

WEEKLY ECONOMIC BRIEF – 18 January 2010

Key Points

- *Bond markets rally over the week, as incoming data suggests a softening in the pace of recovery*
- *Chinese imports surge in 2009, as accommodative policy supports domestic demand*
- *The Australian economy adds 35.2k jobs in December, with the unemployment rate falling to 5.5 percent*

Major developed equity markets closed the week lower, with the MSCI World Index (in local currency terms) falling by 0.8 percent. The Nikkei was the exception, rising by 1.7 percent, while European equity markets generally underperformed, falling around by 2.5 percent. The Greek sharemarket was particularly hard hit, declining by 7.9 percent, due to concerns about the state of public finances following a report revealing severe irregularities in the economy's budget data. Consequently, the spread between Greek ten-year government bonds and German ten-year government bonds rose 46 basis points over the week.

Developed bond markets rallied over the week as incoming economic data suggested a softening in the pace of recovery. The softer than expected December inflation data contributed to yields on US ten-year government bonds falling by 15.5 basis points over the week, as expectations that the Fed will commence its tightening cycle in the second half of 2010 were tempered. Yields in Germany and the UK fell around 12 basis points. The US dollar lost ground against the pound and the yen, but it was relatively flat against the Australian dollar and the euro.

After recovering solidly over recent months, US consumer spending appears to have stalled in December. Retail sales fell by 0.3 percent in December after rising a strong 1.8 percent in November. Consumer confidence rose slightly in January, as the assessment of current conditions improved.

Activity within the US manufacturing sector continues to improve, with the Empire State survey of manufacturing sentiment rising in January, and industrial production expanding in December. The surge in utilities output led to industrial production rising by 0.6 percent in December, while capacity utilisation rose to its highest level in a year. As the economy recovers, firms have started to rebuild stocks, with business inventories rising for the second consecutive month in December. The US trade deficit widened in November from US\$33.2 billion to US\$36.4 billion as export values rose 0.9 percent over the month and import values rose 2.6 percent.

Industrial production continues to gradually recover in other developed economies, rising by 0.4 percent in the UK and 1 percent in the euro area during November. In contrast to the US, the UK trade deficit narrowed from £3.1 billion to £2.9 billion as exports rose slightly and imports remained flat.

Strong growth in the Chinese and Indian economies has continued over recent months. Indian industrial production rose 2.2 percent in November to be 11.7 percent higher over the year. Chinese international trade rose sharply in December, with exports rising an estimated 16 percent over the month and imports jumping 21 percent. Strong domestic demand in China has caused import values to increase 56 percent over the course of 2009. Given the strong momentum and excess liquidity in the Chinese economy, policymakers have started to tighten policy settings. During the week, the PBOC raised the reserve requirement ratio that banks are required to hold by 50 basis points.

The Australian economy continues to outperform most of its peers. The economy added 35,200 jobs in December bringing the total increase in employment to 135,700 over the past four months. The pick-up in employment has caused the unemployment rate to fall to 5.5 percent; its lowest level since April 2009. The improvement in the Australian labour market has led the market to expect slightly more aggressive tightening by the Reserve Bank of Australia, with the market currently expecting the cash rate to reach 5 percent by the end of the year.

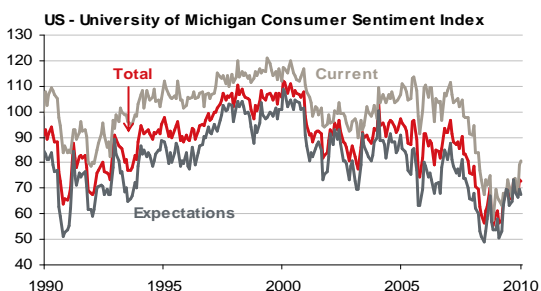
Table 1. Financial market movements, 08/01/2010 to 15/01/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	-0.8%	-	-
US	-0.8%	-15.5 bps	-
Japan	1.7%	-3.5 bps	2.1%
UK	-1.4%	-12.5 bps	1.5%
Germany	-2.7%	-12.3 bps	-0.2%
Australia	-0.3%	-9.6 bps	-0.2%

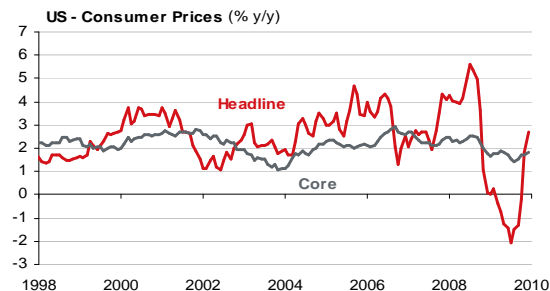
US



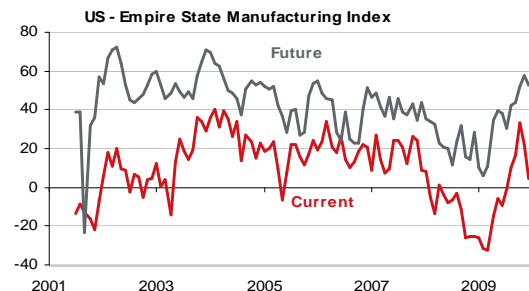
US - Retail sales (14 Jan)	Oct-09	Nov-09	Dec-09	Mkt fcast
Retail sales (% y/y)	-2.0	2.5	5.4	-
Retail sales (% m/m)	1.2	1.8	-0.3	0.5
Ex autos	0.0	1.9	-0.2	0.3
Ex autos and gas	0.1	1.0	-0.3	-
Control	0.1	1.9	-0.1	-
Motor Vehicle & Parts Dealers	7.4	1.2	-0.8	-
Furniture, Home Furn., Electronics, Appliances	-0.8	1.8	-1.2	-
Building Materials, Garden Equip., Supply Stores	-1.5	2.3	-0.4	-
Food & Beverage Stores	-0.2	1.1	-0.8	-
Health & Personal Care Stores	0.0	0.5	0.8	-
Gasoline Stations	-1.2	9.6	1.0	-
Clothing & Clothing Accessory Stores	-0.2	-0.1	-0.6	-
Sporting Goods, Hobby, Book & Music Stores	-0.2	0.3	1.6	-
General Merchandise Stores	0.7	0.5	-0.8	-
Miscellaneous Stores	0.8	1.1	-1.0	-
Nonstore Retailers	1.8	1.6	1.4	-
Food Service & Drinking Places	0.0	0.9	-0.6	-
Retail sales revisions (ppts, % m/m)	-0.2	0.5	-	-



US - University of Michigan (15 Jan)	Nov-09	Dec-09	Jan-10	Mkt fcast
Consumer Sentiment Index	67.4	72.5	72.8	74.0
Current Conditions Index	68.8	78.0	81.0	-
Consumer Expectations Index	66.5	68.9	67.5	-

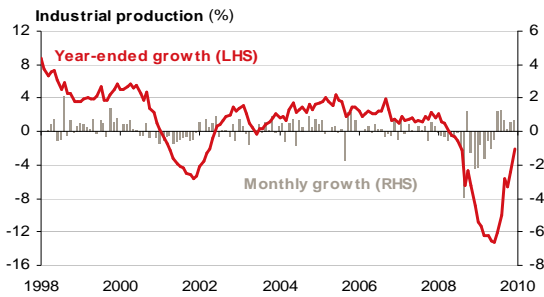


US - CPI (15 Jan)	Oct-09	Nov-09	Dec-09	Mkt fcast
Headline (% m/m)	0.3	0.4	0.1	0.2
Headline (% y/y)	-0.2	1.8	2.7	2.8
Core (% m/m)	0.2	0.0	0.1	0.1
Core (% y/y)	1.7	1.7	1.8	1.8
Food and Beverages (% m/m)	0.1	0.1	0.2	-
Housing (% m/m)	0.1	0.0	0.0	-
Apparel (% m/m)	-0.4	-0.3	0.4	-
Transportation (% m/m)	1.4	2.3	0.4	-
Medical Care (% m/m)	0.2	0.3	0.1	-
Recreation (% m/m)	-0.4	-0.2	-0.4	-
Education and Communication (% m/m)	0.2	0.0	0.2	-
Other Goods and Services (% m/m)	0.3	0.4	0.2	-
Special Indexes: Energy (% m/m)	1.5	4.1	0.2	-



US - Empire State Survey (15 Jan)	Nov-09	Dec-09	Jan-10	Mkt fcast
General Business Condition	22.3	4.5	15.9	12.0
New Orders	16.3	2.8	20.5	-
Shipments	13.2	8.4	21.1	-
Delivery Time	-2.6	-2.6	6.7	-
Inventories	-17.1	-18.4	-17.3	-
Unfilled Orders	-2.6	-21.1	2.7	-
Prices Paid	10.5	19.7	32.0	-
Prices Received	-2.6	-9.2	2.7	-
Employment	1.3	-5.3	4.0	-
Average Workweek	5.3	-5.3	5.3	-

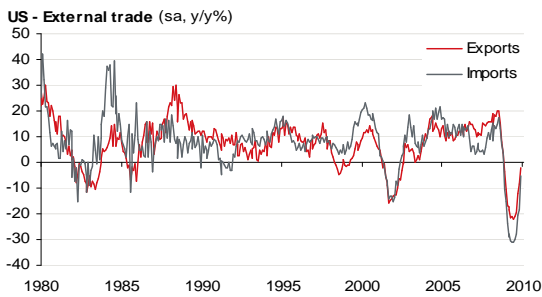
US (continued)



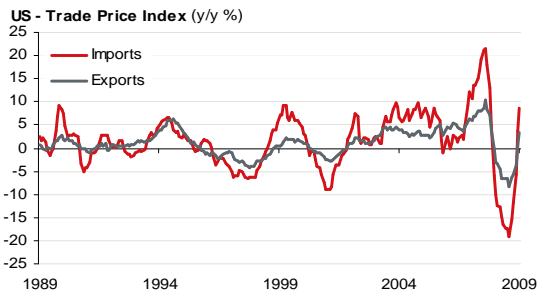
US - Industrial production (15 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Industrial production (sa, m/m%)	0.2	0.6	0.6	0.5
Industrial production (sa, 3m/3m%)	10.5	9.5	7.0	-
Industrial production (sa, y/y%)	-6.7	-4.9	-2.0	-
Industrial production ex motor vehicles (sa, m/m%)	0.3	0.5	0.7	-
Capacity utilisation (sa, %)	71.0	71.5	72.0	71.7



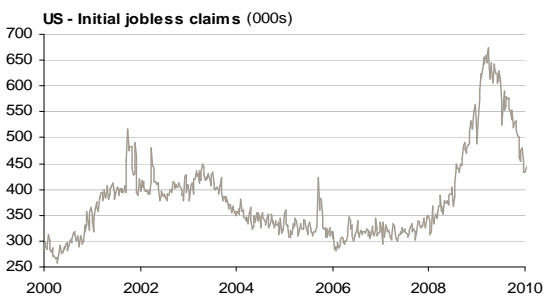
US - Inventories (15 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Business inventories (sa, m/m%)	-0.5	0.4	0.4	0.3
Business inventories (sa, y/y%)	-13.5	-12.5	-11.1	-
Manufacturing inventories (sa, m/m%)	-1.3	0.6	0.2	-
Retail inventories (sa, m/m%)	0.5	0.0	-0.2	-
Wholesale inventories (sa, m/m%)	-0.8	0.6	1.5	-



US - International trade (12 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Trade balance (US\$b)	-35.7	-33.2	-36.4	-34.6
Goods balance (Census basis, US\$b)	-46.2	-43.4	-47.0	-
Real Goods (Census basis, US\$b)	-41.5	-38.3	-40.7	-
Nominal exports (%m/m)	2.8	2.7	0.9	-
Nominal imports (%m/m)	5.6	0.7	2.6	-
Nominal goods exports (BOP basis, %m/m)	4.0	3.5	1.2	-
Nominal goods imports (BOP basis, %m/m)	6.9	0.7	3.1	-
Real goods exports (Census basis, % m/m)	4.3	4.2	-0.6	-
Real goods imports (Census basis, %m/m)	6.0	0.3	1.5	-



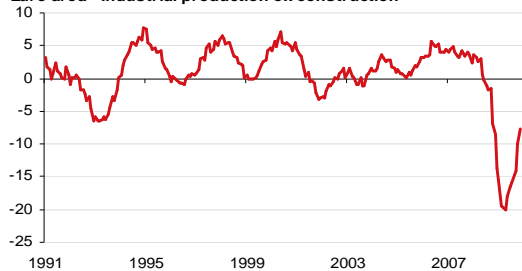
US - Trade prices (14 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Import prices (sa, m/m%)	0.9	1.6	0.0	-
Import prices (sa, y/y%)	-5.6	3.7	8.6	-
Export prices (sa, m/m%)	0.0	0.9	0.6	-
Export prices (sa, y/y%)	-3.6	0.5	3.4	-



US - Initial jobless claims (14 Jan)	25-12-09	01-01-10	08-01-10	Mkt f'cast
Initial claims (000s)	432.0	433.0	444.0	-
4 week moving average	460.3	449.8	440.8	-
Continuing claims (000s)	3.6	3.5	-	-
4 week moving average	3.775	3.675	-	-

Euro area

Euro area - Industrial production ex construction

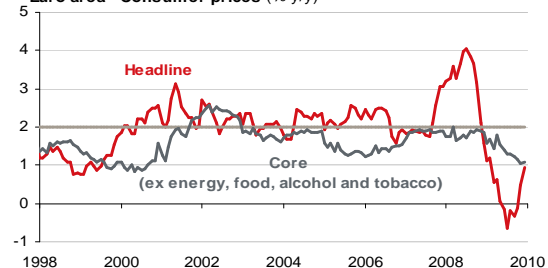


Euro area - Industrial production (14 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Industrial production (sa, m/m%)	0.3	-0.3	1.0	0.5
Industrial production (sa, y/y%)	-12.7	-10.9	-7.1	-8.4

France - Industrial production (11 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Industrial production (sa, m/m%)	-1.2	-0.6	1.1	0.2
Industrial production (sa, y/y%)	-10.4	-8.0	-3.8	-5.4
Manufacturing production (sa, m/m%)	-1.2	-0.5	1.6	-
Manufacturing production (sa, y/y%)	-11.1	-8.2	-2.9	-

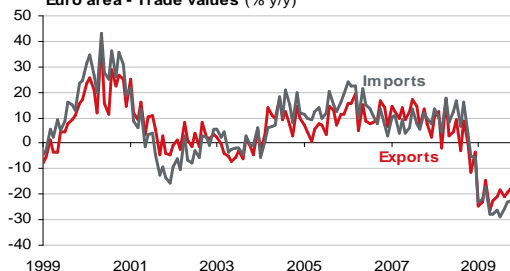
Italy - Industrial production (13 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Industrial production (sa, m/m%)	-4.9	0.7	0.2	1.0
Industrial production (sa, y/y%)	-15	-13.9	-5.2	-7.0

Euro area - Consumer prices (% y/y)



Euro area - HICP (16 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Headline HICP (nsa, m/m%)	0.2	0.1	0.3	0.3
Headline HICP (nsa, y/y%)	-0.1	0.5	0.9	0.9
Core HICP ex. energy, food, alcohol & tobacco (nsa, m/m%)	0.3	-0.1	0.5	0.1
Core HICP ex. energy, food, alcohol & tobacco (nsa, y/y%)	1.2	1.0	1.1	0.5

Euro area - Trade values (% y/y)

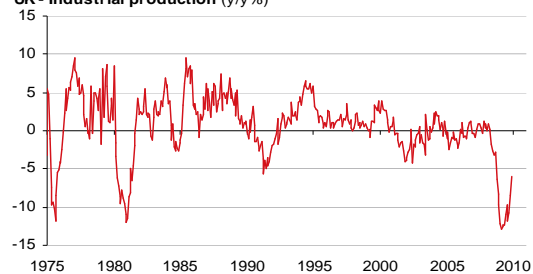


Euro area - Trade balance (15 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Trade balance (sa, €bns)	3.8	4.7	3.9	-
Exports (sa, m/m%)	4.5	-0.1	-0.4	-
Exports (nsa, y/y%)	-19.3	-17.1	-5.8	-
Imports (sa, m/m%)	2.7	-1.0	0.3	-
Imports (nsa, y/y%)	-22.8	-22.4	-14.7	-

Euro area - Repo rate (14 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Repo rate (%)	1.0	1.0	1.0	1.0

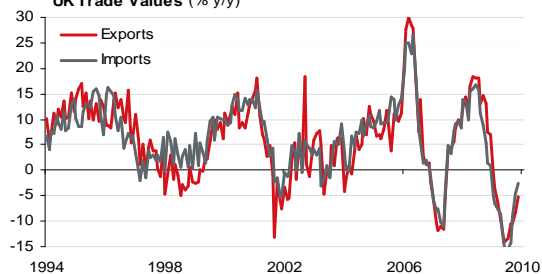
UK

UK - Industrial production (y/y%)



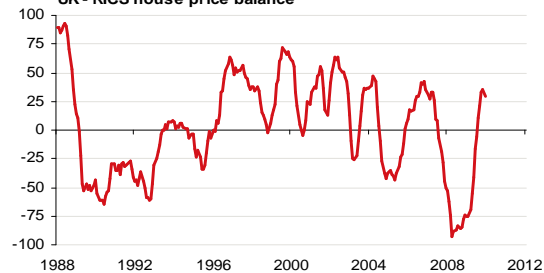
UK - Industrial production (13 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Industrial production (sa, m/m%)	1.3	0.0	0.4	0.3
Industrial production (sa, y/y%)	-10.8	-8.4	-6.0	-6.1
Manufacturing production (sa, m/m%)	1.6	0.0	0.0	0.2
Manufacturing production (sa, y/y%)	-9.8	-7.8	-5.4	-5.1

UK Trade Values (% y/y)



UK - Trade balance (12 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Trade balance (sa, £bns)	-3.1	-3.1	-2.9	-3.4
Visible trade balance (sa, £bns)	-6.9	-7.0	-6.8	-7.0
Exports (sa, m/m%)	1.7	2.7	0.6	-
Exports (sa, y/y%)	-10.5	-8.4	-5.2	-
Imports (sa, m/m%)	4.9	2.5	0.0	-
Imports (sa, y/y%)	-9.3	-4.6	-2.4	-

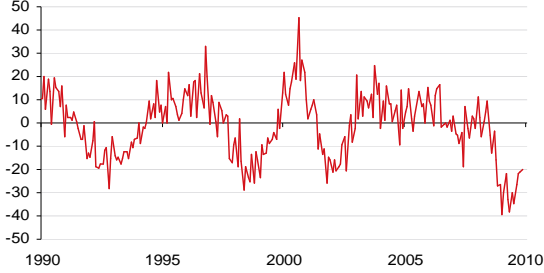
UK - RICS house price balance



UK - RICS house prices (12 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
RICS house price balance (net balance)	33.0	35.4	29.6	37.0

Japan

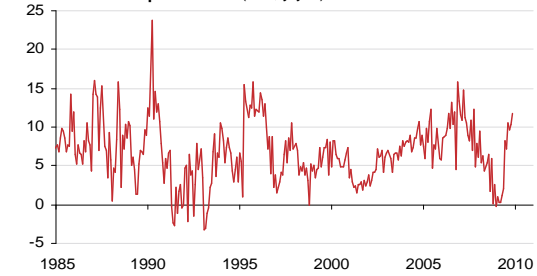
Japan - Machinery orders ex volatile items (y/y%)



Japan - Machinery orders (14 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Machinery orders ex volatile items (sa, m/m%)	10.5	-4.5	-11.3	0.2
Machinery orders ex volatile items (sa, y/y%)	-21.8	-21.1	-20.2	-10.1

India

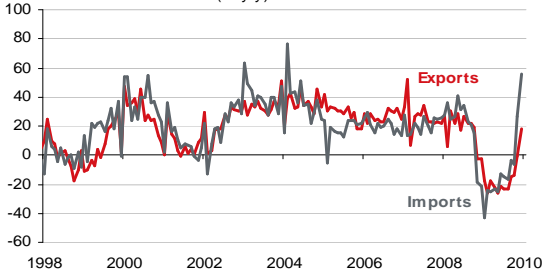
India - Industrial production (nsa, y/y%)



India - Industrial production (12 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Industrial production (nsa, y/y%)	9.6	10.3	11.7	-

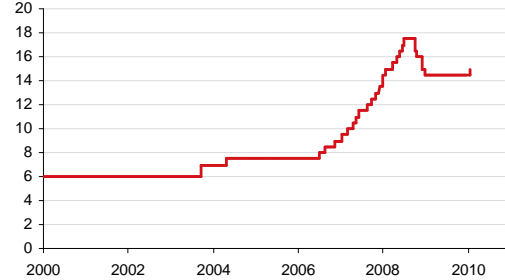
China

China - Trade values (% y/y)



China - International trade (11 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Trade balance (USD, \$bns)	23.9	19.1	18.4	20.0
Exports (nsa, y/y%)	-13.8	-1.2	17.7	5.0
Imports (nsa, y/y%)	-6.4	26.7	55.9	32.5

China - Reserve requirement ratio (%)



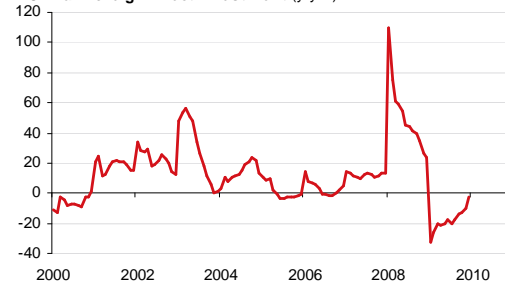
China - Reserve requirement ratio (12 Jan)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Large bank reserve requirement ratio (%)	15.5	15.5	16.0	-
Small bank reserve requirement ratio (%)	13.5	13.5	14.0	-

China - M2 Money Supply (y/y%)



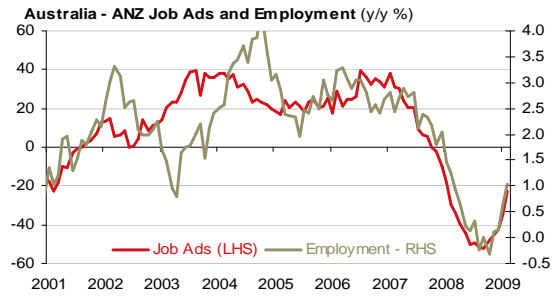
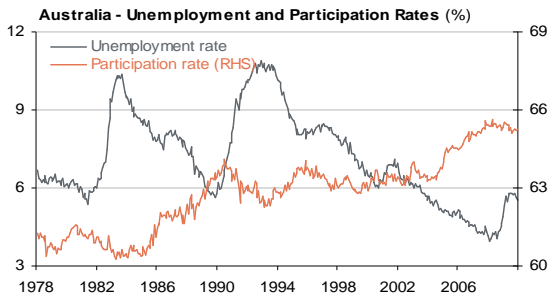
China - M2 Money Supply (16 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
M2 money supply (y/y%)	29.4	29.7	27.7	28.0

China - Foreign Direct Investment (y/y%)



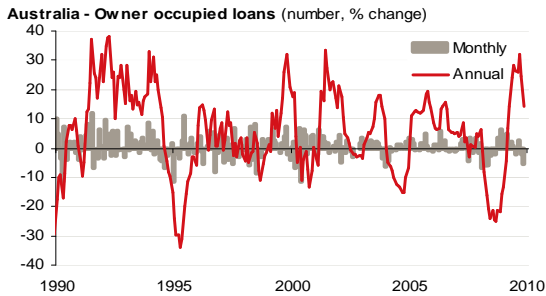
China - Foreign direct investment (15 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Foreign direct investment (y/y%)	-12.6	-9.9	-2.6	-

Australia



Australia - Labour market survey (14 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Employment (sa, 000s, change)	28.2	31.4	35.2	10.0
Full time employment (sa, 000s, change)	5.7	31.1	7.3	-
Part time employment (sa, 000s, change)	22.5	0.3	27.9	-
Employment (sa, m/m%)	0.3	0.3	0.3	-
Employment (sa, y/y%)	0.2	0.6	1.0	-
Aggregate hours worked (sa, m/m%)	-0.1	0.9	-0.1	-
Aggregate hours worked (sa, y/y%)	-1.3	-0.1	0.2	-
Unemployment rate (sa, %)	5.8	5.6	5.5	5.8
Participation rate (sa, %)	65.3	65.2	65.2	-

Australia - ANZ job ads (11 Jan)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Total job ads (sa, m/m%)	-1.7	5.2	6.0	-
Total job ads (sa, y/y%)	-42.3	-34.2	-22.6	-
Internet job ads (sa, m/m%)	-1.8	5.0	5.6	-
Internet job ads (sa, y/y%)	-42.8	-35.1	-24.1	-
Newspaper job ads (sa, m/m%)	-1.4	8.3	11.6	-
Newspaper job ads (sa, y/y%)	-33.8	-18.7	4.8	-



Australia - Housing finance (12 Jan)	Sep-09	Oct-09	Nov-09	Mkt f'cast
Housing finance ex-refinancing (sa, values, m/m%)	3.2	-1.5	-1.6	-
Housing finance ex-refinancing (sa, values, y/y%)	39.6	34.1	32.2	-
Owner-occupied finance (sa, number, m/m%)	2.6	-1.9	-5.6	-0.5
Owner-occupied finance (sa, number, y/y%)	31.9	24.7	14.1	-
Owner-occupied ex-refinancing (sa, values, m/m%)	4.8	-1.9	-3.3	-
Owner-occupied ex-refinancing (sa, values, y/y%)	53.0	45.3	35.5	-
Construction of new dwellings (sa, m/m%)	9.7	4.6	-0.4	-
Construction of new dwellings (sa, y/y%)	59.3	64.0	65.7	-
New home buyers (% of all dwellings financed)	26.1	26	22.1	-