

Australian Perspective

The Australian economy & financial markets in 2014

- In Australia, sub-trend domestic growth looks likely as consumers and businesses maintain caution and mining investment weakens. Fiscal policy settings may turn negative for growth after the 2014 Federal Budget.
- Improving growth in the US, China and the EU is positive for 2014 but the January “tapering” by the US Fed poses risks.
- We expect the RBA to leave the cash rate at 2.5% till late 2014, providing an anchor for short term rates.
- Australian bonds should compress against rising US bond yields, but will not be immune to a turn in the US cycle.
- Our forecasts have a weaker AUD, with competing pressures leaving the currency at USD0.89 by year-end.

Global Growth Outlook

Trading partner growth firm.

Australia’s trading partners are expected to grow by just under their decade average of 4% in 2013 and 2014. The pattern of global growth is expected to remain favourable for Australia’s main exports. While lower USD prices are likely for our major commodity exports, it should be offset by rising volumes and the buffering role of a lower AUD. An AUD below USD0.90 in 2014 would lift growth and profitability, and be positive for Government tax receipts.

The US, EU, Japan and China have reported generally improving economic activity trends in recent months. Financial markets have reflected the flow of better news with firmer share markets and rising long term bond yields. The US Fed is acting on the improved growth outlook and has prepared markets for less monetary stimulus.

China to exceed official growth target.

China’s official GDP growth target of 7.5% looks like it will be exceeded in 2013 and possibly 2014. Industrial production, purchasing managers’ surveys and trade data confirm the pick-up in domestic activity levels.

The US Fed is expected to start tapering in March 2014.

The US economy will face monetary policy headwinds in 2014 but should record reasonable growth. Favourable outlooks for residential construction, business investment and the energy sector are driving the growth upswing. The fiscal drag will ease. Janet Yellen, the US Fed’s next head, is expected to continue the “tapering” of asset purchases through 2014. The start of asset tapering does not mean that US interest rates will increase in the near-term. We expect the first increase in the Fed Funds rate to occur in QIII 2015. The eventual peak in US interest rates is well beyond that period due to large excess capacity in the US economy.

EU has north-south growth divide.

The EU’s north-south growth divide will continue in 2014. A weak euro has assisted the exporters in the northern half of the EU. But the southern economies have significant austerity programs underway that limit their growth. The ECB recently cut interest rates and may take further stimulatory measures if the EU-wide

Table 1: Global Growth Forecasts

	2013	2014	2015
World	3.2	2.8	3.4
United States	2.8	1.7	2.6
Japan	1.4	1.7	1.3
Eurozone	-0.6	-0.4	1.0
United Kingdom	0.1	1.4	2.3
Canada	1.7	1.7	2.4
China	7.7	7.8	7.9
India	5.0	4.4	4.5
<i>Australia</i>	<i>2.5</i>	<i>3.0</i>	<i>3.0</i>

Source: CBA/Consensus Economics/IMF

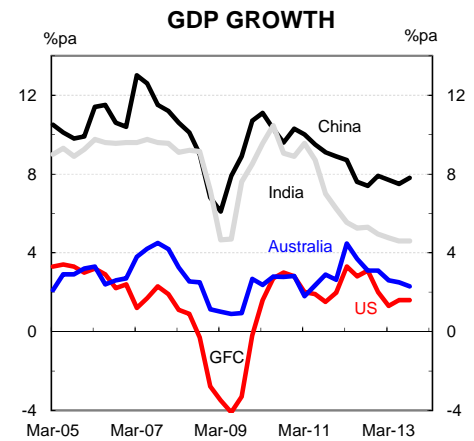


Table 2: Direction of Risk

DIRECTION OF RISK OVER NEXT 3 MONTHS

RBA cash rate: (now 2.50%)	→
3 month rates: (2.59%)	→
10 year bonds: (4.22%)	↑
AUD/USD: (USD0.8906)	↓

unemployment rate, now 11%, does not fall.

A rebalancing of international growth is likely through 2014 and 2015, with the G-7 finally contributing more to the global growth outcome. By our estimates, the G-7 economies contributed only 20% of global growth between 2010 and 2013 even though they are 36% of GDP. By contrast, the BRICS* contributed around 56% of global growth, well above their 29% weighting. The rebalancing will impact capital flows and exchange rates.

Domestic growth outlook

Domestic economic growth is likely to stay at a sub-trend pace in 2014. The constraints from a high AUD, falling resources investment, cautious household spending and savings patterns and corporates in cost control mode have subdued the growth supportive drivers. Rising residential construction, resource export growth and low interest rates should, in our view, be joined by higher non-mining investment in 2014 to keep growth ticking over.

Positive net exports likely.

The negative effect on GDP growth from lower resources investment is widely publicised. One of its other consequences will be lower capital goods imports. Combined with rising commodity export volumes it is expected to result in net exports adding significantly to annual growth in the next few years.

Commercial office vacancy rates in the major cities have been rising as new space comes on stream at the same time as the labour market softened. But, there are still some major developments proceeding over 2014 and 2015 that will boost construction activity and tend to lift vacancy rates.

The housing upswing

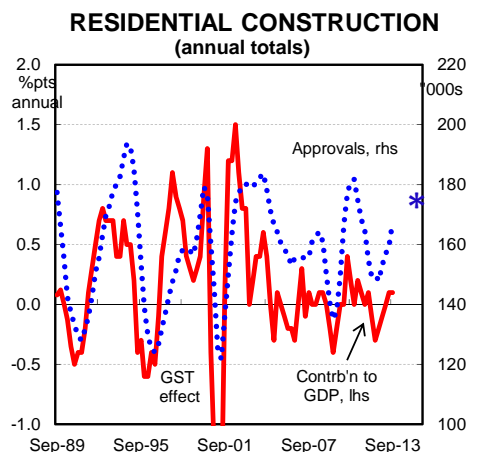
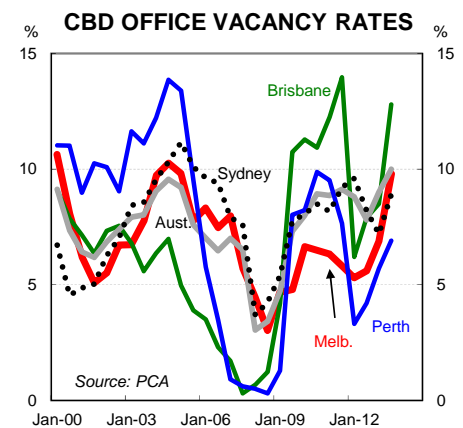
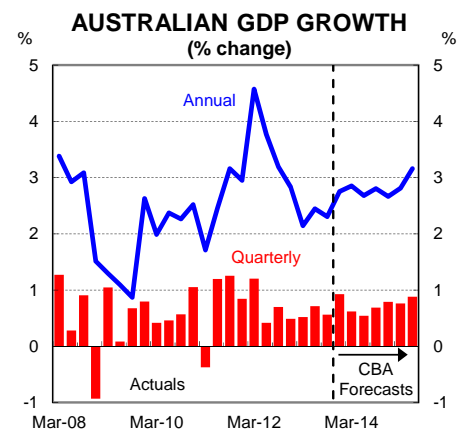
Prices and construction are rising.

Low interest rates have produced a sizeable upswing in in national house prices and now housing construction. Mortgage rates are near the lows achieved following the GFC and could stay there till late 2014. So there is still considerable opportunity for further price and construction gains if consumer confidence levels are not dented by the weak jobs market.

Building approvals are 22% higher than a year ago and look set to reach 165k in 2013. They could rise further through 2014 and into 2015. It means that dwelling investment will make a large contribution to annual GDP, with flow on effects to retailing and jobs. In previous cyclical upswings dwelling investment has added 1-2 percentage points to GDP over the cycle. The current construction lift differs from previous ones due to the relatively high proportion of apartments. It may help address concerns over affordability.

Table 3: Australia Key Forecasts

	2012/13	2013/14	2014/15
GDP (%ch)	2.7	2.6	2.9
Unemployment rate (%)	5.4	5.8	5.9
Underlying CPI (%ch)	2.4	2.4	2.9
Wage Price Index (%ch)	3.3	2.9	3.5
Current A/c deficit (\$bn)	-55	-46	-44
CAD %of GDP	-3.6	-2.9	-2.6



House price rises reflect low mortgage rates.

House prices have been rising through 2013 as mortgage rates fell. But the rises are not uniform across the capital cities, with Sydney and Perth leading the way. It follows a period of relative weakness in house prices. Price levels in Australia are well above those in the US and Europe. But they are still at the upper end, not beyond, the range of price to income ratios for the OECD economies. Arrears rates on housing loans are relatively low in Australia.

Labour market trends

We expect soft employment growth over the next year.

The RBA watches labour market trends closely because of its influence on wages and inflation. Currently, the jobs market is soft and growth has basically stalled. But despite this, the unemployment rate has stayed around 5.4% over the last six months, rather than pushing materially higher. This has been because of a fall in the participation rate, which is at its lowest level since 2006.

A participation rate that is trending lower will limit the impact on the headline unemployment rate.

We expect softness in the labour market to persist over the next year as the economy transitions from mining to non-mining led growth. Job vacancies are low, indicating that employment growth in the near-term is likely to be weak.

We believe the unemployment rate will peak at around 6%.

Some upside risk stems from hours worked, which have risen recently despite a fall in full-time jobs. In general, rising average monthly hours worked should eventually translate into increased hiring.

While employment growth is expected to remain soft, we think that the participation rate will continue to trend lower, thus limiting the overall rise in the unemployment rate. A falling participation rate reflects the structural impact of the ageing of the population and some cyclical impact of a soft jobs market. We think that the unemployment rate is likely to peak at around 6%.

Wages growth will remain constrained while slack in the labour market persists.

Labour market weakness is being reflected in slowing wages growth. Annual wages growth has slowed to its lowest level since 2000. This is helping keep a lid on services inflation. We expect wage inflation to remain benign while slack in the labour market persists.

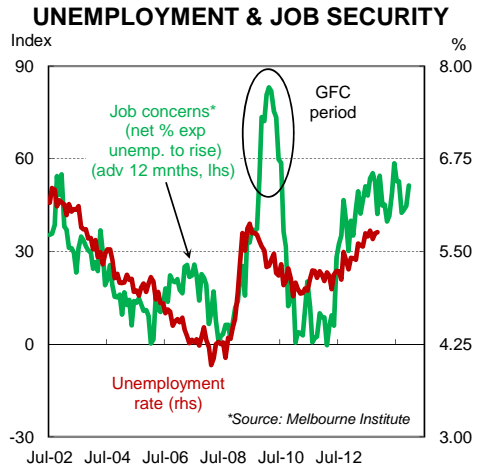
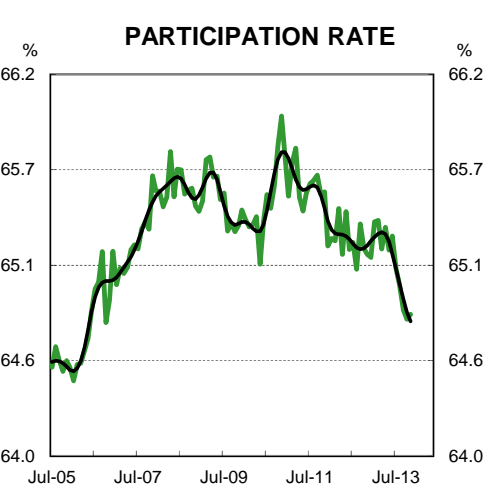
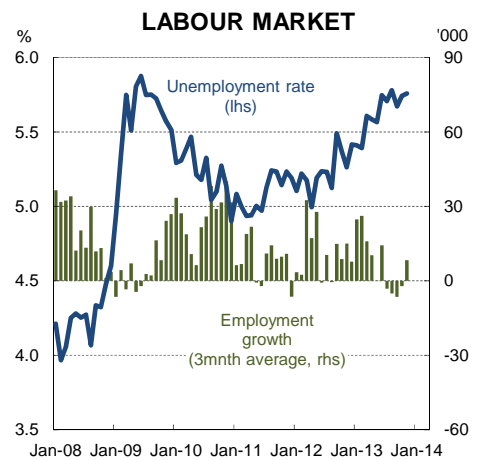
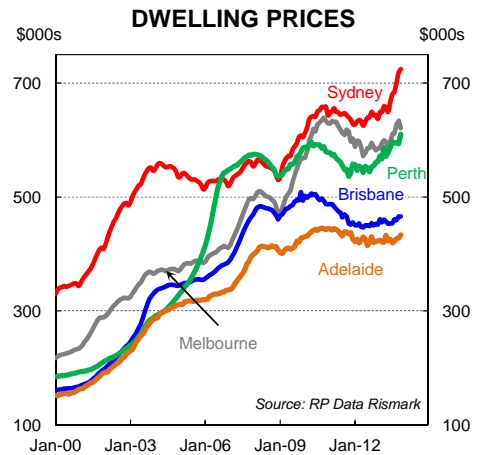
RBA & Monetary Policy

2.5% looks the low point for the current easing cycle....

At present, a soft labour market and low inflation means the RBA has an easing bias. The economy would benefit from more stimulus. But one of the factors reducing the chances of any more RBA rate cuts is the recent strong house price inflation, particularly in Sydney.

.. more stimulus to come from a lower AUD.

Any further rate cuts run the risk of overstimulating the housing market without gaining the desired "rebalancing" of growth. That is why the RBA's preference, as clearly



articulated, is for further stimulus to come via a lower Australian dollar. We believe that the RBA is a reluctant rate cutter and see the current 2.5% cash rate as the low point in the current cycle. The risks, however, are tilted to another rate cut. Growth is sub-trend, while wages and inflation are in a 2% to 3%pa range. It provides the RBA with a reason to maintain an easing bias.

Fixed income markets

The US 10 year yield is near 2½ year highs and our end 2013 target of 2.9%. Following stronger data and a softening of fiscal austerity, the Fed has announced it will reduce (“taper”) the rate of asset purchases starting in January.

At the same time, the Fed adjusted their ‘forward guidance’ on the fed funds rate, suggesting that rates wouldn’t need to rise until “well past the time that the unemployment rate declines below 6.5%”. For the moment, the market continues to accept this guidance at face value. The “lower-for-longer” attitude has contributed to the US curve remaining very steep.

However, we don’t necessarily believe the market will continue to respond so meekly. Should, as seems likely, the data strengthen and the recovery continue, then views on the pace of policy normalisation will likely shift in favour of an earlier rise in rates.

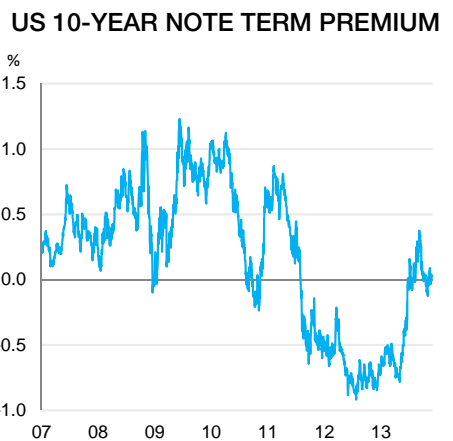
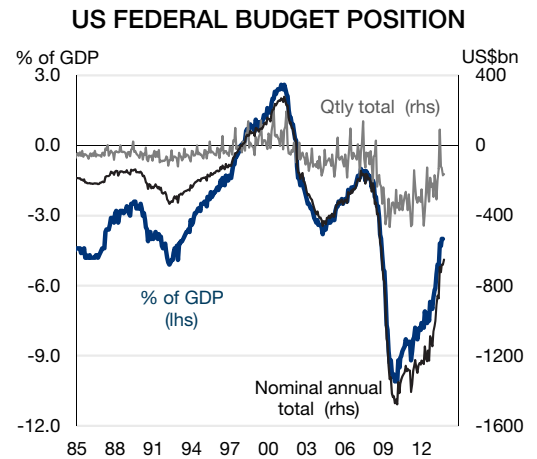
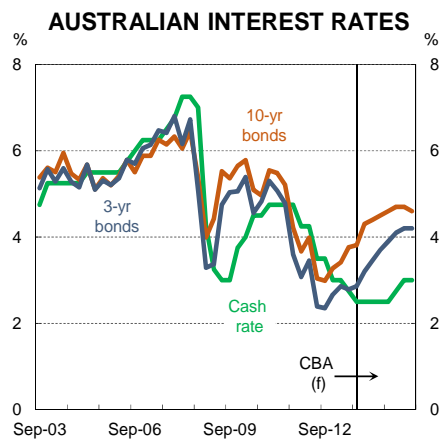
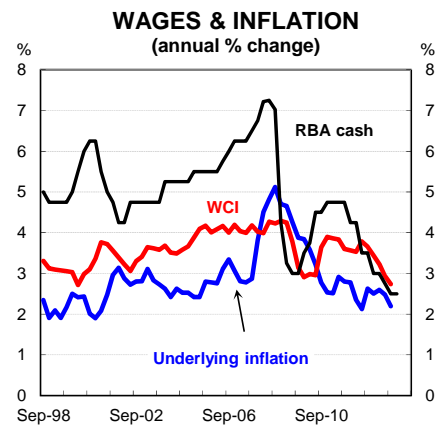
Although tapering has begun, the Fed is still buying US \$75b/month and will continue to be a major purchaser even as they steadily lower the pace of buying. This buying pressure continues to impact the market. Federal Reserve calculations how the term premium is still negative and perhaps 50bp below where it could be expected to settle once asset purchases cease completely.

Moreover, we don’t see the market as incorporating enough risk of accelerating US growth next year. This is expected to be evident in higher real yields rather than inflation spreads.

Vulnerability for bonds could be exposed by further gains in equities and risk assets, which look well placed given diminishing tail risks, fiscal consolidation and increasing confidence in the recovery. At this stage, equity markets are responding well to tapering.

We see long end Treasuries as susceptible to further losses over coming months; but the belly of the curve is likely the most vulnerable area in 2H-2014.

A repeat of the nasty re-pricing of QE seen in May-June seems less likely in the near term. We forecast US 10yr bonds to reach 3.3% by mid-2014 before rising towards 3.4% by late 2014.



AUS-US 10Y BOND SPREAD VS U/E RATE

Fed policy and markets will adjust as the US recovery becomes locked in

Bond term premiums have not fully adjusted and have further to rise

Australian bonds should initially outperform but will not be immune to rising global yields

In Australia, the market continues to be wary of one last rate cut, but is also starting to anticipate the start of a mild tightening cycle, sometime in late 2014. Given higher starting yields and on-going risks of further easing, we don't expect the ACGB 10 year to match our forecast for a 50-70bp sell-off in US 10 year next year. The AUS-US spread should contract as Treasuries adjust and the economic differences diminish, but not to the same extent as seen through April to August (when the RBA was still easing).

We see 120-130bp as a likely low point for the spread in 2014. Australian 10 year bond yields at or above 4.5% are attractive from a medium-term perspective; particularly relative to a 'neutral' cash rate under 4%. We see very long-term bonds as good value and look for marked flattening in the curve over time.

The sell-off at the front end is also likely to extend further in 2014, and will flatten the curve substantially over time.

But risks surrounding the downturn in mining capex still need to be negotiated and the unemployment rate remains under upward pressure, so this flattening could take some time to evolve. Risks are that housing strength and a lower AUD could expedite this process.

Swap and semi-govt spreads can grind tighter in the back end of the curve as it flattens

Rising bond yields and improving risk appetite point to narrower swap spreads. However, spreads are already very tight at the front end of the curve and financial spreads have generally rallied aggressively. For example, the 3 year swap spread narrowed from 40bp in July to 15bp at one stage in November.

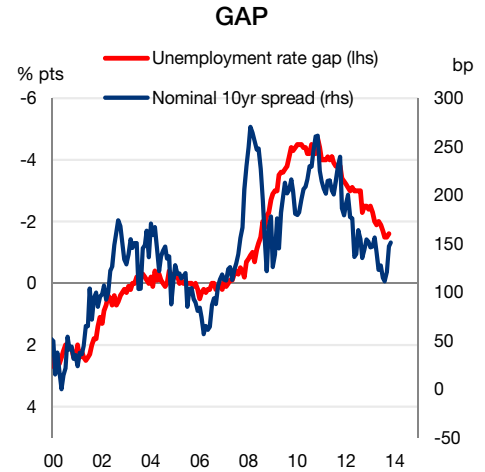
Room for compression is therefore limited and the market exposed to set-backs in liquidity or sentiment from tapering or events in Europe. Spreads have also tightened at the back of the curve but arguably still have some room to narrow, providing a bias for a flattening of the spread slope.

Tapering & Europe continue to present risk of a pull-back in sentiment and liquidity

This bias toward the back end of the curve has promoted a flurry of 'extension' trades in the semi-government market. Spreads to bond have narrowed from more than 100bp to under 70bp in the process.

We expect this tightening to continue into 2014 as ACGB yields back-up, but the momentum is likely to wane as it becomes a case of out-performing against swap rather than tightening alongside swap spreads.

There is a risk of a pull-back in QI if the forecast US sell-off doesn't materialise. Sharp falls in the AUD or risk appetite amid tapering present a similar near-term risk.



AUS-US 10Y BOND YIELDS AND SPREAD

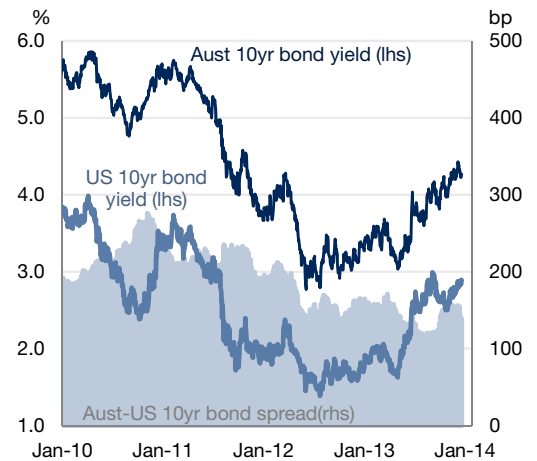


Table 4: CBA Interest Rate Forecasts

	Current	Jun-14	Dec-14
Official Cash (%)	2.50	2.50	2.75
90-day BBSW (%)	2.61	2.70	3.00
3-year swap (%)	3.24	3.95	4.35
5-year swap (%)	3.77	4.50	4.85
10-year swap (%)	4.61	4.90	5.10
Aus 3yr bond (%)	2.96	3.70	4.10
Aus 10yr bond (%)	4.30	4.50	4.70
3/10yr Curve (bp)	134	80	60
US 2yr bond (%)	0.39	1.00	1.60
US 10yr bond (%)	2.95	3.30	3.40
AUS-US 10yr (bp)	135	120	130

Source: CBA, Bloomberg

Currencies

The AUD/USD is expected to stabilise at the end of the year.

In 2014, the US Fed tapering will put downward pressure on the AUD/USD.

There will be some downward pressure on the EUR over coming quarters.

In our view, the structural decline in Japan's current account surplus is the driver behind the weaker JPY.

We expect the AUD/USD to stabilise in early 2014. The AUD/USD will be supported by an improvement in the global (and specifically Chinese) economy and signs that the RBA is at (or near the bottom) of its easing cycle.

However, in the short term the AUD/USD is likely to move lower. But we expect the AUD/USD to end 2014 around 0.89. There will be more downward pressure on the AUD/USD over 2014 as the US Federal Reserve tapers its asset purchases. The Fed is the first of the major G4 central banks to begin to normalise its monetary policy settings. The commencement of Fed tapering should provide upward support to US real yields and the USD gradually.

We expect the EUR/USD to decline over the remainder of 2013, ending the year around 1.34. There will be downward pressure in the EUR over coming quarters mostly driven by the risk of further ECB policy easing and the diverging US-Eurozone monetary policy outlook.

The ECB's easing bias should continue to cap front-end core Eurozone bond yields. The core Eurozone-US two-year bond yield spread has been a solid reliable guide to EUR/USD direction. The bond spread should therefore remain in negative territory and help guide EUR/USD modestly lower over coming quarters. We see the EUR/USD drifting down towards 1.31 mid 2014.

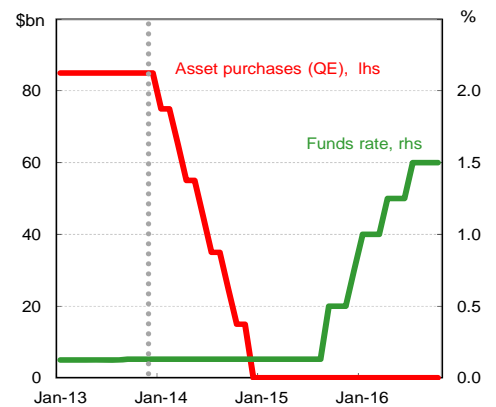
Over the medium-term, although the Bank of Japan's policy stimulus continues to garner market attention, our core view is the collapse in Japan's current account surplus is the driver behind the weaker JPY. This structural change, combined with a modestly firmer USD should see USD/JPY drift higher.

While we think the decline in the JPY is structural, the BoJ's new aggressive policy stance may accelerate the decline. Over the medium-term, as the BoJ doubles its purchases of JGB's, real Japanese bond yields should lag the eventual move up in global bond yields. In turn, this may indirectly encourage some Japanese participants to seek higher offshore yields and/or Japanese banks increase offshore lending. We see the USD/JPY reaching 103 by mid 2014.

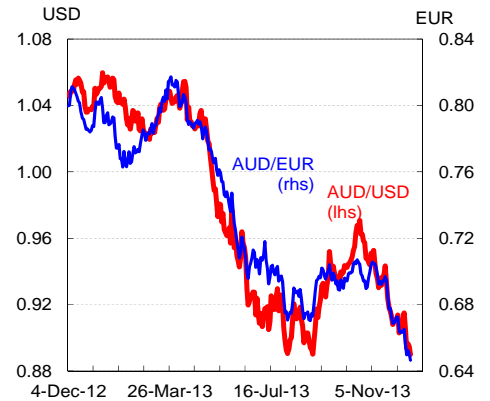
Table 5: AUD FX Forecasts

	AUD/USD	EUR/USD	USD/JPY
Current	0.8950	1.36	104.9
Mar-14	0.93	1.33	101
Jun-14	0.92	1.31	103
Sep-14	0.90	1.30	105
Dec-14	0.89	1.30	107
Mar-15	0.87	1.30	109
Jun-15	0.85	1.30	111

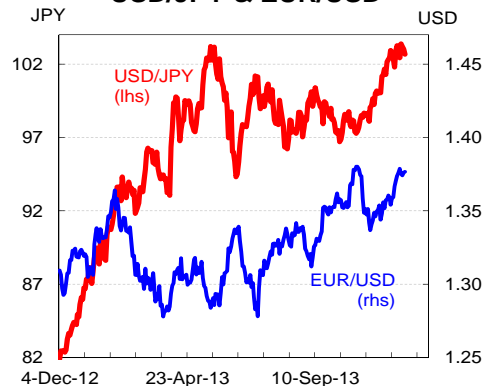
CBA FORECAST OF FOMC POLICY



AUD/USD & AUD/EUR



USD/JPY & EUR/USD



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New Zealand Perspective

NZ economy ready to fire on all cylinders

- Economic growth will accelerate to over 3% in 2014, driven by dairy and construction.
- Business confidence is soaring, but structural challenges remain in the housing market.
- The RBNZ is close to raising the OCR – we anticipate the first hike in March.

Economic outlook very bright

Dairy and construction will drive faster growth over 2014.

As the NZ economy enters 2014, the outlook appears to be increasingly bright. The economy has rebounded strongly from last summer's drought. Dairy prices are holding up at very high levels and strong demand from China will continue to drive export earnings. Meanwhile, rebuilding activity in the Canterbury region and home-building demand in Auckland will spur a boom in construction activity.

With the economy accelerating, the RBNZ will start to raise interest rates.

Those two drivers – dairy and construction – will drive growth of over 3% in 2014. With the economy well and truly back on track, the RBNZ will start to raise interest rates. The key question facing the central bank will be how quickly inflationary pressures build up, and therefore how far and how fast rates will need to rise.

NZ milking export earnings

Milk powder prices are at very high levels, which will boost income for the 2013/14 season.

Last summer's drought dented growth over H1 2013, in particular restricting Q2 GDP growth to just 0.2%. However, the drought did push milk powder prices up to exceptionally high levels thanks to fears over the impact on supply. While prices eased slightly following the drought, they have held up at a very strong level – well above pre-drought prices. The 2013/14 season has got off to a very good start as well. Production volumes are expected to be at least 5% up on last year, and Fonterra is forecasting a record payout of \$8.30 per kg of milksolid.

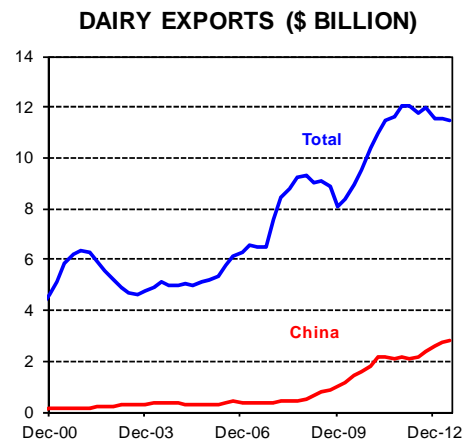
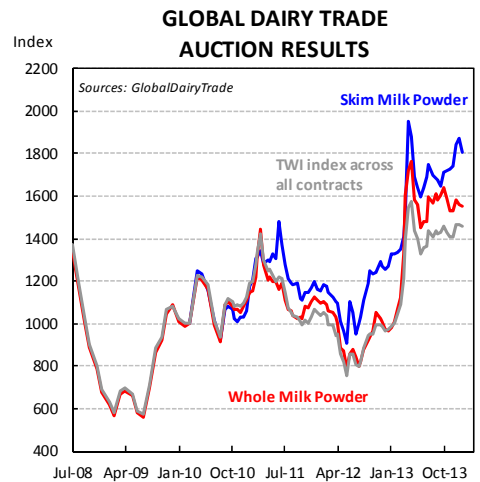
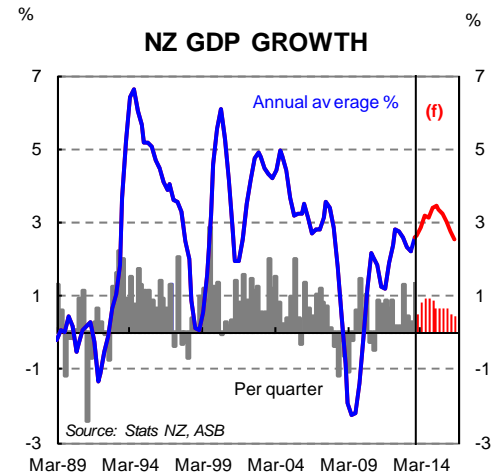
Emerging market demand suggests a bright longer-term outlook for the dairy sector.

That will give a significant boost to dairy incomes over 2014. And looking to the longer term, demand for dairy products from the likes of China and India will continue to be a significant driver of NZ growth. As the middle classes in those economies swell, demand for dairy products will continue to grow rapidly.

Housing poses a challenge

The RBNZ introduced restrictions on high-LVR mortgage lending.

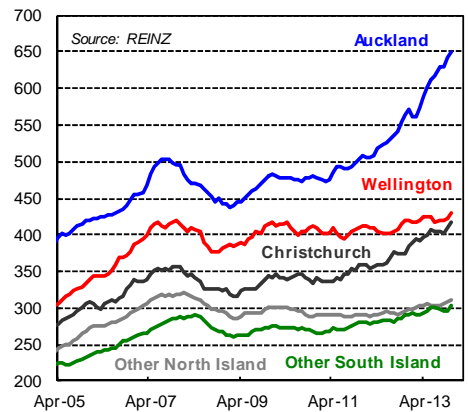
As has been well documented, house prices accelerated rapidly over 2013 in the Auckland and Canterbury regions, driven by a lack of supply. To address its concerns over financial stability and in an effort to prevent house price growth getting too far ahead of supply, the RBNZ introduced restrictions on new, high-LVR mortgage lending.



Housing inventory in Auckland and Christchurch remains exceptionally low, which will keep pushing prices up.

The restrictions took effect on 1 October 2013, but it is still a little too early to make a firm judgement on their impact (we only have house sales data for October and November). There was a fairly sharp drop-off in sales in November, but housing inventory remains exceptionally tight, particularly in Auckland. Therefore, even if the restrictions do reduce demand somewhat, house prices will remain under upwards pressure. While prices will continue to rise, we do expect the pace of growth to peak (or to have peaked) in late 2013/early 2014.

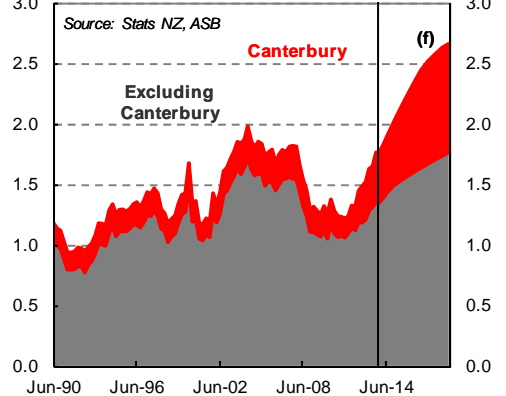
NZ MEDIAN HOUSE PRICE
(stratified median, 3m moving average)



Canterbury rebuild to drive growth in the construction sector.

Aside from dairy, the other sector of the economy with a very strong outlook is construction. Of course, the \$40bn Canterbury rebuild is the primary factor here. The rebuild is turning out to be more protracted than originally envisioned, but 2013 provided evidence that activity was starting to really ramp up. We expect total building work put in place in the region to come to about \$2.9bn over 2013. And that will increase to roughly \$3.7bn over 2014. By comparison, building work in Canterbury totalled just under \$1bn in 2010.

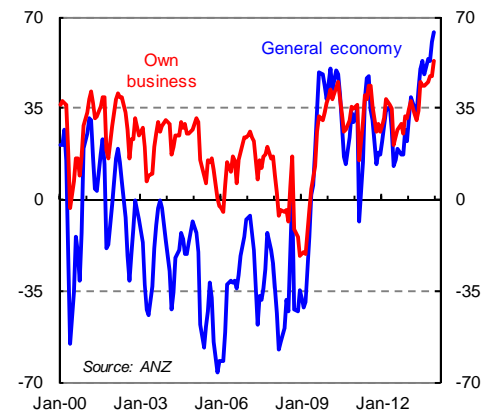
RESIDENTIAL BUILDING WORK
(quarterly volumes, s.a.)



Home building should also accelerate in Auckland.

On top of the Canterbury rebuild, home building demand in Auckland will also drive growth in construction activity. The supply response to higher house prices over the last year or two has been very modest. However, in December the RBNZ decided to exempt mortgages taken out to fund the construction of a new home from the LVR restrictions. The Auckland Council has also taken steps to make building easier.

NZ BUSINESS CONFIDENCE



Business confidence is soaring across all sectors.

Other indicators pointing upwards too

Other indicators are also pointing to strong growth over 2014. Chief amongst them is business confidence, which is running at the highest levels since the late 1990's. Promisingly, confidence appears to be strong across all sectors, suggesting that broader activity is set to benefit from the areas of the economy highlighted above as drivers of growth. Businesses are also reporting that they will step up investment and hiring over 2014.

Employment looks to be growing after a period of weakness.

Those hiring plans are a welcome sight, as the NZ labour market had been a concern over late 2012 and early 2013. According to official data, the economy essentially added no net jobs over the year to June 2013. However, Q3 data pointed to stronger growth in employment and that should continue.

Better labour market conditions and higher

Consumer spending has grown, and will be further boosted by migration inflows.

house prices have also begun to flow through into higher consumer confidence and retail spending. In particular, sales of big-ticket discretionary items such as furniture and automobiles have surged over the last year. And domestic demand will be further boosted by strong net migration inflows that are being driven by the improvement in NZ's labour market relative to that of Australia. Of course, strong inwards migration will also place additional pressure on already supply-constrained housing markets in Auckland and Christchurch.

RBNZ stands at the ready

The RBNZ will start to raise the OCR soon.

With the economic outlook appearing increasingly strong, the RBNZ will be more confident that (a) the economy will be able to sustain recovery without very stimulatory monetary policy, and (b) inflation pressures will start to emerge as spare capacity is absorbed.

We expect the first hike in March, but a significant surprise could prompt a January move.

We expect that the RBNZ will start to raise the OCR from March. Market pricing suggests a roughly 40% chance of a hike at the 30 January OCR Review, but we would only expect that to eventuate if something came out of left field to shock the RBNZ into action. The most obvious catalyst would be a much stronger than expected CPI print on 21 January, but our expectations for that release are more or less in line with the RBNZ's. In the absence of any major surprise, the RBNZ's view is unlikely to shift too far from its December forecasts, which pointed to a March/April start to hikes.

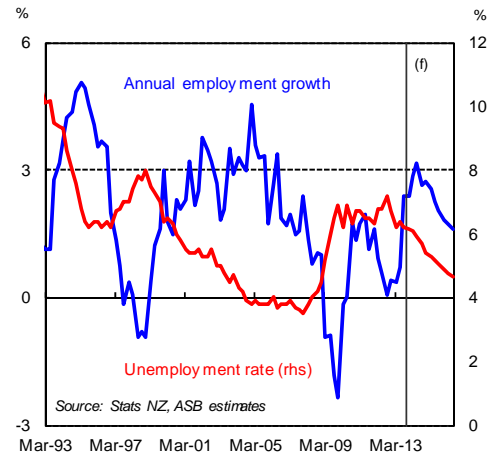
Inflation will increase to around 2% by late 2014.

Over the medium term inflationary pressures will increase as the economy's spare capacity shrinks. However, the strong NZD will most likely continue to hold down tradable inflation over 2014 and we foresee wage growth remaining fairly subdued. Strong inwards migration will provide some additional capacity within the labour force. We expect inflation to continue lifting gradually to around 2% - the centre of the RBNZ's target band - by late 2014.

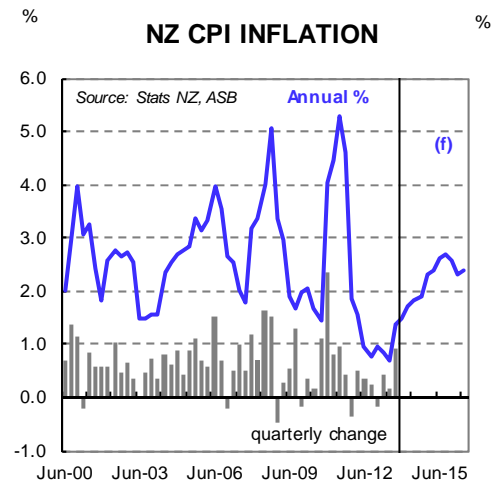
This tightening cycle will probably be less aggressive than previous ones.

We currently anticipate 75bps of hikes over 2014, on the way to a peak in the OCR of 4% by the end of 2015. With the economy still retaining a fair amount of spare capacity (particularly in the labour market), this tightening cycle is likely to be less aggressive than previous ones.

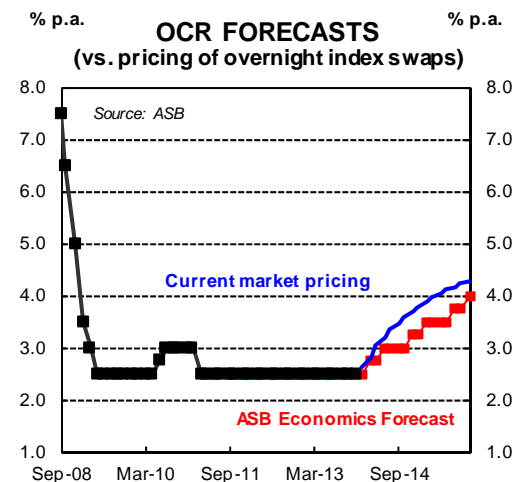
EMPLOYMENT & UNEMPLOYMENT



NZ CPI INFLATION



OCR FORECASTS (vs. pricing of overnight index swaps)



Calendar

Calendar - Australasia, Japan and China

Date	Time		Event	Period	Unit	Last	Forecast	
	AEST	Eco					Market	CBA
Mon 13 Jan	11:30	AU	Home loans	Nov	m%ch	1.0	~	2.0
	11:30	AU	Total loan value	Nov	m%ch	4.1	~	4.0
	11:30	AU	ANZ job advertisements	Dec	m%ch	-0.8	~	~
	23:00	IN	CPI	Dec	y%ch	11.2	10.0	~
Tue 14 Jan	08:45	NZ	Card spending total	Dec	m%ch	0.2	~	1.0
	10:50	JN	BoP current account	Nov	¥bn	-59.3	~	-150
	10:50	JN	Trade balance BoP basis	Nov	¥bn	-1091.9	~	~
	17:30	IN	Wholesale prices	Dec	y%ch	7.5	7.0	~
Wed 15 Jan	08:45	NZ	Food prices	Dec	m%ch	-0.2	~	~
	11:30	AU	New motor vehicle sales	Dec	m%ch	-0.9	~	~
	11:30	AU	WBC/MI Consumer Confidence	Jan	Index	105.0	~	~
	11:30	AU	WBC/MI Consumer Unemployment Expectations	Jan	Index	151.4	~	~
	11:30	AU	Engineering Construction	QIII	q%ch	-0.5	~	~
	11:30	AU	Lending Finance	Nov	m%ch	~	~	~
	17:00	JN	Machine tool orders	Dec P*	y%ch	15.4	~	~
	Thu 16 Jan	10:30	AU	TD securities inflation	Dec	m%ch	0.2	~
10:50		JN	Machine orders	Nov	m%ch	0.6	~	~
10:50		JN	Domestic CGPI	Dec	m%ch	0.1	~	~
11:00		AU	MI Inflation Expectations	Jan	y%ch	2.1	~	~
11:30		AU	Employment change	Dec	000	21.0	~	11
11:30		AU	Unemployment rate	Dec	%	5.8	~	5.8
11:30		AU	Participation rate	Dec	%	64.8	~	64.8
11:30		AU	Building Activity (Dwelling Commencements)	QIII	q%ch	0.0	~	1.0

*P = Preliminary

Calendar – North America & Europe

Please note all days and times are UK time, not local release day/times

Date	Time		Event	Period	Unit	Last	Forecast		
	UK	Eco					Market	CBA	
Tue 14 Jan	09:30	UK	PPI input	Dec	m%ch	-0.7	~	~	
	09:30	UK	PPI output	Dec	m%ch	-0.2	~	~	
	09:30	UK	PPI output core	Dec	m%ch	-0.1	~	~	
	09:30	UK	CPI	Dec	y%ch	2.1	~	~	
	09:30	UK	CPI core	Dec	y%ch	1.8	~	~	
	09:30	UK	RPI	Dec	y%ch	2.6	~	~	
	10:00	EC	Industrial production	Nov	m%ch	-1.1	~	~	
	13:30	US	Retail sales advance	Dec	m%ch	0.7	0.2	~	
	13:30	US	Import price index	Dec	m%ch	-0.6	0.5	~	
	15:00	US	Business inventories	Nov	m%ch	0.7	0.3	~	
	17:45	US	Fed's Plosser speaks on the Economic Outlook in Philadelphia						
	18:20	US	Fed's Fisher speaks on U.S. and Regional Economy in Dallas						
Wed 15 Jan	10:00	EC	Trade balance	Nov	€bn	14.5	~	~	
	13:30	US	Empire manufacturing	Jan	~	1.0	4.5	~	
	13:30	US	PPI	Dec	m%ch	-0.1	0.4	~	
	13:30	US	PPI ex food and energy	Dec	m%ch	0.1	0.1	~	
	14:00	CA	Existing home sales	Dec	m%ch	-0.1	~	~	
	19:00	US	U.S. Federal Reserve releases Beige Book Report						
Thu 16 Jan	07:00	GE	CPI	Dec F*	m%ch	0.4	~	~	
	10:00	EC	CPI	Dec	m%ch	-0.1	~	~	
	13:30	US	CPI	Dec	m%ch	0.0	0.3	~	
	13:30	US	CPI ex food and energy	Dec	m%ch	0.2	0.1	~	
	15:00	US	Philadelphia Fed business outlook	Jan	~	7.0	8.8	~	
	15:00	US	NAHB housing market index	Jan	~	58.0	58.0	~	
	16:10	US	Fed's Bernanke speaks on Challenges Facing Central Banks						
Fri 17 Jan	09:30	UK	Retail sales incl. auto	Dec	m%ch	0.3	~	~	
	10:00	EC	Construction output	Nov	m%ch	-1.2	~	~	
	13:30	US	Housing starts	Dec	'000	1,091.0	995.0	~	
	13:30	US	Building permits	Dec	'000	1,017.0	1,015.0	~	
	14:15	US	Industrial production	Dec	m%ch	1.1	0.3	~	
	14:15	US	Capacity utilization	Dec	%	79.0	79.1	~	
	14:15	US	Manufacturing (SIC) production	Dec	%	0.6	~	~	
	14:55	US	University of Michigan confidence	Jan P**	~	82.5	83.0	~	

*F = Final

** P = Preliminary

Key Events to Watch

Australasia, China and Japan

Date	Country	Data/Event	CBA (f)	Comment
Mon 13 Jan	AU	Housing Finance, October		The number and value of loans to owner-occupiers and investors has been on a sustained uptrend as low mortgage rates stimulate activity in the housing sector. We expect this trend to continue in November. The value of all loans should rise quite solidly over November, in line with rising house prices and strong investor demand.
		No. of own-occupiers	1.0%	
		Value of all loans	4.0%	
Tues 14 Jan	NZ	Quarterly Survey of Business Opinion, QIV	~	The NZIER Quarterly Survey of Business Opinion should show a decent improvement in business confidence. The monthly ANZ survey showed very strong levels of confidence throughout Q4. The ANZ survey also showed considerable improvement in the proportion of firms expecting to take on more workers.
	NZ	Electronic Card Transactions, Dec	1.0% (MoM)	Retail card spending looks to have had a pretty strong end to the year, posting strong gains in both October and November. Early evidence (from the likes of Paymark) suggests that December spending was also strong.
Wed 15 Jan	AU	WBC/MI Consumer Sentiment	~	Consumer sentiment fell in December to a five-month low. Though it remained in positive territory and was above its long run average. A pick up in sentiment in January looks a reasonable assumption following what liaison suggests was a solid month of sales at local stores over Christmas.
	AU	Engineering Construction, QIII	~	Engineering volumes rose by a healthy 3.5% in QIII. The engineering construction release provides additional detail of the work done over the period.
Thurs 16 Jan	AU	Labour Force, November		Employment rose by an unexpectedly decent 21.0k in November. But the overall trend in employment growth is soft and jobs growth is a little over flat. But despite this, the unemployment rate has been hovering around the 5¼% over the last six months, rather than pushing noticeably higher. This has been due to a fall in the participation rate. We expect modest jobs growth in December of around 11k. This should be enough to see the unemployment rate largely unchanged over the month.
		Employment	11k	
		Unemployment rate	5.8%	
	Participation rate	64.8%		
	AU	Dwelling Commencements, QIII	1.0%	Dwelling commencements have been modest despite the solid pickup in building approvals. Commencements looked to have crept higher over QIII. The high level of building approvals will result in a more solid pickup in commencements over the period ahead.

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International

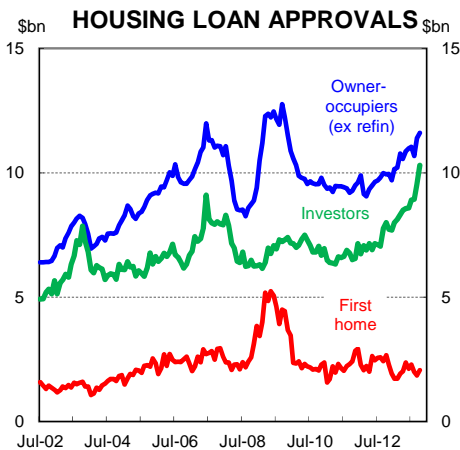
Date	Country	Data/Event	CBA (f)	Comment
Tues 14 Jan	JP	Current Account, Nov	¥-150bn	Japan's merchandise trade balance slumped to a record monthly deficit in November. This suggests there are high odds Japan will record its third consecutive current account deficit of ¥-150 billion.
	UK	CPI, Dec	~	Annual UK inflation has eased down to 2.1% in November, its lowest reading in three years. Over the next few months, there may be some upward pressure on UK CPI due to utility price increases. However, UK inflation should not drift too far away from the BoE's 2% target. Although momentum in the UK economy is improving, a substantial amount of spare capacity remains.
	EZ	Industrial Production, Nov	~	The strong lift in German industrial production in November combined with the improvement in the Eurozone manufacturing PMI suggest Eurozone industrial production should bounce back in November. This comes after Eurozone industrial production fell over the previous two months.
	US	Advanced Retail Sales, Dec.	~	Following a strong November outcome (+0.7%mom) advanced retail sales data is likely to expand at a much more modest pace in December. The improving US labour market is expected to support reasonable retail sales growth over the coming months.
Wed 15 Jan	US	Fed's Beige Book	~	The Fed's Beige book will provide analytical insights into economic conditions in each Fed district and sectors of the US economy. With signs the US economic recovery is gaining momentum, the Beige Book should provide insights on the strength and breadth of growth.
Thurs 16 Jan	US	CPI, Dec	~	Rising fuel prices are expected to see monthly inflation in the US pickup in December, following the flat November outcome. CPI inflation ex-food and energy is expected to lift by 0.1%, slightly weaker than the 0.2% lift in November. Despite the moderation, the annual rate of core inflation is expected to stay sub 2% in December.
Fri 17 Jan	US	Industrial Production, Dec	~	After posting strong growth in November, the pace of industrial growth is expected to moderate in December. Expectations are centred on growth of 0.3% over the month. Indicators such as ISM new orders, durable goods, and inventories point to further gains.
	UK	Retail Sales, Dec	~	UK retail sales have risen in five of the past seven months. Annual growth in retail sales volumes is inching back up towards its long-run average. Improved confidence in the UK economy, a buoyant housing market and strengthening labour market point to further gains in UK retail sales over coming months.

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The Week Ahead in Charts

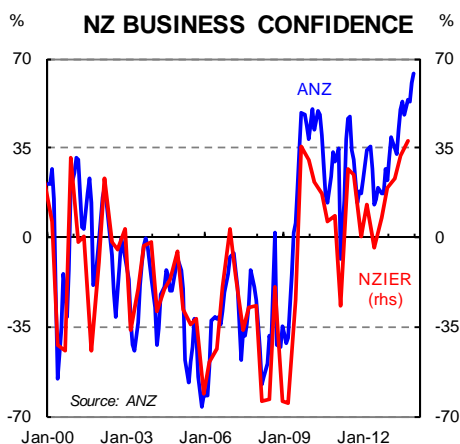
The number and value of Australian home loans has been trending significantly higher as interest rates stimulate activity in the housing sector. This looks to have continued in November.



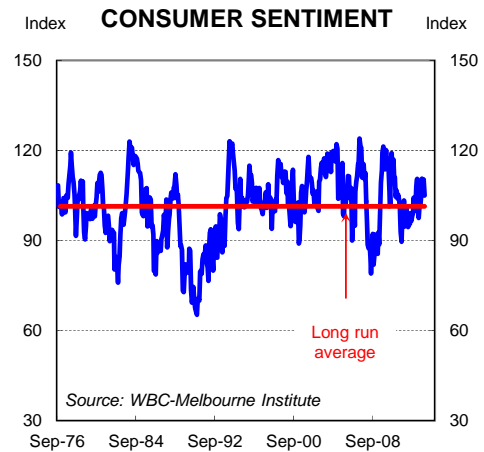
We expect modest jobs growth in December of around 11k in Australia. This should be enough to see the unemployment rate largely unchanged over the month.



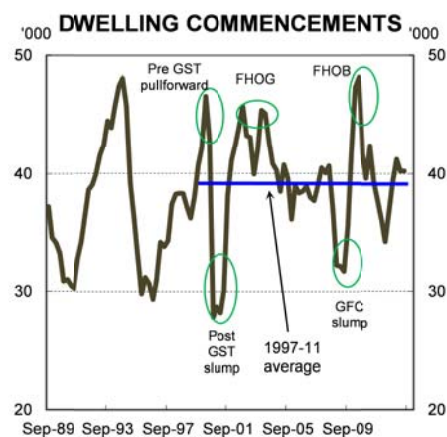
The NZIER Quarterly Survey of Business Opinion should show a decent improvement in business confidence.



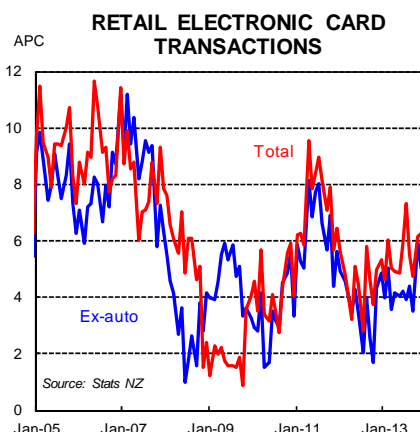
Australian consumer sentiment fell in December to a five-month low. Though it remained in positive territory and was above its long run average.



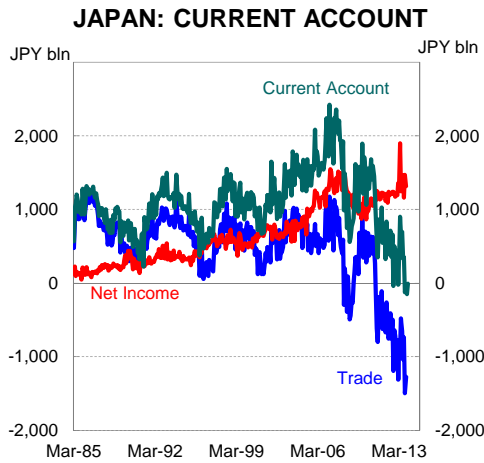
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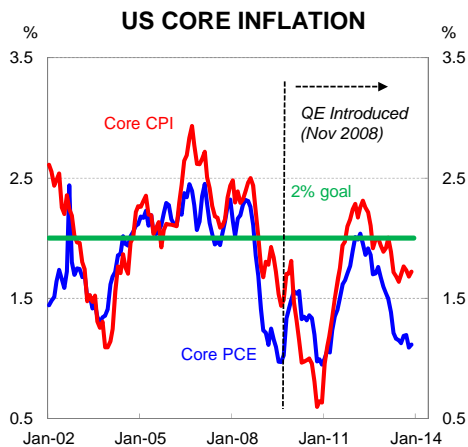
Leading indicators suggests that December retail card spending in New Zealand was strong, continuing recent trends.



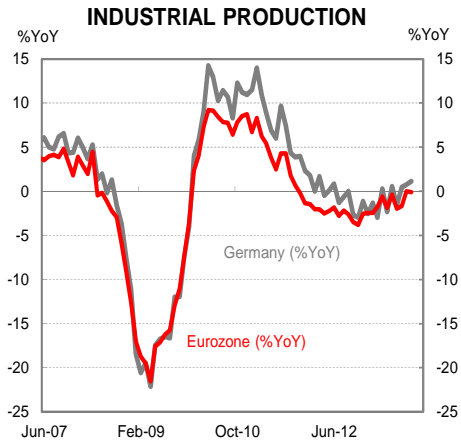
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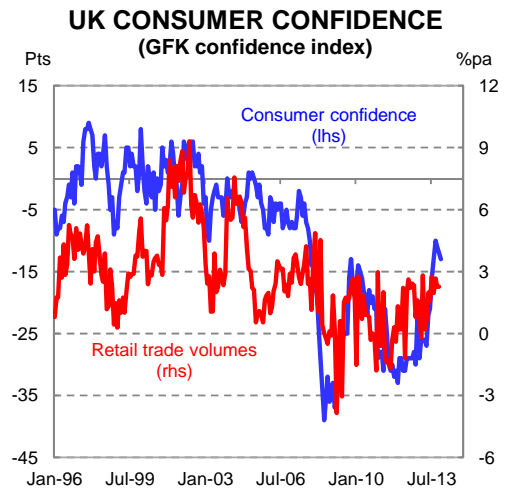
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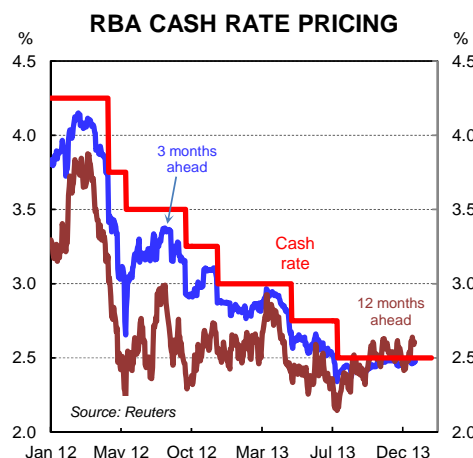
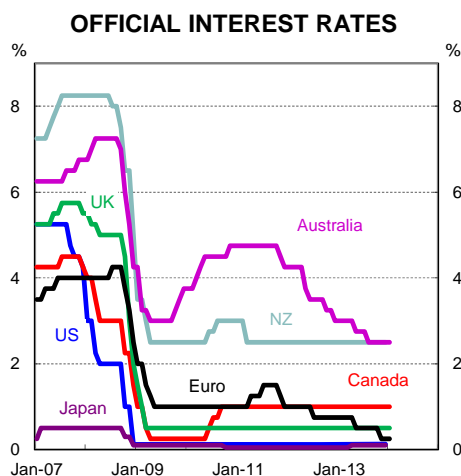
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Improved confidence in the UK economy, a buoyant housing market and strengthening labour market point to further gains in UK retail sales over coming months.



Monetary Policy



Country	Last Move	Next Meeting and Forecast	CBA View												
Australia (RBA)	25bpt cut to 2.50% on 6 August 2013.	<p>■ 4 February 2014</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>2.50%</td> <td>2.50%</td> <td>2.50%</td> <td>2.75%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	2.50%	2.50%	2.50%	2.75%	We see the current 2.5% cash rate as the low for this cycle. But, rising unemployment, uncertainty of non-mining growth and benign inflation mean the risks lie with lower rates.				
Mar'14	Jun'14	Sep'14	Dec'14												
2.50%	2.50%	2.50%	2.75%												
US (FOMC)	75-100bpt cut to 0-0.25% on 16 December 2008.	<p>■ 29 January 2014</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> <td>0-0.25%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	0-0.25%	0-0.25%	0-0.25%	0-0.25%	Fiscal concerns aside, there are some firmer signs of growth and unemployment has fallen. We expect the Fed to begin tapering asset purchases in March 2014.				
Mar'14	Jun'14	Sep'14	Dec'14												
0-0.25%	0-0.25%	0-0.25%	0-0.25%												
Eurozone (ECB)	25bpt cut to 0.25% on 7 November 2013.	<p>■ 6 February 2014</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>0.25%</td> <td>0.25%</td> <td>0.25%</td> <td>0.25%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	0.25%	0.25%	0.25%	0.25%	The ECB cut the refi-rate to 0.25% in November. Interest rate forward guidance was introduced in July, and the bias remains towards more stimulus should inflation remain low and the recovery weak.				
Mar'14	Jun'14	Sep'14	Dec'14												
0.25%	0.25%	0.25%	0.25%												
UK (MPC)	50bpt cut to 0.5% on 5 March 2009.	<p>■ 6 February 2014</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> <td>0.50%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	0.50%	0.50%	0.50%	0.50%	To ensure the recovery remains on track the BoE has announced forward guidance on interest rates at the 7 August <i>Inflation Report</i> . The BoE want to ensure monetary conditions remain very stimulatory.				
Mar'14	Jun'14	Sep'14	Dec'14												
0.50%	0.50%	0.50%	0.50%												
NZ (RBNZ)	50bpt cut to 2.5% on 10 March 2011.	<p>■ 30 January 2014</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>2.75%</td> <td>3.00%</td> <td>3.00%</td> <td>3.00%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	2.75%	3.00%	3.00%	3.00%	We expect the RBNZ to hold OCR at 2.5% until March 2014, and then gradually lift OCR to 4% over an extended period.				
Mar'14	Jun'14	Sep'14	Dec'14												
2.75%	3.00%	3.00%	3.00%												
Canada (BoC)	25bpt rise to 1.00% on 8 September 2010.	<p>■ 22 January 2014</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> <td>1.00%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	1.00%	1.00%	1.00%	1.00%	Canada's economic growth has been patchy, and excess capacity in the economy has kept inflation pressures low. We expect the BoC to stay on hold until 2015.				
Mar'14	Jun'14	Sep'14	Dec'14												
1.00%	1.00%	1.00%	1.00%												
Japan (BoJ)	0-10bpt cut to 0-0.1% on 5 October 2010.	<p>■ 22 January 2014</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>0.0-0.1%</td> <td>0.0-0.1%</td> <td>0.0-0.1%</td> <td>0.0-0.1%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	0.0-0.1%	0.0-0.1%	0.0-0.1%	0.0-0.1%	The BoJ announced a new large-scale asset purchase program in April 2013. However, we expect that Japan will continue to struggle to achieve its 2% inflation target.				
Mar'14	Jun'14	Sep'14	Dec'14												
0.0-0.1%	0.0-0.1%	0.0-0.1%	0.0-0.1%												
China (PBoC)	Benchmark 1yr Lending Rate - 31bpt cut to 6.00% on 5 July 2012. Required Reserve Ratio - 50bpt cut to 20% on 12 May 2012.	<p>■ Benchmark 1 Year Lending Rate and RRR</p> <table border="1"> <thead> <tr> <th>Mar'14</th> <th>Jun'14</th> <th>Sep'14</th> <th>Dec'14</th> </tr> </thead> <tbody> <tr> <td>6.00%</td> <td>6.00%</td> <td>6.00%</td> <td>6.00%</td> </tr> <tr> <td>20.00%</td> <td>20.00%</td> <td>20.00%</td> <td>20.00%</td> </tr> </tbody> </table>	Mar'14	Jun'14	Sep'14	Dec'14	6.00%	6.00%	6.00%	6.00%	20.00%	20.00%	20.00%	20.00%	We expect the reserve requirement ratio to remain at the current level of 20.0% this year, as the PBoC maintains its "prudent" stance. "
Mar'14	Jun'14	Sep'14	Dec'14												
6.00%	6.00%	6.00%	6.00%												
20.00%	20.00%	20.00%	20.00%												

Forecasts – Economic

CBA AUSTRALIAN ECONOMIC FORECASTS: JANUARY 2014

	Fiscal Years						Calendar Years						
	2010/11 (a)	2011/12 (a)	2012/13 (a)	2013/14 (f)	2014/15 (f)	2015/16 (f)	2009 (a)	2010 (a)	2011 (a)	2012 (a)	2013 (f)	2014 (f)	2015 (f)
Economic Activity													
Private final demand	4.2	6.0	2.8	1.4	1.8	1.5	-0.2	2.5	5.7	4.6	1.8	1.6	1.6
Of which: Household spending	3.7	2.5	2.0	2.2	3.1	3.1	0.8	3.2	3.1	2.5	1.8	2.6	3.2
Dwelling investment	2.2	-2.2	-0.4	2.7	7.2	3.2	-4.3	3.8	1.1	-3.3	1.3	6.5	4.6
Business investment	8.7	23.4	6.3	-2.6	-4.1	-4.5	-3.2	-0.2	19.7	15.0	1.1	-3.5	-4.7
Public final demand	1.7	2.2	-1.3	1.6	0.9	2.0	1.7	6.9	0.0	3.0	-2.2	1.6	1.9
Domestic final demand	3.6	5.1	1.9	1.4	1.6	1.6	0.2	3.5	4.3	4.2	0.9	1.6	1.6
Inventories (contrib to GDP)	0.4	0.1	-0.3	-0.2	0.3	0.0	-0.5	0.5	0.4	0.0	-0.6	0.3	0.1
GNE	4.1	5.2	1.6	1.2	1.9	1.6	-0.3	4.1	4.7	4.2	0.3	2.0	1.8
Exports	0.6	4.7	6.0	5.8	6.9	7.9	2.3	5.7	-0.4	5.8	6.8	6.0	7.4
Imports	10.2	11.4	0.3	-0.9	2.7	1.6	-8.8	15.2	10.9	6.2	-2.6	2.3	1.7
Net exports (contrib to GDP)	-1.8	-1.3	1.2	1.5	1.0	0.0	2.2	-1.4	-2.2	-0.1	2.0	0.9	0.0
GDP	2.2	3.6	2.7	2.6	2.9	3.0	1.5	2.3	2.6	3.6	2.4	2.8	3.0
Prices & Incomes													
CPI	3.1	2.3	2.3	2.5	2.6	2.9	1.8	2.9	3.3	1.8	2.3	2.5	2.9
Underlying CPI	2.5	2.5	2.4	2.4	2.9	2.8	3.8	2.8	2.7	2.3	2.4	2.7	2.9
WPI	3.8	3.6	3.3	2.9	3.5	3.8	3.5	3.4	3.7	3.6	2.9	3.2	3.7
Nominal GDP	8.3	5.6	2.5	4.6	5.3	5.3	1.8	7.8	6.9	3.4	3.5	5.2	5.2
Real h/hold disposable income	5.1	3.4	0.6	3.0	2.7	2.5	5.3	2.1	4.9	2.0	1.5	3.1	2.3
Labour Market													
Employment	2.5	1.2	1.3	0.8	1.7	1.9	0.7	2.2	1.8	1.1	1.1	1.1	1.8
Unemployment rate	5.1	5.2	5.4	5.8	5.9	5.8	5.6	5.2	5.1	5.2	5.6	5.9	5.9
External Accounts													
Current Account: \$bn	-42.1	-47.8	-55.2	-46.3	-44.3	-35.3	-58.1	-47.7	-40.3	-61.8	-47.1	-44.2	-41.8
% of GDP	-3.0	-3.2	-3.6	-2.9	-2.6	-2.0	-4.6	-3.5	-2.8	-4.1	-3.0	-2.7	-2.4

Forecasts – Financial

End Period	Interest Rates					Exchange Rates				
	Cash Rate	90-day Bank Bill	180-day Bank Bill	3-year Bond	10-year Bond	USD versus				
						AUD	JPY	EUR	GBP	NZD
Dec-09	3.75	4.28	4.47	5.06	5.64	0.90	93.0	1.43	1.62	0.72
Mar-10	4.00	4.49	4.76	5.39	5.78	0.92	93.4	1.35	1.52	0.71
Jun-10	4.50	4.92	5.00	4.56	5.09	0.84	88.4	1.22	1.49	0.68
Sep-10	4.50	5.01	5.20	4.82	4.96	0.97	83.5	1.36	1.57	0.73
Dec-10	4.75	5.04	5.23	5.30	5.55	1.02	81.1	1.34	1.56	0.78
Mar-11	4.75	4.93	5.01	5.07	5.49	1.03	83.1	1.42	1.60	0.76
Jun-11	4.75	5.03	5.07	4.78	5.21	1.07	80.6	1.45	1.61	0.83
Sep-11	4.75	4.92	4.68	3.61	4.22	0.97	77.1	1.34	1.56	0.76
Dec-11	4.25	4.48	4.43	3.07	3.67	1.02	76.9	1.30	1.55	0.78
Mar-12	4.25	4.34	4.33	3.45	3.98	1.03	82.9	1.33	1.60	0.82
Jun-12	3.50	3.49	3.44	2.39	3.04	1.02	79.8	1.27	1.57	0.80
Sep-12	3.50	3.37	3.32	2.35	2.99	1.04	78.0	1.29	1.62	0.83
Dec-12	3.00	3.07	3.01	2.67	3.27	1.04	86.8	1.32	1.63	0.83
Mar-13	3.00	3.10	3.12	2.86	3.41	1.04	94.2	1.28	1.52	0.84
Jun-13	2.75	2.82	2.84	2.78	3.76	0.91	99.1	1.30	1.52	0.77
Sep-13	2.50	2.60	2.59	2.86	3.81	0.93	98.3	1.35	1.62	0.83
Dec-13	2.50	2.55	2.65	3.20	4.30	0.89	105.3	1.37	1.66	0.82
Mar-14	2.50	2.60	2.70	3.45	4.40	0.93	101.0	1.33	1.64	0.84
Jun-14	2.50	2.70	2.75	3.70	4.50	0.92	103.0	1.31	1.63	0.82
Sep-14	2.50	2.80	2.90	3.90	4.60	0.90	105.0	1.30	1.61	0.79
Dec-14	2.75	3.00	3.10	4.10	4.70	0.89	107.0	1.30	1.58	0.77
Mar-15	3.00	3.10	3.20	4.20	4.70	0.87	109.0	1.30	1.56	0.75
Jun-15	3.00	3.10	3.20	4.20	4.60	0.85	111.0	1.30	1.54	0.73
Sep-15	3.00	3.15	3.20	4.10	4.50	0.83	113.0	1.29	1.52	0.71
Dec-15	3.00	3.15	3.20	4.00	4.50	0.85	115.0	1.28	1.52	0.73

Forecast

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