

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 (%)	
Feb .10	Jan .10	Q3 .09	Q2 .09	Q4 .09	Q3 .09	Dec .09	Nov .09	Jan .10	Dec .09	Dec .09	Nov .09	Dec .09	Nov .09	Dec .09	Nov .09
3.75	3.50	0.19	0.64	2.11	1.26	5.50	5.60	123.86	113.77	6.9	15.9	2.07	7.29	38.90	36.40

SUMMARY:

The RBA Board met on Tuesday, 2nd February and decided to leave the official cash rate unchanged at 3.75% (consensus forecast was for a 0.25% increase). RBA Governor Glenn Stevens stated "A steady setting of monetary policy is appropriate for the time being". The RBA's decision provides additional time for the domestic economy to absorb the previous three cash rate adjustments (equating to 0.75 basis points). The Board also indicated that "Monetary policy will, over time, need to be adjusted further in order to ensure that inflation remains consistent with the target over the medium term". Inflation over the short term is expected to remain within the RBA's bands (2% -3%), given the steep decline in commodity prices and private sector labour costs, although these forces are slowly abating.

Facts and Figures:

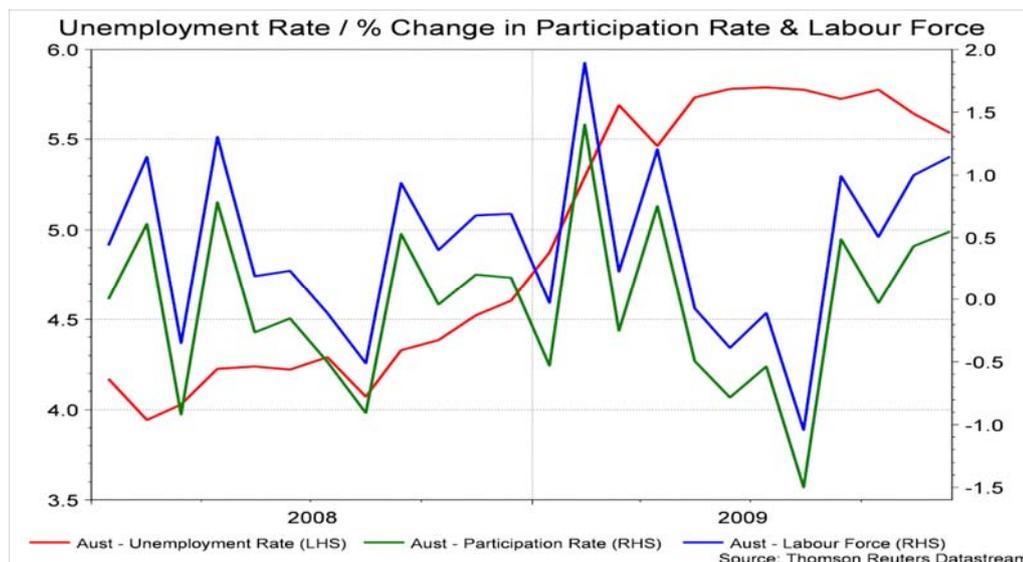
Unemployment rate – The rate of unemployment peaked at 5.80% in October and declined late in 2009 to 5.50% in December. The ANZ Job Advertisement Series recorded its largest monthly increase in job ads in December of 6% since May 2007, although job ads remained 22.6% lower than a year ago. A lagging indicator to an economic recovery, the unemployment rate is expected to continue to improve, as domestic growth and business confidence strengthen.

Inflation rate – Inflation increased by 0.5% during the December quarter (above market expectations of 0.4%) which equates to an annualised figure of 2.11% for 2009. The rate of inflation is within the RBA's band of 2% - 3%; however expectations are for a moderate increase in inflation in Q1 2011 as the domestic economy moves towards full capacity.

Consumer Confidence – The Westpac-Melbourne Institute Index of Consumer Sentiment increased by 5.6% in January from 113.8 in December to 120.1 in January. The catalyst behind the increase being the halt in interest rate adjustment, improved labour market and recovery in domestic and world equity markets.

Retail Sales – Retail sales declined for the first time in five months in December to (+ 2.07%) as households cut spending at department stores and supermarkets according to the ABS. The outcome of the RBA's recent cash rate adjustments is taking effect as consumers reduce discretionary spending. The significant decline in retail spending may lead to the RBA maintaining a cash rate of 3.75% in March, as the effects of previous adjustments filter through.

Australian Economic Chart of the Month



The rate of domestic unemployment has to date peaked at 5.80% well below RBA expectations of 7.25%. The labour market has improved slightly during November & December buoyed by improving economic and equity market conditions domestically and within our major trading partner (China). The Labour force and participation rate (3 - month percentage change) are both trending upward coinciding with the improved domestic labour market.

MONETARY POLICY IN FOCUS: GLOBAL

	Cash Rate		Inflation Rate		Unemployment Rate		Change in GDP (%)	
	Feb .09	Jan .09	Q4 09	Q3 09	Dec .09	Nov .09	Q4 09	Q3 09
USA	0.25	0.25	1.46	-1.62	9.70 (Jan .10)	10.00 (Dec .09)	1.40	0.55
Japan	0.10	0.10	-2.03	-2.24	5.10	5.20	0.33 (Q3)	0.68 (Q2)
UK	0.50	0.50	0.63	-1.38	5.00	5.00	0.10	-0.16
China	5.31	5.31	0.70	-1.30	N/A	N/A	8.70*	7.70*

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

SUMMARY:

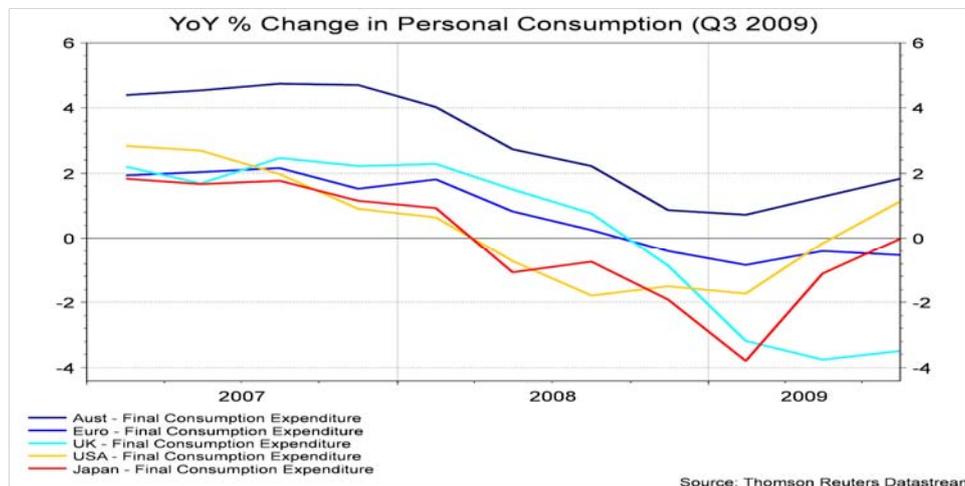
The **US** economy continued its fragile recovery based on further improvements in financial conditions and household balance sheets, continued recovery in the housing sector, growing household and business confidence, and accommodative monetary policy. The Federal Reserve expects core inflation to continue to slow given the level of economic slack. A slow recovery in the labour market has commenced with unemployment declining to 9.70% and payrolls reducing at a decreasing rate. The Federal Reserve has maintained the cash rate between 0.00% and 0.25%, and has indicated it will do so for the foreseeable future.

The **Japanese** economy continues to gather pace mainly due to the various policy measures implemented domestically and abroad, although there is not yet sufficient momentum to support a self-sustaining recovery in domestic private demand. Private consumption is picking up mainly due to the policy measures in place, despite the severe employment and income situation. Inflation has been declining on a year-on-year basis due to the substantial slack in the economy but the rate of decline has been moderating. The Bank of Japan (BoJ) recognises the critical challenges facing the domestic economy (i.e. deflation and a return to a sustainable growth path with price stability). In addition, the BoJ will continue to constantly make contributions as central bank and will encourage the uncollateralised overnight call rate to remain at around 0.10%.

The **UK** economy has recorded growth of 0.10% in Q4 2009, its first quarter of growth since Q1 2008. A dramatic rise in CPI (Consumer Price Index – Inflation) during Q4 has created a moderate level of concern for the Bank of England (BoE) with expectations of a sustained period of above-target inflation. The BoE's view on the inflation rate is that it will be below the target rate of 2% based on the balance between demand and the supply potential of the economy. Monetary Policy Committee (MPC) kept interest rates on hold at a record low of 0.5 per cent and stuck to its plan of buying £200 billion of gilts and corporate bonds.

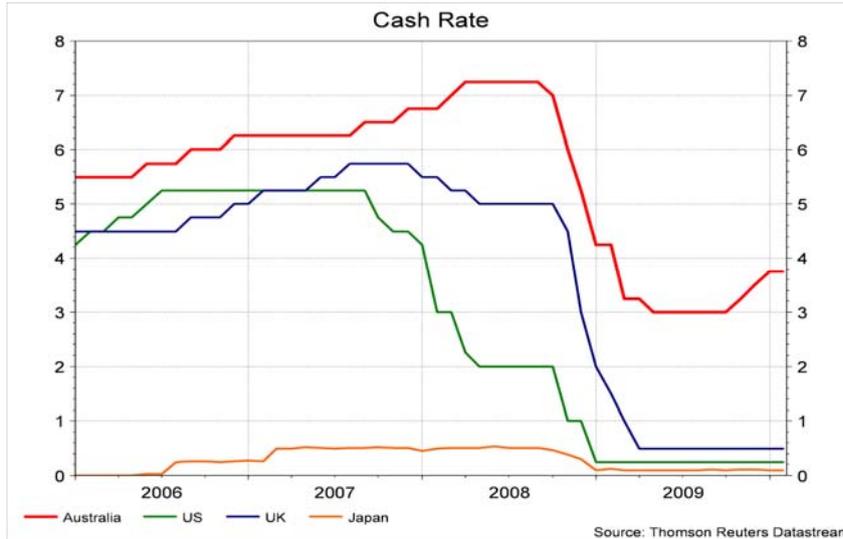
China achieved its GDP growth objective of 8.7% (year-on-year) in Q4, even with a decline in exports which shaved 4% of the headline figure of 12.5%. Industrial activity continues to accelerate, implying stronger GDP growth in the first quarter although rising input and output prices also points to greater inflationary pressure. In an effort to contain the pressure of inflation the People's Bank of China has increased the proportion of deposits that banks must tie up at the central bank by 0.50% (300 billion Yuan). The monetary policy implemented is in addition to the more common form of cash rate adjustments, which are expected to re-commence in Q3 – Q4. The People's Bank of China has maintained the cash rate at 5.31%.

Global Economic Chart of the Month



Consumer consumption has declined dramatically year on year (YoY) across the listed countries and region since late 2007. An upward trajectory recommenced in Q1 2009, with the exception being the Euro region and UK. The importance of consumer spending as a factor of GDP growth is significant, for example in the US approximately 70% of GDP is generated from consumer consumption. Australian consumers have maintained a positive level of consumption growth YoY (albeit at a decreasing rate) during 2007 - 2009.

CASH RATE

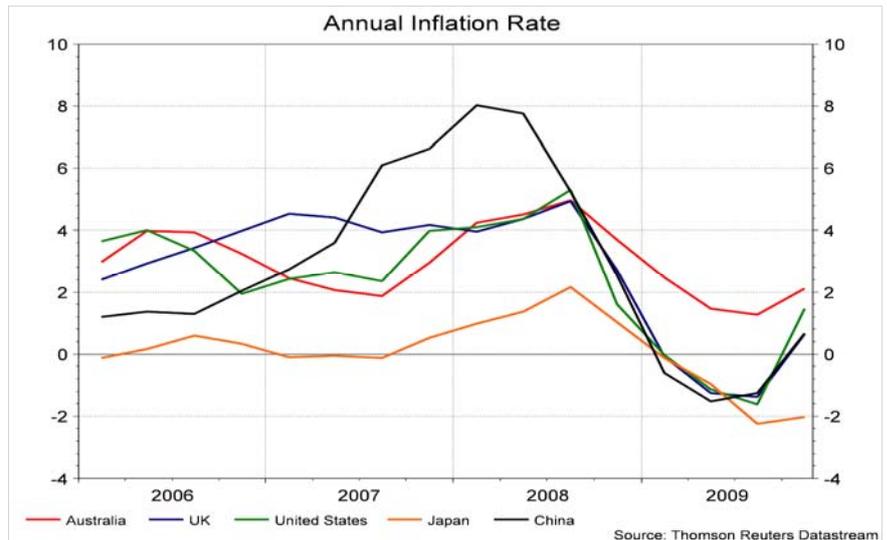


- The RBA maintained a cash rate of 3.75% in February.
- US, UK, China and Japan left their respective cash rates unchanged.

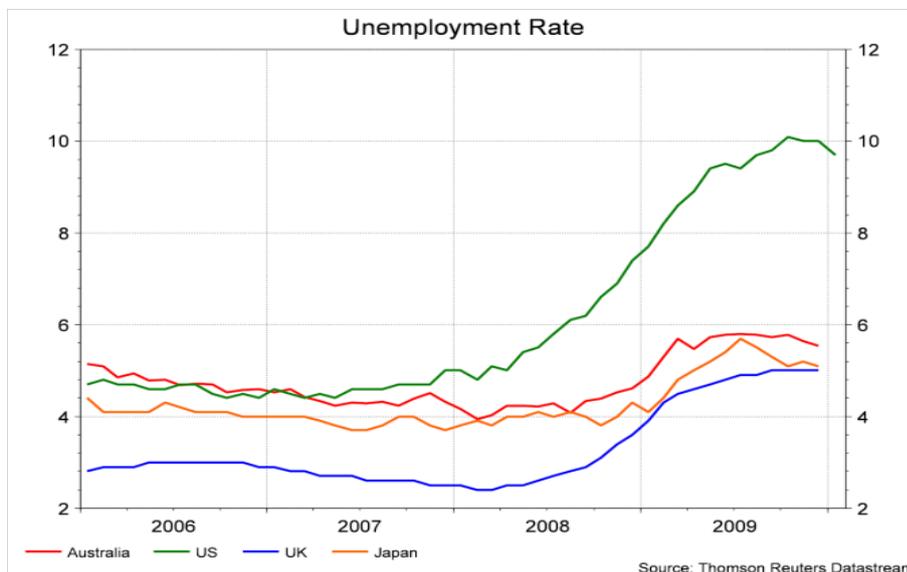
ECONOMIC INDICATORS

ANNUAL INFLATION RATE (UPDATED QUARTERLY)

- Australia's inflation rate increased to 2.11% in Q4.
- Japan's inflation rate decreased in Q4 to -2.03%.
- UK inflation figures increased to 0.63% in Q4.
- US inflation increased dramatically to 1.46% in Q4.



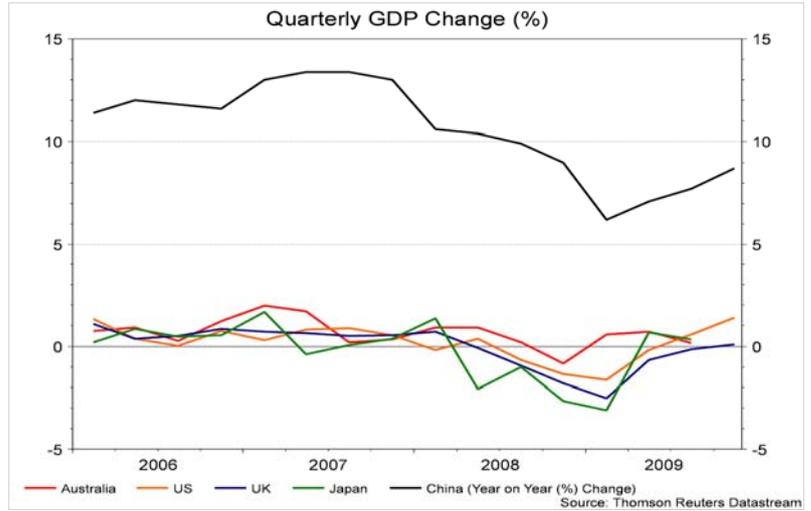
UNEMPLOYMENT RATE



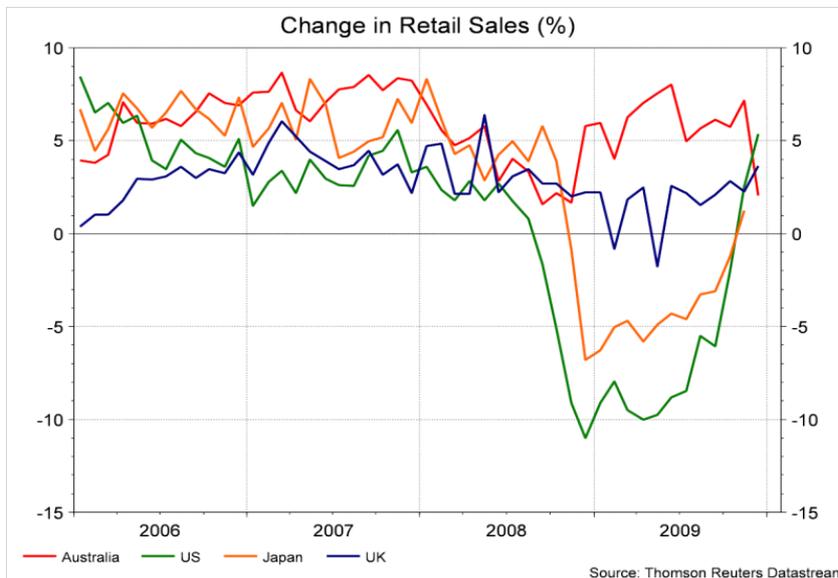
- Australian unemployment rate declined to 5.50% in December.
- US unemployment rate declined to 9.70% in January.
- UK unemployment remained at 5.00% in December.
- Japan unemployment rate declined in October to 5.10%.

QUARTERLY GDP CHANGE (UPDATED QUARTERLY)

- US GDP rose for the first time since Q2 2008 to 1.46% in Q4 2009.
- UK GDP rose by 0.10% in Q4.
- Japan's GDP rose to 0.33% during Q3.
- China recorded a year-on-year growth in GDP of 8.70% in Q4.
- Australia's GDP rose to 0.19% in Q3.



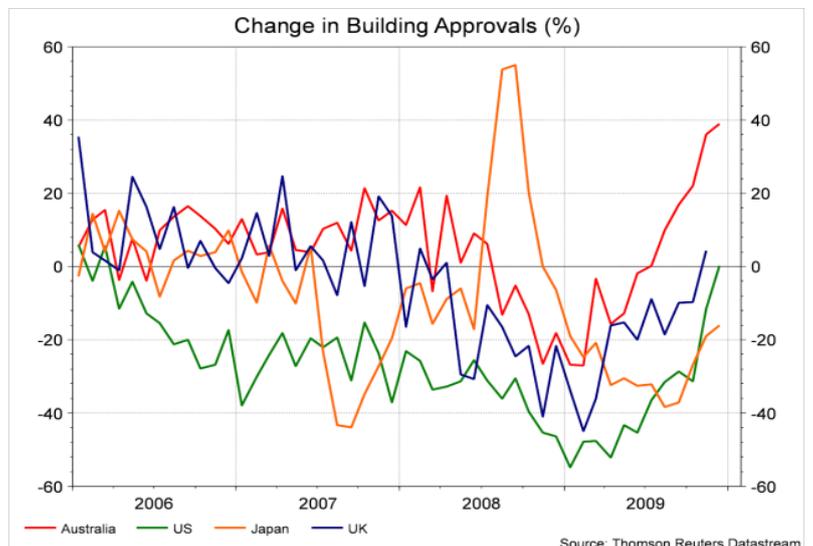
CHANGE IN RETAIL SALES



- US retail sales increased by 5.36% in December.
- Japan's retail spending declined at a decreasing rate in December to -0.34%.
- Retail spending in the UK rose by 2.06% in December.
- Australian retail spending declined dramatically in December to 2.06% from 7.15% in November.

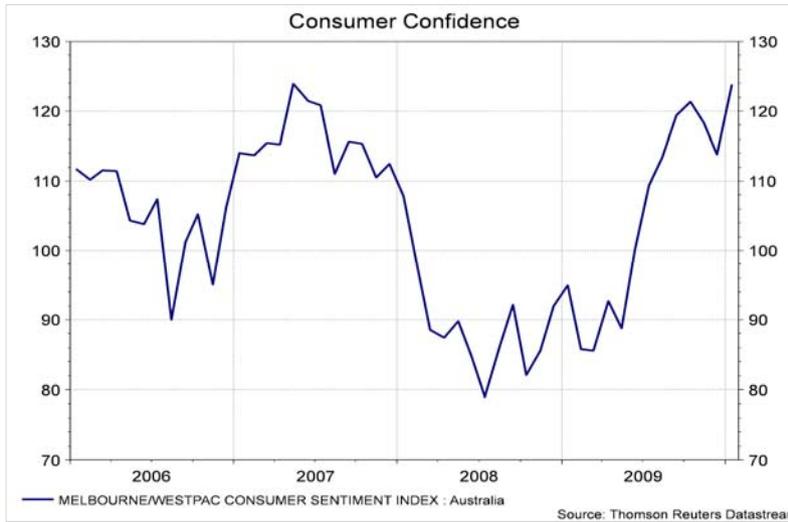
CHANGE IN BUILDING APPROVALS

- Australian building approvals increased slightly in December to 38.9.
- Japan building approvals decreased at a decreasing rate to -16.10.
- US building approvals grew by 0.20 in December the first positive month since February 2005.
- UK building approvals improved in November by 4.39.



SENTIMENT INDICATORS

CONSUMER CONFIDENCE (UPDATED QUARTERLY)



- Australian consumer confidence increased to 123.86 in January from 113.77 in December.

BUSINESS CONFIDENCE (UPDATED QUARTERLY)

- Business confidence declined for a second consecutive month to 9.6 in December.



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Data Source: Thomson Reuters

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