

## Weekly Market & Economic Update – week ending 20 August 2010



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

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Japan – Gross domestic product (GDP), June	yoy	0.4%	5.0%	↔
US – Producer price index, July	mom	+0.2%	-0.5%	↔
China – Conference Board Leading Economic Index, July	mom	+0.1%	-0.3%*	↓
US – Housing starts, July	mom	+1.7%	-8.7%*	↔
Australia – Average weekly wages, May	mom	+0.8%	+1.1%	↔

\* revised

### Financial markets

Indicator	Friday, 20 August 2010	Friday, 13 August 2010	Weekly change	20 August 2009	12-month change
S&P/ASX 200 Index	4,431	4,460	-0.6%	4,378	+1.2%
S&P/ASX 200 Property Trusts	866	859	+0.8%	803	+7.8%
US S&P 500	1,072	1,079	-0.7%	1,007	+6.4%
Dow Jones Eurostoxx	253	258	-1.9%	248	+2.0%
UK FTSE 100	5,195	5,275	-1.5%	4,757	+9.2%
Japan TOPIX	830	831	-0.2%	959	-13.5%
CITIC/S&P 300 China A	2,448	2,414	+1.4%	2,604	-6.0%
MSCI (ex-Aust/in LC)	789	795	-0.8%	752	+4.9%
Aust 90-day bank bill yield	4.70%	4.75%	-5 bps	3.28%	+142 bps
Aust 10-year bond yield	4.98%	4.99%	-1 bp	5.45%	-47 bps
US 10-year bond yield	2.61%	2.67%	-6 bps	3.43%	-82 bps
Oil – West Texas Crude	US\$73.46	US\$75.39	-2.6%	US\$72.54	+1.3%
A\$ in US cents	US\$0.8879	US\$0.8934	-0.6%	US\$0.832	+6.7%
TWI	68.8	69.8	-1.4%	65.8	+4.6%

### Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
23 August	Japan – Visible trade balance, July	yoy	+12.0%	n/a
25 August	US – Durable goods orders, July	mom	-1.0%	+3.0%
26 August	Japan – Unemployment rate, July	-	5.3%	5.3%
24 August	US – Existing home sales, July	yoy	+9.8%	n/a
26 August	Australia – Capital expenditure, July	qoq	-0.2%	+2.3%

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

## Headline developments of the past week

- In Australia, the Federal election has, at least for now, culminated in a hung parliament with independents likely to decide the victor and the Greens likely to gain the balance of power in the Senate. At this stage some political pundits see the Coalition as favoured to form government given that three of the independents are conservative and if so, this would help allay investor fears of a less business-friendly drift in government policy given increased Green power. Such an outcome would also be positive for mining stocks given the Coalition's commitment to dump the mining tax. But this may not be known for days. Coming at a time of renewed concerns regarding the global economic outlook, the Australian election outcome will likely add to local investor nervousness in the short term. Uncertainty over the election outcome as to who will govern, fears of a possible drift towards less business-friendly policies reflecting the increased power of the Greens, worries about less decisive policy making and a likely absence of productivity boosting longer-term reforms under a minority government will all likely add to jitters in the Australian share market and in the Australian dollar (A\$) in the week ahead.

## Major global economic releases and implications

- There was some good news in the US from a survey of bank lending officers which showed that banks are continuing to loosen lending standards on most types of loans. Meanwhile, US economic data was poor. Surveys of manufacturing conditions in the New York and Philadelphia regions were weak, housing starts barely flicked off the bottom in July, permits to build new houses continued to fall and a survey of new home builders showed that demand conditions fell. On top of all this, weekly retail sales data in the US was weak and unemployment claims rose further.
- Japanese June quarter data was weak with just 0.1% GDP growth and a fall in domestic demand. Strong growth continued in Taiwan and Malaysia in the June quarter although peak momentum in both countries looks to have past.

## Australian economic releases and implications

- Australian economic data was soft. Motor vehicle sales softened in July following a strong June quarter, skilled job vacancies fell in August, the Westpac leading index was flat in June and June quarter wages growth remained benign suggesting no threat to inflation from this source for now. Of more interest though was another slump in housing affordability in the June quarter on the back of more interest rate hikes and house price gains which took it back to the record poor affordability of Australian housing seen two years ago. Combined with the threat of more rate hikes to come it suggests the housing market will struggle going forward.
- We are now half way through the Australian June reporting season and the tone has remained uninspiring. Profits are up, but the proportion of companies surprising on the upside so far is only 33%,

which is down from 49% in the February reporting season. While there have been more positive than negative comments on the outlook, the ratio of positive to negative has only been two to one compared to six to one during the last reporting season.

## Major market moves

- Despite a bounce earlier in the week and increasing merger and acquisition activity share markets ended slightly lower on the back of poor US economic data continuing to fuel double dip worries.
- Commodity prices were mixed with the oil price down on growth concerns but copper and gold prices rose. This saw little change in the A\$. Bond yields continued to fall on the back of the global slowdown and expectations that key policy rates in the US and other major countries will stay around zero for longer.

## What to watch in the week ahead?

- In the US, the second estimate of June quarter GDP growth to be released on Friday is likely to show that growth in the quarter has been revised down to just 1.4% at an annual rate, down from the 2.4% pace first reported. This is close to stall speed and will only add to worries about a return to recession in the US.
- In Australia, June quarter construction and business investment data will likely show reasonable gains. The share market will remain focused on June half-year profit results with another 50 or so major companies due to report.

## Outlook for markets

- With worries about a double dip back into global recession now escalating and policy makers in the US and China unlikely to respond immediately, shares are now at high risk of having another leg down, particularly as we head into the normally weak months of September and October. However, beyond the likelihood of another round of near-term share market weakness we remain of the view that a global double dip recession will be avoided and with shares very good value, monetary conditions set to remain favourable and China likely to start relaxing its tightening measures sometime in the next few months, shares are likely to stage a decent rally in the December quarter and then through 2011.
- The A\$ is likely to remain volatile in the short term, particularly with double dip fears persisting and the next interest rate hike in Australia being pushed out, but should rise on a six to 12 month horizon as it becomes clear that the global recovery is continuing (albeit very gradually in developed countries), commodity prices are remaining strong and Australian interest rates are remaining well above global rates.
- Double dip and deflation worries will keep bond yields low in the short term, but medium-term returns are likely to be poor, reflecting low yields and excessive public debt levels in many developed countries.

**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)