5 January 2013

Woodhall's Weekly

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Lucky seven - that's seven consecutive weekly gains on the ASX 200 - the last one being 1.1% making a cumulative total of 8.9%. Since 10 weeks is the longest such rally since April 1985, something is different or this one might end in tears. We have the market overpriced by 3.0% which, in itself, is not a big number. Our benchmark for a correction is +6.0%.

Last week's rally was on the back of the tax agreement part of the fiscal cliff. It seems that hard bargaining was going on. Bloomberg reported that certain rum imports and NASCAR racing benefited from specific tax credits! There are two months left to sort out the debt ceiling and expenditure cuts. History suggests there will be no agreement more than a day before but , like the other times, sufficient will be done to keep the economy moving.

US jobs data posted a non-farm payroll gain of 155,000 jobs - about in line with what was expected - and unemployment was 7.8% for December 2012 - the same as the upwardly revised November figure. The FOMC minutes of the Fed spooked investors on Thursday night as they mentioned possibly ending QE3 in mid or late 2013. Since the target unemployment rate is at least 6.5% that means people are expecting strong growth or QE3 won't end.

China watchers - including the big miners - had their say as the iron ore spot price almost reached $150 a tonne - a far cry from the sub $90 figure in September. Analysts are predicting $120 as the average - after this spike is over - for 2013. Two things seem certain. 1) forecasters will be no more accurate in 2013 than before. 2) China and the big miners choose to manipulate prices from time to time by changing stockpiles. Remember 2008/9 and 2012? Record iron ore exports left the Pilbara in December. China's PMI statistic last week again pleased.

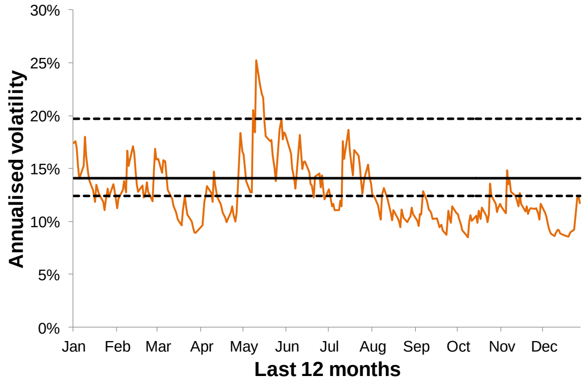
Europe seemingly remains peaceful.

With only two copies of the Financial Review printed in the two weeks for Christmas and the New Year, there was less bad news around. There even seems a lack of forecasters predicting the market for the end of 2013. Every man and his dog seems to be predicting strong growth in dividend paying stocks. While this is a sensible strategy, it will force up such stock prices if people listen. We still have Telcos very overpriced at +8.5% - above the trigger level of 6% - but at least the Health sector has come back from +9.6% to +6.0% over the past week. Energy, Property and Utilities are priced at about par with the other sectors moderately overpriced.

All of our indexes for market behaviour (Figures 1, 2 and 3) look good for a rally but, the overpricing suggests this rally cannot go too much further without a correction. We still think 2013 will be another good year on our market, breaking through the 5,000 barrier along the way.

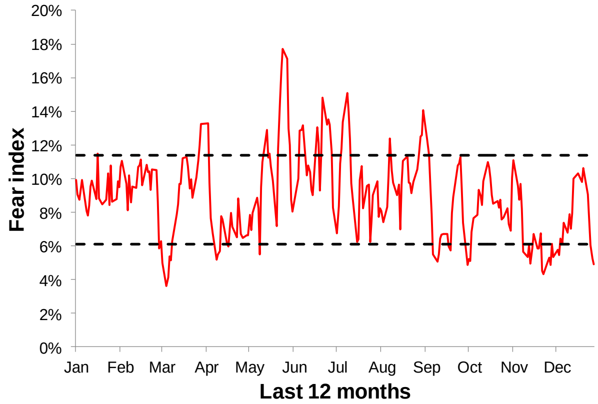
Please note, in an attempt to fix our Windows problem impacting on our data feed, we are omitting our US charts until further notice. We are, of course monitoring those markets. It is just that the word file crashes each time we try to update it!

Chart 1: Daily volatility - ASX 200



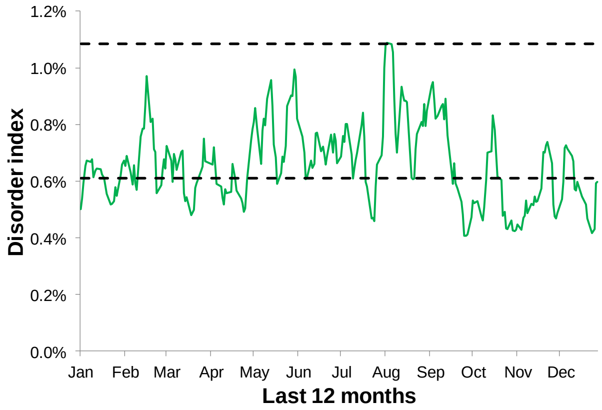
Notes: The solid black line denotes the current average volatility since January 2010; the lower dotted line denotes the average volatility pre GFC; the upper dotted line denotes average volatility during the GFC.

Chart 2: The fear index - ASX 200



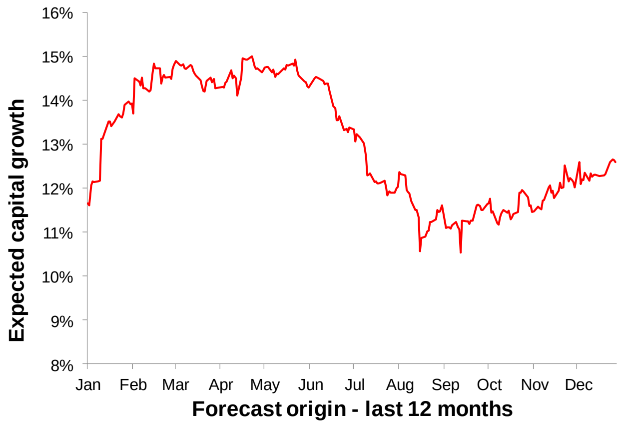
Notes: The two dotted lines denote the range where fear resided pre-GFC for two thirds of the time

Chart 3: The disorder index - ASX 200



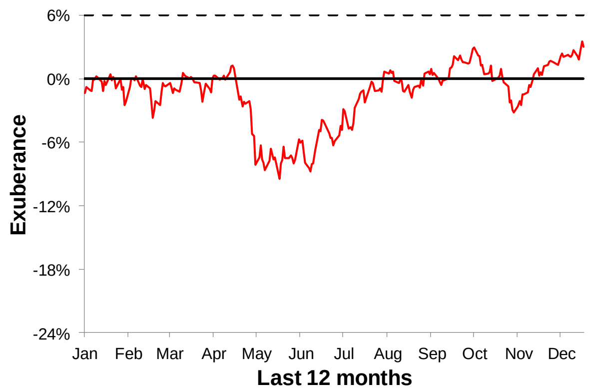
Notes: The two dotted lines denote the range where disorder resided pre-GFC for two thirds of the time.

Chart 4: Forecasts of capital growth - ASX 200



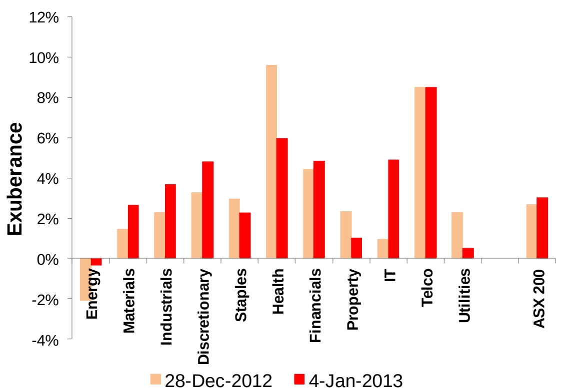
Note: These forecasts are updated daily for the following 12 months. Dividends should also be taken into account when assessing possible performance.

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 six charts are constructed.