Global Markets Research

Fixed Income: Weekly Strategy

7 September 2011

Revisiting bond & swap views as central banks become more dovish

- European Sovereigns and Banks both made hard work of last week as volatility resurfaced.
- We pushed back our RBA rate-hike forecasts late last week and lower our bond forecasts today.
- The roll is approaching. We examine the roll's impact on spreads and EFPs and exit our 3Y/10Y box trade.

There was important news everywhere you looked this past week. , Most of it reinforced the existing storylines though. The US economy is weak, Europe's Sovereigns are of questionable solvency and its financial structure is under severe strain. The Australian economy is better than most give it credit for and no-one appears to be listening to the RBA.

In the US, Payrolls was 0K. Not as in OK, but as in not OK. There was literally no change in the payrolls reported for the US economy in August. This poor result reinforced a substantial rally. US 10Y bond yields dropped below 2% for a couple of days, before drifting higher this week. Since last Monday, the 10Y US bond has rallied 17bp to 2.03%. The 2Y bond has actually sold-off by 1bp, to 0.21%.

In Europe, the relative stability of the Italian and Spanish bonds shattered and spreads widened sharply. The European experience has been one of grand plans, but delivery is proving a lot more complicated. The Italian plan to balance their budget has changed repeatedly and so damaged confidence about the plan's implementation. Greece managed to force its way back into the headlines, too, which is never a good development. Rumblings about Greece providing collateral to Finland were eventually quashed. However, the "troika" of institutions (the ECB, EU and IMF) that judge whether or not Greece has fulfilled their obligation were none too pleased with a failure to meet targets. European bank shares fell sharply on Monday night, too, just to add to the general air of concern. European bank credit spreads moved wider. The SNB introduced a floor under the CHF, too.

Seen against this background, the Australian data has been very strong. Retail Sales rose a more-than-expected 0.5% in July and GDP was much higher than expected at +1.2% in Q2 (+1.4% on the year). The RBA have also been "active" in leaving rates poignantly unchanged on Tuesday. The accompanying statement and the Governor's speech today both retreated from August's consideration of rate hikes, but gave no indication rate cuts are imminent. The market continues to price more than 100bp of rate cuts from the RBA in the next year.

The Australian market took the lead from international concern. The strong data helped widen 10Y AUS-US spreads, but only tempered the rally. Since last Monday, 3Y bond yields are 6bp lower and the 10Y has rallied 10bp (the rally was much larger before today's speech and data).

Our economists have moderated forecast RBA tightening and we today tweak our Australian bond forecasts as a result. We also take the opportunity to lower our US and European bond forecasts, too (page 3).

The Australian market is gearing up for the roll next week. Alex Stanley reviews our EFP positions in the light of the roll and the European spread widening in his article on page 6. Philip Brown discusses the roll itself on page 10 and concludes it is likely to be very volatile.

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Main revisions to the bond forecasts

	Now	Sep 2011	Dec 2011	Jun 2012
Official Cash	4.75	4.75	4.75	5.00
90-day BBSW	4.80	4.80	4.90	5.20
Aus 3yr bond	3.69	3.80	4.50	4.90
Aus 10yr bond	4.26	4.40	4.70	4.80
Aus 3-10yr curve	57	60	20	-10
Change				
Official Cash		0	-25	-25
90-day BBSW		-15	-30	-40
Aus 3yr bond		-80	-60	-70
Aus 10yr bond		-80	-80	-80
Aus 3-10yr Curve		0	-20	-10
US 2Y	0.20	0.25	0.30	0.30
US 10Y	1.98	2.00	2.20	2.20
Change				
US 2Y		-5	-10	-30
US 10Y		-50	-50	-70

Source: CBA, Bloomberg

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Key Positions

The Australian market has continued to rally, but the RBA has reinforced our expectation that they won't be cutting rates in the near term. Our short positions, which are focused on the very front of the AUD curve, have done quite well in this environment.

We have two trades designed to profit from a re-emergence of credit risks leading to a widening of swap spreads: the 3Y/10Y EFP box and the conditional bull spread widener. Today, we are taking profit on our EFP box trade because the trade has performed quite well and we don't want to hold this position over the futures roll next week. We leave our conditional spread widener trade on as further insurance should the European situation continue to worsen.

Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Sell the KfW Dec-19 against the IBRD Oct-19	22bp (30-May-11)	19bp	-3bp	40bp	15bp	**Hold:** Despite the growing concern in Europe, there has not been any movement in the basis or in the credit spread.
Sell the EFP box trade (3Y to widen, 10Y to tighten)	25bp (5-jul-11)	19bp	+6bp	15bp	30bp	**Take Profit:** Trade has done well but we don't want to hold over the roll.
Buy a 3M ATM option on the ACGB Jun-14 against selling a 3M ATMF receiver on the 3Y AUD swap. (Conditional bull spread widener)	Entry cost 2.5bp Effective spread: 47bp: 4.28 and 4.75 (19-Jul-11)	Bond: 3.77 Swap: 4.35 Spread 58bp	+9.5bp			**Hold:** Bond and swaps have both rallied and, as we expected, continued volatility has widened swap spreads.
Pay fixed in 5Y ZCS vs 4Y	-3bp (20-7-11)	-3bp	0bp	+5bp	-8bp	**Hold:** Trade established in Monthly Inflation Report.
Buy an AUD bear flattener. 3M*3Y vs 3M*10Y	Option Strikes: 5.075 and 5.895. Entry cost 3bp. Entry slope 82bp (23-Jul-11)	Current slope 70bp – but well OTM	-3bp (spent the premium)			**Hold:** The curve has been flattening, and selling off, but the options are clearly OTM. If this trend continues there might be some money in the trade.
Buy the NAB Apr-13 as an ASW against selling the NAB Apr-13 FRN	+11bp (3-Aug-11)	+12	-1bp	0bp	17bp	**Hold:** There is little reason for the ASW fixed rate to be different to the FRN price.
Buy the IABD Aug-19 vs the WATC Oct-19	39bp (3-Aug-11)	29bp	+10bp	25bp	45bp	**Hold:** The IADB is likely to attract foreign demand while the WATC looks dear.
Pay 3M OIS	4.41% (16-Aug-11)	4.58%	+17bp (incl carry)	4.78%	4.20%	**Hold:** Recent RBA communication has reinforced that rate cuts are a long way away. We're happy rolling up the curve.
Pay 1Y AUD swap and receive 1Y NZD swap	100bp (22-Aug-11)	123bp	23bp + 5bp carry = 28bp	160bp	80bp	**Hold:** The extent of monetary policy divergence priced by the market is too wide, especially on the AUD leg.

Adjusting our bond and swap forecasts as Central Banks become more dovish

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- The RBA is likely to remain on hold while financial volatility remains a global issue.
- We have lowered our Australian bond forecasts a little to reflect this elongated pause.
- We have lowered our US and European forecasts substantially to reflect changing central bank views.

Late last week the CBA economics team shifted their cash rate forecasts for Australia and pushed out the timing of forecast tightening for a number of other central banks. With the outlook for the US bond market also changing, we are today altering our bond forecasts.

We lower our bond forecasts in response to new RBA forecasts and a change in Fed stance

The main changes are a significant reduction in expected US yields as the Fed contemplates further extraordinary measures to lower interest rates. Even if the Fed doesn't eventually follow through with this policy, the market is moving to price such outcomes and we reflect this in our forecasts.

We have also lowered our Australian bond forecasts slightly to allow for the RBA being on hold longer than we had previously expected. The reduction in our forecasts for Australian rates is mostly in the form of a delay, because our economists still expect the RBA to slowly raise cash rates over the next year or two.

Figure 1: Revised Forecasts

	Now	Dec 2011	Jun 2012	Dec 2012
Official Cash (%)	4.75	4.75	5.00	5.25
90-day BBSW (%)	4.80	4.90	5.20	5.50
3-year swap (%)	4.28	4.95	5.30	5.60
5-year swap (%)	4.65	5.25	5.35	5.55
10-year swap (%)	4.99	5.30	5.30	5.55
Aus 3yr bond (%)	3.69	4.50	4.90	5.15
Aus 10yr bond (%)	4.26	4.70	4.80	5.00
Aus 3-10yr Curve (bp)	57	20	-10	-15
US 2yr bond (%)	0.20	0.30	0.30	0.50
US 10yr bond (%)	1.98	2.20	2.20	2.60
AUS-US 10yr spread (bp)	227	250	270	250

Source: CBA, Bloomberg

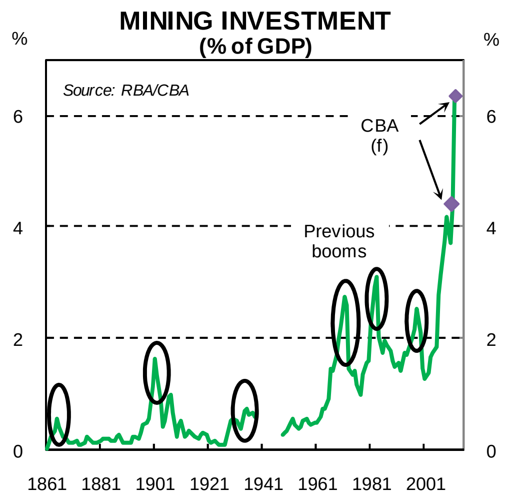
Our general outlook remains positive

We remain generally optimistic

We remain generally positive about Australia's economic outlook and our forecasts reflect this. The domestic situation in Australia remains quite strong, as again demonstrated in the Q2 GDP figures released today. Investment is at very high levels and continuing to rise at a rapid clip. Mining investment already accounts for an unprecedented share of the economy, but will grab even more in coming years (Figure 2). Australia's unemployment is quite low and there is limited spare capacity in the economy. The rate of inflation is currently quite high, but Cyclone Yasi and the Queensland floods make the inflation data a little bit hard to interpret.

We acknowledge that the US and Europe are likely to see little or no growth in the short-term, but the economic linkages between Australia and both the US and Europe are fairly small. Growth in Asia is much more important and appears to remain on a firm footing.

Figure 2: Mining investment is now expected to be a huge proportion of Australian GDP



Source: CBA, RBA

The risk: financial linkage

The obvious risk to our world-view is if the financial situation in Europe – as distinct from the economic situation – deteriorates significantly. Low growth or high unemployment in Europe are both economic outcomes and would have limited impact on Australia. However, a financial catastrophe, such as a major sovereign or bank failure, would impact Australia quickly. We are already seeing confidence impacts from financial market turmoil weigh on the domestic economy.

The details: US and Eurozone rates much lower

The Fed has altered stance and US yields have dropped accordingly

The Fed's decision to alter and clarify the so-called "extended period" language into a pledge to keep rates low "through [to] mid 2013" has triggered a rally in US rates. The short-end reacted sharply but the long-end has started to rally too, in anticipation of possible further extraordinary measures from the Fed.

Most notably, the market is now seriously contemplating a duration management strategy from the Fed. The idea behind this "twist" or a "torque" strategy would be to shift the Fed's Balance Sheet holdings out of shorter dated bonds (where yields are already practically zero) into the long end where there is space for purchases to lower rates.

A duration operation would lower 10Y rates

Fed buying is no longer necessary at the front end, because the pledge to keep rates low through into 2013 has effectively anchored the front end of the curve near zero. Our US 2Y forecasts were already very low, but we have lowered them again. We now look for the US 2Y rate to be 0.3% at the end of 2011 and 0.5% at the end of 2012, ahead of a possible end to the zero rate strategy in mid 2013.

The prospects of further QE (which remains a good chance but not our base case at this stage) or a duration strategy (which is quite likely) have also lowered longer end bond yields as well. We have reduced our US 10Y bond yield forecasts by 50bp at the end of 2011, to 2.2%. We have lowered the 10Y bond forecast by 70bp at the end of 2012, to 2.2%.

Looking ahead, the key question for markets will be whether this new Fed stimulus (or, less likely, President Obama's jobs package?) again props up risk appetite and real economic activity. Equities and other risk assets surged on implementation of QE2, pushing bond yields sharply higher notwithstanding the Fed's purchases. These trends then reversed as that program drew to a close.

Figure 4 indicates that there is plenty of room for another reversal if market confidence returns. Bond yields are as low as at any time in history, and the yield pick-up for equities is

Figure 3: Main revisions to the forecasts

	Now	Sep 2011	Dec 2011	Jun 2012
Official Cash	4.75	4.75	4.75	5.00
90-day BBSW	4.80	4.80	4.90	5.20
Aus 3yr bond	3.69	3.80	4.50	4.90
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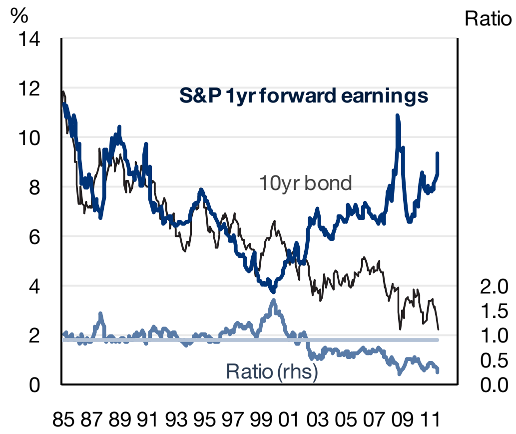
US 10Y		-50	-50	-70

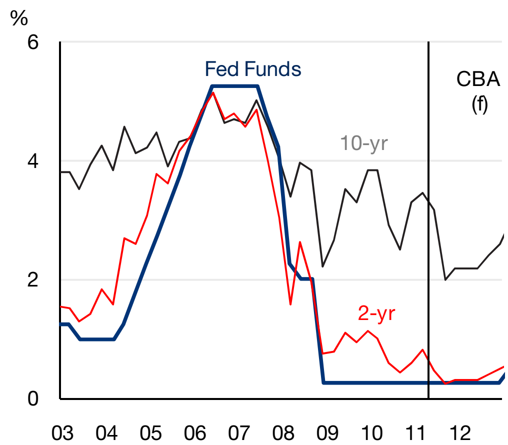
Source: CBA, Bloomberg

Figure 4: US bond/earnings yield (nominal)



Source: CBA, FactSet, Bloomberg

Figure 5: CBA US Forecasts



Source: CBA

as wide as during the worst phases of the GFC. Our sense, however, is that lack of fiscal and Fed Funds flexibility is now biting hard into long-term growth expectations. A meaningful bond sell-off may not eventuate until such time as more radical alternatives are explored. But, with 10Y real bond yields now negative, we do not forecast a further rally from here.

We have lowered the Euro bond forecasts by a large margin at the front-end (around 1%) and by about 50bp at the 10Y point. We now expect the 10Y bund yield to be 2.3% at the end of 2011 and 2.7% at the end of 2012. There have also been forecast revisions to the UK and Canada following the decision to push out central bank tightening in any of these jurisdictions until mid to late 2012.

The details: Australia

We expect a sharp sell-off in Australia as the market moves to pricing an RBA path nearer ours

Our profile for Australian rates has a sharp sell-off between now and early 2012. The market continues to price massive RBA easing, while our economists expect the RBA to raise rates slowly. (See Figure 4.)

The bond market should sell-off as the market reassesses the domestic cash rate outlook. We have had a small preview of that today, when Governor Stevens emphasised the pragmatic benefits of being on hold in his speech – and the market sold-off. The strong 1.2% Q2 GDP print reinforced our central message.

AUS-US spreads should come under widening pressure

We still expect that Australian bonds will see further strong support from offshore buying. The security of a rock-solid AAA rating and the AUD's growing status as a reserve currency, relative to limited bond supply, bodes well. But forecast monetary tightening and lack of central bank bond market intervention mean Aussie bonds probably can't keep pace with the US. We have raised our 10yr AUS-US bond spread forecast from a peak of 230bp previously (where we are now) to 260bp in mid 2012.

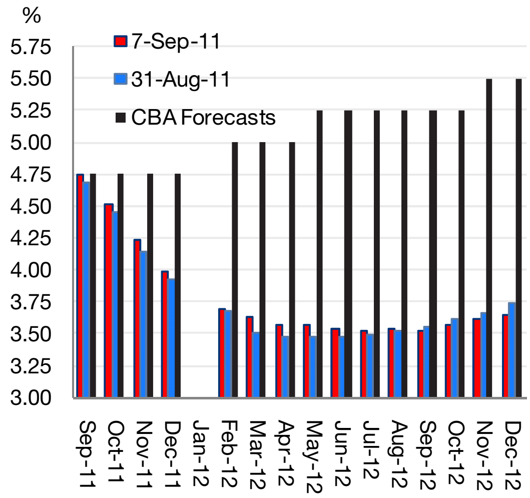
Notwithstanding domestic upward pressure on yields, we have revised our Australian bond forecasts lower in light of the global backdrop. We look for Australian 3Y bonds to sell-off to 4.50% by the end of 2011 and to 5.15% by the end of 2012. That is about 15bp less than previously forecast and just under the cash rate.

Bond yields have been revised down 15-20bp

We expect the 10Y bond to rise to 4.7% by Dec-2011. We expect the 10Y bond will continue to rise slowly to 5.0% over 2012, 20bp less than previously forecast. The 3Y/10Y slope is likely to flatten and, eventually, invert.

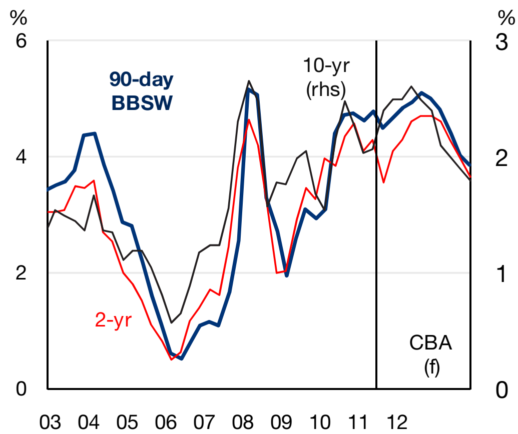
Swap spreads should recede as global risk aversion (hopefully) moderates. But a flattening yield curve will mean this only extends to a low-point of about 40-50bp across the curve.

Figure 6: We expect the RBA path to be very different to the market consensus



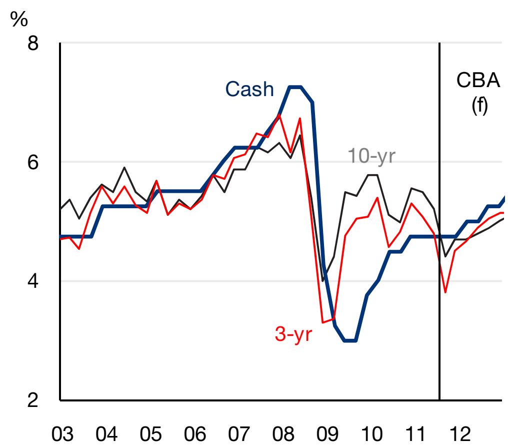
Source: CBA, Bloomberg

Figure 6: AUS-US spread Forecasts



Source: CBA

Figure 7: Australian cash and bond forecasts



Source: CBA

Revisiting swap spreads ahead of the futures roll

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- Swap spreads have widened following an increase in global bank credit risk.
- The impact of paying pressure from borrowers and receiving pressure from issuance looks muted.
- We take profit on our 3-10Y box flattening trade and maintain our conditional spread widening position.

Swap spreads have widened significantly over the last month, following a broader global trend of credit weakness.

In early July, we entered a 3-10Y EFP box flattening position (see *Weekly Strategy* 5 July). Our analysis considered the growing credit risks in Europe, issuance flows and the shape of the yield curve. Our conclusion was that the 3 year EFP should widen over the medium term. But what really stood out to us was the excessive, relative widening in the 10Y spread.

We re-consider our swap EFP box trade ahead of the futures roll.

This position has performed well and it is timely to reconsider the outlook ahead of the upcoming futures roll. We find that rising offshore bank credit risk has overwhelmingly been the main source of widening pressure on swap spreads. We think this source of pressure on Australian banks and therefore swap spreads will eventually moderate. But in the short term, we're cautious about a further pickup in offshore risks, as market sentiment remains fragile, especially in Europe.

We maintain our conditional bull spread widener as insurance against further swap spread widening.

Rising bank credit risk is the main driver of the recent widening in swap spreads

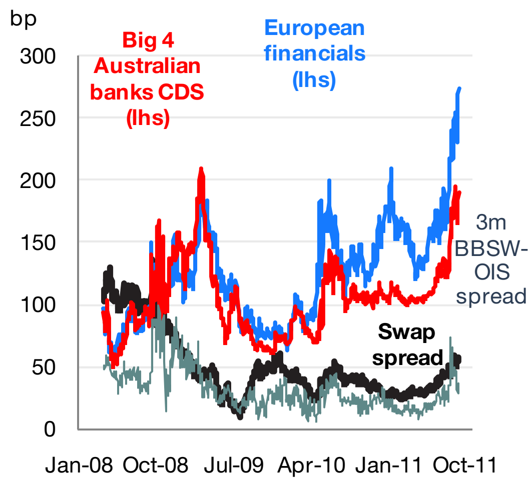
Offshore credit risks, especially in Europe, drove swap spreads wider in August.

Movements in financial credit spreads tend to be associated with movements in swap spreads. As Figure 1 illustrates, this source of risk explains much of the widening in swap spreads through August.

Figure 1 also shows that swap spreads tend to correlate more closely with the credit spread of Australian bank bills, rather than broader indicators. This is logical, given the credit risk embedded within the BBSW floating rate is largely driven by the risk of Australian banks (though offshore events do impact bill spreads).

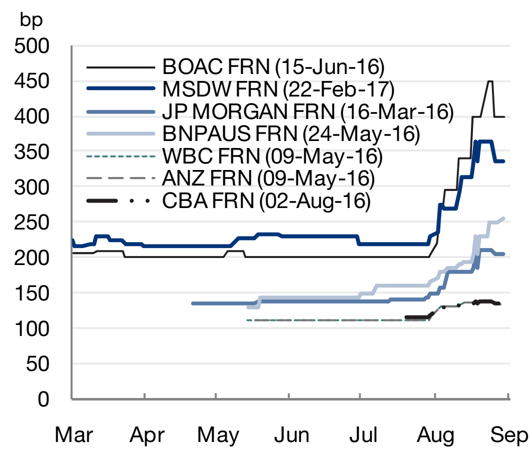
In the first two weeks of August, European financial CDS spreads eclipsed their 2008 peak. Aussie major banks also widened, but not by as much. CDS spreads on Australian and European names started to turn around last week, but in recent days have pushed sharply wider again.

Figure 1 – Swaps following financial credit spreads wider



Source: Bloomberg, CBA

Figure 2 – Selected AUD Bank FRNs (spread to swap)



Source: CBA Spectrum

Australian banks have performed better in the AUD cash market.

The AUD cash market has been more stable and discerning about individual bank names. Australian banks have outperformed European and US banks over the last couple of weeks (Figure 2). The preference for Australian bank names in the physical market gives us some confidence that Australian swap spreads will eventually stabilise. However, recent price action shows spreads are still sensitive to offshore issues.

Money market spreads are widest in EUR.

Swap spreads are closely linked with money market spreads. As we've highlighted recently (for example, *Weekly Strategy* August 23), there are considerable differences across currencies, with European spreads widening by the greatest margin. Figure 3 illustrates the trajectory of the 3 month Euribor spread to OIS is upward, while USD Libor and AUD bank bill spreads have stabilised (at elevated levels).

AUD bank bill/OIS spreads have tightened over the last week because of intra-month seasonality.

There's been a notable contraction in the AUD spread over the last week. However, this contraction is largely attributable to seasonality and followed the switch to early bill trading on 1 September. Figure 4 shows that the 3Y swap spread (measured as an EFP) hasn't kept pace with the decline in the bills/OIS spread over the last week. This is partly because the bond futures don't have the same seasonality as BBSW – the bond futures' maturity day doesn't change over time, though the swap roll date does matter. The forward bill/OIS spread is still wider and the market doesn't expect spreads to stay this low for long. The December AUD bill/OIS spread is currently 40bp, 7bp higher than the spot spread.

Paying pressure dissipating?

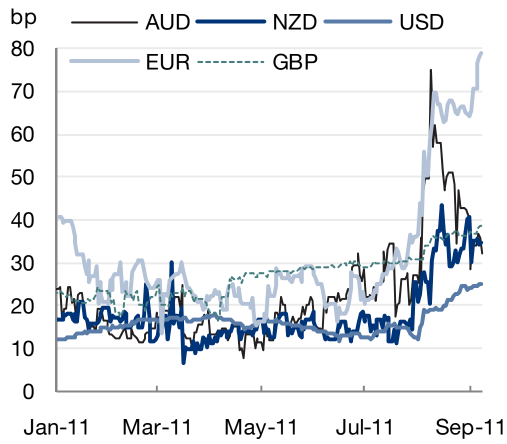
The 3Y swap rate is at a historically low level relative to BBSW (Figure 5). This inversion of the curve presents an excellent hedging opportunity for those who believe there are rate hikes to come (such as CBA and the consensus of Economists). Yet we don't believe there has been a significant follow through in hedging from borrowers and we don't see this trend changing in the near term.

New lending activity in Australia has declined.

Compared with previous periods where the curve was inverted, new lending activity is now significantly lower. Credit growth in Australia (like most developed economies) has been lacklustre since 2008, as corporates and households have de-levered. The RBA aggregate credit data shows that business credit growth has been falling in year-on-year terms since June 2009. This suggests a reduced need for business hedging.

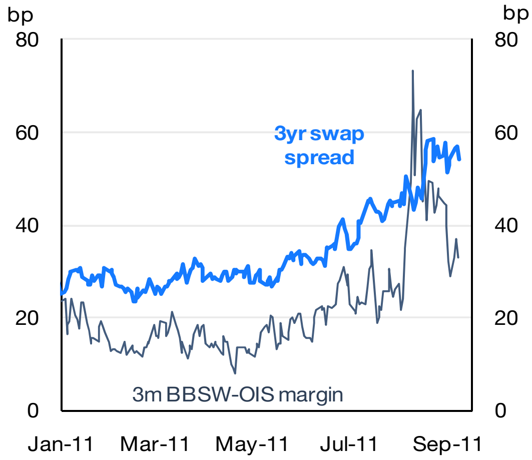
Moreover, in our view, sentiment amongst business and household borrowers is likely to have been damaged by recent heavy losses in equity markets. Most economic and financial

Figure 3 – Money market spreads (3 month benchmark rate less OIS)



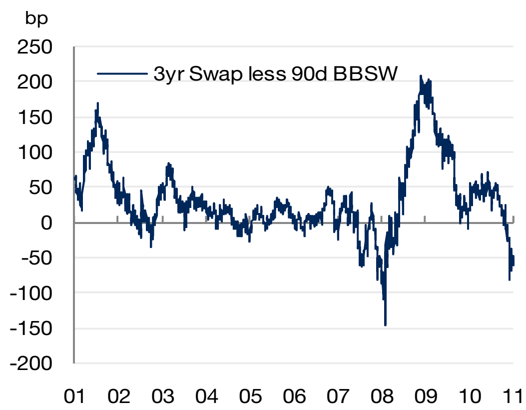
Source: Bloomberg, CBA

Figure 4 – BBSW/OIS spreads contracting faster than 3Y EFP



Source: Bloomberg, CBA

Figure 5 – AUD short end swap curve inverted by an historically significant margin



Source: Bloomberg, CBA

market news has been downbeat. While interest rate sentiment is difficult to measure, we think that households and businesses are unlikely to be expecting rate hikes in the near future.

Mortgage rate fixing hasn't responded strongly to lower fixed rates, which could have further to fall.

Banks have recently cut their fixed mortgage rates, which would normally attract paying interest. Our fixed rate web hits indicator shows a big jump around the time CBA and other banks cut fixed mortgage rates and rate cut speculation intensified (Figure 6). That interest has subsequently cooled over the last two weeks. Anecdotally, there hasn't been an extraordinarily strong follow through in fixed-rate mortgage lending in recent weeks.

Figure 7 shows why this might be the case. The 3Y fixed rate is compelling when compared with the standard variable rate, but is still broadly in line with the discounted variable rate. Also, the spread between the 3Y fixed mortgage rate and 3Y swap is quite high, as fixed mortgage rates haven't kept pace with the rally in swaps. This means that further cuts in the fixed rate could be forthcoming if swap rates stay low. That would put our view for a tighter 3Y EFP at risk. However, we believe that the 3Y swap rate, at 50bp under cash, should rise in the coming weeks and months as the RBA keeps rates on hold and doesn't indicate they're ready to cut.

Issuance flows

Issuance flows don't appear to be strong enough to drive significant receiving pressure on swap spreads.

Primary AUD issuance flow hasn't been able to offset the widening in swap spreads over the last month. When volatility reached extreme levels in early to mid August, there was an absence of all issuance in AUD. As market conditions have improved, only the highest rated issuers have been active in the primary market.

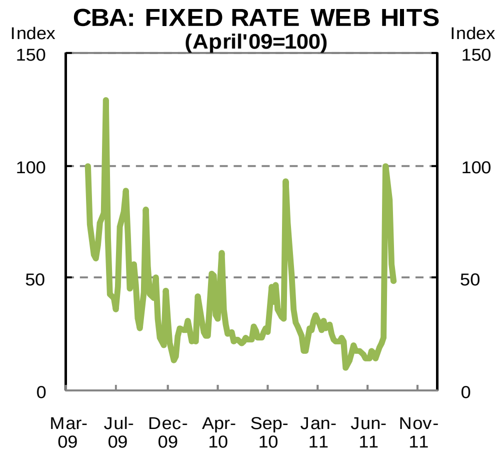
Figure 8 illustrates the drop-off in non-Australian government issuance flows in the last two months. SSAs and Semis have dominated the small volume of new issuance since early August and this new supply has been in the longer part of the curve (7-10Y). This suggests some receive side pressure in the long end could have benefited our 3-10Y swap EFP box flattener. However, we don't think these issuance flows have been strong enough to offset upward pressure from rising credit risks in a significant way.

Positioning

We take profit on our swap EFP box flattening trade.

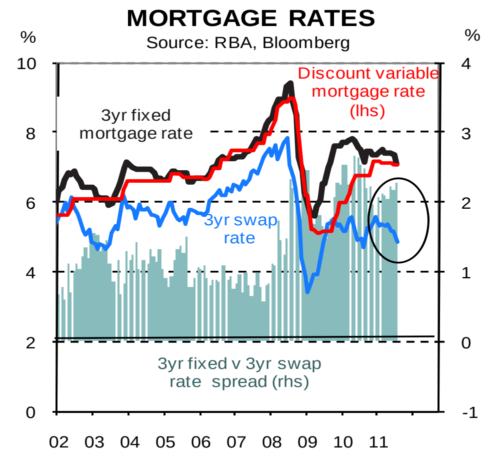
Global bank and sovereign credit risks have been the main driver of swap spreads over the last month. We're heartened by the relative performance of Australian banks (in the physical market) and comfortable with their underlying risks. However, swap spreads continue to widen on adverse news about offshore sovereigns and banks. This risk has intensified

Figure 6 – A spike in fixed rate interest



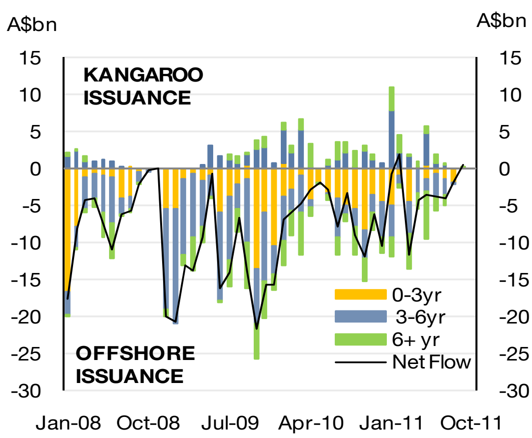
Source: CBA

Figure 7 – Fixed rate mortgages close to discounted variable and a long way from market



Source: RBA, CBA

Figure 8 – AUD Kangaroo issuance flows have dried up



Source: CBA

in recent days and doesn't look like it's about to disappear. That said, the level of swap spreads are already quite elevated and the relatively positive fundamentals of Australian banks will eventually matter. We don't believe there is currently sufficient pay-side interest from borrowers or receive-side interest from issuance to offset the global credit pressure.

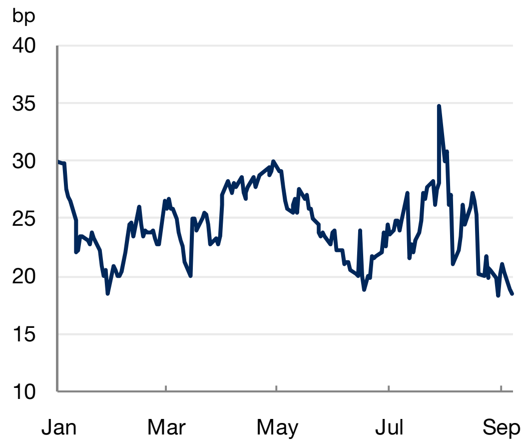
We keep our conditional spread widening trade as insurance against further swap spread widening.

On balance, we look for an eventual tightening in spreads, but given the upcoming roll (see Page 10) and increased uncertainty offshore, we'll hold off on receiving swap spreads for the time being.

We have two existing positions in swap spreads: the EFP swap box flattener and a conditional bull spread widener (long bond option versus short swaption receiver).

We take profit on our 3-10Y EFP box flattener at 19bp (entered at 25bp), which is now at its tightest spread this year (Figure 9). We maintain our conditional spread widener (currently 11bp in the money) as insurance against further widening from a further escalation in offshore credit risk.

Figure 9 – 3-10Y Swap EFP Box



Source: Bloomberg, CBA

Risk to the roll against the backdrop of a European maelstrom

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- The 3Y fair value of the roll is -5.6bp, market -5.5bp. For 10Y, fair value is +2.9, market is +2.5bp.
- The 3Y roll is negative because bond yields are below repo. The 10Y basket is changing, which adds to the roll.
- The heightened volatility at present is likely to impact the fair value of the roll over the next week.

The current 3Y and 10Y bond futures contracts expire on Thursday 15th of September. This roll is shaping up to be reasonably volatile, if only because of the large volatility in all rates at present. Currently, the 3Y and 10Y rolls are both quite near fair value, by our estimate.

Both rolls are marginally dear

The fair value of the 3Y roll is negative at about -5.6bp. The market price of the roll is currently very close to fair at 5.5bp.

The fair value of the 10Y roll is +2.9bp. The market price of the 10Y roll is 2.5bp.

We expect the rolls to be quite volatile, because the volatility in OIS rates and bond rates will impact on the roll directly.

Inverted curves and negative rolls

The inversion of the curves makes the rolls negative

All bond yields are currently below the 3M OIS and below the 3M repo rate too – though not by much at the long end of the curve. All else equal, an inversion of the curve means that the fair value for the futures roll should be negative. For the full explanation please see the *Weekly Strategy* of 9 December 2009. The quick explanation is that the December futures contract is, in effect, a 3M*3Y bond rate, while the September rate is, more-or-less, a spot rate. When the 3M rate is above the 3Y rate, the 3M forward 3Y rate is lower than the spot 3Y rate – which is equivalent to a negative roll.

Indeed, the fair value of the 3Y roll is negative and the fair value of the 10Y roll would be negative, except that the Apr-23 is being added to the 10Y basket. The extra yield from that extra time to maturity pushes the roll back into positive territory.

Convexity of the roll will hit both coming and going

Changes to either the OIS rate (which affects the repo) or the bond yield will impact on the roll

We have frequently noted the "convexity" of the bond roll and we believe this will be a dominant driver this time around. In more normal times, the convexity of the roll refers to the fact that a 10bp sell-off in bond yields, all else equal, should increase the 3Y roll by 0.9bp and the 10Y roll by 0.3bp.

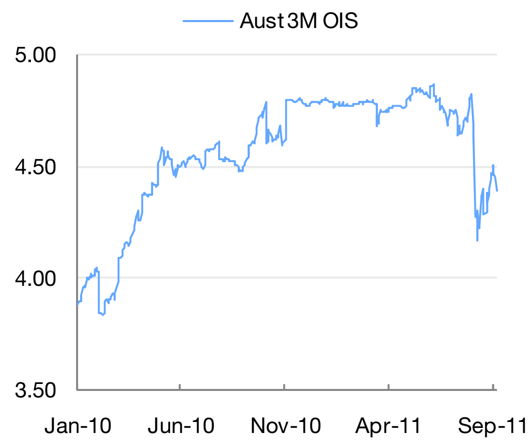
Figure 1: September roll data

3Y Roll	
Near Bond Basket	6.25 Jun-14, 4.50 Oct-14, 6.25 Apr-15, 4.75 Jun-16
Far Bond Basket	6.25 Jun-14, 4.50 Oct-14, 6.25 Apr-15, 4.75 Jun-16
Implied Price	-5.58
Market Price	-5.50
Roll Convexity (bp per 10bp sell-off)	0.9

10Y Roll	
Near Bond Basket	4.50 Apr-20, 5.75 May-21, 5.75 Jul-22
Far Bond Basket	4.50 Apr-20, 5.75 May-21, 5.75 Jul-22, **5.50 Apr-23**
Implied Price	2.90
Market Price	2.50
Roll Convexity (bp per 10bp sell-off)	0.3

Source: Bloomberg, Retuers, CBA

Figure 2: 3M OIS rate in Australia



Source: Bloomberg, CBA

The assumption underpinning the roll convexity calculation is that the repo rate doesn't change. We assume that the outright yield changes by 10bp, but cash rate expectations are unchanged. Normally, that assumption is justifiable, but it is more problematic at the moment since both the OIS and bond yields are volatile.

The "convexity" part of the roll could be impacted by large moves in either the repo rate or the yield on the bonds. It is the spread between the bond yield and the repo rate which drives the convexity.

Over recent weeks both the repo rate and the bond yields have been volatile. The repo rate is normally quoted against cash and although the repo spreads haven't been too volatile, the underlying cash rate expectations have been. (See Figure 2.)

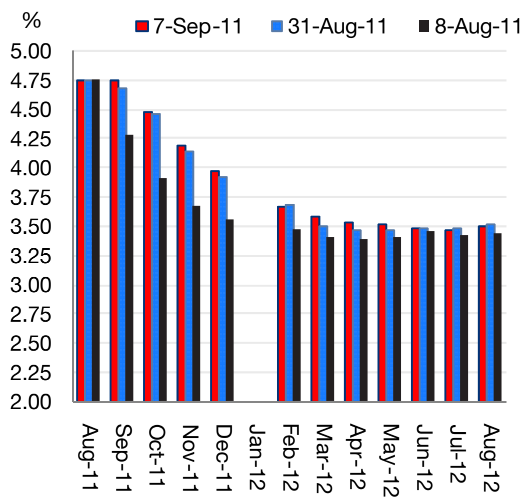
We think volatility is likely to continue.

The RBA met yesterday afternoon and reinforced the "on hold" tone of previous speeches by the Governor and Deputy Governor. The RBA is trying to balance the strength of the domestic economy with the increasing volatility offshore. Despite the statement, the expectation for the cash rate in the medium term has fallen over the past week due to financial market volatility.

While the RBA remains on hold and the market is pricing such substantial rate cuts, the front end will remain volatile. A reduction in cash rate expectations will cause a rally in OIS rates and, all else equal, is a relative sell-off in bond yields and so should see the fair value of the roll rise. (And vice-versa: an increase in cash rate expectations should cause a sell-off in the OIS and so is a relative rally in the bonds and a fall in the fair value of the roll.)

We are not sure exactly how the most recent episode of bank credit weakness will play out between now and the 15th. However, volatility is likely and volatility in rates will translate directly into volatility in the roll.

Figure 3: Cash rate pricing



Source: Bloomberg, CBA

New South Wales (NSW) State Budget: 2011/12

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- Swap spreads have widened following an increase in global bank credit risk.
- New South Wales (NSW) growth to accelerate to 2½% in 2011/12, from an estimated 2¼% growth in 2010/11.
- Ratings agencies indicated that they are currently examining NSW's AAA credit ratings in wake of the Budget's release.
- Budget assumptions on revenues and outlays are credible given NSW growth, housing and jobs outlooks.
- The O'Farrell Government is aiming to make $8bn in savings and cut 5,000 jobs from the public sector.
- Capital works spending will be close to $7bn per year over the next few years.
- In a positive move for the building sector, stamp duty exemptions for first home buyers will be limited to new dwellings.
- Mining royalties to rise from 6.2%, to 7.2% and 8.2%, depending on mine classification, raising $944m over 4 years.

Summary

Table 1: NSW ECONOMIC PROJECTIONS

NSW Economic Projections	2009-10 Outcomes	2010-11 Estimates	2011-12 Estimates	2012-13 Estimates
Real Gross State Product (GSP)%	1.7	2¼	2½	3
Employment growth %	1.2	3.1	1	1¾
Unemployment rate %	5.7	5.1	5¼	5¼
CPI (Sydney) %	2.9	3.8	2½	3¾
Wages growth %	3.2	3.8	4	4

The NSW Treasurer, Michael Baird, has delivered 2011/12 State Budget after the resounding electoral victory by the coalition at the March election. One of the Budget priorities was a ramped-up infrastructure plan, which has been delivered.

Cost savings and revenue measures have allowed a $5bn improvement in Budget outcomes over the next four years. It should result in NSW keeping its AAA credit rating. Net debt levels will stay at relatively low levels, below 3% of State GSP. The fledging O'Farrell government is forecasting NSW economic output (GSP) growth in 2010-11 of 2¼ per cent (revised from the 3 per cent forecast in the 2010-11 Budget). The revision mainly reflects slower than expected growth in private sector spending. NSW government capital works spending in 2010-11 was also lower than expected, in part due to unanticipated weather-related delays.

Table 2: NSW FISCAL PROJECTIONS

NSW Fiscal Projections	2009-10 actual	2010-11 estimate	2011-12 forecast	2012-13 forecast	2012-13 forecast
Total revenue $mn	56,328	57,059	59,026	61,902	63,982
Total expenses $mn	55,339	55,795	59,744	61,610	63,826
Operating balance (GFS)$mn	989	1264	-718	292	156
Fiscal balance* $mn	-2,728	-2,986	-3,986	-2,560	-2,603
Capital spending $mn	7,278	7,677	6,841	6,738	6,484
Net debt**	9,160	7,889	11,074	12,731	14,422
Net debt as % GSP	2.00%	2½%	2¾%	2¾%	2¾%

** Net lending/borrowing incl. capital outlays. **Net debt is sum of deposits plus assets, less advances paid plus financial assets at fair value.*

Economic Outlook

Economic growth outlook.

The New South Wales economy also slowed in early 2011 - in lock step with the economic slowdown nationally. The easing in some indicators has been more pronounced in New South Wales, which is more exposed to interest rate impacts and volatility in global financial markets than other states. Treasurer Baird noted it has been apparent in NSW retail sales and employment.

He highlighted the unwinding of the Federal fiscal stimulus, combined with slightly restrictive monetary policy settings, have acted as negative headwinds to NSW growth as:

- Public investment is declining as Australian Government economic stimulus and nation building spending winds down.
- The broader housing market remains soft, reflecting the lull after a pull-forward of first home buyer demand and higher interest rates.
- Business investment growth is being weighed down by the unwinding of the private school component of the Building the Education Revolution and the lull after a pull-forward in demand related to temporary investment tax concessions in 2009.
- Conditions in some NSW industries exposed to the high Australian dollar (AUD) are very subdued, particularly in tourism and manufacturing. The NSW retail sector is also soft reflecting increased household caution as evidenced by the rising saving ratio and recently declining consumer confidence. There is a significant divergence between sectors, though, with strong conditions currently in the NSW mining, farm, business services and household services sectors.

The fledging O'Farrell government is forecasting NSW economic output (GSP) growth in 2010-11 of 2¼ per cent (revised from 3 per cent forecast in the 2010-11 Budget), reflecting slower than expected growth in private sector spending. NSW state capital spending was also lower than expected, in part due to unanticipated weather delays.

Capital Spending

Capital spending program.

For 2011-12 the major infrastructure investments include the following:

$3.2bn for roads, including upgrades to the Pacific and Hume Highways and Hunter expressway;

$292m to extend the South West Rail Link;

$389m for port developments, including $109m for the Enfield Intermodal Centre, $74m for the Port Botany expansion and $54m for the White Bay passenger terminal;

$314m for the North West Rail Link, including land acquisition of $222mn;

$103m to extend the inner west light rail plus feasibility of light rail to the University of NSW and University of Sydney;

$16m to construct Erskine Park Road development for the Western Sydney Employment Area; and

$51m to connect Wynyard Station to the Barangaroo development area.

For the four years to 2014-15, $23.7bn in major infrastructure investment will include:

$10.3bn for roads, including $3.6bn for the Pacific Highway and $1.3bn for the Hunter expressway;

$2.5bn, provisionally, for North West Rail Link;

$1.7bn on the South West Rail Link;

$1.8bn on new Waratah rolling stock;

$409m for additional buses and services; and

$19m for ferry services, including an additional $7.5mn for ferry wharf improvements and $11.8m for expanding ferry services.

Revenue and outlays measures.

Revenue and Outlays Measures

Targetting first home buyers' stamp duty exemptions to the purchase of new properties only, including "off the plan" is expected to save $131m in 2011/12, $277m in 2012/13, rising to $336m in 2014/15. The full exemption applies to new dwellings up to $500k, cutting out at $600k.

The lift in mining royalties from 6.2%, to 7.2% and 8.2%, depending on mine classification is forecast to raise $235m in 2012/13, rising to $465m in 2014/15.

Previously announced measures reduced revenues by $146m in 2011-12, rising to $542m in 2014-15. The measures were on: payroll tax exemptions, land title duty abolition, revised tax rates on clubs, withdrawal of speed cameras, and abolishment of IGA taxes.

Growth outlook.

Outlook – 2011-12 and 2012-13

Forecasts for 2011-12 have a large degree of uncertainty given the substantial downside risks for the global economy. The current slowing in the Australian and NSW economies and downturn in business and consumer confidence is expected to be relatively short-lived as long as recent global financial market volatility abates, and Asian growth maintains solid momentum.

In 2011-12 NSW economic output (real gross state product) is expected to grow by a below trend 2½ per cent – considerably less than the 3½ per cent growth forecast in the 2010-11 Budget. The forecast has been lowered due to the current soft patch in economic activity and the recent decline in consumer confidence. Activity is expected to lift as the year progresses with a strengthening in business investment, a resumption of growth in dwelling investment and modest household consumption growth. Net export performance is expected to improve as export growth strengthens and import growth slows marginally from current high rates.

On the back of the recent softer output growth, employment growth is expected to slow to 1 per cent in year average terms in 2011-12. Employment growth is expected to lift over the course of the year in line with the expected increase in economic activity and the unemployment rate is expected to stabilise at around current levels.

Economic growth in 2012-13 is forecast to be slightly above trend at 3 per cent as the recovery continues to strengthen across all areas of private spending, including business investment and dwelling investment, and as household consumption growth firms in line with income growth. Export growth is expected to continue to improve. Public final demand is expected to add modestly to economic growth.

Growth in 2012-13, while above trend is expected by the NSW government to be negatively affected by the introduction of the carbon tax. Inflation will also be affected by the carbon tax. The 3¾ per cent increase forecast for the CPI through the year to June 2013 includes an expected ¾ percentage point contribution as a result of the carbon tax introduction.

Risks to growth.

Key Risks to Growth Outlook

There are considerable downside risks to the NSW economic outlook. Global financial market volatility, consumer caution, and declining confidence levels, if sustained, pose a risk that the recent slowdown becomes protracted and the 2011-12 Budget forecasts are undershot.

Rating agencies.

Ratings Agency Reaction

Ratings agencies Moody's, Standard & Poors and Fitch are currently examining the NSW Budget and will release their findings and conclusions in the near future.

S&P released a statement saying the AAA rating will not be impacted immediately by the budget. NSW have clearly made the right sort of commitments to deficit reduction. However, S&P labelled the delivery of budget targets, including balancing revenue and expenditure growth, as "ambitious" and "difficult to achieve – particularly given the current political environment". The Government itself says that more will need to be done in subsequent budgets to put the state's finances on a sustainable footing.

NSW outlined a range of plans to reduce the fiscal balance, including: changes to public sector wages, voluntary redundancies and changes to infrastructure funding and planning. S&P said they will further assess the details underpinning the implementation of these programs and other assumptions in the Budget over the coming weeks, before re-assessing the rating.

Market implications

Market implications

Following the budget, New South Wales Treasury Corporation (NSWTC) released an update to their 2011/12 borrowing program. The total funding requirement for 2011/12 has been lowered to $10.2bn from $11.5bn in June. The change is driven by a fall in client funding requirements, from $5.3bn to $4.0bn. So far this financial year, NSWTC has raised $2.4bn – the lions share coming from $1.7bn of benchmark bonds (including the new 2022 line). Therefore, NSWTC has a very manageable $7.8bn of issuance remaining in 2011/12.

There was no significant move in semi-government spreads after the budget, even following the big swings in credit markets the previous night. The details of the NSW Budget were largely as expected by the financial markets. Debt levels are relatively low and manageable.

Key Views

United States

The US economy has slowed. The Q2 GDP figures and revisions to prior quarters confirmed US growth is running at a slower pace than the market and Fed had anticipated earlier in the year. The recovery in the labour market remains slow, with August Payrolls disappointing (0k).

Inflation has increased, but is still being mainly driven by food and energy prices. We don't see it as a barrier to further easing, which now looks likely to emerge from the September 20-21 FOMC meeting

Market volatility continues. There remain heightened risks to the US outlook ranging from fiscal contraction to more European instability. The FOMC has already committed to keeping the Fed Funds rate at "exceptionally low levels" through to mid 2013. This leaves longer-term bond purchases as the next step.

The question is whether this is already fully-priced and whether the positive impact on sentiment will have a more dominant effect (as we saw with QE2). On balance, we look for the market to hold quite steady in 2011 before yields start to gradually rise and the curve steepens in 2012.

	Tactical (<1 mth)	Strategic (>3 mths)
Policy rate	0.1%	0.1%
10yr bond	2.00%	2.20%
2/10 curve	175bp	190bp
USD/JPY	76.00	78.00
EUR/USD	1.46	1.45

Despite the slow-down in the US economy, the convergence of European bond yields towards US yields and the re-emerging risks in Europe have made the USD a more attractive safe-haven currency. In addition, intervention, both threatened and real, by the Swiss National Bank and the Bank of Japan, has raised the potential risks of holding these safe-haven currencies. The stresses in Europe mean downside risks are rising for EUR and GBP but lifting for the USD.

Australia

The medium term outlook for the Australian economy is positive. Recent data has been mixed and confirms the multi-speed nature of growth across different sectors of the economy. Inflation has picked up, and in underlying terms is running at the top end of the RBA's 2-3% band. The RBA considered hiking rates in August, but uncertainty over global growth prospects and market volatility have kept rates on hold for now.

Recent volatility and concern stemming from European sovereigns and banks are being felt in Australia and are likely to continue to do so. Australian BBSW/OIS spreads will likely remain high for the time being.

We see the fundamental strength exerted by high commodity prices and booming investment as dominating over the year and pushing the RBA to eventually tighten policy over the course of 2012-13. Our bias is toward a flatter curve over time. 10Y Australian spreads to US may widen slightly in 2011 due to lack of QE and wider front end spreads, before tightening quickly when US bond yields start to rise.

The downside risk for the AUD remains a slowdown in the global economy and consequent fall in commodity prices. The US economy has clearly slowed and the downside risks in Europe are rising. AUD/USD may not reach our 1.09 target by the end of 2011. But we are not ready to cut our AUD forecasts. Ongoing strong growth in China is supporting commodity prices and the AUD. Australia's AAA sovereign credit rating and relatively high interest rates are providing solid support for the AUD.

	Tactical (<1 mth)	Strategic (>3 mths)
Policy rate	4.75%	4.75%
10yr bond	4.40%	4.70%
3/10 curve	60bp	20bp
10yr EFP	65bp	55bp
10yr v US	230bp	250
AUD/USD	1.0700	1.0500

New Zealand

The NZ economy is recovering after the Christchurch earthquake and domestic developments have been encouraging. The QI GDP figures were surprisingly strong and the Q2 CPI figures higher than expected. The RBNZ's removal of the post-earthquake insurance cut is contingent on "current global financial risks receding and the economy continuing to recover". Financial market risks have grown substantially over August and early September, and we have pushed out our forecast of a 50bp hike to December.

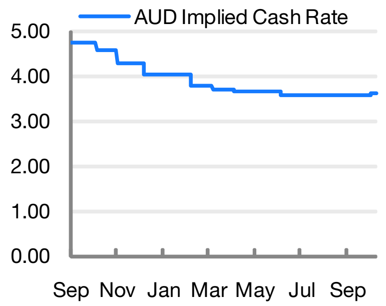
In the absence of a major downward revision to global growth expectations, we expect the NZD to remain in an 0.82-0.85 range against the USD, assisted by some insurance repatriation flows, still high agricultural prices, and re-firming expectations of a 50bpt RBNZ rate hike later this year. The significant rebuild of Christchurch and the upcoming Rugby World Cup should boost current economic momentum. New Zealand's economic recovery, positive export sector outlook, and the RBNZ's tightening cycle will all help keep the NZD strong vis-à-vis the USD over the next year. However, if the global economy significantly deteriorates (not our central scenario, but certainly a developing risk), the outlook for NZ's key commodity exports would weaken, and the NZD would head well below 0.80.

	Tactical (<1 mth)	Strategic (>3 mths)
Policy rate	2.50%	3.00%
10yr bond	4.40%	4.80%
2/10 swap curve	200bp	190bp
10yr v US	240	260
10yr v AUS	10bp	20bp
NZD/USD	0.8500	0.8600
AUD/NZD	1.2500	1.2700

Cash Rate Pricing

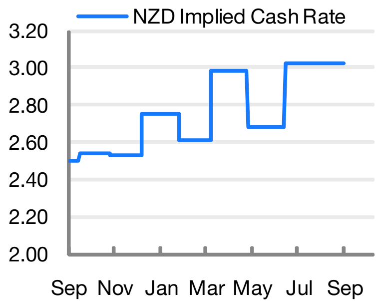
Australian Cash Rate Pricing

	Rate	Cum. % chance of +25bp
Current	4.75	0
4-Oct-11	4.55	-78
1-Nov-11	4.27	-194
6-Dec-11	4.05	-280
7-Feb-12	3.79	-385
6-Mar-12	3.70	-418
3-Apr-12	3.66	-438
1-May-12	3.64	-442
5-Jun-12	3.59	-464
3-Jul-12	3.59	-464



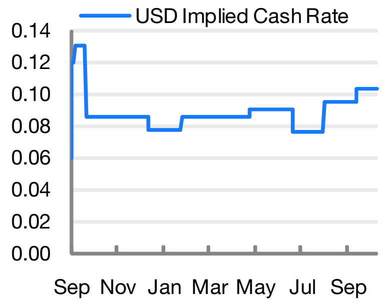
New Zealand OCR Pricing

	Rate	Cum. % chance of +25bp
Current	2.50	0
15-Sep-11	2.54	16
27-Oct-11	2.53	13
8-Dec-11	2.75	100
26-Jan-12	2.61	44
8-Mar-12	2.99	195
26-Apr-12	2.69	74
14-Jun-12	3.03	212



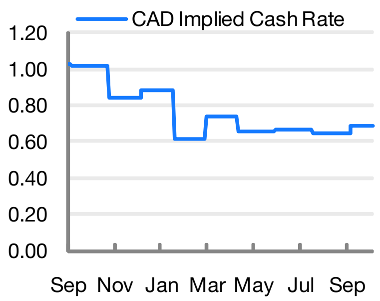
US Fed Funds Pricing

	Rate	Cum. % chance of +25bp
Current	0.13	0
20-Sep-11	0.08	-18
2-Nov-11	0.08	-18
13-Dec-11	0.08	-21
25-Jan-12	0.08	-18
13-Mar-12	0.08	-18
25-Apr-12	0.09	-16
20-Jun-12	0.08	-21
31-Jul-12	0.09	-14
12-Sep-12	0.10	-11



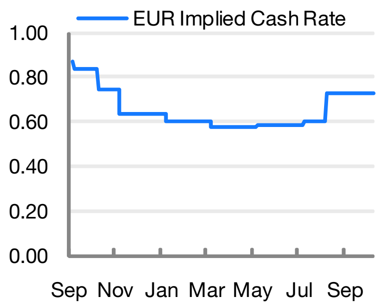
Candian Rate Pricing

	Rate	Cum. % chance of +25bp
Current	1.02	0
25-Oct-11	0.84	-68
6-Dec-11	0.88	-52
18-Jan-12	0.61	-160
29-Feb-12	0.73	-112
11-Apr-12	0.66	-143
30-May-12	0.66	-141



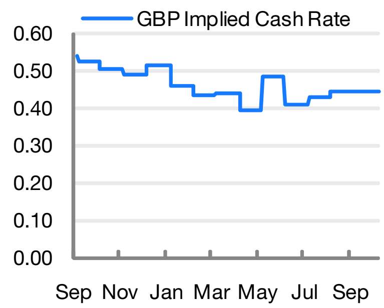
EUR EONIA Pricing

	Rate	Cum. % chance of +25bp
Current Target	1.50	
8-Sep-11	0.84	-266
6-Oct-11	0.74	-304
3-Nov-11	0.64	-304
8-Dec-11	0.64	-344
12-Jan-12	0.60	-360
9-Feb-12	0.60	-359
8-Mar-12	0.58	-370
7-Feb-13	0.73	-309
7-Mar-13	0.73	-309



UK SONIA Pricing

	Rate	Cum. % chance of +25bp
Current	0.53	0
8-Sep-11	0.53	0
6-Oct-11	0.51	-8
10-Nov-11	0.49	-15
8-Dec-11	0.52	-4
5-Jan-12	0.46	-28
8-Mar-12	0.44	-34
5-Apr-12	0.44	-34
10-May-12	0.48	-17
7-Jun-12	0.41	-46



Source: All data sourced from Bloomberg. Rates displayed are calculated using IB Futures (Australia), FF Futures (US) and OIS in all other currencies.

CBA Forecasts:

Cash rate	7-Sep	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Australia	4.75	4.75	4.75	5.00	5.00	5.25	5.25
New Zealand	2.50	2.50	3.00	3.00	3.50	4.00	4.00
United Kingdom	0.50	0.50	0.50	0.50	0.50	0.75	1.00
Eurozone	1.50	1.50	1.50	1.50	1.75	2.00	2.25
China	6.31	6.56	6.56	6.56	6.81	6.81	7.06
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10
2-yr bond yield	**7-Sep**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	0.20	0.25	0.30	0.30	0.30	0.40	0.50
Australia	3.76	3.80	4.40	4.60	4.90	5.10	5.20
New Zealand	2.98	3.00	3.50	3.90	4.20	4.40	4.60
United Kingdom	0.58	0.50	0.60	0.60	0.80	1.20	1.50
Eurozone	0.49	0.50	0.60	0.60	1.00	1.50	2.00
Japan	0.15	0.20	0.25	0.30	0.35	0.40	0.40
10-yr bond yield	**7-Sep**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	2.03	2.00	2.20	2.20	2.20	2.40	2.60
Australia	4.31	4.40	4.70	4.70	4.80	4.90	5.00
New Zealand	4.41	4.40	4.80	5.00	5.00	5.20	5.30
United Kingdom	2.29	2.40	2.50	2.50	2.60	2.80	3.00
Eurozone	1.91	2.00	2.30	2.40	2.60	2.70	2.70
Japan	1.01	1.10	1.20	1.30	1.40	1.50	1.50

Currencies	7-Sep	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
AUD/USD	1.06	1.08	1.09	1.09	1.10	1.10	1.08
AUD/JPY	81.95	84.24	85.02	85.02	84.70	84.70	85.32
AUD/EUR	0.75	0.73	0.74	0.73	0.73	0.73	0.73
AUD/GBP	0.66	0.65	0.65	0.64	0.65	0.65	0.64
AUD/CAD	1.05	1.05	1.05	1.04	1.05	1.05	1.05
AUD/NZD	1.28	1.27	1.27	1.25	1.25	1.25	1.26
USD/JPY	77.31	78.00	78.00	78.00	77.00	77.00	79.00
EUR/USD	1.41	1.47	1.48	1.49	1.50	1.50	1.47
GBP/USD	1.60	1.67	1.68	1.69	1.70	1.70	1.69
USD/CAD	0.99	0.97	0.96	0.95	0.95	0.95	0.97
NZD/USD	0.83	0.85	0.86	0.87	0.88	0.88	0.86

Calendar – September 2011

Monday	Tuesday	Wednesday	Thursday	Friday
Early October AU NSW Labour Day Holiday, Oct (3 Oct) AU Trade balance, Aug (4 Oct) AU Building approvals, Aug (4 Oct) AU RBA meeting (4 Oct) AU Retail trade (5 Oct) AU Housing finance, Aug (12 Oct) AU Labour force, Aug (13 Oct)	***Central Bank Meetings*** EZ ECB (8 Sep) JP BoJ (7 Sep) AU Reserve Bank of Australia (6 Sep) CA Bank of Canada rate (7 Sep) UK BoE (8 Sep) NZ RBNZ (15 Sep) US FOMC (20/21 Sep)		1 **AU AI-Group PMI, Aug, Index, (43.4)** **AU Capex, QII, q/y%ch, 5.0/18.4, (3.4/10.6)** **AU Retail trade, Jul, m%ch, 0.3, (-0.1)** NZ Terms of Trade Index, QII, q%ch, (0.9) CH PMI Manufacturing, Aug, Index, (50.7) JP Vehicle sales, Aug, y%ch, (-27.6) EU/GE/UK PMI manufacturing, Aug, Index, (49.7/52/49.1) GE GDP, QII, q/y%ch, (0.1/2.7) US Construction spending, Jul, m%ch, (0.2) US ISM manufacturing, Aug, Index, (50.9) US Total vehicle sales, Aug, mn, (12.2)	2 EU PPI, Jul, m/y%ch, (0.0/5.9) UK PMI construction, Aug, Index, (53.5) US Non-farm payrolls, Aug, '000, (117) US Unemployment rate, Aug, %, (9.1) US Avg hrly earnings, Aug, m/y%ch, (0.4/2.3) CH Non-Manuf PMI Aug, Index, (59.6) (Sat 3 Sep)
5 **AU CBA/Ai-Group Perf of Serv Index, Aug, (48.8)** **AU TD inflat gauge Aug, m/y%ch, , (0.3/3.2)** **AU Company profits, QII, q%ch, 2.0, (-2.0)** **AU Inventories, QII, q%ch, 0.0, (0.4)** **AU ANZ Job ads, Aug, m%ch, (-0.7)** EU PMI services/composite, Aug, Index, (51.5/51.1) EU Retail sales, Jul, m/y%ch, (0.9/-0.4) GE/UK PMI services, Aug, Index, (50.4/55.4)	6 **AU Current acc deficit, QII, $bn, -8.0, (-10.5)** **AU Net export contrib, QII, ppt, 0.2, (-2.4)** **AU Government Finance statsitics, QII** **AU Housing finance, Jul, m%ch** **No. of own-occupiers, %, -1.0, (0.0)** **Value of all loans, %, 2.0, (0.0)** **AU RBA cash rate, %, 4.75, (4.75)** **AU NSW Budget** EU GDP, QII, q/y%ch, (0.2/1.7) GE Factory orders, Jul, m/y%ch, (1.8/9.5) UK New car registrations, Aug, y%ch, (-3.5) US ISM non-manufacturing, Aug, Index, (52.7)	7 **AU RBA Governor Glenn Stevems speaks in Perth** **AU Ai-Group PCI, Aug, Index, (36.1)** **AU GDP, QII, q/y%ch, 0.8/0.4 (-1.2/1.0)** JP Leading / Coincident index CI, Jul, , (103.2/108.8) JP BoJ target rate, %, 0-0.10, (0-0.10) GE Industrial production, Jul, m/y%ch, (-1.1/6.7) UK Industrial production, Jul, m/y%ch, (0.0/-0.3) UK NIESR GDP estimate, Aug, m%ch, (0.6) US Federal Reserve Beige Book CA Bank of Canada, %, 1.00, (1.00)	8 **AU Labour force, Aug** **employment, '000, 12, (-0.1)** **unemployment rate, %, 5.0, (5.1)** **participation rate, %, 65.6, (65.6)** NZ Manufacturing activity QII, q%ch, (2.9) JP Curr a/c total/adjusted, Jul, ¥bn, (526.9/922.8) JP Machine orders, Jul, m/y%ch, (7.7/17.9) EU ECB announces int. rate, %, 1.50, (1.50) UK BoE announces rates, %, 0.50, (0.50) US Trade balance, Jul, $bn, (-53.1) US Consumer credit, Jul, $bn, (15.5) CA Building permits, Jul, m%ch, (2.1) CA Housing price index, Jul, m/y%ch, (0.3/2.1) CA Trade balance Jul, C$, (-1.6)	9 NZ Credit card spending, Aug, m%ch, (0.2) CH PPI/CPI, Aug, y%ch, (7.5/6.5) CH Industrial production, Aug, y%ch, (14.0) CH Retail sales, Aug, y%ch, (17.2) JP GDP, QII, q%ch, (-0.3) JP Consumer confidence, Aug, Index, (37) GE CPI, Aug, m/y%ch UK PPI Input/Output/core, Aug, y%ch, (18.5/5.9/3.3) UK Total trade balance, Jul, £bn, (-4.5) US Wholesale inventories, Jul, m%ch, (0.6) CA Unemployment rate, Aug, %, (7.2) CA Net change in employment, Aug, '000, (7.1) CA Housing starts, Aug, '000, (205.1) CH Trade balance, Aug, US$bn, (31.5) (Sat 10 Sep)
12 **AU Trade balance Jul, $bn, 2.0, (2.1)** JP Domestic CGPI, Aug, m/y%ch, (0.2/2.9)	13 **AU NAB Bus conf/cond, Aug, Index, (2/-1)** NZ Food prices, Aug, m%ch, (2.0) UK RICS house price balance, Aug, %, (-22.0) UK CPI, Aug, m/y%ch, (0.0/4.4); core, y%ch, (3.1) US Import price index, Aug, m/y%ch, (0.3/1.4)	14 **AU MI/WBC Consumer Sent, Sep, Index, (89.6)** **AU DEWR skilled vacancies, Aug,** **AU CPI Seasonal adjustment paper** **AU Dwelling commencements, QII, q%ch, (f) -2.0 (2.7)** JP Industrial production, Jul, JP Capacity utilisation, Jul, m%ch, (5.2) EU Industrial production Jul, m/y%ch, (-0.7/2.9) UK ILO unemployment rate (3mths), Jul, %, (7.9) US Producer price index Aug, m/y%ch, (0.2/7.2) US Retail sales, Aug, m%ch, (0.5) US Business inventories, Jul, m%ch, (0.3)	15 **AU MI Consumer Inflation Exp., Sep, %, (2.7)** **AU MI Unemp. Expt., Sep, Index, (135.1)** **AU Labour Force - Industry, Aug** **AU Motor veh. sales, Aug, m/y%ch, (8.6/0.9)** **AU RBA Bulletin - QIII 2011** NZ RBNZ official cash rate, %, 2.50, (2.50) NZ Business PMI, Aug, Index, (53.2) EU ECB Monthly report EU CPI, Aug, m/y%ch, (-0.6/x.x); core, y%ch, (1.2) UK Retail sales, Aug, m/y%ch, (0.2/0.0) US CPI, Aug, m/y%ch, (0.5/3.6); core, (0.2/1.8) US Current account balance, QII, US$bn, (-119.3) US Industrial production, Aug, m%ch, (0.9)	16 EU New car registrations Jul, y%ch, (-8.1) EU Current account, Jul, €bn, (-7.4) EU Trade balance Jul, €bn, (-1.6) US Uni. Of Michigan confidence, Sep, Index
19 NZ PSI, Aug, Index, (54.5) EU Construction output, Jul, m/y%ch, (-1.8/-11.3) US NAHB housing market index, Sep, (15)	20 **AU RBA Board minutes, September** EU/GE ZEW survey (econ. sentiment), Sep, (-40/-37.6) US Housing starts, Aug, '000, (604) US Building permits, Aug, '000, (597) CA Leading indicators, Aug, m%ch, (0.2) CA Wholesale sales, Jul, m%ch, (0.2)	21 NZ Visitor arrivals, Aug, m%ch, (2.0) NZ Credit card spending, Aug, m/y%ch, (1.0/7.3) JP Trade bal total/adj, Aug, ¥bn, (72.5/-130.5) UK Bank of England minutes US FOMC rate decision, %, 0-¼, (0-¼) US Existing home sales, Aug, mn/m%ch, (4.67/-3.5) CA CPI, Aug, m/y%ch, (0.2/2.7)	22 NZ GDP, QII, q/y%ch, (0.8/1.4) EU Industrial new orders, Jul, m/y%ch, (-0.7/11.1) US Leading indicators, Aug, m%ch, (0.5) CA Retail sales, Jul, m%ch, (0.7)	23 **AU RBA Financial Stability Review**
26 NZ Trade balance, Aug, $mn, (129) GE IFO - Business climate, Sep, Index, (108.7) GE Retail sales, Aug, US New home sales, Aug, m%ch, (-0.7) US Dallas Fed, Sep, Index	27 US S&P/Case-Shiller home price ind., Jul, US Richmond Fed, Sep, Index, (-10)	28 **AU HIA new home sales Aug,** GE CPI, Sep, US Durable goodes orders, Aug, m%ch, (4.0) CA Teranet House Prices, Jul,	29 **AU ABS Job vacancies, Aug, q%ch, (-4.5)** **AU Population growth, QI, q/y%ch, (0.3/1.5)** JP Retail sales, Aug, UK Net consumer credit, Aug, US GDP, QII, US Pending home sales, Aug,	30 **AU RP Data house prices, Aug,** **AU Private sector credit, Aug,** **AU Financial Accounts, QII** NZ Building permits, Aug, NZ NBNZ Business confidence, Sep, Index JP CPI, Aug, (0.2) JP Industrial/Vehicle production, Aug, JP Construction orders/Housing starts, Aug, US Personal income/spending, Aug, US Uni. Of Michigan confidence, Sep, Index

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

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