



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

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Monthly economic e-news



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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

The share market rally continued in March. A year ago the market bottomed but at that time many investors had a pessimistic outlook and feared that the worst was still to come. However, twelve months on we are now in a very different mindset. The rally off the bottom of the market to the end of March 2010 is 55%. This has been a fantastic return over one year but still sees the market 28% off the October 2007 highs. There is a lot more optimism in the market now, but it is unlikely the rally can continue at this rate given the subdued economic growth and the high US unemployment figure, which still sits at 9.7%.

The Reserve Bank of Australia resumed raising rates in March after a brief pause in February as interest rates approach a more 'normal' level with a further rise of 0.25% bringing the cash rate to 4% at the end of March. (The RBA further raised rates in early April to 4.25% making it five rate rises in seven months).

The strength of the Australian economy suggests we are heading towards a rate near the long-term average of around 5.25%. The April rise notwithstanding, there is likely to be a more staggered approach to further rate rises for the remainder of the year until this 'normal' level is achieved. The three consecutive rate rises at the end of last year are unlikely to be repeated as their ongoing effect is still being assessed. Further to this, the major banks have increased rates faster than the RBA, which has enhanced the effectiveness of the RBA's monetary policy and may reduce the need for further increases.

Australia still seems to be leading the developed world in terms of economic recovery. Unemployment is falling, inflation is within target and year-on-year GDP growth is an impressive 2.7%.

The problems in the US and the UK that we have been talking about for months are still present and show few signs of immediate improvement. The rating agent, Standard & Poors, has recently announced that UK debt will retain its AAA rating (the highest rating achievable), but the fact that it even had to be reviewed says a lot. There has also been talk about a review of the rating of US government debt.

These ratings are used to advise investors on how risky an investment is. Government debt is generally considered to be the safest and is the benchmark for assessing other debt securities. If the US or UK were to receive a downgraded rating it would have a massive knock-on effect on world bond and share markets as the cost of debt would dramatically increase making it more expensive for businesses and individuals to borrow. This was something we witnessed late last year when Greek government debt was downgraded. On this occasion even a relatively small economy like Greece had an effect on world share markets. It seems unlikely that either the US or UK will be downgraded, but it certainly has investors watching and wondering.

The relative strength of the Australian economy saw the Australian dollar rise against all of the other major currencies during March. The issues discussed above have resulted in investors favouring higher yielding currencies like the Australian dollar. Over one year, the Australian dollar has risen over 32% against the US dollar and nearly 30% against the Euro. Whilst this has appeared good for the average consumer with cheap overseas travel and foreign goods, it is becoming increasingly expensive for foreign countries to purchase Australian goods. As Australia relies a lot on exports of raw materials for income, a reduction in demand may see a slow-down in economic growth, unless the Australian dollar falls back down to a level that will encourage foreign trade.

Investment markets snapshot

| Investment type | Performance |
|-----------------------------------|-------------|
| Australian Equities | 5.75% |
| International Equities (Unhedged) | 3.52% |
| Australian Listed Property Trusts | -0.05% |
| Australian Government Bonds | -0.84% |
| International Government Bonds | 0.30% |

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