

Weekly Market & Economic Update – week ending 23 April 2010



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

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
US – New home sales, March	-	411,000	308,000	↑
Japan – Consumer confidence (Tokyo), March	yoy	+30.1%	+42.9%	↑
Australia – New motor vehicle sales, March	yoy	+19.2%	+17.1%	↔
Hong Kong – Consumer price index (CPI), April	yoy	+2.0%	+2.8%	↑
US – Durable good orders, March	mom	-1.3%	+1.1%	↔

Financial markets

Indicator	Friday, 23 April 2010	Friday, 16 April 2010	Weekly change	23 April 2009	12-month change
S&P/ASX 200 Index	4,882	4,985	-2.1%	3,743	+30.4%
S&P/ASX 200 Property Trusts	894	890	+0.4%	672	+32.9%
US S&P 500	1,217	1,192	+2.1%	851	+42.9%
Dow Jones Eurostoxx	278	280	-0.7%	211	+31.8%
UK FTSE 100	5,724	5,744	-0.4%	4,018	+42.4%
Japan TOPIX	978	989	-1.1%	840	+16.5%
CITIC/S&P 300 China A	2,696	2,825	-4.6%	2,172	+24.1%
MSCI (ex-Aust/in LC)	886	879	+0.8%	648	+36.7%
Aust 90-day bank bill yield	4.53	4.48	+5 bps	3.08	+145 bps
Aust 10-year bond yield	5.80	5.82	-2 bps	4.49	+131 bps
US 10-year bond yield	3.81	3.76	+5 bps	2.92	+89 bps
Oil – West Texas Crude	US\$84.42	US\$83.24	+1.4%	US\$48.82	+72.9%
A\$ in US cents	US\$0.9278	US\$0.9217	+0.7%	US\$0.7138	+30.0%
TWI	71.8	72.2	-0.6%	58.9	+21.9%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
26 April	US – Producer price index (PPI), March	mom	-0.6%	+0.4%
27 April	Australia – National Australia Bank business confidence survey, March	index	+18	n/a
28 April	US - Consumer confidence, April	Index	52.5	54.0
28 April	Australia - Consumer price index (CPI), March	qoq	+0.5%	+0.8%
30 April	Japan – unemployment rate, March	-	+4.9%	n/a

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

Headline developments of the past week

- Worries about a Greek default intensified over the week with the European Union (EU) revising up its estimate of Greece's 2009 budget deficit to 13.6% of GDP, Moody's downgrading Greece's sovereign credit rating again and strikes crippling Athens. This saw Greek 10-year bond yields reach 8.8% - almost three times German 10-year bond yields, before Greece formally asked for EU and International Monetary Fund (IMF) loans to be disbursed. It remains to be seen whether the EU can deliver the funds and whether the IMF will impose additional tough conditions on Greece.
- Global economic news was good with the IMF revising up global growth forecasts, rising business conditions indicators in Europe, the US leading economic index pointing to a 1980s V-shaped US recovery, and US profit results generally continuing to shoot the lights out.
- China announced an aggressive crackdown on property speculation, in particular making it tougher to get loans for second and third houses and significantly increasing land supply for residential development. While this seems to have shocked many, the increase in land supply indicates that Chinese authorities are primarily targeting excessive price growth in some cities and not property construction. The use of surgical policies targeting a specific sector, rather than using blunt monetary and fiscal tightening, suggests that they are not too concerned about overall economic conditions.

Major global economic releases and implications

- US economic data was robust and showed signs of a strong early 1980s-style economic recovery. There was a rebound in weekly mortgage applications, a continued increase in weekly retail sales data, a fall in jobless claims, strong gains in underlying durable goods orders, a surge in home sales and benign core producer price inflation.
- Despite the ongoing Greek drama, European economic data remained consistent with recovery. Euro-zone business conditions surveys for April came in much stronger than expected and consumer confidence rose.
- Recovery in Asia continued with falling unemployment in Hong Kong and rising Taiwanese exports.

Australian economic releases and implications

- The minutes from the last Reserve Bank (RBA) board meeting clearly implied more interest rate increases were likely, and indicated a greater sense of urgency on the back of larger than expected rises in iron ore and coal prices. RBA Governor Glenn Stevens seemed far more dovish about the outlook for interest rates referring to a degree of caution in some parts of the economy and describing interest rates as now being pretty close to average. We are allowing for another 0.25% cash rate hike in either May or June and the cash rate rising to 5% by year end, before moving up to a peak of around 6% or just above in 2012.

- The terms of trade (TOT) continued its recovery in the March quarter with strong gains in export prices. Higher coal and iron ore prices will further boost the TOT.

Major market moves

- Global shares were mixed in the US as strong economic data and profit results overwhelmed worries about the Securities Exchange Commission's action against Goldman Sachs, but shares were down in Europe and Asia partly on worries about Greece and further Chinese tightening.
- The Greek debacle also knocked the euro down to its lowest level in almost a year against the US\$.

What to watch in the week ahead?

- The US Federal Reserve's (Fed) interest rate meeting will be watched closely to see whether its assessment of economic conditions will justify keeping rates low for an "extended period". Recent labour market news has been favourable and comments from Fed officials suggest a rate hike is still several months away.
- In Australia, March quarter inflation data will be important in framing market expectations for next month's RBA meeting as it will be the last piece of major economic news ahead of the meeting. We anticipate an increase in headline inflation of 0.7% which will take the annual rate to 2.7%. Underlying inflation will also likely increase by 0.7%, taking its annual rate down to 3% in the March quarter from 3.4% in the December quarter. The long awaited Henry tax review is also likely to be released.

Outlook for markets

- After double digit gains over the last few months, shares are due for a correction, with issues regarding Greece, tightening government policies in various Asian countries, increased bank regulation and an eventual move towards US monetary tightening all providing possible triggers. The last two profit reporting seasons in the US were both associated with corrections in shares even though profit results were very good. While shares are vulnerable to a short-term pause or correction, the cyclical recovery probably has further to go, underpinned by a stronger than expected rebound in profits, evidence that the global recovery is becoming self sustaining as jobs growth starts to come through, reasonable valuations and low interest rates globally.
- The Australian dollar is likely to rise against the US\$ as the interest rate differential continues to widen and commodity prices remain strong. We continue to see it rising to parity against the US\$ this year.
- The outlook for returns from government bonds is poor. Yields are likely to rise as monetary tightening gets factored in, the supply of government bonds increases, private sector credit demand picks up and as investors demand a higher risk premium to invest in the bonds of countries with high levels of public debt.

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