

## Weekly Market & Economic Update – week ending 21 May 2010



by Dr Shane Oliver, Head of Investment Strategy & Chief Economist

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
US – National Association of Home Builders housing market index, May	index	22	19.0	↑
Japan – Consumer confidence, April	index	42.1	41	↑
US – Consumer price index (CPI), April	mom	-0.1%	+0.1%	↔
Australia – Merchandise imports, April	yoy	3.8%	+4.2%	↔
US – Leading indicators, April	mom	-0.1%	+1.3%	↔

### Financial markets

Indicator	Friday, 21 May 2010	Friday, 14 May 2010	Weekly change	21 May 2009	12-month change
S&P/ASX 200 Index	4,305	4,611	-6.6%	3,814	+12.9%
S&P/ASX 200 Property Trusts	815.1	871	-6.4%	668.1	+22.0%
US S&P 500	1,088	1,136	-4.2%	888.3	+22.4%
Dow Jones Eurostoxx	245.6	253	-3.0%	225.8	+8.8%
UK FTSE 100	5,063	5,263	-3.8%	4,346	+16.5%
Japan TOPIX	879.7	937	-6.1%	881.4	-0.2%
CITIC/S&P 300 China A	2,337	2,423	-3.6%	2,291	+2.0%
MSCI (ex-Aust/in LC)	792.2	827	-4.2%	696.4	+13.8%
Aust 90-day bank bill yield	4.67%	4.88%	-21 bps	3.12%	+155 bps
Aust 10-year bond yield	5.38%	5.51%	-13 bps	5.19%	+19 bps
US 10-year bond yield	3.20%	3.45%	-25 bps	3.36%	-16 bps
Oil – West Texas Crude	US\$68.04	US\$71.61	-5.0%	US\$60.55	+12.4%
A\$ in US cents	US\$0.8284	US\$0.8858	-6.5%	US\$0.7786	+6.4%
TWI	65.9	70.5	-6.5%	62.2	+5.9%

### Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
24 May	Australia – New motor vehicle sales, May	mom	-2.7%	n/a
25 May	US – Consumer confidence, May	index	57.9	59
26 May	US – New home sales, April	-	411,000	421,000
27 May	Japan – Unemployment rate, April	-	5.0%	5.0%
27 May	Japan – Retail trade, April	mom	+0.8%	-1.0%

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

## Headline developments of the past week

- The past week was another bad one for shares, commodity prices and commodity currencies like the Australian dollar (A\$) as worries about European economic growth and the survival of the euro intensified. This wasn't helped by growing signs of disunity among European governments and some weak economic data out of the US. Fortunately, Germany's parliament approved its share of the European support package for troubled countries and, after falling to a four-year low, the euro bounced on talk that the European Central Bank may intervene to support it.
- Due to its commodity and high-yield status, the A\$ is generally vulnerable to worries about global growth and increased investor risk aversion. This was certainly the case over the last week. The plunge in the A\$ was magnified by growing concerns about the impact of the Resource Super Profits Tax and expectations that the Reserve Bank of Australia (RBA) will now leave interest rates on hold for a while.

## Major global economic releases and implications

- US data releases were mixed. Housing starts rose strongly in April and a survey of home builders rose in May but this may have been driven by the approaching termination of a first home buyer tax credit, as permits to build new homes and mortgage applications fell sharply. The US leading index fell 0.1% in April and weekly unemployment claims surprisingly rose. Meanwhile, inflation readings were benign in April with core inflation falling to just 0.9%, its lowest level since the 1960s. With inflation continuing to fade, unemployment remaining high and turmoil continuing in Europe, it's hard to see the US Federal Reserve tightening any time soon – probably not until next year.
- Despite the ongoing sovereign debt crisis in Europe, economic data releases in the region were reasonable with an improvement in manufacturing conditions in the UK, a very slight fall in German business confidence in May and a strong rise in construction activity in March. Underlying inflation increased just 0.8% over the year to April, indicating that there is still plenty of scope to leave interest rates low or even cut them in Europe.
- Anecdotes out of China point to a sharp slowdown in the housing market in key cities, suggesting that the authorities may have to ease up on the property brake.

## Australian economic releases and implications

- Australian economic data was mixed. Wages growth was a little stronger than expected in the March quarter but is still running at a benign 3% year-on-year. An 8% fall in consumer confidence this month showed that interest rate hikes are starting to bite.

- Although the minutes from the RBA's last meeting implied that more interest rate increases lie ahead as growth pushes above average, it's now looking likely that the RBA will be on hold for the next few months.

## Major market moves

- Although the European support package helped stabilise bond markets in Greece, Spain and Portugal, share markets fell sharply over the last week.
- The same concerns also weighed on commodity prices and commodity currencies, although government bonds in the US, Germany, UK and Australia benefited from safe-haven buying.

## What to watch in the week ahead?

- In the US, April home sales data are likely to have benefitted from the expiry of the first time home buyers tax credit, consumer confidence is expected to edge up a notch and durable goods orders are likely to have increased.
- In Australia, the focus will be on business investment data which is expected to show continued strength in mining investment.

## Outlook for markets

- Although it's too early to say the share market fall is over, we see it as part of a correction rather than the start of a new bear market. The global recovery is likely to remain on track, the profit outlook is positive, monetary conditions are already very easy, China is likely close to easing its tightening measures, and shares are once again very cheap. Therefore we expect the bull market in shares to resume, ultimately taking them to much higher levels by year end.
- Allowing for continuing market volatility, the A\$ is likely to regain its strength over the next few months as Australian interest rates remain well above global rates and as commodity prices resume their upswing. By contrast, after a bounce from recent lows the euro is likely to continue to struggle due to relatively weak growth prospects in the Eurozone and concerns about whether it will hang together.
- Despite a dip over the last week from overbought levels, gold is likely to remain a long-term beneficiary of the uncertainty about major currencies.
- Government bonds have had a good run over the last few weeks on the back of safe-haven buying, however, their low yields are pointing to poor returns over the medium term. As higher global interest rates are priced in and given the large supply of government bonds, investors will demand a higher risk premium to invest in government bonds.

**Important note:** While every care has been taken in the preparation of this document, AMP Capital Investors Limited (ABN 59 001 777 591) (AFSL 232497) makes no representation or warranty as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. Past performance is not a reliable indicator of future performance. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs. This document is solely for the use of the party to whom it is provided.

### Further information

If you would like to know more about how AMP Capital can help you, please contact one of the following:

#### Financial Planners

AMP Capital's Client Service Team on 1300 139 267

#### Personal Investors

Adviser or Financial Planner

#### Wholesale Investors

AMP Capital's Client Service Team on 1800 658 404

or visit [www.ampcapital.com.au](http://www.ampcapital.com.au)