

## Weekly Market & Economic Update – week ending 11 June 2010



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

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – unemployment rate, May	-	5.2%	5.4%	↓
Australia – Westpac consumer confidence, June	mom	-5.6%	-7%	↓
US – Trade balance, April	US\$ billion	-40.3	-40.4	↔
China – Consumer price index (CPI), May	index	+4.5%	+4.4%	↑
US – retail sales, May	mom	-1.2%	0.4%	↑

### Financial markets

Indicator	Friday, 11 June 2010	Friday, 4 June 2010	Weekly change	4 June 2009	12-month change
S&P/ASX 200 Index	4,506	4,449	+1.3%	4,047	+11.3%
S&P/ASX 200 Property Trusts	882	877	+0.6%	767.1	+15.0%
US S&P 500	1,092	1,065	+2.5%	944.9	+15.5%
Dow Jones Eurostoxx	253	246	+2.9%	233.5	+8.4%
UK FTSE 100	5,164	5,126	+0.7%	4,462	+15.7%
Japan TOPIX	866	890	-2.6%	940.7	-7.9%
CITIC/S&P 300 China A	2,336	2,324	+0.5%	2,466	-5.3%
MSCI (ex-Aust/in LC)	800	787	+1.6%	716	+11.7%
Aust 90-day bank bill yield	4.95	4.83	+12 bps	3.26	+169 bps
Aust 10-year bond yield	5.40	5.28	+12 bps	5.57	-17 bps
US 10-year bond yield	3.23	3.20	+3 bps	3.85	-62 bps
Oil – West Texas Crude	73.78	US\$71.51	+3.2%	US\$72.68	+1.5%
A\$ in US cents	0.8503	US\$0.8203	+3.7%	US\$0.8208	+3.6%
TWI	67.5	67.4	+0.1%	64.8	+4.2%

### Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
16 June	Australia – Westpac leading index, April	-	+0.9%	n/a
16 June	US – Housing starts, May	-	672,000	650,000
16 June	US – Producer price index (PPI), May	mom	-0.1%	-0.5%
17 June	Japan – Leading index, April	index	101.7	n/a
17 June	US – Consumer price index (CPI), May	mom	-0.1%	-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

- Central bank governors in the US, Australia and New Zealand all expressed the view that the problems in Europe would have only a minor impact on their respective economies. That said – apart from New Zealand's move to raise interest rates – there is little doubt that the uncertainty regarding the global outlook flowing from Europe's problems is leading to easier monetary conditions worldwide than would otherwise have been the case.
- The key message from Chinese economic data for May is that the Chinese economy is cooling but not collapsing and that it is continuing to rebalance towards a greater reliance on consumption. The authorities have been seeking to slow the property market and cool down growth in industrial production, fixed-asset investment and bank lending while at the same time rebalancing the economy towards a greater reliance on consumer spending. And this is exactly what we are seeing. At the same time, Chinese exports are continuing to strengthen. Although inflation picked up, this largely reflected base effects. Inflation is well below what was feared earlier this year and business surveys point to a sharp weakening in input cost pressures. The bottom line is that measures to cool the Chinese economy and property market are working and that further tightening is unlikely.
- Japan now has another new leader and hopefully Prime Minister Kan will have more of a 'can do' attitude than his predecessor. His support for a goods and services tax (GST) increase is a worry but if it's offset by other tax cuts and a more aggressive approach to combating deflation from the Bank of Japan, there may be reason for optimism.

## Major global economic releases and implications

- US economic data was generally favourable with an increase in consumer credit in April, an increase in small business confidence and hiring plans and an increase in weekly chain store sales. Retail sales fell but consumer sentiment rose to its highest level since January 2008. The dampener remains the housing sector with another big fall in weekly mortgage applications indicating that activity has really weakened after the now expired first home buyer tax credit pulled demand forward into March and April. However, it's worth noting that the number of households receiving default notices is down 22% from a year ago.
- European data was better than expected with strong rises in German industrial production and factory orders and a further rise in French factory production.
- Japanese data was generally positive with an upwards revision to March quarter gross domestic product (GDP) growth, continued growth in machinery orders in April, a further rise in consumer confidence in May and a fall in bankruptcies.

## Major market moves

- It has been another volatile week for share markets. Shares started on a weak note in response to worse than expected US jobs figures, but managed to rise over the week as a whole on the back of better than expected economic data including in China and Australia and a greater degree of confidence that the problems in Europe won't derail the global recovery.
- The strength in share markets also translated into higher commodity prices (except for gold), a rise in the Australian dollar (A\$) which was also helped by strong local jobs data and higher government bond yields.

## What to watch in the week ahead?

- In the US, producer and consumer price data is likely to show waning inflation, a survey of home builders and housing starts are likely to be soft in the aftermath of the expiry of the first home buyers tax credit but manufacturing conditions surveys are likely to remain solid.
- In Australia, the minutes from the last Reserve Bank of Australia (RBA) Board meeting are likely to reinforce expectations that rates will remain on hold for a while and a speech by the RBA Deputy Governor will also be watched closely for any update on the central bank's view regarding the problems in Europe.

## Outlook for markets

- It's looking increasingly likely that shares are trying to build a bottom and that the correction that commenced back in April is over. The global economic recovery is likely to continue. Shares remain oversold and are now cheap. Investor sentiment towards shares has fallen so far that it's now positive from a contrarian perspective. The recent outbreak of uncertainty will help ensure that global monetary conditions remain easy and Chinese tightening is now on hold with the prospect of some easing in property tightening measures in the months ahead. As such, our view remains that the cyclical recovery in shares that commenced in March last year is still on track. However, volatility will remain a key feature going forward.
- Chinese shares may lead the bounce back in global markets just as they led the recovery from the global financial crisis and the recent slump. Chinese shares are cheap with the price to earnings ratio having fallen to 19 times which is well below its long-term average of 34 times and they are likely to get a boost as it becomes apparent further tightening is unlikely.
- The A\$ is likely to regain strength as Australian interest rates remain well above global rates and as commodity prices resume their upswing.
- Low yields are pointing to poor medium-term returns from government bonds, particularly as worries about excessive public debt impact and the latest bout of investor risk aversion abates.

**Important note:** While every care has been taken in the preparation of this document, AMP Capital Investors Limited (ABN 59 001 777 591) (AFSL 232497) makes no representation or warranty as to the accuracy or completeness of any statement in it including, without limitation, any forecasts. Past performance is not a reliable indicator of future performance. This document has been prepared for the purpose of providing general information, without taking account of any particular investor's objectives, financial situation or needs. An investor should, before making any investment decisions, consider the appropriateness of the information in this document, and seek professional advice, having regard to the investor's objectives, financial situation and needs. This document is solely for the use of the party to whom it is provided.

### Further information

If you would like to know more about how AMP Capital can help you, please contact one of the following:

#### Financial Planners

AMP Capital's Client Service Team on 1300 139 267

#### Personal Investors

Adviser or Financial Planner

#### Wholesale Investors

AMP Capital's Client Service Team on 1800 658 404

or visit [www.ampcapital.com.au](http://www.ampcapital.com.au)