



Macroeconomics



Industry & Commodity



Markets



Global Overview - March 2007

Global economic cycle has already peaked but a soft landing is still forecast
Sluggish growth for big industrial economies, India and China prop up global numbers
Worries about a US “hard landing”, forecast risks skewed downwards
Chinese and Indian growth revised upwards, underpinning half total global growth
Central banks still focused on inflationary risks.
US interest rates set to fall in late 2007, Euro tightening nearly over, BOJ in no hurry

GROWTH IN INDUSTRIAL OUTPUT AND WORLD TRADE SLOWS

The latest monthly indicators of industrial and trade activity point to a slowdown through the closing months of 2006 and into the early months of 2007. Global industrial output growth peaked at around 6¼% yoy last September quarter, but it slowed to just over 5% yoy by December and fell under 5% in January. Data available for a few countries suggests that growth might have stabilised in February. This easing in the pace of industrial expansion followed a prior downturn in the purchasing managers business survey readings for new orders and output through to January 2007 and these business survey measures tend to be leading indicators. The subsequent February upturn in surveyed output and new orders is harder to interpret as stronger results for US industry underpinned most of that recovery and US economic growth certainly does not look like it is about to accelerate. Therefore, it might be more prudent to ascribe this upturn to monthly volatility in the data and work on the basis that we are still in a slowing phase of the global business cycle. The world trade numbers are not signalling any acceleration in economic growth with the CPB index of global export volumes slowing from over 10% yoy in late 2006 to 9% by January 2007 and our estimate of G7 US\$ export growth also slowing between November 2006 and this January.

Chart 1 Industrial trends % yoy and survey index

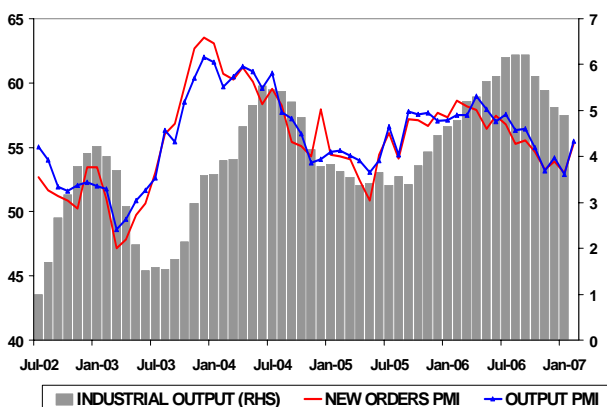
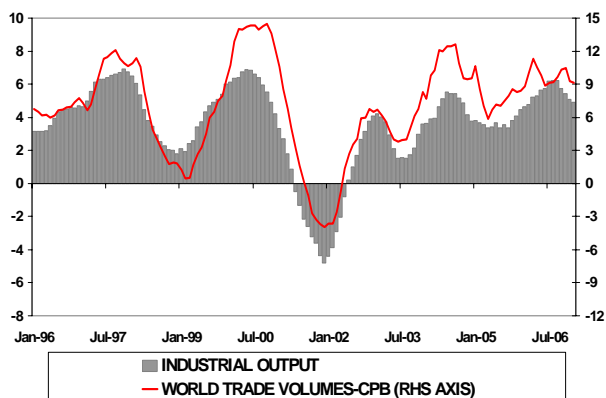


Chart 2 Industrial growth and world trade % change



Regional detail shows that this industrial slowdown is geographically broad-based. Given that the US economy has been the principal engine for global economic expansion, that US growth has been largely driven by gains in consumer spending and that this is precisely the area of economic activity under pressure, it is entirely possible that the softness in the US economy is spilling over to other regions of the world. Previous global economic cycles show examples where areas outside the US thought they might prove immune to a slowdown in the globe's largest economy before finding that this was not the case. Accordingly, we could be seeing another lesson in global economic inter-dependence.

US industrial growth has already slowed quite markedly – from over 5% yoy in the first half of 2006 to under 3% yoy in the first two months of this year. With the exception of China – where the statistics agency has published two different sets of numbers for the early months of 2007 – there is also a slowing in industrial growth across East Asia. We have used the lower set of Chinese industrial growth numbers for now and will watch out for revisions to the data in coming months. Japanese industrial growth is still solid but it looks to have peaked just before the end of last year. We do not, however, expect a hard landing for Japanese industry with the low yen boosting industrial competitiveness and robust Chinese growth fuelling stronger demand. Tankan business survey results point to a flattening out in business conditions rather than a dip, with high profits expected to keep activity levels strong.

There is clearer evidence of a significant easing in the pace of growth across the emerging market economies of East Asia (excluding China). Here industrial growth peaked at over 11% yoy in early 2006 but by the start of this year it had slipped to under 5% yoy. Another major group of emerging market economies, Latin America, also show a sharp slowing in the rate of industrial growth. This peaked at over 5% yoy during some months of 2006 but was down to 3¼% yoy by January 2007, mainly because of a very steep slowdown in Mexican industry (much of whose output is exported to US markets). In Brazil, the other industrial giant of the region, business conditions have been looking better recently with output growth consolidating at moderate levels after earlier weakness. The big exception to this slowing pattern is the Euro-zone where industrial growth has stayed quite solid, although even here it has dipped from a peak growth rate of around 4½% yoy in mid-2006 to 3½% yoy in January 2007.

Chart 3: Industrial growth by region - developed economies % yoy

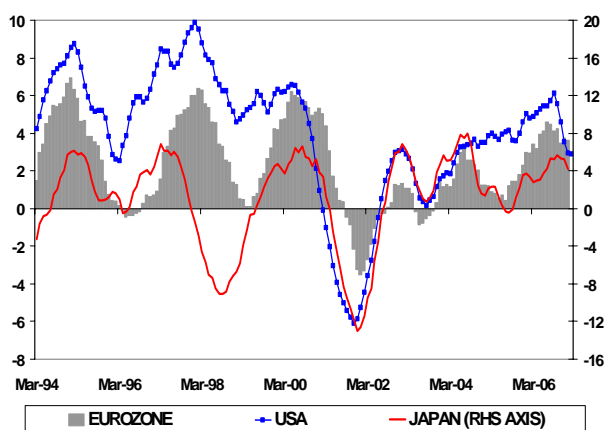
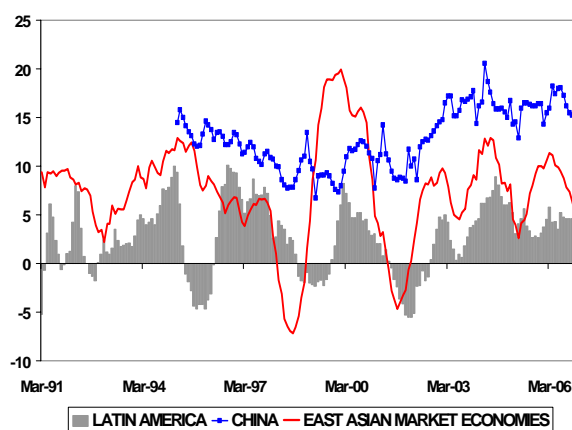


Chart 4 Industrial growth by region - emerging economies % yoy



Many of the global trade indicators are also now showing signs of slowing. Export volume growth from Japan has slipped from the double-digit rates recorded at the peak in early 2006 to under 5% yoy in several recent months. Excluding China, across the East Asian emerging market economies there has been a slowing in US\$ export earnings from the last cyclical peak of around 15% yoy in mid-2006 to around 12% yoy in early 2007. Latin American export growth has slowed quite dramatically with the rate of increase in US\$ receipts down from a peak of around 25% yoy in the early months of 2006 to around 8% yoy in the early months of 2007. This easing partly reflects lower export prices, especially softer commodity export returns. Using US import prices from Latin America as a guide to how the region's commodities are faring we see a reduction in import price inflation from around 15% yoy for much of the first half of 2006 to only 2% yoy in early 2007. A tapering off in the commodity price boom accounts for some of the easing in Latin American exports and steeply falling volume growth for Mexican exports (many of which are manufactured goods sent to the US) explains most of the rest.

Turning to the areas of strength, we see the eurozone, China and the US as the economies where export growth is still solid. The big question is how robust can German and Chinese export growth remain if demand growth in the US slows further. Recent trends give no cause for concern. Chinese export growth, already exceptionally rapid, has been accelerating recently. It was around 25% yoy in the middle of 2006 but it climbed to 30% yoy toward the end of the year and preliminary February data shows export growth of 35% yoy. Chinese export prices are only up by around 3% yoy according to Hong Kong trade statistics while US import figures for goods from China show price deflation. Accordingly, Chinese export volume growth is still running at very rapid rates of over 30%. Chinese data showing the growth in export shipments of industrial goods also show ongoing rapid growth (around 20% yoy) but not at the same pace as the merchandise export numbers

Chart 5: Export growth Industrial economies % yoy

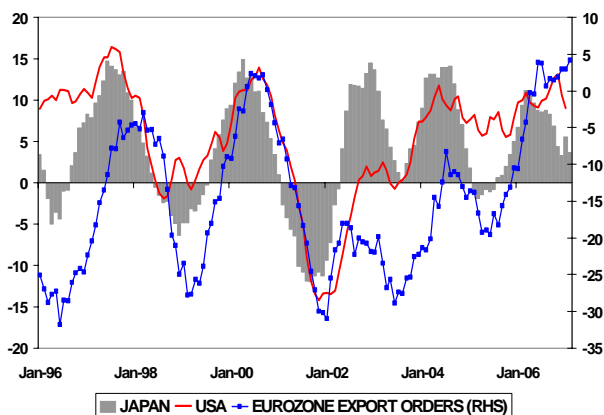
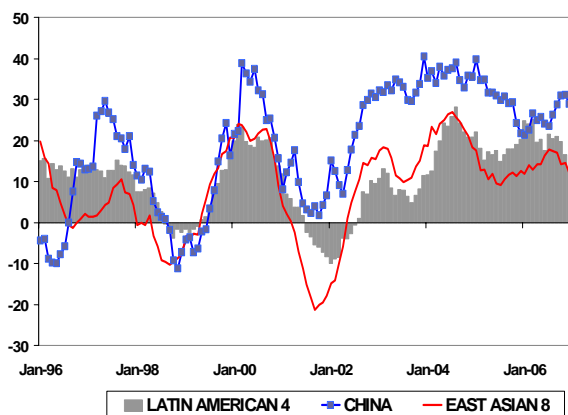


Chart 6 Export growth Emerging Economies % yoy



The strength in eurozone exports essentially reflects what has been happening in Germany. Export orders have picked up in some other eurozone economies but Germany is the key driver of regional export strength. German export volume growth was running at over 10% yoy at the end of last year and January export values were up by 13% yoy – which was a bit slower than previous months. As export price inflation is only around 2% yoy, this implies double-digit growth in export volumes continuing into 2007. The IFO business survey shows more positive readings for German manufacturing foreign order books. The proportion of survey respondents reporting poor foreign order books in February is at its lowest for years and still falling while the proportion reporting good foreign order books is at its highest for years and rising. Overall, then, there is no sign yet of an imminent end to the Chinese or German export booms – even if the pace of growth in global activity is already slowing.

This largely export-driven upturn in eurozone industrial output has coincided with an appreciation in the euro and concern that important segments of European manufacturing are suffering from an associated lack of competitiveness against their rivals in the US and Japan. This has had political dimensions with criticism of eurozone authorities for supposedly contributing to such a difficult business environment that it prompted large-scale industrial redundancies and factory closures. This has proved to be a particularly difficult issue in France where a spate of big layoffs and closure announcements have coincided with campaigning for the Presidential election and sparked political criticism of the European Central Bank's monetary policy. The odd-looking combination of rising exports and output alongside signs of economic stress reflects the divergence between the different eurozone economies. While the rate of growth in German industrial output has accelerated to almost 9% yoy in early 2007, French industrial growth has slipped to practically nothing in late 2006 and early 2007 and the competitiveness problems with parts of Italian industry are well known.

With the exception of the strength in German industry, which has resulted from years of restructuring and cost cutting that has enabled firms to compete in exceptionally tough market conditions, there is a pretty close alignment of developed economy currency movements and industrial strength. The yen has stayed low, taking Japanese industrial competitiveness to its strongest level since the mid-1980's and this has supported economic activity and contributed to the favourable conditions shown in the business surveys. The US dollar fell by around 25% between early 2002 and early 2005 and - after the usual ups and downs - is back around its early 2005 levels. That sizeable currency depreciation has boosted US industrial competitiveness and contributed to the continued solid growth in US export volumes that is still evident.

Chart 7: Trade weighted currency measures 2000=100

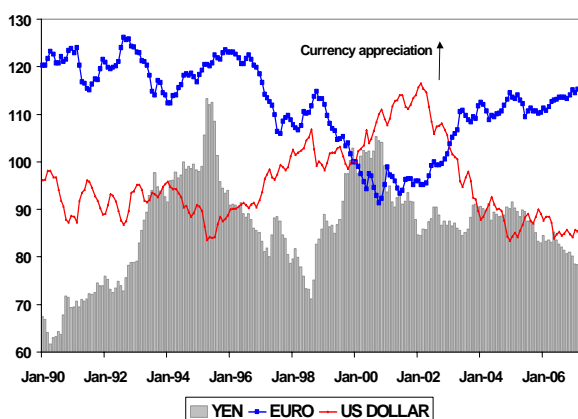
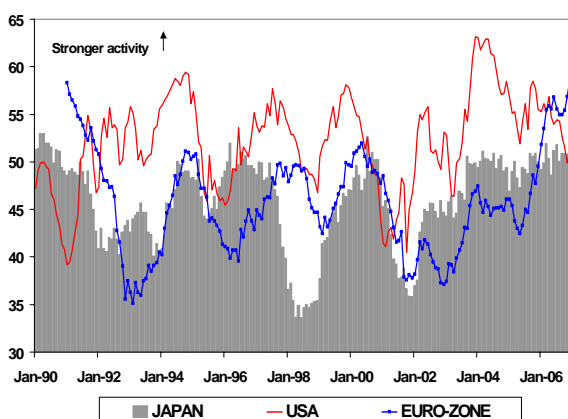


Chart 8 Business conditions – survey indices



The industrial sector tends to be one of the more volatile areas of the economy while services generally provide more ballast as the economy moves through the business cycle. This certainly proved to be the case in the last economic slowdown that happened through the latter half of 2004 and through early 2005 when industrial growth slowed considerably but the growth in service sector activity was better maintained. Our measure of aggregate service industry activity in the big industrial economy (based on purchasing managers indices) shows service sector growth staying around much the same rate through 2005, 2006 and into early 2007. There are, however, differences between regions with an upturn in eurozone service industry activity and a slowing trend in US service sector activity growth.

Chart 9: Industrial economy services sector activity

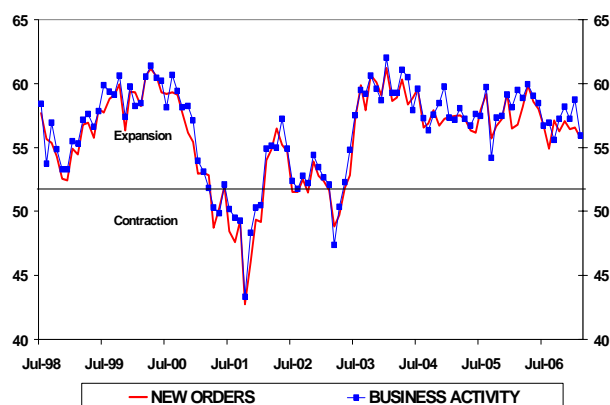
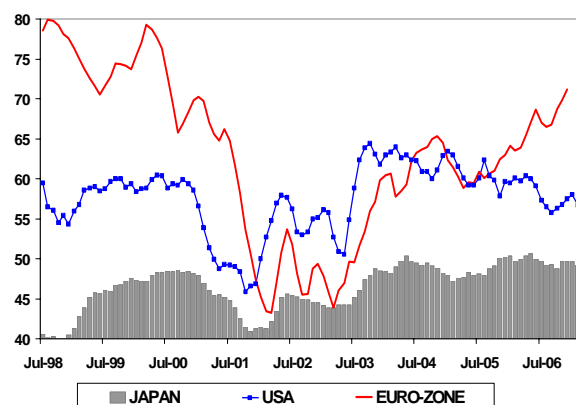


Chart 10 Services sector activity indices



Although industrial and trade growth have clearly slowed, it was expected and our base case forecasts are for the continuation of quite solid global growth. We expect a further slowdown in global output growth from a peak rate of 5¼% yoy through the first half of 2006 to just over 4% yoy by early 2008 but that is still around the long-term growth trend. These forecasts are based on a “soft landing” for the US economy with growth not going much below the 2% annualised rate already prevailing through the latter half of 2006. Given the magnitude of downside risks to US consumer spending as the housing market softens and additional negative effects from the decline in construction activity, there are obvious grounds for concern that we could see a substantially weaker outcome. The chorus of bearish sentiment warning about a US recession is getting louder and simple econometric systems easily demonstrate the real threat of recession conditions toward the end of the year. For now, however, we are sticking with our soft landing base case and watching the data with increasing anxiety.

Our forecasts see a continued broadening in the geographic basis of global economic expansion away from its previous dependence on the US and China. The 2% or so growth predicted for the eurozone and Japan is not much different from projected US expansion and further rapid economic expansion in China and India (each of which has a very high weighting in global output) make a sizeable contribution to global growth. In fact, China and India are expected to continue to account for over half of all world output growth through the forecast period. We would, however, close by again warning that the risks to this rosy picture are increasingly skewed to the downside.

Global GDP Forecasts

| December year annual average % change | 2004 | 2005 | 2006 | 2007(f) | 2008(f) |
|---|------|------|------|---------|---------|
| US | 3.9 | 3.2 | 3.4 | 2.3 | 2.7 |
| Japan | 2.7 | 1.9 | 2.2 | 2.4 | 2.0 |
| UK | 3.3 | 1.9 | 2.8 | 2.8 | 2.5 |
| eurozone | 1.8 | 1.5 | 2.7 | 2.4 | 2.1 |
| Canada | 2.9 | 2.9 | 2.8 | 2.1 | 2.4 |
| Australia | 3.8 | 2.8 | 2.7 | 2.6 | 3.4 |
| New Zealand | 4.4 | 2.1 | 1.7 | 2.6 | 2.7 |
| China | 10.1 | 9.9 | 10.7 | 9.9 | 9.1 |
| India | 7.3 | 8.7 | 9.1 | 8.4 | 7.8 |
| World | 5.0 | 4.5 | 5.1 | 4.5 | 4.3 |
| Non-Japan E Asia | 8.8 | 8.2 | 9.1 | 8.1 | 8.0 |
| Latin America | 5.5 | 4.1 | 4.8 | 4.6 | 4.2 |

CENTRAL BANKS FOCUS ON HIGH CORE INFLATION AND UPSIDE PRICE RISKS

Global measures of headline CPI inflation are still sitting around 3% yoy, well below the peak rate of 4¼% yoy seen in mid-2006. Vagaries in energy markets have boosted the volatility in inflation but the broad picture is of inflation running at double the rate seen in 2002 - before the surge in oil prices. Although price controls have softened the impact of higher oil prices on consumer prices in China and India, there has been an upward inflation trend recently in both of these economies. We can strip out oil and other product lines with erratic prices to give “core” measures of inflation in the big industrial economies (chart 12) and these show a different and more worrying picture. Core CPI inflation in the G7 economies has risen from 1¼% yoy in 2005 to 2% yoy in early 2007 and it has moved from lying well below headline inflation in those economies to being just above it. While 2% inflation only looks like a minor price hiccup compared to what happened after the oil price shocks of the 1970's it is getting around the upper end of what many big central banks view as tolerable.

Chart 11: Global price inflation % yoy

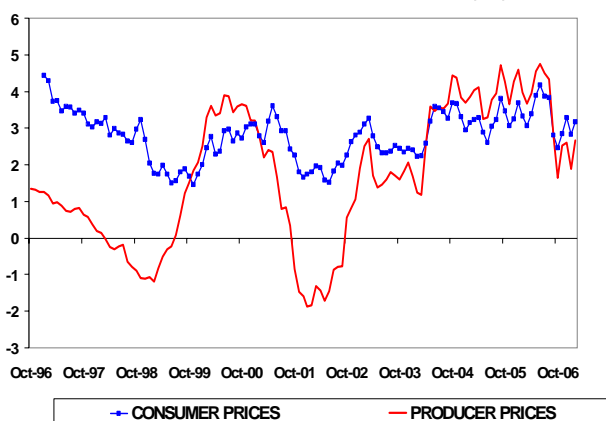
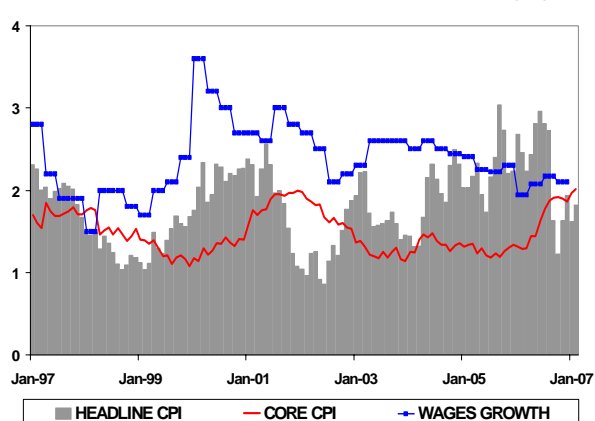


Chart 12 G7 Consumer price inflation % yoy



The tightness of supply conditions in many economies helps explain what might appear to be excessive central bank anxiety about seemingly low inflation. The unemployment rate in the big industrial economies was down to 5½% in late 2006, one of its lowest levels in the last 20 years. The high eurozone jobless rate is boosting these figures and the ECB view that as a symptom of structural problems rather than as productive potential that could easily be brought back into operation. Elsewhere, jobless rates are lower, generally between 3 and 4½%. Capacity utilisation rates are also quite high and we estimate that the proportion of idle capacity in the big industrial economies is at one of the lowest rates seen in the last 15 years.

Such low rates of unemployment and idle capacity should really be seen as a manifestation of success - the outcome of a number of years of very solid global growth underpinned by the ample idle capacity available after the recession of 2001 and the maintenance of low inflation expectations. Central banks are, however, worried at the prospect that wage earners and business could get too much of a good thing and start pushing wage demands and profit expectations up too much, triggering a more restrained version of the wage-price spirals seen in the 1970's. Accordingly, from the US, through the eurozone and UK and across into Japan and the antipodes they have adopted the old central banking adage of removing the punch bowl once the party really gets going. Hence widespread central bank rhetoric on the need for wage restraint as labour markets tighten.

Chart 13: Core consumer price inflation % change yoy

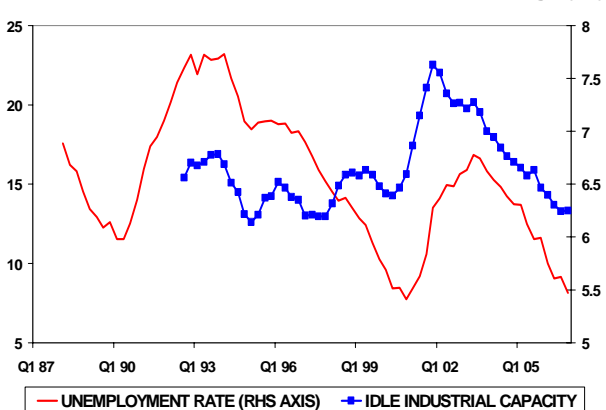
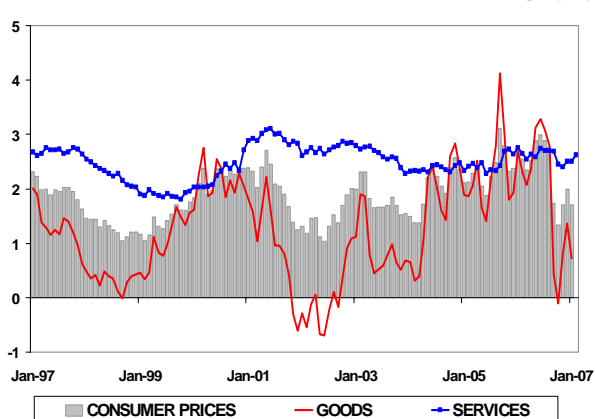


Chart 14 G7 consumer price inflation % change yoy



Shifts in the global pricing environment have given central banks in the big industrial economies other reasons to be exceptionally wary of the emergence of inflationary pressure. The end of deflation in China along with the much higher level of global energy and industrial commodity prices has ended the downward trend in imported goods prices previously enjoyed by the big industrial economies. Falling prices for a wide range of industrial products and raw materials had kept goods prices quite restrained at the consumer level in the big industrial economies (chart 14). This free kick on goods prices meant that G7 services inflation was able to continue at 3% yoy and yet central banks were still able to meet their 2% or so inflation targets. The combination of continuing service sector inflation with higher ongoing global inflation for industrial goods means that central banks now have to take a tougher line on interest rates to keep inflation within target. In effect, the ending of industrial goods deflation has been a slow-motion adverse supply shock to economies like the eurozone or Japan, similar to the historically faster oil price shocks. The problems posed to inflation-targeting central banks are, however, the same and the expected outcome of higher interest rates and lower growth than would otherwise the case has been duly delivered.

The outlook for commodity prices and the risk of another move upwards in tightly balanced markets provides another source of central bank concern on inflation. Oil prices have climbed back to around US\$65/bl and traders now seem to be expecting them to consolidate in the low US\$60's/bl. We also expect prices to stay around there through 2007 and average US\$60/bl in 2008. Other commodity prices are also expected to remain very strong by historical standards. The IMF's last public forecast saw global non-oil commodity prices falling by 4.8% in 2007 while our forecasts for Australian commodity prices see them rising by 4% this year before falling by 7% in 2008. The bottom line is that we do not expect the commodity price boom to be followed by a bust. Prices should stay high with many market fundamentals so tight that supply disruptions could lead to further price gains. Overall, this is not a comforting picture either for central banks looking for quick relief from inflation pressures.

Despite all these inflation concerns, the general view among market forecasters and central banks is that inflation pressures will stay moderate. Consensus economic forecasts imply global CPI inflation of 2% this year and 2¼% in 2008. Turning to the central banks, the Fed predicts the core consumer deflator to rise by around 2% yoy in late 2007 and 2008, the ECB staff CPI projections for 2007 and 2008 have mid-points of 1.8% and 2% respectively and the Bank of Japan predicts that inflation will be barely positive in fiscal 2007. Most assessments of inflationary expectations suggest that they remain fairly well contained but the direction of risks in these forecasts is probably to the upside in the short-term.

This outlook for slightly softer - but still reasonably strong - economic growth and moderate inflation underpins our interest rate views. We expect the Fed to start cutting US rates toward the end of the year as the hawks on the FOMC finally allow monetary policy to focus on preventing too sharp a slowing in activity rather than fighting inflationary pressures. While we have only 3 rate cuts of 25 bps each in late 2007/early 2008 the direction of risks seems skewed toward a more aggressive easing once the Fed gets going. In the eurozone we expect another 25 bps hike in June and then the ECB should finish "normalising" its interest rates. Here the risk is for another 25 bps rise later on. In Japan the central bank will continue its very gradual monetary tightening. With inflationary pressures almost non-existent and the Government holding the Bank of Japan accountable if it lifts rates too fast, we expect rates to reach 0.75% by end 2007 and 1.5% by end 2008. China should also continue its gradual rate increases. "Normalisation" of global monetary policy is shown in the return of real interest rates in the big global economies back to their long-term trend. In effect, global central banks have been gradually withdrawing the monetary stimulus they injected earlier this decade. The process of rate lifting is nearly over but its consequences in terms of slower growth are still being felt.

Chart 15: Global consumer prices % yoy

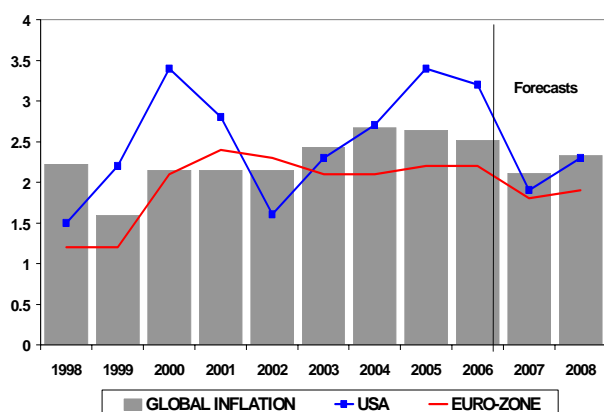
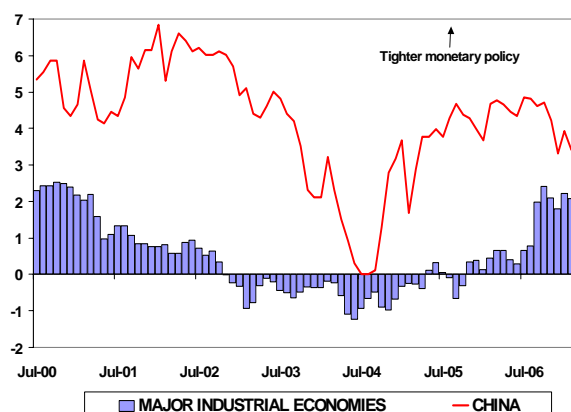


Chart 16 Real Interest rates



For more information contact:

Alan Oster, Chief Economist 03 8641 3464 or Tom Taylor, Senior International Economist 03 8641 3475



Global Exchange Rate Forecasts

| | Q3 2005 | Q4 2005 | Q1 2006 | Q2 2006 | Q3 2006 | Q4 2006 | Mar-07 | Jun-07 | Sep-07 | Dec-07 | Mar-08 | Jun-08 | Sep-08 | Dec-08 |
|----------------|---------|---------|---------|---------|---------|---------|--------|--------|--------|--------|--------|--------|--------|--------|
| AUD/USD | 0.76 | 0.73 | 0.72 | 0.74 | 0.75 | 0.79 | 0.80 | 0.80 | 0.78 | 0.77 | 0.74 | 0.73 | 0.73 | 0.73 |
| NZD/USD | 0.69 | 0.68 | 0.62 | 0.61 | 0.65 | 0.70 | 0.69 | 0.68 | 0.66 | 0.64 | 0.62 | 0.59 | 0.58 | 0.56 |
| USD/JPY | 114 | 118 | 118 | 114 | 118 | 119 | 118 | 117 | 114 | 112 | 110 | 110 | 110 | 110 |
| EUR/USD | 1.21 | 1.18 | 1.21 | 1.28 | 1.27 | 1.32 | 1.33 | 1.33 | 1.32 | 1.30 | 1.29 | 1.28 | 1.26 | 1.25 |
| GBP/USD | 1.76 | 1.72 | 1.74 | 1.85 | 1.87 | 1.96 | 1.95 | 1.95 | 1.93 | 1.90 | 1.88 | 1.86 | 1.85 | 1.85 |
| USD/CAD | 1.17 | 1.16 | 1.17 | 1.12 | 1.12 | 1.17 | 1.17 | 1.18 | 1.18 | 1.18 | 1.18 | 1.16 | 1.16 | 1.16 |
| AUD/JPY | 86 | 86 | 84 | 85 | 88 | 94 | 94 | 94 | 89 | 86 | 81 | 80 | 80 | 80 |
| AUD/EUR | 0.63 | 0.62 | 0.59 | 0.58 | 0.59 | 0.60 | 0.60 | 0.60 | 0.59 | 0.59 | 0.57 | 0.57 | 0.58 | 0.58 |
| AUD/GBP | 0.43 | 0.43 | 0.41 | 0.40 | 0.40 | 0.40 | 0.41 | 0.41 | 0.40 | 0.41 | 0.39 | 0.39 | 0.39 | 0.39 |
| AUD/NZD | 1.10 | 1.07 | 1.16 | 1.22 | 1.14 | 1.12 | 1.16 | 1.19 | 1.18 | 1.20 | 1.19 | 1.24 | 1.26 | 1.30 |
| NZD/JPY | 78.9 | 80.5 | 72.5 | 69.7 | 77.1 | 83.9 | 81.4 | 79.0 | 75.2 | 71.7 | 68.2 | 64.9 | 63.8 | 61.6 |
| EUR/JPY | 138 | 140 | 143 | 146 | 150 | 157 | 157 | 156 | 150 | 146 | 142 | 141 | 139 | 138 |
| EUR/GBP | 0.68 | 0.69 | 0.70 | 0.69 | 0.68 | 0.67 | 0.68 | 0.68 | 0.68 | 0.68 | 0.69 | 0.69 | 0.68 | 0.68 |
| GBP/JPY | 201 | 203 | 205 | 212 | 221 | 233 | 230 | 228 | 220 | 213 | 207 | 205 | 204 | 204 |
| \$A TWI | 64.7 | 62.7 | 60.8 | 62.2 | 62.6 | 64.9 | 65.9 | 65.7 | 63.7 | 62.8 | 60.2 | 59.5 | 59.6 | 59.6 |

Global Interest Rate Forecasts

| | Mar-06 | Jun-06 | Sep-06 | Dec-06 | Mar-07 | Jun-07 | Sep-07 | Dec-07 | Mar-08 | Jun-08 | Sep-08 | Dec-08 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| UNITED STATES | | | | | | | | | | | | |
| US Fed funds | 4.8 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 5.3 | 4.8 | 4.5 | 4.5 | 4.5 | 4.5 |
| US 3mth Interbank | 4.8 | 5.3 | 5.4 | 5.4 | 5.3 | 5.4 | 5.2 | 4.6 | 4.6 | 4.6 | 4.6 | 4.6 |
| US 2yr Gov | 4.7 | 5.1 | 4.8 | 4.7 | 4.9 | 4.9 | 4.8 | 4.3 | 4.4 | 4.4 | 4.5 | 4.4 |
| US 3yr Gov | 4.7 | 5.1 | 4.7 | 4.6 | 4.8 | 5.0 | 4.9 | 4.4 | 4.4 | 4.4 | 4.5 | 4.4 |
| US 10yr Gov | 4.7 | 5.1 | 4.7 | 4.6 | 4.7 | 4.8 | 4.8 | 4.5 | 4.6 | 4.5 | 4.6 | 4.5 |
| US Yield Curve (10y-3m) | -0.1 | -0.2 | -0.7 | -0.8 | -0.6 | -0.6 | -0.4 | -0.1 | 0.0 | -0.1 | 0.0 | -0.1 |
| US Yield Curve (10y-2y) | 0.0 | 0.0 | 0.0 | -0.1 | -0.2 | -0.1 | 0.0 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| EUROZONE | | | | | | | | | | | | |
| EU Refinancing Rate | 2.3 | 2.5 | 3.0 | 3.3 | 3.5 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| EU 3mth EURIBOR | 2.7 | 2.9 | 3.3 | 3.6 | 3.9 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 3.9 | 3.9 |
| EU 3yr Gov | 3.1 | 3.5 | 3.5 | 3.6 | 3.9 | 3.9 | 3.9 | 3.8 | 3.8 | 3.8 | 3.8 | 3.9 |
| EU 10yr Gov | 3.5 | 4.0 | 3.7 | 3.6 | 4.0 | 3.9 | 3.9 | 3.9 | 3.9 | 4.0 | 4.0 | 4.0 |
| EU Yield Curve (10y-3m) | 0.8 | 1.1 | 0.5 | 0.0 | 0.1 | -0.1 | -0.1 | -0.1 | -0.1 | 0.0 | 0.1 | 0.1 |
| EU Yield Curve (10y-2y) | 0.5 | 0.7 | 0.2 | 0.0 | 0.0 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 |
| UNITED KINGDOM | | | | | | | | | | | | |
| UK Base Rate | 4.5 | 4.5 | 4.8 | 5.0 | 5.3 | 5.5 | 5.5 | 5.5 | 5.5 | 5.3 | 5.0 | 5.0 |
| UK 3mth | 4.5 | 4.7 | 5.0 | 5.2 | 5.5 | 5.6 | 5.6 | 5.5 | 5.3 | 5.1 | 5.0 | 5.0 |
| UK 3yr Gov | 4.3 | 4.7 | 4.8 | 4.8 | 5.2 | 5.4 | 5.4 | 5.3 | 5.2 | 5.2 | 5.0 | 5.0 |
| UK 10yr Gov | 4.2 | 4.6 | 4.5 | 4.5 | 4.8 | 4.9 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 |
| UK Yield Curve (10y-3m) | -0.4 | 0.0 | -0.5 | -0.7 | -0.7 | -0.7 | -0.8 | -0.7 | -0.5 | -0.3 | -0.2 | -0.2 |
| UK Yield Curve (10y-2y) | -0.2 | -0.1 | -0.3 | -0.4 | -0.5 | -0.3 | -0.4 | -0.3 | -0.2 | -0.1 | -0.1 | -0.1 |
| AUSTRALIA | | | | | | | | | | | | |
| Aus Cash rate | 5.5 | 5.8 | 6.0 | 6.3 | 6.3 | 6.3 | 6.3 | 6.0 | 5.8 | 5.8 | 5.8 | 5.8 |
| Aus 3mth bill | 5.6 | 5.9 | 6.2 | 6.4 | 6.4 | 6.4 | 6.4 | 6.0 | 5.8 | 5.8 | 5.8 | 5.8 |
| Aus 3yr Gov | 5.2 | 5.7 | 5.8 | 5.8 | 5.9 | 5.7 | 5.7 | 5.4 | 5.2 | 5.2 | 5.3 | 5.3 |
| Aus 10yr Gov | 5.3 | 5.7 | 5.6 | 5.5 | 5.7 | 5.6 | 5.6 | 5.4 | 5.3 | 5.3 | 5.4 | 5.3 |
| Aus Yield Curve (10y-3m) | -0.4 | -0.2 | -0.6 | -0.8 | -0.7 | -0.7 | -0.8 | -0.6 | -0.4 | -0.5 | -0.5 | -0.5 |
| Aus Yield Curve (10y-3y) | 0.0 | 0.0 | -0.1 | -0.3 | -0.2 | -0.1 | -0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 |
| NEW ZEALAND | | | | | | | | | | | | |
| NZ Cash rate | 7.3 | 7.3 | 7.3 | 7.3 | 7.3 | 7.5 | 7.5 | 7.5 | 7.3 | 6.8 | 6.5 | 6.3 |
| NZ 3mth bank bill | 7.5 | 7.5 | 7.5 | 7.6 | 7.8 | 7.8 | 7.8 | 7.7 | 7.3 | 6.9 | 6.7 | 6.4 |
| NZ 3yr Gov | 5.8 | 6.0 | 6.5 | 6.5 | 6.7 | 6.5 | 6.4 | 6.4 | 6.2 | 6.1 | 6.0 | 5.8 |
| NZ 10yr Gov | 5.7 | 5.8 | 5.8 | 5.7 | 5.9 | 6.1 | 6.1 | 6.0 | 6.0 | 5.9 | 5.8 | 5.8 |
| NZ Yield Curve (10y-3m) | -1.8 | -1.7 | -1.7 | -1.9 | -2.0 | -1.7 | -1.7 | -1.7 | -1.3 | -1.0 | -1.0 | -0.7 |
| NZ Yield Curve (10y-3y) | -0.1 | -0.3 | -0.7 | -0.8 | -0.8 | -0.4 | -0.3 | -0.4 | -0.3 | -0.2 | -0.2 | -0.1 |
| CANADA | | | | | | | | | | | | |
| CA Bank rate | 3.5 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.0 | 3.8 | 3.8 | 3.5 | 3.5 |
| CA 3mth LIBOR | 3.9 | 4.4 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 | 4.1 | 3.8 | 3.8 | 3.5 | 3.5 |
| CA 3yr Gov | 4.0 | 4.2 | 4.0 | 3.8 | 3.9 | 3.8 | 3.9 | 3.9 | 3.8 | 3.7 | 3.6 | 3.5 |
| CA 10yr Gov | 4.2 | 4.4 | 4.1 | 3.9 | 4.0 | 4.0 | 4.1 | 4.1 | 4.2 | 4.1 | 4.2 | 4.1 |
| CA Yield Curve (10y-3m) | 0.2 | 0.0 | -0.3 | -0.5 | -0.3 | -0.4 | -0.2 | 0.1 | 0.4 | 0.4 | 0.7 | 0.6 |
| CA Yield Curve (10y-2y) | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.4 | 0.5 | 0.7 | 0.8 | 0.8 | 1.0 | 1.0 |
| JAPAN | | | | | | | | | | | | |
| JN Overnight Call rate | 0.0 | 0.0 | 0.3 | 0.3 | 0.5 | 0.5 | 0.8 | 0.8 | 1.0 | 1.3 | 1.3 | 1.5 |
| JN 3mth TIBOR | 0.1 | 0.3 | 0.4 | 0.5 | 0.7 | 0.6 | 0.9 | 1.0 | 1.3 | 1.5 | 1.6 | 1.6 |
| JN 2yr Gov | 0.5 | 0.9 | 0.6 | 0.8 | 0.8 | 1.0 | 1.3 | 1.5 | 1.6 | 1.7 | 1.7 | 1.7 |
| JN 10yr Gov | 1.6 | 1.9 | 1.7 | 1.6 | 1.7 | 1.8 | 1.8 | 1.9 | 1.9 | 2.0 | 2.0 | 2.1 |
| JN Yield Curve (10y-3m) | 1.5 | 1.6 | 1.2 | 1.1 | 1.0 | 1.1 | 0.9 | 0.9 | 0.6 | 0.5 | 0.4 | 0.5 |
| JN Yield Curve (10y-2y) | 1.1 | 1.0 | 1.0 | 0.8 | 0.8 | 0.7 | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |

Macroeconomic, Industry & Markets Research

Australia

| | | |
|---------------------|---|-------------------|
| Alan Oster | Group Chief Economist | +(61 3) 8641 3464 |
| Jacqui Brand | Personal Assistant | +(61 3) 8641 4179 |
| Jeff Oughton | Head of Economics – Australia & Industry | +(61 3) 8641 3469 |
| James McKinlay | Economist – Australia | +(61 3) 8641 3848 |
| Dean Pearson | Senior Economist – Industry & Commodities | +(61 3) 8641 3474 |
| Gerard Burg | Economist – Minerals & Energy | +(61 3) 8641 3984 |
| John Sharma | Economist – Property, Business Services, TMTs | +(61 3) 8641 3473 |
| Ian Gordon | Economist – Transport, Healthcare, Retailing | +(61 3) 8641 3472 |
| Skye Dixon | Economist – Agribusiness | +(61 3) 8641 3442 |
| vacant | Economist – Manufacturing | +(61 3) 8641 3672 |
| Tom Taylor | Head of Economics – International | +(61 3) 8641 3475 |
| Robert De Iure | Economist – Country Risk | +(61 3) 8641 3445 |
| Carolyn Fraser | Economist – International | +(61 3) 8641 3694 |
| vacant | Economist – International | +(61 3) 8641 4304 |
| Robert Henderson | Chief Economist Markets – Australia | +(61 2) 9237 1836 |
| Spiros Papadopoulos | Senior Economist – Markets | +(61 3) 8641 0978 |
| David deGaris | Senior Economist – Markets | +(61 2) 9237 1180 |

New Zealand

| | | |
|----------------|--------------------------------|------------------|
| Tony Alexander | Chief Economist – BNZ | +(64 4) 474 6744 |
| Stephen Toplis | Head of Market Economics – BNZ | +(64 4) 474 6905 |
| Craig Ebert | Market Economist – BNZ | +(64 4) 474 6799 |

London

| | | |
|----------|-----------------------------------|--------------------|
| Tom Vosa | Head of Market Economics – Europe | +(44 20) 7710 1573 |
|----------|-----------------------------------|--------------------|

| | Foreign Exchange | Fixed Interest/Derivatives |
|------------|------------------|----------------------------|
| Sydney | +800 9295 1100 | +(61 2) 9295 1166 |
| Melbourne | +800 842 3301 | +(61 3) 9277 3321 |
| Wellington | +800 64 642 222 | +800 64 644 464 |
| London | +800 747 4615 | +(44 20) 7796 4761 |
| New York | +1 800 125 602 | +1877 377 5480 |
| Singapore | +(65) 338 0019 | +(65) 338 1789 |

DISCLAIMER: "[While care has been taken in preparing this material,] National Australia Bank Limited (ABN 12 004 044 937) does not warrant or represent that the information, recommendations, opinions or conclusions contained in this document ("Information") are accurate, reliable, complete or current. The Information has been prepared for dissemination to professional investors for information purposes only and any statements as to past performance do not represent future performance. The Information does not purport to contain all matters relevant to any particular investment or financial instrument and all statements as to future matters are not guaranteed to be accurate. In all cases, anyone proposing to rely on or use the Information should independently verify and check the accuracy, completeness, reliability and suitability of the Information and should obtain independent and specific advice from appropriate professionals or experts.

To the extent permissible by law, the National shall not be liable for any errors, omissions, defects or misrepresentations in the Information or for any loss or damage suffered by persons who use or rely on such Information (including by reasons of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, the National limits its liability to the re-supply of the Information, provided that such limitation is permitted by law and is fair and reasonable. The National, its affiliates and employees may hold a position or act as a price maker in the financial instruments of any issuer discussed within this document or act as an underwriter, placement agent, adviser or lender to such issuer."

UK Disclaimer: So far as the law and the FSA Rules allow, National Australia Bank Limited ("the Bank") disclaims any warranty or representation as to the accuracy or reliability of the information and statements in this document. The Bank will not be liable (whether in negligence or otherwise) for any loss or damage suffered from relying on this document. This document does not purport to contain all relevant information. Recipients should not rely on its contents but should make their own assessment and seek professional advice relevant to their circumstances. The Bank may have proprietary positions in the products described in this document. This document is for information purposes only, is not intended as an offer or solicitation nor is it the intention of the Bank to create legal relations on the basis of the information contained in it. No part of this document may be reproduced without the prior permission of the Bank. This document is intended for Investment Professionals (as such term is defined in The Financial Services and Markets Act 2000 (Financial Promotion) Order 2001) and should not be passed to any other person who would be defined as a private customer by the rules of the Financial Services Authority ("FSA") in the UK or to any person who may not have experience of such matters. Issued by National Australia Bank Limited A.C.N. 004 044 937, 88 Wood Street, London EC2V 7QQ. Registered in England BR1924. Head Office: 500 Bourke Street, Melbourne, Victoria. Incorporated with limited liability in the state of Victoria, Australia. Regulated by the FSA in the UK.

U.S. DISCLAIMER: This information has been prepared by National Australia Bank or one of its affiliates or subsidiaries (collectively, "NAB"). If it is distributed in the United States, such distribution is by National Australia Capital Markets, LLC (NACM) which accepts responsibility for its contents. Any U.S. person receiving this information wishes further information or desires to effect transactions in the securities described herein should call or write to NACM, 200 Park Avenue, New York, NY 10166 (or call (877) 377-5480). The information contained herein has been obtained from, and any opinions herein are based upon sources believed to be reliable and no guarantees, representations or warranties are made as to its accuracy, completeness or suitability for any purpose. Any opinions or estimates expressed in this information is our current opinion as of the date of this report and is subject to change without notice. The principals of NACM or NAB and/or its affiliates may have a long or short position or may transact in the securities referred to herein or hold or transact derivative instruments, including options, warrants or rights with securities, or may act as a market maker in the securities discussed herein and may sell such securities to or buy from customers on a principal basis. This material is not intended as an offer or solicitation for the purchase or sale of the securities described herein or for any other action. It is intended for the information of clients only and is not for publication in the press or elsewhere.