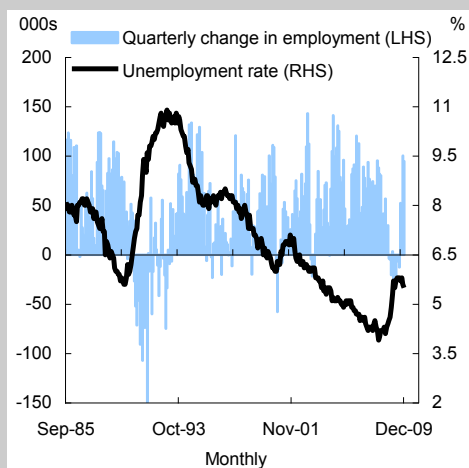




## AUSTRALIA

### The unemployment rate has peaked



Source: ABS, Macquarie Research, February 2010

### Key upcoming events

EU: GDP, Dec qtr  
US: Retail sales, Jan  
US: Business inventories, Dec

### Key developments last week

RBA keeps rates steady; market fears grow for highly indebted Europe

### Key Forecasts

	5 Feb 10	Mar-10	Jun-10
<b>Australia</b>			
Cash (%)	3.75	4.00	4.25
90-day (%)	4.12	4.25	4.50
10 year (%)	5.45	5.50	5.50
10 yr sprd to US (bps)	184	200	175
A\$/US\$	0.87	0.92	0.91
ASX 200	4512		5564*
<b>New Zealand</b>			
Cash (%)	2.50	2.50	3.00
90-day (%)	2.77	2.75	3.25
10 year (%)	5.89	5.75	5.75
NZ\$/US\$	0.69	0.72	0.71
NZSE 50	3105		3855*

Source: Reuters, Macquarie Research, February 2010

\* 12 month forecast for ASX 200 and NZSE 50

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5 February 2010

# The Macquarie Weekly

## Rising risk

### Event

- Employment and housing finance data will be the main focus in Australia, while in NZ, retail sales data will be the highlight.

### Impact

- Financial markets have been hit by a renewed bout of uncertainty as investors fret about the potential impact of regulatory action and the ability of some Governments – such as Greece and Spain – to finance their large budget deficits. While those fears aren't directly applicable to Australia or New Zealand, the decision of the RBA to keep rates steady in February has also introduced a note of uncertainty as to whether interest rates will rise as far – or as fast – as previously thought. Another fall in housing finance data – and the chance of a softer employment report – would increase the chances that the RBA pauses again next month.

### Analysis

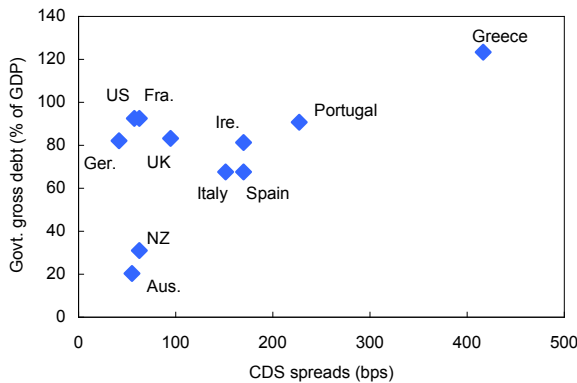
- While global financial markets have developed another case of the jitters, the outlook for Australian growth in 2010 has become even clearer, and the picture is reassuring. Although markets reacted to the dip in retail spending in the month of December, they conveniently forgot about the very strong November reading, and the solid 1.1% growth in quarterly sales volumes.
- More important, however, is the ongoing strength in building approvals data. Non-residential approvals remain very strong, supported by the government's school building programme. But dwelling approvals have also increased by 53%YoY, which will underpin GDP growth in the next 12 months.
- Not only will stronger housing construction support growth, but because it is labour intensive, it will also support employment. Thus, even if unemployment blipped higher in January, there is a good chance that unemployment will fall to 5% by the end of 2010. And, of course, as those new dwellings are completed, spending on household items will rise as people fill their new homes with furniture, electrical appliances and floor coverings.
- Thus, there is a clear risk that the current market weakness distracts the attention of both policymakers and investors away from the increasingly sound domestic outlook. And this could provoke a sharper policy response down the track.

### Key releases

Day	Release		Previous	Macquarie	Market	Mkt Range
Wed	Consumer sentiment, Feb	%	5.6	~	~	~
	Housing finance, Dec	%	-5.6	-6.0	-5.0	-7.0/4.0
Thu	Employment, Jan	000s	35.2	15.0	15.0	-5.0/30.0
	<b>Unemployment rate, Jan</b>	%	5.5	5.6	5.6	5.5/5.7
Fri	Participation rate, Jan	%	65.2	65.3	65.2	65.2/65.3
	NZ food prices, Jan	%	-0.3	~	~	~
	NZ retail sales, Dec	%	0.8	0.5	0.5	0.2/0.7
	NZ retail sales volume, Q4	%	0.1	1.5	1.4	0.6/1.6
	REINZ house sales, Jan	%/y	15.2	~	~	~

Source: Reuters, Bloomberg, Dow Jones, Macquarie Research, February 2010

**Catalyst Corner: Europe suffers a bout of ‘swine’ flu**



- Fears about the sustainability of large budget deficits and soaring debt loads have re-ignited another bout of risk aversion in global markets. As shown in the chart opposite, sovereign credit default swap spreads – a proxy for the probability that a nation defaults on its debt – have risen substantially for a number of European countries.
- Most attention has focussed on the so-called “PIGS” – Portugal, Greece, Spain and Ireland (though sometimes Italy or Iceland).
- And there are good reasons for investors to be worried. If a country’s debt level is around 100% of GDP and if interest rates are 5%, then the government must divert 5% of GDP simply to repay interest. This is obviously a big drag on growth and raises the prospect of a further deterioration in tax revenue, which makes it even harder to reduce the budget deficit.
- At the same time, as the risk of default rises, interest costs will also increase, further exacerbating the situation. As a result, the country can be drawn into a vicious cycle of rising interest costs and collapsing confidence.
- The European situation is further complicated by the currency union, which rules out the prospect of currency depreciation (which would ease the adjustment process). Moreover, it raises the prospect of contagion throughout the European Union, particularly if it scares away investors from buying any government debt.
- But while the fear can be understood, some perspective must be kept. Portugal, Ireland and Greece together are just 5% of the European economy, while Spain adds another 9%. To suggest that their admittedly dire situation will imperil the global economic recovery is to have the tail wagging the dog.

Source: Bloomberg, OECD, Macquarie Research, February 2010

**Market Movers**

		Importance/ Market Sensitivity	Last/ Mkt Forecast	Risks	Comment
Wed	<b>Aus</b> Consumer confidence, Feb	Medium	5.6%/nf	➔	Consumer confidence is expected to remain at strong levels this month given the positive wealth effect of rising equity markets and house prices, as well as improving labour market conditions.
	Housing finance, Dec	Medium	-5.6%/-5.0%	➡	The number of housing finance commitments likely continued to fall back in December, as rising interest rates and the scaling back of first home buyer incentives resulted in some softening of housing market demand.
	<b>US</b> Trade balance, Dec	Medium	-US\$36.4b/ -US\$35.5b	➔	The trade balance is expected to have improved in December. Weaker import prices and continued growth in exports should have contributed to the gain.
	<b>NZ</b> Electronic card transactions, Jan	Medium	0.7%/nf	➔	Stronger consumer confidence suggests that electronic card transactions continued to record solid gains in the month of January, particularly in the core retailing sectors.
Thu	<b>Aus</b> Employment, Jan Unemployment rate, Jan Participation rate, Jan	High	35.2k/15.0k 5.5%/5.6% 65.2%/65.3%	➔	Following the rapid pace of employment growth in recent months, there is a risk that the pace of job creation eased slightly in January. With labour force participation expected to rise, this could see the unemployment rate edge back up slightly to 5.6%.
	<b>US</b> Retail sales, Jan	Medium	-0.3%/0.3%	➔	High frequency indicators suggest that retail sales increased in January, although the fall in vehicle sales could weigh on the result.
	Business inventories, Dec	Medium	0.4%/0.4%	➔	Business inventories are expected to have grown for a third consecutive month in December as firms seek to restore inventory levels.

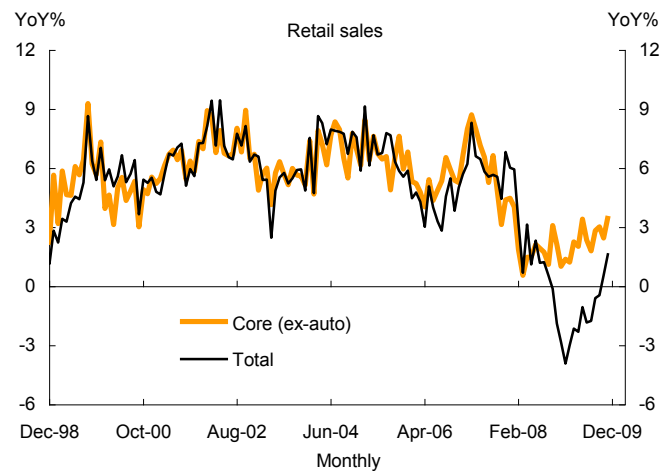
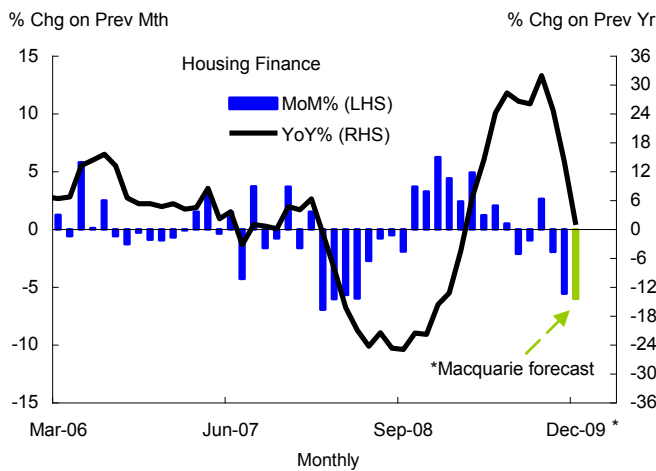
	<b>NZ</b>				
	Food prices, Jan	Medium	-0.3%/nf	→	We anticipate some moderation in food prices, which fell sharply in the final months of last year.
<b>Fri</b>	Retail sales, Dec	Medium	0.8%/0.5%	↗	Retail sales activity likely continued to recover in December, while evidence of discounting suggests that growth in the volume of sales was very solid over the quarter.
	Real retail sales, Dec qtr		0.1%/1.4%		
	REINZ House sales, Jan	Medium	15.2%/y/nf	↗	Seasonal factors are seeing some softening in the housing market recovery that began mid-way through last year. House prices are expected to have risen slightly in January, although transaction volumes remain subdued.

Source: (All above) Macquarie Research, Reuters, Bloomberg, February 2010

nf = no market forecast, na = not yet available

**Aus: Mortgage lending is expected to have softened further in December**

**NZ: Consumer spending improved from weak levels over the December quarter**



Source: ABS, Macquarie Research, February 2010

Source: Stats NZ, Macquarie Research, February 2010

**Macquarie research economic forecasts**

	Australia				New Zealand				US		
	GDP	CPI	Cash Rate	AUD/USD	GDP	CPI	OCR	NZD/USD	GDP	CPI	Fed Funds Rate
Latest	0.6	1.8	3.75	0.87	-2.2	2.1	2.50	0.69	-2.9	-0.3	0-0.25
4Q09	1.0	1.8	3.75	0.90	-1.5	1.6	2.50	0.72	-2.5	-0.3	0-0.25
1Q10	1.7	1.8	4.00	0.92	-0.3	1.2	2.50	0.72	-1.0	0.4	0-0.25
2Q10	2.5	2.1	4.25	0.91	1.0	1.2	3.00	0.71	0.8	1.5	0-0.25
3Q10	3.5	2.4	4.50	0.89	2.2	1.6	3.50	0.70	2.4	2.7	0.50
4Q10	3.8	2.6	4.75	0.87	3.0	2.0	4.00	0.69	3.3	3.2	1.00
Key issue	How fast will the cash rate rise?				When will the RBNZ begin tightening?				Can growth continue post inventory bounce?		

Source: Macquarie Research, Reuters, Bloomberg, February 2010

\*GDP and CPI annual average, policy rate and currency period end

## Month ahead in detail – February/March 2010

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
<b>8</b>	<b>9</b>	<b>10</b> AUS CONSUMER CONFIDENCE, FEB (2330, TUE) Jan: 5.6% HOUSING FINANCE, DEC (0030) Nov: -5.6%  US TRADE BALANCE, DEC (1330) Nov: -US\$36.4b  NZ ELECTRONIC CARD TRANSACTIONS, JAN (2145, TUE) Dec: 0.7%	<b>11</b> AUS EMPLOYMENT, JAN (0030) Dec: 35.2k UNEMPLOYMENT RATE, JAN (0030) Dec: 5.5% PARTICIPATION RATE, JAN (0030) Dec: 65.2%  US RETAIL SALES, JAN (1330) Dec: -0.3% BUSINESS INVENTORIES, DEC (1500) Nov: 0.4%  NZ FOOD PRICES, JAN (2145, WED) Dec: -0.3%	<b>12</b> NZ RETAIL SALES, DEC (2145, THU) Nov: 0.8% REAL RETAIL SALES, DEC QTR (2145, THU) Sep qtr: 0.1% REINZ HOUSE SALES, JAN (2100, THU) Dec: 15.2% y/y
<b>15</b> US PRESIDENT'S DAY – MARKET HOLIDAY	<b>16</b> AUS RBA MEETING MINUTES, FEB (0030) RBA ASSISTANT GOVERNOR DEBELLE SPEAKS TO THE WOMEN IN FINANCE LUNCHEON, SYDNEY (0145) NAB MONTHLY BUSINESS SURVEY, JAN (0030)  NZ PPI, DEC QTR (2145, MON) Sep qtr: Inputs: -1.1% Outputs: -1.4%  US NET LONG-TERM TIC FLOWS, DEC (1400) Nov: US\$126.8b NAHB HOUSING MARKET INDEX, FEB (1800) Jan: 15.0	<b>17</b> US FOMC MEETING MINUTES, FEB (1900) IMPORT PRICES, JAN (1330) Dec: 0.0% EXPORT PRICES, JAN (1330) Dec: 0.6% HOUSING STARTS, JAN (1330) Dec: 557k BUILDING PERMITS, JAN (1330) Dec: 653k INDUSTRIAL PRODUCTION, JAN (1415) Dec: 0.6% CAPACITY UTILISATION, JAN (1415) Dec: 72.0%	<b>18</b> AUS RBA ASSISTANT GOVERNOR LOWE SPEAKS TO THE CEDA ECONOMIC AND POLITICAL OVERVIEW 2010, SYDNEY (2200, WED) NAB QUARTERLY BUSINESS SURVEY, DEC QTR (0030)  US PPI, JAN (1330) Dec: 0.2% LEADING INDICATORS, JAN (1500) Dec: 1.1%	<b>19</b> AUS RBA GOVERNOR STEVENS TESTIFIES BEFORE THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS, CANBERRA (2230, THU)  US CPI, JAN (1330) Dec: 0.1%  NZ CREDIT CARD SPENDING, JAN (0200) Dec: -1.3%
<b>22</b> AUS NEW MOTOR VEHICLE SALES, JAN (0030) Dec: 3.3%	<b>23</b> AUS RBA DEPUTY GOVERNOR BATELLINO SPEAKS TO THE SYDNEY INSTITUTE, SYDNEY (0700)  US CONSUMER CONFIDENCE, FEB (1500) Jan: 55.9	<b>24</b> AUS WAGE COST INDEX, DEC QTR (0030) Sep qtr: 0.7% CONSTRUCTION WORK DONE, DEC QTR (0030) Sep qtr: 2.2%  US NEW HOME SALES, JAN (1500) Dec: 342k	<b>25</b> AUS PRIVATE CAPITAL EXPENDITURE, DEC QTR (0030) Sep qtr: -3.9% AVERAGE WEEKLY EARNINGS, NOV QTR (0030) Aug qtr: 0.9%  US DURABLE GOODS ORDERS, JAN (1330) Dec: 0.3% OFHEO HOUSE PRICE INDEX, DEC (1500) Nov: 0.7%  NZ NBNZ BUSINESS CONFIDENCE, FEB (0200) Jan: ~	<b>26</b> AUS PRIVATE SECTOR CREDIT, JAN (0030) Dec: 0.3%  US GDP (prelim), DEC QTR (1330) Dec qtr (adv): 5.7% PERSONAL CONSUMPTION (prelim), DEC QTR (1330) Dec qtr (adv): 2.0% CORE PCE (prelim), DEC QTR (1330) Dec qtr (adv): 1.4% EXISTING HOME SALES, JAN (1500) Dec: 5.5m  NZ TRADE BALANCE, JAN (2145, THU) Dec: NZ\$2.0m BUILDING PERMITS, JAN (2145, THU) Dec: -2.4%
<b>1</b> AUS CURRENT ACCOUNT BALANCE, DEC QTR (0030) Sep qtr: -A\$16.1b COMPANY GROSS OPERATING PROFITS, DEC QTR (0030) Sep qtr: -2.1%  US CORE PCE, JAN (1330) Dec: 0.1% PERSONAL INCOME, JAN (1330) Dec: 0.4% PERSONAL SPENDING, JAN (1330) Dec: 0.2% ISM MANUFACTURING, FEB (1500) Jan: 58.4 CONSTRUCTION SPENDING, JAN (1500) Dec: -1.2%  NZ EXTERNAL MIGRATION, JAN (2145, SUN) Dec: 8.5%	<b>2</b> AUS RBA ANNOUNCEMENT ON INTEREST RATES, MAR (0330) Feb: 3.75% RETAIL SALES, JAN (0030) Dec: -0.7% BUILDING APPROVALS, JAN (0030) Dec: 2.2%	<b>3</b> AUS GDP, DEC QTR (0030) Sep qtr: 0.2%  US FEDERAL RESERVE BEIGE BOOK, MAR (1900) ISM NON-MANUFACTURING, FEB (1500) Jan: 50.5	<b>4</b> AUS TRADE BALANCE, JAN (0030) Dec: -A\$2.3b  US NON-FARM PRODUCTIVITY (final), DEC QTR (1330) Dec qtr (prelim): 6.2% UNIT LABOUR COSTS (final), DEC QTR (1330) Dec qtr (prelim): -4.4% FACTORY ORDERS, JAN (1500) Dec: 1.0% PENDING HOME SALES, JAN (1500) Dec: 1.0%	<b>5</b> US NON-FARM PAYROLLS, FEB (1330) Jan: ~ UNEMPLOYMENT RATE, FEB (1330) Jan: ~ AVERAGE HOURLY EARNINGS, FEB (1330) Jan: ~ CONSUMER CREDIT, JAN (2000) Dec: ~

Source: Macquarie Research, Reuters, Bloomberg, February 2010

\*All times are GMT, unless otherwise stated

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**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Recommendations – 12 months**

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

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Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 31 December 2009**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	47.94%	60.52%	37.50%	43.42%	65.26%	41.60%	(for US coverage by MCUSA, 3.76% of stocks covered are investment banking clients)
Neutral	35.58%	18.70%	53.13%	49.06%	29.11%	36.80%	(for US coverage by MCUSA, 4.51% of stocks covered are investment banking clients)
Underperform	16.48%	20.79%	9.38%	7.52%	5.63%	21.60%	(for US coverage by MCUSA, 0.00% of stocks covered are investment banking clients)

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