



Weekly Market & Economics Report

21st June, 2010

New South Wales
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Weekly Market Movements

		Close 18/06/10	Weekly Change			Close 18/06/10	Weekly Change
Bank Bills	90 day	4.92	-0.03	US Bonds	2 yr	0.71	-0.02
Aust Bonds	3 year	4.75	-0.01		10 yr	3.22	-0.01
	10 year	5.36	-0.04	Currency	AUD/USD	0.8720	0.0217
Aust CPI-linked	4.0% Aug 20	2.69	-0.02		USD/Yen	90.71	-0.94
TCorp Bonds	7.0% Dec 10*	4.66	-0.05		Euro/USD	1.2388	0.0276
	6.0% May 12*	4.90	0.00	Equity	ASX 200	4,552	46
	5.5% Aug 13*	5.22	-0.01	Indexes	S&P500	1,118	26
	5.5% Aug 14**	5.26	-0.01		Euro Stoxx 50	2,737	99
	6.0% Apr 16*	5.62	0.00		Nikkei	9,995	290
	5.5% Mar 17**	5.52	-0.04		Shanghai Comp	2,513	-57
	6.0% Apr 19**	5.67	-0.05	Commodity	Oil (US\$ barrel)	77	3
	6.0% May 20*	5.88	-0.05		CRB Index	262.9	7.0
	6.0% Jun 20**	5.69	-0.05		LME Metals	2,964.0	-1.2
	6.0% May 23**	5.86	-0.04		Gold (US\$ oz)	1,256.8	30.1
TCorp CPI-linked	3.75% Nov 20*	3.38	-0.02				
	2.75% Nov 25*	3.53	-0.03				
	2.5% Nov 35*	3.51	-0.03				

* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

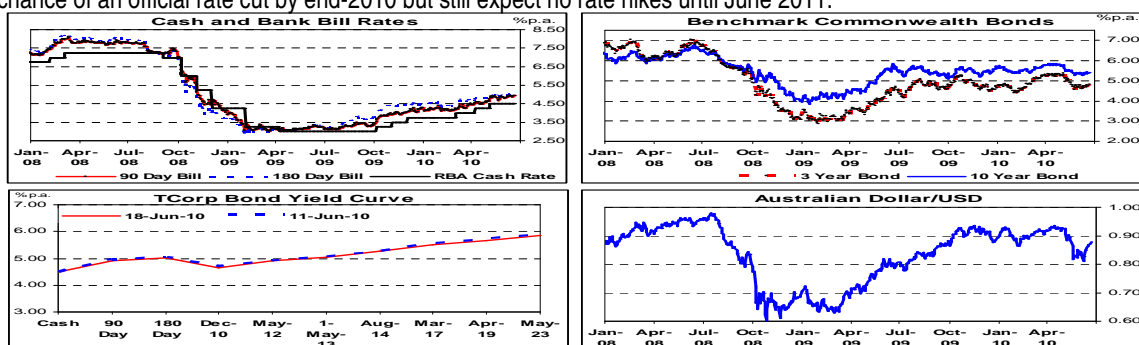
Market Commentary

Risk appetite improved again last week. Sovereign debt spreads narrowed a little in Europe but remain wide by historical standards. Encouragingly, peripheral European countries are still able to access funding despite fiscal woes. Spain held a successful bond auction on Thursday that was well received by markets. In the US, solid industrial production data indicate that a self-sustaining recovery is underway, while inflationary pressures remain subdued. The US Fed is likely to keep its policy rate unchanged at the FOMC meeting this week. Over the weekend, China announced that it will proceed with exchange rate reform. The announcement indicates that the Renminbi's 2-year old peg to the US dollar will soon end. A Renminbi appreciation should help to dampen China's rising inflation rate and promote sustainability of China's economic growth over the mid-term.

The improvement in risk appetite boosted global demand for equities last week. The domestic ASX200 finished 1.0% higher after a 1.3% rise the previous week. In the US, the S&P500 gained 2.4% and has pared some of the large declines from May to be 0.2% higher over the year.

In currency markets, the US dollar fell against most major currencies last week. The Australian dollar appreciated 2.6% to US\$0.8720. The local currency has also been boosted by a general increase in commodity prices and by the market slightly revising up its expectations for the official cash rate. China's exchange rate reform announcement over the weekend also boosted the domestic dollar this morning.

Subdued inflationary pressures helped to push Treasury yields lower last week. But investors' position squaring ahead of a large US\$108bn supply of Treasury bonds this week limited the decline in Treasury yields. Australian Government bond yields followed their US counterparts lower. The RBA's June meeting minutes signalled a tightening bias for the official cash rate and highlighted the Q2 inflation numbers as a key factor for future rate hikes. Markets have now removed the pricing for a small chance of an official rate cut by end-2010 but still expect no rate hikes until June 2011.



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	Australia	United States/Other
Monday, 21st June	– New Motor Vehicle Sales (May)	–
Tuesday, 22nd June	–	– UK Emergency Budget 2010 – Ger IFO Business Survey (June) – US Existing Home Sales (May)
Wednesday, 23rd June	–	– Ger Manufacturing/Services PMI (June Advance) – US New Home Sales (May) – US FOMC Monetary Policy Meeting
Thursday, 24th June	–	– US Durable Goods Orders (May)
Friday, 25th June	–	– Japan CPI (May) – US GDP/Personal Consumption (Q1 Final) – US Uni of Michigan Consumer Confidence (June, Final) – G20 Meeting in Canada (26-27 June)

Preview - Key Releases and Events

Australia

The domestic data calendar is very light this week, so financial markets are likely to focus on international developments.

New motor vehicle sales are released today. Sales declined in Q1 2010 after the Federal Government's tax credit expired in December. Sales increased 8.4% in April, and were 28.7% higher in the year to April. April sales were boosted by a 27% increase in Western Australia. Economists expect there could be some pull back in sales in May after the April surge.

Preview - Key Releases and Events

United States/Other

In the US, the market will focus on the US\$108bn of Treasury bond supply. Risk averse investors have been seeking the safety of Treasury bonds recently, but risk sentiment improved in the last week. Economists still generally expect demand for Treasury bonds to be solid this week.

The **FOMC** meets to decide monetary policy at its June meeting this week. Recent official commentary from the US Fed has highlighted the gradual economic recovery underway in the US. The FOMC is likely to remain cautiously optimistic about the economic outlook although inflationary pressures remain subdued and the European sovereign debt crisis intensified since the last FOMC meeting in April. The FOMC is widely expected by

economists to leave its interest rates unchanged and to repeat that rates will be kept "exceptionally low" for an "extended period".

New and existing home sales surged in recent months as buyers rushed to beat the April 30 deadline for generous tax credits. Now the tax credit has expired, and economists expect new home sales to be 18.7% lower in May. Existing home sales are expected to increase 6.5% in May. Existing sales are measured at the closing stage of the contract, meaning the May numbers will still include the boost from the tax credit.

In the UK, the new government presents its emergency **Budget** on Tuesday. The government has pledged to increase the pace of fiscal tightening. This tightening is likely to include both tax hikes and spending cuts, with an emphasis on the latter. The Debt Management Office could also revise down its planned debt issuance for 2010-11. A Reuters survey of economists expects Gilt issuance to be GBP165bn compared to the previous planned issuance of GBP185bn.

The **G20** meets in Canada next weekend. Participants at the meeting are likely to discuss governments' fiscal deficits and government debt. The European sovereign debt crisis will be a key focus. The host Canada has proposed a target for G20 governments to half government deficits by 2013 and to reduce debt-to-GDP ratios by 2016. China has alleviated the international pressure it faced to revalue its currency by announcing ahead of the G20 meeting that it intends to begin exchange rate reform.