Australia and New Zealand - Weekly Prospects

Summary

- Inflation data in **Australia** last week will fail to set alarm bells off at the RBA. Minutes from the Board's April 7 meeting signalled that RBA officials are in no hurry to ease policy further—just yet. Further policy easing is expected, however. We forecast that the RBA's easing cycle will terminate at a cash rate of 2.5% in 4Q, with two 25bp cuts to be delivered between now and the end of the year. It is particularly difficult to see the RBA "sitting on its hands" as the unemployment rate rockets higher in 2H09. Data this week should show that credit demand remained subdued in March, as business lending contracted and precautionary saving rose.

- The data flow picks up in **New Zealand** this week, with the release of business confidence and trade data. The highlight will be the RBNZ's official cash rate announcement Thursday. Our call is for Governor Alan Bollard to deliver a 50bp cut to the OCR. Even though we believe that economic conditions warrant a larger move, Dr. Bollard has made clear his desire to maintain the cash rate at a level attractive to offshore investors so New Zealand can continue funding its massive current account gap. In our view, the risk of a 25bp move recently has diminished, given that monetary conditions have tightened.

- Just as last year's financial crisis brought the **global economy** to its knees, this year's synchronized economic recovery is likely to spur financial-market healing. The signs that the global economy is on track to move out of recession are accumulating. This improvement is, in turn, calming fears and promoting a positive feedback loop between economic fundamentals and credit and equity markets. As a result, the risk profile around our current forecast of a subdued 2H09 recovery is shifting to the upside.

- Consistent with the notion that firms have gained traction in their adjustments, **manufacturing surveys** are rising everywhere, alongside a synchronized movement upward in orders/inventory ratios. The April release of key business surveys this week—the J.P.Morgan global PMI, the US ISM, and Japan's Shoko Chukin survey—should reinforce this message. Evidence that a rebound in exports and tech activity is under way in Emerging Asia has, in the past, been an important early signal that a global upturn lies ahead.

- We are encouraged by the latest news confirming a firmer tone from **global consumers** and the steady announcements of additional policy easing across the globe. At present, these developments are consistent with our forecast that demand conditions will improve only gradually, as business adjustments linger and still-tight financial conditions weigh on spending. However, experience shows that swings in demand can surprise in an environment in which they are synchronized globally and generate positive financial-market feedback. With interest-sensitive spending levels very low, there is powerful fuel for a bounce if this fire can be lit with a financial-sector spark.

This week's highlight

Thursday's RBNZ decision is a close call. We look for a 50bp cut to the OCR and a dovish statement.

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Data and event previews - Australia and New Zealand

Date	Time [a]	Data/event	Forecast JPMorgan	Forecast Consensus [b]	*Previous*
Wednesday, April 29	8.45am	NZ trade balance (NZD mn, Mar.)	**100**	225	*489*
Wednesday, April 29	1.00pm	NBNZ Business Confidence Index (Apr.)	**-40**	na	*-39.3*
Thursday, April 30	7.00am	RBNZ announces Official Cash Rate	**2.50**	2.50	*3.00*
Thursday, April 30	8.45am	NZ building permits (%m/m, Mar.)	**na**	na	*11.6*
Thursday, April 30	10.00am	Aust. Conference Board Leading Index (%m/m, Feb.)	**na**	na	*-0.6*
Thursday, April 30	11.00am	Aust. HIA new home sales (%m/m, Mar.)	**na**	na	*3.9*
Thursday, April 30	11.30am	Aust. private sector credit (%m/m, Mar.)	**0.2**	0.3	*0.0*
Friday, May 1	9.30am	Aust. AiG Performance of Manufacturing Index (Apr.)	**na**	na	*33.4*

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

Australia

Aust. private sector credit (%m/m, Mar.) - Credit outstanding should grow 0.2%m/m in March, remaining subdued owing to a pull back in business lending and a rise in precautionary saving. Housing credit should have remained steady, buoyed by the Government's decision to expand the First Home Buyers' grant, and personal credit growth should have remained very weak.

New Zealand

NZ trade balance (NZD mn, Mar.) - The trade balance should narrow to a surplus of NZ$100 million. Growth in imports and exports should slow, reflecting the weakening in domestic and global demand.

NBNZ Business Confidence Index (Apr.) - Expectations that the RBNZ is nearing the end of its easing cycle will weigh on business confidence, which we expect to read at -40 in April. The more important reading of firms' own activity expectations will remain near record lows, pointing to a further contraction in economic growth in coming quarters.

RBNZ official cash rate announcement - Our forecast calls for a 50bp rate cut. A larger move, although warranted, carries little risk given Govenor Bollard has reiterated his desire to maintain the OCR at levels attractive to offshore investors. Also, the risk of a 25bp move recently has diminished, owing to a tightening in monetary conditions. We believe that a terminal cash rate of 2.25% will be reached in the current easing cycle, although the risks remain skewed toward an even lower terminal rate.

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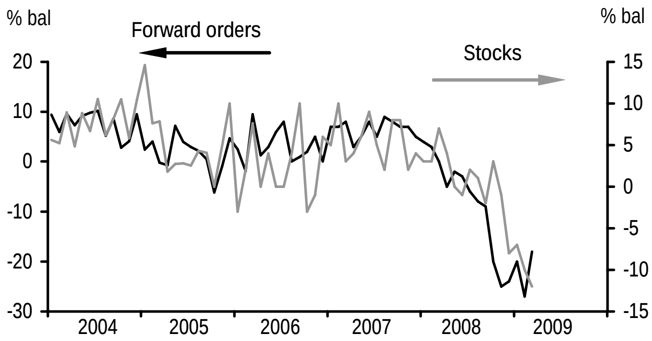
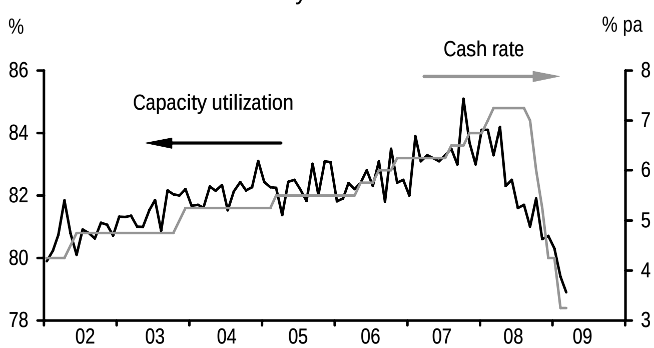
Feature charts

Australia: NAB Business Survey



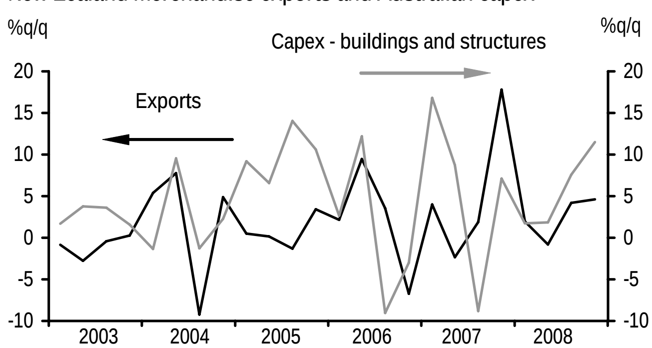
Firms have been cutting production in the anticipation of weak demand. Once inventories have been run down to a level that reflects anticipated sales (approximated by forward orders) production can again be ramped up. Inventories subtracted 1.6 percentage points off Aussie GDP growth in 4Q, leaving ample scope for re-stocking in 2009.

Australia: NAB business survey and RBA cash rate



Demand-driven inflation has been the predominant concern for the RBA in recent times. As the Australian economy encounters its first recession since the early 1990s, the effect of shocks to potential output from a sustained spike in unemployment cloud the inflation picture. The inflation outcome and interest rate profile will be, in part, determined by the impact on capacity utilization of a recovery in demand and structural unemployment.

New Zealand merchandise exports and Australian capex



The dependence of the New Zealand economy on external demand is certainly a liability in the current financial climate. However, Kiwi exports of manufactured goods will be supported by the Australian Government's boost to the first home buyers' grant and significant undersupply of housing in Australia—both promote construction activity, which draws heavily from Kiwi building materials.

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Australia

- **RBA to sit on sidelines in coming months**
- **Credit demand probably subdued in March**
- **Core inflation picked up in 1Q**

Inflation data in Australia last week will fail to set alarm bells off at the RBA. Minutes from the Board's April 7 meeting released last Tuesday signalled that RBA officials are in no hurry to ease policy further—just yet. We do forecast that the RBA's easing cycle will terminate at a cash rate of 2.5% in 4Q, with two 25bp cuts to be delivered between now and the end of the year. It is particularly difficult to see the RBA "sitting on its hands" as the unemployment rate rockets higher in the second half of the year.

Private sector credit growth subdued

The RBA's measure of private sector credit outstanding should grow 0.2%m/m in March after a flat reading in February. This would mean that annual credit growth would slow from 5.4% to just 4.7%, marking the slowest rate since 1993. Demand for credit has eased significantly in recent months, as a rising proportion of the population has become reluctant to take on additional debt and as business lending has pulled back considerably.

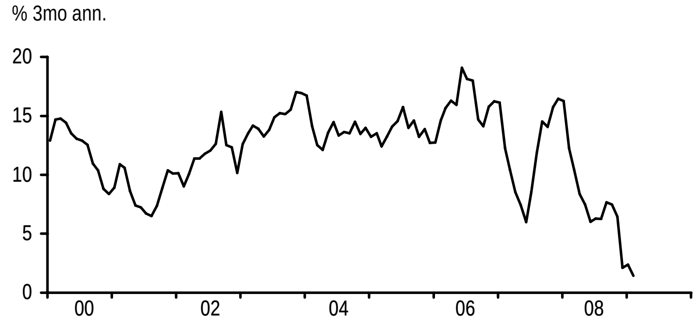
The credit data should show a moderation in the rate of contraction in business lending, which slumped 0.6%m/m in February. That said, we believe that the pool of outstanding credit to businesses will shrink further, given anecdotal evidence that investment plans are being scaled back, postponed, and cancelled amid deteriorating global conditions. Though the 4Q business investment survey indicated that firms plan to spend even more on capex in 2009-10, much of this, in our view, will not be realized (see in last week's *GDW* "Aussie firms' true intentions overstated in capex survey").

In March, growth in housing credit should have remained steady, buoyed by the government's decision to expand the First Home Buyers' (FHB) grant last October. Personal credit growth should have remained very weak, owing to tighter lending standards, the wealth destruction under way in the highly-leveraged Aussie household sector, and low levels of consumer confidence.

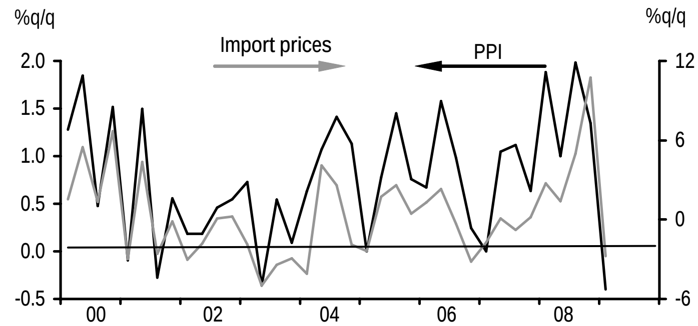
RBA Board flirted with no policy action

The release last week of the minutes from the RBA's meeting on April 7, at which officials trimmed the cash rate 25bp, indicated that the main question facing the Board two weeks ago was *whether there was actually a case for additional monetary easing*. At the time, a "modest reduction" to the cash rate was deemed suitable after officials weighed the impact of the significant amount of stimulus already delivered against the recent deterioration in the economic outlook.

Australia: private sector credit aggregates



Australia: PPI and import prices



The Board recognized that, despite tentative signs of improvement, the sharp contraction in the global economy in 4Q08 had continued into 2009. This has resulted in further downgrades to the economic outlook for developing and emerging economies. Had the outlook for the Australian economy not deteriorated as a result of these downgrades, the Board minutes hinted that the RBA may have stood pat in early April.

On the domestic economy, Board members in early April noted that household spending recently had been supported by a sharp decline in interest payments which, as a share of disposable income, had fallen several percentage points since the RBA's assertive policy easing began in September last year. FHB demand had picked up in the wake of the expansion of the grant last October, which had prevented even further weakness in building approvals and supported house prices at the lower end of the property price spectrum.

The Board acknowledged, however, that labour market conditions had continued to soften, consumer sentiment had fallen, and credit growth had slowed, owing to both reduced demand and tighter lending standards. Business conditions were weak and investment plans had been scaled back; this change in capex intentions, the RBA believed, would become evident in the data throughout the remainder of 2009.

A future key point of policy consideration

Prior to the release of the RBA's minutes, we had toyed with the idea that the minutes might provide some colour on the degree to which elevated bank funding costs played a role in the Board's April decision. There was no evidence, however, that bank behaviour was a driver of the decision to trim the cash rate two weeks ago. The 25bp move was, therefore, not a direct attempt to dissuade the Aussie banks from raising home loan rates in response to higher commercial bank funding costs. That said, this may be a key point of policy consideration for RBA officials, after two of the largest domestic banks last week raised rates on their fixed rate loans.

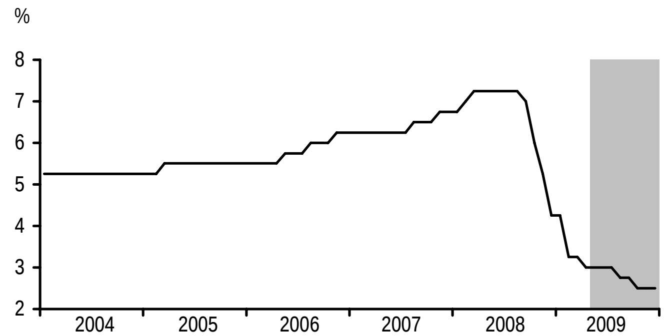
We expect further cuts to the official cash rate, although we acknowledge that the RBA appears to have recalibrated rate moves to 25bp. The risk of a May move deteriorated significantly after the minutes signalled that RBA officials are in no hurry to provide further stimulus to the economy at this point in time.

We maintain our forecast for the RBA to cut the cash rate 25bp in August. Waiting until August allows time for officials to assess the impact on the economy of the policy stimulus already delivered and see if there is any further reaction from other commercial banks in response to the recent rise in bank funding costs. Also, the argument that the RBA wants to preserve monetary policy power for use when unemployment soars remains valid, so a plausible case can be made for officials to wait until 2H09 before delivering further policy support.

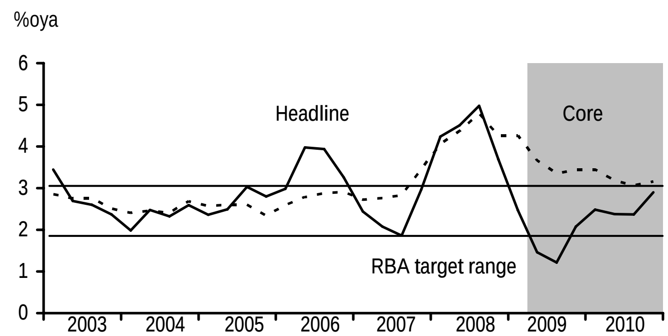
Australia faring better, RBA reiterated

RBA Governor Glenn Stevens delivered a speech to the Australian Institute of Company Directors' in Adelaide last Tuesday. The speech was entitled 'The Road to Recovery'. The Governor acknowledged that Australia, although in reces-

Australia: RBA cash target rate



Australia: CPI



sion, is faring better than most countries offshore and is well positioned to ride on the coattails of a global economic recovery when it does emerge.

Early in his speech, the Governor acknowledged that Australia is in recession. This recession, the eighth since World War II, had been marked by a reduction in credit availability, a drop in employment, a fall in confidence, and a decline in the terms of trade. The Governor highlighted, though, that even with large falls in contract prices for bulk commodities, the terms of trade could end the 2009 year "around 40% higher than the average for the period from 1980 to 2000." A significant decline in business investment also has become increasingly likely.

The Governor reiterated that Australia is well-equipped to deal with the current economic climate, the main reasons being: political stability; the government has not had to give direct financial support to the banking system; public finances remain in good shape; sensible policy frameworks exist; trade and investment channels remain open; and, most importantly in our view, the nation is exposed to the region with the most dynamic growth potential in the world—Asia.

Nonetheless, subpar growth should be expected in the years ahead. In our forecasts, Australia will contract 1.2% in 2009, before growing just 1.7% in 2010. This “rebound”—which is mild in comparison to the 5% average growth rates recorded in the years directly following previous recessions—in 2010 will depend on an anticipated improvement in global growth and the resulting boost to Australia’s exports. Households remain in a rare state of retreat, previously upbeat businesses are slashing investment and hiring, and only a big rise in public spending is taking up some of the slack left by the weakening private side of the economy.

Core inflation measures accelerated

Headline inflation printed at 2.5%oya in 1Q (J.P.Morgan 2.6%, consensus 2.8%), falling back within RBA’s 2-3% target range for the first time since 3Q07. The result was sharply lower than the 3.7% recorded in 4Q. From the previous quarter, consumer prices grew a mere 0.1%q/q (J.P.Morgan 0.2%, consensus 0.5%), after falling 0.3% in 4Q, the first quarterly fall since 2006.

The changes in the CPI components were mostly in line with our expectations. The moderation in headline inflation resulted from price falls in automotive fuel (-8.1%q/q) and deposit and loan facilities (-14.1%) as interest rate margins narrowed in the wake of aggressive cuts to the RBA’s official cash rate. The most significant price rises were in food, utilities, rents, and pharmaceuticals. Pharmaceutical prices posted the largest rise (+13.0%q/q), owing to the cyclical reduction in the proportion of consumers qualifying for subsidized medication under the Pharmaceuticals Benefit Scheme at the start of each year.

After falling sharply in the previous quarter, growth in the RBA’s trimmed mean and weighted median accelerated considerably, rising 1.0%q/q and 1.2%, respectively. The rise in the core measures of inflation reaffirmed our view that the RBA will stand pat in coming months.

Data releases and forecasts

Week of April 27 - May 1

Thu
Apr 30
11:30am

Private-sector credit
Seasonally adjusted

	Dec	Jan	Feb	Mar
(%m/m)	-0.2	0.6	0.0	0.2
(%oya)	6.5	6.1	5.4	4.7

Review of past week’s data

Producer price index
Percentage change

	3Q08	4Q08	1Q09	
(%oya)	5.6	6.4	~~4.3~~	*4.0*
(%q/q)	2.0	1.3	~~-0.1~~	*-0.4*

Consumer price index
Percentage change

	3Q08	4Q08	1Q09	
Headline				
(%oya)	5.0	3.7	~~2.6~~	*2.5*
(%q/q)	1.2	-0.3	~~0.2~~	*0.1*
Core (trimmed mean)				
(%oya)	4.8	4.3	~~3.7~~	*4.1*
(%q/q)	1.2	0.6	~~0.6~~	*0.1*

Sales of new motor vehicles
Units, seasonally adjusted

	Jan		Feb		Mar	
(%m/m)	-1.1		~~-3.5~~	*-4.0*	__	*-3.2*
(%oya)	~~-17.1~~	*-17.2*	~~-18.6~~	*-18.8*	__	*-22.6*

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New Zealand

- **RBNZ to cut OCR 50bp Thursday**
- **Governor Bollard has ruled out larger rate cuts**
- **Business confidence should have remained weak**

The data flow picks up in New Zealand this week, with the release of business confidence and trade data. The highlight, though, will be the RBNZ's official cash rate (OCR) announcement Thursday. Our call is for Governor Alan Bollard to deliver a 50bp cut to the OCR. Even though we believe that economic conditions warrant a larger move, Bollard has made clear his desire to maintain the cash rate at a level attractive to offshore investors so New Zealand can continue funding its massive current account gap.

RBNZ to slash 50bp from cash rate

Our forecast calls for the RBNZ to cut the OCR 50bp. Though the dismal economic outlook may suggest that a larger cut is warranted—we forecast at least six quarters of negative GDP growth—Governor Bollard has signalled that any future rate cuts would be smaller than those recently delivered. The OCR was slashed 150bp in January and 50bp in March. In our view, the risk of a 25bp move this week recently has diminished considerably, given that elevated longer-term interest rates and recent NZD appreciation have caused monetary conditions to tighten.

The rise in wholesale interest rates since the last RBNZ decision six weeks ago, a rise which the Governor has said is "inconsistent with the monetary policy outlook," supports the need for a larger cut to the cash rate. This is especially true when considering the rise in some domestic retail banks' mortgage rates and the recent flood of customers to longer-term, fixed rate loans. If this current distortion in rates markets were to continue for an extended period, it would put further pressure on firms and households attempting to borrow; this would stifle already subpar economic growth.

We believe that a terminal cash rate of 2.25% will be reached in the current easing cycle. That said, with the domestic economy still soggy and conditions offshore still problematic, the risks remain skewed toward an even lower terminal rate.

Business confidence should weaken

The NBNZ business confidence survey this week should show a mild deterioration in confidence in April, owing to growing expectations that the RBNZ is near the end of its easing cycle. The confidence index improved marginally in March to -39.3, although should fall to -40 in April, indicating that 40% of respondents expect business conditions to deteriorate in the coming year. The more important reading of firms' own activity expectations will remain near the record low of -21.5 reached in December, pointing to a further contraction in economic growth in coming quarters.

New Zealand: JPM monetary conditions index

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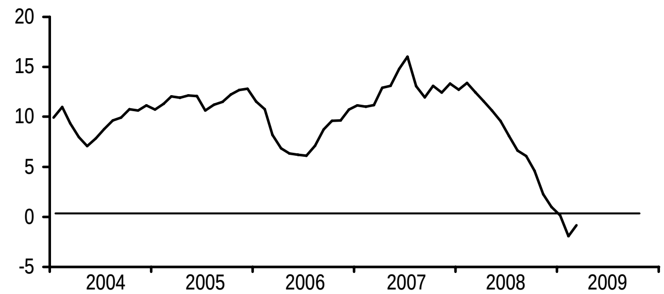
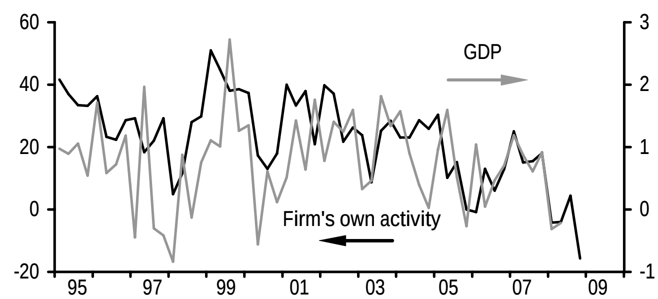


New Zealand: NBNZ business outlook survey and GDP growth

Net balance, business activity, average over quarter %q/q



Data releases and forecasts

Week of April 27 - May 1

Wed Apr 29 10:45am

Trade balance
Not seasonally adjusted

	Dec	Jan	Feb	Mar
Trade balance (NZ$ mn)	-342	-104	489	100
Exports (NZ$ mn)	3839	3172	3456	3227
Imports (NZ$ mn)	4180	3277	2966	3126

The trade balance should narrow to a surplus of NZ$100 million in March from NZ$489 million in February, which was the first surplus in a year. Growth in imports and exports should slow, reflecting the weakening in domestic and global demand.

Wed
Apr 29
3:00pm

NBNZ business confidence

	Dec	Jan	Feb	Mar
% balance of respondents	-35.0	-41.2	-39.3	-40.0

Thu
Apr 30
9.00am

RBNZ cash rate announcement

50bp cut to OCR expected.

Thu
Apr 30
10:45am

Building consents

Not seasonally adjusted

	Dec	Jan	Feb	Mar
(%m/m)	-3.5	-28.0	30.4	__
(%oya)	-35.2	-53.4	-43.5	__

Review of past week's data

Visitor arrivals

Non seasonally adjusted

	Jan		Feb		Mar	
Total (%m/m)	-7.4		2.9		__	*-0.5*

Net permanent immigration

Non seasonally adjusted

	Jan		Feb		Mar	
Monthly (000s)	1.2		3.6		__	*0.3*
12 month sum (000s)	4.5		6.2		__	*7.5*

Credit card spending

Percentage change

	Jan		Feb		Mar	
(%oya)	~~-2.2~~	*-2.4*	~~-1.8~~	*-2.0*	__	*-5.0*

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Global Essay

- **Accumulation of improvements across the globe suggests that the synchronized downturn will be followed by a synchronized rebound**
- **Turn in demand looks modest and will limit recovery; however, risks are shifting along with improving financial conditions**
- **Small central banks take a go-slow approach on QE**
- **Asia will likely grow this quarter**

Growth gestalt

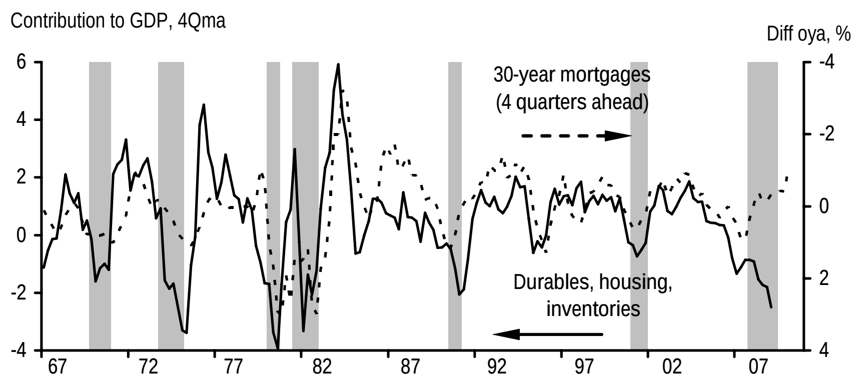
Just as last year's financial crisis brought the global economy to its knees, this year's synchronized economic recovery is likely to spur financial-market healing. The signs that the global economy is on track to move out of recession are accumulating. This improvement is, in turn, calming fears and promoting a positive feedback loop between economic fundamentals and credit and equity markets. As a result, the risk profile around our current forecast of a subdued 2H09 recovery is shifting to the upside.

Taken individually, the data points of recent weeks don't amount to all that much. Business surveys have improved, but in most cases remain at levels that are still deep in the recession shed. Even a benign reading of the latest hard activity indicators produces the conclusion that the global economy remains in contraction mode. Indeed, last week's disappointing UK 1Q09 GDP release is set to be followed this week by a report of a further sharp slide in the US (-4.5%), that leaves global growth tracking an annualized decline of 6% for the quarter just completed. What's more, industrial production and employment continued to slide as the quarter came to an end.

However, if these pages serve any purpose, it is to highlight that business cycles are made up of far more than the sum of individual data points. Global industry is synchronized and displays patterns that reliably offer guidance to the direction ahead. This guide is now flashing green. Although production is falling, it is evident that there was a major inventory drawdown across the globe last quarter. Consistent with the notion that firms have gained traction in their adjustments, manufacturing surveys are rising everywhere, alongside a synchronized movement upward in orders/inventory ratios. The April release of key business surveys this week—the J.P.Morgan global PMI, the US ISM, and Japan's Shoko Chukin survey—should reinforce this message. Evidence that a rebound in exports and tech activity is under way in Emerging Asia has, in the past, been an important early signal that a global upturn lies ahead.

While industry is poised for recovery, the fuel for growth needs to come from rising final demand. Although demand conditions are inherently less synchronized, there are currently three powerful global currents. First, firms are aggressively reducing costs, in line with a shift in their expectations of growth and credit availability. Second, household demand is stabilizing after a collapse in durable spending late last year. Behind this stabilization lies the swing from high to low inflation that has boosted purchasing power and a fading of the fears that produced a significant rise in precautionary saving. Finally, there is the stimulus being provided by both fiscal and monetary policies.

US interest sensitives and mortgage rate changes



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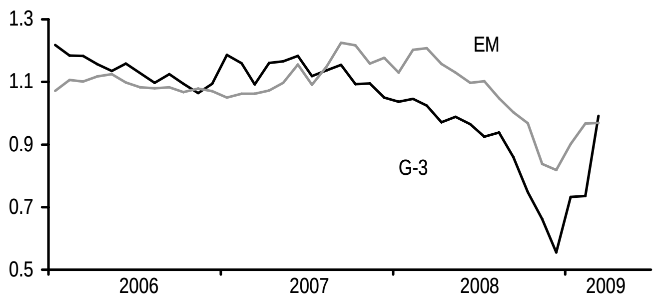
Manufacturing PMI ratio of new orders to inventory

Ratio, sa



We are encouraged by the latest news confirming a firmer tone from global consumers and the steady announcements of additional policy easing across the globe. At present, these developments are consistent with our forecast that demand conditions will improve only gradually, as business adjustments linger and still-tight financial conditions weigh on spending. However, experience shows that swings in demand can surprise in an environment in which they are synchronized globally and generate positive financial-market feedback. With interest-sensitive spending levels very low, there is powerful fuel for a bounce if this fire can be lit with a financial-sector spark. Indeed, coming out of earlier deep US recessions, sharp rebounds in interest-sensitive demand and inventories have proven to be the catalyst for a growth bounce. As such, signs that a positive feedback loop may be developing between financial conditions, improving fundamentals, and private sector confidence raise a real possibility that global growth could rebound smartly late this year.

Asia has left the ICU

Exports and IP recently have stabilized in a number of key EM Asian economies, supporting our view that the region will post a solid GDP gain this quarter. Indeed, GDP growth resumed in Korea last quarter, and March exports and IP are now above their 1Q averages for China, Korea, and Taiwan. This week's April trade report for Korea should reinforce the message that a recovery is under way. To be sure, bellwether Singapore's dismal March IP report did not fit with this pattern. However, recent weakness has been focused in the volatile biomed category rather than in electronics, and Singapore's exports are firming in line with its bigger neighbors.

Although Japan is lagging the rest of Asia, it is likely to take part in the regional recovery starting next quarter. There is a clear pattern of improvement in recent Japanese indicators—most notably in the monthly business surveys —and last week brought signs that the recent firming in EM Asian exports has extended to Japan. This week's March IP report is expected to show the good news extending to manufacturing. We look for a 1.2%m/m increase. The March report also will contain manufacturers' production plans for April and May. If these are positive, this will raise the odds that Japan's economy is close to recovery. Also important to watch will be the Shoko Chukin small business survey, which is expected to climb rapidly in the next few months, to be consistent with our forecast for an upturn in GDP in 3Q.

Euro area is still contracting

Our forecast does not look for a recovery in Western Europe until early next year. Against this backdrop, the continued advance in the Euro area PMI, including last week's impressive April flash release, comes as a surprise. Although the survey remains at a very low level, the large increases in the output and new orders components suggest that the underlying pace of contraction in the economy could be moderating. This point is reinforced by the likelihood that small changes in the PMI may be associated with relatively larger shifts in GDP growth when the economy is contracting at such an extreme pace. That said, at a level of 40.5, the Euro area composite PMI needs to rise to about 47 to be consistent with stable GDP.

Extreme rise in DM budget deficits

The severe slide in economic activity has been met by a widespread and vigorous fiscal response in the form of active stimulus plus the cushioning from automatic stabilizers. Much of this stimulus is still in the pipeline, which is a major positive for the outlook. However, on the downside of this effort are the massive budget deficits that will be slow to recede. Moreover, last week's developments in the UK and Germany are a reminder that there is little political will for supplying additional support if it is needed. This probably extends to the US as well.

Developed markets are in a particularly precarious position, with a deficit estimated at 9.3% of GDP in 2009, topping 10% in the US, the UK, and Japan. Only modest improvement is likely in 2010. By contrast, EM governments will run considerably lower budget deficits. This reflects better initial

Fiscal balance
%GDP

	2007	2008	2009	2010
Global	-0.7	-2.6	-8.1	-6.4
Developed	-1.0	-3.1	-9.3	-7.4
US	-1.2	-3.2	-10.6	-8.3
Japan	-2.5	-6.4	-13.5	-6.7
Euro area	-0.6	-1.9	-5.7	-6.3
UK	-2.6	-6.2	-13.0	-13.1
Emerging	0.5	-0.7	-3.8	-2.8
Latin America	-0.2	0.0	-2.7	-2.4
Brazil	-2.2	-1.5	-2.7	-3.0
Mexico	0.0	0.0	-2.5	-2.5
Em Asia	0.8	-1.4	-3.7	-2.5
China	0.6	-0.4	-3.0	-2.0
Korea	3.8	1.3	-2.4	-0.4
CEEMEA	0.6	0.2	-5.3	-4.1
Hungary	-5.0	-3.3	-3.8	-3.5
Poland	-2.0	-2.5	-4.0	-3.8
Russia	5.4	4.1	-7.6	-5.0

positions and the fact that EM governments do not typically have the ability to attract financing for large deficits either domestically or from abroad. Some countries in the CEEMEA group, like Hungary, face the added constraint of having turned to the IMF for assistance. One condition for this help is fiscal belt-tightening, resulting in little net change in Hungary's budget position this year vs last.

BoC and Riksbank not ready for QE

Last week held the potential for an expansion of the number of central banks engaged in QE. With rates approaching zero, both the BOC and Sweden's Riksbank were candidates to join the club. In the event, both banks cut rates while taking a go-slow approach with regard to QE. Importantly, both the BoC and the Riksbank forecasted that they would meet their inflation target under current policy. The BoC visibly stretched to make this claim, slashing its estimate of potential growth from about 2.5% to an average of 1.5% for the next few years. The risks are heavily skewed to the downside of these inflation projections, given the incredible amount of resource slack that is building up in these countries and across the globe. Nonetheless, it will take time for the disinflationary pressures of slack to be realized in a meaningful forecast error that might prompt further action. One notable feature of both banks' statements was their commitment to maintaining the current level of rates for an extended period of time, a more explicit version of what the Fed did back in 2003.

Tentative easing in UK financial conditions

Tentative signs of greater credit availability for household and corporate borrowers are evident in the UK. The BoE's survey of lenders pointed to improving mortgage and corporate loan availability in 2Q, and the data on lending and money supply growth have improved over the first couple of months of the year (this week's March figures should extend the trend), as have data on housing market activity. The fly in the ointment comes from the backup in government bond yields, which accelerated this week as the Chancellor confirmed a bleak outlook for public finances. 10-yr gilt yields have returned to levels seen prior to announcement of QE in early March. Mindful of the need to retain institutional credibility as QE is undertaken, the MPC is unlikely to fight a rise in yields driven by concerns on the fiscal outlook. Although the Chancellor respected Mervyn King's request to refrain from significant additional fiscal stimulus, the ability of the MPC to extend policy support if needed depends in part on sustaining the tolerance of markets as public sector debt rises rapidly.

Central Europe turning into stiff headwind

As in EM Asia, exports and IP also are showing tentative signs of bottoming in Central Europe, a pattern that should be maintained in this week's April manufacturing PMIs. One source of support is the revival in German vehicle sales driven by the car scrappage subsidy scheme. That said, compared to Asia, there are much stiffer headwinds that may block a quick return to growth. The region's exporters are heavily geared to a demand recovery in Western Europe, which is expected to be slow to develop. As noted above, a sharp pullback in capital inflows has constrained regional policymakers, with some turning to the IMF for assistance. The resulting sharp tightening in domestic financial conditions is expected to dampen domestic demand, and contribute significantly to an increasingly intense labor market adjustment.

Markets - Australia and New Zealand

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

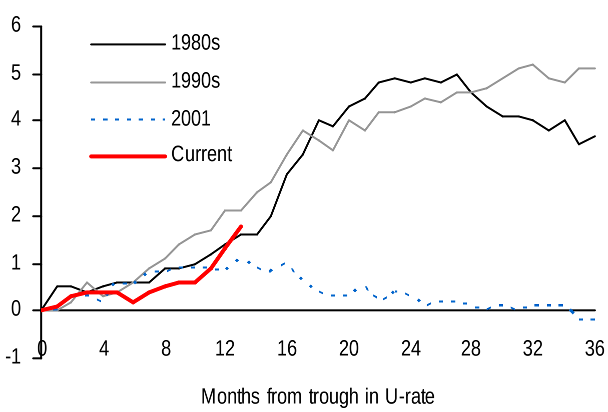
Australia

- There was little new information contained in the RBA minutes or a speech by the RBA Governor last week for the near term monetary policy outlook. While Governor Stevens confirmed that Australia is in recession, the RBA seems broadly comfortable with the current policy setting for the time being.
- The higher than expected inflation numbers and the prospect of a third fiscal stimulus package to be announced in the Federal Budget means that the RBA is unlikely to ease again before Q3 2009.
- The 1Q CPI numbers were a nasty reminder of how long broad-based price pressures can remain in the system. While falling growth and rising unemployment should ultimately drag inflation lower, the process may take longer than initially expected. Nonetheless, the inflation numbers reinforce that the front-end of the AUD curve looks rich at current levels.
- The recent rally in 3s leaves the AUS market mid-range, in our view. We define the current trading range as 96.30/35 to 96.70/75. Tactically, yields should move to the top of the range if equity markets continue to falter (as our US equity strategists expect). Elsewhere, we note that the AUS 5-year swap looks cheap relative to 2-year and 10-year swap.

New Zealand

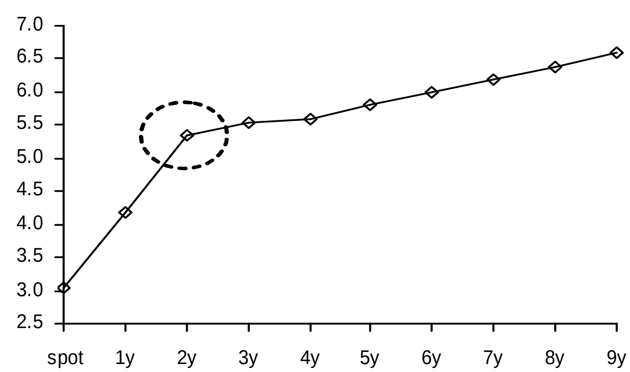
- The key event for New Zealand this week is the OCR announcement. The stakes are high; the RBNZ needs to convince the market that rates will remain low for longer (à la the Bank of Canada).
- While received front-end positions and front-end curve flatteners are probably the right trades to hold, the entry levels are not particularly attractive. Instead, we consider where relative value lies on the NZD swap curve. We like paying the 2s3s4s swap butterfly on the view that the 2y1y swap yield is too high relative to 1y1y and 3y1y yields.
- Strategically, the macro picture is little changed. We would look to receive on any back up in yields.

Chart 1: So far the rise in the Australian unemployment rate is well within the bounds of historical experience...
Percentage Points



Source: J.P. Morgan and ABS

Chart 2: NZD 1y forward swap curve – the 2y1y point suggests relative value opportunities
Percent



Source: J.P. Morgan

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JPMorgan View - Global Markets

Midway into the recovery trade

Portfolio strategy: we are about half way between the trough in risky markets and the levels we target as consistent with recovery. Stay long credit and equities.

Economics: there is now a modest upside risk bias to our growth forecasts for this year, but not yet enough to raise forecasts.

Fixed income: taxable muni BABs are likely to attract international investors.

Equities: the recovery-anticipation rally typically lasts at least until the end of the recession, which we see in June.

Credit: take profit on tier 1 and upper tier 2 in Europe as the market has rallied significantly, and focus the long in lower tier 2.

Fx: modest dollar weakness, but stronger commodity currencies.

Alternatives: copper to move below $4000.

Equities were slightly up last week, and credit spreads continue to come in. Bonds and currencies are little changed. We **stay long risky assets across the world** as investors are gradually shifting to the view and position that the global recession will end this year rather than next year. We are thus seeing institutional managers reducing their underweights in risky assets, with only few investors going outright overweight. This tells us there is further upside, over coming months in both equities and credit. In broad terms, we are **midway** between the trough in risky markets and the target levels we consider consistent with an economic recovery, even as weak and slow as we forecast this recovery to be.

The economic data are indeed broadly **tracking our forecasts** of an inventory driven recovery in 2H, but they are not running ahead of them. The synchronized and broad international nature of this support, however, does indicate there is now a **modest upside risk to our global growth forecasts for the next few quarters.**

Bonds are under pressure for the next month, but should perform better over coming quarters. The simple unwinding of recession trades will lead some investors to sell the government bonds they held as insurance against further falls in equities and credit. But once these positions have been much reduced, bonds will do better as a number of central banks are heavy QE-buyers in their own market. We continue to discuss with clients how to hedge the risk of an eventual spike in inflation caused by debt monetization, but we all recognize that global inflation is more likely to fall significantly over the next 1-2 years.

10-yr Government bond yields

	Current	Jun 09	Sep 09	Dec 09	Mar 10
United States	2.99	2.30	2.20	2.10	2.00
Euro area	3.19	3.05	3.00	3.00	3.05
United Kingdom	3.49	3.25	3.45	3.80	4.00
Japan	1.42	1.10	1.20	1.40	1.30
Foreign exchange					
	Current	Jun 09	Sep 09	Dec 09	Mar 10
EUR/USD	1.33	1.30	1.32	1.34	1.35
USD/JPY	97.0	92	98	104	107
GBP/USD	1.47	1.37	1.38	1.43	1.47
Commodities - quarterly average					
	Current	2Q09	3Q09	4Q09	
WTI ($/bbl)	51	50	50	55	
Gold ($/oz)	913	950	975	1000	
Copper($/m ton)	4342	3200	3250	3400	
Corn ($/Bu)	3.85	5.00	4.90	4.70	

Source: J.P. Morgan, Bloomberg, Datastream.

There is a healthy debate in the market about how the **US bank stress tests** will affect the outlook for banks and the economy. Relative to the wide range of opinions we have heard, we are **nearer the optimistic side.** We have no great disagreements with consensus forecasts for further bank losses, but are more confident that strong bank earnings and other restructuring efforts will be able to cover these losses without massive needs for new bank capital over the next 2 years.

Fixed income

US Treasuries were close to flat last week and we **remain long** on a view that Fed purchases and balance sheet expansion will ultimately drive yields down. Furthermore, US yields have recently displayed strong mean-reversion, and are currently trading at the high end of the range. In the **Euro area**, a continuation of the rally in risky markets makes us less bullish at the long end. Instead, we **focus risk at the short end on attractive carry**. We are similarly **long at the short end in Japan on high carry to risk**.

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In the UK, we were neutral ahead of the Budget on issuance fears. Indeed, at £220bn, issuance exceeded our £210bn upside risk scenario and gilts sold off. Some are now concerned the UK's AAA rating is at risk. In our view, the rating is safe, barring another wave of bailout inducing bank failures, which we do not expect. On the whole, we view the post-budget repricing as fair and **remain neutral at the long end**. We do see **a good carry opportunity in the 2yr sector, where 3m carry + slide is a high 45bp**. Also, based on historical precedent, we do not expect to see any issuance in the 2yr sector.

This month saw the first offerings of US municipal market debt under the **Build America Bonds (BAB) program**. The program allows state and local governments to **issue taxable bonds and receive federal subsidies** offsetting a portion of their borrowing costs. The **program should attract international investors**, who previously did not benefit from munis' favorable tax treatment. Historically, IG munis have had extremely low default rates, have outperformed similar corporate or structured ratings, and have provided a good source of diversification. Our bullish view on risky markets keep us **overweight munis vs UST**.

Equities

We believe the equity rally has further to go and we look for the S&P500 to rise to above 1000 in coming months. Historically **the recovery anticipation rally** typically starts 3-4 months before the end of the US recession and **lasts at least until the end of the recession**. We see June as the end of the US recession and thus see US equities rallying for another two months, at least. Emerging markets, financials and cyclicals will likely be the main beneficiaries of the equity rally.

Positions are also favouring a continuation of the rally. Our conversations with investors indicate they remain cautious and underweight equities. Recent fund managers surveys similarly showed that managers remain underweight, even as they moved close to neutral. Long-short HFs have benefited from the rally but returned only 4.6% since early March suggesting a low overall beta to the market. Macro HFs have been hurt by the equity rally, losing 3.8% since early March and they appear to have scaled down their bearish positions.

Global retail continues to switch from developed to emerging stocks, by $10 bn over the past seven weeks. We similarly continue to overweight EM equities vs developed markets.

The heavy outflows from US equity funds is puzzling give the strength of the equity market. It does suggest that retail investors have been reluctant to chase the rally, preferring to buy corporate bond funds. But it reflects also a preference for individual stock vs index investing. **We find the recent rally is more driven by stock picking than by macro trading.** Indeed, S&P 500 futures open interest has fallen to $200bn from $291 billion on Mar 18 and the number of S&P 500 ETFs outstanding has declined 15% over the same period.

Credit

We keep **an overweight in US HG credit** as demand remains strong. Cash keeps flowing into US corporate bond at $3bn per week in HG and $1bn per week in HY. Ytd, US retail has injected $40bn into HG corporate bond funds and $13bn into HY. Inflows are forcing bond managers to continue to buy new issues, but the lack of supply due to earnings blackout period forces them to buy in the secondary market. This has been reflected into sharply higher trading volumes in the secondary market.

Historical analysis also supports the view that credit spreads have further to tighten. As shown in the chart at the bottom, the tightening in US credit spreads typically starts a month before the end of the recession and continues for more than a year following the end of the recession.

Over $8 billion **Build America Bonds** were issued last week. Although these bonds are included in many HG corporate bond mandates and provide wider spreads to corporate bonds with similar rating, we see little threat to HG credit. We estimate that only $70bn Build American Bonds will be issued in 2009, an amount that can be absorbed easily by traditional HG investors.

In **Europe**, we remain focused on overweighting Financials. However, we take profit on tier 1 and upper tier 2 as the market has rallied significantly and focus exposure in lower tier 2 only as it remains attractive for banks to call these issues. As in equities, we recommend a rotation to cyclical names from the more expensive defensives.

In the **CDS** market, the CDS-Bond basis should continue to narrow in the US as investors are adding risk by buying cash bonds rather than through CDS.

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Global Economic Outlook Summary

	Real GDP % over a year ago			Real GDP % over previous period, saar							Consumer prices % over a year ago			
	2008	2009	2010	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	4Q08	2Q09	4Q09	4Q10
The Americas														
United States	1.1	-2.4	1.9	-6.3	-4.5	-2.0	1.0	1.0	2.0	3.0	1.5	-1.0 ↓	0.3 ↓	0.7
Canada	0.5	-3.0	2.1	-3.4	-7.5	-4.0	0.0	2.0	3.0	3.0	1.9	0.1	1.4	2.2
Latin America	3.8	-2.4	3.0	-8.7	-7.6	1.3	1.7	2.3	3.5	3.8	8.3	7.0	6.1	6.5
Argentina	7.0	-3.0	2.0	-1.2	-10.0	-6.0	0.0	-4.0	6.0	6.0	7.8	7.0	6.0	10.2
Brazil	5.1	-1.4	3.0	-13.6	-4.1	3.8	2.4	4.0	2.5	3.0	6.2	5.2	4.3	4.5
Chile	3.2	-1.5	3.2	-8.3	-4.0	0.0	0.0	0.0	8.0	4.0	8.2	4.0	2.0	3.2
Colombia	2.5	-0.5	3.0	-4.1	-1.2	0.5	1.1	0.8	3.5	4.3	7.8	5.5	4.8	4.5
Ecuador	6.5	-2.0	0.5	-1.0	-4.0	-6.5	-4.0	0.0	1.5	2.5	9.3	6.0	5.3	4.1
Mexico	1.3	-4.0	3.4	-10.3	-12.6	2.8	2.8	3.2	3.2	3.6	6.2	5.8	4.0	3.4
Peru	9.8	3.5	4.7	0.7	2.4	3.8	3.0	3.2	4.8	6.0	6.6	4.0	2.7	2.0
Venezuela	4.8	-2.0	1.5	3.8	-6.0	-8.0	-4.0	0.0	3.0	4.0	33.4	29.8	34.8	37.4
Asia/Pacific														
Japan	-0.7	-6.7	2.1	-12.1	-15.0	-2.5	2.0	4.5	3.5	-0.5	1.0	-0.3	-0.8	-0.2
Australia	2.1	-1.2	1.5	-2.1	-4.2	-1.0	2.6	0.9	1.2	2.2	3.7	1.6	1.7	2.8
New Zealand	0.3	-2.1	1.6	-3.6	-3.6	-1.7	0.3	1.6	2.2	2.1	3.4	0.4	-0.4	2.7
Asia ex. Japan	5.8	3.0 ↑	6.4 ↓	-5.2	1.1 ↑	6.2	6.6 ↓	7.0 ↓	6.3	6.4	4.7	1.2	1.7	2.8
China	9.0	7.2	8.5	2.2	5.8	10.8	10.0	9.5	7.6	7.6	2.5	-1.4	1.0	2.0
Hong Kong	2.5	-3.0	3.5	-7.8	-7.0	0.5	3.3	5.3	3.0	3.5	2.3	0.8	1.6	1.1
India	6.0	5.2	7.0	0.0	-1.8	-2.8	3.2	6.0	9.3	10.3	10.2	7.5	3.8	4.1
Indonesia	6.1	3.5	5.0	0.9	3.0	3.0	5.0	5.0	5.0	5.0	11.5	5.6	3.5	6.2
Korea	2.2	-2.1 ↑	3.9 ↓	-18.8	0.2 ↑	5.0	4.0 ↓	4.0 ↓	4.0	3.5	4.5	2.2	2.5	3.4
Malaysia	4.6	-0.1	4.7	-6.9	-3.9	6.1	4.5	4.5	4.1	4.1	5.9	1.0	-0.2	1.6
Philippines	4.6	3.0	4.0	4.1	-2.0 ↓	4.0 ↑	4.5 ↑	4.0 ↑	4.0 ↓	4.0 ↓	9.7	4.7	3.0	3.7
Singapore	1.1	-4.5	4.0	-16.4	-9.0	6.6	3.3	3.3	4.1	4.1	5.4	0.8	0.4	3.6
Taiwan	0.1	-5.0	4.8	-22.5	-5.0	5.7	6.8	6.9	4.0	3.8	1.9	-1.1	-0.7	1.5
Thailand	2.6	-3.0	4.0	-22.2	-5.9	9.1	4.5	4.5	3.2	3.2	2.1	-2.9	1.3	2.5
Africa														
South Africa	3.1	-0.9	2.4	-1.8	-3.4	-1.3	0.9	1.7	2.7	3.3	9.8	7.3	5.9	4.1
Europe														
Euro area	0.7	-3.9	0.2	-6.3	-6.0	-4.0	-2.0	0.0	1.0	1.0	2.3	0.4	0.8	1.1
Germany	1.0	-5.5	0.2	-8.2	-10.0	-4.0	-2.0	0.0	1.0	1.0	1.7	0.1	0.3	0.3
France	0.7	-2.8	0.4	-4.4	-4.5	-3.5	-1.5	0.5	1.0	1.0	2.0	-0.1	0.6	0.7
Italy	-1.0	-4.4	0.2	-7.5	-6.0	-4.0	-2.0	0.0	1.0	1.0	2.9	1.0	1.0	1.0
Norway	2.4	-1.2	0.6	-0.7	-3.0	-2.5	-1.0	0.0	1.0	1.5	3.6	2.4	0.7	1.3
Sweden	-0.5	-5.1	0.4	-9.3	-8.0	-3.0	-1.0	0.0	1.0	1.0	2.4	-0.8	-0.8	0.9
Switzerland	1.6	-2.4	0.6	-1.2	-6.0	-3.0	-0.5	0.5	1.0	1.2	1.6	-0.6	0.3	0.3
United Kingdom	0.7	-4.0 ↓	0.5	-6.1	-7.4 ↓	-2.5	-1.0	-0.5	1.0	1.5	3.9	2.0 ↑	1.4 ↑	2.1 ↓
Emerging Europe	4.1	-3.6 ↓	1.7 ↑	-7.1	-9.8 ↓	-2.0 ↑	0.1 ↑	1.0 ↑	1.7 ↑	2.1 ↓	9.5	7.8	7.2 ↓	6.2 ↓
Bulgaria	6.1	-1.5	2.0	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	3.2	-3.0	0.0	-3.7	-7.0	-4.0 ↑	-1.0 ↑	0.0 ↑	0.5 ↑	1.0 ↓	4.7	1.6 ↑	1.6 ↑	3.0
Hungary	0.5	-6.0 ↓	-0.5	-4.6	-7.5	-6.5	-5.5	-4.0	0.0	2.0	4.3	2.9	4.9	2.8
Poland	4.8	-1.0	1.8	1.2	-4.2	-3.0	-2.0	0.0	2.0	3.8	3.8	3.1	3.1	2.3
Romania	7.1	-4.0	-1.0	...	...	...	...	...	...	...	6.8	6.3 ↓	7.5 ↓	6.5 ↓
Russia	5.6	-4.5 ↓	2.3 ↑	-12.8	-14.5 ↓	0.0 ↑	3.0 ↑	3.0 ↑	2.5 ↑	2.0 ↓	13.8	12.7	11.2	9.9
Turkey	1.1	-3.4	2.5	...	...	...	...	...	...	...	10.9	6.9	6.1	5.0
Global	1.6	-2.8	2.0	-6.8	-6.0	-1.4 ↑	1.0 ↑	1.9	2.5	2.4	2.9	0.7 ↑	1.1	1.6
Developed markets	0.7	-3.6	1.3	-6.9	-6.9 ↓	-2.8	0.1	1.2	1.9	1.7	1.9	-0.1 ↑	0.4	0.8 ↓
Emerging markets	4.9	0.5 ↑	4.7 ↑	-6.3	-2.7 ↑	3.7 ↑	4.3	4.8 ↑	4.9 ↑	5.1	6.5	3.9	3.8	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	Jun 09	Sep 09	Dec 09	Mar 10	Jun 10
Global	GDP-weighted average	1.55	-316				1.32	1.22	1.22	1.22	1.24
excluding US	GDP-weighted average	2.22	-223				1.88	1.74	1.74	1.73	1.76
Developed	GDP-weighted average	0.57	-357				0.41	0.33	0.32	0.32	0.32
Emerging	GDP-weighted average	5.46	-154				4.92	4.78	4.80	4.76	4.86
Latin America	GDP-weighted average	7.84	-97				6.49	6.49	6.49	6.54	6.63
CEEMEA	GDP-weighted average	6.81	-20				6.14	6.05	6.09	5.83	5.89
EM Asia	GDP-weighted average	4.06	-226				3.87	3.66	3.68	3.69	3.80
The Americas	GDP-weighted average	0.98	-461				0.83	0.83	0.83	0.84	0.85
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	<u>29 Apr 09</u>	on hold	0.125	0.125	0.125	0.125	0.125
Canada	Overnight funding rate	0.25	-425	**21 Apr 09 (-25bp)**	4 Jun 09	on hold	0.25	0.25	0.25	0.25	0.25
Brazil	SELIC overnight rate	11.25	-25	11 Mar 09 (-150bp)	<u>29 Apr 09</u>	29 Apr 09 (-100bp)	9.75	9.75	9.75	9.75	9.75
Mexico	Repo rate	6.00	-125	17 Apr 09 (-75bp)	15 May 09	15 May 09 (-75bp)	4.75	4.75	4.75	4.75	4.75
Chile	Discount rate	2.25	-325	12 Mar 09 (-250bp)	9 Apr 09	9 Apr 09 (-50bp)	1.00	1.00	1.00	2.00	3.50
Colombia	Repo rate	7.00	-225	20 Mar 09 (-100bp)	<u>30 Apr 09</u>	30 Apr 09 (-100bp)	5.50	5.50	5.50	5.50	5.50
Peru	Reference rate	5.00	25	8 Apr 09 (-100bp)	7 May 09	7 May 09 (-50bp)	4.00	4.00	4.00	4.00	4.00
Europe/Africa	GDP-weighted average	1.79	-280				1.37	1.18	1.19	1.16	1.17
Euro area	Refi rate	1.25	-275	2 Apr 09 (-25bp)	7 May 09	7 May 09 (-25bp)	0.75	0.50	0.50	0.50	0.50
United Kingdom	Repo rate	0.50	-525	5 Mar 09 (-50bp)	7 May 09	on hold	0.50	0.50	0.50	0.50	0.50
Sweden	Repo rate	0.50	-300	**21 Apr 08 (-50bp)**	2 Jul 09	on hold	0.50	0.50	0.50	0.50	0.50
Norway	Deposit rate	2.00	-275	25 Mar 09 (-50bp)	6 May 09	6 May 09 (-50bp)	1.50	1.00	1.00	1.00	1.00
Czech Republic	2-week repo rate	1.75	-150	5 Feb 09 (-50bp)	7 May 09	7 May 09 (-25bp)	1.50	1.50	1.50	2.00	2.50
Hungary	2-week deposit rate	9.50	175	19 Jan 09 (-50bp)	26 May 09	3Q 09 (-25bp)	9.50	9.25	8.50	8.00	7.50
Israel	Base rate	0.50	-350	23 Mar 09 (-25bp)	<u>27 Apr 09</u>	4Q 09 (+50bp)	0.50	0.50	1.00	2.00	3.00
Poland	7-day intervention rate	3.75	-100	25 Mar 09 (-25bp)	<u>29 Apr 09</u>	**27 May 09 (-25bp)**	3.25	3.00	3.00	3.00	3.00
Romania	Base rate	10.00	300	4 Feb 09 (-25bp)	6 May 09	6 May 09 (-25bp)	9.50	10.00	11.00	10.50	10.00
Russia	1-week deposit rate	7.75	450	**23 Apr 09 (-50bp)**	Jun 09	**Jun 09 (-50bp)**	7.25	7.25	7.25	6.25	6.25
South Africa	Repo rate	9.50	-50	24 Mar 09 (-100bp)	<u>30 Apr 09</u>	30 Apr 09 (-100bp)	7.50	7.00	7.00	7.00	7.00
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	18 Jun 09	on hold	0.25	0.25	0.25	0.25	0.25
Turkey	Overnight borrowing rate	9.75	-775	16 Apr 09 (-75bp)	14 May 09	14 May 09 (-50bp)	9.00	9.00	9.00	9.00	9.00
Asia/Pacific	GDP-weighted average	2.08	-147				1.98	1.88	1.87	1.88	1.92
Australia	Cash rate	3.00	-350	7 Apr 09 (-25bp)	5 May 09	4 Aug 09 (-25bp)	3.00	2.75	2.50	2.50	2.50
New Zealand	Cash rate	3.00	-525	12 Mar 09 (-50bp)	<u>30 Apr 09</u>	30 Apr 09 (-50bp)	2.25	2.25	2.25	2.25	2.25
Japan	Overnight call rate	0.10	-40	19 Dec 08 (-20bp)	<u>30 Apr 09</u>	on hold	0.10	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	<u>30 Apr 09</u>	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)	5.04	4.77	4.77	4.77	4.77
Korea	Base rate	2.00	-300	12 Feb 09 (-50bp)	12 May 09	on hold	2.00	2.00	2.00	2.00	2.00
Indonesia	BI rate	7.50	-75	3 Apr 09 (-25bp)	5 May 09	5 May 09 (-25bp)	7.00	7.00	7.25	7.50	8.00
India	Repo rate	4.75	-300	**21 Apr 09 (-25bp)**	2Q 09	**2Q 09 (-25bp)**	4.50	4.00	4.00	4.00	4.50
Malaysia	Overnight policy rate	2.00	-150	24 Feb 09 (-50bp)	<u>29 Apr 09</u>	**on hold**	2.00	2.00	2.00	2.00	2.00
Philippines	Reverse repo rate	4.50	-150	16 Apr 09 (-25bp)	28 May 09	28 May 09 (-25bp)	4.25	4.25	4.25	4.25	4.25
Thailand	1-day repo rate	1.25	-200	8 Apr 09 (-25bp)	20 May 09	20 May 09 (-25bp)	1.00	0.75	0.75	0.75	0.75
Taiwan	Official discount rate	1.25	-188	18 Feb 09 (-25bp)	2Q 09	on hold	1.25	1.25	1.25	1.25	1.25

Bold denotes move since last GDW and forecast changes. <u>Underline</u> 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	-1.2	1.5	1.1	0.3	-2.1	-4.2	-1.0	2.6	0.9	1.2	2.2	1.9	2.3
Private consumption	2.1	-0.5	1.7	-0.5	0.4	0.3	-2.8	-0.4	0.8	1.6	1.6	2.4	2.4	2.8
Construction investment	4.5	-2.3	-2.3	4.1	1.9	1.5	-7.7	-2.5	-4.8	-0.5	-3.1	-2.8	-2.1	1.5
Equipment investment	15.7	-8.6	-9.9	39.8	0.7	1.3	-28.4	-11.5	-3.9	-3.9	-18.5	-11.5	-7.8	0.0
Public investment	10.6	4.3	9.9	8.5	7.3	-6.0	6.6	6.3	6.7	7.3	9.5	11.8	14.1	15.1
Government consumption	3.6	4.0	5.3	4.4	2.3	0.1	5.1	6.2	5.6	5.4	5.6	4.6	5.0	4.7
Exports of goods & services	4.7	-13.1	-3.1	13.5	-2.0	-3.3	-18.5	-25.2	-20.3	-11.5	6.1	8.2	6.1	4.1
Imports of goods & services	10.6	-8.5	-2.4	15.4	5.6	-24.5	-9.6	-7.8	-5.9	-5.9	-3.9	0.0	4.1	8.2
Contributions to GDP growth:														
Domestic final sales	4.1	-0.3	1.3	4.3	1.4	-1.7	-2.5	-0.2	0.7	1.9	0.3	1.5	2.1	3.5
Inventories	-0.6	-0.1	0.3	-2.2	0.7	-6.4	0.1	3.1	4.8	-0.2	-1.0	-0.7	-0.4	-0.2
Net trade	-1.4	-0.7	0.0	-0.9	-1.8	6.3	-1.8	-3.8	-2.8	-0.8	1.9	1.4	0.2	-1.0
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	2.1	2.0	4.5	5.0	3.7	3.0	2.0	1.3	2.1	2.1	2.0	2.0	2.1
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)	-3.7	-0.2	-12.1	-1.7	1.4	4.5	2.6	0.6	-1.8	-1.6	-2.6	-3.0	-3.2	-3.3
Current account (A$ bil, sa)	-67.0	-49.3	-66.6	-14.1	-9.5	-6.5	-9.4	-11.6	-14.1	-14.1	-15.1	-17.0	-18.2	-16.3
as % of GDP	-6.2	-4.1	-5.3	-4.8	-3.1	-2.2	-3.2	-3.9	-4.7	-4.6	-4.9	-5.5	-5.8	-5.1
3m eurodeposit rate (%)*	6.0	2.8	2.9	7.8	7.0	4.1	3.1	2.7	2.9	2.7	2.7	2.7	3.0	3.3
10-year bond yield (%)*	5.6	4.0	4.0	6.5	5.4	4.0	4.4	4.1	3.8	3.6	3.7	3.9	4.0	4.3
US$/A$*	0.75	0.73	0.83	0.74	0.77	0.65	0.68	0.70	0.74	0.78	0.80	0.82	0.84	0.85
Commonwealth budget (FY, A$ bil)	13.5	-54.5	-70.0											
as % of GDP	1.1	-4.5	-5.6											
Unemployment rate	4.2	6.1	8.1	4.3	4.3	4.5	5.7	6.0	6.2	6.4	7.0	7.9	8.4	9.0
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, seas. 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	-2.1	1.6	-0.9	-1.8	-3.6	-2.9	-2.5	0.3	0.6	2.9	2.4	2.6	1.9
Private consumption	0.2	-1.2	0.5	-0.8	-0.2	0.0	-3.8	-1.4	0.4	0.5	0.2	0.4	1.1	2.8
Fixed Investment	-6.7	-10.4	6.3	10.1	-40.5	6.0	-14.8	-9.3	-2.8	2.9	10.3	11.1	12.6	10.0
Residential construction	-17.3	-25.0	8.8	-28.5	-28.5	-45.3	-28.0	-16.0	4.0	8.0	12.0	12.8	16.0	10.0
Other fixed investment	-3.9	-7.0	5.9	22.3	-43	22.4	-12.0	-8.0	-4.0	2.0	10.0	10.8	12.0	10.0
Inventory change (NZ$ bil, saar)	1.4	0.9	0.9	0.3	0.5	0.1	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.3
Government spending	4.0	7.6	-0.4	1.5	2.8	7.1	11.3	11.2	6.3	2.3	-4.1	-2.4	-1.3	-9.2
Exports of goods & services	-1.7	-5.1	2.0	-1.3	-12.0	-12.6	-3.5	-1.8	0.8	1.7	2.5	3.0	2.0	4.0
Imports of goods & services	2.6	-7.0	2.2	13.9	-24.3	-22.3	0.1	0.4	0.6	1.2	0.9	4.0	5.0	5.0
Contributions to GDP growth:														
Domestic final sales	1.4	-2.8	1.8	5.6	-10.7	-4.1	-3.9	-1.0	0.9	1.5	1.7	2.5	3.6	2.4
Inventories	0.4	-0.4	0.0	-0.8	2.5	-4.6	2.1	-0.8	-0.6	-1.0	0.7	0.5	0.2	0.1
Net trade	-1.5	1.1	-0.2	-5.5	7.1	5.3	-1.1	-0.7	0.0	0.1	0.4	-0.5	-1.2	-0.6
GDP deflator (%oya)	3.7	3.3	3.0	3.7	2.3	2.7	2.0	3.7	4.9	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)	-2.2	-4.5	-5.0	-1.1	-0.9	0.0	-0.4	-0.5	-1.3	-2.3	-2.5	-1.7	-1.1	0.3
Current account (NZ$ bil, sa)	-16.2	-13.1	-13.0	-4.7	-4.0	-4.0	-4.1	-3.4	-2.8	-2.8	-3.3	-5.2	-4.3	-0.2
as % of GDP	-9.0	-6.8	-1.5	-10.5	-9.1	-8.8	-7.6	-6.1	-6.2	-7.2	-9.2	-0.5	0.7	2.7
Yield on 90-day bank bill (%)*	7.9	2.4	2.7	8.8	8.2	6.0	2.8	2.3	2.3	2.3	2.4	2.6	2.8	3.0
10-year bond yield (%)*	6.0	3.6	4.0	6.5	5.9	5.3	4.1	3.8	3.4	3.3	3.5	3.8	4.0	4.5
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	-7.2	-8.6											
as % of GDP	-1.0	-4.0	-4.5											
Unemployment rate	4.1	6.1	7.4	3.9	4.2	4.6	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
27 Apr	28 Apr	29 Apr New Zealand : Trade balance (10:45 am) Mar <u>100 NZ$mn, nsa</u> NBNZ business conf. (3:00 pm) Apr <u>-40.0%bal, sa</u>	30 Apr Australia : Pvt. sector credit (11:30 am) Mar <u>0.2%m/m, sa</u> New Zealand : RBNZ official cash rate (9:00 am) May <u>50bp cut to OCR expected</u> Building permits (10:45 am) Mar	1 May
4 May Australia : ANZ job ads (11:30 am) Apr House price index (11:30 am) 1Q	5 May Australia : Building approvals (11:30 am) Mar RBA cash target (2:30 pm) May New Zealand : ANZ comm. price (3:00 pm) Apr	6 May Australia : Retail sales (11:30 am) Mar Trade balance (11:30 am) Mar	7 May Australia : Unemployment rate (11:30 am) Apr New Zealand : Unemployment rate (10:45 am) 1Q	8 May
11 May Australia: NAB business confidence (11:30am) Apr New Zealand :QV house prices Apr	12 May Australia : Housing finance (11:30 am) Mar	13 May Australia : Westpac consumer confidence (10:30 am) May Labor price index (11:30 am) 1Q	14 May	15 May New Zealand : Retail sales (10:45 am) Mar
18 May New Zealand :PPI (10:45 am) 1Q	19 May	20 May Australia : WMI leading index (10:30 am) Mar	21 May New Zealand : Visitor arrivals (10:45 am) Apr Credit card spending (3:00 pm) Apr	22 May

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
27 Apr - 1 May	27 April	28 April	29 April	30 April	1 May
United Kingdom • Nationwide HPI (Mar)	Euro area • Trichet speech Germany • CPI prelim (Apr) Israel • BoI meeting United Kingdom • BBA mortgage lending (Mar)	Italy • ISAE bus. survey (Apr) Japan • Retail sales (Mar) • Shoko Chukin (Apr) United States • S&P/C-S HPI (Feb)	Brazil • COPOM meeting Euro area • EC bus. survey (Apr) • M3 (Mar) Malaysia • BNM meeting Poland • NBP meeting South Africa • CPI (Mar) United States • Real GDP adv (1Q) • FOMC meeting	Euro area • HICP flash (Apr) • Unemployment (Mar) Germany • Labor mkt report (Apr) Japan • IP prelim (Mar) • PMI mfg (Apr) Korea: IP (Mar) United States • Chicago PMI (Apr) • Employ cost index (1Q) • Personal income (Mar) Central bank meetings • Colombia • Japan • New Zealand • South Africa	Japan • Auto registrations (Apr) • CPI (Mar) • Hhold spending (Mar) • Nominal wages (Mar) • Unemployment (Mar) Korea • CPI (Apr) • Trade balance (Apr) United States • Consumer sent (Apr) • Factory orders (Mar) • Light vehicle sales (Apr) United Kingdom • Mortgage appr. (Mar) Manufacturing PMIs • China, UK, US (Apr)
4 - 8 May	4 May	5 May	6 May	7 May	8 May
Brazil • Auto report (Apr) United Kingdom • Halifax HPI (Mar)	Euro area • PMI mfg final (Apr) Germany • Retail sales (Mar) United States • Construct spending (Mar) • Pending home sales (Mar)	Australia • RBA meeting Brazil • IP (Mar) Indonesia • BI meeting Singapore • PMI mfg (Apr) Taiwan • CPI (Apr) United States • ISM nonmfg (Apr)	Canada • Ivey PMI (Apr) Euro area • PMI services final (Apr) • Retail sales (Mar) Norway • Norges bank meeting Romania • NBR meeting United Kingdom • PMI services (Apr) United States • ADP employment (Apr)	Germany • Mfg orders (Mar) Japan • PMI services (Apr) Mexico • CPI (Mar) Taiwan • Trade balance (Apr) United Kingdom • New car regs (Apr) United States • Consumer credit (Mar) • Productivity and costs (1Q) • Bernanke speaks on financial regulation Central bank meetings • Chile, Czech Republic, Euro area, Peru, UK	Brazil • IPCA (Apr) Canada • Employment (Apr) Germany • Foreign trade (Mar) • IP (Mar) Japan • BoJ minutes Mexico • Trade balance (Mar) Russia • CPI (Mar) Turkey • IP (Apr) United States • Employment (Apr)

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