Weekly Economic and Financial Market Snapshot

9 September 2009

Indicative Rates & Prices *(a)*

	Year Ago	Last Week	This Week	Today
Interest Rates (% pa)				
cash	7.00	3.00	3.00	3.00
bank bills				
30-day	7.18	3.18	3.18	3.18
90-day	7.22	3.46	3.42	3.42
180-day	7.18	3.66	3.767	3.77
Swaps				
1-year	6.77	4.19	4.23	4.15
3-year	6.51	5.28	5.29	5.23
5-year	6.53	5.76	5.75	5.68
10-year	6.39	5.97	6.04	6.00
Exchange Rates units of FX per $A				
$US	0.8193	0.8362	0.8489	0.8601
yen	88.1	78.0	78.7	79.4
euro	0.5732	0.5850	0.5918	0.5931
TWI *(b)*	64.9	66.1	66.8	67.4
Commodities				
gold ($/ounce)				
$US	801.50	949.78	993.47	1,001.60
$A	973.88	1,135.85	1,170.30	1,164.52
oil ($/barrel)				
$US	106.61	70.93	68.78	71.10
$A	131.72	84.74	81.76	83.00
base-metals *(c)*				
$US	158.8	135.0	134.3	138.4
$A	148.8	124.5	121.6	123.1
Equities				
All Ords	5,026	4,477	4,478	4,527
Dow	11,337	9,495	9,391	9,497

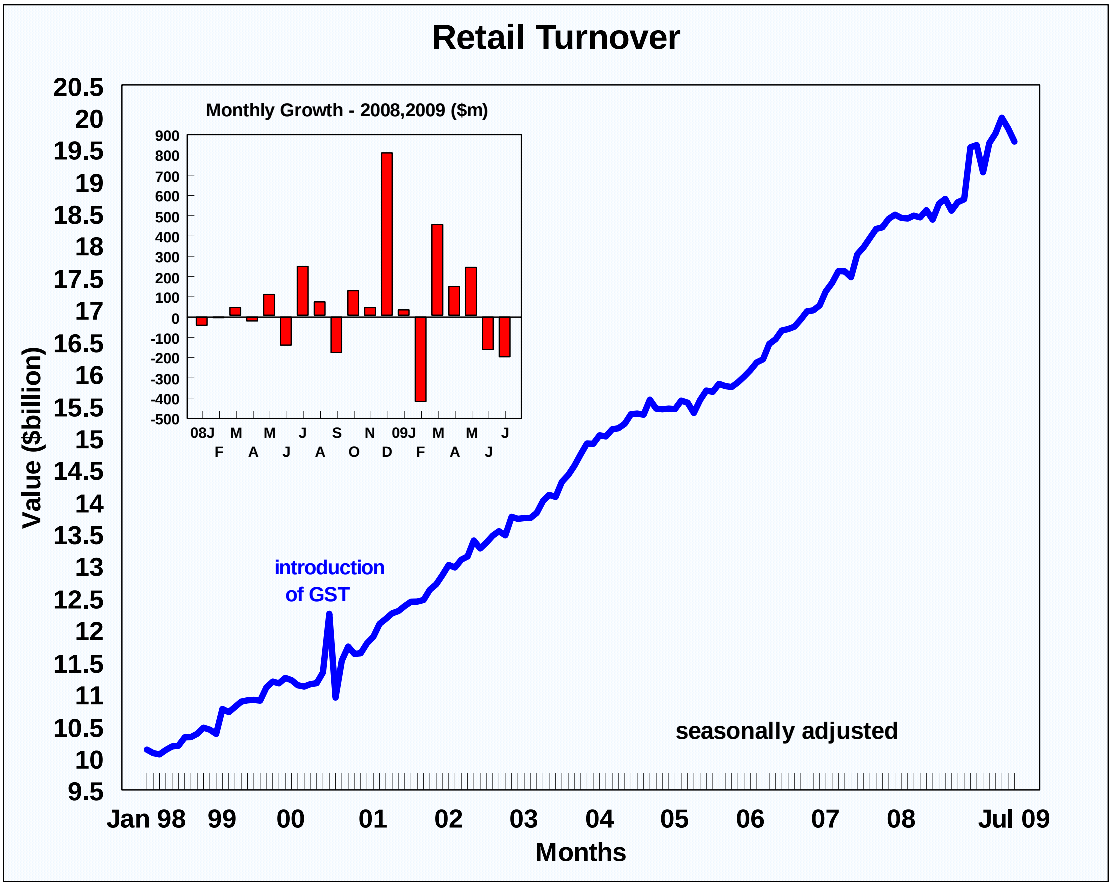
Notes: *(a)* Indicative wholesale prices/yields. With the exception of cash and all data in the "today' column, all observations are weekly averages ending Wednesday. Cash is snapshot on the Wednesday of the relevant week.

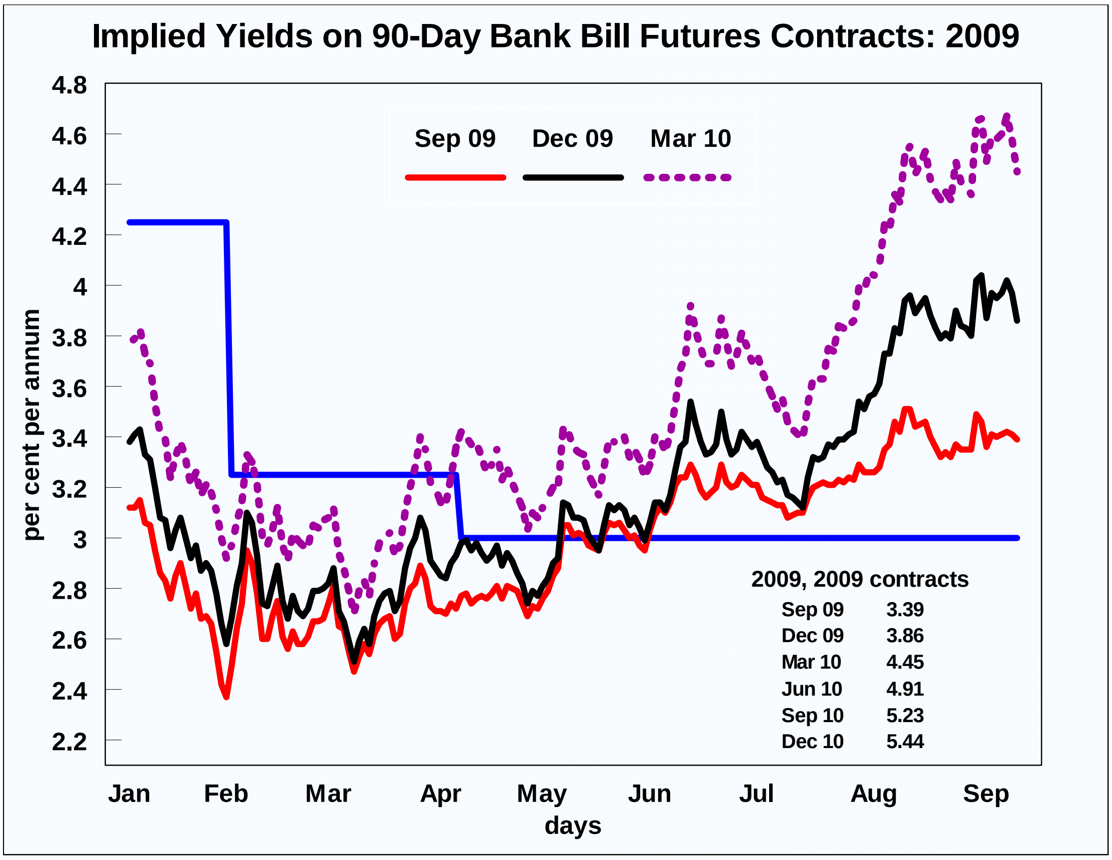
(b) Trade-weighted index value of AUD, based at May 1970 = 100.

(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 fragility of the re-acceleration of the Australian economy, and its reliance on fiscal stimulus was highlighted by the pull-back in both retail sales and housing finance approvals for the construction of new dwellings in July. Consequently, a bank bill futures market assigning a high probability to multiple increases in the cash rate, commencing sooner rather than later, rallied strongly (ie implied yields fell) within minutes of the data's publication at 11.30 AEST on Wednesday.

Despite the rally in response to the retail data in particular, implied yields on the March 2010 contract are nevertheless 145 basis points above the cash rate, and another 100 basis points higher still out at December 2010, although trading volumes in the more distant contracts are still light at this stage.

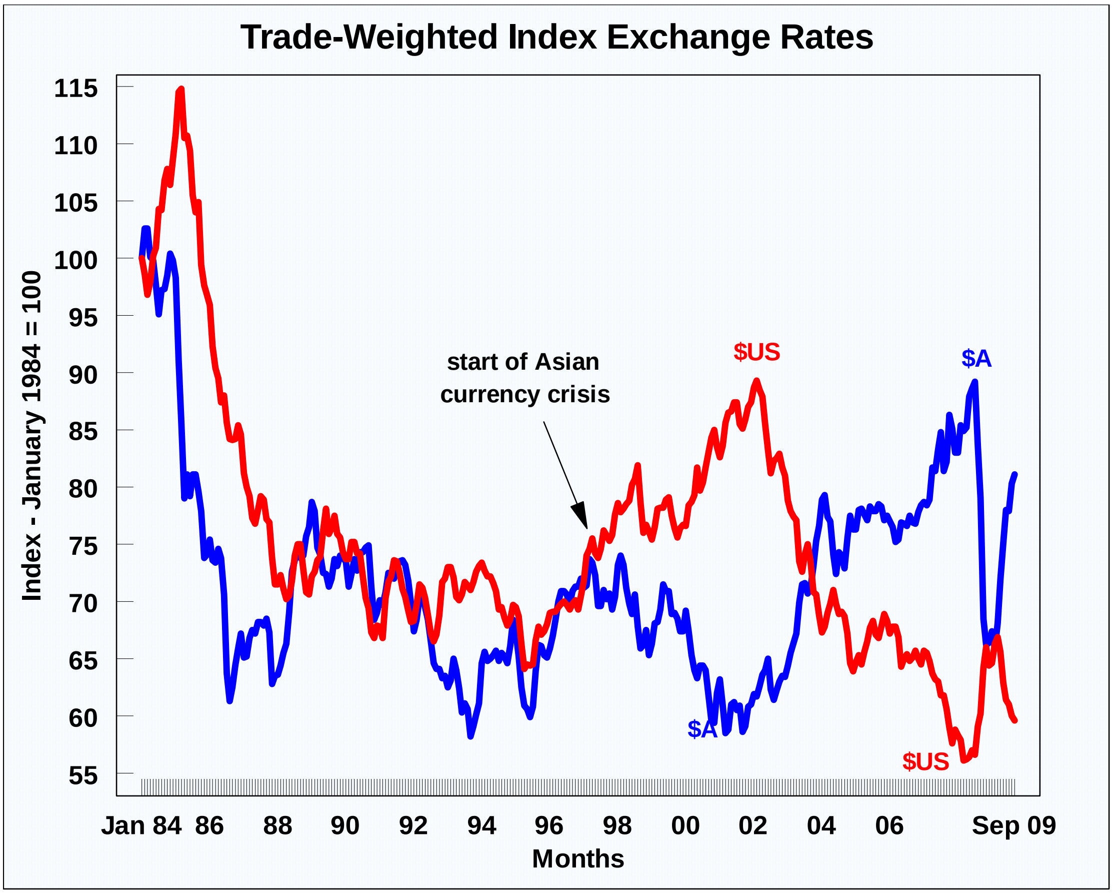


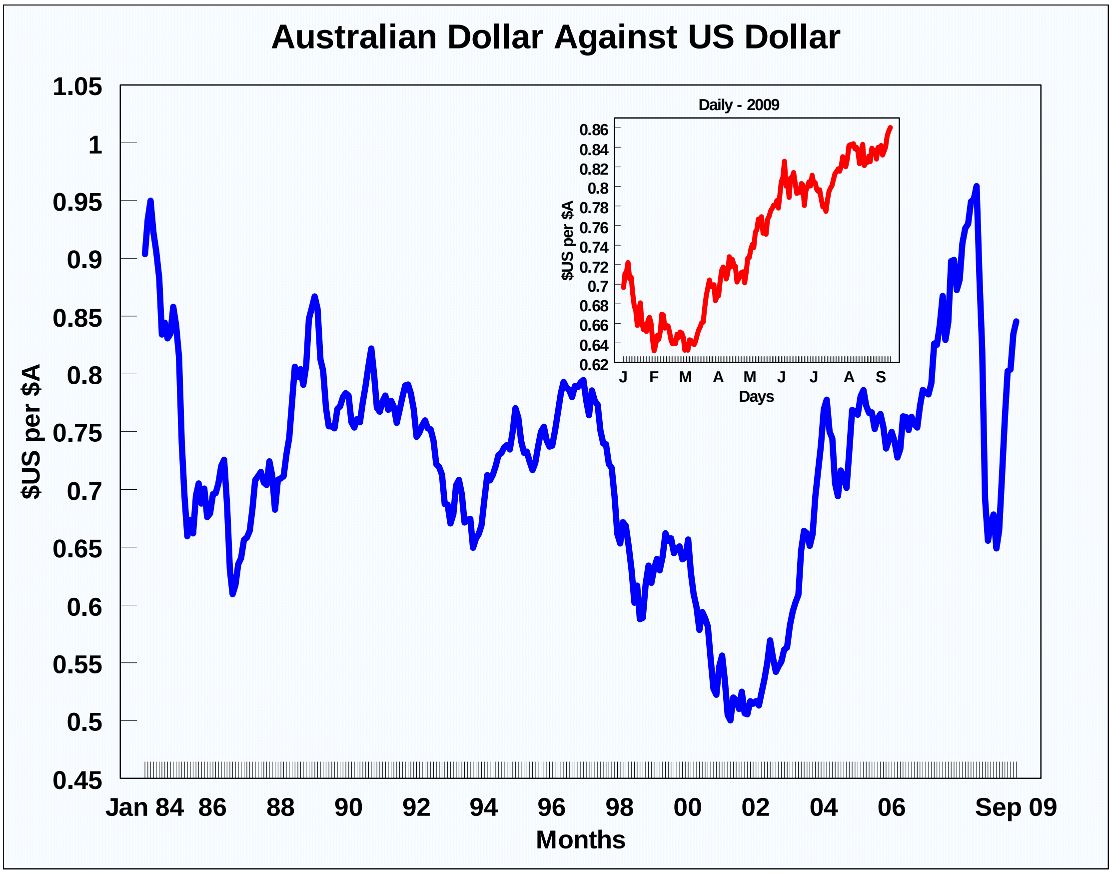


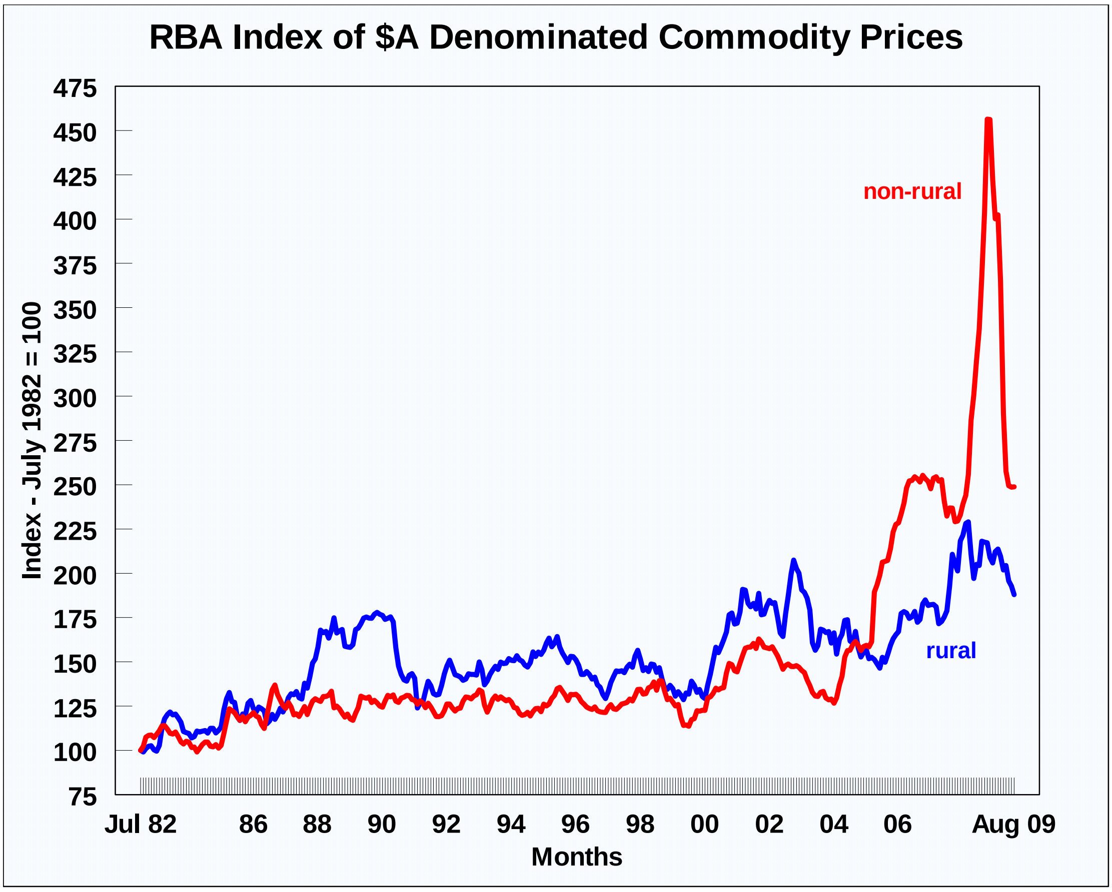
An Australian dollar marching confidently early on Wednesday towards a one-year high of 87 cents against a still faltering US dollar lost 0.6 of a cent within 45 minutes of the retail and housing finance data as some of the more aggressive expectations of widening short-term interest rate differentials were scaled back. Nevertheless, the recent surge in the Australian dollar is more than just the flip side of US dollar weakness, as the local unit posts new multi-month highs against most currencies, the kiwi being the chief exception.

The 3.8 per cent monthly average appreciation of the Australian dollar against the greenback in August robbed local currency denominated commodity prices of all - and then some - of the 2.7 per cent increase in the multi-currency [IMF special drawing right (SDR)] measure of the RBA's index of commodity prices last month. Similarly, the rising Australian dollar is accentuating the latest slide back in $US denominated spot iron ore prices, although exchange rate gyrations are just one of a number of vagaries in the iron ore market while major producers and their biggest customers thrash out an alternative to the traditional annual contract price system.

The sliding US dollar complicates analysis of commodity price movements, because fluctuations in the greenback's value can be a major factor in changes in the prices of many commodities, but gold in particular. The yellow metal has surged through $1,000 an ounce this week for the first time since the middle of March last year, but when converted to the ever more expensive - except for the immediate aftermath of the retail data, that is - Australian dollar, the gold price, at $1,166, is almost 25 per cent below its historical peak of $1,547 on the 20th of February this year.


Trade-Weighted Index Exchange Rates
Index - January 1984 = 100
115
110
105
100
95
90
85
80
75
70
65
60
55
start of Asian
currency crisis
$US
$A
$A
$US
Jan 84 86 88 90 92 94 96 98 00 02 04 06 Sep 09
Months


Australian Dollar Against US Dollar
$US per $A
1.05
1
0.95
0.9
0.85
0.8
0.75
0.7
0.65
0.6
0.55
0.5
0.45
Daily - 2009
$US per $A
0.86
0.84
0.82
0.8
0.78
0.76
0.74
0.72
0.7
0.68
0.66
0.64
0.62
J F M A M J J A S
Days
Jan 84 86 88 90 92 94 96 98 00 02 04 06 Sep 09
Months


RBA Index of $A Denominated Commodity Prices
Index - July 1982 = 100
475
450
425
400
375
350
325
300
275
250
225
200
175
150
125
100
75
non-rural
rural
Jul 82
86
88
90
92
94
96
98
00
02
04
06
Aug 09
Months


Spot Iron Ore Prices
China weekly import price
$A per tonne
250
240
230
220
210
200
190
180
170
160
150
140
130
120
110
100
90
Jun 06
07
Jun
Sep
08
Jun
Sep
09
Sep 09
Weeks

Prior to the publication of retail data, and also before Thursday's key labour market report for August is published, both consumer and business sentiment surged further, clear evidence that emergency fiscal and monetary stimulus had provided a circuit-breaker to the grave risk of a downward spiral in confidence and actual economic activity feeding on each other in the face of the deepest global recession since the 1930s and the associated ravaging of household wealth.

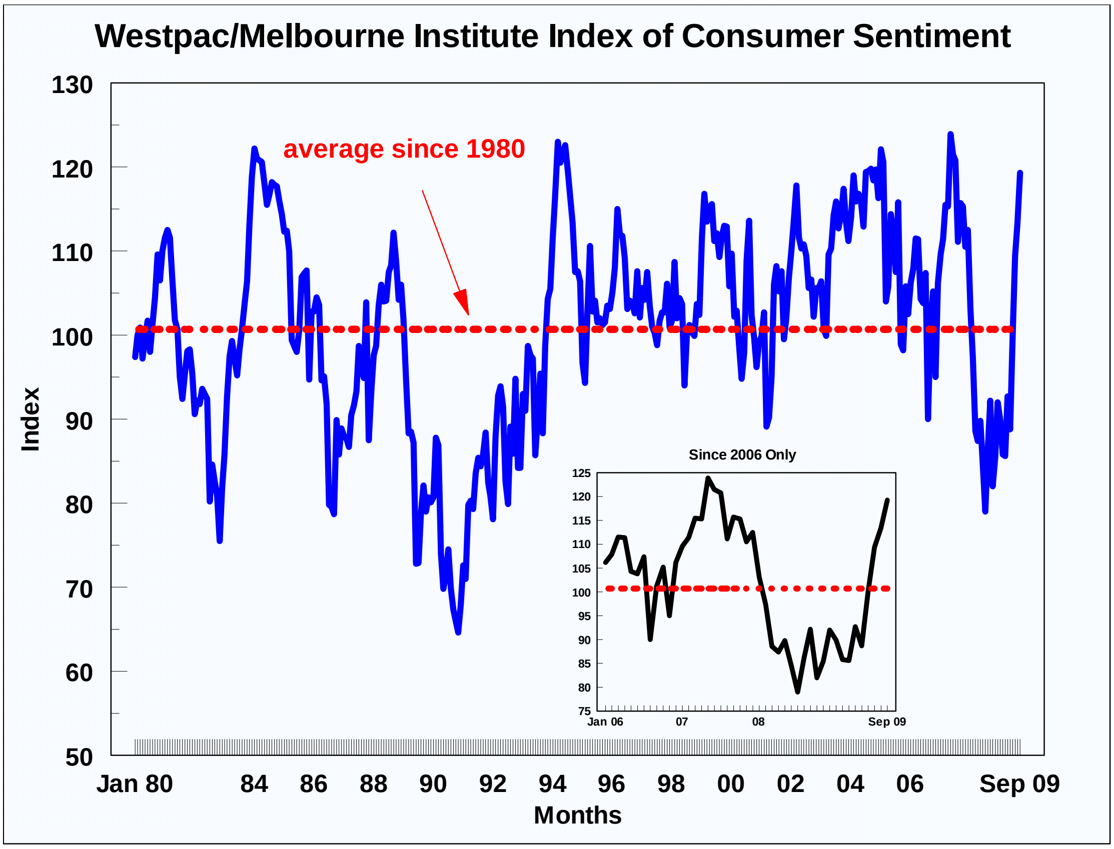
But the question of whether key parts of the Australian economy are quite yet in the condition to stand on their own when fiscal stimulus is withdrawn remains in play, as it does in the US, where last Friday night's labour market report painted a mixed picture - a new 26-year high in the jobless rate of 9.7 per cent, after it had dropped back a bit in July, but further slowing in the rate of contraction in non-farm payroll employment. Not that the whopping 5 per cent peak to trough so far fall in payrolls is anything but the legacy of deep recession in the world's largest economy, but rightly or wrongly the slowing in the rate of decline is being freely touted as further evidence that the world's largest economy is on the verge of at least a modest recovery.

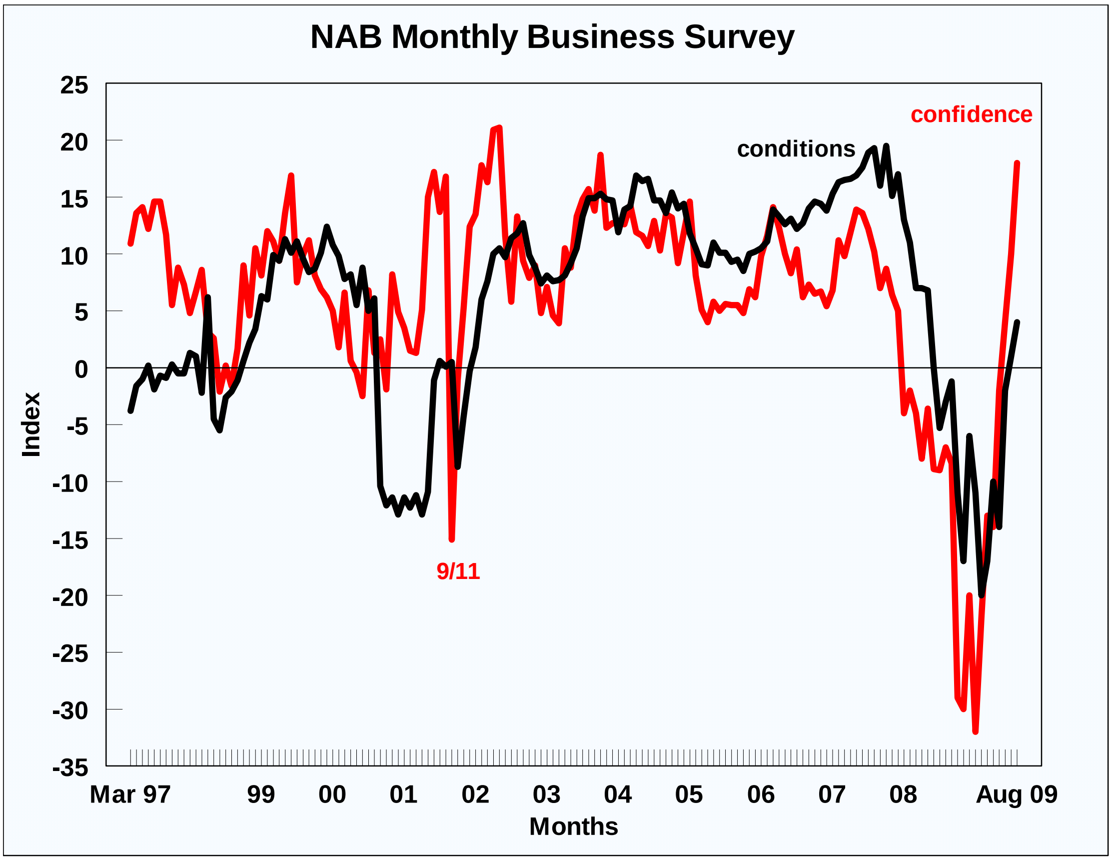
Given that the rising Australian dollar is a partial de-facto tightening of monetary policy, the at least temporary pull-back in retail turnover buys the RBA a bit of time to assess whether removal of emergency monetary stimulus before the year is out is either desirable or necessary. But the RBA is well aware that background noise from the notoriously volatile seasonally adjusted retail sales series can be deafening, even when the official trend estimate is not in suspension, which it has been since November last year and will be until the direct affects of the front-loaded fiscal stimulus have washed out of the data.

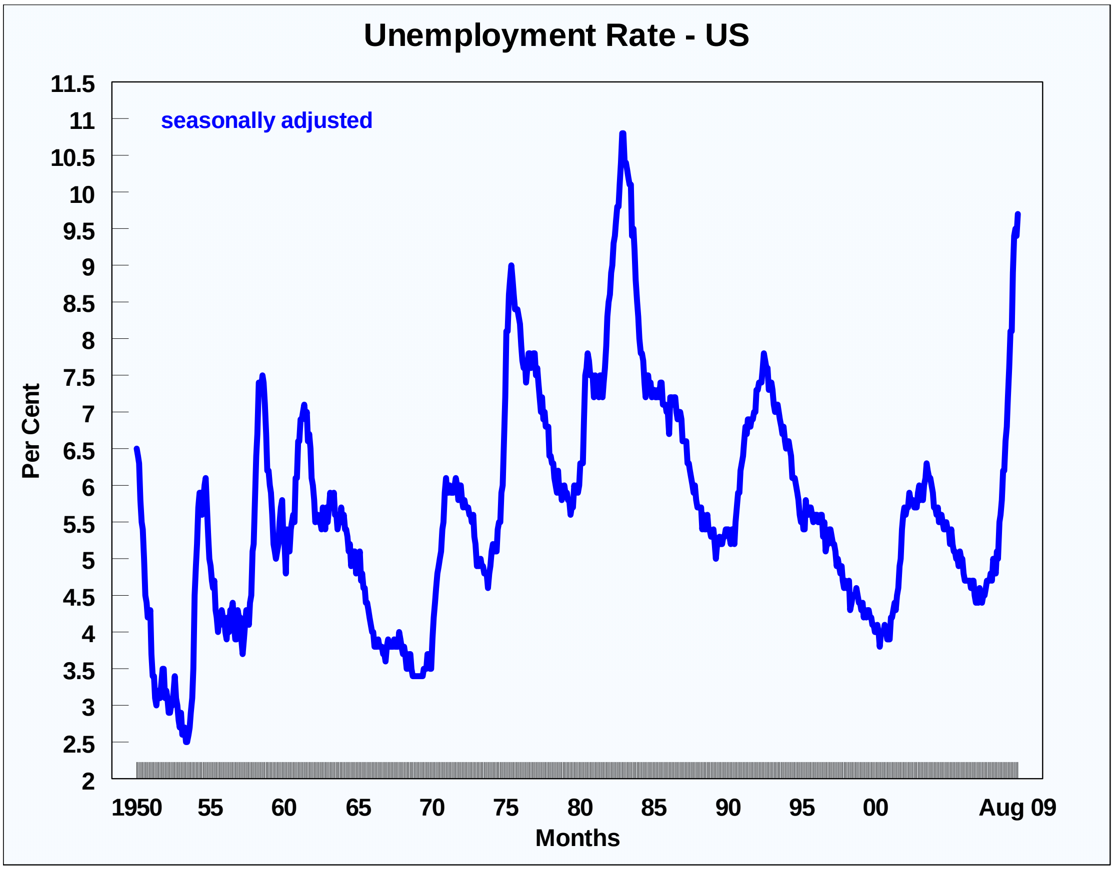
The stumble on Wall Street cited in last week's *Snapshot* came to nothing, as equity markets focused more heavily on the slowing in the rate of contraction in payroll employment rather than the jump in the jobless rate, while a couple of big retailers reported sales declines that weren't as bad as equity analysts had forecast - not an increase in sales, mind you, but a lesser rate of decline than might have been the case.

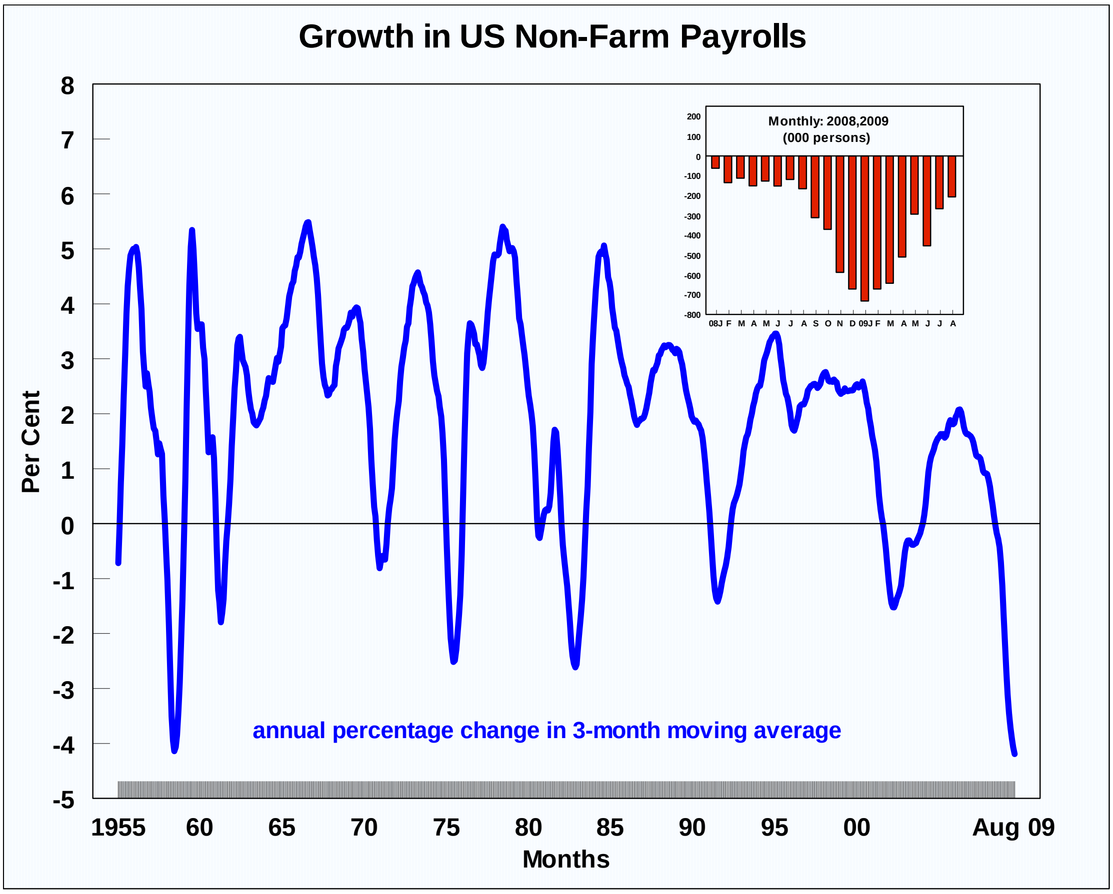
While the ever present possibility of a sudden and substantial correction in global equity markets is always one of the risks the RBA must weigh up when deciding when to pull the cash rate trigger, stock markets have been the most enthusiastic supporters of the global economic recovery story - as they always are - so recent share price trends are another tick in the box in favour of a cash rate rise. But as they say, equity markets have foreseen 6 of the last 3 recessions, and 7 of the last 4 recoveries from the recessions.

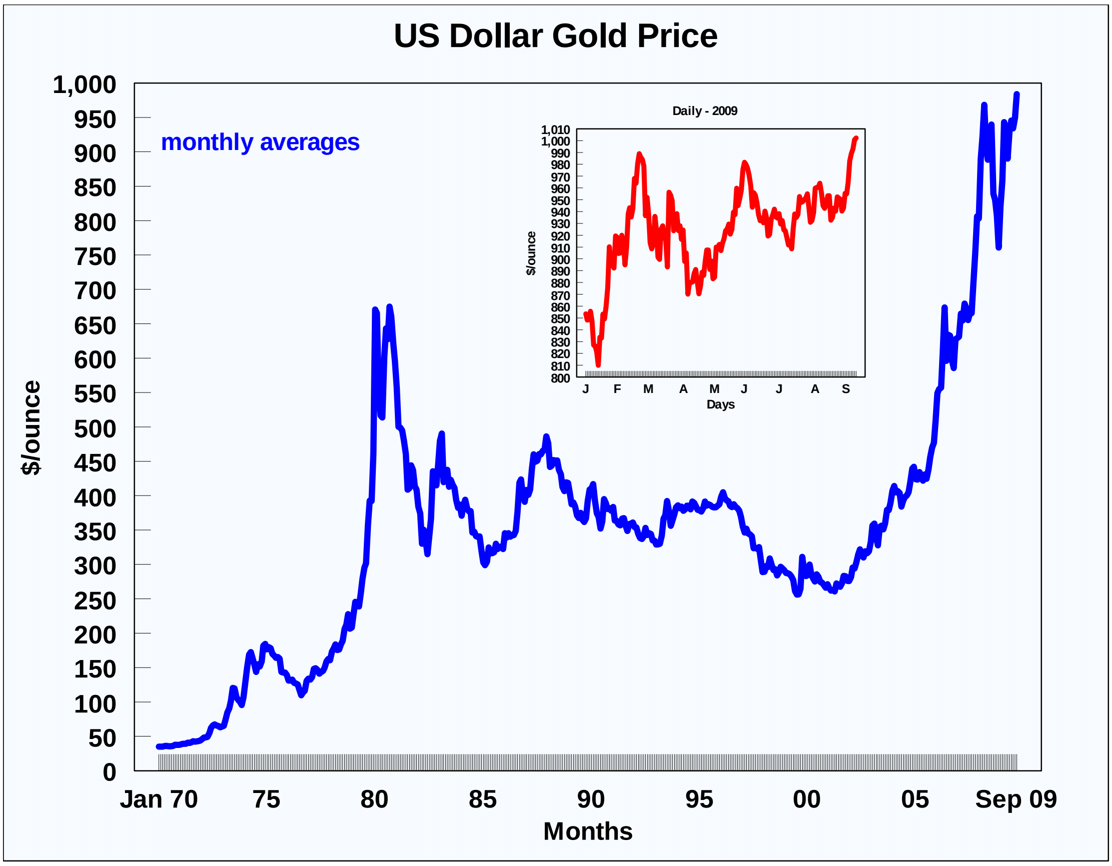
Although the headline (ie seasonally adjusted) unemployment rate is a far from complete picture of the state of the labour market, it nevertheless has a significant bearing on general community perceptions that influence sentiment and the consumption/household balance sheet consolidation equation. And even if the jobless rate remains unchanged or shifts either way by just 0.1 of a percentage point, Thursday's August labour force bulletin will incorporate an updated quarterly measure of labour force underutilisation and monthly estimates of total hours worked economy-wide, both of which are crucial components of the incidence of underemployment, which is not captured in either the unemployment rate or total employment growth, because a person is classified as employed - and therefore by definition not unemployed - if they work as little as 1 hour during the reference week during which they are included in the monthly labour force survey.

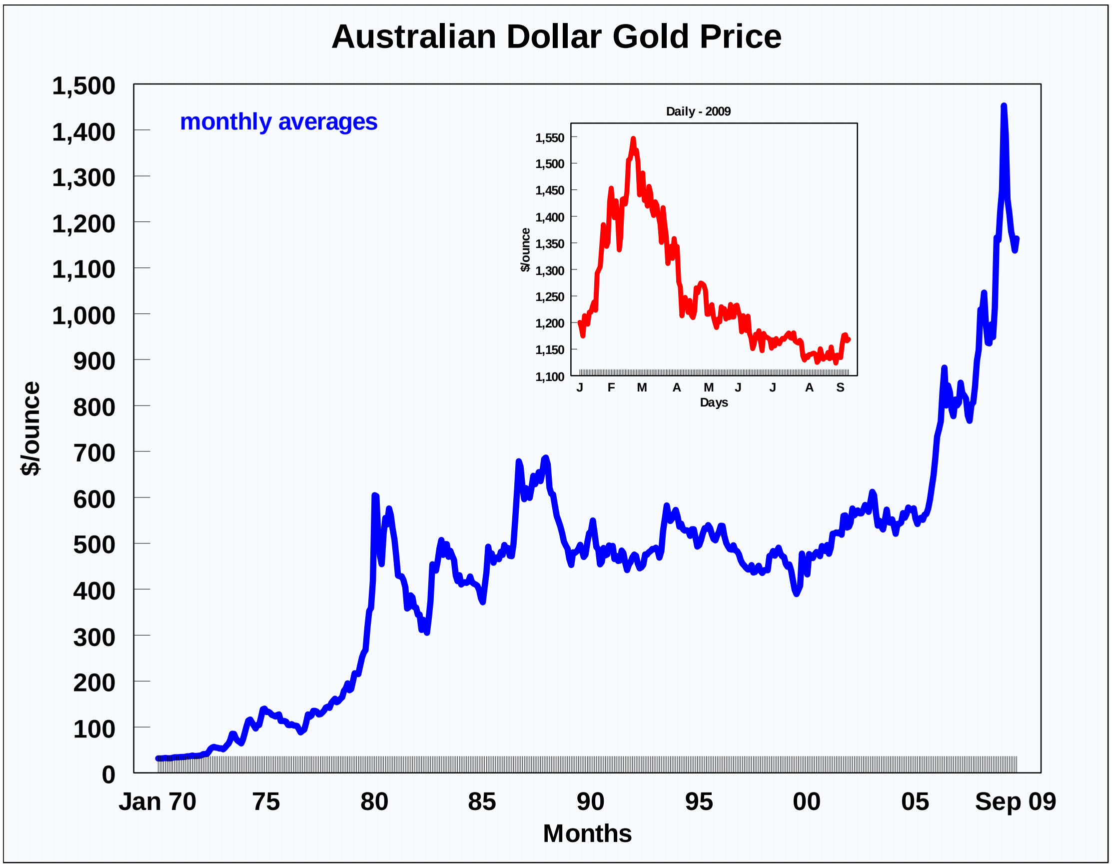

Westpac/Melbourne Institute Index of Consumer Sentiment
130
120
110
100
90
80
70
60
50
Index
average since 1980
Since 2006 Only
125
120
115
110
105
100
95
90
85
80
75
Jan 06
07
08
Sep 09
Jan 80
84
86
88
90
92
94
96
98
00
02
04
06
Sep 09
Months

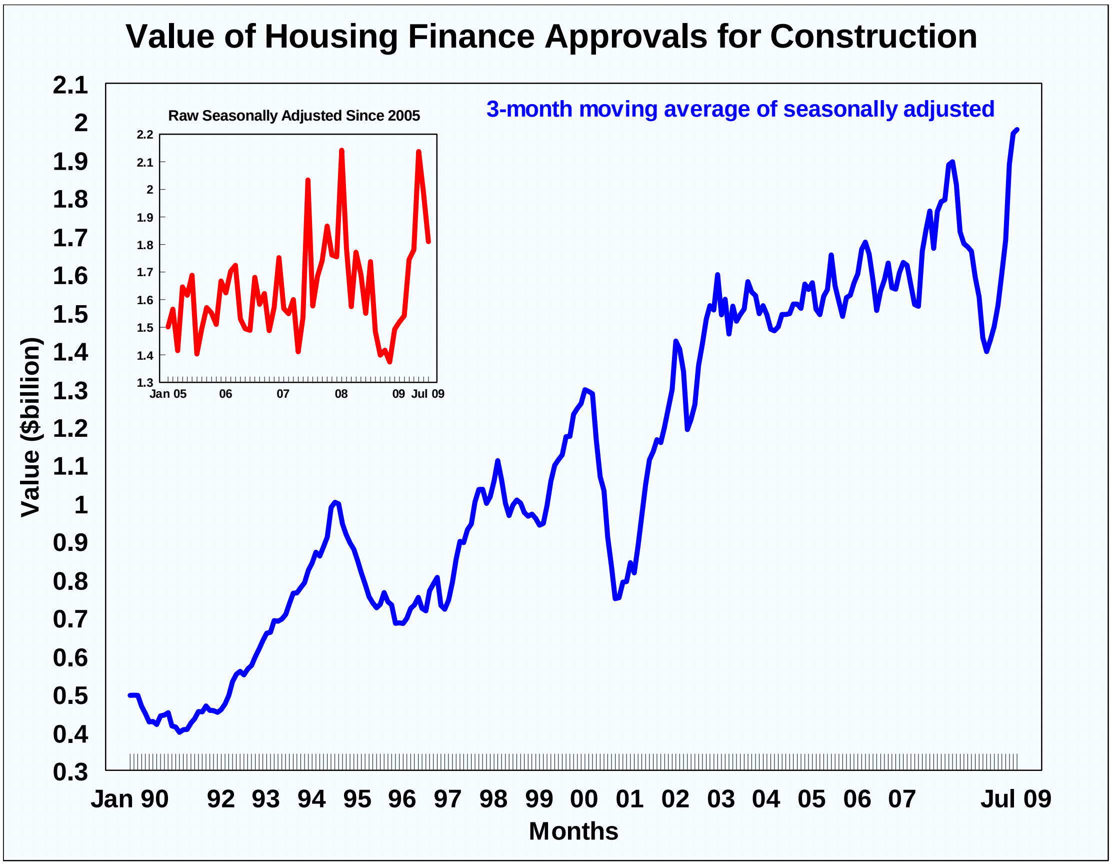

NAB Monthly Business Survey
25
20
15
10
5
0
-5
-10
-15
-20
-25
-30
-35
Index
confidence
conditions
9/11
Mar 97
99
00
01
02
03
04
05
06
07
08
Aug 09
Months


Unemployment Rate - US
seasonally adjusted
Per Cent
11.5
11
10.5
10
9.5
9
8.5
8
7.5
7
6.5
6
5.5
5
4.5
4
3.5
3
2.5
2
1950
55
60
65
70
75
80
85
90
95
00
Aug 09
Months


Growth in US Non-Farm Payrolls
Monthly: 2008,2009
(000 persons)
annual percentage change in 3-month moving average
Per Cent
8
7
6
5
4
3
2
1
0
-1
-2
-3
-4
-5
1955
60
65
70
75
80
85
90
95
00
Aug 09
Months


US Dollar Gold Price
monthly averages
$/ounce
Months
Jan 70
75
80
85
90
95
00
05
Sep 09
Daily - 2009
Days


Australian Dollar Gold Price
monthly averages
$/ounce
Months
Jan 70
75
80
85
90
95
00
05
Sep 09
Daily - 2009
Days



Retail turnover and housing finance data are sourced from ABS catalogues 8501.0 and 5609.0 respectively; Australian dollar from RBA; US dollar from the Fed; US labour market data from the US Bureau of Labor Statistics; all other data sourced from Bloomberg.

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