

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 (%)	
Oct .09	Sep .09	Q2 .09	Q1 .09	Q2 .09	Q1 .09	Sep .09	Aug .09	Sep .09	Aug .09	Aug .09	Jul .09	Aug .09	Jul .09	Aug .09	Jul .09
3.25	3.00	0.62	0.40	1.46	2.47	5.70	5.80	119.33	113.43	17.4	10.9	5.80	5.32	8.90	-0.20

SUMMARY:

The RBA Board met on Tuesday, 7th October and decided to raise the official cash rate by 0.25% (in line with consensus) to 3.25%. RBA Governor Glenn Stevens stated "The economic conditions in Australia have been stronger than expected" which has created inflationary pressures. The Board noted the following "Unemployment has not risen as far as had been expected...private investment not as weak as expected and growth through 2010 looks likely to be close to trend". Governor Stevens also indicated "The basis for such a low interest rate setting has now passed" with an aim to "increase the sustainability of growth in economic activity and keep inflation consistent with the target over the years ahead".

Australia became the first industrialised nation to increase local interest rates since the beginning of the global financial crisis. The RBA's decision, exemplifies the health and resilient nature of the domestic economy, which managed to avoid a technical recession (two quarters of negative growth) during the crisis. The unemployment rate declined during September to 5.70% (from 5.80% in August), with the creation of 40,600 new jobs, of which 35,400 were full-time positions. Market estimates predicted a rise in unemployment in September of 0.1% to 6.00%, with an estimated loss of 10,000 jobs. The decline in the unemployment rate was a contributing factor for the RBA, with another rate adjustment likely in November of 0.25%. Will the trend in unemployment continue or will the Federal Government's estimate of a further 100,000 job losses come to fruition over the coming quarters?

The RBA aims to keep inflation within a 2% - 3% band over the medium term and, subject to that, encourage strong and sustainable growth in the economy. Inflation was a prominent factor in the RBA's decision to raise the cash rate. Core inflation (excludes items which face volatile price movements) has exceeded the RBA's band based on the latest reading. The Board expected inflation to trend lower further in the short term, based on the dramatic slowdown in domestic and global growth; however domestic growth has been resilient to date and the RBA estimates growth will trend in-line with normal growth of between 3.25% - 3.50% in 2010. The RBA's growth expectations have increased dramatically over the past 12 months (since the middle of 2008) where expectations were in the region of 2.25% for 2010.

Federal Treasury Wayne Swan has reaffirmed the Federal Government's position to implement the full fiscal stimulus program over the prescribed time period to accommodate a sustained economic recovery. The stimulus components that have provided short term success (i.e. primary school building packages) have been granted more focus, with long-term infrastructure projects (i.e. road, port and rail infrastructure) re-confirmed as a required component of the program. The local economy has avoided recession, largely attributed to the Federal Government's stimulus package and pro-active monetary measures enacted by the RBA, with both initiatives gaining global recognition. As the local economy commences its upward ascent to recovery, the timeline for fiscal withdrawal and monetary tightening will be keenly observed, by the world's leading economies, as an exit strategy "blue print" to this unforeseen crisis. **The burning questions: Are the RBA estimates of domestic growth between 3.25% - 3.50% for 2010 realistic? Has the RBA moved to swiftly to contain inflationary pressures? Are additional cash rate adjustments warranted at this early stage of an economic recovery, which will ultimately impede export growth?**

MONETARY POLICY IN FOCUS: GLOBAL

	Cash Rate		Inflation Rate		Unempl. Rate		Change in GDP (%)	
	Sep .09	Aug .09	Q2 09	Q1 09	Sep .09	Aug .09	Q2 09	Q1 09
USA	0.25	0.25	-1.15	-0.04	9.80	9.70	-0.18	-1.65
Japan	0.10	0.10	-0.98	-0.13	5.50 (Aug)	5.70 (Jul)	0.56	-3.27
UK	0.50	0.50	-1.27	-0.08	5.00	4.90	-0.59	-2.49
China	5.31	5.31	-1.50*	-0.60	N/A	N/A	7.10*	6.10*

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

SUMMARY:

The **US** economic headwinds are still present. During the month retail sales declined by 2.1%, the largest decline for the calendar year. Consumer spending also declined and unemployment rose to 9.8% (peek expectations of 10.1% in Q2 2010) with over 7.2 million jobs lost since the beginning of the global financial crisis. Market consensus estimates point to GDP growth of 2.40% in 2010 and 2.80% in 2011, far below the 3.4% average recorded over the past six decades. Federal Reserve (Fed) has continued its open market operations (Fed have purchased \$857 billion of its scheduled \$1.25 trillion in mortgage-backed securities), albeit at a slower pace during the period. The Board has taken a unanimous view that an exit strategy will not be enacted in the short term as the domestic economy continues its recovery.

Nevertheless there were some positives to mention including a bounce back in US securities (up approximately 50% from its lows in March 2009). The housing market continues to improve, although constrained by a decline in personal wealth, while business spending continues to increase in order to restock inventory lines.

The Federal Reserve will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0.00% to 0.25% and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.

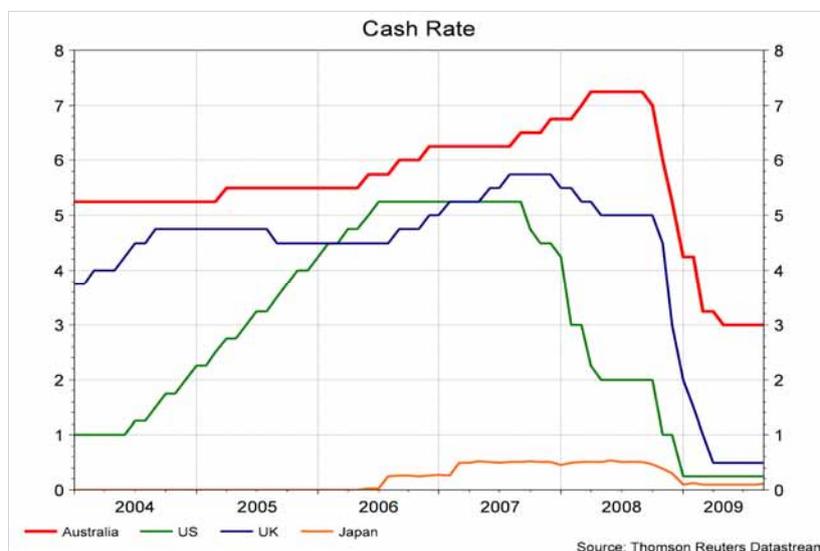
The **Japanese** economy expanded for the first time in more than 12 months in Q2 by 0.56%, with market estimates for growth in the 3rd quarter of 2.2%. Exports declined by 36% (year on year) in August, a decline of 0.7% from July, and the 11th month in succession, with demand from the global consumer slowing. The Japanese Government is tabling a spending package to support the Japanese workforce, with large corporations signalling further cost reductions in the short term, likely to conclude with a rise in unemployment. The economic positives include an increase in industrial production of 1.8%, an unexpected decline in unemployment by 0.20% to 5.50%, and consumer spending rose during the period by 2.6% year on year.

The Bank of Japan decided by unanimous vote to maintain the cash rate at 0.10%. The Bank will for the time being focus on the downside risks to economic activity and prices, and will endeavour to facilitate the return of the Japanese economy to a sustainable growth path with price stability.

UK GDP for Q2 was revised down to -0.59%, based on a combination of new construction and industrial production data released during the period. Industrial production declined 2.5% to its lowest level since 1992 in August. Business investment has been estimated to have declined by 10% in Q2, whilst consumer consumption has been estimated to have declined by 0.9% over the same time period. Unemployment increased during the period to 5% (from 4.90% in August) with an estimated 3 million unemployed by Q4 (currently at 2.41 million). The economic positives include a less aggressive run down of stock during the period, with positive contribution to GDP from restocking inventory lines, net trade (as imports fell), and government spending via the quantitative easing policy in place. The BoE voted to retain the bank rate at 0.50%, with the volume of quantitative easing to be maintained at £175 billion.

The **Chinese** economy has grown aggressively during the first eight months of the calendar year, generating 7.1% GDP (GDP estimates of 8.2% year on year for 2009), fixed asset investments grew by 33%, retail sales grew by 15.4%, and industrial output increased by 12.3%. The People Bank of China, the nation's central bank, has introduced measures to contain fiscal and financial risk by intending to limit the fiscal deficit and public debt to circa 3% and 20% of GDP, respectively. The moderately loose monetary policy implement by the central bank will be maintained for the time being, as world growth stabilises. The central bank will continue to ensure reasonable growth in loans, direct more financing towards that agriculture sector and small and medium-sized companies, plus boost consumer credit, which is seen as one of the best ways to boost domestic demand. The Central bank decided to maintain the cash rate at 5.31%.

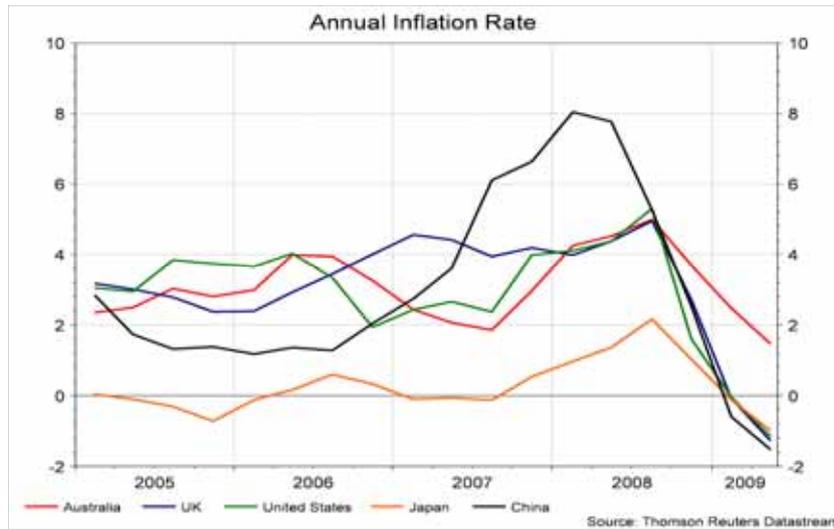
CASH RATE



- The RBA raised the cash rate by 0.25% to 3.25%. The graph does not reflect the recent adjustment.
- US, UK, China and Japan left their respective cash rates unchanged.

ECONOMIC INDICATORS

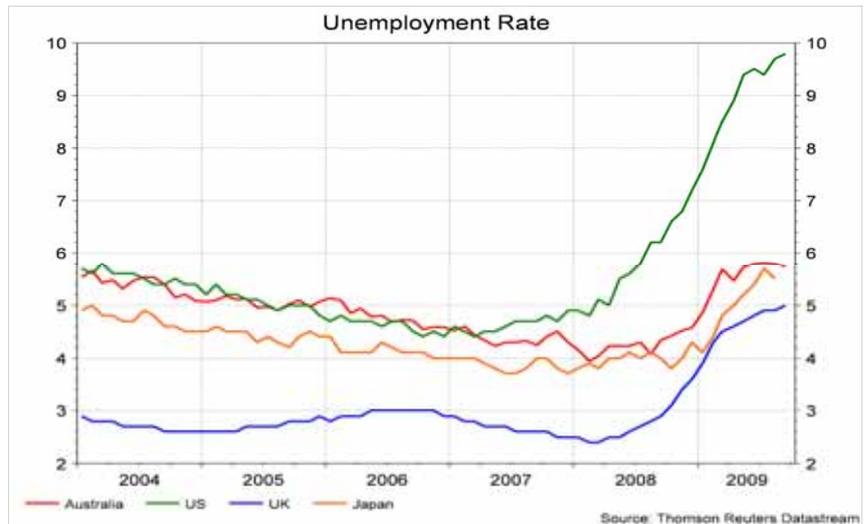
ANNUAL INFLATION RATE (UPDATED QUARTERLY)



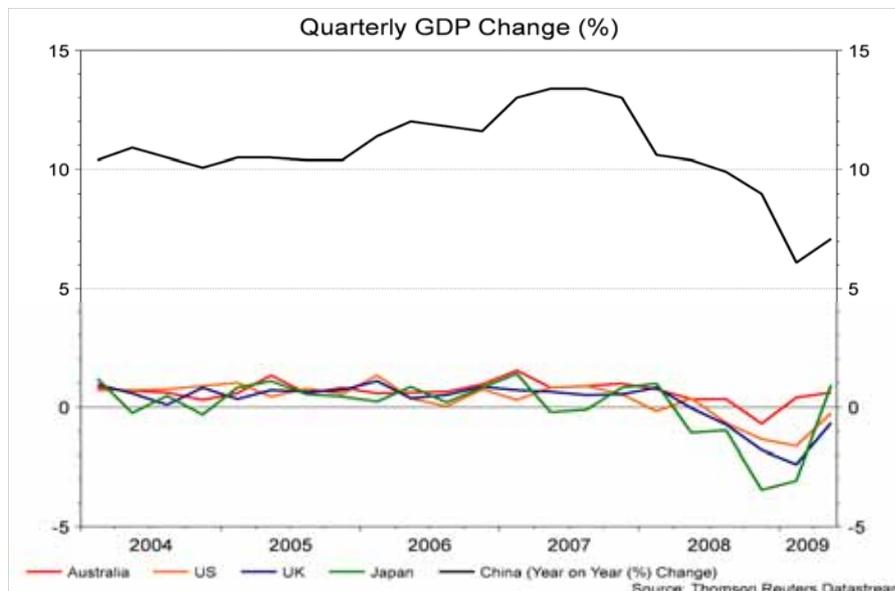
- Australia's inflation rate declined to an annual rate of 1.46% during Q2.
- Japan's inflation rate decreased during Q2 to -0.98%.
- UK inflation figures declined from -0.08% to -1.27% in Q2.
- US inflation declined to -1.15% during Q2.

UNEMPLOYMENT RATE

- Australian unemployment rate declined by 0.10% to 5.70% in September.
- US and UK unemployment rose to 9.80% and 5.00%, respectively in September.
- Japan unemployment rate declined in September unexpectedly by 0.10% to 5.70%.



QUARTERLY GDP CHANGE (UPDATED QUARTERLY)



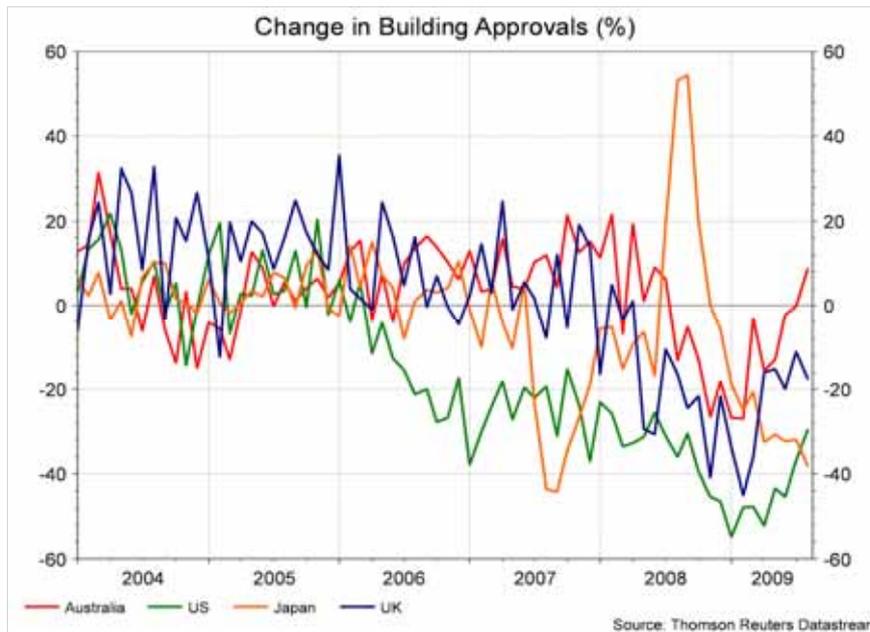
- US and UK GDP declined at a decreasing rate in Q2 to -0.18% and -0.59% respectively.
- Japan's GDP rose to 0.56% during Q2.
- Year on year GDP growth increased to 7.10% in China during the period.
- Australia's GDP rose to 0.62% in Q2.

CHANGE IN RETAIL SALES

- Australian retail sales increased to 5.80% in September.
- Japan's retail sales declined at a decreasing rate to -1.79% during the period.
- US retail sales declined at a decreasing rate to -5.8% during the period.
- UK retail figures declined to 2.09% during the period



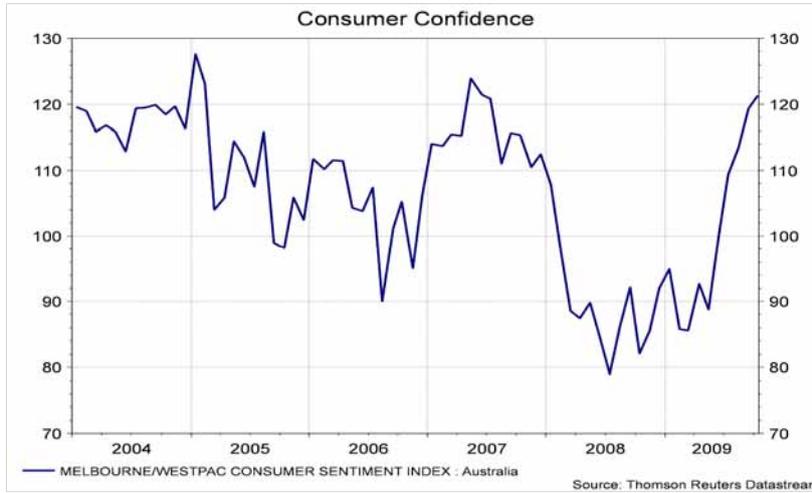
CHANGE IN BUILDING APPROVALS



- Australian building approvals increased to 8.9% in September.
- Japan building approvals decreased to -38.4% for the period.
- US building approvals declined at a decreasing rate to -29.6% in September.
- UK building approvals declined during September to -17.74%.

SENTIMENT INDICATORS

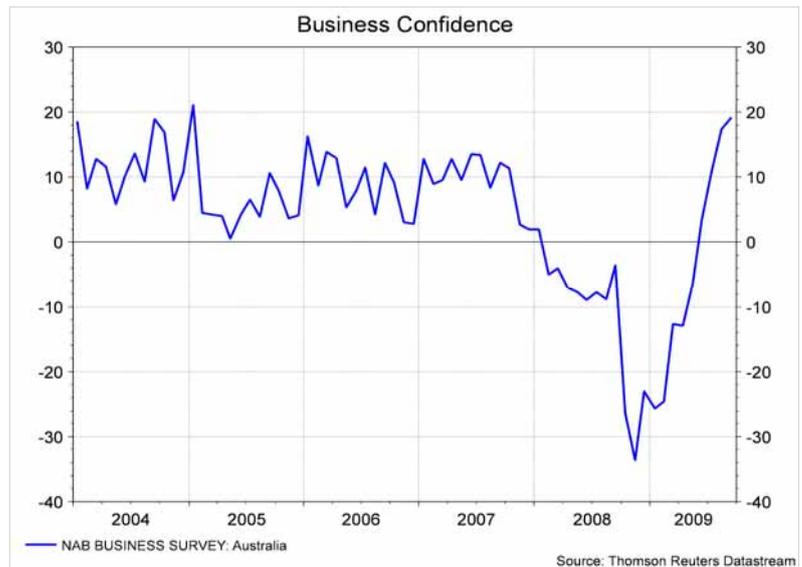
CONSUMER CONFIDENCE (UPDATED QUARTERLY)



- Australian Consumer confidence strengthened during September to 121.

BUSINESS CONFIDENCE (UPDATED QUARTERLY)

- Business confidence increased to 19.2 in September.



Author: Andrew Cassar
Investment Analyst
Zenith Investment Partners Pty Ltd



(03) 9642 3320

andrew.cassar@zenithpartners.com.au

Data Source: Thomson Reuters

DISCLAIMER: This report is prepared exclusively for clients of Zenith Investment Partners (Zenith). The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in this report. No part of this report is to be construed as a solicitation to buy or sell any investment. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner.