

Weekly Market & Economic Update – week ending 19 March 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
US – Industrial production, February	mom	+0.1%	+0.9%	↑
Australia – Dwelling starts, December quarter	qoq	+15.1%	+11.0% (revised from +8.9%)	↑
Australia – Westpac leading index, January	mom	+0.2%	+0.6% (revised from +0.5%)	↑
US – Consumer price index (CPI), February	yoy	+2.1%	+2.6%	↔
US – Leading indicators, February	mom	+0.1%	+0.3%	↑

Financial markets

Indicator	Friday, 19 March 2010	Friday, 12 March 2010	Weekly change	19 March 2009	12-month change
S&P/ASX 200 Index	4,872	4,818	+1.1%	3,480	+40.0%
S&P/ASX 200 Property Trusts	874	867	+0.8%	683	+28.0%
US S&P 500	1,160	1,150	+0.9%	784	+48.0%
Dow Jones Eurostoxx	274	273	+0.4%	188	+45.7%
UK FTSE 100	5,650	5,626	+0.4%	3,817	+48.0%
Japan TOPIX	949	936	+1.4%	765	+24.1%
CITIC/S&P 300 China A	2,769	2,713	+2.1%	1,995	+38.8%
MSCI (ex-Aust/in LC)	857	851	+0.7%	596	+43.8%
Aust 90-day bank bill yield	4.26	4.47	-21 bps	3.01	+125 bps
Aust 10-year bond yield	5.66	5.64	+2 bps	4.17	+149 bps
US 10-year bond yield	3.69	3.70	-1 bp	2.60	+109 bps
Oil – West Texas Crude	US\$80.68	US\$81.24	-0.7%	US\$51.61	+56.3%
A\$ in US cents	US\$0.9146	US\$0.9180	-0.4%	US\$0.6862	+33.3%
TWI	71.6	71.3	+0.4%	56.2	+27.4%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
22 March	Australia – New motor-vehicle sales, February	mom	-3.4%	n/a
24 March	US – Existing home sales, February	-	5,050,000	5,000,000
24 March	US – Durable goods orders, February	mom	+3.0%	+0.3%
25 March	US – New home sales, February	-	309,000	315,000
26 March	US – Consumer sentiment, March	index	73.6	73.0

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

Headline developments of the past week

- India's central bank raised its key short-term interest rate by 0.25%, following weeks of speculation about a rate hike to contain inflation now that growth is strong again. With inflation rising sharply and the official lending rate at just 5%, further tightening is inevitable.
- Unsurprisingly, the US Federal Reserve (Fed) left the key Federal Funds rate on hold at 0% to 0.25% and reiterated that economic conditions are likely to warrant exceptionally low rates for an "extended period". However, the Fed did sound a bit more upbeat on the economic outlook, so some relaxation of the extended period language in the next few months to give the Fed a bit more flexibility would not come as a surprise. That said, we don't expect an increase in the Federal Funds rate until late this year, given unemployment is still around 10% and core inflation is still falling.
- The European Union (EU) is still divided on how to help Greece, with Germany clearly less keen to assist. It would be much simpler to call in the International Monetary Fund.

Major global economic releases and implications

- Apart from housing data which remains affected by bad weather, US economic releases were generally upbeat. Surveys of manufacturers in the New York and Philadelphia regions showed that conditions remain strong, industrial production managed a further gain in February despite bad weather, the US leading index rose for the 11th month in a row in February and weekly jobless claims fell, albeit less than expected. On top of this, inflation continued to slide with the core CPI inflation rate falling to just 1.3% over the year to February. Improving growth and falling inflation is usually a fairly good combination for financial markets.
- Economic data in Europe was mixed. UK house prices only rose marginally and a survey of manufacturers softened in March, but unemployment appears to have stabilised at 7.8% and falling jobless claims point to a possible improvement ahead. Euro-zone construction output slumped in January and employment fell in the December quarter 2009. Inflation in Europe is falling with core prices up just 0.8% over the year to February.
- Japanese economic data was upbeat with a rebound in a tertiary activity index in January, a rise in consumer confidence and stronger apartment sales in Tokyo.
- Strength in the emerging world remains clearly evident. Brazil's gross domestic product growth expanded at an annual rate of 8.4% in the December quarter 2009. The Brazilian central bank recently left interest rates on hold at 8.65%. However, strong growth and accelerating inflation suggest tightening will occur soon.

Australian economic releases and implications

- In Australia, dwelling commencements continued to rise, confirming a recovery in housing construction is well underway. Meanwhile, the Westpac leading indicator is continuing to point to further growth ahead.

Major market moves

- Although US and European shares fell late in the week on renewed tensions over Greece and India's interest rate hike, share markets overall rose, helped by the Fed's decision to leave interest rates on hold and generally favourable economic data.
- The euro was hurt by renewed uncertainty about a rescue plan for Greece. Meanwhile, the Australian dollar (A\$) made it above US\$0.92, but fell back later in the week after India tightened.

What to watch in the week ahead?

- US home sales data is likely to be depressed, but US durable goods orders are likely to show a rise. Also, an EU summit will be watched closely to see how the EU resolves the issue of support for Greece.

Outlook for markets

- Shares are a bit overbought and at risk of a undergoing a breather in the very short term. However, the broad picture is positive. First, the break above January highs in US shares has come with broad-based participation from most sectors and stocks, suggesting there is a lot of conviction behind it. From a technical perspective, the next target for the US S&P 500 Index is around 1,220 or about 5% above current levels. Second, shares are normally strong over the March to May period. Third, sentiment towards the US/global recovery is likely to change for the better in the next few months if, as we expect, US employment starts to grow again and helps boost investor confidence in shares. Finally, share market fundamentals are all reasonable – valuations are modestly cheap, earnings are on the rise, global interest rates are set to remain low and there is still a lot of cash sitting on the sidelines.
- There is a good chance that the A\$ will soon break higher. Commodity prices are likely to see more upside and the spread between Australian and US interest rates is likely to widen further. A break above technical resistance at around US\$0.9250 could see the A\$ reach parity against the US\$ by mid year.
- Government bond yields are likely to be pushed higher over the year ahead as monetary tightening starts to be factored in, the supply of government bonds increases, and private sector credit demand picks up. Bond risk premiums are also likely to rise on the back of very high public debt levels in the US, Europe and Japan.

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