Australia and New Zealand - Weekly Prospects

Summary

- Economic data was pushed to the back-burner last week as the turmoil in global financial markets attracted most attention. In **Australia**, the only data of note was 2Q dwelling starts, which dropped another 3.7%q/q, after a 1.0% fall in 1Q. There was, however, plenty of central bank communication, including the RBA minutes from the September Board meeting, at which officials trimmed the cash rate for the first time since late 2001. Also, there was a keenly awaited speech by Governor Stevens, which indicated that the RBA remains in no rush to lower the cash rate. It still is too early to revise down our Aussie GDP growth forecasts on the back of the market turmoil but, clearly, the downside risks have intensified.

- In **New Zealand,** we almost certainly will get confirmation this week that the Shaky Isles' economy has slipped into recession. GDP growth on Friday probably will be negative, the second straight contraction, following the 0.3%q/q drop in 1Q. This helps to explain why the RBNZ cut the overnight cash rate by an unexpectedly large 50bp the previous week. We expect a 25bp rate cut in October although, given the instability in global markets, the odds of a second 50bp move are rising. Last week, the current account deficit unexpectedly blew out to NZ$3.9 billion as the goods deficit dropped back into deficit.

- A tumultuous week in **global financial markets** began with the US Fed and Treasury appearing to draw the line on the use of public funds to support teetering financial institutions. It ended with the unveiling of a sweeping plan that will entail a large injection of public funds into the financial system. This enormous policy shift is a response to aftershocks resulting from the Lehman Brothers bankruptcy filing, which sent the message that no institution is "too big to fail." These included: the seizing up of short-term money markets in the face of uncertainty about counterparty risk, the threat of the collapse of AIG and other financial institutions as the flow of private capital turned off, and the growing contagion of the crisis to credit and equity markets around the world. The speed by which US policymakers moved this week is impressive and offers hope that the risks to the financial system may now be genuinely fading. However, some further damage has likely been inflicted on an already fragile economic landscape.

- By lowering risks of financial instability, the risk to **US public sector finances** are being raised substantially. It is impossible to accurately gauge the ultimate cost of new initiatives to the taxpayer at this stage. However, the total net issuance of public sector debt in the coming fiscal year—to fund a large deficit and the purchase of distressed assets—is likely to approach $1.5 trillion, about 10% of US GDP. How much of this borrowing is ultimately funded by asset sales will depend in part on how quickly the housing market stabilizes and how well the economy performs.

This week's highlight

The even Shakier Isles take centre stage this week. New Zealand's 2Q GDP data should show that the economy contracted for two straight quarters. This will make the onset of recession official.

Contents

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Data and event previews - Australia and New Zealand

Date [(a)]	Data/event	Forecast		*Previous*	Comment
		JPMorgan	Consensus		
Monday, 22 September (11.30am)	**Aust. motor vehicle sales (Aug., %m/m)**	**-2.0**	na	*-3.4*	Vehicle sales slumped in July as the higher rate of the luxury car tax kicked in. Car sales probably were weak in August too owing to high petrol prices and low confidence.
Tuesday, 23 September (8.45am)	**NZ Westpac consumer confidence (index, 3Q)**	**83.0**	na	*81.7*	NZ consumer confidence slumped in the June quarter even though it looked likely that the RBNZ soon would embark of a rate cutting cycle. Clearly, recession-like conditions in New Zealand's economy had made households feel vulnerable. The confidence index probably will improve slightly in 3Q owing to the July rate cut and lower petrol prices.
Wednesday, 24 September (11.30am)	**Aust. DEWR skilled vacancies index (Sep., %m/m)**	**na**	na	*-1.7*	na
Thursday, 25 September (11.30am)	**RBA's *Financial Stability Review***	**na**	na	*na*	The RBA's semiannual financial stability review will be more keenly awaited than usual, given the recent developments in financial markets. RBA officials are almost certain to reveal that Australia's financial system is in good shape, and that the banks are well capitalized.
Friday, 26 September (8.45am)	**NZ GDP (2Q, %q/q)**	**-0.3**	-0.4	*-0.3*	It should become official: New Zealand's economy will be in recession. The economy contracted in 1Q under the combined weight of high borrowing costs, slumping consumer and business confidence, and falling house prices. The economy probably contracted again in 2Q, marking consecutive quarters of contraction, enough to quality for a technical recession. We forecast another small GDP contraction in 3Q and a stagnant 4Q. The forecast is that GDP probably dropped another 0.3%q/q in 2Q, the same as in 1Q. This will drag growth over the year down to just 0.8%, from 1.9% in the year to 2Q. The main drags on growth will be consumer spending, which again will contract, and business investment spending. The partial offset should come from higher government spending. Public spending has been ramped up as the election looms.
Friday, 26 September (11.30am)	**Aust. HIA new home sales (Aug., %m/m)**	**na**	na	*-7.2*	na

(a) Australian Eastern Standard Time.

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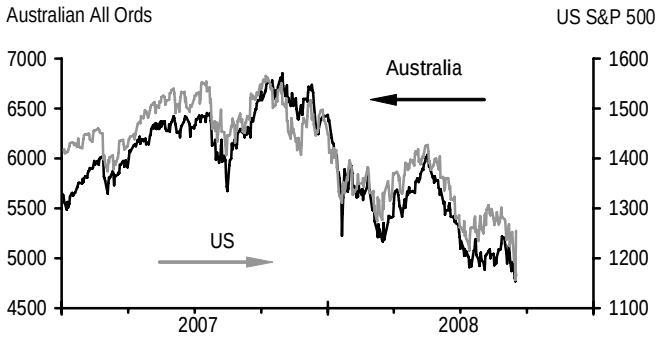
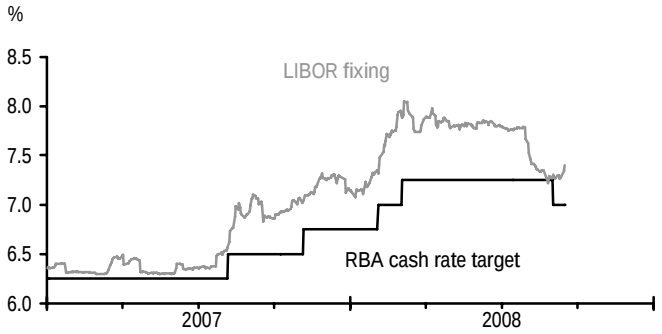
Feature charts

Share markets: Australia and the US



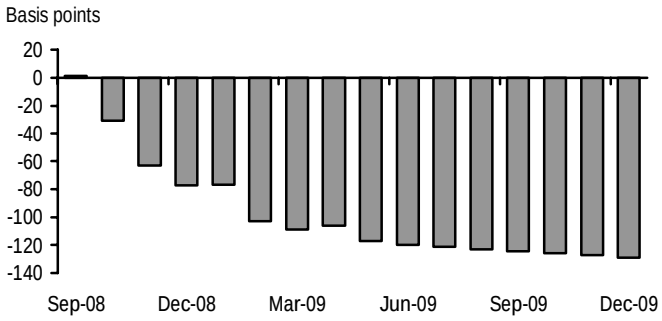
The RBA Governor last week reassured local investors that Australia's eeconomy is strong, and that Australian banks are well-capitalized. These welcome comments have not protected the local share market, though. In fact, the local market was belted just as severely as markets offshore as investors fled risky assets. In fact, the local share price index sank to 3-year lows.

Australia - cash rate target and 3 mth LIBOR fixing



The instability in global markets has seen funding rates spike up again in most jurisdictions. The RBA's 25bp cut in the cash rate earlier this month means funding costs are below those of earlier this year, but the spread over cash has risen sharply. The RBA has been pumping additional liquidity into money markets in an attempt to cap the rise in funding costs, but the 3 month LIBOR fixing remains elevated relative to the cash rate target.

RBA official rate cut expectations



The Aussie 30-day interbank futures contract strip now prices a total of 75bp of RBA rate cuts this year - this is the equivalent to a 25bp rate cut at each of the RBA's three meetings this year. While global financial market instability means the odds of an October rate cut have risen, we still believe the RBA will wait until December before lowering the cash rate again. We expect a total of another 75bp of official rate cuts in this cycle, but by next June, not end-2008.

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Australia

- **RBA Governor believes Australia is weathering the global economic storm**
- **September Board minutes pointed to an RBA in no rush; before this week's market events**
- **RBA's Financial Stability Review due this week**

Economic data was pushed to the back-burner last week as the turmoil in global financial markets attracted most attention. In Australia, the only data of note was 2Q dwelling starts, which dropped another 3.7%q/q, after a 1.0% fall in 1Q. There was, however, plenty of central bank communication, including the RBA minutes from the September Board meeting, at which officials trimmed the cash rate for the first time since late 2001. Also, there was a keenly awaited speech by Governor Stevens, which indicated that the RBA is in no rush to lower the cash rate.

Increased risk of earlier RBA rate cut

This week's RBA Board minutes and the Governor's speech showed that, at least before the onset of the financial market instability, the RBA was in no great hurry to lower the cash rate. Having eased 25bp in September as expected, the RBA is taking future policy decisions on a meeting-by-meeting basis. This, in part, reflects the "opposing forces" at work in the economy and the unusually high degree of uncertainty.

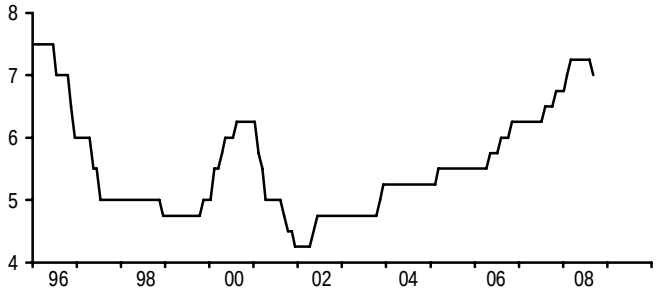
We expect the RBA to wait until December before lowering the cash rate again but, given recent market turmoil, the risks of an earlier move, perhaps as soon as early October, are rising. Other central banks, though, have to ease before the RBA will move. RBA officials are unlikely to more unilaterally, in part because Governor Stevens this week made it clear that comparisons across the economy and markets between Australia and the US are "night and day." RBA officials would need to be convinced that increased economic weakness in Australia's trading partners was imperiling the growth outlook in Australia.

RBA Board minutes implied no rush

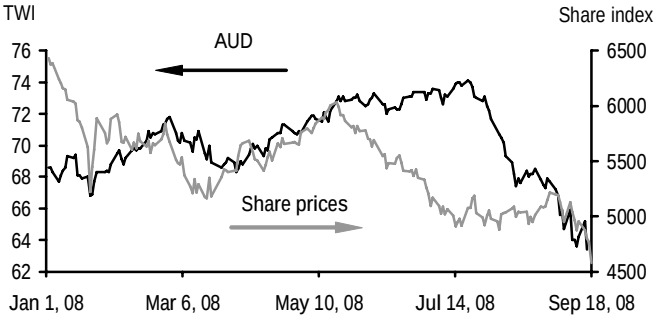
On Tuesday, the RBA released the minutes of the September Board meeting. As we had expected, the minutes revealed little that was new. After all, RBA Governor Glenn Stevens provided detailed testimony to Federal Parliament last week, so there was little about the RBA's perceptions of the growth and inflation outlook that had not already been revealed.

RBA cash target rate - Australia

Percent per annum, end of period



Australia: share prices index and AUD



Also, when announcing the 25bp rate cut earlier this month, the RBA explained the reasons for the move.

The minutes explained in detail the reasoning for the September rate cut. As expected, the minutes referred to the weakness in domestic demand, triggered by tight financial conditions, the slump in demand for home loans, sliding business and consumer confidence, lower rates of capacity utilization, and softening labor market conditions, which have helped to ease wage pressure. RBA officials also took note of the abrupt decline in AUD, although this did not seem to be a major consideration for the policy outlook. The minutes also noted the trend toward weaker growth in Australia's trading partners.

One point of interest in the minutes was that RBA officials still were referring to the "opposing forces" at work in the economy—the soaring terms of trade on one side, but slowing domestic demand on the other. In this way, the minutes indicate that the rate cut in September was contentious. Board members debated the merits of the timing of the first reduction in the cash rate, and balanced the risks of easing too early against the perils of waiting too long. It seems, therefore, that, before the events of the last few days at least, officials were in no rush to ease policy. This is partly because inflation is likely

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to rise in coming quarters, and will return to target only "over time."

Governor's speech reveals little anxiety

Despite the onset of what the RBA Governor described as a "storm" engulfing global financial markets, Stevens largely stuck to his original plan of speaking about four important long-run issues for Australia's economy. The four themes were: the impact of China, dealing with a fully-employed economy, the significance of the likely end of the boom in household gearing, and the role of financial regulation. Only briefly, at the outset of the Governor's prepared commentary and in a later answer to a question from the floor, did he refer, in particular, to recent developments in financial markets.

On the events in markets, Stevens believes Australia is weathering the storm because of its flexible economy, floating AUD, which has dropped 20% in the last two months, the stable domestic financial system, and prudent regulation. Importantly, the Governor indicated that Australia is "light years" away from having the same problems that have triggered financial distress in the US. He did not provide guidance on the likely timing of the next rate cut. In fact, he deliberately avoided discussing the merits of the latest pricing in futures markets, which implies there will be three 25bp rate cuts by the RBA this year.

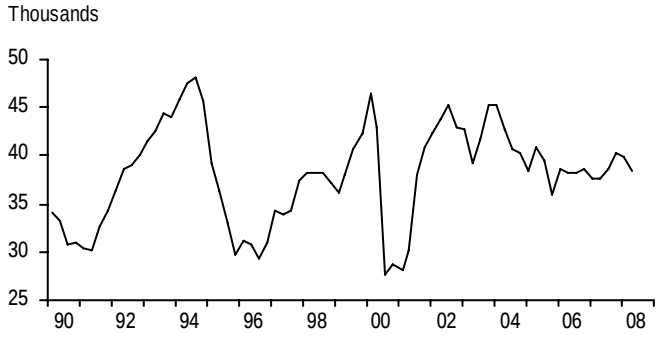
The Governor believes tha China continues to be a powerful, positive influence on Australia's economy. Also, he made it clear that having to deal with a fully employed economy is a "good" problem to have. He did, however, reinforce that, given there now is less spare capacity, Australia will struggle to maintain recent healthy GDP growth rates; growth has to slow. According to Stevens, over the long term, sustaining productivity growth is key.

Stevens spent a considerable amount of time explaining the runup in household debt, but believes there is likely to be a period of deleveraging by households; he believes we already have entered this phase. Finally, the Governor outlined the merits of authorities "leaning against" asset price booms to try to prevent potential problems accumulating, but he did not express a view on the best way forward.

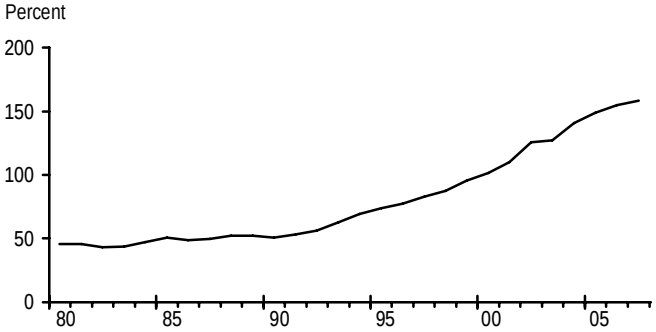
Aussie housing market even weaker

Dwelling unit commencements dropped sharply in 2Q, after a

Australia: dwelling unit commencements



Australia: household debt to disposable income



revised 1.0% fall in 1Q (this previously was released as a 3.3% fall). The biggest drop in the June quarter was in starts of private sector high-density dwellings, which unexpectedly plunged 17.1%q/q; private starts of detached houses rose 4.1%q/q. The total number of starts rose 2.1%oya in the year to the June quarter.

Starts probably will be weak in the September quarter too. Early in the quarter, sentiment was rocked by high interest rates, the lingering impact of the global credit crunch, and plunging auction clearance rates. Only in early September did the RBA cut official interest rates, and it will take some time for this support to feed through into housing starts. Moreover, starts are being restrained by administrative red tape, slow local council approvals, low consumer confidence, and early evidence of house price weakness.

However, Australia is failing to build enough homes to satisfy rising demand. Population growth has accelerated owing mainly to more rapid skilled migration inflows. Demand for housing, therefore, has grown, yet the supply of housing is falling. At an annual rate, for example, dwelling starts in 2Q

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printed at close to 153,000, well below underlying demand of around 175,000 starts per year. This "underbuild" helps to explain why house prices have held up, despite poor affordability, and why residential rents have been rising at the fastest pace for two decades.

This week: more RBA commentary

The coming week also is a quiet one as far as Australian economic data is concerned. The slimmed-down Bureau of Statistics, thanks to recent government funding cuts, will release vehicle sales data. Auto sales continue to be influenced by the Government's decision to raise the tax rate on luxury cars from 1 July. Only this week was the measure put to the upper house of Parliament for approval, and only then in return for concessions, like exemptions for farmers and regional tourism operators.

Also next week, the RBA releases its semiannual financial stability review. Given what has happened in global markets this week, the review will be more keenly awaited than usual. RBA officials are almost certain to reveal that Australia's financial system in good shape, and that the banks are well capitalized.

Australia:
Data releases and forecasts

Week of September 22 - 26

Mon Sep 22 11:30am	Sales of new motor vehicles Units, seasonally adjusted	May	Jun	Jul	Aug
	(%m/m)	-2.1	0.8	-3.4	-2.0
	(%oya)	1.9	1.3	-4.1	—

Review of past week's data

Dwelling starts
Seasonally adjusted

	4Q07		1Q08		2Q08	
(%q/q)	~~4.2~~	*4.1*	~~-3.3~~	*-1.0*	~~-2.0~~	*-3.7*

WMI leading index
Seasonally adjusted

	May	Jun	Jul	
(%m/m)	0.0	0.1	—	*0.2*

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New Zealand

- **2Q GDP growth to be negative on Friday**
- **Higher public spending the only bright light**
- **New Zealand's current account deficit widened in 2Q**

In New Zealand, the current account deficit blew out to NZ$3.9 billion as the goods deficit dropped back into deficit. Other second-tier data provided further evidence that the economy is in recession. This helps to explain why the RBNZ cut the overnight cash rate by an unexpectedly large 50bp last week. We expect a 25bp rate cut in October although, given the latest instability in global markets, the odds of a second 50bp move are rising.

New Zealand's CAD widened on trade

New Zealand's 2Q current account deficit was unexpectedly large, printing at NZ$3.9 billion against market expectations of NZ$3.4 billion. This probably equates to a deficit of 8.3% of GDP (the GDP data is released next week), up sharply from a deficit of 7.8% in 1Q. Indeed, the deficit in 2Q represented a big increase from the NZ$2.1 billion imbalance reported for 1Q. The main reason for the deterioration was a huge swing in the goods and services balance; the largest deterioration was in the services imbalance. The net income balance also deteriroated to a mammoth deficit of NZ$3.4 billion.

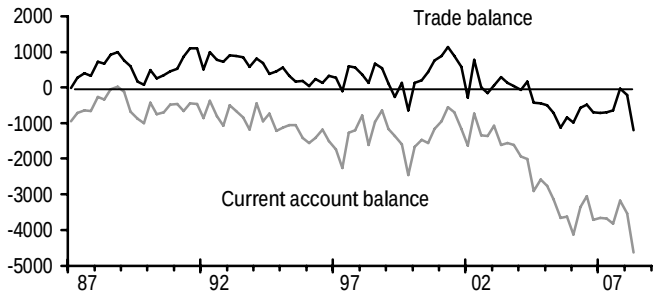
In other data, credit card spending was unchanged over August, but rose 2.5%oya. This nevertheless is a sharp deceleration from the 4.2% increase in the year to July. This sharp slowdown in credit card spending is a clear symbol that growth in the domestic economy has all but stalled.

Next week: NZ economy in recession

In the coming week, it should become official: New Zealand's economy will be in recession. The economy contracted in 1Q under the combined weight of high borrowing costs, slumping consumer and business confidence, and falling house prices. The economy probably contracted again in 2Q, marking consecutive quarters of contraction, enough to quality for a technical recession. We forecast another small GDP contraction in 3Q and a stagnant 4Q. The forecast is that GDP probably dropped another 0.3%q/q in 2Q, the same as in 1Q. This will drag growth over the year down to just 0.8%, from 1.9% in the year to 2Q. The main drags on growth will be consumer spending, which again will contract, and business investment spending. The partial offset should come from higher government spending. Public spending has been ramped up as the election looms. In fact, Prime Minister Helen Clark last week called for Kiwis to go to the polls on November 8.

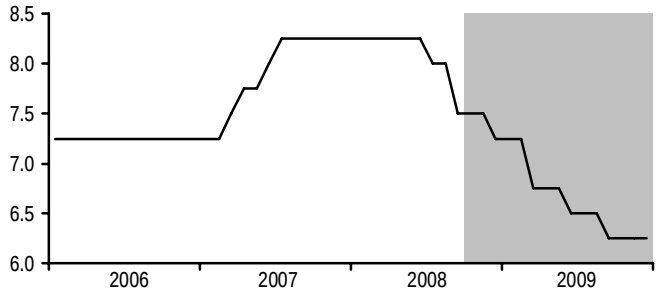
New Zealand: current account balance

NZ$ million



New Zealand: RBNZ official cash rate

%



New Zealand:
Data releases and forecasts

Week of September 22 - 26

Fri Sep 26 10:45am	Real GDP Seasonally adjusted, production-based				
		3Q07	4Q07	1Q08	2Q08
	(%q/q)	0.5	0.8	-0.3	-0.3
	(%oya)	3.2	3.5	1.9	0.8

Review of past week's data

Balance of payments

NZ$ mn, nsa

	4Q07	1Q08		2Q08	
Current account	-3413	~~-2155~~	*-2109*	~~-2600~~	*-3910*

Visitor arrivals

Not seasonally adjusted

	Jun	Jul		Aug	
Total (%m/m)	-1.4	~~2.1~~	*2.2*	—	*-0.5*

Credit card spending

Seasonally adjusted

	Jun	Jul	Aug	
(%oya)	3.4	3.8	—	*2.5*

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Global Essay

- **Initiative relieves stress but US net debt issuance may reach 10% of GDP**
- **Coming weeks will be crucial for assessing whether further damage has been inflicted on global growth**
- **EM slowdown broadens; industrial slowdown set to intensify**
- **Chinese policy moves aggressively to support domestic asset prices**

Enormous changes at the last minute

A tumultuous week in global financial markets began with the US Fed and Treasury appearing to draw the line on the use of public funds to support teetering financial institutions. It ended with the unveiling of a sweeping plan that will entail a large injection of public funds into the financial system. This enormous policy shift is a response to aftershocks resulting from the Lehman Brothers bankruptcy filing, which sent the message that no institution is "too big to fail." These included: the seizing up of short-term money markets in the face of uncertainty about counterparty risk, the threat of the collapse of AIG and other financial institutions as the flow of private capital turned off, and the growing contagion of the crisis to credit and equity markets around the world. The speed by which US policymakers moved this week is impressive and offers hope that the risks to the financial system may now be genuinely fading. However, some further damage has likely been inflicted on an already fragile economic landscape.

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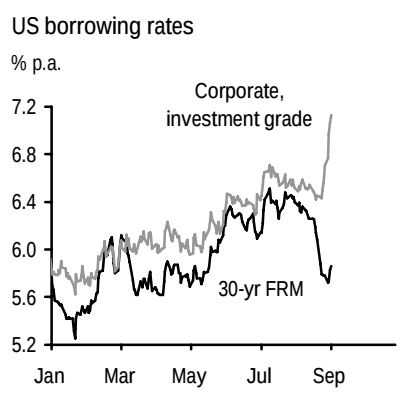
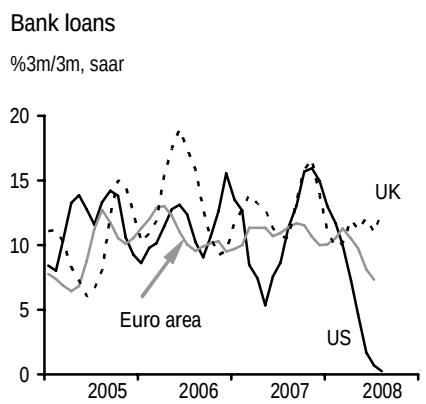
The latest news on the housing market has been encouraging, as mortgage rates have moved lower despite financial market stress and have spurred a sharp rise in mortgage applications. The tentative signs that new home sales are stabilizing are being accompanied by the substantial progress builders have made in lowering their inventories. If this process can proceed, the drag from housing activity—which has shaved a full percentage point off growth over the past year—will likely fade as the year ends.

Elsewhere the latest news is more troubling. The adjustments by US firms in the face of housing and credit market drags have thus far been moderate, providing a key source of growth resiliency. However, high-frequency indicators suggest that the strain from weaker earnings and tighter credit conditions may be weighing more heavily. Against the backdrop of recent further stress, the potential for an intensification of corporate spending and hiring cutbacks poses significant downside risk to our forecast that the economy skirts a contraction in the coming quarters. Unfortunately, the effects of Hurricane Ike and the Boeing strike will cloud our assessment of September indicators of business behavior. Notably, jobless claims are expected to spike to 500,000 next week.

For the Fed, the emergence of legislative initiatives to deal with the crisis must be welcome. It should reduce demands on its already extended balance sheet. It will also reduce the po-





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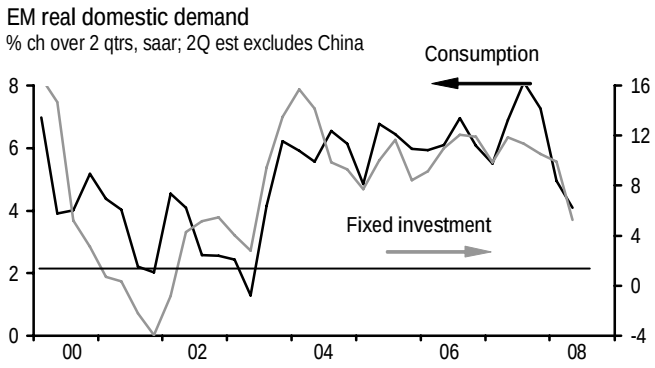

litical pressure inherent in the many difficult credit decisions made in recent months. From the perspective of the FOMC, the latest events reduce the chances that policy rates will be eased to offset tail risks to growth. The most likely scenario is for the Fed to remain on hold for some time.

EM slowdown broadening and deepening

The macro landscape is shifting rapidly in the emerging economies. The group is under pressure from the continued slowdown in the G3 economies, where growth has slowed to a crawl. There are, however, domestic drags in place as well. Surging commodity price inflation has depressed household purchasing power and together with rising unit labor costs has squeezed corporate margins in goods producing industries. Recently, the buoyancy of EM financial markets has faded under the weight of concerns about domestic growth prospects and increased risk aversion. This is most visible in equity markets, where the EM's striking outperformance in late 2007 has been wiped away by a swoon over this year.

Up through midyear, the slowdown in EM growth was modest, with the pace of expansion easing from red-hot to near trend. China's continued double-digit growth helps explain this impressive EM performance. This is consistent with China's historically low correlation with the global business cycle. Growth slowed more substantially in the EM excluding China, falling from a 6% average annual rate during the boom years from 2004 to 2007 to a 4% annual rate in 1H08. With G3 demand growth turning very weak, it might seem obvious that the moderation in EM growth has been led by exports. In fact, the pace of EM export growth remained solid in 1H. Instead, the slowing in growth was focused in consumption and fixed investment.

There is little doubt that EM exports will slow in 2H08, a point reinforced by the recent downshift in EM industrial activity growth. This slowdown will likely be reinforced by inventory adjustments in the pipeline. We expect EM growth to fall below trend through year end as the triple squeeze from slowing exports, high inflation (albeit gradually abating), and tighter financial conditions tightens its grip on EM economies.

The extent of any further moderation in EM economic activity is a key issue for the global economy. The JPMorgan forecast calls for EM growth to ease to near 5% annualized in 2H08. Growth at this pace, which is modestly below trend, would enable the group to continue cushioning the slowdown in the G3 economies. Conversely, a significantly deeper EM slowdown might be sufficient to push the global economy into recession. At this juncture, the balance of risks is pointing to the downside of the JPMorgan forecast.

China provides strong stimulus

One reason that China's economy demonstrates such a limited correlation with the global cycle is that government officials are willing and able to enact strong countercyclical measures in times of global turmoil. A similar phenomenon is at work in the current cycle. In recent months, policymakers have increased export tax rebates and eased lending restrictions to counter potential shortfalls in exports and investment spending. This week marked an escalation of these efforts. The week began with the PBoC lowering reserve requirements for most Chinese banks 100bp and cutting the benchmark lending rate 27bp. Later in the week, actions targeted at the A-share market were announced, including a cut in stamp duty tax on stock transactions, direct stock purchases by China's sovereign wealth fund, and buybacks of shares by government-controlled companies.

Additional action from China is expected. More traditional fiscal pump priming, likely in the form of VAT reforms that effectively lower corporate tax rates, as well as personal income tax cuts and public infrastructure investment. These actions would result in an estimated fiscal deficit of about 2% of GDP in 2009 compared with 0.5% of GDP this year. The macro policy stimulus likely would partly offset the slowdown in export growth and export-related private sector investment, as well as a likely deceleration in housing construction. Property transactions have slowed notably since late last year, but

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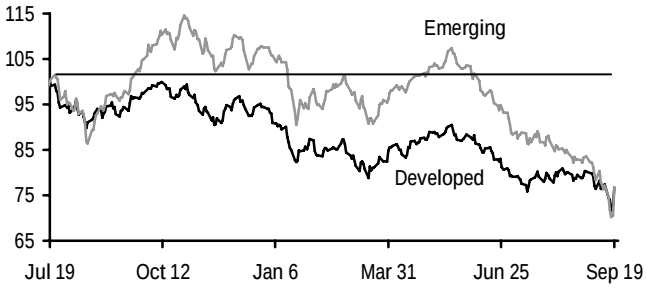
World equity indexes

Index, July 19 = 100



construction activity to date has continued to grow strongly, raising concerns of oversupply conditions in the coming quarters. Overall, we expect GDP growth to grow at a slower, but steady pace of 9.5% in 2009.

The retreat of inflation in China is likely to continue, with CPI inflation declining to average only 3% in 2009. This will pave the way for further monetary ease. We expect two more 27bp rate cuts in the first half of next year, plus further lowering of the required reserve ratio We also expect slower appreciation of USD/CNY.

Indeed, CPI inflation has peaked across EM Asia, as food prices, which make up from a quarter to a half of the region's CPI baskets and accounted for about two-thirds of headline inflation this year, retreat. With growth everywhere slowing, equity and real estate prices lower, and commodity prices soft, it seems likely that the coming drop in headline inflation will prompt other regional policymakers to follow China's lead. Already this week, Taiwan's central bank reduced reserve requirements on various categories of NT$ deposits by between 0.75% to 1.25%. In effect, this reverses a tightening measure introduced just two months ago as one of the central bank's inflation-fighting measures. Market forecasters had almost uniformly expected Taiwan to hike rates by 12.5bp at next Thursday's monetary policy meeting; now, no action is expected.

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JPMorgan View - Global Markets

A defining moment

- The world financial system came close to a meltdown this week, forcing the US government to throw all it has at it in an attempt to pull it **back from the precipice.** We again await weekend news on whether Washington can come up with measures to reestablish confidence in the financial system.

- The outline for new policy measures—from money market fund insurance to an RTC-type funding of depressed mortgage securities—match the seriousness of the crisis and thus contain great promise of solving the core problem in finance. They send a message that the US government will do anything at any cost to prevent a financial meltdown, for the simple reason that the alternative would be even more expensive. Assuming no great disappointment this weekend, we **turn tactically long on riskier assets,** especially in the US given its proactive government. Focus first on global equities (overweight US), as investors are most underweight here, and then add overweights of ABS, high-yield, MBS and Agency debt versus USTs.

- **The solution to the financial crisis is in sight, but the economic crisis rages on.** Economic activity is slowing sharply across the world, raising the already high risk that we have entered a global recession that could last several years. Our **overweight risky assets is thus tactical and not strategic.** Keep close tabs on rallies in risky markets in coming day/weeks and be ready to take profits soon.

- This week's measures will likely become the **defining moment, both for the ultimate resolution of the financial crisis and the future shape of the US financial system**. The high public bill for supporting the US financial system and the dramatic actions required will induce Congress and the new administration to pursue new laws and regulations to prevent a repeat of this crisis. Many of such measures will be welcomed, in particular a wider application of minimum capital requirements. The risk of a 1930s regulatory overkill exists, but should fade if this week's actions succeed in stabilizing the system.

Fixed income

- Bonds went through the same gyrations as other markets this week and similarly ended not that far from last Friday's close. The 2-year UST yield is again close to our 2.25% target, consistent with a Fed on hold. **Stay neutral duration in the US**. Large funding for an RTC may seem bad for bonds, but implies a spread trade (vs USTs) rather than being out-right short duration as new UST issuance will be used to buy other bonds (mortgages) from banks. Any change in net duration supply thus would be modest. In **Europe**, yields are on net higher than last week. The European recession will eventually force the hand of central banks and we thus stay **long the short end there**.

- Our overweights in **spread** products lost horribly by Thursday on the massive FTQ into US Treasuries, but by today recuperated a large part of this loss. This weekend's likely move to an RTC and money market insurance reinforce our advice to be overweight spread products, especially MBS, Agencies, and ABS. We maintain swap spread tighteners as medium-term trades.

Equities

- Equities finished the week broadly unchanged but saw ex-

10-yr Government bond yields

	Current	Sep 08	Dec 08	Mar 09	Jun 09
United States	3.76	3.85	3.90	4.00	4.20
Euro area	4.23	4.15	4.00	3.95	3.90
United Kingdom	4.64	4.60	4.30	4.30	4.20
Japan	1.48	1.50	1.60	1.60	1.80

Equities

	Current	YTD Return (local currency)
S&P	1250	-16.5%
Topix	1149	-24.8%
FTSE 100	5311	-21.9%
MSCI Eurozone	166	-29.3%
MSCI Europe	1107	-25.8%

Credit markets

	Current	Dec 08
US high grade (bp over UST)	444	230
US high grade (bp over swaps)	293	171
Euro HG Ind (bp over swaps)	109	116
USD high yield (bp vs. UST)	909	800
EMBIG (bp vs. UST)	386	300

Foreign exchange

	Current	Dec 08	Mar 09	Jun 09	Sep 09
EUR/USD	1.44	1.42	1.40	1.38	1.36
USD/JPY	107	108	110	112	114
GBP/USD	1.84	1.78	1.75	1.75	1.74

Commodities

		Quarterly Average	
	Current	Sep 08	Dec 08
Gold ($/oz)	862	850	825
Copper($/m ton)	6771	8150	8500
Corn ($/Bu)	5.42	6.30	6.50

Source: JPMorgan, Bloomberg, Datastream

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treme daily moves. The US government plan to buy distressed assets as well as to impose temporary restrictions on short selling caused a massive covering of shorts and a violent market rebound. Whether the rally continues over coming months depends on whether the global economy avoids a severe recession. It has been our modal view for some time now that the global economy will escape recession, but the downside risk we saw around this view prevented us from recommending an outright long in equity markets despite bullish year-end targets. In contrast we have been recommending defensive trades over the past months, i.e., underweighting Cyclical vs Non-Cyclical sectors, Value vs Growth and moving EM equities to underweight a few weeks ago.

- This week's unprecedented global policy response is reducing downside risks and raises the chance of an economic recovery into next year, helped by sharply lower oil prices, declining mortgage rates, and a bottoming out in consumer confidence. We thus move to a **tactical long in equities** and see another 10-15% upside from here over the coming months. Technical indicators and positions are also favoring a rebound in the near term.

- **A market rebound is likely to favor Cyclical over Non-Cyclical sectors, and Value vs Growth.** We thus tactically reverse our underweights in Cyclical, Values. The entry point is attractive for such a reversal especially in Cyclicals vs non-Cyclicals and Value vs Growth. We are also reinstating our long in small vs large caps, focusing in Europe where small caps have suffered the most.

- **Emerging market equities** are likely to recapture part of their recent losses as policymakers become more supportive and as volatility recedes. We recommend being long. Our preferred markets are China, Mexico, the Philippines, domestic South Africa, Taiwan, Turkey and Thailand. In developed Asia, our preferred market is Singapore. Our preferred sector is financials in EM.

Credit

- Credit markets followed equities in a very volatile week. CDS indices saw a huge rally over the past two days and they have recaptured most of their widening earlier on the week. **This rally has been almost entirely driven by short covering and our desks saw little risk buying.**

- An equity market rebound, led by financials, is supportive of credit markets near term. We turn more positive on HY where we tactically close our CCC underweight. From a risk reward point of view, BB is still our preferred sector to express an overweight in HY. We expect the BB spread over USTs to move from a current 600bp to 500bp in coming weeks. In HG credit, we see more room for tightening in the US over Europe, as the former suffered more in recent weeks.

- The actions taken this week make it likely that we have **seen the bottom in ABS, ABX, and non-agency MBS** prices. We see extraordinary value and move to an overweight position.

Foreign exchange

- **The currency implications of reviving the RTC are missed. It will support the dollar vs the yen, weaken it versus the high-yielders (AUD, BRL and TRY), but keep EUR/USD in a range.** For USD/JPY and the high yielders, measures to restore financial stability have halted a deleveraging process which forced liquidating the most over-owned positions (longs in commodity currencies and EM) and the buyback of the funding currencies (JPY, CHF).

- The question now is how much carry appetite will resurface if liquidity remains constrained, LEH position liquidations are ongoing, and counterparty risks lingering. Notwithstanding today's surge in high-yielders, we suspect that this interest will be slow to materialize but still forthcoming since positioning is clean. Leveraged accounts seem flat on carry strategies. As liquidity conditions normalize and vol declines, USD/JPY should edge towards 110 into early 2009, while the yen crosses grind higher. We won't herald this week's announcements as signaling an all-clear on risky markets and the carry trade, but from current positioning levels, we do think that those markets have seen their lows.

- **EUR/USD is still likely to trade in a range in 4Q (1.40-1.45) before declining over 2009.** The rationale for this view is unchanged: (1) EUR/USD is oversold relative to rates and has become a favored short; but (2) EUR/USD should decline in a year like 2009 which brings US acceleration and eventual Fed tightening while Europe contracts and eases policy. We will not exaggerate the immediate macro impact of Fed/Treasury action: the US will muddle along until next spring given the slow pace at which credit conditions normalize, and the Fed will not consider rate hikes before late next year. But the medium-term story is still one of the US being first-in-first-out of the credit muck, and we doubt that long-term investors are fully positioned for this move after only two months of euro selling this summer. The bigger winner in Europe from an easing liquidity conditions will be sterling, since the UK most closely resembles the US in terms of housing weakness and banking sector vulnerability.

Commodities

- **We see range trading near term.** Precious metals had a strong rally as fear took charge. We see less upside now but prices should remain supported, while uncertainty stays at high levels.

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Markets - Australia and New Zealand

Australia

- **There was little in the way of domestic data of note this week in Australia. The RBA Governor delivered a speech but gave little indication as to whether the Bank's outlook had altered in light of recent events.**
- **We are forecasting a rate cut from the RBA in December. However, the risks of a near term rate cut from the RBA have risen considerably.**
- **Position for a steeper 3s10s yield curve and look to move short of benchmark duration on any move in 3-year yields down to 5.0%.**

Economic fundamentals take a back seat…

Economic fundamentals have taken a back seat over the last week as market participants attempt to come to grips with a sequence of unprecedented events. Taking into account the uncertainty hanging over the economic and financial market outlook at present, we offer the following insights into the Australian fixed income markets and economy.

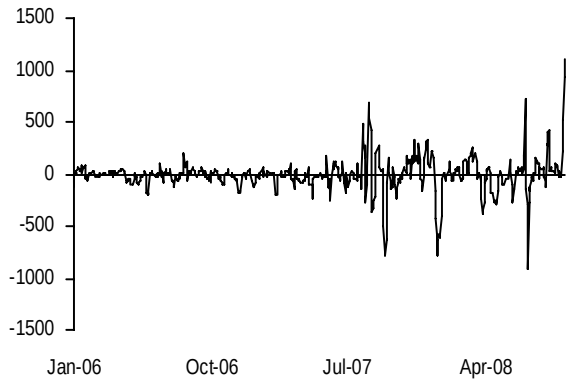
For markets, there are a couple of broader enduring themes.

- The flight to quality dynamic will remain. Steeper yield curves, rallying government bond markets and wider credit and swap spreads should persist. Asset swaps should perform.
- Volatility will remain very high across all markets over the next little while. Fundamentals are not driving markets at present, and probably won't for some time. This will make trading difficult, with volatile and choppy conditions likely to prevail.

For the real economy, things have become less optimistic.

- There is no doubt that downside risks to global growth have intensified. Our view at JP Morgan before events of the last 48 hours was that the global industrial production slowdown was becoming broader and deeper in its nature. Recent events have only served to reinforce this view. With another round of tightening in financial conditions (wider swap and credit spreads, inverse funds/2-year spread, lower equity markets etc) impacting the global economy, it is not hard to argue that the distribution of risks to the developed economies have shifted to the downside.
- For Australia, the risk is that growth in the emerging economies slows more dramatically than anticipated as financial conditions tighten. One of the features of the current episode is likely to be an outflow of funds from the developing economies into the developed economies. This week our our global economics team has already highlighted the significant outflow of funds from the emerging markets region (see JP Morgan's *Daily Economic Briefing*, 16 September). The clear risk from such a dynamic is a marked tightening of financial conditions which sees growth forecasts across the emerging economies revised down. Given recent growth dynamics in Australia, any such revision would have serious consequences for the domestic economic outlook.

Chart 1: RBA additional liquidity injections (5 day m.a.)
AUDm



- Funding costs for domestic banks have risen again. Not only has the 3-month BBSW rate risen (a consequence of funding pressures money markets), but the 3-month OIS rate has fallen due to a re-pricing of policy expectations. This has pushed the 3-month bills/OIS spread back to the wides seen in late March. When the 3m BBSW/3m OIS spread was last at these levels, the domestic banks were raising mortgage rates independently of moves in the RBA cash rate. If bank funding costs are on the rise again, the RBA may be forced to ease more aggressively in order to achieve the traction it desires with variable mortgage rates.

…but risks of near term rate cut from the RBA have risen significantly

So far, the RBA's response to recent developments has been in line with the actions of most other central banks. As the precautionary demand for cash by financial institutions has risen, the RBA has injected extra cash into the system (chart 1). But market pricing has shifted considerably over the past week. The market is now priced for 80bp of rate cuts by year end, with market pricing implying that there is an 80% chance

of a 50bp rate cut at the RBA's next meeting in October. OIS pricing suggests a terminal cash rate for the cycle of around 5.75%.

At a speech this week in Sydney, the RBA Governor would not be drawn on whether the RBA has altered its view on the economic outlook or expected path for monetary policy in light of recent developments. Our official view continues to forecast a 25bp rate cut in December, but the risks to this view clearly favour a near term easing of policy. Given that the RBA operates according to "the policy of least regret", it can be argued that there are now compelling reasons to take out some extra insurance sooner rather than later. As we noted above, risks to the global economic environment have shifted to the downside. If the move turns out to be too pre-emptive, then there is nothing to stop the RBA from keeping policy stable for sometime. Even if the RBA cut by 50bps in October, policy would still remain on the tighter side of neutral.

In 2002, the RBA noted that:

"*…while a pronounced weakening in global growth does affect Australia, whether or not this leads to a recession depends critically on the extent to which the Australian economy is already suffering from domestic problems. If the economy is relatively free of imbalances, there is a good chance that, even though the pace of GDP growth will moderate, an outright contraction in economic activity can be avoided*."

Given that domestic economic growth has slowed markedly – indeed, enough for the RBA to have already eased policy – we think the balance of risks must be shifting towards a considerably slower domestic growth profile.

3s10s curve looks too flat given front-end pricing

We think the one of the more definite mispricings in the Australian market at present has occurred between the Australian front end and the 3s10s yield curve. Put simply, the curve should be steeper if front end pricing is correct. If the RBA take the cash rate to 6.25% by year end, then we estimate fair value for the curve of around 45bps (chart 2). The strategy remains one of adding on any pullbacks.

3-year government bond yields have continued to fall, reaching their lowest point since October 2005 (chart 3). We would look for good resistance around the 4.9% level; a move below this level will require further flight to quality flows, or a growing perception that the RBA is about to embark on a very aggressive easing cycle. Typically, the 3-year yield levels at

Chart 2: AUS 3s10s yield curve, model vs. actual
Percentage Points

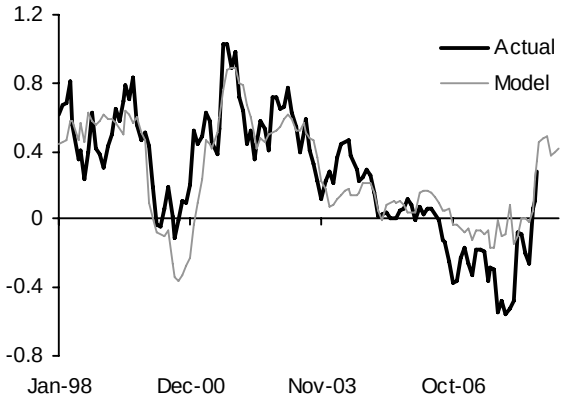


Chart 3: AUS 3-year yield and the RBA cash rate
Percent

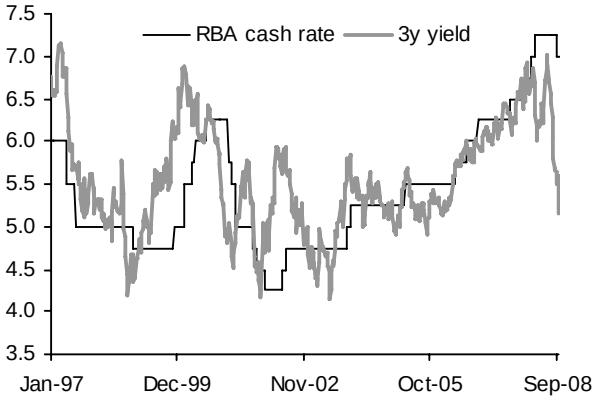
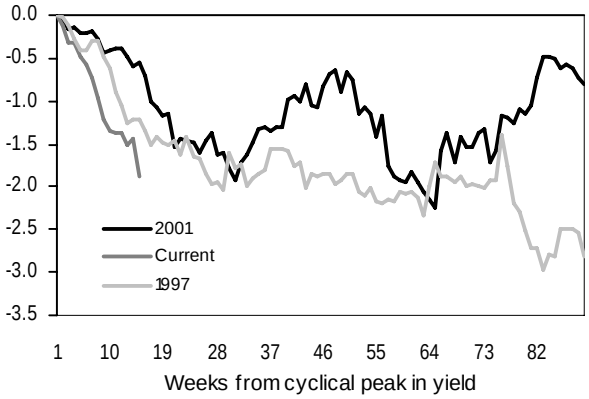


Chart 4: Rallies in the 3-year yield
Percentage Points



50bps through the trough in the cash rate for the cycle – so at a yield of 5.15%, it is hard to argue that it offers value, unless one expects the RBA to cut rates beyond 5.25-5.75% for this cycle (ie, a real cash rate equivalent with very accommodative monetary policy). We recommend real money accounts should look to move short of duration benchmark as 3-years approach 5.0%.

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We also note that the rally in 3-year yields in previous easing cycles has been in the order of 200bps initially (chart 4). While the current rally has been quicker than previous episodes, we don't expect the magnitude to be too different. This reinforces our view that 3-year government bond yields look attractive around the 5% level.

Trade recommendations

- Hold 3s/10s Aussie curve steepener in futures. Expectations of RBA easing should see the curve steepen. We are thus recommending strategic curve steepening positions in AUD. The trade has moved our way, but has further to run. We recommended buying the curve at a spread of 3bp, with a target of 25bp and a stop loss at -5bp. The curve currently is at 27.5bp, for a 24.5bp gain. Move stop to +5bps and target a move to +40bps.
- Stop out of short Oct-08 IB 30-day cash futures positions. We have been stopped out of this trade thanks to a sharp re-pricing of monetary policy expectations. Take a loss of 3bps on the trade.
- Stop out of paid 3-month positions OIS at 6.87%. We have also been stopped out of this trade thanks to a sharp re-pricing of monetary policy expectations. We have taken a loss of 5bps on the position.
- Take profit on long asset swap position in NSWTC Apr-19 bond. -We entered this trade at a spread of -2bps, and the trade has now moved to through our initial target of -15bps to reach -19bps. Take profit of +17bps.

New Zealand

- **There were no data of note released in New Zealand this week. We continue to expect further rate cuts from the RBNZ in coming months.**
- **Flows have seen the NZ spot 2s10s curve flatten, contrary to curve movement in other markets and policy expectations in New Zealand; position for a re-steepening back to flat.**

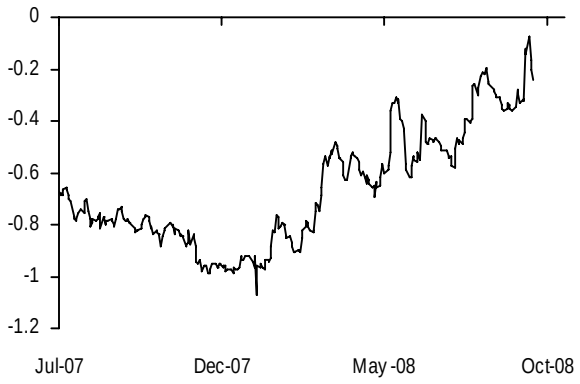
More downside risks to NZ growth

There has been no data of note released in New Zealand this week. We continue to forecast a reasonably aggressive easing cycle from the RBNZ in coming months, with the cash rate expected to trough at 6.25%. If anything, recent events have reinforced that the risk at the next RBNZ meeting is likely to be another 50bp easing as the global growth outlook deteriorates further. Earlier in the week, the NZ finance minister noted that:

"*This further round of the financial fallout will tend to lower GDP forecasts for the world over the next year or two…That clearly will have some impact on our growth moving forward*."

We continue to recommend received positions in the front end of the NZ curve, but think it would be preferable to look for a modest back up in yields before adding to or initiating received positions in the NZ front end. Target a move back to 6.95% on 2-year swap.

Chart 5: NZ spot 2s10s swap curve
Percentage Points



Flows drive NZ swap curve more inverse

Replacement trades (in the wake of Lehman Brothers' bankruptcy) have seen significant receiving interest in the long end of the NZ yield curve. This has helped the curve flatten 17bps to a spread of -24.5bps (chart 5). This movement is at odds with curve dynamics in other swap markets and is also at odds with the outlook for monetary policy in New Zealand.

Trade recommendations

- Enter a 2s10s curve steepener in NZ spot swap. Large receive side interest in the NZ 10-year swap has seen the NZ 2s10s swap curve flatten 17bps. Look to enter into a steepener at -24.5bps, target a move back to flat. Set stop at -30bps.

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AUD and NZD Commentary

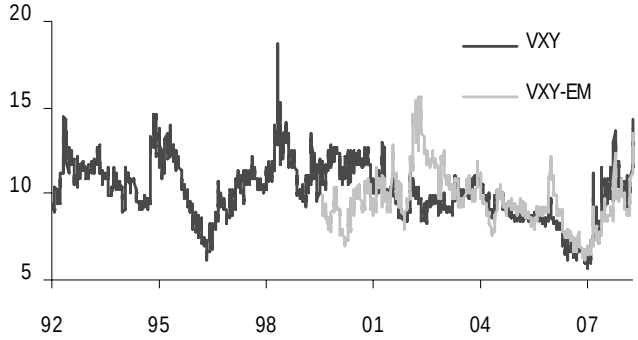
- **The currency implications are mixed. The Treasury announcements will support the dollar vs the yen, weaken the dollar versus the high-yielders (AUD, BRL and TRY) but keep EUR/USD in a range. GBP will outperform, given its association with financial sector stress.**
- **Technicals: Short term corrective phase underway for AUD/USD and NZD/USD with break of key trendline resistance levels**
- We are running out of superlatives to describe market movements and policy actions over the past week. A week which began with the largest corporate default in US history, the first Fed takeover of an insurance company, and the lowest T-bill yields since World War II is ending with announcement of the largest financial sector bailout program on record for any country. With daily headlines of this gravity, it is easy to see why FX volatility has reached near-record levels (chart 1).
- Over the past days, several developments have defined an endgame scenario for the ongoing financial market turmoil, including a Treasury plan to buy and warehouse illiquid, mortgage-related assets from banks, a temporary guaranty program for money market funds to be managed by the FDIC, an SEC and FSA ban on short-selling of financial stocks until October 2, and January 16, respectively. The reversals which followed these announcements have been so swift that benchmarks like USD/JPY, 2-yr Treasuries and the S&P500 are almost back to last Friday's levels, but after intra-week swings on par with few, if any, previous financial crisis.

Technical analysis

- A short term corrective phase is underway for AUD/USD after holding above key medium term support in the 0.7800/.7675 area. In turn, additional short term corrective work is likely to develop now given the break above the key 0.8105 downtrendline from the July high and a resurgence in commodities particularly precious metals. This should allow for a closer test of resistance at .8400 and then the .8600 area. Note this zone represents the 38.2% retracement from the July peak and more importantly the early-September breakdown area and should be where prices struggle to extend. Dips will now fund support at 0.8140, while the 0.8095/.8010 levels must hold to maintain the short term upside bias. Breaks would reassert the bearish bias for a deeper test of the critical 0.7675 August '07 low.
- For NZD/USD, the late-week extension through the 0.6800/20 resistance area, which includes the downtrendline from the July peak should allow for additional short term upside. Targets start at 0.7000/.7070, while the 0.7200 area will now act as a short term cap. Near term dips will now find support at 0.6765, while the 0.6685 level will now maintain the short term bias for a test of those short term upside targets.

FX volatility reached near record levels

JPMorgan VXY and EM-VXY indices of implied volatility



- The currency implications of these decisions are mixed: they will support the dollar versus the yen, weaken the dollar versus the high-yielders (AUD, BRL and TRY), but keep EUR/USD in a range. For USD/JPY and the high yielders, measures to restore financial stability have halted a deleveraging process which required the liquidation of the most over-owned positions (longs in commodity currencies and EM) and the buyback of the funding currencies (JPY, CHF). The question from here is how much carry appetite will resurface in an environment where liquidity conditions are still constrained, LEH position liquidations ongoing, and counterparty risks lingering. Notwithstanding today's surge in high-yielders, we suspect this interest will be slow to materialise but still forthcoming since positioning is so clean.

AUD/USD - Weekly chart

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Global Economic Outlook Summary

	Real GDP			Real GDP							Consumer prices			
	% over a year ago			% over previous period, saar							% over a year ago			
	2007	2008	2009	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	2Q08	4Q08	2Q09	4Q09
The Americas														
United States	2.0	1.8	2.1	0.9	3.3	0.5	1.0	2.0	3.0	3.0	4.3	4.3 ↓	2.8 ↓	1.9
Canada	2.7	0.7 ↓	1.9 ↓	-0.8	0.3	0.8 ↓	1.5 ↓	2.0 ↓	2.5 ↓	2.8 ↓	2.4	3.2 ↑	2.0 ↑	2.0 ↑
Latin America	5.3	4.0 ↓	3.1 ↓	0.8	5.0 ↑	2.9 ↓	2.7 ↓	2.3 ↓	3.4 ↓	3.7 ↓	7.5	8.3	7.8	6.6
Argentina	8.7	6.5	3.0	2.4 ↓	8.7 ↑	6.1	2.8	2.8	2.8	0.8	9.1	8.8	8.6	9.8
Brazil	5.4	5.2	3.8	3.4	6.5	3.0	3.2	3.5	3.9	3.8	5.6	6.6	6.6	5.0
Chile	5.1	4.0	3.0	6.8	7.4	2.5	-2.0	3.0	3.0	7.0	8.9	8.8	7.3	4.6
Colombia	8.2	3.7	3.6	-3.7	3.8	5.8	6.2	1.2	2.1	2.9	6.4	7.0	5.5	4.9
Ecuador	2.0	2.5	2.5	2.0	3.5	4.0	4.0	2.5	2.0	1.5	9.1	9.8	5.9	4.9
Mexico	3.2	1.8 ↓	2.2 ↓	-0.5	0.6	1.0 ↓	1.0 ↓	2.0 ↓	3.0 ↓	4.1	4.9	5.8	5.1	3.9
Peru	9.0	9.2	6.1	7.5	11.2	6.1	5.1	2.8	10.1	6.0	5.5	6.1	4.5	3.5
Venezuela	8.4	5.0	3.5	-12.5	15.0	5.0	10.0	-2.5	2.5	3.5	31.0	33.9	33.6	31.2
Asia/Pacific														
Japan	2.0	0.5	0.5	2.8	-3.0	-0.5	0.2	0.7	1.2	1.7	1.4	1.8	1.4	1.1
Australia	4.2	2.7	2.6	2.7	1.1	2.6	3.2	3.2	2.0	2.4	4.5	4.6	3.2	3.0
New Zealand	3.1	0.2	1.5	-1.1	-2.2	-1.3	0.2	2.4	3.1	3.2	4.0	5.2	4.3	3.0
Asia ex. Japan	8.8	7.2	7.1	8.6	6.6	5.6	6.2	6.9 ↓	7.4 ↓	8.0 ↑	7.0	5.7 ↓	3.6 ↓	4.0 ↓
China	11.9	10.1	9.5 ↓	11.7	11.5	8.7	9.0	9.0 ↓	9.5 ↓	10.4 ↑	7.8	4.1 ↓	2.4 ↓	3.7 ↓
Hong Kong	6.4	4.0	4.5	8.2	-5.5	0.8	5.2	5.5	6.0	6.5	5.7	2.5	2.4	4.2
India	9.0	7.0	7.5	9.8	5.9	5.8	5.9	7.1	7.3	7.9	7.8	8.9	5.8	5.7
Indonesia	6.3	5.6	4.7	6.0	5.4	5.0	4.5	4.5	5.0	5.0	10.1	14.2	8.3	6.8
Korea	5.0	4.4	4.8	3.3	3.4	3.0	4.0	5.0	6.0	5.5	4.8	5.0	3.4	3.1
Malaysia	6.3	4.8	4.6	6.0	3.7	-1.2	0.8	6.6	7.0	7.4	4.9	7.1	4.9	2.3
Philippines	7.2	4.4	4.3	4.2	6.2	2.0	2.0	5.0	5.5	6.0	9.7	8.0	4.3	3.7
Singapore	7.7	4.0	4.3	15.7	-6.0	6.6	4.1	4.5	4.5	5.3	7.5	4.7	1.2	2.8
Taiwan	5.7	3.9	4.4	3.3	1.3	2.5	3.8	4.8	5.2	5.5	4.2	2.1	2.8	2.4
Thailand	4.8	4.2	4.6	6.0	2.3	0.0	1.0	2.0	3.0	5.0	7.5	11.3	6.5	5.0
Africa														
South Africa	5.1	3.3	2.7	2.1	4.9	0.9	-0.4	2.2	3.5	5.6	11.6	13.6	8.7	6.6
Europe														
Euro area	2.6	1.1	0.4	2.7	-0.8	-0.5	0.0	0.5	0.7	1.5	3.6	3.5	2.7	2.0
Germany	2.6	1.6	0.7	5.2	-2.0	0.5	0.5	0.8	1.0	1.5	3.0	2.7	1.9	1.7
France	2.1	1.0	0.7	1.6	-1.2	0.0	0.5	0.8	1.0	1.5	3.7	3.5	2.1	1.8
Italy	1.4	-0.1	0.1	2.0	-1.1	-1.0	-0.5	0.5	0.5	1.0	3.8	3.6	2.8	2.3
Norway	6.3	2.8	1.2 ↓	-0.2	3.9	1.5	0.5 ↓	0.5 ↓	1.2 ↓	1.5 ↓	3.2	4.0	3.7	1.8
Sweden	2.9	1.0 ↓	0.8 ↓	0.5	-0.1	1.0 ↓	0.5 ↓	0.5 ↓	0.8 ↓	1.5	3.8	3.7	2.8	2.1
Switzerland	3.3	2.0	1.1	1.1	1.5	0.5	0.5	1.0	1.5	1.5	2.7	2.2	1.1	1.1
United Kingdom	3.1	1.0	0.4	1.1	0.2	-1.0	-1.0	0.5	1.0	2.0	3.4	4.9	3.4	2.1
Emerging Europe	6.5	5.8	4.6 ↓	6.4	6.4	4.7	4.5 ↓	4.0 ↓	4.4 ↓	4.7 ↓	10.2	9.2 ↑	7.8 ↑	7.2
Bulgaria	6.2	5.2	5.5	…	…	…	…	…	…	…	…	…	…	…
Czech Republic	6.6	4.5	2.5	3.8	3.6	3.5	5.0	0.5	1.0	2.0	6.8	5.3	2.0	2.3
Hungary	1.3	2.2	2.8	2.2	2.3	2.5	2.5	2.2	2.2	3.0	6.8	5.7	4.4	3.8
Poland	6.6	5.3	4.3	5.7	6.1	4.0	3.5	2.8	3.5	4.5	4.3	3.9	3.8	3.3
Slovak Republic	10.4	7.0	3.5	8.7	5.3	5.0	0.0	5.0	4.0	4.0	4.5	4.1	3.2	3.7
Romania	6.0	8.5	3.5	…	…	…	…	…	…	…	8.6	6.4	5.8	5.5
Russia	8.1	7.4	5.8 ↓	7.2	7.3	5.5	5.5 ↓	5.5 ↓	6.0 ↓	6.0 ↓	14.8	13.4 ↑	11.7 ↑	11.1 ↑
Turkey	4.6	3.8	4.0 ↓	…	…	…	…	…	…	…	10.3	10.0	8.5	7.2
Global	3.5	2.3	2.1 ↓	2.6	1.8	1.0	1.4 ↓	2.1	2.7	3.1	4.4	4.4 ↓	3.2 ↓	2.5 ↓
Developed markets	2.4	1.3	1.2	1.7	0.7	0.0	0.5	1.2 ↓	1.8	2.2	3.5	3.7 ↓	2.5 ↓	1.8
Emerging markets	7.5	6.1	5.6 ↓	6.2	6.1	4.7	4.9 ↓	5.2 ↓	5.8 ↓	6.3	7.8	7.1 ↓	5.5 ↓	5.2 ↓

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Global Central Bank Watch

	Official interest rate	Current	Change from Aug 07 (bp)	Last change	Next meeting	Forecast next change	Sep 08	Dec 08	Mar 09	Jun 09	Dec 09
Global	GDP-weighted average	3.81	-90				3.81	3.82	3.73	3.61	3.72
excluding US	GDP-weighted average	4.67	20				4.67	4.69	4.55	4.37	4.30
Developed	GDP-weighted average	2.84	-130				2.84	2.82	2.72	2.61	2.78
Emerging	GDP-weighted average	7.74	69				7.74	7.87	7.81	7.66	7.50
Latin America	GDP-weighted average	10.41	160				10.41	10.86	10.85	10.82	10.47
CEEMEA	GDP-weighted average	8.13	87				8.13	8.15	8.13	7.78	7.30
EM Asia	GDP-weighted average	6.61	29				6.61	6.66	6.56	6.44	6.46
The Americas	GDP-weighted average	2.99	-260				2.99	3.04	3.04	3.03	3.44
United States	Federal funds rate	2.00	-325	30 Apr 08 (-25bp)	29 Oct 08	4Q 09 (+25bp)	2.00	2.00	2.00	2.00	2.50
Canada	Overnight funding rate	3.00	-150	22 Apr 08 (-50bp)	21 Oct 08	20 Oct 09 (+25bp)	3.00	3.00	3.00	3.00	3.50
Brazil	SELIC overnight rate	13.75	225	10 Sep 08 (+75bp)	30 Oct 08	30 Oct 08 (+50bp)	13.75	14.75	14.75	14.75	14.00
Mexico	Repo rate	8.25	100	15 Aug 08 (+25bp)	18 Oct 08	on hold	8.25	8.25	8.25	8.25	8.25
Chile	Discount rate	8.25	275	4 Sep 08 (+50bp)	9 Oct 08	9 Oct 08 (+50bp)	8.25	9.00	9.00	8.50	7.75
Colombia	Repo rate	10.00	75	25 Jul 08 (+25bp)	24 Oct 08	1Q 09 (-25bp)	10.00	10.00	9.75	9.75	9.50
Peru	Reference rate	6.50	175	11 Sep 08 (+25bp)	9 Oct 08	9 Oct 08 (+25bp)	6.50	7.00	7.00	7.00	7.00
Europe/Africa	GDP-weighted average	4.81	21				4.81	4.77	4.56	4.27	4.04
Euro area	Refi rate	4.25	25	3 Jul 08 (+25bp)	9 Oct 08	Mar 09 (-25bp)	4.25	4.25	4.00	3.75	3.50
United Kingdom	Repo rate	5.00	-75	10 Apr 08 (-25bp)	9 Oct 08	6 Nov 08 (-25bp)	5.00	4.75	4.50	4.00	4.00
Sweden	Repo rate	4.75	125	4 Sep 08 (+25bp)	23 Oct 08	**11 Feb 09 (-25bp)**	4.75	4.75	4.50	4.25	4.00
Norway	Deposit rate	5.75	100	25 Jun 08 (+25bp)	24 Sep 08	on hold	5.75	5.75	5.75	5.75	5.75
Czech Republic	2-week repo rate	3.50	25	7 Aug 08 (-25bp)	25 Sep 08	25 Sep 08 (-25bp)	3.25	3.25	3.00	2.75	2.50
Hungary	2-week deposit rate	8.50	75	26 May 08 (+25bp)	29 Sep 08	2Q 09 (-25bp)	8.50	8.50	8.50	8.25	7.75
Poland	7-day intervention rate	6.00	125	25 Jun 08 (+25bp)	24 Sep 08	2Q 09 (-25bp)	6.00	6.00	6.00	5.75	5.25
Romania	Base rate	10.25	325	31 Jul 08 (+25bp)	25 Sep 08	25 Sep 08 (+25bp)	10.50	11.00	11.00	10.50	9.50
Russia	1-week deposit rate	4.25	100	11 Jul 08 (+25bp)	Sep 08	**3Q 09 (+25bp)**	4.25	4.25	4.25	4.25	4.50
Slovak Republic	2-week repo rate	4.25	0	27 Apr 07 (-25bp)	30 Sep 08	Mar 09 (-25bp)	4.25	4.25	4.00	3.75	3.50
South Africa	Repo rate	12.00	200	12 Jun 08 (+50bp)	9 Oct 08	Apr 09 (-50bp)	12.00	12.00	12.00	11.00	10.00
Switzerland	3-month Swiss Libor	2.75	25	13 Sep 07 (+25bp)	11 Dec 08	on hold	2.75	2.75	2.75	2.75	2.75
Turkey	Overnight borrowing rate	16.75	-75	17 Jul 08 (+50bp)	23 Oct 08	Apr 09 (-25bp)	16.75	16.75	16.75	16.00	14.50
Asia/Pacific	GDP-weighted average	3.70	15				3.70	3.70	3.63	3.57	3.70
Australia	Cash rate	7.00	50	2 Sep 08 (-25bp)	7 Oct 08	1 Dec 08 (-25bp)	7.00	6.75	6.50	6.25	6.25
New Zealand	Cash rate	7.50	-75	11 Sep 08 (-50bp)	22 Oct 08	22 Oct 08 (-25bp)	7.50	7.00	6.50	6.25	6.25
Japan	Overnight call rate	0.50	0	21 Feb 07 (+25bp)	6 Oct 08	4Q 09 (+25bp)	0.50	0.50	0.50	0.50	0.75
Hong Kong	Discount window base	3.50	-325	1 May 08 (-25bp)	30 Oct 08	18 Mar 09 (+25bp)	3.50	3.50	3.50	3.50	4.00
China	1-year working capital	7.20	18	**15 Sep 08 (-27bp)**	4Q 08	**1Q 09 (-27bp)**	7.20	7.20	6.93	6.66	6.66
Korea	Base rate	5.25	25	7 Aug 08 (+25bp)	8 Oct 08	on hold	5.25	5.25	5.25	5.25	5.25
Indonesia	BI rate	9.25	100	4 Sep 08 (+25bp)	8 Oct 08	8 Oct 08 (+25bp)	9.25	9.50	9.75	9.75	9.75
India	Repo rate	9.00	125	29 Jul 08 (+50bp)	24 Oct 08	24 Oct 08 (+25bp)	9.00	9.25	9.25	9.25	9.25
Malaysia	Overnight policy rate	3.50	0	26 Apr 06 (+25bp)	24 Oct 08	on hold	3.50	3.50	3.50	3.50	3.50
Philippines	Reverse repo rate	6.00	0	28 Aug 08 (+25bp)	9 Oct 08	on hold	6.00	6.00	6.00	6.00	6.00
Thailand	1-day repo rate	3.75	50	27 Aug 08 (+25bp)	8 Oct 08	on hold	3.75	3.75	3.75	3.75	3.75
Taiwan	Official discount rate	3.625	50	26 Jun 08 (+12.5bp)	25 Sep 08	**on hold**	3.625	3.625	3.625	3.625	3.625

Bold denotes move this week and forecast changes. Underline denotes policy meeting during upcoming week.

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Forecasts - Australia and New Zealand

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

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	4.2	2.7	2.6	3.3	4.3	2.8	2.7	1.1	2.6	3.2	3.2	2.0	2.4	2.3
Private consumption	4.5	2.7	1.7	2.5	4.1	5.7	2.6	-0.6	2.8	2.0	1.2	1.6	2.0	2.4
Construction investment	9.8	3.2	3.3	3.1	10.0	-3.0	9.7	-4.6	6.1	3.0	5.1	2.0	1.9	5.9
Equipment investment	9.6	14.7	5.8	24.1	-0.6	16.2	-1.3	53.4	13.2	4.2	-2.1	4.2	0.0	8.6
Public investment	5.7	14.0	6.2	72.3	-27.7	30.6	27.5	9.8	5.8	5.7	5.8	6.0	6.3	6.7
Government consumption	2.4	4.2	3.3	1.0	5.5	5.8	2.4	4.8	5.4	3.7	3.5	2.2	1.8	2.2
Exports of goods & services	3.2	5.5	5.1	0.8	8.8	-2.6	7.7	11.1	4.1	6.1	4.1	4.1	6.1	4.1
Imports of goods & services	10.8	11.8	4.4	7.1	11.1	13.4	18.2	9.3	8.2	4.1	2.0	4.1	5.1	2.0
Contributions to GDP growth:														
Domestic final sales	5.3	4.7	2.8	6.8	3.6	6.8	4.8	3.5	4.5	3.0	2.2	2.3	2.1	3.8
Inventories	0.6	-0.3	-0.1	-1.9	1.5	-0.2	0.7	-2.2	-0.6	0.0	0.6	-0.1	0.3	-1.8
Net trade	-1.8	-1.7	-0.1	-1.4	-0.8	-3.5	-2.6	-0.1	-1.2	0.2	0.3	-0.2	0.0	0.3
GDP deflator (%oya)	3.8	5.6	3.2	4.0	3.2	3.5	3.7	6.7	6.3	5.6	5.2	2.6	2.6	2.5
Consumer prices (%oya)	2.3	4.5	3.3	2.1	1.9	3.0	4.2	4.5	4.6	4.6	3.9	3.2	3.1	3.0
Producer prices (%oya)	2.3	8.5	3.4	1.5	0.8	3.4	6.9	8.7	9.8	8.7	6.1	2.5	2.5	2.5
Trade balance (A$ bil, sa)	-20.7	-2.7	15.6	-4.6	-5.4	-6.9	-8.0	-0.5	2.5	3.4	4.0	4.2	3.6	3.8
Current account (A$ bil, sa)	-67.0	-50.4	-33.5	-16.4	-16.8	-19.0	-19.8	-12.8	-9.3	-8.5	-8.0	-8.0	-8.8	-8.7
as % of GDP	-6.2	-4.3	-2.7	-6.1	-6.1	-6.8	-7.0	-4.4	-3.1	-2.8	-2.6	-2.6	-2.8	-2.8
3m eurodeposit rate (%)*	6.0	7.6	6.9	5.8	7.1	7.2	7.6	7.8	7.7	7.4	7.2	7.0	6.8	6.6
10-year bond yield (%)*	5.6	6.1	5.8	5.6	5.7	6.4	6.1	6.2	6.2	6.1	6.0	5.9	5.8	5.7
US$/A$*	0.75	0.90	0.83	0.74	0.77	0.91	0.91	0.97	0.87	0.84	0.83	0.83	0.83	0.83
Commonwealth budget (FY, A$ bil)	17.2	16.8	21.7											
as % of GDP	1.6	1.4	1.7											
Unemployment rate	4.4	4.5	5.3	4.3	4.3	4.3	4.0	4.3	4.4	4.7	4.9	5.1	5.3	5.5
Industrial production	3.2	3.9	0.8	-0.3	1.5	5.6	10.2	1.6	0.0	-1.0	3.0	2.5	1.0	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	0.3	1.5	3.2	2.2	3.3	-1.1	-2.0	-1.1	0.0	2.4	3.1	3.2	3.6
Private consumption	4.1	-1.1	-0.2	1.7	2.1	2.0	-1.4	-7.5	-0.2	0.0	0.1	0.2	1.1	1.8
Fixed Investment	4.4	-0.7	1.2	0.4	1.6	12.5	-7.6	-5.5	-1.0	0.3	2.0	2.8	3.1	3.9
Residential construction	4.4	-16.9	-1.0	52.6	22.7	-5.5	-52.2	-19.0	0.0	-2.0	0.0	0.8	2.8	3.2
Other fixed investment	4.4	3.4	1.7	-9.4	-3	17.9	8.0	-2.4	-1.2	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	10.6	7.0	3.8	7.6	0.9	4.7	34.9	14.7	3.9	4.6	4.7	3.3	2.3
Exports of goods & services	3.3	-0.8	-0.5	-4.8	-0.2	19.3	-7.1	-3.5	-7.1	-6.2	2.5	3.2	3.5	4.1
Imports of goods & services	8.6	3.7	-1.1	11.0	3.0	16.2	4.9	-6.2	-0.1	-3.2	-0.5	-0.2	0.2	0.9
Contributions to GDP growth:														
Domestic final sales	4.6	2.3	1.5	4.1	5.0	6.0	-0.2	-0.2	2.6	1.0	0.6	1.7	3.3	2.8
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	-1.1	-0.1
Net trade	-2.0	-1.7	0.3	-5.4	-1.2	-0.1	-4.2	1.4	-2.3	-0.7	1.0	1.1	1.0	0.9
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	4.4	3.8	4.0	2.0	4.8	3.4	4.0	5.1	5.2	5.0	4.3	3.5	3.0
%oya	2.4	4.4	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	-7.1	-6.3	-6.1	-5.6	-4.9
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

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
22 Sep Australia: New motor vehicles sales (11:30am) Aug	23 Sep	24 Sep	25 Sep	26 Sep New Zealand: GDP (10:45am) 2Q 0.8 %oya
29 Sep New Zealand: Trade balance (10:45am) Aug Money supply (03:00pm) Aug	30 Sep Australia: Pvt. sector credit (11:30am) Aug Retail sales (11:30am) Aug Building approvals (11:30am) Aug I New Zealand: Building permits (10:45am) Aug NBNZ bus. conf. (03:00pm) Sep	1 Oct	2 Oct Australia: Trade balance (11:30am) Aug New Zealand: ANZ commodity price (03:00pm) Sep	3 Oct
6 Oct Australia: ANZ job ads (11:30am) Sep *Holiday Australia*	7 Oct Australia: RBA cash target (02:30pm) Oct	8 Oct Australia: WMI cons. conf. (10:30am) Oct Housing finance (11:30am) Aug	9 Oct Australia: Unemployment rate (11:30am) Sep	10 Oct
13 Oct New Zealand: Retail sales (10:45am) Aug QV house prices Sep	14 Oct Australia: NAB business confidence (11:30am) Sep New Zealand: NZIER bus. opinion survey (10:00am) 3Q	15 Oct Australia: WMI leading index (10:30am) Aug	16 Oct New Zealand: PMI (12:00pm) Sep	17 Oct

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

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Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
22 - 26 September	22 September	23 September	24 September	25 September	26 September
United Kingdom • Nationwide HPI (Sep)	Euro area • Trichet speech Japan • All sector act index (Jul) • BoJ minutes: Aug 18-19 mtg Mexico • GDP by expenditure (2Q)	Belgium • BNB business surv (Sep) Canada: CPI (Aug) Euro area • Industrial orders (Jul) • PMI flash (Sep) South Africa • CPI (Aug) Taiwan • Export orders, IP (Aug) United Kingdom • BBA secured lending (Aug) United States • OFHEO HPI (Jul) • Bernanke/ Paulson testify before Senate on credit markets	Euro area bus surveys • France INSEE (Sep) • Germany IFO (Sep) • Italy ISAE (Sep) Japan • MoF bus survey (3Q) Norway • Norges Bank meeting Poland • NBP meeting United States • Existing home sales (Aug) • Bernanke testifies before Joint Econ Committee	Czech Republic • CNB meeting Euro area • M3 (Aug) Japan • Trade balance (Aug) Netherlands • CBS bus survey (Sep) Romania • NBR meeting Taiwan • CBC meeting United States • Durable goods (Aug) • New home sales (Aug) • Bernanke/Paulson speak before Congress on GSEs	Germany • CPI 6 states and prelim (Sep) Japan • Core CPI (Aug) United States • Consumer sent (Sep) • Real GDP final (2Q)
29 Sep - 3 Oct	29 September	30 September	1 October	2 October	3 October
	Euro area • EC bus surv (Sep) Hungary • NBH meeting Japan • Retail sales (Aug) United Kingdom • M4 lending final (Aug) United States • Personal income (Aug)	Euro area • HICP flash (Sep) Germany • Employment (Aug) • Retail sales (Aug) • Unemployment (Sep) Japan • Hhold spending (Aug) • Housing starts (Aug) • IP prelim (Aug) • PMI mfg (Sep) • Shoko Chukin (Aug) • Unemployment (Aug) Korea: IP (Aug) United Kingdom • GDP final (2Q) United States • Chicago Fed bus surv (Sep) • S&P C-S HPI (Jul)	China • PMI mfg (Sep) Euro area • PMI Mfg final (Sep) • Unemployment (Aug) Japan • BoJ Tankan (3Q) • Nominal wages (Aug) Korea • CPI (Sep) • Trade balance (Sep) United Kingdom • PMI mfg (Sep) United States • ADP employment (Sep) • Construct spend (Aug) • ISM mfg (Sep) • Vehicle sales (Sep)	Euro area • ECB meeting Singpore • PMI (Sep) United Kingdom • BoE credit cond surv (3Q) United States • Factory orders (Aug)	Euro area • PMI serv final (Sep) • Retail sales (Aug) United Kingom • PMI services (Sep) United States • Employment report (Sep) • ISM nonmfg (Sep)

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