

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 (%)	
Dec .09	Nov .09	Q3 .09	Q2 .09	Q3 .09	Q2 .09	Nov .09	Oct .09	Dec .09	Nov .09	Nov .09	Oct .09	Oct .09	Sep .09	Oct .09	Sep .09
3.75	3.50	0.19	0.64	1.26	1.46	5.70	5.80	113.77	118.32	15.9	19.7	5.61	6.03	19.60	16.80

SUMMARY:

The RBA Board met on Tuesday, 1st December and decided to raise the official cash rate by 0.25% (in line with consensus) to 3.75%. RBA Governor Glenn Stevens stated "The domestic downturn was relatively mild...as measures of consumer and business confidence suggest that the economy is in a gradual recovery". The Governor added "The rate of Headline Inflation on a year-end basis has been unusually low, and will probably rise somewhat over the coming year". Overall, the Board describes the "material adjustments to the monetary policy" as being necessary to "increase the sustainability of growth in economic activity and keep inflation consistent with the target over the years ahead". The RBA deem the current cash rate level "to low for an economy that has resumed expanding" and "monetary policy will need to be adjusted further over time to lessen the degree of stimulus".

Business and consumer confidence both retreated slightly during the period, following a third successive cash rate increase in as many months. Headwinds included tighter lending conditions and businesses that remain focused on reducing debt levels. The month of December has historically produced stronger retail sales figures, coinciding with pre and post Christmas sales, while the effect of fiscal stimulus on consumer demand continues to fade. The bustling domestic real estate market continues to generate soaring clearance rates, as the wave of "first home buyers" and more recently "second home investors" enter the market, providing an uptick in building approvals during the period. The quarter basis point increases to the cash rate, over the past three months, have not dampened the level of enthusiasm within the real estate market. Based on the RBA's view, the path to the normal rate of interest of 5% will continue in 2010. The fact is interest rate increases are inevitable, and based on the normal rate, investors will most likely need to anticipate home loan mortgage rates of approximately 7% or more. At a mortgage rate of 7%, it is likely that the level of enthusiasm amongst buyers may slowly dissipate, leading to a retreat in the exorbitant price levels experienced over the recent time period.

"2009" the year that was saw global equity markets bottom in March and rally significantly up until October; the term "Green Shoots" resurfaced, providing much optimism as global growth resumed in December, and the ongoing process of demystifying the global financial system continues, although significant improvements have occurred since the Global Financial Crisis. Domestically, Australia lived up to its name as being the "Lucky Country" as it managed to avoid a technical recession, posted an unemployment rate below the peak expected of 6.5% – 7%. It remained well supported by a resilient domestic consumer, multiple federal government stimulus initiatives and most importantly, Asia; more specifically China and its hunger for Australian iron ore. Domestic growth in 2010 is expected to be in line with trend.

MONETARY POLICY IN FOCUS: GLOBAL

	Cash Rate		Inflation Rate		Unempl. Rate		Change in GDP (%)	
	Dec .09	Nov .09	Q3 09	Q2 09	Nov .09	Oct .09	Q3 09	Q2 09
USA	0.25	0.25	-1.62	-1.15	10.00	10.20	0.69	-0.18
Japan	0.10	0.10	-2.24	-0.98	5.10 (Oct)	5.30 (Sep)	0.33	0.68
UK	0.50	0.50	-1.38	-1.27	5.10 (Oct)	5.00 (Sep)	-0.30	-0.59
China	5.31	5.31	-1.30*	-1.50	N/A	N/A	7.70*	7.10*

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

SUMMARY:

The US has continued its slow economic recovery with a slight decline in the rate of unemployment from 10.2% to 10%. Market economist forecast that the worst employment slump in the post war era may have ended. Industry production during the month of November declined marginally, although the sector continues to re-stock as inventory levels run at historically low levels. The concern remains that as the US consumer continues to deleverage and the unstable global economic recovery continues that it will be difficult for industrial production output to grow at a rate needed to absorb the historic excess of labour in the short term. 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.

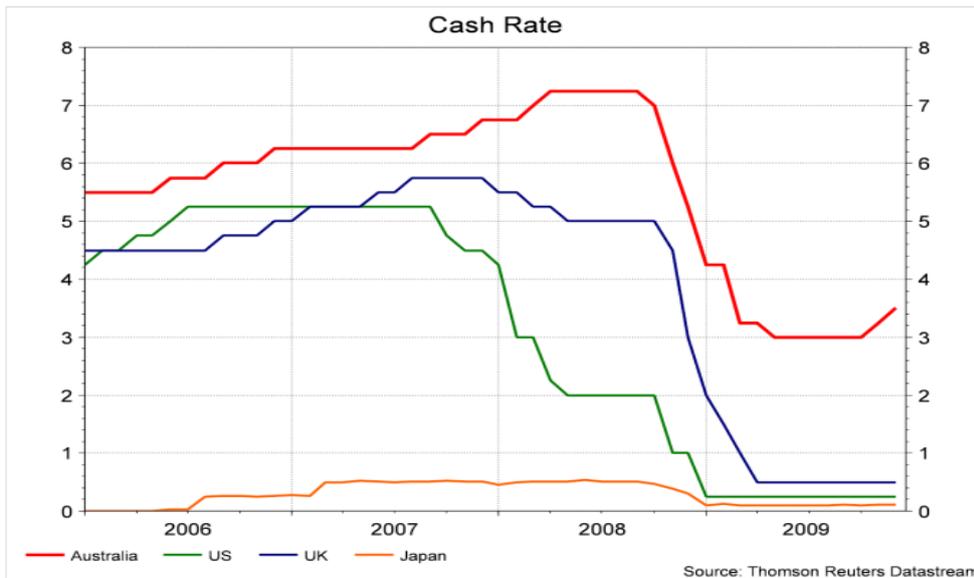
The **Japanese** economy has generated another quarter of positive growth, due mostly to the various policies enacted domestically and abroad, while the momentum of a self-sustaining recovery from domestic private demand remains weak. The Bank of Japan (BoJ) has indicated that the pace of the economic recovery is likely to remain moderate until around the middle of fiscal 2010. The BoJ has recently introduced new funds-supplying operations via three month loans at 0.1% fixed rate of interest and secured by Japanese government securities and corporate bonds. In addition, the BoJ will encourage the uncollateralised overnight call rate to remain at around 0.10%.

The **UK** remains the only G20 country to be still in recession with significant headwinds still present, which include a constrained supply of bank credit, consumers continue to deleverage coupled with the recognition that a significant fiscal stimulus is required is weighing down on spending. Business investment was also likely to remain weak. The Bank of England's 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 by next February.

China's expansion continued in November with industrial production up 19.2% year on year (YoY), the seventh successive month of growth. Export declines eased as global demand revived as recoveries in the US and Europe helped revive demand. Exports fell by merely 1.2 percent last month, compared with the 13.8 percent decline in October. GDP growth forecasts are estimated at 8.8% for 2010 (by the United Nations) which they deem to be falling short of pace. The UN cited that the global economic recovery was uneven and conditions for sustained global growth remain fragile. The People's Bank of China has maintained the cash rate at 5.31%.

CASH RATE

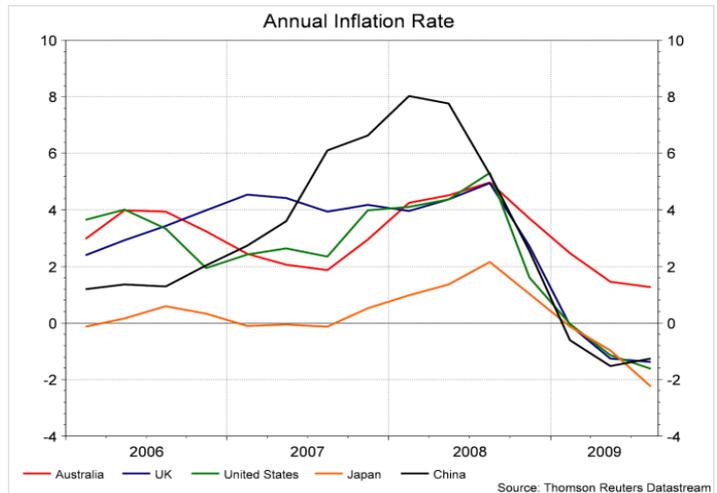
- The RBA has continued to re-adjust the cash rate by increasing it a further 0.25% to 3.75% in December. The graph does not reflect the recent adjustment.
- US, UK, China and Japan left their respective cash rates unchanged.



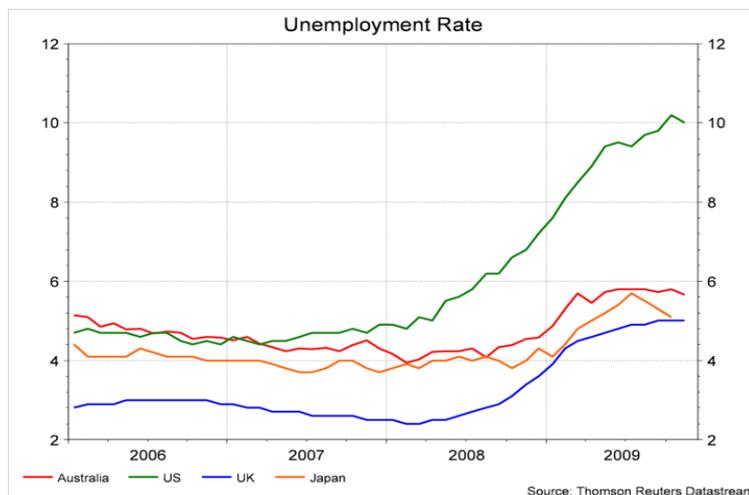
ECONOMIC INDICATORS

ANNUAL INFLATION RATE (UPDATED QUARTERLY)

- Australia's inflation rate declined to an annual rate of 1.26% during Q2.
- Japan's inflation rate decreased during Q3 to -2.24%.
- UK inflation figures declined from -1.27% to -1.38% in Q3.
- US inflation declined to -1.62% during Q3.



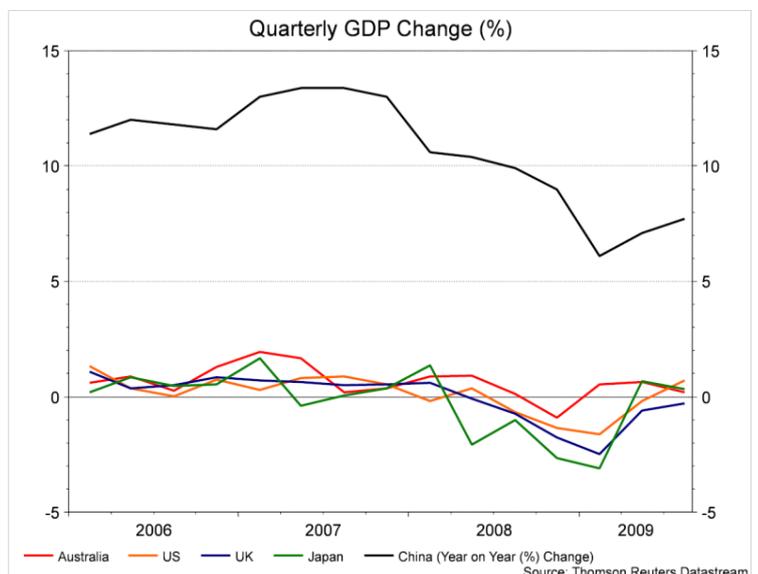
UNEMPLOYMENT RATE



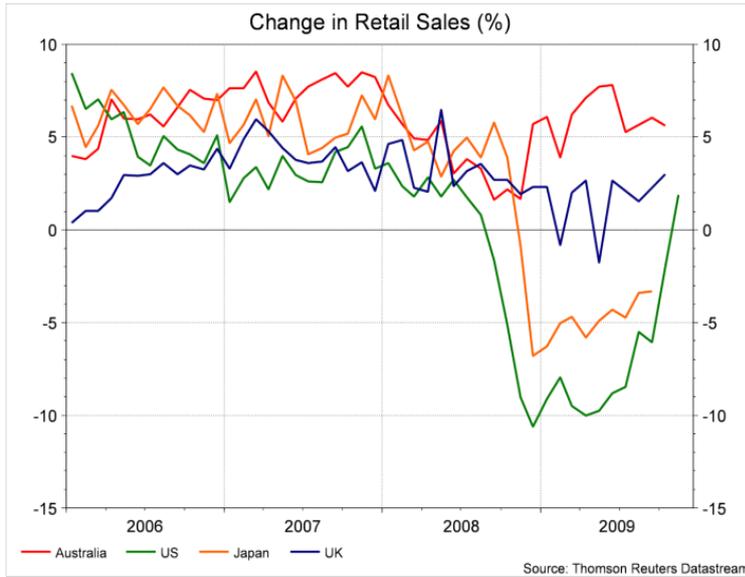
- Australian unemployment rate declined by 0.10% to 5.70% in September.
- US unemployment rate declined by 0.20% to 10%.
- UK unemployment rose to 5.10% in October.
- Japan unemployment rate declined in October to 5.10%.

QUARTERLY GDP CHANGE (UPDATED QUARTERLY)

- US GDP rose for the first time since Q2 2008 to 0.69%
- UK recorded its sixth straight quarter of negative growth of -0.30% in Q3.
- Japan's GDP rose to 0.33% during Q2.
- Year on year GDP growth increased to 7.70% in China during the period.
- Australia's GDP rose to 0.19% in Q3.



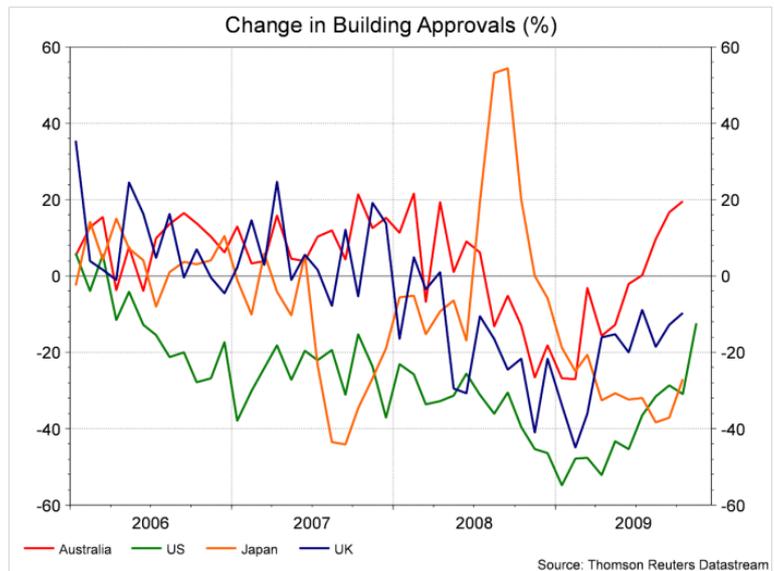
CHANGE IN RETAIL SALES



- Australian retail sales declined marginally to 5.61% in October.
- Japan's retail sales declined at a decreasing rate to -0.98% during the period.
- US recorded a positive retail sales figure of 1.9% in November, ending a run of 14 months in negative territory.
- UK retail figures continue to improve, up 3.46% during the period

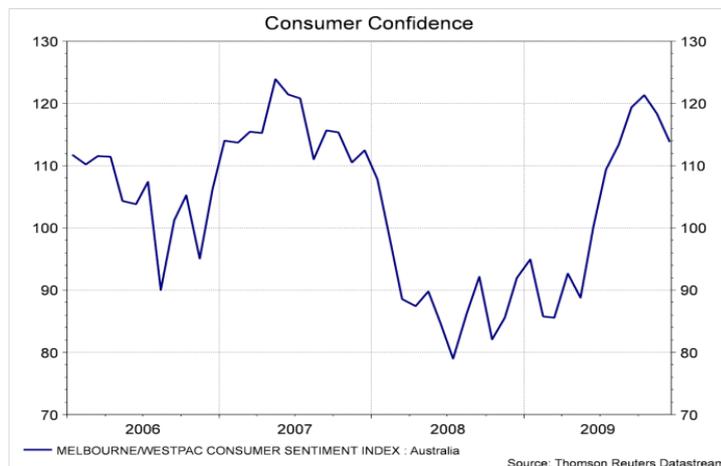
CHANGE IN BUILDING APPROVALS

- Australian building approvals continue to rise, 19.63% in October.
- Japan building approvals decreased at a decreasing rate to -27.1% for the period.
- US building approvals declined at a decreasing rate to -11.2% in November.
- UK building approvals declined at a decreasing rate during October to -9.6%.



SENTIMENT INDICATORS

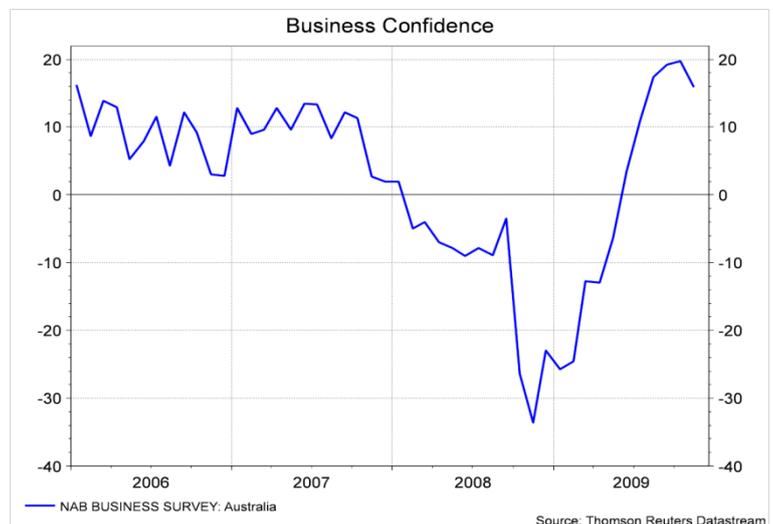
CONSUMER CONFIDENCE (UPDATED QUARTERLY)



- Australian consumer confidence has declined for the second month to 113.77 (above the decade average of 101).
- The third cash rate increase has dampened the enthusiasm of the local consumer.

BUSINESS CONFIDENCE (UPDATED QUARTERLY)

- Business confidence declined 15.9 in November.
- Businesses remained focused on deleveraging in order to strengthen its balance sheet.



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Data Source: Thomson Reuters

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