

Weekly Market & Economic Update – week ending 30 April 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
US – Producer price index (PPI), March	mom	+0.7%	-0.6%	↑
Australia – National Australia Bank business confidence survey, March	index	17	18	↑
US - Consumer confidence, April	Index	57.9	52.5	↔
Australia - Consumer price index (CPI), March	qoq	+0.9%	+0.5%	↑
Japan – unemployment rate, March	-	5.0%	4.9%	↔

Financial markets

Indicator	Friday, 30 April 2010	Friday, 23 April 2010	Weekly change	30 April 2009	12-month change
S&P/ASX 200 Index	4,807	4,882	-1.5%	3,781	+27.2%
S&P/ASX 200 Property Trusts	899.9	894	+0.7%	703.8	+27.9%
US S&P 500	1,187	1,217	-2.5%	872.8	+36.0%
Dow Jones Eurostoxx	269.3	278	-3.1%	220.3	+22.2%
UK FTSE 100	5,553	5,724	-3.0%	4,244	+30.9%
Japan TOPIX	987	978	+0.9%	837.8	+17.8%
CITIC/S&P 300 China A	2,588	2,696	-4.0%	2,194	+17.9%
MSCI (ex-Aust/in LC)	867	886	-2.1%	660.1	+31.3%
Aust 90-day bank bill yield	4.63	4.53	+10 bps	3.08	+155 bps
Aust 10-year bond yield	5.71	5.80	-9 bps	4.57	+114 bps
US 10-year bond yield	3.66	3.81	-15 bps	3.12	+54 bps
Oil – West Texas Crude	US\$86.15	US\$84.42	+2.0%	US\$51.12	+68.5%
A\$ in US cents	US\$0.9244	US\$0.9278	-0.4%	US\$0.7249	+27.5%
TWI	72.5	71.8	+1.0%	59.7	+21.4%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
3 May	Hong Kong – Retail sales, March	yoy	+31.5%	n/a
3 May	US – Institute for Supply Management (ISM) manufacturing survey, April	index	59.6	60.0
4 May	Australia – Reserve Bank of Australia (RBA) cash rate decision, May	-	4.25%	4.50%
6 May	Australia – Retail sales, March	mom	-1.4%	+0.7%
7 May	US – unemployment rate, April	-	9.7%	9.7%

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

Headline developments of the past week

- Sovereign debt worries in Europe once again dominated the headlines. Our assessment is that although worries about Greece and other high-debt European countries may continue to rattle investors for a while yet, bailout funds will soon be forthcoming and the issue is not big enough to derail the global economic recovery.
- Strong profit results globally are providing fundamental support for shares. March quarter profit reports in the US, Europe and Asia are continuing to come in well ahead of expectations.
- In Australia, the Henry tax review was released along with the government's initial response. Essentially, the government is using a tax on the excess profits of mining companies to fund a reduction in the company tax rate and the tax burden for small business, increase superannuation and boost infrastructure spending. Initial criticisms are that the mining sector will suffer, most of the Henry review's recommendations are not being acted upon and the changes will take many years to take effect. However, although the government has ruled out several of the recommendations, it has indicated that there is more to come in terms of simplifying and improving the tax system and boosting savings. Moreover, although mining companies will be hit, their tax burden has fallen over the last decade. More broadly, the net effect of the package will be to boost investment and savings in the economy over time and to better share the benefits of the mining boom across the economy. For the share market, the resource tax is a clear negative for mining shares, but they have already fallen going into the Henry review. Generally, the measures to reduce the company tax rate, spend more on infrastructure and boost superannuation are positive for shares overall. So we see no reason to change our generally favourable medium-term outlook for Australian shares.

Major global economic releases and implications

- US economic data was generally upbeat with surges in manufacturing conditions indices, a rise in consumer confidence, another uptick in new mortgage applications and a further fall in jobless claims. Gross domestic product (GDP) growth was solid in the March quarter and, although inventories accounted for half the growth, inventories are still down nearly 7% from their peak two years ago. Consumer spending and business investment also grew strongly.
- The recovery in Japan continued to gain strength, with solid data for small business sentiment, household spending, housing starts, construction orders, manufacturing conditions and the ratio of jobs to applicants. The Bank of Japan left rates on hold at 0.1% as expected. The rebound in Asia was highlighted by Korean GDP rising by 7.8% over the year to the March quarter.

Australian economic releases and implications

- In Australia, the news on inflation was poor with both consumer prices and producer prices accelerating in the March quarter. The Federal Government also announced a cigarette tax increase which will add about 0.4% to inflation over the year ahead. With private surveys pointing to around 3% house-price growth in the March quarter and March data indicating a further acceleration in credit growth, the signs are all consistent with ongoing strength in the economy.

Major market moves

- Global shares fell over the last week, weighed down by the sovereign debt problems in Europe, ongoing issues surrounding Goldman Sachs and tightening fears in China. Japanese shares were the exception. Australian shares fell for the second week in a row on the back of the global falls and anticipation of the Henry tax review.

What to watch in the week ahead?

- In the US, the focus will be on the Institute for Supply Management (ISM) manufacturing conditions index which is likely to have risen again in April and payroll employment which is likely to have increased by another 200,000 jobs in April. Chinese manufacturing conditions data for April will also be watched closely.
- In Australia, the focus will be on the Reserve Bank of Australia (RBA). Although it's a close call, it's likely that the RBA will raise the cash rate by another 0.25% taking it to 4.5%. The pick-up in the quarterly pace of underlying inflation in the March quarter, economic growth having returned to trend, national income getting a strong boost from higher iron ore and coal prices and house prices booming is likely to drive the RBA to continue the process of raising interest rates back to longer-term average levels.

Outlook for markets

- Following strong gains up to early April, shares appear to be undergoing a correction on the back of worries about Chinese tightening, sovereign debt in Europe and increased bank regulation in the US. However, although the correction may have further to run we don't see it becoming particularly deep or long as the fundamental backdrop for shares remains favourable due to: a stronger than expected rebound in profits; increasing evidence that the global recovery is becoming self sustaining; reasonable share market valuations; and still low interest rates globally.
- The Australian dollar is likely to head higher as the interest rate differential in Australia's favour continues to widen and commodity prices remain strong.
- The outlook for returns from government bonds is poor. Government bond yields are likely to rise as monetary tightening starts to be factored in, the supply of government bonds increases, private sector credit demand picks up and investors demand a higher risk premium to invest in the bonds of countries with high levels of public debt.

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