MORNING STRATEGY MEETING

29 July 2010

US

Durable goods orders for June disappointed market expectations, falling 1% versus expectations for a 1% rise.

FT: *Beige Book survey reports signs of slowdown. US economic activity has "continued to increase" over the past seven weeks but there are signs of a slowdown, according to the Federal Reserve's latest Beige Book survey, released on Wednesday. Only 10 of the 12 Federal Reserve districts said that activity had risen compared with all of them last time. Cleveland and Kansas City both said that activity was flat. The report fits the Fed's basic view that the recovery is on track – albeit a little weaker in recent weeks – and is unlikely to move the central bank towards easier monetary policy.*

EUROZONE

Ger: Jun HICP 1.2% y/y and 0.3% m/m, a tad above exp.

[Barclays] The Spanish Ministry of Finance yesterday released June fiscal data. The new data show a 25% y/y drop in the 2010 H1 deficit. Overall, this is all moderately good news for the Spanish government, which is aiming at reducing the overall fiscal deficit to 6% by 2011, a challenging fiscal adjustment of 5% of GDP within a two-year period.

JAPAN

Retail sales expanded a reasonably solid 3.2% y/y, in line with expectations.

UK

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CANADA

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AUSTRALIA

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NEW ZEALAND

RBNZ hikes rates 25bp to 3%, as expected. However, their guidance was a little on the dovish saide: "The pace and extent of further OCR increases is likely to be more moderate than was projected in the June Statement". Full text accompanying decision is set out below:

Reserve Bank Governor Alan Bollard said: "While the outlook for economic growth has softened somewhat, it is still appropriate to continue to reduce the extraordinary level of support implemented during the 2008/09 recession.

"The world economy continues its fragile recovery. Trading partner growth has turned out stronger than we predicted, however, future prospects for growth have deteriorated. While still at high levels, our commodity prices have moderated.

"In New Zealand, domestic demand is subdued. Households are cautious, with retail spending growing only modestly, housing turnover in decline and household credit growth weak. While this caution has been evident for some time, the recent slowing in net immigration will act to further dampen consumer spending. Business investment remains very low, with corporate lending continuing to be subdued.
"The New Zealand dollar has appreciated in recent weeks. This appreciation is inconsistent with the softening in New Zealand's economic outlook and moderation in our export commodity prices."Overall, we continue to predict respectable near-term GDP growth, with manufacturing confidence remaining elevated and forestry exports continuing to expand. An eventual recovery in business investment will assist growth over the medium term.
"Annual CPI inflation has been near 2 percent for the past five quarters. As the economy grows, inflationary pressures are expected to pick up.
"Given this, some further removal of monetary policy stimulus is appropriate at this stage. Even after today's move, the level of the OCR is still very supportive of economic activity. The pace and extent of further OCR increases is likely to be more moderate than was projected in the June Statement. *Our policy assessment will be continually reviewed in light of economic and financial market developments.*
"The coming increase in the rate of GST and other government-related price changes are likely to temporarily push annual CPI inflation above 3 percent. The Bank does not expect this price spike to have a lasting impact on inflation. However, the price and wage setting behaviour of firms and households will be monitored for evidence of any increase in inflation expectations."

SWISS
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SWEDEN
Retail sales for June –0.2% m/m vs 0.6% m/m, a little disappointing.

NORWAY
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EMERGING MARKETS

ASIA
Inr: FT: *India warns on slowdown in capital flows. Growing risk aversion among investors is slowing foreign capital flows to emerging markets such as India, potentially choking inflows needed to fund the nation's widening current account deficit, India's central bank said.*
Asia Development Bank Managing Director: Indian economy is likely to grow by 8.2% in the current fiscal year.

Krw: Business surveys for Aug soften a bit, but overall remain at healthy levels.

LATAM
Clp: June IP a bit below exp at 2.9% y/y vs 5.3% exp.

Mxn: Central Banks estimates Q2 GDP growth at 3% q/q, and full year 2010 growth is forecast at 5% y/y approx.

EMEA
Zar: inflation slowed as expected to 4.2% y/y in June, from 4.6% in May.