

Weekly Market & Economic Update – week ending 28 May 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – New motor vehicle sales, May	mom	+8.4%	-2.7%	↑
US – Consumer confidence, May	index	63.3	57.9	↔
US – New home sales, April	-	504,000	411,000	↑
Japan – Unemployment rate, April	-	5.1%	5.0%	↔
Japan – Retail sales, April	yoy	+4.9%	+4.7%	↑

Financial markets

Indicator	Friday, 28 May 2010	Friday, 21 May 2010	Weekly change	21 May 2009	12-month change
S&P/ASX 200 Index	4,458	4,305	+3.6%	3,756	+18.7%
S&P/ASX 200 Property Trusts	863	815	+5.9%	707	+22.1%
US S&P 500	1,089	1,088	+0.1%	907	+20.1%
Dow Jones Eurostoxx	250	246	+1.6%	228	+9.6%
UK FTSE 100	5,188	5,063	+2.5%	4,388	+18.2%
Japan TOPIX	879	880	-0.1%	896	-1.9%
CITIC/S&P 300 China A	2,411	2,337	+3.2%	2,300	+4.8%
MSCI (ex-Aust/in LC)	798	792	+0.8%	691	+15.5%
Aust 90-day bank bill yield	4.88	4.67	+21 bps	3.18	+170 bps
Aust 10-year bond yield	5.35	5.38	-3 bps	5.31	+4 bps
US 10-year bond yield	3.29	3.20	+9 bps	3.61	-32 bps
Oil – West Texas Crude	US\$73.97	US\$68.04	+8.7%	US\$65.08	+13.7%
A\$ in US cents	US\$0.8438	US\$0.8284	+1.9%	US\$0.7846	+7.5%
TWI	67.8	65.9	+2.9%	62.5	+8.5%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
31 May	Australia – Current account, March quarter	A\$ billion	-17.5	-16.4
1 June	Australia – Reserve Bank of Australia cash rate decision, June	-	4.50%	4.50%
1 June	US – Institute for Supply Management (ISM) manufacturing index, May	index	60.4	59.4
1 June	China – Manufacturing purchasing managers index (PMI), May	index	55.7	54.5
4 June	US – Non-farm payroll employment, May	-	290,000	500,000

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

Headline developments of the past week

- Reflecting the recent flow of stronger economic data, the Organisation for Economic Co-operation and Development revised up its global growth forecast for 2010 to 4.6%, and its growth forecast for 2011 to 4.5%

Major global economic releases and implications

- Economic data releases in the US were mostly positive. Consumer confidence rose strongly in May, durable goods orders continued to move higher in April and corporate profits surged another 5.5% in the March quarter. The surge in profits points to more gains in employment and business investment ahead. Home sales surged in April and house prices were flat in March, although it's probable that the US housing market may see some fall back in May.
- European economic data was okay, with consumer confidence readings down slightly in May despite very negative headlines, but European industrial orders up strongly in March and UK gross domestic product (GDP) growth revised up slightly for the March quarter. Fiscal tightening across Europe will likely be a big constraint on European growth going forward. We have reduced our 2010 growth forecast for Europe to 1.5%.
- Japanese exports continued to recover and retail sales data were strong, but data for unemployment and price inflation were disappointing. Meanwhile, industrial production continued to grow in Taiwan and Singapore.

Australian economic releases and implications

- Australian economic data was quite mixed. On the strong side, motor vehicle sales surged 8.4% in April and the Westpac leading economic indicator rose strongly in March pointing to solid economic growth ahead. Construction activity rose in the March quarter by a solid 1.9% but this was less than expected and mainly driven by public stimulus spending. Private capital spending was essentially flat in the March quarter driven by a fall back in equipment spending after a huge surge in the December quarter. That said, business investment intentions still point to strong growth in business investment over the year ahead.

Major market moves

- Shares had a volatile week as investors fretted about everything from Spanish banks to tensions on the Korean peninsula, but put in reasonable gains towards the end of the week thanks to reasonable economic data, assurances from China that it is not about to sell its European bond holdings and bargain hunters moving in to take advantage of newly cheapened stocks. Australian shares also benefited from signs that the Australian Government may be heading towards a compromise on the Resources Super Profits Tax.

- Other growth-oriented trades such as commodity prices and the Australian dollar also saw modest gains.

What to watch in the week ahead?

- The key focus in the US will be on the ISM manufacturing conditions index which is expected to fall back slightly from a six-year high reached in April and payroll employment for May which is expected to show a 500,000 gain. Chinese manufacturing conditions indicators will also be watched for further confirmation the Chinese economy is coming off the boil.
- In Australia, it will be a busy week with a lot of data releases and the Reserve Bank of Australia (RBA) Board meeting. We expect the RBA to leave rates on hold as it has achieved its short-term objective of returning bank lending rates to around their longer-term average, uncertainty has increased regarding the global economic outlook and a range of domestic indicators indicate that the rate hikes to date are starting to bite. In fact, the next rate hike is unlikely to come until August at the earliest. On the data front, we expect March quarter growth to reveal a bit of a soft patch in the economy with quarterly GDP growth of just 0.4% driven by a soft patch in retail sales and business investment.

Outlook for markets

- While the outlook will remain choppy, there is a good chance that the correction in shares is over. Shares are now oversold and cheap once again. Investor sentiment towards shares has fallen so far that it is now positive from a contrarian perspective. The global recovery is likely to remain on track and this will provide a further boost to profits. The recent outbreak of uncertainty will help ensure that global monetary conditions remain easy for longer than otherwise would have been the case. Further, Chinese tightening is now on hold with the prospect of an easing up in property tightening measures in the months ahead. So we remain of the view that the cyclical recovery in shares that commenced in March last year is still on track.
- The Australian dollar is likely to gradually regain its strength over the next few months as Australian interest rates remain well above global rates and as commodity prices resume their upswing. By contrast, the euro is likely to continue to struggle on the back of weak growth prospects in the Euro-zone and concerns about whether the common currency will survive in its current form.
- Gold is likely to remain a long-term beneficiary of the uncertainty about major currencies.
- While Government bonds have had a good run over the last few weeks on the back of safe haven buying, their low yields are pointing to poor returns over the medium term.

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