

Weekly Market & Economic Update – week ending 9 July 2010

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – Trade balance, May	mom	+A\$1,650 million	+A\$130 million	↑
US – ISM non-manufacturing, June	index	53.8	55.4	↓
Japan – Machinery orders, May	yoy	+16.7%	+29.5%	↓
Australia – Unemployment rate, June	mom	5.1%	5.2%	↓
US – Consumer credit, May	mom	-US\$9.1 billion	+US\$1 billion	↓

Financial markets

Indicator	Friday, 9 July 2010	Friday, 2 July 2010	Weekly change	9 July 2009	12-month change
S&P/ASX 200 Index	4,396	4,239	+3.7%	3,763	+16.8%
S&P/ASX 200 Property Trusts	863	845	+2.2%	718	+20.3%
US S&P 500	1,078	1,023	+5.4%	883	+22.1%
Dow Jones Eurostoxx	256	242	+5.6%	215	+18.7%
UK FTSE 100	5,133	4,838	+6.1%	4,159	+23.4%
Japan TOPIX	861	831	+3.6%	874	-1.5%
CITIC/S&P 300 China A	2,234	2,136	+4.6%	2,818	-20.8%
MSCI (ex-Aust/in LC)	794	755	+5.1%	669	+18.6%
Aust 90-day bank bill yield	4.89%	4.87%	+2 bps	3.11%	+178 bps
Aust 10-year bond yield	5.11%	5.10%	+1 bp	5.22%	-11 bps
US 10-year bond yield	3.05%	2.98%	+7 bps	3.40%	-35 bps
Oil – West Texas Crude	US\$76.09	US\$72.14	+5.5%	US\$60.41	+26.0%
A\$ in US cents	US\$0.8765	US\$0.8423	+4.1%	US\$0.7837	+11.8%
TWI	68.6	66.4	+3.3%	62.3	+10.1%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
12 July	Australia – Housing finance, May	mom	-1.8%	+1.0%
13 July	Japan – Consumer confidence, June	index	42.7	n/a
14 July	Australia – Westpac/Melbourne Institute consumer sentiment survey, July	index	101.9	n/a
14 July	US – Retail sales, June	mom	-1.2%	-0.2%
16 July	US – Consumer price index (CPI or inflation), June	mom	-0.2%	flat

*Month-on-month (mom); quarter-on-quarter (qoq); year-on-year (yoy); seasonally adjusted annual rate (saar)

Headline developments of the past week

- As was widely expected, the Reserve Bank of Australia (RBA) left the official cash rate unchanged at 4.50% following Tuesday's Board meeting. With interest rates now around their average levels of the past decade and with Europe's sovereign debt issues creating uncertainty over the outlook for global growth, the RBA considers the current level of monetary policy as appropriate. This was the second consecutive month that the RBA has kept rates on hold. In the absence of any further deterioration in global equity markets or Europe's debt situation, we would anticipate tightening in the months ahead. The RBA's major focus remains inflation, which is likely to hold near the top end of the Bank's 2-3% target range over the next 12 months. Any signs of increasing pressure on underlying inflation, which is essentially a symptom of the strong income boost associated with Australia's high terms of trade, could see the RBA move again as early as next month.
- The Australian economy added almost 46,000 new jobs in June while the unemployment rate fell to just 5.1%, its lowest level since January last year. The gain in jobs was driven largely by a rebound in part time positions (27,500), though full time numbers were also stronger (18,400). The result extends the steady improvement in the labour market that began back in September 2009 and reaffirms the underlying strength of the Australian economy. This will also give the RBA something else to think about ahead of its August meeting.

Major global economic releases and implications

- US economic data was generally weaker, led by a decline in the Institute for Supply Management's June non-manufacturing survey. The weaker outcome suggests that activity in the services sector is continuing at a slower pace. In addition, new mortgage applications and consumer confidence both fell, while wholesale inventories were a touch higher in May.
- In Europe, economic data remained consistent with a recovery. Europe's economy expanded by 0.2% in the March quarter, retail sales rose and consumer confidence jumped by more than expected in July.
- In Japan, machinery orders fell sharply in May, bank lending dropped off in June and the country's latest trade balance came in well below market expectations. On the positive side, the number of bankruptcies continued to trend lower in June. Meanwhile, service sector growth in China decelerated further last month to its slowest pace in more than a year.

Australian economic releases and implications

- In Australia, the news was generally positive. In addition to the unemployment rate falling to an 18

month low in June, the trade balance surpassed market expectations in May by posting a \$1.6 billion surplus while TD Securities' monthly measure of inflation saw prices edge only slightly higher in June.

Major market moves

- Global share markets moved higher over the week amid renewed optimism about the global economy. Australian shares also posted solid gains on the back of the stronger jobs numbers, higher commodity prices and a positive lead from overseas markets.
- Commodity prices rose in line with stronger share markets. The Australian dollar (A\$) surged on increasing demand for higher-yielding assets and as mining companies re-activated stalled projects following agreement with the government on its controversial new Resource Super Profits Tax.

What to watch in the week ahead?

- In the US, this will be another busy week with the release of the latest rounds of retail sales data, industrial production, consumer sentiment and inflation, as well as several key regional manufacturing surveys. In addition, the minutes from the Federal Reserve's June meeting are likely to reaffirm the pledge to keep interest rates at a record low for an 'extended period'.
- In Australia, it's a relatively quiet week with housing finance data, the National Australia Bank's latest business survey and the Westpac/Melbourne Institute's July consumer sentiment survey the highlights.

Outlook for markets

- Share markets have suffered large falls from their April highs and are likely to see some more weakness in the next few months as 'double dip' worries intensify. However, the likelihood of a double dip recession is low and shares have become good value again. We expect to see share markets recover into year-end and continue to move higher in 2011. The recent uncertainty will help ensure that global monetary conditions remain favourable and increase the likelihood that Chinese authorities will begin to ease their property tightening measures in the months ahead given the weaker data.
- Global growth concerns have also seen commodity prices move lower which has put some pressure on the A\$. However, as Australian interest rates remain well above global rates, the A\$ will remain supported and once commodity prices resume their upswing the currency will likely see further gains.
- Low yields are pointing to poor medium-term returns from government bonds on the back of worries about excessive public debt and as the latest bout of investor risk aversion abates.

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