

Weekly Market & Economic Update – week ending 2 July 2010

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
US – Consumer confidence, June	Index	52.9	63.3	↔
China – PMI Manufacturing, June	Index	52.1	53.9	↔
US – Construction expenditure, May	mom	-0.2%	+2.7%	↔
Australia – Retail sales, May	mom	+1.2%	+1.8%	↑
US – Unemployment rate, June	-	9.5%	9.7%	↔

Financial markets

Indicator	Friday, 2 July 2010	Friday, 25 June 2010	Weekly change	2 July 2009	12-month change
S&P/ASX 200 Index	4,239	4,413	-3.9%	3,877	+9.3%
S&P/ASX 200 Property Trusts	845	857	-1.4%	744	+13.6%
US S&P 500	1,023	1,077	-5.0%	896	+14.2%
Dow Jones Eurostoxx	242	252	-4.0%	221	+9.5%
UK FTSE 100	4,838	5,047	-4.1%	4,234	+14.3%
Japan TOPIX	831	867	-4.2%	924	-10.1%
CITIC/S&P 300 China A	2,136	2,310	-7.5%	2,721	-21.5%
MSCI (ex-Aust/in LC)	755	791	-4.6%	704	+7.2%
Aust 90-day bank bill yield	4.87	4.96	-9 bps	3.13	+174 bps
Aust 10-year bond yield	5.10	5.25	-15 bps	5.42	-32 bps
US 10-year bond yield	2.98	3.11	-13 bps	3.49	-51 bps
Oil – West Texas Crude	US\$72.14	US\$78.61	-8.2%	US\$66.73	+8.1%
A\$ in US cents	US\$0.8423	US\$0.8729	-3.5%	US\$0.7914	+6.4%
TWI	66.4	68.5	-3.1%	64.2	+3.4%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
6 July	Australia – Merchandise exports, May	yoy	+7.8%	n/a
6 July	US – ISM non-manufacturing, June	Index	55.4	55.4
7 July	Japan – Machinery orders, May	yoy	+29.5%	n/a
8 July	Australia – Unemployment rate, June	-	5.2%	n/a
8 July	US – Consumer credit, May	US\$ billion	1.0	2.0

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

Headline developments of the past week

- In major news during the week, the Australian Government finalised a deal with the mining industry on the Resources Super Profits Tax, renaming it the Minerals Resource Rent Tax. The deal involves cutting the tax rate to 30% from 40%, increasing the hurdle rate and applying the tax to iron oil and coal only.
- US economic data was generally on the soft side, with a fall in US consumer confidence and weaker US housing data.

Major global economic releases and implications

- Economic data releases in the US were disappointing with US consumer confidence falling by nearly 10 points, dropping from a revised 62.7 in May to 52.9 in June. The decline was steeper than had been expected and broke a three-month stretch of rising optimism. Pending home sales also fell steeply following the end of the housing tax credit, although the tax credit program was extended for a further three months to people in the process of buying a home. US non-farm payrolls were weaker than expected and US factory orders were also lower.
- Data in Europe was mixed. Consumer confidence readings were steady in June and business confidence showed an improvement, but the consumer price index came in below market expectations. In the UK, consumer confidence was also weaker, house prices increased by less than expected and mortgage approvals remain unchanged in May. In Germany, the unemployment rate held steady in June.
- In Asia, a leading indicator for the Chinese economy was revised down suggesting that growth is moderating faster than expected. China's purchasing managers' index fell for the second month in June, indicating that manufacturing activity expansion is also slowing. Given this recent softening in data, Chinese authorities are likely to ease their property tightening measures. In Japan, small business sentiment rose in June, revealing the best results since October 2007. However, employment, overall household lending and industrial production fell in May.

Australian economic releases and implications

- In Australia, the changes to the Resources Super Profits Tax were welcomed by the mining industry. While the amendments will mean a lower revenue overall, the Government has committed to return the budget back to surplus by 2013 and will maintain the changes to superannuation contributions
- Australian retail spending rose modestly in May and manufacturing growth remained positive in June, but slowed noticeably. Building approvals fell to a seven-

month low and new home sales fell in May as recent interest rates increases curbed demand. On the positive side, the Reserve Bank of Australia (RBA) reported that total credit provided to the private sector rose further in April, following an increase in March.

Major market moves

- Global stock markets fell for a further week following the disappointing US consumer confidence and housing data. The downward revision to China's leading indicator and the ongoing European debt crisis gave investors further reason to doubt the global economic recovery. Similarly, the Australian share market declined as the softer economic data pushed commodity prices lower.
- Falling commodity prices and the disappointing economic data from China saw the Australian dollar retrace some of its previous gains.
- Bond yields fell with the US 10-year government bond yield now below 3.0% as global growth expectations were cut back. Australian bond yields saw similar falls with 10-year government bond yields now at 5.1%

What to watch in the week ahead?

- In the US, data for non manufacturing ISM, job cuts, consumer credit and wholesale inventories will be released.
- In Australia, we expect the RBA to keep cash rates on hold. We also expect a slight increase in employment data which will be released.

Outlook for markets

- Share markets have suffered large falls from their April highs and are likely to see some more weakness in the next few months as double dip worries intensify. However, the likelihood of a double dip recession is low and shares have become good value again. We expect to see share markets recover into year-end and continue to move higher in 2011. The recent uncertainty will help ensure that global monetary conditions remain favourable and increase the likelihood that Chinese authorities will begin to ease their property tightening measures in the months ahead given the weaker data.
- Global growth concerns have also seen commodity prices move lower which has put some pressure on the Australian dollar (A\$). However, as Australian interest rates remain well above global rates the A\$ will remain supported and once commodity prices resume their upswing, the currency will likely see further gains.
- Low yields are pointing to poor medium-term returns from government bonds on the back of worries about excessive public debt and as the latest bout of investor risk aversion abates.

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