

Woodhall's Wrap

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The Big Picture

China just put a ban on importing lobsters from Tasmania and they haven't said why. Since 95% of Tassie's lobsters went to China that could mean cheap Christmas dinners for some. But is this in retaliation for Australia doing a deal with Japan over rare earths after China banned its exports of them to Japan? There's a lot going on in this international game of who dares wins!

Of course Ireland is in trouble and Portugal and Spain are back on the agenda - but Belgium has just joined the ranks of those countries commentators are speculating about. But despite all of this, most of the hard economic news is good - even from the USA. Their jobs report at the start of November was strong and this Friday's is expected to follow suit. Not strong enough to eat into unemployment - but enough for a nibble.

Our jobs outcome was mixed. Big increase in employment but it was all part time and negative full time! Perhaps that dollar is worrying everyone not in resources. The Aussie GDP growth out today is expected to be low - even possibly negative - but then a bounce back the next quarter. More to do with the dollar and the timing of exports than any thought of a recession - we are pretty safe. Even Europe is expected to grow 1% - 2% pa for the next three years but that's not enough to get them back to prosperity.

The big news though surrounds our interest rates. Economists got it wrong again on Melbourne Cup Day with a 0.25% rise (and didn't you just love CBA doing almost a double jump while the other banks left the CBA out to dry?). The RBA has actually stated that there will be no rise soon. Chances are we will still get one or two - maybe three next year depending on how the US goes.

Our dollar spent 5 days above parity - even breaching \$US1.02 - but tumbled down to below \$US0.96 at the end of November. Where it goes to next is anybody's guess but the skirmish in Korea is taking risk off the Aussie table and into the greenback. It still looks like back to 75c - 85c when all the dust settles in a year or so - maybe even sooner. It all depends on scares and interest rate differentials.

The best part of the Korean confrontation - if there can be one when people lose their lives - is Sarah Palin calling North Korea 'our ally'! With Republicans sweeping into the lower house through the mid-term elections, Sarah could be their next President - but probably not. Obama seems to have learnt his lesson.

Victoria has gone the way of the coalition (hang on, isn't Labor a coalition too these days?) . NSW and Queensland not far behind. Gillard hardly seems to be in command. She seems less keen since she found out she also has to speak to foreigners. Politics isn't only carried out in back rooms of Melbourne pubs. Not much scope for change until the next federal election.

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Asset Classes

Australian Equities

After 'bursting through' 4,800 on Guy Fawkes Day the market lost steam again. The fundamentals do seem to be strong though. While many people are predicting a 'Santa Claus rally' just because it is Christmas, the recent strengthening of broker forecasts of company earnings and dividends bodes well for the market.

With the market estimated to be a couple of percent under-priced, there is 'room' for the market to reach 5,000 by year's end without the need for a correction. That is not a prediction - but if Santa does start buying big - it doesn't have to end in tears.

The year is likely to end somewhere near where it started. A bit disappointing given the strength of our fundamentals - but how is this for a thought to go with your turkey? The Australian market has lagged behind the US and UK even though our economy has been performing well. However, if you convert our index to sterling we march pretty closely with the poms. If you switch to \$US we beat 'em. So if foreign investors are looking for a return in their currencies, when our dollar comes off it could be paper hats and streamers for equities' investors.

Foreign Equities

There is a lot of positivity from US-based analysts on Bloomberg TV. Barclays, among others, is looking for a strong end of year - 1,250 on the S&P500. The last earnings season was strong. All it needs is for the Obama administration to start looking business-friendly and they could easily break out of the range trade.

Of course Europe is struggling a bit with all of their debt concerns. There is now talk of a two-tier Euro zone. With one currency and a myriad of fiscal policies, the system just ain't working. Nobody wants austerity measures - they would prefer Germany to bail them out. Perhaps we should remember that Germany's post-war success probably came from the need to rebuild with the past written off.

Bonds

Several commentators have claimed that the bond bull-run has ended. Bond spreads have blown out massively for Ireland and others. Despite all the sabre rattling, the future doesn't look that bad. Governments are forcing through austerity packages. Even Obama has put a two year freeze on pay for civilian government employees.

Interest Rates

The November rate rise surprised economists but a month and a day before they had said that there was a very high chance of a rise in October and, if not, it was almost a certainty for November. Well there wasn't a rise in October so they changed their minds in November and got it wrong again! As the saying goes, "In the old days we had court jesters, now we hire chief economists"

With all four banks raising above the RBA to maintain their profitability (how else do you pay CEOs a ludicrous amount for not doing that much), the need for another raise from the RBA has gone away for quite some time. But with an undercurrent of growth around the world and slack monetary policy, rate rises are just in hiding - they will come back when you least expect them. The five year fixed rate is enough above the variable home loan rate to remind us that the market expects more - in due course.

Currency

Thankfully the term 'parity party' vanished by the time parity was breached for a few days. It retreated so quickly, parity may never be breached again - but if it is, it shouldn't be for long. In due course the US will jack up rates and it is back to the 'normal' range of 75c - 85c.

Oil

Oil has been wandering all around the 80-something mark. Forecasts of \$100 a barrel are coming back - largely due to the WikiLeaks release of some dumb confidential emails that had been intercepted. Having the Saudi King ask the US to start 'nuking' parts of the middle east doesn't help anyone.

Gold

Gold breached \$1,400 before taking a slight pull back. Talk of runs in the price seem to be fading. If ever there was a right time to buy gold it doesn't seem to be now.

Regional Analysis

Australia

The Gillard government doesn't look in control. Does anybody know what is going on with policy making? Labor got a point for getting something through parliament on broadband but now international agencies are questioning whether it is the right way to go. If it takes 8 years to construct, what will the world be like then and who will be paying for it?

There is a certain softness in retail sales and other parts of the non-resource economy. Not surprising with the dollar about 20% - 25% above what it usually is. Imports might be cheap - but are the price cuts being passed on? Gerry Harvey is feeling the heat.

And Julia has just announced yet another new Julia - focused and whatever. Why did people vote for the old Julia if even she doesn't like her? But with the RBA understanding what is going on, there is hope for a slight convergence of the two parts of the two-speed economy - but where is that mining tax?

China

China is clearly not full of happy chappies. All of the talk about trade restrictions of this and that is symptomatic of a bit of face saving. And having North Korea reject China's plea for a six-nation talk fest on the shells they have been firing at South Korea isn't exactly a high point in international diplomacy.

But China's economy rolls along at a brisk pace. They are addressing - as swiftly as ever - inflation in food and property. There is more chance of China looking after itself these days than many other major economies.

U.S.A.

There are actually signs of life in the US economy. The jobs data are looking decidedly stronger and retail sales are not too bad. Early estimates for 'black Friday' (the day between Thursday's Thanksgiving and the first weekend for shopping for Christmas when stores are meant to get into the black) are for growth of 1% to 6% over last year depending on what you measure. 'Cyber Monday' the day when online Christmas shopping starts (because 50% of online sales are made from the office!) are OK but not great. Not surprising the economy is in a hole - no time to work when there are great specials on line.

There is quite a lot of data to come from the US over the next few days. Unless there are big surprises, the long grinding climb back to prosperity is under way. The real question though is how Obama will handle the mid-term election snub. A great orator, but, like our Julia less successful when called to actually do something. He seems somewhat crest fallen. If he picks up the challenge to work with the Republicans all could be well. Otherwise it is two more years of nothingness.

At least the sales of existing homes are picking up nicely - the backlog might start to fall.

Europe

With Prince William to marry our Kate in (northern) spring, the UK looks set to be carried along on another fantasy rally. Whatever the masses say about the royal family they certainly get behind a good party. If England gets the World Cup in 2018 as well as the 2012 Olympics, it could be a better tonic than a good cuppa.

A big part of the rest of Europe is uncertain. Now that the rorts that the "PIIGS" were involved in, it is no surprise that they got into trouble and don't want to face reality. Lots of people blame young financial engineers for causing the GFC but, with complicit governments, media and 'the people', a few more should take part of the blame.

Rest of World

When a president teaches his son diplomacy by firing shells at his nearest neighbour, something has to be done about North Korea. It seems having the G20 meeting in South Korea may have contributed to the sabre rattling.