

## Weekly Market & Economic Update – week ending 30 July 2010



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Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
China – Leading index, June	index	102.84	103.44	↓
US – Consumer confidence, July	index	50.4	52.9	↔
Australia – Producer price index, June	yoy	1.0%	-0.1%	↑
Australia – Consumer Price Index, June	yoy	3.1%	2.9%	↔
US – Durable goods orders, June	mom	-1.0%	-1.1%	↔

### Financial markets

Indicator	Friday, 30 July 2010	Friday, 23 July 2010	Weekly change	30 July 2009	12-month change
S&P/ASX 200 Index	4,542	4,458	+1.9%	4,190	+8.4%
S&P/ASX 200 Property Trusts	865	867	-0.3%	766	+12.9%
US S&P 500	1,126	1,103	+2.1%	987	+14.1%
Dow Jones Eurostoxx	269	261	+3.1%	245	+9.9%
UK FTSE 100	5,397	5,313	+1.6%	4,632	+16.5%
Japan TOPIX	851	841	+1.1%	937	-9.2%
CITIC/S&P 300 China A	2,461	2,351	+4.6%	3,003	-18.1%
MSCI (ex-Aust/in LC)	807	807	0.0%	737	+9.5%
Aust 90-day bank bill yield	4.78%	4.83%	-5 bps	3.18%	+160 bps
Aust 10-year bond yield	5.18%	5.2%	-2 bps	5.58%	-40 bps
US 10-year bond yield	2.96%	2.99%	-3 bps	3.61%	-65 bps
Oil – West Texas Crude	US\$81.34	US\$78.73	+3.3%	US\$66.94	+21.5%
A\$ in US cents	US\$0.9127	US\$0.8937	+2.1%	US\$0.8245	+10.7%
TWI	69.4	69.3	+0.1%	65.2	+6.4%

### Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
3 August	Australia – Retail sales, June	mom	+0.2%	+0.4%
3 August	Australia – Reserve Bank of Australia cash rate decision, August	-	4.5%	4.5%
4 August	US – MBA Mortgage applications	weekly	-4.4%	n/a
6 August	Japan – Leading index, June	index	98.6	98.7
6 August	US – Unemployment rate, July	-	9.5%	9.6%

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

## Headline developments of the past week

- Although US earnings results softened in the last week they were still strong, with 77% of companies to have reported so far exceeding expectations. While cost control has played a big role, 67% of companies surprised on the upside in terms of revenue growth. In Europe, 60% of companies to report so far exceeded earnings expectations and 69% exceeded revenue expectations.
- Benign inflation in Australia has silenced talk of an interest rate rise in the middle of the federal election campaign. The increase in tobacco excise along with higher prices for petrol, health and rents boosted headline inflation to an annual rate of 3.1%. However, this was offset by general price weakness which pushed underlying inflation down to its lowest level in three years at 2.7%. The lagged impact of the growth downturn in 2008, spare capacity globally, the strong Australian dollar (A\$) and consumer frugality have combined to keep overall price rises down.

## Major global economic releases and implications

- US gross domestic product (GDP) growth slowed as expected to 2.4% annualised in the June quarter, but this was mainly due to higher imports, with domestic demand actually picking up. March quarter growth was revised up as was the savings rate which suggests that US consumers may be in better shape than previously thought. Other data was mixed. Consumer confidence fell further in July and the Federal Reserve's Beige Book hinted at a slight loss of momentum in the US economy. On the other hand, house prices continued to rise in May, new home sales rose in June, new mortgage applications rose for the second week in a row, weekly unemployment claims fell and underlying capital goods orders rose further in June. Although US economic growth has slowed, the US doesn't appear to be headed back into recession.
- The European Central Bank's bank lending survey showed a tightening of lending standards in the second quarter and unemployment remained at 10% in June. However, measures of business and consumer sentiment rose to new recovery highs in July.

## Australian economic releases and implications

- Soft data for private credit growth and a 0.7% fall in capital city house prices according to RP Data-Rismark reinforce the case for Australian interest rates to remain on hold. It is now clear that six interest rate hikes and a sharp fall in affordability have brought to an end to the recent surge in house prices.

## Major market moves

- Share markets were little changed in the US and Europe with some softer earnings reports and economic data weighing on markets later in the week. The Chinese share market saw strong gains due to expectations of policy easing in the months ahead.
- Australian shares rose, helped by bank stocks and benign inflation data.
- The A\$ rose, helped by a falling US dollar and strong commodity prices.

## What to watch in the week ahead?

- In the US, the key ISM business conditions indices and payroll employment data for July will be the focus.
- In Australia, the RBA is almost certain to leave interest rates on hold with the benign June quarter inflation reading giving it time to better assess the outlook for the global and Australian economies.
- The Australian June half profit reporting season will commence. Key themes from the reporting season are expected to be: a return to profit growth after the slump in financial year 2008-09; a possible increase in dividends due to improved cash flows, balance sheets and financing conditions; a negative impact on earnings for European-exposed companies from the strong rise in the A\$ versus the euro; and possible caution regarding the outlook for earnings in 2010-11.

## Outlook for markets

- The very-short-term outlook for shares is mixed. Strong profit results in the US and Europe have provided a lift and the coming Australian profit reporting season may provide a similar lift for Australian shares. Against this, double dip concerns are likely to persist and we may still see more weakness into the seasonally weak months of September and October. We remain of the view that a double-dip recession globally will be avoided and with shares now very good value, monetary conditions set to remain favourable and China likely to relax its tightening measures in the next few months, shares are likely to stage a strong rally in the December quarter and through 2011.
- The A\$ is likely to remain volatile in the short term, with double dip fears persisting and the next interest rate rise delayed. But the A\$ should rise on a six to 12 month horizon as the global recovery continues, commodity prices remain strong and Australian interest rates remain well above global rates.
- Low yields point to poor medium-term returns from government bonds, particularly given worries about excessive public debt and as the latest bout of investor risk aversion abates.

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