

## **Transcript of Chris Caton's Markets Update – 28 February 2011**

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**Chris Caton:**

Good morning, this is Chris Caton, the chief economist of BT Financial Group. It's Monday 28 February and this is my market report for trading offshore for the Friday session, that is for the 25<sup>th</sup>.

It was the best day of the week, no question about that. Overseas markets rose. In Europe, the FTSE was up by 1.4%, the German market was up by eight-tenths. That mood carried over into the US and the S&P rose by 1.1% and the Dow by one half of a percent.

The most substantial update of the week, but it wasn't enough to get the markets back into positive territory, for the week. For the week, the Dow fell by 2.1% and the S&P by 1.7%. We all know what's going on here, concern about Libya, concern about where that goes next, concern about what it may mean for the flow of oil from the Middle East. Concern about what higher oil prices might mean for economic activity in the developed countries of the world and also, I should say, in the developing world. The oil price in fact subsided slightly on Friday and that's all the excuse markets needed to take back some of the losses they had incurred earlier in the week.

There was no new economic data to fuel the US, well no economic data - there certainly wasn't enough. The US did get its first revision to GDP growth in the fourth quarter of last year and somewhat surprisingly that was downward. Previously it was reported that GDP had grown at an annualised rate of 3.2% in that quarter. That number is now 2.8; slight downward revision to consumer spending, although that's still strong and to state and local spending in particular.

But the US economy and I know I've said this time and time again, still in moderate recovery, still in durable recovery.

There was one other piece of news which was quite interesting. There is a measure of consumer sentiment that's put out by the University of Michigan and it rose sharply in the month of February. What's interesting about that is consumers don't usually get more perky, shall we say, in the month of February for whatever reason, could be the weather. It's the first time this measure of consumer sentiment has risen in February since 1999. So I guess consumers are in fact partying as if it's 1999.

The Conference Board Measure and that's another measure of confidence for the month had already shown a rise, so obviously consumers in the US getting a bit more happy about what's going on there.

Now coming up on the week ahead, well it looks as if the Australian market will have a positive start on Monday, but coming up in the week ahead, just a mass of data both overseas and in Australia. In Australia we get some partials on Monday and Tuesday that lead to our GDP estimate for the fourth quarter. That comes out on Wednesday, a gain of about half a percent expected in the quarter. That will be held down, of course, with some of the extreme weather, but we're still expected to show growth.

It isn't just the partials and GDP, we also get retail trade for January, we get building approvals for January; of course all of the data for January is likely to show to have a very high noise to signal ratio because of the extreme weather in that month. So it will be difficult to figure out whether it's good or bad or just indifferent.

Also on Tuesday of course the Reserve Bank meets and decides whether or not and will make a decision. Nobody thinks we're going to raise rates in the month of March and neither do I.

Meanwhile, back in the US, it's a big week for data there. They get consumer spending for January, construction spending for January, the so-called national ISM survey of purchasing managers. All of these have the potential to be market movers, but the most important thing comes out on Friday, that's the jobs report for the month of February of course. It could be the best one for some time. It's generally believed that private sector employment could grow by more than 200,000 in the month.

It will almost certainly be the biggest gain since April of last year and it doesn't have to get too much over the 200,000 to be the biggest monthly gain in about five years. So markets in the US provide - the economics is supported. It's the geopolitics, if you like, right now that are not and who knows where they're going.

Pay no attention, incidentally, to the rumour that Muammar al-Gaddafi will be replaced, succeeded that is, by his idiot son, Muammar W Gaddafi, not true, I'm told.

So that's it from me. Have a good day and a good week and I'll be back with you again tomorrow morning. Thank you for listening.

**END OF TRANSCRIPT**