

## Weekly Economic and Financial Market Snapshot

26 August 2009

	Indicative Rates & Prices <sup>(a)</sup>			
	Year Ago	Last Week	This Week	Today
<b>Interest Rates</b>				
(% pa)				
<b>cash</b>	7.25	3.00	3.00	3.00
<b>bank bills</b>				
30-day	7.26	3.16	3.15	3.16
90-day	7.25	3.28	3.30	3.35
180-day	7.23	3.59	3.59	3.60
<b>Swaps</b>				
1-year	6.88	4.01	4.03	4.03
3-year	6.65	5.17	5.21	5.20
5-year	6.68	5.72	5.75	5.73
10-year	6.60	6.07	6.03	5.97
<b>Exchange Rates</b>				
units of FX per \$A				
\$US	0.8669	0.8299	0.8335	0.8369
yen	94.8	78.9	78.6	78.9
euro	0.5872	0.5875	0.5836	0.5846
TWI <sup>(b)</sup>	67.8	65.8	65.9	66.1
<b>Commodities</b>				
<b>gold</b> (\$/ounce)				
\$US	825.59	942.04	948.47	947.33
\$A	947.70	1,135.08	1,137.97	1,131.95
<b>oil</b> (\$/barrel)				
\$US	116.23	68.83	72.72	71.55
\$A	133.29	82.97	87.51	85.68
<b>base-metals</b> <sup>(c)</sup>				
\$US	167.7	136.7	134.3	135.2
\$A	149.2	126.4	123.7	124.3
<b>Equities</b>				
All Ords	5,042	4,415	4,403	4,464
Dow	11,455	9,287	9,437	9,539

Notes: (a) Indicative wholesale prices/yields. With the exception of cash and all data in the "today" column, all observations are weekly averages ending Wednesday. Cash is snapshot on the Wednesday of the relevant week.

(b) Trade-weighted index value of AUD, based at May 1970 = 100.

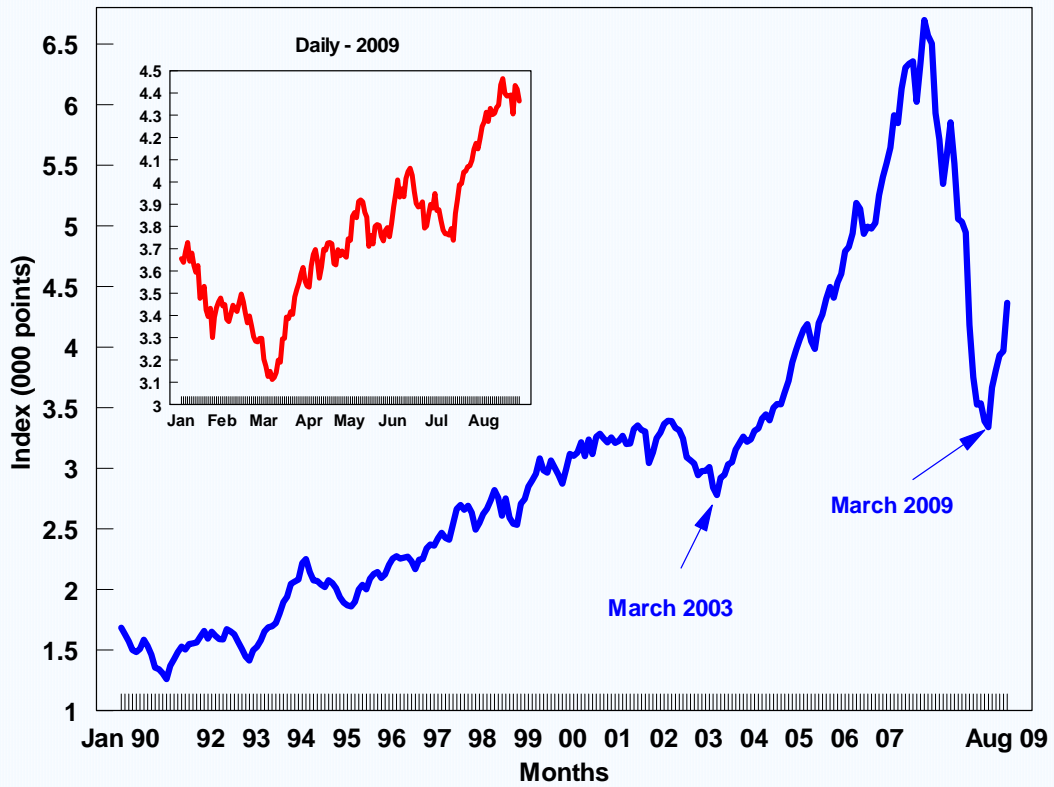
(c) Composite index based on London Metal Exchange (LME) prices of aluminium, nickel, copper, zinc and lead; weighted by each metal's relative importance in the RBA's index of commodity prices. Base of index is 3 January 2005 = 100

The Dow continues to lead most global equity markets higher in the knowledge that the existing Chairman of the Fed will continue to guide other central banks through the uncharted waters of the eventual withdrawal of emergency monetary stimulus as and when the global economy is judged to be strong enough to stand on its own feet without the support of massive government assistance.

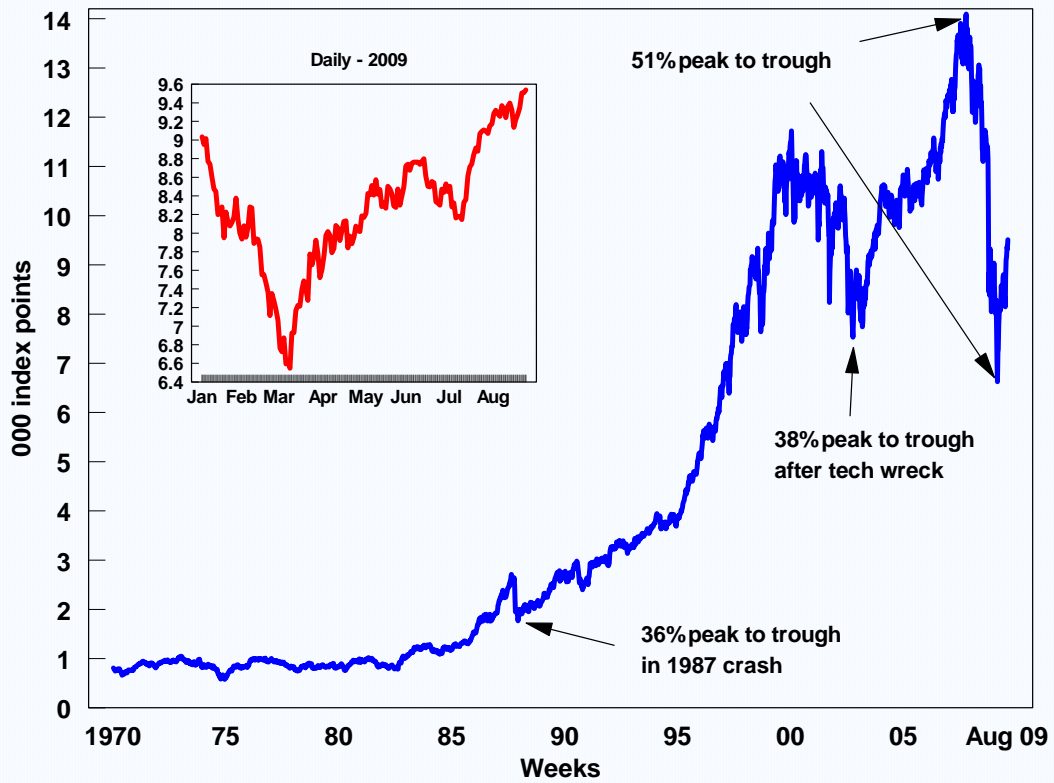
The one notable exception is the mini-correction in Shanghai's stock market, as doubts about whether previous gains in China's bourse had outstripped its economy's capacity to lead the world out of recession trigger the booking of profits from the earlier run-up in prices. It's probably nothing more than that at this stage, but just as fiscal and monetary stimulus propping up the US and other advanced economies is the reason they have at least stopped contracting, so too China's strong rebound in recent weeks is very much due to the success of Beijing's own doubled-barreled stimulus, which also must in time be wound back.

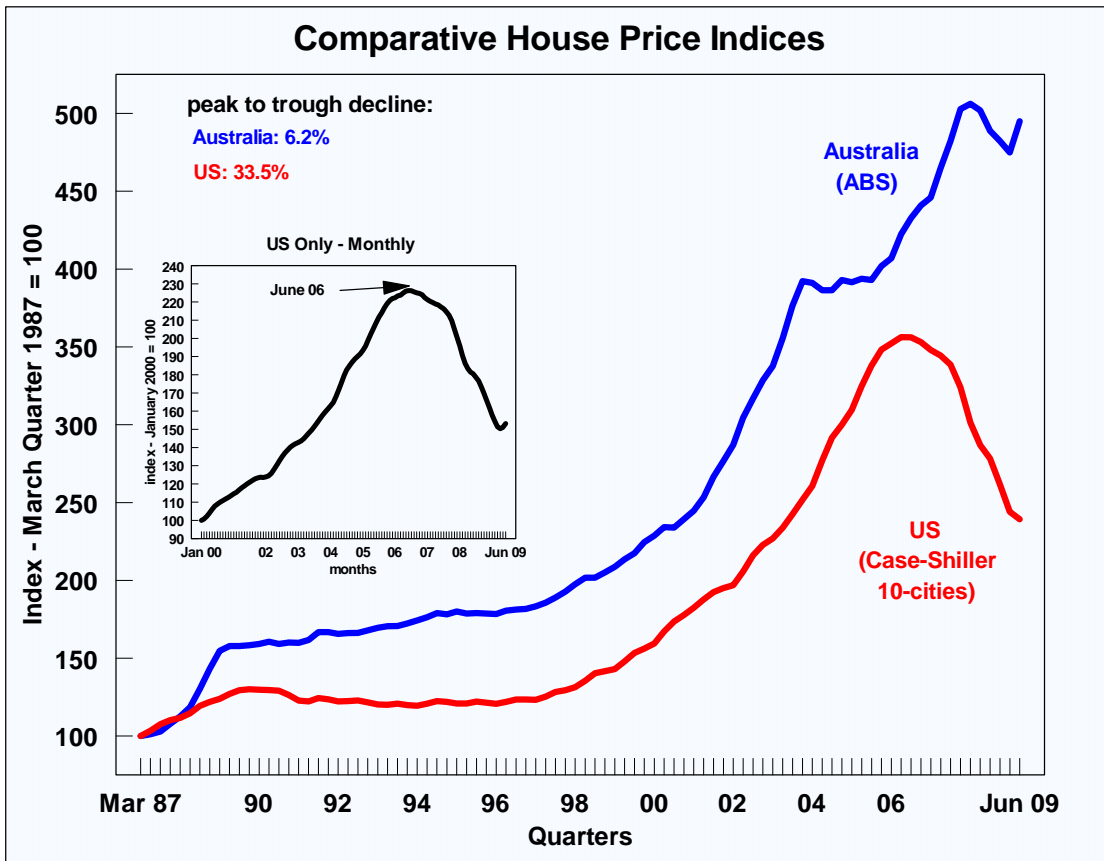
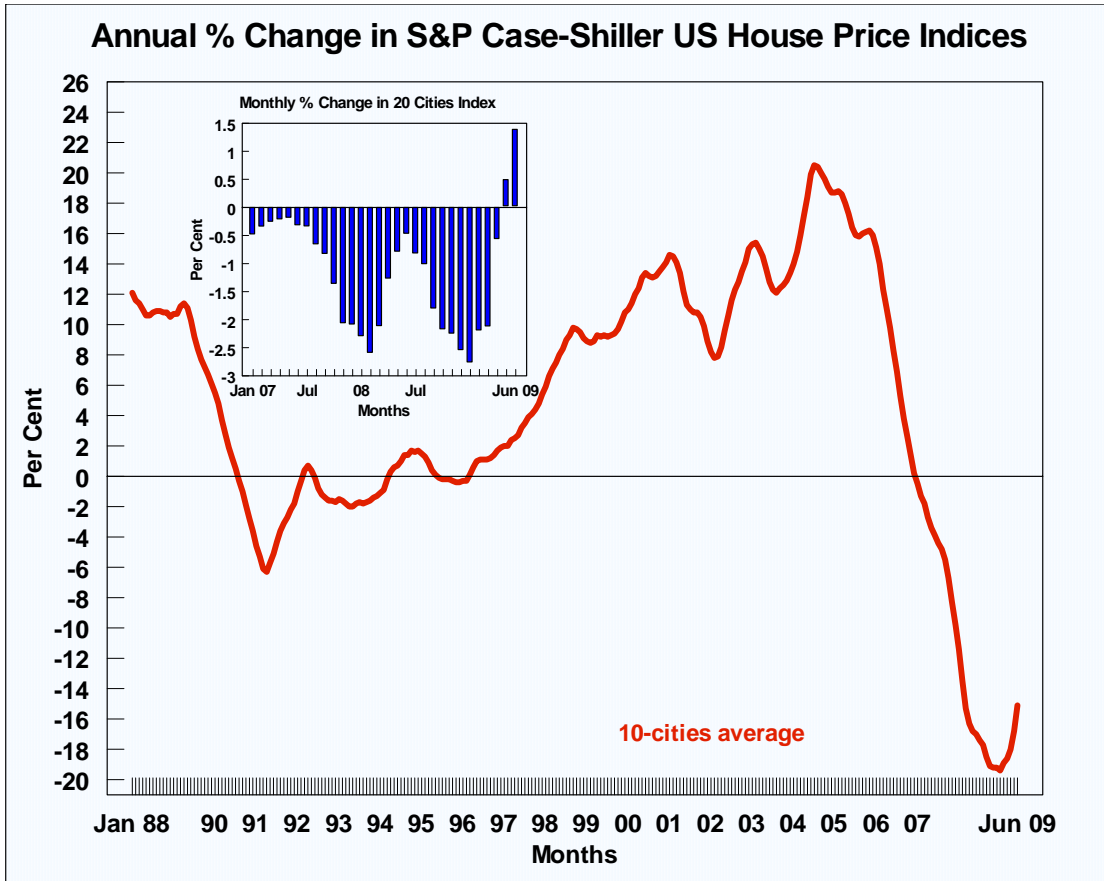


### All Ordinaries Index



### Dow Jones Industrial Average





Apart from the Fed Chairman's re-appointment, a second month's growth - at an accelerating rate to boot - in US house prices did no harm to the demand for equities. Mind you, the two months of growth come after 33 successive months of decline, during which time the benchmark S&P Case-Shiller index of house prices in 20 US cities fell by a total of 32.5 per cent. Moreover, even after the rises in the index in both May and June, it is still 31.3 per cent below its historical high three years ago.

Key debt market measures of risk premia continue to fall, although as with the economies they underpin, government support mechanisms are a major reason - and probably the biggest single reason at that - why credit markets are slowly returning to normal. Nevertheless, a durable global economic recovery was never going to happen as long as premia remained both elevated and exceptionally volatile, so at least one key pre-requisite for recovery is gradually taking shape.

The Democrat US President's decision to re-appoint the Republican - and Republican appointed - incumbent Fed chief rather than take a punt on someone else to steer the best course through the next phase of the global recovery as much as anything reflects the imperative to minimise the risk of a sudden kick back up in debt market risk premia either before, during or after emergency monetary and fiscal stimulus are withdrawn.

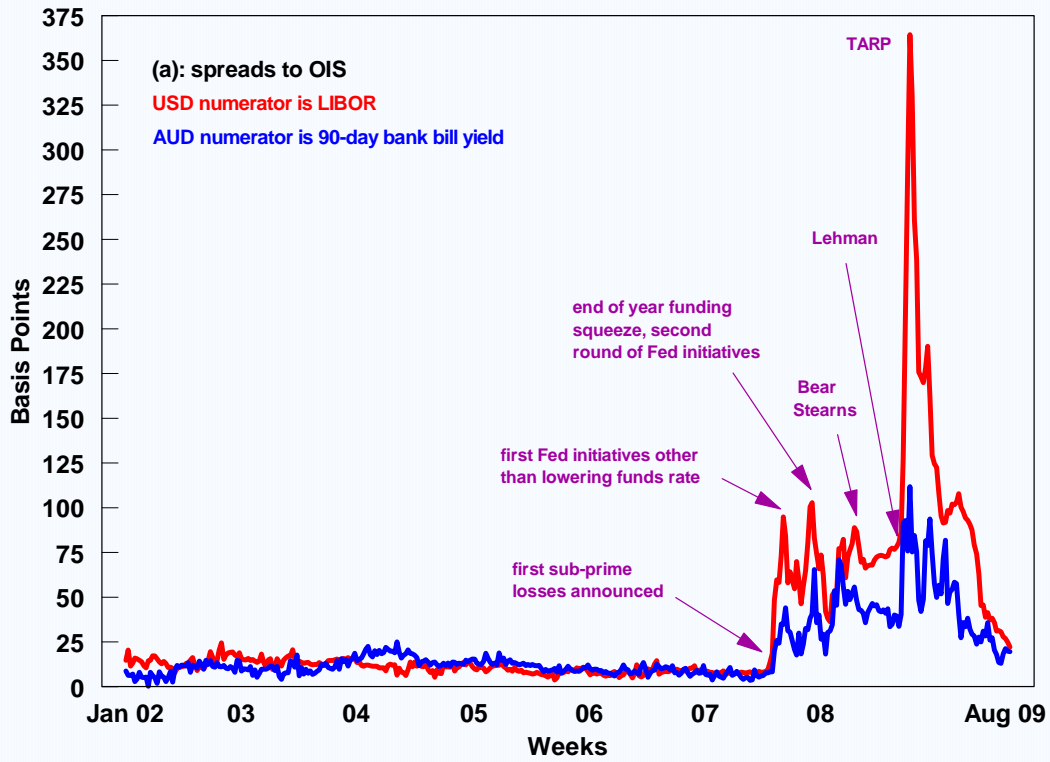
Even in the hands of a noted student, and teacher of, the lessons learned from mistakes made after the 1929 stock market crash and subsequent depression, the potential pitfalls are numerous. If quantitative easing is left in place too long, it will turn out to be inflationary, but if it is withdrawn prematurely, bond yields could, and most likely would, rise sharply as the jump in the supply of government bonds in the hands of the private sector pushes their prices down (ie yields up). And while corporate bond yields would not be directly affected, the indirect impact would still be significant, and not in a favourable way.

Similarly, from a broader whole of US government - and for that matter most others as well - perspective, fiscal stimulus needs to be phased down before the eventual cost of financing the deficits racked up suffocates the private economies that inevitably will need to prosper if a robust recovery in the global economy is to take hold.

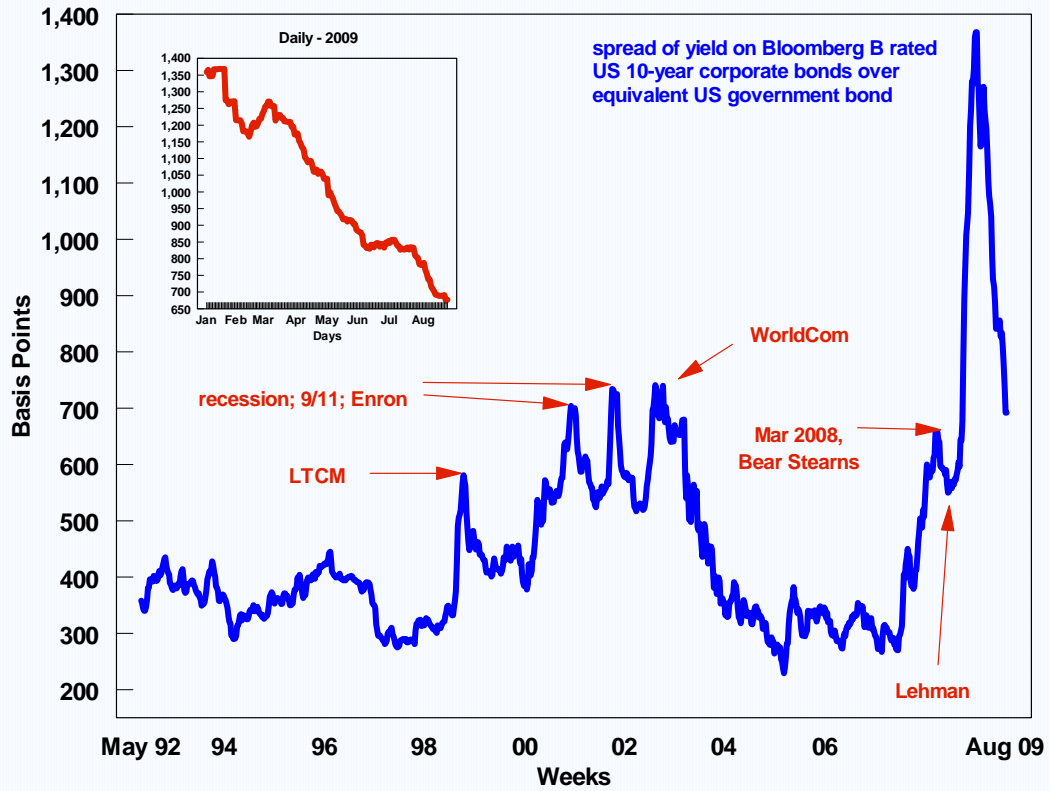
Emergency fiscal and monetary stimulus was all along designed to restore global appetite for risk after it had fallen sharply - literally overnight - when the first sub-prime mortgage losses came to light in late July 2007, and then precipitously - again, literally overnight, if not in a few mouse clicks - after the collapse of Lehman Brothers in the middle of September last year.

Which is why the speed of depreciation, and volatility of, the Australian dollar between the middle of July and the end of October last year was breathtaking, even relative to the so-called 'banana republic' days of the mid-1980s. But so too the strong and so far sustained recovery in the local currency, not only against a faltering US dollar, but pretty much across the board - the kiwi excepted - reflects the restoration of global risk appetite.

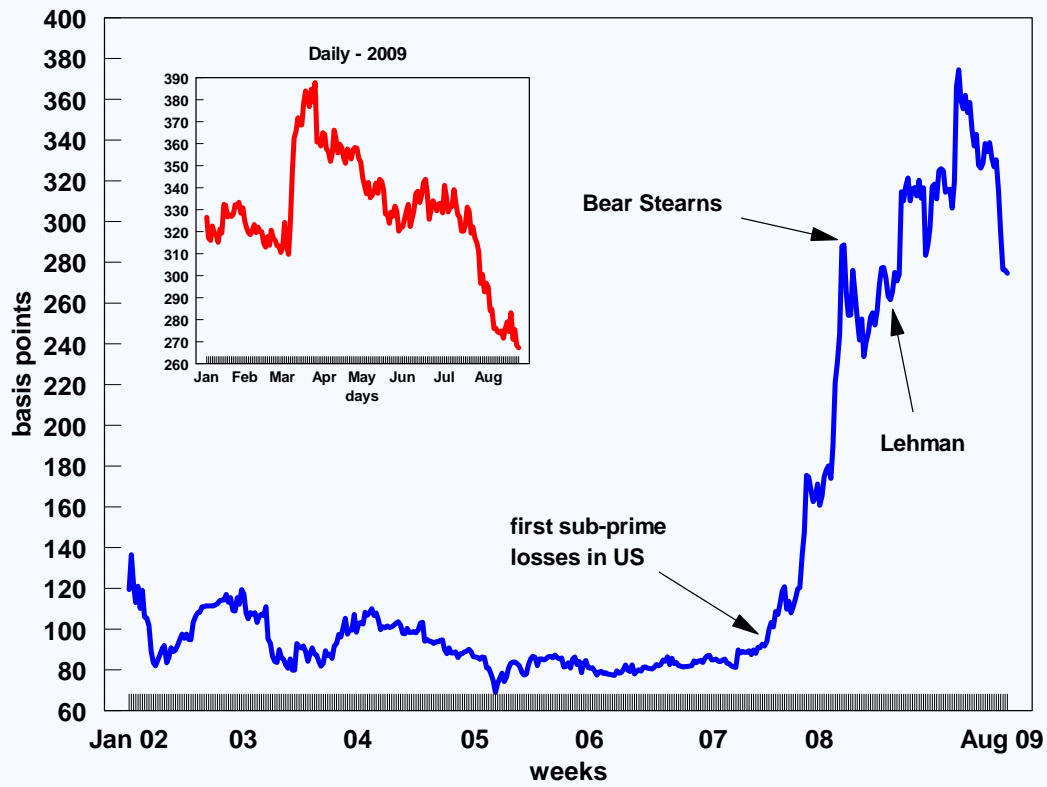
### 3 Month Interbank Risk Premium Spreads (a)



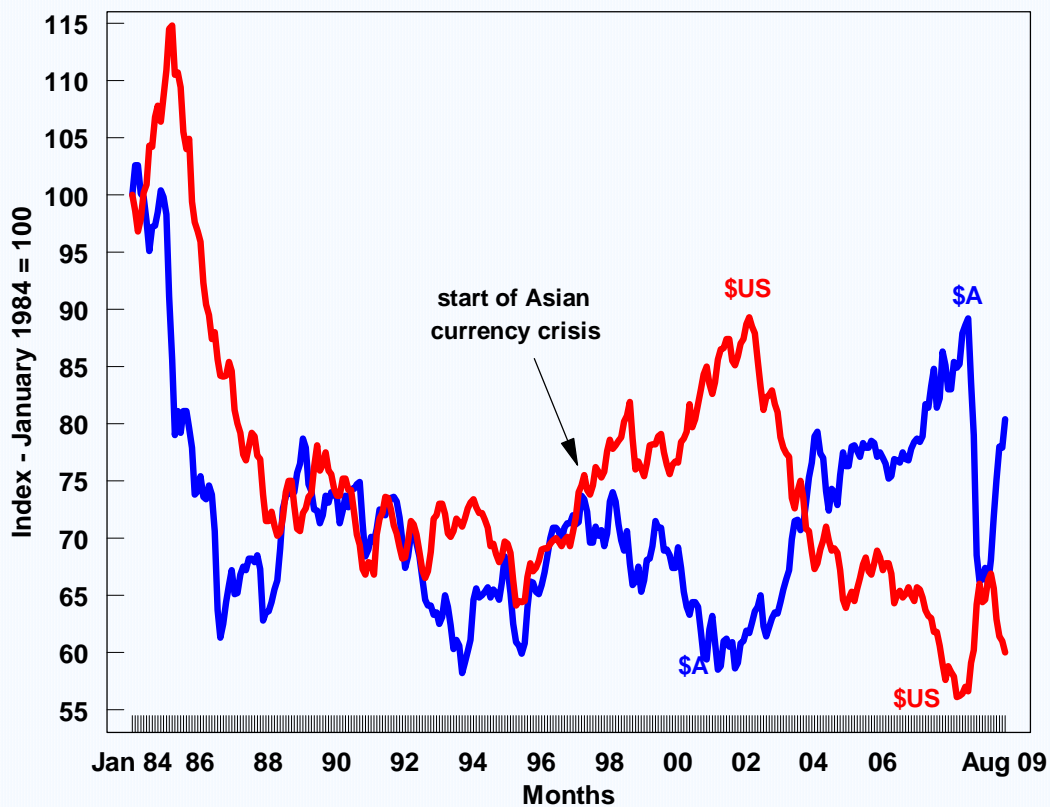
### B Rated US 10-Year Corporate Bond Risk Premium

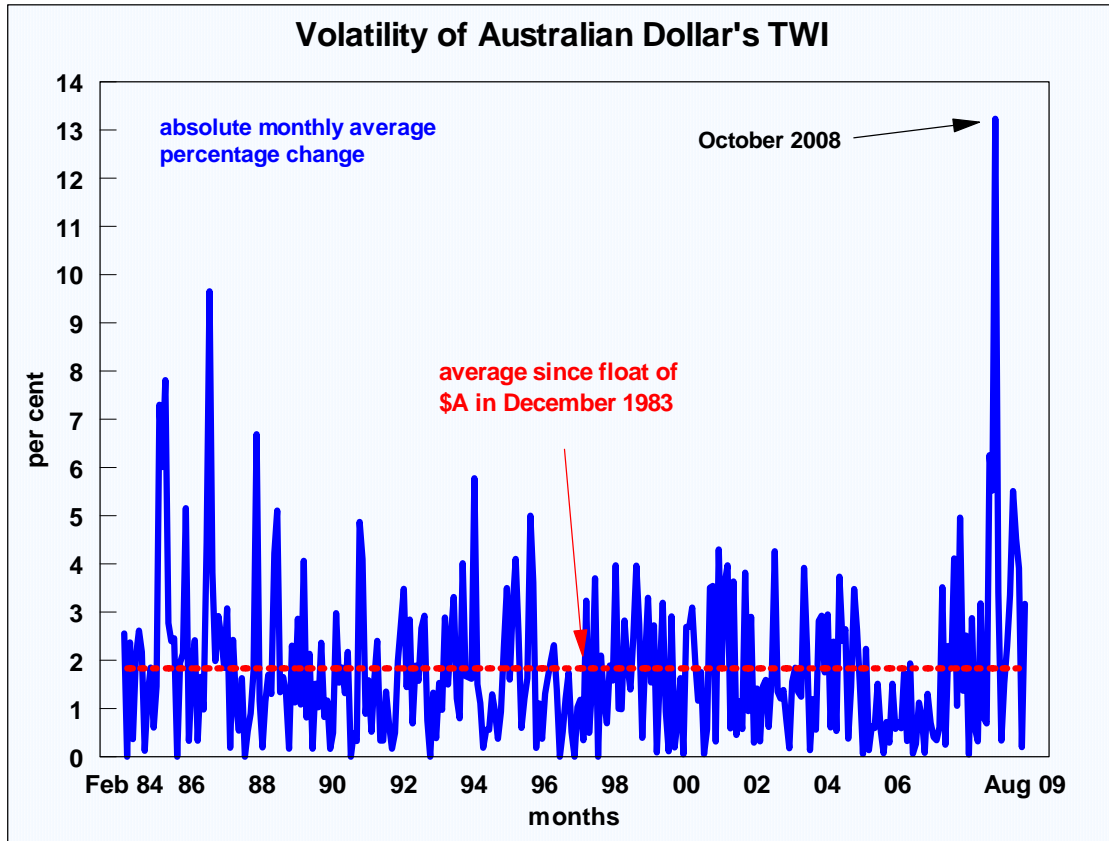


### 3-Year BBB Rated Australian Corporate Bond Risk Premium



### Trade-Weighted Index Exchange Rates





Australian house prices are sourced from ABS catalogue 6416.0; Australian dollar from the RBA; US dollar trade-weighted index from the Fed; all other data sourced from Bloomberg.

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