

Friday, 27 August 2010

EQUITIES (close & %chg)			SYDNEY FUTURES EXCHANGE (close & chg)					INTEREST RATES (close & chg)		
S&P/ASX 200	4356.0	0.8%		Last	Overnight Chg		Australia			
Dow Jones	9985.8	-0.7%	10 yr bond	95.22	0.00		10 year bond	4.79	-0.04	
Nikkei	8906.5	0.7%	3 yr bond	95.63	0.00		3 year bond	4.30	-0.04	
Hang Seng	20612.1	-0.1%	3 mth bill rate	95.27	0.00		90 day bill	4.71	0.00	
Shanghai	2603.5	0.3%	SPI 500	1042	-2.60		US			
DAX	5912.58	0.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.48	-0.06
FTSE100	5155.84	0.9%	TWI	68.9	-		68.9	2 year bond	0.52	0.00
COMMODITIES (close & chg)			AUD/USD	0.8848	0.8917	0.8852	0.8855	3-month T Bill	0.15	-0.01
CRB Index	264.04	2.2	AUD/JPY	74.85	75.39	74.65	74.80	Other (10 year yields)		
Gold	1234.94	-3.2	AUD/GBP	0.5720	0.5730	0.5690	0.5702	Germany	2.15	0.00
Copper	7315	195.0	AUD/NZD	1.2593	1.2633	1.2555	1.2591	Japan	0.94	0.03
Oil (WTI)	73.11	0.4	AUD/EUR	0.6988	0.7010	0.6960	0.6963	UK	2.88	0.04

Data as at 8.00am. Change from previous trading day (excluding the SFE - which is the change during the night session).  
Source: Reuters, Bloomberg

**SHARE MARKETS:** US shares softened after the Federal Reserve Bank of Kansas City reported that manufacturing activity in its district had stalled. Investors also took a wait-and-see position ahead of a speech by US Federal Reserve's Bernanke. Bernanke will be speaking at the Federal Reserve Bank of Kansas City's annual economic symposium tonight.

**BONDS:** Treasuries firmed (yields fell), the market taking its lead from weaker share prices and following a well-received auction of seven-year notes. The market also awaits for direction from Bernanke - the topic of his speech is "The Economic Outlook and the Federal Reserve's Policy Response".

**FX:** The US dollar slipped against both the Yen and the Euro on speculation that the Federal Reserve may signal further easing measures.

**COMMODITIES:** Gold lost ground on better-than-expected US jobless claims, easing demand for the metal as a safe-haven option. Oil gained slightly to US\$73.36/bl. Copper strengthened on the positive employment report, quelling concerns regarding the US recovery.

**UNITED STATES:** Initial claims for unemployment insurance benefits declined more than expected to 473k in the week ending 21 August. Consensus 490k. While still high the outcome is a reversal after three weeks of large gains.

The percentage of US mortgages in default eased from 10.06% to 9.85% in Q2, still around 1 in 10 of all housing loans but not continuing to rise. That is made up of 7% of all prime mortgages and 27% of sub-prime. Also, a

further 4.57% of loans are in foreclosure, down from 4.63% in Q1 (3% prime/14% sub-prime).

The Kansas City Fed's manufacturing survey showed activity slowed in August. The net percentage of firms reporting month-over-month increases in production in August was 0, down from 14 in July and 3 in June. The slowdown occurred among both durable and nondurable goods producing plants, with the exception of aircraft and electronic equipment producers, who reported some improvements.

**EUROPE:** Euroland money supply M3 grew 0.2% yr in July, the same pace as in June. The detail showed 0.9% yr growth in loans to households and companies, the fastest since mid 2009, and consistent with the recent pick-up in economic activity.

German consumer confidence rose from 4.0 to 4.1 in the GfK survey labelled September but surveyed earlier in August.

**UNITED KINGDOM:** The Confederation of British Industry's distributive trades survey showed reported sales rising from 33 to 35 in August, fully sustaining July's World Cup and hot weather bounce. A related quarterly survey showed prices rising at the fastest pace since the early 1990s. This continues the run of positive UK data surprises, suggesting Q2's GDP growth spurt may have continued into Q3.

**AUSTRALIA:** Business spending during the June quarter was surprisingly weak, contracting 4.0%, following a 1% decline in Q1. The decline in business investment is likely to detract from Q2 GDP, due next Wednesday. We have returned to our original forecast of an 0.8%q/q increase - the fall in plant and equipment offsetting

yesterday's more upbeat figures on construction. Probably the more significant aspect of the report, however, is how business foresees the next step in the cycle. According to the survey, business is planning to spend almost a quarter more than what business expected to spend at this point in time last year, for 2009-10. Even if the conversion of expectations to actual spending is weaker than usual this represents a significant expansion in capacity.

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

JN Jobless Rate Jul exp 5.3% prev 5.3% (9.30am)  
JN Core CPI Jul exp -1.1% y/y prev -1.0% y/y (9.30am)  
UK GDP Q2 exp 1.1% prev 1.1% (6.30pm)  
US GDP (annualized) Q2 exp 1.4% prev 2.4% (10.30pm)  
US UoM Cons. Confid. (final) Aug exp 69.6 prev 69.6  
(11.55pm)

\* 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.

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