

Investment Comment

1 Introduction

The purpose of this note is to provide a brief commentary on the investment markets for the month of November 2009. We look at index results, comment on local and global markets and raise issues that may be concerning trustees.

2 Index results

- Australasian shares NZSX 50 fell 2.8% while the ASX 200 rose 1.8%.
- Global Shares In unhedged terms, the MSCI World Index rose 1.1%, in hedged terms it was flat.
- NZ Bonds NZ Government Stock was up 1.2%.
- Global Bonds Barclays Global Aggregate was up 1.2%.
- Currency NZ dollar finished down 1.1% at 71.5 US cents.

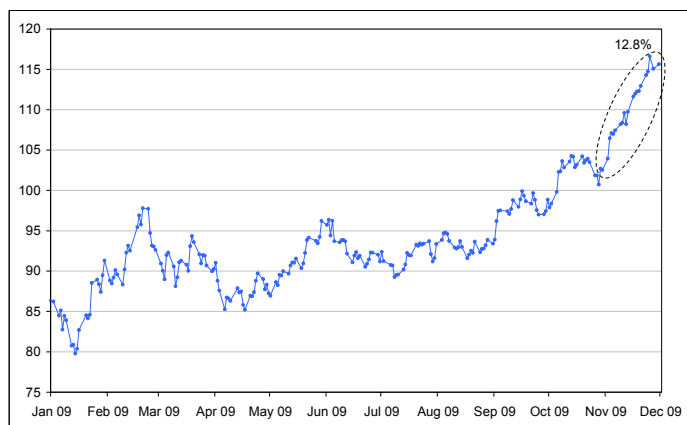
3 Markets

Markets were rocked in late November with the news that Dubai World, the investment company that manages businesses and projects for the Dubai government, would ask its creditors to agree to a six-month standstill on debt. American markets were closed for Thanksgiving but European fell over 3% on the news. Concern was alleviated somewhat over the following days as a consensus was reached that no systemic risk was posed. Nevertheless, the Dow Jones opened 2.3% lower on the first trading day following the news. It subsequently rebounded to be only 1.5% down for the day.

Over the month, Asian markets fared the worst. Japan was down 6.9% and the MSCI Far East index was down 4.8%. Most European markets weathered the storm with the UK up 2.9% and Germany up 3.9%. The exception was Greece where the market dropped a staggering 17.6% over the month on fears that the Mediterranean country risked default. The Greek government has been struggling under the weight of its budget deficit which is an estimated 12.7% of GDP, with public debt above 110% of GDP.

4 Economies

As inflation concerns increased on stronger economic data and a weaker US dollar, the gold price soared, reaching a record high of almost US\$1,200 / ounce. Its rise has been halted somewhat in recent days but clearly the outlook for inflation will continue to remain a topic that receives a lot of air-time over the coming months. Below we chart the share price for the Exchange Traded Fund GLD, a listed vehicle that performs in line with the spot price of the precious metal. It has rallied 12.8% for the month of November and 33.7% for the year to date.



Oil too has been on the rise, touching US\$ 77 / barrel at the end of November. This is more than double what it opened the year at but still half of the record high reached in mid 2008.

For its part, the Reserve Bank of Australia is leading the way in the developed world, having now raised its official interest rate 3 times in consecutive months to combat inflation. Some 55% of Australian merchandise exports are accounted for by China, Japan, South Korea and India and this demand has supported the “lucky country” over the past 18 months.

However, the underlying global indicators of growth remain weak. The US labour department's estimate of November's employment situation is due later this week and economists expect nonfarm payrolls to fall by 100,000 after a 190,000 decline in October. That would be the fewest jobs lost since early 2008, but the unemployment rate is expected to remain at 10.2%.

Also consider for example Japanese industrial production data released this month; the index rose for the month of October, but only by a meagre 0.5%, some 2% short of expectations and down 15% from a year earlier. In Germany, there are fresh concerns of an ongoing credit crunch as the central bank warned that German banks face a further €90 billion of likely write-downs over the next year. There are calls for the government to either buy toxic debt or to take direct equity stakes in the banks through partial nationalisations.

5 New Zealand

The news of the crisis in the United Arab Emirates had arguably its largest effect on currency markets. The NZ dollar came under further downward pressure as global investors recognised the very real possibility of smaller nations defaulting on their debt. The kiwi dropped 2 US cents in the days following the story as investors rushed back to the safe-haven greenback.

The Don Brash led 2025 taskforce released its first report on how New Zealand's average incomes can catch Australia's by 2025. The report (available [here](#)) stated that the average Australian income is around 35 percent higher than those in New Zealand and that to close the gap by 2025 would require radical initiatives. Key recommendations are a reduction in government spending by \$9 billion a year and a proposed flat tax rate of 20-25%. While Don Brash noted at the press conference that this would only reduce government spending to 2005 levels, the recommendations have been viewed by many as too extreme. Indeed, John Key admitted that National would stick to its election promises of not raising the retirement age or putting the interest back on student loans.

6 Outlook

With a recovery underway, albeit a very weak one, the outlook over the medium term appears to be one of consolidation. We expect markets to make modest gains in the coming months before beginning to respond to inflationary pressures. While there is still the risk of a sharp downward correction, financial markets proved to be remarkably resilient in the wake of the Dubai-shock. It seems like it will take a significant event with wide-reaching ramifications to shake the current level of investor confidence.

7 Issues

The New Zealand wholesale investment market has seen some substantial changes in recent weeks. AllianceBernstein has announced their intention to service the New Zealand market from Australia. This will see them marketing their global funds here and they intend to offer New Zealand and Australian share and bond funds managed out of Australia.

AXA Asia Pacific Holdings recently rebuffed a takeover bid from AMP and AXA SA, its French parent company. But the European insurance company has expressed an interest in gaining full control of its Pacific subsidiary “one day” according to CEO Henri de Castries. At the same time we have speculation on whether AMP itself will be the subject of a separate bid.

Elsewhere the sale of ING NZ to ANZ has been completed and all eyes will be on ANZ to see what their next move will be.

All this change to the funds management industry will require responses from Trustees and others as to who will be managing their funds in the future.