



AUD & Rates Outlook

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Summary - Australia Performing Well

- **Growth Moderating**

- Retail to recover as petrol prices fall to 80c/litre.
- Housing construction at peak. Oversupply of inner city units.
- Rising business spending on commercial property, plant & equipment, mining and road tollways.
- **NSW : Strong spending and jobs growth in past year. Softer in 2003.**

- **Interest Rates**

- We expect rate cut to 4.25% in October/November.
- 3 & 5 year rates lower, near 4.30%.

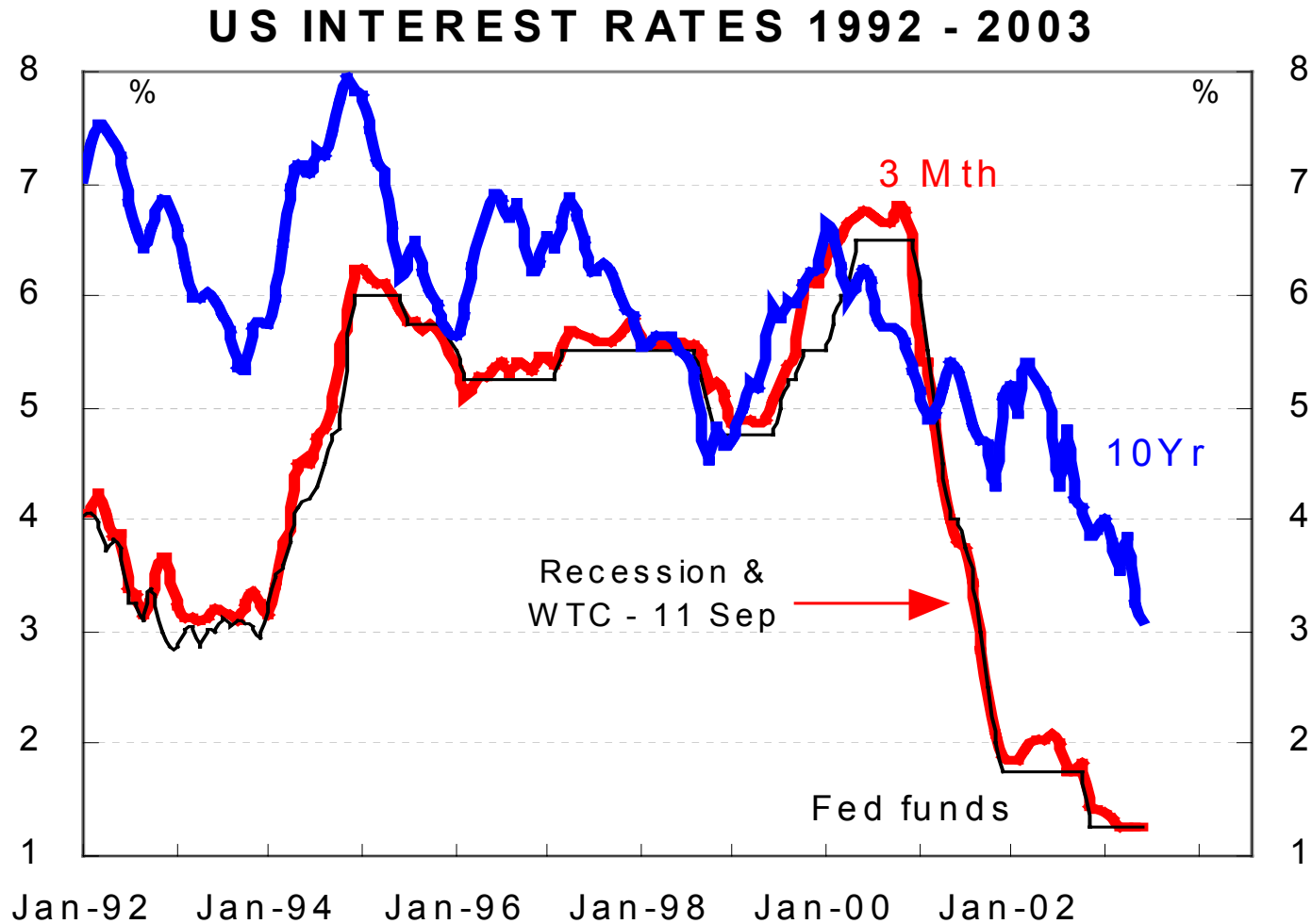
- **AUD Rising To USD0.70 in December**

- Driven by USD fall via weak US economy, struggling US share market & stagnant US business spending.
- AUD rising against Yen & Pound, flat against Euro.

Weak Global Backdrop - Lower Rates

- **US**
 - weak, jobless recovery underway.
 - consumer and business confidence low.
- **Japan**
 - remains in recession but the rate of contraction has slowed.
- **Europe**
 - continues to slow on the back of the US slowdown.
- **Non - Japan Asia**
 - negatively impacted by US slowdown.
 - SARS is a threat to China's growth & Asian tourism.
 - China is major buyer of Australian commodities.

US Economy - Lower Rates Coming !



US Economy - Lower Rates Coming

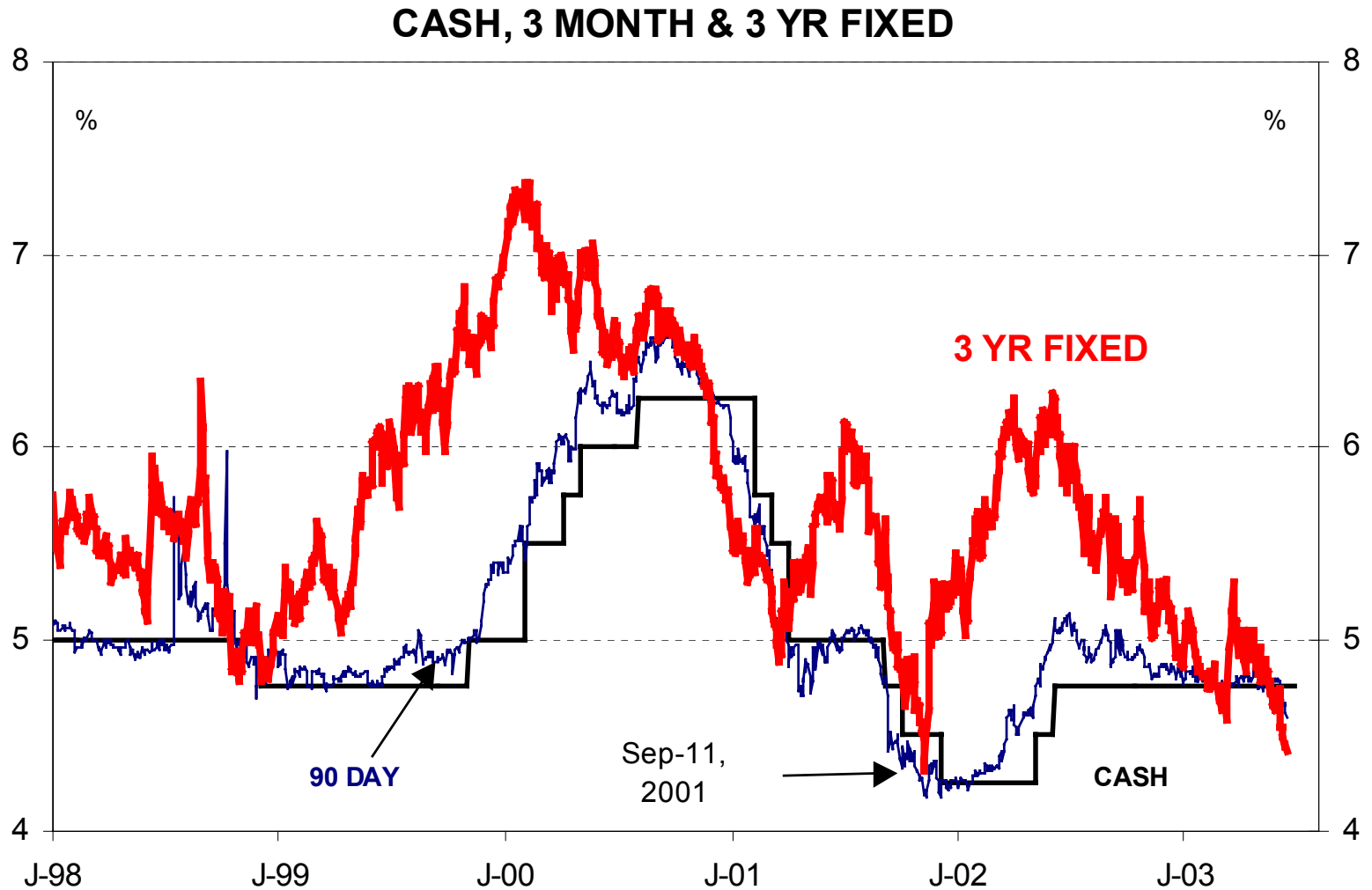
- Fed to cut rates soon to 1.0%.....and then?
- US growth is weak - consumer spending is only source of growth.....jobless recovery.
- Inflation is not the issue.....Deflation is.
- Interest rates are near 50 year lows....but are headed lower.
- Lower US Dollar is now a policy objective.



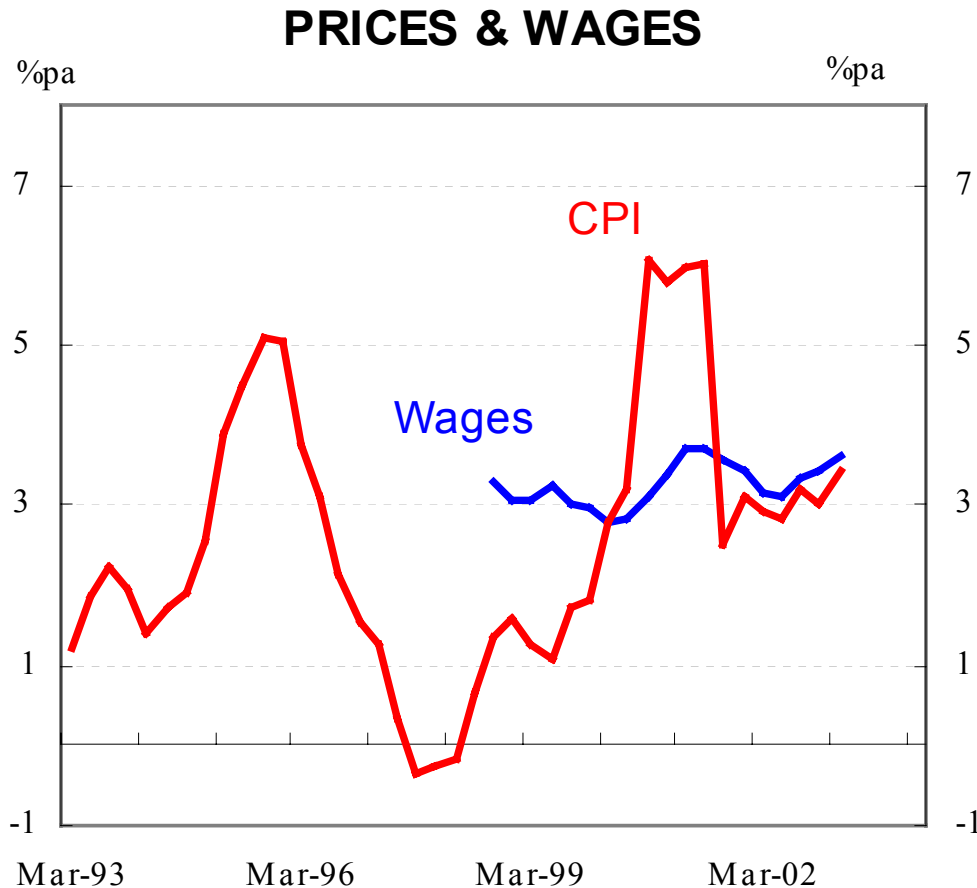
Domestic Rates - RBA Cut Coming

- 3 month rates set to fall to 4.25% in October.
- We expect RBA to cut rates to 4.25%.
- Local CORE INFLATION pressures are weak.
So any growth slowdown can be countered with rate cuts.
- Longer term interest rates will continue to fall

Australian Fixed Rates Falling to 4.25%



Australian Inflation At 3.4%pa



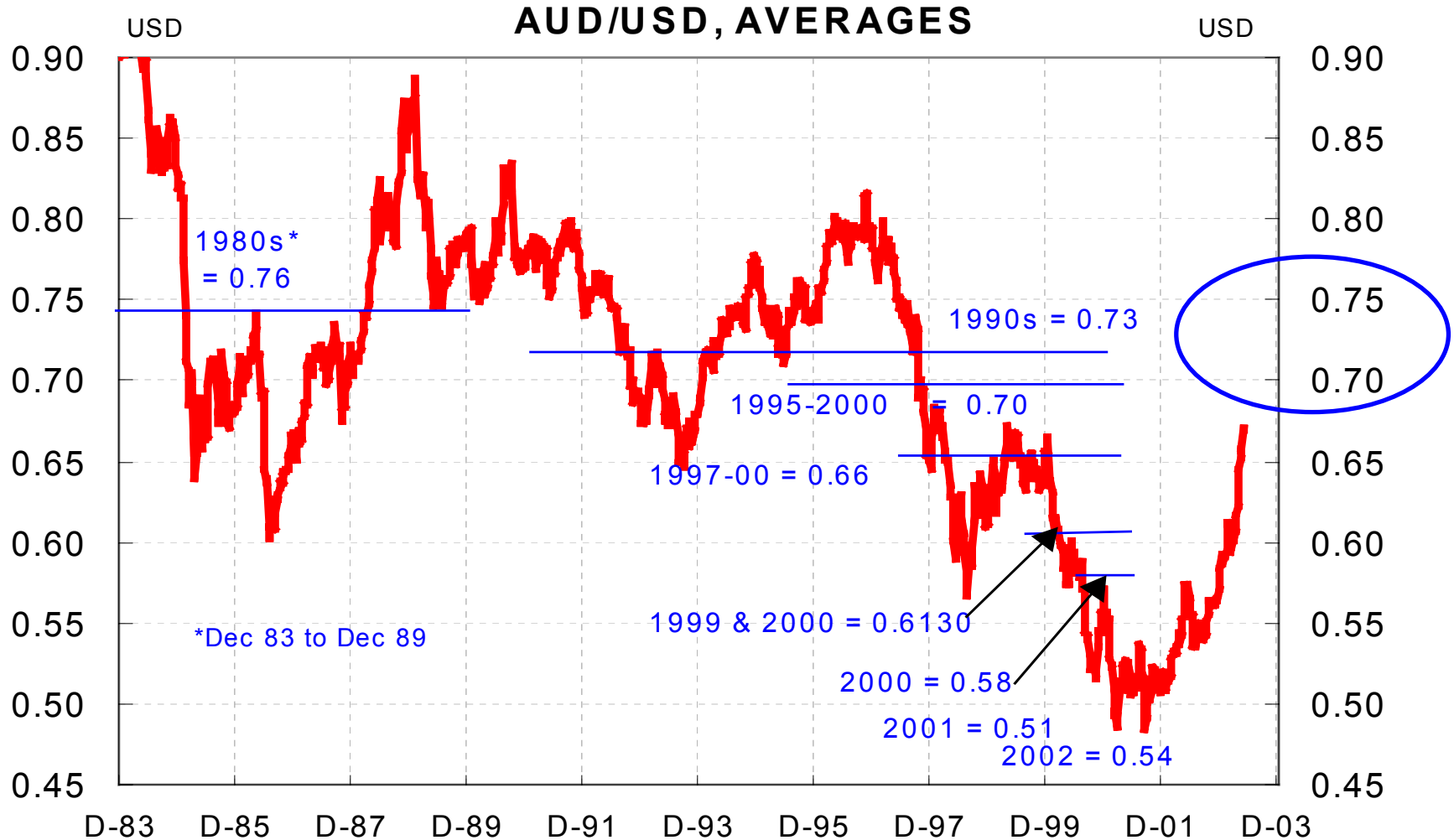
- Inflation higher due to petrol & food.
- Core prices near 2.5%
- Wages at 3.5%.
- We expect these levels to continue through 2003.
- Mid 2004 CPI near 2.5%

AUD to USD0.70 in December

- AUD's 20% rise in 2003 mainly due to weaker USD.
- **We expect weaker USD trend to continue.**
- USD under pressure from poor US share markets, and weak US growth.
- Over past year AUD is 10% lower against euro.
- AUD is at 4 year high against JPY, 3 year high against GBP.



AUD Near 4 Year Highs.....More Coming



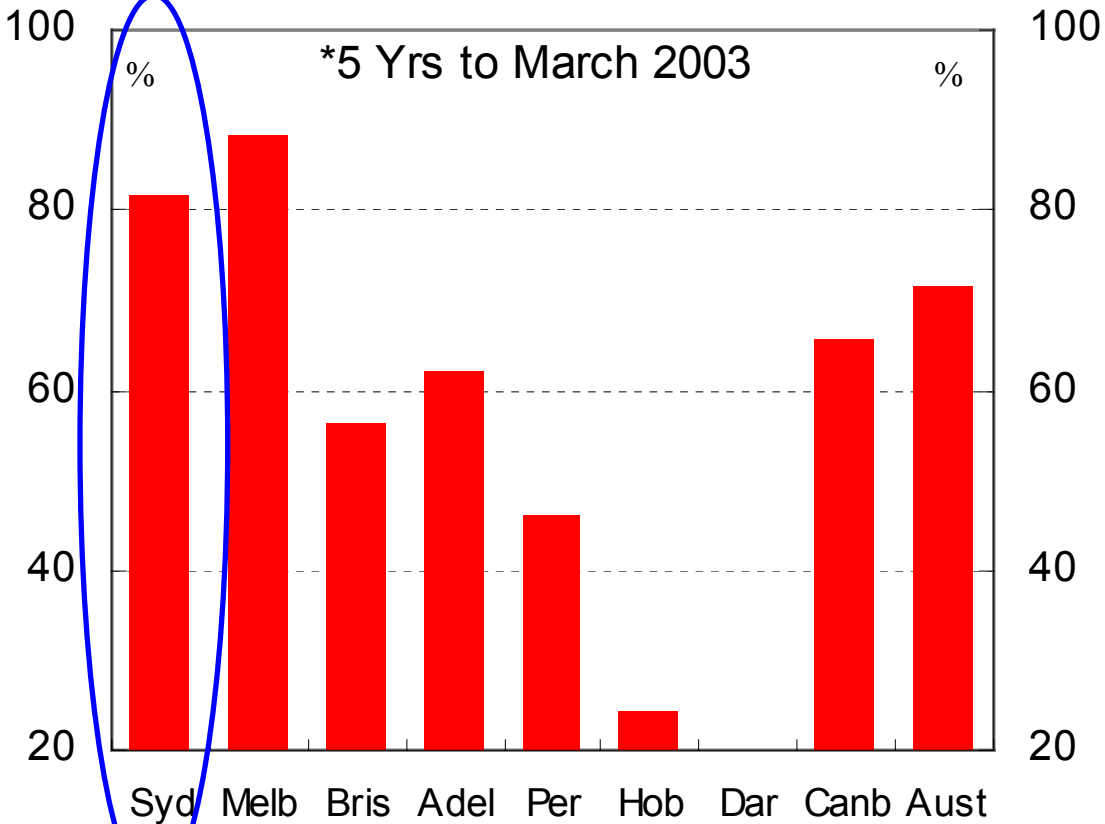
NSW: Weaker Outlook in 2003

- **Petrol price falls will help retailers from July.**
- **End of drought will lift grains & beef output.**
- **Housing construction activity to fall 10% over 2003.**
- **Inbound tourism down 20%.....recovery to be slow.**
- **Jobs outlook stable: Unemployment rate around 6.5%.**
- **Strong growth: Commercial construction, tollways, infrastructure, mining related engineering, Alts & Adds.**

House Prices: Basis of Wealth

HOUSE PRICES - PAST 5 YRS*

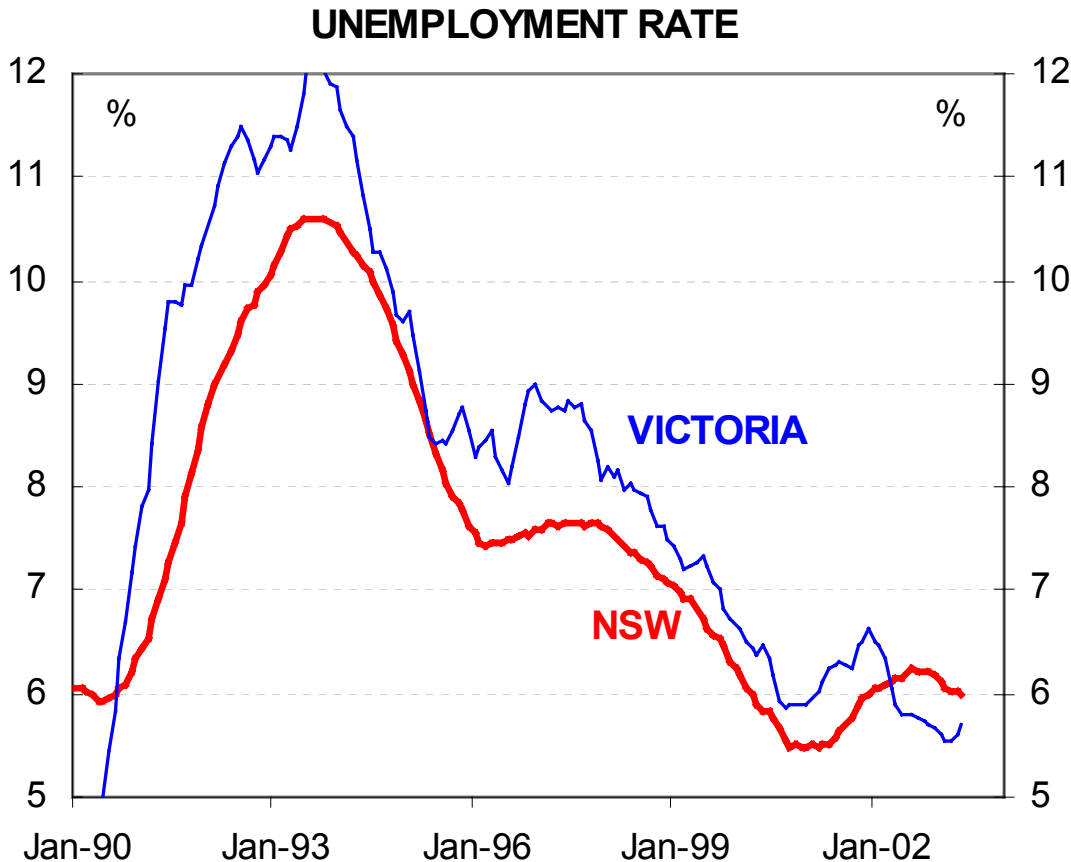
*5 Yrs to March 2003



- House prices up strongly over past 5 years. Underpins consumer spending.
- Sydney prices up 80%.....
- Large rises where jobs market firm with incomes higher. Offshore buyers still active.
- Prices still rising....until interest rates rise or unemployment rate jumps.



Job Firm & Unemployment Stable



- Flat Job Ads point to weak jobs growth.
- Retailing, commercial construction, should add jobs in 2003
- Expected fall in housing construction could weaken full-time jobs.
- Finance, professional, advertising weaker
- Alts & Adds for housing to stay strong.
- So the unemployment rate should around 6.5% over 2003

Summary

- Domestic Growth Easing - Drought & Weak Global Economy. Housing construction weaker.
- Existing house prices to rise by 10% in NSW in 2003.
- Inflation Low. But insurance costs rising strongly.
- Interest Rates Moving Sideways in 2003.
- AUD Rising To USD0.70 in late 2003, Struggling Against the Euro

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