

## Weekly Market & Economic Update – week ending 5 March 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
US – Institute for Supply Management (ISM) manufacturing survey, February	index	56.5	58.4	↑
Australia – Retail sales, January	yoy	+3.0%	+2.1%	↔
Australia – Reserve Bank of Australia (RBA) cash rate, March	-	4.00%	3.75%	↑
US – Unemployment rate, February	-	9.7%	9.7%	↓
US – Consumer credit, January	US\$ billion	+5.0	-1.7	↔

### Financial markets

Indicator	Friday, 5 March 2010	Friday, 26 February 2010	Weekly change	5 March 2009	12-month change
S&P/ASX 200 Index	4,767	4,638	+2.8%	3,189	+49.5%
S&P/ASX 200 Property Trusts	887	870	+2.0%	593	+49.6%
US S&P 500	1,139	1,105	+3.1%	683	+66.8%
Dow Jones Eurostoxx	271	257	+5.4%	173	+56.6%
UK FTSE 100	5,600	5,355	+4.6%	3,530	+58.6%
Japan TOPIX	911	894	+1.9%	742	+22.8%
CITIC/S&P 300 China A	2,736	2,754	-0.7%	1,932	+41.6%
MSCI (ex-Aust/in LC)	842	814	+3.4%	551	+52.8%
Aust 90-day bank bill yield	4.21	4.13	+8 bps	3.32	+89 bps
Aust 10-year bond yield	5.47	5.41	+6 bps	4.26	+121 bps
US 10-year bond yield	3.68	3.61	+7 bps	2.82	+86 bps
Oil – West Texas Crude	US\$81.50	US\$79.66	+2.3%	US\$43.61	+86.9%
A\$ in US cents	US\$0.9076	US\$0.8961	+1.3%	US\$0.6382	+42.2%
TWI	70.2	69.5	+1.0%	55.1	+27.4%

### Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
9 March	Australia – National Australia Bank business conditions, February	index	+3	n/a
11 March	Australia – Unemployment rate, February	-	5.3%	5.3%
12 March	US – Trade balance, January	US\$ billion	-40.2	-41.0
13 March	US – Retail sales, January	mom	+0.5%	-0.2%
13 March	US – Business inventories, January	mom	-0.2%	+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

- The bear market low in shares is now a year ago, and what a turnaround it has been. A year ago the world was mired in pessimism, with many talking of a second Great Depression. However, one year down the track, although risks remain, the big surprise has been how quickly the world has turned around, helped of course by policy action by governments. From their low a year ago, US shares are up 68%, Australian shares are up 53% and Asian ex Japan shares are up 72%. Although these gains sound large, note that they are consistent with the severity of the 2007 to March 2009 bear market. Share markets are still 30% or so down from their 2007 record highs. Although gains will likely slow and become more volatile, improving profits are likely to underpin further gains in shares over the year ahead.
- Unsurprisingly, the RBA raised interest rates for a fourth time by 0.25%, taking the cash rate to 4.00%. The RBA's accompanying statement indicated that "it is appropriate for interest rates to be around average levels" and that the latest move "is a further step in that direction". This left the clear impression that more rate rises are still to come.

## Major global economic releases and implications

- US economic data was positive. The ISM manufacturing conditions index fell slightly, but remains consistent with reasonable growth. Meanwhile, the ISM non-manufacturing conditions index rose to its highest level since October 2007, weekly mortgage applications rose strongly, chain store sales rose more than expected in February, labour market reports continue to point to a gradual improvement in the labour market and the Federal Reserve's Beige Book said economic activity improved in nine districts. Although payroll employment fell in February, the negative impact of snowstorms appears to have masked a modest rise.
- Japanese economic data continued to come in better than expected, with a further drop in the unemployment rate, a rise in the ratio of jobs to applicants, and signs that business investment may be bottoming.
- Euro zone retail sales remained weak, but German factory orders surprisingly surged in January.
- In China, business conditions indices fell in February. Meanwhile, the Chinese Premier Wen Jiabao announced a continuation of the current policy stance, with a focus on reducing property speculation and further boosting health and social outlays to rebalance the economy towards more consumer spending. The Chinese Government remains focused on reining in areas of excess and rebalancing the economy, while maintaining overall strong growth.

## Australian economic releases and implications

- The relative strength in the Australian economy in 2009 was highlighted by December quarter 2009 GDP data growth of 0.9% and 2.7% for the year. Although the impact of fiscal stimulus is evident in strong public investment, private sector spending is also strong. Forward indicators for the economy point to a further acceleration in growth over the year ahead. Despite a fall in building approvals in January, the broad trend remains strongly up. Moreover, data for new home sales and retail sales rose solidly in January and trade data suggests the detraction in December quarter 2009 exports growth is likely to reverse in the current quarter.

## Major market moves

- Share markets rose strongly over the week due to easing concerns regarding Greece and reasonable economic data. This enabled investors to refocus on upwards revisions to earnings expectations, following mainly favorable profit reporting in most major regions.
- Major currencies were somewhat range bound, but the Australian dollar (A\$) and most commodity prices rose.

## What to watch in the week ahead?

- US data to watch in the week ahead includes the trade balance, retail sales and consumer sentiment. In Australia, data for housing finance, business and consumer confidence and employment will be released.

## Outlook for markets

- After a solid rebound in shares from their bear market low a year ago, the historical experience tells us that returns will likely be more constrained and volatile over the year ahead. We have certainly seen an increase in volatile choppy trading so far this year. However, the broad trend in shares is likely to remain up, underpinned by the continuing recovery in corporate profits, still low global interest rates, strong growth in the emerging world and plenty of cash sitting on the sidelines that can come into share markets. Our year-end target for the Australian All Ordinaries and ASX 200 indices remains 5,600.
- The ride for commodity prices and the A\$ will likely remain bumpy, but further gains are still likely this year given global economic growth will likely 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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