

# Weekly Market & Economic Update – week ending 7 May 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Hong Kong – Retail sales, March	yoy	+17.2%	+31.5%	↑
US – Institute for Supply Management (ISM) manufacturing survey, April	index	60.4	59.6	↑
Australia – Reserve Bank of Australia (RBA) cash rate decision, May	-	4.50%	4.25%	↑
Australia – Retail sales, March	mom	+0.3%	-1.2%	↔
US – Unemployment rate, April	-	9.9%	9.7%	↓

## Financial markets

Indicator	Friday, 7 May 2010	Friday, 30 April 2010	Weekly change	7 May 2009	12-month change
S&P/ASX 200 Index	4,481	4,807	-6.8%	3,867	+15.9%
S&P/ASX 200 Property Trusts	862	900	-4.2%	702	+22.8%
US S&P 500	1,111	1,187	-6.4%	920	+20.8%
Dow Jones Eurostoxx	241	269	-10.6%	228	+5.7%
UK FTSE 100	5,123	5,553	-7.7%	4,397	+16.5%
Japan TOPIX	932	987	-5.6%	847	+10.0%
CITIC/S&P 300 China A	2,401	2,588	-7.2%	2,307	+4.0%
MSCI (ex-Aust/in LC)	806	867	-7.0%	685	+17.7%
Aust 90-day bank bill yield	4.89	4.63	+26 bps	3.14	+175 bps
Aust 10-year bond yield	5.47	5.71	-24 bps	4.79	+68 bps
US 10-year bond yield	3.43	3.66	-23 bps	3.16	+27 bps
Oil – West Texas Crude	US\$75.11	US\$86.15	-12.8%	US\$56.34	+33.3%
A\$ in US cents	US\$0.8965	US\$0.9244	-3.0%	US\$0.7472	+20.0%
TWI	70.1	72.5	-3.3%	60.5	+15.9%

## Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
11 May	China – Consumer Price Index (CPI), April	yoy	-2.4%	-2.7%
11 May	Australia – ANZ job advertisements, April	mom	+1.8%	n/a
12 May	US – trade balance, March	mom	US\$39.7bn	US\$39.9bn
13 May	Australia – Unemployment, April	-	5.3%	5.3%
14 May	US – retail trade, April	mom	+1.9%	+0.3%

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

## Headline developments of the past week

- The European Debt crisis intensified last week. Despite Greece's parliament passing a budget austerity package and the European Union and International Monetary Fund (IMF) pledging another bailout package amounting to €110 billion, financial markets remain sceptical of Greece's ability to meet its government debt commitments. These sovereign debt concerns are now spreading to Portugal and Spain whose 10-year bond yields rose +1.1% to 6.25%, and 0.4% to 4.25% respectively.
- Europe's policy makers announced further measures including a €440 billion loan guarantee package, a €60 billion stabilisation fund and that the European Central Bank will intervene in public and private debt markets to ensure "depth & liquidity". The IMF is also expected to contribute a €220 billion package.
- Australia's Reserve Bank (RBA) raised interest rates by 0.25% in May, taking the official cash rate to 4.50%. This was the sixth interest rate hike since October 2009. The RBA's primary concern is Australia's rising terms of trade (boosting national gross domestic product (GDP) income). Surging house prices do not warrant low interest rates, particularly when inflation is running close to 3%. With the Federal Budget expected to confirm a modest tightening in fiscal policy, the RBA should pause interest rates rises over coming months. Our view remains that Australia's official cash interest rates will reach 5% by year-end before peaking at around 6% in 2012.

## Major global economic releases and implications

- US economic data provided further evidence of a sustained recovery. America's payrolls rose by 290,000 compared to March's revised result of 230,000. This is the strongest monthly job gain in four years. There were also solid gains in personal incomes, construction spending, factory orders and pending homes sales. The business survey for April was favourable and the better than expected jump in the ISM manufacturing survey points to a solid GDP growth result for the June quarter.
- Greece's austerity plan included salary reductions for employees of state-run companies, cuts to civil servants' bonuses, an increase in sales taxes and a cut in public investment. This package aims to reduce Greece's budget deficit from -13.6% of nominal GDP in 2009 towards -3.0% GDP by 2014.
- China's central bank announced that banks need to set aside more deposits (17% reserve requirement) for the third time this year in order to moderate lending growth and mitigate inflation pressures.

## Australian economic releases and implications

- In Australia, the news was generally positive. House prices posted their fourth consecutive quarterly gain,

retail sales rose mildly, building approvals jumped their highest in almost eight years and Australia's trade deficit came in only slightly higher in March. In addition, the RBA's commodity price index moved sharply higher in April, which signals that a sharp boost to Australia's GDP should occur over coming quarters.

## Major market moves

- Global shares fell sharply over the last week as European debt risks continued to escalate. Australian shares posted their third consecutive weekly decline on the back of weaker commodity prices and a poor lead from global markets.
- Commodity prices fell in line with weaker global share markets and the A\$ lost ground against the US\$ on expectations the RBA will slow the pace of future interest rate hikes.

## What to watch in the week ahead?

- For the US, there is the release of April retail sales and industrial production data as well as May's consumer confidence survey from the University of Michigan.
- Chinese inflation data will also be watched closely to assess whether China's central bank has to aggressively raise interest rates to moderate price pressures.
- In Australia, the focus will on Tuesday night's Federal Budget for 2010-11. Given that this is an election year and in the wake of the government response to the Henry tax review last week, there is expected to be no dramatic announcements. A solid improvement in the budget deficit forecast for the next two years is expected given that the Australian economy is now accelerating. Also released next week will be April's employment numbers and National Australia Bank's latest business survey.

## Outlook for markets

- Global shares are undergoing a significant correction given Europe's sovereign debt crisis, concerns over China's policy tightening intentions and increased US bank regulation. While this correction may have further to run into mid-year, this should not be a deep and prolonged setback to growth assets. The fundamentals climate for shares remains favourable due to stronger profits, reasonable share market valuations and a global recovery that has become self sustaining.
- Allowing for recent market volatility, the A\$ should remain strong given Australia's favourable interest rate differential and strong commodity prices (particularly coal & iron ore).
- Government bonds should deliver low returns over the medium term. As higher global interest rates are priced in and given the large supply, investors will demand a higher risk premium to invest in government bonds.

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