

## The Week Ahead

- Financial markets spent the week focusing on what European officials *might* do about the situation in Europe
- Next week, markets will continue to be influenced by European situation, but there is also no shortage of data.
- The RBA, BoE, ECB and BoJ all hold policy meetings, and the week ends with non-farm Payrolls in the US.

With little to go on from the official communiqués from the G20, IMF and World Bank meetings held last weekend, financial markets spent the week focusing on what European officials *might* do about the debt situation. The focus early on was on the possibility of beefing up the European Financial Stability Facility (EFSF), or other mechanisms to contain the sovereign debt crisis. While there were various reports on debt-crisis developments through the week, no concrete announcements from officials were provided for investors to latch on to other than the Finnish and German parliaments' vote to ratify the EFSF's new powers. Finland and Germany bring the number of European parliaments to have agreed to the EFSF changes to 12. It is worth noting that European Parliaments are voting for the amended framework for the EFSF agreed by the 17 euro area member states back in July, not the various "leverage" ideas that have been discussed in the media this week. Some of the market reactions over the week reflected the considerable uncertainty around the developments. If sharemarkets were rallying on the view that a solution to Europe's woes is just around the corner, there is potential for significant disappointment over the coming weeks. There are still challenges to be overcome in order to ratify the EFSF amendments from July, let alone make the enhancements some have speculated this week. If that isn't enough to think about, this week EU Commission President Barroso proposed a financial transactions tax set to take effect in 2014, of 0.1% on bond and stock trades, and 0.01% of derivatives trades. If implemented, the tax could raise €57bn a year.

Meanwhile, in Greece, "troika" auditors have returned to decide if Greece has done enough to be given the next tranche of the aid package. It was encouraging to see Greek PM Papandreou win parliamentary support for a property tax, and reports that the 90% private sector participation rate for the Greek bond swap has been reached was also positive. But there are reports some European leaders are pushing for larger bond write downs to be borne by private sector creditors, including banks. A split seems to be appearing with Germany and the Netherlands on one side pushing for larger haircuts, France, other European states and the European Commission on the other side. The next aid payment is due in October. Any suspicion that the troika will find that Greece is not meeting the conditions for rescue will weigh on financial markets over the week ahead.

The European Central Bank meets next week. This meeting is more interesting than usual because it marks the end of the Trichet era. It is the final meeting for ECB president Jean-Claude Trichet, who has held the top job since 2003. Trichet's non-renewable eight-year term expires on 31 October. His successor, Mario Draghi, has been Governor of the Bank of Italy since 2006. We expect the ECB to maintain current policy settings next week. However, given the current market stress, there is a chance of further liquidity measures are announced.

Across the channel the Bank of England also meet next week. At last month's meeting, there was no change in the voting pattern, but minutes show most of the committee now see an expansion of the asset purchase program as "*increasingly probable*." We expect the MPC to announce at least a £50bn expansion of the BoE's asset purchase program in QIV, possibly as early as 6 October. PMI data due in the UK and Europe next will likely take a back seat to central bank decisions, and any developments related to the sovereign debt crisis.

The RBA rate announcement on Tuesday will be the local economic highlight. While the market continues to price in a high probability of RBA rate cuts, we expect the RBA will continue to hold and monitor global developments.

In New Zealand, the major development this week was the sovereign credit rating downgrades by S&P and Fitch. Chris Tennent-Brown discusses the developments on page five. Next week the kiwi data highlight is the NZIER's Quarterly Survey of Business Opinion. This is New Zealand's longest running business survey, and should provide timely insights into how developments both locally, and abroad are influencing the mood.

It's a busy week for data in the US next week, bookended by the ISM manufacturing survey on Monday, and non-farm payrolls on Friday. Both statistics can move the market, particularly the non-farm payrolls report, which last month showed jobs growth stalled in August. Expectations are currently centred on jobs growth near 60,000 in September.

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

**James McIntyre** Economist T. +612 9118 1100 E. james.mcintyre@cba.com.au

**Joseph Capurso** Currency Strategist T. +612 9118 1106 E. joseph.capurso@cba.com.au

**Peter Dragicevich** FX Economist T. +612 9118 1107 E. peter.dragicevich@cba.com.au

**Chris Tennent-Brown** FX Economist T. +612 9117 1378 E. chris.tennent-brown@cba.com.au

**Martin McMahon** Economist Europe T. +44 20 7710 3918 E. martin.mcmahon@cba.com.au



# Australian Economic Perspective

## Population & the economy

- Australia's population growth has slowed, with a fall in net overseas migration the key driver.
- Population growth has been a major driver of Australia's post-GFC economic outcomes. Productivity has been weak.
- Triple booms – mining, baby and ageing – will stretch the economy, elevating the importance of productivity gains.

### Q1 outcome – slowdown continues

Population growth moderated to 1.4% in Q1 2011.

Australia's population growth has slowed dramatically. Australia's estimated resident population expanded by 0.4% in Q1 2011, to 22.546mn, and is 1.4% higher than a year ago. That equates to an additional 312.3k Australians over the past year – the weakest addition to the population since QII 2006.

The slowdown in population growth has been due to an easing in net overseas migration. Over the year to Q1 2011 Australia's net migrant intake was 167.1k, down from 315.7k in QIV 2008.

The rate of natural increase (the excess of births over deaths) slowed to 145k over the year to Q1 2011, down from the peak of 155k over the year to QIII 2009. A lift in the number of deaths and an decline in births (from record highs) combined to drive the decline.

### Population and the economy

Population growth has been the key driver of Australia's post-GFC outperformance.

Population growth has been a key driver of Australia's economic performance in the post-GFC period.

Since March 2008 the economy has grown by 5.7%. A number of major economies are yet to recover their pre-GFC output peaks.

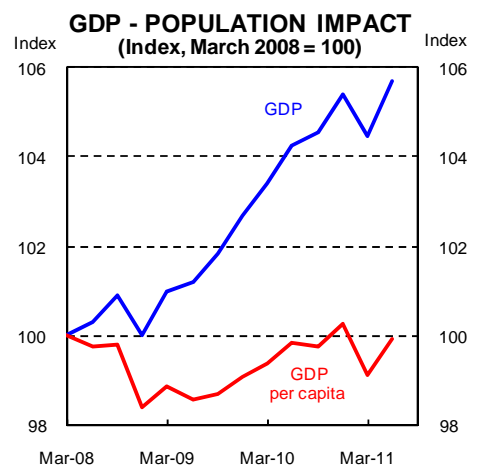
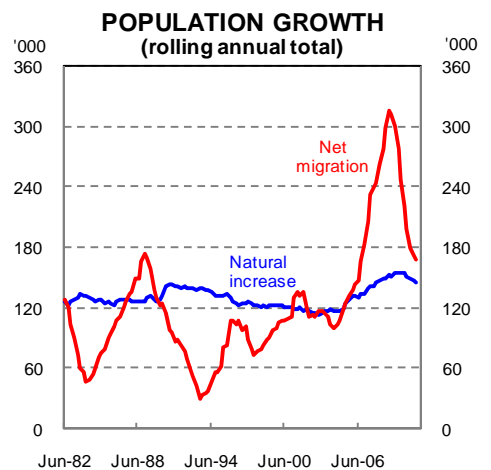
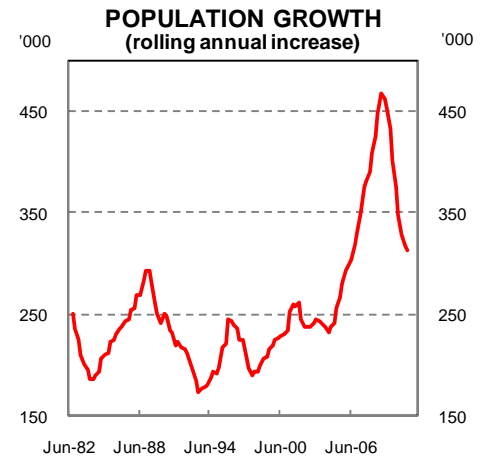
However, GDP is not an actual level of improvement in "living standards". The level of GDP per capita is the closest available metric. And on a per capita basis, Australia's economic performance is less than rosy.

Weakest growth in GDP per capita since 1989-1992.

The ABS publishes GDP per capita estimates with the national accounts. According to the QII figures, GDP per capita has actually *declined* by 0.1% from Q1 2008 to QII 2011. On a historical perspective, the weakness in per capita GDP growth over the past 3 years has been the weakest since 1989-1992.

Whilst population has been a key part of the growth equation over the past three years, it is not the only part. The '3Ps' framework is a useful tool in explaining the sources of GDP growth. The '3Ps' are:

- Population (growth in persons aged 15+);





- Participation (number of hours worked per person); and
- Productivity (amount of output per hour worked).

Productivity growth key to increases in income.

Of these three, productivity is the most important driver of improving living standards. The other two sources involve more people working, working more hours. In order to justify higher incomes, GDP per hour worked needs to increase. Otherwise, increases in hourly income must come from achieving higher prices for units of output.

Over the past 3 years there has been a modest, if not "poor", improvement in productivity. However the increase in productivity has been offset by a reduction in per capita hours worked.

Recent income gains due to commodity price rises.

However, in spite of the lack of productivity growth, there has been a large increase in national income per hour worked. Gross National Income (GNI) per hour worked has risen by 7.8% since Q1 2008. The rise in the terms of trade has been the key driver. The rest of the world is paying higher prices for our output. As a result, we have not suffered from the sort of weak income growth that would usually accompany such a weak productivity performance.

Mining boom will stretch economy's capacity over next few years.

Almost everyone is well aware of the boom in mining investment that the surge in the terms of trade has ignited. The expansion of mining investment is set to test the economy's capacity over the next few years. RBA estimates suggest that mining activity – exports and construction of new mines (currently 15% of the economy) is set to account for 2/3 of GDP growth over the next few years. By implication, growth in the remaining 85% of the economy is likely to be constrained to an average of 1.5%pa. This would be the weakest period of non-mining growth since 1990-1992.

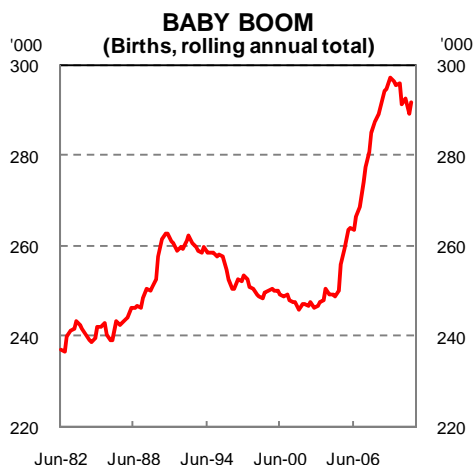
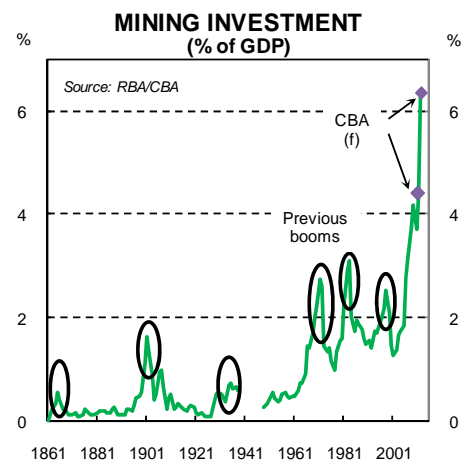
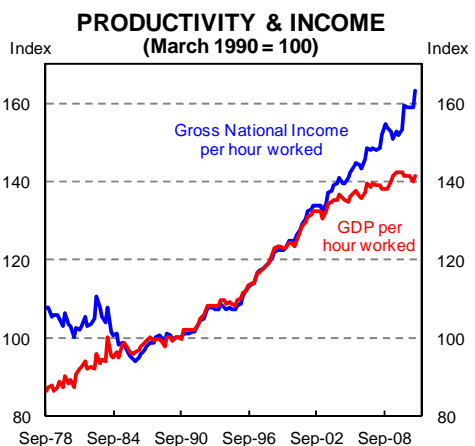
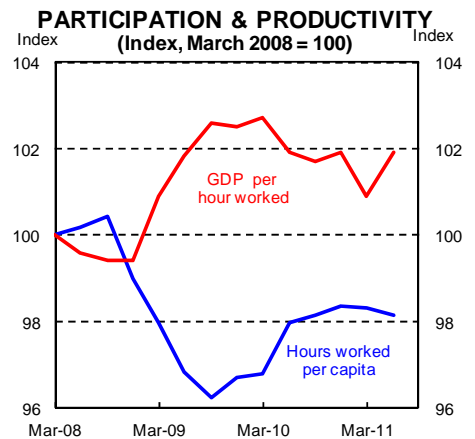
A lift in population, participation, or productivity would enhance the prospects for growth in the non-mining economy.

Mining not the only boom in town.

But the mining boom isn't the only boom the non-mining economy has to contend with over the next few years. There is also a baby boom underway. The number of babies born has risen from 250k in 2004 to 297k in mid-2009. The initial stages of this surge have started to hit the school system. Over coming years, as the number of students swell, there is likely to be a significant increase in education demand.

Surge in births and aged occurring at same time as mining boom.

This boom in births, and soon in education, is coming at a time when growth in new entrants into the workforce is declining. Annual growth in the 15-24 year old cohort has fallen dramatically, reflecting the fall in births from the



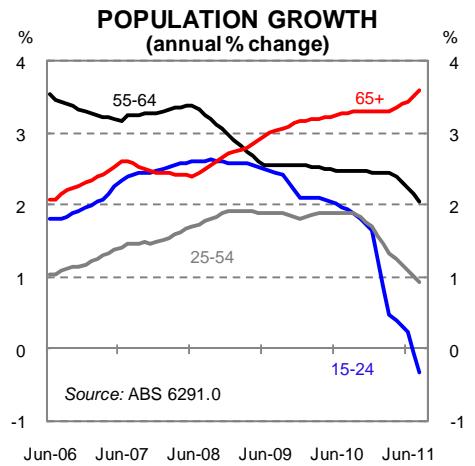


early 1990s. The most rapidly growing section of the population is the 65+ cohort, who is most likely to be reducing working hours as retirement approaches.

Growth in the older cohorts of the population is also placing pressures on the workforce, through increasing demand in the health sector and also in residential aged care.

Triple booms reinforce the need to lift productivity and participation.

At a time of slowing labour force growth (courtesy of demographics) a simultaneous boom in mining, education, health and aged care is likely to pose significant challenges for the economy and government budgets. Hence the increasing emphasis on productivity growth, particularly from the RBA. If migration-driven population growth is unpopular, then the baton falls to policies to enhance participation and productivity. These are harder areas of reform, and the benefits are slow to materialise. Potentially too slow to prevent the economy's triple booms severely crimping growth in the non-mining economy and spilling over into inflationary pressures.



James McIntyres Economist T. +612 9118 1100 E. james.mcintyre@cba.com.au



## New Zealand Economic Perspective

### Fitch and S&P credit rating downgrades

- Fitch Ratings downgraded NZ's sovereign foreign currency rating, followed by S&P eight hours later.
- Both the foreign exchange and bond markets have moved in response to the releases.
- The underlying fundamentals, particularly the influence of the European debt crisis, will soon reassert themselves.

NZ sovereign credit rating downgraded by Fitch Ratings and S&P.

Fitch Ratings downgraded NZ's sovereign foreign currency rating to AA, from AA+ on 30 September. That put Fitch's rating one notch below Standard & Poor's and two below Moody's. Subsequent to Fitch's announcement Moody's reaffirmed its stable outlook for its NZ rating. Fitch also downgraded the local currency rating from AAA to AA+. Eight hours after the Fitch announcement, S&P also cut the NZ long-term foreign rating a notch to AA from AA+, and the long-term local-currency rating to AA+ from AAA. Both S&P ratings are stable.

External indebtedness an ongoing concern.

The common concern of all the credit rating agencies is less the level of (low) government debt but NZ's overall external indebtedness.

NZ's net core Crown debt is only 20.4% of GDP (as at 31 May 2011), and we forecast it to peak at 31%. Gross government debt, currently 37.6%, is expected to peak under 40% of GDP. These figures are a far cry from the ratios of the US and the more solid countries in Europe. But NZ's net international liabilities are 70% of GDP.

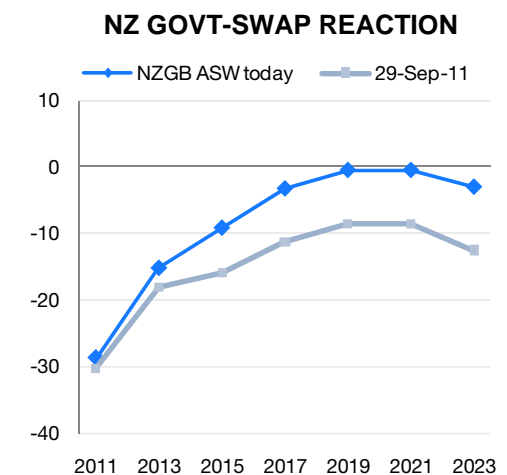
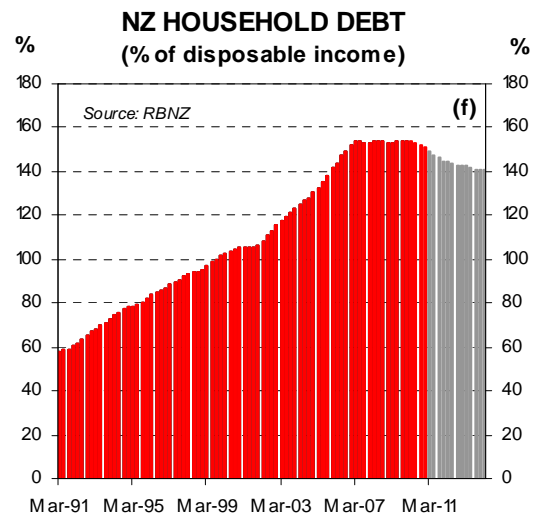
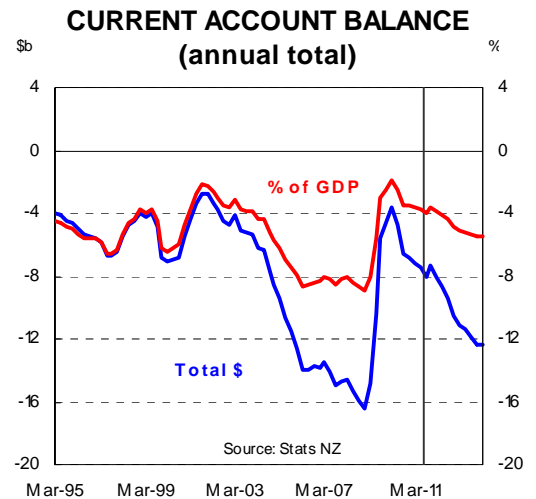
NZ runs a persistent current account deficit.

NZ runs a persistent current account deficit. Currently the ratio is low, at 3.7% of GDP. However, we forecast it to reach 5.5% of GDP in 2013 as domestic recovery gathers more momentum (the same outlook as Fitch). That is on the high side of the 4.9% nominal GDP growth we expect over the next 3 years. As a rule of thumb, if the current account deficit as a ratio of GDP is lower than growth in nominal GDP, then the country is on course for its deficit to gradually reduce over time relative to the size of the economy. If NZ's current account goes back to persistently averaging above 5% of GDP then the country's dependence on foreign creditors (and vulnerability to disruption) would continue to increase.

Structural savings imbalance.

The issue of a structural savings imbalance was a key consideration in Fitch's decision. The agency noted that "the downgrade partly reflects Fitch's view that the sustained shift in the domestic savings/investment ratio required to narrow the [current account] deficit sustainably is unlikely within the forecast period."

NZ households' debt to income has stabilised, but as yet there has been no meaningful reduction as seen in the US and UK.





Fitch noted the Government has introduced policies that will help promote household savings but that “changing deep-seated behaviour is likely to be difficult”. S&P also placed weight on the external liabilities, noting it expects the current account deficit to widen to 6.8% of GDP in 2014. It expects that the levels of indebtedness will weigh on NZ’s growth as households work to reduce debts. It also expects gross government debt to reach 45% of GDP, and noted long-term fiscal challenges with health and retirement provision with an aging population. It noted a number of ameliorating factors, including sound banks and the floating NZD.

We think there has been a household behaviour shift.

Our assessment is there has been a quite change in NZ household behaviour (debt caution and more saving). And, the government part of the equation is set to improve substantially over the next 3-4 years.

#### Impacts of a downgrade

Market impact of downgrades modest in the past.

In the past the immediate reaction to a downgrade has been modest (see appendix). Much of the market movement around a ratings downgrade tends to be in response to the underlying economic environment, e.g. bond yields trend lower for a period in response to weak economic conditions. However, a downgrade in the current environment of uncertainty risks having a bigger impact over time.

The short-term reaction has been for a spike lower in the NZ dollar. However, the currency reaction has been relatively contained, relative to the recent volatility in financial markets. On a trade weighted basis the NZD lost 1.1%, and NZD dropped 1% against the AUD following the credit rating downgrades. The Fitch announcement was made when US markets were open (at 5.30am NZT), so some reaction in the US has already happened. S&P is a larger agency, so more weight may be put on its (subsequent) actions. But a greater driver for financial markets over the remainder of the week will be the data released in the US and any developments in Europe regarding the sovereign debt crisis.

NZD trends already in place.

Historically sovereign ratings downgrades have not tended to change the direction of NZD; the currency has usually carried on with its existing trend. Over the coming weeks, the direction of the NZD is more likely to be driven by global developments. Lower global growth prospects and a paring back of RBNZ rate hike expectations have contributed to the NZD easing over August and September. Global growth threats and the consequent weaker outlook for key commodity prices generate the main downside risk to the NZD, rather than credit ratings. In the current environment, the NZD direction will largely be driven market sentiment regarding global growth threats, and currency movements need to be considered in the current environment of USD strengthening. Despite the current concerns about Europe and US growth, we continue to expect above-trend global growth this year and next. IMF forecasts released this month are consistent with this view. Over the medium term, NZD should find support from improving global sentiment, strength in key export commodity prices, improving GDP growth boosted by the Canterbury rebuild, and re-firming expectations of rate increases from the RBNZ next year. Our medium-term view is that the NZD/USD will move back into the low/mid US\$0.80 mark over 2012.

Global developments dominate bond markets.

The most likely short-term result, and what seems to be playing out, is a modest lift in Government bond yields, more so at the longer end. NZ bonds already have some measure of credit risk priced in them, which would tend to limit the extent of any lift. A similar reaction was seen following the outlook change earlier this year. The yield curve is likely to steepen as short-term rates remain anchored. Beyond the immediate reaction, global trends will dominate. Presently global interest rates (beyond crisis countries) are being kept low by concerns over global growth, and we expect that influence will reassert itself. Longer term, as global yields climb over 2012 and the RBNZ lifts the OCR, we expect NZ 10-year yields will grind back over 5%

In the short term there may be more follow through in financial markets, but we expect the persistent background trends will reassert themselves. Those trends are currently dominated by Europe and the wider global outlook. It is possible over time that Moody’s, now two notches higher than the other rating agencies, also eventually downgrades the sovereign credit rating. However, any reaction is likely to be more muted than what we have seen today. Even with today’s downgrades, NZ government bond yields are currently around 4.4% - well below the 2011 Budget assumption of 5.7% for March 2012. The Pre-election Economic and Fiscal Update, due sometime in October, will take on board recent interest rate trends. It may not be able to take in account the (modest to date) impact on financing costs of the Fitch downgrade, but is still likely to reflect the ability of NZ to raise and service debt at lower yields than the Budget assumed.



**Appendix: Market impacts of past downgrades**

The downgrades in January 1991 (S&P AA to AA-) and September 1998 (Moody's Aa1 to Aa2) are of interest for analysing the impact of a downgrade on financial markets. Earlier downgrades occurred when the economy was very different from today. In particular, the fixed exchange rate and highly regulated nature of the economy in the late 1970s and early 1980s makes the downgrades in those periods less useful for analysis of financial market impacts.

**Market impact of January 1991 downgrade. (S&P AA to AA-)**

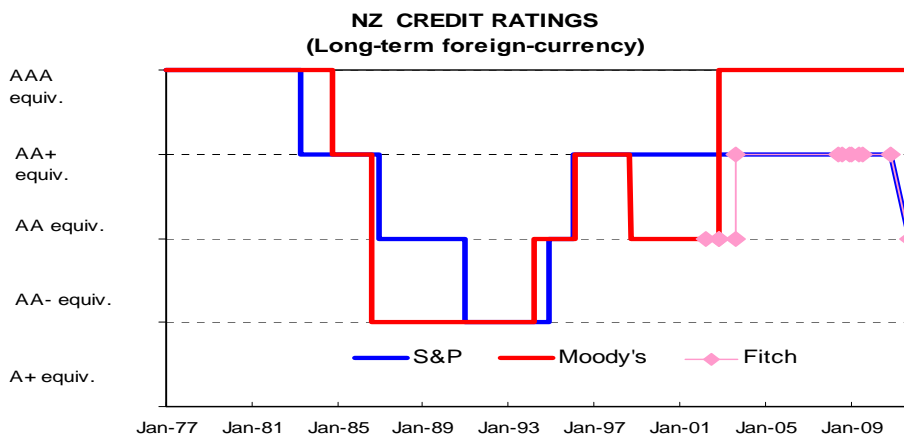
	NZDUSD	NZDAUD	NZ GOVT Bond yield	NZ-US GB spread	NZ-AU GB spread
Year prior	Ave 59.7		12.45%	Ave 3.91%	Ave -0.75
Dec 1990	Ave 59.63	77.44	12.35%	4.28%	0.34%
Jan 1991	Ave 59.46	76.34	12.23%	4.07%	0.18%
Year following	Ave 57.87	74.32	10.10%	2.26%	-0.69

There was no major medium-term reaction in financial markets to the January downgrade. The currency softened slightly, and government bond yields lowered slightly. Note that Government bond yields fell noticeably over the period between 1990 and 1993 as the inflation outlook lowered. The NZD was lower on average in the full year of 1991 compared to 1990.

**Market impact of September 1998 downgrade (Moody's cut to Aa2 on 24/9 & S&P outlook changed to negative on 10/9)**

	NZDUSD	NZDAUD	NZ GOVT Bond yield	NZ-US GB spread	NZ-AU GB spread
Year prior	56.7	86.6	6.65%	1%	0.82%
Aug 1998	50.2	85.1	6.17%	0.87%	0.54%
Sept 1998	50.49	85.8	6.01%	1.20%	0.66%
Year following	53.3	83.28	5.96%	0.76%	0.41%

Bond yields fell on the days of rating changes. The NZD weakened in the period prior to the 1998 downgrade, but actually appreciated after the event against the USD. The NZD was weaker against the AUD in the year after the downgrade. Bond yields were lower in the year after the downgrade, and the spread over US and AU government bonds narrowed.



**Current Credit Ratings and Foreign Currency Credit Rating (Source: New Zealand Debt Management Office, CBA)**

Rating Agency	Current Foreign Currency Rating	Current Domestic Currency Rating
Moody's Investor's Service	Aaa (stable outlook)	Aaa (stable outlook)
Standard and Poor's	AA (stable outlook)	AA+ (stable outlook)
Fitch Ratings	AA (stable outlook)	AA+ (stable outlook)

**Rating comparisons**

Agency	Rating						
Standard & Poor's	AAA	AA+	AA	AA-	A+	A	A-
Moody's	Aaa	Aa1	Aa2	Aa3	A1	A2	A3
Fitch	AAA	AA+	AA	AA-	A+	A	A-



## The Week Ahead

### Calendar - Australasia, Japan and China

Date	Time	Econ	Event	Period	Unit	Last	Forecast	
							Market	CBA
Mon 3 Oct	09:30	AU	Ai Group PMI	Sep	Index	43.3	~	~
	10:50	JN	Tankan large manufacturers index	QIII	Index	-9.0	2.0	~
	10:50	JN	Tankan non-manufacturing	QIII	Index	-5.0	2.0	~
	10:50	JN	Tankan large manufacturing outlook	QIII	Index	2.0	3.0	~
	10:50	JN	Tankan non-manufacturing outlook	QIII	Index	-2.0	2.0	~
	11:00	NZ	ANZ commodity price	Sep	%	-1.2	~	~
	12:00	CH	China non-manufacturing PMI	Sep	Index	57.6	~	~
Tue 4 Oct	~	NZ	NZIER business opinion survey	QIII	Index	27	~	~
	10:50	JN	Monetary base	Sep	y%ch	15.9	~	~
	11:30	AU	Trade balance	Aug	AUD mn	1826	~	~
	11:30	AU	Building approvals	Aug	m%ch y%ch	1.0 -15.0	~	~
	14:30	AU	RBA cash target	Oct	%	4.75	~	4.75
Wed 5 Oct	09:30	AU	CBA/Ai Group Performance of Service Index	Sep	Index	52.1	~	~
	11:30	AU	Retail sales s.a.	AUG	m%ch	0.5	~	~
Fri 7 Oct	~	JN	BOJ target rate	Oct	%	0.1	~	0.1
	09:30	AU	Ai Group PCI	Sep	Index	32.1	~	~
Sat 8 Oct	13:30	CH	China HSBC services PMI	Sep	Index	50.6	~	~

### Calendar – North America & Europe

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

Date	UK Time	Econ	Event	Period	Unit	Last	Forecast	
							Market	CBA
Mon 3 Oct	00:01	UK	Lloyds Business Barometer	Sep	Index	-3.0	~	~
	8:15	SZ	Retail sales (Real)	Aug	y%ch	1.9	~	~
	8:30	SZ	PMI manufacturing	Sep	Index	51.7	50.0	~
	8:55	GE	PMI manufacturing	Sep F	Index	50.0	50.0	~
	9:00	EZ	ECB's Nowotny Speaks at OeNB Conference					
	9:00	EC	PMI manufacturing	Sep F	Index	48.4	48.4	~
	9:30	UK	PMI manufacturing	Sep	Index	49.0	48.8	~
	15:00	US	ISM manufacturing	Sep	Index	50.6	50.5	~
	15:00	US	ISM prices paid	Sep	Index	55.5	54.5	~
	23:00	US	Fed's Lacker speaks in Madison, Wisconsin					
Tue 4 Oct	9:30	UK	PMI construction	Sep	Index	52.6	51.2	~
	10:00	EC	Euro-Zone PPI	Aug	y%ch	6.1	5.7	~
Wed 5 Oct	15:00	US	Fed Chairman Bernanke to testify before JEC					



	15:00	US	Factory orders	Aug	%	2.4	0.2	~
	8:55	GE	PMI services	Sep F	Index	50.3	50.3	~
	9:00	EC	PMI composite	Sep F	Index	49.2	49.2	~
	9:00	EC	PMI services	Sep F	Index	49.1	49.1	~
	9:30	UK	PMI services	Sep F	Index	51.1	50.5	~
	9:30	UK	GDP	QII F	q%ch	0.2	0.2	~
					y%ch	0.7	0.7	~
	10:00	EC	Retail sales	Aug	m%ch	0.3	-0.3	~
	13:15	US	ADP employment change	Sep	'000	91.0	75.0	~
	15:00	US	ISM non-manufacturing composite	Sep	Index	53.3	53.0	~
Thu 6 Oct	8:15	SZ	CPI	Sep	y%ch	0.2	0.3	~
	8:15	SZ	CPI - EU harmonised	Sep	y%ch	-0.3	~	~
	11:00	GE	Factory Orders	Aug	m%ch	-2.8	0.0	~
	12:00	UK	Bank of England Monetary Policy Committee Decision					
	12:00	UK	BOE Asset Purchase Target	Oct	£bn	200.0	200.0	200.0
	12:00	UK	BOE announces rates	Oct	%	0.5	0.5	0.5
	12:45	EC	ECB announces interest rates	Oct	%	1.5	~	~
	13.30	EC	Trichet Speaks at ECB Monthly News Conference					
	13:30	CA	Building Permits	AUG	m%ch	-0.6	~	~
	13:30	US	Initial jobless and continuing claims	Sep	'000	~	~	~
	15:00	CA	Ivey purchasing managers index	Sep	Index	56.4	~	~
Fri 7 Oct	6:45	SZ	Unemployment rate s.a.	Sep	%	3.0	3.0	~
	9:30	UK	PPI output	Sep	y%ch	6.1	6.2	~
	9:30	UK	PPI Output core	Sep	y%ch	3.6	3.7	~
	11:00	GE	Industrial production	Aug	m%ch	4.0	-1.5	~
	12:00	CA	Unemployment rate	Sep	%	7.3	7.3	~
	12:00	CA	Net change in employment	Sep	'000	-5.5	19.5	~
	13:30	US	Change in nonfarm payrolls	Sep	'000	0.0	50.0	~
	13:30	US	Change in private payrolls	Sep	'000	17.0	89.0	~
	13:30	US	Unemployment rate	Sep	%	9.1	9.1	~
	15:00	US	Wholesale inventories	Aug	m%ch	0.8	0.6	~
	15:45	US	Fed's Lockhart speaks on economy in Atlanta					
	20:00	US	Consumer credit	Aug	USD bn	12.0	8.0	~



## Calendar – Key Events To Watch

### Australia and New Zealand

**Tuesday 4 October**

**NZ NZIER Quarterly Survey of Business Opinion, QIII, Index**

- **Headline, (30.9 prev)**
- **Own Activity, (19.8 prev)**

While there has been some easing in headline business confidence seen in monthly business surveys in recent months, businesses' assessment of own activity has held up relatively well. This suggests that the recovery in the NZ economy will gain a firmer footing over the coming year. Nonetheless, the easing in employment and hiring intentions more recently suggests some degree of caution remains. Overall, these activity indicators point to a gradual pick-up in business investment and employment over the coming year.

Pricing intentions will provide useful insight into inflation pressures in the NZ economy. The increase in inflation indicators over the first half of 2011 had started to cause the RBNZ increased discomfort, and while there has been some easing more recently inflation pressures still look elevated.

**Tuesday 4 October**

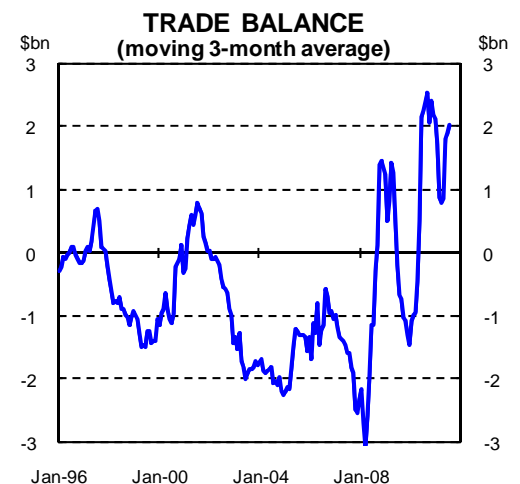
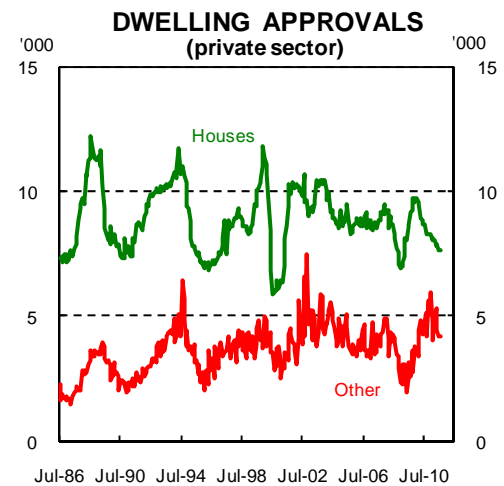
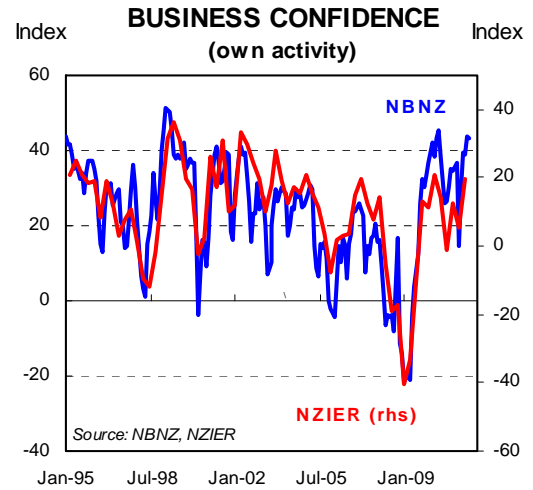
**AU Building Approv., Aug, m/y%ch, (f) 2.0/-14.2 (1.0/-15.0 prev)**

Building approvals rose very modestly in July, but remain well below year ago levels. The decline has been driven by private house, and public dwelling, approvals. There has been some resilience in private 'other' or medium-high density approvals. We expect a further very modest rise in August approvals, driven by a rebound in private approvals following recent weakness. Sentiment remains a challenge, but the uncertainty in global financial markets is keeping interest rates on hold for now. The longer the stable interest rate environment endures, the greater the positive for housing construction activity.

**Tuesday 4 October**

**AU Trade Balance, August, AUD bn, (f) 2.5 (1.83 prev)**

The recovery in Australia's trade balance from the disruption to bulk commodity exports in February is now well entrenched. Surpluses have averaged slightly over \$2bn per month over the past 3 months. On our figuring, an up-tick in the surplus is likely for August. Preliminary imports data show a strong rise in purchases, with consumption and capital goods imports lifting strongly. On the exports side of the ledger, our commodity price index is pointing to a solid lift in prices in August. We expect the impact of firmer prices on export receipts to be boosted by improved export volumes.

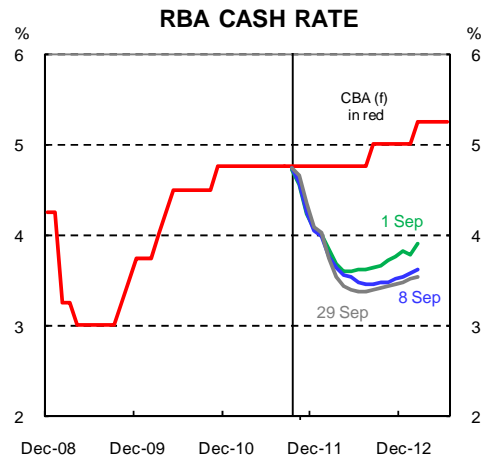




**Tuesday 4 October**

**AU RBA Cash Rate Decision, Oct, %, (f) 4.75 (4.75 prev)**

Market expectations for the RBA remain skewed towards substantial future rate cuts, on account of ongoing uncertainty in global financial markets. Whilst uncertainty remains the status quo, the RBA is likely to remain on hold. The “wait and see” policy. There has been little new information on the impact of the current uncertainty on domestic economic conditions. Indeed, some data, such as job vacancies, points to ongoing resilience in non-mining sectors of the economy. The next major piece of information for the RBA is the QIII CPI figures, which are released in late October. Rebenchmarking of the CPI has increased the weight of several non-traded services which have recently been experiencing large increases in price. With greater weight given to higher inflation items the RBA could find it increasingly difficult to maintain inflation within the 2-3% target band.



**Wednesday 5 October**

**AU Retail Sales, Aug, m/y%ch, (f) 0.5/1.7 (0.5/1.4 prev)**

Retail sales rose by a solid 0.5% in July, driven by strong rises in food and department store sales. Retail sector outcomes have become an increasingly unreliable indicator of the health of overall consumer spending. The QII GDP figures reveal that household spending rose strongly in the quarter, and annual growth has been running at its decade average for the past 6 months. Consumer sentiment weakened considerably in August; however indicators such as the CBA-Ai-Group PSI showed broader service sector, and retail, conditions improved in the month. We expect to see a further modest increase in retail sales in August, though the annual growth rate is likely to remain very weak given recent subdued sales outcomes.





## International

**Monday 3 October**

### JN Tankan Survey, QIII, Index

The Tankan Survey is a quarterly survey of business confidence conducted by the Bank of Japan. The index of sentiment for large manufacturers fell to -9 in QIII from 6 in QII, with the negative reading indicating that pessimists outnumber optimists during the quarter. However, last quarter's survey showed that Japanese companies expected to increase hiring and investment over the year ahead, as the economy recovers from the natural disaster in March. We expect activity to gradually pick up in Japan, as supply-side constraints continue to ease, reconstruction following the tsunami gathers momentum, and Asian demand for Japanese exports remains firm. Weakness in the US and the European Union, which take 27% of Japan's exports, as well as the record strength of the JPY provide offsetting downside risks to exporters. We expect the Tankan survey will improve in QIII, but large manufacturer sentiment may well remain close to zero or negative, given the challenges both within Japan and abroad.

**Monday 3 October**

### UK Manufacturing PMI, Sep, Index, (49.0 prev)

**Wednesday 5 October**

### UK Services PMI, Sep, Index, (51.1 prev)

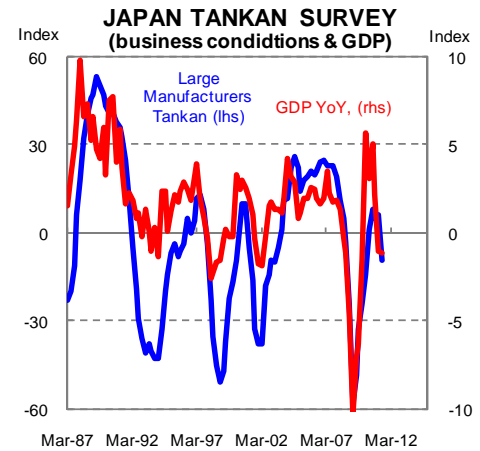
The UK manufacturing PMI held under the 50 mark in August for the second month running suggesting ongoing struggles for the UK manufacturing sector. Official statistics show that UK manufacturing production growth remains subdued at just 2% (YoY).

Perhaps the one positive is that the pace of decline of the index slowed in August. Another small fall looks likely for the September reading and should ensure the first quarterly sub-50 reading since 2009. UK manufacturing output may contract for the quarter as a whole. The services PMI is also likely to slip a touch, but should hold over the 50 mark suggesting ongoing expansion of activity, albeit fairly modest.

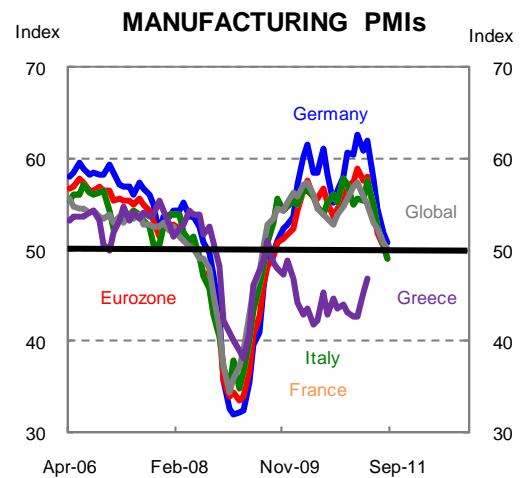
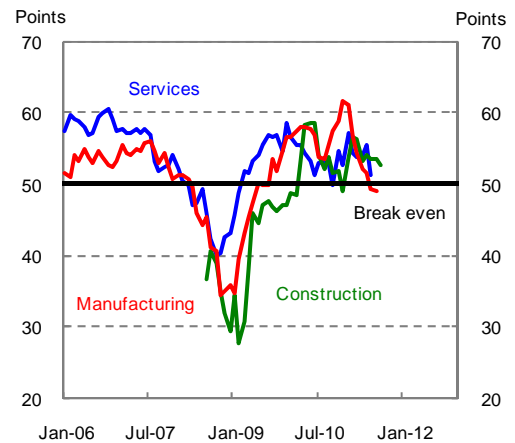
**Monday 3 October**

### EZ Manufacturing PMI, Sep, Index, (48.4 prev)

The final estimates for German, French and Euro-zone manufacturing PMIs do not usually throw up particularly large surprises. The aggregate Euro-zone measure dipped to 48.4 in September, its lowest reading since QIII 2009. The German measure was a little better at 50.0 and continues to provide a more subdued message to the longer running IFO survey which is still holding up relatively well.



### UK PURCHASING MANAGERS' INDEX



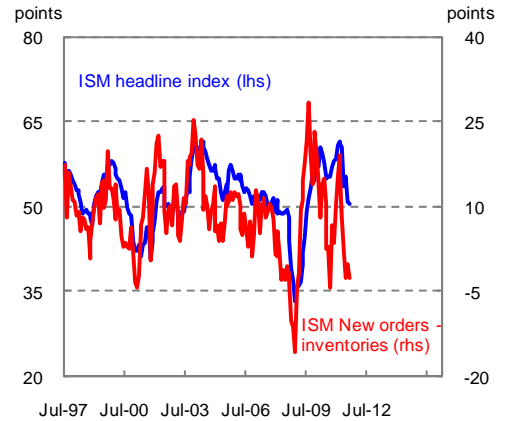


**Monday 3 October**

**US ISM Manufacturing, Sep, Index, (50.6 prev)**

The US manufacturing industry has slowed appreciably in recent months. Demand has been weak. For example, consumer spending on durable goods was lower in July 2011 than in April. By contrast, orders by business for durable goods have increased at a solid clip in recent months. Nevertheless, it appears new orders have not kept up with rising inventories. The upshot is the ISM is likely to fall below 50 for the first time since July 2009. The market reaction is likely to be the typical 'risk-off' with USD higher and government bond yields lower.

**ISM HEADLINE & ISM SPREAD**

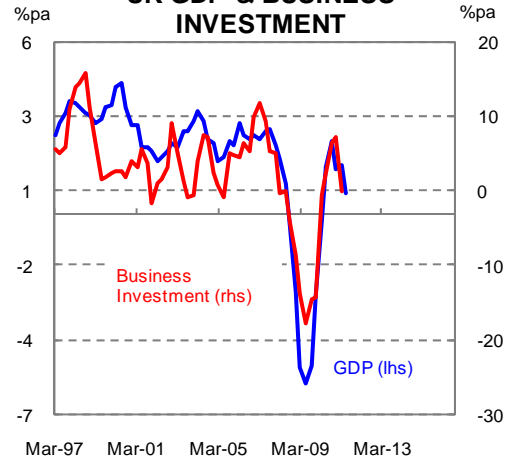


**Wednesday 5 October**

**UK GDP, QII F, q/y%ch, (0.2/0.7 prev)**

Final estimates of QII GDP growth will provide more detail about the breakdown of economic expansion in the UK. The 0.2% quarterly print is not expected to be revised. Rather it will be interesting to what extent the slowdown was driven by weakness of consumer spending. QII numbers were distorted by additional holidays due to the Royal Wedding weekend. Plus of course the VAT hike kicked in QII, while oil prices peaked at over \$125 per barrel in April.

**UK GDP & BUSINESS INVESTMENT**

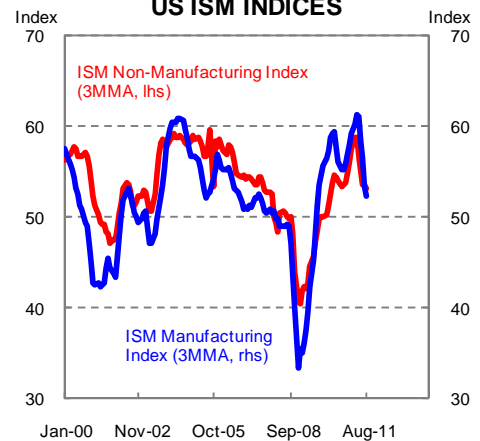


**Wednesday 5 October**

**US ISM Non-Manufacturing, Sep, Index, (53.3 prev)**

The non-manufacturing sectors of the US economy have been stronger than the manufacturing sector. Nevertheless, the non-manufacturing sector has slowed appreciably. In particular, the employment index in the ISM non-manufacturing survey has softened though remains above 50. Inventories have started to increase compared to new orders so a further decrease in the non-manufacturing index is likely in September.

**US ISM INDICES**



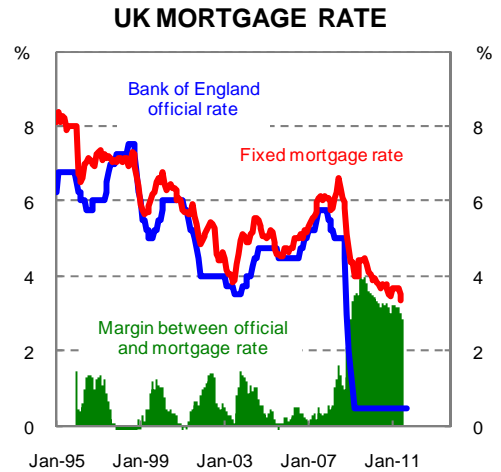


**Thursday 6 October**

**UK Bank of England Announces Rates, Oct, %, (f) 0.5 (0.5 prev)**

The UK Bank of England meeting is more eagerly anticipated than for a long time given the potential for a change in policy. The minutes of the September meeting opened the door wide to further QE from the Bank of England. It appears to be a case of “when” not “if” the MPC decides to expand its asset purchase program. Most members of the MPC believed that an expansion of QE was “increasingly probable.”

We expect a move within the next couple of months, likely by the November MPC meeting and after the new set of Bank of England economic projections is released. But there is a high risk it occurs in October. Economic data has continued to soften since the September Meeting and there is little obvious other reason for the MPC to wait given their stated sentiment. We expect to see a £50bn expansion of asset purchases at some point in QIV.

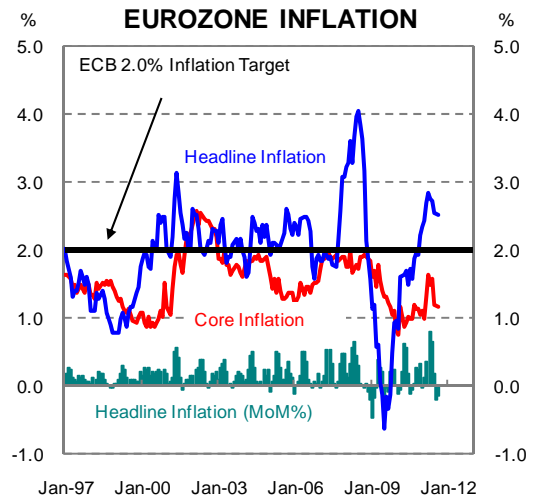


**Thursday 6 October**

**EZ ECB Announces Interest Rates, Oct, %, (f) 1.5 (1.5 prev)**

It is ECB President Trichet’s last meeting in charge of the European Central Bank. But we are expecting no surprises on the monetary policy front and expect the ECB President to announce no change to the refi rate.

Rather any policy action is likely to focus on addition liquidity provision measures such as a new 12-month LTRO to ensure that the European banking system has enough liquidity for its needs. While there may be discussion of the potential need for further monetary policy ease, there has been only limited new information since the ECB changed its stance in early September. If anything, financial market conditions appear to have stabilised a touch over the past month.



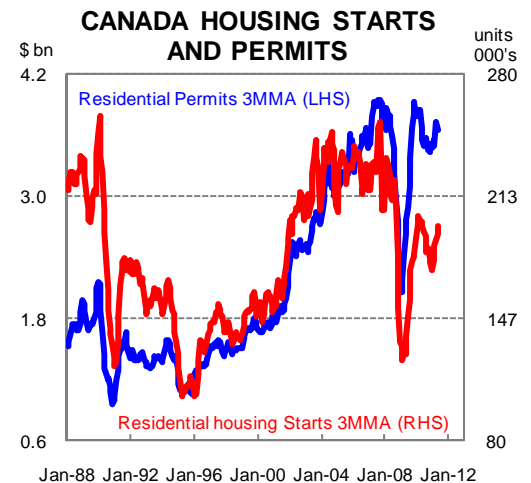
**Thursday 6 October**

**CA Building Permits, Aug, m%ch, (-0.6 prev)**

The value of Canadian building permits fell 0.6% in July to C\$6.6bn, following two months of reasonable gains. Residential permits rose for the third consecutive month in July lifting 2.4%, while non-residential consents fell 4.5% after two months of gains.

The Bank of Canada expects the BoC continues to expect growth will resume in the second half of 2011, led by business investment and household expenditure. The pick up in building consents over the past three months is consistent with this view. However, the recovery in actual housing starts has been more muted, and overall construction remains lower than the levels recorded prior to the global financial crisis.

We expect residential and non residential construction growth to remain low, and accordingly expect only weak growth in the value of building permits over the coming months.



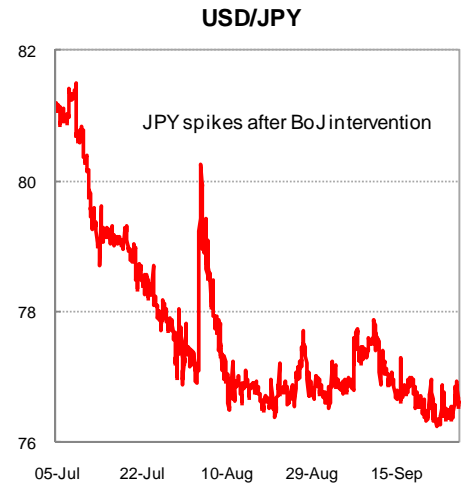


**Friday 7 October**

**JN Bank of Japan Target Rate, %, (f) 0.1 (0.1 prev)**

In September, Bank of Japan (BoJ) policy makers maintained the policy settings from the prior month. The target for the overnight call rate remained 0 to 0.1%, and no change was made to the size of the Asset Purchase Program. After the previous meeting policy makers decided to intervene in the currency market on behalf of the Ministry of Finance to weaken the JPY. However, JPY has remained extremely strong through most of August and September, despite the threat of further intervention.

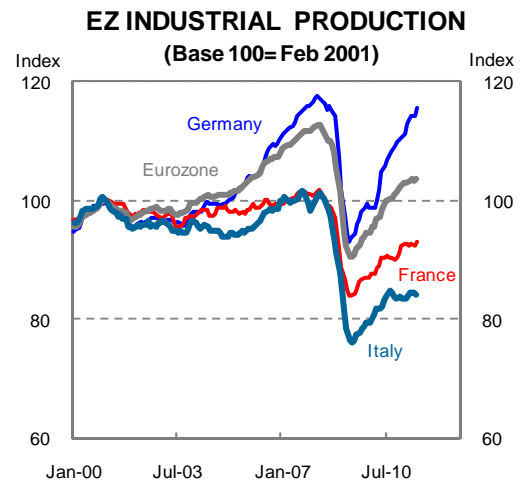
In August the BoJ increased the size of its Asset Purchase Program by JPY 15 trillion to JPY 55 trillion. The BoJ has subsequently been steadily implemented this decision through the purchase of financial assets. The Japanese economy is slowly recovering from the March disaster, but the economy remains fragile. The JPY also remains near record highs. With this backdrop, the chances of further intervention in the currency market and more asset purchases remain high.



**Friday 7 October**

**GE Industrial Production, Sep, m%ch, (4.0 prev)**

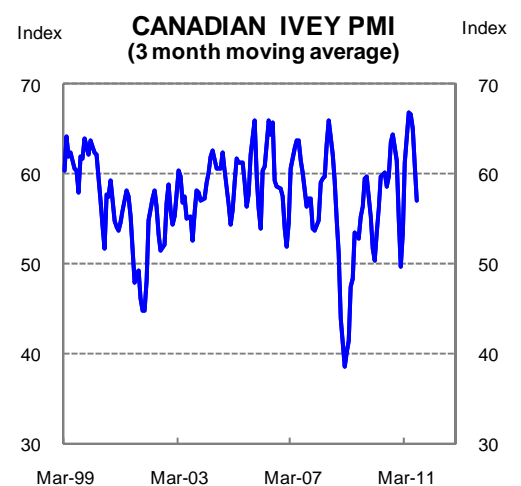
German industrial production jumped by 4.0% (MoM) in July, largely as a result of a later-than-usual start to school summer holidays in much of Germany. Factories ran for longer than is the norm. August numbers should therefore include some payback and suggest that the annual rate of industrial production growth may slip back down to a single digit rate.



**Friday 7 October**

**CA Ivey PMI, Aug, Index, (prev 56.4)**

The Ivey Purchasing Managers Index (PMI) is designed to measure monthly variation in economic by surveying purchasing managers from all over Canada. The Ivey PMI rebounded to 56.4 in August, after a weak reading of 46.8 in July. A reading over 50 points to expansion, while a reading below 50 suggests contraction. The index is quite volatile on a month by month basis, which makes interpretation of monthly readings difficult. The rebound in August is an encouraging sign that activity in Canada picked up after the weak second quarter, but we would need to see several more months of strong readings to be convinced the recovery will be stronger than we currently expect. The three month moving average of the overall index has been declining since May, but continues to indicate expansion, with a reading of 57.1 in August. We expect Canadian growth will pick up from the QII contraction, but expect the pace of growth to be modest. Accordingly, we expect the Ivey PMI may weaken towards readings nearer 50 over the remainder of the year.



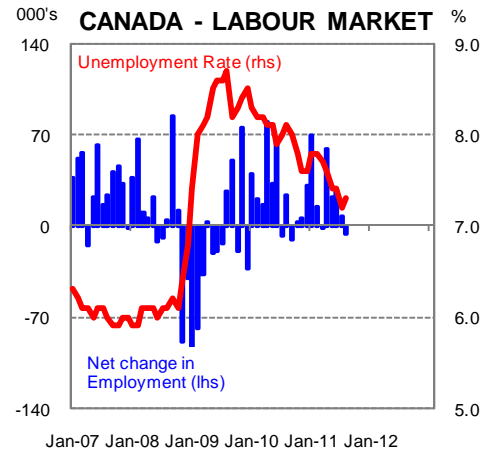


**Friday 7 October**

**CA Net Employment Change, Sep, '000, (-5.5 prev)**

**CA Unemployment Rate, Sep, %, (7.3 prev)**

Employment in Canada unexpectedly fell by 5,500 in August, as full-time employment rose 25,700 while part-time employment fell by 31,200. The slip in employment was the first in five months, and saw the unemployment rate tick up from 7.2% to 7.3%. Driving the drop in employment was job losses of 24,300 in the construction sector. A further 11,500 job losses occurred from natural resources firms. Providing an offset to these job losses were gains in manufacturing and service sector employment. We expect the labour market will remain weak over the coming months. Risks to the Canadian economy are largely external, but are heavily to the downside. The export sector outlook is vulnerable, due to the heavy exposure to the US economy. There is also risk that the strong growth in services employment eases over the coming months. We expect private consumption, which accounts for 63% of Canadian GDP, continues to grow only modestly in the months ahead.



**Friday 7 October**

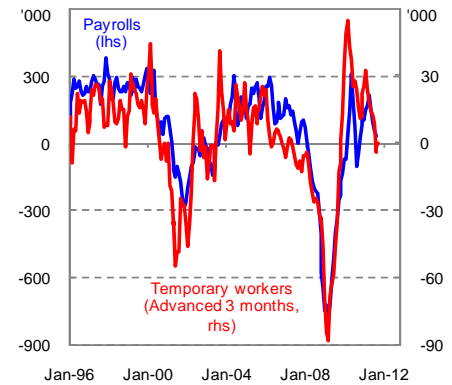
**US Change in Nonfarm Payrolls, Sep, '000, (0 prev)**

**US Change in Private Payrolls, Sep, '000, (17 prev)**

**US Unemployment Rate, Sep, %, (9.1 prev)**

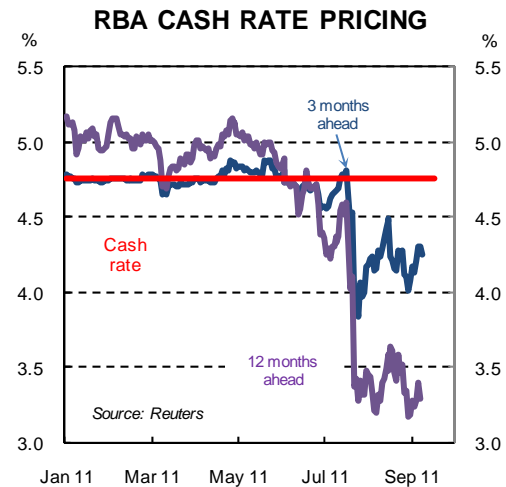
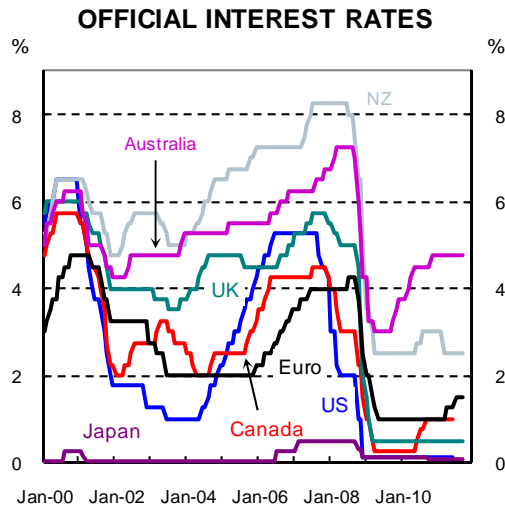
Expectations for the September payrolls report are low. We agree. Jobless claims increased during the survey week. Also, employers have not added extra temporary workers over the past three months. Temporary employment is a useful leading indicator of total employment. Another influence bearing down on total employment is the poor budget position of US state and local governments that have forced steep job cuts. We would not be surprised if employment stalled again in September.

**US LABOUR MARKET INDICATORS  
 (3-month moving average)**





## Monetary Policy



Country	Last Move	Next Meeting and Forecast	CBA View								
Australia (RBA)	25bpt rise to 4.75% on 7 November 2010.	<p>■ 4 October, 2011</p> <table border="1"> <thead> <tr> <th>Sep '11</th> <th>Dec '11</th> <th>Mar '12</th> <th>Jun '12</th> </tr> </thead> <tbody> <tr> <td>4.75%</td> <td>4.75%</td> <td>5.00%</td> <td>5.00%</td> </tr> </tbody> </table>	Sep '11	Dec '11	Mar '12	Jun '12	4.75%	4.75%	5.00%	5.00%	The QII CPI confirmed the inflation trend has turned up. Rate rises are likely. We expect a rate rise in February. The cash rate is expected to reach 5.50% by 2013.
Sep '11	Dec '11	Mar '12	Jun '12								
4.75%	4.75%	5.00%	5.00%								
US (FOMC)	75-100bpt cut to 0-0.25% on 16 December 2008.	<p>■ 2 November, 2011</p> <table border="1"> <thead> <tr> <th>Sep '11</th> <th>Dec '11</th> <th>Mar '12</th> <th>Jun '12</th> </tr> </thead> <tbody> <tr> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> </tr> </tbody> </table>	Sep '11	Dec '11	Mar '12	Jun '12	0-0.25%	0-0.25%	0-0.25%	0-0.25%	Given the loss of momentum in the US economy, particularly in the labour market, we expect the Fed to maintain the size of its balance sheet until early 2013. The first Fed funds hike is not expected until mid 2013.
Sep '11	Dec '11	Mar '12	Jun '12								
0-0.25%	0-0.25%	0-0.25%	0-0.25%								
Eurozone (ECB)	25bpt rise to 1.50% on 7 July 2011.	<p>■ 6 October, 2011</p> <table border="1"> <thead> <tr> <th>Sep '11</th> <th>Dec '11</th> <th>Mar '12</th> <th>Jun '12</th> </tr> </thead> <tbody> <tr> <td>1.50%</td> <td>1.50%</td> <td>1.50%</td> <td>1.75%</td> </tr> </tbody> </table>	Sep '11	Dec '11	Mar '12	Jun '12	1.50%	1.50%	1.50%	1.75%	The recent deterioration in Eurozone economic indicators suggests that the ECB will pause its process of monetary policy normalisation. We expect the ECB to remain on hold until QII 2012.
Sep '11	Dec '11	Mar '12	Jun '12								
1.50%	1.50%	1.50%	1.75%								
UK (MPC)	50bpt cut to 0.5% on 5 March 2009.	<p>■ 6 October, 2011</p> <table border="1"> <thead> <tr> <th>Sep '11</th> <th>Dec '11</th> <th>Mar '12</th> <th>Jun '12</th> </tr> </thead> <tbody> <tr> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> </tr> </tbody> </table>	Sep '11	Dec '11	Mar '12	Jun '12	0.50%	0.50%	0.50%	0.50%	Ongoing deterioration in the UK economy suggests that another round of QE is likely. We expect a GBP50bn expansion of the asset purchase program in QIV 2011, possibly as early as October.
Sep '11	Dec '11	Mar '12	Jun '12								
0.50%	0.50%	0.50%	0.50%								
NZ (RBNZ)	50bpt cut to 2.5% on 10 March.	<p>■ 27 October, 2011</p> <table border="1"> <thead> <tr> <th>Sep '11</th> <th>Dec '11</th> <th>Mar '12</th> <th>Jun '12</th> </tr> </thead> <tbody> <tr> <td>2.50%</td> <td>2.50%</td> <td>3.00%</td> <td>3.50%</td> </tr> </tbody> </table>	Sep '11	Dec '11	Mar '12	Jun '12	2.50%	2.50%	3.00%	3.50%	The escalating debt crisis in Eurozone is dominating the RBNZ's outlook, and we expect the RBNZ will leave the OCR on hold until March next year. We expect a 50bpt OCR increase in March.
Sep '11	Dec '11	Mar '12	Jun '12								
2.50%	2.50%	3.00%	3.50%								
Canada (BoC)	25bpt rise to 1.00% on 8 September 2010.	<p>■ 25 October, 2011</p> <table border="1"> <thead> <tr> <th>Sep '11</th> <th>Dec '11</th> <th>Mar '12</th> <th>Jun '12</th> </tr> </thead> <tbody> <tr> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> <td>1.25%</td> </tr> </tbody> </table>	Sep '11	Dec '11	Mar '12	Jun '12	1.00%	1.00%	1.00%	1.25%	Softness in the US economy is likely to effect the Canadian economy given the strong trade ties. We expect the BoC to remain on hold until mid 2012 before it embarks on a slow and steady removal of policy accommodation.
Sep '11	Dec '11	Mar '12	Jun '12								
1.00%	1.00%	1.00%	1.25%								
Japan (BoJ)	0-10bpt cut to 0-0.1% on 5 October 2010.	<p>■ 7 October, 2011</p> <table border="1"> <thead> <tr> <th>Sep '11</th> <th>Dec '11</th> <th>Mar '12</th> <th>Jun '12</th> </tr> </thead> <tbody> <tr> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> <td>0-0.10%</td> </tr> </tbody> </table>	Sep '11	Dec '11	Mar '12	Jun '12	0-0.10%	0-0.10%	0-0.10%	0-0.10%	In response to the recent natural disasters, the Bank of Japan has implemented further quantitative easing measures. Monetary policy in Japan is likely to remain accommodative for some time.
Sep '11	Dec '11	Mar '12	Jun '12								
0-0.10%	0-0.10%	0-0.10%	0-0.10%								



## Forecasts - Economic

	Fiscal Years						Calendar Years						
	2007/08 (a)	2008/09 (a)	2009/10 (a)	2010/11 (a)	2011/12 (f)	2012/13 (f)	2006 (a)	2007 (a)	2008 (a)	2009 (a)	2010 (a)	2011 (f)	2012 (f)
<b>Economic Activity</b>													
<b>Private final demand</b>	<b>6.4</b>	<b>0.1</b>	<b>0.8</b>	<b>3.5</b>	<b>4.8</b>	<b>5.2</b>	<b>3.6</b>	<b>7.1</b>	<b>3.1</b>	<b>-0.7</b>	<b>2.2</b>	<b>4.6</b>	<b>5.0</b>
<i>Of which: Household spending</i>	4.7	0.2	2.1	3.3	2.8	3.1	3.4	5.5	1.9	1.0	2.8	3.1	2.9
Dwelling investment	1.2	-1.9	2.1	2.6	2.2	-1.1	-3.0	3.0	2.1	-4.2	4.2	3.3	0.0
Business investment	15.8	1.4	-4.9	6.2	13.4	14.2	8.5	16.1	9.6	-5.4	-0.1	11.6	14.1
<b>Public final demand</b>	<b>4.2</b>	<b>3.6</b>	<b>6.7</b>	<b>4.5</b>	<b>1.5</b>	<b>-0.1</b>	<b>3.7</b>	<b>3.4</b>	<b>6.3</b>	<b>1.8</b>	<b>9.1</b>	<b>1.8</b>	<b>0.5</b>
<b>Domestic final demand</b>	<b>5.9</b>	<b>0.9</b>	<b>2.1</b>	<b>3.8</b>	<b>4.0</b>	<b>4.0</b>	<b>3.7</b>	<b>6.3</b>	<b>3.8</b>	<b>-0.1</b>	<b>3.8</b>	<b>3.9</b>	<b>3.9</b>
Inventories (contrib to GDP)	0.0	-0.4	0.3	0.4	-0.2	0.1	-0.4	0.6	-0.3	-0.4	0.4	0.4	-0.3
<b>GNE</b>	<b>5.9</b>	<b>0.4</b>	<b>2.4</b>	<b>4.1</b>	<b>3.8</b>	<b>4.0</b>	<b>3.2</b>	<b>6.9</b>	<b>3.5</b>	<b>-0.5</b>	<b>4.2</b>	<b>4.2</b>	<b>3.6</b>
Exports	4.0	2.6	5.3	0.2	8.3	7.6	2.2	2.4	4.7	2.6	5.7	-0.1	10.4
Imports	14.6	-3.3	5.1	10.7	9.3	8.6	6.9	12.2	11.5	-9.0	13.7	10.1	8.6
<i>Net exports (contrib to GDP)</i>	-2.1	1.4	0.1	-2.4	-0.4	-0.4	-0.9	-2.0	-1.5	2.7	-1.6	-2.4	0.0
<b>GDP</b>	<b>3.8</b>	<b>1.4</b>	<b>2.3</b>	<b>1.9</b>	<b>3.5</b>	<b>3.7</b>	<b>2.6</b>	<b>4.6</b>	<b>2.6</b>	<b>1.4</b>	<b>2.7</b>	<b>2.0</b>	<b>4.0</b>
<b>Prices &amp; Wages</b>													
<b>CPI</b>	<b>3.4</b>	<b>3.1</b>	<b>2.3</b>	<b>3.1</b>	<b>2.9</b>	<b>3.1</b>	<b>3.5</b>	<b>2.3</b>	<b>4.4</b>	<b>1.8</b>	<b>2.8</b>	<b>3.3</b>	<b>2.9</b>
Underlying CPI	3.7	4.3	3.1	2.4	3.2	3.2	2.8	2.9	4.4	3.7	2.5	2.8	3.2
AWOTE	4.9	5.5	5.6	4.2	4.8	3.9	3.4	4.8	4.8	5.7	4.9	4.5	4.2
<b>WPI</b>	<b>4.1</b>	<b>4.1</b>	<b>3.0</b>	<b>3.8</b>	<b>4.0</b>	<b>3.9</b>	<b>4.1</b>	<b>4.0</b>	<b>4.2</b>	<b>3.6</b>	<b>3.3</b>	<b>3.9</b>	<b>4.0</b>
Real h/hold disposable income	3.0	8.6	0.9	5.2	2.9	2.8	5.6	6.3	4.9	5.8	2.1	4.8	2.4
<b>Labour Market</b>													
Employment	3.0	1.6	1.4	2.9	0.9	1.8	2.6	3.1	2.8	0.7	2.7	1.8	1.2
Unemployment rate	4.2	4.9	5.5	5.1	5.2	5.0	4.8	4.4	4.3	5.6	5.2	5.1	5.2
<b>External Accounts</b>													
<b>Current Account: \$bn</b>	<b>-74.5</b>	<b>-38.5</b>	<b>-53.4</b>	<b>-33.8</b>	<b>-21.6</b>	<b>-23.1</b>	<b>-55.2</b>	<b>-70.3</b>	<b>-55.3</b>	<b>-52.9</b>	<b>-36.0</b>	<b>-29.6</b>	<b>-21.5</b>
% of GDP	-6.3	-3.1	-4.2	-2.4	-1.4	-1.4	-5.3	-6.2	-4.5	-4.2	-2.7	-2.1	-1.4



## 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
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	4.93	5.01	5.07	5.49	1.03	83.1	1.42	1.60	0.76
Jun-11	4.75	5.03	5.07	4.78	5.21	1.07	80.6	1.45	1.61	0.83
Sep-11	4.75	4.80	4.70	3.80	4.40	0.98	76.3	1.35	1.54	0.78
Dec-11	4.75	4.90	5.00	4.50	4.70	1.04	77.0	1.39	1.60	0.82
Mar-12	5.00	5.10	5.20	4.65	4.70	1.07	77.0	1.43	1.62	0.83
Jun-12	5.00	5.20	5.30	4.90	4.80	1.08	77.0	1.44	1.64	0.84
Sep-12	5.25	5.40	5.50	5.05	4.90	1.08	78.0	1.44	1.64	0.84
Dec-12	5.25	5.50	5.60	5.15	5.00	1.08	79.0	1.43	1.62	0.84

Forecast

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

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

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

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

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

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

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

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

## Economics: Perspective

## 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
Paul Hodsmen, CFA	Mining & Energy Commodities	+613 9675 8532	paul.hodsmen@cba.com.au
Elise Aaternir	Mining & Energy Commodities	+613 9675 6202	elise.aaternir@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
Steve Shoobert	Credit Research Analyst	+612 9118 1096	steve.shoobert@cba.com.au
Winnie Chee	Securitized Product	+612 9118 1104	winnie.chee@cba.com.au
Tally Dewan	Quantitative Analyst	+612 9118 1105	tally.dewan@cba.com.au
Kevin Ward	Database Manager	+612 9118 1960	kevin.ward@cba.com.au

Foreign Exchange and International Economics		Telephone	Email Address
Richard Grace	Chief Currency Strategist & Head of International Economics	+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
Chris Tennent-Brown	FX Economist	+612 9117 1378	chris.tennent.brown@cba.com.au
Martin McMahon	Economist Europe	+44 20 7710 3918	martin.mcmahon@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
Nick Tuffley	ASB Chief Economist	+649 301 5659	nick.tuffley@asb.co.nz
Jane Turner	Economist	+649 301 5660	jane.turner@asb.co.nz
Christina Leung	Economist	+649 301 5661	christina.leung@asb.co.nz

## Sales

Institutional	Telephone	Equities	Telephone
Syd FX	+612 9117 0190	Syd	+612 9118 1446
	+612 9117 0341	Asia	+613 9675 6967
Credit	+612 9117 0020	Lon/Eu	+44 20 7710 3573
Japan Desk	+612 9117 0025	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495	<b>Corporate</b>	<b>Telephone</b>
	+613 9675 6618	NSW	+612 9117 0377
	+613 9675 7757	VIC	+612 9675 7737
Lon FX	+44 20 7329 6266	SA	+618 8206 4155
Debt & Derivatives	+44 20 7329 6444	WA	+618 9482 6044
Corporate	+44 20 7710 3905	QLD	+617 3015 4525
HK	+852 2844 7538	NZ	+64 9375 5738
Sing	+65 6349 7077	Metals Desk	+612 9117 0069
NY	+1212 336 7739	Agri Desk (Corp)	+612 9117 0157
		Agri Desk	+612 9117 0145