

WEEKLY ECONOMIC BRIEF – 22 February 2010

Key Points

- *The Federal Reserve surprises the market by raising the discount rate by 25bps to 0.75 percent*
- *Global manufacturing indicators continue to improve*
- *Japanese economy expands by 1.1 percent in the December quarter*

Risk appetite firmed over the week leading to rising global equity prices, bond yields, commodity prices and commodity-related currencies; largely driven by receding fears over sovereign default risk in Greece.

Within the major bond markets, strengthening US industrial production and producer-price data, combined with the Federal Reserve's decision to raise the discount rate, led to US ten-year coupon bonds rising by 8.0 bps. Yields on UK ten-year government bonds rose by 13.0 bps as concerns surrounding the budget deficit escalated, while the Japanese bond market outperformed the other major markets as 2009Q4 national accounts data revealed a deeper fall into deflation than was expected.

Equity markets extended last week's gains, with the MSCI World Index (in local currency) rising by 2.6 percent. Positive earnings reports helped drive equity markets higher, with the S&P500 rising 3.1 percent and major European markets rallying by around 4.0 per cent.

Commodity prices rose over the week, with the CRB index rising by nearly 4.0 per cent and WTI oil price rising by around 8.0 per cent. Consequently, commodity related currencies rallied, with the Australian and Canadian dollars rising by around 1.0 per cent against the US dollar.

US economic data releases over the week were generally positive and were consistent with a continuing recovery in domestic demand and activity. Housing market activity indicators remain consistent with stabilisation in the sector, with housing starts rising in January and builder sentiment improving in February. Manufacturing indicators within the US continue to point to recovery, with industrial production exceeding expectations in January and manufacturing surveys, including the Empire State and Philly Fed survey, rising in February. However, inflation was particularly weak in January, driven by a 0.5 per cent fall in shelter prices, which led to core consumer prices falling during the month for the first time since 1982.

Manufacturing surveys within the euro area also rose in February, with the manufacturing PMI reaching its highest level since August 2007. The services PMI reversed its upward trajectory, falling for the second consecutive month.

Conditions within the UK economy remained soft in January, with retail sales volumes falling sharply, unemployment claims edging higher and the government posting its first January budget deficit since 1993. Adverse weather conditions and the increase in the Value-Added Tax (VAT) rate are likely to have dampened retail activity. The rise in the VAT rate, combined with higher energy prices and a weaker exchange rate, pushed the year-ended inflation rate up to 3.5 percent in January. However, the impact of these temporary factors is expected to fade and the Bank of England expects inflation to move below their two percent target in 2011 and 2012.

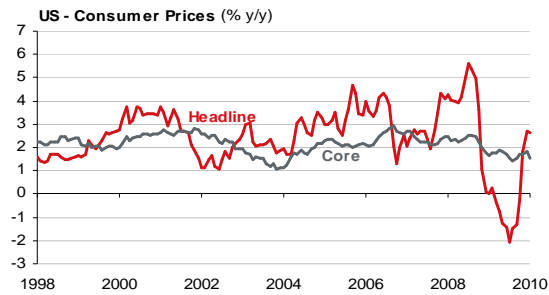
The Japanese economy also showed signs of continuing improvement, despite the fall in prices, with real GDP expanding by 1.1 percent in the December quarter. Private and public consumption were strong, and business investment expanded for the first time since March 2008. Net exports continued to support the economy, with only a modest rise in import volumes.

In Australia, the Reserve Bank (RBA) released the minutes from their February meeting where the cash rate was left unchanged at 3.75 percent. Governor Steven also presented an upbeat statement to the House of Representatives regarding the prospects for the domestic economy, signalling a need to shift policy from managing the threat of global recession to managing an economic expansion. We expect the RBA will resume raising the cash rate in March, with the rate rising to 5.0 per cent by year end.

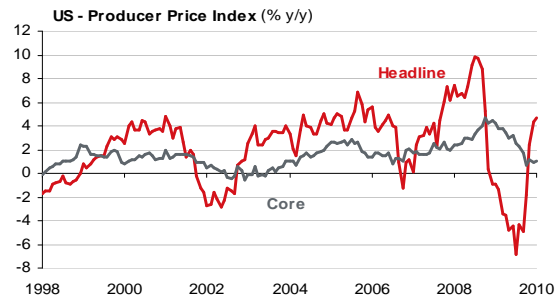
Table 1. Financial market movements, 12/02/2010 to 19/02/2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	2.9%	-	-
US	3.1%	8.0 bps	-
Japan	0.3%	0.5 bps	-1.7%
UK	4.2%	13.0 bps	-1.5%
Germany	4.0%	9.3 bps	-0.1%
Australia	1.6%	5.6 bps	1.2%

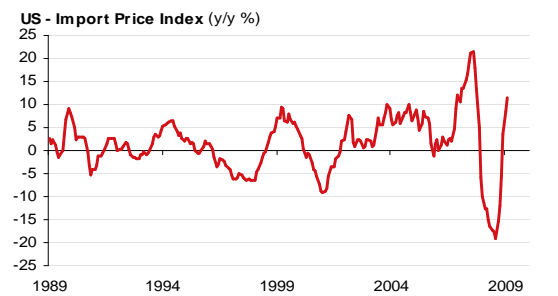
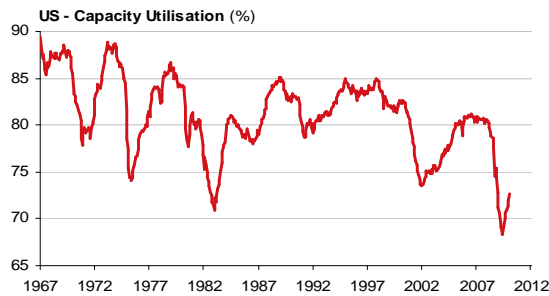
United States



US - CPI	Nov-09	Dec-09	Jan-10	Mkt f'cast
Headline (% m/m)	0.2	0.2	0.2	0.3
Headline (% y/y)	1.8	2.7	2.6	-
Core (% m/m)	0.0	0.1	-0.1	0.1
Core (% y/y)	1.7	1.8	1.6	-
Food and Beverages (% m/m)	0.1	0.1	0.2	-
Housing (% m/m)	0.0	0.0	-0.3	-
Apparel (% m/m)	-0.3	0.4	-0.1	-
Transportation (% m/m)	1.3	0.7	1.3	-
Medical Care (% m/m)	0.3	0.1	0.5	-
Recreation (% m/m)	-0.1	-0.3	-0.1	-
Education and Communication (% m/m)	0.0	0.2	0.3	-
Other Goods and Services (% m/m)	0.4	0.2	0.1	-
Special Indexes: Energy (% m/m)	2.2	0.8	2.8	-

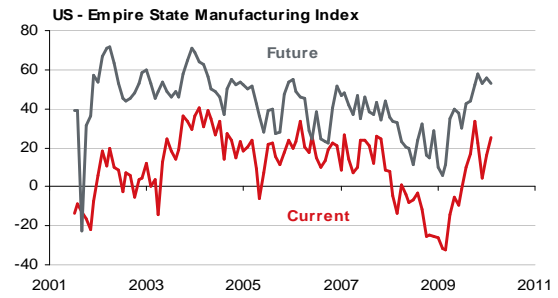
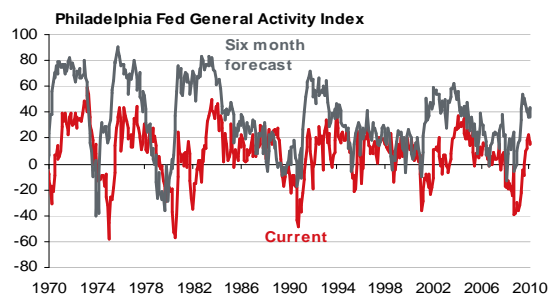


US - PPI (18 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
PPI (% m/m)	1.5	0.4	1.4	0.8
PPI (% y/y)	2.4	4.4	4.6	4.4
Core PPI (% m/m)	0.5	0.0	0.3	0.1
Core PPI (% y/y)	1.2	0.9	1.0	0.8
Intermediate goods (% m/m)	1.2	0.6	1.7	-
Intermediate goods (% y/y)	-1.6	3.0	4.6	-
Core intermediate goods (% m/m)	0.3	0.5	0.5	-
Core intermediate goods (% y/y)	-2.9	-0.1	1.1	-
Crude goods (% m/m)	5.1	0.8	9.6	-
Crude goods (% y/y)	4.7	12.3	25.2	-
Core Crude goods (% m/m)	-1.0	4.5	6.6	-
Core Crude goods (% y/y)	20.3	28.4	35.2	-



US - Industrial production (17 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Industrial production (sa, m/m%)	0.6	0.7	0.9	0.7
Industrial production (sa, y/y%)	-5.1	-2.2	0.9	-
Industrial production ex motor vehicles (sa, m/m%)	0.5	0.7	0.8	-
Industrial production ex motor vehicles (sa, y/y%)	-5.0	-2.3	-0.3	-
Capacity utilisation (sa, %)	71.3	71.9	72.6	72.6

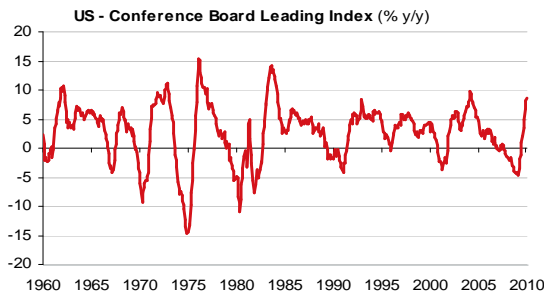
US - Trade prices (16 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Import prices (sa, m/m%)	1.5	0.2	1.4	1.0
Import prices (sa, y/y%)	3.4	8.6	11.5	10.8
Export prices (sa, m/m%)	0.8	0.6	0.8	-
Export prices (sa, y/y%)	0.4	3.3	3.4	-



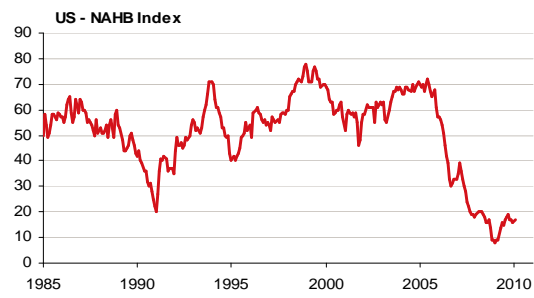
US - Philly Fed Survey (18 Feb)	Dec-09	Jan-10	Feb-10	Mkt f'cast
Business activity	22.5	15.2	17.6	17.0
New Orders	8.3	3.2	22.7	-
Shipments	14.9	11.0	19.7	-
Unfilled Orders	1.7	3.6	-7.5	-
Delivery times	4.1	6.6	-2.1	-
Inventories	-5.7	-1.6	3.2	-
Prices Paid	36.6	33.2	32.4	-
Prices Received	1.4	2.7	3.7	-
Number of Employees	4.5	6.1	7.4	-
Average employee workweek	6.3	4.2	1.9	-

US - Empire State Survey (16 Feb)	Dec-09	Jan-10	Feb-10	Mkt f'cast
General Business Condition	4.5	15.9	24.9	17.9
New Orders	2.8	20.5	8.8	-
Shipments	8.4	21.1	15.1	-
Delivery Time	-2.6	6.7	-6.9	-
Inventories	-18.4	-17.3	0.0	-
Unfilled Orders	-21.1	2.7	2.8	-
Prices Paid	19.74	32	31.94	-
Prices Received	-9.21	2.67	4.17	-
Employment	-5.26	4	5.56	-
Average Workweek	-5.26	5.33	8.33	-

United States (con'd)



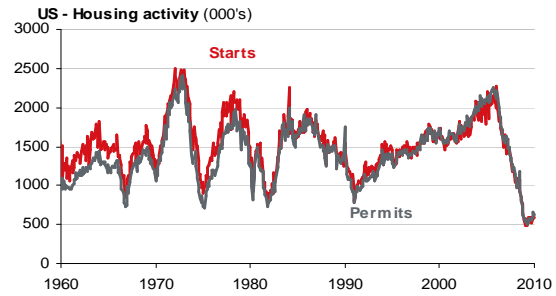
US - Leading indicators (18 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Leading indicators (sa, m/m%)	1.1	1.2	0.3	0.5
Leading indicators (sa, y/y%)	6.7	8.1	8.7	-



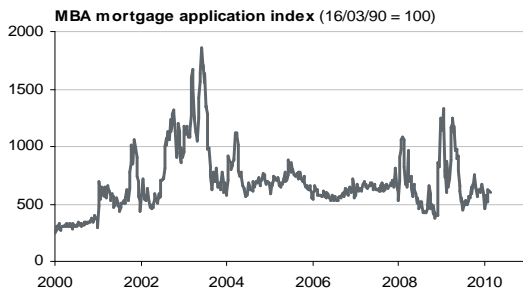
US - NAHB Sentiment (16 Feb)	Dec-09	Jan-10	Feb-10	Mkt f'cast
NAHB sentiment (sa, index)	16.0	15.0	17.0	16.0



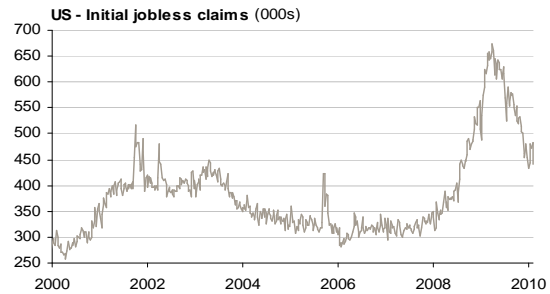
US - Housing starts (17 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Housing starts (saar, 000s)	579.0	575.0	591.0	580.0
Housing starts (sa, m/m%)	10.5	-0.7	2.8	-
Housing starts (sa, y/y%)	-11.6	3.4	21.1	-



US - Housing permits (17 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Housing permits (saar, 000s)	589.0	653.0	621.0	620.0
Housing permits (sa, m/m%)	6.9	10.9	-4.9	-
Housing permits (sa, y/y%)	-6.5	15.8	16.9	-

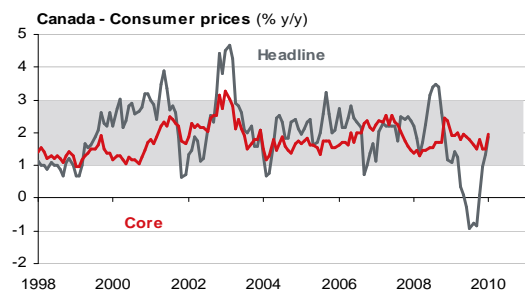


US - MBA Mortgage applications (17 Feb)	29-01-10	05-02-10	12-02-10	Mkt f'cast
Purchase index	237.8	221.2	212.3	-
% w/w	10.3	-7.0	-4.0	-
Refinancing index	2854.8	2893.9	2860.1	-
% w/w	26.3	1.4	-1.2	-
Composite index	620.7	613.1	600.5	-
% w/w	21.0	-1.2	-2.1	-



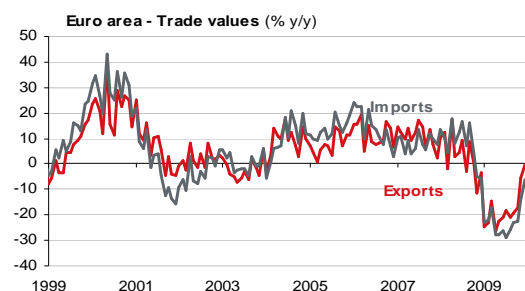
US - Initial jobless claims (18 Feb)	29-01-10	05-02-10	12-02-10	Mkt f'cast
Continuing claims (000s)	4563.0	4563.0	-	-
Continuing claims (000s, 4wk moving average)	4609.8	4585.8	-	-
Initial jobless claims (000s)	483.0	442.0	473.0	438.0
Initial jobless claims (000s, 4wk moving average)	469.5	469.0	467.5	-

Canada

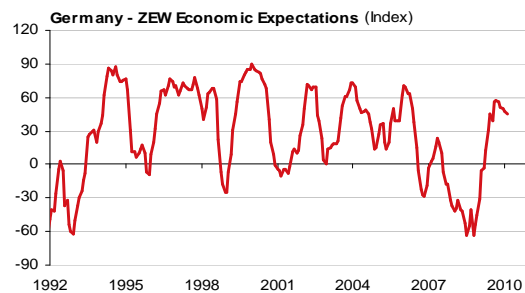


Canada - CPI (18 Feb)	Nov-09	Dec-09	Jan-10	M'kt fcast
Headline CPI (nsa, m/m%)	0.5	-0.3	0.3	0.3
Headline CPI (nsa, y/y%)	1.0	1.3	1.9	1.8
Core CPI (nsa, m/m%)	0.4	-0.3	0.1	0.0
Core CPI (nsa, y/y%)	1.5	1.5	2.0	1.9

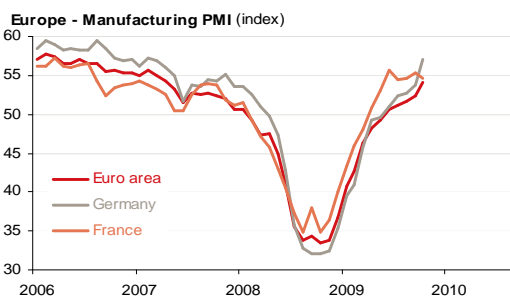
Euro area



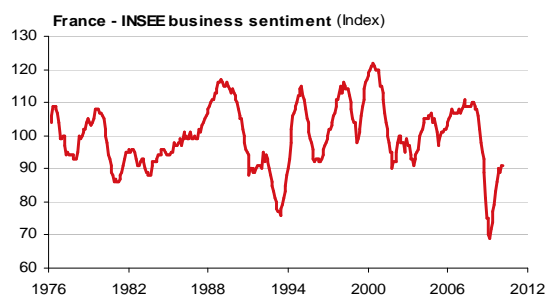
Euro area - Trade balance (17 Feb)	Oct-09	Nov-09	Dec-09	M'kt fcast
Trade balance (sa, €bns)	6.3	5.3	7.0	3.9
Exports (sa, m/m%)	2.7	0.0	3.1	-
Exports (sa, y/y%)	-17.1	-5.5	-0.5	-
Imports (sa, m/m%)	-0.8	0.9	1.7	-
Imports (sa, y/y%)	-22.4	-13.8	-5.9	-



Germany - ZEW survey (16 Feb)	Dec-09	Jan-10	Feb-10	M'kt fcast
Expectations component (sa, net balance)	50.4	47.2	45.1	41.0
Current conditions (sa, net balance)	-60.6	-56.6	-54.8	-52.0

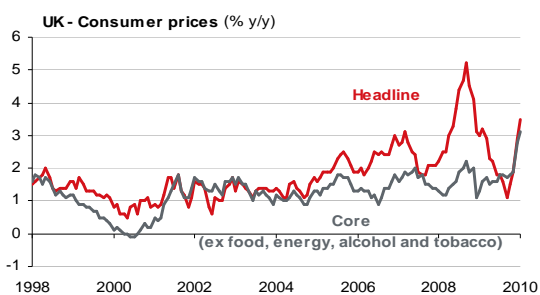


Euro area - PMI (19 Feb)	Dec-09	Jan-10	Feb-10	M'kt fcast
Composite PMI (sa, index)	54.2	53.7	53.7	53.5
Manufacturing PMI (sa, index)	51.6	52.4	54.1	52.7
Services PMI (sa, index)	53.6	52.5	52.0	52.5
Germany Manufacturing PMI (sa, index)	52.7	53.7	57.1	53.8
Germany Services PMI (sa, index)	52.7	52.2	51.7	52.4
France manufacturing PMI (sa, index)	54.7	55.4	54.6	55.3
France services PMI (sa, index)	58.7	56.3	54.7	56.4

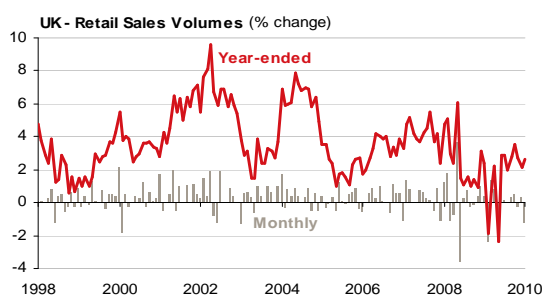


France - Business confidence (19 Feb)	Dec-09	Jan-10	Feb-10	M'kt fcast
Composite business climate (sa, index)	89.0	91.0	91.0	93.0
General outlook (sa, net balance)	-11.0	-5.0	-5.0	-3.0

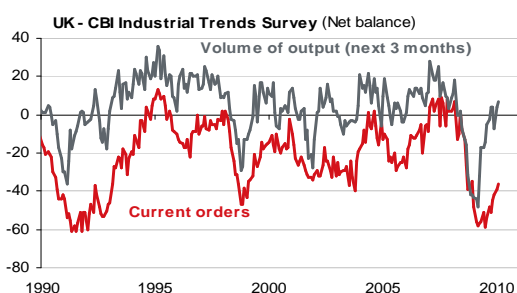
UK



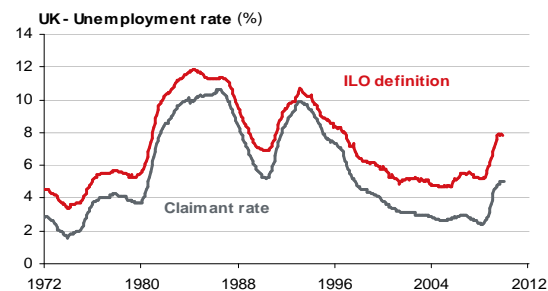
UK - CPI inflation (16 Feb)	Nov-09	Dec-09	Jan-10	M'kt fcast
CPI - (nsa, m/m%)	0.3	0.6	-0.2	0.1
CPI - (nsa, y/y%)	1.9	2.9	3.5	3.7
All items excluding				
Energy	0.2	0.6	-0.4	-
Energy, food, alcoholic beverages & tobacco	0.1	0.7	-0.6	-
Energy & unprocessed food	0.1	0.6	-0.4	-
Seasonal food	0.2	0.5	-0.2	-
RPI (nsa, m/m%)	0.3	0.6	0.0	-



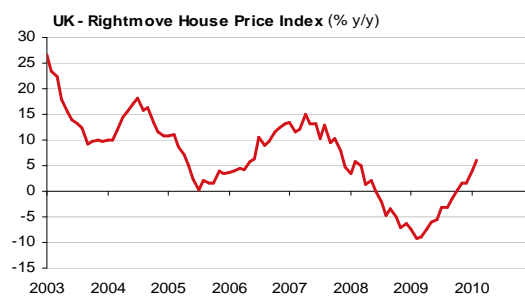
UK - Retail sales (19 Feb)	Nov-09	Dec-09	Jan-10	M'kt fcast
All Retailing (sa, volume, m/m%)	-0.3	0.5	-1.2	-0.5
All Retailing (sa, volume, y/y%)	2.7	2.9	2.6	1.1
Predominantly Food Stores (sa, volume, m/m%)	0.3	0.6	-2.4	-
Predominantly Non-Food Stores (sa, volume, m/m%)	-0.5	-0.1	0.0	-
Non-Specialised Stores (sa, m/m%)	-3.2	-2.2	5.1	-
Textile, Clothing, and Footwear Stores (sa, volume, m/m%)	-2.0	0.0	4.7	-
Household Goods Stores (sa, volume, m/m%)	-0.9	2.1	-13.4	-
Other Stores (sa, volume, m/m%)	3.0	-0.4	2.5	-



UK - CBI Industrial trends (18 Feb)	Dec-09	Jan-10	Feb-10	M'kt fcast
Current orders (net balance)	-42.0	-39.0	-36.0	-
Current export orders (net balance)	-41.0	-33.0	-23.0	-
Current stocks (net balance)	15.0	13.0	12.0	-
Next three months - Output (net balance)	-7.0	4.0	7.0	-
Next three months - Prices (net balance)	-6.0	8.0	8.0	-

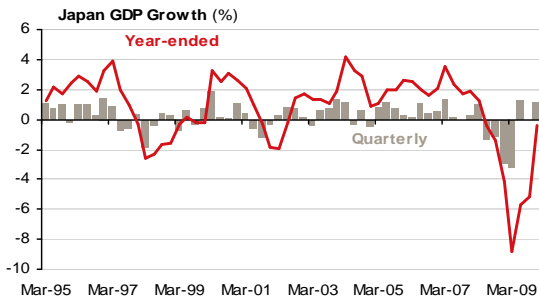


UK - Labour market (17 Feb)	Nov-09	Dec-09	Jan-10	M'kt fcast
Change in claimant count (000s)	-10.8	-9.6	23.5	-11.0
Claimant count rate (%)	5.0	5.0	5.0	5.0
ILO unemployment rate (3m, %)	7.8	7.8	-	7.8
Average earnings inc bonus (3m, % yoy)	1.6	0.8	-	0.9

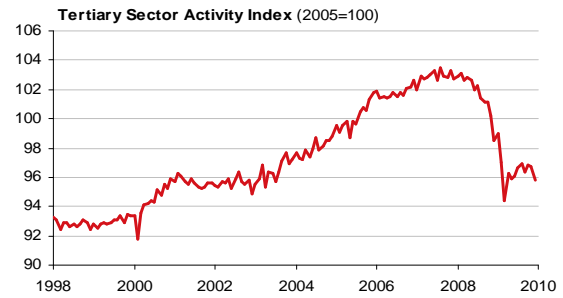


UK - Rightmove house price index (15 Feb)	Dec-09	Jan-10	Feb-10	M'kt fcast
Rightmove house prices (nsa, m/m%)	-2.2	0.3	3.2	-
Rightmove house prices (nsa, y/y%)	1.7	4.0	6.1	-

Japan



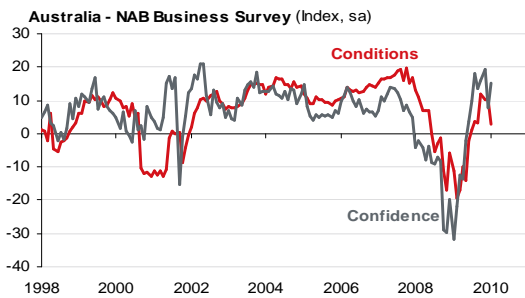
Japan - National accounts (15 Feb)	Jun-09	Sep-09	Dec-09	Mkt f'cast
Real GDP (sa, q/q%)	1.3	0.0	1.1	-
Real GDP (saar, %)	5.2	0.0	4.6	3.5
Real GDP (sa, y/y%)	-5.9	-4.9	-0.9	-
Household consumption (sa, q/q%)	1.1	0.6	0.7	-
Government consumption (sa, q/q%)	0.3	0.1	0.8	-
Government investment (sa, q/q%)	6.4	-1.6	-1.6	-
Business investment (sa, q/q%)	-4.2	-2.5	1.0	-
Residential investment (sa, q/q%)	-9.4	-7.8	-3.4	-
Inventories (sa, % pt contribution)	-0.5	-0.1	0.1	-
Net exports (sa, % pt contribution)	1.4	0.5	0.5	-
Exports (sa, q/q%)	9.2	8.4	5.0	-
Imports (sa, q/q%)	-3.9	5.4	1.3	-



Japan - Tertiary activity index (17 Feb)	Oct-09	Nov-09	Dec-09	Mkt f'cast
Tertiary activity index (sa, index)	96.8	96.7	95.8	-
Tertiary activity index (sa, m/m%)	0.4	-0.1	-0.9	-0.2
Tertiary activity index (sa, y/y%)	-4.3	-3.5	-2.7	-

Japan - Overnight target rate (18 Feb)	Dec-09	Jan-10	Feb-10	Mkt f'cast
Overnight target rate (%)	0.1	0.1	0.1	0.1

Australia



Australia - NAB Business Survey (16 Feb)	Nov-09	Dec-09	Jan-10	Mkt f'cast
Business conditions (sa, net balance)	10.3	10.1	3.0	-
Business confidence (sa, net balance)	19.2	7.9	15.0	-
Trading conditions (sa, net balance)	15.1	16.7	2.5	-
Profitability (sa, net balance)	10.6	11.7	2.1	-
Employment (sa, net balance)	2.4	7.1	5.9	-
Forward orders (sa, net balance)	8.5	7.3	-3.7	-
Stocks (sa, net balance)	0.4	-0.1	0.5	-
Labour costs (nsa, q/q%)	0.9	0.5	0.9	-
Final prices paid (nsa, q/q%)	0.3	0.3	0.2	-
Capacity utilisation (sa, %)	81.4	81.6	82.1	-