St.George Financial Markets Morning Report

Friday, 3 September 2010

EQUITIES (close & % chg)			SYDNEY FUTURES EXCHANGE (close & chg)					INTEREST RATES (close & chg)		
S&P/ASX 200	4532.7	0.8%		Last		Overnight Chg		Australia		
Dow Jones	10320.1	0.5%	10 yr bond	95.15		-0.04		10 year bond	4.81	0.11
Nikkei	9062.8	1.5%	3 yr bond	95.56		-0.04		3 year bond	4.34	-0.07
Hang Seng	20868.9	1.5%	3 mth bill rate	95.24		-0.01		90 day bill	4.73	0.03
Shanghai	2655.8	1.3%	SPI 500	1089		-0.70		US		
DAX	6083.9	0.0%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.63	0.05
FTSE100	5371.04	0.1%	TWI	69.0		-	69.9	2 year bond	0.50	-0.01
COMMODITIES (close & chg)			AUD/USD	0.9097	0.9121	0.9056	0.9109	3-month T Bill	0.13	-0.01
CRB Index	271.15	2.6	AUD/JPY	76.75	76.87	76.10	76.77	Other (10 year yields)		
Gold	1250.74	7.0	AUD/GBP	0.5888	0.5927	0.5864	0.5917	Germany	2.29	0.06
Copper	7645	30.0	AUD/NZD	1.2761	1.2754	1.2660	1.2738	Japan	1.11	0.08
Oil (WTI)	74.91	1.0	AUD/EUR	0.7104	0.7116	0.7074	0.7100	UK	2.97	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 stocks gained after stronger-than-expected housing and retail figures. The market awaits US employment data tonight.**

BONDS: **Longer dated US bonds weakened – yields rose – with the consensus shifting away from a double-dip recession. The 10-year bond increased 5 basis points to 2.63%.**

FX: **The AUD rose to be above US$0.91 cents on news that Australia's trade balance registered another surplus. The Euro climbed against the US dollar following the ECB's positive outlook for European growth and positive Spanish and French bond auctions.**

COMMODITIES: **Copper strengthened to a four month high on positive US housing and retail news. Oil also rose as Hurricane Earl threatened the US East Coast and following an explosion on an offshore oil rig in the Gulf of Mexico. Gold also firmed.**

UNITED STATES: **Pending home sales saw a large jump of 5.2% in July. While a modest rebound was expected, the magnitude surprised the market somewhat. That said there were significant revisions to previous outturns and as such, the annual rate was broadly unchanged at -20.1%.**

Factory Orders were a touch lower than expectations posting a 0.1% gain in July (market consensus 0.2%) while there was a revision to -0.6% from -1.2% in June. Orders ex-transport were weak, however, at -1.5%. Although shipments were encouragingly up a robust 1.1% over the month, inventories also posted a third consecutive increase.

Initial jobless claims were moderately lower for the second consecutive week registering 472k, down from 478k the previous week. There was a small decline in the four-week moving average down to 485.5k. Continuing claims were also down in the week of 21st August to 4456k.

US Nonfarm productivity was revised lower in Q2 to -1.8%, broadly in line with expectations. The breakdown revealed downward revisions to nonfarm output growth; however unit labour costs were revised up to 1.1% from 0.2%.

EURO ZONE: **The European Central Bank left the main refinancing rate on hold at 1.0% for the seventeenth consecutive month as expected. At the press conference, Trichet maintained a relatively positive tone on the economic outlook as reflected in the latest set of staff projections. The GDP forecast for 2010 was revised up to a mid-point of 1.6% (from a previous projection of 1.0%) while 2011 was nudged up to 1.4% from 1.2%. CPI inflation projections were also revised 0.1ppts higher for both 2010 and 2011. As well as commenting on the economic outlook, Trichet also announced that the ongoing weekly MRO's would continue at full allotment and at a fixed rate for as long as necessary while the 3m LTROs would continue each month until December but fixed at the average rate of the MROs taking place over the life of the relevant LTRO.**

Euro GDP was unrevised at 1.0% in Q2, although an upward revision from Q1 stemming from German GDP meant that the annual rate was revised up to 1.9% from 1.7%. The breakdown revealed government expenditure up to 0.5% from 0.2% and a similar improvement in household consumption.

AUSTRALIA: **Australia's trade surplus narrowed to $1.888bn in Jul. It follows a $3.438bn surplus in June. The trade balance has been in surplus since April 2010. The ABS reports exports goods and services fell $1.191b**

(4%) to $25.395b. This includes a 6% contraction in non–rural goods, which includes iron ore and coal. Specifically hard coking coal declined 27% We think this reflects maintenance at Hay Point and that the decline is likely to be short-lived. Non–monetary gold fell $0.219b (15%). Rural goods rose $0.113b (5%). Services credits fell $15m. Meanwhile imports of goods and services debits rose $0.359b (2%) to $23.507b. The ABS said the purchase of six new Super Hornet fighter aircraft for the Royal Australian Air Force added $477 million to imports.

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

JP Capital spending 2Q exp –6.5%, prev –11.5% (9.50am)
CH China non-manufacturing PMI Aug prev 60.1 (11.00am)
EZ Retail sales Jul exp 0.2%, prev 0.0% (7pm)
US Nonfarm Payrolls Aug exp –100k, prev -131k (10.30pm)

*** 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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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 5892**
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**