ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

SEPTEMBER 2009

Monthly economic e–news

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

In September the rally continued with global equity markets producing further positive returns. Meanwhile, bond markets also stabilised and the Aussie Dollar rose against most of the major currencies.

The Reserve Bank left cash rates on hold during September at 3%. Perhaps a little earlier than expected the Reserve Bank raised rates by 0.25% in early October. The justification for this rate rise was driven by much of the positive economic news released during September. GDP rose by 0.6% for the quarter, whilst unemployment remained stable at 5.8% for a fifth consecutive month.

On the consumer side, new motor vehicle sales rose by 0.3% and retail sales rose by 0.9% from the previous month. All of these factors underline the fact that the economy is now expanding and consumers are gaining confidence to go out and spend.

A rate rise is aimed at slowing economic growth if the Reserve Bank feels that inflation may exceed its target level and the positive news makes further rate rises increasingly likely.

In the United States, there was mixed economic news during the month. The positive news was received with open arms, whilst the negative news was largely ignored! This sparked further positive equity market returns and the market was not subjected to the “September effect”, which sees September as the worst performing month for equity markets on average over the past 100 years. This phenomenon is usually largely caused by the end of the American holiday season, when investment professionals return to work and start selling down in order to take some profits from the period in which they were away.

However, to every rule there is an exception and this month was certainly one of these exceptions. The US equity market was also buoyed by further government stimulus. In particular the ‘Cash for Clunkers’ program sparked a frenzy of new car purchases, which continued into September. This program rewarded consumers for trading in their old petrol-guzzling cars in favour of lower-emissions cars. An increase in retail sales of 2.7% from the previous month was certainly inflated by this initiative.

One of President Obama’s most controversial decisions in his short time in power has been to apply higher tariffs on imports of tyres from China. The aim of this bill is to promote domestic trade and create more jobs in tyre manufacturing. The downside, though, could far outweigh this if China decides to retaliate. The Chinese government has been known to react to this type of action before so it will be interesting to see what repercussions this might have on global trade.

Finally, September saw the meeting of the G20 in Pittsburgh. Much of the talk at the forum focussed on the amount of stimulus that has been injected into world economies and whether now was the time to start winding some of it back. The general consensus appears to be “no” at the current time. Australian Treasurer Wayne Swann justified the continuance of stimulus measures saying that it is “too soon” to withdraw stimulus and any withdrawal should be “coordinated globally” so as to not hinder countries that have not fared as well as Australia.

Investment markets snapshot

Investment type	Performance
Australian Equities	6.24%
International Equities (50% hedged)	1.03%
Australian Listed Property Trusts	9.77%
Australian Government Bonds	0.68%
International Government Bonds (Hedged)	0.73%