Australia and New Zealand - Weekly Prospects

Summary

- The **RBA** last week announced another huge reduction to the cash rate target. This time, the cut was a punchy 100bp, taking the cumulative RBA easing since early September to a colossal 300bp. This is the most aggressive series of official rate cuts since the painful 1990-91 recession - there is a clear message there! Indeed, we believe the rate cuts have come too late to keep the economy out of recession—GDP growth was barely positive in 3Q, before the onset of the worst of the financial crisis. GDP probably will fall in the current quarter, and in 1Q 2009. The week ahead sees a speech by the RBA Governor, and the release of the latest business and consumer confidence readings and the November employment data. Employment probably fell in November, while both confidence measures should rise, albeit modestly. The RBA Governor is speaking of "interesting times", which could make it a long night!

- The **RBNZ** cut the cash rate 150bp to 5% last Thursday, in line with expectations, taking monetary policy to an "expansionary" position. The OCR now has fallen 325bp since July. RBNZ Governor Alan Bollard said that "ongoing financial market turmoil and the marked deterioration in the outlook for global growth" played a large role in shaping the decision. Still, the RBNZ is wary that domestically generated inflation remains elevated. The Bank is confident, though, that annual inflation will return comfortably to the target band of 1-3% in 2H09. Indeed, pipeline pressures and inflation expectations have started to ease. Retail sales numbers are scheduled for release on Friday—sales should have been flat in October.

- The **US economy** has now officially been judged to be in recession since the start of the year. For its part, the global economy likely slipped into recession around the middle of the year. However, the performance of the global economy since the financial crisis intensified in September is a dramatic break from what came earlier. The past three months of data releases have revealed an unrelenting descent into a deep global contraction. As a result, many business surveys now stand at thirty-year lows. US consumers appear to be in the midst of a downward spasm, as spending on durable goods as a share of GDP has slipped to a historic low. And over the past three months, the US labour market has shed an average of 419,000 jobs per month. There is no longer any doubt that the US economy is in the midst of the deepest industrial world downturn of the post WWII era.

- Developments last week pointed to a rapid convergence in policy rates to unprecedented low levels. The ECB, BoE, and Riksbank each cut sharply, extending the dramatic moves seen over the past two months. And they have signaled that more moves are in the offing. With these actions and the Fed expected to implement ZIRP by early next year, all of the **major central banks** are expected to have policy rates of 1% or lower by the end of 1Q09.

This week's highlight

The November Aussie employment print is this week's highlight. The big rise in employment October almost certainly will be reversed in November, and the jobless rate will resume it's climb towards our end-2010 forecast of 9%.

Contents

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Data and event previews - Australia and New Zealand

Date [(a)]	Data/event	Forecast		*Previous*	Comment
		JPMorgan	Consensus		
Monday, 8 December (11.30am)	**Aust. ANZ job advertisements (%m/m, Nov.)**	**-9.0**	na	*-5.9*	There probably will be another steep fall in the number of job advertisements in November, judging from the number of job cuts announced recently - it follows that firms are not advertising for new staff. Most leading indicators of employment growth are in freefall.
Tuesday, 9 December (11.30am)	**Aust. NAB monthly business survey (%m/m, Nov.)**	**na**	na	*-29.0*	The NAB business survey last month fell to a record low. Business confidence will remain weak in November. Our main concern from this is that managers feeling this downbeat are not about to rush out and invest or hire new staff. This is the primary mechanism by which plunging business sentiment can feed back to consumers—via the deteriorating outlook for employment.
Tuesday, 9 December (8.00pm)	**Speech by RBA Governor Glenn Stevens**	**na**	na	*na*	The Governor will deliver a speech entitled *Interesting Times* to the Australian Business Economists' Annual Dinner. The speech effectively is a blank canvas on which the Governor can paint his impressions of recent events. There is a Q&A session to follow the speech, which probably has the most potential to reveal new information.
Wednesday, 10 December (10.30am)	**Aust. WMI consumer sentiment index (%m/m, Dec.)**	**5.5**	na	*4.3*	Consumer confidence should rise amid falling interest rates, lower petrol prices, and expectations of one-off bonus welfare payments (due today). Weighing on confidence, however, are equity market falls and increased anxiety about job security.
Wednesday, 10 December (11.30am)	**Aust. housing finance (%m/m, Oct.)**	**2.0**	1.5	*-2.7*	The number of home loans should have risen 2%m/m in October, owing to the RBA's 25bp rate cut in September and 100bp rate cut in October. The forecast rise in October would be the first increase in eight months. Demand for fixed rate loans has fallen, but the number of first home buyers should have increased, in part owing to the expanded first home owners' grant.
Thursday, 11 December (08.30am)	**NZ business PMI (index, Nov.)**	**na**	na	*43.5*	na
Thursday, 11 December (11.30am)	**Aust. employment (000k, Nov.)**	**-25**	-15	*34*	Employment in Australia should have fallen 25,000 in November, marking the largest fall since May. Significant job losses have recently been announced, while leading indicators of employment have collapsed. We expect employment to fall by at least 1% in this recession, a more benign outcome than during previous recessions, when the drop in employment was closer to 3%.
Friday, 12 December (8.45am)	**NZ retail trade (%m/m, Oct.)**	**0.0**	0.0	*0.1*	New Zealand's retail sales values should have been flat in October and almost certainly will deteriorate significantly in the final months of 2008. Falling house prices and job losses make the outlook for household spending in the first half of 2009 particularly bleak.

(a) Australian Eastern Standard Time.

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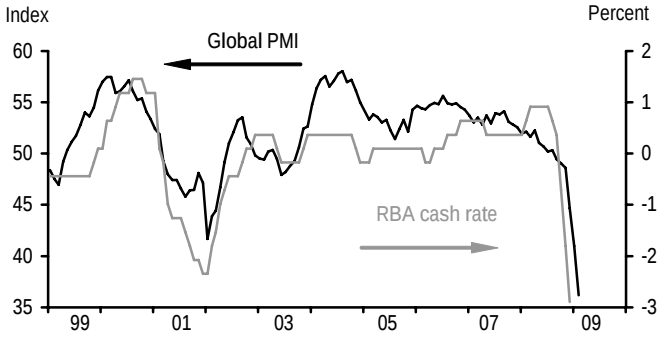
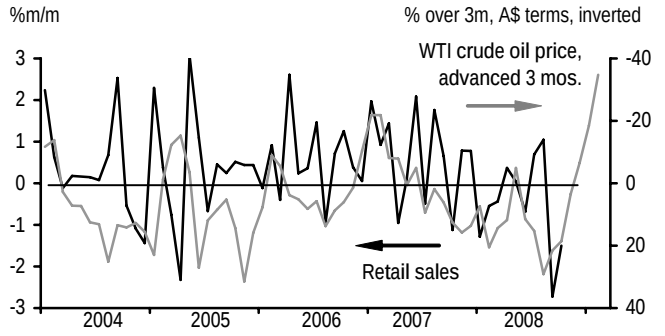
Feature charts

Global PMI and RBA cash rate



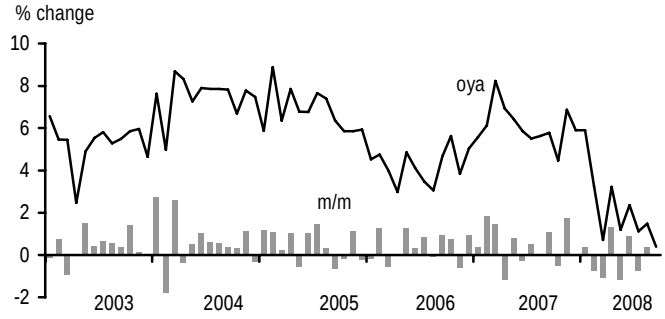
The RBA's 100bp rate cut last week takes the cumulative easing since early September to a massive 300bp, the most aggressive series of rate cuts since the early 1990s recession. One reason the easing has been so aggressive is the onset of a deep global recession—our global PMI has dropped to a record low. RBA officials also now probably believe there is a greater chance of inflation falling back into target earlier than previously expected.

Australia: crude oil and discretionary spending



Discretionary spending in Australia may be supported in the near term by lower petrol prices, the big fiscal stimulus (to be delivered today), and significant RBA policy easing. The household sector is facing considerable headwinds, however. The strongest of these is the rising jobless rate. Having bottomed nearly a year ago, the jobless rate will likely rise from the current 4.3% to nearly 9.0% by the end of 2010. Households also are embarking on what almost certainly will be a very long process of trimming record high debt levels.

New Zealand: retail trade



New Zealand's retail sales values should have been flat in October, after rising 0.1% in September. Consumer spending is being reined in amid falling house prices and job losses. The softness in retail spending is further evidence that New Zealand's economy is in the midst of what is likely to be a prolonged recession. The cuts to the OCR and the personal income tax cuts promised by the newly-elected National Government may provide something of a floor for household spending, however.

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Australia

- **RBA cut key rate another 100bp**
- **Aussie GDP grew just 0.1%q/q in 3Q**
- **Employment probably fell in November**

RBA to reach terminal cash rate sooner

The RBA last week announced another unexpectedly large cut to the cash rate target. After last month's 75bp cut, we and most market economists had expected "only" a 75bp move this week. The cash rate instead was cut 100bp, taking the cumulative RBA policy easing since early September to a colossal 300bp, the most aggressive series of official rate cuts since the painful 1990-91 recession.

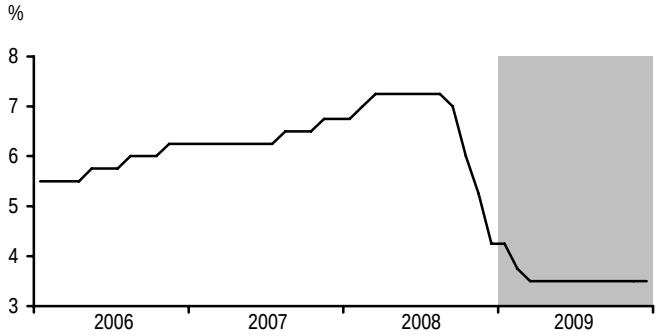
The commentary did not, however, betray a significant rise in the level of official anxiety—the main points included were similar to those made last month. Interestingly, while officials expect weakness in private demand in the near term, the statement conspicuously mentioned that easy monetary policy, the significant fiscal stimulus, and lower AUD will support demand over the year ahead.

For the first time, the RBA said that the policy stance was "expansionary." Clearly, RBA officials wanted to push the policy setting decisively into easy territory as quickly as possible. Our forecast still calls for a 50bp rate cut at the next Board meeting in February—there is no Board meeting scheduled for January—and a 25bp rate cut in March. These moves will take the cash rate down to our expected terminal rate of 3.5%, one month earlier than we thought previously; this will be the lowest target rate on record.

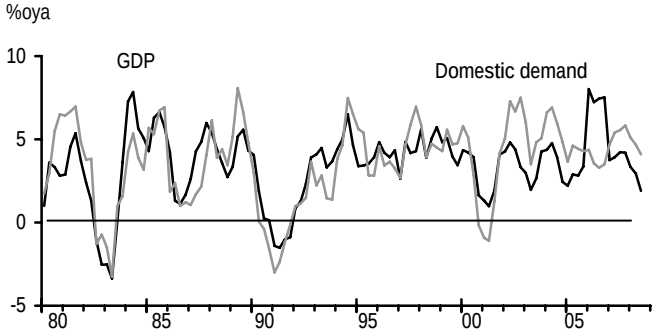
Once again, the RBA's downbeat language referred mainly to global economic and financial conditions. According to the statement, financial market sentiment is fragile, commodity prices are falling, economic conditions in the major economies are weak, and there has been a significant slowing in the pace of growth in emerging market economies. All of this indicates that global inflation will "moderate significantly" in 2009.

RBA officials also expressed anxiety about the health of the domestic economy, but indicated that Australia has shown more resilience than most. In particular, officials acknowledged that a significant moderation in the pace of domestic economic activity was under way. Confidence is down, the terms of trade has reversed, and households and businesses are engaging in more cautious behavior. Furthermore, an easing in capacity constraints means that inflation soon will start to fall, aided by global disinflation. On the flipside, the statement highlighted falling AUD as a reason inflation will take some time to return to target.

Australia: RBA cash target rate



Australia: growth in GDP and domestic demand



GDP grew just 0.1% in third quarter

The 3Q GDP report showed another step down in the rate of expansion in Australia's economy. GDP grew a mere 0.1%q/q in 3Q (JPMorgan 0.3%, consensus 0.2%), compared to a revised 0.4% in 2Q (previously 0.3%). This sluggish performance dragged growth over the year down from 2.9% to 1.9%, the weakest rate since 3Q01.

Preventing the economy from contracting in 3Q were increases in government spending (+0.6%q/q), public investment (+3.9%), and business investment (+1.5%). With regard to the latter, the outlook is bleak. The 3Q business investment survey showed that investment plans have been scaled back, but much of the survey was conducted before the onset of the worst of the global financial crisis. Now that funding problems have intensified and the global economy is in recession, there will likely be material downward revisions to spending plans.

Household spending posted a modest 0.1%q/q rise in 3Q, after contracting 0.1% in 2Q, a fall which marked the first subtraction from GDP growth by households since 1993. We do,

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however, expect that the household sector will enter recession in the current quarter. Massive wealth destruction, the reduction in credit availability, and rising unemployment will dampen consumer spending. The scaling back of investment plans, in particular, will leave a serious dent in the employment outlook, which underpins our view that the jobless rate will rise sharply in 2009 and 2010.

Net exports subtracted 0.4pp from growth in 3Q and inventories added 0.2pp. The bad news for GDP growth is that many firms currently loaded up with unwanted stock will trim output in coming quarters. And while dwelling investment rose 0.2%q/q in the September quarter, the recent weakness in building approvals means home construction probably will become a drag on the economy.

Discretionary spending remained weak

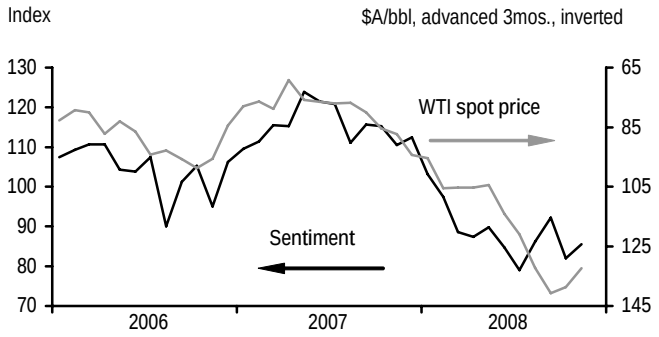
The value of retail spending spiked 0.7%m/m in October (JPMorgan -0.3%, consensus -0.2%), after slumping 1.0% in September. However, only two sectors reported sales growth—"other" retailing (+7.6%m/m) and food retailing (+0.4%). Other retailing includes newspaper and stationary sales, recreational goods retailing, and sales of pharmaceuticals, among other items. Discretionary spending fell 1.5%m/m, the second straight monthly fall, while nondiscretionary spending rose 2.0%.

The household sector is facing considerable headwinds, owing to weaker labour market conditions, a reduction in credit availability, low confidence, and falling asset prices. Furthermore, precautionary saving has risen and consumers are postponing purchases amid expectations of further price discounting. Of these factors, the largest drag on consumption over the medium term probably will be the significant increase that we forecast in the jobless rate. Having bottomed nearly a year ago, the jobless rate will likely rise from 4.3% to 9.0% by the end of 2010. On the flipside, although we look for Australia's economy to suffer a shallow recession, discretionary spending probably will be supported in the near term by lower gasoline prices, fiscal stimulus, and significant RBA policy easing.

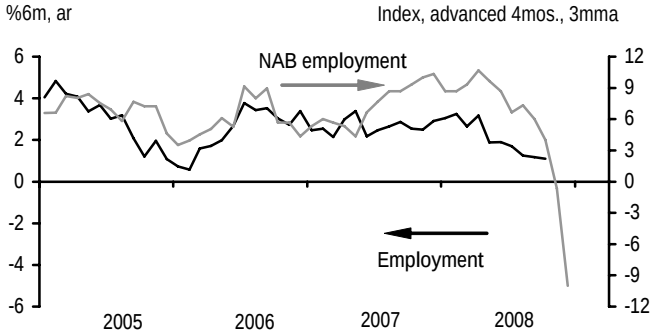
Consumer and business confidence

The WMI consumer confidence index should have risen 5.5%m/m in December, after falling 4.3% in November. The rise should come amid falling petrol prices, expectations of one-off bonus welfare payments (due Dec. 8), and in the wake

Australia: consumer sentiment and crude oil price



Australia: NAB survey and employment growth



of the RBA's rate cut. Weighing on confidence, however, are equity market falls and increased anxiety about job security. Consumer confidence has plunged a colossal 31% since peaking in May 2007, and pessimists still easily outnumber optimists.

This week also brings the NAB business survey, which last month revealed a precipitous drop in the business confidence to a record low. Business confidence will remain weak in November. Our main concern from this is that managers feeling this downbeat are not about to rush out and invest or hire new staff. This is the primary mechanism by which plunging business sentiment can feed back to consumers—via the deteriorating outlook for employment.

Unemployment rate to jump in November

Employment should have fallen 25,000 in November, marking the largest fall since May, after an unexpected 34,300 bounce in October. The jobless rate likely spiked to 4.5% from 4.3%, and the participation rate likely fell from 65.3% to 65.1%. Significant job losses have recently been announced, while leading indicators of employment, such as the NAB business sur-

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vey, have collapsed. We expect employment to fall by at least 1% in this recession, a more benign outcome than during previous recessions, when the drop in employment was closer to 3%. Labour force participation, though, probably will continue to rise, as second income earners in many households return to the labor force, along with anxious investors who have watched the value of their retirement nest eggs decline.

Housing finance to rise on rate cuts

The number of home loans should have risen 2%m/m in October, owing to the RBA's 25bp rate cut in September and 100bp rate cut in October. The forecast rise in October would be the first increase in eight months.

Demand for fixed rate loans should has fallen—fixed rate loans as a percentage of all loans dropped from 12% in June to 3% in September amid expectations that the RBA would cut the cash rate significantly. After trending higher in recent months, the number of first home buyers should have increased, helped by the July 1 introduction of the "First Home Saver Accounts" scheme and the doubling of the first home buyers grant in October to A$14,000.

Data releases and forecasts

Week of December 8 - 12

Mon Dec 8 11:30am — **ANZ job advertisements**
Seasonally adjusted

	Aug	Sep	Oct	Nov
(%m/m)	-4.9	-1.4	-5.9	—

Tue Dec 9 11:30am — **NAB monthly business survey**
% balance, seasonally adjusted

	Aug	Sep	Oct	Nov
Business confidence	-7	-8	-29	—

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

	Sep	Oct	Nov	Dec
(%m/m)	7.0	-11.1	4.3	5.5

Wed Dec 10 11:30am — **Housing finance approvals: owner occupiers**
Number of loans, seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	-1.2	-2.1	-2.7	2.0
(%oya)	-21.4	-25.4	-26.9	-25.3

Thu Dec 11 11:30am — **Labour force**
Seasonally adjusted

	Aug	Sep	Oct	Nov
Unemployment rate (%)	4.1	4.3	4.3	4.5
Employed (000 m/m)	10	-3.3	34.2	-25

Review of past week's data

Inventories
Seasonally adjusted

	1Q08		2Q08		3Q08	
(%q/q)	~~1.5~~	*1.6*	~~0.3~~	*0.8*	~~0.8~~	*0.7*
(%oya)	4.0		~~4.1~~	*4.5*	~~2.9~~	*4.1*

Company operating profits (business indicators)
Nominal, gross operating, seasonally adjusted

	1Q08	2Q08		3Q08	
(%q/q)	3.1	~~14.3~~	*15.7*	~~-1.0~~	*5.2*
(%oya)	7.5	~~21.5~~	*21.7*	~~21.7~~	*31.3*

Profits unexpectedly rose in 3Q. We had expected a mild fall given corporate costs were rising and sales revenue should have been weaker owing to the slowing economy.

Retail trade
Seasonally adjusted

	Aug	Sep	Oct	
(%m/m)	0.6	-1.0	~~-0.3~~	*0.7*
(%oya)	3.5	1.7	~~1.2~~	*2.2*

Current account balance
A$ billion, seasonally adjusted

	1Q08	2Q08	3Q08	
Current account (A$ bn)	-19.5	-14.0	~~-11.4~~	*-9.7*

The CAD shrank owing to an improvement in the trade balance, which posted a surplus for the first time since 2001.

RBA cash rate announcement

See main essay.

Real GDP
Chain volume, seasonally adjusted

	1Q08	2Q08	3Q08	
(%q/q)	0.6	0.4	~~0.3~~	*0.1*
(%oya)	3.3	2.9	~~2.0~~	*1.9*

Building approvals
Seasonally adjusted

	Aug	Sep	Oct	
(%m/m)	-3.4	-7.2	~~-3.0~~	*-5.4*
(%oya)	-8.2	-21.6	~~-23.0~~	*-26.1*

Trade balance
Seasonally adjusted

	Aug	Sep	Oct	
Trade balance (A$ mn)	1240	1460	~~1.40~~	*2.95*

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New Zealand

- **RBNZ cut OCR 150bp**
- **Terminal cash rate of 3.25% forecast**
- **Retail sales to stall in October**

RBNZ cut OCR 150bp; more to come

The RBNZ cut the cash rate 150bp to 5%, in line with expectations, taking monetary policy to an "expansionary" position. The OCR has now fallen 325bp since July. RBNZ Governor Alan Bollard said that "ongoing financial market turmoil and the marked deterioration in the outlook for global growth" played a large role in shaping the decision.

Still, the RBNZ is wary that domestically generated inflation remains elevated. The Bank is confident, though, that annual inflation will return comfortably to inside the target band of 1-3% in 2H09. Indeed, pipeline pressures and inflation expectations have started to ease, and we think inflation will fall *below* the RBNZ's target by 4Q09.

The rising prospect that inflation will fall significantly over the next year points to the need for more assertive policy easing. Furthermore, the Kiwi economy already has contracted for two straight quarters and, on our forecasts, GDP should decline for at least another three. "Given recent developments in the global economy, the balance of risks to activity and inflation are to the downside," according to the RBNZ. The RBNZ does forecast that New Zealand will recover "sharply" from recession. We forecast annual GDP growth to rebound to 2.8% in 2010 from just 0.3% in 2009.

In the near term, falling house prices and rising 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 by low confidence, mainly because of increased anxiety about job security.

The RBNZ says that further adjustments to the OCR will depend on "emerging developments in the global and domestic economies and the response to policy changes already in place." On that note, we maintain our forecast of a terminal RBNZ cash rate of 3.25%. One factor arguing against an even lower terminal cash rate is the forthcoming fiscal stimulus, which the RBNZ said would, alongside OCR cuts and falling NZD, help to "provide substantial support to demand over the period ahead."

New Zealand: RBNZ official cash rate

Retail sales should be flat in October

New Zealand's retail sales values should have been flat in October, after rising 0.1% in September. Falling NZD has buoyed retail sales prices. The all-important ex-autos measure should fall for the second straight month, although more mildly than the 0.5% decline in September. Retail sales almost certainly will deteriorate significantly in the final months of 2008. Falling house prices and job losses, as firms act to cut costs, make the outlook for household spending in the first half of 2009 particularly bleak.

Data releases and forecasts

Week of December 8 - 12

Mon Dec 8	QVNZ house prices %, median				
		Aug	Sep	Oct	Nov
	(%oya)	-4.5	-5.8	-6.8	__
Thu Dec 11 12:00pm	Business PMI Seasonally adjusted				
		Aug	Sep	Oct	Nov
	Index	45.7	47.0	43.5	__
	(%oya)	-18.9	-14.0	-23.9	__
Fri Dec 12 10:45am	Retail trade Seasonally adjusted				
		Jul	Aug	Sep	Oct
	(%m/m)	-0.7	0.4	0.1	0.0
	(%oya)	1.1	1.3	0.5	1.0

Review of past week's data

ANZ commodity price series
Not seasonally adjusted

	Sep	Oct	Nov
Index - world prices (%m/m)	-5.1	-7.4	__ -7.2

RBNZ cash rate announcement

See main essay.

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Global Essay

- **Unrelenting deterioration in activity indicators highlight near-term downside risks**
- **Lower US mortgage rates and global energy prices provide some hope for the future**
- **All industrial country policy rates to fall between 0-1%**
- **Sharply lower DM policy rates to help pave way for aggressive EM easing**
- **EM Asia is turning down as China and India slide**

Sticker shock

The US economy has now officially been judged to be in recession since the start of the year. For its part, the global economy likely slipped into recession around the middle of the year. However, the performance of the global economy since the financial crisis intensified in September is a dramatic break from what came earlier. The past three months of data releases have revealed an unrelenting descent into a deep global contraction. As a result, many business surveys now stand at thirty-year lows. US consumers appear to be in the midst of a downward spasm, as spending on durable goods as a share of GDP has slipped to a historic low. And over the past three months, the US labour market has shed an average of 419,000 jobs per month. There is no longer any doubt that the US economy is in the midst of the deepest industrial world downturn of the post WWII era.

Gauging the depth and duration of this highly synchronized economic downturn remains an unresolved outlook issue. To assess current performance, we rely on high-frequency readings, which have a good track record over the course of business cycles. November readings are broadly in line with our current quarter forecast. This alignment largely reflects the sharp downward revisions in growth we have made in recent weeks—with global GDP growth now expected to contract at a 2.6% pace this quarter. With growth anticipated to remain close to this pace next quarter, there is a clear test ahead—most key indicators are expected to stabilize early next year. Two key exceptions are worth noting. US initial jobless claims tend to rise significantly throughout periods of contracting growth and are anticipated to rise towards 700,000 by mid-2009 under our current economic projections. In addition, UK business surveys have yet to decline to levels consistent with our forecast of a 3.5% pace of contraction this quarter and next.

These indicators provide valuable guides to where we stand, but do not tell us where we are headed. In that regard, the latest news is more mixed. On the negative side stand the signals from the latest data on business sector adjustment—reduced hiring and capital spending—which are exceeding our current forecasts. The potential negative feedback loop from business activity to household spending, global trade flows, and financial conditions pose a significant risk to our forecasts for 1H09. At the same time, some important positives are emerging in global financial markets that should support growth over time.

Among them are the successful efforts by the Fed and other policymakers to contain the crisis in funding markets. In addition, credit markets are moving in a more constructive fashion with conforming mortgage rates and investment-grade corporate yields having moved lower. Finally, the decline in energy prices is set to provide an unexpectedly large lift to household purchasing power. Despite the fall in nominal wage income signaled in the US November payroll report, household real income is tracking a 5% average pace of increase over this quarter and next. In all, we remain sensitive to downside risks to growth in the coming months, but have not lost confidence in the forecast that conditions will fall into place that should lead to an economic recovery beginning around the middle of next year.

Activity indicators consistent with JPMorgan GDP forecast

	3Q08		Latest	4Q08	1Q09	2Q09	Adj.
	Actual	Fcst	Actual				R-sq
Global PMI	49.1	46.2	35.4	35.7	37.1	45.9	0.58
United States: ISM	50.6	43.8	33.6	29.8	33.8	43.8	0.25
Jobless claims	437	418	525	533	634	708	0.27
Euro area PMI	47.6	45.0	38.9	39.4	36.1	44.3	0.58
United Kingdom PMI	46.9	30.9	38.4	25.7	28.3	33.4	0.24
Japan Shoko Chukin	40.5	41.4	35.1	33.3	32.1	40.1	0.37

Note: See research note "The global economy: what to expect when you're receding" for more detail (page 9).

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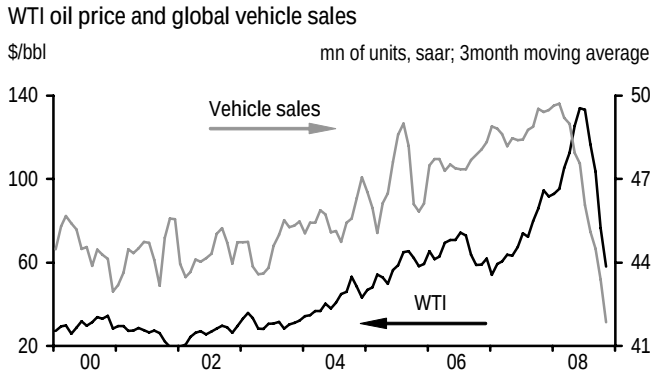

A sprint to ground zero

Developments point to a rapid convergence in policy rates to unprecedented low levels. The ECB, Bank of England, and Riksbank each cut sharply, extending the dramatic moves seen over the past two months. And they have signaled that more moves are in the offing. With these actions and the Fed expected to implement ZIRP by early next year, all of the major central banks are expected to have policy rates of 1% or lower by the end of 1Q09.

With the real economy likely to still be contracting at that time, the question is what will happen next. From the US perspective, it is already clear. The Fed has already pushed the quantitative easing boat well into uncharted waters, even though the policy rate has not yet reached zero. Fed Chairman Bernanke passed another milestone last week with his offer to create money to fund the new government's fiscal expansion. What is less clear is what will happen in Western Europe. At this week's press conference ECB president Trichet was open-minded about quantitative easing and asset purchases, stating that decisions would be made according to circumstances. While an ECB that follows in the Fed's wake is possible, we believe that it would take a lot to convince the ECB to expand its balance sheet substantially. An extended phase of rates at 1% would be likely before the ECB would contemplate more aggressive action.

The Bank of England is also some distance away from mimicking the Fed. In the near term, unconventional policy is more likely to be directly focused on the behaviour of lenders. At a minimum, this is taking the form of political pressure on the banks to fully pass through lower policy rates. In addition, a flurry of other policy initiatives have not yet taken on a coherent form. But both the Bank of England's statement last week and commentary elsewhere from Governor Mervyn King have endorsed the notion that restarting the flow of credit is a key policy objective, with further direct state control of the banking system one of the options.

EM policymakers using their flexibility

Just as the global recession has rippled from the developed to the emerging economies, so is the move towards easier monetary policy. The inflation pressures that drove policy tightening earlier this year have been removed by the collapse in industrial world growth and the associated fall in commodity prices. With developed economy policy rates no longer elevated, an important obstacle to substantial EM ease has been removed.

The flexibility of EM authorities to act should not be taken for granted, as policymakers have often been restrained during periods of weakness and financial stress. Indeed, many EM countries have already taken a range of measures that would have been nearly impossible just a decade ago. Since the intensification of the financial crisis in September, EM central banks have cut reserve requirements, extended fx swap lines, and reduced taxes, even while securing bilateral or multilateral financing. These measures are helping EM governments contend with the challenge of surging outflows by foreign portfolio investors and growing demand for fx hedging by foreign direct investors. Significant fiscal packages have also been announced, led by China and Russia. However, policy rates remain roughly at their year ago levels. As the deceleration of economic activity becomes more evident, EM authorities will likely respond even more aggressively, front-loading monetary easing and adopting additional fiscal stimulus initiatives.

Although the scope of EM countries to respond to external shocks has probably never been so ample, this does not mean that the damage inflicted by the global financial crisis and recession will not be severe. Growth forecasts continue to be trimmed, with real GDP growth in the region as a whole now expected to slow to a 1.5% this quarter and next. While the EM will still outperform developed country growth, the region will be left in a much weaker position. The deterioration of fundamentals will be seen on many fronts: all EM regions will run fiscal deficits approaching 2.0-2.5% of GDP next year, EM fx reserves will shrink to $4.6 trillion—a $761 billion reduction relative to the 2009 level we had forecast in April this year, and most EM countries outside of Asia will run sizeable current account deficits.

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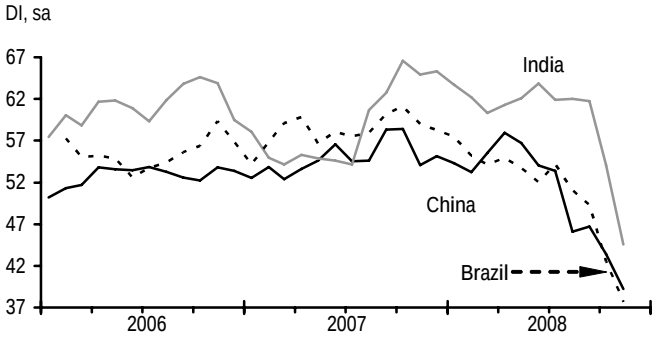
Purchasing managers index, manufacturing output



EM Asian giants stumbling to year end

Indicators of economic activity in emerging Asia continue to be downbeat. The latest export readings from Korea and Malaysia fell 20%m/m,sa, while Singapore's November PMI hit a record low. To be sure, Asia's smaller and more open economies have been signaling extreme weakness for many weeks now. The more surprising developments have come from China and India, which until recently, were expected to chart their own courses through the current global downturn. China's November PMI hit an all-time low, suggesting that deterioration in manufacturing and the industrial cycle is steeper than expected. The sharp plunge in the PMI export orders component, along with weakening labor markets, point to a sharp fall in GDP growth from an annualized pace of 11.3% in 1H08 to just 2% in the current quarter. Against a backdrop of very weak private sector growth, the government will announce further details of its aggressive Y4 trillion fiscal stimulus package at this week's Central Economic Working Conference, as well as unveil additional spending measures to boost consumer outlays.

In India, the recent terror attacks in Mumbai have added further downside risk to an already softening economy. Although last week's 3Q GDP report exceeded expectations, activity was supported by strong investment growth even as consumer spending decelerated. Moreover, the fall in October exports and slide in IP growth in recent months suggest that a downturn in investment lies ahead. In response to this deteriorating growth outlook, aggressive monetary easing is expected soon—possibly this weekend—and more fiscal measures are now appear forthcoming.

Inflation concerns to keep COPOM on hold

Manufacturing is slowing in Brazil alongside weakening domestic demand. Industrial production continued to tumble in October, falling 1.7%m/m,sa. The November PMI pointed to a further deterioration in activity, a fact confirmed by a remarkable 31%m/m,sa collapse in automobile production last month alongside an equally stunning 18% nosedive in auto sales. We now expect real GDP to contract at an annualized pace of 2.2%q/q,saar in the current quarter, a 2.6% point downward revision that brings our 2009 forecast to just 2.0%oya.

We maintain that the COPOM will stay on hold through the middle of next year, as the sharp slide in the real has boosted inflation expectations. By then, economic slack will have reduced inflation pressures, paving the way for 100bp of easing by the end of 2009. That said, we acknowledge risks of a more frontloaded easing if the final passthrough from the depreciation proves much lower, as suggested by last week's November IPCA. Indeed, the probability that monetary easing will be frontloaded is also accelerating elsewhere in Latin America, as aggressive rate cuts in developed countries and weak economic data give Latin central banks more leeway to cut sooner.

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JPMorgan View - Global Markets

The recession trade is alive and well

- We will skip the usual superlatives and just say that **the economic news is bad.** The market keeps lowering its growth expectations, but each time data releases come in even worse and further surprise on the downside. Consensus forecasts for growth continue to trend down. That is why we stay with a **broad portfolio of recession exposures**—long duration in interest rates across much of the world and defensive exposures in credit and equity markets.

- At some point, we will need to switch to recovery trades. Timing the recession's end will be more important to tell us when to switch than any value or position indicators. Given how much fiscal action is planned across the world, we see a decent chance of a growth rebound, if only because of public spending, in 2H09. This tells us we should **not plan to switch to recovery trades before March, at the earliest.**

- Value could make high-grade credit rebound before equities, but positions and any further deleveraging indicate that **equities should be first off the block**. We are thus more defensive on credit than on equities. Bonds have traditionally been last to switch into recovery mode as inflation will still be falling during early recovery and central banks will still be keeping rates low. Being long duration will thus likely be the last trade to be turned.

- **Where are we now in the deleveraging process?** Banks are under intense political pressure to restart the lending process, in exchange for the public support they have received. Although data are hard to come by, we find that broadly, banks are favoring lending to borrowers who are important to the economy (households and companies) against exposures deemed less important, such as hedge funds and proprietary trading.

Fixed income

- Government bonds continue to rally strongly, in both EM and DM. The 10-year UST yield fell to a new 50-year low of 2.5%, while the 2-year hit 80bp. 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 switch to the former at some point.

- **EM local bonds** have joined in the rally, as the bad news in Europe and the US has pulled attention away from EM. We are long duration in EM and favour **Hungary, Czech, Mexico, and Brazil.**

- We have been **overweight Agency debt and MBS** for some time, without much success. They remain our preferred spread trade, though, as we do see strong Treasury and Fed buying supporting this market.

10-yr Government bond yields

	Current	Mar 09	Jun 09	Sep 09	Dec 09
United States	2.63	2.40	2.00	1.75	1.65
Euro area	3.04	2.70	2.55	2.55	2.60
United Kingdom	3.42	3.15	3.10	3.10	3.15
Japan	1.36	1.40	1.45	1.50	1.55

Foreign exchange

	Current	Dec 08	Mar 09	Jun 09	Sep 09
EUR/USD	1.27	1.18	1.20	1.22	1.25
USD/JPY	92.7	87	93	95	100
GBP/USD	1.46	1.28	1.32	1.36	1.40

Commodities

		Quarterly Average			
	Current	Dec 08	Mar 09	Jun 09	Sep 09
WTI ($/bbl)	42	65	65	70	75
Gold ($/oz)	754	750	800	825	825
Copper($/m ton)	3248	3800	4250	4500	4500
Corn ($/Bu)	3.12	4.45	5.30	5.15	5.00

Equities

- **We believe equity markets are currently in the middle of a multi-month range.** These typically last 4-8 months, based on patterns observed during the past four US recessions. That November saw new price lows, but not new delivered volatility highs, suggests that equity markets are in a bottom-formation phase. With October probably as the beginning of this phase, historical experience suggests that a **noisy and wide range in equities will last until the middle of next year.**

- The payroll report showed that economic weakness continues to intensify, raising near-term downside risk for equities. But another negative force, hedge fund deleveraging, may be abating; equity long-short funds have reduced their net exposure to equities.

- We maintain a **defensive sectoral stance,** underweight-ing cyclicals. Unlike materials stocks, energy stocks have shown surprising resilience to falling commodity prices. The valuation gap between the two sectors seems unjusti-

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fied; we recommend a **long in materials versus energy**. With investors increasingly focused on the income component of returns, we expect high dividend yield sectors to outperform. Financial stocks have one of the highest dividend yields, but many financial firms are likely to cut/suspend dividends. We instead prefer to focus on **the high-dividend-yielding telecoms sector,** and recommend an **overweight vs the low-yielding IT sector.**

- We maintain our long in **value vs. growth** stocks. The trade has established an upward trend since mid-July and has exhibited low beta to recent market selloffs. Since the end of October, value vs. growth has disconnected from the performance of financials, partly due to the now lower market cap of financials, and partly as value was supported by energy's November outperformance.

Credit

- **We remain overall bearish in credit,** focusing underweights in European HG and US CMBS. Credit faces a much more difficult technical environment relative to equities. The hedge fund styles most exposed to credit, convertible arbitrage, distressed securities, and fixed income arbitrage were the worst performers in November, after a dismal October, raising the risk of more redemptions.

- **Bank loan books continue to be significant sellers as they hedge their commitments to the corporate sector.** Traditional investors, pension funds, asset managers, and insurance companies will not be able to resume aggressive buying soon as they are still licking their wounds from aggressively buying earlier in the year. We recognize the prospect that equity investors, including equity hedge funds, will dip their toes in the credit market, as some high-grade bonds now offer near-equity IRRs. But this is not likely to materialize in the near term as equity investors are telling us they are in no rush.

- We continue to **favour financials over industrials**, especially in US HG, owing to direct government support for large financial companies and lower expected issuance. Industrial credit fundamentals will likely deteriorate sharply in 2009 and ratings downgrades will accelerate as a result. The dramatic fall in government bond yields is inducing demand for government-guaranteed bank bonds from agency and govt funds. So far, more than $30bn has been issued under this program in the US and close to €40bn in Europe, with more coming to the market. The issuance of government-guaranteed debt is supporting the credit quality of banks; therefore, is supportive of nonguaranteed bank bonds.

Foreign exchange

- Washington isn't the only place in the midst of transition. **Fx is morphing too**, from a market consumed entirely by deleveraging and dollar strength (except versus yen) to a market anxious about quantitative easing and the potential for broad dollar weakness. To be sure, the pace of this shift is glacial and the scope limited. Over the past two weeks only one major currency—other than the yen —has managed to buck the multi-month trend of dollar strength and score any gains versus the dollar. That currency is the euro, a distinction owed to the extent of deleveraging which has already taken place in Europe.

- As we have noted before, the euro's position vulnerability has always owed more to cross-border equity exposure than to carry given that the region attracted over €250bn of net equity inflows from 2006 to spring 2008. Over the past six months some €130bn has come out, allowing the euro to decouple intermittently from equities and to capitalize on what is a clear monetary policy divergence between the US (ZIRP plus quantitative easing) and the Euro area (ZIRP at a snail's pace). We expect EUR/USD to trade at low 1.20s to low 1.30s in coming weeks. **We remain long JPY vs. USD (targeting 87) and vs. GBP**, as the yen is the clearest beneficiary of the move to zero interest rates globally. For the near term, EUR/USD will remain the cleanest trade for this transition theme. GBP/USD will struggle to piggyback any EUR/USD strength owing to the UK's own toxic mix of zero rates and twin deficits. **We doubt that AUD, NZD, and CAD can sustain any uptrend** either, given that building supply surpluses will keep commodity prices weak until demand stabilizes.

Alternatives

- Hedge funds were down 1.4% in November, according to HFRI early estimates. The worst performers were distressed, EM, and convertible arb, and the best were macro and short bias. We remain bearish on relative value strategies, and **favor macro and managed futures, both of which have benefited recently from short exposure to commodities.** Gates and other redemption constraints will effectively determine the size of net outflows this quarter, which we estimate at $150bn-250bn. **Commodities collapsed last week** (-18%) with energy and base metals losing most. Both sectors remain highly sensitive to the global growth slowdown, and underperformed the aggs and precious metal sectors. This trend is likely to continue near term on the back of continued global economic weakness.

AUD and NZD Commentary

- **The race to ZIRP continues as central banks eased rates aggressively over the past week. G-10 central banks alone cut by an average of 120bp.**

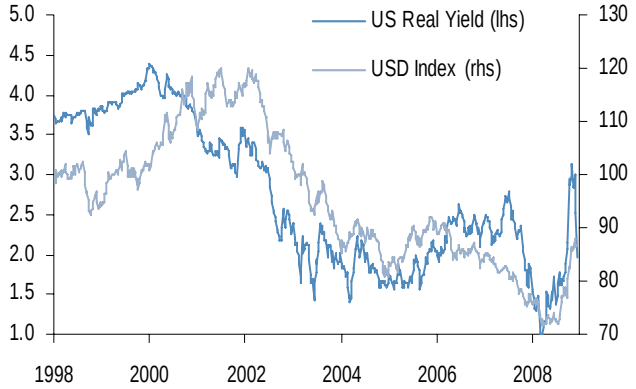
- **Technicals: The short term ranges continue to develop, but see a window for a shift back to the range highs for both AUD/USD and NZD/USD.**

- The race to ZIRP is truly on as central banks across the globe cut rates aggressively over the past week. In G10 alone, rates were slashed by an average 120bp with policy rates converging rapidly to those in Japan. However, while the RBA and RBNZ eased 100bps and 150bps respectively, our rate calls still have them stopping well short of ZIRP.
- The news on the global economy went from bad to worse with the JPM composite PMI index hitting another record low and US payrolls slumping. Despite the continued deterioration in global economic fundamentals, equity markets remained relatively resilient, suggesting that a lot of the bad news on the macro front has now been discounted. This trend, if continued, would put a floor under the vol-driven AUD and NZD downside.
- 2009 could prove to be a more difficult year for USD. Over the past year, one of the few FX relationships to have stood the test of time is that between real yields and USD. Over the past year, the correlation between 10-year yields and the USD index has been close to 88%. The longer term 10-year correlation is slightly lower at 70% but nonetheless indicates that real yields have been a consistent driver for USD over the past decade. But, the inexorable drive to ZIRP indicates that JPY will remains the standout performer in G10 FX space near term.
- This week is relatively light on the economic data front, but data releases around the globe undoubtedly will reinforce the view that recessionary forces are gaining momentum. In the US, retail sales and consumer confidence are the major highlights. Financial market volatility and a rapidly deteriorating labour market leave little scope for holiday cheer in either data release. In Europe the German ZEW survey should show more cracks in sentiment. In this world, the JPY will be the only beneficiary and we maintain long exposure versus both USD and GBP. At the same time, our below-consensus call for Australia's employment report on Thursday leaves litte scope for near-term AUD upside.

Technical analysis

- The overall ranges remain intact for both NZD/USD and AUD/USD. For NZD/USD, the short term setup suggests further range action is likely, but note that NZD is likely to maintain the underperforming bias against AUD. The 0.52 area continues to act as key support. Resistance enters at 0.54/.45, with breaks here implying a return to the short term range highs near 0.56. Failures would allow for new lows into the 0.51/.50 zone. With regards to the AUD/NZD cross, the short term bullish setup will remain intact against the 1.1940/1.1770 support levels.
- Similarly, AUD/USD maintains the two-sided action following the reversal from the key 0.60/.58 support zone (0.6010). The near term setup sees key resistance at 0.6615, which will define a better test of the critical 0.6900/.7100 resistance zone. This area includes the recent range highs and the downtrendline from the July peak. The bulls still need a break here to reassert the upside bias for a deeper retracement back to the 0.7250 resistance zone. Near term dips will now find support at 0.6300/.6295, as breaks here would imply a deeper retracement back to the range lows near .6000/.5800 area.

USD index has historically tracked US real yields closely



AUD/USD - Daily 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	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	3Q08	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	5.3	1.9	-0.6	0.7
Canada	2.7	0.7 ↓	-0.2 ↓	0.6 ↑	1.3 ↓	-1.5 ↓	-2.0 ↓	0.0 ↓	2.0 ↓	2.5 ↓	3.4	2.4	1.2	2.0
Latin America	5.2	3.9 ↓	0.9 ↓	4.9	3.5 ↑	-1.8 ↓	-0.9 ↓	0.8 ↓	2.7 ↓	3.6 ↑	8.2	8.4 ↑	7.9 ↓	7.1 ↓
Argentina	8.7	6.5	-1.0	8.7	6.6	-2.0	-3.9	-3.9	0.0	-2.0	8.9	8.1 ↓	7.9 ↓	9.7 ↓
Brazil	5.4	5.1 ↓	2.0 ↓	6.5	4.9 ↑	-2.2 ↓	0.2 ↓	3.0 ↓	4.0 ↓	5.1 ↑	6.3	6.5	5.4 ↓	5.0 ↓
Chile	5.1	4.0	2.5	7.4	0.0 ↑	2.0	2.5	2.5	2.5	2.5	9.3	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	7.7	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	10.0	9.5	4.6	3.8
Mexico	3.2	1.5 ↓	-0.6 ↓	0.8	2.6	-4.0	-2.0	-1.0 ↓	2.0 ↓	4.1	5.5	6.0 ↑	5.3 ↑	3.7
Peru	8.9	9.2	5.3	10.1	6.9	4.9	2.8	5.5	6.0	5.5	6.1	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	34.7	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	2.2	1.3 ↓	0.0	-0.2
Australia	4.0 ↓	2.3	0.7	1.4 ↑	0.3 ↓	-0.4 ↑	-1.1 ↑	2.5 ↑	2.4 ↓	1.8 ↓	5.0	4.5 ↓	2.6	1.7 ↑
New Zealand	3.2	0.5	0.3 ↓	-0.6	-0.2 ↑	-4.0 ↓	1.1 ↑	1.6 ↓	3.1 ↑	3.3	5.1	4.9	3.2	0.8
Asia ex. Japan	8.8	6.5 ↓	4.8 ↓	6.4	4.1	0.7 ↓	4.0	6.3 ↑	7.6 ↑	8.1 ↑	6.5	5.2 ↑	2.5 ↑	2.2 ↓
China	11.9	9.2 ↓	8.0 ↓	10.9	6.4	2.0 ↓	8.7 ↑	10.1 ↑	10.4 ↑	10.5	5.3	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	4.6	2.2	-0.7	-0.5
India	9.0	6.7	6.2	6.3	8.7	3.1 ↓	1.5 ↓	5.5 ↑	8.8 ↑	9.6 ↑	9.0	9.6 ↑	6.9 ↑	4.9 ↓
Indonesia	6.4	6.0	4.2	5.5	6.4	3.0	3.0	4.0	5.0	5.0	12.0	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	5.5	4.8	3.3	3.0
Malaysia	6.3	5.4	2.7	1.8 ↓	3.1	0.4	0.4	4.9	5.7	6.6	8.4	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	12.2	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	6.6	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	4.5	2.3 ↑	0.7 ↓	-0.3 ↓
Thailand	4.9	4.4	2.7	2.9	2.2	0.4	1.6	4.1	4.9	5.7	7.2	4.9	1.1	3.3
Africa														
South Africa	5.1	3.2	1.4	5.1	0.2	-0.7	0.4 ↓	1.9 ↓	3.6 ↑	4.0 ↑	13.4	11.6 ↓	7.5 ↓	6.5 ↓
Europe														
Euro area	2.6	0.9	-1.6	-0.7	-0.8	-2.5	-3.5	-1.0	0.0	1.0	3.8	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	3.3	1.9 ↓	0.2 ↓	0.2 ↓
France	2.1	0.9	-1.1	-1.1	0.6	-2.0	-2.5	-1.0	0.0	1.0	3.6	2.2 ↓	0.3 ↓	0.8 ↓
Italy	1.4	-0.5	-1.9	-1.8	-2.0	-2.8	-3.5	-1.0	0.0	1.0	4.1	3.0 ↓	1.6 ↓	1.5 ↓
Norway	6.2	2.3	-0.9	2.1	1.0	-1.5	-2.5	-1.5	0.0	1.0	4.7	4.0 ↓	2.3 ↓	0.8 ↓
Sweden	2.7	0.5	-1.3	-0.4	-0.4	-2.0	-3.0	-1.0	0.0	1.0	4.3	2.8 ↓	0.0 ↓	-0.3 ↓
Switzerland	3.3	1.9	-1.0 ↓	1.3 ↓	0.1 ↓	-2.0 ↓	-3.0 ↓	-0.5 ↓	0.5 ↓	1.2 ↓	3.0	1.7	0.1 ↓	0.4 ↓
United Kingdom	3.0	0.7 ↓	-2.0 ↓	0.0	-2.0	-3.5 ↓	-3.5 ↓	-1.5	0.0	1.0	4.8	3.8	0.7	0.2
Emerging Europe	6.5	5.2	0.8	6.1 ↓	4.5 ↑	0.8	-0.2	-0.5	0.4 ↑	1.1 ↑	10.5	9.5	7.8 ↓	6.9 ↓
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	6.6	5.2	0.7	1.2
Hungary	1.1	1.1	-3.0	2.3	-0.4	-2.5	-3.8	-5.0	-3.0 ↑	-1.0 ↑	6.3	4.5 ↓	2.2 ↓	2.9 ↓
Poland	6.7	5.0	1.5	5.3	4.9	1.5	1.0	-0.5	1.0	1.5	4.7	3.8	2.6 ↓	2.4 ↓
Slovak Republic	10.4	6.0	-1.0	5.3	6.3	-10.0	3.0	1.5	2.0	-10.0	5.1	4.0	2.2	2.5
Romania	6.0	8.5	0.5	…	…	…	…	…	…	…	8.1	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	14.9	13.9	12.4	10.9
Turkey	4.6	2.2	0.5	…	…	…	…	…	…	…	11.7	11.2	9.3	7.5
Global	3.5	1.9	-0.5 ↓	1.6	0.3 ↓	-2.6 ↓	-2.2 ↓	0.2 ↓	1.5	2.6	5.0	3.2	1.2	1.4 ↓
Developed markets	2.4	1.0	-1.5 ↓	0.4	-0.6 ↓	-3.3 ↓	-3.3 ↓	-0.7	0.5	1.8	4.2	2.2	0.2	0.7
Emerging markets	7.5	5.6	3.1 ↓	5.9 ↓	3.9 ↑	0.1 ↓	2.1 ↓	3.8 ↓	5.3	5.9 ↑	7.8	6.9 ↑	4.8 ↓	4.3 ↓

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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	2.66	-205				2.42	1.84	1.58	1.53	1.51
excluding US	GDP-weighted average	3.45	-102				3.33	2.70	2.33	2.25	2.22
Developed	GDP-weighted average	1.56	-258				1.33	0.71	0.52	0.52	0.52
Emerging	GDP-weighted average	7.06	6				6.78	6.29	5.80	5.52	5.45
Latin America	GDP-weighted average	10.41	160				10.41	10.23	9.79	9.46	9.26
CEEMEA	GDP-weighted average	8.43	142				8.39	8.32	7.95	7.33	7.18
EM Asia	GDP-weighted average	5.29	-103				4.81	4.05	3.49	3.36	3.36
The Americas	GDP-weighted average	2.12	-348				1.67	1.21	1.16	1.12	1.10
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 (+75bp)	10 Dec 08	**Jul 09 (-25bp)**	13.75	13.75	13.75	13.25	12.75
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	3.15	-145				3.11	2.33	1.85	1.78	1.76
Euro area	Refi rate	**2.50**	**-150**	**4 Dec 08 (-75bp)**	15 Jan 09	**15 Jan 09 (-50bp)**	2.50	1.50	1.00	1.00	1.00
United Kingdom	Repo rate	**2.00**	**-375**	**4 Dec 08 (-100bp)**	8 Jan 09	**8 Jan 09 (-50bp)**	2.00	1.50	1.00	1.00	1.00
Sweden	Repo rate	**2.00**	**-150**	**4 Dec 08 (-175bp)**	11 Feb 09	**11 Feb 09 (-50bp)**	2.00	1.50	1.00	1.00	1.00
Norway	Deposit rate	4.75	0	29 Oct 08 (-50bp)	17 Dec 08	**17 Dec 08 (-100bp)**	3.75	2.50	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 (-100bp)**	10.00	8.50	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 (-50bp)**	5.25	4.50	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	2.82	-72				2.60	2.11	1.86	1.79	1.79
Australia	Cash rate	**4.25**	**-225**	**2 Dec 08 (-100bp)**	2 Feb 09	**2 Feb 09 (-50bp)**	4.25	3.50	3.50	3.50	3.50
New Zealand	Cash rate	**5.00**	**-325**	**4 Dec 08 (-150bp)**	29 Jan 09	**29 Jan 09 (-50bp)**	5.00	4.00	3.50	3.25	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 (-50bp)	3.50	2.50	2.50	2.50	2.50
Indonesia	BI rate	**9.25**	**100**	**4 Dec 08 (-25bp)**	1Q 09	**1Q 09 (-25bp)**	9.25	8.75	7.00	7.00	7.00
India	Repo rate	7.50	-25	1 Nov 08 (-50bp)	Dec 08	**Dec 08 (-150bp)**	6.00	4.50	3.50	3.50	3.50
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	**1Q 09 (-25bp)**	6.00	5.75	5.75	5.75	5.75
Thailand	1-day repo rate	**2.75**	**-50**	**3 Dec 08 (-100bp)**	14 Jan 09	**14 Jan 09 (-50bp)**	2.75	1.75	1.00	1.00	1.00
Taiwan	Official discount rate	2.75	-38	9 Nov 08 (-25bp)	11 Dec 08	11 Dec 08 (-50bp)	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*

				2008			2009				2010			
	2008	2009	2010	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	2.3	0.7	2.9	1.4	0.3	-0.4	-1.1	2.5	2.4	1.8	2.5	3.1	4.0	5.8
Private consumption	2.0	0.0	2.9	-0.5	0.2	-0.8	-1.6	1.2	1.6	2.8	4.1	3.2	2.0	3.2
Construction investment	3.9	-1.0	-2.2	1.6	2.1	-3.1	-0.8	-0.8	-0.7	-5.1	-4.0	-3.7	1.8	7.1
Equipment investment	13.7	-8.3	-2.2	39.4	-0.9	-22.7	-15.6	-2.1	-4.1	-8.1	-4.1	0.0	4.2	8.6
Public investment	13.3	12.2	13.8	14.3	16.6	16.1	10.1	9.7	10.3	10.8	13.3	15.8	18.2	20.7
Government consumption	3.9	7.4	3.6	4.3	2.4	5.9	8.0	15.8	4.1	4.6	2.0	2.1	2.1	2.1
Exports of goods & services	5.2	-2.1	2.0	12.9	0.0	-0.8	-5.9	-6.2	-1.2	2.0	0.8	4.1	6.1	8.2
Imports of goods & services	12.2	0.6	-0.5	14.0	6.5	0.0	-1.2	-0.8	-2.0	-3.9	0.0	0.8	1.6	4.1
Contributions to GDP growth:														
Domestic final sales	4.1	1.2	2.5	4.0	1.2	-0.5	-0.5	3.7	1.8	1.5	2.4	2.5	3.1	5.1
Inventories	-0.1	0.1	-0.2	-1.8	0.7	0.3	0.4	0.0	0.4	-1.1	0.0	0.0	0.0	0.0
Net trade	-1.7	-0.6	0.5	-0.7	-1.6	-0.2	-1.0	-1.1	0.3	1.4	0.2	0.6	0.8	0.7
GDP deflator (%oya)	6.8	4.5	1.8	6.6	8.4	8.0	7.5	5.1	3.0	2.4	2.0	1.7	1.7	2.0
Consumer prices (%oya)	4.6	2.4	1.9	4.5	5.0	4.5	3.5	2.6	1.7	1.7	1.8	1.7	2.0	2.1
Producer prices (%oya)	9.1	4.0	0.7	8.7	10.9	10.0	7.4	3.7	2.6	2.3	1.1	0.5	0.4	1.0
Trade balance (A$ bil, sa)	-5.3	3.8	15.4	-1.7	1.1	3.2	2.3	0.2	0.0	1.2	1.8	2.9	4.5	6.2
Current account (A$ bil, sa)	-67.0	-45.3	-33.6	-14.0	-9.7	-8.7	-9.7	-12.0	-12.3	-11.3	-10.7	-10.1	-7.5	-5.3
as % of GDP	-6.2	-3.6	-2.6	-4.8	-3.2	-2.8	-3.2	-3.9	-3.9	-3.6	-3.4	-3.1	-2.3	-1.6
3m eurodeposit rate (%)*	6.0	6.3	4.3	5.8	7.1	7.2	7.6	6.7	5.9	5.1	4.9	4.3	4.0	4.0
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	4.7	4.6
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)	13.5	-10.0	-26.0											
as % of GDP	1.1	-0.8	-2.0											
Unemployment rate	4.3	5.8	8.0	4.3	4.2	4.6	5.1	5.5	6.0	6.4	7.0	7.7	8.3	8.9
Industrial production	3.0	-2.0	3.5	2.6	-4.0	-3.0	-4.0	-2.0	1.0	3.0	6.0	4.0	2.0	0.0

*All financial variables are period averages

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

				2008			2009				2010			
	2008	2009	2010	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	0.5	0.3	2.8	-0.6	-0.2	-4.0	1.1	1.6	3.1	3.3	3.5	1.8	1.9	3.4
Private consumption	-0.3	-0.6	1.2	-1.0	-4.0	-1.0	0.1	0.3	0.6	0.8	1.5	1.9	1.1	1.5
Fixed Investment	1.2	-2.1	6.3	14.4	-13.2	-8.8	-1.8	1.4	3.9	4.8	6.3	8.6	9.1	7.4
Residential construction	-17.7	-15.8	8.2	-28.8	-36.0	-32.0	-12.0	0.0	8.0	10.0	8.0	10.0	4.0	16.0
Other fixed investment	6.0	0.6	5.9	26.8	-8	-4.0	0.0	1.6	3.2	4.0	6.0	8.4	10.0	6.0
Inventory change (NZ$ bil, saar)	1.8	2.2	2.4	0.4	0.6	0.4	0.4	0.5	0.6	0.7	0.8	0.6	0.5	0.6
Government spending	6.0	8.3	1.5	1.8	18.3	7.4	13.4	3.1	6.5	-0.6	-0.8	2.8	1.6	2.0
Exports of goods & services	0.6	-1.0	1.9	-0.9	-0.9	-1.6	-2.4	-0.8	1.1	1.9	2.5	2.3	2.4	2.2
Imports of goods & services	7.7	1.1	1.8	13.7	-1.2	-0.9	0.5	1.1	1.2	1.9	1.5	1.9	2.6	3.1
Contributions to GDP growth:														
Domestic final sales	2.5	0.8	2.7	5.0	-3.1	-1.5	2.1	1.1	2.6	1.7	2.4	4.0	3.4	3.4
Inventories	0.7	0.3	0.2	-0.2	2.8	-2.3	0.0	1.2	0.6	1.8	0.9	-2.1	-1.1	0.6
Net trade	-2.7	-0.7	-0.1	-5.3	0.2	-0.1	-1.0	-0.7	-0.1	-0.2	0.2	0.0	-0.3	-0.6
GDP deflator (%oya)	3.7	2.5	3.0	3.7	3.5	1.9	1.7	2.8	2.7	2.7	2.8	3.0	3.1	3.1
Consumer prices	4.3	0.8	1.4	6.7	6.2	4.0	2.0	0.8	0.4	0.0	1.6	2.0	3.2	2.8
%oya	4.3	2.6	1.4	4.0	5.1	4.9	4.7	3.2	1.8	0.8	0.7	1.0	1.7	2.4
Trade balance (NZ$ bil, sa)	-3.4	-4.9	-3.1	-1.1	-1.1	-1.1	-1.2	-1.1	-1.3	-1.3	-1.0	-0.8	-0.6	-0.7
Current account (NZ$ bil, sa)	-18.8	-16.8	-18.1	-4.6	-5.6	-5.1	-2.1	-3.9	-6.0	-4.8	-5.0	-4.8	-4.1	-4.2
as % of GDP	-10.5	-12.5	-9.3	-10.3	-12.5	-11.3	-13.6	-13.4	-12.8	-10.2	-10.5	-9.8	-8.4	-8.4
Yield on 90-day bank bill (%)*	8.5	7.8	5.5	8.8	8.2	8.2	8.0	8.6	8.0	6.6	6.1	5.5	5.3	5.2
10-year bond yield (%)*	6.2	6.0	5.1	6.5	5.9	6.2	6.0	6.4	6.4	5.3	5.2	5.1	5.0	5.2
US$/NZ$*	0.75	0.68		0.78	0.71	0.72	0.70	0.68	0.67	0.59	0.60	0.62	0.64	0.64
Commonwealth budget (NZ$ bil)	-1.0	-1.5	-2.0											
as % of GDP	-0.6	-0.8	-1.0											
Unemployment rate	4.0	5.6	6.4	3.9	4.2	4.4	4.8	5.2	5.8	6.7	6.8	6.4	6.2	6.0

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
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 5.5 Index, sa Housing finance (11:30am) Oct 2.0%m/m, sa New Zealand: Terms of trade (10:45am) 3Q	11 Dec Australia: Unemployment rate (11:30am) Nov 4.5%, sa New Zealand: PMI (10:30am) Nov	12 Dec New Zealand: Retail sales (10:45am) Oct 0.0%m/m, sa
15 Dec	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*
29 Dec	30 Dec Australia: Private sector credit (11:30am) Nov	31 Dec	1 Jan *Holiday Australia, New Zealand*	2 Jan *Holiday 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
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)	Euro area • Trichet speech Germany • IP (Oct) Japan • Econ watch surv (Nov) Taiwan • International trade (Nov)	Brazil • GDP (3Q) Canada • BoC meeting Germany • International trade (Oct) • ZEW business surv (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)	Central bank meetings • Chile • Korea • Peru • South Africa • Switzerland • Taiwan China • CPI (Nov) Euro area • Trichet speech France • Employment final (3Q) United Kingdom • CBI business surv (Dec) 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)
15 - 19 December	**15 December**	**16 December**	**17 December**	**18 December**	**19 December**
Japan • Nationwide dept store sales (Nov)	China • IP (Nov) Euro area • Employment (3Q) Japan • BoJ Tankan (4Q) Poland • CPI (Nov) Turkey • GDP (3Q) United States • IP (Nov) • NAHB survey (Nov) • NY Fed survey(Dec)	China • FAI (Nov) Euro area • PMI flash (Dec) Japan • Flow of funds (3Q) • Tertiary sector act index (Oct) United Kingdom • CPI (Nov) United States • CPI (Nov) • Housing starts (Nov) • FOMC meeting	Czech Republic • CNB meeting Euro area • HICP final (Nov) Mexico • IP (Oct) Norway • Norges bank meeting South Africa • CPIX (Nov) United Kingdom • Labor mkt report (Nov) • MPC minutes	Euro area • Trade balance (Oct) Germany • IFO business surv (Dec) Philippines • BSP meeting Poland • IP (Nov) Turkey • CBRT meeting United Kingdom • Retail sales (Nov) United States • Philly Fed survey (Dec)	Canada • CPI (Nov) Colombia • BanRep meeting France • INSEE business surv (Dec) Japan • All sector act index (Oct) • BoJ meeting United Kingdom • Business invest final (3Q)

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