

Weekly Market & Economic Update – week ending 26 March 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – New motor-vehicle sales, February	mom	-1.9%	-3.4%	↑
US – Existing home sales, February	-	5,020,000	5,050,000	↑
US – Durable goods orders, February	mom	+0.5%	+3.0%	↑
US – New home sales, February	-	308,000	309,000	↔
US – Consumer sentiment, March	index	73.6	73.6	↑

Financial markets

Indicator	Friday, 26 March 2010	Friday, 19 March 2010	Weekly change	26 March 2009	12-month change
S&P/ASX 200 Index	4,897	4,872	+0.5%	3,647	+34.3%
S&P/ASX 200 Property Trusts	867	874	-0.9%	680	+27.5%
US S&P 500	1,167	1,160	+0.6%	833	+40.1%
Dow Jones Eurostoxx	278	274	+1.5%	198	+40.5%
UK FTSE 100	5,703	5,650	+0.9%	3,925	+45.3%
Japan TOPIX	967	949	+1.9%	827	+16.9%
CITIC/S&P 300 China A	2,754	2,769	-0.5%	2,074	+32.8%
MSCI (ex-Aust/in LC)	864	857	+0.8%	617	+39.9%
Aust 90-day bank bill yield	4.39	4.26	+13 bps	3.18	+121 bps
Aust 10-year bond yield	5.74	5.66	+8 bps	4.52	+122 bps
US 10-year bond yield	3.85	3.69	+16 bps	2.74	+111 bps
Oil – West Texas Crude	US\$80.00	US\$80.68	-0.8%	US\$54.34	+47.2%
A\$ in US cents	US\$0.9051	US\$0.9146	-1.0%	US\$0.7021	+28.9%
TWI	71.4	71.6	-0.3%	57.8	+23.5%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
31 March	Australia – Building approvals, February	mom	-7.0%	2.1%
31 March	Australia – Retail sales, February	mom	+1.2%	+0.3%
1 April	US – Institute for Supply Management (ISM) manufacturing survey, March	index	56.5	57
1 April	China – Purchasing managers index (PMI), March	index	52	55
2 April	US – Unemployment rate, March	-	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 concerns persisted with a downgrade to Portugal's credit rating, scepticism over the UK's improved budget deficit projections and poorly received US Treasury auctions. This contributed to upwards pressure on bond yields in the US and UK. However, the good news was that the European Union reached agreement on a support mechanism for Greece which resulted in falls in bond yields in Greece, Portugal, Italy, Spain and Ireland and saw the euro reverse some of its losses late in the week.
- Tensions between the US and China over the value of the renminbi are increasing again. However, China seems to recognise that a trade war would be worse than allowing its currency to resume appreciating against the US dollar (US\$), so the most likely outcome is the resumption of renminbi appreciation some time in the next few months.

Major global economic releases and implications

- US economic data was generally positive. Home sales were soft in February, not helped by terrible weather, but new mortgage applications rose. More importantly, durable goods orders rose further, unemployment claims continued to fall and consumer sentiment rose. Corporate profits rose 8% in the fourth quarter and 31% over the year, leaving companies with plenty of cash. If history is any guide, this will lead to stronger employment and capital spending.
- European economic data was better than expected. Although industrial orders fell in January, surveys of conditions in manufacturing and services continued to show improvement. The UK budget projected a faster than previously reported improvement in the budget deficit, taking it to 4% of gross domestic product (GDP) by 2014-15 from 11.8% in 2009-10, but there are grounds for scepticism about how concrete the projections are.

Australian economic releases and implications

- In Australia, new motor vehicle sales fell slightly, but skilled job vacancies rose solidly. Meanwhile, it was reported that Australia's population rose by 452,000 over the year to the September quarter or by 2.1%. This is nearly double world average population growth and even stronger than that in most developing countries. This is providing a big boost to growth.
- The message from the Reserve Bank of Australia (RBA) remains upbeat, with a speech by RBA Assistant Governor Philip Lowe repeating the message that interest rates will likely need to continue their gradual move towards more normal levels, which is at least 0.5% higher than current levels.

Major market moves

- Share markets, except those in Asia, rose further over the week on the back of solid economic and corporate news, but were constrained by worries about sovereign debt and the associated rise in bond yields. Australian shares have now risen for seven weeks in a row.
- Stronger US economic data and sovereign debt worries in Europe saw the US\$ rise to its highest level against the euro in 10 months. However, it dropped back again after the assistance deal for Greece was announced.

What to watch in the week ahead?

- In the US, the highlight will be the March employment report which is likely to show a rebound in employment after weakness in February. The release of the Chinese purchasing managers index (PMI) will also be watched closely following a significant fall in February.
- In Australia, the focus will be on retail sales data, building approvals and private credit, as these will be the last major data releases ahead of the RBA's next board meeting in April.

Outlook for markets

- After rallying strongly from early February, shares are now at risk of a correction. However, although this year is going to be bumpy, we still believe the broad trend in shares will be up. Firstly, the break above January highs in US shares has come with broad-based participation from most sectors and stocks, suggesting there is a lot of conviction behind it. Secondly, shares are normally strong over the March to May period. Thirdly, sentiment towards the US/global recovery is likely to change for the better if US employment starts to grow again, boosting investor confidence in shares. Finally, share market fundamentals are reasonable – valuations are modestly cheap, earnings are on the rise, global interest rates are set to remain low and there is still a lot of cash sitting on the sidelines.
- If shares go through a short-term pull back then commodity prices and the A\$ are likely to as well. However, strength in the emerging world will likely ensure that the trend in commodity prices remains strong and this, plus further interest rate increases in Australia versus the US, will likely ensure the trend in the A\$ will remain up.
- The outlook for returns from government bonds is poor. Government bond yields are likely to rise further as monetary tightening is 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 such as the US, UK, Japan and parts of Europe.

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