

Australia and New Zealand - Weekly Prospects

Summary

- We have pushed through a modest downgrade to the **Aussie** growth forecast (the second in a month), and a change to the RBA call. Following last week's forecast downgrades by our colleagues offshore, we now expect Aussie GDP growth of 3.0% in 2011 (down from 3.2% previously). Also, we now see the RBA staying on hold for the remainder of 2010; previously, we expected a hike in November. We still expect four quarter point hikes in 2011, with the moves spaced fairly evenly across the year. Last week's upbeat business investment story confirmed that the underlying story for Australia—which features a mining and terms of trade boom aimed at boosting exports to China—has not materially changed. The distribution of risks has, however, changed, so the RBA will tread carefully. The week ahead is bursting at the seams with data, including retail sales and the 2Q GDP result.
- In a change of forecast, we now expect that **RBNZ** Governor Bollard will sit on the policy sidelines for the remainder of the year. With uncertainty around the global outlook increasing, and given a string of weaker than expected domestic data, we suspect that the Governor will be reluctant to tighten policy further anytime soon. Previously, we had forecast that the next hike to the OCR would be delivered in September. Now, we are tipping that Dr. Bollard will stand pat until December. We acknowledge, though, that the next rate move may be delayed until next year should the global picture deteriorate further and the domestic data suggest that the recovery underway in New Zealand has come to a standstill. Provided that the global and domestic recoveries continue to pan out in line with our forecasts, we expect that the current tightening cycle will run well into 2011. Indeed, Dr. Bollard has described current policy settings as “very supportive” of economic growth, suggesting that the current tightening cycle is far from complete.
- With **global growth** having slowed materially since the spring, the issue on the table is whether the economy will find its footing or whether the recent weakness will intensify. Though our near-term global outlook has been revised down sharply, we still forecast that the global expansion will be maintained at a moderate pace. In part, this forecast rests on a belief that households and financial institutions have accomplished sufficient balance sheet repair and that, when combined with a highly profitable and expanding corporate sector, the economy is positioned to grow.
- This week's **ISM surveys and labour market report** for the month of August take on added importance. A decisive, downside break in these reports would amplify concerns that businesses are retrenching, opening the door to renewed recession. This likely would compel quick action by the Fed, beginning with a sizable new commitment to expand its balance sheet. In contrast, reports that are more in line with our projections (manufacturing ISM: 52.5; private payrolls: 30,000; unemployment rate: 9.7%) would suggest that the economy is muddling through without a decisive break in business behaviour. In this event, last week's speech from Chairman Bernanke suggests that the FOMC probably would not take action in September.

This week's highlight

The Aussie 2Q GDP report on Wednesday. Our preliminary forecast is for GDP to print at 0.8% q/q, although we are still awaiting data (including inventories today) that will complete the GDP jigsaw.

August 30, 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 30	11.00am	HIA new home sales (%m/m, Jul.)	na	na	-5.1
Monday, August 30	11.30am	Aust. company operating profits (%q/q, 2Q)	1.0	5.8	3.9
Monday, August 30	11.30am	Aust. inventories (%q/q, 2Q)	0.2	0.4	0.5
Monday, August 30	1.00pm	NBNZ business confidence (Index, Aug.)	25	na	27.9
Tuesday, August 31	8.45am	NZ building permits (%m/m, Jul.)	1.5	2.0	3.5
Tuesday, August 31	9.00am	RBA Assistant Governor Debelle's speech	na	na	na
Tuesday, August 31	11.30am	Aust. private sector credit (%m/m, Jul.)	0.2	0.3	0.2
Tuesday, August 31	11.30am	Aust. retail sales (%m/m, Jul.)	0.4	0.4	0.2
Tuesday, August 31	11.30am	Aust. current account balance (A\$bn., 2Q)	-5.6	-6.5	-16.6
Tuesday, August 31	11.30am	Aust. building approvals (%m/m, Jul.)	-4.5	-0.7	-3.3
Wednesday, September 1	9.30am	AiG performance of manufacturing (Index, Aug.)	na	na	54.4
Wednesday, September 1	11.30am	Aust. GDP (%q/q, 2Q)	0.8	0.9	0.5
Thursday, September 2	11.30am	Aust. trade balance (A\$bn., Jul.)	2.8	3.1	3.5
Friday, September 3	11.30am	AiG performance of services (Index, Aug.)	na	na	46.6

(a) Australian Eastern Standard Time.

(b) Consensus based on Bloomberg survey.

Australia

Company profits (%q/q, 2Q) - Profits by sector probably were patchy in the June quarter. Retailers had to discount heavily to shift units, while in the mining sector, previous price rises in key commodities will have lifted the top line. On a broader basis, firms' costs were rising in 2Q, particularly on the wages front, eating into profitability. On net, we expect growth in company profits to have moderated to 1.0%q/q.

Inventories (%q/q, 2Q) - As with profits, the domestic/export split for inventories will have been marked in 2Q. Interest

Data previews - Cont'd.

rates were rising, and confidence took a large hit, making it tough for firms selling domestically to move stock. This will have been tempered, however, by the mining sector, where shipments of coal, in particular, to emerging Asia boomed. The rise in inventories of 0.2% q/q, a smaller addition than in the previous quarter, will take 0.1% -pt off 2Q GDP growth.

RBA Assistant Governor Debelle's speech - The Assistant Governor speaks Tuesday "On risk and uncertainty", a fitting topic given market jitters around the possibility of a US double-dip recession. The address will be delivered at the Risk Australia 2010 Conference, though, so we should not read too much into the subject choice. There is a Q&A session following the speech.

Private sector credit (%m/m, Jul.) - Growth in the total pool of credit should have held steady. Personal credit should rise 0.4% m/m after two months of decline, and credit conditions to firms have loosened, pushing business credit growth from flat in June to up 0.3%. Housing credit growth will have remained steady at 0.4% m/m. The effect of rising interest rates on housing credit has not been totally transparent in this cycle, because reduced loan demand is being counterbalanced by the change in principal repayment behaviour: anecdotes suggest many households kept repayments unchanged when rates were low, paying back more principal, meaning the turn back to neutral rates has had an exacerbated effect.

Retail sales (%m/m, Jul.) - Retail sales growth likely accelerated in July. The continued recovery in consumer confidence that has accompanied the RBA's policy pauses, as well as stronger equity markets, will have supported the consumer, leading them to abandon some of the caution that weighed on the sector in 2Q. Discounting and food sales, as always, will remain important swing factors.

Current account (A\$bn., 2Q) - The current account will have been boosted to the tune of nearly A\$10 billion by the boom in export values in 2Q. Earlier sharp rises in prices for iron ore and coal now are reflected in contract prices in the next quarter, which has seen the trade balance surge into surplus. Likely revisions (again reflecting higher commodity prices) to the 1Q data will slightly reduce the magnitude of the improvement, but as a percentage of GDP the current account deficit will nevertheless come screaming in by around 3% -pts.

Building approvals (%m/m, Jul.) - We expect the hangover in building approvals that has followed the expiration of the expanded First Home Buyers grant to continue for some time. Approvals for detached houses will keep ticking down, and those for higher density dwellings will suffer a payback after a modest break higher in June.

GDP (%q/q, 2Q) - Currently, we forecast GDP growth of 0.8% q/q (2.6% oya) in 2Q, although, with the current account, company profits, and inventories data still to be delivered, there are many moving parts still out of place. We expect real consumer spending to have been fairly solid, though public expenditure is now making negative contributions to growth, as infrastructure spending winds down from a very high base. An important factor will be how the boom in exports is reconciled in the national accounts in terms of the nominal/real split. A sharper upturn in the export price deflator will reduce the contribution of net exports to real GDP growth.

Trade balance (A\$bn., Jul.) - We expect a retracement from last month's all time record trade surplus. The trade balance should have slipped back to A\$2.8bn in July, thanks to softer contract commodity prices moving into the third quarter, and weaker demand from Asia. In particular, the moderate inventory correction in China appears to have weighed on coal shipment volumes over the month.

New Zealand

NBNZ business confidence (Index, Aug.) - The headline reading on business confidence recently has stepped down quickly, as global growth momentum has faltered and evidence has emerged that the domestic recovery will be a slow grind. The headline index likely will have slipped further to 25 in August.

Research note

Aussie hung Parliament makes “king-makers” of independents

- **The federal election delivered the first hung Parliament in Australia since 1940**
- **A handful of independents and a Greens MP will determine which major party forms a government**
- **Policy uncertainty over mining tax, climate change, fiscal stimulus**

With 80% of the vote counted, voters in the August 21 federal election almost certainly have delivered the first hung Parliament in Australia in 70 years. Neither of the two major parties won the “magic number” of 76 seats needed to form a majority government in the 150-seat House of Representatives. Four independents and a Green MP elected to Parliament, therefore, will play the roles of “king-makers” in determining which of the major parties will be asked to form a government. Votes are still being counted, and the horse trading between the independents and major parties has only just started. It could be weeks, therefore, before we know whether Labor has been “reelected,” or whether the Opposition Coalition parties will be able to form a government. The latter outcome looks most likely, although Labor still may be able to clamber its way back into power.

One thing is clear—the incumbent Labor government led by newly installed Prime Minister Julia Gillard, whose caucus members replaced unpopular Kevin Rudd as leader in late June, is the clear loser in this election. Labor lost 16 seats—14 of these went to the Coalition, while one went to a Green and one to an independent. The Liberals—the dominant Coalition party—and the Greens are the clear winners. At this stage, the Coalition has secured 73 seats and Labor has 72. Counting continues, though, so there could still be changes to this configuration. After all votes are counted, including an unusually high share of postal and pre-poll votes, the Coalition probably still will be three seats short of a majority.

Hung House worst outcome for markets

For financial markets, a hung Parliament probably is the worst possible outcome. The uncertainty over which party will be able to form a government could linger for weeks. Thereafter, there will be the persistent risk that whatever allegiances are formed could fall apart, requiring fresh elections. Similarly, an unexpected by-election could trigger a change of government. The last government formed in Australia after a hung Parliament in 1940 lasted just over 12 months, after which the two independents supporting the government switched sides. That said, the best outcome for

Australia's Parliament: House of Representatives

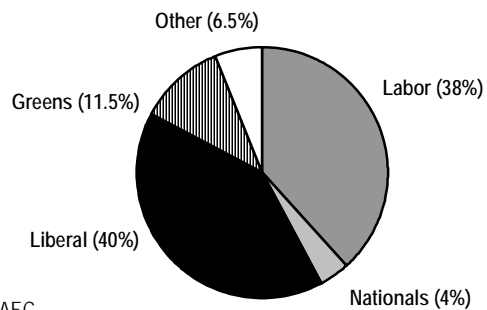
Number of seats

	Most likely	Old
Liberal (Coalition)	44	50
Liberal National Party (Coalition)	21	-
Country Liberals (Coalition)	1	-
The Nationals (Coalition)	7	9
Labor	72	88
Green	1	-
Independent	4	3
Total seats	150	150

Source: Australian Electoral Commission

Voting shares: major parties and others

Percent



Source: AEC

the independents would be maintenance of the “status quo,” where their power is absolute. A layer of persistent political risk, however, against a backdrop of heightened uncertainty over the state of the global economy, will weigh on investor sentiment and AUD, in particular.

Labor is the big loser

Of the votes counted thus far, the opposition Coalition parties attracted 44% of the popular vote. Labor attracted 38%, the Greens won a record-high 11.5%, and other parties and independents won 6.5%. The Coalition still looks likely to win the most seats in the Lower House, and won the highest share of the first-preference vote. Labor, however, has the largest share of the two-party-preferred vote (50.6%), after distribution of second and subsequent preferences of voters for the minor parties. Nonetheless, Labor suffered a huge 5.5% national swing against it to lose its previously comfortable majority in the Lower House. Labor, therefore, is at risk of becoming the first national government since 1931 to be removed from office after just one term.

Horse trading with independents

Four independent MPs have been elected to the Lower House; three are former National Party MPs and represent non-urban electorates. There is a perception that the three will naturally tilt toward the Coalition. They are, though,

speaking to both major parties about forming government, and to the Greens. The three ultimately will decide their allegiances based on a range of factors, including whichever party offers the best chance of delivering stable government and the best “deal” for regional and remote Australians. They have said they won’t necessarily align as a bloc.

The main issues at stake for these three independents include transport, infrastructure, and telecommunications, as well as local issues, such as one MP’s apparent desire for the imposition of restrictions on imported bananas! They are likely to push for Parliamentary reform. The other, left-leaning independent probably would tilt toward supporting the Labor Party, while the newly elected Green MP initially indicated that he would support Labor. One MP must be elected as Speaker of the House, who has a casting vote on policy deadlocks; one of the independents probably will fill this role.

A Green-slide in the Senate

In the 76-seat Senate, where only 40 seats were contested in this election, the clear winners were the well-left-of-center Greens. The Greens will hold the balance of power in the Upper House, where they probably will make political life uncomfortable for whichever party forms a government. In fact, the Greens doubled their representation in Parliament from five members to 10, including the first Green MP ever to win a seat in the Lower House. A minority government facing a potentially hostile Senate makes for an interesting period ahead, and suggests anything but stable governance.

The newly elected members of the Senate do not, however, sit until July 2011, and there still are a number of key seats in doubt. Thirty-six Senators continue to sit in the new Parliament. There is a 10-month window of opportunity, therefore, for either major party to pass legislation before the new configuration of the Senate sits. This will be one of the longest-ever gaps between an election and a new Senate.

Policy uncertainty—mining tax or bust?

The main areas of policy uncertainty in the wake of voters delivering a hung Parliament are the economy, (in)action on climate change, Labor’s proposed (and significantly watered-down) 30% mining tax, regional telecommunications (including Labor’s proposed National Broadband Network—the NBN), and immigration. There was broad agreement between the parties on the economy and immigration, but sig-

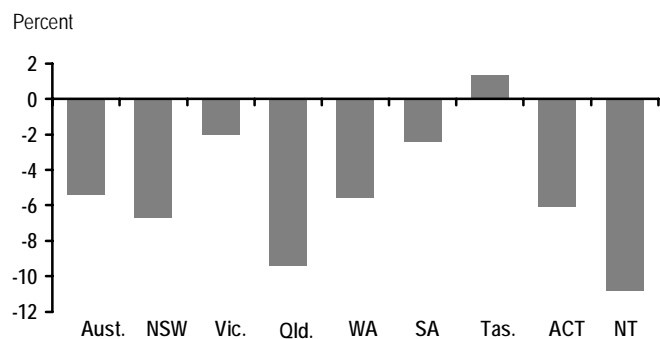
Australia’s Parliament: Senate (from July 2011)

Number of seats

	Continuing	New	Total
Liberal/National Party	16	18	34
Labor	16	15	31
Green	3	6	9
Democratic Labor Party	-	1	1
Independent	1	-	1
Total seats	36	40	76

Source: Australian Electoral Commission

Swing away from Labor, by state and territory



nificant policy differentiation on the other areas. The Coalition, for example, is committed to abolishing Labor’s mining tax idea and canceling the rollout of the NBN. The lack of a clear majority for either party in this election means the policy uncertainty will persist for some time.

There were huge differences in the vote across regions. There were big swings against Labor in Queensland (the home state of deposed PM Kevin Rudd), New South Wales (where the State Labor government is toxically unpopular), and Western Australia, where opposition to the mining tax is most fierce. There were, though, smaller swings against Labor in the southern states of Victoria (where PM Gillard lives) and South Australia (where Gillard lived as a child), and a swing toward Labor in Tasmania.

There were a number of firsts in this election. Voters in Western Australia elected for the first time an Indigenous Australian MP to a Lower House seat. And, of course, the Greens won a seat in the Lower House for the first time. Voters in Queensland elected a 20-year old member of parliament, the youngest in Australia’s history. These, of course, follow former Labor leader Kevin Rudd becoming the first sitting PM ever to be dumped by his own party in his first term.

Australia

- **Offshore woes forced GDP, cash rate forecast changes**
- **Aussie election outcome still unresolved**
- **Barrage of GDP data delivered this week**

Escalating uncertainty, in several guises, is clouding the economic outlook in the Antipodean economies. In Australia, following the federal election last weekend, it appears that resolving the hung parliament and determining the makeup of the next government will take some time. It is up to the handful of independent and minority party Parliamentary members to fall on one side of the fence or the other. It still looks likely that a Coalition government will be formed, but Labor still may manage to cling to power.

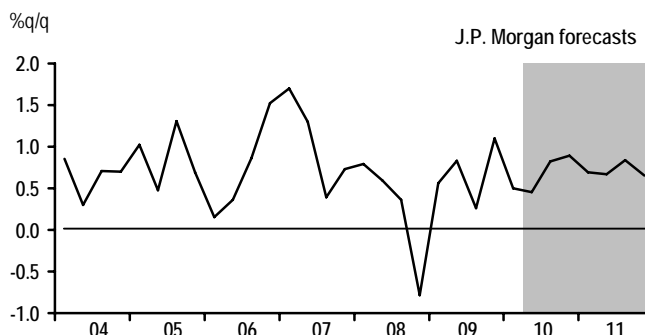
Last week's forecast downgrades from our US, Japan, and China colleagues mean the export and financial market climates for Australia has deteriorated. In response, we have pushed through a minor growth downgrade. More significantly, we also have pushed out the timing of future rate hikes from the RBA.

Eventually, the rest of the world matters

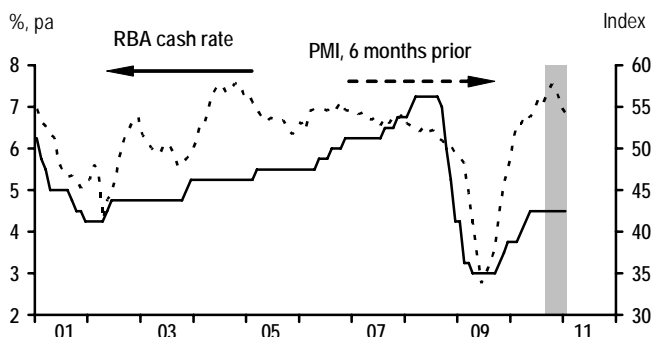
Since the second quarter, the market's attention apparently has been volleyed between North Atlantic disaster scenarios. The European sovereign crisis has faded, but the US growth outlook has downshifted more sharply than we had anticipated. A lackluster labour market, and the perception that the fiscal and monetary support mechanisms in ailing developed markets already are maxed out, is making markets increasingly concerned about the lack of a sustainable global growth catalyst.

We had until this point viewed the global uncertainties as insufficient to outweigh the inflation pressures that are yet to materialize in the Australian data, but are in the pipeline: the surging terms of trade, tight labour market, and booming export earnings. The RBA's recent policy pauses, amid global doubts, seemed appropriate with borrowing rates now at average levels. We had, though, expected the next inflation print in late October to force further tightening in November. The deterioration in the global outlook, however, now has breached the threshold—specifically, due to the China growth downgrades and the increased likelihood of more QE in the Northern Hemisphere—at which we must temper the Aussie and NZ growth stories somewhat. Further, we expect this to be reflected in slightly different central bank behaviour.

Australia: GDP growth



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



2011 growth softer, RBA on hold this year

We now expect the RBA to be on hold for the remainder of the year, though we maintain our call for one 25bp hike per quarter in 2011. The near-term pause effectively will be an insurance policy against a possible global double-dip recession. Assuming this does not eventuate, subpar US growth should not dent growth in Australia's export partners or commodity prices sufficiently to make burgeoning investment projects in Aussie mining uneconomic. Further, while the export demand story now is softer than previously was embedded in our forecasts, it remains upbeat by historical standards, and is sufficient to test the domestic economy's productive capacity. This means above-average inflation still is on the cards. This point was emphasized in last week's 2Q business investment survey, which showed that firms intend to boost spending in 2010/11 by 24%.

We have kept our 2010 forecast for Aussie GDP growth unchanged at 2.7%, but downgraded the 2011 forecast mildly from 3.2% to 3.0%. Our forecasts already assumed a step-down in growth in EM Asia in 2H10, and the direct impact from weaker US growth is not substantial: the US currently takes less than 5% of Australia's exports. Similarly, the im-

plied revisions to our output gap estimates are small and, in terms of their impact on inflation, are counterbalanced by the depreciation in the currency. The fundamental view on Australia, therefore, remains unchanged, as we suspect it is for the RBA. RBA officials, though, will be forced to set policy acknowledging that near-term downside risks to the outlook no longer are in the far-distant tails of the distribution. Our colleagues now see more QE measures in the US and UK as being likely; it would be difficult for the RBA, which already has neutral monetary settings, to hike in such an environment.

Election outcome (still) too close to call

The Australian federal election has delivered a very tight contest, with the two major parties each falling just short of the 76 seats required to form a majority government. The power has fallen, therefore, to a handful of newly-elected members—four independents and one Greens Party MP—to resolve the deadlock. The Greens MP is likely to side with the incumbent Labor government, while the allegiances of the independents are, at this stage, much less certain.

One complication is that the Coalition won the highest share of the vote, and most likely, the most seats (73 to 72 for Labor), which could increase pressure for the “king-makers” to reflect the public’s preference and side with the Coalition. Add to this the fact that independents do not represent a cohesive voting bloc, and there are many permutations for how a newly formed government might look. We expect more instability, even if an apparently stable arrangement is established. We cannot rule out, therefore, an early return to the polls. (See “*Aussie hung Parliament makes ‘king-makers’ of independents*” in this Weekly.)

The big winner from the election is the Greens Party, which has gained the first Lower House seat in its history. It also has a record nine seats in the Senate, giving it the balance of power over the Coalition (34 seats) and Labor (31 seats). Given the Greens’ tendency to favour the Labor Party, an elected Coalition government may need to rush through contentious legislation before July next year, when the new Senators take their seats.

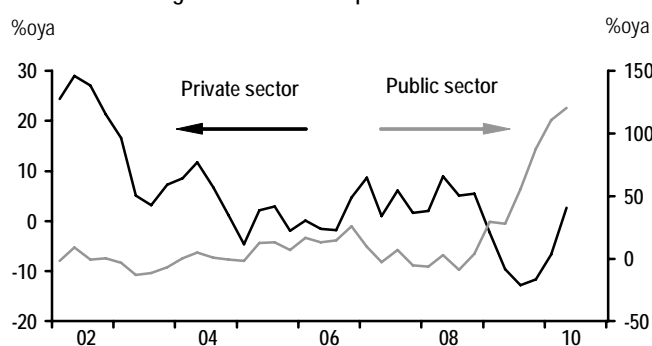
Swings and roundabouts in GDP data

Last week’s data were, on net, somewhat of a wash for the June quarter GDP outcome, which are released this week. Construction work done rose 3.5%q/q, but the public expen-

Australia: Senate configuration as of July 2011

Party	Continuing	New	Total
Coalition	16	18	34
Labor Party	16	15	31
Greens	3	6	9
Other	1	1	2

Australia: building construction completed



diture side clearly is fading as an impetus to growth, and spending was down 4% in last week’s private capex report. In terms of the other data in hand, retail sales volumes were respectable in 2Q, but a likely diminished addition to GDP from inventories will have taken away from growth. The external sector likely posted the only unambiguously positive report, due to boomy commodity export demand from emerging Asia. Currently, we forecast GDP growth of 0.8%q/q in 2Q, although, with the current account, company profits, and inventories data still to be delivered, there are many moving parts still out of place.

Data releases and forecasts

Week of August 30 - September 3

Mon	Inventories	3Q09	4Q09	1Q10	2Q10
Aug 30	Sa				
11:30am					
	%q/q	0.0	0.4	0.5	<u>0.2</u>
	%oya	-3.9	-2.7	-1.2	<u>1.2</u>

Firms selling domestically found it tough to move stock in 2Q. Interest rate rises were eating into disposable incomes, and waning confidence saw consumers exercising caution. The buildup in inventories in consumer goods will have been tempered, however, by the mining sector, where shipments of coal, in particular, to emerging Asia boomed. The rise in inventories of 0.2%q/q, a smaller addition than in the previous quarter, will take 0.1%-pt off 2Q GDP growth.

Mon Aug 30 11:30am		Company operating profits (business indicators)			
Nominal, gross operating, sa		3Q09	4Q09	1Q10	2Q10
%q/q		-1.5	3.2	3.9	<u>1.0</u>
%oya		-19.7	-10.7	-1.3	<u>6.7</u>

The June quarter saw respectable sales volumes growth domestically, albeit off the back of heavy discounting, which likely weighed on profits in the wholesale and retail sectors. In the mining sector, previous price rises in key commodities will have boosted the top line, though some hangover may be in the offing after the 9% spike in profits in 1Q. On a broader basis, firms' costs were rising in 2Q, particularly on the wages front, eating into profitability. We, therefore, expect growth in company profits to have moderated to 1.0%q/q. The turnaround on an %oya basis will be more impressive.

Tue Aug 31 11:30am		Current account balance			
A\$ bn, sa		3Q09	4Q09	1Q10	2Q10
Current account (A\$ bn)		-13.8	-18.5	-16.6	<u>-5.6</u>
% of GDP		-4.4	-5.8	-5.1	<u>-1.7</u>

The current account will have been boosted to the tune of nearly A\$10 bn by the boom in export values in 2Q. Earlier sharp rises in prices for iron ore and coal now are reflected in contract prices in the next quarter, which has seen the trade balance surge into surplus. Likely revisions (again reflecting higher commodity prices) to the 1Q data will slightly reduce the magnitude of the improvement, but as a % of GDP the CAD will nevertheless come screaming in by around 3%-pts.

Tue Aug 31 11:30am		Private sector credit			
Sa		Apr	May	Jun	Jul
%m/m		0.2	0.5	0.2	<u>0.2</u>
%oya		2.1	2.7	2.8	<u>2.8</u>

Growth in the total pool of credit should have held steady, but the theme generally will be one of expansion: personal credit should rise 0.4% m/m after two months of decline, and credit conditions to firms will keep loosening, pushing business credit growth from flat in June to up 0.3%. Growth in housing credit likely will have held steady at 0.4% m/m.

Tue Aug 31 11:30am		Retail trade			
Sa		Apr	May	Jun	Jul
%m/m		0.6	0.2	0.2	<u>0.4</u>
%oya		1.8	1.1	1.9	<u>3.2</u>

The continued recovery in consumer confidence that has accompanied the RBA's policy pauses, as well as stronger equity markets, will have supported the consumer, leading them to abandon some of the caution that weighed on the sector in 2Q.

Tue Aug 31 11:30am		Building approvals			
Sa		Apr	May	Jun	Jul
%m/m		-11.0	-6.4	-3.3	<u>-4.5</u>
%oya		26.2	29.7	13.2	<u>2.2</u>

We expect the hangover in building approvals that has followed the expiration of the expanded First Home Buyers grant to continue for some time. Approvals for detached houses will keep ticking down, and those for higher density dwellings will suffer a payback after a modest break higher in June.

Wed Sep 1 11:30am		Real GDP			
Chain volume, sa		3Q09	4Q09	1Q10	2Q10
%oya		0.3	1.1	0.5	<u>0.8</u>
%q/q		0.9	2.8	2.7	<u>2.6</u>

See main text.

Thu Sep 2 11:30am		Trade balance			
Sa		Apr	May	Jun	Jul
Trade balance (A\$ mn)		1263	1825	3539	<u>2800</u>

Review of past week's data

Construction work done

	4Q09	1Q10	2Q10			
%q/q,sa	-0.2	-0.1	1.9	4.2	<u>3.0</u>	3.5
%oya,sa	0.7	0.6	5.6	7.4	<u>5.7</u>	8.3

The value of construction work done rose 3.5%q/q in real terms in 2Q (J.P. Morgan and consensus: +3.0%), with the composition of growth largely as expected. In the event, 1Q looks to have been the peak in growth in work completed (+4.2%q/q), with growth in public works peaking just as (total) engineering work turned the corner. A more compelling rise in private engineering in 2Q is supportive of the outlook. With the gains in building work on both the private and public sides probably having crested, though, growth of total work done is likely to fade in coming quarters.

Private new capital expenditure

	4Q09	1Q10	2Q10			
%q/q,sa	6.1	5.6	-0.2	-1.0	<u>1.5</u>	-4.0
%oya,sa	-2.8	-3.3	1.0	-0.2	<u>2.8</u>	-4.8

Actual spending slid 4%q/q in 2Q, though firms significantly upgraded planned spending for 2010/11. It is tempting to explain the divergence as a timing issue for mining sector respondents—firms' actual spending over the quarter may have been depressed by the uncertainty over the mining tax, which was resolved by the time firms submitted their future spending plans—but the softness in the actual data was driven by "other selected industries," down 10.9%. In sum, it appears the resources sector, on current data, has shrugged off the effects of the tax and is soldiering on with upbeat expansion plans.

New Zealand

- Inflation expectations appear well-anchored in NZ
- RBNZ on hold until December
- Business confidence will continue to slip

RBNZ to pause: next hike delayed until 4Q

In a change of forecast, we now expect the RBNZ to sit on the policy sidelines next month. Previously, we had forecast Governor Bollard to deliver a further 25bp hike to the official cash rate (OCR) on Sept. 16, before pausing in October. We now expect Bollard will keep the powder dry until December.

Rising uncertainty surrounding the global economy, combined with a string of softer domestic data, have afforded the RBNZ Governor time to stand pat. Further, owing to recent downgrades to our global growth forecasts, including for Australia, we have pushed through a modest downgrade to our 2011 GDP growth forecast for New Zealand. We now expect GDP growth of 2.7% next year, compared to 2.9% previously. Our 2010 GDP growth forecast is unchanged at 2.9%.

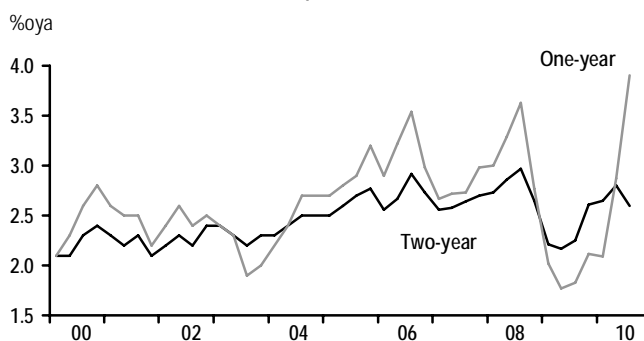
While we do not view the global slowdown as having dramatic implications for growth in New Zealand, the results of the 3Q inflation expectations survey delivered last week help buy the RBNZ time. Respondents to the survey expect that inflation in two years' time will average 2.6% oya, compared to 2.8% in the previous quarter—thus, further away from the top end of the RBNZ's 1%-3% target zone. Meanwhile, the measure of inflation expectations over the one-year horizon shot sharply higher, although this was no surprise given a number of one-off policy changes (including the GST hike on October 1). Respondents' expectations one year ahead surged a full percentage point to 3.9%, the highest since 1Q91. This followed the 0.8%-point rise in 2Q.

The inflation data came to hand less than a week after Governor Bollard delivered a speech stressing the importance of keeping expectations anchored. Indeed, the key challenge for RBNZ officials will be to prevent elevated headline inflation spilling over to changes in price- and wage-setting behaviour. Bollard already is concerned that households and businesses may increase margins and wages in response to the forthcoming GST hike, leading to a rise in already-elevated inflation expectations. This could have a lasting impact on reported inflation. Indeed, a significant rise in expected inflation in the fourth quarter, particularly over the two-year horizon, could mean the RBNZ has to tighten more aggressively in 2011 than we currently forecast. We now expect the OCR to be at 3.25% by the end of the year, and 4.5% by the end of 2011.

RBNZ official cash rate



New Zealand: RBNZ inflation expectations



Data releases and forecasts

Week of August 30 - September 3

Mon Aug 30 3:00pm	RBNZ business confidence			
	May	Jun	Jul	Aug
% balance of respondents	48.2	40.2	27.9	25

The headline reading on business confidence recently has stepped down quickly, as global growth momentum has faltered and evidence has emerged that the domestic recovery will be a slow grind. The headline index likely will have slipped further to 25 in August.

Tue Aug 31 10:45am	Building consents			
	Apr	May	Jun	Jul
%m/m	8.6	-9.5	3.5	—
%oya	32.2	11.2	27.7	—

Wed Sep 1 3:00pm	ANZ commodity price series			
	May	Jun	Jul	Aug
Index—world prices (%m/m)	1.2	-1.6	-0.8	—
Index—NZD (%m/m)	2.1	-0.4	-2.8	—

Review of past week's data

No releases last week.

Global Essay

- **Data raise concerns that US businesses are turning defensive**
- **This week's ISM surveys and payroll report will help clarify path of economy and policy**
- **Market-based measures of inflation expectations sliding in US, Europe**
- **Hopeful signs of domestic demand growth in Germany**

I'll remember April

With global growth having slowed materially since the spring, the issue on the table is whether the economy will find its footing or whether the recent weakness will intensify. Though our near-term global outlook has been revised down sharply, we still forecast that the global expansion will be maintained at a moderate pace. In part, this forecast rests on a belief that households and financial institutions have accomplished sufficient balance sheet repair and that, when combined with a highly profitable and expanding corporate sector, the economy is positioned to grow.

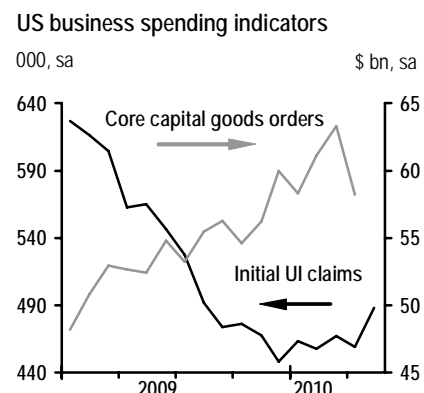
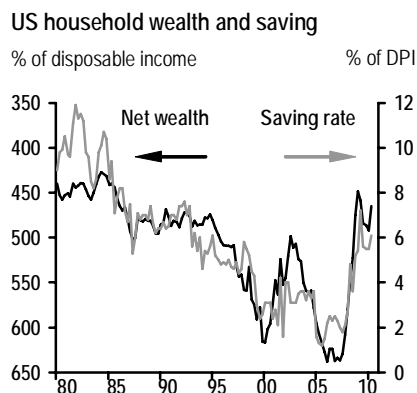
In tracking the global economy, it is important to separate inventory dynamics from the path of final demand. In the first year of the recovery, global industrial output boomed in excess of 10% as firms boosted the level of output back into line with their (growing) sales. For some time, our forecast has assumed that this process would be winding down by midyear. However, the fallout from the fading inventory impulse on manufacturing and overall GDP growth was expected to be limited by continued, strong gains in final demand. This is where the forecast has fallen short. Our tracker shows the growth of global retail sales slowed significantly in recent months. At the same time, the decline in our global services PMI indicates that the growth of services activity also has moderated.

While the signs of slower growth are fairly widespread, the biggest disappointment has occurred in the United States. The advance in consumer spending has been lackluster into midyear, accompanied by choppy export gains and extreme weakness in home sales. Given their high profitability and lean resources, we expected that US businesses would continue to expand during any such soft patch, maintaining the economy's forward momentum. Instead, businesses also tempered spending gains. This showed up first in the quick downshift in private sector hiring, which had picked up smartly in March and April. More recently, there have been worrisome hints of outright business retrenchment in jobless claims and capital goods orders.

Against this backdrop, this week's ISM surveys and labour market report for August take on added importance. A decisive, downside break in these reports would amplify concerns that businesses are retrenching, opening the door to renewed recession. This likely would compel quick action by the Fed, beginning with a sizable new commitment to expand its balance sheet. In contrast, reports that are more in line with our projections (manufacturing ISM: 52.5; private payrolls: 30,000; unemployment rate: 9.7%) would suggest that the economy is muddling through without a decisive break in business behaviour. In this event, last week's speech from Chairman Bernanke suggests that the FOMC probably would not take action in September.

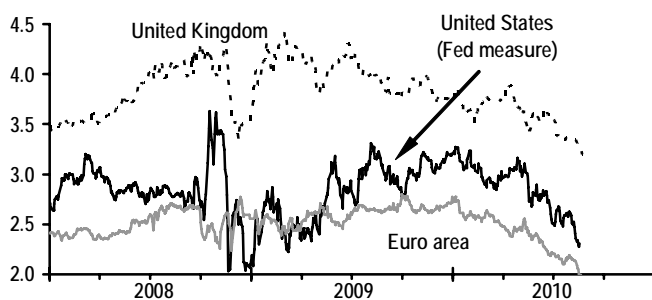
Signs of falling inflation expectations

As global central bankers gather around at this year's Jackson Hole meeting, some attention will undoubtedly be given to the continued slide in market-based measures of inflation expectations. According to the breakeven rates implied by inflation-linked government debt, expectations for 5-year inflation 5 years from now have fallen by close to 50bp



Derived 5y/5y forward breakeven inflation rate

% p.a.; derived from yields on inflation-protected securities



since May in the US, Euro area, and UK. The level of these expectations is now at the very bottom of their historical ranges in the US and UK and has fallen below this range in the Euro area, where expectations (unadjusted for risk premia) are now at 2%.

An important channel by which monetary policy operates is through its impact on real interest rates, which in turn affect borrowing decisions and risk appetites. If the recent slide in market-based expectations is taken at face value, real interest rates have increased by as much as 50bp in just the last three months. This could be a worrisome development since it represents an implicit tightening of monetary policy. The resulting slowing in economic activity, combined with the deterioration in expectations, would amplify downward pressure on inflation. To be sure, market-based expectations are far from perfect measures of economy-wide expectations and other, survey-based measures have yet to show such a decline—a point underscored by Friday's University of Michigan survey.

Evidence that inflation expectations are declining comes against a backdrop of a steep slide in actual core inflation in the US and Euro area. With resource utilization still depressed and uncertainties about the economic recovery on the rise, further declines in inflation expectations would not be surprising and would add to the case for further policy action, especially in the United States.

German domestic demand steps up

Following a sizzling 3.9% annualized gain in GDP last quarter, it seems inevitable that the Euro area economy will slow in the coming quarters. However, monthly data have yet to signal much loss of momentum. Surveys through August are running well ahead of our forecast that GDP will expand at a 2% rate this quarter. And for the surveys to move into line with our expectation of a more modest 1% gain in the fourth quarter, they need to move down considerably. Still,

a quick loss of momentum could be in the offing, particularly given the soft activity readings in the US and the tendency for the Euro area to lag the global cycle. Coupled with the general rise in uncertainty surrounding the global outlook, we are inclined to leave the regional outlook unchanged despite stronger-than-expected signals being sent by domestic data.

Critical to the Euro area outlook is the issue of whether domestic demand growth can be sustained in Germany by enough to outweigh demand weakness in the periphery of the region. Encouragingly, much more of Germany's remarkable 9% annualized surge in 2Q10 GDP owed to domestic final sales than was expected. The gain largely reflected a surge in business spending, but household spending also posted a solid increase in response to better labour market outcomes and rising confidence.

Signs of life in German consumer outlays are surprising if for no other reason than spending from early 2002 through early 2008 rose just 2.5% in total. Given that some of the forces that held back household spending in the last expansion—globalization and demographics—have not really changed, we have assumed that German consumption would perform in a similar way in the current expansion. But, there is evidence that something different might be happening, due to better labour market performance lifting household incomes and confidence. In the first half of the year, real employee compensation rose at an average pace of 2.8% ar, compared with an average contraction of 0.6% ar in the previous expansion. It looks like the distribution of income growth may be more even across households and corporates in the current upswing than in the last expansion, when corporates undertook an extensive restructuring to boost their international competitiveness, facilitated by the cooperation of organized labour and the government.

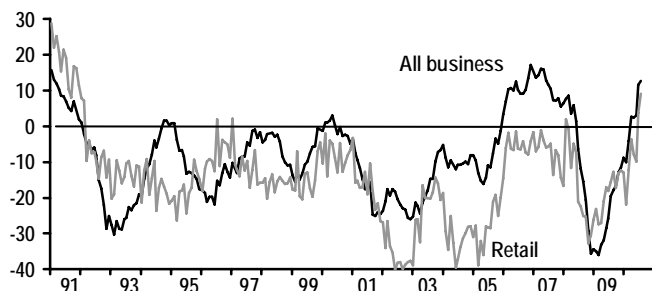
The most recent data point to continued improvement. In the EC survey, German consumer confidence rose strongly through July. The IFO survey shows retailers' confidence in August at the highest level since December 1991. At the same time, corporates are still well positioned for further growth. Despite strong gains this year, levels of equipment spending remain depressed whereas corporate income has recovered strongly. In addition, corporate sentiment continues to improve, as underscored by the August gain in the IFO survey.

Revising down Japan growth

Real GDP in Japan is now expected to rise at a sluggish 1%

IFO survey of German business climate

% balance, sa



annual rate in 4Q10 and 1Q11, a downward revision of 0.5%pt from the week before. Although the most recent high-frequency indicators suggest economic activity is expanding more strongly in the current quarter, the moderation that began in 2Q will likely reassert itself in the coming months. Consumer spending is being supported by improving labour income but also has gotten a temporary boost from unusually warm weather, which prompted increased spending on air conditioners and summer clothes. More importantly, the slowing in external demand from Asia and the US will be felt heavily in Japan, with IP growth projected to fall from 18% annualized in 1H10 to just 1.5% in 2H10. In addition, the recent appreciation of the yen is likely to weigh on exports and/or corporate profits, which will in turn damp business spending on equipment and hiring. This week's IP data should confirm the loss of momentum through midyear, while the Shoko Chukin and PMI surveys are expected to point to a modest pickup in August.

Against this backdrop, the government is expected to announce a new fiscal package this week. The individual measures are expected to be modest, however, and partly driven by politics. With DPJ heavyweight Ichiro Ozawa announc-

ing that he intends to challenge PM Kan for the party presidency in the September 14 party election, Kan needs to convince DPJ voters of his ability to take effective, timely action. While this week's fiscal package already has been incorporated into our view, the BoJ is now likely to support the government by announcing additional easing measures on September 7. The most likely option is an increase in the duration and magnitude of the current fixed-rate operations. At the same time, the possibility of the MoF intervening in the FX market cannot be ruled out if yen appreciation gathers momentum and USD/JPY moves below 80.

Policy normalization to slow even more

As would be expected, the latest downward revisions to our global growth forecast continue to reverberate through the policy space. In the G-4 economies, central banks are expected to leave rates at their current low levels for considerably longer, while the chances that they will enact additional QE are rising. Elsewhere, the slow move to normalize policy rates will turn even more gradual. Consequently, global policy interest rates are now projected to increase just 17bp to 1.54% by the middle of 2011. This is about 50bp less than what we were predicting a few months ago.

We made more adjustments to our policy calls last week. In Australia, we now expect the RBA to extend the current policy pause until early 2011, whereas we previously looked for another 25bp hike in November. Last week we dropped an expected September rate hike in New Zealand and now think the RBNZ will leave rates on hold until December. In Switzerland and Turkey, the expected onset of policy tightening has been pushed back to June 2011 and 4Q11, respectively. In South Africa, we maintain our call that the Reserve Bank will ease 50bp in September, with a 30% chance of an additional cut in November.

JPMorgan View - Global Markets

Deflation risks rising

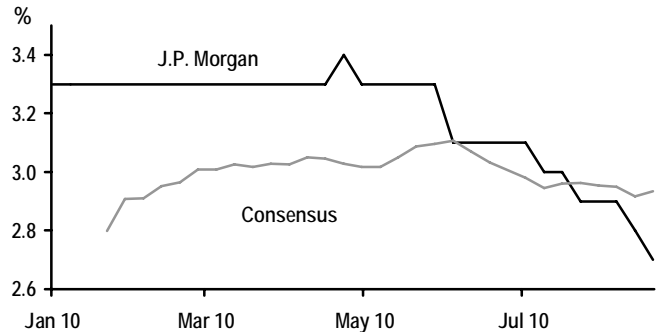
- **Economics:** 2H10 global growth forecasts are lowered again, to 2.3%, which is below potential. This raises the risk of deflation further, even as it is not our base case.
- **Asset allocation:** We present a portfolio of deflation hedging ideas across all asset classes.
- **Fixed income:** Add longs in US Treasuries.
- **Equities:** Equities are trading technically well as they remain in their three-month trading range, despite steady downgrading of growth prospects. But longer term, they are at risk of greater fears of deflation.
- **Credit:** Overweight credit vs. equities as credit is likely to outperform in a slow growth environment.
- **FX:** We favour longs in JPY and CHF, both as short-term trades and as longer-term hedges against deflation.
- **Commodities:** Oil is likely to head into the mid \$60s. Stay underweight as oil demand is set to slow sharply, and additional supply is expected in coming months.

Riskier assets are only slightly down over the week, despite strikingly weak US housing and durable goods data, and little comfort from the rest of the world. Markets appear to have become less sensitive to bad news recently, suggesting that market participants may have already moved to short positions. This could reduce the downside to risky markets, but cannot prevent further falls if weak economic data raise risks of another recession soon. In addition, we fear that many Northern Hemisphere investors remain on vacation and have not yet absorbed the bad economic news.

Market views on growth have continued to slide back over the past two months (chart). We initially took the position that this would not continue. That was a wrong assumption, and we thus had to turn more defensive. We are long duration in bonds, short commodities, and favour the more defensive sectors in equities. We continue to favour credit over equity exposures as equities require good growth and credit only needs downside economic protection. Our main risk scenario remains below-potential global growth but still positive growth, rather than an outright recession. This is because weakness is showing up mostly in the US, and because the cyclical types of spending—durables, housing, capex, and inventories—are already at depressed levels.

Have policymakers run out of ammunition? Unless they

2011 Global GDP growth forecasts: J.P. Morgan versus consensus



become a lot more adventurous, the answer is probably yes, or at least almost, as monetary policy is already max stimulative and public finances are in a precarious condition. Mr. Bernanke tried to allay market fear by assuring us the FOMC will do “all that it can” to assure recovery, but what is that exactly? He listed three potential added measures: more QE buying of USTs; assuring markets it will keep rates on hold for longer; and paying less interest on excess reserves. The first two ought to work through lowering bond yields. We see indeed a decent probability that the Fed will announce another \$500 billion-\$1 trillion of QE UST buying during the second half of September. With bond yields already at historic lows and credit demand weak, these measures are unlikely to have much impact on the economy.

The risk is thus rising that the mature economies of Europe and North America are joining Japan into a decade of low growth and deflation. Bernanke said last week that he did not consider this risk significant, but we suspect he was trying to allay fears, rather than trying to gauge probabilities. Deflation is not our base case, either, but we still consider it a serious risk that is worth hedging.

We, therefore, issued last week a compendium of 17 sets of deflation hedging ideas across a wide range of asset classes we cover (*A portfolio of deflation hedges*, Loeys et al., Aug 25). Besides paying in inflation swaps, being long duration, holding curve flatteners, and shorting commodities, we focus on overweighting the regions, sectors, and companies least vulnerable to deflation. Most vulnerable are clearly economic agents with high nominal debt relative to real assets. We would thus underweight the currencies of borrowing nations, such as USD and NZD, versus JPY and CHF, and the credit of highly leveraged corporates, smaller governments, and local authorities. Deflation would also hurt insurers.

At what point could policymakers lose patience and become more adventurous? A deflation scenario will put intense pressure on policymakers to provide more stimulus. But what

if the measures they are considering do not do the job, as happened in Japan? For us the argument that the US will avoid deflation by acting much faster than Japan does not pass muster. More adventurous, but also more dangerous, measures could include real QE—buying of real assets such as equities or buildings, massive fiscal easing despite already sky-high deficits, and beggar-thy-neighbor policies such as currency depreciation and trade wars. At this point, **policymakers are extremely averse to such options**, as conditions are not yet bad enough in the world, and it is quite likely that such measures would do more bad than good. With policymakers more likely, therefore, to take low growth “on the chin,” deflation is becoming more likely.

Fixed income

Weak US data continued to fuel the bond market rally, pushing German Bund and UK gilt yields to new lows. Global bonds are on course to record their largest monthly gain since 2008. The rally is underpinned by central banks’ move away from devising QE exit strategies toward preparing the ground for further easing. Indeed, after Bernanke’s much-anticipated speech Friday, we think there is a decent chance the Fed will announce more Treasury buying, perhaps as soon as next month. **We stay bullish on duration, and add longs in Treasuries.**

Bond investors have been steadily adding duration over the summer. Speculative long positions in US bond futures have risen sharply, while our surveys suggest that US and Euro area bond managers are net long. **Positions are not, however, particularly imbalanced compared with the past** (see chart from our *European Duration Survey*), and thus do not suggest a disorderly squaring of positions is a significant near-term risk.

Just as German yields record new lows, Euro area peripheral spreads have been approaching new highs, driven in part by Ireland’s rating downgrade and the broad-based move away from risky assets. **We continue to expect that an environment of low policy rates and volatility will push investors toward higher-yielding assets, including Euro area peripherals and EM local bonds.** Of the two, EM is, however, much better placed to weather the growth slowdown, due to stronger government balance sheets and the greater room for EM central banks to loosen policy.

Equities

Equities were down about 1% on the week. They remain

within their three-month trading range, despite the steady downgrading of economic prospects over the summer. Further reductions in growth forecasts cannot be good for equities, but it is comforting to see that stocks have not lurched to new lows this year. We are not outright short equities, and prefer to focus on relative return positions, underweighting cyclicals against bond-like equities, and underweighting equity against credit exposures.

Our best guess remains that the slowing in the US is largely due to US deleveraging and will not become a global recession. We thus underweight US against European equities, and especially against Emerging Markets. EM economies cannot escape a US slowdown, but economic conditions, and especially domestic demand, are in much better shape in EM.

Equities don’t like either inflation or deflation. Both create uncertainty and are bad for profits. And multiples tend to be lower in both deflationary and inflationary periods relative to more stable periods. Equity investors worried about deflation risk should favor EM over DM, US and UK over Europe, and defensive bond-like sectors (Telecoms, Staples, Pharma) over Financials and Cyclicals. Deflation should also favour preferreds and high-dividend stocks (see Mislav Matejka in *A portfolio of deflation hedges*, Loeys et al, Aug 25).

Credit

Credit markets sold off last week, especially in higher-yielding sectors. US high yield spreads are approaching the wides seen in May/June, while HG spreads remain far below the wides seen earlier in the summer.

Continued weak data flow is putting pressure on risky markets. However, we maintain the view that **credit will likely outperform equities.** Although credit performance is also correlated with the business cycle, economic data suggest a slower growth environment but not an outright contraction of the world economy. This leads to better expected returns for credit vs. equity risk as the equity market depends on strong growth. Investor flows are also supportive of the trade as corporate bond funds continue to receive strong inflows, even for high-yield funds. In contrast, equity funds have been seeing strong outflows over the past three weeks. **Overweight US HY bonds versus the S&P 500** on a vol-adjusted basis.

Corporate bonds also benefit from **improvements in credit**

fundamentals. For HY, both the default rate and the down-grade rate are falling. For US HG, 2Q earnings are showing further strengthening of the corporate sector. Profit margins are at a decade high, having improved strongly over the last quarter. The leverage ratio has fallen from the cycle high of 2.2x debt-to-EBITDA to 2.0x in 2Q, and the level of cash holdings remains elevated. For banks, improving asset quality is driving significant reserve releases, which helped to push bank capital ratios to the highest level of the decade (See *High Grade Credit Fundamentals: 2Q 2010*, Eric Beinstein).

Foreign exchange

Although Bernanke tilled no new ground in Wyoming, re-launching QE remains an option this fall as deflation risks intensify. For now, further asset purchases are almost irrelevant to most currencies since additional liquidity would not improve growth prospects much. With growth uncertainties dominating and US data still undershooting, August patterns should persist into September: higher JPY and CHF, lower commodity/carry currencies, and a rangebound EUR/USD.

The dollar risks broad collapse under QE only if the economy reaccelerates while the Fed's balance sheet is expanding, as in 2009. Nothing is worse for the currency of a debtor country than zero yields, abundant liquidity, and strong growth. Barring another sovereign shock in Europe, the dollar would become the pre-eminent funding currency, as in 2009.

Our portfolio has been defensive for a month through some combination of shorts in commodity/carry currencies and longs in funding currencies (long JPY vs. USD and NZD, long CHF vs. EUR and NOK). As we outlined last week, these carry unwinds tend to move positions from long to flat, and valuations from expensive to cheap. Only one of the trades in the portfolio has moved to very cheap levels (NOK vs. CHF), so we take profits. Other trades have not yet hit targets for flat positions or stretched valuations to justify exiting. Stay short USD/JPY, NZD/JPY, and EUR/CHF.

Ten-year Government bond yields

	Current	Sep 10	Dec 10	Mar 11	Jun 11
United States	2.51	2.65	2.50	2.50	2.50
Euro area	2.12	2.10	2.15	2.20	2.30
United Kingdom	2.84	2.90	2.90	3.00	3.10
Japan	1.00	0.85	0.80	0.80	0.90
GBI-EM	6.37			7.90	

Credit markets

	Current	YTD Return
US high grade (bp over UST)	166	10.6%
Euro high grade (bp over Euro gov)	177	6.1%
USD high yield (bp vs. UST)	709	8.4%
Euro high yield (bp over Euro gov)	695	8.5%
EMBIG (bp vs. UST)	309	12.7%
EM Corporates (bp vs. UST)	357	11.6%

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	85.2	80	79	81	83
GBP/USD	1.55	1.47	1.44	1.42	1.42

Commodities - quarterly average

	Current	10Q3	10Q4	11Q1	11Q2
WTI (\$/bbl)	74	75	75	75	77
Gold (\$/oz)	1240	1250	1275	1250	1250
Copper(\$/m ton)	7292	6500	6750	6750	7000
Corn (\$/Bu)	4.40	3.90	3.80	4.00	4.20

Source: J.P. Morgan, Bloomberg, Datastream

Commodities

Commodity markets were broadly unchanged last week. We stay underweight in Oil and Industrial Metals.

At this point, the slowing of global growth seems undisputable. For oil, demand growth is expected to slow sharply in the coming months. In addition, supply data continue to be revised upward, with additional supply expected over the coming months. The risk from a hurricane disruption also seems reduced as hurricane activity thus far has been in the mid-Atlantic rather than the Gulf of Mexico. As a result, we see **oil prices likely to head into the mid \$60s in the near term** and stay short oil.

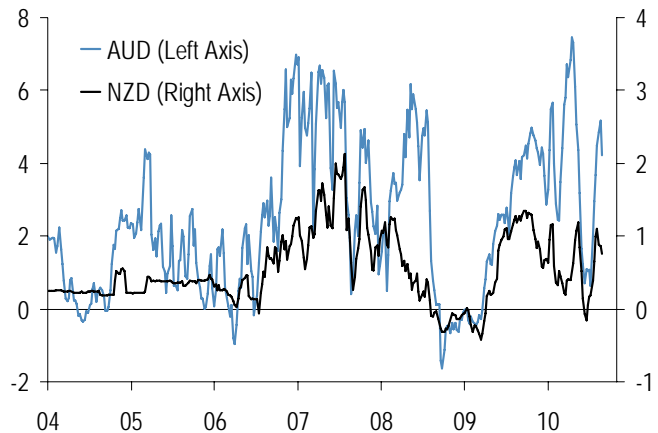
AUD and NZD Commentary

- **We stay short NZD/JPY despite the possibility of re-narrowed Fed QE**
- **Short term bullish setup for risk validated with Friday's strength in AUD and NZD; additional outperformance expected over the short term.**
- Federal Reserve Chairman Bernanke much-awaited speech at the Kansas City Fed's Jackson Hole symposium tilted no new ground. However, he left little doubt that another round of quantitative easing (QEII) will be forthcoming should US growth remain sub-trend and inflation recede further. Nevertheless, markets remain cynical about the prospect of additional easing, and for good reason. Monetary stimulus hits diminishing returns at low yield levels, just as fiscal stimulus does at high debt levels.
- Moreover, there has been no sign of a let-up in the steady stream of downbeat news on economic activity in Asia and North America. Hence the steep decline in stocks, widening of credit spreads and pullback in high-beta FX since early August. There is little scope to quibble with these moves. QE will be positive for government bonds and funding currencies (JPY, CHF, USD) and likely will remain so until the economic data stabilize.
- Against this backdrop, we stay short NZD/JPY. We entered the position on July 30 at 62.40 and have lowered our stop to 61.30. NZD has been the best performing of the commodity currencies over the past week, but it nevertheless fell over 1% versus JPY. In the latest RBNZ survey, two-year inflation expectations have receded to 2.6%. Furthermore, we have nudged down our New Zealand growth forecast and now expect the RBNZ to stay on hold until December. Rate differentials continue to move against NZD with the two-year NZ-Japan swap yield spread the narrowest in over a year.
- Despite the late-week bounce on profit taking in JPY longs, short NZD/JPY remains a compelling trade, with NZ having the worst fundamental position of all the commodity currencies. Also, while CTAs have trimmed NZD and AUD longs, history teaches us that deleveraging episodes typically run until long risk positions have been eliminated.

Technical analysis

- The near term setup suggests some additional upside retracement for AUD/USD and NZD/USD is likely to develop following last week's test and hold of key support levels. This setup is in line with the short term oversold framework as well as the effective test and hold of the key levels for equity markets including the 1040 area for the S&P500.

Chart 1: Net AUD and NZD positions on IMM (\$bn), 2004-24 Aug 10



Source: J.P. Morgan

- For AUD/USD, Friday's lift above the key .8915/.8985 resistance area which includes the August downtrendline and 200-day moving average should allow for additional upside follow-through. Importantly, this follows the effective test of the key .8780/60 support area represented by the June channel and 38.2% retracement from the May low. In turn, the focus is on the .9080/85 resistance area as this should now define whether a retest of the .9200/.9300 resistance zone is underway.
- Similarly, NZD/USD bounced above the August downtrendline and 200-day moving average which should allow for a closer test of the key .7195/.7230 resistance zone. This area includes the mid-August high and early-August breakdown area. Breaks suggest a better short term spin and retest of the July peak. Importantly the .6950 area should now hold to maintain the near term upside bias.

AUD/USD - Daily chart



Source: CQG, Inc. © 2010 All rights reserved worldwide www.cqg.com

Fri Aug 27 2010 15:49:08

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	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	1Q10	2Q10	4Q10	2Q11
The Americas														
United States	-2.6	2.6 ↓	2.4	3.7	1.6 ↓	1.5	2.0	2.5	2.5	3.0	2.4	1.8	0.9	1.2
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	5.5	3.8	4.1	9.0	2.6	3.1	3.2	5.7	2.8	6.0	6.2	7.0	7.1
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	-2.5	13.5	-3.6	3.1	2.9	9.2	-0.1	4.8	4.0	5.1	4.5
Peru	0.9	8.2	6.0	8.0	12.7	4.8	3.5	5.8	6.7	7.2	0.7	1.2	2.6	2.2
Venezuela	-3.3	-2.2	1.0	-2.0	5.2	3.0	-5.0	2.0	1.0	1.5	27.4	31.9	31.6	34.7
Asia/Pacific														
Japan	-5.2	2.7	1.3 ↓	4.4	0.4	1.8	1.0 ↓	1.0 ↓	1.5 ↓	1.8	-1.2	-0.9	-0.7	0.1
Australia	1.3	2.7	3.0 ↓	2.0	1.8 ↓	3.3	3.6 ↓	2.8 ↑	2.7 ↓	3.4 ↓	2.9	3.1 ↓	3.3 ↓	3.8 ↓
New Zealand	-1.7	2.9 ↑	2.7	2.3	4.4 ↑	3.8 ↑	2.2 ↑	2.0 ↓	2.8 ↓	2.9 ↓	2.0	1.8	4.9	5.6
Asia ex Japan	4.8	8.6	6.7 ↓	10.5 ↓	7.3 ↑	5.1 ↓	6.1 ↓	7.1 ↑	7.0	7.2	4.3	4.4	4.2	3.9
China	9.1	9.8	8.6	10.8	7.2	7.5	8.1	9.1	8.9	9.1	2.2	2.9	2.8	2.7
Hong Kong	-2.8	6.6	4.1	8.7	5.7	3.0 ↓	3.5 ↓	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	6.8	6.6
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	-1.2	7.2	4.6	4.8	7.2	3.0	3.5	4.9	4.9	4.5	1.3	1.6	1.1	1.3
Philippines	1.1	7.0 ↑	3.9 ↓	11.9 ↓	7.7 ↑	0.8 ↓	1.6 ↓	4.9 ↑	4.9 ↑	4.9 ↑	4.3	4.2	1.8	1.5
Singapore	-1.3	14.8 ↓	4.2 ↓	45.7	24.0	-11.5 ↓	-2.0 ↓	8.7 ↑	6.6	7.4 ↓	0.9	3.1	3.0	1.4
Taiwan	-1.9	9.9	4.1	10.9	7.2	1.5	2.3	4.2	4.6	5.5	1.3	1.1	2.0	1.8
Thailand	-2.2	8.5	5.0	13.9 ↓	0.6 ↑	2.8	2.8	6.0	5.5	4.0	3.7	3.2	1.1	1.5
Africa/Middle East														
Israel	0.8	3.5	4.5	3.6	4.7	3.0	3.0	4.0	5.0	5.5	3.5	2.8	2.6	3.0
South Africa	-1.8	2.9	3.1	4.6	3.2	3.1	3.2	3.1	3.1	3.4	5.7	4.5	4.5 ↓	4.7 ↓
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	1.6 ↑	1.0 ↑
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	-1.2	1.5	2.3	0.7	1.9	3.0	2.8	2.0	2.0	2.5	2.9	2.6	1.4	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	1.7 ↑	2.2	1.3	4.9 ↑	2.5	1.5	1.0	2.5	3.0	3.3	3.5	2.6	1.9
Emerging Europe	-4.9	3.9	4.3	2.6	4.0	2.9	4.1	3.5	4.0	4.3	6.1	5.4	5.9	6.0
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	3.5	6.0	4.8	5.0	5.0	7.2	5.9	7.2	8.0
Turkey	-4.7	5.9	5.0	...	...	...	...	...	...	...	9.3	9.3	7.5	6.7
Global	-2.6	3.2 ↓	2.7 ↓	3.8	3.4 ↓	2.3 ↓	2.3 ↓	2.5	2.8	3.1	2.2	2.1	1.9	1.9
Developed markets	-3.5	2.3	2.0	2.8	2.4 ↓	1.9	1.6 ↓	1.7 ↓	1.9 ↓	2.4 ↓	1.5	1.4	1.1	1.1
Emerging markets	1.1	6.9	5.5	7.4 ↓	7.1 ↑	4.1 ↓	4.9 ↓	5.4	6.1	5.6	5.1	4.9	5.1	4.9
Memo:														
Global — PPP weighted	-0.8	4.5	3.8 ↓	5.1	4.5 ↓	3.3	3.4 ↓	3.7	4.0	4.2	3.3	3.2	3.1	3.0

Global Central Bank Watch

	Official interest rate	Change from			Forecast		Sep 10	Dec 10	Mar 11	Jun 11	Sep 11
		Current	Aug '07 (bp)	Last change	Next meeting	next change					
Global	GDP-weighted average	1.37	-329				1.39	1.43	1.47	1.54	1.58
excluding US	GDP-weighted average	1.96	-240				1.98	2.04	2.11	2.21	2.26
Developed	GDP-weighted average	0.54	-357				0.55	0.56	0.59	0.61	0.63
Emerging	GDP-weighted average	4.70	-216				4.74	4.87	5.01	5.25	5.36
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				4.04	4.06	4.08	4.32	4.60
EM Asia	GDP-weighted average	4.23	-187				4.29	4.49	4.57	4.71	4.76
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)	<u>1 Sep 10</u>	Jan 11 (+25bp)	10.75	10.75	11.50	12.50	12.50
Mexico	Repo rate	4.50	-270	17 Jul 09 (-25bp)	24 Sep 10	On hold	4.50	4.50	4.50	4.50	4.50
Colombia	Repo rate	3.00	-600	30 Apr 10 (-50bp)	24 Sep 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	1.29	1.29	1.34	1.39
Euro area	Refi rate	1.00	-300	7 May 09 (-25bp)	<u>2 Sep 10</u>	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	On hold	0.50	0.50	0.50	0.50	0.50
Sweden	Repo rate	0.50	-300	1 Jul 10 (+25bp)	<u>2 Sep 10</u>	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)	27 Sep 10	3Q 11 (+25bp)	5.25	5.25	5.25	5.25	5.50
Israel	Base rate	1.75	-225	26 Jul 10 (-25bp)	27 Sep 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)	Sep 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)	<u>Aug 10</u>	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	9 Sep 10 (-50bp)	6.00	6.00	6.00	6.00	6.00
Switzerland	3-month Swiss Libor	0.25	-225	12 Mar 09 (-25bp)	16 Sep 10	Jun 11 (+25bp)	0.25	0.25	0.25	0.50	0.75
Turkey	1-week repo rate	7.00	-1050	-	16 Sep 10	4Q 11 (+50bp)	7.00	7.00	7.00	7.00	7.00
Asia/Pacific	GDP-weighted average	2.24	-120				2.27	2.36	2.42	2.50	2.54
Australia	Cash rate	4.50	-175	4 May 10 (+25bp)	7 Sep 10	Feb 11 (+25bp)	4.50	4.50	4.75	5.00	5.25
New Zealand	Cash rate	3.00	-500	29 Jul 10 (+25bp)	15 Sep 10	Dec 10 (+25bp)	3.00	3.25	3.75	4.00	4.25
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)	<u>3 Sep 10</u>	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)	<u>2 Sep 10</u>	On hold	2.75	2.75	2.75	2.75	2.75
Philippines	Reverse repo rate	4.00	-350	9 Jul 09 (-25bp)	7 Oct 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)	20 Oct 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	1.500	1.500	1.500	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	1.3	2.7	3.0	3.4	1.1	4.5	2.0	1.8	3.3	3.6	2.8	2.7	3.4	2.6
Private consumption	1.6	2.0	1.6	5.1	1.3	3.6	2.3	0.8	0.4	1.6	2.0	1.6	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	9.4	13.5	43.6	49.7	55.4	14.2	10.0	10.6	6.8	11.4	7.0	9.6
Government consumption	2.8	3.6	3.3	3.4	5.4	7.5	3.3	0.1	3.9	0.2	3.7	7.5	3.8	0.4
Exports of goods & services	1.4	1.6	2.1	8.4	-6.5	8.3	-2.0	2.8	2.4	2.0	1.6	1.2	3.2	3.2
Imports of goods & services	-7.8	10.9	4.8	3.5	18.0	36.6	7.3	0.0	3.2	3.2	4.1	8.2	6.1	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	-0.7	0.9	-4.6	-5.0	-2.0	0.5	-0.2	-0.3	-0.6	-1.5	-0.7	-1.2
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	-2.1	-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	5.0	5.7	5.8	5.6	5.3	5.3	5.3	5.2	5.1	5.0	4.9	4.8
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 10% in 2010-11, with mining leading the way, particularly with the mining tax roadblock being "dismantled". There will be a bigger rise in 2011-12.
- 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 for the remainder of the year. We expect four rate hikes throughout 2011.
- **Australian voters** have delivered a hung Parliament, the first since 1940. The Coalition looks to have won the most seats and, therefore, is best-placed to be asked to form a government.

Economic forecasts - New Zealand

New Zealand: economic projections <i>percentage change over previous period, seas. adjusted annual rates, unless stated</i>														
				2009			2010				2011			
	2009	2010	2011	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (1995-96 prices)	-1.7	2.9	2.7	0.3	1.2	3.7	2.3	4.4	3.8	2.2	2.0	2.8	2.9	1.9
Private consumption	-0.6	2.6	1.7	1.2	3.8	3.2	0.9	4.3	3.6	0.4	1.0	1.0	2.2	3.5
Fixed Investment	-12.5	0.1	4.1	7.1	-10.4	-7.2	3.3	4.5	4.6	4.1	2.2	4.1	6.0	7.3
Residential construction	-18.5	2.8	4.2	-8.4	-14.7	20.3	2.2	3.2	3.6	4.4	3.2	4.8	6.0	4.0
Other fixed investment	-11.3	-0.4	4.1	10.2	-10	-11.6	3.5	4.8	4.8	4.0	2.0	4.0	6.0	8.0
Inventory change (NZ\$ bil, saar)	-1.8	0.7	0.7	-1.1	-0.7	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	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	5.0	7.2	19.2	0.6	-2.7	5.5	8.0	8.0	8.0	7.0	7.0	6.0	6.0
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	2.4	2.3	1.4	-1.9	1.1	4.0	4.1	3.5	1.6	1.4	2.0	3.1	4.0
Inventories	-2.6	1.9	0.0	-10.2	5.0	11.6	-0.9	0.2	0.1	0.1	-0.2	0.2	0.2	-0.9
Net trade	5.9	-1.4	0.3	9.9	-1.8	-8.3	-0.8	0.1	0.1	0.5	0.9	0.5	-0.5	-1.2
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	-7.0	-5.4	-4.2
Yield on 90-day bank bill (%)*	3.0	3.1	4.0	2.8	2.8	2.8	2.7	2.9	3.3	3.5	3.8	4.0	4.0	4.1
10-year bond yield (%)*	5.5	5.5	5.0	5.7	5.7	5.9	5.9	5.7	5.3	5.1	5.1	4.9	4.9	4.9
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.
- Thereafter, 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 expect that Governor Bollard will sit on the policy sidelines until December.
- 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.

Australia and New Zealand economic calendar

Monday	Tuesday	Wednesday	Thursday	Friday
30 Aug Australia: Company operating profits (11:30 am) 2Q <u>1.0%q/q, sa</u> Inventories (11:30 am) 2Q <u>0.2%q/q, sa</u> New Zealand: Trade balance (10:45 am) Jul <u>NZ\$100 mn</u> NBNZ business confidence (3:00 pm) Aug <u>25% bal.</u>	31 Aug Australia: Pvt. Sector credit (11:30 am) Jul <u>0.2%q/q, sa</u> Retail sales (11:30 am) Jul <u>0.4%q/q, sa</u> Current account balance (11:30 am) 2Q <u>-A\$5.6 bn, sa</u> Building approvals (11:30 am) Jul <u>-4.5%q/q, sa</u> New Zealand: Building permits (10:45 am) Jul	1 Sep Australia: GDP (11:30 am) 2Q <u>0.5%oya</u> New Zealand: ANZ commodity prices (3:00 pm) Aug	2 Sep Australia: Trade balance (11:30 am) Jul <u>A\$2800 mn, sa</u>	3 Sep
6 Sep Australia: ANZ job advertisements Aug New Zealand: QV house prices Aug	7 Sep Australia: RBA cash target Sep	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	10 Sep New Zealand: Terms of trade 2Q
13 Sep	14 Sep Australia: NAB business confidence (11:30 am) Aug New Zealand: Retail sales (10:45 am) Jul	15 Sep Australia: Westpac consumer confidence (10:30 am) Sep Dwelling starts (11:30 am) 2Q	16 Sep New Zealand: Business NZ PMI Aug RBNZ official cash rate Aug	17 Sep
20 Sep	21 Sep	22 Sep Australia: Westpac leading index (10:30 am) Jul New Zealand: Credit card spending (10:45 am) Aug	23 Sep New Zealand: GDP 2Q	24 Sep

Global Data Diary

Week / Weekend	Monday	Tuesday	Wednesday	Thursday	Friday
30 Aug - 3 Sep	30 August	31 August	1 September	2 September	3 September
Russia • CPI (Aug) • CBR mtg: no chg	Euro area • EC bus conf (Aug) • EC cons conf final (Aug) Poland • GDP (2Q) United States • Personal income (Jul) • Dallas Fed surv (Aug)	Brazil: IP (Jul) Canada • GDP (2Q) Euro area • Unemployment rate (Jul) • HICP flash (Aug) Germany • Labor mkt report (Jul/Aug) India: GDP (2Q) Japan • Mfg PMI (Aug) • IP prelim (Jul) • Shoko-Chukin surv (Aug) Korea: IP (Jul) United States • FOMC minutes (Aug) • Case-Shiller HPI (Jun)	Australia • GDP (2Q) Brazil • COPOM mtg: no chg Germany • Retail sales (Aug) Japan • Auto regs (Aug) Korea • Trade balance (Aug) United States • ADP employment (Aug) • ISM mfg (Aug) • Auto sales (Aug) Global mfg PMIs (Aug)	Euro area • GDP revision (2Q) • ECB mtg: no chg Malaysia • BNM mtg: no chg South Africa • Auto sales (Aug) Sweden • Riksbank mtg: +25bps United States • Prod & costs revision (2Q) • Pending home sales (Jul) • Factory orders (Jul)	Brazil • GDP (2Q) Euro area • Retail sales (Jul) Indonesia • BI mtg: no chg Japan • MoF corporate surv (2Q) Korea • GDP (2Q) Turkey: CPI (Aug) United States • Employment (Aug) • ISM nonmfg (Aug) Global serv PMIs (Aug)
6 - 10 September	6 September	7 September	8 September	9 September	10 September
Japan • Cabinet Office private consumption index (Jul)	Brazil • Auto sales (Aug) Euro area • Foreign trade (Jul) United Kingdom • Auto regs (Aug) United States • Labor day; markets closed	Australia • RBA mtg: no chg Germany • Mfg orders (Aug) Japan • BoJ MPM: no chg Turkey • IP (Jul)	Canada • BoC meeting: +25bp Germany • Trade balance (Jul) • IP (Jul) Japan • Private mach orders (Jul) • Econ Watcher surv (Aug) United Kingdom • IP (Jul) United States • Beige book • Consumer credit (Jul)	Brazil • CPI (Aug) • Capacity utilization (Jul) Germany: CPI final (Aug) Japan • Consumer sent (Aug) Korea • BoK mtg: no chg South Africa • SARB mtg: no chg United Kingdom • BoE mtg: no chg United States • International trade (Jul)	Canada • Employment (Aug) China • Trade balance (Aug) India • IP (Jul) Italy • IP (Jul) Japan • GDP 2nd est (2Q) • BoJ MPM minutes (Aug) Sweden • IP (Jul)

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