

Week Commencing September 17, 2007



AUSTRALIA & NEW ZEALAND WEEKLY

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Debt crisis fading

Though highly vulnerable, Australia and NZ unscathed

RBA Governor Glenn Stevens may have something to say about it in his Asia Society speech Tuesday and his deputy Ric Battellino will almost certainly refer to it in a talk scheduled Wednesday, but there's little doubt that the most remarkable feature of two months of global debt market turmoil is that the impact on Australia and New Zealand has been insignificantly trivial. This is so despite their obvious vulnerability to just this sort of dislocation. Both Australia and New Zealand are running startlingly large current account deficits, in the Australian case 6% and in the New Zealand case 8.5% of GDP. Both have very large net external liabilities, 60% of GDP for Australia and 80% for New Zealand. These are far higher ratios than the US, which has only managed to run net external liabilities up to 20% of GDP. In both Australia and New Zealand cases most of the capital inflow that matches the current account deficits is provided by the resident banks, which are in the main the same Australian headquartered banks.

The balance of payments stability of both economies is thus tied to the stability of offshore interbank bank funding, which is precisely the epicenter of the turmoil. Australian and New Zealand banks have also been global leaders in securitisation of assets, a market globally frozen for a month. As we remarked last week, the stock of Australian securitized assets is not far short of \$300bn, of which \$99bn had been issued offshore as of June this year. The stock of Australian securitised residential mortgages was just over \$200bn as of June. A decade ago these assets and this market barely existed in Australia.

Australian banks are big net offshore borrowers. As of June Australian financial corporations (a term which includes the banks and their conduits) had net offshore debt liabilities of \$456 billion, or roughly four fifths of the whole stock of Australian net offshore debt liabilities of \$544 billion. The increase in the net offshore debt of Australian financial corporations in the year to June very closely matched the current account deficit over the period, which bank borrowing thus funded. Roughly half of the gross external debt of Australian depository corporations is short term, a total of \$244 billion. About 40% of Australian total gross external debt had residual maturities of a year or less, as at June 07. The New Zealand numbers are much like Australia's.

Partly because of borrowers reluctance to pay the higher yields demanded and partly because of lenders reluctance to part with liquidity, Australian banks have not for several weeks been active in issuing debt beyond 90 days. It was not until last Wednesday that Westpac got 3 and 5 year issues away reportedly at spreads of 32 and 42. ANZ followed up Thursday with similar spreads. The primary market is back in business.

Despite the apparent vulnerability, any discernible impact on the impact is quite minor. One would expect the Australian dollar to be in serious difficulty if banks interrupted the purchase of Australian dollars as they brought capital in, but other than a sharp drop at the beginning of the turmoil the Australian dollar has been fairly steady. On Friday it has retraced its way back up over USD0.83, which is well above its long term post float average. It is true that the spread between the bank bill swap rate and cash has blown out to close to 60 basis points in Australia and New Zealand, well above the normal spread. But as RBNZ Governor Alan Bollard said in a press conference last week, this reflects the global market demand for liquidity. BoE Governor Mervyn King has said much the same, and both comments imply that a market preference for liquidity is not in the short term a particularly serious problem or one that requires further central bank intervention.

The spread may anyway fade over time. On Friday Australian 3 month BBSW dropped nearly 20 basis points. If all that happens as a result of eight weeks debt market bewilderment is that spreads come out 25 to 40 basis points, leverage declines and markets become more conscious of risk, the global economy will be the better for it. There could well be another live bomb buried somewhere, but as of Friday last week it looked like the debt crisis was fading to an unexpectedly gentle end.

John Edwards

Weekly Calendar

Week commencing Monday September 17, 2007

Country/ Region	Event or Economic Release		Period	HSBC	Marke Mkt F'casts Cons	Actual Previous
Monday September 17, 2007						
JN	Public Holiday – Respect for the Aged Day					
US	Empire Manufacturing (13:00 BST)	Index	JUL	18.0	20.0	25.1
Tuesday September 18, 2007						
AU	Preliminary Imports		AUG	-	-	-4.0%
AU	Speech by RBA Governor Glenn Stevens					
UK	CPI (09:30 BST)	RPI – Month	AUG	0.4%	0.5%	-0.6%
US	PPI (13:30 BST)	Core – Month	AUG	0.2%	0.1%	0.1%
		Year	AUG	2.1%	2.2%	2.3%
US	NAHB Housing Market Index (18:00 BST)	Index	SEP	21	20	22
US	FOMC Rate Announcement (19:15 BST)	Fed Funds	SEP	4.75%	5.00%	5.25%
GER	ZEW Survey (10:00 BST)	Business Expectations	SEP	-5.0	-18.0	-6.9
		Current Conditions	SEP	78.0	74.5	80.2
Wednesday September 19, 2007						
AU	Westpac Leading Index		JUL	-	-	1.0%
AU	Speech by RBA Deputy Governor Ric Battellino					
NZ	Balance of payments	Billion		-	\$3.7	\$3.6
UK	Bank of England Minutes (09:30 BST)		SEP			
US	CPI (13:00 BST)	Headline - Mth	AUG	-0.1%	0.0%	0.1%
		Year	AUG	2.0%	2.1%	2.4%
		Core - Month	AUG	0.13%	0.2%	0.2%
		Year	AUG	2.4%	2.2%	2.2%
US	Housing Starts (13:30 BST)	('000)				
		Housing starts	AUG	1350	1350	1381
		Building permits	AUG	1360	1343	1389
JN	BoJ Rate Announcement	BoJ target rate	SEP	0.50%	0.50%	0.50%
JN	BoJ Monthly Report (07:00 BST)		SEP			
Thursday September 20, 2007						
AU	HIA New Home Sales		AUG	--	-	1.5%
AU	Reserve Bank Monthly Bulletin					
NZ	Current Account Balance, sa		2Q		-\$3.5bn	-\$3.6 bn
UK	Retail Sales (09:30 BST)	Month	AUG	0.0%	0.2%	0.7%
		Year	AUG	4.0%	4.2%	4.4%
UK	CBI Industrial Trends (11:00 BST)	% net balance	SEP	+10	-	+13
		Vol of output				
US	Initial Jobless Claims (13:30 BST)	Wk ('000)	Wk	330	-	319
			Sep 15			
US	Philadelphia Feb (17:00 BST)	Index	SEP	0.0	2.3	0.0
Friday September 21, 2007						
NZ	Visitor Arrivals		AUG	-	-	-1.8%
JN	All-industry Activity Index (00:50 BST)	Month	JUL	-0.6%	-0.4%	0.2%
EC	PMI Surveys (09:00 BS)	Manufac	SEP	54.5	53.9	54.3
		Services	SEP	57.6	57.5	58.0

Source:- Dow Jones, Reuters, Bloomberg

Notes:- p=preliminary, r=revised, n.f.=not forecast, n.s.a.=not seasonally adjusted, ann.=annualised, bn=billion, m=million

Monthly Economic Calendar

Week commencing Monday September 24, 2007

Monday September 24, 07	Tuesday September 25, 07	Wednesday September 26, 07	Thursday September 27, 07	Friday September 28, 07
	<p>NZ Westpac NZ Consumer Confidence (3Q)</p> <p>UK Total Business Investment (2Q F)</p> <p>US S&P/CaseShiller Home Price (JUL)</p> <p>JN BoJ Monetary Policy Meeting Minutes for August</p>	<p>AU Conference Board Leading Index (JUL)</p> <p>AU DEWR Skilled Vacancies (SEP)</p> <p>NZ Trade Balance (AUG)</p> <p>UK GDP (2Q F)</p> <p>UK Current Account (2Q)</p> <p>US Consumer Confidence (SEP)</p> <p>US Richmond Fed Manufact. Index (SEP)</p> <p>US Existing Home Sales (AUG)</p> <p>US ABC Consumer Confidence (SEP 24)</p> <p>US MBA Mortgage Applications (SEP 22)</p> <p>US Durable Goods Orders (AUG)</p>	<p>NZ Building Permits (AUG)</p> <p>NZ NBNZ Business Confidence (SEP)</p> <p>UK BBA Loans for House Purchase (AUG)</p> <p>US Initial Jobless Claims (SEP 23)</p>	<p>NZ GDP (2Q)</p> <p>UK GfK Consumer Confidence Survey (SEP)</p> <p>US New Home Sales (AUG)</p> <p>US New Home Sales (AUG)</p> <p>US Fed's Evans Gives Opening Remarks at Globalization Conference</p> <p>US Personal Income (AUG)</p> <p>US Personal Spending (AUG)</p> <p>US PCE Deflator (AUG)</p> <p>US Chicago Purchasing Manager (SEP)</p> <p>JN Overall Hhold Spending (AUG)</p> <p>JN Natl CPI (AUG)</p> <p>JN Industrial Production (AUG P)</p> <p>JN Retail Trade (AUG)</p> <p>AU TD Securities Inflation (SEP)</p> <p>JN Construction Orders (AUG)</p>
Monday October 1, 07	Tuesday October 2, 07	Wednesday October 3, 07	Thursday October 4, 07	Friday October 5, 07
<p>UK HBOS House Price 3Mths/Year (SEP)</p> <p>UK PMI Manufacturing (SEP)</p> <p>JN Tankan Lge Manufacturers Index (3Q)</p> <p>EC PMI Manufacturing (SEP)</p>	<p>AU Reserve Bank Rate-Setting Board Meeting</p> <p>AU AiG Performance of Mfg Index (SEP)</p> <p>US ISM Manufacturing (SEP)</p>	<p>AU RBA CASH TARGET (OCT)</p> <p>AU Retail Sales (AUG)</p> <p>AU Trade Balance (AUG)</p> <p>UK Bank of England's Monetary Policy Committee Meets</p> <p>UK Nationwide Consumer Confidence (SEP)</p> <p>UK PMI Services (SEP)</p> <p>US Pending Home Sales (SEP)</p> <p>US ABC Consumer Confidence (OCT 1)</p> <p>US MBA Mortgage Applications (SEP 29)</p> <p>EC PMI Services (SEP F)</p>	<p>AU AiG Performance of Service Ind (SEP)</p> <p>AU Building Approvals (AUG)</p> <p>UK BOE ANNOUNCES RATES (OCT 5)</p> <p>US ISM Non-Manufacturing (SEP)</p> <p>US Initial Jobless Claims (SEP 30)</p> <p>EC ECB Announces Interest Rates (OCT 5)</p>	<p>US Factory Orders (AUG)</p> <p>US Change in Nonfarm Payrolls (SEP)</p>

Monthly Economic Calendar (continued)

Week commencing Monday September 24, 2007

Monday October 8, 07	Tuesday October 9, 07	Wednesday October 10, 07	Thursday October 11, 07	Friday October 12, 07
AU AiG Perf of Construction Index (SEP) AU ANZ Job Advertisements (SEP) AU NAB Business Condition Outlook (3Q) UK PPI Input s.a. (SEP) UK Industrial Production (AUG)	NZ NZIER Business Opinion Survey (3Q) NZ ANZ-Business NZ PMI (SEP) JN Machine Tool Orders (SEP P) JN Eco Watchers Survey: Outlook (SEP)	AU Westpac Consumer Confidence (OCT) AU Home Loans (AUG) AU Investment Lending (AUG) US IBD/TIPP Economic Optimism (OCT) US Minutes of September 18 FOMC Meeting (Text) US ABC Consumer Confidence (OCT 8) US MBA Mortgage Applications (OCT 6) JN BoJ Monetary Policy Meeting	AU Consumer Inflation Expectation (OCT) AU Employment Change (SEP) UK RICS House Price Balance (SEP) US Trade Balance (AUG) US Initial Jobless Claims (OCT 7) US Import Price Index (SEP) JN BOJ Target Rate (OCT 11) JN BOJ Monthly Report JN Current Account Total (AUG) EC ECB Publishes Oct. Monthly Report (Text) EC Euro-Zone GDP s.a. (2Q F)	NZ Retail Sales (AUG) US Producer Price Index (SEP) US Advance Retail Sales (SEP) JN Domestic CGPI (SEP) JN Consumer Confidence (SEP)
Monday October 15, 07	Tuesday October 16, 07	Wednesday October 17, 07	Thursday October 18, 07	Friday October 19, 07
NZ Food Prices (SEP) NZ Consumer Prices (3Q) UK Rightmove House Prices (OCT) UK DCLG UK House Prices (AUG) US Empire Manufacturing (OCT) US Bernanke Speaks at Economic Club of New York JN Industrial Production (AUG F)	UK CPI (SEP) US Former Fed's Greenspan Speaks at Orlando Software Conference US Industrial Production (SEP) EC ZEW Survey (Econ. Sentiment) (OCT) EC Euro-Zone CPI (SEP) EC Euro-Zone CPI - Core (SEP)	AU Westpac Leading Index (AUG) UK Bank of England Minutes US NAHB Housing Market Index (OCT) US ABC Consumer Confidence (OCT 15) US MBA Mortgage Applications (OCT 13) US Consumer Price Index (SEP) US Housing Starts (SEP) US Building Permits (SEP) JN Machine Tool Orders (SEP F)	AU Reserve Bank Monthly Bulletin UK Retail Sales (SEP) UK BSA Mortgage Approvals SA (SEP) US Initial Jobless Claims (OCT 14) US Continuing Claims (OCT 7) US Fed's Beige Book AU Preliminary BoP Imports (SEP)	AU Import price index (3Q) AU Export price index (3Q) NZ Visitor Arrivals (SEP) UK GDP (3Q A) US Philadelphia Fed (OCT)

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