

Morning Report

Friday, 23 July 2010

EQUITIES (close & % chg)			SYDNEY FUTURES EXCHANGE (close & chg)					INTEREST RATES (close & chg)		
S&P/ASX	4374.7	0.4%	Last		Overnight Chg			Australia		
Dow Jones	10322.3	1.7%	10 yr bond	94.78	-0.08			10 year bond	5.23	0.03
Nikkei	9220.8	-0.6%	3 yr bond	95.23	-0.08			3 year bond	4.69	0.06
Hang Seng	20589.7	0.5%	3 mth bill rate	95.05	-0.03			90 day bill	4.78	-0.04
Shanghai	2562.4	3.5%	SPI 200	1088	0.1			US		
DAX	6142.2	2.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.93	-0.03
FTSE100	5313.8	3.2%	TWM	68.7	-		68.4	2 year bond	0.56	-0.02
COMMODITIES (close & % chg)			AUD/USD	0.8761	0.8952	0.8761	0.8939	3-month T Bill	0.15	-0.01
CRB Index	266.86	5.3	AUD/JPY	76.09	77.95	75.51	77.88	Other (10 year yields)		
Gold	1195.7	4.3	AUD/GBP	0.5769	0.5756	0.5861	0.5855	Germany	2.66	0.01
Copper	6965	300.0	AUD/NZD	1.2310	1.2338	1.2260	1.2321	Japan	1.07	-0.03
Oil (WTI)	79.16	2.7	AUD/EUR	0.6861	0.6936	0.6842	0.6929	UK	3.36	0.00

Data as at 8.30am. Change from previous trading day (excluding the SFE – which is the change during the night session).

Source: Reuters, Bloomberg

SHARE MARKETS: US stocks rallied, led by 3M, ATAT and Caterpillar – all three posting strong quarterly earnings. UPS and Union Pacific followed coming out with robust reports. Better-than-expected news on European manufacturing and UK retail added to the upbeat tone. Rumours of an early release of the European bank stress test was also supportive as was FOMC Chairman Bernanke's further elaboration on what action the US Fed could take if needed.

BONDS: US Treasuries lost ground (yields rose) following the rally in stocks and stronger global data. That said, some investors remained cautious after weaker-than-expected US home sales.

FX: The US dollar weakened against the Euro due to the European data and US corporate results, giving investors reason to increase their appetite for riskier assets. The AUD rallied in line with the Euro touching 0.8952 US cents.

COMMODITIES: Commodities also rallied, the CRB gaining. The lift was broad based. Gold pushed briefly above US\$1,200 an ounce.

UNITED STATES: Existing home sales fell 5.1% in June to an annualised rate of 5.37m. The second consecutive fall highlights the underlying weakness that is re-emerging in the US housing market given that the data would still include a boost from the first-time buyer tax credit (before it was extended). There was also a rise in inventories with supply up to 8.9 months worth, the highest since August 2008.

US Leading indicators contracted by 0.2% in June, following the 0.5% gain posted in May. The clearly slowing index adds to evidence of a US slowdown in the second half of the year. That said, the fact that the absolute level of the index (109.8) remains 4.5% above

the peak it reached before the previous recession suggests this indicator is not yet implying a double-dip.

US Initial jobless claims rose to 464k during the week ending 17th July, an increase of 37k on the previous week. July data historically are distorted due to seasonal factors from auto factory shutdowns so we await a clearer picture regarding the underlying trend over the next month.

EUROPE: Euroland PMI surveys both came in stronger-than-expected with the manufacturing survey showing an increase to 56.5 from 55.6, while the services survey posted 56.0 from 55.5 in the advance July reading. Within the manufacturing survey, the breakdown was positive with increases in new orders and employment. The services index also registered decent gains in new orders and employment. Q3 business surveys appear to be signalling a healthy level of activity so far in the eurozone but whether this is sustainable in the face of developments in the peripheral countries and financial market sentiment remains to be seen. Within the national breakdown, there were big improvements for Germany (manufacturing up 2.8pts to 61.2 and services up 2.5pts to 57.3) but French data were more mixed (manufacturing down to 53.7 but services up to 61.3).

UNITED KINGDOM: Retail sales surprised to the upside in June increasing 0.7% on the month while ex-auto fuel was up a robust 1.0%. Sales are likely to have been boosted by the extra spending associated with the World Cup. The implied deflator fell to its lowest since November to 1.3%.

JAPAN: The all-industry index rose by 0.2% in May after a 1.9% increase in April. This leaves the all-industry index 3.4% higher than a year ago. May's increase was the result of an increase in activity in the construction & government sectors; manufacturing was

largely unchanged in May while activity in the tertiary sector declined.

AUSTRALIA: The National Australia Bank's quarterly index of business confidence index slid 14 points to three index points in the June quarter. The index remains positive but is now below readings of business conditions for the first time since the recovery from the GFC.

Upcoming Data/Events Today, AEST (Aust underlined)*

US Existing Hse Sales, June exp -9.9% prev -2.2% (12.00am)

US Hse Prices, May, exp -0.3%, prev 0.8% (12.00am)

US Leading Indicators, Jun, exp -0.3%, prev 0.4% (12.00am)

UK GDP Q2, exp 0.6%, prev 0.3% (6.30pm)

EZ Consumer Confidence, Jul, exp -17, prev -17 (12.00am)

AU Import/Export price index, Q2, exp 1%, prev 0.3% (11.30am)

GE IFO Business expectations, Jul, exp 101.6, prev 102.4 (6.00pm)

* All data forecasts are m/m or q/q and seasonally adjusted unless otherwise specified. Forecasts for Australian data releases are based on St George Bank's forecasts. Forecasts for other countries are consensus forecasts.

To access our Monthly Economic Calendar please refer to:

<http://www.stgeorge.com.au/corporate-business/report-centre/economic-calendar.asp>

St.George Contact Listing

Economics & Strategy:

Chief Economist	Justin Smirk	smirkj@stgeorge.com.au	(02) 9320 5854
Senior Economist	Josephine Heffernan	heffernanj@stgeorge.com.au	(02) 9320 5751
Senior Economist	Kate King	kingk@stgeorge.com.au	(02) 9320 5751
Market Economist	Amanda Tan	tanam@stgeorge.com.au	(02) 9320 5816
Chief Economist (on maternity leave)	Besa Deda	dedab@stgeorge.com.au	(02) 9320 5854

The information contained in this report ("the Information") is provided for, and is only to be used by, persons in Australia. The information may not comply with the laws of another jurisdiction. The Information is general in nature and does not take into account the particular investment objectives or financial situation of any potential reader. It does not constitute, and should not be relied on as, financial or investment advice or recommendations (expressed or implied) and is not an invitation to take up securities or other financial products or services. No decision should be made on the basis of the Information without first seeking expert financial advice. For persons with whom St. George has a contract to supply Information, the supply of the Information is made under that contract and St. George's agreed terms of supply apply. St. George does not represent or guarantee that the Information is accurate or free from errors or omissions and St. George disclaims any duty of care in relation to the Information and liability for any reliance on investment decisions made using the Information. The Information is subject to change. Terms, conditions and any fees apply to St. George products and details are available. St. George or its officers, agents or employees (including persons involved in preparation of the Information) may have financial interests in the markets discussed in the Information. St. George owns copyright in the information unless otherwise indicated. The Information should not be reproduced, distributed, linked or transmitted without the written consent of St. George.