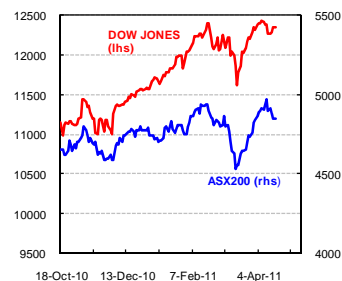


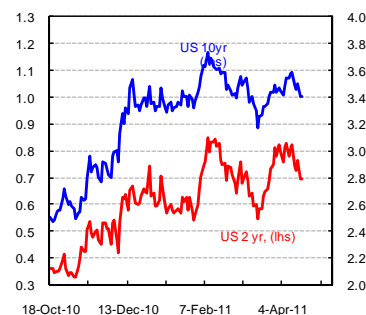
Encouraging US economic data boosts US equities; US bonds rally. US\$ mixed.

- US consumer sentiment rose from 67.5 to 69.6 in April, ahead of forecasts centred on 66.5. US consumer prices rose by 0.5pct in March, but excluding food and energy, prices rose just 0.1pct. And US industrial production rose by 0.8pct in March, ahead of forecasts for a gain of 0.6pct.
- European shares rose on Friday despite softness in the banking sector and on-going worries about the Euro-zone debt crisis. The FTSEurofirst index rose by 0.2pct but fell 1.5pct over the week. The German Dax lifted by 0.4pct on Friday and the UK FTSE gained 0.5pct.
- US sharemarkets rose on Friday as investors were encouraged by the latest economic news. Disappointing earnings from Google and Bank of America failed to dent the optimism. The so-called fear gauge, or the Vix, fell to a near four-year low, down 13.6pct over the week. The Dow Jones index rose by 56pts or 0.5pct with the S&P 500 higher by 0.4pct and the Nasdaq rose by 4.4pts or 0.2pct. Over the week the Dow Jones eased by 0.3pct with the S&P 500 down 0.6pct and the Nasdaq lower by 0.3pct.
- US treasuries rose on Friday (yields lower) with investors encouraged that higher food and energy prices weren't creating broader price pressures. US 2yr yields fell by 8pts to 0.69pct and US 10yr yields fell by 9pts to 3.41pct. Over the week US 2yr yields fell by 12pts and US 10yr yields fell by 16pts.
- The US dollar was mixed against major currencies in European and US trade on Friday. The Euro eased from highs near US\$1.4495 to US\$1.4390, before lifting to close US trade near US\$1.4420. The Aussie dollar rose from lows near US105.10c to US\$105.75c before ending US trade near US105.60c. The Aussie is US105.50c this morning. And the Japanese yen rose from 83.45 yen per US dollar to near JPY83.00, before closing US trade at JPY83.10.
- US crude oil prices rose on Friday. Higher US consumer confidence and industrial production offset worries that higher fuel costs could crimp economic activity. On-going instability in Libya also buoyed oil prices. The Nymex crude oil contract rose by US\$1.55 or 1.4pct to US\$109.66 a barrel. And the London Brent crude rose by US\$1.45 to US\$123.45 a barrel. Over the week Nymex crude fell by 2.8pct and Brent lost 2.5pct.
- Base metal prices were generally firmer on the London Metal Exchange on Friday in response to positive US production data. Metals generally rose between 0.1-2.1pct although copper lost 0.1pct. Over the week metal prices reversed the previous week's solid gains, easing from 0.3-7.1pct with lead down the most and aluminium faring the best. Gold rose to fresh record highs in response to higher US and Chinese inflation. The Comex gold futures price rose by US\$13.60 an ounce to US\$1,486.00. Gold rose by 0.8pct over the week.
- **Ahead:** In Australia, Woolworths releases quarterly sales figures. In the US, the NAHB housing market index is released.

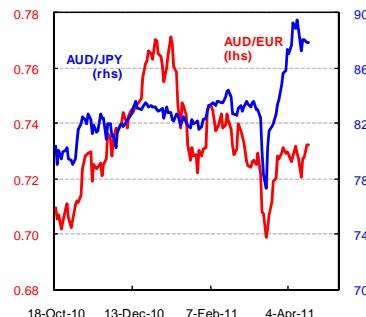
DOW JONES INDEX & ASX200



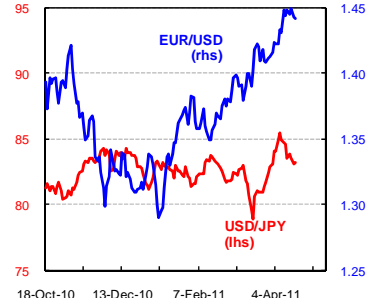
US BOND YIELDS



AUD/EUR & AUD/JPY



USD/JPY & EUR/USD



Currencies		10 Yr Bond Yields (%)		Commodities		Equities	
AUD/USD	1.0568 0.2%	Australia	5.42 -0.02	CRB Index	362.78 0.6%	Dow	12,342 0.5%
NZD/USD	0.7995 0.7%	NZ	5.77 -0.01	GS Index	742.33 0.9%	S&P 500	1,320 0.4%
EUR/USD	1.4430 -0.4%	US	3.41 -0.09	Aluminium \$/t	2675 2.12%	NASDAQ	2,765 0.2%
USD/JPY	83.13 -0.4%	AU less US	2.01	Copper \$/t	9384 -0.05%	FTSE	5,996 0.5%
GBP/USD	1.6328 -0.1%	NZ less US	2.36	Lead \$/t	2715 1.89%	Shanghai	3,051 0.3%
USD/CHF	0.8922 0.0%	AUD Swap Rates (%)		Nickel \$/t	26155 1.38%	H.Seng	24,008 0.0%
AUD/NZD	1.3218 -0.5%	3mth	4.92 0.00	Zinc \$/t	2380 0.05%	Nikkei	9,592 -0.6%
AUD/JPY	87.86 -0.2%	3yr	5.40 -0.06	Gold \$/o	1486.7 0.8%	ASX200	4,852 -0.7%
AUD/EUR	0.7324 0.6%	5yr	5.80 -0.04	WTI Oil \$/b	109.66 1.4%	NZSX50	3,453 -0.1%

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Economics: Preview

AUSTRALIA & NEW ZEALAND

Monday 18 April

NZ Consumer Price Index, QI, q%ch, (f) 1.2 (2.3 prev)

We expect CPI to have increased by 1.2% in QI. The increase in tobacco taxes drives much of the increase in non-tradable inflation over the March quarter. Meanwhile, we estimate petrol prices increased by almost 10%, and this is likely to be the key driver of tradable inflation over the quarter.

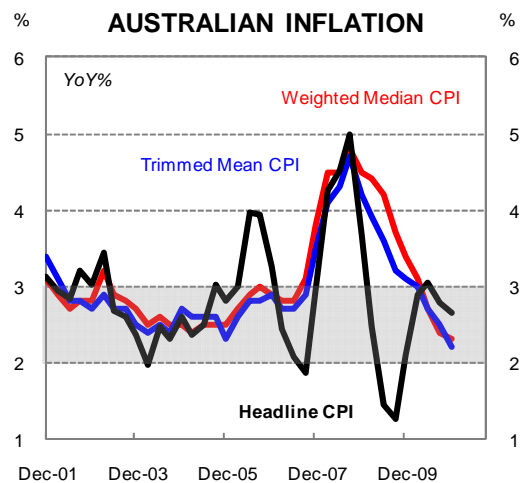
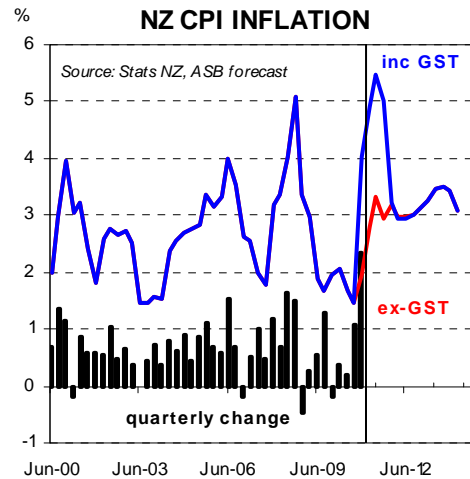
The effects of the Christchurch earthquake in late February dominate the inflation outlook for the coming years. In the March MPS, the RBNZ made the clear distinction between the initial and more persistent effects on inflation. The RBNZ has stated it will not be responding to the increase in rents and insurance costs that will occur this year as a result of the earthquake. However, beyond 2011 reconstruction activity is likely to underpin construction cost inflation. Given this is likely to last several years, there is the potential for reconstruction activity to lead to persistent inflation pressures. The RBNZ has indicated it will likely lean against this inflation boost, given its focus on medium-term inflation.

Tuesday 19 April

AU RBA Board Minutes, Apr

As was widely expected the RBA kept the cash rate at 4.75% at its April policy meeting. In the statement accompanying the April meeting the RBA board was once again upbeat about the outlook for global and local economic growth. Interestingly, the RBA continues to stress that although there is likely to be a spike in near-term inflation, brought on by the recent natural disasters, these affects are likely to be temporary. The RBA expects inflation to remain within its 2-3% target band in the next year. Hence, despite the ongoing robust performance of the domestic labour market and the benefits of the record high terms of trade continuing to flow into the economy, the RBA appears content with current monetary policy settings.

However, with domestic jobs growth likely to remain strong in 2011, the potential labour shortages could see wage pressures intensify. We believe a sustained lift in wages could be one of the drivers behind further RBA policy tightening in the second half of 2011. The April RBA meeting minutes are likely to shed further light on the RBA's recent policy decision.





Wednesday 20 April

AU Trade Price Indices, QI, q%ch

- Export prices, (f) 4.0 (-8.1 prev)
- Import prices, (f) -1.0 (-3.8 prev)

Australia's terms of trade fell modestly in QIV, but remained near 50-year highs. Despite the fall in QIV, export prices were still some 19% higher in the year. In contrast, import prices were slightly lower in the year.

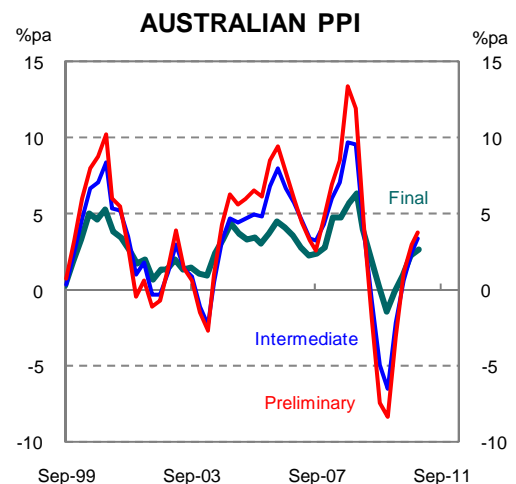
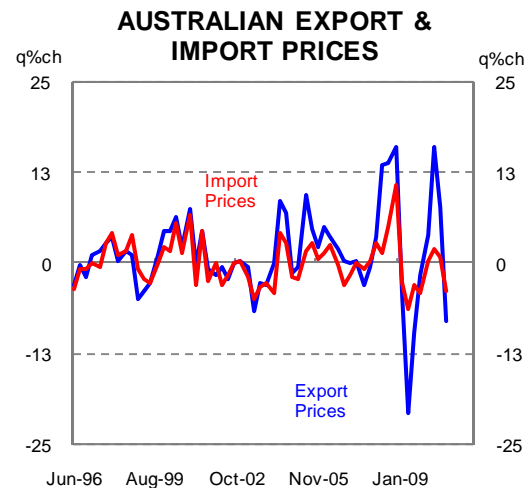
Sustained global demand for commodities, when combined with the domestic natural disaster commodity supply constraints, has seen commodity prices rise in QI. As a result, Australian export prices are likely to have risen in QI. In contrast, the ongoing strength in the AUD is expected to have dampened import price growth. Consequently, Australia's terms of trade is likely to have increased in QI. This outcome would be in line with the RBA's thinking. In the February *Statement on Monetary Policy* the RBA raised its near-term forecasts for Australia's terms of trade to new record highs. Australia's economy will continue to benefit from the high terms of trade via higher profits, incomes, investment, jobs and government revenues.

Thursday 21 April

AU PPI, QI, q/y%ch, (f) 1.0/2.7 (0.1/2.7 prev)

In QIV, the prices paid to Australian producers increased only 0.1%, the lowest quarterly increase in 2010. However, from a year earlier, producer prices increased 2.7% in QIV. On a six-month basis, core PPI, which excludes food & energy, increased at an annualized rate of 2.6% in QIV.

The strong performance of the AUD dampened the import price component of the QIV producer price data. With AUD strength remaining a feature of financial markets in QI, the import price component is again likely to have come under some downward pressure. In contrast, the domestic component is likely to have remained relatively robust. One of the drivers behind the expected push higher in domestic producer prices is likely to be the rising commodity prices, particularly in a range of soft commodities. Significantly, these higher commodity prices appear to be entering the pricing chain. A further catalyst behind higher domestic producer prices is likely to be the capacity pressures developing across the economy. The recent natural disasters, and the subsequent rebuilding efforts, are likely to exacerbate these pressures, particularly in regard to construction costs. We expect the PPI to have increased 1.0% in QI, up 2.7% from a year ago.





INTERNATIONAL

Tuesday 19 April

CA CPI, Mar, m/y%ch, (0.3/2.2 prev)

In February, Canada’s annual inflation rate decelerated to 2.2%. Significantly, the core inflation rate, which excludes eight volatile items, increased by only 0.9% (YoY) in February, the slowest annual pace on record. The slowdown in core price growth was largely a function of the substantial drop in accommodation costs, relative to the high prices paid during the 2010 Winter Olympics.

The Bank of Canada (BoC) continues to reiterate that the “considerable slack” in Canada’s economy is keeping core inflation contained. However, the BoC, in its April policy meeting statement, indicated that it expects headline inflation to peak at 3% in QII. The recent surge in commodity prices, particularly oil prices, is the driving force behind the moves higher in headline inflation. With respect to underlying price growth, given the continued robust domestic economic growth outlook, core price pressures in Canada’s economy are likely to build over the course of 2011.

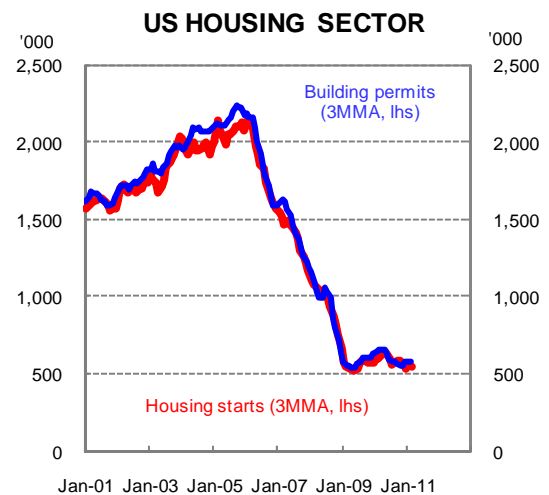
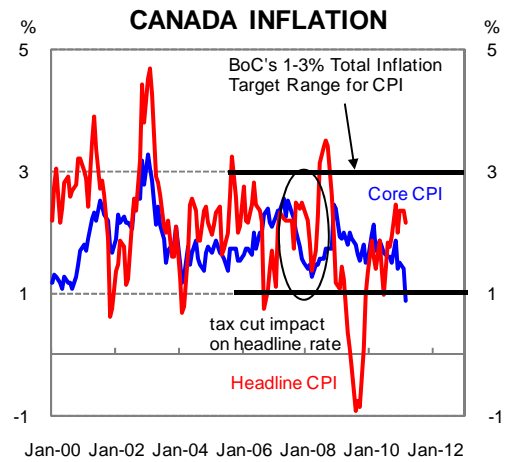
Tuesday 19 April

US Building Permits, Mar, ‘000, (534 prev)

US Housing Starts, Mar, ‘000, (479 prev)

In February, US building permits, a sign of future housing starts, declined 8%, falling to a 534,000 annual pace. The drop-off in February continues on the recent downward trajectory experienced in building permits. The recent exception being December. The relative December surge was primarily driven by attempts to obtain building permits prior to 1 January building code changes.

Typically, building permits tend to turn into housing starts in the space of a few months. Based on the February decline in building permits, it appears likely that March housing starts will be relatively soft. Despite the recent volatility, US housing starts appear to have been stabilising, averaging an annual rate of 578,000 in the past 18 months. But, a strong near-term rebound in housing starts appears unlikely. A substantial overhang of vacant and foreclosed homes in the US continues to depress house prices. Low prices represent a significant hurdle to further construction.





Wednesday 20 April

UK Bank of England minutes, Apr

As expected the Bank of England (BoE) remained on hold at its April policy meeting. The BoE has left its base rate at 0.5% since March 2009. We expect the BoE to commence policy tightening in late QII 2011. But, based on the recent volatility in UK economic data, there is a risk that BoE policy tightening does not commence until the second half of 2011.

The minutes of 2011 BoE policy meetings had progressively become decidedly more hawkish. However, in March, a majority of the Monetary Policy Committee (MPC) indicated that they saw “*merit in waiting*” to assess the impact rising energy prices will have on the inflation, which the BoE forecasts may exceed 5% in the near-term.

A further surge in inflation will do nothing to dispell the concern of some MPC policy makers. UK inflation has exceeded the BoE’s 2% target since December 2009. Hence, some MPC policy makers believe that higher inflation expectations in the UK economy may be materialising. Once elevated inflation expectations become entrenched they are difficult to reverse. Markets will be interested to see whether the tone of the BoE’s inflation outlook has again shifted.

Wednesday 20 April

US Existing Home Sales, Mar, m%ch, (-9.6 prev)

The housing market continues to be a problem segment of the US economy. Existing home sales decreased 9.6% in February (MoM), falling to a 4.88mn annual rate. The falls in sales volumes was broad based. Interestingly, distressed properties accounted for a relatively high 39% of sales in February. The influx of foreclosed properties onto the sales market continues to keep downward pressure on prices and in turn demand. When coupled with the sluggish recovery in the US labour market, it does not appear likely that there will be a significant turnaround in home sales in the short-term.

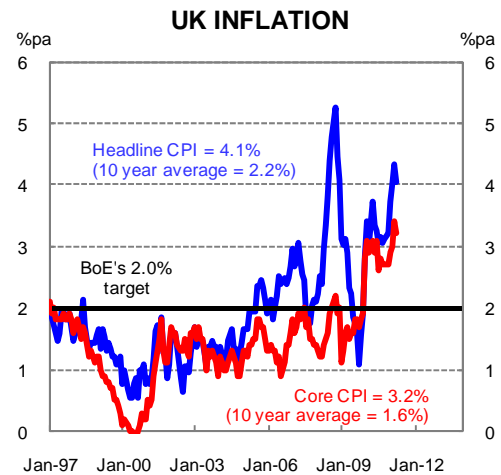
Furthermore, movements in pending home sales tend to lead existing home sales. The index of pending home sales has fallen 4% in the past three months.

Thursday 21 April

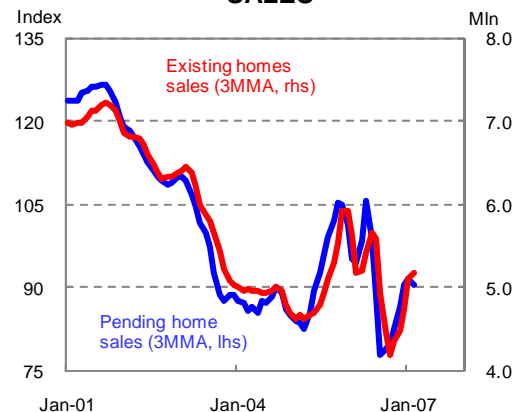
CA Retail Sales, Feb, m%ch, (-0.3 prev)

Somewhat surprisingly, Canada’s retail sales declined for a second consecutive month in January, down 0.3%. The January declines were again a function of falling automobile related purchases. Core retail sales, which exclude automobiles and parts, were unchanged in January. Following the recent declines, it is likely that retail sales experienced a slight rebound in February.

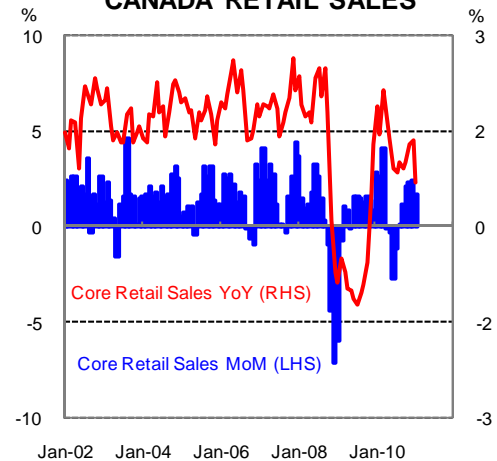
Despite the pull back in retail sales in early 2011, overall consumer demand has been a key economic growth driver in recent times. In 2010, retail sales increased 4.9% (core sales increased 4.6%). However, in its 2011 commentary the Bank of Canada (BoC) has reiterated that consumer spending growth should slow in 2011. According to the BoC, exports and investment are likely to be the drivers of Canada’s economy in 2011.



US PENDING & EXISTING HOME SALES



CANADA RETAIL SALES





Thursday 21 April

UK Retail Sales, Mar, m/y%ch, (-0.8/1.3 prev)

In February, UK retail sales were below market expectations. Retail sales, in value terms, decreased 0.4% (MoM) in February. Significantly, both retail sales volumes and core retail sales declined in February, down 1% respectively in the month.

The UK economy continues to be in a precarious position. Consumer confidence has trended lower in recent months. Uncertainty of what impact the UK budget cuts will have on the economy and on UK individuals appears to be weighing on consumer spending habits. The recent increase to the UK sales tax and lift in energy costs are also likely to have provided additional headwinds to consumer spending in March.



Economics: Review

AUSTRALIA & NEW ZEALND

- There were no major economic releases or events in Australia and New Zealand last Friday.

US & CANADA

United States

- The pass through of higher agricultural and commodity prices into final **US consumer prices** continued in March, with a 0.8% m/m increase in food prices and a 5.6% m/m increase in gasoline prices generating a 0.5% m/m overall increase. There is still more to come. Gasoline prices have continued to rise over the first couple of weeks in April. The extent of the surge in agricultural commodity prices suggests that CPI food inflation will rise from 2.9% in March to as high as 7.0% by the end of this year. The **annual rate of headline CPI inflation climbed to 2.7% in March**, from 2.1% the month before. It will be above 3% before long. Nevertheless, the Fed will be happy to see that core inflation remains muted. Excluding food and energy, **core prices increased by a more modest 0.1% m/m in March and the annual rate was only 1.2%**. Vehicle prices increased by a stiff 0.8% m/m, which we suspect may be a reaction to concerns that some Japanese models could be in short supply later this year. On the other hand, clothing prices fell by 0.5% m/m, which is a little strange given the massive surge in cotton prices over the past year. Overall, nothing here to change the Fed's view that the surge in commodity prices can be ignored as long as it doesn't lead to second-round effects in wages and core inflation.
- Elsewhere, the **Empire State manufacturing index** strengthened to 21.7 in April, from 17.5, and the details of the survey were even more encouraging, with the new orders, shipments and employment balances all improving markedly. It looks like the manufacturing recovery is still going well.
- US industrial production** increased by a healthy 0.8% m/m in March, untroubled by rising input prices or any notable disruption stemming from the Japanese disaster. Manufacturing output increased by 0.7% m/m, boosted by a 3.0% m/m increase in autos output. It appears that a shortage of parts supplies will lead to the temporary shutdown of some US autos plants in the next month or two, but it is nevertheless encouraging to see that there was no immediate impact. That said, hi-tech industries did appear to be affected a little. Hi-tech output increased by only 0.9% m/m in March, compared with gains of in excess of 2% m/m in each of the preceding four months. That slowdown was mostly in the production of semi-conductors and related components. Whether this slower growth was due to events in Japan, the timing of the Chinese New Year or whether it just reflects the normal month-to-month volatility in production, we won't know for sure until April's figures are released. Finally, looking at the product breakdown, it was notable that output of consumer goods increased by 0.9% m/m, while output of business equipment increased by only 0.4%. Overall, further evidence that the manufacturing recovery is still going strong.
- The rebound in the **University of Michigan measure of US consumer confidence** to 69.6 in April, from 68.2, is better than nothing, but that still leaves confidence well down on the mid-70s readings we were seeing before the surge in gasoline prices really began to bite. We suspect the rebound in stock markets between mid-March and mid-April



explains most of the bounce in confidence. The rebound in the headline confidence index was driven by a snap back in the economic outlook index to 61.2, from 58.3, while the economic conditions index slipped to 82.7, from 83.6. The Fed will be pleased to see that the one-year ahead inflation expectations index remained unchanged at 4.6%, while the five-year ahead expectations index slipped back to 2.9%, from 3.2%. Higher gasoline prices still have consumers worried about inflation in the short term, but there is no evidence that medium term expectations are becoming unanchored.

Canada

No major data was released in Canada.

Fed view

The Fed has announced a further \$600bn QE program in addition to reinvesting maturing funds into Treasury purchases. We do not expect the first Fed Funds hike until 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

No major economic data released in Euroland last Friday.

UK

No major economic data was released in the UK.

Bank of England view

Members of the BoE are becoming more concerned about UK inflationary pressures. But, most members expect significant spare capacity to dull the near-term pressures. We expect the first move in QII 2011.

ECB view

Elevated inflation in the Eurozone is likely to see the ECB commence tightening policy in an effort to pre-empt the onset of second round inflation effects. We expect the first ECB rate hike to be in QII 2011.

JAPAN & CHINA

Japan

No major economic data was released in Japan on Friday.

Bank of Japan view

With the Japanese economy continuing to battle deflation the Bank of Japan is undertaking additional quantitative easing measures. Rates are unlikely to change anytime soon.

China

- **Chinese economic activity** was faster than expected in the first three months of the year. The Chinese economy grew at a 9.7 per cent annual rate in the March quarter (consensus 9.4 per cent) only slightly down from 9.8 per cent in the previous quarter.
- **China's industrial production** grew at a 14.8 per cent annual pace in March – ahead of expectations. Retail sales activity also beat expectations, up 17.4 per cent over the year.
- **Inflation prints above forecast.** China's annual inflation rate rose from 4.9 per cent to 5.4 per cent in March – a 32-month high. Food inflation stands at 11.7 per cent with non-food inflation at 2.7 per cent.
- **Business inflation** (producer prices) remained high at 7.3 per cent in March – a 30 month high.



PBoC view

We expect the PBoC to further normalize monetary policy by lifting its benchmark interest rates 25-50bps in QII.



The Week Ahead

Calendar - Australasia, Japan and China

Date	Time AEST	Econ Event	Period	Unit	Last	Forecast	
						Market	CBA
Mon 18 Apr	08.30	NZ Performance services index	Mar	Index	50.8	~	~
	08.45	NZ Consumer prices	Q1	q%ch y%ch	2.3 4.0	1.0 4.6	1.2 4.9
Tue 19 Apr	11.30	AU Reserve Bank's Board April minutes					
	12.30	CH HSBC flash China manufacturing	Apr	~	51.8	~	~
	15.00	JP Consumer confidence	Mar	Index	40.7	~	~
	15.00	JP Consumer confidence households	Mar	Index	40.6	~	~
Wed 20 Apr	09.50	JP Merchandise trade balance total	Mar	¥bn	653.3	~	~
	09.50	JP Adjusted merchandise trade balance	Mar	¥bn	556.0	~	~
	09.50	JP Merchandise trade exports	Mar	y%ch	9.0	~	~
	09.50	JP Merchandise trade imports	Mar	y%ch	9.9	~	~
	11.00	AU Westpac leading index	Feb	m%ch	-0.1	~	~
	11.00	AU Consumer inflation expectation	Apr	%	~	~	~
	11.30	AU Import price index	Q1	q%ch	-3.8	~	-1.0
	11.30	AU Export price index	Q1	q%ch	-8.1	~	4.0
	11.30	AU Producer price index	Q1	q%ch y%ch	0.1 2.7	~ ~	~ ~
	12.00	CH Conference Board China February Leading Economic Index					
Thu 21 Apr	11.30	AU PPI	Q1	q%ch y%ch	0.1 2.7	~ ~	1.0 2.7
	13.00	NZ Credit card spending	Mar	m%ch y%ch	-0.3 5.3	~ ~	~ ~
	13.00	NZ ANZ consumer confidence index	Apr	Index m%ch	101.4 -6.2	~ ~	~ ~
	15.00	JP Coincident index CI	Feb	Index	106.3	~	~
	15.00	JP Leading index CI	Feb	Index	104.2	~	~



Calendar – North America & Europe

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

Date	UK		Econ Event	Period	Unit	Last	Forecast	
	Time						Market	CBA
Mon 18 Apr	00.01	UK	Rightmove house prices	Apr	m%ch	0.8	~	~
					y%ch	0.9	~	~
	13.30	CA	International securities transactions	Feb	\$bn	13.3	~	~
	15.00	EZ	Consumer confidence	Apr	Index	-10.6	~	~
Tue 19 Apr	15.00	US	NAHB housing market index	Apr	Index	17.0	17.0	~
	07.00	EZ	EU 25 new car registrations	Mar	%	0.9	~	~
	08.30	GE	PMI manufacturing	Apr	Index	60.9	~	~
	08.30	GE	PMI services	Mar	Index	60.1	~	~
	09.00	EZ	PMI composite	Apr	Index	57.6	~	~
	09.00	EZ	current account	Feb	€bn	0.5	~	~
	09.00	EZ	ECB Euro-Zone current account	Feb	€bn	-0.7	~	~
	09.00	EZ	PMI manufacturing	Apr	Index	57.5	~	~
	09.00	EZ	PMI services	Apr	Index	57.2	~	~
	10.00	EZ	Construction output	Feb	m%ch	1.8	~	~
					y%ch	-4.5	~	~
	12.00	CA	CPI	Mar	Index	118.1	~	~
					m%ch	0.3	~	~
					y% h	2.2	~	~
	12.00	CA	Bank Canada CPI core	Mar	m%ch	0.2	~	~
					y%ch	0.9	~	~
	13.30	CA	Leading indicators	Mar	m%ch	0.8	~	~
	13.30	CA	Wholesale sales	Feb	m%ch	1.5	~	~
					y%ch	1.5	~	~
	13.30	US	Building permits	Mar	m%ch	-5.2	~	~
'000					534.0	~	~	
13.30	US	Housing starts	Mar	m%ch	-22.5	~	~	
				'000	479.0	520.0	~	
Wed 20 Apr	07.00	GE	Producer prices	Mar	m%ch	0.7	~	~
					y%ch	6.4	~	~
	09.30	UK	Bank of England minutes					
	09.30	UK	Public finances (PSNCR)	Mar	£bn	7.0	~	~
	09.30	UK	PSNB ex interventions	Mar	£bn	11.8	~	~
	09.30	UK	Public sector net borrowing	Mar	£bn	10.3	~	~
	15.00	US	Existing home sales	Mar	m%ch	-9.6	2.5	~
					\$mn	4.9	5.0	~



Thu 21 Apr	09.00	GE	IFO - business climate	Apr	Index	111.1	~	~
	09.00	GE	IFO - current assessment	Apr	Index	115.8	~	~
	09.00	GE	IFO - expectations	Apr	Index	106.5	~	~
	09.30	UK	Retail sales ex auto fuel	Mar	m%ch	-1.0	~	~
					y%ch	1.2	~	~
	09.30	UK	Retail sales w/auto fuel	Mar	m%ch	-0.8	~	~
					y%ch	1.3	~	~
	13.30	CA	Retail sales	Feb	m%ch	-0.3	~	~
	13.30	CA	Retail sales less autos	Feb	m%ch	0.0	~	~
	13.30	US	Initial jobless and continuing claims	Apr	~	~	~	~
	15.00	US	House price index	Feb	m%ch	-0.3	~	~
	15.00	US	Leading indicators	Mar	%	0.8	0.2	~
	15.00	US	Philadelphia Fed.	Apr	~	43.4	36.4	~
	21.00	US	RPX composite 28dy	Feb	Index	179.5	~	~
					y%ch	-3.4	~	~



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