

Is Australia Open For Business? Mark 2

Chair

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What 'Overhang' remains?

- Will the housing crisis push the US into recession
- US centric or global
- Who is holding the bag (sub prime exposure)
- Repricing risk beyond sub prime
- Can Central banks ease us into inflationary conditions
- How long will bid books impact volatility in the secondary market (and impact primary)
- What impact will equity markets cause
- When will broad investor confidence return to the asset-backed CP markets

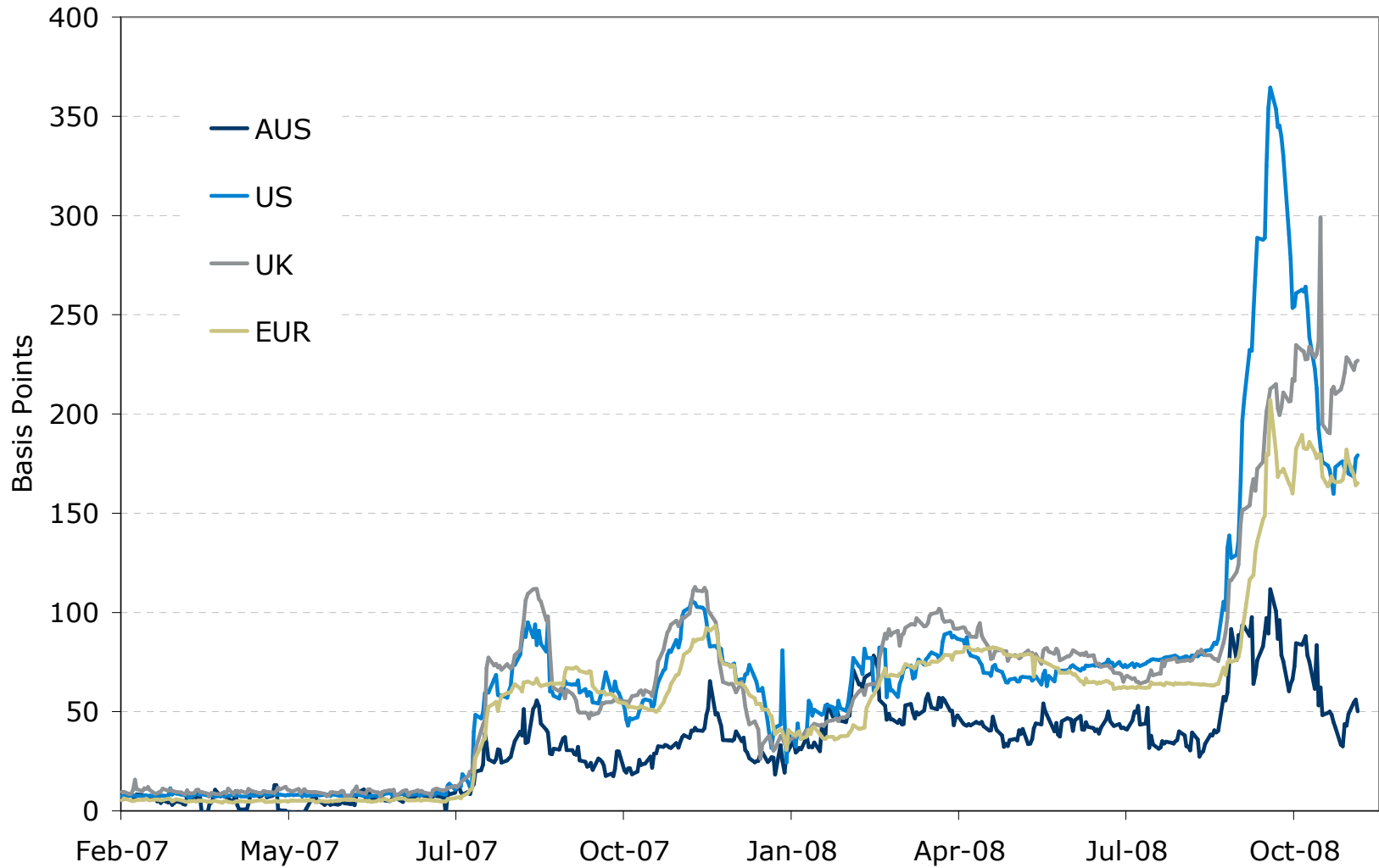
Picking up from where we left off....

"the end of the West consumer"

Where Are We At?

- Key issues around prevailing environment in Australia & Globally

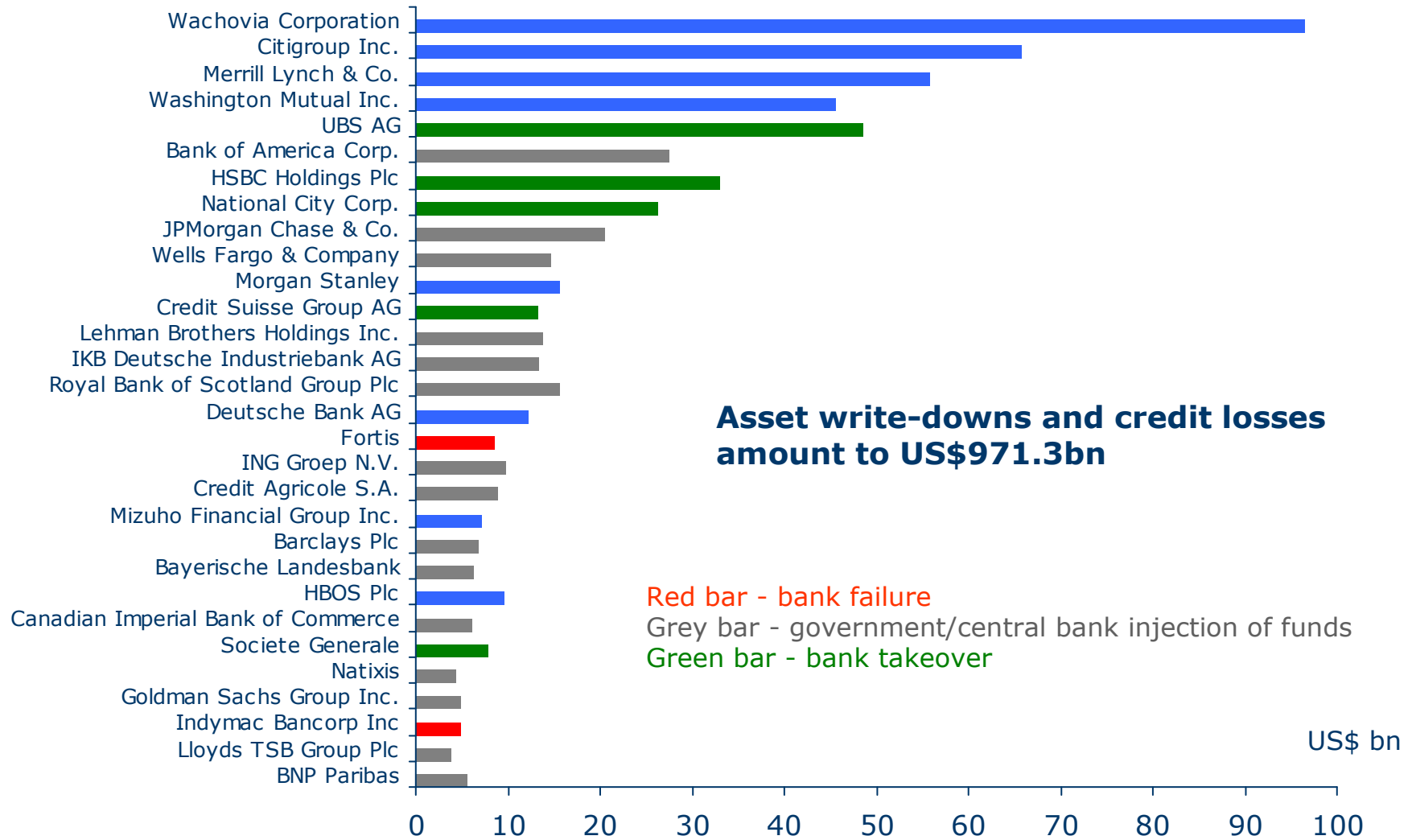
Money market pressures have begun to recede but remain well above 'normal' levels. (3m OIS/LIBOR spreads)



Source: ANZ and Bloomberg



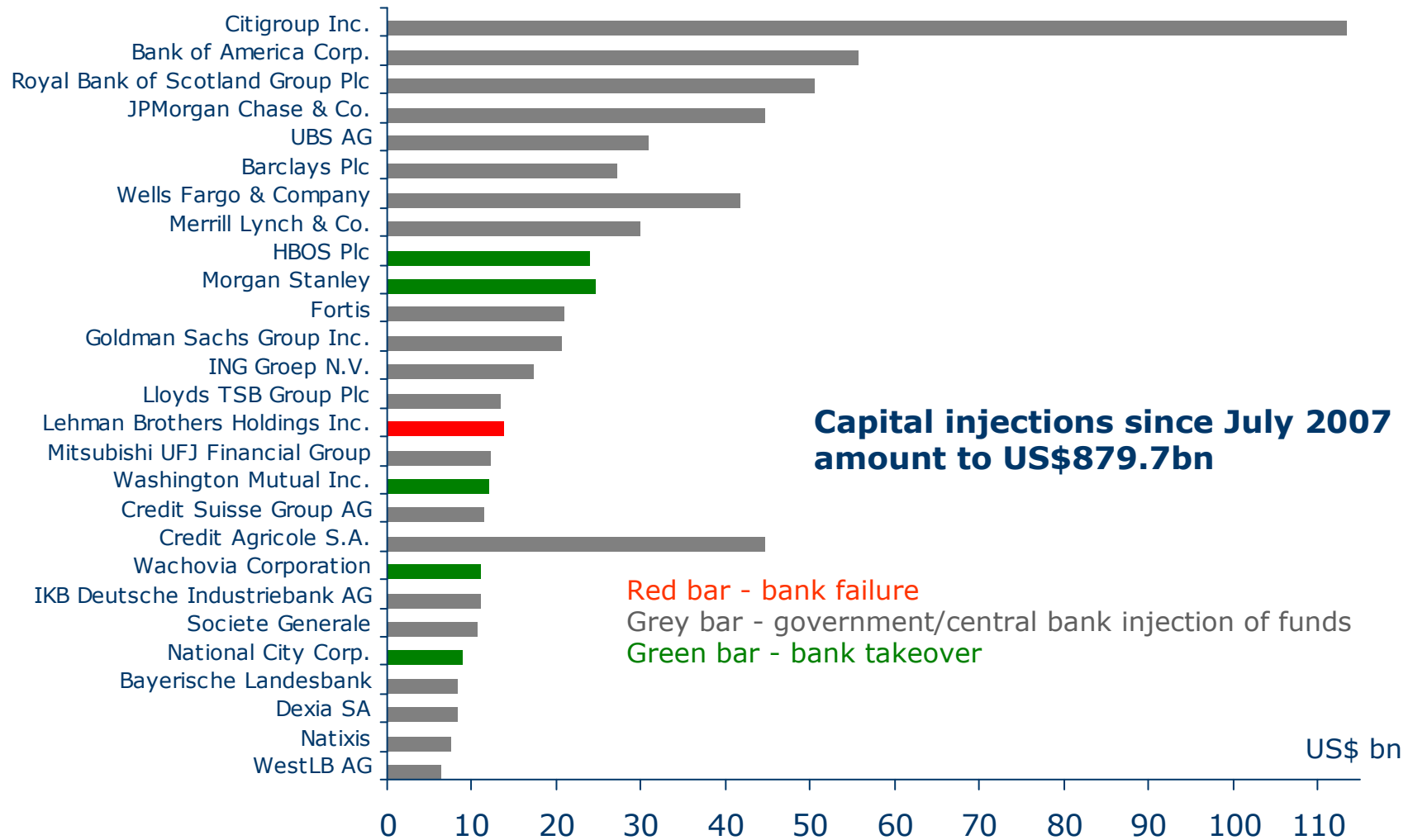
Announced losses by global financial institutions are approaching \$1trn. Total loss estimates range from \$1.4trn to \$3trn



Sources: ANZ and Bloomberg



New capital injections reached \$440bn to Sep 2008 and have since accelerated to almost \$900bn with government help



Sources: ANZ and Bloomberg



Have equities factored in a global recession? Investors have lost 8 US\$23.2 trillion since the end of October 2007 (add another \$2trn in November so far!)

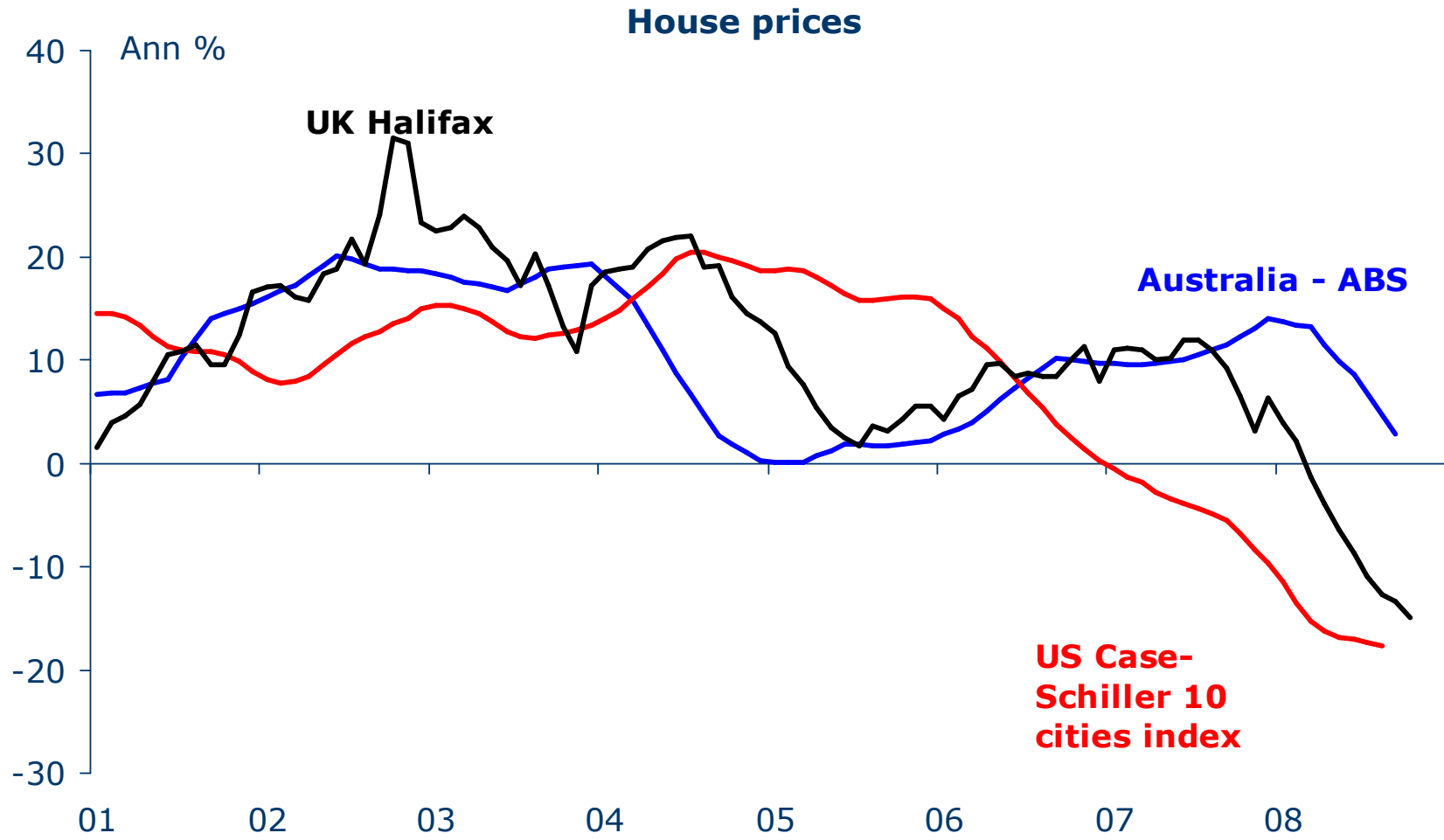
Capitalization of world equity markets



Source: ANZ and Datastream.



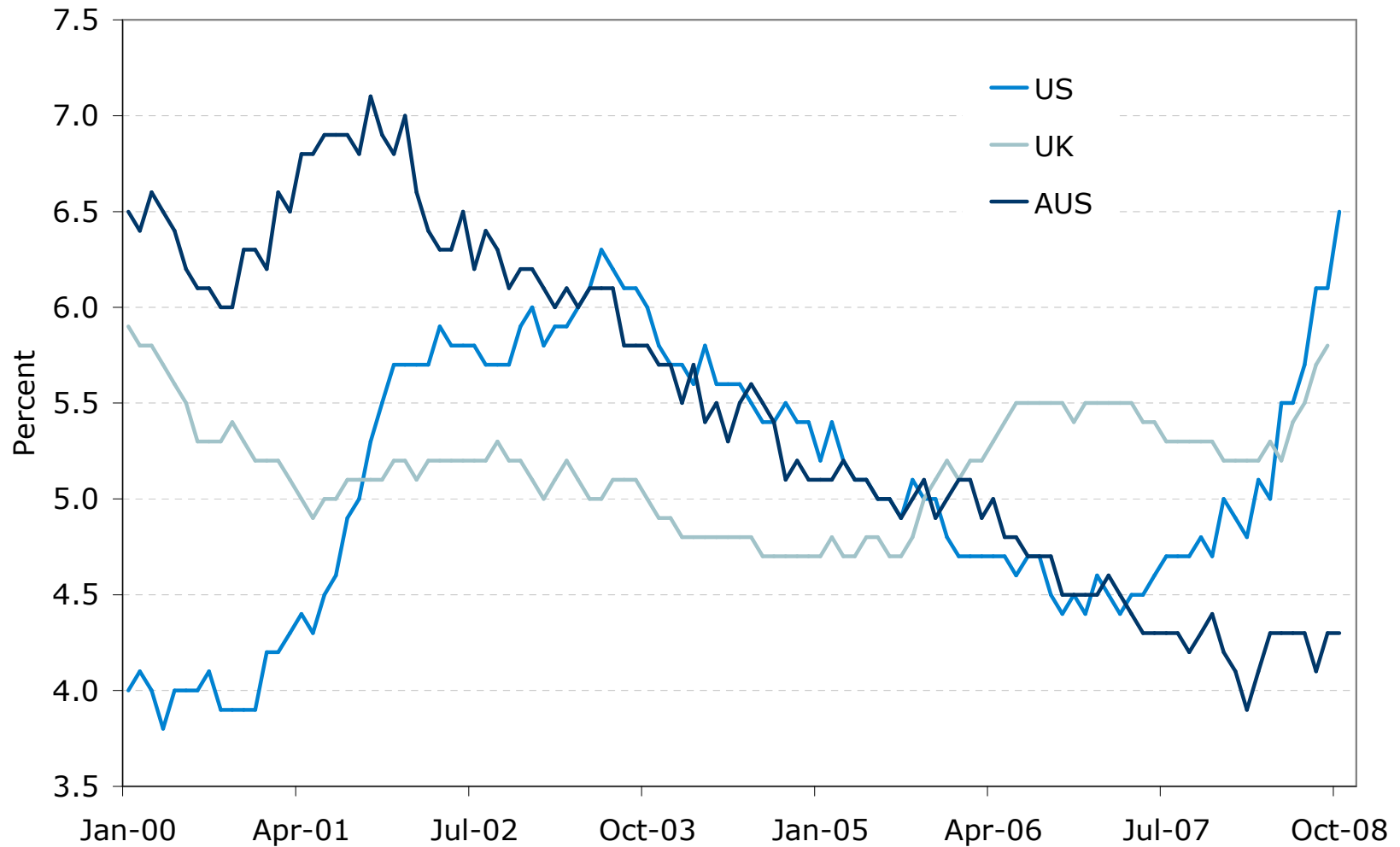
Australian house prices have not experienced the degree of decline as those in the US and UK



Source: ANZ, RBA, ABS, APRA; Council of Mortgage Lenders; (FDIC), DataStream, Case-Schiller, HBOS, ABS



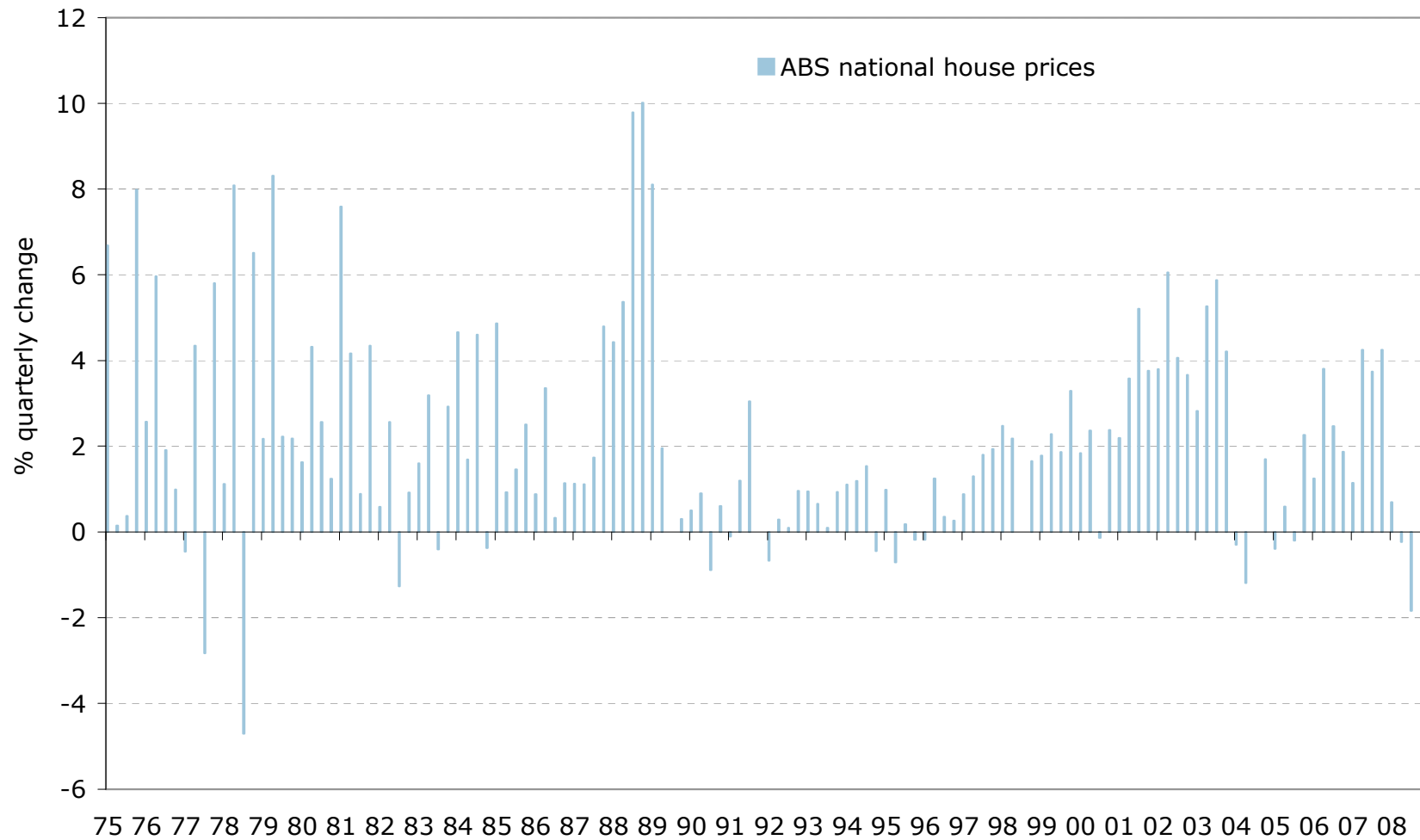
How much of this is because Australia's unemployment rate has not risen as much as the US and UK will be critical to the economic outlook 10



Source: ANZ, ABS and Bloomberg



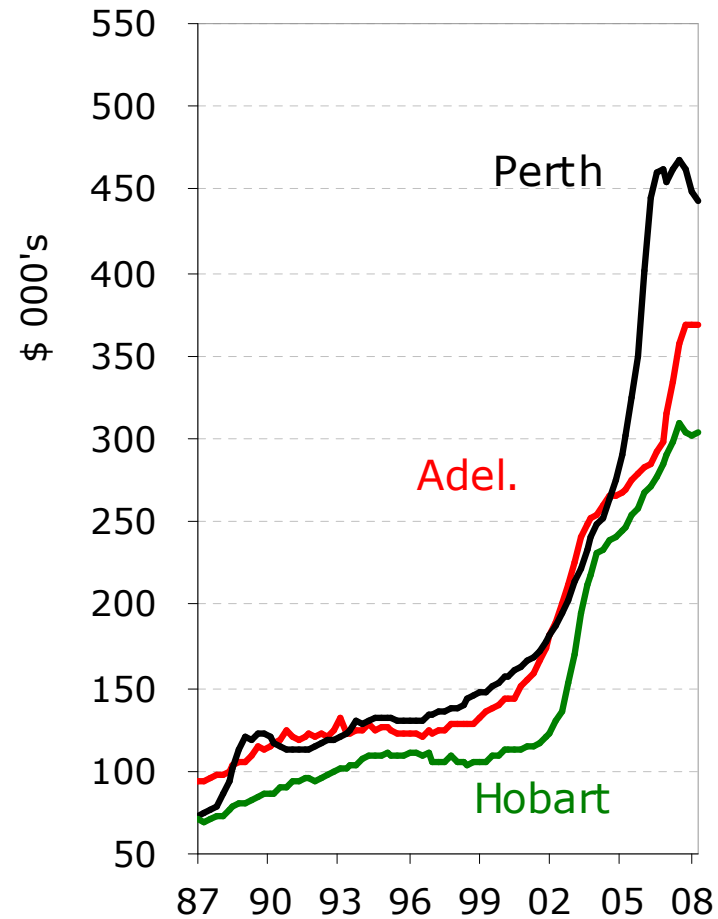
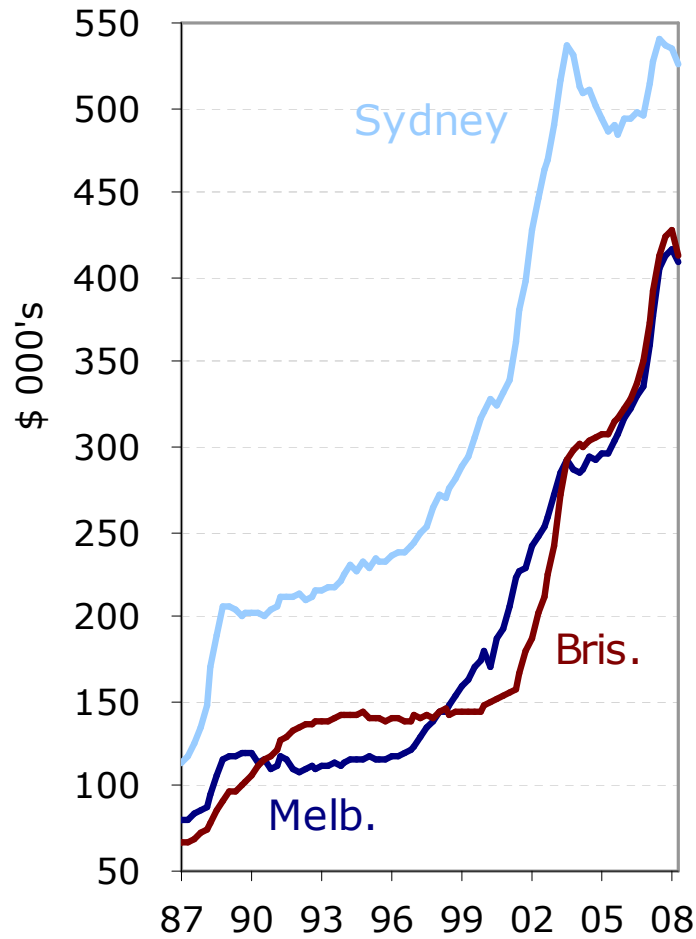
Indeed, Australian house prices fell by 1.8% in Q3 - the biggest quarterly fall since 1978



Source: ANZ and ABS



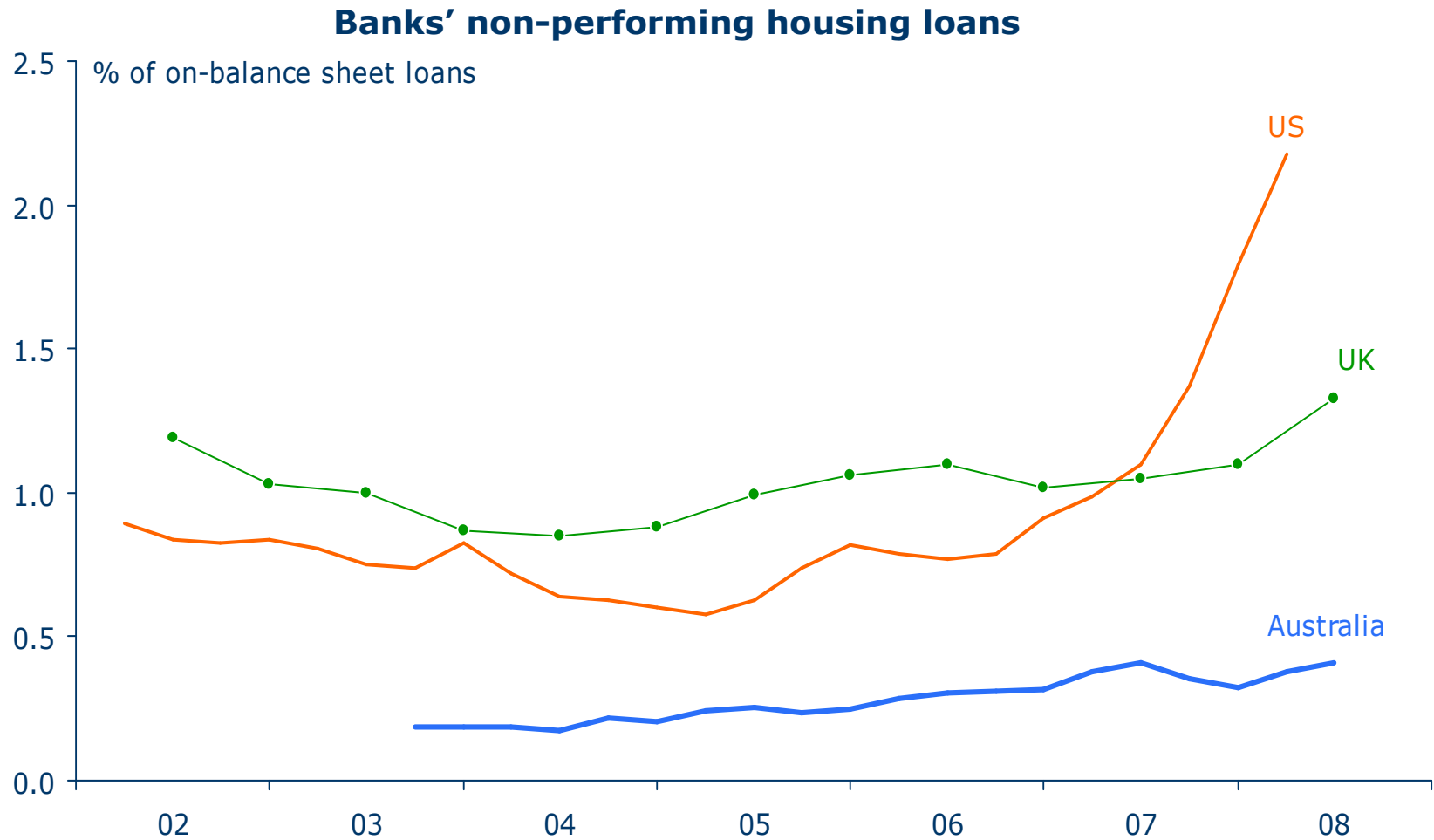
House prices outside of Sydney look the most vulnerable;
particularly if the decline in commodity prices translates into a
generalised mining downturn



Source: ANZ and ABS

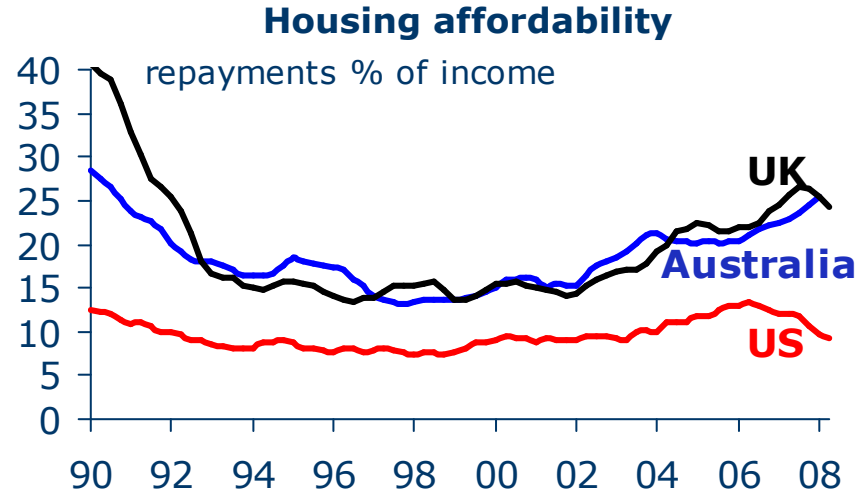
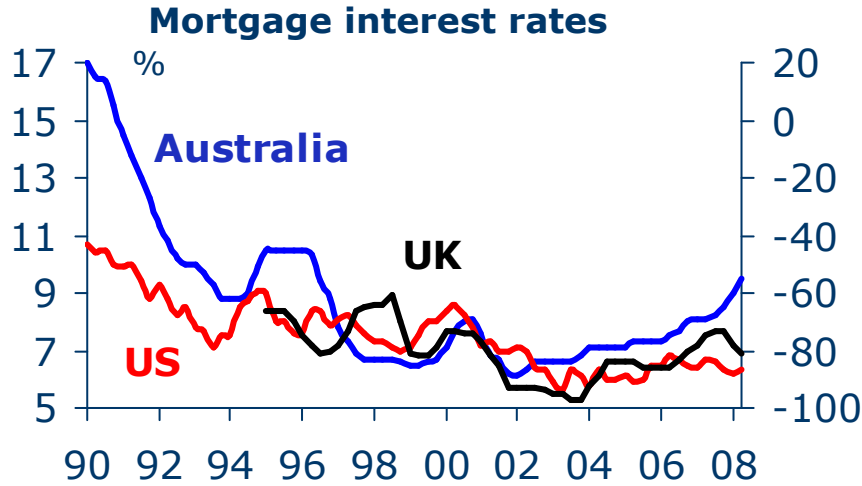
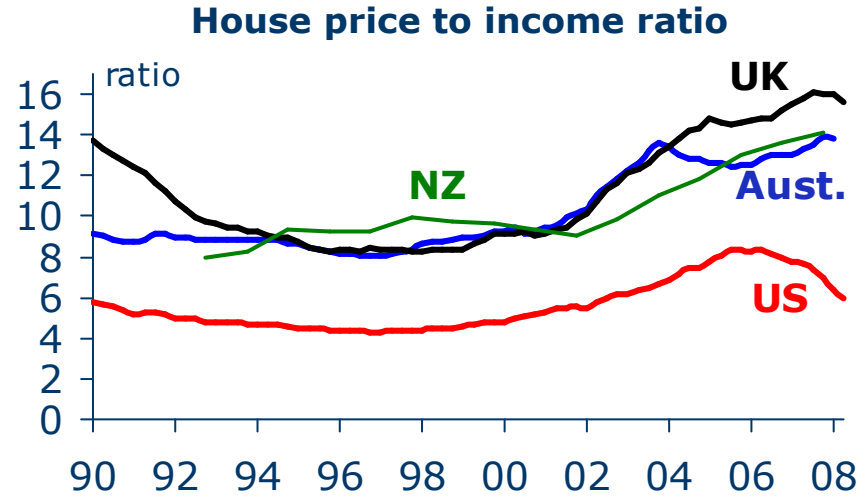
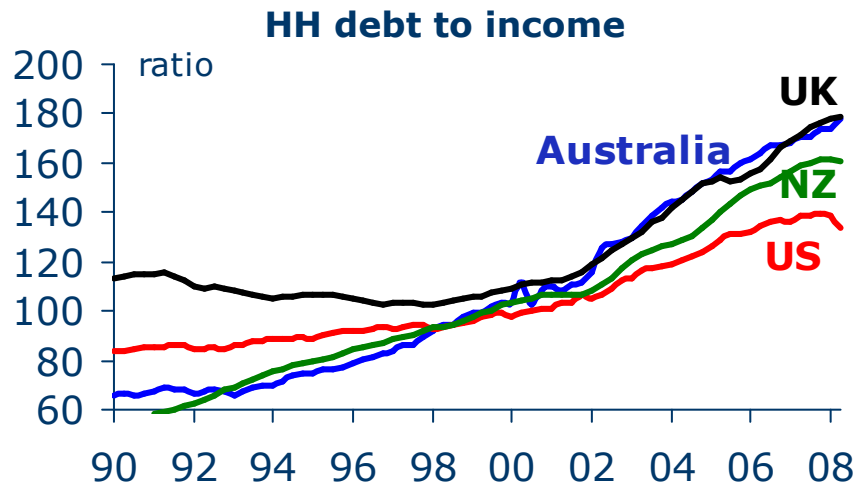


Australian housing loan delinquencies are significantly lower than in the US or the UK



Source: Philip Lowe, *The Financial System and Recent Developments in the Australian Financial System*, Speech to 6th Annual Retail Financial Services Forum, 13th August 2008; APRA; UK Council of Mortgage Lenders; US FDIC.

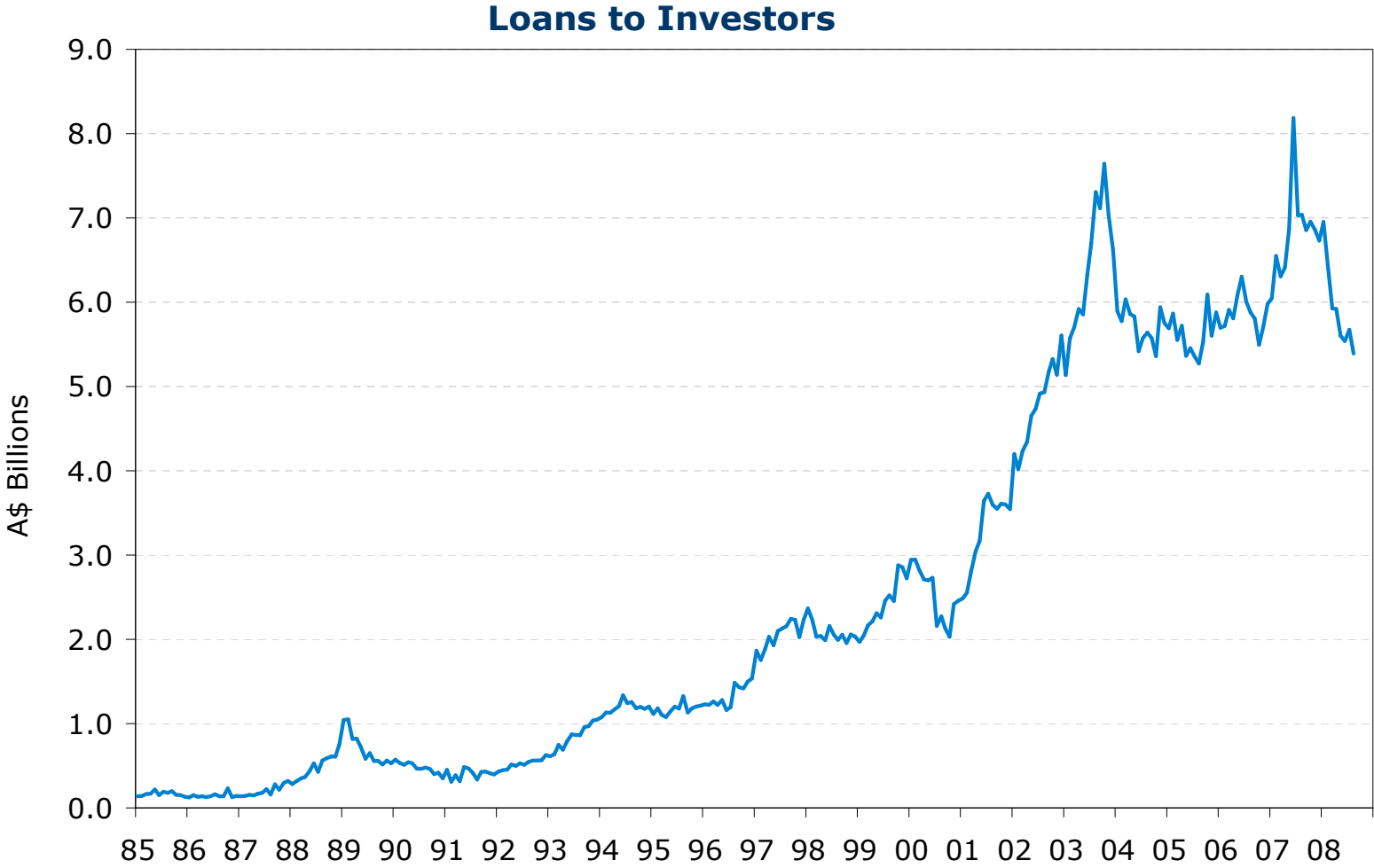
Simplistic metrics could suggest Australian household sector faces similar risks to the US and UK



Sources: S&P, MBA, Datastream, ANZ



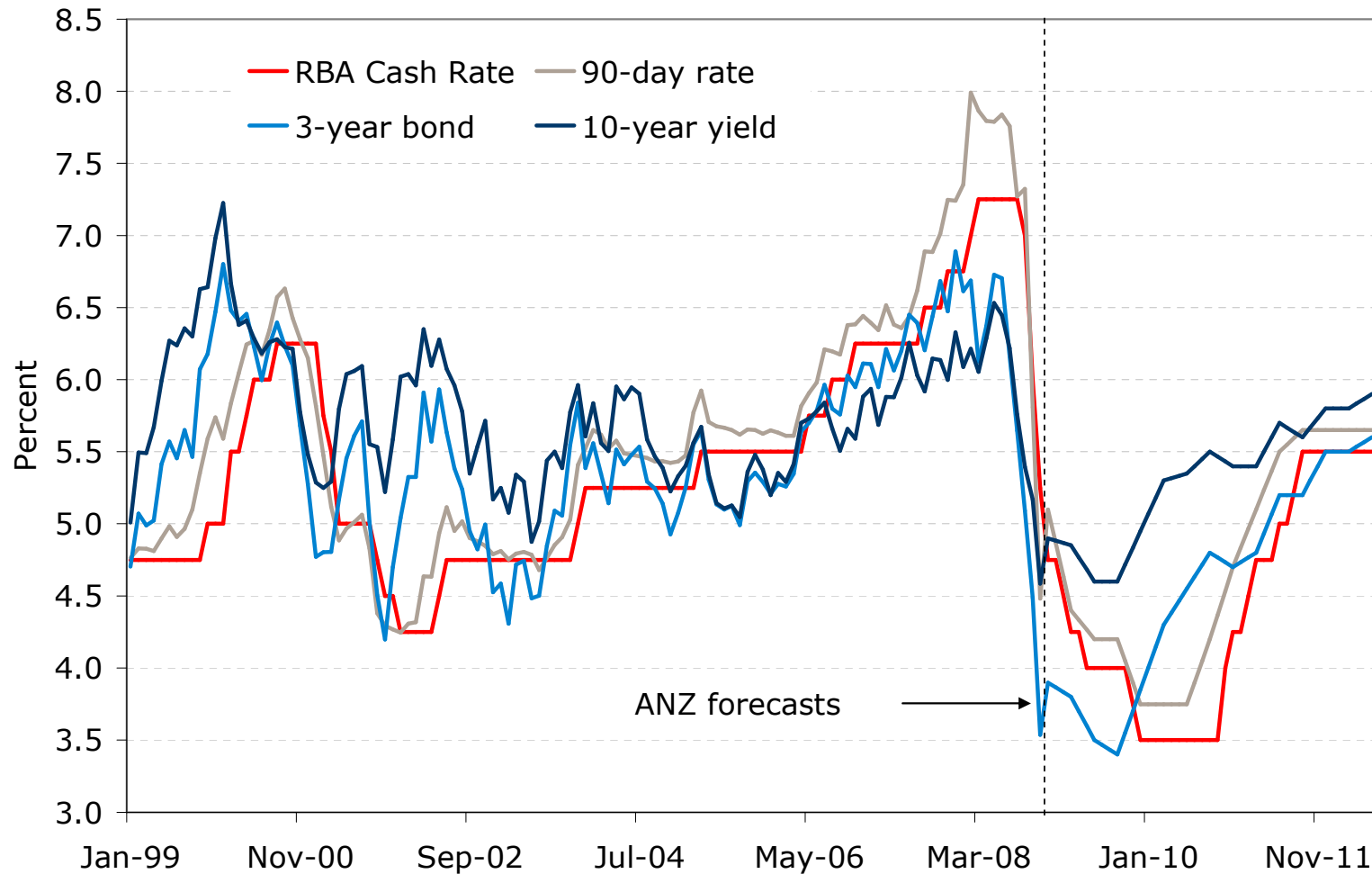
Investors are the risk point for residential property. A significant retreat from investors will remove an important source of demand for housing 15



Source: ABS and ANZ



ANZ expects the RBA cash rate to be 3.5% in 2009. Term rates have fallen significantly in recent months and thus have only limited scope to decline further given our core RBA/growth view



Source: ANZ and Bloomberg



What's ahead?

- The next 12-months. Expectations, key risks
- Further Bank recapitalisation
- Can we shake the US shackles
- Interest rates
- Key risks around residential property in Australia
- Is the cycle – volatility/stability/recovery

Investing Outlook

- From the Sell Side Key pressure points:
 - Bank lending dominating cap markets?
 - Redemption status (real money)
 - New investors?
 - Bank participation
 - Liquidity?
 - Domestic vs. offshore
 - Corporate earnings?

Where To From Here ?

- Are we open, or a steady “drip” of deals
- Investors remain in the ‘driver’s seat’
 - Back to fundamental analysis
 - The need for liquidity
 - Extension risk
 - Reliance on rating agencies

Issuer Implications

- **Be prepared and nimble**
 - Look for windows of opportunity
 - Listen to investor requirements
- **Be patient**
 - Lengthen strategic outlooks
 - Preserve credit lines
 - Be selective with asset selection
- **Be realistic**
 - Volume vs. price
 - Asset and liability match
- **Be flexible and transparent**

At the Coal face

- Two deals in recent times
 - What's changed
 - How has you reacted and accommodated the changes
- We face a prolonged recovery
 - Key measures for business and "survival"