

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 232

Topic: Share Markets

Hansard Page: Written

Senator BUSHBY and EGGLESTON asked:

1. What is ASIC's view of the current volatility of the market and the decline in share value over the past few weeks?
2. How resilient is the current Australian share market to influences on share prices from government policy and from financial markets abroad?
3. Is ASIC doing anything additional to monitor the performance and disclosure of resources companies in light of the Government's announced super profits tax?

* These questions were also asked by Senator Eggleston in writing.

Answer:

First we address the issues raised in questions one and two by our Chief Economist. For the purposes of analysing volatility, we have looked at the volatility of share indices in several countries and the MSCI global index on a 10-day, 30-day, 60-day and 90-day basis. The measures of volatility across all these measures exhibited a similar pattern. We have only included 10-day volatility in our answer below.

When looking at the resilience of the Australian share market we analysed the degree of correlation between the daily percentage changes in the All Ordinaries Index and different international share market indices over a number of quarters to determine if there has been any change in the extent to which overseas developments usually have affected the Australian share market.

Share market volatility

- 1 After experiencing a decline in the first quarter of 2010, average price volatility increased across all major share markets in the June quarter (see Figure 1). While the increase in volatility may appear dramatic when compared to the March quarter, for the majority of indices (with the exception of the Shanghai composite index) these current levels are still well down on the levels experienced in the first half of 2009.
- 2 The widespread increase in volatility across all markets (with the exception of the Hang Seng) during the June quarter suggests that there is an ongoing sense of uncertainty in global financial markets in relation to the sovereign debt situation in Europe and the economic recovery in the United States. As Figure 1 illustrates, the effect of these events has also been felt by the Australian share market with volatility rising during the June quarter (albeit to a lesser extent).

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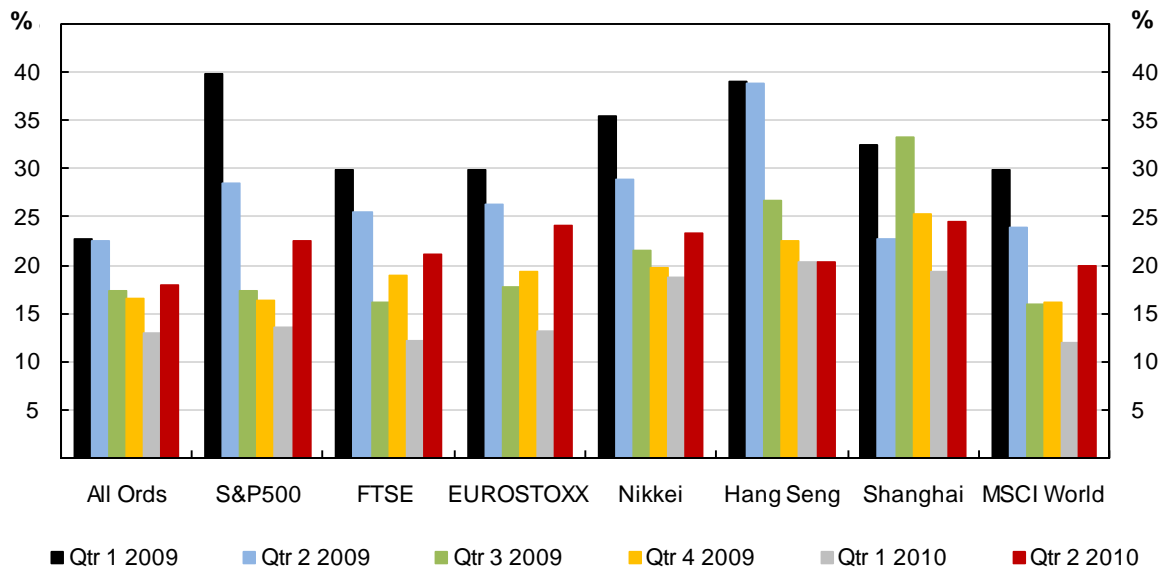
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Figure 1: Average 10-day price volatility



Sharemarket correlation

- 3 One factor that may explain why the increase in volatility (in relation to ongoing doubts surrounding the United States and Europe) during the most recent quarter has not been as pronounced on the Australian share market is a shift in the degree of correlation between the All Ordinaries and other global indices.
- 4 Figure 2 illustrates the extent to which the Australian share market has been moving in line with other markets. For example, the level of correlation between the All Ordinaries and the S&P500 in the first quarter of 2010 was approximately 0.7. This means that close to 70% of the price movement in the All Ordinaries may be explained by movements (overnight) in the US. In the June quarter of 2010 the levels of correlation between the All Ordinaries and share markets in the United States and Europe all declined significantly, whilst there was a dramatic (and somewhat offsetting) increase in the degree of correlation with Asian share markets. Asian share markets thus are becoming more important in explaining moves on the Australian share market.
- 5 In Figure 2, the Long Run Average illustrates the strength of the correlation between the All Ordinaries and the international indices over a longer time frame (June 1999 – June 2010). This long run average helps illustrate the changing significance of foreign markets on the Australian market during the most recent quarter, with the correlation between the All Ordinaries and markets in the United States and Europe falling below the levels of the past decade, while the strength of the correlation with Asian markets has moved noticeably above long term levels.

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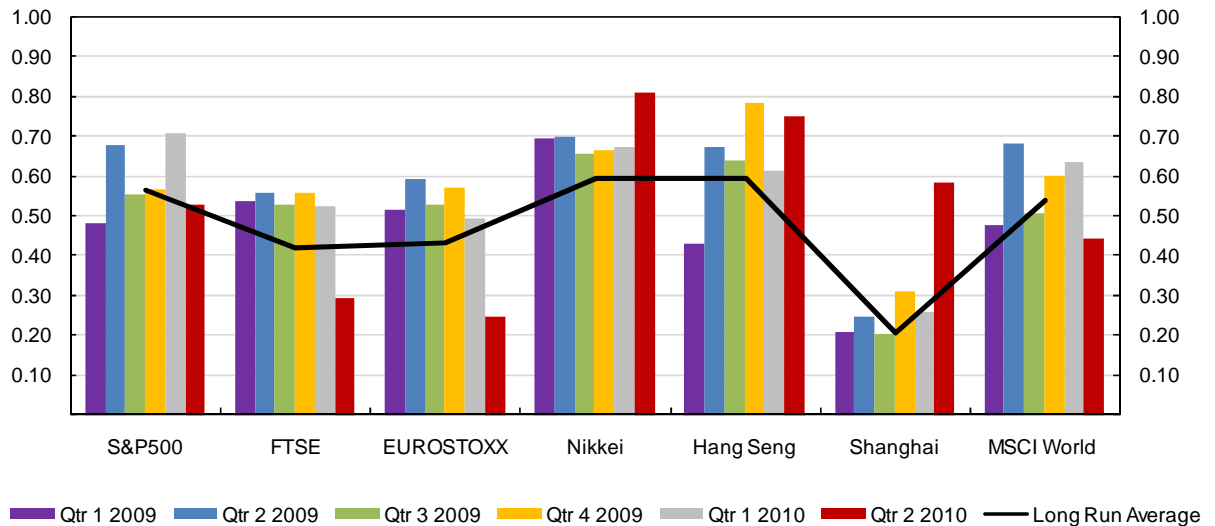
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Figure 2: Correlation between the All Ordinaries Index and major global indices



Is ASIC doing anything additional to monitor the performance and disclosure of resources companies in light of the Government's announced super profits tax?

Where ASIC identifies statements by or attributed to an entity in the media, indicating that a tax policy of the Government is affecting or may affect the entity in a material way, ASIC will examine the entity's announcements to ASX to ensure its continuous disclosure is appropriate and consistent.

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