Australia and New Zealand - Weekly Prospects

Summary

- A slew of key economic data is scheduled for release in **Australia** this week, the highlight being the April labour force survey on Thursday. Our forecast calls for the jobless rate to hit 6%, a sharp rise from the 3.9% recorded just over a year ago. We expect the RBA to leave the cash rate steady on Tuesday, but to signal that further policy easing remains on the table. The minutes from the last Board meeting indicated that the April decision—where the RBA cut the cash rate 25bp—was a close call. With this in mind, and with the green shoots of global recovery having grown since then, it would be a surprise for the RBA to back up so soon with a second rate cut. Other data this week includes retail sales, which probably fell in March, building approvals, the trade balance and house prices, which probably rose slightly in 1Q, owing mainly to the impact of the expanded first home owners' grant.

- The **RBNZ** decision last week drew significant attention across the Tasman. The statement accompanying the decision to cut the official cash rate 50bp signalled that the official rate would remain at or below the current 2.5% until the end of 2010. Our forecast calls for a terminal cash rate of 2.25% by June. Data this week should indicate that labour market conditions continued to deteriorate in 1Q, with the unemployment rate rising from 4.7% to 5.4% and wage growth moderating. Growing job insecurity and redundancies mean that workers continue to curb spending in 2009, weighing even further on the economic growth outlook.

- Economic releases continue to align with our expectation that we are in the early stages of a synchronized turn toward a second-half recovery in the **global economy**. Indeed, it looks likely that Asia is already growing, and there is a reasonable chance that the global economy will stabilize this quarter. We have made upward revisions to current quarter forecasts for the US and Japan. Against the backdrop of continued tight credit conditions and deteriorating labour markets, it may seem jarring to consider the global economy moving from last quarter's 6.9% decline to growth in the space of a few months. However, experience shows that it is common for GDP to decline most rapidly at the end of a recession and for a recovery to take hold with lingering financial market stress. There is something of a "paradox of lift" related to business cycle turns: many of the paradoxical features associated with past recoveries are now falling into place across the globe.

- **Global inflation** has plunged to the lowest level in at least five decades and is likely to turn slightly negative for at least a brief period past midyear. The two, related drivers are the collapse in global commodity prices and the severe economic recession. Because movements in oil and agricultural commodity prices pass through quickly to consumer energy and food products, their collapse had an immediate and profound effect on consumer inflation. By contrast, the inflation effects of the severe recession and the resulting plunge in resource utilization rates will take longer to develop, but will ultimately prove to be more important and long-lasting.

This week's highlight

The Aussie April labour force survey on Thursday. We expect a 40,000 drop in employment and an unemployment rate of 6%.

Contents

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Data and event previews - Australia and New Zealand

Date	Time [a]	Data/event	Forecast JPMorgan	Consensus [b]	*Previous*
Monday, May 4	10.30am	Aust. TD Securities Inflation Gauge (%oya, Apr.)	**na**	na	*2.6*
Monday, May 4	11.30am	Aust. house price index (%q/q, 1Q)	**0.4**	0.0	*-0.8*
Monday, May 4	11.30am	Aust. ANZ job advertisements (%m/m, Apr.)	**-8.0**	na	*-8.5*
Tuesday, May 5	11.30am	Aust. building approvals (%m/m, Mar.)	**2.5**	2.8	*7.8*
Tuesday, May 5	1.00pm	NZ ANZ Commodity Price Index (%m/m, Apr.)	**na**	na	*1.0*
Tuesday, May 5	2.30pm	RBA cash rate announcement (%)	**3.0**	3.0	*3.0*
Wednesday, May 6	11.30am	Aust. retail sales (%m/m, Mar.)	**-0.5**	0.5	*-2.0*
Wednesday, May 6	11.30am	Aust. trade balance (AUD mn, Mar.)	**1,900**	1,750	*2,109*
Wednesday, May 6	1.00pm	NZ wages including overtime (%q/q, 1Q)	**0.6**	0.6	*0.7*
Thursday, May 7	8.45am	NZ employment (%q/q, 1Q)	**-1.0**	-1.0	*0.9*
Thursday, May 7	11.30am	Aust. employment (ch. 000s, Apr.)	**-40**	-25	*-34.7*
Friday, May 8	11.30am	RBA's quarterly Monetary Policy Statement	**na**	na	*na*

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

Australia

Aust. house price index (%q/q, 1Q) - House prices should rise 0.4%q/q in 1Q, owing to solid demand from first home buyers (FHBs), owing mainly to the expanded first home buyers' grant. The expanded grant has kept house prices at the lower end of the house price spectrum well supported, while those at the upper end have been falling.

Aust. ANZ job advertisements (%m/m, Apr.) - We expect the number of job ads to have fallen again in April, marking the twelfth straight monthly fall. This leading indicator of employment has collapsed in recent months, reaffirming our view that the unemployment rate will skyrocket in 2H09.

Aust. building approvals (%m/m, Mar.) - Building approvals should rise 2.5%m/m. Again, the expanded first home owners' grant will be the main driver; this should be evident in a solid rise in approvals for higher density apartments, rather than more expensive single dwellings.

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Data and event previews - Australia and New Zealand (cont.)

RBA cash rate announcement (%) - We expect the RBA to keep it's policy powder dry this month. The minutes from the last Board meeting indicated that the April decision was a close call. Officials seemed split on whether to cut the cash rate or leave it steady. With this in mind, and with the green shoots of global recovery having grown since then, and recent inflation data showing a rise in core inflation, it would be a surprise for the RBA to back up so soon with a second rate cut. Finally, RBA officials probably want to give the Treasurer clear policy air ahead of the Budget next week.

Aust. retail sales (%m/m, Mar.) - Retail sales values should drop 0.5%m/m in March, amid low levels of confidence, a sharp drop in employment, and the RBA's decision to leave the cash rate steady in early March. The government announced another round of cash handouts in February, but these were not delivered until April.

Aust. trade balance (AUD mn, Mar.) - The trade surplus likely narrowed slightly in March to A$1.9 billion. Preliminary data showed that goods imports fell 4%m/m. Weak global demand and a stronger AUD will weigh on exports, which we expect to fall some 4%. Bad weather in the north-west during the month hampered iron ore exports.

Aust. employment (ch. 000s, Apr.) - We expect a 40,000 drop in employment in April and an unemployment rate of 6.0%, up from 5.7% in March. Labour market conditions have deteriorated rapidly and the avalanche of anecdotal job losses announced recently, coupled with the collapse of all leading indicators of employment, point to sharply higher unemployment in coming months. We retain our forecast for a 9% jobless rate in 2010, but now with upside risks.

RBA's quarterly Statement on Monetary Policy - The SoMP probably will include a significant downgrade to projected GDP growth, but the inflation forecasts from the last statement are likely to be retained. The official commentary on the global economy probably will be more upbeat, but there will be some focus on the extent to which rising bank funding costs limited the degree to which the commercial banks passed on the April rate cut.

New Zealand

NZ private sector wages (%q/q, 1Q) - Wage growth probably moderated in 1Q as labour market conditions continued to ease. We forecast private sector labour costs to grow 0.6%q/q in 1Q, slowing from 0.7% in 4Q,

NZ employment (%q/q, 1Q) - The jobless rate should have risen to 5.4% in 1Q as employment contracts 1.0%. Business confidence has been at multi-decade lows, meaning that companies have been reluctant to hire new staff, instead choosing to shed workers to cut costs.

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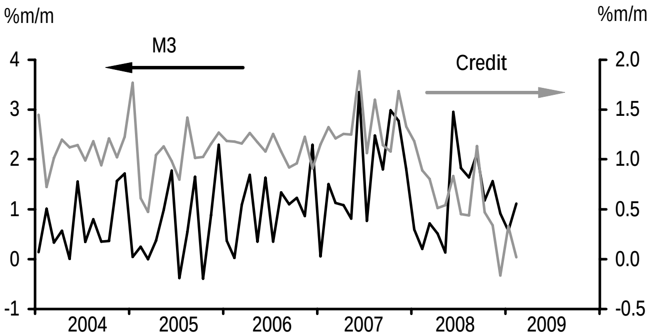
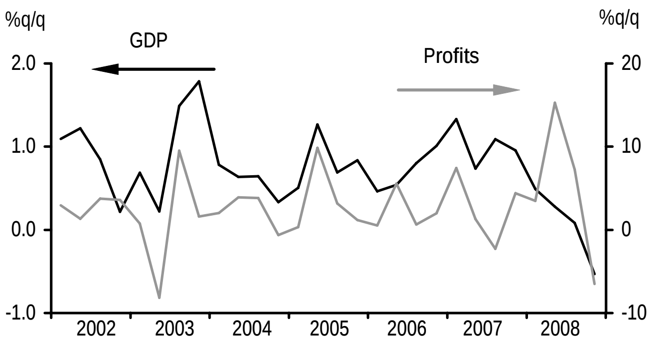
Feature charts

Australia: Money supply and private sector credit



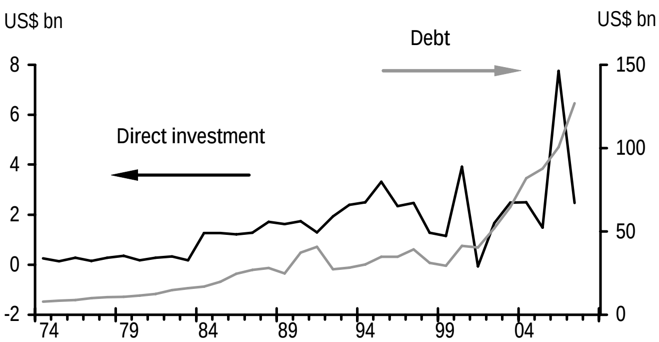
Economies that engage in quantitative easing are forced to dislodge the normally predictable relationship between money supply and credit. QE measures often inflate deposits in the banking system—money supply then ceases reflecting the underlying demand for credit. It is highly unlikely that Australia will adopt such policies—the RBA instead has plenty of cash rate ammunition to deploy—which should ease concerns over excess supply of money and associated inflation.

Australia: GDP and company gross operating profits



While our forecast fall in GDP of 1.2% over 2009 has significant welfare effects, a larger issue for households is the longer term drag on family finances caused by the collapse of corporate profits, which has dragged down equity prices and household wealth. The returns on private wealth and superannuation funds, in particular, have been decimated by heavy losses sustained in recent quarters, mainly in equity markets. As a consequence, household consumption will give way to increased cash savings, which soared in Q4.

New Zealand: Net direct investment and total external debt



The RBNZ has argued, given the importance of foreign capital to the Kiwi economy, that the cash rate needs to remain attractive to offshore investors. Given New Zealand's huge debt servicing burden, however, a more palatable alternative would be to promote more direct investment. Reduced corporate profitability means, though, that this is unlikely in the near term, as large scale international projects are being suspended or cancelled. The need for foreign capital inflow, therefore, will prevent the cash rate from falling much lower.

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Australia

- **RBA to leave the cash rate unchanged**
- **Unemployment to have hit 6% in April**
- **Business credit still contracting**

A slew of key economic data is scheduled for release in Australia this week, the highlight being the April labour force survey. Our forecast calls for the jobless rate to hit 6%, a sharp rise from the 3.9% recorded just over a year ago. We expect the RBA to leave the cash rate unchanged following Tuesday's Board meeting, but the official statement probably will signal that further policy easing remains on the table.

RBA in focus this week

There are two important events for monetary policy in Australia this week, the RBA Board decision Tuesday and the release of the Statement on Monetary Policy (SMP) Friday. We expect the RBA Board to leave the cash rate steady at 3%, with the accompanying statement leaving the door open for further policy easing. The quarterly statement later this week probably will include significant downgrades to the official projections for Australia's GDP growth.

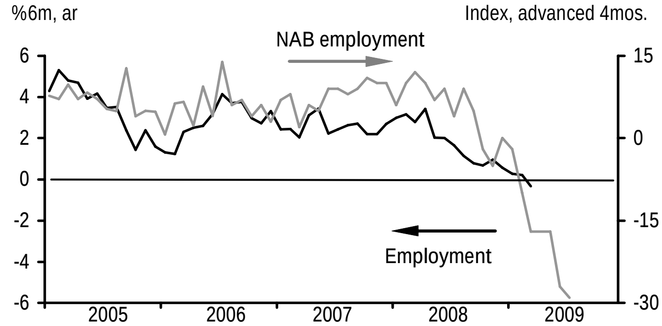
The RBA cut the cash rate 25bp just four weeks ago, but the minutes from that meeting indicated that the decision was a close call. Officials seemed split on whether to cut the cash rate or leave it steady. With this in mind, and with the green shoots of global recovery having grown since then, and recent inflation data showing a rise in core inflation, it would be a surprise for the RBA to back up so soon with a second rate cut. Moreover, the federal Budget is released on May 12 and is likely to be a stimulating affair, so RBA officials are likely to want to give the Budget clear air. Our view remains that the RBA will cut the cash rate twice more before year end, but with the next move not coming until August.

The SMP probably will include a downgrade to projected GDP growth—RBA Governor Glenn Stevens two weeks ago admitted for the first time that the economy is in recession—but the inflation forecasts from the last statement are likely to be retained. The official commentary on the global economy probably will be more upbeat, but there will be a focus on whether rising bank funding costs limited the extent to which the commercial banks passed on the April rate cut. This will remain an important focus for policy transmission.

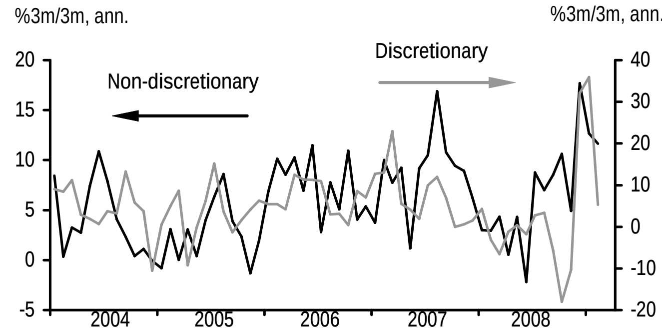
Unemployment rate with a 6% handle

The labour force report should show a drop of 40,000 in employment in April, after a 34,700 decline in March. We forecast a jump in the unemployment rate to 6.0%, from 5.7%. As before, the jobless rate will provide the best reading of underlying labour market trends, given the recent volatility in the full-time/part-time breakdown of employment. The leading indicators of employment have collapsed, which points to significant rises in joblessness in the quarters ahead.

Australia: NAB survey and employment growth



Australia: retail sales



Labour market conditions have deteriorated rapidly—just over a year ago, in February 2008, the unemployment rate was 3.9%. Our forecast calls for the jobless rate to soar to 9% by the end of 2010, although the risks now are skewed toward an even higher rate. During Australia's last two recessions in the early 1980s and early 1990s, the jobless rate ventured into double-digit territory, and may do so again during this recession. The avalanche of anecdotal job losses announced recently, and the collapse of leading indicators of employment, point to sharply higher unemployment in coming months.

One factor we believe will inflate unemployment will be the elevated participation rate, which will be slower to decline in this recession. The main driver will be older workers staying in the work force longer to compensate for the hit their retirement funds have taken. The participation rate should remain at an elevated 65.4% in April.

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Consumer spending still subdued

Retail sales values should drop 0.5%m/m in March, after diving 2.0% in February, the largest drop in nine years. The ongoing weakness in consumer spending will be in light of low levels of confidence, a sharp drop in employment during the month, and the RBA's decision to leave the cash rate steady in early March. The government announced another round of cash handouts in February, although those eligible for the one-off cash payments will not receive them until April. In constant price terms, retail volumes probably rose 0.7%q/q in 1Q08; the basis that a large part of the gain in nominal retail sales during the quarter was due to higher food prices.

House prices probably will rise

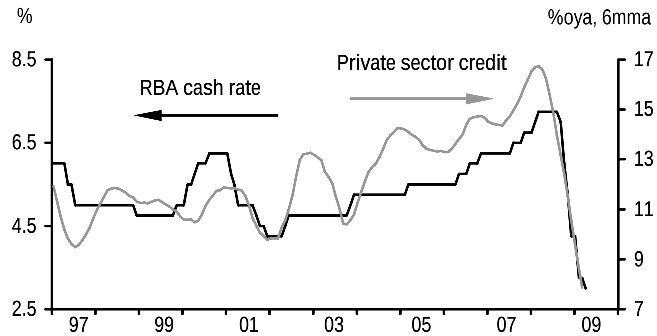
House prices should rise 0.4%q/q in 1Q, after a 0.8% decline in 4Q. Preventing a fall in house prices will be solid demand from first home buyers (FHBs), which has strengthened since the Government's expansion of the FHBs' grant last October; this has kept house prices at the lower end of the house price spectrum well supported, while those at the upper end have been falling.

Our forecast is for house prices to fall 10% from peak to trough in this cycle. Already, prices have fallen 3%. The acute shortage of new homes and accelerating population growth will, however, prevent falls similar to those in weaker, offshore markets. Another reason that Australia should not experience such a severe house price decline is that mortgage interest rates are predominantly variable (around 80% of all loans), which means most home owners benefit from cuts to the official cash rate. Differing rates of population growth and affordability mean, though, that the price falls will not be uniform across the nation.

Business credit continues to contract

The RBA's measure of private sector credit outstanding grew only 0.1%m/m (J.P.Morgan 0.2%, consensus 0.3%), after holding steady in February. Annual credit growth slowed to 4.9%oya, the slowest rate of expansion since 1993. The main drag in March was a sizeable contraction in business lending which fell for the second straight month (-0.6%m/m). The pool of outstanding credit to businesses should shrink further, given anecdotal evidence that investment plans are being put on the back burner, owing to the challenging economic environment.

Australia: RBA cash rate and credit growth



Growth in housing credit held at 0.6%m/m for the third straight month, underpinned by the expanded FHBs' grant. The expanded grant is set to expire at the end of June, although we believe there is a high chance it will be extended, at least for the construction of new homes. Not surprisingly, demand for personal credit fell for the tenth straight month (-0.3%m/m), owing to tighter lending standards, the wealth destruction under way in the household sector, and low levels of confidence.

Data releases and forecasts

Week of May 4 - 8

Mon May 4 11:30am	**ANZ job advertisements** Seasonally adjusted	Jan	Feb	Mar	Apr
	(%m/m)	-6.3	-10.4	-8.5	-8.0
Mon May 4 11:30am	**House price index: eight capital cities** Weighted average	2Q08	3Q08	4Q08	1Q09
	(%q/q)	-0.8	-2.4	-0.8	0.4
	(%oya)	8.0	1.6	-3.3	-2.9
Tue May 5 11:30am	**Building approvals** Seasonally adjusted	Dec	Jan	Feb	Mar
	(%m/m)	-0.7	-4.0	7.8	2.5
	(%oya)	-26.3	-33.9	-25.5	-18.9

Building approvals should rise 2.5%m/m, after bouncing in February. The expanded first home owners' grant will be the main driver; this should be evident in a solid rise in approvals for higher density apartments, rather than more expensive single dwellings.

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Tue
May 5
02:30pm

RBA cash rate announcement

No change expected.

Wed
May 6
11:30am

Retail trade

Seasonally adjusted

	Dec	Jan	Feb	Mar
(%m/m)	3.8	0.5	-2.0	-0.5
(%oya)	5.6	5.9	4.1	-1.3

Wed
May 6
11:30am

Trade balance

Seasonally adjusted

	Dec	Jan	Feb	Mar
Trade balance (A$ mn)	138	926	2109	1900

The trade surplus likely narrowed slightly in March. Preliminary data showed that goods imports fell 4%m/m. Weak global demand and a stronger AUD will weigh on exports, which we expect to fall some 4%.

Thu
May 7
11:30am

Labour force

Seasonally adjusted

	Jan	Feb	Mar	Ap
Unemployment rate (%)	4.8	5.2	5.7	6.0
Employed (000s m/m)	1	1	-35	-40
Participation rate (%)	65.3	65.5	65.5	65.4

Review of past week's data

Private-sector credit

Seasonally adjusted

	Jan	Feb	Mar	
(%m/m)	0.6	0.0	~~0.2~~	*0.1*
(%oya)	6.1	5.4	~~5.0~~	*4.9*

New Zealand

- **RBNZ to keep rates low until end-2010**
- **Unemployment to rise, wage growth to slow in 1Q**
- **Business confidence surprisingly rose**

This highlight last week across the Tasman was the RBNZ's OCR announcement Thursday. RBNZ Governor Alan Bollard cut the OCR 50bp to 2.50% (J.P. Morgan and consensus -50bp), citing the recent tightening in financial conditions, owing to the rise in longer-term interest rates and NZD appreciation, as the main factors driving the decision. Indeed, following the last policy announcement in March, monetary conditions tightened significantly, movements that Governor Bollard labelled "unwarranted" and "inconsistent with the monetary policy outlook."

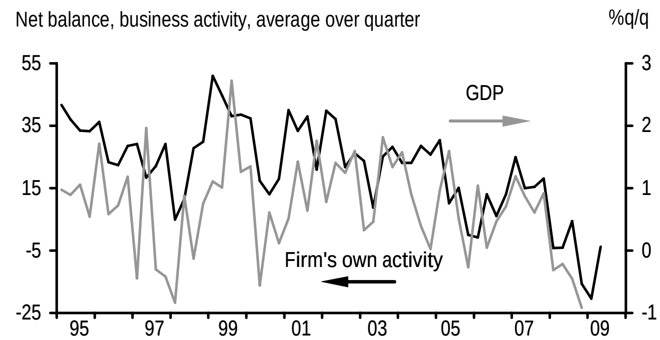
The statement accompanying the decision was decisively dovish. Had it not been, any extension of the recent distortion in rates markets could have continued to put pressure on firms and households attempting to borrow, stifling already subpar economic growth. In particular, the policy statement made clear that the OCR will remain low for an extended period and left the door open for further policy easing. In fact, Governor Bollard explicitly said the OCR would be kept "*at or below* the current level through until the latter part of 2010 [emphasis added]," and that modest shifts in the OCR could be delivered in coming quarters. We maintain our forecast for another 25bp rate cut in June; this decision will accompany the June *Monetary Policy Statement*, which is bound to include further, significant downgrades to the RBNZ's economic forecasts.

The statement acknowledged signs of stabilization in global financial markets, but made reference to fragile sentiment, weak trading partner growth, falling employment, and a pullback in investment. Bollard did, though, highlight that the large decline in the OCR—575bp of easing has been delivered since July—will soon pass through to many borrowers as a number of fixed-rate mortgages come up for repricing. The significant amount of fiscal stimulus already delivered also will support economic growth.

That said, we believe that further monetary easing is warranted. We believe that a terminal cash rate of 2.25% will be reached by June. The risks, however, remain skewed to the downside, but Bollard's desire to maintain competitiveness in capital markets will remain a key policy consideration.

New Zealand: RBNZ official cash rate

New Zealand: NBNZ business outlook survey and GDP growth



NZ labour market conditions deteriorating

Data this week should indicate that labour market conditions in New Zealand continued to deteriorate in the first three months of the year. We forecast private sector labour costs to grow 0.6%q/q in 1Q, slowing from 0.7% in 4Q, and the jobless rate to rise to 5.4% as employment contracts 1.0%.

With labour market conditions to ease further, growing job insecurity and redundancies will mean that workers continue to curb spending in 2009, weighing even further on the economic growth outlook. Low business confidence means that most companies will be reluctant to hire new staff, instead choosing to shed workers to cut costs; this will help to send the unemployment rate to 7% by year end.

Business confidence improves, but . . .

The NBNZ business confidence survey improved markedly in April, rising to a still dismal -14.5 from -39.3. The headline indicated that "only" 14.5% of respondents expect business conditions to deteriorate in the coming year, a surprising and, in our view, unwarranted improvement from the average 39%

recorded over the last six months. The reading of firms' own activity expectations also jumped higher, rising to -3.8 from -21.2, which suggests that growth in 2Q may not contract as we had forecast. In our forecasts, the New Zealand economy will contract for at least another two quarters, having already contracted throughout 2008.

The improvement in confidence was broad-based, although those surveyed in the commercial construction sector remained pessimistic about the outlook, with 36% expecting conditions to worsen over the next 12 months. The largest shift in sentiment was with respect to the interest rate outlook. Only 2% of those surveyed expect the OCR to fall over the coming year, down sharply from 55%.

Kiwi exports rose above NZ$4 billion

Owing to a solid increase in exports, the trade balance remained in surplus for the second straight month in March. The surplus narrowed to NZ$324mn (J.P.Morgan NZ$100mn, consensus NZ$250mn) from NZ$487mn. The 17.7%oya rise in exports was the largest gain in seven months, with the monthly value of total exports venturing over NZ$4bn for the first time on record. The rise was led by strong shipments of aircraft and meat and edible offal. Imports were also stronger than expected, rising for the first month in three. Imports increased 6.9%oya to the highest value ever recorded in the month of March—a rise, in part, attributed to the firmer Kiwi dollar (up 2.9%m/m in March in trade-weighted terms).

Data releases and forecasts

Week of May 4 - 8

Tue
May 5
3.00pm

ANZ commodity price series
Not seasonally adjusted

	Jan	Feb	Mar	Apr
Index - world prices (%m/m)	-4.3	-4.6	1.0	__
Index - NZD (%m/m)	-4.3	1.9	-3.4	__

Wed
May 6
1.00pm

Labour cost index and average hourly earnings
Private sector, ordinary time, sa

	2Q08	3Q08	4Q08	1Q09
(%q/q)		0.8	1.1	0.7
0.6				

Thu
May 7
10:45am

Labour force survey
Seasonally adjusted

	2Q08	3Q08	4Q08	1Q09
Unemployment rate (%)	4.0	4.3	4.7	5.4
Employment (%q/q)	25	5	20	-1
Participation rate (%)	68.5	68.6	69.2	68.8

Review of past week's data

Trade balance
Not seasonally adjusted

	Jan		Feb		Mar	
Trade balance (NZ$ mn)	~~-104~~	*-103*	~~489~~	*487*	~~100~~	*324*

NBNZ business confidence

	Jan	Feb	Mar	
% balance of respondents	-41.2	-39.3	~~-40~~	*-14.5*

RBNZ cash rate announcement

OCR cut 50bp.

Building consents
Not seasonally adjusted

	Jan	Feb		Mar	
(%m/m)	-28.0	~~11.6~~	*11.7*	__	*-4.6*

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Global Essay

- **With upward revisions to US and Japanese growth, global growth may stabilize this quarter**
- **Emerging Asia is showing signs of a rebound this quarter**
- **Deflationary pressures build, even as growth and commodity prices firm**
- **ECB to lower rates to 1% but refrain from QE**
- **Mexican recession to be prolonged by swine flu**

The paradox of lift

Economic releases continue to align with our expectation that we are in the early stages of a synchronized turn toward a second-half recovery in the global economy. Indeed, it looks likely that Asia is already growing, and there is a reasonable chance that the global economy will stabilize this quarter. Last week, we made upward revisions to current quarter forecasts for the US and Japan.

Against the backdrop of continued tight credit conditions and deteriorating labor markets, it may seem jarring to consider the global economy moving from last quarter's 6.9% decline to growth in the space of a few months. However, experience shows that it is common for GDP to decline most rapidly at the end of a recession and for a recovery to take hold with lingering financial market stress. There is something of a "paradox of lift" related to business cycle turns: many of the paradoxical features associated with past recoveries are now falling into place across the globe.

- **Consumption firms alongside rising unemployment**. It is common for households to pull back sharply in the early stages of a downturn, as they adjust to tighter credit conditions and downgrade their expectations about the future. Last year, this pullback was magnified by a credit crunch, rising energy prices, and extreme fear. With confidence now recovering and income supported by lower inflation and fiscal transfers, consumption is likely to rise modestly in the coming months even as unemployment moves higher.

- **Production recovers alongside rising excess capacity.** The global adjustment to excess capacity will take place over a long period of time and will weigh on capital spending and pricing power. However, firms have scaled back production far enough that inventories are now falling sharply worldwide. In this environment, even a modest improvement in final demand can produce large swings in industrial output, as firms need to adjust to a changing environment. From an estimated 30% annual rate of decline last quarter, a move toward stabilization in industrial output this summer would add roughly 3% to annualized global GDP growth in each of the middle quarters of the year.

- **Interest-sensitive activity rises in a tight credit environment.** Financial conditions are expected to remain restrictive and should limit the recovery in economic growth in the coming quarters. However, growth takes place on the margin and there is a material shift taking hold, lowering US mortgage rates and improving access to trade financing and debt issuance for firms across the globe. With policy rates close to zero, even a modest reopening of credit channels could provide a significant lift to interest-sensitive demand.

Global inflation to dip below zero

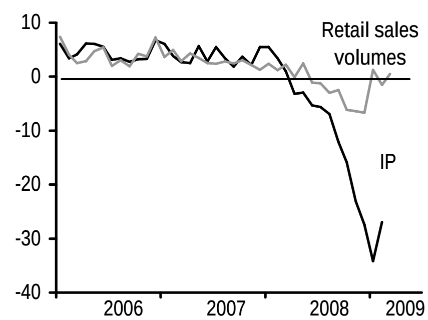
Global inflation has plunged to the lowest level in at least five decades and is likely to turn slightly negative for at least a brief period past midyear. The two, related drivers are the collapse in global commodity prices and the severe economic recession. Because movements in oil and agricultural com-

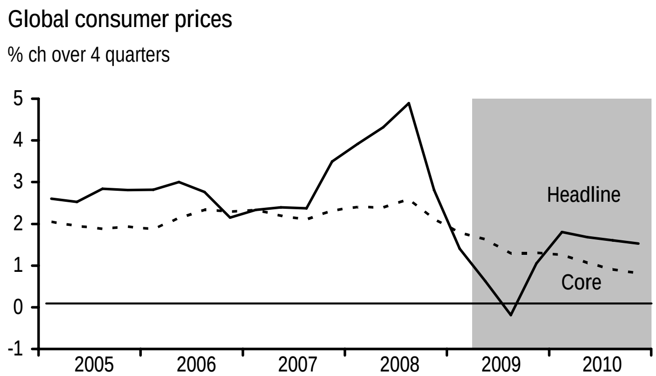
US performance around recession endings

	GDP		Consumption		Payrolls	
	End	Start	End	Start	End	Start
1970-71	-4.2	6.9	-1.1	5.8	-2.3	1.7
1975	-4.7	5.0	3.5	6.2	-6.1	0.3
1982-83	-1.5	2.7	3.1	5.7	-3.0	-0.8
1991	-2.0	2.3	-1.7	2.6	-1.7	-0.9
2001-02	-1.4	2.2	1.8	4.2	-1.2	-1.9

Note: In the table above, the "End" is annualized changes in the last quarter that GDP contracts. The "Start" measures annualized change in the subsequent two quarters.

Global industrial production and retail sales
%3m saar, March is partially forecasted





modity prices pass through quickly to consumer energy and food products, their collapse had an immediate and profound effect on consumer inflation. By contrast, the inflation effects of the severe recession and the resulting plunge in resource utilization rates will take longer to develop, but will ultimately prove to be more important and long-lasting.

The base effect from commodity prices to consumer prices swung from positive to negative starting in 4Q08. This was responsible for most of the drop in global headline inflation from a peak of 5.2%oya last August to 1.1%oya in March. There is a wide variation in outcomes, with inflation falling to just 0.2% in the DM versus 4.6% in the EM. Indeed, consumer prices already are falling in year-ago terms in the US, Japan, and Switzerland. This base effect will reach maximum force after midyear and then gradually dissipate. Consequently, the DM will experience a transitory period of deflation in the middle of the year, while the EM should register record low but still positive inflation.

The fall in global core inflation has been much more measured, easing from a high of 2.3%oya in mid-2008 to 1.6% in March. Passthrough from lower energy and food prices has damped core inflation, as seen in the coincident peaks in headline and core inflation last year. The slide in aggregate resource utilization (RU) also has begun to damp wages and core prices. This effect will become much more powerful over the coming year, even as we expect commodity prices to firm.

While the direction of core inflation should be decidedly down, there is considerable uncertainty about the magnitude of RU's impact on inflation. Our baseline forecast calls for a continued slide in core inflation to just 0.8%oya globally, and near zero in the DM by late 2010. However, an alternative, top-down Phillips curve model points to outright deflation in the DM. Last week's sharp deceleration in the US employment cost index is an important reminder that there are powerful deflationary forces building across the globe.

Asia is growing

Last week's reports reinforced conviction in the view that GDP is rebounding across much of the Asian region, including Japan. In EM Asia, March export and IP levels are coming in equal to or higher than their 1Q averages, testimony to the positive momentum in these key activities heading into the current quarter. Behind the scenes, the combination of severe production cuts and a firming in global consumer demand has allowed manufacturers to eliminate excess inventory. Korea is a case in point, with last week's March/April releases showing rising IP and exports alongside a slide in inventory. Healthier inventory levels, firmer external demand, and a ramping up of fiscal stimulus signal a widespread return to growth this quarter, notwithstanding continued weakness in domestic demand outside of China. GDP growth is expected to snap back particularly sharply in the smaller and more open economies that have struggled more severely in recent quarters.

Japan may not post a GDP gain this quarter, but it is laying a foundation for the most pronounced V-shaped recovery among large economies. Following an estimated GDP slide at a double-digit pace over the past two quarters, we now forecast GDP to stabilize this quarter. Japan is experiencing a sharp turnaround in manufacturing output, which collapsed in 4Q08 and early 1Q09. The March IP report delivered a 1.6%m/m increase, with manufacturers planning huge additional gains in April and May. Even discounting the strength of these plans, factory output should rise sharply this quarter. The prospective IP upturn was supported by the order-led surge in the April PMI. In addition to an expected lift from exports and inventory (reduced liquidation), consumption also is expected to return to growth this quarter, bolstered by the ¥2 trillion cash benefit that was sent to households. Encouragingly, the increases in March household spending and April auto sales point in this direction. The main note of caution in this week's reports was the meager increase in the April Shoko Chukin small business survey. Small businesses may be turning less rapidly, owing to tighter financing conditions and a smaller exposure to the export market; nonetheless, this segment is vital to the economy and the survey needs to rise in the next few months to validate our GDP forecast.

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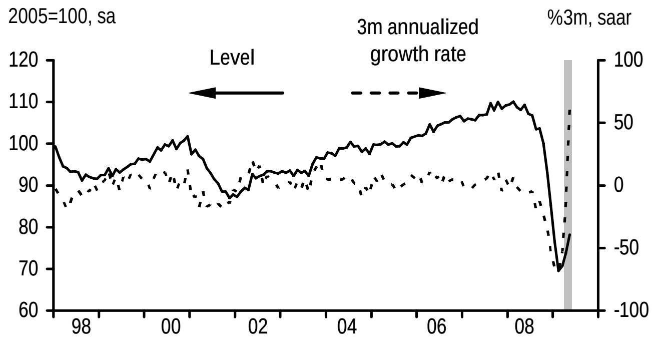
Japanese manufacturing output



ECB: a contentious rendezvous

At last month's ECB meeting, President Trichet promised an important rendezvous for May 7. In the event, the meeting is likely to turn out to be less important than previously thought, with commentary from the governing council suggesting that there is a great deal of disagreement about where policy should go. Given this, we anticipate a 25bp rate cut, lowering the main policy rate to 1%, and an extension of unlimited liquidity provision out to 12 months. The latter may occur as a floating rate tied to the main policy rate rather than as a fixed-rate tender. No action on quantitative easing is expected to be taken.

Beyond this week, we continue to look for the ECB to lower the main policy rate to 0.5%, accompanied by some outright purchases of nonfinancial corporate debt but not a shift to aggressive QE. This view is based both on our macro forecast and how the ECB's balance sheet works. The Euro area has experienced a severe recession and even though recent data suggest the downturn may end sooner than expected, any recovery is likely to be lackluster. The resulting surge in resource slack is going to put a lot of downward pressure on inflation. Under these circumstances, ECB policy should be highly accommodative and maintained for an extended period. A shift to aggressive QE appears unlikely, as this would require operational changes that are too disruptive. However, the ECB can easily implement credit easing under the current system.

Flu knocks Mexican economy back down

The swine flu appears likely to have dealt a sharp setback to an already ailing Mexican economy. This week President Calderon urged citizens to stay home and the government has shut down all nonessential offices until May 5. This added to the earlier decision to close schools and restaurants and cancel many social events. Hospitals, airports, ports, and other essential government offices remain open. These developments almost certainly will prolong the recession via a much sharper contraction in domestic demand and at least some loss of exports (including tourism). The revised forecast calls for GDP to decline 1% annualized this quarter—vs the previous forecast for a 2.8% increase—followed by a robust rebound in the third quarter, mirroring EM Asia's experience during the SARS crisis. One cushioning factor is the likelihood of even more stimulative policy. Banxico now is expected to ease 75bp at both the May and June meetings, lowering the policy rate to 4.5% at the end of the cycle (previously 4.75%).

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JPMorgan View - Global Markets

End of recession is nigh

- **Portfolio strategy**: stay long equities, high grade credit, and risk premia within fixed income, as the recovery trade has a lot further to go.
- **Fixed income**: go neutral on duration. Focus on carry and exploiting risk and and liquidity premia.
- **Equities**: return and economic momentum continue to favor EM vs Developed Markets.
- **Credit:** April was the best month for HG spreads this decade; stay overweight US HG, European financials, higher yielding ABS, and CMBS.
- **Alternatives**—Hedge fund regulation is coming, and will likely be even tighter than current proposals.

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.

Markets are gradually coming to the view that **the end of the Great Recession is approaching.** We believe we are indeed **very close to the bottom in global economic activity,** and may already be there, with the world economy set to start expanding again in coming months.

The **end of past recessions was bullish for all major assets—equities, credit, and bonds. Corporate bonds** are rallying as it is the asset class everyone wants to own, and everyone still considers to be very cheap. We similarly stay long. **Equities** are a more divided world. Much of the buying seems to be short covering, telling us there is much further to go. We believe that we are midway between this year's low and the recovery level: we see a 30% return on global stocks to reach this year's targets.

Bonds have rallied in the last few months of past recessions, but they are not gaining this time around. What's wrong? In a nutshell, policy frontloading, supply, and deleveraging. In this cycle, rate cuts came much earlier than in past ones. Also, G10 fiscal deficits are at historic highs, and banks are not buying much as they remain on a balance-sheet diet. QE is prompting major central banks to buy as many bonds as governments are issuing, but this is raising concerns about debt monetization. We maintain a forecast that falling inflation in 2H will lower inflation expectations, but recognize that the next few months will remain hard on bonds. We thus raise our year-end UST 10-year yield forecast to 2.75%.

Are there really no risks left? Growing confidence the recession is almost over should not lull us into complacency. For one, the recovery will probably be lackluster as banks and households remain in balance-sheet repair mode. In addition, there remain some pitfalls among the green shoots, from the US Treasury's stress tests, to the impossible-to-predict outcome of the swine flu pandemic. We are optimistic on both of these event risks.

Fixed income

US Treasuries sold off sharply last week, in 10s and longs, and yields are now trading above pre-QE levels. While we expected an unwinding of recession trades, we were long the 10yr on a view that Fed purchases and balance sheet expansion would push yields lower. Last week, however, the Fed's balance sheet shrunk a massive $130bn as the gradual healing in credit markets led to lower standing facility usage (CPFF, AMLF, etc.). Furthermore, the Fed purchased only $10bn of UST, below the $14bn pace seen in the prior two weeks. **Near term, the rally in risky markets could continue to push yields higher**. **We thus turn neutral on duration**. Medium term, it is still possible that low inflation and Fed purchases ultimately will bring yields down.

At **this week's meeting**, the **BoE** is expected to leave the base rate unchanged at 0.50%, where we expect it will stay at least until the end of 2010. The **ECB**, in contrast, will likely cut its policy rate 25bp to 1%. We expect another 50bp of easing by 09Q3, and do not expect a hike before 2011. **Low for long and attractive carry keep us long at the short end in developed**

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markets. In the UK, for example, even after having rallied 20bp last week, 2-year Gilts still generate a 3-month carry + slide of 38bp.

Our **GBI-EM local bond** index continues to rally, as the improved economic outlook reduces the likelihood central banks will have to raise policy rates to defend currencies. As a group, EM local bonds have now erased all of February's crisis-fear driven selloff. We remain broadly **long in EM local markets** on a view that low inflation and weak growth will push policy rates lower.

The rally in risky markets and falling volatility generally induce investors to look for carry, which tightens spreads. Accordingly, we remain **overweight high yielders in EMU**.

In **inflation markets**, we remain in **steepeners in the Euro area** on the view that markets are underreacting to current disinflation and to longer-term inflation risk. Indeed, the Euro area flash HICP release surprised on the downside in April, remaining unchanged at 0.6%oya vs 0.7% consensus.

Equities

We continue to look for a further 20-30% rally in equities, as an increasing number of investors recognize that the end of the recession is near and are thus induced into recovery trades or forced to cover their bearish positions. The end of recession rally has typically lasted up to three months into recovery.

Emerging Markets, financials, and cyclicals will likely continue to outperform. In the **US**, the best way to play the cyclicals vs defensives overweight is through a long in consumer discretionary (retailers, hotels, restaurants, casinos, auto parts, tires, etc.) vs staples (food, beverages, etc.). In **Europe**, we are most positive on materials and industrials and most negative on utilities and staples.

EM equities got a boost last week from the first investment by a Chinese state-owned company in Taiwan. Taiwan and China are our preferred countries within EM. We continue to recommend an **overweight in EM vs Developed Market (DM) equities**. We have found that both return momentum and economic momentum, captured by the difference in industrial production growth in EM vs DM, have provided profitable signals for switching between EM and DM equities. Both signals currently recommend a long in MSCI EM$ vs MCSI World$.

Credit

April was the best month this decade for HG as spreads tightened 68bp. US HG spreads will come in further as strong demand outstrips the slowing new bond supply. Ytd, investors put $40bn into HG funds, and $7bn alone in the past four weeks. As a result, new-issue concessions are declining significantly, approaching the pre-Lehman level, although valuation remains attractive relative to other fixed income assets such as CMBS, MBS, and ABS and to historical levels. The current spread of 443bp is still 177bp above the historic peak of HG credit spreads since the 1970s.

In the **US**, we estimate that 6-7% of companies will fall from IG to HY, and become fallen angels by the end of 1Q2010. This compares with 3.0% last year and the annual average of 2.4% since 1987. However, the bond spreads of most downgrade candidates are wide with respect to their rating bucket and we believe their bond spreads fully reflect the downgrade risk.

In **HY**, default activity continues to accelerate. $30bn in bonds and loans defaulted in April. YTD, 59 companies have defaulted for $106.3 billion, a record-high compared with 82 companies and $49.2 billion in 2008.

Alternatives

Commodities are overall flat last week with industrial metals outperforming. In the **oil** markets, we retain our concerns about high stock levels. Currently, forwards are pricing a full-strength seasonal rebound in demand in 2H. Such a strong rebound is unlikely even with a swift economic recovery later this year. **Gold** is down this week, but we expect that strong physical demand and long-term inflation concerns will underpin prices around $875-885. Copper has been supported by positive news on Japanese IP and earnings reports, but the rally is likely to be short-lived.

Hedge fund regulation was a hot topic last week, as the European Commission released its proposal. There are strong pressures from France/Germany to impose tighter regulations. We believe that European rules will be tighter than in other jurisdictions, but the European market is important enough for hedge funds to choose registration over exit. Higher taxation in Europe, particularly in the UK, is a more important risk for the local industry than regulation. We believe that some regulation is a better outcome for the hedge fund industry than no regulation, as investors will demand more transparency in any case.

AUD and NZD Commentary

- **After one of the most vigorous two-month rallies on record, markets have reached a key decision point; New highs are more likely with commodity currencies than with EUR/USD or USD/JPY, since cash is still near record levels.**

- **Technicals: AUD/USD extends above the MT range with additional upside expected; AUD/NZD at key resistance.**

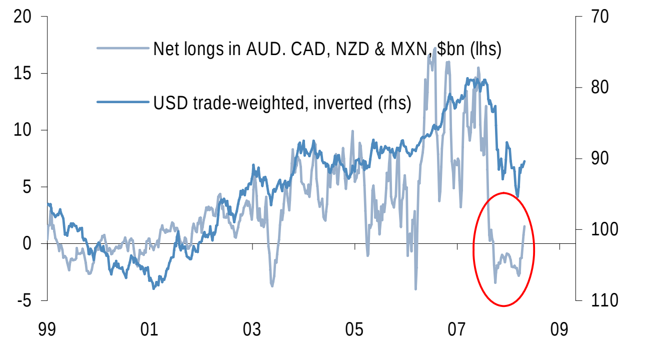
- Markets have reached a decision point. After one of the most vigorous two-month rallies on record—whether for stocks, credit or high-yield currencies—the easy money has been made. Armageddon scenarios of an extended recession have ceded ground to a phalanx of stimulus measures, prompting massive short covering in equities and the high-beta currencies. The question: position for consolidation due to mediocre recovery or for range breakouts due to stronger growth and mountainous cash? In either case the dollar looks due a further fall with the choice of scenarios only driving the breadth and speed of that move.
- The cyclical question is easiest to answer. This recovery will be mediocre for all the reasons most clients suspect: inventories rather than investment will lead a Q3 expansion, and savings rates need to move higher to reduce debt positions. The result should be second-half growth of only 1%, an achievement after the deepest contraction in post-war history but seemingly too tepid to drive trends in rates, commodities, and by extension, currencies.
- The breakout case is pair-specific, and is linked more to still-underweight positions than a belief in a robust recovery. Consider the case of commodity currencies. The cheapness of AUD, CAD and NZD is well accepted by most clients, yet these currencies still look underowned judging from positions on the IMM (10-15% of last years highs) and the low beta which hedge fund and currency manager returns exhibit with respect to carry strategies (beta of roughly 0.2). The case for owning them now isn't as strong as their recent price momentum suggests. Most are too low yielding to properly qualify as carry trades in this environment of falling-to-stable volatility, particularly judged next to BRL, ZAR and RUB. And since commodities are so oversupplied after this recession—US crude stocks stand at two decade highs, base metals at decade highs—both commodities and commodity currencies have front-loaded a punchy industrial rebound. Having profited from ranges last month through a basket of range binaries (USD/CAD, GBP/USD and GBP/CHF), we take profits and increase exposure to cyclical trades such as the yen crosses.

Technical analysis

- AUD/USD extended through key resistance including the medium term range highs at the key .7200/.7325 zone while suggesting further upside. This area included the key 200-day moving average as prices have now closed above this level for the first time since August, as well as the early-April high. In turn, we expect additional upside to develop with targets starting in the .7477/.7515 area represented by the 38.2% retracement from the 2008 cycle high and the key channel resistance from the October low. Deeper targets enter at .7700 and then .7930. Note that the .7000/.6950 zone will now maintain the bullish short term upside bias.

Chart 1: USD vs net speculative positions in commodity currencies

Positions based on IMM net speculative longs in AUD, CAD, NZD and MXN expressed in $bn. Trade-weighted dollar is J.P.Morgan's nominal effective exchange rate index. Circle indicates short covering in commodity currencies



Source: J.P.Morgan

- NZD/USD continues to lag as the short term range below the April high remains intact. Still, the interim bullish bias calls for an eventual breakout. Despite the under-performance, note that key supports have held starting at the .5500/.5485 zone. While intact, this should allow for a breakout with targets located near .6165/.6350 levels. In line with the underperformance, note that AUD/NZD is approaching key resistance near 1.29/1.30 with the upside bias intact against the 1.2700/1.2570 levels.

AUD/USD - Daily chart

Source: CQG, Inc. © 2009 All rights reserved worldwide. www.cqg.com Fri May 01 2009 16:06:48

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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	-2.5 ↓	2.7 ↑	-6.3	-6.1 ↓	-0.5 ↑	1.0	2.0 ↑	3.0 ↑	4.0 ↑	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	-2.8 ↓	3.0	-8.7	-10.5 ↓	-0.2 ↓	8.1 ↑	1.7 ↓	2.9 ↓	3.0 ↓	8.3	7.1 ↑	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	-5.0 ↓	3.4	-10.3	-20.0 ↓	-1.0 ↓	20.0 ↑	1.6 ↓	1.6 ↓	1.6 ↓	6.2	6.0 ↑	4.2 ↑	3.4
Peru	9.8	2.7 ↓	4.7	0.7	-0.8 ↓	2.9 ↓	3.9 ↑	3.4 ↑	4.8	5.5 ↓	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	-6.4 ↑	2.3 ↑	-12.1	-15.5 ↓	0.0 ↑	2.0	4.5	3.5	-0.5	1.0	-0.7 ↓	-1.3 ↓	-0.4 ↓
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	-2.9 ↑	-2.5 ↓	0.3	0.6 ↓	2.9 ↑	2.4 ↑	3.4	1.5 ↑	1.2 ↑	2.8 ↑
Asia ex. Japan	5.8	2.9 ↓	6.4	-5.2	0.7 ↓	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	-7.5 ↓	4.0	-16.4	-19.7 ↓	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	-4.0 ↓	4.0	-22.2	-9.6 ↓	9.1	4.5	4.5	3.2	3.2	2.1	-2.0 ↑	1.2 ↓	2.4 ↓
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	0.4 ↓	0.3 ↓
Sweden	-0.5	-5.1	0.4	-9.3	-8.0	-3.0	-1.0	0.0	1.0	1.0	2.4	-0.4 ↑	-0.2 ↑	0.1 ↓
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	-4.3 ↓	1.9 ↑	-7.1	-13.5 ↓	-1.8 ↑	1.0 ↑	2.1 ↑	1.7	1.5 ↓	9.5	7.9 ↑	7.3 ↑	6.3 ↑
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	-13.5 ↓	-4.8 ↑	-3.8 ↑	-1.0 ↑	0.0	1.0 ↓	4.3	2.9	6.8 ↑	2.4 ↓
Poland	4.8	-1.0	1.8	1.2	-4.2	-2.0 ↑	0.0 ↑	0.5 ↑	1.0 ↓	1.5 ↓	3.8	3.4 ↑	2.7 ↓	2.4 ↑
Romania	7.1	-4.0	-1.0	...	...	...	...	...	...	...	6.8	6.3	7.5	6.5
Russia	5.6	-6.5 ↓	2.8 ↑	-12.8	-21.0 ↓	-0.5 ↓	3.5 ↑	4.5 ↑	3.0 ↑	2.0	13.8	12.7	11.2	10.0 ↑
Turkey	1.1	-3.4	2.5	...	...	...	...	...	...	...	10.9	6.9	6.1	5.0
Global	1.6	-2.8	2.3 ↑	-6.8	-6.9 ↓	-0.7 ↑	1.3 ↑	2.2 ↑	2.8 ↑	2.7 ↑	2.9	0.7	1.1	1.5 ↓
Developed markets	0.7	-3.6	1.6 ↑	-6.9	-7.6 ↓	-1.8 ↑	0.1	1.5 ↑	2.3 ↑	2.1 ↑	1.9	-0.2 ↓	0.3 ↓	0.8
Emerging markets	4.9	0.2 ↓	4.7	-6.3	-4.2 ↓	3.3 ↓	6.1 ↑	4.8	4.7 ↓	4.8 ↓	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	1.52	-319				1.31	1.21	1.21	1.21	1.23
excluding US	GDP-weighted average	2.18	-227				1.87	1.72	1.72	1.72	1.75
Developed	GDP-weighted average	0.56	-357				0.41	0.33	0.32	0.32	0.32
Emerging	GDP-weighted average	5.34	-166				4.89	4.72	4.74	4.74	4.83
Latin America	GDP-weighted average	7.36	-145				6.35	6.35	6.35	6.41	6.49
CEEMEA	GDP-weighted average	6.70	-31				6.14	5.89	5.93	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	0.93	-466				0.82	0.82	0.82	0.82	0.83
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	24 Jun 09	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	10.25	-125	**29 Apr 09 (-100bp)**	10 Jun 09	**10 Jun 09 (-50bp)**	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)	4.50	4.50	4.50	4.50	4.50
Chile	Discount rate	1.75	-375	9 Apr 09 (-50bp)	7 May 09	7 May 09 (-50bp)	1.00	1.00	1.00	2.00	3.50
Colombia	Repo rate	6.00	-325	**30 Apr 09 (-100bp)**	29 May 09	**29 May 09 (-50bp)**	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 (-100bp)**	3.50	3.50	3.50	3.50	3.50
Europe/Africa	GDP-weighted average	1.78	-281				1.37	1.17	1.17	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)	25 May 09	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)	27 May 09	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	6.75	6.75	6.25	6.25
South Africa	Repo rate	8.50	-150	**30 Apr 09 (-100bp)**	28 May 09	**28 May 09 (-50bp)**	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	2.50	-575	**30 Apr 09 (-50bp)**	11 Jun 09	**11 Jun 09 (-25bp)**	2.25	2.25	2.25	2.25	2.25
Japan	Overnight call rate	0.10	-40	19 Dec 08 (-20bp)	22 May 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)	25 Jun 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)	5.04	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)	26 May 09	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. 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	-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	1.7	2.3	4.5	5.0	3.7	3.0	1.6	0.6	1.5	1.5	2.3	2.7	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)	-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	3.0	2.9	7.8	7.0	4.1	3.1	3.2	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	-65.0	-80.0											
as % of GDP	1.1	-5.4	-6.4											
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	1.2	2.1	6.7	6.2	-1.8	1.1	0.8	1.2	1.6	2.0	2.4	3.2	3.7
%oya	4.0	1.5	2.1	4.0	5.1	3.4	3.0	1.5	0.3	1.2	1.4	1.8	2.3	2.8
Trade balance (NZ$ bil, sa)	-2.2	-3.1	-2.9	-1.1	-0.9	0.0	-1.0	-0.7	-0.7	-0.7	-0.6	-0.7	-0.8	-0.8
Current account (NZ$ bil, sa)	-16.2	-14.3	-12.2	-4.7	-4.0	-4.0	-4.1	-3.5	-3.2	-3.6	-3.1	-5.2	-2.1	-1.8
as % of GDP	-9.0	-7.4	-3.6	-10.5	-9.1	-8.8	-7.7	-7.0	-7.9	-6.8	-4.6	-3.7	-3.4	-2.9
Yield on 90-day bank bill (%)*	7.9	2.6	2.7	8.8	8.2	6.0	2.8	2.5	2.5	2.5	2.5	2.6	2.7	2.8
10-year bond yield (%)*	6.0	4.3	4.1	6.5	5.9	5.3	4.1	4.7	4.4	4.1	4.0	4.0	4.0	4.2
US$/NZ$*	0.71	0.53	0.58	0.78	0.71	0.58	0.51	0.52	0.54	0.56	0.57	0.57	0.58	0.58
Commonwealth budget (NZ$ bil)	-1.8	-7.8	-8.1											
as % of GDP	-1.0	-4.3	-4.3											
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	7.6

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
4 May Australia : ANZ job ads (11:30 am) Apr House price index (11:30 am) 1Q -0.4 (% q/q)	5 May Australia : Building approvals (11:30 am) Mar 2.5 %m/m, sa RBA cash target (2:30 pm) May no change expected New Zealand : ANZ comm. price (3:00 pm) Apr	6 May Australia : Retail sales (11:30 am) Mar -0.5 % m/m, sa Trade balance (11:30 am) Mar 1900 A$ mn New Zealand : Labour cost index (1pm) 1Q 0.6 (%q/q)	7 May Australia : Unemployment rate (11:30 am) Apr 6.0 %, sa New Zealand : Unemployment rate (10:45 am) 1Q 4.8 %, sa	8 May Australia : RBA Statement on Monetary Policy (11:30 am)
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	22 May
25 May	26 May New Zealand : Trade balance (10:45 am) Apr RBNZ inflation expectation (10:45 am) 2Q	27 May	28 May Australia : Privat capital expenditure (11:30 am) 1Q Construction work done (11:30 am) 1Q New Zealand : NBNZ business conf. (3:00 pm) May	29 May Australia : Pvt. sector credit (11:30 am) Apr New Zealand : Building permits (10:45 am) Apr

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

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
4 - 8 May	**4 May**	**5 May**	**6 May**	**7 May**	**8 May**
United Kingdom • Halifax HPI (Mar)	China • CLSA PMI mfg (Apr) 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) • Bernanke testifies before Joint Economic Committee	Australia • Retail sales (Mar) 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) • Prod and costs (1Q) • Bernanke speaks on financial regulation Central bank meetings • Chile, Czech Republic, Euro area, Peru, UK	Brazil • Auto report (Apr) • 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)
11 - 15 May	**11 May**	**12 May**	**13 May**	**14 May**	**15 May**
China • Money supply (Apr) Japan • Cabinet Office private consumption index (Mar)	China • CPI (Apr) Mexico • Auto report (Apr) Norway • CPI (Apr) United States • Bernanke speaks on financial crisis	China • FAI (Apr) • Trade balance (Apr) Germany • CPI final (Apr) Korea • BoK meeting South Africa • Mfg production (Mar) Sweden • CPI (Apr) United Kingdom • Trade balance (Mar) United States • International trade (Mar)	China • IP (Apr) • Retail sales (Apr) Euro area • IP (Mar) France • CPI (Apr) Japan • Econ watcher surv (Apr) United Kingdom • Labor mkt report (Apr) United States • Bus inventories (Mar) • Import prices (Apr) • Retail sales (Apr)	Brazil • Retail sales (Mar) Poland • CPI (Apr) Turkey • CBRT meeting United States • PPI (Apr)	Euro area • GDP flash (1Q) • HICP final (Apr) France • Employment prel (1Q) Japan • Private machinery orders (Mar) Mexico • Banxico meeting Poland • GDP prelim (1Q) United States • CPI (Apr) • Consumer sent (May) • IP (Mar) • NY Fed bus sur (May)

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