JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- Both consumer and producer price data for 1Q surprised on the upside in **Australia** last week. In particular, core inflation shot up to 4.3%oya, well above the RBA's 2-3% target range. JPMorgan expects, though, that the RBA will leave interest rates steady in May given the recent, marked change of tone of RBA verbiage toward a more balanced commentary, and growing signs of a loss of momentum in the domestic economy. This loss of momentum will become even clearer with data this week forecast to show slower credit growth and falling retail sales in March.

- In **New Zealand**, the RBNZ last Thursday left the official cash rate steady at 8.25% as expected. With inflation likely to remain above the central bank's 1-3%oya target range in coming quarters, there is little scope for the RBNZ to cut interest rates anytime soon. Adding to speculation that economic momentum will stall in 2Q, data this week should show a further fall in business confidence in April, owing to the still-elevated NZD, surging oil and food prices, a falling equity market, severe drought conditions, and ongoing concerns over the global growth outlook.

- The **global economy** is in the early stages of an important transition. By midyear, it should become clear that the slowdown that began in the US last summer has broadened out. Western Europe is expected to deliver subpar performance in the coming months, while the rapidly growing Asian economies are set to decelerate materially. At the same time, the US economy is anticipated to remain stagnant, but also to provide comfort as it avoids slipping into the black hole of a deep recession or severe credit crunch. Although this phase of soft global growth will extend until late this year, it will also set in motion adjustments that will promote an acceleration in activity during 1H09.

- As the **global growth** slowdown becomes more evenly distributed, we look for two developments to signal that this dynamic will promote better news for 2009. The first is that stresses in US financial markets gradually abate as Fed easing produces results alongside the painful adjustment in the US financial system. The recent news from markets is encouraging as equity and credit markets have improved despite sustained stress in interbank lending markets. The second is that the slowing in EM growth produces a moderation in food and energy prices in 2H08 that limits inflationary pressures and provides a modest lift to purchasing power into the new year.

- As a group, **central bankers** are likely to remain willing to tolerate higher inflation (and inflation expectations) as their concerns about growth and financial stability linger. However, the limits to this "risk management" policy are being reached as inflation pressures continue to mount. With the fear surrounding downside US tail risks expected to fade, policymakers will turn their attention (partly) away from risk management to assessing the more "bread and butter" tradeoff between domestic growth and inflation concerns.

This week's highlight

Australia's March retail sales data (Friday) probably will show that retail sales fell 0.4%m/m, the third consecutive monthly fall.

Contents

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Data and event previews - Australia and New Zealand

Date [a]	Data/event	Forecast			Comment
		JPMorgan	Consensus	*Previous*	
Tuesday, 29 April (8.45am)	**NZ trade balance (Mar, NZ$ mn)**	**350.0**	370.0	*258.0*	The NZ trade surplus should rise to NZ$350mn in March, marking the second straight month that the trade balance has been positive. The strong NZD would have offset the dampening effect of weaker domestic demand on imports, while exports will rise owing to surging commodity prices.
Tuesday, 29 April (11.30am)	**Aust. NAB business confidence (Q1)**	**na**	na	*6.0*	There will be little "new news" in this quarterly release - the quarterly confidence print should be very close to the monthly outcomes, which have shown business sentiment weakening.
Wednesday, 30 April (8.45am)	**NZ building consents (Mar, %m/m)**	**na**	na	*7.5*	na
Wednesday, 30 April (11.30am)	**RBA private sector credit aggregates (Mar, %m/m)**	**0.6**	0.8	*0.7*	Private sector credit growth will slow further in March, owing to back-to-back rises in interest rates in February and March, and the disproportionate rises in domestic banks' variable loan rates. Business lending and personal credit growth will likely remain steady, although housing credit growth should slow mildly from 0.9%m/m to 0.8% in March.
Wednesday, 30 April (1.00pm)	**NBNZ business confidence (% balance of respondents)**	**-61**	na	*-57.9*	Business confidence will fall in April, with firms' own activity expectations to decline further. Firms' own activity expectations in March were negative for the first time since 2006. Given the rapidly deteriorating housing market, expect more large falls in the residential and commercial construction components of the survey. Employment, profit expectations, and investment intentions should also have fallen further.
Thursday, 1 May (11.30am)	**Aust. building approvals (Mar, %m/m)**	**2.0**	-0.5	*0.1*	Building approvals should rise 2%m/m in March, but the risks are skewed to the downside. Building and material costs in the residential construction sector are high, excessive red tape is deterring new development, and higher interest rates are weighing on demand for home building.
Friday, 2 May (11.30am)	**Aust. retail trade (Mar, %m/m)**	**-0.4**	0.3	*-0.1*	Retail sales probably fell in March and in Q1 (-0.4%). Solid job growth and rising wages won't be enough to offset the negative impacts of higher interest rates, surging petrol prices, and equity market falls. In 2H08, however, spending should recover amid steady interest rates, income tax cuts, tight labour market conditions, and further wage growth.

(a) Australian Eastern Standard Time.

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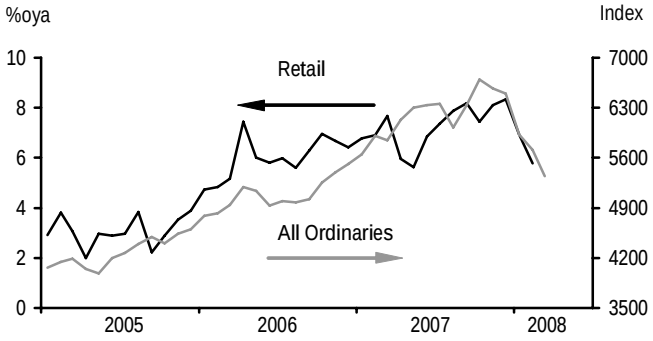
Feature charts

Australian dollar

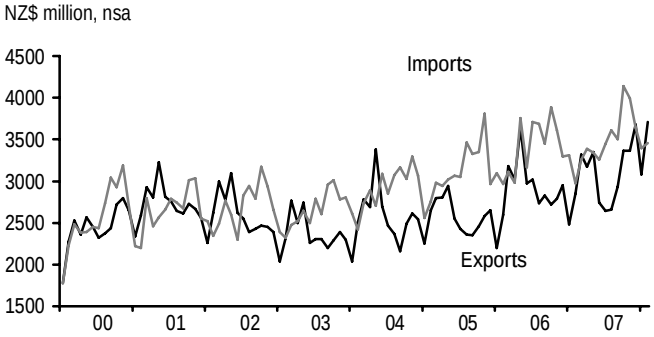
AUD has bounced in recent weeks on the back of USD weakness, a substantial upward revision to contract prices for coal, Australia's largest export commodity, and a realization by many investors that the RBA was not poised to cut interest official rates. In fact, above 95 US cents last week, AUD was approaching its post-float high of 1984. We see further upside in the near term, with an end-June target of 97 US cents.

Falling equity market will dampen spending



The near 2% fall in the Australian share market in March will weigh on consumer spending. Retail sales are forecast to fall 0.4%m/m in March, as consumers tightened their purse strings in the wake of back-to-back rises in interest rates in February and March. Surging petrol prices also dented consumer sentiment, offsetting the positive impact on spending of solid employment growth and rising wages.

New Zealand: exports and imports



Weakening domestic demand in New Zealand will weigh on imports in March, although this will be offset by elevated NZD, leaving import growth steady. Exports will favour from higher commodity prices, although volumes will soon start to suffer owing to the stronger currency, up 4% against the US dollar this year, and drought conditions in key agricultural areas. The trade surplus will come in at NZ$350 million in March.

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Research note

Australia's terms-of-trade boom to cushion economy

- **Australia's soaring terms of trade are the highest since the wool boom of the 1950s**
- **A tripling of contract prices for coal, Australia's largest export commodity, means there is even further upside**
- **High export prices will boost tax revenue and cushion the downside for troubled consumers**

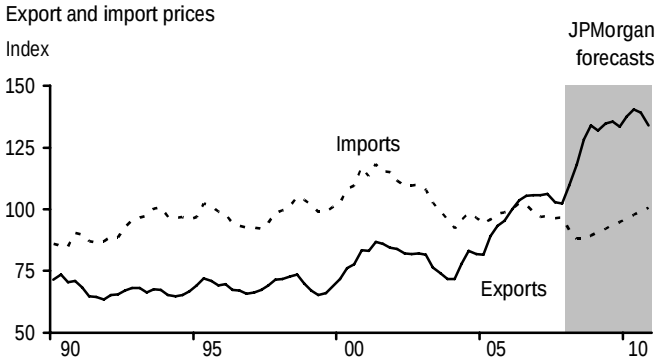
Australia's soaring terms of trade have risen 40% since 2002 to a 50-year high. The RBA estimates that this boost to export prices relative to import prices has lifted growth in national income by an average of 2% points per year. This has provided substantial support to the domestic economy via, in particular, the national tax system; for five straight years, the federal government has used rising company tax receipts as a means to fund generous personal tax relief. Another round of tax cuts is scheduled for July.

This month's announcement by BHP, Australia's largest exporter, of a tripling of contract prices for coking coal, the largest export commodity, means that the terms of trade will rise further. Also, contract prices for iron ore, the country's second largest export commodity, are poised to rise another 75% this year, and energy prices also are soaring. At the same time, elevated AUD, which reached a 23-year in nominal effective terms high in late 2007, means import prices probably will fall. Based on JPMorgan's forecasts for commodity prices and AUD, the terms of trade are poised to rise another 28%y/y in 2008 and a further 5% in 2009.

Rising export prices; falling import prices

As of 2007, the terms of trade had bounced a cumulative 43% since 2002 owing to rising prices for Australia's export commodities and lower import prices, mainly because of high AUD. Export prices had risen 22% since the start of 2002; import prices had dropped 13%. The forecast is that export prices will rise another 17%y/y in 2008 as import prices fall 8%, taking the cumulative rise in the terms of trade as of this year since 2002 to 90%.

JPMorgan forecasts that AUD-denominated prices for Australia's top four export commodities—coal, iron ore, petroleum and gold— will rise 119%, 40%, 13%, and 17%, respectively, in 2008, even after accounting for a 12% rise in AUD. Supply of the bulk commodities, in particular, is constrained, and demand continues to rise, particularly in Emerging Asia, which takes two-thirds of Australia's exports. These four commodities comprise nearly 40% of total merchandise exports. Prices for soft commodities, which represent another 14% of exports, should be lower in 2008, according to government forecasts, and base metal prices probably will fall, owing to increased supply. But prices for many other nonfarm export commodities should rise.



Terms-of-trade forecast

	2007	2008f	2009f
Level			
Export prices	104.3	122.6	133.9
Import prices	96.7	89.3	92.7
Terms of trade	107.8	137.5	144.5
% change (y/y)			
Exports prices	0.6	17.5	9.3
Import prices	-4.0	-7.7	3.9
Terms of trade	4.7	27.5	5.1

Source: ABS, JPMorgan.

The anticipated 17% climb in export prices is based on forecasted price rises weighted by each commodity's share of merchandise exports. For simplicity, we have excluded exports of services and small-scale exports. The 8% fall in import prices is based on an assumed 6% rise in the effective AUD in 2008, and on the assumption that all of the savings from lower import prices are passed through to final prices.

Terms of trade a consistent theme for RBA

The inflationary impact of the sustained rise in the terms of trade has been a consistent theme in RBA commentary. RBA Governor Glenn Stevens' testimony to Parliament earlier this month indicated that the terms of trade rise was likely to add a further 2% to 3% to national income over the next year or so. Indeed, a strong case can be made that the inflationary impact of the soaring terms of trade has been one of the triggers for

the RBA's assertive monetary tightening in recent months. The boost to national income has generated an additional income flow of A$22 billion per year since 2002, equivalent to A$1,028 per year for each Australian. This boost to income helped generate robust growth in real household spending of 4.5%y/y in 2007.

The high terms of trade support Australia's economy in a number of ways. Directly, high export prices boost employment growth and generate positive multiplier effects by fueling new investment in mining and associated infrastructure. Also, mining company profits rise on the back of additional revenue for little marginal cost, which should trigger a positive wealth effect via higher share prices. Also, in a virtuous cycle, national spending power is boosted by the drop in import prices owing to elevated AUD; AUD, in turn, is supported by high export prices.

Indirect ToT benefits are substantial

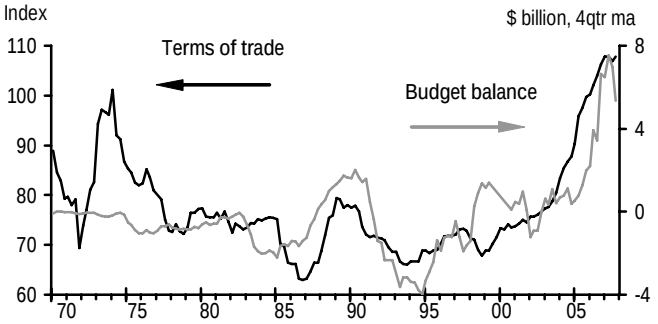
The indirect benefits, though, are substantial. The most influential is the boost to the Commonwealth government's budget position, owing to higher company tax receipts and lower outlays on welfare as unemployment falls. The Commonwealth budget currently stands in a surplus approaching A$20 billion, or nearly 2% of GDP; company tax receipts have climbed $30 billion, or 106%, since 2002.

The jump in coal contract prices announced by BHP almost certainly will become the benchmark for the industry. The coal price rise alone should help to trigger a 15% rise in the terms of trade in 2008, assuming other export prices are unchanged. Coal represents 13% of Australia's commodity exports. The resulting windfall for coal miners alone should generate A$12 billion in additional company tax receipts. The new Labor government elected last November after 12 years in the political wilderness, therefore, has plenty of cash available should further fiscal stimulus be required.

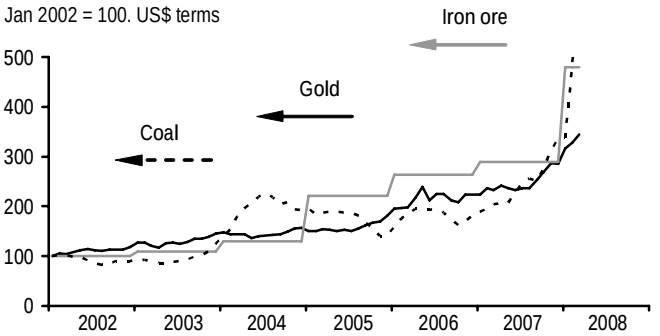
Rise in export prices is well-timed

The likely extension of the terms-of-trade boom into 2008 is extremely well-timed. Export volumes finally have started to rise as the long mining and infrastructure investment boom starts to pay dividends, but growth in domestic demand is slowing rapidly. Households, for example, are being squeezed by the impact of the RBA's assertive policy tightening and high energy prices. Consumer confidence has plunged to a 15-year low, credit growth has slowed abruptly, even for businesses, and approvals for home loans dived 6%m/m in February.

Terms of trade and central government budget balance



Coal, iron ore, and gold prices



One key source of support for households, though, is the very strong job market; the jobless rate remains close to the 33-year low reached in February. Employment growth, however, will slow as the investment boom matures in 2009, so the jobless rate will start to drift up. It is fortuitous, therefore, that national income will receive another boost from the terms of trade. Also, the next round of income tax cuts, worth about 1.3% of GDP and funded by the commodity price boom, kicks in from July. Further income tax cuts are planned for 2009 and 2010.

Risk: terms of trade works both ways

The terms of trade, of course, work both ways, so Australia's otherwise robust economic outlook is vulnerable to a terms-of-trade reversal. Indeed, a particular risk for the economy would be an unexpected fall in export prices, perhaps on the back of a more severe recession in the US and weaker growth in Australia's major export markets in Asia. Softer export prices could simultaneously drag down AUD and, therefore, push up import prices. Then, the terms of trade would go into steep decline.

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Australia

- **Credit and retail sales growth likely slowed in March**
- **Australian CPI surprised on upside in 1Q**
- **RBA to leave rates unchanged in near term**

Both consumer and producer price data for 1Q surprised on the upside in Australia last week. In particular, core CPI inflation shot up to 4.3%oya, well above the RBA's 2-3% target range. JPMorgan expects, though, that the RBA will leave interest rates steady in May given the recent, marked change of tone of RBA verbiage toward a more balanced commentary, and growing signs of a loss of momentum in the domestic economy. This loss of momentum will become even clearer with this week's data, forecast to show slower credit growth and falling retail sales in March.

Credit growth to moderate further

JPMorgan forecasts that growth in the RBA's private sector credit aggregates slowed to 0.6%m/m in March, from 0.7% in February. This moderation will mean that the annual rate of credit growth fell from 15.5% to 14.9%, marking the first time since May 2007 that the annual growth rate has fallen below 15%. The RBA's four tightenings since August are clearly weighing on demand for credit.

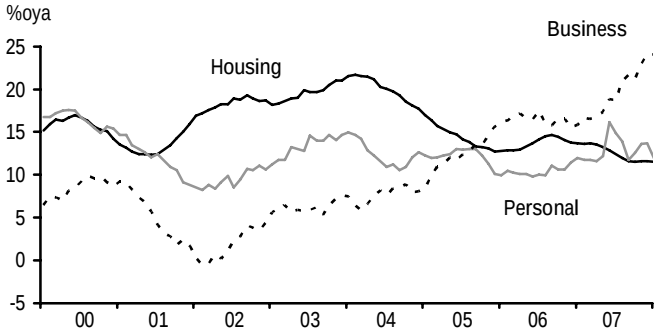
Business credit likely remained soft, rising 0.5%m/m in March, the same rate as in February. Until February, business credit growth had soared as firms found it difficult to tap into alternative sources of funding. Lending by businesses will eventually pick up, however, given that firms intend to boost capital spending 24% in the financial year ending June 2009. This lending probably will be used to fund investment in additional capacity, particularly in the mining sector. Housing credit growth should slow from 0.9%m/m to 0.8% in March, while personal credit growth likely held steady at -0.1%.

Retail sales likely slumped in March

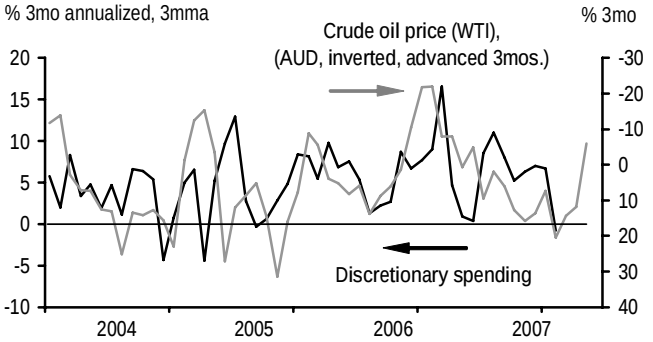
After falling 0.1%m/m in February, we expect retail sales to have declined a further 0.4% in March. The back-to-back rises in interest rates in February and March, and surging petrol prices, dented consumer sentiment, pushing confidence to a 15-year low. Higher interest rates and elevated petrol prices will have offset the positive effects of solid job growth and rising incomes, leading consumers to rein in spending.

Ongoing concerns about the global economy, the significant policy tightening in the pipeline, and rising petrol prices, will mean that consumer spending remains soft in coming months. In the latter half of the year, however, steady interest rates, income tax cuts, tight labour market conditions, and further wage growth, should boost consumers' willingness to spend.

Australia: private sector credit aggregates



Australia: crude oil prices and discretionary spending



CPI growth spikes in March quarter

Headline CPI printed at 1.3%q/q in 1Q (JPMorgan 1.2%, consensus 1.1%), following a 0.9% rise in the previous three months. Annual inflation growth surged to 4.2%, up from 3.0% in 4Q, and well above the RBA's 2-3% target range. More importantly, though, growth in the trimmed mean and weighted median spiked to 1.2%q/q and 1.3%, respectively, putting both underlying CPI measures above 4% in oya terms for the first time on record.

The main drivers of inflation were broadly as expected: soaring energy prices, particularly for automotive fuel (+5.4%q/q) and electricity (+6.0%), food prices (+2.1%), house purchase costs (+1.7%) and rents (+2.0%), and other financial services (+2.0%). In particular, the financial service component—carrying a significant 8% weighting—rose sharply as the spread between deposit and lending rates widened further owing to tighter credit conditions.

The major surprise was the 4.0%q/q spike in the health component; this, according to the ABS, owed primarily to pharmaceutical prices (+13.1%). Drug prices rose as a result of the

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cyclical reduction in the proportion of consumers who qualify for subsidized medications under the Pharmaceuticals Benefit Scheme at the start of each calendar year. The partial offsets stemmed from falling prices of imported clothing and footwear (-2.4%q/q), owing to AUD's 2% appreciation in 1Q, and minor price falls for household contents and services, communication, and recreation.

Normally, a 1%-plus quarterly print on the core CPI and a clear breach of the inflation target would make an RBA rate hike at the next Board meeting a near certainty. That said, the recent marked change of tone of RBA verbiage toward a more balanced commentary, and growing signs of a sudden loss of momentum in the domestic economy, mean the RBA will probably look through this uncomfortably high CPI reading, while officials assess signs of weakness in upcoming domestic data. Also, with the upside 1Q CPI surprise apt to prompt fresh speculation that the RBA will hike the cash rate in May (market pricing indicates a 25% chance of a 25bp hike in May, compared to nearly zero prior to the CPI data), consumer confidence will likely fall even further from current 15-year lows.

The RBA will likely leave the cash rate steady at 7.25% near term, unless there are significant signs of a rebound in the domestic economy to accompany the deteriorating inflation outlook. If there is a material and sustained improvement in domestic conditions, however, RBA officials will find it a challenge to explain why they are not raising the cash rate when both headline and core inflation are tracking well above target.

Both CPI measures will remain above target in 2008. The economy has little spare capacity, the labour market is tight, keeping upside pressure on wages, and another round of personal income tax relief will likely be delivered in July. Although there are signs that domestic demand is easing, a spike in contract coal prices means the terms of trade will provide a substantial boost to national income in 2008.

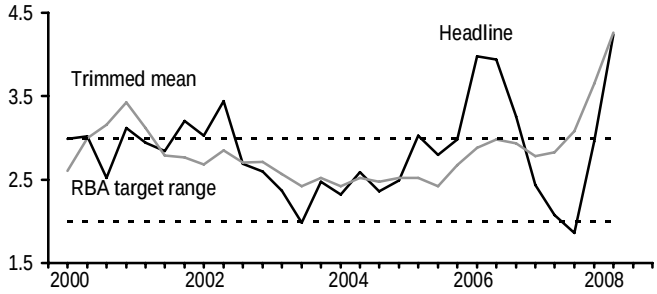
Producer prices surge in 1Q

After rising 0.6%q/q in 4Q, Australian producer prices at the final stage of production surged 1.9% (JPMorgan 1.4%, consensus 1.0%) in 1Q, marking the largest quarterly increase since 3Q 1998. The spike primarily owed to higher building construction costs (+1.9%). Petroleum refining (+10.5%) and electricity, gas and water (+3.1%) also made solid, positive contributions to the final PPI.

At the intermediate and preliminary stages of production, producer prices rose 2.0%q/q and 2.3%, respectively, in 1Q, mainly

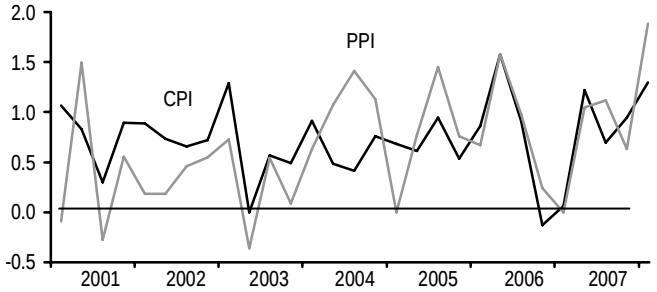
Australia: headline and core CPI

% oya (ex. GST)



Australia: CPI and PPI

%q/q



on surging import prices. Import prices at the intermediate and preliminary stages of production jumped 3.7% and 4.9%, respectively, due to higher prices for oil and gas extraction. The stronger AUD only partially offset the 8% surge in crude prices in 1Q. Meanwhile, domestic prices headed higher at each stage of production: final (+2.0%), intermediate (+1.8%), and preliminary (+2.0%).

Data releases and forecasts

Week of April 28 - May 2

Wed	Private-sector credit				
Apr 30	Seasonally adjusted				
11:30am					
		Dec	Jan	Feb	Mar
	(%m/m)	1.3	1.0	0.7	0.6
	(%oya)	16.5	16.2	15.5	14.9
Thu	Building approvals				
May 1	Seasonally adjusted				
11:30am					
		Dec	Jan	Feb	Mar
	(%m/m)	-11.4	1.4	0.1	2.0
	(%oya)	5.0	5.0	-1.6	8.4

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Building approvals should rise 2.5%m/m in March, but the outlook for the building sector remains uncertain. Building and material costs in the residential construction sector remain elevated, excessive red tape is deterring new development, and higher interest rates are weighing on new home building. That said, rents are soaring owing to undersupply in key markets.

Fri May 2 11:30am

Retail trade

Seasonally adjusted

	Dec	Jan	Feb	Mar
(%m/m)	0.3	-0.1	-0.1	-0.4
(%oya)	8.3	6.9	5.8	4.3

Review of past week's data

Producer price index

Not seasonally adjusted

	3Q07	4Q07	1Q08	
(%q/q)	1.1	0.6	~~1.4~~	*1.9*
(%oya)	2.4	2.8	~~4.3~~	*4.8*

Sales of new motor vehicles

Units, seasonally adjusted

	Jan		Feb		Mar	
(%m/m)	~~0.2~~	*0.0*	~~-2.3~~	*-2.4*	__	*1.0*
(%oya)	6.8		~~3.1~~	*3.0*	__	*3.7*

Consumer price index

Not seasonally adjusted

	3Q07	4Q07	1Q08	
Headline				
(%q/q)	0.7	0.9	~~1.2~~	*1.3*
(%oya)	1.9	3.0	~~4.1~~	*4.2*
Core (trimmed mean)				
(%q/q)	0.9	1.0	~~0.9~~	*1.2*
(%oya)	2.9	3.4	~~3.8~~	*4.1*

Key dates for RBA monetary policy

Apr 30	March private sector credit (11:30am)
May 2	March retail sales (11:30am)
May 5	1Q house price index (11:30am)
May 6	March trade balance (11:30am)

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New Zealand

- **RBNZ left interest rates steady at 8.25% as expected**
- **Upside risks to inflation, downside risks to growth**
- **Business confidence likely to plunge further in April**

In New Zealand, the RBNZ last Thursday left the official cash rate (OCR) steady at 8.25% as expected. With inflation likely to remain elevated above the central bank's 1-3%oya target range in coming quarters, there is little scope for the RBNZ to cut interest rates anytime soon. Adding to speculation that economic momentum will stall in 2Q, data this week should show a further fall in business confidence in April.

RBNZ leaves rates unchanged at 8.25%

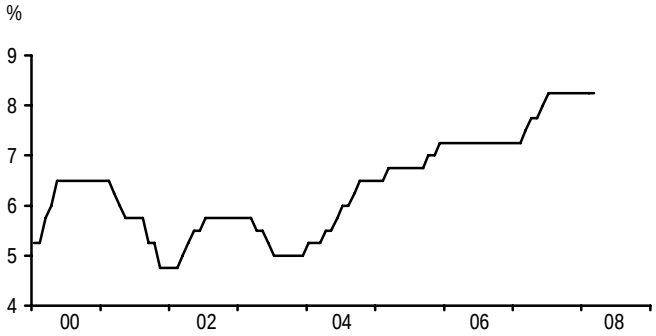
The RBNZ left the OCR steady at a record 8.25% last Thursday, citing upside risks to inflation and downside risks to economic growth. RBNZ Governor Bollard mentioned that one key risk to the economic outlook is the persistently strong NZD, up 4% vis-à-vis the US dollar this year. The stronger currency will help curb inflation pressure, but will also serve to dampen export growth.

Governor Bollard highlighted that since the central bank's last Monetary Policy Statement in March that economic activity had "weakened more markedly than expected." Indeed, consumer and business sentiment has slumped, and there have been signs of further deterioration in the housing market. Weaker global prospects, ongoing financial market volatility, and drought conditions in key agricultural areas, have added to the "uncertain economic environment."

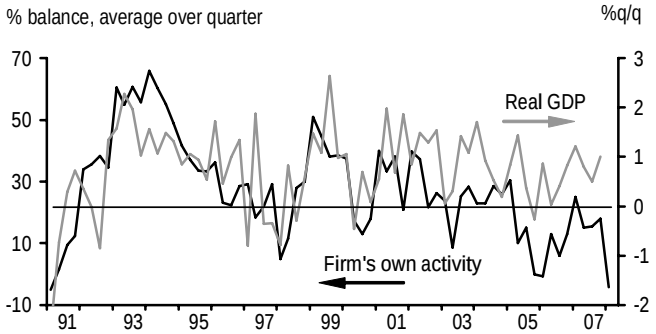
The Governor noted, though, that labour market conditions remain tight, commodity prices are elevated, and there is more fiscal stimulus in the pipeline, with the government expected to deliver personal tax cuts ahead of the election to be held later this year. These factors will keep upside pressure on inflation in the short-term, pressure which will be exacerbated by rising energy and food prices. Furthermore, although it was not mentioned in the statement which accompanied the decision to leaves rate unchanged last week, the RBNZ has said in recent commentary that there will be a large boost to inflation in 2009 and 2010 from the introduction of the emissions trading scheme; thus, inflationary pressures will remain significant for some time.

The RBNZ expects that the "OCR will need to remain at current levels for a time yet." JPMorgan forecasts that the next move in interest rates in New Zealand will be a 25bp rate cut in

New Zealand: RBNZ official cash rate



New Zealand: NBNZ business outlook survey and GDP growth



1Q 2009. Inflation will likely remain above the RBNZ's 1-3%oya target range this year, leaving little scope for the RBNZ to ease monetary policy anytime soon. Slower economic growth will, however, help curb inflation over time, with our forecast calling for GDP growth of 1.9% in 2008, down significantly from 3.1% last year.

Kiwi trade surplus to rise in March

New Zealand's trade balance probably remained in surplus in March, at NZ$350 million. In February, the trade balance returned to a favorable position of NZ$258 million from a deficit in the previous month.

Import growth will have remained steady in March as softer domestic demand was offset by stronger NZD, which helped lower import prices. High commodity prices would have bolstered exports, although the impact of the recent drought remains a key downside risk to the export outlook. The drought has pushed up feed costs, affecting both the dairy and meat industries. Prices have already fallen in the meat industry on the back of Australia's severe drought, which induced culling—boosting supply and leading prices lower. The dairy industry also has suffered, although a record-high dairy payout to farmers is cushioning the blow.

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New Zealand business confidence to sink

Business confidence will have continued to head south in April. The NBNZ business confidence survey plummeted to -57.9 in March from -43.9 in February, meaning that 57.9% of respondents expected business conditions to deteriorate over the coming year. In April, the survey will probably have fallen further to -61.0.

In the last survey, what was most worrying was that firms' own activity expectations declined further (falling from 2.4 to -6.4), abetting a prospective stalling in economic momentum in the Kiwi economy. This was the first negative reading since 2006, and only 12 negative readings in firms' own activity expectations have been recorded over the last 20 years. According to the NBNZ, of these negative readings, five "were right at the start of the survey in 1988, as the 1987 crash washed through" and the "last time we saw firm's own activity expectations this weak was in 1991."

We expect further large declines in the residential and commercial construction components of the survey in April, given the sharp and rapid deterioration in the Kiwi housing market in recent months. Employment, profit expectations, and investment intentions should also have fallen further as business confidence continues to suffer under the still-elevated NZD, surging oil and food prices, a falling equity market, severe drought conditions, and ongoing concerns over the global growth outlook. The business cycle in New Zealand has turned, and points to significantly slower GDP growth in 2008.

Data releases and forecasts

Week of April 28 - May 2

Tue Apr 29 10:45am — **Trade balance**
Not seasonally adjusted

	Dec	Jan	Feb	Mar
Exports ($NZ mn)	3682	3080	3711	3900
Imports ($NZ mn)	3644	3396	3450	3550
Trade balance ($NZ mn)	38	-316	258	350

Wed Apr 30 10:45am — **Building consents**
Not seasonally adjusted

	Dec	Jan	Feb	Mar
(%m/m)	-20.6	0.3	7.5	__
(%oya)	-7.7	-7.3	-10.4	__

Wed Apr 30 3:00pm — **NBNZ business confidence**

	Jan	Feb	Mar	Apr
% balance of respondents	na	-43.9	-57.9	-61.0

Review of past week's data

Visitor arrivals
Not seasonally adjusted

	Jan		Feb		Mar	
Total (%m/m)	0.8		~~5.3~~	*5.4*	__	*-0.3*

Net permanent immigration

	Jan	Feb	Mar	
Monthly (000s)	0.5	2.0	__	*-1.0*
12 month sum (000s)	4.8	4.6	__	*4.7*

Credit card spending
Seasonally adjusted

	Jan		Feb		Mar	
(%oya)	~~8.7~~	*8.6*	~~8.1~~	*8.0*	__	*3.5*

RBNZ official cash rate announcement

OCR left unchanged at 8.25%.

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Global essay

- **Global growth delivers a modest upside surprise in 1Q08**
- **But slowdown is expected to broaden in coming months**
- **With rebate checks coming early, US is less likely to contract this quarter**
- **Rising inflation is set to tilt EM central bankers toward tightening**

Sharing the pain

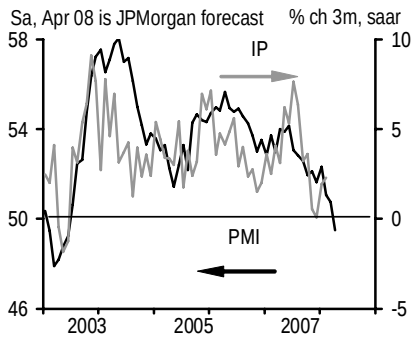
The global economy is in the early stages of an important transition. By midyear, it should become clear that the slowdown that began in the US last summer has broadened out. Western Europe is expected to deliver subpar performance in the coming months, while the rapidly growing Asian economies are set to decelerate materially. At the same time, the US economy is anticipated to remain stagnant, but also to provide comfort as it avoids slipping into the black hole of a deep recession or severe credit crunch. Although this phase of soft global growth will extend until late this year, it will also set in motion adjustments that will promote an acceleration in activity during 1H09.

We have raised our 1Q08 GDP forecasts across the globe in recent weeks in recognition of a string of resilient global demand indicators. In part, this news reflects the sustained benefits that Emerging Market economies are receiving from terms of trade improvements and supportive policies. However, the slowdown across industrial economies has also proved milder than anticipated. Notably, US GDP growth is now expected to post a modest positive gain for the first quarter in this week's report. US consumption appears to have eked out a small gain despite real income compression. And the benefits of strong Emerging Market demand are cushioning the slowdown through a number of channels —including exports, US corporate earnings abroad, and work-in-progress stockbuilding to meet foreign aircraft orders. The better than expected US performance in 1Q08 makes it less likely that the economy will experience a string of negative GDP outcomes—particularly as roughly half of the tax rebate checks now look set to be sent out in May (see Research note, "Smoothing out the US growth forecast," page 9).

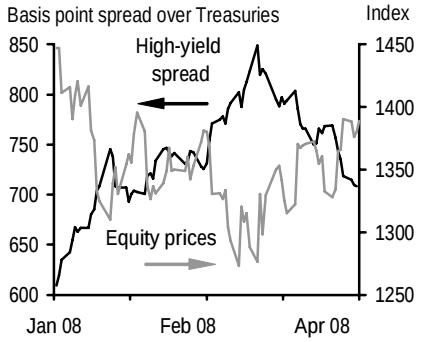
The unexpectedly positive recent growth news provides some comfort about the underlying health of the global economy. However, it is not an indication that the drags weighing on global growth are modest. Indeed, the cushion from trade and a weaker dollar that is keeping US growth from slowing even more will have consequences that reverberate through global industry for some time to come. JPMorgan's May global PMI survey should reinforce this message next week. Although Asian export growth has held up well to date, production gains appear to be slowing in China, Taiwan, and Korea. Last week's slide in the April German IFO may be an important signal of things to come; it shows that confidence slid sharply in a key supplier of capital equipment for emerging market economies.

There are also homegrown forces set to slow growth outside the US. While most Emerging Market consumers have been shielded from rising energy prices, food price spikes will squeeze household purchasing power—most notably across Asia. In the Euro area, the persistence of elevated borrowing rates and reduced credit availability from banks will act as a drag on demand, especially in Spain where debt accumulation has been significant and households and corporates are running large financial deficits. Meanwhile, Euro area households are also experiencing a purchasing power squeeze from higher energy prices, but without the prospect of a tax rebate in the pipeline. These headwinds prompted a downward revision to our Euro area growth forecast last week, even as the

Global PMI and IP



US financial markets



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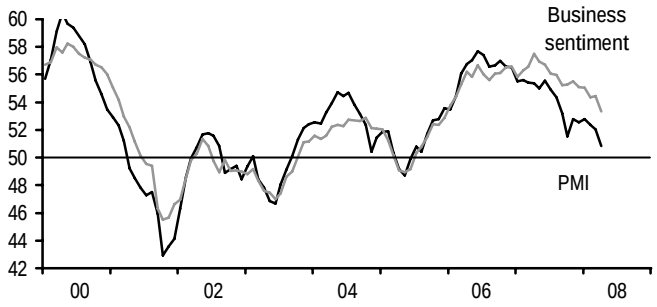
Euro area manufacturing - PMI and national business sentiment

DI; sentiment is GDP-weighted avg of standardized nat'l business climate indices



1Q08 growth estimate for the area was revised up.

As the global growth slowdown becomes more evenly distributed, we look for two developments to signal that this dynamic will promote better news for 2009. The first is that stresses in US financial markets gradually abate as Fed easing produces results alongside the painful adjustment in the US financial system. The recent news from markets is encouraging as equity and credit markets have improved despite sustained stress in interbank lending markets. The second signal is that the slowing in Emerging Market growth produces a moderation in food and energy prices in 2H08 that limits inflationary pressures and provides a modest lift to purchasing power into the new year.

Global central bank easing is almost over

The onset of the credit crisis last summer produced a significant easing in global monetary stances. As the crisis unfolded, policymakers at its epicentre reversed course and lowered rates. Most others went on hold, concerned about the possibility of a deep downturn in the US economy and related spillover in financial markets. Although officials in some of the smaller emerging economies continued to tighten, the aggregate move by EM central banks has been small. Against the backdrop of 300bp of Fed easing, EM policy rates have increased only 12bp since last August.

The stability of policy rates outside the countries most affected by the credit crisis took place alongside a continued rise in inflation, which reached a nine-year global high of 4.1%oya in March. The upshot of this move is that inflation now exceeds central banks' objectives for almost every central bank that we follow. And this breach is likely to last for some time. Global inflation is set to remain elevated in the coming months as the rise in energy and agricultural commodity prices feeds through to consumer prices. Indeed, indices for both groups of commodity prices each stand about 60% above their year-ago levels, pointing to powerful and long-lasting base effects in retail energy and food prices.

As a group, central bankers are likely to remain willing to tolerate higher inflation (and inflation expectations) as their concerns about growth and financial stability linger. However, the limits to this "risk management" policy are being reached as inflation pressures continue to mount. With the fear surrounding downside US tail risks expected to fade, policymakers will turn their attention (partly) away from risk management to assessing the more "bread and butter" tradeoff between domestic growth and inflation concerns.

Modest tightening now expected in EM

These developments point to an end to the global easing cycle around midyear. However, the risks that rising inflation will produce global tightening this year are small in an environment in which a broader weakening in global growth is set to take hold. Our forecast envisions relatively stable global policy rates between now and year end, with further modest easing in the developed world offset by roughly 30bp of emerging market tightening.

The ECB provides an interesting case study of the current tensions facing central banks. It has maintained a stable policy stance in the face of growing growth concerns, but continues to highlight inflation risk in no uncertain terms. Any near-term monetary action is very unlikely. That said, headwinds from credit markets, the currency's gains, and commodity price inflation remain, and Euro area growth is expected to fade to just 1% annualized toward year's end. This sustained subpar growth performance is expected to pave the way for an ECB rate cut.

Last week's data from Japan reinforced our view that the BoJ is firmly on hold. Core CPI inflation (headline ex fresh food) rose to a new high of 1.2%oya in March, and is expected to move above 1.5% toward midyear. This is steadily squeezing household purchasing power to a degree that is expected to keep consumer spending growth sluggish. As a result, this week's semiannual Outlook Report is likely to show that the BoJ has revised down its outlook for the economy, but not

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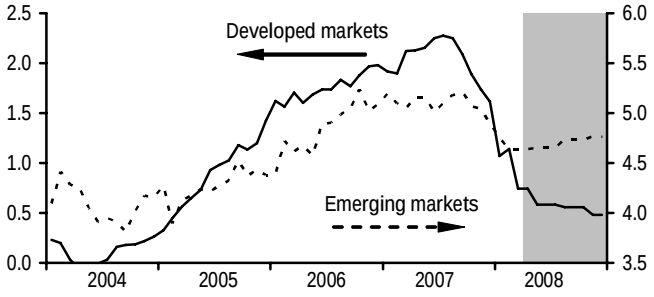
Real monetary policy rates

% p.a., nominal deflated by %oya CPI ex food and energy; both scales



sufficiently to warrant a rate cut, with the BoJ reiterating its midterm objective of rate normalization.

For the Fed, some improvement in domestic financial markets, juxtaposed with a continued high rate of inflation, will limit action to a 25bp rate cut at this week's meeting. This move is expected to be followed by an extended pause. Additional easing also is anticipated by the BoC and BoE. The BoC appears on schedule to follow last week's rate cut with another move in June, but recent UK data and MPC communications point to a more gradual approach than anticipated, with rate cuts now expected in June and August.

In Emerging Markets, where inflation pressures are most intense owing to the large share that food and energy have in the consumer price basket, central banks are maintaining a more cautious stance. In particular, next week should bring tightening moves in Poland and Hungary. The NBH needs to boost the credibility of its commitment to disinflation and prevent a reversal of recent forint strengthening, while Polish central bankers are responding to strong wage and employment growth and gradually accelerating core inflation. A rate hike also is a possibility in India, where inflation has surged above target. But we think that the RBI will hold its fire after having hiked its banks' required reserve ratio just last week. Still, a hawkish statement from the RBI would leave the door open for future action.

More broadly, we recently have incorporated rate hikes in the forecasts for a number of other EM countries, including Brazil, Indonesia, Philippines, South Africa, and Thailand, and have pushed back the expected easing in Turkey until next year. For now, 13 out of the 28 EM countries that our economists follow closely are expected to tighten in the remainder of the year (versus only 5 that will be in easing mode). However, other countries may be also forced to tighten or delay easing if the expected decline in inflation in 2H08 fails to materialize.

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JPMorgan View - Global Markets

Sentiment improves

- **It was another difficult week for investors in the recession camp** as markets punished anybody with the standard set of recession positions—yield curve steepeners, long duration, short credit and equities, and short dollars. Economic data and earnings reports were not unfriendly for the recession camp, but battle fatigue is setting in and forcing market participants to cover.

- One important nail in the coffin of the recession trade these past weeks is that **the value investor is returning to credit markets**. Both our sales desks and client visits report a significant switch by real, long-only investors— such as pension funds and insurance companies—towards investment-grade debt securities. These are largely investors who have been out of credit for some time and are using the turnaround in momentum to pick up bonds and CLOs that still offer spreads matching the peaks of past recessions. As a result, we are now seeing cash bonds outperform credit derivatives. This flow is not driven by a view on the depth of a US recession and will thus likely continue this coming month. We therefore **cover our underweight credit against equities,** which was driven by a perception of relative positions.

- **Is the US recession over before it even started?** We have smoothed out our US growth forecasts and now have no outright quarterly contraction in the economy. Hence, it is quite possible the NBER—the official arbiter of US recessions—will decide against calling the start of a recession. Our new forecast does not raise the level of GDP by 4Q, but does see reduced downside risks, and hence only a 25bp Fed ease this week. As a result, we cover our long duration and curve steepeners in the US. We similarly push out our forecasts for lower rates in the US and the EU.

Fixed income

- Bond markets continued to perform badly, pushing **ytd excess returns over cash on our Global Government Bond Index to zero.** The UK and US curve flattened, while Japan and Euro curves were largely unchanged.

- Our recession duo of steepeners and long duration got butchered again in the US and the UK, but eked out a minor gain in euros. Given our revised Fed forecasts and bad technical positions, we **take losses in the US**. We keep positions in the UK and EU as economic activity data are still set to weaken across Europe.

- **Swap spreads have lagged** the general tightening in credit spreads, as bank balance sheets and funding remain under pressure. But we are seeing strong interest in spread tightening, given how much credit spreads have come in. We are medium-term positive on swaps spread tightening in major markets, especially at the short end of the curve. We similarly are medium-term bullish on swap curve steepeners (disinversion) as these curves remain at peak-crisis levels. We stay **overweight inflation linkers** in the US and Japan.

10-yr Government bond yields

	Current	Jun 08	Sep 08	Dec 08	Mar 09
United States	3.87	4.00	4.05	4.10	4.15
Euro area	4.18	4.10	4.00	3.95	4.00
United Kingdom	4.78	4.60	4.70	4.90	5.00
Japan	1.61	1.30	1.30	1.45	1.60

Equities

	Current	YTD Return (local currency)
S&P	1398	-4.8%
Topix	1340	-10.5%
FTSE 100	6091	-4.8%
MSCI Eurozone	213	-12.6%
MSCI Europe	1388	-9.7%

Credit markets

	Current	Jun 08	Dec 08
US high grade (bp over UST)	242	250	
US high grade (bp over swaps)	162	175	
Euro HG corp (bp over swaps)	87		65
USD high yield (bp vs. UST)	688	800	800
EMBIG (bp vs. UST)	279	275	250

Foreign exchange

	Current	Jun 08	Sep 08	Dec 08	Mar 09
EUR/USD	1.56	1.60	1.57	1.53	1.50
USD/JPY	104	100	101	103	105
GBP/USD	1.99	1.95	1.91	1.86	1.85

Commodities

		Quarterly Average		
	Current	Jun 08	Sep 08	Dec 08
WTI oil $/bbl	118	105	95	92
Gold ($/oz)	885	920	915	900
Copper($/m ton)	8640	7300	6500	6000
Corn ($/Bu)	5.91	5.10	4.80	5.00

Source: JPMorgan, Bloomberg, Datastream

Equities

- **Sentiment continues to improve.** The VIX index has fallen below 20%, the lowest level since the end of last year. Flows have improved significantly over the past few weeks. Developed Europe equity funds experienced the third straight week of strong inflows with the $3bn reported this week being the highest on record. EM funds had $6bn of inflows over the past four weeks, a sharp contrast with the $20bn outflows of 1Q. Foreign investors bought more than $6bn of Japanese equities over the past three weeks vs $30bn of outflows during 1Q.

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- On the downside, the technical position of the market is now less favourable than it was a month ago. In addition to equities close to breaking their three-month ranges, we expect that more tactical investors will attempt to take profits and still see 1400 as a **resistance** level for the S&P 500 index. But the balance of risks has shifted towards breaking this resistance level in coming weeks. **Momentum in flows** appears strong as economic data are coming in better than expected in the US, forcing investors to take off recession trades. With tax rebates reaching consumers earlier and the US economy unlikely to see a sharp contraction in 2Q, we think that positive momentum has further to run.

- Better dynamics of US consumer spending, and a number of technical indicators, lead us to **upgrade US consumer discretionary** to overweight from underweight.

- **China**'s domestic markets received policy support last week, including from a reduction in stamp duty, leading to a 15% rise in the A-share market on the week. **We remain bullish and overweight Chinese equities** as we predict strong productivity gains, continued RMB appreciation, and renewed fund inflows. A-share market stability is important for the resumption of fund inflows and a rally in H-shares and Red Chips. The general view from the delegates at the JPMorgan China conference in Beijing is that growth and inflation are less of a negative than the market fears.

- We published a new *Global Issues* piece last week that examines the longer-term outlook of corporate profits. We find that the secular drivers of the past 25 years' rise in profit margins are peaking. Coupled with current negative cyclical forces, this means that profit margins and thus profit growth are likely to come under pressure in coming years (see **"Profit Margins to Fall**," April 21).

Credit

- Credit markets continue to rally, driven by cash bonds. Cash bonds gained strongly and outperformed CDS despite record new issuance in US HG and a big rise in European HG issuance. This is a bullish sign and a reflection of **how strong demand is** now. This demand is to a large extent driven by real-money **value-oriented investors** who are attracted by compelling valuations, especially at the high-rated end of the credit spectrum.

- Loans continued to outperform bonds. From their peak of 840bp a month ago, loan spreads have tightened to 635bp vs 690bp for bonds. Although loans are not as attractively valued vs bonds as historical comparisons would suggest, given that we expect higher loan defaults and lower recovery rates this time, we still find value in the **loan vs bond** trade, admittedly more so in cash bonds than in CDS. The inventory situation for loans has also improved more than that for bonds. Nine months ago, the inventory of unsold loans and bonds stood at $200bn and $100bn, respectively. It has now fallen to $70bn for loans and $50bn for bonds.

- The return of long-only investors who do not require leverage could easily attain self-fulfilling momentum. This should allow financials to outperform further in coming weeks, cash bonds to tighten in against CDS, and short-dated paper to outperform and the maturity curve to steepen, while loans beat bonds in HY.

Foreign exchange

- The ongoing backup in Treasury yields continues to lift the dollar against most G-10 currencies as markets price in an end to Fed easing after another cut next week. Given the low likelihood that the Fed tightens this year (because of housing) or that the ECB eases in the next three to six months (because of inflation), we expect EUR/USD to resume a move to 1.60 this quarter. We were stopped out of a long this week but stay sidelined for now until we can better gauge position risks in rates and EUR/USD.

- Even assuming that EUR/USD revisits its old highs, the **broad dollar story remain one of a currency cycle bottoming out in trade-weighted terms** as economic weakness and/or rate cuts rotate to non-US markets. The dynamic is quite patchy, applying most immediately to Canada and New Zealand, and eventually to Australia. Our remaining G-10 risk is short NZD/USD.

- **Emerging market currencies** were generally stable to stronger last week despite the dollar's strength versus the G-10. The backup in US rates is not a sufficient condition to force an unwind of EM carry trades, particularly if the rate move reflects a pricing-out of extreme pessimism in the US. Note also that equity and fx vol continue to edge lower, which is also supportive broadly for these markets. We stay **short USD/BRL.**

Commodities

- The dollar's bounce has been most negative for gold, which fell 5% over the week. As a testament to supply influences, commodities such as copper and crude are ending the week close to unchanged. On a view that the dollar's bounce has little momentum left, we expect the broad indices to resume their rise. Top picks remain agriculture and precious metals.

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Markets - Australia and New Zealand

- **Aussie inflation data confirms RBA will not ease monetary policy this year**
- **1Q CPI data saw headline and core inflation move even further above RBA target zone**
- **RBNZ left rates unchanged at record 8.25%**

Market commentary

Australia

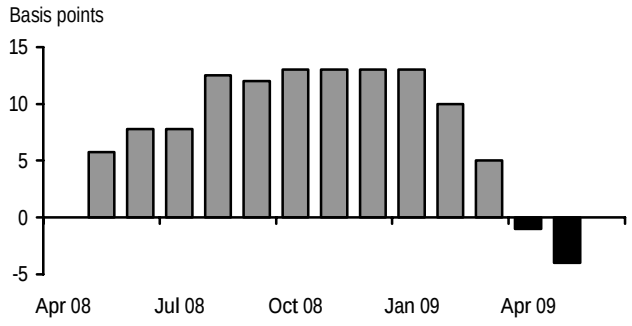
Last week's Aussie consumer and producer price data for the first quarter convinced many in the market that the RBA will not be cutting official interest rates this year. Two weeks ago, futures market pricing implied not only that the RBA would cut the cash rate later this year, but again in early 2009. In the wake of last week's elevated price data, however, the market now has taken out a material probability of rate cuts any time soon. In fact, the market now prices a 20% chance of a rate hike in coming months.

We believe the RBA's tightening cycle is over. While inflation this week printed well above the RBA's 2-3% target range as expected, officials have indicated clearly in recent weeks that they are prepared to tolerate elevated inflation in the near term. This is because there is clear evidence that growth in domestic demand has chilled. Retail sales, for example, have fallen for two straight months (and are likely to fall in March, too), credit growth plunged in February, consumer and business confidence are weak, and approvals for home loans dropped 6% in February. RBA officials hope that this slowdown in domestic demand will help push inflation back to the target range within an acceptable period of time.

There are, however, significant risks to this outlook. The Federal government is committed to delivering another round of generous personal tax relief in July, which will boost household disposable income. Also, the tripling of coal contract prices for the year ended March 2009 will substantially boost the terms of trade. This, in turn, will support national income. Meanwhile, the labour market remains tight, so wage growth is accelerating.

A material and sustained rebound in household spending over the second half of 2008 could bring the RBA back into play with further policy tightening. In our view, however, there already is substantial policy tightening in the pipeline, and elevated AUD is adding to the restrictive stance of

Futures pricing of RBA cash rate moves



policy. Also, the maturing of the long mining investment boom means the jobless rate, which recently touched a three-decade low, will rise, albeit gradually. Rising joblessness will be a significant headwind for households, many of whom are burdened with record-high debt. The next move in the cash rate will be down, but the dire near term inflation outlook means RBA officials will wait until 2009 before starting to take back the recent tightenings.

The Aussie 3s 10s curve continued to flatten last week as the market priced in a lower probability of near term rate cuts, and there was more evidence of weakness offshore. AUD touched new cycle highs as the equity market made sustained gains, helped along by upgrades to commodity price forecasts.

New Zealand

In New Zealand, the RBNZ left the OCR steady at a record 8.25% as expected last Thursday, citing upside risks to inflation and downside risks to economic growth. RBNZ Governor Bollard mentioned that one key risk to the economic outlook is the persistently strong NZD, up 4% vis-à-vis the US dollar this year. The stronger currency will help curb inflation pressure, but will also serve to dampen export growth.

Indeed, since the Bank's last Monetary Policy Statement in March economic activity has moderated. Consumer and business sentiment has slumped, and there have been signs of further deterioration in the housing market. Still, there remains upside pressure on inflation given that labour market conditions remain tight, commodity prices are elevated, and there is a considerable amount of fiscal stimulus in the pipeline.

According to the RBNZ, the "OCR will need to remain at current levels for a time yet." JPMorgan forecasts that the next move in interest rates in New Zealand will be a 25bp rate cut in 1Q 2009, given inflation will likely remain above the RBNZ's 1-3%oya target range this year.

The NZD hovered just below 80 US cents last week. Against the AUD, the Kiwi dollar shed over 1% as the higher than expected Aussie CPI print boosted the likelihood that the RBA may hike rates again in May, in contrast to the RBNZ's commentary which signalled a firm rates 'on hold' stance. Equities finished higher on the week, breaking through the 3,600 level, while three-month LIBOR yields were unchanged at 8.9%.

Trade recommendations

- Keep holding short Aussie May IB contract, currently at 92.71. The market still prices too small a risk that the RBA tightens policy in May following the larger than expected 1Q CPI reading, even though we believe the RBA is on hold. Established at 92.73, stop loss at 92.75, with target of 92.65.
- For Australia, we considered putting on a curve steepener, but believe it is still too early. We also considered going long June, short Aussie August IBs, amid expectations that the RBA will tighten policy following what will be a terrible 2Q CPI print, but again thought this premature. We will further assess these trades in coming weeks.
- NZ 1yr 1yr vs 1yr filled at -75, now at -101. Hold position and take positive roll up curve based on expectations of market recovery and easing credit jitters. Still a good rates 'on hold' play given little chance of RBNZ policy easing near term.

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Global Economic Outlook Summary

	Real GDP			Real GDP							Consumer prices			
	% over a year ago			% over previous period, saar							% over a year ago			
	2007	2008	2009	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	1Q08	2Q08	4Q08	2Q09
The Americas														
United States	2.2	1.4 ↑	2.0 ↓	0.6	0.7 ↑	0.0 ↑	1.5 ↓	1.0 ↓	2.0 ↓	3.0	4.2	3.9	2.8 ↓	1.8 ↓
Canada	2.7	1.1	2.3	0.8	1.0	-1.5	2.0	2.5	3.0	2.8	1.8	1.4	2.0	1.7
Latin America	5.3	4.1	4.2 ↓	5.6	2.6	2.8	3.6	4.4	4.4 ↓	4.2 ↓	6.3	6.9	6.5	5.9
Argentina	8.7	6.5	3.0 ↓	8.0	2.0	8.2	2.8	6.1	2.8 ↓	1.6 ↓	8.5 ↑	9.1 ↑	9.1 ↑	8.9 ↓
Brazil	5.4	4.4	4.0	6.6	2.5	2.5	4.6	4.4	4.1	3.8	4.6	5.0 ↑	5.0 ↑	5.0 ↑
Chile	5.1	3.5	5.0	3.7	5.0	3.0	5.0	6.0	5.0	5.0	8.0	8.0 ↑	5.0 ↑	3.5
Colombia	7.5	5.0	5.0	6.8	6.0	5.5	5.5	4.5	4.5	5.0	6.1	5.5	5.3	4.4
Ecuador	2.0	2.5	2.5	5.0	2.0	1.5	1.0	1.0	2.5	3.5	5.3	7.5 ↑	6.9 ↑	4.3 ↑
Mexico	3.3	2.6	4.5	3.0	1.6	1.0	3.0	4.1	4.9	4.9	3.9	4.4	3.7	2.9
Peru	9.0	7.7	6.0	10.5	7.9	5.0	3.0	4.5	6.5	7.0	4.7	5.2	4.3	2.8
Venezuela	8.4	6.0	3.5	11.0	3.0	3.5	2.0	3.0	4.0	4.0	26.2 ↓	29.3 ↓	30.0 ↓	30.5 ↓
Asia/Pacific														
Japan	2.0	1.4	1.9	3.5	1.0	1.0	1.3	1.8	2.0	2.0	1.0 ↑	1.1 ↑	1.5 ↑	1.7 ↑
Australia	3.9	3.1	2.7	2.4	2.4	3.9	2.5	3.4	2.9	1.6	4.0	3.6	3.4	2.7
New Zealand	3.1	1.9	2.3	4.1	2.0	-0.1	0.7	1.7	2.8	3.4	3.4	3.0	2.9	3.2
Asia ex. Japan	8.8	7.3 ↓	7.5	6.9	7.2 ↓	6.3	7.9	7.5	7.2	7.4	6.2	5.9 ↑	4.2 ↑	3.8
China	11.9	10.5	9.8	9.2	10.5	10.8	11.7	10.2	9.1	9.1	8.0	6.9	3.7	3.7
Hong Kong	6.3	4.6	5.0	7.1	2.6	1.5	5.0	4.5	5.3	5.9	4.6 ↑	5.4 ↑	3.1 ↑	2.4 ↓
India	8.7	7.0	8.0	4.8	8.2	7.0	7.0	7.4	7.8	8.7	5.8	6.1	6.2	5.2
Indonesia	6.3	5.0	5.2	6.9	4.0	5.0	5.0	5.0	5.0	5.0	7.6	7.6	7.7	6.8
Korea	5.0	4.4 ↓	5.0 ↑	6.4	2.9 ↓	2.7 ↑	3.5	4.5	5.5	5.5	3.8	3.8 ↑	3.6 ↑	3.1 ↓
Malaysia	6.3	4.7	5.3	7.4	3.0	1.0	4.0	5.5	6.1	6.1	2.4	3.2	2.4	1.8
Philippines	7.1	4.0	4.5	7.4	3.0	2.0	3.0	4.0	4.0	5.9	5.7	6.0	5.6	4.3
Singapore	7.7	4.5	6.0	-4.8	16.9	-7.8	8.2	8.2	5.7	5.7	6.6	6.5	5.2	2.4
Taiwan	5.7	3.5	4.5	2.6	0.8	0.2	4.5	4.5	4.8	4.8	3.3	4.0	1.7	2.4
Thailand	4.8	4.6	5.0	7.3	3.0	3.0	5.0	6.0	4.5	4.5	5.6	5.5	5.4	3.2
Africa														
South Africa	5.1	3.8	4.0	5.3	2.9	3.3	3.4	3.5	4.3	4.3	9.7	9.2	8.0	6.4
Europe														
Euro area	2.6	1.6	1.3 ↓	1.4	1.8 ↑	1.0 ↓	1.2	1.2 ↓	1.0 ↓	1.5 ↓	3.4	3.4	2.9	2.4 ↑
Germany	2.6	1.7 ↑	1.7 ↓	1.1	2.8 ↑	0.8 ↓	1.5	1.6 ↓	1.8 ↓	2.0 ↓	3.1	3.1	2.7	1.7
France	1.9	1.7	1.6 ↓	1.5	1.5	1.3	1.5	1.4 ↓	1.5 ↓	1.8 ↓	3.3	3.2	2.6	2.0
Italy	1.7	0.4	1.0 ↓	-0.8	0.5	0.5	0.5	0.8 ↓	1.0 ↓	1.2 ↓	3.3	3.4	2.8	2.5
Norway	6.0	3.8	2.9	3.8	2.8	2.5	2.2	3.0	3.0	3.0	3.5	3.0	2.2	3.2
Sweden	2.8	2.4	2.5	3.1	2.7	1.7	1.5	2.5	2.7	2.7	3.2	3.2	2.5	2.3
Switzerland	3.1	2.3	1.6	4.2	1.8	1.0	1.0	1.3	1.8	2.0	2.5	2.1	1.7	1.3
United Kingdom	3.0	1.9	2.3	2.5	1.6	1.2	1.2	2.0	2.5	2.8	2.4	2.5	3.2	2.4
Emerging Europe[1]	6.5	5.7	5.5	12.9	0.4	6.8	4.2	10.7	1.2	6.3	9.3	9.9 ↑	8.4 ↑	6.3 ↑
Bulgaria	6.2	5.2	5.5	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.5	5.0	4.8	7.0	3.5	4.5	3.5	4.5	5.5	5.0	7.6	7.1	5.5	3.0
Hungary	1.3	2.0	2.8	0.5	2.6	3.0	2.8	2.9	2.8	2.8	6.9	6.5	5.3	3.9
Poland	6.5	5.6	5.3	8.2	5.5	4.8	4.0	5.2	5.8	5.5	4.1	4.2	4.1	3.7
Slovak Republic	10.4	7.0	5.5	11.4	-2.0	6.0	7.0	7.0	4.0	5.0	4.0	4.3	3.6	4.0
Romania	6.0	5.5	3.5	...	...	...	...	...	...	...	7.9	8.2	6.2	5.5
Russia	8.1	7.1	6.3	19.1	-3.0	9.0	4.0	17.0	-2.5	8.0	12.9	14.4 ↑	12.1 ↑	10.0 ↑
Turkey	4.5	4.4	6.0	...	...	...	...	...	...	...	9.5	10.0	8.3	4.1
Global	3.5	2.5	2.8 ↓	2.8	2.0 ↑	1.6 ↑	2.4 ↓	2.6 ↓	2.6 ↓	3.2 ↓	4.0 ↑	3.9 ↑	3.2	2.6
Developed markets	2.4	1.5	1.8 ↓	1.5	1.2 ↑	0.6 ↑	1.4 ↓	1.4 ↓	1.8 ↓	2.3 ↓	3.2	3.1	2.6	2.0
Emerging markets	7.4	6.2	6.3	7.6	4.8 ↓	5.5	6.1	7.2	5.4 ↓	6.4	6.8	6.9 ↑	5.6 ↑	4.8 ↑

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 Aug 07 (bp)	Last change	Forecast next change	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Global	GDP-weighted average	3.72	-99			3.63	3.63	3.59	3.52	3.75
excluding US	GDP-weighted average	4.41	-3			4.41	4.40	4.35	4.24	4.35
Developed	GDP-weighted average	2.87	-127			2.74	2.72	2.64	2.56	2.88
Emerging	GDP-weighted average	7.18	12			7.25	7.33	7.46	7.43	7.33
The Americas	GDP-weighted average	3.05	-254			2.85	2.84	2.84	2.84	3.24
United States	Federal funds rate	2.25	-300	18 Mar 08 (-75bp)	**30 Apr 08 (-25bp)**	2.00	2.00	2.00	2.00	2.50
Canada	Overnight funding rate	3.00	-150	**22 Apr 08 (-50bp)**	**10 Jun 08 (-25bp)**	2.75	2.50	2.50	2.50	2.50
Brazil	SELIC overnight rate	11.75	25	16 Apr 08 (+50bp)	4 Jun 08 (+50bp)	12.25	13.00	13.00	13.00	12.75
Mexico	Repo rate	7.50	25	26 Oct 07 (+25bp)	18 Jul 08 (-25bp)	7.50	7.00	7.00	7.00	7.00
Chile	Discount rate	6.25	75	10 Jan 08 (+25bp)	10 Jul 08 (-25bp)	6.25	6.00	5.75	5.75	5.75
Colombia	Repo rate	9.75	50	22 Feb 08 (+25bp)	1Q 09 (-25bp)	9.75	9.75	9.75	9.50	9.25
Peru	Reference rate	5.50	75	10 Apr 08 (+25bp)	on hold	5.50	5.50	5.50	5.50	5.50
Europe/Africa	GDP-weighted average	4.52	-3			4.51	4.47	4.30	4.13	4.26
Euro area	Refi rate	4.00	0	6 Jun 07 (+25bp)	**8 Nov 08 (-25bp)**	4.00	4.00	3.75	3.50	3.75
United Kingdom	Repo rate	5.00	-75	10 Apr 08 (-25bp)	**5 Jun 08 (-25bp)**	4.75	4.50	4.50	4.50	4.50
Sweden	Repo rate	4.25	75	13 Feb 08 (+25bp)	on hold	4.25	4.25	4.25	4.25	4.25
Norway	Deposit rate	**5.50**	75	**23 Apr 08 (+25bp)**	**4Q 08 (+25bp)**	5.50	5.50	5.75	5.75	5.75
Czech Republic	2-week repo rate	3.75	50	7 Feb 08 (+25bp)	1Q 09 (-25bp)	3.75	3.75	3.75	3.50	3.50
Hungary	2-week deposit rate	8.00	25	31 Mar 08 (+50bp)	28 Apr 08 (+25bp)	8.50	8.50	8.50	8.25	8.00
Poland	7-day intervention rate	5.75	100	26 Mar 08 (+25bp)	**28 May 08 (+25bp)**	6.25	6.25	6.25	6.00	**5.75**
Russia	1-week deposit rate	3.50	25	4 Feb 08 (+25bp)	Jun 08 (+25bp)	3.75	3.75	3.75	4.00	4.00
Slovak Republic	2-week repo rate	4.25	0	27 Apr 07 (-25bp)	**3Q 08 (-25bp)**	4.25	4.00	3.75	3.50	3.75
South Africa	Repo rate	11.50	150	10 Apr 08 (+50bp)	Jun 08 (+50bp)	12.00	12.00	12.00	12.00	11.50
Switzerland	3-month Swiss Libor	2.75	25	13 Sep 07 (+25bp)	**Sep 08 (-25bp)**	2.75	2.50	2.25	2.25	2.25
Turkey	Overnight borrowing rate	15.25	-225	14 Feb 08 (-25bp)	1Q 09 (-25bp)	15.25	15.25	15.25	15.00	13.75
Asia/Pacific	GDP-weighted average	3.62	7			3.60	3.65	3.76	3.73	3.84
Australia	Cash rate	7.25	75	4 Mar 08 (+25bp)	**1Q 09 (-25bp)**	7.25	7.25	7.25	7.00	7.00
New Zealand	Cash rate	8.25	0	26 July 07 (+25bp)	**2Q 09 (-25bp)**	8.25	8.25	8.25	8.25	8.00
Japan	Overnight call rate	0.50	0	21 Feb 07 (+25bp)	Jun 09 (+25bp)	0.50	0.50	0.50	0.50	0.75
Hong Kong	Discount window base	3.75	-300	19 Mar 08 (-75bp)	1 May 08 (-50bp)	3.50	3.50	3.50	3.50	4.00
China	1-year working capital	7.47	45	20 Dec 07 (+18bp)	3Q 08 (+27bp)	7.47	7.74	8.19	8.19	8.19
Korea	Base rate	5.00	0	9 Aug 07 (+25bp)	**May 08 (-25bp)**	4.75	4.50	4.50	4.50	4.50
Indonesia	BI rate	8.00	-25	6 Dec 07 (-25bp)	**3Q 08 (+25bp)**	8.00	8.50	9.00	9.00	9.00
India	Repo rate	7.75	0	30 Mar 07 (+25bp)	1Q 09 (-25bp)	7.75	7.75	7.75	7.50	7.25
Malaysia	Overnight policy rate	3.50	0	26 Apr 06 (+25bp)	on hold	3.50	3.50	3.50	3.50	3.50
Philippines	Reverse repo rate	5.00	-100	31 Jan 08 (-25bp)	**2Q 08 (+25bp)**	5.25	5.50	5.50	5.50	5.50
Thailand	1-day repo rate	3.25	0	18 July 07 (-25bp)	**3Q 08 (+25bp)**	3.25	3.50	3.75	3.75	3.75
Taiwan	Official discount rate	3.50	38	27 Mar 08 (+12.5bp)	Jun 08 (+12.5bp)	3.625	3.625	3.625	3.625	3.75

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*

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	3.9	3.1	2.7	3.5	4.3	2.4	2.4	3.9	2.5	3.4	2.9	1.6	2.5	2.3
Private consumption	4.5	3.5	2.0	2.4	5.3	6.7	2.8	2.4	1.6	2.0	2.4	1.6	2.0	1.6
Construction investment	9.2	1.7	3.7	3.6	2.8	-3.0	1.6	1.8	6.1	3.0	5.1	2.0	1.9	5.9
Equipment investment	7.5	5.8	-1.8	19.6	-9.9	15.9	8.7	8.6	-4.1	0.0	-2.1	-4.1	-8.1	8.7
Public investment	5.1	10.3	6.0	88.3	-6.7	23.8	4.4	5.0	5.2	5.6	6.0	6.4	6.8	7.2
Government consumption	3.0	3.7	2.8	1.4	3.7	7.0	2.9	3.0	2.9	3.0	3.5	2.2	1.8	2.2
Exports of goods & services	3.3	3.8	6.3	3.6	6.1	-2.6	4.1	5.1	7.2	7.8	4.1	6.1	7.2	8.2
Imports of goods & services	10.7	5.1	2.5	5.7	9.4	15.0	2.0	0.0	2.0	3.2	3.2	2.4	1.8	3.2
Contributions to GDP growth:														
Domestic final sales	4.9	3.9	2.3	6.2	3.7	6.7	3.3	3.1	2.3	2.4	2.9	1.6	1.4	3.2
Inventories	0.8	-0.4	-0.3	-2.0	1.5	-0.2	-1.2	-0.2	-0.7	0.2	-0.1	-0.6	0.0	-1.8
Net trade	-1.7	-0.4	0.7	-0.6	-0.9	-3.8	0.3	1.0	0.9	0.8	0.1	0.7	1.0	0.9
GDP deflator (%oya)	3.9	3.1	2.6	4.3	3.4	3.4	3.3	3.4	3.2	2.7	2.6	2.6	2.6	2.5
Consumer prices (%oya)	2.3	4.1	3.3	2.1	1.9	3.0	4.2	3.9	4.1	4.0	3.5	3.3	3.2	3.0
Producer prices (%oya)	2.3	3.9	2.5	1.5	0.8	3.4	4.8	3.5	4.1	3.1	2.5	2.5	2.5	2.5
Trade balance (A$ bil, sa)	-20.9	-25.5	-15.1	-4.4	-5.3	-7.2	-7.2	-6.6	-6.2	-5.5	-5.0	-4.3	-3.1	-2.8
Current account (A$ bil, sa)	-67.0	-79.5	-78.2	15.8	16.4	19.3	-19.8	-20.1	-19.7	-19.9	-20.0	-20.1	-19.6	-18.6
as % of GDP	-6.2	-6.9	-6.4	5.9	6.0	7.0	-7.0	-7.0	-6.8	-6.7	-6.7	-6.7	-6.4	-6.0
3m eurodeposit rate (%)*	6.0	7.3	6.8	5.8	7.1	7.2	7.3	7.3	7.3	7.1	6.9	6.8	6.8	6.7
10-year bond yield (%)*	5.6	6.4	6.3	5.6	5.7	6.4	6.5	6.5	6.5	6.3	6.3	6.3	6.3	6.3
US$/A$*	0.75	0.95	0.84	0.74	0.77	0.91	0.96	0.97	0.95	0.93	0.88	0.85	0.82	0.79
Commonwealth budget (FY, A$ bil)	13.6	15.5	10.0											
as % of GDP	1.3	1.3	0.8											
Unemployment rate	4.4	4.5	5.3	4.3	4.3	4.4	4.2	4.4	4.6	4.9	5.1	5.2	5.3	5.4
Industrial production	3.3	1.9	0.8	1.4	-0.1	5.6	0.0	1.0	3.0	4.0	-1.0	-2.0	-3.0	0.0

*All financial variables are period averages

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

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	3.1	1.9	2.3	3.6	2.0	4.1	2.0	-0.1	0.7	1.7	2.8	3.4	2.4	3.6
Private consumption	4.3	0.4	1.1	2.2	1.5	2.0	-0.3	-1.3	-0.5	0.5	0.7	2.1	2.9	3.3
Fixed Investment	4.5	0.1	0.9	-2.7	1.5	19.4	-6.2	-6.8	-2.7	0.3	2.0	2.8	3.1	3.9
Residential construction	4.3	-9.8	-1.7	13.3	7.7	-6.1	-22.0	-18.0	-6.0	-2.0	0.0	0.8	2.8	3.2
Other fixed investment	4.6	2.6	1.5	-6.4	0	26.9	-2.0	-4.0	-2.0	0.8	2.4	3.2	3.2	4.0
Inventory change (NZ$ bil, saar)	0.8	0.1	-0.1	0.4	0.3	0.0	0.1	0.1	0.0	-0.1	0.0	0.0	-0.1	-0.1
Government spending	4.0	5.5	3.8	4.7	8.5	1.5	6.0	7.0	5.9	4.8	2.4	3.2	2.9	2.5
Exports of goods & services	3.5	6.9	2.9	-3.3	-0.4	23.2	7.5	4.2	2.5	2.5	2.5	3.1	3.6	3.7
Imports of goods & services	8.8	4.9	1.0	11.0	2.9	18.5	1.8	0.6	0.2	0.5	0.5	1.5	2.2	2.5
Contributions to GDP growth:														
Domestic final sales	4.6	2.1	1.7	4.6	4.7	7.8	-0.8	-1.4	1.4	1.3	1.3	2.6	3.1	3.4
Inventories	0.5	-0.5	-0.1	4.0	-1.5	-3.6	1.1	0.1	-1.4	-0.2	0.8	0.3	-1.0	-0.1
Net trade	-2.0	0.4	0.6	-4.9	-1.2	0.2	1.7	1.1	0.8	0.6	0.6	0.5	0.4	0.3
GDP deflator (%oya)	4.0	4.4	2.8	4.0	3.7	5.4	5.3	4.7	4.5	3.0	2.9	2.8	2.7	2.7
Consumer prices	2.4	3.2	2.7	4.0	2.0	4.8	3.0	2.7	3.1	2.8	2.7	2.6	2.7	2.5
%oya	2.4	3.2	2.7	2.0	1.8	3.2	3.4	3.1	3.4	2.9	2.8	2.8	2.7	2.6
Trade balance (NZ$ bil, sa)	-2.3	-0.8	0.8	-0.8	-0.7	0.1	-0.2	-0.2	-0.2	-0.2	-0.1	0.1	0.3	0.5
Current account (NZ$ bil, sa)	-13.8	-10.2	-8.5	-3.5	-3.6	-3.1	-2.6	-2.5	-2.5	-2.6	-2.5	-2.3	-2.0	-1.7
as % of GDP	-8.1	-5.6	-4.5	-8.4	-8.4	-7.0	-5.8	-5.6	-5.5	-5.6	-5.4	-4.9	-4.2	-3.5
Yield on 90-day bank bill (%)*	8.4	8.4	7.8	8.2	8.7	8.8	8.4	8.4	8.4	8.4	8.0	7.9	7.6	7.5
10-year bond yield (%)*	6.3	6.6	7.0	6.4	6.4	6.4	6.5	6.6	6.7	6.8	7.0	7.1	7.0	7.0
US$/NZ$*	0.74	0.80	0.68	0.74	0.74	0.76	0.79	0.83	0.80	0.78	0.72	0.66	0.67	0.68
Commonwealth budget (NZ$ bil)	6.4	5.3	5.0											
as % of GDP	3.8	2.9	2.6											
Unemployment rate	3.6	4.0	4.5	3.6	3.5	3.4	3.8	3.9	4.1	4.2	4.3	4.5	4.6	4.7

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
28 Apr	29 Apr New Zealand: Trade balance (10:45am) Mar 350 NZ$ mn Money supply (03:00pm) Mar	30 Apr Australia: Private sector credit (11:30am) Mar 0.6 %m/m, sa New Zealand: Building permits (10:45am) Mar NBNZ business conf. (03:00pm) Apr -61.0 % bal	1 May Australia: Building approvals (11:30am) Mar 2.0 %m/m, sa RBA commodity index (04:30pm) Apr	2 May Australia: Retail sales (11:30am) Mar -0.4 %m/m, sa
5 May Australia: ANZ job ads (11:30am) Apr House price index (11:30am) 1Q New Zealand: ANZ comm. price (03:00pm) Apr Labor cost index (10:45am) 1Q	6 May Australia: Trade balance (11:30am) Mar	7 May Australia: RBA cash target (02:30pm) May Foreign reserves (04:30pm) Apr	8 May Australia: Unemployment rate (11:30am) Apr New Zealand: Unemployment rate (10:45am) 1Q	9 May
12 May Australia: Housing finance (11:30am) Mar New Zealand: QV house prices Apr	13 May Australia: NAB business confidence (11:30am) Apr	14 May Australia: Westpac consumer confidence (10:30am) May Wage cost index (11:30am) 1Q	15 May Australia: Cons. inf. expec.(10:30am) May New Zealand: Retail sales (10:45am) Mar PMI (12:00pm) Apr	16 May New Zealand: PPI (10:45am) 1Q
19 May	20 May New Zealand: Visitor arrivals (10:45am) Apr	21 May Australia: Westpac leading index (10:30am) Mar Motor vehicles sales (11:30am)Apr New Zealand: Credit card spending (03:00pm)Apr	22 May	23 May

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
28 Apr - 2 May	28 Apr	29 Apr	30 Apr	1 May	2 May
United Kingdom • Nationwide HPI (Apr)	Euro area • Trichet speech Germany • CPI 6 states and prelim (Apr) Hungary • NBH meeting Italy • ISAE bus survey (Apr) Japan • Total retail sales (Mar) United States • Housing vacancies (1Q)	Canada • Payrolls (Feb) Central bank meetings • India • Malaysia • Slovak Republic United Kingdom • Mortgage approvals (Mar) United States • S&P/C-S HPI (Feb)	Euro area • EC bus survey (Apr) • HICP flash (Apr) • Unemployment (Mar) • Trichet speech Germany • Employment (Mar) • Unemployment (Apr) Japan • Household spend (Mar) • Housing starts (Mar) • IP prelim (May) • Shoko Chukin (Apr) • Unemploy. rate (Mar) Korea • IP (Mar) United States • ADP employment (Apr) • Chicago survey (Apr) • Employ cost index (1Q) • Real GDP adv (1Q) Central bank meetings • Japan, Poland, US	China • PMI mfg (Apr) Japan • Nominal wages (Mar) • PMI mfg (Apr) Korea • CPI (Apr) • Trade balance (Apr) United Kingdom • PMI mfg (Apr) United States • Construction spending (Mar) • ISM mfg(Apr) • Light vehicle sales (Apr) • Personal income (Mar)	Euro area • PMI mfg final (Apr) Germany • PMI mfg final (Apr) • Retail sales (Mar) United States • Employment report (Apr) • Factory orders (Mar)
5 - 9 May	5 May	6 May	7 May	8 May	9 May
United Kingdom • Halifax HPI (Apr)	Singapore • PMI mfg (Apr) Taiwan • CPI (Apr) United States • ISM nonmfg (Apr)	Australia • Trade balance (Mar) • RBA meeting Brazil • IP (Mar) Canada • Ivey PMI (Apr) Euro area • PMI services final (Apr) Germany • PMI services final (Apr) United Kingdom • PMI services (Apr)	Czech Republic • CNB meeting Euro area • Retail sales (Mar) Germany • Mfg orders (Mar) Taiwan • Trade balance (Apr) United States • Consumer credit (Mar) • Pending home sales (Mar) • Productivity and costs prelim (1Q)	Central bank meetings • Chile • Euro area • Indonesia • Korea • Peru • United Kingdom Germany • IP (Mar) • Trade balance (Mar) Mexico • CPI (Apr) United States • Wholesale trade (Mar)	Brazil • IPCA (Apr) Canada • Trade balance (Mar) Mexico • Trade balance (Mar) Norway • CPI (Apr) United States • Trade balance (Mar)

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