

Australian Markets Weekly

Friday, 12 February 2010

Jobs spike but rate hike not certain

- Unemployment fell to 5.3%, stunning the market
- However, aggregate hours worked across the economy fell, despite a big jobs rise
- There might be more spare capacity in the labour market than falling unemployment suggests
- RBA Board minutes and the Governor's testimony might shed some light on recent thinking
- On the data front, watch NAB's Jan Business Survey

Global sovereign debt issues tended to dominate local market trends over the past week, with concerns emerging about a number of countries in the European Union (the 'PIIGS' - Portugal, Italy-Ireland-Iceland, Greece and Spain). By the end of the week, markets had settled down as European leaders announced that a rescue package was in the making (see our Economic Roundup).

There were, however, a couple of important local events for markets to stew over. The labour market data for January showed a stunning drop in the unemployment rate but revealed a quandary of falling total hours worked. And Glenn Stevens, RBA Governor, gave a wide ranging speech which he was at pains to explain had no relevance to near term policy moves but nonetheless revealed some interesting 'predilections' on the part of our chief interest rate setter. He's inclined to lean against leveraged asset price rises.

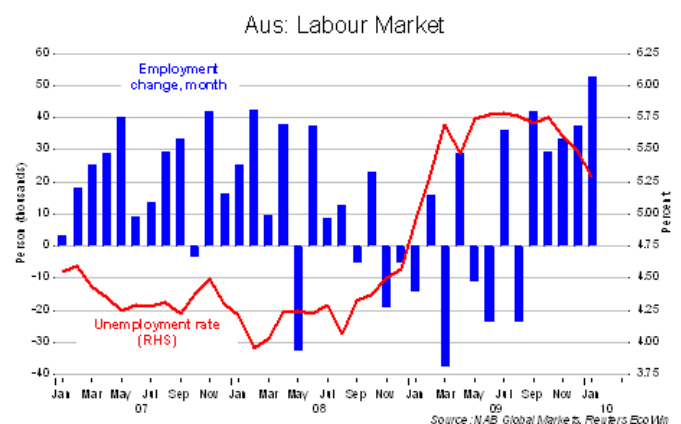
Labour market: Stunning January result

The Labour Force jobs data for January showed a rise in employment of 52,700, yet again confounding the markets which had a median forecast rise of 15K with the top of the forecast range at 30K. Full-time employment rose 15.9K while part-time rose 36.9K, although these figures should be taken with a grain of salt as the standard errors on them are very large.

More importantly, the unemployment rate fell to 5.3% from 5.5% last month and has fallen by half a percent since the 5.8% peak was recorded in October.

We say more importantly because historically the unemployment rate has been a less volatile, more reliable indicator of trends in the labour market than other measures such as the monthly employment change.

Chart: Labour market indicators improving trend



Weekly Highlights

- **Jobs spike but rate hike not certain:** Unemployment fell to 5.3%, stunning the market. However, aggregate hours worked across the economy fell, despite a big jobs rise. There might be more spare capacity in the labour market than falling unemployment suggests. RBA Board minutes and the Governor's testimony might shed some light on recent thinking. On the data front, watch NAB's Jan Business Survey...[read more](#)
- **US:** Fed Chairman emphasises "low rates for extended period"; outlines mechanics of Fed's exit strategy...[read more](#)
- **China:** Chinese lending reflects administrative clamps from mid-January; consumer inflation slows; producer/ housing inflation accelerates...[read more](#)
- **EU:** EU leaders rally behind Greece's fiscal consolidation plan...[read more](#)
- **BOE:** BoE downgrades growth and inflation forecasts...[read more](#)
- **NZ:** NZ retail sales disappoint...[read more](#)
- **Offshore next week:** USA: Housing starts (Jan); Industrial production (Jan); FOMC Jan 27 minutes; PPI/ CPI (Jan); Philly Fed index (Feb). China: New Year. Europe: ZEW survey (Feb); PMIs (Feb); Trade/ current account (Dec). UK: Rightmove house prices (Feb); CPI (Jan); DCLG House prices (Dec); Unemployment (Jan); Mortgage approvals (Jan) Public sector net borrowing (Jan); Retail Sales (Jan). NZ: PSI Services (Jan); Producer prices (Q4); ANZ Consumer confidence (Feb); Credit card spending (Jan)...[read more](#)
- **Foreign Exchange:** Our parity forecast for AUD/USD has been delayed rather than dropped. ...[read more](#)
- **Calendar:** Upcoming events for the week ahead...[read more](#)
- **Forecasts:** Economic, Interest Rate and Exchange Rate Forecasts...[read more](#)

Targets – Rates & Currencies

	12-Feb	Mar-10	Jun-10	Dec-10
RBA cash	3.75	3.75	4.25	4.75
3 month bill rate	4.21	4.2	4.5	5.2
3 year swap rate	5.31	5.2	5.5	5.7
AUD/USD	0.8889	0.90	1.00	0.97

Jobs spike but rate hike not certain (cont)

The trend series for the unemployment rate is now clearly in a downtrend too and has fallen from a peak of 5.8% in June, July and August to 5.4% as of January.

Aggregate hours worked paradoxically fell

January's Labour Force revealed a surprising quandary: aggregate hours worked fell by 1% in the month, a surprising result, given the strong increase in employment.

According to the ABS, aggregate hours worked for full-timers fell by 1.3%. This was despite full time employment increasing by 15,900. This means that average hours worked per employee fell by 2.1 hours or 1.8%.

The ABS cannot explain this apparent paradox because they do not collect sufficient information.

Perhaps the overall fall is a seasonality issue. The data is seasonally adjusted but, for example, more people may have taken holidays in January 2010 than in a normal year which might distort the seasonally adjusted hours worked data.

Another possibility is that firms are labour hoarding – increasing the number of employees rather than increasing the hours worked of existing employees, remembering how hard it was to get skilled staff during the boom period running into the financial crisis. This might also show up as 'job sharing' - effectively employers adding workers but cutting everyone's hours in a bid to beat coming skills shortages as the expanding economy hits capacity constraints.

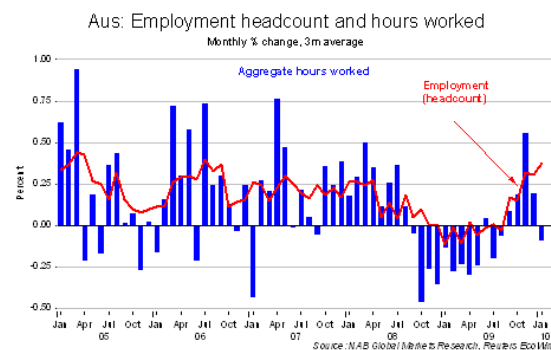
While the issue of the fall in hours worked might turn out to be a statistical aberration, there are also some plausible explanations for this outcome.

This raises an important issue. If in the trend is the labour market is for employers to hoard labour as hours worked fall, this means that the labour market might not be as tight as the falling unemployment rate suggests.

If there is plenty of scope for employers to simply increase the hours their employees work as demand increases with the economic upturn, this could turn out to be less inflationary than the situation where employers have to compete for additional heads to meet that demand.

Ken Henry, the Secretary of the Treasury who sits on the RBA's policy Board, said in testimony to a Senate Estimates committee on Thursday that if hours worked had not dropped, the unemployment rate would be about 2% higher. "Instead of talking about 5.3 per cent, you might be talking about a 7.3 per cent unemployment rate..." suggesting that the economy is still some way from "...tight labour market conditions...".

Chart: Hours worked down as employment up



To wrap up, the Labour Force data is important for the RBA - the Governor is on the record as saying that the labour

market is as good a guide to the strength of the economy as are the GDP data. However, the fall in aggregate hours work means that the unemployment rate drop might not be such a clear guide to the tightness of the labour market.

If the RBA is looking for reasons not to hike in March, then they might take comfort in the hours worked data, allowing them to sit for a while longer and watch the impact of their rate hikes to date and other developments including the slowing in China and the sovereign debt crisis in Europe.

On the other hand, the drop in the unemployment rate is substantial. At 5.3%, the level of the rate must be half a percent below where they would have reasonably expected unemployment to be today. That might push them over the line.

The market has moved to price in 4.75% by the end of the year up from 4.5% a week ago. We agree with this assessment of the rates outlook. The market is pricing a 46% chance of a 25bps hike at the March meeting. Again, it's hard to argue with the market pricing, especially with quite a lot of data still to come before the March meeting.

The week ahead

The coming week gives ample opportunity for the RBA to attempt to explain its view to the public and the market. Minutes from the Feb Board meeting will be published on Tuesday and Glenn Stevens will give his semi-annual testimony to Parliament's Economics Committee in Canberra on Friday. Guy Debelle, RBA Assistant Governor, speaks on Tuesday.

The key to the December Board meeting minutes, with the benefit of hindsight, was the revelation that Board members had carefully considered the pros and cons of leaving rates on hold. In the event they raised rates 25bps. But the minutes said "Members saw the arguments as finely balanced". A close decision in December was followed by a pause in Feb.

So watch for any signs that the Feb decision was also finely balanced. That means that a rate hike in March is on the table.

The Testimony we'd expect to be more wide ranging than the Minutes but could provide a purposeful update on the evolution of thinking at the Bank since the Feb Board meeting.

Data out this week includes our NAB Business Survey (Jan) out on Tuesday, and our Quarterly Business Survey (Dec quarter) on Thursday. February Skilled Vacancies and the Westpac MI Leading Index for December are due out on Wednesday.

Robert.j.henderson@nab.com.au

International Economic Roundup

- **Fed Chairman emphasises “low rates for extended period”; outlines mechanics of Fed’s exit strategy**
- **EU leaders rally behind Greece’s fiscal consolidation plan**
- **BoE downgrades growth and inflation forecasts**
- **Chinese lending reflects administrative clamps from mid-January; consumer inflation slows; producer/ housing inflation accelerates**
- **NZ retail sales disappoint**

United States

In prepared remarks that were to be delivered in testimony before the US House Committee on Financial Services, Fed Chairman Bernanke outlined the mechanics of the Fed’s exit strategy from its special banking and financial market support.

He pointed out that the special/ emergency liquidity and lending facilities had either already been wound up or were in the process of being wound up. In addition, Chairman Bernanke pointed out that the Fed is in the process of normalising the term of regular discount window loans, reducing the maturity to 28 days from 90 days and is in the process of considering an increase in the spread between the discount rate and the Fed funds rate that was reduced as part of the Fed’s monetary easing.

He also spelled out that the Fed has been developing additional tools to reduce the large quantity of reserves held in the banking system that could be used to support upward pressure on short term interest rates when the time arrives for the Fed to begin formally tightening monetary policy. These include reverse repurchase agreements and plans to offer term deposits to depository institutions.

He was at pains to point out that this discourse on the Fed’s exit strategy was not intended as a heads up for an imminent tightening of monetary policy. He repeated the line, used in the 27 January FOMC statement, the economic conditions are likely to warrant exceptionally low levels of federal funds for an extended period. Fair enough, but we would note that the special withdrawal of liquidity and lending facilities and the likely increase in the spread between discount and fed funds rate are signs that the Fed is already taking some steps toward monetary normality.

China

This week’s set of trade, inflation and lending data for January was a mixed bag. On the trade front, China’s trade balance narrowed to US\$14.17bn from \$18.43bn in December and a much smaller surplus than the consensus of \$20bn. Exports rose 21%yoy, (less than the 28% expected, but the imports surged to 85.5% (mkt 85.2%). A Chinese official said that exports fell 5.5% in Jan while imports dropped 0.9% pointing to some drag on the economy from net exports in the new year.

New yuan loans spiked as expected to 1.39tr from 0.38tr on the back of the spike in lending in early January, that was curtailed in the second half of the month. That result was right in line with expectations providing the market with some comfort that further tightening to arrest credit growth. Some easing in consumer inflation to 1.5% y/y from 1.9% in December also soothed markets though upstream producer

and housing inflation accelerated, the former mainly on the back of higher raw material, mining and commodity prices. Producer prices rose from 1.7% y/y to 4.3% while the purchasing price index jumped from 3.0% y/y to 8.0%. Industry and press reports report that Chinese steel mills have tentatively agreed to a 40% rise in the price of iron ore that would apply from 1 April.

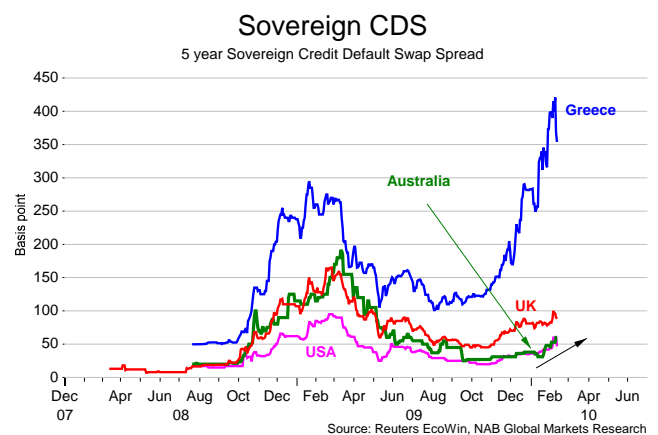
The China NDRC house price index accelerated from 1.5%/7.8% in December to 1.7%/9.5% in January.

EU to support Greece

In the lead up to the EU Finance Ministers meeting this coming week, the EU Leaders’ Summit said that they would provide “determined and coordinated action if needed to safeguard stability’ (of the Euro-zone). This was an emphatic political and policy statement to support the stability of the Euro-zone currency (and of course the European Community) but unspecific on detail.

Clearly there is a lot of water to go under the bridge as far as Greece’s efforts to rein in its budget deficit and debt levels in coming years are concerned. To date, the Greek Government has outlined its plans to cut the deficit through a public sector wage freeze and through some pension and tax reform but is yet to indicate the nature and extent of financial support that it might be seeking. There is also a tangible degree of internal political opposition from vested interest within Greece to these planned reforms.

Chart: Greek sovereign default risk under scrutiny



BoE downgrades forecasts

The Bank of England’s latest Inflation Report projection, published this week, shows GDP growth a little weaker over the next two years than in the November edition.

Growth is expected to be lower this year, though fairly similar in 2011. But the inflation projection is unambiguously lower than November, with inflation reaching just around 1.2% in two years time and still some way below target in three years. That is despite a higher short term peak in inflation over the next quarter or so.

Even if Bank Rate were unchanged for the next two years, the Committee’s projection would miss the inflation target on the downside by some way. On the same basis in November the forecast was at 2.35%.

The upshot is that, on this indication of the MPC’s thinking, we will not see Bank Rate rises this year. Indeed, as

Governor King said at the press conference it is 'far too soon' to rule out more quantitative easing

New Zealand

The 1.8% fall in December's ex-auto spending was the biggest, and most meaningful, downward surprise. There was not a rogue component we could see. Instead, the weakness appeared reasonably widespread, albeit possibly part payback from November's surprisingly good results (which were unrevised, at 0.8%, ex-auto, and 0.8%, in total).

Yes, Q4 retail volumes expanded a good-looking 1.0%, but this was shy of the 1.4% we and the market polls were picking. Ex-auto volumes grew 1.3%, when we were looking for 1.8%. These outcomes keep the lid on our Q4 GDP growth expectation, which remains at 0.4%, thanks to rounding.

The other thing the retail statistics suggested was a good dollop of discounting. Not only did the overall retail price index go flat in the December quarter but in ex-auto terms it fell 0.7%. Yes, this clearly reflected the impacts of the strong exchange rate, with prices for big-ticket items down 2.6%. But there was also a 0.8% drop in non-durables prices, which was the softest on record. Such things affirm the mild inflation pulse we've already seen in the likes of the CPI and wages.

Offshore next week

- **USA: Housing starts (Jan); Industrial production (Jan); FOMC Jan 27 minutes; PPI/ CPI (Jan); Philly Fed index (Feb)**
- **China: New Year**
- **Europe: ZEW survey (Feb); PMIs (Feb); Trade/ current account (Dec)**
- **UK: Rightmove house prices (Feb); CPI (Jan); DCLG House prices (Dec); Unemployment (Jan); Mortgage approvals (Jan) Public sector net borrowing (Jan); Retail Sales (Jan)**
- **NZ: PSI Services (Jan); Producer prices (Q4); ANZ Consumer confidence (Feb); Credit card spending (Jan)**

David.deGaris@nab.com.au

David.Tinsley@eu.nabgroup.com

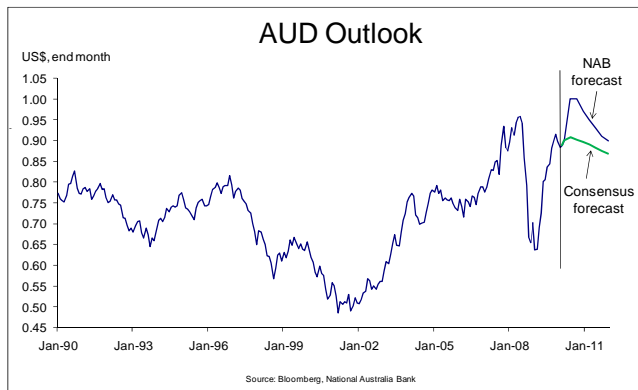
Craig_Ebert@bnz.co.nz

Market Strategy

Foreign Exchange

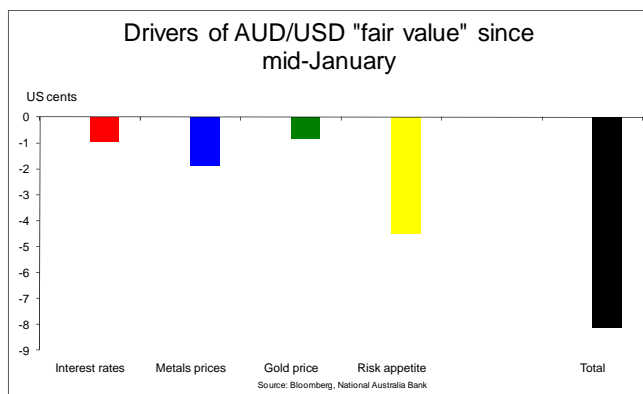
- Our parity forecast for AUD/USD has been delayed rather than dropped.

We have cut our AUD/USD forecast for end-March to 0.90 from 1.00. Our forecast for end-June is now 1.00 (from 1.02), end-September is also 1.00 (from 1.03), while end-December is now 0.97 (from 1.00).

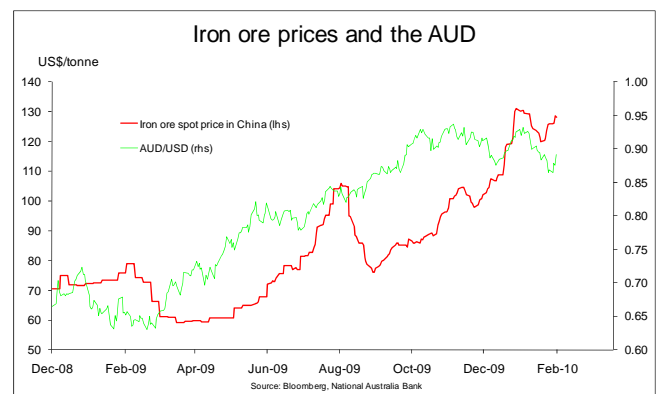


We first made our forecast of parity back in October of last year. Underpinning this forecast was our forecast for two 25bps rate hikes by the RBA in the March quarter of this year. The RBA paused in February and it now looks unlikely that there will be another RBA hike until May of this year (although we have not ruled out an earlier move, especially if other economic reports deliver upside surprises like this week's stellar jobs numbers for January).

We also assumed that our risk-appetite index (which is on a 0%-100% scale) would rise to well above the long-term average of 50% on the global recovery story and an easing global credit crunch. Clearly, the Chinese clamp down on excessive credit growth and heightened risks of sovereign credit defaults in Greece, Spain and Portugal have severely dented sentiment towards the global economy and knocked risk-appetite down sharply (the Commodity Research Bureau index fell 12%, while our risk-appetite index has slumped from above 70% in mid-January to 47%). Our "fair value" model for AUD/USD shows that US4.5 cents of the US8.1 cent decline from just above 0.9400 to 0.8600 came from the slide in investor risk-appetite. US1.9 cents was accounted for by the decline in metals prices, while reduced RBA rate hike expectations knocked US0.9 cents off "fair value" and the lower gold price was worth US0.8 cents.



As such, it's more than a stretch to believe that AUD/USD can get to parity over the next seven weeks, so we have lowered our forecast to 0.9000 at end-March. This assumes some easing in investor risk-aversion and small recovery in commodity prices. We are encouraged by the 7% rise in the spot iron ore price since the end of January, which is consistent with our view that strong Chinese economic growth will continue this year and help drive the AUD higher. Indeed, *The Age* newspaper reported that breakaway Chinese steel mills were close to agreeing to a hefty 40% rise in the iron ore contract price which would return it close to the pre-financial crisis record set in 2008. Admittedly, the sovereign credit issue will take somewhat longer to resolve (Greece will need to show it's taking its medicine for a start).



However, we recently revised up our Australian GDP growth and CPI inflation forecasts, while the unemployment rate is forecast to fall to 4.8% at the end of 2010 from our previous forecast of 6.1%. We still forecast 100bps of tightening this year in Australia, while the US Fed isn't expected to start raising rates from near-zero levels until the December quarter of 2010. Indeed, the risk is that the US doesn't tighten until 2011 and the USD is expected to struggle again from mid-year as market expectations for Fed action adjust, especially given a reasonable likelihood that US quantitative easing is extended. Moreover, the looming US debt crisis will likely be back on the front page as attention shifts away from Europe, and another fiscal boost by the Obama administration would be a red rag to a bull in this regard.

We still forecast global GDP growth returning to trend, with forecasts having been recently revised up to 3.5% in 2010 and 3.9% in 2011. This recovery is being driven by non-Japan Asia (good for Australia) but will broaden to the major advanced economies in 2011. As such, our forecasts for a 15%-20% rise in Australia's commodity prices in 2010 and 10%-15% gain in non-rural commodity prices in 2011 remain intact.

These continuing positive fundamentals for the AUD encouraged us to maintain our forecast for parity to be reached this year, albeit on a later schedule.

John.Kyriakopoulos@nab.com.au

Weekly Calendar of Global Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Monday 15 February 2010								
NZ	PSI Services index	JAN						
JN	Gross Domestic Product (QoQ/ saar)	4Q P		0.9%/3.6%		0.3%/1.3%	23.50	10.50
UK	Rightmove House Prices (MoM/YoY)	FEB				0.4%/4.1%	0.01	11.01
JN	Tokyo Condominium Sales (YoY)	JAN				-21.6%	4.00	15.00
JN	Industrial Production (MoM/YoY)	DEC F				2.2%/5.3%	4.30	15.30
JN	Capacity Utilization (MoM)	DEC F				3.2%	4.30	15.30
Tuesday 16 February 2010								
NZ	Producer Prices- Inputs/Outputs (QoQ)	4Q		0.5%/0.4%			21.45	8.45
AU	Reserve Bank's Board February Minutes						0.30	11.30
AU	NAB Business Conditions/Confidence	JAN				10/8	0.30	11.30
AU	RBA's Guy Debelle Speaks in Sydney						1.45	12.45
NZ	Non Resident Bond Holdings	JAN				63.2%	2.00	13.00
EC	EU 25 New Car Registrations	JAN				16.4%	7.00	18.00
UK	CPI (MoM/YoY)	JAN		0.1%/3.7%		0.6%/2.9%	9.30	20.30
UK	Core CPI YOY	JAN				2.8%	9.30	20.30
UK	DCLG UK House Prices (YoY)	DEC				0.6%	9.30	20.30
EC	ZEW Survey (Econ. Sentiment)	FEB				46.4	10.00	21.00
GE	ZEW Survey (Econ. Sentiment/Current Situation)	FEB		41		47.2/-56.6	10.00	21.00
US	Empire Manufacturing	FEB		17.70		15.92	13.30	0.30
US	Net Long-term/Total Net TIC Flows	DEC		\$50.0B		\$126.8B/\$26.6B	14.00	1.00
US	Fed's Lockhart to Speak on Early Education in Atlanta (NV)						17.30	4.30
US	Fed's Kocherlakota Speaks in St. Paul, Minnesota (ALT)						17.45	4.45
US	NAHB Housing Market Index	FEB		16		15	18.00	5.00
Wednesday 17 February 2010								
US	ABC Consumer Confidence	Feb-15				-48	22.00	9.00
AU	Westpac Leading Index (MoM)	DEC				1.0%	23.30	10.30
JN	Tertiary Industry Index (MoM)	DEC		-0.3%		-0.2%	23.50	10.50
AU	DEWR Skilled Vacancies MoM	FEB				1.1%	0.00	11.00
JN	BoJ Monetary Policy Meeting						4.00	15.00
JN	Machine Tool Orders (YoY)	JAN F				192.00%	6.00	17.00
UK	Bank of England February Minutes						9.30	20.30
UK	Claimant Count Rate	JAN		5.0%		5.0%	9.30	20.30
UK	Jobless Claims Change	JAN		-10.0K		-15.2K	9.30	20.30
UK	Weekly Earnings w/Bonus/exBonus 3M/YoY	DEC		0.8%/1.2%		0.7%/1.1%	9.30	20.30
UK	ILO Unemployment Rate (3mths)	DEC		7.9%		7.8%	9.30	20.30
EC	Construction Output SA MoM/WDA YoY	DEC				-1.1%/-8%	10.00	21.00
EC	Euro-Zone Trade Balance/sa	DEC				4.8B/3.9B	10.00	21.00
US	MBA Mortgage Applications	Feb-13				-1.2%	12.00	23.00
US	Import Price Index (MoM/YoY)	JAN		0.9%/10.5%		0%/8.6%	13.30	0.30
US	Housing Starts/Building Permits	JAN		581K/611K		557K/653K	13.30	0.30
US	Industrial Production/Capacity Utilization	JAN		0.8%/72.6%		0.6%/72%	14.15	1.15
US	Minutes of FOMC Meeting						19.00	6.00
Thursday 18 February 2010								
AU	NAB Business Conditions/Confidence	4Q				5/16	0.30	11.30
NZ	ANZ Consumer Confidence Index	FEB					2.00	13.00
JN	Leading/Coincident Index CI	DEC F				94/97.6	5.00	16.00
JN	BOJ Target Rate					0.1%		
UK	Major Banks Mortgage Approvals	JAN				62K	9.30	20.30
UK	Public Finances (PSNCR)/Public Sector Net	JAN		-17.8B/-2.8B		23.6B/15.7B	9.30	20.30
UK	M4 Money Supply (MoM/YoY)	JAN P				-1.1%/6.4%	9.30	20.30
EC	Euro-Zone Consumer Confidence	FEB A				-16	10.00	21.00
UK	CBI Industrial Trends	FEB					11.00	22.00
US	Fed Releases Minutes from Jan. 26-27 FOMC	Feb-18					19.00	6.00
US	Producer Price Index (MoM/YoY)	JAN		0.8%/4.4%		0.2%/4.4%	13.30	0.30
US	PPI Ex Food & Energy (MoM/YoY)	JAN		0.1%/0.8%		0%/0.9%	13.30	0.30
US	Initial Jobless Claims	Feb-14		450K		440K	13.30	0.30
US	Continuing Claims	Feb-07				4538K	13.30	0.30
US	RPX Composite 28dy YoY	DEC				-4.19%	14.00	1.00
US	Philadelphia Fed.	FEB		17.0		15.2	15.00	2.00
US	Leading Indicators	JAN		0.5%		1.1%	15.00	2.00
US	Fed's Bullard to Speak to the Economic Club of Memphis (V)						18.00	5.00
Friday 19 February 2010								
AU	RBA Governor Stevens to appear before House of Reps Committee						22.30	9.30
US	Fed's Lockhart to Speak on U.S. Outlook in Augusta, Georgia (NV)						0.00	11.00
SI	GDP (YoY/ annualised QoQ)	4Q				3.5%/-6.8%	0.00	11.00
NZ	Credit Card Spending SA (MoM/YoY)	JAN				-1.3%/1.8%	2.00	13.00
JN	All Industry Activity Index (MoM)	DEC		0.2%		0.1%	4.30	15.30
JN	BOJ Monthly Report	Feb-19					5.00	16.00
GE	Producer Prices (MoM/YoY)	JAN				-0.1%/-5.2%	7.00	18.00
EC	ECB Euro-Zone Current Account SA	DEC				0.1B	9.00	20.00
EC	PMI Mfg/ Services/ Composite	FEB		52.8/52.5/53.5		52.4/52.5/53.7	9.00	20.00
UK	Retail Sales (MoM/YoY)	JAN				0.3%/2.1%	9.30	20.30
US	Fed's Dudley to Speak at Economic Conference	Feb-20					13.00	0.00
US	Consumer Price Index (MoM/YoY)	JAN		0.3%		0.1%/2.7%	13.30	0.30
US	CPI Ex Food & Energy (MoM)	JAN		0.2%/2.8%		0.1%/1.8%	13.30	0.30
US	Fed's Dudley to Speak at Economic Conference in Puerto Rico (V)						13.00	0.00
Upcoming Central Bank Interest Rate Announcements								
Japan, BoJ		18-Feb	0.1%	0.1%		0.1%		
Australia, RBA		2-Mar	3.8%	4.0%		3.8%		
Canada, BoC		2-Mar	0.3%	0.3%		0.3%		
Europe ECB		4-Mar	1.00%	1.00%		1.0%		
UK BOE		4-Mar	0.50%	0.50%		0.5%		
New Zealand, RBNZ		11-Mar	2.5%	2.5%		2.5%		
US Federal Reserve		16-Mar	0%-0.25%	0%-0.25%		0%-0.25%		

FOMC Member voting status: V=voter, NV=non-voter, Alt=Alternate FOMC member r = revised

AEDT Australian Eastern Daylight Saving Time

Forecasts

Economic Forecasts

Australia Forecasts					2008		2009		2010				2011				
	2008	2009	2010	2011	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP - quarter %					-0.9	0.5	0.6	0.2	0.9	0.8	0.7	0.7	1.0	1.0	0.9	1.0	1.0
Real GDP - annual %	1.1	1.1	2.9	3.7	1.0	0.7	0.4	0.5	2.3	2.6	2.6	3.1	3.2	3.4	3.6	3.9	3.9
Household Consumpti	1.5	1.5	3.4	3.4	0.1	0.3	0.7	0.7	1.0	0.9	0.9	0.8	0.7	0.8	1.0	1.0	0.8
Business Investment	12.5	0.1	-1.4	6.4	-0.5	-4.1	1.1	-2.8	-1.9	-0.5	0.9	1.0	1.7	1.5	2.0	2.0	1.5
Residential Constructi	3.5	-3.2	7.2	6.7	-2.8	-3.7	-5.8	5.8	3.6	0.7	1.5	1.4	1.9	2.0	1.5	1.5	1.0
Government Spending	8.6	3.3	5.4	1.6	-0.5	-0.7	1.3	1.7	1.6	1.6	1.0	0.8	0.8	-1.0	0.8	0.8	0.8
Exports	3.0	1.5	1.0	5.2	-1.1	2.4	0.8	-2.3	-1.2	1.0	1.1	1.3	1.6	1.3	1.1	1.1	0.9
Imports	13.6	8.3	7.2	8.7	-7.4	-7.0	0.7	5.8	1.1	1.3	1.4	1.2	1.5	3.0	2.5	2.5	2.0
Net Exports*	-1.6	0.9	-1.5	-1.1	1.5	2.0	0.0	-1.6	-0.5	-0.1	-0.1	0.0	0.0	-0.4	-0.4	-0.4	-0.3
Inventories*	-0.4	-0.7	0.6	0.0	-1.6	-0.1	-0.5	1.1	0.1	0.0	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Domestic Demand - qtr%					-0.3	-0.8	0.7	0.6	0.9	0.7	0.6	0.6	0.8	0.9	1.2	1.3	1.3
Dom Demand - annual	2.0	1.2	1.8	3.8	2.9	1.1	0.4	0.1	1.4	2.9	2.8	2.8	2.7	2.9	3.5	4.2	4.7
Australia Other																	
CPI headline - quarter%					-0.3	0.1	0.5	1.0	0.5	0.4	0.5	0.5	0.7	0.7	0.7	0.7	0.7
CPI headline - annual %	3.7	1.9	2.2	2.6	3.7	2.5	1.5	1.3	2.1	2.5	2.4	1.9	2.1	2.4	2.6	2.8	2.8
CPI underlying - qtr%					0.8	1.1	0.8	0.8	0.7	0.7	0.6	0.5	0.6	0.6	0.6	0.7	0.7
CPI underlying - annua	4.4	3.8	2.6	2.4	4.4	4.3	4.0	3.5	3.4	2.9	2.7	2.4	2.3	2.3	2.3	2.5	2.6
Wages (Pvte WPI - qtr%)					1.1	0.8	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.8
Wages (Pvte WPI - ann	4.3	3.4	2.8	2.9	4.3	4.1	3.5	3.2	2.8	2.7	2.8	2.8	2.8	2.8	2.8	2.9	3.0
Unemployment Rate (%)	4.5	5.6	5.0	4.4	4.5	5.3	5.7	5.8	5.6	5.3	5.1	4.9	4.7	4.5	4.4	4.3	4.2
Terms of trade	-2.9	-3.4	1.2	0.5	-2.9	-7.3	-7.5	1.1	0.1	0.5	2.2	1.3	0.9	0.5	0.5	0.5	0.5
Current Account (% GD	-4.6	-4.3	-4.3	-5.7	-2.4	-2.0	-4.2	-5.2	-4.6	-4.0	-3.9	-4.3	-4.9	-5.5	-5.6	-5.7	-5.8
	2008	2009	2010	2011													
Australia	1.1	1.1	2.9	3.7													
US	1.1	-0.6	2.7	2.2													
Eurozone	0.6	-4.3	0.9	0.9													
UK	-1.2	-5.3	1.6	1.7													
Japan	0.5	-2.4	2.5	1.5													
China	7.5	8.7	7.3	6.4													
India	0.5	-3.9	1.2	0.3													
New Zealand	1.1	1.0	3.0	2.0													
World	-0.5	-5.3	3.6	3.7													

*Contribution to real GDP

Interest Rate Forecasts

	12-Feb	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Australia									
RBA Cash rate	3.75	3.75	4.25	4.50	4.75	5.25	5.25	5.50	5.50
3 month bill rate	4.21	4.2	4.5	4.8	5.2	5.4	5.5	5.7	5.7
3 Year Bond Rate	4.62	4.6	4.9	5.1	5.2	5.3	5.3	5.3	5.3
10 Year Bond Rate	5.59	5.5	5.6	5.7	5.8	5.8	5.8	5.8	5.8
3 Year Swap Rate	5.31	5.2	5.5	5.6	5.7	5.8	5.8	5.8	5.8
10 Year Swap Rate	6.10	6.0	6.1	6.2	6.3	6.3	6.3	6.3	6.3
Offshore Policy Rates									
US Fed funds	0.25	0.13	0.13	0.13	0.75	1.25	1.50	1.50	1.75
ECB refi rate	1.00	1.00	1.00	1.00	1.50	2.00	2.75	3.00	3.00
BoE repo rate	0.50	0.50	0.50	0.50	1.00	1.25	1.50	1.75	2.00
BoJ call rate	0.11	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
RBNZ OCR	2.50	2.50	2.75	3.25	3.75	4.25	4.75	5.25	5.75
China 1yr rate	5.31	5.31	5.31	5.58	5.58	5.58	5.58	5.58	5.58
10 Year Benchmark Bond Yields									
Australia	5.59	5.45	5.55	5.65	5.75	5.80	5.80	5.80	5.80
United States	3.70	3.70	3.80	4.00	4.25	4.50	4.60	4.70	4.80
Europe	3.23	3.30	3.50	3.60	3.85	4.10	4.20	4.30	4.40
UK	4.02	3.90	4.00	4.10	4.25	4.50	4.60	4.70	4.80
Japan	1.34	1.40	1.50	1.60	1.70	1.90	2.00	2.00	2.00
New Zealand	5.85	5.75	5.80	5.90	6.00	6.30	6.30	6.30	6.40
10 Year Benchmark Bond Spreads to the United States									
Australia	189	175	175	165	150	130	120	110	100
United States	-	-	-	-	-	-	-	-	-
Europe	-47	-40	-30	-40	-40	-40	-40	-40	-40
UK	32	20	20	10	0	0	0	0	0
Japan	-236	-230	-230	-240	-255	-260	-260	-270	-280
New Zealand	215	205	200	190	175	180	170	160	160

Exchange Rate Forecasts

	12-Feb	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Majors									
AUD/USD	0.8889	0.90	1.00	1.00	0.97	0.95	0.93	0.91	0.90
NZD/USD	0.6973	0.72	0.75	0.76	0.74	0.72	0.71	0.70	0.69
USD/JPY	89.61	91	93	98	100	101	103	105	106
EUR/USD	1.3670	1.38	1.41	1.47	1.49	1.45	1.43	1.42	1.40
GBP/USD	1.5690	1.55	1.64	1.72	1.77	1.78	1.77	1.76	1.74
USD/CNY	6.8320	6.82	6.80	6.57	6.48	6.32	6.24	6.12	6.02
USD/CAD	1.0519	1.04	0.96	0.97	0.98	0.99	1.00	1.01	1.02
Australian Cross Rates									
AUD/JPY	79.65	82	93	98	97	96	96	96	95
AUD/EUR	0.6503	0.65	0.71	0.68	0.65	0.66	0.65	0.64	0.64
AUD/GBP	0.5665	0.58	0.61	0.58	0.55	0.53	0.53	0.52	0.52
AUD/NZD	1.2748	1.26	1.33	1.32	1.31	1.33	1.31	1.30	1.30
AUD/CNY	6.0730	6.14	6.80	6.57	6.29	6.00	5.80	5.57	5.42
AUD/CAD	0.9350	0.94	0.96	0.97	0.95	0.94	0.93	0.92	0.92

Research Contacts

Peter Jolly
Head of Research
+61 2 9237 1406

Alan Oster
Group Chief Economist
+61 3 8634 2927

Economics

Rob Henderson
Chief Economist
+61 2 9237 1836

Spiros Papadopoulos
Senior Economist
+61 3 8641 0978

David de Garis
Senior Economist
+61 2 9237 1180

Tom Taylor
Head of Economics, International
+61 3 8634 1883

Stephen Toplis (NZ)
Head of BNZ Market Economics
+64 4 474 6905

Craig Ebert (NZ)
Senior Markets Economist
+64 4 474 6799

Tom Vosa (UK)
Head of Market Economics
+4420 7710 1573

David Tinsley (UK)
Economist
+4420 7710 2434

Credit Research
Michael Bush
Head of FI Research
+61 3 8641 0575

Ken Hanton
Senior Analyst
+61 2 9237 1405

Jenny Khamphet
Senior Analyst
+61 2 9237 9538

Market Strategy
John Kyriakopoulos
Head of Currency Strategy
+61 2 9237 1903

Danica Hampton (NZ)
Currency Strategist
+64 4 472 4767

Mike Jones (NZ)
Currency Strategist
+64 4 472 4767

Nick Parsons (UK)
Head of Markets Strategy
+ 4420 7710 2993

Gavin Friend
Markets Strategist
+44 207 710 2155

Technical Analysis
Gordon Manning
dingaroo@bigpond.com.au

Design and Distribution
Loretta Damaso
Desktop Publisher
+61 2 9237 1510

Important Notices

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Global Markets Division of National Australia Bank Limited (ABN12 004 044 937, AFSL230686). The views of the author(s) do not necessarily reflect the views of the National Australia Bank Group ("NAB") and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

AUSTRALIAN DISCLAIMER: National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686), its affiliates, related bodies and any officer, employee, agent, adviser or contractor thereof ("NAB") does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") is accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts. The Information is not intended as an offer or solicitation for the purchase or sale of any financial instrument. To the extent permissible by law, NAB shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reason of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, NAB limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. NAB may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer. The Information is governed by, and is to be construed in accordance with, the laws in force in the State of Victoria, Australia, and any dispute or claim arising from, or in connection with, the Information is subject to the non-exclusive jurisdiction of the courts of that State.

UK Disclaimer: So far as the law and the Financial Services Authority Rules allow, National Australia Bank Limited and its subsidiaries, affiliates and other related bodies (together the "Bank") disclaims any warranty or representation as to the completeness, accuracy, reliability, legality, validity, effectiveness or enforceability of the information and statements in this document. The content of this document (including any amount, valuation and transaction structure): is preliminary, indicative and provided for information purposes only; may be subject to change and the Bank does not undertake to review the content or the financial condition, status or affairs of any relevant party;

- is not intended to create any legal relations;
- does not constitute an offer or commitment to enter into any transaction or provide finance, neither does it indicate or suggest that any such offer or commitment shall be forthcoming;
- does not purport to be complete or exhaustive and should be read in conjunction with other documentation;
- should not be relied upon; and
- remains subject to the Bank's internal approvals and negotiation of satisfactory legal documentation.

Recipients should not rely on the contents of the documentation and should make their own independent assessment as to the accuracy and suitability of the information and where appropriate, recipients should seek professional advice relevant to their circumstances. The Bank will not be liable (whether in negligence or otherwise) for any loss or damage suffered from relying on this document.

The Bank may have proprietary positions in any products described in this document and reserves the right to withdraw any product at any time without notification.

This document is strictly confidential and is provided for information purposes on the understanding that none of the material herein will be divulged to outside parties and that circulation, distribution or discussion of the contents will be limited to any intended recipient organisation to the extent possible.

Nothing contained in this document or any other information or explanation provided by the Bank will be considered an invitation to engage in business, a recommendation, guidance, proposal, advice or solicitation to provide investment, financial or banking services or an invitation to engage in business or invest or deal in any financial instruments.

National Australia Bank Limited, ABN 12 004 044 937, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 500 Bourke Street, Melbourne, Victoria. Incorporated with limited liability in the State of Victoria, Australia. Authorised and regulated in the UK by the Financial Services Authority.

U.S DISCLAIMER: This information has been prepared by National Australia Bank Limited or one of its affiliates or subsidiaries ("NAB"). If it is distributed in the United States, such distribution is by nabCapital Securities, LLC which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to nabCapital Securities, LLC, 28th Floor, 245 Park Avenue, New York, NY 10167 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon, sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of nabCapital Securities, LLC or NAB may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.

Important Notices

ASIA DISCLAIMER: The attached materials (Materials) are confidential and have been prepared by National Australia Bank Limited (ABN 12 004 044 937, AFSL 230686) (NAB) and made available to you (Recipient) for general information purposes only without taking account of your objectives, financial situation or needs. The Recipient acknowledges that it is a sophisticated institutional investor. The Materials outline background information in relation to the assets/business described and the opportunity to engage in a transaction in respect of the entity/assets/business (Potential Transaction) for consideration and assessment by the Recipient. The Materials are intended to provide the Recipient with high-level information only concerning the assets/business to allow the Recipient to consider whether to conduct their own comprehensive investigations and due diligence enquiries into, and receive their own independent advice in connection with the entity/assets/business, with a view to entering into a Potential Transaction. The Materials are not, and are not intended to be, a prospectus, offering circular, profile statement or other form of offer document regulated or governed by any legislation of any country or a private placement memorandum, an information memorandum or any other form of invitation to treat.

The Materials do not constitute in any jurisdiction an offer, invitation, solicitation or inducement for the issue, subscription, sale, purchase or disposal of any securities, financial instruments, assets or businesses, or any advice or recommendation in relation to subscribing for, investing in, or acquiring or disposing of any securities, financial products, assets or businesses, or to engage in or refrain from engaging in any transaction whatsoever. Any transaction will only be able to be entered into on the basis of definitive transaction documentation to be negotiated and agreed directly between the Recipient and the relevant counterparty(ies). It is not the intention of NAB to create legal relations on the basis of the Materials.

Neither NAB nor any other company in the National Australia Bank Group or their respective officers, directors, employees, agents, advisers or associates (NAB Group) guarantee the performance of any security, financial product, person, entity, asset or business, or any particular rate of return, forecast, target or forward-looking statement, referred to in the Materials nor take responsibility for the Materials or their contents. Securities and financial products, or any assets or business, described in the Materials are not an investment in, a deposit with or other liability of NAB or any other company in the NAB Group and such investments or acquisitions, if made, will be subject to investment risk, including possible delays in repayments and loss of income or capital invested. Neither NAB nor any member of the NAB Group in any way stands behind the capital value of, nor does it guarantee the performance of, any person or entity, assets or business described in the Materials, including as to any income or other distributions. NAB also does not, nor does any other company in the NAB Group, provide a guarantee or assurance in respect of any entity, assets or business described in the Materials, the ultimate owners of such assets or businesses, their respective related companies or the underlying entities.

A member of the NAB Group may hold a position or act as price maker in respect of securities or financial products mentioned in the Materials or the securities or financial products of any entity or its related companies mentioned in the Materials, or act as underwriter, placement agent, adviser or lender in respect of such entities, securities or products.

No member of the NAB Group makes any representation or warranty, express or implied, as to the accuracy, reliability or completeness of any statement or information in the Materials including, without limitation, any target returns, forecasts (whether economic or otherwise), projections or other forward-looking statements (whose preparation involves elements of subjective judgement and analysis). The Materials do not purport to contain all relevant information and any statement as to any future matter is a present prediction of a possible future outcome, the accuracy of which is not and cannot be guaranteed. The Recipient of the Materials should not rely on the contents of the Materials, but should make and rely on their own assessment and evaluation and undertake their own investigations and inquiries and seek independent advice to enable them to make any decision concerning their own risk and in deciding whether to enter into any Potential Transaction. In particular, any person should seek their own tax advice on the local and foreign tax consequences of any Potential Transaction.

The Materials may contain "forward-looking statements". These forward-looking statements may be based upon certain assumptions. Actual events may differ from those assumed. There can be no assurance that any forward-looking statements will materialise or will not be materially lower than those presented. Except where otherwise indicated herein, the information in the Materials (including forward-looking statements) is based on information available as of the date of the creation of the relevant document and not as of any future date, and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after the date hereof. Where provided, forecasts and estimates of future performance are sourced from company and broker reports. Past performance is no guarantee of future performance.

To the maximum extent permitted by law, the NAB Group (a) expressly disclaims all or any liability in connection with the Materials, including, without limitation, any express or implied representation for statements, conclusions and forward-looking statements contained in, and omissions from, the Materials; (b) expressly disclaims all and any liability which may arise out of the provision to or use by any person of the information and statements contained in the Materials or the preparation of the information contained in the Materials or otherwise arising in connection with the contents of, or any omission from, the Materials; and (c) accepts no liability (whether in negligence or otherwise) for any loss, damage, costs or expenses of any nature which may be suffered or incurred by any person relying on, disclosing or using any information or statement contained in, or otherwise arising in connection with, the Materials. No member of the NAB Group has any liability to the Recipient or to any of such Recipient's officers, directors, employees, agents or associates, legal counsel or other professional advisers or to any other person for any damages, claims, costs or losses resulting from the use of the information contained in the Materials.

By accepting the Materials, the Recipient acknowledges and agrees that NAB is acting, and will at all times act, as an independent contractor and is not acting, and will not act, in any other capacity, including a fiduciary capacity, with respect to the Recipient. NAB, in its capacity as principal or agent, is involved in a wide range of commercial banking and investment banking activities globally (including investment advisory, asset management, research, securities issuance, trading (customer and proprietary) and brokerage) from which conflicting interests or duties may arise. Members of the NAB Group may provide services to any other entity or person whether or not a member of the same group as the Recipient (Third Party), engage in any transaction (on its own account or otherwise) with respect to the Recipient or a Third Party, or act in relation to any matter for itself or any Third Party, notwithstanding that such services, transactions or actions may be adverse to the Recipient or any member of the Recipient's group, and members of the NAB Group may retain for their own benefit any related remuneration or profit.

The Materials are strictly confidential and should not be disclosed or circulated to any other person or reproduced or redistributed in any format without the prior written consent of NAB. NAB reserves the right at any time to suspend or terminate your access to or use of the Materials.