

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 (%)	
Nov .09	Oct .09	Q2 .09	Q1 .09	Q3 .09	Q2 .09	Sep .09	Aug .09	Oct .09	Sep .09	Aug .09	Jul .09	Aug .09	Jul .09	Sep .09	Aug .09
3.50	3.25	0.62	0.40	1.26	1.46	5.70	5.80	121.35	119.33	19.7	19.2	6.03	5.69	14.50	9.70

SUMMARY:

The RBA Board met on Tuesday, 3rd November and decided to raise the official cash rate by 0.25% (in line with consensus) to 3.50%. RBA Governor Glenn Stevens stated "The risk of a serious economic contraction in Australia has passed...and it is prudent to lessen gradually the degree of monetary stimulus" based on the positive outlook for domestic growth and inflation trending close to target. Governor Stevens has reiterated Australia's economic growth prospects going forward will be greatly enhanced by Australia's trading partners, most of are expecting growth likely to be close to trend in 2010. The two recent increases in the cash rate have pushed the Australian Dollar (AUD) towards parity with the US Dollar (USD), which has been noted by the Board, with the increase to the cash rate likely to constrain output in the tradeables sector and dampen price pressures.

The economic conditions domestically continued to improve in October with higher consumer and business confidence, and a decline in inflation in Q3. Retail sales, in line with consumer confidence, continued to grow in October illustrating the resilient nature of the Australian consumer; although continued increases in the cash rate may start to dent the confidence. Business confidence increased marginally in August to 19.7 (up 0.50 from 19.2 in July); however business borrowing has continued to decline as companies have sought to reduce leverage.

Domestic unemployment is expected to increase over the short term, as the global economy stabilises and Australian businesses resume operating at full capacity. Unemployment has been tipped to peak at approximately 6.50% by mid-2010. Total employment rose by 40,600 to 10.806 million in September, seasonally adjusted. Full-time employment rose by 35,400 to 7.590 million in the month and part-time employment was up by 5200 to 3.216 million.

The RBA is tipped to increase the cash rate by a further 0.25% in December much to the disappointment of the retail sector, leading into the busy Christmas period. The speed of which the RBA increases the cash rate to its normal level will depend on the growth and stability of the Australian economy. Based on the RBA's growth and inflation expectations for 2010 and comment of a "gradual decrease in the degree of monetary stimulus" forthcoming rate adjustments are highly likely.

MONETARY POLICY IN FOCUS: GLOBAL

	Cash Rate		Inflation Rate		Unempl. Rate		Change in GDP (%)	
	Nov .09	Oct .09	Q3 09	Q2 09	Sep .09	Aug .09	Q3 09	Q2 09
USA	0.25	0.25	-1.62	-1.15	10.20 (Oct)	9.80 (Sep)	0.87	-0.18
Japan	0.10	0.10	-2.24	-0.98	5.30	5.50	0.56 (Q2)	-3.27 (Q1)
UK	0.50	0.50	-1.38	-1.27	5.10 (Oct)	5.00 (Sep)	-0.40	-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 economy recorded its first growth in GDP since Q2 2008, of 0.87% in Q3. Consumer spending appears to be expanding but remains constrained by ongoing job losses, sluggish income growth, lowering housing wealth and limited access to credit. Business spending has continued to decline with a cut back in fixed investments and staffing, although at a slower pace. The Federal Reserve (Fed) expects inflation to remain subdued for some time based on the level of unemployment. The Fed has reiterated its view to continue to employ a wide range of tools to promote an economic recovery and to preserve price stability. Furthermore, the Fed has maintained the target range for the federal funds rate at 0% to 0.25% to be in place for an extended period of time.

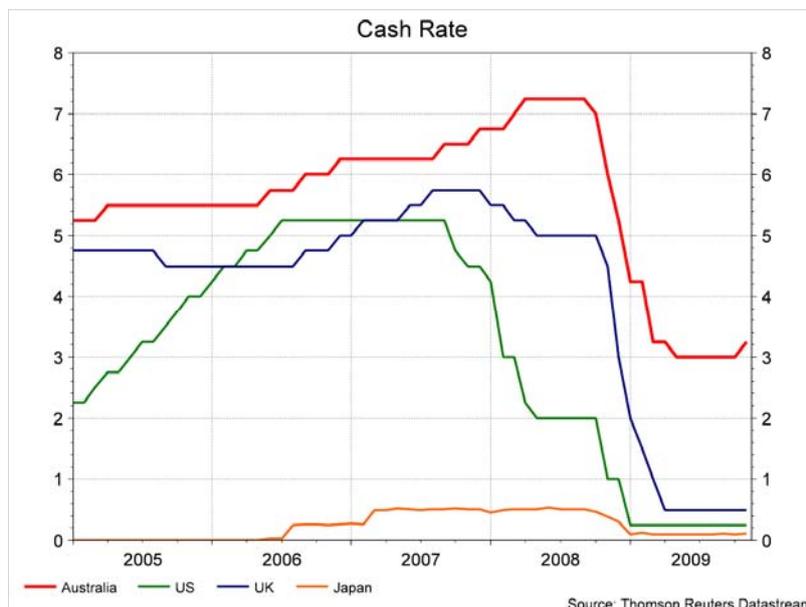
The **Japanese** economy has shown signs of recovery as public investment increases. Exports and production have also been rising given the level of inventory adjustments occurring domestically and abroad. The decline in business fixed investments, reflecting weak corporate profits, has moderated, while private consumption remains weak given the high level of unemployment and decline in personal wealth. The severe decline in inflation has been attributed to the price of petroleum products, which are lower than their high levels a year ago, in addition to the substantial slack in the economy. The Bank of Japan (BoJ) has continued its open market operations to ensure financial stability and to facilitate corporate financing. The measures include a special funds-supplying operation to facilitate corporate financing and the outright purchase of corporate bonds. The BoJ Board decided, by unanimous vote, to maintain the uncollateralised overnight call rate at around 0.1%.

The **UK** economy contracted for the sixth consecutive quarter (longest on record – since 1955) by -0.40% in Q3. The rate of unemployment continues to rise, as businesses continue to reduce staff and fixed investment in line with the global trend. Retail sales bucked the trend by rising marginally during the period. The Bank of England has continued its open market operations of asset purchases totalling £175 billion, with market commentators anticipating an increase of £25 billion to the program, in an attempt to revive an economy operating with spare capacity. The Bank of England decided to maintain the bank rate at 0.50%.

Chinese economic growth expanded to 7.7% year on year (YoY) in Q3 with the Chinese Government expecting the economy to achieve its 8% YoY growth target, which the government believes is essential to generate enough jobs. Industrial output rose 8.7% YoY in Q3, fixed asset investments rose 33.4% YoY and retail sales rose 15.1% YoY. Exports and imports for the month of October dropped by 10.7% YoY. The Chinese government has reiterated its commitment to proactive financial policies and a moderately loose monetary policy to provide a stable footing for the local economy and to help the still precarious world economy. The Peoples Bank of China maintained the local interest rate at 5.31%.

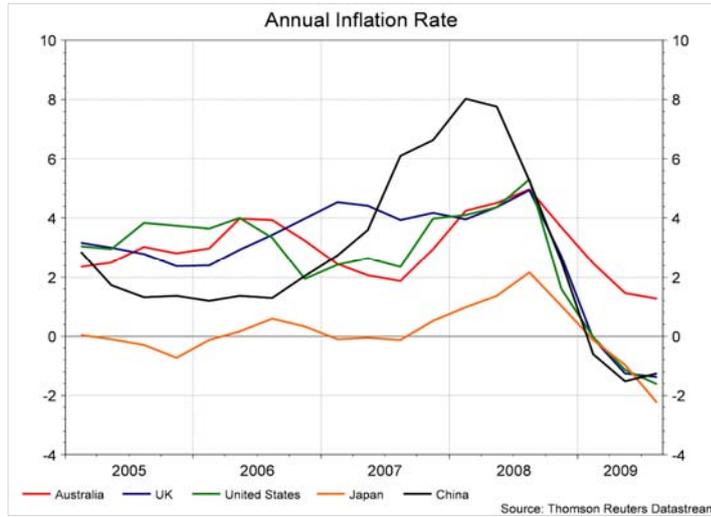
CASH RATE

- The RBA raised the cash rate by 0.25% to 3.50%. The graph does not reflect the recent adjustment.
- US, UK, China and Japan left their respective cash rates unchanged.



ECONOMIC INDICATORS

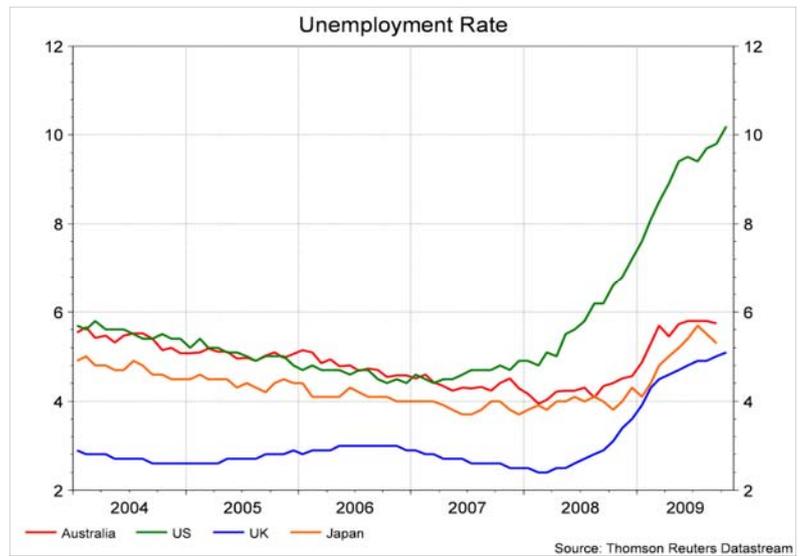
ANNUAL INFLATION RATE (UPDATED QUARTERLY)



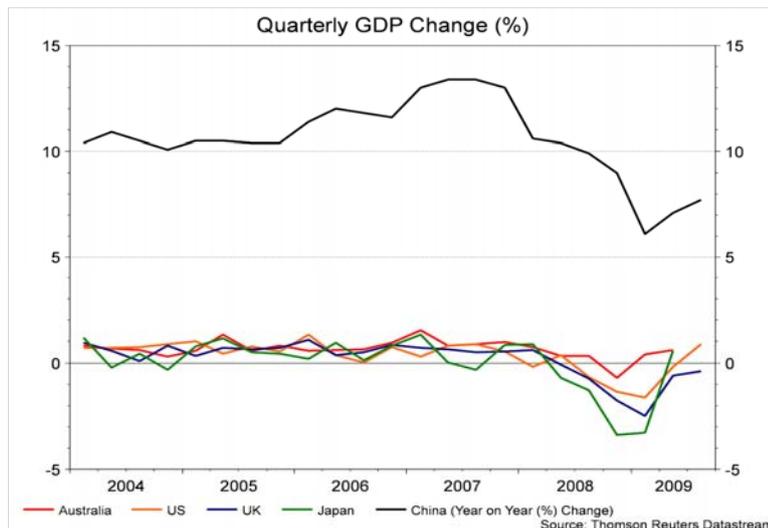
- Australia's inflation rate declined to an annual rate of 1.26% during Q2.
- Japan's inflation rate decreased during Q3 to -2.24%.
- UK inflation figures declined from -1.27% to -1.38% in Q3.
- US inflation declined to -1.62% during Q3.

UNEMPLOYMENT RATE

- Australian unemployment rate declined by 0.10% to 5.70% in September.
- US and UK unemployment rose to 10.20% and 5.10%, respectively in October.
- Japan unemployment rate declined in September to 5.30%.



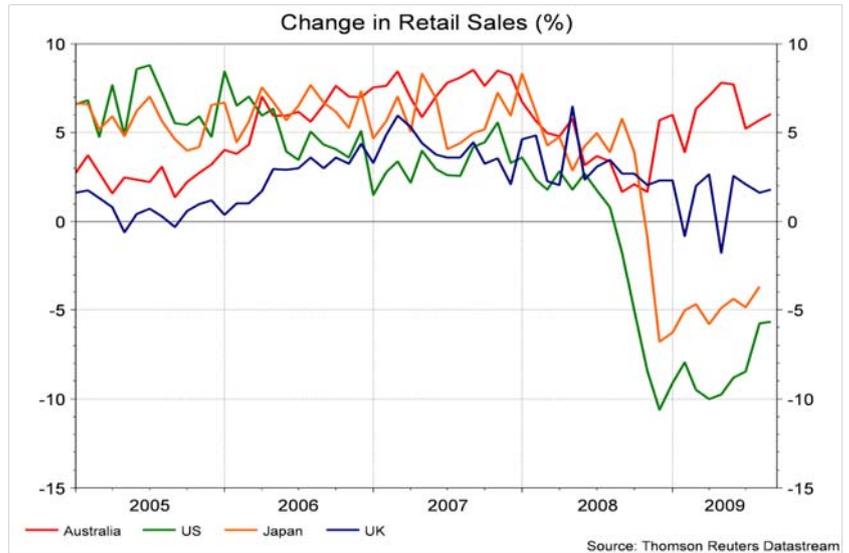
QUARTERLY GDP CHANGE (UPDATED QUARTERLY)



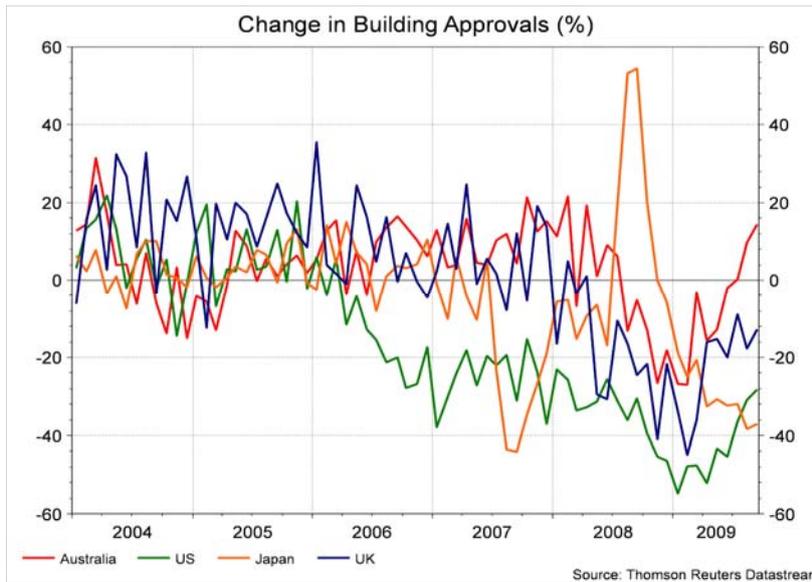
- US GDP rose for the first time since Q2 2008 to 0.87%
- UK recorded its sixth straight quarter of negative growth of -0.40% in Q3.
- Japan's GDP rose to 0.56% during Q2.
- Year on year GDP growth increased to 7.70% in China during the period.
- Australia's GDP rose to 0.62% in Q2.

CHANGE IN RETAIL SALES

- Australian retail sales increased to 6.03% in September.
- Japan's retail sales declined at a decreasing rate to -1.37% during the period.
- US retail sales declined at a decreasing rate to -5.67% during the period.
- UK retail figures rose unexpectedly to 2.36% during the period



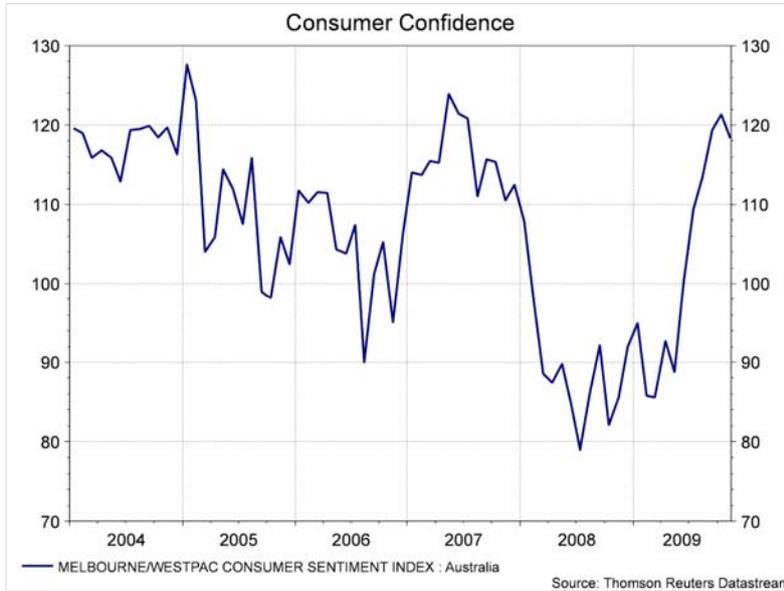
CHANGE IN BUILDING APPROVALS



- Australian building approvals increased to 14.5% in September.
- Japan building approvals decreased to -37% for the period.
- US building approvals declined at a decreasing rate to -28.2% in September.
- UK building approvals declined at a decreasing rate during September to -12.76%.

SENTIMENT INDICATORS

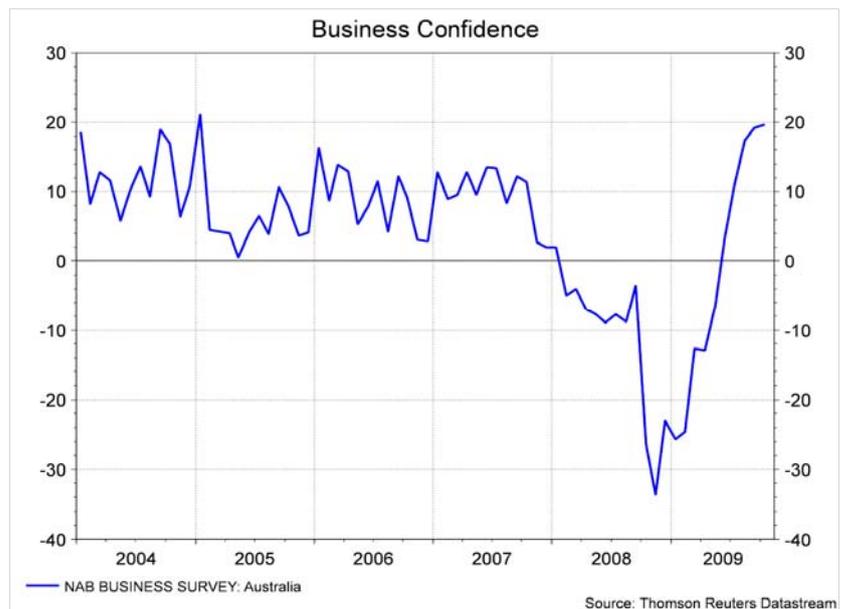
CONSUMER CONFIDENCE (UPDATED QUARTERLY)



- Australian consumer confidence declined during the period to 118 (above the decade average of 101).
- The recent cash rate adjustment has been deemed responsible for the dip in consumer confidence.

BUSINESS CONFIDENCE (UPDATED QUARTERLY)

- Business confidence rose 0.50 to 19.7 in October.



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Data Source: Thomson Reuters

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