

WEEKLY ECONOMIC BRIEF – 21 May 2010

Key Points

- *Risk aversion rises sharply over the week as fears surrounding the European debt crisis escalate*
- *The US economy continues to recover, with strong industrial production and retail sales growth in April*
- *The Asian region continues to lead the global recovery, with Japan and Taiwan posting strong growth in Q1*

Global equity markets sold off sharply during the week as developments in Europe weighed heavily on investor sentiment. Market participants have become increasingly concerned about the impact that the accelerated fiscal consolidation will have on the euro area's growth prospects amid fears that further austerity measures may be needed. Risk aversion was further exacerbated after German officials surprised the market by announcing an immediate ban on short-selling of European sovereign bonds, related credit-default swaps and the shares of certain German banks and insurers until March 2011. Although the regulation appears to be largely unenforceable, it is thought that the ban was implemented to pacify the opposition to the €750bn Greek bailout package ahead of tonight's German parliamentary vote and to reduce market volatility in the event of the failure of a German bank. Yields on ten-year government bonds fell sharply, with US bonds outperforming following last night's surprise increase in jobless claims. Global equity markets fell by nearly 7 percent, with the VIX rising to its highest level since March 2009. The sharp pullback in risk appetite weighed heavily on commodity prices and high-yield currencies, with oil prices falling by almost 9 percent and the Australian dollar falling to US\$0.81. The safe haven currencies of the US dollar and Japanese yen surged over the week.

While monetary policy measures are expected to remain in place for sometime, the minutes from the Federal Reserve's April meeting reveal that the exit strategy from unconventional monetary policy preferred by most members is in line with our expectations. The favoured approach is to defer the sale of assets until after the first increase in the Fed Funds rate, with the asset sale process to be completed over five years.

Despite the volatility within financial markets, incoming US data points to ongoing recovery in activity. Industrial production and retail sales rose strongly in April. Housing market activity is picking after earlier weakness, with the NAHB sentiment index for May rising to its highest level since August 2007 and housing starts 40 percent higher than April last year. Despite the improvement in activity, inflationary pressures remain weak, with headline consumer prices falling in April. Core prices were unchanged for the month, and are now at their lowest annual rate since the mid-1960s.

In contrast to the US, inflationary pressures remain elevated in the UK as a result of the weaker Pound, higher Value-Added Tax rate and oil prices. Headline consumer prices rose by 0.6 percent in April, to be 3.7 percent higher than one year ago. However, many of these effects are viewed as transitory, with the Bank of England expecting inflation to remain below the Bank's 2 percent target over the medium term, and reinforcing our view that rates will remain on hold for an extended period.

Expectations of further tightening by the Reserve Bank of Australia (RBA) this year have been tempered by the release of the minutes from the May meeting, weak consumer confidence and financial market developments within Europe. With the cash rate now at 4.5 percent and mortgage rates around average levels, the Board judged that *"monetary policy is well placed for the present"*. The market now expects the RBA to stay on hold for the remainder of the year, with the futures market now pricing a 10 percent probability that the RBA will lower rates at next month's meeting.

The Asian region continues to lead the global recovery, with the economies of Japan, Taiwan and Singapore posting strong growth in the March quarter. The Japanese economy expanded by 1.2 percent in the first quarter, supported by strong export growth and household consumption. The Taiwanese economy expanded by a brisk 3 percent in the March quarter, driven by fixed investment while Singapore's economy grew by an upwardly revised 8.5 percent over the quarter.

Table 1. Financial market movements, 13/05/2010 to 20/05/2010¹

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	-6.9%	-	-
US	-7.4%	-31.4 bps	-
Japan	-5.6%	-5.1 bps	3.8%
UK	-6.6%	-27.7 bps	-2.4%
Germany	-6.1%	-25.5 bps	-1.9%
Australia	-7.2%	-13.5 bps	-9.2%

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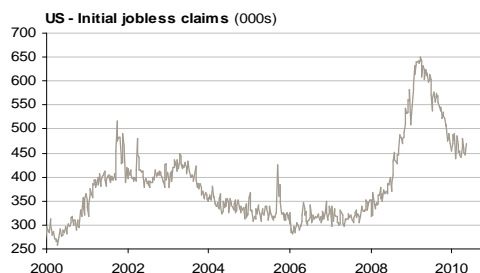
¹ Source: Bloomberg

Table 2: Economic charts²

United States

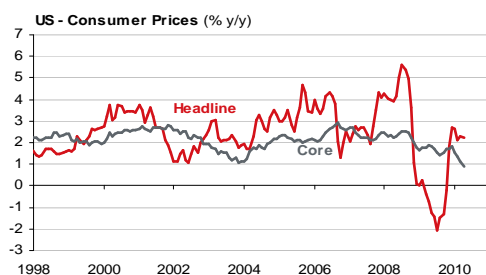


US - Retail sales (14 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Retail sales (% y/y)	4.7	8.5	8.8	-
Retail sales (% m/m)	0.6	2.1	0.4	0.2
Ex autos	1.2	1.2	0.4	0.4
Ex autos and gas	1.3	1.3	0.0	-
Control	1.3	0.7	-0.2	-
Motor Vehicle & Parts Dealers	-2.5	6.7	0.5	-
Furniture, Home Furn., Electronics, Appliances	2.7	0.3	-0.8	-
Building Materials, Garden Equip., Supply Stores	0.7	7.8	6.9	-
Gasoline Stations	0.3	1.0	0.5	-
Nonstore Retailers	0.0	0.5	0.2	-
Food Service & Drinking Places	2.6	0.5	0.1	-
Retail sales revisions (ppts, % m/m)	0.2	0.5	-	-

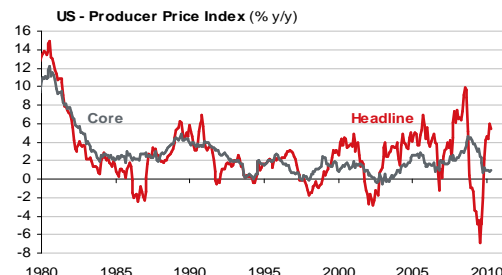


US - Initial claims (20 May)	30/4/10	7/5/10	14/5/10	Mkt fcast
Continuing claims (000s)	4665.0	4625.0	-	-
Continuing claims (000s, 4wk moving average)	4652.0	4642.5	-	-
Initial jobless claims (000s)	446.0	446.0	471.0	440.0
Initial jobless claims (000s, 4wk moving average)	459.0	450.5	453.5	-

US - University of Michigan (14 May)	Mar-10	Apr-10	May-10	Mkt fcast
Consumer sentiment index	73.6	72.2	73.3	73.5
Current conditions index	82.4	81.0	81.1	-
Consumer expectations index	67.9	66.5	68.3	-



US - CPI (19 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Headline (% m/m)	0.0	0.1	-0.1	0.1
Headline (% y/y)	2.1	2.3	2.2	2.4
Core (% m/m)	0.1	0.0	0.0	0.1
Core (% y/y)	1.3	1.1	0.9	1.0
Food and Beverages (% m/m)	0.0	0.2	0.2	-
Housing (% m/m)	0.0	0.0	-0.1	-
Apparel (% m/m)	-0.7	-0.4	-0.7	-
Transportation (% m/m)	-0.1	-0.1	-0.5	-
Medical Care (% m/m)	0.5	0.3	0.2	-
Recreation (% m/m)	-0.1	-0.1	0.3	-
Education and Communication (% m/m)	0.2	0.3	0.2	-
Other Goods and Services (% m/m)	0.1	0.1	0.0	-
Special Indexes: Energy (% m/m)	-0.5	0.0	-1.4	-



US - Producer Price Index (18 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
PPI (% m/m)	-0.6	0.7	-0.1	0.1
PPI (% y/y)	4.4	6.0	5.5	5.6
Core PPI (% m/m)	0.1	0.1	0.2	0.1
Core PPI (% y/y)	1.0	0.9	1.0	0.9
Intermediate goods (% m/m)	0.1	0.6	0.8	-
Intermediate goods (% y/y)	5.6	7.7	8.6	-
Core intermediate goods (% m/m)	0.9	0.7	1.1	-
Core intermediate goods (% y/y)	2.8	4.0	5.6	-
Crude goods (% m/m)	-3.5	3.2	-1.2	-
Crude goods (% y/y)	28.6	33.4	28.8	-
Core Crude goods (% m/m)	-0.6	6.0	4.0	-
Core Crude goods (% y/y)	34.9	44.5	49.5	-



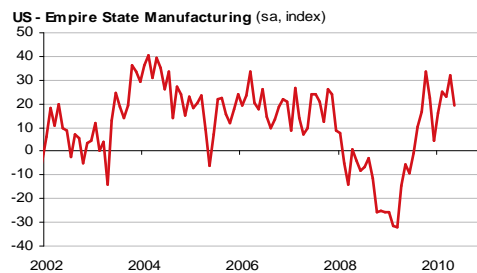
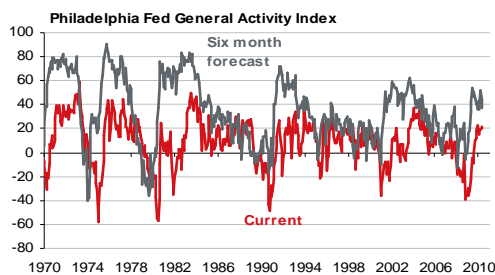
US - Industrial production (14 May)	Feb-10	Mar-10	Apr-10	Mkt fcast
Industrial production (sa, m/m%)	-0.1	0.2	0.8	0.7
Industrial production (sa, y/y%)	1.9	3.8	5.2	-
Industrial production ex motor vehicles (sa, m/m%)	0.0	0.1	0.9	-
Capacity utilisation (sa, %)	72.8	73.1	73.7	73.8



US - Business inventories (14 May)	Jan-10	Feb-10	Mar-10	Mkt fcast
Total business inventories (sa, m/m%)	0.2	0.5	0.4	0.4
Total business inventories (sa, y/y%)	-8.5	-6.6	-5.0	-
Business inventories/sales (sa, ratio)	1.27	1.27	1.24	-

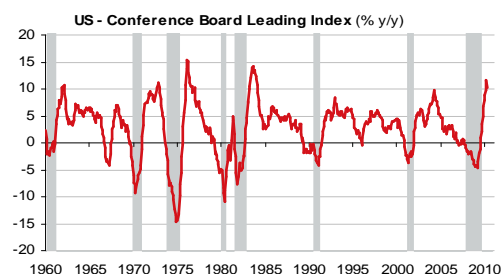
² Source: FactSet

United States (con'd)



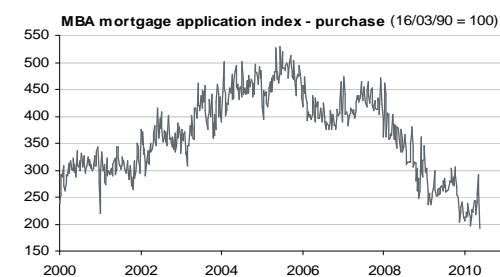
US - Philly Fed Survey (20 May)	Mar-10	Apr-10	May-10	Mkt f'cast
Business activity	18.9	20.2	21.4	21.3
New Orders	9.3	13.9	6.1	-
Shipments	13.6	5.6	15.8	-
Unfilled Orders	-4.9	-0.9	-3.0	-
Delivery times	7.9	5.4	-1.2	-
Inventories	-11.0	2.0	-7.9	-
Prices Paid	38.6	42.7	35.5	-
Prices Received	-0.4	1.0	3.5	-
Number of Employees	8.4	7.3	3.2	-
Average employee workweek	7.6	8.3	7.0	-

US - Empire State Survey (17 May)	Mar-10	Apr-10	May-10	Mkt f'cast
General Business Condition (sa, index)	22.9	31.9	19.1	30.0
New Orders (sa, index)	25.4	29.5	14.3	-
Shipments (sa, index)	25.6	32.1	11.3	-
Delivery Time (sa, index)	2.5	2.5	-6.6	-
Inventories (sa, index)	4.9	11.4	1.3	-
Unfilled Orders (sa, index)	4.9	-3.8	-7.9	-
Prices Paid (sa, index)	29.6	41.8	44.7	-
Prices Received (sa, index)	8.6	6.3	5.3	-
Employment (sa, index)	12.4	20.3	22.4	-
Average Workweek (sa, index)	12.4	13.9	0.0	-



US - Leading indicator (20 May)	Mar-10	Apr-10	May-10	Mkt f'cast
Leading indicator (sa, index, 2004=100)	108.0	109.4	109.3	-
Leading indicator (sa, m/m%)	0.4	1.3	-0.1	0.2
Leading indicator (sa, y/y%)	9.9	11.5	10.2	-

US - NAHB (17 May)	Mar-10	Apr-10	May-10	Mkt f'cast
NAHB Housing market index	15.0	19.0	22.0	20.0
Single family sales (sa, index)	15.0	20.0	23.0	-
Single family sales 6mths expectations (sa, index)	24.0	25.0	28.0	-
Traffic of prospective buyers (sa, index)	10.0	13.0	16.0	-



US - Housing starts (18 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Housing starts (000s, saar)	605	635	672	650.0
% m/m	-1.1	5.0	5.8	-
% y/y	4.1	22.1	40.9	-

US - Mortgage applications (19 May)	30-04-10	07-05-10	14-05-10	Mkt f'cast
Purchase index	291.3	263.6	192.1	-
% w/w	13.0	-9.5	-27.1	-
Refinancing index	2,117.3	2,430.8	2,783.0	-
% w/w	-2.1	14.8	14.5	-
Composite index	556.2	578.1	569.2	-
% w/w	4.0	3.9	-1.5	-

US - Building permits (18 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Building permits (000s, saar)	650	685	606	680.0
% m/m	3.3	5.4	-11.5	-
% y/y	14.8	31.2	15.9	-

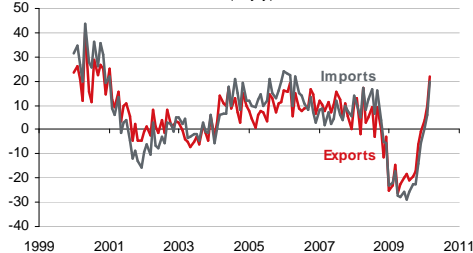
Euro area

Euro area - HICP (y/y%)



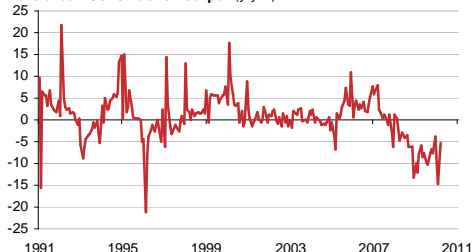
Euro area - HICP (18 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Headline inflation (nsa, m/m%)	0.3	0.9	0.5	0.4
Headline inflation (nsa, y/y%)	0.9	1.4	1.5	1.5
Core inflation (nsa, m/m%)	0.5	0.8	0.3	-
Core inflation (nsa, y/y%)	0.9	1.0	0.8	-

Euro area - Trade values (% y/y)



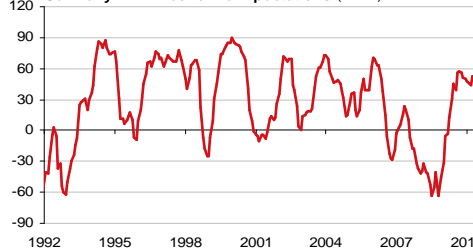
Euro area - Trade balance (18 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Trade balance (sa, €bns)	1.6	3.4	0.6	4.4
Exports (sa, m/m%)	0.1	3.4	7.5	-
Exports (nsa, y/y%)	4.2	9.9	22.2	-
Imports (sa, m/m%)	1.1	1.7	10.3	-
Imports (nsa, y/y%)	1.0	6.2	19.9	-

Euro area - Construction output (y/y%)



Euro area - Construction output (19 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Construction output (sa, m/m%)	-1.7	-7.2	7.6	
Construction output (nsa, y/y%)	-10.0	-14.8	-5.2	

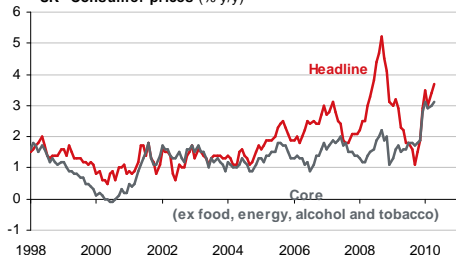
Germany - ZEW Economic Expectations (Index)



Germany - ZEW Survey (18 May)	Mar-10	Apr-10	May-10	Mkt f'cast
Economic sentiment (net balance)	44.5	53.0	45.8	47.0
Current situation (net balance)	-51.9	-39.2	-21.6	-33.0

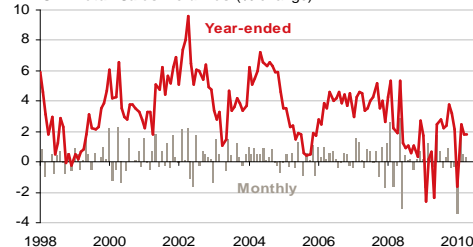
United Kingdom

UK - Consumer prices (% y/y)



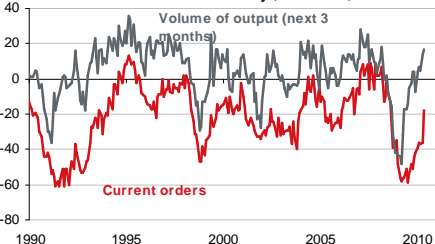
UK - Price Inflation (18 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Headline CPI (nsa, m/m%)	0.4	0.6	0.6	0.4
Headline CPI (nsa, y/y%)	3.0	3.4	3.7	3.5
CPI ex energy (nsa, m/m%)	0.5	0.5	0.5	-
CPI ex energy (nsa, y/y%)	2.7	2.9	3.2	-
CPI ex energy, food, alcohol & tobacco (nsa, m/m%)	0.4	0.6	0.5	-
CPI ex energy, food, alcohol & tobacco (nsa, y/y%)	2.9	3.0	3.1	2.9
Retail price inflation (nsa, m/m%)	0.6	0.7	1.0	-
Retail price inflation (nsa, y/y%)	3.7	4.4	5.3	-
Retail price inflation ex mortgage interest (nsa, m/m%)	0.6	0.7	1.0	-
Retail price inflation ex mortgage interest (nsa, y/y%)	4.2	4.8	5.4	-

UK - Retail Sales Volumes (% change)



UK - Retail sales (20 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
All retailing incl. auto fuel (sa, volumes, m/m%)	2.4	0.5	0.3	0.2
All retailing incl. auto fuel (sa, volumes, y/y%)	2.5	1.8	1.8	1.8
All retailing ex. auto fuel (sa, volumes, m/m%)	1.8	0.4	0.1	-0.1
All retailing ex. auto fuel (sa, volumes, y/y%)	4.1	3.4	3.0	3.2
Predominantly Food Stores (sa, volumes, m/m%)	-0.9	0.0	0.0	-
Predominantly Non-Food Stores (sa, volumes, m/m%)	3.5	0.5	0.5	-
Non-Specialised Stores	0.1	0.8	2.2	-
Textile, Clothing, and Footwear Stores	1.3	-0.5	2	-
Household Goods Stores	10.7	1.7	-1.7	-
Other Stores	3.0	0.6	-0.5	-

UK - CBI Industrial Trends Survey (Net balance)



UK - CBI Industrial Trends (17 May)	Mar-10	Apr-10	May-10	Mkt f'cast
Current orders (net balance)	-37.0	-36.0	-18.0	-
Current export orders (net balance)	-18.0	-16.0	3.0	-
Current stocks (net balance)	5.0	10.0	10.0	-
Next three months output (net balance)	5.0	14.0	17.0	-
Next three months prices (net balance)	17.0	16.0	14.0	-

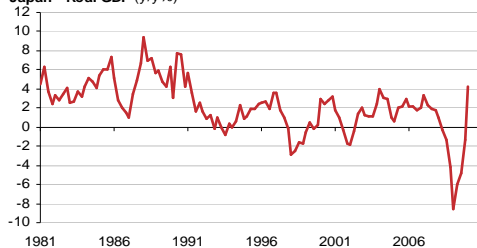
UK - Rightmove House Price Index (% y/y)



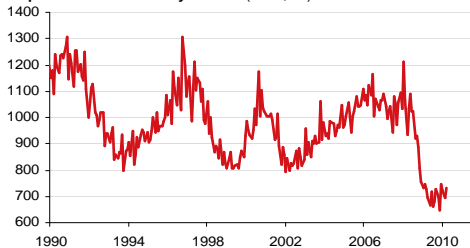
UK - Rightmove house prices (17 May)	Mar-10	Apr-10	May-10	Mkt f'cast
Rightmove house prices (index)	186.8	191.6	192.9	-
Rightmove house prices (nsa, m/m%)	0.1	2.6	0.7	-
Rightmove house prices (nsa, y/y%)	5.3	6.0	4.3	-

Japan

Japan - Real GDP (y/y%)



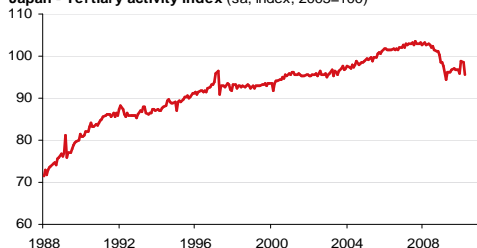
Japan - Core machinery orders (¥bns, sa)



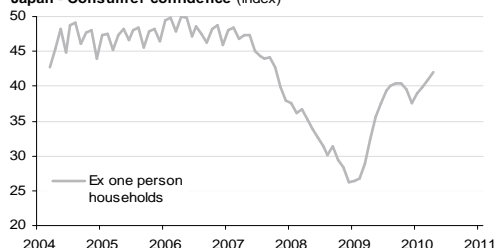
Japan - National Accounts (20 May)	Sep-09	Dec-09	Mar-10	Mkt f'cast
Real GDP (sa, q/q%)	0.1	1.0	1.2	-
Real GDP (sa, y/y%)	-4.8	-1.4	4.2	-
Household consumption (sa, q/q%)	0.6	0.7	0.3	-
Government consumption (sa, q/q%)	0.1	0.7	0.5	-
Government investment (sa, q/q%)	-1	-1.2	-1.7	-
Residential investment (sa, q/q%)	-7.3	-2.7	0.3	-
Non-residential investment (sa, q/q%)	-2	1.3	1.0	-
Net exports (sa, %pt contribution)	0.5	0.6	0.7	-
Exports (sa, q/q%)	8.6	5.8	6.9	-
Imports (sa, q/q%)	5.6	1.5	2.3	-

Japan - Core machinery orders (17 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Core machinery orders (sa, m/m%)	-3.1	-3.8	5.4	6.3
Core machinery orders (nsa, y/y%)	-1.1	-7.1	1.2	0.2

Japan - Tertiary activity index (sa, index, 2005=100)



Japan - Consumer confidence (index)

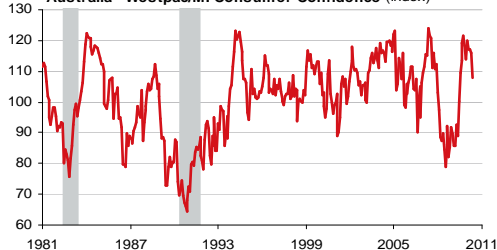


Japan - Tertiary activity index (18 May)	Jan-10	Feb-10	Mar-10	Mkt f'cast
Tertiary activity index (sa, m/m%)	2.9	-0.3	-3.0	-
Tertiary activity index (sa, y/y%)	0.4	0.8	1.2	-

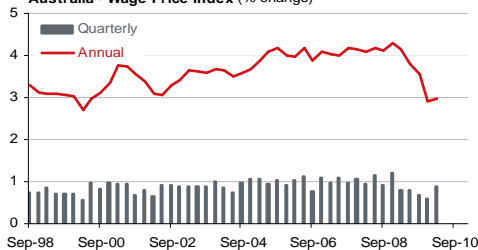
Japan - Consumer confidence (18 May)	Feb-10	Mar-10	Apr-10	Mkt f'cast
Confidence ex one-persons households (index)	39.8	40.9	42.0	42.0

Australia

Australia - Westpac/MI Consumer Confidence (index)



Australia - Wage Price Index (% change)



Australia - Consumer confidence (19 May)	Mar-10	Apr-10	May-10	Mkt f'cast
Consumer sentiment index (sa, index)	117.3	116.1	108.0	-
Consumer sentiment index (sa, m/m%)	0.2	-1.0	-7.0	-
Consumer sentiment index (sa, y/y%)	37.1	25.2	21.7	-
Economic conditions				
Next 12 months (sa, index)	123.6	125.1	103.5	-
Next 5 years (sa, index)	117.6	118.4	105.9	-
Family finances				
Last 12 months (sa, index)	91.8	91.3	93.7	-
Next 12 months (sa, index)	123.0	113.2	109.1	-
Time to buy a...				
Major household items (sa, index)	130.4	132.4	127.9	-
Consumer sentiment index				
Home ownership, own fully (sa, index)	119.2	118.0	108.5	-
Home ownership, own with mortgage (sa, index)	115.7	115.9	106.5	-
Home ownership, renting (sa, index)	117.4	112.9	109.0	-

Australia - Wage Price Index (20 May)	Sep-09	Dec-09	Mar-10	Mkt f'cast
Wage price index - total (q/q%)	0.7	0.6	0.9	0.8
Wage price index - total (y/y%)	3.6	2.9	3.0	2.9
Public sector (q/q%)	1.0	1.0	1.2	-
Public sector (y/y%)	4.6	4.1	4.3	-
Private sector (q/q%)	0.6	0.6	0.8	-
Private sector (y/y%)	3.1	2.5	2.6	-

Aust - Ave. Wkly Ord. Time Earnings (20 May)	Sep-09	Dec-09	Mar-10	Mkt f'cast
AWOTE - total (q/q%)	1.7	1.9	1.2	0.9
AWOTE - total (y/y%)	4.3	5.0	5.7	5.4
Public sector (q/q%)	1.2	1.8	1.1	-
Public sector (y/y%)	4.6	5.7	5.2	-
Private sector (q/q%)	1.8	2.1	1.0	-
Private sector (y/y%)	3.8	4.6	5.7	-