



New South Wales
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Weekly Market & Economics Report

3rd May, 2010

Weekly Market Movements

		Close 30/04/10	Change since 16/04			Close 30/04/10	Change since 16/04
Bank Bills	90 day	4.63	0.10	US Bonds	2 yr	0.96	-0.11
Aust Bonds	3 year	5.28	-0.02		10 yr	3.66	-0.16
	10 year	5.71	-0.09	Currency	AUD/USD	0.9243	-0.0035
Aust CPI-linked	4.0% Aug 20	2.74	-0.10		USD/Yen	93.85	-0.12
TCorp Bonds	7.0% Dec 10*	4.74	0.06		Euro/USD	1.3294	-0.0090
	6.0% May 12*	5.24	-0.04	Equity	ASX 200	4,807	-74
	5.5% Aug 13*	5.67	-0.02	Indexes	S&P500	1,187	-31
	5.5% Aug 14**	5.66	-0.02		Euro Stoxx 50	2,817	-101
	6.0% Apr 16*	6.00	-0.03		Nikkei	11,057	143
	5.5% Mar 17**	5.88	-0.07		Shanghai Comp	2,871	-113
	6.0% Apr 19**	5.99	-0.09	Commodity	Oil (US\$ barrel)	86	2
	6.0% May 20*	6.20	-0.11		CRB Index	277.7	-1.3
	6.0% Jun 20**	6.02	-0.11		LME Metals	3,512.5	-141.8
	6.0% May 23**	6.16	-0.08		Gold (US\$ oz)	1,179.2	21.6
TCorp CPI-linked	3.75% Nov 20*	3.40	-0.10				
	2.75% Nov 25*	3.50	-0.09				
	2.5% Nov 35*	3.44	-0.09				

* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

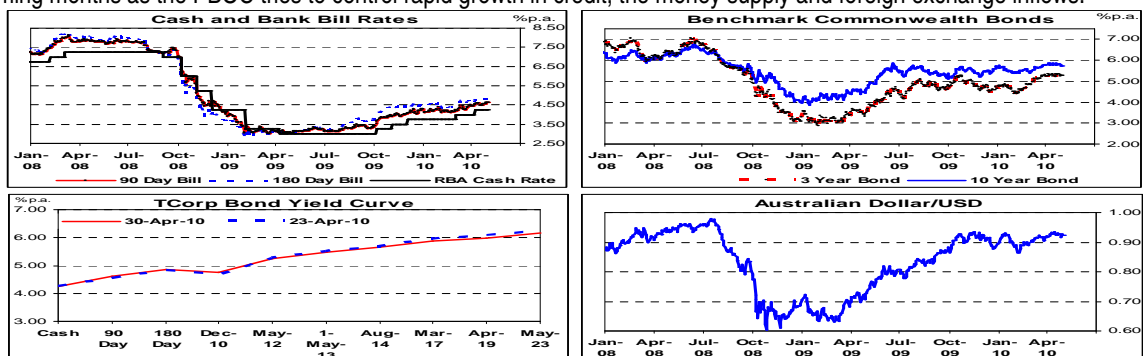
Market Commentary

Investors pushed US Treasury yields lower across the curve last week. Yields fell as Europe's sovereign debt crisis continued, the US FOMC released a dovish statement after its monetary policy meeting and investors squared end-of-month positions. Greece's sovereign credit rating was downgraded to junk status by Standard and Poor's. Portugal and Spain also had their credit ratings downgraded. The market's concerns that a Greek bailout package could be delayed boosted a safe-haven bid for US Treasuries. The US FOMC left the Fed Funds rate unchanged at its monetary policy meeting on Wednesday. The Fed said in its dovish accompanying statement that inflation pressures were still subdued and that interest rates would remain "exceptionally low" for an "extended period".

Australian Government bond yields were dragged lower with their US counterparts. Shorter-dated bond yields fell by less than longer-dated bond yields after the Q1 inflation report showed an uncomfortably high annual underlying inflation rate of 3.05%, above the RBA's 2%-3% target range. The market is now pricing a 65% chance of a 0.25% official cash rate hike at tomorrow's RBA monetary policy meeting, compared with only 24% a week ago. The market continues to expect an official cash rate of around 5.0% by end-2010.

The surge in risk aversion generally weighed on demand for risk assets last week. Global equities were mostly lower. In the US the S&P500 fell 2.5% over the week. Investors' concerns about Greece and the potential fallout from fraud charges levelled at Goldman Sachs drove the S&P500's largest weekly fall since late-January 2010. In Australia, the domestic ASX200 closed the week 1.5% lower. In currency markets, investors sought the safety of the US dollar. The Australian dollar depreciated 0.4% against the US dollar over the week.

This week investors will need to digest The People's Bank of China's announcement yesterday of an increase in banks' reserve requirement ratio by 50 basis points. The rise was the third increase in 2010. The market widely expects further increases in coming months as the PBOC tries to control rapid growth in credit, the money supply and foreign exchange inflows.



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	Australia	United States/Other
Monday, 3rd May	<ul style="list-style-type: none"> – TD Securities Inflation Gauge (Apr) – House Prices (Q1) 	<ul style="list-style-type: none"> – US Personal Income/Spending/Core Deflator (Mar) – US Manufacturing PMI (Apr) – US Vehicle Sales (Apr)
Tuesday, 4th May	<ul style="list-style-type: none"> – RBA Monetary Policy Meeting 	<ul style="list-style-type: none"> – US Factory Orders (Mar) – US Pending Home Sales (Mar)
Wednesday, 5th May	<ul style="list-style-type: none"> – Building Approvals (Mar) 	<ul style="list-style-type: none"> – US ADP Employment Change (Apr) – US Services PMI (Apr)
Thursday, 6th May	<ul style="list-style-type: none"> – Trade Balance (Mar) – Retail Sales (Mar) 	<ul style="list-style-type: none"> – Europe ECB Monetary Policy Meeting – UK General Election – US Nonfarm Productivity (Q1 Prelim) – US Labor Costs (Q1 Prelim) – US Fed Chairman Bernanke Speaks on Banking
Friday, 7th May	<ul style="list-style-type: none"> – RBA Statement on Monetary Policy 	<ul style="list-style-type: none"> – US Nonfarm Payrolls/Unemployment Rate (Apr)

Preview - Key Releases and Events

Australia

Domestic markets will focus on the RBA this week.

On Tuesday, the RBA's Board meets to decide **monetary policy**. The RBA has hiked the official cash rate at five of its last six meetings. If the RBA does hike in May, it could justify the move by referring to high Q1 underlying inflation, the strong housing activity, the resilient labour force and consumer confidence, China's strong demand for Australia's commodities, and the large unexpected boost to Australia's terms of trade that will lift national income and investment. Investors had been reluctant to price a May official cash rate hike as the ongoing Greek sovereign credit woes continued. But financial market pricing for a rate hike increased to 65% after Q1 underlying inflation was reported as an uncomfortably high 0.8% last week.

On Friday the RBA releases its semi-annual **Statement on Monetary Policy**. The Statement will be closely watched by the market for the RBA's official forecasts for inflation and GDP. The February Statement revised up the RBA's forecast for underlying inflation to trough at 2.5% in June 2010. This revision was the 10th increase in the RBA's official inflation forecast in the last 11 Statements. But this 2.5% trough is now unlikely. Q1 underlying inflation was uncomfortably high at 0.8%. Q2 underlying inflation would need to be 0.3% to hit the RBA's forecast. Investors will focus on any revisions to the RBA's inflation forecast profile and the RBA's

assumed cash rate to recalibrate their own official cash rate forecasts.

Preview - Key Releases and Events

United States/Other

In the US, the labour market report is released on Friday. The labour market has shown some gradual improvement over the last quarter. The **unemployment rate** has stabilised at 9.7%. **Nonfarm payrolls** increased over Q1, with 162k jobs added in March. Economists expect a further 200k jobs to be added in April, boosted by US Census hiring. The unemployment rate is expected to remain unchanged at 9.7%.

Other US data are expected to show gradual improvement in economic activity. The **manufacturing** and **services PMIs** are expected by the market to edge up in April. Economists expect a 2.5% increase in **productivity** for Q1, following on from a solid 6.9% in Q4. **Personal spending** and **personal income** are both expected to have grown solidly in March after weak growth in February.

In the UK, the **general election** is held on Thursday. A hung parliament is widely expected. The next government will need to convince markets that it will be able to rein in the budget deficit. Failure to do so would put pressure on the UK sovereign credit rating and could risk a sell off in Sterling and UK Gilt bonds.