

MONETARY POLICY IN FOCUS: AUSTRALIA

Cash Rate (%)		Change in GDP (%)		Inflation Rate (%)		Unempl. Rate (%)		Consumer Confidence (%)		Business Confidence (%)		Change in Retail Sales (%)		Change in Building Approvals (%)	
Jun '10	May '10	Q1 '10	Q4 '09	Q4 '09	Q3 '09	April '10	Mar '10	May '10	April '10	April '10	Mar '10	April '10	Mar '10	April '10	Mar '10
4.50	4.50	0.50	1.10	2.89	2.11	5.40	5.40	107.96	116.08	11.9	15.9	1.84	1.62	10.95	44.2

SUMMARY:

The RBA Board met on Tuesday, 1st June and decided to leave the official cash rate unchanged at 4.50% (in line with consensus). RBA Governor Glenn Stevens stated "a result of actions at previous meetings, interest rates to borrowers are around their average levels of the past decade, which is a significant adjustment from the very expansionary settings reached a year ago". The RBA remains firm that Australian GDP remains at trend, with inflation expected to be in the upper half of the 2-3% target zone over the next year. The Federal Budget was also released during the month. A key issue to emerge was the proposed resources profits-tax, which had a broadly negative influence on both business and consumer confidence levels.

Facts and Figures:

Unemployment – The unemployment rate remained at 5.40% in April (March's unemployment rate was upwardly revised in May from 5.30% to 5.40%). A rise in full-time employment, up 37,500 people to 7.736 million was offset by a fall in part-time employment, down 3,900 people to 3.290 million. This was the eighth consecutive month Australia has seen a rise in the number of people employed full-time.

Consumer Confidence – Confidence declined by 8% in May to 107.96 from 116.08 in April. The consecutive cash rate rises (and subsequent bank interest rate rises) in April and May, have dampened domestic consumer confidence. This has been reflected with a one month fall of 3.40% in home loans. The Federal budget also had a negative impact on consumer confidence. However, consumers continue to maintain a level of optimism given the strength and stability in the labour market, including an increase in job ads.

Business Confidence – Business confidence and conditions both declined significantly during the period. Confidence fell particularly sharply in the mining and manufacturing sectors. The proposed resources profit-tax as well as volatility in global equity markets contributed to the decline. Conditions in the mining sector were up sharply, due to the extended run in commodity prices and rising wages.

MONETARY POLICY IN FOCUS: GLOBAL

	Cash Rate		Inflation Rate (%)		Unemployment Rate (%)		Change in GDP (%)	
	June '10	May '10	Q1 '10	Q4 '09	April '10	Mar '10	Q1 '10	Q4 '09
USA	0.25	0.25	2.36	1.46	9.70 (May '10)	9.90 (April '10)	0.75	1.36
Japan	0.10	0.10	-1.16	-2.03	5.10	5.00	1.21	1.05
UK	0.50	0.50	3.95	0.63	4.70	4.80	0.31	0.44
China	5.31	5.31	2.20*	0.70*	N/A	N/A	11.90*	8.70*

* China's Inflation and GDP are calculated on a year on year basis.

SUMMARY:

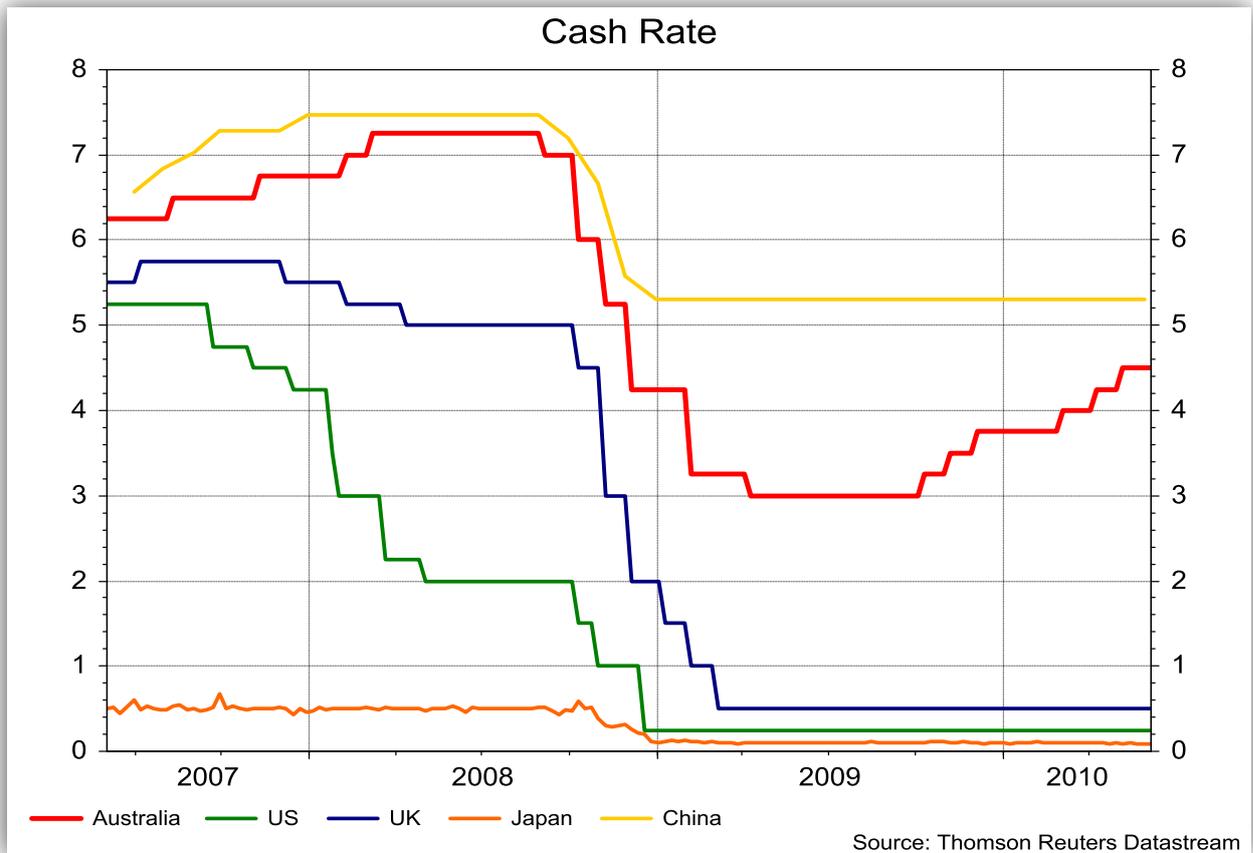
The US economic recovery slowed its pace during the month, however its outlook continued to improve and maintains on track for a rise of 3% in GDP in 2010. Indicators continue to remain relatively positive with a fall in unemployment by 20bps to 9.70% and the creation of 290,000 jobs in May. Ben Bernanke (Chairman of the Federal Reserve) stated that one of the disappointing issues presently facing the US is the decline in lending to small businesses, although admitted that distinction between demand and supply is hard to define. Furthermore, the Fed has reiterated its position to maintain the cash rate at 0.25% for the foreseeable future pending a sustained level of durable growth in the local economy.

Japan's economy continues to experience a deflationary period although the severity of this appears to be abating, mainly due to increased exports and production on the backdrop of a high growth period in the emerging economies. The Bank of Japan's (BOJ) minutes suggested that due to market sensitivities, monetary policy "will aim to maintain the extremely accommodative financial environment", suggesting that the current overnight call rate is likely to remain in a similar bracket for the long term. As such BOJ has maintained the overnight call rate at 0.10%.

The **UK** economy recorded an upwardly revised growth in Q1 GDP of 0.31% (previously 0.20%), however still remained well below market estimates that predicted growth of 0.40%. CPI inflation spiked at 3.95% in March, largely due to currency devaluations which have been reflected in the increased contribution from food and energy prices. Also affecting inflation is the loose policy stance by the Bank of England. Despite this, inflation remains broadly in line with the target range. Inflationary risks are being considered in conjunction with Euro sovereign default risk, which has the potential of negatively impacting UK's exports. The Bank of England decided not to alter the asset purchase program and has kept interest rates on hold at 0.5%.

China's trade deficit felt last month has been absorbed and is expected to return to a surplus, with exports increasing by 33% from one year ago. China's inflation has heated up (expected to already be 3%) on the back of higher minimum wages and a loose monetary policy. The Peoples' Bank of China (PBC) aims to contain the level of inflation at approximately 3% YoY. In addition, in May the PBC increased the required reserve ratio held by large and small banks by 0.50% in an effort to contain property prices, while avoiding the use of a cash rate adjustment that will affect the entire economy. The PBC has maintained the cash rate at 5.31%.

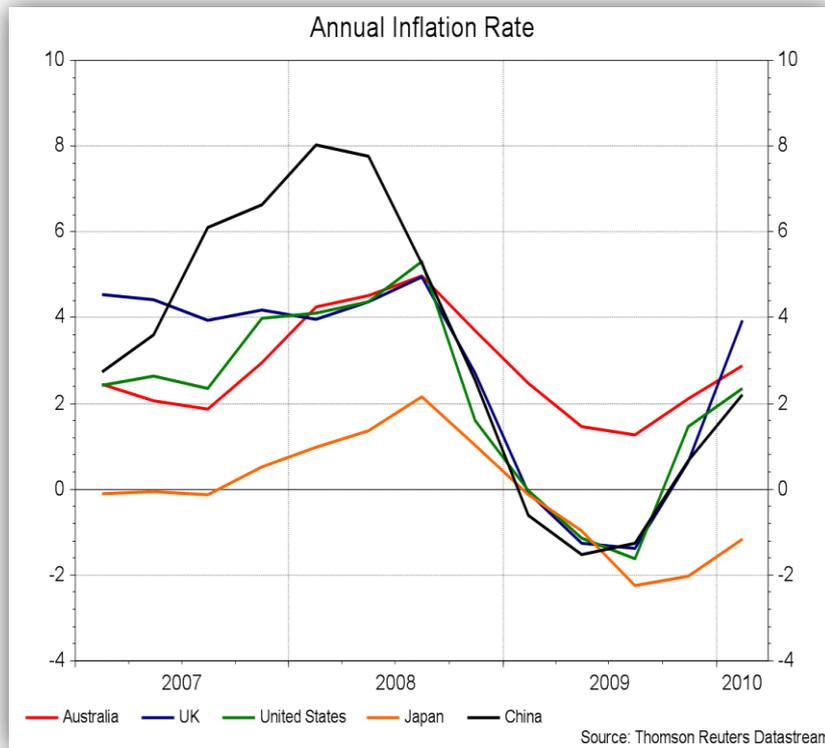
CASH RATE



- The RBA left the cash rate unchanged at 4.50% in April.
- US, UK, China and Japan left their respective cash rates unchanged.

ECONOMIC INDICATORS

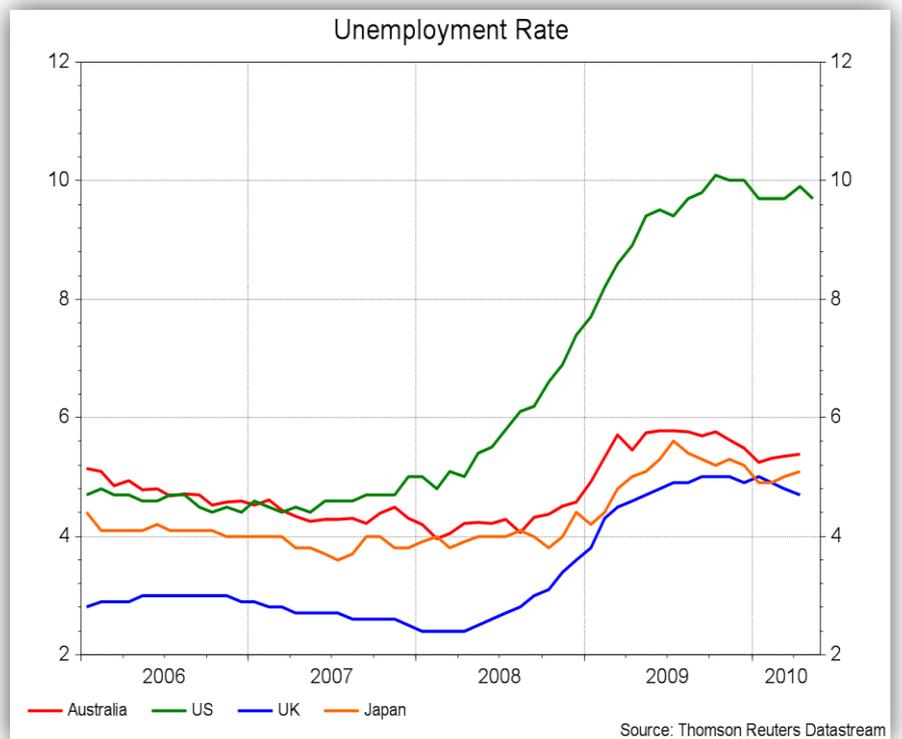
ANNUAL INFLATION RATE (UPDATED QUARTERLY)



- Australia's inflation rate increased by 2.90% in Q1.
- Japan's inflation rate decreased by -1.16% in Q1.
- UK inflation increased by 3.95% in Q1.
- US inflation increase by 2.361% in Q1.
- China's inflation has spiked by 2.20% in Q1.

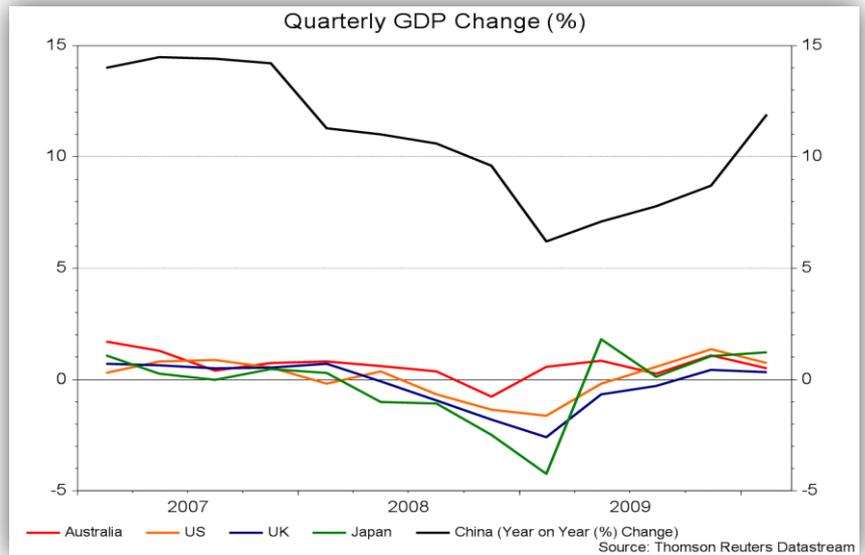
UNEMPLOYMENT RATE

- Australian unemployment rate remained steady at 5.40% in April, after March's figure was revised upward in May.
- US unemployment rate improved 20 bps to 9.70% in May.
- UK unemployment rate declined another 10 bps to 4.70% in April.
- Japan's unemployment rate increased to 5.10% in April.

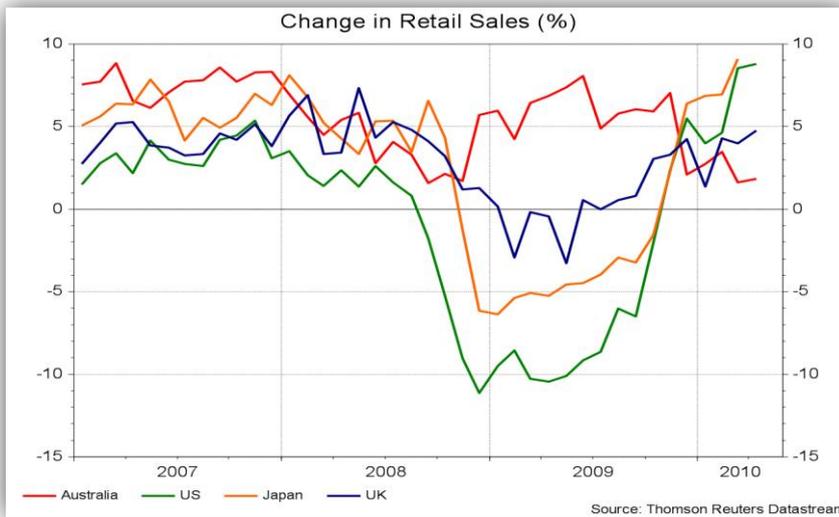


QUARTERLY GDP CHANGE (UPDATED QUARTERLY)

- US GDP marginally improved in Q1 by 0.80%.
- UK GDP rose by 0.20% in Q1 below market expectations.
- Japan's GDP rose to 1.21% in Q1.
- China recorded a year-on-year growth in GDP of 11.90% in Q1.
- Australia's GDP fell 0.50% in Q1.



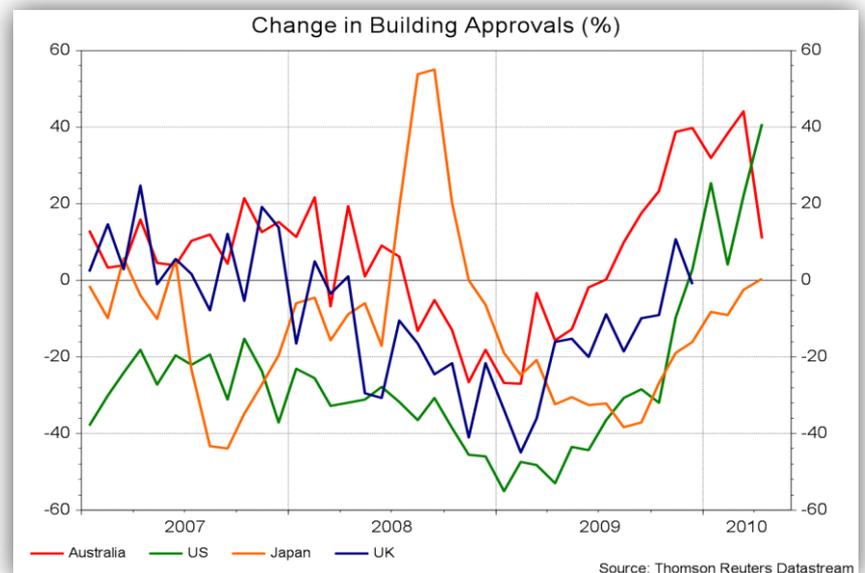
CHANGE IN RETAIL SALES



- US retail sales have increased dramatically by 8.82% in April.
- Japan's retail spending increased in April by 4.89%.
- Retail spending in the UK increased by 1.72% in April.
- Australian retail spending increased in April by 1.84%.

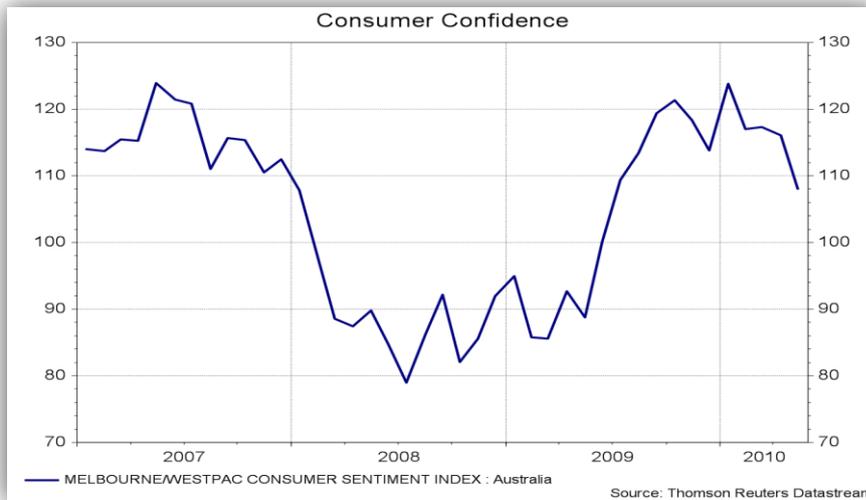
CHANGE IN BUILDING APPROVALS

- Australian building approvals had increased by 10.95% in the 12 months to April.
- Japanese building approvals (have increased for the first time since October 2008, with a 0.60% increase in April.
- US building approvals improved dramatically in April up 43.30% from 12 months ago.
- UK building approvals declined in December by -0.96% from 12 months ago.



SENTIMENT INDICATORS

CONSUMER CONFIDENCE (UPDATED QUARTERLY)



- Australian consumer confidence declined by 8% in May to 107.96.

BUSINESS CONFIDENCE

- Business confidence significantly declined in May to 2.2 from 11.9 in April.



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