



# Weekly Market & Economics Report

## 8th February, 2010

New South Wales  
Treasury Corporation  
[www.tcorp.nsw.gov.au](http://www.tcorp.nsw.gov.au)

CONTACT  
Jenny Sillar  
Isaac Poole  
(02) 9325 9268  
jennys@tcorp.nsw.gov.au

### Weekly Market Movements

		Close 5/02/10	Weekly Change			Close 5/02/10	Weekly Change
<b>Bank Bills</b>	<b>90 day</b>	4.12	-0.27	<b>US Bonds</b>	<b>2 yr</b>	0.77	-0.05
<b>Aust Bonds</b>	<b>3 year</b>	4.43	-0.08		<b>10 yr</b>	3.57	-0.02
	<b>10 year</b>	5.39	0.01	<b>Currency</b>	<b>AUD/USD</b>	0.8684	-0.0154
<b>Aust CPI-linked</b>	<b>4.0% Aug 20</b>	2.63	-0.01		<b>USD/Yen</b>	89.25	-1.02
<b>TCorp Bonds</b>	<b>7.0% Dec 10</b>	4.25	-0.27		<b>Euro/USD</b>	1.3678	-0.0185
	<b>6.0% May 12</b>	4.74	-0.11	<b>Equity</b>	<b>ASX 200</b>	4,514	-56
	<b>5.25% May 13</b>	4.95	-0.12	<b>Indexes</b>	<b>S&amp;P500</b>	1,066	-8
	<b>5.5% Aug 14</b>	5.24	-0.09		<b>Euro Stoxx 50</b>	2,632	-145
	<b>5.5% Mar 17</b>	5.67	-0.05		<b>Nikkei</b>	10,057	-141
	<b>6.0% Apr 19</b>	5.83	-0.02		<b>Shanghai Comp</b>	2,939	-50
	<b>6.0% Jun 20</b>	5.90	-0.01	<b>Commodity</b>	<b>Oil (US\$ barrel)</b>	71	-2
	<b>6.0% May 23</b>	6.04	0.00		<b>CRB Index</b>	258.6	-7.0
<b>TCorp CPI-linked</b>	<b>3.75% Nov 20</b>	3.35	0.02		<b>LME Metals</b>	2,915.5	-209.9
	<b>2.75% Nov 25</b>	3.43	-0.01		<b>Gold (US\$ oz)</b>	1,066.3	-14.6
	<b>2.5% Nov 35</b>	3.30	0.02				

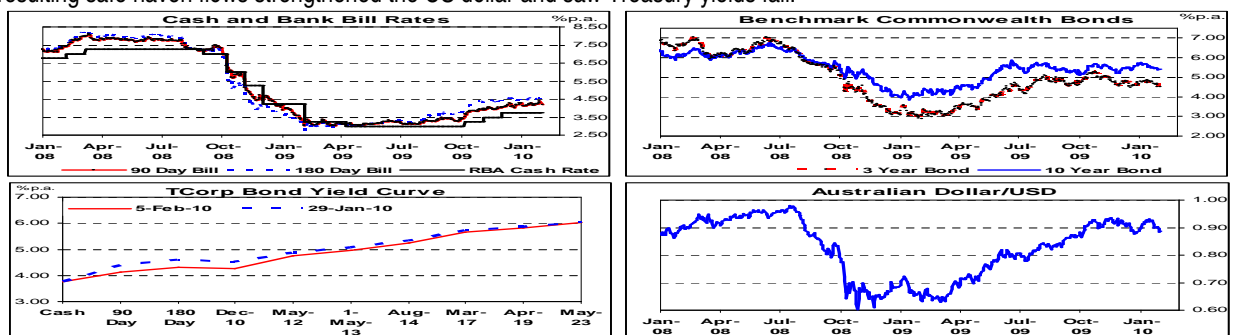
### Market Commentary

Policy makers were in focus in Australia during the week. The Australian Government announced on Sunday that it would close the Federal Government guarantee on state borrowings but not until 31<sup>st</sup> December, to allow States to establish liquidity in the unguaranteed lines. The Government will withdraw the guarantee on wholesale bank funding and large bank deposits on 31<sup>st</sup> March. On Tuesday, the Reserve Bank surprised the market by leaving the official cash rate unchanged at 3.75%, ending a run of three consecutive rate hikes in Q4. The RBA judged the steady setting appropriate given the limited information on the impact of previous rate hikes. It also expressed concern over global developments including China's attempts to reduce policy stimulus, and sovereign credit woes.

On Friday, the Bank's Statement on Monetary Policy expressed a clear tightening bias, revising upwards its underlying inflation forecast to trough in the middle of the RBA's 2%-3% inflation target band at 2.5% by June 2010. The RBA's forecasts assume the official cash rate moving in line with market expectations. Such an increase would place official cash rates above 4.5% by end-2010. GDP growth forecasts for Q4 2009 and Q1 2010 were also revised up by 0.25% compared with the November forecast, to 2.0% and 2.5% respectively. The RBA expects growth to reach 3.5% by 2011, indicating that it does not expect higher rates to weigh heavily on economic growth.

Domestic markets were surprised by the RBA's decision to pause. 90-day bank bill yields fell 27bps over the week. Commonwealth Government and Semi-Government bond yields also fell across the front end of the curve, while long-dated bonds yields increased after the decision, before reversing on Friday on some safe haven buying. The Australian dollar fell on Tuesday, and finished the week 1.8% lower at US\$0.8684, also weighed down by a sell off in commodities. Commodities could see some support from news of a \$69bn coal deal between Australian company Resourcehouse and China. The ASX200 was initially buoyed by the rate pause, but fell as risk aversion continued to weigh.

Globally, risk aversion saw equity markets fall for a fourth consecutive week last week, with the S&P500 down 0.7%. In the US, a mixed labour market report that saw employment estimates revised down for most of 2009 and 22k jobs lost in January weighed on equities, despite the unemployment rate improving to 9.7%. European sovereign credit woes continued to weigh on investor sentiment, despite Greece's Economic Stability Programme being approved by the European Commission. The resulting safe haven flows strengthened the US dollar and saw Treasury yields fall.



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	Australia	United States/Other
<b>Monday, 8<sup>th</sup> February</b>	–	–
<b>Tuesday, 9<sup>th</sup> February</b>	–	– US Wholesale Inventories (Dec)
<b>Wednesday, 10<sup>th</sup> February</b>	– Housing Finance (Dec) – Westpac Consumer Sentiment (Feb)	– UK BoE Quarterly Inflation Report – US Trade Balance (Dec) – Fedspeak – Fisher and Plosser – <b>Fed Chairman Bernanke testifies on exit strategies for emergency liquidity programmes</b>
<b>Thursday, 11<sup>th</sup> February</b>	– <b>Employment (Jan)</b> – <b>Unemployment Rate (Jan)</b>	– Europe ECB Monthly Report – US Business Inventories (Dec) – <b>US Retail Sales (Jan)</b>
<b>Friday, 12<sup>th</sup> February</b>	–	– <b>Europe GDP (Q4)</b> – US Consumer Confidence (Feb)

### Preview - Key Releases and Events

#### Australia

The key focus of Australia's economic calendar this week will be the January **labour market report**, released on Thursday. The domestic labour market again surprised economists with its resilience in December, when **employment** jumped 35k, taking the total number of jobs created since September to 135k. The **unemployment rate** now seems to have peaked below 6% in Q4. Economists are forecasting a slight increase the unemployment rate to 5.6% in January from 5.5% in December, with 15k jobs predicted to be created.

On Wednesday, the **Westpac Survey of Consumer Confidence** is released. Confidence increased in January despite three consecutive official cash rate hikes in October, November and December, as consumers remained buoyed rising household wealth and still-accommodative monetary policy. The Reserve Bank did not meet in January and left official cash rates unchanged last week, which could support confidence in February.

There will also be a focus on the market impact from the Federal Government's decision to withdraw the bank and Semi-Government funding guarantee. The withdrawal could also see a rush of issuance from regional banks to take advantage of the guarantee before it expires. Analysts expect the four major banks are less likely to see much impact on funding costs.

### Preview - Key Releases and Events

#### United States/Other

**US retail sales** will be the main data release in the US this week. Retail sales fell 0.3% in December, but are expected by economists to grow 0.3% in January. The US consumer suffered during the global financial crisis, and a continued improvement in spending and confidence would boost the nation's recovery. February **consumer confidence**, to be released on Friday, is expected by economists to have edged up.

On Wednesday, **Fed Chairman Bernanke** will testify on unwinding emergency liquidity programmes before the House Financial Services Committee. The Fed closed five of its special liquidity programmes on 1<sup>st</sup> February, and the market will seek clarity on the Fed's moves to pull back stimulatory monetary policy without impeding a recovery.

In Europe, **Q4 GDP** is released on Friday. GDP increased 0.4% in Q3 after five consecutive quarterly declines, and economists are predicting a 0.3% rise in Q4.

In the UK, the Bank of England releases its **Quarterly Inflation Report**, which should shed more light on the BoE's expectations for inflation. The BoE left rates unchanged last week, but left open the possibility of further asset purchases in the future should the economy not begin to show more signs of improvement.