

S&P cut Greek credit rating three notches to CCC.

Ratings agency **Standard and Poor's** has slashed the credit rating of Greece by three notches from B to CCC and retained a negative outlook on the rating. S&P has also warned that it would view a debt restructuring as a default.

European shares recorded modest gains on Monday. Telecom stocks were buoyed by a broker upgrade on Vodafone. Shares in Vodafone rose by 0.9pct. However mining stocks were flat with shares in both Rio Tinto and BHP Billiton up by less than 0.1pct in London trade. The FTSEurofirst index rose by 0.2pct, the German Dax also rose 0.2pct, and the UK FTSE edged 0.1pct higher.

US sharemarkets stabilised on Monday after investors concluded that recent selling was overdone. The Dow Jones edged 1 point higher or less than 0.1pct with the S&P 500 index up 0.1pct but the Nasdaq lost 4pts or 0.2pct. Between 1pm and 2pm New York time the Dow rallied 85pts after investors concluded that the selling was overdone. Earlier on Friday the Dow Jones ended lower by 172pts or 1.4pct to close out a sixth week of declines. The Dow lost 1.6pct last week.

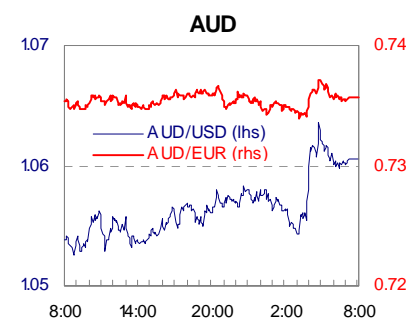
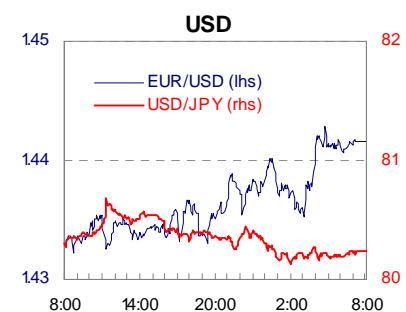
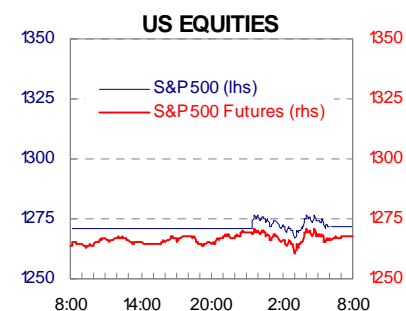
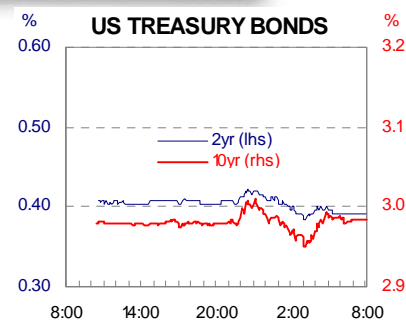
US treasury prices were mixed on Monday but finished off their best levels as stocks rebounded from lows. US 2yr yields fell by 1pt to 0.396pct and US 10yr yields rose by 1pt to 2.98pct. Last week US 2yr yields fell by 3pts and US 10yr yields fell by 2pts.

The Euro and commodity currencies lifted sharply against the greenback around 1pm New York time as US stocks rallied. The Euro lifted from US\$1.4345 to near US\$1.4430 to end US trade near US\$1.4410. The Euro had been as low as US\$1.4325 in morning London trade. The Aussie dollar rose from lows near US105.35c to near US106.35c before ending US trade near US106.00c. And the Japanese yen strengthened from 80.45 yen per US dollar to JPY80.10, ending US trade near JPY80.20.

US crude oil prices fell sharply over Thursday and Friday. Saudi Arabia is offering more oil to Asian buyers and is planning to increase output in July. In addition another ratings downgrade on Greece has raised concerns about global economic growth. The Nymex crude oil contract fell by US\$1.99 a barrel on Monday to US\$97.30 a barrel after falling by US\$2.64 on Friday. And London Brent crude rose by US32c on Monday after easing US79c on Friday and stands at US\$119.10 a barrel.

Base metal prices fell between 0.3-2.5pct on the London Metal Exchange on Monday in line with other commodities. Nickel fell 2.5pct and tin lost 2.2pct. On Friday base metals were also down, dropping between 1.3-2.4pct with lead faring the worst. And the gold price rose was also lower on Monday with Comex gold futures down by US\$13.60 an ounce to US\$1,515.60. Gold fell US\$13.50 an ounce on Friday.

Ahead: In Australia, the NAB business survey, credit card data and lending finance figures are scheduled. In the US, data on producer prices and retail sales are released. Monthly Chinese economic data is released today.



Indicative market rate at 7am Source: Bloomberg

Currencies	10 Yr Bond Yields (%)	Commodities	Equities
AUD/USD 1.0611 0.4%	Australia 5.17 -0.09	CRB Index 344.56 -1.0%	Dow 11953.0 0.0%
NZD/USD 0.8164 -0.8%	NZ 5.02 -0.05	S&P GS Index 710.72 0.0%	S&P 500 1271.8 0.1%
EUR/USD 1.4417 0.4%	US 2.98 0.01	Aluminium \$/t 2559.8 -1.4%	NASDAQ 2639.7 -0.2%
USD/JPY 80.20 -0.2%	AU less US 2.19	Copper \$/t 8896.3 -0.3%	FTSE 5773.5 0.1%
GBP/USD 1.6377 0.8%	NZ less US 2.04	Lead \$/t 2526 -0.6%	Shanghai 2700.4 -0.2%
USD/CHF 0.8371 -0.6%	AUD Swap Rates (%)	Nickel \$/t 22244 -2.5%	H.Seng 22508.1 0.4%
AUD/NZD 1.2996 1.2%	3mth 5.01 0.01	Zinc \$/t 2227 -0.4%	Nikkei 9448.2 -0.7%
AUD/JPY 85.11 0.2%	3yr 5.13 0.01	Gold \$/o 1516.7 0.0%	ASX200 4562.1 0.3%
AUD/EUR 0.7360 -0.1%	5yr 5.43 -0.01	WTI Oil \$/b 97.3 -2.0%	NZSX50 3476.7 -0.4%



Economics: Preview

AUSTRALIA & NEW ZEALAND

In Australia, the NAB business survey, credit card data and lending finance figures are scheduled. No major releases in NZ.

INTERNATIONAL

Tuesday 14 June

JP BOJ Target Rate, June, %, (f) 0-0.1 (0-0.1 prev)

The Bank of Japan (BoJ) is unlikely to alter its monetary policy stance in June. Despite the Japanese economy having slipped into a technical recession in Q1, the BoJ appears reluctant to implement additional measures. Following the March natural and nuclear disasters, the BoJ doubled its asset purchase program, and injected a record amount of liquidity into the financial system in an attempt to shore up confidence in the Japanese economy and financial system. The BoJ continues to reiterate its view that the economy will rebound in late 2011 as supply constraints ease, production returns and the rebuild effort commences. However should the economic rebound take longer to materialise than currently forecast, the BoJ may act. Recently the BoJ sought government approval to enable the bank to increase legal reserves to maintain financial soundness. This step will enable the BoJ to undertake further asset purchases if desired.

Tuesday 14 June

CH PPI, May, y%ch, (6.8 prev)

CH CPI, May, y%ch, (5.3 prev)

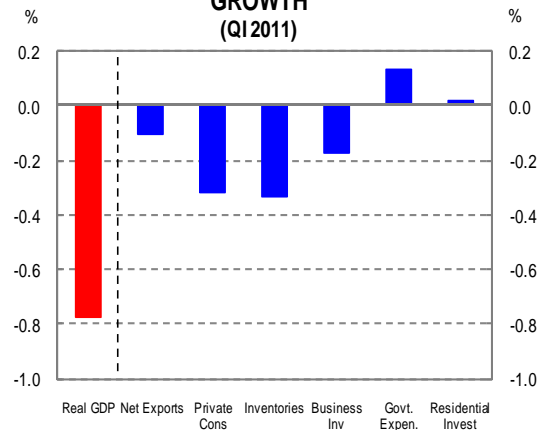
CH Retail Sales, May, y%ch, (17.1 prev)

CH Industrial Production, May, y%ch, (13.4 prev)

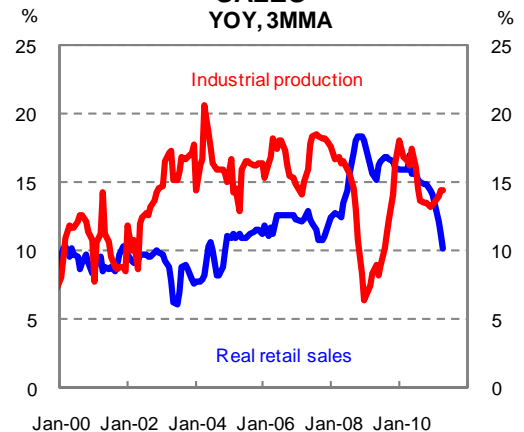
The April batch of Chinese economic data provided market participants with an additional indication that the February “slowdown” was largely Lunar New Year affected. Despite China’s inflation moderating in April, it remains relatively high at 5.3% (YoY). However the rise was again largely a function of elevated food prices. Food CPI rose 11.5% (YoY) in April, while non-food CPI rose 2.7% in the year. We expect China’s CPI to peak in the coming months, in line with a peak in food prices.

In contrast, China’s industrial production appeared to have softened in April. However, our analysis suggests that this “moderation” was largely due to base effects. Automobile production was at a cycle peak the year before, driven by the financial crisis related fiscal stimulus packages. We remain confident that the underlying trend in China’s economy remains robust. Despite the PBoC’s recent policy “normalisation”, we expect GDP growth in China to remain strong in 2011, coming in at 9.5%.

JAPAN - CONTRIBUTION TO GDP GROWTH (Q1 2011)



CHINA INDUSTRIAL PRODUCTION & REAL RETAIL SALES YOY, 3MMA





Tuesday 14 June

UK CPI, May, m/y%ch, (1.0/4.5prev)

UK CPI accelerated in April, rising 4.5% (YoY). The April rate was the fastest annual pace since October 2008. UK CPI is now more than double the Bank of England's (BoE) 2% target. In his explanatory letter to the Chancellor of the Exchequer, BoE Governor King reiterated the BoE's view that the recent rise in inflation is transitory. According to the BoE a higher sales tax and rising energy and import prices are driving the CPI increase.

In its *May Inflation Report*, the BoE indicated that "there is a good chance that inflation will reach 5% later this year". Significantly, the Inflation Report also illustrated that the BoE is now of the opinion that UK inflation may stay above its 2% target until 2013. Despite the elevated inflation, the softness developing in the wider UK economy, combined with the UK government budget cuts are making it increasingly unlikely the BoE will tighten policy in the near-term. The BoE is confident that inflation will return below target once external factors dissipate.

Tuesday 14 June

US PPI, May, m/y%ch, (0.8/6.8 prev)

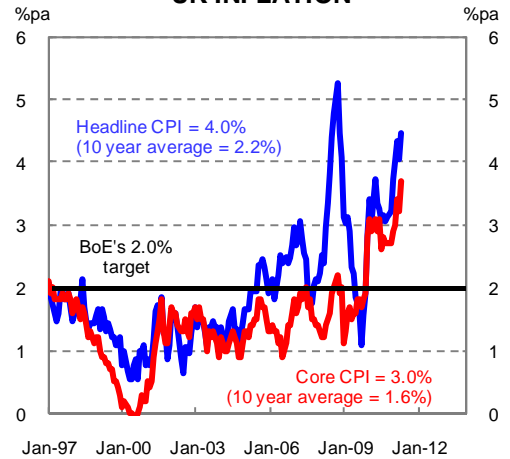
Wednesday 15 June

US CPI, May, m/y%ch, (0.4/3.2 prev)

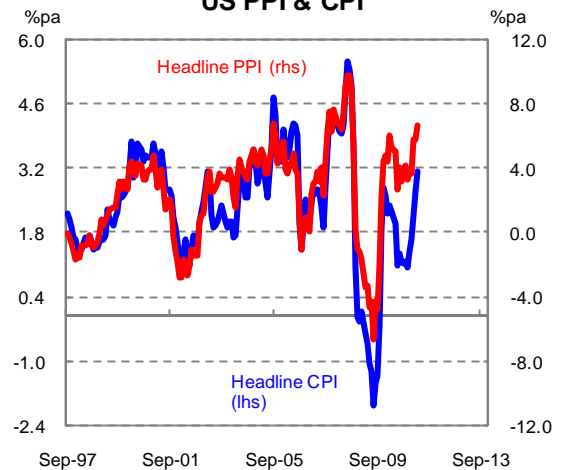
Wholesale prices in the US continue to track above consumer prices. On an annual basis, PPI rose 6.8% in April, its fastest pace since September 2008. As with recent months, higher food and fuel prices led the rise. Core PPI, which excludes food and energy, has also trended higher in recent times. Core PPI rose 2.1% (YoY) in April. Despite the recent increases, competitive price pressures in the consumer sector and a lack of wage pressures have combined to stop producers from passing on a significant portion of the higher input prices.

In April, US consumer prices increased 0.4%, up 3.2% (YoY). The recent rise in consumer prices appears to be temporary. Higher food and fuel prices continue to push up prices. Energy costs rose 2.2% in April. Core CPI increased only 0.2% in April. The subdued rate of core inflation momentum continues to be a concern for the Fed, particularly when added to the fact longer-term inflation expectations remain stable or are in decline.

UK INFLATION



US PPI & CPI





Economics: Review

Australia and New Zealand

REINZ housing data for May

REINZ house sales data showed a continued improvement in housing market activity, with house sales increasing 10.3% in May on a seasonally adjusted basis. House sales are now 10.7% higher on year-ago levels.

Nationwide median days to sell remained steady at 44 days, with Auckland remaining relatively tighter with the shortest number of days to sell at 36. The stratified house price index eased 1.3% in May, to be 0.7% lower on year-ago levels. We expect house prices will lift slightly over the year ahead, given the contained level of housing inventory on the market.

A contained level of inventory, positive population growth and the availability of low mortgage rates are all positive for the property market over the year ahead. We expect nationwide prices are troughing out now, and should increase by around 3% over the next year. Behind this lift will be a range of experiences, from stronger price appreciation in areas such as Auckland, and ongoing weakness in areas where population and income growth are less supportive. In Christchurch we expect strong demand for properties which have not been damaged will support the prices of those houses that do sell.

More earthquakes in Canterbury

Christchurch was hit by two major earthquakes yesterday, and there have been over a dozen aftershocks since then. The two quakes yesterday, which measured 5.5 and 6.0 on the Richter scale, caused further damage to buildings and houses and disrupted activity in the region. The ongoing aftershocks is likely to delay the rebuilding process, and given the RBNZ has highlighted it would like to see rebuilding firmly underway before it lifts the OCR there is the potential the OCR will now be increased later.

As a result, domestic interest rates fell following the earthquake as markets pared back the extent of tightening over the coming year. Markets are now pricing in around 50% probability of an OCR increase in December this year, lower than before the release of the June MPS last Thursday.

The NZ dollar also fell sharply on news of the earthquakes, with the NZD/USD falling from 0.8215 to 08145 immediately after the first quake hit. The second major earthquake saw the NZD/USD drop further. The NZ dollar also dropped sharply against the Australian dollar following the quakes.

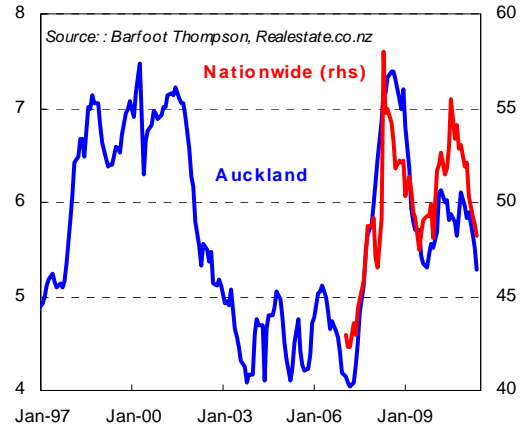
RBNZ view

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.

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

TOTAL HOUSING INVENTORY
(thousands)





US & CANADA

Fedspeak: Richmond Fed President Lacker noted at a business conference the US recovery may be hampered by reluctance for firms to hire more staff.

FOMC view

A debate about ending the QE program is underway. We expect the QE program will end in as scheduled 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

Ratings agency Standard & Poor's downgraded Greece from B to CCC, and placed a negative outlook on the rating. S&P warned that it would view a debt restructuring as a default. The ratings agency held its recovery rating at '4,' indicating it estimates bondholders would recover 30 percent to 50 percent of their investment.

These concerns boosted the cost of credit default swaps on Greek government debt to a record high of 1,600 basis points. Credit default swaps on Portuguese and Irish debt also rose to record highs of 773bps and 745bps, respectively.

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

Japanese machine orders fell 3.3% mom in April, falling short of economists' expectations centred on a 1.7% mom rise (Bloomberg Survey).

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		Econ Event	Period	Unit	Last	Forecast	
	AEST						Market	CBA
10-15 Jun	~	CH	Actual FDI	~	y%ch			~
11-15 Jun	~	CH	New Yuan Loans	May	USD bn	739.6	650.0	~
11-15 Jun	~	CH	Money Supply - M0	May	y%ch	14.7	--	~
11-15 Jun	~	CH	Money Supply - M1	May	y%ch	12.9	13.7	~
11-15 Jun	~	CH	Money Supply - M2	May	y%ch	15.3	15.5	~
Mon 13 June	08:00	NZ	REINZ Housing Price Index	May	m%ch	1.1	~	~
	08:00	NZ	REINZ House Sales	May	y%ch	-4.2	~	~
	09:50	JN	Machine Orders	Apr	m%ch	2.9	2.0	~
	09:50	JN	Machine Orders	Apr	y%ch	6.8	4.8	~
Tue 14 June	08:45	NZ	Food Prices	May	m%ch	0.1	~	~
	10:30	AU	NAB Business Conditions	May	Index	5	~	~
	11:30	AU	NAB Business Confidence	May	Index	7	~	~
	12:00	CH	Producer Price Index	May	y%ch	6.8	6.5	~
	12:00	CH	Consumer Price Index	May	y%ch	5.3	5.5	~
	12:00	CH	Retail Sales	May	y%ch	17.1	17.0	~
	12:00	CH	Industrial Production	May	y%ch	13.4	13.1	~
	14:30	JN	Capacity Utilization	Apr	m%ch	-21.5	~	~
	14:30	JN	Industrial Production	Apr F	m%ch	1.0	~	~
	14:30	JN	Industrial Production	Apr F	y%ch	-14.0	~	~
	~	JN	BoJ Target Rate	June	%	0.1	0.1	0.1
	Wed 15 June	08:45	NZ	Retail Sales Ex Inflation	QI	q%ch	-0.4	0.9
10:30		AU	Westpac Leading Index	Apr	m%ch	0.5	~	~
10:30		AU	Westpac Consumer Confidence	Jun	Index	103.9	~	~
11:00		AU	Consumer Inflation Expectation	Jun	y%ch	3.3	~	~
11:30		AU	Dwelling Starts	QI	q%ch	-5.3	-0.8	6.0
13:00		AU	RBA Governor Glenn Stevens speaks in Brisbane.					
Thu 16 June	16:00	JN	Machine Tool Orders	May F	y%ch	34.2	~	~
	08:00	NZ	Westpac NZ Consumer Confidence	2Q	Index	97.9	~	~
	08:30	NZ	Business NZ PMI	May	Index	51.5	~	~
	08:45	NZ	Manufacturing Activity	QI	q%ch	3.1	~	~
	11:00	NZ	ANZ Consumer Confidence Index	Jun	Index	103.3	~	~
	11:00	NZ	ANZ Consumer Confidence	Jun	m%ch	1.9	~	~
	11:30	AU	New Motor Vehicle Sales	May	y%ch	-8.4	~	~
	12:00	CH	Conference Board China April Leading Economic Index Index					



Calendar – North America & 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 14 June	09:30	UK	CPI	May	y%ch	4.5	4.4	~	
	09:30	UK	Core CPI	May	y%ch	3.7	~	~	
	09:30	UK	RPI	May	y%ch	5.2	5.3	~	
	13:30	CA	Capacity Utilization Rate	QI	%	76.4	~	~	
	13:30	US	Producer Price Index	May	y%ch	6.8	6.6	~	
	13:30	US	PPI Ex Food & Energy	May	y%ch	2.1	2.1	~	
	13:30	US	Advance Retail Sales	May	m%ch	0.5	-0.4	~	
	13:30	US	Retail Sales Ex Auto & Gas	May	m%ch	0.2	0.3	~	
	15:00	US	Business Inventories	Apr	m%ch	1.1	0.8	~	
Wed 15 June	00:01	UK	Nationwide Consumer Confidence	May	Index	43	~	~	
	09:30	UK	Claimant Count Rate	May	%	4.6	4.6	~	
	09:30	UK	Jobless Claims Change	May	'000	12.4	5.2	~	
	09:30	UK	ILO Unemployment Rate (3mths)	Apr	%	7.7	7.7	~	
	10:00	EC	Euro-Zone Ind. Prod. sa	Apr	m%ch	-0.2	0.1	~	
	13:30	CA	Manufacturing Sales	Apr	m%ch	1.9	-2.3	~	
	13:30	US	Consumer Price Index	May	y%ch	3.2	3.3	~	
	13:30	US	CPI Ex Food & Energy	May	y%ch	1.3	1.4	~	
	13:30	US	Empire Manufacturing	Jun	Index	11.88	13.5	~	
	14:00	US	Total Net TIC Flows	Apr	USD bn	116.0	~	~	
	14:15	US	Industrial Production	May	m%ch	0.0	0.3	~	
	14:15	US	Capacity Utilization	May	%	76.9	77.1	~	
	Thu 16 June	09:30	UK	Retail Sales Ex Auto Fuel	May	y%ch	2.7	~	~
		09:30	UK	Retail Sales w/Auto Fuel	May	y%ch	2.8	1.5	~
10:00		EC	Euro-Zone CPI - Core	May	y%ch	1.6	1.6	~	
10:00		EC	Euro-Zone CPI	May	y%ch	~	2.7	~	
13:30		US	Initial Jobless Claims	10 Jun	'000	427	--	~	
13:30		US	Continuing Claims	4 June	'000	3676	--	~	
13:30		US	Building Permits	May	m%ch	-4.0	-1.9	~	
13:30		US	Housing Starts	May	m%ch	-10.6	3.3	~	
13:30		US	Current Account Balance	QI	USD bn	-113.3	-126.0	~	
15:00		US	Philadelphia Fed	Jun	Index	3.9	7	~	
Fri 17 June	10:00	EC	Euro-Zone Trade Balance sa	Apr	EUR bn	-0.9	-2.0	~	
	13:30	CA	Wholesale Sales	Apr	m%ch	0.1	~	~	
	14:55	US	University of Michigan Confidence	Jun P	Index	74.3	74.5	~	
	15:00	US	Leading Indicators	May	m%ch	-0.003	0.002	~	



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	Credit	Lon/Eu	+44 20 7710 3573
	Japan Desk	NY	+1212 336 7749
Melb	+613 9675 6815		
	+613 9675 7495		
	+613 9675 6618		
	+613 9675 7757		
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	Debt & Derivatives		
	Corporate		
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		VIC	+612 9675 7737
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		WA	+618 9482 6044
		QLD	+617 3015 4525
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