



CBA London

Daily Alert

- G7 communiqué largely glazes over FX policy but takes a more aggressive stance on China.
- Australian Q3 PPI points to upside risk in the all-important CPI, due later this week.

Indicative Market Rate

Information current as at 7.00am UK time Source: Bloomberg

BONDS				US\$ SPREAD				A\$ FUTURES		CURRENCIES	
	US	CAD	AUS	NZ	CAD	AUS	NZ	Bill IR1	93.05	EUR	1.4297
2yr	3.87	4.24	6.51	6.99	36	264	311	3yr YM1	93.52	AUD	0.8901
5yr	4.11	4.31	6.46	6.82	21	235	271	10yr XM1	93.86	NZD	0.7473
10yr	4.47	4.38	6.12	6.43	-8	165	196			CAD	0.9741
SWAPS		AU\$	%ch	NZ\$	%ch	OIS	AU\$	NZ\$	EQUITIES		%ch
2yr	7.06	-0.01	8.44	-0.01	3	6.65	8.35	Dow	13,889	-0.03	
3yr	7.05	-0.02	8.25	-0.01	6	6.77	8.44	Nikkei	16,814	-1.71	
5yr	6.98	-0.04	7.97	-0.01	12	6.98	8.59	HangSeng	29,465	0.57	
7yr	6.88	-0.05	7.79	0.01				ASX200	6,706	-0.91	
10yr	6.82	-0.01	7.62	0.01				NZSE50	4,316	0.07	

Looking ahead: There is little in the way of data due today, with Fed speakers Kroszner (12:15GMT) and Evans (23:00GMT) the focus. ECB President Trichet speaks later in New York (0:45GMT). US housing data will take the spotlight this week, with more weakness widely expected. Further deterioration in housing activity will reinforce the market's view that the Fed will cut interest rates a further 25bps at its FOMC meeting next week. In Australia, markets await Wednesday's CPI. Today's PPI release pointed to upside risk to our +0.8% forecast.

Bonds: Stronger-than-expected domestic data wrestled with a weaker share market (ASX 200 -1.9%, NKY -2.2%) and offshore influences today (including the stronger bid tone set by US Treasuries on Friday, worries about the US economic outlook rising, risk aversion rising) to deliver a mixed performance for the local bond market. The domestic data was the Australian final producer prices (PPI) – which precedes the Q3 Australian CPI on Wednesday (largely seen as the decider of near-term RBA rate moves). The PPI increased by 1.1% in the September quarter (2.4%pa), slightly higher than last quarter. The result was higher than expected (median forecast: 0.8% and 2.1%pa) and was driven by higher costs for building construction and fruit & vegetable prices. Our measure of the core PPI indicates a significant increase in prices of 1.1%. We have left our CPI forecast of 0.8% Q/Q unchanged for Q3 but the risks are now tilted to the upside. Australian 3-year bond yields rose by 3bp compared to Friday's close, but were down as much as 3bp before the stronger-than-expected PPI release after the US rally. Aussie 10-year bond yields closed 2bp lower, but were also well up on the morning levels. The result was a further marked widening in the Australian-US spreads widened, as investors' perceptions of the US economic outlook deteriorated and expectations for more US rate cuts heightened. The Australian-US 2-year spread widened by 11bp to 277bp and the 10-year spread widened by 4bp to 170bp. The Australian 3-10-year bond futures curve inverted by 4bp to -38.5bp. Australian EFP swap spreads widened by 3.5bp for the 3-year maturity and by 1bp for the 10-year maturity. The widening reflects the safe-haven bid for bonds and the rising risk aversion among investors, along with the further inversion of the yield curve. These spreads have widened 9bp and 5bp, respectively, in total since October 15. There is little economic data on the horizon globally later today, but the US reporting season continues. So we expect the earnings season to dictate equity moves, and therefore, bond moves later today.

FX: The USD came under renewed pressure in late New York trade on Friday after the G7 communiqué was leaked early. The G7 statement largely glazed over currency policy and did not include any reference to concern over USD weakness, after some speculation last week that this would be the case. While US Treasury Secretary Paulson reiterated that a strong USD is in the country's interest, he also said that currencies should be market determined. The only notable change in the G7 communiqué was a more explicit stance on China, with the Group of Seven calling for a "need to allow an accelerated appreciation of its effective exchange rate", a step up from earlier calling for the currency to "move". The greenback weakened further ahead of the Asian open on Monday as stops said to be in place above 1.4350 in EUR/USD were targeted. A high of 1.4348 has been achieved so far. USD/JPY was largely sidelined with initial trade down through 114 to a low of 113.26 before the pair rebounded moderately. Cable jumped but met supply near 2.0550, with GBP coming under pressure against other crosses. Plummeting equity markets and renewed risk aversion have seen AUD and NZD lower, with the currencies touching lows of US\$0.8842 and US\$0.7388 in Asian trade. The stronger than expected increase in Australia's Q3 producer price index, which points to upside risk in this week's all-important CPI, boosted AUD against the NZD, with the pair reaching 1.1936, the highest level since July.

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Commodities: Crude oil prices hit record levels intra-day on Friday, at one stage reaching above US\$90 per barrel. Traders booked profits and weaker US earnings sparked expectations of lower demand. The November Nymex crude oil quote softened by US95c a barrel to US\$88.60. Base metal prices ended mixed on the London Metal Exchange on Friday. The weakening outlook for the US economy weighed on the complex but the declining US dollar provided some price support. The price of gold eased in line with softer crude oil price.

Stocks: US share markets slumped as investors moved away from riskier investments, concerned about weakness in company earnings. The financials and energy sectors were the biggest weight on the US share markets. Industrial bellwether Caterpillar posted weaker-than-expected third quarter earnings and outlook, while the fourth largest US bank, Wachovia, saw a 10% decline in earnings. The DJI plummeted 367pts or 2.6%, while the Nasdaq declined by 74 points or 2.7%. The Australian share market followed US markets lower on Monday, with the ASX 200 closing down 1.9%.

Economic Developments

\$-Bloc (US, Canada, Australia and New Zealand)

US

- No major releases.

We expect further easing from the Fed in the near-term in the form of two 25bp rate cuts at the next two meetings.

Canada

- **Canada's core CPI** came in higher than expected in September (+0.4% vs +0.2%), with broadbased upside. Annual inflation on a headline basis jumped to 2.5% from 1.7% on the back of base effects, reinforcing that the Bank of Canada has no scope to cut interest rates in the near-term.

We think rate hikes from the current rate of 4.50% are off the agenda in the foreseeable future given the risks to the US outlook.

Australia

- **Final producer prices increased by 1.1% in the September quarter (2.4%pa), only slightly higher than last quarter.** The higher than expected result (median forecast: 0.8% and 2.1%pa) is based on higher costs for building construction and fruit & vegetable prices. Our measure of the core PPI indicates a significant increase in prices of 1.1%. We have left our CPI forecast of 0.8% unchanged but the risks are tilted to the upside.

We believe the RBA will leave the cash rate on hold at 6.50% in the foreseeable future. The central bank maintains a tightening bias.

New Zealand

- No major releases.

We think the RBNZ will leave the OCR unchanged at 8.25% until late 2008, when we expect easing to begin.

Europe

- No major releases.

We expect the ECB to leave its key policy rate unchanged at 4.0% in the foreseeable future amid the current market turbulence.

UK

- No major releases.

Given recent money market developments, we believe the Bank of England will leave the key policy rate

unchanged at 5.75% in the foreseeable future.

Japan

- No major releases.

We expect the BoJ to leave rates unchanged until mid 2008.

Economic Preview

US

No major releases.

Canada

No major releases.

Australia

No major releases.

New Zealand

No major releases.



Economic Calendar

	Time						Forecast				
Date	UK	Econ	Event	Period	Unit	Last	Market	CBA			
Mon 22 Oct	2.30	AU	PPI	QIII	q%ch	1.0	~	0.9			
					y%ch	2.3	~	2.2			
	19.45	EZ	ECB's Trichet speaks in New York								
Tues 23 Oct	0.00	EZ	Chicago Fed President Charles Evans speaks on economic outlook								
	10.00	EZ	Industrial new orders	Aug	m%ch	-4.0	~	~			
					y%ch	10.9	~	~			
	13.30	CA	Retail sales	Aug	m%ch	-0.8	0.5	~			
	15.00	US	Richmond Fed manufacturing	Oct	Index	14.0	~	~			
Wed 24 Oct	0.50	JP	Merchandise trade	Sep	¥bn	743.2	1,502.4	~			
	0.50	JP	Adjusted merchandise trade	Sep	¥bn	1,144.9	933.0	~			
	2.00	AU	DEWR skilled vacancies	Oct	m%ch	0.1	~	~			
	2.30	AU	CPI	QIII	q%ch	1.2	0.9	0.8			
y%ch					2.1	2.1	2.0				
RBA trimmed mean					q%ch	0.9	~	0.8			
					y%ch	2.7	~	2.8			
RBA weigh median					q%ch	0.9	~	0.8			
					y%ch	2.8	~	2.8			
9.00					EZ	Current account	Aug	€bn	1.7	~	~
15.00					US	Existing home sales	Sep	m%ch	-4.3	-4.0	~
	21.00	NZ	Official cash rate	Oct	%	8.25	8.25	8.25			
Thu 25 Oct	0.50	JP	Corp service prices	Sep	y%ch	1.0	1.0	~			
	9.00	GE	IFO business climate	Oct	Index	104.2	103.7	~			
	9.00	GE	IFO Current assessment	Oct	Index	109.9	109.7	~			
	9.00	GE	IFO Expectation	Oct	Index	98.7	98.4	~			
	13.30	US	Durable goods orders	Sep	%	-4.9	1.5	~			
	15.00	US	New home sales	Sep	m%ch	-8.3	-2.5	~			
Fri 26 Oct	0.30	JP	CPI	Oct	y%ch	-0.2	-0.2	~			
	0.30	JP	CPI ex-fresh food	Oct	y%ch	-0.1	-0.1	~			
	0.30	JP	CPI ex-food, energy	Oct	y%ch	-0.2	-0.2	~			
	0.50	JP	Industrial production	Sep	m%ch	3.5	-1.2	~			
					y%ch	4.4	1.1	~			
	7.10	GE	GfK consumer confidence survey	Oct	%	6.8	6.5	~			
	15.00	US	Uni of Michigan confidence	Oct	Index	82.0	82.3	~			


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