

Australian Financial Markets

January 2012

Currency

- The real trade-weighted AUD is far above its historical average.
- AUD is currently above its long run averages against all of the other major currencies except JPY.
- Compared to six months ago, the AUD is not systematically higher or lower against the other major currencies.

90 Day Rates

- The 90 day bank bill futures curve has moved lower in the past six months.
- Futures are pricing the cash rate to decline towards 3.75% in the coming twelve months.
- The yield curve has become inverted and is now steep by historical standards.

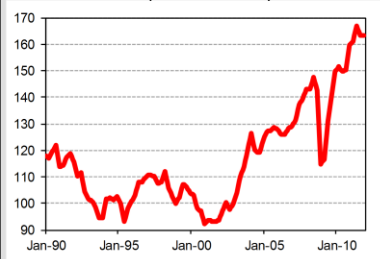
10 Year Yields

- Yields of 3.9% are down 1.0% from six months ago and are now at multi-decade lows.
- Australian yields have fallen in line with global yields so bond spreads have not clearly increased or decreased.
- Spreads are currently above their historical averages against all other major markets except Japan.

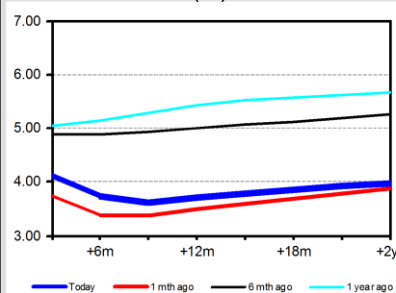
Equities

- Equities have fallen recently and have provided a loss of almost -10% during the past twelve months.
- Australian returns have been in the middle tier globally in the past year.
- A cumulative five year loss of -5% is a middle tier return compared with other major markets.

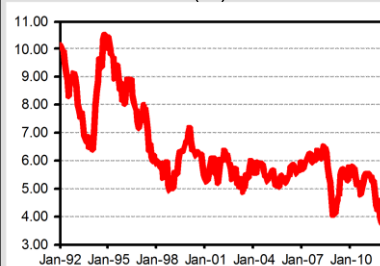
Real Trade-Weighted Index (RBA Index)



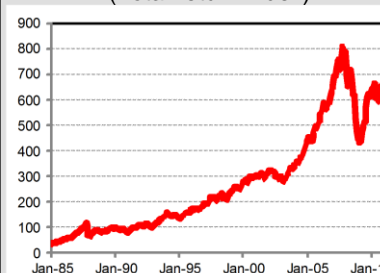
90 Day Future Strips (%)



10 Year Bond Yields (%)



Australian Equity Market (Total return index)

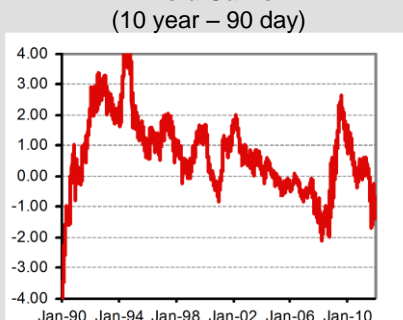


AUD: Now vs History

	Now	Average	Difference
USD	1.03	0.71	31%
EUR	0.81	0.60	26%
JPY	79	82	-4%
STG	0.67	0.43	36%
CHF	0.98	0.96	2%
SEK	7.11	5.31	25%
NOK	6.18	4.86	21%
CAD	1.05	0.92	12%
NZD	0.77	0.84	8%
TWI	163	114	43%

(average refers to 1990-2010)

Yield Curve (10 year – 90 day)



Bond Spreads: Now vs History

	Now	Average	Difference
USA	1.93	1.27	67bp
Ger	2.03	1.61	42bp
Japan	2.93	4.39	-147bp
UK	1.83	0.91	92bp
Swiss	3.21	3.13	8bp
Swede	2.21	1.06	116bp
Nor	1.88	0.87	100bp
Can	1.93	1.07	86bp
NZ	0.04	-0.29	33bp

(average refers to 1995-2010)

Recent Equity Returns

	6m	1 year	5 years
US	-4%	2%	-1%
Euro	-18%	-17%	-34%
Japan	-13%	-17%	-52%
UK	-14%	-9%	5%
Swiss	-6%	-11%	-33%
Swede	-13%	-15%	-3%
Nor	-6%	-9%	-12%
Can	-10%	-11%	-7%
Aus	-6%	-9%	-5%
NZ	-4%	1%	-18%