



Weekly Market & Economics Report

31st May, 2010

New South Wales
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Weekly Market Movements

		Close 28/05/10	Weekly change		Close 28/05/10	Weekly change
Bank Bills	90 day	4.88	0.21	US Bonds	2 yr	0.77
Aust Bonds	3 year	4.78	0.05		10 yr	3.29
	10 year	5.42	0.03	Currency	AUD/USD	0.8474
Aust CPI-linked	4.0% Aug 20	2.70	0.11		USD/Yen	91.06
TCorp Bonds	7.0% Dec 10*	4.57	-0.05		Euro/USD	1.2273
	6.0% May 12*	4.85	0.06	Equity	ASX 200	4,458
	5.5% Aug 13*	5.22	0.05	Indexes	S&P500	1,089
	5.5% Aug 14**	5.28	0.08		Euro Stoxx 50	2,614
	6.0% Apr 16*	5.64	0.07		Nikkei	9,763
	5.5% Mar 17**	5.61	0.02		Shanghai Comp	2,656
	6.0% Apr 19**	5.76	0.01	Commodity	Oil (US\$ barrel)	74
	6.0% May 20*	5.98	0.02		CRB Index	254.8
	6.0% Jun 20**	5.78	0.02		LME Metals	3,178.1
	6.0% May 23**	5.92	0.03		Gold (US\$ oz)	1,214.4
TCorp CPI-linked	3.75% Nov 20*	3.39	0.11			
	2.75% Nov 25*	3.53	0.11			
	2.5% Nov 35*	3.52	0.13			

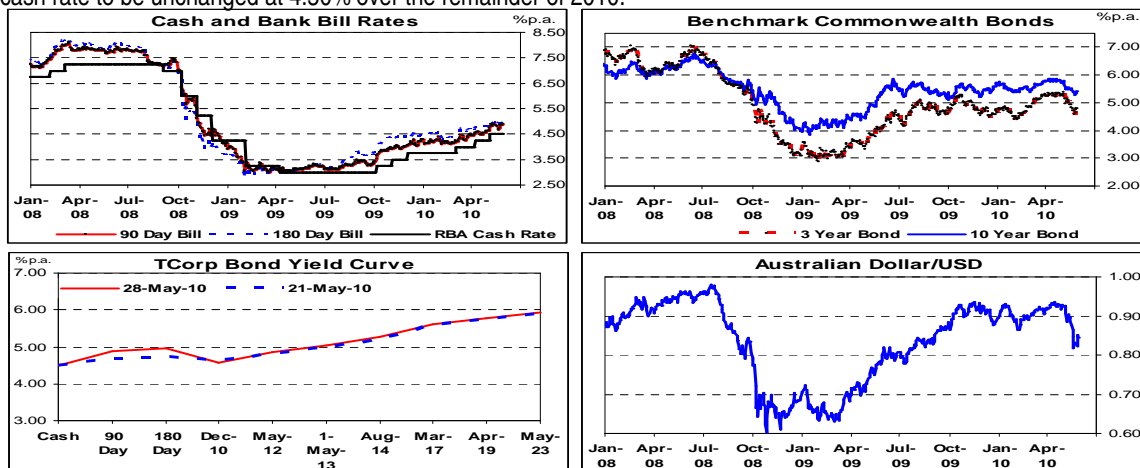
* NSW Govt Guaranteed ** Commonwealth Govt Guarantee

Market Commentary

Global financial market confidence remained volatile last week. Financial markets were primarily focused on the developments in the European sovereign debt crisis. Investors' risk appetite was boosted on Thursday by China's commitment that it remains a long-term investor in Europe, and by Spain's government passing a fiscal austerity programme. But Spain's sovereign debt rating was subsequently downgraded by the ratings agency Fitch. Fitch highlighted Spain's relatively poor medium term growth prospects, inflexible labour market, and the necessary restructuring of the banking system as reasons for the downgrade. And the escalating tensions between North Korea and South Korea also added to risk aversion on Friday.

The news from China and Spain on Thursday dominated market movements last week. In the US, the S&P500 increased 3.3% on Thursday alone. But on Friday, Spain's sovereign debt downgrade reversed most of the gains and the S&P500 closed the month 8.2% lower. Australian equities closed the week 3.5% higher, but have opened lower today. In currency markets, the surge in risk appetite on Thursday pushed the Australian dollar 3.6% higher against the US dollar. Risk aversion led safe haven flows back to the US dollar on Friday and the local currency closed the week 1.9% higher at US\$0.8474. The euro slumped after Spain's downgrade and closed the week 2.4% lower against the US dollar.

Safe haven flows to US Treasury bonds unwound on Thursday, pushing yields marginally higher by the end of the week. Australian Government bond yield movements followed their US counterparts. Inflation-linked bond yields increased by more than their nominal counterparts as breakeven inflation rates narrowed. Investors' official cash rate expectations were unchanged over the week. The market is pricing a pause at tomorrow's RBA monetary policy meeting, and expects the official cash rate to be unchanged at 4.50% over the remainder of 2010.



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	Australia	United States/Other
Monday, 31st May	<ul style="list-style-type: none"> – TD Securities Inflation Gauge (May) – Private Sector Credit (Apr) – Current Account Balance, Net Exports, Company Operating Profit, Inventories (Q1) 	<ul style="list-style-type: none"> – Japan: Industrial production (Apr) – ECB President Trichet Speaks – FedSpeak: Bernanke, Plosser – US markets closed (Memorial Day)
Tuesday, 1st June	<ul style="list-style-type: none"> – Retail Sales (Apr) – Building Approvals (Apr) – RBA Monetary Policy Meeting 	<ul style="list-style-type: none"> – US Manufacturing PMI (May) – US Construction Spending (Apr)
Wednesday, 2nd June	<ul style="list-style-type: none"> – GDP (Q1) 	<ul style="list-style-type: none"> – US Pending Home Sales (Apr) – US Vehicle Sales (May)
Thursday, 3rd June	<ul style="list-style-type: none"> – Trade Balance (Apr) 	<ul style="list-style-type: none"> – US Non-farm Productivity (Q1 Final) – US Unit Labour Costs (Q1 Final) – US Factory Orders (Apr) – US Services PMI (May) – Fespeak: Hoening, Lockhart
Friday, 4th June	–	– US Payrolls/Unemployment Rate (May)

Preview - Key Releases and Events

Australia

The Q1 GDP partials data released today showed some improvement over the Q4 figures. **Inventories** increased 0.5% in Q1 and will contribute a small amount to Q1 GDP growth. **Company operating profits** increased by 3.9%, better than economists had forecast, and were boosted by the improved economic outlook and strong equity market in Q1. But net exports as a percent of GDP were worse than expected, at -0.5%. **GDP** grew 0.9% in Q4 and is expected to rise 0.6% in Q1, taking annual GDP growth to 2.6% compared to 2.7% in Q4 2009.

Retail sales have been volatile recently. Sales increased 0.3% in March, after a 1.2% decline in February. The market is generally expecting a small increase in April retail sales. Recent rate hikes are expected to cap consumer spending despite anecdotal evidence of heavy discounting at retailers.

On Tuesday, the RBA meets to decide **monetary policy**. The RBA has hiked its official cash rate at six of its last seven meetings. The RBA said in its May monetary policy minutes that policy is currently well placed and rates to most borrowers are around average. The RBA said the domestic economic outlook in Australia has continued to improve. But the European sovereign debt crisis has rattled financial markets that are now pricing no change to the cash rate by end-2010. Economists predict the RBA to leave rates unchanged in June before continuing to tighten over 2010.

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Preview - Key Releases and Events

United States/Other

There is a heavy flow of data in the US this week after the Memorial Day holiday on Monday. The data will help form a clearer picture of the prospects for the US economic outlook over 2010.

The main focus this week will be the US **labour market** report that is released on Friday. The labour market has shown some improvement over the past four months. 573k jobs have been added in 2010. 290k jobs were added in April alone, the largest increase since March 2006. Economists expect a massive 508k jobs to be added in May, boosted by Census related hiring. The **unemployment rate** is forecast to edge down to 9.8% from 9.9% in April.

The improvement in the US labour market has been helped by the gradual improvements in the US economic outlook. The **manufacturing PMI** reached its highest level since June 2004 in April. The market expects the index to remain elevated in May. And the **services PMI** is expected to increase to its highest level since May 2006. The US housing market has stabilised in recent months. Sales were boosted by the planned end of the generous home buyer tax credit. Economists expect **pending home sales** to have increased 5.0% in April ahead of the expiry of the credit at the end of that month. Federal Government stimulus lifted **construction spending** 0.2% in March. The market expects construction spending to have increased another 0.1% in April.