3 November 2014

Weekly Commentary

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Going nowhere fast

As expected, the RBNZ left rates on hold last week and struck a more dovish tone. With inflation stubbornly low, we think the RBNZ will keep the OCR on hold until September next year.

The RBNZ sat on its hands last week, leaving the OCR on hold at 3.5%.The accompanying statement, as expected, struck a more dovish tone by removing any reference to future hikes. Instead, the RBNZ reiterated that it's appropriate to continuing watching how inflation evolves.

Looking at inflation, it's not hard to see why the RBNZ's stance has softened. Headline inflation in the year to September was just 1%, right at the bottom of the RBNZ's target band. Some of this is a result of temporary factors, like declines in food prices, which the RBNZ will largely look through. But the more general inflation picture is also soft. Core measures of inflation, which look at the underlying trend in prices, haven't picked up, and in some cases came down in the September quarter. Businesses are reporting that cost pressures remain low. Finally, recent declines in international commodity prices are threatening to push headline inflation below 1% in the near term.

New Zealand isn't the only economy experiencing soft inflation. Many of our trading partners are in a similar basket (the notable exception being Australia). But what makes New Zealand an outlier is that our economy has been growing at a solid pace. Through the year to June the economy expanded at a blistering pace of 3.9%. In recent months some of the drivers of growth have moderated, with falls in commodity prices and the earlier tightening by the RBNZ. Nevertheless, the outlook for growth over the coming year is still robust, underpinned by strong construction and population growth. Historically, this sort of growth has presaged strong increases in inflation. But not so this time.

Low inflation and robust GDP growth is an enviable position for an economy to be in. But following four hikes this year, and with inflation at the bottom of its target band, the RBNZ is likely to be nervous.

Going nowhere fast continued

So, where to next for the RBNZ and the OCR? Reading between the lines of last week's statement, the RBNZ does expect that the next OCR change will be upwards. In its policy guidance sentences the RBNZ noted that it still expects inflation will rise, which is consistent with a higher OCR. Also, the reference to "further" policy adjustment indicates that future OCR moves will be in the same direction as recent ones – upwards. It is a hiking bias, but one has to peer through a pretty powerful microscope to detect it.

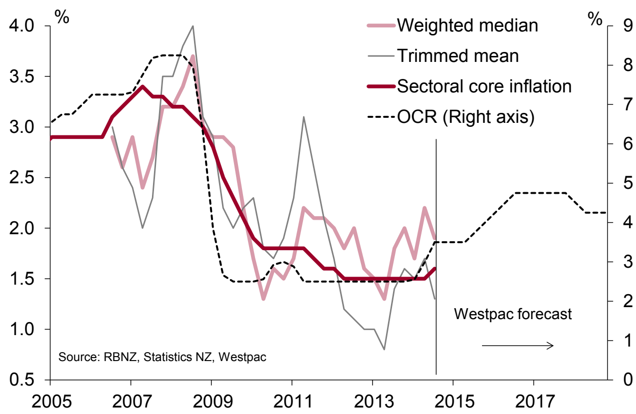
Key to determining the timing of any change in the OCR will be the extent and speed of any pick-up in inflation. We expect that a range of factors, from falling oil prices to lower ACC levies, will dampen inflation over the coming year. This will keep the RBNZ on the sidelines for some time. Our forecast is for OCR hikes to resume in September 2015. At that time the June 2015 CPI will be available, and on our forecasts will show annual inflation of 1.7%.

Financial market pricing is already consistent with a very delayed OCR hiking cycle. However, while there is virtually no chance of an OCR hike over the next six months, we are surprised that financial market pricing has not yet factored in the risk of an OCR reduction over this period. Although this is not our central call, there is a small chance that some unexpected downside event might give the RBNZ reason to reduce the OCR. Market pricing ought to reflect this risk, but currently does not.

On the exchange rate the RBNZ reiterated its earlier warning that the level of the exchange rate is "unjustified and unsustainable" and that it expects a further significant depreciation. We see a heightened risk of intervention in the near future. Hawkish comments from the Fed, combined with the RBNZ's dovish statement have created conditions under which the RBNZ actually has a reasonable chance of catalysing a drop in the NZD.

The next key pieces of information on the New Zealand economy will be the September quarter labour market data

The OCR and core inflation



(released on Wednesday). With growth continuing apace, we expect employment increased by 0.8 percent in the September quarter, to be up 3.2% for the year. This would push unemployment down from 5.6% to 5.4% - its lowest level since 2009.

But despite strong employment growth and falling unemployment, wage inflation has not shown any material acceleration since the financial crisis. We expect this to remain the case in the near term, with the LCI expected to show a 2% increase annual private sector wage inflation.

It's important to put current low wage inflation in context, however. When New Zealand experienced high rates of wage inflation in the late 2000s we also experienced high rates of generalised inflation, eroding households' purchasing power. Recently, although we've had low wage inflation, we've had even lower consumer price inflation. Consequently, cost of living adjustments to wages have been modest.

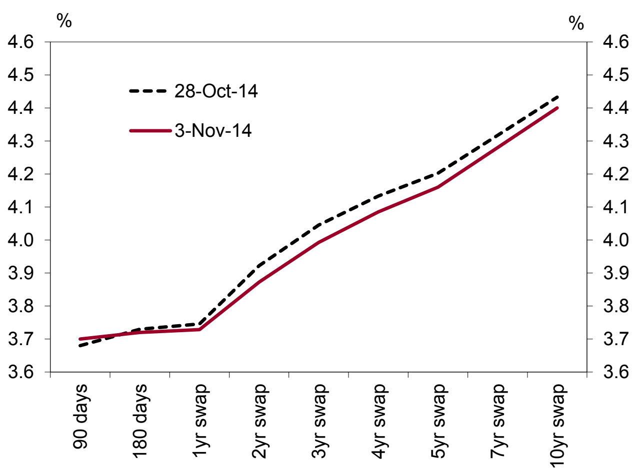
Fixed vs Floating for mortgages

Fixed mortgage rates have been falling recently, and may have further to fall in the weeks ahead. Those looking to fix their mortgage might find it is worth waiting a few weeks for better rates.

Floating mortgage rates usually work out to be more expensive for borrowers than short-term fixed rates, such as the six-month rate. However, floating may still be the preferred option for those who require flexibility in their repayments.

Among the standard fixed rates, the best deal for borrowers with a deposit of 20% or more is the two-year term, which offers substantial value relative to where we expect shorter-term rates to go over the next two years. There is little point in fixing for just one year, given that these rates are higher than the two-year rate in most cases. Four- and five-year rates seem rather high relative to where we think shorter-term rates are going to go over the coming four or five years, but they do offer stability.

NZ interest rates



The week ahead

NZ Q3 household labour force survey

Nov 5, Employment: Last: 0.4%, WBC f/c: 0.8%, Mkt f/c: 0.6%
Unemployment rate: Last: 5.6%, WBC f/c: 5.4%, Mkt f/c: 5.5%

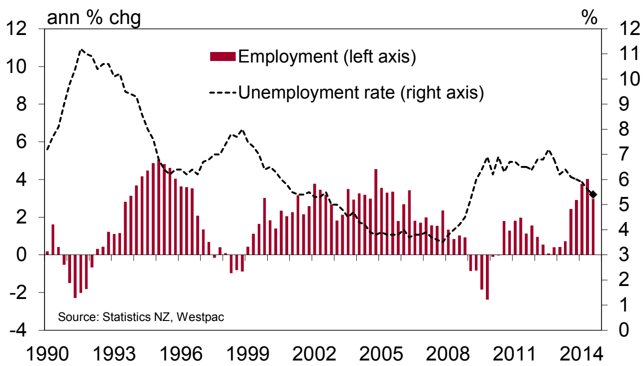
- With the economy growing at a healthy pace, we're expecting the Household Labour Force Survey (HLFS) to show that employment increased by 0.8% in the September quarter, to be up 3.2% for the year. This would push the unemployment rate down from 5.6% to 5.4% - its lowest level since 2009.
- What could throw the headline numbers around, however, is the participation rate. We're expecting this to increase to 69%, with the strong economy and demographic factors both encouraging people to enter the labour force. However, the participation rate has been volatile over the past year, and another sharp move can't be ruled out.

NZ Q3 labour cost index

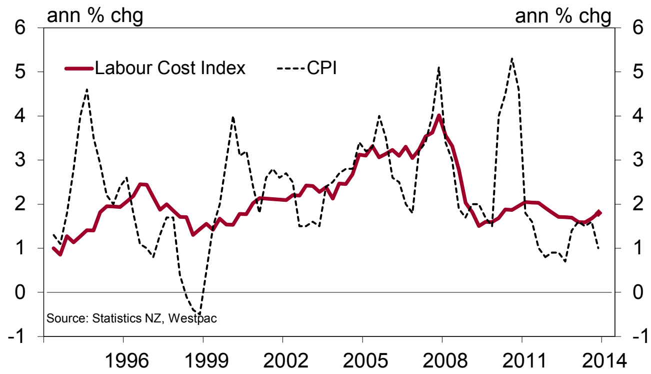
Nov 5, Private sector wages: Last: 0.6%, WBC f/c: 0.6%, Mkt f/c: 0.5%

- We expect private sector ordinary time wages, our preferred measure of labour cost inflation, to pick up to a still modest 2% in the year to September.
- Despite falling unemployment and solid employment growth, labour cost growth has been subdued, with no material pick-up since the financial crisis. In part this is due to lingering unemployment in the economy.
- But the more significant factor has probably been subdued inflation which has meant that cost of living adjustments to wages have been limited. We expect that this will be the case for some time.

Household labour force survey



LCI and CPI



Aus Sep dwelling approvals

Nov 3 Last: 3.0%, WBC f/c: –2.0%
Mkt f/c: –1.0%, Range: –4.0% to 5.0%

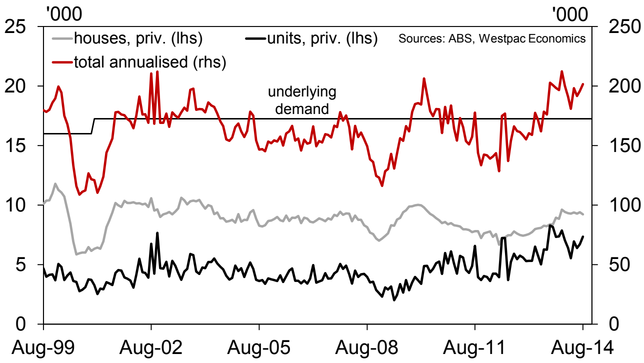
- Dwelling approvals posted a better than expected gain in Aug, rising 3%. An unwinding spike in WA unit approvals was more than offset by very strong gains in unit approvals in NSW and Vic. Within this segment, both 'high rise' and medium density approvals posted rises so the gain cannot be entirely written off as a one-off due to several large projects. It could instead mark a 'second wind' to the housing construction upswing.
- On balance we think this is unlikely to be the case and that activity will instead move into a gentle slowdown. Supporting this to some extend is data on construction-related finance approvals – including those given to investors – which have flattened out since the start of the year. Accordingly, we expect approvals to retrace much of last month's gain, declining 2% overall.

Aus Sep retail trade

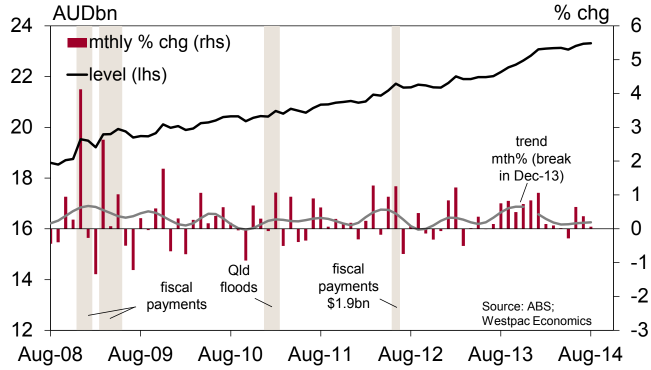
Nov 4, Last: 0.1%, WBC f/c: 0.3%
Mkt f/c: 0.3%, Range: –0.1% to 0.8%

- Retail sales came in under expectations in Aug, recording slight 0.1% gain following a 0.4% rise in Jul, a 0.6% increase in Jun and a flat four months prior to that. The detail was also disappointing with the rise centred on basic food and non-food sales declining, including household goods which had previously shown a promising pick-up. The overall mix suggests a cyclical loss of momentum consistent with a shift back to more conservative consumer spending behaviour.
- Consumer sentiment posted a promising gain in Aug but retraced all of that in Sep. Monthly business surveys and anecdotes both point to patchy conditions for retailers through the quarter. Overall we expect a lacklustre 0.3% gain for Sep retail sales.

Dwelling approvals



Monthly retail sales

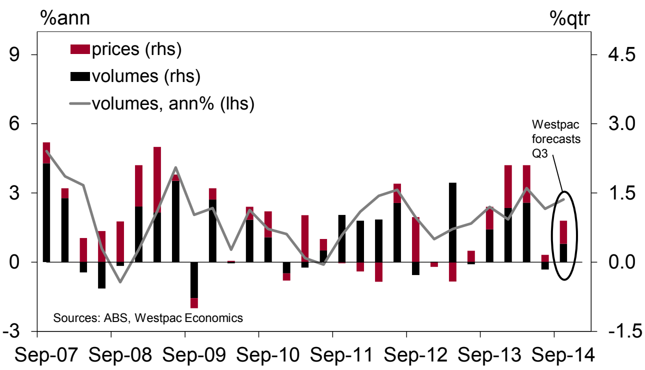


Aus Q3 real retail sales

Nov 4, Last: –0.2%, WBC f/c: 0.4% Mkt f/c: 0.5%, Range: 0.1% to 0.8%

- Real retail sales posted a 0.2% decline in Q2, an abrupt slowdown after cracker gains of 1.3% in Q1 and 1.2% in Q4, and a decent 0.7% rise in Q3 last year.
- The Q2 decline was actually smaller than had been feared at the time with aggressive price discounting accounting for more of the softness apparent in nominal sales. The detail from the Q3 CPI suggests retail prices were again soft in the third quarter. A pick-up in food prices will offset declines in non-food with the retail deflator expected to show a 0.5% gain overall in Q3, up only slightly on Q2's 0.3%.
- With nominal sales set to be up 0.9%qtr vs just 0.2%qtr in Q2, that points to a decent 0.4%qtr Q3 gain in real sales. Note that retail has become a less useful guide to spending in recent years. Business surveys suggest services spending has been tracking considerably better than retail in 2014.

Quarterly retail volumes and prices

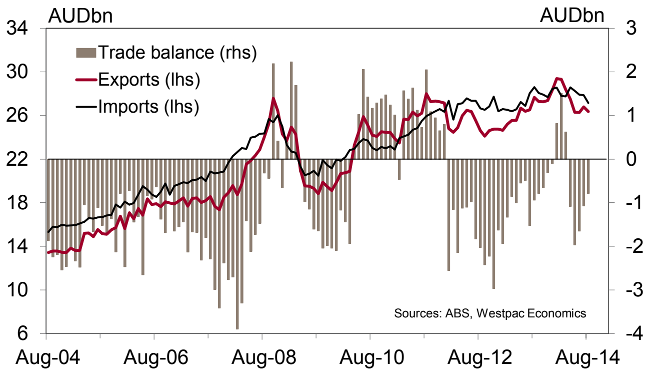


Aus Sep trade balance, AUDbn

Nov 4, Last: –0.8, WBC f/c: –2.6 Mkt f/c: –1.8, Range: –2.6 to –0.2

- Australia's trade account has been in deficit for the five months to August, on weaker commodity prices as well as some adverse volatility in import and export volumes.
- In September, we anticipate a sharp widening of the trade deficit, in part due to a corrective rebound in fuel imports.
- Imports are expected to increase by 5.5%, with goods up 6.9% (as advised by the ABS). Fuel imports slumped 20%, $744mn, in August, a fall that has been fully reversed.
- Export earnings are forecast to decline by 1.1%, down $0.3bn, with weakness centred on the lower iron ore price.
- The Australian dollar fell 2.6% against the USD in September and fell 1.3% on a TWI basis, which acts to boost import costs and lift export earnings in AUD terms.

Australia's trade balance: –$0.8bn in August

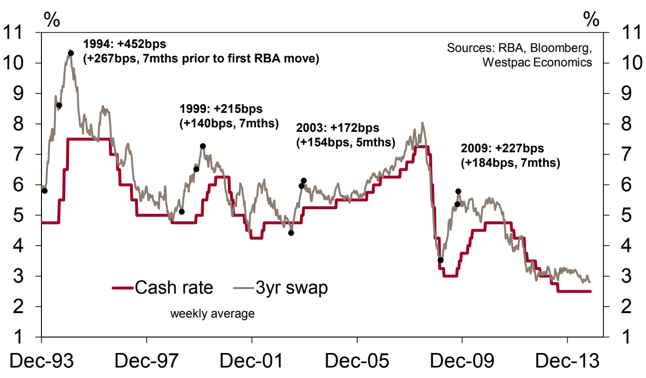


Aus RBA policy decision

Nov 4, Last: 2.50%, WBC f/c: 2.50%
Mkt f/c: 2.50%, Range: 2.50% to 2.50%

- The RBA's annual Melbourne Cup day meeting has often been the scene of policy moves in the past – since 1993, 9 of the 21 Nov meetings have resulted in a rate change. While that's an impressive strike rate its unlikely to count for much in 2014 with the Bank making it clear that rates are still set for "an extended period of stability".
- Even some evolution of the language in the decision statement looks unlikely. While the Governor has flagged this as something that will eventually occur, if only to acknowledge that some of the 'extended period' has now passed. However, now seems an inopportune time to make changes that could be misconstrued as a shift in stance. The Bank may instead choose to provide a more complete, and nuanced, update to its views in Friday's Statement on Monetary Policy.

RBA cash rate, 3 year swap

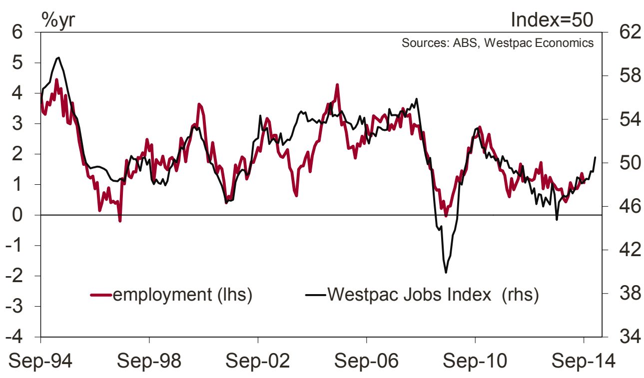


Aus Oct employment

Oct 6, Last: –29.7k, WBC f/c: n/a Mkt f/c: 10k, Range: –65k to 35k

- The Labour Force survey remains problematic. Due to changes in survey methodology, the seasonality in the survey changed significantly in Aug & Sept and the ABS decided to set the seasonal factors to 1.0 for Jul, Aug and Sep. This resulted in significant revisions to the Aug survey in particular.
- Total employment fell 29.7k in Sept, taking the annual pace back to 1.1%yr which is in line with our preferred near-term leading indicator, the Westpac Jobs Index.
- For Oct, the unknowns in regards to how the ABS will handle seasonality are just too great to generate a central tendency forecast. We are releasing a full preview this month which includes a number of scenarios on how the ABS may handle these changes. These produce a range of estimates from –59.3k to +17.5k for the monthly change in total employment.

Employment growth is back to Jobs Index

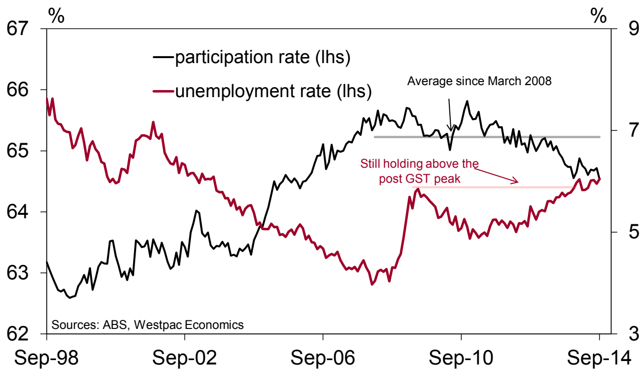


Aus Oct unemployment rate

Oct 6, Last: 6.0%, WBC f/c: n/a
Mkt f/c: 6.1%, Range: 5.8% to 6.2%

- In Sep, the participation rate fell from 64.7% in Aug (originally reported as 65.2%) to 64.5%. This was due to an 18.7k fall in the labour force which was enough to hold the unemployment rate flat at 6.0% (from a revised 5.95% in Aug to 6.05% at two decimal places). Following revisions the unemployment rate has now been around 6.0% so far this year due, in part, to an ongoing trend decline in participation.
- As noted, there is an extreme level of uncertainty in Oct in how the ABS will handle the problems associated with changing seasonality in the survey. If you assume that Oct behaves in much the same way it had for the last decade, then the final number will depend on just how the ABS handles seasonality. For that reason, we can't confidently generate a central tendency forecast for unemployment.

Unemployment and participation rates

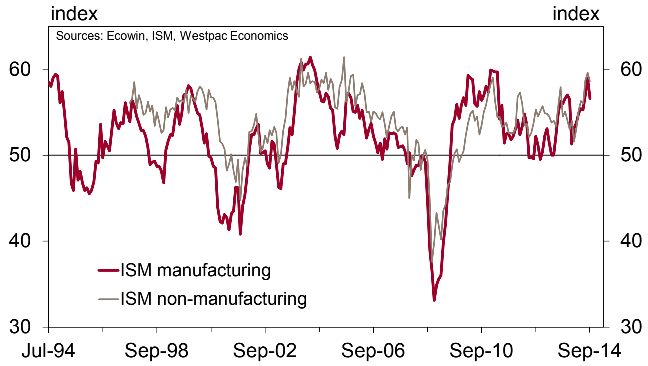


US Oct ISM surveys

Nov 3, Manufacturing: Last: 56.6, WBC f/c: 56.0
Nov 5 Non-manufacturing: Last: 58.6, WBC f/c: 57.0

- The ISM factory survey fell from 59.0 to 56.6 in Sep a still solid outcome that indicated manufacturing was in good shape, according to the ISM spokesman. The early Q3 unsustained spike may have been due to surging auto production over the summer. We expect further moderation in October reflecting respondent concerns about the stronger USD and slowing global growth. The alternative PMI factory index from Markit was 1.4 pts lower in the preliminary Oct report, regional surveys were mixed.
- The ISM non-manufacturing shed 1.0 pt to 58.6 in Sep. Markit's PMI services was down for the fourth month running in Oct, and we note that H2 surges in the ISM index have tended not to be sustained in recent years, hence our 57.0 forecast for October.

US ISMs

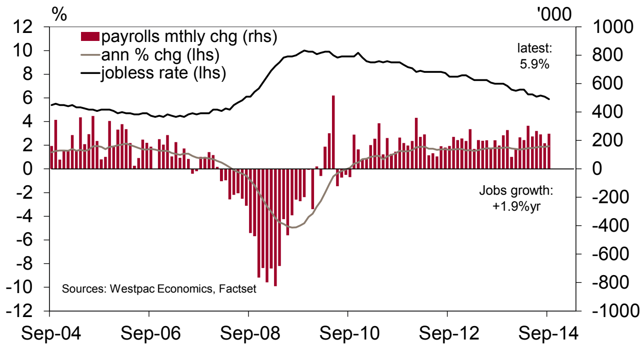


US Oct non-farm payrolls

Nov 7, Payrolls: Last: 248k, WBC f/c: 200k

- Sep payroll jobs jumped 248k, but were it not for a resolved grocery chain dispute and changed shutdown arrangements which impacted auto factory hiring, the payrolls profile through the quarter would have been 243k, 200k, 228k: a slight moderation for a Q3 average of 224k jobs per month vs 267k in Q2 (and 228k in H1 2014). Moderating jobs growth in H2 2014 makes sense given the weak output growth that accompanied those H1 hires, i.e. H2 is seeing productivity growth recover somewhat, at the expense of hiring.
- Specifically, with Q3 GDP growth slowing from the post-winter boosted Q2, and Q4 likely to see pockets of caution in housing, business investment, consumer spending and the export sector, hiring is forecast to average closer to 200k per month. Record low unemployment insurance claims show that layoffs are not a concern however.

US payrolls

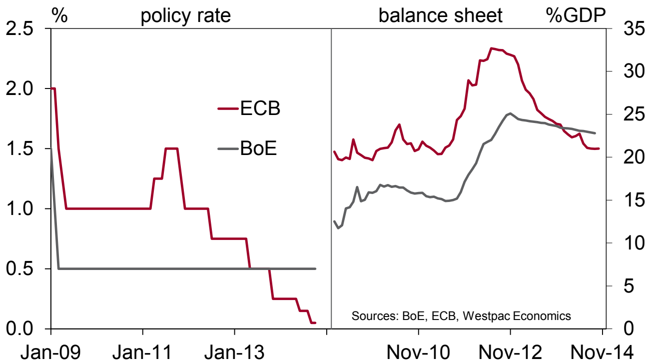


ECB and Bank of England

Nov 6, ECB repo rate: Last: 0.05%, WBC f/c: 0.05%
Nov 6, BoE rate: Last 0.5%, WBC f/c: 0.5%

- Slow TLTRO take-up, modest ECB purchases of covered bonds, the ABS program yet to start, potential for corporate bond purchases uncertain and 3yr LTROs still being repaid: all make ECB chief Draghi's intended trillion € balance sheet expansion unachievable unless the ECB embarks on sovereign bond based QE. Without further policy easing of that scale, falling inflation expectations will beget more widespread deflation and do irreparable harm to ECB credibility. Ultimately resistance within the ECB Council will weaken giving Draghi the green light – we'll judge progress at the Nov press conference.
- Inflation averaged 0.4ppts lower in Q3 than BoE forecast three months ago. European and global growth risks are also crystalising. The case for near-term policy hikes has diminished, maybe enough for the two dissenters to back down for now.

ECB & BoE



Data calendar

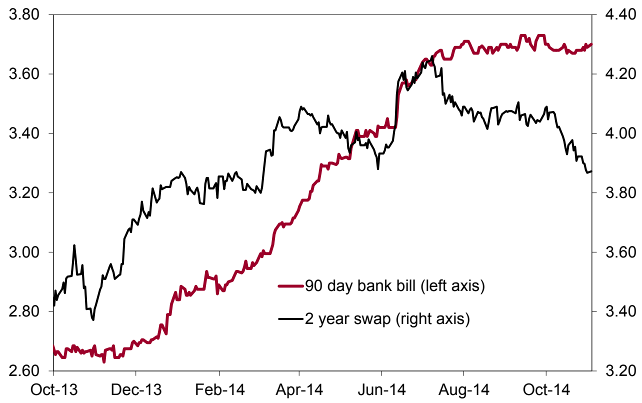
		Last	Market median	Westpac forecast	Risk/Comment
Mon 3					
Aus	Sep dwelling approvals	3.0%	–1.0%	–2.0%	Strong rise in NSW & Vic units led the way in Aug.
	Oct AiG PMI	46.5	–	–	Manufacturing index @ 50.7 in July, softened since, down 0.8pts in Sep.
	Oct RP Data-Rismark home price index	0.1%	–	1.1%	Another solid gain, holding annual price growth at around 9%yr.
	Oct TD-MI inflation gauge %yr	2.2%	–	–	Inflationary pressures eased with falling oil prices & carbon tax removal.
	Oct ANZ job ads %mth	0.9%	–	–	Job ads have lifted and are now running at a 7.9%yr pace to Sep.
Chn	Oct NBS non-manufacturing PMI	51.1	51.2	–	Orders-stocks ratio favourable, but out of synch with flash on the latter.
	Oct HSBC manufacturing PMI - final	50.4	50.4	–	Flimsy detail with inventories rising, downside risk for next print.
Eur	Oct PMI factory final	50.7 a	50.7	50.7	Surprise rise in factory PMI led by Germany.
UK	Oct factory PMI	51.6	52.0	–	Recent survey strength has not been reflected in official IP data.
	Oct house prices %yr	9.6%	–	–	Halifax index due 3-7 Nov.
US	Oct ISM manufacturing index	56.6	56.5	56.0	Some moderation as USD strengthens, global economy slows
	Sep construction spending	–0.8%	0.7%	–	Housing market is growing in fits and starts, spending on same too.
	Oct auto sales mn annualised	16.3	16.6	–	Sales fell in Sep from 17.45 mn annualised peak in Aug.
Tue 4					
NZ	Oct ANZ commodity price index	–1.3%	–	–	Dairy prices fell sharply in early October.
Aus	Sep retail trade	0.1%	0.3%	0.3%	Nominal sales still subdued but Jun lift and signs aggressive pricing ...
	Q3 real retail trade	–0.2%	0.5%	0.4%	... is partly behind recent softness mean Q3 vols should post okay gain.
	Sep trade balance, AUDbn	–0.8	–1.8	–2.6	Deficit to widen. Imports +5.5% & exports –1.1%.
	RBA policy announcement	2.50%	2.50%	2.50%	Rates on hold. Statement unlikely to change.
Eur	Sep PPI %yr	–1.4%	–	–0.7%	Weaker euro may moderate PPI deceleration
	European Commission qtly forecasts	1.2%	–	0.7%	2014 growth forecast needs to be virtually halved.
US	Nov IBD-TIPP economic optimism	45.2	46.0	47.0	First read on confidence in Nov.
	Sep factory orders	–10.1%	–0.5%	–0.5%	Durable orders down 1.3% in Sep, non-durable prices likely down
	Sep trade balance $bn	–40.1	–40.0	–	Exports and imports both about flat in Aug.
Wed 5					
NZ	GlobalDairyTrade auction	1.4%	–	–	Dairy prices have almost halved since their February peak .
	Q3 employment	0.4%	0.6%	0.8%	Solid GDP growth is supporting ongoing employment gains.
	Q3 unemployment rate	5.6%	5.5%	5.4%	Growing employment is pushing unemployment downwards.
	Q3 labour cost index	0.6%	0.5%	0.6%	Wage inflation to remain subdued, dampened by low CPI inflation.
Aus	Oct AiG PSI	45.4	–	–	Services index down 4pts in Sep, from 49.4, as health sector weakened.
Chn	Oct HSBC services PMI	53.5	–	–	Detail more resilient than headline in Sep, expectations up 1.6pts.
Eur	Sep retail sales	1.2%	–0.5%	–0.7%	German retail sales and French consumer spending likely fell in Sep.
UK	Oct BRC shop price index %yr	–1.8%	–	–	Useful guide to direction of change of annual CPI.
US	Oct ADP private payrolls	213k	214k	200k	Steady growth but off the pace of earlier this year.
	Oct ISM non-manufacturing	58.6	58.0	57.0	Second half of year survey gains typically unsustainable.
	Fedspeak	–	–	–	Kocherlakota and Lacker.
Thu 6					
NZ	Oct QVNZ house prices	6.4%	–	–	June quarter data confirmed mid-year recovery in NZ housing market.
Aus	Oct employment ch	–29.7k	10k	n.a.	Given the high degree of uncertainty in regards to how the ABS will ...
	Oct unemployment rate %	6.0%	6.1%	–	... seasonally adjust the Oct data Westpac is not providing a forecast.
Eur	ECB policy decision	0.05%	0.05%	0.05%	Will Draghi indicate that the APP needs to be expanded?
Ger	Sep factory orders	–5.7%	2.0%	2.0%	Down three months in four but German PMI picked up in Oct.
UK	BoE policy decision	0.50%	0.50%	0.50%	Will one or both of the dissenters drop their rate hike call?
	Sep industrial production	flat	0.4%	0.2%	UK industrial sector has lost some oomph of late.
US	Oct corporate layoffs %yr	–24.4%	–	–	Challenger series.
	Initial jobless claims w/e Nov 1	287k	–	280k	Running close to lows for the century so far.
	Q3 non-farm productivity	2.3%	0.9%	–	Productivity growth slower as GDP growth slower than hours worked.
Fri 7					
Aus	RBA Statement on Monetary Policy	–	–	–	RBA's 2015 f/c's stand at 2¼-3¼% (underlying CPI) & 2½-3½% (GDP).
Ger	Sep industrial production	–4.0%	1.8%	1.0%	PMI suggests Aug fall over done, despite orders weakness.
	Sep exports	–5.8%	2.3%	1.0%	Large swings of late but trend sluggish.
US	Oct non-farm payrolls chg	248k	230k	200k	Payrolls growth slower as productivity improves and GDP moderates.
	Oct jobless rate	5.9%	5.9%	6.0%	Jobless rate in downtrend but at risk of participation-driven blips.
	Sep consumer credit $bn	$13.5	$16.0	–	Student and auto loans the main drivers still.
	Fedspeak	–	–	–	Mester and Evans.
Can	Oct employment ch	74k	flat	–25k	Jobs rise then fall every month so far this year.
Sat 8					
Chn	Oct trade balance USDbn	30.9	35.4	–	Imports bounced in Sep, export over-invoicing rumours are back.

New Zealand forecasts

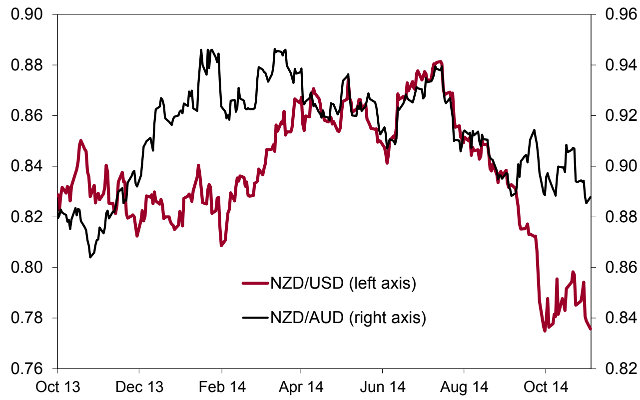
Economic Growth Forecasts	March years				Calendar years			
% change	2013	2014	2015f	2016f	2012	2013	2014f	2015f
GDP (Production) ann avg	2.3	3.2	3.5	3.1	2.5	2.8	3.6	3.2
Employment	0.4	3.8	2.8	2.6	0.4	2.9	3.0	2.7
Unemployment Rate % s.a.	6.2	5.9	5.2	4.8	6.8	6.0	5.4	4.9
CPI	0.9	1.5	1.3	2.2	0.9	1.6	1.0	2.2
Current Account Balance % of GDP	-3.8	-2.7	-4.6	-5.8	-4.1	-3.3	-3.4	-5.9

Financial Forecasts	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Cash	3.50	3.50	3.50	3.75	4.00	4.25
90 Day bill	3.70	3.70	3.75	4.00	4.25	4.50
2 Year Swap	3.80	3.90	4.10	4.50	4.70	4.80
5 Year Swap	4.10	4.20	4.40	4.70	4.90	5.00
10 Year Bond	3.90	4.00	4.20	4.50	4.70	4.80
NZD/USD	0.79	0.77	0.78	0.79	0.80	0.81
NZD/AUD	0.88	0.86	0.85	0.85	0.85	0.85
NZD/JPY	86.9	85.5	87.4	89.3	91.2	93.2
NZD/EUR	0.63	0.61	0.61	0.62	0.62	0.62
NZD/GBP	0.49	0.48	0.47	0.46	0.45	0.45
TWI	76.8	74.9	75.3	75.9	76.5	77.2

2 Year Swap and 90 Day Bank Bills



NZD/USD and NZD/AUD



NZ interest rates as at market open on Monday 3 November 2014

Interest Rates	Current	Two weeks ago	One month ago
Cash	3.50%	3.50%	3.50%
30 Days	3.66%	3.66%	3.66%
60 Days	3.68%	3.67%	3.68%
90 Days	3.70%	3.68%	3.69%
2 Year Swap	3.87%	3.97%	4.08%
5 Year Swap	4.16%	4.22%	4.36%

NZ foreign currency mid-rates as at Monday 3 November 2014

Exchange Rates	Current	Two weeks ago	One month ago
NZD/USD	0.7757	0.7922	0.7769
NZD/EUR	0.6203	0.6214	0.6210
NZD/GBP	0.4861	0.4919	0.4869
NZD/JPY	87.57	84.91	85.21
NZD/AUD	0.8878	0.9056	0.8949
TWI	76.34	76.93	76.26

International forecasts

Economic and Financial Forecasts

Economic Forecasts (Calendar Years)	2010	2011	2012	2013	2014f	2015f
Australia						
Real GDP % yr	2.2	2.6	3.6	2.3	3.2	3.2
CPI inflation % annual	2.8	3.0	2.2	2.7	2.2	2.8
Unemployment %	5.2	5.2	5.3	5.8	6.1	5.8
Current Account % GDP	-3.5	-2.8	-4.4	-3.3	-3.3	-2.0
United States						
Real GDP %yr	2.5	1.6	2.3	2.2	2.2	2.5
Consumer Prices %yr	1.6	3.1	2.1	1.5	1.9	1.9
Unemployment Rate %	9.6	8.9	8.1	7.4	6.3	5.8
Current Account %GDP	-3.0	-2.9	-2.9	-2.4	-2.4	-2.4
Japan						
Real GDP %yr	4.9	-0.3	1.5	1.5	1.0	1.4
Euroland						
Real GDP %yr	2.0	1.6	-0.6	-0.4	0.7	0.9
United Kingdom						
Real GDP %yr	1.7	1.1	0.3	1.7	2.6	2.1
China						
Real GDP %yr	10.4	9.3	7.7	7.7	7.4	7.5
East Asia ex China						
Real GDP %yr	7.7	4.5	4.5	4.3	4.1	5.1
World						
Real GDP %yr	5.4	4.1	3.4	3.3	2.9	3.7
Forecasts finalised 10 October 2014						

Interest Rate Forecasts	Latest	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Australia						
Cash	2.50	2.50	2.50	2.50	2.75	3.00
90 Day Bill	2.73	2.65	2.55	2.65	3.00	3.25
10 Year Bond	3.30	3.50	3.80	4.00	4.50	4.60
International						
Fed Funds	0.125	0.125	0.125	0.125	0.250	0.500
US 10 Year Bond	2.34	2.55	2.70	2.80	3.20	3.30
ECB Repo Rate	0.05	0.05	0.05	0.05	0.05	0.05

Exchange Rate Forecasts	Latest	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
AUD/USD	0.8800	0.90	0.90	0.92	0.93	0.94
USD/JPY	110.85	110	111	112	113	114
EUR/USD	1.2575	1.26	1.26	1.27	1.28	1.29
AUD/NZD	1.1239	1.11	1.11	1.10	1.12	1.15

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Disclaimer continued

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