



New South Wales
Treasury Corporation
www.tcorp.nsw.gov.au

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

Weekly Market & Economics Report

15th February, 2010

Weekly Market Movements

		Close 12/02/10	Weekly Change			Close 12/02/10	Weekly Change
Bank Bills	90 day	4.21	0.09	US Bonds	2 yr	0.83	0.06
Aust Bonds	3 year	4.63	0.20		10 yr	3.70	0.13
	10 year	5.51	0.12	Currency	AUD/USD	0.8878	0.0194
Aust CPI-linked	4.0% Aug 20	2.74	0.11		USD/Yen	89.96	0.71
TCorp Bonds	7.0% Dec 10	4.38	0.13		Euro/USD	1.3632	-0.0046
	6.0% May 12	4.94	0.19	Equity	ASX 200	4,562	48
	5.25% May 13	5.12	0.17	Indexes	S&P500	1,076	9
	5.5% Aug 14	5.39	0.15		Euro Stoxx 50	2,674	43
	5.5% Mar 17	5.75	0.07		Nikkei	10,092	35
	6.0% Apr 19	5.90	0.07		Shanghai Comp	3,018	79
	6.0% Jun 20	5.98	0.08	Commodity	Oil (US\$ barrel)	74	3
	6.0% May 23	6.14	0.09		CRB Index	267.9	9.4
TCorp CPI-linked	3.75% Nov 20	3.46	0.11		LME Metals	3,146.1	230.6
	2.75% Nov 25	3.55	0.11		Gold (US\$ oz)	1,093.4	27.1
	2.5% Nov 35	3.41	0.11				

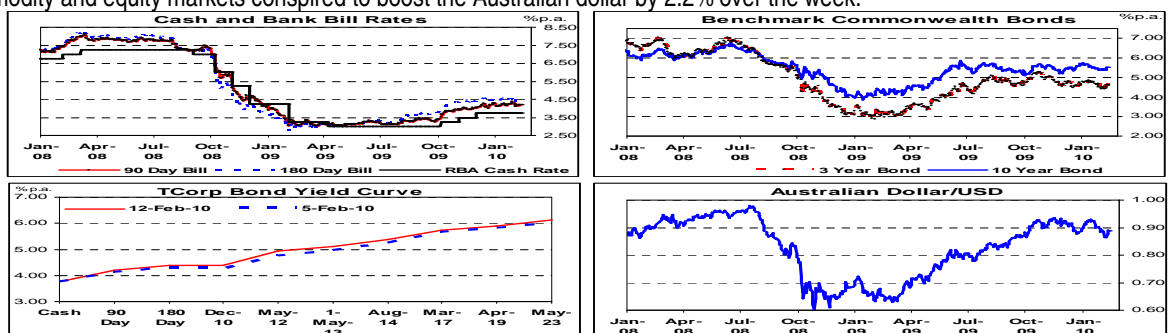
Market Commentary

Risk appetite recovered last week amidst signs of support from European members for the beleaguered Greece government. While an explicit rescue package was not forthcoming, European leaders pledged to "take determined action if needed to safeguard the financial stability of the Euro area as a whole." Markets put a positive slant on the statement, boosting equities in Europe, US and Australia, with the ASX200 finishing the week 1.1% higher. But the comments weighed on the Euro as investors worried over the implications for the Euro should Greece actually get financial support from the EU. On Friday, below-expectations European Q4 2009 GDP also weighed on the Euro which closed the week 0.3% lower against the US dollar.

On Tuesday, China's January annual inflation figure fell to 1.5% from 1.9%, reducing expectations for more monetary tightening by the People's Bank of China. Commodity prices and commodity-linked currencies were boosted by the news. Despite the lower-than-expected inflation figure, the PBOC surprised by announcing after market close on Friday that banks' reserve requirements would rise by 50bps on 25th February, the second increase in a month, in efforts to restrain bank lending and limit M2 money supply growth to its recently announced target of 17%. The move initially weighed on European and US equities on Friday, before strong retail sales data boosted Wall Street late in its session, with the S&P500 finishing the week 0.9% higher.

US Treasury bond yields rose during the week as investor appetite for riskier assets recovered and comments by US Fed Chairman Bernanke regarding the Fed's exit strategies from emergency liquidity programmes were interpreted hawkishly by the markets. Bernanke maintained the wording that the economic situation warrants highly accommodative policy with rates to be kept exceptionally low for an extended period. A weak result in the US\$16bn auction of 30-year Treasury notes also put upward pressure on Treasury yields.

In Australia, risk appetite was boosted by the much stronger-than-expected labour market report on Thursday. 53k jobs were added in January, taking the unemployment rate to 5.3% from 5.5%. Domestic bond yields increased across the curve, with longer-dated bonds outperforming shorter-dated bonds. The much stronger-than-expected labour market report saw market analysts increase the odds of a March rate hike from around 25% to 50%. Upgraded interest rate expectations, stronger commodity and equity markets conspired to boost the Australian dollar by 2.2% over the week.



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	Australia	United States/Other
Monday, 15th February	–	<ul style="list-style-type: none"> – Japan Industrial Production (Dec) – European Finance Ministers Meet in Brussels – US Presidents' Day Holiday (Markets Closed)
Tuesday, 16th February	<ul style="list-style-type: none"> – RBA Monetary Policy Minutes (2 Feb) – RBA Assistant Governor Debelle Speaks – NAB Business Confidence (Jan) 	<ul style="list-style-type: none"> – UK CPI (Jan)
Wednesday, 17th February	<ul style="list-style-type: none"> – DEWR Skilled Vacancies (Feb) 	<ul style="list-style-type: none"> – UK Bank of England Monetary Policy Minutes – UK Unemployment Rate (Dec) – US Fed Monetary Policy Minutes – US Housing Starts and Permits (Jan) – US Industrial Production (Jan)
Thursday, 18th February	<ul style="list-style-type: none"> – RBA Assistant Governor Lowe Speaks 	<ul style="list-style-type: none"> – Japan BoJ Monetary Policy Meeting – US Producer Price Index (Jan)
Friday, 19th February	<ul style="list-style-type: none"> – RBA Governor Stevens delivers Parliamentary Testimony 	<ul style="list-style-type: none"> – UK Retail Sales (Jan) – US CPI (Jan)

Preview - Key Releases and Events

Australia

The week ahead is dominated by Reserve Bank communications. The market will look to the **monetary policy minutes** for the 2nd February meeting for further clarity on the surprise decision to pause on rates after three consecutive rate hikes in Q4 2009. While it is widely expected that the minutes will discuss the need to normalise monetary policy over the course of the year to ensure inflation remains consistent with the 2%-3% target, the RBA will likely defend its cautious approach in February because of limited information on impact of previous rate hikes.

RBA official communications, including from Financial Markets Assistant **Governor Debelle** and Economic Policy Assistant **Governor Lowe**, as well as the semi-annual Parliamentary Testimony by **Governor Stevens**, will be looked at by the market for information about the future path of monetary policy. Of particular interest will be any comments regarding China and the global economy, and the risks to the inflation outlook from the continued strength in the domestic labour market, and limited spare capacity in the economy.

Preview - Key Releases and Events

United States/Other

US CPI data will be the main data release in the US this week. Annual core inflation was 1.8% in December from 1.7% in November, and is expected by economists remain at 1.8% in January. The US Federal Reserve said in its January FOMC Statement that it anticipates subdued inflation trends to continue to warrant "exceptionally low interest rates for an extended period". The market will look for further information about the US Fed's expected policy path, with respect to both interest rates and asset purchases, when the January **Monetary Policy minutes** are released on Wednesday.

There is a busy data calendar in the UK this week. Inflation data are released on Tuesday, and after the UK saw annual **inflation** of 2.9% in December, economists are predicting further price rises to 3.7%. **Retail sales** are released on Friday, and are expected to show annual sales growth easing to 1.0% in January from 2.1% in December. **Employment** data for December is also expected to show disappointing news for the UK, with economists forecasting the unemployment rate to tick up to 7.9% in December after stabilising around 7.8% since June, despite the economy growing in Q4 2009 for the first quarter since Q1 2008.