JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- In **Australia,** the RBA almost certainly will keep the cash rate unchanged at 6.75% on Wednesday. The deteriorating inflation outlook argues for a higher cash rate, but worsening credit conditions and signs of stress in the global economy argue for caution. The safest option, therefore, is for RBA officials to do nothing, at least for now. We still expect a policy tightening in February. A barrage of top-tier data hits Australia's shores in the week ahead, including 3Q GDP, which likely will print at 1.0%q/q and a robust 4.7%oya. Meanwhile, Labor's win in the November 24 federal election was widely expected, so markets took the change of government in their stride. Last week's data showed that business investment fell and the current account deficit widened in 3Q, while private sector credit growth was solid in October.

- In **New Zealand**, the main event this week is the RBNZ's quarterly monetary policy statement. The OCR is likely to be left unchanged at 8.25%, and the RBNZ will deliver a neutral commentary airing concerns about inflation risks, while acknowledging the downside risks to growth associated with the financial market turbulence and increasing fears of a US recession. Last week's business confidence survey slipped over the month over November, and the cracks in New Zealand's housing market widened, with building approvals taking another leg down in October. On a positive note, the trade report for October was positive, with oil and dairy inflated exports exceeding market expectations.

- Combining downward momentum with new drags, **global growth** is set to weaken further into year end. In the vanguard of slowing were the consumer spending indicators at the start of this quarter. In the three months through October, our global retail sales proxy produced its weakest outcome in over three years. The softening in consumer spending now taking hold will reinforce downward pressure on industrial activity. Although we are expecting our global PMI (released this week) to stabilize at a level consistent with about a 3% growth pace, global industrial output is expected to stagnate in the coming months as global demand slips below trend.

- Before the Fed meets on December 11, twelve other **central bank meetings** will take place. Three are particularly important. We look for the BoE and BoC each to ease rates 25bp this week, in the first salvo of what is expected to be a series of moves from these central banks through next year. The ECB, in contrast, appears to be firmly on hold even as risks increase to both growth and inflation. Over the last few weeks, money market stress has intensified and overall financial conditions have tightened further. The latest data delivered another leg down in the PMI in November along with dismal indications on consumer spending. At the same time, soaring energy and food prices boosted inflation to 3% in November, a full point above the top end of the ECB's target zone.

This week's highlights

The RBA and RBNZ policy announcements on Wednesday and Thursday, respectively. We expect each to leave their cash rates unchanged. The RBNZ's commentary will be neutral, but could warn government officials against fiscal policy largesse.

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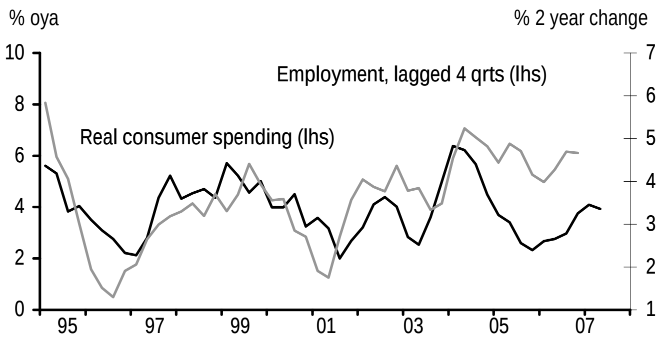
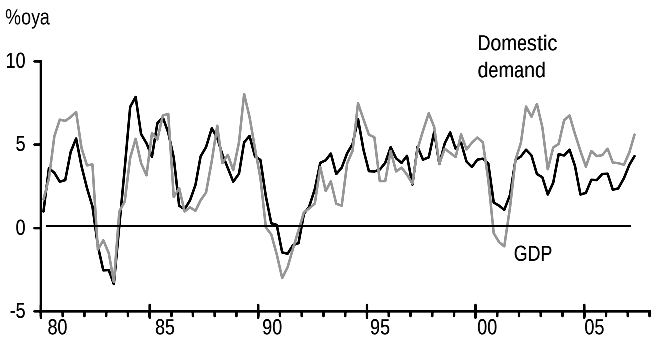
This week's feature charts

Australia: consumer spending and employment growth



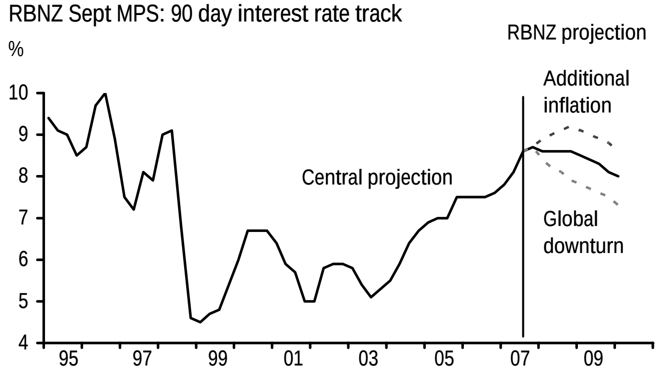
This is not rocket science–trends in consumer spending are determined mainly by trends in household income. Most other influences, like changes in the level of interest rates, tax cuts, changes in petrol prices and movements in consumer confidence, simply are noise, at least in the long term. Households with a job and with income, for example, will spend money, no matter the tax rate or the level of interest rates. In this way, consumer spending remains healthy because the labour market is tight.

Australia: growth in GDP and domestic demand



Australian GDP growth remains well above potential, owing mainly to robust domestic demand and solid capital spending. The widening gap between the economy's actual and potential growth rates means that inflation pressure will continue to build. Both headline and core inflation will likely breach the upper end of the RBA's 2-3% target range in coming quarters, meaning that the RBA will maintain a firm tightening bias. That said, JPMorgan forecasts that the RBA will hold interest steady at 6.75% this week, while headline 4Q GDP growth will likely print at 1.0%q/q.

RBNZ Sept MPS: 90 day interest rate track



The RBNZ inserted in the last monetary policy statement (MPS) a downside scenario in response to the trublence in financial markets. The extended discomfort in markets and growing uncertainty around the US economic outlook, mean the RBNZ's downside scenario will continue to receive attention in this week's RBNZ commentary. That said, the upside scenario will receive equal attention, and will focus on inflation risks associated with a government committed to winning next year's election, and surging dairy prices.

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Australia

- **Aussie federal election results in change of government**
- **Business spending intentions reined in slightly**
- **Retail trade likely to slow in October**

The Labor opposition claimed victory in the November 24 federal election, putting an end to Prime Minister John Howard's 11-year reign. The change of government was widely expected; opinion polls in the runup to the election clearly favoured the opposition. Economic data last week showed that business investment fell and the current account widened in 3Q, while private sector credit remained solid in October. A barrage of top-tier data hits the shores this week, including 3Q GDP, which will likely print at 1.0%q/q. The RBA, meanwhile, is widely expected to leave rates unchanged at 6.75%.

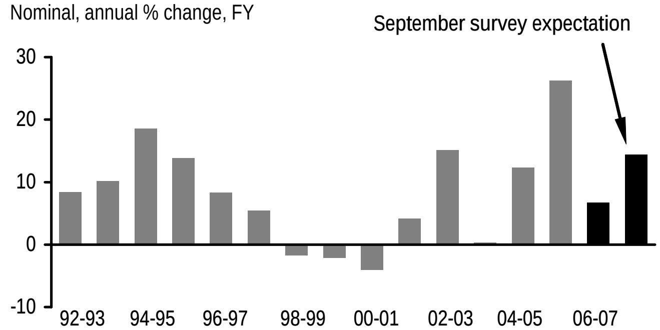
RBA to leave rates steady, for now

The RBA will likely leave the cash rate steady at 6.75% this week, although the deteriorating inflation outlook means the bank's tightening cycle is not yet over. The RBA probably will raise the cash rate again in February, just after the release of 4Q CPI data. Bank officials have indicated their comfort with making policy changes only after the release of quarterly CPI results; a policy shift outside this convention would run contrary to the bank's recent behaviour.

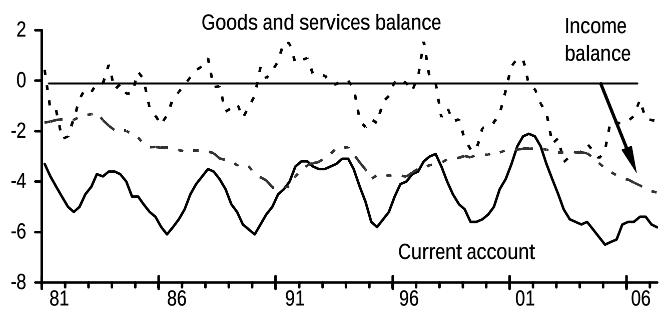
The RBA last hiked interest rates in early November, when it acknowledged that inflation had increased. RBA officials now believe that core inflation will rise above the target range to 3.25% by June 2008, before settling in the range of 2.75% to 3% for the period ended December 2009. Based on our forecasts, the 4Q CPI data will show core inflation at 3.4%oya, well above the upper limit of the RBA's target range. The RBA has shown previously that it can tolerate temporary breaches of the inflation target, but officials are unlikely to accept the sustained violation anticipated.

Also, the economy has carried significant momentum into the final months of 2007. Domestic demand is strong, credit growth is elevated—particularly for the business sector—the terms of trade remains a significant stimulus to domestic income, the labour market is tight, and the economy has few unused resources. Also, the fiscal stimulus anticipated from substantial reductions in personal taxes and increased spending will add upward pressure to prices.

Australia: business investment
Nominal, annual % change, FY



Australia: current account deficit
% of GDP



Another important factor influencing the policy outlook is the likelihood that the big commercial banks soon will raise their mortgage rates to compensate for the rise in funding costs; this will likely happen before year end. The 'Big Four' banks are likely raise their variable loan rates by 10-25bp in coming weeks; this is equivalent to about 14bp of RBA policy tightening. The imminent rate rises will apply only to variable mortgages issued by the major banks and interest rates on personal loans, and credit cards and business lending will be unaffected. These mortgage rate rises will, however, do some of the heavy lifting for the RBA. In our view, though, it does not cancel out the need for the RBA to raise the cash rate one more time.

Retail trade to moderate in October

Retail sales growth will likely slow to 0.3%m/m in October from 0.8% in the previous month, moderating after four straight months of solid increases. Several factors will curb spending in October. Uncertainty surrounding the outcome of the federal election, a modest moderation in employment growth, and surging oil prices probably took their toll on

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consumer confidence during the month. Rising food costs from the persistent drought continue to put upside pressure on retail sales values, however. Generally, though, the retail sector remains well supported by a favorable domestic backdrop. That said, in 2008, another official rate hike will tighten consumers' purse strings.

Opposition defeats government in election

As opinion polls predicted, the Labor opposition claimed victory in Australia's November 24 election, putting an end to the 11-year term of the right-of-center Howard Government. Voters changed the party of government for the first time since 1996, and for only the sixth time in the last 60 years. Labor leader Kevin Rudd will be sworn in as Australia's 26th Prime Minister today.

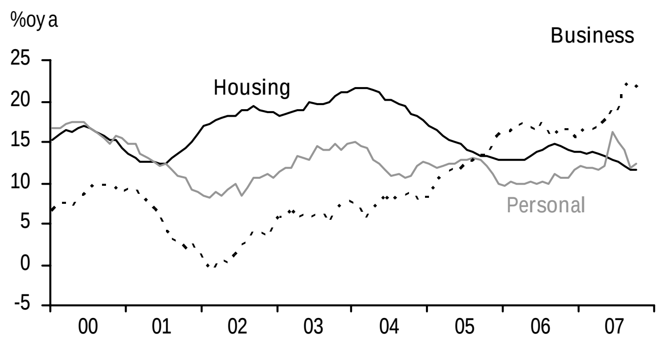
In the near term, the key material policy change will be in industrial relations. Labor will abolish workplace agreements, which were a centerpiece of the Government's latest changes. It also will reinstate the unfair dismissal laws modified by the government, which will mostly affect small businesses. Additionally, Labor has flagged a massive fiscal splurge in the form of generous personal income tax relief, with targeted spending increases on child care, education, health, and defence are on the agenda. Labor has pledged to maintain budget surpluses and the independence of the Reserve Bank.

Business spending plans downgraded

An unexpected 6.5% drop in Australian business investment spending was reported in 3Q, as was a small downgrade to firms' expectations for spending in the year ended June 2008. The downgrade probably reflects managers' increased anxiety over the durability of the global economic cycle and the tightening in credit conditions. Also, rising domestic interest rates and uncertainty about a change of government may have contributed to the downgrade.

The key forward -looking component showed that firms' fourth estimate of spending for 2007-08 showed that managers expect to raise investment spending 14% relative to 2006-07, compared to 17% in the previous survey. Despite the modest downgrades to firms' investment plans, the private investment outlook is rosy. Firms expect to raise their investment spending at a double-digit pace in 2007-08 despite the mature phase of the investment cycle; firms have raised their investment spending for the last six years.

Australia: private sector credit aggregates



Credit growth moderates unexpectedly

Private sector credit growth remained solid in October, although slowed unexpectedly. RBA credit aggregates grew 1.0%m/m (JPMorgan 1.2%, consensus 1.1%), after rising a revised 1.1% in September (previously 1.2%). Annual growth in total credit fell to 15.4% from 15.6% in September.

Growth in housing finance held steady at 0.8%m/m in October for the fourth straight month, while personal lending rebounded (+0.6%m/m) having been subdued since the beginning of the financial year. Prior to July 1, people opportunistically borrowed to boost their superannuation fund balances. Business borrowing again underpinned credit demand, although slowed significantly in October, growing just 1.4%m/m, compared to a 1.9% rise previously. Business lending will presumably be used to fund investment in additional capacity and infrastructure, aimed at alleviating the capacity constraints curbing growth in activity.

Current account narrowed unexpectedly

The current account deficit narrowed unexpectedly in 3Q on the back of stronger exports of goods and services. The deficit shrank to A$15.6 billion (JPMorgan –A$16.9 billion, consensus –A$16.4 billion), largely unchanged from the previous quarter, which was revised down from –A$16.0 billion. The deficit represented 5.8% of GDP in 3Q.

The goods and services deficit rose 14% in 3Q, with the net goods deficit rising 13% and the net services surplus rising 11%. The goods deficit increase stemmed from a 1% rise in imports, while exports held largely steady. In particular, though, farm good exports grew a solid A$6 million, after declining in the three prior quarters owing to widespread drought conditions. While the

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drought will continue to weigh on farm exports, going forward, the anticipated rise in export volumes should see the trade balance improve in coming quarters.

The net income gap, meanwhile, fell 18% to -A$12.5 billion. Inflows fell 9% due to a fall in profits accruing offshore on direct investment equity, and outflows rose 5%. The net income deficit of 4.1% of GDP is indicative of a nation heavily reliant on imported capital. The net income hap may narrow near term, however, as renewed volatility in global financial markets will mean that corporates will be less inclined to raise debt offshore.

Data releases and forecasts

Week of November 3 - 7

Mon
Dec 3
11:30

Trade balance
Seasonally adjusted

	Jul	Aug	Sep	Oct
Exports (A$ bn)	18.3	18.6	17.9	<u>18.3</u>
Imports (A$ bn)	19.2	20.3	19.8	<u>20.1</u>
Trade balance (A$ mn)	-1011	-1665	-1863	<u>-1811</u>

The trade deficit will likely improve in October. Preliminary data showed that imports rose 2%m/m in October, while exports are expected to have rebounded after slumping in the previous month.

Tue
Dec 4
11:30am

Building approvals
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	0.7	-1.8	6.8	<u>-3.5</u>
(%oya)	-7.2	0.0	4.2	<u>6.7</u>

Building approvals are forecast to fall 3.5%m/m in October, although the risks remain skewed to the downside. Building and material costs in the residential construction sector remain elevated and excessive red tape is deterring new development, while higher interest rates will likely weigh on new home building.

Tue
Dec 4
11:30

Retail trade
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	0.8	0.7	0.8	<u>0.3</u>
(%oya)	7.3	7.8	8.2	<u>7.7</u>

Wed
Dec 5
11:30am

Real GDP
Chain volume, seasonally adjusted

	4Q06	1Q07	2Q07	3Q07
(%q/q)	1.1	1.6	0.9	<u>1.0</u>
(%oya)	3.0	3.8	4.3	<u>4.8</u>

Review of past week's data

Construction work done
Seasonally adjusted

	1Q	2Q	3Q
(%q/q)	3.2	-1.9	__ *2.8*
(%oya)	9.5	3.0	__ *8.9*

Private new capital expenditure
Seasonally adjusted

	1Q07	2Q07	3Q07
(%q/q)	~~10.3~~ *9.1*	~~6.34~~ *7.1*	__ *-6.5*
(%oya)	~~5.5~~ *4.5*	~~11.4~~ *11.8*	__ *9.0*

Current account balance
A$ billion, seasonally adjusted

	1Q07	2Q07	3Q07
Current account (A$ bn)	~~-15.6~~ *-15.3*	~~-16.0~~ *-15.6*	__ *-15.6*
As a % of GDP	-5.9	-6.0	__

Private-sector credit
Seasonally adjusted

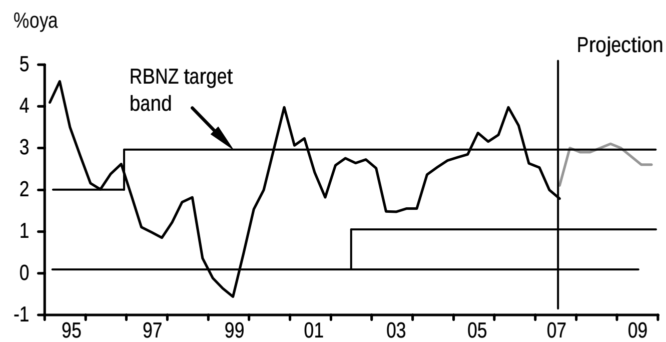
	Aug	Sep	Oct
(%m/m)	1.4	~~1.2~~ *1.1*	__ *1.0*
(%oya)	16.0	~~15.9~~ *15.6*	__ *15.4*

New Zealand

- **RBNZ to maintain neutral commentary**
- **NZ business confidence slid in November**
- **Building approvals take another leg down in October**

The economic data generally softened in New Zealand last week. Business confidence declined in November with growing concerns around the US economic outlook, surging oil prices and still-elevated NZD. The RBNZ credit aggregates eased in annual terms, and building approvals took another leg down in October. The only positive note last week was the solid trade report. Exports exceeded expectations but imports were boosted by one-off capital good imports for the Tui oil field.

New Zealand: CPI and RBNZ forecast trajectory (Sept MPS)



RBNZ to remain focussed on inflation risks

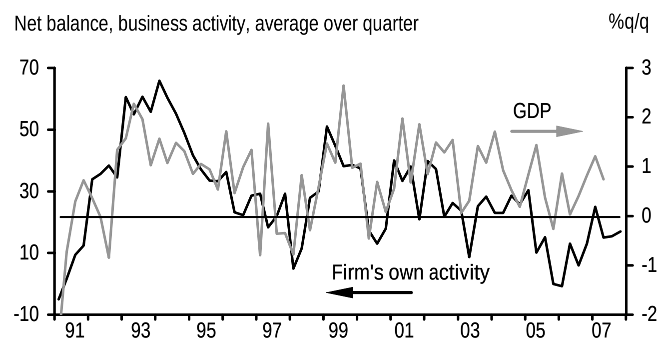
The RBNZ this week delivers the last Monetary Policy Statement (MPS) for the year. The RBNZ is likely to keep the official cash rate (OCR) unchanged at a record high 8.25%, and deliver a neutral commentary. The statement is likely to mirror that printed in September, when the RBNZ acknowledged the financial market turbulence and inserted a downside scenario.

Thursday's MPS will include an updated inflation trajectory and scenario analysis. The downside scenario is likely to express the risks associated with increased global uncertainty, which poses a threat to growth in New Zealand. The upside scenario again will focuss on higher inflation outcomes generated by fiscal largesse, and record dairy prices. The risk is that the RBNZ delivers a hawkish commentary squarely focussed on the government's fiscal policy; this would be rather timely ahead of the mid-year economic and fiscal update due mid December. The government is likely to deliver tax cuts and increase spending.

NBNZ business confidence slides in Nov

The NBNZ business confidence survey recorded broad-based declines in November, with the headline index dropping to -19.6% (net respondents expecting conditions to deteriorate over the coming year), from -12.9% in October. The decline reflected the still elevated NZD, growing fears of a US recession, and surging oil prices. More importantly, the firms' own activity expectations index declined, falling to 15.7% from 20.3% in October. The fall in firms' activity expectations points to GDP growth of an oil output-inflated 0.8%q/q in 3Q and 4Q07.

New Zealand: NBNZ business outlook survey and GDP growth



From the RBNZ's viewpoint, the falls in the level of capacity utilization, residential construction, pricing intentions, and inflation expectations, probably will be read with a sigh of relief ahead of the MPS. At face value, the survey confirms the economy is cooling and inflationary pressures are beginning to relent, albeit slowly.

Credit aggregates cool in October

The good news continued to flow from the RBNZ's viewpoint last week, with total domestic credit easing in November. The RBNZ reported the monthly credit aggregates, which showed domestic credit rose just 0.6%m/m, and private-sector credit (ex repos) rose 1.1%. The annual rate of credit growth decelerated across the board, with total domestic credit growth cooling to 11.9% from 12.2% in September; and annual private sector credit growth (ex repos) easing to 13.9% from 14.3% in September. Elevated levels of domestic credit growth has been raised as a concern down at the RBNZ, and officials should take some comfort from the October report.

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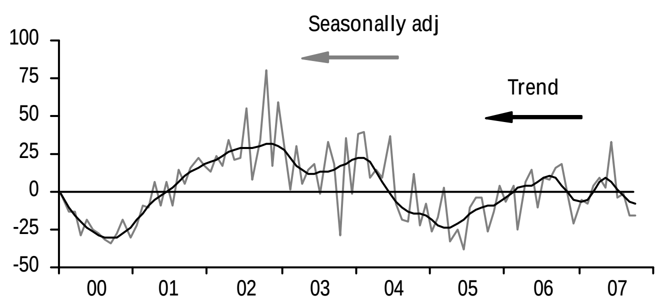
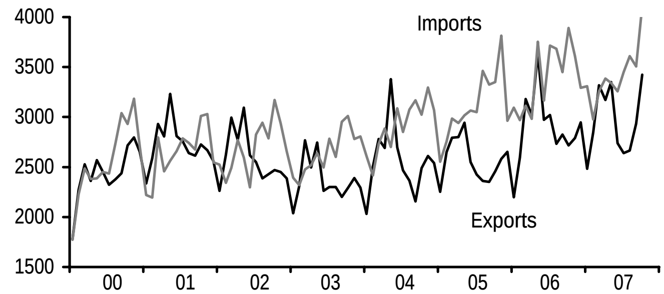
New Zealand: building approvals - total

%oya



New Zealand: exports and imports

NZ$ million, nsa



NZ building approvals in free-fall

Building approvals took another leg down over the month of October, falling a seasonally adjusted 4.8%m/m (after a downwardly revised 10.2%m/m fall in September). The 3.7%m/m decline in the trend series in October, represented the fifth consecutive monthly decline in the trend series, which is now down 11.3% over the past six months.

There now is no question that New Zealand's housing market is in a downward spiral, with most of the forward-looking and coincident indicators pointing south. Building approvals have trended down, days to sell a property (which is inversely related to price) is rising, the effective mortgage rate is shifting higher, turnover has slumped, and the median price is tracking sideways—for now. JPMorgan continues to believe house prices will deflate, and at a rapid rate. The median house price currently is being held up by low-value houses not selling, and most of the turnover in the market coming from higher value homes. This is a house of cards waiting to crumble.

NZ trade balance stronger than expected

New Zealand's trade deficit blew out to NZ$690 million in October (JPMorgan NZ$400, consensus NZ$550) from a revised NZ$573 million deficit in September (previously NZ$544 million). Exports unexpectedly bounced to NZ$3.42 billion (JPMorgan NZ$3.2 billion, consensus NZ$3.1 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 and consensus NZ$3.6), the first time imports have exceeded NZ$4 billion for any month. There was a sharp increase in imports of ships, and boating and floating structures (up NZ$159 million or 975%oya), partly reflecting the importation of an oil rig. There also was a strong increase in the value of refined petroleum imports. The level of imports was boosted by capacity-increasing capital goods; thus, the trade report was positive for longer term GDP growth.

Growth in the imports of consumption goods continued to slow, but the level remains elevated.The downtrend in growth suggests that the desired cooling in domestic demand sought by the RBNZ is in progress. The RBNZ is looking for a sustained slowdown in domestic demand to tame inflation.

New Zealand:
Data releases and forecasts

Week of November 3 - 7

Wed Dec 5 9:00am	RBNZ monetary policy statement
	RBNZ is likely to leave the OCR unchanged at 8.25%

Review of past week's data

Trade balance

Not seasonally adjusted

	Aug	Sep		Oct	
Exports ($NZ mn)	2664	~~3005~~	*2930*	__	*3420*
Imports ($NZ mn)	3611	3549		__	*4110*
Trade balance ($NZ mn)	-946	~~-544~~	*-573*	__	*-690*

Building consents

Not seasonally adjusted

	Aug	Sep		Oct	
(%m/m)	14.1	~~-17.8~~	*-10.2*	__	*-4.8*
(%oya)	1.2	~~-20.2~~	*-16.2*	__	*-17.3*

NBNZ business confidence

	Sep	Oct	Nov
% balance of respondents	-26.5	-12.9	__*5*

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Global essay

- **Industrial sector is at the leading edge of the global slowdown**
- **A rapid softening in consumption spending is next**
- **Easing on tap from the BoC and BoE this week . . .**
- **. . . as the Fed opens the door for more**
- **Food price increases keep EM central bankers hawkish**

That was then . . . this is now

With a full complement of countries now reporting, 3Q07 can be seen to have posted a GDP gain as strong as any over the past four years. This, of course, feels like ancient history. The outlook debate now centres on gauging the effects of tightening financial market conditions against the backdrop of a global expansion that was downshifting before the August outbreak of credit-market turmoil. JPMorgan's global PMI survey peaked in June as a boost from Asian inventory accumulation faded and a brief interlude of stability in the US housing and auto industries ended. Similarly, the Euro area and Japan rebounded from subpar outcomes in 2Q07, but this lift was temporary and masked mounting obstacles to growth from tightening monetary policy (Euro area) and weak labour income generation (Japan). Not surprisingly, economic indicators weakened significantly in September and October—with IP growth slowing to a 3.4% pace over the past three months—even before drags from rising energy prices and tighter credit conditions were largely felt.

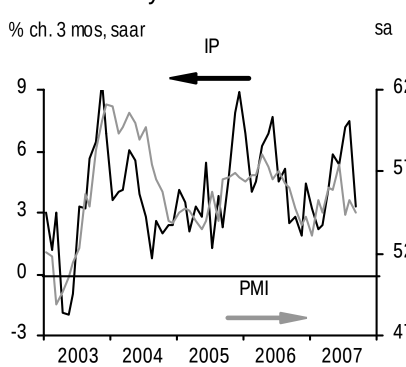
Combining downward momentum with new drags, global growth is set to weaken further into year end. In the vanguard of slowing were the consumer spending indicators at the start of this quarter. In the three months through October, our global retail sales proxy produced its weakest outcome in over three years. The softening in consumer spending now taking hold will reinforce downward pressure on industrial activity. Although we are expecting our global PMI (released this week) to stabilize at a level consistent with about a 3% growth pace, global industrial output is expected to stagnate in the coming months as global demand slips below trend through next spring.

Nimble Fed tiptoes toward ease

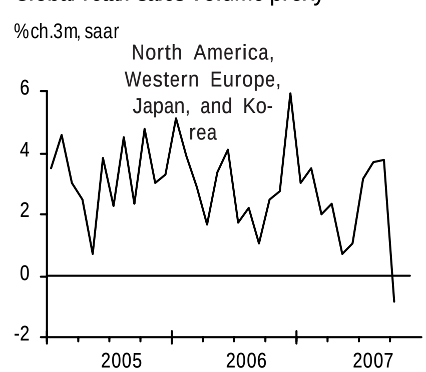
Embedded in a forecast of tepid industrial activity is a global economy absorbing some of the pain of a downshift in US demand. This downshift is becoming evident in economic releases that show weakness spreading beyond housing-related industries. With GDP gains expected to average 1% (q/q, saar) this quarter and next, it is unlikely that large sectors of the US economy will remain unaffected by the slowdown. There is a basic difference, however, between a slowdown and a recession, which hinges on business behavior. If we are right, most firms are not facing significant credit constraints and will continue to look toward growth in the year ahead. As a result, it is unlikely that they will retrench in a manner that sharply magnifies the impact of current drags. So far, the message from business—in spending, hiring, and survey readings—is consistent with the view that they are bending rather than breaking. But we are far from confident in this outcome, particularly as the trend in profits has shifted materially weaker in recent quarters. We will look to this week's release of important November indicators—including payrolls, ISM, and post-Thanksgiving jobless claims—to help gauge how the slowing is affecting the underlying position of the US corporate sector.

With coordinated messages from Chairman Bernanke and Vice Chairman Kohn last week, the Fed opened the door for a 25bp ease at the December FOMC meeting. Most likely, the Committee will accompany this decision with a shift away from the neutral bias put in place at the last meeting—as a signal that it remains ready to ease in the face of sustained downside risks to growth.

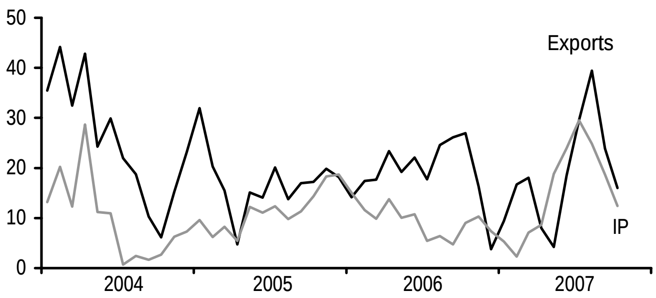
Global industry



Global retail sales volume proxy



EM Asia - Big 3 exports and IP
%3m/3m, saar; avg of China, Taiwan, Korea



Looking for BoE, BoC rate cuts next week

Before the Fed meets on December 11, twelve other central bank meetings will take place. Three are particularly important. We look for the Bank of England and Bank of Canada each to ease rates 25bp this week, in the first salvo of what is expected to be a series of moves from these central banks through next year. The ECB, in contrast, appears to be firmly on hold even as risks increase to both growth and inflation. Over the last few weeks, money market stress has intensified and overall financial conditions have tightened further. The latest data delivered another leg down in the PMI in November along with dismal indications on consumer spending. At the same time, soaring energy and food prices boosted inflation to 3% in November, a full point above the top end of the ECB's target zone. The press conference will likely recognize that downside growth risks have increased, but the tone on inflation will remain tough. Meanwhile, the central bank will continue to reassure markets that it stands ready to supply the liquidity that banks need to meet year-end funding pressures.

Japan is muddling through

Last week's data for October and the sentiment indicators for November depict a Japanese economy growing at a subpar pace, but not faltering. Activity is divided along two lines, with vigorous growth in IP and exports offsetting weak consumer spending and a huge, if temporary, drag from residential construction. Capex is somewhere in the middle, growing solidly but possibly losing momentum into year's end. The slide in the small business survey is consistent with this mix. Small companies are more exposed to the sluggish domestic market and have limited pricing power to offset high commodity prices. Indeed, the details of the labour force survey show that small firms are cutting employment, even as large firms continue to increase their work forces.

This mix produced a GDP gain of 2.6% (q/q, saar) in the third quarter. However, the outcome is likely to be much softer in the current quarter (JPMorgan est 0.5%). In particular, consumer spending is likely to be even weaker as the headwinds from rising energy and food prices squeeze household purchasing power. The leading edge of this effect was visible in Friday's CPI report, which showed inflation moving up to 0.3%oya in October, the first positive reading this year. At the same time, exports and manufacturing activity are likely to lose momentum into year's end as the slowdown in final demand growth in North America and Western Europe translates into weaker import demand in these regions.

Bellwether EM economies losing altitude

As we track the reverberations of the slowing in G-3 final demand through global trade and industry, the "first responders" include EM Asia. Our analysis shows that activity in Taiwan and Korea, in particular, is highly sensitive to the global cycle. In addition, data from these countries arrives earlier than elsewhere. Indeed, both countries report their November export figures next week. Data for the Big 3 economies in the region (China, Taiwan, Korea) through October paint a picture of a region that is slowing into year end, with the growth of exports and manufacturing activity losing speed. These developments point to slower economic growth and our forecast calls for a 5.5% GDP gain (q/q, saar) in the current quarter, down from an average pace of 9.3% in the first three quarters of the year. Excluding China and India, the region is expected to grow a modest 3.5%. There are, however, some notable cushions in place. Domestic demand growth remains solid in the region, and inventory positions are relatively lean.

Mexico's economy, too, is highly sensitive to the global cycle, especially when there is an important shift in US momentum. The latest reports suggest that an economic slowdown is taking hold there, judging by data on exports, domestic sales, and manufacturing activity. JPMorgan has slashed its growth forecast, with GDP growth now predicted to slow to an average if 1.5% (q/q, saar) this quarter and next, after having averaged 5.8% in the two middle quarters of 2007. One key implication is that Banxico may opt to cut rates sometime in 2008. For now, our call is that monetary easing will be deferred to 2H08 because of the central bank's concern about accelerating inflation—Banxico expects headline inflation to remain above the 3%oya(±1%) target range in 1H08.

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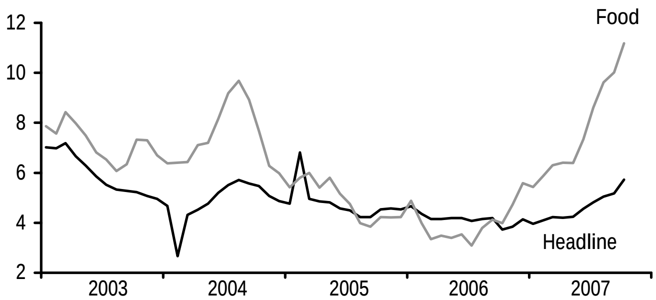
EM consumer prices

% ch over 12 months



CEEMEA central banks turn more hawkish

While a handful of "high-beta" EM economies are beginning to feel the downshift in G-3 demand, much of the group remains on a fast growth track. EM inflation also is escalating, driven by an impressive surge in food prices, which now are rising 11%oya. Thus, policymakers in the group on the whole have maintained a hawkish tilt. This certainly is true in Central Europe and South Africa. Sharply rising food and energy prices have been the main source of upward inflation pressure so far, but in Central Europe it is also tight labour markets that are threatening to push core inflation higher. The CNB raised rates another 25bp last week, despite the koruna having reached new highs, in order to ward off rising risks of second-round inflation effects. Further rate hikes are likely as inflation soars to 5%oya+ in coming months, although further exchange rate appreciation would reduce the need for monetary tightening to come via the interest rate channel.

The NBP also raised rates 25bp last week and indicated that further hikes will be needed to bring inflation back to target. We continue to see 100bp of further tightening next year (to 6.00%) as core inflation plays catchup with the rapid rise in unit labor costs. In Hungary, meanwhile, the NBH has halted its easing cycle for the second consecutive month on increasing concerns about accelerating inflation and rising wage demands for 2008. The decidedly hawkish message sent by the governor suggests that rate cuts are off the agenda until disinflation resumes later in the first quarter of next year. Finally, upside surprises in GDP and inflation data out of South Africa have reinforced expectations of another 50bp rate hike from the SARB this week; we now look for rates to peak at 11.5% early next year as CPIX inflation climbs above 8%oya.

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JPMorgan View - Global Markets

Too early to turn bullish

• Recently, markets went into virtual panic mode as investors felt abandoned by policymakers who did or said little to battle the freezing up of credit markets and the resulting flight to quality. Last week, central banks geared into action with ECB, BoE, and Fed moves to facilitate money market funding for the year end. Throw in OPEC hints of a supply increase and US Administration plans to help subprime borrowers, and one can see why investors took off some of their recession hedges. Equities, credit, and the dollar rebounded sharply, while swaps spreads plunged from the panic levels of a week ago. Financials rebounded strongly.

• The recovery in riskier assets is gratifying for the financial industry, but we figure it is too early to feel bullish. For one, developed market economic data are showing that we are now entering the slowing phase. Industrial production is easing dramatically and US housing remains in free-fall. Policymakers are showing greater willingness to help, but high inflation readings are keeping investors uncertain about central bankers' priorities. In addition, there remains huge uncertainty as to the size of the losses the financial industry will bear from the global credit crisis. As long as estimates of these losses remain all over the place, and losses keep coming from hitherto unsuspected corners, investors will tend to believe the highest numbers, which sound like Armageddon. Into year end, we keep a defensive approach to markets and stay long bonds and steepeners. Fixed income

• Last week, we issued our 2008 Fixed Income Outlook for the US and for other major bond markets. We refer readers to these two publications for in-depth analysis, views, and strategies on global rates markets.

• Bonds were down, with the exception of the US market which continues to outperform all others. The US and Canada are our preferred markets, currency hedged, as they are at the core of the global credit crisis and their central banks are under most pressure to cut rates. Bonds are expensive against our medium-term modal forecasts. But near term, we see risk of a widening of credit losses across the financial industry and thus higher market perceptions of recession risks, even as we expect developed economies to just skirt recession. We thus stay with a long duration stance, focused on the short end of curves. We are in steepeners in Europe and the US, but flatteners in Japan, underweighting the belly of the curve in the former two.

• Overall, we do not like spread products, underweighting most of them. Consumer and mortgage ABS remain clear

Government bond yields

		Current	Mar 08	Jun 08	Sep 08
United States	2-yr	#NAME?	3.05	3.20	3.45
	10-yr	3.98	4.10	4.20	4.40
Euro area	2-yr	3.83	3.95	3.90	3.85
	10-yr	4.16	3.95	3.95	3.95
United Kingdom	2-yr	4.61	4.40	4.35	4.30
	10-yr	4.63	4.65	4.65	4.70
Japan	2-yr	#NAME?	0.85	1.10	1.20
	10-yr	1.48	1.60	2.00	2.10

Equities

	Current	Ytd return (local currency)
S&P	1480	5.4%
Topix	1532	-8.8%
FTSE 100	6441	5.5%
MSCI Eurozone	241	7.7%
MSCI Europe	1534	5.8%

Credit markets

	Current	Dec 07
US high grade (bp over UST)	188	180-200
Euro HG industrials (bp over swaps)	63	55
USD high yield (bp vs. UST)	580	550
EMBIG (bp vs. UST)	260	250

Foreign exchange

	Current	Dec 07	Mar 08	Jul 08
EUR/USD	1.47	1.50	1.54	1.55
USD/JPY	111	105	98	101
GBP/USD	2.06	2.08	2.11	2.12

Commodities

		Quarterly average	
		Mar 08	Jul 08
WTI oil $/bbl	88.9	72.0	68.0
Gold ($/oz)	785	807	821

underweights as we expect the market to overshoot any fair value, given the risk of forced selling by SIV's. We similarly underweight MBS and CMBS on expectations of increased supply, balance sheet pressures, and uncertain sponsorship. In the US, we also unde rweight agencies given headline risk and increased supply of fixed-rate mortgages.

• Swap spreads will be highly volatile and directional. Our forecasts of last week, in FIMS, of tighter spreads have since been met already. We also feel that the swap spread curve is too inverted. We stay with the advice to put on swap spread as steepeners (disinversion) in the US.

• Inflation linked bonds underperformed nominals in the US but outperformed in Europe, following the path of nominals. Last

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week's drop in oil prices deflates marginally our bullishness on linkers but we remain overweight, especially in the US as headline inflation rates are headed up. Remain long US breakevens against Europe.

Equities

• Global equities recovered strongly helped by soothing central bank language and capital injections to Financials. Financials was the best performing sector of the week. These capital injections are a reminder of the large pool of money looking for long-term value opportunities. But this bottom-fishing is probably not enough to reverse negative momentum in equity markets. A real rebound requires a slowing in the negative news flow from the US economy and Financials, which is probably several months away. In addition, it appears that there is less of an overhang of short positions, which constrains a recovery in the near term. However, any downside from here should be limited as the Bernanke put remains in place and M&A activity is solid.

• Inflows into EM equities remain negative with $9bn having been withdrawn over the past three weeks. With momentum in both prices and flows remaining negative, the balance of risks is skewed to the downside in the near term. We are positive into next year, however.

Credit

• Sentiment improved somewhat last week helped by strong equity markets. Credit spreads tightened significantly in CDS, especially in European HG, but cash bonds failed to benefit. HG spreads widened in both the US and Europe, due both to a lack of secondary trading, and to price concession pressures in the primary market. In the US alone, $25bn of HG was issued last week—a large increase from the previous weeks, but with large price concessions.

• HG issuance should be above average in December, as financing needs of financials are rising and issuers try to take advantage of still low but rising yields. HY issuance picked up last week from the very low levels of the previous weeks but we do not expect a significant rise into year end.

• The significant outperformance of CDS last week has brought the CDS-bond basis to record negative levels. We expect CDS to continue to outperform and the basis to turn even more negative as a large short base still exists in the indices and US HG supply and new-issue discounts keep bond spreads wide.

Foreign exchange

• We revise forecasts to show further dollar weakness vs EUR and JPY, even from current levels. We now expect EUR/USD to stabilize around 1.55 next year, compared to a previous top at 1.48. The dollar has more downside versus the yen: we expect a break of 100 next year.

• These revisions are admittedly the second major forecast change since September, but are warranted given that the dollar has met our original targets without resistance from policymakers or stabilization in the US outlook. We had expected levels near 1.50 on EUR/USD to undermine the relative rate support driving the euro higher. They have not, as the US-centric credit crunch is placing more downward pressure on rates in the US than in Europe. Another quarter of credit stress should sustain this dynamic, while lower funding rates raise the possibility of inducing hedging or further reserve diversification. We therefore anticipate another 4-5% rise in EUR/USD by mid-2008.

• When we lowered our USD/JPY forecasts in September, we expected the market's focus to shift from carry to dollar weakness. The yen has rallied more than we forecast, as we underestimated the rise in vol and overestimated Japanese capital outflows. Assuming continued pressure on US growth and rates, the yen will likely prove the strongest G-10 currency given its countercyclicality this year and the position overhang. And with the general domestic capital outflow weaker than we envisaged, USD/JPY is unlikely to decouple from the broader weak dollar trend. We therefore expect a break of 100 next year and range trading thereafter, assuming that the US backdrop stabilizes around midyear.

Commodities

• Crude has tumbled some 8% last week on expectations of an OPEC supply increase and a stronger dollar. Given that recent prices have not reflected fundamentals, we see risks to the downside forward. For 4Q07 we expect average prices of $88/bbl on WTI.

• Gold too came off during last week's dollar rally, but we expect this move to be short-lived given the depressing impact that low US rates will have on the dollar. The outlook for base metals is more mixed since cyclical weakness offsets currency effects.

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Markets - Australia and New Zealand

- **RBA to leave the cash rate unchanged this week**
- **Q3 GDP data to show Australia's economy growing strongly**
- **RBNZ also likely to be on hold this week**

Main events for markets this week

- Wednesday's RBA policy announcement. The RBA almost certainly will leave the cash rate unchanged at 6.75% as it assesses the impact of the latest instability in markets and the likelihood that commercial banks will raise their mortgage rates in coming weeks.
- The 3Q GDP data on Wednesday. This is likely to show the economy expanding by 1.0%q/q in 3Q and by a robust 4.7%oya. Growth likely will slow in 4Q, though, as tighter credit standards kicked in.
- In New Zealand, the highlight of the week, and perhaps the month, will be the RBNZ quarterly monetary policy statement out Thursday.

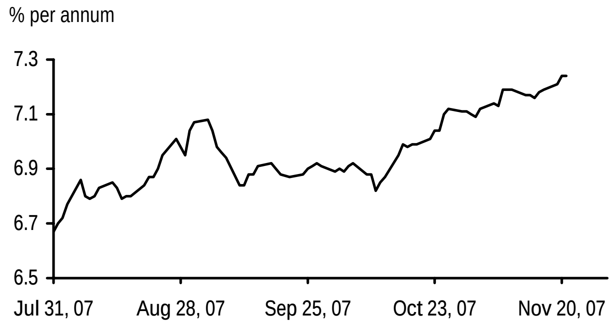
Market commentary

Australia

The RBA meeting on Tuesday and policy announcement Wednesday morning is this week's highlight. The market prices just a 12% probability of a rate hike this week, down sharply from close to 40% a few weeks ago. Our view is that the RBA will leave the cash rate unchanged this week, but raise the cash rate at the next policy meeting in early February. The shift in market pricing reflects the deterioration in credit markets in recent weeks and more evidence that the global economic outlook may not be as rosy as many first believed.

Another important factor influencing the policy outlook is the likelihood that the big commercial banks will raise their mortgage rates in coming weeks to compensate for the rise in funding costs. The federal election now is out of the way, which means the banks are free to raise their rates if management wishes - the previous government had indicated that mortgage rate rises unrelated to a rise in the cash rate were not justified. The 'Big Four' banks are likely raise their cash rates by up to 25bp within weeks. On our calculations, this is equivalent to about 14bp of RBA policy tightening, because the imminent rate rises will apply only to variable mortgages issued by the major banks, which acount for abour two thirds of outstanding mortgages. Interest rates on

Australia: rate on 90-day bank bill



personal loans, credit cards and business lending will be unaffected.

These mortgage rate rises will, however, do some of the heavy lifting for the RBA. In our view, though, it does not cancel out the need for the RBA to raise the cash rate one more time. It probably does, though, mean the RBA will not deliver a series of further rate hikes. Our call for a February tightening is based on the fact that core inflation will rise to as high at 3.5%oya in the first half of 2008. The RBA's own forecast is that core inflation will reach 3.25%, above the 2-3% target range. It will be very difficult for RBA officials to resist such a clear message that the cash rate is too low.

Markets seem to have taken in their stride the change of Australian government last weekend. As expected, and as the published opinion polls had been suggesting for some time, the Labor Party won the election comfortably. In fact, Labor's share of the popular vote was a record high. This delivered Labor much more than the 16 seats needed to win government. Labor will implement significant policy change in areas like industrial relations, (by abolishing the government's earlier changes) the environment (by signing the Kyoto agreement), and national security (by withdrawing combat troops from Iraq).

Markets, though, appear sanguine about the change of government, even though this is only the sixth change in the party of government in the last 60 years, and the first since 1996. The equity market and the AUD both rose in the days following the election result. This probably reflects the fact that the new government's economic policies resemble those of the previous Coalition government, and many of the other changes will not take place for some time - the Coalition retains its majority in the upper house of Parliament until next

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July, so Labor may struggle to pass legislation before then. Importantly, Labor has pledged to maintain the independence of the Reserve Bank and to maintain budget surpluses.

The local 3s 10s curve has steepened slightly this week. The curve started the week at -48bp, and ended the week at -45.5. The AUD, meanwhile, dropped sharply through mid week owing to increased anxiety about the outlook for the global economy and rising investor risk aversion. Equity prices and the AUD have moved in unison in recent weeks as risk aversion fluctuated.

New Zealand

The flow of economic data grinds to a halt this week, but the the market keenly anticipates the RBNZ's Monetary Policy Statement (MPS) on Thursday. The RBNZ probably will keep the OCR unchanged at a record high 8.25%, and deliver a neutral commentary. The neutral commentary will include both a downside and upside scenario for the 90-day interest rate track. The downside scenario is likely to express the risks associated with increased global uncertainty, which poses a threat to growth in New Zealand. The upside scenario again will focus on higher inflation outcomes generated by the government's fiscal largesse, and record high dairy prices.

The dominant risk is that the RBNZ delivers a more hawkish commentary squarely focussed on the government's fiscal policy; this would be rather timely ahead of the mid-year economic and fiscal update due in mid-December. The government, which is keen to win next year's election, is likely to deliver tax cuts and increase spending.

Trade recommendations

- Hold long Sep '08 bank bills in futures, on the assumption that the RBA will tighten only once more. We established a long at 92.62, with target at 92.75 and stop loss at 92.57. Currently trading at 92.60.

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AUD and NZD Commentary

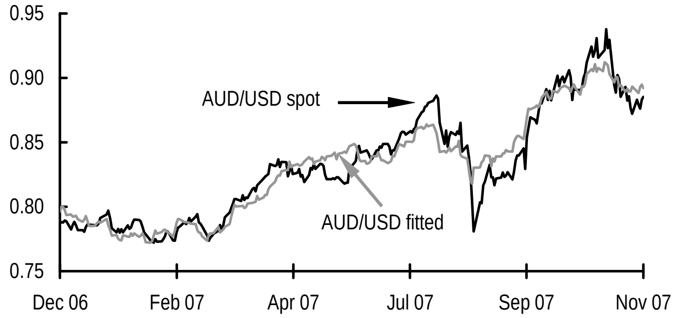
- **AUD and NZD both up more than 1% vs USD on the week**
- **Policy meetings in week ahead likely to take back seat to external risk appetite and broad USD trend**
- **Technicals: Range action continues for AUD/USD and NZD/USD; still vulnerable to additional weakness**

Strategy comments

- AUD and NZD ended another week higher versus the dollar, by 1.2% and 1.4%, respectively. For a change, the broad USD was not the main driver, however; indeed, the trade-weighted dollar rose some 0.5% on the week. More important was a choppy, but overall more positive tone to risk appetite, in turn reflected in equities. On the week, the Dow was up more than 3%; the Nasdaq and S&P500 saw similar moves.
- The week ahead sees notable event and data risks for the Antiopdeans, including monetary policy decisions by both central banks. However, with both banks expected to be on hold, we believe AUD and NZD will both take more of their cues near-term from external factors, particularly the broad dollar trend and external sentiment.
- On the former – the broad USD – we would focus on three main issues this week: US rate expectations, global liquidity conditions and possible announcements from the Middle East on FX regimes. Regarding US rate expectations, we would focus mainly on the nonfarm payrolls. JPMorgan's forecast of 60k is below the median estimate. While a lot of "bad news" is already priced in for the Fed (a 25bps ease is already fully discounted for Dec 11 and 60% is priced in for a 50bps ease), a soft payroll could extend this sentiment further, weighing on USD. Secondly, however, we would also watch global liquidity conditions. While US government interest rates have been falling, recent days have seen further rises in short-term money market rates, in part as investors look for liquidity into year-end. Since the August credit crisis erupted, the relationship between short-term market rates and the dollar has turned sharply positive, probably as higher rates fuel general investor anxiety, and in turn lead to some unwinding of USD-funded positions. Finally, the coming week brings a meeting of the Gulf Cooperation Council. Speculation has been rife that one or more of the countries could drop USD-peg FX regimes. Confirmation of such speculation would curb USD sentiment. JPMorgan believes a regime change now is fairly unlikely; steady FX policies could lead to at least a knee-jerk USD rally in the days ahead.
- On the latter – external sentiment – we would continue to focus mainly on equities. Overall, the best-case scenario near-term for both AUD and NZD would be a stronger equity backdrop, improved short-term liquidity conditions, and softer-than-expected US payrolls.

Both broad USD and equities still key for Antipodean FX

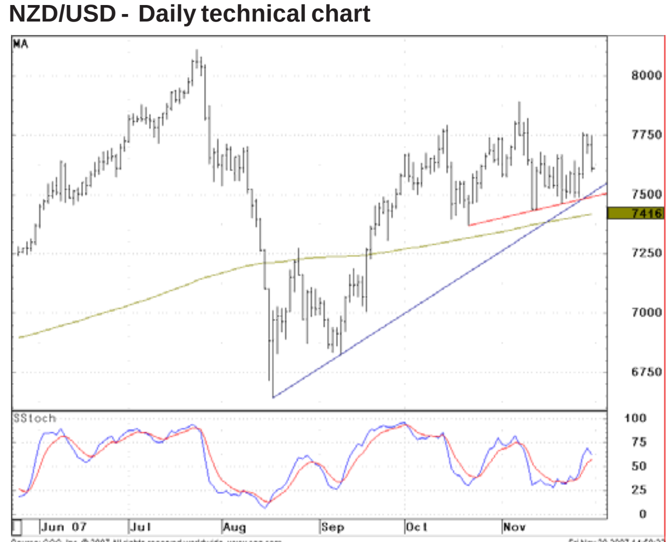
AUD/USD and AUD/USD fitted value based on 1-year relationship with USD TWI and S&P 500



Technical analysis

- The choppy action continues to develop for AUD/USD and NZD/USD following the reversals from the November lows. While additional short term range action is likely, the action still reflects an overall corrective bias and suggests AUD and NZD are vulnerable against the USD in line with the view for a short term corrective phase.
- For AUD/USD, last week's high struggled below the 0.8950/.9000 zone, which should continue to act as key resistance. Breaks of the key 0.8650 support would imply a deeper pullback into the 0.8500/.8470 zone, which includes the 50% retracement from the August low and 200-day moving average. Importantly, the 0.9070/.9100 resistance zone will define a test of the November high.
- Similarly, NZD/USD maintains the sideways action between the November extremes, but the late-week decline implies additional weakness. The 0.7500/.7435 support levels are critical, as breaks would imply a deeper short term corrective phase. Strength above the 0.7760 and 0.7890 resistance levels call for new highs.

NZD/USD - Daily technical chart



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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	4Q06	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	1Q07	2Q07	4Q07	2Q08
The Americas														
United States	**2.9 ↓**	**2.0 ↓**	**2.7 ↓**	**2.1 ↓**	**0.6 ↓**	**3.4 ↓**	3.0	**3.0 ↓**	3.0	2.5	2.4	2.7	3.4	2.3
Canada	2.8	2.6	2.6	1.5	3.7	**3.3 ↑**	3.0	2.8	2.5	2.3	1.8	2.2	3.1	2.0
Latin America	5.3	4.5	4.7	4.2	2.9	4.9	5.1	5.2	4.5	4.7	5.0	5.0	5.1	5.7
Argentina	8.5	8.0	6.0	6.8	3.9	10.8	8.2	8.2	5.3	4.1	9.5	8.8	8.1	**9.5 ↑**
Brazil	3.7	4.4	4.5	4.3	3.1	3.8	4.2	4.8	4.1	5.5	3.0	3.2	3.6	3.5
Chile	4.0	6.0	5.0	7.9	9.5	5.5	4.0	4.0	5.5	5.5	2.7	2.6	3.6	3.1
Colombia	6.8	6.8	5.5	2.0	10.3	6.9	5.0	5.0	5.5	5.5	5.2	6.3	5.7	4.7
Ecuador	4.1	3.0	2.0	1.0	2.5	5.0	6.5	5.0	1.5	0.0	2.1	1.6	2.1	3.4
Mexico	4.8	2.8	4.5	1.5	0.6	4.1	4.9	4.9	4.9	4.5	4.1	4.0	4.0	4.1
Peru	7.8	7.0	6.0	10.6	3.5	4.0	8.0	5.0	4.5	5.5	0.4	0.7	2.1	2.1
Venezuela	10.3	7.0	3.5	11.5	3.3	5.0	6.0	6.5	2.5	2.0	19.1	19.5	19.1	27.3
Asia/Pacific														
Japan	2.2	2.8	2.4	5.4	3.3	1.7	3.0	2.8	2.5	2.3	-0.1	0.0	0.1	0.4
Australia	2.7	4.1	3.4	4.3	6.6	2.8	3.7	3.8	4.5	2.8	2.4	**2.1 ↑**	**3.7 ↑**	3.7
New Zealand	1.5	**2.8 ↑**	**2.5 ↑**	3.3	4.2	**2.1 ↑**	**2.8 ↑**	**2.2 ↑**	**2.5 ↑**	**2.8 ↓**	2.5	1.7	1.9	2.4
Asia ex. Japan	8.4	**8.2 ↑**	7.7	6.2	9.2	**10.5 ↑**	6.9	5.9	8.8	**8.4 ↑**	3.2	3.4	3.3	3.4
China	11.1	11.3	10.5	7.6	13.6	15.7	8.2	6.1	13.0	12.6	2.7	3.6	2.9	2.9
Hong Kong	6.9	5.3	4.6	6.1	2.0	4.5	7.5	5.5	4.5	3.8	1.7	1.4	2.4	3.3
India	9.4	8.0	7.5	7.4	11.4	6.6	7.4	7.0	8.7	7.0	7.0	6.0	5.1	5.4
Indonesia	5.4	6.2	6.0	4.2	7.1	6.0	5.5	5.5	6.0	5.0	6.4	6.2	6.8	6.8
Korea	5.0	4.4	4.8	3.8	3.6	**7.0 ↑**	4.2	5.0	4.5	5.0	2.0	**2.4 ↑**	2.9	3.2
Malaysia	5.9	5.8	5.6	3.8	5.4	6.6	6.0	6.0	5.3	5.3	2.6	1.8	2.2	2.2
Philippines	5.4	6.7	5.9	3.4	10.2	6.5	6.6	6.5	6.0	5.0	2.9	3.3	3.7	3.7
Singapore	7.9	7.5	5.2	7.9	7.6	12.8	5.0	5.0	4.3	4.5	0.5	0.9	2.0	1.3
Taiwan	4.7	**4.7 ↑**	**4.8 ↑**	4.8	0.4	**7.2 ↑**	6.3	5.7	**4.2 ↑**	**4.0 ↑**	1.0	0.2	2.2	2.3
Thailand	5.0	4.2	5.1	2.5	4.9	4.5	5.6	5.5	5.5	5.5	2.5	2.0	2.4	2.4
Africa														
South Africa	5.0	4.8	4.9	5.6	4.7	4.5	4.4	4.2	4.9	5.8	5.9	6.8	5.9	4.8
Europe														
Euro area	2.9	2.9	2.1	3.6	2.9	2.4	3.0	2.5	1.8	1.8	1.9	1.9	2.3	2.0
Germany	3.0	3.0	2.2	4.0	2.1	2.5	3.0	2.8	1.8	1.8	1.9	1.6	1.7	1.2
France	2.2	2.0	2.1	1.6	2.2	2.2	2.6	2.3	2.0	2.0	1.3	1.3	2.0	1.7
Italy	1.9	2.1	1.7	4.7	1.1	1.5	2.0	1.8	1.6	1.6	2.0	1.9	2.0	1.9
Norway	4.6	4.5	3.1	4.1	5.7	3.0	3.5	3.5	3.0	3.0	1.0	0.3	0.4	2.4
Sweden	4.5	3.2	3.0	3.6	2.6	2.8	4.0	3.5	3.0	2.5	1.9	1.8	2.8	2.6
Switzerland	2.7	2.4	1.9	2.0	3.2	2.5	2.3	2.0	1.8	1.8	0.0	0.5	1.1	1.0
United Kingdom	2.8	2.9	2.6	3.3	2.8	3.0	2.8	2.8	2.7	2.5	2.9	2.5	2.1	2.1
Emerging Europe[1]	6.3	6.3	6.1	10.7	4.9	**6.2 ↑**	**5.5 ↓**	8.0	**5.1 ↑**	7.4	6.5	6.5	5.9	5.3
Bulgaria	6.1	6.4	4.7	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.4	5.8	5.5	6.1	6.1	5.0	5.0	5.0	5.5	6.0	1.5	2.3	3.4	3.2
Hungary	3.9	2.8	3.3	2.8	2.4	2.5	3.5	3.5	3.2	3.0	8.5	8.5	5.3	3.4
Poland	6.1	6.5	6.0	7.0	7.0	5.0	5.5	5.8	6.3	6.3	2.0	2.4	2.7	2.5
Slovak Republic	8.3	9.0	7.5	9.2	9.1	8.0	7.5	7.5	7.5	7.5	2.8	2.4	2.6	2.4
Romania	7.7	6.5	6.0	...	...	...	...	...	...	...	3.8	5.7	5.2	5.0
Russia	6.7	7.2	6.8	14.6	3.7	**7.0 ↑**	**4.0 ↓**	12.0	**3.5 ↑**	8.0	7.9	7.8	7.7	7.3
Turkey	6.1	5.0	6.0	...	...	...	...	...	...	...	10.3	9.6	7.3	5.7
Global	**3.6 ↓**	**3.4 ↓**	3.3	**3.9 ↓**	3.1	3.9	3.7	**3.5 ↓**	**3.5 ↑**	3.3	2.3	2.4	2.8	2.4
Developed markets	**2.8 ↓**	**2.6 ↓**	2.5	**3.2 ↓**	**2.1 ↓**	2.8	3.0	**2.8 ↓**	2.5	2.3	1.8	1.9	2.4	1.9
Emerging markets	6.9	6.6	6.4	6.4	6.8	**8.2 ↑**	**6.2 ↓**	6.1	**7.0 ↑**	7.2	4.3	4.4	4.3	**4.4 ↑**

Note: For some emerging economies, 2007-2008 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	Sep 07	Dec 07	Mar 08	Jun 08	Dec 08
Global	GDP-weighted average	4.65	222			4.81	4.96	5.22	5.21	5.24
excluding US	GDP-weighted average	4.37	126			4.56	4.65	4.80	4.78	4.83
Developed	GDP-weighted average	4.13	262			4.28	4.47	4.80	4.80	4.84
Emerging	GDP-weighted average	6.94	64			6.98	6.96	6.91	6.87	6.88
The Americas	GDP-weighted average	5.51	354			5.61	5.80	6.22	6.21	6.21
United States	Federal funds rate	5.25	425	29 Jun 06 (+25bp)	11 Dec 07 (+25bp)	5.25	5.50	6.00	6.00	6.00
Canada	Overnight funding rate	4.50	250	10 July 07 (+25bp)	5 Sep 07 (+25bp)	4.75	4.75	5.25	5.25	5.25
Brazil	SELIC overnight rate	11.50	-450	18 July 07 (-50bp)	5 Sep 07 (-25bp)	11.25	10.75	10.25	10.00	10.00
Mexico	Repo rate	7.25	75	27 Apr 07 (+25bp)	21 Sep 07 (+25bp)	7.50	7.50	7.50	7.50	7.50
Chile	Discount rate	5.25	350	12 July 07 (+25bp)	9 Aug 07 (+25bp)	5.50	5.75	5.75	5.75	5.75
Colombia	Repo rate	**9.25**	250	**27 July 07 (+25bp)**	**24 Aug 07 (+25bp)**	9.50	9.50	9.50	9.50	9.00
Peru	Reference rate	4.75	225	5 July 07 (+25bp)	1Q 08 (+25bp)	4.75	4.75	5.00	5.00	5.00
Europe/Africa	GDP-weighted average	4.56	166			4.81	4.98	5.15	5.14	5.15
Euro area	Refi rate	4.00	200	6 June 07 (+25bp)	6 Sep 07 (+25bp)	4.25	4.50	4.75	4.75	4.75
United Kingdom	Repo rate	5.75	125	5 July 07 (+25bp)	6 Sep 07 (+25bp)	6.00	6.00	6.00	6.00	6.00
Sweden	Repo rate	3.50	150	20 Jun 07 (+25bp)	7 Sep 07 (+25bp)	3.75	4.00	4.25	4.25	4.25
Norway	Deposit rate	4.50	275	27 Jun 07 (+25bp)	15 Aug 07 (+25bp)	5.00	5.25	5.50	5.75	5.75
Czech Republic	2-week repo rate	**3.00**	75	**26 July 07 (+25bp)**	**27 Sep 07 (+25bp)**	3.25	3.50	3.75	4.00	4.50
Hungary	2-week deposit rate	7.75	-375	25 June 07 (-25bp)	27 Aug 07 (-25bp)	7.50	7.00	6.50	6.50	6.50
Poland	7-day intervention rate	4.50	-75	27 Jun 07 (+25bp)	29 Aug 07 (+25bp)	4.75	5.00	5.25	5.50	6.00
Russia[1]	1-week deposit rate	3.00	200	30 Mar 07 (+25bp)	Sep 07 (+25bp)	3.25	3.25	3.25	3.25	3.50
Slovak Republic	2-week repo rate	4.25	-75	27 Apr 07 (-25bp)	18 Dec 07 (+25bp)	4.25	4.50	4.50	4.50	4.50
South Africa	Repo rate	9.50	150	7 Jun 07 (+50bp)	16 Aug 07 (+50bp)	10.00	10.00	10.00	10.00	10.00
Switzerland	3-month Swiss Libor	2.50	200	14 Jun 07 (+25bp)	13 Sep 07 (+25bp)	2.75	3.00	3.00	3.00	3.00
Turkey	Overnight borrowing rate	17.50	-450	20 Jul 06 (+25bp)	16 Oct 07 (-25bp)	17.50	16.75	16.00	15.25	14.25
Asia/Pacific	GDP-weighted average	3.48	101			3.61	3.65	3.78	3.77	3.90
Australia	Cash rate	6.25	100	8 Nov 06 (+25bp)	**8 Aug 07 (+25bp)**	**6.50**	**6.75**	**6.75**	6.75	6.75
New Zealand	Cash rate	**8.25**	250	**26 July 07 (+25bp)**	**3Q 08 (-25bp)**	8.25	8.25	8.25	8.25	**7.75**
Japan	Overnight call rate	0.50	50	21 Feb 07 (+25bp)	23 Aug 07 (+25bp)	0.75	0.75	1.00	1.00	1.25
Hong Kong	Discount window base	6.75	425	30 Jun 06 (+25bp)	12 Dec 07 (+25bp)	6.75	7.00	7.50	7.50	7.50
China	1-year working capital	6.84	153	20 July 07 (+27bp)	on hold	6.84	6.84	6.84	6.84	6.84
Korea	Overnight call rate	4.75	100	12 Jul 07 (+25bp)	4Q 07 (+25bp)	4.75	5.00	5.00	5.00	5.00
Indonesia	BI rate	8.25	91	5 July 07 (-25bp)	7 Aug 07 (-25bp)	8.00	8.00	8.00	7.75	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	6.00	-75	12 Jul 07 (-150bp)	on hold	6.00	6.00	6.00	6.00	6.00
Thailand	1-day repo rate	3.25	200	18 July 07 (-25bp)	29 Aug 07 (-25bp)	3.00	3.00	3.00	3.00	3.00
Taiwan	Official discount rate	3.125	175	21 Jun 07 (+25bp)	late Sep 07 (+12.5bp)	3.25	3.375	3.50	3.50	3.50

[1] Rather than the refi rate, we now display the 1-wk dep rate, which better represents CBR policy stance and is closer to interbank market rates.

Bold denotes move this week and forecast changes

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Forecasts - Australia and New Zealand

Australia: economic projections *percentage change over previous period, seasonally adjusted annual rates, un*

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	4.2	3.4	3.2	3.8	3.2	3.1	3.2	4.4	2.5	4.1	3.6	2.8	3.1	0.6
Private consumption	3.7	3.0	2.6	2.2	1.2	3.2	4.1	3.2	2.8	2.8	2.4	2.8	2.0	1.6
Construction investment	11.3	3.2	1.3	10.1	4.4	1.9	2.8	4.2	0.5	3.1	2.1	-1.2	0.4	1.4
Equipment investment	10.3	4.4	-2.3	27.1	4.3	4.2	2.1	8.6	-4.1	0.0	-2.1	-4.1	-8.1	0.0
Public investment	6.8	8.4	6.2	77.4	6.5	4.2	4.7	5.2	5.4	5.8	6.2	6.6	7.0	7.5
Government consumption	2.2	3.2	2.8	1.8	2.4	2.2	4.4	3.7	3.3	2.9	3.5	2.2	1.8	2.2
Exports of goods & services	3.5	5.2	7.6	3.2	4.1	4.1	6.1	6.1	4.1	8.2	8.2	8.2	10.4	4.1
Imports of goods & services	10.0	4.3	2.6	4.6	6.1	5.1	6.1	2.0	1.6	3.2	3.2	2.4	1.8	3.2
Contributions to GDP growth:														
Domestic final sales	5.2	3.7	2.3	6.1	4.2	3.1	4.0	4.2	2.2	2.9	2.5	1.8	1.2	1.9
Inventories	0.6	-0.2	0.1	-1.7	-0.3	0.4	-0.4	-0.4	0.0	0.4	0.4	0.0	0.4	-1.2
Net trade	-1.6	-0.1	0.8	-0.5	-0.7	-0.5	-0.3	0.6	0.4	0.7	0.8	1.0	1.5	0.0
GDP deflator (%oya)	3.6	2.8	2.6	4.1	2.9	2.7	2.8	3.0	2.9	2.7	2.6	2.6	2.6	2.5
Consumer prices (%oya)	2.3	2.9	2.6	2.1	1.9	3.0	3.5	2.9	2.8	2.4	2.6	2.6	2.6	2.5
Producer prices (%oya)	2.1	2.6	2.5	1.5	0.8	2.5	3.5	1.7	2.7	2.6	2.5	2.5	2.5	2.5
Trade balance (A$ bil, sa)	-19.1	-21.8	-14.0	-4.3	-4.9	-5.8	-6.0	-5.7	-5.4	-4.7	-4.3	-3.7	-3.0	-2.9
Current account (A$ bil, sa)	-67.3	-72.8	-68.0	-16.0	-16.9	-18.8	-18.5	-18.7	-18.4	-17.2	-17.8	-17.7	-16.5	-15.9
as % of GDP	-6.2	-6.3	-5.6	-6.0	-6.2	-6.8	-6.6	-6.5	-6.4	-5.8	-6.0	-5.8	-5.4	-5.1
3m eurodeposit rate (%)*	6.5	7.3	6.8	6.4	7.1	7.2	7.3	7.3	7.3	7.1	6.9	6.8	6.8	6.7
10-year bond yield (%)*	5.9	6.4	6.3	6.1	6.0	6.4	6.5	6.5	6.5	6.3	6.3	6.3	6.3	6.3
US$/A$*	0.84	0.90	0.84	0.83	0.87	0.88	0.88	0.90	0.91	0.91	0.88	0.85	0.82	0.79
Commonwealth budget (FY, A$ bil)	13.6	8.5	6.0											
as % of GDP	1.3	0.7	0.5											
Unemployment rate	4.3	4.7	5.5	4.3	4.3	4.3	4.5	4.6	4.8	5.0	5.3	5.4	5.6	5.7
Industrial production	2.4	0.2	0.8	2.2	-4.0	-1.0	0.0	1.0	3.0	4.0	-1.0	-2.0	-3.0	0.0

*All financial variables are period averages

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

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	3.2	2.6	2.8	3.0	2.8	2.9	2.5	2.7	1.8	2.2	2.9	3.5	3.3	2.6
Private consumption	4.3	1.4	1.6	2.6	1.8	1.2	1.1	1.2	1.4	1.5	1.6	1.8	1.9	2.0
Fixed Investment	3.8	1.0	2.3	-6.1	5.9	1.6	0.6	0.4	0.5	1.7	2.9	2.9	3.2	4.0
Residential construction	4.5	-1.5	-1.5	15.9	1.2	1.6	-3.2	-4.0	-8.0	-4.0	-1.6	1.6	3.2	4.0
Other fixed investment	3.6	1.7	3.3	-11.2	7	1.6	1.6	1.6	2.8	3.2	4.0	3.2	3.2	4.0
Inventory change (NZ$ bil, saar)	0.7	0.4	0.5	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Government spending	3.5	5.5	4.0	4.7	5.2	4.4	5.6	6.9	5.8	4.7	2.4	4.4	2.9	2.4
Exports of goods & services	4.1	5.5	4.4	1.8	10.0	8.0	5.0	3.6	4.0	4.2	4.5	4.8	5.0	4.5
Imports of goods & services	7.7	3.1	3.0	10.4	4.0	2.2	2.4	2.2	3.0	3.0	3.5	3.0	2.5	3.0
Contributions to GDP growth:														
Domestic final sales	4.2	2.2	2.3	3.0	3.5	1.9	1.8	2.1	2.0	2.2	2.2	2.8	2.5	2.2
Inventories	0.4	-0.2	0.1	3.2	-2.2	-0.7	0.0	0.2	-0.5	-0.2	0.5	0.2	0.1	0.0
Net trade	-1.5	0.6	0.3	-3.1	1.6	1.7	0.7	0.3	0.2	0.3	0.2	0.5	0.7	0.4
GDP deflator (%oya)	3.5	3.1	2.8	3.8	3.4	3.5	3.4	2.9	3.0	3.0	2.9	2.8	2.7	2.7
Consumer prices	2.3	2.9	2.7	4.0	2.0	2.8	3.0	2.7	3.1	2.8	2.7	2.6	2.7	2.5
%oya	2.3	2.9	2.7	2.0	1.8	2.7	3.0	2.6	2.9	2.9	2.8	2.8	2.7	2.6
Trade balance (NZ$ bil, sa)	-4.1	-5.3	-4.0	-0.8	-1.2	-1.3	-1.3	-1.3	-1.3	-1.3	-1.2	-1.1	-0.9	-0.8
Current account (NZ$ bil, sa)	-14.5	-14.7	-13.4	-3.4	-3.8	-3.8	-3.7	-3.6	-3.6	-3.7	-3.7	-3.5	-3.2	-3.0
as % of GDP	-8.6	-8.2	-7.1	-8.1	-8.8	-8.7	-8.4	-8.2	-8.1	-8.2	-8.0	-7.5	-6.8	-6.1
Yield on 90-day bank bill (%)*	8.3	8.4	7.8	8.2	8.7	8.4	8.4	8.4	8.4	8.4	8.0	7.9	7.6	7.5
10-year bond yield (%)*	6.3	6.6	7.0	6.4	6.4	6.4	6.5	6.6	6.7	6.8	7.0	7.1	7.0	7.0
US$/NZ$*	0.74	0.68	0.62	0.74	0.74	0.77	0.75	0.71	0.64	0.63	0.61	0.58	0.62	0.68
Commonwealth budget (NZ$ bil)	6.4	5.3	5.0											
as % of GDP	3.8	2.9	2.6											
Unemployment rate	3.6	4.0	4.5	3.6	3.5	3.7	3.8	3.9	4.1	4.2	4.3	4.5	4.6	4.7

*All financial variables are period averages

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Asia-Pacific economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
30 Jul **Australia**: NAB business survey (11:30am) 2Q **Korea**: Industrial production (01:30pm) Jun 7.0 %oya Leading index (01:30pm) Jun 138 Producer shipments and inventories (01:30pm) Jun Consumption goods sales (01:30pm) Jun 5.8 %oya **New Zealand**: Building permits (10:45am) Jun -3.8 %m/m *Holiday Thailand*	**31 Jul** **Australia**: Pvt sector credit (11:30am) Jun 1.1 %m/m Bldg apps (11:30am) Jun 1.0%m/m **Hong Kong**: Retail sales (04:15pm) Jun 8.9 %oya Govt Mthly Budget Surp/Def (05:00pm) Jun Money supply (05:00pm) Jun **India**: RBI rate announc (12:00pm) **Korea**: Service activity Jun 6.2 %oya **New Zealand**: NBNZ Bus Conf (15:00) Jul **Singapore**: Money supply (10:00am) Jun Unemployment rate 2Q 2.5% **Thailand**: Mfg prod (02:30pm) Jun 5.3 %oya Money supply (02:30pm) Jun Trade balance (02:30pm) Jun 1.0 $bn Current account (02:30pm) Jun PII (02:30pm) Jun -3.3 %oya PCI (02:00pm) Jun -1.4 %oya	**1 Aug** **Australia**: Trade balance (11:30am) Jun -882 A$mn Retail sales (11:30am) Jun 1.0 %m/m 2Q 0.3 %q/q **China**: PMI (10:30am) Jul 54.5 **Indonesia**: CPI (02:00pm) Jul 5.6 %oya Trade balance (02:00pm) Jun 3.46 $bn **Korea**: Trade balance (10:00am) Jul 2.1 $bn CPI (01:30pm) Jul 2.6 %oya **Singapore**: PMI (09:30pm) Jul 54.0 **Thailand**: CPI (02:30pm) Jul 2.0 %oya	**2 Aug**	**3 Aug** **Malaysia**: Trade balance (12:00pm) Jun 2.4 $bn
During the week: India: Trade balance Jun -5.9 $ bn **Korea**: Business Survey Jul 99.0				
6 Aug **Australia**: ANZ job ads (11:30am) Jul **New Zealand**: Labor cost all wages (10:45am) 2Q **Taiwan**: CPI (04:00pm) Jul *Holiday Australia*	**7 Aug** **Hong Kong**: Fx reserves (05:00pm) Jul **Malaysia**:Fx reserves Jul **Philippines**: CPI (09:00am) Jul Fx reserves Jul **Singapore**: Fx reserves (05:00pm) Jul **Indonesia**: BI ref rate Aug **Taiwan**: Trade bal (04:00pm) Jul	**8 Aug** **Australia**: RBA Cash target (09:30am) Aug House price index (11:30am) 2Q Housing finance (11:30am) Jun Fx reserves (04:30pm) Jul **Korea**: Monetary base (12:00pm) Jul **Malaysia**: IP (12:00pm) Jun	**9 Aug** **Australia**: Unemp rate (11:30am) Jul **Korea**: BoK Monetary policy meeting Consumer confidence (01:30pm) Jul **New Zealand**: Unemployment rate (10:45am) 2Q *Holiday Singapore*	**10 Aug** **China**: PPI (10:00am) Jul **India**: Industrial production Jun **Philippines**: Total monthly exports (09:00am) Jun
During the week: China: FDI Jul Money supply Jul Trade balance Jul				
13 Aug **Australia**: RBA Quarterly monetary policy statement (11:30am) **China**: CPI (10:00am) Jul **Korea**: Exp/Imp price index (12:00pm) Jul *Holiday Thailand*	**14 Aug** **Australia**: NAB business survey (11:30am) Jul **China**: Retail sales (10:00am) Jul **New Zealand**: Retail sales (10:45am) Jun	**15 Aug** **Australia**: Westpac consumer confidence (10:30am) Aug Wage cost index (11:30am) 2Q **China**:IP (10:00am) Jul **New Zealand**: PPI (10:45am) 2Q Retail sales (01:00pm) Jun **Singapore**: Retail sales (01:00pm) Jul *Holiday India, South Korea*	**16 Aug** **Australia**: Consumer inflation expectation (10:30am) Aug Avg weekly wages (11:30am) May **China**: Fixed asset investment (10:00am) Jul **Korea**:Unemp rate (01:30pm) Jul **Philippines**: BoP Jul	**17 Aug** **Hong Kong**: GDP (04:15pm) 2Q **Singapore**: NODX (01:00pm) Jul *Holiday Indonesia*
During the week: Indonesia: GDP 2Q **Philippines**: Budget deficit/surplus Jul **Singapore**: GDP 2Q				
20 Aug **Hong Kong**: Unemployment rate (04:15pm) Jul **New Zealand**: Visitor arrivals (10:45am) Jul **Taiwan**: Current account (04:20pm) 2Q	**21 Aug** **Hong Kong**: CPI (04:15pm) Jul **New Zealand**: Credit card spending (03:00pm) Jul	**22 Aug** **Australia**:Westpac leading index (10:30am) Jun New passenger car sales (11:30am) Jul **Malaysia**: CPI (05:00pm) Jul **Taiwan**: Unemployment rate (04:00pm) Jul	**23 Aug** **Philippines**: Overnight borrowing rate **Singapore**: CPI (01:00pm) Jul **Taiwan**: IP (04:00pm) Jul Export orders (04:00pm) Jul *Holiday India*	**24 Aug** **Malaysia**:BNM monetary policy meeting (06:00pm) **New Zealand**: Trade balance (10:45am) Jul **Philippines**: Total imports (09:00am) Jun **Singapore**: IP (01:00pm) Jul
During the week: Taiwan: GDP 2Q				

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
30 July - 3 Aug	**30 July**	**31 July**	**1 Aug**	**2 Aug**	**3 Aug**
	France • Unemployment (Jun) **Japan** • IP (Jun prelim) **Korea** • IP (Jun)	**Euro Area** • EC bus survey (Jul) • HICP flash (Jul) • Unemployment (Jun) **Germany** • Retail sales (Jun) • Unemployment (Jun) **Japan** • Househld spending (Jun) • Jobs and wages (Jun) • PMI mfg (Jul) • Shoko Chukin (Jul) • Unemploy rate (Jun) **United States** • Chicago bus survey (Jul) • Construct spending (Jun) • Consumer conf (Jul) • ECI (2Q) • Personal income (Jun) • S&P/Case-Shiller HPI (May) **Central bank meetings** • India, Slovak Rep	**China** • PMI mfg (Jul) **Euro Area** • PMI mfg (Jul) **Korea** • CPI (Jul) • Trade balance (Jul) **Singapore** • PMI mfg (Jul) **United Kingdom** • PMI mfg (Jul) **United States** • ISM mfg (Jul) • Light vehicle sales (Jul) • Pending home sales (Jun)	**Euro Area** • ECB meeting **Peru** • BCRP meeting **United Kingdom** • BoE meeting **Sweden** • GDP flash (2Q) **United States** • Factory orders (Jun)	**Canada** • Ivey PMI (Jul) **Euro Area** • PMI services (Jul) • Retail sales (Jun) **United Kingdom** • PMI services (Jul) **United States** • Employment report (Jul) • ISM nonmfg (Jul)
6 - 10 Aug	**6 Aug**	**7 Aug**	**8 Aug**	**9 Aug**	**10 Aug**
China • FDI (Jul) • Money supply (Jul) • Trade balance (Jul)	**Germany** • Industrial orders (Jun) **Taiwan** • CPI (Jul)	**Germany** • IP (Jun) **Indonesia** • BI meeting **Sweden** • CPI (Jul) **Taiwan** • Trade balance (Jul) **United States** • Productivity and costs (2Q prelim) • FOMC meeting	**Australia** • RBA meeting **Germany** • Trade balance (Jun) **Japan** • Economy watcher survey (Jul) • Core mach orders (Jun) **United Kingdom** • BoE quarterly inflation report **United States** • Wholesale trade (Jun)	**Chile** • BCCh meeting **Korea** • BoK meeting **Mexico** • CPI (Jul)	**Japan** • Consumer sentiment (Jul) • IP final (Jun) **Norway** • CPI (Jul)

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