

## US markets closed. EU shares rose, AUD at USD1.02.

**The euro zone purchasing managers index rose from 46.4 to 46.9 in December.** The French index rose from 47.3 to 48.9 and the German index lifted from 47.9 to 48.4. In figures released on Sunday the official Chinese manufacturing index rose from 49.0 to 50.3 in December.

**European shares posted strong gains** for the first trading session of 2012 with defensive sectors leading the way. On Monday the FTSEurofirst index rose by 1.1pct with the German Dax up 3.0pct with the French CAC40 up 2.0pct. Solid gains were also recorded in Spanish and Portuguese markets.

**US sharemarkets were closed** for trade on Monday. On Friday US sharemarkets finished trade slightly lower in thin trade with most investors reflecting on the past year. At the close of trade, the Dow Jones was lower by 69 points or 0.6pct. The S&P 500 was down 0.4pct, and the Nasdaq was down 8.6 points or 0.3pct. Over the year the Dow Jones rose by 5.5pct, underpinned by a 31pct gain by McDonalds. The S&P 500 was flat over 2011 and the Nasdaq lost 1.8pct.

**US treasury prices rose** in a shortened trading session on Friday (yields lower). US 2yr yields fell by 2pts to 0.247pct and US 10yr yields fell by 10pts to 1.876pct. US bond yields closed 2011 close to the lowest levels on record and the government bond market was one of the best performers of asset markets in 2011. The Barclays Capital US treasury index rose by 9.7pct over the year.

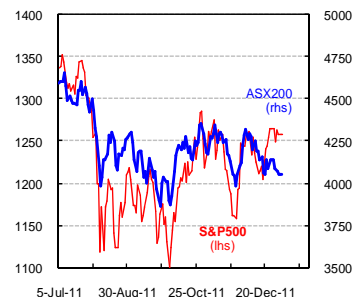
**The US dollar was mixed** against major currencies in thin trade on Monday. The Euro eased from highs near US\$1.2960 to around US\$1.2920 and was near US\$1.2925 in early Australasian trade. The Aussie dollar held between US102.00c to US102.35c, and was around US102.25c in early Australian trade. **The Aussie is at fresh 22-year highs against the euro.** And the Japanese yen held between 76.87 yen per US dollar and JPY76.99, and is currently near JPY76.87.

**World crude oil prices fell** on Friday as investors responded to only a modest rise in the HSBC gauge of Chinese manufacturing activity. The official gauge of Chinese manufacturing was released on Sunday and showed a firmer increase from 49.0 to 50.3. On Friday Nymex crude oil fell by US82c to US\$98.83 /bbl and London Brent crude fell by US63c to US\$107.38/bbl. The Brent price rose 13.3% in 2011.

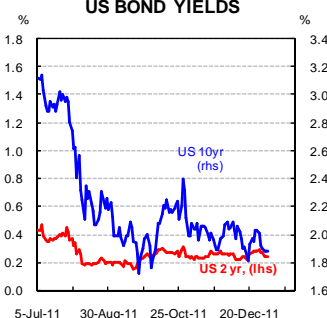
**Base metal prices posted healthy gains** on the London Metals Exchange on Friday in an otherwise downbeat year. Metals rose between 0.6-3.0pct on Friday but were generally down around 20pct over 2011. Nickel lifted 3.0pct on Friday with copper up 2.4pct. And the gold price rose for the first time in seven sessions on Friday with the Comex February gold price higher by US\$25.90 or 1.7pct to US\$1,566.80 an ounce. Over 2011 the gold price rose by 10pct - the smallest gain in three years.

**Ahead:** In Australia, the Performance of Manufacturing index is released. In the US, the ISM manufacturing gauge and construction spending data are released.

### S&P 500 & ASX200



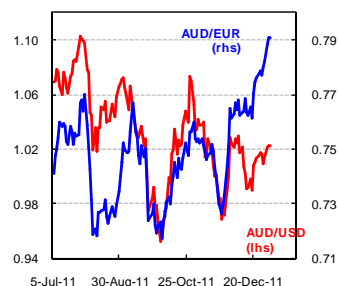
### US BOND YIELDS



### USD/JPY & EUR/USD



### AUD/USD & AUD/EUR



Currencies			10 Yr Bond Yields (%)			Commodities			Equities		
AUD/USD	1.0209	0.7%	Australia	3.31	-0.03	CRB Index	305.3	0.2%	Dow	12,218	-0.6%
NZD/USD	0.7772	0.8%	NZ	3.81	-0.01	Aluminium \$/t	1995	1.04%	S&P 500	1,258	-0.4%
EUR/USD	1.2961	0.0%	US	1.88	-0.02	Copper \$/t	7590	2.38%	NASDAQ	2,605	-0.3%
USD/JPY	76.91	-0.9%	AU less US	1.44		Lead \$/t	2011	1.80%	FTSE	5,572	0.1%
GBP/USD	1.5543	0.8%	NZ less US	1.94		Nickel \$/t	18724	2.99%	Shanghai	2,199	1.2%
USD/CHF	0.9381	-0.2%	<b>AUD Swap Rates (%)</b>			Zinc \$/t	1827	0.63%	H.Seng	18,434	0.2%
AUD/NZD	1.3133	-0.1%	3mth	4.48	0.01	Gold \$/o	1563.7	1.1%	Nikkei	8,455	0.7%
AUD/JPY	78.43	-0.3%	3yr	3.97	0.06	WTI Oil \$/b	98.83	-0.8%	ASX200	4,057	-0.4%
AUD/EUR	0.7879	0.8%	5yr	4.30	0.01				NZSX50	3,275	0.9%

Source: Bloomberg at 7am.

**Michael Workman** Senior Economist T. +612 9118 1019 E. michael.workman@cba.com.au



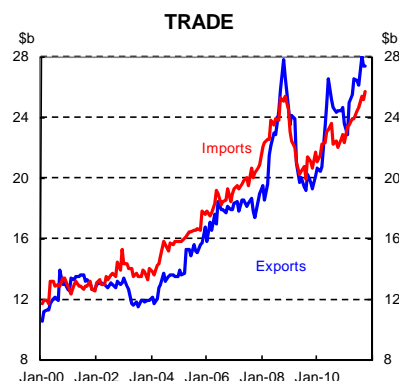
## Economics: Preview AUSTRALIA & NEW ZEALAND

The next major economic release in New Zealand is next Monday's November Trade balance.

### Thursday 5 January

#### AU Trade Balance, Nov, AUD bn, (f) 2.0, (1.6 prev)

Whilst the October trade balance fell to \$1.6bn, Australia's trade story is still positive. Export growth remains strong, but is likely to head lower through 2012. Capital goods imports reported a record result in October and we predict this strength to continue, driven by demand from large capital intensive LNG projects. We expect a marginal rise in imports for November. The CBA Commodity price index, which is a good leading indicator of export prices was strong over November and lifted more than the preliminary import data. We expect firmer export prices to reflect positively on export receipts.

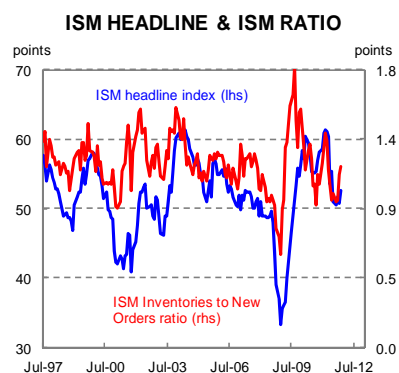


## Economics: Preview INTERNATIONAL

### Tuesday 3 January

#### US ISM Manufacturing, Dec, Index, (52.7 prev)

The US ISM manufacturing index has ticked up in recent months. The US factory sector appears to be improving. The ISM inventories to new orders ratio suggests that some further modest gains in the ISM manufacturing index are likely in the near-term. The recent lift in a number of the regional manufacturing surveys also points to further gains in the ISM survey. But a substantial and sharp turnaround in the ISM appears unlikely, given the backdrop of the public debt issues in Europe, the fears of a possible financial credit crunch and the continued headwinds in various parts of the US economy, namely the fiscal situation and the depressed housing market.



### Overnight in the US.

No major data. Markets were closed. **Oil markets are watching events in the Strait of Hormuz.** Iran has threatened to close the region to oil exports (which account for about one third of global supply) if the EU proceeds with economic sanctions (including an oil embargo) against Iran.

### Overnight in Europe.

**The euro zone purchasing managers index rose from 46.4 to 46.9 in December.** The French index rose from 47.3 to 48.9 and the German index lifted from 47.9 to 48.4.

**Italy's debt position remains a major concern for financial markets.** On 29 December, Italy sold €7.07 bn of 3 and 10 year government bonds. That was below the target level of €8.5 bn. Italy's short-term borrowing costs eased in the wake of the ECB's 3 year refinancing operation of bank debt (at 1%pa). But the crucial long-term borrowing costs were close to an unsustainable 7%. On 28 December, Italy issued 6 month bills at an average yield of 3.25%, which was well below the 6.5% yield paid in November. Spain's fiscal deficit is now expected to be 8% of GDP in 2011.

### In Asia.

**In China, on Sunday,** the official Chinese manufacturing index rose from 49.0 to 50.3 in December. It indicates a mild level of expansion. Some private sector indicators are saying conditions are weaker than the official figures.

**South Korea's current account surplus** surged to a 13 month high of US\$5bn in November. The surplus is well above its US\$2.02bn level of a year ago. The annual surplus is US\$24bn.

### Tuesday 3 Jan

AU AI-Group PMI, Dec, Index, (47.8)  
CH Non-Manuf PMI Dec, Index, (49.7)  
UK PMI manufacturing, Dec, Index, (47.6)  
US Construction spending, Nov, m%ch, (0.8)  
US ISM manufacturing, Dec, Index, (52.7)  
US FOMC Minutes

### Wednesday 4 Jan

EU PMI services/composite, Dec, Index, (48.3/47.9)  
GE PMI services, Dec, Index, (52.7)  
UK PMI construction, Dec, Index, (52.3)  
UK Net consumer credit, Nov, £bn, (0.0)  
US Factory orders, Nov, m%ch, (-0.4)  
US Total vehicle sales, Dec, mn, (13.6)

### Thursday 5 Jan

AU CBA/AI-Group Perf of Serv Index, Dec, (47.7)  
AU HIA new home sales Nov, m%ch, (5.5)  
AU Trade balance Nov, \$bn, 2.0, (1.6)  
EU Industrial new orders, Oct, y%ch, (1.6)  
EU PPI, Nov, m/y%ch, (0.1/5.5)  
US ISM non-manufacturing, Dec, Index, (52)



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## Research

Commodities		Telephone	Email Address
Luke Mathews	Agri Commodities	+612 9118 1098	luke.mathews@cba.com.au
Lachlan Shaw	Mining & Energy Commodities	+613 9675 8618	lachlan.shaw@cba.com.au
Paul Hodsmen, CFA	Mining & Energy Commodities	+613 9675 8532	paul.hodsmen@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
Diana Mousina	Associate Economist	+612 9118 6394	diana.mousina@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 McMahan	Economist Europe	+44 20 7710 3918	martin.mcmahan@cba.com.au

Delivery Channels & Publications		Telephone	Email Address
Monica Eley	Internet/Intranet	+612 9118 1097	monica.eley@cba.com.au
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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
Daniel Smith	Economist	+649 301 5853	daniel.smith@asb.co.nz

## Sales

Institutional	Telephone	Equities	Telephone
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