Global Markets Research

Fixed Income: Weekly Strategy

8 November 2010

The Central Banks have spoken – now for implementation

- Last week's key Fed & RBA decisions support our forecasts for AUS-US spread to widen and a flatter AUS curve.
- The Fed's schedule for QE buying will be the main event offshore this week, with employment the domestic focus.
- Higher mortgage rates and a flatter curve point to wider AUD swap spreads. We reiterate our 3yr EFP widener.
- We analyse the long end of the AUD swap curve and find some anomalies worth exploiting.

The last week has seen Central Banks make some eyebrow raising decisions. The RBA raised rates 25bp and the FOMC announced a US$600b purchase program of Government securities.

The RBA rate hike caused Australian front end yields to rise and the curve to flatten. Since last Monday, the Australian 3Y bond has sold off 18bp and the 10Y has sold-off 4bp. The precise timing of the RBA's move was unexpected, but the overall direction was not. The RBA has been foreshadowing rate rises based on a shrinking spare capacity for months, but the lower-than-anticipated Q3 CPI had (wrongly, as it turned out) convinced most that a rise in November was unlikely.

Friday's RBA Statement on Monetary Policy (SMP) reiterated that the RBA continues to expect it will be necessary to slowly raise rates over 2011. As the market is currently pricing a fairly dovish RBA profile we expect the recent trends of rising rates and flattening curves will re-appear. This, in conjunction with increased hedging activity, should see swap spreads push wider. Adam Donaldson writes on these developments in his article beginning on page 8.

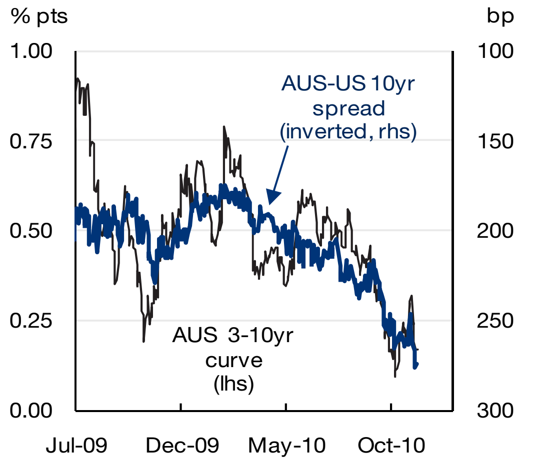
In the US, the Fed announced a US$600bn Quant Easing package that was largely as expected (US$75bn/month), but not as weighted to the long end as desired, triggering a small sell-off in the long end of the curve. The Fed's pro-active stance has seen inflation expectations rise substantially over recent weeks. However, we think the continued weak inflation outcomes will temper this enthusiasm somewhat and allow the US long end to rally once more. Adam Donaldson updates our longer term views in an article on page 6. In summary, we expect rising rates in Australia and falling bond yields in the US to keep AUS-US bond spreads pushing wider and the curve under flattening pressure (a trade we re-entered last week).

While the Central Bank decisions were taken last week, the implementation will occur this week. In Australia, three of the four major banks are yet to announce how much they will raise interest rates – a factor that will surely influence the market's RBA views. Meanwhile, the New York Fed will announce the explicit program for the purchasing of Treasuries on Wednesday (US). In both instances the implementation may be nearly as influential as the underlying decisions themselves. The key Australian employment report is also due on Thursday and expected to show on-going strength (CBA: +20k), while the Government's mid-year fiscal review is also apparently ready for release. It may show some negative impact from the higher AUD, but the fiscal story will be sound.

Finally, Philip Brown looks at the shape of the ultra-long end of the Australian swap curve in his article on page 3. Recent flows have exacerbated the dearness of the 20Y swap, which is likely to slowly revert over time.

Contents:

The AUD curve is flattening and AUS-US spreads widening as central banks follow different paths



Source: CBA, Bloomberg

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Key Trades

Trade	Entry	Curent	Profit	Target	Stop	Comment
Buy the NSWTC Jun-20 (Government Guaranteed) as an ASW	*-12bp (3-Feb-10)*	*-13bp*	*+1bp*	*-35bp*	*0bp*	***Hold**: A long term buy and hold trade. The NSWTC budget suggests borrowing will reduce. QTC has started to consolidate GG bonds.*
Sell the May-13 ACGB against the Nov-12 and Dec-13	*-11bp (25 May)*	*-7bp*	*+4bp*	*3bp*	*-20bp*	***Hold:** Taking longer than we thought – but with Dec-13 included in March 2011 Basket should work eventually.*
Pay 3yr AUD EFP	*35bp (9 August)*	*34bp*	*-1bp*	*45bp*	*30bp*	***Hold**: Increased mortgage fixing may force this wider as curve flattens.*
10yr ACGB BEI widening	*255 bp (18 August)*	*288bp*	*33bp*	*300bp*	*260bp*	***Hold:** Spread has widened in the sell-off, inflation expectations growing.*
*OTM Conditional Steepener. 6M*2Y vs 6M*10Y. Buy 100m 6M*2Y 3.75% receiver. Sell 24.1M 6M*10Y 4.28% receiver.*	*3.75% and 4.28% 0.4bp premium (25 August)*	*5.55 and 5.80*	*-0.4bp (prem-ium)*			***Hold:** An insurance trade for a global double dip.*
Buy the Suncorp Metway Govt Guaranteed Apr-11 Floater.	*TM of 29.5bp*	*23bp*	*+6.5bp*	*0bp*	*40bp*	***Hold:** This bond is Government Guaranteed. It should be much tighter. Can hold to maturity in 6 months. Investec have announced a repurchase of their Feb-12 line and Citi have repurchased A$1.2b of the Jun-12.*
Buy the Jan-15 ADB against the Apr-15 ACGB	*58bp (1 Nov)*	*56bp*	*+2bp*	*40bp*	*70bp*	***Hold:*** A buy and hold trade to capture the extra yield on offer from Supras.
*Pay 6M*1Y AUD swap*	*5.29% (3 Nov)*	*5.37%*	*+8bp*	*5.65%*	*5.15%*	***New Trade:** The front of the curve is expecting too little from the RBA.*
Sell ACGB Jun-14 vs ACGB Jul-22	*23bp (4 Nov)*	*19bp*	*+4bp*	*-10bp*	*35bp*	***New Trade:** We think the RBA will continue to raise rates, flattening the curve eventually.*
Pay the 20Y AUD swap vs 10Y and 30Y in a butterfly	*23.5bp (8 Nov)*			*27bp*	*20bp*	***New Trade**: The 20Y has rallied too far on what appears to be a short-term flow.*
*Pay 6M*2Y vs Buying the May-21*	*111bp (30 August)*	*110bp (incl carry)*	*+1bp*	*50bp*	*135bp*	***Hold:** Not performing well, but longer-term outlook is still good.*
Pay the AUD 10Y swap vs NZ 10Y swap	*58bp*	*63bp*	*+5bp*	*90bp*	*45bp*	***Hold:*** The recent rally in AUD seems overdone vs. NZ. Carry is also very attractive at circa 5bp per month.

The Australian swap ultra-long end – the ultimate positive carry trade

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- The 20Y point on the Australian swap curve is much lower in yield than would be expected.
- The forward curve is now highly inverted.
- A trade of paying 15Y*5Y and receiving 10Y*5Y would likely be highly effective – eventually.
- In the meantime, we pay the 20Y in a 10Y/20Y/30Y butterfly.

The long end of the Australian swap curve, particularly the 20Y, looks too low.

The AUD swap ultra long end is inverted

The ultra-long end of the Australian swap curve is currently inverted - as is often the case. The 20Y yield is slightly under the 10Y and the 30Y is about 30bp lower again (see Figure 1).

However, figure 1 also shows that the 20Y swap has been slightly higher than the 10Y for much of the year, but is now slightly under. This inversion does not seem to be a feature of the recent sell-off. Although there has been a sell-off since August – and sell-offs do, in general, tend to invert the ultra-long end - yields are well below levels seen in the first half of the year when the 10Y/20Y slope was positive.

We can see the dearness of the 20Y more obviously if we examine the 10Y/20Y/30Y butterfly. As is expected, the butterfly generally tracks with the 10Y/30Y slope (see Figure 2). However, the butterfly has fallen abruptly in the last few days.

The 10Y/20Y/30Y butterfly is cheap (showing 20Y is dear)

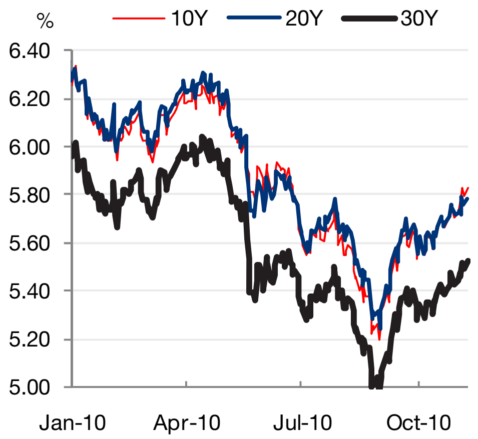
A regression of the butterfly on the slope shows the movement is statistically significant. The current position is 2.0 standard deviations too low, according to the regression.

The final way to approach the question of the long-end swaps is to look at the rolling forward rates. These are short-term rates taken at multiple points on the curve. For example, Figure 3 shows the implied 1Y swap rate at a number of different points along the curve. The Figure shows that the 1Y swap rate grows slowly from 2010 out to about 2015, where it plateaus, before falling fairly quickly after the 15Y point. This is also reasonably “normal”, in that tis part of the curve is usually inverted. However, it does also demonstrate that a cheeky way to take advantage of the dearness of the ultra-long end rates may be to pay a very long forward rate – and then wait.

Forward rates tail off sharply past 15Y

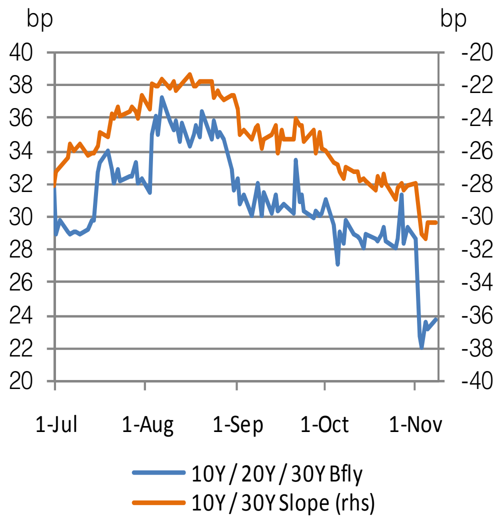
Figure 3 shows that the forward rates beyond 15Y, like the 15Y*5Y will be much lower than similar rates that are slightly less far into the future. For example, the 15Y*5Y is 5.26%, but the 10Y*5Y is 6.08% (both according to Bloomberg).

Figure 1: AUD ultra long end swaps



Source: CBA

Figure 2: AUD ultra long end butterfly



Source: CBA

Long-end AUD flows are structurally unbalanced

There is very little reason to assume these rates indicate an accurate or unbiased expectation of future spot rates. We find it difficult to believe that there is any valid forecasting procedure that would be able to differentiate between a 10Y*5Y and a 15Y*5Y. Instead, this part of the curve is mostly driven by flows.

There are some natural receivers of ultra-long end rates, but very few natural payers. For example, Power Reverse Dual Currency structured notes popular in Japan create a risk which is hedged by receiving long-dated swaps. Also, Australian insurance and life insurance companies have long dated liabilities that they sometimes hedge by receiving long dated swap. With no (or very, very few) very long fixed rate mortgages in Australia we do not have the offsetting mortgage-related flow seen in other jurisdictions. As a result, the ultra-long end inverts.

The 10Y*5Y to 15Y*5Y is likely to decay to a profitable position…

It is highly likely, in our view, that the spread between the 15Y*5Y and the 10Y*5Y will slowly normalise as time passes. Figure 4 shows the historical spread between the spot 5Y and the 5Y*5Y forward. (The 10*5Y to 15Y*5Y spread eventually decays to the spot 5Y to 5Y*5Y spread, of course.) The spot to 5Y forward spread is almost never as inverted as the longer spread is now (see Figure 4). The one, short period when the spot spread was as inverted as the long-end spread is currently was during the start of the financial crisis in late 2007 (before rates were cut by the RBA).

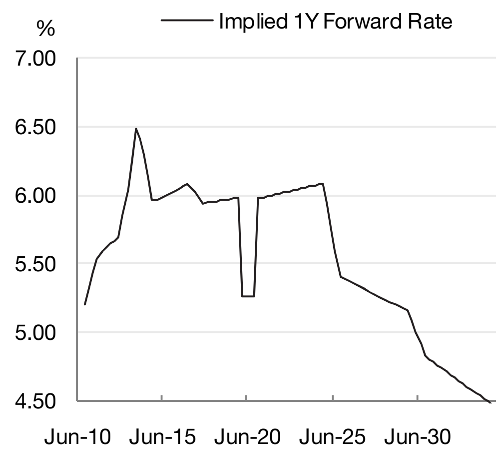
… eventually

So for those with exceptionally long time frames, we recommend paying the 15Y*5Y against the 10Y*5Y. It's highly likely this spread will decay to a profitable position. It will just take a long time to do it. In the mean-time, it will also have positive carry as the forward rates move up the curve shown in Figure 3. There will also be a not insignificant mark-to-market risk. This spread tends to invert during crisis (both the GFC and this year's Sovereign concerns – see Figure 5). Obviously, this presents a risk to establishing the spread as a carry trade.

If you have a very long term time horizon this trade is definitely for you. Even on a shorter-term horizon there is a reasonable chance the spread will return to more "normal" levels of inversion. We do not know what flow is responsible for causing the current discrepancy in 20Y rates, but is unlikely to remain. The main risk in the short term would appear to be another round of risk aversion – perhaps caused by further European sovereign issues.

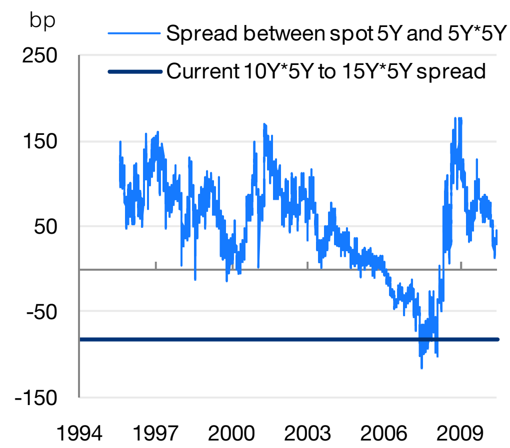
For those not inclined to wait years for the forward rates to decay, we think the 10Y/20Y/30Y butterfly is sufficiently out of alignment to be attractive. The current price of

Figure 3: Forward rates



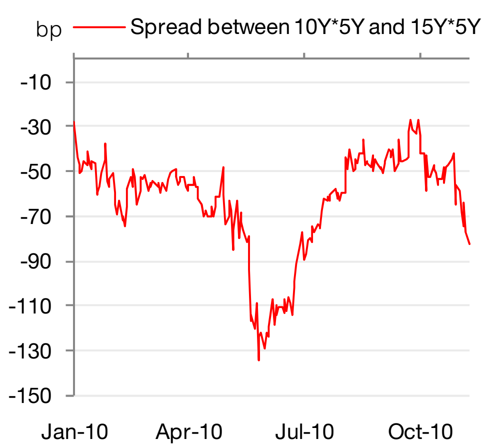
Source: CBA

Figure 4: Historical comparison



Source: CBA

Figure 5: The effect of crisis - inversion



around 24bp is well below the fair value of 27bp. We recommend paying the 20Y in the 10Y/20Y/30Y swap butterfly.

There is some chance that the butterfly/slope anomaly will revert by the 10Y/30Y slope continuing to invert. However, this is mostly likely to occur should further strong data prompt a general Australian sell-off. In that instance the 10Y would likely underperform the 30Y in the sell-off. Should that occur, our other trades (short the front end via swap and an ACGB flattening) will likely both be performing very well.

Holding core views post RBA and Fed

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- US 10Y are above our forecast but should rally again as the recent pick-up in inflation risk subsides.
- That should help the AUS curve to flatten, but widen spreads relative to the US.

US 10yrs consolidated last week following a drift up in yields in the weeks ahead of the Fed's decision to expand its quantitative easing policy. The final decision – to spend around US$600 billion over the next 8 months purchasing Treasuries – was, in the event, much as expected. The Fed had surveyed the market and judged tolerance levels well. 30yr bonds weakened and 5yrs rallied due to a slightly shorter 5-6 year duration target than the market expected, but the key 10yr benchmark was almost un-moved on the big day.

RBA actions contrast with FOMC

The contrast with the RBA's key decision to tighten monetary policy was dramatic – Aussie 3yrs sold-off 10bp when the RBA lifted the cash rate 25bp on Tuesday and ended the week 16bp higher. But while predicting the exact timing of the RBA is proving difficult for most, the broad thrust of policy is clear. CBA's economists, for example, continue to forecast another 100bp of tightening over the next year. So Australian 10yrs moved little on the day of the RBA announcement.

Aust-US spread widening and Aus 3Y/10Y flattening

The final impact of these competing tensions was much as we have been forecasting – the AUS-US 10yr spread has widened by 13bp over the past week, while the Aus 3-10yr curve has flattened 15bp. The first two charts show the tight relationship between AUS and US 10yr bonds, and the impact on the curve and spread from the tensions between the two markets.

Looking ahead

Our forecasts are for these trends to continue. We expect the 10yr spread to approach 300bp over the next three months and for the curve to invert slightly (-10bp). While we remain comfortable with the key domestic assumptions underpinning these forecasts, we have been nervous that our forecast for US 10yrs to reach 2.25% may not eventuate. There was a significant bond rally through September ahead of the Fed's QE2 decision and the back-up in yields during October suggested a significant 'buy the rumour, sell the fact' trend was in place. There was also a risk the Fed would disappoint market expectations following the recent up-tick in most economic indicators and evidence of a split at the Fed over QE.

Look for US treasuries to sell-off in medium term

There have been a number of commentators highlighting the lack of long-term value in US Treasuries. We don't disagree with that view.

Figure 1: 10yr bond yields

Figure 2: AUS yield curve and spread to US

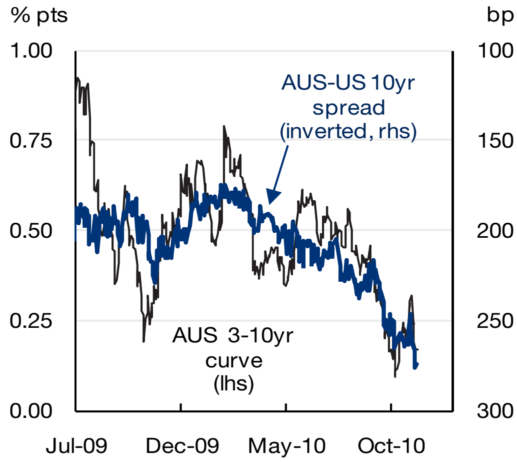
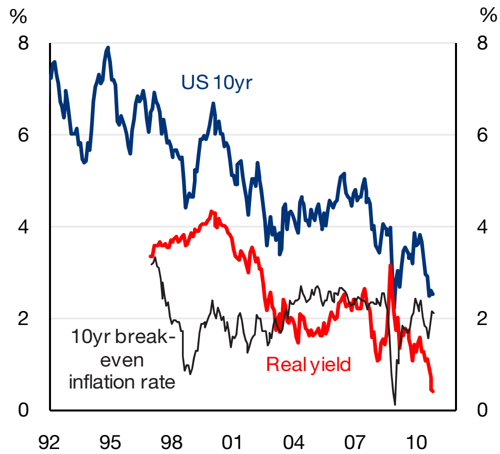


Figure 3: AUS yield curve and spread to US



We are currently forecasting that US 10yrs will back-up to 3% next year and further in 2012 (with 2yrs headed above 2%). Ordinarily, the recent tone of the data and strength in equities may have had us pulling those numbers forward a little (see page 11 for forecasts). That remains the direction of risk. But we have held off making that call for three reasons:

We look for a short-term rally in US, however

- There is a big new buyer of Treasuries;
- The rally in equities has been at least partly fuelled by QE expectations. A Fed failure to deliver would have damaged market and economic sentiment, likely causing a flight back to the safety of bonds;
- The recent back-up in US yields has reflected a rise in inflation expectations, as the Fed has indicated current levels are too low. But the 10yr break-even rate is already back near the norm for the past decade and the risk is that actual inflation falls further.

Figure 3 shows the relative moves in real US 10yrs and inflation pricing. Recent trends indicate the market accepts the Fed will deliver on its commitment to keep real yields extremely low and stimulatory. We think this will remain the case as the Fed steps in to purchase around US$110 billion of Treasuries per month for the next six months (including re-investment of the existing portfolio).

Disinflation pressure remains

The onus will be on the Fed to convince the market that economic conditions are likely to improve quickly enough to take the disinflation pressure out of the market (Figure 4). Unit labour costs continued to decline in Q3 and signal on-going downward pressure on prices (Figure 5). Meanwhile, the unemployment rate held steady at levels unlikely to put upward pressure on labour costs. The rate remains at levels that suggest markets will remain wary of the reflation trade for a while yet, and certainly at levels that suggest the Fed hold to its QE and low Fed Funds rate commitments for at least six months (Figure 6).

Holding the view

The up-shot of this view is that the Fed will actively seek to hold real bond yields low through its purchase program. But the economic backdrop continues to point to downward pressure on inflation, and therefore nominal interest rates. While growth data may show that the recovery is gaining traction, the clear message from the Fed is that the pace of growth is insufficient to balance the dis-inflation pulse running through the economy (and is therefore disappointing). That reality suggests the inflation component of bond yields should also be under downward pressure in the months ahead. We continue to forecast that US 10yrs will retreat back toward 2.25% by the end of the year. Domestic tightening pressures mean the local market will struggle to match that performance, resulting in a wider AUS-US bond spread and flatter AUS curve.

Figure 4: Markets pricing an up-turn in inflation

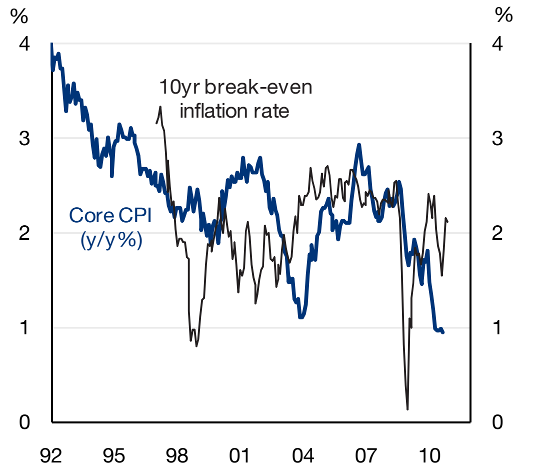


Figure 5: But labour cost data suggests pressure is firmly downwards

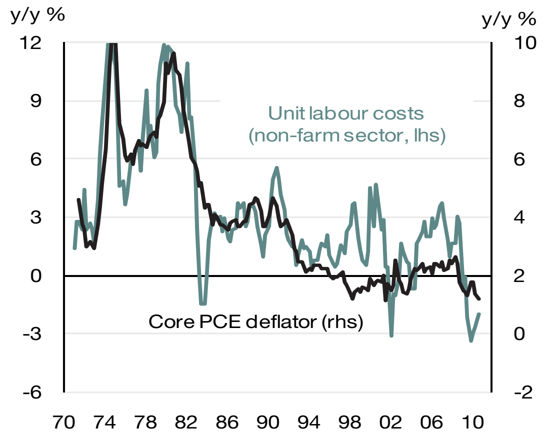
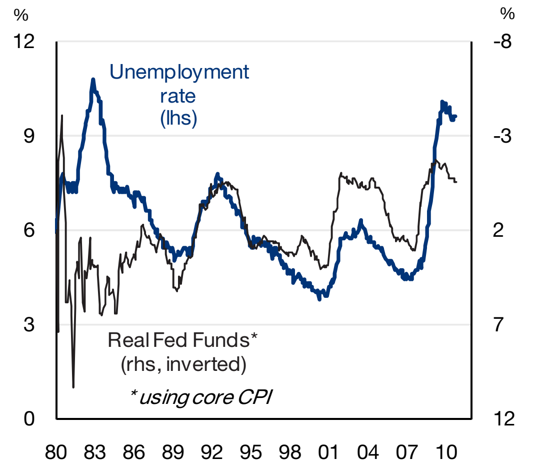


Figure 6: Sticky high unemployment rate signals the Fed will stop real rates from rising



Still paying 3yr EFP

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- Swap spreads have narrowed following the stress tests in Europe and easing in proposed regulatory changes.
- The flat yield curve should prompt greater loan hedging and pay-side pressure, pushing swap spreads wider.

We unwound our paid EFP position ahead of the stress tests in Europe

We have been forecasting a widening in AUD swap spreads for some time, and have held a paid 3yr EFP position since mid August. It has gone nowhere fast. But last week's 'surprise' RBA rate hike and the prospect of further 'pass-through' by the Australian banks means conditions should finally be ripe for a result.

Recent history

Downward pressure on swap spreads from the receive side to hedge AUD fixed rate bond issuance has been steady if unremarkable (Figure 1). This could step-up a gear given AUD cross currency basis swap spreads remain wide and investor risk appetite should improve following the Fed's implementation of QE2. We wouldn't be surprised to see a burst of issuance before the end of year lull.

Mortgage fixing has been absent… so far

In our view, the main driver keeping swap spreads relatively tight has been the virtual absence of household mortgage fixing, and related pay-side swap flows (Figure 2). We did see a flurry of corporate hedging in September when the swap curve flattened markedly (and 3yr even traded below 90-day BBSW for a short time). But that eased when the RBA failed to tighten as expected in October (against a backdrop of limited corporate deal-flow and credit extension). The 3yr EFP accordingly pulled back from a recent peak of 41bp on September 29th to 32bp on November 1st.

Outlook

We see scope for spreads to widen as the curve flattens

We see scope for swap spreads to widen as the yield curve flattens. Our forecast for the 3-10yr bond curve is for inversion of -10bp in Q1, with the front-end rising due to RBA tightening and the back-end held down by the Fed's QE (despite a wider AUS-US 10yr spread). But market reticence to price an aggressive RBA cycle (currently just 50bp more tightening over the next 18 months relative to CBA's 100bp forecast) means the pressure at the front-end of the curve is likely to become more intense.

Figure 3 shows that this would normally be consistent with wider swap spreads. Equally, Figure 4 shows that upward pressure on variable rates is typically accompanied by wider swap spreads.

From a tactical perspective, we suspect last week's RBA rate hike and follow-up mortgage

Figure 1: Steady AUD fixed-rate bond issuance

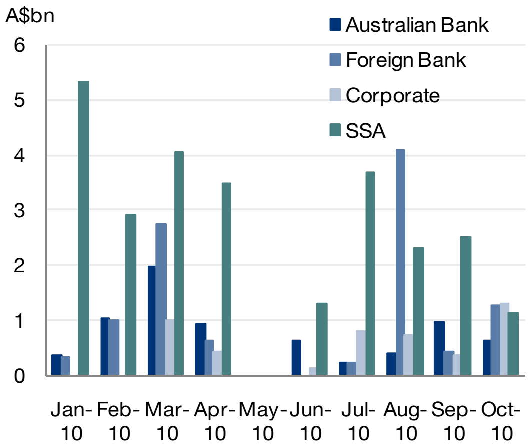


Figure 2: Fixed-rate mortgages remain weak

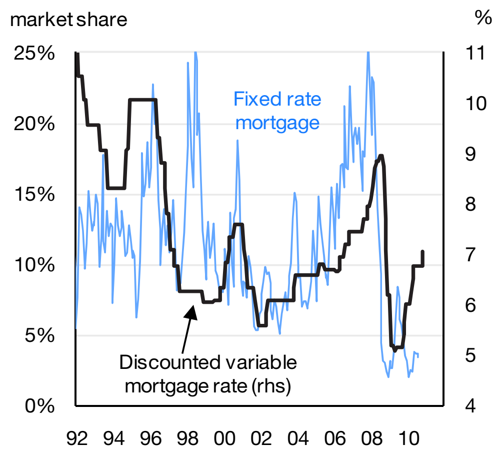
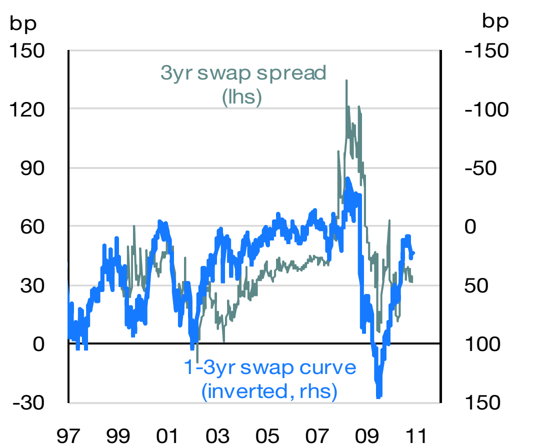


Figure 3: Swap spreads widen as curve flattens



rate increase by CBA will leave households worried that further increases could be forthcoming. On the brave assumption that other banks also lift rates by more than 25bp Figure 5 shows that the spread between fixed and variable mortgage rates has now closed considerably – to more levels historically consistent with higher levels of mortgage fixing. Fear of additional increases in variable mortgage rates could take this to above-average levels.

Risks

As noted, increased corporate bond issuance could provide some receive-side flow offset to the increased pay-side pressure we expect from mortgage fixing. However, we judge the new impact likely to be greater from the latter.

Another risk to consider is a general tightening in credit and risk spreads as the Fed's enhanced quantitative easing policy takes effect. However, BBSW spreads are already quite tight in Australia. Figure 7 shows that measures of Australian bank risk can be influenced by risk appetite and credit developments offshore at time, and that recent spread movements in Europe could yet impact on risk appetite and spreads elsewhere.

It is also worth noting that US swap spreads have been under modest widening pressure of late, as the market premium attached to government bonds the Fed will buy increases. To the extent that we expect this action on the benchmark curve to lower Australian bond yields, it could also be expected to add to Australian swap spreads. While this would have more impact at the long end of the curve (where we also look for swap spreads to widen), we see the mortgage story as having the most potential to shift the market and are therefore happy to stick with our widening 3yr EFP trade.

Figure 4: Swap spreads widen as BBSW rises

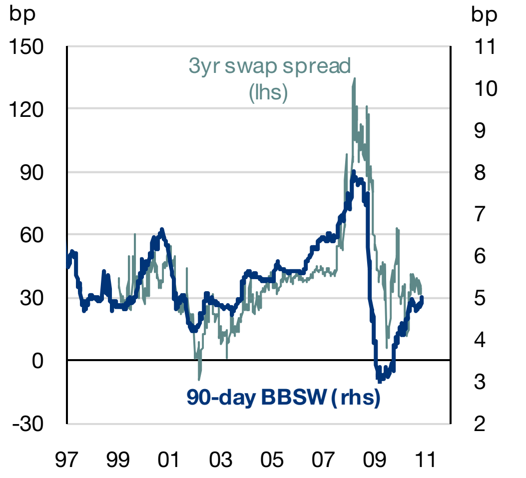


Figure 5: Fixed versus floating mortgage rates

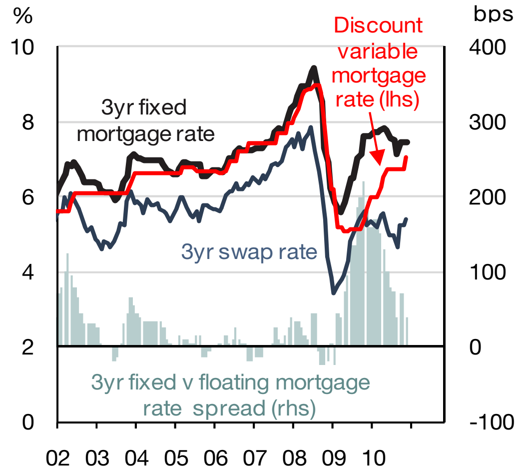


Figure 6: Mortgage fixing versus borrowers yield curve

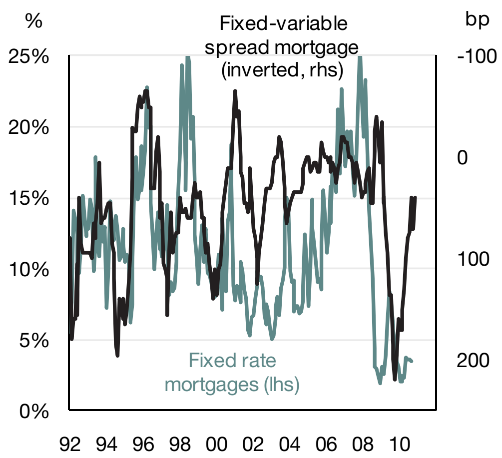
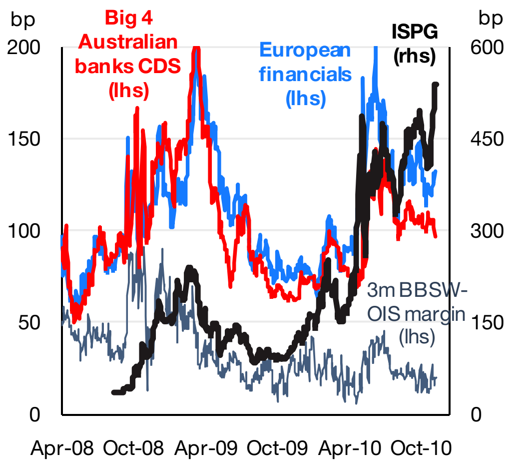


Figure 7: Financials & troubled sovereigns CDS v BBSW spreads



Key Views

United States

Recent US data has been mixed. Growth is soft (2% annualised in Q3) and supported by inventory accumulation. The headline Payrolls release was very strong (+151K) but the household survey was weaker. The pace of improvement is not enough to satisfy the Fed, which has announced new QE of $600bn of Treasury securities by June 2011 (approx $110/month after including reinvestments from current portfolio).

Ultimately, we suspect QE2 to keep real bond yields very low, but that the recent back-up in inflation expectations (as the Fed 'targets' higher inflation) will be reversed due to weak growth and persisting disinflation pressure. We expect the curve to flatten and forecast 10yrs to retreat back toward 2.25%, though uncertainty remains very high.

With little true data this week the Fed's purchase announcement on Wednesday will likely be the single largest "data" event.

We expect the USD to correct higher in the near term as short positions are unwound following the Fed's policy meeting. The strong payrolls report, together with upward revisions to previous months, is likely to make USD bears think twice about adding to their short USD positions. This week's Group of Twenty meeting in Seoul is likely to dash US hopes to produce an agreement to strengthen the Chinese yuan and other Asian currencies against the USD.

	Tactical (<1 mth)	**Strategic** (>3 mths)
Policy rate	0.1%	0.1%
10yr bond	2.35%	2.25%
2/10 curve	210bp	190bp
USD/JPY	82	84
EUR/USD	1.38	1.32

Australia

Australia's economic growth remains strong and is supported by the high terms of trade. Spare capacity is limited and the Q3 PPI was worryingly high. Despite the lower CPI, the RBA opted to raise rates in November. This week's employment data will likely confirm that there is limited slack in the economy.

The strong likelihood that all the major banks will increase mortgage rates more than 25bp takes near-term rate hikes off the table for a while. The RBA believes it is ahead of the curve on interest rates, which makes picking the exact timing of moves very difficult. However, the RBA is likely to continue raising rates. We forecast 5.75% by end 2011,

With minimal RBA hikes priced in (5% by end 2011), we look for the former curve flattening and AUS-US spread widening trends to resume. We have established medium term flattening (Jun-14 to Jul-22 flattener) and hawkish (Pay 6M*1Y) trades.

With the USD likely to consolidate this week, the AUD/USD is going to be on the back foot in the near term. But the local jobs report on Thursday and Chinese economic data sprinkled through the week are likely to result in only shallow dips in AUD.

	Tactical (<1 mth)	**Strategic** (>3 mths)
Policy rate	4.5%	4.75%
10yr bond	5.10%	5.20%
3/10 curve	20bp	0bp
10yr EFP	57bp	65bp
10yr v US	280	290
AUD/USD	0.99	1.00

New Zealand

The RBNZ remains on hold, but the income boost coming through from solid growth in Asia points to extension of the cycle and further RBNZ tightening thereafter. The employment result is already showing some improvement in Q3 (+1% employment change, unemployment falling to 6.4%)

A higher than expected +1.1% q/q CPI result in Q3 has been overlooked due to the upward impact of the new Emissions Trading Scheme on energy prices. The RBNZ is comfortable that inflation expectations will remain in check as further tax increases push inflation above 5%, but this remains a key source of risk to the outlook. We look for the RBNZ to resume rate hikes early in 2011.

The strong New Zealand labour force report has supported NZD by leading to some reassessment of the timing of Reserve Bank of New Zealand rate hikes. But Reserve Bank of New Zealand is likely to correct lower as the USD consolidates. Adding to downside pressure to AUD/NZD is improving global growth prospects – particularly since the Fed's QEII has removed some of the tail risks to US growth. We see a further move down in AUD/NZD to 1.2650 in the near term but that would be a good entry point on the way back to 1.30.

	Tactical (<1 mth)	**Strategic** (>3 mths)
Policy rate	3.0%	3.0%
10yr bond	5.0%	5.1%
2/10 swap curve	110bp	100bp
10yr v US	270	280
10yr v AUS	-10	-20
NZD/USD	0.77	0.75
AUD/NZD	1.3000	1.3200

CBA Forecasts:

Cash rate	8-Nov	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
US	0.25	0.25	0.25	0.25	0.50	1.00	1.50	1.75	2.00	2.25
Australia	4.50	4.75	5.00	5.25	5.50	5.75	5.75	5.75	5.75	5.75
New Zealand	3.00	3.00	3.25	3.75	4.25	4.50	4.50	4.50	4.50	4.50
United Kingdom	0.50	0.50	0.50	0.50	0.75	1.00	1.25	1.50	1.75	2.00
Eurozone	1.00	1.00	1.00	1.00	1.00	1.25	1.50	1.75	2.00	2.00
Japan	0.05	0.05	0.05	0.05	0.05	0.05	0.30	0.30	0.30	0.30
2-yr bond yield	**8-Nov**	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	0.37	0.30	0.35	0.65	1.50	1.75	2.00	2.30	2.60	2.75
Australia	5.04	5.10	5.30	5.45	5.60	5.70	5.60	5.60	5.60	5.60
New Zealand	3.80	4.00	4.20	4.60	4.90	5.00	4.80	4.80	4.70	4.70
United Kingdom	0.66	0.50	0.75	2.00	2.70	2.95	3.25	3.45	3.55	3.65
Eurozone	0.92	0.80	1.00	1.20	1.40	1.70	2.00	2.30	2.50	2.50
Japan	0.14	0.15	0.15	0.20	0.30	0.60	0.70	0.70	0.80	0.80
10-yr bond yield	**8-Nov**	**Dec-10**	**Mar-11**	**Jun-11**	**Sep-11**	**Dec-11**	**Mar-12**	**Jun-12**	**Sep-12**	**Dec-12**
US	2.53	2.25	2.25	2.40	2.80	3.00	3.20	3.30	3.40	3.50
Australia	5.29	5.10	5.20	5.30	5.40	5.50	5.50	5.50	5.50	5.40
New Zealand	5.32	5.10	5.20	5.30	5.50	5.70	5.50	5.50	5.40	5.40
United Kingdom	2.98	2.75	2.80	3.00	3.90	4.00	4.20	4.40	4.50	4.60
Eurozone	2.42	2.30	2.40	2.60	2.80	3.00	3.10	3.20	3.30	3.40
Japan	0.96	0.80	0.90	1.20	1.40	1.50	1.60	1.70	1.80	1.80

AUD Swap Rates	8-Nov	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	5.40	5.55	5.80	6.00	6.15	6.20	6.10	6.10	6.10	6.00
3-year	5.49	5.55	5.75	5.95	6.05	6.15	6.00	5.95	5.95	5.95
5-year	5.73	5.70	5.80	5.95	6.00	6.10	6.00	6.00	6.00	5.95
10-year	5.83	5.70	5.85	5.95	6.05	6.15	6.10	6.10	6.10	6.00

NZD Swap Rates	8-Nov	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Mar-12	Jun-12	Sep-12	Dec-12
2-year	4.04	3.95	4.20	4.55	5.00	5.10	5.10	5.10	5.10	5.10
3-year	4.30	4.15	4.40	4.75	5.15	5.25	5.20	5.20	5.15	5.15
5-year	4.63	4.35	4.60	4.95	5.35	5.45	5.40	5.40	5.35	5.35
10-year	5.20	4.95	5.10	5.30	5.70	5.90	5.75	5.75	5.70	5.70

Calendar – November 2010

Monday	*Tuesday*	*Wednesday*	*Thursday*	*Friday*
1 **AU AI-Group PMI, Oct, Index, (47.3)** **AU TD inflat gauge Oct, m/y%ch, (0.1/3.2)** **AU NAB Bus conf/cond, Oct, Index, (10/7)** **AU ABS House price ind., QIII, q%ch,(3.1)** CH PMI Manufacturing, Oct, Index, (53.8) JP Vehicle sales, Oct, y%ch, (-4.1) UK PMI manufacturing, Oct, Index, (53.4) US Personal income/spending, Sep, m%ch, (0.5/0.4) US PCE deflator/core, Sep, y%ch, (1.5/1.4) US ISM manufacturing, Oct, Index, (54.4) US Construction spending, Sep, m%ch, (0.4)	**2** **AU RBA cash rate, %, 4.75, (4.50)** NZ Avg Hourly Earnings, QIII, q%ch, (0.6) EU/GE/UK PMI manufacturing, Oct, Index, (54.1/56.1/53.4)	**3** **AU CBA/Ai-Group Perf of Serv Index, Oct, (45.6)** **AU Build approv, Sep, m%ch, 2.0, (-4.7)** CH Non-Manuf PMI Oct, Index, (61.7) UK PMI services, Oct, Index, (52.8) US ISM non-manufacturing, Oct, Index, (53.2) US Factory orders, Sep, m%ch, (-0.5) US FOMC rate decision, %, 0-¼, (0-¼) US Total vehicle sales, Oct, mn, (11.73)	**4** **AU Retail trade, Sep, m%ch, 0.7 (0.3)** **AU Retail trade volumes, QIII, q%ch, 1.0 (0.8)** **AU Trade balance Jul, $bn, 1.5, (2.3)** NZ Emp Growth/Unemp Rate, QIII, q%ch, (-0.3/6.8) EU PMI services/composite, Oct, Index, (53.2/53.4) EU PPI, Sep, m/y%ch, (0.1/3.6) EU ECB announces int. rate, %, 1.00, (1.00) GE PMI services, Oct, Index, (56.6) UK New car registrations, Oct, y%ch UK BoE announces rates, %, 0.50, (0.50) CA Ivey purchasing manager index, Oct, (70.3)	**5** **AU Ai-Group PCI, Oct, Index, (40.8)** **AU RBA Statement on Monetary Policy** EU Retail sales, Sep, m/y%ch, (-0.4/0.6) GE Factory orders, Sep, m/y%ch, (3.4/20.3) UK PPI Input/Output/core, Oct, y%ch, (9.5/4.4/4.6) US Avg hrly earnings, Oct, m/y%ch, (0.0/1.7) US Non-farm payrolls, Oct, '000, (-95) US Unemployment rate, Oct, %, (9.6) US Pending home sales, Sep, m/y%ch, (4.3/-18.4) US Consumer credit, Sep, $bn, (-3.3) CA Net change in employment, Oct, '000, (-6.6) CA Unemployment rate, Oct, %, (8.0) CA Building permits, Sep, m%ch, (-9.2)
8 **AU ANZ Job ads, Oct, m%ch, (0.7)** JP Leading / Coincident index CI, Sep GE Trade bal, Sep, €bn, (9.0) GE Industrial production, Sep, m/y%ch, (1.7/10.7) CA Housing starts, Oct, '000, (186.4)	**9** NZ Card spending, Oct, m%ch, (1.5) JP Curr a/c total/adjusted, Sep, ¥bn, (1,114.2/1,179.0) JP Trade balance - BOP basis, Sep, ¥bn, (195.9) GE CPI, Oct UK RICS house price balance, Oct, %, (-36) UK Total trade balance, Sep, £bn, (-4,643) UK Industrial production, Sep, m/y%ch, (0.3/4.2) UK NIESR GDP estimate, Oct, m%ch, (0.5) US Wholesale inventories, Sep, m%ch, (0.8) CA Housing price index, Sep, m%ch, (0.1)	**10** **AU MI/WBC Consumer Sent, Nov, Index, (117.0)** **AU Housing finance, Sep, m%ch** **No. of own-occupiers, %, x.x, (1.0)** **Value of all loans, %, x.x, (0.0)** NZ RBNZ Financial Stability Report CH Trade balance Oct, US$bn, (16.9) JP Consumer confidence, Oct, Index, (41.4) UK Bank of England Quarterly Inflation Report US Trade balance, Sep, $bn, (-46.3) US Import price index, Oct, m/y%ch, (-0.3/3.5) CA Trade balance Sep, C$, (-1.3)	**11** **AU MI Consumer Inflation Expectat, Nov, %, (3.8)** **AU MI Unemp. Expt., Nov, Index, (102.0)** **AU Labour force, Oct** **employment, '000, 20 (49.5)** **participation rate, %, 65.5 (65.6)** **unemployment rate, %, 5.0 (5.1)** NZ Business PMI, Oct, Index, (49.2) NZ Food prices, Oct, m%ch, (0.7) CH PPI/CPI, Oct, y%ch, (4.3/3.6) CH Retail sales/Ind. Prodn, Oct, y%ch, (18.8/13.3) CH Fxd Ass Investment, Oct, y%ch, (24.5) JP Machine orders, Sep, m/y%ch, (10.1/24.1) EU ECB Monthly report	**12** EU GDP, QIII, q/y%ch, (0.1/1.9) EU Industrial production Sep, m/y%ch, (1.0/7.9) GE GDP, QIII US Uni. Of Michigan confidence, Nov, Index
15 **AU New motor veh. sales, Oct, m/y%ch, (0.9/8.** NZ PSI, Oct, Index, (54.8) NZ Retail sales ex inflation, QIII, q%ch, (1.3) NZ Retail sales, Sep, m/y%ch, (0.0/-0.6) JP GDP, QIII, q%ch, (0.4) JP Industrial production, Sep JP Capacity utilisation, Sep, m%ch, (-0.9) EU Trade balance Sep, €bn, (-1.4) US Retail sales, Oct, m%ch, (0.6) US Business inventories, Sep, m%ch, (0.6)	**16** **AU RBA Board Minutes** JP BoJ target rate, %, 0-0.10 (0-0.10) EU New car registrations Oct, y%ch, (-9.6) EU CPI, Oct, m/y%ch, (0.2/1.9); core, y%ch, (1.0) EU/GE ZEW survey (econ. sentiment), Nov, (1.8/-7.2) UK CPI, Oct, m/y%ch, (0.0/3.1); core, y%ch, (2.7) US Producer price index Oct, m/y%ch, (0.4/4.0) US Industrial production, Oct, m%ch, (-0.2) US Capacity utilisation, Oct, %, (74.7) US NAHB housing market index, Nov, (16)	**17** **AU DEWR skilled vacancies, Nov, m%ch, (-0.005)** **AU WPI QIII, q/y%ch, 1.2/3.4 (0.8/3.0)** JP Leading / Coincident index, Sep EU Construction output, Sep, m/y%ch, (-0.4/-8.5) UK Bank of England minutes UK ILO unemployment rate (3mths), Sep, %, (7.77) US CPI, Oct, m/y%ch, (0.1/1.1); core, (0.0/0.8) US Housing starts, Oct, '000, (610) US Building permits, Oct, '000, (539)	**18** **AU RBA Dep Gov Battellino speaks in Perth** **AU AWE Aug, q/y%ch, 1.1/5.4 (0.5/5.2)** NZ Producer prices, in/outputs, QIII, q%ch, (1.4/1.1) EU Current account, Sep, €bn, (-7.5) UK Retail sales, Oct, m/y%ch, (-0.2/0.5) US Leading indicators, Oct, m%ch, (0.3) US Philadelphia Fed, Nov, Index, (1.0) CA Leading indicators, Oct, m%ch, (-0.1) CA Wholesale sales, Sep, m%ch, (1.2)	**19** **AU State Annual National Accounts** NZ Credit card spending, Oct, m/y%ch, (0.9/4.1) GE Producer prices, Oct, m/y%ch, (0.3/3.9)
22	**23** GE GDP, QIII, q/y%ch, (2.2/3.7) US GDP, QIII, q%chsaar, (1.7) US Existing home sales, Oct, mn/m%ch, (4.53/10.0) US Richmond Fed, Nov, Index CA CPI, Oct, m/y%ch, (0.2/1.9) CA Retail sales, Sep, m%ch, (0.5)	**24** **AU Construction Work Done, QIII** **AU HIA Housing Affordability Index, QIII, (108.3)** EU Industrial new orders, Sep, m/y%ch, (5.3/24.4) GE IFO - Business climate, Nov, Index UK GDP, QIII, q/y%ch, (0.8/2.8) US Personal income/spending, New home sales, Oct US PCE deflator/core, Oct US Durable goodes orders, Oct US Uni. Of Michigan confidence, Nov, Index US FOMC Minutes CA Teranet House Prices, Sep	**25** **AU Capex, QIII, q/y%ch, 6.0/6.5, (-4.0/-4.8)** JP Trade bal total/adj, Oct	**26** JP CPI, Oct GE CPI, Nov
29 **AU HIA new home sales Oct** **AU Company profits, QIII, q%ch, 5.0, (18.9)** **AU Inventories, QIII, q%ch, 0.4, (-0.5)** **GDP contrib, %, 0.2 (0.0)** **AU RBA Gov. Stevens speaks in Melbourne** NZ Trade balance, Oct NZ NBNZ Business confidence, Nov, Index JP Retail sales, Oct UK Net consumer credit, Oct US Dallas Fed, Nov, Index CA Current account, QIII, C$bn, (-11.0)	**30** **AU RBA Ass. Gov. Debelle speaks in Sydney** **AU Build approv, Oct** **AU Current acc deficit, QIII, $bn, -5.5, (-5.6)** **AU Net export contrib, QIII, ppt, -0.3, (0.4)** **AU Govt Finance Statistics, QIII** **AU Private sector credit, Oct** **AU RP Data-Rismark house price index, Oct** NZ Building permits, Oct JP Industrial/vehicle production, Oct JP Housing starts/Construction orders, Oct US S&P/Case-Shiller home price ind., Sep CA GDP, QIII, q%chsaar, (2.0)	***Also due in November*** AU Mid-Year Economic and Fiscal Outlook EU OECD Economic Outlook (18 Nov)	***Early December*** AU GDP, QIII (1 Dec) AU Retail trade, Oct (2 Dec) AU Trade balance, Oct (2 Dec) AU RBA cash target, Dec (7 Dec) AU Housing finance, Oct (8 Dec) AU Labour force, Nov (9 Dec)	***Central Bank Meetings*** AU RBA (2 Nov) US FOMC (3 Nov) UK BOE (4 Nov) EZ ECB (4 Nov) JP BoJ (16 Nov) CA Bank of Canada (7 Dec) NZ RBNZ (9 Dec)

Note: Figures in brackets represent previous result (if available). All information is preliminary and subject to revision. Chief Economist: Michael Blythe ph: 9118-1101 Economist: James McIntyre: 9118-1100

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).

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