PICCADILLY FINANCIAL GROUP PTY LTD
Unique Financial Solutions

LEVEL 2 PICCADILLY COURT 222 PITT STREET SYDNEY NSW 2000
TEL 02 9267 7832 FAX 02 9267 0051 INFO@PICFIN.COM.AU WWW.PICFIN.COM.AU

MARKET OUTLOOK

28-Feb-2009

Economic Outlook

United States

The question for the US is: have policy makers applied enough stimulus to promote recovery in output and prevent deflation? The US Federal Reserve (Fed) is well underway in quantitative easing mode, purchasing USD$100 billion of GSE mortgages and debt per month on top of other Fed and Treasury department easing initiatives. President Obama's USD$787 billion stimulus package is expected to help stabilise the economy by mid year. However, unless the banking sector can turn around quickly, optimism may prove to be short lived.

On prices, the probability of deflation is quite high. The Fed's aggressive credit easing policy should somewhat protect the economy from a deflationary spiral, but falling prices over a shorter period of time is inevitable as the economy continues into recession.

Europe

In Europe, there are few positive indicators on credit with record issuance of corporate debt in the past two months. However, given the stresses in the banking system and as both domestic and external demand continue to weaken with labour market employment falling quickly, the slowdown looks likely to intensify in the coming quarter.

On the policy front, it is inevitable that the European Central Bank (ECB) will need to cut interest rates further. There are indications that the ECB will cut 50 bps to a new low of 1.50% in March, with further easing expected in the coming months. With the US and UK already having undertaken significant easing, the European authorities need to further explore this avenue, particularly if the central bank sees economic and financial conditions continuing to deteriorate at a rapid pace.

Asia

The export slump is spreading throughout Asia. Japanese policy makers are lagging behind in policy response. Fiscal policy is at a standstill with a parliamentary deadlock over the ¥12.6 trillion stimulus package, including the plan for ¥2 trillion in cash handouts to individuals. The Bank of Japan's balance sheet has not grown significantly, while the stronger yen has also suffered from tightening financial conditions. Economists forecast the contraction in Japan to be twice as severe as in America and Europe.

In China, the acceleration of public investment projects and other government initiatives is working to boost growth in the short term. However, weaker external demand will see the Chinese government continue to relax policy on the back of weakness in the outlook for long term activity growth and increasing deflationary pressure.

Australia

The better than expected economic data released last month suggests that the Federal Government's monetary and fiscal stimulus is working its way through the economy.

The statement accompanying the Reserve Bank of Australia (RBA) interest rate cut in February provided little clarity on the outlook for monetary policy going forward. However, the RBA's quarterly statement and subsequent speeches, including one from Governor Glenn Stevens, suggests that the RBA believes that it has already made an aggressive response to the weakening growth outlook. This was confirmed by the decision to keep rates on hold at the March meeting. Coupled with the $42 billion fiscal stimulus (over four years), the economy looks to have cushioned further downside risk. Therefore the RBA could afford to stay on the sidelines and reassess in the coming months.

Of course, the economy is not out of the woods yet. Unemployment is expected to continue to rise further as the economy deals with the fallout from the global financial crisis and the unwinding of the impact of the boom on trade. Many economists are already concerned by the 0.3% rise in unemployment last month and will continue to closely watch this economic indicator.

Australian Sharemarket Outlook

Heading into March, the domestic sharemarket outlook remains gloomy. Investor confidence will continue to be affected by the aftermath of the reporting season in both the US and Australia.

Some of the concerns may be offset by the $42bn stimulus package, combined with any further interest rate cuts.

As in January, the credit cycle is set to continue to the detriment of the market, and those companies with debt re-financing issues will be forced to raise equity, further diluting markets and affecting the price of equities.

Forecasts across 2009 and 2010 are increasingly negative, suggesting that any 'bounce' may be pushed back to 2011. However, other reports suggest a mild mid year recovery followed by a return to pre-crisis trend in early 2010.

International Sharemarket Outlook

The outlook for global sharemarkets has not changed much since last month, remaining pessimistic overall.

2009 is likely to be another tough year, certainly in the first half at least. Global economic and financial prospects are likely to continue to slump, echoed by consumer and business confidence.

Growth forecasts are rapidly declining, with sharp upturns in unemployment and general uncertainty as to the depth and extent of the global credit crisis. This is likely to continue to impact global equity markets throughout the year.

The international sharemarket outlook however, is not entirely negative. It is hoped that the various assistance schemes and low interest rates and huge fiscal stimulus will lead to economies starting to grow again by the end of the year. First half weakness is likely to be followed by a muted recovery.

The mid-year stability could then lead to economic growth resuming by the end of 2009 with a return to trend in 2010.

Australian Fixed Income Outlook

The RBA left the official cash rate unchanged at 3.25% following the March board meeting. In the statement released following the meeting, it was noted that "there has already been a major change in both monetary and fiscal policy" and that "notwithstanding evident economic weakness at present, the Board judged that the stance of monetary policy was appropriate for the moment".

Despite the RBA leaving the cash rate unchanged market expectations still favour further rate cuts in the coming months towards 2.5%.

The performance or direction of the overall fixed income market will be driven by the outcome of the nearer term economic releases, particularly those relating to the labour market. As always, trends in overseas markets will be influential. Price action remains and is expected to remain volatile.

International Fixed Income Outlook

The global economy has slowed hard with the major economic regions now in a recession. Policymakers have been responding and will continue to do so over coming months. Further interest rate cuts, where there is room, and fiscal measures can be expected to be announced.

Apart from the obvious economic concerns, another theme for this year is the growing supply of government bonds that will need to be issued to fund the fiscal stimulus packages around the globe. For now, at least, this increased supply is being taken up by the market.

Longer term fixed income yields still remain historically very low, and for good reason given the current economic environment. As we move through 2009, market participants will look for signs of stabilisation in the leading global economic indicators which have been falling sharply. Price action is expected to remain volatile.

DISCLAIMER

The information in this document reflects NULIS Nominees (Australia) Limited's ("NULIS") ABN 80 008 515 633 AFSL 236465 RSE L0000741 understanding of existing legislation, proposed legislation, and rulings as at the publication date.

The information given in this article is of a general nature. It has been prepared without taking into account your particular objectives, financial situation or needs. Before making an investment decision, you need to consider, with or without the assistance of a financial adviser whether the information is appropriate for your particular needs, objectives and financial circumstances.

Investors should consider the Product Disclosure Statement ("PDS") before deciding to acquire or dispose of the product. Applications to invest in a financial product issued by NULIS must be made by completing the applicable PDS which can be obtained from NULIS.