J.P.Morgan

Australia and New Zealand - Weekly Prospects

Summary

- In a week jam-packed with **Aussie** data, including the 4Q GDP print, the highlight will be the RBA raffle, which is drawn Tuesday. Market pricing implies it is a coin toss; traders place the probability of a 25bp rise at 56%. Our forecast is that there will be no change although, like that of the market, our level of conviction is low. The case for a hike is convincing, but it was strong last month when the RBA bucked unanimous expectations for a hike. The clouds of doubt around the consumer remain, as does the apparent anxiety about the tail risks associated with recent global events. So, on balance, we are sticking with our "on hold" call. Just about everyone agrees the cash rate is too low; it will be at least 100bp higher by the end of the year. Our lot as economists, though, is to pick the *timing* of the rate rises as well as their size. Getting the timing right, as we found in February, is harder than it seems.

- Business confidence in **New Zealand** may have jumped in February to its highest level since April 1999, but we maintain that the RBNZ will delay tightening policy until mid-year. The RBNZ will keep the powder dry for now, mainly owing to the recent string of weak economic data and Governor Bollard's desire for hard economic evidence that the recovery in New Zealand has legs. The NBNZ survey showed that half of respondents expect the economy to improve over the next 12 months, marking the first rise in sentiment in three surveys. That said, the deteriorating medium term inflation outlook reaffirms our view that the RBNZ will lift the OCR from 2.5% currently to 4.0% by year-end. Our forecast is for the first rate hike to be a 50bp move in July, followed by a similar-sized move in September, before the RBNZ shifts back a gear to 25bp moves.

- Last week provided a study in contrast for **global data** watchers. While a string of upbeat readings on last quarter's performance raised our global GDP estimate to 4.2%q/q saar—the fastest gain since mid-2003—there were genuinely weak activity readings to start the year. Downbeat readings were concentrated in the US, where January home sales collapsed and February initial jobless claims surged. At the same time, the new year has delivered consistently strong readings in Japan and emerging economies. This contrast partly reflects our forecast of a moderation in global growth this quarter, led by a projected halving in annualized US growth from its current 5.9% pace. Unfortunately, data-watching visibility has also been reduced by the cold and stormy weather in North America and Europe during the first two months of the year.

- A delegation from the **European Commission, the ECB, and the IMF** has been in Greece for the last week, examining the fiscal accounts. It appears that Greece will be asked to announce further tightening measures, possibly this week, to ensure that this year's deficit target of 8.7% of GDP is met. The Greek fiscal crisis has already caused stress for other sovereigns in the region and for banks in Greece. But there is also a risk that too much pressure will be put on the Greeks to frontload the fiscal adjustment.

This week's highlight

The RBA decision Tuesday. Our call is for another "on hold" outcome, owing to lingering uncertainty, but our level of conviction is low. The case for a hike is strong, just as it was back in February when the RBA decided otherwise.

March 1, 2010

Contents

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Data and event previews - Australia and New Zealand

Date	Time [a]	Data/event	Forecast JPMorgan	Forecast Consensus [b]	*Previous*
Monday, March 1	9.30am	AiG Performance of Manufacturing (Index, Feb.)	**na**	na	*51*
Monday, March 1	9.45am	RBA Governor Stevens as panel discussant	**na**	na	*na*
Monday, March 1	10.30am	Aust. TD Securities Inflation Gauge (%m/m, Feb.)	**na**	na	*0.8*
Monday, March 1	11.00am	HIA new home sales (%m/m, Jan.)	**na**	na	*0.3*
Monday, March 1	11.30am	Aust. company profits (%q/q, 4Q)	**3.0**	na	*-2.1*
Monday, March 1	11.30am	Aust. current account balance (A$bn., 4Q)	**-16.9**	-17.2	*-16.2*
Monday, March 1	11.30am	Aust. inventories (%q/q, 4Q)	**-0.5**	0.5	*0.8*
Tuesday, March 2	11.30am	Aust. building approvals (%m/m, Jan.)	**-2.0**	1.0	*2.2*
Tuesday, March 2	11.30am	Aust. retail sales (%m/m, Jan.)	**0.0**	0.5	*-0.7*
Tuesday, March 2	2.30pm	RBA cash rate announcement (%, Mar.)	**3.75**	4.00	*3.75*
Wednesday, March 3	9.30am	AiG Performance of Services (Index, Feb.)	**na**	na	*47.4*
Wednesday, March 3	11.30am	Aust. GDP (%q/q, 4Q)	**1.1**	0.9	*0.2*
Thursday, March 4	11.30am	Aust. trade balance (A$bn., Jan.)	**-1.5**	-1.6	*-2.3*
Friday, March 5	9.30am	AiG Performance of Construction (Index, Feb.)	**na**	na	*57.7*

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

Australia

Company profits (%q/q, 4Q) - The operating outlook improved significantly for Australian firms over 4Q09. Continued equity market gains and stronger AUD, for example, would have supported confidence. Indeed, a net 11% of respondents in the NAB business survey said that business conditions were improving in 4Q—profitability, trading conditions, and capacity utilization similarly turned up over the quarter. As a result, we expect that company profits increased 3%q/q in 4Q, as the economic recovery became entrenched and positive demand conditions continued to boost profitability. This would mark the first quarter of rising profits since 3Q08.

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Data and event previews - contd.

Current account balance (A$bn., 4Q) - The CAD probably widened slightly over the fourth quarter. Trade data indicates that imports rose in 4Q and that exports were more or less steady. The CAD probably represented 5.4% of GDP in 4Q. Australia's external balance will be buffeted by significant forces in both directions in 2010 and beyond, as further increases in global commodity demand and the terms of trade bolster export prospects, but also national income. This dynamic will generate greater imports of capital and consumer discretionary items.

Inventories (%q/q, 4Q) - After unexpectedly rebounding in 3Q, inventories probably fell 0.5% in the final quarter of 2009. Trading conditions improved sufficiently quickly that firms probably had to dip into existing stock to satisfy demand. On our forecast, inventories will deduct 0.6%-pt from GDP growth over the quarter.

Building approvals (%m/m, Jan.) - Building approvals probably fell 2% in January, owing to softening demand from first home buyers and slowing momentum in monthly house prices over 4Q09. The withdrawal of a major provider of insurance for homebuilders also will weigh on approvals over the near term.

Retail sales (%m/m, Jan.) - Retail sales values were likely flat in January, after unexpectedly falling 0.7%m/m in December. Consumer spending will have remained weak in the wake of the three straight quarter-point rate hikes delivered by the RBA in 4Q and the decision by some of the major banks to out-hike the RBA. Rising petrol prices and a slide in equity prices also would have dampened spending.

RBA cash rate announcement (%, Mar.) - The forecast is that the cash rate target will stay at 3.75%, despite compelling evidence that the cash rate remains too low. This apparent contradiction can be explained by examining the reasons the RBA stayed on hold in February; Board members apparently were unclear as to how households, in particular, were coping with the three rate hikes last year, which the Aussie banks "supersized." There is little to suggest Board members will be much wiser on this key issue come Tuesday. It is clear, though, that the cash rate, which RBA officials admit is abnormally low, has further to rise. This week's decision, therefore, will be a very close call; we place the probability of a hike this week at 40%.

GDP (%q/q, 4Q) - There still are important pieces missing from Australia's 4Q GDP jigsaw, some of which will fall into place early this week. What we already have in hand paints a picture of what is likely to be a pretty solid outcome; our forecast, bearing in mind the missing pieces, is that the GDP probably spiked 1.1%q/q, after the disappointingly sluggish rate of advance in 3Q. For the December quarter, retail sales volumes bounced more than 1% over the quarter, which indicates that broader household spending probably was healthy, the rise in business investment in plant and equipment in last week's investment survey was unexpectedly large, and the Federal government continued to roll out its lavish spending on roof insulation and school halls.

Trade balance (A$bn., Jan.) - The trade deficit should have narrowed significantly in January. Preliminary data showed a 4% drop in imports over the month, led by much weaker imports of machinery and mineral fuels.

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Research note

Back to the future: uncertainty merely delaying RBA hikes

- **Assertive rate moves show RBA broke with convention of caution in 2008 and 2009**
- **But this definitive approach to policy was temporary**
- **Monetary policy increasingly will balance an uncertain near-term against bullish medium-term outlook**

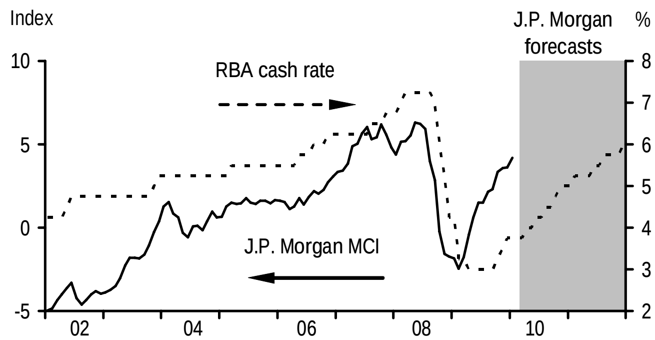
The RBA delivered an unprecedented three consecutive rate hikes in the December quarter, but surprised everyone by pausing at the first Board meeting of 2010 in February. For sure, the policy framework that justified the three hikes was uncharacteristically (though justifiably) backward looking, and so was bound to represent a temporary mind-set. Once the extreme policy accommodation had been sufficiently withdrawn, policymakers were expected to turn more circumspect. At the time, though, the brisk exit from "emergency" settings, amid continued strengthening of domestic data, created the illusion that officials were chasing a moving target. The impression was that the RBA would continue the tightening cycle at the first meeting of 2010.

We now know that officials already had shifted their sights. Indeed, as indicated in the minutes of the December Board meeting, members saw the 75bp of tightening delivered over 4Q09 as "materially shifting the stance of policy" and "increasing the flexibility available to the Board." By February, these comments had been forgotten by economists, and the point of introspection was assumed to be some way off. It seems that the absence of a Board meeting in January—and, more generally, "radio silence" from RBA officials—created a vacuum that was filled only by exceptionally strong retail sales, consumer confidence, and employment data. This drew the market's attention away from the weight of policy measures already undertaken.

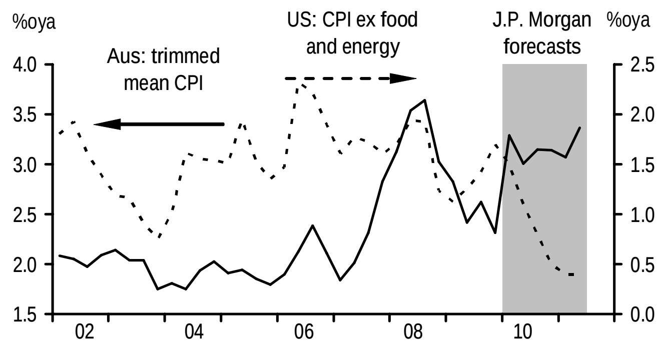
Near-term uncertainty will colour policy

The RBA's pause in February signals the return to a conventional framework of monetary policy: officials must weigh the risks of a deteriorating inflation outlook against the economy's adjustment to the rate hikes already delivered. While there is little doubt that interest rates must rise over the medium term, there now is sufficient uncertainty to allow officials a brief period of inactivity to assess how the consumer is coping. This shift in perspective is a return to "normality," but the situation in which policymakers find themselves is anything but normal in a global context.

Monetary conditions and RBA cash rate



Core CPI: Australia and the US



Australia has unique inflation concerns

The J.P. Morgan view on consumer price inflation in the developed economies can be summarized by two broad themes. First, headline inflation will be forced up, then down over the remainder of 2010 due to the passthrough of year-ago effects in oil prices. Second, core inflation should continue to fall due to significant excess capacity—the employment of capital and labour, while intensifying, will remain well below potential.

In Australia, though, the second of these scenarios looks unlikely to occur. The remarkable resilience of the Australian economy in the face of the global recession saw GDP fall in only a single quarter over the course of the crisis. Similarly, the labour market did not endure a significant adjustment, with the unemployment rate rising only 1.9%-pts from trough to peak. Given the rapidly expanding pipeline of investment projects on the horizon in the resources sector (including the mammoth A$43 billion Gorgon natural gas project), Australia will enter a substantial upswing in 2011 without the "luxury" of significant spare capacity. The challenge for policymakers is to have in place an appropriately restrictive policy stance when these projects get under way, while negotiating the patchier intervening period, which will lack the typical growth impetus gained from exiting recession.

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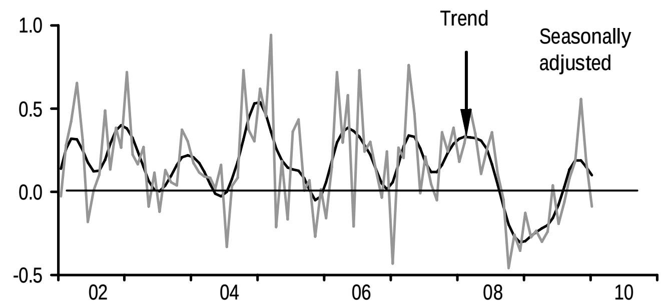
Reading the tea leaves

While there is general agreement that Australia has escaped the global recession largely unscathed, there currently are several complications in quantifying just how strong the economy is. First, as noted in the RBA's February Statement on Monetary Policy, "estimates of GDP growth over the past year or so are subject to some uncertainty," due to difficulties encountered in moving to new statistical standards. Further, the individual measures of GDP growth, which differ in their production, expenditure, and income approaches, have diverged significantly over the last year (see "Australia dodged technical recession, but GDP data noisy," *GDW*, August 21, 2009), and so are telling very different stories about the economy.

On the labour market, it is difficult to reconcile the incredible 200,000 jobs that apparently have been created in the last five months with the comparatively underwhelming GDP growth figures leading into this period. Similarly, leading indicators of employment have recovered somewhat, but not to levels consistent with such tremendous jobs growth. Finally, it is not obvious how the labour market has been able to hurdle over the rebuilding of hours worked that should have preceded hiring. During the downturn, firms cut hours rather than heads: this capped unemployment, but also should limit job gains, at least until hours worked are fully reinstated. Surprisingly, this has not been the case.

Aggregate hours worked

%m/m, 3 month average



RBA output and inflation forecasts (February 2010)

%oya (November forecasts in parentheses)

	GDP	Consumer price index	Underlying inflation
Jun-09	0.6	1.5	3.75
Dec-09	2.0 (1.75)	2.1 (2.0)	3.25
Jun-10	2.5 (2.25)	3.0 (2.5)	2.5
Dec-10	3.25	2.5 (2.25)	2.5 (2.25)
Jun-11	3.5 (3.25)	2.5 (2.25)	2.5 (2.25)
Dec-11	3.5 (3.25)	2.75 (2.5)	2.75 (2.5)
Jun-12	3.5	2.75 (2.5)	2.75 (2.5)

Source: RBA, ABS

RBA has greater flexibility...

Clearly though, RBA officials do not seem concerned that the strength of the economy, as implied by the reported boom in employment, leaves them with insufficient time to make the appropriate policy adjustments. Indeed, the Board was happy to pause in February despite what was, at face value, a very upbeat run of data leading up to the meeting.

Recent official commentary has highlighted risks that were not on the radar when the cash rate was at 3%. Most obvious is the fact that households are still digesting, as Governor Stevens put it to Parliament two weeks ago, the "three and a half rate hikes" that resulted from several major banks raising lending rates more than the official moves. Also, the shift to new industrial relations laws, which became effective in January, has granted the labour movement greater clout in employment and wage negotiation. Stevens noted that while increased labour flexibility prevented an unemployment catastrophe last year, it was not clear whether this flexibility would continue under the new rules.

Ultimately, each of these forces will be secondary to the RBA's benign outlook on inflation. The official forecast is that, after a lengthy period above target, inflation will fall comfortably within the target band until mid-2012. At first blush, it is difficult to endorse this view given the lack of a recession and the skill shortages and capacity constraints already returning with the next leg-up of the resources boom. Perhaps the best clue lies in the framework underlying the official forecasts, which now assumes further rises in the cash rate, rather than the previous constant cash rate assumption. Following this thinking, the RBA's inflation forecasts in the table above represent a hard target, which will be achieved by however many rate hikes become necessary. Perhaps this is the extra "flexibility" that officials view themselves as wielding.

...but not for long

In our forecasts, there is still substantial policy tightening to come, particularly if inflation is to return to target. The case for another pause at the March meeting this week, given the decision in February, is more compelling than that for another hike, but it is a close call. Officials will not have gained sufficient extra information to assess the health of the consumer in the few intervening weeks since the February pause. We therefore forecast the next 25bp hike to occur in April, with the hiking cycle gaining momentum over 2H10. Indeed, uncertainty will fade throughout the year as further stronger data are accumulated, which supports the case for a cash rate of 5% at year-end.

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Australia

- **RBA rate decision Tuesday will be a close call**
- **Business investment to boost Aussie 4Q GDP growth**
- **Retail sales probably were soft in January**

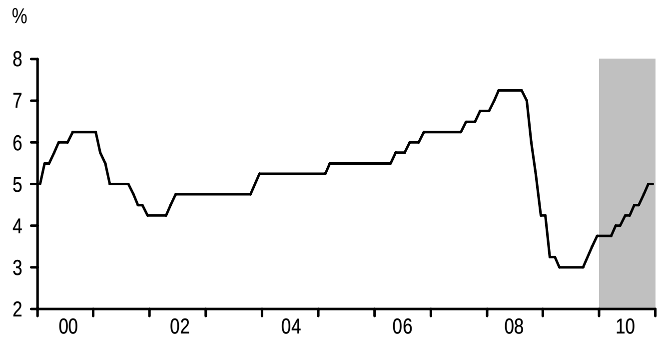
In a week jam-packed with Aussie economic data, including the 4Q GDP outcome, the highlight will be the RBA decision Tuesday. The forecast is that RBA Board members will leave the cash rate steady. Board members appear to want more time to assess the impact on households of the three rate hikes already delivered, and the consumer-related data released since the last Board meeting has disappointed. Aside from the scarcely-believable bounce in employment in January, which suggests the cash rate should rise, falls have been reported in retail sales, home loans, and consumer confidence. These outcomes all call for caution this week. With the investment pipeline swelling and inflation pressure building, however, the RBA will steadily hike the cash rate over the remainder of 2010.

RBA probably will hold fire on rates

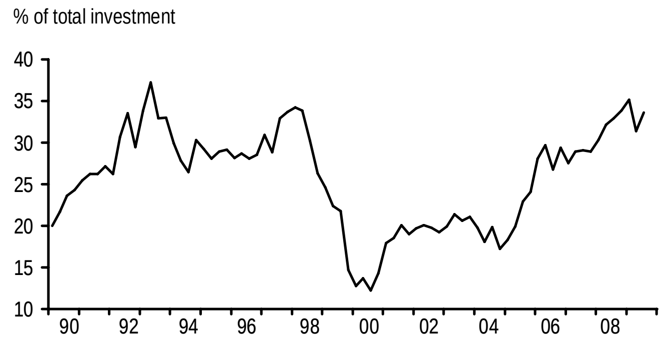
The RBA Board meets Tuesday to debate whether to raise the cash rate a further 25bp or stand pat, as was the case in February. The forecast is that the cash rate target will stay at 3.75%, despite compelling evidence that the cash rate remains too low. This apparent contradiction can be explained by examining the reasons the RBA stayed on hold in February; Board members apparently were unclear as to how households, in particular, were coping with the three rate hikes last year, which the Aussie banks "supersized." There is little to suggest Board members will be much wiser on this key issue come Tuesday. Also, there recently has been evidence that global activity has softened, and the news on sovereign issues in Europe remains troubling.

It is clear, though, that the cash rate, which RBA officials admit is abnormally low, has further to rise. This week's decision, therefore, will be a very close call; we place the probability of a hike this week at 40%. After all, the minutes of the RBA's two most recent Board meetings, one of which resulted in a hike, the other didn't, indicate that both decisions were "finely balanced." As the cash rate approaches normal, the Board's deliberations will become even more nuanced. We take at face value the RBA's reasoning behind the "on hold" decision in February, which Governor Stevens explained to Parliament two weeks ago, and therefore believe another "on hold" decision is the most likely outcome. Governor Stevens speaks publicly in Melbourne on Monday, the day before the Board meeting.

Australia: RBA cash target rate



Australia: mining investment



A solid 4Q GDP print for Australia

There still are important pieces missing from Australia's 4Q GDP jigsaw, some of which will fall into place early this week. What we already have in hand paints a picture of what is likely to be a pretty solid outcome; our forecast, bearing in mind the missing pieces, is that the GDP probably spiked 1.1%q/q, after the disappointing sluggish rate of advance in 3Q. The Bureau of Statistics was forced to re-release the 3Q data following the discovery of errors in the original data. The headline outcome remains at a sluggish 0.2%q/q gain, which jars with evidence of, for example, a boom in employment across 4Q.

For the December quarter, retail sales volumes bounced more than 1% over the quarter, which indicates that broader household spending probably was healthy, the rise in business investment in plant and equipment in last week's investment survey was unexpectedly large, and the Federal government continued to roll out its lavish spending on roof insulation, school halls, and a Broadband network. The main drags on growth will be a fall in residential construction and probably a drop in net exports, although we will get a clearer picture of the contribution from net trade in Monday's current account deficit (CAD) data.

The CAD probably widened slightly over the fourth quarter. Trade data indicates that imports rose in 4Q and that exports were more or less steady. The CAD probably repre-

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sented 5.4% of GDP in 4Q. Australia's external balance will be buffeted by significant forces in both directions in 2010 and beyond, as further increases in global commodity demand and the terms of trade bolster export prospects, but also national income. This dynamic will generate greater imports of capital and consumer discretionary items.

Profits and inventories data to be mixed

The operating outlook improved significantly for Australian firms over 4Q09. Continued equity market gains and stronger AUD, for example, would have supported confidence. Indeed, a net 11% of respondents in the NAB business survey said that business conditions were improving in 4Q—profitability, trading conditions, and capacity utilization similarly turned up over the quarter. As a result, we expect that company profits increased 3%q/q in 4Q, as the economic recovery became entrenched and positive demand conditions continued to boost profitability. This would mark the first quarter of rising profits since 3Q08.

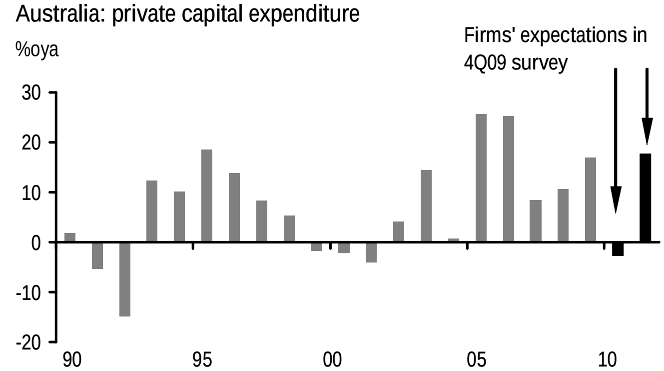
After unexpectedly rebounding in 3Q, inventories probably fell 0.5% in 4Q. Trading conditions improved sufficiently quickly that firms probably had to dip into existing stock to satisfy demand. Throughout the crisis, the inventory data has been difficult to read, and has been a significant factor behind the divergence in the various measures of GDP growth. We expect the rapid turnaround in inventory dynamics witnessed in the 3Q GDP report must be unwound somewhat in the 4Q data. On our forecast, inventories will deduct 0.6%-pt from GDP growth over the quarter.

Aussie capex set to boom

The 4Q investment survey delivered on expectations for further swelling of Australia's already bulging investment pipeline. Not only did spending bounce in 4Q, after a drop in 3Q, but firms upgraded their spending plans for the year ended June 2010. The revised plans now imply that investment is holding up at elevated levels. More importantly, though, the first glimpse of firms' spending plans for the year ended June 2011 implies something like an 18% rise on current elevated levels, with new spending in mining leading the way. Investment spending bounced 5.5% in real terms in 4Q (J.P. Morgan: 4.5%; consensus: 2.0%), after a 5.2% fall in 3Q.

For 2009/10, the fifth estimate of firms' spending plans printed at A$110.6 billion (J.P. Morgan: A$110 billion). This implies only a 3% drop in spending from the record levels reported for 2008/09. Given the lingering weakness in key economies offshore and plunging investment spending in many other countries, this is a remarkably good outcome. The first estimate of firms' spending plans for 2010/11 printed at

Australia: private capital expenditure



A$101.4 billion (J.P. Morgan: A$100 billion). After adjustment for firms' usual underestimation of spending plans in the early surveys (using an average estimation error since this survey started in 1987 to avoid giving too much prominence to the recent boom period), spending in 2010/11 probably will rise 18% from 2009/10. Most of the rise will be in mining—firms plan to spend A$49 bn on mining projects in the year ended June 2011, implying an impressive 40% rise.

Clearly, on this evidence, Australia's current investment boom, which started in 2005 and is underpinned mainly by soaring demand for bulk commodities in Asia, has much further to run. This fits with industry and anecdotal evidence indicating that many firms have been pushing through approvals of large scale investment projects, mainly in mining, but also in associated infrastructure. It also is consistent with the comments by RBA Deputy Governor Ric Battellino, who last week pointed to the likely extension of the current mining boom.

Similarities between prior mining booms

Private investment as a share of Australia's GDP is running at 24% of GDP, close to the record high reached at the end of 2008. The RBA' s Deputy Governor last week suggested mining investment alone soon could be 6% of GDP. Indeed, most of the new investment will be in mining, where output is being underpinned by rapidly rising demand for gas, coal, and iron ore by China and India, in particular. China now takes more of Australia's exports than any other country, this share having doubled since 2008.

The Deputy Governor highlighted three similarities in Australia's mining booms. The *first* is that the global economy matters, with demand from China and India driving the current episode. The *second* is that each boom strengthened the economy by adding to national infrastructure and boosting population growth; that certainly is the case now. The *third* is that each boom was associated with increased inflation pressure. Already, there are signs that the decline in inflation during the recent downturn has come to an end,

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and that the same capacity constraints that blighted the most recent expansion are reappearing.

The speech highlighted that the key difference this time, though, is that the economy has become more flexible over the three decades since the last mining boom. In addition, this is the first boom in which Australia has had a floating exchange rate. Much of the pressure, therefore, may already have dissipated via the sustained bounce in AUD. That said, we observe that there is early evidence of large wage rises being granted to workers in mining-related sectors, which suggests otherwise. As indicated by data last week, wage growth slowed to just 0.6%q/q (J.P. Morgan and consensus: 0.8%), but upward pressure on wages will build given the positive investment outlook.

Rebound unlikely in retail sales

Aussie retail sales values were likely flat in January, after unexpectedly falling 0.7%m/m in December. Consumer spending will have remained weak in the wake of the three straight quarter-point rate hikes delivered by the RBA in 4Q and the decision by some of the major banks to out-hike the RBA in December. Rising petrol prices and a slide in equity prices also would have dampened spending.

The soft retail data will be released during the RBA Board meeting, but will provide further justification for the RBA to hold interest rates steady. Consumers appear to be taking a more conservative approach to spending, mainly owing to the rise in market interest rates, and expectations of further rate hikes down the track. According to the Westpac-Melbourne Institute, 93% of those surveyed in February expected the cash rate to rise over the next 12 months, with over 60% expecting the increase to be more than 1%.

Data releases and forecasts

Week of March 1 - 5

Mon
Mar 1
11:30am

Inventories
sa

	1Q09	2Q09	3Q09	4Q09
%q/q	0.1	-3.1	0.8	-0.5
%oya	0.6	-3.0	-3.4	-2.7

Mon
Mar 1
11:30am

Company operating profits (business indicators)
Nominal, gross operating, sa

	1Q09	2Q09	3Q09	4Q09
%q/q	-5.4	-7.0	-2.1	3.0
%oya	8.5	-12.6	-19.6	-13.7

Mon
Mar 1
11:30am

Current account balance
A$ bn sa

	1Q09	2Q09	3Q09	4Q09
Current account (A$ bn)	-6.3	-13.1	-16.2	-16.9
As a % of GDP	-2.0	-4.2	-5.2	-5.4

Tue
Mar 2
11:30am

Building approvals
sa

	Oct	Nov	Dec	Jan
%m/m	0.0	10.4	2.2	-2.0
%oya	14.4	40.5	53.3	55.4

Building approvals probably fell 2% in January, owing to softening demand from first home buyers and slowing momentum in monthly house prices over 4Q09.

Tue
Mar 2
11:30am

Retail trade
sa

	Oct	Nov	Dec	Jan
%m/m	0.3	1.5	-0.7	0.0
%oya	2.1	7.1	2.1	1.8

Wed
Mar 3
11:30am

Real GDP
Chain volume, sa

	1Q09	2Q09	3Q09	4Q09
%oya	0.5	0.6	0.2	1.1
%q/q	0.7	0.4	0.5	2.6

Thu
Mar 4
11:30am

Trade balance
sa

	Oct	Nov	Dec	Jan
Trade balance (A$ mn)	-1994	-1728	-2251	-1500

The trade deficit should have narrowed significantly in January. Preliminary data showed a 4% plummet in imports over the month, led by much weaker imports of machinery and mineral fuels.

Review of past week's data

Sales of new motor vehicles
Units, sa

	Nov		Dec		Jan	
%m/m	5.9		~~3.3~~	*3.1*	__	*-3.4*
%oya	~~16.1~~	*16.2*	~~17.2~~	*17.0*	__	*15.6*

Labor price index

	2Q09		3Q09		4Q09	
%q/q, sa	0.8		0.7		~~0.8~~	*0.6*
%oya, sa	3.8		3.6		~~3.1~~	*2.9*

Construction work done

	2Q09		3Q09		4Q09	
%q/q, sa	~~4.5~~	*3.6*	~~2.2~~	*1.6*	~~3.5~~	*2.6*
%oya, sa	~~10.7~~	*10.1*	~~6.9~~	*5.4*	~~6.5~~	*3.9*

Private new capital expenditure

	2Q09		3Q09		4Q09	
%q/q, sa	~~2.1~~	*2.3*	~~-3.9~~	*-5.2*	~~4.5~~	*5.5*
%oya, sa	~~8.0~~	*8.2*	~~-1.3~~	*-2.7*	~~-2.6~~	*-2.3*

Private-sector credit

	Nov		Dec		Jan	
%m/m, sa	0.1		0.3		~~0.2~~	*0.4*
%oya, sa	0.9		1.5		~~1.0~~	*1.3*

The January credit aggregates showed an unexpectedly large 0.4%m/m gain in the pool of credit outstanding. Housing credit again led the way, rising 0.7%.

New Zealand

- **NZ business confidence spiked in February**
- **Firms' own activity outlook keeps improving**
- **Imports softened on the back of weaker demand**

In New Zealand, the data flow slowed to a trickle last week, and will be minimal again this week. The NBNZ did, however, report a remarkable increase in business sentiment in February. This, though, failed to change our view that the RBNZ will delay its first rate hike until July. A string of weaker-than-expected data over the past month, and hints from Governor Bollard that he wants assurance that the economy is out of the most fragile growth phase, are the main reasons we expect the first rate hike to be delayed.

Kiwi business confidence surged

The headline reading on the NBNZ business confidence survey spiked to 50.1 in February from just 38.5 in December (there was no survey released in January). The result, the highest in over a decade, suggests that a net 50% of those surveyed expect that business conditions will improve over the next 12 months. We had expected that sentiment would have deteriorated, owing to rising global jitters and signs the recovery underway in New Zealand has shed momentum. This, however, was not the case. The important firms' own activity outlook continued to improve (as expected), rising to 41.9 from 36.9, and reaffirming our view that the economy will continue to expand (chart).

Weaker imports bolster trade surplus

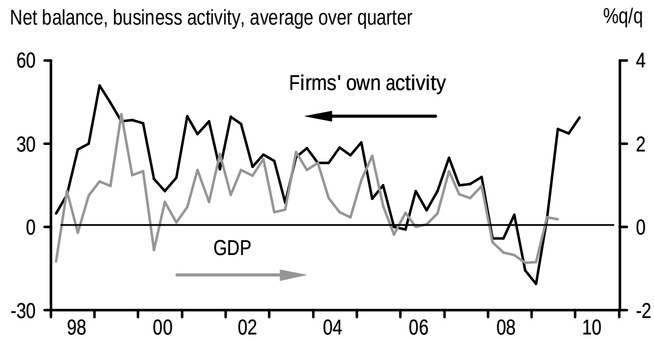
New Zealand's trade surplus surprisingly widened in January, printing at NZ$269 million (J.P. Morgan and consensus: -NZ$100 million) from NZ$2 million in the previous month. The improvement in the trade balance was driven by substantially weaker imports.

Import values fell from NZ$3.1 billion to NZ$2.88 billion over the month, and were down 18% in the year to January. Not surprisingly, demand for capital related items like petroleum and products (-32%), mechanical machinery and equipment (-20%), and vehicles, parts and accessories (-35%) have suffered due to low capacity utilization and the lack of investment opportunities. On the consumption side, imports of textiles and textile articles (down 3%) and furniture, furnishings and light fittings (down 17%) have also been weak.

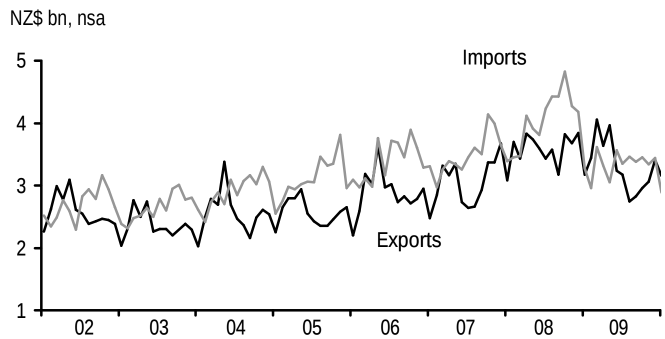
Exports fell to NZ$3.15bn, although the trend in exports has been rising in recent months. This month's decline emphasizes the risks to New Zealand's fledgling recovery, but does not yet change our view that Kiwi exports should be supported by the rebound in global demand. Relative to January 2009, exports of milk powder, butter, and cheese were up 12%, logs, wood, and wood articles were up 30%, and crude oil exports jumped 270% (NZ$150mn in value terms).

Over the year to January, exports of milk powder, butter and cheese were down substantially, however (-12%). Dairy exports are a substantial contributor to national income—the hit this sector has taken in the past year has exacerbated the woes associated with the financial crisis and New Zealand's home-grown recession. As we have indicated in previous releases however, most of the decline in New Zealand's soft commodities was recorded early in 2009, and, on our view, increased global demand for New Zealand's soft commodities will support exports in 2010. Also on the positive side, exports of fruit and wine both were up around 10% for the year to January.

New Zealand: NBNZ business outlook survey and GDP growth



New Zealand: exports and imports



Data releases and forecasts

Week of March 1 - 5

Date	Release	Oct	Nov	Dec	Jan
Thu Mar 1 10:45am	Visitor arrivals nsa				
	Total (%m/m)	-0.9	-4.7	8.5	__

Date	Release	Oct	Nov	Dec	Jan
Mon Mar 1 10:45am	Net permanent immigration nsa				
	Monthly (000s)	3.0	2.5	1.4	__
	12-month sum (000s)	18.6	20.0	21.3	__

Date	Release	Nov	Dec	Jan	Feb
Mon Mar 1 3.00pm	ANZ commodity price series nsa				
	Index - world prices (%m/m)	10.5	2.6	0.4	__

Review of past week's data

NBNZ business confidence

	Nov		Dec		Feb	
% balance of respondents	43.4		38.5		~~35~~	*50.1*

Building consents

	Nov		Dec		Jan	
%m/m, sa	~~0.1~~	*0.5*	~~-2.4~~	*-3.5*	__	*-2.8*
%oya, sa	~~20.3~~	*19.9*	~~23.6~~	*21.9*	__	*37.2*

Trade balance

	Nov		Dec		Jan	
Trade balance (NZ$ mn, nsa)	-276		2		~~-100~~	*269*

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Global Essay

- **Bad weather means weak data releases are coming in the US and Europe**
- **With global retail sales rising and Asian indicators strong, we remain confident that the expansion is moving ahead**
- **Looking for growth-friendly signals from Chinese policy meetings**

Weather or not

Last week provided a study in contrast for global data watchers. While a string of upbeat readings on last quarter's performance raised our global GDP estimate to 4.2%q/q saar—the fastest gain since mid-2003—there were genuinely weak activity readings to start the year. Downbeat readings were concentrated in the US, where January home sales collapsed and February initial jobless claims surged. At the same time, the new year has delivered consistently strong readings in Japan and emerging economies. This contrast partly reflects our forecast of a moderation in global growth this quarter, led by a projected halving in annualized US growth from its current 5.9% pace. Unfortunately, data-watching visibility has also been reduced by the cold and stormy weather in North America and Europe during the first two months of the year.

Bad weather played at least some part in last week's downbeat US readings, and our forecasts for the coming month will incorporate a string of further distortions. Releases for the US (February) and Europe (January) should see weather depress construction and retail sales. With US storms concentrated in the sample week of the payroll report, employment (-90,000) and the work week should fall significantly in February in this week's release.

While it is harder to see through this fog, we maintain confidence that the moderation under way in global growth will be accompanied by a broadening base of growth, as business spending and hiring begins to lift, marking the transition to a self-sustaining expansion. We base our confidence on three elements of the latest news flow.

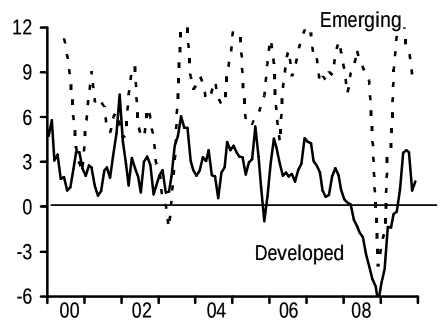
- Global final sales appears to be sustaining its momentum at the turn of the new year. Retail sales gains have moderated as various government stimulus plans trailed off. However, sales are tracking a solid pace of increase in the three months through January, supported by the sustained strength in emerging markets. With global capital goods shipments having returned to growth, our proxy of global final sales continues to rise, implying that inventories continue to fall. The contrast between the current position of global demand and supply and that which prevailed at the start of the last recovery is telling. The case for continued robust production gains is good and we anticipate our global manufacturing PMI will remain close to its elevated January level in this week's report.
- Asia and Latin America continue to shine. One way to separate noise from signal in the global business cycle is to maintain focus on those parts of the world unaffected by bad weather. Both Asia and Latin America have delivered upside surprises in recent weeks, with notable strength from manufacturing and trade reports.
- Against the backdrop of data disappointments and growing concerns about sovereign risk, it is encouraging to see that global financial market conditions have remained resilient. Equities have moved sideways in recent weeks while global credit spreads have narrowed against the backdrop of falling risk-free interest rates.

Decline in DM core inflation to broaden

The Euro area and Japan released their January CPI reports Friday, and what was notable was the continued slide in

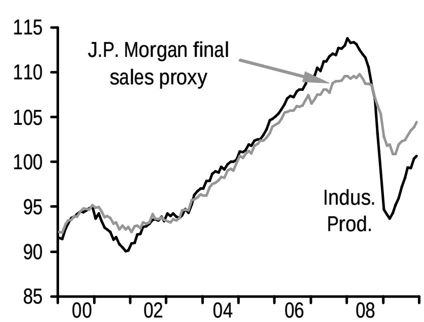
Retail sales volume

%3m/3m, saar



Global industrial production and final sales

Index, Jan00-Dec09 avg=100



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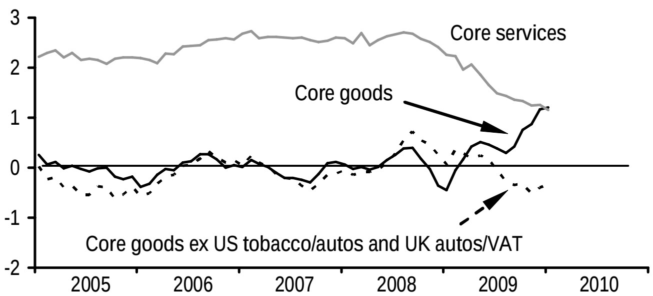
Developed-country consumer prices

%oya



developed market (DM) core inflation readings. Euro area core inflation fell to 0.9%oya last month and is now moving well below the ECB's preferred range of just under 2%. In Japan, core price deflation remained steady at -1.2%oya. These reports come on the heels of last Friday's report showing that US core prices were unchanged over the three months through January. The driving factor behind core price disinflation is record-low resource utilization and a lack of corporate pricing power. Remarkably, the decline in DM core inflation so far has been limited to the service sector, whereas goods inflation increased over the past year. This is highly unusual: historical experience shows that DM core goods inflation normally falls first when global resource utilization is below normal. Special factors, including government auto subsidy schemes and tax increases in the US (tobacco) and the UK (VAT), largely are responsible; after adjusting for these factors, inflation is falling in the goods sector in parallel with services. One by one, the factors propping up core goods inflation should fade over the coming year. This will pave the way for DM core inflation to fall to about 0.5%oya by year's end, consistent with our forecast.

EU to raise the pressure on Greece

A delegation from the European Commission, the ECB, and the IMF has been in Greece for the last week, examining the fiscal accounts. It appears that Greece will be asked to announce further tightening measures, possibly this week, to ensure that this year's deficit target of 8.7% of GDP is met. The additional tightening measures under consideration will amount to between 1.5-2.0%-pts of GDP.

The concern of the EC, ECB, and IMF that the Greeks deliver significant deficit reduction this year is understandable. The Greek fiscal crisis has already caused stress for other sovereigns in the region and for banks in Greece. But there is also a risk that too much pressure will be put on the Greeks to frontload the fiscal adjustment. If growth falls significantly short of the stability program projection, a focus on the objective for the overall deficit, rather than the cyclically adjusted deficit, will add significant further downward momentum to the real economy and introduce a political crisis in Greece, the consequence of which would be hard to gauge.

Against this backdrop, the ECB meets this week to discuss the outlook for its liquidity policy beyond the first quarter. EU leaders have said that if Greece behaves appropriately, financial support will be forthcoming. The ECB could say that, in such a circumstance, Greek debt would continue to be eligible for ECB repo transactions beyond the end of this year, even in the face of further downgrades from the rating agencies. However, it seems unlikely that the ECB will clarify this matter at this week's meeting.

Positive reports from Japan

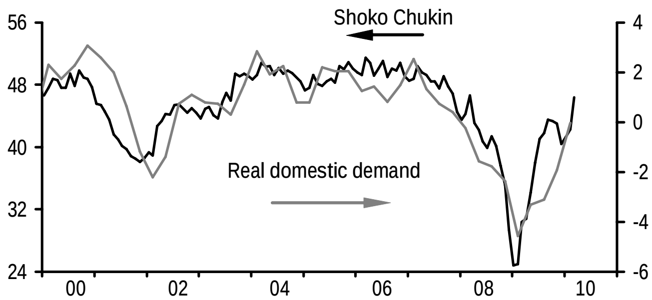
Our global research has highlighted the growth divergence between the US and Europe. This gap was on display again in last week's US and German GDP reports. Japan has fallen in between: consumption has expanded solidly so far during the recovery, more recently accompanied by a modest lift in capex. In 1H10, we look for the expansion to continue, but at a more moderate pace, as the growth of consumption and public works loses steam due to the fading of fiscal stimulus. Last week's reports support this view. IP and exports continued to expand at a healthy pace in January, suggesting that the recovery in GDP and net trade remains intact. The bigger surprise was the impressive gain in January retail sales, although a clearer picture will emerge in the next 10 days upon receipt of the household survey and the Cabinet office's index of consumption. Perhaps most impressive was the advance in the Shoko Chukin survey. What catches the eye was the jump in survey respondents' projections for March to the highest level since late 2007.

Asian monetary policy in focus this week

China's National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) will take center stage this week. We expect the government to reiterate its goal of continuity in overall macroeconomic policy this year and the importance of maintaining stable and relatively fast economic growth. China's GDP growth target should remain at 8%, with its inflation forecast likely 3%-4%. Though China's policy will remain growth friendly, that does not preclude a continuation of a gradual process of normalizing monetary conditions to contain asset price inflation and inflation expectations. China will continue to use reserve requirement changes to man-

Japan business survey and domestic demand

Diffusion index, sa, last obs is March survey forecast %4qtr chg



age down excess liquidity; policy rate hikes and currency appreciation should follow in the coming months.

Although China will be in the spotlight, two other meetings also will merit attention. In Malaysia, the central bank has signaled that it intends to raise rates at Thursday's meeting (+25bp to 2.25%), making BNM the first central bank in EM Asia to begin normalizing policy rates. The outcome of Tuesday's RBA meeting is a close call. Our forecast is that the RBA will leave rates on hold. The main reason for the surprising "on hold" decision in February seems to be that Board members were uncertain how households were coping with the three hikes delivered late in 2009. These clouds of doubt remain, as does Board members' apparent anxiety about the outlook for global demand. It is clear, though, that Australia's cash rate is too low and will move higher. Last week's business investment survey points to an extended boom in spending and, probably, employment.

The UK walks a volatile path

Data revisions confirm the UK economy grew last quarter, but the fly in the ointment is the continued collapse in capital spending. Our best guess remains that business spending is set to expand, but the 4Q09 decline underlines the fragility of the recovery and the potential for further BoE ease. In the meantime, opinion polls suggest that the probability of a hung parliament after the upcoming election is rising, with some polls hinting that the incumbent Labour Party could emerge as the largest single party. Though a commitment to fiscal consolidation is shared across parties, a hung parliament could delay implementation of tightening. Risks on politics, growth, and monetary policy are prompting sterling to weaken, but the data suggest that currency weakness has had little traction in lifting growth even as it has lifted inflation. The central view remains that the UK will muddle through without marked dislocation in its asset prices, but the risks of a more volatile path are rising.

A step toward Brazil policy normalization

Last week, Brazil's central bank hiked several bank reserve requirement rates, reversing at once 70% of the liquidity stimulus provided during the crisis. The BCB highlighted that this should not be viewed as a tightening of monetary policy, but rather the measure is intended to restore balance in an excessively liquid financial market. We believe that policy tightening is overdue. Indeed, last week's data flow remained hawkish, with strong reports on retail sales, employment, and business confidence, even as inflation and inflation expectations have moved above target. We are sticking by our call that the first rate hike will occur next month; however, we recognize that this has become a closer call, since policymakers may want to wait to see how this week's actions affect the economy and markets.

Cutting Turkey's 2010 growth forecast

Political uncertainty has surged in Turkey following the detainment of 49 senior military officers in an investigation over an alleged plot to overthrow the AKP government in 2003. To ease the tension, President Gul hosted a meeting with Prime Minister Erdogan and the chief of the general staff in which both sides agreed to avoid a confrontation while the court case runs its course. In this scenario, market sentiment is expected to recover gradually. The main risk for the markets is an early election but this does not make political sense for the AKP. We see this outcome only if the chief prosecutor files a new case to close the party. That Turkish households and businesses tend to curtail spending during times of political uncertainty is one reason why we cut our 2010 GDP growth forecast from 5.0% to 4.3%. Continued weakness in the labour market, sluggish export market growth, and the absence of an IMF deal also motivate this forecast change.

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JPMorgan View - Global Markets

Let's not overreact to noisy data

- **Asset allocation:** A rise in economic data noise induces us to think longer term. We stay with a medium-term strategy of overweighting equities, commodities, and credit.
- **Economics:** A large part, though not all, of weaker activity data seems due to bad weather. Regions without weather distortions—Japan, EM Asia, and Latin America—surprised on the upside.
- **Fixed income:** Take advantage of the rally to reset shorts in US 2s. Sell Agencies against Treasuries.
- **Equities:** Stay long, focusing on small caps and cyclical sectors. Euro area underperformance is unlikely to be reversed.
- **Credit:** Overweight HY loans versus bonds in CDS indices as their spread is cheap versus the much better recovery rate on loans.
- **FX:** There is a near-term bias for EUR to reach the low $1.30s.
- **Commodities:** We turn medium-term bullish on oil. WTI is expected to rise to US$90 by year-end.

A week of disappointing economic data, especially in the US, hurt risky markets, but only slightly so. Equities and commodities were each down only 1% last week, while credit and currencies are mixed within a range. Bonds rallied. Weaker US data came largely in home sales, orders, and unemployment claims. Of these, claims were most important as the recovery lives or dies with whether companies create jobs. Earnings and balance sheets are supportive to corporate expansion. A longer-lasting wait-and-see attitude by companies would push the world economy over the edge again.

We see reason **not to overreact** to the last week's worth of weaker data. For one, **bad weather** in much of Europe and North America likely contributed to a large part of the softer data prints but could take several tenths of a percentage point off growth in these regions in 1Q. Some of this would be moved to 2Q growth. In addition, the regions without weather problems—Japan, EM Asia, and Latin America—strongly surprised on the upside. We do not feel compelled to change global growth forecasts, nor to signal downside risk biases.

The next month's worth of economic data will be full of weather and lunar new year **distortions**. This will create a lot of confusion, but should also persuade investors not to overreact to data noise. We fully agree, and choose to stay with our medium-term strategy of overweighting equities, commodities, and credit, and trading bonds from the short side. Positions changes should be based more on intrinsic value, taking assets from more nervous market participants, than on short-term market direction.

Fixed income

Our bearish view on duration is driven by an expectation that **demand will fail to keep pace with elevated supply** this year. In particular, we anticipate much slower buying by central and commercial banks and retail investors, which accounted for 60% of demand last year. The Bank of England's QE program is likely over, and the Fed will reach its US$1.25 trillion target for MBS purchases next month. Retail demand for bonds has been falling since September. And US and Euro area banks each sold bonds in January, the latter for the second month in a row. This weak buying pace should **hurt the belly of the curve (5s though 10s) most**. The wings (2s and longs) should do better, benefiting from central banks on hold in the case of 2s and insurer and pension fund duration buying in the case of longs.

Bond markets rallied strongly last week in response to a swath of weak data in the US, UK, and Euro area. Bernanke's congressional testimony provided a further boost. He reiterated the Fed's intention to stay on hold for some time, dispelling fears of a premature tightening caused by the discount rate hike of two weeks ago. The sharp move made us stop out of our short in the Euro area. But we retain a short in 10-year gilts, as the imbalance between heavy government issuance and investor demand appears particularly marked in the UK. And we continue to play the range in the US short end, taking advantage of last week's rally to go **short duration** once more.

Agencies outperformed Treasuries slightly last week, and two-year Agency yields are now within a few basis points of Treasuries. We go **short Agencies against Treasuries**, as spreads appear too narrow. We estimate that Fannie and Freddie will need to issue US$85 billion of debt to fund their buyouts of delinquent mortgages, and this heavy near-term issuance should prove a catalyst for wider spreads.

Greek government bonds underperformed as S&P and Moody's raised the prospect of rating downgrades. But contagion from Greece to other bond markets has been limited since the EU Summit statement two weeks ago, and so the debt of other high-deficit Euro area countries was largely unaffected. We stay long Ireland.

We remain positive on local CEEMEA debt, which should be supported by demand for high-yielding assets, but **move**

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to neutral on Hungary. The medium-term outlook is favourable, but we prefer to avoid the increased volatility that may result from April's election.

Equities

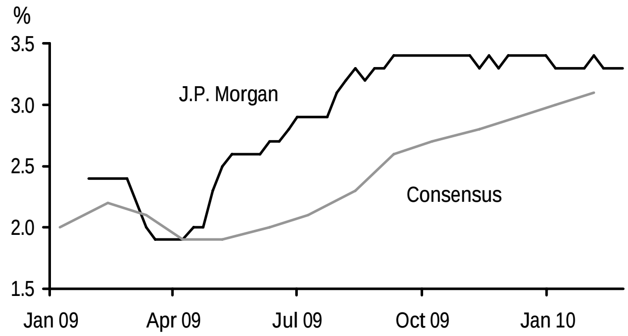
Equities were only slightly down on the week, despite disappointing economic data. The **reduced sensitivity of equity markets to bad economic news** is a positive sign and in our minds suggests that investor expectations and positions have already been adjusted to downside risks. Recent surveys suggest that both real money investors and hedge funds have cut their equity exposures over the past month.

We thus maintain **a positive view on equity markets**. It is also encouraging that retail investors bought equity funds for two straight weeks. This follows six straight weeks of outflows in developed market equity funds and three straight weeks of outflows in EM. See Friday's *Flows & Liquidity*.

Euro area equities continued to underperform on disappointing economic data. They are down 8%ytd versus 2% for MSCI World in local currency terms. The underperformance is more pronounced in common currency terms because of the decline in the euro. Historically, Euro area equities have a high beta with respect to global equities, and a positive view on equity markets would be consistent with a Euro area equity overweight. However, with the economic underperformance of the region likely to continue, we see little chance of Euro area equities outperforming even from current depressed levels, especially in common currency terms.

Our positive stance on equities is best captured by overweighting cyclical sectors and small caps. **Small caps have outperformed by 3%ytd** as investors sold mostly large liquid stocks to reduce their equity exposure. We stay overweight. Small caps are less vulnerable to government regulations and tax-raising efforts and are set to benefit from an anticipated pickup in M&A. The majority of M&A activity tends to involve small companies (see *Pan-European Small/Mid-Caps 2010 Outlook*, Jan. 15). We anticipate that global M&A activity will rise by close to 60% this year to US$3.6 trillion versus US$2.2 trillion in 2008 (see *Flows & Liquidity*, Nov. 5). In addition, historical analysis shows that the best time to invest in small caps has been directly after the end of a recession. After the 1990-1991 recession, the Russell 2000 outperformed the S&P 500 for three consecutive years by 13% a year, with similar results after the 2001 recession.

2010 global GDP growth forecasts: J.P. Morgan versus consensus



Credit

High-quality credit spreads came in last week while HY and EM bonds widened. Stay overweight US HG versus USTs as corporate credit quality continues to improve, and investors are again building up cash given the recent light supply.

Overweight HY loans versus bonds in CDS indices (LCDX versus CDX.HY) as their spread is cheap versus the much better recovery rate on loans. Default risks of the two CDS portfolios appear to be quite similar, but recovery rates are higher for loans compared to bonds. The average recovery was 74% in LCDX, triple that of the HY CDX index, which managed to recover only 24% in defaults over the past eight months.

We continue to see **EM corporates** (CEMBI Broad) outperforming EM external debt (EMBIG) and US HG. Spread volatility in EM corporates is similar to that of US HG, but EM corporate yields remain attractive at 6.7% versus 5.1% in the US. Investor demand remains strong and the heavy issuance of US$17 billion year-to-date, which was double that of last year over the same period, was easily absorbed. Moreover, CEMBI has little exposure in peripheral European countries such as Hungary, Poland, and Turkey, keeping contagion risks at bay.

Our overweight in **super-senior CMBS** continues to work. Stay overweight as current spreads imply twice the amount of losses we expect. Although CRE fundamentals continue to deteriorate, we believe there will be little impact on bond prices at the top of the capital structure when losses finally occur that are already widely anticipated. Within CMBS, TALF-ineligible super senior bonds are preferred as the spread between eligible and ineligible should continue to compress.

Foreign exchange

Mixed global activity data across the G-10 should **support the US dollar short term**, since it remains, with the yen, a primary funding currency. Measuring **positions** is always a piecemeal analysis, but across the range of indicators, USD positions look flat or only small long, so a minimal constraint on dollar strength is that the data flow remains grim. **CTAs** are holding their largest aggregate USD longs in a year, but shorts in EUR and GBP dominate this figure; they are still long commodity currencies. **Currency managers** hold small USD longs, as suggested by the positive beta of their returns with the trade-weighted dollar. **Global macro funds** appear to hold small but declining USD shorts (probably versus EM FX), as suggested by their negative beta to the dollar. So while the scope for short covering in the dollar is not large in aggregate, **dollar buying still looks likely against over-owned commodity/high-yield currencies.**

Record shorts in the **euro** normally would strengthen the currency if risky markets fall, but the unique risks around Greece should render any short-covering rally in EUR/USD quite brief. Much of this short base also reflects a hedge against sovereign risk, an issue that will fester for at least three months. That is the time required for Greece to manage its lumpiest rollover (two €8 billion redemptions in April and May), through some combination of public issuance, fiscal tightening, or EU assistance. Thus, short-covering rallies in EUR/USD should be only temporary supports. The **near-term bias is for the euro to move into the low 1.30s**, with a recovery into the 1.40s later this spring, assuming Greece delivers on its Stability and Growth Program and the risk premium built into the currency declines.

Sterling has been the world's second-worst performing currency this year, after Venezuela, but still looks too expensive given how much UK data and rate expectations have fallen versus other markets. A regression of EUR/USD on Euro/UK rate spreads and volatility suggests that EUR/GBP should trade at 0.90 simply to realign with current conditions.

Commodities

Commodities were down 1% last week. Base metals remain the high-beta sector, declining 3% last week, while energy was down less than 1% and precious metals were close to flat. We stay **long commodities** on strong growth in manufacturing and EM economies. We favour base metals near term due to restocking activity in the manufacturing sector, but we also see medium-term upside in oil.

Ten-year Government bond yields

	Current	Mar 10	Jun 10	Sep 10	Dec 10
United States	3.61	3.90	4.10	4.25	4.50
Euro area	3.10	3.35	3.50	3.65	3.75
United Kingdom	4.03	4.40	4.45	4.50	4.60
Japan	1.30	1.30	1.40	1.50	1.55
GBI-EM	7.17				7.90

Credit markets

	Current	YTD Return
US high grade (bp over UST)	164	1.9%
Euro high grade (bp over Euro gov)	162	1.7%
USD high yield (bp vs. UST)	683	1.5%
Euro high yield (bp over Euro gov)	695	3.2%
EMBIG (bp vs. UST)	308	1.2%
EM Corporates (bp vs. UST)	356	2.0%

Foreign exchange

	Current	Mar 10	Jun 10	Sep 10	Dec 10
EUR/USD	1.36	1.45	1.48	1.45	1.40
USD/JPY	89.0	85	82	85	89
GBP/USD	1.52	1.54	1.59	1.58	1.56

Commodities - quarterly average

	Current	10Q1	10Q2	10Q3	10Q4
WTI ($/bbl)	80	77	82	85	90
Gold ($/oz)	1118	1250	1400	1300	1200
Copper($/m ton)	6969	7350	8000	6800	6250
Corn ($/Bu)	3.89	3.85	4.05	3.95	3.90

Source: J.P. Morgan, Bloomberg, Datastream

Crude oil prices are now near US$79, failing once again to stay above the US$80 resistance level for more than a couple of days. We are, however, medium-term bullish and raised our oil price forecast this week as fundamentals keep improving. We now expect that WTI and Brent will average US$90 in 4Q, which is almost US$10 above forwards. Prices should remain rangebound in coming weeks, but should start moving higher more consistently in late 2Q. We also stay with the view that the curve will become backwardated in coming months.

Oil markets are already tighter than the consensus assumes, as floating storage is declining fast. The outlook for demand is also improving. We raised our 2010 demand forecasts in Asia and the Middle East, more than offsetting the likely weakness in Europe. In our view, OPEC will allow the upper end of its unofficial price band to drift higher, as the risks to the economic recovery decline.

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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			
	2009	2010	2011	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	4Q09	2Q10	4Q10	2Q11
The Americas														
United States	-2.4	3.6 ↑	3.1	2.2	5.9 ↑	3.0	4.0	4.0	3.5	2.5	1.5	2.2 ↓	1.1 ↓	0.9
Canada	-2.5	2.9	3.4	0.4	4.1	4.5	2.5	3.5	4.0	4.0	0.8	1.4	1.7	1.9
Latin America	-3.0 ↑	4.6	3.7	5.7 ↓	6.7 ↑	4.6	4.5	3.6	2.8	3.4	5.3	6.7	7.5	6.9
Argentina	-4.0	4.5	3.0	0.2	1.0	8.0	8.0	3.0	3.0	2.0	7.1	8.0	10.0	10.0
Brazil	0.1	6.2	4.0	5.1	7.7	6.3	5.0	5.1	4.0	3.8	4.2	4.5	4.7	4.7
Chile	-1.7	5.0	5.0	4.6	8.0	6.0	5.0	3.0	4.0	6.0	-3.0	2.2	2.9	2.9
Colombia	0.3	3.0	4.1	0.9	3.7	3.0	3.5	3.7	4.0	4.2	2.4	2.1	3.7	2.9
Ecuador	-1.0	2.0	3.0	1.1	-2.0	2.0	3.5	4.0	4.5	3.0	3.9	4.2	4.5	3.8
Mexico	-6.5 ↑	4.5	3.5	10.4 ↓	8.4 ↑	4.1	4.9	0.5	1.4	3.0	4.0	4.4	5.1	4.5
Peru	1.0	5.5	6.0	9.3	12.9	3.0	3.5	4.0	5.0	6.0	0.4	1.0	2.0	2.2
Venezuela	-2.9	-1.5	2.5	-7.8	-0.5	-4.0	-5.0	15.0	1.0	1.5	28.1	41.4	43.2	39.1
Asia/Pacific														
Japan	-5.1	2.3	1.9	0.0	4.6	1.8	1.5	2.0	2.2	1.8	-2.0	-1.9	-1.2	-0.1
Australia	0.9	3.0	3.5	0.8	2.5	3.3	3.8	4.2	3.9	3.1	2.2	2.6	2.6	3.0
New Zealand	-1.6	2.5	3.2	0.8	2.2	3.6	3.0	2.9	2.6	2.9	2.0	1.8	1.8	2.3
Asia ex Japan	4.5 ↑	7.8 ↑	7.2	10.2 ↑	7.8 ↑	7.4 ↓	7.1 ↓	7.1 ↓	6.8	7.0 ↑	2.7	4.5	3.8	3.2
China	8.6	10.0	9.4	10.3	10.0	9.8	9.4	9.5	9.0	9.1	0.7	3.2	3.1	2.4
Hong Kong	-2.7 ↑	5.3 ↑	4.2 ↑	1.6	9.5 ↑	4.5 ↑	4.3 ↑	4.0 ↑	3.8 ↑	4.2	1.3 ↓	2.4	2.3	1.9
India	6.8	7.8	8.3	11.6	1.8	10.4	8.1	7.0	8.7	7.9	12.2	11.9	6.2	5.5
Indonesia	4.5	5.5	6.6	5.8	9.6	6.0	4.0	8.5	5.0	6.0	2.6	5.3	6.3	4.9
Korea	0.2	5.3	4.1	13.6	0.7	3.6	4.2	4.2	3.5	4.0	2.4	3.1	3.6	3.4
Malaysia	-1.7 ↑	5.0	5.1	10.4 ↑	15.4 ↑	1.6	5.3	5.7	5.3	4.9	-0.2 ↑	1.7	2.4	2.4
Philippines	0.9	4.5	4.3	3.1	3.5	6.0	5.0	3.5	4.0	4.5	3.0	4.1	4.7	4.9
Singapore	-2.0	6.8	4.8	11.5	-2.8	11.2	7.0	4.9	4.9	4.1	-0.3	3.4	2.9	2.1
Taiwan	-1.9 ↑	7.0 ↑	4.8	10.2 ↑	18.0 ↑	1.2 ↓	3.5 ↓	3.8 ↓	4.0 ↑	5.0 ↑	-1.3	0.9	2.0	1.8
Thailand	-2.3 ↑	6.5 ↑	4.0 ↓	6.9 ↑	15.3 ↑	2.8 ↓	5.3 ↓	3.6 ↓	3.6 ↓	4.1	1.9	5.5	4.4	3.0
Africa/Middle East														
Israel	0.5	3.0	4.5	3.0	4.4	3.0	3.5	3.5	4.0	4.0	3.6	3.2	3.0	3.1
South Africa	-1.8	3.0	3.5	0.9	3.2 ↑	4.4	4.3	4.3	4.9	3.6	6.0	4.3	5.3	5.8
Europe														
Euro area	-4.0	1.6	2.1	1.7	0.4	1.5	3.0	2.3	2.0	2.0	0.4	1.3	1.3	0.8
Germany	-4.9	1.7	2.1	2.9	0.0	1.0	3.0	2.0	2.0	2.0	0.3	0.9	1.3	1.3
France	-2.2	2.0	2.2	0.7	2.4	1.5	3.0	2.0	2.5	2.0	0.4	1.4	0.9	0.9
Italy	-4.9	1.1	1.7	2.4	-0.8	1.0	2.5	1.5	2.0	1.5	0.7	1.1	1.1	1.1
Norway	-1.4	2.3	2.8	1.4	1.3	3.0	3.0	3.0	3.0	2.8	1.4	1.9	1.2	1.2
Sweden	-4.4	2.4	3.0	0.7	1.0	3.5	3.5	3.0	3.0	3.0	-0.4	1.1	0.9	1.8
Switzerland	-1.5	2.2	2.8	1.2	2.3	2.5	2.8	3.0	3.0	2.8	-0.1	0.9	0.7	0.8
United Kingdom	-5.0 ↓	1.2 ↓	3.1	-1.2 ↓	1.1 ↑	1.2 ↓	2.5	2.8	3.5	2.8	2.1	2.2	1.4	1.9
Emerging Europe	-5.1	3.9 ↓	4.7	4.1	5.1	3.7	3.6	3.3	3.9	4.4	6.2	5.6 ↑	5.5	4.9
Bulgaria	-5.1	-1.5	4.5	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	-4.3	2.0	4.0	3.3	-2.4	2.0	3.0	2.5	2.5	3.5	0.4	1.3	3.0	3.0
Hungary	-6.3	0.5	4.0	-4.7	-1.6	1.5	2.5	2.0	2.0	4.0	5.2	4.3	3.0	2.8
Poland	1.7	3.2	4.2	2.0	3.0	3.0	4.0	3.0	3.0	4.0	3.3	2.0	2.5	2.5
Romania	-7.2	1.5	4.0	...	...	...	...	...	...	...	4.6	4.5	5.3	4.5
Russia	-7.9	5.5	5.0	7.9	10.5	5.0	4.0	4.0	5.0	5.0	9.2	6.7	7.2	6.9
Turkey	-5.3	4.3 ↓	5.5 ↑	...	...	...	...	...	...	...	5.7	9.2 ↑	6.6	4.6
Global	-2.5	3.3	3.3	2.7	4.2 ↑	3.1	3.7	3.6	3.4	3.0	1.3	2.1 ↓	1.7 ↓	1.6
Developed markets	-3.4	2.6	2.6	1.4	3.5 ↑	2.3 ↓	3.1	3.1	2.9	2.3	0.6	1.3 ↓	0.9 ↓	0.9
Emerging markets	0.9 ↑	6.2	5.8	7.8	6.9 ↑	6.0 ↓	5.7 ↓	5.5	5.3	5.5	3.9	5.1	4.9	4.3
Memo:														
Global — PPP weighted	-0.8	4.5	4.4	4.2	5.0	4.0	4.3	4.2	4.0	3.8	2.3	3.2	2.7	2.5

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Global Central Bank Watch

	Official interest rate	Current	Change from Aug '07 (bp)	Last change	Next meeting	Forecast next change	Mar 10	Jun 10	Sep 10	Dec 10	Jun 11
Global	GDP-weighted average	1.29	-337				1.30	1.35	1.43	1.51	1.98
excluding US	GDP-weighted average	1.84	-251				1.85	1.92	2.05	2.17	2.68
Developed	GDP-weighted average	0.50	-361				0.50	0.51	0.54	0.59	1.04
Emerging	GDP-weighted average	4.45	-241				4.47	4.67	4.99	5.21	5.76
Latin America	GDP-weighted average	5.72	-321				5.91	6.41	7.10	7.36	8.32
CEEMEA	GDP-weighted average	4.41	-245				4.30	4.16	4.41	4.66	5.19
EM Asia	GDP-weighted average	4.00	-210				4.00	4.22	4.43	4.61	5.01
The Americas	GDP-weighted average	0.75	-484				0.77	0.82	0.93	0.99	1.44
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	16 Mar 10	2Q 11 (+25bp)	0.125	0.125	0.125	0.125	0.50
Canada	Overnight funding rate	0.25	-400	21 Apr 09 (-25bp)	2 Mar 10	20 Jul 10 (+25bp)	0.25	0.25	0.75	1.25	1.75
Brazil	SELIC overnight rate	8.75	-325	22 Jul 09 (-50bp)	17 Mar 10	Mar 10 (+50bp)	9.25	10.25	11.25	11.75	11.75
Mexico	Repo rate	4.50	-270	17 Jul 09 (-25bp)	19 Mar 10	Jun 10 (+25bp)	4.50	4.75	5.25	5.25	6.75
Chile	Discount rate	0.50	-450	9 Jul 09 (-25bp)	31 Mar 10	3Q 10 (+25bp)	0.50	0.50	1.25	2.00	3.50
Colombia	Repo rate	3.50	-550	23 Nov 09 (-50bp)	26 Mar 10	1Q 11 (+50bp)	3.50	3.50	3.50	3.50	5.50
Peru	Reference rate	1.25	-325	6 Aug 09 (-75bp)	11 Mar 10	Jul 10 (+25bp)	1.25	1.25	2.00	2.75	4.25
Europe/Africa	GDP-weighted average	1.31	-321				1.31	1.29	1.33	1.41	2.08
Euro area	Refi rate	1.00	-300	7 May 09 (-25bp)	4 Mar 10	1Q 11 (+25bp)	1.00	1.00	1.00	1.00	1.75
United Kingdom	Repo rate	0.50	-500	5 Mar 09 (-50bp)	4 Mar 10	Nov 10 (+25bp)	0.50	0.50	0.50	0.75	1.25
Sweden	Repo rate	0.25	-325	2 Jul 09 (-25bp)	20 Apr 10	1Q 11 (+25bp)	0.25	0.25	0.25	0.25	0.75
Norway	Deposit rate	1.75	-275	16 Dec 09 (+25bp)	24 Mar 10	24 Mar 10 (+25bp)	2.00	2.25	2.50	2.50	3.25
Czech Republic	2-week repo rate	1.00	-175	16 Dec 09 (-25bp)	25 Mar 10	23 Sep 10 (+25bp)	1.00	1.00	1.25	1.75	2.75
Hungary	2-week deposit rate	5.75	-200	**22 Feb 10 (-25bp)**	30 Mar 10	**30 Mar 10 (-25bp)**	5.50	5.50	5.50	5.50	5.50
Israel	Base rate	1.25	-275	28 Dec 09 (+25bp)	28 Mar 10	2Q 10 (+25bp)	1.25	1.75	2.25	2.75	3.75
Poland	7-day intervention rate	3.50	-100	24 Jun 09 (-25bp)	31 Mar 10	3Q 10 (+25bp)	3.50	3.50	3.75	4.00	5.00
Romania	Base rate	7.00	0	3 Feb 10 (-50bp)	29 Mar 10	29 Mar 10 (-25bp)	6.75	6.25	6.00	6.00	7.00
Russia	1-week deposit rate	3.75	75	19 Feb 10 (-25bp)	Mar 10	Mar 10 (-25bp)	3.50	3.00	3.00	3.00	3.50
South Africa	Repo rate	7.00	-250	13 Aug 09 (-50bp)	25 Mar 10	4Q 10 (+50bp)	7.00	7.00	7.00	7.50	8.50
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	Mar 10	Sep 10 (+25bp)	0.25	0.25	0.50	0.75	1.25
Turkey	Overnight borrowing rate	6.50	-1100	19 Nov 09 (-25bp)	18 Mar 10	3Q 10 (+50bp)	6.50	6.50	7.50	8.00	7.50
Asia/Pacific	GDP-weighted average	2.09	-135				2.09	2.22	2.34	2.45	2.67
Australia	Cash rate	3.75	-250	1 Dec 09 (+25bp)	2 Mar 10	6 Apr 10 (+25bp)	3.75	4.25	4.50	5.00	5.50
New Zealand	Cash rate	2.50	-550	30 Apr 09 (-50bp)	10 Mar 10	29 Jul 10 (+50bp)	2.50	2.50	3.50	4.00	4.75
Japan	Overnight call rate	0.10	-43	19 Dec 08 (-20bp)	17 Mar 10	4Q 11 (+15bp)	0.10	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	17 Mar 10	2Q 11 (+25bp)	0.50	0.50	0.50	0.50	1.00
China	1-year working capital	5.31	-126	22 Dec 08 (-27bp)	1Q 10	2Q 10 (+27bp)	5.31	5.58	5.85	6.12	6.39
Korea	Base rate	2.00	-250	12 Feb 09 (-50bp)	11 Mar 10	3Q 10 (+25bp)	2.00	2.00	2.25	2.50	3.00
Indonesia	BI rate	6.50	-200	5 Aug 09 (-25bp)	4 Mar 10	4Q 11 (-25bp)	6.50	6.50	6.50	6.50	6.50
India	Repo rate	4.75	-300	21 Apr 09 (-25bp)	Apr 10	Apr 10 (+25bp)	4.75	5.25	5.50	5.50	6.50
Malaysia	Overnight policy rate	2.00	-150	24 Feb 09 (-50bp)	4 Mar 10	4 Mar 10 (+25bp)	2.25	2.50	2.75	2.75	2.75
Philippines	Reverse repo rate	4.00	-350	9 Jul 09 (-25bp)	11 Mar 10	2Q 10 (+25bp)	4.00	4.25	4.75	5.00	5.00
Thailand	1-day repo rate	1.25	-200	8 Apr 09 (-25bp)	10 Mar 10	2 Jun 10 (+25bp)	1.25	1.50	1.50	1.75	2.25
Taiwan	Official discount rate	1.25	-188	18 Feb 09 (-25bp)	1Q 10	4Q 10 (+12.5bp)	1.25	1.25	1.25	1.375	1.625

Bold denotes move since last GDW and forecast changes. Underline denotes policy meeting during upcoming week.

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Economic forecasts - Australia

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

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	1.0	3.4	3.5	2.6	0.8	4.4	3.3	3.8	4.2	3.9	3.1	3.8	3.0	3.1
Private consumption	1.6	2.5	1.7	2.9	2.6	3.0	2.4	2.4	2.4	1.6	1.6	1.6	1.2	2.0
Construction investment	-0.7	3.9	5.5	-2.7	1.9	0.4	7.6	4.4	6.5	4.3	5.1	5.8	6.7	6.8
Equipment investment	-7.6	2.0	7.1	7.9	-15.5	-4.2	6.3	8.5	8.5	6.3	7.8	4.3	8.7	8.7
Public investment	0.9	11.6	13.6	10.7	27.1	7.7	7.1	10.6	15.4	10.4	12.3	14.3	16.5	19.0
Government consumption	2.3	3.5	3.1	4.0	2.8	2.5	3.9	4.1	3.9	3.8	1.9	3.8	3.8	0.4
Exports of goods & services	1.3	3.8	5.1	3.2	-8.7	6.0	5.1	8.2	3.2	7.4	4.1	4.1	4.1	8.2
Imports of goods & services	-8.5	8.2	5.5	2.8	25.2	-2.0	12.6	8.2	4.9	4.1	4.1	4.1	8.2	12.6
Contributions to GDP growth:														
Inventories	-0.9	-0.4	0.0	0.8	3.2	-5.4	0.7	-0.1	0.0	0.0	-0.2	0.1	-0.2	0.0
Net trade	2.2	-0.9	-0.1	0.1	-6.3	1.6	-1.5	-0.1	-0.4	0.6	0.0	0.0	-0.9	-1.0
GDP deflator (%oya)	-0.3	0.8	2.4	0.7	-3.0	-3.3	-1.5	1.2	1.7	2.0	2.2	2.4	2.5	2.5
Consumer prices (%oya)	1.8	2.4	2.8	1.5	1.3	2.2	2.5	2.4	2.2	2.4	2.6	2.9	2.8	2.8
Producer prices (%oya)	-4.9	0.3	3.5	-6.4	-7.2	-4.7	-0.9	0.7	0.4	1.0	2.5	3.5	4.0	4.0
Trade balance (A$ bil, sa)	-4.4	-15.8	-17.3	-0.9	-4.8	-2.9	-3.8	-3.9	-4.2	-3.8	-3.9	-3.9	-4.5	-5.1
Current account (A$ bil, sa)	-49.6	-62.6	-67.3	-13.1	-16.2	-14.0	-15.3	-15.5	-16.0	-15.7	-15.9	-16.2	-17.1	-18.1
as % of GDP	-6.2	-4.8	-4.9	-4.2	-5.2	-4.4	-4.8	-4.8	-4.9	-4.7	-4.7	-4.7	-4.9	-5.1
3m eurodeposit rate (%)*	6.0	4.9	5.4	3.5	3.4	4.1	4.4	4.8	5.0	5.4	5.4	5.4	5.4	5.4
10-year bond yield (%)*	5.6	5.8	6.0	5.5	5.1	5.8	5.7	5.8	5.8	6.0	6.0	6.0	6.0	6.0
US$/A$*	0.75	0.98	0.92	0.82	0.88	0.91	0.94	1.00	0.99	0.98	0.98	0.95	0.90	0.85
Commonwealth budget (FY, A$ bil)	-27.0	-43.0	-29.0											
as % of GDP	-2.2	-3.3	-2.1											
Unemployment rate	5.6	5.7	5.4	5.7	5.8	5.6	5.6	5.7	5.8	5.6	5.5	5.4	5.4	5.3
Industrial production	-5.6	1.3	1.5	2.9	5.0	3.0	1.0	0.0	-1.0	-2.0	0.0	1.0	2.0	3.0

*All financial variables are period averages

Australia - summary of main macro views

- The Australian economy has powered out of the global downturn largely unscathed; it is one of the few economies to **avoid back-to-back falls in GDP**. Growth will accelerate this year and again 2011.
- **Business investment** will be broadly unchanged at elevated levels in the year to June now that firms have upgraded their spending plans. Spending probably will rise close to 20% in 2010-11, with mining leading the way.
- On **housing**, with the expanded first home owners' grant now having expired and price caps on the basic grant in place, house price growth should cool, particularly at the low and middle-end of the price spectrum.
- The **consumer** has remained remarkably resilient in the absence of further fiscal support from the government. Consumer confidence has returned to pre-crisis highs even in the wake of the RBA's three rate hikes, which the Aussie banks "super-sized".
- **Export volumes** have held up owing mainly to firm demand from Asia, but the terms of trade has tumbled.This looks set to reverse, though, in 2010 thanks mainly to higher bulk commodity prices.
- The **RBA** was the first central bank in the G20 to tighten monetary policy and the first to go "on hold." We expect no change this week, but another 25bp hike in April. The cash rate will be 5% by the end of the year.
- Having front-loaded the **policy support**, the government is winding back the fiscal stimulus. With an election looming, though, the temptation will be to reverse course, particularly if the polls continue to tighten.

Economic forecasts - New Zealand

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

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	-1.6	2.5	3.2	0.9	0.8	2.2	3.6	3.0	2.9	2.6	2.9	4.6	3.2	2.6
Private consumption	-0.9	0.8	0.6	1.5	3.0	0.2	0.4	0.8	0.2	0.6	0.7	0.5	0.9	0.6
Fixed Investment	-12.9	-1.6	3.9	-2.8	-6.0	-7.7	-2.0	3.7	3.0	4.3	2.2	4.1	6.0	7.4
Residential construction	-20.4	-3.7	4.3	-8.7	-18.6	-6.0	-2.0	2.0	3.2	6.0	3.2	4.8	6.0	4.0
Other fixed investment	-11.4	-1.3	3.9	-1.6	-3	-8.0	-2.0	4.0	3.0	4.0	2.0	4.0	6.0	8.0
Inventory change (NZ$ bil, saar)	-2.6	-0.6	0.0	-1.0	-0.7	-0.6	-0.3	-0.2	-0.1	0.1	0.0	0.0	0.0	0.0
Government spending	1.1	0.5	0.6	-5.8	1.5	0.9	0.8	0.8	0.8	0.8	0.4	0.8	0.0	0.2
Exports of goods & services	0.9	8.4	11.0	20.0	0.1	11.0	8.0	10.0	8.0	5.0	12.0	16.0	15.0	10.0
Imports of goods & services	-16.4	5.9	6.8	-9.3	2.7	7.0	8.0	9.0	6.0	7.0	5.0	6.5	12.0	4.0
Contributions to GDP growth:														
Domestic final sales	-5.2	0.2	1.3	0.8	-1.6	-0.8	-0.1	1.4	1.0	1.4	1.0	1.4	2.0	0.4
Inventories	-3.0	1.6	0.4	-8.6	3.2	1.8	3.7	1.2	1.2	1.8	-0.5	-0.1	0.0	0.0
Net trade	6.6	0.8	1.5	9.4	-0.8	1.2	0.0	0.3	0.7	-0.6	2.3	3.2	1.2	2.2
GDP deflator (%oya)	2.1	2.0	2.2	2.0	2.9	0.9	0.7	2.0	2.6	2.8	2.8	2.4	1.9	1.6
Consumer prices	2.1	2.3	2.4	2.3	5.3	-0.7	2.2	2.1	1.9	2.8	2.7	2.6	2.1	1.9
%oya	2.1	2.0	2.4	1.9	1.7	2.0	2.2	2.2	1.4	2.3	2.4	2.5	2.6	2.3
Trade balance (NZ$ bil, sa)	1.3	-6.3	-8.5	0.8	0.7	-1.1	-1.4	-1.5	-1.7	-1.7	-1.8	-2.0	-2.3	-2.4
Current account (NZ$ bil, sa)	-3.1	-6.7	-13.7	-0.4	0.3	-0.9	-1.2	-1.2	-2.0	-2.3	-2.7	-5.2	-2.9	-2.9
as % of GDP	-1.7	-4.3	-5.8	-0.9	0.8	-2.0	-2.6	-4.2	-4.9	-5.5	-6.0	-5.8	-5.7	-5.8
Yield on 90-day bank bill (%)*	3.0	3.6	4.5	2.8	2.8	2.8	2.7	3.3	4.0	4.4	4.4	4.5	4.5	4.5
10-year bond yield (%)*	5.5	5.6	5.9	5.7	5.7	5.9	5.7	5.6	5.6	5.7	5.7	5.8	5.9	6.0
US$/NZ$*	0.64	0.75	0.70	0.60	0.68	0.73	0.73	0.76	0.75	0.74	0.72	0.70	0.70	0.68
Commonwealth budget (NZ$ bil)	-4.0	-7.2	-7.1											
as % of GDP	-2.2	-3.8	-3.6											
Unemployment rate	6.1	7.3	6.9	6.0	6.5	7.3	7.2	7.4	7.3	7.2	7.1	7.0	6.9	6.7

*All financial variables are period averages

New Zealand - summary of main macro views

- The **New Zealand economy expanded a mere 0.2%q/q in 3Q**, the same rate as in the previous three months. This marked the second straight quarter of expansion following five quarters of GDP declines.
- **Business confidence** has improved markedly. This mainly owes to continued improvement in economic conditions in Australia and New Zealand's other major trading partners in Asia.
- Even though firms are becoming more upbeat, **investment** will remain a drag on GDP growth this year; this, of course, weigh on the improvement in the labour market.
- The **unemployment** rate probably peaked in 4Q, however. Hiring intentions are picking up, and as employment growth accelerates, wage growth should follow suit.
- **The RBNZ will begin tightening policy in July.** Waiting for hard evidence that the economic recovery underway is sustainable, however, means that the RBNZ will have to tighten more aggressively. The first move will be a 50bp hike.
- **Inflation** fell in the final three months of 2009, with headline CPI slipping 0.2%q/q. Medium term inflation pressures are, however, a concern, given diminishing excess capacity and firms' intentions to raise domestic prices.

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Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
1 Mar Australia: Company operating profits (11:30 am) 4Q 3.0 %q/q, sa Current account (11:30 am) 4Q -16.9A$bn Inventories (11:30 am) 4Q -0.5%q/q,sa New Zealand: Visitor arrivals (10:45 am) Jan ANZ commodity price (2:00 pm) Feb	2 Mar Australia: Building approvals (11:30 am) Jan -2.0 %m/m, sa Retail sales (11:30am) Jan 0.0 %m/m, sa RBA cash target (2:30 pm) Mar no change expected	3 Mar Australia: GDP (12:30 am) 4Q 1.1 %oya	4 Mar Australia: Trade balance (12:30 am) Jan -1500 A$mn, sa	5 Mar
8 Mar New Zealand: Manufacturing activity (10:45 am) 4Q	9 Mar Australia: NAB bus. Confidence (11: 30 am) Feb ANZ job ads Feb	10 Mar Australia: Westpac consumer confidence (10: 30 am) Mar Housing finance approvals Jan New Zealand: Terms of trade index (10:45 am) 4Q	11 Mar Australia: Unemployment rate (11:00 am) Feb New Zealand: Business NZ PMI (10:30 pm) Feb RBNZ official cash rate Mar	12 Mar New Zealand: Retail sales (10:45 am) Jan
15 Mar	16 Mar	17 Mar Australia: Dwelling starts 4Q Westpac leading index Jan	18 Mar	19 Mar New Zealand: Visitor arrivals (10:45 am) Feb Credit card spending (2:00 pm) Feb
22 Mar Australia: New motor vehicle sales (10: 30 am) Feb	23 Mar	24 Mar	25 Mar New Zealand: GDP (10:45 am) 4Q	26 Mar New Zealand: Trade balance (10:45 am) Feb

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
1 - 5 March	**1 March**	**2 March**	**3 March**	**4 March**	**5 March**
	Canada: GDP (4Q) China: PMI mfg (Feb) Euro area • PMI mfg final (Feb) • Unemployment (Jan) Japan: Auto regs (Feb) Korea: Trade bal (Feb) Sweden: GDP (4Q) UK • Mortgage approvals (Jan) • PMI mfg (Feb) United States • Construct spending (Jan) • ISM mfg (Feb) • Personal income (Jan)	Australia • Retail sales (Jan) • RBA mtg: No Chg Canada • BoC mtg: No Chg Euro area: HICP flash (Feb) Japan • Hhold spending (Jan) • Unemployment (Jan) Korea • CPI (Feb) Poland: GDP (4Q) United States: LV sales (Feb)	Australia: GDP (4Q) Euro area • PMI services final (Feb) • Retail sales (Jan) Japan: PMI services (Feb) Korea: IP (Jan) Turkey: CPI (Feb) United Kingdom • PMI services (Feb) United States • ADP employment (Feb) • Beige book • ISM nonmfg (Feb)	Brazil • Auto report (Feb) • IP (Jan) Euro area • GDP prelim (4Q) • ECB mtg: No Chg Indonesia: BI mtg: No Chg Japan: MoF corp surv (4Q) Malaysia: BNM mtg: +25bp United Kingdom • New car regs (Feb) • BoE mtg: No Chg United States • Factory orders (Jan) • Pending homes (Jan) • Product. and costs (4Q)	Brazil • IPCA (Feb) Germany • Mfg orders (Jan) Taiwan • CPI (Feb) United States • Consumer credit (Jan) • Employment (Feb)
8 - 12 March	**8 March**	**9 March**	**10 March**	**11 March**	**12 March**
Japan • Cabinet Office private consumption (Jan)	Germany • IP (Jan) Japan • Econ watcher surv (Feb) Taiwan • Trade balance (Feb) Turkey • IP (Jan)	United Kingdom • Trade balance (Jan) United States • JOLTS (Jan)	China • Trade balance (Feb) Germany • CPI final (Feb) • Foreign trade (Jan) Japan • Machinery orders (Jan) Norway • CPI (Feb) Thailand • BoT mtg: No Chg United States • Wholesale trade (Jan)	Brazil • GDP (4Q), Retail (Jan) China: CPI, FAI, IP, Retail sales (Feb) France: Employ final (4Q) Japan: GDP 2nd est (4Q) Korea: BoK mtg: No Chg Peru: BCRP mtg: No Chg Philippines • BSP mtg: No Chg Sweden: CPI (Feb) Switzerland • SNB mtg: No Chg US: International trade (Jan)	Canada • Employment (Feb) Euro area • IP (Jan) Japan • IP final (Jan) Mexico • IP (Jan) United States • Bus inventories (Jan) • Consumer sent (Mar) • Retail sales (Feb)

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