JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- The **RBA** will leave the cash rate unchanged at 6.5% on Wednesday, but our new policy rate forecasting tool, the details of which are explained from page 2, indicates that the cash rate will rise another 25bp later this year. This is despite our forecast that the Fed will cut rates twice in coming months. The tool suggests the RBA will be cutting the cash rate in the second half of 2008. This week's highlight will be the 2Q GDP data on Tuesday—we expect the economy to have grown 0.6%q/q—but the August employment report, which is the first economic data to reflect any impact of the turmoil in financial markets, will be a key indicator. Employment likely rose 12,000 in August, but the flood of former welfare recipients into the labour market will push up the jobless rate.

- Business confidence in **New Zealand** improved in August as NZD dropped US$0.10 from its recent high and Fonterra, New Zealand's largest dairy cooperative, announced a massive increase to its 2007-08 forecast payout to producers (see this week's note "NZ worth its weight in milk: farmers to get higher payout" page 5). In other data, the RBNZ credit aggregates eased in July, and will continue to head south in coming months. The financial market turmoil claimed more scalps last week as two more nonbank finance companies went into receivership. The collapse of these companies, with the possibility of more to come, will lower personal credit growth and restrict consumption growth over the quarter.

- The roadmap followed by central bankers in recent weeks was articulated clearly by Fed Chairman Bernanke in his **Jackson Hole speech** last Friday. In distinguishing the role of central banks in promoting orderly markets from their responsibilities in achieving their macroeconomic objectives, different sets of policy tools are viewed as appropriate. As stress in money markets sweeps across major financial centers, it is being met by increased daily operations by central banks and easier access to their supplementary lending facilities. Central bankers have been uniform in echoing the message delivered by Chairman Bernanke that "it is not the responsibility of the Federal Reserve—nor would it be appropriate—to protect lenders and investors from the consequences of their financial decisions."

- Although few central banks are likely to join the Fed in easing during September, central banks have been expected to shift gear modestly in response to recent developments. In the developed world, central banks that had been on track to tighten were expected to pause. Importantly, this shift was not anticipated by **Emerging Market central banks**. A number of EM central banks have strong domestic reasons to stay the course in the near term, based on demand prospects and a perceived need to meet inflation targets. Also, three other major central banks that previously had been expected to tighten—the ECB, the Bank of England and the Bank of Canada—meet this week. All are now expected to leave rates on hold.

This week's highlight

With the RBA almost certain to stay on the sidelines Wednesday, the highlight will be the 2Q GDP data on Tuesday. Also, Thursday's jobs report is the first data to reflect any impact of the turmoil in financial markets, and therefore is worth watching.

Contents

Research note
Model of RBA policy moves 3
NZ dairy payout boost 5

Commentaries, data previews
Australia 7
New Zealand 10
Global essay 13

The JPMorgan view
Global markets 14
Markets - Australia and New Zealand 16
Currencies: AUD and NZD 17

Forecasts
Global outlook summary 18
Global central bank watch 19
Australian economy 20
New Zealand economy 20

Data release calendars
Australia and New Zealand 21
Global data diary 22

JPMorgan Australia Ltd., Sydney
www.morganmarkets.com

Stephen Walters
(61-2) 9220-1599
stephen.b.walters@jpmorgan.com

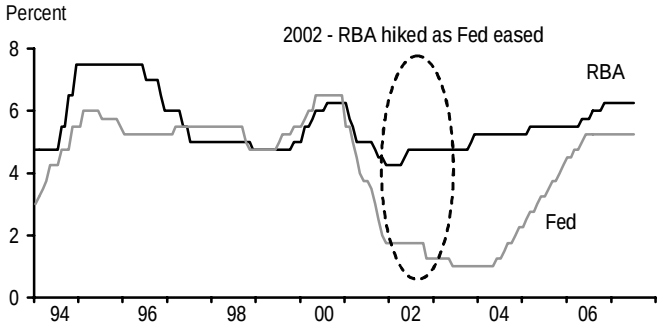
Jarrod Kerr
(61-2) 9220-1669
jarrod.w.kerr@jpmorgan.com

Helen Kevans
(61-2) 9220-3250
helen.e.kevans@jpmorgan.com

JPMorgan Chase Bank, Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Jarrod Kerr (61-2) 9220-1669
jarrod.w.kerr@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

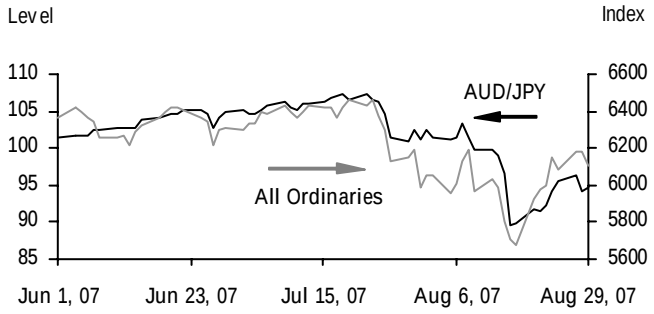
This week's feature charts

RBA cash rate target and the fed funds rate



We expect the Fed to ease twice in coming months, but for the RBA to tighten in December. There are plenty of times when the RBA has left the cash rate unchanged while the Fed eased, but few times when the RBA has tightened as the Fed eased. The most recent such episode was in 2002, when the RBA embarked on a tightening cycle when the Fed was still on the way to lowering the funds rate to a record low of 1%. An RBA tightening in December after two Fed eases would not, therefore, be unprecedented.

Carry trade back in vogue as equities stabilize



The allure of the carry trade—where investors borrow in low-yielding currencies to invest in high-yielding currencies elsewhere—has increased in the past week. As equity markets somewhat stabilized, the AUD/JPY currency pair headed north, amid renewed risk aversion among investors. The AUD/JPY finished the latest week near ¥95, while the All Ordinaries index closed around 6,250, up over 5% from last Monday.

New Zealand: days to sell vs. house prices

Minor blip down, or the beginning of the end? The amount of households rolling over onto much, much higher interest rates (averaging over 9% across the curve), coupled with a prolonged decline in net migration (which has supported housing and domestic demand since 2001) points to a slow and gradual decline in house price growth from here. The RBNZ has done enough in this cycle, but an easing is still a very long way off.

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com

Economic research note

A model of RBA behavior: another rate rise in late 2007

- **We have developed a model to capture the probability of RBA policy moves in a given month**
- **The model accurately predicted 73 of the last 75 policy decisions—a 97% success rate**
- **The model predicts a 25bp policy rate rise at the end of 2007, but a 25bp rate cut for late 2008**

A study this year by JPMorgan's global macro team ("Central bank communication hits diminishing marginal returns," *Global Issues*, May 11 2007) found that the RBA is an inferior communicator relative to the ECB, the Fed, and the Bank of Japan. This implies that market participants' job of predicting RBA policy moves is more difficult than would be the case if, like other central banks, the RBA released more regular commentary and detailed statements when policy is left unchanged (the RBA releases a statement only when policy is changed).

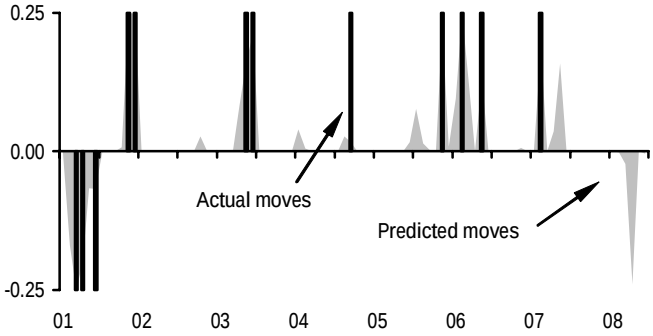
To aid the process of predicting RBA moves, we have developed a model to estimate the probability, measured in basis points relative to a 25bp tightening or 25bp ease, in any given month. Back-testing over the last six years (the model is estimated only from 2001 because some of the input data was first released then) shows that the model correctly predicts RBA decisions on 73 of the 75 occasions covered; that is, 97% of the time. This is vastly superior to the interbank (IB) futures market, which predicted two rate rises that didn't materialize, and only three of the seven hikes since 2003, when the IB contract was launched.

Model predicts a rate hike in November

The model accurately predicted eight of the nine rate hikes since 2001 and two of the three eases; the two moves the model failed to predict were the 25bp cut in December 2001 and the 25bp hike in March 2005. On both occasions, though, the model was accumulating basis point probabilities in favor of the move.

The model correctly predicted all 63 times the RBA left policy unchanged, including in April this year when the futures market wrongly priced a high chance of a hike. The model predicts a 25bp rate hike for November 2007—even with our expectation of 25bp eases by the Fed at the September and October FOMC meetings—but forecasts that the RBA will cut the cash rate at the end of 2008.

Actual vs fitted moves in policy rate using tool



RBA policy decisions since 2001 - probit model

	Estimated	Actual
-25 basis points	2	3
No change	63	63
25 basis points	8	9
Total	73	75

Background: RBA independence in 1996

The newly elected Howard government gave the RBA formal independence in 1996, agreeing to the objective that the RBA should keep inflation between 2% and 3%, on average, over the cycle. The RBA has for the most part achieved its inflation objective, while simultaneously helping to steer Australia through the longest uninterrupted period of economic expansion in measured history.

This track record of success in part is because RBA officials have allowed periodic deviations of inflation from the agreed target. RBA officials' tolerance of temporary breaches of the inflation target helps to explain why the RBA has adjusted policy just 26 times—that is, less than three times per year on average—since it gained formal independence more than a decade ago. To be fair, though, a sustained house price boom and, more recently, a once-in-a-generation terms of trade bonanza (supported by a healthy global economy and China's insatiable demand for raw materials) also played significant roles in delivering Australia's impressive economic performance.

The inputs: global economy crucial

The model uses five independent variables, three for the domestic economy and two for the global economy. Interestingly, the fit of the model was inferior when only domestic variables were used. This highlights the extent to which the RBA's decision making depends on developments offshore, and why the assessment of conditions in the global economy gets such prominence in RBA commentary. The *domestic* independent variables are:

- The rate of **capacity utilization** from the NAB business survey, which captures the extent to which resources are stretched and approximates the gap between actual and potential output. We assume that usage rates ease back to 82% in 2008, from north of 83% now;

- Annual growth in the **trimmed mean CPI**. We assume that core inflation will be 3.0% to June 2008, and 2.75% thereafter, in line with RBA forecasts; and

- Annual growth in **credit to the private sector**, which approximates the demand for money. We assume credit growth easing to 13%oya by the end of 2008.

The *overseas* independent variables were:

- JPMorgan's measure of the **global policy rate,** which reflects global inflation pressure and any gap between actual and potential output. We assume a lower policy rate in coming months as the Fed eases, but a rising policy rate from early 2008; and

- JPMorgan's **global manufacturing PMI**, which captures by proxy the strength of demand for Australian raw materials and, by extension, the degree to which domestic resources may be stretched. We assume that global manufacturing activity continues to grow in 2008, albeit at a weaker pace than in recent months.

The model's mechanics

We used an ordered probit model, estimated within a Taylor rule framework. It uses a conventional Taylor rule estimation and adds an adjustment mechanism to predict the likely change in the cash rate towards a long-run equilibrium rate. That is, the model estimates what the nominal policy rate should be given contemporaneous readings for Australian resource usage rates, core inflation and credit growth, and global policy rates and manufacturing activity. There is a reference in the model to the lagged cash rate to capture the policy rate's distance from the long-run equilibrium rate.

The probit component works by accumulating over a four-month period the basis point equivalent of a probable 25bp move (the model does not predict moves of greater than 25bp) to form a discreet probability of a policy rate change for each month. As a rule, when the accumulated probability of a rate change exceeds 19bp (i.e., at least a 76% chance of a 25bp move), the model predicts a rate change for that month. The four-month accumulation period accounts for the fact that RBA behavior changes quickly in response to changes in the macro environment. In contrast, the ECB model uses a 12-month accumulation period.

RBA probit model: central view

	Estimated move in basis points	Implied rate move	Implied nominal policy rate
Aug 07	18	+25	6.5
Sep 07	0	0	6.5
Oct 07	4	0	6.5
Nov 07	16	+25	6.75
Dec 07	0	0	6.75
Jan 08	0	0	6.75
Feb 08	0	0	6.75
Mar 08	0	0	6.75
Apr 08	0	0	6.75
May 08	0	0	6.75
Jun 08	0	0	6.75
Jul 08	0	0	6.75
Aug 08	0	0	6.75
Sep 08	-2	0	6.75
Oct 08	-24	-25	6.5
Nov 08	0	0	6.5
Dec 08	0	0	6.5

The model's fit is good, with a pseudo-R^2 of 0.76. The derived coefficients for each variable hint that the most powerful driver for predicting RBA behavior is the global policy rate, followed by the trimmed mean CPI, the rate of domestic capacity utilization, private credit growth, and the global manufacturing PMI. The model implies that, in the past, the behavior of RBA Board members was more influenced by the actions of other central banks than the direction of domestic core inflation.

The model's limitations

One limitation is that the model takes only indirect account of influences on RBA behavior other than those demonstrated by contemporaneous economic data. For example, the RBA could ease policy if the market contagion from the US subprime mess were unexpectedly large, or if markets ceased functioning. Such a move would be consistent with one of the RBA's mandates of maintaining stability in the financial system, but would not be captured by the model, unless global policy rates plunged. Also, the model predicts an RBA rate rise in November 2007, but the rise may come in December owing to the proximity of the federal election and the intense political sensitivity of changes in interest rates.

JPMorgan Australia Ltd., Sydney
Jarrod Kerr (61-2) 9220-1669
jarrod.w.kerr@jpmorgan.com

Economic comment

NZ worth its weight in milk: farmers to get higher payout

- **Fonterra, NZ's largest dairy cooperative, boosted its predicted 2007-08 payout a massive 87 cents**
- **JPMorgan forecasts Fonterra's final payout to be on the order of NZ$6.80 kg/Milk Solids (MS)**
- **Given the stretched economic backdrop and the dairy industry windfall, the RBNZ will not cut the cash rate**

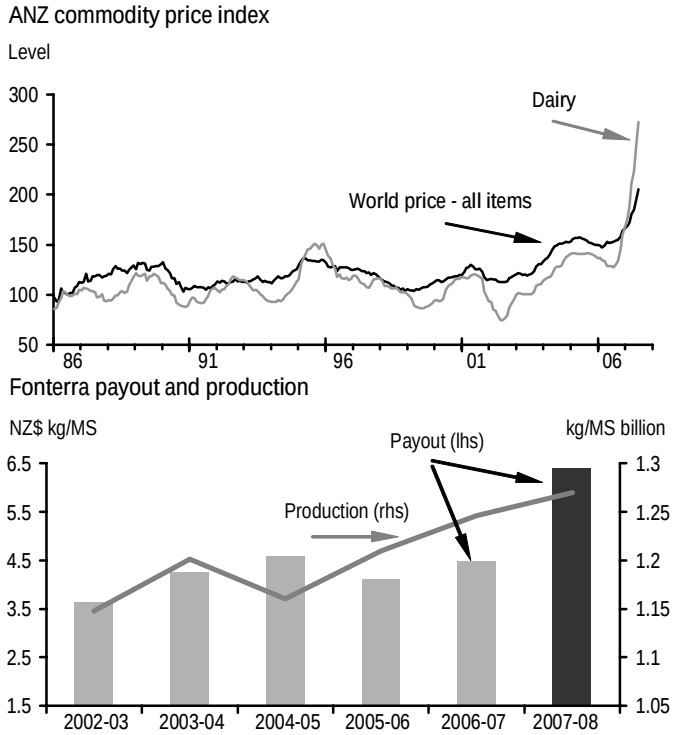
The outlook for New Zealand's dominant dairy industry, which accounts for 20% of exports, continues to improve, with Fonterra, NZ's largest dairy cooperative, announcing a substantial increase to its planned 2007-08 payout to farmers.[1] The new forecast is for a record NZ$6.40 kg/MS, up NZ$0.87 from the lucrative May forecast of NZ$5.53 and nearly NZ$2 above that paid in 2006-07 (NZ$4.46). The higher payout will inject an extra NZ$2.4 billion (an average total payout of NZ$700,000 per farmer) into New Zealand's already stretched economy, at a time when RBNZ officials are worried about the inflation outlook.

Prior to Fonterra's announcement, the RBNZ had expressed concern in its June monetary policy statement that the dairy price shock would not only stimulate rural land prices, but also consumption and therefore inflation. This concern was based on the original NZ$5.53 forecast, not the NZ$6.40 estimate. Therefore, futures market pricing indicating a 35% chance of a cut in the cash rate December looks optimistic. The RBNZ will not ease policy in an environment where resources clearly are stretched and there is a massive stimulus in the dairy farming pipeline. Also, the government has a huge fiscal war chest to spend before next year's election, and spent they will.

Demand for dairy: why buy the cow?

Global dairy prices have soared over 110% in the past year, driven higher by solid demand and constrained supply. The increasingly tight supply situation is a product of the reduction in exports from Europe, as the EU has recently reduced subsidies to the industry; the severity of the Australian drought; and lower dairy surpluses in the US, thanks to strong internal demand and dry conditions.

Global demand has remained resilient despite the price shock, and demand is on the rise in China. The increase in the Chinese appetite for dairy products has provided the lion's share



of growth in NZ dairy exports over the past few years. According to Fonterra's CEO Andrew Ferrier, China represents the biggest opportunity in the dairy industry globally.

Increased demand for environmentally friendly biofuels has also pushed farm expenses higher (especially prices of feed and fertilizer). Farm costs will rise further as the world seeks greener fuel alternatives and farmers seek to pass on these costs in the form of higher dairy prices.

Milking it for all it's worth

Assuming constant production, the NZ$2 additional payout will inject another NZ$2.4 billion into the economy. The total estimated payout for 2007-08 therefore is around NZ$8 billion or an average $700,000 per Fonterra shareholder. Fonterra last year collected a record 1.25 billion kilograms of milk solids, up from the 1.21 billion in 2005-06, and is on track to delivering a better outcome for 2007-08. Given Fonterra's positive statements on the current track of production, JPMorgan estimates production levels to increase 2% over 2007-08, taking the level of milk solids received to 1.27 billion. At the forecast payout of NZ$6.40, this represents an extra $2.5 billion being pumped into the economy.

Skim milk, creamy profits, higher payout

JPMorgan forecasts that the 2007-08 payout again will be upwardly revised to NZ$6.80 kg/MS. JPMorgan forecasts

the price of dairy products to continue north over the remainder of 2007-08. The most influential factor affecting the payout, however, is the NZD, and according to Fonterra a US$0.03 decline is equivalent to a NZ$0.25-0.30 kg/MS increase in the payout. Fonterra assumes an average of US71 cents in its current forecast, and indeed NZD forward rates are implying an average US0.70 for the year. Based on the assumption that Fonterra can hedge at an average of US$0.71 and our bullish view of dairy prices, the payout could reach NZ$6.80 kg/MS. A larger than expected decline in NZD would push this forecast even higher.

Swan-diving Kiwi great news for exporters

Other soft commodity prices are turning upward, especially for meat and timber, number two and three respectively in the list of major exports, and the currency has dropped US$0.10 from its high. The decline in NZD to US$0.71, a result of the global financial market meltdown, is a breath of fresh air to kiwi exporters who were facing an NZD/USD 0.81 just a month ago.

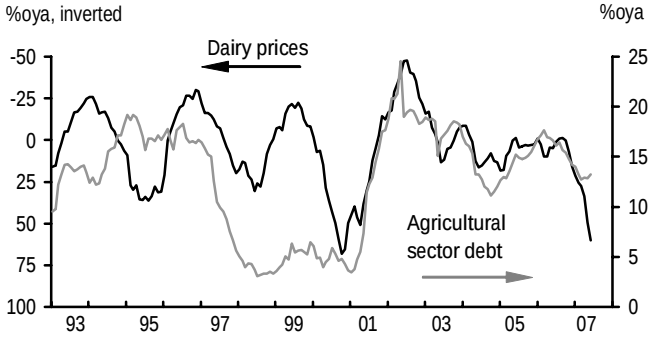
It is important to keep the level of the currency in perspective, however, and a Kiwi dollar above US$0.70 remains inhibitive of export growth. In a recent research note (see "Rampaging Kiwi a risk to export growth" *GDW*, May 18, 2007), we outlined the struggle that lay ahead for exporters outside the dairy industry given the strength of the kiwi, and the risk to the economy's rotation towards an export-led recovery from the previous reliance on households. The upshot from recent developments is that struggling exporters have been given a boost, and export volumes look set to outgrow imports into 2008.

RBNZ cannot contemplate an ease, yet

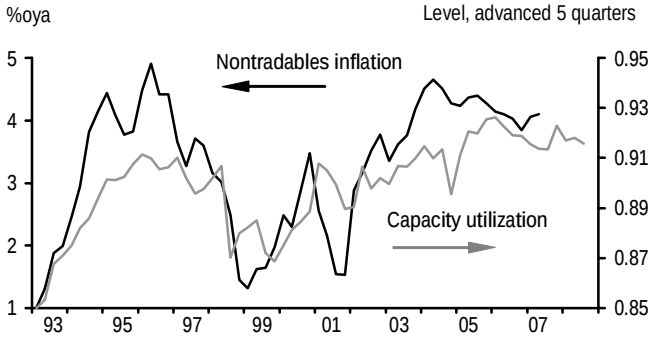
There is no question that the stimulus from the increased dairy payout, and broader relief to exporters from a lower currency, will affect the economy. Therefore, market pricing of an RBNZ rate cut by December is optimistic. In fact, given an economy operating at full capacity, a large boost from fiscal largesse and the dairy payout looming on the horizon, and our projection that inflation will remain in the top half of the RBNZ's 1-3%oya target range next year, futures market pricing of a 10-15% chance of further tightening would be more accurate.

JPMorgan believes the RBNZ has done enough in this tightening cycle and will stay firm on the policy sidelines until inflation pressures have abated. In previous commodity cycles, farmers smoothed out the good times with the bad by running down debt in good times, and loading up in the bad (chart). This cycle will be no different. There has

ANZ dairy prices index (NZ$) and agricultural sector debt levels



NZIER capacity utilization and nontradables inflation



been a substantial amount of debt taken on over the past few years, which will likely be run down with the increased payout. This should appease RBNZ official's desire for lower debt levels. Furthermore, although the marginal propensity to consume has been high in the good times, the boost from higher dairy prices will provide only a sturdy floor under broader consumption as much higher mortgage rates take effect across the mortgage belt. The need to hike is no more, but it is not time to ease, either.

Given the current economic backdrop, one of resilient demand and elevated capacity constraints, heightened concerns over the inflation trajectory (chart) mean the RBNZ will not contemplate easing policy until well into 2008. Indeed, a bias to tighten policy is likely to be maintained, given the massive stimulus in the pipeline from the dairy industry, and compounded by the fiscal stimulus that is expected to hit next year, ahead of the election.

That said, JPMorgan forecasts that the economy will have slowed enough for the RBNZ to lower the cash rate in 3Q08. The cracks under the surface of the seemingly unstoppable economy are beginning to widen as net migration slows and the housing market turns. Both consumer and business confidence indicators have dropped and the unemployment rate is likely to grind higher. Only once the RBNZ has observed a sustained period of subdued domestic demand will a policy easing be put on the table.

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Australia

- **CAD and business investment surged in 2Q**
- **RBA expected to remain on hold this week**

The Australian economic agenda was full to the brim last week. Last Thursday, 2Q current account and capital spending data came to hand, both of which surprised on the upside. Thereafter, on Friday, retail sales, private credit, and foreign trade data for July fell much in line with expectations. The economic data failed, however, to alter expectations that the RBA will keep interest rates unchanged at 6.5% tomorrow. This week also brings another barrage of top-tier economic data, including 2Q GDP, company profits and inventories, and July building approvals and the labour market report.

Preview: Aussie GDP and RBA decision

This week brings the release of Australia's 2Q GDP data, which should show an economic expansion 0.6%q/q, a substantial pullback from the unsustainable 1.4%q/q expansion in 1Q. This will, however, leave annual growth at an above-trend 3.8%oya. A big rise in private capital spending and healthy household spending likely will be the main contributors to growth in the quarter. Last week's 2Q current account data revealed that net exports will make a small subtraction from growth.

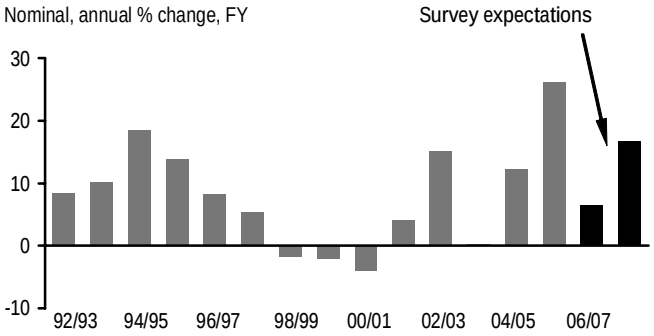
The RBA Board meets Tuesday and almost certainly will announce an unchanged cash rate Wednesday morning. The RBA raised the cash rate 25bp earlier this month, and Governor Glenn Stevens two weeks ago revealed that the RBA retained a clear bias to tighten policy again. The recent turbulence in financial markets, however, and new downside risks to growth in the global economy, mean that the RBA will be inactive this month. The forecast remains, though, that the RBA will raise the cash rate later this year, assuming that calm has returned to financial markets.

Preview: Australian employment

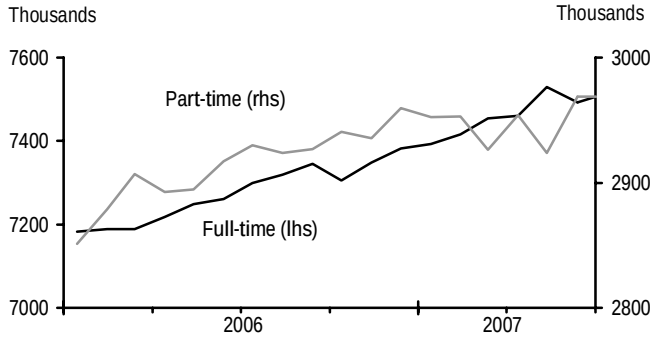
After adding a healthy 21,800 jobs in July, Australia probably added just 12,000 jobs in August. The unemployment rate likely will rise to 4.4% from 4.3% in July, while the participation rate will hold steady at 65%.

The introduction of the government's Welfare to Work initiative (effective July 1) should help move another 15,000 people off welfare and into the workforce in August. Note, though, that only those without work, available to start work, or actively seeking work, can be included in the labour force. In total, the initiative will shift around 220,000 people shift off welfare and into the labour force as Centrelink conducts the many thousands of interviews required to facilitate the return of these job seekers to employment.

Australia: business investment



Australia: employment



Solid business investment continues

The business investment survey last week showed Australian firms spending more than expected in 2Q. Investment spending grew at 6.3%q/q, marking the eighth increase in spending in the last nine quarters. The biggest rise in spending was for "other industries" (up 9.5%), which suggests that the investment boom is broadening outside the mining sector. Still, investment in mining bounced another 5.6%, but investment by manufacturing firms dropped another 3.7%, the seventh straight quarterly decline.

More importantly, however, the survey showed that firms expect to raise capital spending a further 17% in the year to June 2008. If this increase is realized, firms will have lifted investment spending a massive 76% since 2004. The predicted rise in capital spending should alleviate the bottlenecks and capacity constraints that have held back Australian exports. Note, though, that firms' responses to the 2Q investment survey were collected prior to the recent volatility in financial markets, meaning that managers may now be less optimistic.

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Current account nears 6% of GDP

Australia's current account deficit widened to A$16.0 billion (JPMorgan -A$15.9 billion, consensus -A$15.7 billion) in 2Q from -A$15.5 billion in 1Q (revised from -A$15.4 billion). The deficit now stands at 5.8% of GDP.

The trade gap rose by A$292 million due mainly to the weak export performance, owing to the ongoing drought and weather disruptions during June that disrupted shipments from the nation's largest export port. As a result, net exports will subtract 0.1% point from 2Q GDP, although should eventually add to growth given the anticipated rise in exports volumes (expected on the back of solid investment in the resource sector). Firm domestic demand will, however, prevent a sharp narrowing of the trade gap.

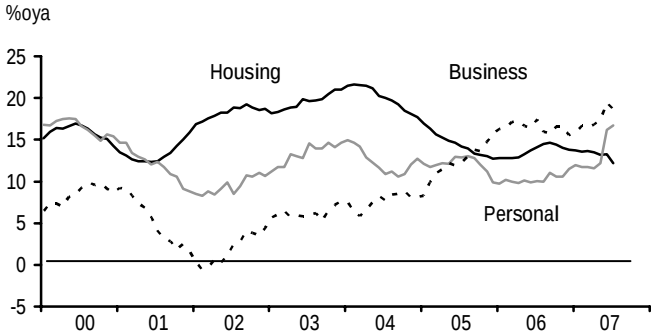
The net income deficit rose A$180 million to A$12.1 billion; this is largely a function of rising interest rates abroad (which push up interest payments on foreign debt) and higher equity dividend payments to offshore investors. The net income gap now represents an all-time high of 4.6% of GDP, compared to 4.4% in 1Q, indicative of a nation heavily reliant on imported capital. While recent financial market volatility may cause corporates to raise less debt offshore near term, the income gap will likely continue to widen thereafter as global interest rates rise and local firms again tap into deeper, more liquid offshore capital markets.

Credit growth moderates as expected

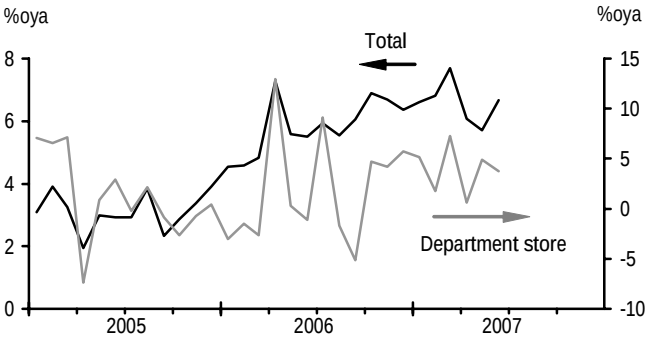
Australia's private sector credit aggregates grew 0.9%m/m in July (JPMorgan 0.9%, consensus 1.0%) after surging 1.9% in June (revised up from 1.8%). From a year ago, total private sector credit grew 15.4%, compared to 15.6% in the previous month, which was the fastest pace since 1989. The considerable moderation in growth in private sector credit aggregates in July came as no surprise, however. Remember, demand for credit in June was unusually strong as borrowers took out more loans to fund superannuation contributions ahead of changes to superannuation laws at June-end.

Once again, business lending underpinned demand for credit in July, rising a healthy 1.4%m/m, although slowed from 2.0% in June. Solid credit expansion undertaken by businesses bodes well for Australia's economic outlook—business investment remains crucial to alleviating the infrastructure bottlenecks and capacity constraints that continue to hamper the nation's export performance. Meanwhile, housing credit grew a mild 0.7%m/m in July, slowing from 1.5% in June, and

Australia: private sector credit aggregates



Australia: retail sales value



personal credit remained flat, after surging 4.2% previously; this was notably distorted, however, by the superannuation-related borrowing mentioned above.

Private sector credit remains a key focal point of RBA commentary. The statement that accompanied the RBA's decision to hike interest rates in August highlighted the current strength of the domestic economy—high rates of capacity utilization, low unemployment, high business and consumer confidence and, last but not least, rising demand for finance. As such, the 15%-plus on-year-ago rate of credit growth will remain a concern for the RBA, especially given headline inflation is already nearing the upper end of its 2-3% target range.

Consumer spending remains resilient

Retail sales rose an unexpectedly firm 0.9%m/m in July (JPMorgan 0.5%, consensus 0.6%), after an upwardly revised 1.5% bounce in June—when sales were buoyed by the onset of unusually cold weather, which triggered a rise in sales of winter clothing. This trend extended into July, because the more discretionary areas of retail spending were very strong—department store sales, for example, soared 5.7%m/m, after solid gains in the previous two months.

It seems that the income tax cuts that kicked in from 1 July, and

JPMorgan Australia Ltd., Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

more good news on the labour market, attracted a flood of shoppers into the stores. The strongest growth in retail sales in July was in department stores, followed by sales of recreational goods (up 2.3%) and other retailing (up 1.6%). Sales in July were weakest in household goods (down 0.7%) and hospitality (-0.3%). Food sales—the largest retail category—rose 0.9%m/m, after a 1.2% rise in June. Much of this can be attributed to higher fresh food prices owing to the drought.

The outlook for retail spending remains reasonable. Household income is rising owing to the firm labour market, and the latest round of personal income tax relief. The downside, though, is that the jobless rate probably will drift up from here as employment growth slows. The negative impact of higher unemployment will be partly offset by higher wage rates. Also, energy prices remain elevated, the volatility in equity markets will put a dent in consumer confidence and, given the strength of the domestic economy and elevated inflation readings, the RBA looks likely to raise the cash rate again.

Australia:

Data releases and forecasts

Week of September 3 - 7

Mon Sep 3 11:30am — **Inventories**
seasonally adjusted

	3Q06	4Q06	1Q07	2Q07
(%q/q)	-1.2	0.3	1.4	1.0
(%oya)	-1.0	-1.6	-0.5	1.5

Mon Sep 3 11:30am — **Building approvals**
Seasonally adjusted

	Apr	May	Jun	Jul
(%m/m)	3.9	-5.7	7.5	-3.2
(%oya)	3.0	-7.0	0.9	-12.2

Building approvals will likely to slump 3.2%m/m in July, following a 7.5% surge in the previous month, a increase primarily attributed to an influx of building permits for multi-dwelling apartments.

Mon Sep 3 11:30am — **Company operating profits (business indicators)**
Nominal, gross operating, seasonally adjusted

	3Q06	4Q06	1Q07	2Q07
(%q/q)	0.4	3.0	7.6	3.5
(%oya)	8.1	9.3	17.1	15.1

Mon Sep 3 11:30am — **ANZ job advertisements**
Seasonally adjusted

	May	Jun	Jul	Aug
(%m/m)	4.5	-3.1	-1.0	___
(%oya)	-0.4	0.2	0.3	___

Wed Sep 5 9:30am — **RBA monetary policy announcement**
No change expected.

Wed Sep 5 11:30am — **Real GDP**
Chain volume, seasonally adjusted

	3Q06	4Q06	1Q07	2Q07
(%q/q)	0.5	1.1	1.6	0.6
(%oya)	2.4	2.9	3.8	3.8

Thu Sep 6 11:30am — **Labor force**
Seasonally adjusted

	May	Jun	Jul	Aug
Unemployment rate (%)	4.3	4.3	4.3	4.4
Employed (000 m/m)	39.4	2.5	21.8	12.0
Employed (%oya)	3.1	2.8	2.5	2.5
Participation rate (%)	65.0	65.0	65.0	65.0

Review of past week's data

Construction work done
Seasonally adjusted

	4Q		1Q		2Q	
(%q/q)	~~3.8~~	*4.1*	~~2.7~~	*3.2*	__	*-1.9*
(%oya)	~~6.6~~	*7.3*	~~8.9~~	*9.5*	__	*3.0*

Current account balance
A$ billion, seasonally adjusted

	4Q06		1Q07		2Q07	
Current account (A$ bn)	~~-15.5~~	*-15.4*	~~-15.4~~	*-15.6*	~~-15.9~~	*-16.0*
As a % of GDP	~~-6.0~~	*-5.4*	~~-5.8~~	*-5.5*	~~-5.9~~	*-5.8*

Private new capital expenditure
Seasonally adjusted

	4Q06		1Q07		2Q07	
(%q/q)	~~1.0~~	*0.3*	~~9.1~~	*10.3*	~~-1.0~~	*0.3*
(%oya)	~~-1.3~~	*-2.8*	~~4.7~~	*5.5*	~~2.2~~	*11.4*

Retail trade
Seasonally adjusted

	May		Jun		Jul	
(%m/m)	~~-0.3~~	*-0.2*	~~1.4~~	*1.5*	~~0.5~~	*0.9*
(%oya)	5.7		~~6.7~~	*6.8*	~~6.5~~	*7.4*

Private-sector credit
Seasonally adjusted

	May		Jun		Jul	
(%m/m)	1.3		~~1.8~~	*1.9*	*0.9*	
(%oya)	~~14.5~~	*14.8*	~~15.4~~	*15.8*	~~14.9~~	*15.4*

Trade balance
Seasonally adjusted

	May		Jun		Jul	
Exports (A$ bn)	18.6		18.0		~~18.2~~	*18.4*
Imports (A$ bn)	~~19.6~~	*19.5*	19.7		*19.1*	
Trade balance (A$ mn)	~~-970~~	*-981*	~~-1751~~	*-1737*	~~-811~~	*-756*

JPMorgan Australia Ltd., Sydney
Jarrod Kerr (61-2) 9220-1669
jarrod.w.kerr@jpmorgan.com

New Zealand

- **NZ business confidence up on NZD fall**
- **More finance companies fold amidst market turmoil**
- **Quiet week ahead, sit back and enjoy the ride**

Business confidence improved in August as NZD dropped US$0.10 from its recent high and Fonterra announced a massive increase to its 2007-08 forecast payout to producers (see this week's nore "NZ worth its weight in milk: farmers to get higher payout" page 5). In other data, the RBNZ credit aggregates eased in July, and will continue to head south in coming months. The financial market turmoil claimed more scalps last week as two more nonbank finance companies went into receivership. The collapse of these companies, with the possibility of more to come, will lower personal credit growth and restrict consumption growth over the quarter.

This week: relax and watch the markets

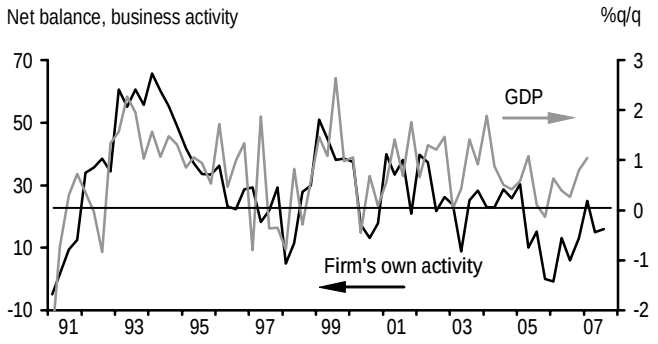
The ANZ commodity price index will be the only data highlight in NZ this week - unless StatsNZ finally releases the 3 week delayed PPI series which is currently under serious review/revision. The ANZ commodity price series will bring nothing but good news on the export front, with dairy, timber and meat prices on the rise.

NZ business confidence up at the margin

Last Thursday's release of the August NBNZ business confidence index showed a slight improvement in confidence after the NZD tumbled US$0.10 cents from its high (US$0.81 cents) and Fonterra (NZ's largest dairy cooperative) announced a massive increase to its forecast 2007-08 payout to producers. Business confidence made a marginal improvement to -34% (net percent of respondents expecting the economy to deteriorate over the coming year) from -39 in July. All sectors excluding retail posted an improvement in expectations.

More importantly for the economic outlook, trading activity expectations (which correlate well with growth in GDP) rose 5% points to a net 17% of businesses expecting an improvement in the year ahead. The result points to a stabilization in economic growth in 3Q after a poor 2Q outcome (see chart).

New Zealand: NBNZ business outlook survey and GDP growth



RBNZ private sector credit aggregates - residential

Despite a stabler activity outlook, JPMorgan forecasts consumption growth and GDP growth to remain weak in 2H07, before improving in 2008. Employment intentions and inflation expectations were unchanged. Pricing intentions, however were up over the month and point to headline inflation in the top-half of the RBNZ's 1-3%oya target range for a prolonged period.

RBNZ credit aggregates cool in July

The RBNZ's private sector credit aggregates (residential) posted a subdued 1.3%m/m gain in July, taking the annual rate to 13.8%oya (down from 14.4%oya in June). The July credit aggregates made another step in the right direction from the RBNZ's viewpoint, and should continue to head south from here. In the RBNZ's July OCR (official cash rate) announcement, which included a 25bp rate hike to the record 8.25%, Governor Alan Bollard made it clear that in order for the RBNZ to remain on hold, credit growth had to slow:

New Zealanders have been showing early signs of moderating their borrowing. Provided they keep this up, and the pressure on resources continues to ease, we think the four successive OCR increases we have delivered will be sufficient to contain inflation.
(July RBNZ OCR announcement)

Credit growth is indeed slowing, and the recent financial market turmoil, coupled with a number of nonbank finance company collapses, the availability of credit for personal finance (especially low-quality car loans) will dry up. Consumer access to finance will be affected by recent adverse market developments which will trim consumption growth. At the margin, retail spending (especially on cars) will likely be held back.

New Zealand:
Data releases and forecasts

Week of September 3 - 7

No data release expected

Review of past week's data

Building consents

Seasonally adjusted

	May		Jun		Jul	
(%m/m)	~~5.8~~	*4.9*	~~15.8~~	*14.2*	~~-13.0~~	*-15.5*
(%oya)	2.4		34.3		3.2	

Building approvals dropped more sharply than expected in July, following an influx of approvals being sort in June—prior to the annual July increase in counsel fees. Building approvals will continue to fall as the housing market deflates.

NBNZ business confidence

	Jun	Jul	Aug	
(Net % of respondents)	-37.2	-38.5	~~-39.5~~	*-33.8*

JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

Global essay

- **Bernanke keeps the ball rolling toward a 25bp ease in September**
- **Stress in US and European money markets contrasts with relative calm elsewhere**
- **ECB and BoC on hold this week; the Riksbank to tighten**
- **Current-quarter US growth tracking 3%; Japan is sluggish**

A financial market spillover watch

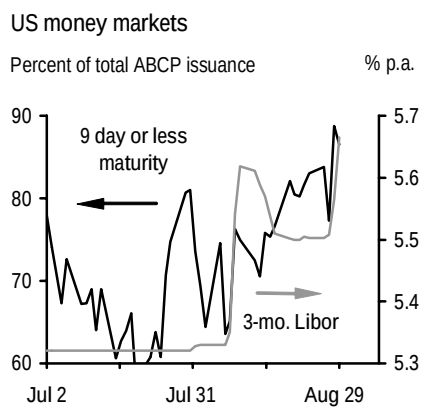
The roadmap followed by central bankers in recent weeks was articulated clearly by Fed Chairman Bernanke in his Jackson Hole speech last Friday. In distinguishing the role of central banks in promoting orderly markets from their responsibilities in achieving their macroeconomic objectives, different sets of policy tools are viewed as appropriate. As stress in money markets sweeps across major financial centers, it is being met by increased daily operations by central banks and easier access to their supplementary lending facilities. However, central bankers have yet to lower policy rates and have been uniform in echoing the message delivered by Chairman Bernanke that "it is not the responsibility of the Federal Reserve—nor would it be appropriate—to protect lenders and investors from the consequences of their financial decisions."

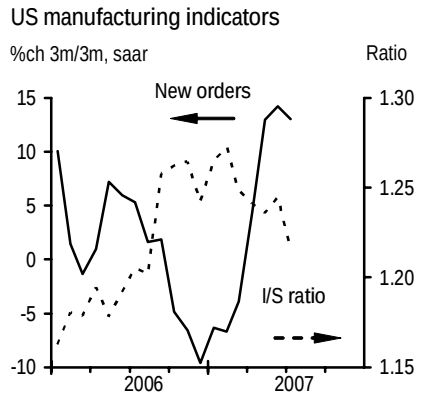
For a generalized move toward lower rates, central bankers will need to alter materially their generally sanguine growth outlook. In the US, a shift is under way. The minutes of the August 7 FOMC meeting released last week show a modest downgrade in staff growth forecasts and a Committee that centered its discussion on downside risks to housing and consumer spending. With credit conditions having turned tangibly tighter since that time, the Fed will likely make a more substantial adjustment to its outlook on September 18. The tone of incoming data provides comfort that GDP growth is tracking about 3%q/q, saar for the current quarter—with last week's reports providing good news on July household spending and income as well as August manufacturers' sentiment. But the message from Chairman Bernanke is that the Fed will rely less on upcoming August data releases and more on its anecdotal assessment of the changes taking place. In all, the case for a 25bp ease in September looks strong.

A Fed easing will affect other central banks' forecasts but will not, by itself, elicit a broad move toward easing. This reflects, in part, the strength in domestic demand and absence of housing market woes across the rest of the world. In addition, stress in money markets has not unleashed a global wave of risk aversion. Over a three-week period in which US commercial paper contracted more than 10% and interbank lending rates spiked, global equities values were stable and local market conditions generally remained calm throughout Asia and the Emerging markets. Resolution of the tension between growing stress in money markets in the US and Europe and the relative calm elsewhere is key to the outlook for global growth and monetary policy. A more important drag than the direct impact of slower US demand would be the realization of significant negative financial spillovers across the globe.

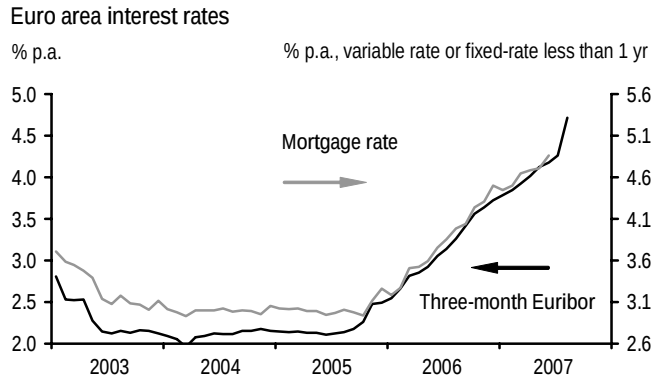
European central banks largely on hold

Although few central banks are likely to join the Fed in easing during September, central banks have been expected to shift gear modestly in response to recent developments. In the developed world, central banks that had been on track to tighten were expected to pause. Importantly, this shift was not anticipated by Emerging Market central banks. A number of EM central banks have strong domestic reasons to stay the course in the near term, based on demand prospects and





JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com



a perceived need to meet inflation targets. In addition, they are likely to be influenced by the risk of a sustained pullback in risk appetite that results in capital outflow and puts downward pressure on local fx rates, exacerbating policymakers' inflation concerns.

As we approach September, developments appear to be following this script. The Bank of Japan deferred a previously planned rate hike at its meeting a week ago and, as discussed below, we think the BoJ will stay on the sidelines until at least November. Three other major central banks that previously had been expected to tighten—the ECB, the Bank of England and the Bank of Canada—meet this week. All are now expected to leave rates on hold.

Our call that the BoE would hike rates on September 6 already was under review coming into the credit crunch. The UK data flow was pointing to some moderation in the economy, wage growth remained benign, and the inflation rate unexpectedly fell below target in July. With the August meeting minutes indicating that MPC members were unsure whether further rate hikes would be needed, the turmoil in global financial markets pointed to a delay. For its part, the Bank of Canada is coping with a money market crisis that rivals those in the United States and the Euro area. With the Bank of Canada likely downgrading its growth forecast, rates should remain on hold on Wednesday.

The ECB, like the Fed and the BoC, has been conducting extraordinary open market operations to calm stress in European money markets. The continued need for these measures should lead the ECB to delay a planned rate hike this Thursday. Although the US and Euro area are both experiencing sharply rising interbank lending rates, it is important to recognize the difference in passthrough to retail borrowers. In contrast to the sharp rise in jumbo mortgage rates in the US, mortgage rates across Europe have not moved wider yet. To be sure, variable rate mortgages—which account for about 40% of new lending—will move up with the rise in money market rates in the coming months. But the 50bp rise anticipated by the recent rise in bank funding costs is about the same increase that would have been realized if the ECB had remained on its expected tightening path.

Friday's Riksbank decision is a much closer call. The Riksbank may feel that downside risk to global growth from stress in global financial markets has risen enough to justify a pause. However, it now appears more likely that the Riksbank will focus on the fact that there has so far been little stress in domestic money markets so far and that the macro data strongly support the case for a hike. The Norges Bank and the RBA came to a similar judgment a few weeks ago.

A tightening bias among EM central banks

In the emerging market world, the drift indeed has been toward tighter policy in comparison with the developed economies. Both Hungary and Thailand left rates on hold last week, whereas we and the consensus were looking for rate cuts. It was the same story with Indonesia's central bank when it met August 7. In contrast, the Czech central bank hiked rates when it was widely agreed that it would go on hold; earlier this month, South Africa's Reserve Bank hiked 50bp rather than 25bp; and Russia's central bank raised rates a month earlier than expected. Central banks in Poland, Taiwan, and Mexico are expected to raise rates in September.

Perhaps the most interesting call ahead concerns Brazil, where the combination of global market turmoil and a recent jump in inflation has led investors to price in some probability of a pause in this week's COPOM meeting and a rate hike by the end of the year. We still believe that the odds for a 25bp Selic cut this week are very high. The bulk of recent inflation pressure came from food prices and will affect mostly 2007 inflation, which is running far below target. The risks of a preemptive pause at the last two meetings of the year have increased, and may be reinforced if end-2008 market inflation expectations (currently at 4.0%oya) begin to move up quickly, but we continue to see room for further easing after this week's COPOM meeting, barring a sharp deterioration in the external backdrop. Pressures on the exchange rate have been mild so far, and we see growth moderation capping the rise in long-term inflation expectations.

JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

Japan's economy stays sluggish in 3Q

Japan looks poised for another subpar growth outcome in the current quarter. The main weak spot is consumer spending. Household demand softened over the course of 2Q07 and last week's downbeat data suggest that this pattern has extended into the current quarter. Cool rainy weather is said to have played a role. But there may be a more fundamental drag on spending from the slowdown in the growth of employee compensation. Job growth remains solid, but the growth of average hourly wages has faded as the more highly paid baby-boomers retire in increasing numbers. Faster growth in other forms of income is helping to offset the slowdown in labor income, but the offset is not complete.

While consumer spending remains sluggish, other parts of the economy appear to be strengthening in 3Q07. Industrial production dipped in July because of the Chuetsu earthquake, but manufacturers have penciled in huge output gains for the August-September period that would deliver double-digit growth this quarter. Exports are on a similar track. It appears that manufacturers have completed their inventory adjustment—the contraction in 1H output was the biggest of the expansion—and now are joining the vigorous production upswing already under way in the rest of Asia. The strong advance of core capital goods shipments suggests that business equipment spending also remains on a solid track this quarter.

Employee real compensation

% change oya, deflated by core CPI

Last week, the Bank of Japan postponed an expected rate hike and Governor Fukui indicated that policymakers would take their time before moving ahead with rate normalization. With the economy remaining sluggish, the currency sharply higher, and core inflation still benign—core consumer prices fell 0.1%oya for the fourth month in a row in July—the Bank is under no pressure to move. Our judgment is that the BoJ will want to see the results of the September Tankan survey (due October 1) and go through the October forecasting round, culminating with the October 31 semiannual Outlook Report, before taking action. This points to a November rate hike, at the earliest.

JPMorgan Securities Ltd., London
Jan Loeys (44-20) 7325-5473
jan.loeys@jpmorgan.com
John Normand (44-20) 7325-5222
john.normand@jpmorgan.com

JPMorgan View - Global Markets

A battle between liquidity and fundamentals

- **Cross-markets:** the longer it lasts, the greater the risk that the liquidity crisis will worsen. For sign of improvement, we look at any revival of volume in credit markets.

Funding crisis still underway

- Markets are bouncing back and forth between the solid fundamentals perceived by equity investors and the horrible liquidity crunch experienced by fixed income participants. The **good fundamentals** consist of record-high corporate profits, rock-solid balance sheets, historic low default rates, solid world economic growth, and the Asian growth machine . . .

  . . . and in the other corner, credit markets have almost ground to a halt with many grey-haired participants describing **conditions as the worst they have ever seen.** Large parts of the credit markets have closed for business and now threaten credit availability to corporates and households alike. The core of the crisis is a collapse in confidence in the ratings of asset-backed securities and structured products, in the wake of large losses and downgrades on asset-backed debt.

- The **battle between the pessimists and optimists** will keep markets in a violent yo-yo. The outcome is not preordained. We are rooting for the positive medium-term fundamentals, but fear that the daily onslaught of the credit crunch will start dominating because banks will be increasingly reluctant to rent out their balance sheets. This will likely force the hand of central banks that until a few weeks ago were more focused on the inflationary implications of strong economic growth.

- In this environment of high uncertainty, we keep exposures low, stay long bonds and volatility, and underweight riskier asset classes. We reserve the right to change our strategy quickly and keep our eyes on the most **important markers**, which to us are any revival of volumes in credit markets.

Fixed income

- Bond markets gained in the US last week, but were little changed in other major markets. **Volatility remains elevated driven by the short end**, where delivered volatility is at a 3-year high. Volatility at the long end is more subdued as curves continue to be very directional, flattening in a selloff and steepening in a rally.

Government bond yields

		Current	Sep 07	Dec 07	Mar 08	Jun 08
United States	2-yr	4.13	3.85	4.20	4.50	5.00
	10-yr	4.53	4.45	4.75	4.90	5.35
Euro area	2-yr	4.01	3.85	3.80	3.90	4.00
	10-yr	4.25	4.15	4.30	4.50	4.60
United Kingdom	2-yr	5.32	5.35	5.35	5.40	5.40
	10-yr	5.04	5.00	5.20	5.20	5.20
Japan	2-yr	0.87	0.75	0.90	1.10	1.35
	10-yr	1.61	1.65	1.80	2.00	2.10
Canada	10-yr	4.42	4.35	4.85	5.10	5.50
Australia	10-yr	5.96	5.70	5.85	5.95	6.20
Korea	5-yr	5.30	5.40	5.50	5.60	5.50
Mexico	10-yr	7.86	7.70	7.70	7.80	7.80
Singapore	10-yr	2.84	3.50	3.75	3.90	4.00
South Africa	10-yr	8.40	8.65	8.60	8.50	8.45
Sweden	10-yr	4.20	4.10	4.10	4.15	4.15

Equities

	Current	Ytd return (local currency)
S&P	1467	4.0%
Topix	1608	-6.1%
FTSE 100	6291	2.5%
MSCI Eurozone	239	6.5%
MSCI Europe	1525	4.8%
DAX	7618	14.0%
CAC	5644	3.4%

Sector allocation for equities

	Deviation	Recommendation[1]
Energy	3.0%	Overweight
Materials	-1.5%	Underweight
Industrials	0.9%	Neutral
Consumer discretionary	-2.6%	Underweight
Consumer staples	4.4%	Overweight
Healthcare	3.4%	Overweight
Financials	-7.0%	Underweight
Information technology	-1.9%	Underweight
Telecommunications	2.8%	Overweight
Utilities	-1.9%	Underweight

1. Recommendations reflect current stance, which can change over the year.

Regional allocation for equities

	Deviation	Recommendation
North America	2.3%	Overweight
United Kingdom	-3.1%	Underweight
Eurozone	-2.2%	Underweight
Rest of Europe	-0.4%	Neutral
Japan	3.5%	Overweight
Asia ex Japan	-0.1%	Neutral

Source: JPMorgan.

JPMorgan Securities Ltd., London
Jan Loeys (44-20) 7325-5473
jan.loeys@jpmorgan.com
John Normand (44-20) 7325-5222
john.normand@jpmorgan.com

- With the funding crisis ongoing, the risk is rising that reduced credit availability will weigh on growth, forcing central banks to respond by either easing monetary policy in the case of the Fed, or postponing rate hikes in the case of the ECB or BoJ. We therefore stay with a **long duration** recommendation **overweighting the US**, **curve steepeners**, and **long volatility** at the short end.

Equities

- **Equities** were little changed last week, holding on to the previous week's gains. Equity investors, more **remote from the severe funding crisis** that debt markets have been caught up with, are hoping that central banks will save the day as they did during the LTCM crisis. EM equities outperformed G-7 by almost 3% on the week, as booming EM economies are perceived to be insulated from the current liquidity crisis.

- **We are instead more pessimistic**, and believe that equity investors are complacent about the downside risks that the current liquidity crisis poses through triggering further position unwinding in the near term, and hurting growth and profits in the medium term through reduced credit availability. In addition, LBO activity has ceased and volumes in M&A ex LBO have also slowed dramatically in recent weeks. We stay defensive, preferring large caps over small caps, Non-Cyclicals vs Cyclicals, and developed market equities vs EM.

Credit

- HG issuance slowed last week to $9bn from a large $21bn last week, but the pace over recent weeks has risen to an average level. In our view, an increase in **issuance volumes** is required before we can say that market conditions are getting better, so the recent pace of HG issuance sends a positive signal. But CDO and HY primary markets are still shut, and this week will be important in terms of detecting signs of improvement there.

- The **stock of US commercial paper continues to shrink** at an unprecedented pace of $80bn per week. The CP and repo markets are effectively shut for lending at terms of longer than one week, forcing short-term borrowers to overnight or few-days borrowing. As a result, more CP conduits are breaching their liquidity constraints and are being forced to unwind.

- We continue to see the **balance of risks skewed to the downside**, especially for cash bonds. A potential recovery in HY issuance post Labor Day would admittedly be a signal that the HY primary market is functioning again, but bonds could come under renewed pressure given the large size of expected new issues.

Credit markets

	Current	Dec 07
US high grade (bp over swaps)	78	40
Euro HG industrials (bp over swaps)	47	40
USD high yield (bp vs. UST)	468	500
EMBIG (bp vs. UST)	239	185

Commodities

		Quarterly average			
	Current	07Q3	07Q4	08Q1	08Q2
WTI oil $/bbl	74.2	67.0	60.0	56.0	52.0
Gold ($/oz)	672	660	675	700	715

Foreign exchange

	Current	Dec 07	Mar 08	Jul 08
EUR/USD	1.36	1.40	1.42	1.38
USD/JPY	116	116	118	120
GBP/USD	2.02	2.06	2.07	2.02

Foreign exchange

- High-yielding currencies consolidated last week, though day-to-day movements were quite random, and almost independent of moves in money markets and credit. Aggregate **fx volatility** rose about half a point, far less than the nearly four point increase in equity volatility.

- Despite tentative signs of stability, we recommend **staying short carry.** There is still a decent risk of another liquidity squeeze in coming weeks, and positions in high-yield currencies are still sizable among Japanese retail investors, even if institutional positions appear clean. We are long JPY vs AUD, and long CHF vs GBP and EUR. We hold no longs in the emerging market high-yielders.

- **EUR/USD** continues to edge higher on the back of narrowing US - Euro rate differentials and is within 1% of its all-time highs. But another credit shake-out would likely push the euro lower given existing long positions and European bank/fund exposure to SIVs. Once positions are cleared, further rate convergence between the Fed and ECB will likely push EUR/USD to 1.40 by year end.

Commodities

- **Oil prices** are up $3/bbl last week on a surprise draw in crude inventories and signs of stability in risky markets. Absent a growth slowdown due to credit conditions, prices should stay high in September due to hurricane risks. The fourth quarter is likely to bring weaker prices ($60/bbl average) in line with year-end profit-taking and in anticipation of capacity increases next year.

JPMorgan Chase Bank, Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Jarrod Kerr (61-2) 9220-1669
jarrod.w.kerr@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Markets - Australia and New Zealand

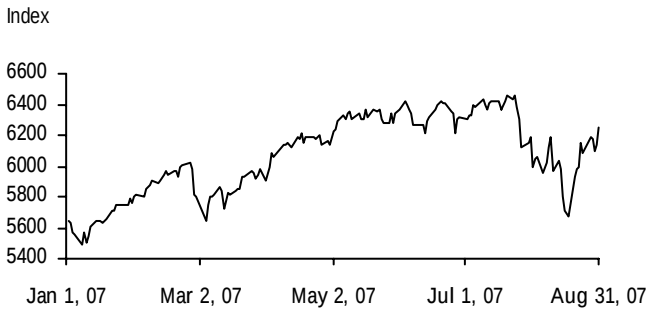
Main events for markets

- The **RBA decision** Wednesday morning. The RBA almost certainly wil leave the cash rate unchanged, having raised the cash rate in early August. Therefore, there will be no official commentary to digest.
- The August **Australian employment dat**a on Thursday. This wil be the first Aussie economic data, aside from the consumer confidence report in early August, to reflects any fall-out from the turmoil in financial markets. Employment likely rose another 12,000—slightly below trend—but the Government's welfare to work changes, which has seen previous welfare recipients enter the labour force, should see another rise in the jobless rate.
- The July **Aussie building approvals** data on Monday. This increasingly volatile data has been in a see-saw pattern in recent months. The big rise in June (up 7.5%) therefore means the July data should show a drop of close to 3%.
- The ANZ commodity price index will be the only data highlight in NZ this week - unless StatsNZ finally releases the 3 week delayed PPI series which is currently under serious review/revision. The ANZ commodity price series will bring nothing but good news on the export front, with dairy, timber and meat prices on the rise.

Market commentary

- Markets ended the week on a positive note as President Bush vowed to assist home owners facing mortgage defaults on Friday and Bernanke confirmed he is willing to take further action if needed.
- As a result of the Bernanke and Bush statements, yields on US Treasuries rose as the safe-haven bid came off, and S&P 500 gained 1%, although trading volume was low as the US headed into the long weekend. The 1% gained in equities more than offset the 0.36% decline accumulated during the week. Oil prices rose on fresh fears of possible damage to offshore oil rigs this hurricane season. Gold prices ground higher.
- The ASX 200 also finished the week on a higher note - up 1.83% on Friday. Friday's bounce ended took the index to 6,247, well above the recent low of 5,480.

Sydney All Ordinaries stock index



- Local markets still price a low probability of RBA tightenings in coming months. Bill futures pricing, for example, implies there is just a 15% probability of a November tightening and 27% for December. The market prices a June 2008 tightening at just 36%.
- Aussie bond yields ended the week at 5.92, down from 6.01 on Monday as the flight to quality eased slightly.

Trade recommendations from GMOS (published 22 August)

- **Pay 3 month forward 1yr in Kiwi stopped out.**
  - Established at 8.39% last GMOS to roll up the curve and take the carry, stop loss at 8.35%, for a loss of 3.5bp.

AUD and NZD Commentary

- **AUD and NZD both fall vs USD in latest week, posting sharp losses for the month overall**
- **Coming week's trends will depend more on US data and rate expectations than events at home**
- **Technicals: NZD remains particularly vulnerable**

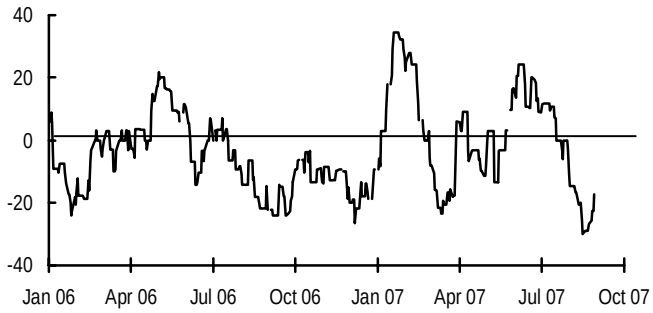
Strategy comments

- AUD and NZD ended August on a down note. AUD/USD and NZD/USD fell 1.1% and 2.2%, respectively, last week, to be down more than 5% and more than 9%, respectively, for August overall. Weakness in the Antipodean FX has been largely external – fears that the US subprime fault lines could turn into a global seizing of credit markets and an economic earthquake led to an unwinding of higher-yielding FX, with NZD and AUD at the top of the G-10 list.
- For the week ahead, we believe AUD and NZD performance will remain at the mercy of risk appetite: will investors look at coming economic data and policymaker rhetoric as supportive or not? The good news on the data front is that the bar is now quite low for positive surprises. Indeed, our US gauge of economic sentiment (EASI, Chart 1) is near two-year lows, and AUD and NZD have proved very responsive among G-10 FX to US economic sentiment in recent years (Chart 2). The risk for AUD and NZD, though, is that data may prove not great, but steady enough to lead central bankers to back off the accomodative liquidity conditions now discounted by rate markets. Such a rates repricing, all else equal, could well keep carry trades under pressure. We will have plenty of soundbites with which to guess which way central bankers are leaning. Beyond the RBA meeting in the week ahead, US Fed and Treasury officials will speak Sept. 5 at a congressional hearing; five other Fed speeches are planned for Sept. 6; and Canadian and Euro area officials will provide color after their respective monetary policy decisions (Sept. 5 and 6).
- While JPMorgan is above-consensus on a number of key G-3 data releases this week ahead, we prefer for now to keep FX exposures very limited and biased towards defensive positions. We are not yet ready to jump back into long AUD and NZD trades in any sustained way.

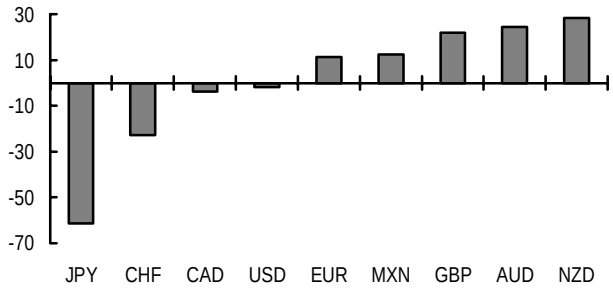
Technical analysis

- AUD/USD and NZD/USD shifted into range trades after the recovery from the August lows ran into key resistance zones. While short-term range action is likely to continue, the interim bearish risks remain intact as the retracements from the August lows are still viewed as corrections within the interim downtrends.

US Economic Activity Surprise Index

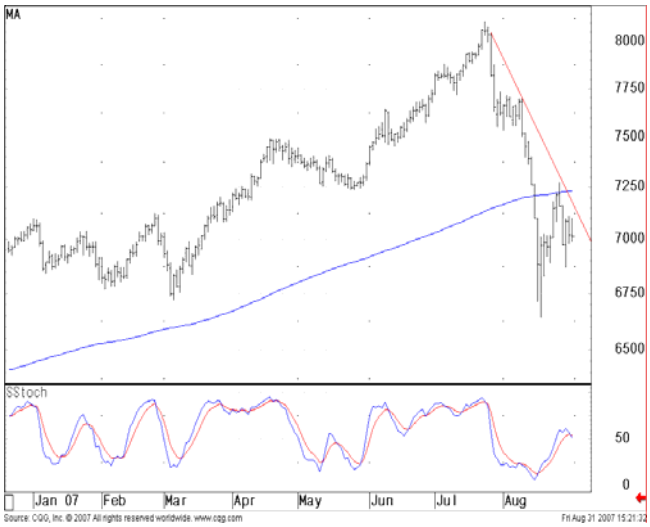


Daily level correlation between US EASI growth sentiment gauge and local FX versus USD, June 2006-present



- AUD/USD continues to hold below key resistance in the 0.8320/.8450 zone, which represents the July downtrendline, the 61.8% retracement from the July high and the critical August breakdown area. Continued failures here maintain the bearish view for a retest, if not break of the August lows. Nearby support at 0.8050 will act as the key pivot area and define further weakness.
- For NZD/USD, we see a similar setup, but sense NZD will underperform against AUD and other crosses, particularly against EUR. The failure in the 0.7270/.7330 zone should set the stage for a retest of the August low. Initial support rests at 0.6870.

NZD/USD - Daily technical chart



JPMorgan Chase Bank, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Carlton Strong (1-212) 834-5612
carlton.m.strong@jpmorgan.com

Global Economic Outlook Summary

	Real GDP			Real GDP							Consumer prices			
	% over a year ago			% over previous period, saar							% over a year ago			
	2006	2007	2008	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	1Q07	2Q07	4Q07	2Q08
The Americas														
United States	2.9	2.1 ↑	2.8	0.6	4.0 ↑	3.0	2.0	2.5	3.5	3.0	2.4	2.7	3.2	2.0
Canada	2.8	2.5 ↑	2.6	3.9 ↑	3.4 ↑	2.0 ↑	1.5 ↓	3.0	3.3	2.8	1.8	2.2	3.0	2.0
Latin America	5.3	4.8 ↑	4.7	3.1 ↑	6.2 ↑	4.9 ↓	4.7 ↓	4.9	4.6 ↑	4.4	5.0	5.1	5.2	5.8
Argentina	8.5	8.0	6.0	3.9	10.8	8.2	8.2	5.3	4.1	4.1	9.5	8.8	8.1	9.5
Brazil	3.7	5.0	4.7	3.1	5.6	5.2	4.8	5.3	4.8	4.4	3.0	3.3	3.8	3.7
Chile	4.0	6.0	5.0	9.1	6.5	3.0	3.0	6.0	6.0	6.0	2.7	2.9	3.6	3.1
Colombia	6.8	6.8	5.5	10.3	6.9	5.0	5.0	5.5	5.5	6.0	5.2	6.3	5.7	4.7
Ecuador	3.9	3.0	2.0	0.3	5.0	6.5	5.0	1.5	0.0	-2.0	2.1	1.7	2.1	3.4
Mexico	4.8	2.8	4.5	1.2 ↑	5.3 ↑	3.2 ↓	3.6 ↓	4.9	4.9 ↑	4.5	4.1	4.0	4.0	4.1
Peru	8.0 ↑	7.8 ↑	6.5 ↑	2.0 ↓	3.5 ↓	10.0 ↑	5.0	4.5	5.5	9.0	0.4	0.8 ↑	2.3 ↑	2.2 ↑
Venezuela	10.3	7.0	3.5	4.4	8.7	6.0	6.5	2.5	2.0	1.5	19.1	19.5	19.1	27.3
Asia/Pacific														
Japan	2.2	2.4	2.0	3.2	0.5	2.0	1.8	2.0	2.5	2.3	-0.1	-0.1	-0.2	0.1
Australia	2.7	4.1	3.4	6.6	2.8	3.7	3.8	4.5	2.8	2.3	2.4	2.1	3.7	3.7
New Zealand	1.5	2.7	2.5	4.2	1.7	2.4	2.5	2.5	2.8	2.2	2.5	1.7	1.9	2.4
Asia ex. Japan	8.4	8.3 ↑	7.7 ↓	9.3	10.9 ↑	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	3.6	3.4
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	2.0	3.1
India	9.4	8.6 ↑	7.5	11.4	9.6 ↑	6.1 ↓	7.0	9.5 ↑	7.0	7.0	7.0	6.0	5.1	5.4
Indonesia	5.5	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	4.6	4.9 ↓	3.6	7.0	5.5 ↑	3.0 ↓	4.5	5.0	5.5 ↑	2.0	2.4	2.9	3.2
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	4.5	5.6	5.5	5.5	5.5	5.0	2.5	2.0	2.4	2.4
Africa														
South Africa	5.0	4.8	4.9	4.7	4.5	4.4	4.2	4.9	5.8	5.4	5.9	7.0 ↑	5.9	4.8
Europe														
Euro area	2.9	2.7	2.1	2.9	1.4	3.0	2.5	1.8	1.8	1.8	1.9	1.9	2.3	2.0
Germany	3.1	2.7	2.1	2.2	1.0	3.0	2.8	1.8	1.8	1.8	1.9	2.0	2.1	1.2
France	2.2	1.8	2.1	2.2	1.3	2.6	2.3	2.0	2.0	2.0	1.3	1.3	2.0	1.7
Italy	1.9	1.9	1.6	1.1	0.4	2.0	1.8	1.6	1.6	1.6	2.0	1.9	1.9	1.9
Norway	4.6	5.2	3.2	6.4	5.4	3.5	3.5	3.0	3.0	2.5	1.0	0.3	0.4	2.4
Sweden	4.5	3.5	3.1	2.8	3.9	4.0	3.5	3.0	2.5	2.5	1.9	1.8	2.8	2.6
Switzerland	2.7	2.4	1.9	3.2	2.5	2.3	2.0	1.8	1.8	1.8	0.0	0.5	1.1	1.0
United Kingdom	2.8	3.0	2.6	2.8	3.4	2.8	2.8	2.7	2.5	2.3	2.9	2.6	2.1	1.9
Emerging Europe[1]	6.3	6.2	6.1	4.8 ↓	6.6 ↑	5.5	8.0	5.1	7.4	6.5	6.5	6.5 ↓	5.9	5.3
Bulgaria	6.1	6.1	5.4	…	…	…	…	…	…	…	…	…	…	…
Czech Republic	6.4	5.8	5.5	6.1	5.0	5.0	5.0	5.5	6.0	6.0	1.5	2.3	3.4	3.2
Hungary	3.9	2.8	3.3	1.6	0.8	3.5	3.5	3.2	3.0	3.5	8.5	8.6	5.5	3.5
Poland	6.1	6.5	6.0	6.6 ↓	7.0 ↑	5.5	5.8	6.3	6.3	6.5	2.0	2.4	2.7	2.5
Slovak Republic	8.3	9.0	7.5	9.2	9.9	7.5	7.5	7.5	7.5	7.5	2.8	2.5	2.6	2.4
Romania	7.7	6.5	6.0	…	…	…	…	…	…	…	3.8	5.7	5.2	5.0
Russia	6.7	7.2	6.8	3.7	7.0	4.0	12.0	3.5	8.0	5.5	7.9	7.8	7.7	7.3
Turkey	6.1	5.0	6.0	…	…	…	…	…	…	…	10.3	9.6	7.3	5.7
Global	3.6	3.3	3.3	3.1	3.9 ↑	3.5	2.9 ↓	3.3	3.7	3.3	2.3	2.4	2.7	2.3
Developed markets	2.8	2.5 ↑	2.5 ↑	2.1	2.6 ↑	2.8	2.2	2.3	2.7	2.4	1.8	1.9	2.3	1.7
Emerging markets	6.9	6.7 ↑	6.4	6.9	8.9 ↑	6.1 ↓	5.7 ↓	7.2 ↑	7.2	6.6 ↑	4.3	4.4	4.5	4.5

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.

JPMorgan Chase Bank, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Donald Martis (1-212) 834-5667
donald.j.martis@jpmorgan.com

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	4.68	225			4.64	4.65	4.71	4.89	5.09
excluding US	GDP-weighted average	4.41	130			4.41	4.56	4.64	4.78	4.85
Developed	GDP-weighted average	4.14	263			4.04	4.06	4.14	4.37	4.62
Emerging	GDP-weighted average	7.05	75			7.06	7.08	7.02	6.99	7.01
The Americas	GDP-weighted average	5.51	354			5.39	5.15	5.13	5.36	5.80
United States	Federal funds rate	5.25	425	29 Jun 06 (+25bp)	18 Sep 07 (-25bp)	5.00	4.75	4.75	5.00	5.50
Canada	Overnight funding rate	4.50	250	10 July 07 (+25bp)	16 Oct 07 (-25bp)	4.50	4.25	4.25	4.75	5.25
Brazil	SELIC overnight rate	11.50	-450	18 July 07 (-50bp)	5 Sep 07 (-25bp)	11.25	10.75	10.25	10.00	10.00
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	5.50	375	9 Aug 07 (+25bp)	13 Sep 07 (+25bp)	5.75	6.00	6.00	6.00	6.00
Colombia	Repo rate	9.25	250	27 July 07 (+25bp)	21 Sep 07 (+25bp)	9.50	9.50	9.50	9.50	9.00
Peru	Reference rate	4.75	225	5 July 07 (+25bp)	4Q 07 (+25bp)	4.75	5.00	5.25	5.25	5.25
Europe/Africa	GDP-weighted average	4.59	167			4.59	4.79	4.96	5.12	5.13
Euro area	Refi rate	4.00	200	6 June 07 (+25bp)	6 Dec 07 (+25bp)	4.00	4.25	4.50	4.75	4.75
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	3.50	150	20 Jun 07 (+25bp)	**7 Sep 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 June 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)**	**30 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)	18 Dec 07 (+25bp)	4.25	4.50	4.50	4.50	4.50
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	2.50	200	14 Jun 07 (+25bp)	13 Dec 07 (+25bp)	2.50	2.75	3.00	3.00	3.00
Turkey	Overnight borrowing rate	17.50	-450	20 Jul 06 (+25bp)	16 Oct 07 (-25bp)	17.50	16.75	16.00	15.25	14.25
Asia/Pacific	GDP-weighted average	3.54	108			3.54	3.72	3.72	3.84	3.97
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)	13 Nov 07 (+25bp)	0.50	0.75	0.75	1.00	1.25
Hong Kong	Discount window base	6.75	425	30 Jun 06 (+25bp)	26 Jun 08 (+25bp)	6.50	6.25	6.25	6.50	7.00
China	1-year working capital	7.02	171	21 Aug 07 (+18bp)	4Q 07 (+27bp)	7.02	7.29	7.29	7.29	7.29
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 Jul 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)	late 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

JPMorgan Chase Bank, Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Jarrod Kerr (61-2) 9220-1669
jarrod.w.kerr@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

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	4.1	3.4	2.5	1.9	4.3	6.6	2.8	3.7	3.8	4.5	2.8	2.3	2.7
Private consumption	3.1	3.7	2.3	2.8	2.9	5.0	6.0	2.0	1.6	2.0	2.4	2.4	2.8	2.8
Construction investment	5.1	9.8	4.5	17.4	-4.5	7.4	25.7	3.8	8.5	3.2	4.3	4.4	3.0	6.4
Equipment investment	6.2	5.3	0.8	-8.7	-8.6	-2.9	24.9	4.3	6.4	4.3	0.0	0.0	-4.1	-8.1
Public investment	12.5	-5.5	5.2	2.9	22.4	53.3	-52.3	7.2	6.1	4.2	4.6	5.2	5.4	5.8
Government consumption	4.0	2.3	1.9	8.4	7.2	-4.4	3.3	2.8	2.4	2.0	2.0	1.6	1.6	1.6
Exports of goods & services	3.4	6.5	8.7	8.3	0.8	3.9	5.8	10.0	10.4	8.2	12.6	6.1	4.1	8.2
Imports of goods & services	7.6	9.0	3.7	11.8	-2.2	28.7	9.0	5.1	2.0	3.0	4.1	4.1	3.2	6.1
Contributions to GDP growth:														
Domestic final sales	4.3	4.3	2.7	5.9	1.4	6.8	5.4	2.8	3.5	2.5	2.6	2.6	2.3	2.5
Inventories	-0.6	0.6	0.0	-2.2	-0.1	2.7	2.1	-0.6	-1.2	0.4	0.4	0.0	0.0	0.0
Net trade	-1.0	-0.8	0.8	-1.0	0.6	-5.0	-1.0	0.6	1.4	0.8	1.4	0.2	0.0	0.2
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	-5.6	-6.0	-5.6	-5.7	-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	2.7	2.5	1.6	1.0	3.3	4.2	1.7	2.4	2.5	2.5	2.8	2.2	2.2
Private consumption	2.3	3.3	1.0	-0.3	1.6	5.6	8.8	-1.0	0.8	1.1	1.1	1.2	1.3	1.2
Fixed Investment	-2.4	4.1	0.4	-19.8	5.1	4.2	17.1	0.0	0.1	0.4	0.3	0.5	0.6	0.7
Residential construction	-2.7	1.9	0.8	-21.3	16.8	8.2	-1.3	1.0	0.8	1.0	0.7	0.9	0.8	0.9
Other fixed investment	-2.3	4.6	0.2	-19.4	2	3.2	22.6	-0.2	-0.1	0.2	0.2	0.4	0.5	0.6
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	2.4	4.1	11.3	11.0	-9.2	8.3	-3.8	4.8	5.0	5.0	4.2	4.2	4.0
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	1.7	-0.8	-0.4	4.5	10.8	1.8	1.8	1.6	1.4	2.0	1.8	2.0
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	-1.2	0.5	5.4	2.5	-5.4	-3.7	-0.3	0.8	0.8	0.7	0.5	0.2	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	1.9	2.5	6.2	2.8	-0.8	2.0	2.7	1.9	0.8	3.2	4.0	2.6	0.7
%oya	3.4	1.9	2.5	4.0	3.5	2.7	2.5	1.7	1.5	1.9	2.1	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	-8.3	-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	0.75	0.68	0.62	0.64	0.67	0.70	0.74	0.79	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	4.0	4.4	3.6	3.8	3.7	3.8	3.9	4.0	4.1	4.2	4.3	4.4	4.5

*All financial variables are period averages

JPMorgan Chase Bank, Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@jpmorgan.com
Jarrod Kerr (61-2) 9220-1669
jarrod.w.kerr@jpmorgan.com
Helen Kevans (61-2) 9220-3250
helen.e.kevans@jpmorgan.com

Australasian economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
3 Sep Australia: Inventories (11:30am) 2Q 1.0 %q/q Building approvals (11:30am) Jul -3.2 %m/m, sa Company profits (11:30am) 2Q 3.5 %q/q ANZ job ads (11:30am) Aug	4 Sep Australia: GDP (11:30am) 2Q 3.8 %oya	5 Sep Australia: RBA Cash target (09:30am) Sep No change expected	6 Sep Australia: Unemployment rate (11:30am) Aug 4.4 %	7 Sep
10 Sep Australia: Housing finance (11:30am) Jul New Zealand: PPI (10:45am) 2Q	11 Sep Australia: NAB business survey (11:30am) Aug New Zealand: Terms of trade index (10:45am) 2Q	12 Sep Australia: Westpac consumer confidence (10:30am) Sep	13 Sep Australia: Consumer inflation expectation (10:30am) Sep New Zealand: RBNZ official cash rate (09:00am) Retail sales (10:45am) Jul	14 Sep New Zealand: Manufacturing activity (10:45am) 2Q
17 Sep	18 Sep	19 Sep Australia: Westpac leading index (10:30am) Jul	20 Sep New Zealand: Current account (10:45am) 2Q	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

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

JPMorgan Chase Bank, New York
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com
Carlton Strong (1-212) 834-5612
carlton.m.strong@jpmorgan.com

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
3 - 7 September	**3 Sep**	**4 Sep**	**5 Sep**	**6 Sep**	**7 Sep**
Japan • Cabinet Office private consumption (Jul)	China • PMI mfg (Aug) Euro Area • PMI mfg (Aug) Japan • MoF corporate survey (2Q) Korea • CPI (Aug) • Trade balance (Aug) United Kingdom • PMI mfg (Aug)	Australia • GDP (2Q) Euro Area • GDP 1st release (2Q) Singapore • PMI mfg (Aug) United States • Construction spending (Jul) • ISM mfg (Aug) • Light vehicle sales (Aug)	Australia • RBA meeting Brazil • COPOM meeting Canada • BoC meeting Euro Area • PMI services (Aug) • Retail sales (Jul) Taiwan • CPI (Aug) United Kingdom • PMI services (Aug) United States • Beige book • Pending home sales (Jul)	Australia • Unemployment rate (Aug) Canada • Ivey PMI (Aug) Germany • Industrial orders (Jul) United States • ISM nonmfg (Aug) • Productivity and costs (2Q) Central bank meetings • Euro Area • Indonesia • Peru • United Kingdom	Euro Area • Trichet speaks on Friday and Saturday Germany • IP (Jul) • Trade balance (Jul) Korea • BoK meeting Mexico • CPI (Aug) Sweden • Riksbank meeting Taiwan • Trade balance (Aug) United States • Employment report (Aug) • Wholesale trade (Jul)
10 - 14 September	**10 Sep**	**11 Sep**	**12 Sep**	**13 Sep**	**14 Sep**
China • FDI (Aug) • Money supply (Aug) • Trade balance (Aug)	Japan • Economy watcher survey (Aug) • GDP 2nd release (2Q) Norway • CPI (Aug) United States • Consumer credit (Jul)	China • CPI (Aug) Japan • Private core machinery orders (Jul) Sweden • CPI (Aug) United States • Manpower survey (4Q) • Trade balance (Jul)	China • Retail sales (Aug) Euro Area • IP (Jul) • Labor costs (2Q) United Kingdom • Average earnings (Jul) • Claimant count (Aug) • Workforce jobs (3Q)	Chile • BCCh meeting China • IP (Aug) Euro Area • Employment (2Q) Mexico • IP (Jul) New Zealand • RBNZ meeting Switzerland • SNB meeting United Kingdom • Retail sales (Aug) United States • Flow of funds (2Q)	China • Fixed asset investment (Aug) Euro Area • HICP final (Aug) Germany • CPI final (Aug) Japan • IP final (Jul) United States • Business inventories (Jul) • Consumer sentiment (Sep) • IP (Aug) • Retail sales (Aug)

Economic Research and Global Currency Strategy at JPMorgan

Global Economics

Chief Economist
Bruce Kasman, New York (1-212) 834-5515

Economics: Global

David Hensley (1-212) 834-5516
Joseph Lupton (1-212) 834-5735
Sam Conway (1-212) 834-9123

Data and Forecast Systems

Carlton Strong (1-212) 834-5612
Donald Martis (1-212) 834-5667
Silvana Dimino (1-212) 834-5684

Economics: United States and Canada

United States

Robert Mellman, New York (1-212) 834-5517
Haseeb Ahmed (1-212) 834-5221
Michael Feroli (1-212) 834-5523
Abiel Reinhart (1-212) 834-5614

Canada

Ted Carmichael, Toronto (1-416) 981-9115

Economics: Latin America

Brazil

Fabio Hashizume, São Paulo (55-11) 3048-3634
Julio Callegari, São Paulo (55-11) 3048-3369

Colombia, Ecuador, Venezuela, Peru

Luis Oganes, New York (1-212) 834-4326
Andres Ortiz, New York (1-212) 834-7351
Benjamin Ramsey, New York (1-212) 834-4308

Argentina, Chile

Vladimir Werning, New York (1-212) 834-8144
Florencia Vazquez, Buenos Aires (54-11) 4348-3405

Mexico

Alfredo Thorne, Mexico City (525) 540-9558
David Franco, Mexico City (525) 540-9339

Economics: Asia/Pacific

Head of Japan

Masaaki Kanno, Tokyo (81-3) 6736-1166

Japan

Masamichi Adachi, Tokyo (81-3) 6736-1172
Miwako Nakamura, Tokyo (81-3) 6736-1167

Head of Emerging Asia Economic Research

David G. Fernandez, Singapore, (65) 6882-2461

Greater China

Frank Gong, Hong Kong (852) 2800-7006
Grace Ng, Hong Kong (852) 2800-7002
Qian Wang, Hong Kong (852) 2800-7009
Peng Chen , Hong Kong (852) 2800-7005

Korea

Jiwon Lim, Seoul (822) 758-5509

India

Rajeev Malik, Singapore (65) 6882-237

Indonesia, Malaysia, Philippines, Singapore, Thailand

Sin Beng Ong (65) 6882-7143
Matthew Hildebrandt (65) 6882-2253

Australia, New Zealand

Stephen Walters, Sydney (61-2) 9220 -1599
Jarrod Kerr (61-2) 9220-1669
Helen Kevans (61-2) 9220-3250

Economics: Europe/Africa

Head of Western Europe
David Mackie, London (44-20) 7325-5040

United Kingdom, Switzerland

Malcolm Barr, London (44-20) 7777-1080
Allan Monks, London (44-20) 7777-1188

Euro area

Silvia Pepino, London (44-20) 7325-4250
Maryse Pogodzinski, Paris (33-1) 4015-4225
Marta Bastoni, London (44-20) 7325-9114

Scandinavia

Nicola Mai, London (44-20) 7777-3467

Czech Republic, Hungary, Poland, Slovakia

Nora Szentivanyi, London (44-20) 7777-3981
Ryszard Jakubowski, London (44-20) 7777-4504

CEEMEA

Michael Marrese, New York (1-212) 834-4876
Eva Sanchez, New York (1-212) 834-8217

Turkey, Bulgaria, the Baltics

Yarkin Cebeci, Istanbul (90-212) 326-8590

Russia, Ukraine, Bulgaria, Kazakhstan

Nina Chebotareva, Moscow (7-095) 937-7321

Africa

Graham Stock (44-20) 7777-3430

FX Strategy Management

Global Head of Emerging Markets and FX Strategy Research
Joyce Chang (1-212) 834-4203

FX Strategy: United States

Global FX Strategists
Kenneth Landon (1-212) 834-2391
Rebecca Patterson (1-212) 834-4254
Karim Pakravan (1-312) 325-3164

FX Analysts

Holly Huffman (1-212) 834-4953
Arindam Sarndilya (1-212) 834-2304

FX Strategy: Europe

Global FX Strategist
Paul Meggyesi (44-20) 7859-6714

Global FX and Fixed Income Strategist
John Normand (44-20) 7325-5222

Emerging Markets FX Strategist
Nandita Singh (44-20) 7777-3413

FX Analysts
Frida Gjorstrup (44-20) 7777-1503

FX Strategy: Asia

Global FX Strategists
Claudio Piron (65) 6882-2218
Tohru Sasaki (81-3) 5570-7717
Junya Tanase (81-3) 5570-7718

FX Analysts
Yen Ping Ho (65) 6882-2216

FX/Commodities

Technical Strategists
Robin Wilkin (44-20) 7777-1345
Niall O'Connor (1-212) 834-5108

Global Energy Strategists
Katherine Spector (1-212) 834-2031
Scott Speaker (1-212) 834-3878

Global Metals Strategist
Jon Bergtheil (44-20) 7325-6433
Michael Jansen (44-20) 7325-5882

Agricultural Commodity Strategist
Lewis Hagedorn (1-312) 325-6409