

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 (%) | |
|---------------|---------|-------------------|--------|--------------------|--------|------------------|---------|-------------------------|---------|-------------------------|---------|----------------------------|---------|----------------------------------|---------|
| Mar .10 | Feb .10 | Q4 .09 | Q3 .09 | Q4 .09 | Q3 .09 | Jan .10 | Dec .09 | Feb .10 | Jan .10 | Feb .10 | Jan .09 | Jan .10 | Dec .09 | Jan .10 | Dec .09 |
| 4.00 | 3.75 | 0.90 | 0.19 | 2.11 | 1.26 | 5.30 | 5.50 | 117.04 | 123.86 | 14.6 | 17.3 | 3.04 | 2.07 | 28.8 | 38.9 |

SUMMARY:

The RBA Board met on Tuesday, 2 March and decided to increase the official cash rate by 0.25% to 4.00% (in line with consensus). RBA Governor Glenn Stevens stated "As domestic growth is likely to be close to trend and inflation close to target over the coming year, it is appropriate for interest rates to be closer to average". Governor Stevens also stated "Labour market data and a range of business surveys suggest growth in the economy may have already been at or close to trend for a few months". The RBA has increased the cash rate four times since September 2009, adding a total of 100 basis points (1%). Further cash rate adjustments are expected over the course of 2010 as indicated by Governor Stevens that "Today's decision (to increase the cash rate) is a further step in that process".

Facts and Figures:

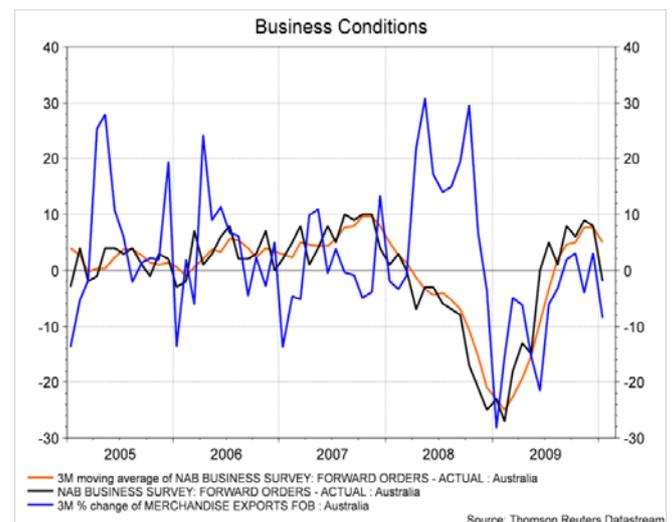
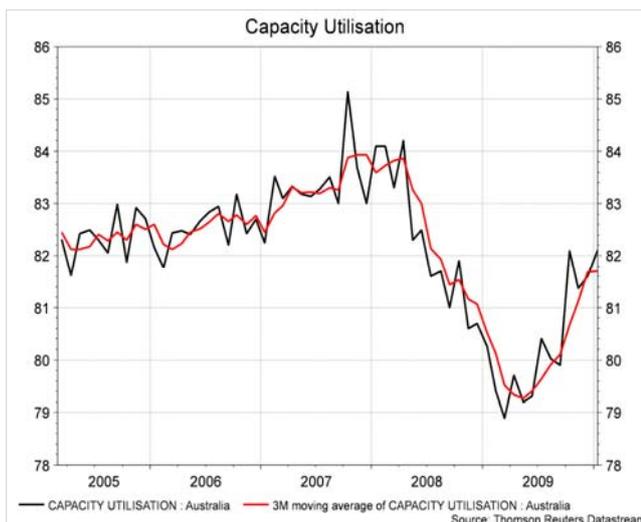
Unemployment – The number of people employed in January increased by 52,700 to 10.966 million, seasonally adjusted. This is the largest rise in employment since December 2006. The rise in employment was driven by a rise in part-time employment, up 36,900 persons to 3.314 million together with a rise in full-time employment, up 15,900 persons to 7.652 million.

GDP – Growth of 0.90 in Q4 2009, equates to an annualised GDP figure of 2.70%. Contribution to growth was driven by a 3.5% increase in private investment, a 10.2% increase in public investment and a 0.7% increase in household expenditure. Offsetting these increases was a fall in Net Exports of (-6.0%) as Imports (+7.7%) exceed Exports (+1.7%).

Building Approvals – Declined in January to 28.8% from 38.9% in December which coincided with the Federal Government ending the doubled First Home Buyers scheme, and reverting back to its original amount of \$7,000. In addition, the decline can be attributed to the RBA's decision to implement successive rate increases, since September 2009.

Business Confidence – Confidence declined in February to 14.6% from 17.3% in January, while business conditions also retreated in sectors such as mining and retail. Forward orders fell sharply, to mid-2009 levels, further emphasised by a decline in exports during the period.

Australian Economic Charts of the Month



Capacity utilisation measures the rate at which potential output is being met or used. The level of slack in the domestic economy declined significantly from its high attained in late-2007 to its low in March 2009. Currently it stands at 82.1, which is slightly above the period average of 81.2 (2005 – 2010).

Business conditions domestically have improved from mid-March 2009, coinciding with the spike in capacity utilisation, given the increase in demand for Australian commodities. Short-term factors indicate a decline in forward orders and exports, which ultimately creates a drag on utilisation, although as global growth continues to strengthen both capacity utilisation and business conditions will improve accordingly.

MONETARY POLICY IN FOCUS: GLOBAL

| | Cash Rate | | Inflation Rate | | Unemployment Rate | | Change in GDP (%) | |
|--------------|-----------|---------|----------------|-------|-------------------|---------|-------------------|-------|
| | Mar .10 | Feb .10 | Q4 09 | Q3 09 | Jan .10 | Dec .09 | Q4 09 | Q3 09 |
| USA | 0.25 | 0.25 | 1.46 | -1.62 | 9.70 | 10.00 | 1.40 | 0.55 |
| Japan | 0.10 | 0.10 | -2.03 | -2.24 | 4.90 | 5.20 | 1.14 | 0.01 |
| UK | 0.50 | 0.50 | 0.63 | -1.38 | 5.00 | 5.00 | 0.29 | -0.31 |
| 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.

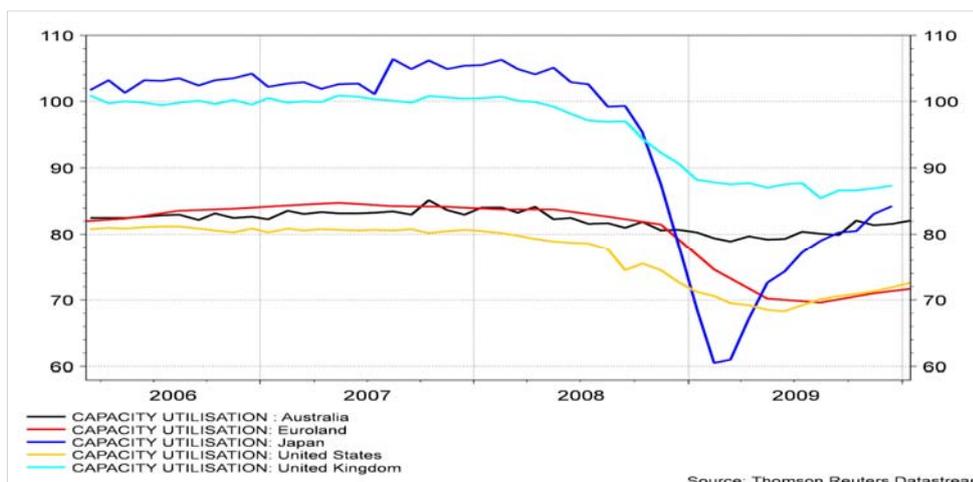
SUMMARY:

The **US** economy strengthened in Q4. During the period firms continued to reduce payrolls at a declining rate, coinciding with a slower pace in inventory reduction, indicating firms no longer had a large inventory overhang. Overall, firms still remain reluctant to rebuild inventory levels, increase payrolls and/or expand capacity at this point in the cycle. The Federal Reserve Open Market Committee (FOMC) participants expect the economic recovery to continue, but most anticipate that the pickup in output and employment growth would be rather slow relative to past recoveries from deep recessions. The Federal Reserve has maintained the cash rate at 0.25%, and has indicated it will do so for the foreseeable future.

Japan recorded strong growth in GDP of 1.14% in Q4 which equates to an annual GDP of -0.79%. Exports continue to improve, increasing by 40.9 percent from a year earlier, fuelled by a robust demand for motor vehicles and high-tech goods in Asia. The level of Government Debt has expanded with the nation's gross government debt soaring to 229% of GDP this year, compared with 92% for the U.S. and 118% for Italy, according to the International Monetary Fund. 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 0.10%.

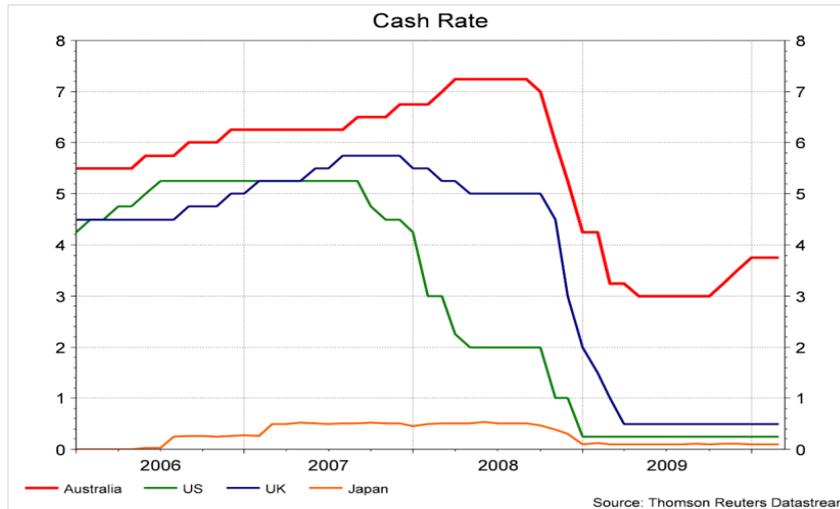
The **UK** economy recorded growth in GDP of 0.29% in Q4 2009 (revised from 0.10 in February). Economic positives include an increase in the rate at which unemployed workers were finding employment, manufacturing export orders were up in the three months to January, and a marginal increase in business and consumer confidence. The Bank of England (BoE) indicated in February, that inflation will remain below its 2% target for 2010; however based on the bank's 3 year forecasts, a considerable level of inflationary pressure may eventuate, if the current asset purchase program remains over this time period. The BoE decided not to alter the asset purchase program at this point, to further assess the effects of its recent injection, over the coming period. The Monetary Policy Committee (MPC) kept interest rates on hold at 0.5%.

China recorded a 50% decline in its trade surplus year-on-year (YoY) from \$22 billion (January & February) compared to \$44 billion in the two months a year earlier. The Chinese Government pledged a moderately loose monetary stance and a basically stable Yuan during 2010 to maintain the nation's growth stance and achieve its 8% YoY growth objective. The Peoples Bank of China, for the second successive month, increased the proportion of deposits that banks must tie up at the central bank by 0.50% (300 billion Yuan) in an effort to curb the threat of inflation. The Peoples Bank of China has maintained the cash rate at 5.31%.

Global Economic Chart of the Month


Capacity utilisation is an indicator of productive growth within an economy. Based on the chart above, Japan, the world's largest exporting nation reduced its capacity by almost 40% during 2008/09 during the GFC, as world demand declined dramatically. On the contrary, Australia maintained a stable level of capacity utilisation, insulated by China and its demand for Australian iron ore. The Euro region, the USA and the UK all reduced capacity to a degree during this period, although each region has subsequently recommenced allocating capacity, as global growth has recommenced.

CASH RATE

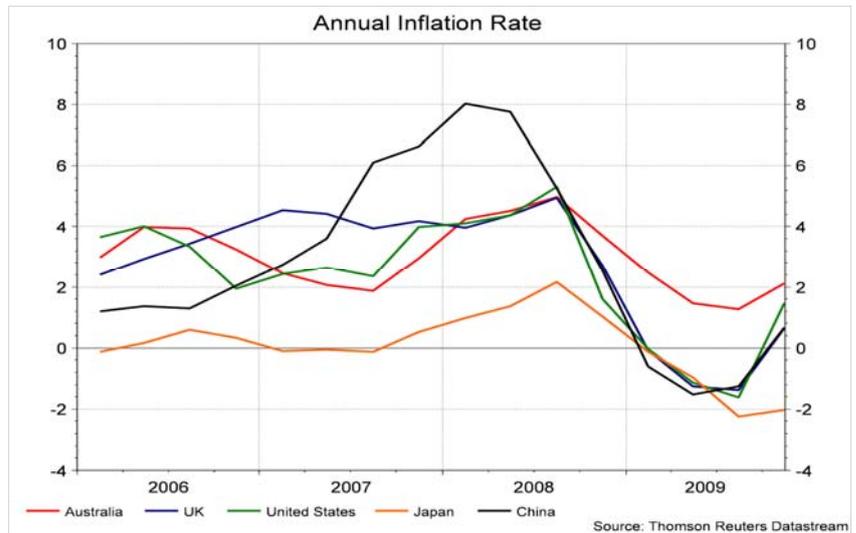


- The RBA increased the cash rate by 0.25% to 4.00% in March. (Rate adjustment not reflected in the Chart)
- US, UK, China and Japan left their respective cash rates unchanged.

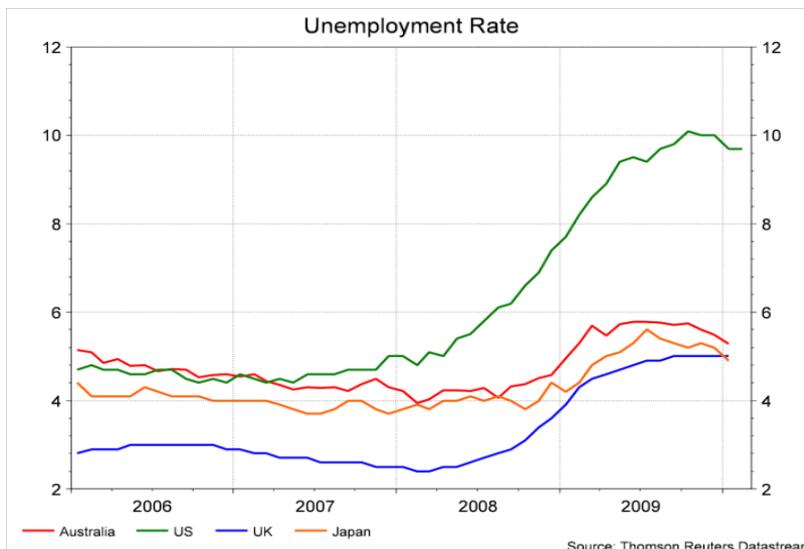
ECONOMIC INDICATORS

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 increased to 0.63% in Q4.
- US inflation increased significantly to 1.46% in Q4.



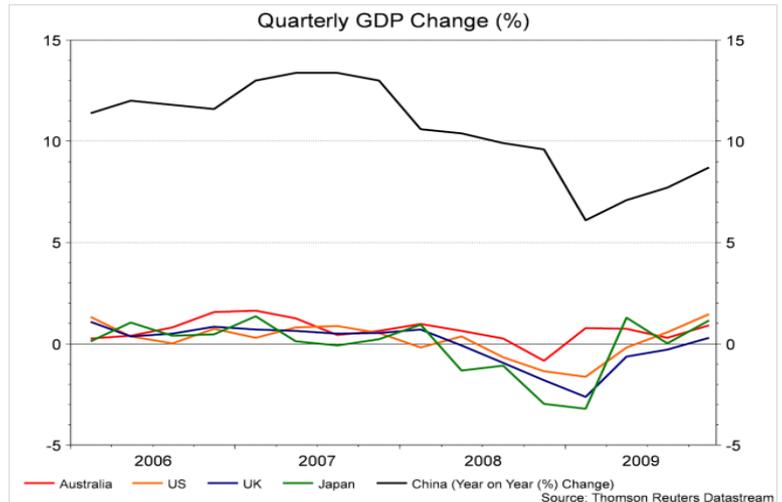
UNEMPLOYMENT RATE



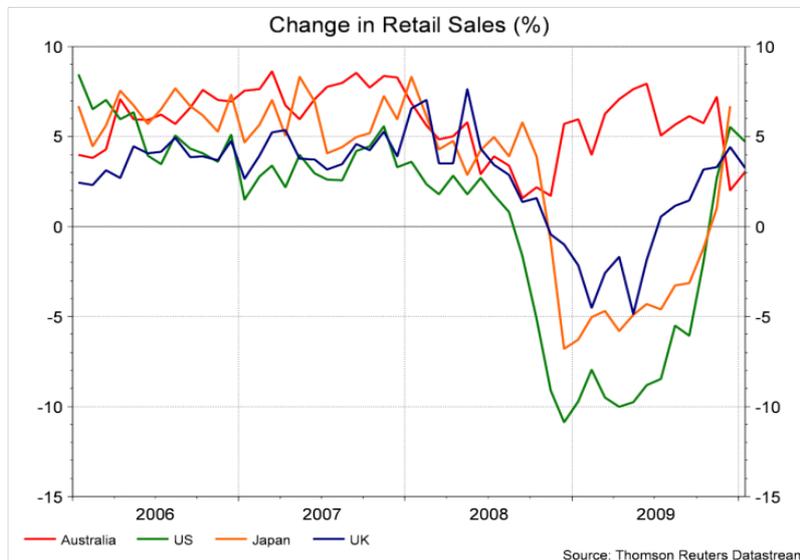
- Australian unemployment rate declined to 5.30% in January.
- US unemployment rate declined to 9.70% in January.
- UK unemployment remained at 5.00% in January.
- Japan's unemployment rate declined in January to 4.90%.

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 0.29% in Q4.
- Japan's GDP rose to 1.14% in Q4.
- China recorded a year-on-year growth in GDP of 8.70% in Q4.
- Australia's GDP rose by 0.90% in Q4.



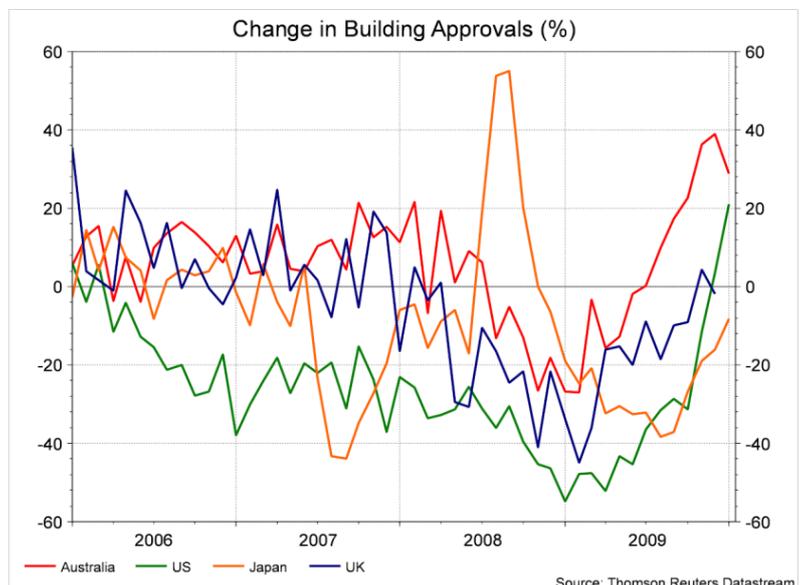
CHANGE IN RETAIL SALES



- US retail sales increased by 4.71% in January.
- Japan's retail spending increased in January by 2.61%.
- Retail spending in the UK rose marginally by 0.83% in January.
- Australian retail spending rose marginally in January to 3.04%.

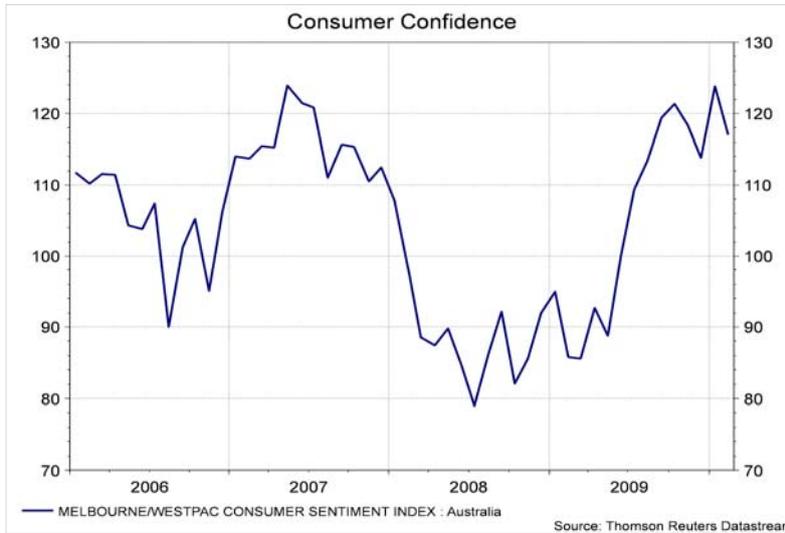
CHANGE IN BUILDING APPROVALS

- Australian building approvals declined from a high of 38.9 in December to 28.8 in January.
- Japan building approvals continue to improve from -16.10 in December to -8.2 in January.
- US building approvals significantly increased in January to 21.1.
- UK building approvals declined in December by -1.94.



SENTIMENT INDICATORS

CONSUMER CONFIDENCE (UPDATED QUARTERLY)



- Australian consumer confidence declined in February to 117.04 from a high of 123.86 in January.

BUSINESS CONFIDENCE (UPDATED QUARTERLY)

- Business confidence declined in February to 14.6 from 17.3 in January.



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Data Source: Thomson Reuters

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