JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- A string of weak data was released in **Australia** last week, suggesting that domestic demand is moderating quickly. The number of home loans fell, employment unexpectedly contracted, and consumer confidence slumped. RBA Governor Glenn Stevens, though, speaking on economic conditions on Friday, offered few surprises. Attention now is focused on the minutes from the Board's June policy meeting to be released Tuesday. The minutes probably will show that Board members acknowledged that inflation is uncomfortably high and will stay elevated for an extended period, but there also will be reference to the "opposing forces" at work in the economy—domestic demand has cooled amid tighter credit conditions and higher interest rates, but this is being offset to some extent by the impact of the soaring terms of trade.

- In **New Zealand**, ahead of a quiet week on the economic front, data on Friday showed that retail sales growth surged in April, though the trend remained flat. Strong auto sales and rising goods prices lifted the headline sales number, which is reported in value, rather than volume, terms. Record high interest rates, elevated food and energy prices, a rapidly deteriorating housing market, and drought conditions in key dairy producing regions will continue to curb consumer spending in coming months.

- The shift in **global interest rates** in recent weeks is remarkable against the backdrop of current economic conditions. The global economy delivered trend-like growth during 1Q08, but the broad thrust of data points to a downshift this quarter. JPMorgan forecasts that global GDP growth is slipping below trend and will remain subpar until early next year. Despite this news, markets have moved to price in sustained tightening by central banks. It is easy to look at rising oil prices as the main factor behind this dichotomy. It would be a mistake, however, to lose sight of the more fundamental shift in central bank behaviour taking hold. Indeed, JPMorgan expects a significant adjustment in monetary policy over the coming 18 months, even as global growth remains sluggish, oil prices fall, and headline inflation rates begin moving lower later this year.

- The tension between inflation and growth risk is most acute in the **United Kingdom**. The inflation news continues to worsen, as evidenced by the surge in the May PPI, the unprecedented jump in the Bank of England's survey of short-run household inflation expectations, and the continued climb in medium-term inflation expectations in inflation-linked markets. This week's reports are expected to show that May CPI inflation topped 3%, forcing BoE Governor King to write an explanatory letter to the Chancellor. At the same time, business surveys suggest that 2Q GDP growth is tracking at a below 1% pace, and housing-related data are extremely weak. A solid gain in May retail sales (expected this week) should serve as a reminder that consumer spending, along with labour market indicators, continue to hold up.

This week's highlight

The RBA minutes on Tuesday from the June monetary policy meeting, when the Board decided to leave the cash rate at 7.25% for the third straight month. The Board's discussion probably centred on the "opposing forces" driving the economy.

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JPMorgan Australia Ltd., Sydney
www.morganmarkets.com

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

Data and event previews - Australia and New Zealand

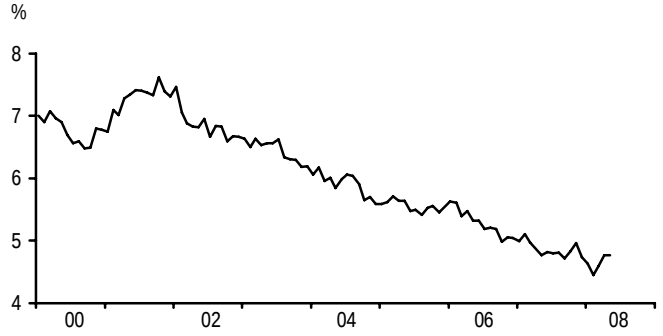
Date [(a)]	Data/event	Forecast			Comment
		JPMorgan	Consensus	*Previous*	
Tuesday, 17 June (11.30am)	**RBA Board's June meeting minutes**	**na**	na	*na*	Board members probably acknowledged that inflation had spiked up to uncomfortably high levels and was likely to stay elevated for an extended period. There will be numerous references to the "opposing forces" at work in the economy—domestic demand has cooled, although this is being offset to some extent by the soaring terms of trade which RBA officials believe will be an important source of support for domestic income. The fact that policy was unchanged in early June indicates that officials believe the recent deterioration in the indicators of domestic demand is material. RBA officials do, however, want to see a "significant" slowdown in domestic demand in order for inflation to return to the target band. Indeed, on balance, the RBA is on hold while officials navigate between weakening domestic demand and elevated inflation.
Wednesday, 18 June (10.30am)	**Aust. Westpac leading index (Apr, %m/m)**	**na**	na	*0.2*	na
Friday, 20 June (8.45am)	**NZ visitor arrivals (May, %m/m)**	**na**	na	*-11.8*	na

(a) Australian Eastern Standard Time.

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

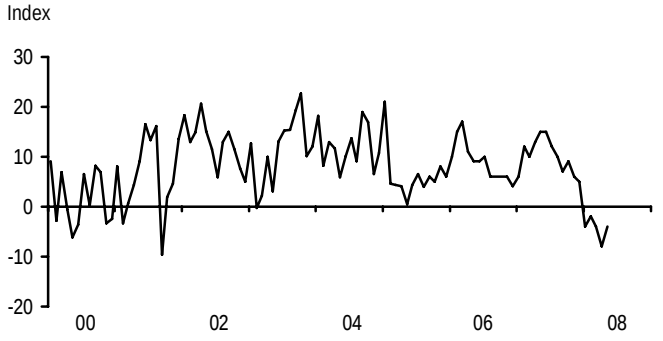
Feature charts

Australia: unemployment rate



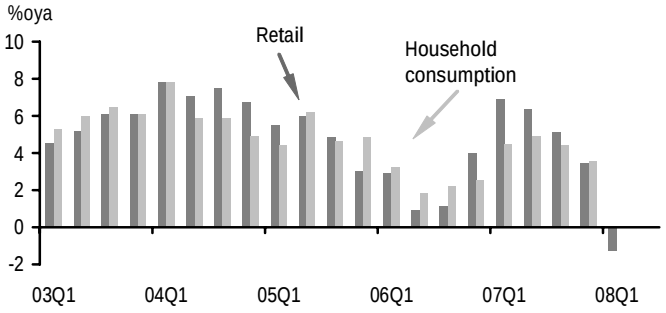
Despite the unexpected contraction in Aussie employment in May, the economy has added 230,000 jobs since mid-2007 and the unemployment rate remains close to a three-decade low. Labour market conditions have remained tight for an extended period, meaning that upside pressure on wages should persist in the near term. Wage growth to date has remained contained, but the risks are skewed to the upside.

Australia: NAB business confidence



The NAB business survey last week showed that business confidence remained negative in May for the fifth straight month, although it rose from -8 to -4. Firms reportedly have started to reassess their labour requirements in response to increasing signs that the domestic economy has started to moderate. From the contraction in employment in May, it appears that firms have already started to rein in, or postpone, their hiring efforts.

New Zealand: retail trade and consumption growth (from GDP)



Weaker household consumption growth in New Zealand is one key reason why economic growth will slow to a standstill in the first half of 2008. Our forecast is for two negative quarters of growth in 1Q and 2Q. But, while economic growth may stall, widespread inflation pressures will prevent an imminent rate cut. Pipeline pressures continue to build, nontradables inflation remains elevated, and inflation expectations have risen. We expect the first 25bp rate cut in October.

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

- **Employment contracted unexpectedly in May**
- **Consumer confidence fell to 15-year low**
- **Demand for home loans remained weak**

A string of weak data was released in Australia last week, suggesting that domestic demand is moderating. Growth in home loans fell and employment contracted unexpectedly in April. Consumer confidence also deteriorated in June, despite the RBA's decision to leave the cash rate unchanged earlier in the month. RBA Governor Glenn Stevens, speaking on economic conditions on Friday, offered few surprises, however, meaning that attention has now turned to the release of the minutes from the Board's June policy meeting tomorrow.

RBA minutes to highlight weaker demand

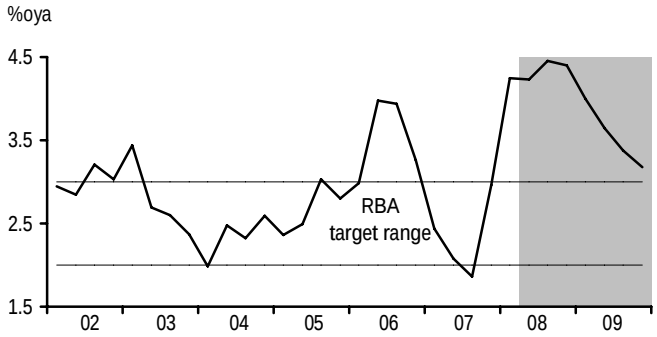
The RBA on Tuesday will release the minutes of the June monetary policy meeting, when the Board decided to leave the cash rate steady at 7.25% for the third straight month. This decision was widely expected despite the surge in headline and core inflation to 4.2% and 4.0%, respectively, in 1Q, both well above the RBA's 2-3% target range.

The minutes will probably show that Board members in June acknowledged that inflation had spiked up to uncomfortably high levels and was likely to stay elevated for an extended period. RBA officials probably noted, though, that part of this rise in inflation was attributed to offshore influences, like energy prices. That said, the Board probably was, and still is, concerned that elevated inflation readings could become entrenched in expectations for prices and wages.

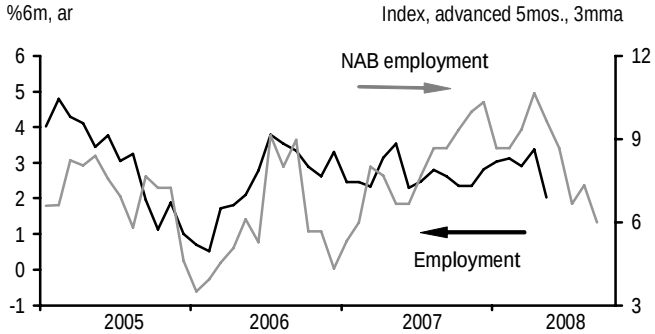
Also in the minutes, we are likely to see references to the "opposing forces" at work in the economy—domestic demand has cooled amid tighter credit conditions and higher interest rates, although this is being offset to some extent by the soaring terms of trade. A considerable amount of time was probably spent discussing the benefits of the high and rising terms of trade, which RBA officials believe will be an important source of support for domestic income.

The fact that policy was unchanged in early June indicates, though, that officials believe the recent deterioration in the indicators of domestic demand is material, and will likely be sustained. That said, RBA officials want to see a "significant" slowdown in domestic demand in order for inflation to return to the target band. Indeed, on balance, the RBA is on hold while officials navigate between weakening domestic demand and elevated inflation. Our forecast is for the cash rate to remain unchanged at 7.25% for the remainder of 2008, but the risk is tilted toward higher rates if persistently elevated inflation begins to affect price and wage settings. The Melbourne Institute reported last week that consumer inflationary expectations rose to 5.9% in June, the highest reading since 1993, from 5.2% in May.

Australia: headline CPI forecasts



Australia: NAB survey and employment growth



Aussie employment contracted in May

Employment contracted unexpectedly in May for the first time since October 2006. Employment declined 19,700 (JPMorgan +5,000, consensus +13,500) following a massive 37,500 rise in April (revised significantly higher from 25,400). The participation rate fell from 65.5% to 65.2%, and the unemployment rate remained steady at 4.3% after April's unemployment rate was revised up from 4.2%.

The moderation in employment growth was expected given the string of weak domestic economic data released of late. In particular, business confidence has remained weak this year, meaning that firms have probably started to rein in, or postpone, their hiring efforts. The NAB business survey last week showed that business confidence remained negative in May for the fifth straight month, although it rose from -8 to -4. Firms reportedly have started to reassess their labour requirements in response to increasing signs that the domestic

economy has started to moderate. Despite the contraction in employment in May, labour market conditions remain tight. The economy has added 230,000 jobs since mid-2007 and the jobless rate remains at a three-decade low. This means that upside pressure on wages will persist for the time being, especially given that skill shortages are widespread. Still-tight labour markets, a prospective acceleration in wage growth, alongside the personal income tax cuts to be delivered from July 1, may boost domestic demand in 2H08.

Demand for home loans fell in April

Demand for housing finance fell for the third straight month in April. The number of home loans issued declined 3.0%m/m (JPMorgan -3.0%, consensus -2.0%) after falling 5.7% in March, remaining weak in the wake of the RBA's back to back interest rate hikes in February and March, and the rise in domestic banks' standard variable loan rates by more than the increases in the official cash rate.

In value terms, home loans were also lower in April, falling 3.0%m/m, owing mainly to a 4.9% fall in owner-occupied lending. Surprisingly, given that investors appeared to have withdrawn from the property market in recent months, investment lending rose 1.4%m/m. Investors also accounted for 31% of total loans, the largest proportion since October last year and notably higher than the 29% recorded in the previous month. First home buyers, though, continued to suffer amid record low levels of housing affordability, and accounted for less than 17% of all home loans in April.

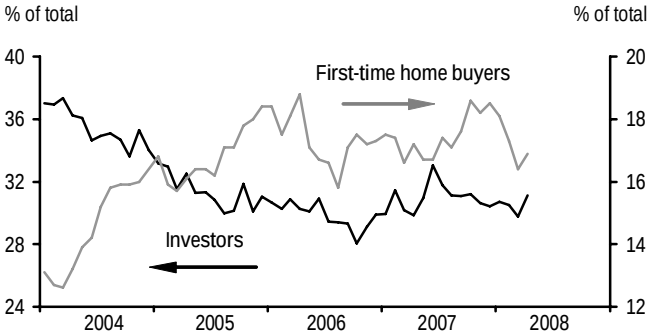
Consumer confidence slumped in June

Consumer confidence slumped to its lowest level since 1992 in June, falling 5.6%m/m (JPMorgan +1.0%) after rising 2.7% in May. The May rise marked the first improvement in confidence this year. The decline in confidence in June was surprising.

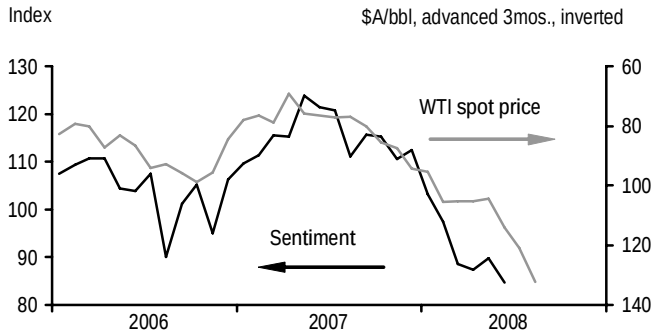
We had expected that consumers would be more upbeat in the wake of the RBA's decision to leave interest rates unchanged earlier in the month, coupled with the flow-on effects of the Federal Budget announced in May. The Budget delivered generous personal income tax cuts, mainly aimed at lower income earners, that will be delivered on July 1.

The Westpac-Melbourne Institute's consumer sentiment index fell to 84.7 in June from 89.8 in May, and is now 32% lower than its May 2007 peak. The index reading remains well below the 100 level where the number of optimists equals pessimists.

Australia: housing finance



Australia: consumer sentiment and crude oil price



Most survey respondents remain pessimistic, owing to ongoing global growth concerns, financial market volatility, and rising petrol prices.

In particular, the June confidence survey was taken amid furious debate over the extent to which the government can keep a lid on petrol prices. According to the Westpac-Melbourne Institute, the percentage fall in confidence in June was only the second largest on record that was not linked to a rise in mortgage rates. The largest fall was in September 2005 in response to a spike in petrol prices (+12% to A$1.31) following Hurricane Katrina. Elevated petrol prices, coupled with higher borrowing costs and rising prices for food, energy and other goods, will continue to weigh on sentiment in coming months.

No surprises from RBA's Stevens

RBA Governor Glenn Stevens addressed the American Chamber of Commerce in Australia on Friday, speaking on economic conditions and focusing primarily on conditions in US and Australia. The commentary offered few surprises, however. The Governor acknowledged that while the US will remain the largest economy for some time, the world economy is becoming increasingly dependent on the Asian region. The US is,

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

however, still more developed on the financial front, though recently had experienced a period of weak growth. Mr. Stevens acknowledged the recent debate as to whether or not the world's largest economy had fallen into a recession, but suggested the US had so far "done a little better" than many had feared. The Governor suggested that while concerns surrounding a serious financial collapse have somewhat abated and that expansionary macroeconomic policies have been introduced, there still remains considerable uncertainty for the US economy in the coming year.

US economic weakness has had implications for the global economy via two channels, according to Mr. Stevens. Firstly, trading patterns have changed as the US demanded less from other countries; this was exacerbated by the falling US dollar. And, secondly, via financial contagion. For example, pressure on banks' borrowing costs has occurred in many countries due to the "integrated nature of financial markets in the developed world."

Economic growth in Asia and emerging economics remains relatively healthy, however, according to the Governor. That said, inflation in these economies is a growing concern. Rising food prices, mainly owing to supply disruptions, and soaring energy prices are largely to blame.

Inflation also remains a key concern in the Australian economy, where there remain opposing forces at work. Higher interest rates and tighter financial conditions have had a dampening effect on demand, but the terms of trade continues to provide significant stimulus to national income. The RBA expects that the terms of trade will rise by 20% this year, which will boost real gross domestic income by around 4%. The Governor highlighted, though, that a tight monetary policy is essential in order to head off "further problems that could easily emerge given the expansionary effects of the terms of trade." This explains, in part, why the RBA was hiking interest rates as the Fed eased.

The question and answer session that followed the speech also offered little new information. The Governor highlighted the lagged effect of recent interest rate changes on the economy. He also drew some parallels between current conditions and those in the 1970s, although noted one key difference, labour costs. The RBA has remained concerned for some time about a potential acceleration in wage growth given that labour market conditions remain tight.

Data releases and forecasts

Week of Jun 2 - 6

Tue Jun 17 11:30am	RBA monetary policy meeting minutes				
Wed Jun 18 10:30am	WMI leading index Seasonally adjusted				
		Jan	Feb	Mar	Apr
	(%m/m)	-0.2	-0.1	0.2	__

Review of past week's data

Housing finance approvals: owner occupiers
Number of loans, seasonally adjusted

	Feb		Mar		Apr	
(%m/m)	~~-6.8~~	*-7.4*	~~-6.1~~	*-5.7*	~~-3.0~~	
(%oya)	~~-0.4~~	*-0.6*	~~-8.4~~	*-8.7*	~~-13.9~~	*-14.2*

ANZ job advertisements
Seasonally adjusted

	Mar		Apr		May	
(%m/m)	-0.7		3.1		__	*-1.7*

NAB monthly business survey
% balance, seasonally adjusted

	Mar		Apr		May	
Business confidence	-4		-8		__	*-4*

WMI consumer sentiment index
100=neutral, seasonally adjusted

	Apr		May		Jun	
(%m/m)	-1.4		2.7		~~1.0~~	*-5.6*

Labor force
Seasonally adjusted

	Mar		Apr		May	
Unemployment rate (%)	4.1		~~4.2~~	*4.3*	~~4.3~~	
Employed (000 m/m)	~~18~~	*3*	~~25~~	*38*	~~5~~	*-20*
Participation rate (%)	~~65.3~~	*65.2*	~~65.4~~	*65.5*	~~65.4~~	*65.2*

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

New Zealand

- **Retail sales rose on higher prices**
- **Household sector facing signfiicant headwinds**
- **Economic growth to slow to a standstill**

In New Zealand, data last week showed that retail sales growth surged in April, thought the trend remained flat. Strong auto sales and rising goods prices lifted the headline sales number, which is reported in value, rather than volume, terms. Record high interest rates, elevated food and energy prices, a rapidly deteriorating housing market, and drought conditions in key dairy producing regions will continue to curb consumer spending in coming months.

Kiwi retail sales spike on autos

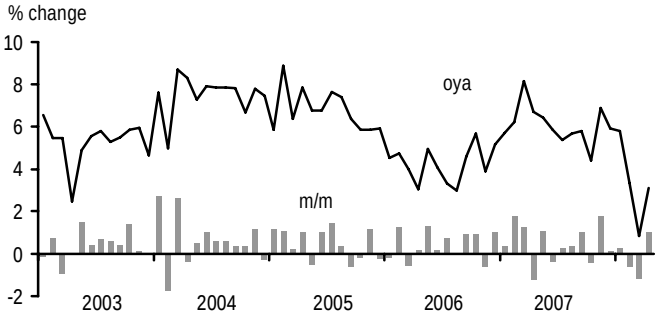
Retail sales jumped 1.0%m/m in April (JPMorgan 0.2%, consensus 0.4%), rebounding from a 1.2% fall in March. The headline number was lifted by an 8.1%m/m spike in motor vehicle sales, an unusual surge in smash repair and tire sales (+16.6%) and other vehicle repairs (+9.5%). Stripping out the autos component, sales declined 0.5%m/m, after falling 0.4% previously.

The surge in the headline retail sales number was not only a payback for the sharp fall in March, but also owing to the volatile autos component, which includes the four vehicle related industries. Of these four industries only fuel retailing fell (-2.2%m/m). The trend in retail sales remains weak, rising just 0.1%m/m in April, unchanged from the previous two months.

The negative wealth effects from the sharp deterioration in the housing market are creating significant headwinds for the household sector, already under pressure from record high interest rates and rising prices for staples, such as food. Furthermore, a number of domestic banks have passed on higher funding costs resulting from credit market tightening, even though the official cash rate (OCR) has remained steady since July. The labour market also has shown signs of loosening. Employment contracted in 1Q and growth in private sector labour costs slowed. With business confidence plunging, companies are likely to be even more reluctant to hire workers going forward, meaning that the unemployment rate will probably trend high.

Weaker private consumption growth is one key reason why economic growth will slow to a standstill in coming quarters. We currently forecast two negative quarters of growth in 1Q and 2Q. But, while economic growth may stall, widespread inflation pressures will prevent the RBNZ from cutting the OCR in the very near term. Pipeline pressures continue to build, nontradables inflation remains elevated, and inflation expectations are rising. The RBNZ expects annual CPI to peak at 4.7%

New Zealand: retail trade



in 3Q, before returning to within the target 1-3% band in the medium term. The RBNZ has, however, said that it may be "in a position to lower the OCR later this year." We maintain our forecast that the RBNZ will cut the OCR 25bp in October and December, and again in 1Q09, although the risk is definitely tilted towards an earlier move.

Data releases and forecasts

Week of Jun 2 - 6

Fri Jun 20 10:45am	Visitor arrivals Not seasonally adjusted				
		Feb	Mar	Apr	May
	Total (%m/m)	5.3	-0.5	-11.8	__
Fri Jun 20 10:45am	Net permanent immigration				
		Feb	Mar	Apr	May
	Monthly (000s)	2.0	-1.0	-1.3	__
	12 month sum (000s)	4.6	4.7	4.7	__

Review of past week's data

QVNZ house prices
%, median

	Mar	Apr	May	
(%oya)	6.5	4.9	__	*2.4*

Terms of trade
Seasonally adjusted

	3Q07		4Q07		1Q08	
(%q/q)	3.6		~~2.9~~	*2.6*	__	*4.1*

Business PMI
Seasonally adjusted

	Mar		Apr		May	
Index	~~48.7~~	*48.5*	~~51.4~~	*51.5*	__	*49.3*
(%oya)	~~-16.1~~	*-16.4*	~~-5.0~~	*-4.8*	__	*-12.1*

Retail trade
Seasonally adjusted

	Feb	Mar	Apr	
(%m/m)	-0.6	-1.2	~~0.2~~	*1.0*
(%oya)	3.3	0.8	~~2.3~~	*3.0*

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

- **An era of growth-oriented global monetary policy (2001-08) is ending**
- **FOMC expected to take a step in September toward normalizing policy**
- **While the Fed deals with normalization, EM policymakers face inflation**
- **Looking for guidance on the BoE from this week's June minutes**
- **Don't forget that global growth is downshifting**

You never know what's enough until you know what is more than enough

The shift in global interest rates in recent weeks is remarkable against the backdrop of current economic conditions. The global economy delivered trend-like growth during 1Q08, but the broad thrust of data points to a downshift this quarter. JPMorgan forecasts that global GDP growth is slipping below trend and will remain subpar until early next year. Despite this news, markets have moved to price in sustained tightening by central banks. It is easy to look at rising oil prices as the main factor behind this dichotomy. It would be a mistake, however, to lose sight of the more fundamental shift in central bank behaviour taking hold. Indeed, JPMorgan expects a significant adjustment in monetary policy over the coming 18 months, even as global growth remains sluggish, oil prices fall, and headline inflation rates begin moving lower later this year.

Understanding the forces in motion requires a recognition that central bankers have been consistently growth-biased this decade. Their conviction that there are close linkages between trends in resource utilization, commodity prices, and consumer price inflation wavered during the 1990s as inflation consistently trended down. These doubts, together with lingering deflation fears, led policymakers on to the path of a grand experiment testing the limits of noninflationary growth. Policy stances remained accommodative through the 2003-06 growth boom. By the eve of last summer's credit crisis, real policy rates (deflated by core CPI inflation) had returned to 1990s norms, but resource utilization rates had risen above the peak levels of the 1990s.

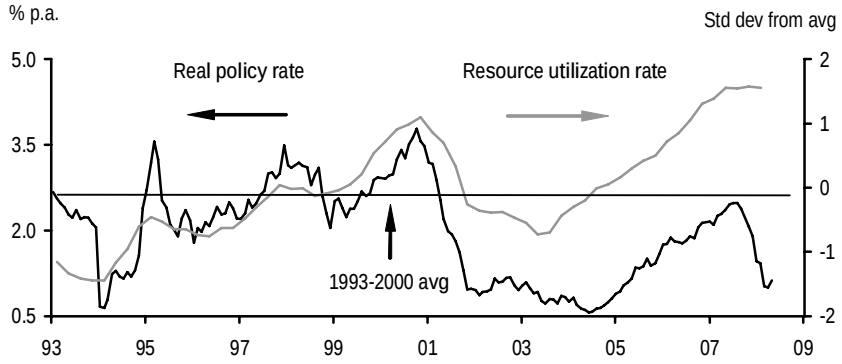
The onset of the credit crisis obscured a growing tension while underscoring central banks' growth bias. Global monetary policy eased roughly 100bp, even as core inflation moved higher. Most of the global easing has come from the FOMC. But outside the US, core inflation has risen about 100bp and resource utilization rates have risen further, yet there has been no net movement in nominal policy rates.

Although this bias has been consistent this decade, central banks are not underwriting growth unconditionally. Conditions are now changing on two fronts at once—with recessions fears abating in the US and inflation pressures building across Emerging Market economies—explaining the marked shift in central bank rhetoric. Absent a negative feedback loop through financial markets that are not prepared for this shift in reaction functions, central bankers will follow their rhetoric with action. For the FOMC, this shift is expected to deliver an early start to the normalization process in September. For emerging market central banks, adjustments will move slowly but ultimately prove large.

Minutes to illuminate BoE call

The tension between inflation and growth risk is most acute in the United Kingdom. The inflation news continues to worsen, as evidenced by the surge in the May PPI, the unprecedented jump in the Bank of England's survey of short-run household inflation expectations, and the continued climb in medium-term inflation expectations in inflation-linked markets. This

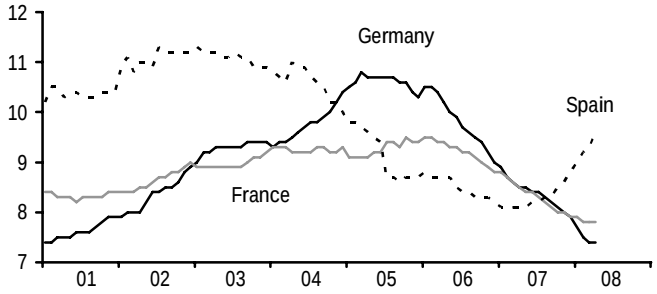
Global real policy interest rate and utilization rate



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

Euro area unemployment rates

Percent, sa



week's reports are expected to show that May CPI inflation topped 3%, forcing BoE Governor King to write an explanatory letter to the Chancellor. At the same time, business surveys suggest that 2Q GDP growth is tracking at a below 1% pace, and housing-related data are extremely weak. A solid gain in May retail sales (expected this week) should serve as a reminder that consumer spending, along with labor market indicators continue to hold up.

Against this backdrop, the MPC is unlikely to refrain from tightening for long. The minutes of the June meeting, which took place with the jump in household inflation expectations already revealed, will be key in judging whether the Committee has the patience to watch for signs of weakening consumer spending. Our judgment is that no one was willing to vote to hike last month. If that was the case, we would continue to look for rates to hold at 5%. But with inflation likely headed to a peak above 4%, and other central banks turning surprisingly hawkish, the near-term risks are shifting toward an ECB-like signalling move.

EU economy and politics turn rocky

Irish voters have decisively rejected the Lisbon Treaty, which will create some political problems for the EU. The Lisbon Treaty is essentially a repackaging of the constitution that was rejected by French and Dutch voters back in 2005. Since constitutional changes at the EU level must be approved by all 27 EU members, rejection by even one small country prevents the changes from being implemented. It is not clear exactly what happens next, as there is no backup plan in hand. Most likely, an amended Lisbon Treaty will be put before Irish voters once again, as happened before with the Nice Treaty. So, last week's vote is a problem but not an insurmountable one.

However, over the coming months, the EU will face not only the political issue of getting the Lisbon Treaty ratified but will need to deal with a growing macroeconomic divergence within the Euro area. This is already evident in the data, with Germany continuing to do well and Italy and Spain close to stagnation. Perhaps the most striking evidence of this divergence is the dramatic move up in Spanish unemployment since last summer. This increased regional divergence is likely to persist for a while, and will create tensions on a number of levels: at the ECB it could prove hard to maintain a united front in dealing with inflation risk; on the fiscal side, governments may return to violating the stability and growth pact. The Irish vote and the recent macro data suggest that the political and macroeconomic outlooks are both rocky.

China's growth remains robust

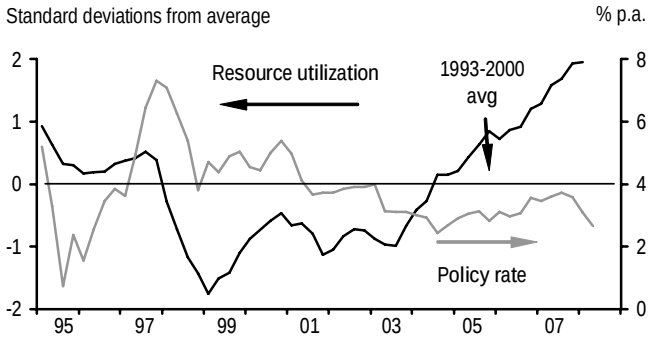
Incoming data for China confirm that growth is holding up well and inflation is starting to come off the boil. Exports surged in May, and this was accompanied by a solid advance in retail sales. In addition, we anticipate that May brought healthy gains in fixed asset investment and IP, to be reported next week. At the same time, inflation made a decisive move down to 7.7%oya. A further moderation in food inflation (still near 20%oya) should continue to drive headline inflation lower in coming months. Although the government will take the opportunity to raise prices on gasoline, diesel, and electricity, on net, headline CPI will continue to move down toward 4%oya by year's end. This growth and inflation backdrop should comfort the incrementalist central bank. The People's Bank of China raised the banks' reserve requirement ratio (RRR) another 100bp recently, but interest rate hikes may be postponed until late this year.

Monetary tightening sweeps across EM

Although inflation has begun to fall in China, it is still rising across the rest of EM Asia. This development, and the limited severity of the regional growth slowdown so far, is prompting accelerated policy tightening. India last week decided that in an atmosphere of higher headline inflation and a weakening currency it could not wait to hike rates. The Reserve Band of India's 25bp hike in the repo rate comes on the heels of the increase in domestic fuel prices and well before the July policy review. With inflation expected to remain elevated, we are now forecasting two more 25bp rate hikes in India, coming in July and September, bringing the repo rate to 8.5%. The change in the RBI call echoes similar revisions made in recent weeks to

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

EM resource utilization and average real policy rate



central bank forecasts around Emerging Asia. Korea was one place where growth concerns still seemed to be holding their ground against inflation worries, leaving open the possibility of a rate cut. But last week's MPC statement and the BOK governor's comments sounded neutral and, accordingly, we have changed our call to expect no rate moves in 2008 and tightening to begin in the middle of 2009.

Inflation also remains on an uptrend in Latin America. JPMorgan now calls for five of the Latin central banks that we monitor to join a tightening cycle. Last week we changed our forecast for Mexico, where we look for 25bp hikes at this Friday's meeting and in August. In addition, Chile surprised markets by hiking 50bp, while Peru hiked 25bp, and we now expect both their central banks to raise rates again in July. We maintain our existing calls that Brazil and Colombia will continue their tightening cycles. Indeed, this week's minutes hinted that Brazil's COPOM may step up the pace of tightening from 50bp to 75bp increments.

Until now, we have maintained that central banks facing strong domestic demand growth also face greater pass-through risk and that this reality pointed to tighter policies. This certainly fits the situations of Brazil, Colombia, and Peru. Two developments explain the expected shift to regionwide tightening. First, inflation expectations are rising and this raises the risk of second-round effects, even where growth is below potential. There also has been a notable increase in local market interest rates. Second, currencies have started to depreciate—with the exception of BRL—which diminishes officials' concerns that tighter monetary policy might induce an unwanted appreciation of exchange rates that would adversely affect export growth.

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

Window is shrinking for risky assets

- **Both equities and bonds are down heavily** on the week, while credit for once is standing on the sidelines, happy that the focus has moved to macroeconomics and away from the credit crisis.

- Our directional strategy has been based on the view and hope that fading concerns about tail risk to this year's economy would only slowly switch to fears of what damage central banks would have to do to control global inflation. This **window, between the fear of recession now and recession later,** brought on by the war on inflation, opened up in late March and was expected to last through the fall. Hence, our still positive forecasts for equities, bonds, and credit through year end. But rising inflation readings and inflation expectations are starting to erode any patience that central banks had, as made clear through recent hawkish central bank statements.

- Our **current view** is that the shift in central banks' focus from growth to inflation is a gradual, and not a violent one. The ECB and the Fed will start with protest hikes this summer, aimed at curtailing inflation expectations. Sustained US job losses in 2H should keep the Fed from acting fast. But if inflation expectations fail to come down, then rate hikes will accelerate.

- The **gradualness of this shift** from growth support to inflation control should keep the window open for equity and credit markets in coming months, but it is nevertheless a risk, given the tendency of markets to underestimate central bank moves. Accordingly, we have mixed up our longs in equities and high-grade credit, with shorts in bonds (10-year USTs, and local EM bonds) and overweights in energy stocks. Generally, we are **reducing carry trades** that depend on stability in markets.

Fixed income

- **Bond markets continue to sell off** with the return on our Global Government Bond Index now -0.5% ytd, currency hedged, and EM local markets at -2.5% ytd. Our global bond strategy remains **short duration**, concentrated in local **EM bonds** where central banks are starting to fight inflation more seriously. But OECD central banks are now also joining the fray. Combined with continued heavy duration supply, this keeps us bearish bonds. We stay short the US 10-year.

- **Yields at the short ends** of curves in major markets have raced ahead of forecast revisions on monetary policy and thus may seem to offer value. We advise **staying out**, as **momentum is clearly negative**. Momentum is a powerful signal in the short end, as investors systematically underestimate policy moves, in both easing and hiking cycles. The risk is that this time again, even we underestimate how fast central banks will hike rates.

- Increased uncertainty around central bank actions is forcing us to **reduce our long carry positions** in fixed income. We are keeping overweights on high-grade credit and AAA consumer ABS on value.

Equities

- **Equities are down** another 2% last week as inflation concerns continue to dent investors' sentiment. We remain long on the view that central banks are not yet inclined to tighten aggressively. Both the ECB and The Fed are expected to deliver a 25bp rate hike in July and September,

10-yr government bond yields

	Current	Sep 08	Dec 08	Mar 09	Jun 09
United States	4.22	4.10	4.15	4.25	4.30
Euro area	4.64	4.70	4.60	4.50	4.50
United Kingdom	5.26	5.10	5.00	5.00	4.80
Japan	1.87	1.50	1.60	1.60	1.85

Equities

	Current	YTD return (local currency)
S&P	1346	-7.9%
Topix	1372	-6.7%
FTSE 100	5803	-8.3%
MSCI Eurozone	200	-15.3%
MSCI Europe	1315	-12.4%

Credit markets

	Current	Dec 08
US high grade (bp over UST)	221	200
US high grade (bp over swaps)	135	135
Euro HG corp (bp over swaps)	85	65
USD high yield (bp vs. UST)	630	800
EMBIG (bp vs. UST)	260	250

Foreign exchange

	Current	Sep 08	Dec 08	Mar 09	Jun 09
EUR/USD	1.54	1.55	1.50	1.45	1.42
USD/JPY	108	108	110	112	115
GBP/USD	1.95	1.89	1.85	1.81	1.80

Commodities

		Quarterly average	
	Current	Sep 08	Dec 08
WTI oil $/bbl	135	95	92
Gold ($/oz)	870	915	900
Copper($/m ton)	7989	8800	8000
Corn ($/Bu)	7.58	6.15	6.30

Source: JPMorgan, Bloomberg, Datastream.

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

respectively, aimed at containing inflation expectations, but we do not expect these to be followed immediately by a string of hikes. In EM, where growth and inflation are much higher, some central banks are indeed raising rates but there is a general reluctance to move aggressively; we expect little change in the EM real policy rate before year end. We recognize, though, that central bankers' attitudes to inflation are changing, implying that the threat to equity markets from a more aggressive policy response could come earlier that we envisaged, perhaps as early as 4Q of this year.

- **Widespread pessimism and elevated cash balances,** as well as rising M&A activity, are also supportive of equities in the near term. Strategic M&A activity has risen to $100bn per week globally, close to the peak in the first half of 2007.

- Across regions, we **underweight European** equities vs the US, as Europe is facing weaker economic numbers and the US is benefiting from accommodative fiscal and monetary policy. In EM, we keep a long vs developed markets, as growth appears to be holding up well, but we advise avoiding countries where central banks are hiking aggressively; i.e., Brazil, South Africa, Turkey, Poland.

- Across **sectors**, we continue to favour cyclical vs non-cyclical sectors but we reduce positions given that momentum is turning negative for this trade. In contrast, growth continues to outperform value and we recommend keeping a decent exposure to this trade.

Credit

- Credit markets continue to trade within their recent **ranges**, exhibiting little reaction to weaker equity markets. US credit spreads have tightened in cash bonds, outperforming Europe and CDS. The latter is to a large extent driven by hedging demand and is thus more susceptible to equity market weakness. Primary and activity have slowed considerably in both HG and HY. So far this month, US HG issuance has totaled $11bn, very low compared to the $135bn raised in May. In US HY, only three deals were priced this week, less than a billion dollars in total, after $3bn per week of issuance for the past six weeks.

- The better performance of credit markets vs equities is to a large extent a reflection of financials. Financials are reducing leverage and dividends and are raising capital. This is positive for their credit but negative for their equity. Investors interested in **overweighting financials will have more success in credit than in equities** in coming months.

- **We stay long credit, as range trading favours carry trades.** The bond-CDS basis narrowing trade is working well and we see further upside. We continue to favour maturity steepeners in US HG and continue to overweight US credit vs Europe for the same reasons as in equities.

Foreign exchange

- The rising focus on inflation is **reviving fx volatility** by bringing forward expectations of central bank tightening. Taken together, rising inflation and higher vol argue for tilting positions further toward defensive trades. We reverse longs in high-yielders like AUD which are now more vulnerable to position liquidation, leaving us even further short G-10 carry (short EUR/CHF and AUD/CAD).

- **Winners and losers from rising inflatio**n should be determined by two factors—the **level of real yields and central banks' response to price pressures**. The best buys should be currencies where real rates are positive and likely to rise given central bank commitment to control inflation, while the weakest should be those where real rates are negative and/or likely to fall as the central bank eases or remains on hold. The dollar sits between these poles, with a negative real yield but the prospect of Fed tightening this year. The rally in USD/JPY is entirely justified by the upgrade in US vs Japanese rates but gains versus the euro look less sustainable if indeed the ECB delivers quicker followthrough than the Fed on hawkish rhetoric. Hence we prefer to play the global inflation theme outside of USD/JPY, and instead are **long EUR/JPY and EUR/NZD.**

- As in G-10, many **EM** currencies are trading in line with their position on a real rates/central bank credibility grid. BRL remains relatively firm compared to the moves in other high-yielders such as ZAR and TRY, and we expect the COPOM commitment to further rate hikes to keep USD/BRL in a range. PLN looks the next best position for modest strength, given reasonably strong growth and likely central bank tightening.

Commodities

- **Crude** oil has come off all-time highs but should stay **firm** despite the dollar's rally. The dollar-oil connection is overstated, such that even further USD strength from rising US rates is unlikely to force a sustainable downdraft in oil prices. The bear market case for crude still rests on weakening demand. OECD appetite will no doubt contract further at current prices, but softer emerging market consumption remains the prerequisite for a move lower. With subsidies lifted, Asian imports should begin decelerating, but we still await a change in Chinese pricing policy before positioning for a steep fall.

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

Markets - Australia and New Zealand

- **Only one RBA rate hike now priced in by December**
- **AUD dollar declines amid string of weak data**
- **RBNZ rate cut still likely despite retail sales spike**

Market commentary

Australia

A string of weak data was released in Australia last week, suggesting that domestic demand is moderating. Home loans fell, employment contracted unexpectedly, and consumer confidence deteriorated, despite the RBA's decision to leave the cash rate unchanged earlier in the month.

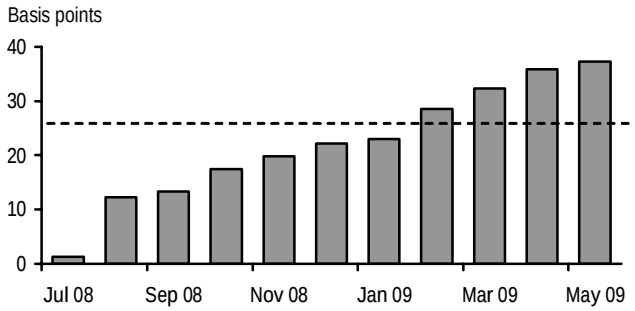
The minutes from the June meeting will be released on Tuesday, and will likely show that the Board acknowledged that inflation had spiked up to uncomfortably high levels and was likely to stay elevated for an extended period. There will also be references in the minutes to the "opposing forces" at work in the economy—domestic demand has cooled amid tighter credit conditions and higher interest rates, although this is being offset to some extent by the soaring terms of trade.

Indeed, on balance, the RBA is on hold while officials navigate between weakening domestic demand and elevated inflation. Our forecast is for the cash rate to remain unchanged at 7.25% for the remainder of 2008, but the risk is tilted toward higher rates if persistently elevated inflation begins to affect price and wage settings. The Melbourne Institute reported last week that consumer inflationary expectations rose to 5.9% in June, the highest reading since 1993, from 5.2% in May.

Data last week showing a contraction in employment in May (-19,000) was the biggest surprise. It marked the first decline in employment since October 2006. We had expected some moderation in employment growth, however, given the string of weak domestic data of late. In particular, business confidence has been weak, meaning that firms have probably started to rein in, or postpone, their hiring efforts. Firms have started to reassess their labour requirements in response to increasing signs that the domestic economy has started to moderate.

Despite the contraction in employment in May, labour market conditions remain tight. The economy has added 230,000 jobs since mid-2007 and the unemployment rate remains at a three-decade low. Wage growth to date has remained contained, but the risks are skewed to the upside.

RBA rate hikes implied by 30-day IB contracts



Shortly after the employment data, market pricing suggested an 89% chance that the RBA will raise the cash rate 25bp by the end of the year. By the end of the week, though, a 25bp hike was again fully-priced in. Meanwhile, the 3s10s curve continued to flatten, ending to week at -33 after closing the previous week at -23.5.

The AUD also shed momentum and, after starting the week near $0.9650, temporarily below $0.9300. AUD regained some ground on Friday following the speech by RBA Governor Glenn Stevens, even though the commentary offered little new information.

New Zealand

The highlight in New Zealand last week was the jump in retail sales (+1.0%m/m) in April. The surge in sales was more than double market expectations, but mainly owing to volatile vehicle-related sales. Stripping out the autos component, retail sales declined 0.5%m/m, after falling 0.4% in March. Moreover, the trend in sales remained weak, rising just 0.1%m/m.

The negative wealth effects from the sharp deterioration in the housing market are creating significant headwinds for the household sector, already under pressure from record high interest rates and the decision among a number of domestic banks to pass on higher funding costs resulting from credit market tightening. The labour market also has shown signs of loosening and business confidence has plunged, meaning that the unemployment rate will probably trend higher.

Weaker private consumption growth is one key reason why we believe economic growth will soon slow to a standstill. We currently forecast two negative quarters of growth in 1Q and 2Q.

Still, widespread inflation pressures will prevent the RBNZ from cutting the OCR in the very near term. Pipeline pressures continue to build, nontradables inflation remains elevated, and inflation expectations are rising. The RBNZ expects annual CPI to peak at 4.7% in 3Q, before returning to within the target 1-3% band in the medium term. The RBNZ has said, though, that it may be "in a position to lower the OCR later this year" if the economy "evolves" in line with its projection. We maintain our forecast that the RBNZ will cut the OCR 25bp in October and December, and again in 1Q09, although the risk is definitely tilted towards an earlier move.

The NZD shed 2% against the US dollar over the week to finish around 75 US cents. The yield on 90-day bank bills rose from 8.68%. to 8.70%. Kiwi markets will likely to their cue from abroad this week, given the absence of top-tier economic data on the local agenda.

Trade recommendations

- Establish short Aussie Dec.'08 and buy Dec.'09 bank bills. Currently at -12, with target of -30 and stop loss of -4.
- We had established long Dec'08 bank bills at 91.85. Stopped out at 91.80.
- Our Aussie 3s 10s curve steepener stopped out at -25. Established at -23.5 with target -10. The curve has continued to flattened on expectations that the RBA may need to tighten policy again this year.

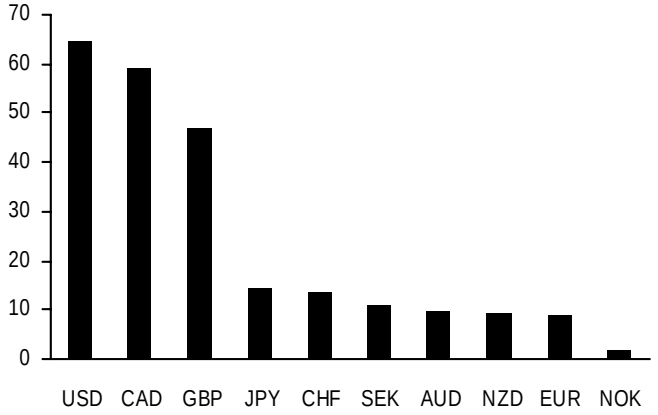
AUD and NZD Commentary

- **Inflation worries remain the dominant theme in FX markets, and a repricing of the Fed boosts USD across the board; go neutral AUD as positions are stretched**
- **Technicals: Corrective phases extend but both AUD/USD and NZD/USD are approaching key support zones**

Strategy comments

- Inflation fear and expectations for central bank response remained the key theme in the FX markets in the past week. Bernanke's emphasis on the need to anchor inflation expectations and subsequent hawkish Fed rhetoric at the Boston Fed's inflation conference triggered a large repricing in the market's Fed expectations. Mixed US data did not deter the market from pricing more than three Fed hikes by the end of the year. Inflation risks also led the BoC to hold policy rates steady at its meeting, despite widespread expectations for an ease in response to the weaker growth trajectory.
- The 65bp increase in US front-end rates, and the significance of this move relative to the more moderate increase in global rates, pushed the dollar higher against all of its G-10 counterparts (chart). NOK, SEK, AUD and NZD, meanwhile, were the major underperformers. While domestic rates were steady-to-lower for each of these currencies, the increase in market uncertainty was another important factor explaining their decline: the approximate 2% decline in US and European equity markets and the increase in FX volatility kept those currencies with stretched positioning under pressure.
- The widespread increase in inflation concerns in recent weeks and the consequent repricing of central bank expectations warrants a revisit of our FX forecasts.The recent shift in market focus does not change our core view that the bounce in the dollar is likely to be gradual, moderate, and uneven: the rise in real US rates comes from a low level, and much of the rise has been mirrored in other parts of the G-10. For EUR/USD, we lower our targets modestly targetting 1.50 by year end. Our 110 target for USD/JPY is modest, in part because we believe Fed action will need to substantiate the move higher in US rates, and that current pricing of more than three hikes this year is aggressive at this stage.
- From a near-term trading perspective, we continue to see upside for those currencies where real rates are high and biased to increase further. The move in EUR/JPY has been consistent with the recent move in rate differentials, and we stay long. The EUR is also biased to rise versus NZD because the cyclical turn in the economy should lead to RBNZ easing later this year. We continue to believe a relatively steady policy backdrop will support AUD over the medium term, but the prospect of higher global policy rates in an environment of sub-par growth does raise risks for the high-yielder. Given positions in AUD are currently stretched on the long side, we reduce AUD longs.

The major rate repricing has drivin FXm



Technical analysis

- NZD/USD maintains the interim corrective phase following the failure against the critical 0.7900/35 resistance zone. For the near term setup, some pause is likely particularly as the decline is approaching the key support in the 0.7420/.7365 zone. This area includes the 50% retracement from the August '07 low, as well as the October/January lows. However, until prices stage a break back above the key 0.7700/.7770 resistance levels, the downside risks will remain intact. Note that NZD should continue to underperform on an interim basis given the recent breakouts in EURNZD and AUDNZD.
- AUD/USD has shifted lower over the past week with the violation of the 0.9500 support area suggesting a short term consolidation phase is underway. The key test rests at 0.9300/.9270 zone, which represents the May lows and will define whether a deeper corrective phase is underway, or prices are shifting into a range. Strength back above the 0.9500 area would improve the short term setup for a retest of the important 0.9655 high.

AUD/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			
	2007	2008	2009	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	1Q08	2Q08	4Q08	2Q09
The Americas														
United States	2.2	1.6	2.1	0.6	0.9	1.0	1.5	1.0	2.0	3.0	4.2	4.0	3.9	2.6
Canada	2.7	0.9 ↑	2.3	0.8	-0.3	0.0 ↑	1.5	2.3	2.5	2.8	1.8	1.9	2.4	1.7 ↓
Latin America	5.3	4.0	4.0	5.8 ↑	2.0 ↑	3.0 ↑	3.4	4.4	4.0	4.2	6.3	7.3 ↑	7.1	6.1
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	2.9 ↑	2.5	4.6	4.4	4.1	3.8	4.6	5.4	5.8	5.3
Chile	5.1	3.5	5.0	3.4	5.8	5.0	1.0	5.0	5.0	6.0	8.0	8.5	6.4	4.3
Colombia	7.5	5.0	5.0	6.8	6.1 ↑	5.9 ↑	5.5	5.1 ↑	4.5	5.0	6.1	6.3 ↑	5.8 ↑	4.5 ↑
Ecuador	2.0	2.5	2.5	5.0	2.0	1.5	1.0	1.0	2.5	3.5	5.3	8.5	8.3	4.2
Mexico	3.3	2.6	4.0	3.0	2.0	1.0	2.0	3.0	4.9	4.9	3.9	5.0	4.5	3.0
Peru	9.0	7.7	6.0	10.5	7.9	5.0	3.0	4.5	6.5	7.0	4.8 ↑	5.4 ↑	4.8 ↑	2.8
Venezuela	8.4	3.5	3.5	13.1	-12.5	4.5	7.5	10.0	-2.5	2.5	26.2	29.3	30.0	30.5
Asia/Pacific														
Japan	2.0	1.4 ↑	1.4	2.9 ↑	4.0 ↑	-1.5	0.8	1.3	1.8	1.8	1.0	1.4 ↑	2.0 ↑	1.3 ↑
Australia	4.3	3.3	2.7	2.7	2.5	4.0	2.9	3.4	2.9	1.6	4.2	3.8	3.7	2.7
New Zealand	3.1	1.0	1.9	4.1	-0.4	-1.3	0.0	1.5	2.0	3.4	3.4	3.0	2.9	3.2
Asia ex. Japan	8.8	7.4	7.5	7.3	7.9	6.3	7.5	7.1	7.0	7.5	6.3	7.0	5.4	4.4 ↑
China	11.9	10.5	9.8	9.2	10.5	10.8	11.7	10.2	9.1	9.1	8.0	7.8 ↑	4.6 ↑	4.6 ↑
Hong Kong	6.4	4.8	5.0	6.6	7.3	-1.0	3.5	3.0	5.5	8.0	4.6	5.4	3.1	2.4
India	9.0	7.0	8.0	8.5	8.8	6.4	6.0	5.6	5.9	8.0	6.3	7.8	7.8	5.6
Indonesia	6.3	5.4	5.2	5.1	5.9	5.0	3.0	4.5	5.0	5.0	7.6	12.4	14.2	8.3
Korea	5.0	4.4	5.0	6.4	3.3	2.5	3.5	4.5	5.5	5.5	3.8	4.7	4.1	3.1
Malaysia	6.3	5.2	5.5	7.0	6.4	2.4	2.0	2.4	7.4	7.4	2.6	4.0	5.9	4.7
Philippines	7.2	4.0	4.5	5.1	4.3	2.0	4.0	4.0	4.0	5.9	5.5	8.5	8.0	4.3
Singapore	7.7	4.6	5.7	-4.8	14.6	-1.6	5.3	4.5	7.0	7.0	6.6	6.8	4.9	1.9
Taiwan	5.7	4.3	5.0	2.3	3.0	0.5	5.8	6.5	4.8	4.8	3.6	4.1	2.1	2.8
Thailand	4.8	4.6	5.0	7.4	5.6	3.0	5.0	6.0	4.5	4.5	5.0	6.0	5.9	4.5
Africa														
South Africa	5.1	3.3	3.5	5.3	2.1	3.8 ↑	1.5 ↓	1.1 ↓	4.5 ↑	4.1	9.9	11.4 ↑	11.7 ↑	7.7 ↑
Europe														
Euro area	2.6	1.8	1.3	1.3	3.2	0.5	1.2	1.2	1.0	1.5	3.4	3.5	3.2	2.3
Germany	2.6	2.2	1.6	1.1	6.3	-0.8	1.5	1.6	1.8	2.0	3.1	3.0	2.8	1.9
France	2.1	1.8	1.6	1.4	2.6	1.0	1.5	1.4	1.5	1.8	3.3	3.4	2.9	2.1
Italy	1.4	0.5 ↑	1.0	-1.6 ↑	1.9 ↑	0.5	0.5	0.8	1.0	1.2	3.3	3.7	3.5	2.6
Norway	6.3	3.2	2.3 ↓	4.4	0.8	2.5	2.0	2.2	2.2 ↓	2.5	3.5	3.3 ↑	3.7 ↑	3.8 ↑
Sweden	2.9	2.0	2.2 ↓	2.8	1.6	1.7	1.5	2.0 ↓	2.2 ↓	2.5	3.2	3.8 ↑	3.6 ↑	2.7 ↑
Switzerland	3.1	2.1	1.4	3.8	1.3	1.0	1.0	1.3	1.3	1.5	2.5	2.7	2.9	1.9
United Kingdom	3.0	1.7	1.2	2.5	1.6	1.0	0.5	0.5	1.0	2.0	2.4	3.0	4.1	3.0
Emerging Europe[1]	6.5	6.0	5.7 ↓	12.7 ↓	1.3	7.9	4.3	11.0 ↑	0.5 ↓	7.4	9.3 ↑	10.2 ↑	9.3 ↑	7.8 ↑
Bulgaria	6.2	5.2	5.5	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.6 ↑	5.0	4.5 ↓	5.4 ↓	3.6	5.1 ↑	5.0 ↑	5.0 ↑	4.2 ↓	4.0 ↓	7.4	6.9 ↓	5.9 ↑	3.3 ↑
Hungary	1.3	2.0	2.8	0.3	1.3	3.0	2.8	2.9	2.8	2.8	6.9	6.5	5.3	3.9
Poland	6.6	5.8	5.3	7.4	5.7	5.0	4.5	5.5	5.3	5.5	4.1	4.2	4.1	3.7
Slovak Republic	10.4	7.5 ↑	5.5	14.0	-3.1	7.5 ↑	10.5 ↑	12.0 ↑	-5.0 ↓	6.0 ↑	4.0	4.5 ↑	4.3 ↑	3.2 ↓
Romania	6.0	7.0 ↑	4.0 ↑	...	...	...	...	...	...	...	8.0	8.7 ↑	6.4 ↑	5.8 ↑
Russia	8.1	7.8	7.0	19.1	-2.2	11.2	4.0	17.0	-3.0	10.3	12.9	14.8	13.2	11.4
Turkey	4.5	3.8 ↓	5.2 ↓	...	...	...	...	...	...	...	9.6 ↑	10.5 ↑	10.3 ↑	8.6 ↑
Global	3.5	2.6	2.6 ↓	2.7	2.7	1.6	2.2	2.4	2.3 ↓	3.1	4.0	4.2	4.0 ↑	3.0 ↑
Developed markets	2.5	1.7 ↑	1.7	1.4	2.1 ↑	0.5	1.2	1.2	1.6	2.2	3.2	3.3 ↑	3.3 ↑	2.3
Emerging markets	7.5	6.2	6.2 ↓	7.8	5.2	5.7	5.8	7.0	5.1	6.6	6.9	7.7	6.7 ↑	5.5 ↑

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 Aug 07 (bp)	Last change	Forecast next change	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09
Global	GDP-weighted average	3.67	-105			3.68	3.87	3.91	4.01	4.21
excluding US	GDP-weighted average	4.46	0			4.48	4.64	4.69	4.72	4.78
Developed	GDP-weighted average	2.77	-137			2.77	2.94	2.94	3.04	3.28
Emerging	GDP-weighted average	7.34	28			7.40	7.64	7.84	7.94	7.99
The Americas	GDP-weighted average	2.87	-273			2.89	3.15	3.18	3.39	3.80
United States	Federal funds rate	2.00	-325	30 Apr 08 (-25bp)	**16 Sep 08 (+25bp)**	2.00	2.25	2.25	2.50	3.00
Canada	Overnight funding rate	3.00	-150	22 Apr 08 (-50bp)	**on hold**	3.00	3.00	3.00	3.00	3.00
Brazil	SELIC overnight rate	12.25	75	4 Jun 08 (+50bp)	23 Jul 08 (+50bp)	12.25	13.25	14.00	14.00	14.00
Mexico	Repo rate	7.50	25	26 Oct 07 (+25bp)	**20 Jun 08 (+25bp)**	7.75	8.00	8.00	8.00	8.00
Chile	Discount rate	6.75	125	**10 Jun 08 (+50bp)**	**10 Jul 08 (+25bp)**	6.75	7.00	7.00	7.00	7.00
Colombia	Repo rate	9.75	50	22 Feb 08 (+25bp)	27 Jun 08 (+25bp)	10.00	10.00	10.00	9.75	9.50
Peru	Reference rate	5.75	100	**12 Jun 08 (+25bp)**	4Q 08 (+25bp)	5.75	5.75	6.00	6.00	5.75
Europe/Africa	GDP-weighted average	4.56	-2			4.58	4.78	4.79	4.80	4.77
Euro area	Refi rate	4.00	0	6 Jun 07 (+25bp)	3 Jul 08 (+25bp)	4.00	4.25	4.25	4.25	4.25
United Kingdom	Repo rate	5.00	-75	10 Apr 08 (-25bp)	on hold	5.00	5.00	5.00	5.00	5.00
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)	on hold	5.50	5.50	5.50	5.50	5.50
Czech Republic	2-week repo rate	3.75	50	7 Feb 08 (+25bp)	25 Sep 08 (+25bp)	3.75	4.00	4.00	3.75	3.75
Hungary	2-week deposit rate	8.50	75	26 May 08 (+25bp)	**23 Jun 08 (+25bp)**	8.75	9.00	9.00	9.00	8.75
Poland	7-day intervention rate	5.75	100	26 Mar 08 (+25bp)	25 Jun 08 (+25bp)	6.00	6.25	6.25	6.25	6.00
Russia	1-week deposit rate	4.00	75	**9 Jun 08 (+25bp)**	**Aug 08 (+25bp)**	4.00	4.25	4.50	4.75	4.75
Slovak Republic	2-week repo rate	4.25	0	27 Apr 07 (-25bp)	on hold	4.25	4.25	4.25	4.25	4.25
South Africa	Repo rate	12.00	200	**12 Jun 08 (+50bp)**	**14 Aug 08 (+50bp)**	12.00	12.50	12.50	12.50	12.00
Switzerland	3-month Swiss Libor	2.75	25	13 Sep 07 (+25bp)	on hold	2.75	2.75	2.75	2.75	2.75
Turkey	Overnight borrowing rate	15.75	-175	15 May 08 (+50bp)	16 Jun 08 (+50bp)	16.25	16.75	16.75	16.75	16.00
Asia/Pacific	GDP-weighted average	3.64	10			3.65	3.70	3.79	3.85	4.06
Australia	Cash rate	7.25	75	4 Mar 08 (+25bp)	on hold	7.25	7.25	7.25	7.25	7.25
New Zealand	Cash rate	8.25	0	26 July 07 (+25bp)	23 Oct 08 (-25bp)	8.25	8.25	7.75	7.50	7.50
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	3.50	-325	1 May 08 (-25bp)	2Q 09 (+25bp)	3.50	3.75	3.75	4.00	4.50
China	1-year working capital	7.47	45	20 Dec 07 (+18bp)	4Q 08 (+27bp)	7.47	7.47	7.74	8.01	8.28
Korea	Base rate	5.00	0	9 Aug 07 (+25bp)	2Q 09 (+25bp)	5.00	5.00	5.00	5.00	5.25
Indonesia	BI rate	8.50	25	5 Jun 08 (+25bp)	3 Jul 08 (+25bp)	8.50	9.00	9.25	9.50	9.50
India	Repo rate	8.00	25	**11 Jun 08 (+25bp)**	**Sep 09 (+25bp)**	8.00	8.25	8.50	8.50	8.50
Malaysia	Overnight policy rate	3.50	0	26 Apr 06 (+25bp)	25 Jul 08 (+25bp)	3.50	4.00	4.00	4.00	4.00
Philippines	Reverse repo rate	5.25	-75	5 Jun 08 (+25bp)	17 Jul 08 (+25bp)	5.25	5.50	5.75	5.75	5.75
Thailand	1-day repo rate	3.25	0	18 July 07 (-25bp)	16 Jul 08 (+25bp)	3.25	3.50	4.00	4.00	4.00
Taiwan	Official discount rate	3.50	38	27 Mar 08 (+12.5bp)	26 Jun 08 (+12.5bp)	3.625	3.75	3.875	4.00	4.125

Bold denotes move this week and forecast changes

JPMorgan Chase Bank, Sydney
Stephen Walters (61-2) 9220-1599
stephen.b.walters@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*

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	4.3	3.3	2.7	4.5	4.9	2.7	2.5	4.0	2.9	3.4	2.9	1.6	2.5	2.3
Private consumption	4.6	3.3	1.9	3.3	4.7	6.3	2.8	1.6	1.6	2.0	2.4	1.6	2.0	1.6
Construction investment	9.7	3.6	3.7	4.1	10.0	-5.5	7.9	1.8	6.1	3.0	5.1	2.0	1.9	5.9
Equipment investment	7.7	2.3	-1.8	26.7	-11.2	16.1	-6.0	8.6	-4.1	0.0	-2.1	-4.1	-8.1	8.7
Public investment	5.4	12.1	6.0	82.8	-29.8	28.0	25.9	5.0	5.2	5.6	6.0	6.4	6.8	7.2
Government consumption	2.2	3.4	2.8	0.6	5.8	6.5	1.4	2.8	2.9	3.0	3.5	2.2	1.9	2.2
Exports of goods & services	3.2	3.5	6.2	3.5	8.1	-2.8	2.1	4.9	7.2	7.8	4.1	6.1	7.2	8.2
Imports of goods & services	10.6	8.8	2.7	7.4	10.0	14.3	14.6	2.4	2.0	3.2	3.2	2.4	1.8	3.2
Contributions to GDP growth:														
Domestic final sales	5.2	3.8	2.1	6.5	4.1	7.2	5.6	-1.1	2.3	2.4	2.9	1.6	1.5	3.2
Inventories	0.7	0.9	0.1	-1.0	1.4	-0.5	-0.1	4.8	-0.3	0.2	0.0	-0.6	0.0	-1.8
Net trade	-1.7	-1.4	0.6	-1.0	-0.7	-3.7	-2.9	0.4	0.9	0.8	0.0	0.6	1.0	0.9
GDP deflator (%oya)	3.8	3.3	2.6	4.1	3.3	3.5	3.5	3.7	3.4	2.8	2.6	2.6	2.6	2.5
Consumer prices (%oya)	2.3	3.9	2.7	2.1	1.9	3.0	4.2	3.8	4.0	3.7	3.0	2.7	2.6	2.5
Producer prices (%oya)	2.3	5.7	2.5	1.5	0.8	3.4	6.9	5.0	6.0	5.0	2.5	2.5	2.5	2.5
Trade balance (A$ bil, sa)	-20.7	-29.9	-19.0	-4.5	-5.4	-7.0	-8.3	-7.7	-7.3	-6.5	-6.1	-5.3	-4.0	-3.7
Current account (A$ bil, sa)	-67.0	-82.5	-82.1	-16.0	-16.3	-18.7	-19.5	-21.2	-20.8	-20.9	-21.1	-21.1	-20.5	-19.5
as % of GDP	-6.2	-7.1	-6.7	-6.0	-6.0	-6.7	-6.9	-7.4	-7.1	-7.1	-7.0	-6.9	-6.7	-6.3
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	0.94	0.84	0.74	0.77	0.91	0.95	0.95	0.93	0.91	0.88	0.85	0.82	0.79
Commonwealth budget (FY, A$ bil)	17.2	16.8	21.7											
as % of GDP	1.6	1.5	1.8											
Unemployment rate	4.4	4.5	5.3	4.3	4.3	4.3	4.1	4.4	4.6	4.9	5.1	5.2	5.3	5.4
Industrial production	3.2	3.7	0.8	3.0	-0.1	5.5	6.7	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	1.0	1.9	3.6	2.0	4.1	-0.4	-1.3	0.0	1.5	2.0	3.4	2.4	3.6
Private consumption	4.3	-0.5	1.2	2.2	1.5	2.0	-4.6	-0.1	-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	7.4	1.9	4.7	8.5	1.5	19.0	4.2	1.9	4.1	-2.0	3.2	2.9	2.5
Exports of goods & services	3.5	4.1	2.8	-3.3	-0.4	23.2	-1.5	1.5	2.5	2.5	2.5	3.1	3.6	3.7
Imports of goods & services	8.8	4.6	1.0	11.0	2.9	18.5	0.6	0.6	0.2	0.5	0.5	1.5	2.2	2.5
Contributions to GDP growth:														
Domestic final sales	4.6	1.9	1.4	4.6	4.7	7.8	-0.8	-1.7	0.7	1.1	0.5	2.6	3.1	3.5
Inventories	0.5	-0.5	-0.1	4.0	-1.5	-3.6	1.1	0.1	-1.4	-0.2	0.8	0.4	-1.0	-0.1
Net trade	-2.0	-0.4	0.5	-4.9	-1.2	0.2	-0.7	0.3	0.7	0.6	0.6	0.4	0.3	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	4.2	3.6	4.0	2.0	4.8	2.7	5.9	5.8	4.5	1.5	3.5	3.5	3.2
%oya	2.4	4.2	3.6	2.0	1.8	3.2	3.4	3.8	4.8	4.7	4.4	3.8	3.3	2.9
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	-5.7	-4.5	-8.4	-8.4	-7.0	-5.8	-5.7	-5.6	-5.7	-5.5	-5.0	-4.3	-3.5
Yield on 90-day bank bill (%)*	8.4	8.5	7.8	8.2	8.7	8.8	8.8	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	6.4	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	3.9	4.5	3.6	3.5	3.4	3.6	3.9	4.1	4.2	4.3	4.5	4.6	4.7

*All financial variables are period averages

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

Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
16 Jun	17 Jun RBA Board's June policy meeting minutes	18 Jun Australia: Westpac leading index (10:30am) Apr	19 Jun	20 Jun New Zealand: Visitor arrivals (10:45am) May
23 Jun Australia: New motor vehicles sales (11:30am) May New Zealand: Credit card spending (03:00am) May	24 Jun	25 Jun	26 Jun New Zealand: Current account (10:45am) 1Q	27 Jun New Zealand: Trade balance (10:45am) May GDP (10:45am) 1Q Money supply (03:00pm) May
30 Jun Australia: Pvt. sector credit (11:30am) May New Zealand: Building permits (10:45am) May NBNZ bus. conf. (03:00pm) Jun	1 Jul Australia: RBA cash target (02:30pm) Jul RBA comm. index (04:30pm) Jun	2 Jul Australia: Building approvals (11:30am) May Retail sales (11:30am) May	3 Jul Australia: Trade balance (11:30am) May New Zealand: ANZ commodity price (03:00pm) Jun	4 Jul
7 Jul Australia: ANZ job ads (11:30am) Jun Foreign reserves (04:30pm) Jun	8 Jul Australia: NAB business confidence (11:30am) Jun New Zealand: NZIER bus. opinion survey (10:00am) 2Q	9 Jul Australia: Westpac consumer confidence (10:30am) Jul Housing finance (11:30am) May	10 Jul Australia: Consumer inflation expectation (11:00am) Jul Unemployment rate (11:30am) Jun New Zealand: PMI (12:00pm) Jun	11 Jul

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

JPMorgan Chase Bank, New York
Sam Conway (1-212) 834-9123
samuel.e.conway@jpmorgan.com

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
16 - 20 June	16 June	17 June	18 June	19 June	20 June
	China • IP (May) Euro area • HICP final (May) Japan • Flow of funds (1Q) Turkey • CBRT meeting United States • NAHB survey (Jun) • NY Fed survey (Jun) • Bernanke speech	China • FAI (May) Euro area • Trade balance (Apr) Germany • ZEW business surv (Jun) Japan • Tertiary sector act index (Apr) Mexico • IP (Apr) Russia • GDP (1Q) United Kingdom • CPI (May) United States • Housing starts (May) • IP (May) • PPI (May)	Japan • Nationwide dept store sales (May) • BoJ minutes Poland • IP (May) United Kingdom • BoE minutes	Canada • CPI (May) Japan • All sector act index (Apr) • Reuters Tankan (Jun) • Shirakawa speech Russia • IP (May) Switzerland • SNB meeting United Kingdom • Retail sales (May) United States • Philly Fed survey (Jun)	Euro area • Trichet speech Colombia • BanRep meeting Mexico • Banxico meeting
23 - 27 June	23 June	24 June	25 June	26 June	27 June
United Kingdom • Nationwide HPI (Jun)	Belgium • BNB business surv (Jun) Euro area • PMI flash (Jun) Germany • IFO business surv (Jun) Hungary • NBH meeting Japan • MoF business outlook survey (2Q) Mexico • Trade balance (May)	France • INSEE business surv (Jun) Germany • CPI prelim/6 states (Jun) Mexico • CPI (Jun) Slovak Republic • NBS meeting Taiwan • Export orders (May) • IP (May) United Kingdom • BBA mort lending (May) United States • OFHEO HPI (Apr) • S&P/C-S HPI (Apr)	Euro area • Industrial orders (Apr) Japan • Shoko Chukin (Jun) • Trade balance (May) Norway • Norges bank meeting Poland • NBP meeting South Africa • CPIX (May) United States • Durable goods (May) • New home sales (May) • FOMC meeting	Czech Republic • CNB meeting Euro area • M3 (May) Italy • ISAE business surv (Jun) Taiwan • CBC meeting United States • Existing home sales (May) • Real GDP final (1Q)	Canada • Payrolls (Apr) France • GDP final (1Q) Japan • Core CPI (May) • Hhold spending (May) • IP (May) • Retail sales (May) • Unemployment (May) United Kingdom • GDP (1Q) United States • Agriculture prices (Jun) • Consumer sent (Jun) • Personal income (May)

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
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