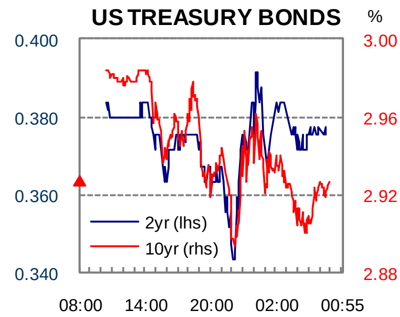
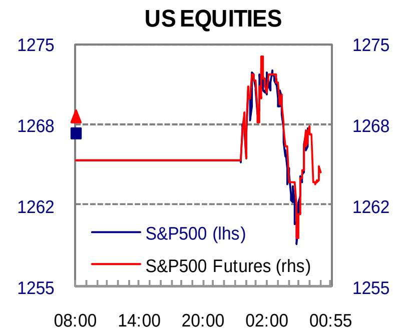
Global Markets Research

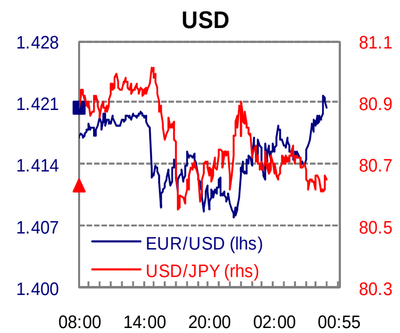
Economics: Daily Alert

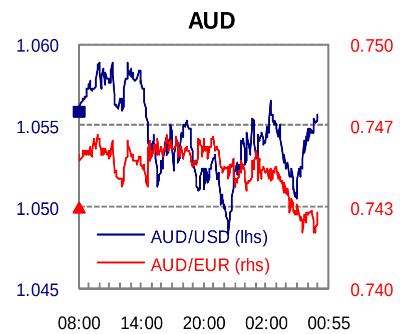
17 June 2011

- The Philadelphia Fed manufacturing index fell to a two year low easing from +5.4 to -7.6 in June. The result was well below expectations with analysts expecting a reading around +16.8. Across the sub indices, new orders were substantially weaker while inventory levels also fell.
- US jobless claims fell by a larger than expected 16,000 to 414,000 in the last week. US housing starts rose by a better than expected 3.5pct in May to a 560,000 annual pace. New building permits also unexpectedly rebounded by 8.7pct to a 612,000 annual pace - the highest level since December.
- European shares fell to a three-month closing low on Thursday as the uncertainty over a second Greek bailout package hurt investor sentiment. The IMF said continued financial support for Greece was subject to Athens adopting already agreed reforms. The Greek banking index fell to 15-year lows. The STOXX Europe 600 banking index fell a further 1.1pct. The FTSEurofirst index fell by 0.4pct, the German Dax lost 0.1pct, and the UK FTSE fell 0.8pct.
- US sharemarkets rallied in a volatile trading session on Thursday. The expiration of stock-index futures and equity options saw the S&P500 swing more than 1pct from its session lows. The S&P materials sector lost 0.9pct, reflecting the slide in the copper price and the weak factory data. The VIX or "fear gauge" rose 6.6pct. The Dow Jones rose 64pts or 0.5pct, while the S&P500 index gained 0.2pct but the Nasdaq lost 0.3pct.
- US long-dated treasury prices rallied (yields lower) on Thursday as the Greek debt worries fuelled safe-haven buying of US bonds. US 2yr yields were steady at 0.384pct and US 10yr yields lost 4pts to 2.927pct.
- The Euro rebounded in late trade against US dollar on Thursday as buyers moved in given the recent sell-off. The Euro rose from lows near US$1.4075 to highs near US$1.4195, ending US trade near its highs. The Aussie dollar rose from lows near US104.80c to near US105.60c before ending US trade near US105.40c. And the Japanese yen traded between 80.50 yen per US dollar to JPY80.90, ending US trade near JPY80.60.
- US crude oil prices recorded modest gains on Thursday after the IEA forecast global refinery crude demand would rise sharply in the third quarter. The IEA added that higher demand and reduced spare OPEC capacity will leave oil markets under greater strain than previously thought. The Nymex crude oil contract rose by US14c a barrel on to US$94.95 a barrel. And London Brent crude rose by US$1.01 to US$114.02 a barrel.
- Base metal prices were all weaker on the London Metal Exchange on Thursday. However the gold price rose with Comex gold futures up by US$3.70 an ounce to US$1,529.90.
- ***Ahead:*** In Australia, no economic data is expected. In the US, the leading indicators index and the University of Michigan confidence index are released.









Currencies			10 Yr Bond Yields (%)			Commodities			Equities		
AUD/USD	1.0558	*-0.2%*	Australia	4.92	*-0.07*	CRB Index	336.89	*-0.6%*	Dow	11,962	*0.5%*
NZD/USD	0.8048	*-0.2%*	NZ	4.99	*-0.04*	GS Index			S&P 500	1,268	*0.2%*
EUR/USD	1.4204	*0.2%*	US	2.93	*-0.04*	Aluminium $/t	2528	-1.29%	NASDAQ	2,624	*-0.3%*
USD/JPY	80.63	*-0.4%*	*AU less US*	1.99		Copper $/t	9057	-0.94%	FTSE	5,699	*-0.8%*
GBP/USD	1.6158	*-0.2%*	*NZ less US*	2.07		Lead $/t	2465	-1.50%	Shanghai	2,664	*-1.5%*
USD/CHF	0.8476	*-0.6%*	**AUD Swap Rates (%)**			Nickel $/t	21568	-1.96%	H.Seng	21,953	*-1.7%*
AUD/NZD	1.3118	*0.1%*	3mth	4.98	*-0.04*	Zinc $/t	2183	-1.90%	Nikkei	9,411	*-1.7%*
AUD/JPY	85.12	*-0.6%*	3yr	5.08	*-0.01*	Gold $/o	1529.8	*-0.1%*	ASX200	4,479	*-1.9%*
AUD/EUR	0.7433	*-0.3%*	5yr	5.39	*-0.01*	WTI Oil $/b	94.95	*0.1%*	NZSX50	3,482	*-0.7%*

Indicative market rate at 7am Source: Bloomberg

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Economics: Preview

AUSTRALIA & NEW ZEALAND

- No major economic data is released in Australia or New Zealand.

INTERNATIONAL

- No major economic data is released in the US, UK or Eurozone.

Economics: Review

AUSTRALIA & NEW ZEALAND

Australia

- No major economic data was released in Australia on Thursday.

New Zealand

- The New Zealand consumer confidence index lifted to 112 in QII, its highest level since September 2010. The future conditions indicator rebounded substantially in the June quarter, rising by 18.4% (QoQ). The wider (ex Canterbury) economy continues to gather momentum, driven largely by the low interest rate and high commodity price environment.
- The Business NZ Performance of Manufacturing Index increased to 54.7 in May, its highest level since mid-2010. The production and new orders sub indices experienced the largest gains in the month. New orders continue to be buoyed by the rather robust domestic demand.

RBA view

The RBA has raised its inflation and growth outlook despite downward pressure from the high $A. Further rate rises are likely. We expect rates to reach 5.25% by QIV 2011.

RBNZ view

In response to domestic economic weakness and the Christchurch earthquake, the RBNZ delivered a 50bpt rate cut at the 10 March policy meeting. We expect the RBNZ's tightening cycle to resume in QI 2012.

US & CANADA

United States

- In the week ended 11 June initial jobless claims declined by 16,000 to 414,000. Despite the weekly dip, initial jobless claims have remained above the pivotal 400,000 mark for 10 consecutive weeks.
- The US current account gap widened in QI to US$119.3bn. The surge in oil costs, which have boosted imports, helped to widen the current account deficit. The trade gap widened to US$140.8bn in QI, up from US$118.7bn in QIV.
- Housing starts unexpectedly rose in May, up 3.5% in the month to an annual pace of 560,000. The rise in housing starts was largely a function of the 18% increase in construction in the western states. Building permits also increased, up 8.7% (MoM) to a 612,000 annual pace in May. The rise in building permits was led by a substantial 23% lift in multi-family unit applications.
- The Philadelphia Fed Business Outlook survey unexpectedly contracted in June, falling to -7.7. The index is now at its lowest level since July 2009. The June result was the first time in nine months that it had fallen below zero.

Canada

- No major economic data was released in Canada on Thursday.

Fed view

A debate about ending the QE program is underway. We expect the QE program will end in June and the first Fed Funds hike in QIV 2011.

Bank of Canada view

The Canadian economy is recovering, and the BoC has begun to remove stimulus. We expect a slow and steady removal of policy accommodation to ensue.

EUROZONE & UK

Eurozone

- The Swiss National Bank (SNB) kept interest rates on hold at 0.25% at its June policy meeting. The SNB indicated that although the domestic economy was performing well "*downside risks predominate*". The largest perceived threat to the economy, according to the SNB, stems from the strength of the Swiss franc and the potential impact on exports. Nonetheless, the SNB maintained its 2011 growth forecast at 2%, and modestly raised its near-term inflation forecasts, largely because of the rise in energy prices.

- Eurozone CPI was unchanged from the previous month in May, rising by 2.7% (YoY). The recent lift in energy prices continues to put upward pressure on Eurozone consumer prices. Eurozone CPI has now remained above the ECB's 2%pa ceiling since November 2010.

- In an address, Greek Prime Minister George Papandreou called on his fellow members of parliament to "*work with a united spirit to face the crisis*" and back the planned austerity measures so that Greece may obtain additional aid. In an attempt to win support, Prime Minister Papandreou has indicated a willingness to reshuffle his cabinet and seek a confidence vote.

- EU Economic and Monetary Commissioner Olli Rehn stated that he was confident an agreement on Greece would be reached, allowing the peripheral state to obtain its next assistance tranche on the condition it enacts its planned austerity measures. Mr Rehn stated that the EU was in close contact with the IMF and is confident an accord can be reached, possibly as early as this weekend. The IMF reaffirmed Olli Rehn's comments. In a statement the IMF indicated that it is "*ready to continue its support for Greece*".

UK

- In a speech, Bank of England (BoE) Governor Mervyn King reiterated his stance that the BoE should leave interest rates on hold in the near-term. According to King, weak growth in wages and money supply signal that the current elevated inflation rate is being driven by transitory factors.

- UK retail sales were weaker than expected in May, falling by 1.4% (MoM). The May decline was the largest monthly fall since January 2010. The drop in May was led by a 3.7% decline in food sales, which was the largest monthly drop since June 2008. In the year to May, retail sales only increased by 0.2%. Higher fuel costs and ongoing uncertainty about the domestic economic outlook continue to weigh on consumer spending.

ECB view

Elevated inflation in the Eurozone has led to the ECB commencing tightening in an effort to pre-empt the onset of second round inflation effects. We expect the ECB to raise rates again in QIV 2011.

Bank of England view

While some members of the BoE are concerned about UK inflationary pressures, the majority see downside risks developing in the UK economy. The risk that the BoE remains on hold for an extended period is building.

CHINA & JAPAN

Japan

- No major economic data was released in Japan on Thursday.

China

- The Conference Board China leading indicator rose by only 0.2% in April. According to the Conference Board, the deceleration in the rate of growth in the index in the past few months is "*consistent with more moderate growth in economic activity in coming months*". The modest increases in the index in early 2011 have been driven by an "*expansion in credit and construction activity*".

Bank of Japan

In response to the recent natural disasters, the Bank of Japan has implemented further quantitative easing measures. Monetary policy in Japan is likely to remain accommodative for some time.

The Week Ahead

Calendar – North America & Europe

Please note all days and times are UK time, not local release day/time.

Date	Time UK	Econ	Event	Period	Unit	Last	Forecast Market	Forecast CBA
Fri 17 June	10:00	EC	Euro-Zone Trade Balance sa	Apr	EUR bn	-0.9	-2.0	~
	13:30	CA	Wholesale Sales	Apr	m%ch	0.1	~	~
	14:55	US	University of Michigan Confidence	Jun P	Index	74.3	74.5	~
	15:00	US	Leading Indicators	May	m%ch	-0.003	0.002	~

Unless otherwise noted, all data is sourced from Australian Bureau of Statistics material (www.abs.gov.au).

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