



ENERGY INDUSTRIES®
SUPERANNUATION SCHEME

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Investment Director

In his role as Investment Director, Daniel oversees the monitoring and management of fund managers and provides advice on asset class strategy and allocation.



Economic overview

December was a month of two halves with most asset classes selling off heavily earlier in the month after Dubai World asked for a standstill agreement in regard to \$5bn of debt due for repayment. However, Equity markets rallied again in December ending 2009 on a strong note. The ASX200 Accumulation Index returned 3.74% for the month and 37% for the year. The MSCI World ex Australia (LC) Index returned 3.6%, bringing the 2009 performance to 26.2%. Emerging Market equities was the star performer, with the MSCI Emerging Market (LC) Index returning 4.0% during the month and 58.6% for the year.

The Reserve Bank of Australia raised interest rates again by 0.25% in December which takes the interest rate to 3.75%, a record three consecutive months of interest rate rises. The rate rises were widely anticipated by market participants as the RBA gave indications of removing the emergency rate setting that brought the interest down to a historic low of 3% on the back of positive economic news domestically and importantly from China. Most notable in December was the news of a decline in the Australian unemployment rate in November from 5.8% to 5.7% and better than expected economic growth in China.

In the US, unemployment data for November surprised to the upside falling from 10.2% to 10% showing signs of stabilisation. Other positive news included stronger than expected retail sales, stabilising house prices and increase in manufacturing. The positive news raised the prospect of US increasing interest rates much sooner

Monthly economic e-news



than expected that saw the US dollar rally and bond prices fall. Much of the good news can be attributed to the government stimulus program such as the cash for clunkers program and the first home buyer's incentive put in place to tackle the worst recession since the great depression.

Looking ahead into 2010 we see considerable headwinds that may constrain further economic growth. In order for the markets to move higher corporate revenues will need to start growing again. This is highly dependent on consumers starting to spend on goods and services. However, there are several factors that are detracting consumers from spending.

First, the number of unemployed has significantly increased globally so those that have lost their jobs will have limited amounts to spend. Those still employed are worried about keeping their jobs and will cut spending and increase savings. Secondly, we have seen significant falls in house prices although Australian house prices have actually increased in 2009. Elsewhere around the world the fall in house prices means that homeowner's ability to withdraw equity for spending has diminished significantly. For example, in the US almost a quarter of households with a mortgage are in a situation where the amount they owe on their mortgage is greater than the value of their home. Third, financial institutions have suffered significant losses from bad loans and as a result have cut back on lending. This has led to businesses cutting back on purchases of new plants, equipment and inventory which all contribute to economic growth.

What this all means is that there needs to be further evidence of stabilisation in unemployment and positive economic growth feeding through to corporate revenues. With the unemployment rate and government debt in the US and Europe at elevated levels and consumers still struggling to reduce high levels of debt it all points to subdued consumer spending and lower corporate profits. Our view is that 2010 will be a tough year with most of the positive sentiment driven by a more favourable economic outlook for the Emerging Markets and in particular Asia. However, too much reliance on Emerging Markets is also a potential risk if they fail to meet the optimistic expectations of many investors.

Investment type	Performance
Australian Equities	3.7%
International Equities (Unhedged)	3.6%
Australian Listed Property Trusts	3.4%
Australian Government Bonds	-0.7%
International Government Bonds	-0.7%

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