

JULY 2011 – SEPTEMBER 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

Market sentiment towards Europe fluctuated throughout the quarter, generally driven by the speculation of a solution to the sovereign debt problems afflicting European peripheral countries. Recognition of a general weakening of European data was signalled by ECB President Trichet in September when he stated that the focus was on “downside risks”.

The two economic events for the September quarter in the US were S&P’s downgrade of the government’s credit rating and the announcement of ‘Operation Twist’ which aims to extend the maturity profile of the Federal Reserve’s treasury holdings. Both of these announcements were met with significant disappointment from markets.

Domestically, economic data throughout the September quarter continued to soften. The Australian unemployment rate increased to 5.3% and business confidence continued to deteriorate, reflected sharply in manufacturing, retail and wholesale data releases. Consumer confidence persisted to trend lower for the majority of the quarter, however, reversed the trend in September with an 8.1% recovery. The Reserve Bank of Australia (RBA) kept rates on hold in the September quarter amidst elevated levels of global uncertainty. Going forward this global uncertainty will continue to weigh on the Australian outlook, and events in Europe, the US and China will be highly influential.

Outlook

At the October 2011 board meeting the RBA left the cash rate target on hold at 4.75% but were viewed to have opened the door to a rate cut in November. They stated that: “An improved inflation outlook would increase the scope for monetary policy to provide some support to demand, should that prove necessary”. Many commentators have interpreted this to mean that the cash rate target will be lowered if the next Consumer Price Index release on 26 October is contained should the global outlook continue to deteriorate. An easing in monetary policy is a likely scenario.

A note from our legal team

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