Monthly economic e-news

September 2011

LOCAL GOVERNMENT SUPER

'Solid growth in Asia should help our economy weather any global economic slowdown.'

Craig Turnbull
Chief Investment Officer

When will the curtain go down on this Greek tragedy?

The one issue which dominated the mood of the markets in September was the worsening debt crisis in Europe and in particular, the question whether Greece will finally default on their foreign debt.

Many believe a Greek default is inevitable and even though the European Union, the European Central Bank and the International Monetary Fund (IMF) are all working on an extension of the bailout, they are yet to produce a credible long-term plan to resolve the crisis.

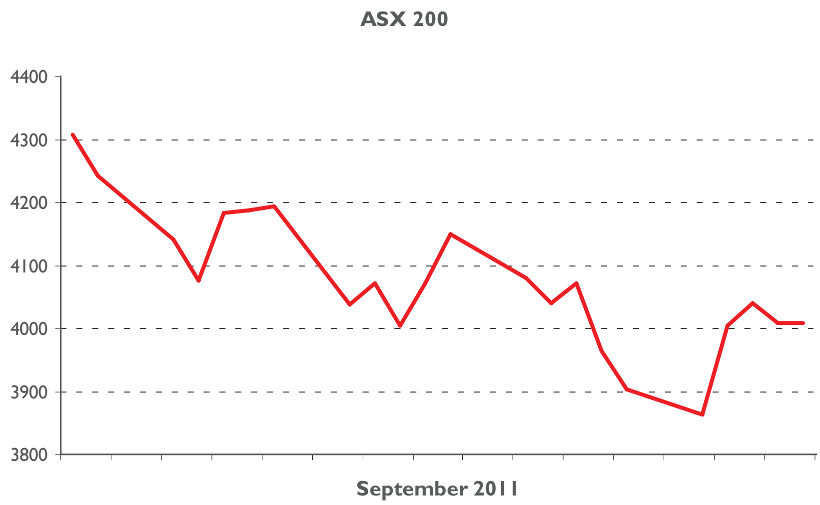
The move by Standard and Poor's to downgrade Italy's sovereign credit rating last month only added to the uncertainty in Europe.

The ongoing uncertainty is sapping market confidence

All this uncertainty has sapped confidence from global markets and the Australian share market has not been immune with the ASX200 falling by over 6% during September.

Many analysts argue that global markets have already factored in a Greek default and that when it does happen, the impact on markets may not be as devastating as expected.

However, many European banks have large exposures to Greek loans and there is a fear that a default may trigger a financial liquidity crisis similar to one which followed the collapse of Lehman Bros in 2008.



The pressure is now on European leaders to find a workable long-term solution otherwise the ongoing uncertainty will drive more volatility in the markets and continue to drain investor confidence.

So what's happening in the US?

Indications are that the US economic recovery has stalled and against a background of stubbornly high unemployment, a depressed housing market and low consumer confidence, many economists are now predicting a double-dip recession.

The US Government is struggling to devise a fiscal policy which will stimulate an economic recovery in the short term but reduce the ever-ballooning deficit in the longer term.

In September the US Federal Reserve launched 'Operation Twist', where the Reserve reduces its holding of short-term Treasury bills and notes and buys more securities with longer maturities.

The aim is to reduce long-term interest rates making finance more affordable for personal and business borrowers in an attempt to stimulate the housing sector and business investment.

It's similar to a program which was tried with mixed results back in the early 1960s and many analysts believe it is likely to have only a modest impact on economic growth in the US.

And how will it affect us here in Australia?

The IMF predicts that Australia's economy will now grow 1.8% this year, down from 3%, and 3.3% in 2012, also down from 3.5% which is much better than most of the developed nations.

Once again solid growth in Asia, tipped to remain above 7% this year, should continue to drive the resource sector in Australia and help our economy weather any global economic slowdown.

The global uncertainty has also caused the Australian dollar to fall below parity with the US dollar and this is good news for our economy as our exports will become more competitive again.

What does it mean for your super investment?

Any investment with exposure to Australian shares would have seen a decline in value over the last month and the market is likely to remain volatile until there is more certainty about the global economy.

The share market has already fallen a fair way over the last few months but considering the relative strength of the Australian economy, particularly the resources sector, many shares are now considered to be underpriced.

But history suggests that as soon as investors perceive that the market has bottomed out, they will look for bargains and start buying again, and this will mean a rebound in the share market.

So if you are thinking of switching your super investment option, it may be best to talk with your financial planner first to make sure you're making the right decision.

Markets at a glance

for the month ending 30 September 2011

- Australian shares[1] down by **6.7%**
- Australian Government Bonds[2] down to **4.21%**
- Australian dollar down to **US$0.9781**
- Cash rate[3] steady at **4.75%**
- International shares[4] down by **8.59%**

1 ASX 200
2 Yield on 10 year Australian Government Bonds
3 RBA cash rate
4 MSCI – World ex Australia

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