

# INVESTMENT REVIEW & Outlook

November 2008

## Australian economy

The global economic and financial environment has deteriorated significantly in the past month, with the Australian economy forecast to grow by only 1.3% in 2009 and by 1.5% for the 2008 to 2009 financial year. The Reserve Bank of Australia cut rates a further 100 basis points (1.0%) in October, followed by a further 75 basis points (0.75%) in early November. This is a clear signal that the threat to growth is taking priority over the threat of inflation.

On 12 October 2008, the Australian Government announced it would guarantee deposits in Australian owned banks, locally incorporated subsidiaries of foreign banks, credit unions and building societies for a period of three years. It later refined the guarantee to only cover deposits of up to \$1m.

## Australian shares

The lack of confidence that spread through financial markets during September escalated in the early part of October. Equity markets were the more noticeable casualties with the Australian sharemarket hitting a 4 year low on 28 October. The All Ordinaries index fell 14.0% during October with the year ending 31 October at -41.3%.

## Global economy

US gross domestic product (GDP) fell at an annualised rate of 0.3% in the third quarter, which was a little better than forecast, but still the second fall in GDP in the past year. Following the emergency 50 basis points (0.5%) cut in interest rates on 8 October, the US Federal Reserve lowered the Federal funds rate a further 50 basis points to 1.00% on 30 October. Europe and Japan followed suit, making a series of rate cuts as their economic outlook also deteriorated.

Chinese GDP expanded by 9.0% over the 12 months ending September 2008. This was down from 10.1% over the 12 months ending June 2008 and was the weakest increase since early 2003. The Chinese authorities are responding with a broad range of fiscal measures and there is significant scope to further boost infrastructure spending.

## International shares

Equity markets had a terrible month in October. Fears about the impact of the global financial turmoil saw investors seek safe havens, selling equities in favour of perceived less risky assets.

At one stage the US market was down by 27% from its level at the end of September. The rally since 27 October however, had seen the index rise by 18% off its lows.

## October market performance

Equity Markets – Price Indices		At Close	% Change	% Change
Index		31/10/08	1 Month	12 Months
Australia	All Ordinaries	3982.71	-14.0%	-41.3%
Japan	Nikkei	8576.98	-23.8%	-48.8%
Hong Kong	Hang Seng	13968.67	-22.5%	-55.4%
UK	FTSE 100	4377.34	-10.7%	-34.9%
Germany	DAX	4987.97	-14.5%	-37.8%
US	Dow Jones	9325.01	-14.1%	-33.1%
EMU*	Euro 100	2008.13	-11.5%	-39.8%
World**	MSCI – Ex Aus	716.45	-16.6%	-40.0%

Property – Price Index		At Close	% Change	% Change
Index		31/10/08	1 Month	12 Months
Listed Trusts	ASX LPT	1022.85	-25.3%	-58.2%

Interest Rates		At Close	% Change	% Change
		31/10/08	1 Month	12 Months
Aust 90 day Bank Bills		5.81	-1.52	-1.21
Australian 10 year Bonds		5.15	-0.24	-1.02
US 90 day T Bill		0.44	-0.45	-3.47
US 10 year Bonds		3.96	0.14	-0.51

Currency		At Close	% Change	% Change
		31/10/08	1 Month	12 Months
US dollar	A\$/US\$	0.6679	-15.7%	-28.5%
British pound	A\$/STG	0.4140	-6.9%	-7.7%
Euro***	A\$/euro	0.5233	-6.8%	-18.8%
Japanese yen	A\$/yen	65.77	-21.8%	-39.0%
Trade-weighted Index		54.50	-14.0%	-24.6%

\* Top 100 European stocks trading on the FTSE

\*\* Source: www.msci.com

\*\*\* The euro was launched by European Monetary Union members on 1/1/99.

Source: Iress Market Technology

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