

Transcript of Chris Caton's Markets Update – 31 January 2011

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Chris Caton:

Good morning, this is Chris Caton, the Chief Economist of BT Financial Group. It's Monday the 31st day of January and this is my market report for trading offshore for the Friday session and that is on the 28th, and it was a big day in the market but not a good day. Markets were down pretty much all over the place. Beginning the US – I'm sorry, beginning in Europe the FTSE fell by 1.4%, the German market by 7/10ths of a percent. Over in the US the market opened close to square but just tumbled all day.

At the end of the session the Dow was down by 1.4% and the S&P down by 1.8%. This negative move was enough to mean that the US market was down for the week, the Dow I think down by about 4/10ths and the S&P down by about 6/10ths of a percent, and that's the second down week in a row for the S&P although that comes after seven up weeks.

So for the month of January to date the market is still up around 1.5% and as a general rule – oh, statistically – it has been the case historically that if the US market is up in January there's a 75% or more chance that it's going to be up as the year for a whole. That's what the history says and past performance of course never a perfect indicator. So what caused this?

Well the answer, and I don't think I've ever used this phrase before, markets fell because of concern about Egypt. You would have heard about this over the weekend of course. There was a good deal of anti-government rioting going on in Egypt. They've finally tired of the bloke who's been president since Sadat was assassinated in the early 80s, Mr Mubarak, and this – well, why does this make share markets around the world fall?

I guess because when worries about Egypt means well maybe the Suez Canal will be closed, and if the Suez Canal is closed then you can't get the oil out, at least you can't get it out as quickly as you otherwise would and so, well markets as I said fell all over the world. My opinion, that's probably a pyramid scheme or two behind this.

This almost certainly means the Australian market will be off to a poor start on Monday, although it will depend on people have evaluated what's happened in Egypt over the course of the weekend but I can't see it's helped all that much, and when I last saw it, the SPI was down by about 1%, and incidentally while we're on the topic of Australia, the currency's still sitting around 99.5 US cents.

Coming up in the week ahead we get actually quite a bit of Australian data including building approvals and including house prices, and I think also, yeah, the balance on goods and services for the month of December which we've been running a significant surplus lately. That surplus will begin to reduce because coal exports will have been affected in December.

In the US it's a busy, busy, busy week for data. They get – among other things they get the manufacturing and non-manufacturing [isms 0:03:14.8] surveys of activity in both the manufacturing

and service sectors of the economy. They get construction spending for December, they get consumer spending for December, but most importantly on Friday they get the employment report for the month of January.

Now the US has been growing jobs for some times and it probably did increase jobs again in December – I'm sorry, in January, but there were massive snowstorms during the employment week in January and it may be that holds down the job gain, but the market's looking for about 150,000 more jobs. In the month of December the unemployment rate fell hugely from 9.8% to 9.4%.

Was that a statistical fluke, was it not? We'll get something of an answer when we get the January figure. Expect unemployment to bounce up to 9.6%. So there's a fair bit of economic data this week but earnings will continue to be – well, the market this week is – it's the three Es. It's Egypt, it's earnings and it's employment that will drive the US market and hence us.

I may be back with you tomorrow morning or my colleague may be back. Not sure at this stage. If I am, I will speaking to you before the market closes because I've got another airport to get to but have a good day and have a good start to the week and one of us will talk to you again tomorrow morning. Thank you for listening.

END OF TRANSCRIPT