

## Review of the week ending 9 December 2011

*Australian bond yields continued to fall as the RBA delivered another cash rate cut. The EU announced new rules around fiscal discipline but approval could prove difficult.*

### Economic data

In Australia, 3Q GDP rose 1.0% but the detail produced some very mixed messages mainly around the non-mining sector exhibiting little economic momentum. Employment fell a net 6,300 with full-time employment dropping 39,900 while part-time employment rose 33,600. The unemployment rate increased 0.1% to 5.3%. The RBA delivered a rate cut in December in line with market expectations.

In the US, trade deficit narrowed \$0.7 billion to \$43.5 billion. The University of Michigan consumer sentiment index rose to 67.7 from 64.1.

### Rates

Australian bond yields fell as the RBA cut the cash rate by 25 basis points for a second consecutive month, taking the cash rate to 4.25%. With domestic inflation contained and unemployment rising, further modest reductions in the cash rate are expected in 2012. GDP saw a healthy headline number for 3Q (+1.0% q/q) but very mixed messages coming from the detail.

Over the week, Australian two-year yields fell 0.16% to 3.15% while 10-year yields declined 0.21% to close at 3.79%.

US Treasuries had a mixed week off the back of a stronger than expected University of Michigan consumer confidence survey and some promising progress made by European officials during the European Union summit.

US 10 year notes were 0.03% higher in yield at 2.06%. US 2 year yields were 0.03% lower at 0.22%.

### Credit

Credit markets traded in line with stocks. Similar themes persisted in both equities and credit last week as volatility remains high, secondary volumes remain muted and new issuance abundant in several sectors. Flows in financials remained extremely light as investors awaited the outcome of the EU summit.

The Australian iTraxx index closed 11 basis points wider at 200 basis points.

### Other Markets

The oil price dropped 1.5% to close at US\$99.40 per barrel. Gold fell 2.0% to US\$1,716 per oz. Commodity prices fell 0.5% to 486 as measured by the CRB commodity price index.

In FX markets, the much anticipated European leaders' summit announcement produced some volatility but much less clarity. The EUR/USD fell 0.8% to close at 1.339 while the GBP/USD fell 0.2% to close at 1.565. The AUD fell 1.3% to US\$1.013.

Equity markets were weaker. The S&P 500 closed up 0.9% to 1,255 following a strong Friday night session. The FTSE fell 0.4% to 5,529 while the ASX200 fell 2.0% to finish at 4,203.

### The week ahead

In Australia, on Monday we get housing finance and trade figures, Tuesday sees the NAB Business Survey while Wednesday holds the Westpac consumer confidence data.

In the US, the Philly Fed manufacturing index will be the key data release.

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The Market Data Dashboard on the next page provides an overview of changes in key market rates and prices over the week and the month. Particular focus is given to fixed income markets, but there is also some currency, commodity and equity market data. The dashboard provides start and end values for each period as well as "sparkline" charts which provide an indication of the path of changes over the period.

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BlackRock Australia Fixed Income

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# Market Data Dashboard

			Week							Month						
			2-Dec	9-Dec	Move	%	Min	Max	Range	9-Nov	9-Dec	Move	%	Min	Max	Range
Rates	Australia	RBA Cash	4.50	4.25	-0.25		4.25	4.50	0.25	4.50	4.25	-0.25		4.25	4.50	0.25
		12m Implied Cash*	3.13	3.01	-0.12		3.01	3.21	0.20	3.29	3.01	-0.28		2.79	3.29	0.50
		30 day BBSW	4.59	4.41	-0.18		4.41	4.59	0.18	4.70	4.41	-0.29		4.41	4.76	0.35
		90 day BBSW	4.57	4.54	-0.03		4.52	4.60	0.08	4.70	4.54	-0.16		4.52	4.70	0.18
		2Y Govt Bond	3.31	3.15	-0.16		3.15	3.31	0.16	3.76	3.15	-0.61		3.13	3.76	0.63
		10Y Govt Bond	4.00	3.79	-0.21		3.79	4.00	0.21	4.22	3.79	-0.43		3.79	4.22	0.43
		3-10 Fut. Curve	88.0	82.5	-5.5		82.5	92.5	10.0	67.0	82.5	15.5		67.0	92.5	25.5
		Aug-2020 Real Yield	1.38	1.28	-0.10		1.28	1.38	0.10	1.60	1.28	-0.32		1.28	1.60	0.32
	US	Fed Funds Target	0.25	0.25	0.00		0.25	0.25	0.00	0.25	0.25	0.00		0.25	0.25	0.00
		12m Implied Target*	0.32	0.30	-0.02		0.29	0.32	0.04	0.31	0.30	-0.01		0.23	0.37	0.14
		2Y Treasury	0.25	0.22	-0.03		0.22	0.26	0.04	0.23	0.22	-0.00		0.22	0.28	0.06
		10Y Treasury	2.03	2.06	0.03		1.97	2.09	0.12	1.96	2.06	0.10		1.88	2.09	0.21
		2-10 Curve	178	184	6		175	184	9	174	184	10		162	184	22
		10Y Real Yield	-0.06	-0.01	0.05		-0.06	-0.01	0.05	-0.07	-0.01	0.06		-0.07	0.02	0.09
Aus/US	2Y Spread	306	293	-13		293	306	13	353	293	-61		291	348	57	
	10Y Spread	197	173	-24		182	197	15	226	173	-53		191	213	23	
UK	BoE Bank Rate	0.50	0.50	0.00		0.50	0.50	0.00	0.50	0.50	0.00		0.50	0.50	0.00	
Euro	ECB Refi Rate	1.25	1.00	-0.25		1.00	1.25	0.25	1.25	1.00	-0.25		1.00	1.25	0.25	
Credit	Australia	Aus iTraxx	189	200	11		189	203	14	190	200	10		186	226	40
		AA 5Y vs Bond	186	185	-1		182	191	-9	184	185	0		170	191	-21
		BBB 5Y vs Bond	359	370	11		359	370	-11	335	370	35		331	370	-39
	US	CDX Inv. Grade	126	122	-4		120	126	6	130	122	-8		120	147	28
		CDX High Yield	706	695	-11		671	716	44	725	695	-30		671	832	161
Euro	Euro iTraxx	178	176	-2		166	178	12	182	176	-6		166	208	42	
Currencies	AUD/USD	1.027	1.013	-0.014	-1.3%	1.013	1.027	0.014	1.024	1.013	-0.011	-1.1%	0.967	1.027	0.060	
	EUR/USD	1.349	1.339	-0.010	-0.8%	1.339	1.349	0.010	1.368	1.339	-0.029	-2.1%	1.324	1.370	0.046	
	GBP/USD	1.569	1.565	-0.004	-0.2%	1.561	1.570	0.009	1.601	1.565	-0.036	-2.2%	1.546	1.601	0.054	
	USD/JPY	77.9	77.8	-0.1	-0.2%	77.4	78.0	0.6	77.7	77.8	0.1	0.1%	76.7	78.2	1.4	
	AUD/JPY	80.0	78.8	-1.2	-1.5%	78.8	80.0	1.2	79.6	78.8	-0.8	-1.0%	75.0	80.0	5.0	
Comds	Oil	WTI Crude	101.0	99.4	-1.6	-1.5%	98.3	101.3	2.9	95.7	99.4	3.7	3.8%	95.7	102.6	6.9
	Gold	US\$	1,750	1,716	-35	-2.0%	1,716	1,750	35	1,784	1,716	-68	-3.8%	1,676	1,784	108
	All	CRB Index	489	486	-2	-0.5%	486	489	2	501	486	-14	-2.9%	485	501	15
Equities	Australia	ASX200 Price Index	4,288	4,203	-85	-2.0%	4,203	4,321	118	4,346	4,203	-143	-3.3%	3,984	4,346	362
	US	S&P500 Price Index	1,244	1,255	11	0.9%	1,234	1,261	27	1,229	1,255	26	2.1%	1,159	1,264	105
	Japan	Nikkei 225 Price Index	8,644	8,536	-107	-1.2%	8,536	8,722	186	8,755	8,536	-219	-2.5%	8,160	8,755	595
	UK	FTSE 100 Price Index	5,552	5,529	-23	-0.4%	5,484	5,569	85	5,460	5,529	69	1.3%	5,128	5,569	441