

Global equities take another bath overnight on Greek political turmoil.

US Industrial production jumped by 1.1pct in April, spurred on by auto output and production in the utilities industries. Manufacturing output rose by a more modest but still healthy 0.6pct. US housing starts rose by 2.6pct to 717k in April.

The FOMC minutes highlighted that Fed board members expected the recent high inflation readings to prove temporary and ease back to the 2pct long-run target. Several members saw the need for additional stimulus if the economy loses momentum or downside risks to forecasts gain traction.

European shares fell on Wednesday in a volatile trading session. Investors lacked confidence as the stability of the euro zone continued to be questioned. News came out late in the session that the ECB had stopped providing liquidity to certain Greek banks that had not successfully recapitalised. The STOXX 600 Banking index fell 1pct - taking three-month losses to 18pct. Euro-zone CPI eased to 2.6pct in April in line with expectations. The benchmark FTSEurofirst 300 index fell 0.5pct with the German Dax down 0.3pct while the UK FTSE lost 0.6pct.

US sharemarkets gave back early gains and closed lower for the fourth straight session on Wednesday. News that the ECB had stopped providing liquidity to some Greek banks was the main driver. The prospect of more stimulus from the US Fed failed to entice investors. JC Penney shares fell almost 20pct, a day after the retail company said it was scrapping its dividend. The Dow Jones fell by 33pts or 0.3pct and the S&P 500 fell by 0.4pct while the Nasdaq lost 20pts or 0.7pct.

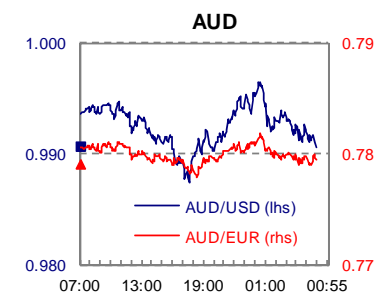
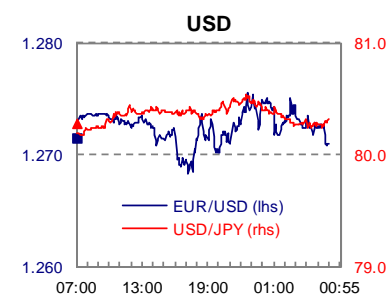
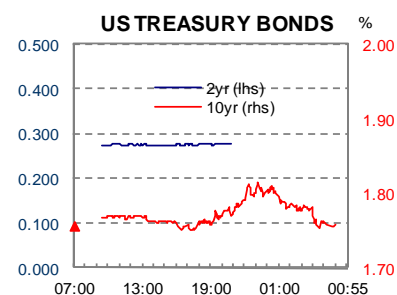
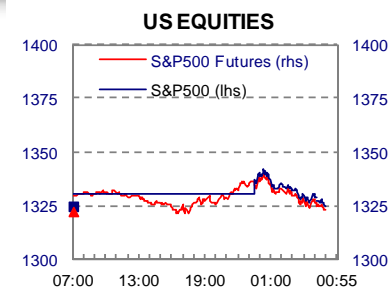
US long-dated treasuries were modestly higher (yields lower) on Wednesday as worries about Greece's political turmoil and talk of further Fed stimulus supported bonds. US 2yr yields were flat at 0.28pct and US 10yr yields fell 1pt to 1.76pct.

Euro fell to a 4-month low against the greenback in overnight trade. The Euro hit early lows near US\$1.2685 before rising to highs around US\$1.2755 and ended US trade near US\$1.2710. The AUD touched early lows near US98.70c before rising to US99.65c and ended US trade near US99.05c. The JPY held between 80.55 yen per US dollar and JPY80.20 and was near JPY80.30 at the close of US trade.

Benchmark crude oil prices were lower on Wednesday. Concerns about global growth and a build in US inventories pressured prices. US crude stockpiles rose by 2.13 million barrels against expectations of a build of 1.7 million barrels. US Nymex crude fell by US\$1.17 to US\$92.81 a barrel and London Brent crude fell by US\$1.70 to US\$109.75 a barrel.

Base metal prices were mostly weaker on the London Metals Exchange with the exception of aluminium which rose 0.5pct. The stronger USD added to the weakness in commodities. The gold price also fell on Wednesday. The June Comex gold futures price closed down US\$20.50 or 1.3pct to US\$1,536.60 an ounce - a 10-month low.

Ahead. In Australia AWOTE figures are released. In the US, leading indicators and the Philadelphia Fed index are released.



Currencies		10 Yr Bond Yields (%)			Commodities			Equities		
AUD/USD	0.9907 -0.3%	Australia	3.23	-0.04	CRB Index	289.35	0.1%	Dow	12,599	-0.3%
NZD/USD	0.7635 -0.8%	NZ	3.64	-0.04	JOC ERI Index	~	~	S&P 500	1,325	-0.4%
EUR/USD	1.2715 -0.1%	US	1.76	-0.01	Aluminium \$/t	1994	0.5%	NASDAQ	2,874	-0.7%
USD/JPY	80.28 0.1%	AU less US	1.47		Copper \$/t	7965	-1.3%	FTSE	5,405	-0.6%
GBP/USD	1.5911 -0.5%	NZ less US	1.88		Lead \$/t	1960	-1.9%	Shanghai	2,346	-1.2%
USD/CHF	0.9446 0.1%	AUD Swap Rates (%)			Nickel \$/t	16942	0.0%	H.Seng	19,260	-3.2%
AUD/NZD	1.2972 0.4%	3mth	3.76	-0.01	Zinc \$/t	1899	-1.8%	Nikkei	8,801	-1.1%
AUD/JPY	79.53 -0.2%	3yr	3.37	0.00	Gold \$/o	1538.9	-0.3%	ASX200	4,166	-2.4%
AUD/EUR	0.7791 -0.2%	5yr	3.68	-0.03	WTI Oil \$/b	92.81	-1.2%	NZSX50	3,515	-0.6%

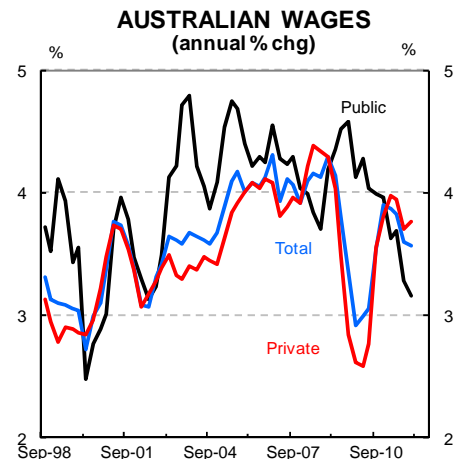


Economics: Preview AUSTRALIA & NEW ZEALAND

Thursday 17 May

AU AWE, Feb, q/y%ch, (f) 0.8/3.9, (0.5/4.3 prev)

The pace of nominal wage growth moderated slightly over 2011. Wage pressures appear to be relatively contained. Weak business confidence over 2011, in response to global uncertainty, has dampened demand for labour, causing an easing in wage growth. Business surveys have indicated that labour costs also eased in Q1 2012. However, further productivity improvements are likely to be needed to contain any upside wage pressures on domestic prices and unit labour costs. We expect wage pressures to have remained subdued in Q1, with the wage price index forecast to rise 0.9% (QoQ) in Q1 and average weekly earnings to have risen 0.8% (QoQ) in February.

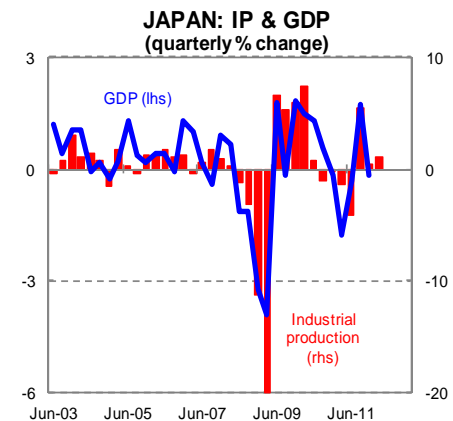


Economics: Preview INTERNATIONAL

Thursday 17 May

JP GDP, Q1, q%ch, (-0.2 prev)

Japanese economic growth is likely to have rebounded swiftly in the March quarter. The consensus expects a strong increase in GDP of 0.9%. However, we expect a more modest increase of 0.5%. Japanese industrial production has increased solidly by 1.1% in the March quarter. But Japan's trade deficit continues to deteriorate, in part because of strong growth in imports (particularly of energy imports following the tsunami). Japan's exports have struggled to recover to pre-GFC levels, in part because of the strong JPY.

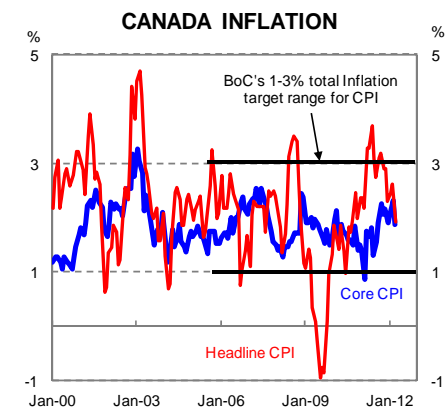


Friday 18 May

CA CPI, Apr, m/y%ch, (0.4/1.9 prev)

Canadian CPI fell in March, driven lower by declining food and energy prices. Canadian inflation eased to 1.9% (YoY) in March following a 2.6% (YoY) gain in February. Core CPI also printed at 1.9% (YoY) in March, down from February's 2.3% (YoY) reading. Inflation is now comfortably within the Bank of Canada's (BoC) 1-3% target range.

In April, the BoC indicated it expects inflation to slow after Q1, and remain around 2% over the balance of its projection horizon which extends out to end-2013. We expect Canadian inflation to remain within the BoC's 1-3% target range over 2012, but price pressures may begin to emerge as the Canadian economy returns to full capacity over 2013.



US

- **Industrial production jumped by 1.1% m/m in April, spurred on by auto output and production in the utilities industries.** Manufacturing output rose by a more modest but still healthy 0.6% m/m. While general machinery production was soft at 0.1% m/m, that of computer and electronics rebounded by 1.6% m/m.
- **Housing starts bounced back over the 700k mark to 717k saar in April. While still low in absolute terms the underlying trend is one of clear improvement as 6- and 12-month moving averages continue to drift higher.**
- **The FOMC minutes released early this morning suggested more support from further quantitative easing at the late April FOMC meeting.** The key change in wording was the fact that "several" members of the FOMC now supported additional stimulus should the US recovery lose momentum or downside risks to the growth outlook increase. This was



a key change in stance by the FOMC.

UK

- **The May Inflation Report included downward revisions to GDP growth forecasts and slight upward** adjustments to the near term CPI inflation profile. The numerical parameters underlying the forecasts have not yet been published, but the downward revision to the GDP growth profile looks relatively modest from the published fan chart. Precise numbers will be published next week. Inflation is expected to be about 1.6% in 2 years time, a little below the BoE's symmetrical inflation target. This suggests that any bias in terms of monetary policy is still towards additional easing. More QE is still distinctly possible later in the summer/autumn.

Eurozone

- **Euro-zone CPI eased to 2.6% y/y in April in line with expectations and the flash estimate.** Inflation is remaining a little more elevated than expected at the start of the year, a point acknowledged by the ECB. But it is still expected to ease lower through 2012 and 2013 and poses no obstacle to further monetary policy easing if it is deemed necessary by the ECB Governing Council.

European Market Comment

- Pressure on GBP was the main story of the morning as the Bank of England trimmed its GDP growth forecasts and again predicted that CPI inflation would undershoot the 2% target at the 2-year horizon. GBP/USD broke down under 1.59, EUR/GBP popped back up over the 0.80 handle as GBP gave ground across the board for a day. In terms of broader market themes there was little progress from Greece. June 17th has been suggested as a probable date for new elections, but as yet this is unconfirmed. EUR/USD pushed down to new lows through the morning under the 1.27 level, European equities had another modest down-day, although in the bond markets Italian and Spanish yields edged lower for a day.

Thursday 17 May	Friday 18 May	Monday 21 May
AU MI/WBC Consumer inflation expec, May (3.3) AU AWE, QI q/y%ch 0.5/4.3 (0.8/3.9) NZ ANZ NZ job ads, April m%ch -1.0 NZ Producer prices- inputs, QI, q%ch 0.5 NZ Producer prices- outputs, QI q%ch 1.0 JN Housing loans, QI, q%ch 2.2 JN GDP QI, q%ch saar -0.7 (3.5) JN Capacity utilization, March m%ch -1.7 JN Industrial production, March m%ch 1.0 CA Wholesale sales, Mar m%ch 1.6 US Initial jobless and continuing claims, '000 US Philadelphia Fed, May Index, 8.5 (10) US Leading indicators, April %ch 0.3 (0.1)	CH China April property prices JN Nationwide dept. sale, April y%ch 14.1 GE Producer Prices, April m%ch 0.6 CA CPI, April y%ch 1.9 (1.9)	AU RBA Governor Stevens speaks, Sydney US Chicago ISM, April Index -0.29 UK House prices, April %mth -1.2 EC Construction output, March %qtr -7.1 ,



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