



Weekly Market & Economics Report

15th June, 2010

New South Wales
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Weekly Market Movements

		Close 14/06/10	Change since 4/06			Close 14/06/10	Change since 4/06
Bank Bills	90 day	4.95	0.12	US Bonds	2 yr	0.74	0.01
Aust Bonds	3 year	4.76	-0.01		10 yr	3.26	0.06
	10 year	5.40	-0.02	Currency	AUD/USD	0.8588	0.0354
Aust CPI-linked	4.0% Aug 20	2.71	-0.02		USD/Yen	91.44	-0.46
TCorp Bonds	7.0% Dec 10*	4.71	0.08		Euro/USD	1.2112	0.0145
	6.0% May 12*	4.90	0.03	Equity	ASX 200	4,506	56
	5.5% Aug 13*	5.24	0.03	Indexes	S&P500	1,090	25
	5.5% Aug 14**	5.28	0.01		Euro Stoxx 50	2,683	130
	6.0% Apr 16*	5.62	0.00		Nikkei	9,880	-21
	5.5% Mar 17**	5.56	-0.02		Shanghai Comp	2,570	16
	6.0% Apr 19**	5.72	-0.01	Commodity	Oil (US\$ barrel)	74	3
	6.0% May 20*	5.93	-0.02		CRB Index	260.0	11.0
	6.0% Jun 20**	5.74	-0.01		LME Metals	2,965.2	121.9
	6.0% May 23**	5.90	0.00		Gold (US\$ oz)	1,222.5	2.5
TCorp CPI-linked	3.75% Nov 20*	3.40	-0.01				
	2.75% Nov 25*	3.55	-0.02				
	2.5% Nov 35*	3.53	-0.03				

* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

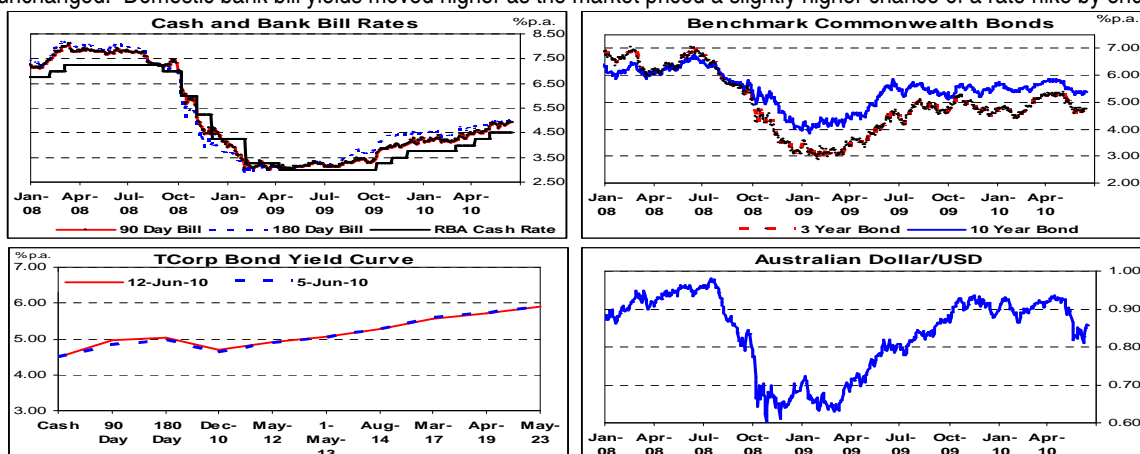
Market Commentary

Global risk appetite recovered last week from the lingering concerns about the European sovereign debt crisis and the worse-than-expected May US labour market report. Solid economic data out of China lifted investors' global growth expectations and boosted risk appetite. In the US, Fed Chairman Bernanke said that the US economy should expand through 2010 and 2011 and the Fed's Beige Book showed a modest recovery in most of the US. But risk appetite was capped by weaker-than-expected US retail sales on Friday and Moody's downgrade of Greece's sovereign credit rating to 'junk' status yesterday.

The recovery in demand for risk assets saw most global equity markets move higher over the past week. In the US, equities were boosted by positive comments about the US economy from US Fed Chairman Bernanke and further indications that a self-sustaining recovery is underway. The increase in Australia's domestic ASX200 was helped by Australia's strong labour market report. A bigger-than-expected 27k jobs were added in May, driven by a 36k jump in full-time jobs. The unemployment rate fell to 5.2% in May from 5.4% over the previous two months.

In currency markets, the US dollar fell against most major currencies as safe-haven flows reversed. The Australian dollar was also helped by firmer commodity prices. The local currency appreciated 4.3% against the US dollar -- its largest weekly increase since October 2009.

Treasury bond yields started lower last week as European sovereign debt concerns weighed on risk appetite. As investors' demand for risk assets firmed over the week Treasury bond yields were pushed higher across the yield curve. Australian Government bond yields also started lower last week, and then followed their US counterparts higher to end the week broadly unchanged. Domestic bank bill yields moved higher as the market priced a slightly higher chance of a rate hike by end-2010.



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	Australia	United States/Other
Monday, 14th June	– Queen’s Birthday Holiday (Markets Closed)	–
Tuesday, 15th June	– RBA Monetary Policy Meeting Minutes – RBA Deputy Governor Battellino Speaks in Sydney	– Japan BoJ Monetary Policy Meeting – German ZEW Sentiment Survey (June) – US Import Price Index (May)
Wednesday, 16th June	– Dwelling Starts (Q1)	– US PPI (May) – US Housing Starts/Building Permits (May) – US Industrial Production (May) – Fedspeak: Bernanke
Thursday, 17th June	–	– US CPI (May)
Friday, 18th June	–	– Japan BoJ Monetary Policy Meeting Minutes (May)

Preview - Key Releases and Events

Australia

The data calendar is light this week in Australia.

The **RBA** left its official cash rate unchanged at 4.50% at its 1 June meeting. At the meeting, the RBA discussed the sovereign debt issues in Europe and the continued domestic economic improvement. The RBA said in its accompanying statement that the current setting of monetary policy is “appropriate for the near term”, but the Board was confident that Australia’s terms of trade would continue to improve and boost domestic demand and income. Markets will look to the minutes for further clarity about the likely path of future rate hikes. Economists generally expect further rate hikes over 2010, but the market is priced for no further hikes until mid-2011.

RBA Deputy Governor **Battellino** speaks today in Sydney. The market will look for commentary about Australia’s mining boom and the boost to the domestic terms of trade. The market will also be very interested in any comments about possible inflationary pressures building up in the economy and the need for rate hikes over the remainder of 2010.

Q1 **dwelling starts** are released on Wednesday. Dwelling starts surged 20% in H2 of 2009. Economists are forecasting a 7% increase in Q1 2010, helped by low interest rates in the quarter, and strong building approvals through the end of 2009. The Federal Government’s fiscal stimulus should also support dwelling starts.

Preview - Key Releases and Events

United States/Other

International markets will focus on US price and production data this week.

US inflation data are released this week. PPI data are released on Wednesday and CPI on Thursday. Inflationary pressures have been subdued during 2010. There is a large amount of spare capacity in the economy and the labour market is only recovering gradually. The US Fed revised down its estimates for 2010 inflation at its last monetary policy meeting. Core inflation was flat in April, and markets expect only a 0.1% increase in May, leaving annual core inflation steady at 0.9%. But economists have pointed to stabilising consumer activity and an increase in average hourly earnings as potential upside risks to the US inflation outlook for 2010, although overall inflation is expected to remain subdued.

US industrial production has increased in nine of the last ten months. Factories have reduced their inventories to the point where any improvement in economic activity should directly boost production. The market predicts a solid 0.9% increase in May after a 0.8% rise in April.

Housing starts and **building permits** are released on Wednesday. The housing sector has been strong in recent months. Activity was boosted by the home buyer tax credit that expired on April 30. The end of the generous tax credit could weigh on starts and permits in May. The market expects a 3.7% decline in housing starts but a 2.5% increase in permits in May.