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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 financial year finished off with another negative month after the Australian share market returned -2.6% in June. This follows negative returns in the two previous months as share markets around the world reacted to gloomy economic news. The European debt situation is still unresolved with concern mounting that the bail-out package will do little more than transfer the ownership of the debt rather than fix the problem. Adding to the concerns was the announcement at the end of the month that Spain is being put on a ratings watch by Moody's, who quoted "deteriorating" growth prospects within the country as the reason.

The change in leadership in June, with Julia Gillard replacing Kevin Rudd as Prime Minister, will have an impact on the economy but in what direction remains to be seen. One significant source of turmoil, though, has already been resolved. The Resources Super Profit Tax (RSPT) was announced in May following the Henry Tax Review, which sought to redistribute revenue on resources more evenly throughout Australia. This led to a significant sell-off in mining stocks as previous after-tax profit estimates were revised downwards. Ms Gillard has negotiated a new arrangement with the mining companies which features a lower tax rate and a higher tax threshold.

The Reserve Bank of Australia left interest rates on hold in June stating that "interest rates to borrowers are around their average levels of the past decade". This is a significant change from one year ago when rates were set to constrain inflation and an economy that seemed to be growing fast. The market is currently not expecting a further rise in July, but Governor Glenn Stevens did imply that they may resume rate increases in the future by stating that "the Board views this setting of monetary policy as appropriate for the near term."

In the US, there is renewed concern about unemployment, which has helped to drive markets down. It is expected that the July unemployment rate announcement will reflect an increase as June data indicates that initial and continuous jobless claims increased in that month. This is worrying news for the US, which needs a stable labour market in order to sustain economic growth. This ties in with a fall in consumer confidence and a reduction in new and existing home sales. These measures are all good indicators of the direction in which the economy is heading and it is hard to see any significant growth over the next year based on these figures.

The Chinese economy appears to be slowing down marginally with a fall in the rate of growth in industrial production and manufacturing. This could potentially affect the Australian economy if the rate of growth continues to slow as the demand for raw materials is likely to decrease.

The Chinese government, though, has announced that it will abandon its currency peg to the US Dollar. The Remnimbi is expected to appreciate against other major currencies, which is being seen as a positive by financial markets as it makes it cheaper for China to purchase imports from other countries. Conversely, it does make exports to other countries more expensive which may harm trade on which China heavily relies. Ultimately, it looks like a wise decision as it gives the Chinese more flexibility and improves their ability to manage economic uncertainty around the globe.

Investment markets snapshot

Investment type	Performance
Australian Equities	-2.59%
International Equities (Unhedged)	-4.15%
Australian Listed Property Trusts	-0.84%
Australian Government Bonds	1.51%
International Government Bonds	1.11%

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