Australia and New Zealand - Weekly Prospects

Summary

- The highlight in **Australia** last week was the release of the minutes from the RBA's Board meeting. The minutes revealed that the decision to leave the cash rate unchanged at 3.25% was a close call, with Board members seeing "reasonable cases" for a rate cut and for leaving policy steady. This week, we changed our RBA call—the next rate cut now looks likely to come on April 7, even though officials hinted they want more time to assess the impact of stimulus already delivered. We had expected the RBA to wait until midyear before easing again, but the "luxury" of spending time on the sidelines has been swamped by the impact of recent events offshore, which call for more urgent action. We now look for a 50bp rate cut in April and a 25bp cut in early May. Even then, the risk is that the cash rate goes below our forecast for the terminal rate of 2.5%. With this week's data calendar virtually barren, the highlights are speeches by RBA officials and the RBA's *Financial Stability Review*.

- It was a quiet week across the Tasman last week, but this week the data flow picks up with the release of **New Zealand's** fourth quarter GDP and current account numbers. We expect the economy contracted for the fourth consecutive quarter in 4Q08, and that the current account deficit narrowed. The CAD, though, will account for a larger portion of GDP, which will concern Kiwi authorities given that a ratings downgrade remains possible if the fiscal imbalances are not addressed.

- J.P. Morgan's **core economic outlook** reflects contrasting perspectives about the forces at work in the global economy. Over the course of 2009, we see the powerful corporate retrenchment in train at the start of the year gradually fading, allowing a deep 1H09 recession to be followed by a modest growth recovery in 2H. The key to this view is the short-circuiting of negative feedback loops from falling employment and output to credit market conditions and consumer demand. Policy is expected to play a constructive role in this process, boosting demand and supporting an improvement in credit conditions.

- In tracking the near-term view, it is clear that 1Q09 delivered another large contraction in **global GDP**. However, the quarter was also marked by a significant swing toward stabilization in consumption, one that has allowed firms to make progress in their efforts to lower inventories and stabilize profit margins. With households no longer receiving support from falling energy prices, sustaining this constructive dynamic through midyear will likely require additional policy support. In this regard, it is encouraging to see that significant policy stimulus is being applied. Led by the US and China, fiscal policy should lift global growth more than one percentage point beginning in 2Q09.

This week's highlight

The barrage of RBA commentary should provide guidance for the coming rate decision in April.

Contents

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Data and event previews - Australia and New Zealand

			Forecast		
Date	**Time** [(a)]	**Data/event**	**JPMorgan**	Consensus [(b)]	***Previous***
Monday, March 23	7.30pm	Aust. Federal Treasurer Wayne Swan's address	**na**	na	*na*
Tuesday, March 24	9.30am	RBA Assistant Governor Lowe gives speech	**na**	na	*na*
Wednesday, March 25	12.00pm	NZ Westpac consumer confidence (Index, 4Q)	**na**	na	*na*
Wednesday, March 25	6.30pm	RBA Governor Stevens gives speech	**na**	na	*na*
Thursday, March 26	8.45am	NZ current account balance (NZ$bn, 4Q)	**-5.0**	-4.0	*-6.0*
Thursday, March 26	9.10am	RBA Head of Economics Richards gives speech	**na**	na	*na*
Thursday, March 26	10.00am	Aust. Conference Board Leading Index (%m/m, Jan.)	**na**	na	*-0.9*
Thursday, March 26	11.30am	RBA releases Financial Stability Review	**na**	na	*na*
Friday, March 27	8.45am	NZ GDP (%q/q, 4Q)	**-0.9**	-1.1	*-0.4*
Friday, March 27	8.45am	NZ trade balance (NZ$mn, Feb.)	**-150.0**	25.5	-187.0

(a) Australian Eastern Standard Time.
(b) Consensus based on Bloomberg survey.

Australia

Speech by Treasurer Wayne Swan - The Treasurer will speak at the Sydney Institute on Monday night. Mr. Swan is unlikely to say much about the upcoming Budget, but probably will elaborate on last week's announcement on controlling executive salaries. He also is sure to run through the Government's response to the global financial crisis.

Speech by RBA Assistant Governor (Financial System) Phil Lowe - Phil Lowe will speak about the *Payment System Reforms: Innovation and Competition*, to the Cards and Payments Australasia 2009 conference in Sydney.

Speech by RBA Governor Glenn Stevens - Governor Stevens will speak on *Public Policy and the Payments System* while delivering the Ian Little Memorial Lecture in Melbourne.

Speech by RBA's Anthony Richards, Head of Economic Analysis Department - Tony Richards will examine *The Outlook for the Housing Sector and the Domestic Economy* to the 4th Annual Housing Congress in Sydney.

RBA's Financial Stability Review - The review once again probably will conclude that Australia's financial system is in better shape than those in other jurisdictions. That said, there probably also will be discussion of the global financial crisis and it's impact on the Australian financial and regulatory system.

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New Zealand

Westpac consumer confidence (March) - Consumer confidence in New Zealand probably fell in March as recession fears continued to grow, along with concerns about job security. Companies are becoming increasingly reluctant to hire new staff—another survey recently indicated that firms' employment intentions have slumped, with 29% of firms expecting to shed staff over the next year. Accelerated job shedding will help send the unemployment rate to 7% by year end.

Current account (Q2) - New Zealand's current account deficit should narrow in 4Q, from NZ$6 billion to NZ$5 billion. The improvement in the CAD will be owing to a narrowing of the trade gap, thanks to an increase in exports, due to purchases of large one-off items, including aircraft, late last year. For the year ended December, the current account deficit will surge to 9.5% of GDP, compared to 8.6% in the previous quarter.

GDP (Q2) - The New Zealand economy should contract 0.9%q/q in the final quarter of 2008, after shrinking 0.4% in the previous three months. The fall in 4Q GDP will mark four straight quarters of GDP declines. Private consumption will have contracted as consumers continued reining in spending amid widespread recession fears, falling asset prices, and increased financial market volatility. Weaker external demand will mean that export volumes also will fall, and weak domestic demand will again lead to fewer imports.

Trade (February) - The trade deficit should narrow in February, owing to both weaker imports and weaker exports. Our forecast is for a deficit of NZ$150 million, although the range of the consensus estimates stretches from a deficit of NZ$300 million to a surplus of NZ$500 million.

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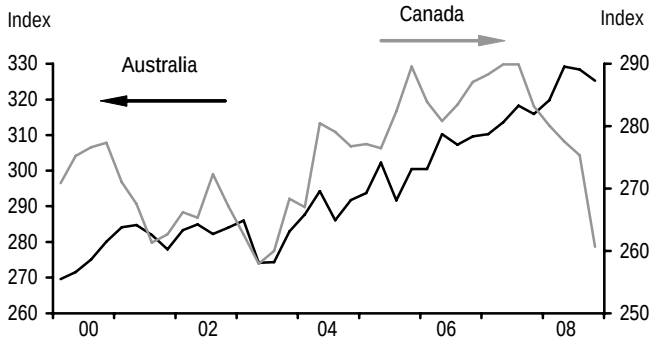
Feature charts

Australia: export volume index

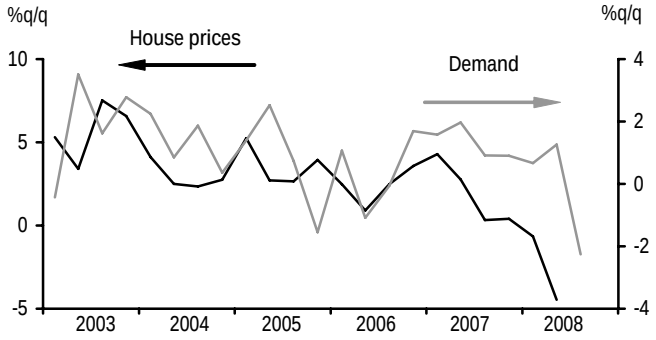


The deterioration in Australia's export volumes has been comparatively mild due to still-competitive pricing. Other commodity markets—for example Canada's low-grade oil projects—depend on inefficient, extremely capital-intensive processes. Such ventures, which are only viable in an environment of strong demand and high output prices, have seen much larger contractions.

Australia: labour force participation rate

Discouraged workers typically leave the labour force during cyclical downturns, artificially suppressing the unemployment rate. In Australia the recent rise in unemployment has been associated with a significant labour force inflow. The depletion of wealth and retirement funds has forced individuals to stay in the workforce longer, and households to seek a second income.

New Zealand: house prices and real domestic demand



New Zealand experienced broad-based asset price declines throughout 2008, and none more significant than in the housing market. In February, house prices fell for a seventh straight month (8.8%oya), prolonging the assault on the household balance sheet and depressing domestic demand. A rebound will require further aggressive easing by the RBNZ, and importantly, a flow-through to mortgage rates.

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Economic Research note

All Black over NZ economy

- **This recession will last at least six quarters**
- **Post-recession growth will be subdued**
- **RBNZ wary of significant stimulus in pipeline**

The New Zealand economy has been in recession since the beginning of 2008, a situation now amplified by worsening global conditions. Recent downgrades to growth in the nation's major trading partners and further deterioration in the domestic economy have prompted another downgrade to J.P.Morgan's GDP growth forecast for New Zealand.

The forecast now anticipates the New Zealand economy contracting 1.9% in 2009, compared to our previous forecast of -1.0%. GDP growth is likely to be just 1.6% in 2010 as household spending will be slow to recover. Post-recession growth historically has averaged over 5%, but the massive wealth destruction under way in the household sector will mean this recovery will be milder, and will extend for longer than those experienced previously.

New Zealand: GDP growth forecasts

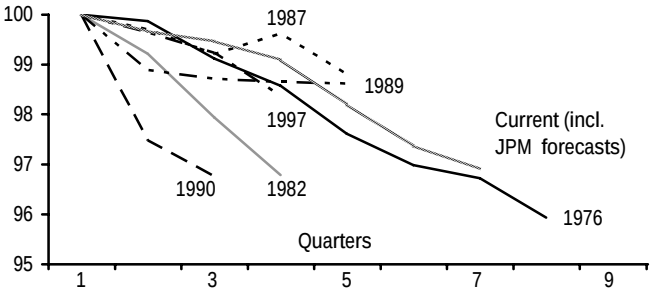
	2008	2009	2010
Household spending	0.0	-1.4	0.3
Government spending	4.1	9.2	-0.8
Fixed investment	-2.9	-10.9	7.8
Change in inventories[1]	0.6	-0.5	-0.1
Exports	-1.0	-2.9	2.1
Imports	3.4	-4.3	2.2
GDP	0.3	-1.9	1.6

Source: J.P. Morgan

[1] Contribution to growth

Current recession will extend for at least six quarters

GDP, Index=100



Export outlook has deteriorated further

The trading environment for New Zealand exporters has become extremely challenging. Of New Zealand's top 10 trading partners, receiving 65% of the nation's exports, J.P.Morgan forecasts that eight will be in recession in 2009. Australia, New Zealand's largest export destination, recently printed its first quarterly decline in GDP since 2000. J.P.Morgan forecasts that the Aussie economy will contract 0.7% this year, with at least three quarters of declining GDP to be endured.

Softer global demand also has weighed on commodity prices. After peaking in 1Q08 at its highest level since the early 1970s, New Zealand's terms of trade has declined in the last three quarters. The ANZ commodity price index has fallen 31% over the last seven months to February to a three year low. Lower NZD has, to some extent, provided a buffer for exporters against lower world prices—in NZD-terms, though, the commodity index still is down 10% over the same period. Weaker NZD will not be able to compensate Kiwi farmers entirely, owing to the steep falls in prices for farm produce.

Even tougher times ahead for households

Excessive leverage in the household sector can mainly be attributed to overconsumption triggered by unsustainable house price appreciation in recent years. Falling house prices, along with other asset price declines, are causing massive wealth destruction in the highly leveraged household sector, where the debt to income ratio is 162%. House prices fell 8.8%oya in February, the seventh straight monthly fall, and should continue to decline under still elevated (although lower) market interest rates and slowing net migration. The RBNZ forecasts house prices will fall around 20% by early 2010 from their 2007 peak, much in line with the 15% fall J.P.Morgan forecasts by end-2009.

Private consumption will likely contract 1.4% this year, with only the forthcoming tax cuts in April, worth 1% of household income, and lower interest rates preventing an even larger decline. The tax cuts will give the average-wage worker (NZ$48,000-NZ$78,000) an extra NZ$18 per week. But, consumers have become increasingly reluctant to spend amid widespread recession fears and heightened anxiety about job security, meaning a significant portion of these tax cuts will be saved, not spent.

Anxiety about job prospects spreading

Companies are becoming increasingly reluctant to hire new staff. Firms' own activity expectations have collapsed to record lows, and employment intentions have slumped, with 29% of firms expecting to shed staff over the next year. Accel-

erated job shedding will help send the unemployment rate to 7% by year end. The migration of skilled Kiwi workers back home will increase the pool of available workers, which also will inflate the jobless rate.

Government facing a sea of red ink

The New Zealand government has announced significant new spending plans to help cushion the downside for economic growth, including the acceleration of NZ$500 million worth of infrastructure projects. But, dwindling tax revenues will imperil the government's fiscal sustainability and ability to pump additional stimulus into the economy.

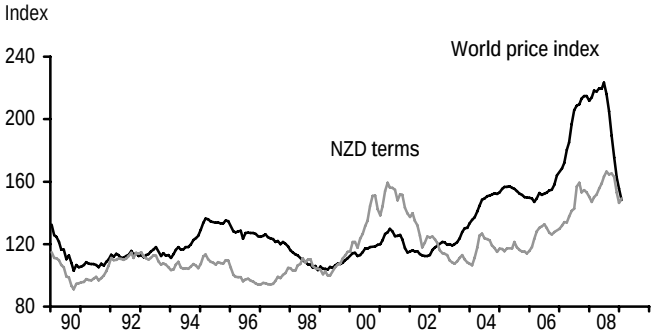
The government has projected that it will have to borrow NZ$40bn over the next three years, leading to a massive increase in debt. Already, the nation is highly leveraged to offshore creditors, with the negative net international investment position at 87% of GDP, second only to Iceland. The key threat is a downgrade to the country's sovereign AA+ rating, which rating agency S&P already has warned is a distinct possibility if the nation's fiscal imbalances are not addressed. A downgrade would further deter foreign investors. The percentage of NZ government debt held by foreigners has declined markedly, with 61.2% of NZ government bonds and treasury bills held by foreigners at the end of February, versus 71.7% a year earlier.

One means by which the government could enhance its ability to manage ballooning debt would be to suspend contributions to the NZ Superannuation Fund. The Fund was started by former Finance Minister Cullen to offset the cost of future pension payments, but shed NZ$2.5 billion in the last year, owing to falling asset prices; this more than offset the NZ$2 billion the government injected into the Fund. Suspending contributions, or reducing payments to the Fund, has not been ruled out by the government, though it would have dire consequences for future generations in the absence of a rebound in asset prices. Already, those 65 years or over make up more than 10% of the population, a portion that will grow exponentially in coming decades.

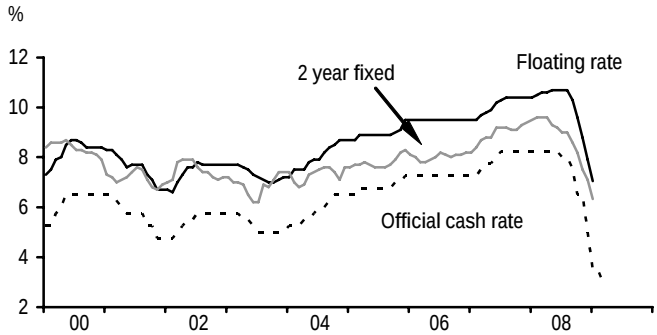
RBNZ's job not yet done

The RBNZ cut the official cash rate (OCR) "only" 50bp last week to 3%. We believe a 100bp cut was warranted. The Kiwi economy was well entrenched in recession a long time before international conditions deteriorated sharply and the RBNZ has plenty of policy ammunition in reserve. Moreover, easing inflation pressures, sagging domestic house prices, and a falling terms of trade, gave the RBNZ ample scope to ease policy assertively. Instead, though, Governor Bollard chose to tread carefully. He hinted at three key factors explaining the smaller

ANZ export commodity price index falling



Market home loan rates need to fall further



cut to the OCR: the significant amount of stimulus already delivered, the need to maintain competitiveness in capital markets, and the expectation that market lending rates will fall. With respect to the latter, 70% of all home loans in New Zealand are fixed rate, meaning that the immediate benefit to mortgage holders of the recent OCR cuts has been limited.

The Monetary Policy Statement (MPS) accompanying the policy decision included significant downward revisions to the RBNZ's economic forecasts. In the 2009 March year, the RBNZ forecast in the MPS that GDP would fall 2.2% compared to its previous forecast for a 0.3% decline. The central bank forecast that inflation would subside to an annual rate of 3.1% in the March quarter, then ease to 1.9% in June, back within the RBNZ's 1-3% target band.

Governor Bollard signalled last week that future rate cuts will be much smaller than those recently delivered. The rapid pace of monetary easing—525bp of easing has been delivered since June 2008—will, therefore, slow. We look for 25bp rate cuts in April and June (there is no decision in May), leading to an OCR of 2.5%, which we believe will be the terminal rate in this easing cycle. There is downside risk to our terminal cash rate forecast. If global conditions deteriorate more than currently forecast, and the fiscal and monetary policy stimulus already in place fails to have its desired effect, an OCR below 2% is possible.

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Australia

- **RBA minutes reveal rate decision was a close call**
- **Overseas data makes rate cut in April more likely**
- **Dwelling commencements slumped in 4Q**

The highlight in Australia last week was the release of the minutes from the RBA's Board meeting. The minutes revealed that the decision was a close call, with Board members seeing "reasonable cases" for a rate cut and for leaving policy unchanged. The outcome was the cash rate being left at 3.25%.

We had expected the RBA to wait until midyear before easing again, but recent adverse developments offshore have brought forward the likely timing of the next policy move. We now look for a 50bp rate cut in April and a further 25bp rate cut in early May. The dominant risk is that the cash rate goes below our new forecast for the terminal rate of 2.5%.

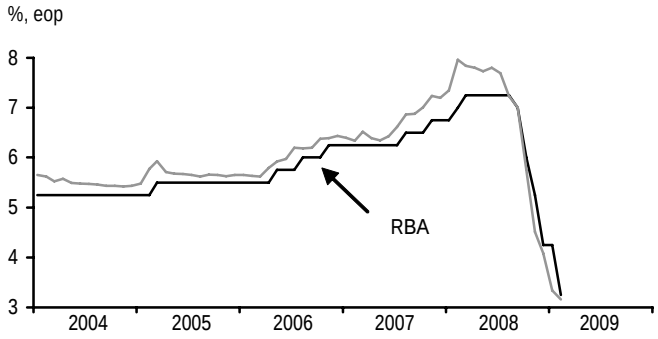
RBA decision was closer than we thought

The Reserve Bank last week released minutes from the March 3 Board meeting, at which the cash rate was held steady at 3.25%. The minutes reveal that the decision was a close call, with Board members seeing "reasonable cases" for a rate cut and for leaving policy unchanged. On balance, the Board judged the best course of action was to leave policy "flexibility" for future meetings, keeping in mind the RBA already had slashed the cash rate a mammoth 400bp since early September. Seeking policy "flexibility" is code for keeping policy ammunition in reserve in case things go even more pear-shaped.

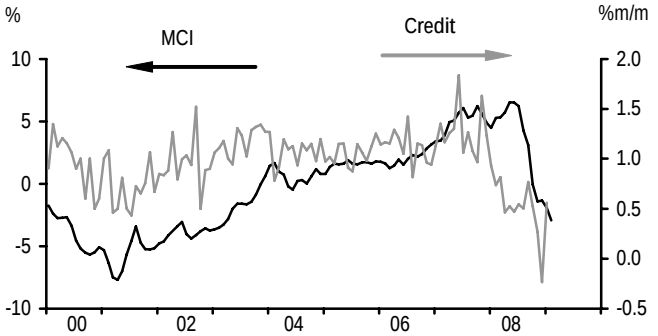
According to the minutes, there were two main reasons RBA officials believed the current policy rate was appropriate. First, Australia's economy was performing better than most—the minutes reveal that the RBA anticipated a small fall in GDP when the National Accounts were released the day after the Board meeting, so this would not have been a post-meeting shock. Second, and, in our view, most importantly, the minutes indicate that there had been insufficient time to for the RBA to assess the impact of the substantial monetary and fiscal stimulus already delivered.

Since the last Board meeting, though, the news on the global economy has been almost exclusively grim, save for snippets of good news in areas such as car sales, which have bounced. Moreover, evidence has emerged that Australia's economic performance rapidly is coming back to the disorderly pack—the Aussie economy has dropped into recession (GDP almost certainly will fall again in 1Q09), and the jobless rate has spiked to a four-year high amid a blizzard of high-profile job loss announcements. The minutes indicated, though, that the

Australia: 90 day bank bill rate and RBA cash target rate



Australia: JPM MCI and private sector credit



RBA anticipated a "significant deterioration" in the jobless rate, so this too should not have been a shock.

At least another 50bp of easing

The fact that the March decision was such a close call implies the cash rate almost certainly will go lower—the only doubt is over the timing. As such, each meeting from here is "live". Until this week, we had favoured the RBA staying on hold for another month or two to allow officials enough time to measure the impact of previous aggressive rate cuts and the Government's fiscal largesse. Now, though, we believe the RBA will lower the cash rate 50bp on 7 April.

Having gone "on hold" earlier this month, which made clear the RBA's level of tolerance for bad news, RBA Board members need a clear trigger to justify the about-face. Indeed, having set a high benchmark for staying on hold, something material has to happen to restart the easing cycle. The most likely "excuse" to restart the monetary easing is the further deterioration of conditions in Australia's major trading partners. The Fed's aggressive action to broaden its policy response to the global crisis also will play a role in RBA deliberations.

RBA officials have made clear they wanted more time to assess the impact of the policy stimulus already delivered. Get-

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ting a decent handle on how the Government's cash handouts, which the minutes indicate will provide "significant stimulus" to the economy over the next two years, and the RBA's earlier rate cuts are affecting the economy, will take some time. Indeed, even more fiscal stimulus has been delivered over the last two weeks. The "luxury" of spending time on the sidelines, however, has been swamped by the impact of recent events offshore, which call for more urgent action.

On the flipside, and bearing in mind how close a call the March decision was, we cannot rule out officials leaving the cash rate unchanged for a month or two longer. The upside of this approach is that it allows the RBA to keep its monetary powder dry to use later. It will be difficult, for example, for RBA officials to sit on their hands as unemployment climbs towards double figures. In our forecasts, the unemployment rate will rise to at least 9% by the end of 2010. On balance, though, easing policy too much in the near term is a risk RBA officials are more likely to take, rather than erring on the side of caution and falling behind the curve.

Dwelling starts tumbled in 4Q

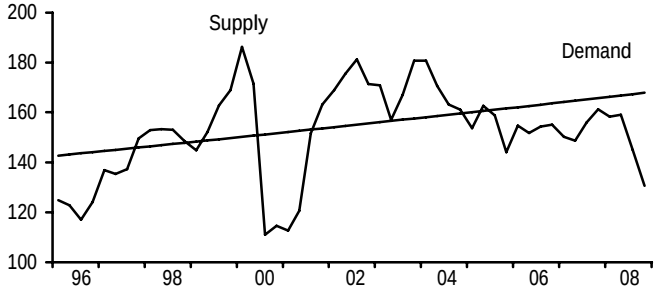
The number of housing starts slumped 9.9%q/q in 4Q, after falling 8.9% in 3Q. The fall was the largest since the September quarter 2000, when starts plunged 35%q/q owing, in part, to a change in the tax regime. The biggest drop in 4Q was in starts of 'other' residential building, which slumped 21%q/q.

We had expected housing starts to have been supported by the expansion of the first home buyers grant, the RBA's assertive interest rate cuts, and improved affordability. Clearly this was not the case. Housing starts remained under pressure from the lingering impact of the global credit crunch, the dampening impact of excessive red tape in the building sector, and the still sluggish rate of local council approvals. The number of starts, at an annualized 130,000 in 4Q08, therefore, remained well below the level required to meet demand, which we estimate is around 168,000 dwellings per year; the shortfall argues strongly against large house price falls in Australia.

Demand for housing should ease to some extent in 2009, however. While population growth has accelerated to multi-decade highs in recent years, this owed mainly to more rapid skilled migration inflows, which the government intends to pare back by 18,000 places this coming year. Moreover, the significant cuts to the official cash rate over the past seven months should help boost the number of starts in early 2009. The supply-demand imbalance, therefore, should improve.

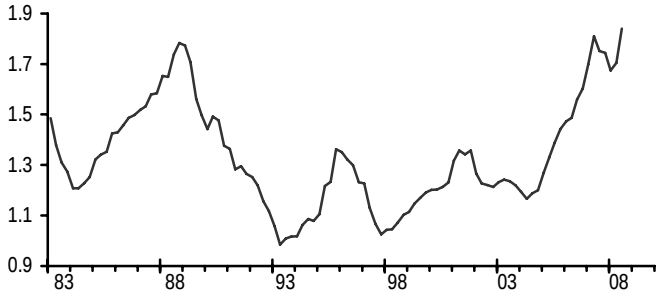
Australia: dwelling commencements

Thousands, annualized



Australia: growth in resident population

% oya



Data releases and forecasts

Week of March 23 - 27

No data releases expected.

Review of past week's data

WMI leading index

Seasonally adjusted

	Nov	Dec	Jan	
(%m/m)	-0.6	-0.4	__	*-0.2*

Dwelling starts

Seasonally adjusted

	2Q08		3Q08		4Q08	
(%q/q)	~~0.4~~	*0.1*	~~-11.1~~	*-8.9*	__	*-9.9*

Sales of new motor vehicles

Units, seasonally adjusted

	Dec		Jan		Feb	
(%m/m)	~~1.7~~	*1.5*	-1.1		__	*-3.5*
(%oya)	~~-15.7~~	*-15.8*	~~-16.9~~	*-17.1*	__	*-18.6*

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New Zealand

- **Fourth straight quarter of negative GDP expected**
- **Current account deficit probably narrowed in 4Q**
- **Modest recovery forecast for 2010**

Last week was a quiet week across the Tasman, but this week the data flow picks up with the release of New Zealand's fourth quarter GDP and current account numbers. We expect the economy contracted for the fourth consecutive quarter in 4Q08, and that the current account deficit narrowed. The deficit, though, will account for a larger portion of GDP, which will concern Kiwi authorities given that a ratings downgrade remains possible if the fiscal imbalances are not addressed.

Economy to contract again in 4Q

The New Zealand economy should contract 0.9%q/q in the final quarter of 2008, after shrinking 0.4% in 3Q. The fall in 4Q GDP will mark four straight quarters of GDP declines. GDP should decline for at least another two quarters, before the economy posts a very mild recovery in 2H09.

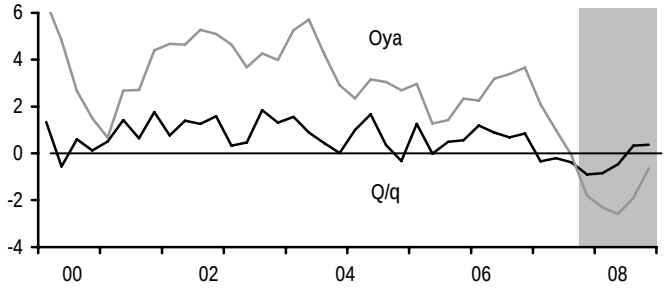
We believe private consumption will have contracted for the fourth straight quarter as consumers continued reining in spending amid widespread recession fears, falling asset prices (particularly housing), and increased financial market volatility. The 0.6%q/q fall forecast will mark the most severe quarterly fall in private consumption in 2008. Falling petrol prices and lower interest rates will have prevented an even sharper decline, however.

Reflecting the significant downturn in the housing market, residential investment will have remained weak in 4Q after slumping 8%q/q in 3Q. Ongoing financial market instability probably will have continued to deter business investment, which tumbled 9%q/q in the third quarter. These components will remain major drags on growth in 4Q, although will be offset to some extent by increased government spending, which should make a positive contribution to GDP.

Weaker external demand will mean that export volumes also fell, although not as sharply as in 3Q when exports fell 3.1%q/q. The weaker Kiwi dollar should soften the blow to exporters in 4Q—the NZ dollar shed 13% against the US dollar in the final three months of the year. Weak domestic demand will again lead to fewer imports, which tanked 7.6%q/q in 3Q, the biggest decline since 1Q 2000.

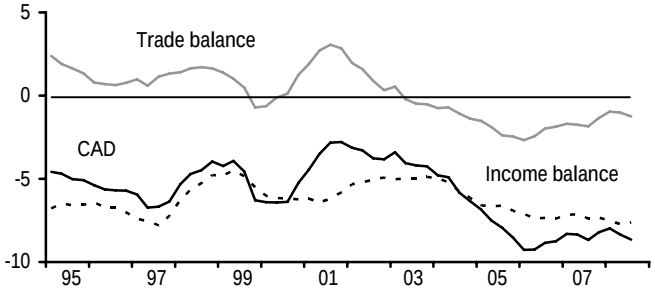
New Zealand: GDP growth

% change, chain volume



New Zealand: current account

% of GDP



Prolonged recession to end in 2010

On a more positive note, we forecast that the economy will expand, albeit very modestly, in the second half of 2009. The significant monetary and fiscal policy easing that has been (and will be) delivered should help New Zealand to recover from this prolonged recession, with our forecast calling for annual GDP growth of 1.6% in 2010. The forecast recovery, though, will be milder than those experienced after previous recessions, where growth averaged 5%. This will be mainly owing to a slower recovery in household spending. The near term outlook for household spending, which accounts for nearly two thirds of the New Zealand economy, remains particularly bleak, owing to the massive wealth destruction underway in the household sector and the weakness in confidence that has emerged amid increased anxiety about job security. We expect that the unemployment rate will rise to 7% by year end from a five year high of 4.6% currently.

Easing inflation pressures, sagging domestic house prices, and falling terms of trade give the RBNZ ample scope to ease policy assertively. Governor Bollard has signalled, however, that future rate cuts will be much smaller than those recently

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delivered. A 50bp cut to the OCR was delivered in March; thus, we expect 25bp moves at the next two policy meetings in April and June. This will lead to an OCR of 2.5%, which we believe will be the terminal rate in this easing cycle. The risks to this forecast are, however, skewed to the downside.

Burgeoning current account a concern

The current account deficit should narrow in 4Q, from NZ$6bn to NZ$5bn. For the year ended December, the current account deficit will surge to 9.5% of GDP, compared to 8.6% in the previous quarter. The improvement in the CAD will be owing to a narrowing of the trade gap, which blow out to a deficit of NZ$2bn in the third quarter. The narrowing of the trade gap in 4Q will be mainly owing to in increase in exports, due to purchases of large one-off items, including aircraft, late last year.

New Zealand remains very reliant on foreign creditors, however. In the September quarter, the current account deficit was financed by a NZ$5.4bn net inflow of financial capital from abroad. The high current account deficit and mounting overseas debt is a concern for ratings agencies. S&P recently warned that New Zealand's AA+ sovereign rating is at risk of a downgrade if fiscal imbalances were not addressed.

Data releases and forecasts

Week of March 23 - 27

Thu	**Balance of payments**				
Mar 26	NZ$ mn, nsa				
10:45am		1Q08	2Q08	3Q08	4Q08
	Current account	-2109	-3925	-5994	-4997
Fri	**Real GDP**				
Mar 27	Seasonally adjusted, production-based				
10:45am		1Q08	2Q08	3Q08	4Q08
	(%oya)	2.1	1.0	-0.1	-1.8
	(%q/q)	-0.3	-0.2	-0.4	-0.9
Fri	**Trade balance**				
Mar 27	Not seasonally adjusted				
10:45am		Nov	Dec	Jan	Feb
	Trade balance (NZ$ mn)	-594	-334	-187	-150

Review of past week's data

Visitor arrivals

Seasonally adjusted

	Dec		Jan		Feb	
Total (%m/m)	~~4.0~~	*7.1*	~~-3.0~~	*-7.4*	__	*2.9*

Net permanent immigration

	Dec	Jan	Feb	
Monthly (000s)	0.1	1.2	__	*1.6*
12 month sum (000s)	3.8	4.5	__	*1.5*

Credit card spending

Seasonally adjusted

	Dec	Jan	Feb	
(%oya)	-3.8	-2.2	__	*-1.9*

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Global Essay

- **The Fed turns more aggressive while other policy initiatives risk getting bogged down, threatening recovery for banks and financial markets**
- **Economy's nosedive set to create record amount of slack and powerful downward pressure on core inflation and wage growth**
- **Stronger growth in China is lifting neighbors' exports**
- **Mexico's central bank turns aggressive**

Policy muddle

J.P. Morgan's core economic outlook reflects contrasting perspectives about the forces at work in the global economy. Over the course of 2009, we see the powerful corporate retrenchment in train at the start of the year gradually fading, allowing a deep 1H09 recession to be followed by a modest growth recovery in the second half. The key to this view is the short-circuiting of negative feedback loops from falling employment and output to credit market conditions and consumer demand. Policy is expected to play a constructive role in this process, boosting demand and supporting an improvement in credit conditions.

Optimism that we can lift out of a deep recession later this year is not intended to signal an early return to economic health. The current downturn will likely produce a major disruption in macroeconomic trends, as financial sector healing takes time, and as unemployment rates and fiscal positions look likely to linger at levels not seen in more than a generation in many large economies. The challenges facing policymakers over the medium term thus loom large; their actions will play a crucial role in determining whether a gradual return to more normal trends in global growth and inflation will occur.

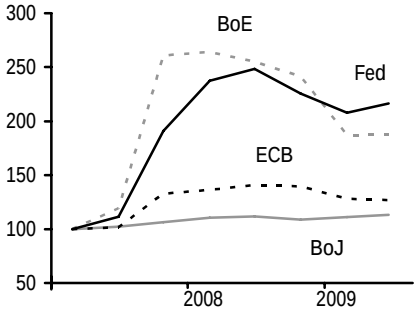
In tracking the near-term view, it is clear that 1Q09 delivered another large contraction in global GDP. However, the quarter was also marked by a significant swing toward stabilization in consumption, one that has allowed firms to make progress in their efforts to lower inventories and stabilize profit margins. With households no longer receiving support from falling energy prices, sustaining this constructive dynamic through midyear will likely require additional policy support. In this regard, it is encouraging to see that significant policy stimulus is being applied. Led by the US and China, fiscal policy should lift global growth more than one percentage point beginning in 2Q09.

Equally important are the actions taken by monetary authorities that have limited flexibility left in lowering policy rates. In recent weeks, three central banks—the Fed, the BoE, and the BoJ—have moved aggressively to purchase government debt in an attempt to produce more stimulative financial conditions. The initial market impact of these actions has been encouraging. Developed market bond yields have fallen about 30bp this month and borrowing rates for mortgage and high grade credit have moved sympathetically lower. Notably, in countries engaging in QE, the trade-weighted currencies have declined (Japan's TWI decline was focused in February). These developments will likely have positive knock-on effects elsewhere, as they encourage other central banks to join in. Likely candidates include the central banks of Canada, Sweden, Korea, Chile, and eventually, the ECB.

The positive news from monetary policy announcements needs to be viewed together with the more sober outlook for other US policy initiatives. The Fed's TALF program to restart ABS consumer credit got off to a slow start this week in part owing to investor concerns about the growing risk for ex-post congressional restrictions on participants in government-

Central bank balance sheets - total assets

Aug 2008 = 100



Change month to date

	10-yr bond yld (bp)	Broad fx (%ch)
US	-0.41	-4.5
UK	-0.59	-3.2
Japan	-0.01	1.1
Euro area	-0.07	4.5

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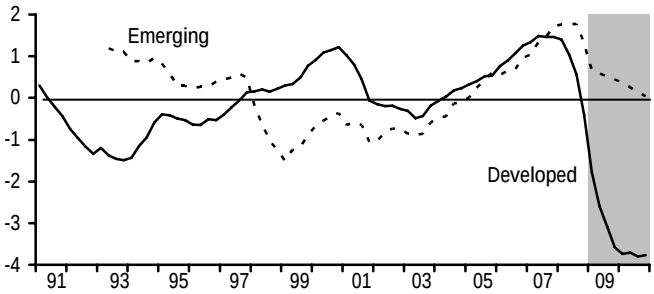
Resource utilization

Std dev from 1991-08 avg; wtd avg of mfg capu and unempl rate



sponsored programs. The risk is rising that these concerns will also limit private sector participation in the Treasury's PPIF program, and accelerate the timetable in which banks pay back TARP funds. These developments could ultimately slow the process of healing bank balance sheets and lead to tighter credit conditions.

Viewed from the perspective of medium-term dynamics, the latest policy actions highlight two points. First, the commitment of global central banks to supporting growth and financial healing is strong, and will likely produce a sustained period of highly accommodative monetary policy as the global economy experiences a long period of high unemployment and downward pressure on finished goods prices. Second, the severe disruption in financial market conditions and the prospect of a prolonged period of high unemployment creates significant uncertainty about the broader impact it will have on politics and policies. Political risks regarding policies and institutions are rising everywhere, even in countries where structures have proven very stable in recent decades, carrying the potential to worsen an already downbeat outlook.

Sharp slide in global resource utilization

With the economy in a nosedive, resource utilization is falling sharply—a trend evident in last week's reports on global industry and labour markets. In the global industrial sector, output is set to fall in excess of 20% annualized in both 4Q08 and 1Q09. This is producing a steep slide in operating rates worldwide. Companies also are shedding payrolls, with worldwide job losses reaching an estimated 2.5% in January on a %3m/3m, ar basis. With employment falling, our global measure of unemployment climbed to 6.9% in January, a 1%-point increase from six months earlier.

Taken together, the movements in capacity utilization and unemployment already have lowered our measure of global resource utilization from nearly 2 standard deviations above the long-term (1991-present) average in early 2008 to nearly 2 standard deviations below as of 1Q09; i.e., a 4-point swing in one year. This process has much further to run. Global manufacturing is unlikely to reach bottom before the middle of the year at the earliest. More important, the labour market adjustment has yet to reach full force outside the US. In particular, our analysis points to an intensification in job losses in the remaining DM economies, especially Japan, where employment has yet to contract. This is expected to drive the global unemployment rate to a peak of 8.5% by the middle of 2010.

The resulting enormous amount of excess resource capacity gradually is expected to exert powerful downward pressure on wages and core prices. Inflation is likely to approach zero next year in the developed world, where the economy is forecast to veer far below its potential growth path. By comparison, inflation should fall only moderately below the average of the middle 2000s in the emerging economies, which are forecast to experience a milder downturn.

One wild card in the inflation outlook is the behaviour of inflation expectations. In particular, depending on whether inflation expectations are well anchored, the disinflation process could become self-reinforcing. The challenge to policymakers is especially acute in a world in which an increasing number of central banks are resorting to quantitative easing, which in the case of the Fed, the BoE, and the BoJ, now includes the monetization of rapidly rising government debt.

China's neighbors getting a trade lift

Major Asian exporters have suffered badly under collapsing global trade flows, especially given the region's dependence on high-tech production. Encouragingly, exports from two key tech producers, Korea and Taiwan, have shown some signs of stabilization in the first two months of the year. This contrasts with China, where exports continued to show sequential declines through February. These diverging trends reflect differences in end-demand—downward pressure on China's exports is being driven by the continued slide in the DM economies, while exports from Korea and Taiwan are benefiting from the recent pickup in China's economy.

This lift can be clearly seen in the Taiwan export data, with

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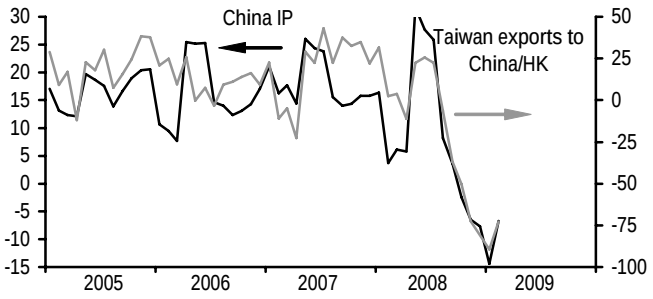
China IP and Taiwan's exports to China/ Hong Kong

%3m/3m, saar, both scales



Taiwan's average Jan-Feb exports to China rising 6% from the Nov-Dec trough. In particular, certain Taiwanese tech exporters are reporting improving orders arising from China's subsidies to encourage the purchase of electronic appliances in the rural sector. Taiwan's exports to the Mainland, which have closely followed China's own industrial production cycle, will probably stabilize further. As such, this week's February export orders from Taiwan should be watched for further evidence of the positive demand lift from China.

Policymakers in Korea and Taiwan have been actively supporting the economy with both fiscal and monetary easing. That said, the recent signs of improvement in Korean exports and IP contributed to the BoK's decision to pause at 2% last week, while leaving the door open for further rate cuts and a likely focus on quantitative easing (government bond purchases). For its part, Taiwan's central bank has cut rates aggressively since September, bringing policy rates to a historic low (certainly one of the lowest in EM Asia); we expect another 25bp cut to 1% at its quarterly meeting this week.

Japan has yet to report its February trade results, but will do on Wednesday. It will be important to see if export volume shows signs of firming after severe declines totaling nearly 40% (not annualized) in the past three months. At about 16%, the share of Japanese exports bound for China is considerably lower than for Korea and Taiwan (each in the 20-30% range). Nonetheless, last month's huge, post-lunar new year holiday bounce in China's imports gave a powerful lift to exports in Korea and Taiwan, and may deliver an upside surprise to exports from Japan.

Mexico's central bank steps up easing

Mexico's central bank surprised markets by cutting rates an aggressive 75bp to 6.75% and switching from a moderate to an aggressive actor in the region. The accompanying statement was sharply altered, leaving behind concerns about fx passthrough to inflation to instead emphasize downside growth risks, fears of global deflation, and muted second-round effects on inflation. Last week's economic reports highlighted that the economic recession has intensified and inflation risks have eased. Mexico's manufacturing outperformance relative to the US was erased in January. Moreover, the deceleration in February wage inflation suggests that the recession is curbing pricing power, consistent with our forecast that inflation will ease to 3.5%oya by year end. Against this backdrop we have decided to add more easing; the forecast anticipates 150bp cumulative cuts (from 75bp) and central bank cuts of 50bp at each of its next three meetings.

The central banks of Brazil and Chile should continue with their aggressive easing, although the risks moved in opposite directions. Brazil's central bank minutes were decisively dovish and supported our call for 150bp in additional rate cuts. But with the pace of economic contraction easing, the next policy decisions should turn more data dependent. By contrast, last week's 4Q08 real GDP from Chile indicated that the economy had fallen into a deep recession and was in need of additional policy stimulus. The forecast already calls for the central bank to lower its policy rate to 1% in June, and Chile could be the first Latin American country to shift to quantitative easing.

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JPMorgan View - Global Markets

The Fed giveth . . .

- **Portfolio strategy.** The good news from QE is under threat from hasty political actions against the banks. Equities may have short-term momentum, but there is little fundamental support. We stay defensive. Our QE portfolio is bullish bonds, commodities, and yield convergence in Euro area, but bearish QE currencies.
- **Economics.** China is first to rebound.
- **Fixed Income.** Long duration. Overweight spread product and EMU peripherals. Close long in EU vs US.
- **Equities.** We turn more positive on Global Investment Banks with a preference for US over European IBs.
- **Credit.** Reduce underweight in European HG, but stay neutral in US HG.
- **Fx.** Short the QE currencies.
- **Alternatives.** Inflation worries from QE are bullish for commodities.

The Fed's surprise expansion of its QE program—even if it calls it credit easing—pushed US bonds higher and extended the rally in equities. Credit spreads remain unaffected, suggesting that the equity rally contains a large element of short covering, as heavy supply eliminated many shorts in credit.

After the recent equity rally, we advised **staying defensive** on risky assets, as economic data offered little to be positive about and we did not see any decisive policy action to make us less worried about the future. We remain defensive even as we recognize that momentum can carry equities further for a few weeks. While not a data-rich week, what we got was not reassuring, telling us the pace of job losses is intensifying and creating serious risk to the outlook for consumer spending in coming months.

US policy has become a picture of hot and cold and on net no reason to become more optimistic. Public anger about excessive compensation in banking is leading to hasty actions that may ultimately prove counterproductive. The risk is rising that these actions will restrain private participation in TALF and the public-private investment fund that needs to take over bad assets from banks. And they risk accelerating deleveraging as banks feel compelled to try to pay off TARP funds early. This potential contraction in credit flows may have been one factor that forced the Fed into QE action. The Fed's buying program is aimed at safer assets than what could be lost from a weaker TALF, PPIF, and bank lending. Hence, last week's US policy actions do not make us more optimistic about economic growth.

10-yr Government bond yields

	Current	Jun 09	Sep 09	Dec 09	Mar 10
United States	2.62	2.30	2.20	2.10	2.00
Euro area	2.97	2.85	2.75	2.85	2.90
United Kingdom	3.03	2.30	2.10	2.45	2.55
Japan	1.26	1.10	1.20	1.40	1.30

Foreign exchange

	Current	Jun 09	Sep 09	Dec 09	Mar 10
EUR/USD	1.35	1.30	1.32	1.34	1.35
USD/JPY	95.9	92	95	99	102
GBP/USD	1.44	1.37	1.38	1.43	1.47

Commodities - quarterly average

	Current	1Q09	2Q09	3Q09
WTI ($/bbl)	51	50	50	55
Gold ($/oz)	954	825	825	825
Copper($/m ton)	3963	3000	3250	3400
Corn ($/Bu)	3.97	5.00	4.90	4.70

Source: J.P. Morgan, Bloomberg, Datastream

As QE policies spread across the world—Canada and Sweden will likely join soon, and the ECB might eventually—investors wonder how this affects their strategies. Four implications come to mind: (1) Bullish flattening and carry trades in government curves—we moved to long again in the US. (2) Convergence trades in EMU, as higher-yielding EMU countries would get better support— witness Friday's large decline in spreads in Greece and Italy. (3) Growing worries that debt monetization will create inflation—we turn more positive on commodities and linkers. (4) Weakness in QE currencies as they push their real yields down.

Fixed income

The 10-year US Note rallied 47bp on Wednesday following the Fed's surprise decision to purchase $300bn of Treasuries. In addition, the Fed also announced it will increase MBS purchases $750bn and Agency debt purchases $100bn. MBS and Agency spreads narrowed on the news. The Obama Administration has made it clear that it views the agency market as critical to solving the housing and economic crisis. Accordingly, we **remain overweight MBS and Agency debt vs Treasuries**.

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German Bunds also rallied 18bp on Wednesday as the Fed's move increased the likelihood the ECB will eventually join the QE club. We had been long EU vs US, based partially on a view that supply/demand conditions were less favorable in the US. Clearly, the Fed's purchase plan negated that argument, and we thus **close our long EU vs US** trade at a loss. JGBs also rallied following the BoJ's decision to increase the size of its JGB purchases. **Central bank support and a weak economic outlook keep us long duration.**

Equities

Equities continued to rally for a second straight week driven again by financials. Global financials rose 12% bringing their cumulative gains since the rally started on Mar 9 to 36%. While last week's rally was mostly driven by short covering, last week our trading desks saw outright buying of financials. We remain reluctant to change our cautious stance on banks, but recently we turned more positive on insurance and Chinese banks. This week we **turn more positive on global investment banks.**

Technical indicators are pointing toward further near-term upside with the S&P500 testing the 800 resistance level last week, and the key 800/805 level in view. But for the medium term, the balance of risks remains skewed to the downside both in terms of the economic data and the 1Q reporting season that kicks off in a few weeks time.

It is encouraging that our analysts have started upgrading EPS estimates for EM stocks after a protracted period of downgrades. We remain more positive in EM owing to a China-led acceleration in EM demand and **overweight EM Asia vs MSCI world**.

Credit

In Europe, we **reduce our underweight in European HG credit and raise our overweight in European banks versus industrials.** Within the capital structure, we recommend moving the overweight of senior bank debt vs Tier 1 to an overweight of Tier II vs Tier 1. Banks' focus on Tier 1 capital ratios instead of total capital ratio is inducing issuers to call-in/buyback Tier II debt. By tendering from its subordinated debt, a bank is upgrading its capital into real, loss-absorbing capital. Lower Tier II in particular is becoming a strategically less important asset class, and the fact that issuers could benefit from tendering instruments with low cash prices would imply that callable Lower Tier II are most likely to benefit given their lower valuations.

Our strategists remain neutral on consumer ABS as the potential positive impact from TALF has already been priced in and deteriorating fundamentals are likely to limit the spread tightening potential. Although the Fed has widened the range of eligible collateral, the amount of AAA ABS in these markets is very small.

Foreign exchange

As argued previously, **QE should prove currency-negative because it is designed to drive down real yields,** either via lower nominal rates, higher inflation expectations, or both. Substantiating this case historically is hard, though.

In a world where asset purchases are the new rate cut, focus strategy on selling currencies where the central bank is monetizing substantial amounts of govt debt, and owning currencies where the central bank is out of the market. This approach implies increasing USD shorts (vs. AUD, EUR, NOK), staying short GBP vs. EUR and CHF vs. NOK and EUR. Sell volatility where central banks are pursuing debasement with equal vigor (GBP/USD, GBP/CHF, USD/CAD). Take profits on long SEK positions, since the Riksbank is next due to adopt QE.

Alternatives

Commodities were up 9% as all sectors rallied, helped by a weaker dollar. **Oil** demand declines have been more than matched by OPEC production cuts as compliance remains at high levels, leading to a small draw in stocks. This draw may get larger as we move into 2H09. We raise our forecasts for oil prices this year ($55 WTI in 4Q), as production cuts balance and even tighten the market, but our forecasts are still below forwards. We remain bearish **copper** but await for a loss of momentum to become evident before shorting more aggressively. **Gold** prices jumped later on dollar weakness and now trade around $950. We maintain our bullish view as investment inflows are likely to continue, but the price trend is a lot less clear now than earlier this year.

Hedge funds remain in their consolidation path as new reports showed a significant increase in fund closures in 4Q08. We believe that liquidations will accelerate this quarter and continue to outnumber launches for the remainder of the year. The number of single-manager funds will shrink to less than 5000 from a peak at around 8000. Fund of funds will also suffer, as their business model continues to be challenged by hedge fund investors. We still expect that the industry as a whole will start its recovery later this year, but consolidation will continue longer.

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Markets - Australia and New Zealand

Below is a summary of *The Antipodean Strategist*, published weekly. The full version can be found on Morgan Markets.

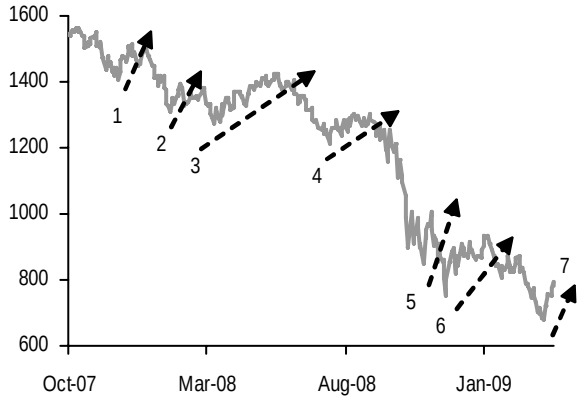
Australia

- Although the case for a 50bp rate cut in April from the RBA is not yet complete, the March minutes suggested that the case for an extended pause is not as strong as might have previously been thought. And the bearish FOMC statement might mean the RBA's resolve to pause is less strong than it was.
- The domestic data flow is likely to be the key factor influencing policy short term. Longer term, the important medium term influence on policy remains the sharp contraction in national incomes growth. This is main reason why the Australian cash rate is ultimately likely to move a lot lower.
- The bear market rally in equities may have further to run, now that the Fed has formally adopted QE. If history is any guide, then this suggests further weakness in fixed income markets and a stronger AUD. We remain happy to run tactical shorts above 96.95, and target a move to 96.70 in 3Y. Curve spreads should bearishly flatten in the short term.
- However, we should not ignore the fact that there have been further downgrades to our global growth forecasts. We suspect the next round of growth revisions might start to extend the duration of the downturn, as the consumer disappoints. In this context we also doubt whether risky assets will be able to make sustained gains and continue to recommend strategic long duration positions.
- With the outlook for monetary policy less certain, the near term outlook for the front end of the yield curve in the Australian and New Zealand markets has become more clouded. Short term trading opportunities are likely to be focused around upcoming central bank meetings.
- Near term, we think risks are biased towards higher yields and flatter curves. We like NZD/AUD spread compression trades, and believe that longer dated semi-government spreads are too wide, especially given the level of long-end basis swap spreads. Pay 12m OIS and buy a short dated semi-government bond, to earn attractive carry.

New Zealand

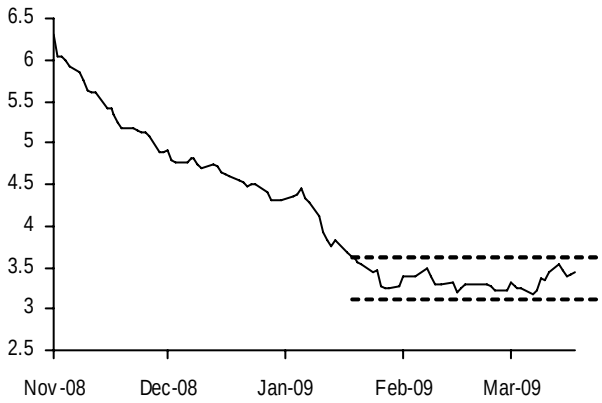
- There has been little out in the way of economic data in New Zealand over the past week. The market continues to debate the merits of the RBNZ's less dovish stance.
- There is now genuine uncertainty about the profile for the OCR in coming months. Central bank rhetoric has been hawkish, and premised on what we believe to be an optimistic set of forecasts.

Chart 1: Bear market rallies, S&P 500
Index



Source: J.P. Morgan and Bloomberg; as at close 19/03/09.

Chart 2: NZD front end remains range bound
2y swap rate; Percent



Source: J.P. Morgan and RBNZ

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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			
	2008	2009	2010	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	4Q08	2Q09	4Q09	4Q10
The Americas														
United States	1.1	-2.5	1.9	-0.5	-6.2	-5.0	-2.0	1.0	1.0	2.0	1.5	-0.9 ↓	0.4 ↓	0.7
Canada	0.5	-1.8	2.5	0.9	-3.4	-5.0	-2.0	2.0	2.0	3.0	1.9	0.1	1.4	2.2
Latin America	3.8 ↓	-2.2	3.0	3.9 ↓	-8.6 ↓	-5.9	-0.7	1.6	2.7	3.8	8.3	7.5	6.5	6.0
Argentina	7.0	-3.0	2.0	6.3	-1.2	-10.0	-6.0	0.0	-4.0	6.0	7.8	7.0	6.0	10.2
Brazil	5.1	-1.4	3.0	6.9	-13.6	-4.1	3.8	2.4	4.0	2.5	6.2	5.2	4.3	4.5
Chile	3.2 ↓	-1.5	3.2	-3.0 ↓	-8.3 ↓	-4.0	0.0	0.0	0.0	8.0	8.2	4.0	2.0	3.2
Colombia	3.1	0.5	3.0	2.9	-1.0	-0.5	0.5	1.0	1.0	3.5	7.8	5.9	5.5	4.5
Ecuador	6.9	-1.0	0.5	4.8	-1.0	-3.5	-3.5	-5.0	0.0	1.5	9.3	6.0	5.3	4.0
Mexico	1.3	-4.0	3.4	1.6	-10.3	-8.5	-3.0	2.0	4.1	4.1	6.2	5.6	4.0	3.4
Peru	9.8	3.5	4.7	8.8	0.7	2.4	3.8	3.0	3.2	4.8	6.6	4.0	2.7	2.0
Venezuela	4.8	-0.5	1.5	0.6	3.8	-5.0	-5.0	0.0	1.0	2.0	33.4	37.9	40.8	29.9
Asia/Pacific														
Japan	-0.7	-7.7	0.9	-1.4	-12.1	-15.0	-4.5	-2.0	1.0	1.5	1.0	-0.7	-1.2	-0.3
Australia	2.1	-1.1	1.6	0.3	-2.1	-3.9	-0.7	1.5	1.8	1.6	3.7	1.6	1.7	2.8
New Zealand	0.3	-1.9	1.6	-1.5	-2.9	-3.6	-1.7	0.3	1.6	2.2	3.4	0.4	-0.4	2.7
Asia ex. Japan	5.8	3.0	6.4 ↓	3.5	-5.8	0.5	6.0 ↓	7.7 ↓	8.3 ↓	6.0 ↑	4.7	1.0	1.4	2.8
China	9.0	7.2	8.5	6.7	1.5	5.1	10.0	11.7	12.6	7.0	2.5	-1.9	0.3	2.0
Hong Kong	2.5	-3.0	3.5	-2.8	-7.8	-7.0	0.5	3.3	5.3	3.0	2.3	0.8	1.6	1.1
India	6.0	5.2	7.0 ↓	6.5	0.0	-1.8 ↓	-2.8 ↓	3.2 ↓	6.0 ↓	9.3 ↑	10.2	7.5	3.8	4.1
Indonesia	6.1	3.5	5.0	5.4	0.9	3.0	3.0	5.0	5.0	5.0	11.5	5.6	3.5	6.2
Korea	2.5	-2.5	4.0	2.1	-20.8	-3.0	5.9	6.5	4.5	4.0	4.5	2.2	2.5	3.4
Malaysia	4.6	0.3	4.6	0.7	-6.9	-3.2	6.6	5.3	5.3	4.1	5.9	1.0	-0.2	1.6
Philippines	4.6	3.0	4.0	4.8	4.1	1.5	2.0	2.0	3.0	4.5	9.7	4.7	3.0	3.7
Singapore	1.1	-4.0	4.3	-2.1	-16.4	-7.0	6.1	4.1	4.1	4.1	5.4	1.4	0.5	3.5
Taiwan	0.1	-5.0	4.8	-11.4	-22.5	-5.0	5.7	6.8	6.9	4.0	1.9	-1.1	-0.7	1.5
Thailand	2.6	-3.0	4.0	1.7	-22.2	-5.9	9.1	4.5	4.5	3.2	2.1	-2.9	1.3	2.5
Africa														
South Africa	3.1	0.0	2.4	0.2	-1.7	-1.5	0.0	1.8	3.0	2.9	9.8	7.3	5.9	4.1
Europe														
Euro area	0.7	-3.2	0.4	-1.0	-5.7	-5.0	-3.0	-1.0	0.0	1.0	2.3	0.4	0.7	1.0
Germany	1.0	-3.9	0.4	-2.2	-8.2	-5.0	-3.0	-1.0	0.0	1.0	1.7	0.1	0.3	0.3
France	0.7	-2.5	0.6	0.4	-4.6	-4.5	-2.5	-0.5	0.5	1.0	2.0	-0.1	0.6	0.7
Italy	-1.0	-3.9	0.4	-2.7	-7.5	-5.0	-3.0	-1.0	0.0	1.0	2.9	1.0	1.0	1.0
Norway	2.4	-1.2	0.6	1.2	-0.7	-3.0	-2.5	-1.0	0.0	1.0	3.6	2.4	0.7	1.3
Sweden	-0.5	-4.9	0.4	-3.9	-9.3	-7.0	-3.0	-1.0	0.0	1.0	2.4	-0.7	-0.7	0.9
Switzerland	1.6	-2.4	0.6	-0.3	-1.2	-6.0	-3.0	-0.5	0.5	1.0	1.6	-0.6	0.3	0.3
United Kingdom	0.7	-3.6 ↓	0.5 ↓	-2.8	-6.0	-6.0	-2.5	-1.0 ↓	-0.5 ↓	1.0	3.9	0.7	0.2	2.3
Emerging Europe	4.2	-2.8 ↓	1.4 ↑	4.1	-7.5	-5.6 ↓	-2.6 ↓	-1.7 ↓	-0.7 ↓	1.5	9.5	7.7 ↑	7.2 ↑	6.3
Bulgaria	6.1	-1.5	2.0	…	…	…	…	…	…	…	…	…	…	…
Czech Republic	3.2	-3.0	0.0	1.4	-3.7	-7.0	-5.0	-3.0	-2.0	0.0	4.7	0.5	1.3	3.0
Hungary	0.5	-4.5	-0.5	-2.3	-4.6	-6.0	-5.0	-4.5	-4.0	1.0	4.3	2.6 ↑	4.5 ↑	2.8 ↑
Poland	4.8	-1.0 ↓	2.2 ↑	3.2	1.2	-3.5 ↓	-2.9 ↓	-2.0 ↓	0.5 ↓	2.0	3.8	2.8 ↑	2.6 ↑	2.1 ↓
Romania	7.1	-4.0	-1.0	…	…	…	…	…	…	…	6.8	7.0	9.0	8.0
Russia	5.6	-3.5	1.5	6.3	-13.5	-6.5	-1.5	-0.5	0.0	2.0	13.8	12.7	11.2	9.9
Turkey	1.7	-2.0	2.2	…	…	…	…	…	…	…	10.9	6.9	6.1	5.0
Global	1.6	-2.7	1.9	0.0	-6.7	-5.6	-1.5	0.8 ↓	1.6 ↓	2.2	2.9	0.6	1.0	1.5
Developed markets	0.7	-3.6	1.2	-0.9	-6.7	-6.6	-2.7	-0.2	0.6 ↓	1.6	1.9	-0.3 ↓	0.3	0.8
Emerging markets	5.0	0.6 ↓	4.6 ↓	3.6	-6.6	-2.0	2.9 ↓	4.7 ↓	5.5 ↓	4.8 ↑	6.5	3.9	3.7	4.2

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Global Central Bank Watch

	Official interest rate	Current	Change from Aug '07 (bp)	Last change	Next meeting	Forecast next change	Mar 09	Jun 09	Sep 09	Dec 09	Jun 10
Global	GDP-weighted average	1.67	-304				1.66	1.39	1.36	1.36	1.37
excluding US	GDP-weighted average	2.40	-206				2.38	1.98	1.94	1.94	1.96
Developed	GDP-weighted average	0.66	-348				0.66	0.48	0.48	0.48	0.48
Emerging	GDP-weighted average	5.68	-132				5.62	4.99	4.84	4.84	4.90
Latin America	GDP-weighted average	8.22	-59				8.22	6.60	6.59	6.59	6.73
CEEMEA	GDP-weighted average	7.26	25				7.04	6.76	6.42	6.40	6.23
EM Asia	GDP-weighted average	4.13	-219				4.11	3.70	3.58	3.60	3.72
The Americas	GDP-weighted average	1.04	-455				1.04	0.86	0.86	0.86	0.88
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	29 Apr 09	on hold	0.125	0.125	0.125	0.125	0.125
Canada	Overnight funding rate	0.50	-400	3 Mar 09 (-50bp)	21 Apr 09	on hold	0.50	0.50	0.50	0.50	0.50
Brazil	SELIC overnight rate	11.25	-25	11 Mar 09 (-150bp)	29 Apr 09	29 Apr 09 (-150bp)	11.25	9.25	9.25	9.25	9.25
Mexico	Repo rate	**6.75**	-50	**20 Mar 09 (-75bp)**	17 Apr 09	**17 Apr 09 (-50bp)**	**6.75**	**5.25**	**5.25**	**5.25**	**5.25**
Chile	Discount rate	2.25	-325	12 Mar 09 (-250bp)	9 Apr 09	9 Apr 09 (-125bp)	2.25	1.00	1.00	1.00	3.50
Colombia	Repo rate	7.00	-225	**20 Mar 09 (-100bp)**	24 Apr 09	**24 Apr 09 (-50bp)**	7.00	6.00	6.00	6.00	6.00
Peru	Reference rate	6.00	125	5 Mar 09 (-25bp)	8 Apr 09	8 Apr 09 (-25bp)	6.00	5.25	5.00	5.00	5.00
Europe/Africa	GDP-weighted average	2.03	-256				2.00	1.61	1.56	1.56	1.54
Euro area	Refi rate	1.50	-250	5 Mar 09 (-50bp)	2 Apr 09	7 May 09 (-50bp)	1.50	1.00	1.00	1.00	1.00
United Kingdom	Repo rate	0.50	-525	5 Mar 09 (-50bp)	9 Apr 09	on hold	0.50	0.50	0.50	0.50	0.50
Sweden	Repo rate	1.00	-250	11 Feb 08 (-100bp)	21 Apr 09	21 Apr 09 (-75bp)	1.00	0.25	0.25	0.25	0.25
Norway	Deposit rate	2.50	-225	4 Feb 09 (-50bp)	25 Mar 09	25 Mar 09 (-50bp)	2.00	1.50	1.50	1.50	1.50
Czech Republic	2-week repo rate	1.75	-150	5 Feb 09 (-50bp)	26 Mar 09	26 Mar 09 (-25bp)	1.50	1.50	1.50	1.50	2.50
Hungary	2-week deposit rate	9.50	175	19 Jan 09 (-50bp)	23 Mar 09	3Q 09 (-25bp)	9.50	9.50	9.25	8.50	7.50
Israel	Base rate	0.75	-325	23 Feb 09 (-25bp)	23 Mar 09	4Q 09 (+50bp)	0.75	0.75	0.75	1.25	3.00
Poland	7-day intervention rate	4.00	-75	25 Feb 09 (-25bp)	25 Mar 09	25 Mar 09 (-25bp)	3.75	3.25	3.00	3.00	3.00
Romania	Base rate	10.00	300	4 Feb 09 (-25bp)	31 Mar 09	31 Mar 09 (-25bp)	9.75	11.00	13.00	14.00	12.00
Russia	1-week deposit rate	8.25	500	10 Feb 09 (+100bp)	2Q 09	3Q 09 (-100bp)	8.25	8.25	7.25	7.25	6.25
South Africa	Repo rate	10.50	50	5 Feb 09 (-100bp)	24 Mar 09	24 Mar 09 (-100bp)	9.50	8.00	7.50	7.00	7.00
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	18 Jun 09	3Q 10 (+25bp)	0.25	0.25	0.25	0.25	0.25
Turkey	Overnight borrowing rate	**10.50**	-700	**19 Mar 09 (-100bp)**	16 Apr 09	**16 Apr 09 (-50bp)**	**10.50**	**10.00**	**10.00**	**10.00**	**10.50**
Asia/Pacific	GDP-weighted average	2.13	-142				2.12	1.88	1.83	1.84	1.89
Australia	Cash rate	3.25	-325	3 Feb 09 (-100bp)	7 Apr 09	**7 Apr 09 (-50bp)**	3.25	2.50	2.50	2.50	2.50
New Zealand	Cash rate	3.00	-525	12 Mar 09 (-50bp)	30 Apr 09	30 Apr 09 (-25bp)	3.00	2.50	2.50	2.50	2.50
Japan	Overnight call rate	0.10	-40	19 Dec 08 (-20bp)	7 Apr 09	on hold	0.10	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	30 Apr 09	on hold	0.50	0.50	0.50	0.50	0.50
China	1-year working capital	5.31	-171	22 Dec 08 (-27bp)	2Q 09	2Q 09 (-27bp)	5.31	5.04	4.77	4.77	4.77
Korea	Base rate	2.00	-300	12 Feb 09 (-50bp)	9 Apr 09	2Q 09 (-25bp)	2.00	1.75	1.75	1.75	1.75
Indonesia	BI rate	7.75	-50	4 Mar 09 (-50bp)	3 Apr 09	3 Apr 09 (-50bp)	7.75	7.00	7.00	7.25	8.00
India	Repo rate	5.00	-275	4 Mar 09 (-50bp)	21 Apr 09	2Q 09 (-100bp)	5.00	4.00	4.00	4.00	4.50
Malaysia	Overnight policy rate	2.00	-150	24 Feb 09 (-50bp)	29 Apr 09	29 Apr 09 (-25bp)	2.00	1.50	1.50	1.50	1.50
Philippines	Reverse repo rate	4.75	-125	5 Mar 09 (-25bp)	16 Apr 09	16 Apr 09 (-25bp)	4.75	4.50	4.25	4.25	4.25
Thailand	1-day repo rate	1.50	-175	25 Feb 09 (-50bp)	8 Apr 09	8 Apr 09 (-50bp)	1.50	1.00	1.00	1.00	1.00
Taiwan	Official discount rate	1.25	-188	18 Feb 09 (-25bp)	26 Mar 09	26 Mar 09 (-25bp)	1.00	0.75	0.75	0.75	0.75

Bold denotes move since last GDW 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	2.1	-0.7	1.6	1.1	0.3	-2.1	-3.9	-0.7	1.5	1.8	1.6	1.5	2.3	2.7
Private consumption	2.1	-0.4	1.5	-0.5	0.4	0.3	-2.8	0.0	0.8	2.4	1.2	1.6	1.6	2.0
Construction investment	4.6	-1.9	-2.9	4.1	1.9	1.5	-7.0	-0.1	-4.4	-4.0	-5.2	-3.4	0.6	4.2
Equipment investment	15.7	-8.2	-7.6	39.8	0.7	1.3	-29.3	-6.1	-4.1	-8.1	-19.3	-4.1	4.3	4.2
Public investment	10.1	4.3	10.0	8.5	7.3	-6.0	6.6	6.3	6.7	7.1	9.5	12.0	14.4	15.6
Government consumption	3.6	4.0	3.5	4.4	2.3	0.1	5.9	6.0	4.1	5.2	4.1	2.4	0.9	2.0
Exports of goods & services	4.7	-11.3	0.3	13.5	-2.0	-3.3	-16.8	-23.6	-18.5	4.1	12.6	2.0	3.0	4.1
Imports of goods & services	10.6	-8.3	-1.2	15.4	5.6	-24.5	-9.6	-7.8	-4.7	-3.9	0.0	0.0	2.0	6.1
Contributions to GDP growth:														
Domestic final sales	4.1	-0.2	0.9	4.3	1.4	-1.7	-2.3	0.8	0.4	1.3	-0.6	1.1	2.2	3.3
Inventories	-0.6	-0.6	0.4	-2.2	0.7	-6.4	-0.1	1.9	3.8	-1.1	0.0	0.0	0.0	0.0
Net trade	-1.4	-0.3	0.3	-0.9	-1.8	6.3	-1.4	-3.4	-2.7	1.6	2.2	0.4	0.1	-0.6
GDP deflator (%oya)	6.7	3.5	1.8	6.7	8.6	7.5	6.6	4.0	1.7	1.9	1.8	1.7	1.7	2.0
Consumer prices (%oya)	4.4	1.7	2.4	4.5	5.0	3.7	2.7	1.6	0.9	1.7	2.1	2.3	2.6	2.8
Producer prices (%oya)	8.3	1.6	0.7	8.7	10.9	6.7	4.2	0.6	-0.5	2.3	1.1	0.5	0.4	1.0
Trade balance (A$ bil, sa)	453.2	478.5	476.7	108.4	119.1	127.7	123.8	119.7	117.8	117.2	117.1	118.1	119.8	121.7
Current account (A$ bil, sa)	-67.0	429.4	427.7	-14.1	-9.5	-6.5	111.7	107.5	105.4	104.7	104.6	105.1	107.8	110.2
as % of GDP	-6.2	35.5	34.2	-4.8	-3.1	-2.2	37.3	35.7	34.8	34.2	33.9	33.8	34.3	34.7
3m eurodeposit rate (%)*	6.0	5.9	3.3	5.8	7.1	7.2	7.6	6.7	5.9	3.6	3.3	3.3	3.4	3.4
10-year bond yield (%)*	5.6	5.6	3.7	5.6	5.7	6.4	6.1	6.2	5.8	4.4	4.3	3.5	3.5	3.7
US$/A$*	0.75	0.68	0.79	0.74	0.77	0.65	0.60	0.64	0.70	0.76	0.76	0.78	0.80	0.82
Commonwealth budget (FY, A$ bil)	13.5	-35.0	-68.0											
as % of GDP	1.1	-2.9	-5.4											
Unemployment rate	4.2	5.8	8.0	4.3	4.2	4.4	5.1	5.5	6.0	6.4	7.0	7.7	8.3	8.9
Industrial production	1.9	-4.9	3.5	1.8	-3.3	-17.5	-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)	0.3	-1.9	1.6	-0.8	-1.5	-2.9	-3.6	-1.7	0.3	1.6	2.2	2.1	2.5	1.4
Private consumption	0.0	-1.4	0.3	-0.8	-0.6	-2.4	-2.7	-1.2	0.2	0.2	0.2	0.4	1.1	1.5
Fixed Investment	-2.9	-10.9	7.8	7.1	-29.7	-11.1	-14.6	-9.2	0.6	8.3	10.3	11.1	12.6	10.0
Residential construction	-16.9	-23.4	9.2	-28.9	-27.6	-40.0	-28.0	-16.0	4.0	10.0	12.0	12.8	16.0	10.0
Other fixed investment	0.6	-8.3	7.5	17.1	-30	-4.0	-12.0	-8.0	0.0	8.0	10.0	10.8	12.0	10.0
Inventory change (NZ$ bil, saar)	1.7	1.1	0.9	0.3	0.6	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.3	0.3
Government spending	4.1	9.2	-0.8	0.7	4.2	8.1	18.2	9.2	6.9	1.7	-4.1	-3.5	-1.3	-9.2
Exports of goods & services	-1.0	-2.9	2.1	-1.0	-12.0	-5.0	-1.8	-0.2	0.8	1.7	2.5	3.0	2.0	4.0
Imports of goods & services	3.4	-4.3	2.2	16.0	-27.1	-8.0	0.1	0.4	0.6	1.2	0.9	4.0	5.0	5.0
Contributions to GDP growth:														
Domestic final sales	1.3	-2.2	1.9	6.2	-12.1	-2.7	-2.2	-1.3	1.6	2.4	1.6	2.1	3.4	1.4
Inventories	0.7	-0.5	-0.1	-0.6	2.9	-1.8	-0.8	-0.2	-1.3	-0.8	0.1	0.6	0.4	0.6
Net trade	-1.6	0.8	-0.2	-6.1	8.6	1.5	-0.6	-0.2	0.0	0.1	0.4	-0.6	-1.2	-0.6
GDP deflator (%oya)	2.7	1.4	3.0	3.7	1.6	-0.3	-0.6	0.8	2.7	2.7	2.8	3.0	3.1	3.1
Consumer prices	4.0	-0.4	1.6	6.7	6.2	-1.8	-1.6	-0.8	0.0	0.8	1.6	2.4	3.2	3.7
%oya	4.0	0.3	1.6	4.0	5.1	3.4	2.3	0.4	-1.1	-0.4	0.4	1.2	2.0	2.7
Trade balance (NZ$ bil, sa)	-3.9	-8.4	-9.4	-1.1	-0.9	-1.8	-1.3	-1.4	-2.3	-3.4	-3.5	-2.8	-2.2	-0.8
Current account (NZ$ bil, sa)	-18.0	-15.9	-16.2	-4.7	-4.1	-5.7	-4.1	-4.3	-3.7	-3.8	-4.4	-5.2	-5.3	-1.3
as % of GDP	-10.1	-9.2	-3.9	-10.4	-9.3	-13.1	-9.9	-8.5	-8.6	-9.8	-11.8	-2.9	-1.6	0.4
Yield on 90-day bank bill (%)*	7.9	2.6	3.1	8.8	8.2	6.0	2.8	2.3	2.5	2.8	2.8	3.0	3.2	3.5
10-year bond yield (%)*	6.0	3.8	3.8	6.5	5.9	5.3	4.5	3.8	3.4	3.3	3.5	3.7	3.9	4.1
US$/NZ$*	0.71	0.56	0.64	0.78	0.71	0.58	0.51	0.55	0.57	0.61	0.62	0.63	0.64	0.67
Commonwealth budget (NZ$ bil)	-1.8	-5.2	-6.2											
as % of GDP	-1.0	-2.9	-3.4											
Unemployment rate	4.0	6.1	7.4	3.9	4.2	4.4	5.2	5.8	6.5	7.0	7.2	7.4	7.5	7.5

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
23 Mar	24 Mar	25 Mar	26 Mar New Zealand : Current account (10:45 am) 4Q -4997 NZ$ mn	27 Mar New Zealand : GDP (10:45 am) 4Q -1.8 %oya Trade balance (10:45 am) Feb -150 NZ$ mn
30 Mar New Zealand : Building permits (10:45 am) Feb	31 Mar Australia : Private sector credit (11:30 am) Feb New Zealand : NBNZ business conf. (3:00 pm) Mar	1 Apr Australia : Building approvals (11:30 am) Feb Retail sales (11:30am) Feb	2 Apr New Zealand : ANZ commodity price (3:00 pm) Mar	3 Apr
6 Apr Australia: ANZ commodity price (11:30 am) Mar Trade balance (11:30 am) Feb	7 Apr Australia : RBA cash target (1:30 pm) Apr New Zealand : NZIER bus. opinion survey (11:00 am) 1Q	8 Apr Australia : Westpac consumer confidence (10:30 am) Apr Housing finance (11:30 am) Feb New Zealand : QV house prices Mar	9 Apr Australia : Unemployment rate (11:30 am) Mar	10 Apr *Holiday Australia, New Zealand*
13 Apr *Holiday Australia, New Zealand*	14 Apr Australia : NAB bus. confidence (11:30 am) Mar New Zealand : Retail sales (10:45 am) Feb	15 Apr Australia : Westpac consumer confidence (10:30 am) Feb	16 Apr	17 Apr Australia : Import price index (11:30 am) 1Q Export price index (11:30 am) 1Q New Zealand : CPI (10:45 am) 1Q

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
23 - 27 March	23 March	24 March	25 March	26 March	27 March
United Kingdom • Nationwide HPI (Mar)	Euro area • Trade balance (Jan) • Trichet speech Germany • CPI prelim (Mar) Hungary • NBH meeting Israel • BoI meeting Japan • MoF bus outlook (1Q) United States • Existing home sales (Feb)	Belgium • BNB bus survey (Mar) Euro area • PMI flash (Mar) France • INSEE bus survey (Mar) Japan • Flow of funds (4Q) • BoJ minutes South Africa • SARB meeting Taiwan • Export orders, IP (Feb) United Kingdom • CPI, BBA lending (Feb) United States • FHFA HPI (Jan) • Bernanke/Geithner testify before House on AIG	Germany • IFO bus survey (Mar) Japan • Trade balance (Feb) Mexico • Trade balance prelim (Feb) Norway • Norges bank meeting Poland • NBP meeting South Africa • CPI (Feb) United States • Durable goods (Feb) • New home sales (Feb)	Czech Republic • CNB meeting Euro area • M3 (Feb) Italy • ISAE bus survey (Mar) Taiwan • CBC meeting United Kingdom • Bus investment final (4Q) • Retail sales (Feb) United States • Real GDP final (4Q) • Geithner testifies before House on financial regulation	Euro area • Industrial orders (Jan) France • GDP final (4Q) Japan • CPI (Feb) • Retail sales (Feb) Korea • GDP final (4Q) United Kingdom • GDP final (4Q) United States • Consumer sent (Mar) • Personal income (Feb)
30 Mar - 3 Apr	30 March	31 March	1 April	2 April	3 April
United Kingdom • Halifax HPI (Mar)	Euro area • EC business surv (Mar) Germany • Retail sales (Feb) Japan • IP prelim (Feb)	Euro area • HICP flash (Mar) Germany • Labor mkt report (Mar) Japan • Hhold spending (Feb) • Nominal wages (Feb) • PMI mfg (Mar) • Shoko Chukin (Mar) • Unemployment (Feb) Korea • IP (Feb) Turkey • GDP (4Q) United States • Chicago PMI (Mar) • S&P/C-S HPI (Jan)	Euro area • Unemployment (Feb) Brazil: IP (Feb) Japan • Auto registrations (Mar) • BoJ Tankan (1Q) Korea • CPI, Trade balance (Mar) United States • ADP employment (Mar) • Construct spend (Feb) • Light car sales (Mar) • Pending homes (Feb) PMI mfg surveys • China, Euro area, UK, US (Mar)	Euro area • ECB meeting Singapore • PMI mfg (Mar) United States • Factory orders (Feb)	Indonesia • BI meeting Turkey • CPI (Mar) United States • Employment (Mar) • Bernanke speaks at credit mkt conference PMI services surveys • Euro area (Mar) • Japan (Mar) • United Kingdom (Mar) • US nonmfg ISM (Mar)

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