

Daily Economic Report

2 September 2011

Investor caution reigns before NFP

A rare bout of risk aversion overnight, at least compared to recent days, with caution towards tonight's non-farm payrolls report and a downgrade of US employment and growth forecasts from the Federal government mitigating a stronger-than-expected headline reading on US manufacturing activity. Equity markets endured yet another choppy session with early gains slowly whittled over the latter parts of trade. All of the main indices posted heavy declines with the DJIA, S&P 500 and Nasdaq all falling by between 1.03-1.30pct. Despite the reasonable data flow, treasuries were in demand with the yield on the benchmark 10-year note falling 10bps to 2.13pct. That move was replicated across the curve with yields for 5-year maturities and beyond all off by more than 7bps. With manufacturing activity readings from Asia and Europe disappointing to the downside, commodities markets were under pressure with base metals all down in the region of 0.6-2.4pct. Crude finished up smalls whilst precious metals were near-static as the stronger USD helped to offset heightened risk aversion. Replicating the moves seen elsewhere, safe-haven currencies were in demand with the Dollar, Yen and Franc all outperforming their more risk-orientated peers.

Looking Ahead

- Australian stocks look set to end the week on a dour note with SPI futures pointing to a decline of 51pts on the open. Whilst a bounce off these levels is a possibility, with the crucial US non-farm payrolls report out this evening, investor caution will likely ensure weakness is maintained into the final bell.
- With no data scheduled and bigger events ahead, the Aussie Dollar will likely to range trade today with the currency set to oscillate between the overnight high of USD1.0765 and support starting at USD1.0690. With the "Bernanke put" still in play, we will look to add to longs should the currency move back towards the lower part of the range.
- After steadily building over the course of the week, the US economic data crescendo hits its climax this evening with the release of the all-important US non-farm payrolls report. Given that initial jobless claims and the ADP national employment have both consistently underperformed the numbers achieved in July, it comes as little surprise that economists are expecting subdued job growth of just 75k with the unemployment rate holding steady at 9.1pct. While those figures will dominate the headlines, traders will also keep a close eye on revisions to prior data, average weekly earnings and trends across temporary position hiring.
- A quiet end to the week in Europe with Euro zone producer prices and UK construction PMI the only releases of note.

Overnight Data (Nation, Data, Period, Reading, Expected)

Nation	Data	Period	Reading	Expected
US	Initial Jobless Claims	W/E	409k	410k
	ISM Manufacturing PMI	Aug	50.6	48.5
	Productivity – Revised	Q2	-0.7%	-0.5%
	Labour Costs – Revised	Q2	+3.3%	+2.4%
	Construction Spending	Jul	-1.3%	+0.2%
CA	RBC Manufacturing PMI	Aug	54.9	53.1
EZ	Markit Manufacturing PMI	Aug	49.0	49.7
GE	Markit/BME Manufacturing PMI	Aug	50.9	52.0
	GDP – Detailed	Q2	+0.1%	+0.1%
FR	Markit/CDAF Manufacturing PMI	Aug	49.1	49.3
IT	Markit/ADACI Manufacturing PMI	Aug	47.0	49.2
SP	Manufacturing PMI	Aug	45.3	45.1
UK	Nationwide House Prices – Annualised	Aug	-0.4%	+0.4%
	Markit/CIPS Manufacturing PMI	Aug	49.0	48.6

Arab Bank Australia

ABAL Corporate TD Rate Specials (Non-HQLA)

1 Month:	5.00%	5 Month:	5.25%
2 Month:	5.05%	6 Month:	5.30%
3 Month:	5.15%	9 Month:	5.40%
4 Month:	5.20%	12 Month:	5.50%

Currencies	Level	+/-	%
AUDUSD	1.072	0.0028	0.26%
AUDEUR	0.7516	0.0079	1.06%
AUDGBP	0.6627	0.0047	0.71%
AUDJPY	82.42	0.46	0.56%
AUDNZD	1.2582	0.0055	0.44%

Equities			
DJIA	11493.6	-119.9	-1.03%
S&P500	1204.42	-14.47	-1.19%
Nasdaq	2546.04	-33.42	-1.30%
FTSE	5418.65	24.12	0.45%
DAX	5730.63	-54.22	-0.94%
Nikkei	9060.8	105.6	1.18%
ASX200	4307.5	11	0.26%
Shanghai	2556.04	-11.3	-0.44%
Hang Seng	20585.3	50.5	0.25%

Commodities			
Gold	1825.09	0.35	0.02%
Oil	88.93	0.12	0.14%

Treasuries AU			
3 Year	3.830%	-0.04%	-
10 Year	4.390%	-0.05%	-

Treasury Department

Email: treasury@arabank.com.au

Web: www.arabank.com.au

Phone: +61 2 9232 3844

Fax: +61 2 9221 5428

Reuters Dealing Code: AABA

Twitter: www.twitter.com/ABAL_Treasury

Treasurer

Anthony Issa

Treasury Dealers

David Scutt

Michelle Sheldon

To receive this report daily, please email the word 'subscribe' to treasury@arabank.com.au