JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- In **Australia**, Saturday's federal election delivered the widely expected win for the Labor opposition, but is unlikely to bring much policy change (see research note from page 3). Australia, therefore, has changed the party of government for the first time since 1996, and for only the sixth time in the last 60 years. Labor's economic policies mimic those of the previous Coalition government, except in industrial relations, where Labor will deliver on its promised changes. The highlight this week will be Thursday's business investment survey, which will update managers' spending plans for 2007-08. Credit growth probably will stay at an elevated 1.2% in October, and the current account deficit should blow out to 6.2% of GDP in 3Q.

- In **New Zealand**, the net-permanent migration data continued to weaken last month; permanent immigration fell to just 7,500 in the year to October. The reduction in net-migration points to lower housing demand and consumption growth. In other data, the RBNZ credit card statistics showed some payback for September's surge. The series' correlation with retail sales suggests the 1.0%m/m gain in the total value of retail trade will be partially reversed in October. This week's highlight will be the NBNZ business confidence survey. The "firms own expectations" component will be of most interest, as it is highly correlated with quarterly changes in GDP.

- The **FOMC** inaugurated its quarterly three-year economic forecast report last week, a step intended to be viewed as a milestone on the Fed's march toward transparent communication. Ironically, it comes amid a growing disconnect between what the Fed is saying and what the market hears. After the October FOMC meeting, the Fed issued a statement that "the upside risks to inflation roughly balance the downside risks to growth," setting a high bar for further easing at the December 11 FOMC meeting. The message that the Fed is inclined to remain on hold in December has been reinforced by a number of recent Fed speakers. But in the face of weaker economic news and a deterioration in financial conditions, markets are increasingly confident that the Fed will act. Both Vice Chairman Kohn and Chairman Bernanke are set to speak this week, and will probably use the opportunity to open the door to a December ease, thus bringing the planets into closer alignment.

- The **Euro area** economy faces strong headwinds from past ECB rate hikes, the stronger currency, tighter market conditions, and the squeeze on household purchasing power from rising food and energy prices. These headwinds point to a significant slowdown in an economy that had rallied to produce a GDP gain of almost 3% (q/q, saar) in the third quarter. The most timely indicators for tracking this adjustment are the business surveys. Friday's "flash" PMI fell another point in November to 53.8, for a total loss of 3.6 points since August. Although the current level is consistent with our revised forecast for 1.5% GDP growth in the current quarter and 1Q08, the PMI is not yet showing signs of a bottom.

This week's highlight

Thursday's Aussie capex survey. In 2Q, firms planned to raise spending a whopping 17% in the year ended June 2008. It will be interesting to see the extent to which the credit crunch and more cautious global growth forecasts have changed minds.

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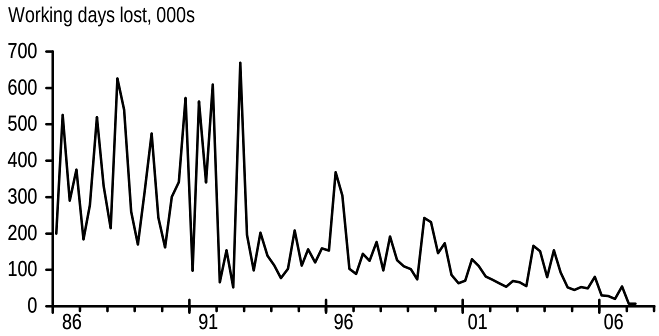
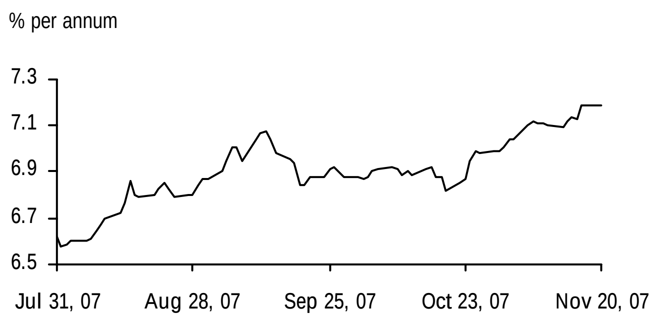
This week's feature charts

Australia: industrial disputes



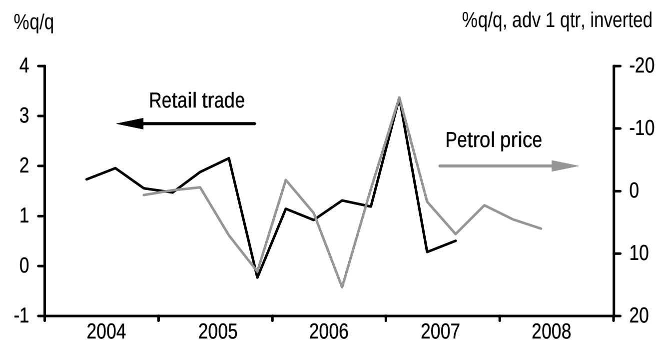
Workchoices, the package of industrial reforms put in place by the Coalition government, was a key focus of debate in the election campaign. Many viewed the government's changes as unfair, even though they helped drive the jobless rate down to a 33-year low. At the same time, industrial disputation fell to all-time lows, with the number of days lost dropping to only 7,000 in each of the last two quarters.

Australia: rate on 90-day bank bill



There are renewed signs of tension in domestic money markets, with yields on 90-day bank bills, for example, rising to the highest levels seen since early September. The RBA has injected additional liquidity into overnight money markets in recent days to help 'grease the wheels' of the markets, but feedback from market participants is that there already is excess cash in overnight markets.

New Zealand: retail sales volumes and petrol prices



The price of fuel in New Zealand has hit NZ$1.73 per litre of 91-octane. The price of fuel is fast approaching the elevated levels seen late last year. Movements in retail spending are highly correlated to movements in fuel prices at the bowser; rising petrol prices, therefore, are one of a number of gusty headwinds faced by consumers next year (i.e. on top of a weakening housing market, higher interest rates, increasing rents and rising food prices). Consumption growth will remain weak into 2008.

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Economic Research note

Australia's poll delivers a new government, but little change

- **Saturday's federal election delivered a change of government, the first since 1996**
- **Labor won the election, but most of its policies mimic those of the government**
- **A huge fiscal stimulus in the policy pipeline will keep RBA officials on their toes**

The opinion polls, which have indicated for some time that Labor would win the election comfortably, didn't lie. Australians have changed the party of government for the first time since 1996, and for only the sixth time in 60 years. The Labor opposition won the election with 43.5% of the popular vote, and 53.4% of the two-party preferred vote (i.e. after the distribution of minor party preferences), its highest ever share. This delivered Labor a massive swing of 22 seats; Labor needed a net swing of 16 seats to form a government. This is the third largest swing for an opposition party since WWII.

Counting continues, but it looks like Labor will hold 88 seats in the new parliament (up from 60 in the old house), the Coalition will have 60 seats (down from 87), and independents 2 seats (down from 3). That gives Labor a working majority of 26 seats. Labor leader Kevin Rudd, who has been opposition leader for less than a year, therefore, becomes Australia's 26th Prime Minister. Former PM John Howard looks likely to lose his seat—it will be only the second time ever that a sitting PM has lost his seat—and will leave politics immediately after the Rudd government is sworn in this week. In the near term, the only material policy changes will be in industrial relations and the environment, where Labor will deliver on its pledge to reverse some of the Coalition's workplace reforms, and sign the Kyoto agreement.

Labor will not have control of the senate

All 150 seats in the lower house were up for grabs at the election, but only 40 of the 76 seats in the senate were contested. Counting of senate votes continues, but it looks as though the Coalition also has lost its majority in the upper house. The balance of power probably will be held by the Green Party, Family First and an independent.

In the meantime, though, the old senate sits until next July. Beyond July 2008, the new make up of the senate, with smaller parties holding the balance of power, means Labor will find it more difficult to implement its legislative program, relative to the ease with which the previous government could enact its legislative agenda, because it controlled both houses. This means the cogs of government will turn more slowly than before. Also, it means there will be more opposition and minor party scrutiny of the operations of government. The previous Coalition government was able to manage the senate committee process to its advantage and, because of its senate majority, met only token resistance when implementing its legislative agenda.

Australia's Parliament : likely state of the houses

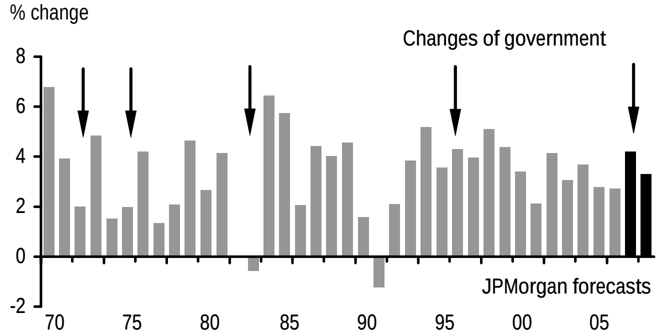
Number of seats

	Lower house	Upper house
Liberal (Coalition)	49	34
Country Liberal (Coalition)	1	1
National (Coalition)	10	2
Labor	88	32
Family First	-	1
Australian Greens	-	5
Independents	2	1
Total seats	150	76

Source: Australian Electoral Commission

GDP growth and changes of government

% change



'It's time' the oft-quoted reason for change

This is the first election in recent history at which Australians opted to dump a government with a record of sound economic management. Recession and/or economic upheaval have been triggers for each change in the party of government dating back to 1972 (chart). The exception was the 1996 election, when the Keating Labor government lost office. GDP growth in the preceding three years had been firm, but Keating was blamed for the infamous 'recession we had to have' in the early 1990s. The context for this poll is that Australia's economy has expanded for 16 straight years, unemployment is low, there is no net public debt, and the budget is in surplus.

Labor won this election largely by keeping it's collective head down, and mimicing the government's policies at every reasonable opportunity. Labor promised personal income tax cuts, for example, that were identical to the government's until 2013, when the tax cuts for high income earners will be deferred. This strategy proved particularly effective because Labor provided only a small target for criticism. Also, the size and scope of Labor's spending promises all but matched those of the Coalition. It seems that many voters decided simply that now was time for a change, given that John Howard had been PM for 11 years. This is the second longest stint for a leader since Australia's Federation in 1901. The flip side of experience, though, was that the Government struggled to present a fresh image to the electorate.

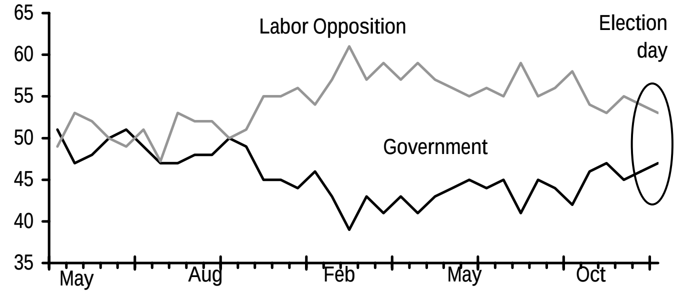
Also, there was lingering hostility directed at the government over the workplace changes, Australia's commitment of troops to the unpopular war in Iraq, the harsh treatment of asylum seekers, the extended detention of David Hicks, an Australian citizen, at Guantanamo Bay in Cuba, the Prime Minister's late acceptance of human causes of global warming and belated embrace of Indigenous reconciliation, and the 'children overboard affair'. Finally, of course, there was this month's increase in official interest rates, the first ever during an election campaign, which contradicted government promise to keep interest rates at record lows.

Little new despite change of government

Labor's much-criticized, but ultimately effective, 'me-too' election strategy of mimicing the government's policies means little is likely to change in the near term, even with a new government. Crucially, on economic policy, Labor has pledged to maintain the independence of the Reserve Bank, and budget surpluses. The main area of change will be in industrial relations, where Labor has pledged to abolish workplace agreements and reinstate the unfair dismissal laws abolished by the Coalition government. Labor also plans to wind back some of the government's other important industrial changes, but not until 2010.

One challenge for Prime Minister Rudd will be to tread a path between delivering on his promise of economic conservatism and placating the trade unions, which provide a significant proportion of Labor's funding. The Coalition accused Rudd during the campaign of trying to ride a Trojan horse into government. Critics argued that an insincere Rudd, declaring his faux conservatism, would breach the 'walls' of parliament and release a posse of militant trade unionists. Labor's promised workplace changes do provide a more prominent role for unions, but many of the changes do not take place for some years. Also, Labor's comfortable victory has given Rudd unprecedented authority within the party. Labor ran an unorthodox, presidential-style campaign, with Rudd as the centerpiece; he probably has the mandate to stand up to the unions, at least for now. A second challenge for Rudd will be to build bridges with the business community, most of which favoured the Coalition.

Australia: public opinion polls
Newspoll, % two party preferred



Last five changes of government and the economy[a]

Election date	GDP growth	Inflation	U/E rate
2 December 1972	2.0	6.0	2.6
13 December 1975	2.0	15.2	4.9
5 March 1983	-0.6	10.1	10.0
2 March 1996	4.3	2.6	8.2
24 November 2007	4.2	2.3	4.4
Average	2.4	7.2	6.0

Source: Australian Electoral Commission, ABS.
(a) In the year of the election.

Fiscal splurge already in the pipeline

In addition to matching the Coalition's tax cut promise, Labor pledged huge spending increases in health care, education, child care, transport, housing, communications, and in a range of other portfolios. Although the Coalition out-promised Labor on spending, the new Rudd Government's fiscal splurge will add fuel to the economy's fire, which already is burning brightly. Indeed, the economy, which grew 4.3% in the year to June, is hardly in need of stimulus. The forecast is that the RBA will raise the cash rate a further 25bp in early February; Labor's planned fiscal largesse makes this more likely than before, but only at the margin.

Financial market participants took the outcome of the election in their stride; a Labor win was widely expected. The small business sector, though, is less sanguine; the Sensis small business sentiment index plunged 15% last week on concerns about Labor's workplace changes, which will particularly affect employers with less than 100 employees.

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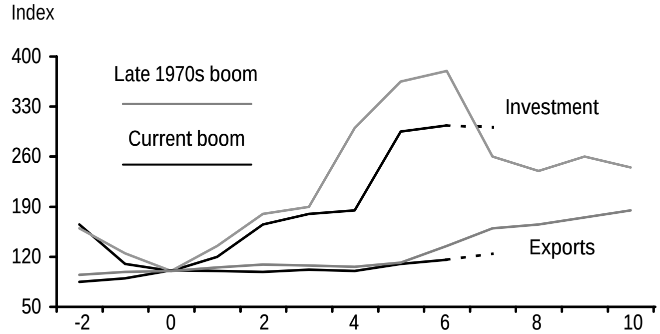
Economic Research note

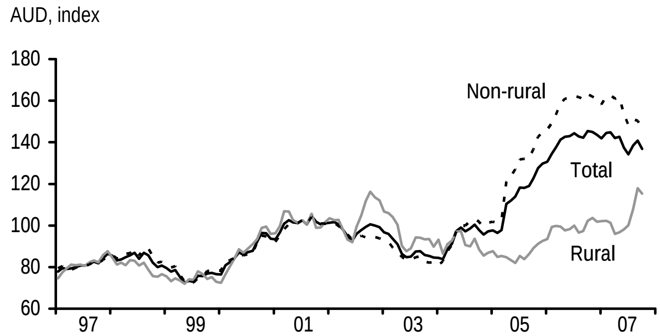
Net exports eventually to add to Australia's economic growth

- **Export volumes surged 50% from 1994-2000, but have since risen just 9% due to capacity constraints**
- **Commodities output accounts for 10% of GDP; terms of trade remains a significant economic stimulus**
- **The contractionary effect of the drought on rural exports should abate soon**

Investment boom to boost export volumes



RBA commodity price index



The Australian export sector has performed poorly this decade. Annual export volumes have risen just 2% on average since 2000, compared to 8% each year on average during the 1990s. The trade balance, therefore, has remained in deficit for five years, a period marked by the most favorable commodity prices in decades—the terms of trade has surged 40% over the past four years. The fortunes of the sector are changing, however; rising volumes eventually will replace high commodity prices as the key driver of export growth. The drought and high AUD will be negative forces.

Solid capex soon to come online

A long-awaited recovery in export volumes, primarily in mining, should arrive on the back of solid business investment which, as a proportion of GDP, is at a record peak. Historically high commodity prices have bolstered company profits, leading resource companies to invest in new projects and expand production. Mining investment has risen for five years as a result, gradually alleviating the infrastructure bottlenecks—mainly congestion at mines, ports and on railways—preventing exporters from fully cashing in on strong global demand, particularly for commodities.

The backlog of capital spending projects continues to be significant, though the lead times between construction and implementation are long. In the last mining boom in the 1970s, mining investment rose for six years, but export volumes did not rise notably until two years after the peak in investment. Similarly, new capital expenditure in mining rose 15% in 2006-07 and is forecast by the Australian Bureau of Statistics to rise 32% in 2007-08, meaning that a recovery in export volumes likely will be realized in 2009.

Commodity prices set to remain high

The strong global economy and the associated rise in commodity prices has been a key driver of the Australian economy this decade. Commodities account for 60% of Australia's export basket, and solid demand for iron ore, nickel, and gold helped drive export values to a record A$166 billion in 2006. While volumes have languished, exporters have benefited from a favorable commodity price environment. The RBA's nonrural commodity price index rose a further 11% in 2006 after surging 43% in 2005.

High commodity prices should continue to benefit exporters. The Australian Bureau of Agricultural and Resource Economics (ABARE) forecasts earnings from commodity exports to rise 4%oya in 2007-08, owing mainly to higher earnings for mineral and energy exports. ABARE predicts that export earnings from iron ore alone will jump 17.5% in 2007-08, driven mainly by strong demand from China and its soaring levels of steel production. China bought US$7.64 bn of Australian iron ore in 2006, and is partly behind the recent rise in spot iron ore prices above US$150, almost triple the long term contract price of US$51.47 set in early 2007. The upcoming round of iron ore negotiations may set contract prices even higher as demand remains strong.

Widespread drought a persistent burden

On the downside, though, widespread drought conditions continue to curb farm exports. ABARE in October slashed its forecast for wheat production to 12.1 mn tonnes from 15.5 mn tonnes for the 2007-08 year—significantly less than the 22 mn tonnes estimated in June, after a good start to the season.

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Crop decimation has resulted in a surge in prices of soft commodities. Wheat futures prices for March delivery trade near US$300 per tonne, up 60%oya.

As below-average rainfalls and unusually warm temperatures slashed wheat and other grain crops, feed costs have spiked, leading to a slump in meat production and, in turn, exports. Australia is the second-largest beef exporter (in volume terms) in the world, but the A$4 bn beef industry has languished amid skyrocketing feed costs. In addition, Aussie meat exporters have been hit by the restricted return of US beef exports to Japan, Australia's largest beef export market, receiving 40% of Australia's beef exports.

Sustained rainfall and irrigation flows are crucial in facilitating a recovery in farm exports. According to the Bureau of Meteorology, the outlook for rain from November to January shows a moderate to strong probability of above-average rainfalls across most of the nation, although significant relief is unlikely until well into 2008. Although a partial recovery from the drought will occur if rainfalls are sufficient, strong AUD will add to exporters' woes in the near term.

Strong AUD may stall export recovery

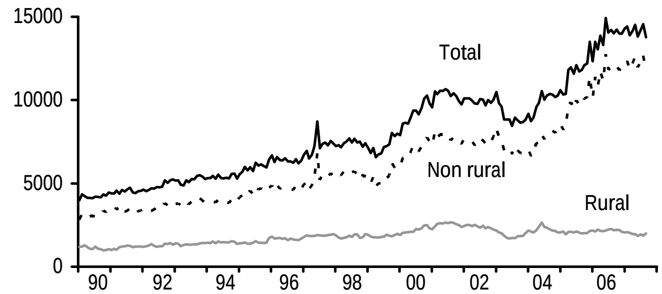
Indeed, high AUD is curbing exporters' competitiveness. The A$1.86 bn trade gap in September emerged against a backdrop of soaring AUD, which currently is at a 23-year high in trade-weighted terms. Although the Australian Trade Commission reports that only 20% of exporters say the currency influences their decisions to further invest or expand overseas operations, the Australian unit will likely trend higher. JPMorgan expects that high commodity prices and widespread speculation that the RBA will hike interest rates at least one more time will bring AUD/USD to 0.93 in the first six months of 2008, rendering the lagging export sales even less competitive than before.

International trade in the election limelight

The export sector may be slightly shaken in the wake of the November 24 federal election if the Labor opposition wins, as opinion polls currently suggest it will. One key difference between the two major parties is the treatment of free trade agreements (FTAs). The government has negotiated FTA's with the US and Singapore, among others, and aims to further negotiations with other major trading partners, including Japan and China. The trade pacts have expanded opportunities for Australian exporters, though the Labor opposition argues that pursuing bilateral FTAs comes at the expense of securing broader, multinational agreements. The Opposition has given a higher priority to the successful completion of the Doha negotiations, and raising funding for the Export Market Development Grants scheme in order to deliver more opportunities to local exporters,

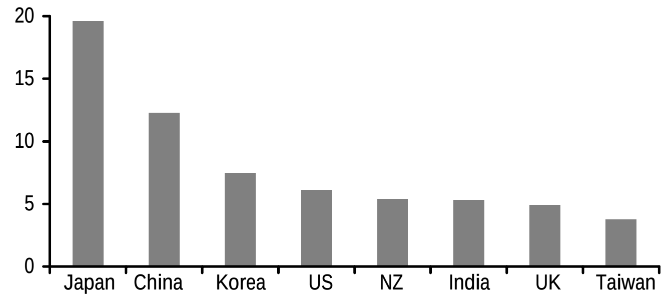
Widespread drought conditions weigh on farm exports

A$ million



Asia remains Australia's largest trading partner

% of total exports



and assist emerging exporters in building global supply chains.

Export outlook good, but risks remain

There are downside and upside risks to the export outlook. On the downside, the drought will continue to drag on the export sector, while expected further AUD appreciation will curb exporters' competitiveness. The anticipated improvement in export volumes will provide a welcome offset, one that will emerge at a particularly favorable time given Australia's proximity, and long-established trade links, with strongly growing Asia, where two thirds of exports are destined.

A sharper than anticipated slowdown in the US economy, though, is a significant risk to demand for Australia's exports although, for now, the outlook for Asian economic growth is relatively healthy. While risks remain to the outlook for Japan, which accounts for 20% of total exports, growth in China, accounting for 12% of exports, remains robust. Only 6% of total exports are destined for the US.

Net exports subtracted 1.0% point from GDP in 2006 and looks set to subtract 1.6% points in 2007, marking the sixth straight annual drag on economic growth. In 2008, net exports are forecast to subtract another 0.1% points from growth before adding 0.8% in 2009—primarily owing to increased productivity and export volumes.

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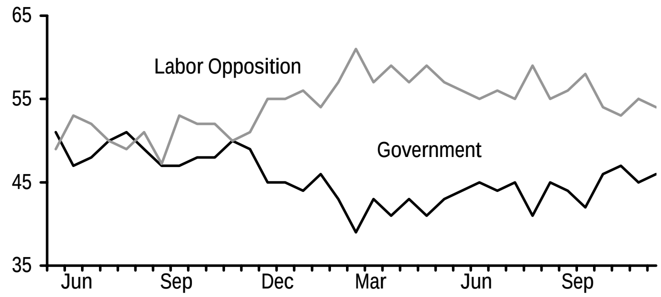
Australia

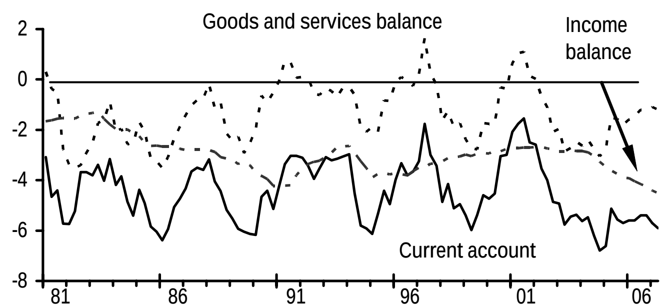
- **Federal election delivers new government, but little change**
- **Business lending to drive credit growth in October**
- **Firms likely to maintain upbeat investment plans**

In the absence of top-tier economic data on the Australian agenda, market pundits took their cue from abroad last week, before redirecting their attention toward the federal election held on Saturday. Labor won the election, as expected, and will hold a substantial majority of seats in the new parliament. This week, 3Q current account and business investment numbers are scheduled for release, alongside private sector credit aggregates for October.

Australia: public opinion polls
Newspoll, % two party preferred



Australia: current account deficit
% of GDP



Election: a Labor win as expected

Australia has changed the party of government for the first time since 1996, and for only the sixth time in 60 years. The Labor opposition won the election with 43.5% of the popular vote, and 53.4% of the two-party preferred vote (i.e. after the distribution of minor party preferences), its highest ever share. This delivered Labor a massive swing of 22 seats; Labor needed a net swing of 16 seats to form a government.

Counting continues, but it looks like Labor will hold 88 seats in the new parliament (up from 60 in the old house), the Coalition will have 60 seats (down from 87), and independents 2 seats (down from 3). That gives Labor a working majority of 26 seats. Labor leader Kevin Rudd, who has been opposition leader for less than a year, therefore, becomes Australia's 26th Prime Minister. Labor's win means that, for the first time, Labor governments rule from coast to coast, in each state and territory, and federally. Former PM John Howard looks likely to lose his seat, and will leave politics immediately after the Rudd government is sworn in this week.

In the near term, the only material policy changes will be in industrial relations and the environment, where Labor will deliver on its pledge to reverse some of the Coalition's workplace reforms, and sign the Kyoto agreement. Labor offered generous personal income tax relief, on top of that already paid from July 1, 2007, and targeted spending increases on child care, education, health, and defence. The likely loosening of fiscal policy, whichever party is elected, probably helped convince RBA officials that the cash rate needed to rise in early November, but only at the margin—the case for a rate hike already was crystal clear.

Labor's economic policies are similar to those of the Government, so their election win probably will not deliver material change, at least not in the short term. Labor, for example, like the Coalition government, has pledged to maintain budget surpluses and the independence of the Reserve Bank. The major difference between the parties concerns industrial relations. Labor will throw out many of the government's latest workplace reforms, which Labor claims are unfair. Labor will abolish workplace agreements, which were a centerpiece of the Government's latest changes. It also will reinstate the unfair dismissal laws modified by the government, which will mostly affect small businesses. Many other proposed industrial changes would not kick in for some time.

Current account deficit to worsen

Australia's current account deficit worsened as expected in the June quarter, and probably widened even further in 3Q. In 2Q, the deficit widened to A$16.0 billion from a deficit of A$15.5 billion in 1Q, and represented 5.8% of GDP, up from 5.5% in the first three months of the year. A further deterioration in the trade balance is expected to widen the current account gap to 6.2% of GDP in 3Q.

The suboptimal export performance has emerged amid widespread drought conditions that have curbed farm exports, and ongoing capacity constraints and infrastructure bottlenecks that are plaguing the mining sector. Solid domestic demand has exacerbated the unfavorable trade balance. The net income deficit is rising as funding costs offshore rose in the September quarter amid tightening global credit conditions. The net income deficit of A$12.1 billion in 2Q represented an all-time high of 4.6% of GDP, indicative of a nation heavily reliant on imported capital. That said, in the wake of recent financial market volatility, Australian corporates may find it more difficult to raise debt offshore, and at higher cost. More prohibitive offshore funding costs should allow the net income deficit to improve, but not in the near term.

Business investment to remain robust

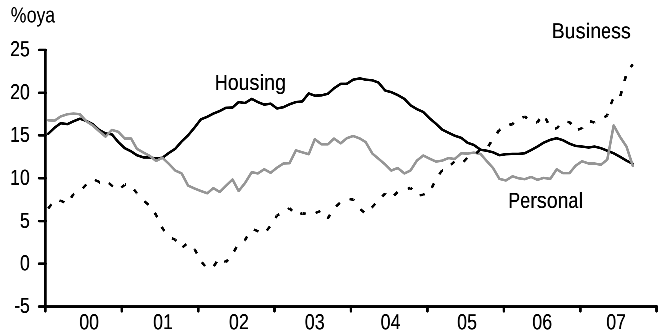
The September quarter business investment survey will be a key focus of attention in the coming week. Firms have reported higher levels of business investment in each of the last three quarters, and in eight of the last nine quarters. The strongest growth in investment spending has been in areas like mining and infrastructure, as firms address capacity constraints and bottlenecks that have prevented many firms from fully cashing in on soaring demand for Australian raw materials, like coal, petroleum, and iron ore. We expect a 3.5% rise in investment spending in 3Q, which will take growth to a five-quarter high of 21.8%oya.

The most important aspect of the investment survey, though, will be firms' update of expected expenditure for the current fiscal year ended June 2008. In the last survey, firms estimated a 17% rise in spending relative to the year ended June 2007. If realized, this will mean that business investment has risen 75% in just four years. We expect firms' estimated spending to be A$82.25 billion.

Solid credit demand expected in October

Growth in Australia's private sector credit aggregates eased in September, following an upside surprise in the previous month. RBA credit aggregates grew 1.2%m/m, after jumping 1.4% in August, and business borrowing again underpinned demand for credit, growing 2.0%. Hefty levels of lending to businesses will again be the main contributor to credit growth in October, which is forecast to rise 1.2% from the previous month.

Australia: private sector credit aggregates



While RBA officials will be anxious that credit continues to expand so rapidly, growth led by the corporate sector is deemed more favorable than excessive credit inflated by household borrowing. It is widely expected that solid business borrowing will be used to fund investment in additional capacity and infrastructure, aimed at alleviating the capacity constraints restraining growth in activity, particularly in the mining sector. Still, with annual credit growth likely to tip 16% in October, the RBA will retain a firm bias toward tightening policy.

Australia: Data releases and forecasts

Week of November 26 - 30

Wed Nov 28 11:30am

Construction work done
Seasonally adjusted

	4Q	1Q	2Q	3Q
(%q/q)	4.1	3.2	-1.9	__
(%oya)	7.3	9.5	3.0	__

Thu Nov 29 11:30am

Private new capital expenditure
Seasonally adjusted

	4Q06	1Q07	2Q07	3Q07
(%q/q)	0.3	10.3	6.3	3.5
(%oya)	-2.8	5.5	11.4	21.8

The most important element of the survey is firms' forward looking expectations of spending. In the last survey for the June quarter, firms expected to raise investment spending another 17%, compared to spending in the year ended June 2007. Estimated spending in firms' 4th estimate for 2007-08 needs to print at A$82.25 billion to leave growth in investment spending unchanged from the last survey.

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Fri
Nov 30
11:30am

Current account balance

A$ billion, seasonally adjusted

	4Q06	1Q07	2Q07	3Q07
Current account (A$ bn)	-15.4	-15.6	-16.0	-16.9
As a % of GDP	-6.0	-5.9	-6.0	-6.2

Fri
Nov 30
11:30am

Private-sector credit

Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	1.1	1.4	1.2	1.2
(%oya)	15.3	16.0	15.9	16.0

Review of past week's data

WMI leading index

Seasonally adjusted

	Jul	Aug		Sep	
(%m/m)	0.6	~~0.6~~	*0.5*	__	*0.8*

Sales of new motor vehicles

Units, seasonally adjusted

	Aug	Sep		Oct	
(%m/m)	-1.8	~~1.8~~	*1.7*	__	*1.1*
(%oya)	8.1	7.8		__	*8.9*

New Zealand

- **Migration numbers point to reduced demand**
- **NZ migration numbers point to reduced demand**
- **Petrol prices becoming a strong headwind for consumers**

The flow of economic data returns to a steady stream this week, with the trade balance coming in at a wider than expected NZ$-690 this morning, and building approvals and the NBNZ business survey out Thursday. The week's highlight will be the NBNZ business confidence survey. The "firms own expectations" component will be of most interest, as it is highly correlated with quarterly changes in GDP.

Last week's net-permanent migration data continued to weaken; permanent immigration fell to just 7,500 in the year to October. The reduction in net-permanent migration points to lower housing demand and consumption growth in the new year. In other data, the RBNZ credit card statistics showed some payback for September's surge. The series' correlation with retail sales suggests that last week's 1.0%m/m gain in the total value of retail trade will be partially reversed in October.

Preview: NBNZ business confidence

The NBNZ November business confidence report due for release on Thursday will be next week's highlight. The headline index is likely to have risen slightly in November, after a marked improvement in October. This will be on the back of the positive impact of the RBNZ's neutral commentary at the end of October, a weakening NZD, and restoration of some stability in the financial markets.

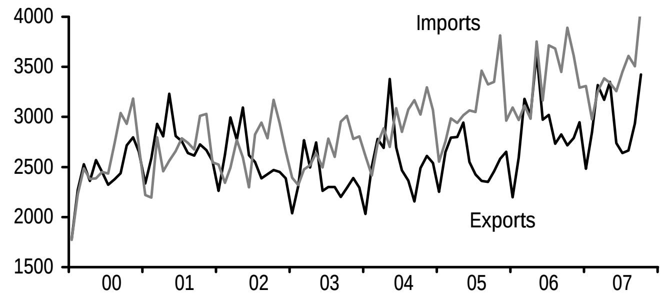
The all-important outlook for firm's own activity will provide the second read on 4Q activity. From an RBNZ official's viewpoint, however, changes in the levels of capacity utilization, residential and commercial construction, pricing intentions, and inflation expectations, will be key in evaluating the risks to the inflation trajectory. Capacity utilization will likely fall slightly, but pricing intentions probably will rise.

NZ exports surge in October, deficit widens

New Zealand's trade deficit blew out to NZ$690 billion in October (JPMorgan -NZ$400, consensus -NZ$550) from a revised NZ$573 million deficit in September (previously -NZ$544 million). Despite the sizable increase in the deficit, the value of exports actually exceeded expectations. Exports bounced to NZ$3.42 billion (JPMorgan NZ$3.2 billion, consensus NZ$3.1

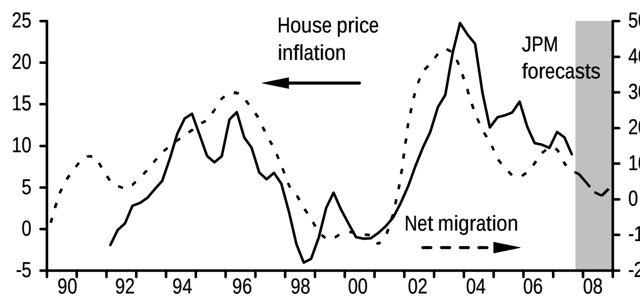
New Zealand: exports and imports

NZ$ million, nsa



New Zealand: house price inflation and net permanent migration

%oya — Total, 000, 12month sum



billion) in October, owing to a third full month of production from the Tui oil field, and a record level of dairy exports.

The value of imports, however, blew-out to NZ$4.11 billion (JPMorgan NZ$3.6 billion, consensus NZ$3.62), the first time imports have exceeded NZ$4 billion for any month. There was a sharp increase in the importation of ships, boating and floating structures (up NZ$159 million or 975%oya), primary due to an oil rig. There was also an strong increase in the value of refined petroleum imported over the month.

Growth in the imports of consumption goods continued to slowed, but the levels remained elevated. The downtrend in growth suggests that the desired cooling in domestic demand sought by the RBNZ is very much in progress. The RBNZ is looking for a sustained slowdown in domestic demand to tame inflation pressure.

NZ migration flows continue south

Net permanent migration flows have a substantial impact on New Zealand's small, open economy. Net permanent migration is trending lower as departures have increased and arrivals have flattened out. In October, New Zealand gained just 260 long-term immigrants, taking the annual sum down to 7,500. The annual sum of net migrants is now lower than the 8,300 reported in September, and well short of the cyclical peak of over 42,500 touched in mid-2003. Large swings in net permanent migration affect housing demand, consumption, and even labour market dynamics (chart; and see “Flight of the Kiwis: mobile workers drain human capital” *GDW*, Nov 16, 2007). Should this trend continue, housing market weakness will be exacerbated.

Large swings in net migration often trigger economic instability in New Zealand. Rising net migration fuels demand for, and even speculative behavior in the housing sector, which stimulate nontradables inflation and strengthens the need for tight monetary policy. Moreover, falling (or negative) net migration contributes to weakness in residential investment and domestic demand. The current downturn is adding to the weakening demand in the housing market and will lower the floor under consumption growth.

Short term international travel in October was affected by the rugby World Cup in France, with the number of Kiwis departing to France and the United Kingdom increasing 10%oya. There were just 179,900 visitor arrivals in October, a decrease of 6,700 (4%oya) on the 186,600 visitor arrivals in October 2006. That said, given the NZD strength, the level of tourist flows has been surprisingly resilient. The number of visitor arrivals was the third highest total ever recorded for October.

Credit card spending dropped in October

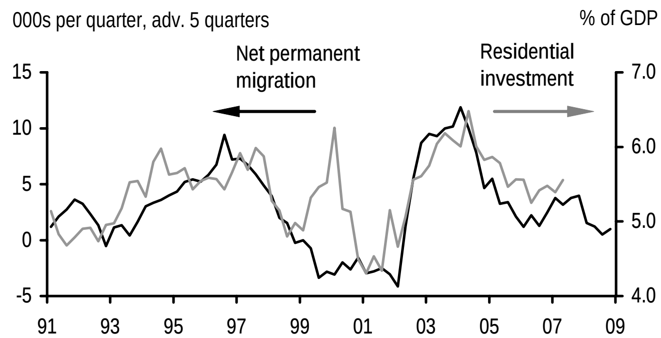
The RBNZ last week reported the monthly credit card spending statistics. The series showed a 0.5%m/m decline over the month, after a 2.7%m/m surge in September. The reasonable correlation between credit card spending and retail trade suggests the strong September retail trade rise (up 1.0%m/m) will have been partially reversed in October. JPMorgan forecasts that retail sales contracted 0.3%m/m in October.

High petroleum prices to curb spending

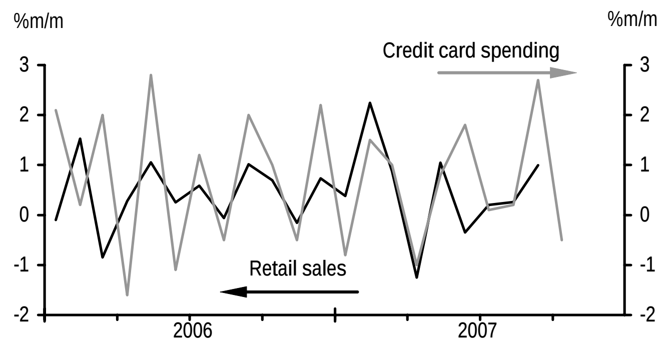
As the price of crude oil approaches US$100 per barrel, and the NZD retreats from recent highs, the price of fuel at the bowser has hit NZ$1.73 per liter of 91 octane. The price of fuel is fast approaching the elevated levels seen late last year. Movements in retail spending are highly correlated to movements in fuel prices at the bowser; rising petrol prices, therefore, are one of a number of gusty headwinds faced by consumers into next year.

A weakening housing market, elevated and rising effective interest rates, increasing residential rents, and rising food price inflation will contribute to reduce growth in consumer spending. That said, the windfall of cash coming into the system through Fonterra's (New Zealand's largest dairy cooperative) record payout to farmers, and the government's desire to buy its way back into power next year, will provide a fluffy cushion under consumption growth.

New Zealand: net permanent migration and residential investment



New Zealand: credit card spending and retail sales



New Zealand:
Data releases and forecasts

Week of November 26 - 30

Mon
Nov 26
10:45pm

Trade balance
Not seasonally adjusted

	Jul	Aug	Sep	Oct
Exports ($NZ mn)	2642	2664	2930	*3420*
Imports ($NZ mn)	3451	3611	3510	*4110*
Trade balance ($NZ mn)	-809	-946	-573	*-690*

Thu
Nov 29
10:45

Building consents
Not seasonally adjusted

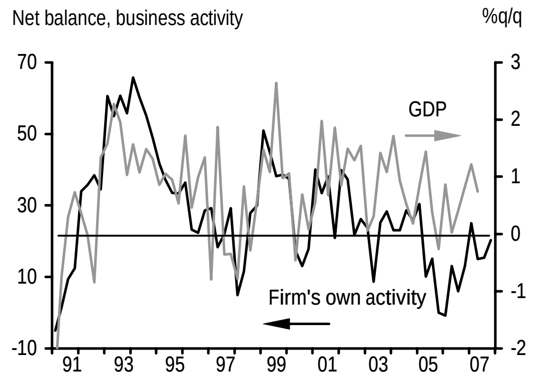
	Jul	Aug	Sep	Oct
(%m/m)	-16.1	14.1	-17.8	__
(%oya)	0.7	1.2	-20.2	__

Thu
Nov 29
10:45

NBNZ business confidence

	Aug	Sep	Oct	Nov
% balance of respondents	-33.8	-26.5	-12.9	__

New Zealand: NBNZ business outlook survey, GDP growth



Review of past week's data

Visitor arrivals
Not seasonally adjusted

	Aug	Sep	Oct	
Total (%m/m)	3.8	-3.2	__	*-2.6*

Net-permanent migration

	Aug	Sep	Oct	
Monthly (000s)	0.7	2.2	__	*1.6*
12-month sum (000s)	8.7	8.3	__	*7.5*

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Global essay

- **Financial market deterioration intensifies in US and Western Europe**
- **Signs of spillover to EM financial conditions**
- **Bernanke and Kohn are expected to acknowledge rising downside risk this week, opening door for further Fed easing**

Markets are from Mars, the Fed is from Venus

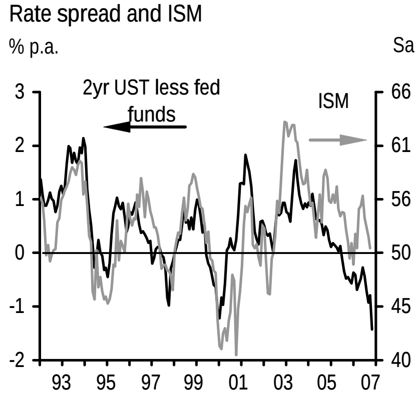
The FOMC inaugurated its quarterly three-year economic forecast report last week, a step intended to be viewed as a milestone on the Fed's march toward transparent communication. Ironically, it comes amid a growing disconnect between what the Fed is saying and what the market hears. After the October FOMC meeting, the Fed issued a statement that "the upside risks to inflation roughly balance the downside risks to growth," setting a high bar for further easing at the December 11 FOMC meeting. The message that the Fed is inclined to remain on hold in December has been reinforced by a number of recent Fed speakers. But in the face of weaker economic news and a deterioration in financial conditions, markets are increasingly confident that the Fed will act. Future contracts now fully price in easing at the upcoming meeting.

This disconnect largely reflects the fact that Fed communication remains far from transparent. The release of the October minutes makes it clear that the accompanying statement was not an accurate summary of a meeting dominated by a discussion of growth risks. Indeed, the description of risks to the outlook in the newly available summary of economic projections is far from balanced. It states that "most participants viewed the risks to their GDP projections as weighted to the downside and . . . participants were more persuaded than they had been in June that the decline in core inflation readings this year represented a sustained albeit modest step-down rather than the effect of transitory influences." The disconnect between the statement and the minutes likely reflects the statement's role in placating a hawkish faction of FOMC members represented by Kansas City Fed President Hoenig's dissent. The statement's tone was also probably influenced by a desire to guide market expectations that the 75bp of easing by the Fed over two meetings was preemptive in nature and should not signal that an extended easing cycle is under way.

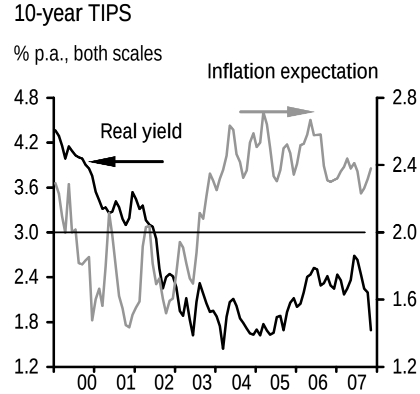
The Bernanke Fed has shown that it can act decisively—as when it lowered the discount rate on August 17 and eased 50bp on September 18. But a move toward consensus-based decision-making under the new Chairman requires coordination among a large group. This shift complicates the interpretation of intermeeting communication, particularly as the Chairman is no longer taking the position of leading from the front. While the hawkish tone from FOMC members since October 31 reflects a genuine desire to temper market expectations, this communication also seems out of touch with the rapidly changing conditions in financial markets.

Looking past the latest Fedspeak, the Fed has been consistent in expressing the view that it is concerned about inflation but not constrained by these concerns, and will act preemptively if the expansion is at risk. It is this core message that guides market perceptions about where the Fed is heading. Market pricing reflects a more downbeat view on the economy than that held at the Fed, but downside risks to growth are increasing. Accordingly, JPMorgan downgraded its US growth forecasts for 1H08 the other week and added 50bp of expected easing from the Fed. We believe that the Fed's view is evolving in a similar fashion along with increased internal discussion. Both Vice Chairman

Rate spread and ISM



10-year TIPS



Kohn and Chairman Bernanke are set to speak this week, and will probably use the opportunity to open the door to a December ease, thus bringing the planets into closer alignment.

Global financial market indicators
Month-end to month-end

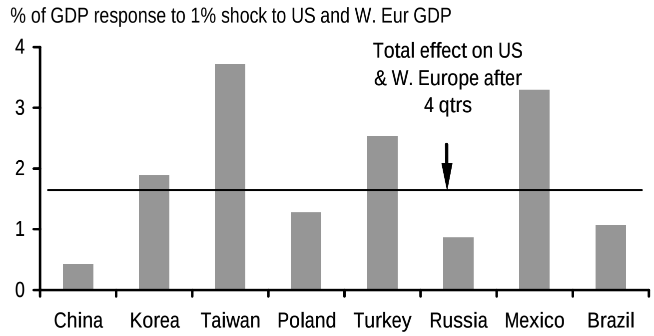
	Sep	Oct	Nov to date
Equities (%ch)			
Developed	2.9	2.1	-8.7
Emerging	8.2	8.8	-10.2
Spreads vs 10Y UST (diff in bp)			
Global high-yield	-29	10	147
US AAA corp	-5	-3	22
US jumbo mortgage	-24	-28	60
EMBIG stripped	-24	-11	66
3-mo. LIBOR (diff in bp)			
USD	-39	-34	14
EUR	4	-18	7
GBP	-39	-2	25
Treasuries (diff in bp)			
US 2-yr	-18	-3	-95
US 10-yr	5	-11	-48
FX (%ch)			
USD	-2.8	-1.9	-0.1
EUR	2.0	0.4	1.9
JPY	-1.0	-1.5	6.2
EM basket vs USD	2.9	2.1	-0.8
WTI (diff in $/bbl)	7.4	12.7	4.1

Market downturn intensifies and broadens

As we track the global growth reverberations from this year's credit market turmoil, we have been maintaining both a data and a financial market watch. The degree of slowing anticipated in North America and Western Europe and its influence elsewhere depends centrally on how financial market developments unfold. Up until recently, the financial market news has been encouraging. Not only did equity markets rise broadly in September and October, but the dollar's decline and the continued positive news from local markets elsewhere bolstered confidence that there would be ample supports in place to absorb the cumulating drags. Unfortunately, recent weeks have shown a significant broadening in financial market tightening.

The reduction in risk appetite has cut a broad swath through developed markets in November. Credit losses are rising and spreading to new players. Strains in money markets have resurfaced and interbank lending rates have increased at longer maturities. The share prices of financial companies have fallen sharply, leading the broader market down this month. In turn, increased concerns about the broad economy have produced a widening in credit spreads, especially in the high-yield space but also for prime borrowers. In fx markets, the dollar has plumbed new lows against most currencies. This has included the yen, which has rallied as investors backed away from carry trades.

EM response to slowing in US and Western Europe GDP



Our econometric analysis suggests that, after a few quarters, a downshift in the US and Euro area economies will produce a comparable slowing in activity in the EM economies. Already, data for September and October delivered slower gains in EM Asian exports and Mexican IP, which are the indicators that are most sensitive to this effect. However, embedded in these economic linkages are significant financial market spillovers as a reduction in risk appetite undermines capital inflows to the group, producing tighter financial conditions. EM financial markets performed exceptionally well in September and October, led by an impressive advance in EM stock prices. Developments have turned more negative this month, however. Stock prices in the EM have tumbled in lockstep with the major markets, EM currencies have lost ground against the dollar, and the EMBI spread is up sharply. While these moves have not moved so far as to suggest that EM conditions have turned tight, the risk of a more sustained weakening in capital inflows—and the accompanying spillovers to real economies—should not be ignored.

Listening to the BoE and BoC

The Fed is not alone in sending mixed messages to markets. The Bank of England's rhetoric has swung back and forth recently, leaving open the question of what it intends to do at

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its policy meeting two weeks hence. The minutes of the October meeting saw the majority contemplating a rapid cut in rates to offset the impact of market turmoil on the economy. This was followed in November by a discussion of the risks associated with a preemptive cut in rates, given rising energy prices and the relatively high level of inflation expectations.

While the MPC continues to worry about inflation risks, the November *Inflation Report* did not indicate that a reduction in rates is contingent on inflation outcomes or inflation expectations themselves falling back. Meanwhile, last week's report of a sharp drop in October mortgage approvals demonstrates that downside risks to growth are beginning to crystallize, while there has been a renewed deterioration in credit conditions. Our forecast has been marked down to show a deeper slowing in growth over the current and next quarter, with the policy rate falling to 5.5% in December and to 5% by mid 2008.

The Bank of Canada also has a policy decision on the near horizon. But whereas recent communications from the Fed and BoE have muddied the waters, the BoC's language has shifted in a consistent way. Immediately following the *Monetary Policy Report* in October, BoC speeches contained the phrase "the current level of the policy rate is consistent with achieving the inflation target over the medium term," normally a signal that the BoC is on hold. On November 6, however, BoC Deputy Governor Jenkins said that CAD strength could pose significant downside risks to both output and inflation. This past weekend after the G-20 meeting, Governor Dodge said, "It's quite clear that downside risks to world growth have increased. That clearly poses a risk which we're going to have to take into account in setting our own policy." There is debate about whether the BoC is signalling an immediate ease on December 4 (our view) or whether it will leave rates unchanged but adopt an easing bias. Either way, the direction of change in the BoC's language is clear.

Euro area surveys show slowing under way

The Euro area economy faces strong headwinds from past ECB rate hikes, the stronger currency, tighter market conditions, and the squeeze on household purchasing power from rising food and energy prices. These headwinds point to a significant slowdown in an economy that had rallied to produce a GDP gain of almost 3% (q/q, saar) in the third quarter. The most timely indicators for tracking this adjustment are the business surveys. Friday's "flash" PMI fell another point in November to 53.8, for a total loss of 3.6 points since August. Although the current level is consistent with our revised forecast for 1.5% GDP growth in the current quarter and 1Q08, the PMI is not yet showing signs of a bottom.

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JPMorgan View - Global Markets

Recession is getting priced in

Markets went into virtual panic mode last week, with a number of asset classes moving into distressed mode. Swaps spreads spiked to over 100bp in 2-year UK gilts and USTs on a flight to quality and fear of bank defaults. High-yield spreads and the yen similarly spiked up. EM assets generally underperformed. Equities went down, but in a controlled fashion.

Riskier asset classes are caught up in the battle between rising value, and worsening momentum. Into year end, with investors unwilling to commit capital to buy cheap assets, negative momentum will likely dominate and should continue to drive government bonds up. But early next year, if not just before it, with markets already pricing in a high risk of recession, value will attract capital and riskier assets can easily rebound. Until a few weeks ago, when global equities were still near cycle highs, price momentum still favored riskier assets, except for credit. By now, price momentum has turned negative and flows are following. News momentum is also negative, with the steady drip-feed of losses announced by a widening set of financial institutions, and ever steeper falls in US housing activity.

The negative price spiral on riskier assets will be broken when active investors are short, news momentum has weakened, and value has been reestablished. One can argue that this last has happened already. This is best seen by converting asset prices to an implied US recession risk. The US money market prices 100bp of rate cuts, or half the rate cuts we will likely see in a recession. By our judgment, a recession would likely push the S&P 500 down to 1,300, while no recession should push it up to 1,600. This would price in a 50% risk of recession. And the spread of US Financials over USTs has breached 200bp, equal to the spread we typically see in recessions. This seems to fully price in recession. At first blush, markets that seem to have priced in little US recession risk are oil and emerging markets.

Fixed income

Bonds continue to rally across the world, bringing YTD returns on our global government bond index to 6%—a full 1% point over cash. Bonds are expensive against our modal economic forecasts. However, as in other markets, this value judgment is being challenged by strong negative momentum in financial news. There is as yet no clear trigger for a turnaround in yields. Economic activity data should show weakening growth but not recession. This will likely be overwhelmed by financial news. Hence, risk is biased to further declines in yields which should keep investors long duration and in steepeners. Bond managers had been taking profits on such positions early this month and had moved to neutral, but are now reloading these trades. Compared with credit markets, the steepness of curves remains very far from that seen in recessions and their potential is thus not much challenged by value considerations. With the dominant position staying neutral and risk allocation low, there are no big overhangs of longs or steepeners.

Inflation-linked bonds have outperformed nominals for most of the rally of the past two months, but gave up some relative gains over the past two weeks as oil moved into a trading range. Into 1Q08, we expect oil to soften, but still feel that higher CPI prints will benefit linkers. We stay overweight. In other spread product, we prefer a general underweight until the momentum in negative financial news abates.

Government bond yields

		Current	Dec-07	Mar-08	Jun-08	Sep-08
United States	2-yr	3.08		3.05	3.20	3.45
	10-yr	4.02		4.10	4.20	4.40
Euro area	2-yr	3.64	3.90	3.95	3.90	3.85
	10-yr	4.04	4.20	4.20	4.15	4.10
United Kingdom	2-yr	4.44	4.45	4.40	4.35	4.30
	10-yr	4.64	4.65	4.65	4.65	4.70
Japan	2-yr	0.73	0.85	0.85	1.10	1.20
	10-yr	1.42	1.45	1.60	2.00	2.10

Equities

	Current	Ytd return (local currency)
S&P	1433	1.6%
Topix	1437	-13.5%
FTSE 100	6260	2.2%
MSCI Eurozone	233	4.1%
MSCI Europe	1480	2.1%

Credit markets

	Current	Dec 07
US high grade (bp over UST)	186	180-200
Euro HG industrials (bp over swaps)	58	50
USD high yield (bp vs. UST)	591	400
EMBIG (bp vs. UST)	271	200

Foreign exchange

	Current	Dec 07	Mar 08	Jul 08
EUR/USD	1.48	1.45	1.48	1.48
USD/JPY	108	112	113	115
GBP/USD	2.06	2.07	2.10	2.08

Commodities

		Quarterly average	
		Mar 08	Jul 08
WTI oil $/bbl	97.6	72.0	68.0
Gold ($/oz)	822	807	821

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Equities

Global equities are down about 1% last week, with emerging markets now starting to underperform. Investors feel that central bankers are cold-shouldering them, taking too sanguine or academic a view of current credit market stress, and being too worried about inflation or mere moral hazard. If central bankers do not become a lot louder in their support, this week will be ugly. We do expect that Fed officials will send much more supportive signals and thus expect a near-term rebound. However, a real rebound will likely take longer, until there is a slowing in the negative news flow around Financials. It is likely best to wait until the start of the new year to go long equities again.

Credit

Credit spreads widened further early last week, but have recovered partly over the past two days. Medium-term value has become enticing in credit, in particular for high-grade issuers, both for financial and industrials. As argued above, these spreads have moved to levels that we have previously seen only during recessions. And these peaks have been reached before we have actually seen any rise in bankruptcies, or a drop in GDP growth.

This extreme cheapness of high-grade will only lead to capital gains if investors are willing to act on them. And here is where the problem lies. Negative news flow on financial losses is unlikely to abate. There remains a large amount of losses that need to come out of the closet. Next month's release of 4Q earnings from US brokers will give us some indications, but more likely the larger losses need to come from banks across the world. The significant risk of downgrading of the monoline insurers, who have themselves guaranteed large number of bonds and structured products, can itself have a snowball effect on global credit. In the US, we remain squarely underweight credit.

European credit market spreads have widened out significantly less during past months, but they nevertheless have suffered a lot. We are not outright short here, seeing good value, but await some form of stabilization before reentering the market. Financials have underperformed Industrials in the market rout (despite a relative recovery in recent weeks) and are now relatively cheap on a medium-term horizon. Here too, assuming further bad news in Financials, we are underweight versus Industrials, waiting for the news flow to abate before turning the exposure around.

EMBI spreads are getting dragged wider in response to the global credit crisis. In the process, however, external debt is outperforming all other credit sectors. We are outright neutral on EMBI, but overweight against US high-grade and high-yield.

Across the credit quality curve, we are starting to see the steepening we hope for. Within high-yield, CCCs are continuing to underperform BBs, as is normal in a bear market. In addition, we find that with high-grade spreads near recession peaks, but with high-yield spreads only just over half their recessions peaks, investors should overweight high-grade, volatility-adjusted. This is starting to work, but has much further to go.

Foreign exchange

Falling rates continue to pressure the dollar lower, mainly versus the euro and yen. We had expected levels near 1.50 on EUR/USD to undermine the relative rate support driving the currency higher, but as the US-centric credit crunch is sustaining pressure on rates in the US, higher levels on the euro seem likely. Lower US funding rates may also induce hedging or reserve diversification. Our strongest view in G-10 is to stay short USD vs Europe (EUR, SEK).

We have been bearish on the yen since September, but we have underestimated the rise in vol and spillover to other high-yielders. Assuming continued pressure on US growth and rates, the yen will likely prove the strongest G-10 currency in view of its counter-cyclicality this year and the position overhang (retail alone still owns some $40bn in high-yielders). As a weak dollar trade, we still prefer being short USD vs Europe, which is less susceptible to any short-term repricing of the US rate market.

Emerging market high-yielders have weakened this month, though as a bloc they continue to outperform G-10 carry. The likelihood that a high-vol environment persists into year end suggests that these currencies will weaken further, though they are not as vulnerable as G-10 carry which has been heavily funded in yen. We are only long BRL, which has the best external support.

Commodities

Crude oil continues to benefit from dollar weakness and inventory draws, shaking off the cyclical slowdown which is undermining other commodities such as base metals. The baseline forecast assumes an easing of supply conditions in 2008 and lower prices ($72 average prices in Q1), but the influence from currency markets provides a near-term support.

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Markets - Australia and New Zealand

- **Aussie home loan rates to rise after the election**
- **RBA still expected to raise the cash rate another 25bp in February**
- **Aussie capex survey is this week's highlight**

Main events for markets this week

- Thursday's Australian business investment survey is this week's highlight. We expect firms' investment spending plans to print at A$82.25 billion, which will imply a 17% rise in spending in the year ended June 2008.
- For AUD, the 3Q current account data should be important, although FX markets seem to be less focussed on external deficits. We expect the gap to blow out to 6.2% of GDP, from 5.9% in 2Q.
- The October Aussie credit data on Fridy also is noteworthy because growth probably will stay elevated at 1.2%m/m. Business borrowing, which has surged in recent months, probably will lead the way again.
- In New Zealand, the highlight of the week will be the NBNZ business confidence survey out Thursday. This will be the last read before the RBNZ's monetary policy statement out December 6.

Market commentary

Australia

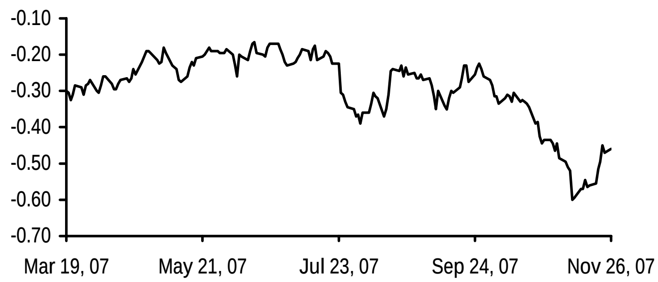
The local yield curve has steepened in the latest week, even though the market still prices more tightening by the RBA. These expectations have pegged the front end of the curve, but bond yields have risen on inflation concerns. The 3s 10s curve, for example, moved from -56bp at the end of last week to -46 now. Our curve flattener trade from the previous week, therefore, stopped out.

One of Australia's largest banks announced last week that variable home loan interest rates probably would rise by more than the 25bp rise in the cash rate earlier this month, owing to higher funding costs. The other major Aussie banks probably will follow suit, albeit to varying degrees. Some banks already have trimmed the discount offered on headline lending rates, which pushed up the effective rate, and pushed up interest rates on credit cards.

Rising market rates without a rise in the cash rate will do some of the heavy lifting for the RBA, but does not mean that the

Aussie 3s 10s curve

Percentage points



RBA can leave the cash rate unchanged. On our forecasts, core inflation is likely to be 3.5% by 1Q 2008, above the RBA's forecast, which should be enough to trigger another rate hike in February. Market pricing implies a 45% chance of a February rate hike. The tightening that some still expect in December is priced at only a 17% probability. We expect the RBA to raise the cash rate just once from here, so have recommended a long position in September bills.

The Aussie share market and AUD had a tough week, both losing ground on rising global risk aversion. AUD has dropped 7% against the USD from the most recent peak above 94 US cents earlier this month. The AUD's move lower tracks closely the weakness in the equity market, with the ASX 200 down more than 300 points in the last 10 days. Our expectation is that earnings growth will slow in 2008, but remain relatively healthy.

New Zealand

The flow of economic data returns to a steady stream this week, with the trade balance coming in at NZ-$690 this morning, and building approvals and the NBNZ business survey out Thursday. The week's highlight will be the NBNZ business confidence survey. The "firms own expectations" component will be of most interest, as it is highly correlated with quarterly changes in GDP (see NZ essay for details).

The next big event on the New Zealand calendar is not until December 6, when the RBNZ releases its quarterly monetary policy statement. We expect the RBNZ to come out swinging at the Government's fiscal policy, as Finance Minister Michael Cullen continues to whet the publics appetite with promises of tax cuts ahead of next year's election.

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Trade recommendations

- Establish long Sep '08 bank bills in futures, on the assumption that the RBA will tighten only once more. Establish a long at 92.66, with target at 92.80 and stop loss at 92.60.
- 3s 10s curve flattener in futures stopped out. Established last week at -56, with a target at -65, and stop loss at -51, the position reached -51 this week, for a loss of 5bp.
- Short Dec'07 interbank contract in futures stopped out. Established at 93.20 (target of 93.14 and stop at 93.23), the position stopped out for a loss of 3bp.
- Close long Aussie March bank bills, short June. We established this position at 4bp, with target 12bp and stop of -1. Currently trading 5bp, for a gain of 1bp.

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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			
	2006	2007	2008	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	2Q07	4Q07	2Q08	4Q08
The Americas														
United States	2.9	2.1	2.3	3.8	3.9	0.5	1.5	2.5	3.5	3.0	2.7	3.9	2.7	2.3
Canada	2.8	2.4	1.8 ↓	3.4	1.8	0.5 ↓	1.3 ↓	2.3	2.8	2.8 ↑	2.2	2.4	0.9 ↑	1.5
Latin America	5.3	4.9	4.6	5.1 ↑	5.9 ↑	5.0	4.0	4.8	4.3	4.1	5.1	5.4	6.0	6.1
Argentina	8.5	8.3	6.0	8.8	11.2	10.0	4.1	4.9	2.0	2.0	8.8	8.2	9.6	11.6
Brazil	3.7	5.0	4.7	3.2	5.2	4.8	5.3	4.8	4.4	4.3	3.3	4.1	4.0	4.2
Chile	4.0	5.2	5.0	6.1 ↓	-2.5 ↑	14.5	5.0	5.0	5.0	5.0	2.9	6.7	5.9	3.1
Colombia	6.8	6.8	5.5	4.4	4.0	2.0	5.5	8.0	7.0	5.0	6.2	5.5	4.0	4.3
Ecuador	3.9	2.5	2.5	1.9	6.0	4.0	2.0	1.0	0.0	0.0	1.7	2.1	3.4	3.5
Mexico	4.8	3.2	4.1	5.7 ↑	5.9 ↓	2.6	2.6	4.9	4.9	4.9	4.0	3.8	4.4	4.1
Peru	7.6	7.5	6.5	-0.1	11.0	12.0	5.0	4.0	3.5	3.0	0.8	3.0	2.9	2.0
Venezuela	10.3	7.5	4.0	8.9	7.0	4.5	4.0	3.5	3.0	2.0	19.5	18.7	24.5	26.4
Asia/Pacific														
Japan	2.2	1.8	1.7	-1.6	2.6	0.5	1.5	2.8	2.5	2.3	-0.1	0.2	0.7	0.5
Australia	2.7	4.2 ↑	3.4 ↑	3.8	3.2 ↑	3.1 ↓	3.2 ↓	4.4 ↑	2.5 ↑	4.1 ↑	2.1	3.0 ↓	2.9 ↓	2.4 ↓
New Zealand	1.6	3.2	2.6	3.0	2.8 ↓	2.9	2.5 ↑	2.7 ↑	1.8 ↓	2.2 ↓	2.0	2.7	2.6	2.9 ↑
Asia ex. Japan	8.4	8.5 ↑	7.8	10.9 ↑	8.0 ↑	5.7 ↓	8.6 ↓	8.1	7.5	6.6	3.4	4.9 ↑	4.6 ↑	3.5 ↑
China	11.1	11.4	10.5	15.0	9.4	7.4	12.6	11.7	10.0	7.4	3.6	5.8 ↑	4.9 ↑	2.7 ↑
Hong Kong	6.8	6.0	5.3	6.4	7.7	5.0	4.0	5.2	5.5	5.5	1.3	3.3 ↑	2.9 ↓	2.2 ↓
India	9.4	8.6	7.5	9.6	6.1	7.0	9.5	7.0	7.0	7.4	6.3	6.2	6.4	5.9
Indonesia	5.4	6.2	6.0	5.2	6.4	5.5	6.0	5.0	5.0	5.0	6.0	6.9	6.9	7.4
Korea	5.0	4.7	4.9	7.4	5.7	3.0	4.5	5.0	5.5	6.0	2.4	2.4	2.7	3.4
Malaysia	6.0	5.7	5.6	5.1	7.4	6.6	5.1	5.1	4.9	4.9	1.5	2.0	2.3	1.9
Philippines	5.4	7.4	6.4	5.6	5.6	5.6	6.0	5.0	5.5	6.0	2.4	3.1	3.2	2.4
Singapore	7.9	8.0 ↓	5.6 ↓	14.5 ↑	4.3 ↓	4.0 ↓	5.1 ↓	5.5 ↑	5.9 ↑	6.1 ↑	1.0	3.7 ↑	4.6 ↑	3.2 ↑
Taiwan	4.9 ↑	5.6 ↑	4.7 ↑	9.1 ↑	13.6 ↑	0.5 ↓	2.5 ↓	4.5	5.0	5.5 ↓	0.3	4.0 ↑	4.0 ↑	1.7 ↑
Thailand	5.0	4.2	5.1	5.2	3.8	4.0	5.5	6.0	5.0	5.0	1.9	4.2	4.4	3.8
Africa														
South Africa	5.0	4.8	4.6	4.5	4.7	4.0	4.1	4.8	5.6	5.5	7.0	7.7	6.3	4.9
Europe														
Euro area	2.9	2.6	1.9	1.3	2.8	1.5 ↓	1.5	1.8	2.3	2.3	1.9	2.7	2.1	2.1
Germany	3.1	2.6 ↓	1.9	1.0	2.8	1.6 ↓	1.5	1.8	2.3	2.3	2.0	2.6	1.4	1.2
France	2.2	1.9	1.9 ↓	1.4	2.9	1.3 ↓	1.5	2.0	2.3	2.3	1.3	2.3	1.7	1.9 ↓
Italy	1.9	1.8	1.3	0.3	1.5	1.0	1.0	1.6	2.0	2.0	1.9	2.3	2.0	2.5
Norway	4.3 ↓	5.7 ↑	3.8 ↑	7.4 ↑	7.7 ↑	3.5	3.0	3.0	2.5 ↓	2.5 ↓	0.3	0.3	2.6	3.1
Sweden	4.5	3.3	3.0	3.7	3.3 ↑	3.2	3.0	2.8	2.8	2.8	1.8	2.8	3.2	2.9
Switzerland	3.2	2.6	1.7	3.0	2.3	1.5	1.3	1.5	1.8	1.8	0.5	1.3	1.4	1.3
United Kingdom	2.8	3.1	2.3	3.3	3.0 ↓	2.3	2.0	2.0	2.0	2.3	2.6	2.1	2.1	2.4
Emerging Europe[1]	6.4	6.3 ↑	5.8	7.2	3.2 ↑	11.4 ↑	4.1 ↓	7.5 ↓	3.2 ↓	10.4 ↑	6.5	7.6 ↑	7.6 ↑	6.1 ↓
Bulgaria	6.1	6.1	5.4	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.4	5.8	5.5	5.7	5.3	5.2	5.5	5.2	5.5	5.5	2.4	3.9	4.5	4.7
Hungary	3.9	1.7 ↓	2.8 ↓	0.4	1.2	5.0 ↑	3.0 ↓	2.0	2.5	3.5 ↑	8.6	7.0 ↑	5.7 ↑	3.9
Poland	6.2	6.5 ↑	5.8	6.1	5.5 ↑	7.0 ↑	5.0 ↓	5.5 ↓	5.8 ↓	6.5	2.4	3.3 ↑	3.2 ↑	2.9 ↓
Slovak Republic	8.5	9.0	7.0	10.0	9.2	7.5	7.0	7.0	6.5	6.5	2.5	2.6	2.4	3.3
Romania	7.7	6.0	5.6	...	...	...	...	...	...	...	3.8	5.4	5.0	5.0
Russia	6.7	7.5	6.8	8.8	0.0	16.0	3.0	9.5	0.0	15.0	8.1	10.9	11.4	8.6
Turkey	6.1	5.0	5.0	...	...	...	...	...	...	...	9.5	8.1	7.4	6.3
Global	3.6	3.3	3.0	3.5	3.9 ↑	2.2	2.6 ↓	3.3	3.5	3.5 ↑	2.4	3.3	2.9	2.5
Developed markets	2.8	2.4	2.1	2.2	3.2	1.0 ↓	1.6	2.3	2.8	2.6	1.9	2.7 ↓	2.2	1.9
Emerging markets	6.9	6.8	6.3	8.7 ↑	6.6 ↑	6.5 ↑	6.6 ↓	7.1 ↓	5.9 ↓	6.6	4.4	5.6 ↑	5.5 ↑	4.6 ↑

Note: For some emerging economies, 2006-2008 quarterly forecasts are not available and/or seasonally adjusted GDP data are estimated by JPMorgan.
Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes.

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Global Central Bank Watch

	Official interest rate	Current	Change from Jun 04 (bp)	Last change	Forecast next change	Dec 07	Mar 08	Jun 08	Sep 08	Dec 08
Global	GDP-weighted average	4.49	195			4.40	4.30	4.30	4.31	4.51
excluding US	GDP-weighted average	4.48	134			4.47	4.44	4.44	4.45	4.52
Developed	GDP-weighted average	3.85	224			3.73	3.60	3.62	3.64	3.89
Emerging	GDP-weighted average	7.08	78			7.12	7.14	7.07	7.04	7.05
The Americas	GDP-weighted average	4.98	272			4.76	4.52	4.49	4.50	4.94
United States	Federal funds rate	4.50	325	31 Oct 07 (-25bp)	11 Dec 07 (-25bp)	4.25	4.00	4.00	4.00	4.50
Canada	Overnight funding rate	4.50	250	10 July 07 (+25bp)	4 Dec 07 (-25bp)	4.25	3.75	3.50	4.00	4.50
Brazil	SELIC overnight rate	11.25	-475	5 Sep 07 (-25bp)	16 Apr 08 (-25bp)	11.25	11.25	10.75	10.25	10.25
Mexico	Repo rate	7.50	100	26 Oct 07 (+25bp)	on hold	7.50	7.50	7.50	7.50	7.50
Chile	Discount rate	5.75	400	13 Sep 07 (+25bp)	14 Feb 08 (+25bp)	5.75	6.00	6.25	6.25	6.25
Colombia	Repo rate	9.50	275	**23 Nov 07 (+25bp)**	on hold	9.50	9.50	9.50	9.50	9.50
Peru	Reference rate	5.00	250	6 Sep 07 (+25bp)	1Q 08 (+25bp)	5.00	5.25	5.25	5.25	5.25
Europe/Africa	GDP-weighted average	4.59	170			4.56	4.52	4.46	4.47	4.47
Euro area	Refi rate	4.00	200	6 Jun 07 (+25bp)	on hold	4.00	4.00	4.00	4.00	4.00
United Kingdom	Repo rate	5.75	125	5 July 07 (+25bp)	**6 Dec 07 (-25bp)**	5.50	5.25	5.00	5.00	5.00
Sweden	Repo rate	4.00	200	30 Oct 07 (+25bp)	13 Feb 08 (+25bp)	4.00	4.25	4.25	4.25	4.25
Norway	Deposit rate	5.00	325	26 Sep 07 (+25bp)	12 Dec 07 (+25bp)	5.25	5.25	5.50	5.50	5.50
Czech Republic	2-week repo rate	3.25	100	30 Aug 07 (+25bp)	29 Nov 07 (+25bp)	3.50	3.75	4.00	4.00	4.00
Hungary	2-week deposit rate	7.50	-400	24 Sep 07 (-25bp)	1Q 08 (-25bp)	7.50	7.25	7.00	6.75	6.50
Poland	7-day intervention rate	4.75	-50	29 Aug 07 (+25bp)	28 Nov 07 (+25bp)	5.00	5.25	5.50	5.75	6.00
Russia	1-week deposit rate	3.25	225	14 Aug 07 (+25bp)	Aug 08 (+25bp)	3.25	3.25	3.25	3.50	3.50
Slovak Republic	2-week repo rate	4.25	-75	27 Apr 07 (-25bp)	4Q 08 (-25bp)	4.25	4.25	4.25	4.25	4.00
South Africa	Repo rate	10.50	250	11 Oct 07 (+50bp)	on hold	10.50	10.50	10.50	10.50	10.50
Switzerland	3-month Swiss Libor	2.75	225	13 Sep 07 (+25bp)	on hold	2.75	2.75	2.75	2.75	2.75
Turkey	Overnight borrowing rate	16.25	-575	14 Nov 07 (-50bp)	14 Dec 07 (-25bp)	16.00	15.25	14.00	13.50	13.50
Asia/Pacific	GDP-weighted average	3.60	113			3.63	3.67	3.79	3.79	3.92
Australia	Cash rate	6.75	150	7 Nov 07 (+25bp)	5 Feb 08 (+25bp)	6.75	7.00	7.00	7.00	7.00
New Zealand	Cash rate	8.25	250	26 July 07 (+25bp)	on hold	8.25	8.25	8.25	8.25	8.25
Japan	Overnight call rate	0.50	50	21 Feb 07 (+25bp)	13 Jun 08 (+25bp)	0.50	0.50	0.75	0.75	1.00
Hong Kong	Discount window base	6.00	350	1 Nov 07 (-25bp)	12 Dec 07 (-25bp)	5.75	5.50	5.50	5.50	6.00
China	1-year working capital	7.29	198	14 Sep 07 (+27bp)	4Q 07 (+18bp)	7.47	7.65	7.65	7.65	7.65
Korea	Overnight call rate	5.00	125	9 Aug 07 (+25bp)	on hold	5.00	5.00	5.00	5.00	5.00
Indonesia	BI rate	8.25	91	5 July 07 (-25bp)	1Q 08 (-25bp)	8.25	8.00	8.00	8.00	8.00
India	Repo rate	7.75	175	30 Mar 07 (+25bp)	on hold	7.75	7.75	7.75	7.75	7.75
Malaysia	Overnight policy rate	3.50	80	26 Apr 06 (+25bp)	on hold	3.50	3.50	3.50	3.50	3.50
Philippines	Reverse repo rate	5.50	-125	15 Nov 07 (-25bp)	**20 Dec 07 (-25bp)**	5.25	5.00	5.00	5.00	5.00
Thailand	1-day repo rate	3.25	200	18 July 07 (-25bp)	on hold	3.25	3.25	3.25	3.25	3.25
Taiwan	Official discount rate	3.25	188	20 Sep 07 (+12.5bp)	Dec 07 (+12.5bp)	3.375	3.50	3.625	3.625	3.625

Bold denotes move this week and forecast changes

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
26 Nov New Zealand: Trade balance (10:45am) Oct	27 Nov Australia: New homes sales Oct	28 Nov Australia: Construction work done (11:30am) 3Q	29 Nov Australia: Pvt. Cap. Expend. (11:30am) 3Q New Zealand: Building permits (10:45am) Oct Money supply (03:00pm) Oct Bus. conditions index (03:00pm) Nov	30 Nov Australia: Private sector credit (11:30am) Oct Current account (11:30am) 3Q
3 Dec Australia: Trade balance (11:30am) Oct RBA Comm. Ind. (04:30pm) Nov Reserve Bank Rate	4 Dec Australia: Building approvals (11:30am) Oct Retail sales (11:30am) Oct	5 Dec Australia: RBA cash target (09:30am) Dec GDP (11:30am) 3Q New Zealand: ANZ comm. price (03:00pm) Nov	6 Dec New Zealand: RBA official cash rate Dec 5 (09:00am)	7 Dec Australia: FX reserves (04:30pm) Nov
10 Dec Australia: Home loans (11:30am) Oct ANZ job advertisements (11:30am) Nov New Zealand: QV house prices Nov	11 Dec Australia: NAB business confidence (11:30am) Nov	12 Dec Australia: Westpac consumer confidence (10:30am) Dec	13 Dec Australia: Consumer infl. ex. (10:30am) Dec Unemployment rate (11:30am) Nov New Zealand: Retail sales (10:45am) Oct PMI (12:00pm) Nov	14 Dec
17 Dec Australia: New homes sales Nov	18 Dec Australia: Imports (11:30am) Nov New Zealand: NBNZ business outlook (03:00pm) Dec	19 Dec Australia: Westpac Leading Index (10:30am) Oct New Zealand: Visitor arrivals (10:45am) Nov	20 Dec New Zealand: Current account (10:45am) 3Q	21 Dec Australia: Leading index (10:00am) Oct New veh. sales (11:30am) Nov New Zealand: GDP (10:45am) 3Q

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
26 Nov - 30 Nov	**26 Nov**	**27 Nov**	**28 Nov**	**29 Nov**	**30 Nov**
	Euro Area • Trichet speech Germany • CPI 6 states and prelim (Nov) Hungary • MNB meeting Malaysia • BNM meeting	Canada • Payrolls (Sep) Germany • IFO bus survey (Nov) France • INSEE bus survey (Nov) Italy • ISAE bus survey (Nov) Japan • Fukui speech Slovak Republic • NBS meeting United States • S&P/Case-Shiller HPI (Sep, 3Q)	Euro Area • M3 (Oct) Japan • Total retail sales (Oct) Korea • IP (Oct) Poland • NBP meeting United States • Beige book • Durable goods (Oct) • Existing home sales (Oct)	Czech Republic • CNB meeting France • Unemployment (Oct) Germany • Employment (Oct) • Unemployment (Nov) Japan • IP prelim (Oct) • Shoko Chukin small bus sentiment (Nov) Sweden • GDP (3Q) United States • New home sales (Oct) • OFHEO HPI (3Q) • Real GDP prelim (3Q) • Bernanke speech	Canada • Real GDP (3Q) Euro Area • EC bus survey (Nov) • GDP prelim (3Q) • HICP flash (Nov) Germany • Retail sales (Oct) Japan • Household spending (Oct) • Housing starts (Oct) • Nationwide core CPI (Oct) • PMI mfg (Nov) • Unemployment rate (Oct) United States • Chicago bus survey (Nov) • Construction spending (Oct) • Personal income (Oct)
3 Dec - 7 Dec	**3 Dec**	**4 Dec**	**5 Dec**	**6 Dec**	**7 Dec**
Japan • Cabinet Office private consumption index (Oct) Korea • GDP final (3Q)	Euro Area • Unemployment (Oct) Japan • MoF corporate surv (3Q) • Nominal wages (Oct) • Fukui speech Korea • CPI (Nov) • Trade balance (Nov) United States • Light vehicle sales (Nov) Manufacturing PMIs (Nov) • China • Euro Area • Germany • United Kingdom • United States	Canada • BoC meeting Singapore • PMI mfg (Nov) Thailand • BoT meeting	Australia • GDP (3Q) • RBA meeting Brazil • IP (Oct) • COPOM meeting Euro Area • Retail sales (Oct) Service-sector PMIs (Nov) • Euro Area • Germany • United Kingdom • United States (nonmfg) United States • ADP employment (Nov) • Factory orders (Oct) • Productivity & costs (3Q)	Brazil • IPCA (Nov) Canada • Ivey PMI (Nov) Germany • Mfg orders (Oct) United States • Flow of funds (3Q) Central bank meetings • Euro Area • Indonesia • New Zealand • Peru • South Africa • United Kingdom	Germany • IP (Oct) Italy • GDP final (3Q) Japan • GDP 2nd est (2Q) Mexico • CPI (Nov) United States • Consumer credit (Oct) • Consumer sent prelim (Dec) • Employment report (Nov) Central bank meetings • Korea • Mexico

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