



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

The month of October saw small positive returns in share markets with the S&P/ASX 200 Accumulation Index up 1.78%, while the US equity market rose 3.80% as measured by the S&P 500 Index. Like September, share markets, especially in the US, suffered from a split personality. On the one hand, the majority of company earning announcements exceeded analyst expectations but on the other, there is great uncertainty about global economic conditions and whether the world economy, and in particular the US, can recover from the fallout from the credit crisis.

Interest rates in Australia were left on hold for a sixth consecutive month with the official overnight cash rate sitting at 4.5%, leaving further scope for rate rises in the near future¹. The Reserve Bank appears to be concerned about the rate of future inflation and is taking action to combat it now rather than acting when it is too late. With the continued mining boom increasing terms of trade and plenty of capacity for further growth it is easy to see why inflation could become an issue.

In currency markets, the Australian Dollar (AUD) very briefly reached parity to the US Dollar during the month, its highest level since it was floated on foreign exchange markets in 1983. Many had been waiting for this moment, but were not able to enjoy it for very long with the AUD quickly retreating after it reached this psychological milestone². There is increasing speculation over what

¹ The Reserve Bank did, in fact, raise interest rates at their November meeting by a further 0.25% to 4.75%.

² Since 1 November the AUD has maintained or exceeded parity with the USD.

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Monthly economic e-news



will happen to the AUD in the future with many analysts believing it looks overstretched at parity with the US Dollar. There are some key triggers which will drive it in one direction or the other like demand from China for raw materials and the overall state of the US economy, but which direction will win out in the short term is uncertain.

The Chinese government has been taking action in order to cool the domestic economy, in particular the housing market, which has been seeing year-on-year price rises in excess of 10% in recent times. Some of the measures the government has adopted include significantly reducing the lending available to buyers of second and third homes and, more recently, increasing interest rates in order to deter consumers from borrowing funds to invest in property. What this means for us in Australia is that we may see a cooling in the Chinese economy, which may result in a decrease in demand for raw materials. China is currently Australia's largest trading partner with an estimated 23% of all Australian foreign transactions linked to China. A slowdown in Chinese growth would therefore have a significant effect on economic growth in Australia.

News from the US was muted again during October, with all of the major economic indicators coming in unchanged. Inflation remained steady at 1.1% for the year and unemployment rose marginally to 9.6% from 9.5% previously. With cash rates at around 0.25%, there is little more that can be done from a monetary standpoint in order to provide stimulus to the economy. Quantitative easing, which means an increase in the money supply engineered by a central bank, is looking increasingly likely with the Federal Reserve Chairman Ben Bernanke stating in his address to the Federal Reserve Bank on 15th October that "there would appear – all else being equal – to be a case for further action". Most commentators agree that this was a reference to quantitative easing, but questions remain about the degree and the possible effects of such a policy. While it is likely to act as an economic stimulus there are also risks such as long-term inflation and in the short term the likelihood of a further weakening of the US Dollar.

Investment markets snapshot

Investment type	Performance
Australian Equities	1.78%
International Equities (Unhedged)	2.50%
Australian Listed Property Trusts	-0.45%
Australian Government Bonds	-0.26%
International Government Bonds	-0.04%