



Weekly Market & Economics Report

28th June, 2010

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Weekly Market Movements

		Close 25/06/10	Weekly Change			Close 25/06/10	Weekly Change
Bank Bills	90 day	4.96	0.04	US Bonds	2 yr	0.65	-0.06
Aust Bonds	3 year	4.61	-0.14		10 yr	3.11	-0.11
	10 year	5.25	-0.11	Currency	AUD/USD	0.8741	0.0021
Aust CPI-linked	4.0% Aug 20	2.58	-0.12		USD/Yen	89.23	-1.48
TCorp Bonds	7.0% Dec 10*	4.71	0.05		Euro/USD	1.2369	-0.0019
	6.0% May 12*	4.82	-0.08	Equity	ASX 200	4,413	-139
	5.5% Aug 13*	5.09	-0.13	Indexes	S&P500	1,077	-41
	5.5% Aug 14**	5.12	-0.15		Euro Stoxx 50	2,629	-108
	6.0% Apr 16*	5.49	-0.13		Nikkei	9,737	-258
	5.5% Mar 17**	5.42	-0.10	Commodity	Shanghai Comp	2,553	40
	6.0% Apr 19**	5.57	-0.10		Oil (US\$ barrel)	79	1
	6.0% May 20*	5.79	-0.09		CRB Index	265.6	2.7
	6.0% Jun 20**	5.60	-0.09		LME Metals	3,091.4	127.4
	6.0% May 23**	5.77	-0.09		Gold (US\$ oz)	1,255.6	-1.2
TCorp CPI-linked	3.75% Nov 20*	3.25	-0.13				
	2.75% Nov 25*	3.41	-0.12				
	2.5% Nov 35*	3.39	-0.11				

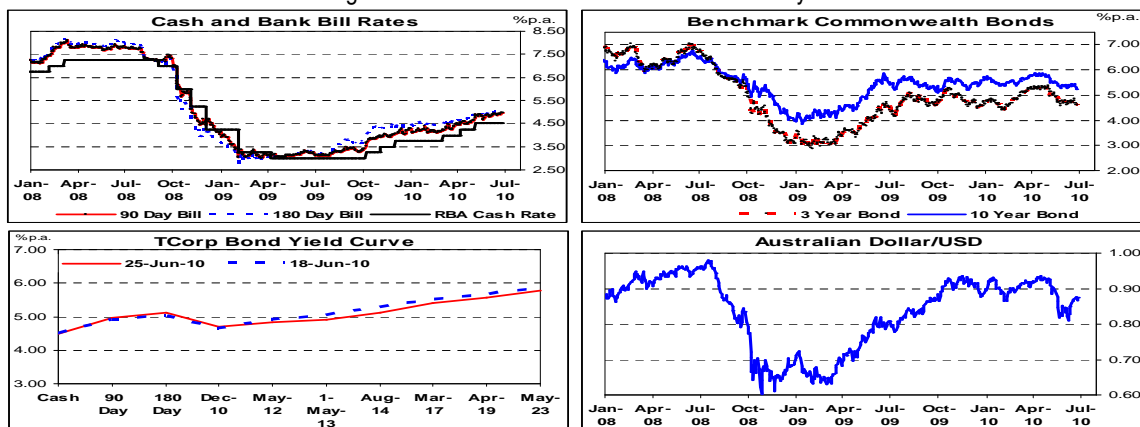
* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

Market Commentary

Investors pushed US Treasury bond yields lower last week. Investors sought the safety of US Treasury bonds as the pace of the US economic recovery slowed and European sovereign debt woes resurfaced. The market's interest rate expectations were revised down after the US FOMC monetary policy meeting statement downgraded its assessment of the US economy since the last meeting. US Q1 GDP growth was revised down to 2.7% from 3.0%. European sovereign credit spreads widened and risk aversion increased after economic data indicated a slow European economic recovery. On the weekend, the G20 agreed on targets to halve deficits by 2013 and stabilise debt-to-GDP ratios by 2016. The necessary budget cuts could slow the European recovery further. Australian Government bond yields followed their US counterparts lower. Investors have now pushed their expectations for the next official cash rate hike out to September 2011.

The Australian dollar appreciated against the US dollar last week. The local dollar was boosted by stronger commodity prices, China's exchange rate reform and by the new Labour Prime Minister Julia Gillard promising a fast resolution to the uncertainty surrounding the Resource Super Profit Tax. The gains in the Australian dollar were capped by lower interest rate expectations and elevated risk aversion. The UK Sterling also appreciated against the US dollar after the new UK Coalition Government presented an emergency austerity Budget that aims to remove the structural deficit by 2015.

Global equity markets generally fell over the week. The declines in equities were driven by higher risk aversion and fears of a double-dip recession. The Australian ASX200 posted a 3.1% fall. The ASX200 is now 9.4% lower over 2010 but is 11.6% higher over the 2009/10 financial year heading into 30 June. In the US, the S&P500 was 3.6% lower. Financial stocks recovered some of the losses at the end of the week after the US Financial Overhaul Bill was finalised to go before Congress. The Bill aims to cut banks' risk taking but the details were less draconian than analysts had feared.



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	Australia	United States/Other
Monday, 28th June	–	– US Personal Income/Spending/Core Deflator (May)
Tuesday, 29th June	–	– US CaseShiller Home Prices (Apr)
Wednesday, 30th June	– DEWR Skilled Vacancies (June) – Private Sector Credit (May) – Rismark House Prices (June)	– UK GDP (Q1, Final) – US ADP Employment Change (June) – FedSpeak: Lockhart
Thursday, 1st July	– RBA Commodity Price Index (May) – Retail Sales (May) – Building Approvals (May)	– Japan Tankan Manufacturers Index (Q2) – Ger Manufacturing PMI (June) – US Construction Spending (May) – Pending Home Sales (May) – US Vehicle Sales (June) – US Manufacturing PMI (June)
Friday, 2nd July	–	– US Nonfarm Payrolls/Unemployment Rate (June) – US Factory Orders (May)

Preview - Key Releases and Events

Australia

The domestic market will focus on retail sales and building approvals this week.

Retail sales increased 0.6% in April and 0.8% in March. Sales growth has been volatile over the last year, and the level of sales is only 1.8% higher than in April 2009. The Australian labour market has improved during 2010 and consumers' capacity to spend has increased. But consumer confidence has fallen from its peaks after the RBA started to tighten monetary policy in October and could dampen retail sales. Confidence is still above its long run average though. Economists expect sales to increase 0.3% in May.

Building approvals fell 14.8% in April after surging 16.8% in March. Approvals were still 32.5% higher than in April 2009. Economists forecast no increase to approvals in May, but generally expect housing construction activity to improve in coming months. Interest rates are not high enough to be restrictive for housing activity. Population growth has been solid and there is strong underlying demand for housing. Recent State Budget fiscal incentives should support supply in coming months.

Private sector credit growth has improved in recent months. Business credit growth is stabilising and investor housing credit has been increasing. The market expects private sector credit to increase 0.4% in May after a 0.2% rise in April.

Preview - Key Releases and Events

United States/Other

The US **labour market** data are released on Friday. The gradual improvement in the private sector labour market is expected to continue. 495k private sector jobs have been added since January and economists expect another 113k to be added in June. The improvement in the private sector labour market is expected to be offset by public sector job losses. The US Government is forecast to cut temporary Census-related jobs. Economists predict total **nonfarm payrolls** to fall by 110k in June, taking the **unemployment rate** up to 9.8% from 9.7%.

US personal income increased 0.4% in April. Income has been improving in recent months with the gradual recovery in the labour market. Economists expect income to increase 0.5% in May. **US personal spending** has not kept pace with the rising income. Spending growth was flat in April and is expected to edge up 0.1% in May. The weak consumer spending is contributing to the subdued inflationary pressures in the US.

US house sales have been boosted by the generous tax credit that expired in April. **Pending home sales** increased 6.0% in April. Market economists expect pending home sales to fall 14.4% in May after the tax credit expiry. The increases in sales did not boost home prices in February and March. The CaseShiller home price index was flat in March after stabilising in Q4 2009. Prices are expected to have fallen 0.1% in April. Prices are forecast to be only 3.5% higher than the trough in prices that was reached in April 2009.