

Date	Time	The Day Ahead (AUSTRALIA)	Month	Survey	Prior
17/12	11:30	Dwelling starts	3Q		-4.0%

## TREASURIES

NEW YORK, Dec 14 (Reuters) - U.S. Treasury debt prices slipped on Friday after growing consumer price inflation pressures sowed doubts whether the Federal Reserve can continue cutting interest rates.

Yet bonds' losses were mitigated by declines in the stock market, which also is vulnerable to any signs of delays in further rate cuts.

Overall, however, the Fed's modest rate cut earlier this week and a plan by global central banks to boost lending among banks have been bad news for safe haven U.S. Treasury fixed income securities. Two-year notes were on track for their biggest weekly jump in yield in more than three years.

Data released on Friday showed U.S. consumer prices in November jumped the most in more than two years, driven by surging energy costs.

The jump in the November Consumer Price Index follows the biggest rise in the U.S. Producer Price Index since 1973 and retail sales last month that were brisker than anticipated.

"PPI and CPI are a sort of warning sign," said William Larkin, fixed income portfolio manager with Cabot Money Management, in Salem, Massachusetts.

"With bond yields so low, as an investor, you have to be very, very cautious here. CPI is 4.3 percent year over year and the 10-year yield is less than that," Larkin said.

Benchmark 10-year notes <US10YT=RR> were trading 7/32 lower in price for a yield of 4.24 percent compared with 4.21 percent late on Thursday.

Although the Fed cut rates on Tuesday in an effort to stave off any adverse effect on economic growth from the global credit crisis, evidence of rising inflation could crimp its ability to cut rates much further.

"The inflation numbers did initially hit bonds hard, but then we came back because equities are lower," said Mary Ann Hurley, vice president of fixed-income trading at D.A. Davidson & Co. in Seattle. U.S. government bonds typically rise when stocks fall, as investors move funds into safer, highly rated securities.

The Dow Jones industrial average <.DJI> fell 0.7 percent to 13,426 points at 1840 GMT.

"This data highlights the huge dilemma the Fed is facing between trying to quell the financial dislocations in the market, easing policy, all the while inflation rates are starting to climb higher," said Kim Rupert, managing director of global fixed income analysis at Action Economics LLC in San Francisco.

Adding to a bearish tone for bonds on Friday was data showing a bigger-than-expected rise in U.S. industrial output in November.

Libor, or London interbank offered one-month rates, eased early on Friday, giving a little solace to investors looking for signs that a plan by the Fed and other leading central banks intended to encourage lending among banks might make some headway.

The possibility that the central bank plan, announced after the Fed cut the overnight target lending rate by 25 basis points, will not work had pushed stocks lower.

Two-year notes <US2YT=RR> were trading 3/32 lower in price for a yield of 3.31 percent from 3.25 percent late on Thursday.

Thirty-year bonds <US30YT=RR>, the maturity most susceptible to rising inflation pressures which erode bond values over time, were 4/32 in price lower for a yield of 4.65 percent.

## STOCKS

**NEW YORK, Dec 14 (Reuters) - U.S. stocks swooned on Friday on concerns that surging inflation may prevent the Federal Reserve from lowering interest rates enough to pull the economy out of the grip of a housing and credit crisis.**

**The three major indexes tumbled more than 1 percent each, and posted their worst week since Nov. 11, after a report showing a jump in the consumer price index in November. Combined with a sharp rise in producer prices, the reading highlighted concerns voiced by the Fed earlier in the week when it lowered rates modestly.**

**With inflation making further rate cuts look less likely, retailers, banks and industrial stocks were sold off. Retailer Wal-Mart Stores Inc <WMT.N> fell 1.5 percent and credit card company American Express Co <AXP.N> slid 2.9 percent.**

**"The main driver was nervousness. You've got some people using the stagflation word, and you hear that and it messes up the psyche of the average investor," said Joe Saluzzi, co-manager of trading at Themis Trading in Chatham, New Jersey.**

**The Dow Jones industrial average <.DJI> was down 178.11 points, or 1.32 percent, at 13,339.85. The Standard & Poor's 500 Index <.SPX> was down 20.46 points, or 1.37 percent, at 1,467.95. The Nasdaq Composite Index <.IXIC> was down 32.75 points, or 1.23 percent, at 2,635.74.**

**For the week, the Dow was down 2.1 percent, the S&P was down 2.5 percent and the Nasdaq was down 2.6 percent. It was the worst weekly percentage drop for the indexes since Nov. 11.**

**The inflation data followed a decision by the Fed on Tuesday to lower interest rates modestly, and a move by the world's central banks to make it easier for stressed banks to borrow.**

**But investors saw both responses as inadequate and speculation has grown in the markets about what the Fed might do next.**

**Higher interest rates make it more expensive for consumers and businesses to borrow money. Shares of Wal-Mart were down 1.5 percent at \$47.63, while shares of American Express were down 2.9 percent at \$52.29.**

**Energy company shares edged lower following a 1 percent decline in crude oil prices. Shares of Exxon Mobil Corp <XOM.N> declined 1.7 percent to \$91.18 as crude oil prices <CLC1> in New York fell 98 cents to settle at \$91.27 a barrel.**

**Morgan Stanley cut ON Semiconductor <ONNN.O> and the stock fell 3.5 percent to \$8.24 on Nasdaq. Shares of Intel Corp. <INTC.O> were down 3.2 percent at \$26.29.**

**3M Co <MMM.N> shares were down 1.1 percent at \$85.93.**

**Black & Decker shares <BDK.N> were down after the maker of power tools and hardware said that weaker-than-expected business conditions would hurt results for the current quarter. Black & Decker slid 8.5 percent to \$73.31.**

**Citigroup Inc. <C.N> said it plans to consolidate \$49 billion of assets tied to troubled structured investment vehicles onto its balance sheet and Moody's Investors Service cut its debt ratings.**

Shares of the largest U.S. bank rebounded briefly after Goldman Sachs lifted its rating on Citigroup's debt, citing the chief executive's measures to raise capital levels in the first quarter of 2008. The shares ended down 1 percent at \$30.70.

Trading was below average on the New York Stock Exchange, with about 1.31 billion shares changing hands, below last year's estimated daily average of 1.84 billion, while on Nasdaq, about 1.94 billion shares traded, below last year's daily average of 2.02 billion.

Declining stocks were outnumbering rising ones by a ratio of about 4 to 1 on the NYSE and by 3 to 1 on Nasdaq.

Last Night Figures US	Survey	Actual	Prior
CPI (MoM)	0.6%	0.8%	0.3%
CPI Ex Food and Engery	0.2%	0.3%	0.2%
CPI (YoY)	4.1%	4.3%	3.5%
CPI Ex Food and Energy	2.3%	2.3%	2.2%
CPI Core Index SA		212.633	212.05
CPI Index NSA	209.80	210.177	208.936
Industrial Production	0.2%	0.3%	-0.7%**
Capacity Utilization	81.7%	81.5%	81.4%

\*REVISED UP / \*\*REVISED DOWN

Date	Time	The Day Ahead (US)	Month	Survey	Prior
18/12	00:30	Current Account Balance	3Q	-183.3B	-190.8B
		Empire Manufacturing	DEC	20.0	27.4
	01:00	Net Long Term TIC Flows	OCT	50.0B	26.4B
		Total Net TIC Flows	OCT	30.0B	-14.7B
	05:00	NANB Hosing Market Index	DEC	19	19

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