Australia and New Zealand - Weekly Prospects

Summary

- The **RBA** Board minutes last week showed that in early November, the Governor proposed that Board members make a choice between a 50bp and 75bp cut to the official cash rate. They opted for a 75bp move, despite an official recommendation for "only" a 50bp rate cut. Speeches last week, however, by the RBA Governor and Assistant Governor shed little light on the RBA's policy intentions. The main highlight this week will be the 3Q business investment survey. We expect firms to have scaled back their spending plans in the 3Q survey—it already was clear then that firms were finding it more difficult to raise the capital necessary for spending.

- In **New Zealand**, after data last week showing that producer price inflation eased in 3Q, the RBNZ should report this week an easing in inflation expectations in 4Q. Our forecast calls for headline CPI growth to be beneath the RBNZ's 1-3%oya target range by the end of 2009; this should pave the way for more assertive policy easing. We look for a 100bp rate cut in the OCR in December and a terminal cash rate of 3.25% by end-2009. The NBNZ business confidence survey this week will likely show that confidence remained weak in November, owing mainly to the significant deterioration in the global economic outlook and poor conditions in global financial markets.

- In gauging the intensity and duration of the **global recession**, we are keeping one eye fixed on the data flow and the other on financial market conditions. Looking at the recent developments in each of these areas sends a disturbing message. The data flow is tracking our current quarter forecast that global GDP and industrial production will contract at a 2% and 8% pace, respectively, this quarter —in both cases the sharpest declines since the early 1980s. However, a continued slide in business surveys in November—notably the Euro area PMI, and US surveys of homebuilders and regional manufacturers—suggest that growth momentum will continue to weaken into year end. This message is reinforced by the recent surge in US jobless claims, which points to job losses exceeding 300,000 for November.

- While **deflation** has risen as a medium-term risk facing the Fed, there already has been an appreciable move down in core inflation from its peak. This was underscored in October, with sizable falls in both the US and UK core readings reported last week. These moves fan speculation that the global economy's rapid decent into recession may be accompanied by a rapid tilt into deflation. To be sure, falling demand and resource utilization are expected to generate significant disinflation. However, the recent slide in core inflation is not likely to be sustained, and near-term fears of deflation are overblown. Both the sudden rise in developed market core inflation earlier this year as well as the more recent sharp decline have mirrored this year's commodity price moves. While evidence of commodity price passthrough to core inflation has typically been difficult to find, the correlation has jumped markedly in recent years, reflecting changing pricing behavior in response to the sustained, strong gains in oil and agriculture prices.

This week's highlight

The 3Q business investment survey. We expect firms to have scaled back their spending plans significantly.

Contents

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Data and event previews - Australia and New Zealand

Date [(a)]	Data/event	Forecast		Previous	Comment
		JPMorgan	Consensus		
Tuesday, 25 November (1.00pm)	**RBNZ inflation expectations (% bal, 4Q)**	**na**	na	3.0	The RBNZ should report an easing in inflation expectations in 4Q. Inflation expectations rose in 3Q. The survey showed that inflation was expected to average 3.0% in two years' time, compared to 2.9% in the previous survey. Both readings are at the very top end of the RBNZ's 1-3% target range. Our forecast calls for headline CPI growth to be beneath the RBNZ's target range by 4Q09.
Wednesday, 26 November (11.30am)	**Aust. construction work done (%q/q, 3Q)**	**na**	1.4	-2.6	na
Thursday, 27 November (8.45am)	**NZ trade balance (NZ$mn, Oct.)**	**-1000.0**	-1000.0	*-1183.0*	The trade deficit should narrow to NZ$1billion after blowing out in September to the largest deficit this year. Net exports will be a drag on economic growth in 2008 and 2009 owing to weak global demand. NZD depreciation will, though, boost exporters' competitiveness. Soft domestic demand, meanwhile, will weigh on imports.
Thursday, 27 November (11.30am)	**Aust. private capital expenditure (%q/q, 3Q)**	**-1.5**	0.8	*5.7*	The all-important forward looking component of the capex survey should show that firms scaled back their spending plans in 3Q. In the 2Q survey, firms planned to spend 32% more than in the year ended June 2009; this should ease to around 19% in this week's survey. Although the information in the survey was collected mainly before the onset of the worst of the financial crisis, it already was clear then that firms were finding it more difficult to raise capital. Also, the global economic outlook was deteriorating rapidly.
Thursday, 27 November (1.00pm)	**NBNZ business confidence (% bal, Nov.)**	**na**	na	*-42.3*	Business confidence should remain weak in November, owing mainly to the significant deterioration in the outlook for the world economy and poor conditions in global financial markets. In October, a net 42.3% of respondents expected business conditions to worsen in the coming year, and firms' own activity expectations tanked to -11.4, marking the second lowest reading on record.
Friday, 28 November (8.45am)	**NZ building permits (%m/m, Oct.)**	**na**	na	*8.4*	na
Friday, 28 November (11.30am)	**Aust. private sector credit (%m/m, Oct.)**	**0.5**	0.5	*0.7*	Credit growth is expected to ease in October to 0.5%m/m. Business credit likely pulled back sharply amid tighter credit conditions and expectations of slower global growth. Tighter credit conditions were also likely major drags on housing and personal credit.

(a) Australian Eastern Standard Time.

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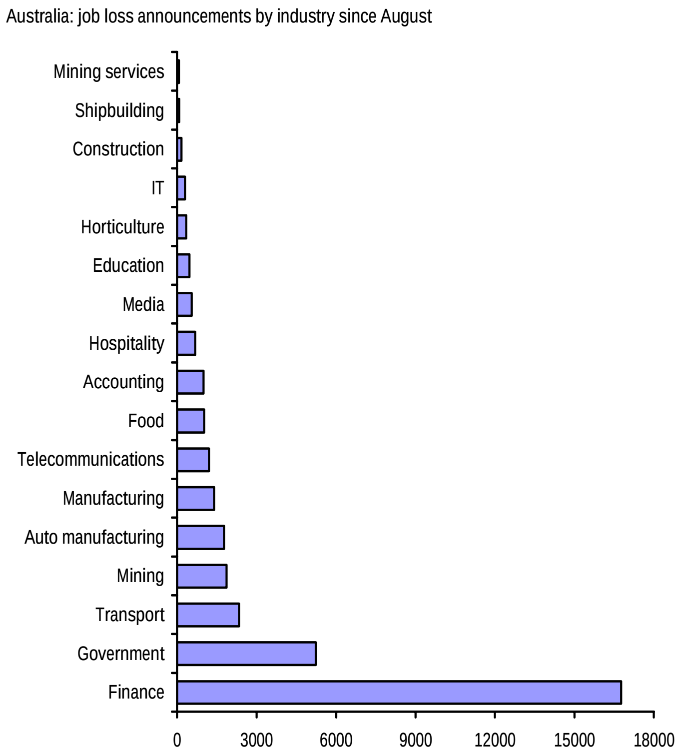
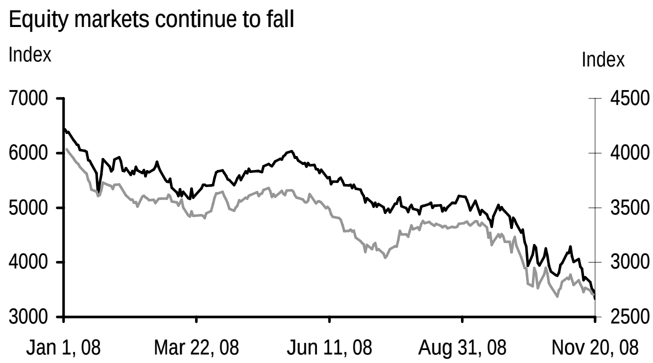
Feature charts



Although the unemployment rate held steady at 4.3% in October, significant job losses have been reported across the economy in recent weeks.

The outlook look is grim. The weaker domestic GDP growth profile and, in particular, the expected sharp decline in private business investment spending, signals that unemployment will rise significantly. In fact, we forecast that the jobless rate will reach 9% by the end of 2010. By then, in our forecasts, more than one million Australians will be out of work.

Capital spending data this week will likely show that firms scaled back their spending plans in the 3Q survey. Although the information in the survey was collected mainly before the onset of the worst of the financial crisis, it already was clear then that firms were finding it more difficult to raise the capital necessary for spending. Also, it was becoming obvious that the global economy was in for a prolonged rough patch.



The Australian and New Zealand stock markets have shed 46% and 33%, respectively, since the start of the year. Along with tight credit conditions, falling house prices, and rising unemployment, the stock market losses will further dampen sentiment. Already, consumer sentiment is weak, despite significant policy easing from the RBA and RBNZ.

Economic Research note

Kiwis facing strong headwinds

- **Private consumption to contract this year and in early 2009**
- **Monetary and fiscal policy will be eased significantly**
- **Budget balance to fall into deficit**

New Zealand already has endured a technical recession, with GDP growth contracting in the first two quarters of the year; the economic outlook remains grim. Our forecast anticipates another three straight quarterly GDP declines and growth of just 0.5% in 2008 and 0.4% in 2009. The economy is being hit by weaker export demand (owing to the worsening outlook for New Zealand's key trading partners), lower commodity prices, negative wealth effects from falling asset prices, especially from house price declines, and low consumer confidence.

Private consumption, in particular, will likely contract. Kiwi consumers are facing strong headwinds. The housing market has deteriorated steadily over the past year, credit availability is declining, and labour market conditions are softening. Household spending should grow just 0.6% in 2009 after a 0.1% rise this year. Upcoming income tax cuts may soften the blow, but to a large extent will be undermined by negative wealth effects, weak sentiment, and increased anxiety about job security.

Falling house prices a drag

Elevated interest rates have weighed on house prices, as has the reduction in credit availability. Coupled with tighter and more expensive credit conditions resulting from the credit crunch, elevated interest rates have significantly reduced households' disposable income.

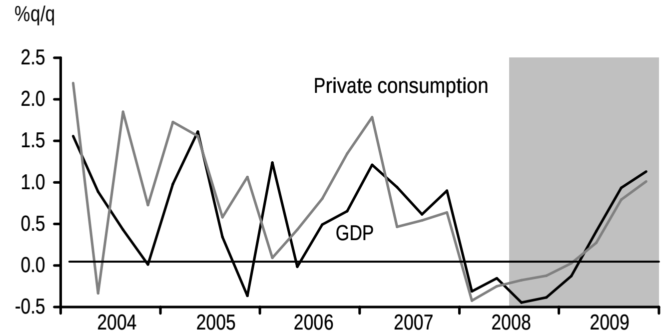
Moreover, excessive leverage in the household sector in an environment of declining house prices will add further weight to consumption. House prices were down 4.3%oya in October, the seventh straight monthly fall. Sales turnover slumped sharply, plunging to 4,469, down 34.8%oya.

Nonperforming loans for the big banks already have picked up to about 0.5% of loans from near zero; still, this pales in comparison to the 6-8% levels reached in the early 1990s recession. The RBNZ says Kiwi banks have enough capital to withstand the rise in loan losses.

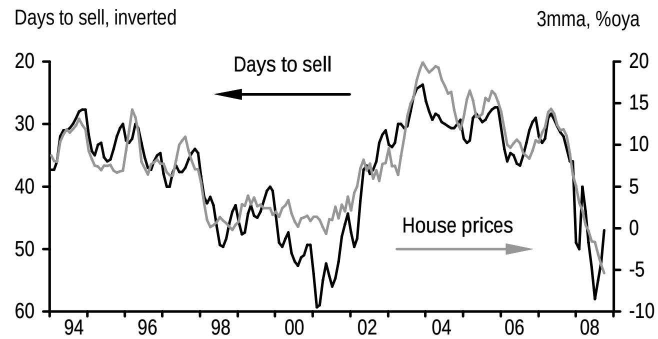
Businesses to shed workers

The labour market also looks set to loosen. The slump in business confidence in October marked the largest one-month fall in

Private consumption contracting until mid-2009



Days to sell and house prices



the history of the series. A net 42.3% of respondents expected business conditions would worsen in the year ahead. Moreover, the survey showed that 79% of respondents expected the unemployment rate would rise (up from 69% in the previous survey), reaffirming our expectation that the labour market will loosen further as firms shed workers in a bid to cut costs.

The jobless rate spiked up from 3.9% to 4.2% in 3Q, the highest since 4Q03. Though there was a modest upside surprise in employment in 3Q (up 0.1%q/q), there is likely more bad news to come for job seekers. Our forecast is that the unemployment rate will climb steadily as firms reconsider, postpone, or cancel hiring decisions. The forecast is that the jobless rate will reach 6.7% by the end of 2009, a nine-year high and virtually double the cycle low of 3.4% reached in late 2007. Additional job insecurity and redundancies mean that workers will continue to curb spending, weighing further on the economic growth outlook.

Consumer spending already weak

While the headline value of retail sales increased 0.1%m/m in September, the all-important ex-auto measure declined 0.5%. The value of retail sales appeared inflated by price gains for imported products, mainly owing to NZD weakness, as volumes plunged amid weak domestic demand. In real terms over the September quarter, the volume of retail sales fell 0.9%q/q, marking the third straight quarter of decline. We forecast another decline in 4Q.

The softness in retail spending is further evidence that the New Zealand economy is well into what is likely to be a prolonged recession. Our concern is that retail sales were already extremely weak before the onset of the worst of the latest bout of global financial market instability and asset price corrections in early October.

RBNZ to cut 100bp in December

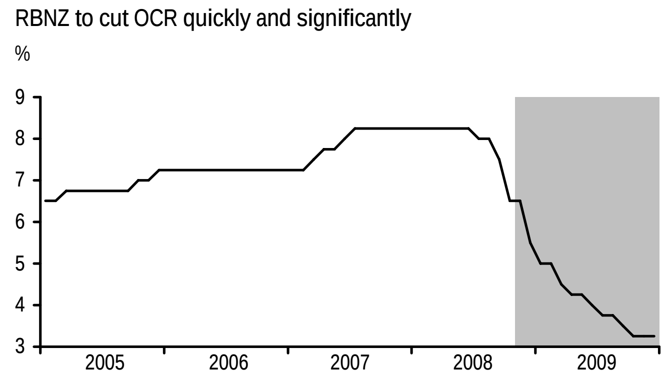
One positive for consumers is the lower cash rate. The RBNZ has cut the OCR 175bp since midyear and, although the impact is being dulled by commercial banks' reluctance to pass on the OCR declines, further cuts are anticipated. Given accumulating downside risks to growth, our forecast calls for a 100bp rate cut in December—a move fully priced in by markets—and a terminal cash rate of 3.25% by the end of 2009, exactly half the prevailing rate of 6.5%.

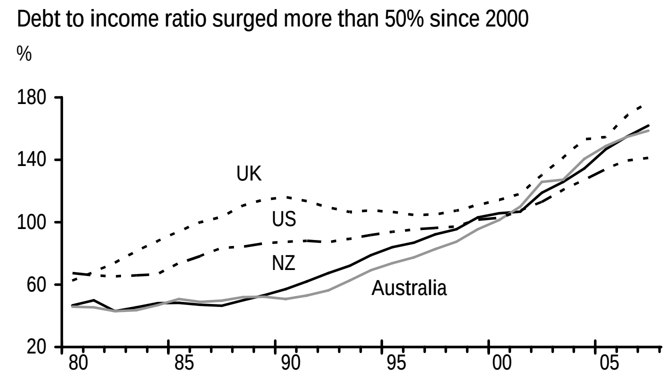
In hindsight, the RBNZ kept official interest rates too high for too long, with a great bulk of the economy now in trouble and slowing sharply. The prolonged recession we expect in New Zealand—including five quarters of declining negative GDP—coupled with the rising prospect that inflation will fall to within the RBNZ's target range more quickly than under our earlier forecasts, point to more assertive policy easing. Our forecast calls for headline CPI growth to be beneath the RBNZ's target range of 1-3%oya by 4Q09, well below the 18-year high of 5.1% recorded in 3Q08. Inflation no longer is the RBNZ's prime concern.

New government focused on economy

The incoming National Party-led government, which ended nine years of Labor Party rule at the election in early November, has announced "the economy" as its number one priority. Incoming prime minister John Key has said that the government "will concentrate on boosting economic growth because that is what will lead us through these challenging times," referring to the current recession and financial market turmoil. He has pledged to move quickly on income tax cuts and increased spending on infrastructure.

In early November, Treasury forecasts signalled that the economy would "be affected via weaker export demand, lower commodity prices, reduce asset values, and weaker confidence." The Treasury downgraded its economic forecasts,





saying the economy will grow just 0.4% in the year to March 2009, and 1.3% in the year to March 2010. Furthermore, the Treasury forecasts a wider budget deficit, after years of surpluses under the outgoing government. The deficit is projected to widen to NZ$8.1 billion in the year to June 2011; this compares to the forecast of NZ$6.6 billion last month, which predated the slump in financial markets and a deepening global economic slowdown. The newly instated National government has requested a half-year update in December, which will include fresh economic and fiscal forecasts, to coincide with the new government's first Budget Policy Statement.

In any case, the new prime minister says he is prepared to put the country into debt to fund the spending needed to foster growth. In particular, the PM has said that the worsening economic and fiscal outlook would not jeopardize the personal income tax cuts promised during the election campaign. The Nationals pledged personal tax cuts starting on April 1 2009, which will deliver a cut of NZ$47 per week on average. The promised income tax cuts may cushion the downside for household spending, but much of these additions to household incomes will likely be directed into paying off debt, especially given that the spending spree in recent years pushed the ratio of household debt to income up to 162% in 2007 from just 106% in 2000 (chart).

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Australia

- **RBA considered 50bp and 75bp moves in November**
- **Capital spending plans to be reined in**
- **Inflation still on RBA's radar**

The RBA Board minutes last week showed that in early November, the Governor proposed that Board members make a choice between a 50bp and 75bp cut to the official cash rate. They opted for a 75bp move, despite an official recommendation for "only" a 50bp rate cut. Speeches last week, however, by the RBA Governor and Assistant Governor shed little light on the RBA's policy intentions. We maintain our forecast that the RBA will cut the cash rate another 50bp in December, even though market pricing is for another 100bp move.

Aussie capex plans to be trimmed

One of the highlights this week will be the 3Q business investment survey. The June quarter survey of private sector business investment plans was unexpectedly upbeat. Firms increased spending in 2Q but, more importantly, substantially upgraded spending plans for the year ending June 2009. Firms planned to spend 32% more than in the year ended June 2008, with the fastest growth in mining and related sectors, like infrastructure.

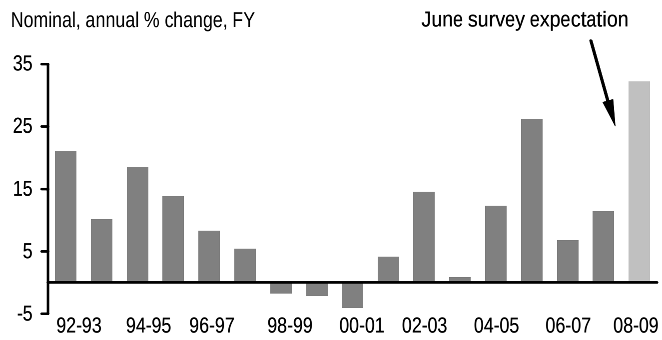
We expect firms to have scaled back their spending plans in the 3Q survey. Although the information in the survey was collected mainly before the onset of the worst of the financial crisis, it already was clear then that firms were finding it more difficult to raise the capital necessary for spending. Also, it was becoming obvious that the global economy was in for a prolonged rough patch.

Our forecast is that firms probably will trim expected growth in total investment spending to 19% for the 2008-09 fiscal year. We suspect that there will be even more substantial downgrades to spending intentions in the December quarter survey, owing to an intensification of difficulties over securing funding and accumulating evidence suggesting the global economy is in recession.

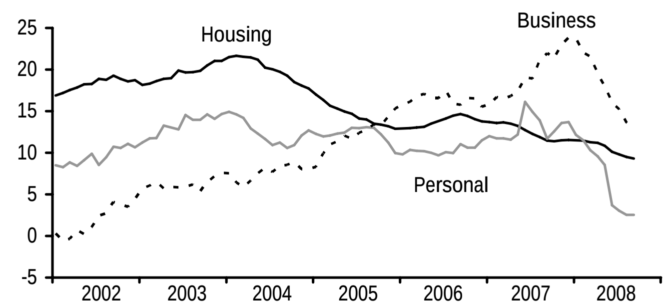
Credit growth to ease in October

The RBA's private sector credit aggregates should have grown 0.5%m/m in October, after rising 0.7% in September. This will mean that annual credit growth will have slipped into single-digit territory for the first time since June 2002, a sharp contrast to the 16%-plus growth rates earlier this year.

Australia: business investment
Nominal, annual % change, FY



Australia: private sector credit aggregates
%oya



We forecast that business credit likely pulled back sharply, growing just 0.5%m/m after a 1.1% rise in September. Businesses pulled back on borrowing, presumably postponing investment plans amid tighter credit conditions and expectations of slower global growth. Some businesses, though, may still have borrowed more from banks, given that other funding avenues have become more expensive or unavailable. Tighter credit conditions were likely major drags on housing and personal credit in October, forecast to grow 0.5%m/m and -0.5%, respectively.

RBA leaves the door open for more easing

The minutes from the RBA's November Board meeting, at which officials lowered the cash rate 75bp (against market expectations at the time of a 50bp move) were released last week. The minutes confirmed, as we suspected, that the RBA's recommendation to the Board before the meeting was for a 50bp rate cut, subject to review should further information come to hand by the time of the meeting. At the meeting, the Governor instead proposed that Board members make a choice between a 50bp and 75bp reduction. The shift to the larger rate cut probably reflected the release of weak global manufacturing data the day before the meeting, and evidence of falling house prices and weak retail sales data in Australia.

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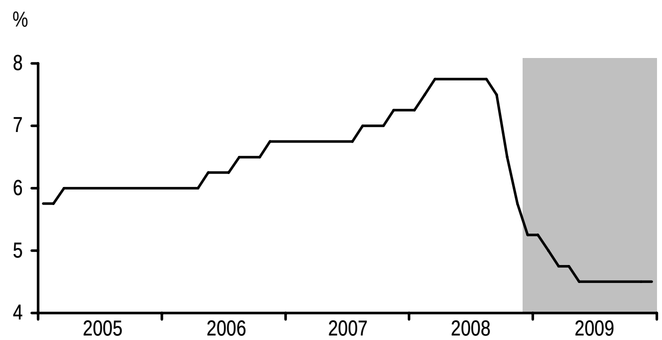
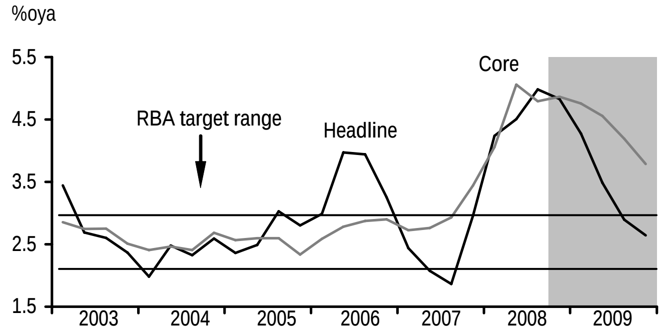
The minutes confirmed that the aim of RBA officials was to return policy to a neutral stance as quickly as possible. Having done so in three assertive moves, officials now probably will move at a more measured pace, with one wary eye on the outlook for inflation. In fact, the minutes make frequent reference to high domestic inflation and the fact that inflation is likely to stay elevated for an extended period of time, in part because of the impact of falling AUD. The RBA sees inflation staying above the 2-3% target range until the end of 2010. With this in mind, we still look for "only" a 50bp rate cut on December 2.

Australia: RBA cash target rate



Australia: headline and core CPI



The minutes signalled that the RBA has assertively slashed the cash rate because of an abrupt change in the balance of risks owing to the onset of the worst of the global financial crisis. The decision to cut the cash rate aggressively appeared based on three main considerations—the significant deterioration in the outlook for the world economy, poor conditions in global financial markets, and the likelihood that inflation in Australia would return to target over time.

RBA's anxiety over households

On the domestic economy, the minutes highlighted the RBA's anxiety about the weakness in household spending, the softness in housing, and the impact of falling equity and house prices on household wealth. Importantly, the minutes betrayed an expectation that labour market conditions will soften further, partly because the RBA expects a significant scaling back of firms' capital spending plans. The minutes indicate that the nonpublic information the RBA receives from it's regular liaison process is consistent with a marked deterioration in business and consumer sentiment.

The RBA's 75bp rate cut in early November took the cumulative moves since August to 200bp, the most aggressive easing since the 1990-91 recession. In addition to the 50bp cut we look for in December, we anticipate additional easing of 75bp by mid-2009. If realized, the terminal cash rate will be 4%, below the respective troughs at the end of the last three easing cycles, but high enough to leave the RBA with sufficient policy ammunition should there be a further leg down in the offshore and domestic economic outlook.

Speeches provide no guidance on policy

A speech from RBA Assistant Governor Malcolm Edey, entitled "The Economy in Late 200—Conditions and Prospects," simply summarized prevailing economic and financial conditions globally and in Australia, but made no reference to the policy outlook. He did, however, indicate that conditions are highly uncertain and that a lot of policy stimulus already has been poured into the economy. Indeed, in the RBA's view, the official rate cuts already made in recent months, the Government's fiscal stimulus, and the weaker AUD will cushion the downside for the economy.

Also, RBA Governor Glenn Stevens delivered a speech entitled "The Economic Situation." The speech touched once again on the troubles in the global economy and world financial markets, and assessed the impact these were having on Australia. The Governor gave no explicit guidance on the near-term policy outlook, but highlighted that Australia's longer term growth prospects were favourable, partly because of the "profound" impact the development of China was having on the world. In fact, Mr. Stevens cautioned against becoming too gloomy; this risked talking ourselves into a slowdown that would be deeper than would otherwise have been the case.

The Governor indicated that Australia's economy was slowing more abruptly than previously seemed likely, mainly because of the unexpected drop in the pace of growth in global

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demand. The RBA had responded to this weakness by lowering the cash rate quickly, despite readings on inflation that remain well above target. It was interesting that the Governor highlighted that future policy deliberations will be "two-handed." On the one hand, the RBA's desire is for inflation to return to target. On the other hand, however, the aim is to prevent an unnecessarily deep economic downturn. Inflation has not been forgotten.

Weak retail sales point to soft 3Q GDP

Retail sales volumes rose just 0.1%q/q in 3Q (JPMorgan 0.6%, consensus 0.4%), following two quarters of decline. Sales volumes were down 0.1%q/q in 1Q and 0.2% in 2Q, meaning that consumers, the largest part of the economy, already have been in recession. The unexpectedly weak retail sales print prompted a slight downgrade to our 3Q GDP growth forecast from 0.4%q/q to 0.3%.

The household sector is facing considerable headwinds, owing to weaker conditions in the labour market, a reduction in credit availability, low confidence, and falling asset prices. Of these factors, the largest drag on consumption over the medium term probably will be the significant rise that we forecast in the jobless rate. Having bottomed almost a year ago, the jobless rate will likely rise from 4.2% currently to 9% by the end of 2010, taking further pressure off labour costs, which have already started to ease. On the flipside, consumer spending will be supported by lower petrol prices and significant policy easing from the RBA.

Data releases and forecasts

Week of November 24 - 28

Wed Nov 26 11:30am
Construction work done
Seasonally adjusted

	4Q07	1Q08	2Q08	3Q08
(%q/q)	-0.2	5.0	-2.6	__
(%oya)	4.6	6.4	5.9	__

Thu Nov 27 11:30am
Private new capital expenditure
Seasonally adjusted

	4Q07	1Q08	2Q08	3Q08
(%q/q)	7.4	1.0	5.7	-1.5
(%oya)	18.1	8.4	8.1	13.0

Fri Nov 28 11:30am
Private-sector credit
Seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	0.6	0.5	0.7	0.5
(%oya)	11.3	10.5	10.1	9.5

Review of past week's data

WMI leading index
Seasonally adjusted

	Jul	Aug	Sep	
(%m/m)	0.1	-0.1	__	*-1.0*

Sales of new motor vehicles
Units, seasonally adjusted

	Aug		Sep		Oct	
(%m/m)	~~-4.0~~	*-3.5*	~~0.4~~	*-0.4*	__	*-0.5*
(%oya)	~~-7.4~~	*-7.3*	~~-8.2~~	*-8.6*	__	*-10.6*

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New Zealand

- **Business confidence to remain weak**
- **Price pressures eased in 3Q**
- **RBNZ to cut OCR 100bp in December**

After data last Wednesday showing that producer price inflation eased in 3Q, the RBNZ should report this week an easing in inflation expectations in 4Q. Our forecast calls for headline CPI growth to be beneath the RBNZ's 1-3%oya target range by the end of 2009. The NBNZ business confidence survey, though, will likely show that confidence remained weak in November, owing mainly to the significant deterioration in the global economic outlook and poor conditions in global financial markets.

RBNZ inflation expectations to ease

The RBNZ should report an easing in inflation expectations in 4Q. Inflation expectations rose in 3Q, with the survey of 76 business managers showing that inflation would likely average 3.0% in two years' time, compared to 2.9% in the previous survey. Both readings are at the very top end of the RBNZ's 1-3% target range.

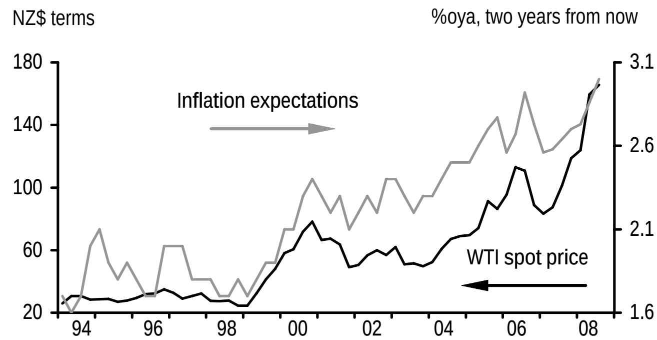
Inflation should, however, ease back within the RBNZ's target in the medium term as the weaker economy reduces pressure on resources. We expect a prolonged recession in New Zealand, including five quarters of declining GDP. Our forecast calls for headline CPI growth to be beneath the RBNZ's target range by 4Q09, paving the way for more assertive policy easing. We look for a 100bp rate cut in the OCR in December—a move fully priced in by markets—and a terminal cash rate of 3.25% by end-2009.

NZ business confidence to weaker

The NBNZ business confidence survey will likely show that confidence remained weak in November, owing mainly to the significant deterioration in the outlook for the world economy and poor conditions in global financial markets. Expectations of lower interest rates will provide a floor under confidence, however.

Business confidence tanked in October to -42.3 from +1.6 in September, marking the largest one-month fall on record. The headline reading signalled that a net 42.3% of respondents

New Zealand: RBNZ inflation expectations and crude oil price



New Zealand: NBNZ business outlook survey and GDP growth

expected business conditions to worsen in the coming year. Furthermore, firms' own activity expectations tanked to -11.4 from +16.7; this was the second lowest reading on record and the largest ever intra-month decline.

Price pressures eased

Pipeline price pressures eased in 3Q. Producer input prices grew 3.7%q/q, compared to 5.6% in 2Q (which marked the largest rise since 1980). Output prices also grew at a much slower rate, rising 2.8%q/q after a 3.5% rise in 2Q, which was the largest rise since 1985. For both indexes, the major contribution to the price rise came from the fuel wholesaling sector, owing to a rise in crude oil prices.

Input prices continued to grow at a significantly faster rate than output prices, however, suggesting that producers continued to find it difficult in the third quarter to pass on still-high costs to consumers, leaving profit margins squeezed. This is not surprising given the sharp slowdown in domestic demand, which has diminished pricing power.

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Data releases and forecasts

Week of November 24 - 28

Tue Nov 25 3:00pm

RBNZ inflation expectations

Not seasonally adjusted

	1Q08	2Q08	3Q08	4Q08
(%q/q)	2.7	2.9	3.0	__

Thu Nov 27 10:45am

Trade balance

Not seasonally adjusted

	Jul	Aug	Sep	Oct
Trade balance (NZ$ mn)	-804	-846	-1183	-1000
Exports (NZ$ mn)	3426	3581	3167	3150
Imports (NZ$ mn)	4230	4427	4350	4150

The trade deficit should narrow to NZ$1billion after blowing out in September to the largest deficit this year. Net exports will be a drag on economic growth in 2008 and 2009 owing to weak global demand. NZD depreciation will, though, boost exporters' competitiveness. Soft domestic demand, meanwhile, will weigh on imports.

Thu Nov 27 3:00pm

NBNZ business confidence

	Aug	Sep	Oct	Nov
% balance of respondents	-20.5	1.6	-42.3	__

Fri Nov 28 10:45am

Building consents

Not seasonally adjusted

	Jul	Aug	Sep	Oct
(%m/m)	4.0	-7.5	23.1	__
(%oya)	-33.6	-47.0	-17.8	__

Review of past week's data

Producer price index

nsa

	1Q08	2Q08	3Q08
(%q/q)	1.9	3.5	~~1.2~~ *2.8*
(%oya)	6.1	8.5	~~8.1~~ *9.8*

Visitor arrivals

Not seasonally adjusted

	Aug	Sep	Oct
Total (%m/m)	~~-0.5~~ *-0.8*	-6.0	__ *0.7*

Net permanent immigration

	Aug	Sep	Oct
Monthly (000s)	0.5	1.7	__ *1.5*
12 month sum (000s)	4.9	4.4	__ *4.3*

Credit card spending

Seasonally adjusted

	Aug	Sep	Oct
(%oya)	2.6	~~2.6~~ *2.7*	__ *1.2*
(%m/m)	-0.1	~~1.1~~ *1.2*	__ *-0.8*

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Global Essay

- **November surveys and financial market moves raise risks of a deeper downturn**
- **Rapidly rising unemployment and low core inflation to push Fed to ZIRP**
- **EM central banks are turning easy**
- **Core inflation is proving highly correlated to energy price moves recently**

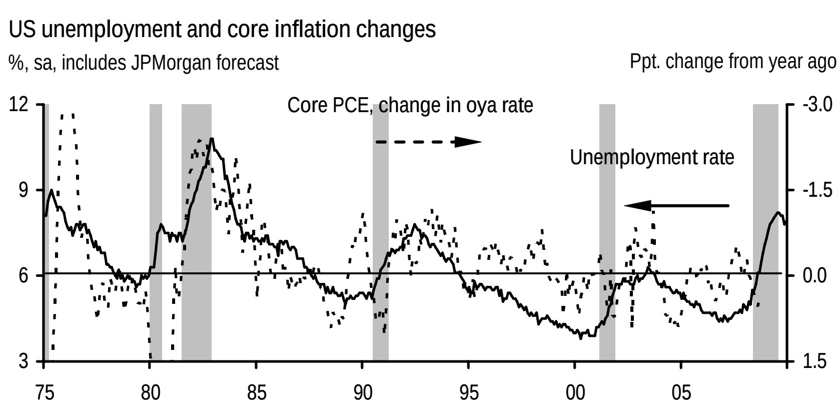
Unpleasant arithmetic

In gauging the intensity and duration of the global recession, we are keeping one eye fixed on the data flow and the other on financial market conditions. Looking at the recent developments in each of these areas sends a disturbing message. The data flow is tracking our current quarter forecast that global GDP and industrial production will contract at a 2% and 8% pace, respectively, this quarter —in both cases the sharpest declines since the early 1980s. However, a continued slide in business surveys in November—notably the Euro area PMI, and US surveys of homebuilders and regional manufacturers—suggest that growth momentum will continue to weaken into year end. This message is reinforced by the recent surge in US jobless claims, which points to job losses exceeding 300,000 for November.

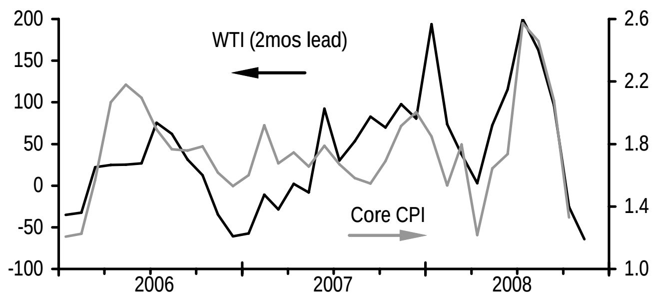
A precondition for eventual recovery is that efforts by policymakers to ease and contain the crisis in funding markets must short-circuit the negative feedback loop between economic contraction and financial market tightening. For now, the negative feedback loop continues to flow. Although high-grade corporate issuance of bonds and commercial paper has increased in recent weeks, activity ground to a halt with credit spreads widening across most asset classes in recent days. And equity markets have fallen sharply with renewed downward pressure on financials. The loss in US household wealth this quarter is approaching $6 trillion—an 11% fall that is more than twice the largest quarterly decline since the Great Depression. Against this backdrop, we are lowering our US GDP growth forecast further—largely by intensifying the 1H09 downturn to a -1.75% pace (previously -1%).

The timing of an eventual recovery is unlikely to be determined by the current depth of the downturn. Instead, success in three related areas will be required to lay the seeds for a return to growth: the containment of financial stress, the cushions to demand through policy stimulus, and the calming of fears that are now magnifying pullbacks by firms and households. The depth of the downturn is crucial, however, for determining the challenges for the coming recovery phase. Here, the US arithmetic linking the rise in unemployment, with the fall in inflation and a potential slide in trend growth is beginning to look unpleasant.

There is considerable debate about the US inflation process, but it is generally agreed that when the unemployment rate rises above 6%, significant slack is created that places downward pressure on core inflation. This relationship has proven durable through recession episodes spanning four decades, and the relatively modest disinflation earlier this decade can be attributed, in part, to the low 6.3% cycle peak unemployment rate. The depth of the current downturn—following an extended period of subdued growth—looks set to push the unemployment rate to 8% next year. Although this level has been breached previously, the current episode is notable for



WTI oil price and developed market core CPI
%3m, saar; both scales



the low initial level of core inflation. In the early 1980s and 1990s, core PCE inflation stood at 6.0% and 3.5% respectively as the unemployment peaked. In 2009, we are projecting core inflation to fall below 2.0% as the unemployment rate peaks. The prospects that the medium-term path will push core inflation below 1.0% is increasing.

Earlier episodes of recessions producing high unemployment were followed by recoveries with sustained periods of above-trend growth. With lingering headwinds from tight credit markets and adjustments by households to wealth destruction, it may prove difficult this time to produce an upturn that lowers the unemployment quickly from its peak. The risk that the US economy sustains a prolonged period of high unemployment is troublesome. Experience shows that periods of low utilization rates and lukewarm growth are usually accompanied by weak capital formation and structurally high budget deficits. In this environment, the prospect that US potential growth falls from our current projected rate of 2.5% is also increasing.

This first line of defense against this unpleasant arithmetic is the Fed. Recognizing the importance of anchoring medium-term inflation expectations, the Fed is likely to move policy rates to zero during 1Q09 and signal its commitment to using its balance sheet aggressively to promote growth. It is unlikely that Fed action can short-circuit the forces promoting rising unemployment and falling core inflation over the coming quarters. However, a central bank that acts in a consistent, committed fashion to reflate can normally achieve its goal.

Global deflation is not a near-term risk

While deflation has risen as a medium-term risk facing the Fed, there already has been an appreciable move down in core inflation from its peak. This was underscored in October, with sizable falls in both the US and UK core readings reported last week. These moves fan speculation that the global economy's rapid decent into recession may be accompanied by a rapid tilt into deflation. To be sure, falling demand and resource utilization are expected to generate significant disinflation. However, the recent slide in core inflation is not likely to be sustained, and near-term fears of deflation are overblown. Both the sudden rise in developed market core inflation earlier this year as well as the more recent sharp decline have mirrored this year's commodity price moves. While evidence of commodity price passthrough to core inflation has typically been difficult to find, the correlation has jumped markedly in recent years, reflecting changing pricing behaviour in response to the sustained, strong gains in oil and agriculture prices.

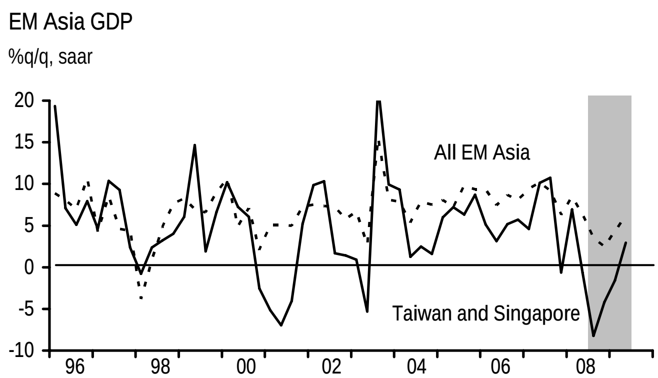
UK: after you, Darling . . .

In last week's MPC minutes, policymakers recognized that rates probably needed to fall much further than the 150bp cut they made on November 6. It limited its move out of a desire not to shock markets and to see the content of Monday's Pre Budget Report. Chancellor Darling's freedom of movement is limited by a deficit running nearly 3% of GDP before the downturn in growth took hold, and likely to rise above 6% thanks to the recession alone. The plunge in sterling and the need to demonstrate medium-term fiscal sustainability also may limit his plans. A stimulus package with new measures amounting to near 1% of GDP looks likely, split between accelerated infrastructure spending, tax cuts targeted at low income groups, and help for small businesses. This is close to our assumptions, but the stimulus is likely to arrive earlier than we thought. We continue to expect a 100bp easing from the MPC on December 4, although an unexpectedly large fiscal package might temper that outcome.

EM policy path made a little easier

EM policy rates remain higher than their August 2007 level, reflecting lingering inflation concerns (Latin America, Asia) or recent fx weakness (CEEMEA). However, with the major central banks now on a path of dramatic easing, EM policymakers are likely to begin accelerating plans to ease.

Rate cuts already are under way in the major economies of Emerging Asia, where central banks now should turn even more aggressive. With private sector growth and inflation concerns subsiding, we now expect at least a 54bp reduction in China's one-year benchmark lending and deposit rates by



end 2008, and four more 27bp cuts in both lending and deposit rates in 2009. In Taiwan, where the economy has slid into recession, the central bank is expected to ease 175bp to an all-time low of 1.0% by the 3Q09. As of last week, we now look for rates to fall 250bp to 5% in India over this period.

In Latin America, central banks remain reluctant to cut policy rates given the still high inflation readings, but are already easing policy through reserve requirement reductions. This has been particularly true in Brazil, where a plunging *real* has kept policy rates on hold even as reserve requirements have been shaved 40%. Still, with headline inflation likely to begin easing, some central banks are preparing the ground for easing in early 2009. We now pencil in cuts in Chile, Colombia, and Peru.

Policymakers in the CEEMEA region have their hands tied. Capital outflows, falling fx reserves, and depreciating currencies have kept central banks in the region from responding to the sharp deterioration in the growth outlook. Nonetheless, even here, the tide may be shifting. In Turkey, the CBRT surprised markets with a 50bp cut even as the lira has weakened, inflation remains double-digit, and the government is angling for IMF assistance. In addition to last week's cut, we continue to expect rate cuts of 75bp each quarter during 2009. Israel also surprised markets with a 50bp cut, and we now expect the policy rate to move down to 1.5% by 1H09 from the current level of 3%.

EM Asia's slump spreads beyond exports

The severe recession in the global industrial sector is now hitting EM Asia hard. Following the 1% fall in China's October IP, Singapore last week reported that its electronics exports continued to nosedive in October. These reports mirror the slide in IP and exports from regional bellwethers Korea and Taiwan. The forecast calls for EM Asian IP to plunge at over a 5% annual rate this quarter, exceeding the peak rate of decline during the Asian financial crisis. IP also is being hit by a slowdown in domestic demand. Taiwan's GDP plunged in 3Q, owing not only by sluggish exports, but more importantly to the sharp contraction in private investment and consumption. Singapore's economy also was dragged down by a continued decline in investment. The deceleration in domestic demand in Taiwan and Singapore foreshadows a downshift across the entire region. The resulting GDP slowdown is forecast to be less severe than in these two high-beta economies, however.

Russia's growth prospects dimming rapidly

Since August 8, Russia's international reserves have fallen US$145 billion (24%), including $22 billion in the week ended November 14. A combination of lower prices for energy and metals, Russian companies repaying their external obligations, international investors exiting Russia's equity and fixed income markets, and Russian firms and households selling rubles explains this dramatic decline. During this same period, Russia has suffered an abrupt slowdown in economic activity. Business confidence in the industrial sector has dropped to a level last seen during Russia's 1998 financial crisis. Moreover, wage arrears have been rising rapidly, and the media has been reporting cutbacks in investment and production. We now forecast 2009 GDP growth of 2.5%. Russia's overvalued currency is one reason for both the decline of reserves and the slowdown in growth. We believe that further devaluation of the ruble is likely, especially since Russia's business community is arguing that only a significant devaluation will allow companies to benefit from import substitution.

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JPMorgan View - Global Markets

The switch from cash to high-quality bonds has begun

- Markets remain in deep recession mode, with government bonds rallying strongly and equity and credit markets falling off a steep cliff. Despite the severe economic contraction already in the price, we advise staying in recession strategies as **economic news is set to remain awful and volatility is still too high to entice value-interested investors**. The only hope we have is for some form of short-covering when economic data no longer surprises super-negative investor base.

- The extreme global economic contraction is forcing policymakers into extreme measures. These will eventually push up spending, but not until some time next year. Meanwhile, investors should heed the impact of these measures.

- The **zero-interest rate policy** that many of the major economies are headed for will destroy the return on cash that everyone has been piling into to escape the carnage in risky markets. Once cash truly has no return, investors will venture out along the curve, first into the safer, higher-grade bonds issued by supranationals and large banks. Our high-grade bond index currently yields a high 7.8% in dollars and 6.3% in euros. The strong increase in issuance of high grade corporates and in particular of guaranteed bank bonds over the past two weeks, despite a worsening economic crisis, shows that this switch has started. The relatively high excess yield per unit of risk of high grade implies to us that high-grade will recover before other risky markets such as low-grade bonds and equities. Tactically, we are not long high-grade yet, given the remaining risk of forced unwinding by hedge funds, but we are near the point where we will likely switch to a long position.

- The high-yield bond market, where issuance is moribund, is not yet benefiting from a move out of cash, despite its 20% yield. This will come though, and we do see high-yield spreads peaking out in a few months. Equities will probably likewise lag in a flow out of zero-return cash, mostly because of their high volatility and falling earnings. But equities that resemble bonds, such as utilities and high-dividend stocks, will be the first to recover.

Fixed income

- Government bonds rallied and curves flattened on deflation fears. We **remain bullish on duration in the US and Europe**. Our Fed call for a zero fed funds target rate is not yet in the price and we expect the 2-year UST yield to move to 0.5% by the middle of next year.

10-yr Government bond yields

	Current	Dec 08	Mar 09	Jun 09	Sep 09
United States	3.19	3.00	2.80	2.50	2.35
Euro area	3.38	3.15	3.00	2.95	2.95
United Kingdom	3.87	3.30	3.30	3.10	3.10
Japan	1.41	1.45	1.40	1.45	1.50

Foreign exchange

	Current	Dec 08	Mar 09	Jun 09	Sep 09
EUR/USD	1.26	1.18	1.18	1.20	1.22
USD/JPY	95.9	87	87	93	95
GBP/USD	1.49	1.33	1.28	1.32	1.36

Commodities

		Quarterly Average			
	Current	Dec 08	Mar 09	Jun 09	Sep 09
WTI ($/bbl)	50	68	65	65	70
Gold ($/oz)	799	730	750	800	825
Copper($/mton)	3438	4200	3800	4250	4500
Corn ($/Bu)	3.39	4.20	4.45	5.30	5.15

Source: J.P. Morgan, Bloomberg, Datastream

- Persistent deflation fears should keep flattening pressure on curves, but mostly in the US where we recommend a 2s10s flattener. In Europe we see less risk of flattening as European central banks have further to go in the easing cycle and supply could surprise to the upside in Europe.

- The dynamics of the curve at the long end have been driven by dealer hedging and pension fund flows, especially in swaps. The poor performance of equity markets is worsening pension fund cover ratios, triggering buying at the very long end. The recent sharp fall in 30y swap yields has caused dealers to receive in 30y swaps to delta hedge short convexity positions on 30-year tails, putting narrowing pressure on swap spreads. These dynamics will likely continue near term especially in Euros.

Equities

- Equities fell more than 10% last week. The selloff was led by banks, on writedown worries related to commercial property exposures, and capex-related cyclical sectors. In a world characterized by an increasingly broad retrenchment in expenditures on autos, housing, and capital equipment, these producers are on the front-line of the economic downturn. We stay short these sectors.

- Where do we stand in terms of the three major drivers of

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equity markets: HF redemptions, volatility, and economic surprises? The two major selloffs over the past two months, in early October and late November, coincided with **HF redemption** windows. September 30 was the end of the redemption window for funds of funds and November 15- 30 for individual hedge funds. After the Nov 15-30 redemption window a year-end rally can take place. Extreme **volatility**, which has been a deterrent for investors, has receded from its mid-October peak, but remains elevated. Volatility will have to come down substantially before a sustained rally. **Economic activity surprises**, which have worsened for more than two months, also need to improve. Our EASI index, measuring economic activity surprises, has improved slightly, but remains close to its record lows.

Credit

- Credit spreads widened sharply last week, reaching record highs. The widening was led by CMBS and the auto sector. CMBS suffered on concerns around loan sponsors and borrowers' ability to refinance their debt. In addition, for investors who have money to invest, there are other competing sectors with more attractive valuations such as AAA prime mortgages. We **remain bearish on CMBS**.
- Autos suffered on the postponed decision on a US bailout. In Europe, most carmakers have decent liquidity but fundamentals are deteriorating. We continue to maintain a bearish bias on the sector, given our outlook for global demand and high operating leverage within the sector.
- We remain overall bearish in credit. The main negatives are continued HF redemptions and synthetic credit unwinds. Convertible arb and distressed securities funds are the worst performing styles mtd, following a terrible October, and thus are at risk of further redemptions. This, along with unwinding pressures in the CDO market will continue to put upward pressure on spreads.

Foreign exchange

- Currencies have been less responsive to equities and vol over the past two weeks, but are moving in the expected direction. The yen continues to outperform other currencies in the world as deleveraging advances; the dollar is strengthening versus the euro, sterling, commodity currencies, and emerging markets; and the less-liquid currencies (SEK, NOK) are underperforming within Europe. There is little reason to turn from a strategy that is working consistently, even if haltingly: **stay long the creditor currencies and short the debtor currencies, so long JPY vs USD and EUR, short GBP vs CHF and long USD vs ZAR.**
- Intervention still looks like a smoothing operation at best, if it occurs. The RBA bought a record A$3bn in October to stabilize AUD/USD, but so far it is the only major central bank to be seen intervening. Japan is the most likely to act next as suggested by the last G-7 statement in October, but given domestic opposition to reserve accumulation, we doubt any action will be large or persistent enough to reverse the yen's trend rise.
- European policymakers have expressed no discomfort with the fall in their currencies, and in the UK at least, they seem to be welcoming the moves as stimulative and a natural consequence of recession and collapsing interest rates. There is little reason to alter strategy based on intervention, which in general simply isn't a priority.
- In the US, the auto sector's downward spiral raises some suspicions that the US may leverage trade or exchange rate policy to assist carmakers. This fear too is misplaced. The US is in no position to tinker with trade policy towards Asia given the region's role in financing Treasury debt issuance, and the US is already enjoying significant currency weakness versus Japan. Neither trade nor fx would address the automakers' liquidity situation and is too indirect a tool to even merit consideration. Uncertainties over Detroit may be motivating some to sell USD/JPY, but the pair would fall on deleveraging/narrowing US/Japan spreads, even if Congress were to agree to a bailout.

Alternatives

- According to HFR, investors **redeemed $40bn from hedge funds** in October. This pace is consistent with our net outflow forecast of at least $150bn in 4Q, as we expect higher redemptions in November and December. Indeed, October redemptions were requested before Hedge Funds' significant October losses. While there is upside risk to our forecast, redemption constraints are likely to keep net outflows below $250bn. **Commodities** continue to trend lower as global economic weakness limits demand. Commodity markets will likely remain lackluster in 2009. We forecast a price return of 11% next year, but the high cost of carry should drive total returns significantly lower. We also see considerable downside risk as this forecast is based on our modal economic view of global growth recovery in 2H09. **Agricultural** commodities are best placed to outperform. Demand for these is less sensitive to economic pressures and prices will be supported by increasing mandatory biofuel demand. Base and precious metals are the most vulnerable commodities.

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Markets - Australia and New Zealand

Australia

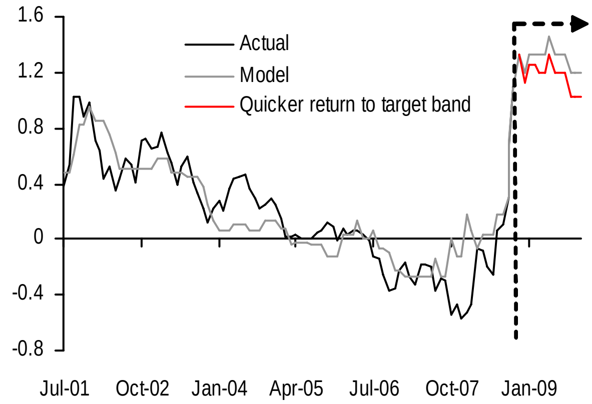
- **The market remains aggressively priced for a 125bp rate cut at the RBA's next meeting. We think the risks are biased towards a more modest easing.**
- **Our house view is for a 50bp rate cut in December. However, the risk to this view remains to the downside; if the global economic environment continues to deteriorate beyond the RBA's expectations.**
- **We continue to expect a terminal cash rate of 4%, but risks are mounting towards a lower terminal rate for the cycle in Australia.**
- **We recommended taking profits on curve steepening strategies. We turn neutral on duration, with both 3y and 10y yields having reached our suggested targets. Long duration positions only look attractive at these levels if the terminal RBA cash rate settles closer to 3%.**
- **Short positions in the front end of the Australian yield curve have been difficult to hold over the past week or so. With the market pricing a 125bp rate cut in December, there is ample scope for disappointment at the RBA's next meeting given Governor Stevens' even handed comments last week.**

Fade curve steepeners and turn neutral on outrights in Australia

For Australia, there are a number of implications from recent developments. First, it is difficult to see how the 3s10s curve will meaningfully steepen if offshore long rates are biased to fall. With the front end pegged to cash and the market aggressively pricing a sub 3% cash rate, there seems to be limited scope for the front end to rally too far from here. If, as our US rates strategists believe, the US yield curve is likely to continue to flatten, then this should work to cap gains in the AUS 3s10s curve near term.

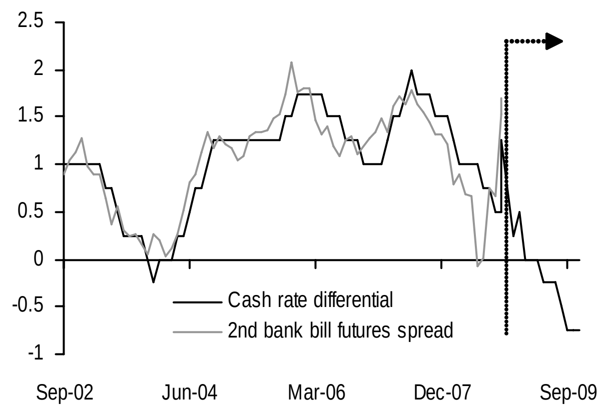
Accordingly, we think investors should look to fade curve steepening positions on any move above 115bps. This strategy should also work if the RBA disappoints market expectations at its next Board meeting seeing as the front end looks a touch vulnerable to a re-pricing of policy expectations. Strategically, we think the curve could reach a peak of 140bps for the cycle (based on our real cash rate expectations); but the risk to this view would be a more rapid decline in core inflation than expected by the RBA. In the event the RBA was

Chart 1: AUS 3s10s curve
Percentage Points



Source: J.P. Morgan and Bloomberg

Chart 2: AUS-NZ front end rate differentials
Percentage Points



Source: J.P. Morgan and Bloomberg

surprised on the downside on inflation, we would remain comfortable with our target of 120bps for the cycle (see chart 1).

Price action over the last couple of weeks has seen our targets for outright yields reached. We targeted a move to 3.5% for 3y government bond yields and a move to 3.75% for 10y government bond yields. Accordingly, we think it is time to turn neutral on outright long duration positions. Only if investors believe the RBA is cutting rates well below 3.5% do 3y yields offer much value at current levels. While it seems premature to rule anything out in the current environment, we think long duration positions at current levels don't offer much in the way of risk/reward.

Time to short the AUS front end?

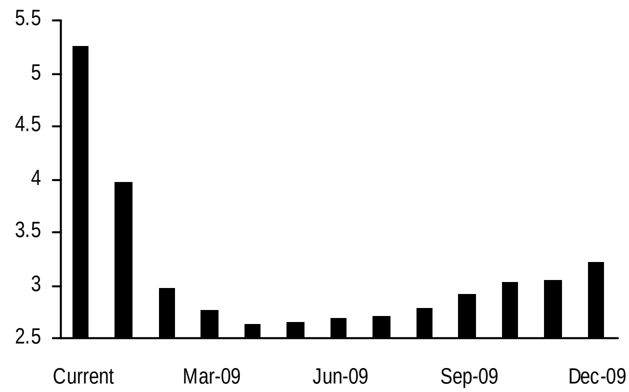
Indeed, we think the front end of the Australian yield curve is looking a little expensive; the Dec-08 IB contract is now pricing in a 125bps rate cut from the RBA next month. Rhetoric from the central bank over the last week or so has not been so dovish to validate this pricing, and our house view is that the RBA will only deliver a 50bp cut next week. Even if the RBA cuts by 75bps, there is a genuine risk that the RBA could disappoint expectations next month, meaning that the front end looks a touch vulnerable.

Of course, we say this with the usual caveats – if the global situation deteriorates further, then the RBA may well be tempted to cut by another 75-100bps. But for the time being, we are happy to stay short the front end in Australia, albeit with a tight stop to the position.

We think there are a couple of ways to trade this view.

- **Short Dec-08 IB contracts at 95.95 or above.** At the moment, the implied yield on these instruments is 4.05% (96% chance of a 125bp rate cut). The only scenario that would see lose money is a cut of 125bps or more. In every other scenario, the payoff ratios look attractive – 4:1 for a 100bps rate cut, 9:1 for a 75bps rate cut and 14:1 for a 50bps rate cut.
- **Pay 1-month OIS; our calculations suggest 1-month OIS should move 57bp higher in the event that the RBA only cuts by 50bps**, and around 38bps higher in the event of a 75bp rate cut (chart 3). Alternatively, investors could look to pay 1-month OIS against receiving 2-month OIS.
- **Short AUD Mar-09 bank bill futures vs. NZD Mar-09 bank bill futures.** We have noted for sometime that the AUS front end looks expensive relative to the NZ front end (chart 2). Look to enter this spread at 178bps.

Chart 3: OIS pricing for RBA cash rate – 260bp of easing by May
Percent



New Zealand

- **More weak data in New Zealand have emphasised downside risks to the policy rate. We continue to expect a 100bp rate cut from the RBNZ at its next meeting in December.**
- **But with the policy rate in the US expected to reach 0% and policy rates in the Europe and UK expected to reach 1%, a 6.5% cash rate in New Zealand looks very high. Risks look to be biased towards a greater than 100bps rate cut in early December.**

Local data have continued to come in on the weak side of expectations, with retail sales numbers for September showing a modest rise of 0.1% in the month. Ex autos, retail sales fell 0.5%. The REINZ measure of house prices for October showed that the rate of house price decline continues to accelerate, with house prices down 34.8%pya, from -23.7%. And PPI data, while still elevated in annual terms, show signs of improvement in quarterly annualized (momentum) terms. These data reinforce the downside risks to the RBNZ cash rate in coming months.

With the policy rate in the US expected to reach 0% and policy rates in the Europe and UK expected to reach 1%, a 6.5% cash rate in New Zealand looks very high. Indeed, the current policy rate in New Zealand is a full 460bps above J.P. Morgan's developed economy policy rate (chart 4). Since the introduction of the OCR, this spread has averaged 330bps. And since the RBNZ last meet in October, the global economic environment has deteriorated considerably, financial conditions remain strained and local economic data have continued to disappoint. Risks look to be biased towards a greater than 100bp rate cut at the RBNZ's next meeting.

We still continue to believe that the very front end of the New Zealand yield curve looks cheap, both on an absolute and relative value basis. See our trade recommendation on the following page.

One of the main themes from our marketing trip from the UK last week was that there seemed to be more interest in opportunities in the New Zealand market (received front end positions, 2s10s curve steepeners) than in the Australian market, given recent moves in the AUS front end and 3s10s curve. There did not seem to be much surprise at our view that the NZ OCR could reach 3.25%. There seemed to be general agreement from most accounts that the NZ front end looks cheap relative to the AUS front end.

There were some concerns from a number of accounts about the potential for large current account deficits in both Australia and New Zealand to spur further depreciation of the AUD and NZD. Most agreed that New Zealand was more at risk of such an adjustment and some pondered whether a lower NZD might constrain the RBNZ's ability to ease monetary policy. More broadly, accounts were of the view that AUD/NZD should perform over the medium term.

Trade Updates

- **Sell AUS Dec-08 IB contracts at 95.95**

As we note in the *Strategy Update*, the implied yield on these instruments is 4.05% (96% chance of a 125bp rate cut). The only scenario that would see lose money is a cut of 125bps or more at the December board meeting. In every other scenario, the payoff ratios look attractive – 4:1 for a 100bps rate cut, 9:1 for a 75bps rate cut and 14:1 for a 50bps rate cut.

Enter the trade at 95.95, target a move to 95.40 and place a stop at 96.05.

- **Sell AUD Mar-09 bank bill futures against NZD Mar-09 bank bill futures**

For investors uncomfortable with outright short positions in the Australian front end, we recommend shorts against the NZ front end. As **chart 2** illustrates, the cash rate differential between Australia and NZ has ample scope to compress (even if our terminal cash rate expectation for Australia gets revised down). We recommend implementing this trade through bank bill futures as we expect liquidity issues to be less prevalent. At current levels, the second bank bill spread looks too wide. Furthermore, this trade should perform even if the RBA is more aggressive than expected in December. If the RBA is more aggressive, then the risks of an even more aggressive easing from the RBNZ 2 days later should rise.

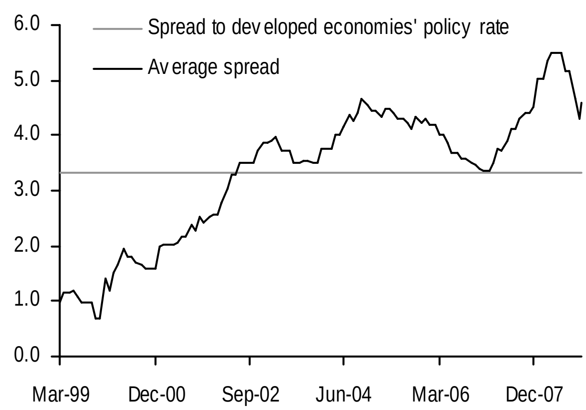
Enter this trade at a spread of 178bps, and target a move to 138bps. Place a stop at 190bps.

- **Hold short Mar-09 bank bill futures against 3-years**

This trade has not moved in our favour over the last couple of weeks, thanks to the extraordinary rally in Mar-09 bank bill futures contracts.

This spread is at -48bps, a loss of 7bps. Continue to hold this trade over the RBA board meeting, on the view that it should perform if the RBA disappoints market expectations.

Chart 4: NZ – policy rate remains well above its average spread to the developed economies' policy rate
Percentage Points



Source: J.P. Morgan

- **Take profits on NZD 2s10s swap spot curve steepeners**

The NZD 2s10s spot swap curve has steepened considerably over the last couple of weeks.

Exit the trade at a spread of 75bps, for a gain of 53bps.

- **Hold received NZD 5y swap positions against AUD 5y swap**

After performing well, this trade has retraced some of its gains over the last week or so. We continue to believe that NZD rates look cheap relative to Australian rates, so continue to hold the trade in anticipation of further spread contraction.

This spread is now 87bps (a gain of 5bps). Target a move to 52bps. Leave stop at 100bps.

- **Take profits on received NZD 1y1y positions**

The NZD 1y1y rate has fallen 80bps since we initiated the trade, and we are happy to take profits at current levels (even though we are still 20bps away from our target).

Exit the trade at 5.3%, for a gain of 80bps.

- **Stop out of AUD 5s10s swap spot curve steepeners against 3s10s bond curve flatteners**

We have been stopped out on this trade. Exit the trade for a loss of 11.5bps.

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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			
	2007	2008	2009	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	2Q08	4Q08	2Q09	4Q09
The Americas														
United States	2.0	1.3	-1.1 ↓	2.8	-0.3	-4.0	-3.0 ↓	-0.5 ↓	1.5 ↓	2.5 ↓	4.3	2.7	0.3	0.8 ↓
Canada	2.7	0.6	0.6	0.3	1.0	-0.5	-0.5	1.0	2.5	3.0	2.4	2.4	1.2	2.0
Latin America	5.2	3.9	1.4 ↓	4.8	2.1 ↑	-0.2 ↓	-0.6 ↓	1.8	3.6 ↓	3.4 ↓	7.5	8.1	8.0 ↑	7.3 ↑
Argentina	8.7	6.5	-1.0 ↓	8.7	6.6 ↑	-2.0 ↓	-3.9 ↓	-3.9	0.0 ↓	-2.0 ↓	9.1	8.2	8.6	9.8
Brazil	5.4	5.3	2.8	6.5	4.7	0.4	1.0	3.7	4.2	4.7	5.6	6.5	6.2	5.4
Chile	5.1	4.0	2.5	7.4	0.0	2.0	2.5	2.5	2.5	2.5	8.9	8.9 ↓	6.9 ↓	4.1 ↓
Colombia	7.7	3.5	2.5 ↓	2.6	4.0	3.0	1.8	1.8 ↓	4.0	0.5 ↓	6.4	7.4	5.9	5.5
Ecuador	2.5	7.0	2.0 ↓	9.9	4.5	-2.5	1.5 ↓	2.0 ↓	2.5 ↑	4.0 ↑	9.1	9.5 ↓	4.6 ↓	3.8 ↓
Mexico	3.2	1.3	0.0	0.6	-1.2	-2.0	-2.0	1.2	4.1	4.1	4.9	5.3	4.5	3.7
Peru	8.9	9.2	5.3	10.1	6.9	4.9	2.8	5.5	6.0	5.5	5.5	6.1	5.5	4.5
Venezuela	8.4	5.0	1.5 ↓	11.6	-1.0	4.5 ↓	-2.5 ↑	2.0 ↑	2.0 ↓	2.0 ↓	31.0	34.1 ↑	42.1 ↑	41.8 ↑
Asia/Pacific														
Japan	2.1 ↑	0.2 ↓	-1.8 ↑	-3.7 ↓	-0.4 ↑	-3.5	-3.0	-0.5 ↑	-1.2 ↓	1.5	1.4	1.4 ↑	0.0 ↓	-0.2 ↓
Australia	4.2	2.3	0.7	1.1	1.5	-1.0	-1.7	2.3	3.7	2.9	4.5	4.7	2.6	1.6
New Zealand	3.2	0.5	0.4	-0.6	-1.8	-0.8	-0.4	2.1	2.8	3.3	4.0	4.9	3.2	0.8
Asia ex. Japan	8.8	6.6 ↓	5.2 ↓	6.3 ↓	3.5 ↓	2.5 ↓	4.3 ↓	6.2	7.8 ↑	8.5	7.0	5.1	3.0	3.4
China	11.9	9.4	8.1	10.9	6.4	4.1	7.9	9.7	10.1	10.5	7.8	3.6	1.7	3.4
Hong Kong	6.4	2.9	-1.3	-5.5	-2.0	-4.2	-2.5	1.0	2.5	3.5	5.7	2.2	-0.8	-0.6
India	9.0	6.7	6.2	6.1	6.0	5.6	3.6	4.5	8.0	9.5	7.8	8.9	6.3	5.7
Indonesia	6.4 ↑	5.6	4.2	5.5 ↑	6.4 ↑	3.0	4.0	5.0	5.0	6.0	9.0	12.2	8.5	4.5
Korea	5.0	4.3	3.0	3.4	2.3	1.8	2.5	3.5	4.5	5.5	4.8	4.8	3.3	3.0
Malaysia	6.3	5.1	3.0 ↑	3.7	1.2	0.0	0.0	4.5	8.2	8.2	4.9	7.1	4.9	2.3
Philippines	7.2	4.6	4.0	6.2	3.0	3.0	3.5	4.0	5.0	6.0	9.7	8.0	4.3	3.7
Singapore	7.7	1.7 ↓	-1.0 ↓	-5.3 ↑	-6.8 ↓	-7.8 ↓	-5.1 ↓	6.1 ↑	10.4 ↑	10.4 ↓	7.5	4.7	1.2	2.8
Taiwan	5.7	1.8 ↓	-0.4 ↓	0.9 ↓	-8.7 ↓	-3.0 ↓	-0.4 ↓	1.9 ↑	5.3 ↑	5.8 ↑	4.2	1.7	1.6	1.6
Thailand	4.8	4.5	3.0	2.3	1.2	0.4	0.4	4.5	8.2	10.0	7.5	4.9	1.1	3.3
Africa														
South Africa	5.1	3.2	1.8	4.9	0.0	-0.7	2.2	2.4	3.2	3.6	11.6	12.4	9.0	7.3
Europe														
Euro area	2.6	0.9	-1.0	-0.7	-2.1 ↓	-2.5	-2.0	0.0	0.5	1.0	3.6	2.6	1.3	1.3
Germany	2.6	1.3	-1.2	-1.7	-2.1	-2.3	-2.0	0.0	0.5	1.0	3.0	2.1	0.8	0.9
France	2.1	0.9	-0.5	-1.1	0.6	-2.0	-1.0	0.0	0.5	1.0	3.7	2.3	0.9	1.4
Italy	1.4	-0.5	-1.3	-1.8	-2.0	-2.8	-2.0	0.0	0.5	1.0	3.8	3.1	2.1	1.8
Norway	6.3	2.4	-0.5	3.9	-0.5	-1.5	-2.0	0.0	0.5	1.5	3.2	4.1	2.8	1.2
Sweden	2.9	0.6	-0.7	-0.1	-0.8	-2.0	-1.5	0.0	0.5	1.0	3.8	3.0	1.0	0.3
Switzerland	3.3	1.9	0.0	1.5	0.5	-1.5	-1.0	0.5	1.2	1.8	2.7	1.7	0.5	1.0
United Kingdom	3.0	0.8	-1.7	0.0	-2.0	-3.0	-2.5	-1.5	0.0	1.0	3.4	4.0 ↓	1.7 ↓	0.8 ↓
Emerging Europe	6.5	5.2 ↓	1.1 ↓	6.3	3.6	1.6	-0.2	-0.3	1.2	1.6	10.2	9.7	8.0	7.1
Bulgaria	6.2	5.2	1.0	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	6.6	4.0	-1.0	3.6	4.1	3.0	-3.1	-2.5	-3.2	-1.5	6.8	5.2	0.7	1.2
Hungary	1.1	1.1	-3.0	2.3	-0.4	-2.5	-3.8	-5.0	-3.8	-3.5	6.8	4.8	3.2	3.5
Poland	6.7	5.0	1.5	5.7	2.0	1.5	1.0	-0.5	1.5	1.5	4.3	4.0	3.4	2.8
Slovak Republic	10.4	6.0	-1.0	5.3	6.3	-10.0	3.0	1.5	2.0	-10.0	4.5	4.0	2.2	2.5
Romania	6.0	8.5	0.5	...	...	...	...	...	...	...	8.6	6.3	5.5	7.0
Russia	8.1	7.2	2.5	7.3	5.1	2.0	0.5	1.5	3.0	4.0	14.8	14.1	12.5	11.0
Turkey	4.6	2.2 ↓	0.5 ↓	...	...	...	...	...	...	...	10.3	11.2	9.3	7.5
Global	3.5 ↑	1.9 ↓	-0.2 ↓	1.6 ↓	0.0 ↓	-2.2 ↓	-1.5 ↓	0.6	1.7 ↓	2.7 ↓	4.4	3.5	1.7	1.7 ↓
Developed markets	2.4	1.0	-1.1 ↓	0.4 ↓	-0.9 ↓	-3.2	-2.5 ↓	-0.3	0.7 ↓	1.8 ↓	3.5	2.6	0.7 ↓	0.8 ↓
Emerging markets	7.5	5.6 ↓	3.5 ↓	5.9	3.1 ↓	1.6 ↓	2.3 ↓	3.9	5.5 ↑	6.0 ↓	7.8	6.8	5.2 ↑	5.1 ↑

Global Central Bank Watch

	Official interest rate	Current	Change from Aug 07 (bp)	Last change	Next meeting	Forecast next change	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
Global	GDP-weighted average	2.98	-174				2.57	2.06	1.78	1.65	1.64
excluding US	GDP-weighted average	3.91	-56				3.54	3.03	2.61	2.43	2.41
Developed	GDP-weighted average	1.89	-225				1.43	0.90	0.63	0.54	0.54
Emerging	GDP-weighted average	7.31	31				7.09	6.67	6.34	6.06	6.00
Latin America	GDP-weighted average	10.41	160				10.41	10.34	10.13	9.76	9.76
CEEMEA	GDP-weighted average	8.22	121				8.09	7.81	7.42	7.05	6.76
EM Asia	GDP-weighted average	5.81	-51				5.47	4.86	4.52	4.31	4.31
The Americas	GDP-weighted average	2.12	-348				1.67	1.22	1.19	1.15	1.15
United States	Federal funds rate	1.00	-425	29 Oct 08 (-50bp)	16 Dec 08	16 Dec 08 (-50bp)	0.50	0.00	0.00	0.00	0.00
Canada	Overnight funding rate	2.25	-225	21 Oct 08 (-25bp)	9 Dec 08	9 Dec 08 (-50bp)	1.75	1.25	1.25	1.25	1.25
Brazil	SELIC overnight rate	13.75	225	10 Sep 08 (+75bp0	10 Dec 08	on hold	13.75	13.75	13.75	13.75	13.75
Mexico	Repo rate	8.25	100	15 Aug 08 (+25bp)	28 Nov 08	Jun 09 (-25bp)	8.25	8.25	8.00	7.25	7.25
Chile	Discount rate	8.25	275	4 Sep 08 (+50bp)	11 Dec 08	Mar 09 (-25bp)	8.25	8.00	7.25	7.00	7.00
Colombia	Repo rate	10.00	75	25 Jul 08 (+25bp)	19 Dec 08	Jan 09 (-25bp)	10.00	9.25	8.50	8.50	8.50
Peru	Reference rate	6.50	175	11 Sep 08 (+25bp)	11 Dec 08	Mar 09 (-25bp)	6.50	6.25	6.00	5.75	5.75
Europe/Africa	GDP-weighted average	3.81	-79				3.28	2.64	2.00	1.76	1.73
Euro area	Refi rate	3.25	-75	6 Nov 08 (-50bp)	4 Dec 08	4 Dec 08 (-50bp)	2.75	2.00	1.25	1.00	1.00
United Kingdom	Repo rate	3.00	-275	6 Nov 08 (-150bp)	4 Dec 08	4 Dec 08 (-100bp)	2.00	1.50	1.00	1.00	1.00
Sweden	Repo rate	3.75	25	23 Oct 08 (-50bp)	17 Dec 08	17 Dec 08 (-50bp)	3.25	2.75	2.25	1.50	1.50
Norway	Deposit rate	4.75	0	29 Oct 08 (-50bp)	17 Dec 08	17 Dec 08 (-50bp)	4.25	3.25	2.75	2.50	2.50
Czech Republic	2-week repo rate	2.75	-50	6 Nov 08 (-75bp)	17 Dec 08	17 Dec 08 (-50bp)	2.25	1.75	1.25	1.00	1.00
Hungary	2-week deposit rate	11.50	375	22 Oct 08 (+300bp)	25 Nov 08	1Q 09 (-25bp)	11.50	11.25	10.50	9.50	8.50
Israel	Base rate	3.00	-100	11 Nov 08 (-50bp)	24 Nov 08	24 Nov 08 (-50bp)	2.00	1.50	1.50	1.50	1.50
Poland	7-day intervention rate	6.00	125	25 Jun 08 (+25bp)	26 Nov 08	Jan 09 (-25bp)	6.00	5.50	5.00	4.50	4.00
Romania	Base rate	10.25	325	31 Jul 08 (+25bp)	6 Jan 09	6 Jan 09 (+100bp)	10.25	12.00	12.00	11.00	10.00
Russia	1-week deposit rate	5.75	250	11 Nov 08 (+100bp)	4Q 08	on hold	5.75	5.75	5.75	5.75	5.75
Slovak Republic	2-week repo rate	3.25	-100	11 Nov 08 (-50bp)	25 Nov 08	19 Dec 08 (-50bp)	2.75	2.00	1.25	1.00	1.00
South Africa	Repo rate	12.00	200	12 Jun 08 (+50bp)	11 Dec 08	Feb 09 (-50bp)	12.00	11.50	10.50	10.00	10.00
Switzerland	3-month Swiss Libor	1.00	-150	20 Nov 08 (-100bp)	11 Dec 08	11 Dec 08 (-50bp)	0.50	0.25	0.25	0.25	0.25
Turkey	Overnight borrowing rate	16.25	-125	19 Nov 08 (-50bp)	18 Dec 08	1Q 09 (-50bp)	16.25	15.50	14.75	14.00	13.25
Asia/Pacific	GDP-weighted average	3.13	-42				2.93	2.53	2.35	2.25	2.25
Australia	Cash rate	5.25	-125	4 Nov 08 (-75bp)	2 Dec 08	2 Dec 08 (-50bp)	4.75	4.25	4.00	4.00	4.00
New Zealand	Cash rate	6.50	-175	23 Oct 08 (-100bp)	3 Dec 08	3 Dec 08 (-100bp)	5.50	4.50	4.00	3.50	3.25
Japan	Overnight call rate	0.30	-20	31 Oct 08 (-20bp)	18 Dec 08	19 Feb 08 (-20bp)	0.30	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	1.50	-525	30 Oct 08 (-50bp)	17 Dec 08	17 Dec 08 (-50bp)	1.00	0.50	0.50	0.50	0.50
China	1-year working capital	6.66	-36	29 Oct 08 (-27bp)	4Q 08	4Q 08 (-54bp)	6.12	5.58	5.31	5.04	5.04
Korea	Base rate	4.00	-100	7 Nov 08 (-25bp)	10 Dec 08	10 Dec 08 (-25bp)	3.75	3.00	3.00	3.00	3.00
Indonesia	BI rate	9.50	125	7 Oct 08 (+25bp)	4 Dec 08	1Q 09 (-25bp)	9.50	9.25	9.00	9.00	9.00
India	Repo rate	7.50	-25	1 Nov 08 (-50bp)	Jan 09	Jan 09 (-50bp)	7.50	6.50	5.50	5.00	5.00
Malaysia	Overnight policy rate	3.50	0	26 Apr 06 (+25bp)	24 Nov 08	24 Nov 08 (-25bp)	3.25	2.75	2.75	2.75	2.75
Philippines	Reverse repo rate	6.00	0	28 Aug 08 (+25bp)	18 Dec 08	2Q 09 (-25bp)	6.00	6.00	5.75	5.75	5.75
Thailand	1-day repo rate	3.75	50	27 Aug 08 (+25bp)	3 Dec 08	3 Dec 08 (-25bp)	3.50	3.00	2.75	2.75	2.75
Taiwan	Official discount rate	2.75	-38	9 Nov 08 (-25bp)	Dec 08	Dec 08 (-25bp)	2.25	1.75	1.25	1.00	1.00

Bold denotes move this week and forecast changes. Underline denotes policy meeting during upcoming week.

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Forecasts - Australia and New Zealand

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

				2007			2008				2009			
	2007	2008	2009	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	4.2	2.1	0.7	3.3	4.3	2.8	2.7	1.1	1.5	-1.0	-1.7	2.3	3.7	2.9
Private consumption	4.5	2.4	0.6	2.5	4.1	5.7	2.6	-0.6	2.0	-1.2	-0.8	1.2	2.8	3.2
Construction investment	9.8	2.3	-1.5	3.1	10.0	-3.0	9.7	-4.6	0.8	-1.1	-2.5	-0.6	-0.2	-4.3
Equipment investment	9.6	9.1	-6.9	24.1	-0.6	16.2	-1.3	53.4	-11.8	-22.6	-15.6	-2.1	6.4	8.6
Public investment	5.7	15.1	9.9	72.3	-27.7	30.6	27.5	9.8	11.9	10.7	8.3	9.6	10.1	10.7
Government consumption	2.4	4.6	6.9	1.0	5.5	5.8	2.4	4.8	4.1	11.7	6.1	7.9	4.1	5.9
Exports of goods & services	3.2	4.9	-0.1	0.8	8.8	-2.6	7.7	11.1	2.0	0.8	-3.9	-2.0	0.8	2.0
Imports of goods & services	10.8	11.2	2.0	7.1	11.1	13.4	18.2	9.3	4.1	3.2	2.0	-1.2	0.8	-0.4
Contributions to GDP growth:														
Domestic final sales	5.3	4.0	1.1	6.8	3.6	6.8	4.8	3.5	0.9	-0.5	-0.7	2.4	3.4	3.5
Inventories	0.6	-0.1	0.1	-1.9	1.5	-0.2	0.7	-2.2	1.2	0.2	0.4	0.0	0.4	-1.1
Net trade	-1.8	-1.7	-0.5	-1.4	-0.8	-3.5	-2.6	-0.1	-0.6	-0.7	-1.4	-0.1	0.0	0.5
GDP deflator (%oya)	3.8	5.6	3.2	4.0	3.2	3.5	3.7	6.7	6.3	5.6	5.2	2.6	2.6	2.5
Consumer prices (%oya)	2.3	4.6	2.4	2.1	1.9	3.0	4.2	4.5	5.0	4.7	3.7	2.6	1.8	1.6
Producer prices (%oya)	2.3	9.1	4.0	1.5	0.8	3.4	6.9	8.7	10.9	10.0	7.4	3.7	2.6	2.3
Trade balance (A$ bil, sa)	-20.7	-12.7	-18.3	-4.6	-5.4	-6.9	-8.0	-0.5	-1.4	-2.8	-3.5	-4.1	-5.2	-5.4
Current account (A$ bil, sa)	-67.0	-60.4	-55.0	-16.4	-16.8	-19.0	-19.8	-12.8	-13.1	-14.6	-13.5	-13.9	-14.2	-13.4
as % of GDP	-6.2	-5.2	-4.5	-6.1	-6.1	-6.8	-7.0	-4.4	-4.4	-4.9	-4.5	-4.6	-4.6	-4.3
3m eurodeposit rate (%)*	6.0	6.4	5.1	5.8	7.1	7.2	7.6	6.7	5.8	5.5	5.5	5.0	5.0	5.0
10-year bond yield (%)*	5.6	5.7	4.7	5.6	5.7	6.4	6.1	6.2	5.8	4.8	4.7	4.8	4.8	4.7
US$/A$*	0.75	0.83	0.62	0.74	0.77	0.91	0.91	0.97	0.87	0.59	0.57	0.61	0.63	0.66
Commonwealth budget (FY, A$ bil)	17.2	13.5	-4.0											
as % of GDP	1.6	1.2	-0.3											
Unemployment rate	4.4	4.3	6.3	4.3	4.3	4.3	4.1	4.3	4.2	4.6	5.1	5.9	6.6	7.4
Industrial production	3.2	3.8	-1.4	-0.3	1.5	5.6	10.2	1.6	0.0	-3.0	-2.0	2.0	4.0	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	0.5	0.4	3.8	2.5	3.6	-1.2	-0.6	-1.8	-1.5	-0.5	1.6	3.8	4.6
Private consumption	4.1	0.1	0.6	1.9	2.2	2.6	-1.7	-1.0	-0.7	-0.5	0.1	1.1	3.2	4.1
Fixed Investment	4.3	2.6	-1.3	-0.5	0.8	13.8	-5.6	14.4	-6.0	-4.4	-3.9	-1.0	2.8	4.5
Residential construction	4.4	-12.3	-5.3	19.6	2.0	-8.9	-19.2	-28.8	-5.8	-6.5	-6.0	-2.0	3.3	4.0
Other fixed investment	4.3	6.3	-0.5	-5.0	1	20.4	-2.1	26.8	-6.0	-4.0	-3.5	-0.8	2.7	4.6
Inventory change (NZ$ bil, saar)	0.8	0.7	-0.1	0.4	0.3	0.1	0.4	0.4	0.0	-0.1	0.0	0.0	-0.1	-0.1
Government spending	3.3	3.0	3.7	5.2	6.1	1.9	6.3	1.8	-4.3	4.2	8.3	5.1	3.5	-0.6
Exports of goods & services	3.2	0.6	-1.3	-3.3	-1.5	19.0	-7.2	-0.9	-0.9	-1.6	-2.4	-1.4	0.1	0.5
Imports of goods & services	8.6	7.7	1.3	10.6	2.9	17.0	5.5	13.7	-1.2	-0.9	0.5	1.1	2.1	3.1
Contributions to GDP growth:														
Domestic final sales	4.8	3.3	1.8	4.5	5.0	6.3	0.0	5.0	2.8	-1.1	-0.4	2.1	5.8	5.9
Inventories	0.5	-0.1	-0.5	4.2	-0.9	-2.1	3.2	-0.2	-4.7	-0.2	0.8	0.4	-1.1	-0.1
Net trade	-2.0	-2.7	-0.9	-4.7	-1.5	-0.4	-4.4	-5.3	0.2	-0.1	-1.0	-0.9	-0.8	-1.1
GDP deflator (%oya)	4.2	3.7	2.5	4.3	3.8	5.6	5.8	3.7	3.5	1.9	1.7	2.8	2.7	2.7
Consumer prices	2.4	4.9	2.6	4.0	2.0	4.8	2.7	6.7	6.2	4.0	1.9	0.8	0.4	0.0
%oya	2.4	4.3	2.6	2.0	1.8	3.2	3.4	4.0	5.1	4.9	4.7	3.2	1.8	0.8
Trade balance (NZ$ bil, sa)	-2.4	-3.5	-2.8	-0.8	-0.7	0.0	-0.2	-1.1	-1.1	-1.1	-1.0	-0.8	-0.6	-0.4
Current account (NZ$ bil, sa)	-14.3	-15.9	-18.9	-3.7	-3.8	-3.2	-2.1	-3.9	-5.0	-4.9	-5.2	-5.0	-4.6	-4.1
as % of GDP	-8.3	-10.1	-10.2	-8.6	-8.8	-7.1	-7.8	-10.3	-11.2	-10.9	-11.5	-10.9	-9.9	-8.7
Yield on 90-day bank bill (%)*	8.4	8.0	5.5	8.2	8.7	8.8	8.9	8.7	8.0	6.6	6.1	5.5	5.3	5.3
10-year bond yield (%)*	6.3	5.9	5.0	6.4	6.4	6.4	6.4	6.4	5.7	5.2	5.1	5.0	5.0	5.0
US$/NZ$*	0.74	0.75	0.68	0.74	0.74	0.76	0.79	0.76	0.67	0.53	0.51	0.57	0.59	0.60
Commonwealth budget (NZ$ bil)	6.4	-0.2	-2.5											
as % of GDP	3.7	-0.1	-1.4											
Unemployment rate	3.6	4.0	5.6	3.6	3.5	3.4	3.7	3.9	4.2	4.4	4.8	5.2	5.8	6.7

*All financial variables are period averages

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
24 Nov	25 Nov New Zealand: RBNZ inflation expectation (03:00pm) 4Q	26 Nov Australia: Construction work done (11:30am) 3Q	27 Nov Australia: Private capital expenditure (11:30am) 3Q -1.5 %q/q, sa New Zealand: Trade balance (10:45am) Oct -1000 NZ$ mn NBNZ business conf. (03:00pm) Nov	28 Nov Australia: Pvt. sector credit (11:30am) Oct 0.5 %m/m, sa New Zealand: Building permits (10:45am) Oct
1 Dec Australia: Inventories (11:30am) 3Q Company profits (11:30am) 3Q	2 Dec Australia: Retail sales (11:30am) Oct Current account (11:30am) 3Q RBA cash target (02:30pm) Dec	3 Dec Australia: GDP (11:30am) 3Q New Zealand: ANZ commodity price (03:00pm) Nov	4 Dec Australia: Building approvals (11:30am) Oct Trade balance (11:30am) Oct New Zealand: RBNZ official cash rate (09:00am) Dec	5 Dec
8 Dec Australia: ANZ job ads (11:30am) Nov New Zealand: QV house prices Nov	9 Dec Australia: NAB business confidence (11:30am) Nov	10 Dec Australia: WMI cons. conf. (11:30am) Dec Housing finance (11:30am) Oct	11 Dec Australia: Unemployment rate (11:30am) Nov New Zealand: PMI (10:30am) Nov	12 Dec New Zealand: Retail sales (10:45am) Oct
15 Dec New Zealand : Mfg. activity (10:45 am) 3Q	16 Dec Australia : Dwelling starts (11:30 am) 3Q	17 Dec Australia : WMI leading index (10:30 am) Oct	18 Dec	19 Dec New Zealand : Credit card spending (3:00 pm) Nov Visitor arrivals (10:45 am) Nov

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
24 - 28 November	**24 November**	**25 November**	**26 November**	**27 November**	**28 November**
United Kingdom • Nationwide HPI (Nov)	Belgium • BNB bus surv (Nov) Euro area • Industrial orders (Sep) Germany • IFO business surv (Nov) Hungary • NBH meeting Israel • BoI meeting Malaysia • BNM meeting Taiwan • Export orders (Oct) • IP (Oct) United States • Existing home sales (Oct)	Euro area bus surveys • France INSEE (Nov) • Netherlands CBS (Nov) Germany • GDP final (3Q) Norway • GDP (3Q) Slovak Republic • NBS meeting South Africa • GDP (3Q) United Kingdom • Bus invest prelim (3Q) • BBA loan approvals (Oct) United States • FHFA HPI (Sep, 3Q) • Real GDP prelim (3Q) • S&P/C-S HPI (Sep, 3Q)	Germany • CPI prelim (Nov) Italy • ISAE bus surv (Nov) Japan • Shirakawa speech Poland • NBP meeting South Africa • CPI (Oct) United Kingdom • GDP 2nd est (3Q) United States • Chicago Fed survey (Nov) • Consumer sent (Nov) • Durable goods (Oct) • New home sales (Oct) • Personal income (Oct)	Euro area • EC business survey (Nov) • M3 (Oct) Germany • Employment (Oct) • Unemployment (Nov) Japan • BoJ minutes	Euro area • HICP flash (Nov) • Unemployment (Oct) India: GDP (3Q) Japan • CPI (Oct) • Household spend (Oct) • Housing starts (Oct) • IP prelim (Oct) • PMI mfg (Nov) • Retail sales (Oct) • Shoko Chukin (Nov) • Unemployment (Oct) Korea: IP (Oct) Mexico • Banxico meeting Poland: GDP (3Q) Sweden: GDP (3Q)
1 - 5 December	**1 December**	**2 December**	**3 December**	**4 December**	**5 December**
United Kingdom • Halifax HPI (Nov)	Canada: GDP (3Q) China: PMI mfg (Nov) Euro area: PMI mfg (Nov) Germany: Retail sales (Oct) Japan • Auto regs (Nov) • Nominal wages (Oct) • Shirakawa speech Korea • CPI, trade balance (Nov) • GDP final (3Q) United Kingdom • PMI mfg (Nov) • M4 lending (Oct) United States • Construct spend (Oct) • ISM mfg (Nov)	Australia • RBA meeting (Dec) Japan • Reuters Tankan (Nov) Singapore • PMI mfg (Nov) United States • Light vehicle sales (Nov)	Australia • GDP (3Q) Euro area • PMI services final (Nov) • Retail sales (Oct) Thailand • BoT meeting United Kingdom • PMI services (Nov) United States • ADP employment (Nov) • Beige book • ISM nonmfg (Nov) • Productivity and costs revised (3Q)	Canada • Ivey PMI (Nov) Euro area • GDP prelim (3Q) • ECB meeting Indonesia • BI meeting Japan • MoF corporate surv (3Q) New Zealand • RBNZ meeting United Kingdom • Car regs (Nov) • BoE meeting United States • Factory orders (Oct)	Brazil • IPCA (Nov) Canada • Employment (Nov) Germany • Mfg orders (Oct) Russia • CPI (Nov) Taiwan • CPI (Nov) United States • Consumer credit (Oct) • Employment report (Nov)

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