Australia and New Zealand - Weekly Prospects

Summary

- The slew of economic data scheduled for release in **Australia** this week will be overshadowed by the RBA policy announcement Tuesday afternoon. Our forecast calls for the RBA to cut the cash rate 75bp—the dominant risk is for a smaller move, owing to the additional steps put in place to stabilize global markets and lingering anxiety over inflation. In our view, an acceleration in the pace of monetary easing this month to the 100bp priced into futures markets risks the RBA endorsing the gloomy pall still hanging over markets. The near-term imperative for RBA officials is to ensure the policy lever points to "easy" as quickly as possible—we are not there yet. The avalanche of economic data this week includes 3Q GDP, October retail sales and building approvals, and the 3Q current account deficit.

- We forecast that the **RBNZ** will cut the OCR 100bp, but the risk there is for a larger move. Either way, a significant cut in the cash rate is warranted. The recent softness in retail spending, the sharp rise in the jobless rate, and further signs of weak consumer and business sentiment have reaffirmed our view that the economy is in the midst of what might turn out to be a prolonged recession. The economy already has contracted for two straight quarters and, in our forecasts, GDP should decline for at least another three. Falling house prices and job losses make the outlook for already weak household spending particularly bleak.

- Economic reports continue to beat the drum of a deep and synchronized **global downturn**. Industrial activity readings are pointing towards the first double-digit annualized decline in global manufacturing output since the mid-1970s. And last week's key national November business surveys—including a collapse in Germany's Ifo and Japan's Shoku Chukin—should combine with a further slide in the US ISM survey tonight to reinforce the message that business confidence is approaching a three-decade low as the quarter ends. With indicators pointing to an intensifying global adjustment in employment and business spending, our forecast of the deepest four-quarter GDP slide in the developed world since WWII appears to be on track.

- While the **monetary policy gap** may be set to narrow, the contrast in central banks' use of their balance sheets is getting larger. All central banks have expanded their balance sheets since September to compensate for the collapse in interbank activity. But the pace of expansion of the Fed's balance sheet has been truly dramatic, while the ECB and BoE's balance sheets have grown more modestly. This contrast became even more striking last week with the announcement that the Fed would purchase an additional $800bn of mortgage and other consumer securities. When these facilities and other commitments are fully utilized, the Fed's balance sheet will expand beyond $3 trillion—more than tripling in size since August. In contrast, the ECB's balance sheet has grown by around 40%.

This week's highlight

The RBA decision Tuesday. We expect "only" a 75bp rate cut, but the futures market still prices more than 100bp.

Contents

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Data and event previews - Australia and New Zealand

Date [(a)]	Data/event	Forecast		*Previous*	Comment
		JPMorgan	Consensus		
Monday, 1 December (11.30am)	**Aust. inventories (%q/q, 3Q)**	**0.8**	0.7	*0.3*	Inventories will form an important component of the 3Q GDP result. We expect a big bounce, mainly because firms probably were surprised by the weakness in retail spending during the quarter. The rise in unsold stocks should add 0.2% points to GDP growth in 3Q.
Monday, 1 December (11.30am)	**Aust. company profits (%q/q, 3Q)**	**-1.0**	4.0	*14.3*	Company profits probably fell slightly in 3Q, but this will follow a big rise in 2Q. Corporate costs were rising, and sales revenue would have been weaker owing to the slowing economy. Firms also were suffering from significantly higher funding costs.
Tuesday, 2 December (11.30am)	**Aust. retail sales (%m/m, Oct.)**	**-0.3**	-0.3	*-1.1*	Retail sales probably fell 0.3%m/m, remaining subdued amid growing concerns over the global economic outlook, low confidence, tight credit conditions, and falling equity prices. Precautionary saving has risen and consumers may have postponed some purchases amid expectations of further price discounting.
Tuesday, 2 December (11.30am)	**Aust. current account (A$bn, 3Q)**	**-11.4**	-11.0	*-12.8*	The CAD is expected to narrow in 3Q to -A$11.4bn from -A$12.8bn in 2Q and a much larger -A$19.8bn in 1Q. The deficit should fall owing to a significant improvement in the trade balance, which should venture into positive territory for the first time since 2001.
Tuesday, 2 December (11.30am)	**RBA cash rate announcement (%, Dec.)**	**4.5**	4.5	*5.25*	We expect the RBA to cut the cash rate 75bp. The near-term imperative will be to ensure the policy stance leans to the easy side, in order to deal with increased risk of global deflation, renewed instability in the banking system, and plunging confidence. The 100bp move priced in futures markets is, in our view, unlikely, but possible. In addition to the adverse signal sent by an accelerated pace of easing, also arguing against the RBA delivering a 100bp rate cut are the government's additional fiscal stimulus and falling AUD.
Wednesday, 3 December (11.30am)	**Aust. GDP (%q/q, 3Q)**	**0.5**	0.2	*0.3*	The economy probably expanded 0.5%q/q in 3Q, or just 2.1%oya (the slowest rate of growth since 2Q03). Household spending should be weak and net exports should again subtract from GDP growth. Positive offsets should come from increased government spending. We expect, though, that GDP will contract for two straight quarters in 4Q08 and 1Q09. If realized, this will be the first recession in Australia since 1990-91. Some of the major components of the GDP jigsaw, though, are jet to be released.
Wednesday, 3 December (1.00pm)	**NZ ANZ commodity price index (%m/m, Nov.)**	**na**	na	*-7.4*	na
Thursday, 4 December (7.00am)	**RBNZ OCR announcement (%, Dec.)**	**5.5**	5.0	*6.5*	The RBNZ should cut the OCR by at least 100bp, although the risks are skewed in favour of a larger move, given the recent economic data signalling an even deeper recession in the New Zealand economy. The economy already has contracted for two straight quarters and, on our forecasts, will GDP growth will be negative for at least another three. Falling house prices and job losses as firms act to cut costs make the outlook for household spending in 2H09 particularly bleak.
Thursday, 4 December (11.30am)	**Aust. building approvals (%m/m, Oct.)**	**-3.0**	0.0	*-7.2*	Building approvals should have fallen 3%m/m, the fourth straight monthly decline, owing to low confidence, elevated construction and material costs, excessive red tape, and funding pressures. The 100bp rate cut by the RBA, though, should provide something of an offset.
Thursday, 4 December (11.30am)	**Aust. trade balance (A$mn, Oct.)**	**1,400**	1,480	*1,460*	We expect the trade gap to narrow to -A$1.4bn. Preliminary data showed that good imports rose 1% in October. Exports should also have risen, owing to still-elevated prices for commodities, including iron ore and coal, and the 16% fall in AUD over the month.

(a) Australian Eastern Standard Time.

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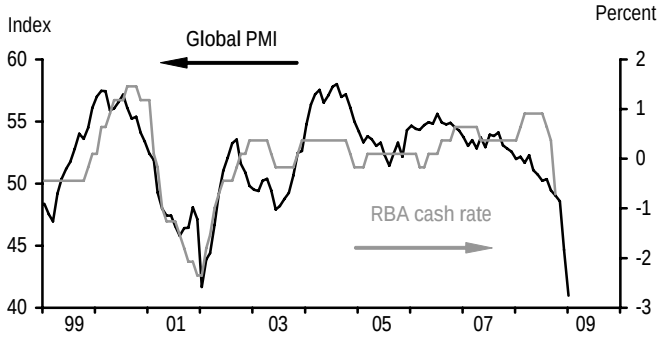
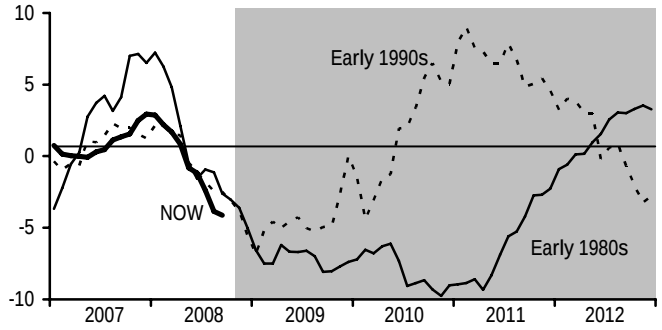
Feature charts

RBA cash rate and global PMI



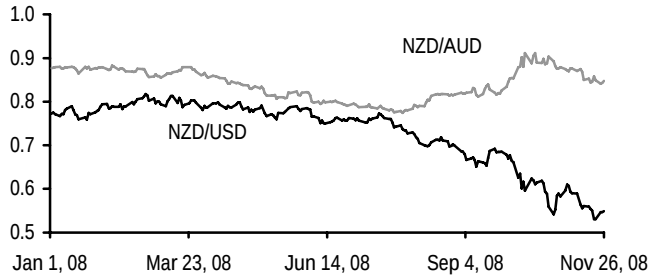
Trends in the global economy (and, it follows, the actions of other central banks) traditionally have played a major role in driving monetary policy in Australia. The plunge in JPMorgan's global PMI, therefore, provides a handy leading indicator of where the RBA cash rate is headed. We expect a 75bp rate cut this week, following by more easing through the first half of 2009 as officials push the policy lever to "easy".

Aussie credit growth during recessions
Annual change, percentage points



Last week's credit aggregates showed the slowest annual rise since mid-2002. With recession on the near term horizon, credit growth probably will fall much more sharply. In the last two recessions in the early 1980s and early 1990s, respectively, growth in credit plunged between 5 and 10 percentage points. We expect a similar decline this time around as households and corporates de-leverage.

NZD relatively steady against AUD
Level



The NZD is down nearly 30% against the greenback this year, but down only 3% against AUD; this does not benefit Kiwi exports given Australia's position as New Zealand's largest export destination. The trend in exports has eased, and should continue to do so, owing to weakening global demand and falling commodity prices. On our forecasts, net exports will be a drag on economic growth over the remainder of 2008 and in 2009, even though NZD depreciation will boost some exporters' competitiveness.

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Australia

- **RBA to cut cash rate 75bp**
- **Business investment plans scaled back**
- **GDP likely expanded just 0.5%q/q in 3Q**

The slew of economic data scheduled for release in Australia this week will be overshadowed by the RBA policy announcement on Tuesday. Our forecast calls for the RBA to cut the cash rate 75bp, although the risk is for a smaller move. In our view, an acceleration in the pace of monetary easing to say, 100bp, would risk the RBA signaling that the gloomy pall hanging over markets is justified.

RBA to cut cash rate 75bp

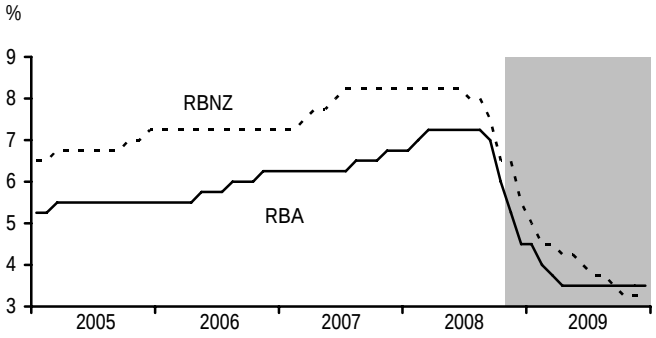
Previously, we expected the RBA to cut the cash rate "only" 50bp on Tuesday. Now, though, we expect a 75bp move and a terminal cash rate of 3.5% by June (compared to 4% previously); this will be the lowest terminal rate in the history of the RBA's cash rate target. The near-term imperative will be to ensure the policy stance is appropriate to deal with increased risk of global deflation, renewed instability in the banking system, and plunging confidence.

Our inclusion of more aggressive RBA rate cuts was triggered by the following considerations:

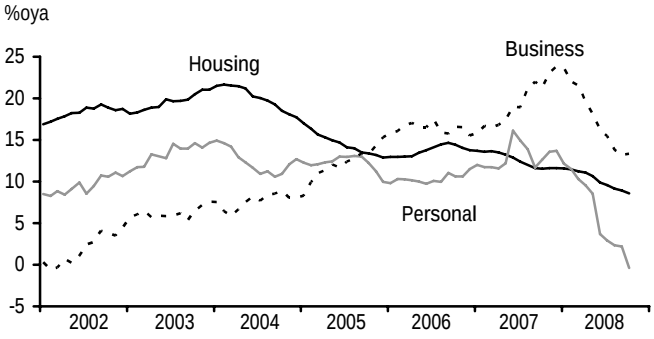
- The JPMorgan forecast ZIRP in the US until the end of 2009, owing to increased risk of the onset of deflation.
- We forecast a contraction in global growth in 2009, a massive anchor for Australia's export outlook.
- We already forecast a shallow recession in Australia, but with downside risks to our global growth forecasts, the risk is that the recession will be more painful.
- We anticipate a substantial scaling back of firms' investment plans—this is one of the main drivers of our forecast of a sharp rise in the jobless rate.
- RBA officials have said they want to return the policy stance to neutral as quickly as possible. Previously, we estimated the neutral cash rate to be about 5.5% but, with commercial banks not passing on in full the official rate cuts, the neutral rate now probably is lower. Hence, RBA officials may believe the policy stance still leans to the tight side of neutral, which no longer is appropriate.

In addition to the adverse signal sent by an accelerated pace of easing, also arguing against the RBA delivering a 100bp rate cut are the government's additional fiscal stimulus and falling AUD. The RBA recently has referred to the drop in AUD as slowing inflation's return to target.

Australia and New Zealand: official cash rates



Australia: private sector credit aggregates



We discount the argument that the advent of summer holidays should prompt the RBA to err on the side of being more aggressive in December (there is no scheduled Board meeting in January) in case conditions deteriorate before the next meeting. The RBA could schedule an "emergency" meeting in January should an urgent policy response be required.

GDP growth slowed to stall speed in 3Q

Australia's economy probably expanded 0.5%q/q in 3Q; this sluggish performance will drag growth over the year down to just 2.1%, the slowest rate of growth since 2Q03. Household spending should be weak—retail sales in volume terms have fallen for two straight quarters—and net exports should again subtract from GDP growth. Positive offsets should come from increased government spending.

We predict that Australia will suffer a shallow recession.

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Household spending will remain subdued as consumers boost precautionary saving and pay down debt, and exports will be curbed by the onset of global recession. Increased public spending will take up some of the slack, but will be insufficient to keep GDP from contracting for two straight quarters. If realized, this will be the first recession in Australia since 1990-91, although the downturn is forecast to be less painful than the extended recession back then.

Consumer spending still subdued

The value of retail spending should have fallen 0.3%m/m sa in October, an improvement on the 1.1% slump in September. The ABS, though, has significantly reduced the sample size for this data series, thereby increasing random volatility. The trend estimate of retail sales will probably have been flat, after rising 0.2% the previous five months.

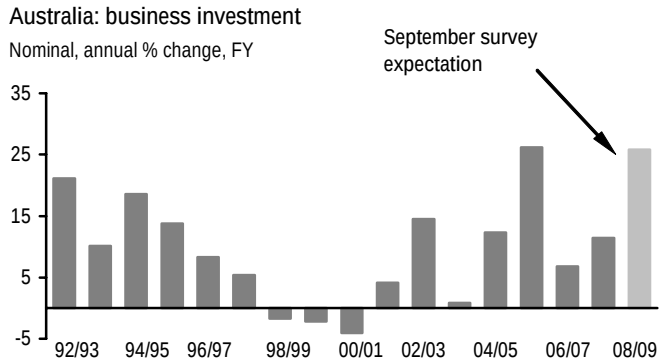
Consumer spending will have remained subdued amid growing concerns over the global economic outlook, tight credit conditions, and falling equity prices. Precautionary saving has risen and consumers may have postponed some purchases amid expectations of further price discounting. On the upside, though, falling petrol prices and lower interest rates may have prevented a sharper fall in sales.

Aussie capex plans still strong

The 3Q business investment survey revealed that firms scaled back their investment plans, as expected. That said, the more important forward looking investment intentions printed higher than we expected at A$102.7bn (JPMorgan A$97bn). After adjustment for firms' usual underestimation of actual spending (using a five-year average realization ratio), this implies a 26% rise in spending in the current fiscal year, an unexpectedly modest downgrade from the 32% rise implied by the 2Q survey.

Spending rose 0.6%q/q in constant price terms in 3Q (JPMorgan -1.5%, consensus 0.8%), after a 7.4% rise in 2Q. The biggest rise was in firms' spending on buildings and structures (+6.6%q/q). Spending on plant and equipment fell 2.4%. In 3Q, mining investment bounced 7.1%q/q, but spending fell in other sectors. The rise in total investment in 3Q takes the rise over the year to September to a healthy 15.9%oya, up from a 9.7% rise in the year to June.

Clearly, the investment pipeline remains impressive, but much



of the 3Q survey was conducted before the onset of the worst of the global financial crisis and the deterioration in the global economic outlook. Now that funding problems have intensified and the global economy is in recession, there almost certainly will be material downward revisions to spending plans in 4Q. There already are signs that the bulging private investment pipeline has sprung a leak, with a steady stream of announcements of mine closures and, most importantly, proposed investment in mining and associated infrastructure being postponed or cancelled.

Personal lending weakened further

The RBA's private sector credit aggregates rose 0.6%m/m in October (JPMorgan and consensus 0.5%), after rising 0.8% in September. This took annual credit growth down to 9.7%, below 10% for the first time since mid-2002, and a sharp contrast to the 16%+ growth rates earlier this year.

Business credit was surprisingly strong, rising 1.1%m/m in October, after a 1.2% rise in the previous month. This solid rise is business lending we attribute to businesses being forced to borrow more from banks as deteriorating credit con-

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ditions meant that other funding avenues have become increasingly expensive or unavailable. In our view, though, business credit should trend south given investment plans will be scaled back significantly. Housing credit remained soft in October, growing 0.5%m/m, while personal credit slumped 1.0%, the fifth straight monthly fall and the biggest decline since 1991. Housing credit may, however, be bolstered to some extent in the final months of the year by the increase in the first home owners' grant announced in mid-October. Tighter credit conditions and low confidence, though, will continue to weigh heavily on the appetite for personal and business credit.

Data releases and forecasts

Week of December 1 - 5

Mon Dec 1 11:30am — **Inventories**
Seasonally adjusted

	4Q07	1Q08	2Q08	3Q08
(%q/q)	0.8	1.5	0.3	0.8
(%oya)	3.9	4.0	4.1	2.9

Mon Dec 1 11:30am — **Company operating profits (business indicators)**
Nominal, gross operating, seasonally adjusted

	4Q07	1Q08	2Q08	3Q08
(%q/q)	4.4	3.1	14.3	-1.0
(%oya)	11.6	7.5	21.5	21.7

Tue Dec 2 11:30am — **Retail trade**
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	1.5	0.5	-1.1	-0.3
(%oya)	3.8	3.5	1.6	1.2

Tue Dec 2 11:30am — **Current account balance**
A$ billion, seasonally adjusted

	4Q07	1Q08	2Q08	3Q08
Current account (A$ bn)	-18.7	-19.5	-12.8	-11.4
As a % of GDP	-6.8	-7.0	-4.4	-3.8

Tue Dec 2 02:30pm — **RBA cash rate announcement**
75bp cut expected.

Wed Dec 3 11:30am — **Real GDP**
Chain volume, seasonally adjusted

	4Q07	1Q08	2Q08	3Q08
(%q/q)	0.7	0.7	0.3	0.5
(%oya)	4.2	3.3	2.7	2.1

Thu Dec 4 11:30am — **Building approvals**
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	-2.2	-3.4	-7.2	-3.0
(%oya)	-4.9	-8.2	-21.6	-23.0

Building approvals should have fallen for the fourth straight month, owing to elevated construction and material costs, excessive red tape, and funding pressures.

Thu Dec 4 11:30am — **Trade balance**
Seasonally adjusted

	Jul	Aug	Sep	Oct
Trade balance (A$ mn)	-550	1240	1460	__

Preliminary data showed that good imports rose 1% in October. Exports should also have risen, owing to still-elevated prices for commodities, including iron ore and coal, and the 16% fall in AUD over the month.

Review of past week's data

Construction work done
Seasonally adjusted

	1Q08	2Q08	3Q08	
(%q/q)	5.0	-2.6	__	*4.4*

Private new capital expenditure
Seasonally adjusted

	1Q08	2Q08	3Q08	
(%q/q)	0.6	7.4	~~-1.5~~	*0.6*
(%oya)	7.3	9.7	~~13.0~~	*15.9*

Private-sector credit
Seasonally adjusted

	Aug	Sep	Oct	
(%m/m)	0.5	0.7	~~0.5~~	*0.6*
(%oya)	10.5	10.1	~~9.5~~	*9.7*

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New Zealand

- **RBNZ to cut OCR 100bp**
- **Business confidence remained weak**
- **Measures of inflation expectations were mixed**

We forecast that the RBNZ will cut the OCR 100bp on Thursday, but the risk is for a larger move. Either way, a significant cut in the cash rate is warranted. The recent softness in retail spending, the sharp rise in the jobless rate, and further signs of weak consumer and business sentiment have reaffirmed our view that the economy is in the midst of what might turn out to be a prolonged recession.

RBNZ to ease at least 100bp

The RBNZ should cut the OCR at least 100bp this week. The risks are skewed to a larger move, however, with the recent economic data signalling an even deeper recession in the New Zealand economy. The economy already has contracted for two straight quarters and, in our forecasts, GDP should decline for at least another three.

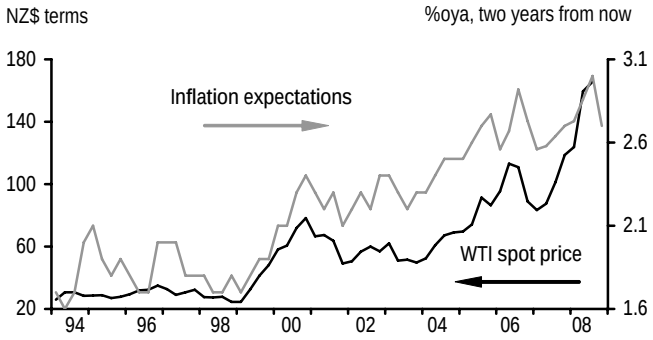
Falling house prices and job losses make the outlook for already weak household spending particularly bleak. Lower interest rates and personal income tax cuts may provide something of a floor, but these will be undermined to a large extent by low confidence, mainly because of increased anxiety about job security.

Furthermore, the rising prospect that inflation will return to the RBNZ's target range more quickly than previously forecast, points to more assertive policy easing. Pipeline pressures and inflation expectations have started to ease and, in our forecasts, inflation will fall below the RBNZ's target range of 1-3%oya by 4Q09.

Fiscal stimulus should boost spending

We forecast a terminal RBNZ cash rate of 3.25% by the end of 2009, half the prevailing rate of 6.5%. One factor, though, that may prevent such significant policy easing could be the forthcoming fiscal stimulus. Finance Minister Bill English last week estimated that the government's fiscal stimulus package would inject about NZ$7bn into the economy over the next two years. He said that the package was proportionately comparable to those offered in other countries, with a "fiscal impulse of 4% of GDP" over two years. Details of the package are expected in mid-December after parliament resumes, but are should include additional tax cuts, among other measures.

New Zealand: RBNZ inflation expectations and crude oil price



New Zealand: NBNZ business outlook survey and GDP growth

NZ business confidence extremely weak

The NBNZ business confidence survey worsened to -43.0 in November from -42.3, amid a significant deterioration in the global economic outlook and poor conditions in global financial markets. Even though expectations of lower interest rates may have provided a floor under confidence, the headline reading still suggested that a net 43% of respondents expect business conditions to worsen in the coming year.

The more important reading of firms' own activity expectations slumped from -11.4 to -14.1, the lowest reading since 1988; this points to a contraction in growth in coming quarters (chart), in line with our current forecasts.

Confidence deteriorated in most components of the survey. On interest rates, though, a significant 74% of respondents expect that the OCR will fall over the coming year, up from 49% previously. That said, the survey also showed a rise in inflation expectations from 3.60 to 3.74 in November, possibly owing to NZD depreciation. The rise in inflation expectations may concern the RBNZ who has reiterated that medium term inflation is still the Bank's key point of focus.

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An RBNZ survey last week showed that inflation expectations fell in 4Q, however. The survey showed that inflation is expected to average 2.7% in two years' time, compared to 3.0% in the previous survey, remaining elevated in the upper end of the RBNZ's 1-3% target range. The survey also showed that inflation in one years' time is expected to average 2.8%, down significantly from 3.6% previously.

NZD has fallen 30% since midyear, countering the impact of falling global crude prices on Kiwi inflation. For this reason, headline inflation—at 5.1%oya in 3Q—has remained elevated. But, inflation probably peaked in 3Q, and should ease rapidly back into the RBNZ's target range as the weaker economy reduces pressure on resources.

Data releases and forecasts

Week of December 1 - 5

Thu Dec 4 09:00am	RBNZ cash rate announcement 100bp cut expected.				
Wed Dec 3 3.00pm	ANZ commodity price series Not seasonally adjusted	Aug	Sep	Oct	Nov
	Index - world prices (%m/m)	-3.4	-5.1	-7.4	__
	Index - NZD (%m/m)	2.0	-1.1	0.7	__

Review of past week's data

RBNZ inflation expectations
Not seasonally adjusted

	2Q08	3Q08	4Q08	
(%q/q)	2.9	3.0	__	

Trade balance
Not seasonally adjusted

	Aug	Sep	Oct	
Trade balance (NZ$ mn)	-846	-1183	~~-1000~~	*942*

NBNZ business confidence

	Sep	Oct	Nov	
% balance of respondents	1.6	-42.3	__	*-43*

Building consents
Not seasonally adjusted

	Aug	Sep	Oct	
(%m/m)	-7.5	11.1	__	*-21.9*
(%oya)	-47.0	-17.8	__	*-43.4*

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Global Essay

- **Further reductions in GDP forecasts for Europe and Japan**
- **Corporate adjustments are now intensifying**
- **Expecting big ease from the BoE (100bp) and ECB (75bp)**
- **Global IP is contracting at a double-digit pace and will hit EM Asia hard**

Vingt mille lieues sous les mers

(Twenty thousand leagues under the sea)

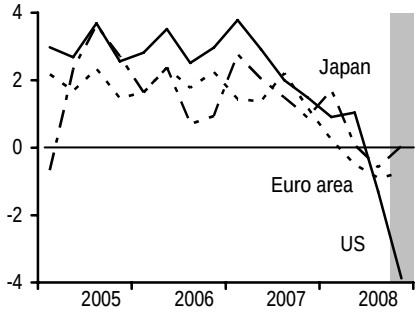
Economic reports continue to beat the drum of a deep and synchronized global downturn. Industrial activity readings are pointing towards the first double-digit annualized decline in global manufacturing output since the mid-1970s. And last week's key national November business surveys—including a collapse in Germany's Ifo and Japan's Shoku Chukin—should combine with a further slide in the US ISM survey today to reinforce the message that business confidence is approaching a three-decade low as the quarter ends. With indicators pointing to an intensifying global adjustment in employment and business spending, our forecast of the deepest four-quarter GDP slide in the developed world since WWII appears to be on track.

There is little to distinguish the forecasted GDP performance for the US, Western Europe, and Japan during this downturn. This seems a surprise given that the US consumer is bearing the brunt of the blow from financial tightening and wealth destruction. Indeed, US real consumption is anticipated to decline at about a 4% annualized pace in 2H08, more than three times the expected pace of decline in Western Europe and Japan. Three factors are key to understanding our expectation that relative performance among large economies is synchronized, despite the outsized drop in US household spending.

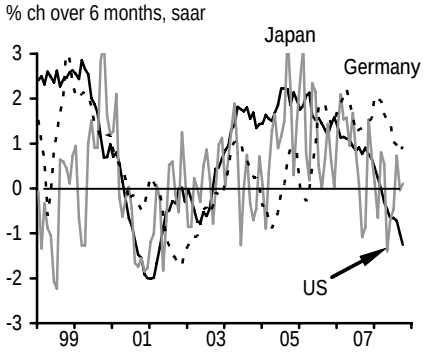
- **Relative change in corporate behaviour.** Although the downturn in US and global demand has intensified recently, US firms have been behaving cautiously for some time. Firms have been shedding inventories for almost two full years and have been cutting back on equipment spending and hiring since the start of this year. These cutbacks are now intensifying—payrolls are expected to have shed 320,000 in November—but the pullback in US business activity is expected to place a modest incremental drag on growth. Notably, even the record 3% pace of inventory drawdowns expected for the coming year will not produce the intensified GDP drag seen in previous cycles when stockbuilding turned down from an initial position of significant unwanted inventory accumulation. Unfortunately, the latter is exactly the position in which corporates now find themselves throughout Europe and Asia. Through 3Q08, firms across most of the globe continued to expand hiring and spending. Thus, the sharp downshift in final demand now taking place is likely to produce a larger incremental shift in business performance outside the US. This week's October labor report showed the largest monthly rise in Euro area unemployment since 1993.

- **The benefits of a large trade and energy deficit.** Ironically, the US dependence on foreign production—our current account deficit is currently close to 5% of GDP with imports accounting for an increasing portion of consumer goods purchases—helps cushion US relative performance in a downturn. US dependence on imported oil means that purchasing power is set to receive a relatively large lift as the price of domestic energy products moves lower. This point

Real consumer spending
% ch annual rate over 2 qts



Employment
% ch over 6 months, saar



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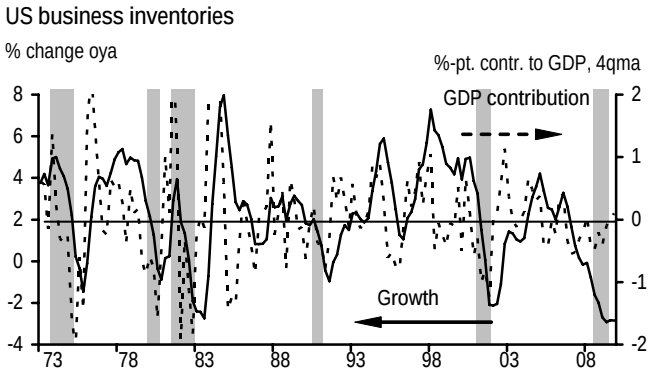

is evidenced in the expected swing in US CPI inflation—from 6.7% to -7.9% during the final two quarters of 2008—which is far larger than moves elsewhere.

A relatively different policy reaction

Policy actions are the third key factor for understanding relative performance. For over a year now, there has been a noticeable contrast in policymaking among the developed economies: the aggressive actions taken in the United States contrasting with a much more tempered approach in Western Europe and Japan. This has helped contribute to an outcome in which US GDP growth outpaced the Euro area and Japan in the year ending 3Q08. And it should contribute to maintaining a relatively narrow growth gap in the year ahead.

Although all central banks have sought to maintain a distinction between monetary policy and liquidity policy since the financial crisis began, in the US both of these policies have moved along similar tracks. In contrast, policymakers elsewhere provided additional liquidity while remaining focused on their inflation mandates. As inflation risks appeared to be building in 1H08, the ECB, the Riksbank, and the Norges Bank all hiked rates, while the Bank of England and the Bank of Japan remained on hold with a bias to tighten.

This dynamic has changed recently as a collapse in global growth prospects and commodity prices dramatically changed the inflation outlook. We expect the Bank of England to deliver a 100bp ease this for a total of 300bp in barely two months. An expected 75bp ease would cap a total of 175bp of ECB easing in the past two months. European rates are expected to continue falling next year, when the gap compared with the US and Japan looks set to narrow to about 100bp.

While the monetary policy gap may be set to narrow, the contrast in central banks' use of their balance sheets is getting larger. All central banks have expanded their balance sheets since September to compensate for the collapse in interbank activity. But the pace of expansion of the Fed's balance sheet has been truly dramatic, while the ECB and BoE's balance sheets have grown more modestly. This contrast became even more striking last week with the announcement that the Fed would purchase an additional $800bn of mortgage and other consumer securities. When these facilities and other commitments are fully utilized, the Fed's balance sheet will expand beyond $3 trillion—more than tripling in size since August. In contrast, the ECB's balance sheet has grown by around 40%.

The total amount of fiscal policy stimulus also is set to be larger in the United States. The US government was virtually alone in delivering a large fiscal easing in the spring. And, the incoming Obama administration appears intent on delivering a large fiscal package early next year. Despite the encouragement from the European Commission last week that governments across the EU should contribute to a fiscal easing of around 1.5% of GDP, we are unlikely to see an actual easing of even half that amount. The UK government announced a slightly larger than expected easing, which will add just over 1% of GDP worth of fiscal stimulus over the coming year. Germany has done significantly less than that, and we are not convinced that other European governments will step up fully to the Commission's plate. Similarly, fiscal support of 1-1.5% is forthcoming in Japan.

To some extent, these policy differences can be explained by the fact that the stresses in financial markets appear to be greater in the US. But the differing policy choices also reflect the attitudes of policymakers. In the US, the greatest fear is that the economy will experience a deep downturn and deflation, and policymakers will do whatever it takes to prevent that even if it creates risks of other sorts of instability in the future. In contrast, policymakers in the Euro area are less focused on these tail-risks and continue to take the view that there is a trade-off between stability now and stability later (in terms of both inflation and the financial system). While UK policymakers are more anxious, their responses are still evolving along fairly conventional lines.

EM growth skid elicits wider monetary ease

The rapid retrenchment in global goods demand is hitting manufacturing hard. Global IP already fell at a 4.4% annual

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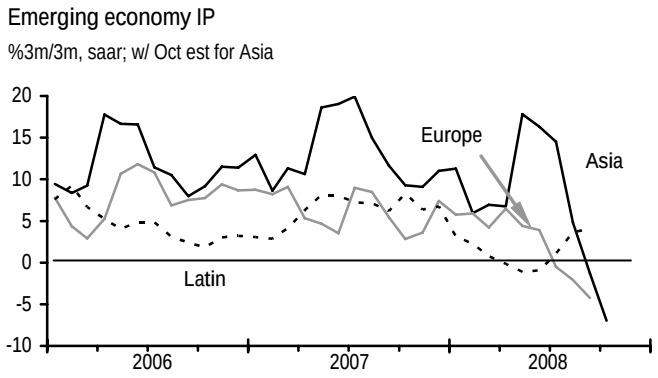

rate in 3Q, and the indicator flow points to a double-digit decline in the current quarter. The IP decline is most severe in the developed economies, where demand is falling most sharply. But manufacturing also has begun to contract in the emerging economies. This is most evident in EM Asia, whose fortunes are most intimately tied to global goods demand. Last week's October releases delivered additional, deep declines in manufacturing in Korea, Singapore, Taiwan, and Thailand (IP is contracting in China as well). Regional export data show a similar pattern. With domestic demand also slowing across Asia, and inventories climbing, all signs point to an acceleration in the IP downturn into year's end.

Asian policymakers recognize the threat to growth and are taking further action to mitigate the economic slowdown. Last week China cut its policy rate an additional 108bp and lowered its required reserve ratios 100 and 200 bps, respectively, for large and small deposit-taking financial institutions. Chinese officials also are racing to roll out more aggressive fiscal stimulus. In addition, Bank Negara Malaysia eased its monetary policy stance with 25bp and 50bp cuts to the policy and required reserve rates. Thailand looks set to follow with its first rate cut of the cycle, but Indonesia will likely remain on hold as concerns over the currency outweigh those about growth.

Policy easing also is set to pick up pace in the CEEMEA region. Following the CBRT's surprise rate cut, Hungary and Poland initiated easing cycles earlier than anticipated last week, while Israel delivered another larger than consensus rate cut. In addition to growth concerns, the recent stabilization of CEEMEA currencies and the ongoing decline in commodity prices is making central banks more confident about meeting 2009 inflation targets. Against this backdrop, we have pulled forward expected monetary easing and now look for December rate cuts in Poland, Hungary, Turkey, and South Africa, with substantially more easing in prospect in 1H09. One key exception to this trend is Russia, where officials hiked interest rates again today in an attempt to limit capital outflows and the depreciation of the ruble.

By contrast, Latin central banks remain reluctant to ease. Part of this reflects the stickiness of inflation compared to the impressive retreat in EM Asia and EM Europe. Relatedly, Latin growth has held up somewhat better, as seen in the continued growth of regional IP last quarter. This partly reflects the resilience of Latin domestic demand, which had yet to register the full impact of lower commodity prices. For example, Mexico last week reported a 2.6% annualized gain in 3Q GDP, despite its close ties to the sinking US economy.

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JPMorgan View - Global Markets

Public sector to the rescue

- Bond markets are on a tear. **The benchmark 10-year US Treasury fell below 3%, a level not seen since the early 1950s**. Being long government bonds remains the best way to position for the deepening global recession we are in. We expect the **10-year UST to fall to 1.75% in this cycle, and the long bond to reach 2%—levels only seen during the worst phases of WWII.**

- **The private sector continues to delever** across most of the world. As discussed before, we use the term "delevering" for the broad set of adjustments we are making in our finances to a more uncertain world and market—higher savings rates; shrinking balance sheets; reduced use of debt; increasing debt maturities; and higher holdings of liquid assets. These adjustments will make us much stronger and less vulnerable to future shocks, but put the economy into a tailspin when we all try to delever at the same time.

- In past delevering cycles, other sectors typically took up the baton and increased their own spending, thus protecting the overall economy. When EM Asia delevered in the 1990s, DM corporates took over. When they in turn delevered during the dot-com bust, first consumers and then the financial sector took over. Now that the global private sector is retrenching violently, the **public sector has moved into expansion mode and is levering its balance sheet at maximum speed**. Central banks were first to expand, with the ECB and Fed having doubled their balance sheets in recent months, and will likely do much more. Fiscal authorities have also started, but are lagging, given the time required to approve and implement new budgets. As a result, public levering cannot yet offset private delevering and the global economy will thus contract further. We do not see public levering offsetting private delevering until the middle of next year.

- This is creating **much consternation** among free-marketeers, raising fears of rapid inflation and fiscal irresponsibility. One can agree that on a micro-basis, the private sector is a better resource allocator than the public sector. But the alternative of no public sector expansion would create more economic damage than inefficient spending by the public sector.

Fixed income

- Government bonds continue to rally strongly, in both EM and DM. The 10-year UST yield fell below 3%—a 50-year low—while the 2-year UST fell below 1%. We see these yields falling to 2% and 0.5% in this cycle, as the Fed moves to a zero funds rate by January. We thus **remain bullish on duration globally.** In the US, we are in bullish flattening, while in Europe, we are still in bullish steepening, but know we will eventually switch to the former.

- The similarities to Japan in the 1990s invites the expectation that bond managers will soon switch to **carry trades**. For that we need somewhat lower volatility, and **the carry trade will return**. At this moment, it is showing up in strong interest by end investors for bonds that have lower credit risk, but a high liquidity premium in their yields. We stay long Agency MBS and debt. For details see this week's Global Fixed Income Markets, 2009 Outlook.

10-yr Government bond yields

	Current	Dec 08	Mar 09	Jun 09	Sep 09
United States	2.96	3.00	2.40	2.00	1.75
Euro area	3.25	3.15	3.00	2.95	2.95
United Kingdom	3.77	3.30	3.30	3.10	3.10
Japan	1.38	1.45	1.40	1.45	1.50

Foreign exchange

	Current	Dec 08	Mar 09	Jun 09	Sep 09
EUR/USD	1.27	1.18	1.18	1.20	1.22
USD/JPY	95.3	87	87	93	95
GBP/USD	1.53	1.33	1.28	1.32	1.36

Commodities

		Quarterly Average			
	Current	Dec 08	Mar 09	Jun 09	Sep 09
WTI ($/bbl)	52	68	65	65	70
Gold ($/oz)	814	730	750	800	825
Copper($/m ton)	3666	4200	3800	4250	4500
Corn ($/Bu)	3.67	4.20	4.45	5.30	5.15

Source: J.P. Morgan, Bloomberg, Datastream

Equities

- **Equities rose 10% last week**. This week's policy measures, including the Citigroup support package, the announcement that the Fed will start buying Agency mortgages and debt, and the creation of the Term Asset-Backed Securities Loan Facility (TALF), which to some extent replaces TARP, provided a boost to equity markets. **Our technical signals for the S&P 500 are pointing towards further near term upside, towards 1000 in coming weeks.**

- **We believe equity markets are currently in the middle of a multi-month range,** which typically lasts 4-8 months, based on patterns observed during the past four US recessions.

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Given that the starting month for this range was October, it is likely that this noisy and wide range in equity markets will last until the middle of next year.

- We keep a **defensive sectoral stance** as momentum in prices, earnings and flows remains negative for Cyclicals. We stay underweight Cyclicals, focusing on Industrials, Materials and Consumer Cyclicals. In a world characterized by an increasingly broad retrenchment in expenditures on autos, housing, and capital equipment, the producers of those goods are on the front-line of the economic downturn.

Credit

- **We remain overall bearish in credit**, focusing underweights on European HG and US CMBS. Investors continue to focus on the primary market given the significant premiums companies are prepared to pay. But even there, the level of commitment is much lower than it was in the spring as investors remember getting burned by trying to buy on dips. Investors are also deterred by expectations of heavy refinancing. There is less buying in the secondary market due to illiquidity and stale bond positions held by leveraged investors, which are locked up in basis packages versus CDS.

- **Bank loan books are significant sellers** as they hedge their commitments to the corporate sector. In addition, last week's announcement by the ECB to no longer accept syndicated loans as collateral, only a week after announcing they would accept them, is a blow to the European syndicated loan market and European credit more broadly. One explanation for this turnaround is that the ECB was flooded with collateral, which it viewed as an abuse of the system. Many European banks are stuck with large chunks of loan deals that they have been unable to syndicate out. Since the collapse of Lehman Brothers on Sep 14, the syndicated loan market in Europe has become very challenging, and lenders have found it increasingly difficult to syndicate out loans.

- The creation of the Term Asset-Backed Securities Loan Facility (TALF), which to some extent is replacing TARP, is positive for ABS, but only marginally. We remain neutral on **ABS** overall, and the only sector that we are inclined to move to an overweight in is student loan ABS. In **CMBS** we remain with a small underweight. The fundamental news flow remains heavily negative and an overhang of unwanted exposures is likely to keep spreads at wide levels.

Foreign Exchange

- The past week's equity surge raises a recurring question: **have high-beta currencies (USD/JPY, commodity currencies, EUR/USD) reached a turning point?** Durable rallies usual exhibit **four characteristics**: maximum pessimism is discounted; investors are overwhelmingly short; realized volatility falls and encourages a move back into cheap assets; and policy actions dramatically alter liquidity conditions and/or the growth outlook.

- Only the first two of these criteria have been met, and then only partially. Our US Economic Activity Surprise Index (EASI) has rebounded from all-time lows, suggesting even appalling activity data are losing their shock value as investors downgrade their expectations to a very serious recession. Outright position in FX carry are also low. Currency managers and global macro funds appear to have no exposure to G-10 or EM carry; Japanese retail investors hold their lowest exposure to the high-yielders at some $9bn; and leveraged investors hold no positions in high-yielders as measured by the IMMs. The position risk remains around cross-border equity flows, where only a fraction of the $250bn invested over the past 2 yrs appears to have been liquidated.

- Still, the last two criteria are high hurdles for this rally in the high-beta currencies. Implied FX vol has declined far less from its highs than equity vol. We therefore stick with defensive trades such as short USD/JPY and GBP/JPY. The only major change is a recommendation to **take profits on short EUR/JPY.** With the Fed stepping up its balance sheet expansion to support asset-purchase programs, FX markets will transition from exclusive focus on delevering to a period of broadening dollar weakness, thus putting EUR/USD in a range and supporting EUR/JPY be extension.

Alternatives

- More hedge funds imposed redemption constraints. This trend will likely intensify as a large number of single-manager funds have 30-day redemption notices. **Commodities were up 6% last week**. **Base metals were flat**. We remain bearish, while somewhat neutral on zinc. We still see major downside risk in copper and aluminum as stocks climb. Gold prices are up 3% this week. We are bearish near term as inflation risks diminish, but hold a positive medium-term outlook.

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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	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	2Q08	4Q08	2Q09	4Q09
The Americas														
United States	2.0	1.3	-1.2 ↓	2.8	-0.5 ↓	-4.0	-3.0	-0.5	1.5	2.5	4.3	1.9 ↓	-0.6 ↓	0.7 ↓
Canada	2.7	0.8 ↑	0.7 ↑	0.3	2.0 ↑	-0.5	-0.5	1.0	2.5	3.0	2.4	2.4	1.2	2.0
Latin America	5.2	4.0	1.4	4.9	3.4 ↓	-1.0 ↓	-0.6	1.9 ↑	3.6	3.5 ↑	7.5	8.1	8.0	7.3
Argentina	8.7	6.5	-1.0	8.7	6.6	-2.0	-3.9	-3.9	0.0	-2.0	9.1	8.2	8.6	9.8
Brazil	5.4	5.3	2.8	6.5	4.7	0.4	1.0	3.7	4.2	4.7	5.6	6.5	6.2	5.4
Chile	5.1	4.0	2.5	7.4	-0.2 ↓	2.0	2.5	2.5	2.5	2.5	8.9	8.9	6.9	4.1
Colombia	7.7	3.2 ↓	2.5	2.6	2.3 ↓	2.0 ↓	1.8	2.5 ↑	4.0	3.0 ↑	6.4	7.4	5.9	5.5
Ecuador	2.5	7.0	2.0	9.9	4.5	-2.5	1.5	2.0	2.5	4.0	9.1	9.5	4.6	3.8
Mexico	3.2	1.6	0.0	0.8	2.6	-4.0	-2.0	1.2	4.1	4.1	4.9	5.3	4.5	3.7
Peru	8.9	9.2	5.3	10.1	6.9	4.9	2.8	5.5	6.0	5.5	5.5	6.1	5.5	4.5
Venezuela	8.4	5.0	1.5	11.6	-1.0	4.5	-2.5	2.0	2.0	2.0	31.0	34.1	42.1	41.8
Asia/Pacific														
Japan	2.1	0.2	-2.5 ↓	-3.7	-0.4	-4.0 ↓	-4.5 ↓	-1.0 ↓	-1.5 ↓	1.5	1.4	1.4	0.0	-0.2
Australia	4.2	2.3	0.7	1.1	1.5	-1.0	-1.7	2.3	3.7	2.9	4.5	4.7	2.6	1.6
New Zealand	3.2	0.5	0.4	-0.6	-1.8	-0.8	-0.4	2.1	2.8	3.3	4.0	4.9	3.2	0.8
Asia ex. Japan	8.8	6.6	4.9 ↓	6.4 ↑	4.1 ↑	2.0 ↓	4.0 ↓	5.9 ↓	7.4 ↓	8.0 ↓	7.0	5.1	2.4 ↓	2.4 ↓
China	11.9	9.4	8.1	10.9	6.4	4.1	7.9	9.7	10.1	10.5	7.8	3.3 ↓	0.5 ↓	1.2 ↓
Hong Kong	6.4	2.9	-1.3	-5.5	-2.0	-4.2	-2.5	1.0	2.5	3.5	5.7	2.2	-0.7 ↑	-0.5 ↑
India	9.0	6.7	6.2	6.3 ↑	8.7 ↑	5.6	3.6	4.5	8.0	9.5	7.8	8.9	6.3	5.7
Indonesia	6.4	6.0 ↑	4.2	5.5	6.4	3.0	3.0 ↓	4.0 ↓	5.0	5.0 ↓	9.0	12.0 ↓	7.2 ↓	4.2 ↓
Korea	5.0	4.1 ↓	1.5 ↓	3.4	2.3	-1.4 ↓	0.6 ↓	2.0 ↓	3.5 ↓	4.5 ↓	4.8	4.8	3.3	3.0
Malaysia	6.3	5.4 ↑	2.7 ↓	3.7	3.1 ↑	0.4 ↑	0.4 ↑	4.9 ↑	5.7 ↓	6.6 ↓	4.9	7.1	4.9	2.3
Philippines	7.2	4.6	3.5 ↓	8.4 ↑	6.1 ↑	0.6 ↓	2.0 ↓	3.6 ↓	4.9 ↓	4.5 ↓	9.7	10.7 ↑	4.7 ↑	3.0 ↓
Singapore	7.7	1.7	-1.4 ↓	-5.3	-6.8	-7.8	-5.1	5.7 ↓	8.2 ↓	8.2 ↓	7.5	4.7	1.2	2.8
Taiwan	5.7	1.8	-0.4	0.9	-8.7	-3.0	-0.4	1.9	5.3	5.8	4.2	2.0 ↑	1.2 ↓	0.6 ↓
Thailand	4.9 ↑	4.4 ↓	2.7 ↓	2.9 ↑	2.2 ↑	0.4	1.6 ↑	4.1 ↓	4.9 ↓	5.7 ↓	7.5	4.9	1.1	3.3
Africa														
South Africa	5.1	3.2	1.4 ↓	5.1 ↑	0.2 ↑	-0.7	2.2	2.4	3.2	3.6	11.6	12.4	9.0	7.3
Europe														
Euro area	2.6	0.9	-1.6 ↓	-0.7	-0.8 ↑	-2.5	-3.5 ↓	-1.0 ↓	0.0 ↓	1.0	3.6	2.5 ↓	0.9 ↓	1.1 ↓
Germany	2.6	1.3	-1.8 ↓	-1.7	-2.1	-2.3	-3.5 ↓	-1.0 ↓	0.0 ↓	1.0	3.0	2.1	0.8	0.9
France	2.1	0.9	-1.1 ↓	-1.1	0.6	-2.0	-2.5 ↓	-1.0 ↓	0.0 ↓	1.0	3.7	2.3	0.9	1.4
Italy	1.4	-0.5	-1.9 ↓	-1.8	-2.0	-2.8	-3.5 ↓	-1.0 ↓	0.0 ↓	1.0	3.8	3.1	2.1	1.8
Norway	6.2 ↓	2.3 ↓	-0.9 ↓	2.1 ↓	1.0 ↑	-1.5	-2.5 ↓	-1.5 ↓	0.0 ↓	1.0 ↓	3.2	4.1	2.8	1.2
Sweden	2.7 ↓	0.5 ↓	-1.3 ↓	-0.4 ↓	-0.4 ↑	-2.0	-3.0 ↓	-1.0 ↓	0.0 ↓	1.0	3.8	3.0	1.0	0.3
Switzerland	3.3	1.9	0.0	1.5	0.5	-1.5	-1.0	0.5	1.2	1.8	2.7	1.7	0.5	1.0
United Kingdom	3.0	0.8	-1.7	0.0	-2.0	-3.0	-2.5	-1.5	0.0	1.0	3.4	3.8 ↓	0.7 ↓	0.2 ↓
Emerging Europe	6.5	5.2	0.8 ↓	6.2 ↓	4.0 ↑	0.8 ↓	-0.2	-0.5 ↓	0.3 ↓	0.9 ↓	10.2	9.5 ↓	7.9 ↓	7.0 ↓
Bulgaria	6.2	5.2	1.0	…	…	…	…	…	…	…	…	…	…	…
Czech Republic	6.6	4.0	-1.0	3.6	4.1	3.0	-3.1	-2.5	-3.2	-1.5	6.8	5.2	0.7	1.2
Hungary	1.1	1.1	-3.0	2.3	-0.4	-2.5	-3.8	-5.0	-3.8	-3.5	6.8	4.7 ↓	2.6 ↓	3.0 ↓
Poland	6.7	5.0	1.5	5.3 ↓	4.9 ↑	1.5	1.0	-0.5	1.0 ↓	1.5	4.3	3.8 ↓	2.9 ↓	2.6 ↓
Slovak Republic	10.4	6.0	-1.0	5.3	6.3	-10.0	3.0	1.5	2.0	-10.0	4.5	4.0	2.2	2.5
Romania	6.0	8.5	0.5	…	…	…	…	…	…	…	8.6	6.3	5.5	7.0
Russia	8.1	7.2	1.8 ↓	7.3	4.5 ↓	0.5 ↓	0.5	1.0 ↓	1.5 ↓	2.5 ↓	14.8	13.9 ↓	12.4 ↓	10.9 ↓
Turkey	4.6	2.2	0.5	…	…	…	…	…	…	…	10.3	11.2	9.3	7.5
Global	3.5	1.9 ↓	-0.4 ↓	1.6	0.4 ↑	-2.4 ↓	-2.1 ↓	0.3 ↓	1.5 ↓	2.6 ↓	4.4	3.2 ↓	1.2 ↓	1.5 ↓
Developed markets	2.4	1.0	-1.4 ↓	0.4	-0.5 ↑	-3.2	-3.2 ↓	-0.7 ↓	0.5 ↓	1.8	3.5	2.2 ↓	0.2 ↓	0.7 ↓
Emerging markets	7.5	5.6	3.3 ↓	6.0 ↑	3.8 ↑	1.0 ↓	2.2 ↓	3.9	5.3 ↓	5.8 ↓	7.8	6.7 ↓	4.9 ↓	4.5 ↓

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Global Central Bank Watch

	Official interest rate	Current	Change from Aug 07 (bp)	Last change	Next meeting	Forecast next change	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Global	GDP-weighted average	2.93	-178				2.47	1.91	1.65	1.59	1.58
excluding US	GDP-weighted average	3.84	-63				3.41	2.80	2.43	2.34	2.33
Developed	GDP-weighted average	1.89	-225				1.34	0.73	0.53	0.52	0.52
Emerging	GDP-weighted average	7.09	9				6.97	6.56	6.11	5.83	5.79
Latin America	GDP-weighted average	10.41	160				10.41	10.23	9.79	9.65	9.65
CEEMEA	GDP-weighted average	8.43	142				8.46	8.39	7.95	7.33	7.18
EM Asia	GDP-weighted average	5.34	-98				5.11	4.50	4.04	3.83	3.83
The Americas	GDP-weighted average	2.12	-348				1.67	1.21	1.16	1.14	1.14
United States	Federal funds rate	1.00	-425	29 Oct 08 (-50bp)	16 Dec 08	16 Dec 08 (-50bp)	0.50	0.00	0.00	0.00	0.00
Canada	Overnight funding rate	2.25	-225	21 Oct 08 (-25bp)	9 Dec 08	9 Dec 08 (-50bp)	1.75	1.25	1.25	1.25	1.25
Brazil	SELIC overnight rate	13.75	225	10 Sep 08 (+75bp0	10 Dec 08	on hold	13.75	13.75	13.75	13.75	13.75
Mexico	Repo rate	8.25	100	15 Aug 08 (+25bp)	23 Jan 09	**Mar 09 (-25bp)**	8.25	8.00	7.25	7.00	7.00
Chile	Discount rate	8.25	275	4 Sep 08 (+50bp)	11 Dec 08	Mar 09 (-25bp)	8.25	8.00	7.25	7.00	7.00
Colombia	Repo rate	10.00	75	25 Jul 08 (+25bp)	19 Dec 08	Jan 09 (-25bp)	10.00	9.25	8.50	8.50	8.50
Peru	Reference rate	6.50	175	11 Sep 08 (+25bp)	11 Dec 08	Mar 09 (-25bp)	6.50	6.25	6.00	5.75	5.75
Europe/Africa	GDP-weighted average	3.83	-76				3.15	2.36	1.87	1.78	1.76
Euro area	Refi rate	3.25	-75	6 Nov 08 (-50bp)	4 Dec 08	**4 Dec 08 (-75bp)**	2.50	1.50	1.00	1.00	1.00
United Kingdom	Repo rate	3.00	-275	6 Nov 08 (-150bp)	4 Dec 08	4 Dec 08 (-100bp)	2.00	1.50	1.00	1.00	1.00
Sweden	Repo rate	3.75	25	23 Oct 08 (-50bp)	17 Dec 08	**17 Dec 08 (-75bp)**	3.00	2.25	1.50	1.00	1.00
Norway	Deposit rate	4.75	0	29 Oct 08 (-50bp)	17 Dec 08	**17 Dec 08 (-75bp)**	4.00	3.00	2.00	2.00	2.00
Czech Republic	2-week repo rate	2.75	-50	6 Nov 08 (-75bp)	17 Dec 08	17 Dec 08 (-50bp)	2.25	1.75	1.25	1.00	1.00
Hungary	2-week deposit rate	**11.00**	**325**	**24 Nov 08 (-50bp)**	22 Dec 08	**22 Dec 08 (-50bp)**	**10.50**	**9.00**	**8.00**	**7.50**	**7.50**
Israel	Base rate	**2.50**	**-150**	**23 Nov 08 (-50bp)**	29 Dec 08	**29 Dec 08 (-50bp)**	**2.00**	**1.50**	**1.50**	**1.50**	**1.50**
Poland	7-day intervention rate	**5.75**	**100**	**26 Nov 08 (-25bp)**	23 Dec 08	**23 Dec 08 (-25bp)**	**5.50**	**4.75**	**4.00**	**3.50**	**3.50**
Romania	Base rate	10.25	325	31 Jul 08 (+25bp)	6 Jan 09	6 Jan 09 (+100bp)	10.25	12.00	12.00	11.00	10.00
Russia	1-week deposit rate	**6.75**	**350**	**28 Nov 08 (+100bp)**	Dec 08	**Dec 08 (+100bp)**	**7.75**	**8.75**	**8.75**	**7.75**	**7.75**
Slovak Republic	2-week repo rate	3.25	-100	11 Nov 08 (-50bp)	19 Dec 08	**19 Dec 08 (-75bp)**	2.50	1.50	1.00	1.00	1.00
South Africa	Repo rate	12.00	200	12 Jun 08 (+50bp)	11 Dec 08	**11 Dec 08 (-50bp)**	**11.50**	**11.00**	**10.00**	**9.50**	**8.50**
Switzerland	3-month Swiss Libor	1.00	-150	20 Nov 08 (-100bp)	11 Dec 08	11 Dec 08 (-50bp)	0.50	0.25	0.25	0.25	0.25
Turkey	Overnight borrowing rate	16.25	-125	19 Nov 08 (-50bp)	19 Dec 08	**19 Dec 08 (-50bp)**	**15.75**	**15.00**	**14.25**	**13.75**	**13.75**
Asia/Pacific	GDP-weighted average	2.92	-63				2.76	2.33	2.11	2.01	2.01
Australia	Cash rate	5.25	-125	4 Nov 08 (-75bp)	2 Dec 08	**2 Dec 08 (-75bp)**	**4.50**	**3.75**	**3.50**	**3.50**	**3.50**
New Zealand	Cash rate	6.50	-175	23 Oct 08 (-100bp)	3 Dec 08	3 Dec 08 (-100bp)	5.50	4.50	4.00	3.50	3.25
Japan	Overnight call rate	0.30	-20	31 Oct 08 (-20bp)	18 Dec 08	19 Feb 08 (-20bp)	0.30	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	1.50	-525	30 Oct 08 (-50bp)	17 Dec 08	17 Dec 08 (-50bp)	1.00	0.50	0.50	0.50	0.50
China	1-year working capital	**5.58**	**-144**	**26 Nov 08 (-108bp)**	Dec 08	**Dec 08 (-27bp)**	**5.31**	**4.77**	**4.23**	**3.96**	**3.96**
Korea	Base rate	4.00	-100	7 Nov 08 (-25bp)	10 Dec 08	10 Dec 08 (-25bp)	3.75	3.00	3.00	3.00	3.00
Indonesia	BI rate	9.50	125	7 Oct 08 (+25bp)	4 Dec 08	1Q 09 (-25bp)	9.50	9.25	9.00	9.00	9.00
India	Repo rate	7.50	-25	1 Nov 08 (-50bp)	Jan 09	Jan 09 (-50bp)	7.50	6.50	5.50	5.00	5.00
Malaysia	Overnight policy rate	**3.25**	**-25**	**24 Nov 08 (-25bp)**	21 Dec 08	**1Q 09 (-25bp)**	**3.25**	**2.75**	**2.75**	**2.75**	**2.75**
Philippines	Reverse repo rate	6.00	0	28 Aug 08 (+25bp)	18 Dec 08	2Q 09 (-25bp)	6.00	6.00	5.75	5.75	5.75
Thailand	1-day repo rate	3.75	50	27 Aug 08 (+25bp)	3 Dec 08	**3 Dec 08 (-50bp)**	**3.25**	**2.75**	**2.25**	**2.25**	**2.25**
Taiwan	Official discount rate	2.75	-38	9 Nov 08 (-25bp)	11 Dec 08	11 Dec 08 (-25bp)	2.25	1.75	1.25	1.00	1.00

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	2.1	0.7	3.3	4.3	2.8	2.7	1.1	1.5	-1.0	-1.7	2.3	3.7	2.9
Private consumption	4.5	2.4	0.6	2.5	4.1	5.7	2.6	-0.6	2.0	-1.2	-0.8	1.2	2.8	3.2
Construction investment	9.8	2.3	-1.5	3.1	10.0	-3.0	9.7	-4.6	0.8	-1.1	-2.5	-0.6	-0.2	-4.3
Equipment investment	9.6	9.1	-6.9	24.1	-0.6	16.2	-1.3	53.4	-11.8	-22.6	-15.6	-2.1	6.4	8.6
Public investment	5.7	15.1	9.9	72.3	-27.7	30.6	27.5	9.8	11.9	10.7	8.3	9.6	10.1	10.7
Government consumption	2.4	4.6	6.9	1.0	5.5	5.8	2.4	4.8	4.1	11.7	6.1	7.9	4.1	5.9
Exports of goods & services	3.2	4.9	-0.1	0.8	8.8	-2.6	7.7	11.1	2.0	0.8	-3.9	-2.0	0.8	2.0
Imports of goods & services	10.8	11.2	2.0	7.1	11.1	13.4	18.2	9.3	4.1	3.2	2.0	-1.2	0.8	-0.4
Contributions to GDP growth:														
Domestic final sales	5.3	4.0	1.1	6.8	3.6	6.8	4.8	3.5	0.9	-0.5	-0.7	2.4	3.4	3.5
Inventories	0.6	-0.1	0.1	-1.9	1.5	-0.2	0.7	-2.2	1.2	0.2	0.4	0.0	0.4	-1.1
Net trade	-1.8	-1.7	-0.5	-1.4	-0.8	-3.5	-2.6	-0.1	-0.6	-0.7	-1.4	-0.1	0.0	0.5
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	4.6	2.4	2.1	1.9	3.0	4.2	4.5	5.0	4.7	3.7	2.6	1.8	1.6
Producer prices (%oya)	2.3	9.1	4.0	1.5	0.8	3.4	6.9	8.7	10.9	10.0	7.4	3.7	2.6	2.3
Trade balance (A$ bil, sa)	-20.7	-12.7	-18.3	-4.6	-5.4	-6.9	-8.0	-0.5	-1.4	-2.8	-3.5	-4.1	-5.2	-5.4
Current account (A$ bil, sa)	-67.0	-60.4	-55.0	-16.4	-16.8	-19.0	-19.8	-12.8	-13.1	-14.6	-13.5	-13.9	-14.2	-13.4
as % of GDP	-6.2	-5.2	-4.5	-6.1	-6.1	-6.8	-7.0	-4.4	-4.4	-4.9	-4.5	-4.6	-4.6	-4.3
3m eurodeposit rate (%)*	6.0	6.4	5.1	5.8	7.1	7.2	7.6	6.7	5.8	5.5	5.5	5.0	5.0	5.0
10-year bond yield (%)*	5.6	5.7	4.7	5.6	5.7	6.4	6.1	6.2	5.8	4.8	4.7	4.8	4.8	4.7
US$/A$*	0.75	0.83	0.62	0.74	0.77	0.91	0.91	0.97	0.87	0.59	0.57	0.61	0.63	0.66
Commonwealth budget (FY, A$ bil)	17.2	13.5	-4.0											
as % of GDP	1.6	1.2	-0.3											
Unemployment rate	4.4	4.3	6.3	4.3	4.3	4.3	4.1	4.3	4.2	4.6	5.1	5.9	6.6	7.4
Industrial production	3.2	3.8	-1.4	-0.3	1.5	5.6	10.2	1.6	0.0	-3.0	-2.0	2.0	4.0	0.0

*All financial variables are period averages

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

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	3.2	0.5	0.4	3.8	2.5	3.6	-1.2	-0.6	-1.8	-1.5	-0.5	1.6	3.8	4.6
Private consumption	4.1	0.1	0.6	1.9	2.2	2.6	-1.7	-1.0	-0.7	-0.5	0.1	1.1	3.2	4.1
Fixed Investment	4.3	2.6	-1.3	-0.5	0.8	13.8	-5.6	14.4	-6.0	-4.4	-3.9	-1.0	2.8	4.5
Residential construction	4.4	-12.3	-5.3	19.6	2.0	-8.9	-19.2	-28.8	-5.8	-6.5	-6.0	-2.0	3.3	4.0
Other fixed investment	4.3	6.3	-0.5	-5.0	1	20.4	-2.1	26.8	-6.0	-4.0	-3.5	-0.8	2.7	4.6
Inventory change (NZ$ bil, saar)	0.8	0.7	-0.1	0.4	0.3	0.1	0.4	0.4	0.0	-0.1	0.0	0.0	-0.1	-0.1
Government spending	3.3	3.0	3.7	5.2	6.1	1.9	6.3	1.8	-4.3	4.2	8.3	5.1	3.5	-0.6
Exports of goods & services	3.2	0.6	-1.3	-3.3	-1.5	19.0	-7.2	-0.9	-0.9	-1.6	-2.4	-1.4	0.1	0.5
Imports of goods & services	8.6	7.7	1.3	10.6	2.9	17.0	5.5	13.7	-1.2	-0.9	0.5	1.1	2.1	3.1
Contributions to GDP growth:														
Domestic final sales	4.8	3.3	1.8	4.5	5.0	6.3	0.0	5.0	2.8	-1.1	-0.4	2.1	5.8	5.9
Inventories	0.5	-0.1	-0.5	4.2	-0.9	-2.1	3.2	-0.2	-4.7	-0.2	0.8	0.4	-1.1	-0.1
Net trade	-2.0	-2.7	-0.9	-4.7	-1.5	-0.4	-4.4	-5.3	0.2	-0.1	-1.0	-0.9	-0.8	-1.1
GDP deflator (%oya)	4.2	3.7	2.5	4.3	3.8	5.6	5.8	3.7	3.5	1.9	1.7	2.8	2.7	2.7
Consumer prices	2.4	4.9	2.6	4.0	2.0	4.8	2.7	6.7	6.2	4.0	1.9	0.8	0.4	0.0
%oya	2.4	4.3	2.6	2.0	1.8	3.2	3.4	4.0	5.1	4.9	4.7	3.2	1.8	0.8
Trade balance (NZ$ bil, sa)	-2.4	-3.5	-2.8	-0.8	-0.7	0.0	-0.2	-1.1	-1.1	-1.1	-1.0	-0.8	-0.6	-0.4
Current account (NZ$ bil, sa)	-14.3	-15.9	-18.9	-3.7	-3.8	-3.2	-2.1	-3.9	-5.0	-4.9	-5.2	-5.0	-4.6	-4.1
as % of GDP	-8.3	-10.1	-10.2	-8.6	-8.8	-7.1	-7.8	-10.3	-11.2	-10.9	-11.5	-10.9	-9.9	-8.7
Yield on 90-day bank bill (%)*	8.4	8.0	5.5	8.2	8.7	8.8	8.9	8.7	8.0	6.6	6.1	5.5	5.3	5.3
10-year bond yield (%)*	6.3	5.9	5.0	6.4	6.4	6.4	6.4	6.4	5.7	5.2	5.1	5.0	5.0	5.0
US$/NZ$*	0.74	0.75	0.68	0.74	0.74	0.76	0.79	0.76	0.67	0.53	0.51	0.57	0.59	0.60
Commonwealth budget (NZ$ bil)	6.4	-0.2	-2.5											
as % of GDP	3.7	-0.1	-1.4											
Unemployment rate	3.6	4.0	5.6	3.6	3.5	3.4	3.7	3.9	4.2	4.4	4.8	5.2	5.8	6.7

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
1 Dec Australia: Inventories (11:30am) 3Q Company profits (11:30am) 3Q	2 Dec Australia: Retail sales (11:30am) Oct Current account (11:30am) 3Q RBA cash target (02:30pm) Dec 75bp cut expected	3 Dec Australia: GDP (11:30am) 3Q New Zealand: ANZ commodity price (03:00pm) Nov	4 Dec Australia: Building approvals (11:30am) Oct Trade balance (11:30am) Oct New Zealand: RBNZ official cash rate (09:00am) Dec 100 bp cut expected	5 Dec
8 Dec Australia: ANZ job ads (11:30am) Nov New Zealand: QV house prices Nov	9 Dec Australia: NAB business confidence (11:30am) Nov	10 Dec Australia: Westpac consumer confidence (11:30am) Dec Housing finance (11:30am) Oct New Zealand: Terms of trade (10:45am) 3Q	11 Dec Australia: Unemployment rate (11:30am) Nov New Zealand: PMI (10:30am)Nov	12 Dec New Zealand: Retail sales (10:45am) Oct
15 Dec New Zealand : Mfg. activity (10:45 am) 3Q	16 Dec Australia : Dwelling starts (11:30 am) 3Q	17 Dec Australia: Westpac leading index (10:30 am) Oct	18 Dec New Zealand: NBNZ bus. conf. (3:00 pm) Dec	19 Dec New Zealand : Visitor arrivals (10:45 am) Nov Credit card spending (3:00 pm) Nov
22 Dec Australia : New motor vehicles sales Nov (11:30 am) New Zealand : Current account (10:45 am) 3Q	23 Dec New Zealand : GDP (10:45 am) 3Q	24 Dec	25 Dec *Holiday Australia, New Zealand*	26 Dec *Holiday Australia, New Zealand*

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
1 - 5 December	1 December	2 December	3 December	4 December	5 December
United Kingdom • Halifax HPI (Nov)	Canada: GDP (3Q) China: PMI mfg (Nov) Euro area: PMI mfg final (Nov) Germany: Retail sales (Oct) Japan • Auto regs (Nov) • Nominal wages (Oct) • Shirakawa speech Korea • CPI, trade balance (Nov) United Kingdom • PMI mfg (Nov) • M4 lending (Oct) United States • Construct spend (Oct) • ISM mfg (Nov)	Australia • RBA meeting Brazil • IP (Oct) Japan • Reuters Tankan (Nov) Korea • GDP final (3Q) Singapore • PMI mfg (Nov) United States • Light vehicle sales (Nov)	Australia • GDP (3Q) Euro area • PMI services final (Nov) • Retail sales (Oct) Thailand • BoT meeting United Kingdom • PMI services (Nov) United States • ADP employment (Nov) • Beige book • ISM nonmfg (Nov) • Productivity and costs revised (3Q)	Canada • Ivey PMI (Nov) Euro area • GDP prelim (3Q) • ECB meeting Indonesia • BI meeting Japan • MoF corporate surv (3Q) New Zealand • RBNZ meeting United Kingdom • Car regs (Nov) • BoE meeting United States • Factory orders (Oct) • Bernanke speech	Brazil • IPCA (Nov) Canada • Employment (Nov) Germany • Mfg orders (Oct) Russia • CPI (Nov) Taiwan • CPI (Nov) United States • Consumer credit (Oct) • Employment report (Nov)
8 - 12 December	8 December	9 December	10 December	11 December	12 December
China • Money supply (Nov) • International trade (Nov) Japan • Cabinet Office private consumption index (Oct)	Germany • IP (Oct) Japan • Econ watch surv (Nov) Taiwan • International trade (Nov)	Brazil • GDP (3Q) Canada • BoC meeting Germany • International trade (Oct) • ZEW business sur (Dec) Japan • GDP 2nd est (3Q) Mexico • CPI (Nov) South Africa • Mfg production (Oct) Sweden • CPI (Nov) United States • Manpower survey (1Q) • Pending homes (Oct)	Brazil • COPOM meeting Japan • Machinery orders (Oct) Norway • CPI (Nov) United States • Wholesale trade (Oct)	Chile • BCCh meeting China • CPI (Nov) France • Employment final (3Q) Korea • BoK meeting Peru • BCRP meeting South Africa • SARB meeting Switzerland • SNB meeting United States • Flow of funds (3Q) • International trade (Oct)	China • Retail sales (Nov) Euro area • IP (Oct) • Labor costs (3Q) Japan • Consumer sent (Nov) • IP final (Oct) Russia • IP (Nov) United States • Business inv (Oct) • Consumer sent (Dec) • Retail sales (Nov) • PPI (Nov)

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