

# Daily Global Market Update

3 September 2010

## Waiting for the big one

Stocks continued to gain Thursday on better than expected US economic data.

### United States

US stocks were up in a late push Thursday after hovering around the unchanged mark for most of the day. Volume was low. New economic data showed improvement in housing and the job market. The Dow Jones industrial average was up 0.5%, the Standard & Poor's 500 Index was up 0.9% and the Nasdaq Composite Index was up 1.1%.

Retailers reported August same store sales (sales at stores open at least a year). Target posted a 1.8% increase in sales from a year ago, just shy of the 2.0% gain that analysts were expecting. Costco Wholesale reported that its August same-store sales were up 7% on the year including fuel and the impact of foreign exchange, compared to the 4.2% increase that was expected. Excluding the favorable impacts of gas and currency, sales were up 5%, compared to the 3.6% increase that was forecast.

Department store Macy's sales increased by 4.3%, topping the 4.0% growth that was anticipated. Other department store chains including J.C. Penney (up 2.3%), Kohl's (up 4.5%) and Nordstrom (up 6.3%) all achieved better than forecasted August same-store sales growth as did the Gap, Limited Brands and Abercrombie & Fitch.

M&A news dominated equity news outside of retail sales, with Burger King Holdings reporting the burger chain reached an agreement to be acquired by private equity firm 3G Capital for about \$4 billion in cash and Hewlett-Packard beat out Dell Inc in the competition to acquire 3PAR.

Economic reports released today painted a less negative picture, as US jobless claims declined and pending home sales were unexpectedly up. These data overshadowed a disappointing increase in factory orders and a larger than expected decline in second quarter nonfarm productivity.

### Europe

The FTSE, CAC and DAX held onto Wednesday's formidable gains but were virtually unchanged at the close of trading on Thursday. Market participants digested new economic data along with the monetary policy announcement from the European Central Bank. Friday's US employment situation report along with the impending long weekend in the US contained trading as well. The FTSE edged up 0.1%, the CAC was up 0.2% and the DAX was virtually unchanged.

There was little corporate news. In the UK, software writer Autonomy was one of the biggest gainers, up 5.2% as rumor about potential bid interest from US technology companies resurfaced. There was also support from defense contractor BAE Systems after it announced a US\$629 million contract to upgrade mine-resistant military vehicles.

There were no surprises from Thursday's meeting of the European Central Bank. The Bank kept its key interest rate at 1% as universally expected. However, the ECB did extend its emergency lending measures for banks into 2011. The ECB will keep offering banks unlimited one-week and one-month loans until at least January 18, 2011. The Bank will extend its generous liquidity provisions into next year but stressed that the measures are temporary and will be ended as rapidly as market conditions permit. The Bank raised its 2010 economic growth forecast for the eurozone to about 1.6% from 1% previously. It also lifted the 2011 projection to 1.4% from about 1.2%.

Also on the central bank front, the Swedish central bank, the Riksbank raised interest rates and delivered an upbeat assessment of the country's economy. The Riksbank raised rates by 25 basis points to 0.75%, saying that rates needed to rise gradually towards 'more normal levels'. It added that the economy was expected to show strong growth, with inflationary pressures increasing.

In economic news, second quarter eurozone growth was confirmed at 1.0% on the quarter and was revised upward to 1.9% on the year from the original 1.7% estimate. Swiss second quarter GDP expanded at a greater than anticipated 0.9% on the quarter (analysts expected 0.8%) and was up 3.4% on the year. And in positive news for unemployment, the French second quarter ILO unemployment rate dropped to 9.3% — expectations were for it to remain at 9.5%.

### **Asia Pacific**

Asia Pacific stocks were higher across the board again on Thursday as sentiment toward the global recovery was bolstered by Wednesday's favorable manufacturing report in the US. Japan's Nikkei 225 Index led the regional advance, gaining 1.5% on the strength in exporters. Machinery stocks and exporters led the gains on optimism about global economic recovery. Kyocera climbed 3.3%, Fanuc advanced 1.2%, TDK increased by 2.5%, Denso was up 3.0%, Sony added 2.2%, Canon gained 1.2% and Advantest increased 1.5%. Autos were mixed with Honda Motor gaining 1.8%, Mitsubishi Motors climbing 1.9%, Suzuki Motor Corp. advancing 1.5%, Nissan Motor up 3.0% and Isuzu Motors up 1.1%. However, Toyota Motor and Mazda Motor declined.

China's stock markets helped pace the region's advance with Hong Kong's Hang Seng gaining 1.2% and the Shanghai Composite increasing 1.3% thanks to auto makers. China's August auto sales soared 59.3% on the year, a surprising bounce after sluggish sales in earlier months (according to data provided by the China Automotive Technology & Research Center). China's advance also was aided by Chinese insurer Ping An who it has agreed to purchase an additional ¥29.1 billion stake in Shenzhen Development Bank, giving it control of the Chinese lender.

Elsewhere, Australia's All Ordinary built on Wednesday's gains and was up 0.8% despite a report that showed the Australian trade surplus narrowed by a larger margin than anticipated. Shares here were at four-week highs, helped by miners BHP Billiton and Rio Tinto. A report released by the Australian Bureau of Statistics revealed that the July trade surplus unexpectedly dropped when compared to the previous month, largely due to lower exports of coal, iron ore and non-monetary gold. The trade balance showed a surplus of A\$1.9 billion in July compared to the A\$3.4 billion surplus in the previous month. Economists were looking for a surplus of about A\$3.1 billion. Exports of goods and services dropped 4.5% largely due to a 6% fall in exports of non-rural goods. Imports however were up 1.6% from the previous month. Imports of intermediate goods were up 9% and those of consumption goods edged up 1%.

### **Currencies**

The US dollar was mixed against its major counterparts. The euro edged up 0.2% while sterling was down 0.3%. The yen also gained as did the Australian dollar. The Swiss franc gained on better than expected second quarter GDP data.

## Fixed Income

Yields were up again on Thursday. In the US, the 10 year was up 5 basis points to 2.63% while the 5 yr edged up 2 basis points to 1.43%. In Germany, the 10 year yield was up 6 basis points to 2.28% while the 5 year inched up 2 basis points to 1.29%. Two year yields edged down 1 basis point in both countries to 0.49% and 0.61% respectively. In the UK, both the 10 year and 5 year yields were up 3 basis points to 2.96% and 1.73% respectively. The 2 year yield was up 2 basis points to 0.71%.

## Commodities

October West Texas Intermediate crude oil futures were up US\$1.11 to US\$75.02. The CRB commodity index was up 2.64 to 271.15. Copper gained US\$1.25 to US\$349. Gold at the afternoon London fixing was up US\$2 to US\$1248.50.

## Global Stock Market Recap

	Index	2009	2010		Daily Change	Percent Change		
		Dec. 31	1-Sep	2-Sep		Daily	2010	Yr/Yr
<b>North America</b>								
United States	Dow	10428.1	10269.5	10320.1	50.63	0.5	-1.0	10.4
	NASDAQ	2269.2	2176.8	2200.0	23.17	1.1	-3.0	10.9
	S&P 500	1115.1	1080.3	1090.1	9.81	0.9	-2.2	8.7
Canada	S&P/TSX Comp	11746.1	12003.8	12111.1	107.31	0.9	3.1	10.9
<b>Europe</b>								
UK	FTSE 100	5412.9	5366.4	5371.0	4.63	0.1	-0.8	12.0
France	CAC	3936.3	3623.8	3631.4	7.59	0.2	-7.7	2.2
Germany	XETRA DAX	5957.4	6083.9	6083.9	-0.05	0.0	2.1	14.8
Italy	MIB	23248.4	20370.0	20412.3	42.32	0.2	-12.2	-6.9
Spain	Ibex 35	11940.0	10544.8	10537.6	-7.20	-0.1	-11.7	-4.4
Sweden	OMX Stockholm 30	951.7	1049.3	1043.1	-6.17	-0.6	9.6	18.6
Switzerland	SMI	6545.9	6332.4	6333.7	1.22	0.0	-3.2	4.3
<b>Asia/Pacific</b>								
Australia	All Ordinaries	4882.7	4526.8	4563.0	36.20	0.8	-6.5	2.9
Japan	Nikkei 225	10546.4	8927.0	9062.8	135.82	1.5	-14.1	-11.3
Hong Kong	Hang Seng	21872.5	20623.8	20868.9	245.09	1.2	-4.6	5.6
S. Korea	Kospi	1682.8	1764.7	1775.7	11.04	0.6	5.5	10.1
Singapore	STI	2897.6	2982.8	2986.7	3.83	0.1	3.1	14.9
China	Shanghai Comp	3277.1	2622.9	2655.8	32.90	1.3	-19.0	-6.7
India	Sensex 30	17464.8	18205.9	18238.3	32.44	0.2	4.4	18.4
<i>Data Source — Haver Analytics</i>								

## Looking forward

The first Friday of the month brings the most intensely monitored US economic data release, the employment situation report. Analysts continue to tweak their projections. The employment part of the report continues to be muddled by the departure of temporary government Census workers. Traders will focus on the private payrolls number currently projected to increase by about 40,000 and which does not include the Census workers. Total payrolls are expected to decline by about 90,000. Traders caution that the normally difficult volatility around the report could be exacerbated if markets are disrupted by weather concerns related to Hurricane Earl, now swirling in the Atlantic Ocean off the US East Coast.

Equity markets as at 02/09/10		Source: Datastream, Price Index Returns in local currency				
	Market	% change 12 mths to 02/09/2010	% change 12 mths to 02/09/2009	% change 12 mths to 02/09/2008	% change 12 mths to 02/09/2007	% change 12 mths to 02/09/2006
US	US: Dow Jones	11.20	-19.42	-13.78	16.52	9.73
	US: S&P 500	9.59	-22.14	-13.33	12.43	7.63
	US: NASDAQ	11.84	-16.27	-9.52	18.38	2.43
EU	MSCI Europe	7.11	-19.11	-18.45	12.32	15.85
	UK: FTSE All Share	12.33	-13.94	-12.22	7.84	13.31
	UK: FTSE 100	11.49	-14.29	-11.00	6.15	11.68
	Germany: DAX	14.36	-18.39	-14.78	30.15	21.47
	France: CAC 40	1.63	-21.28	-19.68	9.03	17.67
	Netherlands: All Share	11.23	-29.16	-20.83	15.93	19.43
	Italy: S&P MIB	-6.25	-25.45	-27.49	5.56	13.34
	Switzerland: SMI	4.01	-16.57	-17.79	8.41	25.37
	Spain: IBEX 35	-4.20	-7.60	-18.17	19.31	20.19
	Sweden: OMX	19.44	-1.80	-27.24	22.53	16.86
Asia	Japan: Nikkei	-11.84	-18.47	-23.69	2.42	28.05
	MSCI Asia Pacific ex	9.40	-1.52	-19.14	34.77	16.35
	Hong Kong: Hang Seng	6.90	-7.23	-11.97	37.19	14.46
	Australia: S&P/ASX 200	2.13	-13.25	-18.37	22.96	13.93
	China: Shanghai Shenzhen 300	1.05	26.50	-57.83	311.13	39.06

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