

Latest Prices (7am AEST)

	Level	chg	% chg
US Dow Jones	12479.58	-68.79	-0.6
US S&P500	1328.98	-0.49	0.0
US Nasdaq	2783.21	0.90	0.0
UK FTSE	5861.00	-62.69	-1.1
German Dax	7256.65	-130.89	-1.8
Toronto Composite	13441.06	49.71	0.4
ASX24 Futures (night)	4684.00	-4.00	-0.1
ASX200 (yesterday)	4683.92		
Shanghai (yesterday)	2852.77	3.71	0.1
Japan Nikkei (y'day)	0	8.72	0.1
WBC ADRs	121.35	0.72	0.6
BHP ADRs	93.85	0.73	0.8
US Volatility (Vix)	17.55		-3.8
Volume traded: NYSE (billion)		0.97	
	Current	Aust 4pm	
AUD/USD	1.0619	1.0591	
EUR/USD	1.4234	1.4168	
USD/JPY	81.46	81.14	
GBP/USD	1.6247	1.6212	
NZD/USD	0.7832	0.7815	
AUD/NZD	1.3541		
AUD TWI 4pm	77.7		
Oil Nymex (\$US/b)	96.91	-0.46	-0.5%
Spot Gold (\$US/oz)	1484.85		
Gold futures(\$US/oz)	1482.80	-7.80	-0.5%
Spot Iron Ore (\$US/t)	178.10	-0.40	-0.2%
Newcastle coal (\$US/t)	119.75		
US 10 year (%)	3.114	-0.03	
US 2 year (%)	0.5202	-0.01	
Aust 10 year (%)	5.403	0.04	
Aust 3 year (%)	5.07	-0.01	
Aust 90 day futures	94.96	Impl.yld:	5.04%
Aluminium (\$US/t)	2489.50	-71.25	-2.8%
Copper (\$US/t)	8776.50	-39.50	-0.4%
Lead (\$US/t)	2308.50	24.25	1.1%
Nickel (\$US/t)	24144.00	-212.00	-0.9%
Zinc (\$US/t)	2070.25	-64.75	-3.0%
Tin (\$US/t)	27825.00	-120.00	-0.4%

Weak data and Greek concerns weigh on market mood.

US industrial output was unchanged in April against expectations of a 0.4pct rise. Capacity utilisation eased from 77.0pct to 76.9pct in April. **US housing starts** fell by 10.6pct in April. Compared to April last year residential construction was down 23.9pct. **New building permits** fell 4pct in April.

European shares fell to four week closing lows on Tuesday. The weak economic data was the main driver. The German ZEW index measuring analyst and investor sentiment was lower than expected. The euro zone debt crisis prompted investors to remain cautious. The EU finance minister, Jean-Claude Juncker acknowledged for the first time that Greece may have to move towards a "soft restructuring" of its debt. The FTSEurofirst index fell by 1pct with the German Dax lower by 1.8pct and the UK FTSE was down by 63pts or less than 1.1pct.

US sharemarkets were mostly weaker for the third straight session on Tuesday. Investors were disappointed by the lack of improvement in the US housing sector and poor earnings guidance. Hewlett-Packard lost 7.3pct after cutting its forecast due to problems in the supply chain due to the Japanese earthquake. Caution dominated trade with the S&P's industrial sector losing 1.3pct. Both the S&P500 and Nasdaq dipped below their 50-day moving average before buying interest came in. The Dow Jones lost 69pts or 0.6pct with the S&P 500 virtually unchanged and the Nasdaq gained almost 1pt.

US treasuries rose again on Tuesday (yields lower). Weak economic data about the pace of economic growth saw investors continue to switch out of equities and towards safe-haven bonds. US 2yr yields fell by 1pt to 0.52pct and US 10yr yields fell by 3pts to 3.11pct.

The US dollar gave back early gains against major currencies in US trade on Tuesday. The Euro rose from lows near US\$1.4125 to US\$1.4230, before ending US trade near US\$1.4220. The Aussie dollar rose from lows near US\$105.05c to US\$106.25c before ending US trade near US\$106.15c. And the Japanese yen lifted from 81.75 yen per US dollar to JPY81.25, ending US trade near JPY81.40.

US and European crude oil prices fell on Tuesday in a volatile trading session as investors fretted about a slowdown in the US economy. The Nymex crude oil contract fell by US46c or 0.5pct to US\$96.91 a barrel and London Brent crude fell by US95c to US\$109.99 a barrel.

Base metal prices were mostly weaker on the London Metal Exchange on Tuesday, with the exception of Lead (up 1.1pct). The weakness in US economic data was the main driver, however markets were further pressured in early trade by a firmer US dollar. And the gold price fell again on Tuesday, with Comex gold futures down by US\$7.80 an ounce to US\$1,482.80.

Ahead: In Australia, consumer sentiment and wage price data are released. In the US, FOMC board minutes are released.

Indicative market rate at 7am Source: Bloomberg

Technical problems have delayed today's CBA Daily Alert and meant we were unable to produce the usual charts today.



Economics: Preview

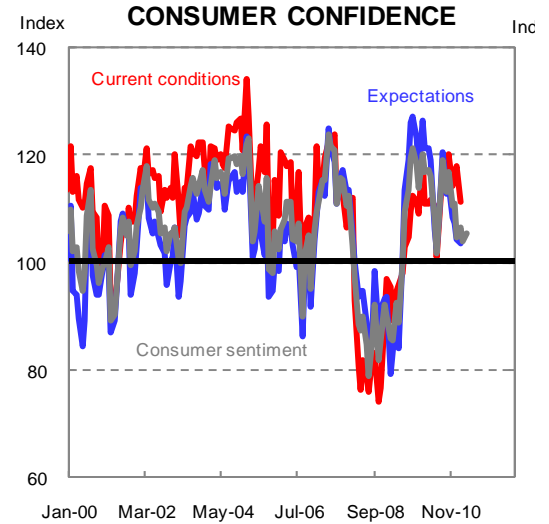
AUSTRALIA & NEW ZEALAND

Wednesday 18 May

AU Consumer Confidence, May, Index, (105.3 prev)

Australian consumer confidence improved slightly in April, rebounding from the March decline. Consumer sentiment rose 1.2% in April, lifting from a ten month low. Despite the rise, confidence remains some 9% lower compared to a year ago. Interestingly, broader confidence may be gathering momentum. In April all of the confidence sub indices increased in the month, with the exception of the five year ahead economic outlook. This category has slumped some 16% from a year ago.

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



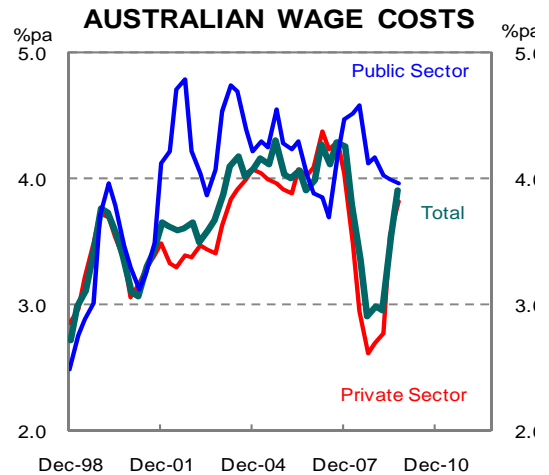
AU Wage Price Index, Q1, q/y%ch, (f) 1.1/4.0 (1.0/3.9 prev)

Thursday 19 May

AU Average Weekly Earnings, Feb, q/y%ch, (f) 1.1/3.8 (1.1/3.9 prev)

Annual wage growth peaked at 4.4% in QIV 2008, before falling back to 2.8% in QIV 2009. The decline was driven by a moderation in private sector wages. But with market trepidation easing, and underlying economic drivers returning to focus, Australian wage growth is again gathering momentum. QIV 2010 annual wage growth was 3.9% (up 1.0% QoQ). The QIV annual wage growth was the highest since Q1 2009. In QIV, private sector wage growth (3.8% YoY) was eclipsed by public sector wage growth (4% YoY). The rise in wages continues to be underscored by both strong private and public sector wage growth.

Looking ahead, the robust strength in Australia's labour market should feed into additional wage pressure in 2011. We are forecasting a 4% annual lift in the wage price index in Q1, while average weekly earnings are expected to have increased by 3.8% in the year to February.





INTERNATIONAL

Wednesday 18 May

UK Bank of England minutes, May

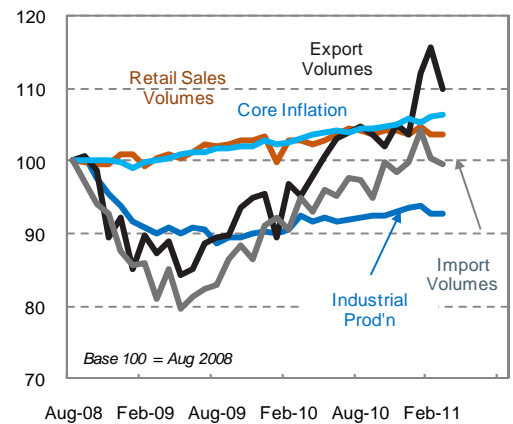
In May, as was expected, the Bank of England (BoE) remained on hold. The BoE has left its base rate at 0.5% since March 2009. In the minutes of the April policy meeting the Monetary Policy Committee (MPC) indicated that near-term inflation is likely to exceed 5%. The BoE's May *Inflation Report* built on this outlook. The *Inflation Report* highlighted that the central bank is now of the opinion that inflation "*is more likely than not to remain above the 2 percent target throughout 2012*". UK inflation has exceeded the BoE's 2% target since December 2009. Hence, there appears to be risks building that the sustained level of elevated inflation may develop into second round price effects.

The BoE's recent commentary also highlights that it believes the risks to the UK economy are now "*skewed to the downside*". As a result, it appears the MPC is reluctant to tighten policy given the uncertain economic outlook. The May policy meeting minutes will give market participants a further insight into the possible path of UK monetary policy.

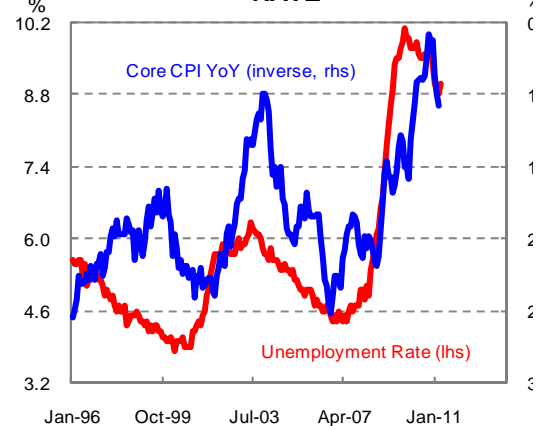
US FOMC meeting minutes, Apr

In the statement accompanying the Federal Open Market Committee's (FOMC) April policy meeting, the FOMC indicated it would complete its asset purchase program as scheduled (end-June 2011). The FOMC reiterated that while the US economy was recovering at a "moderate pace", the US unemployment rate remains unacceptably high and underlying price pressures remain subdued. In the opinion of the FOMC the recent rise in inflation has been a function of higher commodity prices and not demand driven. Hence the effects are expected to be "transitory". In the first post meeting press conference, Federal Reserve (Fed) Chairman Ben Bernanke signalled that while additional policy easing was unlikely, the move to tighten policy may not occur at the pace some market participants are forecasting. The Fed remains concerned about the large US output gap. As a result, according to Chairman Bernanke, the Fed's balance sheet is likely to remain large for an extended period. The April FOMC policy meeting minutes may give further insight into the timing and/or the steps the Fed may take with regard to future policy decisions.

PATTERN OF THE ECONOMIC RECOVERY IN THE UK



US CORE CPI & UNEMPLOYMENT RATE



Economics: Review

Australia and New Zealand

NZ Dairy

Fonterra's Global Dairy Trade-Trade Weighted Index fell 1.1% at the latest auction, with an average selling price of \$4,443. Despite the fall, dairy prices remain very high, and the current price is up significantly on a year ago. Fonterra's payout for the current season is expected to be between NZ\$7.90 and NZ\$8.00, comprising a milk payment of NZ\$7.50 a kilo of milk solids and a 40 to 50 NZ cents distribution. Yesterday Fonterra said production for the nearly ended 2010/11 season was over 4% ahead of a year ago and likely to be a record level (Reuters).

NZ visitor spending: MED report

The Ministry of Economic Development said visitors spent \$5.6 billion in this country in the year to March, which is down from \$6 billion a year earlier. The fall in spending comes despite a slight rise in the number of tourists over the year. The 6% fall in spending was matched by a rise of 6% in the strength of the NZ dollar (on a trade weighted basis). American tourists spent nearly 14% less than a year earlier. A 7% fall in spending by Australians, making up for a third of the drop in overall spending, was thought to be largely a result of a change in the mix of visitors from holiday-makers to business visitors. (source NZ Herald, MED).



RBA Minutes

The May minutes sang the same hawkish tune as the RBA's Statement on Monetary Policy (SMP) released on 6 May. The SMP and the May RBA board minutes leave the door "wide open" for more monetary policy tightening action in the not too distant future. Indeed, the May SMP contained significant changes to the central bank's expectations for economic growth and inflation over the next few years. And the May minutes backed up the SMP on these matters. In short, the RBA now sees underlying inflation running at 3% by late 2011 and staying at that rate for the next two years. By the end of the forecast period, the RBA now says that underlying inflation was expected to be above 3 per cent.

Looking at history, the last time the RBA forecasts were signalling underlying inflation running at 3% was in February 2008. And the Bank lifted the cash rate by 0.25% that February, and followed this move up with another 0.25% move a month later in March 2008, taking the cash rate to 7¼%. Therein lies a helpful cautionary tale!

All up, the latest SMP and the May Board Minutes bolster our central call that the RBA will lift the cash rate to 5.0% in August 2011, and then engineer 3 further 0.25% moves until a likely cyclical peak of 5¾% is reached in 2012. The key risk to this central CBA view is that the RBA may move earlier than August, especially if upcoming Q1 wages data (released today) and Q1 capex and monthly employment numbers ahead print on the robust side.

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

US & CANADA

US Industrial Production was flat in April, after a 0.7% lift in March. A drop in auto production impacted the overall result after parts supplies were disrupted by the earthquake and tsunami in Japan. The output of automotive products dropped 7.0% Excluding autos, production rose 0.2%. The output of appliances, furniture, and carpeting also fell 4.2%.

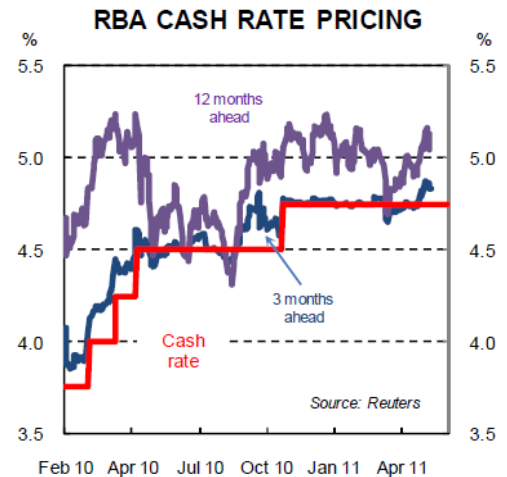
US home construction data remains poor, with housing starts for April printing at 523k (568k expected, prior revised to 585k from 549k) Building Permits disappointed, with 551k permits issued in April. Expectations centred on 585k, and the prior month was revised down to 574k from 585k. (All annualised rates).

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

The **German ZEW index** measuring analyst and investor sentiment was lower than expected. The euro zone debt crisis prompted investors to remain cautious. The EU finance minister, Jean-Claude Juncker acknowledged for the first time that Greece may have to move towards a "soft restructuring" of its debt.

UK Inflation printed much higher than expected, at 1% mom, and 4.5% annual (0.7% and 4.2% expected). Core CPI is running at 3.7%, which is the highest on record.

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 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

The Japanese Government said yesterday that it expects the Bank of Japan to support the economy with appropriate monetary policy. The Government is also committed to putting its finances in order despite the likelihood of more borrowing to fund reconstruction from the March 11 disaster. (source Dow Jones)

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			Period	Unit	Last	Forecast	
	AEST	Econ	Event				Market	CBA
Wed 18 May	08.45	NZ	Producer prices- inputs	QI	q%ch	0.9	~	~
	08.45	NZ	Producer prices- outputs	QI	q%ch	0.2	~	~
	09.50	JP	Tertiary industry index	Mar	m%ch	0.8	-5.2	~
	11.00	AU	Westpac consumer confidence s.a.	May	index	105.3	~	~
	11.00	AU	DEWR skilled vacancies	May	m%ch	1.7	~	~
	11.30	AU	Wage cost index	QI	q%ch	1.0	1.1	1.1
					y%ch	3.9	4.0	4.0
14.00	JP	Tokyo condominium sales	Apr	y%ch	0.0	~	~	
Thu 19 May	~	NZ	National government budget					
	09.50	JP	Housing loans	QI	y%ch	3.2	~	~
	09.50	JP	GDP deflator	QI P	y%ch	-1.6	-1.9	~
	09.50	JP	Nominal GDP	QI P	q%ch	-0.7	-0.8	~
	09.50	JP	GDP annualized	QI P	q%ch ann	-1.3	-2.0	~
	09.50	JP	GDP	QI P	q%ch	-0.3	-0.5	~
	11.30	AU	Average weekly wages	QI	q%ch	1.1	~	1.1
					y%ch	3.9	~	3.8
	14.30	JP	Capacity utilization	Mar	m%ch	2.9	~	~
	14.30	JP	Industrial production	Mar	m%ch	-15.3	~	~
15.30	JP	Nationwide department sales	Apr	y%ch	-14.7	~	~	
15.30	JP	Tokyo department. store sales	Apr	y%ch	-21.5	~	~	
Fri 20 May	~	JP	BOJ target rate	May	%	0.1	0.1	0.1
	08.45	NZ	Net migration sa	Apr	~	-530.0	~	~
	13.00	NZ	Credit card spending sa	Apr	m%ch	-1.6	~	~
					y%ch	1.5	~	~
	14.30	JP	All industry activity index	Mar	m%ch	0.7	-6.0	~
17.00	JP	Convenience store sales	Apr	y%ch	7.7	~	~	



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 18 May	09.30	UK	Bank of England minutes	May	~	~	~	~
	09.30	UK	Jobless claims change	Apr	'000	0.7	~	~
	09.30	UK	ILO unemployment rate (3mths)	Mar	%	7.8	~	~
	13.30	CA	Leading indicators	Apr	m%ch	0.8	~	~
	13.30	CA	Wholesale sales	Mar	m%ch	-0.6	~	~
	19.00	US	Minutes of FOMC meeting	Apr	~	~	~	~
Thu 19 May	09.30	UK	Retail sales ex auto fuel	Apr	m%ch	0.2	~	~
	09.30	UK	Retail sales w/auto fuel	Apr	m%ch	0.2	~	~
	13.30	US	Initial jobless and continuing claims	May	~	~	~	~
	15.00	US	Existing home sales	Apr	mn	5.1	5.2	~
	15.00	US	Leading indicators	Apr	m%ch	0.4	0.1	~
	15.00	US	Philadelphia Fed.	May	Index	18.5	23.0	~
Fri 20 May	09.00	EZ	Current account nsa	Mar	€bn	-9.5	~	~
	09.00	EZ	ECB EZ current account sa	Mar	€bn	-7.2	~	~
	12.00	CA	Consumer price index	Apr	y%ch	3.3	~	~
	12.00	CA	Bank Canada CPI core	Apr	y%ch	1.7	~	~
	13.30	CA	Retail sales	Mar	m%ch	0.4	~	~
	13.30	CA	Retail sales less autos	Mar	m%ch	0.7	~	~
	15.00	EZ	Consumer confidence	May	Index	-11.6	~	~



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