JPMorgan

Australia and New Zealand - Weekly Prospects

Summary

- Last week's RBA meeting delivered both the expected and the unexpected. The Board's decision to leave the cash rate unchanged at 6.75% was expected, but the announcement of the new communication regime was a big surprise. The RBA's decisions to release commentary even when policy is not changed and minutes of the Board meetings are welcome steps towards greater transparency. It means the hungry market now can attempt to digest RBA commentary at least every two weeks. Last week's **Australian** GDP data showed the economy still growing well above potential; this week's data should show another healthy gain in employment, and a rebound in the number of home loans in October.

- Across the Tasman, the **RBNZ** kept the official cash rate (OCR) steady at 8.25% last week, and took another swipe at the government's expansionary fiscal policy. The statement reinstated a mild tightening bias, with the upside risks to inflation clearly outweighing the downside risks to growth in key trading partners. Though the risk of another tightening in this prolonged cycle has risen slightly in the wake of the statement, JPMorgan maintains that the RBNZ will leave the OCR unchanged throughout 2008. Retail trade, out Thursday, will be this week's highlight and is likely to be down over the month. NZ house prices (released today) fell in November and will continue to buckle under the weight of higher interest rates and falling permanent migration.

- For the **Federal Reserve**, a 25bp easing in policy this week is likely to be accompanied by a 50bp cut in the discount rate. It is arguable whether this will have much effect in relieving stress in the interbank funding markets; at the least, it will be a relatively costless way to signal the FOMC's awareness of problems in the funding markets. The statement accompanying the decision will also likely be equivocal about risks, as the Fed steps away from its neutral balance assessment. While not signalling that an extended easing cycle lies ahead, the fragile state of the markets will prevent the Fed from talking down the likelihood of future eases. Most likely, one further rate cut from the Fed will be delivered in 1Q08.

- On the growth side, the **US economy** appears to be downshifting in line with the forecast of an expected 1% average GDP gain (q/q, saar) this quarter and next. It does not appear, however, that changes in US households and business behaviour are magnifying the deceleration. Consumption growth is sliding in response to tighter credit conditions and rising energy prices. But spending reports do not point to a move to build precautionary savings, a message expected to be supported by a solid November retail sales report. In part, this reflects the continued firm gains in jobs and labour income. Although labour demand has softened this year, weakness remains concentrated in housing-related sectors. The consistent message from the labour market, spending indicators, and business surveys is that firms are absorbing a profit margin squeeze without making substantial shifts to spending and hiring plans.

This week's highlight(s)

Possible increases in variable mortgage rates by the big Aussie banks, which will do some of the heavy lifting for the RBA. We expect increases of up to 25bp before year-end, which will be the equivalent of a 12bp rate hike by the RBA. In NZ, the retail data out Thursday is likely to post a mild contraction for October.

Contents

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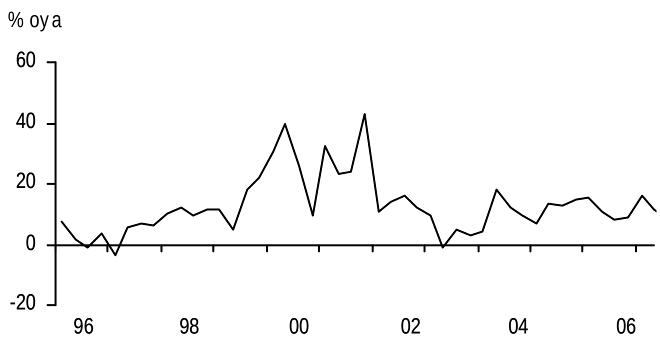
This week's feature charts

Household saving ratio, sa - Australia

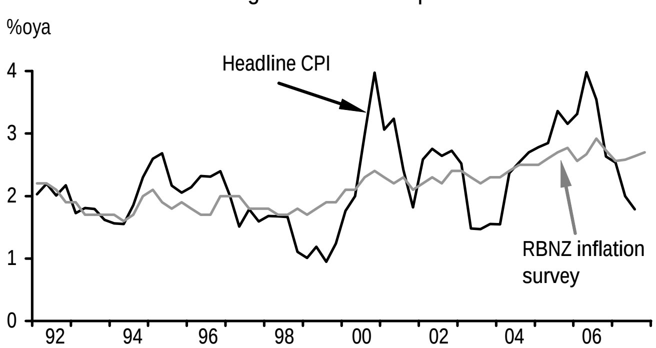
Australia's household saving ratio now has been positive for four straight quarters. The savings rate plunged into negative territory back in mid-2002 at the height of the boom in house prices—rising home equity became a significant source of spending power. Growth in household spending over the past year has been very strong, but income growth has been even faster, so consumers have been able to simultaneously rebuild depleted savings.

Australia: company operating profits



Company profits unexpectedly declined in the third quarter for the first time in more than two years. Gross operating profits fell 2.1%q/q, dragged lower by the mining sector, where profits slumped 11.6%. Mining company profits should remain well-supported by strong demand for commodities, meaning that earnings from resource exports should remain relatively healthy going forward. On the downside, though, the resource sector will continue battling with capacity contraints for some time yet.

New Zealand: CPI and long-term inflation expectations



Long-term inflation expectations continue to drift higher, and continue to ring alarm bells down at the RBNZ. It could be argued that RBNZ officials are perpetuating this upward drift, with inflation forecasts above the 2.7% reported in the RBNZ's own survey. Nevertheless, rising inflation expectations are a concern, and is something the RBNZ needs to break the back off by reiterating that the middle of their target band (2%oya) will be achieved over time.

Economic Research note

Commercial bank tightening won't steady RBA's hand

- **Australian banks' interest rate margins have been squeezed by the global liquidity crunch**
- **The 'Big Four' banks have warned that they are likely to pass on higher funding costs to borrowers**
- **Commercial bank tightening will mitigate need for the RBA to tighten policy more than forecast**

Renewed financial market volatility and increased stress in commercial paper and short-term money markets have placed additional upward pressure on wholesale funding costs. As asset growth continues to significantly exceed deposit growth, Australian banks increasingly are being funded through wholesale markets, where funding is becoming more expensive.

It appears inevitable that major Australian banks will alleviate the current pressure on their spreads by passing on the significant rise in funding costs to borrowers. This will do some of the heavy lifting for the RBA, but not negate the need for further monetary tightening in early 2008.

Banks likely to move rates without RBA

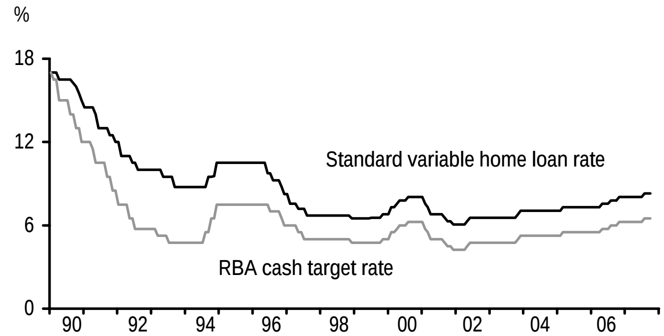
Standard variable home loan rates have moved in line with the cash rate since 1996. When the RBA last lifted the cash rate 25bp to 6.75% in November, the major banks quickly raised their mortgage rates. Money market rates since have soared as demand for liquidity has intensified. The yield on 90-day bank bills spiked to an 11-year high above 7.2% last week. Short-term money market yields now are 50bp above the cash rate, compared to 10-15bp in 'normal' market conditions.

Rising funding costs mean that, for the first time, mortgage rate rises beyond those triggered by a rise in the cash rate are likely, especially as the federal election has passed. Pre-election, then-Treasurer Peter Costello discouraged banks from raising borrowing costs, arguing that the banks are highly profitable and well-positioned to absorb higher funding costs resulting from credit market volatility. The nation's largest home loan lender, for example, the Commonwealth Bank of Australia (CBA), posted a record cash profit of A$4.6 billion in 2006-07 (+18%oya).

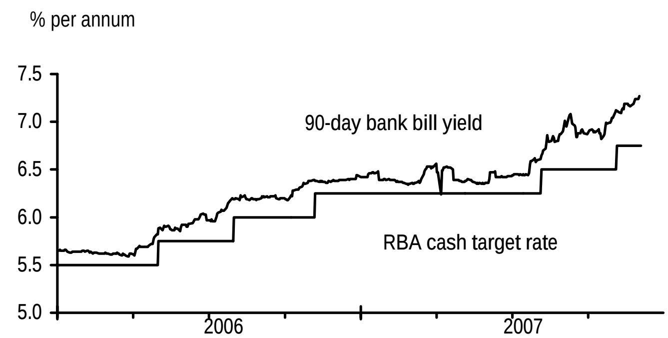
Big banks to hike sooner rather than later

Soaring market funding costs has increased the likelihood that the four major domestic banks, which dominate the loan market with two-thirds of outstanding mortgages, will lift standard variable loan rates sooner rather than later. The 'Big Four' already have lifted credit card rates and interest rates on personal loans in response to higher funding costs.

Variable loan rates mimic changes to RBA cash rate



Rate on 90-day bank bills heading north



Now, though, it looks like variable mortgage rates will rise an additional 10-25bp. ANZ, Australia's third largest bank, was the first to signal that if the high liquidity premium between cash and market funding rates was sustained, upward pressure on mortgage rates would build. More recently, in November, CBA signalled that mortgage rates may rise beyond the rise administered last month that reflected the hike in the RBA cash rate. Then, CBA also reduced discounts on its standard variable rate. The CBA has lifted interest rates on fixed loans 40-50bp since September.

Of the smaller players, Adelaide Bank (ADB), which sources more than half its funding from wholesale markets, last week increased some variable mortgage rates and interest rates on low documentation loans (i.e. loans of poorer quality) 25bp; this is the second time ADB has hiked rates since August. ADB has limited the rate rise to variable mortgages that it sells through third parties, meaning that only one third of the bank's home loans will be affected.

Other nonbank lenders probably will raise their interest rates more aggressively than the big banks. These lenders do not have a deposit base, which fully exposes them to fluctuations in credit markets. Nonbank lenders probably will hike rates on standard variable loans at least a further 10bp in order to absorb the additional impact of higher funding costs. This means a total rate hike of about 20-35bp.

Banks doing some of RBA's heavy lifting

Prospective interest rate rises by banks will be a key point of consideration for the RBA when determining monetary policy. The RBA last week acknowledged in the statement accompanying its decision to leave rates on hold that some further rise in rates charged to borrowers may occur depending on conditions in wholesale markets near term.

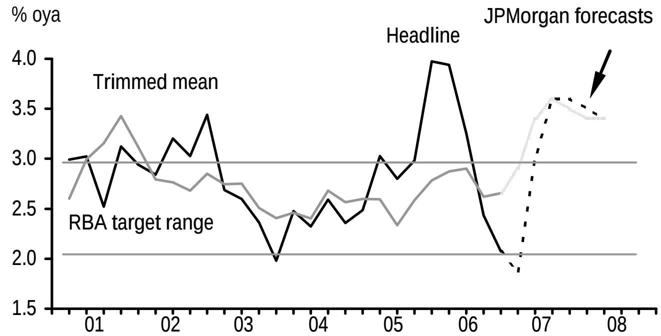
It is unlikely, however, that the tightening of monetary conditions among banks will be enough to steady the RBA's hand; the deteriorating inflation outlook is too apparent to ignore. The economy has enjoyed sixteen years of uninterrupted economic growth, unemployment is at multi-decade lows, so wage pressures are building, credit growth in running rampant, and the federal budget is overflowing with revenue that the newly-elected Labor government is keen to spend. Inflation will be uncomfortably high in coming quarters, with headline and core CPI growth to climb above the upper band of the central bank's 2-3%oya target range.

Our calculations indicate that it would take a 47bp rise in interest rates on standard variable home loans (which account for 80% of total home loans) by the 'Big Four' banks to have the same impact on households with mortgages as a 25bp increase in the official cash rate. Banks are unlikely to move so aggressively, however. A 25bp hike in the official cash rate adds A$83 on average across all income groups to monthly mortgage repayments; a 25bp hike in variable loan rates by the 'Big Four' adds only A$44 to average monthly repayments because many borrowers are unaffected. Even then, the economic impact of a rise in variable mortgage rates by the major banks is not as severe as it first appears. The rise in home loan rates will affect only those households with a mortgage—just 35% of households, but only around 80% of these have a variable rate mortgage.

RBA February 2008 rate hike still likely

Even if bank lending rates rise, our forecast is that the RBA will hike interest rates again in February owing to the deterioration in the inflation outlook. The scope for higher interest rates thereafter will depend largely on how risks to the global growth outlook have evolved and the extent to which the Aussie banks pass on any further increases in funding costs. A sharper than expected slowdown in US growth, for example, would dent Australia's prospects. Unexpectedly weak US growth would limit Japan and China's rates of expansion, curbing, in particular, China's seemingly insatiable appetite for commodities. The resource boom driving the rapid growth in Australia's national income would start to dissipate.

Inflation pressures building rapidly



RBA inflation forecasts

%oya

	Consumer price index	Underlying inflation
Dec 06	3.30	3.00
Jun 07	2.10	2.80
Dec 07	2.75	3.25
Jun 08	3.25	3.25
Dec 08	3.00	3.00
Jun 09	2.75-3	2.75-3
Dec 09	2.75-3	2.75-3

Source: RBA

Adverse consequences for consumers

The heavy burden of higher funding costs among Australian banks means that it is only a matter of time before borrowers bear some of the pain of the credit crunch. Indeed, any imminent rise in borrowing rates by commercial banks will be on top of official rate rises in August and November, and the hike pencilled in by most economists for February 2008. Higher funding costs will place further pressure on already stressed mortgagees at a time when levels of housing affordability are at record lows. That said, with most households in sound shape, the de facto tightening probably will not prevent the RBA from hiking the cash rate at least one more time.

In the *Statement on Monetary Policy* last month, however, the RBA said that, "Global growth could slow by more than assumed, if the US economy weakens significantly further, and/or global credit markets take a significant turn for the worse." At the same time, though, inflation risks remain firmly tilted to the upside, with even RBA officials now forecasting inflation above target in coming quarters.

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Australia

- **RBA left cash rate unchanged, but released statement**
- **Australian 3Q GDP growth accelerated to 1.0%q/q**
- **Home loans to rebound in October**

Australia received a mixed bag of economic data last week. Company operating profits fell, inventories accumulated solidly, and the economy expanded at a faster rate in 3Q. Retail sales and building approvals fell in October, however. The RBA left interest rates steady, although unexpectedly announced new arrangements for communication—a major shift from prior conventions. This week, more top-tier economic data is expected, including November employment numbers.

Home loans likely to rebound in October

The 25bp rise in the RBA's cash rate in August added around A$50 to monthly repayments on the average A$250,000 mortgage. Even still, the number of housing finance approvals in October should rebound, rising 2.5%m/m, after falling 2.4% in September. Demand for fixed rate loans will likely pick up amid speculation that domestic banks may hike rates on standard variable loans in the absence of a rise in the official cash rate.

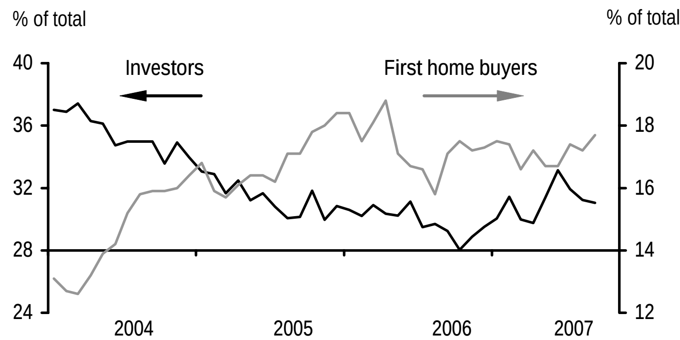
Investors (who accounted for one third of all loans in September) will again underpin demand for housing-related finance in October. Most of these investors are existing property owners able to receive significant tax benefits from buying investment property, via such avenues as negative gearing, which enables them to lower their assessable income and enhance their after-tax returns. Record low housing affordability means that many first home buyers are priced-out of the property market; they accounted for less than 20 % of total loans in September.

Employment growth to remain strong

Australia added 12,900 jobs in October, which pushed the jobless rate up to 4.3%. The rise in the jobless rate was the first since February, although the rate still was only marginally above the 33-year low rate of 4.2% set in September. In November, the 25,000 gain in jobs anticipated should keep the jobbless rate at 4.3%.

The forecast job growth in November, if realized, would mean a massive 216,000 jobs have been added to the economy to date this year. The shallow pool of available workers means, though, that wages growth will accelerate, adding further to already widespread inflation pressures.

Australia: housing finance



Australia: labour price index and unemployment

RBA increases market communication

The RBA announced its decision to leave the cash rate at 6.75% last Wednesday, as expected, after lifting the cash rate 25bp in November. The November move was the tenth hike in this extended tightening cycle that started back in mid-2002, but the first ever dealt in an election campaign. In addition, though, the RBA unexpectedly released a statement accompanying the "unchanged" decision, the first evidence of its newly adopted communication regime. Previously, the board released statements only after a change in the cash rate. The new arrangements mean the RBA will release a statement after each board meeting, announce its decision on the day of meeting instead of the following day, and release minutes two weeks after each gathering.

In the statement accompanying the board's decision to leave interest rates unchanged last week, RBA officials recognized both upside and downside risks to the economic and inflation outlook. On the upside, Australia continues to enjoy strong demand and output, and the pressures from the global financial turmoil have been less pronounced here than elsewhere. The board acknowledged, though, that the domestic inflation outlook is deteriorating, and the recent rise in market funding costs may soon be passed onto borrowers; this would, to some extent, do some of the heavy lifting for the RBA.

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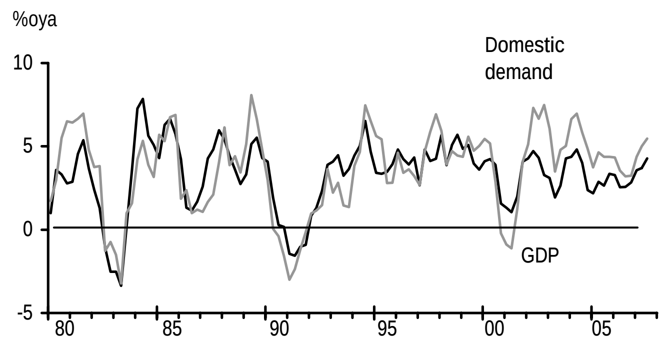
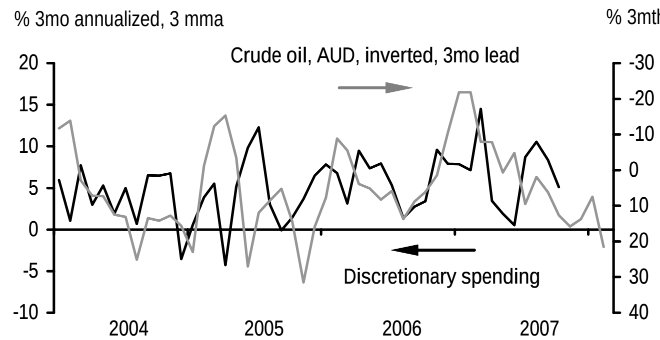
The rising likelihood that commercial banks soon will raise standard variable mortgage rates to compensate for the rise in market funding costs is indeed an important factor influencing the policy outlook. The "Big Four" banks may raise their cash rates by up to 25bp before year end but, as highlighted in last week's *GDW* ("Commercial bank tightening won't steady RBA's hand") this rate rise would only be equivalent to about 12bp of RBA policy tightening; thus, in our view, the rise in mortgage rates will not cancel out the need for the RBA to raise the cash rate one more time.

Inflation pressure is too large to ignore. Core CPI likely will remain above the top end of the RBA's 2-3%oya target range in coming quarters and, although the RBA has shown previously that it can tolerate temporary breaches of the inflation target, officials are unlikely to accept the sustained violation anticipated. JPMorgan forecasts that the RBA will hike the cash rate to 7% in February 2008. This forecast, however, will only hold if there are no signs of deterioration in economic fundamentals resulting from lingering global liquidity woes, and no aggressive increases in standard variable mortgage rates from domestic commercial banks.

Australia: growth in GDP and domestic demand



Australia: crude oil and discretionary spending



GDP growth remained above potential

Australia's economy grew 1.0%q/q in 3Q, falling largely in line with market expectations. From a year ago, GDP growth was 4.3%oya, below expectations owing to significant revisions to historical data. Seven of the past ten quarters were revised down by 0.1% or more. That said, even with the downward revisions, Australia's growth still is well above potential.

The household sector remains in great shape, thanks mainly to healthy income growth owing to low unemployment and the most recent round of personal income tax relief delivered in July. While import volumes rose 2.3%q/q in 3Q, export volumes spiked 2.3%, a welcome gain given the suboptimal performance of the export sector in recent years. The terms of trade declined, however, falling 0.8%q/q—the first quarterly decline since December 2001. Should this trend in the terms of trade continue, the substantial boost to national income it has generated since 2003 will unwind, curbing domestic demand. On the upside, domestic demand posted a solid 0.8%q/q gain in 3Q, thanks to a strong 1.2% increase in household consumption, and a 1.0% push in government expenditure.

JPMorgan forecasts the economy will grow 3.5%oya in 2008 in the absence of an unexpectedly sharp slowdown in global growth. Net exports are forecast to eventually add to economic growth in the latter stages of 2008, as the significant levels of business investment in recent years continue to alleviate the capacity constraints and infrastructure bottlenecks restraining the export sector. Consumer spending will slow, although not sharply, as income growth will remain well-supported by tight labour market conditions and additional personal tax relief.

Other data for 3Q showed that company gross operating profits unexpectedly fell 2.1%q/q (JPMorgan 3.0%, consensus 2.0%) after growing 1.7% in 2Q. Profits were dragged lower by the mining (-11.6%) sector, battling with capacity issues and a strong AUD. Those Australian companies with less foreign exposure, however, should continue to enjoy healthy revenue growth. While strong domestic economic fundamentals are currently buoying Australian corporates, the anticipated moderation in global demand will dent profits near term. That said, Australian firms appear to be keeping a lid on controlling costs. Labour costs, for example, remain contained despite persistently tight labour market conditions. On the downside, though, inventory accumulation has risen, meaning that more working capital is being tied up. Business inventories spiked 1.3%q/q in 3Q after rising 0.5% in the previous three months.

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Trade deficit blew out in October

Australia's trade deficit unexpectedly blew out to A$2.98 billion (JPMorgan -A$1.81bn, consensus -A$1.80bn) in October from a previous deficit of A$1.91bn. This unexpectedly downbeat outcome stemmed from a slump in exports (-3%m/m), which were driven lower by shipments of both rural and nonfarm goods (both down 5%). The fall in nonfarm exports was largely owing to strong AUD, while widespread drought conditions curbed farm goods shipments, a trend that is to continue given the lack of substantial rainfall in recent months. Imports rose 2%m/m, buoyed by a strong AUD, firm domestic demand, and a sharp uptick in imports of intermediate goods (+8%). Imports of consumption and capital goods fell 1% and 5%.

Consumer spending moderated

Retail sales in Australia grew 0.2%m/m in October (JPMorgan 0.3%, consensus 0.6%) after rising 0.7% in September. Several factors dented spending, including uncertainty surrounding the outcome of the federal election, a modest moderation in employment growth, and surging oil prices. The August interest rate rise would have also dampened spending in October. In particular, sales of discretionary items fell for the first time since April, slipping 0.1%m/m. Surprisingly, though, persistent drought conditions failed to push up food costs significantly. The largest component of the retail sales index, the food category, fell 0.2%m/m. Ex-food, retail sales rose 0.5%.

Further weakness in retail trade probably lies ahead. Not only did the RBA hike rates again in November, but renewed global financial market volatility has also placed further upward pressure on wholesale market funding costs, raising the likelihood that domestic banks will soon pass on the significant rise in funding costs to borrowers. That said, the domestic economic backdrop remains favorable. Labour markets are tight, household incomes are edging north, and income earners are due to receive additional tax relief.

Building approvals slump in October

Building approvals fell 2.8%m/m in October (JPMorgan -3.5%, consensus -2.0%) after surging 8.6% in September. The series remains considerably volatile, however. No clear trend has emerged in the approvals data to date through 2007, 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.

Data releases and forecasts

Week of November 10 - 14

Mon Dec 10 11:30am — **Housing finance approvals: owner occupiers**
Number of loans, seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	-4.4	1.4	-2.4	2.5
(%oya)	-3.1	-0.4	-1.1	1.4

Mon Dec 10 11:30am — **ANZ job advertisements**
Seasonally adjusted

	Aug	Sep	Oct	Nov
(%m/m)	1.5	-0.7	1.7	__

Tue Dec 11 11:30am — **NAB monthly business survey**
% balance, seasonally adjusted

	Aug	Sep	Oct	Nov
Business confidence	10	7	9	__

Wed Dec 12 10:30am — **WMI consumer sentiment index**
100=neutral, seasonally adjusted

	Sep	Oct	Nov	Dec
(%m/m)	4.1	-0.3	-4.2	2.0

Thu Dec 13 11:30am — **Labour force**
Seasonally adjusted

	Aug	Sep	Oct	Nov
Unemployment rate (%)	4.3	4.2	4.3	4.3
Employed (000 m/m)	32.5	8.3	12.9	25.0
Employed (%oya)	2.6	2.5	2.7	2.7
Participation rate (%)	65.1	65.0	65.0	65.1

Review of past week's data

Trade balance
Seasonally adjusted

	Aug	Sep	Oct
Exports (A$ bn)	18.6	17.9	~~18.3~~ *17.2*
Imports (A$ bn)	20.3	19.8	~~20.1~~ *20.2*
Trade balance (A$ mn)	-1756	-1916	~~-1811~~ *-2983*

Building approvals
Seasonally adjusted

	Aug	Sep	Oct
(%m/m)	-1.8	~~6.8~~ *8.6*	~~-3.5~~ *-2.8*
(%oya)	0.0	~~4.2~~ *5.2*	~~6.7~~ *9.1*

Retail trade
Seasonally adjusted

	Aug	Sep	Oct
(%m/m)	0.8	0.7	~~0.3~~ *0.2*
(%oya)	7.8	8.2	~~7.7~~ *7.5*

Real GDP
Chain volume, seasonally adjusted

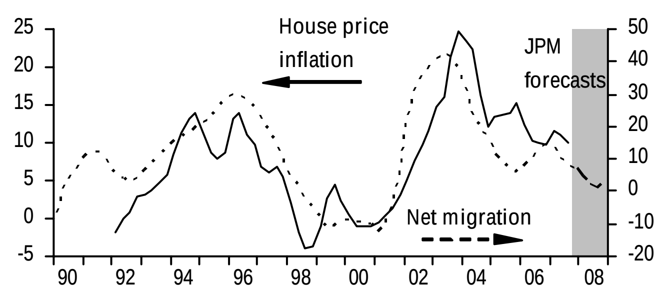
	1Q07	2Q07	3Q07
(%q/q)	1.6	~~0.9~~ *0.7*	*1.0*
(%oya)	3.8	~~4.3~~ *3.7*	~~4.8~~ *4.3*

New Zealand

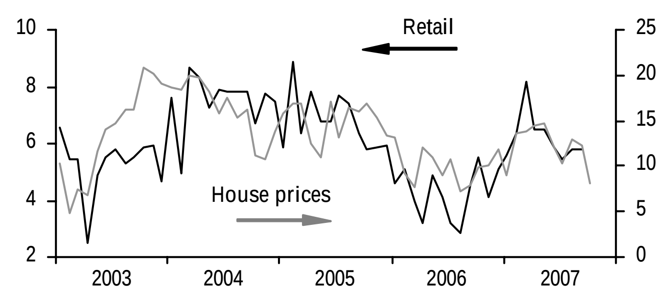
- **Retail sales to disappoint**
- **House price appreciation on the decline**
- **RBNZ kept cash rate steady and swiped at government**

The RBNZ kept the official cash rate (OCR) steady at 8.25% last week, and took another swipe at the government's expansionary fiscal policy. The statement reinstated a mild tightening bias, with the upside risks to inflation clearly outweighing the downside risks to growth in key trading partners. Though the risk of another tightening in this prolonged cycle has risen slightly in the wake of the statement, JPMorgan maintains the view that the RBNZ will leave the OCR unchanged throughout 2008. NZ house prices fell in November and are six months into a prolonged slowdown. Retail trade (out Thursday) will be the week's highlight; it is likely to be down on the month.

New Zealand: house price inflation and net permanent migration



Retail sales and REINZ house prices



Retail trade to hit screens on Thursday

The stand-out data-point to hit the screens this week will be the October retail sales number. Retail sales over the month of October are likely to be down slightly for a variety of reasons. First, the spike in seasonally adjusted September sales provides a high monthly base. Second, petrol prices surged over the month. Finally, credit card activity fell 0.5%m/m. JPMorgan forecasts retail sales to have fallen 0.1%m/m.

NZ house prices fall in November

There is no longer any question around whether New Zealand's housing market has turned south or not—it has. According to today's QVNZ property market report, annual growth in national property prices eased to 11.4% in November (calculated over the three months ending November 2007 in comparison to the same period last year), down from the 12.7% recorded in October. It is important to note that the QVNZ data is recorded at the date of settlement, and due to the three month moving average methodology, is a smoother, slower turning, lagging indicator of house prices. When compared to the REINZ data series, both are now falling in unison. New Zealand's housing market is buckling under the weight of persistently high interest rates, falling net-permanent immigration, and growing buyer concerns.

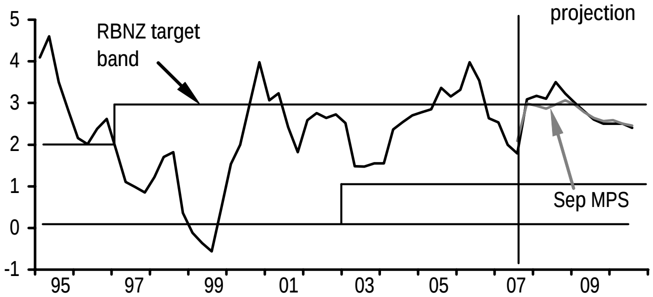
The average sale price fell from NZ$406,000 in October to NZ$393,000 in November—reflecting not only a sharp drop in sale volumes, but the fact that the market is indeed more favourable to buyers, and sellers are having to lower their price expectations.

New Zealand's housing market is now six months into what is likely to be a two-year slowdown, with all forward looking indicators pointing to a dramatic drop in house price appreciation. We expect house prices to track sideways in annual terms by 3Q08 (0%oya), with the risk of a slight contraction. Turnover in the market has plummeted, and the number of days to sell a property has steadily increased, pointing to a decline in house price appreciation.

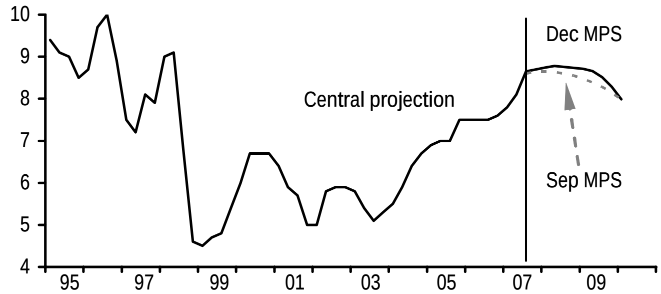
RBNZ remains focused on inflation risks

The RBNZ left the OCR unchanged at 8.25% as widely expected. The rhetoric delivered by the central bank was, however, more punchy on the inflation front; with likely personal tax cuts, rising oil prices and emissions trading, all adding to the near-term inflation trajectory. On balance, the statement was slightly more hawkish than expected, with the noted risks to higher inflation outweighing the downside risks associated with a deteriorating housing market and concerns over growth in key trading partners. The RBNZ could not have been more aggressive towards the government's proposed personal tax

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



RBNZ Dec MPS: 90 day interest rate track



cuts, and the upward pressure it will put on inflation. The RBNZ has been at war with inflation since early 2004, and the chance of a rate cut is still a long way off.

One key point from the statement was the exclusion of a scenario analysis around the 90-day interest rate track. In the September MPS there was both an upside and downside scenario, reflecting the risks associated with a higher than forecast inflation trajectory, and the downside risks to global growth from the financial market turmoil. The December statement has no such scenarios, just a flatline forecast; this suggests that the risks have not changed since September. From the RBNZ's commentary, there is still an upside scenario to inflation, and a downside scenario from the global financial markets turbulence.

As a result of the government's promised personal tax cut package, plus higher oil and food prices, and the new emissions trading scheme (which commences in stages from 2008) interest rates are now forecast by the RBNZ to remain at current levels for longer. JPMorgan maintains its forecast that the RBNZ will keep the OCR unchanged at 8.25% for the foreseeable future—with little to no chance of a rate cut until 2009. Given Thursday's commentary, the risk of a further tightening in this cycle has increased to 25-30%. The key sentence in the RBNZ's commentary was:

> Overall, inflationary pressures have increased, and interest rates are now likely to remain around current levels for longer than previously thought. We believe that the current level of the OCR remains consistent with future inflation outcomes of 1-3% on average over the medium term, based on the information to hand at present.

New Zealand:
Data releases and forecasts

Week of November 10 - 14

Mon Dec 10	**QVNZ house prices** %, median				
		Aug	Sep	Oct	Nov
	(%oya)	13.3	13.2	12.7	*11.4*

Thu Dec 13 11:30am	**Retail trade** Seasonally adjusted				
		Jul	Aug	Sep	Oct
	(%m/m)	0.2	0.3	1.0	-0.1
	(%oya)	5.5	5.8	5.8	4.9

The sharp rise in petroleum prices and subdued credit card spending numbers point to a weak report.

Thu Dec 13 12:00am	**Business PMI** sa				
		Aug	Sep	Oct	Nov
	Index	55.9	55.1	56.9	__
	(%oya)	3.8	2.7	0.6	__

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Global essay

- **A December to remember: BoC and BoE ease with the Fed to follow**
- **US growth and financial indicators tracking growth "pot hole" scenario**
- **ECB rhetoric stays tough, Brazil's COPOM in extended pause**
- **China signals policy tightening but remains committed to strong growth**

Comfort food

Since the credit turmoil hit in August, we have been using bifocals to watch the global economy. Through one lens the financial market spillovers from US housing and structured credit markets are being tracked, in order to gauge the degree to which global financial conditions are tightening. Through the second lens we are focused on assessing the degree to which households and businesses are turning cautious in a manner that magnifies the existing growth drags. As the global economy moves toward year end, there is no doubt that growth is downshifting and financial spillovers are increasing. At the same time, we are comforted that fears of retrenchment or a generalized global tightening in financial conditions have not yet materialized.

On the growth side, the US economy appears to be downshifting in line with the forecast of an expected 1% average GDP gain (q/q, saar) this quarter and next. It does not appear, however, that changes in households and business behaviour are magnifying the deceleration. Consumption growth is sliding in response to tighter credit conditions and rising energy prices. But spending reports do not point to a move to build precautionary savings, a message expected to be supported by a solid November retail sales report this week. In part, this reflects the continued firm gains in jobs and labour income. Although labour demand has softened this year, weakness remains concentrated in housing-related sectors. The consistent message from the labour market, spending indicators, and business surveys is that firms are absorbing a profit margin squeeze without making substantial shifts to spending and hiring plans.

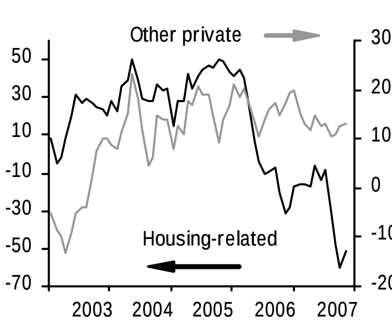
Growth spillovers to the global economy are starting to be felt, particularly in industrial activity. Our global PMI has been sliding for some time and this move is now being accompanied by a softening in commodity markets and a slowing in export and output growth in emerging markets. But this slowdown remains modest so far—note that the PMI survey actually rose in November—and both domestic demand and financial market conditions in emerging markets continue to perform well.

The greatest uncertainty is in gauging the full effects of persistent credit market stress. Over the past month, credit spreads have widened further and money market strains have intensified. Weighed against this concern is news suggesting that the painful process of recapitalizing damaged financial institutions is beginning. And while spreads are wide and activity in structured product markets is depressed, overall financial intermediation continues to expand at a healthy pace. US bank lending continued to grow rapidly in November and the corporate bond market has absorbed high levels of issuance. Banks have been able to offset the collapse in ABS mortgage financing partly as a result of the increased activity of the GSEs. Notably, the Federal Home Loan Bank has stepped up its lending directly to banks, funded by debt issuance implicitly guaranteed by the federal government.

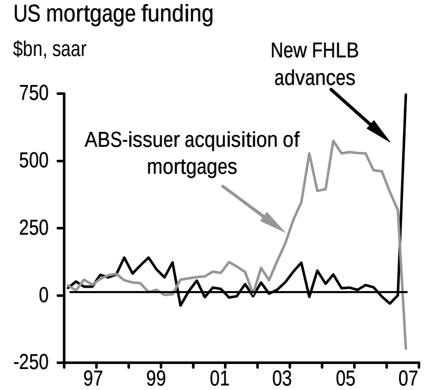
Global industry moderates

Recent months have delivered signs of a downshift in glo-

US private payrolls
3 mma, both scales, samr



US mortgage funding
$bn, saar



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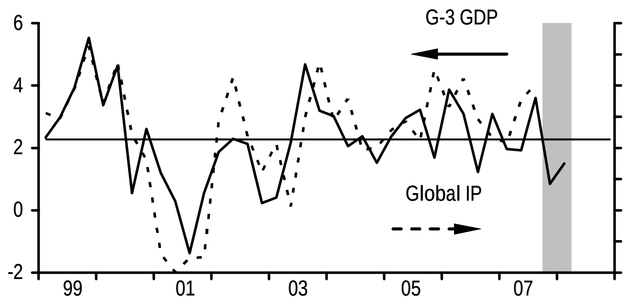
G-3 real GDP and global IP

%q/q, saar; both scales



bal manufacturing activity. As of November, the production index of our global PMI is down over 4 points since midyear, accompanied by an almost equal move in the index of new orders. This move has been validated by a dropoff in global IP growth. Our global series only extends through September, but it shows that the run-rate on IP fell from over 7% annualized at its peak in the summer to just 3.4% by September. The slowing in IP largely occurred during a booming quarter for global GDP, and before the tightening in credit market conditions, pointing the finger at inventory dynamics in the industrial sector.

Against this backdrop, last week's reports delivered better than expected news about manufacturing activity in October and November. Not only did our global manufacturing PMI edge up in November, but also there were a number of modest positive surprises in the official data for various countries. These include exports in Korea and Taiwan, Canada's "Ivey" PMI (not included in our global survey), IP in the United States, the United Kingdom, and Brazil, and factory orders in Germany. However, the indicator flow continues to point to softer final demand growth in the major economies. As this process deepens and extends into year's end, this will put renewed downward pressure on industrial activity.

Easings delivered with the Fed up next

One factor limiting financial market tightening has been central bank action. Major central banks have taken a number of steps to provide increased liquidity to the banking system and relieve strains in money markets. Gradually, policy stances are also adjusting. The Fed has already delivered 75bp of easing and is expected to deliver a further 25bp cut next week. Last week, central banks in the United Kingdom and Canada joined the Fed in cutting rates.

None of these central banks is providing strong guidance about the future, but it is likely that each will ease again in early 2008. The BoC did not explicitly adopt an easing bias, but it noted increased downside risk to Canadian exports, as US growth prospects have weakened since October. It now expects inflation over the next several months to be lower than previously projected. With JPMorgan expecting sluggish real GDP growth performance during 1H08, rate cuts are anticipated at each of its next three decision dates. The Bank of England already pointed to rate cuts in its November Inflation Report. Last week's statement did not break any new ground on the growth outlook, and inflation risks remained a concern. In fact, unless global energy prices fall back sharply, another round of domestic utility bill hikes looks increasingly likely, potentially pushing CPI inflation back above 2.5%oya in the middle of next year. Nonetheless, slowing growth is expected to become the predominant policy concern; we expect the MPC to cut rates twice, to 5% by May.

For the Fed this week, a 25bp easing in policy is likely to be accompanied by a 50bp cut in the discount rate. It is arguable whether this will have much effect in relieving stress in the interbank funding markets; at the least, it will be a relatively costless way to signal the FOMC's awareness of problems in the funding markets. The statement accompanying the decision will also likely be equivocal about risks, as the Fed steps away from its neutral balance assessment. While not signalling that an extended easing cycle lies ahead, the fragile state of the markets will prevent the Fed from talking down the likelihood of future eases. Most likely, one further rate cut from the Fed will be delivered in 1Q08.

Policy to remain stable elsewhere

Outside of this group of three, only Turkey is expected to deliver significant easing in the coming months. With indicators of domestic demand running hot, inventory positions lean, and local markets buoyant, it now looks unlikely that Brazil's COPOM will ease during 1H08.

Judging by last week's press briefing, the ECB is firmly on hold. Indeed, it seems to have pushed its "credible alertness" rhetoric to the bounds of what is credible. The introductory statement mentions upside risks to inflation on nine occasions, and downside risks to growth only once. And in the Q&A, President Trichet mentioned that there were some voices in favour of an increase in interest rates. The hawkish rhetoric is puzzling in the light of recent financial market developments and the new forecasts published by the ECB. They present a favourable outlook for the growth-inflation tradeoff. Even with resource utilization rates elevated, and with growth remaining at potential, inflation is seen in line with the target in 2009. The bar for easing is being set high, but central bank action will be determined by the evolution of the macro landscape. If Euro area growth is perceived to fall to a 1% annualized pace or less, the ECB will respond despite its current rhetoric.

The Norges Bank rate decision this week looks close. Higher than expected GDP growth and the recent depreciation of the trade-weighted krone strengthen the case for a hike. But worsening financial conditions, signs of cooling in the housing market, and rising global growth risks call for caution. On balance, downside risks to growth have risen enough in our view for the Norges Bank to take a step back and remain on hold this week. The move in money market rates is already doing some of the tightening for the Norges Bank, which is increasingly concerned about the housing market. The Norges Bank is also likely to be comfortable with some currency softness, given the impact of the prior strength on the inflation outlook.

Chinese policy steps cautiously

In China, this week's data on activity in November are expected to show that growth and inflation remain high, despite some slowing from the first half. Recent reports have shown that the growth of exports and IP is moderating, and the figures for November are likely to maintain that view. Domestic consumption has remained strong, however, with retail sales growing at a near 20%oya pace, as has fixed investment, notwithstanding government attempts to put the brake on this sector. Continued robust growth has reinforced officials' concerns about inflation, which rose to 6.5%oya in October, primarily on the back of higher food prices, although recent increases in domestic energy prices are about to kick in as well.

The robust backdrop prompted last week's 2007 Central Economic Annual Working Summit to announce a shift to a tighter monetary policy stance for 2008. That this announcement also entailed a mandate to maintain a "stable and relatively high level of growth" is telling. The main source of inflation, for now, remains food and (temporarily) energy prices. Moreover, officials can take some comfort from the correction in the domestic stock market over the past two months. Perhaps more important, officials are wary of overreacting in the face of a slowdown in the major economies. All these factors will reinforce their propensity to move incrementally on interest rates, and the currency.

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JPMorgan View - Global Markets

Momentum swings

- Equities were up last week, with EM outperforming, the dollar edging up against Japan and Europe, and bonds down. Financials are outperforming in credit and equity markets in recent weeks. By our measures, markets trimmed their implicit assessment of the risk of a US recession last week some 5-10% points. As discussed before, we believe a recession would induce the FOMC to cut its policy rate to 2.5% and the S&P to fall below 1,300. In the case of no recession, the Fed has no reason to cut rates and the US equity market should be near 1,600. Using these broad ranges, the 20-point rise in the S&P500, and the 14bp rise in the trough on eurodollar rate futures, suggest a drop in the markets' perceived risk of a US recession of 5 to 10% points, to around 40%, which is the consensus among US economists. This is now much closer to the 35% risk that we see.

- Credit spreads on cash bonds, in contrast, have barely come in, despite reduced recession fears and tighter spreads on credit derivatives as there remains a serious overhang of debt among banks and SIVs. The threat of off-loading of this debt will likely keep credit prices under pressure this month.

- And indeed, US activity data—especially jobs and car sales—suggest a weakening in growth and not a recession. But we hasten to add that the risk remains high, and a lot of water needs to flow under the bridge. Confidence remains dismal, housing activity and prices remain in free fall, and credit availability is not improving. The massive spread between policy rates and interbank lending rates (Libor) indicates that banks remain economical with balance sheet usage and are reluctant to expand credit voluntarily before year end. In addition, activity data across Europe and the US will likely show weakening in coming months. As a result, we keep a nondirectional approach to markets, with only a mildly bullish exposure through equities and more defensive trades in credit and bonds. We keep risk low and try to focus more on relative value across sectors and countries.

Fixed income

- Bonds were down last week, largely owing to Friday's backup following US payrolls, which were not as weak as feared. The backup is somewhat out of line with the data, which were close to consensus, reflecting a lack of liquidity in the market and US convexity selling.

- Our positive stance on duration lost money last week. But with a lot of negative economic and credit news still in the pipeline, we consider it too risky to move with this short-term negative momentum. We thus advise continuing to trade bonds from the long side. We see better potential at the short end of curves. Central banks have so far been reluctant to cut rates, despite the worsening liquidity crisis in the money market. Risk is biased to central banks waking up to this credit crisis and cutting rates at a faster pace.

- Within bond markets, we stay underweight spread product given continued risk to the consumer and of SIV unwinds. We are underweight consumer and mortgage ABS, MBS, and CMBS. Inflation linked bonds have significantly underperformed during the past month, on the broad rally in nominals and fall in oil prices. We find linkers cheap and keep an overall overweight stance over the medium term.

Government bond yields

		Current	Mar 08	Jun 08	Sep 08	Dec 08
United States	2-yr	3.10	3.05	3.20	3.45	4.20
	10-yr	4.10	4.10	4.20	4.40	5.05
Euro area	2-yr	3.90	3.50	3.50	3.50	3.50
	10-yr	4.22	3.95	3.95	3.95	3.95
United Kingdom	2-yr	4.60	4.40	4.35	4.35	4.35
	10-yr	4.63	4.50	4.50	4.55	4.55
Japan	2-yr	0.74	0.85	1.10	1.20	1.40
	10-yr	1.57	1.60	2.00	2.10	2.30

Equities

	Current	Ytd return (local currency)
S&P	1485	7.1%
Topix	1552	16.0%
FTSE 100	6519	8.9%
MSCI Eurozone	245	8.4%
MSCI Europe	1555	0.0%

Credit markets

	Current	Jun 08	Dec 08
US high grade (bp over UST)	196	150	
Euro HG (bp over swaps)	63		55
USD high yield (bp vs. UST)	585		650
EMBIG (bp vs. UST)	260	250	200

Foreign exchange

	Current	Mar 08	Jun 08	Sep 08	Dec 08
EUR/USD	1.47	1.54	1.55	1.55	1.54
USD/JPY	112	98	101	101	103
GBP/USD	2.03	2.08	2.08	2.08	2.14

Commodities

		Quarterly Average			
	Current	Mar 08	Jun 08	Sep 08	Dec 08
WTI oil $/bbl	86.3	72.0	68.0	67.0	66.0
Gold ($/oz)	795	807	821	821	805

Source: JPMorgan, Bloomberg, Datastream

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Equities

- Equities continued their recovery last week, led by the US and emerging markets. Better economic data and the announcement by the US administration that it may freeze some subprime mortgage payments helped market sentiment. EM equity funds reported the first sizable inflow in four weeks.
- For this rally to continue, we need to see further reduction in US recession risks and some clarity on the size of the problem in credit markets. Recession risks have on the margin declined last week, but we are not out of the woods yet. It could easily take two to three months before we know whether the current slowing in growth feeds on itself toward a more protracted weakness. We are thus reluctant to take much directional risk in the near term but are more positive over the coming 6-12 months.
- Last week, we initiated new coverage on US equity markets led by Tom Lee. Our 2008 year-end target for the S&P 500 is 1590, implying an 8% return including dividends. This upside is driven both by earnings growth and by PE expansion. PEs, flat for five years now, generally expand in slow-growth environments as long as policy rates fall. Next year, the key sector will likely be financials. Since 2002, financials have taken a back seat to energy, materials, and industrials, which were leveraged to the global reflation/expansion. In times of sluggish economic growth, Financials tend to exhibit better relative EPS growth. Moreover, supportive corporate and policy action is under way making it more likely that financials will lead US equity markets higher in 2008.

Credit

- Credit spreads tightened in CDS, and widened in cash bonds, again last week. Reduced recession risks led to further unwinding of credit hedges late in the week, leading to CDS outperformance. At the same time, high issuance, especially in US HG, continued to put pressure in cash bonds.
- We remain outright short on US HG within our US asset allocation as mortgage origination, structured mortgage products, and consumer related financing should continue to hurt the profitability of US banks over coming months. In addition, the continued shrinkage of the asset-backed commercial paper market is a reminder that liquidity conditions remain adverse at the high-rated end of the HG spectrum. This is reflected in new issue discounts, which we calculate at 34bp. The new issue market is where a significant number of trades are clearing as secondary market liquidity has dried up. Even so, with US HG spreads already at recession levels and market sentiment somewhat improving, we do advise reducing the size of HG underweights.
- EM external debt should continue to outperform corporate HY as supply/demand conditions are more supportive. We recommend adding outright EMBIG exposure (vs USTs) on moves above 250bp and forecast spreads at 200bp at 2008 year-end. We are currently overweight Brazil, Russia, and Qatar.

Foreign exchange

- The dollar has taken comfort from a more supportive Fed and planned measures to help subprime borrowers. While they may eventually help, the next several months will be characterized by lower rates and recurring growth concerns, a backdrop which we continue to see as dollar negative. Our core medium-term recommendation is to remain short dollars vs EUR and JPY, though Fed optimism could extend this dollar bounce for another week.
- Similarly, Fed optimism has given carry trades across the G-10 and EM a fillip, but we are staying sidelined in these markets. These positions are obviously directional with vol, so inconsistent with a view that macro uncertainty will remain high until the scale of subprime-related losses is more fully known.
- Sterling tumbled last week on poor housing data and a BoE rate cut, but parallels to the US are misleading. Delinquencies in the UK are running at only one-fifth the rate in the US, implying much less scope for rate downgrades and currency weakness. Sterling should fall further versus the euro (to 0.74), but EUR/USD's prospective rise provides an offset to keep cable inching higher.

Commodities

- Crude was roughly flat last week despite OPEC's decision to maintain current production and an unexpectedly large inventory draw. We expect the correction to run further, given the weakening of global demand growth and increases in non-OPEC supply next year. We target average prices of $88/bbl in 4Q and $72/bbl in 1Q 2008.
- Base metals remained soft while precious metals range-traded. Copper continues to attract reasonable buying interest around $6500, at which it becomes attractive for Chinese importers. Gold continues to hit resistance around $800 - $805. Positioning remains heavy and may hinder near-term upside. We are bullish into 2008, but platinum is preferred fundamentally.

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Markets - Australia and New Zealand

- **RBA left cash rate unchanged but introduced new communication regime**
- **RBA Governor's speech on communcation is one of this week's highlights**
- **RBNZ's commentary leaned to the hawkish side of neutral**

Main events for markets this week

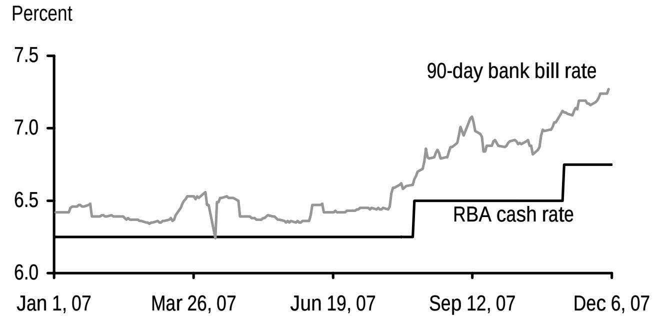
- A possible rise in **variable mortgage rates.** The 'Big Four' Aussie banks are likely to raise interest rates on variable rate home mortgages some time before year-end, to offset rising wholesale funding costs. This will do some of the heavy lifting for the RBA; on our calculations, a 25bp rise in 'Big Four' variable rates equals a 12bp RBA rate hike.
- **RBA Governor Glenn Stevens' speech** on central bank communication on Tuesday night will be worth listening to. The RBA announced last week a new regime of communication, including the release of Board minutes and statements when policy is not changed.
- The Australian October **home loan data** today. The number of loans unexpectedly dropped 2.4% in September, but should have rebounded in October. We expect a 2.5% rise over the month.
- The November Aussie **employment data** on Thursday. We expect a 25,000 rise in employment and an unchanged jobless rate ate 4.3%. The November 24 election probably will not have a material impact on employment growth in the month.
- In New Zealand, the most enticing piece of data will be the **October retail sales** report on Thursday. The number probably will be weak owing to elevated petrol prices and subdued credit card spending.

Market commentary

Australia

The RBA announced an unchanged cash rate at 6.75% as expected after the December Board meeting but, in highly unusual moves, unexpectedly released a statement accompanying the decision and minutes of the November Board meeting. Previously, the RBA has released statements only when the cash rate was changed and did not release minutes of Board meetings. The move to enhance communication coincides with the swearing in of the new Labor government, following Labor's comfortable win in the November 24 election.

Australia: cash rate and 90-day bank bill rate



The RBA's statement recognized upside and downside risks to the economic and inflation outlook. On the upside, Australia continues to enjoy strong demand and output, and the pressures arising from the global financial turmoil are less pronounced here than elsewhere. The Board acknowledged, though, that the domestic inflation outlook is deteriorating, and the recent rise in market funding costs may be passed onto borrowers; this would, to some extent, do some of the heavy lifting for the RBA. Local trends in wholesale borrowing costs could have a "bearing on inflation over the medium term," so the RBA "judged that the current stance of monetary policy should be maintained for the time being."

Indeed, the likelihood that commercial banks soon will raise their standard variable mortgage rates to compensate for the rise in market funding costs is an important factor influencing the policy outlook. Any rise in mortgage rates, though, does not cancel out the need for the RBA to raise the cash rate one more time. Inflation pressures are too large to ignore. In its hawkish quarterly Statement on Monetary Policy last month, the RBA forecast that headline inflation will rise above the bank's 2-3%oya target range to 3.25% by June 2008, before settling in the range of 2.75% to 3% for the period ended December 2009.

The RBA announced important changes to the bank's communications regime that greatly increases transparency and the frequency of commentary. Going forward:

- The RBA will release a statement after each board meeting, even if policy is unchanged;
- The RBA will announce its policy decision at 2.30pm on day of the meeting, rather than at 9.30am the following day; and

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- Minutes from future meetings will be released two weeks after each meeting. Minutes from the December meeting will be released on December 18.

The 3s 10s curve steepened last week, from -44bp at the end of last week, to -38.5 at week's end. The market interpreted the RBA's reference to increases in banks' variable mortgage rates as evidence that a February policy rate increase is less likely than before. Meanwhile, longer-dated bond yields have risen owing to concerns about the inflation outlook.

Last week's Aussie economic data showed that the economy was growing at a well-above-potential rate in 3Q, so the economy's resources remain stretched. GDP grew 1.0%q/q, in line with market expectations, but substantial revisions to the historical data kept annual growth at 4.3%oya. Retail spending in October, though, was unexpectedly soft at just 0.2%m/m, although a big drop in food prices probably explains most of this weakness. Outside retailing, though, the economy carried healthy momentum into 4Q.

New Zealand

The RBNZ last week shifted back to a mild tightening bias, as the upside to inflation is beginning to outweigh the downside risks to growth associated with the instability in financial markets. As a result of last Thursday's commentary, JPMorgan has increased the probability of another tightening in this prolonged cycle—the tightening cycle began in 2004—to 30% (previously 20-30%).

The main culprit for the RBNZ's heightened intensity on the inflation front again was the government's desire to soften up the electorate for next year's election. The incumbent Labour government is well behind in the polls, and is running larger than expected fiscal surpluses. Both the Prime Minister and Finance Minister have indicated that personal tax cuts are on the table, and increased government spending is a given. Finance Minister Michael Cullen is on the record as being happy to run down the surpluses. Watch out for the government's mid-year economic and fiscal outlook due mid December, which will provide an update of how full are the government's coffers.

On balance, JPMorgan's view of the interest rates outlook is unchanged. The RBNZ is very unlikely to ease policy in the next nine months, and the most material risk is another tightening. That said, the bar to another tightening remains high thanks to a deteriorating housing market.

Financial markets have quietened down after the RBNZ's hawkish monetary policy statement released last Thursday. Liquidity is likely to remain subdued for some time because the interest of market players remains fixated on offshore events. The stand-out data-point to hit the screens this week will be the October retail sales number. Retail sales over the month of October are likely to be down slightly for a variety of reasons. First, the spike in seasonally adjusted September sales provides a high monthly base. Second, petrol prices surged over the month. Finally, credit card activity fell 0.5%m/m. JPMorgan forecasts retail sales to have fallen 0.1%m/m in seasonally adjusted terms.

Trade recommendations

- Take profit on long Aussie Sep '08 bank bills in futures. We established a long at 92.62, with target at 92.75 and stop loss at 92.57. The position traded to 92.72 last week, for a gain of 10bp.
- Establish short Aussie Mar '08 bank bills vs. long Sep '08 bank bills in futures. There is not enough RBA tightening priced in to the front end of the strip. Establish at 4, with target of -6 and stop loss at 9.
- Sell Kiwi 3 month into 2 year strangle using strikes 8.75% to 8.55%. Pick up 44pts with breakeven points at 8.99% and 8.31%.

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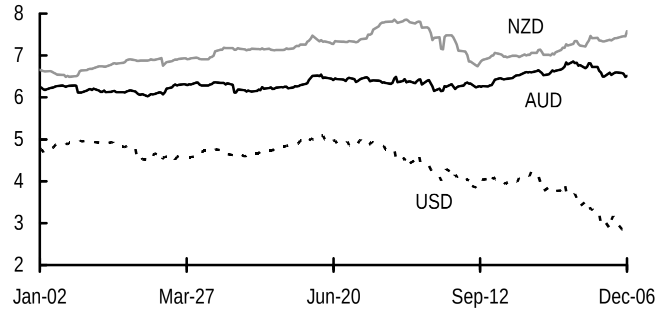
AUD and NZD Commentary

- **An outperformance week for NZD, thanks to supportive external sentiment and unexpectedly hawkish RBNZ statement**
- **Week-ahead Antipodean FX moves will depend heavily on Fed outcome; we are biased towards modesty higher AUD and NZD versus USD**
- **Technicals: AUD/USD and NZD/USD maintain range biases; NZD outpeformance continues**

Strategy comments

- The latest week was choppy for AUD and NZD, but with NZD outperforming (NZD/USD rose some 1.3% on the week while AUD ended down slightly against the dollar). Both currencies benefited from generally better investor-sentiment backdrop. NZD also benefited in particular from a more hawkish-than-expected statement from the RBNZ.
- Among key events and data risks for the week ahead, one stands out above all: the Dec. 11 FOMC decision. As detailed in Michael Feroli's email, we expect three main outcomes from the Fed. First, a 25bps cut: recent data have been too strong to support a 50bps cut from the Fed. However, a small ease would provide extra insurance against further contagion from heightened credit-market stress. Second, a cut in the discount rate. The Fed could use such a move as a relatively "costless" way to signal to markets its awareness of funding issues. Third, a more open-ended risk statement. While the market today appears more dovish on rates than the Fed has recently communicated, for now the Fed is apt to allow markets to retain their views; after all, the Fed can always work to shift rates expectations early next year, with more data points in hand and hopefully fewer short-term funding pressures.
- While "just" a 25bps Fed ease, given current rate expectations, could by itself provide a measure of USD support, we believe the ease alongside a relatively dovish statement and discount-window cut will be enough to keep the dollar on the defensive in the near-term and risk appetite supported. Especially when viewed in contrast with Antipodean monetary-policy biases (Australia likely to hike again in early 2008, and risks tilted towards a further New Zealand hike), both AUD/USD and NZD/USD should remain supported. That said, we acknowledge the special risks that year-end flows (which often have nothing to do with fundamentals) and liquidity conditions temporarily present to underlying trends.

Latest week reinforced relative central bank biases
Relative 2-year government yields, %



Technical analysis

- Short term, AUD/USD is apt to hold in ranges, with key 0.8650 support on one hand and an oversold setup on the other. AUD/USD has failed to confirm a base despite holding this support and remains vulnerable to new lows. Below 0.8655 should seek a better test of the 0.8610/00 support area, if not the 0.8500/.8490 zone, which includes the 50% retracement from August and the 200-day moving average. The ability to sustain above 0.8925 area increases the odds that a short term base/double bottom is forming on the way to the 0.9100 resistance zone.
- NZD has outperformed as the rally against USD extends back to key 0.7800 resistance. However, with the interim range intact, prices are likely to struggle against this area, as well as the 0.7890 November peak. Dips will now find support at 0.7685, before the important 0.7575/60 zone, which represents the August uptrendline and will now define whether a deeper decline is underway.

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	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	2Q07	4Q07	2Q08	4Q08
The Americas														
United States	2.9	2.2	2.4	3.8	4.9	0.5	1.5	2.5	3.5	3.0	2.7	3.9	2.7	2.3
Canada	2.8	2.5	1.9	3.8	2.9	0.5	1.3	2.3	2.8	2.8	2.2	2.4	0.9	1.5
Latin America	5.3	5.0 ↑	4.5 ↑	5.1	6.2 ↑	4.5 ↑	3.9 ↑	3.9 ↓	4.2 ↑	4.6 ↑	5.1	5.5 ↑	6.0 ↓	5.9 ↓
Argentina	8.5	8.3	6.5 ↑	8.8	11.2	10.0	4.1	5.3 ↑	4.1 ↑	4.1 ↑	8.8	8.2	8.6 ↓	9.7 ↓
Brazil	3.7	5.0	4.7	3.2	5.2	4.8	5.3	4.6	4.4	4.3	3.3	4.1	4.0	4.2
Chile	4.0	5.2	4.0 ↓	6.1	-2.5	8.0 ↓	5.0	3.0 ↓	3.0 ↓	5.0	2.9	6.7	5.9	3.1
Colombia	6.8	6.8	5.5	4.4	5.5 ↑	5.0 ↑	5.0 ↓	5.5 ↓	6.5 ↓	6.5 ↑	6.2	5.1 ↓	4.5 ↑	4.5 ↑
Ecuador	3.9	2.0 ↓	2.5	1.9	6.0	4.0	2.0	1.0	1.0 ↑	1.0 ↑	1.7	2.5 ↑	3.4	2.9 ↓
Mexico	4.8	3.1	3.2	5.7	5.9	1.0	2.0	3.0	4.1	4.9	4.0	4.0	4.7	4.1
Peru	7.6	8.0 ↑	7.0 ↑	-0.1	17.0 ↑	9.0 ↓	6.0 ↑	4.0	5.5 ↑	5.5 ↑	0.8	3.4 ↑	3.3 ↑	2.3 ↑
Venezuela	10.3	8.3 ↑	6.0 ↑	8.9	7.0	10.0 ↑	5.0 ↑	4.0 ↑	4.0 ↑	3.5 ↑	19.5	18.8 ↑	24.8 ↑	26.6 ↑
Asia/Pacific														
Japan	2.4 ↑	1.8	1.5 ↓	-1.8 ↓	1.5 ↓	0.5	1.5	2.8	2.5	2.3	-0.1	0.2	0.4	0.2
Australia	2.8 ↑	3.8 ↓	3.5 ↑	2.8 ↓	4.1 ↑	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	7.7 ↓	10.9 ↓	8.3 ↑	5.4	8.4	8.1	7.6	6.8	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	7.8	7.0	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	9.8	8.4	5.3	8.2	7.0	7.5	8.2	6.3	6.0	6.3	5.9
Indonesia	5.4	6.2	6.2	5.2	6.4	5.5	6.0	6.0	6.0	6.0	6.0	6.9	6.9	7.4
Korea	5.0	4.7	4.9	7.4	5.4 ↓	3.0	4.5	5.0	5.5	6.0	2.4	2.4	2.7	3.4
Malaysia	5.9 ↓	6.0	5.6	5.0 ↓	9.7 ↑	6.6	4.5	5.3	5.7	5.7	1.5	1.9	2.6	2.6
Philippines	5.4	7.4	6.1	5.1	1.5	5.6	6.0	5.0	5.5	6.0	2.4	3.1	3.2	2.4
Singapore	7.9	7.8	5.2 ↓	14.5	4.3	0.8	5.3 ↓	6.1	6.6	6.1 ↓	1.0	3.7	4.6	3.2
Taiwan	4.9	5.6	4.2	9.1	13.6	0.5	2.0	3.2	3.6	5.2	0.3	4.0	4.0	1.7
Thailand	5.1 ↑	4.2	5.1	4.6 ↓	5.8 ↑	4.0	6.0	6.0	6.0	5.0	1.9	4.2	4.4	3.8
Africa														
South Africa	5.4 ↑	4.8	4.6	4.4 ↓	4.7 ↓	4.0	4.1	4.8	5.6	5.5	7.0	8.3 ↑	7.4 ↑	5.3 ↑
Europe														
Euro area	2.9	2.6	1.9	1.2	2.9	1.5	1.5	1.8	2.3	2.3	1.9	2.9	2.6	2.3 ↑
Germany	3.1	2.6	1.9	1.0	2.8	1.6	1.5	1.8	2.3	2.3	2.0	3.0	1.9	1.4 ↑
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	2.1	1.8 ↓
Italy	1.9	1.8	1.3	0.2 ↓	1.7 ↑	1.0	1.0	1.6	2.0	2.0	1.9	2.5	2.5	2.1 ↓
Norway	4.3	5.7	3.8	7.4	7.7	3.2 ↓	3.0	2.5	3.0 ↑	3.0	0.3	0.6 ↑	3.9 ↑	3.2 ↑
Sweden	4.4	2.8	2.7	3.0	2.4	2.8	2.5	2.5	3.0	3.0	1.8	3.0	3.2 ↓	2.8 ↓
Switzerland	3.2	2.8	1.9 ↑	3.1	3.3	2.0 ↑	1.3	1.5	1.8	1.8	0.5	1.6	1.6	1.4
United Kingdom	2.8	3.1	2.1	3.3	3.0	2.0	1.6	2.0	2.0	2.3	2.6	2.1	2.1	2.3
Emerging Europe[1]	6.4	6.3	5.8	6.9	2.7 ↑	11.3 ↑	3.8 ↓	7.1 ↓	2.6 ↓	9.9 ↓	6.5	7.7	7.7	6.1
Bulgaria	6.1	6.1	5.2	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.4	5.8	5.3	5.9 ↑	5.8 ↑	5.0	5.5	5.2	5.5	5.5	2.4	4.4	4.8	4.3
Hungary	3.9	1.6 ↓	2.3 ↓	0.2 ↓	1.2	3.8 ↓	2.6 ↓	2.1 ↑	2.2 ↓	3.0 ↓	8.6	7.1 ↑	5.9 ↑	4.1 ↑
Poland	6.2	6.6 ↑	5.8	5.7	4.9	8.8 ↑	5.0	5.0 ↓	5.3 ↓	5.5 ↓	2.4	3.5 ↑	3.6 ↑	3.1 ↑
Slovak Republic	8.5	9.0	7.0	10.0	9.2	7.5	7.0	6.5 ↓	6.0 ↓	6.0 ↓	2.5	3.0	3.6	3.7
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	8.2	7.4	6.2
Global	3.7 ↑	3.3	3.0	3.5	4.2 ↓	2.1	2.6	3.3	3.5 ↑	3.5	2.4	3.4 ↑	2.9	2.5 ↑
Developed markets	2.8	2.4	2.1	2.1 ↓	3.6 ↓	1.0	1.6	2.3	2.8	2.6	1.9	2.8	2.2	1.9
Emerging markets	7.0 ↑	6.8	6.3 ↑	8.6 ↓	6.7 ↑	6.1	6.4	6.8 ↓	5.9	6.8 ↑	4.4	5.6	5.6 ↑	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	4.47	194			4.39	4.31	4.32	4.33	4.54
excluding US	GDP-weighted average	4.46	131			4.45	4.46	4.47	4.49	4.56
Developed	GDP-weighted average	3.83	222			3.73	3.60	3.61	3.63	3.89
Emerging	GDP-weighted average	7.09	79			7.08	7.21	7.19	7.19	7.19
The Americas	GDP-weighted average	4.96	270			4.76	4.52	4.48	4.49	4.93
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	4.25	225	**4 Dec 07 (-25bp)**	**22 Jan 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	7.25
Chile	Discount rate	5.75	400	13 Sep 07 (+25bp)	on hold	5.75	5.75	5.75	5.75	5.75
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	4.57	168			4.56	4.52	4.47	4.47	4.48
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	5.50	100	**6 Dec 07 (-25bp)**	**7 Feb 08 (-25bp)**	5.50	5.25	5.00	5.00	5.00
Sweden	Repo rate	4.00	200	30 Oct 07 (+25bp)	4Q 08 (+25bp)	4.00	4.00	4.00	4.00	4.25
Norway	Deposit rate	5.00	325	26 Sep 07 (+25bp)	**3Q 08 (+25bp)**	5.00	5.00	5.00	5.25	5.50
Czech Republic	2-week repo rate	3.50	125	29 Nov 07 (+25bp)	1Q 08 (+25bp)	3.50	3.75	4.00	4.00	4.00
Hungary	2-week deposit rate	7.50	-400	24 Sep 07 (-25bp)	31 Mar 08 (-25bp)	7.50	7.25	7.00	6.75	6.50
Poland	7-day intervention rate	5.00	-25	28 Nov 07 (+25bp)	30 Jan 08 (+25bp)	5.00	5.50	5.75	6.00	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)	3Q 08 (-25bp)	4.25	4.25	4.25	4.00	4.00
South Africa	Repo rate	11.00	300	**6 Dec 07 (+50bp)**	**31 Jan 08 (+50bp)**	11.00	11.50	11.50	11.50	11.50
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	3.59	112			3.59	3.70	3.86	3.89	4.03
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)	**1Q 08 (+27bp)**	7.29	7.83	8.01	8.28	8.28
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	8.00	66	**6 Dec 07 (-25bp)**	1Q 08 (-25bp)	8.00	7.75	7.75	7.75	8.00
India	Repo rate	7.75	175	30 Mar 07 (+25bp)	**Jul 08 (-25bp)**	7.75	7.75	7.75	7.50	7.50
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	5.25	5.25	5.25	5.25
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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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	3.8	3.5	3.2	2.8	4.1	3.1	3.2	4.4	2.5	4.1	3.6	2.8	3.1	0.6
Private consumption	4.0	3.5	2.6	1.5	5.0	3.2	4.1	3.2	2.8	2.8	2.4	2.8	2.0	1.6
Construction investment	10.2	3.0	1.3	4.3	5.3	1.9	2.8	4.2	0.5	3.1	2.1	-1.2	0.4	1.4
Equipment investment	7.1	2.4	-2.3	20.7	-8.9	4.2	2.1	8.6	-4.1	0.0	-2.1	-4.1	-8.1	0.0
Public investment	4.0	6.8	6.2	90.3	-8.7	4.2	4.7	5.2	5.4	5.8	6.2	6.6	7.0	7.5
Government consumption	2.7	3.4	2.8	0.7	4.2	2.2	4.4	3.7	3.3	2.9	3.5	2.2	1.8	2.2
Exports of goods & services	4.0	5.8	7.6	2.5	9.4	4.1	6.1	6.1	4.1	8.2	8.2	8.2	10.4	4.1
Imports of goods & services	10.0	4.8	2.6	5.8	9.4	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	4.6	3.7	2.3	5.6	3.1	4.1	3.9	4.1	2.2	2.9	2.4	1.8	1.2	1.8
Inventories	0.7	-0.3	0.0	-1.8	1.3	-0.6	-0.5	-0.4	-0.1	0.3	0.3	-0.2	0.2	-1.3
Net trade	-1.4	0.1	1.0	-0.8	-0.3	-0.4	-0.2	0.8	0.5	0.9	0.9	1.1	1.7	0.1
GDP deflator (%oya)	3.7	2.8	2.6	4.4	3.1	2.9	2.9	2.9	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)	-19.2	-22.3	-14.6	-4.4	-5.0	-5.9	-6.1	-5.8	-5.6	-4.8	-4.5	-3.9	-3.2	-3.1
Current account (A$ bil, sa)	-65.4	-73.3	-68.6	-15.6	-15.6	-18.9	-18.6	-18.8	-18.6	-17.3	-18.0	-17.9	-16.7	-16.1
as % of GDP	-6.0	-6.4	-5.6	-5.8	-5.7	-6.8	-6.6	-6.6	-6.4	-5.9	-6.0	-5.9	-5.4	-5.2
3m eurodeposit rate (%)*	6.0	7.3	7.0	5.8	7.1	7.2	7.3	7.3	7.3	7.3	7.2	7.0	7.0	6.8
10-year bond yield (%)*	5.6	6.3	6.3	5.6	5.7	6.0	6.1	6.3	6.5	6.5	6.3	6.3	6.3	6.3
US$/A$*	0.75	0.90	0.84	0.74	0.77	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	2.8	0.7	0.8	1.7	-0.5	-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	8.5	7.8	8.2	8.7	8.5	8.5	8.5	8.5	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$/NZ$*	0.73	0.72	0.67	0.74	0.74	0.73	0.71	0.72	0.72	0.71	0.69	0.65	0.67	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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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
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 inflation expec. (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 motor vehicles sales (11:30am) Nov New Zealand: GDP (10:45am) 3Q
24 Dec	25 Dec *Holiday Australia, New Zealand*	26 Dec *Holiday Australia, New Zealand*	27 Dec	28 Dec
31 Dec Australia: Pvt. sector credit (11:30am) Nov	1 Jan *Holiday Australia , New Zealand*	2 Jan *Holiday New Zealand*	3 Jan	4 Jan

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

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
10 Dec - 14 Dec	**10 Dec**	**11 Dec**	**12 Dec**	**13 Dec**	**14 Dec**
China • Money supply (Nov) • Trade balance (Nov)	Germany • Trade balance (Oct) Japan • Economy watcher survey (Nov) • Private mach orders (Oct) Norway • CPI (Oct) United States • Pending home sales (Oct)	China • CPI (Nov) Germany • ZEW bus survey (Dec) Japan • Consumer sent (Nov) Russia • GDP (3Q) Sweden • CPI (Nov) United Kingdom • Trade balance (Oct) United States • Manpower survey (1Q) • Wholesale trade (Nov) • FOMC meeting	Brazil • GDP (3Q) China • Retail sales (Nov) Canada • Trade balance (Oct) Euro Area • Employment (3Q) • IP (Oct) Norway • Norges Bank meeting United Kingdom • Avg earnings (Oct) • Claimant count (Nov) United States • Import prices (Nov) • International trade (Oct)	China • IP (Nov) Euro area • Labor costs (3Q) France • CPI (Nov) Japan • IP final (Oct) Mexico • IP (Oct) United States • Business invent. (Oct) • PPI (Nov) • Retail sales (Nov) Central bank meetings • Chile • Switzerland • Turkey	China • FAI (Nov) Colombia • BanRep meeting Euro area • HICP final (Nov) Germany • CPI final (Nov) Japan • BoJ Tankan corp surv (4Q) Mexico • GDP (3Q) United States • CPI (Nov) • IP (Nov)
17 Dec - 21 Dec	**17 Dec**	**18 Dec**	**19 Dec**	**20 Dec**	**21 Dec**
Japan • Electric power usage (Nov) • Nationwide dept store sales (Nov) Taiwan • CBC meeting	Euro area • PMI flash (Dec) Germany • CPI 6 states (Dec) Hungary • MNB meeting United States • NAHB survey (Dec) • NY Fed bus survey (Dec)	Canada • CPI (Nov) Euro area • Trade balance (Oct) Slovak Republic • NBS meeting United Kingdom • CPI (Nov) United States • Housing starts (Nov)	Czech Republic • CNB meeting Germany • IFO bus survey (Dec) Poland • NBP meeting Sweden • Riksbank meeting United Kingdom • BoE minutes	Japan • Trade balance (Nov) • BoJ meeting Philippines • BSP meeting United Kingdom • GDP final (3Q) United States • Philly Fed bus survey (Dec) • Real GDP final (3Q)	Canada • Payrolls (Oct) Euro area • Industrial orders (Oct) Mexico • CPI (Dec) Taiwan • Export orders, IP (Nov) United Kingdom • Retail sales (Nov) United States • Consumer sentiment (Dec) • Personal income (Nov) Business surveys • France INSEE (Dec) • Italy ISAE (Dec) • Netherlands CBS (Dec)

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