

OCTOBER – DECEMBER 2009

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.

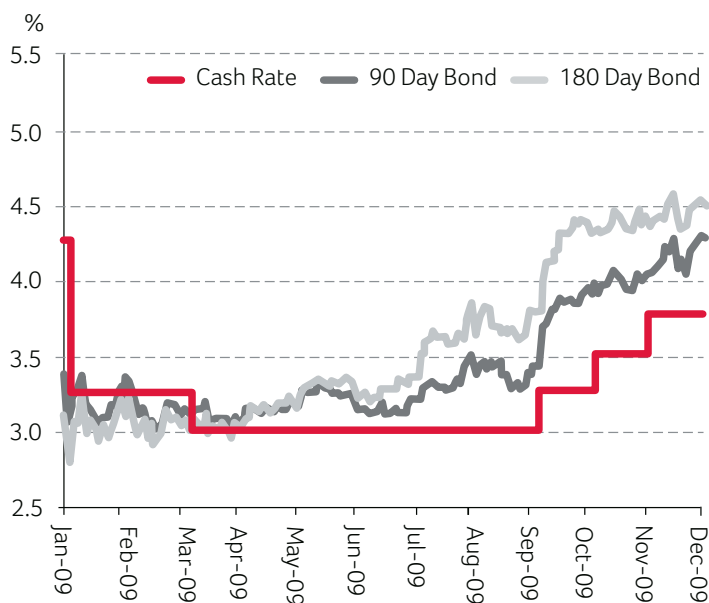
## Quarter Review

Financial market sentiment continued to improve throughout the quarter both globally and domestically. So much so that the RBA surprised the market by embarking on a hiking cycle sooner than anticipated, raising the cash rate 0.25% to 3.25% at their October meeting. They continued raising rates in 0.25% increments at both the November and December meetings, taking the cash rate to 3.75% by the end of quarter. Consequently, bank bill yields also increased throughout the period. Yields on 90 day securities surged 0.90% to 4.27%, whilst yields on 180 day securities rose 0.69% to 4.47%.

## Outlook

Going forward, some experts expect the global economy to improve further and consequently have a negative effect on global bond yields. With Australia being ahead of the pack and already having begun the tightening cycle (in conjunction with recent rhetoric from the RBA suggesting that monetary policy is now in a normal range), some fund managers believe the RBA is likely to continue to raise the cash rate in 25 basis point steps, but may choose to pause between hikes in order to assess the impact on the domestic economy. As a result, in the future rate decisions will rely upon up to date data releases and RBA liaison.

## Australia Cash Rate



## The legal bits.

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