

APRIL 2010 – JUNE 2010

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

Domestically, the Reserve Bank of Australia (RBA) completed the process of returning rates to a normal setting, raising rates by 25bps in both April and May to 4.5% against the back drop of sticky underlying inflation in the early part of 2010. The activity data through much of the quarter was disappointing, with retail spending growing at only a modest pace and residential building approvals falling back sharply.

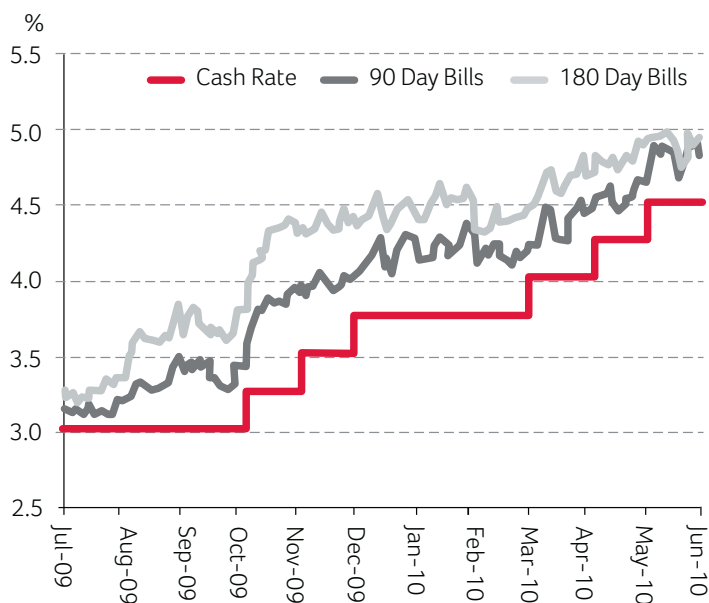
Despite this the labour market has remained strong, with sharp gains in employment driving the unemployment rate down to 5.1%, close to what is considered to be full employment. Along with the boost to national income from a sharp gain in Australia's terms of trade and a strong pipeline of mining investment projects, this is expected to see growth remain solid over the period ahead. Should inflation remain elevated in the June quarter as most expect, the RBA may raise rates further. There is

however an increasing risk that the recent turmoil in markets, if sustained, could see the RBA on hold for an extended period.

Outlook

Going forward, some fund managers expect markets to remain volatile. Global funding problems will remain an issue, keeping a lid on global rates and credit spreads elevated. The Australian market should remain highly correlated with global markets, making it unlikely that the RBA will hike rates in the short term. However, some experts are still positive about Australia and foresee higher rates in the medium term.

Australia Bank Bill Yields



A note from our legal team

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