

In this issue:

- 1 Tips and Tricks
- 2 Market outlook 2012
- 3 Chi-X debuts in Australia
- 4 Spotlight - Residential Property
- 5 Top 10 Buys and Sells

Accelerated Answers

Welcome

In our first edition of Accelerated Answers for 2012, we take the opportunity to look at the markets we invest in, with a review of the overall market environment, followed by a closer look at Australian residential property. We also shed some light on the new competitor to the ASX, Chi-X.

After what can only be described as a challenging year, there is some cause for quiet optimism that 2012 could be a better year for investors.

Amid this glimmer of hope, Europe remains a cause for concern for all countries, and disruptions are likely to continue

throughout 2012. You can read more in our ANZ Economics Outlook inside.

For many of our customers investing in property has a key role to play in maintaining a diversified portfolio. This year has seen a rocky road for the property sector across the country; we take the opportunity to look at what 2012 may have in store.

Active investors may also be interested in reading about the introduction of the new alternative stock exchange, Chi-X. We look at what the newly-competitive market means for brokers and investors.

We are also proud to announce that for the third year running, ANZ Investment Lending was awarded a CANNEX 5-star rating. This independent rating reflects our outstanding value in the Share Investor profile. While independent recognition is

great to receive, the most valuable feedback comes from you our customer, so please keep it coming!

All the best with your investments this year and thanks for banking with ANZ.



David Crundall
Head of ANZ Investment Lending

Tips and Tricks

Did you know?

To calculate your 5% buffer value, simply add up the market value of your securities that have an LVR assigned to them (your Portfolio Market Security Value) and multiply it by 5%

For example

Portfolio Market Security Value - \$122,450.00
 $\$122,450 \times 0.05 = \$6,122.50$
 Therefore your Buffer value is \$6,122.50

Note: Please refer to your current statement or My Portfolio* on anz.com for your Portfolio Market Security Value.

Market outlook 2012

Market outlook

In our Market outlook for 2012 we have applied our focus to the Asia-Pacific region, within the context of the global economy. However that context has changed markedly in the recent months with deterioration in Europe's outlook, extreme market volatility and growing risks of a global credit event. Our analysis shows that no area is immune from the events in Europe and the channels of contagion are, in most cases, manifold. However, in the absence of any worsening of the situation in Europe and financial markets, there is cause for quiet optimism. The US and Japan are recovering, Australia is transitioning to the second phase of the commodity boom, and many countries in the Asia-Pacific (including Australia and China) have ample scope for policy intervention if global growth threatens to contract significantly.

Below is an executive summary of the full report which can be found at <http://www.anz.com/corporate/research/international-economics>

- The US continues to recover slowly but remains vulnerable to any disruptions in Europe and fiscal drag next year. Its ability to enact important stimulus packages may continue to be hampered by domestic political resistance. We are also cautiously optimistic about Japan's outlook, following solid Q3 GDP growth, a boost from reconstruction and increased resilience to its currency strength. Europe, however, is a serious concern and its outlook has deteriorated sharply in recent months with PMI and other indicators suggesting that a recession is imminent. Political/policy

incompetence, an ageing population, increased capital requirements for its banks, and loss of local confidence in the financial system all point towards a protracted slump.

- Australia's reliance on offshore funding means it is susceptible to a global event such as further fracturing in the euro zone. The concentration of its growth base around resource industries means Australia would also be affected by any further falls in Chinese demand. Recent drops in commodity prices highlight this exposure. We believe Australia's economy will continue to grow despite these risks.
 - Economic growth in China has eased and authorities have begun to ease monetary policy. Whether this slowing develops into a hard landing will, to a large extent, depend on policy responses and the performance of a softening property market. We expect China to implement some significant policy reforms in 2012 in response to global and domestic challenges. Interest rate liberalisation, revisiting the deposit rate ceiling and enlarging the RMB trading band would all be welcome reforms.
 - Emerging Asia is experiencing a slowdown, with European events affecting the region primarily through lower growth and trade and balance of payments financing. Inflation remains high across the region but its momentum is fading, suggesting there will be scope for policy makers to ease settings shortly. In the face of global developments, intra-regional trade is reasonably robust and countries like Indonesia continue to outperform.
- A range of complementary and conflicting forces continue to play through the NZ economy, only now there is the additional factor of downside risk to the global outlook. This risk could manifest itself in five ways: a crisis of confidence, softening demand from China, changes in commodity prices, changes in the NZD, and higher costs of credit. At present the NZ economy is performing quite well, albeit fitfully, and we forecast it to expand modestly, averaging 2.5% per year for the next two years.
 - Despite the USD's shaky fundamentals, we expect its current rally to become increasingly broad as the credit crunch gathers steam. Medium-term, however, we still favour a less prominent role for the USD. European issues will affect currency markets via deleveraging European banks, tighter trade finance conditions, possible knock-on weakness in the US, and redemptions. In these circumstances, the outlook for the AUD, KRW, IDR and MYR is weaker, while the USD, CNY, SGD and PHP will all perform relatively well.
 - Most commodities will have a slow start to 2012 but the medium-to-long term fundamentals are still solid. Price volatility will continue as there are enough financial unknowns to trigger pockets of risk aversion. Again, much depends on China's policy response to its domestic slowdown. Handled well, domestic demand will reignite and bulk prices will barely dip.

Ivan Colhoun, Acting Chief Economist, ANZ

Chi-X debuts in Australia

For more than 20 years, the ASX had a near monopoly on the Australian share market. In October 2011, this position was challenged by the arrival of an alternative trading venue operator, Chi-X.

After an initial pilot period that included only eight securities, Chi-X expanded in November 2011 to offer the entire S&P/ASX 200 index – making it a genuine competitor to the ASX for trading in Australia's biggest companies.

What will the arrival mean for traders?

According to Chi-X, their goal is to "provide

traders and investors with more efficient markets through the introduction of low-cost, high-speed alternative execution venues".

Based on their experience in other overseas markets, they believe the introduction of Chi-X will result in better trading outcomes through:

- tighter buy-sell spreads
- lower trading costs
- higher overall market turnover
- increased liquidity.

It's a strategy that has worked successfully a number of times around the world. For example, Chi-X Europe launched in March 2007. It is now the largest European equity exchange with a market share of around 20%.

In Australia, it is generally expected that Chi-X will eventually capture around 10-15% market share.

Is it making a difference?

While initial volumes for Chi-X were light (early November volumes were \$5 million per day compared to \$5 billion for the ASX), the mere presence of Chi-X in the

Spotlight - Residential Property

Australian house prices have drifted lower in most capital cities over the past year reflecting increased stock for sale and weakened buyer sentiment. Economic and financial market uncertainty has been fanned by the European debt crisis, a slowdown in China and the threat of a renewed global downturn. This has combined with a marked slowdown in the domestic labour market to heighten concerns over job security. Furthermore, continued predictions of an imminent collapse in Australian house prices by some commentators have weighed on market confidence.

House prices have fallen

Initially, falls were concentrated in Perth and Brisbane but more recently Melbourne and Adelaide prices have declined. House prices in all these cities experienced outsized gains in earlier years and are now reverting to 'fair value'. Western Australia and Queensland are expected to lead the two-speed economy in the years ahead, and buoyant labour demand and rapid gains in household incomes will limit further downside to house prices and eventually drive them higher. However, the Victorian economy is forecast to slow sharply in 2012 placing further downward pressure on prices. Sydney home prices, in contrast, have been resilient, reflecting their softer run up in the past 7 years along with an unprecedented tightening of housing supply.

Declining auction clearance rates and rising days on market reflect the mismatch between buyer and vendor expectations. However, the absence of wide-scale 'forced' selling has, to date, protected measured price outcomes. Rising unemployment, however, presents a clear risk to loan delinquencies and house prices.

Australian market has had an impact.

Even before Chi-X was launched, the ASX responded to the impending competition by lowering fees and upgrading its technology. In July 2010, the ASX slashed its trading fees from 0.28 basis points to 0.15 basis points.

When Chi-X launched with even lower fees (0.06 basis points), the ASX followed by slashing theirs further to be lower than Chi-X on large volume orders (0.05 basis points).

This kind of competition is obviously good news for brokers, whose costs to enact orders is now lower. This gives them scope to pass these savings onto traders, and reduces the likelihood of future brokerage increases.

Fundamentals improving

While we expect prices to ease further in the 12 months ahead, we maintain a cautiously optimistic medium term house price view supported by a robust economic outlook, low unemployment, flat to falling mortgage rates, improved affordability and a further tightening of the housing demand/supply balance.

A combination of lower interest rates, falling house prices and rising household incomes has improved house purchase affordability. From a recent peak of 34% of income in 2010, average mortgage payments on the median priced home have declined to 32% of average household income at present and are expected to fall beneath the long term average of 30% by early next year.

Affordability has improved

A longer-term perspective on affordability shows all the growth in house prices since the mid-1980s is explained by just two factors: gains in average household incomes and a structural decline in the cost of borrowing.

The median house price has risen by almost 6 times from \$93,000 in 1986 to \$550,000 now. Over the same period, average household incomes rose by 3½ times. Simply using the house price to income ratio, many analysts conclude that Australian house prices are currently 40-50% overvalued relative to the 1980s. However, when the halving of mortgage rates is taken into account, the average household's purchasing power¹ over the median priced home is currently almost exactly the same as it was in the mid-1980s. A multitude of other factors also influence house prices, including population growth, dwelling supply, rents,

For traders on both exchanges, the more direct benefits relate to the greater overall volume of trading in the market. This leads to a narrowing of the gap between buying and selling offers, and greater liquidity – which makes it easier to buy and sell.

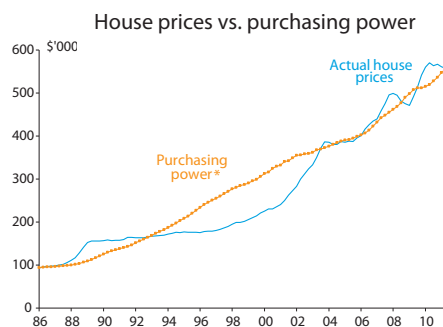
Can you trade through Chi-X?

Chi-X's trading services are currently limited to the ASX/S&P 200 and 57 Exchange Traded Funds (ETFs). So if you're investing in smaller stocks, you don't have an option but to continue using the ASX.

Also, not all brokers offer the ability to trade with Chi-X. You can find out if your broker is a trading participant with Chi-X via their website at chi-x.com.au

investor yields, tax incentives, the availability of credit and market sentiment.

Valuations 'reasonable'



* Represents the average households purchasing power over the median priced home

Sources: ABS, RBA, RP Data-Rismark, ANZ

However, over recent decades, median values have tended to vary around home purchasing power², suggesting housing affordability is the key longer-term determinant of house prices. House prices were actually significantly under-valued for much of the 1990s before 'catching up' with purchasing power between 2001 and 2003. Buoyed by stimulatory public policy, house prices moved marginally above purchasing power in 2009-10, but have fully retraced this in the past 18 months.

Paul Braddick, Head of Property Research, ANZ

Full article available at www.anz.com/corporate/research/australian-industry-economics/australian-property-outlook

1 As measured by standard mortgage repayments relative to average household income

2 Underpinned by average household income and mortgage interest rates

Does it affect my ANZ Share Investment Loan

If you choose to trade with Chi-X, there is no change to your experience with ANZ Investment Lending.

If you'd like to find out more about trading through Chi-X, speak to your adviser.

Sources:

Launch info
<http://m.smh.com.au/business/chix-not-likely-to-overwhelm-asx-20111108-1n5gd.html>

Chi-X goals
<http://www.chi-x.com/australia/>

Europe market share
http://batstrading.com/resources/press_releases/BATS_Chi-X_Final_Clear_FINAL.pdf

Fee reductions
<http://theconversation.edu.au/chi-x-launch-what-does-it-mean-for-the-australian-market-3900>

How to contact us

If you have feedback regarding these articles or would like to discuss your account further, please contact either your Adviser or the ANZ Investment Lending Client Services Team:

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Top 10 Buys and Sells

Top 10 Buys

by ANZ Investment Lending customers in
October and November 2011

	ASX Code	Company
1	BSLR	BlueScope Steel Ltd Rts
2	WOW	Woolworths Limited
3	CBA	Commonwealth Bank
4	AMP	AMP Limited
5	BHP	BHP Billiton Limited
6	GFFR	Goodman Fielder Rts
7	FMG	Fortescue Metals Grp
8	SUN	Suncorp Group Ltd
9	TOL	Toll Holdings Ltd
10	NCM	Newcrest Mining

Top 10 Sells

by ANZ Investment Lending customers in
October and November 2011

	ASX Code	Company
1	CEU	ConnectEast Group
2	TCL	Transurban Group
3	ESG	Eastern Star Gas
4	ORG	Origin Energy
5	CSL	CSL Limited
6	CAH	Catalpa Resources
7	AED	AED Oil Limited
8	WOR	WorleyParsons Ltd
9	MRE	Minara Resources
10	QBE	QBE Insurance Group

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