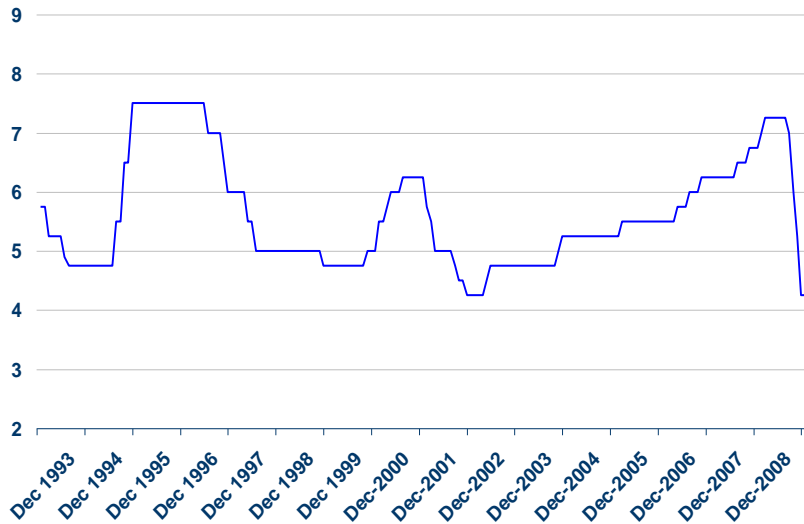


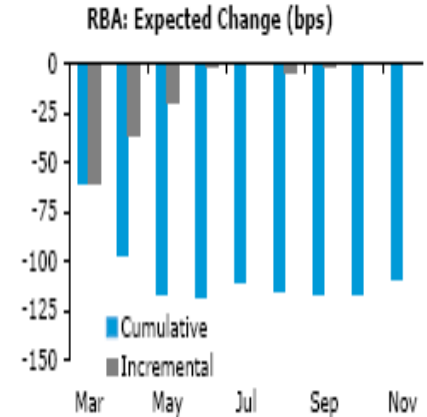
# "Are we there yet?" (February 2009)

**Historical RBA Cash Rate Movements to Feb 2009**



**Monetary Policy Expectations: what's priced in 12/2/09**

Australia	Rate	Change from current
Current Rate <sup>^</sup>	3.25	
Wed 4 Mar 09	2.65	-0.60
Wed 8 Apr 09	2.29	-0.96
Wed 6 May 09	2.09	-1.16
Wed 3 Jun 09	2.08	-1.17
Wed 8 Jul 09	2.14	-1.11
Wed 5 Aug 09	2.11	-1.14
Wed 2 Sep 09	2.09	-1.16
Wed 7 Oct 09	2.09	-1.16
Wed 4 Nov 09	2.16	-1.09

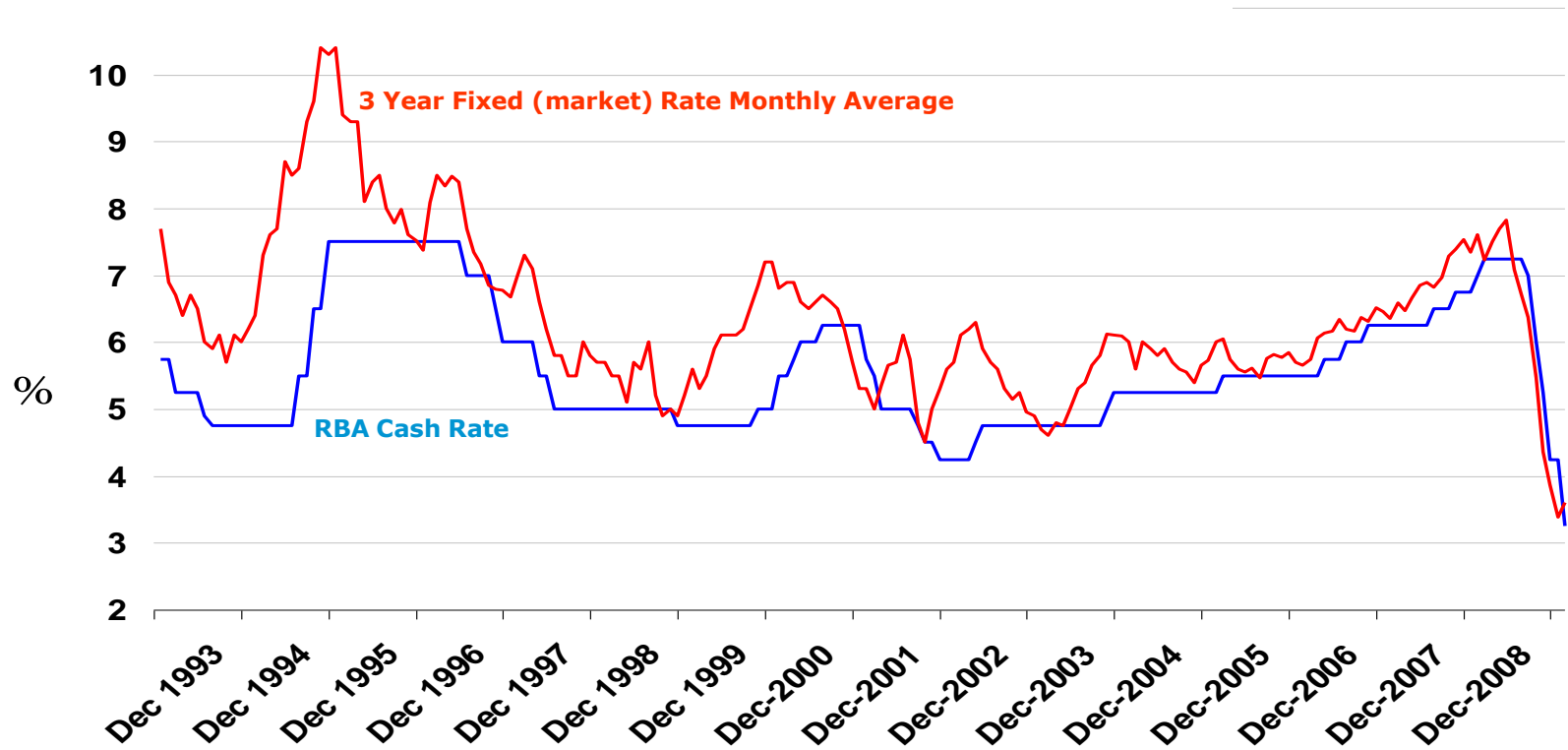


<sup>^</sup> Rate announced after RBA meeting at 2.30pm Tuesday, takes effect from Wednesday

## RBA CASH RATE

- The RBA rate has now fallen 4.00% in 6 months, the most aggressive easing cycle witnessed in Aust
- At 3.25% the RBA cash rate is now at multi-decade lows
- ANZ view is the RBA now has it close to where they want it to be (i.e. highly stimulatory setting)
- Any further cuts will likely be less extreme/more measured and highly reliant on slowing economic conditions
- A greater focus will now be on Fiscal policy stimulus rather than monetary policy, to boost the economy
- We expect the financial markets to continue to price for modest RBA cuts across March & April

# Long term interest rates

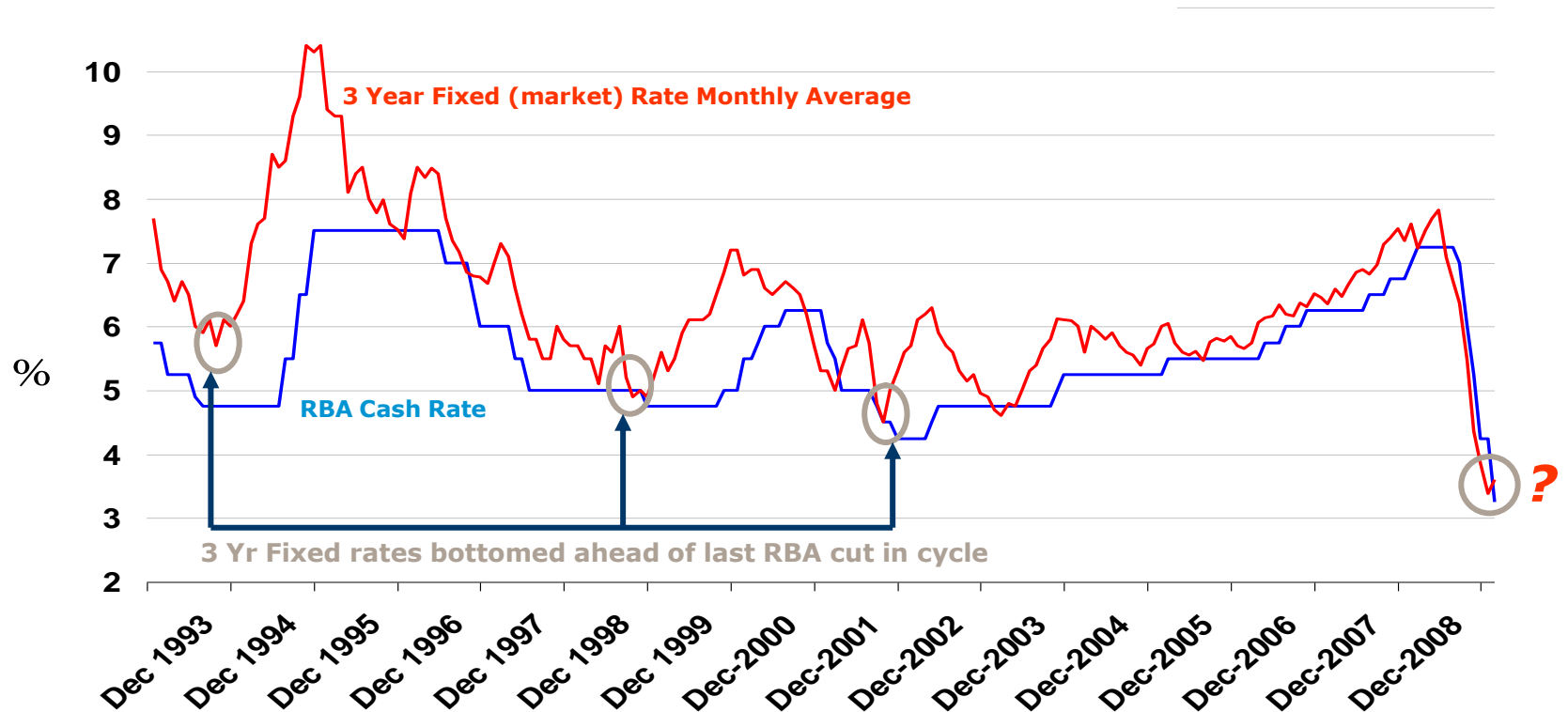


- Current long term interest rates *already* have further RBA rate cut expectations priced in
- The 3 year market rate (monthly average) is at multi-decade lows
- The 3 year market rate average is 6.53% over the past 17 years – we are currently almost half that level
- Long term interest rates in the US have started to rise after extreme lows in recent weeks
- ANZ believes that term fixed rates will come under upward pressure due to dramatically increased govt debt issuance

***In the 48hr following the RBA cut on 3/02/09, the 3 year fixed market rate actually rose by 0.30%***



# Timing the opportunity



3 Yr Fixed rates bottomed ahead of last RBA cut in cycle

- Historically, these fixed rates tend to bottom just ahead of the initial bottoming of the RBA rate.
- They tend to bounce off the bottom quite quickly
- By the time the RBA is close to raising rates, fixed rates have usually moved up substantially
- Thus the most opportunistic time to hedge should be as we *approach* the bottom of the RBA cycle

**Based on a view that the RBA could hit bottom in coming months, we have now entered a highly opportunistic period, both historically and cyclically, in which to secure attractive interest rate hedging levels.**

# ANZ forecasting fixed rates to rise

