



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

MAY 2010

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Investment Analyst

In his role as Investment Analyst, Chris closely monitors fund managers in terms of performance, operational activities and compliance as well as performing internal analytics on the fund.



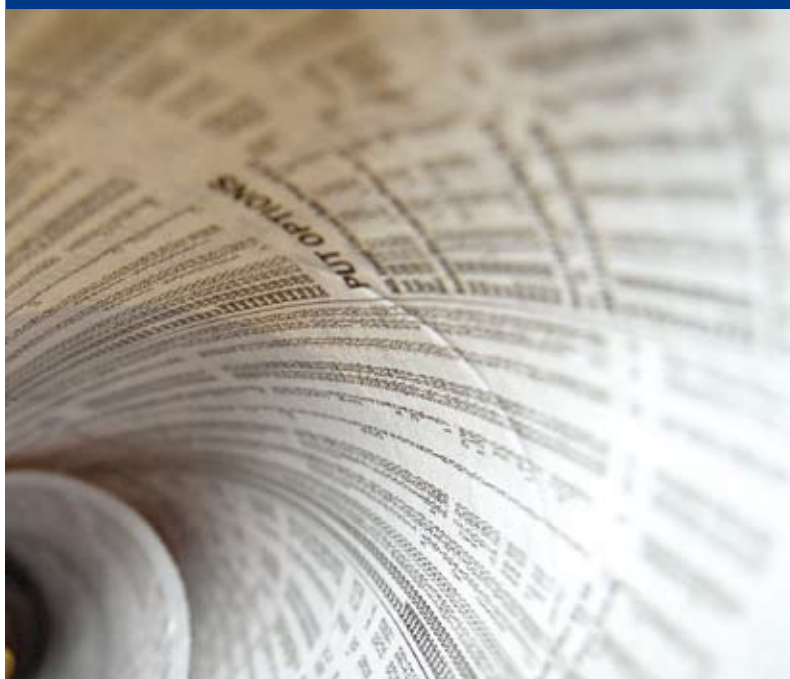
Economic overview

May produced the worst stock market return since October 2008 with the S&P/ASX200 Accumulation index returning -7.5%. Conditions were similar around the globe with the US market down just short of 8% and Europe down 5.5%. There was a lot of fear amongst investors as to what would happen next in Europe, despite the announcement of a massive €1.1 trillion bail-out package. Sentiment seemed to change daily about the likely outcome of this initiative which drove a lot of the volatility in the market. While uncertainty about the effectiveness of the bail-out remains and while there is the possibility of the problem spreading from Greece to other European nations we could see further market volatility.

There was a further 0.25% interest rate rise by the Reserve Bank in May taking the cash rate to 4.5%. Many were surprised by this given the aggressive rate rises that have taken place since October last year, which has seen the overnight cash rate increase by 1.25% over 8 months. We have been rather surprised by the RBA's willingness to raise rates, but now it seems that they will keep rates on hold for a while with a chance of a rate cut not out of the question. Indeed, at the RBA meeting in early June, rates were unsurprisingly left unchanged.

The Australian dollar suffered a significant sell down against the US dollar in the month falling from a rate of 92.5 cents at the beginning of the month to 84.5 cents at the end. This highlighted a few features of the Australian dollar that are worth noting. Firstly, the Australian dollar is overvalued

Monthly economic e-news



by historic levels. We often look at purchasing price parity (PPP) to assess whether a currency is over or under valued. PPP is the value a currency should have relative to another to make goods and services roughly equal in price in those two countries. The current level of PPP is one Australian dollar buying 73 US cents so we didn't find the sharp fall in May overly surprising. Secondly, in a stressed investment environment there is often a flight to quality and the US dollar was once again shown to be a real safe-haven for investors. Finally, the Australian dollar is often referred to as a commodity currency as Australia's economy relies so heavily on commodities. As the outlook for commodities has soured so has demand for the Australian dollar.

Elsewhere, most developed economies continue to look shaky. While Europe and its debt problems have been headline news, little attention has been given to the fact that total debt in the US has reached a level never before seen in the country's history. This is causing long-term growth concerns with some analysts forecasting interest rates in the US to stay at around zero for an extended period, possibly into 2011.

China on the other hand has the opposite problem with the Chinese government taking action to slow economic growth. Interest rates were increased in May to try to combat the overheating economy, in particular the housing market. The government has recognised that the local housing market has reached bubble territory and is trying to combat this now before a house price crash occurs. Combining this with new legislation that prevents consumers from taking out loans for second and third houses there is a definite recognition by the Chinese government that the housing market is overly inflated. There are many opinions about how the Chinese economy might cope with the bursting of this housing bubble but there are certainly risks for the Australian economy. If the reaction is severe, demand for Australian raw materials would drop which would hurt our export income and would have a direct effect on economic growth. Whether this eventuates remains to be seen, but it certainly provides plenty to ponder over the coming months.

Investment markets snapshot

Investment type	Performance
Australian Equities	-7.51%
International Equities (Unhedged)	0.68%
Australian Listed Property Trusts	-4.07%
Australian Government Bonds	1.94%
International Government Bonds	1.69%

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