



Weekly Market & Economics Report

1st February, 2010

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Weekly Market Movements

		Close 29/01/10	Weekly Change			Close 29/01/10	Weekly Change
Bank Bills	90 day	4.38	0.16	US Bonds	2 yr	0.82	0.02
Aust Bonds	3 year	4.51	-0.16		10 yr	3.59	-0.02
	10 year	5.38	-0.05	Currency	AUD/USD	0.8838	-0.0169
Aust CPI-linked	4.0% Aug 20	2.64	-0.03		USD/Yen	90.27	0.45
TCorp Bonds	7.0% Dec 12	4.52	-0.01		Euro/USD	1.3863	-0.0276
	6.0% May 12	4.85	-0.18	Equity	ASX 200	4,570	-181
	5.25% May 13	5.07	-0.18	Indexes	S&P500	1,074	-18
	5.5% Aug 14	5.33	-0.15		Euro Stoxx 50	2,777	-60
	5.5% Mar 17	5.73	-0.08		Nikkei	10,198	-393
	6.0% Apr 19	5.85	-0.07		Shanghai Comp	2,989	-139
	6.0% Jun 20	5.91	-0.07	Commodity	Oil (US\$ barrel)	73	-1
	6.0% May 23	6.04	-0.06		CRB Index	265.6	-10.0
TCorp CPI-linked	3.75% Nov 20	3.33	-0.03		LME Metals	3,125.4	-252.6
	2.75% Nov 25	3.44	-0.04		Gold (US\$ oz)	1,080.9	-12.4
	2.5% Nov 35	3.29	-0.04			0.82	0.02

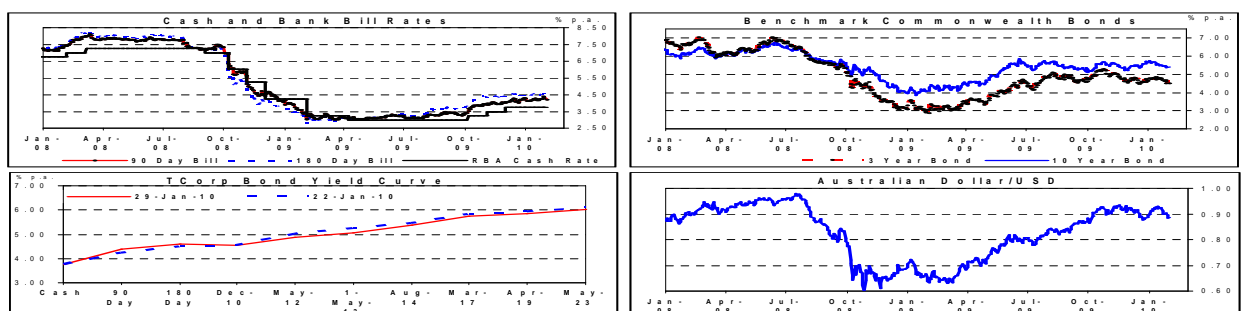
Market Commentary

Risk aversion saw risk assets sell off for a third consecutive week in the week ending 29th January. Equities and commodity prices fell, with the flight to quality boosting demand for US dollars. The continuing Greek sovereign debt problems were a significant source of risk aversion, compounded by reports that the European Commission would reject the country's three-year plan to reduce its deficit. Despite denials from the Greek Government, Greece's 10-year debt yields have soared as the risk of default is perceived to have risen significantly.

Risk aversion caused the US dollar to strengthen further. The Australian dollar fell 1.9% over the week against the US dollar, closing at US\$0.8838. It was helped lower by a sell off in commodities and comments from the People's Bank of China Vice President Zhu that reaffirmed moderately loose monetary policy, but at the same time suggested policy would be addressing increasing inflation risks.

In Australia, the key Q4 CPI data were released on Wednesday. Headline inflation came in at 0.5% over the quarter. The all-important underlying inflation exceeded market expectations; it was sticky at 0.7% in the quarter, down slightly from 0.8% in Q3. But Q4 annual underlying inflation was 3.4%, still well above the RBA's 2%-3% target band. Markets are now pricing around an 80% chance of a hike in the official cash rate when the RBA meets on Tuesday. It is also expected the RBA will have to revise upwards its inflation and growth forecasts in the Quarterly Statement on Monetary Policy released on Friday 5th February.

In the domestic bond market, yields initially increased after the CPI data were released, as the market increased its expectations of a rate hike in February. Later in the week risk aversion and rumours that a key private sector research house was forecasting no change in RBA policy boosted demand for Commonwealth Government and Semi debt, driving yields lower across the curve, but particularly at the front end. In the US, Treasury yields increased mid-week after hawkish statements from Kansas City Fed President Hoenig in the US Federal Reserve's Monetary Policy Statement, although the Fed maintained its wording that it would keep interest rates "exceptionally low" for an "extended period". Yields fell after the President's State of the Union address reiterated the aggressive rhetoric against banks, also weighing on equity markets. Australian bond yields followed global yields lower by week's end as investors continued to shun risky assets.



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	Australia	United States/Other
Monday, 1st February	<ul style="list-style-type: none"> – TD Inflation Gauge (Jan) – ANZ Job Ads (Jan) – House Prices (Q4) 	<ul style="list-style-type: none"> – US ISM Manufacturing (Jan) – US Personal Income/Consumption (Dec) – China Manufacturing PMI (Jan)
Tuesday, 2nd February	<ul style="list-style-type: none"> – RBA Monetary Policy Meeting – NAB Business Survey (Dec) 	<ul style="list-style-type: none"> – US Pending Home Sales (Dec)
Wednesday, 3rd February	<ul style="list-style-type: none"> – Trade Balance (Dec) 	<ul style="list-style-type: none"> – US ISM Non-manufacturing (Jan)
Thursday, 4th February	<ul style="list-style-type: none"> – Retail Sales (Dec) – Building Approvals (Dec) 	<ul style="list-style-type: none"> – UK BoE Monetary Policy Meeting – Europe ECB Monetary Policy Meeting
Friday, 5th February	<ul style="list-style-type: none"> – RBA Statement of Monetary Policy 	<ul style="list-style-type: none"> – US Non-farm Payrolls (Jan) – US Unemployment Rate (Jan)

Preview - Key Releases and Events

Australia

The calendar is relatively full in Australia this week.

The **TD Inflation Gauge**, released earlier today, showed a 0.8% increase in headline inflation in January. The result is unlikely to have much impact on market expectations for Tuesday's **RBA Monetary Policy Meeting**, which already has an 80% chance of a 0.25% hike in the official cash rate to 4.0% priced in. If the RBA does increase the official cash rate at tomorrow's meeting as expected by economists, it will be the fourth consecutive rate rise (October, November and December all saw rate hikes, with no meeting in January). It is likely that the RBA will justify any decision to raise the cash rate by referencing the higher-than-expected underlying inflation result for Q4, the steady stream of solid domestic economic data since the last meeting, and upgrades to the world growth outlook. But the key issue for the RBA is that the monetary policy stance is still highly accommodative at a time when a self-sustaining recovery is underway.

Inflation has proven to be sticky over the past three years, and it is likely that the RBA will revise upwards its CPI and GDP forecasts in the **RBA Statement of Monetary Policy**, to be released on Friday. Over the past two years, the RBA's inflation and growth forecasts have consistently undershot actual CPI and GDP outcomes.

Retail sales are released on Thursday. The market is forecasting a 0.2% increase in December after a very strong 1.4% increase in November, and preliminary surveys from the Australian Retailer's Association suggesting that sales will be higher on an annual basis.

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Preview - Key Releases and Events

United States/Other

US labour market data are released on Friday, with markets forecasting an increase of 20k in non-farm payrolls, after 85k jobs were lost in December. The unemployment rate is forecast by the market to remain at 10.0% in January, unchanged from December.

In Europe, the **European Central Bank** and the **Bank of England** meet on Thursday to decide monetary policy. Rates have been lowered to historical lows by the central banks to boost the economy. With both Europe and the UK still registering soft economic data, economists expect rates to remain unchanged at 1.0% and 0.25% respectively. There will be some focus on the BoE's asset purchase facility, which expired last week, although most analysts do not expect the facility to be extended. Economists expect ECB President Trichet to be questioned over the central bank's stance on Greece.