



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

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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

July saw positive returns in global equity markets. In Australia the S&P/ASX 200 Accumulation Index rose 4.5%, while in the US market the S&P 500 gained 7% in local currency terms. This was largely driven by a very encouraging earnings season with three quarters of all companies reporting profits for the quarter exceeding analyst expectations. Australian companies are due to report their annual profits throughout August, and it will be interesting to see if they can follow in the footsteps of US companies.

The Reserve Bank of Australia (RBA) left interest rates on hold in July for a third consecutive month. Towards the end of the month, the rate of inflation for the quarter ending June 2010 was released. There were some minor surprises in the numbers, coming in below expectations indicating that the economy is not growing at the same rate as many had believed. The inflation rate as measured by the Consumer Price Index (CPI) was 3.1% for the year ended June 2010, which is marginally outside of the RBA's target level of between 2% and 3%. This is not a level that is likely to cause too much concern for the RBA as the central bank also looks at other measures of inflation in addition to the CPI. These alternative measures remove the most volatile sectors which can have an undue and distorting influence on the CPI result. For example the RBA Trimmed Mean measure of inflation was 2.7% for the year, which sits firmly within the target range. There is still a possibility that the RBA could raise interest rates over the

Monthly economic e-news



coming months in order to keep inflation within that range and avoid the risk of an overheating economy.

In the US, there still appears a long way to go before any kind of sustainable recovery can take place. To give you an idea of the problems the US is facing let's focus specifically on the state of California. There are concerns regarding the state's ability to repay its debt obligation, similar to what has happened in Greece, which has led to three days of enforced, unpaid leave per month for all government employees. While it may be thought that California is just a single state, it has the largest economy (as measured by GDP) of all US states and is 50% larger than the next biggest, Texas. California's size means that a default on debt would have more far-reaching effects than a default by any other state.

California has received the most publicity about its debt problems but it is not the only state confronting this challenge. It is widely expected that the US Federal Government will need to step in to bail out other troubled states in order to maintain some sort of economic stability. Long term, though, the financial health of the States must be questioned as everyone knows that you can't solve debt problems with more debt, especially as government debt levels are causing increasing nervousness in investment markets. It is likely that nationwide tax rate increases and a reduction in services will be required in order to finance these debt levels. Ultimately, though, it is patience that is required as there appears to be no meaningful solution in the near term.

On a more positive note, US GDP was released during the month with a year-on-year growth of 3.2%. Given the current backdrop, this was very encouraging with March 2005 being the last time yearly GDP growth reached this level. One thing to bear in mind with this current release is that it comes off a very low base so it may be best not to read too much into this result. It is, nonetheless, encouraging and indicates that the stimulus measures of the past year or so have been effective. With sustained low interest rates and signs that the labour market may be improving, it is perhaps not all doom and gloom for the future.

Investment markets snapshot

Investment type	Performance
Australian Equities	4.48%
International Equities (Unhedged)	0.73%
Australian Listed Property Trusts	1.02%
Australian Government Bonds	0.08%
International Government Bonds	0.93%

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