

Chinese data boosts sentiment in sharemarkets.

US retail sales fell by a smaller than expected 0.2pct in May after rising by 0.3pct in April. The weaker May result marked the first fall in 11 months and was driven by the weakness in auto sales due to the Japanese earthquake. Auto sales fell by 2.9pct in May -the largest decline since February 2010. Core retail sales which excludes autos, gasoline and building materials rose 0.2pct in May.

US producer prices rose by just 0.2pct in May after rising by 0.8pct in April. The modest rise in prices was largely due to a fall in gasoline prices.

European shares rallied on Tuesday as the better than expected Chinese data eased concerns about global growth. The rally was broad based as investors bought up oversold stocks across an array of sectors. The STOXX Europe 600 banking index rose 1.2pct. The FTSEurofirst index rose by 0.8pct, the German Dax rose 1.7pct, and the UK FTSE gained 0.5pct.

US sharemarkets rallied on Tuesday as investors bought up oversold stocks. The upbeat Chinese economic data and less than expected fall in US retail sales eased global growth concerns and provided the catalyst for the rally. The Morgan Stanley retail index gained 2.8pct while the S&P energy sector rose 2pct. The Dow Jones recorded its best gains in nearly two months rising 123pts or 1pct, while the S&P 500 index rose 1.3pct and the Nasdaq gained 39pts or 1.5pct.

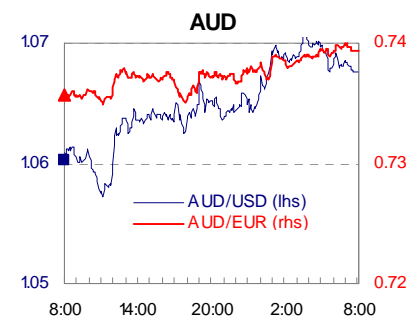
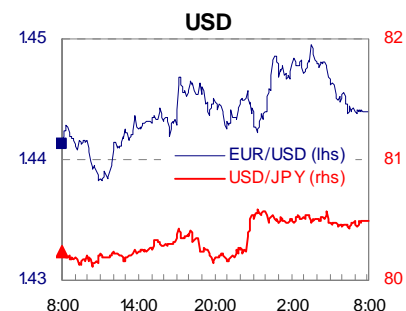
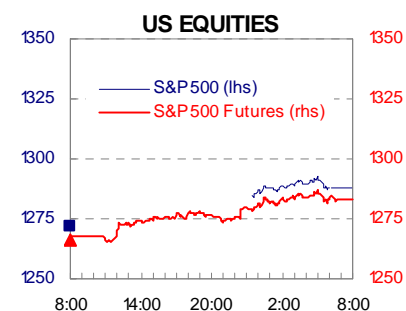
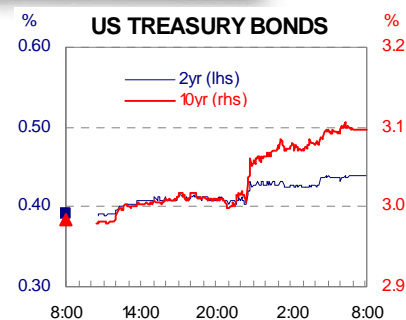
US treasury prices fell sharply (yields higher) on Tuesday as investors switched out of safe-haven bonds and into equities. US 2yr yields rose by 4pts to 0.444pct and US 10yr yields rose by 11pts to 3.099pct.

The Euro and commodity currencies lifted against the greenback for a second straight session on Tuesday. The Euro lifted from US\$1.4415 to near US\$1.4500 to end US trade near US\$1.4455. The Aussie dollar rose from lows near US106.25c to near US107.15c before ending US trade near US106.80c. And the Japanese yen weakened from 80.15 yen per US dollar to JPY80.60, ending US trade near JPY80.45.

US crude oil prices rose on Tuesday as the better than expected economic data in China and the US eased concerns about a downturn in the global economy. The Nymex crude oil contract rose by US\$2.07 a barrel on to US\$99.37 a barrel. And London Brent crude rose by US\$1.06 on to US\$120.16 a barrel.

Base metal prices rallied on the London Metal Exchange on Tuesday in line with other commodities. Copper gained 2.9pct. And the gold price also rose on Tuesday with Comex gold futures down by US\$8.80 an ounce to US\$1,524.40.

Ahead: In Australia, consumer sentiment and housing finance figures are scheduled. In the US, the Federal Reserve Beige Book is released.



Indicative market rate at 7am Source: Bloomberg

Currencies	10 Yr Bond Yields (%)		Commodities		Equities			
AUD/USD	1.0685	0.6%	Australia	5.19 -0.01	CRB Index	347.01 0.7%	Dow	12076.1 1.0%
NZD/USD	0.8183	0.3%	NZ	5.03 0.00	S&P GS Index	710.72 1.1%	S&P 500	1287.9 1.3%
EUR/USD	1.4444	0.2%	US	3.10 0.11	Aluminium \$/t	2596.8 0.1%	NASDAQ	2678.7 1.5%
USD/JPY	80.52	0.4%	AU less US	2.10	Copper \$/t	9157.3 2.6%	FTSE	5803.1 0.5%
GBP/USD	1.6368	0.0%	NZ less US	1.93	Lead \$/t	2567 1.0%	Shanghai	2730.0 -0.2%
USD/CHF	0.8451	0.8%	AUD Swap Rates (%)		Nickel \$/t	22283 -2.4%	H.Seng	22496.0 -0.1%
AUD/NZD	1.3057	0.3%	3mth	5.01 -0.01	Zinc \$/t	2261.5 1.2%	Nikkei	9547.8 1.1%
AUD/JPY	86.04	1.0%	3yr	5.17 0.05	Gold \$/o	1523.9 0.5%	ASX200	4585.0 0.5%
AUD/EUR	0.7397	0.4%	5yr	5.47 0.06	WTI Oil \$/b	99.37 2.1%	NZSX50	3488.9 0.4%



Economics: Preview

AUSTRALIA & NEW ZEALAND

Wednesday 15 June

NZ Retail Sales, QI, q%ch, (f) 0.2 (-0.4 prev)

■ **Ex Autos, (f) 0.5 (0.0 prev)**

Retail spending has remained weak over the past year. This reflects the many headwinds facing the household sector, including rising food and petrol prices and weak housing market activity. The February earthquake in Christchurch dealt a further blow to confidence, with households reporting they expect to be worse off in a year's time. As a result, weak consumer confidence is likely to weigh on retail spending over 2011.

However, there have been anecdotes of increased sales of electronic goods in Christchurch as households replace damaged appliances. In particular, there have been reports of a surge in television sales in the wake of the earthquake. We expect sales to replace damaged goods in Christchurch will offset some of the weakness in underlying retail spending in QI.

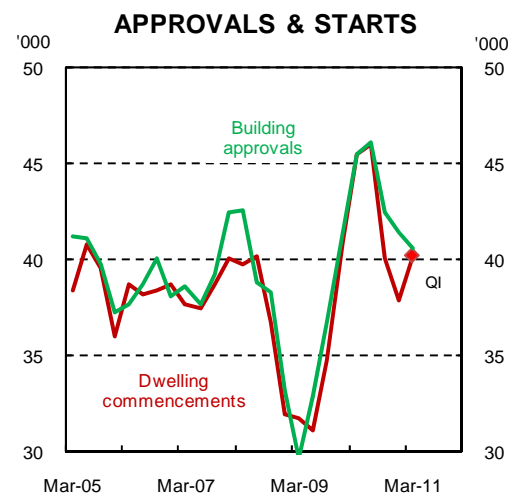
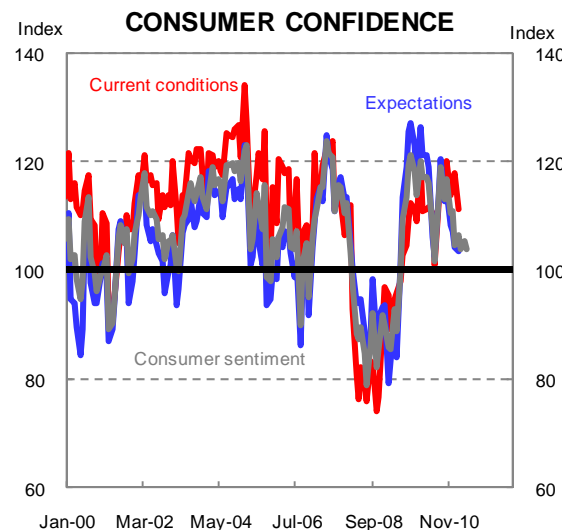
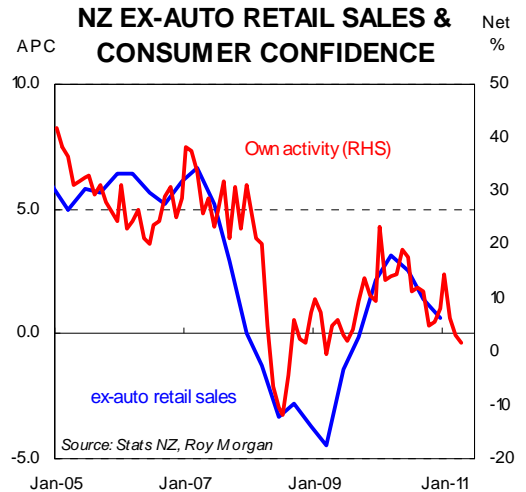
AU Consumer Confidence, June, Index, (103.9 prev)

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. The recent soft patch in Australia economic data, coupled with equity market weakness and global uncertainty is likely to be playing on the minds of consumers.

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 consumer confidence.

AU Dwelling Starts, QI, q%ch, (f) 6.0 (-5.3 prev)

Dwelling construction exceeded expectations in the QI GDP figures. Expenditures on new dwellings in particular rose strongly, confounding expectations based on the weakening in building approvals experienced over prior months. Information from the construction work done release suggests that a number of delayed projects which had been previously approved may have commenced. As a result, we expect a solid lift in QI dwelling starts. We expect the number of starts to rise from 37.09k in QIV 2010 to 40.2k in QI 2011. There is likely to be a stronger emphasis on medium density starts, particularly in Victoria evident in the figures.





INTERNATIONAL

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.

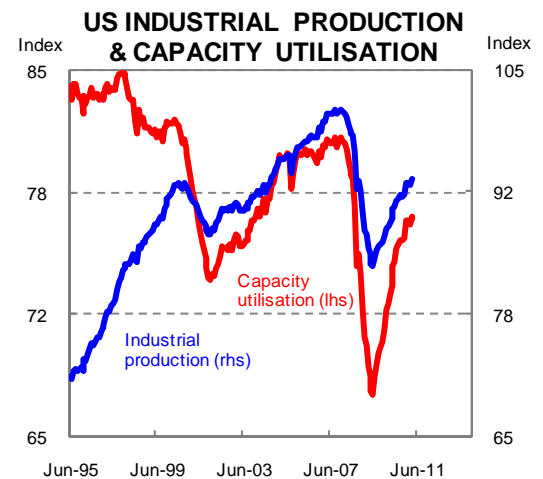
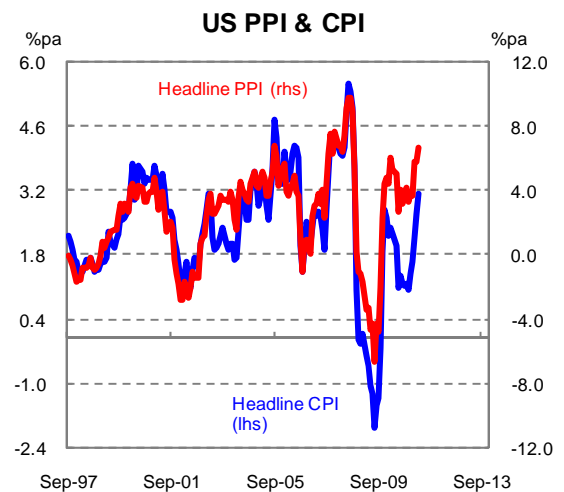
Wednesday 15 June

US Industrial Production, May, m%ch, (0.0 prev)

US Capacity Utilisation, May, %, (76.9 prev)

US industrial production underperformed expectations in April, coming in flat for the month. Manufacturing, which accounts for 75% of production, fell 0.4% in the month. Supply chain disruptions brought on by the March Japanese natural disasters are impacting US industrial output. Production of automobiles and parts dropped 8.9% in April. There is a possibility these disruptions may continue to impact production in the short-term.

Capacity utilisation declined to 76.9% in April. Despite the fall capacity utilisation has increased by 9.6ppts from its June 2009 lows. A sustained increase in capacity utilisation growth is important. The relative excess capacity in plant usage over recent years has been one of the outlets that has contained US inflationary pressures.





Economics: Review

Australia and New Zealand

NZ Food prices – May

NZ food prices increased 0.5% in May, driven by an increase in the price of fruit and vegetables and meat. 7.4% annual food price inflation is being boosted by the GST increase in October 2010. Ex-gst annual FPI is 5.1%.

The increase in meat prices reflects the rise in international meat prices over recent months.

Meanwhile, the easing in grocery prices follows a solid increase seen in the previous month, with some retracement in the price of some grain-based products.

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

NAB Business conditions

The NAB business conditions index fell from 5 to 1 in May and the confidence index fell from 7 to 6. The conditions index has now fallen for the third consecutive month. The survey detail revealed further evidence of the “two-speed” economy impacts on business, with conditions in the mining industry out-performing the retail and manufacturing sectors.

The market wasn't swayed by the survey and yields continue to track around the lower end of its recent ranges. The market will await RBA Governor Stevens' speech today on “Economic Conditions and Prospects” for its next major directional signal. Stevens may take the opportunity to condition expectations on the outlook for further tightening, after the May SOMP was hawkish and last week's RBA statement was relatively neutral and employment data was weaker. The market is pricing only a 25% chance of one 25bp hike by the end of the year. In our view, it's unlikely that Stevens would signal a rate cut and given the lack of tightening priced, there appears to be more scope for a sell-off than a rally in the short end.

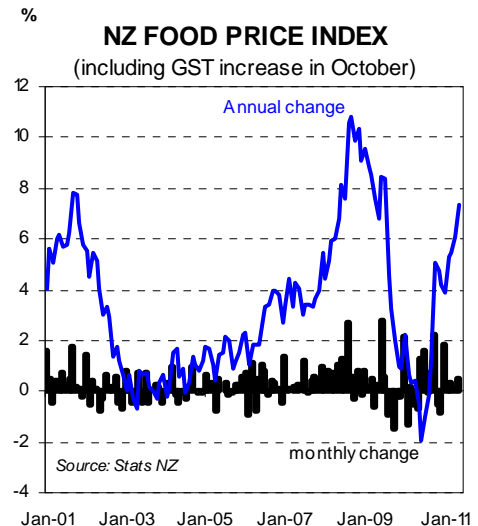
QLD state budget – no ratings implications for now

The Queensland government released its 2011-12 Budget. The Budget showed some deterioration in the general government sector operating balance in the short term, but it mostly reflects natural disaster impacts and, like other states, a lower GST revenue projection. Queensland now estimates a deficit of \$2.12bn in 2010-11 (MYFER deficit \$4.47bn) and \$4.06bn 2011-12 (MYFER deficit \$4.47bn). From 2012-13 to 2014-15, the general government sector balance improves faster than expected at time of the MYFER, mostly because of improved mining royalties and an improved outlook for Queensland's share of the GST pool. Beyond the forecast period, Queensland still aims to reach a surplus by 2015-16. S&P confirmed yesterday that Queensland's AA+/A-1+ rating isn't immediately affected by its 2011/12 Budget. On the possibility of a return to AAA, S&P noted that: “upward momentum for the rating is unlikely over the short-to-medium term”. The net financial liabilities to revenue ratio is projected to remain well above the AAA threshold of 110-120% for the next few years. However, the ratio is now expected to peak at 127% in 2015, compared with 136% in 2014, as projected in the MYFER in January.

Australian Lending Finance data showed a 3.8% decline in lending in April. This was driven by a 11.8% fall in commercial lending, which follows a solid increase in the previous month. Meanwhile, lending for housing shows encouraging signs of recovery.

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





US & CANADA

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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

Concerns about Eurozone debt eased slightly overnight, as the auction of €5.4 billion of Spanish government bonds was met with reasonable demand although the 12-month borrowing cost edged higher to 2.695%, from 2.546% in the previous month.

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

Chinese monthly data :

China's inflation rate rose to 5.5% in May, in line with the median estimate in Bloomberg's survey. Annual inflation is running at the fastest pace in three years. Within the data, Food prices declined for the third month consecutive month, but annual food price inflation continued to lift. The annual rate of non-food inflation lifted from 2.7% to 2.9%. Industrial output rose 13.3% in May, and producer prices lifted 6.8% in the month. Retail sales rose 16.9 % in May.

The People's Bank of China responded to the strong inflation data with a 50bp lift in the required reserve ratio, but did not change benchmark interest rate settings.

The Bank of Japan left its policy rate on hold at 0.1%, as widely expected. It also left its Asset Purchase Programme unchanged, but announced a ¥500 billion plan to make loans available to companies at 0.1% interest rate for two years in order to support industries hit by the natural disasters in Japan earlier this year

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
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.					
	16:00	JN	Machine Tool Orders	May F	y%ch	34.2	~	~
Thu 16 June	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
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	Q1	USD bn	-113.3	-126.0	~
Fri 17 June	15:00	US	Philadelphia Fed	Jun	Index	3.9	7	~
	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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