

Weekly Market & Economic Update – week ending 12 February 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – ANZ job advertisements, December	mom	+6.0	+5.2%	↑
US – Trade balance, December	US\$ billion	-40.2	-36.4	↑
Australia – Unemployment rate, January	-	5.3%	5.5%	↓
US – Business inventories, December	mom	-0.2%	+0.4%	↓
US – Retail sales, January	mom	+0.5%	-0.3%	↑

Financial markets

Indicator	Friday, 12 February 2010	Friday, 5 February 2010	Weekly change	12 February 2009	12-month change
S&P/ASX 200 Index	4562	4,514	+1.1%	3514	+29.8%
S&P/ASX 200 Property Trusts	866	872	-0.7%	726	+19.3%
US S&P 500	1076	1,066	+0.9%	835	+28.9%
Dow Jones Eurostoxx	252	249	+1.2%	206	+22.3%
UK FTSE 100	5143	5,061	+1.6%	4202	+22.4%
Japan TOPIX	892	892	flat	760	+17.4%
CITIC/S&P 300 China A	2728	2,646	+3.1%	1949	+40.0%
MSCI (ex-Aust/in LC)	796	787	+1.1%	633	+25.8%
Aust 90-day bank bill yield	4.21	4.12	+9 bps	3.15	+106 bps
Aust 10-year bond yield	5.50	5.40	+10 bps	4.21	+129 bps
US 10-year bond yield	3.69	3.57	+12 bps	2.79	+90 bps
Oil – West Texas Crude	US\$74.13	US\$71.19	+4.1%	US\$33.98	+118.2%
A\$ in US cents	US0.8877	US\$0.8685	+2.2%	US\$0.6526	+36.0%
TWI	69.3	67.7	+2.4%	54.4	+27.4

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
18 February	US – Housing starts, January	-	557,000	580,000
18 February	US – Industrial production, January	mom	+0.6%	+0.8%
18 February	Australia – NAB business confidence, December quarter	index	+16	n/a
18 February	Australia – Customs imports, January	mom	+7%	n/a
19 February	US – Production price index (PPI), January	mom	+0.2%	+0.8%

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

Headline developments of the past week

- Sovereign debt fears abated a bit over the last week as the European Union (EU) pledged support for Greece. While no concrete rescue plan was announced, the EU's commitment to take action if needed to safeguard stability implies that it stands ready to provide financial assistance to calm financial markets. While Greece is not off the hook in terms of the need to reduce its budget deficit, it is clear that the EU will stand by Greece's side to ensure that its borrowing costs do not become exorbitant and that the crisis does not spread to other European countries and threaten the Euro.
- US Federal Reserve (Fed) Chairman Ben Bernanke outlined a possible roadmap the Fed might follow at the appropriate time to unwind the support and stimulus the central bank has pumped into the economy. However, Bernanke stressed that exceptionally low interest rates are likely to remain warranted for an extended period.
- The news on profits has remained very positive. So far, 72% of US companies have beaten profit expectations, 68% have beaten revenue expectations, and outlook comments have been upbeat. Further, 60% of European companies have exceeded earnings and revenue expectations. In Asia, while only a quarter of companies have reported, consensus 2010 earnings estimates have been revised up by nearly 6%.
- The Australian profit reporting season has so far proven to be very strong. While it is still early days, 20 of the 25 major companies to have reported so far have seen their results beat expectations, outlook statements have generally been positive, consistent with a continuing recovery, and dividends have been increasing again. The results so far provide confidence that profits will grow 20% or so over the year ahead.

Major global economic releases and implications

- US data releases were generally positive. Retail sales rose more than expected in January, small business optimism index rose modestly, and unemployment claims fell sharply. Business inventories continued to fall in December, which suggests that production is still running well below underlying demand.
- Europe is proving to be a key laggard in the global economic recovery with gross domestic product (GDP) growth of just 0.1% in the December quarter last year.
- Chinese economic data for January remained strong. Both exports and imports are continuing to recover. Loan growth remained very strong. Importantly, a fall in inflation to 1.5% year-on-year (yoy), reflecting a moderation in food prices, provides some confidence that inflation is not getting out of control. As part of a continuing effort to cool credit growth and head off higher inflation, the People's Bank of China announced another increase in the reserve requirement of banks.
- Economic data across Asia remains robust with Indonesian GDP up 5.4% through the year to the

December last year, Taiwanese exports up 76% yoy, Malaysian exports up 19% yoy and Malaysian industrial production up 9% yoy.

Australian economic releases and implications

- Australian economic data was mixed. Housing finance fell for the third month in a row, and consumer confidence fell slightly. Against this however, housing finance was up 20% from year ago levels, and consumer confidence remains at very high levels. Most importantly, employment rose for the fifth month in a row, pushing the unemployment rate down to 5.3%.

Major market moves

- After four weeks of falls shares rose helped by some abatement in European sovereign debt worries, solid earnings news and reasonable economic data.
- The improvement in investor confidence in shares also spilled over into commodity prices which rose, and into the Australian dollar (A\$) which was also boosted by firming expectations for a March interest rate hike on the back of strong December employment data.

What to watch in the week ahead?

- In the US, data for inflation, housing starts, a survey of home builders, industrial production and a couple of business surveys will be released.
- In Australia, the minutes from the Reserve Bank of Australia's (RBA) last meeting and testimony to the House of Representatives Economics Committee by Governor Stevens are likely to shed more light on the RBA's decision to leave interest rates on hold in February, but also leave the clear impression that more interest rate hikes are likely. The profit reporting season in Australia will roll on.

Outlook for markets

- While the correction in share markets may not be over, the odds are that we have either seen or come very close to the low. With the EU standing behind Greece, Chinese economic growth likely to remain strong, share market valuations having fallen back into cheap territory, profit reports coming in on the strong side and pointing to solid profit growth ahead, and interest rates likely to remain relatively low, the rising trend in shares is likely to resume fairly soon. In other words, the correction since mid-January should be seen as providing a good buying opportunity for investors.
- The same goes for commodity prices and the A\$, where further gains are likely this year. The continued strength in the Australian labour market is pointing to a further widening in the interest differential between Australia and the US, which is very positive for the A\$.
- 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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