JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- The **Australian** calendar was filled with key economic data last week, which showed that credit growth accelerated mildly, retail sales rebounded on higher food prices, and the trade balance benefited from a rise in iron ore contract prices. The RBA's decision to leave interest rates steady was widely expected, but the Board's shift to a neutral policy stance was not. The key changes in tone in the RBA's commentary were the removal of the earlier reference to inflation expectations and acknowledgment that labour market conditions had softened. Data this week, including employment, consumer confidence and home loans, should confirm that domestic demand has eased. In particular, the labour market report will be closely watched—we expect flat employment in June, but an unchanged jobless rate at 4.3%.

- In **New Zealand**, ahead of a very quiet week on the economic front, the highlight last week was the business confidence survey. Surprisingly, the NBNZ business confidence survey showed that fewer respondents expect business conditions to deteriorate over the coming year. Firms' own activity expectations also improved, but remained negative in June, marking only the fourth negative reading since 2006. Corporate profitability continues to suffer amid record high interest rates and tighter credit conditions. The economy continues to shed momentum and, on our forecast, is probably in the midst of a recession.

- **Global economic performance** during 2H08 will reflect the collision of two powerful and potentially damaging cyclical forces. As the reverberations from credit market turmoil in the US and Western Europe interact with inflation pressures emanating from emerging market economies, the result will be subpar GDP growth and a spike in consumer price inflation. Much of the deceleration in growth is coming from Western Europe and Japan, where there are no effective cushions to offset drags from tighter financial conditions and rising oil prices. However, industrial activity is softening across the globe. At the same time, accommodative monetary and fiscal policies, combined with sustained above-trend EM growth, are boosting commodity prices and pushing inflation in most countries to levels not recorded since the early 1990s.

- The deteriorating trade-off between **growth and inflation** has been in place for some time, but the intensification of these trends is troubling. The immediate worry is that the sharp slide in global business and consumer confidence indicates that downside growth momentum is building. In this regard, it is comforting to see that the US manufacturing PMI has stabilized in recent months. Emerging market PMIs, though slipping, remain at solid levels. But the slide in our global PMI for hiring intentions, alongside a rise in US initial jobless claims, raises the concern that firms are poised to move more aggressively to cut costs. This concern about growth is reinforced by recent market moves that show widening credit spreads and falling equity prices.

This week's highlight

The Aussie employment report on Thursday. We forecast flat employment in June after a contraction of nearly 20,000 in May. The jobless rate, though, probably will be unchanged at 4.3%.

Contents

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

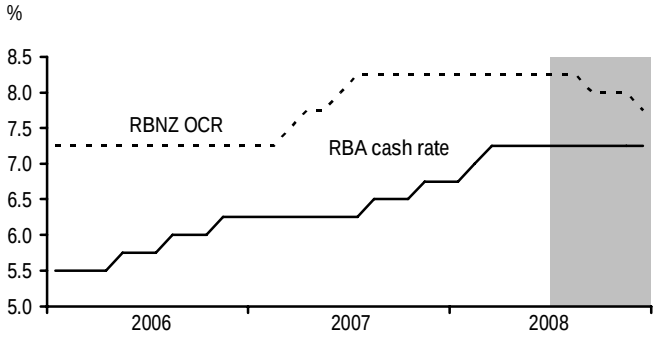
Date [a]	Data/event	Forecast			Comment
		JPMorgan	Consensus	*Previous*	
Monday, 7 July (11.30am)	**Aust. ANZ job advertisements (June, %m/m)**	**na**	na	*-1.7*	Job ads already have fallen in 3 of the last 4 months, which shows there has been a clear weakening in the demand for labour. This probably will be reflected in softer employment growth in coming months.
Monday, 7 July (4.30pm)	**Aust. foreign reserves (June, A$bn)**	**na**	na	*A$35.3*	na
Tuesday, 8 July (10.00am)	**NZIER business opinion survey (2Q, net balance)**	**na**	na	-64	The NZIER Business Opinion Survey should provide information on inflationary pressures and resource availability. The survey will probably fall in line with other recent data showing that the economy has continued to shed momentum in 2Q.
Tuesday, 8 July (11.30am)	**Aust. NAB business confidence (June, index)**	**na**	na	-4	Apart from the headline readings on business confidence and conditions, the keys will be the measure of capacity utilization, which remains elevated, and the forward-looking employment measure, which weakened to just 5 in May, from 9 in April.
Wednesday, 9 July (10.30am)	**Aust. Westpac MI consumer confidence (July, %m/m)**	**-2.0**	na	-5.6	Consumer confidence should fall 2% in July to its lowest level since 1992. Pessimists still outweigh optimists, owing to global growth concerns, financial market volatility, and rising petrol prices, which continues to dominate the national news-flow and political debate. The positive offsets will come from the personal income tax cuts delivered from July 1 and the RBA's decision to leave rates steady earlier in the month.
Wednesday, 9 July (11.30am)	**Aust. housing finance (May, %m/m)**	**-2.5**	-2.0	-3.0	The number of home loans should fall 2.5% in May, the fourth straight monthly decline. Demand for housing finance has been weak in the wake of the RBA's back to back increases in interest rates in February and March, and the disproportionate rises in domestic banks' standard variable loan rates.
Thursday, 10 July (10:00am)	**NZ PMI (June, index)**	**na**	na	49.3	na
Thursday, 10 July (10:00am)	**Westpac-Melbourne Institute consumer inflation expectations (July, %)**	**na**	na	5.9	In June, consumers' inflation expectations rose to 5.9%, the highest since the monthly survey commenced in June 1993. Amid soaring petrol and food prices, inflation expectations will probably rise above 6% in July.
Thursday, 10 July (11.30am)	**Aust. employment growth (June, 000s)**	**0.0**	10.0	-19.7	We forecast no employment growth in June, after an unexpected contraction in May. Business confidence was very weak in 1H08, so firms have probably reined in, or postponed, their hiring intentions. The jobless rate should stay at 4.3%. Still, labour market conditions have remained tight for an extended period, and wage growth could accelerate, especially given widespread skill shortages and the industrial disputation underway.

(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 and New Zealand: official cash rates

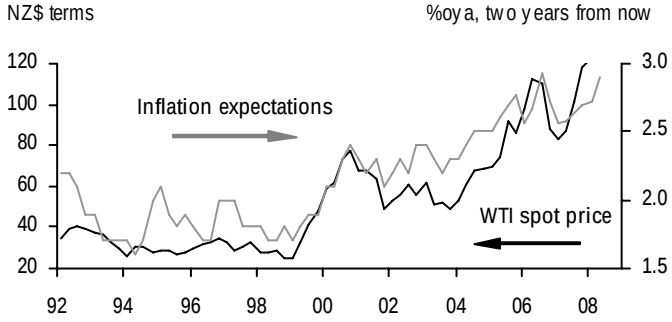


The Australia-New Zealand interest rate differential should soon narrow, adding further support to the AUD against its neighbouring counterpart. AUD has gained 10% against NZD this year, but NZD should soon come under additional selling pressure amid expectations that the RBNZ will start easing monetary policy this year. Our forecast calls for the RBNZ to start cutting interest rates in September.

Australia: labour price index and unemployment

Although this week's employment report should show flat employment in June, Australian labour market conditions have remained drum-tight for an extended period. Wage growth has so far remained contained, but the risk is to the upside. Persistently elevated inflation should start affecting wage and price setting behaviour, and the industrial disputation underway could result in wage rises to compensate for the rising cost of living.

New Zealand: RBNZ inflation expectations and crude oil price



The RBNZ will remain wary of cutting interest rates too soon given that inflation expectations are rising. Furthermore, pipeline pressures continue to build and non-tradables inflation remains elevated. The RBNZ's survey recently found that expectations of inflation two years ahead have risen to 2.9%, at the very top end of the central bank's 1-3% target range. The RBNZ forecasts the inflation will peak at 4.7% in September.

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

- **RBA shifted to neutral policy stance**
- **Employment growth to stall in June**
- **Consumer confidence should remain weak**

The Australian calendar was filled with key economic data last week, which showed that credit growth accelerated mildly, retail sales rebounded on higher food prices, and the trade deficit benefited from a rise in iron ore contract prices. The RBA's decision to leave interest rates steady was widely expected, but the Board's shift to a neutral policy stance was not. Data this week, including employment, consumer confidence, and home loans, should confirm that domestic demand has eased.

June employment growth to stall

We forecast flat employment growth in June, after employment unexpectedly fell 19,700 in May, the first negative reading since October 2006. Job growth is expected to stall in June given the recent string of soft domestic economic data. In particular, business confidence was very weak in the first five months of the year, meaning that firms have probably reined in, or postponed, their hiring intentions.

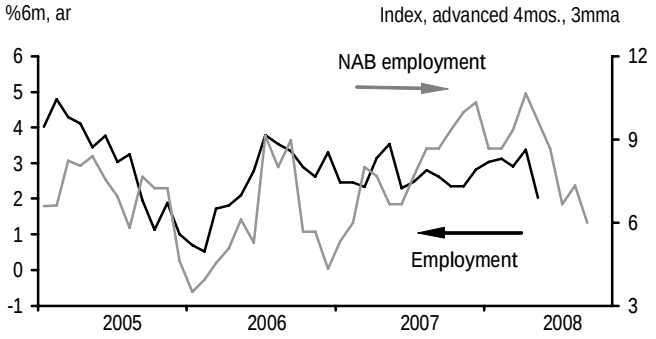
Despite tentative signs of easing, labour market conditions remain tight. The economy has added 230,000 jobs since mid-2007 and the jobless rate remains at a 33 year low; this means that upside pressure on wages should persist, especially as there are widespread skill shortages. Wage growth has so far remained contained, but the risk is skewed to the upside. Not only have labour market conditions remained tight for an extended period, but the industrial disputation underway in some industries—including education, law, and medicine—may result in wage rises to compensate for high and rising food and energy prices. Furthermore, persistently elevated inflation may soon begin to affect wage and price setting behaviour.

Consumer confidence to remain weak

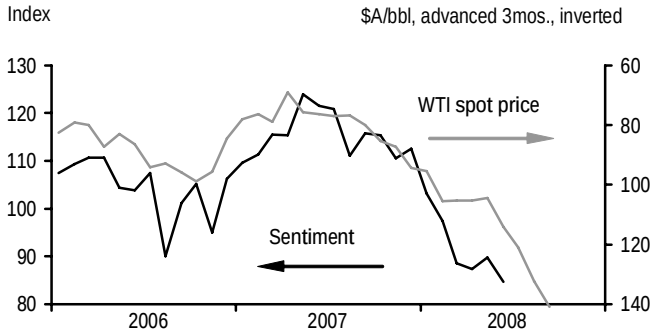
Consumer confidence should fall 2%m/m in July, after slumping 5.6% in June. The Westpac-Melbourne Institute's consumer sentiment index will likely slip from 84.7 to 83.0, its lowest level since 1992 and 32% lower than its May 2007 peak. The index reading remains well below the 100 level where the number of optimists equals pessimists.

Most survey respondents remain pessimistic, owing to global growth concerns, financial market volatility, and rising petrol prices. Rising petrol prices, in particular, have a significant impact on sentiment. Until last month, only in September 2005 had there been a larger percentage fall in confidence that

Australia: NAB survey and employment growth



Australia: consumer sentiment and crude oil price



wasn't linked to higher mortgage rates. The September 2005 fall in confidence was in response to a 12% spike in petrol prices following Hurricane Katrina. In July, the negative impact of higher petrol prices on confidence should be partly offset by the personal income tax cuts delivered from July 1 and the RBA's decision to leave rates steady earlier in the month.

Housing finance to fall further

Demand for housing finance likely fell again in May, declining 2.0%m/m. In April, demand for housing finance fell for the third straight month, with the number of home loans issued declining 3.0%m/m, after slumping 5.7% in March.

The number of home loan commitments has been weak in the wake of the RBA's back to back increases in interest rates in February and March, and the disproportionate rises in domestic banks' standard variable loan rates. Investors, who accounted for 31% of total loans in April, likely continued to dominate demand for housing finance in May, while first-time buyers suffering amid record low levels of housing affordability will account for less than 20%.

RBA switched to neutral policy stance

As was widely expected, the RBA announced a steady cash rate at 7.25%. This was the fourth straight monthly meeting at

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

which the RBA has been inactive on the cash rate target. The statement accompanying the "no change" decision was surprisingly neutral, however; previous statements had signalled a mild tightening bias.

The statement offered two material differences when compared to the June statement. One, there was no mention of inflation expectations. The RBA has previously been concerned that expectations of high ongoing inflation could begin to affect wage and price setting; the RBA has said it would respond to this by reviewing monetary policy settings. The risk of rising inflation expectations was not flagged in last week's statement. Two, the RBA has previously noted that labour market conditions have been strong, but acknowledged that there have been tentative signs of an easing in the labour market, probably due to the unexpected contraction in employment in May.

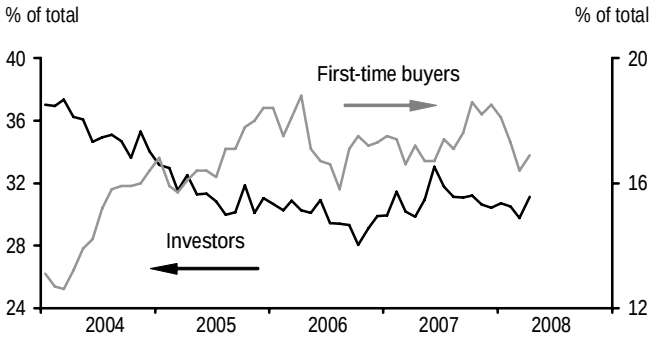
The RBA again acknowledged the "opposing forces" at work in the economy. On one hand, growth in domestic demand has cooled, in part owing to the tightening in financial conditions. The RBA highlighted recent data showing subdued outcomes in household spending and significantly weaker credit growth. On the other hand, the forces driving this slowdown are being partially offset by the soaring terms of trade, which is providing a significant boost to national income. In the case that domestic demand does not ease as anticipated by the RBA in 2H08—owing to the rapidly rising terms of trade and the personal income tax cuts—the risk of further tightening will rise.

We maintain our forecast that the RBA will leave the cash rate steady for the remainder of 2008. There is building evidence of a loss of momentum in the domestic economy, and a significant easing in domestic demand growth (as forecast by the RBA) should help curb inflation; this means that RBA officials will probably look through elevated inflation readings in coming quarters. But, with inflation at 4.2%, well above the RBA's 2-3% target range, rate cuts anytime soon appear unlikely.

Business lending picked up in May

The RBA's private sector credit aggregates were up 0.6%m/m in May (JPMorgan 0.5%, consensus 0.6%), compared to 0.4% in April, which was the slowest rate since mid-2001. The annual rate of credit growth continued to moderate for the fifth straight month in the wake of the four policy tightenings delivered by the RBA since August. Credit growth slowed to 13.4%oya from 14.1% previously.

Australia: housing finance



Business lending growth accelerated as expected in May, rising 0.6%m/m, a payback for the mild 0.1% rise in April. Firms have in recent months been postponing their investment plans amid tighter credit conditions, but future spending intentions remain solid. The 1Q capital spending survey showed that firms intend to boost spending 24% in the fiscal year ending June 2009, meaning that the business investment cycle probably has further to run.

Housing credit growth slowed for the fourth straight month in May, rising 0.6%m/m. This moderation was offset by an acceleration in personal credit growth, which was up 0.5%m/m. Both housing and personal credit growth should remain subdued near term following the RBA's two rate hikes this year and the rise in domestic banks' variable mortgage rates. The marked slowdown in credit growth reaffirms our view that the RBA will leave interest rates unchanged in the foreseeable future.

Retail sales picked up in May

Retail sales values surged unexpectedly in May, rising 0.7%m/m (JPMorgan -0.3%, consensus +0.1%), after falling 0.1% in April. This was the largest rise in retail sales values since November 2007, but only the second rise this year. The trend in retail sales remained unchanged in May at 0.1%m/m for the fifth consecutive month.

Discretionary spending was flat in May after rising 0.5%m/m in April for the first time in four months, and nondiscretionary spending was strong, rising 1.2%m/m; this was largely attributed to higher food sales. Food, the largest category of the sales index, rose 1.0%m/m. The rise in the value of food sales was unexpected, however. We believed that recent rainfalls would have boosted supplies of fruit, vegetables, and other food products, putting downward pressure on prices. Ex. food sales grew 0.5%m/m.

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

Consumers are still facing significant headwinds, however, owing to higher interest rates and elevated petrol prices. Higher borrowing costs continue to eat into households' disposable incomes and rising living costs will offset the positive impact on consumer spending of the personal income tax cuts.

Iron ore prices impact trade balance

A trade deficit of A$965 mn in May (JPMorgan and consensus A$900 mn) following a mild surplus of A$12 mn in April, the first surplus since March 2002. The April surplus was sharply revised from a deficit of A$957 mn, owing to the ABS's decision to include the recent rise in iron ore contract prices (85% on average) in the April and May trade data.

The ABS discussed the impact of the iron ore contract price rise in detail. Given that contract prices are still being negotiated, the May trade print included an adjustment for the anticipated price rise for iron ore exports from April 1. New prices will be recorded progressively going forward. In the adjusted data, iron ore and concentrates rose 48% between March and April, with volumes down 8% and prices up 61%.

Exports rose 1%m/m in May after surging 10% in April; the April spike was owing mainly to the iron ore price rise. Imports rebounded from a fall to rise 6%m/m in May.

The trade deficit should improve going forward. Exports of rural goods should benefit from recent rainfall and exports of non-rural goods should trend higher, owing mainly to high commodity prices, but also higher volumes. Solid business investment in recent years should continue to gradually alleviate (albeit slowly) the capacity constraints and infrastructure bottlenecks that have restricted export volumes. Meanwhile, the anticipated moderation in domestic demand will probably curb import growth.

Data releases and forecasts

Week of July 7 - 11

Mon Jul 7 11:30am — **ANZ job advertisements**
Seasonally adjusted

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

Tue Jul 8 11:30am — **NAB monthly business survey**
% balance, seasonally adjusted

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

Wed Jul 9 10:30am — **WMI consumer sentiment index**
100=neutral, seasonally adjusted

	Apr	May	Jun	Jul
(%m/m)	-1.4	2.7	-5.7	-2.0

Wed Jul 9 11:30am — **Housing finance approvals: owner occupiers**
Number of loans, seasonally adjusted

	Feb	Mar	Apr	May
(%m/m)	-7.4	-5.7	-3.0	-2.5
(%oya)	-0.6	-8.7	-14.2	-15.4

Thu Jul 10 11:30am — **Labor force**
Seasonally adjusted

	Mar	Apr	May	Jun
Unemployment rate (%)	4.1	4.3	4.3	4.3
Employed (000 m/m)	3	38	-20	0
Participation rate (%)	65.2	65.5	65.2	65.2

Review of past week's data

Private-sector credit
Seasonally adjusted

	Mar		Apr		May	
(%m/m)	~~0.8~~	*0.7*	0.4		~~0.5~~	*0.6*
(%oya)	15.0		14.1		~~13.3~~	*13.4*

RBA cash rate announcement

Building approvals
Seasonally adjusted

	Mar		Apr		May	
(%m/m)	~~-5.5~~	*-6.5*	~~7.8~~	*5.4*	~~-6.0~~	*-6.5*
(%oya)	~~0.7~~	*0.3*	~~5.2~~	*2.8*	~~3.9~~	*0.2*

Building approvals fell in May, owing mainly to a 18.2%m/m slump in approvals for other dwellings. The outlook for the building sector remains negative. Building and material costs in the residential construction sector are elevated, excessive red tape continues to deter new development, and higher interest rates are weighing on new home building.

Retail trade
Seasonally adjusted

	Mar		Apr		May	
(%m/m)	~~0.2~~	*0.3*	~~-0.2~~	*-0.1*	~~-0.3~~	*0.7*
(%oya)	5.1		~~4.7~~	*4.8*	~~4.8~~	*6.1*

Trade balance
Seasonally adjusted

	Mar		Apr		May	
Trade balance (A$ mn)	~~-2547~~	*-2386*	~~-957~~	*12*	~~-900~~	*-965*

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

- **NZ business confidence improved in June**
- **Firm's own activity expectations still weak**
- **Businesses expect unemployment rate to rise**

In New Zealand, ahead of a very quiet week on the economic front, the highlight last week was the business confidence survey. Surprisingly, the NBNZ business confidence survey showed that fewer respondents expect business conditions to deteriorate over the coming year. Firms' own activity expectations also improved, but remained negative in June, marking only the fourth negative reading since 2006.

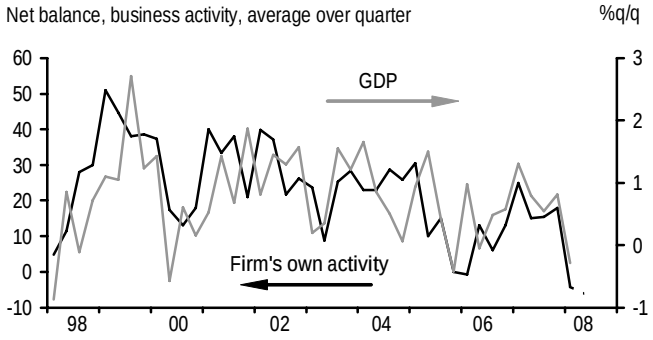
NZ business confidence improved

The NBNZ business confidence survey improved in June, rising to -38.7 from -49.7 in May. The headline suggests that a net 38.7% of respondents expect business conditions to deteriorate in the coming year. Firms' own activity expectations also improved in June, rising to -4.0 from -4.4; this, however, marks only the fourth negative reading since 2006. Only 15 negative readings in firms' own activity expectations have been recorded over the last 20 years and, of these, according to the NBNZ, five "were right at the start of the survey in 1988, as the 1987 crash washed through."

Pessimism continued in commercial construction (-14%) and residential construction (-21%), reflecting the recent sharp deterioration in the housing sector. The survey also showed that 41% of respondents expect prices to rise in the coming year and 35% expect interest rates to fall. Also, 15% of respondents expect exports to rise (owing to weaker NZD), 3% expect investments to fall, 19% expect profits to decline, and 75% expect the jobless rate to rise.

Despite the improvement in the headline confidence reading, firms' activity expectations remain weak as corporate profitability continues to suffer amid record high interest rates and tighter credit conditions. The economy continues to shed momentum and, on our forecast, is probably in the midst of a recession. Monetary easing may help support economic growth in 2H, however, with our forecast calling for the RBNZ to start cutting interest rates in September.

New Zealand: NBNZ business outlook survey and GDP growth



Data releases and forecasts

Week of July 7 - 11

Tue Jul 8 10:00am	NZIER QSBO % balance of respondents	3Q	4Q	1Q	2Q
	Headline index	-27.0	-26.0	-64.0	__
Thu Jul 10 12:00pm	Business PMI Seasonally adjusted	Mar	Apr	May	Jun
	Index	48.5	51.5	49.3	__
	(%oya)	-16.4	-4.8	-12.1	__

Review of past week's data

Building consents
Not seasonally adjusted

	Mar	Apr	May	
(%m/m)	-16.4	51.4	__	*-30.3*
(%oya)	-30.9	33.2	__	*-28.8*

NBNZ business confidence

	Apr	May	Jun	
% balance of respondents	-54.8	-49.7	~~-52.7~~	*-38.7*

ANZ commodity price series
Not seasonally adjusted

	Apr	May		Jun	
Index - world prices (%m/m)	-0.3	~~1.0~~	*0.9*	__	*0.0*
Index - NZD (%m/m)	1.1	2.5		__	*2.1*

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

- **June business confidence slides, raising concern about 2H08 global growth**
- **UK and Japan now expected to contract around midyear**
- **China bucks the trend of slowing industrial sectors in Asia**
- **Following hikes, ECB to remain on hold while Riksbank to deliver more**
- **Latin central banks set to deliver regionwide tightening in coming months**

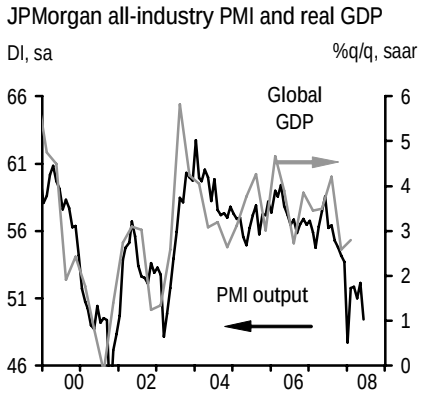
Interdependence day

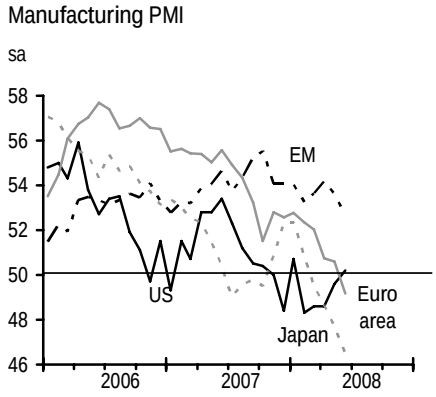
Global economic performance during 2H08 will reflect the collision of two powerful and potentially damaging cyclical forces. As the reverberations from credit market turmoil in the US and Western Europe interact with inflation pressures emanating from emerging market economies, the result will be subpar GDP growth and a spike in consumer price inflation. Much of the deceleration in growth is coming from Western Europe and Japan, where there are no effective cushions to offset drags from tighter financial conditions and rising oil prices. However, industrial activity is softening across the globe. At the same time, accommodative global monetary and fiscal policies, combined with sustained above-trend EM growth, are boosting commodity prices and pushing inflation in most countries to levels not recorded since the early 1990s.

At midyear, the economic indicators currently available suggest that each of these forces is moving more powerfully than we had anticipated. Notably, the JPMorgan June global all-industry PMI survey dipped below 50 for the first time since early 2003, highlighting the downward momentum in global growth. The recent descent in business confidence is most striking in the UK and Japan, where we have revised our forecasts to show a contraction in activity during the middle two quarters of 2008. Meanwhile, the latest inflation readings have consistently surprised to the upside and show that global consumer inflation is up 2 percentage points over the past twelve months, and should move at least one-half percentage point higher this summer. Although much of this increase reflects rising food and energy prices, surveys suggest that the passthrough to finished manufactured goods prices globally is set to increase. In EM economies, higher inflation is also being accompanied by an acceleration in wage gains. In the industrial world, there is little sign of accelerating wage inflation; instead, inflation fear is depressing consumer confidence.

The deteriorating tradeoff between growth and inflation has been in place for some time, but the intensification of these trends is troubling. The immediate worry is that the sharp slide in global business and consumer confidence indicates that downside growth momentum is building. In this regard, it is comforting to see that the US manufacturing PMI has stabilized in recent months. Emerging market PMIs, though slipping, remain at solid levels. But the slide in our global PMI for hiring intentions, alongside a rise in US initial jobless claims, raises the concern that firms are poised to move more aggressively to cut costs. This concern about growth is reinforced by recent market moves that show widening credit spreads and falling equity prices.

Increased concern about growth risks likely motivated the neutral bias expressed by the ECB following its rate hike this week. To the extent that these concerns linger, it is unlikely that our forecast of a Fed rate hike in September will be realized. That said, medium-term inflation risks are increasing. In-

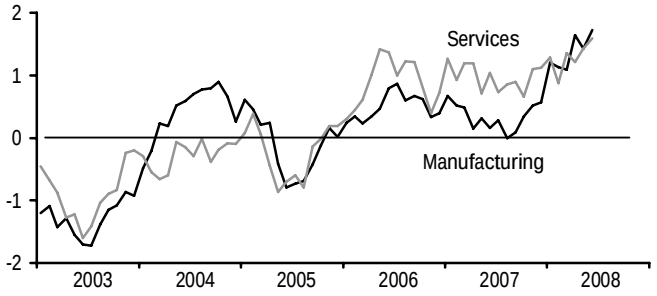




JPMorgan Chase Bank, New York
Bruce Kasman (1-212) 834-5515
bruce.c.kasman@jpmorgan.com
David Hensley (1-212) 834-5516
david.hensley@jpmorgan.com

Global PMI selling prices

Standard deviations from 2003-08 average



deed, as markets have reduced expectations of central bank tightening in recent weeks, the combination of rising commodity prices, higher inflation breakeven rates, and a decline in the dollar, all point to rising inflation expectations.

China rocks while EM Asia rolls

The expansion in global manufacturing activity has been downshifting since late last year; last week's global manufacturing surveys suggest that a further deceleration is in the offing. The global June PMI output index is consistent with stagnant IP growth, but the continued slide in the new order index and the accompanying rise in inventories suggest that global IP will contract in coming months. In tracking our global index, we recognize that its coverage is thin for EM Asia, where only China, India, and Singapore are represented. From the standpoint of the business surveys, this leaves us with a blind spot in a critical region where manufacturing activity is concerned. Fortunately, the Asian economies report timely IP data, which now extend through May. These data reveal a sharp split in regional activity. Excluding China (and India), output growth in EM Asia has ground to a halt from a double-digit pace in the middle of 2007. In that sense, this group is following its traditional role of being a high-beta player in the global factory sector.

Output growth in China, in contrast, has accelerated recently after a lull in early 2008. China's data have been unusually choppy in 1H08, not only because of the usual lunar new year distortions, but also because of weather-related effects from the January snowstorms and the recent earthquake. Thus, while the earlier period of weakness undoubtedly was exaggerated, so is the recent surge in output. That said, China's IP growth is likely to remain solid as domestic demand growth is robust, and it will get a lift from government infrastructure investment. This may give a boost to IP growth elsewhere in Asia, although the dominant influence on this group will remain its ties to the global economy, whose growth is expected to be very sluggish in coming months.

ECB says one and done

The ECB governing council voted unanimously to hike the policy rate last week, but President Trichet suggested that the central bank made the decision reluctantly. While the central bank can see downside growth risks, it felt compelled to hike because inflation and inflation expectations have climbed to worrisome levels. Trichet's repeated assertion that the central bank now has no policy bias suggests that the ECB is hoping that the move will be sufficient to contain inflation and inflation expectations in the medium term.

In contrast to the reluctant hike by the ECB, the Riksbank last week moved rates up more enthusiastically. Despite a growth-inflation trade-off that looks similar to the one the ECB faced, the Riksbank hiked and presented a projection that the policy rate will rise twice more if its macro forecast is realized. The rather hawkish shape of the Riksbank reaction function was further reinforced by the presentation of a scenario in which an extra half point move up in inflation would force an additional 100bp of rate hikes.

Given the ECB's tone, we are comfortable with our view that the ECB will be on hold for the indefinite future. In contrast, following the Riksbank meeting, we have added one more rate hike to our forecast, so we now anticipate the Swedish policy rate to reach 4.75% in September.

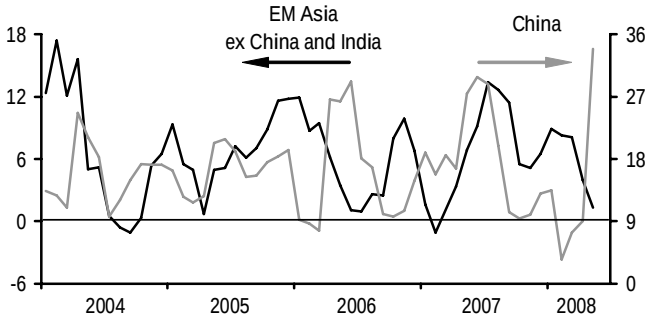
UK activity data point to contraction

The UK PMI surveys extended their recent plunge in June, to a level consistent with GDP contraction. The speed and magnitude of the slowing suggest that fading investment, inventory building, and export growth are all playing a role. With the consumer yet to respond fully to tightening credit and rising oil prices, the near-term outlook for growth looks bleak. Indeed, the forecast has been revised to show GDP falling in 2H08. This week's quarterly readings from the British Chamber of Commerce will provide a cross-check on the magnitude of the growth slowdown and the extent to which it is rotating into employment and investment decisions. Near-term inflation risks continue to rise, and a peak in headline inflation

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

Emerging Asia: industrial production

%3m/3m, saar; both scales



near 5%oya looks increasingly likely. But the alarming drop in activity readings suggests that the MPC is unlikely to raise policy rates—the forecast has it on hold; it is reasonable to think about rate cuts. However, because inflation is likely to remain elevated in the runup to the early 2009 wage round, and we are likely to see increasing slippage in the government's commitment to its fiscal rules, it will probably be a long time before the BoE can consider an ease.

EM Asia's cautious tightening

Officials in EM Asia are moving to tighten policy but remain cautious in an environment of slowing global growth. Rates are on the rise but the adjustment mix incorporates currency policy as well. At one end of the spectrum lies China, with a huge and growing trade surplus. Officials' preference there is to countenance further RMB appreciation rather than significant rate hikes. At the other end lie countries including India, the Philippines, and Thailand, where consistent pressure on the balance of payments suggests that fx appreciation is not a viable policy choice, especially with oil prices still climbing.

For Korea, the policy options are less straightforward. Although inflationary pressures have spread to core items, this mainly reflects KRW weakness rather than any meaningful demand-side pressures controllable by tighter monetary policy. Notably, domestic demand weakened sharply in 1H08 whereas demand has broadly held up elsewhere in the region. Against this backdrop, the BoK has opted to force won appreciation or at least stabilize won weakness via aggressive intervention. The sustainability of this policy tack remains to be seen, though, especially in the face of a current account deficit and continual outflows on the capital account.

Latins to step up policy restraint

While emerging market central banks move gingerly to fight inflation elsewhere, Latin central bankers are on the march. We now expect all five Latin central banks we monitor to tighten in the next two months as inflation risks build across the region. And the risk to our forecast is that these central banks will deliver greater restraint than we are forecasting. In Mexico, analysts have raised their short- and medium-term inflation expectations; Chile and Peru printed higher than anticipated June inflation reports and even core inflation is tracking above targets; and in Brazil, Colombia, and Peru there is still no letup in domestic demand. The side effect of the tighter policy stance may be a quicker emergence of slow growth. Last week's activity readings were softer than anticipated across the region and the risks to growth for coming quarters are shifting to the downside, despite continued terms of trade gains and fiscal stimulus.

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

Stagflation requires tactical trading

- Another week of falling equity and bond markets was brought on by the deadly duo of weak economies and high inflation. Stagflation leaves investors with few easy investment options, aside from commodities. But **stagflation also creates high market volatility, which offers great opportunities to the active investor.** This is clearly shown by the high returns scored this year by macro hedge funds and CTAs, up 6.5% and 9.4%, respectively, ytd. Correspondingly, our market strategies also need more frequent adjustment than usual.

- Our 2Q investment strategy was based on four **themes**: (1) a **window of opportunity** for risky assets and carry; (2) **rotating economic weakness** from the US to other economies; (3) **rising inflation**; and (4) sector allocations on the basis of **relative value, supply, and momentum**. The window for equity, credit, and carry was based on a rebound in US growth, stable oil, and central banks on hold. Each of these assumptions has had to be reversed in recent weeks and we thus tactically exit being long risk, until we again see some form of stability in economic conditions. Our second trading theme is the **spreading of US economic weakness to Europe and Japan**. We now indeed forecast that Japan is likely in recession. We trade this view by being long US equities and credit against Europe and short JPY against EUR.

- The most obvious way to trade rising inflation would seem to be **inflation-linked bonds**. We see some upside and have a small long against nominals, but do not expect high returns. This is mostly because central banks monitor implied inflation break-evens closely and will take action—through rate hikes and /or hawkish rhetoric —to prevent them from rising too much. Our best inflation play remains to be **short duration in EM local bonds** as EM inflation is rising most and those countries' central banks are less distracted by weakening economies. EM rate hikes should push up their currencies. We choose only the ones most willing to fight inflation—PLN, BRL, MXN, and RUB.

Fixed income

- Bond markets were mixed, ending slightly up on Thursday's rally in Europe, following weak UK data and a dovish ECB.

- **In developed markets, we are close to neutral duration** as rising inflation and weak economic data are pushing markets around in wide ranges with no clear direction. We thus focus on relative value, curves, and cross-country spreads. The main curve trade remains our long-standing US long-end flattener. Across countries, we use relative growth and monetary policy as signals. This keeps us long UK versus EU, in 5s, and overweight GBI (developed markets) against GBIEM.

- Higher market volatility has forced us in recent weeks to reduce carry trades. We keep our long Italy-Germany within EMU, and have small, medium-term swaps spread tighteners in the short end of curves in major markets.

Equities

- **Equities fell another 2%,** as stagflation fears intensified on a combination of even higher oil prices and a sharp fall in global activity indicators. MSCI World is down 12% from its recent May 19 peak, with European equities leading the decline. MSCI EM is down 15% with oil importers leading its decline.

10-yr government bond yields

	Current	Sep 08	Dec 08	Mar 09	Jun 09
United States	3.98	4.10	4.15	4.25	4.30
Euro area	4.54	4.55	4.45	4.35	4.35
United Kingdom	5.01	5.00	4.90	4.90	4.80
Japan	1.68	1.50	1.60	1.60	1.85

Equities

	Current	YTD return (local currency)
S&P	1265	-13.2%
Topix	1298	-10.9%
FTSE 100	5477	-14.0%
MSCI Eurozone	183	-22.2%
MSCI Europe	1218	-18.8%

Credit markets

	Current	Dec 08
US high grade (bp over UST)	251	200
US high grade (bp over swaps)	160	120
Euro HG corp (bp over swaps)	87	65
USD high yield (bp vs. UST)	727	775
EMBIG (bp vs. UST)	314	250

Foreign exchange

	Current	Sep 08	Dec 08	Mar 09	Jun 09
EUR/USD	1.57	1.55	1.50	1.45	1.42
USD/JPY	107	108	110	112	115
GBP/USD	1.98	1.94	1.85	1.81	1.80

Commodities

		Quarterly average	
	Current	Sep 08	Dec 08
Gold ($/oz)	934	915	900
Copper($/m ton)	8900	8800	8000
Corn ($/Bu)	7.79	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

- Although we see some support to equity markets from investor underweight positions and strong M&A activity, we see **no immediate trigger that could reverse the negative momentum in prices and earnings.** In addition, with S&P500 2Q EPS having been revised over the past month by roughly the same amount as the fall in prices, the argument that the recent fall in equities across the globe has improved the value of equities is questionable. The S&P500 crossed the 1257 March low today, but, according to our technical analysts, we need two closes below this level for the market to test the 1219 2006 trough.

- Cyclicals collapsed vs Non-cyclicals. With momentum turning negative and global activity downshifting rapidly, as indicated by the global PMI's move below 50 for June, we see **more downside on the Cyclicals vs Non-cyclicals trade.** We retain an **IT overweight,** though. IT capex is showing remarkable resilience, despite slowing overall capex, and has beat consensus earnings expectations for three straight quarters. We **take part profits on the Growth vs Value trade** as Financials, which were technically oversold, are currently rebounding.

Credit

- **Credit spreads widened further**, by around 5bp in HG and 20bp in HY. Our carry-motivated longs in credit no longer look attractive as volatility has risen markedly and demand and position indicators have worsened. Inflows into US HG mutual funds slowed considerably over the past two weeks while US HY funds saw large outflows of $400m per week. Primary and secondary activity also slowed relative to the previous month, especially in HG where US net issuance fell to zero in June from $70bn per month in the previous two months. Our US Credit Client survey shows that cash positions remain very low with only 8% reporting a high position.

- With increased near-term downside risks, we **tactically exit outright longs** in ABS and CLOs and reverse the long in CMBS as the pace of downgrades by rating agencies is likely to increase. We continue to **trade up the quality curve**, i.e., we favor HG vs HY credit, trade up the capital structure in banks, and within HY overweight BBs. Admittedly the up-in-credit theme is a crowded trade with HY accounts even moving to HG credit. But both momentum and deteriorating fundamentals are currently favouring this theme.

- We prefer **loans vs bonds** in HY as the trade is likely to do well in both inflationary and weak growth environments. We still like negative basis narrowing trades, and last week opened a long in **Euro HY cash bonds vs CDS**. European credit has underperformed for a second straight week. The spread between **CDX.IG and iTraxx Main** has approached the widest level since last March and we thus recommend a long.

Foreign exchange

- **Central banks are not making the stagflation trade very easy.** The past week delivered three different responses to above-target inflation and decelerating growth. The RBA stayed on hold and voiced none of its previous concern over inflation. AUD/USD and AUD/JPY fell on the statement, then reversed the next day, only to retrace a day later. The Riksbank hiked 25bp and signaled its intention to tighten twice more over the next year, and SEK predictably rallied. The ECB hiked 25bp as well but refused to pre-commit to further tightening, pushing EUR/USD 1% lower.

- If there is a lesson from the central bank post-mortem, it's probably that we should divide stagflation trades into two camps: those that will move in fits and starts due to mediocre real rate differentials (EUR/USD), and those that will show trend resilience due to decent real rate differentials (yen crosses, BRL, MXN). We stay long AUD/JPY, EUR/JPY, EUR/NZD, and NOK/JPY.

- Aside from stagflation, there are few other independent investment themes in global markets. Supply-side stress in commodities is one—witness yet another contra-seasonal decline in US crude inventories—but central bank intervention in the oil currencies makes the oil boom difficult to capitalize on directly in fx. Rising crude is better traded through longs in currencies where rates are rising or through shorts in Asia fx.

Commodities

- **Crude** continues to mark new highs on bearish long-term supply reports (IEA) and another contra-seasonal US inventory draw. Although a number of EMs have begun reducing price subsidies and raising interest rates, we do not expect meaningful demand destruction globally and a reversal in prices until China becomes more aggressive on both fronts. The high of $8940 for **copper** looks to be the top for the next 2-3 mths given that physical demand is very weak. **Gold** rallied sharply last week but lost $15-$20/oz on the post-Trichet USD bounce, while there was also strong selling at a key resistance level around $945/oz. We believe demand for metals in 3Q will remain weak, and that precious metals will outperform base metals.

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	1.7	2.1	0.6	1.0	2.0	1.0	1.0	2.0	3.0	4.2	4.1	4.2	2.9
Canada	2.7	1.1	2.4	0.8	-0.3	0.8	1.5	2.3	2.5	2.8	1.8	1.9	2.4	1.7
Latin America	5.3	4.0	3.9	5.9 ↑	1.5 ↓	3.2	3.3	4.3	3.9	4.0	6.3	7.4	7.4	6.6
Argentina	8.7	6.5	3.0	7.3	2.6	8.2	2.8	6.1	2.8	1.6	8.5	9.1	9.1	8.9
Brazil	5.4	4.4	3.8	6.6	2.9	3.0	4.0	4.0	3.8	3.5	4.6	5.6	6.6	6.6
Chile	5.1	3.5	3.5	3.4	5.8	5.0	1.0	5.0	4.0	4.0	8.0	8.9 ↑	7.5 ↑	5.3 ↑
Colombia	8.2 ↑	5.0	5.0	10.3 ↑	-3.7 ↓	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	9.1	9.8	5.3
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	8.5	6.0	10.5	7.5	7.4	5.9	4.8	6.5	7.0	4.8	5.5	4.8	2.5
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	1.3 ↓	1.2 ↓	2.9	4.0	-1.5	0.5 ↓	0.8 ↓	1.2 ↓	1.8	1.0	1.4	2.3 ↑	1.6 ↑
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	0.8	1.8	3.3	-1.1	-0.2	-0.1	0.3	2.2	3.6	3.4	3.3	4.0	4.0
Asia ex. Japan	8.8	7.4	7.5	7.3	7.9	6.3	7.6	7.1	6.9 ↓	7.5	6.3	7.2	6.2 ↑	4.7 ↑
China	11.9	10.5	9.8	9.2	10.5	10.8	11.7	10.2	9.1	9.1	8.0	7.9	5.5	4.9
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	8.3	8.9	5.8
Indonesia	6.3	5.3	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	5.0 ↓	5.5	3.8	4.8 ↑	5.0 ↑	3.4 ↑
Malaysia	6.3	5.2	5.5	7.0	6.4	2.4	2.0	2.4	7.4	7.4	2.6	4.7	7.9	6.0
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	4.5	5.7	-4.8	14.6	-2.4	6.1	4.9	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	11.6	12.9	9.6
Europe														
Euro area	2.6	1.8	1.2	1.3	3.2	0.5	1.2	1.2	1.0	1.5	3.4	3.6 ↑	3.9 ↑	3.0 ↑
Germany	2.6	2.2	1.6	1.1	6.3	-0.8	1.5	1.6	1.8	2.0	3.1	3.1	2.9	1.9
France	2.1	1.7	1.6	1.4	1.8	1.0	1.5	1.4	1.5	1.8	3.3	3.6	3.3	2.3
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	3.6	2.7
Norway	6.3	3.3	2.3	4.4	0.8	2.7	2.0	2.2	2.2	2.5	3.5	3.3	3.7	3.8
Sweden	2.9	1.9	2.1	2.8	1.6	1.0	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	3.1	1.2 ↓	0.8 ↓	2.2	1.1	0.5 ↓	-1.0 ↓	0.0 ↓	0.5 ↓	2.0	2.4	3.0	4.1	3.0
Emerging Europe[1]	6.5	6.0	5.6	11.6	2.8	7.5	3.8	10.5	2.0	7.3	9.1 ↓	10.3	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	0.5	1.2	3.0	2.8	2.9	2.8	2.8	6.9	6.9	6.1	4.5
Poland	6.6	5.8	5.2	7.4	5.7	5.0	4.5	5.5	5.3	5.5	4.1	4.2	4.2	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	16.8	0.9	10.5	3.0	16.0	0.0	10.0	12.9	14.8	13.2	11.4
Turkey	4.5	3.8	5.2	…	…	…	…	…	…	…	8.8 ↓	10.5	10.3	8.6
Global	3.5	2.6	2.6	2.7	2.8	1.9	1.9 ↓	2.3 ↓	2.3 ↓	3.1	4.0	4.3	4.4 ↑	3.3 ↑
Developed markets	2.5	1.7	1.6 ↓	1.4	2.1	0.9	0.9 ↓	1.1 ↓	1.5 ↓	2.2	3.2	3.3	3.7 ↑	2.6 ↑
Emerging markets	7.5	6.2	6.2	7.6	5.3 ↓	5.7	5.7	6.9	5.3	6.5	6.9	7.9	7.2 ↑	5.8

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	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
Global	GDP-weighted average	3.75	-96			3.89	3.94	4.05	4.25	4.42
excluding US	GDP-weighted average	4.58	12			4.67	4.74	4.78	4.84	4.85
Developed	GDP-weighted average	2.85	-129			2.95	2.95	3.05	3.29	3.49
Emerging	GDP-weighted average	7.45	39			7.74	7.97	8.11	8.18	8.21
The Americas	GDP-weighted average	2.89	-271			3.17	3.21	3.44	3.85	4.25
United States	Federal funds rate	2.00	-325	30 Apr 08 (-25bp)	16 Sep 08 (+25bp)	2.25	2.25	2.50	3.00	3.50
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)	13.25	14.25	14.75	14.75	14.75
Mexico	Repo rate	7.75	50	20 Jun 08 (+25bp)	**18 Jul 08 (+25bp)**	8.25	8.25	8.25	8.25	8.25
Chile	Discount rate	6.75	125	10 Jun 08 (+50bp)	10 Jul 08 (+50bp)	7.50	7.50	7.50	7.25	6.75
Colombia	Repo rate	9.75	50	22 Feb 08 (+25bp)	19 Sep 08 (+25bp)	10.00	10.00	9.75	9.75	9.50
Peru	Reference rate	5.75	100	12 Jun 08 (+25bp)	10 Jul 08 (+25bp)	6.00	6.25	6.25	6.00	5.75
Europe/Africa	GDP-weighted average	4.76	16			4.81	4.82	4.83	4.80	4.78
Euro area	Refi rate	4.25	25	**3 Jul 08 (+25bp)**	**on hold**	4.25	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	4.50	100	**3 Jul 08 (+25bp)**	**4 Sep 08 (+25bp)**	4.75	4.75	4.75	4.75	4.75
Norway	Deposit rate	5.75	100	25 Jun 08 (+25bp)	on hold	5.75	5.75	5.75	5.75	5.75
Czech Republic	2-week repo rate	3.75	50	7 Feb 08 (+25bp)	25 Sep 08 (+25bp)	4.00	4.00	3.75	3.75	3.75
Hungary	2-week deposit rate	8.50	75	26 May 08 (+25bp)	25 Aug 08 (+25bp)	8.75	9.00	9.00	8.75	8.50
Poland	7-day intervention rate	6.00	125	25 Jun 08 (+25bp)	24 Sep 08 (+25bp)	6.25	6.25	6.25	6.00	5.75
Russia	1-week deposit rate	4.00	75	9 Jun 08 (+25bp)	Aug 08 (+25bp)	4.25	4.50	4.75	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)	12.50	12.50	12.50	12.50	12.50
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	16.25	-125	16 Jun 08 (+50bp)	17 Jul 08 (+50bp)	17.25	17.25	17.25	16.50	15.75
Asia/Pacific	GDP-weighted average	3.69	14			3.74	3.82	3.89	4.10	4.16
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 Jul 07 (+25bp)	10 Sep 08 (-25bp)	8.00	7.75	7.50	7.50	7.50
Japan	Overnight call rate	0.50	0	21 Feb 07 (+25bp)	Jun 09 (+25bp)	0.50	0.50	0.50	0.75	0.75
Hong Kong	Discount window base	3.50	-325	1 May 08 (-25bp)	17 Sep 08 (+25bp)	3.75	3.75	4.00	4.50	5.00
China	1-year working capital	7.47	45	20 Dec 07 (+18bp)	4Q 08 (+27bp)	7.47	7.74	8.01	8.28	8.46
Korea	Base rate	5.00	0	9 Aug 07 (+25bp)	2Q 09 (+25bp)	5.00	5.00	5.00	5.25	5.50
Indonesia	BI rate	8.75	50	**3 Jul 08 (+25bp)**	**5 Aug 08 (+25bp)**	9.00	9.25	9.50	9.50	9.50
India	Repo rate	8.50	75	24 Jun 08 (+50bp)	29 Jul 08 (+25bp)	8.75	9.00	9.00	9.00	9.00
Malaysia	Overnight policy rate	3.50	0	26 Apr 06 (+25bp)	25 Jul 08 (+25bp)	4.00	4.00	4.00	4.00	4.00
Philippines	Reverse repo rate	5.25	-75	5 Jun 08 (+25bp)	17 Jul 08 (+25bp)	5.50	5.75	5.75	5.75	5.75
Thailand	1-day repo rate	3.25	0	18 Jul 07 (-25bp)	**16 Jul 08 (+50bp)**	4.00	4.25	4.50	4.50	4.50
Taiwan	Official discount rate	3.625	50	26 Jun 08 (+12.5bp)	Sep 08 (+12.5bp)	3.75	3.875	4.00	4.125	4.25

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	2.8	2.6	4.5	4.9	2.7	2.5	1.3	2.6	3.2	3.2	2.0	2.4	2.3
Private consumption	4.6	3.4	1.8	3.3	4.7	6.3	2.8	1.2	2.8	2.0	1.2	1.6	2.0	2.4
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	3.9	3.4	26.7	-11.2	16.1	-6.0	4.3	13.2	4.2	-2.1	4.2	0.0	8.6
Public investment	5.4	11.9	5.8	82.8	-29.8	28.0	25.9	3.5	5.8	5.7	5.8	6.0	6.3	6.7
Government consumption	2.2	4.5	3.4	0.6	5.8	6.5	1.4	6.7	5.4	3.7	3.5	2.2	1.8	2.2
Exports of goods & services	3.2	2.5	4.6	3.5	8.1	-2.8	2.1	2.4	4.1	6.1	4.1	4.1	6.1	4.1
Imports of goods & services	10.6	10.4	4.2	7.4	10.0	14.3	14.6	6.1	8.2	4.1	2.0	4.1	5.1	2.0
Contributions to GDP growth:														
Domestic final sales	5.2	4.2	2.6	6.5	4.1	7.2	5.6	-1.1	4.8	2.9	2.2	2.3	2.1	3.7
Inventories	0.7	0.5	0.2	-1.0	1.4	-0.5	-0.1	3.5	-0.9	0.1	0.6	-0.1	0.4	-1.7
Net trade	-1.7	-2.0	-0.1	-1.0	-0.7	-3.7	-2.9	-1.0	-1.2	0.2	0.3	-0.2	-0.1	0.3
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	4.4	3.6	2.1	1.9	3.0	4.2	4.3	4.5	4.5	4.0	3.6	3.4	3.3
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	-7.2	-6.8	-6.0	-6.0	-6.7	-6.9	-7.4	-7.2	-7.1	-7.1	-7.0	-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	6.3	5.8	5.6	5.7	6.4	6.1	6.5	6.3	6.2	6.0	5.7	5.7	5.7
US$/A$*	0.75	0.94	0.89	0.74	0.77	0.91	0.91	0.96	0.95	0.93	0.91	0.89	0.88	0.88
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	0.8	1.8	3.2	2.2	3.3	-1.1	-0.2	-0.1	0.3	2.2	3.6	2.5	3.6
Private consumption	4.1	0.3	1.2	1.7	2.1	2.0	-1.4	-0.1	-0.5	0.5	0.7	2.1	2.9	3.3
Fixed Investment	4.4	-0.2	1.7	0.4	1.6	12.5	-7.6	-5.3	2.6	0.3	2.0	2.8	3.1	3.9
Residential construction	4.4	-17.4	-1.7	52.6	22.7	-5.5	-52.2	-18.0	-6.0	-2.0	0.0	0.8	2.8	3.2
Other fixed investment	4.4	4.2	2.4	-9.4	-3	17.9	8.0	-2.4	4.4	0.8	2.4	3.2	3.2	4.0
Inventory change (NZ$ bil, saar)	0.8	0.3	-0.1	0.4	0.3	0.1	0.4	0.1	0.0	-0.1	0.0	0.0	-0.1	-0.1
Government spending	3.9	1.6	1.7	3.8	7.6	0.9	4.7	-0.9	-4.3	-2.2	5.0	5.1	3.5	2.5
Exports of goods & services	3.3	2.4	3.0	-4.8	-0.2	19.3	-7.1	4.1	3.1	2.5	2.5	3.1	3.6	3.7
Imports of goods & services	8.6	5.3	1.0	11.0	3.0	16.2	4.9	0.6	0.2	0.5	0.5	1.5	2.2	2.5
Contributions to GDP growth:														
Domestic final sales	4.6	2.3	1.5	4.1	5.0	6.0	-0.2	2.0	0.4	-0.1	0.7	2.8	3.3	3.5
Inventories	0.5	-0.3	-0.3	4.6	-1.5	-2.4	3.3	-3.2	-1.4	-0.2	0.8	0.4	-1.0	-0.1
Net trade	-2.0	-1.2	0.6	-5.4	-1.2	-0.1	-4.2	1.1	0.9	0.6	0.6	0.4	0.3	0.2
GDP deflator (%oya)	4.2	4.8	2.8	4.1	3.9	5.6	5.9	5.3	4.9	3.3	2.9	2.8	2.7	2.7
Consumer prices	2.4	4.2	3.8	4.0	2.0	4.8	3.4	3.9	5.0	4.4	3.2	3.5	3.5	3.2
%oya	2.4	4.2	3.8	2.0	1.8	3.2	3.4	3.3	4.1	4.0	4.1	4.0	3.7	3.4
Trade balance (NZ$ bil, sa)	-2.3	-0.8	0.7	-0.8	-0.7	0.0	-0.2	-0.2	-0.2	-0.2	-0.1	0.1	0.3	0.5
Current account (NZ$ bil, sa)	-13.8	-13.3	-10.7	-3.6	-3.6	-3.1	-3.5	-3.3	-3.3	-3.2	-2.9	-2.8	-2.6	-2.3
as % of GDP	-8.1	-7.4	-5.7	-8.4	-8.3	-7.0	-7.9	-7.4	-7.2	-7.0	-6.3	-6.1	-5.6	-4.8
Yield on 90-day bank bill (%)*	8.4	8.5	7.7	8.2	8.7	8.8	8.8	8.7	8.5	8.2	8.0	7.8	7.6	7.5
10-year bond yield (%)*	6.3	6.3	5.7	6.4	6.4	6.4	6.4	6.4	6.3	6.2	6.0	5.7	5.5	5.5
US$/NZ$*	0.74	0.75	0.68	0.74	0.74	0.76	0.79	0.76	0.74	0.72	0.70	0.68	0.67	0.68
Commonwealth budget (NZ$ bil)	6.4	5.3	5.0											
as % of GDP	3.7	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
7 Jul Australia: ANZ job ads (11:30am) 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 -2.0 %m/m, sa Housing finance (11:30am) May -2.0 %m/m, sa	10 Jul Australia: Consumer inflation expectation (11:00am) Jul Unemployment rate (11:30am) Jun 4.3 %, sa New Zealand: PMI (12:00pm) Jun	11 Jul
14 Jul New Zealand: QV house prices Jun Retail sales (10:45am) May	15 Jul New Zealand: CPI (10:45am) 2Q	16 Jul Australia: Westpac leading index (10:30am) May	17 Jul	18 Jul Australia: Export price index (11:30am) 2Q Import price index (11:30am) 2Q
21 Jul Australia: PPI (11:30am) 2Q New motor vehicles sales (11:30am) Jun New Zealand: Visitor arrivals (10:45am) Jun Credit card spending (03:00pm) Jun	22 Jul	23 Jul Australia: CPI (11:30am) 2Q	24 Jul New Zealand: RBNZ official cash rate (09:00am) Jul	25 Jul
28 Jul New Zealand: Trade balance (10:45am) Jun	29 Jul New Zealand: Building permits (10:45am) Jun	30 Jul Australia: Building approvals (11:30am) Jun New Zealand: Money supply (03:00pm) Jun	31 Jul Australia: Pvt. sector credit (11:30am) Jun Trade balance (11:30am) Jun Retail sales (11:30am) Jun New Zealand: NBNZ bus. conf. (03:00pm) Jul	1 Aug

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
7 - 11 July	**7 July**	**8 July**	**9 July**	**10 July**	**11 July**
China • Trade balance (Jun) Japan • Cabinet Office private consumption index (May) United Kingdom • Halifax HPI (Jun)	Germany • IP (May) Japan • Shirakawa speech Taiwan • CPI (Jun) • Trade balance (Jun) Russia • CPI (Jun)	Japan • Economy watcher survey (Jun) Turkey • IP (May) United States • Consumer credit (May) • Pending home sales (May) • Wholesale trade (May) • Bernanke speech	Euro area • GDP final (1Q) • Trichet speech Germany • Trade balance (May) Japan • Private machinery orders (May) Mexico • CPI (Jun)	Brazil • IPCA (Jun) Euro area • Trichet speech Norway • CPI (Jun) South Africa • IP (May) Sweden • CPI (Jun) United States • Bernanke and Paulson testify before House committee Central bank meetings • Chile • Korea • Peru • United Kingdom	Canada • Employment (Jun) Japan • Consumer sentiment (Jun) • IP final (May) United States • Consumer sentiment (Jul) • Trade balance (May)
14 - 18 July	**14 July**	**15 July**	**16 July**	**17 July**	**18 July**
China • GDP (2Q) • Money supply (Jun) Japan • Nationwide dept store sales (Jun)	Euro area • IP (May) Russia • IP (Jun)	Canada • BoC meeting Germany • ZEW business surv (Jul) Japan • BoJ meeting Poland • CPI (Jun) United Kingdom • CPI (Jun) United States • Business inv (Mar) • NY Fed survey (Jul) • PPI (Jun) • Retail sales (Jun)	Euro area • HICP final (Jun) Japan • Tertiary secctor activity index (May) Thailand • BoT meeting United Kingdom • Labor mkt report (Jun) United States • CPI (Jun) • IP (Jun) • NAHB survey (Jul) • FOMC minutes	Japan • Reuters Tankan (Jul) Mexico • IP (May) Philippines • BSP meeting Turkey • CBRT meeting United States • Housing starts (Jun) • Philly Fed survey (Jul)	China • CPI (Jun) • FAI (Jun) • IP (Jun) • Retail sales (Jun) Euro area • Trade balance (May) Japan • BoJ minutes • Shirakawa speech Mexico • Banxico meeting Poland • IP (Jun)

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