February 24th 2006

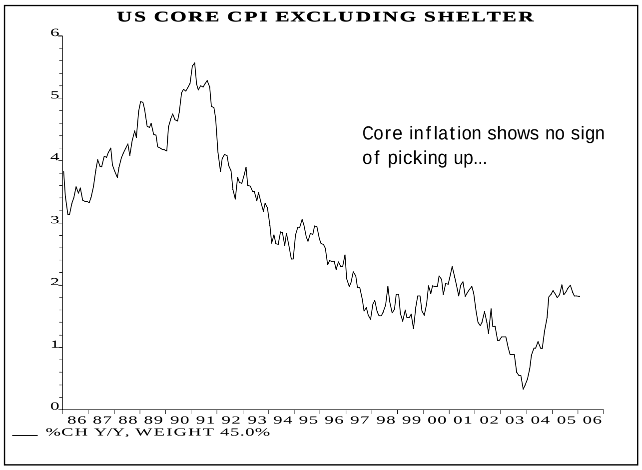
GFC ECONOMICS

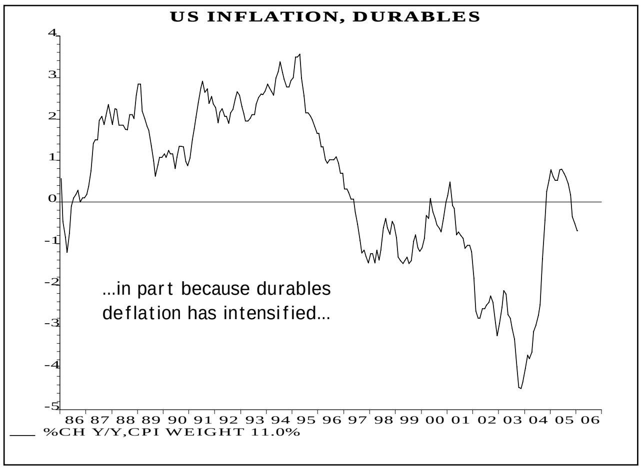
WEEKLY CHARTBOOK

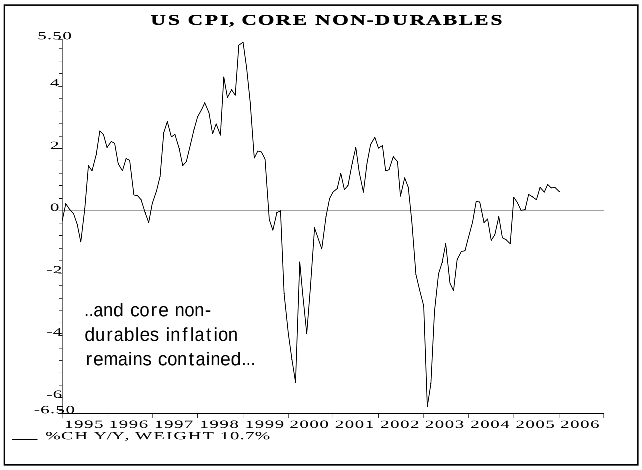
CHART OF THE WEEK

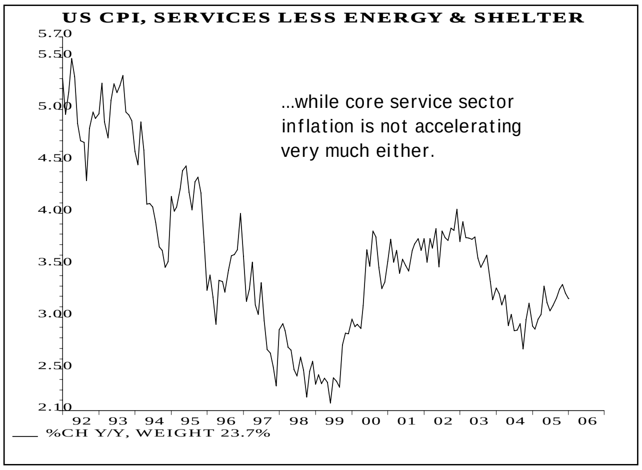
US - 1

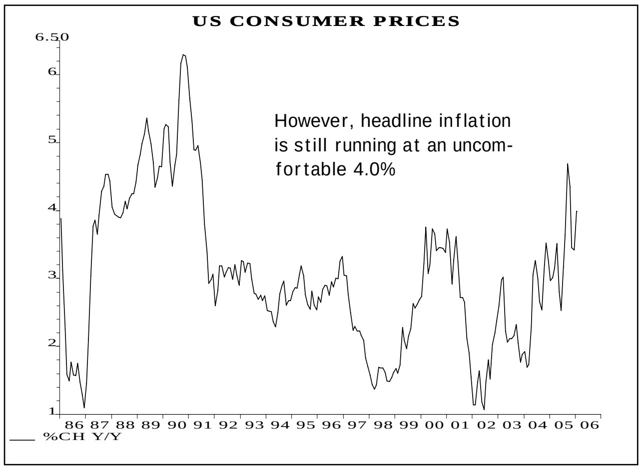
A subdued inflation report should calm Fed fears that higher commodity prices will feed through to the core CPI in the coming months. A rogue CPI number upsetting Treasuries can obviously not be ruled out at some stage. But the underlying dynamics suggest that any uptick in price pressures from here is likely to remain limited. The one caveat remains the US$ particularly against the renminbi, since renewed deflation in durables has played a key role in keeping a lid on the ex-food/energy/shelter inflation rate, which was running at just 1.8% in January. However, the pullback in core service inflation was also encouraging. Excluding energy and shelter, service sector inflation has slipped over the last two months, from 3.3% to 3.2%.

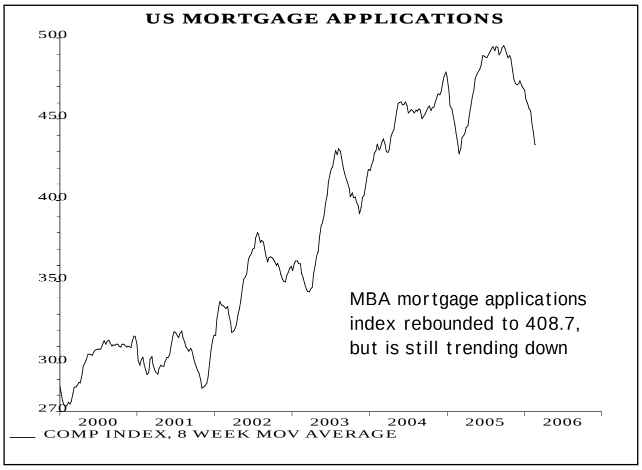








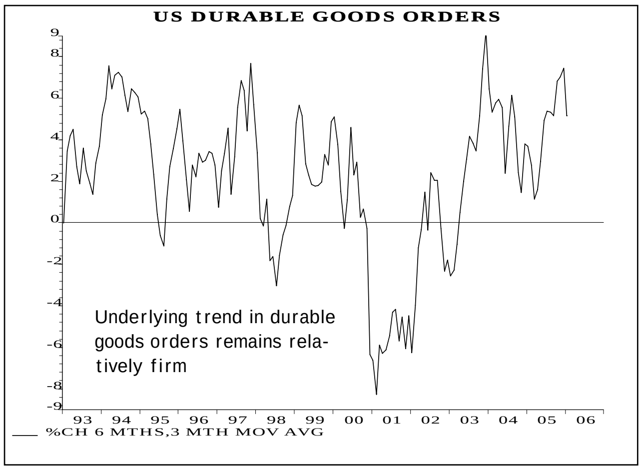


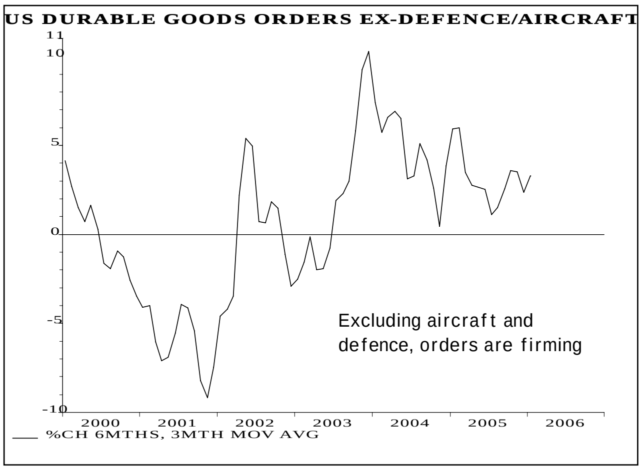


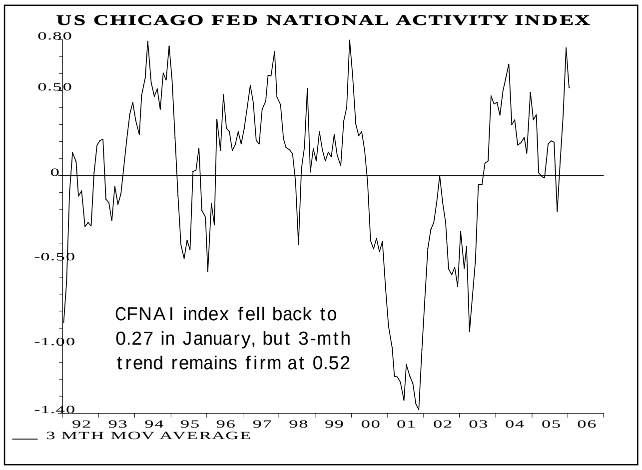
Source: Datastream

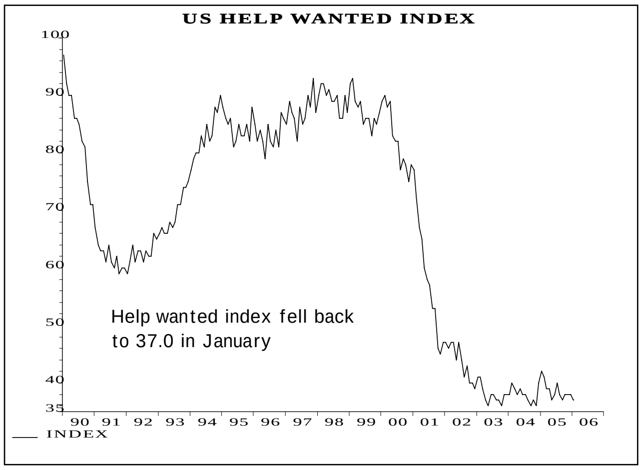
US - 2

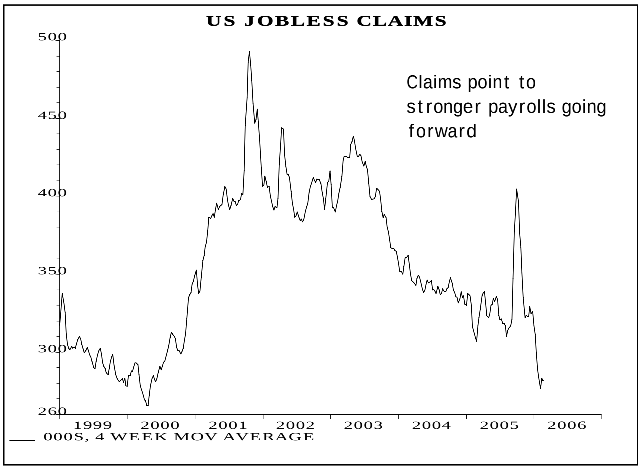
Another benign claims report underlines the possibility that the February payroll report will show a further significant acceleration in the pace of hiring. Jobless claims fell by 20,000 during the third week of February, and the 4-week moving average fell back to 281.8k. The leading indicator was up strongly by 1.1% m/m in January, and has climbed an impressive 3.1% over the past four months. Durable goods orders were very weak in January, falling 10.2% m/m, but all of the decline was concentrated in aircraft and defence. Stripping out these two somewhat volatile components shows that orders rose 0.4% m/m. Non-defence capital goods orders fell a stunning 20.0% m/m, but again, that reflects the plunge in aircraft demand.











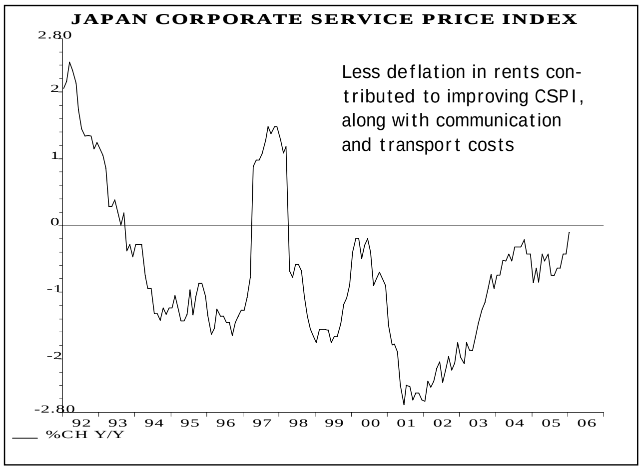
Source: Datastream

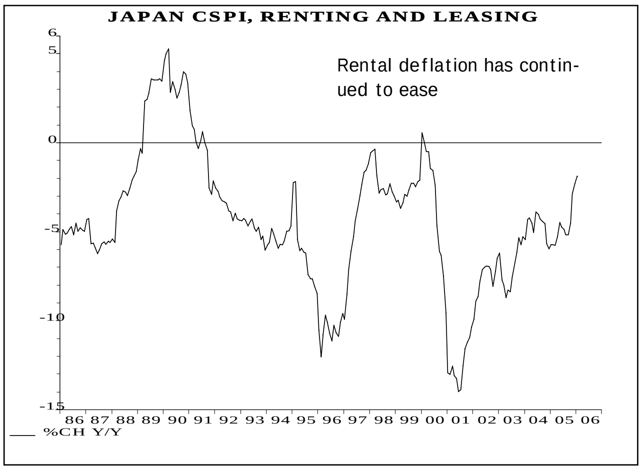
GFC ECONOMICS

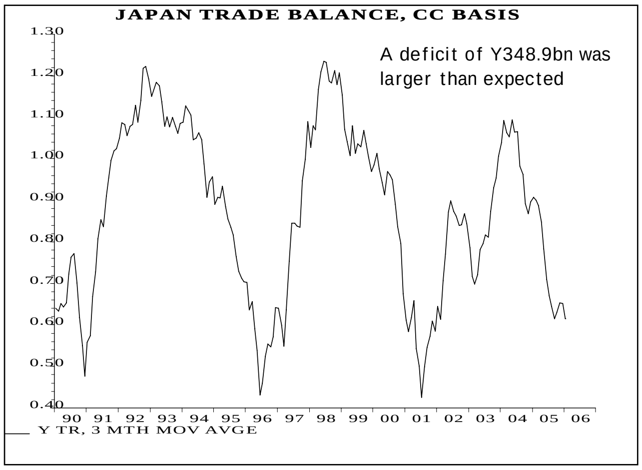
WEEKLY CHARTBOOK

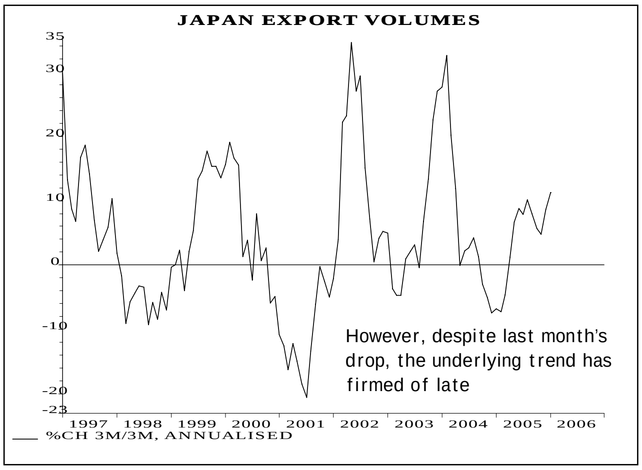
Japan

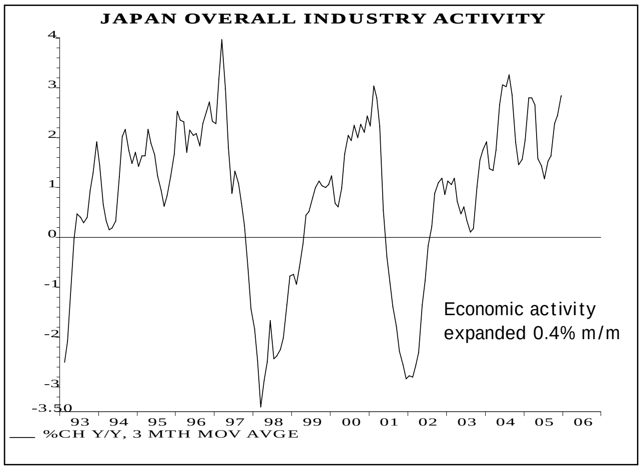
Perhaps the most significant data release in Japan this week was the corporate services price index (CSPI) which showed a significant fall in deflation pressures. The report will certainly add to the BoJ's determination to tighten policy more aggressively this year. Aside from the VAT increase in April 1997, the CSPI has been trending down steadily since 1993, but in January, it fell just 0.1% y/y. Elsewhere, the tertiary activity index showed a modest gain of 0.2% m/m, but the annual rate was still a comfortable 2.8%. And exports continued to strengthen. Despite last month's trade report showing volumes were down 3.0% m/m, the 3m/3m annualised rate still accelerated to 11.2%.

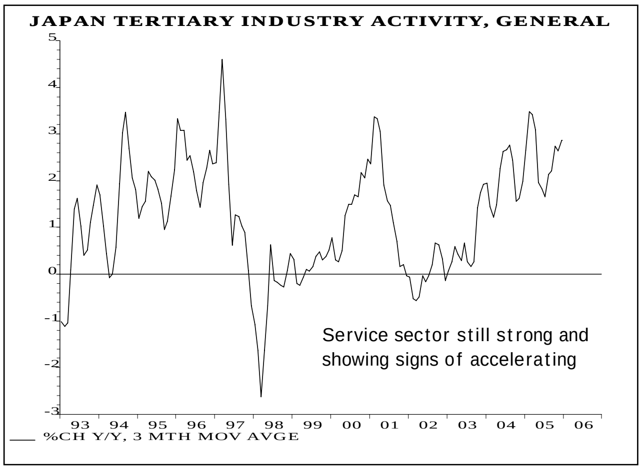








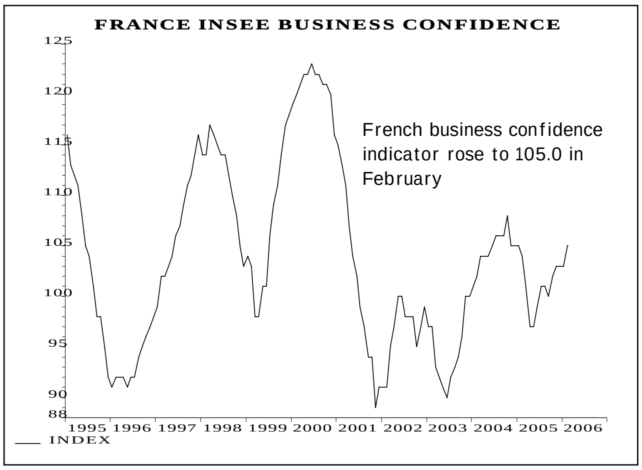


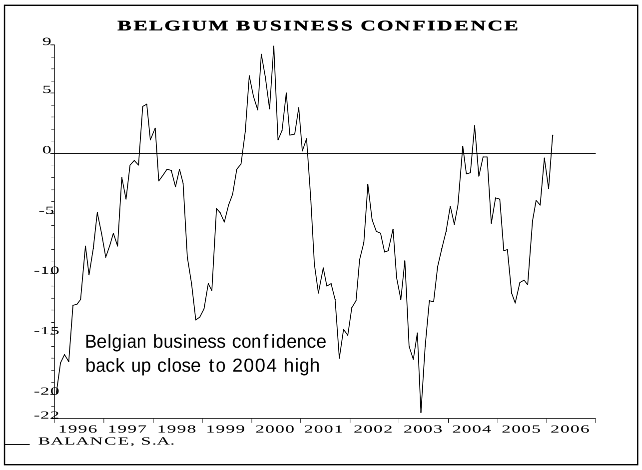


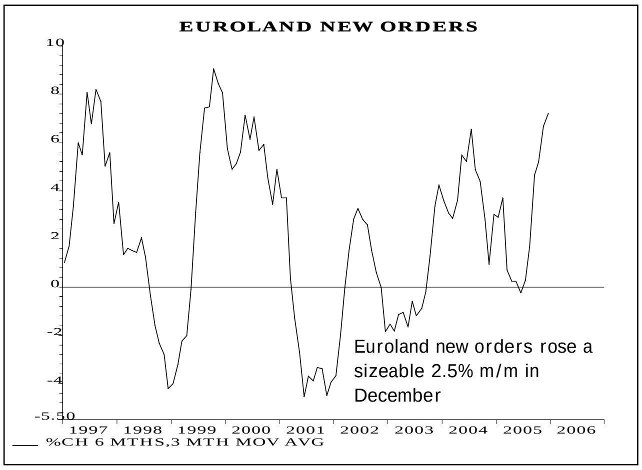
Source: Datastream

Euroland - 1

German business confidence rose again in February and confirmed that the stalling in growth in Q4 should prove to be just a blip. The current conditions index and expectations component both increased further, and are at their highest levels since 2000 and 1992 respectively. Importantly, domestic demand was the driving force behind the gain in sentiment this month. The good news was not confined to Germany. Belgian business confidence bounced back in February from its decline in January, and French sentiment was also up this month. Italian business optimism did edge down, but this was made up for by a jump in consumer confidence. Finally, Euroland orders were up strongly for the second month running in December.



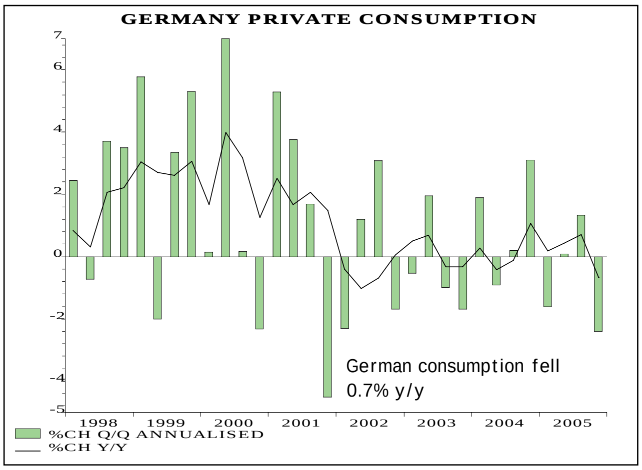


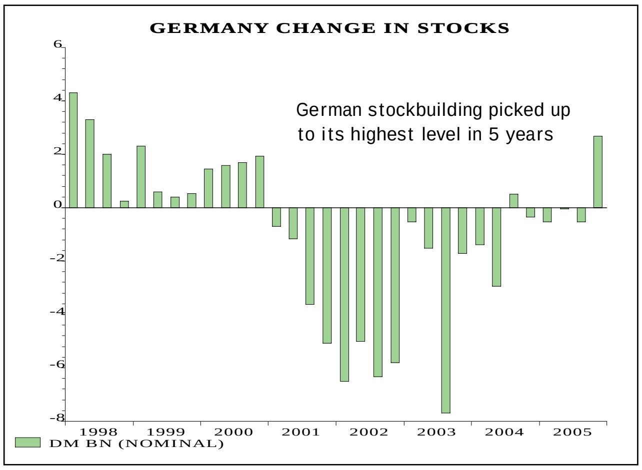


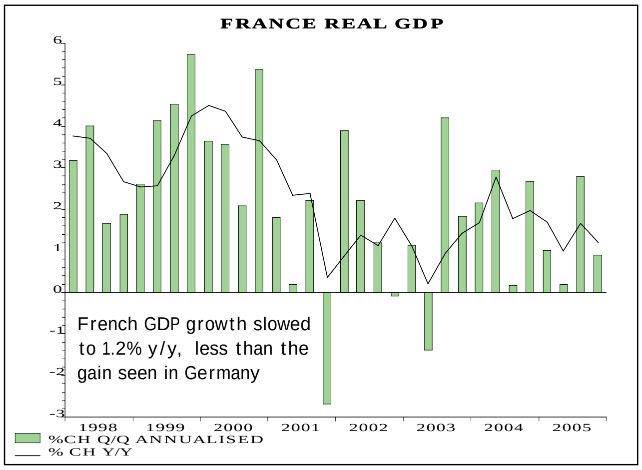
Source: Datastream

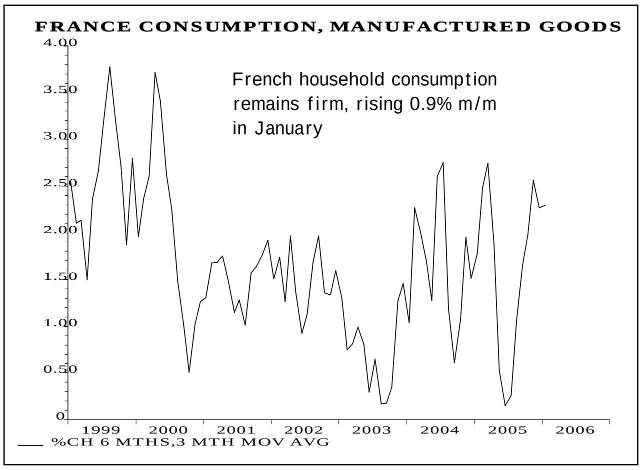
Euroland - 2

In contrast to this week's very encouraging IFO report, the breakdown of the Q4 German GDP data provided more sombre reading. German GDP was flat q/q, hit by a 0.6% q/q decline in consumer spending. Consumption continues to suffer from the ongoing decline in wages and salaries in real terms. Business investment, by contrast, rose again in Q4, though the gain was concentrated in construction. Machinery and equipment spending was up all of 0.1% q/q. Stockbuilding picked up sharply, but this may just reflect the new found confidence of business. The French GDP report, meanwhile, showed a healthier picture. While GDP rose only 0.2% q/q, both consumption and investment increased a respectable 0.7% q/q in Q4.





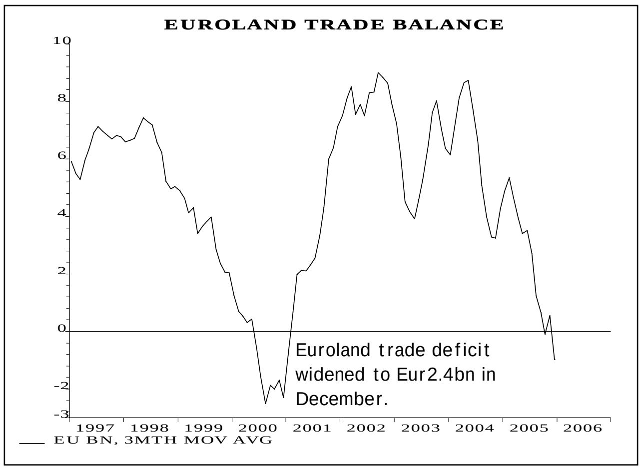


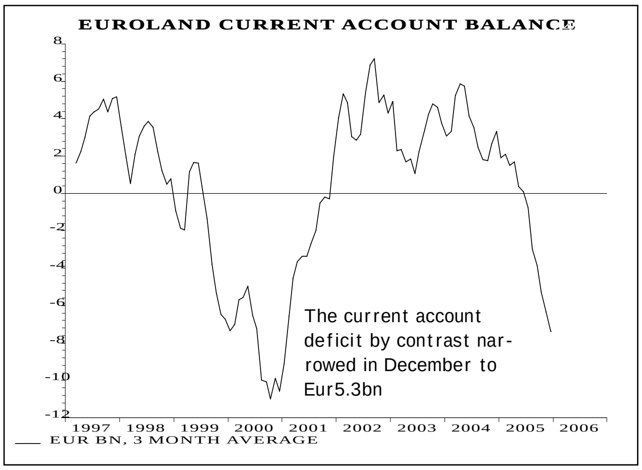


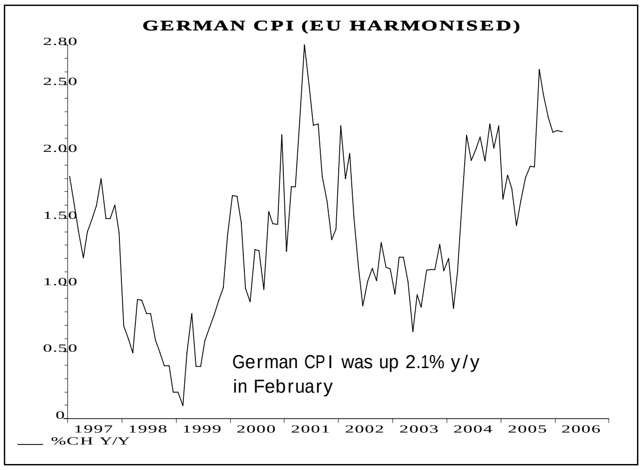
Source: Datastream

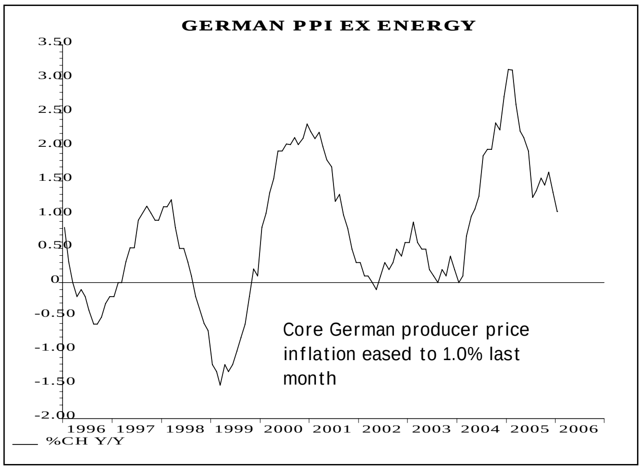
Euroland - 3

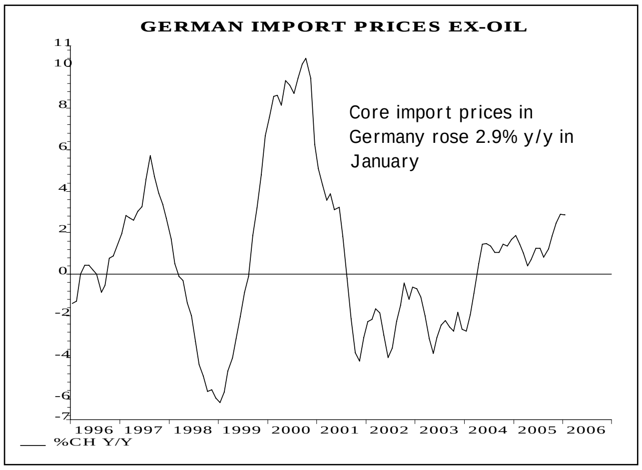
The Euroland trade numbers also took the edge off the impressive business confidence data. The deficit increased sharply in December more than reversing the improvement in November and re-establishing the worrying trend seen over the last year. The deficit hit is now running just short of the highs touched temporarily in 2000. Imports have been the main problem and in December were up 3.5% m/m and a massive 22.4% y/y. Export growth has slowed in the last couple of months but exports are still up a respectable 12.7% y/y. The current account deficit narrowed in December but the widening trend is still very much in evidence. Elsewhere, German inflation was unchanged in February at 2.1%.

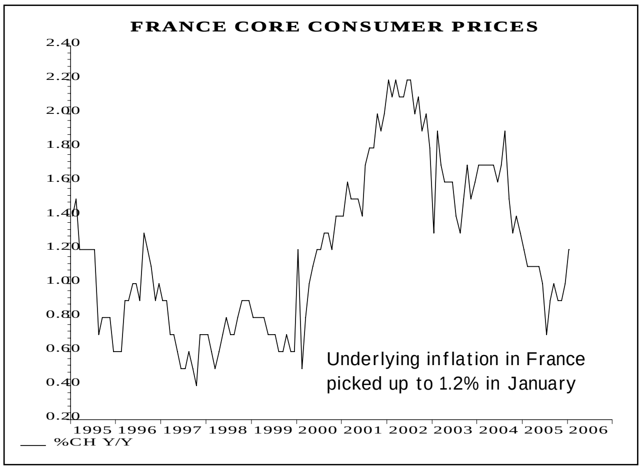








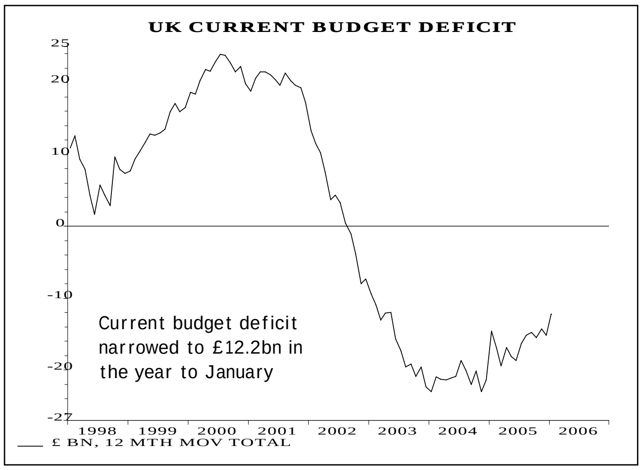


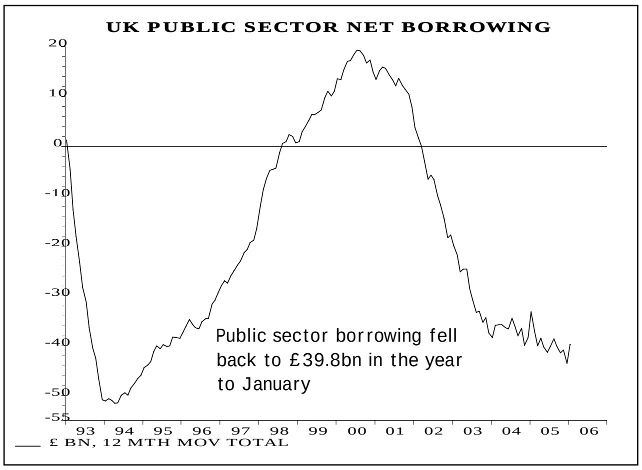


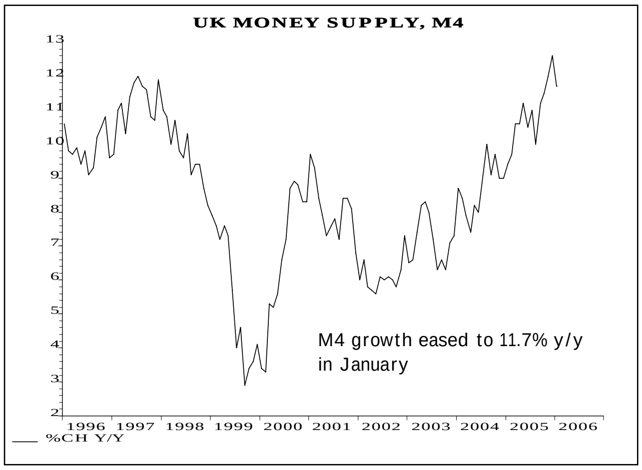
Source: Datastream

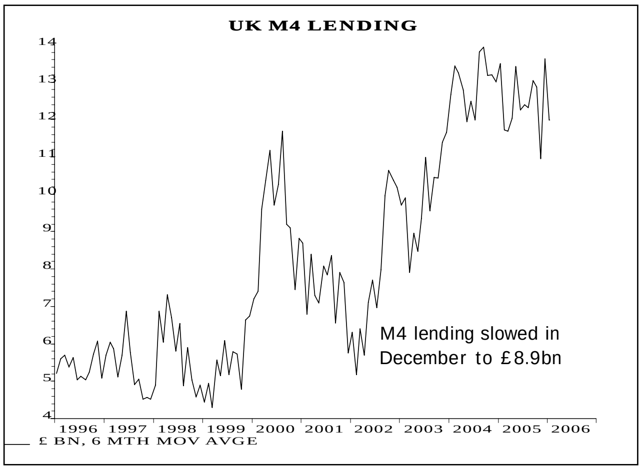
UK - 1

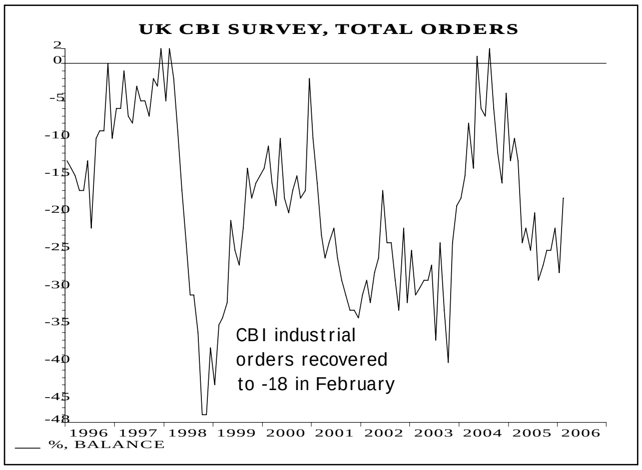
The January public sector surplus overshot expectations but should not really have come as a surprise given the strength of the financial services industry. The Chancellor should now meet his pre-budget forecast of a £10.6bn current deficit this year - even if he still exceeds his £5.7bn March 2005 budget forecast. An overshoot on revenues should make up for higher than forecast current spending. Current receipts were up 14.4% y/y in January, buoyed by strong gains in both income and corporation tax receipts - the latter were in part boosted by timing changes to North Sea oil receipts announced in last year's budget. Elsewhere, the CBI survey showed manufacturing conditions improving in February - albeit from fairly depressed levels.

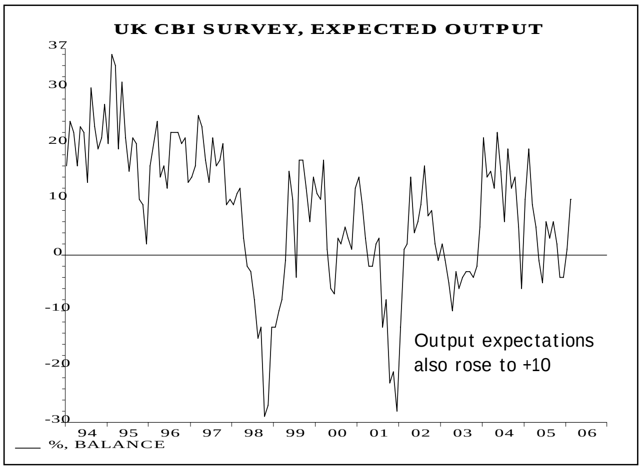








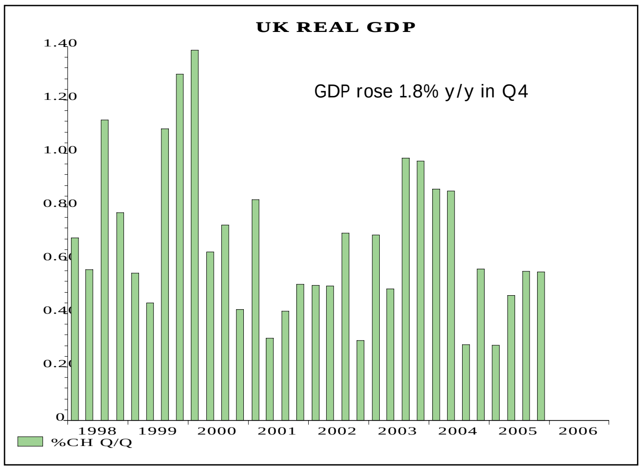


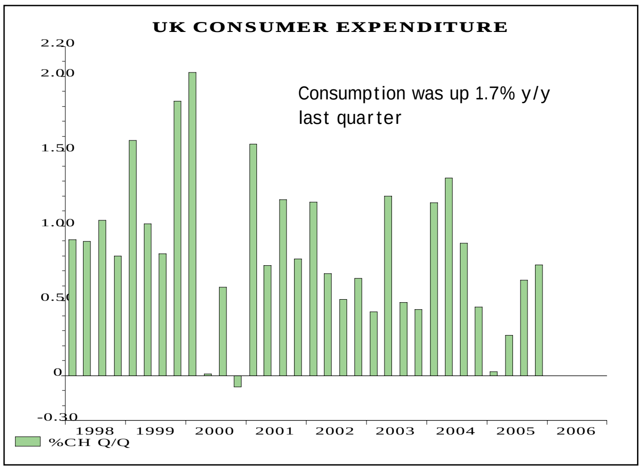


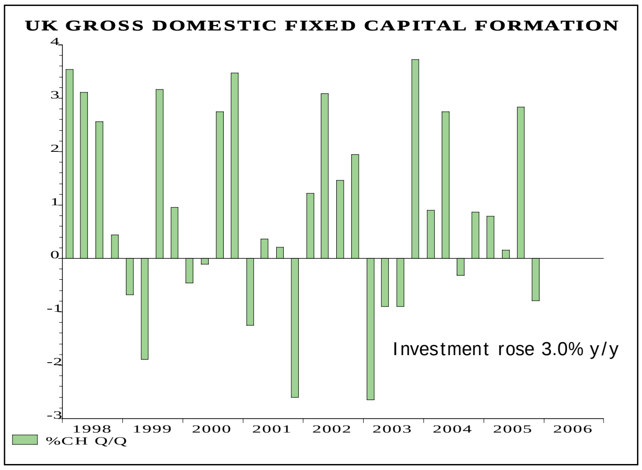
Source: Datastream

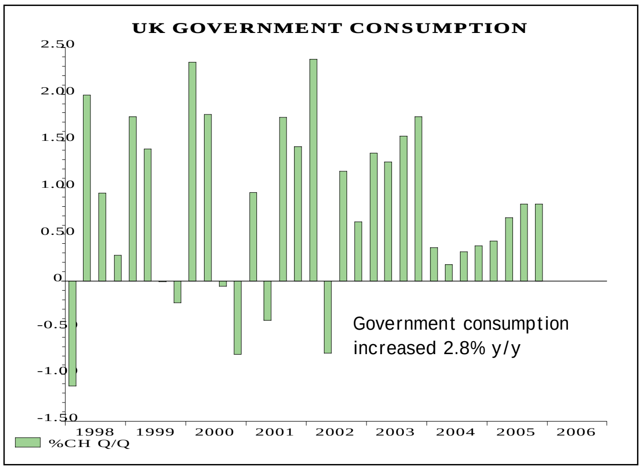
UK - 2

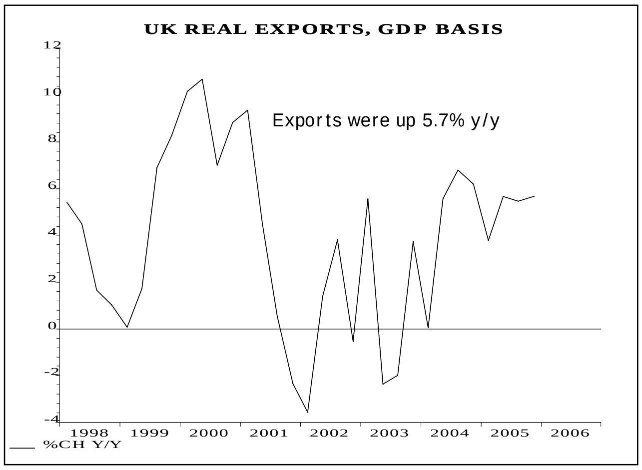
The Q4 GDP breakdown provided few surprises. It confirmed the upturn in consumption and the economy overall and should provide another reason for the MPC to keep policy on hold for the time being. Q4 growth was left unrevised at 0.6% q/q, in line with the economy's long term trend, while Q3's gain was raised 0.1% to 0.6% q/q. Consumer spending was the main driver behind the growth in Q4, rising 0.7% q/q, the largest gain since 2004 Q3. Government consumption was also up 0.8% q/q, confirming the public sector still remains a significant source of support. Investment, however, disappointed, falling 0.8% q/q after a 2.8% q/q surge in Q3. Net exports, meanwhile, added to growth this quarter - unlike in Q3 when they subtracted.

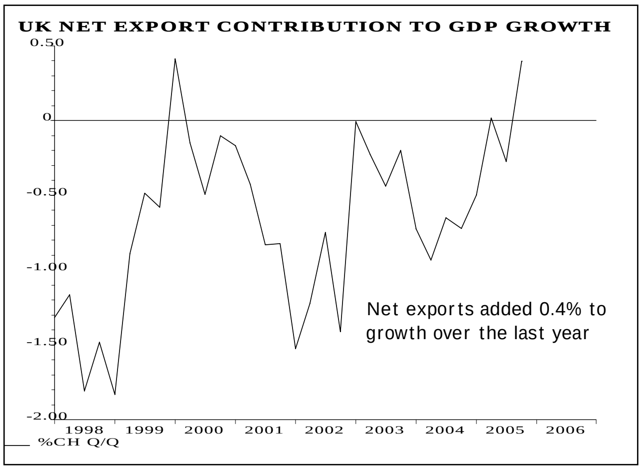












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