

Weekly Market & Economic Update – week ending 16 April 2010



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| Data/Event | Units* | Movement | | Trend |
|--|--------|----------|----------|-------|
| | | LATEST | PREVIOUS | |
| Australia – Housing finance, February | yoy | -16.1% | -12.0% | ↔ |
| Australia – National Australia Bank (NAB) business confidence, March | index | 16 | 19 | ↑↑ |
| US – Retail sales, March | mom | +1.6% | +0.3% | ↑↑ |
| US – Industrial production, March | mom | +0.1% | +0.1% | ↑↑ |
| China – Consumer price index (CPI), March | yoy | +2.4% | +2.7% | ↑↑ |

Financial markets

| Indicator | Friday, 16 April 2010 | Friday, 9 April 2010 | Weekly change | 16 April 2009 | 12-month change |
|-----------------------------|-----------------------|----------------------|---------------|---------------|-----------------|
| S&P/ASX 200 Index | 4,985 | 4,948 | +0.7 | 3,776 | +32.0 |
| S&P/ASX 200 Property Trusts | 890 | 868 | +2.5 | 738 | +20.6 |
| US S&P 500 | 1,192 | 1,194 | -0.2 | 865 | +37.8 |
| Dow Jones Eurostoxx | 280 | 283 | -1.1 | 213 | +31.5 |
| UK FTSE 100 | 5,744 | 5,771 | -0.5 | 4,053 | +41.7 |
| Japan TOPIX | 989 | 989 | +0.0 | 832 | +18.9 |
| CITIC/S&P 300 China A | 2,825 | 2,844 | -0.7 | 2,660 | +6.2 |
| MSCI (ex-Aust/in LC) | 879 | 882 | -0.3 | 654 | +34.4 |
| Aust 90-day bank bill yield | 4.48 | 4.54 | -6 bps | 3.07 | +141 bps |
| Aust 10-year bond yield | 5.82 | 5.81 | +1 bp | 4.51 | +131 bps |
| US 10-year bond yield | 3.76 | 3.88 | -12 bps | 2.83 | +93 bps |
| Oil – West Texas Crude | US\$83.24 | US\$84.92 | -2.0 | US\$49.98 | +66.5 |
| A\$ in US cents | US\$0.9217 | US\$0.9366 | -1.6 | US\$0.7196 | +28.1 |
| TWI | 72.2 | 72.4 | -0.3 | 60.0 | +20.3 |

Major upcoming global economic releases and events

| Date | Data/Event | Units* | Previous | Market Forecast |
|----------|---|--------|----------|-----------------|
| 19 April | US – Leading indicators, March | mom | +0.1% | +1.3% |
| 19 April | Japan – Consumer confidence (Tokyo), March | yoy | +42.9% | n/a |
| 22 April | Australia – New motor vehicle sales, March | yoy | +17.1% | n/a |
| 22 April | Hong Kong – Consumer price index (CPI), April | yoy | +2.8% | n/a |
| 23 April | US – Durable good orders, March | mom | +0.5% | +0.2% |

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

Headline developments of the past week

- US and European shares fell late in the week on news that the US Securities Exchange Commission (SEC) was suing Goldman Sachs over fraud in relation to a subprime collateralised debt obligation leading to concerns that other financial organisations might also be targeted. While the SEC action, along with moves to toughen financial regulation, might contribute to market jitters for a while, it is hard to see it having a big impact on the US/global economic recovery which is being driven by manufacturing and global trade.
- Chinese economic data for March came in roughly as expected with gross domestic product (GDP) growth rising to 11.9%. The strength in China and a likely further rise in inflation to come are consistent with further monetary tightening and a move to allow the Renminbi to start appreciating again. However, with sequential quarterly growth looking like it peaked in the June quarter last year, credit growth starting to come under control and inflation falling back a notch in March, there is no need for the Chinese authorities to get aggressive in trying to slow the economy.
- The Greek debt issue continues, but the radically different fiscal fortunes of Asia were highlighted by an upgrade to South Korea's sovereign debt rating to A1. Upgrades to sovereign ratings in the emerging world are likely to be a recurrent theme this year.

Major global economic releases and implications

- US economic data was generally positive. Small business optimism remained weak in March and the Easter holiday pushed up weekly unemployment claims. Against this, retail sales continued their recovery, the Federal Reserve's Beige Book noted that economic activity continued to expand in most districts, surveys showed that manufacturing conditions in the New York and Philadelphia regions remain robust, housing starts rose, a survey of home builder conditions ticked up and core inflation fell to 1.1% year-on-year.
- The US March quarter earnings season has begun with solid results. So far, 32 of the 41 companies to have reported (or 78%) have come in better than expected.
- Apart from the strong performance in China, the strength of the recovery in Asia was highlighted by 15.1% growth in Indian industrial production over the year to February, and 13.1% growth in Singapore's economy over the year to the March quarter.

Australian economic releases and implications

- While housing finance fell for the fifth month in a row, both business and consumer confidence held up well despite rising interest rates. Consumer confidence among mortgage holders actually rose slightly.

Major market moves

- Most share markets fell slightly over the last week with details on the European Union's bailout package for Greece, favourable economic data and good earnings

results providing an initial boost. However, worries about Chinese tightening and the US SEC action dragged markets down later in the week. Australian shares rose, nonetheless, resulting in ten weeks of consecutive gains for the first time since 1991.

- Commodity prices and the Australian dollar (A\$) fell in response to a retreat from risky assets after the SEC action.

What to watch in the week ahead?

- The US March quarter earnings reporting season will gather pace with 110 S&P 500 companies due to report in the week ahead. The market consensus is for aggregate earnings to be up 37% from year ago.
- The steady drum beat of tighter monetary policy in Asia will continue with the Reserve Bank of India expected to increase its key policy interest rates by another 0.25%.
- In Australia, the Minutes from the Reserve Bank's (RBA) last meeting and a speech by Governor Glenn Stevens are expected to confirm that further interest rate increases are likely, but that rates are getting closer to their longer-term average.

Outlook for markets

- Having seen double digit gains in share markets since early February, with expectations running very high coming into the US March quarter profit reporting season and China still in tightening mode, there is a high risk of a short-term pause or correction in shares. The vulnerability to a correction was highlighted by the falls in share markets in response to the US SEC action against Goldman Sachs.
- However, beyond the risk of a short-term correction, the broad outlook for shares remains positive. First, recent strength in share markets has come with broad-based participation from most sectors and stocks, suggesting there is a lot of conviction behind it. Secondly, the return of jobs growth in the US adds to confidence that the US/global recovery is becoming self-sustaining. Thirdly, strong corporate balance sheets and cash flows in most regions will likely drive increased merger and acquisition activity. Finally, share market fundamentals are all reasonable - valuations are still cheap, earnings are rising, global interest rates are set to remain low and there is still a lot of cash sitting on the sidelines.
- The A\$ is likely heading for another go at parity against the US dollar (US\$) with the A\$ breaking above its corrective downtrend from last November's high, tough talk from the RBA and strong jobs growth adding to expectations that the interest rate differential in Australia's favour is set to widen further, and commodity prices remaining strong.
- The outlook for returns from government bonds is poor. 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 as investors demand a higher risk premium to invest in the bonds of countries with high levels of public debt.

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