Market Analysis

June 2010

Following on from the difficult conditions in May, markets experienced another turbulent month in June, with the Dow Jones and FTSE 100 ending the month below their psychologically important 10,000 and 5,000 levels respectively. With macro-economic data also continuing to disappoint, there are very real fears amongst investors that the global economy is experiencing a 'double-dip' recession.

The US insists that it is the weakness in the European economy that has caused markets to suffer, whilst in Europe and the UK investors remained focused on macro-economic data coming out of the US. All are agreed that the gradual removal of national stimuli is impacting data. For example, June was the first month that a tax credit for those buying a new house in the US was no longer available; new house sales promptly fell over 30% during the month.

The major domestic story of the month was undoubtedly the coalition government's emergency budget on 22 June 2010. Alongside a levy on the banks and an increase in the rate of VAT, the Chancellor outlined a substantial decrease in government spending and this may yet become the defining moment, one way or another, of the economic recovery in the UK.

The emergency budget did however lend support to a small rally in the pound, as the likelihood of a sovereign debt downgrade for the UK economy reduced. Sterling ended the month up nearly 3% against the US Dollar and over 3% against the Euro.

Key Data			
	30 June	31 May	+/(-)%
FTSE 100	4,916.87	5,188.43	(5.2)
Dow Jones	9,774.02	10,136.63	(3.6)
EuroStoxx50	2,573.32	2,610.26	(1.4)
Nikkei 225	9,382.64	9,768.70	(4.0)
Hang Seng	20,128.99	19,765.19	1.8
MSCI EM	917.99	926.40	(0.9)
Crude Oil	$75.37	$74.50	1.2
£ = $	1.496	1.454	2.9
Euro = $	1.224	1.231	(0.6)
£ = Euro	1.222	1.182	3.4

Interest Rates	
Bank of England	0.50%
European Central Bank	1.00%
US Treasury Reserve	0.25%

Politicians and central bankers will face some big decisions in July and will need to decide whether the recent downturn in markets is merely a blip? Macro-economic data may slowly start to improve month on month as the artificial effects of the various stimulus packages have now worked their way through the system. Elsewhere, investors will remain nervous about any announcement from the Eurozone regarding Greece and the other troubled economies.

UK

Another important factor in supporting the rally in the pound was the news that one of the Monetary Policy Committee (MPC) members had voted for an increase in the base rate of interest. Although the other members all voted for the rate to remain at a record low of 0.5%, investors took the news as an indication that the rate may rise sooner than expected.

EUROPE

Given the recent much-publicised troubles in the Eurozone, most investors were glad to see a relatively calm month with much discussion turning to the bank stress test results. Macro-economic data in the region was disappointing with unemployment throughout the Eurozone as a whole standing at 10.1%. Latvia (22.5%), Spain (19.7%) and Estonia (19.1%) had the highest individual rates, whilst the Netherlands (4.1%) and Austria (4.9%) fared best.

US

With the new coalition government in the UK joining the Eurozone in their firm commitment to reducing the budget deficit, President Obama is increasingly becoming isolated in his calls for continued government spending to support growth. However, the US has one significant advantage when determining its spending policy; everyone still views the US Dollar as the best bet in turbulent times and the danger of a currency collapse is minimal.

ASIA/PACIFIC

The major news in the region was the change of Prime Minister in both Japan and Australia: one anticipated, the other a surprise. In Japan, the ex-finance minister Naoto Kan became Prime Minister and promised bolder steps to tackle the national deficit. Kan has an aggressive reputation for a politician and could provide a real shock to the conservative Japanese. In Australia, Julia Gillard replaced the popular Kevin Rudd and became the country's first female Prime Minister. She immediately announced plans to scale back a proposed mining tax which did much to improve sentiment in the sector.

EMERGING MARKETS

One of the difficulties for emerging markets is to encourage growth whilst not allowing inflation to significantly impact the domestic economy. Both India and China, the two largest emerging markets, are struggling to keep inflation at their respective target rates. In India, inflation currently stands at over 10%, double the government's target of 5%. Meanwhile in China, inflation has risen just above the 3% target rate, adding to calls for higher wages.