Australian Markets Weekly

Friday, 20 August 2010

National Australia Bank

Markets edgy; close election could cause a mild negative reaction

- **Australian election very close – worse result uncertainty due to a hung Parliament or no clear winner**
- **Markets edgy, toying with double dip recession**
- **RBA Governor gives Australian finance a few ticks**
- **The week ahead sees construction and business investment data released**

Weekly Highlights

- **Markets edgy;** close election could cause a mild negative reaction Australian election very close – worse result uncertainty due to a hung Parliament or no clear winner. Markets edgy, toying with double dip recession. RBA Governor gives Australian finance a few ticks. The week ahead sees construction and business investment data released…read more
- **Australian Federal Election Update:** Polls and the pundits tell us Saturday's General Election will be a close contest.The expected closeness of the result is also reflected in the closeness of the major parties policies, with neither party campaigning on a major reform agenda. …read more
- **International Economic Roundup: Concerns** of a double-dip US recession resurface. Germany drives strong European growth in Q2. UK retail sales solid in July. Japanese growth weak in Q2, as Japan slips to number 3 in the global GDP rankings. …read more
- **Offshore next week:** USA: Existing Home Sales, Richmond Mfg Index, Durable Goods, New Home Sales, Q2 GDP. UK: Q2 GDP. Europe: Manufacturing/Services PMI, M3. Japan: Jobless rate, CPI…read more
- **Foreign Exchange:** AUD/USD is under pressure from the RBA being on hold and continuing uncertainty over the global growth outlook. We continue to favour a modest decline to 0.86 by end-September. The possibility of a hung parliament following Saturday's Federal election could also weigh on the AUD, although only modestly.…read more
- **What to Watch Australia:** Construction Work Done, Q2 (Wed, 11.30). New Private Capital Expenditure, Q2 (Thurs, 11.30). …read more
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Targets - Rates & Currencies

	20-Aug	Dec-10	Mar-11	Jun-11
RBA cash	4.50	4.50	4.75	5.00
3 month bill rate	4.70	4.9	5.1	5.4
3 year swap rate	4.90	5.2	5.5	5.6
AUD/USD	0.8907	0.90	0.92	0.94

Australian election result too close to call

On the eve of Australia's Federal Election, the parties are locked in a race which is too close to call on the latest polls. The respected Newspoll in the *Australian* newspaper on Friday revealed both sides of politics locked together, the Two-Party Preferred measure at 50:50, after the reallocation of preferences. Labor has 35% of the Primary Vote and the Coalition has 44% but the preferences of the Greens and Other candidates favour Labor, leading to the 'tied' headline result.

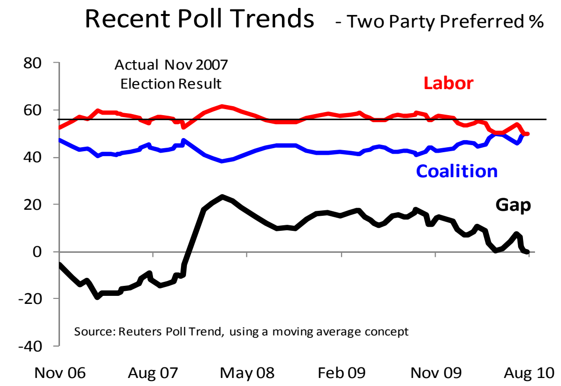
If this is what happens on Saturday, then a hung Parliament, with Greens and Others holding the balance of power is a good chance. One proviso though is that such an outcome would be based on a uniform swing away from Labor across the entire electorate. This seems unlikely.

One of the characteristics of this election campaign has been the divergence between the trends from electorate to electorate and State to State. Hence, it is quite likely that national polls will not tell the complete story so that either side might win or lose depending on the popularity of individual local candidates or region specific issues. So it could be a fascinating night for political junkies – a return to the good old days of "Don's Party"?

Markets don't like uncertainty and, from that perspective, the worst result would be a hung Parliament or a paper thin majority for either side (say 1 seat margin). This could be a recipe for instability or for a Government which becomes 'gummed up' as it struggles to maintain support from the Greens or Independence.

Peter Jolly, our Head of Research, wrote a detailed note on the election during the week (see page 3 of this Weekly for a reprint) and concluded that the uncertainty of a hung Parliament or indeed uncertainty about who the Government might be, a real possibility for Monday morning, could see the Australian dollar fall by 1 US¢ in an initial knee-jerk reaction. However, since the macroeconomic policies of the two sides are almost identical (balance the Budget within three years), we would not anticipate a more dramatic fall.

Chart: Australia's election a cliff-hanger



Markets edgy; close election could cause a mild negative reaction (cont'd)

Markets toying with double-dip recession

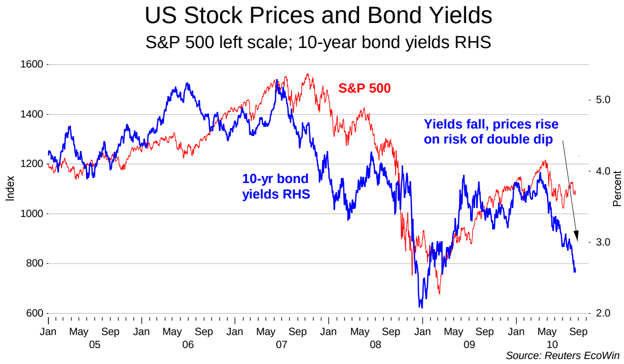
The Australian election is taking place against a background of markets which remain fearful of a global double-dip recession. Early in the week, stock markets rallied, our own Reserve Bank helping with some positive comments about China in its August Board Meeting Minutes but by the end of trade in New York on Thursday, the S&P 500 was back near the close for last Friday.

The weakness in US stocks on Thursday, as the S&P 500 shed 1.7%, reflected weaker than expected layoffs data, the latest claims for unemployment benefits rising to 500K from 488K last week, against expectations of a small fall. A drop in the Philadelphia Fed Manufacturing Index to -7.7 (market expected +7.0) added to the gloom.

Double dip fears were reignited and this showed up in safe haven buying of US dollar denominated low risk assets. The US dollar rose, stocks fell and bond prices rose, 10-year bond yields falling by a further 5 basis points overnight to 2.58%. At this level of yields, the bond market is attempting to price a double-dip recession (this is a long way from our forecasts).

The Australian dollar was weak in early Friday trade, after being punished on Thursday as the flight for quality trades took hold.

Chart: Bonds trying to price double dip recession



Local data unthreatening for rates during the week

The Federal Government's Skilled Vacancy Series fell 4.7% in seasonally adjusted terms in August, to be up 18.5% over the past year. Admittedly, over the past six months the series has plateaued. But the annual growth rate, at just under 20%, points to annual employment growth of 3% through to the end of the year. That is a little weaker than our current forecast for employment and means the downtrend in unemployment we expect ahead would be more muted – an outcome which would be music to the ears of the RBA (we expect unemployment to be around 4¾% by the end of the year).

Wages growth for the June quarter would also have been music to the ears of central bankers, showing a modest 0.8% increase in the Wage Price Index for the June quarter and an annual rate of just 3%. While our NAB Survey shows the likelihood of a sharp rise in the September quarter, current wages growth is benign.

RBA Board comfortably on hold

The RBA Board Minutes for the August meeting threw up few surprises. Of particular note from the Minutes was their view on China. The Minutes reveal an RBA which seems pretty confident in China's outlook, noting that "recent indicators did not suggest a more marked slowdown than the staff had been expecting".

For now, the RBA expects underlying inflation to track within the target band coupled with a slowing in the domestic economy. They noted that "consumer spending remained subdued,...credit growth remained soft (and)... the housing market had stabilised". This is an RBA Board that feels very comfortable on hold.

Governor Stevens on regulating the Finance Sector

RBA Governor Glenn Stevens' speech in Perth earlier in the week was a fascinating and dense treatise on the finance sector. He noted finance is not an end itself but facilitates activity in the modern economy. Hence it should not grow too quickly. However, this is not an issue for Australia – as a share of Services sector, Finance peaked in 1990.

Regulators overseas were not as strident as the local regulator, APRA, in the lead up to the GFC. Now offshore authorities are moving towards the APRA model. Again, this seems to be a big tick for Australia's situation.

Mr Stevens observed that if the incentive to take excess risk is there – low interest rates – excess risk taking is bound to occur, whatever the regulators do. This seems to be a pointer to the kernel issue being rates too low for too long in America in the mid 2000s.

His conclusion for the local finance community was to stick to the knitting - not many "Masters of the Universe" please.

Week Ahead for Australia

This week we have some important indicators which feed into the GDP calculations for the June quarter (due 1 Sep). Our current forecast of 1% for Q2 GDP is based on a 1% rise in Construction Work Done (Q2, Wed) and a 2% rise in Private New Capital Expenditure (Capex, Q2, Thu). Also out next week is the second tier Conference Board Leading Index (Jun, Thu).

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Australian Federal Election Update

- **Polls and the pundits tell us Saturday's General Election will be a close contest.**
- **The expected closeness of the result is also reflected in the closeness of the major parties policies, with neither party campaigning on a major reform agenda.**
- **Both major parties have endorsed Australia's broad economic direction, promising to return the Commonwealth Budget to surplus in 2012/13 and to leave the RBA's inflation mandate and primacy over monetary policy unchanged.**
- **A hung parliament, where no major party has a clear majority, poses the only non-trivial risk for markets. Even here we would warn against overstating this risk, for while there would be uncertainty about who the Government is for a few days, macroeconomic uncertainty would be minimal.**

According to the polls, Saturday's General Election in Australia will be close. To win Government in the 150 seat House of Representatives, the Coalition needs to win 17 seats to get a majority 76 seats – see Table 1. Antony Green, the ABC's election expert, reckons this equates to a uniform swing of 2.4%. Polls suggest the Coalition will get at least part way to the required 17 seats. In fact, some polls from a few weeks ago had them getting all the way.

Adding uncertainty to the calculations is that this Election will be largely decided by around 20 marginal seats, predominantly in Queensland and New South Wales. Polls in these electorates are not uniformly reflecting the swing in National polling. For example, a marginal electorate poll in yesterday's Fairfax Press suggested a strong swing to the Coalition in Queensland and to a lesser degree NSW and Western Australia, yet Labor may win a few seats back in Victoria and South Australia.

Then we have the possibility that the Greens may win the seat of Melbourne, which along with the three current Independent MP's in the Lower House adds further complication.

Rising popular support for the Greens will probably be more evident in the Upper House, with 40 of the 76 Senators up for re-election on Saturday. Polls suggest the Greens may win the balance of power. Markets have had little focus on the Senate race, probably because most assume the Senate will remain a difficult to place to pass major reform legislation. That seems a fair conclusion. Anyway, neither of the major parties has campaigned on a major economic reform agenda.

Betting markets have Labor a very clear favourite to hold Government at around 1.3/1. Perhaps betting markets are relying on history which tells us the Australian public doesn't change its Government often. The last single term Government in Australia was the Scullin Government in 1929, so a Coalition win would break a few records.

I think the safest conclusion is that the result will be close.

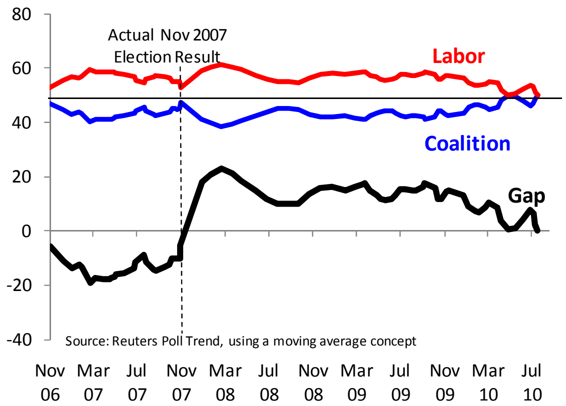
It follows that the closer the result the greater the chance we get a hung parliament, where no major party gains an overall majority. A hung parliament is a rare event and hasn't happened for 70 years. Antony Green reckons a hung parliament is possible but unlikely. Betting markets have tightened the odds of a hung parliament to around 3½/1.

Another point I'd add to the mix is that if indeed it is close, we may not even have a clear victor on Saturday night, with postals votes and recounts being important.

1. Australian Parliament

	House of Reps		Senate		
	2007 Result	After redistribution	Retiring - elected 04	Elected 2007	Total
Labor	83	88	16	16	32
Coalition	65	59	20	16	36
Greens	-	-	2	3	5
Independent	2	3	2	1	3
Toal	150	150	40	36	76

2. Recent Poll Trends – Two Party Preferred



3. Latest Polling – two part preferred

		Coalition	Labor	Gap
Newspoll	13-15 Aug	48	52	4
Morgan	14 Aug	49	51	2
Nielsen	10-12 Aug	47	53	6
Galaxy	8 Aug	49	51	2
Reuters Trend	11-Aug	49.9	50.1	0.2
2007 Election Result		**47.3**	**52.7**	**5.4**

4. Latest Betting

	Betfair	TAB Sportsbet	Centrebet	Sportingbet
Labor Win	1.31	1.28	1.27	1.28
Coalition Win	4.30	3.65	3.72	3.65
Hung Parliament	3.58	3.85	3.4	

Likely Market Reaction - Perhaps a short lived 1% decline in AUD on a hung parliament

As both Labor and the Coalition are aligned on the big ticket items for macroeconomic policy, a clear victory for either would likely see little reaction from markets. Both are promising to return the Commonwealth Budget to surplus in 2012/13 and both will leave the RBA's inflation mandate and primacy over monetary policy unchanged.

A non-trivial impact on markets is most likely to come from a hung parliament, where would likely see initial negative reactions from the AUD, equities, and perhaps even bonds.

We doubt the impact would be significant or long lasting.

A hung parliament in Australia would create some uncertainty for a few days about who the Government is. There would also be sector specific uncertainty, although that uncertainty clearly exists now. The Telecoms Industry would be uncertain about whether the National Broadband network would get built (Labor yes, Coalition no) and the

Resource Industry would face uncertainty about whether the amended mining tax would go ahead (Labor yes, Coalition no). But there would be no uncertainty about broad macroeconomic direction.

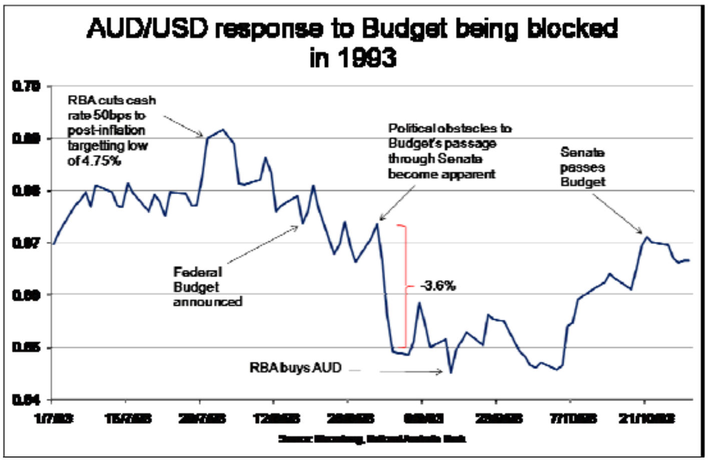
To gauge the potential reaction to a hung parliament we look first to 1993 when the Senate blocked the passage of the Federal Budget and second to the recent UK General Election. We reckon a hung parliament in 2010 would see a much milder response than either of these episodes.

The political uncertainty associated with the minor parties in the Senate blocking passage of the Federal Budget in 1993 had significant policy implications. The Budget announced on August 17 included increases in indirect taxes designed to cut the large budget deficit. When political obstacles to the Budget's passage through the Senate became apparent in late August 1993, AUD/USD tumbled US2½ cents (3.6%) over several days (see chart). Given the economic implications are not as grave from a hung Australian parliament in 2010, we would expect a much lesser impact.

We also can't draw any parallel from the slide in the GBP which occurred when initial exit polls from the May 6 UK election pointed to a hung parliament. Investors had concluded that only the Conservative Party would be able to stabilise the terrible state of the UK's public finances and so a failure to obtain a majority was widely seen to be a potential disaster. This is obviously quite a different situation to this Australian election where public finances are in reasonably good shape and both major political parties aim to return the Budget to surplus within several years.

Early May 2010 was also characterised by severe investor risk-aversion, which left many traders itching to abandon the GBP for the safety of the USD and JPY. As such, the 2% slide in GBP/USD (on a daily close basis) and 4.5% plunge from its intra-day high on August 6 to the intra-day low on August 7 significantly overstates the likely fall in AUD/USD on a hung parliament in Australia.

We estimate a brief US1 cent (1%) fall in the AUD on Monday should we get a hung parliament, which would be recovered before long.



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National Australia Bank

International Economic Roundup

- **Concerns of a double-dip US recession resurface**
- **Germany drives strong European growth in Q2**
- **UK retail sales solid in July**
- **Japanese growth weak in Q2, as Japan slips to number 3 in the global GDP rankings**

US

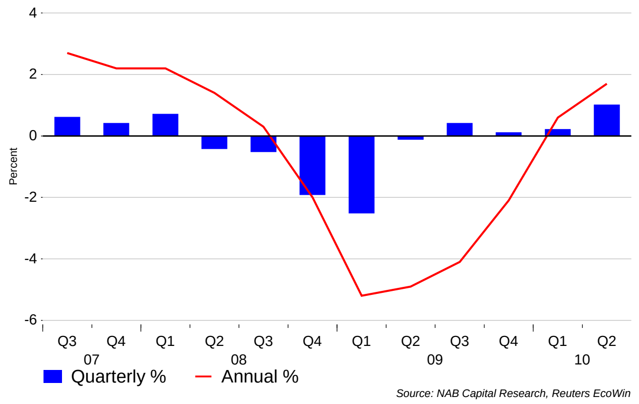
Fears of a double-dip recession in the US escalated overnight after some very weak economic releases. . The weekly jobless claims report saw claims rise 12K to 500K (from an upwardly revised 488K) to a new high for the year and highest level since November 2009. This was in contrast to market expectations for a fall to 478K claims for the past week.

Compounding matters was a large decline in the Philadelphia Fed Survey Index. It fell to -7.7 in August from +5.1 in July, when the market was looking for a +7.0 outcome. The Philly Fed Survey raised concerns that the national ISM manufacturing index may fall below 50 and into contraction territory in coming months.

Meanwhile the US Congressional Budget Office revised up its FY2011 forecast of the budget deficit by 7% to US$1.066trn, reinforcing perceptions that any further policy stimulus in the US can't come from fiscal policy and will have to be delivered by quantitative easing, as official interest rates are already close to zero.

Europe

The eurozone economy grew by 1.0% in the June quarter and by 1.7%yoy, following the 0.2% growth in Q1. The increase was driven by the 2.2% rise in Q2 German GDP growth and a slightly above consensus 0.6% growth rate in France.



Although much had been made of the 1.5% fall in Greek Q2 GDP, the Greek economy is only worth around 1% of the eurozone total. In contrast, Germany and France account for over 50% of eurozone GDP.

Indeed, all European economies except Greece reported an increase in the quarter, even the other 'troubled' economies when it comes to sovereign debt – Spain and Portugal up 0.2% in Q2, and Italy up 0.4%.

While the ECB has already warned that it is not expecting growth in the second half of the year to be anywhere near the pace seen in the second quarter, the consensus forecast for 1.2% GDP growth this year has already been met. With Germany now likely to grow by between 2-3% in 2010, the eurozone should easily top 2% growth this year.

UK

The UK looks like it will avoid a double-dip in the third quarter. The volume of retail sales including fuel sales rose by a rather impressive 1.1% in July. That follows a rise of 0.7% in June and is the fastest rate of growth since February 2010. Indeed, the two-month on two-month growth rate is the fastest since early 2008.

The main surprise in the data is that the strength in July seems almost exclusively located in 'other stores' and non-store retailing. The 'other store' category saw sales rise a huge 6.1%. This is the category that includes chemists, sports shops, jewellers and a mix of other retailers.

Still, the monthly data are always driven by erratics to some extent, and the even if there is a partial reversal in subsequent months the data suggests the output of the retail sector should be positive for GDP in the third quarter. If sales are flat in August and September, Q3 retail sales will be 1.9% higher than those in Q2, which suggests a positive contribution to GDP in Q3 of around 0.2/0.3 pps.

Also this week, consumer prices fell by 0.2% in July, allowing the annual rate of inflation to ease by 0.1pp to 3.1%. Meanwhile the Bank of England minutes showed another 8-1 vote to keep rates steady, with Andrew Sentance again voting for a hike.

Japan

Japan GDP rose by just 0.1% in Q2, after a 1.1% rise in Q1. The annual rate was 2%yoy, down from 4.7% for Q1. The slowdown in the second quarter reflected weaker private consumption (0.0%, after a rise of 0.5% in Q1), softer residential investment, a pull-back in Government spending (-0.5% vs. 0.3%), a negative contribution from private sector stocks (-0.2 percentage points) and solid net exports contributing +0.3pps (exports +0.9pps and imports -0.5pps). Private business investment rose by 0.5%, from 0.1%.

As the weak Q2 result was in line with our +0.2% forecast, NAB's forecast for 3.1% growth in 2010 remains on track.

China now appears to have overtaken Japan as the World's second largest economy. Q2 data showed Japan's output of $1.288 trillion fell short of China's at $1.339tn. The Wall Street Journal projects that for 2010 as a whole, China's economy will be larger. For the year, China at around $5tr will still be well behind the US's $15tn output. On current trends, it will take 10 years for China to overtake the US.

Offshore next week

- **USA: Existing Home Sales, Richmond Mfg Index, Durable Goods, New Home Sales, Q2 GDP**
- **UK: Q2 GDP**
- **Europe: Manufacturing/Services PMI, M3**
- **Japan: Jobless rate, CPI**

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Market Strategy

Foreign Exchange

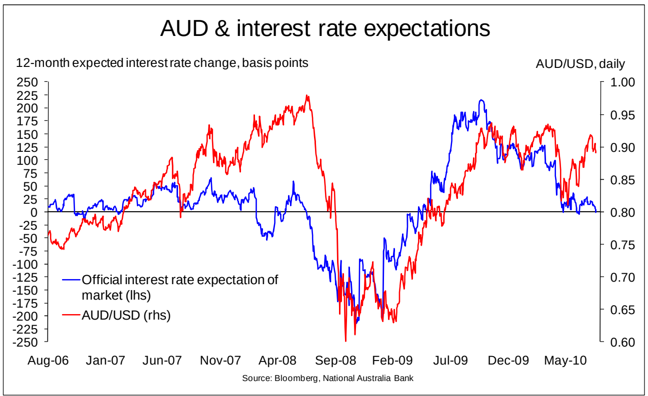
- **AUD/USD is under pressure from the RBA being on hold and continuing uncertainty over the global growth outlook. We continue to favour a modest decline to 0.86 by end-September.**
- **The possibility of a hung parliament following Saturday's Federal election could also weigh on the AUD, although only modestly.**

The AUD/USD's rebound above 0.9000 following an earlier slide to a 3 ½ week low of 0.8860 proved brief. It was weighed down by the complete unwinding of expectations for the RBA to raise interest rates again over the next year; a worsening in investor risk-appetite evident in retreating stock markets and commodity prices; and jitters over the possibility that Saturday's Australian Federal election will deliver a hung parliament.

A week ago, traders priced 15bps of tightening over the next 12-months by the RBA or a 60% chance of a 25bps hike over that period. However, softer readings on the economy and tame wages growth have prompted traders to price no change in the official cash rate over the next year, which has weighed on the AUD. New motor vehicle sales fell 2.6%mom in July, after a 1.4%mom decline in June, while the trend in skilled job vacancies fell in August. Meanwhile, wages growth was just 0.8%qoq in Q2, slower than the 0.9% rise in Q1. Around 1 ½ weeks ago we dropped our forecast for the RBA to raise rates in November pushing the timing out to February 2011.

Stocks and commodities started to roll over towards week end as fears about the global growth outlook resurfaced. US industrial production released earlier in the week was stronger-than-expected but sentiment soon turned negative following a jump in US jobless claims to their highest since November 2009 and the first negative reading of the Philadelphia Fed index in over a year. Our risk-appetite index tumbled from 54.7% on August 17 to 49.9% on August 19 (below the long-run average of 50%). The spot price of iron ore fell for the first week in five.

We continue to favour a modest decline in AUD/USD to around 0.86 by the end of September, reflecting the RBA being on hold and continuing uncertainty over the global growth outlook.

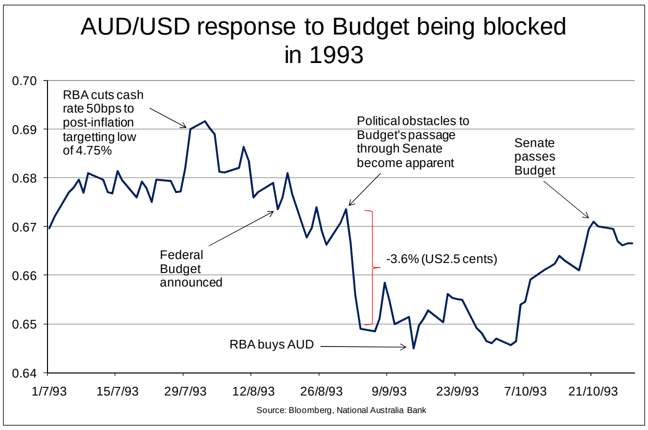


The AUD would fall on a hung parliament but not sharply and rise on a Coalition victory

The latest polls showing a close race in Saturday's Federal election with the possibility of a hung parliament is weighing on the AUD. We would expect a modest fall in AUD/USD (of around 1% or US1 cent) on Monday morning should weekend vote counting suggest neither of the major political parties was likely to achieve a majority in the House of Representatives. However, political uncertainty would eventually fade as one of the major parties forms a government with the support of independents. Admittedly, the tight contest suggests that many seats may not be decided for a week or more as postal votes are counted and there are recounts.

The political uncertainty associated with the minor parties in the Senate blocking passage of the Federal Budget in 1993 had significant policy implications. The Budget announced on August 17 included increases in indirect taxes designed to cut the large budget deficit. When political obstacles to the Budget's passage through the Senate became apparent in late August 1993, AUD/USD tumbled 3.6% (US2.5 cents) over several days (see chart). Given the economic implications are not as grave from a hung parliament in 2010; we would expect a much lesser impact.

We also can't draw any parallel about the potential impact on the AUD from a hung parliament from the slide in the GBP which occurred when initial exit polls from the May 6 UK election pointed to a hung parliament. Investors had concluded that only the Conservative Party would be able to stabilise the terrible state of the UK's public finances and so a failure to obtain a majority was widely seen to be a potential disaster. It's quite a different situation with the Australian election since public finances are in good shape and both major political parties aim to return to surplus within several years. Admittedly, a Liberal-National Party win could see a modest rise in the AUD on expectations the mining tax will be dropped.



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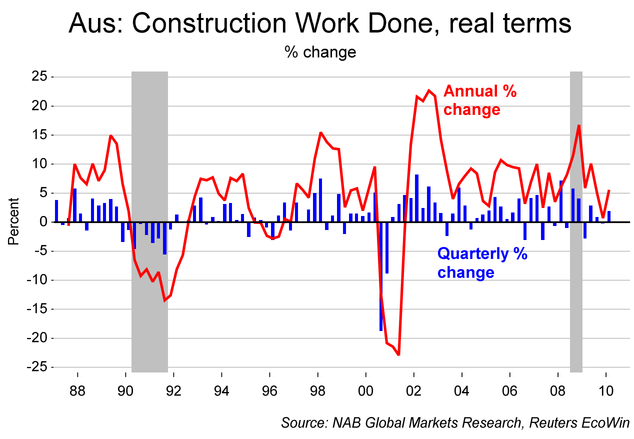
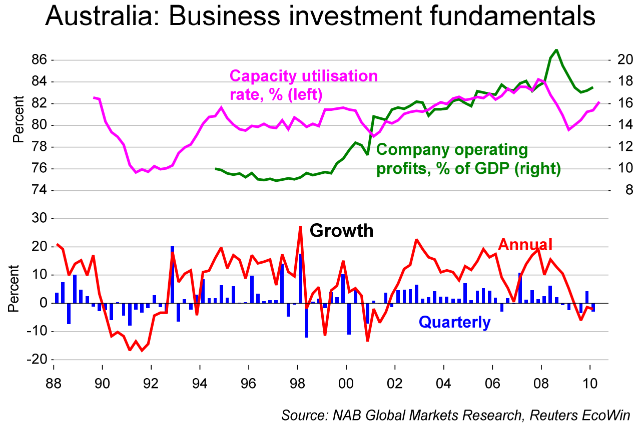
What to Watch Australia

Construction Work Done, Q2 (Wed, 11.30) This release covers both private and public sector construction work done. And so, it captures high education-boosted public sector spending against moribund business building and engineering construction where the pipeline has grown quickly form public infrastructure and major resource projects. In the March quarter, all of the growth was in non-residential building, courtesy of the public sector spending from fiscal stimulus. Residential construction was virtually flat while engineering construction was steady. In inevitably what is going to be a lumpy quarterly pattern reflecting the nature of project work, we look for growth in construction work done this quarter, again from fiscal stimulus, but also from an uplift in engineering construction spending. *L: +1.9% F: +1.0% Consensus: +3.0%*	
New Private Capital Expenditure, Q2 (Thurs, 11.30) CapEx fell 0.2% in Q1, on the back of a 6.0% fall in plant and equipment spending, payback in the wake of the Federal Government's small business depreciation investment-boosting incentive that expired at year end. While plant and equipment spending fell, buildings and structures spending rose 6.7% in Q1, the first increase in three quarters. This quarter we look for a modest rebound in spending, on the back of momentum in business activity through the June quarter and the renewal in infrastructure spending and on major resource projects that is set to pick up over the year ahead. Economy-wide investment fundamentals also support some pick-up over time. *L: -0.2% F 2.0% Consensus +2.3%*	

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Weekly Calendar of Global Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	BST	AEST
Monday 23 August 2010								
CH	Leading Index	JUL				102.84		
GE	PMI Manufacturing	AUG A				61.2	*8.30*	17.30
GE	PMI Services	AUG A				56.5	*8.30*	17.30
EC	PMI Manufacturing	AUG A				56.7	*9.00*	18.00
EC	PMI Services	AUG A				55.8	*9.00*	18.00
EC	PMI Composite	AUG A				56.7	*9.00*	18.00
US	Mortgage Delinquencies	2Q				10.1%	23-27 Aug	
US	Chicago Fed Nat Activity Index	JUL				-0.63	*13.30*	22.30
EC	Euro-Zone Consumer Confidence	AUG A				-14	*15.00*	0.00
Tuesday 24 August 2010								
NZ	RBNZ 2yr Inflation Expectation	3Q				2.8%	*4.00*	13.00
GE	GDP	2Q F		2.2%/3.7%		0.5%/2.0%	*7.00*	16.00
UK	BBA Loans for House Purchase	JUL				34813	*9.30*	18.30
EC	Industrial New Orders	JUN				3.8%/22.7%	*10.00*	19.00
US	Fed's Evans Speaks in Indianapolis (ALT)						*13.45*	22.45
US	Richmond Fed Manufact. Index	AUG		12		16	*15.00*	0.00
US	Existing Home Sales	JUL		4.74M		5.37M	*15.00*	0.00
Wednesday 25 August 2010								
US	ABC Consumer Confidence	Aug-22				-45	*22.00*	7.00
JN	Corp Service Price Index (YoY)	JUL				-1.0%	*0.50*	9.50
JN	Adjusted Merchnds Trade Bal.	JUL				¥456.0B	*0.50*	9.50
AU	Construction Work Done	2Q	1.0%	3.0%		1.9%	*2.30*	11.30
GE	IFO - Business Climate	AUG		105.5		106.2	*9.00*	18.00
GE	IFO - Current Assessment	AUG		107.2		106.8	*9.00*	18.00
GE	IFO - Expectations	AUG		104.3		105.5	*9.00*	18.00
US	MBA Mortgage Applications	Aug-20				13.0%	*12.00*	21.00
US	Durable Goods Orders	JUL		3.0%		-1.0%	*13.30*	22.30
US	Durables Ex Transportation	JUL		0.5%		-0.6%	*13.30*	22.30
US	New Home Sales	JUL		340K		330K	*15.00*	0.00
US	House Price Index MoM	JUN				0.5%	*15.00*	0.00
US	New Home Sales MoM	JUL		3.0%		23.6%	*15.00*	0.00
US	House Price Purchase Index QoQ	2Q				-1.9%	*15.00*	0.00
Thursday 26 August 2010								
AU	Conference Board Leading Index	JUN				0.3%	*1.00*	10.00
AU	New Private Capital Expenditure	Q2	2.0%	2.3%		-0.2%	*2.30*	11.30
SI	Industrial Production MoM SA	JUL		3.9%/8.5%		-23.4%/26.1%	*6.00*	15.00
GE	GfK Consumer Confidence Survey	SEP				3.9	*7.00*	16.00
EC	Euro-Zone M3 s.a. (YoY)	JUL				0.2%	*9.00*	18.00
EC	Euro-Zone M3 s.a. 3 mth ave.	JUL				0.0%	*9.00*	18.00
UK	CBI Reported Sales	AUG				33	*11.00*	20.00
US	Initial Jobless Claims	Aug-21		485K		500K	*13.30*	22.30
US	RPX Composite 28dy YoY	JUN				2.1%	*14.00*	23.00
Friday 27 August 2010								
JN	Jobless Rate	JUL				5.3%	*0.30*	9.30
JN	Overall Hhold Spending (YoY)	JUL				0.5%	*0.30*	9.30
JN	Natl CPI YoY	JUL				-0.7%	*0.30*	9.30
JN	Natl CPI Ex-Fresh Food YoY	JUL				-1.0%	*0.30*	9.30
JN	Natl CPI Ex Food, Energy YoY	JUL				-1.5%	*0.30*	9.30
CH	MNI Business Condition Survey	AUG				64.94	*2.35*	11.35
UK	Total Business Investment(QoQ)	2Q P				7.8%/-7.7%	*9.30*	18.30
UK	GDP	2Q P		1.1%/1.6%		0.3%/-0.2%	*9.30*	18.30
UK	Index of Services (3mth/3mth)	JUN				0.8%	*9.30*	18.30
US	GDP QoQ (Annualized)	2Q S		1.3%		2.4%	*13.30*	22.30
US	U. of Michigan Confidence	AUG F		70		69.6	*14.55*	23.55
US	Bernanke Speaks at Kansas City Fed's Jackson Hole Conference						*15.00*	0.00
Upcoming Central Bank Interest Rate Announcements								
Europe ECB		2-Sep	1.00%	1.00%		1.00%		
UK BOE		9-Sep	0.50%	0.50%		0.50%		
Australia, RBA		7-Sep	4.50%			4.50%		
Japan, BoJ		7-Sep	0.10%	0.10%		0.10%		
Canada, BoC		8-Sep				0.75%		
New Zealand, RBNZ		16-Sep	3.25%	3.25%		3.00%		
US Federal Reserve		21-Sep	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 AEST Australian Eastern Standard Time

National Australia Bank

Forecasts

Economic Forecasts

					2009				2010				2011			
Australia Forecasts	**2008**	**2009**	**2010**	**2011**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Real GDP - quarter %					0.6	0.8	0.3	1.1	0.5	1.0	0.6	0.7	0.7	1.3	1.2	1.0
Real GDP - annual %	2.3	1.3	3.0	3.7	1.0	0.7	1.0	0.9	2.7	2.9	3.3	2.9	3.1	3.4	3.9	4.2
Household Consumption	1.9	1.6	2.8	3.4	0.3	1.3	0.3	0.9	0.6	0.7	0.6	0.9	0.6	1.1	0.9	1.0
Business Investment	12.6	-1.3	1.4	12.0	-2.5	0.2	-3.3	4.4	-3.3	2.6	0.8	3.0	2.1	4.5	3.5	3.9
Residential Construction	2.6	-4.6	2.9	12.1	-2.5	-5.9	7.7	1.3	-1.0	-0.7	1.5	1.9	3.4	4.2	4.2	3.6
Government Spending	6.6	3.7	8.9	-1.1	-0.7	1.5	3.2	3.9	3.9	0.2	-0.3	-0.6	-0.6	-0.3	0.3	0.3
Exports	3.1	1.4	6.4	8.2	1.6	2.0	-1.7	2.0	-0.5	5.8	1.9	1.3	1.6	2.0	1.9	1.9
Imports	3.1	1.4	14.2	10.5	-7.6	0.9	4.2	8.1	1.8	2.8	1.5	2.3	2.0	3.5	3.1	3.2
Net Exports*	-1.7	2.0	-1.6	-0.7	1.9	0.2	-1.2	-1.3	-0.5	0.5	0.1	-0.2	-0.1	-0.4	-0.3	-0.4
Inventories*	-0.1	-0.8	0.4	0.1	-0.1	-0.4	0.9	0.1	0.0	-0.2	0.0	0.0	-0.1	0.1	0.1	0.0
Domestic Demand - qtr%					-0.5	0.9	0.7	2.1	0.6	0.8	0.5	0.9	0.8	1.5	1.4	1.5
Dom Demand - annual%	4.3	1.3	2.4	4.2	2.6	1.0	0.3	0.6	4.4	4.3	4.1	2.8	3.0	3.7	4.7	5.3
Australia Other																
CPI headline - quarter%					0.1	0.5	1.0	0.5	0.9	0.6	0.7	0.8	0.9	0.7	0.7	0.5
CPI headline - annual %	3.7	1.8	2.9	3.1	2.5	1.5	1.3	2.1	2.9	3.0	2.8	3.1	3.1	3.2	3.2	2.8
CPI underlying - qtr%					1.1	0.8	0.8	0.6	0.8	0.5	0.7	0.8	0.9	0.6	0.7	0.5
CPI underlying - annual %	4.5	3.7	2.8	3.0	4.2	3.9	3.5	3.3	3.1	2.7	2.5	2.8	2.9	3.1	3.1	2.7
Wages (Pvte WPI - qtr%)					0.7	0.6	0.6	0.6	0.8	0.8	1.0	1.2	0.7	0.7	0.8	0.8
Wages (Pvte WPI -ann %)	4.3	3.3	3.1	4.5	4.0	3.5	3.1	2.5	2.6	2.8	3.2	3.8	4.3	4.6	4.7	4.6
Unemployment Rate (%)	4.5	5.6	5.0	4.4	5.4	5.7	5.7	5.6	5.2	5.1	4.8	4.7	4.5	4.5	4.4	4.4
Terms of trade	14.3	-8.6	11.5	11.6	-8.1	-7.4	0.7	3.3	4.2	4.8	0.9	6.8	2.3	1.9	1.4	-0.6
Current Account (% GDP)	-4.4	-4.1	-3.4	-1.8	-2.1	-4.1	-4.4	-5.8	-5.2	-3.4	-3.2	-2.1	-1.7	-1.7	-1.6	-2.0

	2008	**2009**	**2010**	**2011**	**2012**
Australia	2.3	1.3	3.0	3.7	4.3
US	0.5	-2.4	3.1	2.8	3.2
Eurozone	0.6	-4.1	1.6	1.5	1.7
UK	0.5	-4.9	1.5	2.1	2.3
Japan	-1.2	-5.2	3.1	2.5	2.5
China	9.6	9.1	10.5	9.1	8.0
India	7.3	5.7	8.4	7.8	7.3
New Zealand	-0.2	-1.6	2.8	3.4	1.7
World	3.0	-0.7	4.6	4.2	4.0

*Contribution to real GDP

Interest Rate Forecasts

	20-Aug	**Sep-10**	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
Australia											
RBA Cash rate	**4.50**	4.50	4.50	4.75	5.00	5.50	5.50	5.50	5.50	5.50	5.50
3 month bill rate	**4.70**	4.8	4.9	5.1	5.4	5.7	5.7	5.7	5.7	5.7	5.7
3 Year Swap Rate	**4.90**	5.0	5.2	5.5	5.6	5.7	5.7	5.7	5.7	5.7	5.7
10 Year Swap Rate	**5.39**	5.6	5.8	5.9	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Offshore Policy Rates											
US Fed funds	**0.25**	0.13	0.13	0.13	0.13	0.50	0.75	1.00	1.50	2.00	2.50
ECB refi rate	**1.00**	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.00
BoE repo rate	**0.50**	0.50	0.50	0.50	0.75	1.00	1.50	1.75	2.00	2.25	2.50
BoJ overnight call rate	**0.09**	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09	0.09
RBNZ OCR	**3.00**	3.25	3.75	4.00	4.25	4.75	5.25	5.50	5.50	5.50	5.50
China 1yr rate	**5.31**	5.31	5.31	5.31	5.31	5.31	5.31	5.58	5.58	6.12	6.12
10 Year Benchmark Bond Yields											
Australia	**4.92**	5.15	5.35	5.45	5.65	5.65	5.65	5.65	5.65	5.65	5.65
United States	**2.57**	2.80	3.00	3.25	3.50	3.75	4.00	4.25	4.25	4.25	4.25
Europe	**2.31**	2.60	2.80	3.00	3.20	3.40	3.60	3.80	4.00	4.00	4.00
UK	**3.01**	3.30	3.50	3.80	4.10	4.40	4.60	4.75	4.75	4.75	4.75
Japan	**0.94**	1.10	1.20	1.30	1.35	1.40	1.50	1.50	1.50	1.50	1.50
New Zealand	**5.14**	5.50	5.90	6.30	6.60	6.70	6.80	7.00	7.25	7.50	7.50

Exchange Rate Forecasts

	20-Aug	**Sep-10**	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
Majors											
AUD/USD	**0.8912**	0.86	0.90	0.92	0.94	0.92	0.90	0.87	0.87	0.86	0.86
NZD/USD	**0.7066**	0.71	0.73	0.72	0.71	0.69	0.68	0.69	0.69	0.69	0.68
USD/JPY	**85.31**	86	88	93	96	98	100	107	108	109	110
EUR/USD	**1.2804**	1.24	1.26	1.27	1.28	1.30	1.33	1.26	1.26	1.24	1.24
GBP/USD	**1.5571**	1.51	1.57	1.58	1.62	1.64	1.70	1.55	1.54	1.53	1.52
USD/CNY	**6.7885**	6.70	6.55	6.32	6.24	6.12	6.02	5.90	5.78	5.64	5.55
USD/CAD	**1.0392**	1.03	1.00	0.97	0.99	1.00	1.00	1.02	1.02	1.03	1.04
Australian Cross Rates											
AUD/JPY	**76.03**	74	79	86	90	90	90	93	94	94	95
AUD/EUR	**0.6960**	0.69	0.71	0.72	0.73	0.71	0.68	0.69	0.69	0.69	0.69
AUD/GBP	**0.5723**	0.57	0.57	0.58	0.58	0.56	0.53	0.56	0.56	0.56	0.57
AUD/NZD	**1.2613**	1.21	1.23	1.28	1.32	1.33	1.32	1.26	1.26	1.25	1.26
AUD/CNY	**6.0499**	5.76	5.90	5.81	5.87	5.63	5.42	5.13	5.03	4.85	4.77
AUD/CAD	**0.9261**	0.89	0.90	0.89	0.93	0.92	0.90	0.89	0.89	0.89	0.89

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