

Australia and New Zealand - Weekly Prospects

Summary

- The week ahead in **Australia** will settle once and for all the debate about whether the RBA hikes in April, or whether they wait until May, our preferred option. It would take material upside surprises on this week's retail sales, credit and building approvals data (the last major releases ahead of the April Board meeting) to trigger a back-to-back hike. Last week's speech by Phil Lowe, the RBA's head of economics, while endorsing an upbeat view on Australia's real economy, reinforced the official line that core inflation will continue to drift lower. But, while this implied the RBA is in no rush to pull the interest rate trigger again, in a television interview this morning RBA Governor Glenn Stevens offered a slightly more hawkish tone. The Governor flagged Australia's booming housing market as a key concern and warned against speculating on rising house prices. The RBA Governor will appear in televised segments on March 30 and March 31, which will be examined for further clues on the timing of the next rate move.
- The GDP numbers released in **New Zealand** last week, which showed the economy grew a solid 0.8%q/q in 4Q, will have few implications for the near-term monetary policy outlook. The 1Q GDP numbers may, however. RBNZ Governor Alan Bollard appears to want hard evidence that the recovery underway is sustainable so will likely sit on the policy sidelines until after the late-June release of the 1Q GDP numbers. That said, Deputy Governor Grant Spencer last week suggested that the RBNZ will move in little steps when the tightening cycle begins. His comments were in contrast to those delivered by Governor Bollard earlier this year suggesting that the RBNZ would deliver 'meaty chunks' on the upside when referring to forthcoming rate moves. We, therefore, maintain our call for a 50bp hike in July given the significant amount of monetary policy stimulus that needs to be withdrawn.
- We believe that the **global** economy is making an important transition to self-sustaining growth as the first quarter comes to an end. As part of this shift, GDP growth is reaccelerating following a modest downshift at the turn of the year. However, it is the significant broadening in G-3 demand, rather than the pickup in top-line growth, that will be the key marker for this transition.
- It is important to recognize that a shift to synchronized **domestic demand** growth in the G-3 would combine with an already well-established expansion in emerging economies. Thus, confirmation that this foundation is being put in place would shift the risks to our already-strong global growth forecast to the upside. One important marker will be the employment index of our all-industry PMI. A move above 50, which could register in the upcoming March survey, would confirm that labour markets have shifted to expansion mode.
- Recent experience has underscored that **financial market conditions** are a critical determinant of economic growth. With this in mind, market developments in the year to date have been encouraging. Global growth has downshifted this quarter after a very strong performance in late 2009, partly due to the effects of unusually severe winter weather across much of the northern hemisphere. In addition, recent months were characterized by an unusual degree of political and policymaking uncertainty, including the controversy surrounding healthcare and financial-sector reform in the United States, the sovereign debt turmoil in Europe, and the advent of policy tightening in China.

This week's highlight

An upside surprise in Australia's retail sales report on Wednesday would strengthen the case for an RBA rate hike in April.

March 29, 2010

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Data and event previews - Australia and New Zealand

Date	Time ^(a)	Data/event	Forecast		Previous
			JPMorgan	Consensus ^(b)	
Tuesday, March 30	8.45am	NZ building permits (%m/m, Feb.)	2.0	2.0	-2.8
Tuesday, March 30	9.10am	RBA Assistant Governor Debelle's speech	na	na	na
Wednesday, March 31	11.30am	Aust. building approvals (%m/m, Feb.)	1.5	2.1	-7.0
Wednesday, March 31	11.30am	Aust. retail sales (%m/m, Feb.)	0.2	0.3	1.2
Wednesday, March 31	11.30am	Aust. private sector credit (%m/m, Feb.)	0.2	0.4	0.4
Wednesday, March 31	1.00pm	NBNZ business confidence (Index, Mar.)	45.0	na	50.1
Thursday, April 1	9.30am	TD Securities Inflation Gauge (%m/m, Mar.)	na	na	0.1
Thursday, April 1	10.30am	AiG Performance of Manufacturing (Index, Mar.)	na	na	53.8
Thursday, April 1	11.30am	Aust. trade balance (A\$m., Feb.)	-1340	-1340	-1176

(a) Australian Eastern Standard Time.

(b) Consensus based on Bloomberg survey.

Australia

RBA Assistant Governor Debelle's speech - The Assistant Governor (Financial Markets) delivers the keynote address to the Australian Mortgage Innovation Forum 2010 in Sydney on Tuesday. The forum will canvas the “new mortgage landscape in 2010 and into the future”, touching on issues such as bank funding and securitization. A Q&A session is scheduled following the speech.

Building approvals (%m/m, Feb.) - We expect a return to growth in residential building approvals in February. The softening in approvals for private sector houses, owing to the withdrawal of government grants and three consecutive rate hikes, will, however, ensure that this gain is minor—we forecast a rise of 1.5% m/m over the month. The higher density dwellings category on the other hand is notoriously volatile, since approvals (or a lack thereof) for individual projects are translated manifold into corresponding dwelling unit approvals. For the February result, we forecast a significant bounce back in this category after a 29% m/m fall in January.

Retail sales (%m/m, Feb.) - We expect a sharp pullback in growth in retail sales values in February, although the RBA's surprise decision to leave the cash rate unchanged early on in the month will have prevented a fall in this series. Our forecast is for retail sales to have risen just 0.2% m/m, largely as payback for the 1.2% bounce in the previous month. High petrol prices and rising market interest rates soon will start to squeeze households' disposable income, which will weigh on the retail sector throughout the year. The flipside, though, is that labour market conditions are improving.

Data previews - cont'd.

Private sector credit (%m/m, Feb.) - We expect private sector credit growth to have moderated in February, owing to easing in demand for housing credit due to a combination of rising interest rates, the expiration of the government's expanded first home owners' grant (Dec. 31), and the introduction of caps on the original grant of A\$7,000 (Jan. 1). Importantly, though, with business deleveraging coming to an end and signs that banks increasingly are making more credit available to small- and medium-sized businesses, we expect business credit to rise for the first time in over a year. Personal credit growth probably held steady.

Trade balance (A\$mn., Feb.) - Goods exports probably were up slightly in seasonally adjusted terms, with ports data showing a smaller than usual decline in shipping of coal and iron ore in the traditionally weak month of February. This result would be particularly pleasing given that shipments from Queensland have been affected by floods. Preliminary import data though showed an increase in goods imports of 2% m/m over the month, which will push the deficit modestly wider. Beyond the month to month volatility in trade flows, an export boom is on the horizon. The WA government has announced the construction of a new iron ore port in the Pilbara that will accommodate a near-doubling in production by 2015. With the terms of trade set to be inflated by a sharp jump in negotiated commodity prices, the external sector will provide a powerful growth impulse over the medium term.

New Zealand

Building permits (%m/m, Feb.) - Following two months of declines, we expect building permits increased 2% over the month of February. With another rise expected in the number of consents in March, residential construction will be on track to make a healthy contribution to economic growth in 1Q.

NBNZ business confidence (Index, Mar.) - The NBNZ business confidence survey should show that confidence retreated in March. We expect the headline to fall to a net balance of 45.0 from 50.1 in February, which was the highest level in over a decade. Rising global jitters and signs that the recovery underway in New Zealand lost some momentum early on in the year will be the main reasons owing to the pull-back in confidence in March. Still, the all-important reading of firms' own activity should have continued to improve, reaffirming our view that the economy will register a few solid quarters of GDP growth near-term.

Research note

Only brief reversal of rise in Australia's terms of trade

- Australia's terms of trade dipped last year as commodity prices plunged
- The terms of trade, though, should bounce 23% by the end of 2011 as commodity prices rebound
- This will trigger a second wave of higher national income and inflation pressure

Australia's terms of trade, the ratio of export to import prices, soared 80% in the six years to the end of 2008, the largest sustained rise in international purchasing power in Australia's modern economic history. The rise owed much to sustained gains in commodity prices, particularly for bulk exports like iron ore and coal, while import prices were held down by rising AUD. The result was a surge in national income, which rose on average 8% in nominal terms over the same period. Simultaneously, in the real economy, private investment, stimulated by significantly higher prices for mining exports, in particular, rose from 20% of GDP to a record 25%. Also, there was a sustained drop in the unemployment rate to a three-decade low below 4%.

Now, it seems Australia is on the cusp of another sustained rise in the terms of trade. Annual contract prices for bulk export commodities, for example, which currently are under negotiation, will be set significantly higher than the prices prevailing in the current contract year. Coal and iron ore alone comprise 46% of Australia's commodity exports. Also, with AUD poised to move higher against the currencies of most of our main trading partners, import prices should fall. This rosy outlook implies the economy faces another period of above-trend growth in income, investment, and output. Gains in the latter, however, will be tempered by emerging capacity constraints.

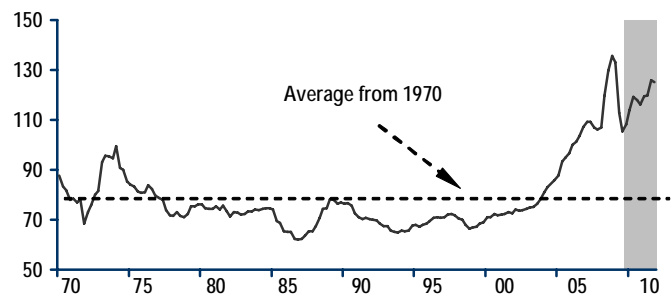
Bulking up on coal and iron ore prices

Our forecast is that the terms of trade will bounce 23% by the end of 2011, measured from the trough of 3Q09. This will raise the index close to the peak reached at the end of 2008, the year in which iron ore prices doubled and coking coal prices tripled. The terms of trade forecast is based on the assumption that export prices will rise 17% over the same period, and that import prices will drop 5%. The principal driver of the expected fall in import prices is higher AUD, which we forecast will rise 9% in trade-weighted terms over 2010, before stabilizing in 2011.

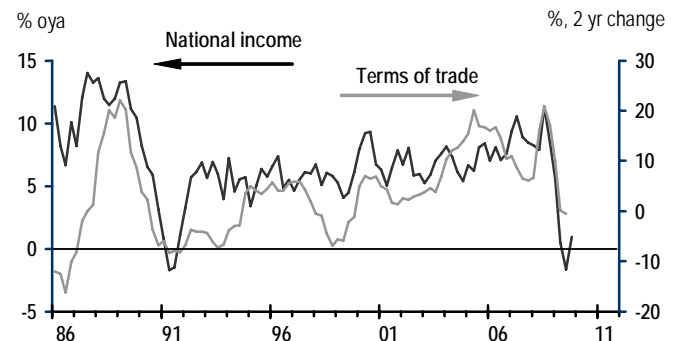
For export prices, the main driver of the expected gain will

Terms of trade index

Index, 2004/05=100, sa



Terms of trade and national income



be iron ore prices, which we forecast will rise 65% in the contract year starting April 1. Coal prices should rise as much as 55% for the new contract year, while energy and bullion prices also will be sharply higher (up 19% and 12%, respectively). The partial offset will come from lower base metal prices; we forecast a 12% drop for lead, an 8% fall for nickel, and a small fall for copper. We forecast rises in prices for key farm products despite an improved harvest this year on the back of recent flooding rain.

Benefits accrue not only to miners

A rising terms of trade affects the economy in a number of ways. The indirect benefits include higher earnings for employees in sectors directly affected, particularly mining. Already, there is evidence that the wages of mining-related employees are being bid higher; maritime workers in mining-oriented Western Australia, for example, recently received one-off pay rises of 30%. There also is the related flow through to higher corporate earnings, share prices, and dividends for the companies involved with resource extraction and export. The benefits here accrue directly to equity investors in the listed companies, many of whom, however, are domiciled offshore. There is, therefore, some leakage of benefits via the external capital account.

The most significant positive impact of a rising terms of trade, however, is the indirect boost to federal and state

government revenue, which is boosted by the rise in national income. The federal government's budget position, for example, improved substantially from 2003 to 2008 at the height of the previous boom; the budget balance rose from a deficit in 2001-02 to a surplus of 2% of GDP in 2007-08. This was despite the government simultaneously granting generous personal tax breaks and greatly expanding existing welfare arrangements.

One caveat this time is that the indirect benefits from the higher terms of trade probably will be more modest. The federal government is committed to capping annual growth in spending at 2% in real terms, once the economy returns to trend growth (which seems to be the case now). Other fiscal "rules" call for all unexpected revenue to be added to the bottom line, and for new expenditure in the coming year to be matched by savings elsewhere. With the budget in deep deficit, partly owing to the authorities' aggressive fiscal response during the darkest periods of the global financial crisis, the government is under increased pressure to wind back stimulus. Each of these factors will limit the degree to which personal taxes will be cut and middle class welfare arrangements further enhanced. This will be particularly so after this year's election, due around 3Q, when the temptation to "bribe" voters will have receded.

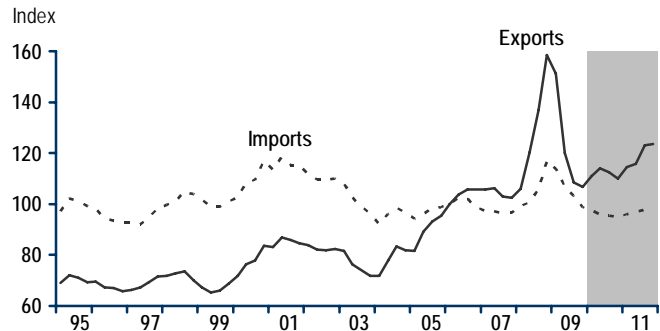
Unbalanced economic growth ahead

History shows that one of the drawbacks of growth triggered by rising export prices is that Australia tends to develop a two-speed economy. Mining regions, for example, and their associated support industries, do significantly better than regions with large manufacturing bases, where import competition typically intensifies as the terms of trade rises. This creates policy challenges, particularly for the central bank and for governments dealing with emerging capacity constraints and skill shortages in "hot" regions.

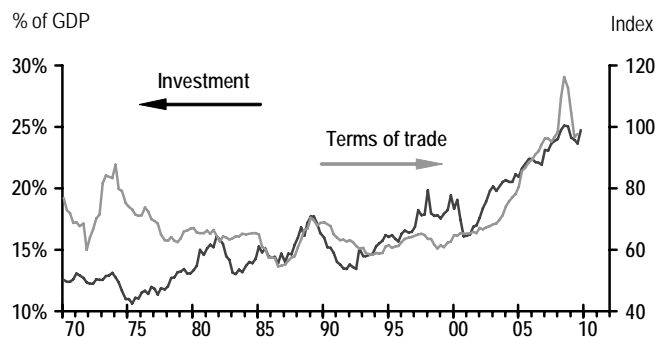
Already, there are bottlenecks and skill shortages in Western Australia (WA), the home of Australia's mining boom. The WA Chamber of Commerce and Industry calculates that the state will fill only 60% of at least 400,000 skilled vacancies likely to be created by an investment boom over the next seven years. Filling 400,000 vacancies requires the state's population to grow an *additional* 18% by 2017. Previous booms show that Australians are reluctant to move to remote mining regions, so increased overseas migration is the only plausible way this target can be reached. The government recently tightened the skilled migration program, with the aim of making it more demand-driven, which should help.

Even outside Western Australia, the federal government's

Export and import prices



Terms of trade and private investment



preoccupation with funding construction of school halls, providing subsidies for home roof insulation (until recently), and building a broadband network as part of the "Nation Building" program means spending on hard infrastructure like roads, rail, ports, power generation, and water supply has been neglected, at least in relative terms. The economy, therefore, very soon will bump up against the constraints that blighted the last period of expansion.

A policy dilemma for the RBA

The resulting bottlenecks and skill shortages will contribute to inflation pressure in the broader economy. On our forecast, core inflation will trough near the top of the RBA's 2% to 3% inflation target and be rising in 2011. The dilemma for the Reserve Bank, as was the case during the last investment and mining boom, will be managing the diverse performance across different parts of the economy. Interest rates clearly need to rise significantly to deal with the excesses emerging to the west and north, but should be kept low to support the weaker states in the southeast. As before, the RBA will set policy for the "average" region; the policy setting will be too easy for the booming resource states, but too tight for the others. We continue to call for four additional 25bp hikes to the cash rate target before the end of 2010.

Australia

- **RBA reiterates path toward policy normalization**
- **Aussie economic data flow picks up this week**
- **Building, retail, credit numbers all to show modest rises**

In the absence of top-tier economic data, the highlights in Australia last week were speeches by RBA officials. The commentary reinforced the message that the cash rate will continue to be lifted back to “normal” levels. The RBA appears, however, to be in no hurry. In part, the prompt start to the RBA’s policy normalization process last October has allowed the RBA flexibility in the pace at which it proceeds further along the normalization path. In our view, whether or not the RBA hikes in early April is a close call. Our core view, though, is that, having hiked earlier this month, the RBA will wait until May before hiking again.

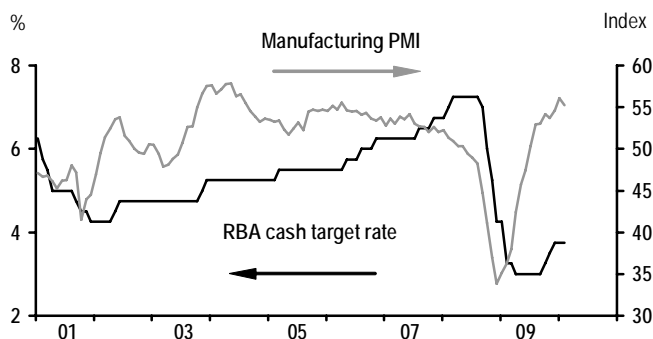
Further normalization by RBA likely

The highlights locally last week were speeches by RBA officials, which kicked off on Thursday with a predictably upbeat speech by Phil Lowe, the RBA’s Assistant Governor (Economic). It repeated the official mantra that Australia’s economic outlook is noticeably brighter than the outlook for most other economies. As such, despite the RBA’s assessment that the near-term inflation outlook is benign, monetary policy will continue to be pushed back towards a “more normal” setting. On this evidence, the rosy official guidance being given to RBA Board members has not changed since the March policy meeting, when the RBA hiked 25bp.

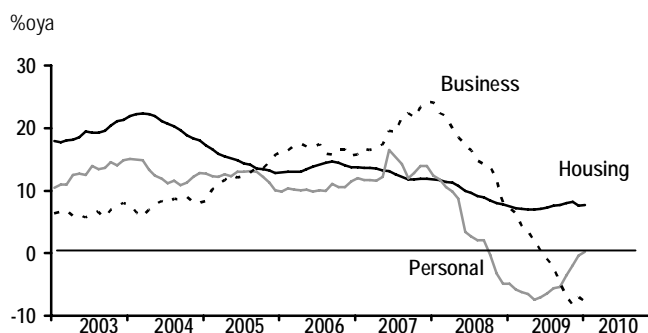
While Lowe’s speech reinforced the medium-term objective that the cash rate should be normalized, it offered little guidance on the near-term outlook. We have high conviction that the cash rate will be close to a normal setting by the end of 2010, and that policy will turn restrictive in 2011. With lingering uncertainties, however, particularly offshore, we continue to have low conviction on the near-term outlook for the cash rate.

While the official view is unambiguously upbeat, there were enough hints in last week’s speech to suggest that the RBA is in no rush to normalize policy. In particular, while Lowe made clear there are downsides to waiting too long before adjusting policy—which may, in fact, have been a reference to why the RBA already has hiked four times, rather than explicit guidance on where we head from here—he believes the RBA has sufficient flexibility to respond to changing events should the official assessment of the “myriad of

Australia: RBA cash rate and J.P. Morgan global manufacturing PMI



Australia: private sector credit aggregates



risks” change. If nothing else, the last couple of years have taught us that the balance of risks for policymakers can change quickly.

On Friday, Reserve Bank Governor Glenn Stevens delivered a speech on “Recent Financial Developments” in Sydney. The Governor’s speech focused principally on developments in financial markets, banking and sovereign debt offshore. The Governor did indicate, though, that Australia, where economic and financial circumstances differ from those in most other economies, is not alone in having embarked on the “return to normality.” The speed of adjustment in each jurisdiction, of course, varies with economic conditions. Also, the Governor highlighted that Australia is the “conspicuous exception” in avoiding the high debt ratios seen in many other economies. Stevens also made reference to the role foreign investors may be playing in helping to drive up Aussie house prices, although the extent of their influence is difficult to quantify.

On global developments, the Governor’s highlighted that there have been significant improvements in financial and economic conditions since the “near death experience” of 18 months ago. There are, though, still difficulties to over-

come. The Governor highlighted the divergence in performance between the large developed economies and emerging markets, where the shape of the growth rebound best approximates a “v”. According to Mr. Stevens, there will be significant pressure for governments to unwind fiscal accommodation in the years ahead, but policymakers first must ensure the economic recovery is entrenched.

Credit growth likely improved in February

After a 0.4% m/m gain in January, growth in the RBA’s credit aggregates probably slowed in February to 0.2%. The main reason for the moderation will be softer housing credit, which we suspect will have grown 0.6% m/m, easing from the 0.7%-plus rates recorded over the last eight months. This will be due to a combination of rising interest rates, the expiration of the government’s expanded first home owners’ grant on December 31, and the introduction of caps on the original grant of A\$7,000 from January 1.

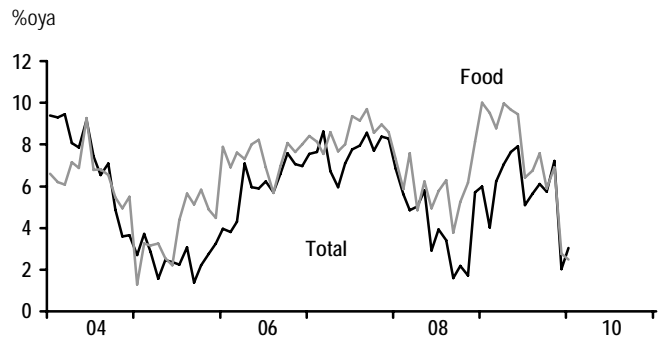
Business credit will likely rise for the first month since January 2009, growing 0.3% m/m, amid signs that business deleveraging is nearing an end. Also, banks increasingly are making more credit available to small- and medium-sized businesses given the more attractive returns available from higher risk lending. This is particularly so now that the mining investment pipeline has expanded. Personal credit growth will likely hold steady at 0.5% m/m in February.

Retail sales due for some payback

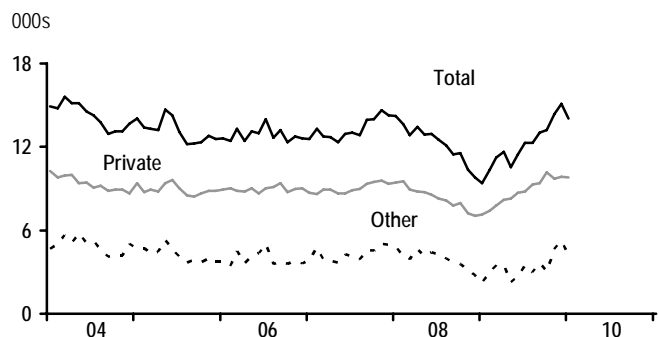
Retail sales values probably grew only 0.2% m/m in February, after spiking 1.2% in January. Indeed, we expect some payback following the January surge, but tight labour market conditions and the RBA’s surprise decision to leave the cash rate unchanged early in the month will have prevented a drop in retail sales in February.

Consumers remain upbeat, with confidence at levels last witnessed in the preceding resource boom, suggesting spending will hold up, at least for the time being. Consumer confidence has risen 3% since the end of 2009, with households brushing off the 100bp of tightening delivered by the RBA since October. This owes to the fact that many mortgage holders (up to 75% by some reports) maintained their loan repayments as market interest rates fell. The buffer provided by prepayment of debt means the RBA’s rate hikes may not yet have bitten in a material way. Going forward, however, with interest rate burdens set to soon return to

Australia: retail sales



Australia: building approvals



pre-crisis levels, and assuming the RBA continues to tighten policy, rising market interest rates will lead to a squeeze in households’ disposable income, which will weigh on the retail sector.

Building approvals should have risen

Residential building approvals slumped 7% m/m in January, marking the first monthly decline in over six months. In February, we expect a return to growth, though the softening in approvals for private sector houses, owing to the withdrawal of government grants and three consecutive rate hikes, will ensure that this gain is minor—we forecast a rise of 1.5% m/m over the month. Two weeks ago we received data showing that dwelling starts spiked in 4Q, finally catching up to the rise in local council approvals that had accompanied the expanded first home buyers’ grant over 2009. Significantly more supply needs to be brought online, however, to quell excessive house price appreciation. As RBA Assistant Governor Lowe noted last week, “it would be unhelpful if a speculative cycle were to emerge on the back of recent strength in housing prices.”

Data releases and forecasts

Week of March 29 - April 2

Wed Mar 31 11:30am	Building approvals sa	Nov	Dec	Jan	Feb
	%m/m	8.5	5.2	-7.0	<u>1.5</u>
	%oya	39.3	54.8	47.6	<u>37.8</u>

Wed Mar 31 11:30am	Retail trade sa	Nov	Dec	Jan	Feb
	%m/m	1.5	-0.9	1.2	<u>0.2</u>
	%oya	7.2	2.0	3.0	<u>5.5</u>

Wed Mar 31 11:30am	Private-sector credit sa	Nov	Dec	Jan	Feb
	%m/m	0.1	0.3	0.4	<u>0.2</u>
	%oya	0.9	1.5	1.3	<u>1.3</u>

Thu Apr 1 11:30am	Trade balance sa	Nov	Dec	Jan	Feb
	Trade balance (A\$ mn)	-1720	-2174	-1176	<u>-1340</u>

Preliminary imports data showed an increase of 2% m/m in goods imports. Commodity exports probably rose in seasonally adjusted terms, though by less than required to improve the trade balance.

Review of past week's data

Sales of new motor vehicles

Units, sa	Dec	Jan	Feb
%m/m	3.1 3.2	-3.4 -3.5	— -1.9
%oya	17.0 17.1	15.6 15.5	— 17.1

New Zealand

- NZ economy expanded at fastest rate in two years
- RBNZ wants hard evidence that recovery is sustainable
- CAD blew out as favourable tax distortions faded

Across the Tasman, the GDP report in New Zealand showed the economy grew at a healthy clip in the final three months of last year, driven once again by healthy private consumption. The belated economic release, however, has few implications for the near-term policy outlook. More timely data suggests that the Kiwi economy has shed momentum early in 2010, with a lot of steam coming out of the housing market, in particular. We, therefore, maintain our forecast for the first rate hike to be delivered in July, slightly later than the consensus call for a June move.

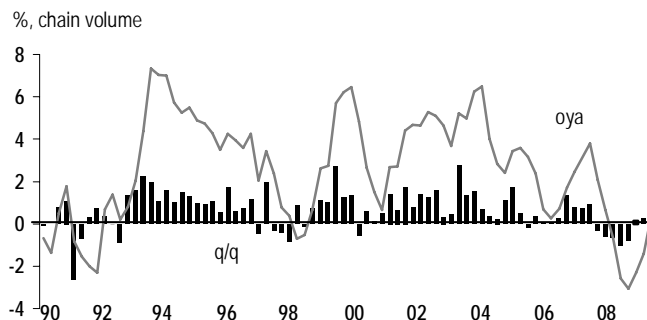
NZ GDP accelerated into year-end

The New Zealand economy expanded at a healthy clip of 0.8% q/q in 4Q (J.P. Morgan: 0.6%; consensus: 0.8%), nearly three times the increase recorded in 3Q. The upside surprise for us stemmed from inventories, which were not the drag on growth we expected. In fact, inventories were built up by NZ\$172 million, after three quarters of run downs. The other drivers of economic growth were largely as expected. Private and government spending were up strongly, investment was weak, and net exports were down.

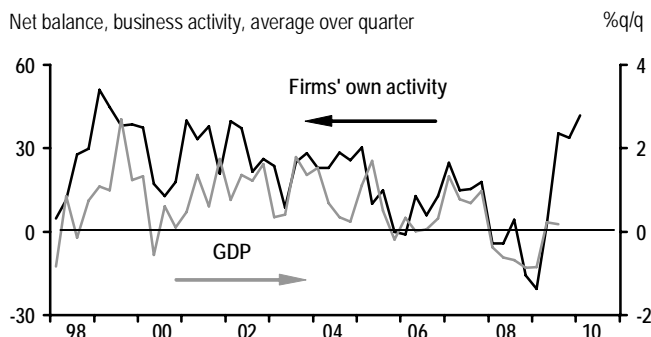
Private consumption grew 0.9% q/q in 4Q, the same rate as in 3Q, thanks to increased spending on durable and nondurable goods. In recent quarters, household spending has been underpinned by record-low interest rates, strong net immigration flows, and strong house price growth, but the tide now is turning. The recent pullback in housing activity, in particular, will weigh on consumption in early 2010, against a backdrop of high unemployment and subdued wage growth.

As expected, net exports subtracted significantly from economic growth in 4Q. Import volumes surged 6.0% q/q, buoyed by elevated NZD, while export volumes dropped 0.9%, due to fewer shipments of dairy products. Indeed, the most recent policy statement from the RBNZ was a little more dovish with respect to growth in the nation's trading partners, which Bollard described as being "more muted." In New Zealand's major trading partners in Asia, however, growth had recovered "a little faster than expected." We suspect that net exports will add to economic growth in coming quarters, with economic growth in Asia and Australia,

New Zealand: real GDP



New Zealand: NBNZ business outlook survey and GDP



lia, in particular, maintaining solid momentum. Government spending grew 0.9% q/q, marking the fastest rate of growth for 2009, though this was offset by the 0.9% drop in gross fixed capital formation. Investment in residential building shot up 4.8% q/q, but nonresidential building declined 3.8%.

RBNZ has time on its side

The belated 4Q GDP data has few implications for the near-term monetary policy outlook in New Zealand. Governor Bollard appears to want hard evidence that the recovery is sustainable so, in our view, will sit on the policy sidelines until after the late-June release of the 1Q GDP report.

Interesting, though, RBNZ Deputy Governor Grant Spencer last week, in a speech in Hong Kong, highlighted that monetary policy in New Zealand is likely to have a sharper impact post-crisis. This owes to a myriad of factors, including that New Zealand now has a positive yield curve. This means that borrowers are increasingly moving to floating rates or short term fixed rates, which will be quickly affected when monetary policy is tightened. That said, as of January, around 60% of all loans were fixed, an improvement on the 68% a year earlier, but still a hefty proportion.

The comments from Spencer essentially signalled that the RBNZ will move in little steps when the tightening cycle begins, but are in contrast to those from Governor Bollard earlier this year. Bollard pointed out that the RBNZ didn't cut the cash rate in 25bp moves, so 'meaty chunks' may be delivered on the upside. We, therefore, maintain our view that the first move will be a 50bp rate hike in July given the significant amount of stimulus that needs to be removed.

NBNZ business confidence to moderate

We expect that the headline reading on the NBNZ business confidence survey retreated in March to a net balance of 45, after spiking in February to 50.1 from just 38.5 previously. The February result was the highest in over a decade. Business confidence probably deteriorated in March, however, amid rising global jitters and signs that the recovery underway in New Zealand lost some momentum. The key firms' own activity outlook should have continued to improve, reaffirming our view that the economy will register a few solid quarters of GDP growth near-term (chart).

NZ CAD doubled on income payments

New Zealand's current account balance deteriorated significantly in 4Q. The deficit rose to NZ\$3.57 billion (J.P. Morgan: -NZ\$2.95 billion; consensus: -NZ\$1.60 billion) from NZ\$1.59 billion in 3Q. The main reason for the significant deterioration in the current account gap owed to the absence of large company tax transactions—one-off tax provisions that resulted in a sharp drop in income on foreign equity investment in the previous two quarters. As a result of the near NZ\$1.4 billion of company tax transactions in the banking sector in 3Q09, the investment income balance was a deficit of NZ\$743 million in 3Q. In 4Q, however, the investment income deficit was NZ\$3.4 billion, an increase of NZ\$2.7 billion on the previous quarter.

Data releases and forecasts

Week of March 29 - April 2

		Nov	Dec	Jan	Feb
Tue	Building consents				
Mar 30	sa				
10:45am					
	%m/m	0.5	-3.5	-2.8	<u>2.0</u>
	%oya	19.9	21.9	37.2	<u>23.1</u>

The number of permits issued in February probably rose 2% m/m following two months of declines. We suspect that approvals will come in around 4,170 in 1Q.

		Dec	Jan	Feb	Mar
Wed	NBNZ business confidence				
Mar 31					
3:00pm					
	% balance of respondents	43.4	38.5	50.1	<u>45.0</u>

Review of past week's data

Balance of payments

NZ\$ mn nsa	2Q09	3Q09	4Q09	
Current account	367	-1413	-1586	-2950 -3574

Real GDP

sa, production-based	2Q09	3Q09	4Q09			
(%oya)	-2.1	-2.3	-1.3	-1.4	<u>0.1</u>	0.4
(%q/q)	0.1	0.2	0.3	<u>0.6</u>	0.8	

Trade balance

	Dec	Jan	Feb			
Trade balance (NZ\$ mn nsa)	-32	-28	269	263	<u>400</u>	321

The trade balance improved further in February, remaining in surplus for the second straight month. Both exports and imports rose, by 5.3% m/m and 3.8%, respectively, and have trended higher in recent months.

Global Essay

- **The global economy is on the cusp of achieving self-sustaining growth**
- **Global financial conditions have stayed growth supportive**
- **With European agreement, curtain falls on initial phase of Greek crisis**
- **CEEMEA central banks stay dovish**

Finishing the hat

We believe that the global economy is making an important transition to self-sustaining growth as the first quarter comes to an end. As part of this shift, GDP growth is re-accelerating following a modest downshift at the turn of the year. However, it is the significant broadening in G-3 demand, rather than the pickup in top-line growth, that will be the key marker for this transition.

Euro area and Japanese data suggest that a domestic demand foundation for growth is now being laid. Incoming activity data confirm that adverse winter weather depressed activity across Europe early in the quarter. However, the more timely business surveys show that the economy bounced back strongly in March. Moreover, these surveys show that signs of life are emerging in service industries, with the overall employment index rising to levels consistent with stabilization in jobs. The current level of the production index of the composite PMI is broadly consistent with our forecast that the underlying pace of areawide GDP growth has moved above 2%.

For the Japanese economy, living in a fast-growing neighborhood has been a key lifeline that continues to support export volume growth at a double-digit pace. But the recent news highlights faster private demand growth as fiscal sup-

ports fade. Consumption is displaying surprising resilience this quarter, and housing activity is bouncing. On the output side, the service sector is on track to produce its best gain since the expansion began. This week's March Shoko Chukin and Tankan surveys are expected to provide important confirmation of a broadening base for growth. If our expectations are realized, we will likely raise our 1H10 GDP forecasts to reflect a GDP growth trend of 2% or higher.

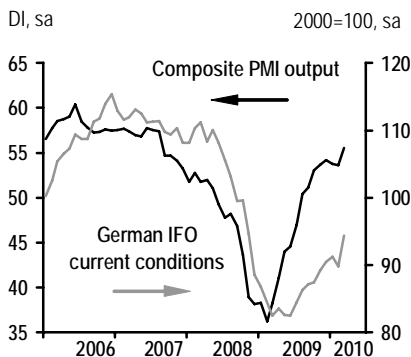
In the US, this week's March payroll report should produce the first meaningful gain in employment since December 2007. While this report will be difficult to interpret due to a beneficial lift from weather and Census hiring, there should be a wealth of positive March readings to draw on. Already, initial jobless claims have moved back into the 430,000-450,000 range consistent with private payroll gains of about 100,000 per month. In the period just ahead, both ISM surveys are expected to rise and car sales are anticipated to reach 12 million, a level consistent with annualized 1Q consumption growth in excess of 3%.

It is important to recognize that a shift to synchronized domestic demand growth in the G-3 would combine with an already well-established expansion in the emerging economies. Thus, confirmation that this foundation is being put in place would shift the risks to our already-strong global growth forecast to the upside. One important marker will be the employment index of our all-industry PMI. A move above 50, which could register in the upcoming March survey, would confirm that global labour markets have shifted to expansion mode.

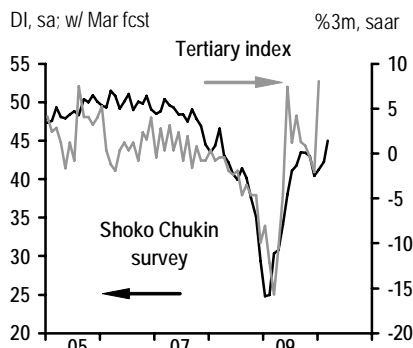
Financial conditions stay supportive

Recent experience has underscored that financial market

European business surveys



Japan macro indicators



Global financial indicators

	Sep09	Dec09	Current
10-yr G-7 sovereign debt yield (%)	3.09	3.17	3.33
10-yr US Treasury yield (%)	3.39	3.59	3.85
US conform FRM rate (%)	5.21	5.11	5.02
US inv grade yield (%)	5.32	5.18	5.15
Global HY yield (%)	10.58	9.32	8.71
US HY yield (%)	10.67	9.37	8.76
EM corp yield (%)	7.19	6.82	6.35
N America HG CDS sprd (bp)	106	91	88
10-yr AAA CMBS swap spread (bp)	594	558	380
Global equities (index)	89	93	97
VIX (index)	25	21	18
WTI oil price (US\$/bbl)	69	75	80

conditions are a critical determinant of economic growth. With this in mind, market developments in the year to date have been encouraging. As noted above, global growth has downshifted this quarter after a very strong performance in late 2009, partly due to the effects of unusually severe winter weather across much of the northern hemisphere. In addition, recent months were characterized by an unusual degree of political and policymaking uncertainty, including the controversy surrounding healthcare and financial-sector reform in the United States, the sovereign debt turmoil in Europe, and the advent of policy tightening in China.

Against this somewhat unsettled backdrop, it is encouraging that global financial conditions, which already were highly supportive of growth, continued to ease in the first quarter. In particular, equity prices are on track for a solid gain this quarter, while corporate borrowing rates and spreads have narrowed. The relative stability of oil prices also is important. Because financial conditions tend to affect the economy with a lag, recent market developments are constructive for global growth going forward. However, there remain important challenges ahead. With the Fed ending its agency purchases and sovereign concerns lingering, US Treasury yields rose sharply last week. Tensions between the US and China also have ratcheted up, with the semiannual US foreign currency report just ahead. Still, with monetary policy to remain highly accommodative and the transmission mechanism likely to gain greater traction, easing financial conditions will be an important support for the recovery even as fiscal stimulus wanes.

First phase of Greek crisis comes to close

After many weeks of uncertainty, European officials came to an agreement on a Greek support mechanism at last week's summit. The plan appears to give something to everyone:

the Germans get co-funding with the IMF; the French get a commitment for "a strong coordination of economic policies in Europe;" and the Greeks get a sufficiently detailed mechanism to hopefully narrow spreads ahead of the next round of refinancing. It is important to stress that what has been agreed upon is a support mechanism, not a package of loans to be made to Greece at present. Whether or not this mechanism is ever activated depends on how Greece fares in the capital markets in coming months.

The other Euro area countries suffering some sovereign stress at the moment are unlikely to view the Greek mechanism as any kind of attractive panacea. If this support mechanism is activated, the conditionality will be no less than what the Greeks have already agreed to. It is worth highlighting that the Greeks are committing to a fiscal tightening this year that is six times larger than what is in the Portuguese stability program and three times larger than what is in the Spanish program. So, it is clearly in their self interest for the Spanish and Portuguese to succeed with their current programs.

The Greek fiscal crisis may be over for now, but sovereign stress is likely to remain a huge issue in the Euro area for years to come. In order to achieve debt sustainability, the Greeks need to run a primary surplus on a sustained basis. This is a big task, considering that last year's primary deficit was 7.7% of GDP. The Greeks did manage to achieve a sustained primary surplus from 1994 to 2002, averaging 2.7% of GDP. However, this position was helped by strong economic growth averaging over 3% per year. Growth will not be as strong in the coming few years.

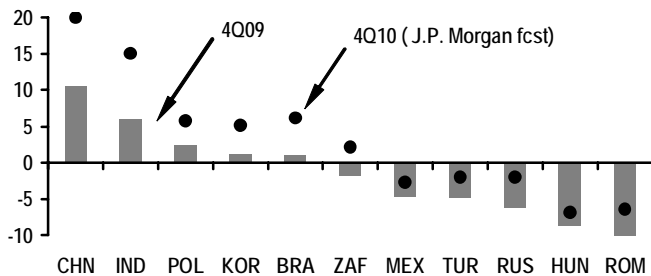
If the Greeks fail to achieve debt sustainability through generating a primary surplus, then there are only three options left: either the rest of the region would have to give a permanent fiscal transfer to Greece, or Greece would have to default and restructure its debt, or Greece would have to leave the Euro area (but this could still involve a default and debt restructuring). The first option would create huge political stress in the region, while the latter two options would create massive financial and economic stress, not only in Greece but in the region as a whole. Thus, there is still a lot riding on whether the Greeks achieve fiscal sustainability or not.

Dubai acts to limit contagion

The turmoil in debt markets in Greece and Dubai erupted at about the same time near the end of last year. Thus, it is

Real GDP relative to cyclical peak

% relative to peak (no recessions in China and India, peak set to 4Q08)



somewhat ironic that in the same week that European leaders came to terms with a contingency plan for Greece, the Dubai government surprised markets with the commitment of an additional US\$9.5 billion for the restructuring plan of Dubai World, including US\$8.0 billion for the recapitalization of Nakheel. The proposal was well-received by market participants and rating agencies because the funding for Nakheel points to strong support for Dubai's real estate sector. Specifically, the focus on paying Nakheel's contractors will reduce spillover risks to the rest of the economy. Despite this positive development, we expect the recovery of Dubai's real estate sector to slow as it remains challenging to obtain financing in the UAE. Nonetheless, the government's restructuring plan is likely to improve confidence and support a moderate recovery of domestic demand. We expect UAE GDP to grow 1.4% this year.

CEEMEA central banks remain dovish

Although the economic recovery in the emerging economies has been strong, it has not been uniform. The best performance has occurred in Asia and parts of Latin America, notably Brazil. By contrast, key members of the CEEMEA region have lagged behind, reflecting their ties to the weak Euro area economy, impaired banking systems, and tighter fiscal policies. This performance gap, reinforced by additional FX gains and easing inflation pressures, was in evidence in dovish messages from CEEMEA central banks this week. Russia's central bank eased 25bp as expected. However, the 50bp rate cut in South Africa was a significant sur-

prise, as was the consideration of a 25bp cut by the Czech National Bank. We expect additional rate cuts by the CBR (50bp in 2Q), but not by the SARB or the CNB in this cycle.

More easing is on tap for this week, when the Hungarian and Romanian central banks are expected to cut by 25bp and 50bp, respectively. The NBH rate cut to 5.5% should be the final one in the cycle, but further HUF strength could raise the odds of an extended cutting cycle. The NBR is likely to cut by additional 100bp this autumn. Poland's central bank probably will remain on hold this week but may express uneasiness with zloty strength.

By contrast, we expect the Bank of Israel to continue its gradual hiking cycle with another 25bp hike most likely on Sunday. While the BoI is also concerned about, and intervenes against, FX strength, the Israeli cyclical position is much stronger and the tightening cycle began with policy rates at just 0.5%.

Reluctant COPOM readies to hike in April

With the regional economy on a strong footing and inflation on the rise, Latin American central banks are moving toward monetary tightening. However, the discussions at last week's annual IADB meetings were a reminder that, for the most part, this will be a slow-moving affair. In part, policymakers believe that some of the rise in inflation is being triggered by one-off factors. In addition, they are concerned that rate hikes will further fuel FX appreciation.

Although the dovish talk extended to Brazil, events on the ground point to an imminent shift in COPOM policy. Having surprised markets by staying on hold last week, the meeting minutes that followed sounded hawkish and portrayed a Bank that is afraid it is falling behind the curve. We now believe that the COPOM either will compress the tightening cycle or will end up raising rates more than we previously thought. For now we are opting for the latter scenario and assume that the COPOM will pursue a series of 50bp hikes starting in April, raising the terminal Selic rate to 12.25%, up from our earlier projection of 11.75%.

JPMorgan View - Global Markets

Upside risk on 2010 growth; remain long risk

- **Asset allocation:** No change to our overall long in equities, credit, and commodities, or to our short in bonds. But some fine-tuning on relative value, taking profit on long US bank bonds, and going long USTs versus swaps.
- **Economics:** Better activity data and the improved breadth of the recovery are creating upside risk to global growth forecast for the remainder of this year.
- **Fixed income:** Bonds sell off, as position unwinds push Treasury yields above swap rates. Stay short in the UK, and add shorts in the Euro area.
- **Equities:** Narrowing economic underperformance and a higher beta favour Euro versus US equities.
- **Credit:** Turn neutral on US bank bonds from overweight.
- **FX:** Euro to drift higher on breathing space for Greece.
- **Commodities:** Stay long base and precious metals.

Equities and credit were up again last week, reaching new highs for the cycle, while US bonds fell toward the bottom of their trading range. Commodities remain in a range, but the dollar rose to its highest level in 10 months.

We and the market are becoming **more bullish on economic growth**, both in terms of **how fast** economies will grow and in terms of **confidence** that it will actually happen. Activity data across much of the world have surprised on the upside of late. Most important is that they are showing greater **breadth across regions, sectors, and types of spending**.

Most of the stronger data in recent months came from EM and North America, with **Europe and Japan** lagging behind seriously. The more recent set of numbers is now showing a rebound in the latter two. This should help end the dollar's rally versus the yen and the euro, and enable Euro equities to outperform again, in line with their higher beta. We do not think these better data are good enough to make Euro bonds stop being the top performer among the majors, as this return gap is based more on a better supply and demand balance. With the Fed now starting to talk about asset sales, rather than simply running down its QE portfolio, we remain overweight Bunds versus US Treasuries. Our latest Inflation Expectations Survey also shows rising inflation fears for the UK against greater deflation risk in the Euro area. This keeps us long Bunds versus UK gilts.

A second growth divergence that we have been highlight-

ing is between rapid growth in goods manufacturing and a lagging recovery in **services**. The latest set of services PMIs in Europe and the US indicates that services are in the process of catching up.

Our forecasts for 2010 global growth have been in a tight range (3.3%-3.4%) since September, allowing the market's consensus to catch up during this time (first chart, next page). Stronger data and a greater breadth across sectors and regions now create **upside risk to our global growth forecasts** for the remainder of the year, even though they are not yet sufficient to actually raise projections.

A third performance gap that we have highlighted in recent months is the one between the superb balance sheets and income of **nonfinancial corporates, and much worse conditions among governments**. This gap has not gone away and remains a concern to investors. Much of these sovereign credit concerns have been involved the **Greek** funding crisis. Last week's EU Summit's solution balances many conflicting interests, but provides no guarantee of success. However, it does greatly reduce near-term risks and creates good value at the short end.

Sovereign credit worries have steadily pushed up government bond yields against both corporates and swap rates in recent months. Government bond swap spreads reached historic extremes with the 10-year UST benchmark yield now above swaps for the first time in the 30-year history of the swap market. We argue below that this is due to technical conditions and makes **no fundamental sense. Hence, we advise buying US Treasuries versus swaps**.

Fixed income

Bonds fell sharply last week, particularly in the US, in the wake of three poorly received Treasury auctions. **Ten-year Treasuries now trade at a higher yield than interest rate swaps**. The yield spread between swaps and governments generally reflects the relative supply of government versus other bonds. It has correlated well with changing expectations of government deficits (second chart, next page). Over the past two years, government yields have been rising versus swaps, as deficit fears worsened. This move has been more pronounced for Treasuries and UK Gilts than for German Bunds, reflecting greater fiscal deterioration in the US and UK. Indeed, 10-year Gilt yields have been higher than swap yields since early February.

We believe the move in UST yields to above swaps is way overdone, not fundamental, and largely technical. We thus buy USTs versus swaps. For one, deficit expectations have

been improving slightly in recent months on stronger growth (third chart), suggesting that fiscal concerns are not the primary trigger for last week's repricing. Corporate yields rose largely in tandem with Treasuries last week, showing it is swaps rather than USTs that are the main driver of the move in swap spreads.

Instead, the move is likely due to an unusually heavy demand to go long duration in the swap market. That demand has come partly from banks hedging fixed-rate bond issuance, and partly from bond managers using swaps to replace the duration lost because they are underweight mortgages. This has been exacerbated over the past few days by the **unwinding of widely held long positions in Treasuries against swaps**.

Heavy government supply and the impending end of QE continue to underpin our bearish view on core bond markets. We stay short duration in the UK, and add a short in the Euro area, where yields are toward the lower end of their range, while last week's economic data surprised to the upside. We remain short US Treasuries against Bunds, as the imbalance of supply and demand is more pronounced in the US. The Treasury-Bund spread rose 20bp this month—its highest level since early 2007.

In contrast to core markets, **local EM bonds** rallied last week, extending this year's outperformance. We stay long, and continue to favour high-yielding South African debt, which benefited from a surprise SARB ease last week.

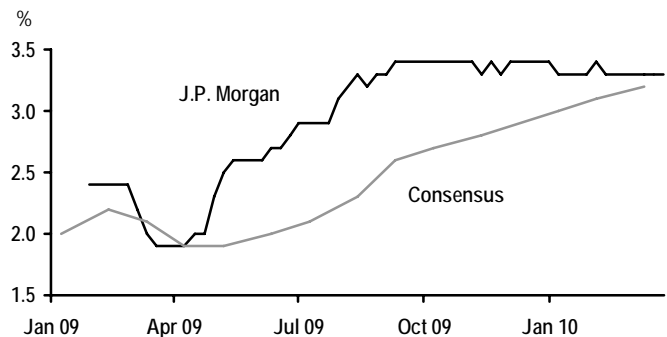
Greek government bonds also rallied, boosted by the agreement of an EU/IMF support package and the ECB's decision to continue its accommodative collateral policy next year, which reduces the risk that Greek government debt will become ineligible as collateral for bank borrowing from the ECB. Spreads remain wide, and we remain long.

Equities

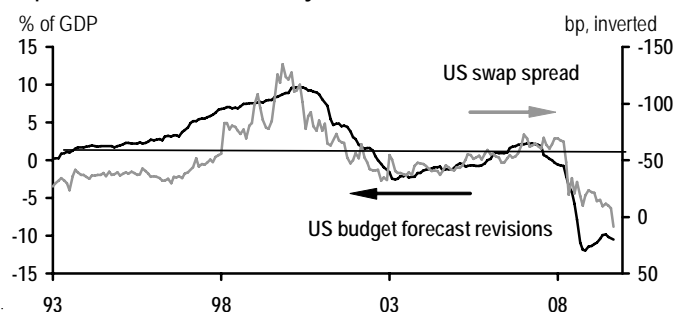
The equity rally should extend into next month, on stronger economic data and the start of the 1Q reporting season, from which we expect good news. The 4Q US reporting season posted a 7% upside surprise: The final operating S&P 500 EPS was 7% above the expectation at the start of the reporting season. Quarterly earnings surprises tend to exhibit strong serial correlation, repeating 82% of the time (first chart). This points to **another positive surprise in the 1Q reporting season**.

Euro area economic data are no longer underperforming the

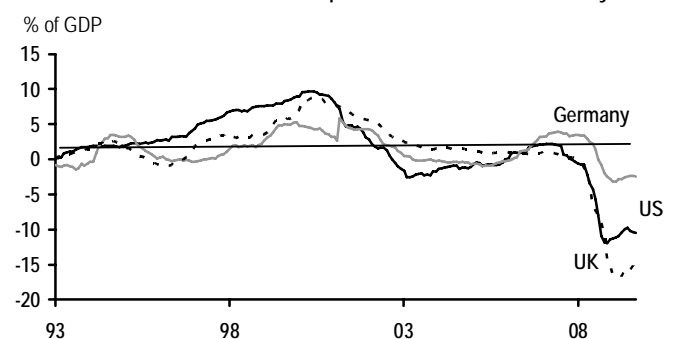
2010 global GDP growth forecasts: J.P. Morgan versus consensus



Treasury swap spreads and cumulative revisions to deficit expectations over the next two years



Cumulative revisions to deficit expectations over the next two years



US data. Coupled with the higher beta of Euro area equities, this **favours Euro versus US equities** in coming months. Indeed, the EU return gap versus the US bottomed late in February, and has been reversing since.

We are neutral **EM versus DM** equities given negative momentum over the past two months and uncertainty regarding China. Across sectors, we focus our exposure on **cyclical** sectors and **small caps** on momentum.

Credit

Bank bonds have been outperforming the broader HG market over the past few months. We are **turning neutral from**

overweight US Bank bonds and take profit on the overweight Bank versus Industrial bonds trade. The change is due to concerns of potential rating downgrades of banks by S&P and Moody's if the financial reform bill passes in its current form. Each of the rating agencies issued notes discussing the impact of the proposed bank reform bill and suggests that a multi-notch downgrade is possible. Although we believe the likelihood of a multi-notch downgrade is low, the risk-return trade-off is no longer attractive for an overweight in banks despite the continuing improvement in bank credit fundamentals (See *US Banks: Moving sector to Neutral due to agency concerns and valuations*, Kabir Caprihan, March 26).

We remain bullish that HG spreads will continue to tighten this year, although the much lower spreads and yields are slowing inflows to the asset class. We recommend **going down the credit quality curve in search of yield**. Our top picks are high yield, EM corporates, off-the-run ABS, and super-senior CMBS.

We see value in **EM corporates (CEMBI)** as spreads are relatively wide given the credit quality. Currently, investment grade EM corporates offer a spread of 222bp versus 145bp on BBB-rated US corporates. Stay overweight CEMBI Broad. In high yield, the default rate is falling as anticipated and inflows have recovered. With strong issuance reaching a record weekly pace two weeks ago, leveraged companies should not have problems refinancing. Stay overweight US HY.

Foreign exchange

With the new EU/IMF accord, the **euro looks to have cleared a breathing space for the next month**. Greece has secured its backstop from Europe and should proceed with its fiscal program. If it does, spreads will narrow and allow the country to refinance its spring rollovers at more reasonable levels. (Ireland did the same.) Short-term stability should allow EUR/USD to trade a few cents higher, as the currency carries a clear risk premium for Greece's failure. A high-frequency model relating EUR/USD to Euro/US rate expectations, Greece/Germany 5-year rate spreads, and the S&P implied vol suggests that EUR/USD and EUR/JPY should be 5% stronger. Their weakness, even controlling for sovereign risk, reflects strong skepticism that Greece will succeed. The skeptics may be right long term, but for the next month, we suspect the **euro will edge higher**.

Ten-year Government bond yields

	Current	Jun 10	Sep 10	Dec 10	Mar 11
United States	3.85	4.10	4.25	4.50	4.70
Euro area	3.15	3.30	3.45	3.60	3.90
United Kingdom	4.04	4.40	4.55	4.65	4.80
Japan	1.38	1.40	1.50	1.55	1.55
GBI-EM	7.02				7.70

Credit markets

	Current	YTD Return
US high grade (bp over UST)	145	1.9%
Euro high grade (bp over Euro gov)	145	2.2%
USD high yield (bp vs. UST)	610	4.4%
Euro high yield (bp over Euro gov)	622	7.3%
EMBIG (bp vs. UST)	260	4.0%
EM Corporates (bp vs. UST)	290	4.7%

Foreign exchange

	Current	Jun 10	Sep 10	Dec 10	Mar 11
EUR/USD	1.34	1.42	1.45	1.40	1.35
USD/JPY	92.6	87	90	93	96
GBP/USD	1.49	1.51	1.58	1.54	1.50

Commodities - quarterly average

	Current	10Q1	10Q2	10Q3	10Q4
WTI (\$/bbl)	80	77	82	85	90
Gold (\$/oz)	1106	1250	1400	1300	1200
Copper (\$/m ton)	7399	7350	8000	6800	6250
Corn (\$/Bu)	3.57	3.85	4.05	3.95	3.90

Source: J.P. Morgan, Bloomberg, Datastream

Commodities

Commodities were down over 1% last week, with energy down on higher-than-expected inventories, but industrial metals finishing flat. Industrial metals have been rangebound this month. Copper is trading sideways with a range support around \$7,250 and resistance toward \$7,600-\$7,630. LME on-warrant stocks dropped below the 500kMT level this morning for the first time since late 2009. We expect that LME copper stocks are likely to continue to drift lower towards the 400,000-450,000 area, which will be supportive for prices and spreads, but probably not enough to drive prices above the 2010 calendar-year highs. In order to see copper breaking higher, Chinese demand needs to supplement the now stronger Western world demand. China's spot prices, however, continue to trade at a discount, and merchant appetite to hold copper inventory appears to be retreating.

AUD and NZD Commentary

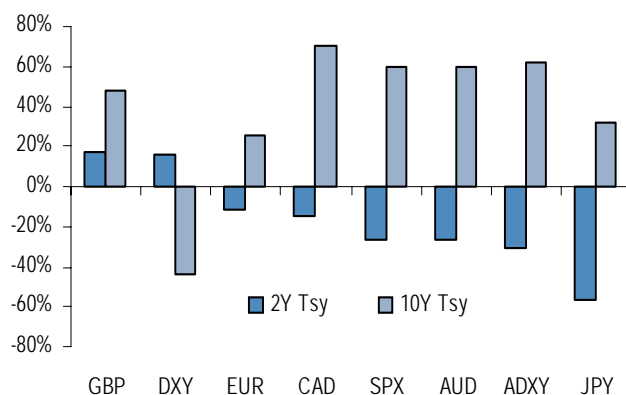
- **US yields have been the main driver for exchange rates in recent weeks, but we expect subdued Fed rate hike expectations to keep USD strength contained.**
- **AUD/USD vulnerable to a short term corrective phase after failing at the key .9250 resistance area; the short term range bias continues to develop for NZD/USD.**
- A week that was expected to be dominated by the denouement to the Greek crisis was in fact overshadowed by the worst sell-off in US fixed income of the past three months. The front-end sold off but it was in fact the back-end that fared the worst, helped in part by a series of sloppy auctions. From an FX perspective what we can say is that higher back-end yields are unlikely to boost the dollar unless accompanied by a repricing of Fed rate hikes. Chart 1 provides a snapshot of FX market sensitivity to 2Y and 10Y Treasury yields over the past year. In general the dollar is negatively correlated with 10Y yields and positively correlated with 2Y yields. This broad-trade weighted relationship is mirrored at a currency-pair level.
- AUD/NZD continued to slide over the past week and in the process, stopped us out of our cash long. The move in spot is somewhat at odds with the move in rate differentials as the 2-year Aus-NZ swap yield spread remains around the +100bp mark. The focus this week will be on a key raft of Australian data including retail sales and building approvals. A stronger than expected outturn should reinforce our view that the RBA tightening cycle remains on track to deliver further hikes over the coming months
- Stopped out of long AUD/NZD in cash. Opened on 11 March at 1.3090 and stopped out at 1.2845 on 26 March for a loss of 1.1%. Hold a 3-month 1.3150 AUD call/NZD put, RKO 1.3650. Bought Mar 11 for 30bp. Worth 19bp.

Technical analysis

- This month's failure to extend above the key .9250 resistance zone suggests a growing risk of that a short term corrective phase is underway for AUD/USD. While this is in line with the current overbought setup, the overall consolidation phase below the 4Q highs remains firmly intact. And with the failure against the downtrendline from the Nov. '09 high, the risk of a deeper retracement has increased. Near term weakness should allow for a closer test of the .8995/80 area, which includes the 38.2% retracement from the February low followed by the .8915 level. Note that the .8835/.8800 zone should hold to maintain the upside potential for a retest of the medium term range highs.

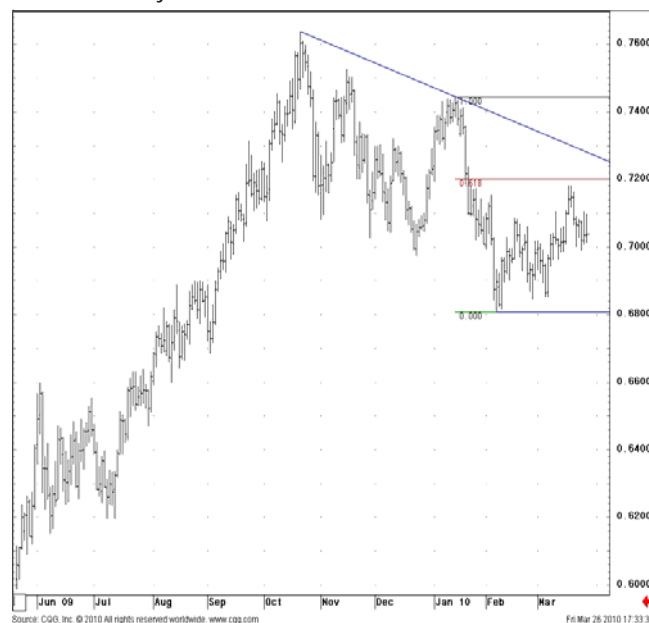
Chart 1: Sensitivity of currencies and equities to the front- and back ends of the US curve

Level-based correlation between 2 and 10Y US yields and selective currencies over a 1Y window



Source: J.P. Morgan

AUD/NZD - Daily chart



- NZD/USD maintains the short term range bias following the reversal from the February low. The failure to extend above the key .7155 resistance area should allow for additional range action. Still, an upside break above the key .7180/.7200 area, if not the .7275 downtrendline from the October high is necessary to reassert the upside bias for a test of the January peak. Until then, the risk of a bearish resolution to this range remains high.

Global Economic Outlook Summary

	Real GDP			Real GDP							Consumer prices			
	% over a year ago			% over previous period, saar							% over a year ago			
	2009	2010	2011	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	4Q09	2Q10	4Q10	2Q11
The Americas														
United States	-2.4	3.4	3.1	2.2	5.6 ↓	<u>2.5</u>	4.0	4.0	3.5	2.5	1.5	2.2	1.2 ↑	1.1 ↑
Canada	-2.6	3.2	3.3	0.9	5.0	<u>4.5</u>	3.0	3.3	4.0	4.0	0.8	1.4	1.9	2.1
Latin America	-2.9 ↑	4.6	3.8	6.6 ↑	7.2 ↑	<u>4.4</u>	4.1 ↓	2.6 ↓	4.5	4.0	5.3	6.3	7.0	6.9
Argentina	-2.0 ↑	4.5	3.0	1.0 ↑	7.9 ↑	<u>8.0</u>	8.0	3.0	3.0	2.0	7.1	8.0	10.0	10.0
Brazil	-0.2	6.2	4.0	7.0	8.4	<u>6.3</u>	5.0	5.1	4.0	3.8	4.2	4.9	5.0	4.5
Chile	-1.5	5.5	5.5	6.6	5.9	<u>-6.0</u>	8.0	22.0	18.0	-2.0	-3.0	3.3	4.1	3.8
Colombia	0.4 ↑	3.0	4.1	1.7 ↑	4.7 ↑	<u>2.7</u> ↓	2.8 ↓	2.9 ↓	3.1 ↓	4.5 ↑	2.4	2.1	3.7	2.9
Ecuador	0.4 ↑	2.0	3.0	0.5 ↓	1.3 ↑	<u>2.0</u>	3.5	4.0	4.5	3.0	3.9	3.9	4.7	4.4
Mexico	-6.5	4.5	3.5	10.4	8.4	<u>5.0</u>	3.2	-3.8	4.2	5.7	4.0	4.4	5.1	4.5
Peru	0.9	5.5	6.0	10.0	11.5	<u>3.0</u>	3.5	4.0	5.0	6.0	0.4	1.0	2.0	2.2
Venezuela	-3.3	-1.5	2.5	-7.4	-4.6	<u>-4.0</u>	-2.0	12.5	1.5	1.5	28.1	31.8	33.7	39.3
Asia/Pacific														
Japan	-5.2	2.1	1.9	-0.6	3.8	<u>1.8</u>	1.5	2.0	2.2	1.8	-2.0	-1.9	-1.2	-0.1
Australia	1.3	3.1	3.6	1.1	3.7	<u>3.0</u>	3.3	3.8	3.9	3.1	2.1	2.5	2.6	3.0
New Zealand	-1.6	2.8 ↓	2.5 ↓	1.1 ↑	3.3 ↑	<u>3.2</u> ↓	3.2 ↓	3.7 ↓	2.9 ↓	1.3 ↓	2.0	2.3	2.5	2.8
Asia ex Japan	4.6	7.9	7.2	10.6 ↓	7.2	<u>7.3</u>	7.1	7.1	6.8	7.0	2.9	4.4	3.8	3.2
China	8.6	10.0	9.4	10.3	10.0	<u>9.8</u>	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	<u>4.5</u>	4.3	4.0	3.8	4.2	1.3	2.4	2.3	1.9
India	7.2	8.0	8.3	15.0	-2.0	<u>10.4</u>	8.1	7.0	8.7	7.9	13.3	11.9	6.2	5.5
Indonesia	4.5	5.5	6.6	5.8	9.6	<u>6.0</u>	4.0	8.5	5.0	6.0	2.6	5.3	6.3	4.9
Korea	0.2	5.3	4.0 ↓	13.4 ↓	0.7	<u>3.6</u>	4.2	4.2	3.5	4.0	2.4	3.1	3.6	3.4
Malaysia	-1.7	6.8	4.8	10.4	15.4	<u>1.2</u>	4.9	4.9	4.9	4.9	-0.2	1.7	2.4	2.4
Philippines	0.9	4.5	4.3	3.1	3.5	<u>6.0</u>	5.0	3.5	4.0	4.5	3.0	5.0	5.2	4.9
Singapore	-2.0	6.8	4.8	11.5	-2.8	<u>11.2</u>	7.0	4.9	4.9	4.1	-0.3	2.0	2.6	2.1
Taiwan	-1.9	7.0	4.8	10.2	18.0	<u>1.2</u>	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	<u>2.8</u>	5.3	3.6	3.6	4.1	1.9	5.5	4.4	3.0
Africa/Middle East														
Israel	0.7	3.0	4.5	3.6	4.9	<u>3.5</u>	3.5	3.0	3.0	4.0	3.6	2.7	2.7	3.1
South Africa	-1.8	3.0	3.5	0.9	3.2	<u>3.9</u> ↓	4.2 ↓	4.0 ↓	4.0 ↓	3.6	6.0	4.6 ↑	5.4 ↑	5.7 ↓
Europe														
Euro area	-4.0	1.6	2.1	1.7	0.5	<u>1.5</u>	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	<u>1.0</u>	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	<u>1.5</u>	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	<u>1.0</u>	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	<u>3.0</u>	3.0	3.0	3.0	2.8	1.4	3.2	1.7	0.7
Sweden	-4.7	1.6	3.0	-0.4	-2.2	<u>3.5</u>	3.5	3.0	3.0	3.0	-0.4	1.6	1.2	1.9
Switzerland	-1.5	2.5	2.8	2.0	3.0	<u>2.5</u>	2.8	3.0	3.0	2.8	-0.2	0.9	0.8	0.7
United Kingdom	-5.0	1.2	3.1	-1.2	1.1	<u>1.2</u>	2.5	2.8	3.5	2.8	2.1	2.6	1.9	1.9
Emerging Europe	-5.1	3.9	4.7	4.3	6.1	<u>3.8</u>	3.5	3.2	3.8	4.1	6.2	5.7	5.6	5.2
Bulgaria	-5.0	-1.5	4.5	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	-4.2	2.0	4.0	2.3	3.0	<u>2.5</u>	2.5	2.0	2.0	3.5	0.4	1.2	2.8	2.8
Hungary	-6.3	0.5	4.0	-4.7	-1.7	<u>1.5</u>	2.5	2.0	2.0	4.0	5.2	4.8	3.7	2.8
Poland	1.7	3.2	4.2	2.4	4.9	<u>3.0</u>	4.0	2.7	3.0	3.0	3.3	2.0	2.6	2.8
Romania	-7.1	1.5	4.0	...	...	...	...	...	...	...	4.6	4.5	4.5	4.5
Russia	-7.9	5.5	5.0	7.9	10.5	<u>5.0</u>	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	9.6	7.5	5.8
Global	-2.5	3.3	3.3	2.8	4.0 ↓	2.9	3.7	3.5	3.4	3.0	1.3	2.1	1.8 ↑	1.7 ↑
Developed markets	-3.4	2.5	2.6	1.3	3.3 ↓	2.1	3.1	3.0	2.9	2.3	0.6	1.3	1.0 ↑	1.0 ↑
Emerging markets	0.9	6.3	5.8	8.3	6.9 ↑	5.9	5.6 ↓	5.2	5.6 ↓	5.7	4.0	5.0	4.9 ↑	4.4
Memo:														
Global — PPP weighted	-0.8 ↓	4.4 ↑	4.4 ↑	4.4 ↑	4.8 ↑	3.8 ↑	4.3 ↑	4.1 ↑	4.1 ↑	3.8 ↑	2.4 ↑	3.2 ↑	2.8 ↑	2.5 ↑

Global Central Bank Watch

	Official interest rate	Change from			Next meeting	Forecast next change	Forecast				
		Current	Aug '07 (bp)	Last change			Mar 10	Jun 10	Sep 10	Dec 10	Jun 11
Global	GDP-weighted average	1.29	-337				1.29	1.33	1.41	1.50	1.97
excluding US	GDP-weighted average	1.85	-251				1.85	1.90	2.02	2.15	2.66
Developed	GDP-weighted average	0.51	-361				0.51	0.51	0.54	0.59	1.04
Emerging	GDP-weighted average	4.45	-242				4.44	4.60	4.87	5.16	5.69
Latin America	GDP-weighted average	5.72	-321				5.72	6.11	6.53	7.21	8.01
CEEMEA	GDP-weighted average	4.27	-259				4.25	4.09	4.31	4.49	5.08
EM Asia	GDP-weighted average	4.04	-205				4.04	4.23	4.47	4.65	5.05
The Americas	GDP-weighted average	0.75	-484				0.75	0.79	0.87	0.98	1.41
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	28 Apr 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)	20 Apr 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)	28 Apr 10	28 Apr 10 (+50bp)	8.75	9.75	10.75	11.75	12.25
Mexico	Repo rate	4.50	-270	17 Jul 09 (-25bp)	16 Apr 10	Oct 10 (+25bp)	4.50	4.50	4.50	5.00	5.75
Chile	Discount rate	0.50	-450	9 Jul 09 (-25bp)	15 Apr 10	Nov 10 (+25bp)	0.50	0.50	0.50	1.00	2.50
Colombia	Repo rate	3.50	-550	23 Nov 09 (-50bp)	30 Apr 10	1Q 11 (+50bp)	3.50	3.50	3.50	3.50	5.50
Peru	Reference rate	1.25	-325	6 Aug 09 (-75bp)	8 Apr 10	10 Jun 10 (+25bp)	1.25	1.50	2.25	3.00	4.50
Europe/Africa	GDP-weighted average	1.30	-323				1.30	1.28	1.32	1.39	2.07
Euro area	Refi rate	1.00	-300	7 May 09 (-25bp)	8 Apr 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)	8 Apr 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)	5 May 10	5 May 10 (+25bp)	1.75	2.00	2.25	2.50	3.25
Czech Republic	2-week repo rate	1.00	-175	16 Dec 09 (-25bp)	6 May 10	4 Nov 10 (+25bp)	1.00	1.00	1.00	1.25	2.25
Hungary	2-week deposit rate	5.75	-200	22 Feb 10 (-25bp)	<u>29 Mar 10</u>	29 Mar 10 (-25bp)	5.50	5.50	5.50	5.50	5.50
Israel	Base rate	1.25	-275	28 Dec 09 (+25bp)	<u>29 Mar 10</u>	29 Mar 10 (+25bp)	1.50	1.75	2.25	2.75	3.75
Poland	7-day intervention rate	3.50	-100	24 Jun 09 (-25bp)	<u>31 Mar 10</u>	Sep 10 (+25bp)	3.50	3.50	3.75	4.00	5.00
Romania	Base rate	7.00	0	3 Feb 10 (-50bp)	<u>29 Mar 10</u>	29 Mar 10 (-50bp)	6.50	6.00	5.50	5.50	6.50
Russia	1-week deposit rate	3.50	50	26 Mar 10 (-25bp)	Apr 10	Apr 10 (-25bp)	3.50	3.00	3.00	3.00	3.50
South Africa	Repo rate	6.50	-300	25 Mar 10 (-50bp)	13 May 10	1Q 11 (+50bp)	6.50	6.50	6.50	6.50	8.00
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	Jun 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)	13 Apr 10	3Q 10 (+50bp)	6.50	6.50	7.50	8.00	7.50
Asia/Pacific	GDP-weighted average	2.13	-131				2.13	2.22	2.37	2.47	2.69
Australia	Cash rate	4.00	-225	2 Mar 10 (+25bp)	6 Apr 10	4 May 10 (+25bp)	4.00	4.25	4.75	5.00	5.50
New Zealand	Cash rate	2.50	-550	30 Apr 09 (-50bp)	29 Apr 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)	7 Apr 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)	29 Apr 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)	8 Apr 10	3Q 10 (+25bp)	2.00	2.00	2.25	2.50	3.00
Indonesia	BI rate	6.50	-200	5 Aug 09 (-25bp)	6 Apr 10	4Q 11 (-25bp)	6.50	6.50	6.50	6.50	6.50
India	Repo rate	5.00	-275	19 Mar 09 (+25bp)	20 Apr 10	20 Apr 10 (+25bp)	5.00	5.25	5.50	5.50	6.50
Malaysia	Overnight policy rate	2.25	-125	4 Mar 10 (+25bp)	13 May 10	13 May 10 (+25bp)	2.25	2.50	2.75	2.75	2.75
Philippines	Reverse repo rate	4.00	-350	9 Jul 09 (-25bp)	22 Apr 10	Jun 10 (+25bp)	4.00	4.25	4.75	5.00	5.00
Thailand	1-day repo rate	1.25	-200	8 Apr 09 (-25bp)	21 Apr 10	21 Apr 10 (+25bp)	1.25	1.75	2.00	2.00	2.00
Taiwan	Official discount rate	1.25	-188	18 Feb 09 (-25bp)	2Q 10	3Q 10 (+25bp)	1.25	1.25	1.50	1.75	2.25

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

Economic forecasts - Australia

Australia: economic projections <i>percentage change over previous period, seasonally adjusted annual rates, un</i>														
	2009			2010				2011						
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	1.3	3.1	3.6	2.9	1.1	3.7	3.0	3.3	3.8	3.9	3.1	4.2	4.2	1.8
Private consumption	2.2	1.7	2.1	3.5	3.0	2.6	1.2	0.8	0.4	1.2	3.2	2.8	2.4	2.0
Construction investment	-0.3	2.9	4.6	-2.8	3.4	1.7	3.6	3.4	4.5	3.5	4.3	5.1	6.0	6.2
Equipment investment	-3.4	22.1	9.3	4.3	-11.0	51.2	32.6	22.5	13.0	17.6	5.1	3.4	6.4	8.6
Public investment	3.8	21.3	10.7	18.3	28.3	47.7	17.0	9.5	15.1	11.2	7.4	14.0	7.4	11.8
Government consumption	2.9	3.7	1.7	3.6	5.7	7.2	3.9	0.1	3.9	0.1	0.1	3.8	3.8	0.4
Exports of goods & services	0.5	3.7	4.6	3.3	-9.1	7.0	6.6	4.9	3.2	7.4	4.1	4.1	4.1	4.1
Imports of goods & services	-7.7	11.6	4.1	3.0	18.5	34.6	8.2	4.1	2.0	4.1	4.1	4.1	2.0	12.6
Contributions to GDP growth:														
Inventories	-0.5	-1.9	-0.1	1.1	2.6	0.4	-8.9	-0.2	-0.1	-0.1	-0.2	0.0	-0.3	-0.1
Net trade	1.8	-1.7	0.0	0.1	-5.2	-4.9	-0.5	0.1	0.2	0.5	-0.1	-0.1	0.3	-1.8
GDP deflator (%oya)	0.4	1.8	2.4	0.3	-2.0	-1.4	0.1	2.9	2.4	2.0	2.2	2.4	2.5	2.5
Consumer prices (%oya)	1.8	2.5	2.8	1.5	1.3	2.1	2.5	2.5	2.4	2.6	2.7	3.0	2.8	2.6
Producer prices (%oya)	-5.4	-1.4	3.5	-6.4	-7.2	-6.8	-3.1	-1.6	-1.9	1.0	2.5	3.5	4.0	4.0
Trade balance (A\$ bil, sa)	-6.7	-23.4	-23.3	-0.9	-4.3	-5.7	-6.0	-6.0	-5.9	-5.6	-5.6	-5.7	-5.5	-6.6
Current account (A\$ bil, sa)	-67.0	-72.1	-74.6	-13.1	-14.7	-17.5	-18.0	-18.1	-18.1	-17.9	-18.1	-18.4	-18.3	-19.9
as % of GDP	-6.2	-5.4	-5.3	-4.2	-4.7	-5.4	-5.5	-5.5	-5.4	-5.3	-5.3	-5.3	-5.2	-5.6
3m eurodeposit rate (%)*	6.0	4.9	5.4	3.5	3.4	4.1	4.3	4.8	5.0	5.4	5.6	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	5.9	5.9	6.0	6.0	6.0
US\$/A\$*	0.75	0.96	0.92	0.82	0.88	0.91	0.94	0.95	0.99	0.97	0.95	0.92	0.91	0.90
Commonwealth budget (FY, A\$ bil)	-27.0	-43.0	-29.0											
as % of GDP	-2.1	-3.2	-2.1											
Unemployment rate	5.6	5.5	5.5	5.7	5.7	5.6	5.4	5.6	5.7	5.7	5.5	5.4	5.4	5.3
Industrial production	-7.8	3.3	1.5	5.2	-5.5	21.8	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** powered out of the global downturn largely unscathed. GDP growth was a solid 0.9%q/q in Q4, although the government's stimulus fingerprints were obvious. Growth will soften near-term.
- **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 quickly returned to pre-crisis highs, but has fallen in recent months in the wake of the RBA's rate hikes.
- **Export volumes** have held up owing mainly to firm demand from Asia, but the terms of trade tumbled. This decline is poised to reverse, though, thanks mainly to higher bulk commodity prices.
- The **RBA** was the first central bank in the G20 to tighten monetary policy, with officials anxious about the lack of spare capacity. We expect another hike in May, and a cash rate of 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 <i>percentage change over previous period, seas. adjusted annual rates, unless stated</i>														
				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	-1.6	2.8	2.5	0.6	1.1	3.3	3.2	3.2	3.7	2.9	1.3	2.3	2.7	3.8
Private consumption	-0.6	2.4	1.6	1.6	3.5	3.4	2.5	1.5	1.1	2.0	1.0	1.5	2.0	3.5
Fixed Investment	-13.5	-1.0	4.6	-1.6	-6.2	-3.5	-5.4	5.3	5.5	5.7	2.2	4.1	6.0	7.3
Residential construction	-18.7	4.6	4.7	-9.3	-15.3	21.1	8.0	4.0	4.8	6.0	3.2	4.8	6.0	4.0
Other fixed investment	-12.4	-2.1	4.6	0.0	-4	-7.6	-8.0	5.6	5.6	5.6	2.0	4.0	6.0	8.0
Inventory change (NZ\$ bil, saar)	-1.7	0.8	0.4	-1.0	-0.7	0.2	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Government spending	1.5	2.2	1.7	-5.0	2.4	3.6	3.2	2.4	1.6	2.4	0.9	3.2	0.8	0.2
Exports of goods & services	0.0	7.2	9.0	19.8	0.7	-3.4	10.0	12.0	11.0	10.0	8.0	7.0	10.0	8.0
Imports of goods & services	-15.2	8.5	7.1	-10.3	6.2	26.4	5.0	8.0	5.0	8.0	5.0	8.0	9.0	9.0
Contributions to GDP growth:														
Domestic final sales	-5.0	1.4	2.3	0.6	-0.4	1.7	0.8	2.5	2.1	3.0	1.2	2.5	2.7	3.8
Inventories	-2.5	1.9	-0.3	-9.0	3.3	11.1	0.9	-0.4	-0.2	-0.6	-0.8	0.2	-0.2	0.5
Net trade	5.9	-0.5	0.5	9.7	-1.7	-8.8	1.4	1.0	1.8	0.5	0.9	-0.4	0.2	-0.4
GDP deflator (%oya)	1.9	1.3	2.2	2.0	2.7	0.1	-0.2	1.0	1.8	2.8	2.8	2.4	1.9	1.6
Consumer prices	2.1	2.5	3.0	2.3	5.3	-0.7	2.2	2.7	2.1	2.9	3.3	2.9	3.2	3.6
%oya	2.1	2.2	3.0	1.9	1.7	2.0	2.2	2.3	1.6	2.5	2.7	2.8	3.1	3.2
Trade balance (NZ\$ bil, sa)	2.5	-2.8	-5.2	0.8	0.6	0.2	-0.4	-0.5	-0.9	-1.1	-1.1	-1.2	-1.3	-1.6
Current account (NZ\$ bil, sa)	-5.6	-10.2	-13.4	-0.4	0.0	-3.1	-1.2	-1.5	-2.5	-3.0	-3.1	-5.2	-3.2	-2.8
as % of GDP	-3.1	-5.4	-6.8	-0.9	0.1	-6.9	-3.4	-5.4	-6.4	-6.5	-6.7	-5.7	-6.8	-8.0
Yield on 90-day bank bill (%)*	3.0	3.6	5.2	2.8	2.8	2.8	2.7	3.3	4.0	4.4	5.1	5.1	5.2	5.2
10-year bond yield (%)*	5.5	5.9	6.1	5.7	5.7	5.9	5.7	6.0	6.0	6.1	6.1	6.1	6.0	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	6.2	7.0	6.0	6.0	6.5	7.3	7.3	7.1	6.9	6.6	6.4	6.2	6.0	5.5

*All financial variables are period averages

New Zealand - summary of main macro views

- The **New Zealand economy** expanded at a healthy clip of 0.8%q/q in 4Q, driven again by firm private consumption. Inventories, though, were not the drag on growth we expected. In fact, inventories were built up by NZ\$172 million, after three quarters of run downs.
- **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.

Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar	30 Mar New Zealand: Building permits (10:45 am) Feb <u>2.0%/m,m,sa</u>	31 Mar Australia: Building approvals (11:30 am) Feb <u>1.5%/m,m,sa</u> Retail sales (11:30am) Feb <u>0.2%/m,m,sa</u> Pvt. Sector credit (11:30 am) Feb <u>0.2%/m,m,sa</u> New Zealand: NBNZ business confidence (2: 00 pm) Mar <u>45 % bal.</u>	1 Apr Australia: Trade balance (11:30 am) Feb <u>-1340 A\$ mn,sa</u>	2 Apr <i>Holiday Australia, New Zealand</i>
5 Apr <i>Holiday Australia, New Zealand</i>	6 Apr Australia: RBA cash target (2:30 pm) Apr ANZ job ads Mar New Zealand: ANZ commodity price (2:00 pm) Mar	7 Apr	8 Apr Australia: Unemployment rate (11:30 am) Mar	9 Apr
12 Apr Australia: Housing finance approvals (11:30 am)Feb	13 Apr Australia: NAB bus. Confidence (11: 30 am) Mar	14 Apr Australia: Westpac consumer confidence (10: 30 am) Apr New Zealand: Retail sales (10:45 am) Feb	15 Apr New Zealand: Business NZ PMI (10:30 pm) Mar	16 Apr
19 Apr	20 Apr New Zealand: CPI (10:45 am) 1Q	21 Apr Australia: Westpac leading index (10: 30 am) Feb	22 Apr Australia: New motor vehicle sales (10: 30 am) Mar	23 Apr Australia: Export, Import price index (11:30 pm) 4Q New Zealand: Visitor arrivals (10:45 am) Mar Credit card spending (2:00 pm) Mar

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
29 Mar - 2 Apr	29 March	30 March	31 March	1 April	2 April
	<ul style="list-style-type: none"> Euro area <ul style="list-style-type: none"> EC bus survey (Mar) Germany <ul style="list-style-type: none"> CPI prelim (Mar) Hungary: NBH mtg: -25bp Israel: Bol mtg: +25bp Japan <ul style="list-style-type: none"> Retail sales (Feb) Romania: NBR mtg: -50bp United Kingdom <ul style="list-style-type: none"> Mortgage apps (Feb) United States <ul style="list-style-type: none"> Personal income (Feb) 	<ul style="list-style-type: none"> Japan <ul style="list-style-type: none"> Hhold spending (Feb) IP prelim (Feb) Unemployment (Feb) United Kingdom <ul style="list-style-type: none"> GDP final (4Q) United States <ul style="list-style-type: none"> S&P/C-S HPI (Jan) 	<ul style="list-style-type: none"> Australia: Retail sales (Feb) Canada: Mthly GDP (Jan) Euro area <ul style="list-style-type: none"> HICP flash (Mar) Unemployment (Feb) Germany <ul style="list-style-type: none"> Labor mkt report (Mar) Japan <ul style="list-style-type: none"> PMI mfg, Shoko (Mar) Korea: IP (Feb) Poland: NBP mtg: No Chg United States <ul style="list-style-type: none"> ADP employment (Mar) Chicago PMI (Mar) Factory orders (Feb) 	<ul style="list-style-type: none"> Brazil: IP (Feb) China: PMI mfg (Mar) Euro area: PMI mfg (Mar) Germany: Retail (Feb) Japan <ul style="list-style-type: none"> Auto regs (Mar) BoJ Tankan (1Q) Korea <ul style="list-style-type: none"> CPI, Trade bal (Mar) United Kingdom <ul style="list-style-type: none"> BoE credit conditions survey (1Q) PMI mfg (Mar) United States <ul style="list-style-type: none"> Construction spend (Feb) ISM mfg, LV sales (Mar) 	<ul style="list-style-type: none"> United States <ul style="list-style-type: none"> Employment (Mar)
5 - 9 Apr	5 April	6 April	7 April	8 April	9 April
<ul style="list-style-type: none"> China <ul style="list-style-type: none"> Trade balance (Mar) Japan <ul style="list-style-type: none"> Cabinet Office private consumption index (Feb) 	<ul style="list-style-type: none"> Japan <ul style="list-style-type: none"> PMI services (Mar) Turkey <ul style="list-style-type: none"> CPI (Mar) United States <ul style="list-style-type: none"> ISM nonmfg (Mar) Pending homes (Feb) 	<ul style="list-style-type: none"> Australia <ul style="list-style-type: none"> RBI mtg: No Chg Indonesia <ul style="list-style-type: none"> BI mtg: No Chg Taiwan <ul style="list-style-type: none"> CPI (Mar) United States <ul style="list-style-type: none"> JOLTS (Feb) FOMC minutes 	<ul style="list-style-type: none"> Brazil <ul style="list-style-type: none"> Auto report (Mar) Euro area <ul style="list-style-type: none"> GDP final (4Q) PMI serv final (Mar) Germany <ul style="list-style-type: none"> Mfg orders (Feb) Japan <ul style="list-style-type: none"> BoJ mtg: No Chg United Kingdom <ul style="list-style-type: none"> PMI services (Mar) United States <ul style="list-style-type: none"> Consumer credit (Feb) Bernanke speech 	<ul style="list-style-type: none"> Brazil: IPCA (Mar) Euro area <ul style="list-style-type: none"> Retail sales (Feb) ECB mtg: No Chg Germany: IP (Feb) Japan <ul style="list-style-type: none"> Econ Watchers Sur (Mar) Machinery orders (Feb) Peru <ul style="list-style-type: none"> BCRP mtg: No Chg Taiwan: Trade bal (Feb) United Kingdom <ul style="list-style-type: none"> New car regs (Mar) BoE mtg: No Chg 	<ul style="list-style-type: none"> Canada <ul style="list-style-type: none"> Employment (Mar) Germany <ul style="list-style-type: none"> Foreign trade (Feb) Korea <ul style="list-style-type: none"> BoK mtg: No Chg Norway <ul style="list-style-type: none"> CPI (Mar)

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