

Australian Markets Monthly

A Monthly Outlook for Australia,
Key Global Economies and
Markets

Wednesday, 4 November 2009

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November 2009

Key Themes

The global economy continues its gradual recovery, and is on track to record positive growth in the second half of 2009. While China remains strong, the major developed economies have started to record positive growth after the terrible quarterly GDP outcomes reported in Q4 2008 and Q1 2009. The US and Japan have already seen positive quarterly GDP, while the Q3 reading in Europe is expected to show expansion. The UK is lagging behind, with expansion forecast in Q4 after an unexpected 0.4% decline in Q3.

However with a large amount of fiscal stimulus driving the recovery, there is increasing concern on the ability of global economy to stand up as the fiscal stimulus is withdrawn. In particular, the fear of a double-dip recession in the US will hang over financial markets until we see evidence of a sustainable recovery post the 'cash-for-clunkers' and housing tax credit schemes.

Reflecting the concern over the sustainability of the recovery, the run of monthly gains in the major equity indices ended in October. Equity markets had managed to push higher in the first half of October, but these gains were more than reversed by the late-month sell-off. The retreat in stock markets and commodity prices knocked the AUD to a three-week low of 0.8907 USD, having traded at a 14-month high of 0.9329 on October 21. But the AUD looks cheap on any pullbacks below 0.9000 given our expectation it will be trading at parity by March next year.

In Australia, the RBA raised the cash rate another 25 basis points to 3.50% in November. Over the past month we have seen the Australian economy continue to report solid outcomes, with further strength in consumer confidence, still strong business confidence, rising house prices and a labour market that continues to exceed expectations. We expect the RBA will continue to raise the cash rate by 25 bps at each of the next three meetings, in December, February and March, taking the cash rate to 4.25% before it pauses.

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Summary World Economic Forecast Table

GDP Growth (Ann av %)	2007	2008	2009 (f)	2010 (f)	2011
Australia	1.0	2.4	0.7	2.1	3.2
New Zealand	3.2	0.0	-1.6	2.3	3.3
US	2.1	0.5	-2.7	2.1	2.5
Japan	2.3	-0.7	-5.5	1.9	2.5
UK	2.6	0.8	-4.7	0.6	1.9
Eurozone	2.7	0.6	-3.9	0.7	1.8
India	9.3	7.5	5.6	6.2	6.2
China	11.8	9.5	8.2	9.0	9.0
Korea	5.0	2.5	-1.3	3.0	5.0
Taiwan	5.7	-0.5	-5.3	3.6	5.0
World	4.9	2.9	-1.4	3.1	3.6

Source: NAB Group Economics

Australia

The RBA raised the cash rate by a further 25 basis points to 3.50% in November, adding to the 25 bps increase in October. In the accompanying Media Release, the RBA again highlighted the improving global economy, while Australian economic conditions continue to improve in response to the large stimulus provided by the stance of monetary and fiscal policy.

While the Government's Mid Year Fiscal Outlook forecast little improvement in the Budget deficit until 2010-11 (the 2009-10 estimated deficit widened \$100mn to \$57.7bn), the RBA Governor warned in October that the RBA must not be too 'timid' in lessening the monetary stimulus now that the risk of a severe economic downturn has abated. A succession of rate hikes is likely in coming months as the RBA gets the cash rate closer to a more neutral setting.

Labour market continues to outperform

The performance of the labour market continues to underpin the resilience of the Australian economy. Employment rose a stunning 40,600 in September, with most of the gains in full-time employment (35,400). Meanwhile the unemployment rate fell back to 5.7% from 5.8%, despite the participation rate edging higher to 65.2%.

Interestingly, the number of employed people in September 2009 was 10.805m, around the same level as August 2008 and February 2009. So the 40k rise in September has seen a full recovery of the jobs that were lost in the March to August 2009 period. However it is clear that firms continue to hoard labour - aggregate hours worked are 1.4% lower over the past year.

Leading indicators of employment (job ads, skilled vacancies) suggest labour demand is improving, but the trend improvement will not be fast enough to stop further increases in the unemployment rate. With growth in the economy still below potential, employment results like September's cannot be sustained and we still expect the unemployment rate to rise towards 6.7% over the next year, especially if the participation rate continues to move higher.

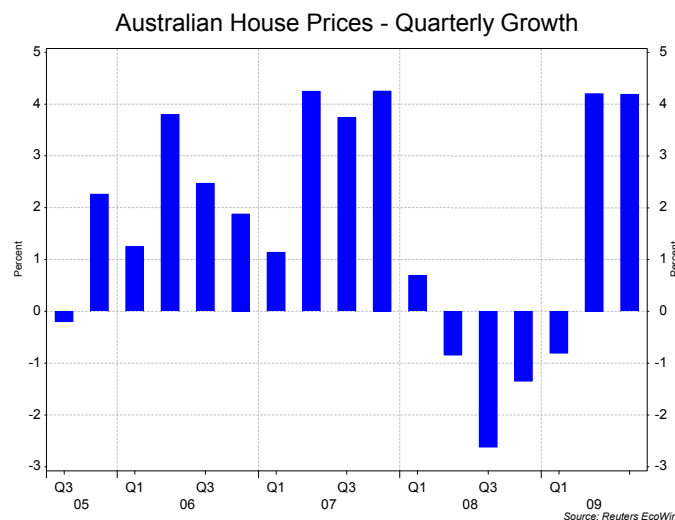
Confidence has recovered strongly

Reflecting the ongoing positive economic news, and to some extent the recovering equity market, consumer confidence improved further in October (despite the RBA rate rise), rising 1.7% in October, the fifth consecutive monthly rise. The index level is at 121.4, a whopping 36% increase on the index level in May 2009.

Meanwhile the NAB Monthly Business Survey remained solid in September, despite some easing in the headline indices after the strong improvement in recent months. Business confidence fell 4 points to +14 points in September, having been at a six year high in August. Meanwhile business conditions fell a point to +3, edging lower on weaker profits and sales, but partially offset by a stronger labour market.

House Prices rising again

With unemployment fears easing and consumer and business confidence soaring, house prices have staged a remarkable comeback in the past six months. House prices rose 4.2% in Q3, the same increase as seen in Q2, which means Australian house prices are now, on average, 6.2% higher than a year ago.



The RBA has referred to house price gains on several occasions in recent months as emergency interest rate settings, and the enhanced First Home Owner's Grant, have helped the market recover very quickly after the declines seen in late 2008 and early 2009. However the 4.2% gains in Q2 and Q3 are not sustainable, adding to the need for the RBA to continue on its tightening cycle in coming months even as the enhanced FHOG is phased out.

Gradual tightening cycle by the RBA

The September quarter CPI report showed a 0.8% increase in underlying inflation, for a 3.5% annual pace, and further deceleration is likely in the coming year. Consequently we expect to see only a gradual tightening cycle by the RBA in the coming year. While it is not impossible that the RBA will make a 50 basis point move at some stage, we see a series of 25 point hikes as the marginally more likely scenario, getting the cash rate up to 4.25% by the end of the March quarter 2010. From there, the RBA are likely to pause as they assess the flow of economic data and gain confirmation that the recovery is unfolding as expected. We then expect around 50 points in late 2010 and a further 75 bps in 2011, which would see the cash rate at 5.50%.

No change to the NAB's Australian GDP forecasts – we still expect a flat second half of 2009, for GDP growth of 0.6% in calendar 2009 and 2.1% in 2010.

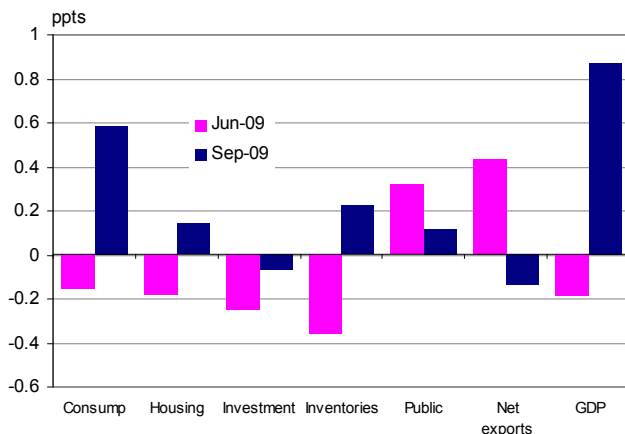
For the 2009-10 financial year, we expect growth of 1.25%, similar to the Government's Mid-Year Fiscal Outlook forecast of 1.5%.

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United States

Economic data over the past month have delivered more concrete signs that the recession in the US is now over and the recovery phase underway. The clearest sign of this came with the September quarter National Accounts which showed GDP growth of 0.9% in the quarter (3.5% annualised), the first quarter of positive growth since the June quarter 2008. Encouragingly, the improvement in economic conditions was broadly based, with most sectors having either a more positive or less negative effect on growth in the quarter compared with June.

Chart: Contributions to US GDP growth



While these data are unambiguously positive, we would caution against reading too much into the strength of the demand pulse in the quarter. In particular, much of the strength appears to be related to temporary fiscal measures. For example, motor vehicles and parts accounted for half of the increase in overall personal consumption in the quarter, reflecting the 'cash for clunkers' incentive which has since expired. Similarly, the improvement in residential construction, which increased for the first time since the end of 2005, was likely related to the housing tax credit for first home buyers, a measure that is due to finish at the end of November.

As the effects of these stimulus measures wane, consumers' appetite to spend and invest in new housing stock will be much more closely aligned with fundamentals, and in particular, labour market conditions. On this, while the pace of job losses has eased markedly since earlier this year, the unemployment rate looks certain to breach 10% and remain elevated for much of 2010. This underpins our core view that the recovery in consumer spending and the economy more broadly will modest by historical standards.

Against this backdrop, official interest rates are likely to be maintained at current levels till around the middle of 2010, while the government may yet deliver another round of fiscal stimulus, either in the form of an extension of current measures or a new program of measures.

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New Zealand

New Zealand came out of technical recession in the second quarter of this year. More importantly, all of the economy's key leading indicators are pointing to a much stronger year ahead. We estimate that GDP contracted 1.6% over calendar 2009. A 2.3% expansion is forecast for 2010 rising to 3.3% in 2011. While there is little doubt a sharp acceleration in activity is in the immediate offing, there remain significant uncertainties as to the sustainability of the expansion given the imbalances that remain including the poor household savings ratio, mounting international debt and the deteriorating fiscal position. Moreover, the current pace of the currency's appreciation will have significant negative medium term effects on the expansion.

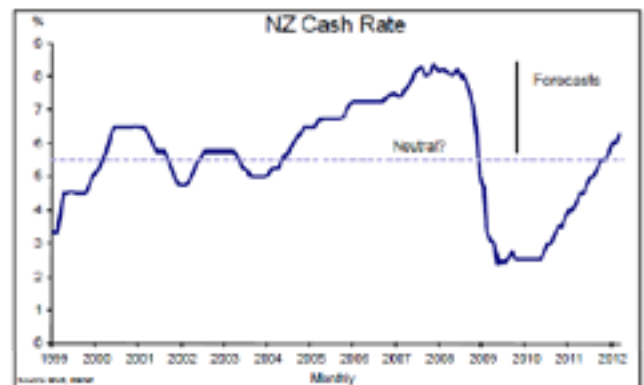
The RBNZ played it suitably cool at the OCR review in October. While many in the markets were buying for a capitulation, and a near-term OCR hike, Governor Alan Bollard signalled an intention to keep the cash rate at its supportive 2.50% for a good while longer – essentially to keep underwriting the recovery he clearly sees emerging.

There was a shift from the previous Statement's extremely relaxed tone, but it was only at the margin. Previously the Bank spoke before of keeping the OCR at or below 2.50% until the latter part of 2010, but it now expects to keep it at 2.50% until the second half of 2010. So it appears that the RBNZ has shifted from December 2010, to a September 2010 starting point for the tightening cycle.

We certainly have a situation where the RBNZ is biased to keep stoking growth for the meantime. With this, we have to be on the lookout for anything that might start accelerating in earnest on the growth front. Immediate examples would be the housing market and consumer spending. A recovery in actual, as opposed to intended, business spending would also seem important to Bank. Such things might yet bring forward the tightening cycle that the RBNZ envisages.

For our money, we simply retain our view the economy is recovering at a pace consistent with the RBNZ starting to increase its OCR around June next year. It could be earlier. It could be later. Much will still depend on the strength and sustainability of the recovery.

Chart: NZ cash rate to rise from mid-2010



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China

The Chinese economy grew by 8.9 per cent over the year to the September quarter. We estimate this corresponds with growth of around 2½ per cent in the September quarter, which is slower than the 3½ per cent increase in the June quarter. According to partial indicators, the slowdown in the quarter reflected more moderate growth in fixed asset investment, while consumption growth remained strong and the external sector improved.

The fiscal stimulus package has underpinned the recovery in the domestic economy. Investment has accounted for 7.3 percentage points of the 7.7 per cent increase in GDP in 2009 to date. This has helped to mitigate the impact of a substantial deterioration in the external sector, with net-exports subtracting 3.6 percentage points in the same period (net exports had contributed 1 percentage point to GDP growth in 2008).

Credit growth has moderated recently, although is still at historically high rates. New credit expanded by an average of 0.4 trillion yuan per month in the September quarter, down from 1.3 trillion yuan per month in the first six months. Lending to households has been remarkably strong for the past six months, in particular for housing mortgages. While this has supported the recovery in the construction sector, it also appears to be pushing house prices higher.

Overall, the GDP release was broadly in line with expectations and, therefore, our outlook has not markedly changed. We expect the economy to expand by 8¼ per cent in 2009 and 9 per cent in 2010. Investment growth is expected to remain strong due to the fiscal and monetary stimulus in place, while the drag from the external sector should fade gradually. There is some likelihood that policy will be tightened next year, with the People's Bank of China acknowledging the need to also manage inflation expectations and in light of strong CPI outcomes in recent months.



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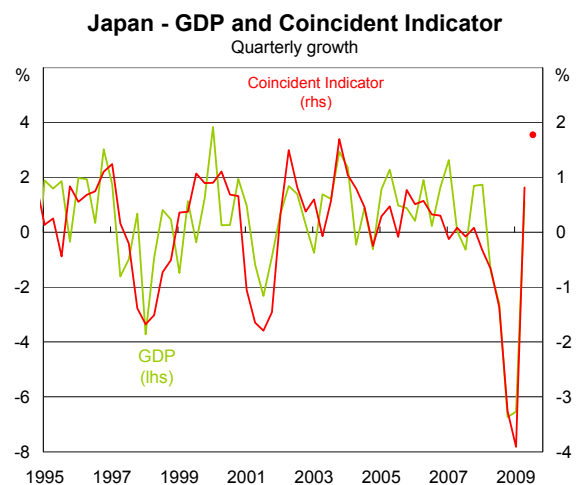
Japan

Economic conditions in Japan have continued to improve. The Cabinet Office's coincident indicator has risen for five consecutive months and, based on the average of July and August, suggests GDP will expand solidly in the September quarter (to be released in mid November). Looking ahead, we expect GDP to decline by 5.5 per cent in 2009, but expand by around 2 per cent in 2010.

Exports have recovered most noticeably, mainly due to increased demand from other Asian economies, with volumes up by 30 per cent since early 2009. As a result, net exports are expected to contribute to GDP growth in the September quarter, although by a smaller amount than in the June quarter. Nevertheless, the outlook for exports remains uncertain partly because the current upswing is being supported by inventory rebuilding and that global demand is still expected to recover only gradually.

Policy measures introduced earlier in the year appear to have supported the household sector. Partial indicators suggest household spending has increased slightly during the September quarter, while consumer confidence has also risen. Business sector conditions remain weaker, although the Tankan survey did indicate an improvement in the September quarter, especially for the manufacturing sector. This is in line with a strong increase in industrial production in the quarter.

Deflation persists in the Japanese economy. The CPI fell by 2.2 per cent over the year to September, while the core measure fell by 1.0 per cent. Unsurprisingly, the Bank of Japan announced on Friday that it would leave policy rates unchanged at 0.1 per cent.



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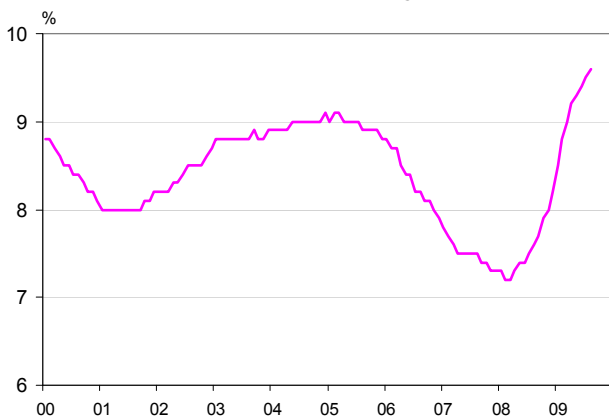
Europe

Economic indicators in the euro area continue to improve gradually, with modest growth expected in the September quarter. If realised, this would be the first quarter of positive growth since early 2008. That said, high levels of excess capacity, particularly in the labour market, along with long-standing structural rigidities, will ensure that any recovery will be modest and punctuated by fits and starts.

Among the raft of economic data showing some improvement in recent months, industrial production has been amongst the most encouraging. Total industrial production excluding construction increased by 1.1% in August, the fourth consecutive month of growth. New orders portend further growth in the months ahead, rising a further 2% in August. More broadly, the euro area composite PMI was 51.1 in September, consistent with modest expansion in Q3, and the highest reading since April 2008.

The improvement in economic conditions is reflected in business surveys with the European Commission's monthly survey increasing another 4.1% in October, taking total gains since the low point in March to 33%. Equally noteworthy, however, is the point that despite these gains, economic sentiment remains around 14% below long run average levels, indicating the extent of the hole the euro area economy is climbing out from.

Chart: Euro area unemployment rate



One of the biggest restraints on the recovery will be the high – and still increasing – level of unemployment. Already, the impact of labour market weakness on household incomes has driven a 2.4% contraction in real retail sales over the year to August. However, with economic growth expected to be below trend for some time yet, unemployment seems likely to keep rising well into 2010, implying further difficulties for European consumers over this period.

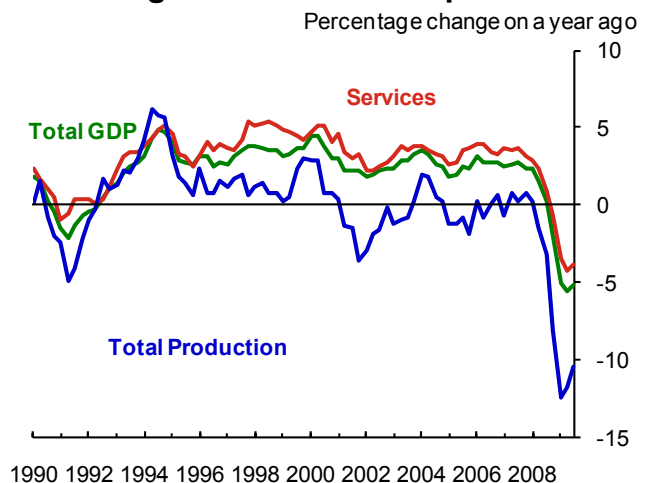
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United Kingdom

The UK third quarter GDP figures were terrible. UK GDP fell by 0.4% in the third quarter, against all hopes for a rise. So the UK is still in recession, most likely six months longer than Germany, France and the US, in what is the longest and deepest recession since the Second World War.

What made the figures quite so depressing was that there was not a single sector of the economy that grew in Q3. Manufacturing output fell 0.2%, with overall production falling 0.7%. But it was the service sector that really let us down. Surveys of businesses over the quarter had provided support for the view that the sector was going over the quarter as a whole. But in the event the overall official services output fell 0.2%. Within that Distribution and Hotels fell 1.0%, Transport & Storage fell 0.3% and Business services and Finance fell 0.2%. Even the Government and other services sector where one would hope the fiscal packages were boosting demand only managed a flat outturn.

UK GDP growth and its components



Importantly, the initial estimate of GDP in the UK is not terribly reliable. And there is a good chance the third quarter figures will be revised higher and closer to the surveys in due course – though expecting for a positive growth rate may be too much to ask for. Still overall the data highlighted that the UK economy is still weak and faces considerable challenges over the next year or so if it is to generate a sustained upturn.

Going into the release we've been saying the MPC will find it hard to end their policy of QE in November, against the backdrop of an economy where recovery is far from assured. The GDP data only adds to that view. Any MPC members inclined to end QE in November would have to do so against a background of an economy still in recession, in which output has declined nearly 6.0% from its pre-recession level. We therefore maintain our view that QE will be extended by £50billion in November.

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Interest Rates

- ? **Term swap rates rallied this week as the RBA lifted the cash rate a second time. Odd? Not really. History suggests swap rates often peak early in the RBA cycle as the markets over-anticipate how much tightening the RBA eventually do. So history looks to be repeating**
- ? **The past few weeks rally has taken the 3 year swap rate from near 6% to 5½%. This is a neutral rather cheap level for fixed rate payers. For now, another hike in December will underpin swap yields, but if data softens in 2010 (as we expect) the 3 year rate can breach 5¼% and might even near 5%.**

This week's 25bps increase in the cash rate to 3½% was straight down the line from the RBA and there were only microscopic changes from the Statement from they delivered in October.

Going forward, there are two debating points for interest rate markets in regard to the RBA. The immediate question is whether they hike again in December or having done two hikes already they choose to pause. As folk debate this point over the next month, we will see the normal volatility in short term interest rate markets. The second question is what the broad path for RBA policy will look like in the quarters and years ahead. It is this broader RBA path that is most important for swap rates and hence corporate and investors.

Another 25bps in December

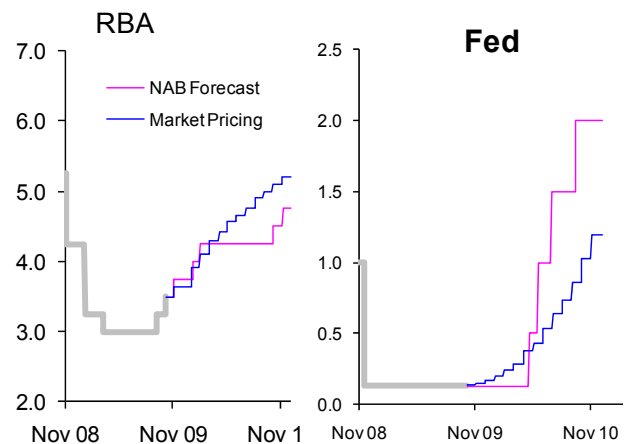
On the 1 December Board meeting first, NAB economists see another 25bps increase to 3¾%. The RBA have made it plain that they want to move the cash rate away from an "emergency" level at a "gradual" pace. Given the new 3½% cash rate is still super low (and hence nearer an emergency level than not) we expect they would still like to nudge it higher before pausing. Of course, they could pause in December. But we expect they will only do this if economic or financial events look to be taking them off their forecast path. And that path is that they see "growth close to trend over the year ahead and inflation close to target".

But a pause in the New Year

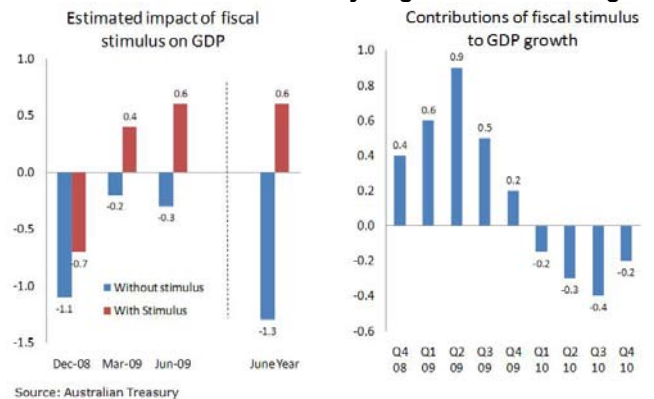
Beyond December, we see this tightening cycle as two phased. First, they want to remove the "emergency" level of the cash rate, which NAB economists expect means another three 25bps increases to 4¼% by March – we won't quibble if they pause at 4%. We then expect a potentially lengthy pause.

The reason for the pause is that we expect the 125bps increase in the cash rate, alongside a waning of the fiscal stimulus, will see the economy slow. The waning of the fiscal stimulus should not be underestimated as a downdraft for the economy, for as chart 2 above shows, the discretionary fiscal ease this year has been very large. It also now waning: After adding 0.9% to Q2 GDP, by 2010 fiscal policy will be subtracting from GDP growth.

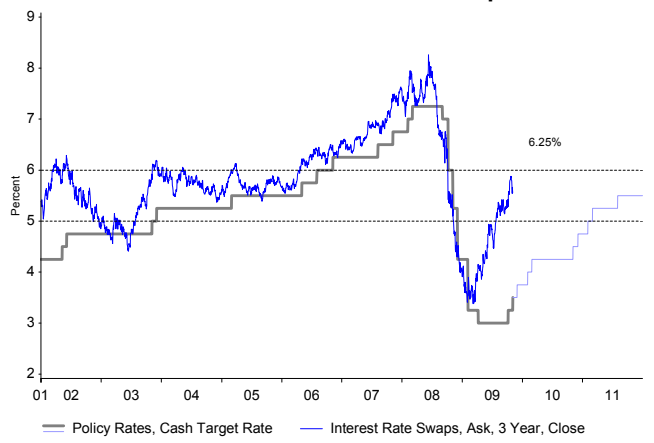
1. RBA and Fed Expectations



2. Government stimulus – very large and now waning



3. RBA Cash Rate and the 3 Year Swap Rate



The net of this is that by early 2010 we expect the RBA to pause, potentially for quite a period. We expect them to resume tightening later in 2010 as they continue the steady march in the cash rate towards its neutral level of 5-5¼%

Have swap rates peaked? Nearer neutral than cheap.

A constant refrain of ours has been that swap rates normally peak early in the RBA cycle as the market over-anticipates how much tightening the RBA eventually do. Because of this we have warned borrowers against locking in fixed rate funding at this first sign of an RBA hike. So this week's sharp rally in swap rates is a repeat of this history. The 3

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year swap rate has peaked at 5.96% so far in this cycle and is now around 5.5%.

So the question is whether a 3 year swap rate at 5.5% is a good deal for fixed rate payers. We expect it's more neutral than a good deal.

Chart one show's the market is still pricing rate hikes that are unlikely to occur in 2010. So while it is bound to be a bumpy rise in the months ahead, particularly as the 25bps hike we expect in December is only 50% prices, our expectations is that the 3 year rate can rally some more in the months ahead. This is particularly so if economic data softens around the turn of the year.

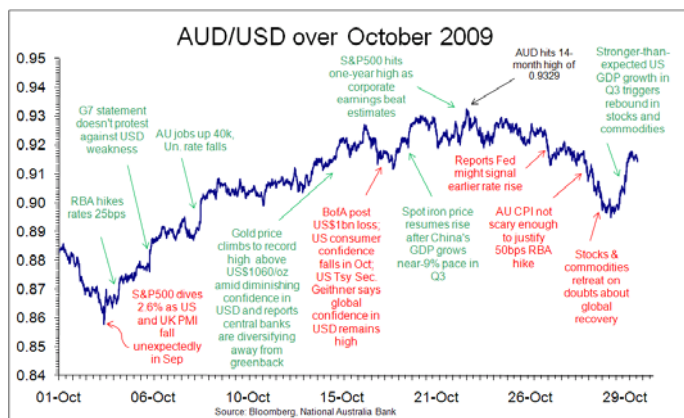
We would target to pay the 3 year swap below 5¼% in the months ahead. Even near 5% is achievable is data slows abruptly and the RBA pause early.

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Foreign Exchange

? **It's not the end of the world again and so AUD/USD below 0.9000 is good value given global growth returns to trend in 2010 and the RBA is on its way to a 5% cash rate.**

A retreat in stock markets and commodity prices at the end of October briefly knocked AUD/USD to a three-week low below 0.9000, having traded at a 14-month high of 0.9329 on October 21. Investor risk-appetite fell sharply on concerns about the strength and durability of the global economic recovery which triggered selling of high-yielding currencies such as the AUD in favour of the low-yielding "safe haven" JPY and USD. In addition, the AUD lost some yield support after the Q3 CPI was not scary enough to justify a 50bps hike by the RBA at its next policy meeting on November 3.

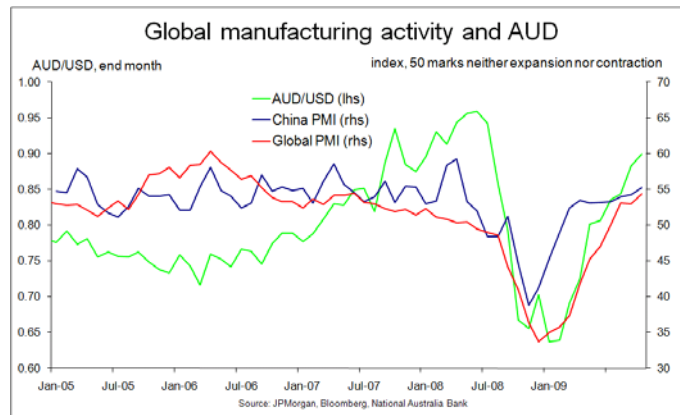


The sharp fall in stock markets actually came amidst better-than-expected US corporate earnings results and a larger-than-expected rebound in US GDP in Q3. A sharp fall in stocks would be understandable if earnings disappointed and GDP growth was weak but neither has occurred. As such, it's not clear that the triggers are in place for a resumption of a bear-market in stocks (a 20% fall) and extreme risk-aversion, which were they to occur would certainly knock the AUD much lower. Indeed, it's not even clear that the US stock market is expensive based on the S&P500's forward earnings yield relative to the bond yield or the price-to-earnings growth ratio, which is the lowest since 1995.

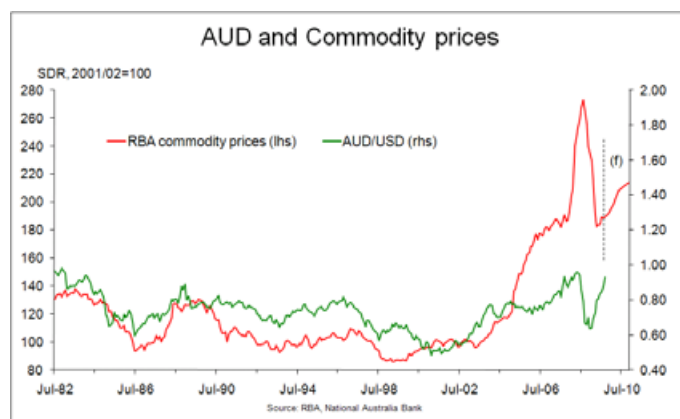
We note that the current Australia-US 2-year swap yield spread of 390bps is on its own supportive of AUD/USD trading at 0.8900. The RBA hiked rates by another 25bps in November but traders pared expectations for a third consecutive 25bps hike in December, pricing in some chance of a pause. We anticipate another 25bps rise in December on evidence that Australia's economic recovery is continuing. House prices have risen 8.2% over the six months to September 30, the unemployment rate remains below 6% and job ads are rising, while the trend in retail sales is increasing.

The RBA was no doubt re-assured about the global economy picking up speed after US GDP rose 3.5% in Q3. At the same time the news from China is getting better.

China's PMI rose to 55.2 in October from 54.7, indicating that manufacturing activity was expanding at its fastest pace in 18-months. A Chinese official said that GDP likely expanded by 9.5%yoy in Q4, a third straight acceleration in growth and the fastest pace since Q2 2008. The Global manufacturing PMI rising to a 39-month high is good news for the AUD. A reading of 54.4 in October, up from 53.0 in September, suggests that a global economic recovery is well underway. All of the national PMIs for the world's major economic regions – the US, the Euro-zone, Japan, China, the UK, and India – were at levels consistent with growth. Note that the spot price of iron ore has been rising through the current bout of stock market weakness



We continue to believe that AUD/USD is cheap on any pullbacks below 0.9000 given our expectation it will be trading at parity by March next year, propelled by Chinese GDP growth hitting double digits, further upgrades to global growth forecasts, investor risk-appetite rising to well above average, and the RBA on its way to taking the cash rate to 5% while US rates remain very low.



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Credit Markets

- ? Once again the major developments in credit markets last month occurred in the offshore markets. Banks felt the pain of being recipients of government aid. In the US CIT filed for Ch11.
- ? Along with equities, credit effectively stalled in the later part of October. Australian iTraxx index effectively outperformed its larger European and North American peers, however, the widening seen on the domestic market was just as strong as the European and CDX indices as we headed into month end.
- ? Along with the credit derivative markets, widening pressure was also evident in both the primary and secondary cash markets.
- ? With 3 of the Big 4 entering into their blackout periods in the second half of the month, there was also a noticeable slowdown in primary issuance in the domestic market.

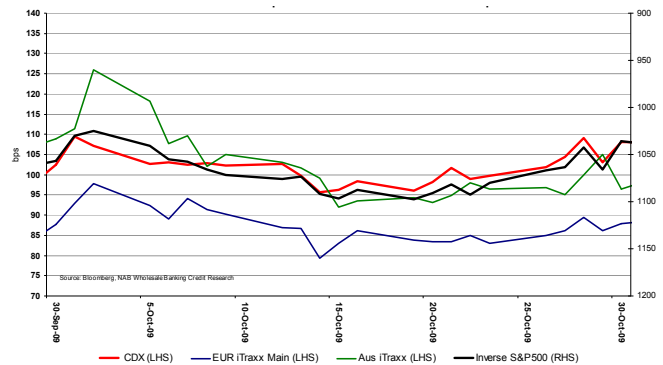
Once again the major developments in credit markets last month occurred in the offshore markets. In Europe, ING felt the pain of being a recipient of government aid announcing a EUR7.5bn rights issue and being forced into disposing its insurance operations (though over a period of 4 years). And now similar fates have fallen upon Lloyds and RBS. In the US, credit and equity markets digested 3Q earnings reports. Banks once again reported results above market expectations, though the sustainability of their out performance was generally questioned. And late in the month, CIT failed to get enough support for its debt exchange offer and instead, proceeded with its pre-packaged bankruptcy filing (effective 1st of November).

Along with equities, the strong run seen for credit effectively stalled in the later part of October. And at this point it is not abundantly clear where the next run of performance will come from – though we remain reasonably confident it will coincide with equities returning to upward trends. On the derivate markets, the Australian 5yr iTraxx index effectively outperformed its larger European and North American peers over the month. However, the widening seen on the domestic market was just as strong as the European and CDX indices as we headed into month end.

5Yr Credit Derivative Markets		As at 30/10/09	1W Chg	1M Chg
Europe	Main 5yr	89	6	1
	Xover	515	17	-56
	Bank senior	79	7	2
	Bank sub	136	17	9
US	CDX IG 5yr	108	8	6
	HiVol	193	-2	7
Australia	iTraxx	105	11	-3

Source: Bloomberg

5Yr CDS Index & the S&P500



Along with the credit derivative markets, widening pressure was also evident in the secondary cash markets. An apparent MoM spread compression in the lower rated categories possibly reflects illiquidity in the A and BBB credits in comparison to the AA banks.

Australian 3yr Corporate Credit (Cash) Market as at 30 October 2009

	Bps to Bond	Change 1M	Bps to Swap	Change 1M
AAA*	79.2	7.7	20.8	6.5
AA*	134.5	7	83	6.1
A*	223.6	-7.5	165.8	-7.8
BBB*	369.4	-23.5	296.7	-22.5

NABMarkets Credit Indices (market weighted average with 3 year average duration)

With 3 of the Big 4 banks entering their blackout periods in the second half of the month there was a noticeable slowdown in domestic issuance in October. Issuance in October totalled \$6.6bn (lowest monthly issuance since April) and apart from Downer's (BBB) \$150m 4yr and two other small financial deals all came from AAA rated Supra's, Agencies or government guaranteed deals.

As foreshadowed last month, the FY09 results coming out of the ANZ, NAB and WBC were going to be important for domestic market sentiment. In this regard, the market was attuned to the developments in asset quality, growth patterns and margins. NAB, ANZ and WBC all reported FY09 cash earnings above market expectations. With respect asset quality, loan growth and margin developments, there weren't any surprises with the market getting pretty much what it was expecting.

Outside of the banks, CSR announced details of a \$375m capital raising and further details of the demerger proposal. Following the capital raising and demerger announcements, S&P left its BBB+ rating on CSR on review for possible downgrade, while Fitch removed its Rating Watch Negative and affirmed CSR's BBB- rating with a Stable outlook.

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Equities

- Equity markets in the US and Australia lost ground in October, ending the run of seven straight monthly gains. As concern remains on the durability of the US recovery, further gains will be harder won

The run of monthly gains in the major equity indices ended in October, as concerns over the US economic recovery re-surfaced. Equity markets had managed to push higher in the first half of October, but these gains were more than reversed by the late-month sell-off. Combined with some lacklustre US economic data, the sell-off was also driven by analyst downgrades and weak profit outlooks for some of the larger US companies.

The S&P 500 fell 2% in October, recording its first monthly decline after seven straight months of gains. The S&P 500 peaked at 1101 on October 22, but ended the month at 1036.

The Dow performed relatively better in October, ending the month flat at 9713, although it had reached a 16-month high of 10119 during the month.

The ASX 200 suffered a similar fate, gaining early in the month to a high of 4895, as confidence regarding the economic outlook was strong following the RBA interest rate increase. But the ASX 200 was caught up in the global sell-off, losing significant ground in the final week of the month and ending October at 4643, 2.1% lower than September.

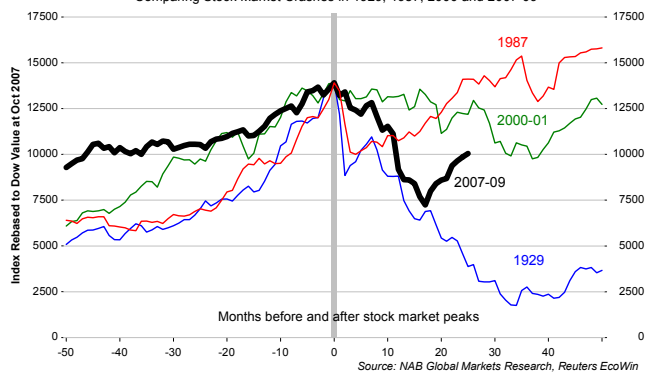
Equity markets have gained strongly since the turn of the year, with markets pricing in all of the good news and rising risk appetite leading to general improvement not only in equity markets, but also commodities and currencies such as the AUD. However further gains will be harder won as the market awaits evidence that the US economic recovery is on a firm footing and not only reliant on the huge fiscal stimulus. For as long as concerns linger about a W-shaped US economic recovery, the downside risk to equity markets will remain.

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#1: Divergence from Great Depression scenario

USA Dow Jones Peak & Trough Analysis

Comparing Stock Market Crashes in 1929, 1987, 2000 and 2007-09



#2: Recent developments

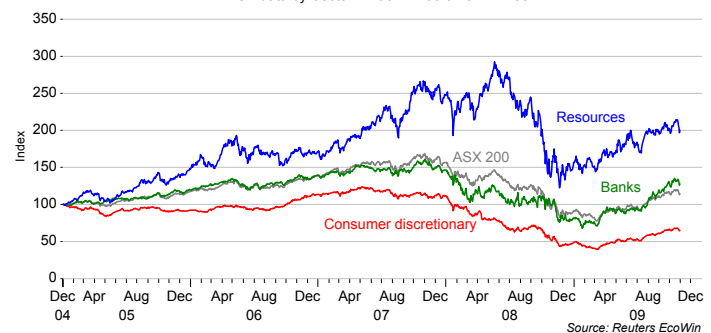
	End of Oct 08	End of Sep 09	End of Oct 09	Change (%) Month	Change (%) year
Equities					
ASX/S&P 200	4,018	4,744	4,643	-2.1%	15.6%
Dow Jones	9,325	9,712	9,713	0.0%	4.2%
S&P 500	969	1,057	1,036	-2.0%	7.0%
China 300	1,664	3,005	3,280	9.2%	97.2%
Nikkei 225	8,577	10,133	10,035	-1.0%	17.0%
FTSE100	4,377	5,134	5,045	-1.7%	15.2%
Euro -DJ STOXX	2,331	2,454	2,410	-1.8%	3.3%
German DAX	4,988	5,675	5,415	-4.6%	8.6%
MSCI World free	235	276	271	-1.8%	15.6%

Source: Bloomberg; NAB Global Markets Research

#3: Aussie stock market moves by sector

Australian Shares - By Sector

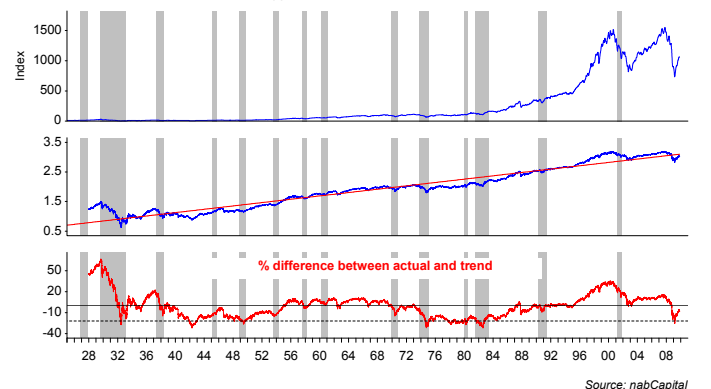
ASX data by Sector - Index = 100 on 31/12/2004



#4: Long run stock market trends

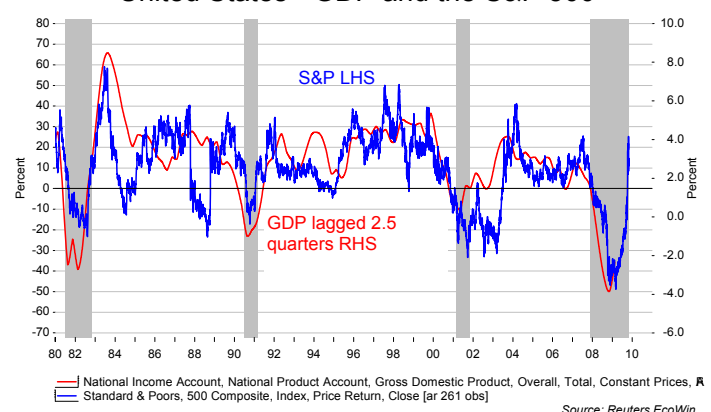
S&P 500 Valuations

Logged S&P500 and least squared line



#5: Share market pointing to economic recovery

United States - GDP and the S&P 500



Commodities

Key Points

- **Macroeconomic data released over the last month continue to depict an improvement in the global economy.**
- **While indicating further expansion, readings from survey measures in China were broadly flat in September, suggesting that the impact of government stimulus measures may be starting to weaken.**
- **Across commodity classes, demand has been supported by the depreciation in the US dollar, granting foreigners greater purchasing power and fuelling some concerns within the US of imported price inflation.**
- **Central bank's quantitative easing policies have prompted investors to seek real assets that will hold their value in a high inflation environment.**

Global economic indicators continue to show signs of recovery

In terms of the macroeconomic data, measures relating to the housing market in the US continue to indicate that a recovery is underway. Generally seen as a precursor to a rebound in consumption growth, stronger US house prices also bode well for those economies that rely on the US as a prime export market for finished goods. Nevertheless, unemployment in the US continues to rise, giving many investors cause to reassess the outlook for demand growth and causing some volatility in commodity markets.

In Asia, industrial production continues to rebound as export volumes increase and there are signs of more robust domestic demand growth. Nevertheless, while continuing to show an expansion, readings from survey measures in China were broadly flat in September, suggesting that the impact of government stimulus measures may be starting to weaken.

Price movements in the exchange traded commodities were mixed in September

Prices for West Texas Intermediate (WTI) and Brent were broadly flat over September, struggling to break through the US \$70 per barrel level. In month-average terms, the nominal value of WTI fell by around 2 per cent leaving prices little changed from their level in June. Weaker oil prices in the last few weeks have followed the release of the US Energy Information Administration weekly inventory data that reported larger rises in crude and oil product inventories than markets were expecting.

After increasing in unison since March this year, movements in the various base metals were mixed during September. The NAB Base Metals Index (BMI) fell by around 3 per cent in the month after rising strongly, by 18 per cent, during August. Aluminium and nickel prices softened compared with the month average in August, as global stocks of these

metals remain high. Lead prices continue to rally with lingering uncertainty around the extent of closures of Chinese lead smelters, while copper and zinc prices rose in the early part of October.

After closing September above the US\$1000 per fine ounce mark, gold prices rose further in early October, with weakness in the US dollar and concerns about the prospect of inflation attracting investors to the precious metal. Since early March this year, the USD has depreciated by roughly 14 per cent against the Euro (see Graph 1). A weaker US dollar grants foreigner's greater purchasing power and can fuel concerns within the US of imported price inflation, heightening the appeal of gold as an investment. In addition, gold prices have benefited from investors moving to assets with low levels of counterparty risk.

Graph 1
USD/Euro Exchange Rate



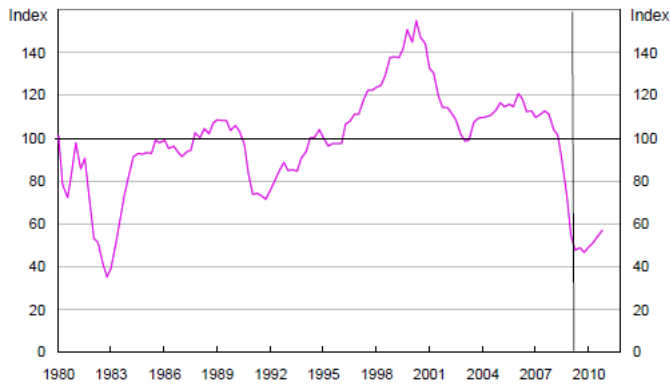
Inflation fears may discount the substantial spare capacity that exists in major economies

Across all commodity classes, demand has been supported by inflation fears as investors seek real assets that will hold their value in a high inflation environment. The use of quantitative easing policies as central banks attempt to stimulate activity have prompted concern that increased liquidity may lead to demand-pull price pressures. While this may be true in isolation, it does not take account of the period of sub-trend growth over the financial crisis and the substantial spare capacity that has been built up. Measures of the US output gap (using NAB Economics forecasts of real GDP), the difference between the economy's actual and 'potential' output, show the slump in growth has resulted in substantial slack in the economy (see Graph 2). As such, the prospect of cost pressures mounting seems unlikely in the near term. Although following the last time the output gap was at these levels, in 1983, inflation rose surprisingly sharply, we consider the circumstances in the current episode to be quite different. In particular, structural drags on the economy in the form of prolonged household and business de-leveraging are likely to result in a relatively long period of sub-trend growth over this recovery period. Nevertheless, it should be emphasised that quantitative easing policies are unconventional and the optimal exit strategy for minimising inflation is not well-tested. This may mean that investors' inflationary fears, and hence purchases of real assets, will persist for some time.

Graph 2

US Output Gap

Average Mar 1980 to Jun 2009 = 100



Source: Congressional Budget Office, NAB Group Economics

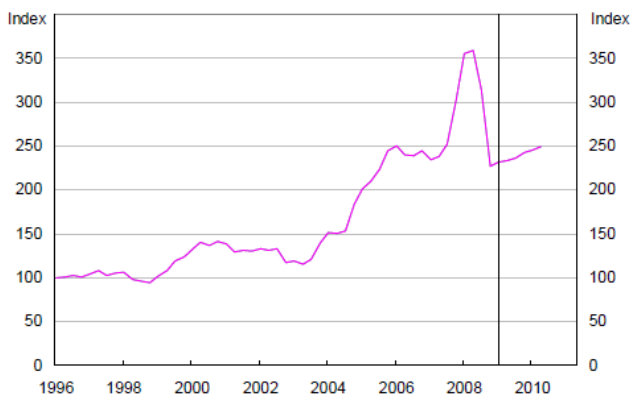
Non-rural commodity prices expected to trend higher over 2010, though may hit a patch of weakness in the short-term

Looking forward, commodity markets are likely to continue taking guidance from macroeconomic indicators. NAB Group Economics expect an expansion in the world economy in Q4 2009 before global growth picks up throughout 2010. Modest positive growth is expected for the US later this year before conditions recover further over 2010. While China's export sector is still sluggish, with current GDP growth very much internally driven, the improvement in conditions is thought to be sustainable assuming that global growth turns up as expected over 2010. Nevertheless, our view remains that the recovery in demand will be more gradual than in most previous episodes and that there is the potential for a near-term patch of weaker growth as the effects of government stimulus measures wane. On the supply side, the existence of some production constraints, especially for gold, are expected to buoy commodity prices over the forecast horizon.

Graph 3

NAB Non-Rural Commodity Price Index

Australian dollars, September 1996 = 100



Source: Datastream, NAB Group Economics

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Carbon Markets

Asia Pacific

All eyes are fixed on the Australian Senate. With the CPRS re-introduced into parliament, business and environmentalists alike are watching the Senate for the anticipated showdown in mid November. The opposition appears to have its house in order and negotiations have been underway for 2 weeks. The key amendments put forward by the opposition are outlined in the breakout box at the end of the page. Business, desperate for certainty, is hoping a scheme is passed before Christmas, while failure would provide the Government with the necessary trigger to call a double dissolution election.

With the real possibility of legislation being only weeks away a concerning report released by the Australian Chamber of Commerce and Industry showed that only 23.8% of Australian companies were factoring a carbon price into their investment decisions. This will need to change rapidly as Australia embarks on the journey to a low carbon economy.

In Australian market news the ASX are to start issuing CER futures from the first quarter of 2010, with an announcement on AEU's to follow once legislation is passed.

Following on from last month's announcement on the proposed increase in Japan's emission reduction target, the Japanese Government has given itself an April deadline to bring in a suite of climate change legislation including, an ETS, a renewable energy feed-in tariff and a possible carbon tax.

Kyoto Markets: CDM/JI/AAU

The string of AAU deals continued this month with the Czech Republic supplying 20m AAUs to Mitsui and Co in Japan, while the Japanese Government bought 1.5m from Latvia. The Czech's also, announced a 3.5m AAU deal with Austria and a further 5m to Spain. The Republic expects to sell its entire 100m AAU surplus to a mixture of governments and private companies. Latvia also struck a deal to provide Portugal 4m AAUs in Portugal's first foray into the international trading market.

Following on from last month's drop, the UNEP Risoe centre has once again downgraded its CER forecast, estimating only 1.212bn CERs will be issued by the end of 2012. Issuance rates fell significantly in October, with only 3.8m issued at the time of writing (48% down from September). Continued fear of CER delivery has kept the CER market in backwardation for its fourth straight month. However the gap has narrowed to ~€0.20 as traders begin to roll their positions forward into the 2010 vintage.

Europe

Oil increases and the improved outlook for German power saw EUAs climb back up from the low €13 mark to a high of €14.97 on 21 Oct before finishing the month hovering around the lower half of €14. The UK's 6th EUA auction saw 4.2m permits auctioned at €13.36/t.

The EU has upped the pre Copenhagen negotiations by offering to increase its 2050 reduction target from 80% to 95% in the event of strong outcome at the Danish capital in December. It also re-iterated its 2020 commitment of a 20-30% reduction. This saw domestic support from Finland proposing an 80% reduction by 2050.

Scotland is on track to meet its renewable energy targets the Energy Secretary confirmed recently. Scotland has an ambitious target of 30%, 50%, and 80% renewable power by 2011, 2020, and 2050 respectively. The majority of this power will be from offshore wind farms around Scotland's coastline, with a projected capacity of 33GW by 2020.

The Americas

US Senators released their much anticipated climate bill at the start of October. Known as the Boxer-Kerry bill, after its two sponsors, the bill draws strong parallels to the House of Representatives Waxman-Markey (WM) bill which passed earlier in the year. However, it does call for an even greater reduction of 20% by 2020 (on 2005 levels), compared to the 17% in the WM bill. The Obama administration has vowed to push ahead on climate legislation with U.S. Energy Secretary Steven Chu saying that there was a reasonably good possibility that U.S. Congress could deliver legislation in time for Copenhagen.

At the local level, climate action took a leap forward with the mayors of 1000 US cities pledging to cut emissions 7% below 1990 levels by 2012 – i.e. to meet the U.S's original Kyoto commitment – a treaty the country never ratified.

Brazil continues to talk strong on climate, emerging as a leader among developing nations, proposing to cap its emissions at 2005 levels according to the country's environment minister. This is in line with last month's declaration to reduce deforestation 80% by 2020.

Breakout: CPRS – Opposition Amendments

- ? Exclude emissions from agriculture
- ? Allow agriculture to generate AEU's
- ? Exclude fugitive emissions from coal mining
- ? Provide only one level of EITE assistance (95%)
- ? Remove the decay rate for EITE assistance
- ? Keep EITE assistance until 80% of global competitors incur a carbon price
- ? Manage power generator emissions via a baseline and credit mechanism



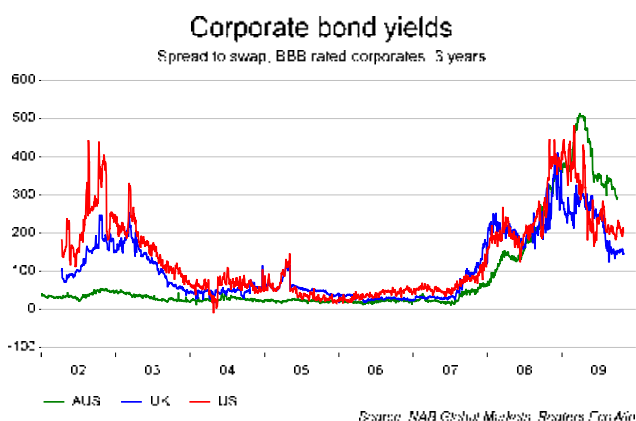
Environmental Finance Solutions: EFS@nab.com.au

Month in Review

After rallying, some market jitters appear late month

For most of October, investment markets continued to rally, with markets taking some comfort from a good start to the US September quarter reporting season, continued signs of overall economic improvement in the global economy and generally settle market conditions. In this environment, equity markets continued to rally, as did credit markets, while commodities rose with increased risk appetite and growth signals.

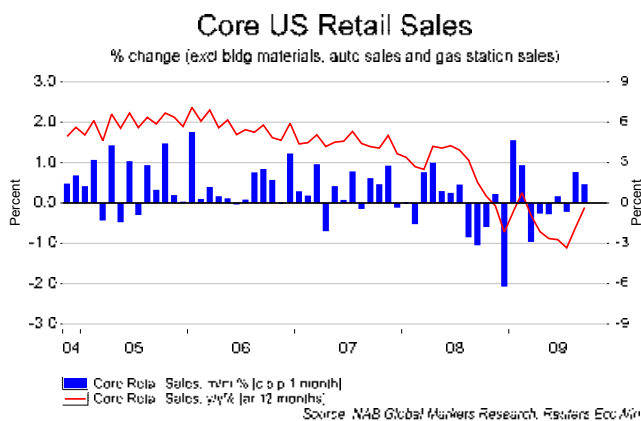
Chart: Corporate spread rally stalls



As of early November, 361 of the 500 S&P 500 companies had reported their Q3 earnings and to that point, earnings per share growth had overall been a decline of 22.8% (-26.6% excluding financials) almost in line with market expectations at the start of the reporting season that expected annual declines of -22.2%/-24.6%.

This environment changed somewhat toward the end of the month. Although the US reported better than expected GDP growth for the September quarter, there was some degree of scepticism as to whether this growth might fade again as he impacts wear off from government assistance schemes such as the US cash-for-clunkers scheme and the \$US8,000 tax credit available for first-time US home buyers.

Chart: US core retail spending rising recently



Markets began to fret in late October again about the health of the bank balance sheets on both sides of the Atlantic. In the US, a cold assessment of US residential and

commercial real estate by Jon D. Greenlee of the US Federal Reserve Division of Banking Supervision and Regulation painted a sober assessment. Greenlee, an Associate Director of the Division noted that "although conditions and sentiment in financial markets have improved in recent months, significant stress and weaknesses persist. In his opinion, banks face risks of sizeable additional credit losses given the outlook for production and employment. He notes weaknesses in banking exposure to commercial real estate.

In the UK, some prominent banks were under pressure to restructure their business and raise more capital on the back of European regulator demand.

In the final wash up, after solid gains in September, equity markets gave up some of those gains in late October/ early November. The MSCI world free index fell 1.8% over the course of October after having risen by 3.8% during September.

Global economy stabilising

The global economy is starting to record positive growth once again. After the terrible quarterly GDP outcomes reported in Q4 2008 and Q1 2009, the major regions are expanding again. US GDP was up 3.5% (annualised pace) in Q3, while Japanese growth is expected to record another positive result in Q3 after the 0.6% gain in Q2. Eurozone GDP is expected to be positive in Q3, while the UK is lagging behind, with expansion forecast in Q4 after an unexpected 0.4% decline in Q3.

In the US, we are seeing signs that activity has improved from the lows around the turn of the year. The ISM manufacturing Index has been above 50 for the past three months, while the decline in monthly payrolls is trending lower. The recovery in global manufacturing through 2009 has been stunning, with all major economies now seeing their manufacturing PMIs above 50 – a far cry from the mid 30's seen earlier this year for the US, UK, Europe and Australia..

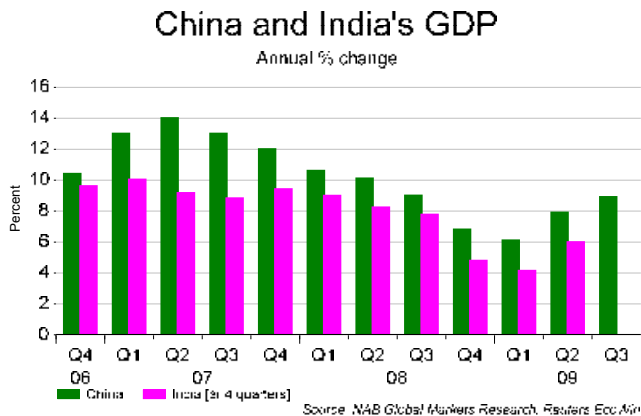
On the US housing front, there have been monthly gains in house prices for the past four months, though that follows three years of decline. Builders confidence is slowly improving, with most housing indicators back at pre-Lehman Bros collapse levels.

Nevertheless with a large amount of fiscal stimulus driving the recovery, doubts are surfacing on the ability of the US and global economy to stand up as the fiscal stimulus is withdrawn. The fear of a double-dip recession in the US will hang over financial markets until we see evidence of a firm recovery post 'cash-for-clunkers' and housing tax credit schemes.

In contrast, the emerging economies continue to lead the way. Chinese growth has remained strong, with the annual pace of growth at 8.9%yoy in Q3. Fixed investment, industrial production and retail sales are all showing strong growth, helped by the huge fiscal stimulus from the Chinese Government.

Meanwhile the Indian economy expanded 6.1%yoy in Q2, while growth throughout most of the Asian region and also Latin America has outperformed in 2009.

Chart: Emerging economies leading



RBA hikes again in November

Having raised the cash rate in October, the RBA followed with a further 25bps increase in November to 3.50%. Over the past month we have seen the Australian economy continue to report solid outcomes, with further strength in consumer confidence, still strong business confidence, and a labour market that continues to exceed expectations, with 40,600 extra jobs reported in September.. We have yet to see the unemployment rate hit 6% - in September it eased back to 5.7%, although sub-trend economic growth ahead is likely to see the unemployment rate rise towards 6.7% in mid-2010.

On the housing front, house prices have staged a remarkable comeback in the past six months. House prices rose 4.2% in Q3, the same increase as seen in Q2, which means Australian house prices are now, on average, 6.2% higher than a year ago.

NAB's forecast calls for the RBA to continue lifting the cash rate by 25 bps at each of the next three meetings, in December, February and March that will take the cash rate then to 4.25% in March before the RBA pauses. With growth gradually recovering, the focus will increasingly turn to inflation outcomes for future interest rate direction.

The September quarter CPI was right in line with market expectations both in terms of the headline rate and the RBA underlying rate. Headline inflation was +1.0% q/q/ 1.3% y/y after +0.5%/1.5% in Q2 while the underlying rate of inflation was steady on a quarterly basis at 0.8%/3.5% from 0.8%/3.9% in Q2. The RBA has indicated that inflation will not fall as far as earlier thought, though it will be consistent with the target in 2010. Hence the rate increases in the near term are all a sustainable recovery that contains inflationary pressures in 2011 when the economy is once again growing by over 3.5%.

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Month in Review

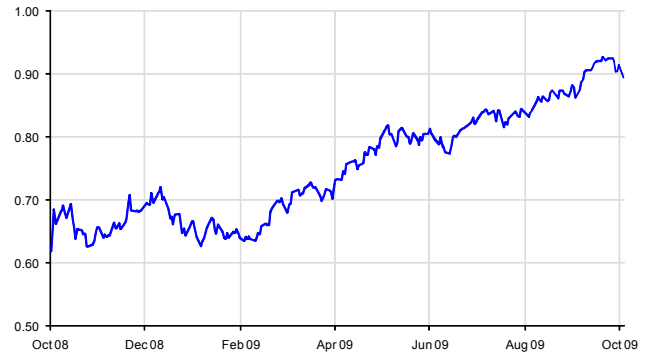
Change in Key Market Rates

	End of Oct 08	End of Sep 09	End of Oct 09	Change (bps)	
				Month	year
Cash, Bills & Bonds					
RBA Cash Rate	6.00	3.00	3.25	25	-275
Aust. 3 Mth Bill	5.81	3.38	3.94	56	-187
Aus 3 Yr Sw ap Rate	5.39	5.43	5.62	19	23
Aus 10 Yr Sw ap Rate	5.82	6.07	6.23	17	41
Aust. 2 Yr Bond	4.29	4.41	4.69	28	40
Aust. 10 Yr Bond	5.17	5.36	5.54	18	37
Futures					
3 Year Bond Futures	95.51	94.96	94.86	-10	-64
10 Year Bond Futures	94.82	94.57	94.42	-15	-40
3/10 Futures Spread	69	39	44	5	-25
US					
US Fed Funds	1.00	0.25	0.25	0	-75
US 2 Yr Bond	1.55	0.94	0.89	-6	-66
US 10 Yr Bond	3.95	3.31	3.38	8	-57
US 10 Yr Sw ap Spread	46.3	14.8	16.6	2	-30
Equities					
ASX/S&P 200	4,018	4,744	4,643	-2.1%	15.6%
Dow Jones	9,325	9,712	9,713	0.0%	4.2%
S&P 500	969	1,057	1,036	-2.0%	7.0%
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German DAX	4,988	5,675	5,415	-4.6%	8.6%
MSCI World free	235	276	271	-1.8%	15.6%
Currencies					
AUD/USD	0.6625	0.8827	0.9149	3.6%	38.1%
EUR/USD	1.2725	1.4638	1.4718	0.5%	15.7%
USD/JPY	97.5	89.5	91.0	1.7%	-6.6%
GBP/USD	1.6077	1.5982	1.6448	2.9%	2.3%
NZD/USD	0.5827	0.7232	0.7181	-0.7%	23.2%
Commodities					
WTI Oil 3m futures	67.8	70.6	77.0	9.0%	13.6%
Gold	729.8	1002.7	1045.3	4.2%	43.2%
Wheat	536.3	457.5	494.3	8.0%	-7.8%
Copper 3m futures	4,101	6,160	6,479	5.2%	58.0%
Nickel 3m futures	12,090	17,884	18,250	2.0%	51.0%
GS Base Metals index	260.6	333.5	345.4	3.6%	32.5%
CRB Index	268.4	259.4	270.4	4.2%	0.7%
Australian Swap Spreads					
3 Year sw ap spread*	93	23	23	0	-70
10 Year sw ap spread*	64	47	47	0	-17
3 Year sw ap efp spread	261	333	345	12	85
10 Year sw ap efp spread	93	36	45	9	-48
3 year bills/libor AUS-USD	6	6	6	0	0
10 year bills/libor AUS-USD	64	63	63	1	-1
Credit Spread to Swap					
AAA	31	14	21	7	-17
AA	161	77	83	6	-84
A	326	174	166	-8	-152
BBB	358	319	297	-22	-39
Semi	-59	-15	-10	5	44

*to interpolated bond

Source: Bloomberg, NAB Credit Indices (2 - 4 Year Average Spreads)

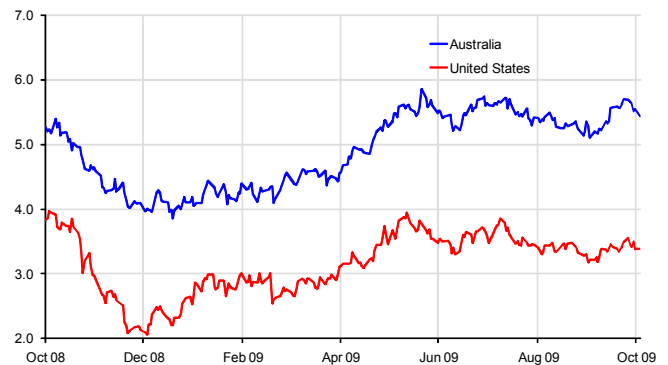
AUD/USD Exchange Rate



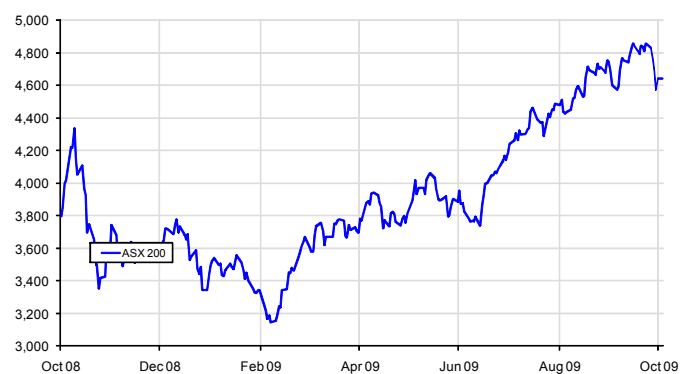
WTI Oil



10 Year Government Bond Yield



Sharemarket



Forecasts

Economic Forecasts

Australia Forecasts	2007	2008	2009	2010	2008				2009				2010			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP - quarter %					0.7	0.3	0.3	-0.7	0.4	0.6	0.2	0.0	0.8	0.7	0.7	0.7
Real GDP - annual %	1.0	2.4	0.7	2.1	3.4	3.0	2.4	0.7	0.3	0.6	0.5	1.2	1.6	1.7	2.2	2.9
Household Consumption	1.4	1.8	1.1	1.2	0.6	0.0	0.2	0.1	0.5	0.8	-0.5	0.0	0.3	0.6	0.7	0.5
Business Investment	2.0	3.2	-2.5	-0.7	5.4	3.8	2.9	1.0	-6.5	2.0	-0.5	-1.4	-0.6	0.2	0.7	0.9
Residential Construction	-1.8	1.9	-9.8	3.6	1.0	2.6	0.7	-2.5	-4.0	-5.5	-1.1	-1.3	1.5	3.3	3.3	3.7
Government Spending	4.9	6.2	3.0	5.5	1.2	1.6	2.2	0.0	-0.3	0.7	1.7	1.7	1.7	1.0	0.9	0.9
Exports	1.8	3.3	0.5	0.4	2.3	3.1	-1.7	-1.3	2.0	1.0	-1.5	-1.3	0.2	0.9	1.1	1.4
Imports	-2.0	7.9	-0.6	5.7	5.6	4.8	0.0	-7.9	-7.6	2.1	0.0	0.6	1.6	2.0	2.2	2.2
Net Exports*	-1.8	-1.8	4.7	1.8	-0.8	-0.5	-0.4	1.7	2.2	-0.2	-0.3	-0.4	-0.3	-0.3	-0.3	-0.2
Inventories*	0.6	-0.4	-1.0	0.8	0.1	-0.3	0.1	-1.2	0.0	-0.4	0.4	0.3	0.5	0.0	0.2	0.0
Domestic Demand - qtr%					1.4	1.0	1.0	0.0	-1.1	0.8	0.0	0.1	0.7	0.6	0.6	0.8
Dom Demand - annual%	2.6	3.7	0.4	0.6	5.4	5.0	5.2	3.5	0.9	0.7	-0.3	-0.2	1.4	1.5	2.4	3.2
Australia Other																
CPI headline - quarter%					1.3	1.5	1.2	-0.3	0.1	0.5	1.0	0.4	0.4	0.4	0.7	0.6
CPI headline - annual %	2.3	4.4	1.8	2.1	4.2	4.5	5.0	3.7	2.5	1.5	1.3	2.0	2.3	2.2	1.9	2.1
CPI underlying - qtr%					1.1	1.3	1.3	0.8	1.1	0.8	0.8	0.5	0.5	0.4	0.5	0.5
CPI underlying - annual %	3.0	4.2	3.7	2.1	3.6	4.2	4.8	4.4	4.3	4.0	3.5	3.2	2.6	2.2	1.9	1.8
Wages (Pvte WPI - qtr%)					0.9	1.0	1.1	1.2	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Wages (Pvte WPI - ann %)	4.1	4.2	3.4	2.8	4.2	4.3	4.2	4.3	4.0	3.7	3.3	2.8	2.8	2.8	2.8	2.8
Unemployment Rate (%)	4.4	4.2	5.7	6.5	3.9	4.2	4.1	4.5	5.3	5.7	5.8	6.1	6.4	6.7	6.5	6.4
Terms of trade	4.6	13.3	-8.7	2.8	1.6	11.4	6.3	-2.8	-7.7	-7.4	2.6	0.4	0.6	2.3	1.3	0.8
Current Account (% GDP)	-6.3	-4.3	-2.6	0.2	-7.3	-5.2	-3.5	-2.6	-2.1	-4.5	-3.3	-1.1	-0.2	0.4	0.6	0.1
	2007	2008	2009	2010												
Australia	1.0	2.4	0.7	2.1												
US	2.0	1.1	-2.7	2.1												
Eurozone	2.6	0.6	-3.9	0.7												
UK	2.6	0.8	-4.7	0.6												
Japan	2.3	-0.7	-5.5	1.9												
China	11.8	9.5	8.2	9.0												
India	9.3	7.5	5.6	6.2												
New Zealand	3.2	0.0	-1.6	2.3												
World	4.9	2.9	-1.4	3.1												

*Contribution to real GDP

Interest Rate Forecasts

	4-Nov	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
Australia										
RBA Cash rate	3.25	3.75	4.25	4.25	4.25	4.75	5.25	5.25	5.50	5.50
3 month bill rate	3.92	4.2	4.4	4.4	4.7	5.2	5.4	5.5	5.7	5.7
3 Year Bond Rate	4.89	5.0	5.0	5.0	5.1	5.3	5.4	5.4	5.4	5.4
10 Year Bond Rate	5.58	5.6	5.6	5.7	5.7	5.8	5.9	5.9	5.9	5.9
3 Year Swap Rate	5.56	5.6	5.6	5.5	5.6	5.7	5.8	5.8	5.8	5.8
10 Year Swap Rate	6.24	6.2	6.1	6.2	6.2	6.3	6.4	6.4	6.4	6.4
Offshore Policy Rates										
US Fed funds	0.25	0.13	0.13	0.75	1.25	1.50	1.50	1.75	1.75	2.00
ECB refi rate	1.00	1.00	1.00	1.00	1.50	2.50	2.75	2.75	3.00	3.00
BoE repo rate	0.50	0.50	0.50	1.00	2.00	2.50	3.00	3.25	3.75	4.00
BoJ call rate	0.09	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
RBNZ OCR	2.50	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	5.31	5.58	5.58	5.58	5.58	5.58	5.58
10 Year Benchmark Bond Yields										
Australia	5.58	5.60	5.55	5.65	5.65	5.80	5.90	5.90	5.90	5.90
United States	3.47	3.40	3.50	3.80	4.00	4.25	4.50	4.60	4.70	4.80
Europe	3.26	3.30	3.40	3.60	3.70	3.85	4.10	4.20	4.30	4.40
UK	3.72	3.50	3.60	3.90	4.00	4.25	4.50	4.60	4.70	4.80
Japan	1.41	1.60	1.70	1.80	1.90	2.00	2.00	2.00	2.00	2.00
New Zealand	5.69	5.50	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	211	220	205	185	165	155	140	130	120	110
United States	-	-	-	-	-	-	-	-	-	-
Europe	-21	-10	-10	-20	-30	-40	-40	-40	-40	-40
UK	25	10	10	10	0	0	0	0	0	0
Japan	-206	-180	-180	-200	-210	-225	-250	-260	-270	-280
New Zealand	222	210	225	200	190	175	180	170	160	160

Exchange Rate Forecasts

	4-Nov	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Majors						
AUD/USD	0.9014	0.97	1.00	1.02	1.03	1.00
NZD/USD	0.7197	0.77	0.78	0.79	0.80	0.79
USD/JPY	90.36	92	94	96	98	99
EUR/USD	1.4727	1.51	1.52	1.52	1.50	1.48
GBP/USD	1.6426	1.66	1.68	1.71	1.74	1.76
USD/CNY	6.8281	6.80	6.75	6.70	6.65	6.60
USD/CAD	1.0664	1.00	0.97	0.95	0.93	0.96
Australian Cross Rates						
AUD/JPY	81.45	89	94	98	101	99
AUD/EUR	0.6121	0.64	0.66	0.67	0.69	0.68
AUD/GBP	0.5488	0.58	0.60	0.60	0.59	0.57
AUD/NZD	1.2525	1.26	1.28	1.29	1.29	1.27
AUD/CNY	6.1548	6.60	6.75	6.83	6.85	6.60
AUD/CAD	0.9613	0.97	0.97	0.97	0.96	0.96

Source: nabCapital Research and NAB Group Economics

November Key Events*

Monday	Tuesday	Wednesday	Thursday	Friday
2	3	4	5	6
	US: Construction Spending MoM US: ISM Manufacturing	AU: Building Approvals US: Factory Orders	UK: Industrial Production MoM UK: Manufacturing Production MoM US: Nonfarm Productivity CA: Building Permits MoM UK: BoE Announces Rates US: FOMC Announces Rates AU: Trade Balance	US: Change in Nonfarm Payrolls US: Unemployment Rate CA: Ivey Purchasing Managers Index CA: Unemployment Rate UK: PPI Output n.s.a. MoM
9	10	11	12	13
AU: Housing Finance CA: Bank of Canada Announces Rate CA: Housing Starts	UK: Trade Balance GBP/MN NZ: Terms of Trade Index QoQ UK: ODPM UK House Prices YoY UK: RICS House Price Balance	UK: Unemployment Rate NZ: Food Prices MoM	AU: Unemployment Rate CA: New Housing Price Index MoM AU: NAB Monthly Business Survey NZ: Retail Sales MoM	US: Monthly Budget Statement US: Trade Balance CA: International Merchandise Trade
16	17	18	19	20
US: Advance Retail Sales CA: Manufacturing Shipments MoM US: Empire Manufacturing Survey	US: Producer Price Index UK: CPI MoM US: Business Inventories	US: Industrial Production US: Consumer Price Index MoM US: Net Foreign Security Purchases US: Building Permits US: Housing Starts CA: Consumer Price Index MoM	UK: Retail Sales MoM UK: Public Sector Net Borrowing CA: Leading Indicators MoM CA: Wholesale Sales MoM	US: Philadelphia Fed (Survey) US: Leading Indicators
23	24	25	26	27
CA: Retail Sales MoM NZ: Visitor Arrivals	US: Existing Home Sales	UK: GDP QoQ		
30				
US: Personal Income US: Personal Spending				

*Australian Eastern Standard Time

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