Monthly Newsletter – March 2015

RATES LOWER FOR LONGER – DON'T FIGHT THE TREND

As predicted the RBA reduced the cash rate during the month by 25 basis points to 2.25%. Australia's weakening Terms of Trade (TOT) was a key reason we believed the interest rate would be reduced and after reviewing its announcement it was clear the RBA felt the same given it remains clear it prefers a lower dollar to boost demand for Australian goods and services. Because of this perceived fixation Australia has been accused of joining the "Currency Wars", manipulating its own currency to boost export competitiveness. In reality Australia is merely responding to its own weak economic environment **created** by those who put us in this mess in the first place. Incidentally these comments come from nations **who have engaged in real currency manipulation** since the GFC reared its ugly head.

Locally the weak data has continued with unemployment hitting a new high of 6.4% (YoY), wage growth at a new low of 2.5% (YoY), a 3.6% decline in new capital expenditure (actual, YoY) and planned capital expenditure estimates for 2015-2016 down 12.4% (major negative influence coming from the mining sector). These figures point to another inevitable rate cut in due course, but when? We don't want to make it a custom in predicting cash rate changes but our own opinion is the RBA is likely to pause from further rate cuts until at least April or May for two main reasons;

1) **Ensure maximum impact**. Europe and the US have already adopted extreme forms of Monetary Policy but their economies still remain flat and uninspiring. Given our own rates are at their lowest levels since 1961 the RBA will want to make sure any further rate cuts will provide maximum impact to markets.

2) **China**. In a first for the year China reduced its one year deposit rate to 2.5% and its one year lending rate to 5.35% as its leaders remain concerned the slowdown in GDP **may be** deepening too sharply. Although they are our largest trading partner we believe the RBA will take a different view and dismiss the negative connotations associated with the rate cut, instead use this move to appease point 1 and sit on the sidelines to determine if our own recent rate cut and Chinas impacts our local economy in a positive manner.

The earnings season concluded this month with about two thirds of companies reporting in line with analyst expectations. One thing worth highlighting was rather than retain a good proportion of earnings for future growth, many of the larger players decided it would be to reward shareholders with higher dividend payments (and therefore higher payout ratios). This is one reason why our market continued to trend upwards as it did. Essentially this means the market will continue to remain "top heavy" for as long as earnings continues to meet expectations and interest rates remain at historically low levels, but it doesn't come without risk each time we move higher. On that note it's become obvious despite irrational price levels **let the trend be your friend** for the time being. Markets have a tendency to remain irrational longer than we would prefer, a statement that is applicable to both bearish and bullish market scenarios.

MARKET EXPECTATIONS

This month the market attempted to push beyond key resistance at the 6000 index point level reaching a new high of 5955.5 index points as investors continued to chase yield against a backdrop of a reasonable earnings season. The indicators look bullish longer term on the 10 year chart with the uptrend remaining intact and the MACD trending in a positive manner. On the 1 year chart indicators suggest a pull back to the range of 5850 -5750 in the immediate term.

Longer term indicators remain positive…

Short term MACD bearish…suggests a risk of a pullback short term…

The Volatility level (XVI.ASX) currently stands at 13.61% with an index level of 5928.8 index points for the close of February. The expected change in the S&P/ASX200 index level during March is therefore;

High – XJO of 6161.73 index points (To the upside +3.93 %)
Mid Range – XJO of 5928.8 index points
Low - XJO of 5695.86 index points (To the downside -3.93 %)

WITCHCRAFT HITS JOE HOCKEY

No one is safe around here from criticism, not even one of our favorites Joe hockey. This time around we will excuse him and put his awful blunder down to a one-off "brain snap" or what most likely occurred, an act of witchcraft from the Labor party after he did the unthinkable and declared the interest rate cut was great news for Australian Households. Sure, it does put a few more dollars in our pockets short term but it's what households do with their surplus funds that alter our economic path. What about the self-funded retirees who are taking increasingly larger risks to maintain their standard of living or new entrants to the housing market? Lower rates do have their negatives!

On that particular day Chris Bowen didn't have to mumble a word to make Joe Hockey look like a goose. Labors silence could be part of a new strategy which they should have taken up a long time ago and could eventually win them an election or at least enable them to attack the Liberals at a later date after this long period of low rates comes back to bite us on the backside. It's currently trending on twitter at #nomoreverbaldiarrhoeafromthelaborparty.

POLITICIANS - WE NEED A STABLE GOVERNMENT

Speaking of Politicians, in December of 2009 Liberal party leader Malcolm Turnbull, the pot smoking self made millionaire, was ousted by Liberal rebels after disagreements over Kevin Rudd's proposed Carbon Pollution Reduction Scheme (CPRS). He vowed since that day never to challenge for party leadership again, however recent blunders by Abbott could give Turnbull a double bite of the cherry. How? First avenging his own demise as party leader in 2009 against the very person who replaced him and secondly fulfilling his dream of becoming Prime Minister. The latest polls are showing that Abbott is a dead man walking and it's only a matter of time before we are lead by Mr. Malcolm Turnbull. We think Abbott has done a pretty good job given the challenges he has faced to date and if the polls prove correct we will kind of miss him, but not his budgy smugglers. Still we prefer this outcome rather than a country led by Shorten and Bowen. If any change of leadership is too occur it needs to happen quickly, our economy needs a stable government and fast.

Performance of Key Indices

Equities	*Close*	*Change (M)*	*Change % (M)*
All Ordinaries	**5898.50**	**+346.9**	**+6.2%**
S&P/ASX200	**5928.80**	**+340.5**	**+6.1%**
Dow Jones (US)	**18132.70**	**+967.75**	**+5.64%**
NASDAQ	**4963.53**	**+328.29**	**+7.1%**
S&P500	**2104.50**	**+109.51**	**+5.5%**
FTSE 100 Index	**6946.66**	**+197.26**	**+2.9%**
Nikkei 225 (Japan)	**18797.94**	**+1123.55**	**+6.4%**
10-year bond rate (US)	**1.99%**	**+0.00347**	**+21.1%**

Upcoming RBA Events

Reserve Bank Board Meeting – 3rd March
Statement on Monetary Policy – 3rd March
Minutes of the RBA meeting – 17th March

ABS releases March

Balance of Payments and International Investment Position (December) 3rd March
Australian National Accounts: Income, Expenditure and Product (December) 4th March
International Trade in Goods and Services (January) – 5th March
Retail Trade (January) – 5thMarch
Housing Finance (January) – 11thMarch
Building Approvals (January) – 11th March
Labour Force (February) – 12th March
Lending Finance (January) – 13th March

Upcoming US Economic Releases

ISM Manufacturing Index – 2nd March
International Trade (February) – 6th March
US Employment Situation (February) – 6th March
Retail Sales (February) – 12thMarch
Producer Price Index (February) – 13th March
Housing Starts – 17th March
FOMC Meeting and Minutes (January) – 18th March
Existing Home Sales (February) – 23rd March
Consumer Price Index – 24th March
New Home Sales (February) – 24th March
Durable Goods Orders (February) – 25th March
GDP – 27thMarch
Jobless Claims – Weekly Basis

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