



Weekly Market & Economics Report

10th May, 2010

New South Wales
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Weekly Market Movements

		Close 7/05/10	Weekly change			Close 7/05/10	Weekly change
Bank Bills	90 day	4.89	0.26	US Bonds	2 yr	0.81	-0.15
Aust Bonds	3 year	4.97	-0.31		10 yr	3.43	-0.23
	10 year	5.47	-0.25	Currency	AUD/USD	0.8880	-0.0363
Aust CPI-linked	4.0% Aug 20	2.62	-0.13		USD/Yen	91.59	-2.26
TCorp Bonds	7.0% Dec 10*	4.70	-0.04		Euro/USD	1.2755	-0.0539
	6.0% May 12*	5.02	-0.23	Equity	ASX 200	4,481	-327
	5.5% Aug 13*	5.39	-0.28	Indexes	S&P500	1,111	-76
	5.5% Aug 14**	5.39	-0.27		Euro Stoxx 50	2,500	-317
	6.0% Apr 16*	5.73	-0.28		Nikkei	10,365	-693
	5.5% Mar 17**	5.69	-0.20		Shanghai Comp	2,688	-182
	6.0% Apr 19**	5.80	-0.19	Commodity	Oil (US\$ barrel)	75	-11
	6.0% May 20*	6.01	-0.19		CRB Index	261.3	-16.4
	6.0% Jun 20**	5.83	-0.19		LME Metals	3,232.9	-279.6
	6.0% May 23**	5.96	-0.20		Gold (US\$ oz)	1,208.4	29.2
TCorp CPI-linked	3.75% Nov 20*	3.27	-0.13				
	2.75% Nov 25*	3.39	-0.11				
	2.5% Nov 35*	3.33	-0.11				

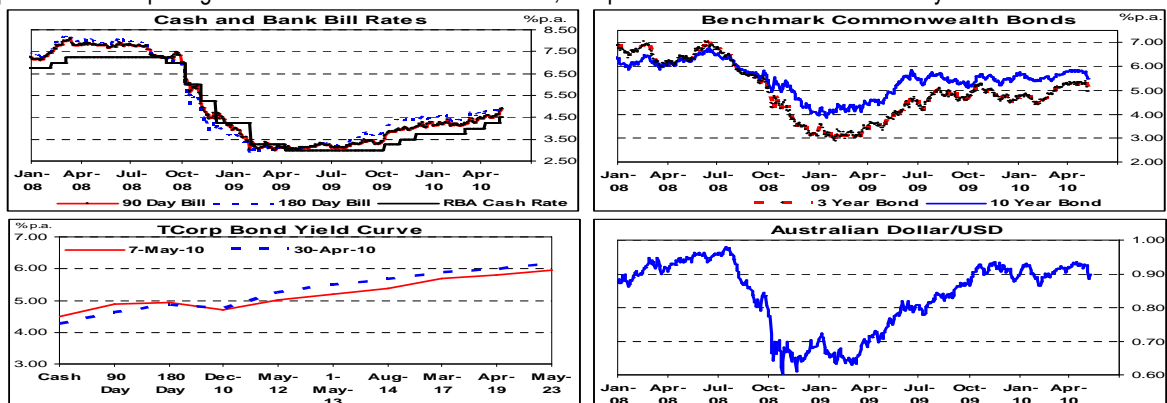
* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

Market Commentary

Financial markets were hit by a tidal wave of risk aversion last week. Investors' fears that Greece's sovereign credit woes could spread through Europe sent the cost of insuring against European sovereign defaults sharply higher. Investors shunned risk assets and sought the safety of US Treasury bonds and the US dollar. Over the weekend, the Eurozone leaders met to arrange a stability plan for Europe. A €110bn rescue package for Greece was approved on Friday. Rumours have emerged of an additional €500bn (AUD\$715bn) scheme to stabilise Europe, including €440bn of government-backed loan guarantees. Markets have reacted positively to the rumours, but there is a risk that the package will still not assuage investors' concerns.

Risk aversion dominated global financial markets last week as investors' fears about a widespread European sovereign debt crisis escalated. Investors' demand for safe-haven government debt pushed US Treasury bond yields lower across the yield curve. Australian Government bond yields followed their US counterparts lower. And risk assets plunged. The US S&P500 fell 6.4% over the week and the Australian ASX200 closed the week 6.8% lower. The large fall in the domestic index was driven by the European sovereign debt crisis and the Federal Government's announcement of a planned Resource Super Profits Tax that weighed on mining company share prices. In currency markets, safe-haven flows pushed the Australian dollar 3.9% lower against the US dollar.

Financial markets shrugged off improvements in the US and Australian economic outlooks last week. US nonfarm payrolls increased by 290k, the biggest monthly rise in four years. In Australia, the RBA increased its official cash rate by 0.25% to 4.50%, making 6 hikes in the last 7 meetings. The RBA's accompanying statement and the Statement on Monetary Policy released on Friday indicated a tightening bias. The RBA revised its GDP growth forecast higher. The RBA also revised up its underlying inflation forecasts to a trough of 2.75% based on the market's pricing for the cash rate. But investors' risk aversion pushed market pricing for the end-2010 cash rate to 4.5%, compared with 5.0% at the start of May.



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	Australia	United States/Other
Monday, 10th May	– ANZ Job Advertisements (Apr)	– Japan Monetary Policy Minutes – China Imports/Exports (Apr) – China Money Supply, New Yuan Loans, House Prices (Apr) – UK BoE Monetary Policy Meeting
Tuesday, 11th May	– NAB Business Survey (Apr) – Australia's 2010-11 Federal Budget Release	– China PPI, CPI, Retail Sales, Industrial Production (Apr) – US Wholesale Inventories (Mar) – FedSpeak: Lockhart, Plosser
Wednesday, 12th May	– Housing Finance (Mar)	– UK Unemployment Rate (Mar) – US Trade Balance (Mar) – FedSpeak: Bullard
Thursday, 13th May	– RBA Assistant Governor Lowe Speaks in Sydney – Employment Change/Unemployment Rate (Apr)	– US Import Price Index (Apr)
Friday, 14th May	–	– US Retail Sales (Apr) – US Industrial Production/Capacity Utilisation (Apr) – US Uni of Michigan Consumer Confidence (May Preliminary)

Preview - Key Releases and Events

Australia

The Federal Government releases its 2010-11 **Budget** on Tuesday. The Budget should positively reflect the remarkable improvement in Australia's economic outlook. The Government's previous Budget was released during a period of extreme economic uncertainty and pessimism about the global economy. The Government then was focused on preventing a financial and economic crisis. The Government expected its support for the domestic economy would keep Australia's budget in deficit until 2015-16. But economists widely expect that the 2010-11 Budget will bring that forecast forward to 2012-13. The improvement will reflect higher forecasts for nominal GDP growth and the higher incomes flowing from Australia's large and unexpected terms-of-trade boost.

The April **employment change** and **unemployment rate** are released on Thursday. The Australian labour market resilience has been remarkable and the recovery reflects a broad improvement in Australia's economic outlook. 220k jobs have been added since September 2009. Economists expect that a further 22.5k jobs will be added in April, leaving the unemployment rate unchanged at 5.3%.

Preview - Key Releases and Events

United States/Other

In the US, **retail sales** and **industrial production** data are released on Friday. Economists expect the both measures to post solid growth in April as the US economic outlook has continued to improve and the labour market has stabilised.

In Asia, the market will focus on China's monthly data that are released over the week. The People's Bank of China has raised its **Reserve Requirement Ratio** three times in 2010 to cool its rapid economic recovery and contain inflation. But inflationary pressures persist. China's annual **inflation** was 2.4% in March, and economists expect it to increase to 2.7% in April. **Money supply** and **credit growth** will also add to inflationary pressures. China's money supply increased 22.5% in March, still well above the Government's 17% target, and economists forecast growth of 21.9% for April. New loans are also expected by economists to have increased, despite the PBOC tightening monetary policy. Markets will be keenly focused on the success of China's attempts to cool its rapid economic growth. **Industrial production** and **retail sales** are expected to post solid growth. But economists expect that China's **trade balance** will remain in deficit, despite a forecast 28.9% annual growth in **exports**.