

Monthly economic e-news

March 2011



‘Our investment portfolios are not overly exposed to the Japanese economy, so the direct impact should be minimal’.

Craig Turnbull
Chief Investment Officer

Instability in world markets

World investment markets fluctuated during March due to the uncertainty created by the earthquake, tsunami and nuclear crisis in Japan and the escalating political tensions in the Middle East.

Political tensions in the Middle East drive up the price of oil

The ongoing political unrest in Libya and Egypt has had repercussions on investment markets, in particular the price of oil which is now back above US\$100 per barrel, the first time since the global financial crisis in 2008.

Libya is a significant oil producer (producing more than 1.5 million barrels of oil per day in 2008) and Egypt controls the Suez Canal, used as a main transport route of oil to Europe. The unrest in this region has caused concern about the security of oil and slowed supply resulting in a sharp increase to oil prices.

The nuclear situation in Japan has also increased demand for oil as Japan re-starts older oil fired power generators to make up for power shortages caused by the shut down of nuclear power plants.

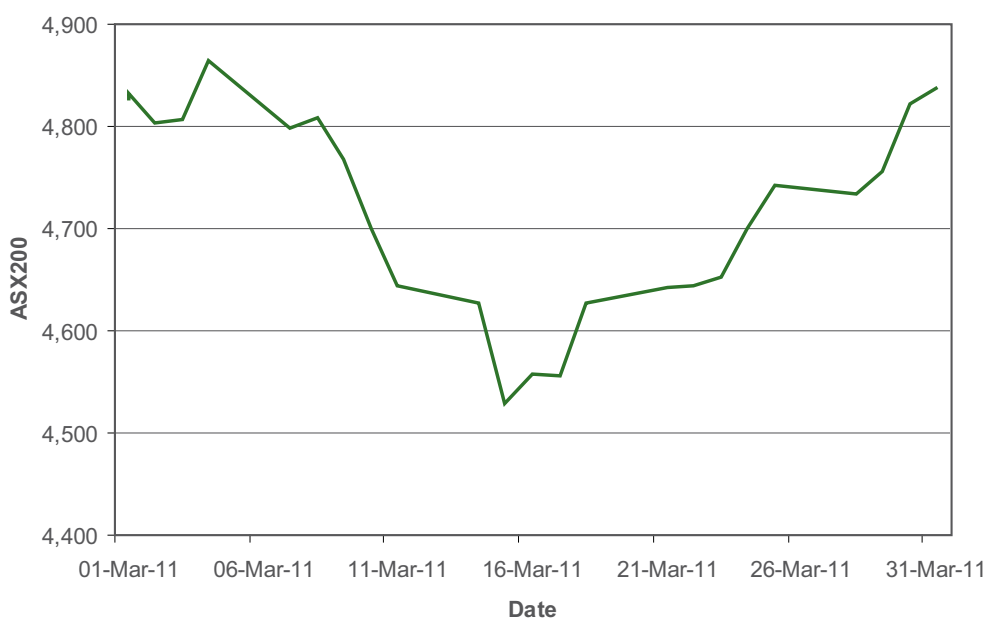
It is expected that Saudi Arabia will make up for the current oil shortages and we should start to see the oil price settle down once the political situation stabilises.

Japanese earthquake and investment markets

In economic terms, the Japanese earthquake and tsunami is considered to be the costliest natural disaster in history. The Japanese government estimates the cost of the widespread damage to the region to be about \$250 billion which is equal to approximately 5% of Japan’s economic output.

On the back of this news, share markets both here and overseas fell. However, the Australian share market made solid ground in the second half of March and managed to close just slightly up for the month.

ASX200 March 2011



One of the biggest problems to arise was the damage to Japan’s Fukushima nuclear power plant. There is still a lot of uncertainty about the scale of the radiation leaks and how long it will take to contain and fix the problems, but once the situation is contained, the focus will turn back to rebuilding the country and this is likely to boost the Japanese economy over the medium term.

Is there an impact on Local Government Super?

Local Government Super’s investment portfolios are not overly exposed to the Japanese economy, or their share market in general, so the direct impact on our returns in the immediate term should be minimal.

Markets at a glance

- ↑ Australian shares¹ up by **0.12%**
- ↓ Australian Government Bonds² down to **5.485%**
- ↑ Australian dollar up to **US\$1.0332**
- Cash rate³ steady at **4.75%**
- ↓ International shares⁴ down by **1.35%**

1 ASX 200
2 Measured by the yield on 10 year Australian Government bonds
3 RBA cash rate
4 MSCI – World ex Australia