

Market Watch

Economic commentary

The New Year did not bring better economic news. Most sobering was the International Monetary Fund (IMF) downgrade to its 2009 global economic growth forecast. The IMF now expects global growth to be 0.5% in 2009, the slowest annual growth rate since World War II.

The IMF forecast can be found [here](#).

Global growth is slowing given the global financial crisis and falls in global output and trade. The prognosis for US, Europe and Japan was particularly sobering with developing economies set to be the main driver of growth in 2009.

After being much of the focus for 2008, new inflation figures released in Australia over January indicated the risk of inflation was diminishing. The Consumer Price Index rose 3.7% for the 12 months to December, down from its high of 5.0% for the 12 months to September 2008. Lower inflationary pressures assist further interest rate cuts by the Reserve Bank of Australia (RBA).

Other economic news released in Australia over January indicated further weakening in the economy. Retail sales rose only slightly by 1.9% for the 12 months to November, the lowest level recorded during the 25 year history of the survey. Unemployment rose to 4.5% in December, up from a low of 3.9% in February 2008.

Also making news was the release of Chinese GDP figures. Economic growth slowed to 6.8% for the 12 months to December 2008, down from 9.0% for the 12 months to September and the lowest since December 2001.

Standard & Poor's confirmed Australia's credit rating over the month at AAA, the highest rating possible. The ratings agency was relatively positive in its assessment of Australia, making note of the government's handling of finances, the resiliency albeit slowing state of the economy, the transparent policy environment and the strength of institutions.

The \$A fell in January. It was down 9.4% from US 70.46 cents at the start of the month to US 63.81 cents by month end.

The \$A bought 0.4413 UK pounds at the end of January and 1.2555 NZ dollars.

Australian shares

Despite a positive first week of the new-year, offshore events and the slowing domestic economy saw Australian share prices fall in January. The All Ordinaries index fell 5.0% to be down 39.0% over 12 months.

On 23 January, the All Ordinaries index reached a new low of 3,300. The previous low was recorded on 20 November 2008 at 3,332. Concerns over the weak economic growth figures, further bank losses in the UK, weak US economic news and profit downgrades reignited investor fears.

The mood in the market took a step backwards mid-way through January as concerns over the health of the global financial system reemerged. The Royal Bank of Scotland was bailed out by the UK Government with a 70% stake taken in the bank. This followed the bank announcing the largest loss in UK history and the Irish Government nationalisation of the Anglo Irish Bank.

These events raised the expectation that much more work is required to stabilise the financial system. Further capital injections and working out problem loans, including the possible establishment of a 'bad bank', are steps that will need to be taken for confidence to begin to return to the financial system.

Problems offshore led our finance sector lower, down 8.8% over January. The larger falls came from Bank of Queensland (-25.6%), ASX (-18.5%) and ANZ Banking Group (-13.2%). All major banks fell on concerns over troubled loans and need for additional capital.

The sharemarket was also led lower by a number of capital raisings. A number of companies turned to the equity market to raise capital in January as debt is becoming more expensive and challenging to refinance. Wesfarmers, Tabcorp, Bank of Queensland, Commonwealth Property Office Fund and PanAust were some of the companies to announce capital raisings.

Profit downgrades also rattled the market as companies prepare to report profits in February. Sims Metal Management, Boral, Macquarie Group, PrimeAg, Westfield and David Jones all downgraded profits over the month. Boral (-28.4%) and David Jones (-27.0%) were amongst the hardest hit as investors brace for a slowing housing sector and a depressed consumer spending environment.

It wasn't all bad news over January with the defensive sectors, healthcare (+6.1%) and telecoms (+0.1%) rising. The weaker Australian dollar and relatively defensive earnings streams saw a number of healthcare companies perform well. ResMed (+15.7%), CSL (+11.3%) and Sigma Pharmaceuticals (+11.1%) all rose.

The psyche of investors has been shaken in the first month of 2009. Further bank losses, large downgrades to economic forecasts and international bailouts have paved the way for a challenging 2009. While the Australian economy is largely in a better shape than global counterparts, it will suffer a period of slow growth ahead. Policy actions, lower interest rates and fiscal stimulus will aid the recovery. In the meantime sharemarkets are coming to terms with the year ahead with February reporting season one to watch for signs of company distress, dividend cuts or capital raisings.

The S&P/ASX 200 Accumulation index (which includes re-invested dividends) fell 4.9% in January to be down 34.3% over 12 months.

January 2009

Market Watch

Global shares

The major global equity markets were predominantly lower in January. Falls were spurred on by a downgrade in global economic growth forecasts, weaker economic news out of the US and Europe and further reports on the fallout in the banking sector.

The MSCI World index, a broad measure of global shares, fell 8.9% in \$US but was up 1.1% in \$A terms. The \$A fell 9.4% against the \$US over January. Over 12 months, global shares were down 42.8% in \$US terms and have fallen 19.4% in \$A terms

The US economy fell at an annualised rate of 3.8% over the December quarter, its weakest rate since the recession of 1982. President Obama got to work by seeking the remaining \$US 350 billion of the Troubled Asset Relief Program (TARP) funds and by introducing his \$US 819 billion stimulus package. The Dow Jones Industrial Index was down 8.8%, while the S&P 500 fell 8.6% and the NASDAQ was down 6.4%.

Asian markets were predominantly lower in January, weighed down by a weak Japanese economy. The Nikkei index fell 9.8% while Hong Kong was down 7.7%. Singapore (-0.9%), Malaysia (+0.9%) and South Korea (+3.4%) performed better. The Chinese sharemarket rose 12.5% despite reporting a slowdown in economic growth.

European markets moved lower over January as the European economy weakened sharply. The German economy has been hard hit, suffering from a slowdown in global trade. Its sharemarket fell 9.8%, while Spain (-8.1%), France (-7.6%) and Italy (-6.3%) all fell. The UK market was down 6.4% despite a large cut to official interest rates.

Emerging markets also had a mixed month. The MSCI Emerging Markets index fell 6.6% in \$US but was up 3.5% in \$A. Emerging European sharemarkets have been hard hit as government finance issues are worked through amidst slowing economic growth. The Czech Republic (-9.8%), Poland (-9.3%) and Russian (-9.2%) sharemarkets all fell.

Fixed interest

Policy makers continue to work overtime to support their financial system and encourage economic growth. While lower official interest rates are possible in some countries, other countries, the US in particular, are focusing on other policy options.

In the US, the Federal Reserve left interest rates on hold in a target range of 0.00% to 0.25%. The Fed acknowledged that due to prevailing economic conditions, they will likely leave this low level of rates for some time. The Fed plans to implement its Term Asset-Backed Securities Loan Facility (TALF) in February which aims to get credit flowing to households and small business. The Fed has also raised the possibility of buying longer-term Treasury Securities.

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All these actions are aimed at improving the functioning of credit markets. Access to finance has remained tight, hindering trade and investment. Interest rates for global inter-bank and corporate borrowing remain elevated. In the US, the availability of credit to the housing and consumer finance sectors has also slowed.

Globally, 10 year bond yields remain at low levels, driven by the large demand for 'safer' investments. In the US, 10 year bonds stand at 2.84%, in the UK at 3.70%, in Japan 1.30% and in Europe 3.30%. Government bond yields rose over the month after strong falls in December.

At the beginning of the month, 10 year Australian government bond yields stood at 3.99% while domestic corporate bonds with credit ratings in the range BBB- to BBB+ had an average yield of 8.40%. By the end of January, the yields were 4.10% and 7.73% respectively.

The UBSA Composite Bond index returned 1.39% in January for a return of 15.14% over the past 12 months.

The Reserve Bank of Australia (RBA) did not meet in January but met on the 3rd February to announce a further 1% cut in interest rates. The UBSA Bank Bill index returned 0.39% in the month of January and 7.38% over 12 months.

Listed property

The listed property sector had another weak month, down 9.6% in January. The sector has fallen 52.9% over 12 months. Profit downgrades, refinancing concerns and a weaker economic outlook has seen the sector lose confidence among investors.

The downgrade of profit by Westfield Group weighed on the listed property market over the month. Property values have fallen around the world as economic growth slows, dampening demand for property. Refinancing issues continue to plague the sector.

To overcome the challenging financing conditions, especially in the property sector, the Federal Government announced the establishment of the Australian Business Investment Partnership. The aim is to provide liquidity support for the commercial property sector which is likely to find refinancing difficult as offshore banks reduce lending in the Australian market.

Global property markets fell in January weighed down by falls in the UK, Germany and the US. The UBS Global Investors Index (Net TR) \$A Hedged was down 12.9% in the month to be 50.5% lower over 12 months.