JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- Top-tier economic data was largely absent from the **Australian** calendar last week. Data did, however, show that demand for housing finance eased in July after spiking in the previous month, while consumer confidence rebounded in September in the wake of the RBA's decision to leave interest rates on hold. In the coming week, market pundits again will have little economic data to chew on, with only the Westpac-Melbourne Institute leading index for July and new passenger car sales for August currently scheduled for release. The highlight this week, therefore, probably will be Tuesday's speech by RBA Governor Glenn Stevens, which should touch on the recent problems in money and credit markets.

- In **New Zealand**, the RBNZ left the cash rate unchanged at 8.25% as widely expected last Thursday, and signalled that interest rates will likely remain on hold for the foreseeable future. July's retail sales data, meanwhile, fell below expectations, suggesting that the weakness in domestic spending during 2Q has extended into the third quarter. Record high interest rates and a slowdown in net permanent immigration appear to be taking their toll on consumer spending. Other data released last week showed a bounce in house prices in August, a drop in the volume of home sales to a seven-year low, and a rise in the number of days to sell a home. This week's highlight will be the 2Q current account data on Thursday—the deficit probably will widen owing to a larger income imbalance.

- The **Federal Reserve** is expected to lower its target rate this week, making it the first central bank to decide that financial conditions have tightened so much as to produce weak growth in the coming quarters. That the Fed is taking the lead is no surprise. A main source of the financial turmoil is the weakness of the US housing market—a sectoral drag not present elsewhere. In addition, US real policy rates are high relative to those across most of the rest of the world. The main uncertainty regarding the Fed's decision is the size of the move. We believe that the Fed will lower the fed funds rate only 25bp but deliver a statement that maintains an easing bias. We forecast a total of 75bp of Fed easing by year-end.

- **Other major central banks** are expected to take an extended pause in their tightening cycles. Central to our global forecast is the view that financial spill-overs from the US slowdown—to global equities and local credit markets—will remain limited, allowing global growth to proceed at a trend-like pace in the coming quarters. Recent financial market movements align with this view, but the problems that emerged for a UK mortgage lender last week are a reminder that it is too early to conclude that financial stresses will stay contained.

This week's highlight

RBA Governor Glenn Stevens' speech on *Asia, Australia and Financial Markets* on Tuesday. In a quiet week for economic data, any reference by the Governor to recent problems in financial markets will attract a lot of attention.

Contents

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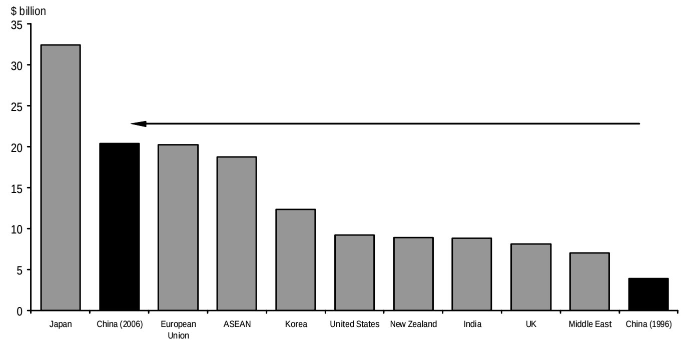
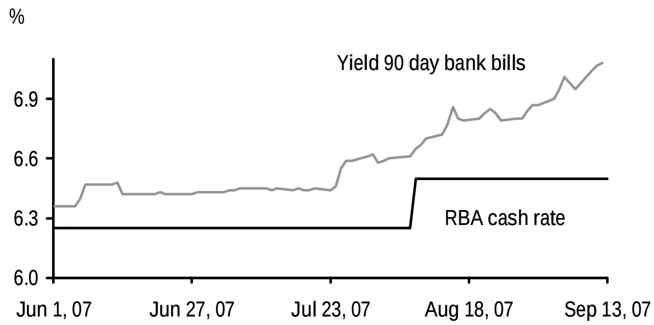
This week's feature charts

Australia's major export destinations



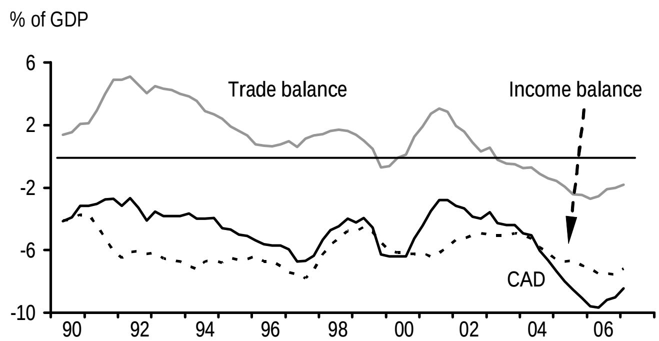
Australia's export outlook remains healthy, despite slightly lower forecasts for global growth. Japan remains Australia's largest destination for exports, and many of the bulk commodities exported to Japan are sold on extended contracts. Big volume declines in the near term, therefore, are unlikely. Australia's second largest export market is China (up from 9th a decade ago), and much of China's economic growth is being driven by domestic infrastructure requirements, which are unlikely to ease any time soon.

Australian money market rates surge



Yields on 90-day bank bills have surged beyond 7%, the highest level since 1996, to hover more than 50bp above the key cash rate. Usually, these short-term yields trade about 10-15bp above the key rate of 6.5%, although if they spike higher the RBA tends to advance banks money in return for collateral in order to bring yields back down. The spike in yields is, however, acting as a defacto tightening, meaning that the RBA may be less inclined to hike interest rates again this year.

New Zealand: current account



The yawning income deficit will continue to plague New Zealand's current account deficit in this Thursday's report. Although the merchandise trade balance is likely to have improved marginally over the quarter, the income deficit will have widened owing to increasing interest costs offshore and a stronger NZD.

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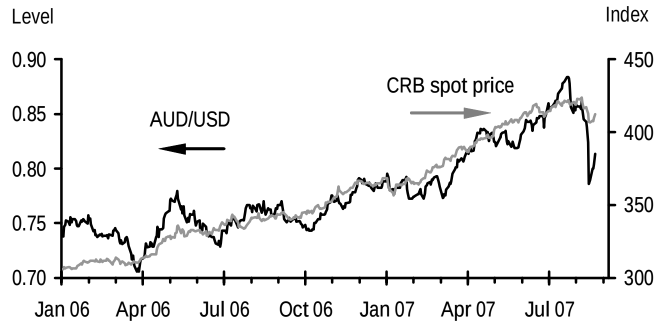
Economic Research note

Weaker AUD—a blessing and curse for Australian economy

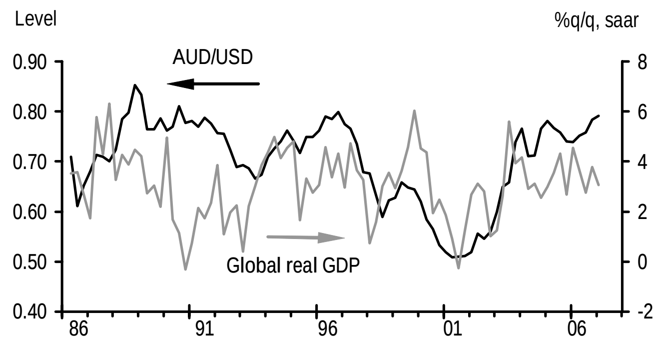
- **Recent global financial volatility has curbed AUD strength, particularly against low yielding currencies**
- **A weaker AUD may fan inflation—raising the prospect of higher interest rates—but fuel export growth**
- **AUD support stems from elevated commodity prices and favorable interest rate differentials**

Nervousness in global financial markets has recently fuelled greater volatility in the Australian dollar. Although still-elevated commodity prices, speculation of higher interest rates, and a healthy domestic backdrop remain AUD-positive, downside risks for the currency have grown. Risk aversion among investors and lenders has emerged amid troubles in the US subprime mortgage market, which could lead to increased borrowing costs and a moderation in global economic growth. Without risk-seeking foreign investors looking to finance Australia's substantial current account deficit, AUD's bias will be towards weakness.

Commodity prices key driver of AUD



AUD weakens amid slower global growth



Global growth concerns direct AUD

Australia is among the largest net exporters of commodities, so it is no surprise that its currency is often a good proxy for evaluating the health of the global economy (chart). A negative outlook for global growth implies weaker external demand for commodities, which removes some upside pressure from commodity prices and, in turn, the Australian dollar (chart). Meanwhile, USD often thrives amid global growth concerns as US-based investors repatriate their funds back home, and as investors globally seek the liquidity and relative safety of US Treasuries.

Given the increased likelihood of a deeper slowdown in the US economy in light of recent developments, JPMorgan downgraded its global GDP growth forecast and now expects three 25bp cuts to the Fed's funds rate before year-end. AUD's outlook will be largely dependent on how investors perceive the global growth outlook.

Uncertainty about the global economy means that volatility in AUD will stay elevated. Increased risk aversion would likely weigh further on AUD broadly, as the allure of the so-called carry trade—where investors borrow lower risk and lower yielding currencies, like yen, to invest in higher risk and higher yielding currencies elsewhere—fades. If the carry trade drawdown gathers momentum, positions funded in yen will be unwound, and net outflows from Japan will slow. In its most recent quarterly review, the Bank of International Settlements estimated that investors borrowing in yen to buy AUD-denominated assets accounted for as much as half the growth in turnover of the Australian currency; this means the Australian unit remains heavily exposed to a sharp carry trade unwinding.

AUD/USD currently remains comfortably above its long-term average of 0.68. Despite a potential post-election rate increase, JPMorgan forecasts the AUD/USD currency pair at 0.80 at year-end, in large part as a moderation in global growth keeps risk appetite limited and as many key commodity prices moderate somewhat.

Domestic economy rosy, inflation a threat

A weaker AUD would be a blessing and a curse for the Australian economy—boosting the competitiveness of local exports (which have logged a suboptimal performance in recent years), while removing a buffer to inflation (making imports more expensive). The RBA is aware that imported inflation remains a key risk to the economy. In its semiannual testimony to parliament, the RBA warned that it cannot be assumed that "a rising exchange rate will exert a consistent dampening force on inflation of traded goods and services."

Meanwhile, an acceleration in nontradables inflation is a threat, since the domestic economy remains persistently strong. The RBA testimony also noted that nontradables demand would eventually "be accompanied by more pressure on prices and wages." Domestic price pressures already exist, owing to high rates of capacity utilization, low unemployment, strong business and consumer confidence, solid demand for finance, and rising food, rent and electricity prices. Furthermore, annual GDP growth of 4.3% in 2Q was well above potential—the gap between potential and actual growth rates is inflationary. A weaker AUD is a considerable risk to the inflation outlook.

Heightened risk of additional rate hikes

A weaker AUD is a considerable risk to the inflation outlook.With underlying inflation already meandering in the upper half of the RBA's 2-3% target range, bank officials last month upgraded their forecast for underlying inflation from 2.75% to 3.00% in the year to June 2008. The top end of the target inflation range may be breached in coming quarters, heightening the risk that interest rates will need to rise again in the current tightening cycle.

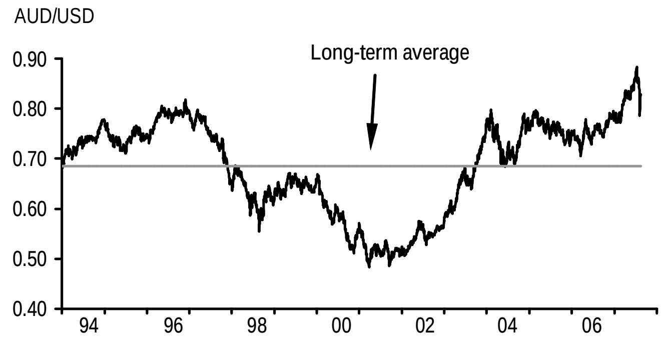
While underlying economic fundamentals may warrant a rate hike, our forecast that the RBA will tighten policy again this year depends on two key developments. First, stability must return to the money market and, second, there must be no signs that the current credit rout has had an adverse impact on the real economy. In fact, futures pricing now implies a chance of an easing from the current rate of 6.5% in the wake of the recent surge in money market rates. Yields on 90-day bank bills have spiked above 7%, the highest since 1996, acting as a de facto tightening.

Exports may thrive amid weaker currency

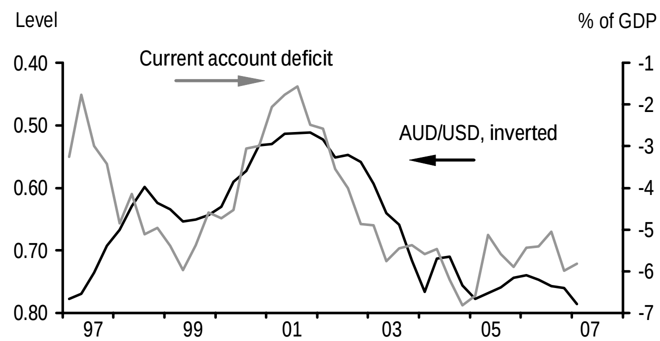
In the external sector, an AUD weakening would undoubtedly bode favorably for exporters. According to the Australian Industry Group, two-thirds of local manufacturers believe their exports are uncompetitive at an exchange rate of US$0.80 or above. In recent years, the favorable commodity price environment has shielded local exporters from the negative impact of the stronger currency. But, while high commodity prices have pushed the terms of trade 40% higher over the past four years, the trade gap has been in deficit as export volumes have failed to keep pace.

Exports volumes should rise amid AUD weakening and the additional capacity expected to come online. Elevated commodity prices have not only encouraged AUD strength but have attracted solid investment, particularly in the resource sector, aimed at expanding productive capacity and alleviating the infrastructure bottlenecks that have hampered the nation's export performance. Net exports subtracted 0.2% and 0.1% from first and second quarter GDP, respectively, though past mining investment should eventually drive export volumes higher.

AUD still above long-term average



Current account and AUD



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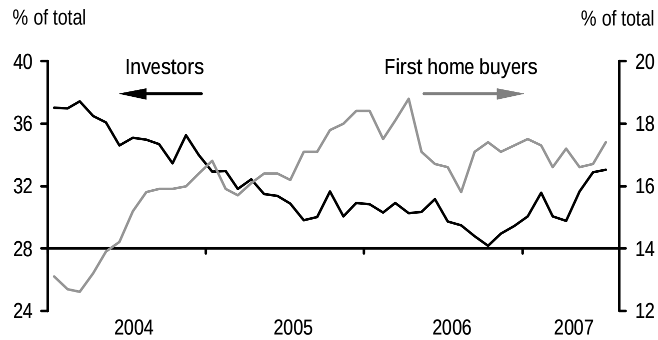
Australia

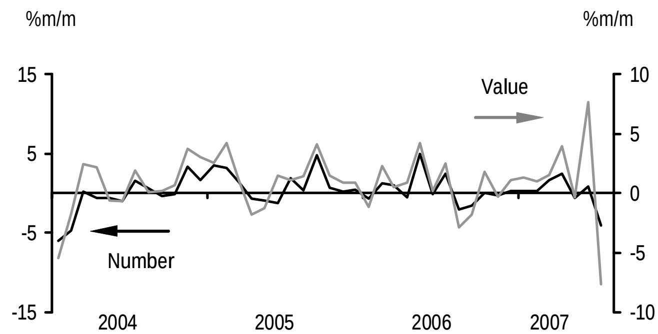
- **Home loan approvals fell in Australia in July**
- **Confidence rises after RBA left interest rates on hold**
- **RBA Governor's speech this week's highlight**

Top-tier economic data was largely absent from the Australian calendar last week. Data did, however, show that demand for housing finance eased in July after spiking in the previous month, while consumer confidence rebounded in September in the wake of the RBA's decision to leave interest rates on hold. In the coming week, market pundits again will have little economic data to chew on, with only the Westpac-Melbourne Institute leading index for July and new passenger car sales for August currently scheduled for release.

Australia: housing finance



Australia: owner-occupied housing



Demand for housing finance falls

The total number of housing finance approvals issued in Australia in July dropped 4.1%m/m (JPMorgan +0.9%, consensus -2.0%), following a 0.8% increase in June (revised down from 1.1% previously). The value of dwelling finance commitments, excluding alterations and additions, fell 7.4%m/m in July, reversing a 10.0% rise in the previous month, owing to falls in the value of investment housing (-6.8%) and owner-occupier housing commitments (-7.7%). Excluding refinancing, the value of commitments fell 3.4%m/m in July after rising 2.1% in June.

Speculation that the RBA would hike interest rates in August appeared to dent demand for home loans in July, despite consumer confidence near record highs and solid employment growth. The fall in home loan approvals was, however, a payback after months of steadfast growth, with housing finance approvals in March, April and June, rising 1.6%m/m, 2.5%, and 0.8%, respectively. In the month of May, the number of home loans dropped a mere 0.6%m/m.

Investors continue to underpin demand for housing-related finance and accounted for 33.1% of loans in July, up from 32.9% in June. Investors remain drawn to the property market by more attractive gross rental yields, emerging on the back of rising rents, coupled with the steady pace of house price appreciation. These investors usually are existing property owners attempting to gain considerable tax benefits from buying an investment property—via such avenues as negative gearing—so that acquiring property enables them to lower their assessable income and, in turn, enhance their after-tax returns. Meanwhile, although first home buyers remain largely priced out of the property market amid record low levels of housing affordability, the proportion of first home buyers acquiring housing finance in July rose to 17.4% from 16.7% in the previous month.

Demand for finance will likely moderate in the wake of the RBA's August tightening. The 25bp rise in interest rates last month will add around A$50 a month to repayments on the average A$250,000 mortgage. Moreover, some spillover from the current credit rout on Australia's real economy (via tighter credit standards and higher borrowing costs) cannot be ruled out. Domestic mortgage rates are primarily floating rate (about 90% of total mortgages) and are priced-off the cash rate, meaning that the standard variable mortgage rate has increased just 25bp in recent weeks, in line with the rise in the cash rate. With respect to the outlook for interest rates, our forecast that the RBA will tighten policy again later this year depends on two things: first, a return of stability to the money market; and, second, that the impact of the current credit rout on the real economy is contained.

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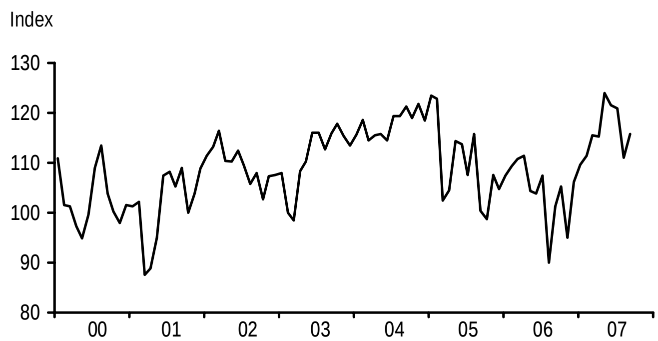
Australia: Westpac-Melbourne consumer sentiment index



Consumers more upbeat in September

Consumer sentiment in Australia rose 4.2%m/m in September (JPMorgan 2.0%) after slumping 8.1% in the previous month. The Westpac-Melbourne Institute index of consumer sentiment rose from 111.1 in August to 115.7 in September, sitting comfortably above a reading of 100—the neutral level where the number of optimists equals the number of pessimists. That said, the index remains well below the 123.9 record high touched in May.

Confidence rebounded in September owing mainly to the RBA's decision to leave interest rates on hold, although persistently tight labour market conditions and a mild easing in petrol prices also lifted sentiment among consumers. Still, global financial market volatility, record low housing affordability, and uncertainties surrounding the outcome of the forthcoming election prevented confidence from rising even further. With respect to the latter, confidence among Labor opposition voters surged by 9.0%m/m in September, in comparison to a mere 1.7% rise in sentiment among voters supporting the Coalition government, according to the Westpac-Melbourne Institute report.

All components of the index increased from the previous month in September. The outlook for economic conditions in the year ahead posted the largest rise, surging 7.3%, followed closely behind by sentiment toward family finances compared to a year ago (+7.0%) and the outlook for economic conditions over the next five years (+6.0%). Only mild improvements were recorded in the outlook for family finances over the next year (+0.8%) and sentiment toward buying major household items (+0.6%). Sentiment toward current conditions rose a healthy 3.4%m/m, while future expectations rose an even stronger 4.7%.

Despite the rebound in confidence in September, consumers will tread cautiously in coming months. The uncertain outcome of the forthcoming election will remain a concern, alongside the risk that the recent surge in money market rates will be passed onto consumers in the form of higher borrowing costs. Many borrowers are already battling with deteriorating levels of housing affordability and rising levels of debt relative to their disposable incomes.

Australia:
Data releases and forecasts

Week of September 17 - 21

Wed Sep 19 10:30am	WMI leading index Seasonally adjusted				
		Apr	May	Jun	Jul
	(%m/m)	0.6	0.2	1.0	__
Fri Sep 21 11:30am	Sales of new motor vehicles Units, seasonally adjusted				
		May	Jun	Jul	Aug
	(%m/m)	-0.4	2.2	0.6	__
	(%oya)	6.7	11.5	8.7	__

Review of past week's data

Housing finance approvals: owner occupiers (Sep 10)
Number of loans, seasonally adjusted

	May		Jun		Jul	
(%m/m)	~~0.2~~	*-0.6*	1.1	*0.8*	0.9	*-4.1*
(%oya)	~~2.8~~	*2.5*	~~3.8~~	*3.5*	~~4.0~~	*-3.1*

NAB monthly business survey (Sep 11)
% balance, seasonally adjusted

	Jun	Jul	Aug	
Business confidence	15	12	__	*10*

WMI consumer sentiment index (Sep 12)
100=neutral, seasonally adjusted

	Jul	Aug		Sep	
(%m/m)	-0.6	~~-8.0~~	*-8.1*	~~2.0~~	*4.2*

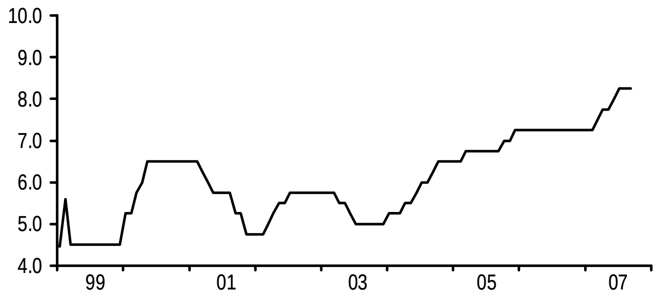
New Zealand

- **RBNZ leaves official cash rate unchanged at 8.25%**
- **Cracks starting to appear in housing market**

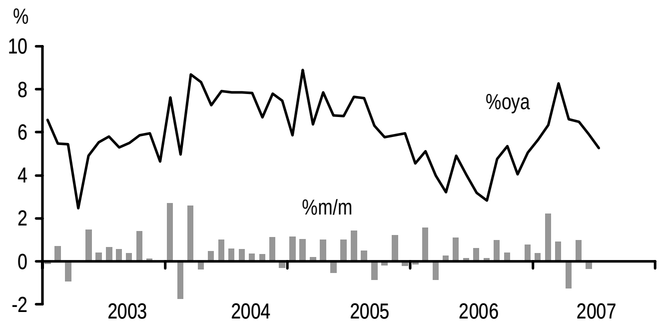
In New Zealand, the RBNZ left the cash rate unchanged at 8.25% as widely expected, and signalled that interest rates will likely remain on hold in the foreseeable future. July retail sales data, meanwhile, fell below expectations, suggesting that the weakness in domestic spending during 2Q has extended into the third quarter. Record high interest rates and a slowdown in net permanent immigration appear to be taking their toll on consumer spending. Other data released last week showed a bounce in house prices in August, a drop in the volume of home sales to a seven year low, and a rise in the number of days to sell a home.

RBNZ official cash rate

Pre-March 1999 = discount rate, percent per annum, eop



New Zealand: retail trade



RBNZ adopts more neutral stance

The RBNZ last Thursday kept the official cash rate (OCR) unchanged at 8.25%, as widely expected. All 14 of the economists surveyed by Bloomberg expected the OCR would remain unchanged.

The statement that accompanied the RBNZ's decision to leave rates on hold adopted a very neutral stance on monetary policy, outlining both significant upside and downside scenarios to the economic growth and inflation outlook. The severe downside scenario—titled "global downturn"—incorporated a more significant slowing in world growth than previously forecast and a greater impact on domestic spending and confidence from the recent collapse of several local finance companies. It is thought that the downside scenario could prompt the RBNZ to cut interest rates as early as March next year.

The RBNZ also provided a bullish upside scenario incorporating a quick return of stability to global financial markets, in addition to strong domestic income growth, and a rebound in the housing market. This upside scenario would stimulate inflation pressures, leading the central bank to tighten policy again as soon as March 2008. On the near-term inflation outlook, the RBNZ believes that CPI inflation will likely rise on the effects of the lower NZ dollar and higher food prices.

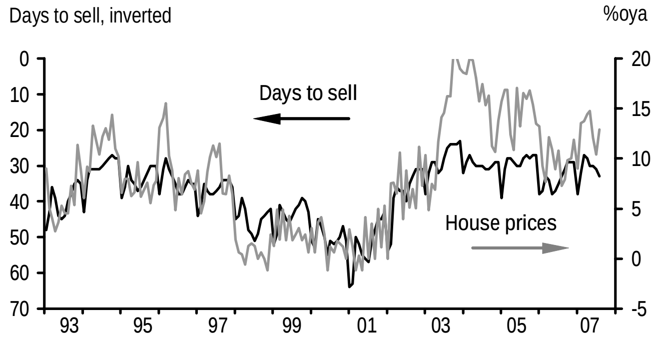
Governor Bollard noted that the economic and inflation outlook had become more uncertain since the Board last reviewed monetary policy in July. He acknowledged that, "credit concerns and heightened risk aversion have led to significant turbulence in global financial markets," increasing the "likelihood of a weaker economic outlook for the United States and New Zealand's other key trading partners than in recent forecasts." In order to allow time to gauge the impact of the current credit rout on economic fundamentals, both domestically and abroad, the RBNZ will likely leave the OCR unchanged in the foreseeable future.

Retail spending stalls in New Zealand

Retail sales growth in New Zealand was flat in July (JPMorgan and consensus 0.3%m/m) after contracting 0.4% in June. From the retail sales data, it appears that the weakness in domestic spending during 2Q has continued into the third quarter under the weight of the four interest rate hikes administered by the RBNZ this year, a slowing in net permanent immigration, and some cooling in the housing market.

According to Statistics New Zealand, changes in sales were relatively mild across all of the 24 retail industries included in the retail sales index. Recreational goods retailing and clothing and soft goods retailing made the largest negative contributions to total sales, falling 3.7% and 3.8%, respectively, from the previous month. Making the largest positive contribution to the retail sales index was the accommodation component, up

New Zealand: house prices and days to sell



3.1%m/m. Core retail sales, excluding vehicle related industries, slipped 0.2%m/m, the second consecutive monthly fall, and the trend for the core retailing group remained flat.

Although the trend in total retail sales remained positive in July, JPMorgan expects growth in consumption to stall in 3Q for the same reasons that curbed spending in July—record high interest rates, a downturn in the housing market, and a fall in net permanent immigration. The 2Q GDP print (due for release on September 28) will likely show a 0.3%q/q fall in consumption (in volume terms) following a 2.1% spike in 1Q.

House prices bounce in NZ in August

The Real Estate Institute of New Zealand (REINZ) reported that median house prices rose from NZ$345,000 in July to NZ$350,000 in August. Looking through the bounce in the median house price, however, and the perpetually upbeat view delivered by real estate agents, the REINZ report for August was relatively weak.

The number of sales in August was just 6,394, well down from the August 2006 figure of 8,556 sales, and the lowest level of sales for the August month in seven years. The reduction in the number of sales last month can no longer be attributed to adverse weather conditions, which dampened sales volumes in the months of June and July. More importantly, the number of days to sell—a strong leading indicator of growth in house prices (chart)—continued to rise in August. The average number of days to sell a house has trended higher over the last six months and is now at 33 days, up for 31 in July.

Although New Zealand's housing market has some inherent issues of undersupply (see research note titled "NZ house price inflation a slow burn with lagging supply" *GDW* August 3, 2007), waning demand for housing is making it increasingly difficult to offload what is currently on the market. Investors that would once have run around flailing at competitors to snap up available listings have become much more subdued and uncertain of the housing market outlook. Indeed, cracks appear to be widening in the New Zealand property market.

New Zealand:
Data releases and forecasts

Week of September 17 - 21

Thu
Sep 20
10:45am

Balance of payments
NZ$ mn, nsa

	3Q06	4Q06	1Q07	2Q07
Trade balance	-1465	-1265	-386	-350
Service balance	-691	214	980	970
Net income	-2744	-3153	-2809	-3170
Current account	-4667	-3944	-2217	-2500

New Zealand's massive current account gap is expected to widen further in 2Q to -NZ$2.5 billion from -NZ$2.2 billion in 1Q. The trade deficit is expected to narrow mildly, although the income balance is expected to worsen.

Fri
Sep 21
03:00pm

Credit card spending
Seasonally adjusted

	May	Jun	Jul	Aug
(%m/m)	0.5	1.9	__	
(%oya)	5.7	9.1	__	

Review of past week's data

Producer price index (Sep 10)
nsa

	4Q06		1Q07		2Q07	
(%q/q)	-0.5		-0.2		__	*1.2*
(%oya)	~~3.6~~	*4.1*	~~2.7~~	*3.1*	__	*1.5*

Terms of trade (Sep 11)
Seasonally adjusted

	4Q06	1Q07		2Q07	
(%q/q)	2.5	~~2.0~~	*1.6*	__	*0.6*

RBNZ cash rate announcement (Sep 13)

See main text.

Retail trade (Sep 13)
Seasonally adjusted

	May		Jun	Jul	
(%m/m)	1.0		-0.4	~~0.3~~	*0.0*
(%oya)	~~6.3~~	*6.5*	5.9	~~5.6~~	*5.3*

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Global essay

- **Fed expected to ease 25bp and maintain an easing bias**
- **Differences of banking structure help explain different central bank approaches to crisis management**
- **Oil price rise removes expected purchasing power lift for consumers**

Bernanke at the bat

Central banks to date have responded to financial market instability with tools geared toward promoting orderly markets. Many have increased the size of daily operations and eased access to their supplementary lending facilities. However, no major central bank has lowered its target policy rate. Indeed, a number of central banks, including those in Australia, Norway, Sweden, and Switzerland, have raised rates since the turmoil began. Rate hikes have also been delivered by a number of emerging market central banks over the past month (see "EM central banks opt for more tightening," page 25).

The Federal Reserve is expected to lower its target rate this week, making it the first central bank to decide that financial conditions have tightened so much as to produce weak growth in the coming quarters. That the Fed is taking the lead is no surprise. A main source of the financial turmoil is the weakness of the US housing market—a sectoral drag not present elsewhere. In addition, US real policy rates are high relative to those across most of the rest of the world. The main uncertainty regarding the Fed's decision is the size of the move. We believe that the Fed will lower the fed funds rate 25bp and deliver a statement that maintains an easing bias.

The Fed will ease aggressively if it perceives a significant threat to the economic expansion. August economic releases have generally disappointed, adding to housing-related concerns. But August's slide follows broad-based strength in earlier months and current-quarter GDP growth continues to track at 3%. In assessing the outlook during rapidly changing financial conditions, the Fed relies heavily on anecdotes and high-frequency releases. Here, it is important to note that the latest surveys, jobless claims data, and the recently completed Beige Book do not validate the slide in momentum shown in August releases.

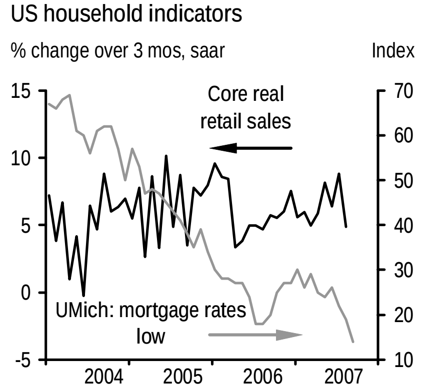
Other major central banks are expected to take an extended pause in their tightening cycles. Central to our global forecast is the view that financial spillovers from the US slowdown—to global equities and local credit markets—will remain limited, allowing global growth to proceed at a trend-like pace in the coming quarters. Recent financial market movements align with this view, but the problems that emerged for a UK mortgage lender last week are a reminder that it is too early to conclude that financial stresses will stay contained.

On money market hawks and doves

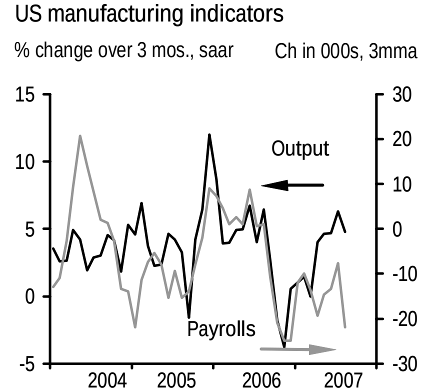
The recent repricing of risk is a global phenomenon most acutely felt in money markets in North America and Western Europe. Central banks in these regions have been united in dealing with this problem through actions to increase short-term access to official sources of funding, yet their tactics have diverged. In written testimony last Wednesday, Governor King reiterated that the Bank of England focuses on overnight borrowing rates, and that it is not prepared to engage in operations aimed at bringing down market rates at longer maturities. King said that such action "undermines the efficient pricing of risk by providing ex post insurance for risky behavior."

In staking out this ground, the BoE is aligned with the Bank of Canada, which also has limited its liquidity injections to the overnight market. Their approach contrasts with that of

US household indicators



US manufacturing indicators



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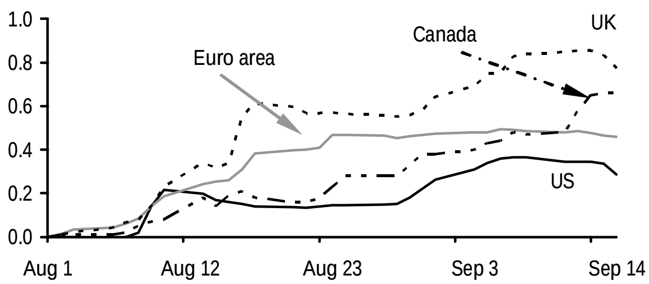
Changes in 3-month Libor

%-point change since Aug 1



the Fed and the ECB, each of which has engaged in term lending and broadened their definitions of acceptable collateral. The ECB has taken a particularly strong stand on this issue. Indeed, the ECB last Wednesday loaned banks an additional €75 billion for three months, its second such operation. These different approaches are reflected in markets: the climb in 3-month Libor in sterling and Canadian dollars has exceeded that in euros and US dollars over the past six weeks.

The contrast between the ECB at one extreme and the BoE at the other reflects different perceptions of the tradeoff between the risk of macroeconomic spillovers from money market tightening and moral hazards created by limiting losses from unsound lending practices. The state of each region's banking system is likely an important factor in shaping perceptions of the crisis. Indeed, according to the loan to deposit ratio, the wholesale funding needs of European banks appear to exceed those of UK banks. This is important to recognize in a week when a large UK mortgage provider with a small deposit base turned to the BoE for lack of alternative funds.

Oil on the boil

Oil prices continued their upward march last week, with WTI reaching near $80/bbl. So far, gasoline prices at retail have shown little response, principally because they have remained stable at wholesale, retaining virtually all the decline recorded in the May-August period. Recent developments mostly reflect a normalization of the spread between wholesale gasoline and crude oil prices, which was unusually wide earlier this year. As a result, the current level of crude oil prices will not put significant upward pressure on retail gasoline prices. However, our forecast has incorporated a fall in crude oil prices that would lower retail gasoline prices into year end.

With energy prices higher than expected, consumers cannot count on a purchasing power lift from this source.

In considering changes in consumer purchasing power arising from moves in oil prices, their uneven distribution across the globe is worth noting. Countries with relatively low tax rates and high energy use per capita—like the United States— are more sensitive to crude oil price movements. At the other end of the spectrum, emerging-market governments either control or subsidize domestic energy prices, limiting the passthrough of crude costs to consumer purchasing power.

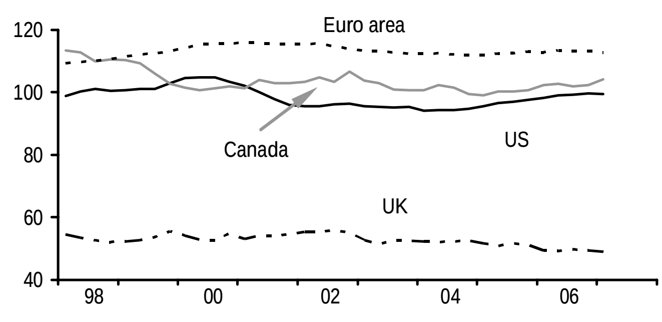
PBoC responds to strong August data

Last week's August activity data loomed as an important test of whether China's economy was moderating from its booming first-half pace. In the event, the outcomes were stronger than anticipated and triggered a fast response by the PBoC. Two sets of data were key. The first were positive surprises on the trade balance, bank lending, and fixed asset investment. These reinforced concerns about the link between China's massive trade inflows, credit creation, business investment, and asset prices. The second was the headline inflation rate, which climbed to an 11-year high on a further surge in food prices.

In response, the People's Bank of China has raised the benchmark lending and deposit rates 27bp, the second rate hike in less than a month. We now expect one more 27bp hike over the next six months. We also continue to look for another 50bp hike in the reserve requirement ratio (taking it to 13%), with risks of further RRR hikes largely data-dependent, especially with regard to the direction of the trade surplus.

Commercial bank balance sheets: loan-to-deposit ratio

Percent



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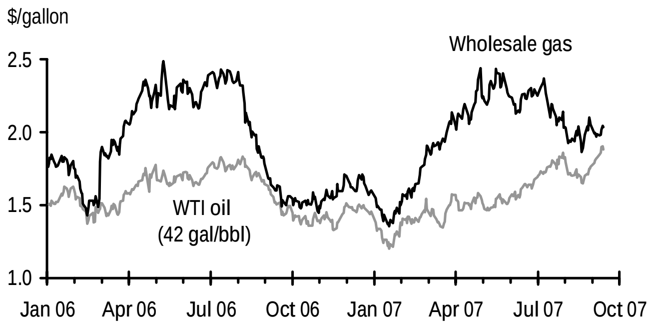
US wholesale gasoline price and WTI oil price



Japanese policy to remain gridlocked

Prime Minister Abe's surprise resignation has created turmoil in Japanese politics. The LDP will elect a new party leader on September 23, who will then be elected Prime Minister by the LDP-dominated Lower House and form a cabinet within a few weeks.

Last week's media reports conclude that standing for the party presidency will be Taro Aso (secretary general of the party) and Yasuo Fukuda (former chief cabinet secretary). Aso's political stance resembles that of Abe, and no significant policy changes are expected if Aso becomes prime minister. However, the situation has rapidly shifted to favor Fukuda, who has not yet shown clear policy stances. Regardless of the outcome, the confrontation between the LDP and the DPJ has not changed, implying that gridlock on important policies likely will continue, at least until the next Lower House election.

Latin central banks in focus

Last week's COPOM minutes indicate that Brazilian monetary policymakers considered a pause in rate cutting at their last meeting. They emphasized the need for "preemptive action in COPOM's decision making process," taking into account the lagged effects of accumulated monetary easing. In light of this signal, we now think rates will be left on hold at the current 11.25% in coming months, with the easing cycle only resuming in 2Q08. Our previous forecast assumed that rates would fall an additional 100bp by next March.

In Mexico, we are sticking with our forecast that Banxico will hike 25bp at Friday's policy meeting. Driving this expectation is the lack of any sign that inflation is easing. Our forecast expecs headline inflation to remain above the top of the official 3%±1%oya target band. Also, the policy-sensitive core rate increased to 3.9% in August and should stay at that level until year end. Further, the 18% increase that one-year ahead forwards anticipate in international corn prices and the government's decision to introduce a 5.5% gasoline tax next year will undermine the inflation outlook for end-2008, by which time the central bank vows to align inflation to its midpoint target. Turmoil in US financial markets and a prospective slowing in US growth make this a close call. But the combination of softer export growth and strong domestic demand may portend additional currency weakness, which also justifies a tighter policy stance.

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JPMorgan View - Global Markets

No news was good news

Can the Fed really solve all problems?

- **Credit markets remain fragile** with only minor signs of improvement. At the same time, equity markets still see no evil, and remain convinced that Fed easing will save the day. Bond markets are all over the place, with Japan and Europe rallying on concerns of spreading weakness, while North American bonds have backed up as optimism from equities has proved contagious.

- Given that the **core problem in markets emanates from credit and money market intermediation**, we would like to see a revival of these markets before joining an equity rally. As discussed before, we are in the midst of a blockage problem in debt intermediation, caused by a collapse in confidence in the value of credit ratings on asset-backed securities. Unless this confidence returns soon, the financial system will have to find alternative ways to funnel savings toward debt-strapped consumers and companies. This problem is most acute in the English-speaking world, where loan securitization grew most, but Continental Europe is affected also. Japan and emerging economies are least affected.

- **News from credit markets remains disappointing. Flows have improved, but much less than hoped.** High-yield remains dormant. Banks have been able to sell only minor scraps of their unsold bridge loans. New asset securitization is tiny. The ABCP market fell again in the latest week, though only $14bn. At the same time, the feared unwinds of SIV have not started, yet. And hedge funds and other bargain hunters are scouring markets to buy up dirt-cheap assets. Overall, though, the financial intermediation process has become too slow and cumbersome to support the borrowing needs of corporates and consumers. Time is not on our side. The longer the situation lasts, the greater the risk of a contraction in credit availability and thus the economy. We stay defensive, preferring bonds to equities, avoiding consumer and financial sectors in equities and credit, and overweighting emerging markets, as they are furthest removed from the fire. Stay short the USD as it depends on inflows into US fixed income assets.

Fixed income

- Bond markets were all over the place last week. US yields backed up, but Europe and especially the UK rallied as investors fear Europe will get US-style housing weakness. Our US bond strategists went **outright flat duration** last week and remain so as upward momentum has stalled. The increasing risk that the UK will catch the US housing disease makes us move to **overweight UK gilts against the US**.

Government bond yields

		Current	Sep 07	Dec 07	Mar 08	Jun 08
United States	2-yr	4.08	3.80	3.85	4.00	4.35
	10-yr	4.48	4.40	4.45	4.50	4.80
Euro area	2-yr	4.04	3.90	3.80	3.80	3.80
	10-yr	4.17	4.05	4.00	4.00	4.00
United Kingdom	2-yr	5.07	4.95	4.90	4.85	4.85
	10-yr	4.88	4.90	4.85	4.85	4.85
Japan	2-yr	0.78	0.80	0.80	1.05	1.25
	10-yr	1.55	1.50	1.60	2.00	2.10

Equities

	Current	Ytd return (local currency)
S&P	1479	6.0%
Topix	1544	-8.8%
FTSE 100	6313	5.1%
MSCI Eurozone	239	6.3%
MSCI Europe	1538	5.8%

Credit markets

	Current	Dec-07
US high grade (bp over swaps)	84	60
Euro HG industrials (bp over swaps)	63	50
USD high yield (bp vs. UST)	471	500
EMBIG (bp vs. UST)	234	200

Equities

- **Equities are up** last week, with the exception of Japan. Global equities are down only 5% from their peak in mid-July, faring much better than other risky markets on a risk-adjusted basis. EM equities, especially, have outperformed G-7 equities by 3% in the past two months.

- **Anticipation of Fed rate cuts is providing clear support.** In the past, US equities **on average** have risen 5% in the six months after the first Fed ease in a cycle, reversing the losses of the six months prior. Among the past 10 easing cycles, only in 1969, 1981, and 2001 did a Fed easing not lift equities, likely because these were the cases that coincided with recessions. So equities are set to rally into next year, only if rate cuts succeed in preventing a recession.

- Our US forecast is that growth will slow to below trend for a couple of quarters and that a recession is avoided. Around this, we see about **a one-third risk of significantly lower growth, including a recession.** Equity markets appear complacent about this risk. In addition, the collapse of the LBO bid and continued slowing in M&A and shareback activity have removed an important support for equity markets.

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- We have little conviction on the overall direction of equity markets at the moment. We prefer to take more risk on **sectoral views.** We focus our exposure on large-cap growth stocks. Growth has outperformed value over the past two months, a trend we expect to continue. Within US sectors, we see most downside in consumer cyclicals and financials. Across regions, we prefer continental Europe and EM Asia against the US and Japan where growth momentum is most negative.

Credit

- **Credit spreads widened again** in cash bonds but changed little in CDS. The basis, the gap between these two, has fallen further to an average of -15bp for a wide universe of US HG bonds vs flat a month ago. This negative basis is one of many value opportunities in credit markets at the moment. However, elevated volatility and uncertainty, wide bid-ask spreads, and high funding costs are preventing investors from exploiting these opportunities.

- **Secondary trading remains subdued** and the primary market continues to serve as the main channel for price discovery. US HG issuance has been $15bn MTD, continuing the solid pace of August. But HY issuance is still blocked off as negotiations continue between banks, investors, and private equity houses on the pricing of LBO debt. It will take several more weeks for private equity loans and bonds to start coming to the primary market. The recent pickup in HG issuance caused significant spread widening and the same will likely happen with HY spreads once the primary market reopens.

- There were some positive signs last week; i.e., steady HG issuance, a pickup in ABS/CDO, an improvement in the CP market and the first rise in exposures in our HG client survey, but there is not much trading yet and problems remain in HY. We therefore **stay cautious**, biased toward wider spreads, especially in HY, where we recommend underweighting CCCs against BBs. Low-rated credits will continue to have serious problems in refinancing their debt and we thus expect further repricing. In the asset-backed market, we see compelling value opportunities in A to BB CLOs and AAA credit card ABS.

Foreign exchange

- Carry trades have rebounded, with most higher-yielding pairs (USD/JPY, AUD/USD, EM) up last week. We do not recommend buying into this rally, however, given the uncertainties about the US outlook and the extent of Fed easing. The best defensive trade is **short USD** vs CHF, since shorts in the franc are still sizable.

- **Sterling** fell last week on the back of mortgage lender distress and a significant narrowing of yield spreads vs the US and Euro area. Although the UK housing market is less vulnerable than the US's, the tendency to extrapolate from US experience could lead the UK rate market to price in some odds of an easing, thus pushing sterling still lower. We remain short vs CHF.

- Many **EM currencies** (TRY, BRL) have rallied back to precrisis levels. While firmer equities, declining volatility and high commodity prices are positives for EM as a whole, a serious US slowdown would reverse these forces and push EM FX lower. We recommend staying neutral in view of these risks.

Commodities

- **Oil hit an all-time high** last week on a, unexpectedly large US inventory draw and despite announcement of an OPEC production increase. Risks around the global growth outlook and an easing of supply conditions argue for lower prices in 4Q and in 2008.

- **Precious metals** consolidated their very significant gains of the past few weeks, with gold establishing a foothold above $700/oz. Base metals improved mildly on the back of slightly more positive investor sentiment, with **copper** and nickel both 4% up. We believe base metals will remain rangebound while credit/liquidity issues persist. In contrast, the market is very short aluminum, nickel, and zinc, and these could enjoy more strength than copper. Physical interest has softened in **gold** after the sharp upward move but support toward $690/oz should hold. The medium-term outlook is bullish.EM local markets rallied in line with equities.

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Markets - Australia and New Zealand

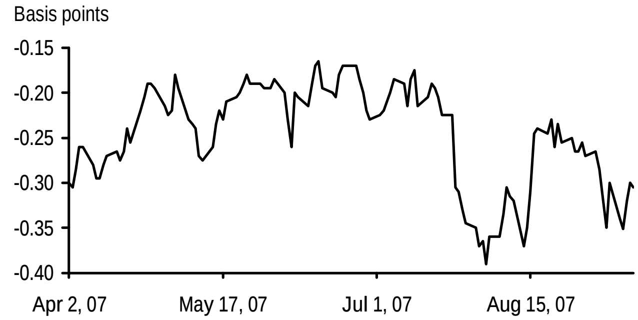
Main events for markets

- For Australia, in a quiet week for data, **RBA Governor Glenn Stevens' speech** on Tuesday to the Asia Society will be the highlight. The Governor will speak on *Asia, Australia and Financial Markets*, and most likely will touch on the current troubles in credit and money markets.
- The **Aussie economic data** calendar is all but empty this week, with just the Westpac Melbourne Institute leading index (Wednesday) and vehicle sales data (Friday) scheduled for release. The market probably will ignore both releases, particularly with all attention focused on the Fed's FOMC decision early Wednesday morning.
- In New Zealand, after last week's RBNZ statement, which delivered a neutral 'on the sidelines' commentary, the market will be looking to high frequency data points for signs of growing economic duress in housing and business, before firming its view that the next move in interest rate is down.
- Unfortunately, the NZ data flow slows to a trickle this week, with Thursday's **current account deficit** the solitary highlight. JPMorgan expects the current account deficit to have worsened in 2Q, despite a slight improvement in merchandise trade.

Market commentary

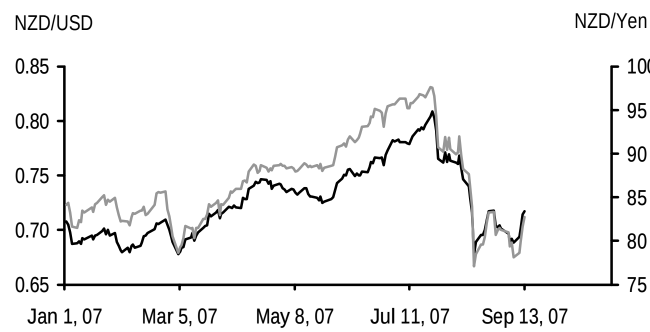
- The **Aussie equity market** has regained virtually all of the ground lost in recent weeks in response to the credit crunch and problems in mortgage markets. After all, corporate profitability is good, and Australia has a very low direct exposure to the sub-prime mortgage problems in the US. That said, the equity market probably will be disappointed on Wednesday if the Fed delivers only a 25bp rate cut, as we expect.
- Until recently, futures market pricing indicated about a 25% probability of an **RBA rate hike** by the end of 2007. The recent rally in bond markets, however, has trimmed this probability back to just 9%. There now is only a 21% chance of a rate hike by next June. RBA Governor Stevens indicated back in August that RBA officials would not even contemplate a rate cut even if the Fed eased.
- The **Aussie 3s 10s** curve steepened slightly last week and currently sits at -27bp. The curve troughed at -39bp back in early August but has been unusually volatile since. The curve probably will flatten if the Fed eases only 25bp on Wednesday morning (Sydney time), as we expect, as investors seek out the safer haven of government bonds.

Aussie 3s 10s curve



- **Money markets** in Australia continue to operate dysfunctionally, but conditions at least have improved in recent days. The daily rate sets remain elevated, but have fallen by up to 8bp from the recent highs. Yields on 90-day bank bills continue to trade well above cash at 6.99%.
- The first stage of the RBA's revised **collateral arrangements** come into effect today, with the RBA accepting lower quality bills, certificates of deposit and bonds issued by authorised deposit taking institutions than previously. This may explain the small improvement in trading conditions, and increased volumes.
- Technicals suggest that **NZD** is well supported at 68 US cents and 75 yen. While currently trading at 0.71 US cents, and a touch over 82 yen, NZD will continue to exhibit unusual volatility over the next few weeks as the global financial market turmoil unfolds.

NZD well supported at 0.68 US cents and 75 Yen



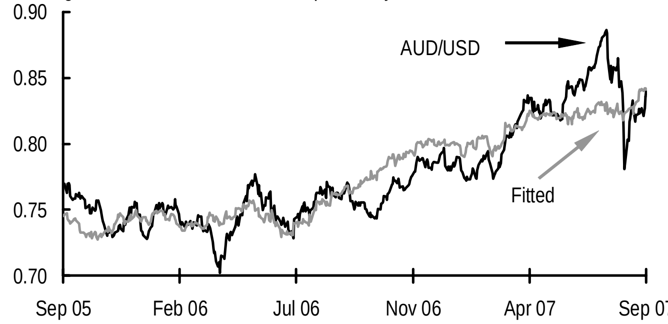
AUD and NZD Commentary

- **AUD and NZD supported by combination of better risk appetite, weaker USD, and higher commodity prices**
- **FOMC is the focus this week ahead; US earnings season and commodities pose additional risks; stay neutral near-term**
- **Technicals: The short-term corrections for AUD/USD and NZD/USD are approaching key resistance levels**

Strategy comments

- Increased risk appetite boosted both AUD and NZD in the past week; the former rose 1.8% and the latter more than 3% versus the US dollar. The market's willingness to jump back into risky assets (note the S&P 500 was up more than 2% over the week as well) was the key driver of AUD and NZD strength, but a broadly weak dollar (which was down about 0.5% just last week on a trade-weighted basis) also was supportive. Surprisingly, NZD in particular was the outperformer among all G10 FX despite weak housing data and shift to neutral from the RBNZ after it left rates on hold.
- With little in the way of market-moving domestic data in the week ahead, the Fed meeting will be the main event for AUD and NZD. It is likely the 25bp ease which we expect will be disappointing to a market pricing in more than 70% chance of a 50bp ease. To the extent a less dovish Fed weighs on risk appetite, we would expect AUD and NZD to feel the brunt of the pain among G10 FX, with NZD being particularly vulnerable. Another event risk is the release of US earnings data for major broker/dealers, which independent of the Fed meeting, may trigger volatility in equity markets and risky assets more generally.
- While risk appetite broadly has remained the key driver of AUD and NZD, and this is likely to be the case in the week ahead, commodities again have become relevant for the Antipodeans. In the past week, gold reached its highest level since mid-2006. Further, oil spiked more than 4% to reach a record high, with NYMEX crude futures settled above USD80/bbl for the first time. In a sense, the outlook for global risk appetite and commodity prices are likely to be intertwined; absent a major supply development, if the outlook for US growth worsens, commodities and the commodity currencies are likely to depreciate. That being said, in the near-term, we see two-sided risks from this factor.
- Combining the historically signficant factors including rate differentials, risk appetite (as measured by the S&P 500), and commodity prices (as proxied by gold), it appears that the Antipodeans are currently close to "fairly valued" given current levels. This comes after violent swings in the FX relative to the fundamental drivers since the last week in September (chart). Given the abundance of risks factors in the week ahead, we remain neutral on both AUD and NZD.

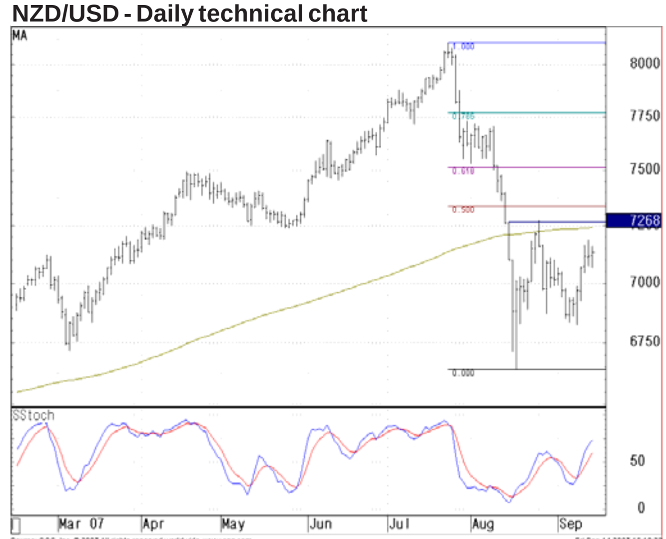
Chart 1: AUD/USD faces two-sided risk in week ahead
AUD/USD spot and fitted level implied by AUD/USD relationship with Australia - US rates, gold futures, and S&P 500 over past two years



Technical analysis

- AUD/USD and NZD/USD rallied last week as the corrections from the August lows continued. Additional upside follow-through seems likely for this week given the impulsive manner to the rallies and the bullish reversal weeks, but we continue to monitor levels to gauge the extent of further upside.
- For AUD/USD, the advance through the key .8400/10 resistance area argues for a test of next resistance at .8500-05 and then .8550. Importantly, the .8300 support will maintain the more immediate upside bias. A break of the .8170/.8080 supports is a clear bearish signal.
- NZD/USD should continue the upward path this week on the back of bullish upside reversal from the .6800 support area and continued USD weakness. Critical resistance enters at .7245/75, as breaks would imply a deeper corrective phase into the .7400 zone. Support at .7000 should be a key pivot now. NZD is likely to outperform, as the decline in AUD/NZD from the 1.20 area is impulsive.

NZD/USD - Daily technical chart



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Global Economic Outlook Summary

	Real GDP % over a year ago			Real GDP % over previous period, saar							Consumer prices % over a year ago			
	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	1Q07	2Q07	4Q07	2Q08
The Americas														
United States	2.9	2.0	2.6	0.6	4.0	3.0	1.5	2.0	3.0 ↓	3.5 ↑	2.4	2.7	3.2	1.9 ↓
Canada	2.8	2.5	2.3 ↓	3.9	3.4	2.0	1.5	2.0 ↓	3.0 ↓	2.8	1.8	2.2	2.7 ↓	1.7 ↓
Latin America	5.3	4.8	4.4 ↓	3.3 ↑	5.5 ↓	4.7	4.5	4.6 ↓	4.5 ↓	4.6 ↓	5.0	5.1	5.3	5.8
Argentina	8.5	8.0	5.0	3.9	10.8	8.2	8.2	5.3	4.1	4.1	9.5	8.8	8.2	9.6
Brazil	3.7	5.0	4.7	3.6 ↑	3.2 ↓	5.2	4.8	5.3	4.8	4.4	3.0	3.3	4.0	4.0
Chile	4.0	6.0	5.0	9.1	6.5	3.0	3.0	6.0	6.0	5.5	2.7	2.9	5.8	4.9
Colombia	6.8	6.8	5.5	10.3	9.0	4.0	2.0	5.5	8.0	7.0	5.2	6.2	5.5	4.0
Ecuador	3.9	2.5	2.5	0.3	5.0	6.0	4.0	2.0	1.0	0.0	2.1	1.7	2.1	3.4
Mexico	4.8	2.8	3.9 ↓	1.2	5.3	3.2	3.2	3.6 ↓	4.1 ↓	4.9 ↓	4.1	4.0	4.0	4.1
Peru	8.0	7.5	6.5	2.0	4.0	11.0	12.0	5.0	4.0	3.5	0.4	0.8	2.3	2.2
Venezuela	10.3	7.5	4.0	4.4	8.7	3.5	4.5	4.0	3.5	3.0	19.1	19.5	18.7	24.5
Asia/Pacific														
Japan	2.2	2.0 ↓	1.9 ↓	3.0 ↓	-1.2 ↓	2.0	1.8	2.0	2.5	2.3	-0.1	-0.1	-0.2	0.1
Australia	2.7	4.3	3.5	6.5	3.8	3.7	3.8	4.5	2.8	2.3	2.4	2.1	3.7	3.7
New Zealand	1.5	2.6 ↓	2.4 ↓	4.2	1.7	1.9 ↓	1.9 ↓	2.0 ↓	2.8	4.0 ↑	2.5	2.0	2.2	2.4
Asia ex. Japan	8.4	8.3	7.7	9.3	11.0	6.8	5.5	9.0	8.4	7.5	3.2	3.4	3.6	3.7
China	11.1	11.3	10.5	13.6	15.7	8.2	6.1	13.0	12.6	10.4	2.7	3.6	3.4	3.3
Hong Kong	6.9	5.8	4.6	2.4	8.2	5.5	5.1	4.5	3.8	3.5	1.7	1.3	2.2	3.4
India	9.4	8.6	7.5	11.3	9.6	6.1	7.0	9.5	7.0	7.0	7.0	6.3	6.2	6.4
Indonesia	5.4	6.2	6.0	7.1	5.2	5.5	5.5	6.0	5.0	5.0	6.4	6.0	6.8	6.8
Korea	5.0	4.7	4.9	3.6	7.4	5.5	3.0	4.5	5.0	5.5	2.0	2.4	2.4	2.7
Malaysia	6.0	5.7	5.6	4.7	5.1	7.4	6.6	5.1	5.1	4.9	2.6	1.5	2.0	2.3
Philippines	5.4	7.4	6.4	12.7	5.6	5.6	5.6	6.0	5.0	5.5	2.9	2.4	3.7	3.7
Singapore	7.9	8.0	5.4	8.8	14.4	4.8	4.8	4.8	4.8	4.8	0.5	1.0	2.0	1.3
Taiwan	4.7	4.5	4.6	1.3	5.8	6.3	4.5	4.0	4.2	4.5	1.0	0.3	2.2	2.3
Thailand	5.0	4.2	5.1	4.9	5.2	3.8	4.0	5.5	6.0	5.0	2.5	1.9	2.4	2.4
Africa														
South Africa	5.0	4.8	4.9	4.7	4.5	4.9	4.5	4.5	5.4	5.6	5.9	7.0	7.2	6.6
Europe														
Euro area	2.9	2.6	1.8	2.9	1.4	2.5	2.0	1.5	1.8	1.8	1.9	1.9	2.3	2.0
Germany	3.1	2.7	1.9	2.2	1.0	2.8	2.5	1.5	1.8	1.8	1.9	2.0	2.1	1.2
France	2.2	1.7	1.9	2.2	1.3	2.2	2.0	1.5	2.0	2.0	1.3	1.3	1.8	1.5
Italy	1.9	1.7	1.3	1.1	0.4	1.0	1.5	1.0	1.6	1.6	2.0	1.9	1.8	1.8
Norway	4.6	5.2	3.3	6.4	5.4	3.5	3.5	3.0	3.0	2.8	1.0	0.3	0.3	2.6
Sweden	4.5	3.5	3.2	2.8	3.9	4.0	3.5	3.0	3.0	2.8	1.9	1.8	2.7	2.5
Switzerland	3.2	2.6	1.9	2.6	3.0	2.3	2.0	1.8	1.8	1.8	0.0	0.5	1.2	1.0
United Kingdom	2.8	3.1	2.5 ↓	2.8	3.4	3.3	2.8	2.5 ↓	2.0 ↓	2.0 ↓	2.9	2.6	2.1	1.9
Emerging Europe[1]	6.3	6.3 ↓	5.9 ↓	4.7 ↓	8.0 ↓	4.7 ↓	8.8 ↑	4.7 ↓	6.9 ↓	6.1 ↓	6.5	6.5	6.0	5.4
Bulgaria	6.1	6.1	5.4	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.4	5.8	5.5	6.3	5.7	5.3	5.2	5.5	5.2	5.5	1.5	2.4	3.9	4.5
Hungary	3.9	2.2	3.2	1.4	0.2	4.5	4.6	3.5	2.0	2.5	8.5	8.6	5.9	4.0
Poland	6.1	6.5	5.8	6.6	7.0	4.5	4.5	6.5	6.0	6.5	2.0	2.4	2.7	2.5
Slovak Republic	8.3	9.0	7.0	9.2	9.9	7.5	7.5	7.0	7.0	6.5	2.8	2.5	2.6	2.4
Romania	7.7	6.0 ↓	5.6 ↓	...	...	...	...	...	...	...	3.8	3.8	5.4 ↑	5.0
Russia	6.7	7.7	6.9	3.7	10.0	3.0	12.0	3.5	8.0	5.5	7.9	8.1	7.7	7.3
Turkey	6.1	5.0	5.0 ↓	...	...	...	...	...	...	...	10.3	9.5	7.3	5.7
Global	3.7	3.3	3.1 ↓	3.1	3.7 ↓	3.4	2.7 ↑	3.0 ↓	3.4 ↓	3.4 ↑	2.3	2.4	2.7	2.3
Developed markets	2.8	2.4	2.3	2.1	2.3 ↓	2.7	1.9	1.9 ↓	2.5 ↓	2.6 ↑	1.8	1.9	2.3	1.7
Emerging markets	6.9	6.7	6.3 ↓	6.9	9.0 ↓	5.9	5.8 ↑	7.0 ↓	7.1 ↓	6.5 ↓	4.3	4.4	4.5	4.6

Note: For some emerging economies, 2006-2008 quarterly forecasts are not available and/or seasonally adjusted GDP data are estimated by JPMorgan.
Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes.

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Global Central Bank Watch

	Official interest rate	Current	Change from Jun 04 (bp)	Last change	Forecast next change	Sep 07	Dec 07	Mar 08	Jun 08	Dec 08
Global	GDP-weighted average	4.69	226			4.65	4.50	4.53	4.52	4.76
excluding US	GDP-weighted average	4.43	132			4.43	4.45	4.49	4.48	4.60
Developed	GDP-weighted average	4.14	263			4.05	3.85	3.88	3.89	4.19
Emerging	GDP-weighted average	7.10	80			7.12	7.18	7.16	7.10	7.08
The Americas	GDP-weighted average	5.50	353			5.39	4.97	4.95	4.93	5.39
United States	Federal funds rate	5.25	425	29 Jun 06 (+25bp)	18 Sep 07 (-25bp)	5.00	4.50	4.50	4.50	5.00
Canada	Overnight funding rate	4.50	250	10 July 07 (+25bp)	**4 Dec 07 (-25bp)**	4.50	4.25	4.00	4.00	5.00
Brazil	SELIC overnight rate	11.25	-475	5 Sep 07 (-25bp)	**16 Apr 08 (-25bp)**	11.25	11.25	11.25	10.75	10.25
Mexico	Repo rate	7.25	75	27 Apr 07 (+25bp)	21 Sep 07 (+25bp)	7.50	7.50	7.50	7.50	7.50
Chile	Discount rate	5.75	400	**13 Sep 07 (+25bp)**	**15 Nov 07 (+25bp)**	5.75	6.00	6.00	6.50	6.50
Colombia	Repo rate	9.25	250	27 July 07 (+25bp)	26 Oct 07 (+25bp)	9.25	9.50	9.50	9.50	9.00
Peru	Reference rate	5.00	250	6 Sep 07 (+25bp)	1Q 08 (+25bp)	5.00	5.00	5.25	5.25	5.25
Europe/Africa	GDP-weighted average	4.59	169			4.60	4.62	4.62	4.61	4.62
Euro area	Refi rate	4.00	200	6 June 07 (+25bp)	on hold	4.00	4.00	4.00	4.00	4.00
United Kingdom	Repo rate	5.75	125	5 July 07 (+25bp)	on hold	5.75	5.75	5.75	5.75	5.75
Sweden	Repo rate	3.75	175	7 Sep 07 (+25bp)	19 Dec 07 (+25bp)	3.75	4.00	4.25	4.25	4.25
Norway	Deposit rate	4.75	300	15 Aug 07 (+25bp)	26 Sep 07 (+25bp)	5.00	5.25	5.50	5.75	5.75
Czech Republic	2-week repo rate	3.25	100	30 Aug 07 (+25bp)	4Q 07 (+25bp)	3.25	3.50	3.75	4.00	4.50
Hungary	2-week deposit rate	7.75	-375	25 Jun 07 (-25bp)	24 Sep 07 (-25bp)	7.50	7.00	6.50	6.50	6.50
Poland	7-day intervention rate	4.75	-50	29 Aug 07 (+25bp)	31 Oct 07 (+25bp)	4.75	5.00	5.25	5.50	6.00
Russia[1]	1-week deposit rate	3.25	225	14 Aug 07 (+25bp)	Dec 07 (+25bp)	3.25	3.50	3.50	3.50	3.75
Slovak Republic	2-week repo rate	4.25	-75	27 Apr 07 (-25bp)	**4Q 08 (-25bp)**	4.25	4.25	4.25	4.25	4.00
South Africa	Repo rate	10.00	200	16 Aug 07 (+50bp)	11 Oct 07 (+50bp)	10.00	10.50	10.50	10.50	10.50
Switzerland	3-month Swiss Libor	2.75	225	**13 Sep 07 (+25bp)**	13 Dec 07 (+25bp)	2.75	3.00	3.25	3.25	3.25
Turkey	Overnight borrowing rate	17.25	-475	**13 Sep 07 (-25bp)**	16 Oct 07 (-25bp)	17.25	16.50	15.75	15.00	14.00
Asia/Pacific	GDP-weighted average	3.60	113			3.60	3.64	3.76	3.76	4.01
Australia	Cash rate	6.50	125	8 Aug 07 (+25bp)	5 Dec 07 (+25bp)	6.50	6.75	6.75	6.75	6.75
New Zealand	Cash rate	8.25	250	26 July 07 (+25bp)	3Q 08 (-25bp)	8.25	8.25	8.25	8.25	7.75
Japan	Overnight call rate	0.50	50	21 Feb 07 (+25bp)	**15 Feb 08 (+25bp)**	0.50	0.50	0.75	0.75	1.25
Hong Kong	Discount window base	6.75	425	30 Jun 06 (+25bp)	19 Sep 07 (-25bp)	6.50	6.00	6.00	6.00	6.50
China	1-year working capital	7.29	198	**14 Sep 07 (+27bp)**	4Q 07 (+27bp)	7.29	7.56	7.56	7.56	7.56
Korea	Overnight call rate	5.00	125	9 Aug 07 (+25bp)	on hold	5.00	5.00	5.00	5.00	5.00
Indonesia	BI rate	8.25	91	5 July 07 (-25bp)	4Q 07 (-25bp)	8.25	8.00	8.00	8.00	8.00
India	Repo rate	7.75	175	30 Mar 07 (+25bp)	on hold	7.75	7.75	7.75	7.75	7.75
Malaysia	Overnight policy rate	3.50	80	26 Apr 06 (+25bp)	on hold	3.50	3.50	3.50	3.50	3.50
Philippines	Reverse repo rate	6.00	-75	12 July 07 (-150bp)	on hold	6.00	6.00	6.00	6.00	6.00
Thailand	1-day repo rate	3.25	200	18 July 07 (-25bp)	10 Oct 07 (-25bp)	3.25	3.00	3.00	3.00	3.00
Taiwan	Official discount rate	3.125	175	21 Jun 07 (+25bp)	20 Sep 07 (+12.5bp)	3.25	3.25	3.25	3.25	3.375

[1]Rather than the refi rate, we now display the 1-wk dep rate, which better represents CBR policy stance and is closer to interbank market rates.

Bold denotes move this week and forecast changes

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Forecasts - Australia and New Zealand

Australia: economic projections *percentage change over previous period, seasonally adjusted annual rates, un*

				2006			2007				2008			
	2006	2007	2008	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	2.7	4.0	3.3	2.5	1.9	4.3	6.6	3.8	1.8	3.8	4.4	2.8	2.3	3.0
Private consumption	3.1	3.7	2.3	2.8	2.9	5.0	6.0	2.2	1.6	2.0	2.4	2.4	2.8	2.8
Construction investment	5.1	9.3	-2.2	17.4	-4.5	7.4	25.7	7.4	1.9	-2.1	-2.1	-4.1	-6.0	-5.9
Equipment investment	6.2	9.1	1.9	-8.7	-8.6	-2.9	24.9	25.9	6.4	4.3	0.0	0.0	-4.1	-8.1
Public investment	12.5	4.1	8.3	2.9	22.4	53.3	-52.3	77.5	6.1	4.2	4.6	5.2	5.4	5.8
Government consumption	4.0	2.1	1.9	8.4	7.2	-4.4	3.3	1.8	2.4	2.0	2.0	1.6	1.6	1.6
Exports of goods & services	3.4	4.8	7.0	8.3	0.8	3.9	5.8	3.2	8.2	6.1	8.2	8.2	6.1	4.1
Imports of goods & services	7.6	8.9	3.7	11.8	-2.2	28.7	9.0	4.6	2.0	3.0	4.1	4.1	3.2	6.1
Contributions to GDP growth:														
Domestic final sales	4.3	4.9	1.8	5.9	1.4	6.8	5.4	7.1	2.5	1.7	1.6	1.2	0.8	0.5
Inventories	-0.6	0.2	1.0	-2.2	-0.1	2.7	2.1	-2.7	-1.7	1.6	2.2	1.0	1.0	3.1
Net trade	-1.0	-1.1	0.4	-1.0	0.6	-5.0	-1.0	-0.5	1.0	0.4	0.6	0.6	0.4	-0.6
GDP deflator (%oya)	4.7	3.6	2.5	4.6	5.1	4.5	4.8	4.0	3.0	2.6	2.5	2.5	2.5	2.5
Consumer prices (%oya)	3.5	2.6	3.5	4.0	3.9	3.3	2.4	2.1	2.3	3.5	3.9	3.2	3.0	2.6
Producer prices (%oya)	7.9	2.7	3.2	9.9	7.9	6.1	3.8	1.5	2.0	3.8	4.7	2.9	2.7	2.5
Trade balance (A$ bil, sa)	-13.3	-14.7	-14.2	-3.5	-2.0	-4.1	-4.1	-3.6	-3.4	-3.7	-3.1	-3.4	-3.8	-3.9
Current account (A$ bil, sa)	-54.9	-62.8	-65.2	-13.4	-12.8	-15.5	-15.4	-15.4	-15.4	-16.7	-15.6	-16.4	-16.8	-16.4
as % of GDP	-5.5	-5.8	-5.7	-5.4	-5.1	-6.0	-5.8	-5.7	-5.7	-6.0	-5.6	-5.8	-5.8	-5.6
3m eurodeposit rate (%)*	6.0	6.4	6.8	5.8	6.2	6.2	6.4	6.3	6.8	6.9	6.9	6.8	6.8	6.8
10-year bond yield (%)*	5.6	5.8	6.2	5.6	5.7	5.7	5.9	5.9	5.7	5.9	6.0	6.2	6.2	6.3
US$/A$*	0.75	0.83	0.82	0.74	0.77	0.77	0.80	0.83	0.83	0.87	0.85	0.85	0.80	0.78
Commonwealth budget (FY, A$ bil)	15.8	13.6	8.5											
as % of GDP	1.6	1.3	0.7											
Unemployment rate	4.8	4.6	5.2	4.9	4.7	4.6	4.5	4.3	4.6	4.8	5.0	5.1	5.3	5.5
Industrial production	-0.6	0.9	0.0	0.2	7.3	8.3	-2.1	-2.0	-4.0	-1.0	1.0	3.0	4.0	0.0

*All financial variables are period averages

New Zealand: economic projections *percentage change over previous period, seasonally adjusted annual rates, unless stated*

				2006			2007				2008			
	2006	2007	2008	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	1.5	2.6	2.4	1.6	1.0	3.3	4.2	1.7	1.9	1.9	2.0	2.8	4.0	2.7
Private consumption	2.3	3.2	1.0	-0.3	1.6	5.6	8.8	-1.0	0.0	0.8	0.9	1.6	2.8	1.3
Fixed Investment	-2.4	4.3	0.6	-19.8	5.1	4.2	17.1	1.1	0.2	0.3	0.3	0.5	1.5	1.0
Residential construction	-2.7	1.8	0.6	-21.3	16.8	8.2	-1.3	1.0	0.3	0.4	0.7	0.7	0.8	0.9
Other fixed investment	-2.3	5.0	0.5	-19.4	2	3.2	22.6	1.2	0.2	0.2	0.2	0.4	1.7	1.0
Inventory change (NZ$ bil, saar)	0.0	-0.1	0.1	-0.1	-0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Government spending	4.8	3.0	3.7	7.4	4.0	1.0	3.6	2.3	2.6	4.0	4.8	4.3	1.9	4.2
Exports of goods & services	1.9	2.2	3.4	11.3	11.0	-9.2	8.3	-3.8	4.2	4.0	3.8	3.6	3.8	4.2
Imports of goods & services	-2.5	5.5	2.1	-5.0	2.7	6.5	18.4	-2.4	2.0	2.2	2.4	2.2	3.0	3.0
Contributions to GDP growth:														
Domestic final sales	0.7	4.0	1.9	-0.8	-0.4	4.5	10.8	1.8	1.4	1.4	1.3	2.2	3.7	2.4
Inventories	-0.8	-0.1	0.2	-2.9	-1.1	4.3	-2.5	0.2	-0.1	0.1	0.4	0.3	0.1	0.1
Net trade	1.6	-1.3	0.3	5.4	2.5	-5.4	-3.7	-0.3	0.6	0.5	0.3	0.3	0.1	0.2
GDP deflator (%oya)	2.4	2.8	2.1	2.0	2.7	2.9	3.2	3.2	2.5	2.4	2.1	2.1	2.1	2.1
Consumer prices	3.4	2.1	2.5	6.2	2.8	-0.8	2.0	4.0	1.9	0.8	3.2	4.0	2.6	0.7
%oya	3.4	2.1	2.5	4.0	3.5	2.7	2.5	2.0	1.8	2.2	2.5	2.4	2.6	2.6
Trade balance (NZ$ bil, sa)	-3.2	-4.5	-4.9	-0.7	-0.7	-0.8	-0.9	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2	-1.2
Current account (NZ$ bil, sa)	-14.4	-14.4	-14.3	-3.5	-3.2	-3.6	-3.6	-3.6	-3.6	-3.5	-3.5	-3.6	-3.6	-3.6
as % of GDP	-9.2	-8.7	-8.3	-9.2	-8.1	-9.0	-8.9	-8.8	-8.7	-8.4	-8.3	-8.4	-8.2	-8.2
Yield on 90-day bank bill (%)*	7.5	8.2	8.1	7.5	7.5	7.7	7.8	8.2	8.4	8.3	8.3	8.3	8.1	7.8
10-year bond yield (%)*	5.8	6.3	6.3	5.8	5.8	5.8	6.0	6.4	6.5	6.4	6.5	6.4	6.3	6.2
US$/NZ$*	0.65	0.73	0.68	0.62	0.64	0.67	0.70	0.74	0.72	0.77	0.75	0.71	0.64	0.63
Commonwealth budget (NZ$ bil)	6.5	6.4	5.7											
as % of GDP	4.2	3.9	3.3											
Unemployment rate	3.8	3.8	4.4	3.6	3.8	3.7	3.7	3.6	3.8	4.0	4.2	4.3	4.4	4.5

*All financial variables are period averages

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Australasian economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
17 Sep	18 Sep	19 Sep Australia: Westpac leading index (10:30am) Jul	20 Sep New Zealand: Current account (10:45am) 2Q -2500 NZ$mn	21 Sep Australia: New passenger car sales (11:30am) Aug New Zealand: Visitor arrivals (10:45am) Aug Credit card spending (03:00pm) Aug
24 Sep	25 Sep	26 Sep New Zealand: Trade balance (10:45am) Aug	27 Sep New Zealand: Building permits (10:45am) Aug NBNZ business confidence (03:00pm) Sep Money supply (03:00pm) Aug	28 Sep New Zealand: GDP (10:45am)2Q
1 Oct	2 Oct	3 Oct Australia: RBA Cash target (09:30am) Oct Retail sales (11:30am) Aug Trade balance (11:30am) Aug	4 Oct Australia: Building permits (11:30am) Aug	5 Oct
8 Oct Australia: ANZ job ads (11:30am) Sep	9 Oct Australia: NAB business survey (11:30am) Sep	10 Oct Australia: Westpac consumer confidence (10:30am) Oct Housing finance (11:30am) Aug	11 Oct Australia: Consumer inflation expectation (10:30am) Oct Unemployment rate (11:30am) Sep	12 Oct New Zealand: Retail sales (10:45am) Aug

Highlighted data are scheduled for release on or after the date shown. Times shown are local.

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Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
17 - 21 September	**17 Sep**	**18 Sep**	**19 Sep**	**20 Sep**	**21 Sep**
	Euro Area • Trade balance (Jul) Mexico • GDP (2Q) United States • NY Fed bus survey (Sep) • Flow of funds (2Q)	Germany • ZEW bus survey (Sep) Japan • Tertiary sector activity index (Jul) Sweden • GDP final (2Q) United Kingdom • CPI (Aug) United States • NAHB survey (Sep) • PPI (Aug) • FOMC meeting	Canada • CPI (Aug) Japan • Electric power use (Aug) • Nationwide department store sales (Aug) • BoJ meeting United Kingdom • BoE minutes of Sep 6 United States • CPI (Aug) • Housing starts (Aug)	Japan • MoF business outlook survey (3Q) • Fukui speaks at National Securities Industry Convention Taiwan • CBC meeting United Kingdom • Retail sales (Aug) United States • Philly Fed bus survey (Sep) • Bernanke testifies before House Fin. Committee	Colombia • BanRep meeting Euro Area • PMI mfg & services flash (Sep) • Trichet speaks in Switzerland Mexico • Banxico meeting Taiwan • Export orders (Aug) • IP (Aug)
24 - 28 September	**24 Sep**	**25 Sep**	**26 Sep**	**27 Sep**	**28 Sep**
	Belgium • BNB bus survey (Sep) Euro Area • Industrial orders (Jul) Germany • CPI 6 states and prelim (Sep) Hungary • NBH meeting Mexico • CPI (Aug)	Canada • Payrolls (Jul) Germany • IFO bus survey (Sep) Japan • CSPI (Aug) • BoJ minutes of Aug 22-23 Netherlands • CBS bus survey (Sep) Slovak Republic • NBS meeting United Kingdom • Business investment (2Q) United States • Existing home sales (Aug)	France • INSEE bus survey (Sep) Italy • ISAE bus survey (Sep) Japan • Trade balance (Aug) Norway • Norges Bank meeting Poland • NBP meeting United Kingdom • GDP (2Q) United States • Durable goods (Aug)	Czech Republic • CNB meeting Euro Area • M3 (Aug) • PMI retail (Sep) France • Unemployment (Aug) Germany • Employment (Aug) • Unemployment (Sep) Japan • Shoko Chukin small bus survey (Sep) United States • Agriculture prices (Sep) • New home sales (Aug) • Real GDP (2Q)	Euro Area • EC bus survey (Sep) • HICP flash (Sep) France • GDP (2Q) Japan • Household spending (Aug) • IP (Aug) • Nationwide core CPI (Aug) • PMI mfg (Sep) • Retail sales (Aug) • Unemployment rate (Aug) New Zealand • GDP (2Q) United States • Chicago Fed bus survey (Sep) • Consumer sentiment (Sep) • Construction spend. (Aug) • Personal income (Aug)

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