Morning Report

Monday, 9 August 2010

EQUITIES (close & % chg)			SYDNEY FUTURES EXCHANGE (close & chg)					INTEREST RATES (close & chg)		
S&P/ASX 200	4566.1	0.0%		Last			Overnight Chg	Australia		
Dow Jones	10653.6	-0.2%	10 yr bond	94.91			0.07	10 year bond	5.16	0.00
Nikkei	9278.8	-3.9%	3 yr bond	95.35			0.04	3 year bond	4.62	0.02
Hang Seng	20487.2	-4.9%	3 mth bill rate	95.19			0.00	90 day bill	4.75	0.01
Shanghai	2658.4	1.4%	SPI 200					US		
DAX	6259.6	-1.2%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	2.82	-0.08
FTSE100	5332.4	-0.6%	TWI	70.4	-	-	70.4	2 year bond	0.51	-0.02
COMMODITIES (close & chg)			AUD/USD	0.9149	0.9221	0.9114	0.9183	3-month T Bill	0.14	-0.01
CRB Index	274.71	-3.0	AUD/JPY	78.56	79.04	77.81	78.43	Other (10 year yields)		
Gold	1204.3	9.6	AUD/GBP	0.5755	0.5783	0.5695	0.5750	Germany	2.51	-0.04
Copper	7369	-26.0	AUD/NZD	1.2533	1.2595	1.2505	1.2519	Japan	1.07	0.03
Oil (WTI)	80.88	-1.3	AUD/EUR	0.6938	0.6969	0.6878	0.6908	UK	3.22	-0.01

Data as at 7.15am. Change from previous trading day (excluding the SFE – which is the change during the night session).

Source: Reuters, Bloomberg

SHARE MARKETS: **The US stockmarket had a soft session on Friday night, after weaker than expected US payrolls data dampened investor sentiment. The Dow slipped 0.2%, the S&P500 fell 0.4% and the Nasdaq was off 0.2%.**

BONDS: **US bonds gained (yields fell) on safe haven flows following the release of the weak payrolls data. Yields on 2-year bonds hit a record low again, touching 0.50% earlier in the session, as investors speculated the Federal Reserve would consider new stimulus measures at its meeting tomorrow night.**

FX: **The larger than expected decline in US payrolls increased speculation the Fed could increase quantitative easing, which weighed on the dollar. The Yen rose to close to a 15-year high against the dollar, a level which, if reached, could lead Japanese officials to try to talk down the currency. Sterling appreciated against the dollar, hitting a six-month high, while the Euro reached its highest against the dollar since May. The Aussie dollar gained against the US dollar, with a generally upbeat assessment from the RBA in its Statement on Monetary Policy also supportive for the currency.**

COMMODITIES: **Commodity prices weakened, with the CRB index down 1.1% for the session. The oil price fell for the third consecutive session, despite the weaker dollar, with concerns about demand following the payrolls data. Gold, however, benefited from the uncertainty regarding the US economic outlook.**

UNITED STATES: **US non-farm payrolls fell 131k in July, which was substantially weaker than the market consensus for a 65k decline. The main driver of that fall was a 202k plunge in government jobs. That included a further 143k temporary Census workers who finished their duties but most of the other 59k public sector workers who dropped off payrolls in July were most likely state government employees who lost their jobs due to budgetary constraints. Private payrolls rose 71k in July but back revisions shaved 34k off the previous estimates for May/June. So private sector jobs growth averaged just 51k in May to July, compared to 154k in the previous three-month period. The jobless rate was unchanged at 9.5% in July despite a 159k fall in household survey jobs.**

AUSTRALIA: **The Reserve Bank released its quarterly Statement on Monetary Policy (SOMP) on Friday, which includes its inflation and growth forecasts. The central bank appears to be fairly neutral in terms of their stance on monetary policy. They reiterated that the current setting of monetary policy is "appropriate at this stage" with lending rates in the economy around the average levels seen in the past. The RBA also left their growth and inflation forecasts unchanged from May, when the last SOMP was published.**

Although RBA rhetoric suggests that rates will likely be on hold for at least the next few months, we still see the risk of rates moving higher. The central bank remains generally upbeat about Australian economic prospects, with a positive outlook for business investment, particularly in the resource sector, at or above average business and consumer confidence, strong population growth and an anticipated continued solid expansion in the jobs market. This means that the RBA is, at the same time, not complacent about rising inflationary pressures. So the chances are rates could still rise later this year. Hence, we see no reason to

remove our November rate call, with the probability of such a move highly dependent on the incoming domestic economic dataflow (important GDP and CPI figures to be released prior to November will be central to firming up our call).

CHINA: **The official Shanghai Securities News reported on Friday that Chinese regulators have demanded stress tests on a wide range of industries, including cement and steel and other sectors (whereby fortunes are closely linked to the property market). Details about the tests were not provided but it was stated that it was part of a broader investigation into the economy's ability to endure falls in property prices. Last Thursday, China's banking regulator order lenders to stress test for an up to 50% fall in house prices in key cities where there has been a sharp run up in prices. Expectations are that these stress tests could weigh on the base metals market.**

EUROPE: **German industrial production fell 0.6% in June, a downside surprise given recent orders strength. The fall was driven by capital goods and intermediate goods; consumer good production rose 0.2%.**

UNITED KINGDOM: **UK industrial production fell 0.5% in June. The declines were concentrated in mining and oil/gas, both down by around 6%. That might be due in part to earlier than usual summer shutdowns which would normally be reversed in the next month or so. Manufacturing rose by 0.3%, consistent with recent PMI factory readings pointing to gains. Separately, in July, producer prices fell 1.0% at the input stage, leaving annual PPI input growth little changed at 10.8% yr from 10.7% yr. PPI output prices rose 0.1% (0.2% core) and the respective PPI output annual rates were lower at 5.0% yr and 4.7% yr.**

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

AU Housing Finance Jun exp –3.0% prev 1.9% (11.30am)
AU ANZ Job Ads Jul prev 2.7% (11.30am)
JN Monetary Policy Meeting (2pm)

*** 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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