Weekly Market & Economics Report

5th July, 2010

New South Wales
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Weekly Market Movements

		Close 2/07/10	Weekly Change			Close 2/07/10	Weekly Change
Bank Bills	90 day	4.87	-0.09	US Bonds	2 yr	0.63	-0.02
Aust Bonds	3 year	4.43	-0.18		10 yr	2.98	-0.13
	10 year	5.10	-0.15	Currency	AUD/USD	0.8416	-0.0325
Aust CPI-linked	4.0% Aug 20	2.55	-0.03		USD/Yen	87.75	-1.48
TCorp Bonds	7.0% Dec 10*	4.70	-0.01		Euro/USD	1.2566	0.0197
	6.0% May 12*	4.72	-0.11	Equity	ASX 200	4,239	-174
	5.5% Aug 13*	4.94	-0.16	Indexes	S&P500	1,023	-54
	5.5% Aug 14**	4.95	-0.17		Euro Stoxx 50	2,522	-107
	6.0% Apr 16*	5.34	-0.15		Nikkei	9,204	-534
	5.5% Mar 17**	5.27	-0.14		Shanghai Comp	2,383	-170
	6.0% Apr 19**	5.43	-0.14	Commodity	Oil (US$ barrel)	72	-6
	6.0% May 20*	5.65	-0.14		CRB Index	254.5	-11.1
	6.0% Jun 20**	5.46	-0.14		LME Metals	2,945.3	-146.1
	6.0% May 23**	5.63	-0.14		Gold (US$ oz)	1,211.6	-44.0
TCorp CPI-linked	3.75% Nov 20*	3.22	-0.03				
	2.75% Nov 25*	3.40	0.00				
	2.5% Nov 35*	3.39	-0.01				

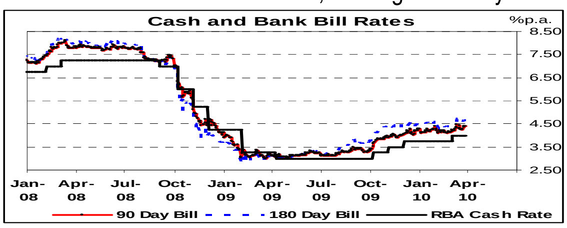
* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

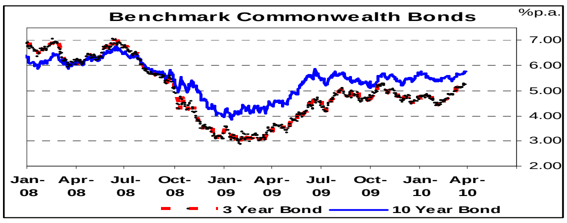
Market Commentary

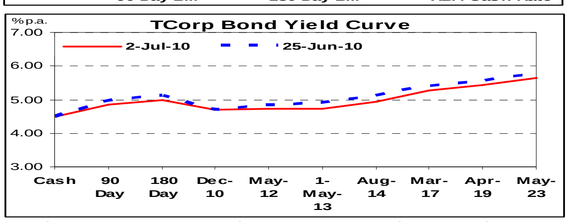
The rally in Australian Government bonds and US Treasuries continued last week, pushing yields lower. Australian Government bond yields fell sharply across the yield curve. Australian inflation-linked bond yields fell by less than their nominal counterparts as breakeven inflation rates narrowed. Ahead of the RBA monetary policy meeting on Tuesday, investors have pushed their expectations for the next official cash rate hike out beyond December 2011. In the US, the 10-year Treasury yield closed the week at 2.98%, at levels last seen in April 2009. Investors' flight to safety was driven by fears of a global double dip recession and the pace of the US economic recovery slowing. The US labour market report, released last Friday, showed the expected large fall in Census-related jobs but the increase in private payrolls was lower than economists had forecast. The market was also concerned by the soft details of the report. US consumer confidence and the US manufacturing PMI were weaker than the market had expected. US Fed officials confirmed that the US Fed sees considerable downside risks to the US and global economies, and that US rates will be kept exceptionally low for an extended period.

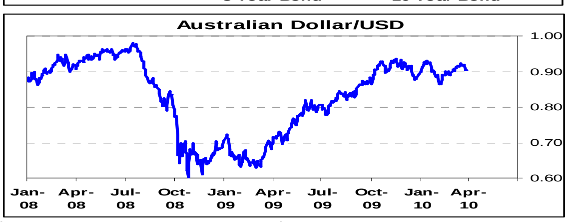
The Australian dollar depreciated against the US dollar last week. The local currency was hit by escalating risk aversion, investors' downgraded interest rate expectations, generally weaker commodity prices and concerns that China's policymakers could inadvertently engineer a hard landing for China's economy. Prime Minister Gillard reached an agreement with mining companies that delivered the revised Mineral Resource Rent Tax and helped limit the Australian dollar losses. The US dollar was weaker against the euro and the yen as the soft US data removed some of the safe-haven bid from the US dollar.

Escalating risk aversion and the weak US data weighed on demand for equities last week. The local ASX200 posted a 4.0% fall for the week and closed 2.9% down over June. For the financial year, the ASX200 was 8.8% higher. In the US, the S&P500 fell a remarkable 5.0% over the week, the largest weekly decline since March 2009.









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	Australia	United States/Other
Monday, 5th July	– TD Securities Inflation Gauge (June) – ANZ Job Advertisements (June)	– German Services PMI (June) – **US Markets Closed (Independence Day)** – **US Services PMI (June)**
Tuesday, 6th July	– Trade Balance (May) – **RBA Monetary Policy Meeting**	–
Wednesday, 7th July	–	– Europe GDP (Q1, Final)
Thursday, 8th July	– **Employment Change (June)** – **Unemployment Rate (June)**	– **UK BoE Monetary Policy Meeting** – **Europe ECB Monetary Policy Meeting** – US Consumer Credit (May)
Friday, 9th July	–	– China Trade Balance (June) – US Wholesale Inventories (May)

Preview - Key Releases and Events

Australia

This week, domestic markets will focus on the RBA monetary policy meeting on Tuesday and the labour market report on Thursday.

The RBA left the **official cash rate** unchanged at 4.50% at its 1 June meeting. In its June monetary policy meeting minutes, the RBA said that interest rates for most borrowers are now around average. The current setting of monetary policy was judged to be "appropriate for the near term". The Board was confident that Australia's terms of trade would continue to improve and boost domestic demand and outlook. But the international economic outlook was made more uncertain by the sovereign debt crisis in Europe and the need for some governments to tighten fiscal policy while demand was weak. These uncertainties persist. The market expects the RBA to leave the official cash rate unchanged again at its Tuesday meeting and is priced for no further hikes before end-2011, but market economists generally expect at least one hike by end-2010.

Australia's **labour market** recovery continued in May. 26.9k jobs were added in total, taking the **unemployment rate** to 5.2% from 5.4% in April. Australia's labour market has added 280k jobs in the last nine months. Most of these jobs have been full-time positions. The improvement in the labour market is boosting household incomes and supporting Australia's economic recovery. Economists are forecasting a 15k increase in jobs in June, keeping the unemployment rate at 5.2%.

Preview - Key Releases and Events

United States/Other

The **European Central Bank** and the **Bank of England** meet on Thursday to decide monetary policy. Both of the central banks are expected by the market to keep their key interest rates unchanged, at 1.00% and 0.50% respectively. The market will focus on any discussion by the ECB of the covered bond purchase programme that concluded last week. The continued European sovereign debt crisis and wider bank funding spreads could convince the ECB to extend the duration of the programme. Some market economists speculate that the programme could be extended to include other assets.

In the US, the market will look for some reassurance that the US recovery is still underway in the services sector after the manufacturing PMI was weaker than expected last week. The services PMI was unchanged at 55.4 in May and is expected to edge down to 55.0 in June.

US **wholesale inventories** are released on Friday. Inventories have been increasing in recent months after plunging during 2008 and 2009. The recent improvement has been driven by higher levels of retail sales. After a 0.4% increase in April, market economists expect inventories to rise another 0.4% in May.