

# Morning Report

Thursday, 25 June 2009

EQUITIES (close & % chg)			SYDNEY FUTURES EXCHANGE (close & chg)					INTEREST RATES (close & chg)		
S&P/ASX 200	3807.0	0.3%			Last	Overnight Chg		Australia		
Dow Jones	8299.9	-0.3%	10 yr bond	94.32				10 year bond	5.73	0.15
Nikkei	9590.3	0.4%	3 yr bond	95.16				3 year bond	4.57	0.06
Hang Seng	17892.2	2.0%	3 mth bill	96.80				90 day bill	3.22	-0.02
Shanghai	2922.3	-3.8%	SPI 200	3790				United States		
DAX	4836.0	2.7%	FX Last 24 hrs	Open	High	Low	Current	10 year bond	3.69	0.07
FTSE100	4280.0	1.2%	TWI	62.8	-	-	63.6	2 year bond	1.22	0.12
COMMODITIES (close & chg)			AUD/USD	0.7858	0.8055	0.7915	0.7960	3-month T Bill	0.20	0.01
CRB Index	249.8	0.0	AUD/JPY	75.33	76.84	75.27	76.24	Other (10 year yields)		
Gold	931.10	4.40	AUD/GBP	0.4825	0.4881	0.4816	0.485	Germany	3.45	-0.01
Copper	5000	262	AUD/NZD	0.6386	1.2471	1.2368	1.2455	Japan	1.38	-0.04
Oil (WTI)	68.40	0.00	AUD/EUR	0.5639	0.5745	0.5625	0.5714	UK	3.71	-0.04

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 equities pared back gains after the US Federal Reserve disappointed investors by not increasing its bond-purchase program and addressing concerns that higher treasury debt yields (via government borrowing) could undermine efforts to lower borrowing costs. The S&P500 ended 0.7% higher and the Nasdaq surged 1.6% after stronger gains previously, which had been supported by an unexpected rise in durable goods and higher-than-expected earnings estimates at Oracle Corp. The Dow Jones, however, ended 0.3% lower.

**BONDS:** US treasury debt fell for the first time in four sessions following the Fed's statement. The 10-year yield has increased 7bp to 3.69% and the 2-year yield jumped 12bp to 1.22%.

**FX:** The USD rebounded as US treasury debt yields rose following the Fed's decision not to expand its bond-purchase program. The USD is 0.9% higher on a trade-weighted basis. It is particularly stronger against the Euro but also gained a touch versus Sterling and the Japanese Yen. The AUD had grinded higher to move above 80.50 US cents overnight but erased gains following the Fed's FOMC statement. AUD/USD was also pressured lower by the strength in the US dollar. It is now trading at 79.60 US cents.

**COMMODITIES:** Crude oil was very little changed at near \$US68.50 per barrel. The stronger US dollar capped progress in crude and some other commodities. Crude was also weighed down by a higher than expected increase in US gasoline stocks last week. But copper managed to gain 5.2% and the price of gold also rose (albeit only slightly) by more than \$US4.

**GLOBAL:** The OECD has upgraded its growth forecasts for its 30 member countries for the first time since 2007. It expects a contraction of 4.1% this year and subdued growth of 0.7% to return next year. It compares to their earlier forecast of a contraction of

4.3% this year and 0.1% next year. The OECD said that, "The bad news is that the projection still implies that we are only nearing the bottom now and the recovery that follows is going to be a very slow one, probably a fragile one".

**US:** The Fed announced its monetary policy decision this morning. As widely expected, they left interest rates on hold at 0% - 0.25%. The Fed also noted that bleak economic conditions and the likelihood that inflation will remain subdued for some time are "likely to warrant exceptionally low levels of the federal funds rate for an extended period". Fed Funds Futures have brought down the probability of 50bp worth of rate hikes by year-end to below 30%. We think that it could still be too early to be considering higher interest rates in the US. Any potential recovery in the US economy later this year is still not certain and, moreover, if it occurs would be likely very subdued with downside risks still prevalent.

The Fed also reiterated that conditions, although still weak, have not been as dismal as previously. They noted that the pace of economic contraction is slowing with financial markets having generally improved in recent months and household spending showing further signs of stabilizing. Businesses also appear to be making progress in bringing inventory stocks in better alignment with sales. The Fed states that, "the Committee continues to anticipate that policy actions to stabilize financial markets and institutions, fiscal and monetary stimulus, and market forces will contribute to a gradual resumption of sustainable economic growth".

The Fed in this morning's decision also decided to not make changes in the outright purchase programs for Treasuries, Agencies or MBS.

Durable goods orders rose 1.8% in May, marking the third increase in the previous four months. The outcome was contrary to expectations for a fall of 0.9%.

New home sales in the US edged 0.6% lower against expectations for a 2.3% jump. In year-on-year terms, sales are down sharply by 32.8%. The median price of a new home rose 4.2% in the month but was 3.4% lower from a year ago.

**AUSTRALIA:** There was no key data in Australia yesterday.

**EUROPE:** The European Central Bank injected 442bn euros of one-year funds into money markets on Wednesday in an effort to boost bank lending and economic conditions.

Reports are that the Swiss National Bank (SNB) on Wednesday had repeatedly intervened in FX markets to cap gains in the Swiss Franc. The dollar has appreciated around 3.1% against the franc from 24 hours ago. It broke through the 1.1 level for the first time since May 21 and touched a session high of 1.102.

**JAPAN:** Japanese exports fell by a slightly larger than expected amount in May. Exports were down 40.9% over the year, versus expectations for a 39.1% drop.

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

NZ Current Account Q1 exp -1.3bp prev -4.0bn (8.45am)  
AU Conf. Board Leading Index Apr prev +0.4% (10am)  
EU Industrial New Orders Apr exp 0.0% prev -0.8% (7pm)  
US GDP Q1 (final) exp -5.7% (saar) prev -5.7% (10.30pm)  
US Consumption Q1 exp +1.5% prev +1.5% (10.30pm)  
US Core PCE Q1 exp +1.5% prev +1.5% (10.30pm)  
US Jobless Claims Jun 21 exp 600k prev 608k (10.30pm)  
US Bernanke Testimony of BoA-Merrill Lynch Deal

\* 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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