

Australia and New Zealand - Weekly Prospects

Summary

- Last week's **Aussie** calendar was littered with RBA commentary, the highlight being the Governor's marathon session in front of federal MPs on Friday. The bottom line from all this official noise? The RBA paused in February mainly because the Aussie banks had out-hiked the RBA, and because it was not clear how households were coping. The sovereign events in Europe mattered, but only at the margin. Taking this at face value, we suspect Board members will be little wiser about households at the next Board meeting on March 2, so will be inactive again. The next hike probably will come in April, but the risks offshore mean the pause could be longer than we currently forecast. The RBA Deputy Governor steps up with a speech this week, but the highlight on the calendar will be the business investment survey Thursday. We expect big upgrades to firms' spending plans relative to the previous survey. We also should see a small gain in the pool of credit outstanding and a bounce in construction work.
- The recovery in **New Zealand** has lost momentum. Indeed, a string of weaker data recently has brought to the fore our concerns about the fragility of the domestic economy. Among the recent data points to disappoint were a spike in the unemployment rate and a fall in house prices. With this in mind, we have pushed out our expected first tightening for the RBNZ to July from April. RBNZ Governor Bollard wants hard economic evidence of an entrenched recovery before embarking on a tightening cycle. Waiting, though, and allowing inflation pressure to build, means the RBNZ will have to tighten more aggressively. We expect a 50bp hike in July and another in September, before the RBNZ shifts back to 25bp hops thereafter.
- The most striking element of recent performance is the relative standing of countries within the **developed world**. Sitting at the epicenter of the global financial crisis—which produced a dramatic rise in unemployment and household saving rates—there was every reason to have expected the US to be the weakest link in the global recovery. However, the US did not fall as hard as many other economies and is now expanding well above trend. As a result, it stands close to global averages that compare activity levels to previous cyclical peaks. While the better performance of EM economies is easy to understand, the relatively sluggish recoveries under way in Western Europe and Japan are troubling. Our forecasts project US GDP to retrace the losses seen in the entire recession by the middle of this year. For the Euro area and Japan, this retracement is not expected to be realized until some time in 2012.
- Easy money and strong industrial activity have provided a boost to oil and other **commodity prices**, which have more than doubled over the past year. This movement is lifting over-year-ago headline inflation across the globe, an effect that should peak in the next few months if commodity prices stabilize near current levels. As we have emphasized for some time, this move is masking the main inflation event of 2010—the slide in developed world core inflation. High levels of unemployment and depressed capacity utilization are exerting steady downward pressure on core price and wage inflation.

This week's highlight

The Aussie capex survey Thursday. We will get an update of spending plans for the current fiscal year and the first glimpse of plans for 2010-11. We expect the pipeline to have swelled significantly, thanks mainly to upbeat miners.

February 22, 2010

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Data and event previews - Australia and New Zealand

Date	Time ^(a)	Data/event	Forecast		
			JPMorgan	Consensus ^(b)	Previous
Monday, February 22	11.30am	Aust. new motor vehicle sales (%m/m, Jan.)	-1.0	-5.0	3.3
Tuesday, February 23	6.00pm	RBA Deputy Governor Battellino's speech	na	na	na
Wednesday, February 24	10.00am	Conference Board Leading Index (%m/m, Dec.)	na	na	-0.3
Wednesday, February 24	11.30am	Aust. labour price index (%q/q, 4Q)	0.8	0.8	0.7
Wednesday, February 24	1.00pm	RBNZ 2yr inflation expectations (% , 1Q)	na	na	2.6
Thursday, February 25	11.30am	Aust. new private capital expenditure (%q/q, 4Q)	4.5	2.0	-3.9
Thursday, February 25	11.30am	Aust. construction work done (%q/q, 4Q)	3.5	3.0	2.2
Thursday, February 25	1.00pm	NBNZ business confidence (Index, Feb.)	37	na	38.5
Friday, February 26	8.45am	NZ trade balance (NZ\$m, Jan.)	-100	-100	2
Friday, February 26	8.45am	NZ building permits (%m/m, Jan.)	-1.5	na	-2.4
Friday, February 26	11.30am	Aust. private sector credit (%m/m, Jan.)	0.2	0.2	0.3

(a) Australian Eastern Standard Time.

(b) Consensus based on Bloomberg survey.

Australia

Aust. new motor vehicle sales (%m/m, Jan.) - New motor vehicle sales have risen in each of the last four months, but will likely have declined in January. After a 3.3% m/m rise in December, car sales probably were down 1.0% in the wake of the RBA's policy tightening.

RBA Deputy Governor Battellino's speech - This is the only RBA event scheduled ahead of the March Board decision. The Deputy Governor will speak at The Sydney Institute.

Aust. labour price index (%q/q, 4Q) - Wages probably rose 0.8%q/q in 4Q, slightly higher than the five year low that was the 0.7% gain in the previous quarter. Wage growth near term probably will remain subdued but, given that the unemployment rate already has peaked, should accelerate in 2H. This is especially so given that skill shortages and capacity constraints again will rear their heads.

Data and event previews - contd.

Aust. new private capital expenditure (%q/q, 4Q) - For 2009/10, the spending estimate probably will print at A\$110 billion, which will imply a broadly flat outcome from the previous year. Given the collapse in investment spending outside Australia and the depths of the recession in some of Australia's key export markets, this will be a remarkably good outcome. For 2010/11, the survey should show that firms plan to spend just over A\$100 billion. While this implies a fall from 2009/10, firms always underestimate spending in the early investment surveys. Using the long-term estimation error as a guide, this outcome will imply something like a 20% rise on the previous year. The majority of the upgrades will be in the mining industry. Spending in 4Q probably rose 4.5%q/q, following the fall in 3Q.

Aust. construction work done (%q/q, 4Q) - The value of construction work undertaken in 4Q probably rose 3.5%, after a 2.2% rise in 3Q. The biggest gain would have been in engineering construction, reflecting the new spending in mining and infrastructure, although the value of building work also probably grew.

Aust. private sector credit (%m/m, Jan.) - The RBA's January credit aggregates should show a fall in credit growth to 0.2% m/m; this will push growth over the year down to just 1.1% oya. Credit to housing probably eased, as would have personal credit growth. Credit to businesses probably contracted for the twelfth straight month; larger companies are relying more on capital markets for the majority of their funding. Early signs of a rebound in bank credit to businesses, however, are starting to appear.

New Zealand

NBNZ business confidence (Index, Feb.) - We expect that business confidence deteriorated as the recovery underway in New Zealand lost momentum. News from offshore was mixed. The all important firms' own activity outlook probably continued to improve, however, rising to 38.5 from 36.9, supporting our view that the Kiwi economy will continue to expand in coming quarters.

NZ trade balance (NZ\$m, Jan.) - The trade balance probably fell back into deficit in January after surprisingly posting a surplus in the previous month, albeit only just. In January, exports are likely to have fallen by more than imports, owing mainly to elevated NZD, leading to a deficit of NZ\$100 million.

NZ building permits (%m/m, Jan.) - Permits probably fell again in January, slipping 1.5% over the month, given the domestic economy shed momentum in early 2010.

Research note

RBNZ probably will hold to hinted midyear tightening

- **RBNZ Governor Bollard wants assurance that the economy is out of most fragile recovery phase**
- **We now expect the first OCR hike in July, but anticipate a 50bp increase**
- **Prudential regulation and fiscal tightening will do some of the heavy lifting for RBNZ**

In a change of forecast, we now expect that the RBNZ will kick off the next tightening cycle in July with a 50bp hike. Previously, we had expected a 25bp move in April, arguing that the deteriorating medium-term inflation outlook would prompt the RBNZ to tighten policy before official guidance suggested. The RBNZ said in December that, providing the economy continues to recover in line with the Bank's forecasts, "conditions may support beginning to remove monetary stimulus around the middle of 2010."

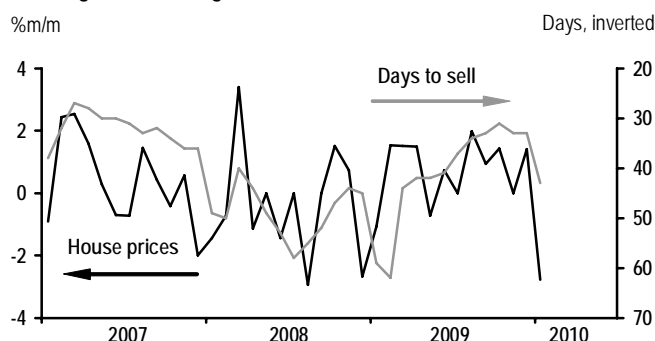
Given the persistent stream of weak data, however, and Bollard's desire for hard economy evidence that the recovery is sustainable, on top of the soon-to-be-effective bank liquidity changes and the Budget in May, the RBNZ likely will remain sidelined until July. By delaying the first rate hike, however, the RBNZ probably will have to move more aggressively; in addition to the July hike we look for another 50bp increase in September, after which the pace of tightening will slow.

Housing market losing steam

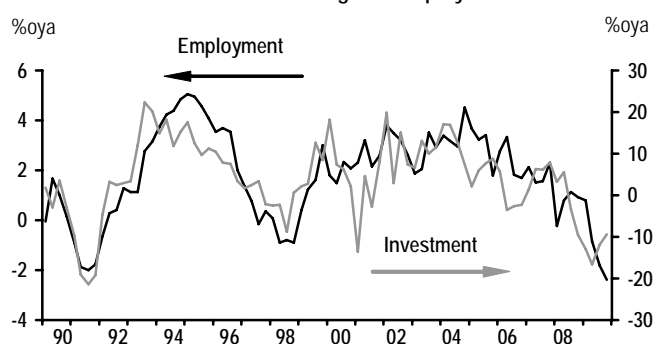
Recent data on the housing market, employment, and retail sales have painted an unexpectedly gloomy picture of the domestic economy. The moderation in housing activity, in particular, should ease the RBNZ's concerns about the potential reemergence of debt-fueled housing excesses. The pickup in house prices toward the end of 2009 was remarkably strong, but gains since have tapered off, with the REINZ reporting that house prices fell 3% m/m in January, while house sales slumped to an 18-year low.

With the government considering the removal of some tax breaks for property investors, uncertainty surrounding the potential changes will likely mean that near-term activity in the housing market will remain subdued. The RBNZ has been calling for the government to remove tax incentives for home ownership in order to ease the burden on monetary policy. Bollard has said that the buoyancy in the property market is "exacerbated by a tax system which favoured investment in housing." Indeed, Prime Minister John Key has

Housing market losing some steam



Weak business investment will weigh on employment



acknowledged that the current tax system overly rewards those investing in residential property.

Mr. Key signaled in his opening parliamentary address that the government is considering changes to the way property is taxed, alongside an increase in the rate of GST from 12.5% to "no more than" 15%. He also is contemplating reductions in personal taxes and increased benefits to compensate for higher prices. The details of these changes will be revealed in the 2010 Budget on May 20.

Domestic economy losing momentum

Consumer spending has hit a wall. Retail sales values were flat in December, despite being propped up by lower market interest rates and solid net migration inflows, which recently hit a five-year high. The improvement in consumer spending we expect throughout 2010 will be modest, owing mainly to the slow recovery we forecast in the labour market. One reason for this is that lending to businesses remains soft. This weakness is, in part, due to the tendency of more firms to raise capital via means other than bank lending. That said, bank lending to businesses is still weaker than this time last year, so business investment will probably remain subdued; this will weigh on employment.

Indeed, though the jobless rate probably has peaked, the details of the latest labour market survey were exceptionally

weak. The unemployment rate jumped from 6.5% to 7.3%, the highest rate in over a decade, reflecting a rise in the number of unemployed that exceeded the increase in the total labour force; this could mean that some of those entering or reentering the workforce were immediately declaring themselves unemployed. The RBNZ was looking for an unemployment rate of “just” 6.6%.

Liquidity policy to do some heavy lifting

New bank liquidity rules will do some of the heavy lifting for the RBNZ. New prudential regulations are being imposed on the large New Zealand-based Australian bank subsidiaries and on locally owned banks, which have until April 1 to meet the new requirements. The new rules will ensure that commercial banks hold sufficient retail and longer-dated wholesale funding (essentially lengthening the term of their total funding) so that, in the event of an economic downturn, lenders will have less need to access wholesale funding markets. Lenders will have to maintain a core funding ratio—the retail deposit base and longer-term wholesale funding as a percentage of assets—of 75%, up from 65% previously.

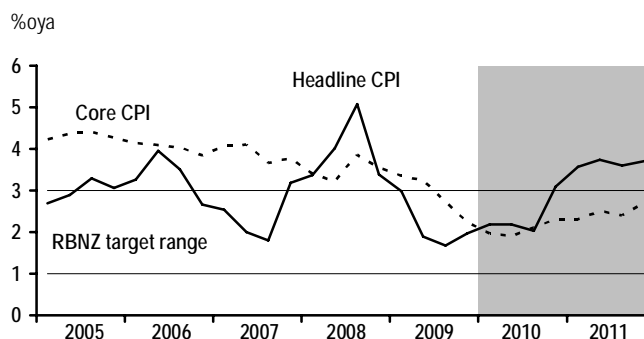
These changes should make banks more careful when lending, given that the new practices mean funding will be more expensive than when banks accessed funds in short-term wholesale markets offshore. This will limit banks’ ability to fuel credit growth using cheaper short-term wholesale funding, lessening the likelihood that credit growth will return to rampant levels. Indeed, under the new policy, the RBNZ believes that, after the two year transitional period, lending rates may be “somewhat” higher (in the order of 10-20bp) if the current high premium on term rates persists. The impact on lending rates will, however, depend on how each bank sources its funds.

50bp hikes will kick off tightening cycle

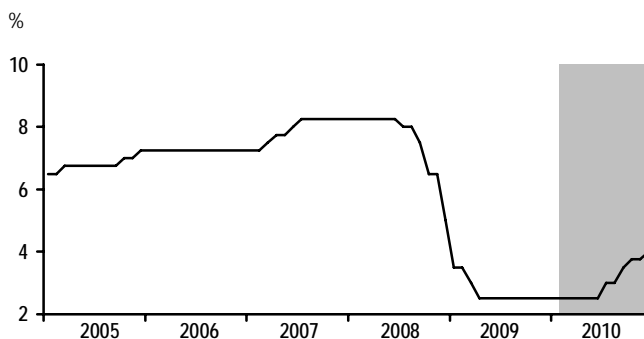
The soon-to-be-revealed fiscal measures, the string of disappointing data, and the new prudential regulations should allow the RBNZ additional time to sit on the policy sidelines. Furthermore, Governor Bollard, in the face of rising global jitters, appears increasingly reluctant to threaten the economic recovery by tightening policy too soon.

When asked about GDP expectations earlier this month, the Governor said that reasonable growth should be achieved in coming quarters, and these numbers will signal whether or not the “economy is getting out of a fragile growth phase into a more assured one.” We agree that the forthcoming GDP numbers should show improvement, with our

Medium term inflation outlook a concern



RBNZ tightening cycle to kick off in July



preliminary forecasts looking for growth of 0.9% q/q in 4Q09 and 0.7% in 1Q10. The first-quarter GDP print, however, is not due for release until June 26, so it looks like, on the basis of Bollard’s comments, the first rate hike will be delayed until after then.

Waiting for hard evidence of sustainable growth, however, looks likely to be a mistake. Delaying the first rate hike probably means the RBNZ will be forced to play catchup in 2H10. Bollard himself this month indicated that the OCR didn’t come down in 25bp hops, so when he is confident the recovery is sustainable, there could be some “meaty chunks” on the upside.

We maintain our forecast that the OCR will rise to 4% by year-end and increase steadily throughout 2011. The medium-term inflation outlook will become a growing concern. Domestic prices are rising, excess capacity is diminishing and, on our forecasts, headline inflation will be back at the top end of the RBNZ’s target range within the foreseeable future. Furthermore, nontradable inflation, although currently within the RBNZ’s comfort zone, should creep higher as the recovery gathers momentum. The RBNZ seems to be looking through this, however, waiting for more concrete signs on the real economy. Doing so, though, risks the inflation problem becoming worse.

Australia

- **RBA commentary hints Board members will stay on sidelines in March**
- **Credit growth probably eased in January**
- **Annual wage growth to have slowed to standstill**

A flurry of RBA commentary kept market pundits alert last week. Tuesday's minutes seemed more dovish in tone than the statement two weeks earlier announcing the Board's shock decision to leave the cash rate unchanged. Assistant Governor (Economic) Philip Lowe's speech Thursday, though, was more upbeat, although it highlighted again the official anxiety about the strength of the household sector. This was a key theme in RBA Governor Glenn Stevens' Parliamentary testimony Friday too, which went even further in highlighting heightened uncertainty.

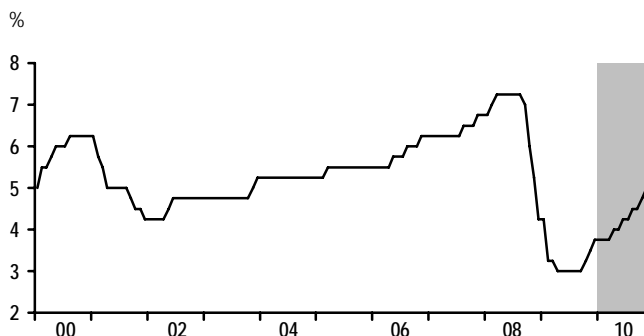
RBA minutes more dovish

The RBA released last week the minutes of the February Board meeting at which members left the cash rate steady at 3.75%. That decision three weeks ago, which the minutes described as "finely-balanced" (as was the case in December, when the RBA did hike) came as a shock to us and other market economists; we had expected another 25bp rate hike. The main message from the minutes is that the RBA is in no rush to hike again. Further hikes are coming, that remains clear, but the risk now is that the pause the RBA has embarked on could last for longer than we currently expect. We are sticking with our call for the next hike to come in April but, on last week's evidence, the next hike even could come as late as midyear.

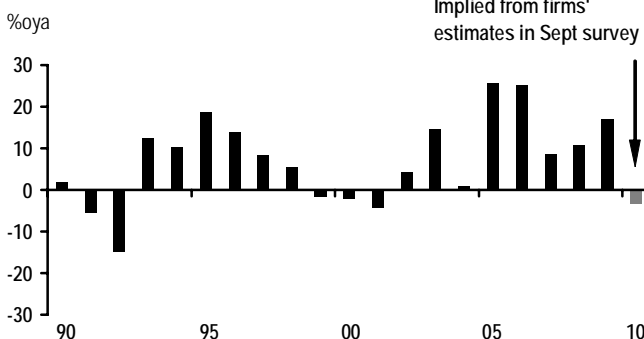
The tone of the commentary announcing the "on hold" decision on February 2 was unexpectedly upbeat—it would have sat comfortably with an announcement of another hike. Last week's "commentary" was noticeably more balanced. As expected, the minutes reveal that officials left the cash rate unchanged two weeks ago because evidence on how the economy (and, in particular, households) was handling the earlier rate hikes was "mixed." Officials wanted more time to assess how, and at what speed, the earlier rates hikes were feeding through to the domestic economy. The level of uncertainty is unusually high because the Aussie banks have out-hiked the RBA.

Indeed, in a testimony to parliament Friday, RBA Governor Stevens said the February pause was made partly on the basis that the Aussie banks had out-hiked the RBA. This meant that the burden on households, and the uncertainty about how they would react, was larger than would other-

Australia: RBA cash target rate



Australia: private capital expenditure



wise be the case. It seems, though, that the sovereign events in Europe and the likely impact of policy tightening in China also were prominent in the RBA's thinking. The sovereign debt issues in Europe, however, were important only at the margin.

On the domestic economy, the Governor on Friday reiterated the point made before that Australia seems to have emerged from the global downturn in better shape than most. We now are in a good position to benefit from rapid growth in our major export markets in Asia. The challenge now, according to Mr. Stevens, is to manage the next period of expansion, not limit damage in a downturn. Issues like capacity, productivity and flexibility, therefore, once again will take centre stage. On this, recent changes to labour laws add another level of complexity. According to Mr. Stevens, the flexibility available to Australian employers played a big role in limiting the rise in the jobless rate.

On conditions offshore, the Governor indicated two key challenges. The first is that there seems to be a two-speed nature of the global recovery. In many of the smaller emerging economies, the recovery is V-shaped. In the larger developed economies, though, conditions remain mixed, with accommodative policy settings still playing an important role in supporting activity. The second challenge is the in-

creasing focus on sovereign creditworthiness. Dealing with the substantial increase in the size of government balance sheets will require a “delicate balancing act”.

What’s next for RBA?

With the cash rate still very accommodative, the Bank’s seemingly rosy outlook for Australia—officials expect GDP growth to be above trend—indicates clearly that there are further rate hikes ahead. The RBA has paused on the way to a significantly higher cash rate; it has not stopped the tightening cycle. Indeed, we still expect the cash rate to be 5% at the end of 2010, but with slightly more of the tightening now likely to come in 2H10. Previously, we had expected a more even spread of rates hikes.

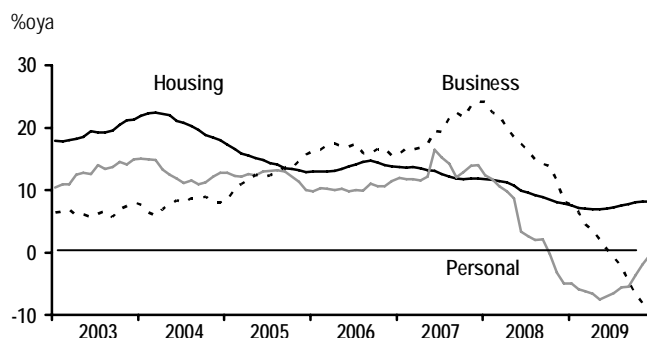
In our view, the cash rate will rise a further 125bp over the remainder of 2010 but, given heightened uncertainty on how local consumers are dealing with the rate hikes already delivered, the next rise will not come until April. Indeed, by the time of the next Board meeting in early March, we suspect Board members still will be uncertain about how the local punters are dealing with the earlier rate hikes. This week’s speech by the RBA Deputy Governor is the only RBA event scheduled ahead of the March decision.

Mining firms to upgrade capex plans

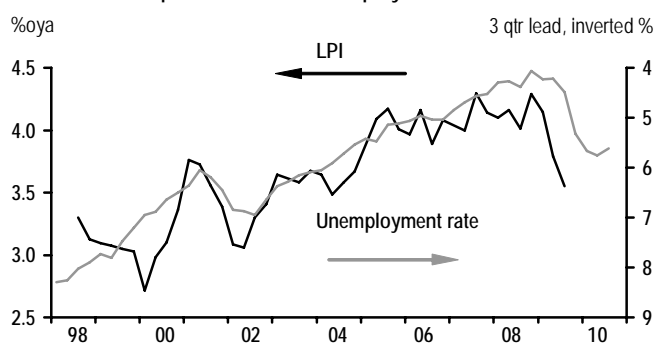
This week sees the release of the December quarter private investment survey. This is one of the few important data releases scheduled for release before the March 2 RBA decision. The survey will include the first glimpse of firms’ spending plans for the year-ended June 2011 and provide an update on plans for the current fiscal year. One reason the RBA was the first central bank in the G-20 to raise the cash rate was because the economy rebounded unexpectedly quickly, partly owing to a rapid swelling of the investment pipeline that capped the rise in unemployment. The capex survey will provide important colour on whether the pipeline continues to expand.

For 2009/10, the spending estimate probably will print at A\$110 billion, which will imply a broadly flat outcome from the previous year. Given the collapse in investment spending outside Australia and the depths of the recession in some of Australia’s key export markets, this will be a remarkably good outcome. For 2010/11, the survey should show that firms plan to spend just over A\$100 billion. While this implies a fall from 2009/10, firms always underestimate spending in the early investment surveys. Using the long-term estimation error as a guide, this outcome will imply something like a 20% rise on the previous year. The majority

Australia: private sector credit aggregates



Australia: labor price index and unemployment



of the upgrades will be in the mining industry.

Credit growth to ease on housing finance

The RBA’s January credit aggregates should show a fall in credit growth to 0.2% m/m, from 0.3%. This will push growth over the year down to just 1.1% oya. Credit to housing probably eased a notch to 0.6% m/m in January, owing to the end of the expanded first home buyers’ (FHBs’) on December 31, the introduction of caps on the original FHBs’ grant from January 1 and of course, rising market interest rates. Personal credit growth will have slowed to 0.5% m/m in the wake of the RBA tightening.

Credit to businesses probably contracted for the twelfth straight month in January, falling 0.4% m/m. Total business credit growth will likely remain contained this year given larger companies are relying on capital markets for the majority of their funding. That said, local banks will likely make more credit available to smaller businesses, given the more attractive returns available from higher risk lending.

Fading slack will force uptick in LPI

Australia’s labour price index probably rose 0.8% q/q in 4Q, slightly higher than the 0.7% recorded in the previous quarter, which had marked a five-year low. This result would

translate to over-year-ago growth of 3.1%, the slowest rate since June 2002. Wage growth near term probably will remain subdued, but given that the unemployment rate already has peaked, but should accelerate in the second half of the year, especially given that skill shortages and capacity constraints will again rear their heads. Highly skilled jobs are critical to the economy given that another resources boom is getting underway thanks to China's insatiable demand for the nation's key commodity exports, iron ore and coal.

On this note, RBA Assistant Governor Philip Lowe, in a speech Thursday, downplayed concerns that China's steps to rein in lending would lead to a significant slowdown in the Chinese economy. Lowe highlighted that "the recent tightening in credit conditions is a favourable development in that it increases the likelihood that the Chinese economy is on a sustainable path." This, of course, has positive implications for the Aussie outlook given China's position as Australia's largest trading partner. Lowe also singled out the Aussie labour market as a "star performer," saying that the unemployment rate peaked at a much lower level owing to the flexibility in the local labour market—a large number of employers cut workers' hours, rather than shed jobs, during the downturn.

Data releases and forecasts

Week of February 22 - 26

Mon Feb 22 11:30am	Sales of new motor vehicles Units, sa	Oct	Nov	Dec	Jan
	%m/m	4.5	5.9	3.3	<u>-1.0</u>
	%oya	3.6	16.1	17.2	<u>18.0</u>

Wed Feb 24 11:30am	Labour price index sa	1Q09	2Q09	3Q09	4Q09
	%q/q	0.8	0.8	0.7	<u>0.8</u>
	%oya	4.1	3.8	3.6	<u>3.1</u>

Thu Feb 25 11:30am	Construction work done sa	1Q09	2Q09	3Q09	4Q09
	%q/q	-3.6	4.5	2.2	<u>3.5</u>
	%oya	5.7	10.7	6.9	<u>6.5</u>

Thu Feb 25 11:30am	Private new capital expenditure sa	1Q09	2Q09	3Q09	4Q09
	%q/q	-5.1	2.1	-3.9	<u>4.5</u>
	%oya	11.7	8.0	-1.3	<u>-2.6</u>

Fri Feb 26 11:30am	Private-sector credit sa	Oct	Nov	Dec	Jan
	%m/m	-0.1	0.1	0.3	<u>0.2</u>
	%oya	1.2	0.9	1.5	<u>1.0</u>

Review of past week's data

NAB monthly business survey

% balance, sa	Nov	Dec	Jan
Business confidence	19	8	<u>12</u> 15

WMI leading index

%m/m sa	Oct	Nov	Dec
	<u>0.4</u> 0.5	1.0	— 0.5

NAB business confidence

% balance, sa	2Q09	3Q09	4Q09
	-4	16	<u>15</u> 18

New Zealand

- **Business confidence likely dropped in January**
- **RBNZ to sit on the sidelines for longer**
- **PPI numbers in line with string of soft data**

In New Zealand, there was little to chew on last week, aside from the 4Q PPI numbers. The PPI data has few implications for the RBNZ, but along with a persistent stream of soft data, reaffirms our view that the RBNZ will sit on the sidelines for a while yet. In a change of forecast, as discussed in detail in this week's research note "RBNZ probably will hold to hinted midyear tightening," we now expect Governor Bollard will kick off the tightening cycle in July with a 50bp hike. Previously, we forecast a 25bp move in April.

Kiwi firms' confidence probably fell again

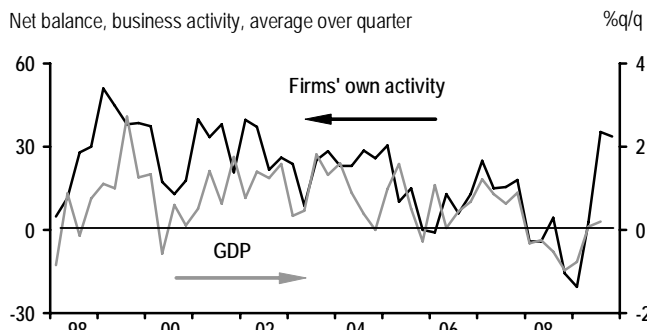
The NBNZ business confidence survey this week probably will show that sentiment fell for the fourth straight month in January, with the headline reading falling from 38.5 in December to 37.0. This will suggest that a net 37% of those surveyed expect that business conditions will improve over the next 12 months. We expect that business confidence deteriorated last month as the economic recovery underway in New Zealand lost some momentum. News from offshore also was mixed. The all important firms' own activity outlook probably continued to improve, however, rising to 38.5 from 36.9, supporting our view that the Kiwi economy will continue to expand in coming quarters.

In the last survey in December, 69% of firms expected that the RBNZ would hike the cash rate in the next year, compared to 73% in November. We suspect that less firms surveyed in January will have expected a rate hike to be delivered in the year ahead. As mentioned earlier, we now expect that RBNZ to kick off the next tightening cycle in July with a 50bp hike. A string of weaker-than-expected data and hints from Bollard that he wants assurance that the economy is out of the most fragile growth phase are the main reasons we pushed out the forecast tightening.

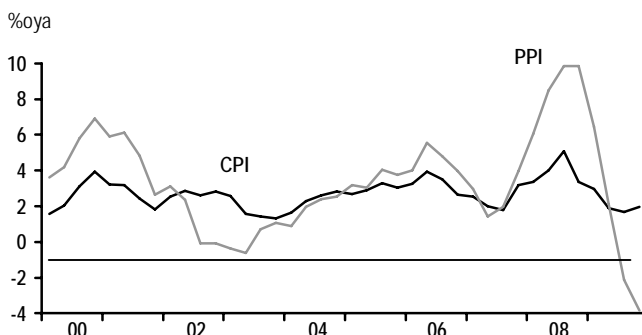
NZ PPI adds to run of soft data

The 4Q PPI numbers provided yet another piece of weak economic data. The PPI print alone will have few implications for the RBNZ, but reaffirms the view that the RBNZ will sit on the policy sidelines in coming months. Producer output prices fell for the fourth straight quarter, slipping 0.4%q/q (J.P. Morgan: -0.5%; consensus: 0.4%). The big-

New Zealand: NBNZ business outlook survey and GDP growth



New Zealand: CPI and PPI



gest drag on output prices was the fall in the meat and meat products manufacturing index (-8.5%), which was the largest on record. Input prices were up 0.3%q/q (J.P. Morgan: -1.0%; consensus: 0.5%), marking the first rise since 3Q08. The dairy product manufacturing index (+15.2%) made the most significant upward contribution to input prices thanks to higher whole milk prices at the farm-gate.

Data releases and forecasts

Week of February 22 - 26

Thu Feb 25 3:00pm	NBNZ business confidence	Nov	Dec	Jan	Feb
	% balance of respondents	48.2	43.4	38.5	<u>35</u>
Fri Feb 26 10:45am	Building consents	Oct	Nov	Dec	Jan
	sa				
	%m/m	13.2	0.1	-2.4	—
	%oya	27.7	20.3	23.6	—

Fri	Trade balance				
Feb 26	nsa				
10:45am		Oct	Nov	Dec	Jan
	Trade balance (NZ\$ mn)	-502	-276	2	<u>-100</u>

The trade balance probably fell back into deficit in January after surprisingly posting a surplus in the previous month, albeit only just. In January, exports likely fell by more than imports, owing mainly to elevated NZD, leading to a deficit of NZ\$100 million.

Review of past week's data

Producer price index	2Q09	3Q09	4Q09	
Inputs (%q/q nsa)	0.0	-1.1	-1.0	0.3
Outputs (%q/q nsa)	-0.7	-1.4	-0.5	-0.4
Credit card spending				
% change	Nov	Dec	Jan	
%oya	1.5	1.8	—	2.6

Global Essay

- **Core inflation on track to make historic lows in developed world this year**
- **US economy recovering relatively well despite being at the center of global financial crisis**
- **Japan also surprising with solid growth yet remains mired in deflation**
- **South Africa budget reaffirms commitment to deficit reduction**

Fast growth, slow healing

Last quarter's national accounts are now available for most major economies, and they present a clearer picture of performance during the early stage of the recovery. The global economy took a significant step forward with GDP rising at a 3.3% pace in 2H09 and industrial activity producing its strongest two-quarter increase in more than 40 years. However, this step looks modest when viewed against the depth of the recession. Activity and employment levels remain well below their pre-recession peaks, underscoring our long-standing outlook theme regarding the tension between fast growth and slow healing.

The most striking element of recent performance is the relative standing of countries within the developed world. Sitting at the epicenter of the global financial crisis—which produced a dramatic rise in unemployment and household saving rates—there was every reason to have expected the US to be the weakest link in the global recovery. However, the US did not fall as hard as many other economies and is now expanding well above trend. As a result, it stands close to global averages that compare activity levels to previous cyclical peaks. While the better performance of EM economies is easy to understand, the relatively sluggish recoveries under way in the Western Europe and Japan are trou-

bling. Our forecasts project US GDP to retrace the losses seen in the entire recession by the middle of this year. For the Euro area and Japan, this retrace is not expected to be realized until some time in 2012.

Two factors appear central to understanding these outcomes. First, the financial crisis was global in nature and incorporated a significant shock to global demand and the availability of trade financing. As a result, countries running external surpluses (the Euro area, Japan, and China) experienced a relatively large drag on growth from external sources. By contrast, the US recession was cushioned as it exported an important component of its domestic demand weakness to foreign suppliers. Second, policy eased everywhere but was most aggressive and timely in the US and China. Thus, China's economy was able to move forward even as its export sector plunged, and the US was able to establish a recovery even as firms continued to slash jobs and inventories.

Against this backdrop, it is natural to question the sustainability of strong growth as large fiscal stimulus packages in the US, China, and elsewhere are starting to fade. We believe these fears are overblown. Global policy stances will remain highly accommodative this year, with the impact of easy monetary policy building as recoveries mature and credit conditions improve. However, the key outlook call relates, in large measure, to how large a spark last year's stimulus programs provided in shifting private sector behaviour from retrenchment to expansion. This shift appears to have taken hold in Emerging Asia, and we are confident that is now being established in the US. Conditions are improving more slowly in Japan and Western Europe, but we believe this transition is on track, supported in part by the turn in performance in these countries' net trade contributions.

Activity relative to recession trough
% ch from trough to most recent

	GDP	IP	Car sales	U rate ¹
Global	2.1	6.6	34.7	0.0
US	2.0	5.3	17.7	-0.4
Euro area	0.5	4.1	13.9	0.0
Japan	1.8	29.1	43.3	-0.4
UK	0.1	2.7	45.8	-0.1
China	n/a	28.5	136.4	n/a
EM excl. China	18.2	14.5	34.6	-0.3

¹Unemployment rate, change from peak.

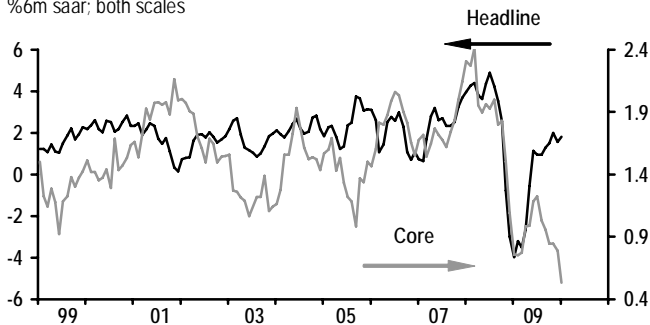
Activity relative to previous cyclical peak
% ch from peak to most recent

	GDP	IP	Car sales	U rate ¹
Global	-1.7	-11.1	2.3	3.2
US	-1.9	-12.5	-35.0	5.3
Euro area	-4.6	-18.8	-12.2	2.8
Japan	-7.0	-18.5	-2.9	1.0
UK	-5.9	-13.1	-9.4	2.6
China	n/a	18.4	96.9	n/a
EM excl. China	-0.6	-2.7	0.2	1.6

¹Unemployment rate, level relative to trough.

G-3 consumer price inflation

%6m saar; both scales



Core inflation slide is the main event

Easy money and strong industrial activity have provided a boost to oil and other commodity prices, which have more than doubled over the past year. This movement is lifting over-year-ago headline inflation across the globe, an effect that should peak in the next few months if commodity prices stabilize near current levels. As we have emphasized for some time, this move is masking the main inflation event of 2010—the slide in developed world core inflation. High levels of unemployment and depressed capacity utilization are exerting steady downward pressure on core price and wage inflation. Last week's US CPI report was a case in point. Headline inflation climbed to 2.6% oya in January, after having fallen to a six-decade low of -2% last July. The recovery in headline inflation is juxtaposed against a retreat in core inflation. Core inflation has dropped to an 0.8% annualized pace over the past six months, in line with our forecast that core inflation will rise less than 1% this year.

With core inflation also falling in the Euro area and Japan, the rate for the entire developed-economy block has eased to near 1%. Judging by historical experience, the process of core price disinflation has further room to run. The J.P. Morgan forecast looks for core inflation to slide to near 0.5% in the DM by year-end, which would be a record low for the series. It is important to emphasize that inflation dynamics are different in the emerging economies, where utilization rates are higher and core inflation is more sensitive to movements in commodity prices. EM core inflation likely has bottomed and will be stable to slightly higher over the course of this year.

Fed policy rate hikes are still a 2011 affair

Chairman Bernanke is set to deliver his semiannual testimony to Congress this week. He will likely send the mes-

sage that economic and financial conditions are improving but that it is premature to look for the start of a rate normalization process. To be sure, the Fed is unwinding measures implemented to counter the financial market crisis. The move to raise the discount rate last week should be viewed as part of this process. The next step on this path will be the completion of the agency MBS purchase plan in March. These steps taken to end unconventional easing are not intended to signal that the rate normalization process is close at hand. In contrast, Chairman Bernanke's testimony is likely to highlight the daunting medium-term macroeconomic task at hand—to achieve full employment and budget discipline and prevent further disinflation—as he reiterates the details of the Fed's exit strategy unveiled two weeks ago. As the trajectory of core inflation moves lower, we remain confident in our forecast that the first Fed policy rate hike will come in 2Q11.

Japan producing growth but not inflation

In Japan, 4Q GDP growth came in at a surprisingly strong 4.6%, meaning the economy has expanded at an average 3.3% rate since hitting bottom in 1Q09. Net exports continue to anchor the recovery, but consumer spending also has rebounded solidly despite a sharp decline in workers' compensation. It also appears that capex has turned the corner. Although last week's February Reuters Tankan encouragingly showed manufacturers' sentiment index recovered to the pre-Lehman crisis level, this week's February Shoko Chukin and PMI and January IP will be important for tracking the momentum into the new year. The forecast calls for growth to downshift to just over 1.5% in 1H10 in response to the waning of fiscal stimulus.

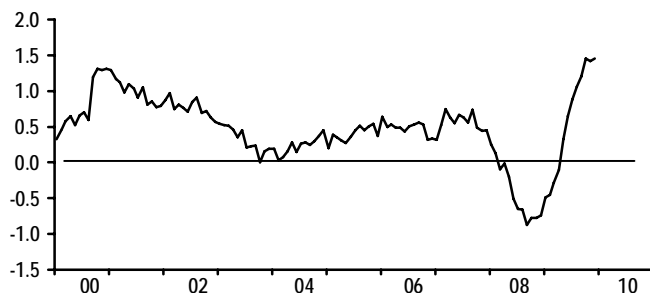
Although the economy has generated solid real growth in recent quarters, nominal GDP has stagnated as price deflation has become more firmly entrenched. This development has increased the political pressure on the BoJ to take more aggressive action than it has to date. The BoJ did bow to this pressure late last year, when it expanded its QE measures. Nonetheless, monetary policymakers have resisted taking further measures—a point that was underscored last week in Governor Shirakawa's press conference. To be sure, a sudden appreciation in the yen along with a fall in equity prices likely would trigger a response. But even here, the response would likely be limited to the BoJ's extending the maturity on its lending operations.

Looking for Greece to deliver

Last week's meeting of EU finance ministers kept pressure on

Japan real policy rate

%p.a.: o/n call rate less the year ago change in core consumer prices



Greece, with an insistence that the Greek government meet the agreed-upon deficit targets. The focus on the actual deficit, rather than the cyclically adjusted position, severely limits Greece's room to maneuver if growth falls short of expectations. Additional pressure was also applied by the requirement that Greece adjust its policies in order to "remove the risk of jeopardizing the proper functioning of economic and monetary union." The next few weeks will be critical for Greece. By March 16, the Greek government needs to present a report explaining how the budgetary measures for 2010 are being implemented.

Not much good news for the UK

As the challenges faced by UK policymakers multiply, one has to dig deep for signs their choices will get any easier. As widely anticipated, last week saw the Governor of the BoE forced to write an open letter as headline inflation moved more than 1%-pt above target. Despite the current move up in inflation, the MPC lowered its medium-term inflation projections in its February forecasts reflecting more subdued expectations for growth. Markets appear tolerant of this view, and there are few signs of inflation expectations becoming unhinged.

Although business surveys are generally improving and the labour market is stabilizing, official output data have generally disappointed. Moreover, the combination of weather-related disruption, January's VAT increase, and the ending of tax breaks on home transactions has prompted weakness across a number of releases for the current month. With a convincing recovery yet to be established, the appropriate speed of fiscal consolidation is unclear. Unfortunately, political pressures surrounding the May 6 election will likely add more noise than signal to this debate.

Latin growth outperformance on track

Recent data releases support our forecast that Latin America will outperform the global economy in 2010. Last week's January CAGED payroll report in Brazil indicated that formal net job creation is now back to historical highs, underscoring the strength of the broad economy, which is on track for 6%-plus GDP growth this year. Brazil is not the only country displaying positive growth dynamics. Two weeks ago we revised up our 2010 growth forecast for Mexico to 4.5% from 3.5% on the back of a stronger-than-expected rebound in manufacturing and an improving labour market. This week we raised projected 2010 growth in Argentina to 4.5% from 4.0% given the low inventory-to-sales ratio and the boost from exports to Brazil. We now see some upside growth risks in Peru and Colombia. Overall, we expect Latin America to grow 4.6% oya in 2010, which is more than a full point above its own potential and global growth.

Deficits to fall in South Africa and Turkey

Last week's budget statement in South Africa calmed some fears that the unions and other left-leaning alliance members were starting to shape government policy. Instead, expenditure control, the existing inflation-targeting mandate for the Reserve Bank, and broad exchange rate flexibility were maintained. The consolidated budget deficit, which has widened to an estimated 7.3% of GDP this fiscal year, is projected to narrow steadily to 4.1% of GDP by FY2012/13. To achieve this, spending will lag nominal GDP growth and revenues will marginally outperform during the recovery phase for the economy. South Africa came into the crisis with more fiscal space than most other EMEA emerging markets and a resilient financial sector.

Turkey likewise is largely able to rely on the cyclical upturn to restore its desired primary surplus, along with spending discipline and the elimination of modest anti-crisis fiscal incentives. The larger Central European economies are expected to adopt additional measures to tackle their structural deficits—by way of the EU's excessive deficit procedure in Poland and the IMF/EU-supported economic program in Hungary. Hungary made progress in 2009 with a 3%-pt of GDP improvement in the structural balance. Upcoming elections in both countries are likely to limit further consolidation.

JPMorgan View - Global Markets

The fiscal threat is overblown

- **Asset allocation:** We add risk to the recovery trade by covering the HG underweight. The overall strategy is long equities, credit, commodities, and the dollar, and is short bonds.
- **Economics:** Downside risks from monetary and fiscal tightening are overestimated. Focus instead on whether the corporates are spending and hiring. We are bullish, but are monitoring the data closely.
- **Fixed income:** Take profit on the short position in US 2s, but add a short in 10-year UK.
- **Equities:** Current regulatory proposals would hurt bank profitability, offsetting the positive impact from reduced credit losses. UK banks will be the most impacted, followed by the Europeans and then the US banks.
- **Credit:** Close tactical short and resume overweight in US HG bonds.
- **FX:** We add USD/EUR to our basket of dollar longs.
- **Commodities:** Stay long on strong manufacturing growth.

A week of better US economic activity data despite still mixed data in Europe pushed up risky markets across the world—testimony that US numbers still matter a lot more than anybody else's. The move confirms that we should think of the sell-off in risk since mid-January as a **profit-taking correction** in a longer-lasting bull market, rather than the start of a new bear market.

Sentiment remains fragile, with market participants showing little conviction. At times, it feels like we are all afraid of our own shadows. This caution reflects the fact that the recovery is barely half a year old and there remains a lot of unresolved leverage across the world. It remains the case, though, that, with almost no return on cash, risky markets are paying risk premia that are handsome relative to the risks as we perceive them.

The worry that keeps popping up on the market's risk radar is that delevering is not over and can reemerge at any moment. Early last year, market focus was mostly on the consumer as the likely agent to be forced into a second round of delevering. Later last year, it was the corporates that everyone was afraid of. And now, the **delevering fear has shifted to governments**.

Many people ask us **whether Greece is just a dry run for a global fiscal crisis** that will drag the world economy down again. Our answer to this is, yes and no. Yes in the longer run, but no in the shorter term. Policy actions to pull the

world out of recession have shifted leverage to public balance sheets. Efforts to redress fiscal imbalances are likely to require tax hikes and spending cuts that are likely to depress growth over coming years. It is our sense that this impact is fully appreciated by market participants and should thus be in the price.

But there is also a fear that market pressure on governments will induce **imminent fiscal tightening** that will in turn depress private demand. And if governments do not cut their deficits soon, they could get punished with higher bond yields, depressing private borrowing. It is our view that in the larger economies, this Catch 22 is being addressed through monetary policy and QE. The Euro area has a stronger institutional separation between fiscal and monetary policy and is thus more vulnerable to these opposing forces. Even so, market pressure for fiscal tightening is largely limited to smaller economies and thus should not make fiscal policy a major downside risk for the Euro area economy.

Of the **three potential areas of delevering risks**, one should **monitor the corporate sector most closely**. It is corporate expansion that we rely on to fuel the economic recovery, and disappointment here would be most damaging to our forecasts. Conditions are very supportive for corporate expansion—high profit margins, low borrowing costs, low inventories, and positive growth in demand. We have seen the start of corporate expansion through capex and a slowing of destocking. We now need to see a rebuilding of inventories and, most importantly, net hiring by companies. The global unemployment rate has stopped rising, but this is largely due to a fall in the labour force. Private sector employment is still falling. Watch this space.

Asian markets reacted badly over the past month to the start of Chinese **monetary policy** tightening. We accept the sensitivity of Chinese equities to a reversal in monetary policy, even when it succeeds in producing a soft landing, which is our forecast. This is why we are underweight China and tactically neutral EM versus DM equities. The developed equity markets are much less vulnerable to the start of monetary policy normalization, as was shown in last week's non-reaction to the Fed's discount rate hike.

Fixed income

Bond markets fell for the second week in a row, mirroring the rally in risky assets. The Fed's hike in the discount rate focused attention on central bank exit strategies, and pushed short rates higher. We retain a bearish medium-term view on fixed income on the basis of the eventual normalization of monetary policy and an expected fall in demand for bonds

this year from QE and commercial banks. But with the Fed and ECB on hold, and inflation staying low, our forecasts are only mildly bearish. We prefer to apply a hit-and-run strategy to our bearish view. Last week's backup has moved year-end forwards for the 2-year UST close to our forecast, and we thus **take profit tactically on our short duration here. We remain short in the Euro area short end, and add a short in 10-year gilts.**

UK inflation rose to 3.5% last week, prompting an open letter on the inflation outlook from BoE Governor King. Although the rise in inflation was expected, **UK short breakevens** rose sharply last week, partly on speculation that direct taxes will go up after the general election. We think there is some room for breakevens to rise further, and stay overweight inflation-linked bonds.

Improving economic prospects and a continuing search for higher-yielding assets should underpin demand for **local EM debt**. South Africa, where last week's budget was well received after reaffirming the country's inflation target, is a case in point. We also favour Russia and Hungary.

Equities

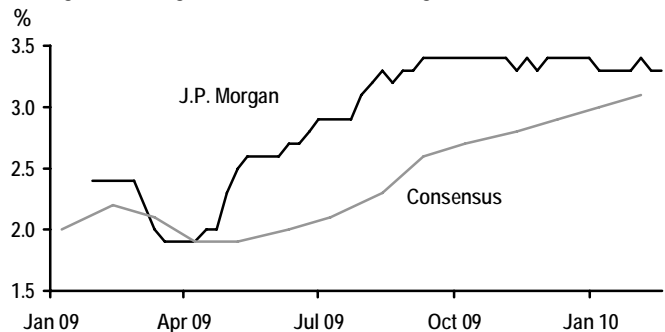
Equities are up for a second week following four straight weeks of declines. They are now halfway between their January 19 peak and their February 8 low.

Three weeks ago, we turned more cautious in equities for the near term on fears of further position squaring. We now **remove the defensive bias as investor positions appear to have been cut** to a large extent. Flows have also turned more supportive with the first weekly inflow for equity funds this week, following four straight weeks of outflows.

We are encouraged by the **reduced sensitivity of the equity market to Greek debt worries**. Equities rose 3% on the week while 10-year Greece is 25bp wider versus Bunds. We believe that the EU statement of two weeks ago will be very important in limiting the contagion from the Greek debt crisis, and we anticipate that the Greek debt problem increasingly will become a local problem.

Our positive stance on equities is best captured by overweighting cyclical sectors and small caps. Non-cyclical sectors such as utilities and telecoms are especially vulnerable to governments' efforts to raise tax revenues, as they cannot move operations and have stable cash flows. We are

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



neutral on financials as the potential implementation of the regulatory proposals currently being discussed can have a significant negative impact on future bank profitability, offsetting the positive impact from reduced credit losses.

Our researchers produced a report this week (*Global Banks—Too Big to Fail*, O'Donohoe and Atunes da Silva, February 17) in which they estimate that the sum of the **current regulatory proposals would depress the RoE for global banks from 13.3% to 5.4% in 2011**. UK banks would be the most impacted followed by the Europeans and then the US banks. At these levels of return, we believe it would be difficult to attract private capital to fund growth, and so product pricing would have to increase substantially. The rising cost of doing business could have significant negative ramifications for the global economy.

Credit

We entered 2010 with a view of continuing credit spread compression. However, the conflict between heavy overweight positions and rising regulatory and fiscal risks then made us reverse course at the end of January. Spreads have widened now, positions have been trimmed, and supply has slowed. We thus advise going back to an overweight in US HG. Strengthening corporate fundamentals and US economic activity data should overcome remaining risks in the market. We reposition for US HG spreads to tighten from 164bp currently to our year-end target of 125bp.

The 4Q reporting season is showing that US corporates earnings were very strong and companies continued to delever, supporting overweights in US HG. Corporates kept accumulating cash in 4Q, although at a slower pace, while reducing leverage (debt/EBITDA) modestly.

European HG spreads widened last week despite tighter

spreads in other markets, benefiting our underweight versus USHG. The **underperformance relative to USHG is likely to continue** as Euro area economies are recovering more slowly than the US, while being the most at risk of premature fiscal tightening. Stay underweight versus US HG.

In line with the downward revision of our 2010 default rate forecast for US HY bonds from 4% to 2% two weeks ago, we are lowering the 2010 default rate forecast for European HY from 6%-7% to 3%-4%, as inflows into the asset class are allowing most leveraged companies to refinance without problem.

Foreign exchange

Several major central banks have surprised with the timing and course of their exit strategies over the past six weeks. The net result has been **dollar positive**, and while it is premature to conclude that the dollar is transforming from a funding to investment currency, it can still rally further this month. Policy is still hazy, data are mixed, and positions are not overly long dollars.

We **broaden our basket of USD shorts** by selling the most vulnerable European currencies in cash (**EUR and GBP**), with GBP increasingly at risk from fiscal tensions, deteriorating economic data, and a uniquely dovish central bank. Take profits on short EUR/SEK ratio put spread on softening Swedish inflation. Continue to position for a change in commodity currency leadership. Sell NZD versus CAD and hold short AUD versus CAD. Stay short AUD and NZD versus USD. Also stay short EUR/PLN, long EUR/GBP, and short GBP/CHF.

We **retain bearish medium-term forecasts for the dollar**, however. It would be a mistake to extrapolate the past two months' moves to a view that the US will lead a global tightening cycle that will transform the dollar from a funding to an investment currency, and therefore deliver a year-long USD rally. We expect the dollar to weaken again this spring as European growth reaccelerates toward trend, Greece implements its fiscal tightening (so avoids a credit event), and fears of a Chinese slowdown fail to materialize as a risk to commodity currencies.

Commodities

We stay overall **long commodities** on strong growth in both global manufacturing and EM economies. We remain bullish base metals, with most of the likely price gains in 1H due to

Ten-year Government bond yields

	Current	Mar 10	Jun 10	Sep 10	Dec 10
United States	3.80	3.90	4.10	4.25	4.50
Euro area	3.29	3.35	3.50	3.65	3.75
United Kingdom	4.17	4.40	4.45	4.50	4.60
Japan	1.33	1.30	1.40	1.50	1.55
GBI-EM	7.18				7.90

Credit markets

	Current	YTD Return
US high grade (bp over UST)	170	0.6%
Euro high grade (bp over Euro gov)	162	1.1%
USD high yield (bp vs. UST)	679	0.7%
Euro high yield (bp over Euro gov)	702	2.1%
EMBIG (bp vs. UST)	308	0.4%
EM Corporates (bp vs. UST)	356	1.1%

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	91.9	85	82	85	89
GBP/USD	1.54	1.54	1.59	1.58	1.56

Commodities - quarterly average

	Current	10Q1	10Q2	10Q3	10Q4
WTI (\$/bbl)	80	72	76	80	85
Gold (\$/oz)	1125	1250	1400	1300	1200
Copper (\$/m ton)	7238	7350	8000	6800	6250
Corn (\$/Bu)	3.69	3.85	4.05	3.95	3.90

Source: J.P. Morgan, Bloomberg, Datastream

restocking at the consumer level. **Crude oil** prices jumped US\$4 to US\$78 last week. We do not see much upside from current levels in coming weeks. Crude still finds resistance near US\$80, and high crude inventories and still poor demand in the US should continue to limit price gains near term. Nevertheless, we expect prices to rise further until year-end. We currently forecast that WTI will average US\$85 in 4Q, but risks to our forecasts are biased to the upside. In our view, prices should start moving higher more consistently in late 2Q.

But not everything is bullish in commodities. **Sugar** is down more than 10% month-to-date, and the curve has flattened considerably. We do expect a substantial supply response to the current high prices late this year, even as the physical market gets tighter in coming months. We prefer to be in flatteners now (J.P. Morgan Contag Sugar versus GSCI Sugar, vol-matched).

AUD and NZD Commentary

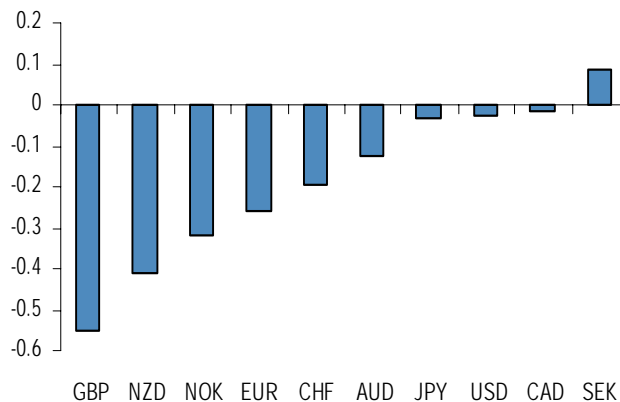
- **Recent policy surprises combined with sovereign risk issues and mixed US data is likely to extend the dollar's strength for a few weeks. We take this opportunity to broaden our basket of short positions against the USD.**
- **AUD/USD and NZD/USD face important tests this week which should define whether the short term recoveries can extend.**
- Since 2010 began, currencies have been tripping through the exit doors. Over the past six weeks several major central banks have progressed their exit strategies, but in a manner surprising enough to motivate frequent reversals in currency markets. China was universally expected to tighten in 2010, but not raise reserve requirements twice within a month. In fact, the past month has resulted in considerable revisions to central bank policy expectations. Combined with sovereign risk issues, all of these policy shifts have contributed to USD strength; still, we believe it would be a mistake to extrapolate to a view that the US will lead a global tightening cycle which will transform the dollar from a funding to an investment currency, and therefore deliver a year-long USD rally. Despite this, policy is hazy, data are mixed and positions are not overly long dollars. This combination can extend USD's strength for a few weeks longer, as we broaden the basket of shorts against it.
- Commodity currencies should all move lower in an environment where policy uncertainties persist, but CAD would outperform. Canadian data has surprised to the upside in recent trading sessions, underpinning expectations for an above-trend Canadian recovery, while uncertainty about the pace of Chinese policy tightening continues to weigh down AUD, and to a lesser extent NZD. NOK's growth is undershooting expectations and is beginning to look more like core Europe than a booming commodity exporter. Finally, markets continue to under-price the likely pace of BoC tightening – about 65bps over 12 months compared to our forecast for four quarter-point rate hikes in 2H10 – while pricing RBA and RBNZ polices close to our forecasts.

Technical analysis

- As the reversals from the Feb. lows continue to develop, we see an important test for both AUD/USD and NZD/USD in the coming week. Note that while the rallies have reasserted the broader ranges, the next line of key resistance levels has stalled the upward path. Importantly, the February lows effectively held important support levels including the .8570/.8500 zone for AUD/USD which included the 200-day moving average (now .8638) as well as

Revisions to interest rate expectations

1Yx1y forward swap rates. Change over the past 1-month, %



the September '08 range lows. Similarly, NZD/USD held the 200-day moving average (now at .6918), as well as the August channel low. Note that these levels should continue to hold to maintain the short term upside bias.

- In turn, the ability to extend above key initial resistance levels starting at the .9040/.9095 area for AUD/USD would increase the odds that a deeper retracement is underway with potential to retest of the medium term range highs. Also, NZD/USD faces a key test at the .7085 area before the .7155/.7200 zone, which includes the 61.8% retracement from the January peak. Breaks here confirm a more bullish backdrop for a closer test of the .7310/.7445 area. Note that AUD/NZD has shifted back to the medium term range highs near 1.29/1.30 area. While the near term bias can allow for some pause, note that the medium term setup argues for an eventual breakout.

AUD/USD - Daily chart



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	3.5	3.1	2.2	5.7	3.0	4.0	4.0	3.5	2.5	1.5	2.8	1.4	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	-3.1	4.6	3.7	6.4 ↑	5.6	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	-6.7	4.5	3.5	12.2	5.5	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	4.4	7.7	7.2	9.9 ↓	6.5 ↑	7.6	7.2	7.2	6.8	6.9	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	-3.3	4.5	4.1	1.6	5.0	4.2	4.0	3.8	3.5	4.2	1.4	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	-2.4	5.0	5.1	9.4	4.5	1.6	5.3	5.7	5.3	4.9	-0.5	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	-2.7 ↑	6.8 ↑	4.8	8.3	11.5 ↑	4.0 ↓	4.5 ↓	4.6	3.8	4.8	-1.3 ↓	0.9	2.0	1.8
Thailand	-2.9	5.5	5.0	5.5	5.3	4.9	5.7	5.3	5.3	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	3.0	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	-4.8	1.4	3.1	-0.6	0.4	2.0	2.5	2.8	3.5	2.8	2.1	2.2	1.4	1.9
Emerging Europe	-5.1	4.0 ↓	4.7	4.1	5.1 ↓	3.7 ↓	3.6 ↑	3.3 ↓	3.9 ↓	4.4	6.2	5.5 ↑	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	5.0	5.3	...	...	...	...	...	...	...	5.7	8.5	6.6	4.8
Global														
Global	-2.5	3.3	3.3	2.7 ↓	3.9 ↑	3.1 ↓	3.7	3.6	3.4	3.0	1.3	2.2	1.8	1.6
Developed markets	-3.4	2.6 ↑	2.6	1.4 ↓	3.4 ↑	2.4	3.1	3.1	2.9	2.3	0.6	1.5	1.0	0.9
Emerging markets	0.8	6.2	5.8	7.8	5.9 ↑	6.1 ↓	5.8	5.5 ↓	5.3	5.5	3.9	5.1	4.9	4.3
Memo:														
Global — PPP weighted	-0.9	4.4	4.4	4.2	4.5	4.1	4.4	4.2	4.0	3.8	2.3	3.3	2.8	2.5

Global Central Bank Watch

	Official interest rate	Change from			Forecast						
		Current	Aug '07 (bp)	Last change	Next meeting	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	2.67
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	5.72
Latin America	GDP-weighted average	5.72	-321				5.91	6.41	7.10	7.36	8.32
CEEMEA	GDP-weighted average	4.42	-244				4.30	4.16	4.41	4.66	5.03
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)	<u>26 Feb 10</u>	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	1.32	-321				1.31	1.29	1.33	1.41	2.06
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	6.00	-175	25 Jan 10 (-25bp)	<u>22 Feb 10</u>	22 Feb 10 (-25bp)	5.50	5.50	5.50	5.50	5.50
Israel	Base rate	1.25	-275	28 Dec 09 (+25bp)	<u>22 Feb 10</u>	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)	<u>24 Feb 10</u>	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	3.00
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.

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	0.9	3.0	3.5	2.6	0.8	2.5	3.3	3.8	4.2	3.9	3.1	3.8	3.0	3.1
Private consumption	1.5	2.3	1.7	2.9	2.6	1.6	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	1.8	5.3	5.1	3.2	-8.7	14.8	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	-1.1	-1.0	-0.1	0.8	3.2	-7.9	0.7	-0.1	0.0	-0.1	-0.2	0.1	-0.2	-0.1
Net trade	2.3	-0.6	-0.1	0.1	-6.3	3.2	-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	-4.5	-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. The longer term outlook has brightened significantly, 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.
- **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 another 25bp rate hike in April, 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

Click here for >>>	Australia			New Zealand										
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	0.9	3.0	3.5	2.6	0.8	2.5	3.3	3.8	4.2	3.9	3.1	3.8	3.0	3.1
Private consumption	1.5	2.3	1.7	2.9	2.6	1.6	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	1.8	5.3	5.1	3.2	-8.7	14.8	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	-1.1	-1.0	-0.1	0.8	3.2	-7.9	0.7	-0.1	0.0	-0.1	-0.2	0.1	-0.2	-0.1
Net trade	2.3	-0.6	-0.1	0.1	-6.3	3.2	-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	-4.5	-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

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. The third-quarter result 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, has negative implications for the employment outlook.
- The **unemployment** rate probably peaked in 4Q. 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
<p>22 Feb</p> <p>Australia: New motor vehicle sales (10:30 am) Jan</p>	<p>23 Feb</p>	<p>24 Feb</p> <p>Australia: Labor price index (10:30 am) 4Q <u>0.8 %q,q,sa</u></p>	<p>25 Feb</p> <p>Australia: Pvt. capital exp. (10:30 am) 4Q <u>4.5 %q,q,sa</u> Construction work done (10:30 am) 4Q <u>3.5%q,q,sa</u></p> <p>New Zealand: NBNZ business confidence (2:00 pm) Feb <u>35 %bal</u></p>	<p>26 Feb</p> <p>Australia: Pvt. Sector credit (11:30 am) Jan <u>0.2 %m,m,sa</u></p> <p>New Zealand: Building permits (10:45 am) Jan Trade balance (10:45 am) Jan <u>-100 NZ\$ mn,nsa</u></p>
<p>1 Mar</p> <p>Australia: Company operating profits (11:30 am) 4Q Current account (11:30 am) 4Q Inventories (11:30 am) 4Q</p> <p>New Zealand: Visitor arrivals (10:45 am) Jan ANZ commodity price</p>	<p>2 Mar</p> <p>Australia: Building approvals (11:30 am) Jan Retail sales (11:30am) Jan RBA cash target (2:30 pm) Mar</p>	<p>3 Mar</p> <p>Australia: GDP (12:30 am) 4Q</p>	<p>4 Mar</p> <p>Australia: Trade balance (12:30 am) Jan</p>	<p>5 Mar</p>
<p>8 Mar</p> <p>New Zealand: Manufacturing activity (10:45 am) 4Q</p>	<p>9 Mar</p> <p>Australia: NAB bus. Confidence (11:30 am) Feb ANZ job ads Feb</p>	<p>10 Mar</p> <p>Australia: Westpac consumer confidence (10:30 am) Mar Housing finance approvals Jan</p> <p>New Zealand: Terms of trade index (10:45 am) 4Q</p>	<p>11 Mar</p> <p>Australia: Unemployment rate (11:00 am) Feb</p> <p>New Zealand: Business NZ PMI (10:30 pm) Feb RBNZ official cash rate Mar</p>	<p>12 Mar</p> <p>New Zealand: Retail sales (10:45 am) Jan</p>
<p>15 Mar</p>	<p>16 Mar</p>	<p>17 Mar</p> <p>Australia: Dwelling starts 4Q Westpac leading index Jan</p>	<p>18 Mar</p>	<p>19 Mar</p> <p>New Zealand: Visitor arrivals (10:45 am) Feb Credit card spending (2:00 pm) Feb</p>

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
22 - 26 February	22 February	23 February	24 February	25 February	26 February
	Germany • CPI prelim (Feb) Hungary • NBH mtg: -25bp Israel • Bol mtg: No Chg Mexico • Real GDP (4Q) Taiwan • GDP (4Q)	Brazil • Retail sales (Dec) France • Cons of mfg goods (Jan) • CPI (Jan) Germany • IFO bus surv (Feb) Japan • BoJ minutes: Jan 25-26 South Africa • GDP (4Q) United States • Richmond Fed surv (Feb) • S&P/C-S HPI (Dec, 4Q)	Euro area • Industrial orders (Dec) Germany • GDP final (4Q) Japan • Shoko Chukin (Feb) • Trade balance (Jan) Poland • NBP mtg: No Chg United States • New home sales (Jan) • Bernanke delivers semiannual House testimony	Euro area • EC bus survey (Feb) • M3 (Jan) Germany • Labor mkt report (Feb) Italy • ISAE bus surv (Feb) United Kingdom • Bus invest prelim (4Q) United States • Durable goods (Jan) • FHFA HPI (Dec, 4Q) • Bernanke delivers semiannual Senate testimony	Colombia • BanRep mtg: No Chg Euro area: HICP final (Jan) India: GDP (4Q) Japan • CPI, IP prelim, Retail sales (Jan) • PMI mfg (Feb) Taiwan • Export orders, IP (Jan) UK: GDP (4Q) United States • Chicago PMI (Feb) • Consumer sent (Feb) • Existing homes (Jan)
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) Sweden: GDP (4Q) UK: 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, Trade balance (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) • Productivity and costs	Brazil • IPCA (Feb) Germany • Mfg orders (Jan) United States • Consumer credit (Jan) • Employment (Feb)

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