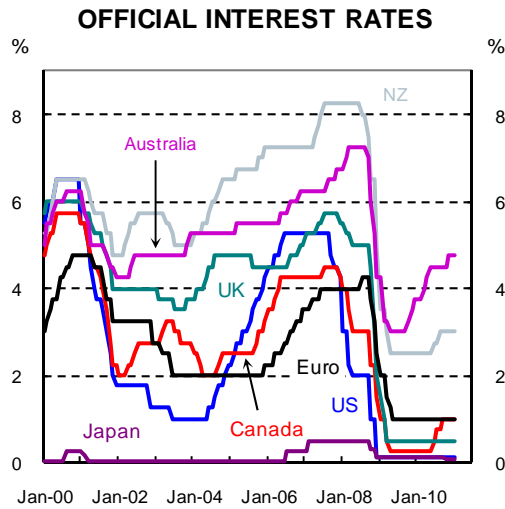
The 69,200 increase in employment in January was almost four times market expectations. Full-time employment rose by 31,100, while part-time employment increased to a six-month high. Canada's labour market has now regained all of the jobs lost during the recent recession. In a further sign of confidence in Canada's economic outlook, the labour force lifted by 106,400. Canada's labour force participation rate is now 67%.

Canada's unemployment rate has now fallen from its August 2009 peak of 8.4% to 7.8%. But, slack remains in Canada's labour market. Canada's unemployment rate averaged 6.2% between 2006 and 2008.





Monetary Policy



| Country | Last Move | Next Meeting and Forecast | CBA View | | | | | | | | |
|-----------------|---|---|----------|---------|---------|---------|---------|---------|---------|---------|--|
| Australia (RBA) | 25bpt rise to 4.75% on 7 November 2010. | <p>■ 5 April, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>4.75%</td> <td>5.00%</td> <td>5.25%</td> <td>5.50%</td> </tr> </table> | Mar '11 | Jun '11 | Sep '11 | Dec '11 | 4.75% | 5.00% | 5.25% | 5.50% | The RBA has normalised monetary policy, and has begun a shift to contractionary rates to head off inflationary pressures. We expect rates to reach 5.50% by QIV 2011. |
| Mar '11 | Jun '11 | Sep '11 | Dec '11 | | | | | | | | |
| 4.75% | 5.00% | 5.25% | 5.50% | | | | | | | | |
| US (FOMC) | 75-100bpt cut to 0.25% on 16 December 2008. | <p>■ 16 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> <td>0.50%</td> </tr> </table> | Mar '11 | Jun '11 | Sep '11 | Dec '11 | 0-0.25% | 0-0.25% | 0-0.25% | 0.50% | The Fed has announced a further \$600bn QE program in addition to reinvesting maturing funds into Treasury purchases. We do not expect the first Fed Funds hike until QIV 2011. |
| Mar '11 | Jun '11 | Sep '11 | Dec '11 | | | | | | | | |
| 0-0.25% | 0-0.25% | 0-0.25% | 0.50% | | | | | | | | |
| Eurozone (ECB) | 25bpt cut to 1.00% on 7 May 2009. | <p>■ 7 April, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>1.00%</td> <td>1.25%</td> <td>1.00%</td> <td>1.50%</td> </tr> </table> | Mar '11 | Jun '11 | Sep '11 | Dec '11 | 1.00% | 1.25% | 1.00% | 1.50% | Elevated inflation in the Eurozone is likely to see the ECB commence tightening policy in an effort to preempt the onset of second round inflation effects. We expect the first ECB rate hike to be in QII 2011. |
| Mar '11 | Jun '11 | Sep '11 | Dec '11 | | | | | | | | |
| 1.00% | 1.25% | 1.00% | 1.50% | | | | | | | | |
| UK (MPC) | 50bpt cut to 0.5% on 5 March 2009. | <p>■ 10 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>0.50%</td> <td>0.75%</td> <td>1.00%</td> <td>1.25%</td> </tr> </table> | Mar '11 | Jun '11 | Sep '11 | Dec '11 | 0.50% | 0.75% | 1.00% | 1.25% | Members of the BoE are becoming more concerned about UK inflationary pressures. But, most members expect significant spare capacity to dull the near-term pressures. We expect the first move in QII 2011. |
| Mar '11 | Jun '11 | Sep '11 | Dec '11 | | | | | | | | |
| 0.50% | 0.75% | 1.00% | 1.25% | | | | | | | | |
| NZ (RBNZ) | 25bpt rise to 3.00% on 29 July 2010. | <p>■ 10 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>2.50%</td> <td>2.50%</td> <td>2.50%</td> <td>2.75%</td> </tr> </table> | Mar '11 | Jun '11 | Sep '11 | Dec '11 | 2.50% | 2.50% | 2.50% | 2.75% | After being on hold, we are now expecting the RBNZ to deliver a 50bpt rate cut at the March 10 meeting. We expect the tightening cycle to resume in QIV 2011. |
| Mar '11 | Jun '11 | Sep '11 | Dec '11 | | | | | | | | |
| 2.50% | 2.50% | 2.50% | 2.75% | | | | | | | | |
| Canada (BoC) | 25bpt rise to 1.00% on 8 September 2010. | <p>■ 12 April, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>1.00%</td> <td>1.25%</td> <td>1.50%</td> <td>1.75%</td> </tr> </table> | Mar '11 | Jun '11 | Sep '11 | Dec '11 | 1.00% | 1.25% | 1.50% | 1.75% | The Canadian economy is recovering, and the BoC has begun to remove stimulus. We expect a slow and steady removal of policy accommodation to ensue. |
| Mar '11 | Jun '11 | Sep '11 | Dec '11 | | | | | | | | |
| 1.00% | 1.25% | 1.50% | 1.75% | | | | | | | | |
| Japan (BoJ) | 0-10bpt cut to 0-0.1% on 5 October 2010. | <p>■ 15 March, 2011</p> <table border="1"> <tr> <td>Mar '11</td> <td>Jun '11</td> <td>Sep '11</td> <td>Dec '11</td> </tr> <tr> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> </tr> </table> | Mar '11 | Jun '11 | Sep '11 | Dec '11 | 0-0.10% | 0-0.10% | 0-0.10% | 0-0.10% | With the Japanese economy continuing to battle deflation the Bank of Japan is undertaking additional quantitative easing measures. Rates are unlikely to change anytime soon. |
| Mar '11 | Jun '11 | Sep '11 | Dec '11 | | | | | | | | |
| 0-0.10% | 0-0.10% | 0-0.10% | 0-0.10% | | | | | | | | |



Forecasts - Economic

| | Fiscal Years | | | | | | Calendar Years | | | | | | |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2006/07 (a) | 2007/08 (a) | 2008/09 (a) | 2009/10 (a) | 2010/11 (f) | 2011/12 (f) | 2005 (a) | 2006 (a) | 2007 (a) | 2008 (a) | 2009 (a) | 2010 (f) | 2011 (f) |
| Economic Activity | | | | | | | | | | | | | |
| Private final demand | 4.6 | 6.4 | 0.1 | 0.7 | 4.0 | 5.0 | 4.7 | 3.4 | 7.2 | 3.1 | -0.7 | 2.2 | 5.3 |
| <i>Of which: Household spending</i> | 4.3 | 4.7 | 0.2 | 2.1 | 3.3 | 3.1 | 3.7 | 3.1 | 5.6 | 1.9 | 1.0 | 2.7 | 3.5 |
| Dwelling investment | 1.9 | 1.2 | -1.9 | 2.1 | 3.7 | 4.3 | -3.4 | -3.0 | 3.0 | 2.1 | -4.2 | 4.7 | 5.1 |
| Business investment | 8.2 | 15.8 | 1.4 | -4.9 | 7.1 | 12.1 | 15.9 | 8.5 | 16.0 | 9.5 | -5.3 | 0.0 | 12.1 |
| Public final demand | 4.2 | 4.2 | 3.6 | 6.7 | 2.9 | -0.7 | 4.3 | 3.7 | 3.4 | 6.3 | 1.6 | 8.8 | -1.3 |
| Domestic final demand | 4.5 | 5.9 | 0.9 | 2.1 | 3.7 | 3.6 | 4.6 | 3.5 | 6.3 | 3.8 | -0.1 | 3.7 | 3.7 |
| Inventories (contrib to GDP) | 0.3 | 0.0 | -0.4 | 0.3 | 0.0 | 0.3 | 0.0 | -0.4 | 0.6 | -0.3 | -0.4 | 0.3 | 0.4 |
| GNE | 4.8 | 5.9 | 0.4 | 2.4 | 3.7 | 3.9 | 4.6 | 3.0 | 7.0 | 3.5 | -0.6 | 4.0 | 4.1 |
| Exports | 2.5 | 4.0 | 2.6 | 5.3 | 3.6 | 6.9 | 2.8 | 2.3 | 2.5 | 4.7 | 2.9 | 5.1 | 4.4 |
| Imports | 9.1 | 14.6 | -3.3 | 5.0 | 9.7 | 7.5 | 9.0 | 7.0 | 12.2 | 11.5 | -9.0 | 12.9 | 9.4 |
| <i>Net exports (contrib to GDP)</i> | -1.2 | -2.1 | 1.4 | 0.1 | -1.4 | -0.2 | -1.0 | -0.8 | -1.9 | -1.5 | 2.8 | -1.6 | -1.2 |
| GDP | 3.6 | 3.8 | 1.4 | 2.2 | 2.8 | 3.7 | 3.2 | 2.5 | 4.6 | 2.6 | 1.3 | 2.7 | 3.2 |
| Prices & Wages | | | | | | | | | | | | | |
| CPI | 2.9 | 3.4 | 3.1 | 2.3 | 3.0 | 3.2 | 2.7 | 3.5 | 2.3 | 4.4 | 1.8 | 2.9 | 3.2 |
| Underlying CPI | 2.7 | 3.7 | 4.3 | 3.2 | 2.7 | 3.1 | 2.5 | 2.8 | 2.9 | 4.4 | 3.7 | 2.8 | 3.0 |
| AWOTE | 3.6 | 4.9 | 5.5 | 5.6 | 4.0 | 4.2 | 5.3 | 3.4 | 4.8 | 4.8 | 5.7 | 4.8 | 4.1 |
| WPI | 4.1 | 4.1 | 4.1 | 3.0 | 3.8 | 4.0 | 4.0 | 4.2 | 4.0 | 4.2 | 3.6 | 3.3 | 4.0 |
| Real h/hold disposable income | 8.2 | 2.9 | 8.5 | 1.0 | 5.4 | 2.8 | 3.8 | 5.7 | 6.4 | 4.8 | 5.8 | 2.7 | 4.3 |
| Labour Market | | | | | | | | | | | | | |
| Employment | 3.1 | 3.0 | 1.6 | 1.4 | 3.1 | 2.0 | 3.5 | 2.6 | 3.1 | 2.8 | 0.7 | 2.7 | 2.5 |
| Unemployment rate | 4.5 | 4.2 | 4.9 | 5.5 | 5.1 | 4.7 | 5.0 | 4.8 | 4.4 | 4.3 | 5.6 | 5.2 | 4.9 |
| External Accounts | | | | | | | | | | | | | |
| Current Account: \$bn | -61.3 | -74.5 | -38.4 | -54.1 | -32.4 | -48.3 | -54.6 | -55.2 | -70.2 | -55.2 | -52.9 | -38.0 | -38.0 |
| % of GDP | -5.6 | -6.3 | -3.1 | -4.2 | -2.3 | -3.2 | -5.7 | -5.3 | -6.2 | -4.5 | -4.2 | -2.8 | -2.6 |



Forecasts - Financial

| End Period | Interest Rates | | | | | Exchange Rates | | | | |
|------------|----------------|------------------|-------------------|-------------|--------------|----------------|-------|------|------|------|
| | Cash Rate | 90-day Bank Bill | 180-day Bank Bill | 3-year Bond | 10-year Bond | USD versus AUD | JPY | EUR | GBP | NZD |
| Jun-07 | 6.25 | 6.44 | 6.59 | 6.47 | 6.26 | 0.85 | 123.2 | 1.35 | 2.01 | 0.77 |
| Sep-07 | 6.50 | 6.89 | 6.99 | 6.42 | 6.15 | 0.89 | 114.8 | 1.43 | 2.05 | 0.76 |
| Dec-07 | 6.75 | 7.24 | 7.36 | 6.80 | 6.33 | 0.88 | 111.7 | 1.46 | 1.98 | 0.77 |
| Mar-08 | 7.25 | 7.86 | 7.96 | 6.16 | 6.05 | 0.91 | 99.7 | 1.58 | 1.98 | 0.79 |
| Jun-08 | 7.25 | 7.84 | 7.96 | 6.72 | 6.45 | 0.96 | 106.2 | 1.58 | 1.99 | 0.76 |
| Sep-08 | 7.00 | 7.32 | 7.04 | 5.07 | 5.40 | 0.79 | 106.1 | 1.41 | 1.78 | 0.67 |
| Dec-08 | 4.25 | 4.15 | 0.00 | 3.29 | 3.99 | 0.70 | 90.7 | 1.40 | 1.46 | 0.58 |
| Mar-09 | 3.25 | 3.14 | 3.06 | 3.37 | 4.42 | 0.69 | 99.0 | 1.33 | 1.43 | 0.56 |
| Jun-09 | 3.00 | 3.19 | 3.31 | 4.75 | 5.52 | 0.81 | 96.4 | 1.40 | 1.65 | 0.65 |
| Sep-09 | 3.00 | 3.38 | 3.78 | 5.04 | 5.36 | 0.88 | 89.7 | 1.46 | 1.60 | 0.72 |
| Dec-09 | 3.75 | 4.28 | 4.47 | 5.06 | 5.64 | 0.90 | 93.0 | 1.43 | 1.62 | 0.72 |
| Mar-10 | 4.00 | 4.49 | 4.76 | 5.39 | 5.78 | 0.92 | 93.4 | 1.35 | 1.52 | 0.71 |
| Jun-10 | 4.50 | 4.92 | 5.00 | 4.56 | 5.09 | 0.84 | 88.4 | 1.22 | 1.49 | 0.68 |
| Sep-10 | 4.50 | 5.01 | 5.20 | 4.82 | 4.96 | 0.97 | 83.5 | 1.36 | 1.57 | 0.73 |
| Dec-10 | 4.75 | 5.04 | 5.23 | 5.30 | 5.55 | 1.02 | 81.1 | 1.34 | 1.56 | 0.78 |
| Mar-11 | 4.75 | 5.00 | 5.40 | 5.25 | 5.50 | 1.02 | 85.0 | 1.40 | 1.62 | 0.76 |
| Jun-11 | 5.00 | 5.30 | 5.60 | 5.50 | 5.60 | 0.99 | 86.0 | 1.45 | 1.70 | 0.75 |
| Sep-11 | 5.25 | 5.60 | 5.70 | 5.65 | 5.70 | 0.94 | 87.0 | 1.42 | 1.68 | 0.72 |
| Dec-11 | 5.50 | 5.80 | 5.90 | 5.75 | 5.75 | 0.92 | 88.0 | 1.40 | 1.65 | 0.71 |

Forecast

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