

Morning Report

Tuesday, 16 June 2009

EQUITIES			SYDNEY FUTURES EXCHANGE					INTEREST RATES		
S&P/ASX 200	4031.7	-0.8%		Last	Overnight Change		Australia			
Dow Jones	8612.1	-2.1%	10 yr bond	95.47	0.04		10 year bond	5.50	-0.05	
Nikkei	10039.7	-0.9%	3 yr bond	94.52	0.03		3 year bond	4.36	-0.09	
Hang Seng	18499.0	-2.1%	3 mth bill	3.30	-0.03		90 day bill	3.30	-0.03	
Shanghai	2928.2	1.7%	SPI 200	3973.0	-58.0		United States			
DAX	4889.9	-3.5%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.71	-0.08
FTSE100	4326.0	-2.6%	TWI	65.0	-	-	64.6	2 year bond	1.22	-0.04
COMMODITIES			AUD/USD	0.8074	0.8108	0.7905	0.7928	3-month T Bill	0.15	-0.02
CRB Index	256.4	-5.9	AUD/JPY	79.51	80.00	77.31	77.51	Other (10 year yields)		
Gold	928.2	-0.1	AUD/GBP	0.4920	0.4944	0.4860	0.4864	Germany	3.52	-0.11
Copper	5212.0	-142.0	AUD/NZD	1.2647	1.2704	1.2570	1.2600	Japan	1.51	-0.01
Oil WTI	70.2	-1.4	AUD/EUR	0.5775	0.5806	0.5742	0.5752	UK	3.88	-0.10

Data as at 7.30am. Change from yesterday morning (excluding the SFE – which is the change during the night session).
Source: Reuters/Bloomberg

SHARE MARKETS: US share markets fell on Monday as commodity stocks dropped on lower oil and metal prices and data showed that US manufacturing shrank at a faster pace in June. The data also suggested that a recovery in the US might be slow, thereby weighing on sentiment and causing risk aversion among investors to rise. The Dow Jones fell by 187 points (or 2.1%), the S&P 500 dropped by 23 points (or 2.4%) and the Nasdaq eased by 42 points (or 2.3%).

BONDS: US Treasury yields moved lower on the back of a search for safety by investors and remarks made by US officials. The Fed's Fisher hit the podium and said that inflation was not an issue due to the slack in the economy and that he doesn't see the Fed hiking in the immediate future. The Fed's Evans added to that commenting that the Fed would unwind the non-standard policy measures once it becomes clearer that the economy is headed for sustainable growth. Evans also said that there was considerable uncertainty with regard to prices and the Fed should be ready to act on either inflation or deflation. US 2-year yields closed down 4bp and 10-yea yields finished off 8bp.

FX: Demand for the USD was boosted after the Russian Finance Minister said he had full confidence in the USD and has no immediate plans to switch to a new reserve currency. The rise in the USD, the decline in commodities and lift in risk aversion pushed the AUD under USD0.8000 to a low of USD0.7905. We had been warning for some time that the AUD was due for a pullback before it could resume its trend higher. We think the risk of a deeper pullback remains. For the day ahead, the risk ton the AUD should remain on the downside with weaker equities expected.

COMMODITIES: Commodity prices were lower across the board following weak manufacturing data from the US and renewed worries about the prospects for a global recovery.

GLOBAL: The IMF forecasts for the US were revised lower overnight to a contraction of 2.5% for 2009, from a contraction of 2.8% previously. For 2010, the growth forecast was lifted to 0.75% from 0.00%. For the world economy, the IMF lifted the growth forecasts for 2010 from 1.9% to 2.4%.

US: The Empire manufacturing index deteriorated from -4.55 in May to -9.41 in June. The outcome was worse than market expectations that centred on an outcome of -4.60. A reading under zero shows that manufacturing activity in the New York region is contracting. This contraction is occurring amid a decline in sales and stocks.

The NAHB housing market sentiment index eased modestly to 15 in June, from 16 in May, but markets were looking for a slight increase. It highlights that the recovery from the housing slump will be slow to develop.

A separate report revealed that total net purchases of long-term equities, notes and bonds rose by a net US\$11.2 billion in April, compared with buying of US\$55.4 billion in March. Consensus had anticipated international net purchases of long-term US assets of US\$60 billion.

AUSTRALIA: There was no major data released yesterday. The RBA board minutes will be released today; it will be gleaned for clues about the future path of the cash rate. We still lean towards further modest easing from the RBA before the end of the year.

CHINA: Foreign direct investment fell by 20.4% between January and May 2009. That represents a modest improvement from a contraction of 21.0% in the previous month.

EUROZONE: Employment fell by 0.8% in the March quarter, the biggest decline since the data series started in 1995. From a year earlier, employment contracted by 1.2%, the first annual decline on record.

JAPAN: The Bank of Japan's monetary policy meeting began yesterday and concludes today.

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

AU RBA Minutes for the June Board Meeting (11.30am)
AU NSW & QLD Budgets Announced
JN BoJ Cash Rate Decision Jun 16 exp 0.10% prev 0.10%
UK CPI May exp 0.3% prev 0.2% (6.30pm)
GE ZEW Econ. Sentiment Jun exp 35.0 prev 31.1 (7pm)
EZ CPI May exp 0.0% prev 0.4% (7pm)
EZ ZEW Econ. Sentiment Jun exp 34.0 prev 28.5 (7pm)
US PPI May exp 0.6% prev 0.3% (10.30pm)
US Housing Starts May exp 485k prev 458k (10.30pm)
US Building Permits May exp 509k prev 494k (10.30pm)
US Industrial Production May exp -1.0% prev -0.5%
(11.15pm)
US Capacity Utilisation May exp 68.4% prev 69.1%
(11.15pm)

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

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