

Weekly Market & Economic Update – week ending 26 February 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – New motor-vehicle sales, January	mom	-3.4%	+3.3%	↑
US – Consumer confidence, February	index	46.0	55.9	↔
US – New home sales, January	-	309,000	342,000	↔
US – Gross domestic product, December quarter	yoy	+5.9%	+5.7%	↑
US – Durable goods orders, January	mom	+3.0%	+0.3%	↑

Financial markets

Indicator	Friday, 26 February 2010	Friday, 19 February 2010	Weekly change	26 February 2009	12-month change
S&P/ASX 200 Index	4,638	4,827	-3.9%	3,346	+38.6%
S&P/ASX 200 Property Trusts	870	881	-1.2%	656	+32.6%
US S&P 500	1,105	1,117	-1.1%	753	+46.7%
Dow Jones Eurostoxx	257	269	-4.5%	187	+37.4%
UK FTSE 100	5,355	5,335	+0.4%	3,916	+36.7%
Japan TOPIX	894	956	-6.5%	743	+20.3%
CITIC/S&P 300 China A	2,754	2,859	-3.7%	1,839	+49.8%
MSCI (ex-Aust/in LC)	814	841	-3.2%	579	+40.6%
Aust 90-day bank bill yield	4.13	4.19	-6 bps	3.16	+97 bps
Aust 10-year bond yield	5.41	5.53	-12 bps	4.25	+116 bps
US 10-year bond yield	3.61	3.60	+1 bp	2.99	+62 bps
Oil – West Texas Crude	US\$79.66	US\$75.78	+5.1%	US\$45.22	+76.2%
A\$ in US cents	US\$0.8961	US\$0.9009	-0.5%	US\$0.6482	+38.2%
TWI	69.5	70.8	-1.8%	55.2	+25.9%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
1 March	US – Institute for Supply Management (ISM) manufacturing survey, February	index	58.4	58.0
2 March	Australia – Retail sales, January	mom	-0.7%	+0.5%
3 March	Australia – Gross domestic product, December quarter	qoq	+0.2%	+0.8%
5 March	US – Unemployment rate, February	-	9.7%	9.8%
5 March	US – Consumer credit, January	US\$ billions	-1.7	-3.8

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

Headline developments of the past week

- In the US, there were no surprises from US Federal Reserve Chairman Bernanke who indicated again that, although he is cautiously optimistic on the economic outlook, economic conditions are likely to continue to warrant the key Fed Funds rate being maintained at exceptionally low levels for an extended period.
- The Australian December-half profit reporting season is now essentially complete. Although results have been mixed over the last week, the overall impression has been strong, suggesting that earnings have now troughed. Outlook statements have generally also been positive. As a result there has been a modest upgrade to consensus earnings estimates of around 4% for 2009-10 and 2% for 2010-11. Overall, the results provide confidence that profits will grow 20% or so over the year ahead.

Major global economic releases and implications

- US economic data remained mixed. While house prices rose modestly in December and weekly retail sales rebounded, consumer confidence fell to a ten-month low, new mortgage applications fell sharply, home sales fell and unemployment claims spiked higher. Durable goods orders were mixed but the underlying trend remains solid. December quarter gross domestic product (GDP) growth was revised upward to an annualised 5.9% but this was mainly due to a reduction in the pace of inventory destocking. Bad weather may be playing a role in the weakness in housing data, consumer confidence and unemployment claims but nevertheless, there is no case for any near-term monetary tightening in the US.
- The US profit reporting season is now largely complete and has seen 73% of companies beat earnings expectations and 69% beat revenue expectations, highlighting that the earnings recovery is more than just cost cutting.

Australian economic releases and implications

- Australian economic data was generally positive. Vehicle sales fell in January, but credit growth was stronger than expected, house prices continued to rise and both construction spending and business investment rose strongly in the December quarter. Importantly, business plans for investment in 2010-11 point to a 20% uplift driven by the mining sector.

Major market moves

- Share markets were mixed over the last week with worries about the outlook for global growth and sovereign debt concerns weighing on investors, but Bernanke's comments that interest rates would stay

low, along with generally good profit results, provided support.

- Commodity prices and the Australian dollar (A\$) also fell slightly due to global growth concerns and worries about Greece.

What to watch in the week ahead?

- The next week will be busy on the data front. In the US, the key Institute for Supply Management (ISM) business conditions index along with payroll data for February will be released and will likely provide mixed signals with the ISM index likely to remain strong but bad weather expected to have pushed payrolls down by 50,000 to 100,000 people in February.
- In Australia, the focus will be on the Reserve Bank of Australia's (RBA) monthly board meeting. It will be a close call due to the softness in data for retail sales and housing finance released since the last meeting and ongoing global concerns regarding sovereign debt. However, we believe the RBA will give more weight to strength in house prices, business investment and consumer and business confidence and will decide to raise the cash rate by 0.25% which will take it to 4%.
- Australian data for retail trade, building approvals, the trade balance and real GDP will also be released. December quarter GDP is likely to have increased by 0.8%, or by 2.2% over the year.

Outlook for markets

- Share markets are currently caught in a tug of war between worries about stimulus withdrawal, sovereign debt and the sustainability of the global recovery on the one hand and low interest rates and rising profits on the other. This is making for choppy range-bound trading that might continue for some time yet. However, the broad trend in shares is likely to remain upward with the earnings recovery, low global interest rates and solid growth in the emerging world likely to dominate over the next six to 12 months, ultimately serving to push markets higher by year end. Our year-end target for the Australian All Ordinaries and ASX 200 indices remains 5600.
- Commodity prices and the Australian dollar will likely remain volatile, but further gains are still likely this year as global economic growth will remain commodity intensive. The spread between Australian and US interest rates is more likely to widen than narrow over the next six months.
- Government bond yields are likely to push higher over the year ahead as monetary tightening starts to be factored in, the supply of government bonds increases and private-sector credit demand picks up. Corporate debt is far more attractive with yields of 7.5% or more.

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