Transcript of Chris Caton's Markets Update – 15 February 2011

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Chris Caton:

Good morning, this is Chris Caton, chief economist at BT Financial Group. It's Tuesday 15 February and this is my market report for trading offshore for the Valentine's Day session, that is the Monday session, 14 February.

It was a non-descript night. Europe was close to flat, in fact that's where the FTSE finished and the German market was up by three-tenths and over in the US a broadly similar result; the Dow flat for the night and the S&P up by just two-tenths of a percent.

No economic news at all driving this and no more news about Mubarak and his billions of dollars, although I saw one story which says maybe he's the word's richest man now which, obviously being a president for 29 years or thereabouts, it must be a well paid job. I'm sure there was no hanky-panky involved in that accumulation of wealth.

But back to the markets; there wasn't much US data flow, in fact close to none. The one thing the market did have to absorb is that President Obama submitted his budget for the coming year and with the plans for future years to Congress. It starts with a projected deficit of US$1.6 trillion for the current fiscal year, that's about 11% of GDP. Then it improves, so much so that in fiscal 2015, so that would be about four years from now, the deficit's all the way down to just US$600 billion. Then if anything it tends to go back out again.

The US is looking at deficits as far as the eye can see, no easy way to fix this. Fixing a deficit requires you to cut spending and there's always somebody that doesn't want you to do that for a particular program or raise taxes and there are lots of people who don't want to do that.

The measures outlined in this budget actually reduce the cumulative deficits by more than a trillion dollars over the next decade. But that's less than 10% of the cumulative deficit over that period of time. So there is some angst in there to bring the deficit down. A freeze on discretionary spending for the next five years, for example, but it's a long road, a long fiscal road, that the US has to hoe to get the deficit down.

Of course, as the years go by, the promises they have made to their social security recipients will push the deficit out further. But anyway, the market absorbed that, absorbed a bit of fresh mergers and acquisitions news and said, yeah we think we'll be close to flat for the session.

That's probably the signal that it will give to the Australian market. The SPI for the Australian market, when last I saw it, was essentially as flat as it can be. So we should have a quiet session today. There's quite a bit of economic news in the US tonight, so it may be a different story there and they get a fair bit of real sector data this month which will show growth in that economy is holding up quite well.

One last thing, the currency, the Australian dollar right now sitting at US$1.003. So that's it, a quiet session and doesn't presage much for the Australian market today. My colleague will be back with you tomorrow morning and Thursday morning while I negotiate the road to Toowoomba and I'll be back with you again on Friday morning. Have a good day and thank you for listening.

END OF TRANSCRIPT