



**ENERGY INDUSTRIES®**  
SUPERANNUATION SCHEME

# APRIL 2011

## 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.

## Market review

April saw negative equity (share) market returns in Australia, with global equities also finishing the month with negative returns due to the strength of the Australian Dollar.

The Australian share market returned -0.29%, the first negative monthly return since November 2010. By mid April the share market had recovered by over 10% from its lows in the aftermath of the Japanese earthquake, before investors were spooked by sovereign debt fears in the United States and the potential impact of the strong Australian dollar on company earnings.

In fixed interest markets, Australian government bonds returned an average 0.5%, while global government bonds returned 1.01% on a hedged basis. This was the biggest monthly return since August as cooling economic growth, plus the US Federal Reserve's commitment to maintain stimulus encouraged demand for the safety of government debt.

Once again, the Reserve Bank of Australia decided to leave interest rates unchanged at 4.75%, comfortable in its view that "the current mildly restrictive stance of monetary policy remained appropriate in view of the general macroeconomic outlook."

## Economic news

The US Federal Reserve reaffirmed its view that current economic conditions in the US would most likely "warrant

## Monthly economic e-news



exceptionally low levels for the federal funds rate for an extended period". With interest rates as low as zero in the US and Japan, there is strong investor demand for higher-yielding assets, which contributed to the strength of Australian Dollar against the US Dollar.

The Australian Dollar's continued rise has sparked warnings of currency-driven earnings downgrades for companies in the Australian share market in the coming weeks. This is because companies, especially those that derive a significant part of their earnings from overseas markets (such as exporters) may start to count the cost of the strong Australian Dollar on earnings.

In the United States a strong earnings season propelled the Dow Jones industrial average and the S&P 500 to their highest levels in almost 3 years. Earnings-per-share beat estimates at more than three-quarters of the 298 companies in the S&P 500 that reported since April 11, boosting investor confidence.

The unemployment rate in Australia fell below 5 per cent to 4.9 per cent, courtesy of 37,800 jobs created in March, which was well ahead of the expected 24,000. The figure was very strong, especially as full-time jobs made up most of the gains. With the economy now operating at close to full employment, we may see wage pressures begin to accelerate as employers vie for limited labour resources.

Australia's consumer price index, a measure of inflation, gained the most in five years in the first quarter of 2011 as natural disasters boosted food costs and Middle East tensions drove fuel bills higher.

The Reserve Bank will be watching employment growth and consumer prices closely with further signs of inflation potentially triggering a rise in interest rates.

## Investment markets snapshot

Investment type	February performance
Australian Equities	-0.29%
International Equities (Unhedged)	-1.55%
Australian Listed Property Trusts	-0.32%
Australian Government Bonds	0.50%
International Government Bonds (Hedged)	1.01%

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