

Weekly Stock Market Report

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US

Employment Report eases double-dip fears

- Wall Street stocks rallied sharply following three consecutive weeks of losses as encouraging economic data eased fears of a double-dip recession. The Dow Jones returned 2.9%, while the broader S&P 500 and the tech-biased NASDAQ each rose 3.7%.
- A busy week of data releases brought several positive surprises. The August Employment Report, released on Friday, showed a much smaller than expected 54,000 drop in non-farm payrolls. Private sector jobs also came in ahead of consensus, rising 67,000.
- The unemployment rate rose from 9.5% to 9.6%, as more people began looking for work. Payroll data from June and July was revised to show that 123,000 fewer jobs were lost than previously thought.
- The Institute for Supply Management's index of manufacturing activity, which came in at a better-than-expected 56.3, also provided reason for optimism, with the employment component rising to 60.4, the highest level since 1983. A reading above 50 signals expansion rather than contraction.
- Despite the low weight of manufacturing in the US economy, a rise in the employment component above 60 has historically presaged an average increase in non-farm payrolls of around 250,000 over the subsequent three months.
- There was also better news on the housing market as pending home sales unexpectedly rose 5.2% in July, versus expectations of a 1% decline. However, purchases of new homes fell to the lowest level since 1963.
- High unemployment and housing weakness have taken their toll on the consumer, weighing on spending. However, consumer sentiment increased more than forecast last month, with the Conference Board's confidence index rebounding to 53.1 from July's five-month low of 51.
- Consumer-related stocks received a further boost from news that same-store sales at most retailers exceeded expectations in August, although the strong results were helped by back-to-school discounts and tax holidays. Sales at Costco rose 5%, excluding petrol, while sales at Limited Brands Inc, owner of the Victoria's Secret chain, surged 10%.
- Equities were also lifted by deal activity. Intel acquired the wireless chip division of Germany's Infineon Technologies for USD 1.4 billion, while industrial conglomerate 3M bought Cogent, the maker of technology for biometric testing, for USD 943m.

EUROPE

ECB raises growth forecasts

- European stock markets rebounded strongly last week as sentiment was boosted by positive data from around the globe. The MSCI Europe Index rose 4.0%.
- Among the major markets, France's CAC 40 was the strongest performer, jumping 4.7%, while Spain's IBEX and the UK's FTSE 100 were both up 4.4%. Italy's FTSE MIB returned 4.1%, the Swiss SPI rose 3.3% and the German DAX rose 3.1%.
- Fears of a double-dip recession were assuaged by unexpectedly strong manufacturing activity data from the US and China. However, manufacturing in the eurozone expanded at its slowest pace since February in August, with the regional purchasing managers' index (PMI) dipping to 55.1 from 56.7 in July (a reading above 50 signals expansion rather than contraction). Activity growth slowed in Germany, Spain and Italy, but accelerated in France.
- Eurozone service sector activity continued to increase in August, with the services PMI inching up to 55.9 from 55.8 in the prior month, but the employment component remained a notable weak spot. In the UK, meanwhile, both measures disappointed, with the manufacturing PMI slipping from 56.9 to 54.3 and the services PMI falling from 49.7 to 46.9.
- The European Central Bank (ECB) left interest rates on hold at a record low of 1% at its meeting on Thursday, but extended its emergency lending programme. The central bank will now continue to provide exceptional three-month funding to commercial banks into early 2011.
- The ECB also raised its eurozone economic growth forecast for this year from the 0.7%-to-1.3% range it predicted in June to between 1.4% and 1.8%. The forecast for 2011 was revised up to between 0.5% and 2.3%. The bank's president, Jean-Claude Trichet, said 'positive underlying momentum' was evident in the regional economy.
- In company news, technology stocks were buoyed by hopes of further consolidation in the sector after German semiconductor maker Infineon Technologies sold its wireless chip division to Intel. Software maker Autonomy rose sharply on speculation it may be a takeover target for Microsoft or Oracle.

PACIFIC

Australian economy expands at quickest pace in three years

- The MSCI Pacific Index was up 1.5%, with the region boosted by Australian growth figures and strong global economic data.
- The TOPIX rose 0.5%. With the yen near a 15-year high, the Bank of Japan, under pressure from the government, said it would increase cheap lending to commercial banks by JPY 10 trillion with the aim of stemming the rise of the currency and boosting loans to businesses. Bank governor Masaaki Shirakawa stated that more action would be taken if needed, which may appease investors unconvinced the move was enough to compensate for a strong currency which could hurt exports.
- However, economic data fared better than expected with retail sales and industrial production bouncing back in July. Retail sales grew for a second month, advancing 0.7% from June and 3.9% on a year earlier. Factory output, meanwhile, rose 0.3% from June, reversing a 1.1% decline.
- In Australia the All Ordinaries surged 3.9%. The Australian economy expanded by 1.2% in the second quarter from the first three months, the quickest pace in three years and better than expected. Chinese demand for iron ore has boosted jobs, which in turn fuelled retail sales (up 0.7% in July from June) and building approvals (up 2.3%), suggesting the negative effects of interest rate increases are easing.
- In South Korea the KOSPI climbed 2.9%. The Korean economy grew 1.4% in the quarter ending in June from the first quarter, with industrial production also rising faster than expected in July. But although exports rose 29.6% in August from a year earlier, they fell 8.4% from July on a seasonally adjusted basis, stoking concern over future global trade flows.
- Singapore's Straits Times was up 2.2%. The Singapore economy may be among the fastest-growing in the world this year as increasing demand for goods and services prompted economists to predict growth of 14.9% for 2010.
- Meanwhile, Hong Kong's Hang Seng advanced 1.8% and Taiwan's TWSI rose 1.4%.

EMERGING MARKETS

China manufacturing unexpectedly rises

- Emerging markets enjoyed their biggest weekly gain in eight weeks, boosted by strong economic data around the globe. Following recent outperformance, emerging markets lagged their developed market peers, with the MSCI Emerging Market Index up 2.5% versus a 3.4% increase for the MSCI World.
- India's SENSEX was the worst performer among the major markets, up 1.2%. India's economy grew 8.8% year on year in the second quarter, driven by increases in manufacturing, mining and services. However, activity in the services industry slowed for the second consecutive month in August, from a two-year peak in June.
- The MSCI China Index was up 3.0%. China's purchasing managers' index unexpectedly rose to 51.7 in August, from 51.2 in July, signalling the government may have found a comfortable middle ground between growth and fiscal tightening.
- In Latin America, Brazil's BOVESPA returned 1.7% as commodity prices rose on news of faster-than-forecast manufacturing growth in China and the US, Brazil's biggest trading partners. Petrobras, Latin America's largest company by market value, climbed to a two-week high as the oil-producer's exploration programme was bolstered by an accord to pay the Brazilian government USD 42.5 billion in stock for the right to offshore oil reserves. Mexico's BOLSA and Argentina's Merval rose 2.6% and 3.2% respectively.
- Encouraging US data also helped trigger a rebound in the Russian economy, with the RTS up 3.2%. Oil production rose 0.9% to 10.06 million barrels of crude a day in August from a year earlier, just behind the post-Soviet high of 10.15 million barrels in June.
- Elsewhere in emerging Europe, Poland's WIG gained 2.0% as the Polish inflation rate advanced to 2.1% from a three-year low of 2%, on the back of rising food prices and a weaker zloty. The advance boosted expectations for a hike in interest rates, which are also supported by higher consumer demand and rising corporate employment. Hungary's BUX gained 3.8%, while the Czech PX-50 was up 1.7%.

Source for information: JPMorgan Asset Management, Datastream, Financial Times.

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