Global Markets Research

Economics: Daily Alert

9 June 2011

- The US Federal Reserve Beige book suggested that economic activity across the 12 reported Fed districts generally continued to expand albeit at a slower pace in May. The pace of manufacturing growth slowed in a number of districts, while the higher food and energy prices affected consumer willingness to spend. The report highlighted the gradual improvement in labour markets, while wage growth was modest.

- European shares fell for a sixth straight day on Wednesday. Investors fretted about the strength of the global economic recovery in light of Fed Chairman Bernanke's bearish comments (yesterday) on the US economic recovery. Sovereign debt issues also dominated attention after a letter from Germany's finance minister to the ECB was released by a German newspaper. The letter pointed out that Greece needs substantial fresh aid to avoid being the euro zone's first state insolvency. The FTSEurofirst index fell by 0.9pct, the German Dax lost 0.6pct, and the UK FTSE fell 1pct.

- US sharemarkets fell for a sixth straight session on Wednesday, as investors continued to digest Fed Chairman Bernanke's downbeat assessment of the US economy. The Dow Jones fell by 21pts or 0.2pct with the S&P 500 down by 0.4pct and the Nasdaq lost 26pts or 1pct.

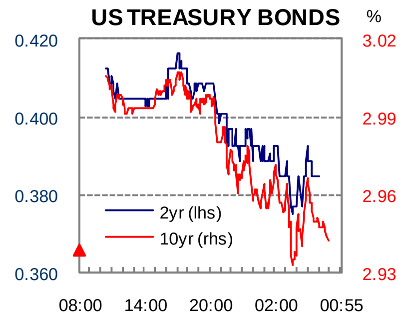
- US treasuries rallied (yields lower) on Wednesday as investors continued to switch out of equities and into safe haven bonds. Even a warning from ratings agency Fitch, that the US would not be able to maintain its AAA sovereign rating if it suffered even a "technical" default on its debt, failed to dampen demand. US 2yr yields fell 2pts to 0.38pct and US 10yr yields lost 5pts to 2.95pct.

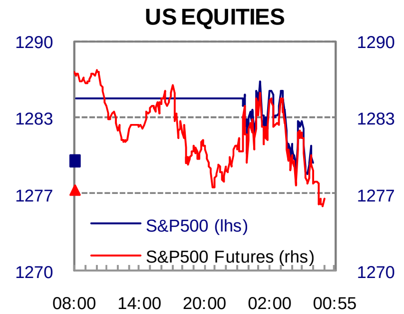
- The US dollar recovered some of its recent losses against major currencies on Wednesday, as global growth concerns fuelled demand for safe-haven currencies. The Euro fell highs near US$1.4685 to US$1.4564, before ending US trade near its lows. The Aussie dollar fell from highs near US106.80c to near US105.90c before ending US trade near US106.15c. And the Japanese yen held between 80.05 yen per US dollar and JPY79.70, ending US trade near JPY79.90.

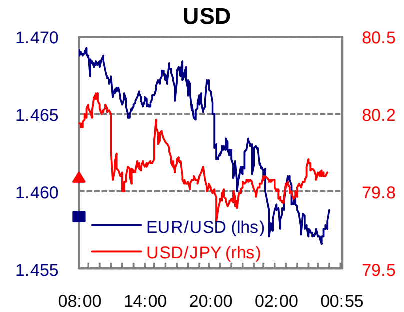
- Crude oil prices rose on Wednesday after OPEC failed to reach a deal to increase output. The lack of an increase in output raised fears of supply shortages later this year. Saudi Arabia's oil minister described the meeting as "one of the worst ... ever". The Nymex crude oil contract rose by US$1.65 to US$100.74 a barrel. And London Brent crude rose by US$1.07 to US$117.85 a barrel.

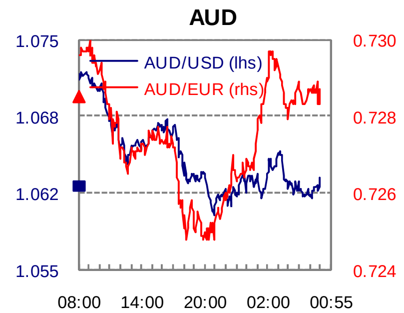
- Base metal prices were mixed on the London Metal Exchange on Wednesday. Copper was the biggest drag falling by 1.2pct on concerns about the US economic recovery. And the gold price fell on Wednesday with Comex gold futures down by US$5.30 an ounce to US$1,538.70.

- ***Ahead:*** In Australia, employment data is released. In the US, trade data and wholesale inventories are released.









Currencies			10 Yr Bond Yields (%)			Commodities			Equities		
AUD/USD	1.0623	-0.9%	Australia	5.10	-0.04	CRB Index	348.34	0.6%	Dow	12,049	-0.2%
NZD/USD	0.8150	-0.7%	NZ	5.12	0.02	GS Index			S&P 500	1,280	-0.4%
EUR/USD	1.4583	-0.7%	US	2.94	-0.06	Aluminium $/t	2644	-0.78%	NASDAQ	2,675	-1.0%
USD/JPY	79.89	-0.2%	*AU less US*	2.16		Copper $/t	9015	-1.22%	FTSE	5,809	-1.0%
GBP/USD	1.6403	-0.3%	*NZ less US*	2.18		Lead $/t	2575	1.08%	Shanghai	2,750	0.2%
USD/CHF	0.8360	0.0%	**AUD Swap Rates (%)**			Nickel $/t	22684	0.35%	H.Seng	22,662	-0.9%
AUD/NZD	1.3031	-0.3%	3mth	5.00	-0.03	Zinc $/t	2271	0.92%	Nikkei	9,449	0.1%
AUD/JPY	84.88	-1.2%	3yr	5.19	-0.02	Gold $/o	1537.7	-0.4%	ASX200	4,537	-0.6%
AUD/EUR	0.7285	-0.2%	5yr	5.48	-0.02	WTI Oil $/b	100.74	1.7%	NZSX50	3,525	0.6%

Indicative market rate at 7am   Source: Bloomberg

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Economics: Preview

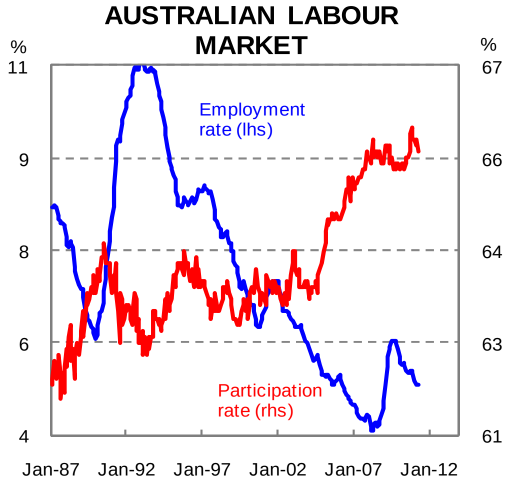
AUSTRALIA & NEW ZEALAND

Thursday 9 June

AU Labour Force, May

- **Employment, '000, (f) 25 (-22.1 prev)**
- **Participation rate, %, (f) 65.6 (65.6 prev)**
- **Unemployment rate, %, (f) 4.8 (4.9 prev)**

Australia's labour market under-performed in April. Employment fell by 22,100 in the month, led by a 45,000 drop in full-time employment. We view the drop in April as statistical noise rather than as a signal on the economy. A majority of the falls in April were centred in NSW. 44,000 jobs were lost in NSW last month, which was the second largest absolute decline on record. We see the Australian labour market as being unequivocally strong. The participation rate remains at historically high levels, while some 454,000 jobs have been created in the past 18 months. Momentum from "Mining Boom Mark II" should continue to translate into jobs growth, particularly in mining orientated states. When coupled with the ongoing payback of jobs lost during the recent natural disasters, we expect jobs growth to remain robust in the coming months. Job ads and other employment indicators reaffirm our expectation. We see employment increasing by 25,000 in May. This lift will push the unemployment rate to 4.8%.

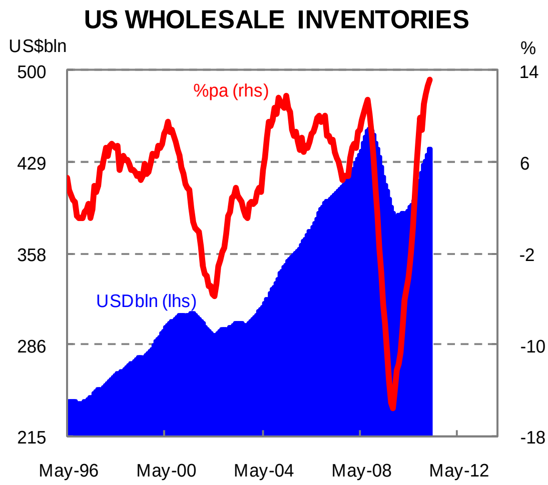


INTERNATIONAL

Thursday 9 June

US Wholesale inventories, Apr, m%ch, (1.1 prev)

Wholesale inventories increased by 1.1% in March, marking the 15th consecutive month that wholesale inventories were flat or better. The recent positive trend in inventories has been underpinned by firms trying to keep pace with robust sales demand. In March, sales rebounded from their February decline, rising by 2.9% in the month. Consequently, the inventory to sales ratio dipped back in March, declining to 1.13 months, matching the record low level set in June 2008. Given the low inventory to sales ratio it is likely that inventory levels pick up over the coming months. In addition, with underlying demand remaining positive, albeit slowing, orders to factories should remain. Given the relative weak USD, exports and in turn manufacturing should continue to be a driver of US economic activity in 2011.

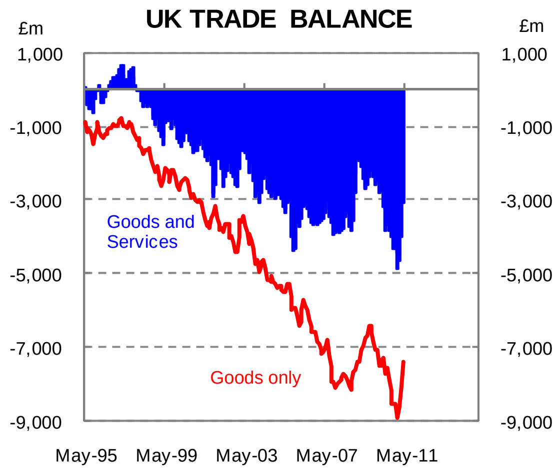


Thursday 9 June

UK Visible Trade Balance, Apr, £bn, (7.66 prev)

The UK's visible trade deficit widened more than expected in March, coming in at £7.66bn. The wider trade deficit was a function of a reduction in exports to non-EU nations. Visible exports dipped to £24.9bn, while visible imports rebounded. Visible imports rose by 1.7% in the month to £32.6bn. Despite the rise, visible imports have fallen by 3% in 2011. Oil exports have led the UK export growth in the past few months. This rise has been a function of higher oil prices and a weaker GBP.

UK export industries continue to benefit from the relative GBP weakness. Visible exports have risen 36% from their August 2009 lows. But, given the patchy economic recovery in a number of the UK's larger trading partners, further export growth has been limited. This is somewhat concerning, given the apparent need for the export sector to carry the UK economic growth burden. The QI UK GDP data illustrated the rebalancing occurring in the UK economy. Net exports were the biggest contributor to an otherwise lacklustre GDP result.

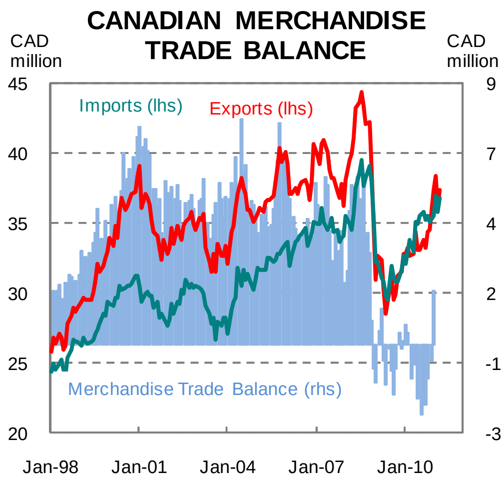


Thursday 9 June

CA International Merchandise Trade, Apr, C$bn, (0.63 prev)

In March Canada recorded its 5th consecutive trade surplus. This is the longest surplus sequence since November 2008. The March surplus was C$627, while the previous two surpluses were raised by a total C$1.33bn. Canada's exports have risen by 13% in the past year, while imports have only increased by 9%. The recent rise in the oil price has benefited Canada's export growth. Energy exports account for some 22% of Canada's total exports.

Looking ahead, the Bank of Canada has indicated the strong CAD may be a drag on export growth in coming quarters. In addition, the softness developing in the US economy may also pose a threat to export growth. Some 73% of Canada's merchandise exports are sent to the US. However one positive offset could be Canada's increased export destination diversification.

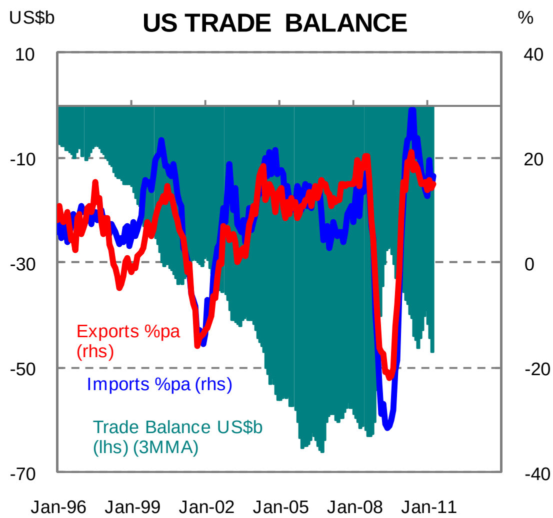


Thursday 9 June

US Trade Balance, Apr, US$bn, (-48.2 prev)

The US trade deficit widened more than expected in March, increasing to US$48.2bn, a 6% increase. Although exports rose by 4.6% in the month, US exports remain some 39% off their April 2009 cyclical lows. US exports should continue to increase. The relative weak USD and improving global economy should continue to boost US export demand.

Despite the export growth, US imports remain robust. Imports rose to US$220.8bn in March, their highest level since August 2008. A sustained elevation in the oil price, coupled with rising consumer demand should see imports remain relatively high. Hence, the US trade deficit should widen over 2011. Currently, the trade deficit remains some 21.6% (or US$13.3bn) off its 2008 peak.



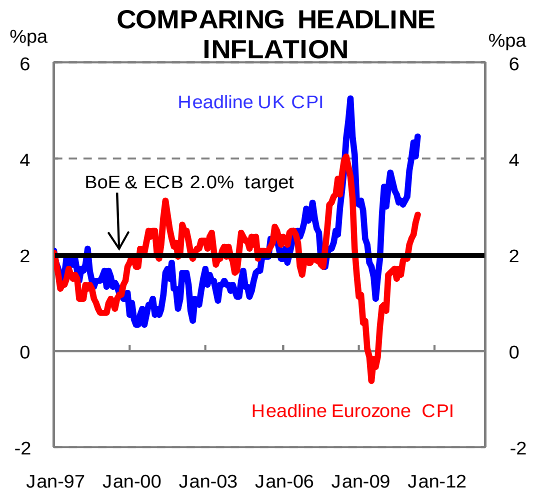
Thursday 9 June

UK BoE Announces Rates, June, %, (f) 0.5 (0.5 prev)

EZ ECB Announces Rates, June, %, (f) 1.25 (1.25 prev)

We expect the Bank of England (BoE) to remain on hold at its June policy meeting. The BoE has kept interest rates at 0.5% since March 2009. We are currently forecasting a BoE rate hike in QIII, but there is a risk the BoE remains on hold for longer. Despite UK inflation remaining above the BoE's 2% target for 17 consecutive months, the BoE via its May *Inflation Report* and meeting minutes, indicated that risks to the UK economy are now skewed to the downside. In addition, the June meeting is the first with a new Monetary Policy Committee composition. It will be interesting to see if the replacement for Andrew Sentance is as hawkish.

At its April meeting the ECB raised its official interest rate by 0.25% to 1.25%. But in May the ECB remained on hold. Some participants had expected a hike. Following the meeting ECB President Trichet dampened future rate hike expectations by stating that the ECB never pre-committed to a rate rise series. But over the course of May, ECB policy makers have reiterated the central bank's tightening bias. We see further ECB tightening before year-end. The June meeting also brings with it the ECB's latest inflation forecasts.

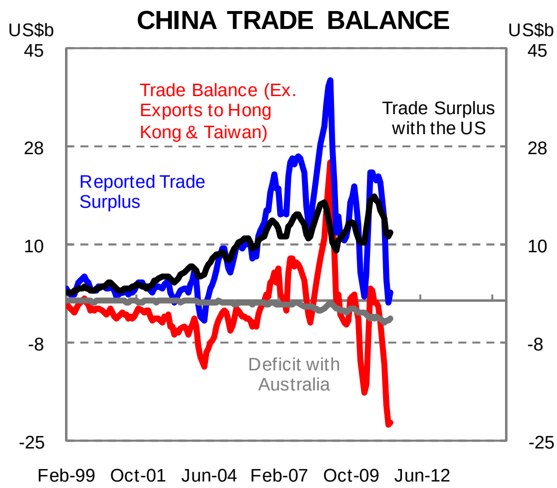


Friday 10 June

CH Trade Balance, May, USD bn, (11.4 prev)

China's trade balance continued to rebound in April, rising to a surplus of US$11.4bn. In the year to April, China's exports rose 29.9%, while imports increased 21.8% (YoY). The continued rebound in the trade balance further illustrates that the trade deficit seen in February is highly attributable to the Lunar New Year.

Looking ahead, the global economic outlook remains firm. The OECD recently reaffirmed its 4.2% global growth forecast for 2011. Despite this robust level of growth we expect China's trade surpluses to remain small by past standards. As China's economy continues to rebalance and domestic consumption lifts, demand for imports should trend higher.



Friday 10 June

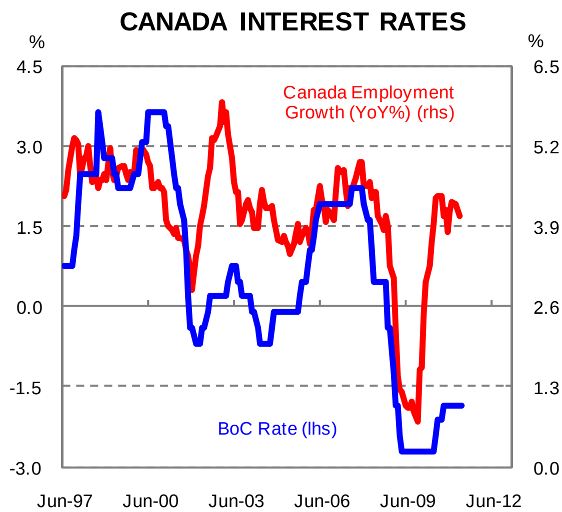
CA Net Change In Employment, May, '000, (58.3prev)

CA Participation Rate, May, %, (67.0 prev)

CA Unemployment Rate, May, %, (7.6 prev)

Employment in Canada rebounded in April, rising by 58,300 in the month, almost three times market expectations. The rise in April was led by part-time employment, which was up 41,100. In total, Canada's labour market has added 182,000 jobs since October 2010.

The Bank of Canada sees business investment increasing in 2011. Business investment is likely to be the main driver of Canada's growth in 2011. As a result the recent improvement in private sector employment looks set to continue over 2011. Consequently, Canada's unemployment rate should move lower from its current 7.6% level in the coming months. At 7.6%, Canada's economy has substantial excess capacity. During the economic expansion of 2006-2008, Canada's unemployment rate



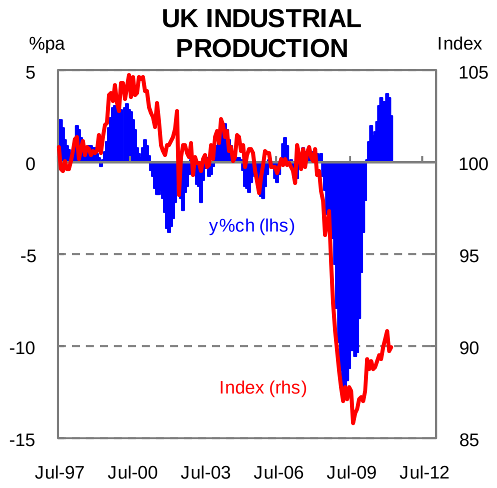
averaged 6.2%.

Friday 10 June

UK industrial production, Apr, m/y%ch, (0.2/0.7 prev)

UK industrial production increased by only 0.2% in March, up 0.7% from a year earlier. This was the slowest annual pace of growth since the rebound in production began in March 2010. It appears that UK industrial production is once again moderating. However the recent deceleration is in stark contrast to the period between January 2008 and August 2009, when production declined 14%.

While the UK economic "slowdown" in QIV was thought to have been largely weather affected, the QI GDP data did not show any significant signs of health in UK domestic demand. In addition recent UK manufacturing PMI data has decelerated, signalling additional softness in UK production may eventuate. That being said, the relative GBP weakness and improving trading partner growth bodes well for UK exports and hence export related manufacturing.



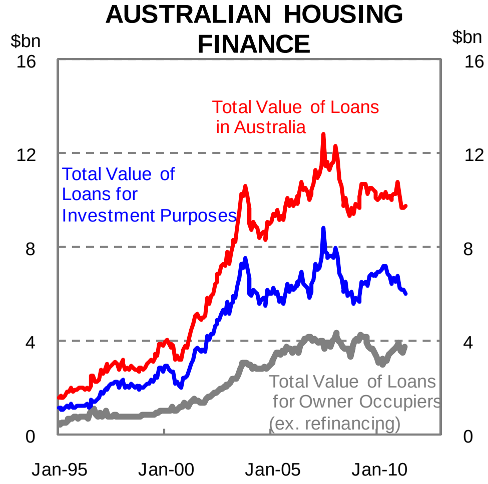
Economics: Review

AUSTRALIA & NEW ZEALAND

Australia

AU Housing finance, Apr

- **No. of owner-occupier loans, m%ch, 4.8**
- **Value of owner-occupier loans, m%ch, 6.3**



The *number* of loans to owner-occupiers jumped by a more robust than expected 4.8% in April, to be 3.2% higher than a year ago. The rise exceeded market expectations, which were centred on rise of 2.0% decline (CBA (f) +4.0%).

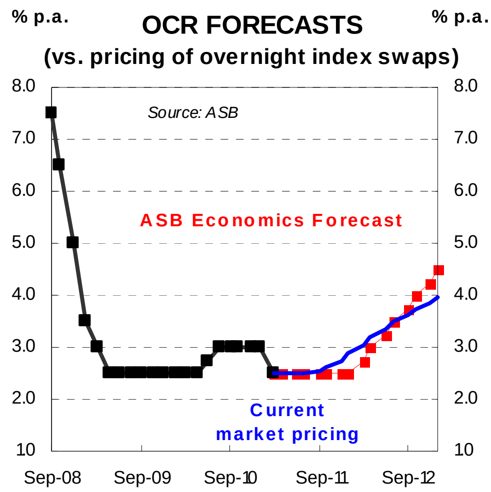
The *value* of total lending approved also jumped in April, lifting by a robust 6.3% to $13.81bn. The April level was 3.9% above the year ago level. The soft spot in the April lending figures was the investor lending segment. The *value* of loans to investors eased by 1.6% In April to $6.04bn, and remains 15.9% lower than a year ago

After a significant collapse following the expiration of the boost to the First Home Buyers grant there are signs that first home buyer numbers have stabilised in recent months. In April, first home buyers comprised 15.8% of total borrowers, up from the low of 14.9% recorded in February 2011. At 7,020 the number of first home buyers remains below the average level. In April loans to first home buyers were just 1.5% below the number of a year earlier, compared with an annual rate of decline of 7% in March 2011.

In line with the strong rise in the headline measure of housing approvals, there was a robust 9.4% lift to $2.04bn in the volume of lending for the purchase of new dwellings, along with a 0.4% increase to $4.6bn in lending for construction of dwellings. In annual terms, the level of construction related lending remains weak and was 11.8% lower than year ago levels. The April volume of lending for new dwellings was 7.5% below a year ago.

New Zealand

NZ RBNZ OCR, %, June, 2.5



As expected the RBNZ left the official cash rate unchanged at 2.5%. However, the prospects of future RBNZ rate hikes remain in place. Significantly, the RBNZ noted that as "*GDP growth picks up, underlying inflation is expected to rise*". The RBNZ sees a "*gradual increase in the OCR over the next two years*" to offset the lift in underlying inflation.

The RBNZ indicated that the outlook for the New Zealand economy has improved in recent months. The RBNZ reiterated its recent view that the wider New Zealand economy (ex Canterbury) is preforming well. With regard to the rebuild, "*reconstruction in Canterbury is projected to add about 2 percentage points to GDP growth over 2012, and boost the level of activity for several years thereafter*".

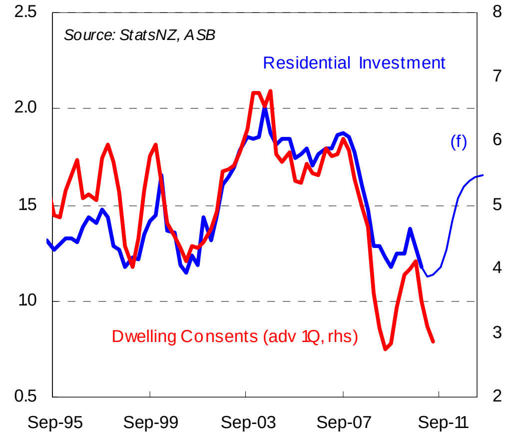
In the quarterly Monetary Policy Statement, the RBNZ raised its 2011 GDP and inflation forecasts. For 2011, the RBNZ now sees growth at 1.2% (prev 0.9%) and CPI at 4.5% (prev 4.4%). For 2012, the economy is forecast to expand by 2.5% (prev 2.7%) and CPI is expected to rise 2% (prev 2.1%). It should be noted that the lower forecasts for 2012 take into account an expected lift in the RBNZ cash rate.

NZ Building Work, QI, q%ch, -6.3 (-1.1 prev)

The volume of all building work fell 6.3% (QoQ) in QI, broadly in line with our forecast of a 7.6% decline. Residential building volumes fell 2.1% - the decline is slightly smaller than the 5% we had been expecting over the quarter. Non-residential building volumes fell 10.4%, in line with our forecast of a 10% decline.

Over the past year, public sector projects have offset the weakness in private non-residential building activity. However, more recent consent issuance data suggest public sector work has also begun to ebb. Recent business confidence surveys have shown an improvement in commercial construction intentions, and we expect this will flow through to a recovery in non-residential construction over the coming year as businesses become more confident about investing. Added to that will be the boost from post-earthquake rebuilding activity expected over 2012.

EX-APARTMENT DWELLING CONSENTS AND RESIDENTIAL CONSTRUCTION



This survey does not provide regional estimates of building work done. However, Statistics New Zealand notes "*the information we have suggests that in Canterbury, building activity decreased significantly, at least in part due to the 22 February earthquake.*" Although the QI data released does not quantify the decline, Statistics NZ commented that even if Canterbury was excluded from the total figures there would still be a significant decrease in building work done. Excluding Canterbury from the total figures "*still leaves a significant decrease in the volume of non-residential building work and a smaller decrease in residential building work for the remainder of the country,*" the report concludes.

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 QI 2012.

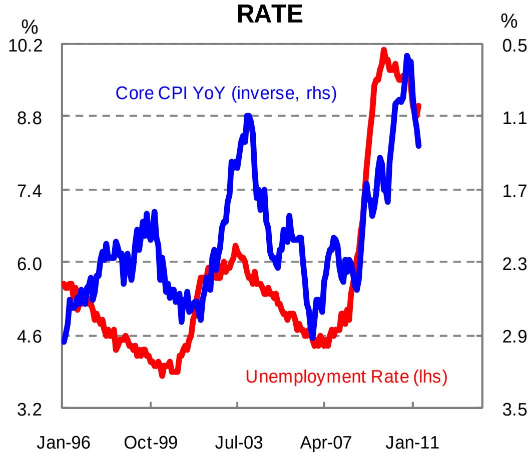
US & CANADA

United States

US Fed's Beige Book

The latest *Beige Book* indicated that US economic activity expanded at a "*steady pace*" in most districts in early April through late May. However four districts did state that momentum had slowed. Furthermore, consumer spending was indicated as beind "mixed" across the districts. Weakness in consumer spending in some districts was driven by rising fuel and food costs. With regards to the labour market the report highlighted that there was a gradual improvement "*across most of the nation*". However six districts did indicate that the labour market has "*tightened for workers with specialised technical skills*". Wage pressures remain contained given the "*abundant labour availability*" in the economy.

US CORE CPI & UNEMPLOYMENT RATE



Significantly, the report appears to move in line with the recent US economic data. Near-term momentum has slowed, while the outlook is becoming somewhat uncertain. Manufacturers noted that the "*pace of growth had slowed*", and while they were "*generally optimistic about the outlook*" they were "*less so than in the last report*". Manufacturers across districts did confirm that the recent slow down in auto-manufacturing was driven by Japan natural disaster induced supply shortages. Furthermore, the housing market continues to show weakness, with no district indicating a "*general increase in house prices*".

Canada

- No major Canadian economic data was released on Wednesday.

Fed view

A debate about ending the QE program is underway. We expect the QE program will end in June and the first Fed Funds hike in QIV 2011.

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

Eurozone

- In a letter dated 6 June, the German Finance Minister Wolfgang Schaueble indicated to ECB President Trichet, the IMF's acting chief John Lipsky and other Euro finance ministers that he was of the view maturities on Greek bonds should be extended seven years. According to Schaueble an extension of maturities would give Greece more time to implement changes to its economy. Significantly, it appears Schaueble would like to see private bondholders substantially contribute to the next aid package provided to Greece. This view is in contrast to the ECB and European Commission, both of whom have indicated a preference to undertake a voluntary rollover of existing Greek debt.
- The Eurozone economy expanded by 0.8% in QI, up 2.5% from a year earlier. Growth in the March quarter was underpinned by an acceleration in investment, which rose 2.1% in the March quarter. Investment had been flat in QIV. Government expenditure also increased, rising by 0.8% in the March quarter.
- Somewhat unexpectedly German industrial production declined in April. The 0.6% fall was the first monthly decline in four months. The drag on production was construction output, which fell 5.7% in April. Given the recent lift in energy costs, and the tougher austerity measures implemented by some Eurozone economies, it is likely that German production levels will continue to moderate. Base effects are also at work, industrial production expanded at its fastest pace in a year in QI.

UK

- Moody's reiterated that the UK rating "*remains Aaa and the outlook is stable*". However, according to a Moody's official the slowing rate of growth in the UK, when combined with weaker than expected fiscal consolidation effects could push the "*UK's debt metrics to deteriorate to a point*" where Moody's would reconsider its stance.

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.

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.

CHINA & JAPAN

Japan

- In a report the IMF indicated it is of the opinion the Bank of Japan (BoJ) should lift its asset purchases in an effort to "*guard against deflation risks and support the recovery*". Following the recent natural disasters the BoJ doubled its asset purchase program to ¥10 trillion (US$125bn).
- Japan's current acocunt surplus narrowed less than expected in April, declining to only ¥406bn. The April result is some 70% less compared to a year earlier. The narrowing of Japan's current account surplus stems from the significant fall in exports in March and April following the natural disasters. In April, exports declined by 12.7%,

resulting in a trade deficit, on a balance of payments basis, of ¥418bn.

China

- No major Chinese economic data was released on Wednesday.

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 AEST	Econ	Event	Period	Unit	Last	Forecast Market	Forecast CBA
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
	11.30	AU	Participation rate	May	%	65.6	~	65.6
Fri 10 Jun	~	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 & Europe

Date	Time AEST	Econ	Event	Period	Unit	Last	Forecast Market	Forecast CBA
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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