

## GLOBAL MARKET UPDATE

THE WEEK AHEAD IN BUSINESS AND FINANCE

19 July 2010

### **Week ahead: Corporate earnings; words of wisdom from banking regulators to hold the key**

It will be a big week for corporate earnings reports, with 139 US companies including IBM, Yahoo, Microsoft, Goldman Sachs, Apple and Ford Motor due to report second quarter earnings. Earnings sentiment was dealt a blow on Friday after some key results fell short of expectations and comments from some banks showed concerns over earnings growth in the period ahead. This weighed on the broader market resulting in a near 3% sell down on Friday's trading session.

Four major housing indicators will be released on the US housing sector this week. Housing starts data for June will be released tonight. Housing starts dropped 10% (including a 17% drop in single-family houses) in May after the deadline for the tax credit stimulus introduced by the Obama administration expired. Economists expect a further fall of around 2% in new housing starts, although consensus is not high. Homebuilders themselves say they are very pessimistic about the market going forward. The home builders' sentiment index fell from 22 in May to 17 in June. Economists are also expecting a 9% fall in existing-home sales.

President Barack Obama will sign the much debated Financial Reform Bill into law this week, which will provide the largest overhaul of the financial system since the great depression. The passage of the bill into legislation will limit the extent to which banks are permitted to engage in proprietary transactions and increase the level of protection afforded to consumers.

Federal Reserve Chairman Ben Bernanke is due to deliver a 2-day semi-annual testimony to congress on the state of the economy and the outlook for growth. The key concern in the US remains unemployment. The minutes of the last board meeting showed unemployment is not expected to fall to the targeted range of 5-5.3% over the next two years. Investors will be looking for suggestions from Bernanke and equally, in the line of questioning from lawmakers, on what further measures may be taken to revive the economy. Across the border, Canada's central bank will decide on interest rate settings this week. The Canadian dollar is seen as a commodity currency like Australia and the decision by the board may, in part, reflect the outlook for commodities demand. The Reserve Bank of Australia's Governor Glenn Stevens will present at a conference this week on the Long-Run Effects of the Financial Crisis, where he may also touch on commodities and the implications of China's economic development. The central bank will also release its meeting minutes for July, where it retained the official interest rate at 4.5%. The bank's statement cited weakening conditions in Europe and the US as having a bearing on its decision.

Elsewhere in Asia it will be a quieter week where economic data is concerned. The main releases will come from Taiwan and Hong Kong. A decision on interest rate settings in Hong Kong will start the week off, followed by its unemployment and inflation rate. Taiwan will release the latest on industrial production, export orders and its unemployment rate.

Starting the week of data in Europe is the latest house price index from Rightmove. According to data released overnight, house prices in the UK fell by 0.6% in July after showing a rise of 0.3% in June. The data will be compared against other releases this week, most notably the minutes of the last Bank of England board meeting, which may identify the shared concerns over the slow recovery and stagnant property market. Consumer and business sentiment indicators from the key economies of Germany and France will round out the week in Europe. Both indicators are expected to show some decline.

European regulators will release the results of the stress tests on banks this Friday. Banking institutions across Europe have been subject to assessments on how they would cope in a severe economic downturn. Investors will be interested in not only the outcomes of the tests but their scope and application before increasing comfort in the state of the European banking system.

## Economic Calendar:

21-Jul Japan Bank of Japan's Hirohide Yamaguchi to Speak in Toyama City  
22-Jul United States Federal Reserve Chairman Ben Bernanke to deliver semi-annual testimony to congress

18-Jul United Kingdom Rightmove House Prices (July)  
19-Jul Euro-zone Current Account (May)  
20-Jul Germany German Producer Prices (June)  
Switzerland Trade Balance (June)  
United Kingdom Major Banks Mortgage Approvals (June)  
21-Jul United Kingdom Bank of England Minutes (July)  
22-Jul Euro-zone Industrial New Orders (May)  
France French Business Confidence Indicator (July)  
France French Consumer Confidence Indicator (July)  
United Kingdom Retail Sales (June)  
23-Jul Germany German IFO - Business Climate (July)  
Germany German IFO - Current Assessment (July)

19-Jul Hong Kong Composite Interest Rate  
20-Jul Australia Reserve Bank's Board Minutes for July released  
Hong Kong Unemployment Rate  
Taiwan Export Orders  
21-Jul Australia Westpac Leading Index (May)  
22-Jul Hong Kong Consumer Price Index (June)  
Taiwan Unemployment Rate  
23-Jul Singapore Consumer Price Index (June)  
Taiwan Industrial Production

20-Jul United States Housing Starts (June)  
United States Building Permits (June)  
21-Jul Canada Bank of Canada Rate Decision (July)  
United States MBA Mortgage Applications (21-July)  
United States ABC Consumer Confidence (18-July)  
22-Jul United States Initial Jobless Claims (17-July)  
United States Existing Home Sales (June)  
United States House Price Index (May)  
United States Existing Home Sales (June)  
23-Jul Canada Consumer Price Index (June)  
Sources: Bloomberg, Reuters, MarketWatch, Datastream

## Friday's closing prices:

### Equities

US investor confidence waned on Friday, despite a majority of second-quarter earnings beating analyst expectations. Corporate revenues slowed and disappointing US macroeconomic data prompted questions about the economy's ability to avoid a double-dip recession. Global markets closed the week in negative territory. The Dow dropped 261.41 points, or 2.5% to at 10,097.90, the S&P 500 fell 2.9% and the tech-rich Nasdaq 3.1%. Over the week, the Dow lost 1%, the S&P 500 1.25% and the Nasdaq 0.8%.

The US Labor Department announced a decline in consumer prices for the third consecutive month and other data showed that consumer confidence fell to an 11-month low. This combined with a slow down in quarterly revenue growth reported by US bellweather stocks General Electric, Bank of America and Citigroup further impacted sentiment, as revenues are seen as a guide to future performance. GE lost 4.6%, Bank of America 9.2% and Citigroup 6.3%.

It was a similar picture elsewhere. European equities closed at a one-week low and the pan-European FTSEurofirst 300 shed 2%. The MSCI world equity index and the Thomson Reuters global stock index each fell 2.1%. In the Asia Pacific region, stocks rose modestly for a second week led by Singapore's impressive economic growth. The MSCI Asia Pacific Index rose 0.1%, although in Japan, the Nikkei average dropped almost 3%, the worst one-day percentage loss for a month.

### Commodities

Oil prices fell for a third day, as risk aversion increased, down 61 cents to US\$76 per barrel. Oil giant BP's New York-listed shares fell 4.7% whilst its London-listed shares closed up 1.3% after news it had plugged the Gulf of Mexico oil leak. Spot gold also closed down, dropping US\$15.75 to US\$1,193.00.

## Currencies

The US dollar fell 0.9% to a seven-month low against the yen, a traditional safe-haven investment, closing at 86.68 yen. The euro strengthened against the greenback, reaching a two-month high on Friday before closing down 0.12% at 1.30. The single currency has risen 9% since 7th June when it reach a four-year low of \$1.19.

## Looking ahead

The Australian market has opened weaker this morning with the S&P/ASX 200 index down 0.4%.

## Latest prices

Countries / Regions	Indices	Close	1 day		1 week		1 month	MTD	YTD	
			Net change	% change	Net change	% change	% change	% change	% change	
Equities - Asia	Japan	NIKKEI 225 STOCK AVERAGE	9,408	▼ (277.2)	-2.9 %	▼ (177.0)	-1.9 %	-6.5 %	0.3 %	-10.8 %
	Japan	TOPIX	841	▼ (16.0)	-1.9 %	▼ (20.6)	-2.4 %	-5.8 %	-0.1 %	-7.4 %
	Hong Kong	HANG SENG	20,250	▼ (5.5)	-0.0 %	▼ (128.5)	-0.6 %	0.9 %	0.6 %	-7.4 %
	Hong Kong	HANG SENG CHINA ENTERPRISES	11,420	▼ (8.3)	-0.1 %	▼ (201.1)	-1.7 %	-1.2 %	-0.4 %	-10.7 %
	China	SHANGHAI SE COMPOSITE	2,424	▼ (0.0)	-0.0 %	▼ (46.7)	-1.9 %	-5.7 %	1.1 %	-26.0 %
	China	SHENZHEN SE COMPOSITE	969	▲ 5.6	0.6 %	▼ (14.8)	-1.5 %	-9.1 %	2.6 %	-19.3 %
	Taiwan	TAIWAN SE WEIGHTED	7,665	▼ (40.0)	-0.5 %	▲ 17.3	0.2 %	2.8 %	4.6 %	-6.4 %
	Korea	KOREA SE COMPOSITE (KOSPI)	1,738	▼ (12.8)	-0.7 %	▲ 15.4	0.9 %	1.9 %	2.4 %	3.3 %
	Australia	S&P/ASX 200	4,423	▼ (19.8)	-0.5 %	▲ 26.4	0.6 %	-3.0 %	2.8 %	-9.2 %
	India	INDIA BSE (SENSEX) 30 SENSITIVE	17,956	▲ 46.4	0.3 %	▲ 122.3	0.7 %	2.8 %	1.4 %	2.8 %
	Singapore	STRAITS TIMES INDEX L	2,958	▲ 14.2	0.5 %	▲ 40.6	1.4 %	3.9 %	4.3 %	2.1 %
	Malaysia	FTSE BURSA MALAYSIA KLCI	1,337	▲ 2.6	0.2 %	▲ 12.3	0.9 %	2.6 %	1.7 %	5.0 %
	Thailand	BANGKOK S.E.T.	828	▲ 6.5	0.8 %	▲ 6.9	0.9 %	5.2 %	3.8 %	12.7 %
	Indonesia	JAKARTA SE COMPOSITE	2,992	▲ 11.9	0.4 %	▲ 48.6	1.6 %	4.7 %	2.7 %	18.1 %
	Philippines	PHILIPPINE SE (PSEI)	3,443	▼ (25.0)	-0.7 %	▲ 48.1	1.4 %	4.1 %	2.1 %	12.8 %
Equities - Other	US	DOW JONES INDUSTRIALS	10,098	▼ (261.4)	-2.5 %	▼ (100.1)	-1.0 %	-3.0 %	3.3 %	-3.2 %
	US	S&P 500 COMPOSITE	1,065	▼ (31.6)	-2.9 %	▼ (13.1)	-1.2 %	-4.5 %	3.3 %	-4.5 %
	US	NASDAQ COMPOSITE	2,179	▼ (70.0)	-3.1 %	▼ (17.4)	-0.8 %	-5.5 %	3.3 %	-4.0 %
	UK	FTSE 100	5,159	▼ (52.4)	-1.0 %	▲ 25.9	0.5 %	-1.5 %	4.9 %	-4.7 %
	Germany	DAX 30 PERFORMANCE	6,040	▼ (109.1)	-1.8 %	▼ (25.0)	-0.4 %	-2.4 %	1.3 %	1.4 %
	France	FRANCE CAC 40	3,500	▼ (81.7)	-2.3 %	▼ (54.3)	-1.5 %	-4.8 %	1.7 %	-11.1 %
	World	*MSCI WORLD U\$	3,617	▼ (77.0)	-2.1 %	▼ (5.0)	-0.1 %	-1.8 %	4.7 %	-5.3 %
	EMEA	*MSCI EM EMEA \$	421	▼ (2.7)	-0.6 %	▲ 8.0	1.9 %	1.2 %	6.6 %	-1.8 %
	Emerging Market	*MSCI EM U\$	1,684	▼ (14.5)	-0.9 %	▼ (3.8)	-0.2 %	0.9 %	3.6 %	-2.6 %
Global Property	*FTSE EPRA/NAREIT DEVELOPED \$	2,395	▼ (42.2)	-1.7 %	▼ (2.3)	-0.1 %	-2.1 %	3.6 %	-0.8 %	
Fixed Interest	Global Bond	*BOFA ML GLB LARGE CAP (\$)	220	▲ 0.9	0.4 %	▲ 3.3	1.5 %	3.8 %	2.5 %	2.3 %
	Euro Bond	*BOFA ML EMU CORP. & LARGE CAP (\$)	185	▲ 1.0	0.6 %	▲ 4.9	2.7 %	5.7 %	6.0 %	-6.1 %
	US Bond	*BOFA ML US CORP LGCP (\$)	235	▲ 0.6	0.3 %	▲ 2.9	1.2 %	3.2 %	1.1 %	6.8 %
	Global High Yield	*BOFA ML GLB HY (\$)	218	▲ 0.3	0.1 %	▲ 3.1	1.4 %	3.6 %	2.8 %	5.3 %
	Euro High Yield	*BOFA ML EURO HIGH YIELD (\$)	204	▲ 1.1	0.5 %	▲ 6.8	3.5 %	7.7 %	7.9 %	-3.2 %
	US High Yield	*BOFA ML US ORIGINAL ISSUE HY (\$)	218	▲ 0.1	0.0 %	▲ 2.2	1.0 %	2.8 %	2.0 %	6.0 %
	Emerging Debts	*BOFA ML GLB EMRG SOV&CORP(\$)	376	▲ 0.6	0.2 %	▲ 4.8	1.3 %	3.6 %	2.8 %	7.7 %
Global Inf-Linked	*BOFA ML GLB GVT INFL LKD (\$)	237	▼ (0.0)	-0.0 %	▲ 2.5	1.1 %	2.9 %	1.9 %	-1.1 %	

Source: Datastream, 16-Jul-10, \*Regional Indices in USD