22 September 2012

Woodhall's Weekly

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At last we have had a week when nothing really happened. The gains following QE3 the previous Friday stuck this week with the ASX 200 up 0.4% and the S&P 500 down only -0.4%. About the only thing of significance that did move was oil prices - they fell just over 6%.

During the week there was a short-lived rotation. There were some sizeable falls in Health and Utilities on Monday - with a rise of a similar magnitude in resource stocks. However, the China flash HSBC PMI number was up from 47.6 to 47.8 that put downward pressure on resources.

Iron ore prices have inched their way up to $109 a tonne from a low of $86.7 - an increase of over 25%. Being good news, that piece of data got less attention than the fall to $86.7 which, in hindsight, was clearly overdone. With $120 being a price at which some commentators is sufficient for the viability of the sector, and $130 a tonne being a generally accepted 'average' of recent prices, iron ore prices do not have to rise much more to get back to 'normal'.

Japan has been in the news recently. The clash over the ownership of some largely deserted islands with China - but they are located near possible rich gas fields - has caused much social turmoil within China against Japanese shops, etc. It is not clear how these issues will be resolved. Japan has, however, pumped ten trillion yen into bond purchases no doubt helping the world's coordinated stimulus programme.

The IMF, a little late in the game, has just announced that Australian banks could sustain a fall in GDP of 5% and a fall in house prices of 35%. No one is predicting changes of that size but I guess that is nice to know.

Our statistics on expected capital gains, mispricing, volatility and fear are almost unchanged over the week. There are no alarm bells ringing at the moment and, indeed, markets look ready and able to sustain gradual growth in coming weeks and longer.

Having now spent nearly three weeks in my hometown in the North of England, I feel able to comment that I am very surprised by the views I have come across on TV, and in shops, pubs and cafes. Before I arrived, I expected doom and gloom based on the reports I read in Australia. In my opinion, there is more optimism here than in Australia. Prices are seemingly much cheaper - especially housing. And it is not just the success GB had in the so-called 'summer of sport' but that may have helped. Perhaps it is not, therefore, surprising that a pound invested in the FTSE back at the peak in 2007 - with dividends reinvested - has easily become worth more in recent times while our ASX 200 struggles to get anywhere near those levels. .

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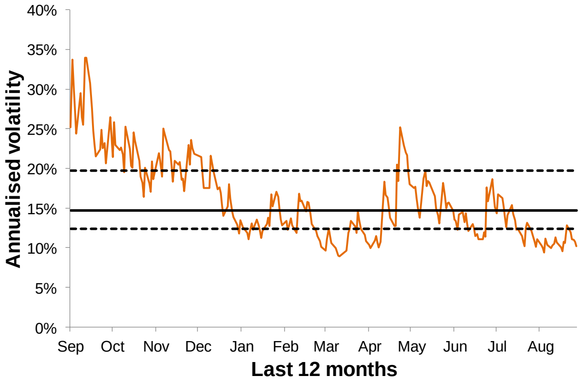
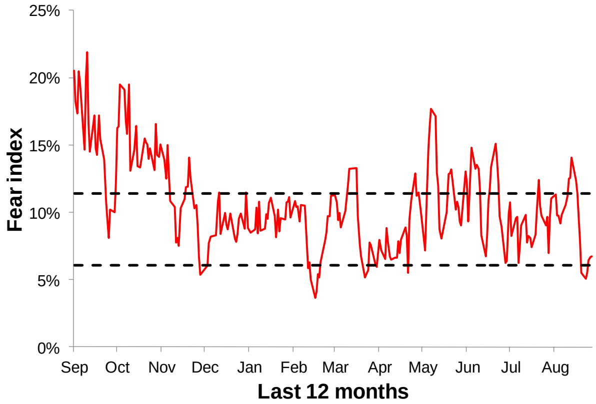
Chart 1: Daily volatility - ASX 200



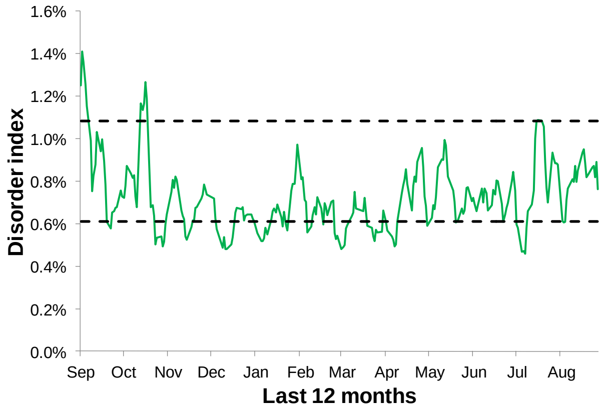
Notes: The solid black line denotes the current average volatility since January 2010; the lower dotted line denotes the average volatility pre GFC; the upper dotted line denotes average volatility during the GFC.

Chart 2: The fear index - ASX 200



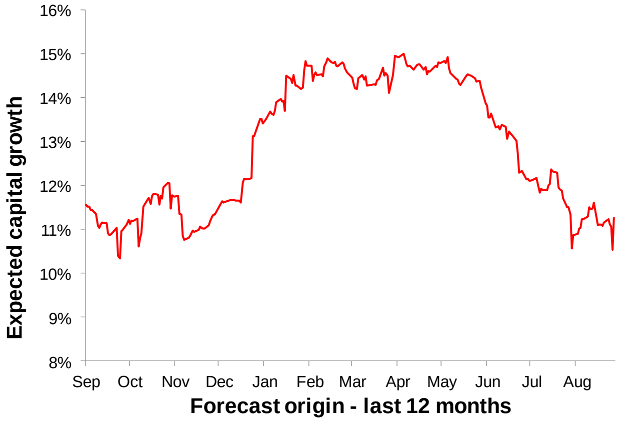
Notes: The two dotted lines denote the range where fear resided pre-GFC for two thirds of the time

Chart 3: The disorder index - ASX 200



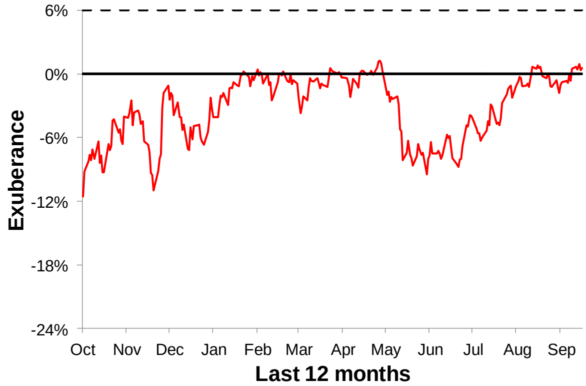
Notes: The two dotted lines denote the range where disorder resided pre-GFC for two thirds of the time.

Chart 4: Forecasts of capital growth - ASX 200



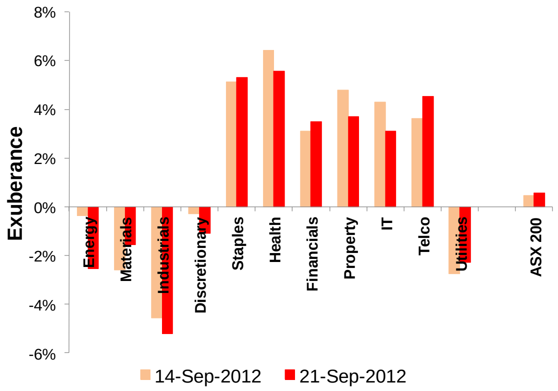
Note: These forecasts are updated daily for the following 12 months. Dividends should also be taken into account when assessing possible performance.

Chart 5: Exuberance over time - ASX 200

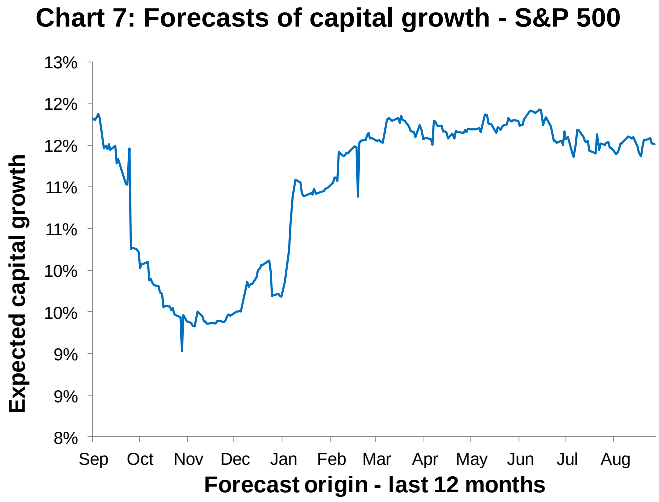


Notes: 0% represents 'fair pricing' and the dotted line at 6% represents possible overheating preceding a correction. Cheap markets (below the 0% line) can get a lot cheaper before they recover!

Chart 6: Sectoral exuberance - ASX 200



Notes: Our *Guide to Woodhall's Publications* should be consulted for a better understanding of how all nine charts are constructed.



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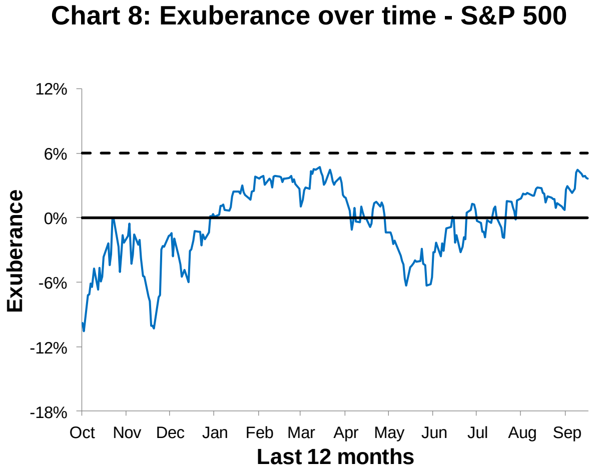

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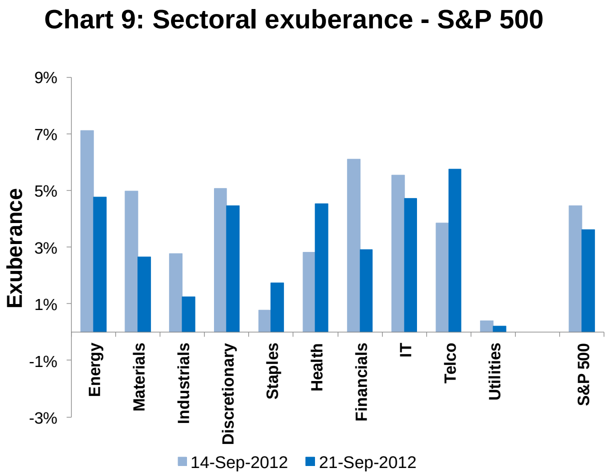

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