

Budget & Economic Update

James McIntyre
Senior Economist
(612) 9118 1100
james.mcintyre@cba.com.au

May 2011

**Institutional
Banking & Markets**



CommonwealthBank

Important Information

This advice has been prepared without considering your objectives, financial situation or needs, and before acting on the advice, you should consider its appropriateness to your circumstances.

Commonwealth Bank of Australia (“CBA”) as a provider of investment, borrowing and other financial services undertakes financial transactions with many corporate entities in Australia. This may include any corporate issuer referred to in this report.

For US and US investors: If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the “US Broker-Dealer”), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the “Exchange Act”) and a member of the Financial Industry Regulatory Authority (“FINRA”) at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 (“the Bank”) and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC (“US Broker-Dealer”) is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability.

Please see further disclaimers at the back of this document. Please also view our website at www.research.commbank.com.au for a more detailed disclaimer.

Our View

■ Global growth to run near trend

- natural disasters disrupting activity but upside risks in some advanced economies;
- growth skewed towards emerging economies – commodity supportive;
- financial market shocks and balance sheet strains the main risk to the real economy.

■ Australian to run at trend or a touch higher

- base momentum locked in by the China-commodity-income boost and capex boom;
- nominal strength driving capex plans and labour hiring;
- consumer caution in a rising rates environment the key domestic risk;
- limited economic slack so inflation risks are to the high side;
- flood impact a short-term risk to growth and inflation.

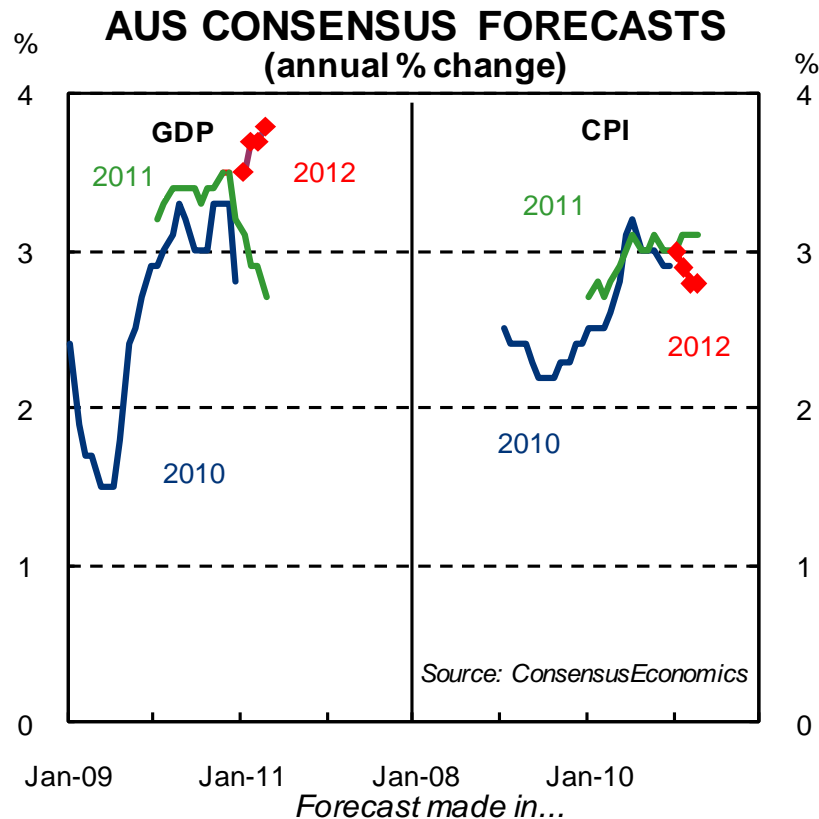
■ Economic policy and markets

- inflation risks and resource allocation needs mean cash at 5¾% by early 2012;
- global recovery and policy moves imply higher yields and a flatter curve;
- spreads to narrow and curve to flatten;
- AUD to move higher (USD1.12 peak) before secular USD uptrend begins late 2011.



The Australian Consensus

Evolution of consensus Australian growth and inflation forecasts



- Consensus forecasts for economic growth envisage a flood-related hit in 2011 and a sizeable bounceback in 2012.
- Inflation is expected to run at the top end of the RBA's 2-3% target range.

CBA & The Consensus

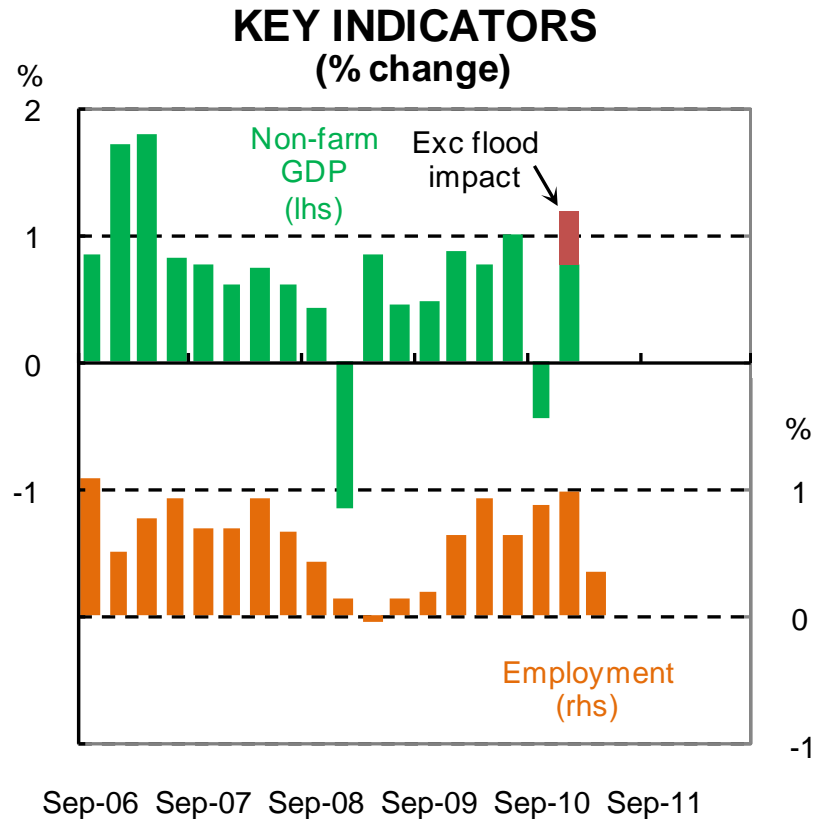
	Below	At	Above
Fundamentals:			
Growth		✓	
Growth risks			✓
Inflation		✓	
Inflation risks			✓
Unemployment		✓	
Current a/c balance			✓
Rest of World			✓
Markets:			
Short end			✓
Long end			✓
AUD			✓

CBA Economic Forecasts

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2006	2007	2008	2009	2010	2011	2012
	(a)	(a)	(a)	(f)	(f)	(f)	(a)	(a)	(a)	(a)	(a)	(f)	(f)
Economic Activity													
Private final demand	6.4	0.1	0.8	2.9	5.6	4.4	3.7	7.1	3.1	-0.7	2.0	4.4	5.2
<i>Of which:</i> Household spending	4.7	0.2	2.1	3.0	3.1	3.0	3.4	5.4	1.9	1.0	2.7	3.1	3.0
Dwelling investment	1.2	-1.9	2.1	2.4	4.1	-0.2	-3.0	3.0	2.1	-4.2	4.8	2.3	2.8
Business investment	15.8	1.4	-4.9	4.3	15.1	10.8	8.5	16.1	9.5	-5.3	-0.9	10.9	14.1
Public final demand	4.2	3.6	6.7	6.0	2.7	0.4	3.7	3.4	6.3	1.6	9.1	5.1	-0.6
Domestic final demand	5.9	0.9	2.1	3.7	4.9	3.4	3.7	6.3	3.8	-0.1	3.6	4.6	3.8
Inventories (contrib to GDP)	0.0	-0.4	0.3	-0.1	0.1	0.1	-0.4	0.6	-0.3	-0.4	0.4	-0.1	0.2
GNE	5.9	0.4	2.4	3.6	5.0	3.5	3.2	6.9	3.5	-0.5	4.1	4.5	4.0
Exports	4.0	2.6	5.1	3.4	7.1	8.5	2.3	2.5	4.7	2.8	5.3	3.8	8.4
Imports	14.6	-3.3	4.9	10.1	10.3	8.5	7.0	12.2	11.5	-9.0	13.2	10.5	8.6
<i>Net exports (contrib to GDP)</i>	<i>-2.1</i>	<i>1.4</i>	<i>0.1</i>	<i>-1.5</i>	<i>-0.8</i>	<i>-0.1</i>	<i>-0.8</i>	<i>-1.9</i>	<i>-1.5</i>	<i>2.8</i>	<i>-1.6</i>	<i>-1.6</i>	<i>0.0</i>
GDP	3.8	1.4	2.3	2.4	4.1	3.4	2.6	4.6	2.6	1.3	2.7	2.9	3.8
Prices & Wages													
CPI	3.4	3.1	2.3	3.0	3.0	2.7	3.5	2.3	4.4	1.8	2.8	3.2	2.9
Underlying CPI	3.7	4.3	3.1	2.3	3.0	2.9	2.8	2.9	4.4	3.7	2.6	2.6	3.1
AWOTE	4.9	5.5	5.6	4.0	4.2	3.9	3.4	4.8	4.8	5.7	4.9	4.0	4.2
WPI	4.1	4.1	3.0	3.9	4.1	4.0	4.2	4.0	4.2	3.6	3.3	4.2	4.0
Real h/hold disposable income	2.9	8.5	1.0	4.3	1.3	2.8	5.7	6.4	4.7	5.8	2.2	2.8	1.9
Labour Market													
Employment	3.0	1.6	1.4	3.0	1.7	2.0	2.6	3.1	2.8	0.7	2.7	2.2	1.8
Unemployment rate	4.2	4.9	5.5	5.0	4.6	4.5	4.8	4.4	4.3	5.6	5.2	4.8	4.5
External Accounts													
Current Account: \$bn	-74.5	-38.5	-53.3	-28.2	-47.1	-56.2	-55.2	-70.2	-55.2	-52.9	-34.5	-35.6	-54.7
<i>% of GDP</i>	<i>-6.3</i>	<i>-3.1</i>	<i>-4.1</i>	<i>-2.0</i>	<i>-3.2</i>	<i>-3.5</i>	<i>-5.3</i>	<i>-6.2</i>	<i>-4.5</i>	<i>-4.2</i>	<i>-2.6</i>	<i>-2.5</i>	<i>-3.6</i>

“Looking Through”

2010: a good finish



■ Real GDP rose by 0.7% in QIV 2010 (or 2.7%pa).

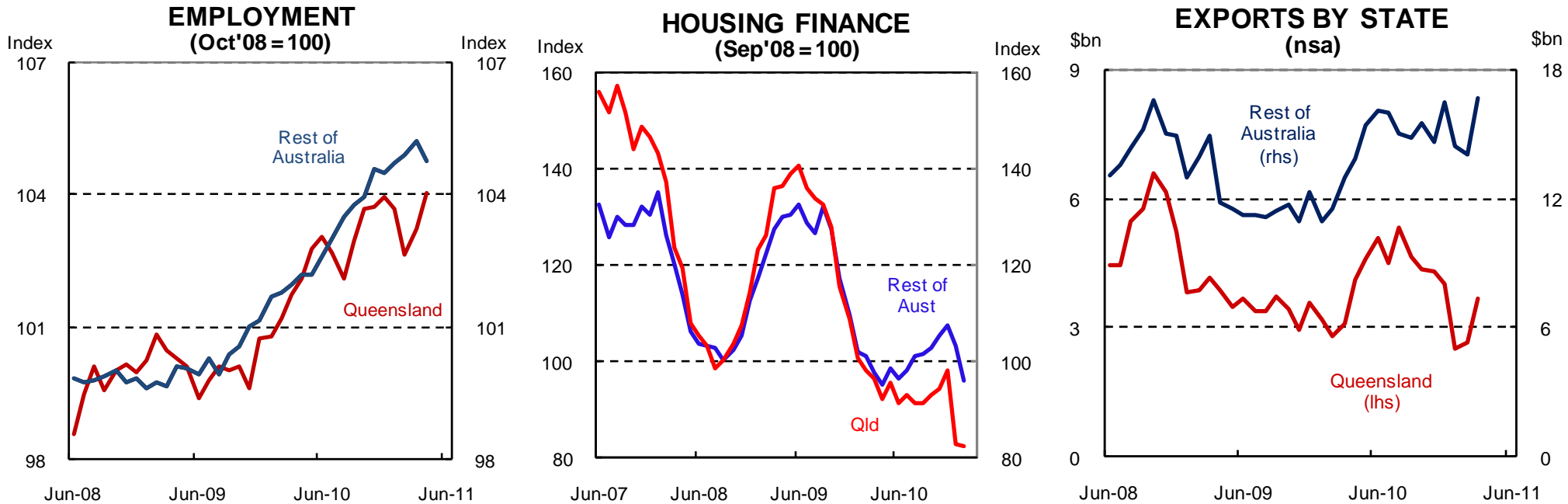
■ Initial impact of floods reduced output growth by $\approx 1/4$ - $1/2$ ppt.

■ **Implications:**

- QIII weakness an aberration;
- economy well placed to absorb the “black swan” events of early 2011.

“Looking Through”

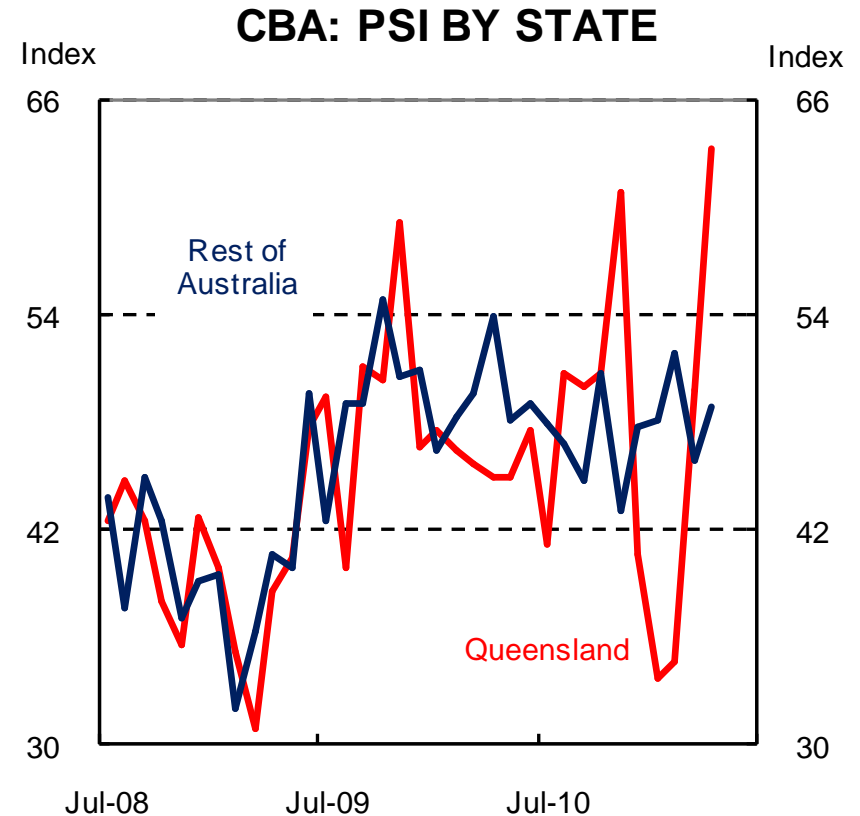
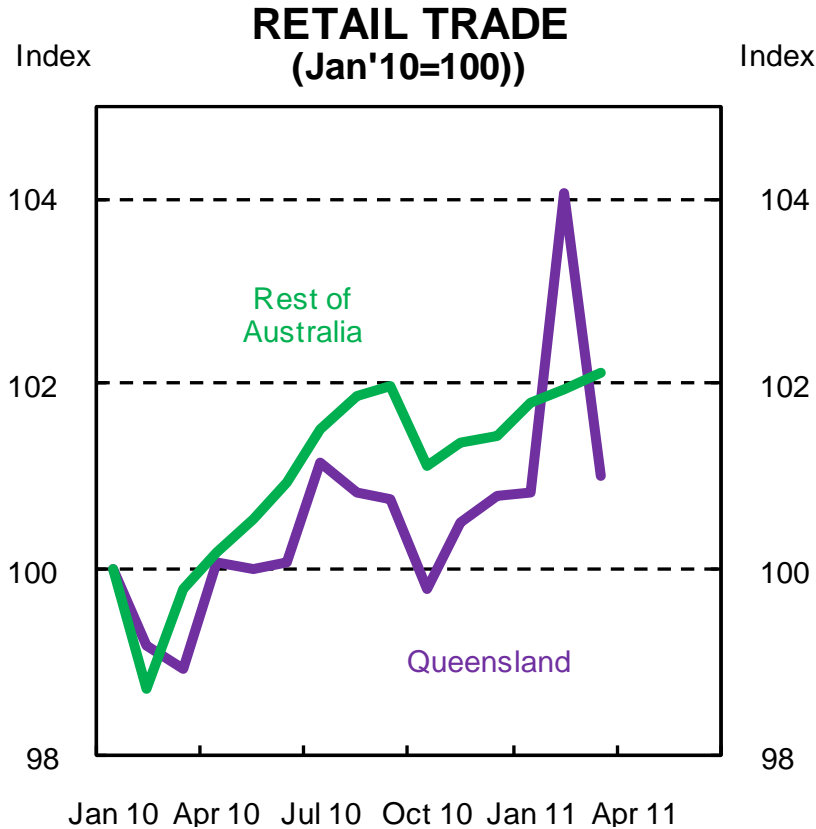
2011: a bad start



- Queensland data for early 2011 was exceptionally weak.
- Distorting “headline” outcomes.

“Looking Through”

2011: rebuild



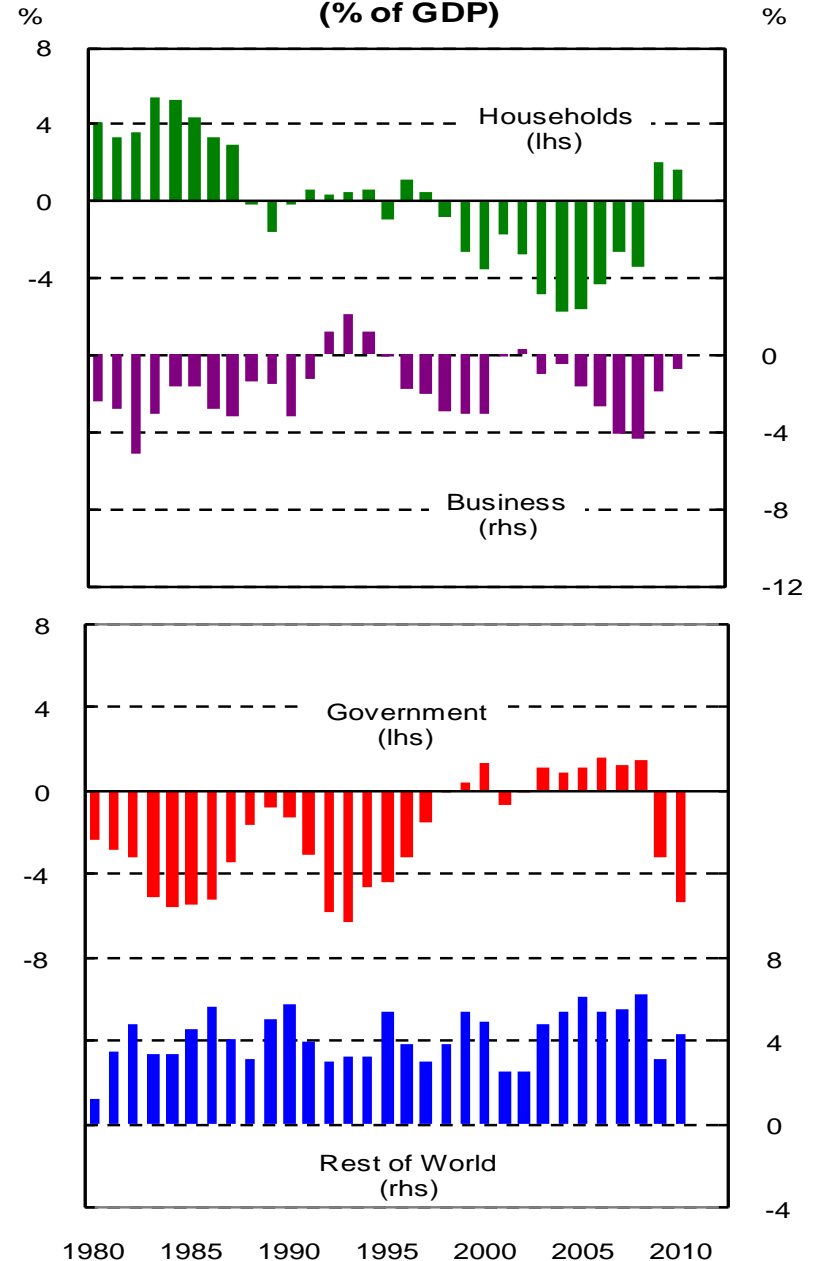
- **Some Qld indicators have “bounced”.**
- **Supports the view that the depressing influence of the floods will be shortlived and that the rebuild stimulus will offset much of the output loss.**

The Budget & The Economy

What did we want?

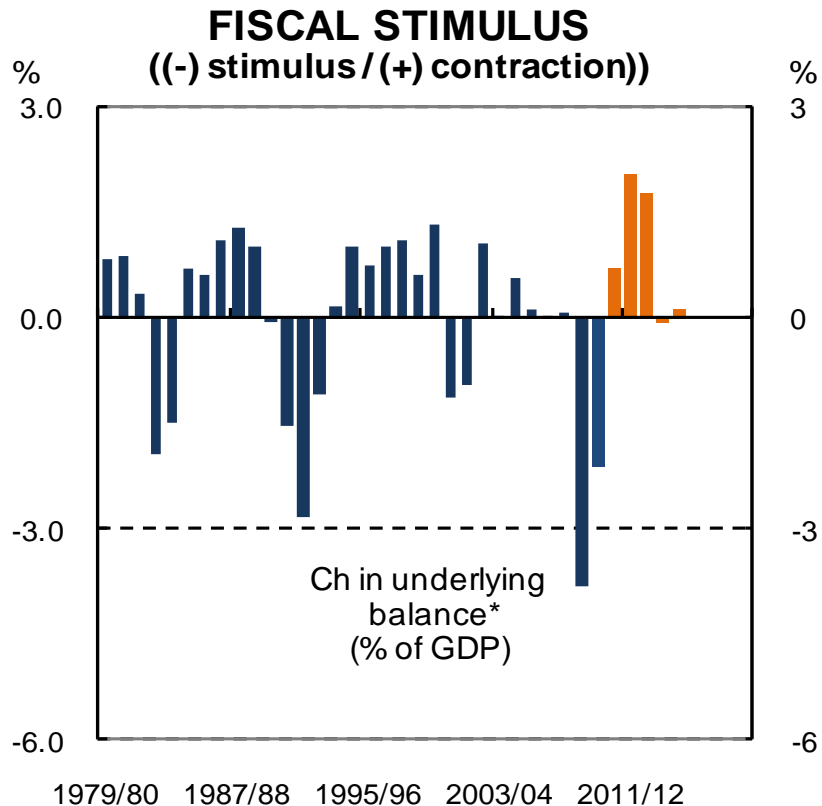
- The fundamental policy challenge is dealing with inflation risks and resource allocation pressures in a fully-employed economy.
- Mining Boom Mk II means businesses will be large net borrowers.
- Global uncertainties and fragile markets place a limit on accessing the savings of the rest of the world.
- Mining boom Mk II is also driving significant structural change.
- Implications for the Budget:
 - measures to get the Budget back into surplus as soon as possible;
 - measures to encourage household savings;
 - measures to assist structural change and ameliorate negative externalities.

AUSTRALIA: NET LENDING BY SECTOR (% of GDP)



The Budget & The Economy

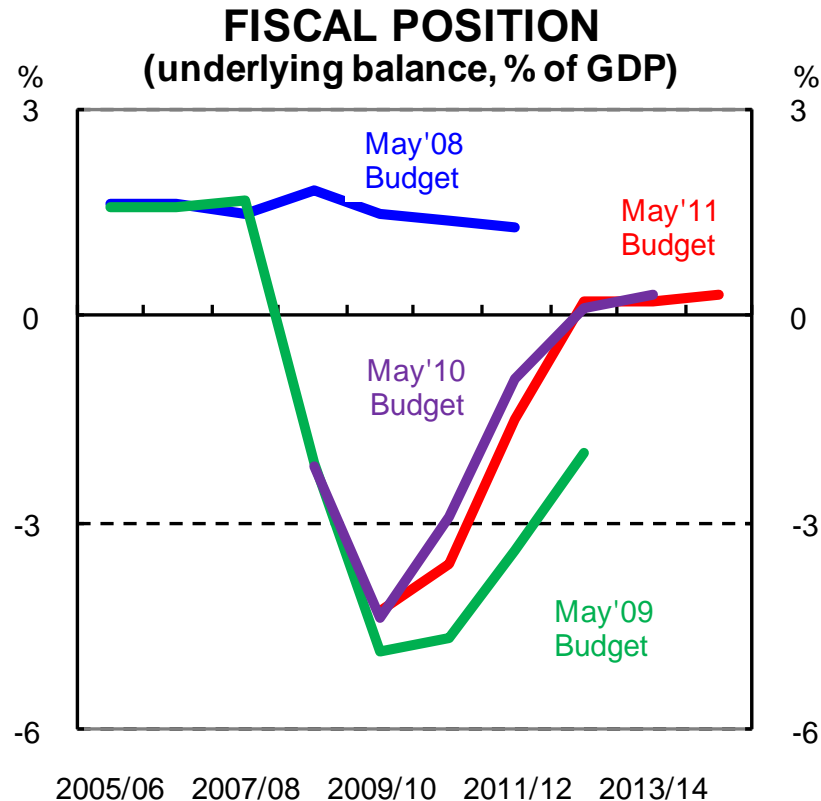
What did we get? The Budget & the cycle



- **Fiscal policy is moving in a contractionary direction, complementing monetary policy.**
- **The swing in the underlying budget position, a proxy for the policy stance, is equivalent to 3.8% of GDP from 2010/11 to 2012/13.**
- **Limited household-related initiatives impose some restraint on the upper end of the income range (eg winding back health insurance rebate flood levy) but support activity at the lower end of the range (eg changes to low income tax offset).**

The Budget & The Economy

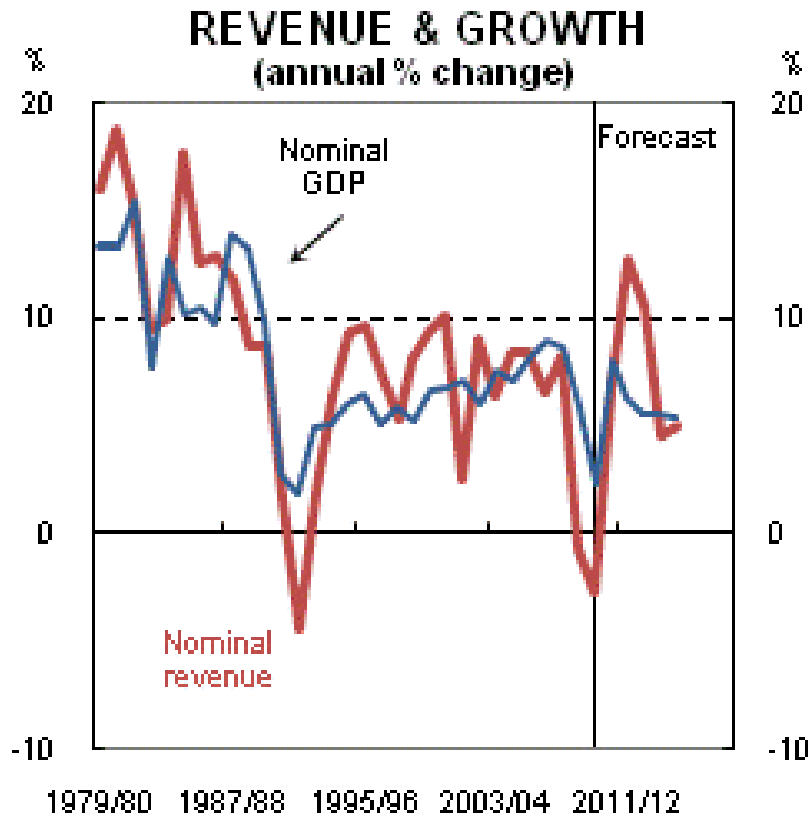
What did we get? The Budget & the RBA



- **Fiscal policy is moving in a contractionary direction but that has been the case for a while:**
 - 2011 Budget just keeps that consolidation on track.
- **Fiscal consolidation fully factored in to RBA forecasts (which still show a rising inflation trend not consistent with the 2-3% target).**
- **The Budget won't change the direction of monetary policy**

The Budget & The Economy

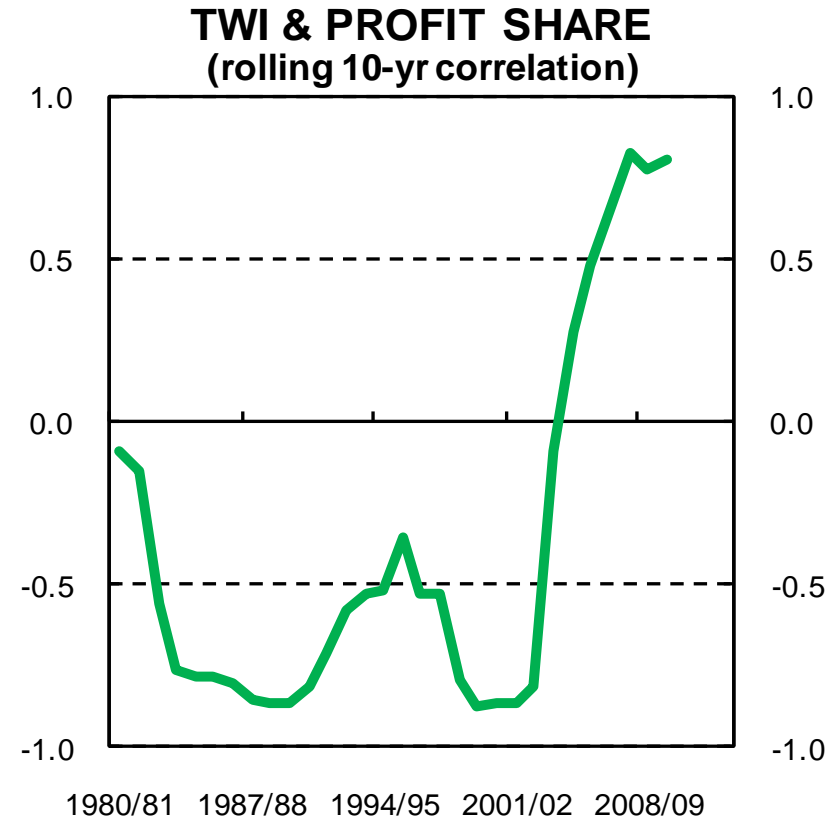
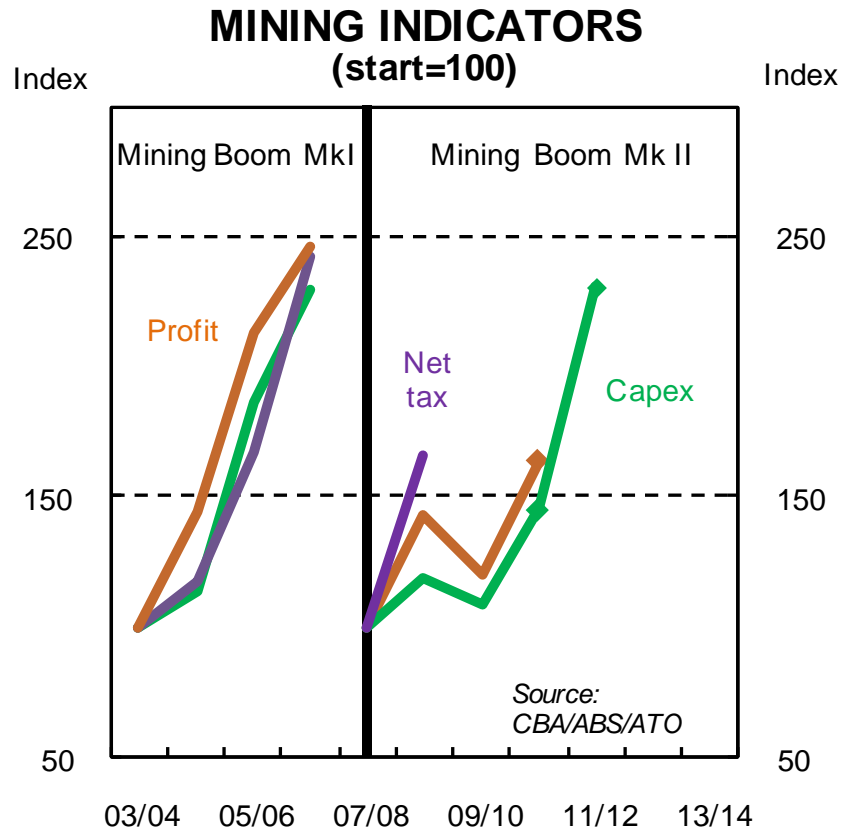
Revenue surprise



- Revenue growth surprisingly strong given pre Budget commentary about revenue pressures and shortfalls.
- Nevertheless, Budget projections assume that Mining Boom Mk II won't generate the same "rivers of gold" as Boom Mk I.
- The high AUD and the deductions generated by rising mining capex are expected to dilute the revenue contribution from high mining profits.
- Accumulated losses are expected to restrain capital gains tax revenues.
- Risk is that revenues surprise on the high side.

The Budget & The Economy

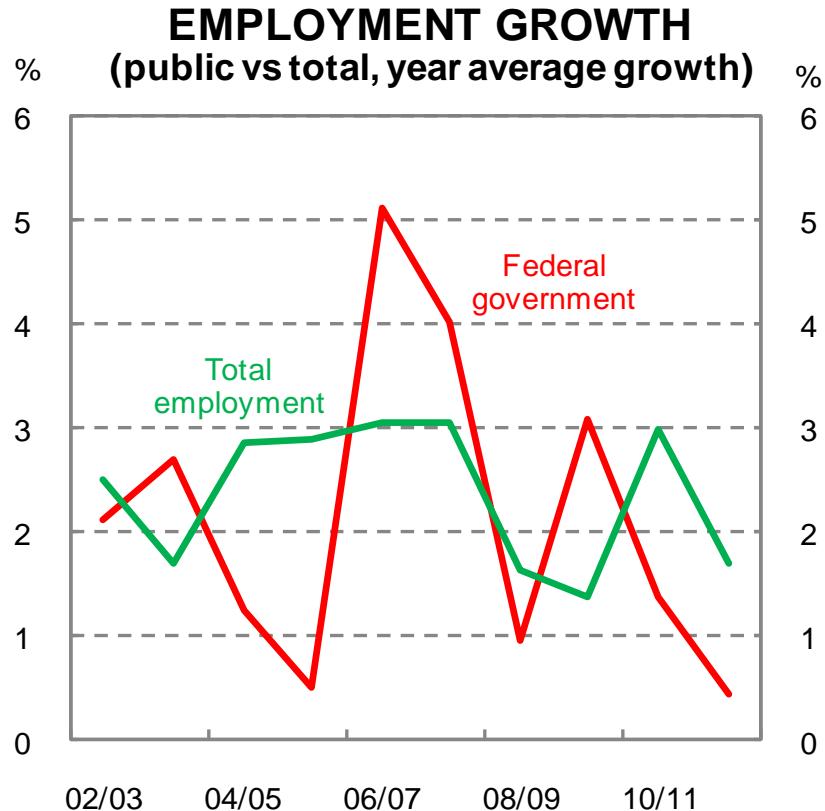
Rivers of gold?



- **Historical experience says Mining Boom Mk II will generate revenue.**
- **The higher AUD is an income story – less threatening for revenues?**

The Budget & The Economy

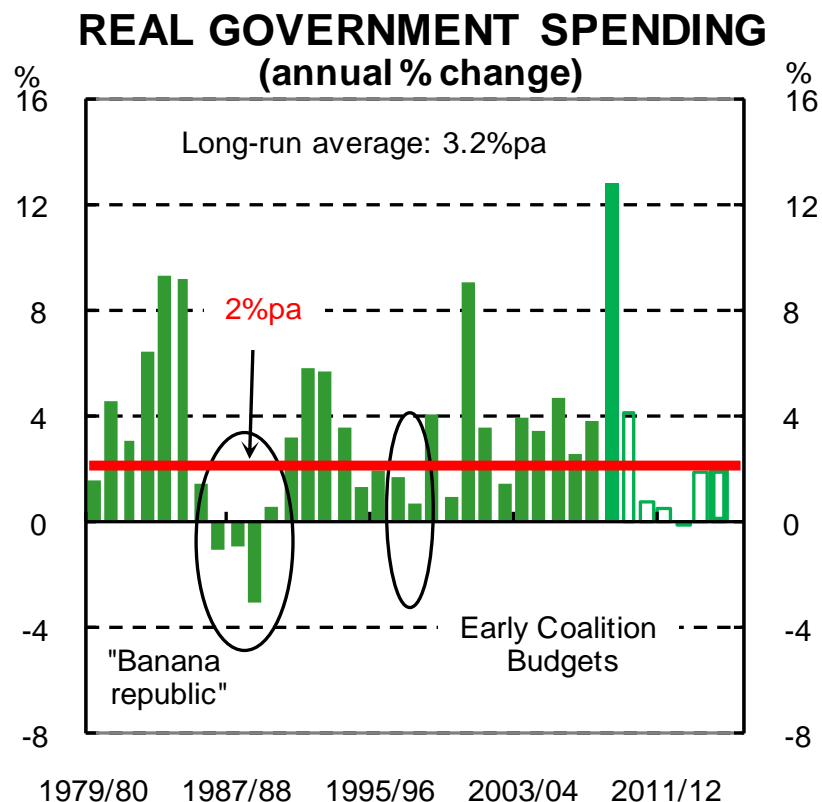
Not adding to the problem



- Spending restraint in the Budget will be paying off in 2011/12.
- Government will not be adding significantly to labour market demand. Only 1,104 extra Federal Govt jobs.
- Smallest % growth in Federal payrolls since at least 2001/02.
- Good for interest rates, bad for Canberra's economy.

Expenditure Forecasts

Spending restraint sustained, but signs of weakening resolve post 2012/13



- The 2% limit for growth in real spending has been met.
- The fiscal effort is a middle-of-the-road type outcome compared with previous efforts at fiscal repair.
- Signs discipline may be fraying post surplus are developing.

The Budget & The Economy

What did we get? The Budget & the long run

$$\text{GDP} = \beta \alpha \rho (1 - \mu) \theta \pi$$

Where:

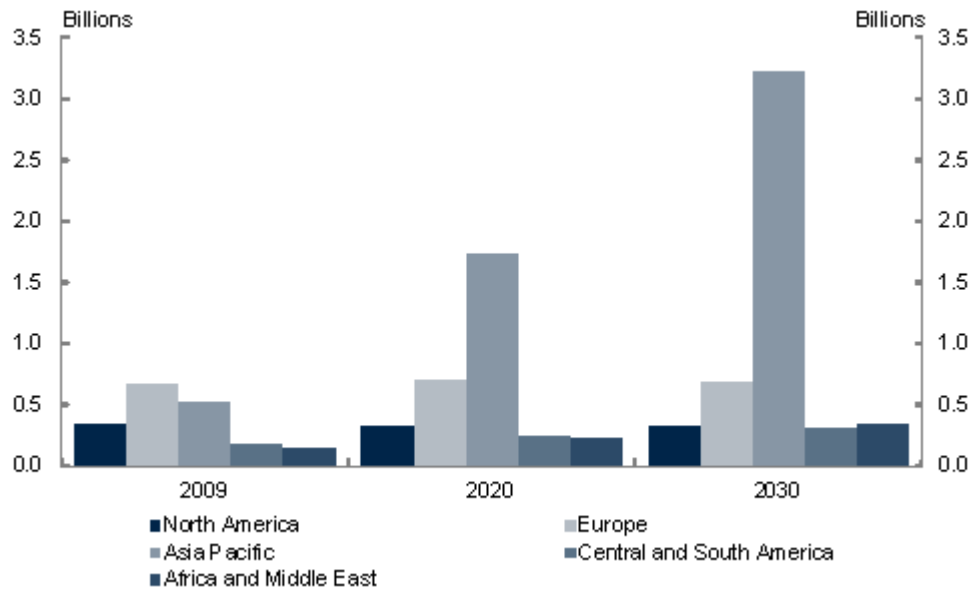
- β = population size
- α = % of population of working age
- ρ = participation rate
- μ = unemployment rate
- θ = average hours worked
- π = GDP per hour worked

- The fundamental economic growth equation over the long run is based on the 3 P's – productivity, population and participation.
- Policy makers tend to dress up all measures as adding to the 3P's.
- But measures focussing on increasing skilled migration, educating and skilling the workforce, improving the welfare-to-work trade-off and boosting infrastructure are all positives for the longer-run economic picture.

The Budget & Structural Change

Australia to benefit from “Phase II” given proximity and capabilities.

Global middle class by region, persons

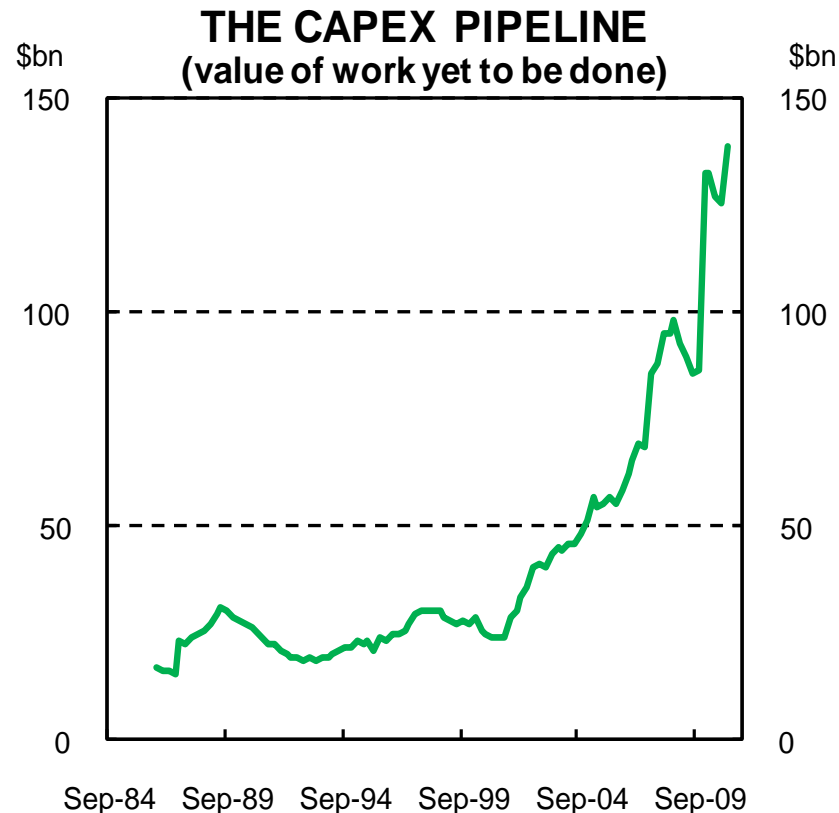
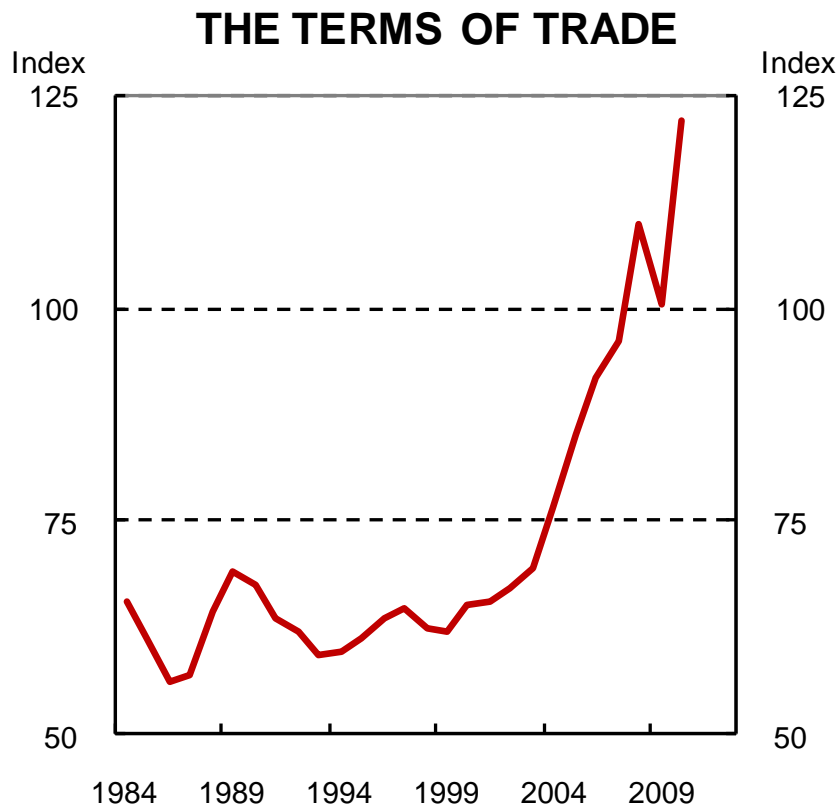


Source: Kharas and Gertz (2010).

- **Phase two comes with rising Asian middle class.**
- **Shift in demand growth from commodities to higher-order goods and services.**
- **Benefits beginning to flow to wine, tourism and education industries.**

“Looking Through”

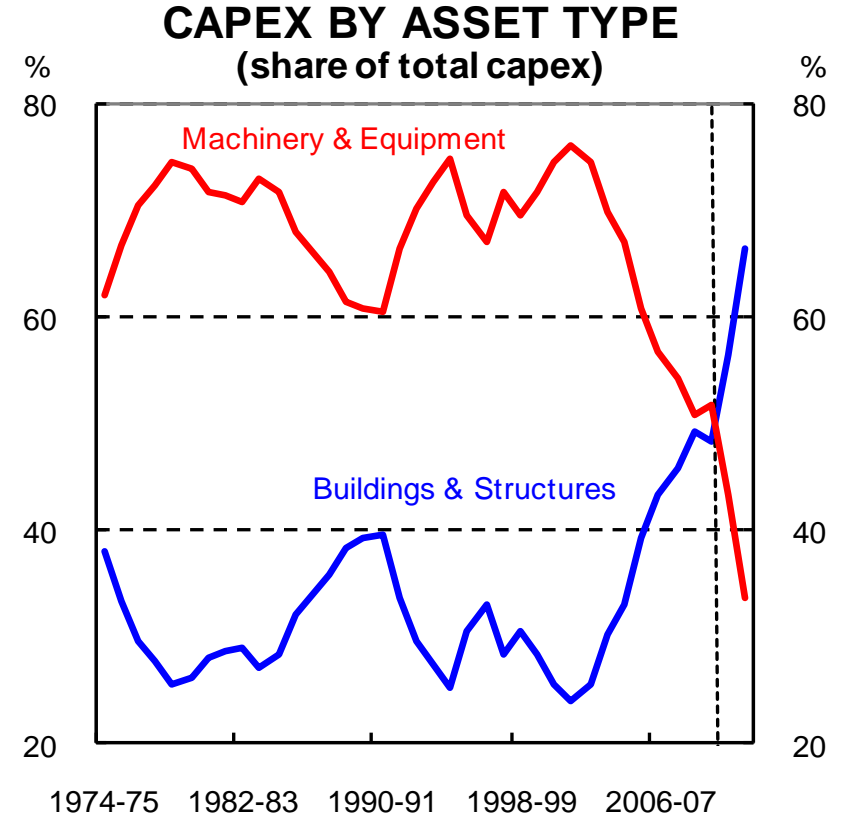
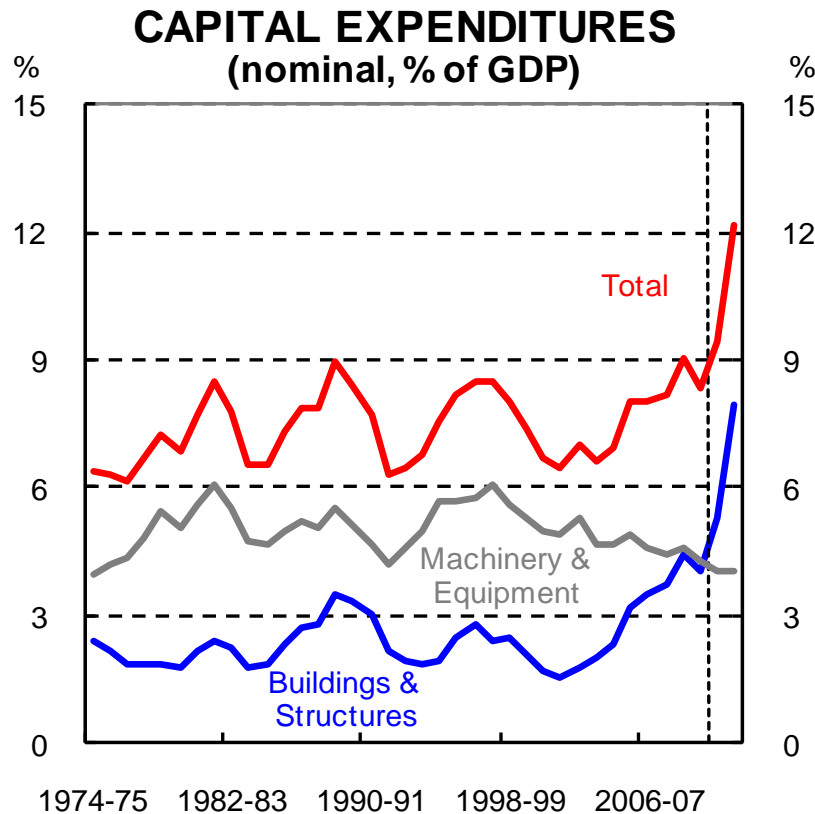
Locked and loaded



- **Robust income growth locked-in through elevated commodity prices.**
- **Robust capital spending locked-in through multi-year projects that have started.**

Investment outlook

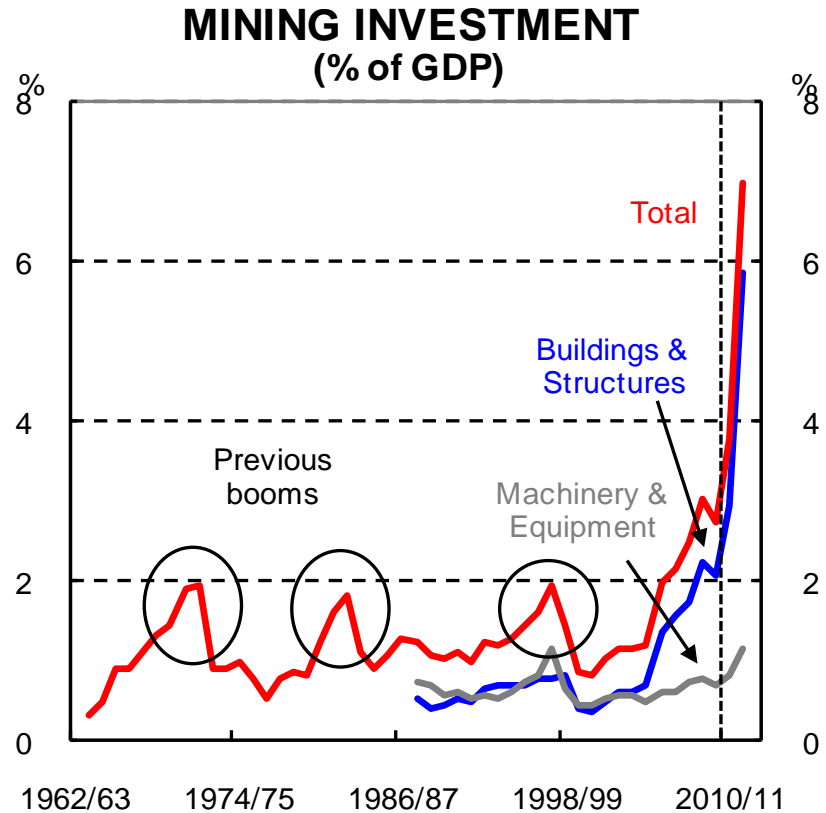
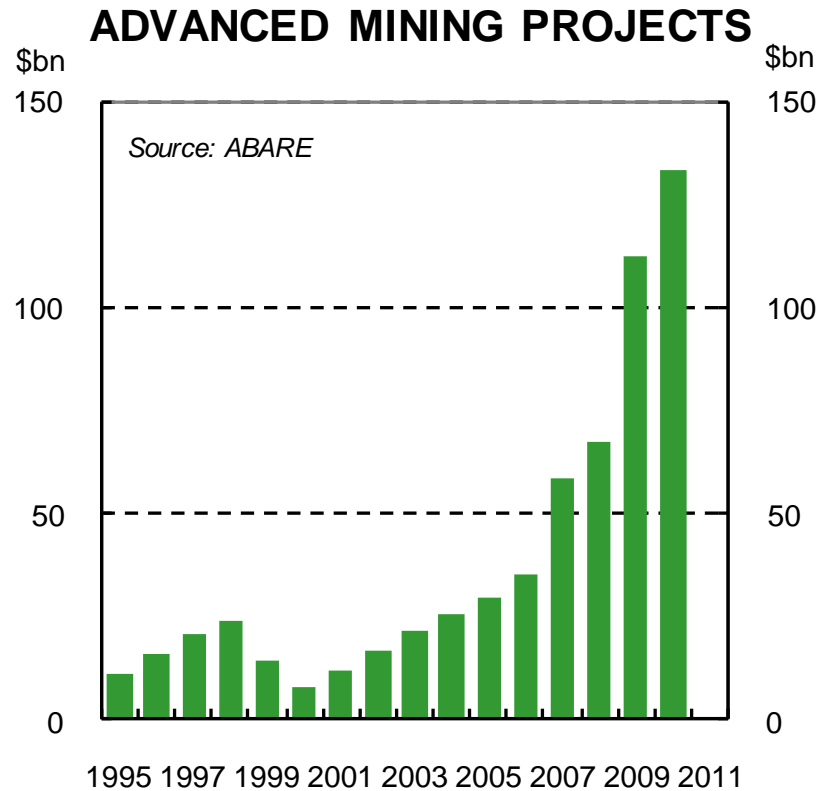
Economy needs to make room for investment boom



- Firms planning major investment surge in 2011/12. \$50bn boost to \$182bn.
- Rest of economy (consumers) will need to make room for construction intensive boom.

Investment outlook

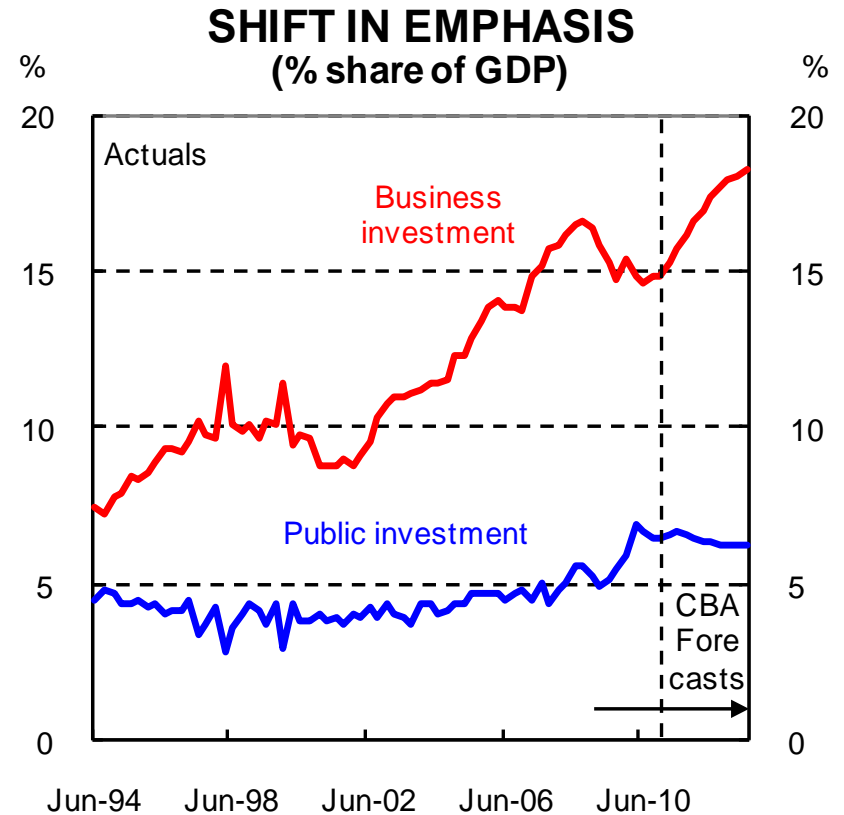
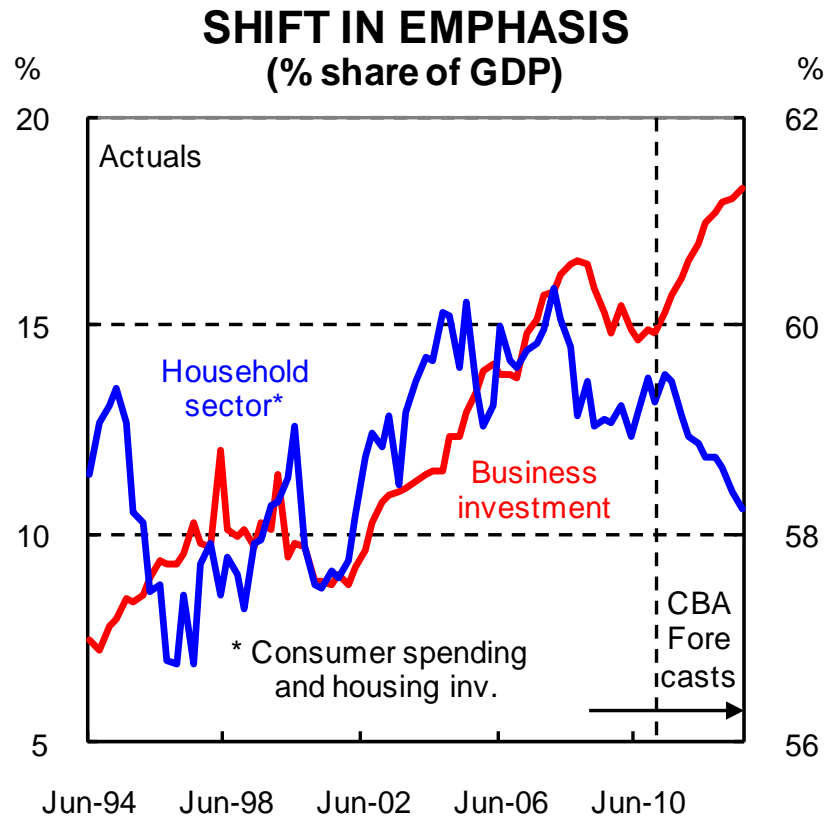
Planned mining investment boom bigger than any before



- Mining investment to increasingly dominate investment outlook.
- Recent survey suggests investment spending to double to \$100bn in 2011/12.

Investment outlook

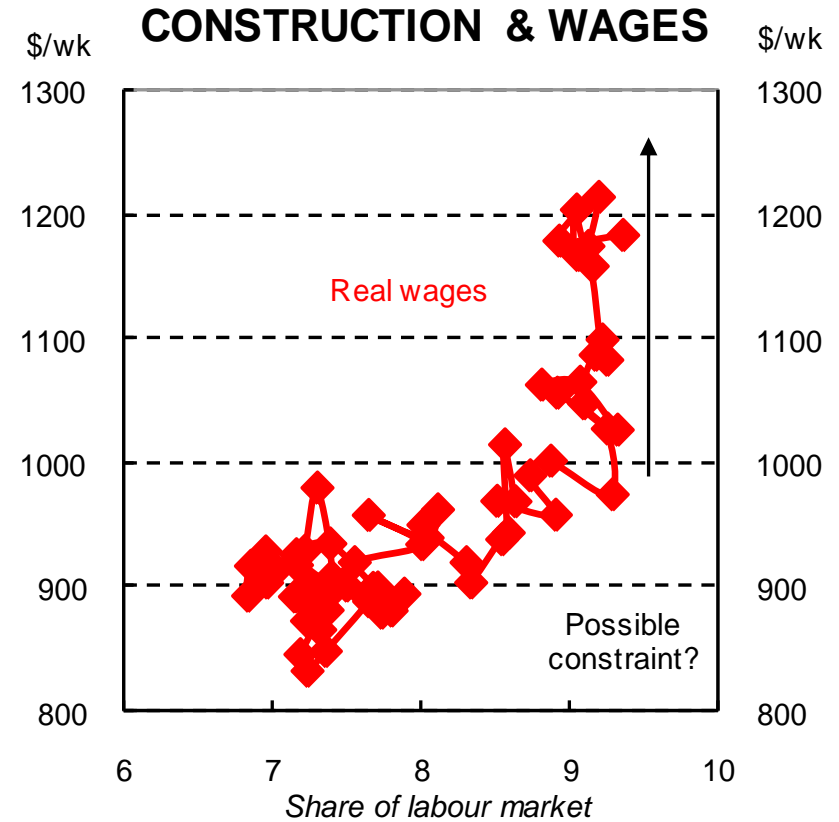
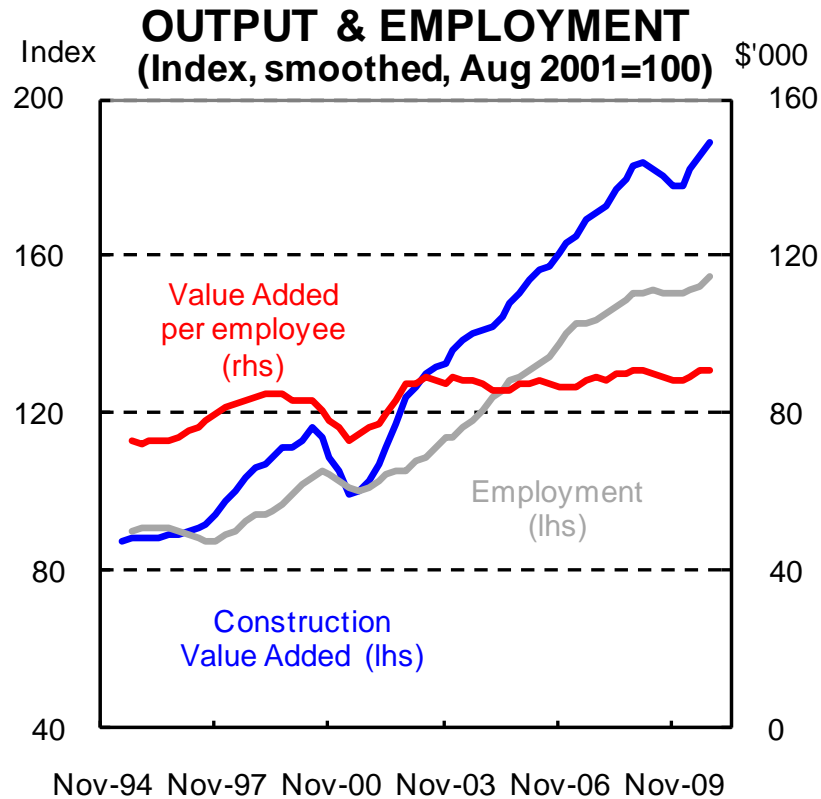
Economy needs to make room for investment boom



- Private investment needs to be complemented by public investment for growth.
- That leaves household sector to be the one to make way.

Investment outlook

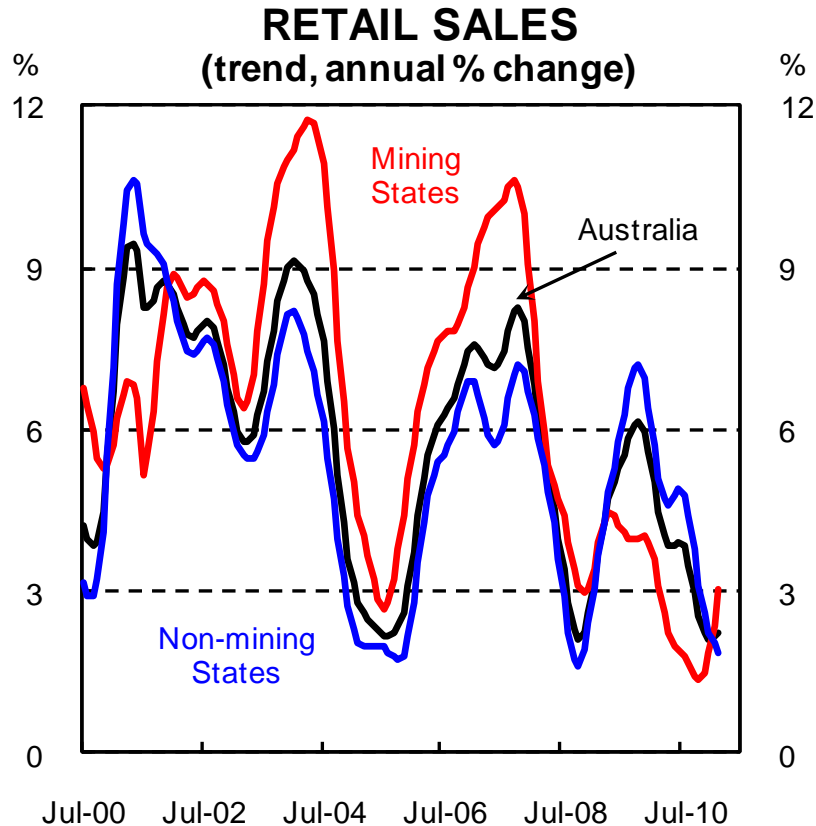
But can we build it?



- **Building more requires more people working in construction sector.**
- **Attracting skilled workers pushes up wages, and economy-wide costs.**

Consumer Caution

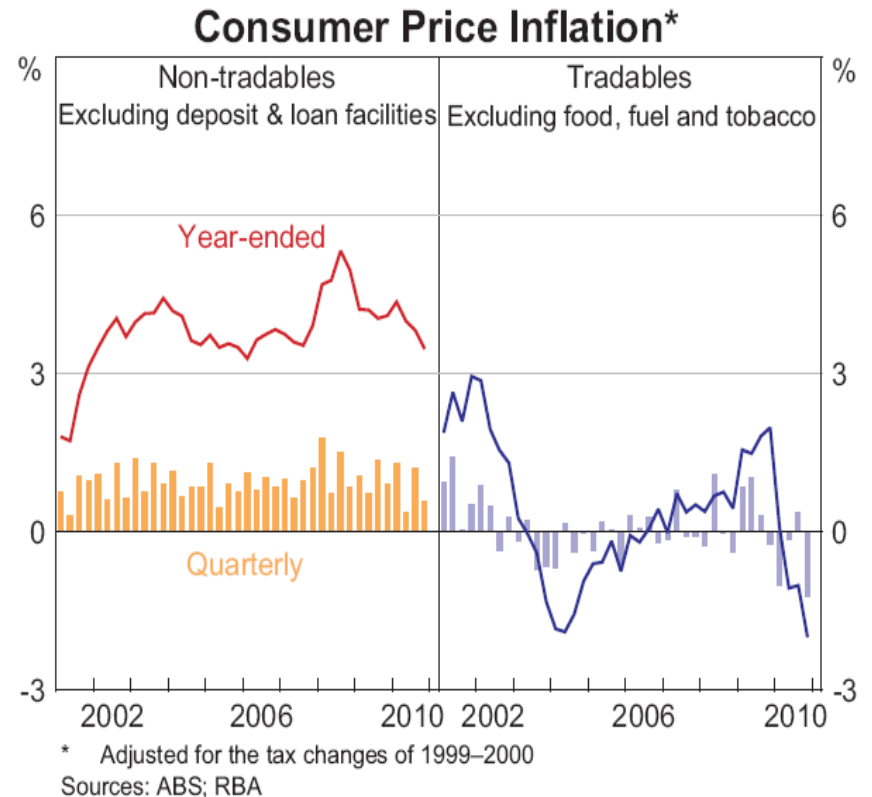
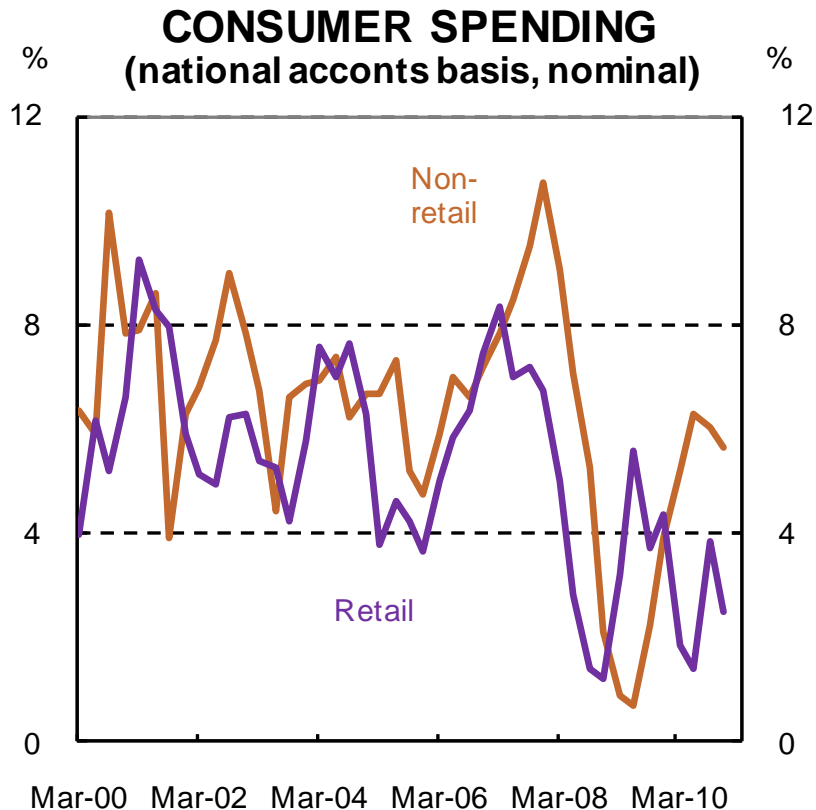
The new frugal consumer?



- Retail sales growth has been sluggish, following the stimulus.
- Weakest in mining states, which were worst hit by slashing of mining jobs during GFC.
- Appreciation of \$A driving down cost of imported goods, making sales growth challenging.

Consumer Caution

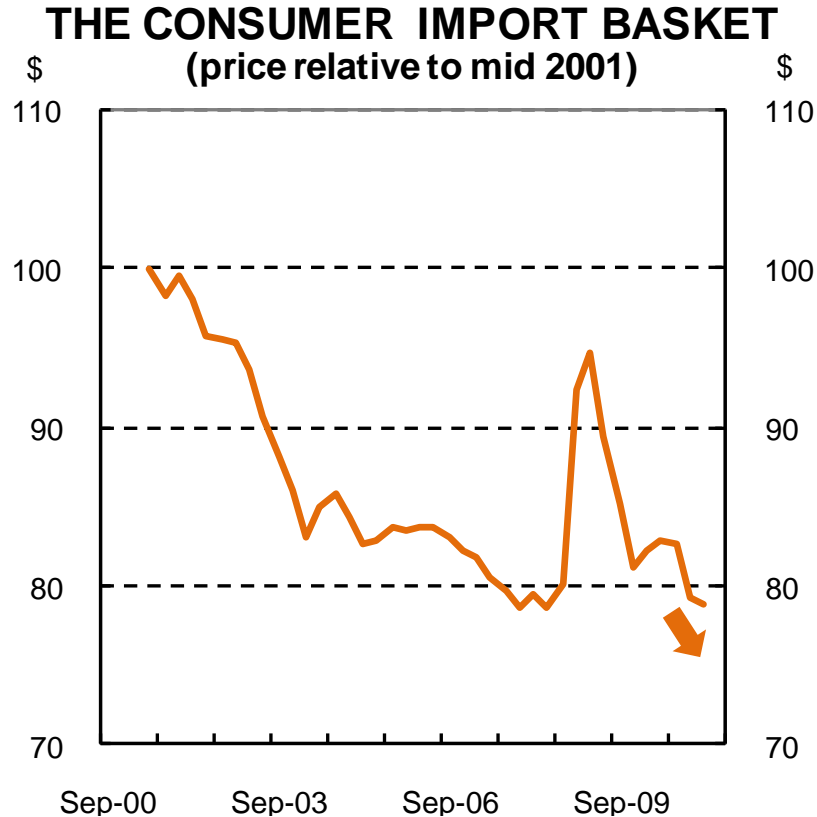
More retail caution than consumer caution



- **Retail is weak but the non-retail parts of consumer spending are stronger.**
- **The gap is partly a reflection of divergent price trends – most retail spending is on “goods” where prices falling courtesy of high AUD.**

Consumer caution...

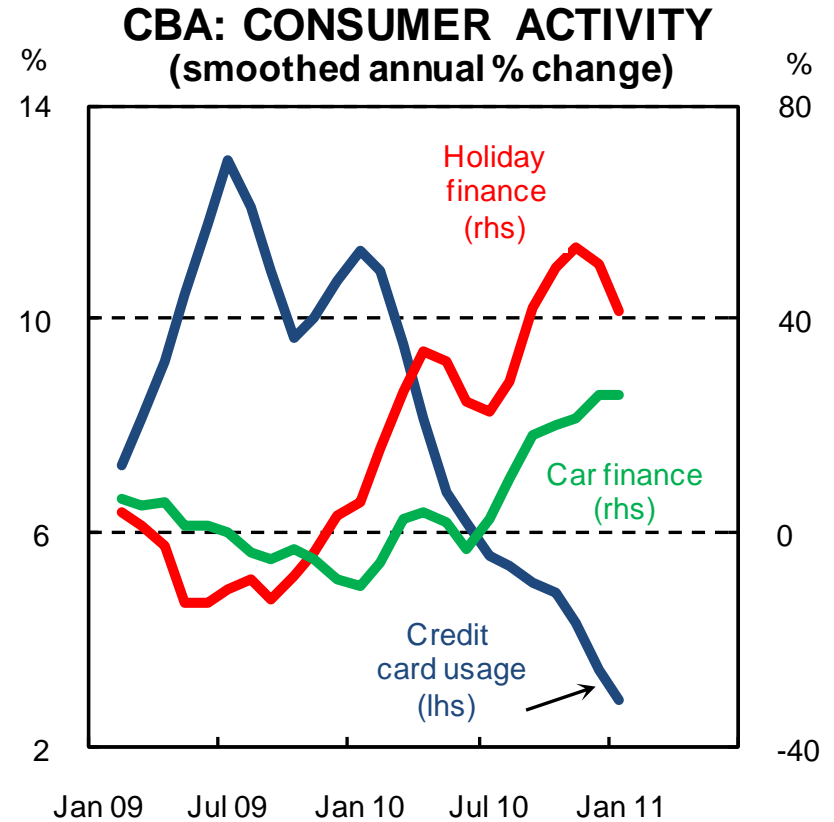
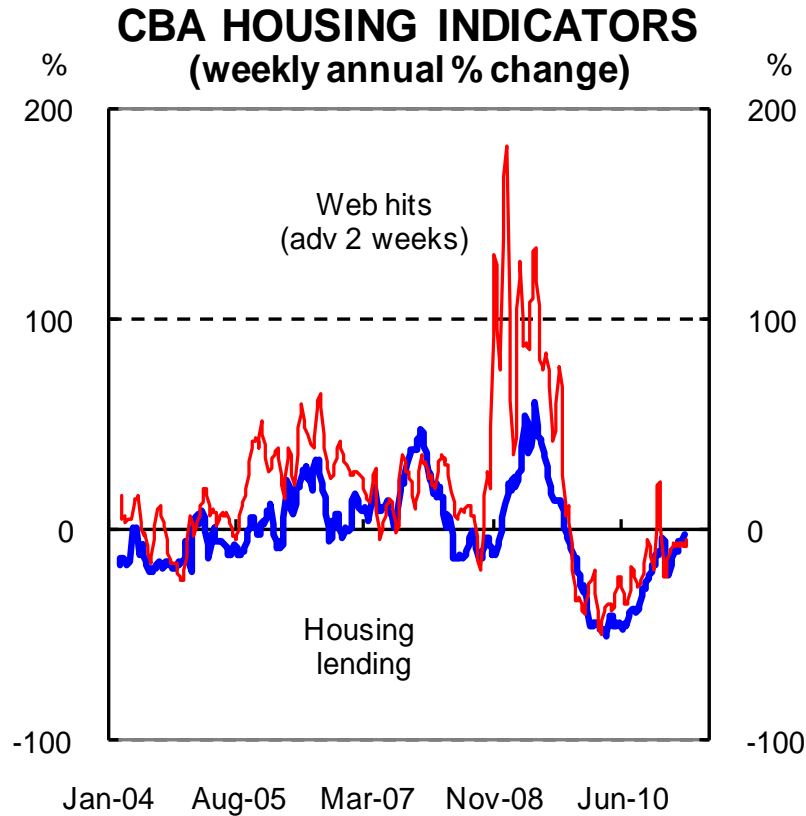
Dollar dazzlers – it's not just the miners who'll feel the hit...



- The AUD is a key channel for distributing the income effect of the commodity boom.
- The cost of the typical consumer import basket has fallen – the “savings” are available to spend elsewhere.
- Imported capital goods prices should also fall.

Consumer Caution

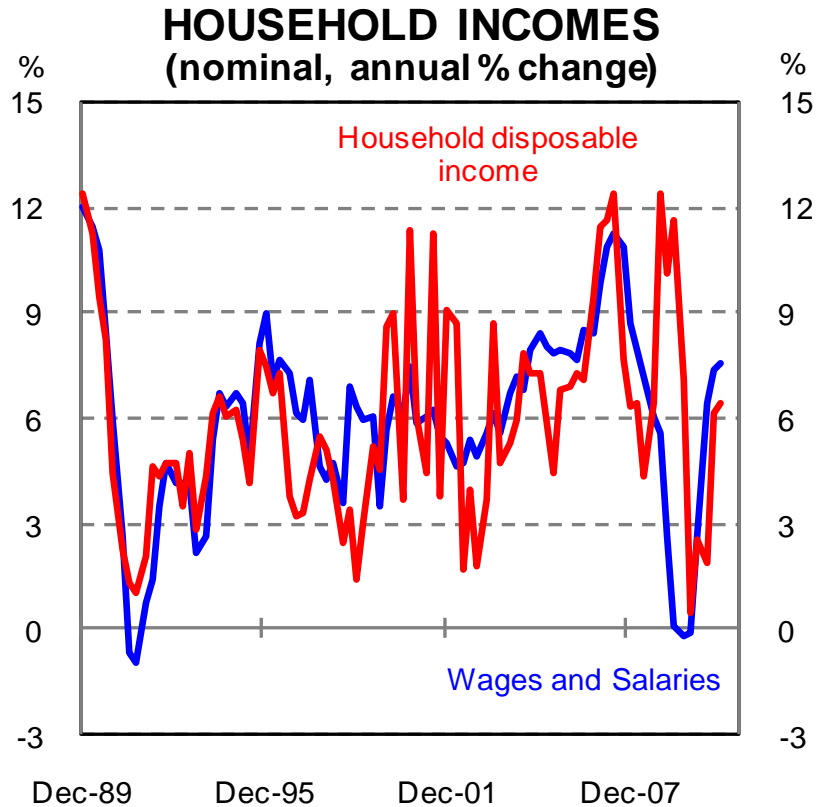
Or the old party-hard consumer?



- Spending on new cars, housing, overseas holidays doesn't sound all that frugal.

Consumer Caution

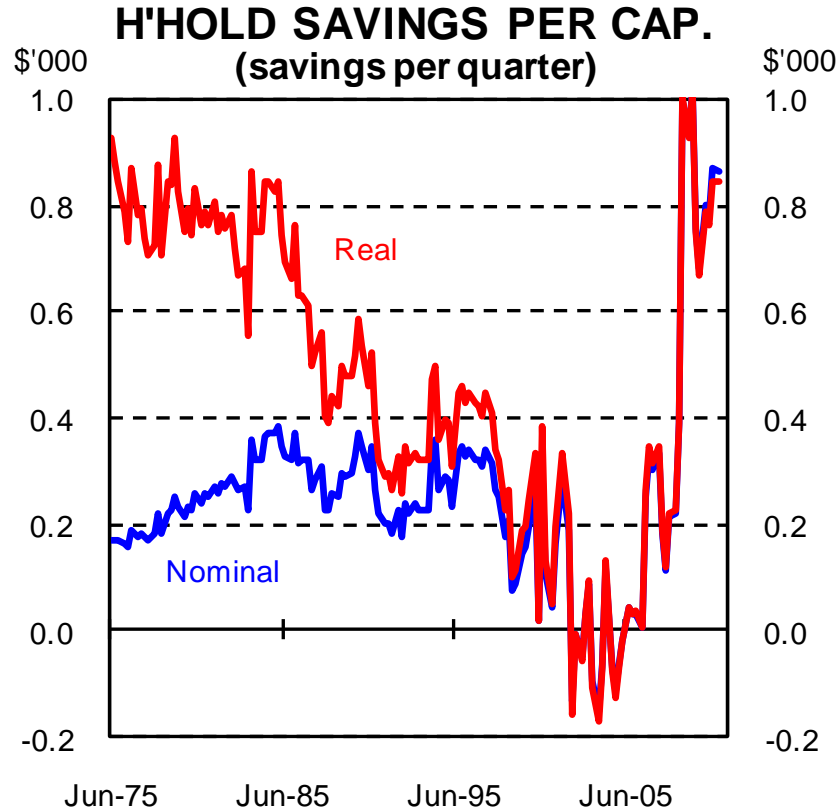
Hip pockets are swelling



- **Strong employment growth, and rising wages are driving a big recovery in household incomes.**
- **Consumption yet to meaningfully respond to income growth.**

Consumer Caution

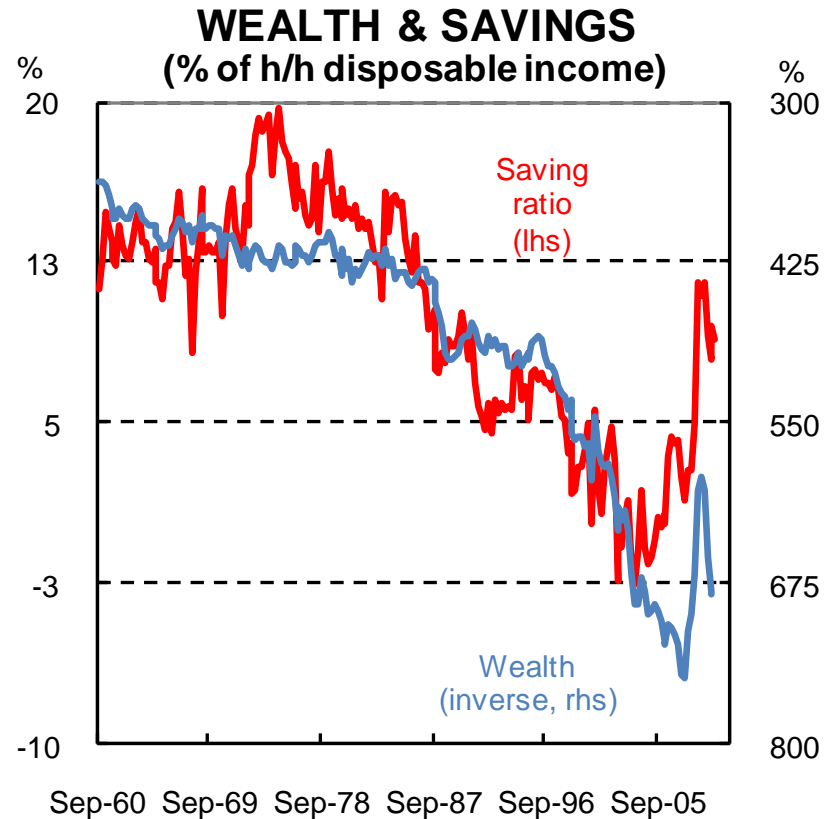
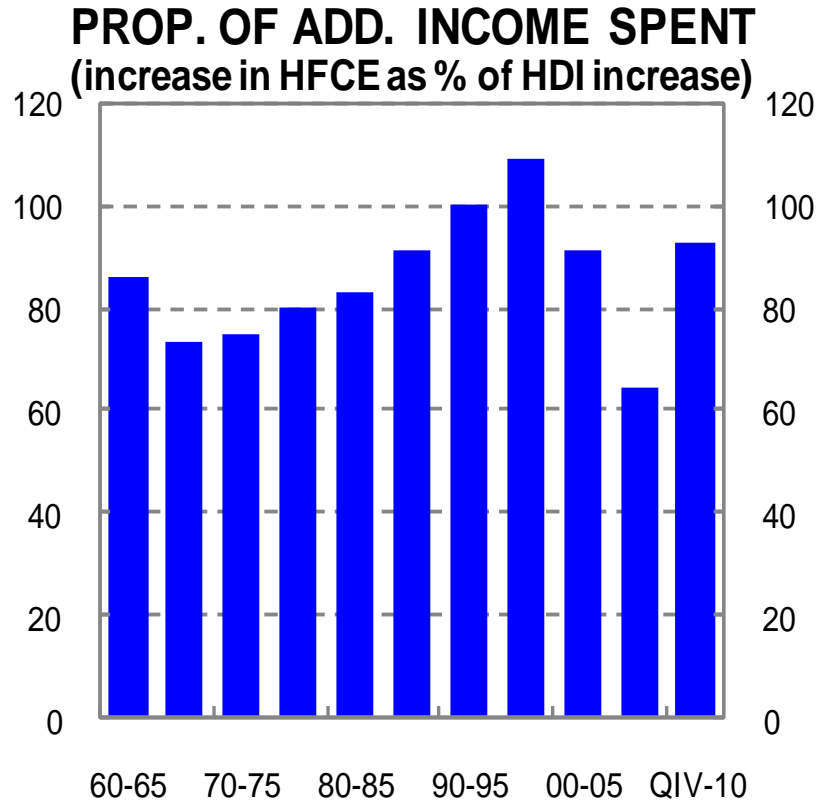
How retro! Saving like it's the late 70s, early 80s...



- **What's old is new again.**
- **Household savings, in per capita terms is back at pre-deregulation levels.**
- **Adjustment of balance sheets following financial reforms and inflation targeting has run its course.**
- **Household appetite for additional debt appears limited.**

Consumer Caution

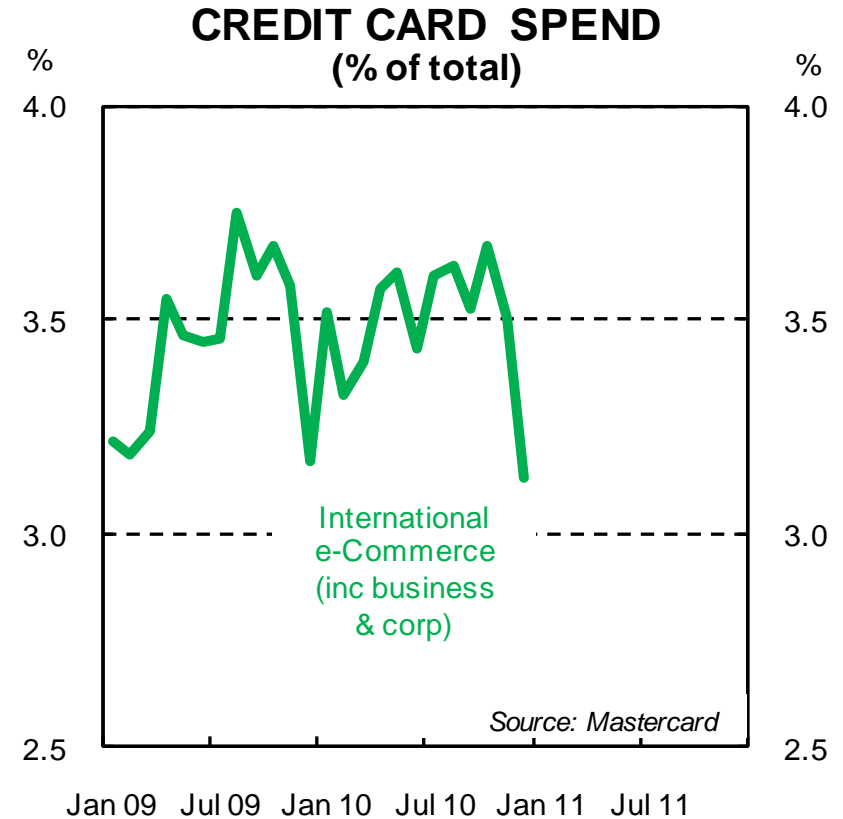
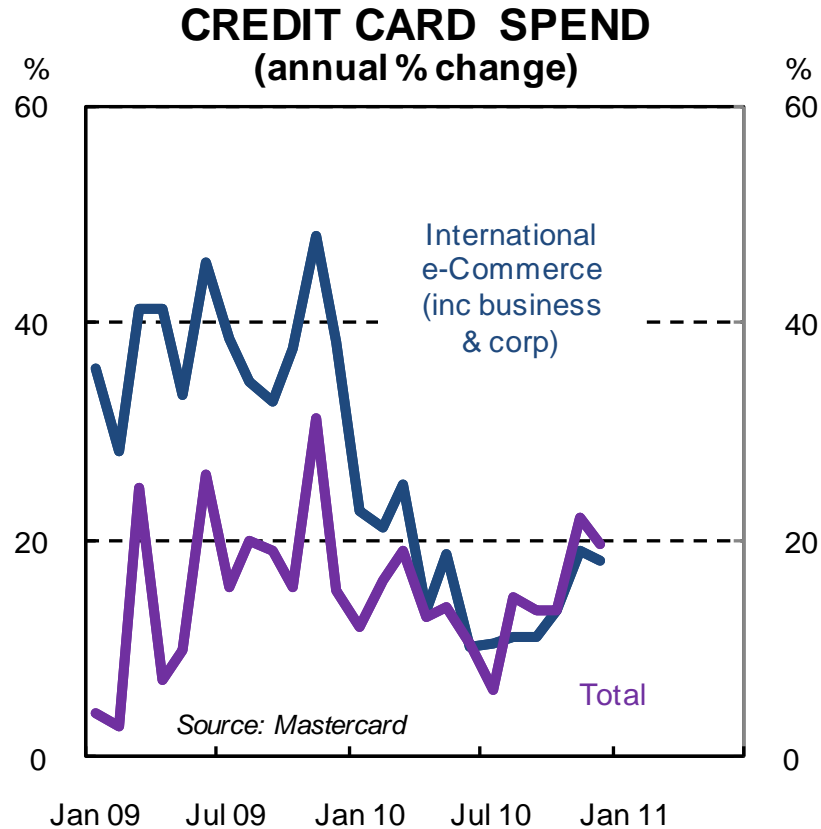
RBA sees “risk of outbreak”



- **RBA is welcoming the current high savings rate. But it sees a potential unleashing of consumer capacity as a threat to inflation, and rates.**

Consumer Caution

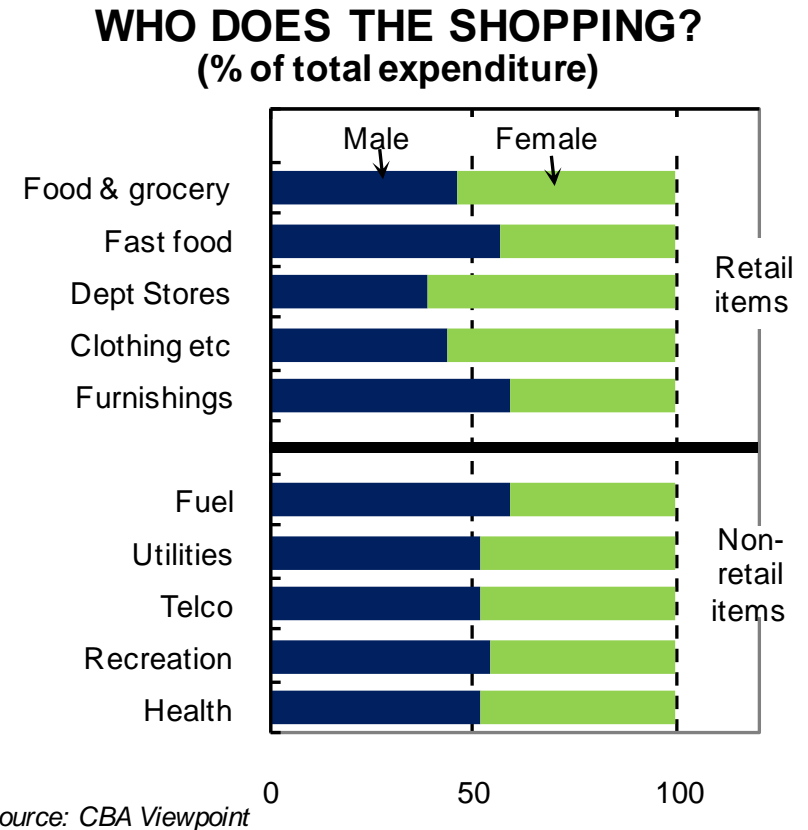
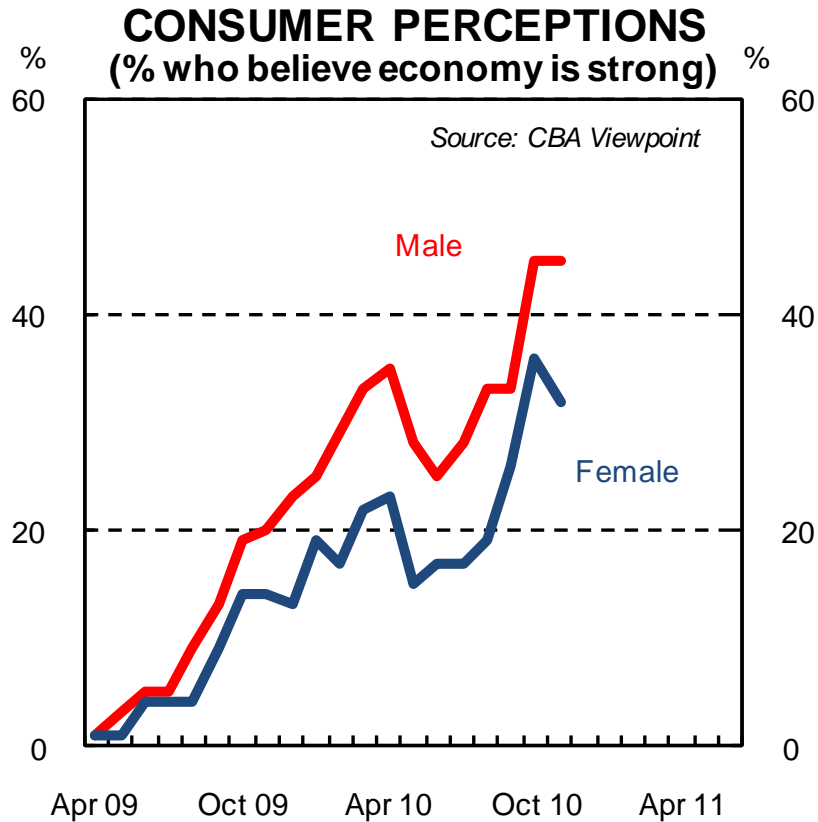
Retail deadweight – the net



- The leakage of retail spending onto the net looks relatively small.

Consumer Caution

Retail deadweight – Men are from Mars...

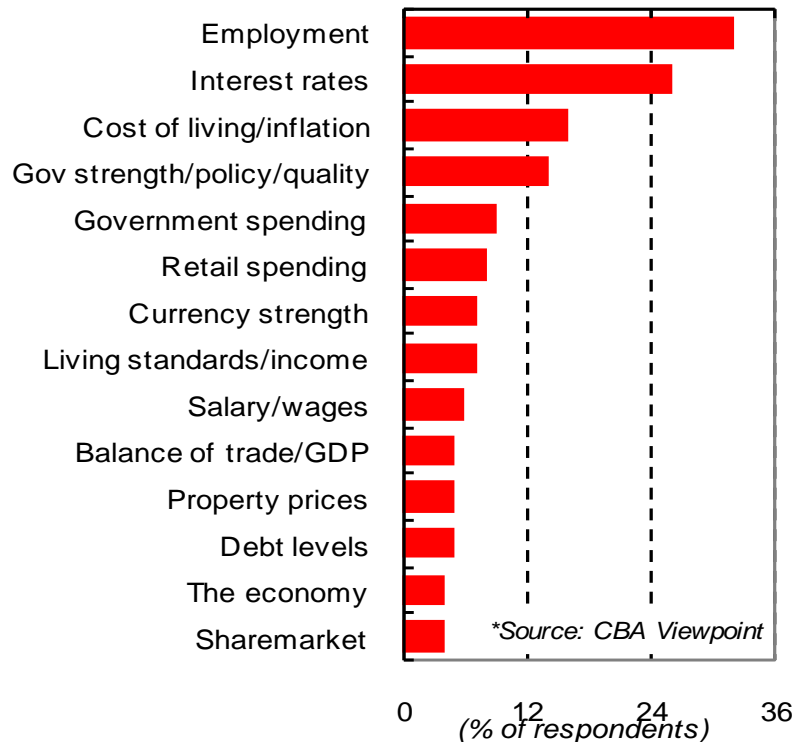


- **Females are less optimistic than males.**
- **Women tend to dominate retail spending and men dominate in non-retail areas.**

Consumer Caution

What needs to change?

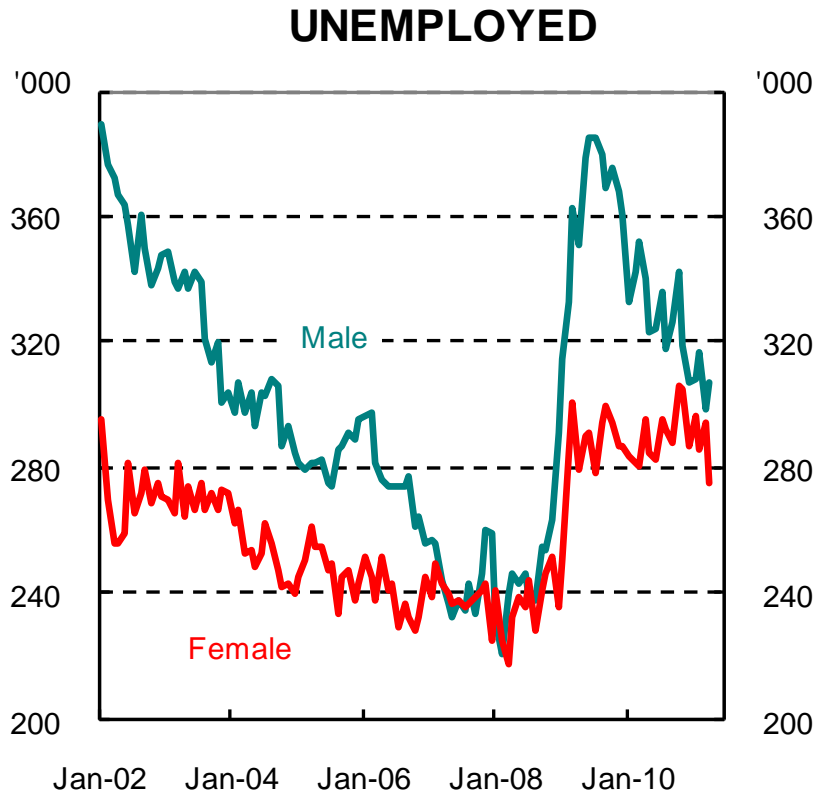
CONSUMER PERCEPTIONS (what has to change for economy to be "strong")



- Labour market the key to restoring consumer appetite to spend.
- Other factors include interest rates, inflation backdrop and government support for the economy.
- The Aussie dollar, as a barometer of economic virility, also stands out.
- Higher interest rates may not dominate the consumer story when job security concerns are low.

Consumer Caution

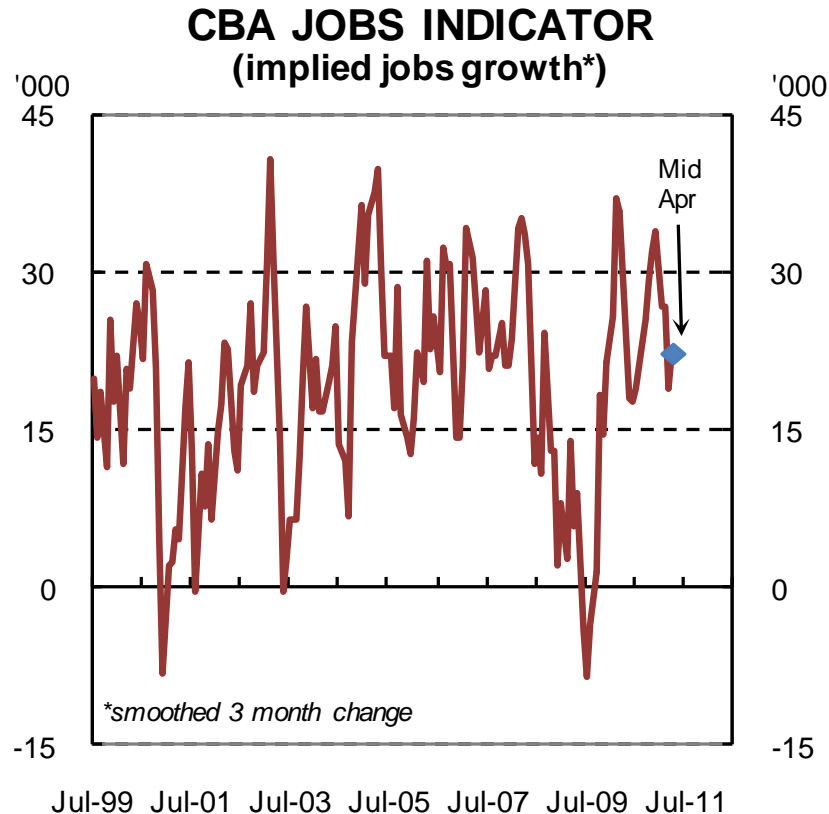
Are job opportunities a factor?



- **Females did a better job of keeping their jobs during the GFC period.**
- **But those that lost them ‘appear’ to have had trouble getting them back.**
- **No major difference in pace of jobs growth. Stronger female participation the driver.**

The Jobs Surge

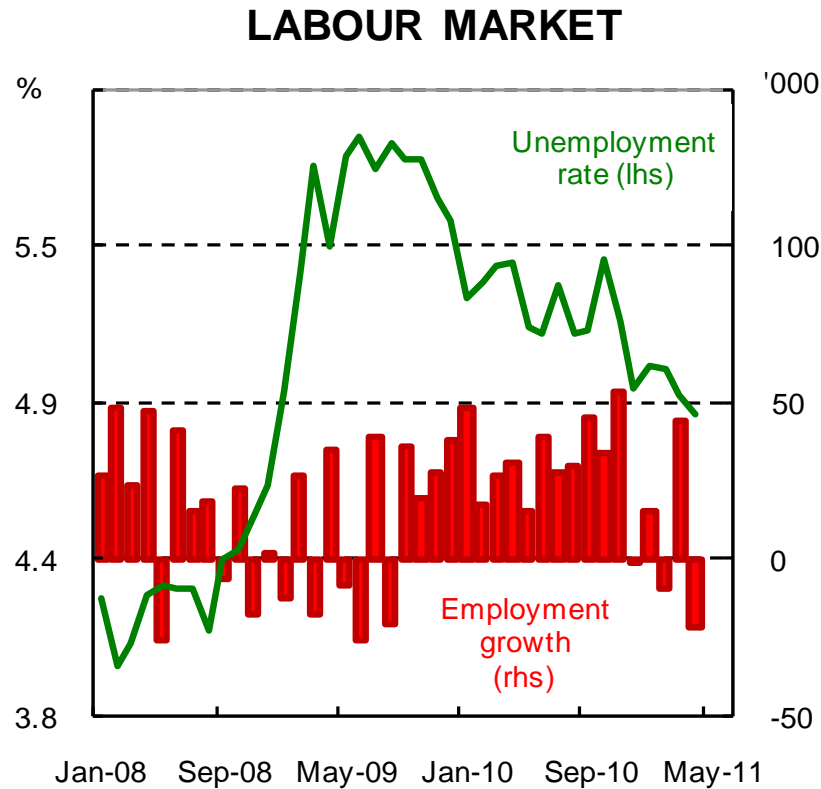
Employment: strength continues



- Labour demand remains robust.
- CBA indicator has pulled back, but remains at the high end of the range.
- The indicator suggests average employment growth of >20k per month.

The Jobs Surge

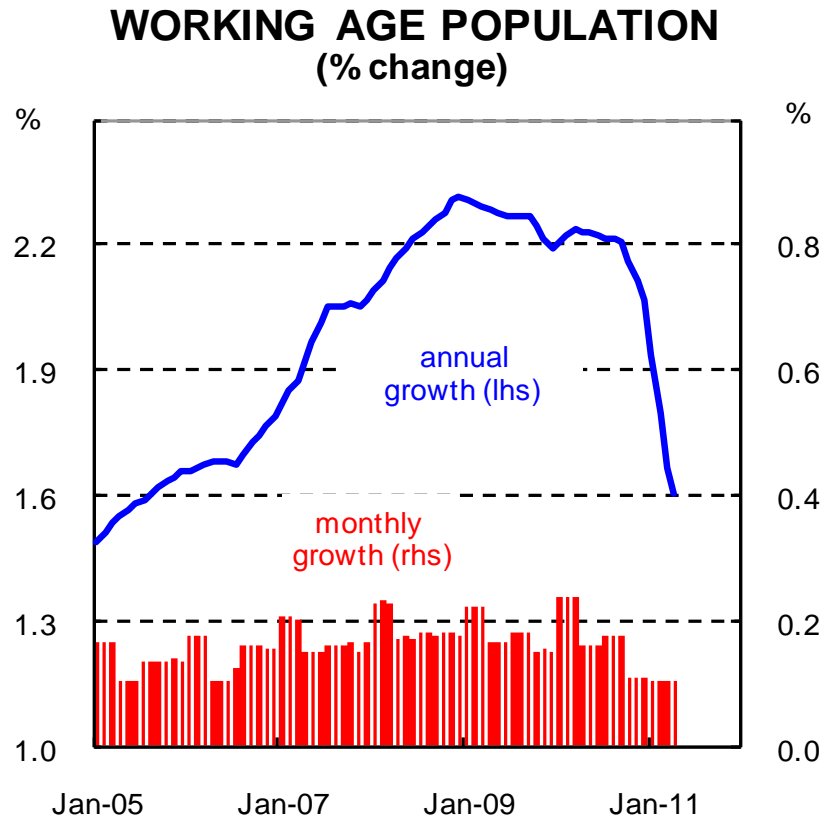
Employment: volatile headlines



- **Employment growth affected by natural disasters.**
- **Though pace of gains set to moderate from H2 2010 strength.**
- **Moderation necessary to avoid inflationary clash as supply of workers tightens.**

The Jobs Surge

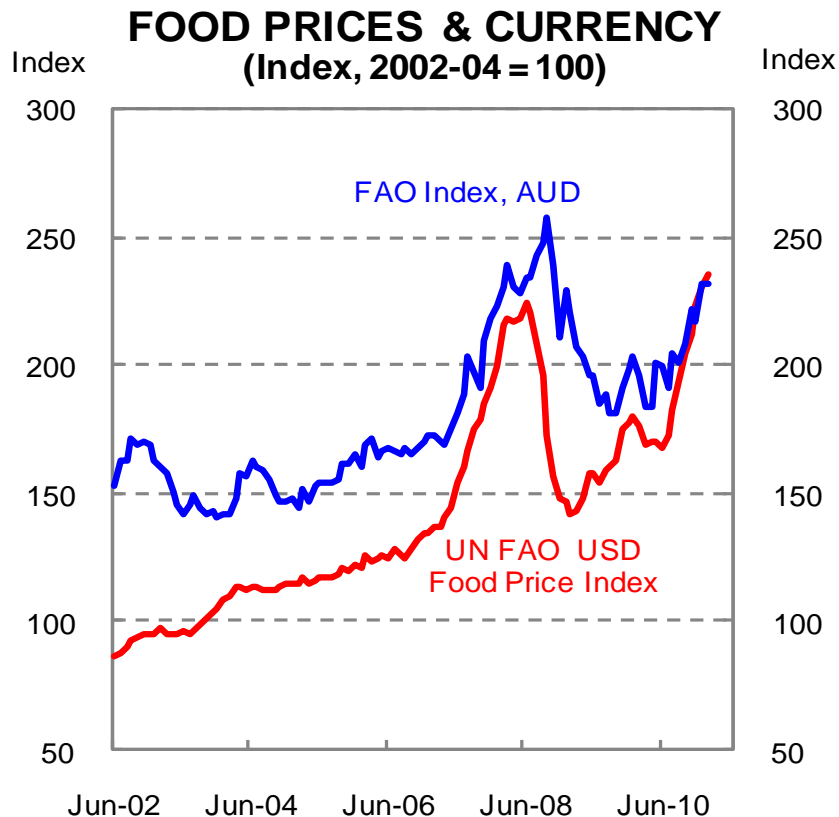
Employment: Where will they come from?



- Supply of workers not keeping pace with jobs growth.
- Slower jobs growth of last few months “welcome” in that it has staved off inevitable clash of supply vs demand.
- But that was only temporary. (Qld)
- Weakening population growth means monthly jobs growth above 12k will put downward pressure on unemployment rate.

Thank the dollar !

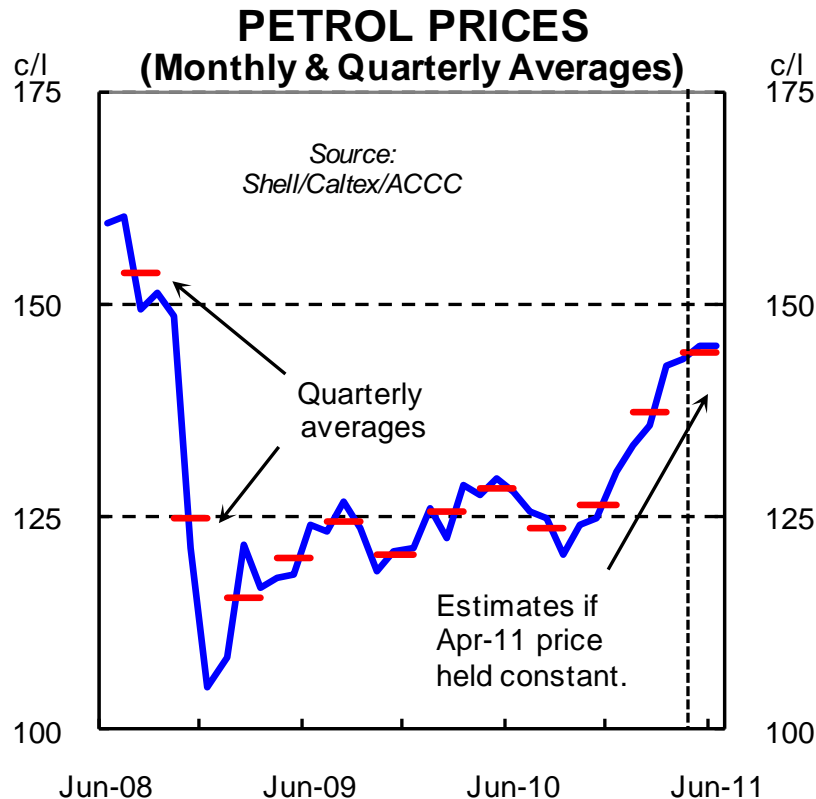
High Australian dollar muting rise in global food prices



- The UN's measure of global food prices has reached a record high.
- Global food prices have risen by 2/3rds since February 2009.
- The rise in the \$A means that global food prices are yet to reach late 2008 peak.
- Food prices up only 26% since mid-2009.
- Fall in currency will bring food price inflation "onshore".

Driven to the wall?

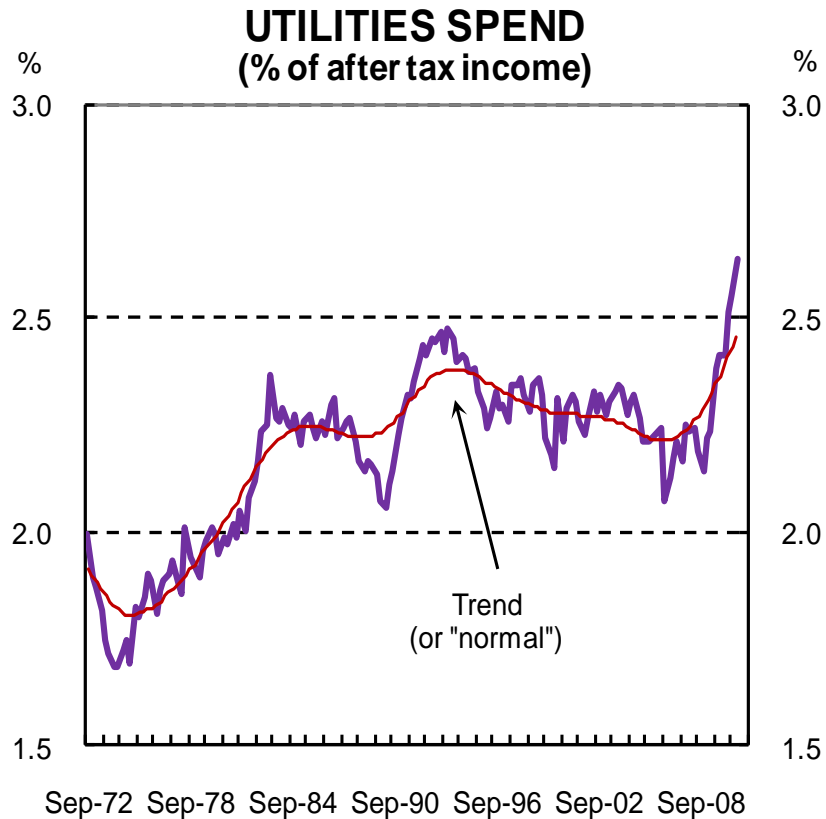
Rising world oil prices beginning to be felt at the pump



- World oil prices have risen from US\$60/barrel in early 2009 to US\$105/bbl 2 years later.
- Tensions in the Middle East swelled prices, with some pullback following disasters in Japan.
- Rise in Australian dollar has helped mute impact on \$A petrol prices.
- Limited prospects of higher currency means protection limited.

Utilities shock

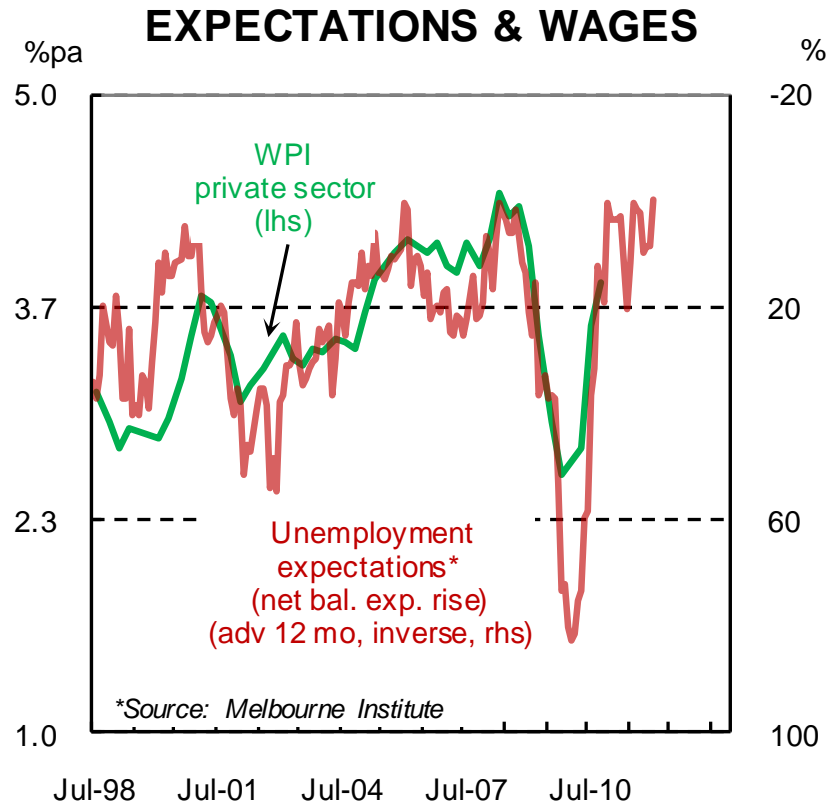
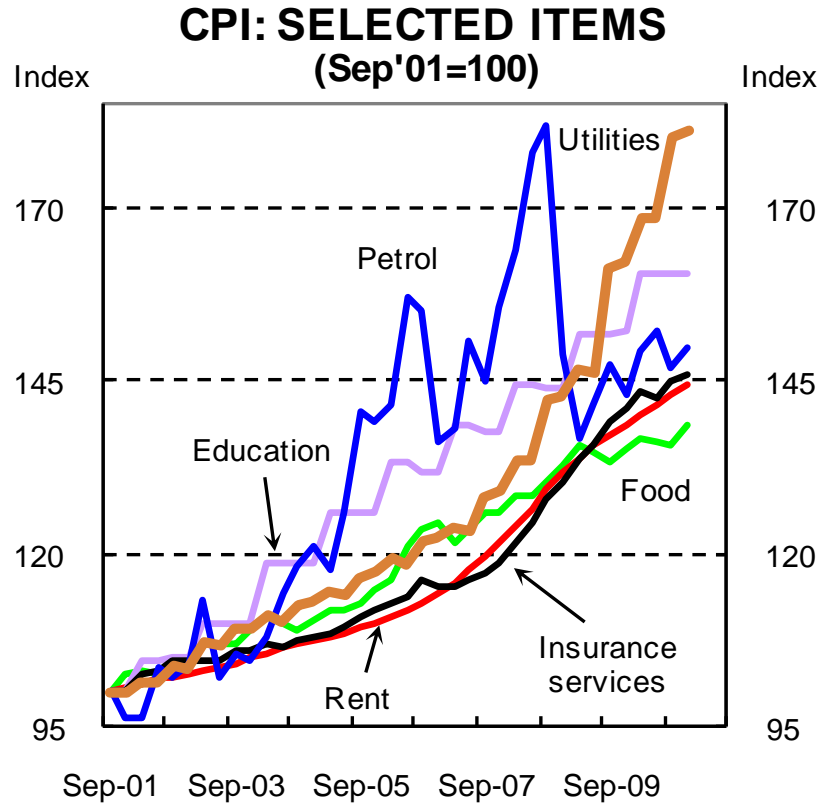
Utility spending taking growing share of household spend



- **Utility spending rising by nearly 20%pa.**
- **Rising prices part of the equation.**
- **Increasing use of electricity, gas and water also contributing.**
- **Higher share of income on record.**

Inflation Outlook

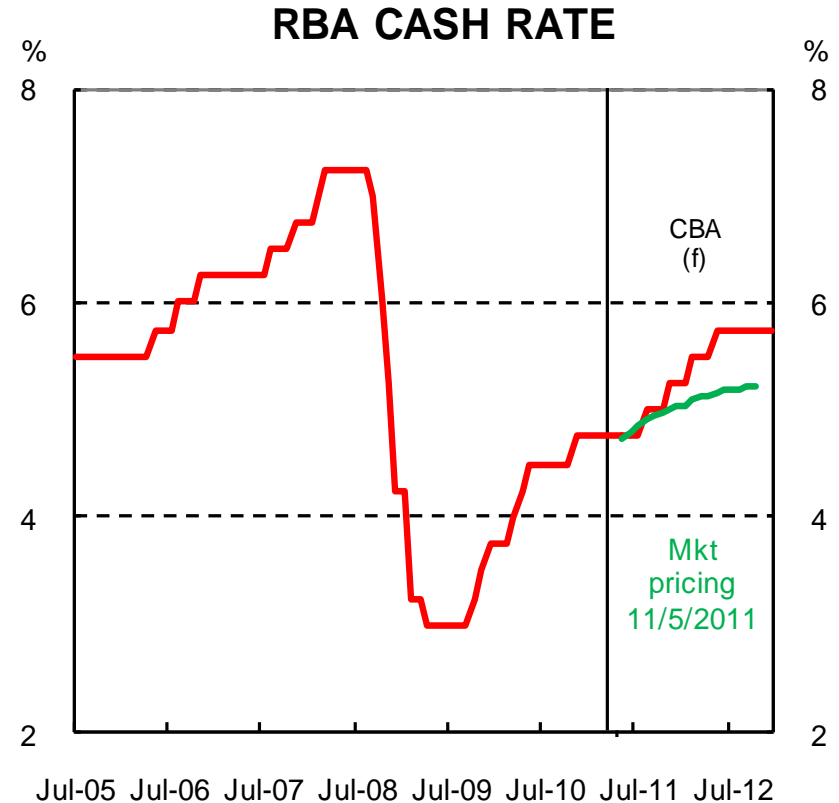
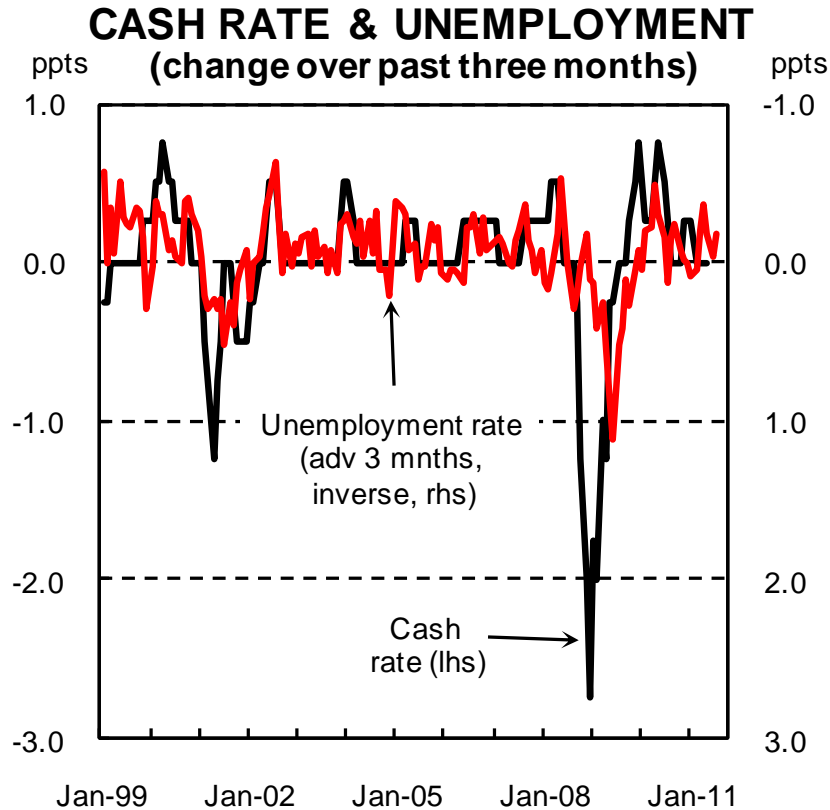
2011 risks: the structural & the cyclical



- A set of *structural* factors at work to boost inflation
- The downside of a strong labour market is upside *cyclical* pressure on inflation.

The RBA & Monetary Policy

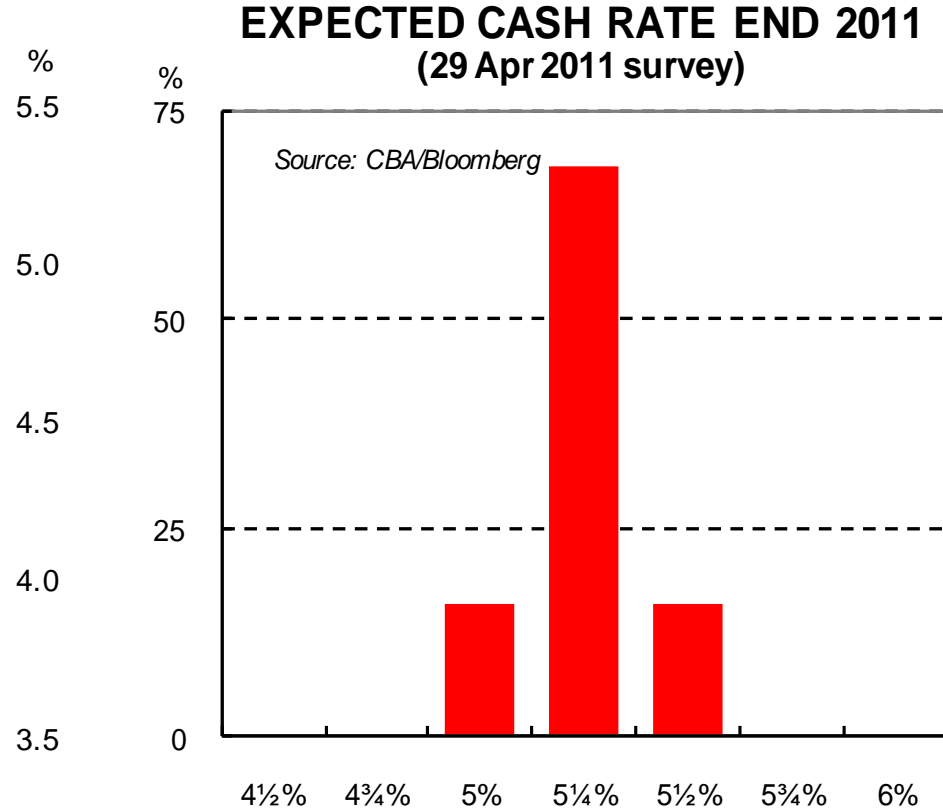
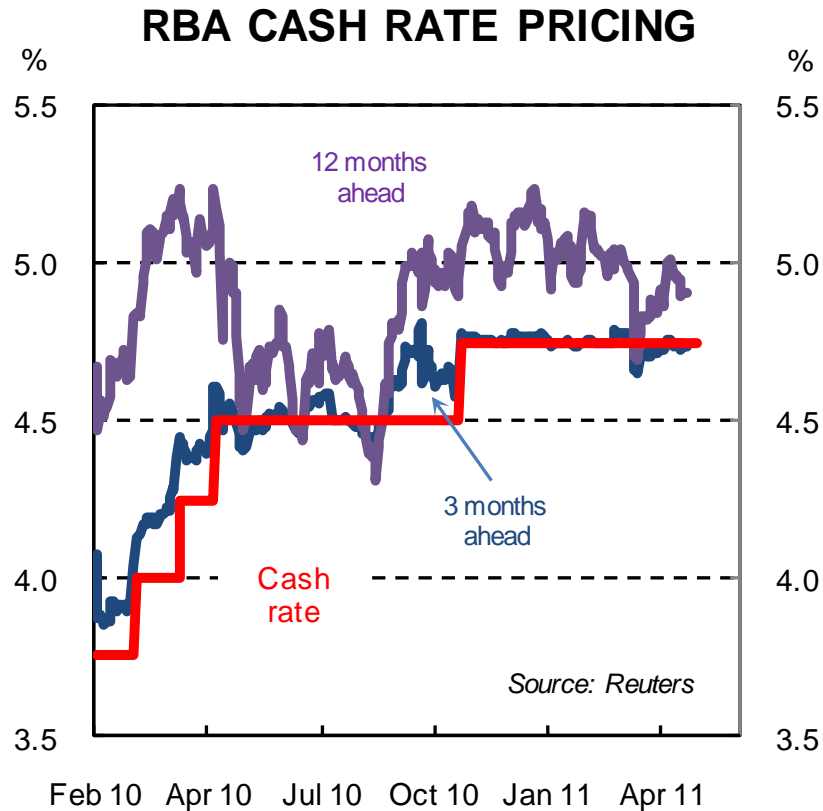
What to watch?



- Unemployment remains the best indicator of the relationship between the real economy and near-term RBA action.

The RBA & Monetary Policy

How much more to come?



- **Markets views volatile – but little further tightening expected.**
- **Consensus median of economists has cash rate at 5 1/4% by end 2011.**

Key FX Forecasts

	End-Period Forecasts					End-Period Forecasts			
	Jun-11	Sep-11	Dec-11	Mar-12		Jun-11	Sep-11	Dec-11	Mar-12
Majors					AUD Cross Rates				
AUD	1.0800	1.1200	1.0400	0.9800	AUD-NZD	1.32	1.32	1.32	1.29
EUR	1.4700	1.5000	1.4300	1.4000	AUD-EUR	0.73	0.75	0.73	0.70
JPY	83.00	82.00	85.00	88.00	AUD-JPY	89.64	91.84	88.40	86.24
GBP	1.6500	1.7000	1.6500	1.6000	AUD-GBP	0.65	0.66	0.63	0.61
CAD	0.9400	0.9000	0.9800	1.0000	AUD-CAD	1.02	1.01	1.02	0.98
NZD	0.8200	0.8500	0.7900	0.7600	AUD-CHF	0.95	0.95	0.97	0.96
CHF	0.8800	0.8500	0.9300	0.9800	AUD-CNY	6.99	7.14	6.53	6.09
Selected Cross Rates					AUD-SGD	1.36	1.40	1.29	1.23
EUR-JPY	122.01	123.00	121.55	123.20	TWI	79.2	81.3	76.5	73.2
EUR-GBP	0.8909	0.8824	0.8667	0.8750	East Asia				
EUR-CHF	1.2936	1.2750	1.3299	1.3720	USD-CNY	6.47	6.37	6.28	6.21
					USD-SGD	1.26	1.25	1.24	1.25

Key Interest Rate Forecasts

		Jun'11	Sep'11	Dec'11	Mar'12
Australia	Official cash	4¾	5	5¼	5½
	90-day bills	5.0	5.3	5.6	5.8
	3-year bonds	5.3	5.5	5.8	5.9
	10-year bonds	5.7	5.8	5.9	6.0
	3-year swap	5.7	5.9	6.2	6.4
	10-year swap	6.3	6.4	6.6	6.6
USA	Fed funds	0-¼	0-¼	½	¾
	2-year bonds	1.1	1.4	1.7	2.0
	10-year bonds	3.7	3.9	4.0	4.1
Spreads	AUS-US 10 yr	200	190	190	190
	AUS 3-10 yr	40	30	15	10
FX	AUD	1.08	1.12	1.04	0.98
	TWI	78.8	80.7	76.1	72.9

Important Disclosures & Disclaimer

Please view our website at www.research.commbank.com.au. The Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and its subsidiaries, including Commonwealth Securities Limited ABN 60 067 254 399 AFSL 238814 ("CommSec"), Commonwealth Australia Securities LLC, CBA Europe Ltd and Global Markets Research, are domestic or foreign entities or business areas of the Commonwealth Bank Group of Companies (CBGOC). CBGOC and their directors, employees and representatives are referred to in this Appendix as "the Group". This report is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy any securities or financial instruments. This report has been prepared without taking account of the objectives, financial situation and capacity to bear loss, knowledge, experience or needs of any specific person who may receive this report. No member of the Group does, or is required to, assess the appropriateness or suitability of the report for recipients who therefore do not benefit from any regulatory protections in this regard. All recipients should, before acting on the information in this report, consider the appropriateness and suitability of the information, having regard to their own objectives, financial situation and needs, and, if necessary seek the appropriate professional, foreign exchange or financial advice regarding the content of this report. We believe that the information in this report is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this report. Any opinions, conclusions or recommendations set forth in this report are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by the Group. We are under no obligation to, and do not, update or keep current the information contained in this report. The Group does not accept any liability for any loss or damage arising out of the use of all or any part of this report. Any valuations, projections and forecasts contained in this report are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. The Group does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met. Past performance is not a reliable indicator of future performance. The Group has provided, provides, or seeks to provide, investment banking, capital markets and/or other services, including financial services, to the companies described in the report and their associates. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject any entity within the Group to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to the Group. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior written permission of the appropriate entity within the Group. In the case of certain products, the Bank or one of its related bodies corporate is or may be the only market maker. The Group, its agents, associates and clients have or have had long or short positions in the securities or other financial instruments referred to herein, and may at any time make purchases and/or sales in such interests or securities as principal or agent, including selling to or buying from clients on a principal basis and may engage in transactions in a manner inconsistent with this report.

US Investors:

If you would like to speak to someone regarding the subject securities described in this report, please contact Commonwealth Australia Securities LLC (the "US Broker-Dealer"), a broker-dealer registered under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") and a member of the Financial Industry Regulatory Authority ("FINRA") at 1 (212) 336-7737. This report was prepared, approved and published by Global Markets Research, a division of Commonwealth Bank of Australia ABN 48 123 123 124 AFSL 234945 ("the Bank") and distributed in the U.S. by the US Broker-Dealer. The Bank is not registered as a broker-dealer under the Exchange Act and is not a member of FINRA or any U.S. self-regulatory organization. Commonwealth Australia Securities LLC ("US Broker-Dealer") is a wholly owned, but non-guaranteed, subsidiary of the Bank, organized under the laws of the State of Delaware, USA, with limited liability. The US Broker-Dealer is not authorized to engage in the underwriting of securities and does not make markets or otherwise engage in any trading in the securities of the subject companies described in our research reports. The US Broker-Dealer is the distributor of this research report in the United States under Rule 15a-6 of the Exchange Act and accepts responsibility for its content. Global Markets Research and the US Broker-Dealer are affiliates under common control. Computation of 1% beneficial ownership is based upon the methodology used to compute ownership under Section 13(d) of the Exchange Act. The securities discussed in this research report may not be eligible for sale in all States or countries, and such securities may not be suitable for all types of investors. Offers and sales of securities discussed in this research report, and the distribution of this report, may be made only in States and countries where such securities are exempt from registration or qualification or have been so registered or qualified for offer and sale, and in accordance with applicable broker-dealer and agent/salesman registration or licensing requirements. The preparer of this research report is employed by Global Markets Research and is not registered or qualified as a research analyst, representative, or associated person under the rules of FINRA, the New York Stock Exchange, Inc., any other U.S. self-regulatory organization, or the laws, rules or regulations of any State.

European Investors:

This report is published, approved and distributed in the UK by the Bank and by CBA Europe Ltd (“CBAE”). The Bank and CBAE are both registered in England (No. BR250 and 05687023 respectively) and authorised and regulated in the UK by the Financial Services Authority (“FSA”). This report does not purport to be a complete statement or summary. For the purpose of the FSA rules, this report and related services are not intended for retail customers and are not available to them. The products and services referred to in this report may put your capital at risk. Investments, persons, matters and services referred to in this report may not be regulated by the FSA. CBAE can clarify where FSA regulations apply.

Singapore Investors:

This report is distributed in Singapore by Commonwealth Bank of Australia, Singapore Branch (company number F03137W) and is made available only for persons who are Accredited Investors as defined in the Singapore Securities and Futures Act and the Financial Advisers Act. It has not been prepared for, and must not be distributed to or replicated in any form, to anyone who is not an Accredited Investor.

Hong Kong Investors:

This report was prepared, approved and published by the Bank, and distributed in Hong Kong by the Bank's Hong Kong Branch. The Hong Kong Branch is a registered institution with the Hong Kong Monetary Authority to carry out the Type 1 (Dealing in securities) and Type 4 (Advising on securities) regulated activities under the Securities and Futures Ordinance. Investors should understand the risks in investments and that prices do go up as well as down, and in some cases may even become worthless. Research report on collective investment schemes which have not been authorized by the Securities and Futures Commission is not directed to, or intended for distribution in Hong Kong.

All investors:

Analyst Certification and Disclaimer: Each research analyst, primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the report. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing, and interpreting market information. Directors or employees of the Group may serve or may have served as officers or directors of the subject company of this report. The compensation of analysts who prepared this report is determined exclusively by research management and senior management (not including investment banking). No inducement has been or will be received by the Group from the subject of this report or its associates to undertake the research or make the recommendations. The research staff responsible for this report receive a salary and a bonus that is dependent on a number of factors including their performance and the overall financial performance of the Group, including its profits derived from investment banking, sales and trading revenue.

Unless agreed separately, we do not charge any fees for any information provided in this presentation. You may be charged fees in relation to the financial products or other services the Bank provides, these are set out in the relevant Financial Services Guide (FSG) and relevant Product Disclosure Statements (PDS). Our employees receive a salary and do not receive any commissions or fees. However, they may be eligible for a bonus payment from us based on a number of factors relating to their overall performance during the year. These factors include the level of revenue they generate, meeting client service standards and reaching individual sales portfolio targets. Our employees may also receive benefits such as tickets to sporting and cultural events, corporate promotional merchandise and other similar benefits. If you have a complaint, the Bank's dispute resolution process can be accessed on 132221.