

November 2009

Australian economy

Reflecting the ongoing positive economic news, and to some extent the recovering equity market, consumer confidence improved further in October despite the Reserve Bank of Australia (RBA) again lifting rates. At the time of writing this review, consumer confidence for November fell slightly, suggesting that future interest rate rises may eventually impact consumer confidence. Nevertheless October's increase in consumer confidence was the fifth consecutive monthly rise.

There has been no change to the NAB's Australian Gross Domestic Product (GDP) forecasts and it still expects a flat second half of 2009, with GDP growth of 0.6% in calendar year 2009 and 2.1% in 2010. For the 2009 to 2010 financial year, NAB expects growth of 1.25%. This forecast is fairly close to the Government's forecast of 1.5%.

Global economy

US economic data released in October has provided more signs that the recession in the US is now over and a recovery is underway. However, economic indicators in the US were mixed. According to the US Commerce Department, US retail sales fell 1.5% during September. Motor vehicles and parts sales were a significant detractor, falling 11.8%, with the expiration of the Government 'cash for clunkers' programme. Excluding car and parts sales, all other retail sales increased 0.5%.

Equity Markets

Equity markets have gained strongly since the March lows. Markets are pricing in all the good news and investors risk appetites are increasing, leading to improvement not only in equity markets but also in commodities and currencies such as the Australian Dollar (AUD). However, further gains may be harder to achieve as the Australian market waits for evidence that the US economic recovery will continue and isn't only reliant on the fiscal stimulus provided by US Government. Concern also remains about the shape of the recovery. Will markets continue increasing, forming a chart in the shape of a 'V', or will there be another fall beforehand, forming the shape of a 'W'? So long as these concerns persist, the risk of equity market falls will remain.

While most returns will be modest or slightly negative for the month, this doesn't paint an accurate picture of what really happened. Firstly, October started on the back of market falls in the last few days of September. From the beginning to mid October, markets had increased a fair amount but by the end of the month had begun a backward slide extending into early November. Dr Shane Oliver of AMP Capital believes shares were due for a correction. He notes that shares had risen strongly since March but the last six months of increases were extreme. Dr Oliver notes *"while the strength of the rebound partly reflected the steepness of the falls last year... sharp gains in shares over short periods often leave them vulnerable to a pull back"*.

October market performance

Equity Markets – Price Indices		At Close	% Change	% Change
	Index	30/10/09	1 Month	12 Months
Australia	All Ordinaries	4687.3	-1.1%	2.3%
Japan	Nikkei	10075.05	-0.6%	-10.0%
Hong Kong	Hang Seng	21761.58	3.8%	16.3%
UK	FTSE 100	5080.42	-1.0%	4.7%
Germany	DAX	5496.27	-3.2%	-2.7%
US	Dow Jones	9762.69	0.5%	-10.5%
EMU*	Euro 100	2095.65	-1.1%	-6.6%
World**	MSCI - Ex Aus	778.186	-2.3%	-7.3%

Property – Price Index		At Close	% Change	% Change
	Index	30/10/09	1 Month	12 Months
Listed Trusts	ASX A-REITS	879.433	0.1%	-30.0%

Interest Rates		At Close	% Change	% Change
		30/10/09	1 Month	12 Months
Aust 90 day Bank Bills		3.91%	15.8%	-3.9%
Australian 10 year Bonds		5.70%	4.9%	0.0%
US 90 day T Bill		0.06%	-46.8%	-0.8%
US 10 year Bonds		3.42%	3.4%	-0.5%

Currency		At Close	% Change	% Change
		30/10/09	1 Month	12 Months
US dollar	A\$/US\$	0.8967	1.6%	11.4%
British pound	A\$/STG	0.54765	-0.8%	24.2%
Euro	A\$/euro	0.6098	1.2%	7.3%
Japanese yen	A\$/yen	81.345	2.7%	-5.8%
Trade-weighted Index		70.3	3.1%	7.6%

* Top 100 European stocks trading on the FTSE

** Source : www.msci.com

Source : Iress Market Technology

Past performance is not a reliable indicator of future performance.

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