

## WEEKLY ECONOMIC BRIEF – 25 June 2010

---

### Key Points

- *Risk aversion escalates following weak US housing market data and funding problems for Portuguese banks*
  - *Federal Reserve expects the pace of economic recovery within the US to moderate*
  - *Julia Gillard becomes Australia's first female Prime Minister after Kevin Rudd resigned*
- 

During the week, financial markets were impacted by soft US housing data, ebbing euro area PMI surveys and ongoing concerns surrounding bank financing in Europe. Yields on Greek and Portuguese sovereign debt rose sharply after data from the Bank of Portugal revealed that domestic banks are becoming increasingly dependent on funding from the European Central Bank. Overall, equity prices fell, bond valuations rose and the VIX increased as risk aversion rose across global financial markets.

Within the US, market participants pushed out their tightening expectations following the release of a dovish statement by the Federal Reserve (Fed). The Fed expects the pace of the US economic recovery to moderate, and, given the ongoing uncertainty within financial markets and subdued inflation expectations, anticipates that it will maintain the Fed Funds rate at *"exceptionally low levels for an extended period."* Coupled with 33 percent fall in May US home sales following the expiration of the tax credit in April and soft mortgage applications in June, yields on US ten-year government bonds fell by 5bps and the S&P500 closed the week nearly 4 percent lower.

The minutes from the Bank of England's June Monetary Policy Committee meeting revealed that one member voted to move away from exceptional monetary stimulus as near-term inflation prospects rise. The transitory impacts of the Sterling depreciation, higher commodity prices and the rise in the Value-Added Tax rate have kept inflation above 3 percent in recent months, but once these factors fade, the BOE forecasts that inflation will fall below the 2 percent inflation target. One member argues however, that spare capacity will not dampen inflation as much as forecast due to the recovery in domestic and foreign demand. The UK government unveiled a series of tax hikes and spending cuts in its Emergency Budget, as well as a mandate requiring the cyclically adjusted current budget to be returned to balance by 2015/16 and a target for public sector net debt as a percentage of GDP to be falling by 2015/16. One of the tax hikes is an increase in the Value-Added Tax rate from 17.5 percent to 20 percent in January 2011.

Euro area PMI surveys fell modestly in June, but to date the overall impact of the sovereign debt crisis on euro area business sentiment has been relatively contained, and the level of confidence remains consistent with expansion in the manufacturing and services sectors. Indeed, industrial new orders within the region rose strongly in April and are now 22.1 percent higher than one year ago. Euro area consumer data has been mixed, with French consumption of manufactured goods rising strongly in May while Italian retail sales fell in April.

Australia's political landscape changed after Julia Gillard became the first female Prime Minister after Kevin Rudd resigned following a slide in the Labor party's popularity in recent months. The news buoyed Australian mining stocks, with the new Prime Minister expected to overhaul the proposed Resource Profits Super Tax in a bid to ease opposition to the controversial tax reform.

In contrast to the US, Asian central banks are starting to unwind expansionary monetary policy. The People's Bank of China announced that the renminbi will de-peg from the US dollar, allowing the currency to appreciate, and also removed export-tax rebates on a number of commodities. Taiwan's central bank started its tightening cycle, surprising the market by raising interest rates. Elsewhere within the region, Japan's exports continue to support the economy's recovery, with real exports rising by 1 percent in May.

Table 1. Financial market movements, 17 – 24 June 2010

	Equity markets	Fixed interest (10 yr sovereign yields)	Exchange Rates (against USD, NY close)
MSCI World Index (local currency)	-2.9%	-	-
US	-3.8%	-5.2 bps	-
Japan	-0.7%	-8.2 bps	1.6%
UK	-2.9%	-9.4 bps	0.7%
Germany	-1.7%	-6.1 bps	-0.5%
Australia	-1.1%	-5.1 bps	-0.2%

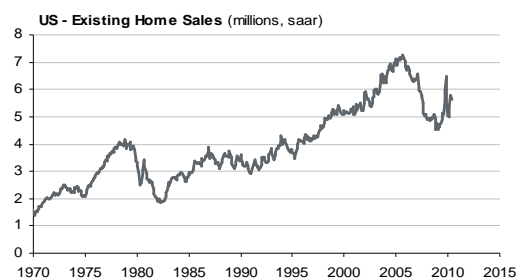
Source: Bloomberg

The Weekly Economic Brief is issued by QIC Limited ACN 130 539 123 ("QIC") and is compiled by QIC's Economics & Research Team. For further information about the contents of this document please contact Matthew Peter (Tel +61 7 3020 7060), Drew Klease (Tel +61 7 3020 7059) or Jemma Andrew (Tel +61 7 3020 7000).

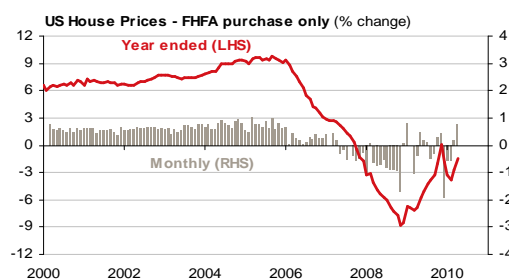
QIC is a wholesale funds manager and its products and services are not directly available to retail investors. QIC is a company government owned corporation constituted under the Queensland Investment Corporation Act 1991 (Qld). QIC is regulated by State Government legislation pertaining to government owned corporations in addition to the Corporations Act 2001 ("Corporations Act"). QIC does not hold an Australian financial services ("AFS") licence and certain provisions (including the financial product disclosure provisions) of the Corporations Act do not apply to QIC. Please note however that some wholly owned subsidiaries of QIC have been issued with an AFS licence and are required to comply with the Corporations Act. QIC, its subsidiaries, associated entities, their directors, employees and representatives ("the QIC Parties") do not warrant the accuracy or completeness of the information contained in this document ("the Information"). To the extent permitted by law, the QIC Parties disclaim all responsibility and liability for any loss or damage of any nature whatsoever which may be suffered by any person directly or indirectly through relying on the Information, whether that loss or damage is caused by any fault or negligence of the QIC Parties or otherwise. The Information is not intended to constitute advice and persons should seek professional advice before relying on the Information. QIC owns the copyright in all Information, or has a licence or agreement to use that copyright where it is owned by someone else. You may only reproduce the Information for personal or non-commercial use, and it must not be distributed or transmitted to any other person, or used in any other way (except to the extent permitted by law).

Table 2: Economic charts<sup>2</sup>

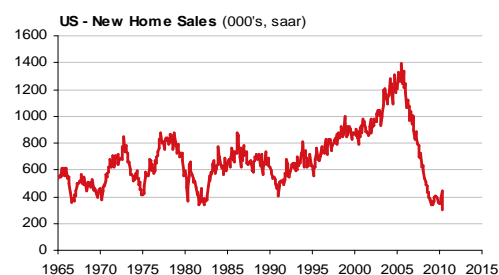
United States



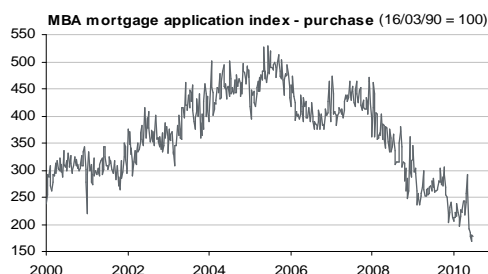
US - Existing home sales (22 June)	Mar-10	Apr-10	May-10	Mkt fcast
Existing home sales (000s, saar)	5,360	5,790	5,660	6,120
% m/m	7.0	8.0	-2.2	-
% y/y	16.3	23.2	19.2	-
Units of existing homes available for sale (000s, ar)	3,626	4,029	3,892	-
Months' supply	8.1	8.4	8.3	-



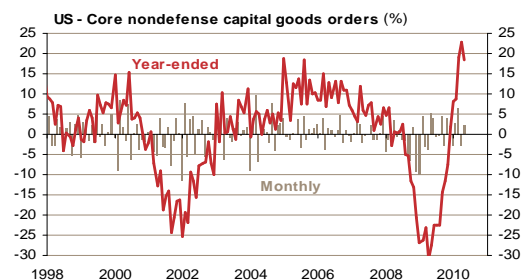
US - FHFA House Prices (22 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
FHFA Purchase Only Index (sa, Jan 1991 = 100)	193.0	193.2	194.7	-
% m/m	-0.6	0.1	0.8	0.3
% y/y	-3.8	-2.7	-1.5	-



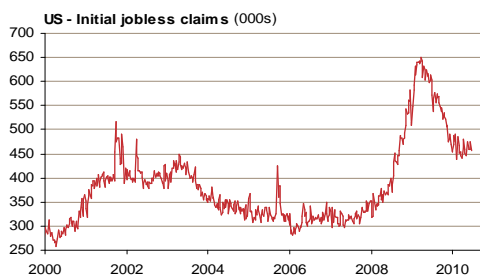
US - New home sales (23 June)	Mar-10	Apr-10	May-10	Mkt fcast
New home sales (000s, saar)	389	446	300	410.0
% m/m	12.1	14.7	-32.7	-
% y/y	11.1	30.8	-18.3	-
Units of new homes available for sale (000s, ar)	228	214	213	-
Months' supply	7.0	5.8	8.5	-



US - Mortgage applications (23 June)	04-06-10	11-06-10	18-06-10	Mkt fcast
Purchase index	167.8	180.0	177.9	-
% w/w	-5.7	7.3	-1.2	-
Refinancing index	2,859.5	3,461.5	3,208.5	-
% w/w	-14.3	21.1	-7.3	-
Composite index	560.9	659.9	621.2	-
% w/w	-12.2	17.7	-5.9	-



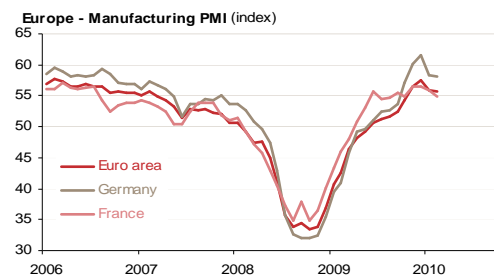
US - Durable goods (24 June)	Mar-10	Apr-10	May-10	Mkt fcast
Durable goods (% m/m)				
Orders	0.1	3.0	-1.1	-1.4
Shipments	2.1	1.8	-0.4	-
Capital goods (% m/m)				
Orders	-5.7	6.4	-2.8	-
Shipments	1.9	-0.7	-0.6	-
Core non-defense capital goods (% mm)				
Orders	6.7	-2.7	2.1	-
Shipments	2.3	0.0	1.6	-



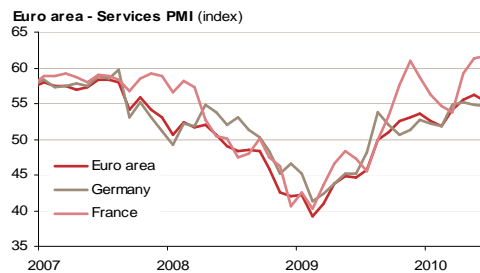
US - Initial claims (24 June)	4/6/10	11/6/10	18/6/10	Mkt fcast
Continuing claims (000s)	4593.0	4548.0	-	-
Continuing claims (000s, 4wk moving average)	4608.3	4586.5	-	-
Initial jobless claims (000s)	459.0	476.0	457.0	461.0
Initial jobless claims (000s, 4wk moving average)	463.8	464.3	462.8	-

<sup>2</sup> Source: FactSet

## Euro area



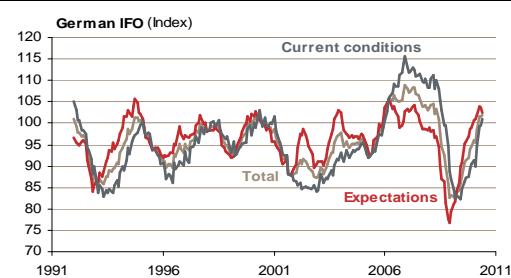
Euro area - Manufacturing PMI (23 June)	Apr-10	May-10	Jun-10	Mkt fcast
Euro area	57.6	55.8	55.6	55.3
Germany	61.5	58.4	58.1	58.0
France	56.6	55.8	54.9	55.1



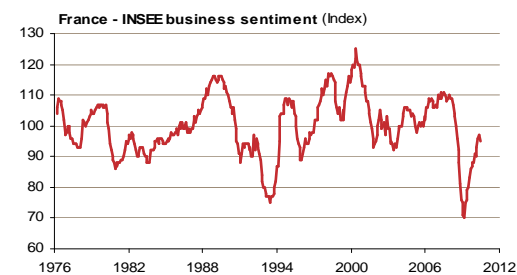
Euro area - Services PMI (23 June)	Apr-10	May-10	Jun-10	Mkt fcast
Euro area	55.6	56.2	55.4	55.9
Germany	55.2	54.8	54.6	54.7
France	59.2	61.4	61.6	60.5



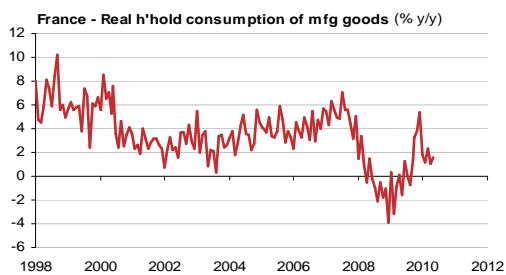
Euro area - Industrial new orders (24 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Industrial new orders (sa, m/m%)	2.6	5.1	0.9	1.6
Industrial new orders (sa, y/y%)	12.6	20.3	22.1	21.8



Germany - IFO Survey (22 June)	Apr-10	May-10	Jun-10	Mkt fcast
IFO - Business climate index (sa, index)	101.7	101.5	101.8	101.2
IFO - Business conditions (sa, index)	99.3	99.4	101.1	99.8
IFO - Business expectations (sa, index)	104.0	103.7	102.4	102.7



France - INSEE business confidence (23 June)	Apr-10	May-10	Jun-10	Mkt fcast
Business confidence indicator (index)	96.0	97.0	95.0	96.0
Production outlook indicator (net balance)	8.0	-3.0	-4.0	-4.0
Own company production outlook (net balance)	6.0	3.0	-7.0	-



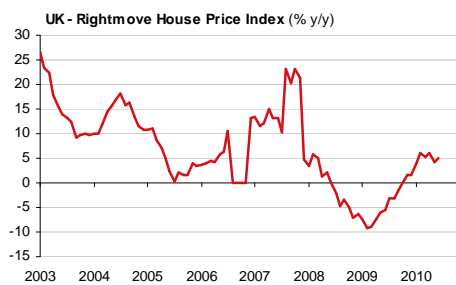
France - Manufactured goods consumption (24 June)	Mar-10	Apr-10	May-10	Mkt fcast
Consumption of manufactured goods (sa, m/m%)	1.6	-1.2	0.7	0.4
Consumption of manufactured goods (sa, y/y%)	2.4	1.1	1.6	-

Italy - Retail sales (24 June)	Feb-10	Mar-10	Apr-10	Mkt fcast
Retail sales (sa, m/m%)	0.1	0.4	-0.3	-0.1
Retail sales (sa, y/y%)	-0.4	0.2	-0.5	2.1

## United Kingdom



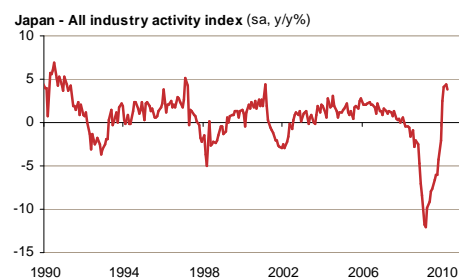
UK - Public finances (18 June)	Mar-10	Apr-10	May-10	Mkt f'cast
Public sector current budget (nsa £ bn)	-9.0	-6.8	-14.1	-
Public sector net investment (nsa £ bn)	8.7	1.5	1.9	-
Public sector net borrowing (nsa £ bn)	17.7	8.3	16.0	18
% of GDP (rolling 4qtr avg)	10.2	-	-	-
PSNB ex financial interventions (nsa £ bn)	28.7	-	-	-
% of GDP (rolling 4qtr avg)	11.0	-	-	-
Public sector net debt (nsa £ bn)	889.5	892.9	903.0	-
% of GDP	61.7	61.7	62.2	-
PSND ex fin interventions (nsa £ bn)	771.5	-	-	-
% of GDP	53.5	-	-	-
Public sector cash requirement (nsa £ bn)	25.6	8.6	12.0	20.5



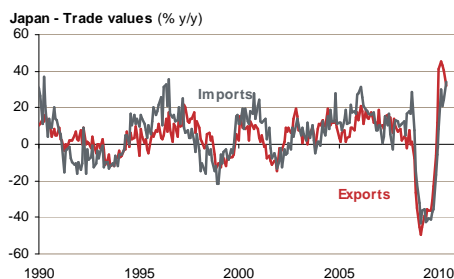
UK - Rightmove house prices (21 June)	Apr-10	May-10	Jun-10	Mkt f'cast
Rightmove house prices (index)	191.6	192.9	193.5	-
Rightmove house prices (nsa, m/m%)	2.6	0.7	0.3	-
Rightmove house prices (nsa, y/y%)	6.0	4.3	5.0	-

UK - CBI Distributive Trades (23 June)	Apr-10	May-10	Jun-10	Mkt f'cast
Expected Orders (net balance)	6.0	8.0	-18.0	-
Expected Sales (net balance)	14.0	17.0	-15.0	-
Expected Stocks/Sales (net balance)	2.0	3.0	12.0	-
Reported Orders (net balance)	1.0	-24.0	-7.0	-
Reported Sales (net balance)	13.0	-18.0	-5.0	-
Reported Stocks/Sales (net balance)	6.0	13.0	17.0	-

## Japan

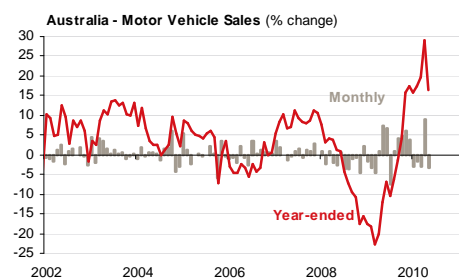


Japan - All industry activity index (21 June)	Feb-10	Mar-10	Apr-10	Mkt f'cast
All industrial activity index (sa, m/m%)	-2.2	-0.7	1.8	-
All industrial activity index (sa, y/y%)	4.2	4.4	3.8	-



Japan - External trade (24 June)	Mar-10	Apr-10	May-10	Mkt f'cast
Trade Balance (sa, ¥ bn)	767.7	729.1	416.1	626.8
Export values (sa, % m/m)	1.0	2.3	-1.2	-
Import values (sa, % m/m)	-2.8	3.4	0.4	-
Export values (nsa, % y/y)	43.5	40.4	32.1	-
Import values (nsa, % y/y)	21.1	24.2	33.9	-
BOJ real exports (sa, % m/m)	2.8	6.5	1.0	-
BOJ real imports (sa, % m/m)	-3.9	3.6	7.6	-

## Australia



Australia - Motor vehicle sales (21 June)	Mar-10	Apr-10	May-10	Mkt f'cast
Motor vehicle sales (sa, m/m%)	-2.8	9.0	-3.2	-
Motor vehicle sales (sa, y/y%)	19.5	29.1	16.4	-
Passenger vehicle sales (sa, m/m%)	0.6	8.5	-3.8	-
Passenger vehicle sales (sa, y/y%)	20.2	28.2	17.9	-
Sports utility vehicles (sa, m/m%)	-6.2	16.4	-6.7	-
Sports utility vehicles (sa, y/y%)	30.6	46.8	27.0	-
Other vehicle sales (sa, m/m%)	-8.7	2.5	3.1	-
Other vehicle sales (sa, y/y%)	7.8	14.6	3.0	-