J.P.Morgan

Australia and New Zealand - Weekly Prospects

Summary

- The past week in **Australia** was chock-full of economic data, but the messages were mixed. Consumer confidence boomed in August, but business confidence sank in July. Employment rose strongly in July, but the June housing finance data showed a sharp decline in demand for new loans. The jobless rate climbed, yet there was another rise in the number of job advertisements. The uncertainty means the Reserve Bank will remain sidelined for the time being, while officials also await clarity on the durability of the global cycle. All the while, Australia's federal election campaign meanders toward polling day on August 21. Opinion polls hint that the Labor government will be re-elected with a reduced majority of seats in the Lower House of Parliament, but the opposition party remains competitive. The outcome of the election could be determined by which leader avoids mistakes in the final week of campaigning. The week ahead sees speeches by the RBA Governor and Deputy Governor, and the release of the RBA's Board minutes and official labour price data.

- The past week was quiet in **New Zealand**. The highlights were an unexpectedly large bounce in retail spending in June, thanks to a spike in core sales, and an even stronger rise in volume terms across the June quarter. The 1.3%q/q gain in sales volumes was the largest in three years, and signaled that household consumption will add significantly to GDP growth in 2Q. There is an element of spending being dragged forward by consumers ahead of the rise in the goods and services tax in October, however. Thereafter, we suspect that household consumption will taper off. Households have become increasingly cautious, housing market activity is easing, and the recovery in the labour market has slowed to a crawl, meaning wage growth will remain subdued for some time yet.

- Growth momentum waxes and wanes through an expansion, and an important element of the recent **global growth** slowdown is a normal early cycle dynamic whereby an acceleration phase in the global manufacturing sector ends. However, the latest news also raises questions about the strength of behavioural pillars supporting the expansion. Across most of the world, there is little reason to be concerned about these fundamental supports. Unfortunately, the behavioural foundations supporting the US expansion feel more fragile at this stage than we had anticipated.

- It is against this backdrop that the **Fed's decision** to maintain the size of securities on its balance sheet should be seen. The FOMC statement reflects increased concern about the outlook and its desire to ease financial conditions. In addition, the Fed wants to bolster confidence by displaying that there are tools that can be calibrated to a changing assessment of risks. In the event, the Fed succeeded in pushing market interest rates lower last week. But the 19bp fall in 10-year bond yields gives the committee cold comfort. Much of the decline reflects weaker economic news and lower inflation expectations. This point was reinforced by a fall in equity markets and widening in credit spreads. As a result, uncertainties about the effectiveness of unconventional tools to offset economic weakness and disinflation remain quite high.

This week's highlight

RBA Governor Glenn Stevens' speech Tuesday night, just hours after the release of the minutes of the August Board meeting. The Governor rarely utters unscripted gems of information, but you never know.

August 16, 2010

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Data and event previews - Australia and New Zealand

Date	Time [a]	Data/event	Forecast JPMorgan	Consensus [b]	*Previous*
Monday, August 16	11.30am	Aust. new motor vehicle sales (%m/m, Jul.)	**2.0**	na	*-1.2*
Tuesday, August 17	11.30am	RBA Board minutes (Aug.)	**na**	na	*na*
Tuesday, August 17	8.00pm	RBA Governor Stevens' speech	**na**	na	*na*
Wednesday, August 18	11.30am	Westpac Leading Index (%m/m, Jun.)	**na**	na	*0.2*
Wednesday, August 18	11.00am	Aust. DEWR skilled vacancies (%m/m, Aug.)	**na**	na	*0.3*
Wednesday, August 18	11.00am	CBA-HIA housing affordability (Index, 2Q)	**na**	na	*118.8*
Wednesday, August 18	11.30am	Aust. labour price index (%q/q, 2Q)	**1.0**	0.9	*0.9*
Thursday, August 19	8.45am	NZ PPI (%q/q, 2Q)	**-0.2**	na	*1.8*
Thursday, August 19	11.30am	Aust. average weekly wages (%q/q, May qtr.)	**na**	na	*1.1*
Thursday, August 19	1.00pm	NZ ANZ consumer confidence (Index, Aug.)	**113.0**	na	*115.6*
Friday, August 20	8.45am	NZ net migration (ppl., Jul.)	**na**	na	*70*
Friday, August 20	11.45am	RBA Deputy Governor Battellino's speech	**na**	na	*na*
Friday, August 20	1.00pm	NZ credit card spending (%m/m, Jul.)	**1.2**	na	*1.0*

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

Australia

New motor vehicle sales (%m/m, Jul.) - Industry data suggest sales volumes ticked up over the month, probably buoyed by discounting moving into the new financial year. There are anecdotes that many cars ordered last year under the government's investment allowance were delayed in delivery, due to a log-jam in production of rarer right hand drive vehicles on Asian production lines. Sales are counted at the time of delivery, so this phenomenon would result in a spike in sales even after the expiry of the government program. With six months having passed, however, this effect should be well and truly fading.

RBA Board minutes (Aug.) - The Reserve Bank will release minutes from the early August Board meeting, at which members chose to leave the cash rate steady at 4.5% for the third straight month. The decision seemed pretty straightfor-

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Data previews - Cont'd.

ward at the time, particularly given the essentially toothless 2Q CPI result the week before. The minutes likely will lay out how that result influenced officials' thinking, and possibly what the complexion of the report reveals for the path of inflation going forward. Given the lessons learned from the experience in 2006/07, when some rogue low CPI numbers pushed the RBA behind the curve, officials will need compelling evidence that inflation really has cooled if they are to remove their tightening bias. Some reference in the minutes indicating that the current pause is conditional, pending further information on prices, could, therefore, be in the offing.

RBA speeches - Governor Stevens speaks at the University of Western Australia on "The Role of Finance." The speech is is scheduled for 8pm on the day the August Board minutes are released, so will likely offer little new information and, therefore, not attract much market attention. The Deputy Governor addresses the Moreton Bay Better Business Luncheon on Friday: the title of the speech is as yet unknown. Q&A sessions are scheduled following both speeches.

DEWR skilled vacancies (%m/m, Aug.) - The leading indicators of job growth have cooled in recent months, with growth in the ANZ job ads series shifting down, and the employment component of the NAB business survey stabilizing. The soft growth in the DEWR series should similarly continue, indicating that the labour market is performing well, but at a pace that now is less likely to absorb very high participation.

CBA-HIA housing affordability (Index, 2Q) - The June quarter saw RBA rate hikes at two out of three meetings, which brought borrowing rates back to long run average levels. This will have triggered a further deterioration in the affordability index. The wildcard, though, is house prices. The ABS' index, which measures prices for detached houses in capital cities, rose 3.1%q/q in 2Q, whereas some private survey data revealed month on month declines on broader measures. The composition of the price data here will determine whether the index stays roughly level, or heads further south.

Labour price index (%q/q, 2Q) - We expect the Labour Price Index to show wage growth of 1%q/q in 2Q, indicating that supply-side constraints already are biting, very early on in the next upswing of the mining boom. Growth in public sector pay likely stabilized at an elevated level, with private sector wage growth rising to meet it as the labour market continues to tighten. The transmission from wage inflation to the goods market is being closely watched by RBA officials, who have noted that wages have moderated by less than officials had earlier expected.

New Zealand

PPI (%q/q, 2Q) - Given the slack accumulated during New Zealand's long recession, and the slow grinding recovery thereafter, there has been a broad absence of inflation pressures in the data. In 2Q, import, petrol, and consumer price inflation all were weaker, which likely pushed producer prices at the final stage of production down 0.2%q/q.

ANZ consumer confidence (Aug.) - Consumers probably were more downbeat in August, owing to rising interest rates, heightened global uncertainties, still-soft wage growth, and slower house price growth. We suspect that the consumer confidence index fell 2.2%m/m in August to a reading of 113, marking the third straight monthly fall.

Credit card spending (%m/m, Jul.) - Card spending has been robust in recent months, which was representative of the strength in retail sales values moving into mid-year. In particular, spending on overseas cards has picked up, posting gains of over 2%m/m in both May and June. This is consistent with the message from the quarterly data released last week, which showed sales, having risen in level terms, are falling in terms of spending per head. We expect the trend in card spending to remain strong, as consumers bring forward purchases ahead of the hike to the GST in October.

Research note

Australia's federal election still too close to call

- **The August 21 election will be tight; current polling suggests government will be reelected, but only just**
- **Little policy differentiation between the major parties, except on proposed mining tax**
- **Both sides committed to delivering budget surplus by 2012-13 and curbing migration**

Australians go to the polls on August 21 to elect a federal government for the next three years. Newly installed Prime Minister Julia Gillard, whose supporters deposed former PM Kevin Rudd in late June, opportunistically called an early election, hoping voters would react favourably to the change from the unpopular Rudd. Opinion polls suggested initially that the tactic had worked, but more recent polling shows the opposition party closing the gap on the government. In fact, the latest published polls indicate that the election will end in a photo finish, with the outcome ultimately decided in two dozen or so key marginal seats.

On a two-party preferred basis (that is, after distribution of second and subsequent preferences of minor parties to Labor and the Coalition), 52% of voters favour the Labor government, leaving 48% for the Coalition. If replicated on polling day, the government probably would be reelected with a reduced majority of seats in the Lower House of Parliament, where government is decided. In the 2007 election, Labor won with 53% of the vote. Respondents to opinion polls are fickle, though, with the opposite results recorded in an identical poll a week earlier. Bookmakers, who arguably have a better track record of predicting election results than the pollsters, still favour the government being reelected, and by some distance. Indeed, the betting odds favouring the government shortened last week.

States of play

In the 2007 election, Labor won 83 of the 150 seats in the Lower House. Population redistributions, though, have notionally given Labor an extra five seats with sitting Coalition members. The Coalition now (notionally) has 59 seats, and there are three independents, each of whom is likely to be reelected. The redistribution favouring the government means the Coalition now needs to win 14 seats to seize government with the help of independents, which would require a national swing away from Labor of 2.4%.

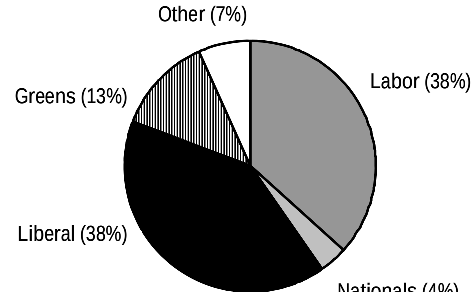
There are vast differences in voters' preferences across the six states. The government is particularly vulnerable in the mining states, Western Australia (WA) and Queensland, where Labor could lose up to 12 seats. Hostility to Labor's proposed mining tax is most acute in WA, while former PM Rudd, whose brutal political assassination bred resentment, hails from Queensland, where there is a clutch of marginal seats. The toxically unpopular state Labor government in New South Wales is a drag on Labor's vote there, but Prime Minister Gillard is popular in South Australia, where she lived as a child, and in Victoria, where she now resides. Labor probably will retain all its seats in Tasmania.

Australia's Parliament: state of the houses
Number of seats (after latest redistributions)

	Lower House	Upper House
Liberal (Coalition)	50	32
Country Liberal (Coalition)	-	1
National (Coalition)	9	4
Labor	88	32
Green	-	5
Family First	-	1
Independent	3	1
Total seats	150	76

Source: Australian Electoral Commission, Parliament

Voting intentions: all parties
Percent



Source: Newspoll

The tight polling hints the election could deliver a hung Parliament, but this is unlikely; the last time this happened in Australia was 1940. A hung Parliament would necessitate the formation of coalitions, the most likely being an alliance between the right-of-center independents and the Coalition. Labor would struggle to gain the lasting support of the independents, and the Greens probably would not have sufficient Lower House seats to be influential.

The role of the Greens

High voter dissatisfaction with the major parties means there will be a high minor party vote. Voter preference for the Greens, in particular, is at a record high, but history suggests this will cool by election day. The Greens, the largest minnow, will play a key role in the outcome of the election. Some 80% of second preferences of Green voters flowed to Labor at the last election. Essentially, the Greens drained votes from Labor, but returned them via preferences. How preferences flow at this election will be crucial. Voters can control where their preferences go, but a deal between the Greens and Labor could encourage another high flow of preferences to Labor. This could, for the first time, see a Green member elected to the Lower House.

The growing influence of the Greens, though, will be most evident in the Upper House, where they already have five Senators. Polling suggests Green members in the Senate could swell to as many as 10; they almost certainly will hold the balance of power. A reelected Labor government could find support from the Greens on key policies, including a more onerous mining tax, which the Greens favoured in its original form. The Greens would be more hostile toward a Coalition agenda, should the opposition win the election. This would result in a Coalition government facing trouble implementing its legislative agenda, even with a clear mandate from voters. The incentive then, should the Coalition win the election, would be to rush through legislation before the new Senate sits from mid-2011.

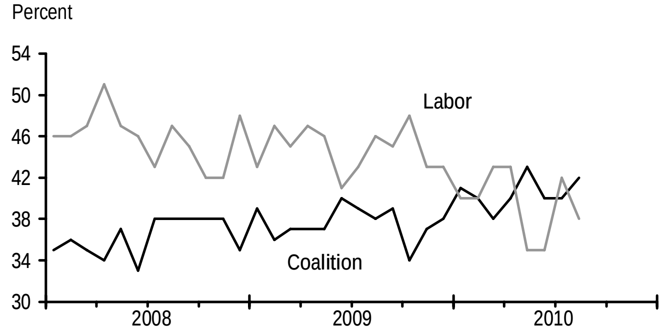
Coalition easily leading in “spendathon”

As is usual during an election campaign, both parties have announced considerable new spending initiatives. The Coalition, with spending on promises already worth more than A$20 billion, has by some distance “out-spent” the government’s promised A$5 billion. Both parties have pledged to match new spending with savings elsewhere, so that the impact on the Budget is minimal. Predictably, health and education, both of which are potential election-swinging issues, have received most attention.

The election, though, probably will be decided on voters’ preferences on four policy issues: the economy (including Labor’s patchy track record), climate change, immigration, and the mining tax. On the economy, the parties essentially have the same policies—returning the Budget to surplus by 2012-13, providing offsetting savings for new spending measures to maintain budget discipline, and maintaining the independence of the RBA. The direction of interest rates unexpectedly has been a “sleeper” issue in the campaign, following the RBA Board’s decision to leave the cash rate steady earlier this month. A rate hike would have damaged Labor’s chances, but the government dodged that bullet.

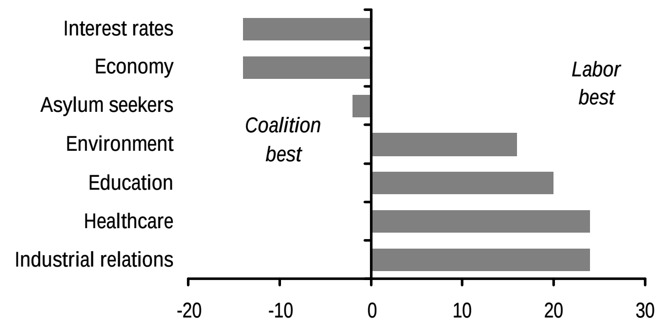
There is broad consensus across the major parties on immigration policy: both parties pledge to lower the annual intake, and both are determined to slash illegal entries. The business community is appalled at the thought of lower

Voting intentions: major parties



Source: Newspoll

Voters' perceptions, preferred party by issue, net %



Source: AC Nielsen

skilled immigration, but, for now, populism rules. On other key policy issues, though, there is differentiation. Tony Abbott, the leader of the Coalition, has pledged to abolish even the recalibrated mining tax. Labor pledges to push ahead with the reworked 30% tax on the “super” profits of mining companies from mid-2012; Labor’s original proposal was for a 40% tax.

On climate change, PM Gillard has delayed the start of an emissions trading scheme (ETS) until at least 2012. Abbott opposes an ETS and previously has dismissed arguments that humans contribute to global warming. Both parties’ indecision over how to tackle climate change explains the high implied vote for the Greens. Abbott also has pledged to cancel the government’s planned rollout of the A$35 billion National Broadband Network.

Election is anyone’s to lose

With the election on a knife edge, the outcome could depend on which leader avoids mistakes in the final week of campaigning. Thus far, Abbott has averted disaster by presenting himself as a “small target,” while Gillard has avoided land mines such as former PM Rudd’s potentially destructive appearance on the campaign trail.

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Australia

- **RBA minutes to reiterate looming inflation pressure**
- **Job gains slowed in July; jobless rate rose**
- **Housing data still in hangover mode**

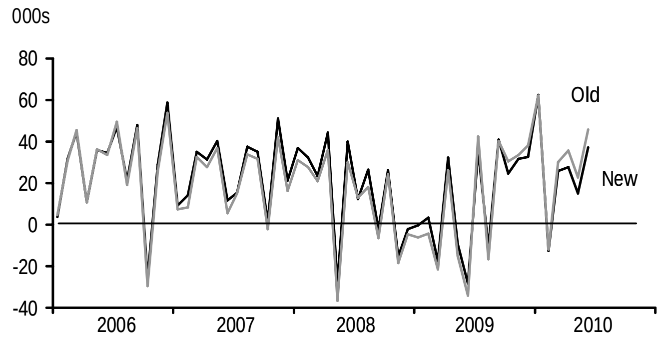
The past week in Australia was chock-full of important economic data, but the messages were mixed. Consumer confidence, for example, boomed in August, but business confidence sank in July. Similarly, employment rose strongly in July, but the June housing finance data showed an unexpectedly sharp decline in demand for new home loans. The unemployment rate climbed, yet there was another healthy rise in the number of job advertisements, which augurs well for employment in the months ahead. The uncertainty probably means that the Reserve Bank will remain sidelined for the time being, while officials also await clarity on the durability of the global cycle.

All the while, Australia's federal election campaign meanders toward polling day on August 21. Opinion polls hint that the Labor government will be re-elected with a reduced majority of seats in the Lower House of Parliament, but the opposition party remains competitive. The election probably will be very close, with the outcome determined ultimately by which leader avoids mistakes in the final week of campaigning. There is a small risk of a hung Parliament, which would necessitate prominent roles for the three independents, each of whom is likely to be re-elected. It is likely, though, that one of the major parties will gain a majority in the Lower House, with the Greens the big winners in the Upper House (see the research note "Australia's federal election still too close to call" in this *Weekly*).

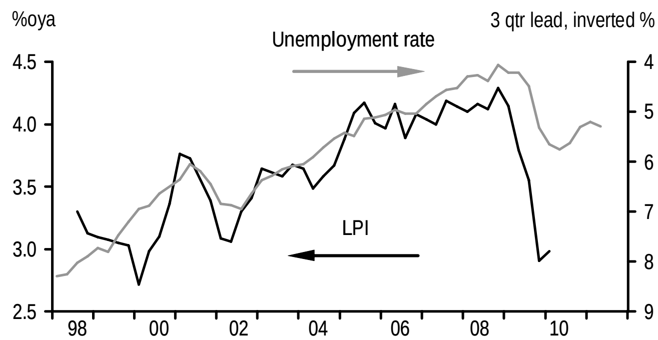
Australia's jobs numbers slightly softer

Last week's labour force numbers for July delivered the slowing in momentum that we believed was in the pipeline, with 23,500 jobs added (J.P. Morgan: 20,000; consensus: 20,000). The details were less upbeat, with an outright decline in full-time jobs (-4,000), and a rise in the unemployment rate to 5.3% from 5.1%. As hangovers go, though, this was a mild one, and the outlook for job growth remains solid for the rest of the year, given the buoyant export and investment outlook. The simultaneous rise in the unemployment rate represented a turnaround from the trend of recent months, in which a spurt of new additions to the labour force was quickly absorbed into employment. In July, the participation rate rose to 65.5% from 65.3%, representing an additional 48,000 job-seekers, which proved too much for the labour market to digest within the month.

Australia: employment change, new and old ABS estimates



Australia: labor price index and unemployment



Revisions to the ABS' population parameters mean the recent history of the participation rate also has been lifted uniformly higher. This represents a semipermanent shock that will limit the downward path of the measured unemployment rate from here. It still is a little unclear whether the implied boost to the unemployment rate going forward represents a slightly looser labour market than previously thought, or redefines the framework for unemployment in general. This means that NAIRU also would be higher, and thus the true level of slack unchanged. Australia's recent experience of surging immigration flows supports the latter conclusion, but ultimately this question will be settled by the wage data.

Labour prices to show tightening market

We expect the 2Q Labour Price Index to show wage growth of 1.0%q/q, indicating that supply-side constraints already are biting, early on in the next upswing of the mining boom. The transmission from wage inflation to the goods market is being closely watched by RBA officials, who have cited the recent strength in public sector wage growth as a concern. The elevated reading we are expecting will support our contention than the RBA's tightening cycle has significantly further to run.

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Minutes to show RBA on hold for now

On Tuesday, the Reserve Bank releases the minutes from the early August Board meeting, at which members chose to leave the cash rate steady at 4.5% for the third straight month. The decision seemed pretty straightforward at the time (market economists were unanimous that policy would be unchanged), particularly given that the 2Q CPI result, released the week before the Board meeting, had produced an unexpectedly low print. The fact that core inflation fell back within the RBA's 2%-3% target range for the first time since 2007 gave RBA officials room to breathe. Indeed, having hiked the cash rate target six times since last October, and given the long lags associated with implementing monetary policy, the previous tightening still is washing through the economy. A key theme in the minutes probably will be reference to the stimulatory impact of the terms of trade, which soared 14%q/q in 2Q alone.

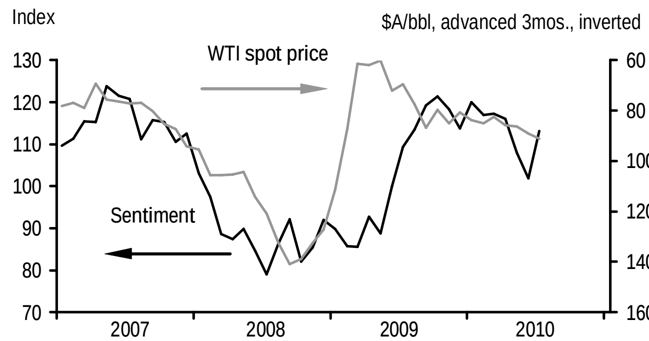
The RBA pushed up slightly the official inflation projections in the quarterly statement released the same week as the Board meeting. Officials now believe that core inflation will be heading back up to 3% by mid-2012. Our forecasts are even less benign, implying that inflation will head back above target during 2011. Indeed, the economy already is operating at close to full employment, a fact supported by yet another healthy gain in employment last week. This means that the policy pause earlier this month probably will not extend into 2011. We expect a further 25bp rate hike in November, followed by four further quarter-point hikes in 2011.

Consumers refreshed by RBA pauses

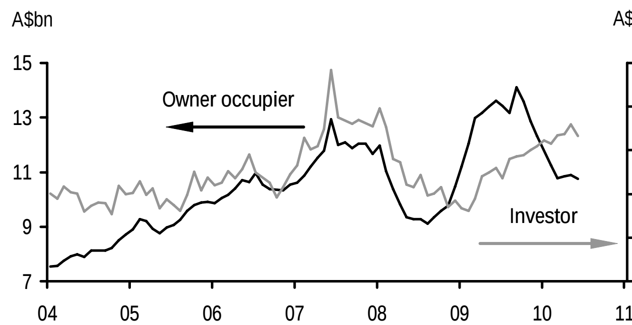
If Australian consumers practice what they preach, we can expect retail sales to gather steam in coming months. The solid 5.4%m/m rise in the Westpac-MI consumer confidence index for August was a particularly firm result given there was plenty of potential for payback this month, with July's increase of 11.1% marking the largest rise in 13 months. Uncertainy over the outcome of the federal election, for example, could have weighed on sentiment.

Instead, conditions were ripe for consumers in early August: the RBA remained on hold for the third month in a row, AUD strengthened over the month, equities rallied, the release of the June labour market report had shown a further 46,000 jobs were gained (subsequently revised down), and the resolution of the mining tax impasse likely continued to pay "certainty dividends."

Australia: consumer sentiment and crude oil price



Australia: housing finance



Overwhelmingly, though, the RBA's pause in early August was the most influential factor for last week's strong result. The outlook for consumption therefore hangs on whether, and how quickly, the RBA responds to households' gathering momentum, which can be seen in the details of the confidence report. The proportion of consumers stating that "now is a good time to buy major household items" posted a 3.5%m/m increase, and is now at a two-year high. On the other hand, confidence in family finances one year ahead pushed up 6.1%m/m, while the outlook for the economy one year ahead rose 8.6%. Consumers, it seems, plan to boost spending, but the fact that they upgraded their assessment of the economy beyond that for their own finances suggests they remain somewhat wary in anticipation of further monetary tightening.

Home loans still on the downward trend

The number of homes loans issued fell in June, in an unfortunate, though unsurprising, return to form. Home loan commitments dropped 3.9%m/m (J.P. Morgan: -2.0%; consensus: -2.0%), having risen in May for the first time in eight months. While the withdrawal of grant-sensitive buyers, following the expiration of the expanded First-Home Buyers' (FHBs') grant, likely has run its course, there remain significant drags on loan demand.

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FHB representation is still languishing near five-year lows and, while further downside is limited, we do not see a comeback in the pipeline. The absence of stimulus support, and the likelihood of rising interest rates, means the deck is stacked firmly against this sector. With investors currently accounting for 35.3% of total loans issued by value, a recovery in housing finance rests disproportionately on this group taking up the slack from FHBs. However, the softening price trend evidenced in private monthly surveys now is beginning to depress investor participation, too. Admittedly, there is some upside potential coming in the July and August numbers, with the RBA holding fire, though that fact will be counterbalanced by growing uncertainty around financial markets and the global economy, meaning households likely will remain hesitant to borrow.

Data releases and forecasts

Week of August 9 - 13

Mon
Aug 16
11:30am

Sales of new motor vehicles

Units, sa

	Apr	May	Jun	Jul
%m/m	8.6	-3.9	-1.2	2.0
%oya	29.2	16.5	8.2	18.4

Industry data suggest sales volumes ticked up over the month, probably buoyed by discounting moving into the new financial year.

Wed
Aug 18
10:30am

WMI leading index

Sa

	Mar	Apr	May	Jun
%m/m	0.9	0.0	0.2	__

Wed
Aug 18
11:30am

Labour price index

Seasonally adjusted

	3Q09	4Q09	1Q10	2Q10
%q/q	0.7	0.6	0.9	1.0
%oya	3.6	2.9	3.0	3.2

Review of past week's data

ANZ job advertisements

	May		Jun		Jul	
(%m/m,sa)	2.7		~~2.7~~	*2.8*	~~0.8~~	*1.3*

Housing finance approvals: owner occupiers

Number of loans, seasonally adjusted

	Apr		May		Jun	
(%m/m)	~~-1.5~~	*-1.9*	~~1.9~~	*3.0*	~~-2.0~~	*-3.9*
(%oya)	~~-25.0~~	*-26.3*	~~-24.4~~	*-25.0*	~~-26.2~~	*-28.6*

NAB monthly business survey

% balance, seasonally adjusted

	May		Jun		Jul	
Business confidence	5		4		__	*2*

WMI consumer confidence survey

100=neutral, seasonally adjusted

	Jun		Jul		Aug	
(%m/m)	-5.7		11.1		~~3.5~~	*5.4*

Labour force

Seasonally adjusted

	May		Jun		Jul	
Unemployment rate (%)	~~5.1~~	*5.2*	5.1		~~5.2~~	*5.3*
Employed (000 m/m)	~~23~~	*15*	~~46~~	*37*	~~20~~	*23*
Participation rate (%)	~~65.1~~	*65.2*	~~65.2~~	*65.3*	~~65.2~~	*65.5*

New Zealand

- **Retail sales unexpectedly bounced in 2Q**
- **Pre-GST consumption and visitors boosting volumes**
- **2Q PPI to print very soft this week**

The past week was quiet in New Zealand. The highlights were an unexpectedly large bounce in retail spending in June, and an even stronger rise in volumes terms across the June quarter. There is an element of spending being dragged forward by consumers ahead of the rise in the goods and services tax in October.

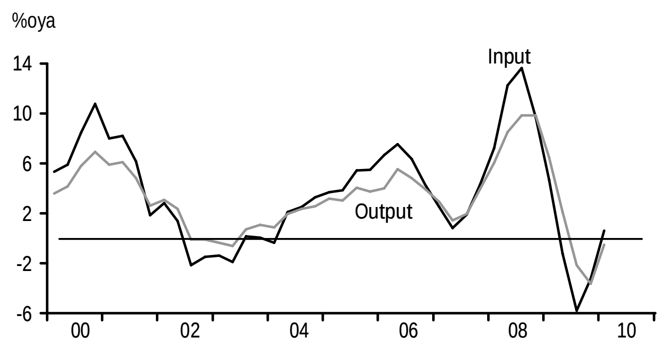
Consumer spending to boost NZ GDP

In New Zealand, the June/2Q retail sales reports showed that consumers in New Zealand brought forward demand significantly ahead of the coming Goods and Services Tax (GST) hike in October. Retail sales surged 0.9% over the month (J.P. Morgan: 0.6%, consensus: 0.5%), after rising 0.4% in May. Ex-auto sales were even stronger, rising 1.5%m/m, the largest gain in 13 months. To top it all off, retail volumes boomed, posting a 1.3%q/q gain which, given the strength of sales values, was only partially explained by firms' discounting of stock. Indeed, in the monthly data, sales were strong in all sectors in which consumption can reasonably be substituted over time, eg household equipment, recreational goods etc as opposed to fresh produce and sales at cafes and restaurants.

Last week's data is very much growth positive, and will result in a significant contribution to 2Q GDP. But the boost from the looming GST hike is largely synthetic, and obscures the fundamental picture of Kiwi households. Much hangs on how the global economy negotiates the downshift in growth momentum over the remainder of the year. New Zealand's post-GST hangover should arrive in 4Q, at which point the economy could find itself at a particularly difficult juncture. Policymakers have been open in their desire that households realign their spending patterns and consolidate balance sheets, which have historically been too leveraged to housing debt. The concern is that the consumer must take the back seat in driving growth at a time when the risks to trading partner growth, and hence the export outlook, appear to be mounting. For the RBNZ this period is too far down the path to influence immediate policy decisions—we expect two further rate hikes this year, given that the cash rate is still at a highly stimulatory level—but the transition to the new growth model remains far from assured.

New Zealand: consumer confidence and retail sales volumes

New Zealand: PPI



Weak recovery easing supply constraints

Pipeline pressures likely were subdued in 2Q. Producer prices at the final stage of production probably fell 0.2%q/q, with import, petrol, and consumer price inflation all weaker over the quarter. The benign trajectory of producer prices reflects the slow grind of the recovery so far. The labour market data, for example, have swung wildly, but likely are simply oscillating around mediocre outcomes on a gradually improving trend. Consumption similarly is subdued (some drag-forward pre-GST-hike notwithstanding), and households are poised for a period of consolidation after a heady debt-laden few years. Inflation pressures are therefore weak, which should be evidenced in this week's PPI report. The data of course have limited implications for the goods market outlook, given that we already have the 2Q CPI number in hand.

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Data releases and forecasts

Week of August 9 - 13

Thu Aug 19 8:45am

Producer price index

Nsa

	3Q09	4Q09	1Q10	2Q10
Inputs (%q/q)	-1.1	0.4	1.3	-0.1
Outputs (%q/q)	-1.4	-0.1	1.8	-0.2

Fri Aug 20 10:45am

Visitor arrivals

Nsa

	Apr	May	Jun	Jul
Total (%m/m)	-1.6	1.1	0.3	__

Fri Aug 20 10:45am

Net permanent immigration

Non-seasonally adjusted

	Apr	May	Jun	Jul
Monthly (000s)	-0.6	0.3	-0.7	__
12-month sum (000s)	20.0	18.0	16.5	__

Fri Aug 20 3:00pm

Credit card spending

% change

	Apr	May	Jun	Jul
%oya	0.8	3.4	4.5	__

Review of past week's data

QVNZ house prices

%, median

	May		Jun		Jul	
(%oya)	5.6		5.2		__	*4.1*

Business PMI

	May		Jun		Jul	
Index, sa	~~54.4~~	*54.3*	~~56.2~~	*55.9*	__	*49.9*
(%oya, sa)	23.5		20.1		__	*0.8*

Retail trade

	Apr	May	Jun	
(%m/m,sa)	-0.3	0.4	~~0.5~~	*0.9*
(%oya,sa)	2.4	2.3	~~2.8~~	*3.2*

Retail trade ex. inflation

	4Q09	1Q10	2Q10	
(%q/q,sa)	0.9	0.2	~~0.2~~	*1.3*

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Global Essay

- **Continued signs of slowing global growth momentum led by US and China**
- **Rising claims, soft consumers increase risk of subpar US growth**
- **The Fed acts and BoJ talks but uncertainty about monetary tools runs high**

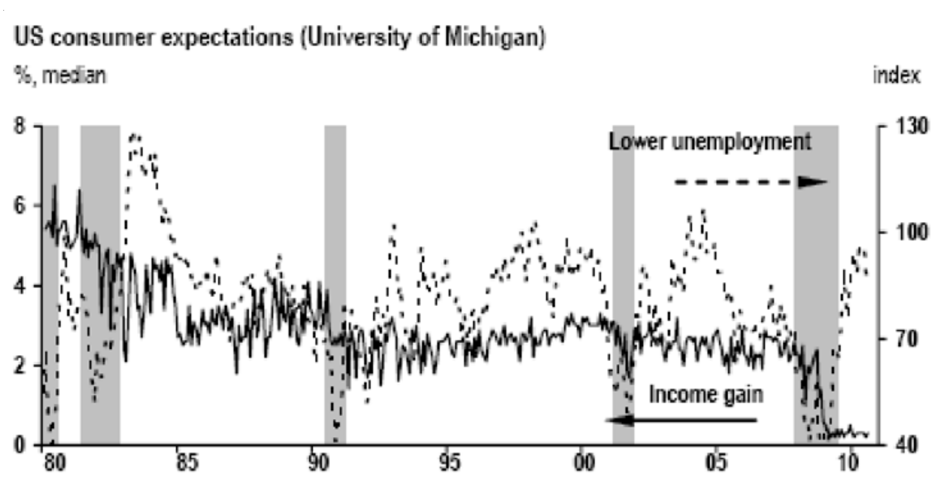
Quantitative teasing

At the start of last quarter, financial stress arose from the combination of sovereign credit concerns and weak economic performance in Europe, placing the region on the brink of an existential crisis. Since that time the tables have turned dramatically. This is partly because European policymakers effectively stemmed a brewing funding crisis for its banks and sovereigns. However, there has also been a dramatic swing in relative growth momentum. Last week's releases underscore this shift as the Euro area economy recorded a 3.9% (q/q saar) GDP gain in 2Q10—fueled by a German bounce (9%) that represents the country's strongest quarterly performance since re-unification. This outcome stands in striking contrast to last quarter's China downshift (7.2%) and US data pointing to 2Q growth at less than a 1.5% pace.

These outcomes do not accurately reflect relative positions one year into the global expansion. China is in the midst of an inventory correction that appears close to ending. The US was weighed down last quarter by a surge in import volumes that produced a net trade drag on growth amounting to three percentage points. In contrast, trade and inventories likely added significantly to Euro area growth. This gap in trade and inventory contributions will unwind as it likely reflects the Euro area's position as a laggard in the global expansion.With Europe likely set to follow the lead set by the US and China, the more important news is the moderation continuing into the current quarter in both countries. In China, growth appears to be tracking our forecast of a roughly 8% gain; this quarter's growth will come on the back of a rising trade surplus due to weak import growth. Looking at the domestic economy, there is further moderation in the pace of investment spending and industrial production growth. In the US, the hard data flow for July points to sluggish growth (tracking modestly lower than our forecast of 2.5%) weighed down by soft consumer spending.

Growth momentum waxes and wanes through an expansion, and an important element of the recent global growth slowdown is a normal early cycle dynamic whereby an acceleration phase in the global manufacturing sector ends. However, the latest news also raises questions about the strength of behavioural pillars supporting the expansion. Across most of the world, there is little reason to be concerned about these fundamental supports. Unfortunately, the behavioural foundations supporting the US expansion feel more fragile at this stage than we had anticipated.

- Initial jobless claims have been remarkably stable this year, hugging close to 460,000 each month. However, the latest two readings have exceeded 480,000. Two weeks do not make a trend, but a continued upward drift would push claims toward levels that would raise the specter of a double-dip recession. Even at the current four-week average of 473,000, claims are pointing to growth with minimal job gains, a message suggesting



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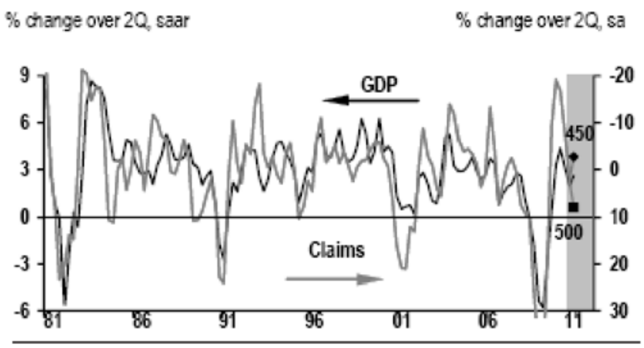
J.P.Morgan

Real GDP and initial jobless claims



Note: Chart displays outcomes for initial jobless claims at 450,000 and 500,000 in 4Q10

that the forward motion of business behavior toward expansion may be weakening.

- Retail spending trends are notoriously volatile, and the recent soft patch in US retail sales has come on the heels of strength earlier this year. However, underneath the surface there is a sense of structural pessimism emerging in consumer confidence surveys even as expectations for growth and credit conditions improve. Household surveys suggest a high level of uncertainty about the future along with depressed expectations regarding income prospects.
- The transmission of accommodative monetary policy is expected to be facing the headwinds of cautious consumer and business behaviour. But recent market movements point to a significant slide in inflation expectations—a development that could further hamper effective transmission.

It is against this backdrop that the Fed's decision to maintain the size of securities on its balance sheet should be seen. The FOMC statement reflects increased concern about the outlook and its desire to ease financial conditions. In addition, the Fed wants to bolster confidence by displaying that there are tools that can be calibrated to a changing assessment of risks. In the event, the Fed succeeded in pushing market interest rates lower last week. But the 19bp fall in 10-year bond yields gives the committee cold comfort. Much of the decline reflects weaker economic news and lower inflation expectations. This point was reinforced by a fall in equity markets and widening in credit spreads. As a result, uncertainties about the effectiveness of unconventional tools to offset economic weakness and disinflation remain quite high.

Euro area's fleeting growth bounce

After a sluggish start to the recovery, the Euro area economy has picked up significant momentum led by a turbocharged German bounce last quarter. However, the rest of the core experienced solid gains in output. Excluding Greece the periphery held up surprisingly well, with GDP gains of close to 1% ar in Spain and Portugal. Greece is being weighed down heavily by fiscal consolidation, and the economy contracted by almost 6% ar.

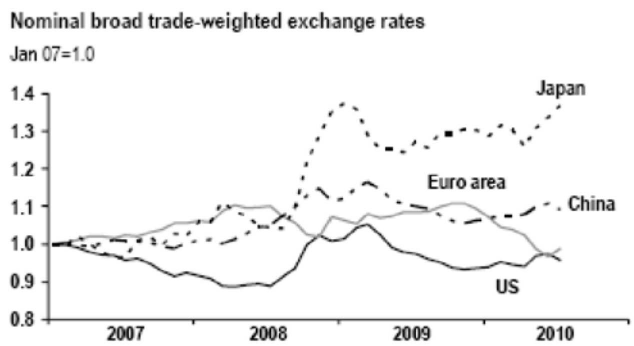
At this stage, there is very little information on the composition of regional growth. The German statistics office said that a weather-related rebound in construction and net trade were important contributors to growth. In France, where expenditure data are available, there was a modest gain in household consumption, a solid gain in business fixed investment, and an inventory contribution of 2.7%-pts ar.

Euro area growth likely is downshifting this quarter, as parts of the 2Q gain clearly were transitory—including the jump in construction in Germany and what was likely a broadbased inventory contribution across the region. Moreover, global growth is slowing and the fiscal and banking adjustments are intensifying in the periphery. That said, at this juncture the risks appear tilted to the upside of our 2% growth forecast as July surveys showed that the economy's underlying momentum was maintained early in the third quarter.

As growth moderates in the coming months attention is likely to focus again on the issue of debt sustainability in the periphery. So far, the news is encouraging. Fiscal performance is on or ahead of schedule, and implied official 2H GDP growth forecasts are realistic. However, Greece faces an added challenge in that the slide in the economy is raising the chances of a move into deflation. Although this would help improve Greece's competitiveness, it would add to the challenge of achieving debt sustainability.

China looks toward an 8% landing

China's July activity indicators hinted that the economy is growing at about an 8% annualized pace this quarter. Although current performance varies across sectors consumer spending remains robust. The slowdown in fixed investment and inventory accumulation continue but appear to be close to ending. Meanwhile, net trade is poised to



contribute to growth. Having dipped to near zero earlier this year, the trade surplus has soared into midyear and is likely to be double the 2Q average in the current quarter. Exports have slipped in recent months, but imports are falling faster, mostly due to the inventory adjustment.

Inflation popped back above 3%oya last month, but it likely is near the peak and remains just 1.3% excluding food. With domestic and global growth having slowed, policy is likely to turn somewhat more growth-friendly in coming months.

Japan officials voice concern about yen

Japan's economy has downshifted along with China's. This will be verified in this week's GDP report, which is expected to show the economy rose 2.3% annualized last quarter, down from 5.0% in 1Q. The growth moderation is most striking in manufacturing and export volume, each of which declined in June. Against this backdrop, Japanese officials (the MoF and BoJ) last week voiced concern about the rapid appreciation of the yen. Currency appreciation is unwelcome in most economies and it is not surprising that Japanese officials spoke out, with the yen TWI having increased about 12% in the past three months. The recent gain builds on very large increases in the past few years. Although officials clearly are reluctant to formally intervene in the FX market, they are likely to step up their verbal intervention in the face of continued yen appreciation.

Global slowing reinforcing RBA caution

Officials at Australia's Reserve Bank received more mixed signals on the economy last week. Employment rose strongly again in July and consumer confidence has rebounded. Demand for home loans, though, sank, as did a major business confidence reading. While the signals on the domestic economy are mixed, the message from offshore is clearer: momentum has been lost, including in China, the largest single destination for Australia's exports. The RBA will remain inactive on policy while the offshore uncertainty persists, and as officials await clarity on the strength of the domestic economy. That said, the forecast remains that the RBA will resume tightening in November, with further rate hikes likely in 2011. The economy still is expected to grow at a better than 3.5% pace in 2H. With little spare capacity, this will exacerbate RBA concerns about the inflation outlook.

Turkey backs away from fiscal rule

Last week Turkey's government announced it will delay the implementation of its "fiscal rule" reform, designed to enforce cuts in the budget deficit and public debt. Rigourous application of the rule was expected to facilitate Turkey's upgrade to investment grade status and enhance the attractiveness of Turkish financial assets. The decision raises concerns the government will deliver a sharp rise in spending in the run-up to next year's parliamentary elections, contravening existing budget targets. This likely would exacerbate the rise in the current account deficit and leave the country more vulnerable to the whims of external financing. Market reaction so far has been muted, reflecting the government's strong fiscal performance to date. However, uncertainty regarding the future of the fiscal rule could begin to hurt the markets if/when public spending increases and/or global risk appetite deteriorates more sharply.

Food inflation set to rise in Latin America

Global inflation has been moving downward as oil-price base effects diminish. The effect may prove short-lived in Latin America, however, where food comprises a large share of the consumer basket. The severe drought in Russia combined with a poor outlook for EU crops has pushed global wheat prices up 50% from end-June levels. There has been contagion to other agricultural prices and the aggregate J.P. Morgan agricultural price index is about 13% higher since end-June. Our commodity strategists expect wheat prices to remain elevated near term, so this will boost food inflation across Latin America in coming months. With the Latin economies expected to post continued, solid growth in 2H, the expected rise in headline inflation will sustain the drive to normalize policy interest rates across the region.

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JPMorgan View - Global Markets

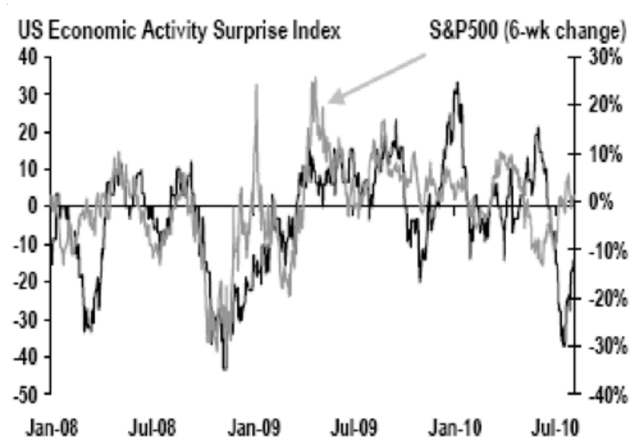
Ranging risk markets favour income, yield, and spreads

- **Economics —** Weak US retail sales and claims raise downside risks.
- **Asset allocation —** Risk markets have been in a range for almost a year. This will make investors favour income, yield, and spreads over capital gains.
- **Fixed income —** Stay long and in flatteners. MBS now offers good value.
- **Equities —** Downshift in global manufacturing and the search for yield are negative for Industrials and Cyclical sectors more broadly.
- **Credit —** Record US$22 billion issuance in US HY this week. Stay long given strong demand and strong corporate fundamentals.
- **FX —** JPY forecast to rally to all-time low of 79 versus USD by year-end.
- **Commodities —** Stay underweight in Oil and Base Metals, and overweight Agriculture.

And there we go again! A few weaker US economic data prints overwhelmed better news elsewhere and drove risky markets down again, and government bond markets up. The **disappointing economic data** are coming largely from the US, with Europe still surprising on the upside, and Asia moderating in line with our lowered forecasts. Adding it all up, this ought to be a clean neutral, if it were not that US economic data tend to lead the world, while European data tend to lag.

Two US data points stand out—a **fall in core retail sales, and higher unemployment claims**. Core retail sales are flat over the past three months, likely in response to weaker jobs growth. And that is where claims are raising warning flags. Claims are a momentum indicator, and their recent rise suggests the expansion is weakening. Our principal concern is whether businesses are reversing course and turning more defensive, which would pose a fundamental threat to the recovery. Although the relationship between job growth and claims is not tight, our model suggests that employment will stall if claims persist at the current level.

Are we on the slippery slope toward a double dip? Our economists have been arguing against a renewed contraction in the world economy, but accept that growth rates themselves are dipping down again. The issue is by how



much. Slower growth comes from the aging inventory cycle in manufacturing and dramatic fiscal tightening in developed markets, not sufficiently offset by an expansion in private demand. The forecast remains for moderation in growth, rather than a dramatic fall, but the recent US data prints are now creating a downside risk bias on forecasts.

Equities, commodities, and credit have now been effectively in a range for almost a year. Without much upside on the economy, investor interest is likely to focus even more than before on the income component of returns instead of on capital gains. This greatly **favours longer-duration bonds, carry trades, and spread product in fixed income, and high dividends, preferreds, and utilities within equities.** It favours most EM asset classes over DM, except equities, where dividend yields are similar to DM.

Moderating growth, but no new recession, and recent range trading in risk markets favour fixed income over equity risk. But surely this flies in the face of the **record-high risk premia that equities offer** over anything in the bond world. US equities now trade at only 12 times the top-down 2011 EPS consensus forecast of US$88—a real yield over 8%—while 10-year TIPS real yields stand at 1% (and the 5-year at zero). So how can one favour credit over equity risk, as we do?

There is no denying that equity risk premia versus bonds are at historic highs. Most of this is due to record-low bond yields, in turn brought on by record-easy monetary policy. High risk premia on equity are relevant to investors, but likely only for those with truly long-term investment horizons—five to 10 years out—as these risk premia mean-revert at a glacial pace. For the majority of market participants, who need to deliver in one to two quarters, we need to see evidence that investors are reacting to these high equity risk premia. That is, **we need to see the flows**.

Our weekly *Flows & Liquidity* provides detailed updates on this. In short, mutual fund investors heavily favour bonds, and corporates are not rushing out to exploit the equity/ bond pricing gap. Global equity buybacks have risen to US$8 billion per week so far this year from US$2 billion in 2009. But this is half of the US$16 billion per week seen in 2007. And M&A is tracking a US$2 trillion annualized pace so far this year, up 10% from 2009 but half of the pace seen in 2007.

Fixed income

Central banks signaled that tightening is further away than ever, pushing bonds higher. The Fed's move to reinvest prepayments on its mortgage portfolio in the Treasury market—to the tune of around US$250 billion over the next year—maintains the very easy stance of monetary policy. Further easing is clearly possible if US data continue to disappoint. Meanwhile, the Bank of England reduced its growth forecast, and continues to expect inflation to fall below target from its current elevated level. **The theme of central banks on perma-hold is strengthening, and augurs even lower yields and flatter curves.**

Euro area peripherals underperformed the core and have now reversed half of July's spread tightening. Ireland led the way, sparked by a greater focus on its troubled banking sector and impending issuance. Peripheral gov-ernment debt will remain vulnerable until budget deficits, and so heavy issuance needs, moderate. It is, however, underpinned both by strong support from the core—the ECB reportedly bought Irish debt last week—and by investor demand for carry as yields on the safest assets become ever less appealing. We stay long the periphery.

US mortgage spreads have been pushed sharply wider by a spate of rumours that the US government will introduce new measures to facilitate mortgage refinancing, perhaps as soon as this week. Refinancing has been subdued despite the low level of bond yields, partly because borrowers have been hampered by low incomes and credit scores. **We think that a government-induced refinancing wave is unlikely, and that MBS offers value at these levels** (see M. Jozoff, Agency MBS, *US FIMS*).

Equities

Weak US economic data continue to weigh on equities, preventing them from breaking out of their three-month range. The weakness can be seen in our **US Economic Activity Surprise Index** (top chart). The EASI dipped to a low of -37 in mid-July, a level last seen in the months after the Lehman bankruptcy. Despite some improvement over the past few weeks, at -20 the EASI remains very negative by historical standards. The EASI will likely need to turn positive again for equities to break out of their range. This should allow investors to start focusing on equity valuations, which have become even more compelling following the 2Q reporting season and the recent rally in bonds. But admittedly it will take time for this value to be unleashed, especially as flows continue to favour bonds over equities (see *Flows & Liquidity*, July 30).

Our strategy focuses on Overweighting EM equities and Underweighing Industrials. Flows are clearly favouring EM. Flows into EM equity funds totaled US$20 billion over the past three months. In contrast, DM equity funds saw outflows of US$40 billion over the same period. Our EM versus DM equity allocation model also favors an EM overweight, as both two-month return momentum and relative IP growth (i.e., the difference between the oya rates in EM IP versus DM IP) are supportive. See *The EM vs. Developed Markets equity allocation*, Koo and Panigirtzoglou, Apr 2009. The trade also benefits from increased deflation concerns in DM. Deflation was disastrous for Japanese equities.

Increasing worries that Europe and the US are headed the same way can induce further equity flight into EM. Industrials are trading at close to recent highs versus the rest of the equity market. The downshift in the global manufacturing sector raises downside risks for industrial and cyclical sectors more generally. This downshift is expected to last for six to 12 months. See *Gravity bites: The global manufacturing downshift has begun*, B. Kasman, July 29. **The search for yield is another headwind for cyclical sectors** as it favours Telecoms and Utilities, which offer dividend yields of 5% and 4%, respectively, well above the average 1.7% dividend yield of cyclical sectors.

Credit

Credit markets sold off last week due to a string of weak economic data. HY bonds were hit the hardest, on the back of **record issuance**. Despite HY spreads widening this week, investors continue to buy into HY bond funds, a sign of the strong demand of the asset class. The market readily absorbed the mammoth supply of US$22 billion last week, which is the highest on record and more than four times the year-to-date issuance pace. We continue to favour longs in HY although summer volatility could keep spreads volatile. In the environment of low rates and strong corporate fundamentals, HY will rally into year-end as investors seek better returns. In addition to HY, EM credits are also attracting ample investor attention. Spreads of **high-grade EM dollar corporate bonds** are significantly higher than

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US HG bonds, despite better growth prospects in EM compared to the US.

Even if EM and US corporate spreads tighten by the same magnitude, returns would be higher by holding EM corporates due to carry, making it ideal for investors seeking yield. The cumulative inflow into EM fixed income year to date has already surpassed the peak annual inflow into EM, and our strategists see continuing inflow into EM bonds for the rest of the year.

Within US HG, we recommend **overweighting Metal and Mining bonds**, which we upgraded from neutral last week. The Metal and Mining sector is currently trading 24bp wider than the overall HG index and valuation is attractive. Credit metrics are expected to continue improving as current expectations for 3Q results are considerably better than a year ago.

Foreign exchange

For the past two weeks we have positioned for selective USD weakness—versus JPY given the Fed outlook and versus EUR and CHF given a brief data decoupling between the US and Europe. The yen story has much further to run given the indefinite flow imbalance created by a Japanese trade surplus and declining US yields. **A new alltime low looks likely, so we place the base at 79 by yearend.** Commodity FX forecasts are also lowered to reflect weaker global growth into year-end.

The long EUR/USD trade is not working. We expected the strength of European data to allow the euro to rally even in the face of a weak stock market, and particularly given the Fed's easier policy stance. We've been wrong, either because we have mismeasured the extent of euro short covering or because sovereign stress is re-emerging as stocks fall. Take losses on that trade, and profits on long EUR/NZD. The overall portfolio remains defensive: long CHF vs. USD and EUR, and long JPY vs. USD and NZD.

At current levels, the most compelling **vol hedges for deflation** are through commodity currencies and Scandis (liquidity permitting) given how low vol premia have fallen. Commodity and Scandinavian currencies have proven to be by far the best vol hedges in stress episodes historically given the spike in vols that usually accompanies a spot sell-off. These currencies are also prone to sharp squeezes in rallies that keep realized vols firm and make long vol positions less painful to carry. Most of these currencies also have flat-to-inverted vol term structures in the 1-year to 3-year sector as well as steep skews, both of which serve to mitigate the bleed on options with the passage of time. We recommend adding to commodity/USD and commodity/ EUR vol spreads.

Ten-year Government bond yields

	Current	Sep 10	Dec 10	Mar 11	Jun 11
United States***	2.69	3.10	3.10	3.25	3.50
Euro area	2.39	2.30	2.45	2.60	2.75
United Kingdom	3.12	3.25	3.50	3.70	3.85
Japan	0.98	1.30	1.40	1.50	1.55
GBI-EM	6.53			7.90	

Credit markets

	Current	YTD Return
US high grade (bp over UST)	163	8.9%
Euro high grade (bp over Euro gov)	175	4.8%
USD high yield (bp vs. UST)	696	8.2%
Euro high yield (bp over Euro gov)	690	7.7%
EMBIG (bp vs. UST)	302	11.8%
EM Corporates (bp vs. UST)	347	10.6%

Foreign exchange

	Current	Sep 10	Dec 10	Mar 11	Jun 11
EUR/USD	1.28	1.25	1.25	1.25	1.25
USD/JPY	86.2	80	79	81	83
GBP/USD	1.56	1.47	1.44	1.42	1.42

Commodities - quarterly average

	Current	10Q3	10Q4	11Q1	11Q2
WTI ($/bbl)	75	77	75	75	77
Gold ($/oz)	1214	1250	1275	1250	1250
Copper($/m ton)	7230	6500	6750	6750	7000
Corn ($/Bu)	4.26	3.90	3.80	4.00	4.20

Source: J.P. Morgan, Bloomberg, Datastream
*** Under review

Commodities

Commodities sold off heavily last week, especially oil. We remain **underweight crude oil and industrial metals** due to weakening global growth. Poor US economic data are keeping us cautious on the oil outlook as we see downside risk to the demand forecasts. Moreover, the supply dynamics also seem unattractive as non-OPEC production rises and alternative fuels compete for market shares. These are likely to keep oil prices under pressure. The risk of underweighting oil is a hurricane disrupting oil supply. However, we recommend taking any price spikes to add risk on short oil positions.

The rally in agriculture continued this week and we remain overweight. In addition to the Russian droughts and export bans, the flooding in China is now threatening food supply, especially for grains. The flooding has affected agricultural production, destroying crops and interrupting transportation. Coupled with upside risks in demand forecasts, we stay long agriculture.

AUD and NZD Commentary

- **We recommend NZD/JPY shorts to benefit from persistent G-3 deflation concerns.**

- **Short term corrections for AUD/USD and NZD/USD underway; approaching key initial support levels which should define the extent of the potential decline.**

- The FOMC's decision to roll maturing and prepaying MSB over into US Treasuries, has once again left markets preoccupied with the downside to global growth and the risk of eventual deflation across the G-3. Deflation concerns likely will persist for some time despite a relatively firm US CPI print and a ballistic German GDP report last week. US growth is tracking sub-trend, with claims data signaling a stall in jobs creation, Europe exhibits little momentum outside Germany and the core, and Japan is unwilling to counter a near record-weak USD/JPY.

- Deflation's currency impact is straightforward for most pairs: it favours funding currencies (JPY, CHF) and exposes commodity FX to a terms of trade declines. We remain most bearish on NZD among the commodity currencies and continue to recommend short NZD positions versus JPY to capitalize on the market's deflation worries, but we have liquidated our EUR/NZD long at a 0.2% profit in view of last week's EUR recoupling with risk. FX-equities correlations have tightened in recent weeks, suggesting that equity price declines fueled by growth disappointments and deflation jitters will hit the high-beta FX, with NZD the second most vulnerable of the group (Chart 1).

- Moreover, Chart 2 highlights NZD's position as the commodity currency with the weakest cyclical fundamentals: The unemployment rate remains about 2 percentage points above its 10-year average, highlighting the possibility that the RBNZ may fall behind market tightening expectations as high unemployment continues to weigh down wages and labour costs. And, New Zealand's terms of trade boost from rising commodity prices also has started to reverse.

Technical analysis

- A short term corrective phase is underway for both AUD/USD and NZD/USD following the test and reversal from key resistance levels over the past week. Note that AUD/USD failed at the key .9200/.9275 resistance zone which includes the June channel high amid an overbought and diverging momentum setup. While the momentum setup has improved (now oversold), the key test enters at the .8905/.8870 support area. This is represented by the late-July low and the important breakout zone from mid-July and should hold to argue for a return back to the recent highs. However, breaks would confirm the onset of a deeper corrective phase with risk into .8650/.8570.

- Similarly, NZD/USD failed to extend above the key .7400/.7445 resistance zone leading to the current retracement. Note this area represents the 76.4% retracement of the fall from the Oct. peak, as well as the Jan. high and should continue to act as a short term cap. Violations of the .7030/.6980 support area would suggest an increased risk of a deeper corrective phase with potential for a test of the important .6800 area.

Chart 1: FX-equity correlations have risen
Correlation between daily percent changes in S&P500 and currencies vs USD

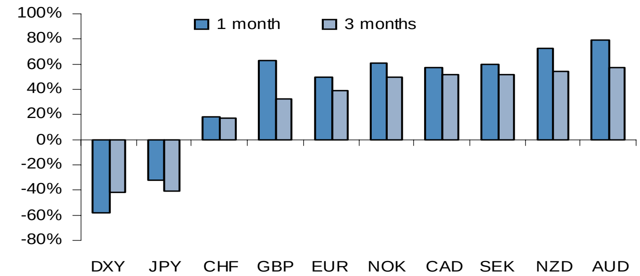
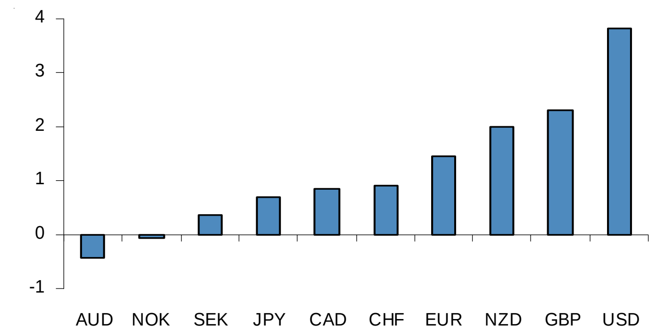


Chart 2: High unemployment rate could keep the RBNZ at bay.
Unemployment rate: Current minus 10Y average



AUD/USD - Daily chart

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Global Economic Outlook Summary

	Real GDP % over a year ago			Real GDP % over previous period, saar							Consumer prices % over a year ago			
	2009	2010	2011	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	1Q10	2Q10	4Q10	2Q11
The Americas														
United States	-2.6	3.0	2.7	3.7	2.4	2.5	3.0	2.5	2.5	3.0	2.4	1.8	**1.0 ↑**	**1.3 ↑**
Canada	-2.5	3.4	2.7	6.1	2.6	3.2	3.2	2.7	2.0	2.4	1.6	1.4	1.7	1.9
Latin America	-2.9	5.4	3.8	4.2	4.0	3.3	4.0	4.2	5.2	2.0	6.0	6.5	7.0	6.9
Argentina	-2.0	8.5	4.5	12.5	13.0	4.0	4.0	2.0	4.0	8.0	9.0	9.0	10.0	11.0
Brazil	-0.2	7.5	4.0	11.4	2.6	6.2	3.3	3.8	4.2	4.1	4.9	5.1	5.3	5.4
Colombia	0.8	4.5	4.1	5.3	4.8	3.7	4.0	4.0	4.1	5.0	2.0	2.1	2.8	3.3
Ecuador	0.4	2.0	3.0	1.3	3.5	4.0	4.5	3.0	2.5	2.5	4.0	3.3	3.9	4.1
Mexico	-6.5	4.5	3.5	-1.4	3.2	-1.8	4.2	5.7	7.9	-2.3	4.8	4.4	5.1	4.5
Peru	0.9	7.3	6.0	7.3	9.5	4.0	4.5	6.0	6.7	7.2	0.7	1.2	2.6	2.2
Venezuela	-3.3	-4.0	1.0	-5.6	-5.0	5.0	1.0	1.0	1.0	1.5	27.4	32.1	32.1	32.1
Asia/Pacific														
Japan	-5.3	3.3	1.8	5.0	2.3	1.8	1.6	1.5	2.2	1.8	-1.2	-0.9	-0.7	0.1
Australia	1.3	2.7	3.2	2.0	1.9	3.3	3.8	2.7	3.2	4.0	2.9	3.5	3.8	4.1
New Zealand	-1.7	2.5	2.7	2.3	3.5	2.3	1.9	2.7	3.4	3.2	2.0	1.8	4.9	5.6
Asia ex Japan	4.8	8.6	6.9	10.7	**6.7 ↑**	**5.8 ↑**	6.5	**7.2 ↓**	7.1	7.1	4.3	4.5	4.4	**4.0 ↓**
China	9.1	10.0	8.8	10.8	7.2	8.2	8.6	9.5	9.1	8.7	2.2	2.9	2.8	2.7
Hong Kong	-2.8	6.8	**4.3 ↑**	8.7	**5.7 ↑**	4.0	3.8	4.2	4.3	4.7	1.9	2.6	2.5	2.2
India	7.4	8.3	8.5	9.2	8.1	8.0	8.9	8.0	8.5	8.6	15.3	13.6	11.8	10.1
Indonesia	4.5	6.0	5.4	3.0	7.5	4.5	5.0	5.3	5.2	5.0	3.7	4.4	5.8	5.5
Korea	0.2	6.1	4.0	8.8	6.0	2.5	3.8	4.0	4.0	4.5	2.7	2.6	3.2	3.5
Malaysia	-1.7	7.2	4.6	5.0	5.0	4.0	4.0	4.9	4.9	4.5	1.3	1.6	2.4	2.4
Philippines	1.1	6.8	4.3	12.9	3.6	4.9	4.0	4.5	4.5	4.5	4.3	4.2	5.2	4.9
Singapore	-1.3	**15.5 ↑**	**4.5 ↓**	**45.7 ↓**	**24.0 ↑**	**-8.5 ↑**	0.0	**6.1 ↓**	6.6	**8.2 ↓**	0.9	**3.1 ↓**	**3.0 ↓**	**1.7 ↓**
Taiwan	-1.9	8.8	4.2	11.3	2.0	3.0	3.5	4.2	4.6	5.5	1.3	1.1	2.0	1.8
Thailand	-2.2	8.5	5.0	16.0	-2.0	2.8	2.8	6.0	5.5	4.0	3.7	5.5	4.4	3.0
Africa/Middle East														
Israel	0.7	3.0	4.5	3.3	3.5	3.0	3.0	4.0	5.0	5.5	3.5	3.0	3.0	3.2
South Africa	-1.8	3.0	3.5	4.6	3.9	2.8	3.4	3.7	3.1	3.6	5.7	4.5	4.7	4.9
Europe														
Euro area	-4.1	**1.5 ↑**	**1.5 ↑**	0.8	**3.9 ↑**	2.0	1.0	1.0	1.0	1.8	1.1	1.5	1.5	0.9
Germany	**-4.7 ↑**	**3.3 ↑**	**2.4 ↑**	**1.9 ↑**	**9.0 ↑**	3.0	2.0	2.0	1.5	2.0	0.8	1.0	1.2	0.9
France	-2.5	1.6	1.4	**0.7 ↑**	2.5	2.0	1.5	1.0	1.0	1.5	1.5	1.8	1.3	0.6
Italy	-5.1	1.1	1.3	1.6	1.5	2.0	1.0	1.0	1.0	1.5	1.3	1.6	1.5	1.1
Norway	-1.5	1.6	2.4	0.6	2.0	3.0	2.8	2.0	2.0	2.5	2.9	2.5	1.3	1.0
Sweden	-5.1	3.8	2.7	6.2	4.7	3.5	2.8	2.3	2.3	2.8	1.0	1.0	2.3	2.4
Switzerland	-1.5	2.3	2.5	1.6	2.8	2.5	2.3	2.3	2.5	2.8	1.1	1.1	0.9	0.6
United Kingdom	-4.9	1.6	2.6	1.3	4.5	2.5	2.5	2.0	2.5	3.0	3.3	3.5	2.5	1.7
Emerging Europe	-4.9	3.9	4.3	**2.6 ↑**	**4.0 ↓**	3.1	3.3	3.6	4.0	4.1	6.1	**5.4 ↓**	5.7	5.6
Bulgaria	-5.0	-0.5	4.0	...	...	...	...	...	...	...	...	...	...	...
Czech Republic	-4.1	2.0	3.2	2.0	**3.2 ↑**	2.5	2.3	2.5	3.0	5.0	0.7	**1.2 ↓**	2.8	2.7
Hungary	-6.3	1.0	3.0	**2.4 ↓**	**0.0 ↓**	2.0	2.0	2.0	3.0	3.5	6.0	5.4	4.6	3.7
Poland	1.8	3.5	3.8	2.0	4.0	3.5	3.5	3.0	3.5	4.0	3.0	2.3	2.6	2.6
Romania	-7.1	-2.0	1.5	...	...	...	...	...	...	...	4.6	4.4	8.0	7.2
Russia	-7.9	5.0	5.0	**3.4 ↑**	**5.9 ↓**	4.0	4.5	5.0	5.0	4.5	7.2	5.9	6.6	7.0
Turkey	-4.7	5.9	5.0	...	...	...	...	...	...	...	9.3	9.3	7.5	6.7
Global	-2.6	3.4	2.9	3.9	**3.5 ↑**	2.8	2.8	2.7	2.8	3.0	2.2	2.2	1.9	1.9
Developed markets	-3.5	2.5	2.2	2.9	**3.0 ↑**	2.3	2.2	1.9	2.0	2.5	1.5	1.4	**1.1 ↑**	**1.1 ↑**
Emerging markets	1.1	**6.9 ↑**	5.6	**7.5 ↑**	**5.5 ↓**	4.6	5.2	**5.7 ↓**	6.0	**5.2 ↓**	5.1	5.1	5.2	4.9
Memo:														
Global — PPP weighted	-0.8	4.6	4.0	5.2	4.3	3.7	3.9	3.9	4.0	4.1	3.3	3.3	3.1	**3.0 ↑**

Note: For some emerging economies, 2010-2011 quarterly forecasts are not available and/or seasonally adjusted GDP data are estimated by J.P. Morgan.
Bold denotes changes from last edition of *Global Data Watch*, with arrows showing the direction of changes. Underline indicates beginning of J.P. Morgan forecasts.

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Global Central Bank Watch

	Official interest rate	Current	Change from Aug '07 (bp)	Last change	Next meeting	Forecast next change	Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
Global	GDP-weighted average	1.37	-329				1.39	1.44	1.49	1.57	1.62
excluding US	GDP-weighted average	1.96	-240				1.99	2.06	2.13	2.25	2.33
Developed	GDP-weighted average	0.54	-357				0.55	0.57	0.60	0.64	0.67
Emerging	GDP-weighted average	4.70	-216				4.75	4.89	5.04	5.28	5.43
Latin America	GDP-weighted average	6.60	-233				6.65	6.73	7.15	7.64	7.71
CEEMEA	GDP-weighted average	4.07	-279				4.09	4.11	4.13	4.37	4.86
EM Asia	GDP-weighted average	4.23	-187				4.29	4.50	4.59	4.74	4.78
The Americas	GDP-weighted average	0.88	-471				0.90	0.94	1.02	1.11	1.11
United States	Federal funds rate	0.125	-512.5	16 Dec 08 (-87.5bp)	21 Sep 10	**On hold**	0.125	0.125	0.125	0.125	0.125
Canada	Overnight funding rate	0.75	-350	20 Jul 10 (+25bp)	8 Sep 10	8 Sep 10 (+25bp)	1.00	1.50	2.00	2.50	2.50
Brazil	SELIC overnight rate	10.75	-125	21 Jul 10 (+50bp)	1 Sep 10	Jan 11 (+25bp)	10.75	10.75	11.50	12.50	12.50
Mexico	Repo rate	4.50	-270	17 Jul 09 (-25bp)	20 Aug 10	4Q 11 (+25bp)	4.50	4.50	4.50	4.50	4.50
Colombia	Repo rate	3.00	-600	30 Apr 10 (-50bp)	20 Aug 10	1Q 11 (+50bp)	3.00	3.00	4.00	5.00	5.50
Peru	Reference rate	2.50	-200	5 Aug 10 (+50bp)	9 Sep 10	9 Sep 10 (+50bp)	3.00	4.00	4.50	4.50	4.50
Europe/Africa	GDP-weighted average	1.28	-324				1.29	1.30	1.31	1.39	1.51
Euro area	Refi rate	1.00	-300	7 May 09 (-25bp)	2 Sep 10	On hold	1.00	1.00	1.00	1.00	1.00
United Kingdom	Repo rate	0.50	-500	5 Mar 09 (-50bp)	9 Sep 10	May 11 (+25bp)	0.50	0.50	0.50	0.75	1.00
Sweden	Repo rate	0.50	-300	1 Jul 10 (+25bp)	2 Sep 10	2 Sep 10 (+25bp)	0.75	0.75	0.75	1.00	1.25
Norway	Deposit rate	2.00	-250	5 May 10 (+25bp)	22 Sep 10	2Q 11 (+25bp)	2.00	2.00	2.00	2.25	2.50
Czech Republic	2-week repo rate	0.75	-200	6 May 10 (-25bp)	23 Sep 10	2Q 11 (+25bp)	0.75	0.75	0.75	1.00	1.25
Hungary	2-week deposit rate	5.25	-250	26 Apr 10 (-25bp)	23 Aug 10	3Q 11 (+25bp)	5.25	5.25	5.25	5.25	5.50
Israel	Base rate	1.75	-225	26 Jul 10 (+25bp)	23 Aug 10	27 Sep 10 (+25bp)	2.00	2.25	2.50	2.75	3.25
Poland	7-day intervention rate	3.50	-100	24 Jun 09 (-25bp)	24 Aug 10	2Q 11 (+25bp)	3.50	3.50	3.50	3.75	4.00
Romania	Base rate	6.25	-75	4 May 10 (-25bp)	29 Sep 10	3Q 11 (+25bp)	6.25	6.25	6.25	6.25	6.50
Russia	1-week deposit rate	2.75	-25	31 May 10 (-50bp)	Aug 10	2Q 11 (+25bp)	2.75	2.75	2.75	3.25	3.75
South Africa	Repo rate	6.50	-300	25 Mar 10 (-50bp)	9 Sep 10	4Q 11 (+50bp)	6.50	6.50	6.50	6.50	6.50
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	16 Sep 10	16 Dec 10 (+25bp)	0.25	0.50	0.75	1.00	1.25
Turkey	1-week repo rate	7.00	-1050	-	19 Aug 10	Jul 11 (+50bp)	7.00	7.00	7.00	7.00	8.25
Asia/Pacific	GDP-weighted average	2.24	-120				2.27	2.38	2.45	2.53	2.57
Australia	Cash rate	4.50	-175	4 May 10 (+25bp)	7 Sep 10	Nov 10 (+25bp)	4.50	4.75	5.00	5.25	5.50
New Zealand	Cash rate	3.00	-500	29 Jul 10 (+25bp)	15 Sep 10	15 Sep 10 (+25bp)	3.25	3.50	4.00	4.25	4.50
Japan	Overnight call rate	0.10	-43	19 Dec 08 (-20bp)	6 Sep 10	On hold	0.10	0.10	0.10	0.10	0.10
Hong Kong	Discount window base	0.50	-625	17 Dec 08 (-100bp)	22 Sep 10	**On hold**	0.50	0.50	0.50	0.50	0.50
China	1-year working capital	5.31	-126	22 Dec 08 (-27bp)	3Q 10	4Q 10 (+27bp)	5.31	5.58	5.58	5.85	5.85
Korea	Base rate	2.25	-225	9 Jul 10 (+25bp)	8 Sep 10	4Q 10 (+25bp)	2.25	2.50	2.75	2.75	2.75
Indonesia	BI rate	6.50	-200	5 Aug 09 (-25bp)	3 Sep 10	2Q 11 (+25bp)	6.50	6.50	6.50	6.75	6.75
India	Repo rate	5.75	-200	27 Jul 10 (+25bp)	16 Sep 10	16 Sep 10 (+25bp)	6.00	6.25	6.50	6.50	6.75
Malaysia	Overnight policy rate	2.75	-75	8 Jul 10 (+25bp)	2 Sep 10	On hold	2.75	2.75	2.75	2.75	2.75
Philippines	Reverse repo rate	4.00	-350	9 Jul 09 (-25bp)	26 Aug 10	1Q 11 (+25bp)	4.00	4.00	4.25	4.75	5.00
Thailand	1-day repo rate	1.50	-175	14 Jul 10 (+25bp)	25 Aug 10	25 Aug 10 (+25bp)	1.75	2.00	2.00	2.00	2.00
Taiwan	Official discount rate	1.375	-175	24 Jun 10 (+12.5bp)	3Q 10	3Q 10 (+12.5bp)	1.500	1.625	1.750	1.875	1.875

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

Economic forecasts - Australia

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

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Chain volume GDP	1.3	2.7	3.2	3.4	1.1	4.5	2.0	1.9	3.3	3.8	2.7	3.2	4.0	2.8
Private consumption	1.6	2.0	2.0	5.1	1.3	3.6	2.3	0.8	0.4	1.6	2.8	2.4	2.4	2.0
Construction investment	-0.5	1.5	6.0	-2.8	2.6	1.1	-3.3	4.7	6.2	6.4	5.5	5.0	7.9	7.8
Equipment investment	-3.4	6.9	9.5	0.1	-13.1	46.8	-20.9	27.3	12.9	17.5	5.1	3.4	6.4	8.6
Public investment	4.9	32.1	9.3	13.5	43.6	49.7	55.4	14.2	10.0	10.6	6.8	11.2	6.8	9.6
Government consumption	2.8	3.6	1.7	3.4	5.4	7.5	3.3	0.1	3.9	0.2	0.1	3.7	3.7	0.4
Exports of goods & services	1.4	1.7	2.7	8.4	-6.5	8.3	-2.0	3.2	2.4	2.8	2.0	2.8	3.2	4.1
Imports of goods & services	-7.8	10.9	4.1	3.5	18.0	36.6	7.3	0.0	3.2	3.2	4.1	6.1	3.2	8.2
Contributions to GDP growth:														
Inventories	-0.5	-0.9	-0.6	0.9	2.9	0.7	0.7	-8.1	0.0	-0.1	-0.2	0.1	-0.2	-0.1
Net trade	2.0	-1.9	-0.4	0.9	-4.6	-5.0	-2.0	0.6	-0.2	-0.2	-0.5	-0.8	-0.1	-1.0
GDP deflator (%oya)	0.2	3.1	2.4	0.1	-2.1	-1.5	1.4	4.1	3.7	3.2	2.2	2.4	2.5	2.5
Consumer prices (%oya)	1.8	3.1	3.6	1.5	1.3	2.1	2.9	3.1	3.0	3.3	3.5	3.8	3.6	3.4
Producer prices (%oya)	-5.4	1.6	3.5	-6.4	-7.2	-6.8	-0.2	1.4	1.1	4.0	2.5	3.5	4.0	4.0
Trade balance (A$ bil, sa)	-6.8	-18.7	-21.4	-0.9	-4.1	-5.0	-4.0	-4.7	-5.0	-5.0	-5.1	-5.2	-5.1	-6.0
Current account (A$ bil, sa)	-51.4	-35.7	-28.8	-12.7	-13.8	-18.5	-16.6	-7.6	-4.9	-6.7	-7.1	-7.0	-7.0	-7.7
as % of GDP	-4.1	-2.7	-2.0	-4.1	-4.4	-5.8	-5.1	-2.3	-1.5	-2.0	-2.1	-2.0	-2.0	-2.2
3m eurodeposit rate (%)*	6.0	4.7	5.6	3.5	3.4	4.1	4.3	4.8	4.8	5.1	5.4	5.6	5.6	5.7
10-year bond yield (%)*	5.6	5.7	6.3	5.5	5.1	5.8	5.6	5.5	5.9	6.1	6.2	6.3	6.4	6.4
US$/A$*	0.75	0.88	0.90	0.82	0.88	0.91	0.94	0.84	0.88	0.86	0.88	0.92	0.90	0.89
Commonwealth budget (FY, A$ bil)	-27.0	-51.0	-32.0											
as % of GDP	-2.1	-3.8	-2.3											
Unemployment rate	5.6	5.3	5.2	5.7	5.8	5.6	5.3	5.3	5.4	5.3	5.3	5.2	5.1	5.0
Industrial production	-7.9	3.3	1.5	4.8	-4.2	22.1	0.2	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** emerged from the global downturn largely unscathed. That said, we recently lowered expected GDP growth following our colleagues' growth downgrades for the US and China.
- **Business investment** probably will rise close to 20% in 2010-11, with mining leading the way, particularly with the mining tax roadblock being "dismantled".
- 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.
- **Consumer confidence** deteriorated sharply earlier this year as mortgage rates rose, but the index rebounded in July, and rose again in August. Optimists easily outnumber pessimists.
- **Export volumes** have held up owing mainly to firm demand from China, and the terms of trade has bounced thanks mainly to higher bulk commodity prices.
- The **RBA** hiked the cash rate six times between October and May, but then paused. The Bank will likely remain on the sidelines until November. We expect four further rate hikes throughout 2011.
- Newly-installed Prime Minister Julia Gillard called an August 21 **election**. The latest opinion polls suggest the election will be close, but that the government will be reelected.

Economic forecasts - New Zealand

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

				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	-1.7	2.5	2.7	0.3	1.2	3.7	2.3	3.5	2.3	1.9	2.7	3.4	3.2	2.2
Private consumption	-0.6	2.0	1.4	1.2	3.8	3.2	0.9	1.8	1.9	0.4	1.0	1.0	2.2	3.5
Fixed Investment	-12.5	0.5	4.6	7.1	-10.4	-7.2	3.3	5.3	5.5	5.7	2.2	4.1	6.0	7.3
Residential construction	-18.5	3.2	4.7	-8.4	-14.7	20.3	2.2	4.0	4.8	6.0	3.2	4.8	6.0	4.0
Other fixed investment	-11.3	-0.1	4.6	10.2	-10	-11.6	3.5	5.6	5.6	5.6	2.0	4.0	6.0	8.0
Inventory change (NZ$ bil, saar)	-1.8	0.7	0.4	-1.1	-0.7	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Government spending	1.7	3.4	1.9	-3.9	2.6	4.5	6.7	2.4	1.6	2.4	1.6	2.4	2.0	0.4
Exports of goods & services	0.0	4.7	7.8	19.2	0.6	-2.7	5.5	7.0	7.0	8.0	8.0	9.0	7.0	7.0
Imports of goods & services	-15.2	8.9	5.8	-11.2	6.3	25.5	7.4	7.0	7.0	6.0	4.0	5.0	7.0	9.0
Contributions to GDP growth:														
Domestic final sales	-5.0	2.0	2.4	1.4	-1.9	1.1	4.0	2.7	2.7	2.0	2.1	2.1	3.6	2.5
Inventories	-2.6	1.9	-0.2	-10.2	5.0	11.6	-0.9	0.9	-0.2	-0.6	-0.6	0.1	-0.2	0.5
Net trade	5.9	-1.5	0.5	9.9	-1.8	-8.3	-0.8	-0.2	-0.2	0.5	1.2	1.2	-0.1	-0.8
GDP deflator (%oya)	2.0	2.4	2.2	3.3	2.5	-0.1	1.0	1.9	2.8	3.9	2.8	2.4	1.9	1.6
Consumer prices	2.1	5.0	3.2	2.3	5.3	-0.7	1.5	1.1	5.5	12.1	3.3	1.8	3.9	3.8
%oya	2.1	2.6	4.9	1.9	1.7	2.0	2.0	1.8	1.8	4.9	5.4	5.6	5.2	3.2
Trade balance (NZ$ bil, sa)	2.5	5.7	5.3	0.8	0.7	0.3	0.9	1.6	1.5	1.6	1.5	1.3	1.3	1.2
Current account (NZ$ bil, sa)	-5.5	-5.0	-11.9	-0.4	0.1	-2.9	-1.2	-1.3	-1.0	-0.6	-2.1	-5.2	-3.6	-3.5
as % of GDP	-3.0	-2.6	-6.0	-0.9	0.1	-6.5	-2.8	-2.1	-1.3	-4.4	-7.3	-7.1	-5.4	-4.2
Yield on 90-day bank bill (%)*	3.0	3.2	4.7	2.8	2.8	2.8	2.7	2.8	3.5	3.8	4.3	4.8	4.9	5.0
10-year bond yield (%)*	5.5	5.7	6.0	5.7	5.7	5.9	5.9	5.7	5.5	5.7	5.9	5.9	6.0	6.1
US$/NZ$*	0.64	0.70	0.70	0.60	0.68	0.73	0.71	0.70	0.70	0.67	0.68	0.72	0.71	0.70
Commonwealth budget (NZ$ bil)	-4.0	-7.2	-7.1											
as % of GDP	-2.2	-3.8	-3.6											
Unemployment rate	6.1	6.5	5.8	5.9	6.5	7.1	6.0	6.8	6.7	6.4	6.0	5.9	5.7	5.7

*All financial variables are period averages

New Zealand - summary of main macro views

- The **New Zealand economy** expanded at a healthy clip of 0.6%q/q in 1Q. Economic growth should remain strong in 2Q and 3Q, underpinned by consumer spending, with consumers likely to bring forward spending ahead of the October 1 GST hike.
- That said, households are set to undergo a period of **consolidation**. As a result, private consumption will be sub-trend post GST hike, particularly given higher interest rates and softer house price growth.
- The **unemployment** rate shot up to 6.8% in 2Q from 6.0% in 1Q, and probably will maintain a 6%-handle in the foreseeable future. Actual hiring remains well-below long run averages and, with corporate profitability down, new hiring will likely be postponed.
- The **RBNZ** hiked the OCR 25bp in July. The accompanying commentary suggested that the pace and extent of further tightening will be more moderate than previously forecast. We now expect “only” 50bp of tigthening this year.
- Headline **inflation** continued to hover around the middle of the RBNZ’s 1%-3% target range in the June quarter, although this precedes what we expect will be a series of elevated inflation prints over the coming year.
- Managing **inflation expectations** will be a growing challenge for the RBNZ, given the July 1 introduction of the amended ETS and the GST hike on October 1.

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Non-Japan Asia economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
16 Aug **Australia:** New motor vehicle sales (11:30am) Jul 2.0%m/m, sa **India:** WPI (4:30 pm) Jul **Korea:** Export prices 1.2%oya Import prices 7.5 % oya **Philippines:** OFW remittances Jun 4.4%oya	**17 Aug** **Hong Kong:** Unemployment rate (4:30 pm) Jul 4.6% **Singapore:** NODX (1:00 pm) Jul 11.0 US$bn *Holiday Indonesia*	**18 Aug** **Australia:** Westpac leading index (10:30 am) Jun Wage cost index (11:30 am) 2Q 1.0%q/q, sa **Malaysia:** CPI (4:30 pm) Jul 2.4%oya GDP (6:00 pm) 2Q 8.6%oya	**19 Aug** **New Zealand:** PPI (10:45 am) 2Q -0.1%q/q, sa **Philippines:** BOP Jul **Taiwan:** GDP (4:00 pm) 2Q 10.1%oya	**20 Aug** **Hong Kong:** CPI (4:30 pm) Jul 2.9%oya **New Zealand:** Visitor arrivals (10:45 am) Jul Credit card spending (3:00pm) Jul **Taiwan:** Export orders (4:00pm) Jul 22.8%oya
During the week: **Korea:** SPPI 5.2%oya Bankruptcy fillings Jul 140 **Philippines:** Budget balance Jul				
23 Aug **Singapore:** CPI (1:00 pm) Jul **Taiwan:** Unemployment rate (4:00pm) Jul IP (4:00 pm) Jul **Thailand:** GDP (9:30 am) 2Q *Holiday Philippines*	**24 Aug** **New Zealand:** RBNZ 2 year inflation expectation 3Q	**25 Aug** **Australia:** Construction work done (11:30 am) 2Q **Philippines:** Imports (9:00 am) Jun **Thailand:** BoT monetary policy meeting (2:30 pm) Aug	**26 Aug** **Hong Kong:** Trade balance (4:30 pm) Jul **Philippines:** GDP (10:00 am) 2Q BSP Monetary policy meeting (5:00 pm) Aug **Singapore:** IP (1:00 pm) Jul	**27 Aug** **Korea:** Current account balance (8:00 am) Jul **Taiwan:** Leading index (4:00pm) Jul
During the week: **Vietnam:** CPI Aug Trade balance Aug				
30 Aug **Australia:** Company operating profits (11:30 am) 2Q Inventories (11:30 am) 2Q **New Zealand:** Trade balance (10:45 am) Jul NBNZ business confidence (3:00 pm) Aug *Holiday Philippines*	**31 Aug** **Australia:** Pvt. Sector credit (11:30 am) Jul Retail sales (11:30 am) Jul Current account balance (11:30 am) 2Q Building approvals (11:30 am) Jul **Hong Kong:** Retail sales (4:30 pm) Jul **India:** GDP 2Q **Korea:** IP (8:00 am) Jul Leading index (8:00 am) Jul Service sector activity (8:00 am) Jul **New Zealand:** Building permits (10:45 am) Jul **Thailand:** Trade balance (2:30 pm) Jul IP (2:30 pm) Jul PCI (2:30 pm) Jul PII (2:30 pm) Jul *Holiday Malaysia*	**1 Sep** **Australia:** GDP (11:30 am) 2Q **China:** PMI manufacturing (9:00 am) Aug **India:** PMI manufacturing Aug Trade balance Jul **Indonesia:** Inflation (12:00 pm) Aug Trade balance (12:00 pm) Jul **Korea:** CPI (8:00 am) Aug **New Zealand:** ANZ commodity prices (3:00 pm) Aug **Thailand:** CPI (2:00 pm) Aug	**2 Sep** **Australia:** Trade balance (11:30 am) Jul **Malaysia:** Trade balance (6:00 pm) Jul BNM monetary policy meeting (6:00 pm) Sep **Singapore:** PMI (9:30 pm) Aug *Holiday Vietnam*	**3 Sep** **Indonesia:** BI rate announcement (2:00 pm) Sep **Korea:** GDP 2Q
During the week: **Korea:** Trade balance Aug				
6 Sep **New Zealand:** QV house prices Aug **Taiwan:** CPI (4:00 pm) Aug	**7 Sep** **Australia:** RBA cash target Sep **Philippines:** CPI (9:00 am) Aug **Taiwan:** Exports (4:00 pm) Aug	**8 Sep** **Australia:** Housing finance (11:30 am) Jul **New Zealand:** Manufacturing activity (10:45 am) 2Q	**9 Sep** **Australia:** Unemployment rate (11:30 am) Aug **Korea:** Bank of Korea monetary policy meeting Sep **Malaysia:** IP (5:00 pm) Jul **Philippines:** Exports (9:00 am) Jul *Holiday Indonesia*	**10 Sep** **China:** Trade balance Aug **India:** IP Jul *Holiday Indonesia, Malaysia, Singapore,*
During the week:				

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

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Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
16 - 20 August	**16 August**	**17 August**	**18 August**	**19 August**	**20 August**
	Euro area • HICP final (Jul) **India** • WPI (Jul) **Japan** • GDP (2Q) **Turkey** • Unemployment rate (May) **United States** • Empire State surv (Aug) • NAHB surv (Aug)	**Germany** • ZEW bus conf (Aug) **Russia** • IP (Jul) **Singapore** • Exports (Jul) **United Kingdom** • CPI (Jul) **United States** • Housing starts (Jul) • IP (Jul)	**Poland** • IP (Jul) **United Kingdom** • MPC minutes (Aug)	**Netherlands** • CBS cons conf (Aug) **Norway** • GDP (2Q) **Taiwan** • GDP (2Q) **Turkey** • CBRT mtg: no chg **United Kingdom** • Retail sales (Jul) **United States** • Philly Fed surv (Aug) • Leading indicators (Jul)	**Argentina** • IP (Jul) **Belgium** • BNB cons conf (Aug) **Colombia** • BanRep mtg: no chg **Mexico** • Banxico mtg: no chg **Taiwan** • Export orders (Jul)
23 - 27 August	**23 August**	**24 August**	**25 August**	**26 August**	**27 August**
	Euro area • PMI flash (Aug) • EC cons conf (Aug) **Hungary** • NBH mtg: no chg **Israel** • BoI mtg: no chg **Taiwan** • IP (Jul)	**Belgium** • BNB bus conf (Aug) **Germany** • GDP final (2Q) **United States** • Existing home sales (Jul) • Richmond Fed surv (Aug)	**Germany** • IFO bus surv (Aug) **Japan** • Trade balance (Jul) **Thailand** • BoT mtg: +25 bps **United States** • Durable goods (Jul) • New home sales (Jul)	**Germany** • GFK cons conf (Sep) **Italy** • ISAE cons conf (Aug) **Netherlands** • CBS bus conf (Aug) **Philippines** • BSP mtg: no chg **Singapore** • IP (Jul) **Spain** • GDP final (2Q) **United States** • KC Fed surv (Aug)	**Germany** • CPI prelim (Aug) **Japan** • Hhold spending (Jul) • Unemployment rate (Jul) • Core CPI (Jul) **United Kingdom** • GDP (2Q) **United States** • GDP revision (2Q) • CB cons sent (Aug) • Bernanke speech

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