

Weekly Market & Economic Update – week ending 26 June 2009



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Economic data and events

Data/Event	Units*	Movement		Trend
		LATEST	PREVIOUS	
Australia – New motor-vehicle sales, May	mom	+5.4%	+1.7% (revised from +0.9%)	↔
US – Durable goods orders, May	mom	+1.8%	+1.8% (revised from +1.9%)	↔
US – New homes sales, May	-	342,000	344,000 (revised from 352,000)	↓
US – Federal Reserve interest rate decision, May	-	0.00%-0.25%	0.00%-0.25%	↔
US – Existing home sales, May	-	4,770,000	4,660,000	↑

Financial markets

Indicator	Friday, 26 June 2009	Friday, 19 June 2009	Weekly change	26 June 2008	12-month change
S&P/ASX 200 Accumulation Index	26,704	26,621	+0.3%	34,470	-22.5%
S&P/ASX 200 Property Trusts	743	733	+1.4%	1,501	-50.5%
US S&P 500	919	921	-0.2%	1,283	-28.4%
Dow Jones Eurostoxx	221	225	-1.8%	323	-31.6%
UK FTSE 100	4,241	4,346	-2.4%	5,518	-23.1%
Japan TOPIX	927	919	+0.9%	1,345	-31.1%
CITIC/S&P 300 China A	2,593	2,561	+1.2%	2,472	+4.9%
MSCI (ex-Aust/in LC)	697	700	-0.4%	1,000	-30.3%
Aust 90-day bank bill yield	3.24	3.24	flat	7.77	-453 bps
Aust 10-year bond yield	5.58	5.86	-28 bps	6.51	-93 bps
US 10-year bond yield	3.54	3.78	-24 bps	4.03	-49 bps
Oil – West Texas Crude	US\$69.16	US\$69.55	-0.6%	US\$139.64	-50.5%
A\$ in US cents	US\$0.8063	US\$0.8032	+0.4%	US\$0.9553	-15.6%
TWI	64.4	64.4	flat	73.4	-12.3%

Major upcoming global economic releases and events

Date	Data/Event	Units*	Previous	Market Forecast
30 June	Australia – Housing Industry Association (HIA) new home sales, May	mom	+0.5%	na
1 July	Australia – Nominal retail sales, May	mom	+0.3%	na
2 July	US – Institute of Supply Management (ISM) survey, June	index	42.8	44.0
2 July	Australia – Trade balance, May	A\$	-91,000,000	na
2 July	US – Unemployment rate, June	-	9.4%	9.6%

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

Headline developments of the past week

- While the World Bank belatedly downgraded its 2009 global growth forecast, it indicated the worst of the economic crisis is over. The OECD and IMF are now revising up their growth forecasts. The OECD upgraded its world growth forecast for this year from -2.7% to -2.2% and doubled its forecast for next year.
- The US Federal Reserve (Fed) left interest rates on hold, as expected, indicating it was more positive on the economic outlook and less concerned about deflation. However, there is nothing in the Fed's statement to support current market expectations for interest rate hikes later this year. Rising unemployment and significant excess capacity mean inflation will remain down and out well into the economic recovery.

Major global economic releases and implications

- US economic data remains consistent with a slowing in the rate of contraction in the economy and a return to growth by year-end. Home sales appear to be bottoming and the rate of decline in house prices is showing signs of slowing. Mortgage applications also rose in the last week and a fall back in US mortgage rates is good news. The Richmond Fed's business survey rose further, as did durable goods orders and consumer sentiment. Personal spending also rose in May, but fiscal stimulus payments boosted household income by more (pushing the household savings rate to a 15-year high of 6.9%). So far it looks like second quarter growth contracted by an annualised 1.5% from contractions of circa 6% in the December and March quarters. We expect a return to positive growth in the December quarter this year.
- Euro-zone industrial orders fell in April, but various European business and consumer confidence measures improved further in June.
- Japanese consumer prices continued to fall and exports came in weaker than expected in May, although the trend is still consistent with an improvement. Positively, a tertiary industry activity survey rose in April and manufacturers' confidence improved.
- Chinese electricity production appears to be running above year ago levels so far this month, providing more support to China's recovery. Additionally, Chinese new loans appear to have surged higher again in June.

Australian economic releases and implications

- In Australia, new motor vehicle sales for May surged ahead for the second consecutive month, after falls in eight of the nine months prior to April.
- The OECD and IMF have both forecasted just a modest contraction in Australia's economic activity this year,

ahead of a recovery next year, and indicated there's still scope to cut interest rates further in Australia if need be. The OECD's forecast for a -0.4% contraction in Australia this year is the smallest fall predicted for an OECD member country and compares to a forecast average 4.1% slump in OECD countries as a whole.

Major market moves

- Shares had a choppy week, slumping early on before recovering on better economic indicators and news that the Fed will extend some lending facilities. While European shares were down for the week, US shares were virtually flat and Asian and Australian shares rose.
- The Australian dollar (A\$) started the week on a soft note due to global growth outlook concerns, which put pressure on commodity prices. However, commodity prices and the A\$ recovered on better economic data.
- Fortunately, bond yields fell as it became increasingly obvious inflation is benign and central banks will not be raising interest rates anytime soon. Lower bond yields should lead to a decline in fixed mortgage rates.

What to watch in the week ahead?

- In the US, the focus is likely to be on the ISM manufacturing survey and labour market data.
- In Australia, data for new home sales, private sector credit, retail trade, building approvals, skilled vacancies and the trade balance will be released. Building approvals will likely show a further gain (reflecting recent housing finance strength) and retail sales are likely to rise due to stimulus payments to households.

Outlook for markets

- Shares are still in correction mode and this may continue as shares digest their gains since early March and investors wait for more confirmation that recovery is on track. After two terrible financial years, shares are likely to rise over the financial year ahead due to their attractiveness relative to low yielding cash and bonds. Also, an economic recovery from later this year is likely to underpin an eventual improvement in profits which should help drive further gains in shares. Finally, most investors are still underweight shares so there is a lot of cash available that can come into the market.
- Bond yields are likely to fall in the short term as inflation continues to decline and interest rates remain low. The medium-term return potential from bonds is very poor.
- The A\$, like commodity prices and shares, is going through a period of correction which may have further to run as investors wait for fundamentals to catch up to earlier gains. The broad trend in the A\$ is likely to remain up on strengthening commodity prices and a resurgence in carry trades.

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