



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

November saw the Australian share market return to positive territory after October's fall, and global share markets followed suit, with the MSCI World ex Australia Index (the measure of global share markets as a whole) rising 2.79% on an unhedged (or unprotected against currency fluctuations) basis.

The Reserve Bank of Australia again raised interest rates on Melbourne Cup day by a further 0.25% to 3.50%, which leaves Australia with the highest interest rates amongst the world's developed nations.* This has been one of the main drivers of the strength of the Australian dollar over recent months as investors have been initiating carry trades to take advantage of the different interest rates available. A carry trade, in its simplest form, is when an individual borrows money from a country with lower interest rates (like the US) and invests in countries with higher interest rates (like Australia). The effect of this is a reduction in demand for US dollars and an increase in demand for Australian dollars. This change in demand increases the value of the Australian dollar against the US dollar. During November the Australian dollar reached a peak of 94.07cents to the US dollar, its highest level since August 2008.

Making other domestic news was the release of the unemployment figures, steady since March this year (5.8% for October). A stable unemployment rate indicates that businesses feel more confident about maintaining their workforces and gives the economy a chance to

Monthly economic e-news



strengthen as consumers are less worried about their jobs which flows through to consumer confidence and encourages spending. Throw in house prices increasing at a rate of 6.2% year-on-year and weekly wages rising by 5.2% year-on-year and it is easy to see why many investors are choosing Australia as a safe-haven to invest their money. Whether it is too much too fast and sustainable is another matter altogether, but at the moment the market is happy with how things are going.

Much of the share market rally that began in March this year has been driven by demand from China for natural resources as it plans numerous large-scale construction projects including a railway line from Shanghai to Beijing, stretching some 1,280km! The most populous country on the planet is throwing everything into expanding the economy to cater for the ever-increasing population and urbanisation that is occurring. The Chinese economy is currently estimated to be the third biggest behind USA and Japan as measured by GDP, but many believe that China will have the largest economy in the not-too-distant future, meaning that further attention will have to be paid to this region which will need further production to cater for the additional domestic demand.

For Australia, it has meant a spike in demand for its natural resources. As one of the leading exporters of natural resources this has had a huge impact on the domestic economy and the local share market with its substantial exposure (nearly 25%) to materials companies. The downside is that Australia may become overly reliant on China for economic growth. There are some who do not subscribe to the 'China will lead the world' story as we are seeing buildings being built with no apparent occupants and perfectly serviceable bridges being rebuilt for no good reason, which brings into question whether we are seeing real demand or whether the Chinese government is engaging in stimulus for stimulus sake. If Australia (and other developed nations for that matter) becomes too entrenched in relying on China for ongoing growth, what will happen if the expected demand and growth in China doesn't eventuate? We may see another correction as share markets adjust to this prospect.

*There was further rate rise of 0.25% declared on 1 December.

Investment type	Performance
Australian Equities	1.78%
International Equities (Unhedged)	2.79%
Australian Listed Property Trusts	1.01%
Australian Government Bonds	1.67%
International Government Bonds	1.20%

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