Morning Report

Thursday, 18 June 2009

EQUITIES			SYDNEY FUTURES EXCHANGE					INTEREST RATES		
S&P/ASX 200	3904.1	-1.5%		Last		Overnight Change		Australia		
Dow Jones	8497.2	-0.1%	**10 yr bond**	94.51		-0.01		**10 year bond**	5.62	0.06
Nikkei	9840.85	0.9%	**3 yr bond**	95.47		-0.01		**3 year bond**	4.31	0.03
Hang Seng	18084.6	-0.4%	**3 mth bill**	96.83		0.01		**90 day bill**	3.26	-0.02
Shanghai	2810.1	1.2%	**SPI 200**	3889		-8		United States		
DAX	4800.0	-1.9%	**FX Last 24 hrs**	Open	High	Low	Current	**10 year bond**	3.69	0.04
FTSE100	4278.5	-1.2%	**TWI**	63.6	-	-	80.28	**2 year bond**	1.16	-0.02
COMMODITIES			**AUD/USD**	0.7923	0.7997	0.7848	0.7925	**3-month T Bill**	0.17	0.00
CRB Index	256.8	0.9	**AUD/JPY**	76.36	77.28	75.15	75.78	Other (10 year yields)		
Gold	938.40	4.30	**AUD/GBP**	0.4832	0.4876	0.4811	0.4836	**Germany**	3.48	-0.04
Copper	4975	25	**AUD/NZD**	1.2600	1.2622	1.2491	1.2530	**Japan**	1.47	-0.01
Oil WTI	70.81	0.34	**AUD/EUR**	0.5726	0.5748	0.5668	0.5683	**UK**	3.79	-0.12

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: The US share market moved further into the red for the third consecutive session, albeit losses were not as pronounced as the previous session. Financials were a key drag on equities after Standard & Poors downgraded the credit ratings of 18banks. Meanwhile, energy stocks also posted large falls on the back of ongoing uncertainty surrounding the economic recovery. But cushioning these losses were large gains in health care and consumer discretionary stocks. At session end, the S&P500 was just 0.1% lower and the Dow Jones Index also lost 0.1% (or 7.5 pts). The Nasdaq, however, bucked the trend and gained 0.7%.

BONDS: US treasury debt were mixed. Shorter-term yields fell further, in line with the ongoing losses in the equity market and data showing weaker-than-expected core inflation in the US. But longer-term yields moved higher with the 10-years up 4bp as investors moved their focus to next week's three note government auctions.

FX: The US dollar weakened further overnight. It is down 0.6% on a trade-weighted basis from 24 hours ago. The USD is particularly weaker against the Euro and Japanese Yen but very little changed against Sterling from yesterday morning. The Australian dollar had grinded higher to just below 80 US cents yesterday evening but is now trading very little changed from 24 hours ago at around 79.30 US cents.

COMMODITIES: Crude oil edged slightly higher to trade just below $US71 per barrel. Supporting the price of oil was the weaker US dollar and a US government report showing that inventories fell twice more than expected last week and that fuel demand had increased to the highest level since March. Copper prices have also benefited somewhat from the weak USD, gaining 0.5%. Meanwhile, gold is up more than $US4 as the USD depreciated and equities edged lower.

US: Headline consumer prices in the US rose less than expected. The CPI was up only 0.1%, versus expectations for a 0.3% gain. In annual terms, the annual rate of contraction in the CPI intensified to 1.3% from 0.7% previously. The core CPI, meanwhile, came in as expected with a 0.1% gain posted. This brought the annual rate of core inflation down to 1.8% from 1.9% previously.

The US current account deficit narrowed sharply to $US101.5bn in the March quarter from $US154.9bn in the December quarter. The current deficit is the smallest since Q1-04.

Mortgage applications in the US plunged 15.8% in the last week, marking the fourth consecutive weekly decline. The current level is the lowest since November and reflected falls in refinancing applications of 23.3%, while purchase applications also dropped by 3.5%.

Proposed reforms to the US financial regulatory framework were announced overnight. The proposals include large, systematically important institutions will be given more stringent liquidity, capital requirements and risk management standards by the Fed than apply to other financial institutions in an effort to back up what has been adopted as the "too big to fail" mantra since the collapse of Lehmans. Regulatory capital requirements for other banks would also be fundamentally re-assessed. Among the other proposals, a financial reform oversight council would be established and the Government would be given the power to seize and wind down a large financial company.

AUSTRALIA: The ABS yesterday released data for the total number of dwellings (houses and apartments) that begun construction in the December quarter. This showed that dwelling starts fell 4.0% in the quarter to 30,949 units. This number is 22.5% lower compared to a year ago.

A leading economic index of the Australian economy improved in April from March. The WMI index suggested a contraction of 3.5% (annualised) for the next 3-9 months versus 5.1% in March.

EURO ZONE: The trade surplus widened to EUR2.7bn in April, from EUR1.8bn in March. Construction output lifted by 0.6% in April, but was down 4.7% on a year ago.

UNITED KINGDOM: Bank of England minutes for this month's policy meeting showed that members were unanimous in their vote to leave interest rates unchanged at 0.50%. Members also acknowledged that recent information on the British economy was encouraging. The minutes noted that, "Overall, the risk of a continued sharp contraction in output in the near term had receded somewhat". But it also cautioned that, "...there was no reason to conclude that the medium-term outlook for the economy, and thus inflation, had changed materially", that is, members stuck with their assessment in May that the recession in the nation would cause inflation to remain below target for some time".

UK data showed that jobless benefits rose less than expected in May. Benefits were up 39.3k, much less than expectations for +60k. But it was enough to push the unemployment rate to a 12-year high of 7.2%.

NEW ZEALAND: RBNZ Governor Bollard in a speech yesterday said that he expects the NZ economy to grow again by the end of the year, but the recovery is likely to be slow and drawn out and it could be erratic. Bollard noted that the NZD is now working against the recovery.

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

AU Westpac-ACCI Industrial Trends Survey Q2 (11am)
AU RBA FX Transactions May prev 512m (11.30am)
UK Retail Sales May exp +0.3% prev +0.9% (6.30pm)
US Jobless Claims Jun 14 exp 602k prev 601k (10.30pm)
US Leading Indicators May exp 1.0% prev 1.0% (12am)
US Philadelphia Fed Index Jun exp –17 prev –22.6 (12am)
US Treasury Secretary Geither Speech (3.30am)

* 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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