

**Bernanke provides no indication of extra stimulus**

**US Federal Reserve Chairman Bernanke** acknowledged the recent slowdown in the US economy however gave no indication that the central bank was considering further stimulus. Speaking at a banking conference in Atlanta, Bernanke said that "a large number of indicators have lost momentum" and "US economic growth this year has been somewhat slower than expected".

**US consumer credit** rose by a larger than expected \$6.25 billion during April after a downwardly revised \$4.82 billion rise in March. The rise marked the seventh straight monthly increase. US ICSC chain store sales rose 0.4pct last week to be up 2.5 per cent on a year ago.

The broader measure of **European shares** fell for a fifth straight day on Tuesday on continued concerns about European sovereign debt concerns. Greek shares lost 2pct while the Greek banking index lost 3.7pct. However miners helped limit the losses with BHP Billiton up 0.7pct in London trade and Rio Tinto up 1.2pct. The FTSEurofirst index fell by 0.1pct but the German Dax gained 0.3pct, the UK FTSE was up almost 2pts.

**US sharemarkets** fell again in a volatile trading session on Tuesday. The bearish comments from Fed Chairman Bernanke about near term economic growth gave investors a reason to continue selling equities. The Dow Jones fell by 19pts or 0.2pct with the S&P 500 down by 0.1pct and the Nasdaq lost 1pt.

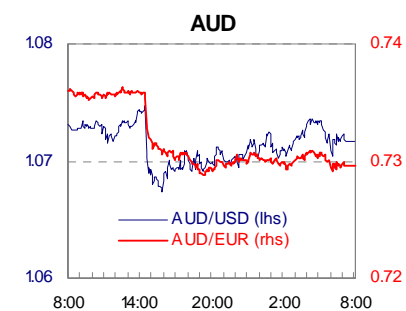
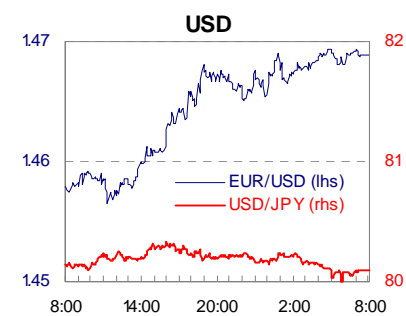
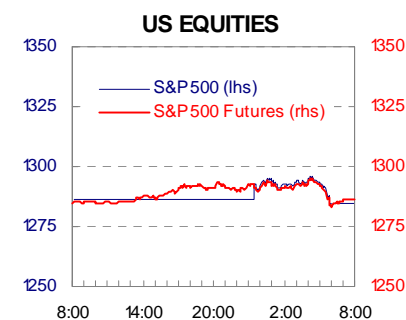
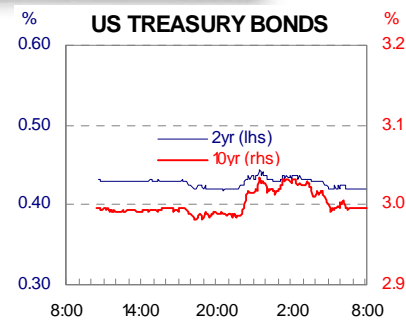
**US short dated** treasuries recorded modest gains after US Federal Reserve Chairman Ben Bernanke acknowledged a slowdown in the US economy. US 2yr yields fell 2pts to 0.409pct and US 10yr yields were flat at 2.994pct.

**The US dollar** extended losses against major currencies on Tuesday following the downbeat growth assessment by Fed Chairman Bernanke. The Euro rose from lows near US\$1.4610 to US\$1.4695, before ending US trade near US\$1.4690. The Aussie dollar rose from lows near US106.75c to near US107.35c before ending US trade near US107.15c. And the Japanese yen held between 80.30 yen per US dollar and JPY79.75, ending US trade near JPY80.10.

**Crude oil prices** rose in choppy trade on Tuesday as investors attempted to gauge if OPEC oil ministers will raise production quotas at their meeting on Wednesday. Saudi Arabia did comment that it planned to raise output in June regardless of the OPEC result - limiting gains in US crude prices. The Nymex crude oil contract rose by US8c to US\$99.08 a barrel. And London Brent crude rose by US\$2.30 to US\$116.78 a barrel.

**Base metal prices** were mostly higher on the London Metal Exchange on Tuesday supported by a weaker US dollar. And the gold price fell on Tuesday with Comex gold futures down by US\$3.20 an ounce to US\$1,544.

**Ahead:** In Australia, consumer sentiment and housing finance are released. In the US, the Federal Reserve beige books is released.



Indicative market rate at 7am Source: Bloomberg

Currencies	10 Yr Bond Yields (%)	Commodities	Equities
AUD/USD 1.0716 0.1%	Australia 5.22 -0.01	CRB Index 346.34 0.3%	Dow 12070.8 -0.2%
NZD/USD 0.8201 0.8%	NZ 5.10 0.00	S&P GS Index 698.5 -0.2%	S&P 500 1284.9 -0.1%
EUR/USD 1.4688 0.7%	US 2.99 0.00	Aluminium \$/t 2665 1.7%	NASDAQ 2701.6 0.0%
USD/JPY 80.08 0.0%	AU less US 2.23	Copper \$/t 9126.5 0.4%	FTSE 5864.7 0.0%
GBP/USD 1.6447 0.6%	NZ less US 2.10	Lead \$/t 2547 4.6%	Shanghai 2744.3 0.8%
USD/CHF 0.8365 0.0%	<b>AUD Swap Rates (%)</b>	Nickel \$/t 22604 -0.8%	H.Seng 22868.7 -0.4%
AUD/NZD 1.3067 -0.7%	3mth 5.03 0.02	Zinc \$/t 2250.5 0.5%	Nikkei 9443.0 0.7%
AUD/JPY 85.82 0.1%	3yr 5.21 -0.02	Gold \$/o 1544.6 0.0%	ASX200 4566.3 -0.1%
AUD/EUR 0.7296 -0.6%	5yr 5.50 -0.04	WTI Oil \$/b 99.09 0.1%	NZSX50 3505.6 -0.3%



## Economics: Preview

### AUSTRALIA & NEW ZEALAND

Wednesday 8 June

#### NZ Building Work, QI, q%ch, (f) -7.6 (-1.1 prev)

We expect a substantial decline in construction activity over Q1, driven by weakness in both residential and non-residential construction. Nationwide dwelling consent issuance was very low over the first three months of 2011, suggesting weak residential construction activity over the year. Consent issuance in Canterbury has fallen sharply in the wake of the earthquakes, and reconstruction work has yet to get underway in a meaningful sense. It could be several months before we start to see quake-related consents in the data.

Issuance of private non-residential work remained very weak over early 2011. Since the recession, public projects have largely offset weakness in new private developments. Population growth should underpin a recovery in housing demand and encourage the building of new homes. Meanwhile, we expect rebuilding activity will provide a boost to construction over 2012.

#### AU Housing finance, Apr

■ **No. of own-occupiers, m%ch, (f) 4.0 (-1.5 prev)**

■ **Value of all loans, m%ch, (f) 7.0 (-1.1 prev)**

March housing finance data was weaker than expected. The number of housing finance approvals fell 1.5% in the month, while the value approved dipped 1.1% (MoM). The falls in March confirmed the recent trend of weak housing transaction volumes. Since the start of 2011 the volume of loans has fallen 12%, with the value of loans 10% lower. These 2011 declines have largely erased the gains made in the second half of 2010.

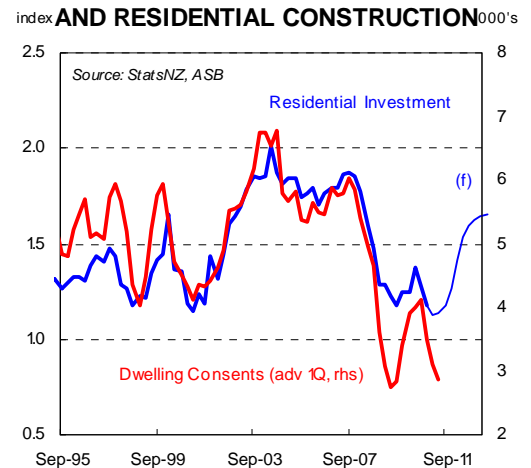
Despite recent weakness, over the long-run, we expect Australia's underlying economic strength to lift housing finance approvals. Given the recent lift in private dwelling building approvals and the dissipation of early 2011 weather effects, we expect the total value of loans to have rebounded in April, rising by 4% in the month.

#### AU Consumer Confidence, Index, June, (103.9 prev)

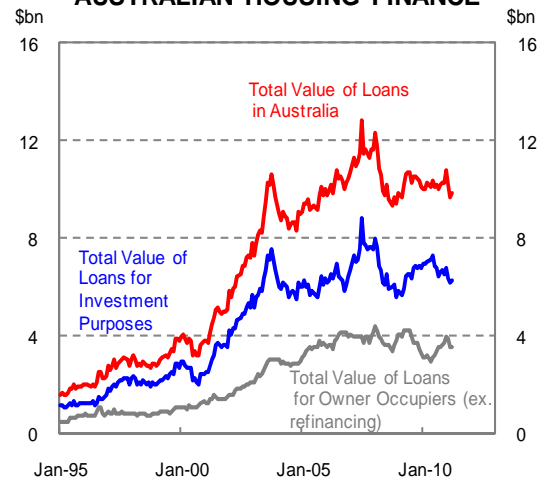
Australian consumer confidence moderated slightly in June. Consumer sentiment declined by 1.3% in the month. In May the index declined to its lowest point since June 2010. Confidence levels are now some 4% lower compared to a year ago. Interestingly, while the current conditions index remained elevated in May, the expectations index declined to its lowest point since May 2009. Consumers appear wary of the road ahead.

Elements of consumer caution remain in the economy, such as the elevated household savings ratio. Potential future interest rate rises, and rising living costs may act as headwinds to higher near-term consumer confidence. But, given the underlying economic strength, any significant drop in consumer confidence appears unlikely.

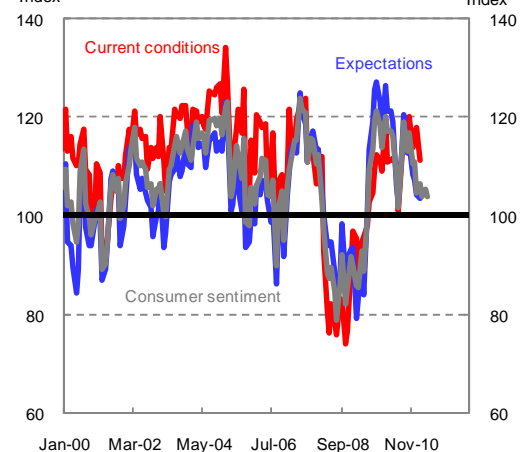
#### EX-APARTMENT DWELLING CONSENTS



#### AUSTRALIAN HOUSING FINANCE



#### CONSUMER CONFIDENCE





## INTERNATIONAL

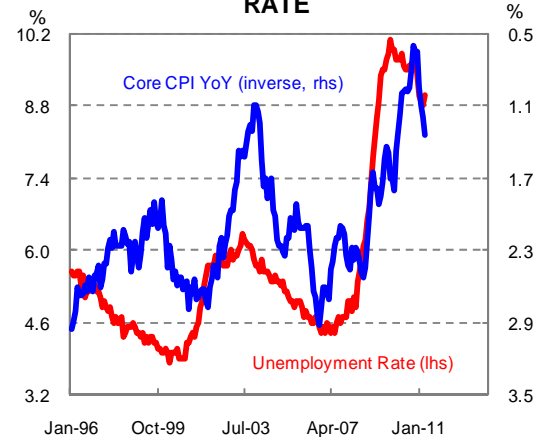
Wednesday 8 June

### US Fed's Beige Book

The Federal Reserve's (Fed) April *Beige Book* indicated that the US economy expanded at a "moderate pace" across a majority of US districts in early 2011. Anecdotal evidence collected across the respective divisions pointed to broad based improvement. Significantly, the report also stated that most districts reported that "labour market conditions were generally stronger than in previous reports". However most districts did point out that uncertainty remains high.

There is a risk the latest report may not be as upbeat given the softness in recent jobless claims, retail and manufacturing data. The latest *Beige Book* could point to pockets of weakness developing in various districts. The Fed remains concerned about the US output gap, with the pace of labour market improvement somewhat underwhelming. It will be interesting to see what information the various districts provide about the prospects for the labour market.

### US CORE CPI & UNEMPLOYMENT RATE

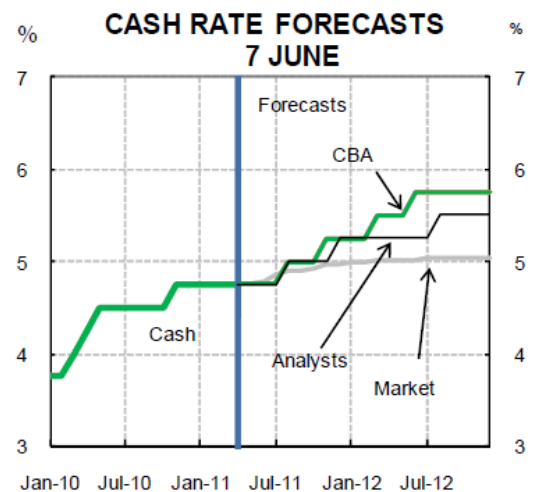


## Economics: Review

### Australia and New Zealand

#### RBA rate decision

- RBA indicates that current "mildly restrictive policy" setting is appropriate.
- Inflation is expected to be "close to target" over the next 12 months. June quarter CPI is out on 27 July.
- World growth outlook remains positive even with European sovereign debt issues raising financial market volatility.
- Japan's problems have affected Asian economic growth but commodity demand remains firm.
- Terms of trade rose to record high in Q1 and that will lift national income over coming year.
- We still expect an August RBA cash rate rise to 5.0% following the June quarter CPI data.



The RBA left rates on hold at their meeting yesterday. The overall tone in the RBA's statement was remarkably similar to the May meeting statement. The statement didn't contain the explicit message that higher rates would be needed "at some point", but the May meeting statement didn't either. We had to wait for the quarterly policy statement a few days later for that important signal. The phrase appeared again in the minutes released a few weeks later –that will be one to watch for in minutes on 21 June.

#### RBA view

*The RBA has raised its inflation and growth outlook despite downward pressure from the high \$A. Further rate rises are likely. We expect rates to reach 5.25% by QIV 2011*

#### RBNZ view

*In response to domestic economic weakness and the Christchurch earthquake, the RBNZ delivered a 50bpt rate cut at the 10 March policy meeting. We expect the RBNZ's tightening cycle to resume in Q1 2012.*



## US & CANADA

**Fedspeak:** Bernanke is on the wires right now, and overnight Fisher, Lockhart and Evans spoke. Fisher said there was ample liquidity in the U.S. financial system and no need for the U.S. central bank to continue its extremely easy monetary policy. Evans said although economic weakness had prompted him to revise down his forecasts for U.S. economic growth this year and next, he does not support additional monetary easing. Lockhart spoke about the depressed state of the US housing market, but sees no fiscal or monetary policy approach to speed up the housing recovery (Reuters). Bernanke continues to sound frustrated by the sluggish economy, but isn't providing any QE3 hints. The speakers combined with a 3-year bond auction set the tone in the US fixed interest market, where yields pressed a touch lower

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### Bank of Canada view

*The Canadian economy is recovering, and the BoC has begun to remove stimulus. We expect a slow and steady removal of policy accommodation to ensue.*

## EUROZONE & UK

**European retail sales increased** 0.9% from March, when they dropped 0.9%. Economists had projected a gain of 0.3 percent, the median of 22 estimates in a Bloomberg News survey showed. April sales are up 1.1% from a year earlier.

**Euro debt woes:** Catalonia's refusal to meet Spain's deficit target risks encouraging other regions to join in rebellion as the Prime Minister's authority wanes with the approach of general elections. Catalonia is the largest Spanish region with an economy the size of Portugal. It plans a 2011 deficit twice as wide as its target. Moody's Investors Service said the situation was "credit negative" for Spain. (Bloomberg). Meanwhile, an IMF official said the IMF is open to delaying Greece's repayment of its international bailout deal but a major restructuring of its debt would create untold problems in the euro zone.

### Bank of England view

*While some members of the BoE are concerned about UK inflationary pressures, the majority see downside risks developing in the UK economy. The risk that the BoE remains on hold for an extended period is building.*

### ECB view

*Elevated inflation in the Eurozone has led to the ECB commencing tightening in an effort to pre-empt the onset of second round inflation effects. We expect the ECB to raise rates again in QIV 2011.*

## CHINA & JAPAN

### Bank of Japan

*In response to the recent natural disasters, the Bank of Japan has implemented further quantitative easing measures. Monetary policy in Japan is likely to remain accommodative for some time.*



## The Week Ahead

### Calendar - Australasia, Japan and China

Date	Time		Event	Period	Unit	Last	Forecast	
	AEST	Econ					Market	CBA
Wed 8 Jun	~	JP	Eco watchers survey: current	May	Index	28.3	~	~
	~	JP	Eco watchers survey: outlook	May	Index	38.4	~	~
	08.45	NZ	Value of all buildings sa	QI	q%ch	1.1	~	~
	09.50	JP	Adjusted current account total	Apr	¥bn	752.7	~	~
	10.00	NZ	QV house prices	May	y%ch	-1.9	~	~
	11.00	AU	Consumer Confidence Index	Jun	Index	103.9	~	~
	11.30	AU	Home loans	Apr	m%ch	-1.5	~	4.0
	11.30	AU	Owner-occupied home loan value	Apr	m%ch	-1.1	~	7.0
Thu 9 Jun	07.00	NZ	RBNZ official cash rate	Jun	%	2.5	2.5	2.5
	09.50	JP	Nominal GDP	QI	q%ch	-1.3	~	~
	09.50	JP	GDP annualized	QI	% saar	-3.7	~	~
	09.50	JP	GDP	QI	q%ch	-0.9	~	~
	09.50	JP	Machine tool orders	May	y%ch	32.3	~	~
	11.30	AU	Employment change	May	'000	-22.1	~	25.0
	11.30	AU	Unemployment rate	May	%	4.9	~	4.8
Fri 10 Jun	11.30	AU	Participation rate	May	%	65.6	~	65.6
	~	NZ	REINZ housing price index	May	m%ch	1.1	~	~
	08.45	NZ	NZ card spending - total	May	m%ch	1.7	~	~
	09.50	JP	Tertiary industry index	Apr	m%ch	-6.0	~	~
	12.00	CH	Trade balance	May	USD bn	11.4	~	~
	12.00	CH	Exports	May	y%ch	29.9	~	~
	12.00	CH	Imports	May	y%ch	21.8	~	~



## Calendar – North America &amp; Europe

Please note all days and times are UK time, not local release day/times

Date	UK			Period	Unit	Last	Forecast	
	Time	Econ	Event				Market	CBA
Tue 7 Jun	00.01	UK	BRC sales like-for-like	May	y%ch	5.2	3.0	~
	10.00	EZ	Retail sales	Apr	m%ch	-0.9	0.3	~
Wed 8 Jun	00.01	UK	BRC shop price index	May	y%ch	2.5	~	~
	07.00	GE	Trade balance	Apr	€bn	18.9	14.3	~
	10.00	EZ	GDP	Q1	q%ch	0.8	0.8	~
						y%ch	2.5	2.5
	11.00	GE	Industrial production	Apr	m%ch	0.7	0.2	~
	13.15	CA	Housing starts	May	'000	179.0	183.5	~
	19.00	US	Fed's Beige book	~	~	~	~	~
Thu 9 Jun	09.30	UK	Visible trade balance	Apr	£mn	-4,479	-4,300	~
	09.30	UK	Total trade balance	Apr	£mn	-3,005	-3,000	~
	12.00	UK	BOE asset purchase target	Jun	£bn	200	200	~
	12.00	UK	BOE announces rates	Jun	%	0.5	0.5	0.5
	12.45	EZ	ECB announces interest rates	Jun	%	1.25	1.25	1.25
	13.30	CA	International merchandise trade	Apr	C\$bn	0.6	0.3	~
	13.30	US	Initial jobless and continuing claims	Jun	'000	~	~	~
	13.30	US	Trade balance	Apr	US\$bn	-48.2	-48.6	~
	15.00	US	Wholesale inventories	Apr	m%ch	1.1	1.0	~
Fri 10 Jun	~	UK	NIESR GDP estimate	May	%	0.3	~	~
	09.30	UK	Industrial production	Apr	m%ch	0.2	0.0	~
	09.30	UK	Manufacturing production	Apr	m%ch	0.2	0.1	~
	09.30	UK	PPI output nsa	May	m%ch	0.8	0.3	~
	09.30	UK	PPI output core nsa	May	m%ch	0.6	0.4	~
	12.00	CA	Full-time employment change	May	'000	17.2	~	~
	12.00	CA	Net change in employment	May	'000	58.3	25.0	~
	12.00	CA	Part-time employment change	May	'000	41.1	~	~
	12.00	CA	Unemployment rate	May	%	7.6	~	~
	13.30	US	Import price index	May	m%ch	2.2	11.2	~
19.00	US	Monthly Budget Statement	May	US\$bn	~	163.0	~	



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