

Pitcher Investment News

Fears of double dip recession overdone

Dr Chris Caton of BT Investment Management gave a fabulous presentation to 180 clients and guests at the Investment Services Luncheon Seminar at the RACV Club on 3 November. His messages included that fears of a double dip recession were overdone, that the Chinese will allow their exchange rates to rise when the rest of the world stops putting pressure on them to do so and that property prices will level off, but not crash.



Dr Chris Caton at PPS Seminar - 3 November

Recovering economies

The Australian economy continues its recovery with growth forecasts continuing to strengthen to around 3.5% pa. The strong outlook was reinforced with the 2 November decision by the Reserve Bank to raise interest rates by 0.25% to 4.75% pa, with most commentators expecting further rate rises in 2011. Recovery is also evident in the economies of Germany, Ireland and the UK notwithstanding the tough budget measures that have had to put in place especially in the latter two countries.

Struggling economies

The vital economy of the USA, while showing some positive signs of recovery in manufacturing and corporate profitability, continues to struggle to be able to deliver sustained jobs growth. The labour market in the USA used to be very mobile with skilled labour readily moving around the country to meet jobs demand. The battered housing market however is undermining that mobility, as so many more Americans are home owners and are unwilling to sell up at depressed prices. On 4 November the US Federal Reserve announced a further US\$600 billion of monetary stimulus designed to generate increased economic activity. Let's hope it does the job!

Emerging economies

The most recent forecasts for economic growth continue to reveal that growth will be dominated in the near future by the world's emerging economies and as investors we continue to identify opportunities that can take advantage of this projected growth:

	2010	2011
China	10.5%	9.6%
India	9.7%	8.4%
Brazil	7.5%	4.1%
Mexico	5.0%	3.9%

The Winning Aussie Battler

The Australian currency has hit parity with the \$US and interest rate differentials look like providing further tailwind. As investors, that means the rest of the world is 'on sale' and we are discussing with clients how best to take advantage of the \$A buying power. Mike Hawkins of Evans & Partners recently provided this interesting comparison of the prices of products in Australia and the US:

Product	Australia	United States	Source (Aus & US sites respectively)
Nike Air Max Shoes (Men)	A\$200	US\$100	www.nike.com
iPad	A\$629	US\$499	www.apple.com
Levi Jeans	A\$120	US\$32	www.macys.com , www.generalpants.com
Jadore Perfume (100ml)	A\$160	US\$95	www.macys.com
Ray Ban Sunglasses	A\$299	US\$139	www.sunglasseshut.com.au , www.sunglassamerica.com
Samsung Series 7 46inch LCD TV	A\$2,799	US\$1,699	www.samsung.com
Callaway FT-IZ Driver	A\$519	US\$399	www.drummondgolf.com.au , www.shop.callawaygolf.com
CD: Lady Gaga - Fame	A\$22	US\$8.99	www.amazon.com , www.sanity.com.au
Dell Inspiron 17" laptop	A\$1,249	US\$699	www.dell.com
Chanel Rouge COCO lipstick	A\$43	US\$30	www.macys.com , myshopping.com.au
John Deere Ride-on Mower (LA115)	A\$3,789	US\$1,699	www.deere.com
Johnny Walker Blue label 750ml	A\$220	US\$160	www.getprice.com.au , www.missionliquor.com

Financial Markets - 31 October 2010

Equities	Current Level	2 Month Return	12 Month Return
AUS ASX 200	4661.6	5.8%	0.4%
AUS ASX 200 (Acc)	33659.5	6.5%	4.6%
US Dow Jones	11118.5	11.0%	14.5%
US S&P 500	1183.3	12.8%	14.2%
US Nasdaq	2507.4	18.6%	22.6%
JPN Nikkei	9202.5	4.3%	-8.3%
UK FTSE 100	5675.2	8.6%	12.5%
German DAX	6601.4	11.4%	21.9%
French CAC	3833.5	9.8%	6.3%
HK Hang Seng	23096.3	12.5%	6.2%
Shanghai Comp	2978.8	12.9%	-0.6%
India Sensex	20032.3	11.5%	26.0%
Sth Korea KOSPI	1883.0	8.0%	19.1%
NZ All Index	760.9	6.8%	-2.0%
MSCI AC World ex-AUS (LC)	1221.1	12.9%	8.3%

Property

ASX 200 Prop (Acc)	19522.9	-1.3%	4.9%
S&P Global Prop Index	288.2	11.4%	30.3%

Commodities

Gold (oz)	1359.1	9.0%	29.9%
Oil (barrel)	81.4	13.6%	2.8%
Aluminium	2302	12.6%	21.0%
Copper	8225	11.8%	25.1%
Lead	2437	21.2%	5.0%
Nickel	22700	9.6%	22.9%
Tin	25460	19.3%	72.6%
Zinc	2392.5	16.9%	9.0%
Reuters/Jefferies CRB Index	300.7	13.8%	11.2%

Currency

AUD/USD	0.98	10.4%	9.3%
AUD/EUR	0.71	0.4%	15.5%
AUD/GBP	0.61	5.6%	12.1%
AUD/JPY	79.09	5.4%	-2.4%

Other

VIX Index	21.2	-18.62%	-30.92%
Baltic Dry Index	2678	-1.29%	-13.70%
TED spread	0.18%		

Official Cash Rates

New Zealand	3.00%
Australia	4.50% Now 4.75%
China	5.56%
United States	0.25%
United Kingdom	0.50%
Euro-Zone	1.00%
Japan	0.10%

Aust Interest Rates (as at 5 Nov 2010)

PPIS ANZ	4.25%
SGB AT CALL	4.90%
CBA 30 Day TD	5.20%
CBA 90 Day TD	5.35%
CBA 12 Month TD	5.58%



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The China question

China continues to be monumentally important, not just to Australian growth, but to world growth. The growing trade imbalances with China and their massive foreign reserves have generated calls from many trading partners for China to allow their currency to appreciate faster than it already has since it was unpegged from the \$US a few months ago. Concern about competitive devaluations of currencies as a new type of trade war is likely to be high on the agenda of the G20 Leaders meeting in Seoul later in November. Numerous countries have been accused of, and some have already admitted to, manipulating their currencies to assist their exports. An additional medium term uncertainty is how the incoming, and not yet well known, leadership of the Chinese Politburo will manage their centrally controlled market economy.

CHINA'S PROSPECTIVE 2012 CORE LEADERSHIP

Top candidates for the Communist Party's Politburo Standing Committee



XI JINPING



LI KEQIANG



LI YUANCHAO



WANG YANG



LIU YUNSHAN



WANG QISHAN



ZHANG DEJIANG



BO XILAI



ZHANG GAOLI**



LING JIHUA**

Just out of interest, Charlie Aitken's recent random facts on China include:

- Only 5% of Chinese billionaires made their fortune by exporting, the other 95% made it in the domestic economy.
- China has 1.3 billion people, but only 60 million cars 80% of which are paid for in cash.
- The average age of a first home buyer in China is 27 (versus 34 in rest of world) and 50% of all homes are paid in cash.

Australia takes bronze for wealth

Australia has had the biggest growth in wealth over the last 10 years and is now in third place in the world. An incredible decade despite the Global Financial Crisis!

Top 10 countries with the highest average wealth per adult.

Country	Average wealth per adult 2010 (USD)	% change 2010 versus 2000
Switzerland	372,692	60%
Norway	326,530	195%
Australia	320,909	211%
Singapore	255,488	127%
France	255,156	146%
Sweden	243,506	93%
U.S.	236,213	23%
Luxembourg	234,972	27%
U.K.	229,940	41%
Italy	226,423	89%

Source: Credit Suisse

Factors influencing the value of bonds

The recent increase by the Reserve Bank of official interest rates to 4.75% will have an impact on the valuation of bonds. The following table outlines the typical factors influencing the value of bonds.

<i>Fixed rates</i>	When market interest rates rise, bonds paying fixed interest rates are less attractive and the market price can be expected to fall.
<i>Floating rates</i>	When market interest rates rise, bonds paying floating interest rates will generate higher income returns. If future rates are expected to continue to rise, the market price can be expected to rise.
<i>Credit quality</i>	The ability of the borrower to pay back interest and principal remains the crucial element of bond valuation.
<i>Term to maturity</i>	Changes to market rates for bonds with low terms to maturity will have a lesser impact on price than where there is a greater term to maturity.
<i>Supply and demand</i>	Smaller issues can have scarcity value though this can be offset with lower liquidity (fewer buyers and sellers). Conversely, a high level of issuance of bonds by a lender can diminish the value, though this can also be offset by higher liquidity (as is typically the case with government bonds).

There is no sphere of human thought in which it is easier to show superficial cleverness and the appearance of superior wisdom than discussing questions of currency and exchange.
– Sir Winston Churchill (1874-1965)

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