

## Transcript of Chris Caton's Markets Update – 30 May 2011

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### Chris Caton:

Good morning, this is Chris Caton, the chief economist at BT Financial Group. It's Monday, 30 May and this is my market report for trading in overseas markets in last Friday's session, that is, on the 27<sup>th</sup>.

It wasn't a bad session. In Europe the FTSE rose by 1% and the German market was up by 0.7%. One of the factors here was there were positive comments regarding the global economy and from the Group of Eight meeting in Deauville in France. So that got Europe off to a reasonably good start. The mood continued in the US and for the session the Dow Jones rose by 0.3% and the S&P by 0.4%. That meant for the week the Dow Jones was down about 0.6% and the S&P down 0.1% or 0.2% which was a bad result considering the big fall with which both indexes began the week.

There was some economic news for the US market to digest on Friday. They got consumer spending news for the month of April which was not strong and suggests that consumers still sitting on their wallets and unlikely to increase their real spending by much more than 2% annual rate in the second quarter. It's early of course, so that was an April reading.

Consumer sentiment, however, in the month of May rose quite strongly. This is an index that comes from the University of Michigan. The first half of the month it was a bit over 72, for the month as a whole, it was over 74 and that was a big change and suggests that consumers definitely got happier in the second half of the month.

One piece of extremely lacklustre news, pending home sales fell by more than 11% in the month of April. Again, this weakness probably exaggerated by the floods in the mid west and also by the tornados that ripped through the south during the month. But nevertheless, one more sign nothing's going on in housing.

The US market is closed on Monday and among other things, that means there will be no market report tomorrow morning, Tuesday. Then the rest of the week, there's a barrage of data. It's ISM week, the week where the purchasing managers indexes are released, first for Chicago and then for the nation - manufacturing, then for the nation, non-manufacturing. These indexes taken together will show just how much, if at all, the Japanese situation has slowed the US economy.

The US also gets construction data, but most importantly, on Friday night, they'll get their employment report for the month of May. An employment gain of close to 200,000 is expected again. There's room for disappointment; there's also room to be surprised on the upside and the market will be sensitive to that, not matter which direction it goes.

So it's a reasonably heavy week for US economic data and this week it may make a difference. It's also a heavy week in Australia because we get a number of partial indicators Monday and Tuesday leading up to the GDP release on Wednesday. This is likely to show a fall in GDP in the first quarter and the reason for that of course is primarily a drop in coal exports as a result of the flooding in Queensland. So nobody will be surprised and it certainly isn't a sign that the Australian economy isn't in any sense fundamentally weak.

So we've got that to look forward to, in the meantime on the currencies, the news coming out of the Group of Eight summit seems to have pushed the euro up against the dollar, so the dollar fell quite significantly on the day, this is the big dollar, the US dollar. That pushed the Australian dollar up and we're now sitting somewhere close to US\$1.07.

So that's it, a reasonably good end to a close to flat week, but at one stage during the week the S&P index was down a full 3.5% from its recent peak in late April, but it's slowing clawing back. It will be an interesting week, as I said, on the data front in the US. As I said, no report tomorrow morning. I will be back with you again on Wednesday morning. Thank you for listening and have a good couple of days.

**END OF TRANSCRIPT**