

Market and Economics Report



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Global economy

Review: Further signs of stabilisation in the global economy appeared during June. While the World Bank again lowered its forecast for global growth to -2.9% for 2009, the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) revised up their respective predictions. In the US, retail spending improved marginally during May, but remains volatile. Industrial production fell -1.1% in May and a manufacturing survey reported a deterioration in conditions in June. Further, the unemployment rate rose to a 25-year high of 9.5% in June. Against this, housing starts increased by more than expected during May and the Institute for Supply Management (ISM) business conditions indexes rose. During June, the Bank of Japan (BoJ) left interest rates on hold at 0.1%, and noted that the Japanese economy had 'begun to stop worsening'. Industrial output rose for the third month in a row during May which also saw the largest monthly trade surplus in a year. However, consumer prices continued to fall and exports were weaker than expected. In China, growth in industrial production growth, retail sales and investment rose, and loan growth remained very strong. In Europe, unemployment rose more than expected to 9.5% and industrial production fell for the twelfth consecutive month in April. The European Central Bank (ECB) kept interest rates on hold and heavily downgraded activity forecasts, predicting European gross domestic product (GDP) to decline by -4.5% in 2009. Despite the bad news, some more positive data results from Germany and France were among signs that the downturn has begun to moderate. The ECB also took decisive action by injecting over €442 billion into money markets in an attempt to increase liquidity in the system. The Bank of England (BoE) kept interest rates at 0.5%

Outlook: The global recession appears to be moderating. Monetary and fiscal easing seems to be gaining traction, pointing to a recovery commencing from later this year

Australian economy

Review: The Australian economy showed signs of resilience against the broader global economic downturn during June. In a surprise result, Australia avoided a technical recession by achieving positive growth during the March quarter. Later in the month, both the IMF and the OECD revised up their growth forecasts for Australia to show only a moderate contraction in 2009. The OECD's prediction of a -0.4% contraction for 2009 was the smallest fall predicted among OECD member countries. The Reserve Bank of Australia (RBA) left interest rates on hold in June but maintained its easing bias. Positive data during the month included retail sales which continued to show signs of solid growth. Business confidence rose and consumer confidence has

surged higher. Labour markets were also better than expected, although the unemployment rate rose to 5.8% in June. On the negative side, the National Australia Bank (NAB) business survey indicated that business conditions were still slipping. The trade balance also swung back into deficit reflecting lower iron ore and coal prices and sharp falls in rural exports, gold exports, and manufactured exports.

Outlook: The Australian economy is likely to remain weak or in recession ahead of a recovery from later this year and through 2010, driven by global improvement, lower interest rates and fiscal stimulus.

International shares

Review: The leading measure of global shares performance, the MSCI World (ex-Australia) Accumulation Index, returned -0.21% in local currencies (or -1.62% in unhedged Australian dollar terms). The US S&P 500 Accumulation Index returned +0.20%. In the European region, the Eurostoxx Accumulation Index returned -1.72%; while the UK FTSE 100 Accumulation Index returned -3.42%. Shares in Asia were higher as Japan's Topix Accumulation Index returned +3.45% and China's S&P/CITIC 300 Total Return Index returned +14.77%.

Short-term outlook [six to 12 months]: After the recent rebound, the next few months are likely to remain volatile given the uncertainty about the strength of an economic recovery. However, global shares are likely to provide good returns on a 12-month plus view, given the likelihood of better economic conditions in 2010 and still attractive valuations.

Medium-term outlook [five to ten years]: Improved dividend yields following the share slump and profit growth around nominal GDP growth will see medium-term returns from mainstream global shares of around 9% per annum on average.

Australian shares

Review: The Australian share market was volatile again over June. However, the S&P/ASX 200 Accumulation Index finished strongly, returning +4.00% for the month. Early in the month, the share market broke decisively through the 4000 level for the first time since November 2008. However, the market then retraced some of its gains due to uncertainty about the sustainability of the recovery.

Short-term outlook: The Australian share market is likely to remain volatile over the next few months. However, shares are likely to provide solid returns on a 12-month view. Valuations are attractive and interest rates are low, and shares are likely to anticipate better economic conditions in 2010.

Medium-term outlook: Reflecting much higher dividend yields and reasonable growth prospects, medium-term returns of around 11% per annum are likely.

Real Estate Investment Trusts

Review: The S&P/ASX Property 200 Accumulation Index returned +4.6% during June, outperforming the broader equity market. The listed property sector built further on the strong performance of April and May, although there continued to be a wide dispersion of returns.

Short-term outlook: With most property stocks having recapitalised and the credit crunch fading, real estate investment trusts (REITs) have probably seen the worst. They are also good value from a long-term perspective. As such they should provide solid returns over the next 12 months.

Medium-term outlook: Now solid yields and moderate growth prospects mean medium-term returns of around 12% per annum are likely.

International bonds

Review: International bonds were mixed in June. The US ten-year bond yield gained 7 basis points (bps) to 3.53%, but Japan's ten-year bond yield fell 13 bps to close May at 1.36%. In the European region, Germany's ten-year bond yield fell 20 bps to 3.39%; and the UK ten-year bond yield dropped 6 bps to close the month at 3.69%.

Short-term outlook: Sovereign bond yields may fall back in the short term on the back of the uncertainty about the strength of an economic recovery and falling inflation.

Medium-term outlook: AMP Capital expects low returns from global sovereign bonds, reflecting low bond yields.

Australian bonds and cash

Review: Australian bond yields rose further over June. Yields on the Australian ten-year bond rose 26 bps to 5.54%, and as a result the spread between Australian and US ten-year government debt widened to over 200 bps. The shorter dated maturities of the Australian market underperformed, with three-year bond yields rising 59bps to 4.66%, leading to a substantial flattening of the yield curve. Bank bill yields were relatively flat in June. The three-month bank bill rate was unchanged, opening and closing at 3.19%. However, six-month bank bill yields rose, opening at 3.22 and closing 9 bps higher at 3.31%. Credit spreads widened as General Motors declared bankruptcy and rating agencies downgraded Wells Fargo and monolines.

Short-term outlook: Bond yields may fall back in the short term on uncertainty regarding the growth outlook and as inflation falls.

Medium-term outlook: Returns from local bonds over the medium-term are likely to be poor, reflecting low yields.

Australian dollar

Review: The Australian dollar (A\$) was relatively flat during June, rising only slightly against the US dollar (US\$), the Japanese yen (JPY) and the currencies of Australia's major trading partners (as per the Trade Weighted Index [TWI]). The A\$ closed the month at 80.56US cents (up 0.3% from 80.31US cents) and JPY77.59 (up 1.4% from JPY76.51). The TWI closed the month at 64.7 (up 1.4% from 63.3).

Short-term outlook: The break higher in the A\$ has opened up the prospect of further gains in the A\$ over the next six months or so, on the back of the improving global growth and commodity outlook.

Medium-term outlook: AMP Capital expects the A\$ to be strong over the medium term, helped by strong commodity prices.

Key financial markets

	30 June 2009	Change in one month	Change in 12 months
S&P/ASX 200 Accumulation Index	27,054	+4.0%	-20.1%
MSCI World (ex-Aust Accumulation/unhedged in A\$)	3,167	-1.6%	-16.2%
US S&P 500 Accumulation Index	1,499	+0.2%	-26.2%
Dow Jones Eurostoxx Accumulation	343	-1.7%	-28.2%
UK FTSE 100 Accumulation Index	2,645	-3.4%	-20.9%
Japan Topix Accumulation Index	1,136	+3.5%	-28.1%
S&P/CITIC 300 Total Return Index	2,895	+14.8%	14.3%
S&P/ASX 200 Property Accum. Index	15,683	+4.6%	-42.3%
UBS Global Real Estate Investors Index	690	-3.1%	-44.9%
Aust 90-day bank bill yield	3.19%	flat	-465 bps
Aust 10-year bond yield	5.54%	+26 bps	-91 bps
US 10-year bond yield	3.53%	+7 bps	-44 bps
A\$ in US cents	80.56	+0.3%	-15.9%
Trade-weighted index	64.7	+2.2%	-11.9%

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