

## Weekly Market & Economic Update – week ending 16 July 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – Housing finance, May	mom	+1.5%	-1.8%	↔
Japan – Consumer confidence, June	index	43.6	42.7	↑
Australia – Westpac/Melbourne Institute consumer sentiment survey, July	index	113.1	101.9	↑
US – Retail sales, June	mom	-0.5%	-1.2%	↔
US – Consumer price index (CPI or inflation), June	mom	-0.1%	-0.2%	↔

### Financial markets

Indicator	Friday, 16 July 2010	Friday, 9 July 2010	Weekly change	16 July 2009	12-month change
S&P/ASX 200 Index	4,423	4,396	+0.6%	3,996	+10.7%
S&P/ASX 200 Property Trusts	868	863	+0.5%	765	+13.5%
US S&P 500	1,065	1,078	-1.2%	941	+13.2%
Dow Jones Eurostoxx	253	256	-0.9%	227	+11.3%
UK FTSE 100	5,159	5,133	+0.5%	4,362	+18.3%
Japan TOPIX	841	861	-2.4%	872	-3.6%
CITIC/S&P 300 China A	2,204	2,234	-1.3%	2,902	-24.0%
MSCI (ex-Aust/in LC)	786	794	-0.9%	701	+12.2%
Aust 90-day bank bill yield	4.82%	4.89%	-7 bps	3.14%	+168 bps
Aust 10-year bond yield	5.12%	5.11%	+1 bp	5.50%	-38 bps
US 10-year bond yield	2.92%	3.05%	-13 bps	3.57%	-65 bps
Oil – West Texas Crude	US\$76.01	US\$76.09	-0.1%	US\$62.02	+22.6%
A\$ in US cents	US\$0.8669	US\$0.8765	-1.1%	US\$0.8035	+7.9%
TWI	68.1	68.6	-0.7%	63.6	+7.1%

### Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
20 July	Hong Kong – Unemployment rate, June	-	4.6%	n/a
20 July	US – Housing starts, June	-	593,000	577,000
21 July	Australia – Westpac Leading Index, May	-	264.4	n/a
21 July	Australia – National Australia Bank (NAB) Business Confidence, June quarter	-	16.6	n/a
22 July	US – Existing home sales, June	millions	5.66	5.10

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

## Headline developments of the past week

- The Australian Federal Government released an update of its budget estimates, including a slight cut to growth forecasts but an upwards revision of commodity forecast. The result is a larger budget surplus projection for 2012-13 despite the changes to the resources tax.
- Australia will have a federal election on 21 August. From a macro-economic policy perspective there is little difference between either side of politics with both committed to returning the budget to surplus and maintaining low inflation. However, significant policy differences exist on climate change, health, the mining tax, the national broadband network and government involvement in the economy with a Coalition government likely to be less interventionist. Historically, the uncertainty around an election may result in a period of share market weakness during election campaigns, with a relief rally occurring soon after it is over. Over the post-war period, Australian shares returned an average of 13.2% pa under Coalition governments and 9.9% pa under Labor governments, with the latter dragged down by impact of the global financial crisis during the current Labor term.

## Major global economic releases and implications

- US economic data was weak. US retail sales fell for a second month in June, business conditions in the New York and Philadelphia regions deteriorated, consumer sentiment fell sharply, weekly mortgage applications continued to slide and the US trade balance recorded a larger than expected deficit in May. Meanwhile, inflationary pressures are non-existent. Growth in the US appears to be slowing and as such a US interest rate rise is a long way away.
- The June quarter US profit reporting season has begun with most results so far coming in ahead of analyst expectations in terms of bottom line earnings. However, lower than expected revenue growth from several banks and GE weighed on investors. The market consensus is for earnings growth of 27% over the year to the June quarter.
- Chinese economic data for the June quarter showed that China's economy has cooled down – with gross domestic product (GDP) growth slowing to 10.3% from 11.9% in the March quarter – and that inflation has possibly peaked. Along with a slow down in the Chinese property market and bank lending, the data shows that Chinese authorities have achieved their goal and that the risk has shifted from too much inflation and a property bubble to growth being too weak. As a result, we expect that Chinese tightening measures, particularly with respect to property, will start to be relaxed in coming months.

## Australian economic releases and implications

- In Australia, the news was positive. The Westpac/Melbourne Institute Consumer Sentiment

Index rose 11% in July, the NAB survey of business conditions improved slightly, housing finance rose in May and skilled vacancies rose in July.

## Major market moves

- Although global shares began the week solidly they were dragged down later by poor US economic data and various companies missing revenue growth expectations. Chinese shares also fell due to worries about a hard landing for the Chinese economy. Australian shares managed a small gain over the week following good local economic data and the earlier positive global lead but missed out on the global slump that occurred on Friday night.
- Commodity prices and the Australian dollar (A\$) were generally soft due to continuing worries about the global recovery.

## What to watch in the week ahead?

- The key event will be the release of the stress tests of 91 European banks. If they are seen as credible, it may help boost confidence in the European banking system.
- In the US, data for housing sales and starts are likely to remain soft. The US profit reporting season will heat up with 100 major companies due to report in the week ahead, and the focus is likely to be on the strength of revenue and outlook statements.
- In Australia, it's a relatively quiet week for data releases, but the Reserve Bank of Australia (RBA) Board meeting minutes for July will be released and the RBA Governor is set to deliver a speech regarding the long-run effects of the financial crisis.

## Outlook for markets

- Although shares have bounced from oversold levels two weeks ago, it has been on poor volumes suggesting a lack of conviction. Therefore, with double dip worries likely to remain over the next few months we may see more volatility and weakness into the seasonally weak months of August, September and October. However, we remain of the view that a double-dip recession globally will be avoided, and with shares now very good value, monetary conditions likely to remain favourable and China likely to start easing in the next few months, shares are likely to stage a reasonable rally in the December quarter and through 2011.
- The A\$ is also likely to remain volatile in the short term, but should rise on a six to 12 month horizon as it becomes clear that the global recovery is continuing, commodity prices are remaining strong and that Australian interest rates are remaining well above global rates.
- Low yields are pointing to poor medium-term returns from government bonds due to worries about excessive public debt and as the latest bout of investor risk aversion abates.

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