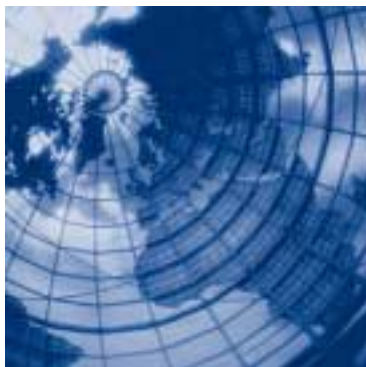


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Contents:

Bank of England raised rates for the second month in a row. P. 3

US initial jobless claims rose. P. 3

China's IP growth moderated slightly amid credit "choke therapy." P. 4

Japan's machinery orders rebounded sharply. P. 4

N. Zealand: a decisive monetary tightening with more to come. P. 5

Due to the US national day of mourning for President Ronald Reagan, there will be no Global Economics Daily on Friday, 11 June. This issue therefore previews both Friday's and Monday's data and events.

THE DAY AHEADFriday, 11 June**Spain: Inflation Should Rise Sharply**

Higher energy prices have led to a sharp rise in euro area inflation in May and that should be reflected in higher inflation in Spain. The flash HICP estimate for May showed inflation rising to 3.4% y/y and we think it is unlikely to be revised. We expect inflation to rise 0.6% m/m in May, bringing the annual rate to 3.4% from 2.7%. (European Economics Team, Euro Area Weekly, 3 June 2004)

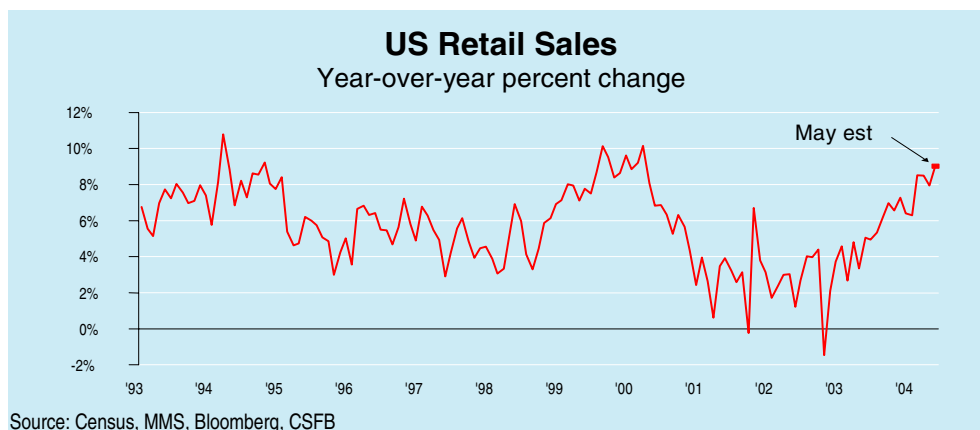
Monday, 14 June**US: May Retail Sales Expected to Be Strong**

May retail sales should rise 1.4%, continuing the forward momentum in Q1 following April's pause. Non-auto sales are likely to post a 0.7% gain. Autos and gasoline look to be important factors for the headline and ex-auto numbers, respectively.

Auto sales could account for half the rise in the headline, and a price-related rise in gasoline sales could account for about half the ex-auto advance. Vehicles sold at a 17.8 million annual rate in May, up from 16.4 million in April. The average pump price for retail gasoline rose sharply to \$2.02 in May from \$1.84 in April.

Ex-autos and gas, sales should rise at a more moderate rate (+0.3%). Building materials sales in April barely came off March's surge. We look for further unwind in this sector in May to limit the upside in core sales.

The acceleration in retail sales growth in recent months should push the headline year-over-year trend to a fresh four-year high in May. (J. Feldman & J. Basile, US Economics Digest, 10 June 2004)



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UPCOMING DATA AND EVENTS

Asia/Pacific

BoJ Policy Meeting (June 13 & 14)

Date	GMT	Country	Data/Events	Period	CSFB	Bloomberg consensus	Previous
11-June	01:30	Australia	Lending Finance	APR	N/A	N/A	-0.1%
11-June	04:30	Japan	Industrial production SA Revised	APR	N/A	N/A	3.3%
11-June	05:00	Japan	Consumer Confidence Index	MAY	N/A	N/A	45.4
14-June	02:00	China	CPI	MAY	Y/Y	N/A	3.8%
14-June	02:00	China	Retail Sales	MAY	Y/Y	N/A	13%
14-June	05:00	Japan	Eco Watchers Survey	MAY	N/A	N/A	55.7

Europe, Middle East and Africa

Riksbank Minutes from May 27 Meeting Published (June 11)

ECB's Caruana to speak in Madrid (June 14)

German Chancellor Schroeder & French President Chirac to hold press conference

Date	GMT	Country	Data/Events	Period	CSFB	Bloomberg consensus	Previous
11-June	06:45	France	Trade Balance SA EUR	APR	N/A	N/A	0.8B
11-June	07:00	Hungary	CPI	MAY	Y/Y	N/A	6.9%
11-June	07:00	Spain	Core CPI	MAY	Y/Y	N/A	2.4%
11-June	07:00	Spain	HICP	MAY	Y/Y	3.4%	N/A
11-June	08:00	Sweden	CPI	MAY	Y/Y	0.7%	0.7%
11-June	08:00	Sweden	CPI-ATE	MAY	Y/Y	1.3%	1.3%
11-June	09:00	Euro Area	Current Account EUR	Q1	Q/Q	N/A	N/A
11-June	11:00	Euro Area	OECD Leading Indicator	APR	N/A	N/A	123.0
14-June	06:00	Germany	PPI	MAY	Y/Y	N/A	N/A
14-June	06:45	France	CPI ex-Tobacco	MAY	Y/Y	2.1%	N/A
14-June	06:45	France	CPI Preliminary	MAY	Y/Y	2.7%	2.5%
14-June	07:00	Czech Rep.	Export/Import Prices	MAY	Y/Y	N/A	N/A
14-June	07:00	Czech Rep.	PPI	MAY	Y/Y	N/A	N/A
14-June	07:00	Hungary	Current Account Mth/YTD EUR	APR	N/A	N/A	-588M/-1756m
14-June	07:30	Italy	Industrial Production SA	APR	Y/Y	N/A	0.0%
14-June	08:30	UK	ODPM House Prices	APR	N/A	N/A	7.8%
14-June	08:30	UK	PPI ex-FDT SA	MAY	Y/Y	N/A	N/A
14-June	08:30	UK	PPI Input SA	MAY	Y/Y	N/A	5.0%
14-June	08:30	UK	PPI Output NSA	MAY	Y/Y	N/A	2.5%
14-June	14:00	Poland	CPI	MAY	Y/Y	N/A	N/A
14-June	15:00	Poland	M3	MAY	M/M	N/A	N/A
14-June	23:30	UK	RICS House Price Balance	APR	N/A	N/A	46

Americas

June 11: US Stock and Bond Markets Closed

June 14: Fed's Minehan Welcomes Guest at Fiscal Policy Conference

Date	GMT	Country	Data/Events	Period	CSFB	Bloomberg consensus	Previous
11-June	12:30	Canada	Labor Productivity	Q1	0.1%	0.2%	-0.3%
11-June	12:30	Canada	Merchandise Exports SA	APR	M/M	N/A	N/A
11-June	12:30	Canada	Merchandise Exports SA	APR	M/M	N/A	N/A
11-June	12:30	Canada	Trade Surplus	APR	C\$6.4B	C\$6.3B	C\$6.2B
11-June	15:00	Mexico	Monetary Policy Decision, Corto, pesos	JUN	-37M	N/A	-37M
11-June	17:00	Colombia	Exports	APR	N/A	N/A	1118
11-June	20:30	Mexico	Industrial Production	APR	Y/Y	3.0%	2.8%
14-June	10:00	Brazil	Fipe CPI 1 st Preview	N/A	N/A	N/A	0.49%
14-June	12:30	Canada	Motor Vehicle Sales	APR	3.5%	3.2%	4.1%
14-June	12:30	USA	Retail Sales	MAY	1.4%	1.0%	-0.5%
			- Ex. Autos		0.7%	0.6%	-0.1%
14-June	12:30	USA	Trade Balance	APR	-\$46.0B	-\$45.0B	-\$46.0B
14-June	N/A	Brazil	Tax Revenue	MAY	N/A	N/A	27.266
14-June	N/A	Chile	Retail Sales	MAY	Y/Y	N/A	N/A

RECENT DATA AND EVENTS

Bank of England Raised Rates for the Second Month in a Row

The Bank of England's Monetary Policy Committee raised rates by 25bp to 4.50%, their second consecutive increase. The statement accompanying the decision noted that growth remains around or above trend, and the labour market has tightened further.

This increase was something of a surprise to us. It suggests that the MPC has taken a break from its gradual process of raising rates only once a quarter. This may reflect some impatience on the part of the MPC that the rate increases undertaken since November last year do not, as yet, appear to have had much impact. The question going forward is whether the MPC will return to the process of gradual tightening or whether it will press on at an accelerated pace. We continue to think rates have further to go and do not see this increase as a reason to change our forecast that they will peak at 5.50% next year, although it looks like that peak will be reached in the first half of next year rather than the second.

It is also worth noting that the MPC may have lost patience just at the point when the rates that actually matter — market and mortgage rates — have started to rise, meaning that policy may seem to be more effective going forward. As such, ***we think a further rate increase in July is unlikely, and expect the next rate increase to be in August, followed by a further increase in November, taking rates to 5.00% by the end of the year.*** (R. Barrie & N. Hill, European economic round-up, 10 June 2004)

US Initial Jobless Claims Rose

US initial jobless claims rose 12K to 352K in the week that ended June 5, above the consensus expectation of 335K. The Labor Department didn't cite any special factors for the rise, but the week did include the Memorial Day holiday, and holiday weeks tend to be noisy.

The smoother four-week average at 346K in latest week is up from the recent low (334K in May 15 week), but just under the recent high (348K in Apr 17 week). Since the beginning of March, the four-week average has been pretty much in a range.

Overall, the layoff picture is still favorable, but not improving further on trend. (J. Basile, 10 June 2004)

US Import Prices Surged Owing to Oil

The US import price index rose by twice the consensus in May (1.6% vs. 0.8% expected). Oil is the story, accounting for 1.2 ppt of the total rise. Non-oil import prices rose 0.4%. The trend has been consistent recently for both measures: total import prices on an eight-month winning streak; non-oil import prices on a 7-month winning streak. (J. Basile, 10 June 2004)

China's IP Growth Moderated Slightly Amid Credit "Choke Therapy"

Industrial output rose 17.5% year-on-year in May, vs. 19.1% yoy in April. This is the first solid data point indicating that the Chinese economy has slowed down meaningfully. We expect a moderation of similar magnitude in investment growth and probably an even bigger decline in credit growth.

The on-going credit "choke therapy" may be effective but will not last long, and has failed to fix the source of over-investment. As soon as restrictions are eased, we expect steel plants and other investment projects that the government tried to restrain to bounce back quickly. We still expect more tightening measures to come.

CPI inflation for May is expected at 4.4% yoy, but this would be a 0.1% decline on a month-on-month basis. If CPI inflation comes in below 4.5%, a rate hike decision may be delayed until July, in our view. We are not revising our central case scenario, but wish to reiterate our warning about a substantial weakening in demand for commodities and capital goods in the next 12-18 months. (D. Tao, Research Note, 10 June 2004)

Japan's Machinery Orders Rebounded Sharply

As we expected — although it would seem few others did — the Cabinet Office's machinery orders data showed a sharp 11.8% m/m sa (16.9% y/y) jump in core orders in April. Consensus had expected only a 2.3% m/m (16.9% y/y) rise, possibly on the basis that the Cabinet Office last month projected core orders to fall by 3.2% in Q2, following the 5.6% in Q1. However, as we noted in our forecast (CSFB: 11%), such a projection put the machinery orders numbers significantly out of line with almost all other capex-linked indicators. Those indicators include the stronger-than-expected Q1 GDP capex number (revised numbers released yesterday), the MOF's Corporate Survey (last week), very strong export growth through Q1 and also in April, and the sharp rise in April of actual and expected industrial production. The market was even given a very clear heads up yesterday when the Machine Tools Builders Association's small survey of machine tool orders posted another month of rapid acceleration in growth (up from 43% y/y in April to 55% in May). Indeed, despite the strength of today's rebound, many of the aforementioned indicators would suggest that there may still be more upside to come from machinery orders, that will almost certainly, we feel, render the Cabinet Office's -3.2% projection for Q2 orders a meaningless number. (S. Worrall, S. Adachi, S. Ogasawara, T. Tanaka, Japan Economics Daily, 10 June 2004)

Japan's Producer Price Inflation Rose Above 1% y/y in May

The BOJ's domestic Corporate Goods Price Index (CGPI) rose 0.1% month-on-month in May, which was actually a little less than the average month-on-month increase of the last six months. The primary factor pushing the index up has been rising international commodity prices which have translated into rising import prices. More recently, this pressure has been exacerbated by rising crude oil prices and a weakening in the yen. Base effects — namely that the index fell sharply a year ago in May — meant that the year-on-year CGPI inflation rate jumped to 1.1% y/y this May, from 0.6% in April and after having only just entered positive territory in March.

The continuing global and emerging domestic recovery may provide some potential — through increased sales volume and export prices — for higher producer input prices to

be absorbed in part by consumers through higher consumer prices. However, historically, the degree of pass through to the CPI is limited, with the burden often being borne by profits and other inputs (namely labor) — with the ultimate impact being deflationary. This risk is illustrated by data on the Manufacturing Output/Input Price Ratio for April (also released by the BOJ today), which show that while manufacturing output prices increased year-on-year — by 0.3% — for the first time in 12 months, input prices rises accelerated to 2.9% y/y from 1.6% in March. This saw the overall Output/Input Price Ratio — which tends to lead profits by around a year — fall 2.5% y/y from -1.7% in March. The ratio has fallen consistently since August 2002 on the back of rising commodity prices, but firms have been able to offset much of the pressure on profit margins through increased sales volume and productivity improvements. How long this can continue remains a key focus point for forecasters. (S. Worrall, S. Adachi, S. Ogasawara, T. Tanaka, Japan Economics Daily, 10 June 2004)

New Zealand: A Decisive Monetary Tightening with More to Come

As widely expected, the Reserve Bank of New Zealand increased the OCR by 25bps to 5.75%.

The Bank admits that the economy is proving to be stronger than expected, leading to widespread inflation pressures. In addition, compared to its March forecasts, the Bank is factoring in the fall in the NZD, stronger global demand and stronger commodity export prices. This leads it to project inflation breaching the 3% mark in early 2005.

Thus, the Bank indicated that further increases in interest rates would likely be needed over the year ahead (note the plural). This tone was more hawkish than the market expected. The Bank projects the 90-day rate heading to 6.5% in 1H05. Not only that, in the text it describes a number of upside risks to its forecasts for growth and inflation that may require additional monetary policy pressure.

This is about as hawkish as an RBNZ Statement gets. Our current forecasts have the Bank raising the OCR by another 25bp in July, but on the basis of this Statement we are inclined to add another 25bp to our forecast for September, taking the OCR to 6.25% by the end of the third quarter.

At the margin, the Statement is positive for the NZD, negative for NZ bonds and negative for NZ equities. It reinforces our view that global equities offer more upside than NZ equities over the year ahead. It should also continue to make investors wary of investing in NZ cyclicals, particularly if the market believes that the Bank is being overly aggressive. (J. Wong, First NZ Capital, 10 June 2004)

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