

## **Transcript of Chris Caton's Markets Update – 11 April 2011**

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**Chris Caton:**

Good morning. This is Chris Caton, the chief economist at BT Financial Group. It's Monday, 11 April. And this is my market report for trading offshore for the Friday session, that is for 8 April.

And it was - well markets, particularly the US market hasn't done much all week, has it? And it didn't do much on Friday either. It meandered around. At the end of the session, the Dow was supposed to favour the S&P. It was done by 0.4%. And then, believe it or not, that was pretty much the weekly result too. For the week, the Dow flat and the S&P down by 0.3%.

No economic news to drive the market on Friday. It's very hard to get excited about wholesale inventories. And that's all they got. There was some speculation that the softness of the market was because the oil price had gone up again. I'll leave you to be the best judge of that.

The news, which ultimately turned out to be the non-news on Friday of course, was the possible shutdown of the United States Federal Government. This would have come about because the Republicans and the Democrats in Congress have so far found themselves unable to agree on the fiscal year 2011 budget. Now bear in mind, this is not the one Obama proposed a couple of months ago. It's the one he proposed 14 months ago. And I guess they hit some kind of deadline on Friday. And, as I said, the market - the Government would have gone into shutdown mode. But literally at the eleventh hour, about an hour before the midnight deadline, agreement was reached. And so that particular thing has been avoided.

There is a bigger issue that looms in the near future. By about mid-May, if not earlier, the US Government will set its federal debt ceiling, which means it can't issue any more debt. And that is actually a greater financial market consequence than a government shutdown. And they've still got to sort that out. So there are still developments to come here.

If the Government had shutdown, something like 800,000 public servants would have been furloughed, that's about 36% of Federal Government employment. What happens is the essential activity continues, but non-essential activity stops. So national parks would have been closed. Tax refunds would not have been sent, although people sending in their tax payments would have found them cashed. And in particular also, the flow of economic statistics would have stopped.

But all of that's been averted. Even if it had taken place, and I'm really only talking about the S&P because this can happen again in the future and the debt ceiling for us is all part and parcel of the same thing. If this had taken place, financial market effects are always less than you may think. Well we've got a precedent of course. In late '95, on two occasions, once in November and once over the new year, the Federal Government went into shutdown mode. Certainly share market activity, share market behaviour, that - well it really acted as if it didn't notice it at all. And this would not have been an event anyway, but in any case it's not going to happen.

The S&P futures index for Monday morning, down about 11 points. So we'll see how we go there. And the Australian dollar - I can't believe this - 1.056 US cents. This is getting ludicrous. It's going to come down one day, be it - it's being held up by interest rate differentials and by commodity prices. But those things don't necessarily have to turn for the currency to come down. Gravity, gravity should be enough to do it. I've said this before and I'll say it again. Right now, the rest of the world is on sale for Australian travellers, online shoppers and investors. So get out there and spend.

My colleague will be bringing this market report for the rest of this week while I journey to the wilds of Perth. Have a good day. Have a good week. And I'll be back with you on the weekend. Thank you very much for listening.

**END OF TRANSCRIPT**