

## Weekly Market & Economic Update – week ending 14 May 2010



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

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
China – Consumer Price Index (CPI), April	yoy	+4.4%	+3.6%	↑
Australia – ANZ job advertisements, April	mom	-1.2%	+1.8%	↔
US – Trade balance, March	mom	-US\$40.4bn	-US\$39.7bn	↑
Australia – Unemployment rate, April	-	5.4%	5.4% (revised)	↔
US – Retail trade, April	mom	+0.4%	+1.6%	↑

### Financial markets

Indicator	Friday, 14 May 2010	Friday, 7 May 2010	Weekly change	14 May 2009	12-month change
S&P/ASX 200 Index	4,611	4,481	+2.9%	3,723	+23.8%
S&P/ASX 200 Property Trusts	871	862	+1.0%	645	+34.9%
US S&P 500	1,136	1,111	+2.2%	893	+27.2%
Dow Jones Eurostoxx	253	241	+5.2%	219	+15.7%
UK FTSE 100	5,263	5,123	+2.7%	4,363	+20.6%
Japan TOPIX	937	932	+0.5%	863	+8.6%
CITIC/S&P 300 China A	2,423	2,401	+0.9%	2,326	+4.2%
MSCI (ex-Aust/in LC)	827	806	+2.6%	677	+22.1%
Aust 90-day bank bill yield	4.88%	4.89%	-1 bp	3.11%	+177 bps
Aust 10-year bond yield	5.51%	5.47%	+4 bps	4.86%	+65 bps
US 10-year bond yield	3.45%	3.43%	+2 bps	3.09%	+36 bps
Oil – West Texas Crude	US\$71.61	US\$75.11	-4.7%	US\$58.62	+22.2%
A\$ in US cents	US\$0.8858	US\$0.8965	-1.2%	US\$0.7600	+16.6%
TWI	70.5	70.1	+0.6%	61.1	+15.4%

### Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
17 May	US – National Association of Home Builders housing market index, May	mom	+19.0	+20.0
18 May	Japan – Consumer confidence, April	yoy	+30.1%	n/a
19 May	US – Consumer price index (CPI), April	mom	+0.1%	n/a
19 May	Australia – Merchandise imports, April	yoy	+4.2%	n/a
20 May	US – Leading indicators, April	mom	+1.4%	+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

- Europe provided a huge support package for countries with debt problems which led to a sharp fall in bond yields in Greece and Portugal and initially triggered a rebound in global share markets. While it should help prevent further panic regarding public debt levels, it won't prevent highly indebted countries in southern Europe from undergoing a sharp economic contraction.
- In Australia, the Federal Budget came up with a few goodies for 'ordinary Australians' in the form of simpler tax, another round of income tax cuts and reduced tax on savings. The upward revisions to growth forecasts were pretty much as expected, but perhaps the highlight was the projected return to surplus three years ahead of schedule. A criticism though is that the Government is solely relying on stronger growth and the terms of trade boost to cut the deficit.

### Major global economic releases and implications

- In the US, retail sales and industrial production rose, consumer sentiment improved and weekly jobless claims fell. Meanwhile, the March trade gap widened and new mortgage applications fell.
- In the euro-zone, March quarter gross domestic product data showed that the recovery continued, albeit with just 0.2% growth.
- Japanese data showed a rise in economic confidence, another surge in machine tool orders and a fall in corporate bankruptcies.
- Whilst Chinese economic data added to concerns about further tightening, there are reasons to be encouraged by the latest figures. Firstly, there are signs that industrial production and investment are starting to cool. Secondly, policies have already been put in place to cool house prices. And finally, while inflation rose to 2.8%, it's hardly out of control. Whilst further rate hikes in China are likely, there's no reason to expect aggressive tightening. Meanwhile, the recovery in Asia was highlighted by news that Malaysia (+10.1%), Hong Kong (+8.2%) and Indonesia (+5.7%) all grew strongly in the year to 31 March 2010.

### Australian economic releases and implications

- Australian data was mixed. Employment rose strongly in April but housing finance fell for the eighth month in nine, the NAB's business survey showed a dip in confidence and conditions, and the ANZ job ads series fell slightly.

### Major market moves

- Share markets rebounded early in the week on the back of the European rescue package but gains were wound back on worries that austerity measures in Europe will weigh on global growth.
- Commodity prices generally fell on concerns about global growth. However, gold rose to a new high amid the ongoing weakness in the euro, which remained under pressure as investors realised that austerity programs in several countries will act to constrain European growth.

### What to watch in the week ahead?

- In the US, manufacturing conditions surveys for May should show continuing strength but a survey of home builders may dip back a bit following the expiry of a first time home buyer tax credit in April.
- In Australia, consumer confidence data is likely to have dipped slightly following the latest interest rate hike and the minutes from the RBA's latest Board meeting are likely to confirm that the Bank maintains its bias toward more interest rate hikes.

### Outlook for markets

- The share market correction we thought was likely a few weeks ago has now eventuated. Given worries about Chinese tightening and US action against banks along with lingering worries about weaker growth in Europe, it's too early to say for sure that the correction is over. However, with European authorities putting a firewall around Greece and other troubled euro-zone countries, investors will be able to refocus on the continuing global economic recovery, rising earnings and attractive valuations, all of which indicate that the bull market in shares will ultimately resume taking them to much higher levels by year-end.
- Allowing for continuing market volatility, the Australian dollar should remain strong given Australia's favourable interest rate differential and strong commodity prices. By contrast, the euro is likely to continue to struggle on the back of relatively weak growth prospects in the euro-zone.
- Gold is likely to remain a long-term beneficiary of the uncertainty about major currencies. Last year the concerns were focused on the US\$. This year it's the euro. Next year it might be the Yen's turn.
- Government bonds are likely to deliver low returns over the medium term. As higher global interest rates are priced in and given the large supply of government bonds, investors will demand a higher risk premium to invest in government bonds.

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