



Weekly Market & Economics Report

27th April, 2010

New South Wales
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Weekly Market Movements

		Close 26/04/10	Change since 16/04			Close 26/04/10	Change since 16/04
Bank Bills	90 day	4.53	0.05	US Bonds	2 yr	1.05	0.10
Aust Bonds	3 year	5.34	0.05		10 yr	3.81	0.04
	10 year	5.84	0.02	Currency	AUD/USD	0.9271	0.0028
Aust CPI-linked	4.0% Aug 20	2.85	-0.02		USD/Yen	94.01	1.84
TCorp Bonds	7.0% Dec 10*	4.69	0.02		Euro/USD	1.3384	-0.0119
	6.0% May 12*	5.28	0.02	Equity	ASX 200	4,882	-103
	5.5% Aug 13*	5.69	0.01	Indexes	S&P500	1,212	20
	5.5% Aug 14**	5.68	0.00		Euro Stoxx 50	2,947	-3
	6.0% Apr 16*	6.03	0.01		Nikkei	11,166	64
	5.5% Mar 17**	5.95	-0.02		Shanghai Comp	2,970	-161
	6.0% Apr 19**	6.08	-0.01	Commodity	Oil (US\$ barrel)	84	1
	6.0% May 20*	6.31	-0.02		CRB Index	278.4	2.1
	6.0% Jun 20**	6.13	-0.03		LME Metals	3,654.3	-34.0
	6.0% May 23**	6.24	-0.02		Gold (US\$ oz)	1,152.6	15.2
TCorp CPI-linked	3.75% Nov 20*	3.50	-0.02				
	2.75% Nov 25*	3.59	-0.01				
	2.5% Nov 35*	3.53	-0.01				

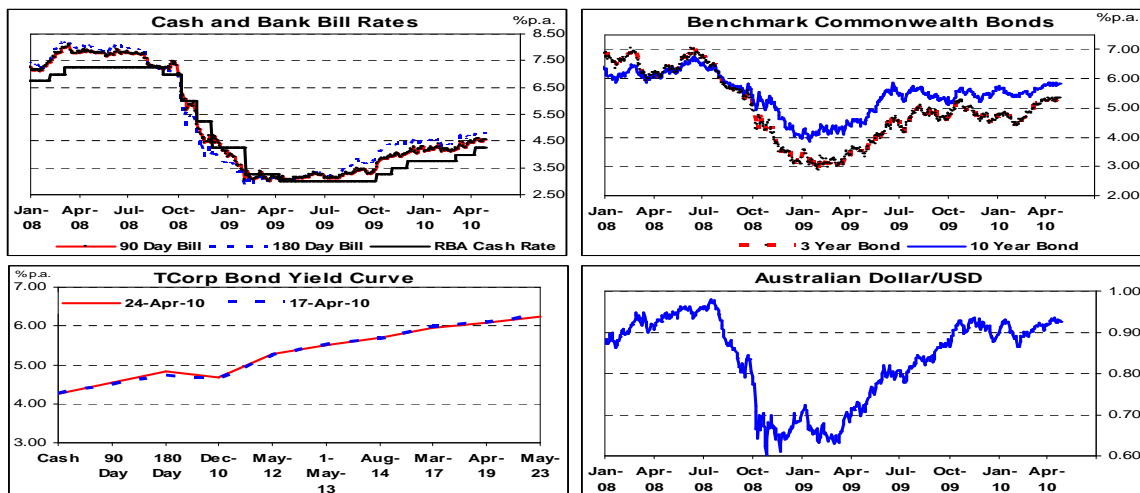
* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

Market Commentary

US Treasury yields moved higher across the yield curve last week. Investors pushed yields higher after the Greek government formally activated its Eurozone-IMF aid package. Greece's government deficit was revised up and its sovereign credit rating was downgraded by Moody's. Greece's decision to activate the aid package helped reduce the flight to quality premium enjoyed by US Treasuries and pushed Treasury yields higher. Yields also increased after investors cut expectations that the fraud charges brought against Goldman Sachs would widely affect other financial companies. Better-than-expected US economic data released last week also supported Treasury yields.

Australian government bond yields moved higher with US Treasury yields. The RBA's April monetary policy meeting minutes were interpreted hawkishly by the market on Tuesday. Investors' expectations for a May official cash rate hike increased early in the week. But Governor Stevens' speech about economic conditions on Friday capped the increases in yields and rate hike expectations. Governor Stevens said that rates were getting close to average and that the RBA expects inflation to be in line with its 2%-3% target over 2010. This week's CPI number was mentioned by Governor Stevens as an important insight in to how inflation is tracking relative to the RBA forecasts. An underlying inflation outcome above the RBA's target range could increase the pressure on the RBA to increase rates at its 4 May meeting.

Global equity movements were mixed last week. In the US, share markets ground higher. Good earnings results from reporting companies boosted demand for equities. In Australia, the ASX200 finished the week 2.1% lower. Australian equities were weighed by generally weaker resources and financial stocks.



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	Australia	United States/Other
Monday, 26th April	– Anzac Day (Markets Closed)	–
Tuesday, 27th April	– PPI (Q1)	– US Case-Shiller House Prices (Feb) – FedSpeak: Chairman Bernanke on Fiscal Responsibility
Wednesday, 28th April	– CPI (Q1)	– US FOMC Monetary Policy Announcement
Thursday, 29th April	–	–
Friday, 30th April	– New Home Sales (Mar) – Private Sector Credit (Mar)	– Japan BoJ Monetary Policy Announcement – Japan CPI (Mar) – Europe CPI (April) – US GDP (Q1 Advance) – US Personal Consumption/Core PCE (Q1 Advance) – US Michigan Uni Consumer Confidence (Apr)

Preview - Key Releases and Events

Australia

Australia's Q1 **CPI** data are released on Wednesday. Economists predict headline inflation of 0.8% for the quarter, giving an annual inflation rate of 2.8% compared with 2.1% in Q4 2009. The all-important underlying inflation measure is forecast to have increased by 0.65% in Q1, unchanged from Q4 2009. The annual underlying inflation measure is forecast to have eased to 2.95%, the first time inside the RBA's 2%-3% target range since Q2 2007. The Q1 inflation outcome will be crucial for investors ahead of the 4 May RBA monetary policy meeting. A higher-than-expected outcome could leave the underlying inflation above the RBA's 2%-3% inflation target. The strength of the economy in general and rising petrol, utility home ownership costs and housing stock shortages could put upward pressure on Q1 inflation. An inflation rate above target would increase the pressure on the RBA to hike rates at its May meeting to contain inflationary pressures.

Private sector credit growth is released on Friday. Economists are forecasting a 0.4% increase in private sector credit in March, after a similar rise in February, despite the five official cash rate hikes at the last six RBA monetary policy meetings. The RBA said in its April monetary policy meeting minutes that credit to the household sector was growing at a moderate pace, and that the decline in business credit has slowed considerably as financial conditions for businesses have eased.

Preview - Key Releases and Events

United States/Other

The economic calendar is busy this week in the US. The US FOMC meets on Wednesday to decide on **monetary policy**. Markets do not expect the Fed to increase the Fed Funds rate from its target range of 0%-0.25% this week. US Fed Chairman Bernanke has remained dovish on interest rates in his recent official commentary. Inflationary pressures have been subdued. The key focus for investors will be the Fed's outlook for "exceptionally low" interest rates for "an extended period". Some members of the FOMC have expressed dissatisfaction with the outlook. Investors will look for any further signs of hawkishness from members that could signal possible future tightening of monetary policy.

The first reading of the US Q1 **GDP** is released on Friday. The US Fed is confident of a moderate recovery in the US economy. The household and manufacturing sectors have recently stabilised. **Personal consumption** is forecast by economists to have increased 3.1% in Q1 after a 1.6% increase in Q4 2009, and should boost GDP. Housing activity has also stabilised. New and existing home sales surged in March. But economists are predicting that the unseasonal February snow storms weighed on house prices. **Case-Shiller house prices** are forecast to have pulled back 0.1% in February, compared to a 0.3% increase in January. GDP increased 5.6% (annualised) in Q4 and economists predict that GDP will post solid 3.5% growth in Q1.