

Australian Markets Weekly

Friday, 10 December 2010

Markets skittish; Aus economy solid

- Global markets focussed on Obama tax cuts and EU sovereign debt woes
- Australia's labour market very strong in Nov
- Strong labour market in contrast to weak GDP partly due to lags
- But GDP probably not as weak as Q3 print
- NAB Business Survey headlines week ahead

Obama tax cuts and Ireland drive global markets

Financial markets have been battling cross winds over the past week. The two key global issues are President Barack Obama's deal with the Republicans on tax cuts and Ireland's on-going sovereign debt and banking woes.

On the Obama tax cuts, in a deal which amounts to a substantial fiscal stimulus, compared with the former fiscal settings of Obama's administration, the President struck a deal mid week with Republican leaders. This deal involved extending the Bush-era income-tax cuts for two years, reducing payroll taxes for one year, and giving more favourable treatment to business investment. Estate taxes will be temporarily reinstated at 35% and jobless benefits for the long-term unemployed are to be extended.

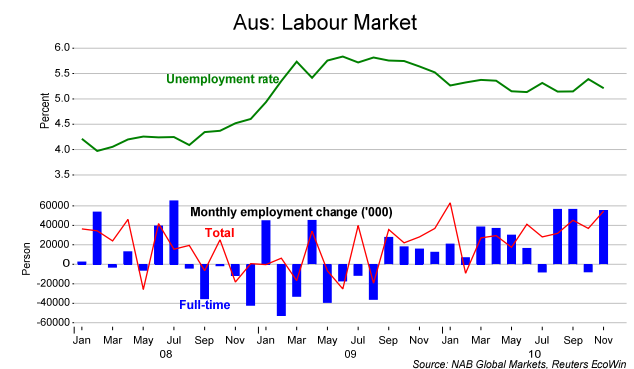
The fiscal stimulus totals just under US\$300bn or 2% of GDP. Estimates are that it could boost US GDP by 0.5 percentage points next year.

Announcements of the deal saw US equities spike higher at the open on Tuesday but then the reaction to news on Ireland caused the early gains to be reversed.

Paradoxically, investors became fearful that the austerity measures in Ireland's new budget, put in place to secure the €67.5bn financial aid package from the IMF and the European Union. This was after the, Ireland's parliament voted 82 to 77 to approve the first budget measures.

By the end of the week, these two issues were still at the forefront of investors' minds. Obama's deal appeared to be unravelling on Thursday, as renegade Democrats rallied against some of the Republican inspired measures in the package while markets fretted over the sovereign debt issue in Europe, with Finance Ministers meeting to consider whether the €750bn 'rescue fund' needed to be enlarged.

Chart: Strong jobs growth in November



Weekly Highlights

- **Markets skittish; Aus economy solid:** Global markets focussed on Obama tax cuts and EU sovereign debt woes. Australia's labour market very strong in Nov. Strong labour market in contrast to weak GDP partly due to lags. But GDP probably not as weak as Q3 print. NAB Business Survey headlines week ahead.
- **International Economic Roundup:** Administration and Republicans agree on taxes, jobless benefits package. US jobless claims entering new downtrend; consumer credit up for second month. Ireland presents 2011 Budget. Fitch downgrades Ireland; Hungary also downgraded. German manufacturing output increasing further. China policy under focus as Nov data looms
- **Offshore next week:** USA: Small Business Optimism, Retail sales, PPI, CPI, FOMC, Empire State/Philly Fed manufacturing, Industrial production, NAHB Housing, Housing starts/ permits, Current account, Jobless claims; UK: Rightmove/RICS/DCLG house prices, CPI, Claimant count, Retail sales, Consumer confidence; Europe: Industrial production, ZEW Survey, Employment, PMIs (Dec), CPI, Labour costs, Construction, Trade; Japan: Industrial production, Tankan; China: New yuan loans; NZ: Food prices, REINZ House prices, Retail sales, PMI, NBNZ survey, Consumer confidence
- **Foreign Exchange:** USD response to surge in US bond yields muted since global growth sentiment and investor risk-appetite remain elevated. Still, the spike in US bond yields has held back the rise in AUD/USD after a blockbuster Australian jobs report, as have rumours of imminent further policy tightening by China.
- **Interest Rates:** RBA on hold until household and business caution eases - mid 2011? US Bond yields higher still
- **Calendar:** Upcoming events for the week ahead ...[read more](#)
- **Forecasts:** Economic, Interest Rate and Exchange Rate Forecasts ...[read more](#)

Targets - Rates & Currencies

	10-Dec	Dec-10	Mar-11	Jun-11
RBA cash	4.75	4.75	4.75	5.00
3 month bill rate	5.12	5.0	5.1	5.3
3 year swap rate	5.50	5.4	5.5	5.5
AUD/USD	0.9865	1.00	1.02	1.05

Markets skittish; Aus economy solid (cont'd)

Australian labour market still strong

Meanwhile, in Australia, the labour market data yet again threw up a positive surprise.

Employment rose a very strong 54,600 in November (NAB forecast +30k; market +20k), with the October result revised higher to +36,900 from +29,700. Full-time employment rose 55.1k, while part-time employment fell 400k. The annual pace of growth in employment has risen to 3.7%yoy, up from 3.4% in October

The unemployment rate fell to 5.2% from 5.4%, despite the participation rate rising to a new record 66.1% from 65.9%.

By state, there were employment gains in all states except SA, with the biggest in NSW (+20k) and VIC (+17k).

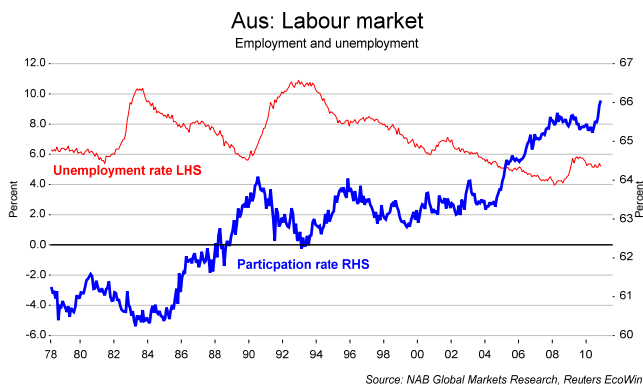
Unemployment fell in all states other than Tasmania. NSW now has the second lowest unemployment rate at 5.1%, (down from 5.4% in Oct). WA has the lowest unemployment rate amongst the states at 4.5% (from 4.75 in Oct); Victoria is at 5.5% (5.6%); Qld is at 5.5% (5.6%); SA is at 5.6% (5.7%) and Tasmania's rate rose to 5.4% from 5.2%. For the Territories, both NT and the ACT are at 3.1%.

We'd point out that the highest unemployment rate amongst the states at 5.6% would be the envy of the developed world.

Looking at recent trends for population growth (which the ABS has revised to a slower pace in the recent release), if the participation rate remains unchanged, Australia needs an increase of 15-20k in employment each month to keep the unemployment rate steady,.

Had the part rate remained at 65.9% in November, the unemployment rate would have fallen to 5.0% given the 54.6K rise in November employment.

Chart: Record participation keeps unemployment up



Strong jobs; weak GDP – what gives?

This week's strong Labour Force data, following on from last week's very weak GDP is an apparent inconsistency in readings on the economy? So which set of numbers should we believe?

The answer is that both the Labour Force and the National Accounts contain kernels of truth about the economy.

At the outset it is worth noting that some of the leading indicators for the labour demand are pointing to some moderation ahead. This is evident in the long running ANZ

newspaper advertisements series, our own NAB Business Survey employment measure and the Government's skilled vacancies series.

Chart: ANZ job ads point to weaker jobs growth ahead

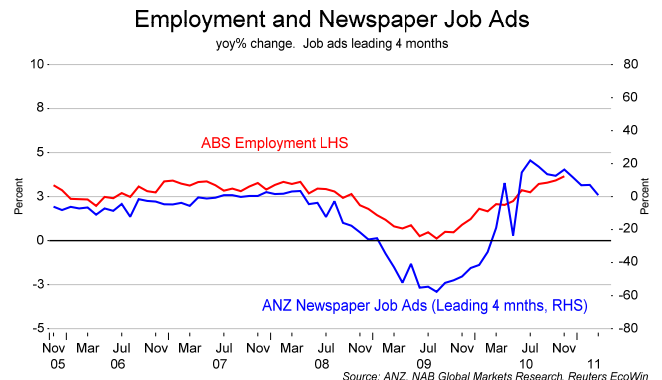
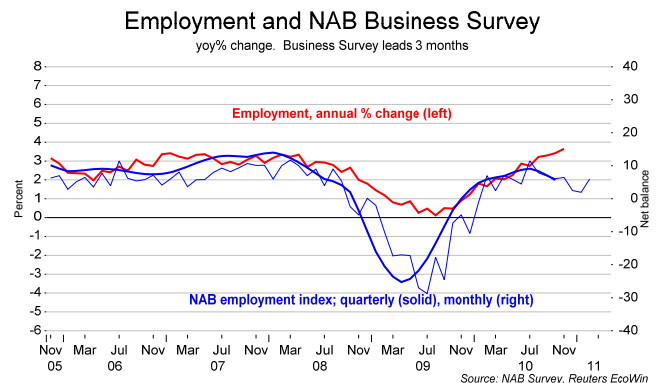


Chart: NAB Employment flags slowing jobs growth

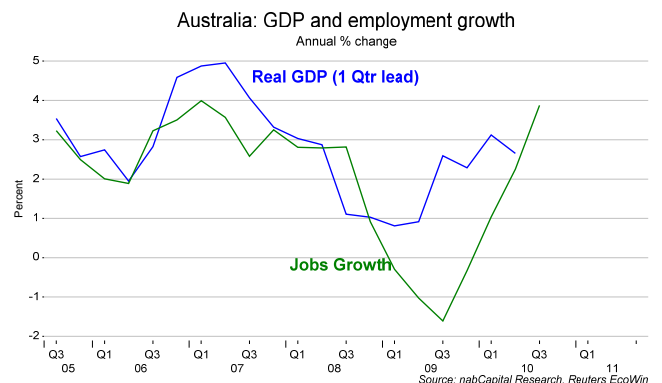


Note that that both of the leading series above have a lag of roughly one quarter before the official ABS series follows.

This brings us to the second point about GDP and employment. There is a lag of about a quarter between changes in the output of the economy, as proxied by GDP and changes in employment. That's because it takes a while for employers to respond to sustained changes in output by either hiring more workers, in an upturn, or letting their workforce decline, in a downturn.

Our conclusion is that it is too early for the slowing in output registered in the GDP release to show up in weaker job creation. However, a slowing in employment can be expected ahead.

Chart: Jobs growth lags GDP by around 1 quarter



While we are expecting moderating jobs growth ahead, we do not expect a big downturn.

This is because, in our view, it is quite likely that the last National Accounts is overestimating the volatility in GDP over the past few quarters.

According to the seasonally adjusted series, which economists refer to almost exclusively, GDP in the March quarter was 0.7%; in the June quarter it was 1.1%; and in the September quarter the rise was a mere 0.2%.

The Trend series, which takes out much of the quarterly volatility, shows March quarter 0.8%; June quarter 0.7%; and September quarter 0.6%.

We are inclined to the view that at the moment the Trend data probably is a better guide to what is happening in the economy than the very volatile seasonally adjusted series.

The RBA, jobs and GDP

It is likely that the Reserve Bank will not be too phased by either the GDP or Labour Force releases.

Like us they probably take the view that, while the economy is definitely slowing, it probably did not slow as much as the latest National Accounts suggest.

Like us, they will be cognisant of the lags and of the slowing in the leading labour market indicators so the strong jobs growth in November will not have unsettled their view that they are now ahead of the curve (or ahead of the game, as Glenn Stevens likes to say).

This leaves them comfortably on hold with a mild bias to tighten.

One thing the RBA would have been cock-a-hoop about was the sharp rise in business investment for Non-Dwelling Construction which rose by 6.1% in the September quarter.

This finally put some hard data around the RBA's forecasts of strong business ahead, especially in Mining. As this investment boom accelerates ahead, rates will eventually move higher but any further move still seems unlikely before the June quarter of next year.

Week ahead

Next week begins with RBA Governor Glenn Stevens appearing before the Senate Inquiry into Competition within the Australian Banking Sector on Monday morning. Data-wise, the coming week will see the release of our NAB Business Survey for Nov on Tuesday, as well Dwelling Starts (Q3) on the same day. On Wednesday, the Westpac-MI Consumer Confidence Index (Dec) is due and also the DEWR Skilled Vacancy Survey (Dec), along with New Motor Vehicle sales (Nov) and Consumer Inflation Expectations (Dec).

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International Economic Roundup

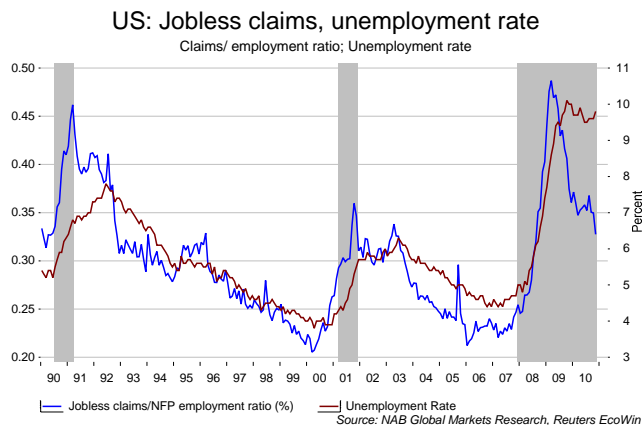
- Administration and Republicans agree on taxes, jobless benefits package
- US jobless claims entering new downtrend; consumer credit up for second month
- Ireland presents 2011 Budget; Fitch downgrades Ireland; Hungary also downgraded
- German manufacturing output increasing further
- China policy under focus as Nov data looms

US fiscal contraction avoided

After a tortuous set of seemingly-endless negotiations, the Obama Administration and Congressional Republicans came to an accommodation. They agreed to compromise by extending the Bush 2001/2003 tax cuts to all taxpayers but for two years in exchange for Republican support for a 13 month extension of unemployment benefits for the long term unemployed. A cut to payroll taxes was also agreed on.

By some estimates this will avert what would have been a coming fiscal contraction arriving from Jan 1 of around 2% of GDP. The outcome seems a fair compromise between the need to support the US recovery against the constraints of the burgeoning US deficit and debt levels. US wholesale interest rates jumped after the announcement of this "tax cut" deal.

Chart: Jobless claims trending down



The latest weekly jobless claims data showed a 17k fall to 421k, a touch less than the median forecast of 425k and the second lowest reading for jobless claims this year. Also reflecting some lift in bank lending to consumers, consumer credit rose \$3.4bn in October, the second monthly rise and revealing a rise in non-revolving credit such as for auto loans.

Federal Reserve Chairman Bernanke appeared on the CBS program "60 minutes", again justifying QEII, not ruling out more QE if needed, but stated that a double dip is unlikely. He said that the economic recovery in the US may not yet be self-sustaining.

It was a cautious assessment and nothing that markets took a strong lead from either way.

Ireland/Europe

Ratings agency Moody's downgraded Hungary's credit rating by two notches to the lowest investment grade rating with a negative outlook, noting budgetary concerns. Also Euro-zone finance ministers are meeting to consider whether the €750bn support package needs to be increased.

After coming to an agreement with the EU and the IMF on a bail-out support package, Irish Finance Minister Lenihan presented the 2011 Budget, aiming to reduce the Government's budget deficit to 3% of GDP by 2015 through a significant fiscal contraction to receive the EU-IMF bail-out package. While the Government does not yet have certain Parliamentary support of both independents required getting the Budget passed, so far the packages presented for legislative approval have been passed.

Fitch downgraded Ireland by three notches to BBB+ from A+ citing the mounting costs to rescue the nation's banking system. Meanwhile Irish PM Cowen said that the coalition government will put the EU85bn aid package from the EU-IMF to a parliamentary vote on December 15.

Meanwhile data out of Germany continued to show growth with good rises in industrial production and factory orders in October.

China under the spotlight

Mid way through the week, there was increased speculation that the Chinese monetary authorities were on the brink of tightening monetary policy again. Such speculation was given force by China bringing forward the timing of most of its monthly inflation and activity data for November from this coming week to the weekend.

China has already released its November residential property price report. The 70 cities index rose by a slower-than-expected 7.7% y/y, down from 8.6% in October. House price inflation has cooled from a high of 12.8% as recently as April and is now back to the lowest rate of house price inflation for a year.

Offshore next week

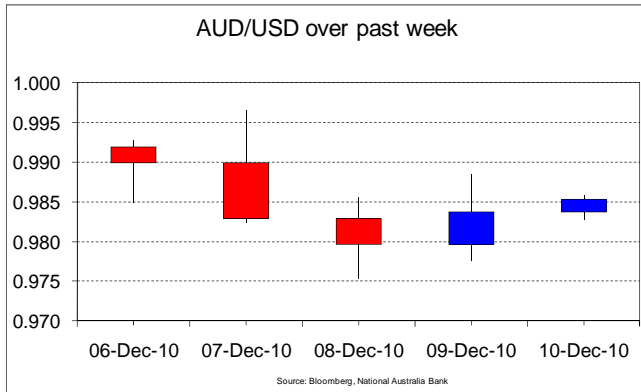
- **USA:** Small Business Optimism, Retail sales, PPI, CPI, FOMC, Empire State/Philly Fed manufacturing, Industrial production, NAHB Housing, Housing starts/permits, Current account, Jobless claims
- **UK:** Rightmove/RICS/DCLG house prices, CPI, Claimant count, Retail sales, Consumer confidence
- **Europe:** Industrial production, ZEW Survey, Employment, PMIs (Dec), CPI, Labour costs, Construction, Trade
- **Japan:** Industrial production, Tankan
- **China:** New yuan loans
- **NZ:** Food prices, REINZ House prices, Retail sales, PMI, NBNZ survey, Consumer confidence

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Market Strategy

Foreign Exchange

- **USD response to surge in US bond yields muted since global growth sentiment and investor risk-appetite remain elevated.**
- **Still, the spike in US bond yields has held back the rise in AUD/USD after a blockbuster Australian jobs report, as have rumours of imminent further policy tightening by China.**



Last week we said that it will likely require a rebound in Australian economic reports and the repricing of RBA rate hikes over the first half of 2011 to get AUD/USD sustainably back above parity. We got some of the former in the shape of a blockbuster jobs report but traders still don't fully price a RBA rate hike until August 2011. As such, a modest improvement in our investor risk-appetite index to its highest since April and the Journal of Commerce industrial metals price index rising 2.7% this week were not enough to propel AUD/USD to parity.

A stunningly strong Australian jobs report for November did trigger much doubt about whether the Australian economy has slowed as much as the weak GDP report for Q3 suggested. Employment surged 54.6k in November (that's like US payrolls jumping 550k in a month), not far short of three times the rise forecast by the consensus, and all full-time jobs to boot. The unemployment rate fell to 5.2% from 5.4% and would have fallen further (to 5%) but for another 0.2pp rise in the participation rate to a fresh record high of 66.1% (an encouraged worker effect). This rise in labour supply is pushing out the date at which Australia runs out of spare capacity and allows the RBA to take a more gradual approach to further tightening. Still, employment growth of 3.7%yoy in November has accelerated rather than slowed like GDP growth. While there are lags between the two, the booming November jobs report does suggest that the economy is not as weak as the headlines suggest and so the market pricing for the RBA to remain in hold until Q3 2011 looks a stretch.

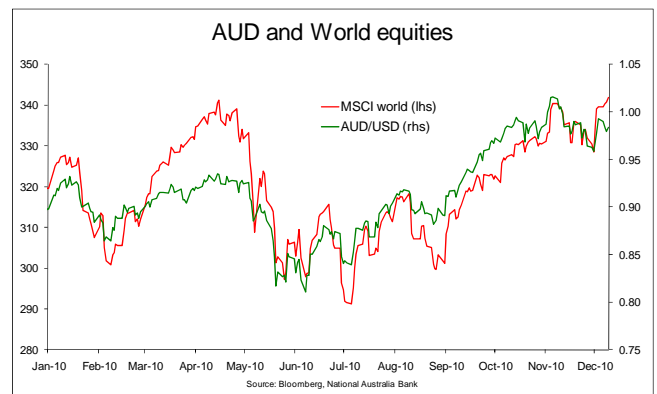
In the wake of the blockbuster jobs report, traders priced 42bps of RBA tightening over the next 12-months, up from 31bps before the data and 0bps a month ago when the October jobs report showed a jump unemployment to 5.4% from 5.1%. Still, the Australia-US 2-year swap yield spread has risen much from around 450bps thanks to a spike in US bond yields this week. This spread will need to re-widen to around 480bps if AUD/USD is to trade sustainably above parity.

Economists have been busy upgrading their US GDP growth forecasts for 2011 by between 0.3 and 1pp to around 3.5% in response the agreement to extend the Bush income tax cuts for two years, cut payroll taxes paid by workers and extend unemployment benefits. The combined impact of an unexpected boost to growth from both political parties' demands being adopted, the attendant potential rise in inflation from higher growth and the implication that the fiscal deficit will blow out by an additional US\$1trln over two years – leaving it at an elevated 9% to 10% of GDP in 2011 at a minimum – has given both US yields and inflation expectations another push higher. The US 10-year year bond yield surged 35bps in two days to 3.27% (the highest in six-months), its sharpest rise since September 2008. Meanwhile, the US 2-year yield increased 20bps over two days to 0.63%, its highest in just over four months.

Still, the rise in the USD in response to the surge in US bond yields has been muted. The USD index has gained by less than 1% this week. Eyeballing a chart of the US 2-year yield versus the USD index suggests the greenback should be 3% higher. One reason for the USD's muted response to higher US bond yields is that global growth expectations remain solid, investor risk-appetite is elevated (evident in stock markets) and commodity prices are still high. Bond yields have risen in all the major economies not just in the US. Indeed, the Euro-zone 2-year yield remains almost 40bps above its US equivalent. So it doesn't appear that investors are yet betting on a period of US economic out-performance of major economies and a sharp slowdown in emerging economies.

We would be alert to another interest rate hike by China as a potential to unsettle stock markets and commodity prices and give the USD a larger boost. We do note, however, that the upward momentum in China's inflation rate appears to be fading after a further acceleration in November (data to be reported on Saturday). Weekly data show that vegetable prices have fallen in each of the past four weeks. There's a good chance that China's CPI inflation rate will have peaked in December, potentially easing fears about much more policy tightening in the New Year.

Next week's FOMC statement will likely acknowledge the improvement in US economic performance but the Fed will still expect unemployment to come down very slowly and inflation to remain subdued. So a mixed message for the USD. We look for AUD/USD to trade between 0.9650 and 1.0000 in the near-term.



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Market Strategy

Interest Rates

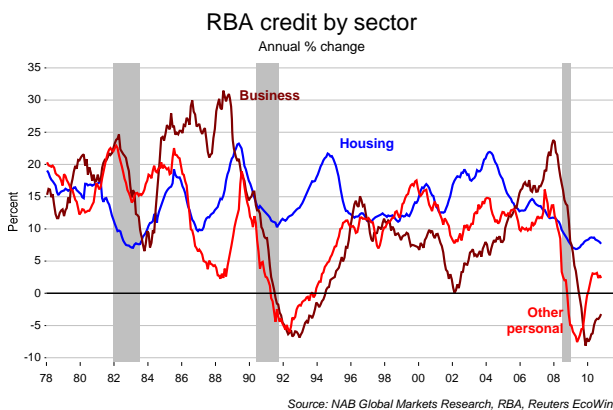
- **RBA on hold until household and business caution eases - mid 2011?**
- **US Bond yields higher still**

This week's RBA Statement told us what we all knew anyway, which is they have done enough for now. 175bps of tightening, plus additional increases by banks has taken lending rates to "a little above average" and clearly taken the steam out of households and businesses. Room has been made for the much hyped (but real enough) boom in mining investment, which the RBA reckons was evident in an otherwise weak Q3 GDP result. Inflation is benign near term but "is likely to increase somewhat over the medium term if the economy grows as expected". "Somewhat" is not a lot, so a modest tightening bias and for now at least "The Board views (the current) setting of monetary policy as appropriate for the economic outlook."

Looking ahead, the question is still when, not if, they hike again. At this stage future hikes are likely to be modest (another 50bps is our forecast) and some way off. February still looks too soon for unless unemployment steps down further, clearly below 5%, in next labour force report. RBA hikes will be back on the agenda when business and household caution eases.

Right now both are cautious – at least that is businesses outside the resource sector. The household savings rate is still near GFC levels and annual housing credit growth has slumped to its lowest growth rate in several decades below 8%. Business credit growth has slumped even harder, and after the understandable de-leveraging post the GFC we have seen a second leg of business de-leveraging more recently - business credit has contracted for the past four months.

Chart: RBA credit growth



This caution is likely to ease as time progresses. Anecdotally, businesses we talk to (outside of the stressed retail and tourism sectors) are positive and are planning new investment. For now though, and probably due to a mix of global uncertainty and RBA hikes, few are pulling the trigger.

Households are displaying similar caution. The passage of time, and nothing going wrong, should see this caution ease. So while the economy is soft right now, the risk is

that in 6-12 months time we could have households and businesses opening their wallets on top of the ongoing boom in resource sector investment. If so, the RBA would lean against this with another tap on the brakes. For mine, this is quarters, not months, away.

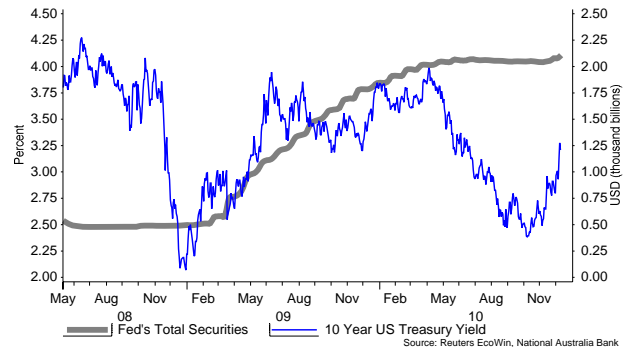
So little chance of a February hike and at this stage NAB economists have slated May for the next move. But the bigger point is that the RBA don't have a bullet in the barrel and data ahead will determine the next move.

US Bond yields higher still

This brings us to US bond yields which will be the biggest source of uncertainty for global and Australian interest rates markets as we head towards 2011. Reasonable people can make good arguments for US 10 years (now 3.15% after a whopping 22bps rise last night after Obama agreed to extend tax cuts for another 2 years) to be 2% or 4% at the end of 2011.

Chart: Tracking QE II

US 10 Year Bonds and Fed Quantitative Easing
US 10 year yield and Fed securities purchases



The 2% camp point to deflation, double-dip, and the relative attractiveness of a 3% US 10 year yield for USD investors when the alternative is the fed funds rate near zero. The 4% camp point to improving US growth, massive monetary stimulus, longer term inflation risk stemming from QE, and a potential buyers strike given soaring US Treasury bond issuance and an obvious waning of foreign interest to hold USD's.

As I've written, I'm in the 4% camp. Now Friday night's softer payrolls gains were a set-back, but the bulk of incoming data points to an improving outlook. Related to this we are in an upward revision phase for US growth forecasts and Obama's extension of tax cuts will further support growth and higher yields. Bernanke deliberately wanting to be behind the "curve" further undermines US long bonds. All up, and as chart 3 shows, it looks like UST10's are doing a repeat of their run from near 2% to near 4% in the six months after the first round of QE in late 2008.

Now the move to 4% won't be a straight line, but our year-end 2011 forecast is 4%. Higher US bond yields will pressure longer yields in Australia, but will also show up as a narrowing in Aus-US differentials and the yield curve maintaining its steepness.

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Weekly Calendar of Global Economic Releases

Country	Economic Indicator	Time Period	NAB Forecast	Consensus	Actual	Previous	BST	AEDT
Saturday 11 December 2010								
CH	Producer Price Index (YoY)	NOV		5.1%		5.0%	2.00	13.00
CH	Purchasing Price Index (YoY)	NOV				8.1%	2.00	13.00
CH	Consumer Price Index (YoY)	NOV		4.7%		4.4%	2.00	13.00
CH	Retail Sales (YoY)	NOV		18.7%		18.6%	2.00	13.00
CH	Retail Sales YTD YoY	NOV		18.4%		18.3%	2.00	13.00
CH	Industrial Production (YoY)	NOV		13.0%		13.1%	2.00	13.00
CH	Industrial Production YTD YoY	NOV		15.8%		16.1%	2.00	13.00
CH	Fixed Assets Inv Urban YTD YoY	NOV		24.3%		24.4%	2.00	13.00
Monday 13 December 2010								
NZ	Food Prices (MoM)	NOV	0.3%			2.2%	21.45	8.45
AU	RBA Gov Stevens appears at Inquiry into Competition within the Australian Banking Sector						21.45	8.45
UK	Rightmove House Prices (MoM/YoY)	DEC				-3.2%/1.3%	0.01	11.01
Tuesday 14 December 2010								
NZ	Retail Sales (MoM)	OCT	-1.0%	-0.3%		1.6%	21.45	8.45
UK	RICS House Price Balance	NOV				-49%	0.01	11.01
AU	Dwelling Starts	3Q	-7.5%	-5.0%		0.8%	0.30	11.30
AU	NAB Business Conditions	NOV				2	0.30	11.30
AU	NAB Business Confidence	NOV				8	0.30	11.30
UK	CPI (MoM/YoY)	NOV		0.3%/3.2%		0.3%/3.2%	9.30	20.30
EC	Euro-Zone Ind. Prod. sa (MoM)	OCT		1.4%		-0.9%	10.00	21.00
GE	Zew Survey	DEC				1.8	10.00	21.00
US	NFIB Small Business Optimism	NOV				91.7	12.30	23.30
US	Producer Price Index (MoM/YoY)	NOV		0.5%/3.3%		0.4%/4.3%	13.30	0.30
US	Advance Retail Sales	NOV		0.6%		1.2%	13.30	0.30
US	Business Inventories	OCT		0.8%		0.9%	15.00	2.00
US	FOMC Rate Decision	DEC	0%-0.25%	0%-0.25%		0%-0.25%	19.15	6.15
Wednesday 15 December 2010								
NZ	WMM Consumer Confidence	4Q				114.1	21.00	8.00
AU	Westpac Consumer Confidence s.a. (MoM)	DEC				-5.3%	23.30	10.30
JN	Tankan Lge Manufacturers Index	4Q		3		8	23.50	10.50
AU	RBA's DeBelle Speaks at Finance & Banking Conference in Sydney						0.00	11.00
AU	DEWR Skilled Vacancies MoM	DEC				-1.0%	0.00	11.00
AU	New Motor Vehicle Sales (MoM/YoY)	NOV				-0.6%/3.3%	0.30	11.30
US	MBA Mortgage Applications	Dec-10				-0.9%	12.00	23.00
US	Consumer Price Index (MoM/YoY)	NOV		0.2%/1.1%		0.2%/1.2%	13.30	0.30
US	CPI Ex Food & Energy (MoM/YoY)	NOV		0.1%/0.6%		0%-0.6%	13.30	0.30
US	Empire Manufacturing	DEC		4		-11.1	13.30	0.30
US	Total Net TIC Flows	OCT				\$81.7B	14.00	1.00
US	Net Long-term TIC Flows	OCT				\$81.0B	14.00	1.00
US	Industrial Production	NOV		0.3%		0.0%	14.15	1.15
US	Capacity Utilization	NOV		75.0%		74.8%	14.15	1.15
US	NAHB Housing Market Index	DEC		16		16	15.00	2.00
Thursday 16 December 2010								
NZ	Business NZ PMI	NOV				49.7	21.30	8.30
AU	Consumer Inflation Expectations	DEC				3.1%	0.00	11.00
NZ	NBNZ Business Confidence	DEC				33.2	2.00	13.00
IN	India REPO Cutoff Yld	DEC				6.3%	6.30	17.30
EC	PMI Manufacturing	DEC A		55.1		55.3	9.00	20.00
EC	PMI Services	DEC A		55.5		55.4	9.00	20.00
UK	Bank of England Releases Inflation Attitudes Survey						9.30	20.30
UK	Retail Sales w/Auto Fuel (MoM/YoY)	NOV				0.5%/-0.1%	9.30	20.30
EC	Euro-Zone CPI (MoM/YoY)	NOV		0.1%/1.9%		0.4%/1.9%	10.00	21.00
US	Housing Starts	NOV		550K		519K	13.30	0.30
US	Building Permits	NOV		558K		550K	13.30	0.30
US	Current Account Balance	3Q		-\$126.0B		-\$123.3B	13.30	0.30
US	Initial Jobless Claims	Dec-11		425k		421k	13.30	0.30
US	Philadelphia Fed.	DEC		14.1		22.5	15.00	2.00
Friday 17 December 2010								
NZ	ANZ Consumer Confidence Index	DEC				114.5	2.00	13.00
GE	IFO - Business Climate	DEC				109.3	9.00	20.00
GE	IFO - Current Assessment	DEC				112.3	9.00	20.00
GE	IFO - Expectations	DEC				106.3	9.00	20.00
EC	Construction Output SA MoM	OCT				-2.1%	10.00	21.00
EC	Euro-Zone Trade Balance sa	OCT				2.4B	10.00	21.00
US	Leading Indicators	NOV		1.1%		0.5%	15.00	2.00
Upcoming Central Bank Interest Rate Announcements								
US	Federal Reserve	14-Dec	0%-0.25%	0%-0.25%		0%-0.25%		
Japan	BoJ	21-Dec	0.10%	0.10%		0.10%		
Europe	ECB	13-Jan	1.00%	1.00%		1.00%		
UK	BOE	13-Jan	0.50%	0.50%		0.50%		
Canada	BoC	18-Jan	1.00%	1.00%		1.00%		
New Zealand	RBNZ	27-Jan	3.00%	3.00%		3.00%		
Australia	RBA	1-Feb	4.75%	4.75%		4.75%		

Forecasts

Economic Forecasts

Australia Forecasts					2009				2010				2011				2012			
	2009	2010	2011	2012	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP - quarter %					1.0	0.3	0.6	0.6	0.7	1.1	0.2	1.0	1.0	0.9	1.0	1.0	1.0	1.0	0.9	1.0
Real GDP - annual %	1.5	2.6	3.6	3.8	1.1	1.0	0.8	0.9	2.6	2.3	2.7	3.0	3.4	3.2	4.0	3.9	3.9	4.0	3.9	3.9
Household Consumption	0.2	2.7	3.5	3.5	0.4	1.1	-0.1	0.9	0.3	1.4	0.6	0.7	0.9	0.9	1.0	0.9	0.9	0.8	0.7	0.8
Business Investment	2.0	-1.5	11.3	13.4	-3.4	-2.5	-3.3	5.5	-3.2	-0.6	1.9	0.0	3.5	3.9	5.4	3.6	4.3	3.9	3.6	3.7
Residential Construction	-1.8	2.1	9.6	10.2	-2.3	-4.9	6.1	1.8	-1.4	4.8	-1.8	1.7	2.9	3.0	3.6	3.0	3.2	2.1	1.6	1.1
Government Spending	3.4	7.7	-0.6	-0.7	-0.8	0.6	2.3	3.4	4.4	0.0	1.0	-0.6	-0.6	-0.3	0.3	0.3	0.3	0.3	0.3	0.3
Exports	2.7	4.3	5.4	5.2	1.6	0.9	1.7	2.0	-1.1	5.9	-2.4	1.0	1.6	1.6	2.0	1.9	1.4	1.4	1.2	1.2
Imports	2.7	9.1	8.8	9.4	-7.7	0.3	3.8	7.6	1.6	3.9	-0.5	1.2	2.5	2.8	3.5	2.7	2.8	2.4	2.2	2.2
Net Exports*	0.5	-1.7	-0.8	-1.3	2.1	0.1	-0.4	-1.2	-0.6	0.5	-0.4	-0.1	-0.2	-0.3	-0.4	-0.2	-0.4	-0.3	-0.3	-0.3
Inventories*	-0.8	0.4	0.2	0.2	0.0	-0.5	0.6	0.2	0.3	-0.5	-0.3	0.0	0.2	0.1	0.1	-0.1	0.1	0.0	-0.1	0.0
Domestic Demand - qtr%					-0.6	0.2	0.3	2.2	0.6	0.9	0.6	0.4	1.0	1.2	1.6	1.3	1.4	1.3	1.2	1.2
Dom Demand - annual%	0.9	0.8	4.0	4.7	1.2	-0.4	-1.3	-1.0	2.1	3.3	4.4	2.6	3.1	3.3	4.3	5.3	5.7	5.8	5.3	5.2
Australia Other																				
CPI headline - annual %	1.8	3.0	3.2	3.1	2.5	1.5	1.3	2.1	2.9	3.1	2.8	3.2	3.2	3.3	3.3	3.1	2.8	2.9	2.9	3.0
CPI underlying - annual %	3.7	2.7	3.0	3.0	4.2	3.9	3.5	3.3	3.0	2.7	2.4	2.7	2.8	3.0	3.3	3.0	2.6	2.8	2.8	2.9
Wages (Pvt WPI - qtr%)					0.7	0.6	0.6	0.6	0.8	0.8	1.1	1.0	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Wages (Pvt WPI - ann %)	3.3	3.1	4.4	4.5	4.1	3.5	3.1	2.5	2.6	2.8	3.3	3.7	4.1	4.5	4.5	4.6	4.4	4.3	4.2	4.1
Unemployment Rate (%)	5.6	5.2	5.0	5.0	5.3	5.7	5.8	5.6	5.3	5.2	5.1	5.1	5.1	5.0	5.0	4.9	4.9	4.9	4.8	4.8
Terms of trade	-8.4	16.1	4.9	2.8	-7.8	-7.5	-2.6	3.5	6.2	12.0	0.8	-2.6	1.5	2.3	1.9	-1.4	0.4	0.4	0.2	0.2
Current Account (% GDP)	-4.4	-2.8	-2.5	-2.5	-2.2	-4.4	-4.5	-5.9	-5.0	-1.6	-2.3	-2.6	-2.5	-2.3	-2.3	-2.8	-2.9	-3.0	-3.1	-3.2

Source: NAB Group Economics

	2009	2010	2011	2012
Australia	1.2	2.6	3.6	3.8
US	-2.6	2.8	2.6	3.2
Eurozone	-4.1	1.7	1.8	1.8
UK	-5.0	1.8	2.1	2.1
Japan	-5.2	2.8	2.1	2.3
China	9.1	10.0	9.1	9.1
India	6.7	8.8	7.9	7.2
New Zealand	-1.7	2.0	3.8	3.4
World	-0.7	4.6	4.4	4.1

*Contribution to real GDP

Interest Rate Forecasts

	10-Dec	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Policy rates										
RBA Cash rate	4.75	4.75	4.75	5.00	5.25	5.25	5.25	5.25	5.25	5.25
3 month bill rate	5.12	5.0	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.5
3 Year Swap Rate	5.50	5.4	5.5	5.5	5.5	5.6	5.6	5.6	5.6	5.6
10 Year Swap Rate	6.09	6.0	6.0	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
ECB refi rate	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	0.75	1.00	1.50	1.75	2.00	2.25	2.50
BoJ overnight call rate	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
RBNZ OCR	3.00	3.00	3.25	3.75	4.25	4.75	5.00	5.00	5.00	5.00
China 1yr rate	5.56	5.56	5.56	5.56	5.56	5.56	5.83	5.83	6.12	6.12
10 Year Benchmark Bond Yields										
Australia	5.59	5.50	5.50	5.60	5.60	5.60	5.60	5.60	5.60	5.60
United States	3.19	3.10	3.30	3.50	3.75	4.00	4.25	4.25	4.25	4.25
Europe	2.95	2.80	3.00	3.20	3.40	3.60	3.80	4.00	4.00	4.00
UK	3.49	3.50	3.80	4.10	4.40	4.60	4.75	4.75	4.75	4.75
Japan	1.25	1.20	1.30	1.35	1.40	1.50	1.50	1.50	1.50	1.50
New Zealand	5.79	5.50	5.75	6.00	6.25	6.50	6.75	6.75	6.75	6.75

Exchange Rate Forecasts

	10-Dec	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
Majors										
AUD/USD	0.9865	1.00	1.02	1.05	1.01	0.98	0.97	0.96	0.95	0.94
NZD/USD	0.7495	0.78	0.80	0.82	0.80	0.77	0.75	0.72	0.69	0.67
USD/JPY	83.78	83	84	86	88	90	91	92	92	92
EUR/USD	1.3247	1.39	1.42	1.43	1.44	1.45	1.44	1.43	1.42	1.41
GBP/USD	1.5778	1.60	1.59	1.60	1.64	1.65	1.64	1.63	1.62	1.61
USD/CNY	6.6540	6.55	6.32	6.24	6.12	6.02	5.90	5.80	5.70	5.60
USD/CAD	1.0100	1.01	0.98	0.99	1.00	1.01	1.02	1.02	1.03	1.04
Australian Cross Rates										
AUD/JPY	82.65	83	86	90	89	88	88	88	87	86
AUD/EUR	0.7447	0.72	0.72	0.73	0.70	0.68	0.67	0.67	0.67	0.67
AUD/GBP	0.6252	0.63	0.64	0.66	0.62	0.59	0.59	0.59	0.59	0.58
AUD/NZD	1.3162	1.28	1.28	1.28	1.26	1.27	1.29	1.33	1.38	1.40
AUD/CNY	6.5642	6.55	6.45	6.55	6.18	5.90	5.72	5.57	5.42	5.26
AUD/CAD	0.9964	1.01	1.00	1.04	1.01	0.99	0.99	0.98	0.98	0.98

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