

Australian Markets Weekly

Friday, 19 February 2010

RBA stays 'Mum' on March hike

- Markets continue to go hot and cold on the prospect of a rate hike in March by the RBA
- NAB's Jan survey provided evidence of a slowdown
- But RBA appearances gave nothing away about the chances of a hike in March
- Glenn Stevens took the opportunity to take a swipe at the IMF's suggestion about raising the inflation target to 4%, defending the RBA's 2-3% goal

Markets still fretting about a March hike

The past week has seen less risk aversion offshore and domestic markets whip-sawed by a sequence of conflicting pointers to the possibility of a rate hike in March.

On Tuesday we released our NAB Business Survey for January which showed a sharp downward movement in Business Conditions, confirming the slowing in the economy around the turn of the year. On the same day, the RBA Minutes said that the decision was finely balanced. In the wash up, the market cut the chance of a rate hike in March from 38% on Monday to 28%

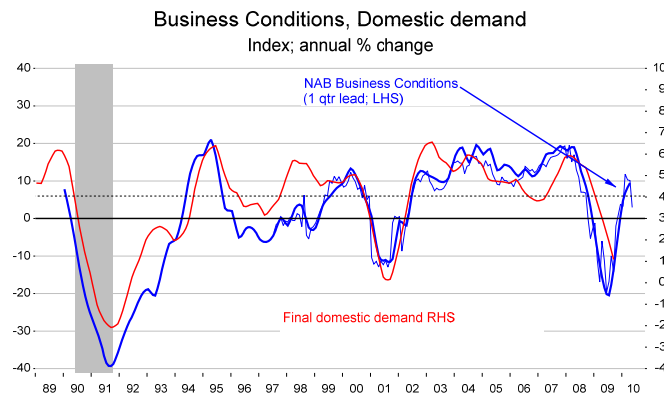
Late in the week, the RBA testimony from Glenn Stevens and a rather hawkish speech from Phil Lowe saw the chance of a March hike rebound to 41%. We reckon it's about 50:50.

RBA Governor's Parliamentary testimony

Of course, the key event of the week was the testimony to Parliament's Economics Committee from Glenn Stevens, RBA Governor. His opening statement commenced with the observation that the global economy has continued the expansion that started from around the middle of 2009. Markets have continued to "thaw" and financial support for banks around the world is being wound down.

The Statement dwells on two key issues. First up, the two speed nature of the global recovery, with Asia-Pacific economies having "v-shaped recovery" but in the large industrial economies the recoveries have been tentative. The shift in the centre of "economic gravity" to Asia will put pressure on exchange rate arrangements in the region, according to the Governor

Chart: NAB's Business Survey: evidence of slowdown



Weekly Highlights

- **RBA stays 'Mum' on March hike:** Markets continue to go hot and cold on the prospect of a rate hike in March by the RBA. NAB's Jan survey provided evidence of a slowdown. But RBA appearances gave nothing away about the chances of a hike in March. Glenn Stevens took the opportunity to take a swipe at the IMF's suggestion about raising the inflation target to 4%, defending the RBA's 2-3% goal...[read more](#)
- **Fed raises discount rate:** Fed raises discount rate; emphasises not tightening policy ...[read more](#)
- **BoE still coy on policy outlook:** BoE's Monetary Policy Committee in "wait and see" mode; ponders whether to increase quantitative easing; UK reports a surprise budget deficit in January ...[read more](#)
- **German investor confidence falls:** German investor confidence down for fifth month ...[read more](#)
- **Offshore next week:** USA: House prices (Q4/Dec), Richmond & Dallas Fed indexes (Feb); Consumer confidence (Feb), Home sales (Jan); Durables orders (Jan); GDP revision (Q4), Chicago PMI (Feb). Europe: Industrial new orders (Dec); Business climate/confidence (Feb), CPI (Jan). UK: Business investment (Q4); Consumer Confidence (Feb); GDP revision (Q4). NZ: Inflation expectations (Q1), NBNZ Business Confidence (Feb), Trade & Building permits (Jan) ...[read more](#)
- **Foreign Exchange:** Near-term outlook for AUD/USD driven by whether market sustains higher Fed rate hike expectations after discount rate increase. Reasonably upbeat RBA growth outlook and prospects for a rising terms of trade suggests the AUD isn't overvalued...[read more](#)
- **What to Watch Australia:** Motor vehicle sales, Jan (Mon, 11.30). Wage Price Index, Q4 (Wed, 11.30). New Private Capital Expenditure, Q4 (Thurs, 11.30). Construction Work Done, Q4 (Thurs, 11.30). RBA credit, Jan (Fri, 11.30)...[read more](#)
- **Calendar:** Upcoming events for the week ahead ...[read more](#)
- **Forecasts:** Economic, Interest Rate and Exchange Rate Forecasts ...[read more](#)

Targets – Rates & Currencies

	19-Feb	Mar-10	Jun-10	Dec-10
RBA cash	3.75	3.75	4.25	4.75
3 month bill rate	4.12	4.2	4.5	5.2
3 year swap rate	5.30	5.2	5.5	5.7
AUD/USD	0.8914	0.90	1.00	0.97

RBA stays 'Mum' on March (cont)

RBA's quarterly Statement on Monetary Policy

Second is the focus on sovereign creditworthiness. Governments in many countries have taken on considerable debt burdens and the issue of sustainability is coming into focus, said Mr Stevens. It will be a difficult "balancing act" to strengthen their balance sheets without undermining their recoveries.

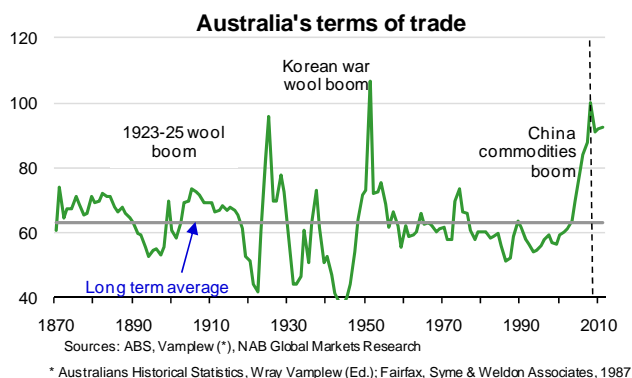
On both of these issues, Australia is well placed. We are located in the strong growth part of the world and our fiscal sustainability is "very strong" (in the Question and Answer session Stevens said he could not think of a country in a better position).

The written Statement then turned to the outlook, noting household consumption has held up reasonably well, after the various fiscal boosts faded, although he does not see households being a leading driver of growth ahead.

Lending for housing development looks to be improving, as lending approvals for multi-unit construction appear to have turned (a new and important point).

He expects the terms of trade to improve ahead and once again to reach "a very high level".

Chart: The Terms of Trade set to improve



Inflation has slowed from 4½% in underlying terms to an "annualised pace of under 3 per cent" over the past six months (quite bullish for rates, ceteris paribus).

However, Mr Stevens noted that the economy started the upswing with less spare capacity than would typically be the case after a recession. Unemployment peaked at less than 6%, much lower than forecasts. This was due to labour market flexibility (less hours worked) and the mildness of the downturn ("probably the smallest downturn since World War II").

Importantly, he notes that some businesses have experienced difficulty in obtaining credit but liaison suggests this may be starting to ease. Banks' bad debt provisioning has slowed noticeably and "it is reasonable to expect that lenders will become more willing to lend over the coming year".

The conclusion on rates: "If economic conditions evolve roughly as we expect, further adjustments to monetary policy will probably be needed over time". He went on to note that it is the rates borrowers and depositors see that are important and the Board sets the cash rate with that in mind.

Some observations on the Governor's testimony

First, the Governor continues to see the monetary and fiscal stimulus at the height of the crisis as appropriate, noting that

sustaining confidence was a key objective at the time. This point was also made by Phil Lowe from the RBA. These remarks appear to be a pre-emptive defence of the extent of the stimulus applied at the height of the crisis - they feared a downward spiral in confidence would crush the economy.

Second, labour market flexibility is important. Again this was a point also made by Dr Lowe. They see labour market flexibility as a key way of keeping inflation in check and keeping the recovery on track and believe flexibility was important in limiting the rise in unemployment. Also on the labour market, when asked about whether wages should be linked to productivity, the Governor said "If unit labour costs rise and lead to higher inflation we will respond". Also, it seems clear he sees the unemployment rate as a key indicator of labour market spare capacity, not hours worked as some suggested after the latest Labour Force release. "There are of course many measures of labour market capacity but an unemployment peak of under 6% is a low starting point". Although Phil Lowe said that hours worked on average will rise ahead and they have only a mild downtrend in unemployment rate in their forecasts.

On sovereign debt, Mr Stevens sees Australia's position as perhaps the best in the developed world. He was asked what he thought of Barnaby Joyce's comments that Australia could default on its debt. His response was that the Federal Government has never defaulted and nor have the States. Pretty dismissive. On the question of whether sovereign debt concerns in Europe was a factor in their decision not to raise rates in February, his response was that it was a consideration but at the margin. More important was the desire to watch how the economy unfolded after the tightenings in October, November and December.

On inflation targeting, he was asked what he thought of the IMF's paper, raising the concept of increasing inflation targets to 4%. The Governor's response was scathing. "On inflation targets, I don't agree at all with what was said there" .. "We had a 2½% inflation target and did not need to go to zero"... (Other countries) "might have needed higher rates"... "The US did not have an inflation target and nor did Japan"... "They dropped rates but did not bring down the mortgage rate"... "I think the fact that zero was ineffective, something else was at work there not the inflation target".

The week ahead

In the lead up to the RBA Board meeting the following Tuesday and the release of the December quarter national accounts the day after, next week's Capital Expenditure and Construction Work Done releases will be important barometers of business activity and confidence at the end of last year.

The Capex intentions data for the year ahead will also be important in this regard. We expect that Construction Work Done (CWD) will get a boost from the housing construction upswing and the boost to education building from Federal Government stimulus; engineering construction is likely to remain high. Survey data points to underlying business investment remaining tepid at year end but higher small business investment should support plant and equipment investment overall.

Other important releases to keep an eye out for this week are the wage price index for Q4, motor vehicle sales for January (there'll be a large decline with the ending of the small business investment allowance on 31 December last) and RBA credit for January.

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International Economic Roundup

- **Fed raises discount rate; emphasises not tightening policy**
- **BoE's Monetary Policy Committee in "wait and see" mode; ponders whether to increase quantitative easing; UK reports a surprise budget deficit in January**
- **German investor confidence down for fifth month**

Fed raises discount rate

The Federal Reserve announced after the market closed on Thursday that it had increased the discount rate by 0.25%, thus increasing the spread between the discount rate and the Fed funds rate to 0.5%, that spread having been 1.00% before the Global Financial Crisis.

The Fed noted that "in light of continued improvement in financial market conditions it had unanimously approved several modifications to the terms of its discount window lending programs.

"Like the closure of a number of extraordinary credit programs earlier this month, these changes are intended as a further normalization of the Federal Reserve's lending facilities. The modifications are not expected to lead to tighter financial conditions for households and businesses and do not signal any change in the outlook for the economy or for monetary policy, which remains about as it was at the January meeting of the Federal Open Market Committee (FOMC). At that meeting, the Committee left its target range for the federal funds rate at 0 to 1/4 percent and said it anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

While they emphasised that this further normalisation of monetary policy arrangements was not a (traditional) tightening, rate market sold off on the news, with the USD stronger. A subsequent speech from St. Louis Fed president Bullard noted that an increase in the discount rate was unrelated to a move in the main rate and part of the normalization process. Downplaying the markets post discount rate rise reaction to lift yields, Bullard said that "The idea that's in markets that there's a high probability that we'll raise rates later this year is overblown. There's a little bit of probability, but there's also some probability, maybe more, that this (unchanged policy) will extend into 2011.

BoE still coy on policy outlook

The Bank of England's Monetary Policy Committee voted 9-0 to maintain the stock of asset purchases (quantitative easing, QE) at £200 billion. However, we believe that the vote certainly does not rule out an extension of QE should the economy fail to evolve in the way projected in the February quarterly Inflation Report. In that regard, this coming week's revision and spending detail breakdown of Q4 GDP should help to throw more light about whether the UK economy is really making some net economic progress.

The deterioration in UK public finances was evident in January data as the UK ran a monthly deficit for the first time since records were collected in their current form in 1993. The Public Sector Net Borrowing Requirement (PSNBR) totalled £4.3 billion, against market expectations for a £2.6 billion surplus.

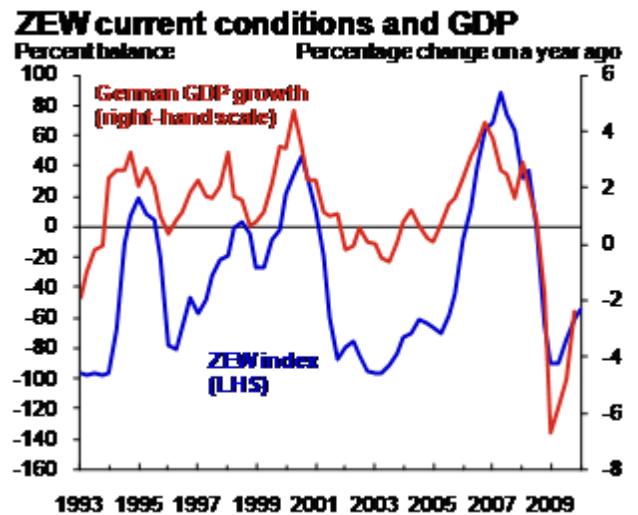
Typically the UK government sees a surplus in January as income tax receipts are paid in. However, the recession saw tax revenues fall by 11.8% on a year ago, as income and corporation tax receipts all fell. The anticipated surplus would have been the smallest since 1994, so markets had steered themselves for a weak outturn, but the reality was even worse than expected.

The deficit raises questions as to whether the Government will meet the Pre-Budget Report borrowing target of £177.6 billion.

German investor confidence falls

German investor confidence fell for the fifth successive month in February, with the headline ZEW investor sentiment index falling from 47.2 to 45.1. The decline was a little smaller than anticipated by markets and still leaves the index well above its historical average.

Chart: Germany – sluggish recovery



As such, it is hard to disagree with the ZEW's conclusion that there are few signs of a double-dip recession in Germany. However, coming after the flat GDP outturn in Q4, neither are there many signs that the German economy is about to experience a swift recovery.

If anything, fears about Greek contagion spreading to Spain and Portugal could weigh on investor sentiment in the months ahead and we would not be surprised to see further falls in the economic sentiment index.

Offshore next week

- **USA: House prices (Q4/Dec), Richmond & Dallas Fed indexes (Feb); Consumer confidence (Feb), Home sales (Jan); Durables orders (Jan); GDP revision (Q4), Chicago PMI (Feb)**
- **Europe: Industrial new orders (Dec); Business climate/ confidence (Feb), CPI (Jan)**
- **UK: Business investment (Q4); Consumer Confidence (Feb); GDP revision (Q4)**
- **NZ: Inflation expectations (Q1), NBNZ Business Confidence (Feb), Trade & Building permits (Jan)**

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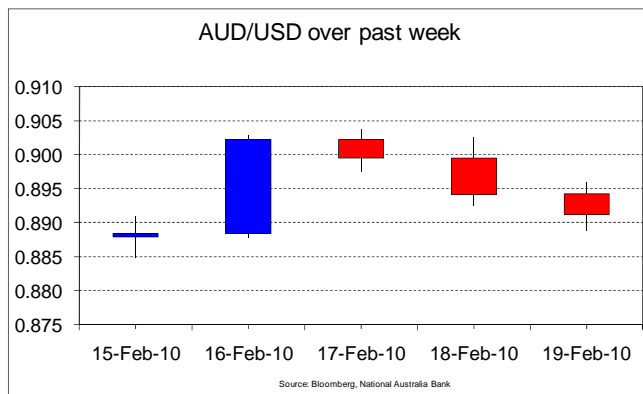
Market Strategy

Foreign Exchange

- **Near-term outlook for AUD/USD driven by whether market sustains higher Fed rate hike expectations after discount rate increase.**
- **Reasonably upbeat RBA growth outlook and prospects for a rising terms of trade suggests the AUD isn't overvalued.**

AUD/USD strengthened sharply early in the week to trade above 0.9000 for the first time since late-January. It was boosted by a recovery in investor risk-appetite as better-than-expected corporate earnings news offset continuing concerns about the Greek debt crisis and China's policy tightening. Stock markets across the globe rose over the past three to four days. In addition, RBA interest rate expectations rose, in part due to a hawkish article from Terry McCrann suggesting a March hike "is all but certain" and saying that the central bank would raise rates by one to two percentage points over the rest of the year. Australia's 2-year swap yield rose by 10bps between Monday and Thursday.

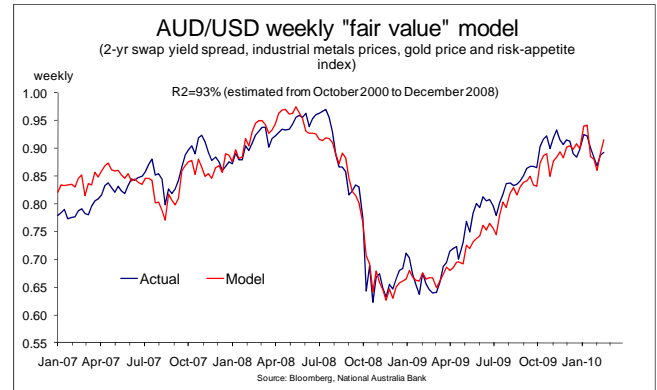
However, AUD/USD plunged on Friday from above 0.9020 to below 0.8890 after the US Fed announced a 25bps rise in its discount rate. Investors priced an increased chance the Fed would raise the funds rate later this year, which stock index futures fell by more than 1%, which saw the USD rise across the board. EUR/USD dived to below 1.3540 from above 1.3600. This was despite the Fed saying that the rise in the discount rate was in response to the continued improvement in financial conditions and does "not signal any change in the outlook for the economy or for monetary policy". Indeed, FOMC member Bullard said the current policy stance was more likely to extend into next year and that the view that the fed funds rate will rise later this year is "overblown".



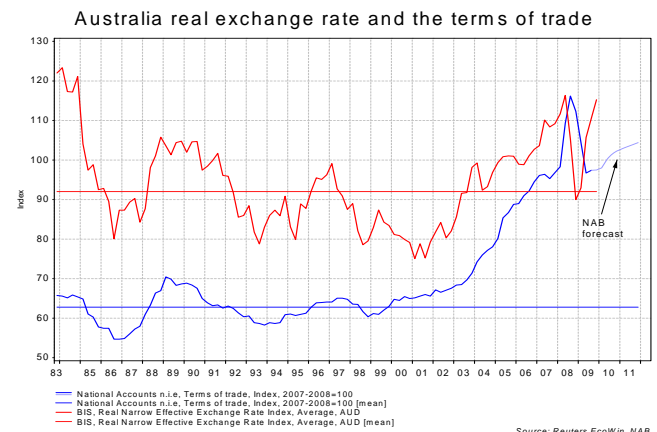
The near-term outlook for the AUD/USD will be driven by debate about whether the Fed's discount rate hike signals an increased chance of the fed funds rate rising this year (which would provide the USD with some yield support) and if it leads to a re-widening in libor spreads (which could hurt stock prices via bank funding costs). We think the answer is no to both questions but it's not clear how quickly the market will come to the same conclusion. When it does so, AUD/USD will likely be back above 0.9000.

Indeed, our weekly model's "fair value" estimate had risen to 0.9150 before the US Fed's discount rate announcement, its

highest in a month, from 0.8910 last Friday. This was driven by improved sentiment towards the global economy, with our risk-appetite index rising to 63.4% from 56.6% and the Journal of Commerce industrial metals price index increasing by 5.2%.



The AUD had risen to fresh 10-year and 25-year highs against the EUR and GBP, respectively, this week. Australia's continuing economic growth outperformance, rising commodity prices and low government debt argue for the AUD to appreciate further against the EUR and GBP. We forecast AUD/EUR rising to above 0.70 (which would be a 13-year high) and AUD/GBP gaining to above 0.60 (a fresh 25-year high).



RBA Governor Stevens' testimony to parliament didn't provide any clues on whether the central bank would raise official interest rates in March (currently priced a 40% chance by traders). However, the reasonably upbeat assessment of Australia's growth prospects and suggestion that interest rates would need to rise further left us comfortable with our forecast for AUD/USD of 0.9000 at end-March. We also note that the RBA's forecast of a 10% rise in Australia's terms of trade over coming years supports our view that AUD/USD is not expensive from a valuation perspective. This would leave Australia's terms of trade around 50% above the long-term average while the real exchange rate is currently 25% above its long-term average.

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What to Watch Australia (L = Last, F=Forecast)

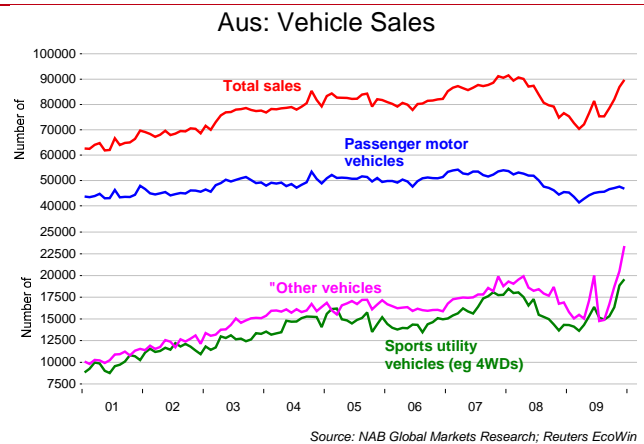
Motor vehicle sales, Jan (Mon, 11.30)

Motor vehicle sales have been surging again in recent months in the lead up to the ending of the Federal Government's special 50% investment allowance for small business investment that ran out at the end of 2009.

Sales rose 3.3% in December and for the December quarter; sales have surged by 12.9% after being virtually steady in Q3 and a 5.4% bounce in the June quarter at the end of the previous financial year.

Vfacts data point to a significant element of payback this month after the Q4 surge, with sales down a chunky 15.0% in the month.

L: +3.3%/17.2% F: -15.0%/+1.3%



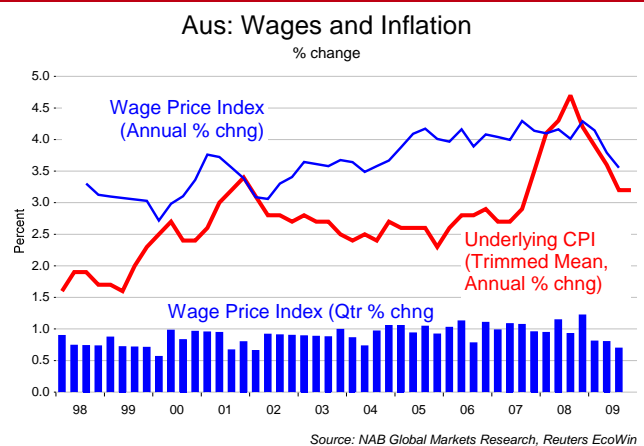
Wage Price Index, Q4 (Wed, 11.30)

With the rapid turnaround in the labour market and the unemployment rate having passed its peak of 5.4%, there are already signs occurring, both anecdotally and in some aggregate data that wages growth appears to have bottomed with some recent up-tick evident.

The ABS wage price index has been growing at a quarterly rate of 0.7-0.8% in the past three quarters and we look for a slight increase to the top end of that range in the December quarter.

The NAB quarterly business survey points to a modest rise in labour costs in Q4, consistent with the acceleration in employment over recent months.

L: +0.7%/3.6% F: 0.8%/3.2%



New Private Capital Expenditure, Q4 (Thurs, 11.30)

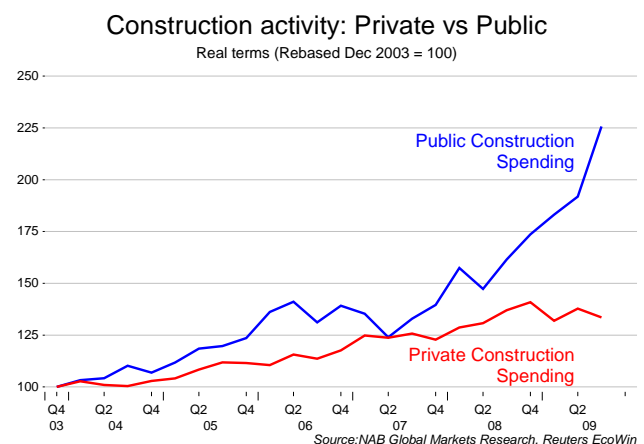
Construction Work Done, Q4 (Thurs, 11.30)

In the lead up to the RBA Board meeting the following Tuesday and the release of the December quarter national accounts the day after, these investment releases will be important barometers of business activity and confidence at the end of last year. The Capex intentions data for the year ahead will also be important in this regard.

We expect that both Construction Work Done (CWD) will get a boost from the housing construction upswing and the boost to education building from Federal Government stimulus; engineering construction is likely to remain high.

Survey data points to underlying business investment remaining tepid at year end but higher small business investment should support plant and equipment investment overall.

L: Capex -3.9%, CWD +2.2%
F: Capex +1.0%; CWD +5.0%



RBA credit, Jan (Fri, 11.30)

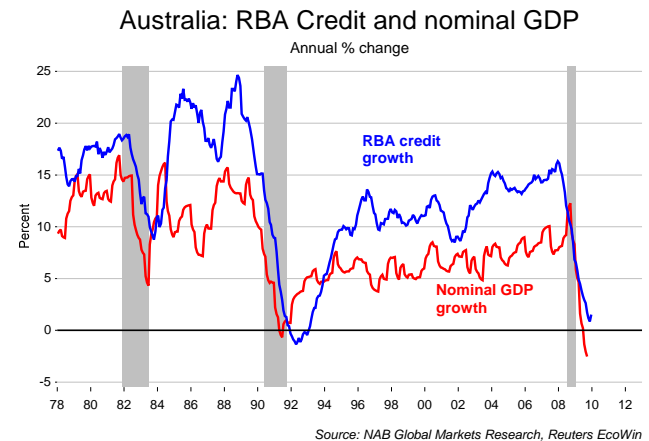
RBA credit growth fell rapidly over the course of much of last year, down to 5.1% y/y by December, reflecting the slowing in the economy overall, some deleveraging by business and household spending.

With the recovery in the economy, the stabilization in the labour market and the boost to housing demand unleashed from stimulatory macroeconomic policy, housing credit growth has stabilized over recent months. Higher mortgage rates have also slowed repayments also supporting housing credit levels.

Most recently, other personal credit growth appears to have turned the corner, while business credit falls may have been arrested. We look for another month of positive growth in January.

*L: 0.3% m/m/ 5.1% y/y, Housing 0.7%; Other personal +0.7%;
Business -0.2%*

F: 0.2%/ 4.6% y/y



Weekly Calendar of Global Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	GMT	AEST
Monday 22 February 2010								
AU	New Motor Vehicle Sales MoM/YoY	JAN	-15%/1.3%			3.3%/17.2%	0.30	11.30
TA	GDP - Constant Prices (YoY)	4Q		7.0%		-1.29%	5.30	16.30
JN	Convenience/Supermarket Store Sales YoY	JAN				-5.5%/5%	7.00	18.00
US	Chicago Fed Nat Activity Index	JAN				-0.61	13.30	0.30
US	Dallas Fed Manf. Activity	FEB				8.30%	15.30	2.30
US	Fed's Yellen Speaks in San Diego on U.S. Economy (NV)						16.00	3.00
Tuesday 23 February 2010								
JN	BoJ Monetary Policy Meeting Minutes for Jan						23.50	10.50
AU	RBA Deputy Bank Governor Battellino speaks in Sydney						7.00	18.00
GE	IFO - Business Climate/Current Assessments/Expectations	FEB				95.8/91.2/100.6	9.00	20.00
UK	BBA Loans for House Purchase	JAN				45987	9.30	20.30
UK	CBI Distributive Trades	FEB					11.00	22.00
US	S&P/CS Composite-20/US HPI YoY	DEC	-3%/-1.2%			-5.3%/-8.9%	14.00	1.00
US	S&P/CS 20 City MoM% SA	DEC		0.05%		0.24%	14.00	1.00
US	Consumer Confidence	FEB		55.0		55.9	15.00	2.00
US	Richmond Fed Manufact. Index	FEB				-2	15.00	2.00
Wednesday 24 February 2010								
US	ABC Consumer Confidence					-49	22.00	9.00
US	Fed's Bullard to Speak on Regulatory Reform in Richmond (V)						22.00	9.00
AU	Conference Board Leading Index	DEC				-0.30%	23.00	10.00
JN	Corp Service Price (YoY)	JAN				-1.50%	23.50	10.50
JN	Merchnds Trade Balance Total/Adjusted Merchnds Trade Bal.	JAN				¥545.3B/¥522.8B	23.50	10.50
AU	Wage Cost Index QoQ/YoY	4Q	0.8%/3.2%	0.8%/3.1%		0.7%/3.6%	0.30	11.30
NZ	RBNZ 2yr Inflation Expectation	1Q				2.60%	2.00	13.00
JN	Small Business Confidence	FEB				41	5.00	16.00
GE	GDP s.a. (QOQ)	4Q F					7.00	18.00
GE	GfK Consumer Confidence Survey	MAR				3	7.00	18.00
EC	Industrial New Orders SA (MoM/YoY)	DEC				1.6%/-1.5%	10.00	21.00
US	MBA Mortgage Applications					-2.10%	12.00	23.00
US	New Home Sales	JAN		350K/2.3%		342K/-7.6%	15.00	2.00
Thursday 25 February 2010								
AU	Private Capital Expenditure	4Q	1.00%	1.5%		-3.90%	0.30	11.30
AU	Construction Work Done	4Q	5.00%	2.0%		2.20%	0.30	11.30
NZ	Money Supply M3 YoY	JAN				-1.10%	2.00	13.00
NZ	NBNZ Business Confidence	FEB				39	2.00	13.00
EC	Euro-Zone M3 s.a. (YoY/3 mth ave.)	JAN				-0.2%/-0.1%	9.00	20.00
UK	Total Business Investment(QoQ/YoY)	4Q P				-0.6%/-19.9%	9.30	20.30
EC	Business Climate Indicator	FEB				-1	10.00	21.00
US	Durable Goods Orders/Ex Transportation	JAN		1.5%/0.9%		0.3%/0.9%	13.30	0.30
US	Initial Jobless Claims	44228					13.30	0.30
US	Continuing Claims	41671					13.30	0.30
US	House Price Index MoM	DEC				0.70%	15.00	2.00
US	House Price Purchase Index QoQ	4Q					15.00	2.00
US	Fed's Bullard to Speak on U.S. Outlook at Texas A&M-Texarkana (V)						18.00	5.00
Friday 26 February 2010								
NZ	Trade Balance	JAN				2M	21.45	8.45
NZ	Building Permits MoM	JAN				-2.40%	21.45	8.45
JN	Nomura/JMMA Manufacturing PMI	FEB				52.5	23.15	10.15
JN	Natl CPI Ex-Fresh Food/Ex Food, Energy YoY	JAN				-1.3%/-1.2%	23.30	10.30
JN	Industrial Production (MoM/YoY)	JAN P				1.9%/5.1%	23.50	10.50
JN	Retail Trade YoY/MoM SA	JAN				-0.3%/-1.2%	23.50	10.50
UK	GfK Consumer Confidence Survey	FEB				-17	0.01	11.01
AU	Private Sector Credit MoM/YoY%	JAN	0.2%/4.6%	0.2%/4.6%		0.3%/1.5%	0.30	11.30
UK	GDP (QoQ/YoY)	4Q P				0.1%/-3.2%	9.30	20.30
UK	Index of Services (3mth/3mth)	DEC				0.10%	9.30	20.30
EC	Euro-Zone CPI (MoM/YoY)	JAN				0.3%/0.9%	10.00	21.00
EC	Euro-Zone CPI - Core (YoY)	JAN				1.10%	10.00	21.00
IN	Qtrly GDP YoY%	4Q				7.90%		
Upcoming Central Bank Interest Rate Announcements								
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%		
US Federal Reserve		16-Mar	0%-0.25%	0%-0.25%		0%-0.25%		
Japan, BoJ		17-Mar	0.1%	0.1%		0.1%		

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 %					-0.8	0.6	0.7	0.2	0.9	0.8	0.7	0.7	1.0	1.0	0.9	1.0	1.0
Real GDP - annual %	1.3	1.2	2.9	3.7	1.2	0.8	0.6	0.6	2.3	2.6	2.6	3.1	3.2	3.4	3.6	3.9	3.9
Household Consumpti	1.4	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 Constructic	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	8.5	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%					-0.4	-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	1.9	1.2	1.8	3.8	2.8	1.0	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	1.3	1.2	2.9	3.7													
US	-0.7	-2.4	2.5	3.0													
Eurozone	7.5	-4.0	0.9	1.5													
UK	0.8	-4.3	0.7	2.5													
Japan	0.5	-2.4	2.5	1.5													
China	9.5	8.7	9.3	9.0													
India	7.5	6.8	7.3	7.0													
New Zealand	-0.1	-1.6	2.9	3.5													
World	2.9	-1.2	3.5	3.9													

*Contribution to real GDP

Interest Rate Forecasts

	19-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	4.12	4.2	4.5	4.8	5.2	5.4	5.5	5.7	5.7
3 Year Bond Rate	4.66	4.6	4.9	5.1	5.2	5.3	5.3	5.3	5.3
10 Year Bond Rate	5.64	5.5	5.6	5.7	5.8	5.8	5.8	5.8	5.8
3 Year Swap Rate	5.30	5.2	5.5	5.6	5.7	5.8	5.8	5.8	5.8
10 Year Swap Rate	6.13	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
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	5.64	5.45	5.55	5.65	5.75	5.80	5.80	5.80	5.80
United States	3.78	3.70	3.80	4.00	4.25	4.50	4.60	4.70	4.80
Europe	3.25	3.30	3.50	3.60	3.85	4.10	4.20	4.30	4.40
UK	4.10	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	186	175	175	165	150	130	120	110	100
United States	-	-	-	-	-	-	-	-	-
Europe	-53	-40	-30	-40	-40	-40	-40	-40	-40
UK	32	20	20	10	0	0	0	0	0
Japan	-244	-230	-230	-240	-255	-260	-260	-270	-280
New Zealand	207	205	200	190	175	180	170	160	160

Exchange Rate Forecasts

	19-Feb	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Majors									
AUD/USD	0.8916	0.90	1.00	1.00	0.97	0.95	0.93	0.91	0.90
NZD/USD	0.6968	0.72	0.75	0.76	0.74	0.72	0.71	0.70	0.69
USD/JPY	91.72	91	93	98	100	101	103	105	106
EUR/USD	1.3487	1.38	1.41	1.47	1.49	1.45	1.43	1.42	1.40
GBP/USD	1.5429	1.55	1.64	1.72	1.77	1.78	1.77	1.76	1.74
USD/CNY	6.8330	6.82	6.80	6.57	6.48	6.32	6.24	6.12	6.02
USD/CAD	1.0485	1.04	0.96	0.97	0.98	0.99	1.00	1.01	1.02
Australian Cross Rates									
AUD/JPY	81.78	82	93	98	97	96	96	96	95
AUD/EUR	0.6611	0.65	0.71	0.68	0.65	0.66	0.65	0.64	0.64
AUD/GBP	0.5779	0.58	0.61	0.58	0.55	0.53	0.53	0.52	0.52
AUD/NZD	1.2796	1.26	1.33	1.32	1.31	1.33	1.31	1.30	1.30
AUD/CNY	6.0923	6.14	6.80	6.57	6.29	6.00	5.80	5.57	5.42
AUD/CAD	0.9348	0.94	0.96	0.97	0.95	0.94	0.93	0.92	0.92

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