

MONTHLY ECONOMIC OUTLOOK

August 2009

Thursday, 13th August 2009

- Over the past month, economic data has revealed that the Australian economy has continued to hold up better than expected amid the worst global economic downturn since WWII. Retail spending has continued to trend higher, the increases in the unemployment rate have not been as dire as expected, consumer sentiment continues to rise and the upswing in housing lending marches on.
- The better-than-expected local economic data contributed to a dramatic change in interest rate expectations over the past month. Remarks made by the Reserve Bank (RBA) Governor also contributed to the shift. This time last month, financial markets were still factoring in some chance of a further easing from the Reserve Bank. Today, financial markets are fully priced for a 25bp rate hike before the end of this year.
- Recently we brought forward our projected timing for the start of the rate-hiking cycle to early next year (from Q2 next year). However, we would not rule out a rate hike occurring before the end of this year; much will depend on the flow of economic data. If economic data continues to suggest that a recovery may be underway in Australia and that this recovery is durable, the RBA may start raising rates as early as November or December.
- In overseas developments, the US economy has bottomed and a recovery may already be underway, albeit a slow recovery. US payrolls are a key economic indicator and one that lags economic activity. The contraction in payrolls is no longer intensifying but improving; it suggests that the general economy may already be recovering.
- The Australian dollar continued to grind higher over the past month to a high of USD0.8471 on August 4, its highest level since 23 September 2008. We expect the Australian dollar to finish this year modestly higher near USD0.8700. Attractive interest rates, a favourable domestic growth outlook and improved prospects for the global economy should help the AUD finish modestly higher at the end of this year.
- Our special feature article this month takes a detailed look at the outlook for world oil prices.

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SPECIAL FEATURE ARTICLE – THE OUTLOOK FOR OIL

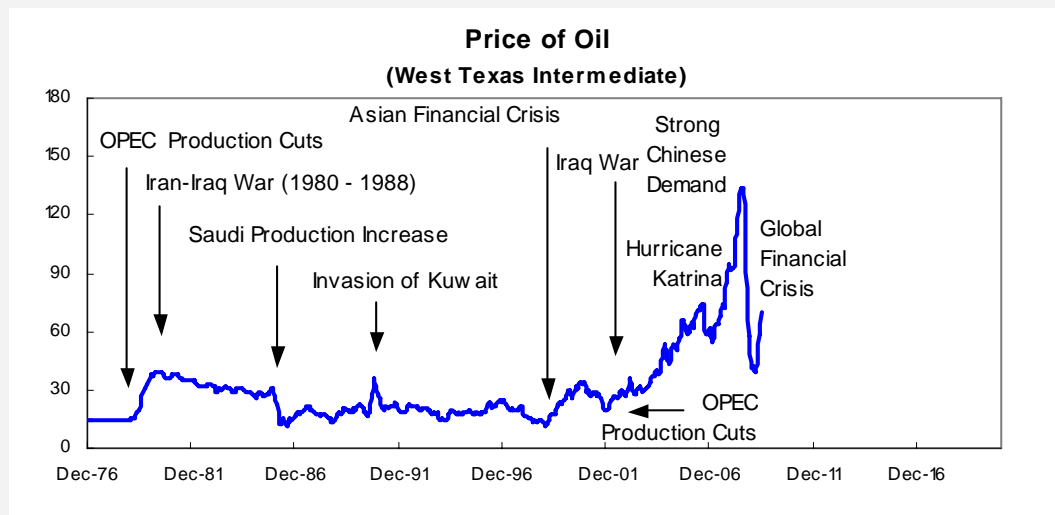
Developments in the oil market have played a key role in the path of the global economy. Last year's surge in the oil price to a record high helped push global inflation rates to the highest seen in several years, depleting consumers' purchasing power. But soon after touching this all-time high of above \$US147 per barrel in July 2008, the oil price fell significantly to the lowest levels seen in around five years as the global financial crisis gripped financial markets. This year, oil prices have rebounded from their recent lows. We expect oil prices to average around US\$65 a barrel this year and around US\$75 a barrel next year. But we do not believe that they likely to move back to prior record levels any time soon. It is largely because any recovery in global economic conditions should be slow.

Recent Trends in the Oil Market:

The start of this decade gave way to a significant surge in the price of oil. The West Texas Intermediate (WTI) price of crude touched an all-time high of above \$US147 per barrel in July last year. It was almost six times higher than the levels of around \$US25 seen at the start of 2000. Driving the significant increase in price was growing oil consumption from the world's most populous country, China, and above average pace of global economic growth. Supply shocks due to major events such as the Iraq war in 2003 and the Atlantic Hurricane Katrina in 2005 (which interrupted oil production, importation and refining in the Gulf area) were also to blame. For most of this period, it was mostly demand driving prices rather than supply shocks as in the mid and late 1970s. However, supply was still an issue. Speculative demand also played a role in inflating prices. The demand and supply events caused investors to push prices up even further, arguably well above key fundamentals, in anticipation of higher prices.

The second half of 2008, however, saw a sharp unwinding in the price of oil to touch levels close to \$US30 per barrel. This decline almost completely erased the massive gains seen since the start of this decade. Oil was sold off as the recession in the world's top oil consumer the US (that begun at the end of 2007) deepened. Meanwhile, the seriousness of the whole US sub-prime issue was unveiled in September 2008, after the collapse of Lehman Brothers (which had invested heavily in sub-prime securities). It was the largest failure of a major US financial institutions in many years and sparked an escalation in the financial crisis to become the worst seen since the 1930s. This period saw a very sharp re-appraisal of risk, a consequent substantial sell-off in risky investments and immense weakness in many economies across the globe.

The December quarter of 2008 and March quarter of this year are seen as the periods of most pronounced weakness in economic activity. Since then, key global economic indicators have offered some encouragement that economic activity may be bottoming or is soon to bottom. It is widely expected that the world economy will return to growth in 2010 from what is anticipated to be the worst contraction since WWII this year. Accordingly, we've seen a sharp improvement in investor sentiment and oil prices rebound to around \$US70 per barrel. This level is more than double last year's lows in the price of oil.

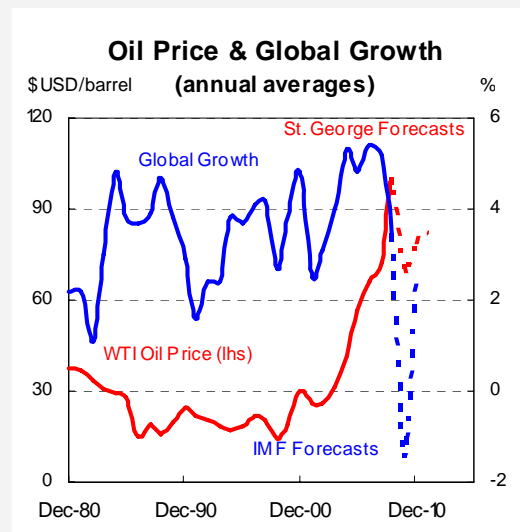
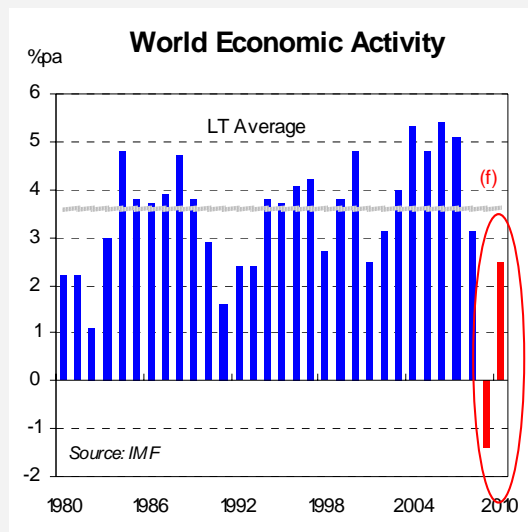


Oil and Global Economic Growth:

The IMF expects the global economy to contract by 1.4% this year. It is a slight downgrade from April's forecast of 1.3% and still marks the worst annual performance since WWII. Consensus forecasts for 2009 are even more pessimistic with a 2.6% fall projected.

For 2010, the global economy is widely anticipated to return to growth. The IMF projects world growth of 2.5% next year, which is a 0.6 percentage point upgrade from its forecast in April. The consensus view is also for a rebound next year, but of a lesser 2.1%. This indicates stronger demand fundamentals for the price of oil next year.

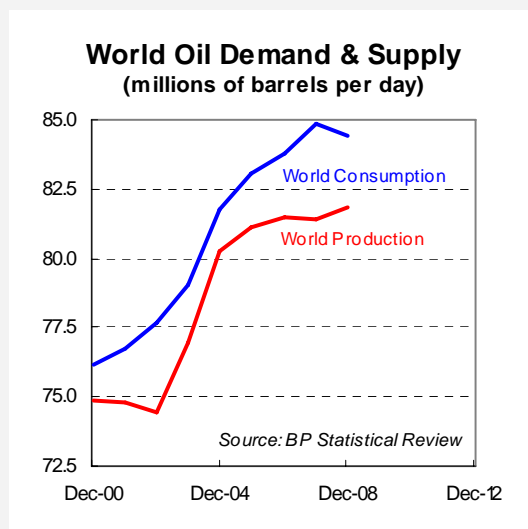
We expect oil to average around \$US65 per barrel this year and average around \$US75 a barrel next year. Our forecast for the long term sits between US\$80 and \$85 a barrel.



Global Oil Supply and Demand:

Despite the impact of the global financial crisis, oil prices remain above levels before the start of the 21st century and are likely to remain so even if a global economic recovery next year does not transpire. Much higher oil prices in the current decade reflects both a pick up in demand over the years prior to the global financial crisis and a shortage of supply.

Total world oil consumption (based on the latest data for 2008) stands at 84.5 million barrels per day. The countries that take up the largest shares of this total are the US (22.5% of total), China (9.6%), Japan (5.6%), India (3.4%) and the Russian Federation (3.3%). The US, China and the Russian Federation also produce much of the world's oil supply, which is estimated to be at 81.8 million barrels per day. But the US and China don't produce enough oil to be self-sufficient, i.e. they also have to import oil to meet excess domestic demand. So they are not among the world's top exporters of oil.



Top Five Oil Consumers & Producers

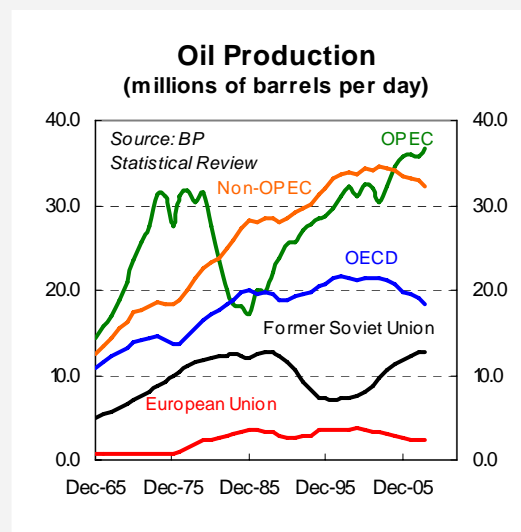
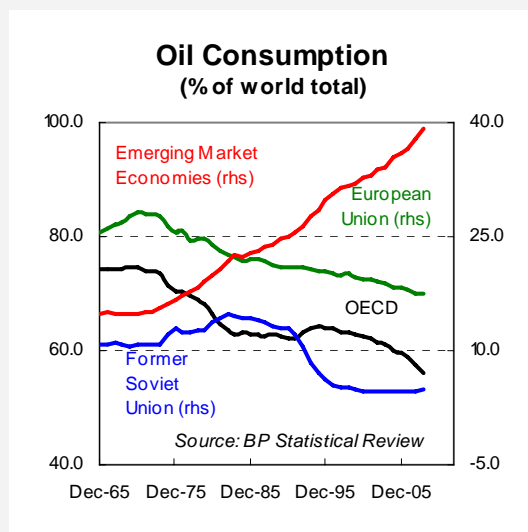
Source: BP Statistical Review

<u>Oil Consumers</u>	<u>Share of World Total ('08)</u>
1. United States	22.5%
2. China	9.6%
3. Japan	5.6%
4. India	3.4%
5. Russian Federation	3.3%

<u>Oil Producers</u>	<u>Share of World Total ('08)</u>
1. Saudi Arabia	13.1%
2. Russian Federation	12.4%
3. United States	7.8%
4. Iran	5.3%
5. China	4.8%

Before the global financial crisis hit markets last year, there had been a noticeable pick up in global oil demand with non-stop gains since 1994 averaging 1.7% per year. The increase in the demand for oil was most pronounced in the rapidly growing emerging market economies (EMEs), particularly China. As a percentage of total world consumption, EMEs now account for almost 40% of the total versus below 20% in the 1970s and 1960s. In contrast, the OECD economies have reduced their share of world oil consumption. It now stands at 56.0% of the total from over 70% in the 1970s and 1960s. We expect continued oil demand growth in the EMEs. This is particularly the case in terms of China, which is the second largest oil consumer, consuming 9.6% of the world's total in 2008. Its economic growth performance is also well above the major economies and its likely ongoing economic recovery suggests continued support for oil consumption.

In terms of supply, oil supply has been lagging behind demand growth. Since the start of this decade, global oil demand grew by 10.9% to 84.5 million barrels per day in 2008. Oil production during this period, however, was 9.3% to 81.8 million barrels per day. The RBA noted late last year that this gap reflected limited increases in OPEC production (with OPEC holding almost 50% of world oil production). Meanwhile, it also noted a trend decline in OECD production as fields are depleted (including in Australia) and supply growth in other production regions (such as the former Soviet Union) have been lower than expected. Furthermore, "OPEC spare capacity has declined compared with levels seen earlier in this decade and the development of new oil field globally is constrained by a number of factors including rising costs and political uncertainty. In particular, oil companies face strong competition for labour and materials from other resource sectors, resulting in a rapid escalation of development costs over recent years, while much of the world's oil reserves are held in regions where the political environment may limit investment".

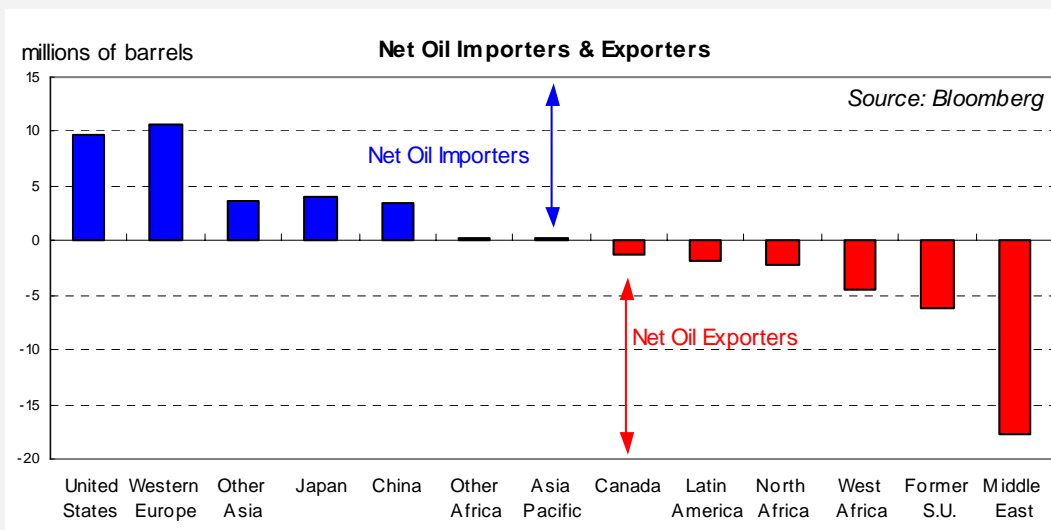
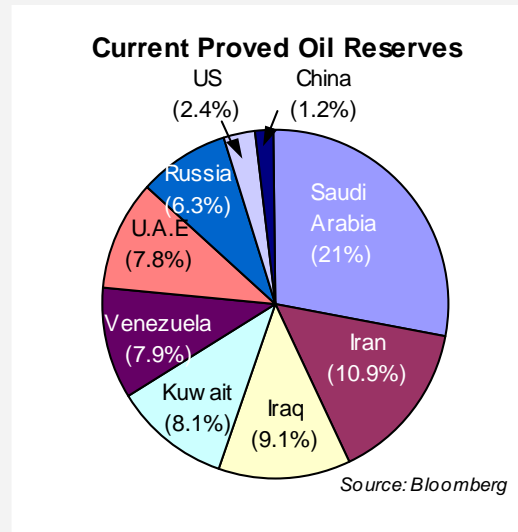
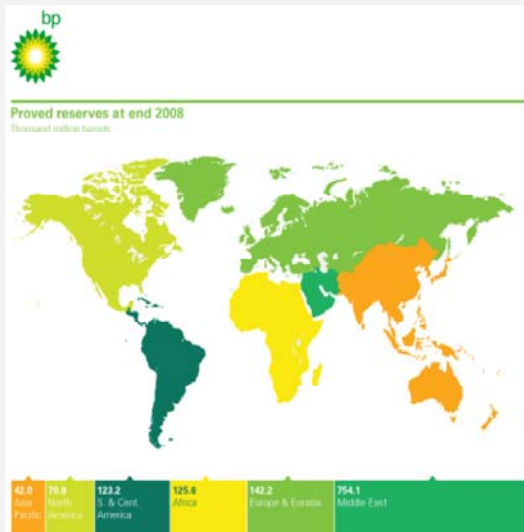


Global Oil Reserves, Exports and Imports:

Oil reserves are the estimated quantities of crude oil that can be brought to the surface from an oil reservoir based on factors such as extraction technologies and reservoir characteristics.

The charts on the next page shows "proved" oil reserves, i.e. those reserves claimed to have a "reasonable certainty" (normally at least 90% confidence) of being recoverable under existing economic and political conditions, with existing technology. Countries in the Middle East hold the bulk (more than 50%) of "proved" oil reserves. This is followed by Venezuela (7.9%), Russia (6.3%), the US (2.4%) and China (1.2%).

These Middle Eastern countries, Russia and Latin America are net exporters meaning that the oil that is produced is exported. But the US and China, which have a much smaller share of oil reserves, are net importers. This means, as mentioned earlier, that they consume much of their own product and have had to seek oil from outside domestic soil to meet excess domestic demand.



Oil, The US & China:

The US is the world's largest consumer of oil, estimated at 19.4 million barrels per day (bpd) based on the latest data for 2008; this is approximately 22.5% of the world total. China is the second largest consumer at 8.0 million bpd (or 9.6% of the world total).

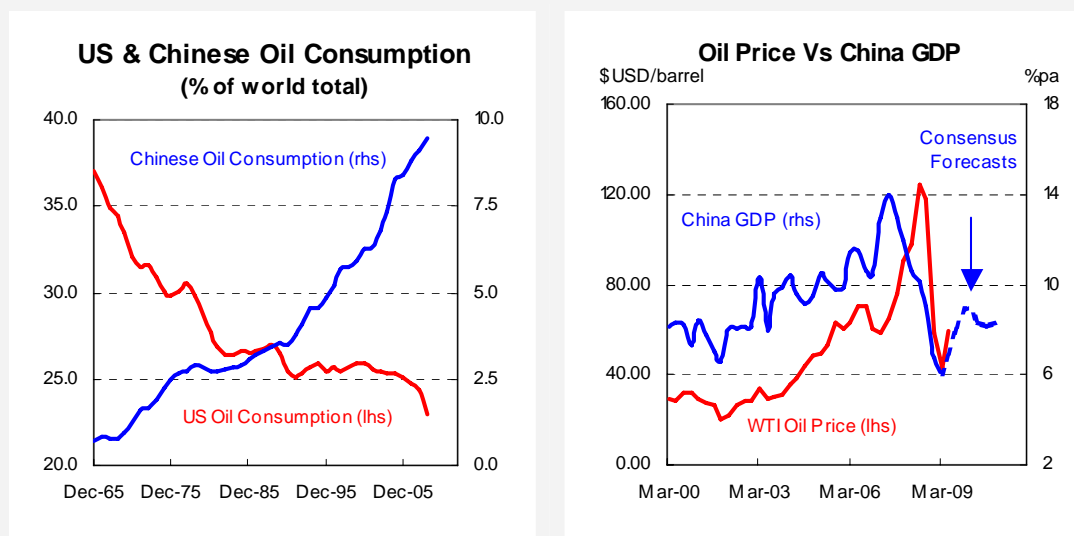
The US share of world oil consumption, however, has been broadly trending lower since BP records began in 1965 (see the chart on the next page). In level terms, US oil consumption is down 1.4 million bpd (or down 6.7%) since the peak reached in 2005. In contrast, China has posted back-to-back annual gains in domestic oil consumption levels since 1990. Chinese consumption as a proportion of the world total has also been increasing since records were available in 1965.

China's surging uptake of oil has been driven by its status as the world's most populous country and very robust economic growth rates. China's population stands at a massive 1.4 billion people, which is almost 20% of the world's population. This is a hefty 1.05 billion above population levels in the US (of 316 million people and just 4.0% of the world total). Meanwhile, China's GDP growth rates have been well above the US and the major economies since records began at the start of this decade. This is even in the face of the worst global financial crisis since the 1930s. This indicates that China's share of world oil consumption could continue to increase.

Recent data has even provided evidence that the Chinese economy may have passed its weakest point; a firm recovery now appears underway. This economic recovery in China represents upsides for oil prices. GDP in China grew at a 7.9% annual pace in the June quarter, up from the low of 6.1% in the March quarter. Consensus forecasts are for Chinese economic growth to continue to strengthen (see rhs chart below). But a full recovery in China is unlikely without a full recovery in countries where China holds close trade relationships.

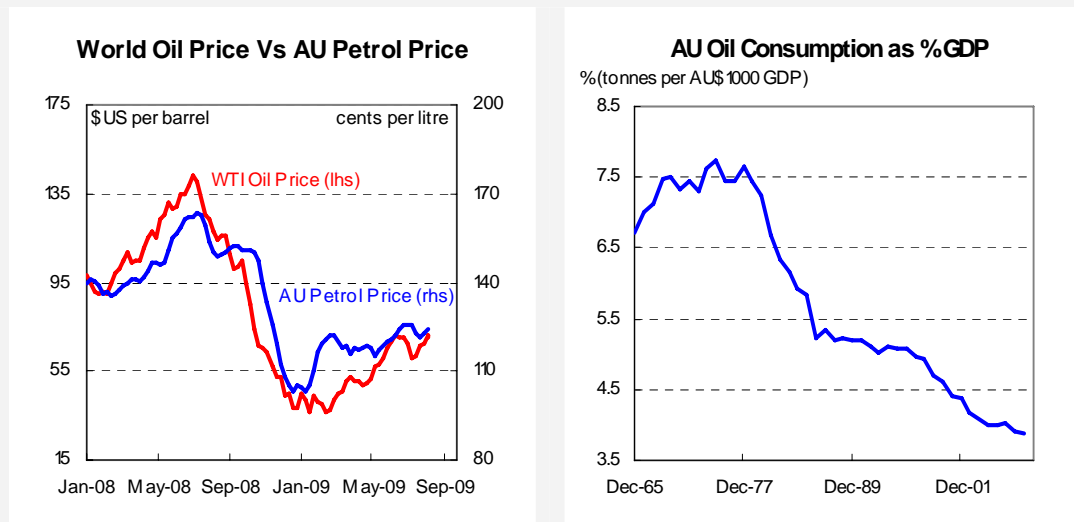
The US will be key influence on the Chinese economy as it is China's principal export destination and fourth important source of foreign direct investment. The US has been stuck in the doldrums for quite some time now, having entered a recession at the end of 2007. But the US data of late has mostly come in on the positive side of the ledger, boosting expectations for the US to exit the recession this year. Any recovery, however, would be very gradual.

The recent better economic data in the US and Chinese suggest fundamental demand support for oil prices in coming months. But it is unlikely that the US economy will move back up to its long-term averages for quite some time. The Chinese economy may get back to its long-term average sooner. So oil prices could well improve, but we think they are unlikely to make new record highs within the near term.



Oil & the Australian Economy:

Australia consumes 1.1% of the world's share of oil consumption (it ranks number 24) behind the Netherlands and Singapore. Australia also produces oil, but only 0.6% of the world's production. It makes Australia a small net oil importer (although note that Australia is a net energy exporter because it exports coal, LNG, etc). Further, Australia's dependence on petroleum imports is growing because it faces declining oil output. Therefore, Australia is still vulnerable to movements in the oil price.



Based on the latest trade figures for May, petroleum oils took up the largest share of domestic merchandise imports (crude petroleum oils at 6.6% and refined petroleum oils at 4.9%). The Australian Academy of Technological Sciences and Engineering (ATSE) notes that, "Australia continues to be, exposed to the international oil market simply because the composition of Australian oils does not allow the full range of petroleum products to be produced and substantial amounts of oil must be imported to meet this need".

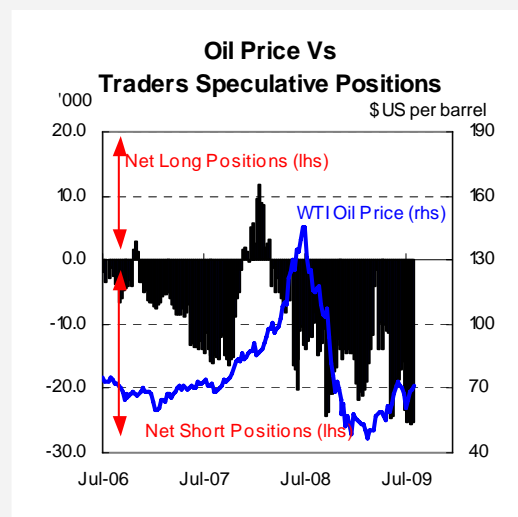
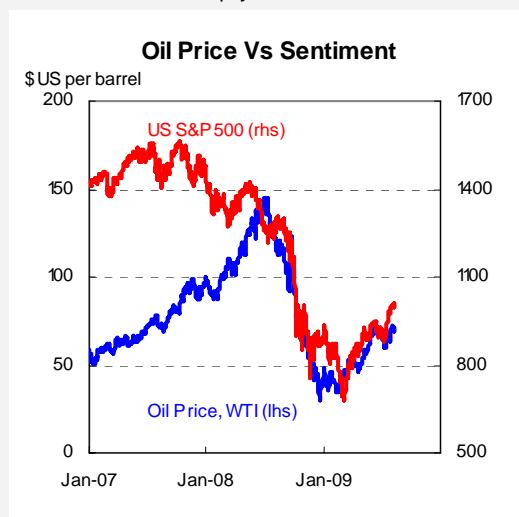
About 80% of Australia's petroleum liquids use is in road transport (10% is for aviation). When oil prices peaked in the middle of 2008, petrol prices rose substantially to A\$1.63 per litre. Higher petrol prices, in turn, were one of the key reasons behind sharp increases in domestic inflation rates. Excluding the temporary effect associated with the introduction of the GST, headline inflation touched a 13-year high of 5.0% in Q3 2008. The less volatile core inflation measure rose to a 17-year high of 4.7% per annum. These rates are well above the 2-3% per annum rates that the RBA deems to be acceptable over the medium term on average. Higher petrol prices (and its upward influence on other prices) also helped burn a hole in consumers' wallets; retail spending dropped to a three-year low of 1.4% per annum in September 2008.

Petrol prices have since dropped off from recent highs but the recent up-tick in world oil prices (and expected continued gradual uptrend) suggests a floor ahead for domestic petrol prices. The higher AUD in recent months has helped insulate domestic petrol prices from the recent moves higher in the price of world oil. We expect the AUD could have modest appreciation ahead, but that the gains in the world oil price will outstrip the appreciation of the AUD. It means there could be some price pressures for fuel emerging, which could dampen retail spending. (Higher unemployment and the end of the government cash handouts could also dampen retail spending; but there is a range of other factors that should help underpin retail trade, which includes higher equities, improved consumer sentiment, tax cuts and low mortgage rates).

But oil's share as a total of overall domestic spending has declined over time. As a share of GDP, oil expenditure has dropped by almost 50% from levels before the second OPEC oil price shock in 1980. This was in line with the experience in other industrialised economies. Oil prices had peaked in the beginning of 1980 during the Iraqi invasion of Iran – a time when oil production in Iran came close to a halt and production in Iraq was severely hindered. In response to the sharp price gain that followed this supply shock, economies moved to less energy-intensive sectors and increased their efficient use of oil. Accordingly, petrol prices could represent less of a shock to economies (including that of Australia) than what has been the case previously.

Speculative Oil:

There have been growing concerns that speculators are to blame for the volatility in commodities over recent years and in artificially pushing up prices. Last year, the US Commodity Futures Trading Commission (CFTC) issued a report blaming demand and supply, rather than speculators, for record high oil prices in 2008. But one of the four CFTC commissioners was recently quoted by the Wall Street Journal as saying that the conclusions of last year's research was based on "deeply flawed data".



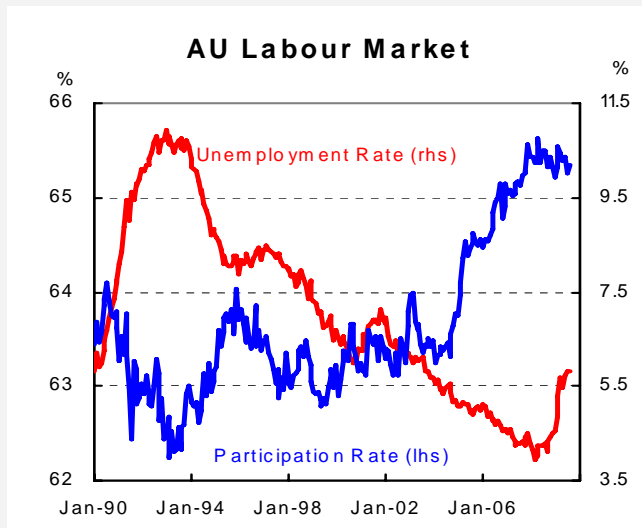
These remarks were reported just after CFTC announced in June they would be considering placing speculative trading limits on energy in response to the recent wild swings in commodity prices (the CFTC already sets and enforces position limits on certain agriculture products). The CFTC notes its responsibility to “eliminate, diminish or prevent the undue burdens that may result from excessive speculation”.

The uncertainty relating to potential curbs on speculative trade (along with other factors such as still fragile sentiment) appears to be placing somewhat of a cap on oil price gains in recent days. In the short-term, this uncertainty could continue to weigh on oil prices until more clarity about likely CFTC limit measures are known.

Last week, the Federal Trade Commission (FTC) issued final rules designed to prohibit oil market manipulations. Fines of as much as \$US1 million per violation per day could be imposed. The FTC said that “This new rule will allow us to crack down on fraud and manipulation that can drive up prices at the pump...we will police the oil markets – and if we find companies that are manipulating the markets, we will go after them”.

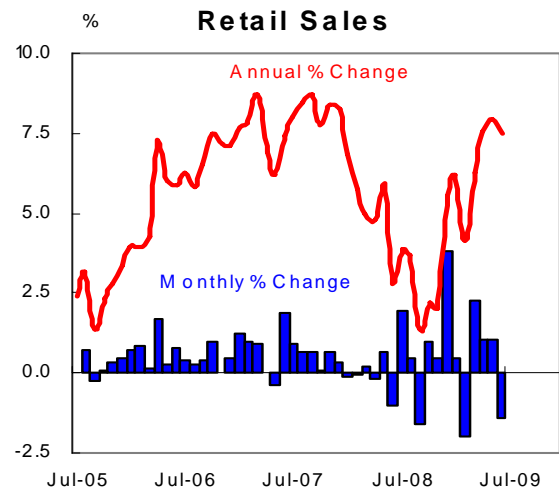
Australian Economic Data

Labour Market



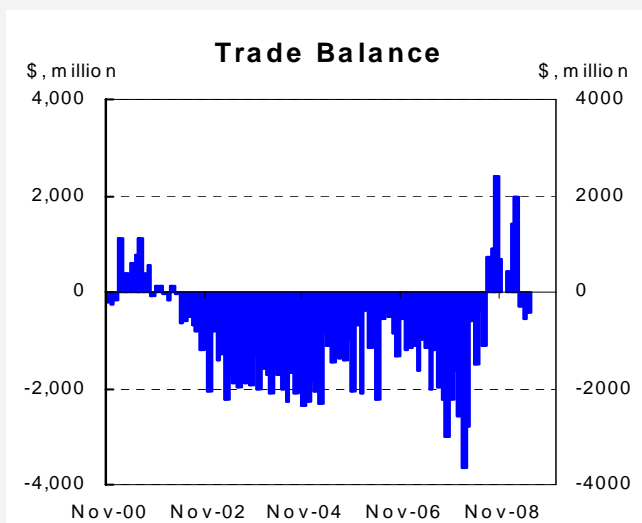
Employment unexpectedly rose by 32.2k in July, confounding consensus expectations for job losses of 18k in the month. The unemployment rate remained steady at 5.8%. We believe greater flexibility in the labour market is helping employers weather softer economic conditions. Anecdotes suggest that wherever possible employers are trying to hang on to their employees; e.g. by shortening hours. We still see the risk of a higher unemployment rate over the next year but we think the peak will be lower than in the early 1990s (the time of the last recession).

Retail Sales



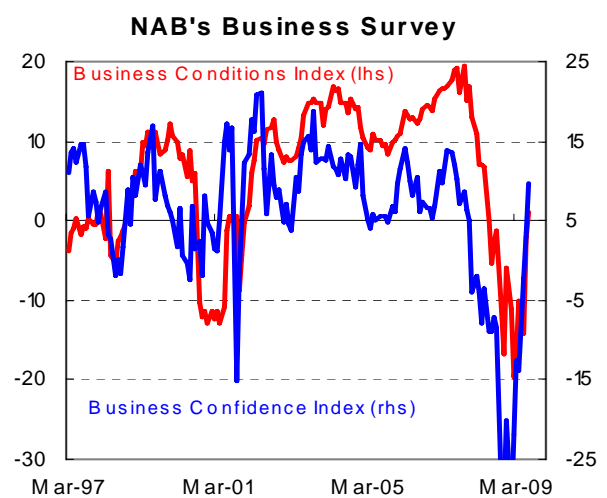
Retail sales values unexpectedly fell in June, by 1.4%. But it follows a string of strong gains of 4.4% over the three months to May. In annual terms, the value of retail sales slowed from 8.0% to 7.5%. It is still, however, well above the long-run average of 6.2%. Retail sales volumes (i.e. excluding prices) rose a strong 2.0% in Q2. So household consumption is likely to make a positive contribution to Q2 GDP. Higher equities, lower petrol prices, low mortgage rates and the government cash handouts are underpinning retail spending.

International Trade Balance



The trade deficit was better than expected in June. It improved to \$441mn, from \$737mn in May as exports rose by 1.5% and imports were flat. The difference between export and import volumes enters Q2 GDP estimates. Export volumes appear to have been resilient in the Q2. But higher import volumes could offset this, indicating a marginal or negligible net exports contribution to GDP.

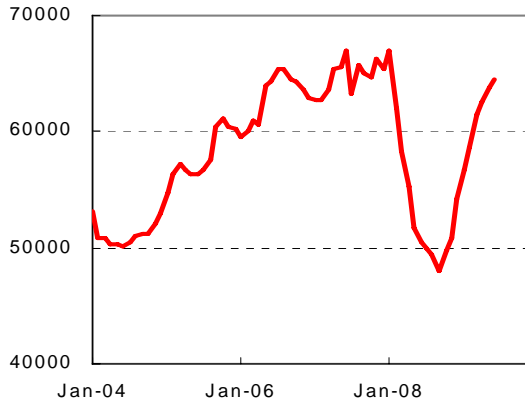
Business Conditions



The NAB's Business Survey for July continued to be encouraging. The index measuring business confidence rose to a 2-year high of 10 points and is now running near the long-term average. In January, this index had touched a low of -32 points. Meanwhile, the business conditions index rose by 3 points to +1 point. It is well up from the low of -20 points reached in February 2009.

Housing Finance

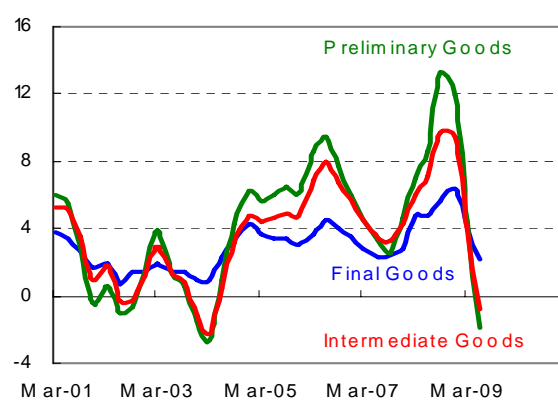
**Number of Housing Loans
(to Owner Occupiers)**



The number of loans to owner-occupiers rose by 1.1% in June to its highest level since March 2008. It also marked the ninth consecutive month of gains. Indeed, owner-occupier loans are 32.4% higher since reaching a low point in September last year. Lending for new construction to owner-occupiers is up 61.1% from the lows struck in late 2008. It suggests that residential construction should begin to recover before the middle of next year and possibly sooner depending on credit conditions. For the first time since last October, the market share of lending to first-home buyers fell - to 27.1%.

Producer Price Index

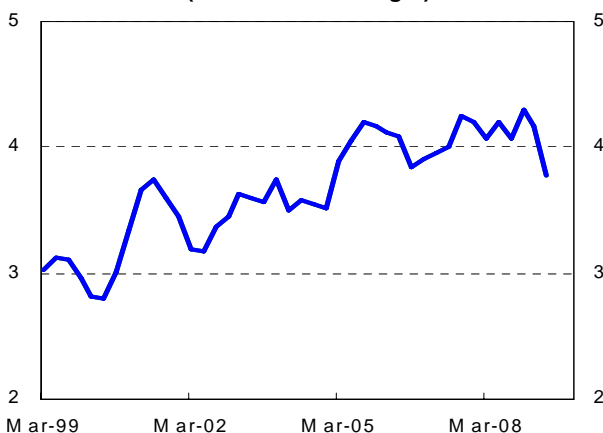
**Producer Price Inflation
(annual % change)**



Producer prices were much weaker than expected in the June quarter. At the final stage, prices fell by 0.8% versus consensus expectations for a drop of 0.1%. The fall was fully driven by imported prices (-5.9%), which have been pressured lower by the much stronger AUD. The latter rose more than 11 US cents in the quarter. The annual producer price inflation rate has moved down sharply to 2.1%, which is the lowest since 2004. Prices at the preliminary and intermediate stage posted larger falls of 2.7% and 1.9%, respectively. It suggests that producers are holding on to some price margins.

Wage Cost Index

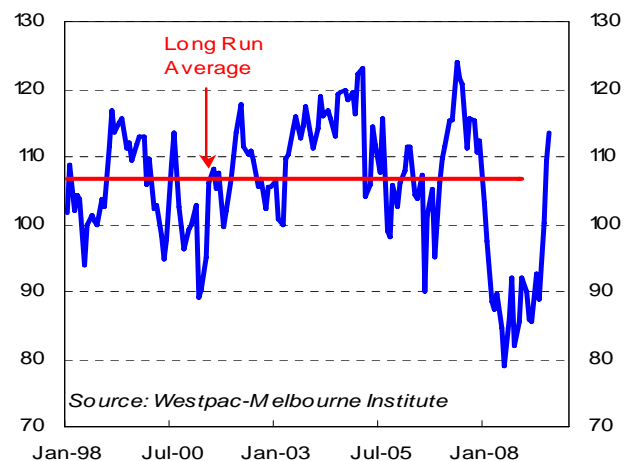
**Wage Cost Index
(annual % change)**



The wage price index (WPI), which measures total hourly rates of pay excluding bonuses, rose 0.8% in the June quarter. Annual wage inflation moved further below the RBA's perceived 'line in the sand' of 4.5%. From the recent high of 4.3% touched in Q4 2008 it has moved down to 4.2% in Q1 2009 and 3.8% in Q2 2009. The paring back in wage inflationary pressures is consistent with weaker employment conditions. We still expect unemployment rates to trend higher, which means that wage inflation could soften further.

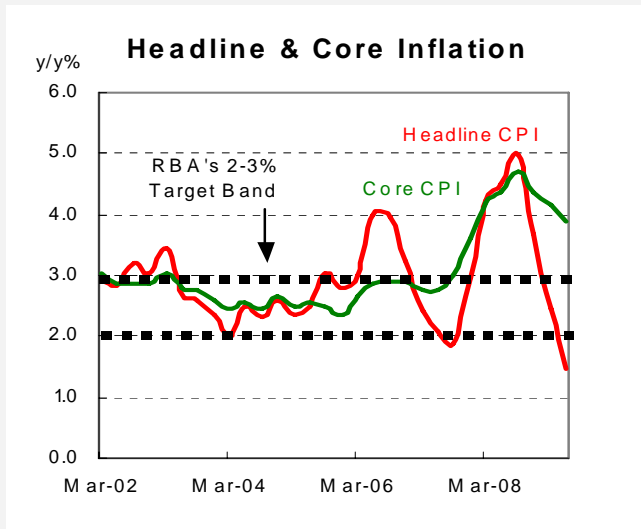
Consumer Sentiment Index

Consumer Sentiment Index



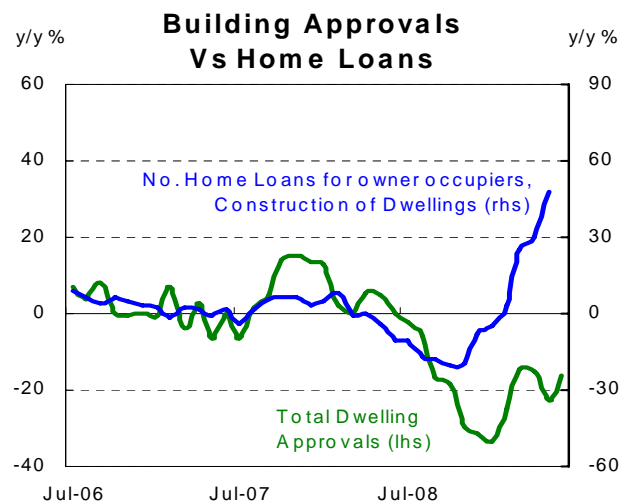
The WMI measure of consumer confidence jumped 3.7% in August to 113.4 points - the highest level in nearly two years. Importantly, the index rests well above 100 points, indicating that more consumers are optimistic than pessimistic about the outlook. The improved outlook for both the domestic and global economy has helped consumer sentiment improve. The improvement in consumer sentiment can buoy retail spending and general economic activity.

Consumer Price Index



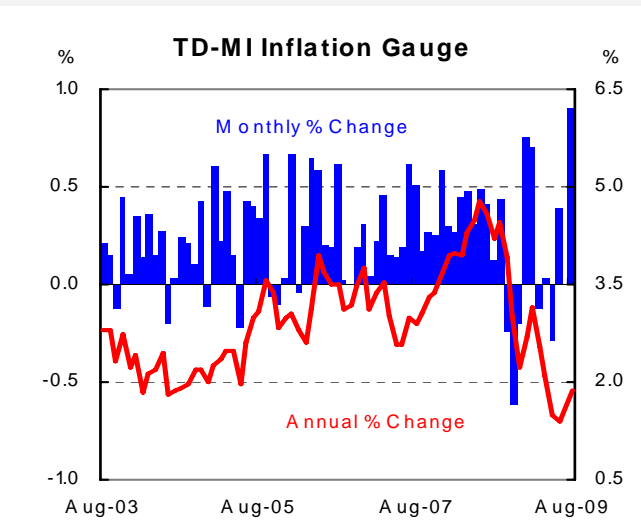
Domestic consumer prices rose by 0.5% in the June quarter. Key upward contributors were petrol prices, hospital and medical services costs and rents, furniture and house purchase costs. The annual rate of inflation, however, has dropped sharply to a decade low of 1.5% and is now below the RBA's 2-3%pa target band. The outcome is in line with the RBA's May forecast. Core inflation, however, was slightly above the RBA's forecast. Core prices rose 0.8% in the month. The annual rate moved down to 3.9% from 4.2% but remains well above the RBA's target band.

Building Approvals



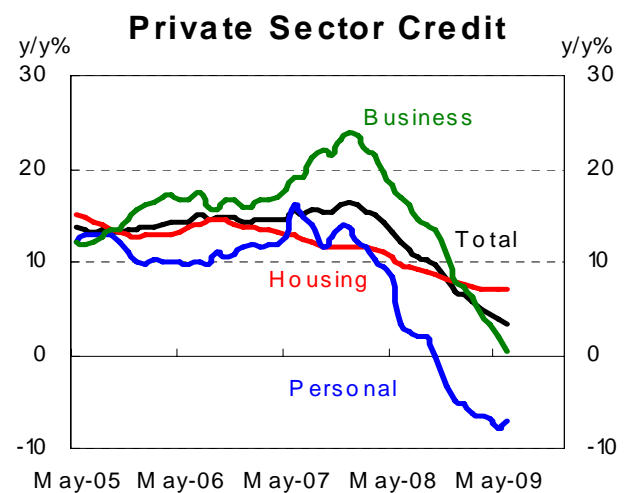
Building approvals jumped by 9.3% in June. It was the largest rise in four years. Approvals have followed, with a lag, the recovery underway in housing loan commitments. On a year ago, building approvals are down by 14.3% but this is an improvement from the 21.3% annual drop recorded in May. Approvals for private-sector housing, the most stable component of the building approvals data rose by 4.9% in June, representing the sixth straight rise. The more volatile approvals for 'other' private-sector dwellings (e.g. apartments and townhouses) rose 27.7%.

TD-MI Inflation Gauge



The TD-MI consumer price indicator surged by 0.9% in the month of July. It was the largest increase in the seven-year history of this series. The monthly gain reflected a one-off price jump in communications costs and seasonal increases in council rates and changes. It was partially offset by lower costs for fruit and vegetables, financial services and audio-visual and computing equipment. The year-on-year rate has lifted to 1.9% from 1.4%. The TD-Mi 'trimmed mean' measure of core prices rose by 0.7% in the month for a 2.9% annual rate (2.0% previously).

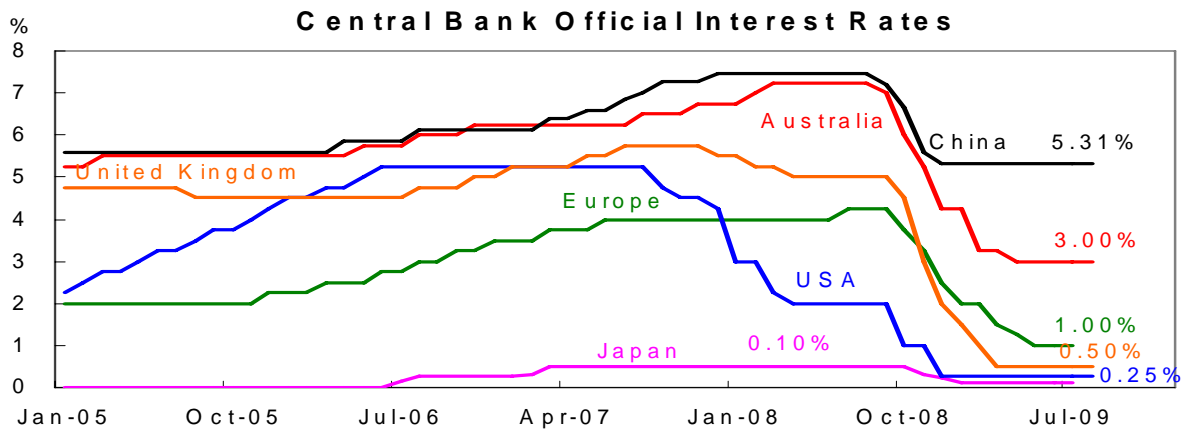
Private Sector Credit



Credit to the private sector edged 0.1% higher in June, after a 0.1% drop in May. The breakdown of the data for the month shows that personal (-0.3%) and business credit (-0.5%) are still recording falls. But housing credit remains a pillar of strength, supported by strong population growth, historically low interest rates and the boost to the first-home owners' grant. The annual rate of credit to the private sector has slowed from the recent peak of 16.4% in December 2007 to 3.4%. It is the weakest annual rate since September 1993.

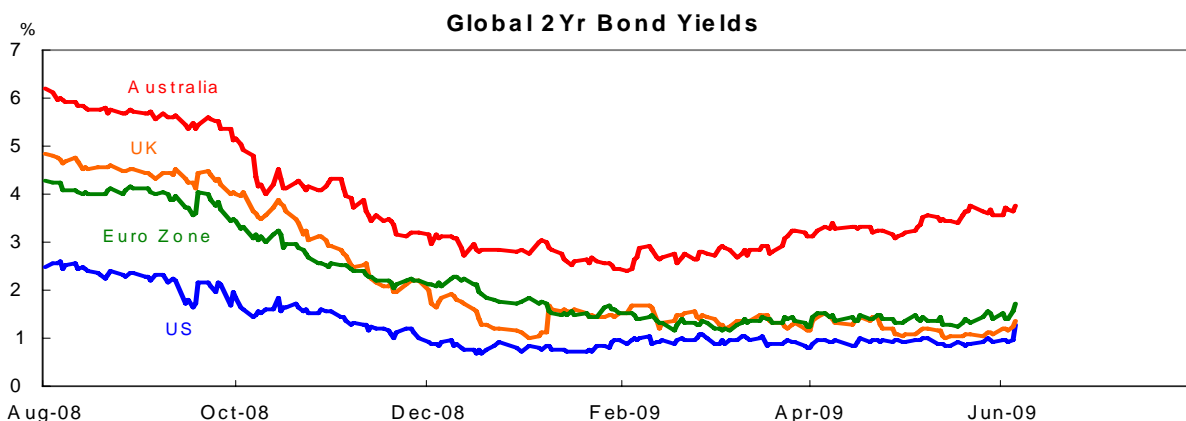
Interest Rate Markets

Central Bank Outlook



The RBA held interest rates steady at 3% for the fourth consecutive month in August. But a key change in RBA rhetoric suggests that the next move in rates is higher. In particular, the central bank removed its easing bias. In its statement explaining its decision, the central bank removed the phrase stating that there is "some scope for further easing of monetary policy". Instead the RBA replaced it with "the present accommodative setting of monetary policy is appropriate". The RBA's shift in stance reflects the fact that "economic conditions in Australia have been stronger than expected a few months ago". It also sees the risks of a severe contraction in the Australian economy as having abated. Meanwhile, it expects growth to likely firm into 2010. We project that the first rate hike could occur in the March quarter but there is also a growing probability of one occurring by year end. Indeed, financial markets have a 151% probability attached to a 25bp rate hike before the end of this year. Elsewhere, major central banks continued to hold interest rates steady. For these major countries, interest rates are very near zero meaning that their central banks don't have much scope to cut rates further. But the ongoing stabilisation in the global economy also means that further easing is likely not needed. In the US, economic conditions to look to be reaching a turning point and markets are pricing in an 18% chance of a 25bp rate hike by the end of this year.

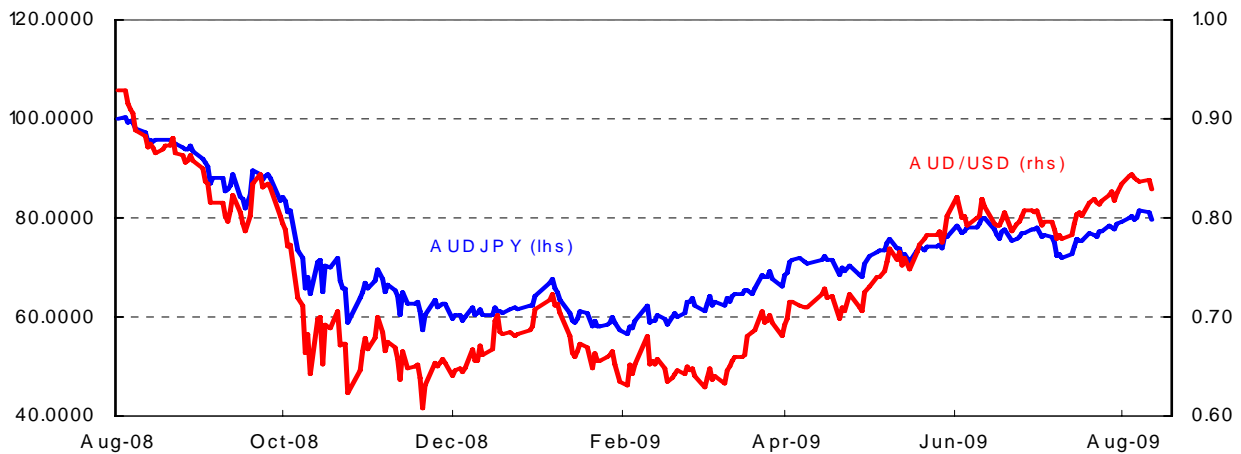
Bond Yields



Short-term government bond yields rose across the globe in the month. The economic data of late has shown improvements in the major economies, pushing up sentiment and lowering the demand for safe-haven assets such as government bonds. Meanwhile, the US government also continues to sell a record amount of treasury debt to fund its soaring deficit. This has sparked supply concerns and accordingly has the effect of pushing up yields. Over the month, the 2-year US treasury debt yield jumped 28bp. In the UK and Euro Zone, yields of similar maturity rose by 3bp and 29bp, respectively. Meanwhile, in Australia, 2-year yields surged an even larger 90bp with the Australian central bank likely to start raising rates sooner than its counterparts in the UK, UK, Europe and Japan.

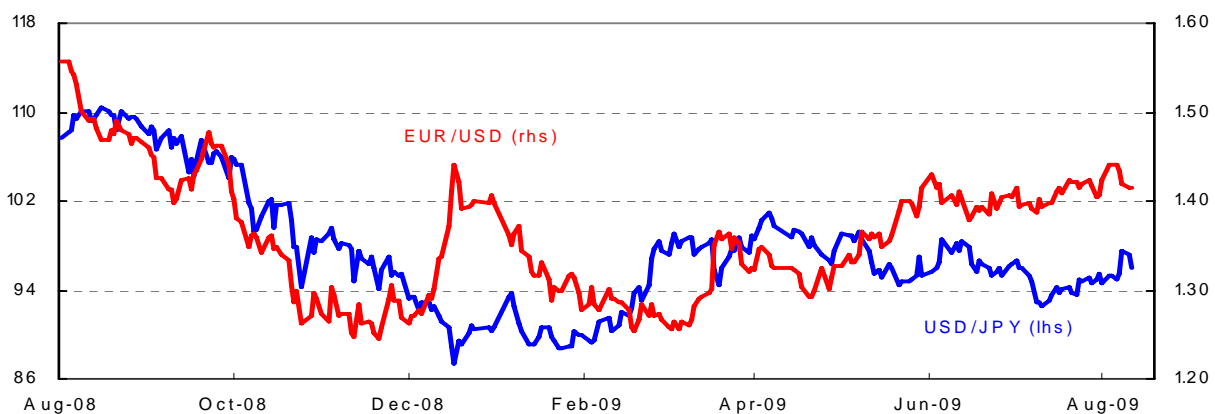
Currency Markets

Australian Dollar



The Australian dollar has gone from strength to strength, touching a high of USD0.8470 on August 4. It is 7.70 US cents higher from the low of USD0.7700 on 13 July 2009. AUD/USD has posted a broad uptrend since March this year and the peak of 0.8470 is a hefty 24.70 US cents higher from the low of 0.6000 touched in October last year. Over the past month, the AUD rose by 6.6% against the USD, 5.0% against the EUR, 5% against the GBP, 10.9% against the JPY and 6.8% in trade-weighted terms. A key factor boosting the currency has been the weaker US dollar and improved risk appetites on the back of ongoing improved sentiment in the global and domestic economic data. The latter has also pushed up other fundamentals for the AUD/USD, i.e. commodity prices and the potential for higher interest rates in Australia. Rhetoric from the RBA has also added weight to expectations rates could move higher by early next year. Interest-rate differentials then remain favourable for the AUD. Recently, the Foreign Investment Review Board announced a relaxation of its rules applying to foreign investment; this may also support the AUD with Australia an attractive investment destination for foreigners. We think the AUD will continue to exhibit considerable volatility for the rest of this year but end the year near USD0.8700 and move towards USD0.9000 by mid next year.

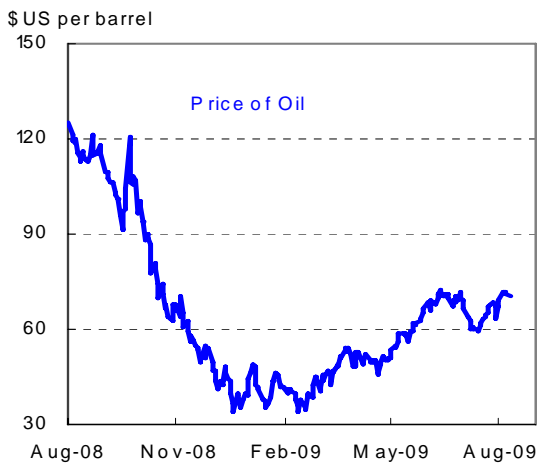
Global Currencies



The US dollar weakened over the last month as risk appetites recovered, causing an unwinding of safe-haven flows into the greenback. Risk appetites have improved, helped by continued improving in the US housing figures, which adds to the view that the US housing sector could be bottoming. Some housing indicators (i.e. the NAHB housing sentiment index) are even suggesting that housing sector has passed its trough. Remarks from China have also encouraged the sell-off in the USD. China has continued to voice its argument against the US dollar as a reserve currency, sparking concerns that it could reduce its investments in US Treasuries. Over the month, the US dollar fell by 1.7% on a trade-weighted basis. It was also 1.8% lower against the euro, down 1.7% against sterling but was 3.5% higher versus the Japanese yen.

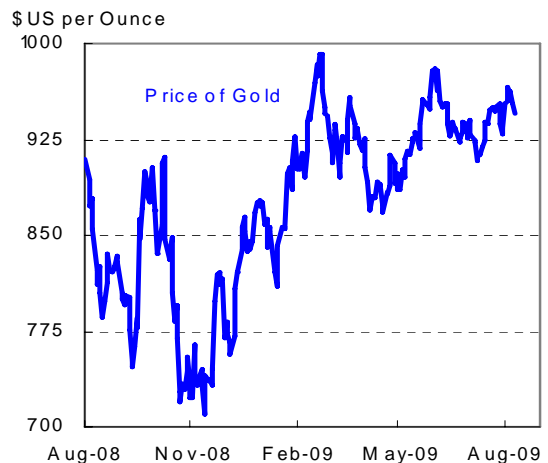
Commodity Markets

Oil



Oil has jumped \$US10.62 a barrel (or 17.8%) over the past month to trade around \$US70 per barrel. A weaker USD has helped push oil higher. But global economic indicators have also mostly come in on the positive side, adding to the view that a soon to come global recovery could help push up the demand for oil. There are also signs that the US, the largest oil consumer in the world, could be reaching a turning point. Indeed, a recent survey of US economists showed that most expect the US economic downturn to have ended in this quarter.

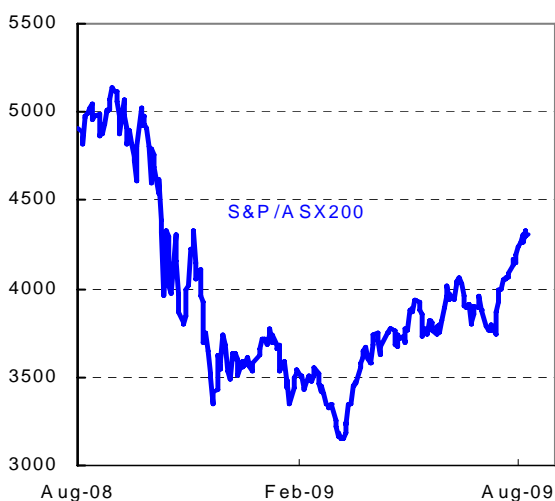
Gold & Base Metals



The price of gold rose \$US32.50 over the month to just above \$US952 per barrel. In percentage terms (+3.5%), however, the increase was much smaller than that seen in the oil price. USD weakness and longer-term inflation fears helped prop up the price of gold. But improved risk appetites hampered its appeal. Base metals gained 24.0% in the month on the back of a weaker USD and better risk appetites (copper +27.4%, aluminium +26.3%, lead +15.7%, nickel +35.6%, tin +23.8% and zinc +24.0%).

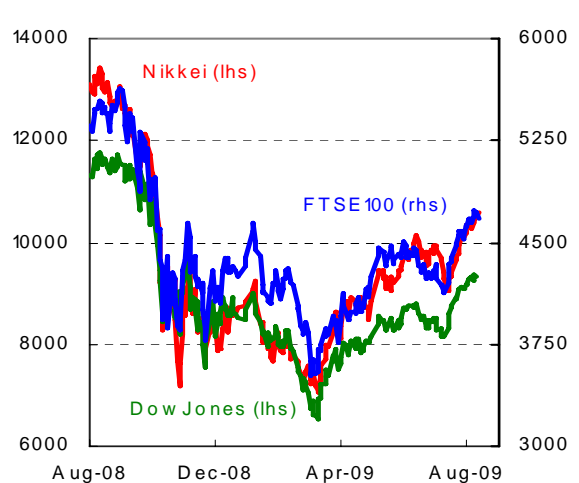
Share Markets

Australia



The ASX200 is up 18.7% over the past month. All key sectors recorded gains; the best performers were industrials (18.5%), financials (18.0%), materials (16.2%), consumer discretionary (15.7%), and energy (9.8%).

International Markets



Major equity markets posted hefty gains in the last month. The US Dow Jones rose 14.9%, the UK FTSE was higher by 14.3%, the Japanese Nikkei surged 13.2% and the German Dax gained 16.9%.

Recent Australian Data

Red – Indicates the result was **weaker** than consensus expectations

Blue – Indicates the result was **stronger** than consensus expectations

Black – Indicates the result was **in line** with consensus expectations

All data is for month-on-month unless otherwise specified

<p>August 2009 WMI Consumer Confidence +3.7%, Previous +9.3% 12/8</p> <p>July 2009 Employment +32.2k, Consensus –20k 6/8 ANZ Job Ads –1.7%, Previous –6.7% 3/8 TD-MI Inflation +0.9%, Previous +0.4% 31/7 DEWR Skilled Vacancies +6.0%, Previous –2.0% 22/7 WMI Inflation Expectations +3.2% y/y, Previous +2.8% 9/7 WMI Consumer Confidence +9.3%, Previous 12.7% 8/7</p> <p>June 2009 Wage Cost Index +0.8% Consensus +0.8% 12/8 Housing Finance +1.1%, Consensus +1.8% 10/08 Trade Balance -\$441mn, Consensus -\$800mn 5/8 Retail Sales Value –1.4%, Consensus +0.6% 4/7 Retail Sales Volumes +2.0% q/q, Consensus +1.3% q/q 4/7 Private-Sector Credit +0.1%, Consensus +0.1% 31/7 Building Approvals +9.3%, Consensus +6.0% 30/7 Headline CPI +0.5% q/q, Consensus +0.5% q/q 22/7 Core CPI +0.8% q/q, Consensus +0.8% q/q 22/7 Vehicle Sales +5.7%, Previous +5.4% 21/7 PPI –0.8% q/q, Consensus –0.1% q/q 20/7 Export Prices –20.6% q/q, Consensus –16.0% q/q 17/7 Import Prices –6.4% q/q, Consensus –6.0% q/q 17/7 NAB Business Confidence +4 points, Previous –2 points 14/7 Employment Change –21.4k, Consensus –25k 9/7</p>	<p>ANZ Job Ads –6.7%, Previous –0.2% 6/7 TD-MI Inflation 0.4%, Previous –0.3% 6/7 WMI Consumer Confidence +12.7%, Previous –4.3% 10/6</p> <p>May 2009 Housing Finance +2.2%, Consensus +1.0% 8/7 Trade Balance -\$556mn, Consensus -\$180mn 2/7 Building Approvals –12.5%, Consensus 3.0% 1/7 Retail Sales Value +1.0%, Consensus +0.5% 1/7 Private-Sector Credit –0.1%, Consensus +0.2% 30/6 New Motor Vehicle Sales +5.4%, +1.7% 22/6 Employment Change –1.7k, Consensus –30k 11/6 ANZ Job Advertisements –0.2%, Previous –7.5% 9/6 NAB Business Confidence –14, Previous –18 9/6 TD-MI Inflation Gauge –0.3%, Previous 0.0% 1/6</p> <p>April 2009 Housing Finance +0.9%, Consensus +1.5% 10/6 Trade Balance -\$91mn, Consensus +\$1.4bn 4/6 Building Approvals +5.1%, Consensus +2.0% 2/6 Retail Trade Value +0.3%, Consensus +0.5% 1/6 Private-Sector Credit +0.1%, Consensus +0.3% 29/5 New Motor Vehicle Sales +0.9%, Previous –3.3% 21/5 Employment Change +27.3k, Consensus –25k 7/5 ANZ Job Advertisements –7.5% m/m, Previous –8.5% 4/5 TD-MI Inflation Gauge 0.0% m/m, Previous +0.7% 4/5</p>
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Upcoming Data and Events – Australia & US

Australian Data / Events Underlined

<p>August 13 <u>AU Housing Affordability, Q2</u> <u>AU Inflation Expectations, Aug</u> <u>AU AWOTE, May</u> US Retail Sales, Jul US Business Inventories, Jun</p> <p>August 14 <u>AU RBA Gov. Semi-Annual Testimony</u> US CPI, Jul US Industrial Production, Jul US UoM Consumer Confidence, Aug</p>	<p>August 17 US Empire Mfg Index, Aug US Total Net TIC Flows, Jun US NAHB Housing Market Index, Aug</p> <p>August 18 <u>AU RBA Aug 4 Meeting Minutes</u> US PPI, Jul US Housing Starts, Jul</p> <p>August 19 <u>AU WMI Leading Index, Jun</u> <u>AU RBA Assistant Gov. Speech</u> <u>AU Treasury Secretary Speech</u></p>	<p>August 20 <u>AU RBA Monthly Bulletin</u> <u>AU RBA Head of Economics Speech</u> US Leading Indicators, Jul US Philadelphia Fed Index, Aug</p> <p>August 21 US Existing Home Sales, Jul</p> <p>August 24 <u>AU New Motor Vehicle Sales, Jul</u> US Chicago Mfg Index, Jul</p>
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Forecasts

End Period:	2008		2009				2010	
	Q3	Q4	Q1	Q2	Q3 (f)	Q4 (f)	Q1 (f)	Q2 (f)
RBA Cash, %	7.00	4.25	3.25	3.00	3.00	3.00	3.25	4.00
3 Year Bond, %	5.09	3.90	3.40	4.56	4.85	5.00	5.15	5.45
10 Year Bond, %	5.40	3.99	4.42	5.52	5.80	5.90	6.00	6.10
AUD/USD	0.7924	0.7073	0.6913	0.8064	0.8600	0.8700	0.8800	0.8900
USD/JPY	106.11	90.60	98.96	96.36	97.00	99.00	101.00	103.00
EUR/USD	1.4092	1.3978	1.3250	1.4033	1.4300	1.4250	1.4100	1.4100
GBP/USD	1.7805	1.4626	1.4323	1.6458	1.7000	1.7200	1.7400	1.7600
USD/CHF	1.0644	1.0669	1.1394	1.0859	1.1000	1.1100	1.1200	1.1300
USD/CAD	1.1221	1.2165	1.2602	1.1623	1.0900	1.0800	1.0700	1.0600
NZD/USD	0.6698	0.5835	0.5595	0.6457	0.6750	0.6800	0.6900	0.7000
USD/CNY	6.8460	6.8225	6.8339	6.8305	6.8250	6.8100	6.8000	6.7900
USD/SGD	1.4354	1.4303	1.5529	1.4474	1.4500	1.4600	1.4650	1.4700
AUD/EUR	0.5623	0.5055	0.5217	0.5746	0.6014	0.6105	0.6241	0.6312
AUD/JPY	84.08	64.03	68.41	77.70	83.42	86.13	88.88	91.67
AUD/GBP	0.4451	0.4835	0.4827	0.4990	0.5059	0.5058	0.5057	0.5057
AUD/CHF	0.8892	0.7549	0.7877	0.8757	0.9460	0.9657	0.9856	1.0057
AUD/CAD	0.8435	0.8604	0.8712	0.9373	0.9374	0.9396	0.9416	0.9434
AUD/NZD	1.1830	1.2109	1.2356	1.2787	1.2741	1.2794	1.2754	1.2714
AUD/CNY	5.4248	4.8256	4.7243	5.5081	5.8695	5.9247	5.9840	6.0431
AUD/SGD	1.1374	1.0117	1.0528	1.1672	1.2470	1.2702	1.2892	1.3083

Source:

Bloomberg for historical data

Notes:

- i) Interest rate forecasts are effective 6 August 2009
- ii) Exchange rate forecasts are effective 3 August 2009
- iii) AUD cross exchange rates have been rounded

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