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Weekly Market & Economics Report

22nd February, 2010

Weekly Market Movements

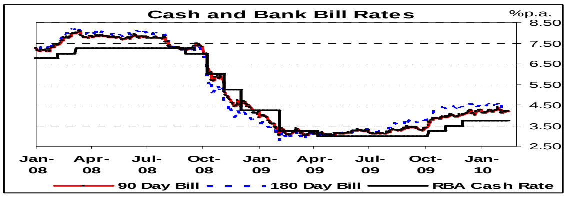
		Close 19/02/10	Weekly Change			Close 19/02/10	Weekly Change
Bank Bills	90 day	4.12	-0.09	US Bonds	2 yr	0.92	0.09
Aust Bonds	3 year	4.66	0.03		10 yr	3.78	0.08
	10 year	5.57	0.06	Currency	AUD/USD	0.8988	0.0110
Aust CPI-linked	4.0% Aug 20	2.77	0.03		USD/Yen	91.52	1.56
TCorp Bonds	7.0% Dec 10	4.36	-0.01		Euro/USD	1.3613	-0.0019
	6.0% May 12	4.97	0.03	Equity	ASX 200	4,635	73
	5.25% May 13	5.14	0.02	Indexes	S&P500	1,109	34
	5.5% Aug 14	5.42	0.03		Euro Stoxx 50	2,793	119
	5.5% Mar 17	5.78	0.03		Nikkei	10,124	31
	6.0% Apr 19	5.93	0.03		Shanghai Comp	3,018	0
	6.0% Jun 20	6.01	0.03	Commodity	Oil (US$ barrel)	80	6
	6.0% May 23	6.16	0.03		CRB Index	277.8	9.9
TCorp CPI-linked	3.75% Nov 20	3.50	0.03		LME Metals	3,398.5	252.4
	2.75% Nov 25	3.57	0.02		Gold (US$ oz)	1,119.2	25.8
	2.5% Nov 35	3.43	0.02				

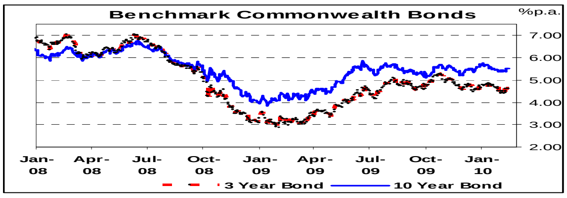
Market Commentary

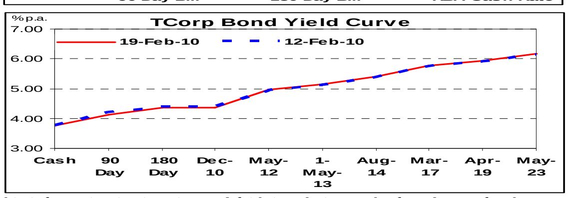
In Australia, the Reserve Bank was the main focus last week. The February monetary policy minutes were released on Tuesday. The minutes indicated further official cash rate hikes would probably be necessary, if domestic and international economic conditions evolve broadly as the RBA expects. Assistant Governors Debelle and Lowe also spoke during the week, and were interpreted hawkishly by the market. On Friday, Governor Stevens delivered the semi-annual Parliamentary Testimony. Stevens echoed the February minutes saying further official cash rate hikes will probably be needed, although markets were left uncertain about the timing of rate hikes. Stevens expects inflation to moderate, but indicated that Australia's comparative lack of spare capacity entering the recovery is an inflation risk. He was also bullish on Asia, but was more cautious on developed economies and Greece in particular. Australian bond yields ended the week generally higher, after the markets viewed the testimony as hawkish.

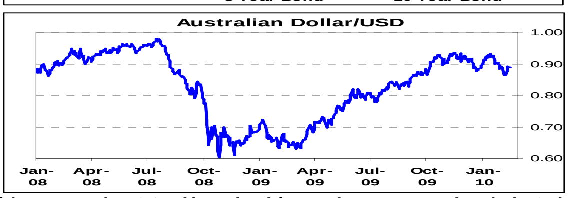
In the US, policymakers were also firmly in market focus. On Thursday evening, the Fed announced a 0.25% increase in the discount rate (the penalty rate that banks borrow from the Fed as opposed to the open market). The hike was explained as a normalisation of the Fed's lending facilities, and not as a signal of a change in the outlook for the Fed's monetary policy. It is not expected by the Fed to lead to tighter financial conditions. The timing of the move surprised the markets. US Treasury yields moved higher and the US dollar strengthened across the board against other currencies. Dovish comments from the Fed's Bullard, Lockhart and Dudley, suggesting that rates would remain low for several more months, subsequently soothed markets and weighed on yields. On Friday, January core inflation was reported to have fallen for the first time since 1982. This was seen by the markets as a signal that rates would remain on hold for some time, increasing buying pressures on Treasury bonds. But the 10-year Treasury bond yield still finished the week 8bps higher and the 2-year Treasury bond yield was 9bps higher.

Risk assets extended their gains last week. The ASX200 was 1.6% higher, boosted by solid company reporting during the week. Some profit taking eased the gains on the domestic bourse late in the week. In the US, the S&P500 rose 3.1%, after the market shrugged off the Fed's surprise discount rate hike, instead focusing on solid earnings results.









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	Australia	United States/Other
Monday, 22nd February	– New Motor Vehicle Sales (Jan)	–
Tuesday, 23rd February	– **RBA Assistant Governor Battellino Speaks**	– Japan BoJ Monetary Policy Minutes (Jan) – US Case/Shiller House Prices (Dec) – US Consumer Confidence (Feb) – **Fedspeak: Bullard**
Wednesday, 24th February	– Wage Cost Index (Q4)	– US New Home sales (Jan) – **Fed Chairman Bernanke gives Monetary Policy Report before House Panel**
Thursday, 25th February	– **Private Capital Expenditure (Q4)** – Construction Work Done (Q4)	– US Durable Goods Orders (Jan) – **Fedspeak: Bullard, Pianalto**
Friday, 26th February	– Private Sector Credit (Jan)	– **Japan Industrial Production (Jan)** – UK GDP (Q4) – **US GDP (Q4)** – US Existing Home Sales (Jan) – US Chicago PMI (Feb) – US Michigan Consumer Sentiment (Feb) – **Fedspeak: Dudley, Tarullo, Kocherlakota, Evans**

Preview - Key Releases and Events

Australia

RBA commentary this week will come from Assistant Governor **Battellino**. The markets will look for any new information following the extensive RBA commentary last week, and will hope for further hints about the likelihood of an increase in the official cash rate at the 2nd March Monetary Policy meeting.

Q4 activity data are also released ahead of the 3rd March GDP data. On Thursday, **capital expenditure** and **construction work done** will be important barometers of business activity and confidence at the end of 2009 and for the 2010 outlook. Markets will look for signs of improvement in capital expenditure following a disappointing 3.9% fall in Q3. A resurgent housing sector, huge public sector investment and continued resource sector strength could support activity, offsetting weakness in non-residential construction.

The Q4 **wage cost index** is released on Wednesday. Wage costs increased 0.7% in Q3. Economists are forecasting a 0.8% increase after the minimum wage freeze in Q4 is expected to have weighed on wage pressures in the quarter.

Preview - Key Releases and Events

United States/Other

The US focus this week will be on communications from members of the Fed's FOMC. On Wednesday, **Fed Chairman Bernanke** reports on monetary policy to the House Panel. Bernanke's report is expected to restate the Fed's intention to keep interest rates exceptionally low for an extended period. The market will also look for further clarity on how the Fed will unwind emergency monetary measures without impeding a recovery, following the 0.25% increase in the discount rate announced last week. Investors will also get a chance to hear from other voting members of the FOMC during the week. This will be of interest after the February FOMC minutes noted that members had a range of views about when to start draining excess liquidity from the system.

On the data front, the second estimate of **US Q4 GDP** is released on Friday. The market will look for confirmation that GDP increased 5.7% (annualised) in 2009. The market is expecting the recovery in the US housing sector to have continued. US **new and existing home sales** are forecast by the market to have increased in January, and the modest recovery in house prices is forecast to have continued in Q4 2009.