



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

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Chris Drew 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

Global stock markets retreated in April, amidst fear that Greece will be unable to refinance its debt (more on this to come) and concerns over investigations into Goldman Sachs, one of the world's largest investment banks, over how it handled its sub-prime mortgages during the financial crisis. The first half of the month was encouraging as the S&P/ASX 200 Index passed the 'psychological' 5,000 barrier. Many analysts have been looking at this level to indicate that a continued rally can be sustained. However, after reaching this level in the middle of the month, news broke on Greece and Goldman Sachs, which drove the market back down to finish the month well below 5,000.

The Reserve Bank of Australia ("RBA") surprised many in early April with a further interest rate rise to take the overnight cash rate to 4.25%. Many felt that there would be a more staggered approach to further rate rises after increasing the rate by 1.25% in just six months. This was not the case though with the RBA citing the following reasons in its announcement that accompanied the rate rise:

- GDP is expected to rise at trend pace in 2010 and 2011, removing the need for emergency stimulus measures
- Unemployment appears to have peaked at much lower levels than expected
- CPI has risen recently as temporary factors that had been holding it down have abated.

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Monthly economic e-news



This last point is probably most important with the primary goal of the RBA being to control inflation. They are correct that core inflation (CPI) has been increasing recently, but the RBA look at other measures of inflation, which have in fact been in a downward trend of late. The RBA adjusts the core inflation to remove extremes from the measure, which reduces the level of skew in the data and is thought by many to be a more accurate portrayal of inflation. With this trending downwards, it is very likely that further rate rises will be more gradual as rates tend to long-term averages by the end of this year.

Just to dwell on inflation for a short while, it was interesting to see the Federal Government announcing a 25% increase in tax on cigarettes at the end of the month. Cigarettes account for around 2.5% of the CPI measure so with such a large increase in prices, it is thought that cigarettes alone will contribute an additional 0.4% to the CPI number. The RBA will certainly be wary of this and you can be assured that it will be strongly considered in further rate rises.

Globally, Greece has certainly been the word on everyone's lips. Greek sovereign debt was downgraded during April to below investment grade by rating agent Standard & Pooors. This had far reaching effects in global equity and debt markets due to many major banks' exposure to Greek debt. When a debt security drops below investment grade it becomes very difficult to trade as investors are unwilling to take on the risk that it will default leaving the owner with a very risky asset. Fortunately, it appears as though the key members of the European Union are going to bail Greece out of its financial position. Originally this looked unlikely with Germany, in particular, benefiting from a weak Euro. However, it seems in the best interests of everyone to stop Greece from defaulting on debt and a restructuring programme has been prepared. Equity markets rebounded strongly to this news at the end of April with a small claw-back of earlier losses on the last day of trading. However, there is still considerable uncertainty in the markets about the size of the package needed to bail out Greece (and others), which led to further falls in global markets in early May. It remains to be seen whether the same will happen in Spain and Portugal who are on a ratings watch and hover just above sub-investment grade.

Investment markets snapshot

Investment type	Performance
Australian Equities	-1.38%
International Equities (Unhedged)	-1.36%
Australian Listed Property Trusts	3.72%
Australian Government Bonds	0.55%
International Government Bonds	0.70%