

Transcript of Chris Caton's Markets Update – 18 May 2011

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Chris Caton:

Good morning this is Chris Caton, Chief Economist at BT Financial Group. It's Wednesday 18 May 2011 and this is my report for trading offshore for the Tuesday session that is on 17 May 2011. Another softish night more so in Europe than in the United States. In Europe the FTSE fell by just a bit over 1% in the session and the German market down by 1.8. Presumably this is just ongoing ennui if you like about events there particularly the situation in Greece and to a lesser extent Portugal and Ireland.

The US market had a softish night as I said but the S&P actually finished flat for the session and the Dow was down by a half a per cent. Now that's a big difference for the two but one of the reasons for that is that there were two main reasons for the market softness. One was some soft economic data, housing starts for example in the month of April surprisingly were shown as falling by 10%. This doesn't mean renewed weakness so much, it just means prolonged bouncing along the bottom which that starts figure has been doing for an extraordinarily more than two years.

The other piece of important economic data was also in the week that industrial production was flat in the month of April and the previous two months were revised down. So you take a big fall in housing starts and weak industrial production and this adds to the concern that the US is in a real flat spot right now.

Now of course there were special factors in industrial production, we knew this was going to happen. The production in the motor vehicle industry fell by around 9% and that's primarily due to part shortages and that is primarily due to Japan. So that, you know some of the weakness can be readily explained. Now the other reason for the big fall and the reason why it's more pronounced in the Dow than in the S&P is because Hewlett Packard, a big company obviously and in the Dow, also in the S&P but it's only one of 500 stocks there and it's one of 30 in the Dow, Hewlett Packard announced relatively good earnings but gave downward guidance to future earnings because of well lower PC demand than previously expected.

So that stock in particular weak and it was the biggest percentage loser in the S&P 500 and you know that dragged the Dow down more than the S&P. So this - since our tech sector is relatively small I don't see this as being a big negative lead for the Australian market. So we had a strong afternoon yesterday and possibly that can continue, we'll just have to see. Australia gets a wage cost index today, something that is pretty important bearing in mind the emphasis on inflation and put by the RBA earlier in the month. So that could be an important, or certainly mover in terms of how people think about a possible interest rate rise in the month of June.

That's ahead of us however, the Australian dollar as I speak around about US\$1.061. My colleague will be filling in for me tomorrow morning and I will be back with you on Friday morning. Have a great day and thank you for listening.

END OF TRANSCRIPT