Weekly Market & Economics Report

25th January, 2010

New South Wales
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Weekly Market Movements

		Close 22/01/10	Weekly Change			Close 22/01/10	Weekly Change
Bank Bills	90 day	4.22	-0.04	US Bonds	2 yr	0.79	-0.07
Aust Bonds	3 year	4.67	-0.14		10 yr	3.61	-0.07
	10 year	5.43	-0.15	Currency	AUD/USD	0.9006	-0.0222
Aust CPI-linked	4.0% Aug 20	2.66	-0.09		USD/Yen	89.82	-0.95
TCorp Bonds	7.0% Dec 10	4.53	-0.11		Euro/USD	1.4139	-0.0248
	6.0% May 12	5.02	-0.13	Equity	ASX 200	4,751	-149
	5.25% May 13	5.25	-0.15	Indexes	S&P500	1,092	-44
	5.5% Aug 14	5.47	-0.16		Euro Stoxx 50	2,837	-103
	5.5% Mar 17	5.81	-0.17		Nikkei	10,591	-392
	6.0% Apr 19	5.92	-0.17		Shanghai Comp	3,129	-96
	6.0% Jun 20	5.98	-0.17	Commodity	Oil (US$ barrel)	74	-4
	6.0% May 23	6.11	-0.17		CRB Index	275.6	-5.9
TCorp CPI-linked	3.75% Nov 20	3.36	-0.09		LME Metals	3,378.0	-69.5
	2.75% Nov 25	3.48	-0.09		Gold (US$ oz)	1,093.2	-37.7
	2.5% Nov 35	3.32	-0.09			0.79	-0.07

Market Commentary

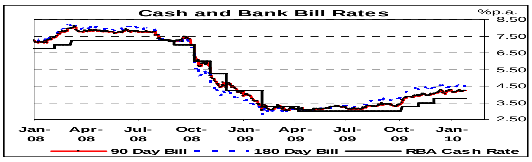
Risk aversion and concerns over the prospects for a continued Chinese-led global growth recovery triggered a sell off in risk assets in the week ending 22nd January. Equities and commodity prices tracked lower, and demand for US dollars and bonds firmed. China's GDP grew 10.7% in the year to December, up from 9.1% in the year to September, and China's annual inflation rate surged to 1.9%. The strong data puts pressure on The Peoples Bank of China to increase the pace of monetary tightening that began in January with an increase on its 3-month bank bill yield followed by a rise in banks' reserve requirements. On Wednesday, reports that the PBOC had directed banks not to lend any more until end-January raised investors' concerns that faster Chinese monetary tightening will dampen global growth.

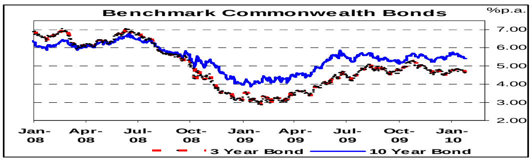
The increase in risk aversion strengthened the US dollar. The Australian dollar fell 2.4% over the week against the US dollar, closing at US$0.9006. The Euro and Sterling also fell against the US dollar, down 1.7% and 0.9% respectively.

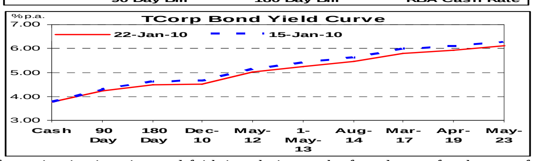
In the US, Treasury yields fell after President Obama announced plans to curb banks' risk-taking. Soft economic data also weighed on yields, as market expectations of rate hikes were pushed further out into 2010. Greece's sovereign debt problems caused Greece's 10-year yields to rise 27bps over the week, triggering some investors to move into safer long-term US debt.

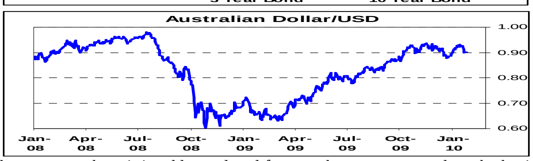
In the domestic bond market, strong demand for Commonwealth Government and Semi debt helped push yields lower. Both the AOFM and TCorp issued inflation-linked debt that was well received by investors. Queensland Treasury Corporation raised $4bn through the sale of unguaranteed 2014 debt on Friday -- its first unguaranteed issuance since it took up the Federal Government guarantee mid-last year.

Global equity markets reacted negatively to President Obama's bank plans. The ASX200 ended 3.0% lower over the week despite more evidence the domestic economy is continuing along a solid recovery path. Australian consumer sentiment increased by 5.6% in January despite the RBA tightening monetary policy at its past three monetary policy meetings. The robust consumer sentiment reinforced the strong employment and retail sales data of recent weeks. In the US, disappointing earnings results from Morgan Stanley raised the possibility of further losses from bad loans, weighing heavily on financial stocks. The S&P500 ended the week down 3.9% in its worst weekly performance since October.









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	Australia	United States/Other
Monday, 25th January	– Producer Price Index (Dec)	– **Japan Monetary Policy Meeting (Jan)** – US Existing Home Sales (Dec)
Tuesday, 26th January	– **Australia Day Holiday—markets closed**	– **UK GDP (Advance, Q4)** – US Case/Shiller House Prices (Nov) – US Consumer Confidence (Jan)
Wednesday, 27th January	– Westpac Leading Index (Nov) – **CPI (Q4)**	– **US Fed Monetary Policy Meeting (Jan)** – US President Obama's State of the Union Address – US New Home Sales (Dec)
Thursday, 28th January		– US Durable Goods Orders (Dec) – NZ Monetary Policy Meeting (Jan)
Friday, 29th January		– Japan Industrial Production (Dec) – **US GDP (Q4)** – US Chicago PMI (Jan) – US Michigan Consumer Sentiment (Jan) – Fedspeak: Kohn

Preview - Key Releases and Events

Australia

The data calendar is light this week.

The key **Q4 CPI** data are released on Wednesday, after the Australian market takes a break for the Australia Day holiday on Tuesday. Economists predict headline inflation of 0.4% for the quarter, giving an annual inflation rate of 2.0% compared with 1.3% in Q3. The all-important underlying inflation measure is forecast to have increased by 0.6% in Q4, slightly lower than the 0.8% outcome in Q3. The RBA's measure of annual underlying inflation is predicted to slow from 3.5% in Q3 to 3.2% in Q4. Nevertheless, core inflation remains uncomfortably high, and still well above the RBA's 2%-3% target band. A core CPI result in line with economists' expectations will likely be sufficient to cement market pricing for another 0.25% hike in the official cash rate hike at the RBA's 2nd February meeting.

Preview - Key Releases and Events

United States/Other

US Q4 GDP data will be a focus this week as the market gauges the extent of the recovery underway in the US. After a 2.2% (annualised) increase in GDP in Q3, economists are predicting a 4.5% (annualised) increase for Q4. A strong outcome on Friday could boost confidence in a global recovery and revive risk appetite.

On Wednesday the **US Federal Reserve's** monetary policy meeting is expected to leave official interest rates unchanged at 0% - 0.25% and to make no changes to its asset purchase program. Market participants will be keen to see whether the US Fed signals any change to its outlook for keeping the Fed Funds rate "exceptionally low" for an "extended period".

The US Case/Shiller house price index, released on Tuesday, is expected to show further modest recovery in the US housing sector. Prices have edged up over the past five months, but remain down on an annual basis. Rising prices would boost household wealth and support a US recovery.

The **UK Q4 GDP** advance estimate is released on Tuesday. After six consecutive quarterly falls, economists are forecasting a return to weak growth in Q4 as employment and housing data have shown some stabilisation. The advance GDP figure has typically understated the final outcome, which is not released until 30th March.