

A Global Economic and Market Outlook

Presented by Dr Chris Caton

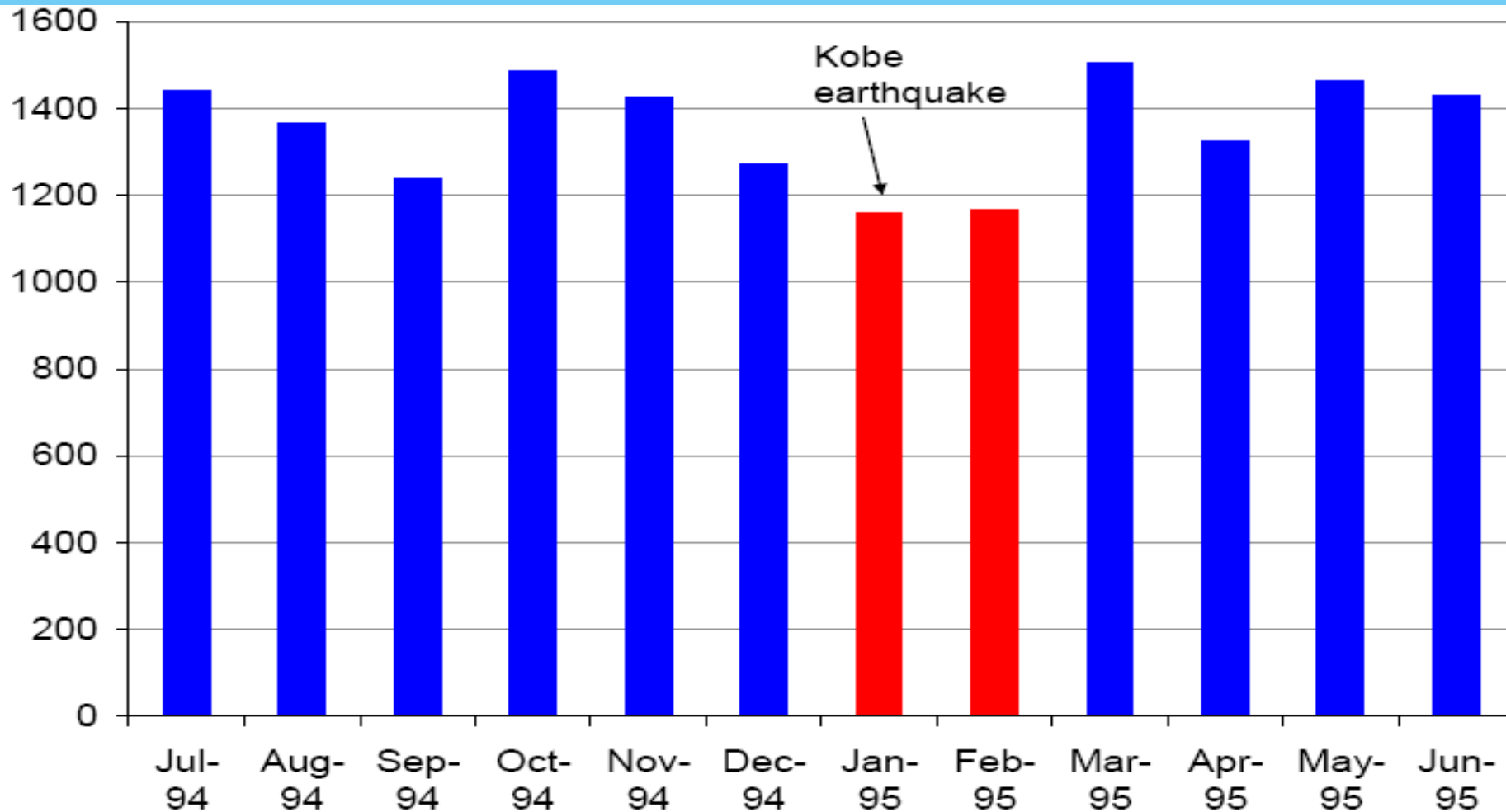
April 2011

How much economic difference do natural disasters make?

“What has so often excited wonder, the great rapidity with which countries recover from a state of devastation; the disappearance, in a short time, of all traces of the mischiefs done by earthquakes, floods, hurricanes, and the ravages of war.”

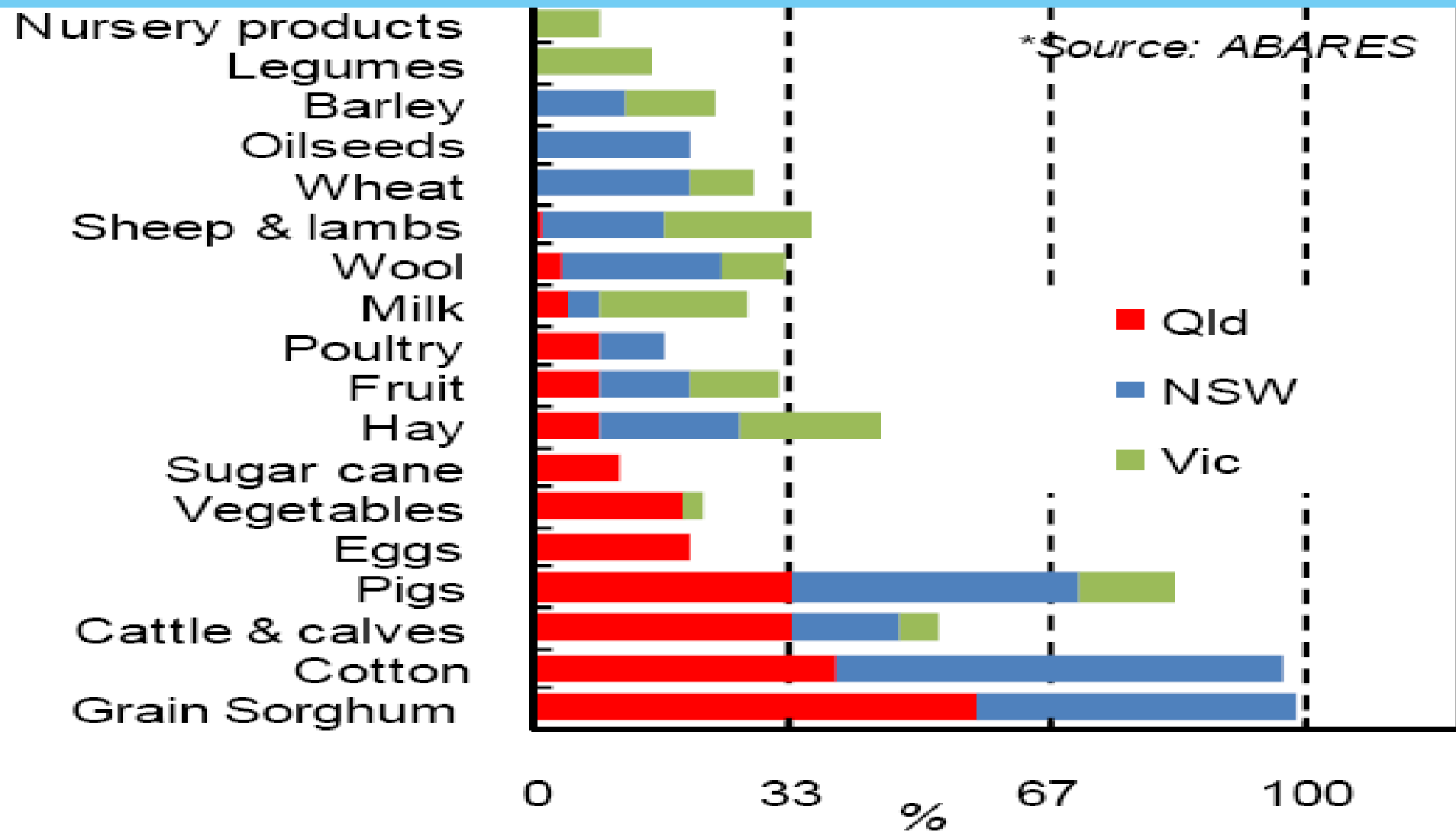
John Stuart Mill, British economist and philosopher, 1872

Australia's export to Japan, 1994-95 (\$A,m)

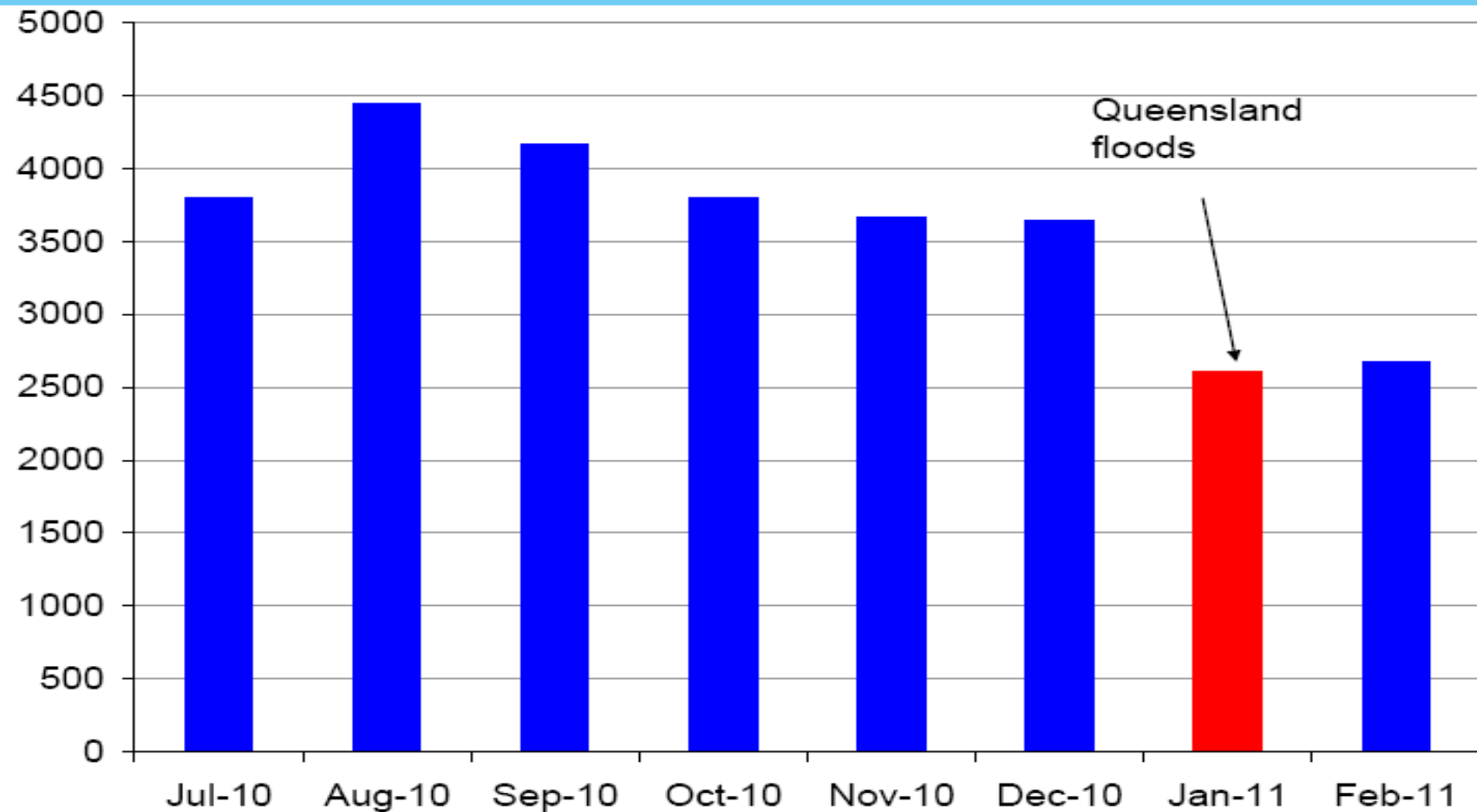


Source: ABS & Citi Investment Research and Analysis

Production in flooded areas-- % of national production



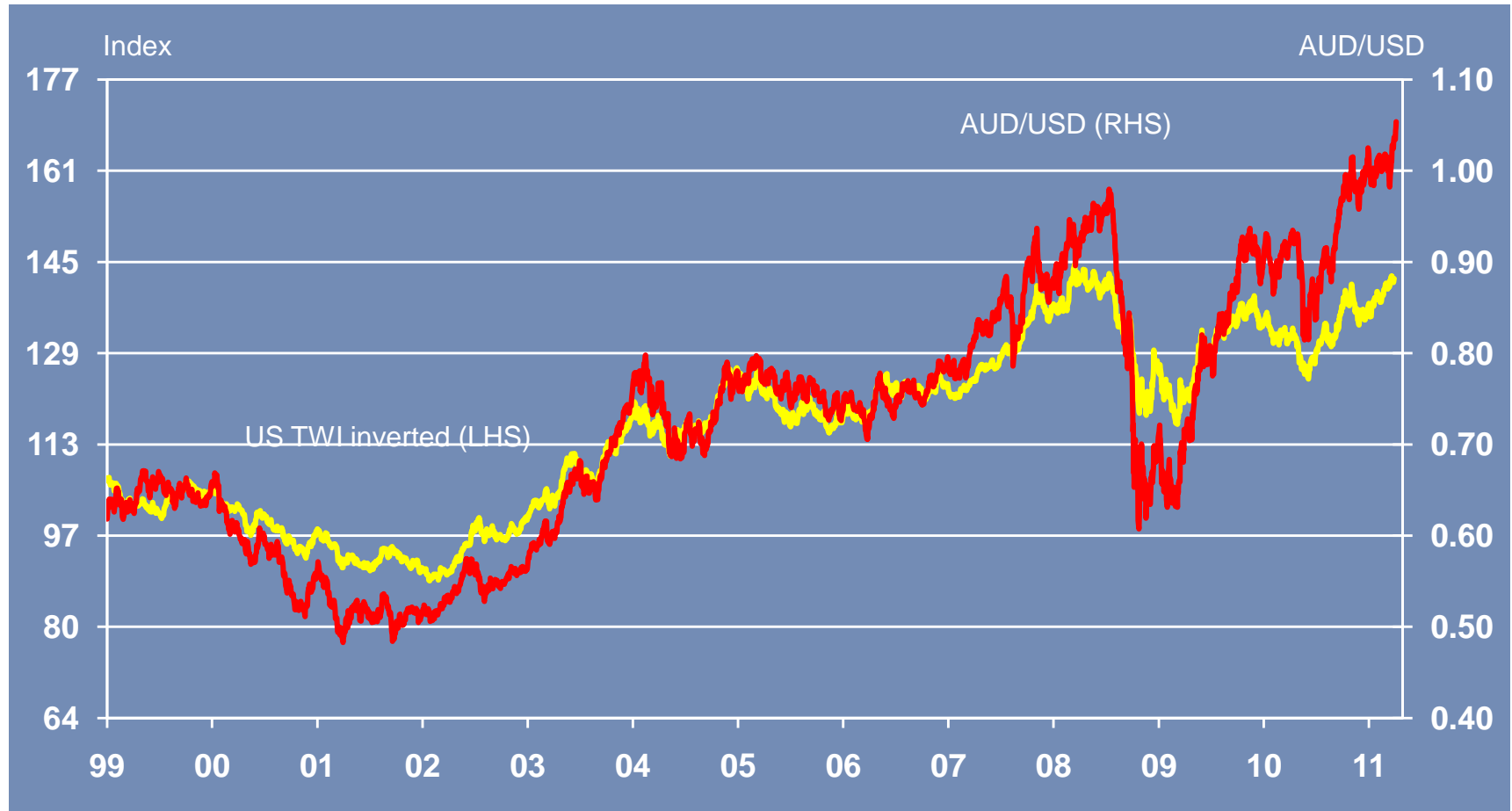
Coal, coke and briquette exports (\$A,m)



Financial Market Forecasts

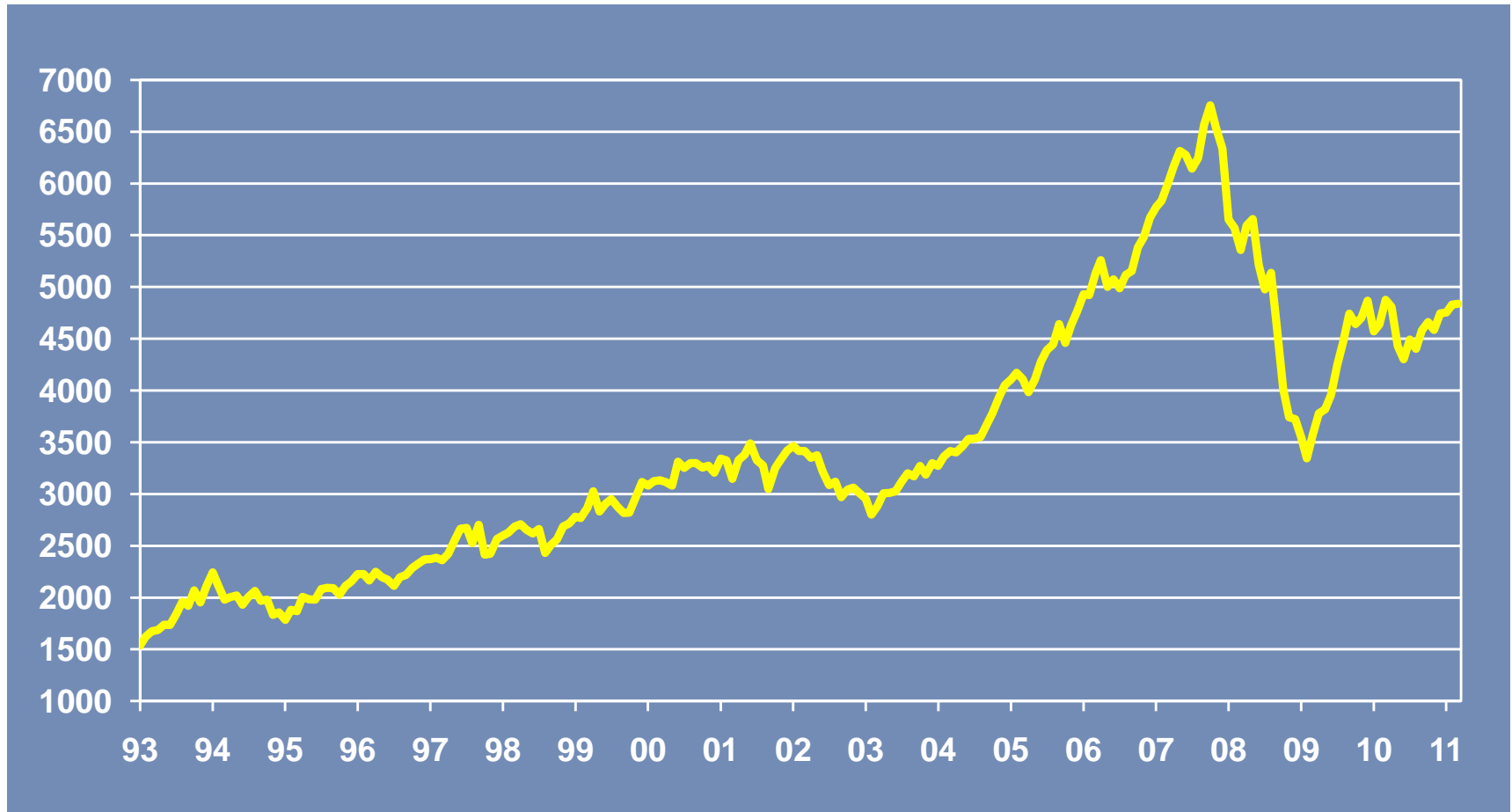
	Now (9 April)	End-Jun 2011	End-Dec 2011
AUD/USD	1.056	0.96	0.88
Official cash rate (%)	4.75	4.75	5.00
10 Year Bond yield (%)	5.50	5.60	5.60
ASX 200	4940	5000	5250

The Australian Dollar and US Trade Weighted Index



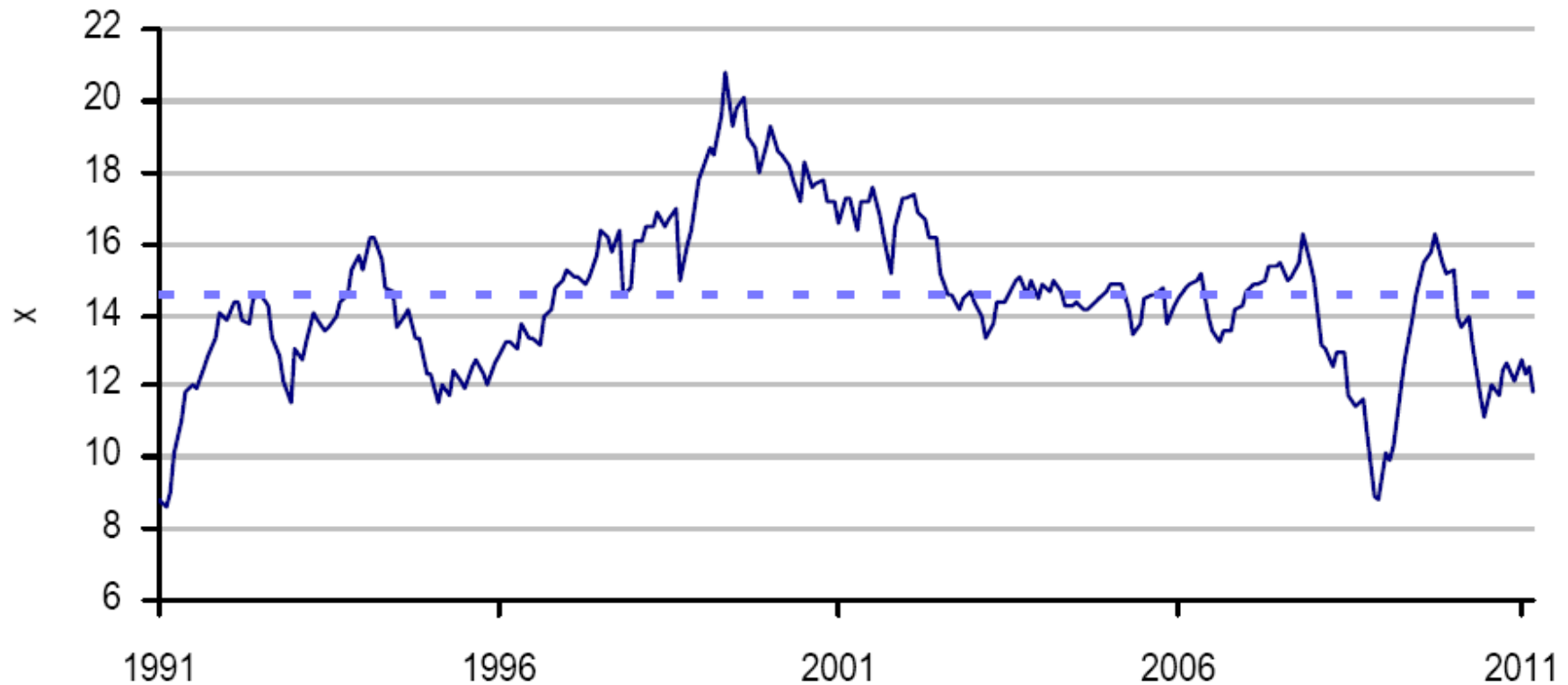
Source: Datastream

Australian Sharemarket Performance – ASX200



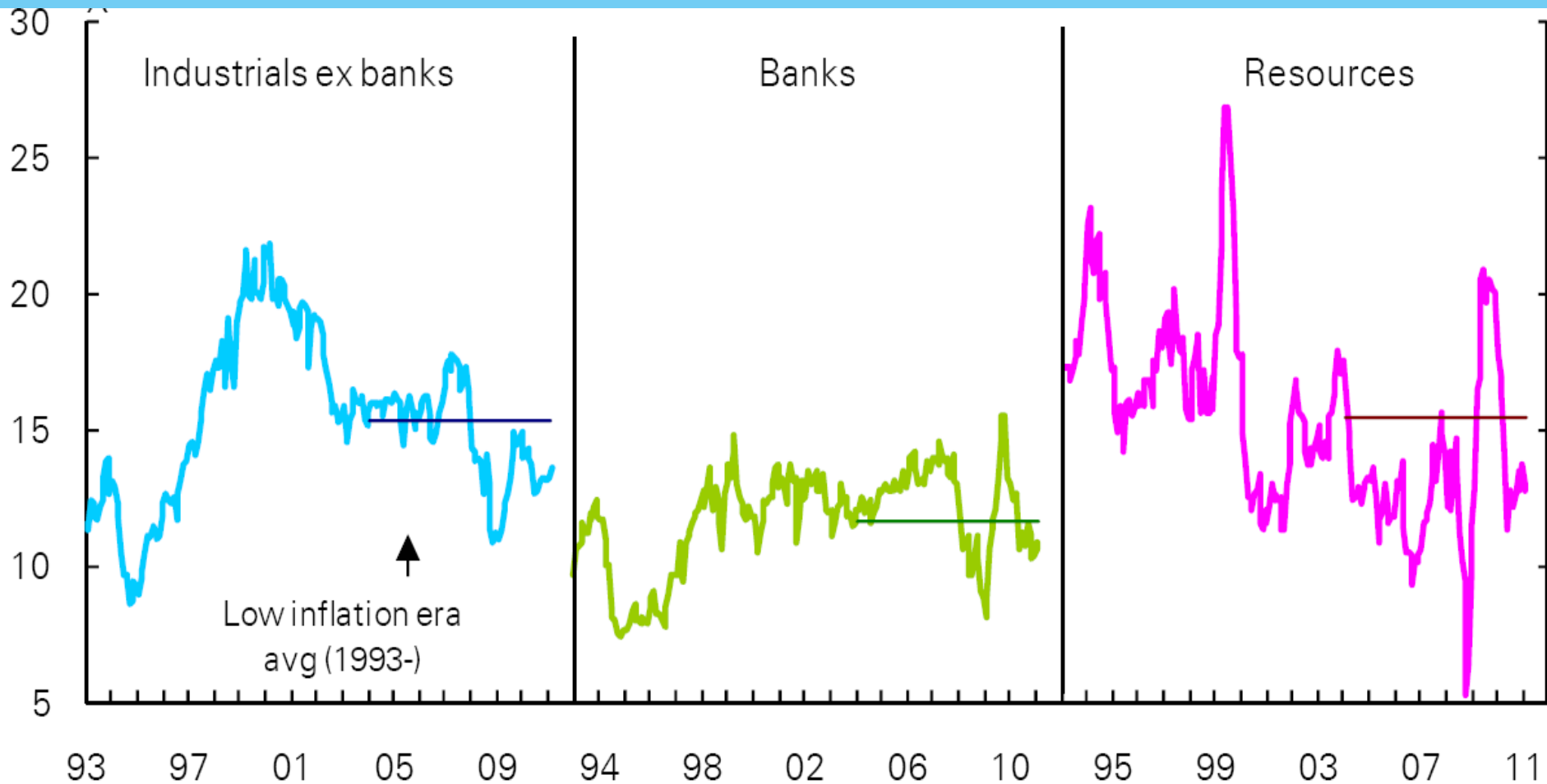
Source: Bloomberg

The Australian market is again cheap (forward P/E ratio)



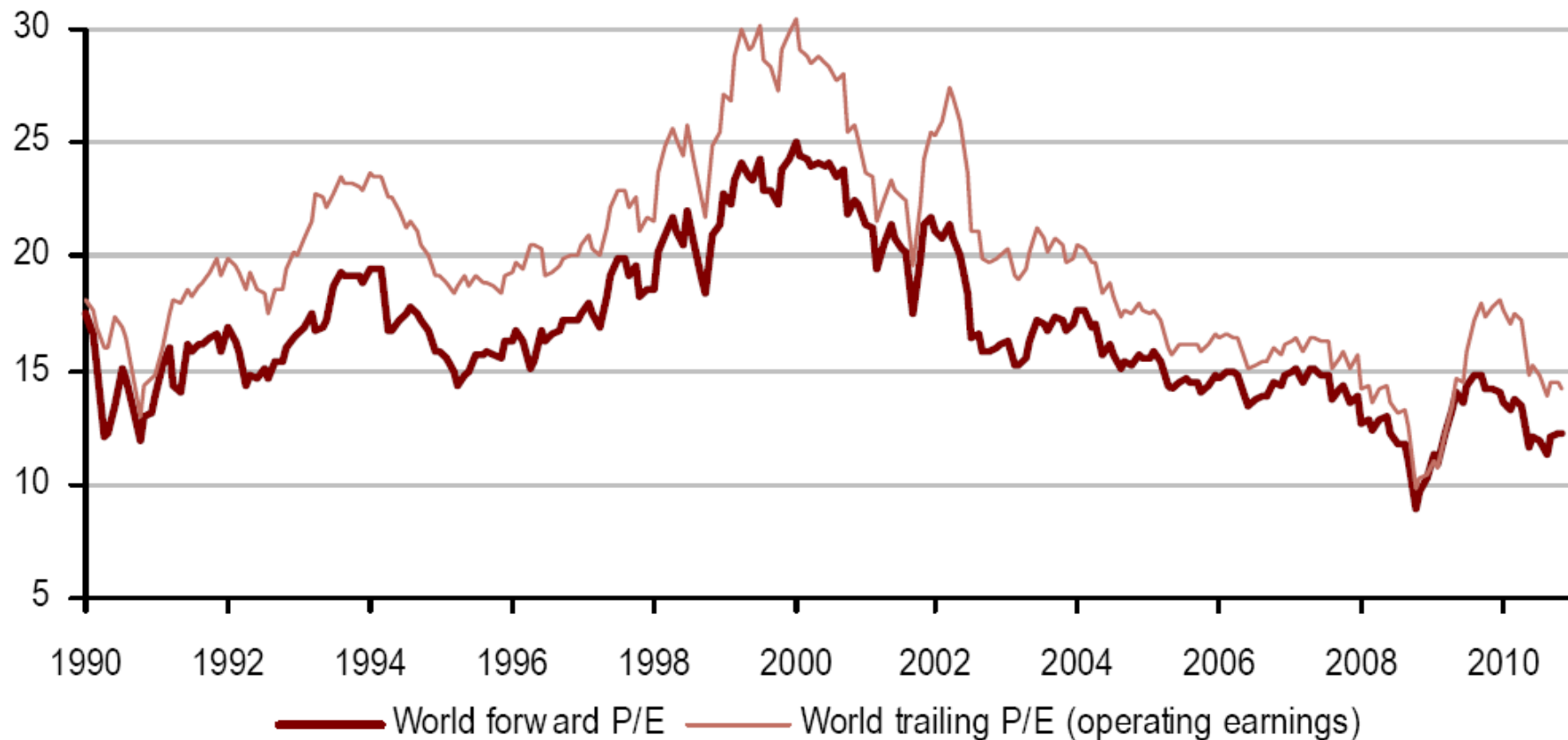
Source: I/B/E/S, UBS calculations

Sector stuff



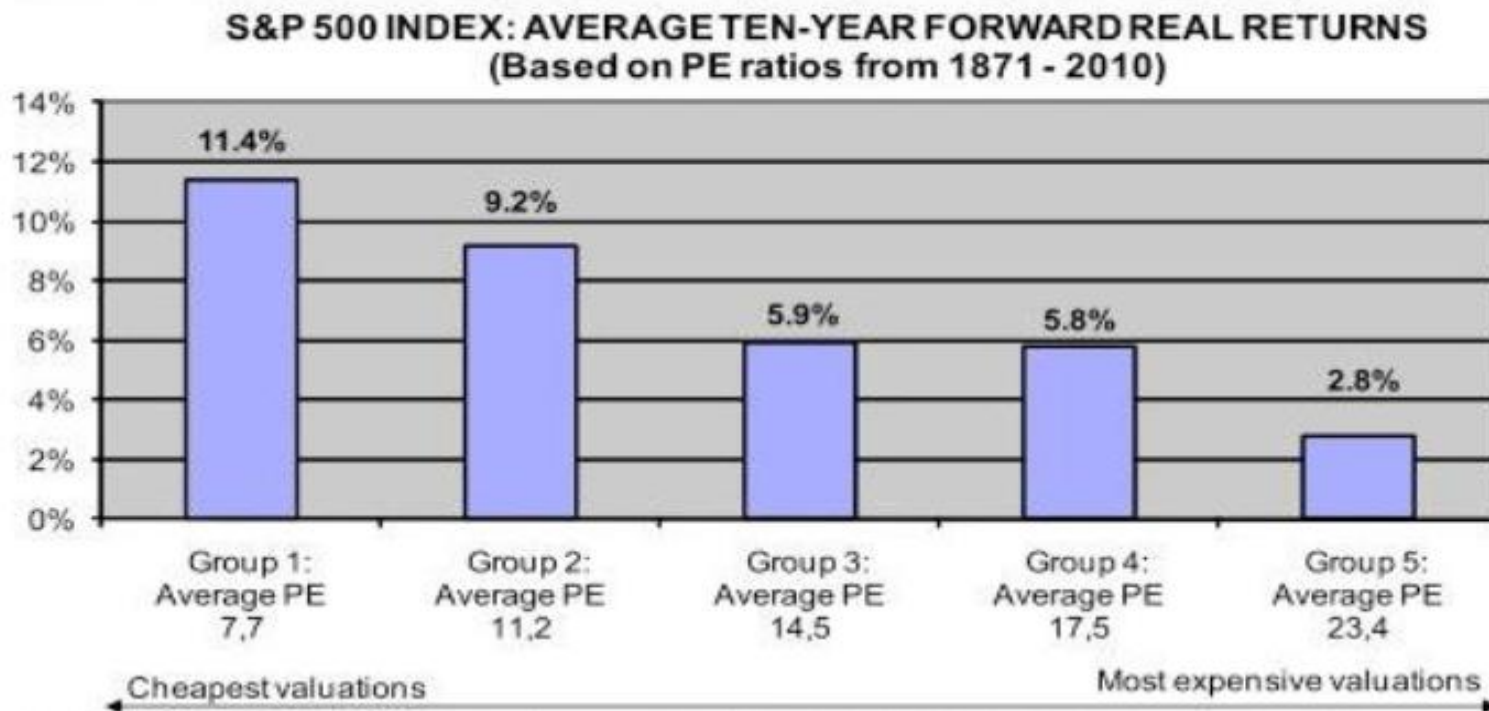
Source: IBES. Datastream. MSCI. Deutsche Bank

World share markets are cheap also



Source: I/B/E/S

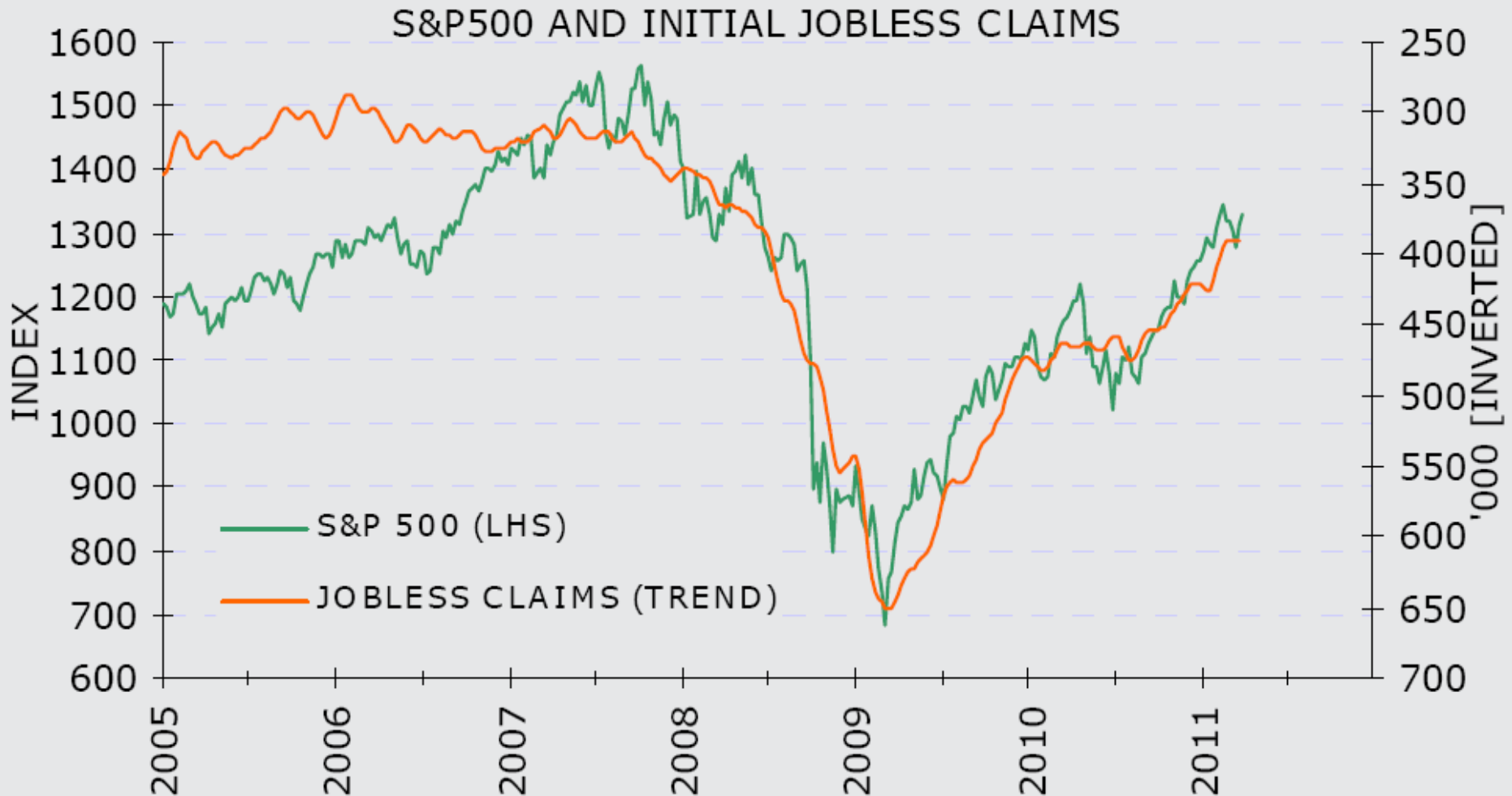
It makes a difference when you buy



- Current Valuations
 - Australian Market at 12.7x
 - US Market 12.6 x

Source: Plexus Asset Management (based on data from Prof Robert Shiller & I-Net Bridge)

Economics and share markets—there is a relationship!



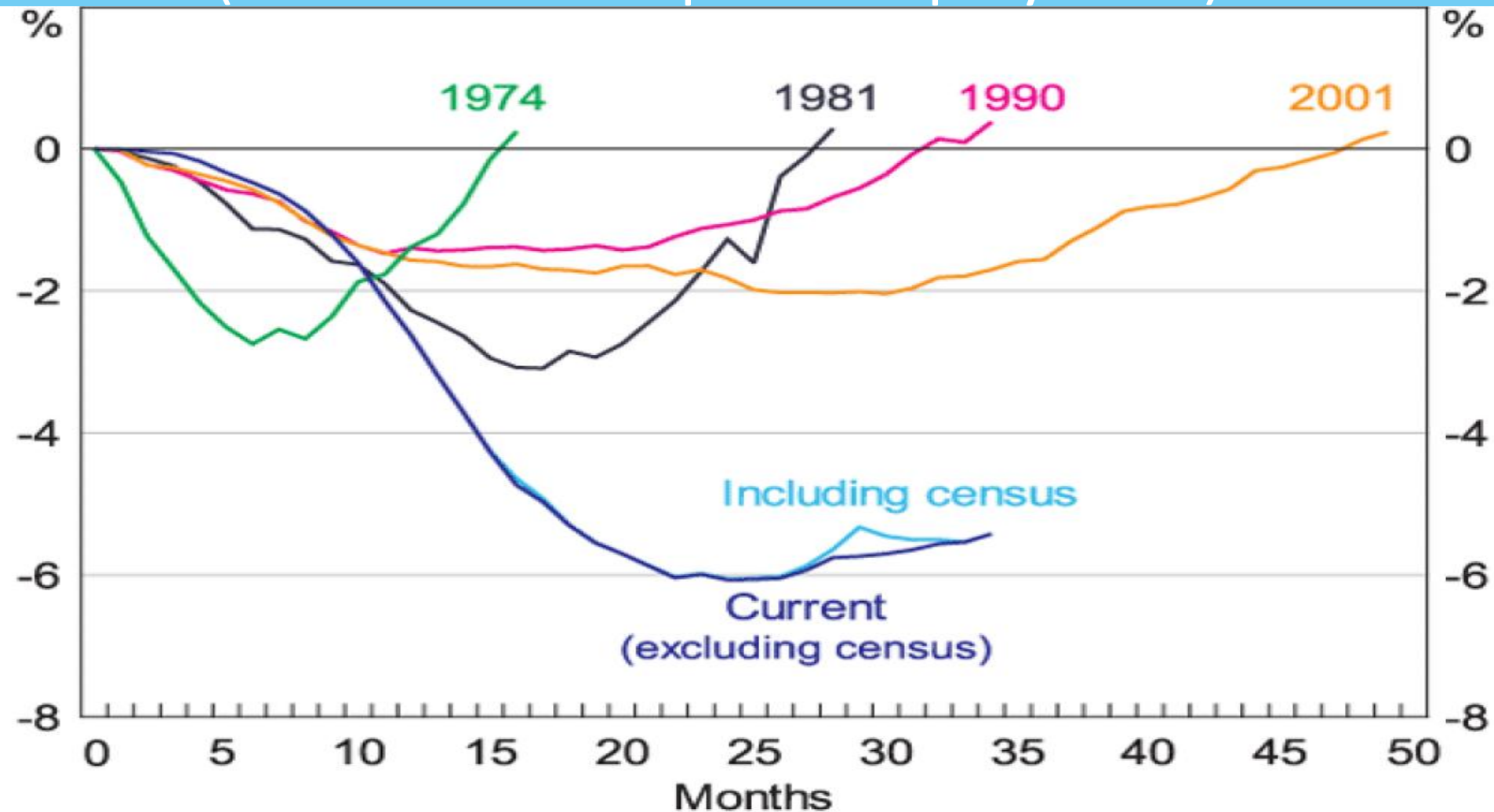
Source: Bloomberg, BLS; Morgan Stanley Research

US Housing starts are bumping along the bottom



Source: Datastream

It keeps taking longer to get back the jobs (% decline from peak employment)



Source: Thomson Reuters

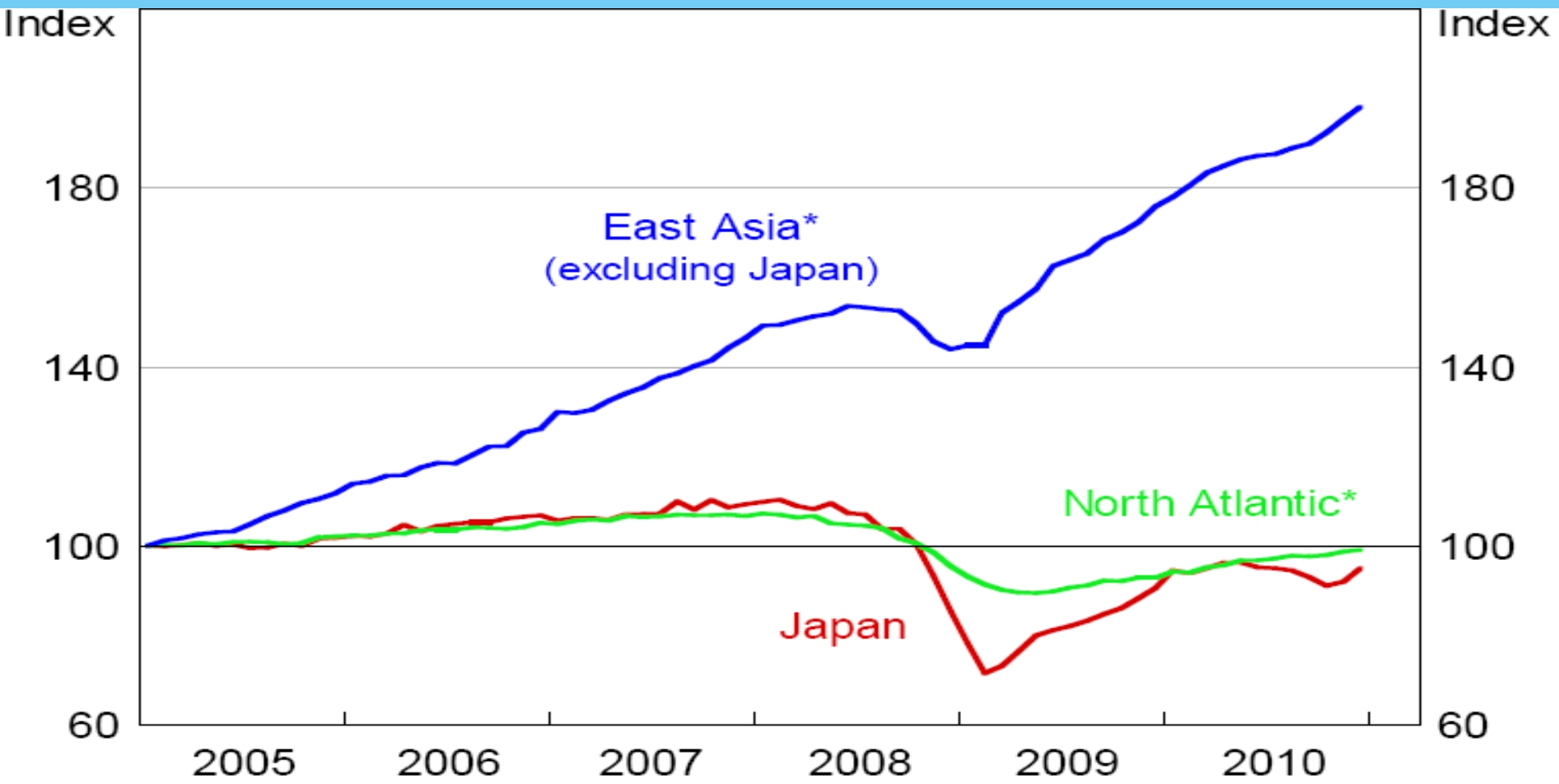
2011 Growth Forecasts (%)

Month of Forecast

	O-10	N-10	D-10	J-11	F-11	M-11	A-11
Australia	3.5	3.5	3.2	3.1	2.9	2.9	2.7
New Zealand	3.2	3.2	3.3	2.9	2.7	1.1	1.1
US	2.4	2.4	2.7	3.2	3.2	3.1	2.9
Japan	1.2	1.2	1.1	1.2	1.5	1.4	0.3
China	9.0	9.1	9.1	9.2	9.3	9.4	9.3
Germany	2.0	2.1	2.2	2.5	2.5	2.6	2.7
UK	1.9	2.0	2.0	2.1	1.9	1.9	1.8
“World”	3.1	3.1	3.2	3.4	3.5	3.5	3.3

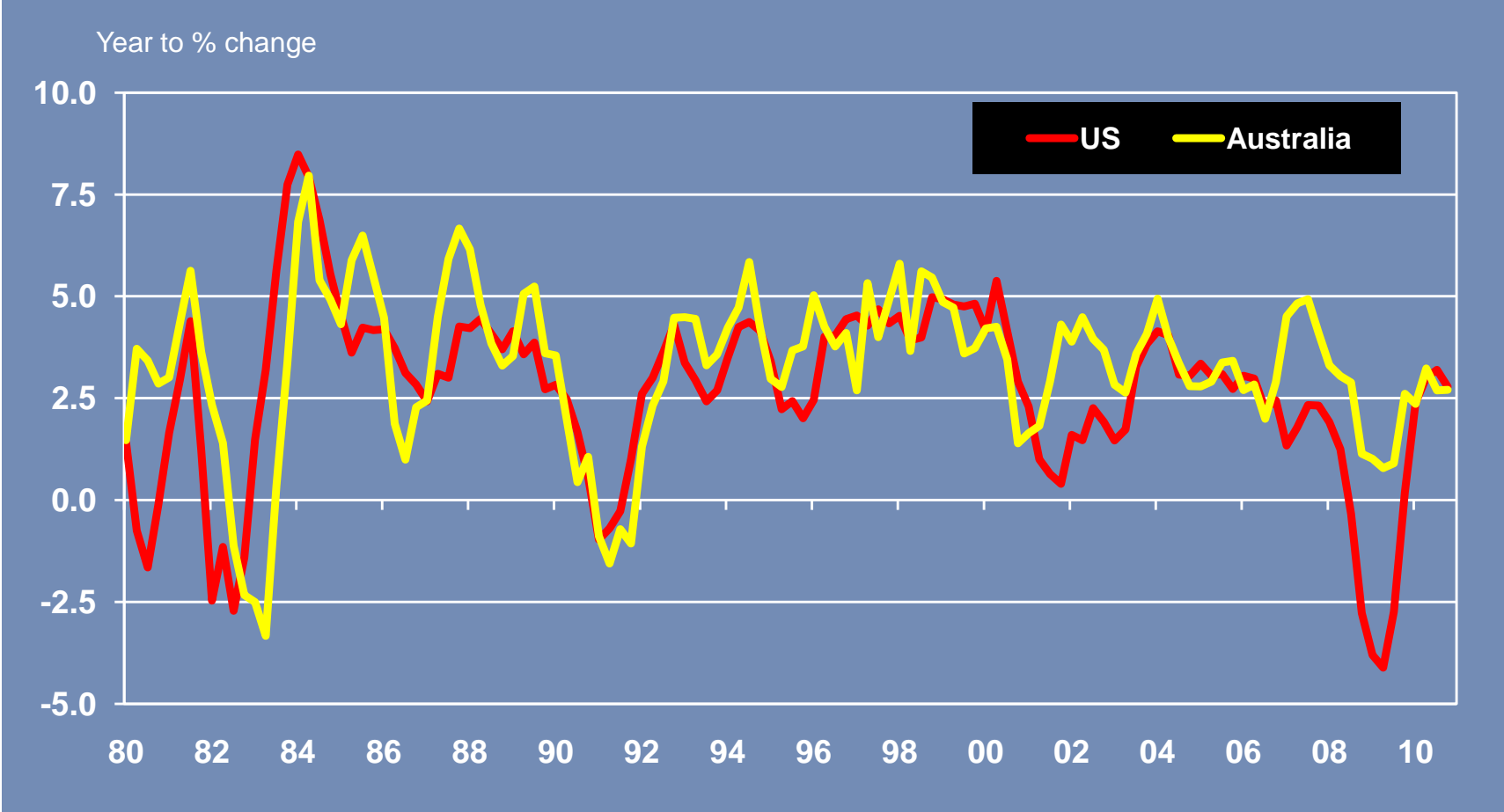
Source: Consensus Economics

Industrial production (2005=100)



* RBA estimates for December 2010; North Atlantic economies are Canada, the euro area, UK and US
Sources: CEIC; RBA; Thomson Reuters; United Nations

Real GDP growth in Australia and the US

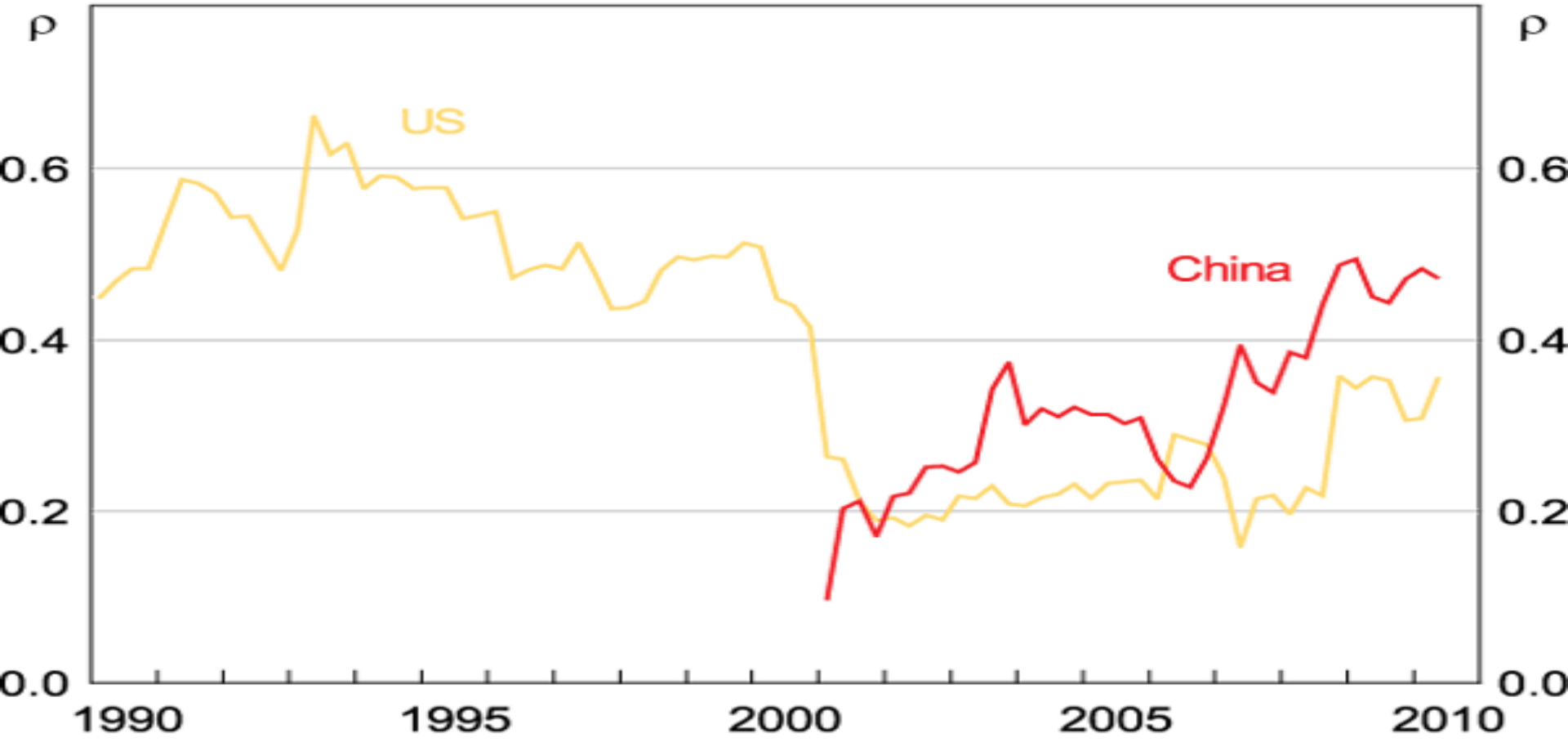


Source: Datastream

China is more important--here's the proof

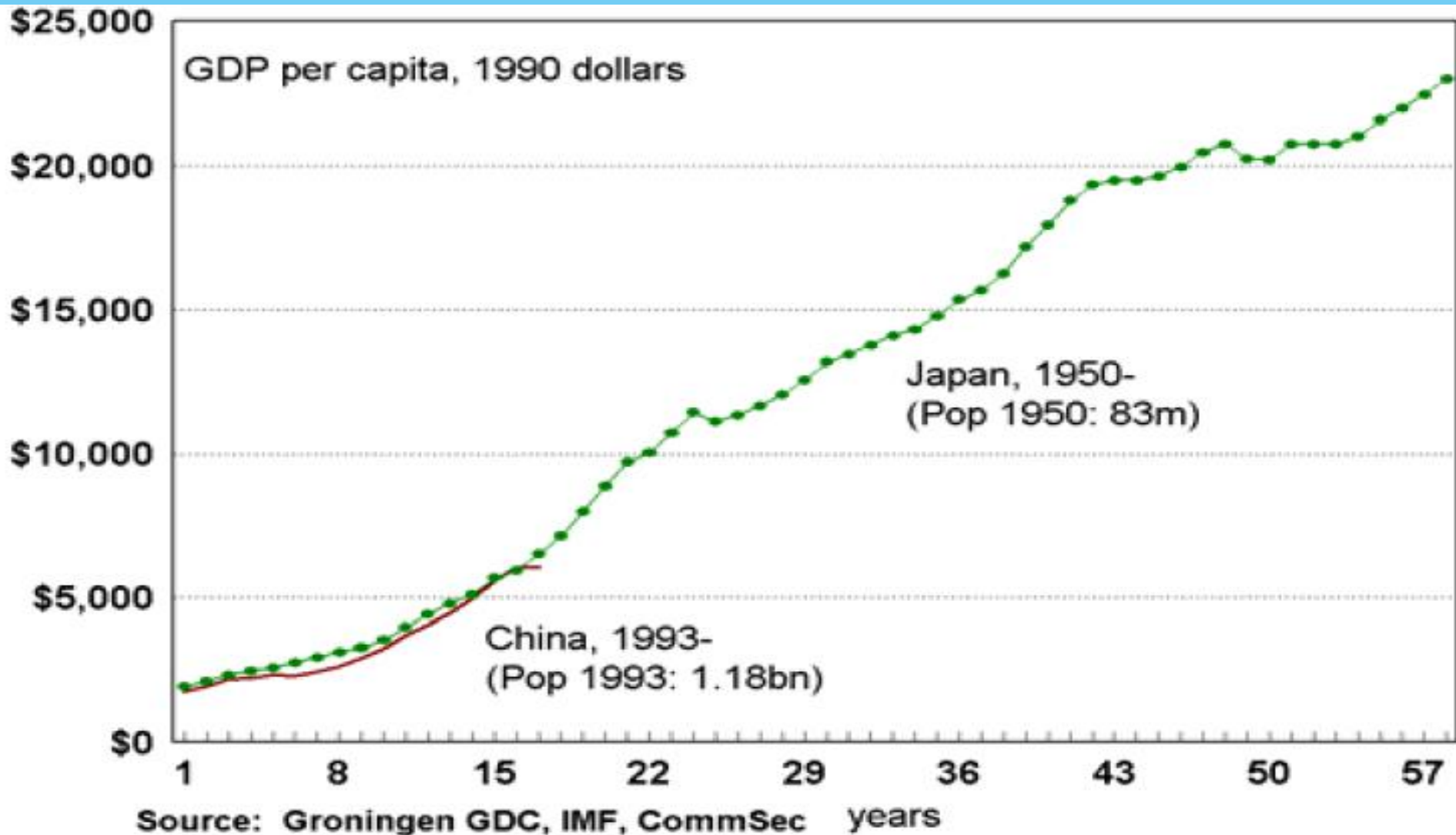
Australian GDP Growth – Correlations

Rolling correlation of real quarterly growth, 10-year window



Sources: ABS; BEA; CEIC; RBA

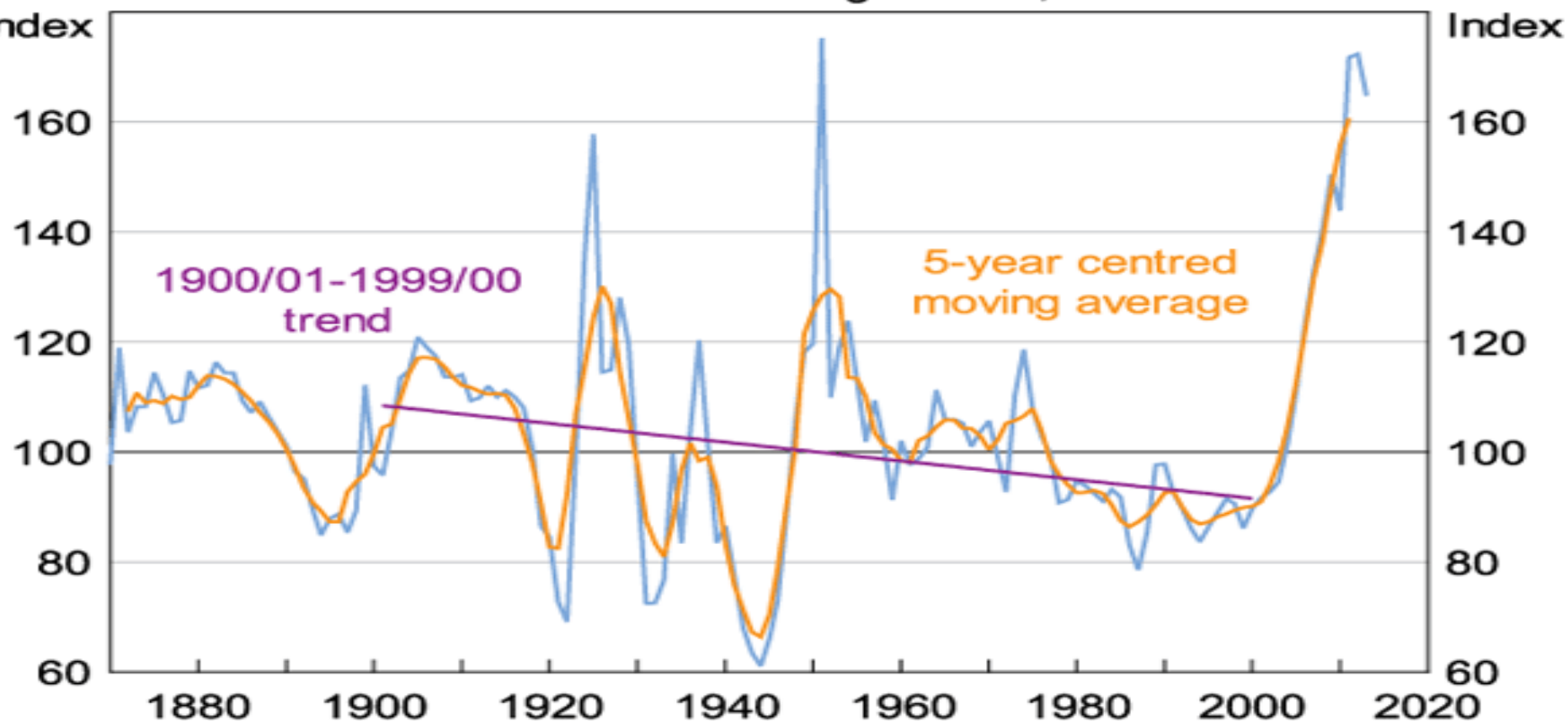
China is tracking Japan very closely



What goes up.....

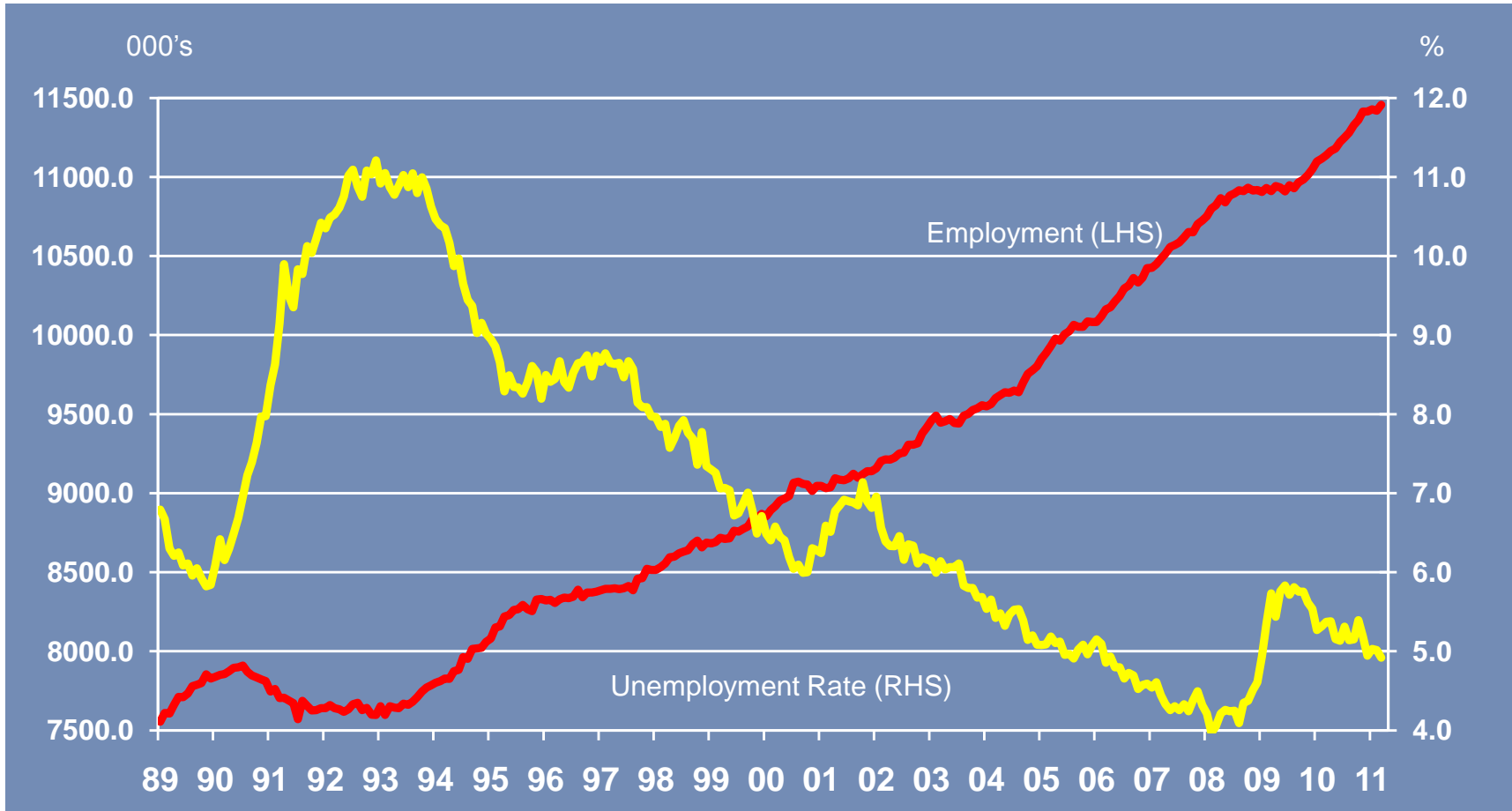
Terms of Trade*

1900/01-1999/00 average = 100, annual



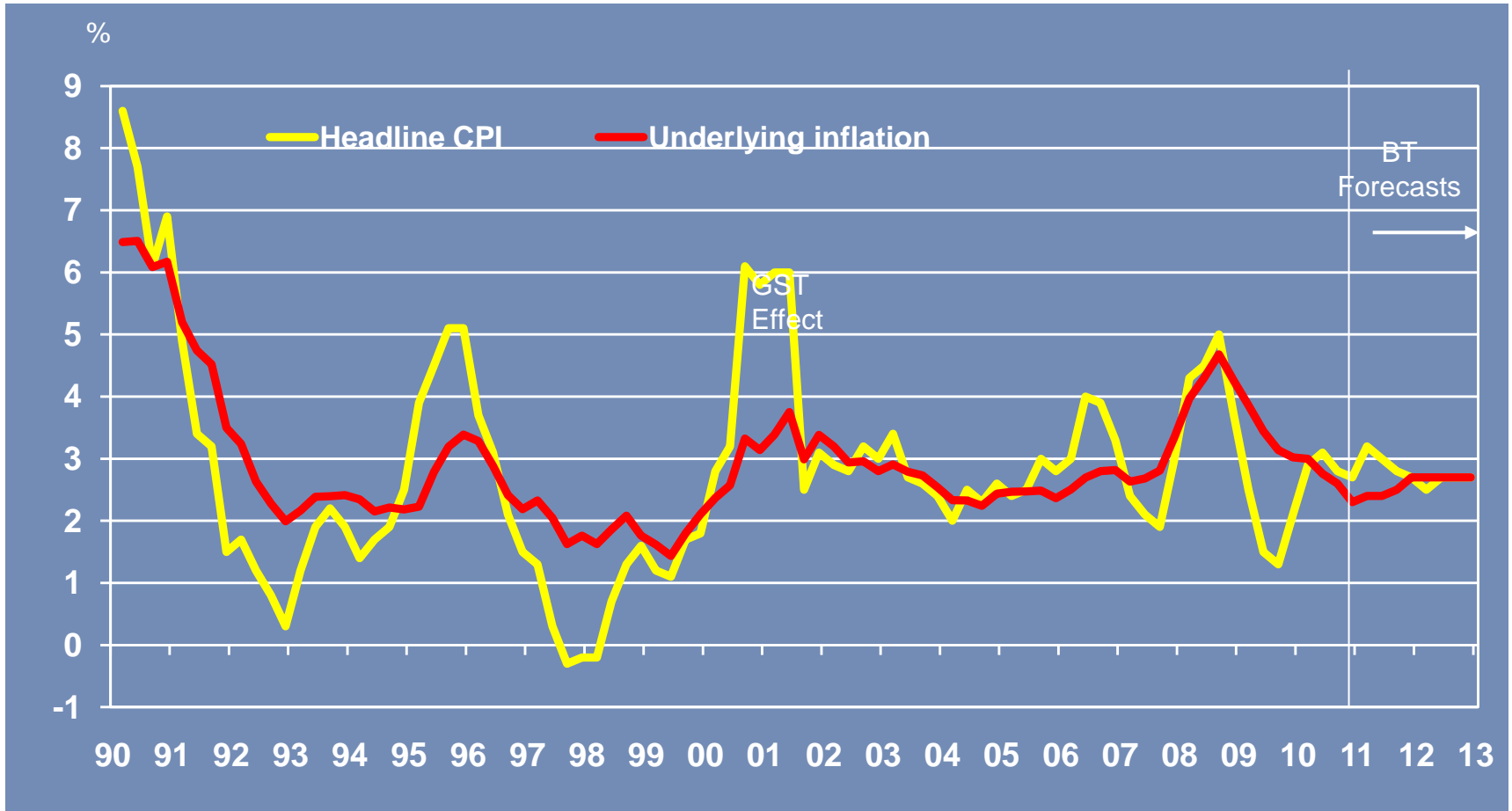
* RBA estimates for 2010/11 to 2012/13
Sources: ABS; Gillitzer & Kearns (2005); RBA

The Labour market has done well



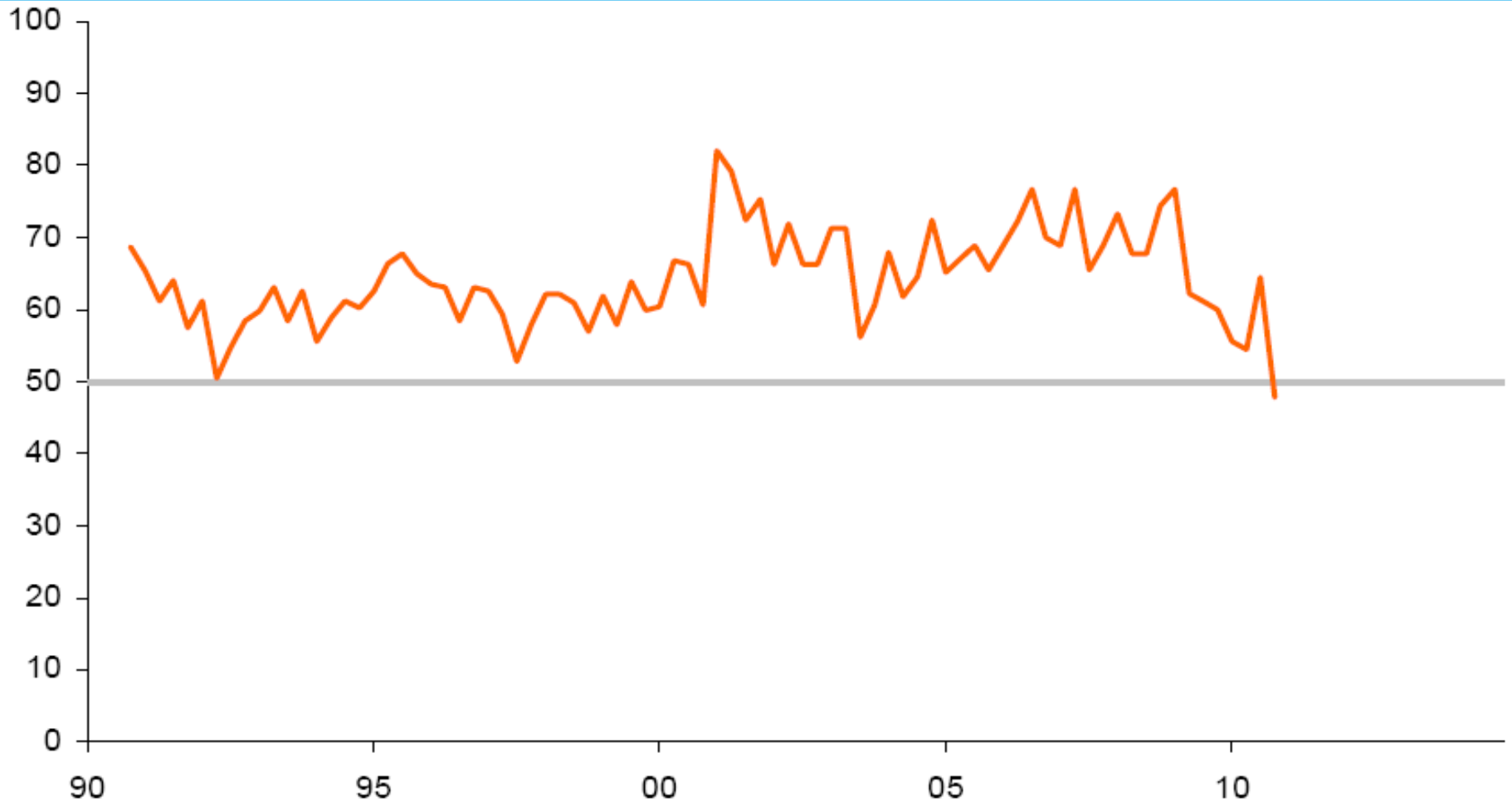
Source: ABS

Australian Inflation



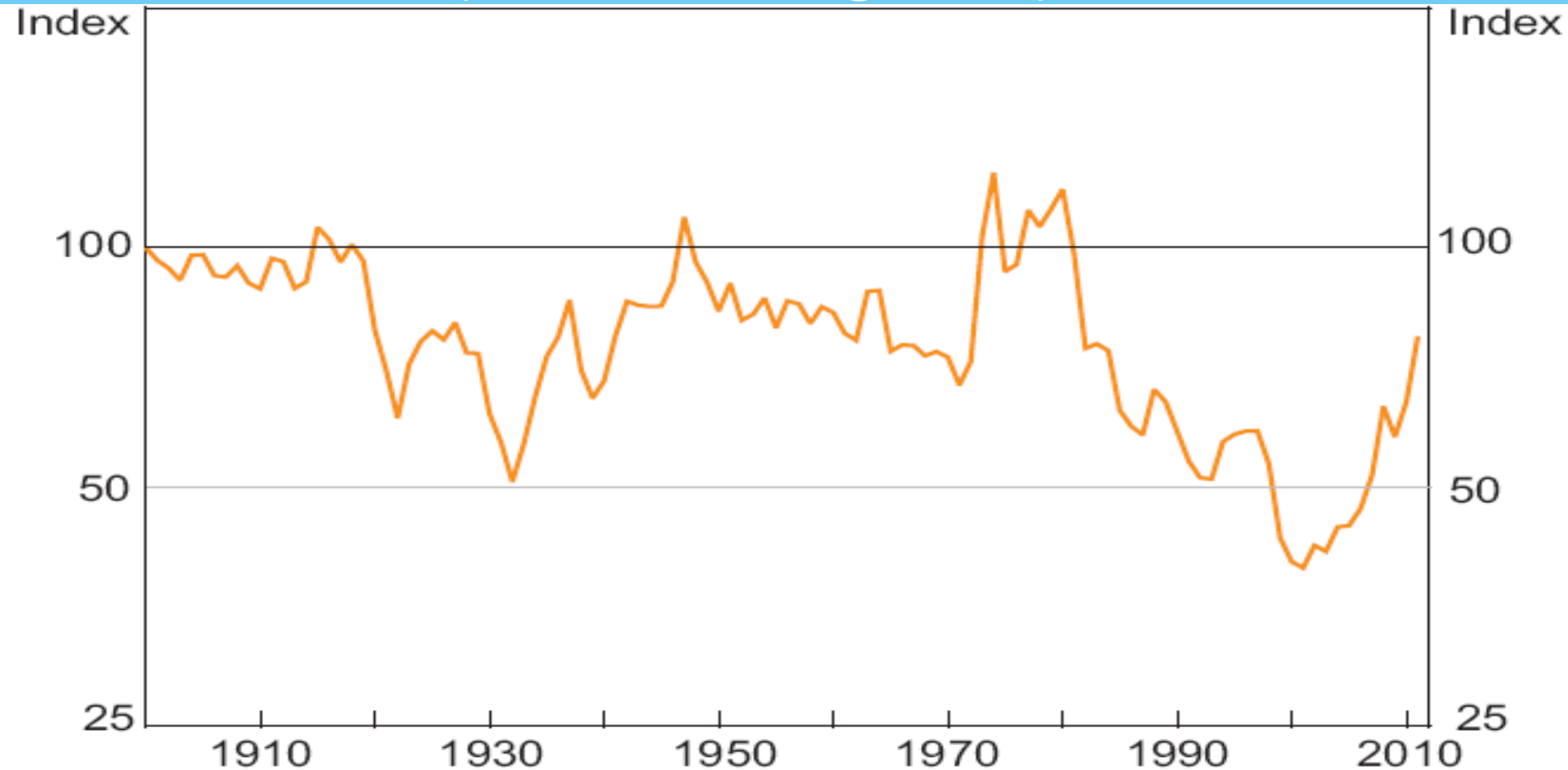
Source: ABS

Proportion of prices in the CPI that went up in the quarter



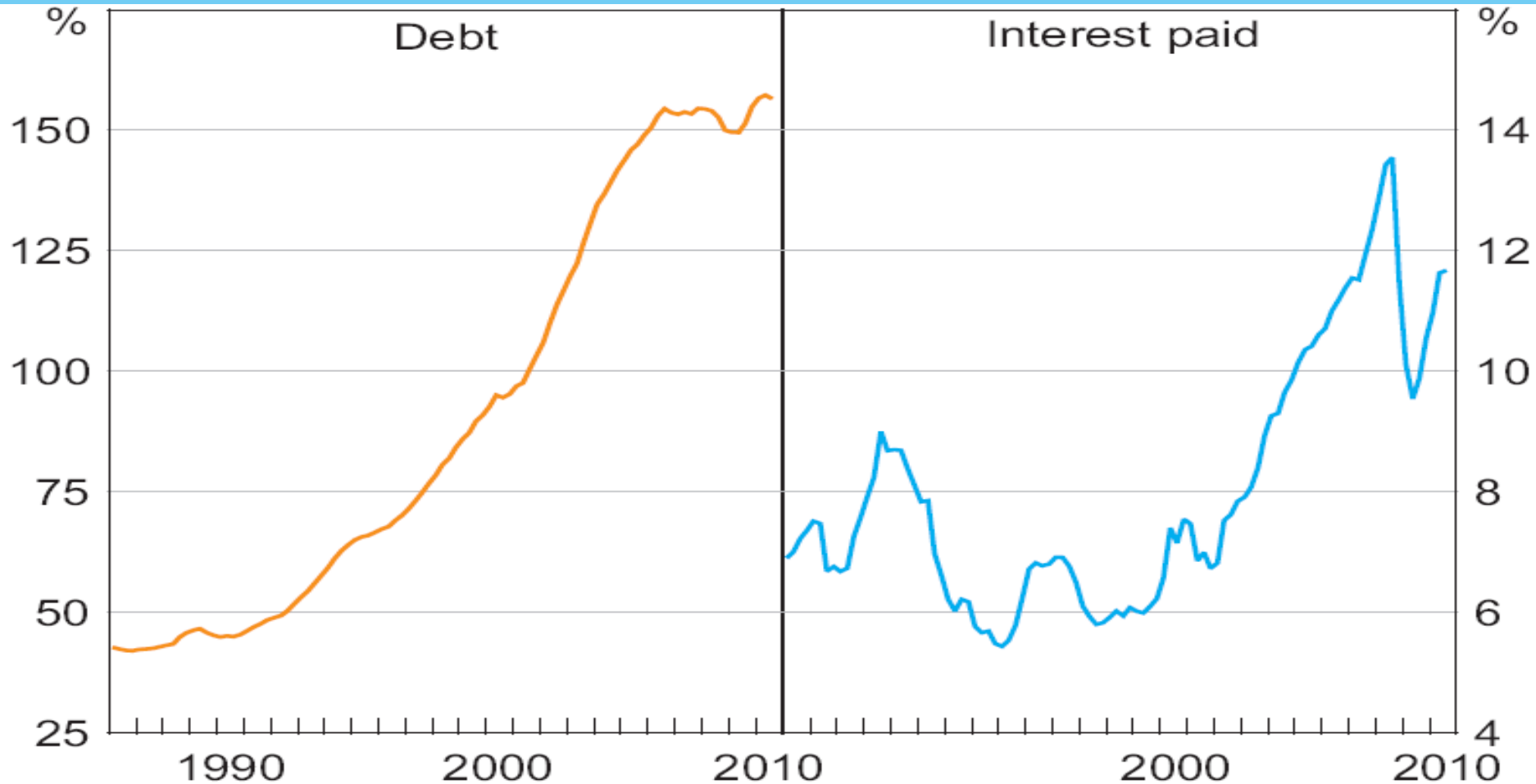
Source: ABS and RBS

Food prices relative to US GDP deflator (1900=100, log scale)



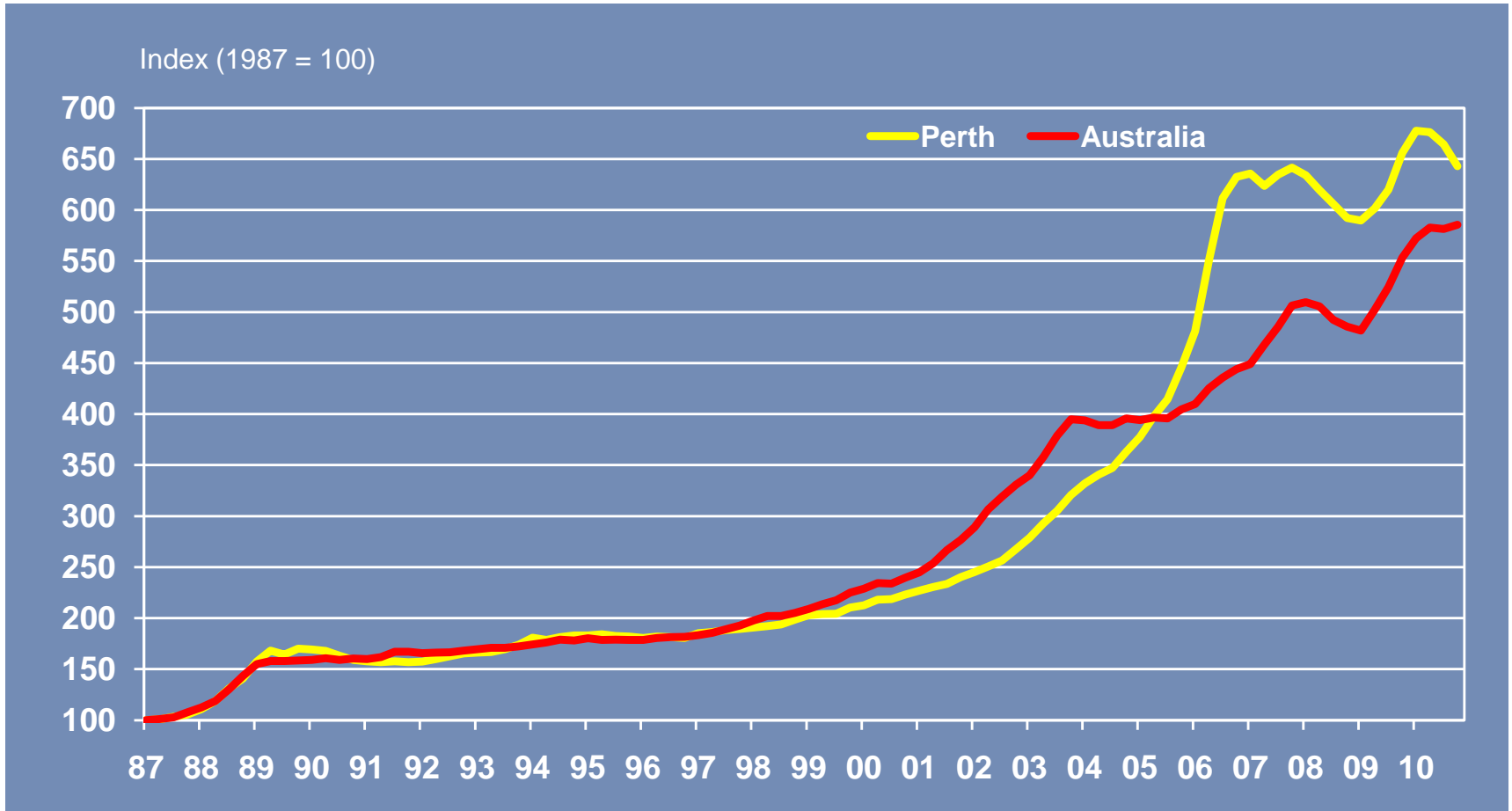
* Equal weighted (geometric) index of 11 commodities; extended from 2004 using IMF commodity price series; latest data point is 2011 to date
Sources: Global Financial Data; IMF; RBA; World Bank

Interest rate changes do make a difference!



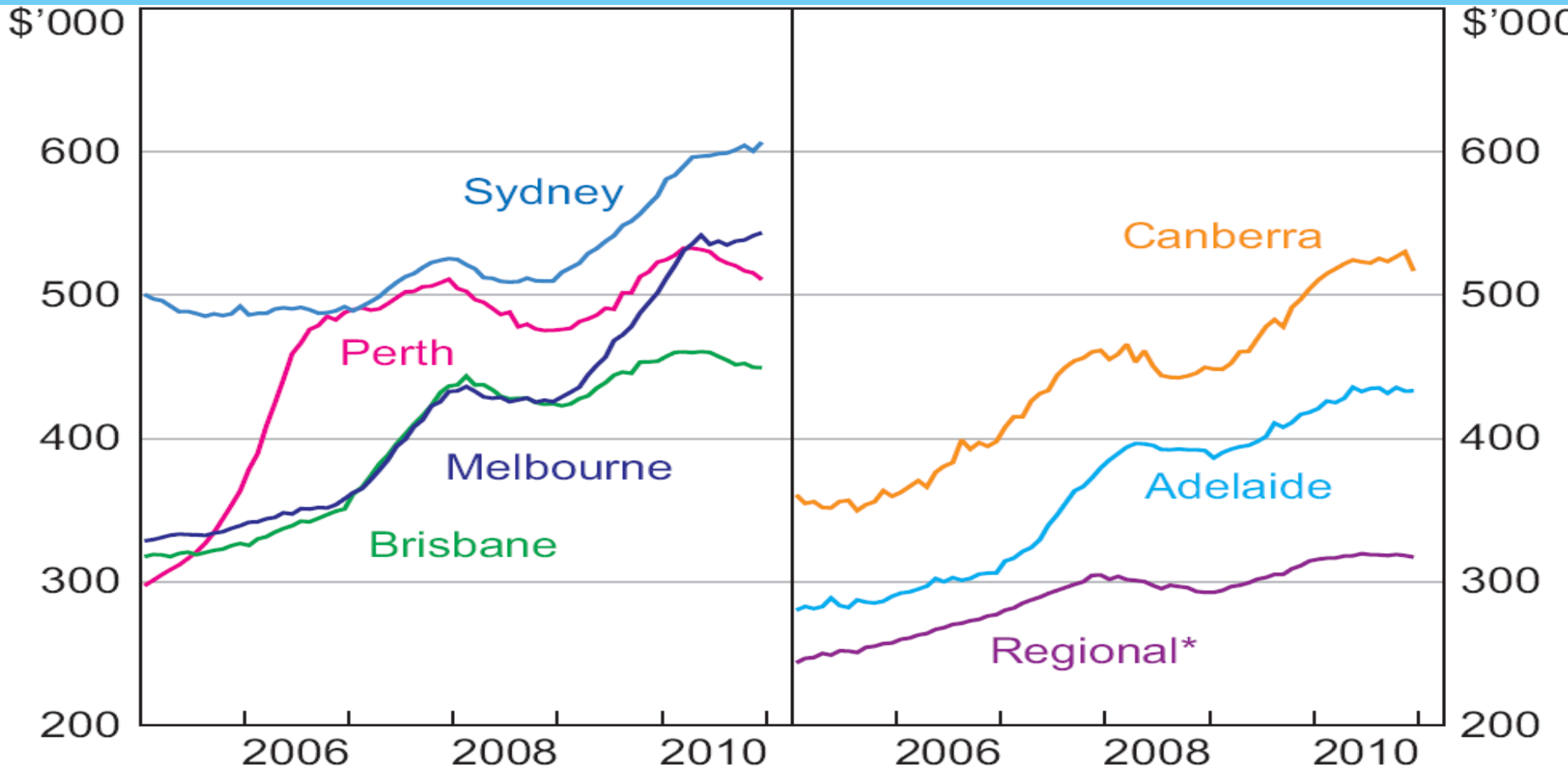
* Household sector excludes unincorporated enterprises. Disposable income is after tax and before the deduction of interest payments.
Sources: ABS; RBA

House Prices - Australia v Perth



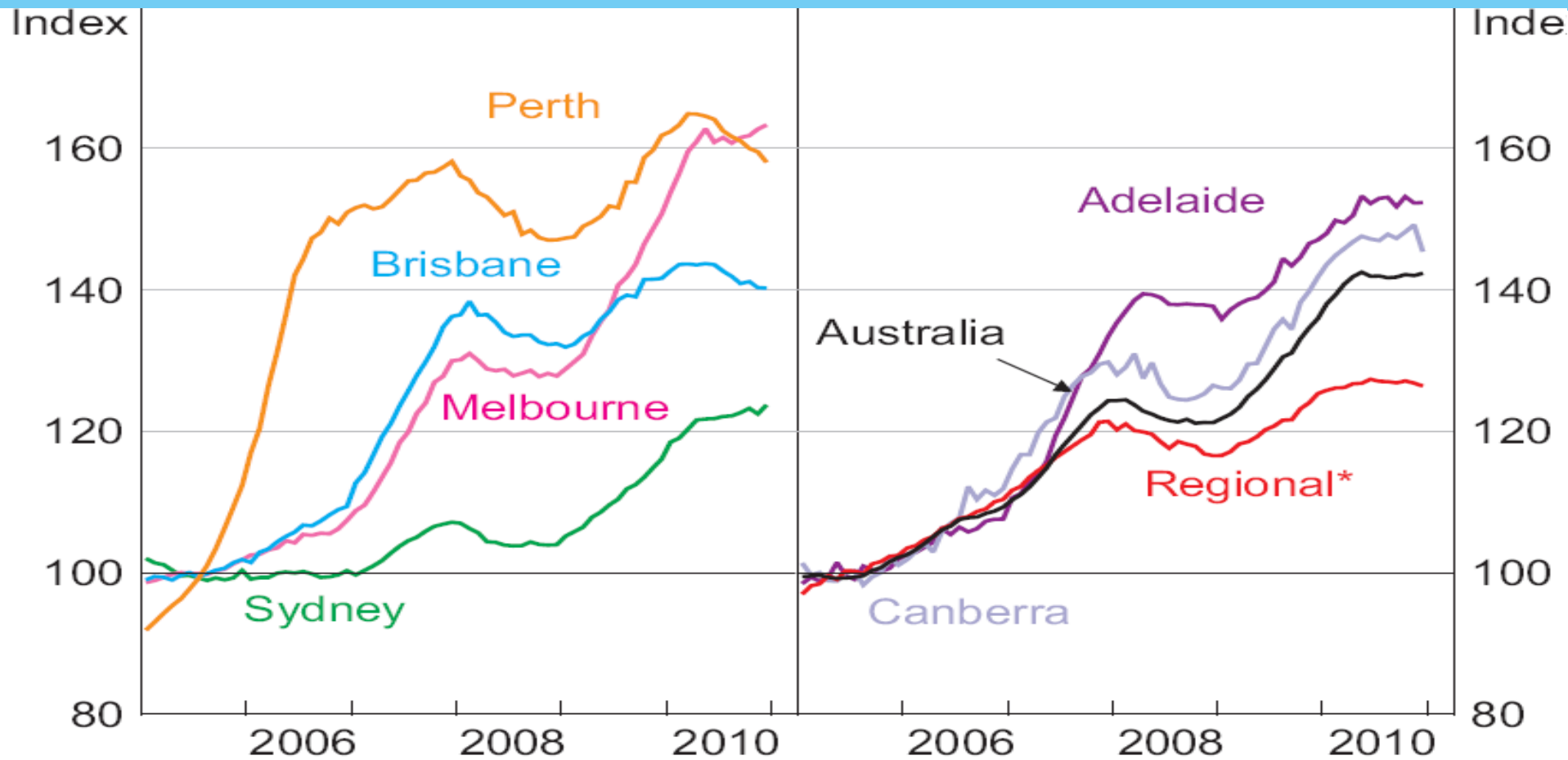
Source: ABS

Another look at house prices (in thousands!)



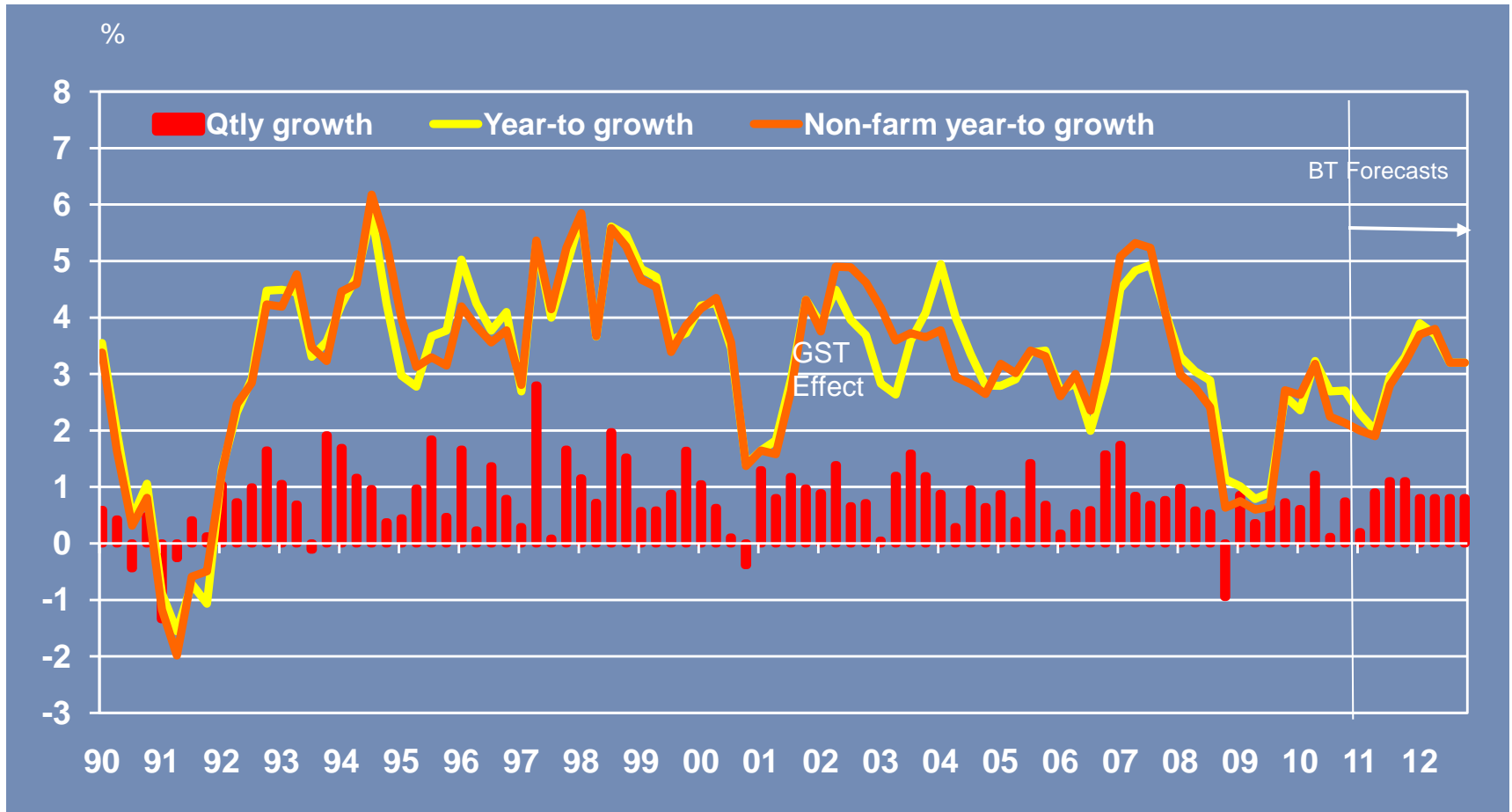
* Excluding apartments; measured as areas outside of capital cities in New South Wales, Queensland, South Australia, Victoria and Western Australia
Sources: RBA; RP Data-Rismark

House prices since 2005



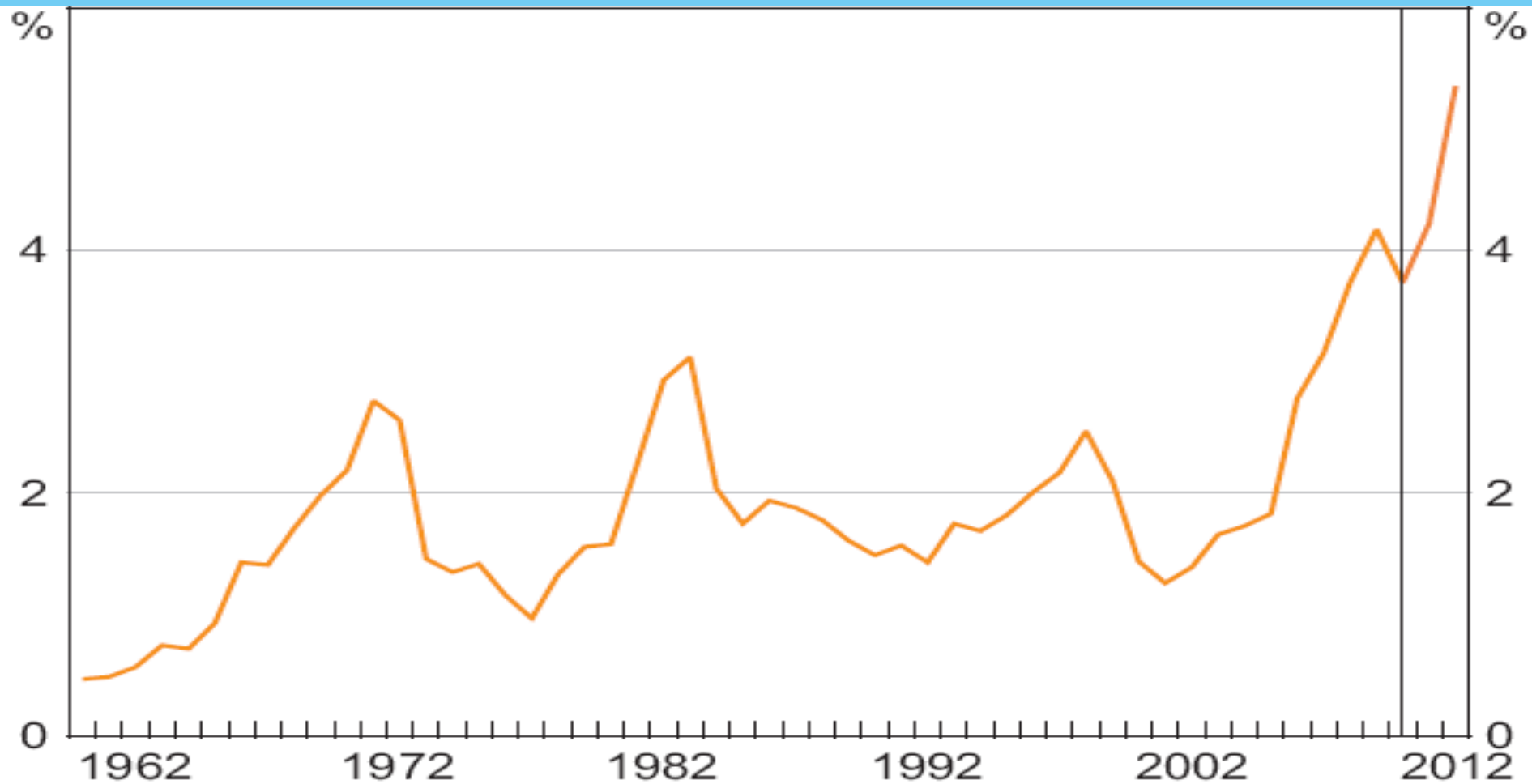
* Excluding apartments; measured as areas outside of capital cities in NSW, Qld, SA, Vic and WA
Sources: RBA; RP Data-Rismark

Gross Domestic Product



Source: ABS

Mining investment (share of GDP)



* Financial year; RBA forecasts for 2010/11 and 2011/12

Sources: ABS; RBA

Global Medium-Term Economic Growth and Inflation Prospects (2011-2023)

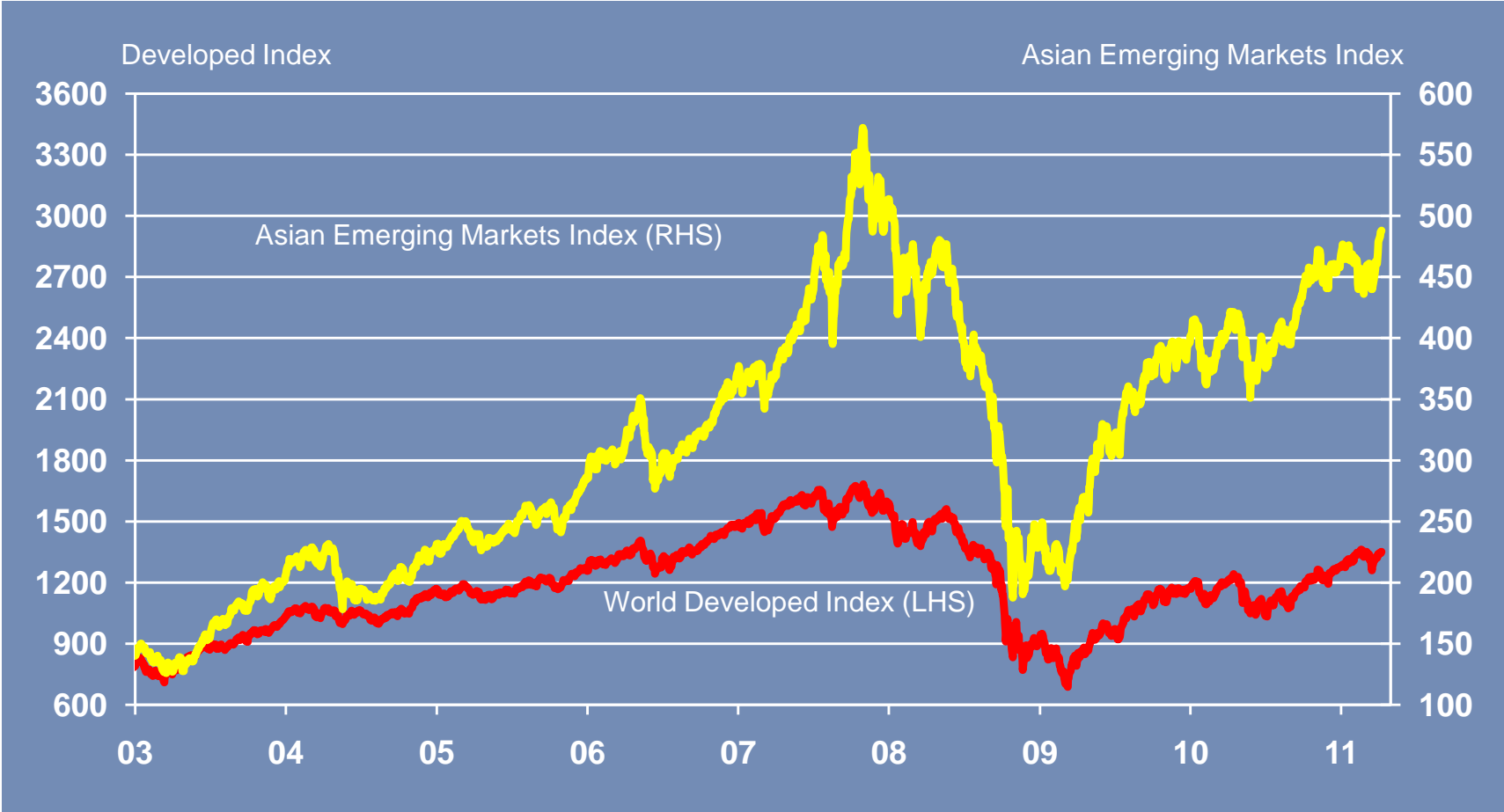
	GDP	Inflation
Australia	3.2	2.7
Norway	2.9	2.3
United States	2.8	2.2
New Zealand	2.8	2.6
Canada	2.5	2.1
Sweden	2.4	2.1
United Kingdom	2.2	2.6
Spain	2.1	2.1
Switzerland	2.0	1.4
Netherlands	1.8	1.6
Germany	1.7	1.8
France	1.7	2.0
Eurozone	1.6	2.1
Japan	1.3	0.9
Italy	1.1	2.0

Asia-Pacific Medium-Term Economic Growth and Inflation Prospects (2011-2021)

	GDP	Consumer Prices
India	8.5	6.1
China	7.8	3.5
Indonesia	6.2	5.5
Malaysia	5.1	3.1
Philippines	5.0	4.7
Thailand	4.8	3.4
Singapore	4.6	2.8
Taiwan	4.4	2.3
South Korea	4.0	3.1
Hong Kong	3.8	3.3
Australia	3.2	2.7
New Zealand	2.8	2.6
Japan	1.3	0.9

Source: Consensus Economics

Morgan Stanley Capital Indexes



Source: Datastream

Summary

- The global economic recovery continues, albeit slowly. The threat of a double dip in the US has disappeared.
- The Australian economy should continue to grow well, led by mining investment. The floods will have temporary effects on the macroeconomic data. Japan is a bigger uncertainty.
- Rates should eventually rise further.
- The exchange rate is above fair value. The rest of the world is on sale for Australians.
- Share markets are still cheap.

This presentation has been prepared by BT Financial Group Limited (ABN 63 002 916 458) 'BT' and is for general information only. Every effort has been made to ensure that it is accurate, however it is not intended to be a complete description of the matters described. The presentation has been prepared without taking into account any personal objectives, financial situation or needs. It does not contain and is not to be taken as containing any securities advice or securities recommendation. Furthermore, it is not intended that it be relied on by recipients for the purpose of making investment decisions and is not a replacement of the requirement for individual research or professional tax advice. BT does not give any warranty as to the accuracy, reliability or completeness of information which is contained in this presentation. Except insofar as liability under any statute cannot be excluded, BT and its directors, employees and consultants do not accept any liability for any error or omission in this presentation or for any resulting loss or damage suffered by the recipient or any other person. Unless otherwise noted, BT is the source of all charts; and all performance figures are calculated using exit to exit prices and assume reinvestment of income, take into account all fees and charges but exclude the entry fee. It is important to note that past performance is not a reliable indicator of future performance.

This document was accompanied by an oral presentation, and is not a complete record of the discussion held.

No part of this presentation should be used elsewhere without prior consent from the author.

For more information, please call BT Customer Relations on 132 135 8:00am to 6:30pm (Sydney time)