

JANUARY 2011 – MARCH 2011

Cash & fixed interest are generally considered relatively low risk investments when compared to shares and property. Consequently the expected returns are lower, and modest returns are generally made over long time periods. One thing to bear in mind is inflation. For example, if the interest rate earned on a cash investment is 5% p.a. and the annual inflation rate is 3% p.a., the real return is 2% p.a.

Quarter Review

Over the quarter markets focused on inflationary pressures and continued stronger economic data, which saw downward pressure on bond prices and rallying equity markets. The rhetoric from central banks globally became increasingly hawkish, with some US Federal Reserve members hinting an end to quantitative easing and a move towards the normalisation of interest rates by year end.

In Europe the ECB signalled a rate hike despite ongoing concerns in the European banking sector and widening spreads in Portugal, Ireland and Greece as market scepticism towards a solution to sovereign debt problems grew. Markets were also influenced by ongoing concerns of escalating violence in the Middle East and natural disasters, with the Japanese earthquake and subsequent devastating tsunami having the most market impact.

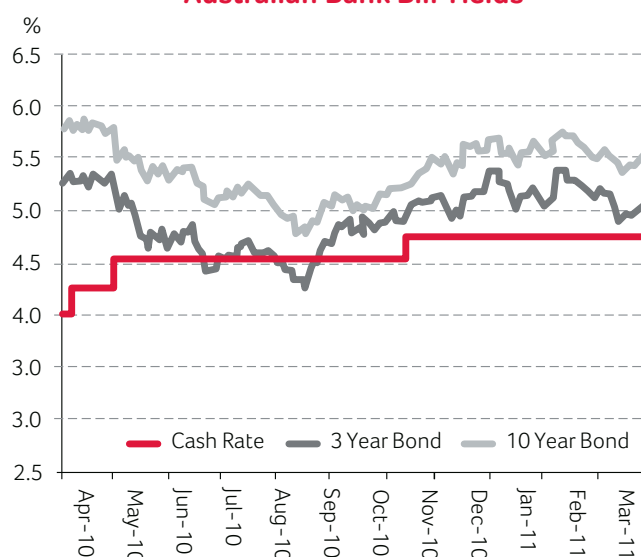
Locally, the Australian bond market saw strong buying from the start of the quarter, driven primarily by the impact of the floods in Queensland. As the extent of the economic impact of the flooding became clear, the market corrected and focus moved to the positive impact on the economy going forward.

The Reserve Bank of Australia kept the cash rate on hold for the period at 4.75%.

Outlook

Going forward some fund managers expect the rate path in Australia to be heavily influenced by global moves, with significant risks to the downside existing from the US hawkish rhetoric. In contrast, effects of the Middle Eastern volatility, European sovereign debt problems, and the Japanese disaster are still lingering, and continue to provide support to the bond market. As such the same fund managers believe the RBA will remain cautious and on-hold for the near term, as the strong Australian Dollar continues to impact the broader consumer, tourism and the education sector.

Australian Bank Bill Yields



A note from our legal team

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