

Read the latest market update from the Economic and Market Research team at Colonial First State Global Asset Management.

Market and economic overview

Australia

- As widely expected, the Liberal-National Party Coalition won the Australian federal election on 7 September 2013, likely winning 90 seats out of a possible 150 in the House of Representatives. Tony Abbott is now Prime Minister of Australia. However, the Coalition will not have an outright majority in the Senate and will need to rely on a number of smaller parties to pass legislation.
- Prior to the election, the Reserve Bank of Australia (RBA) left the cash rate unchanged at 2.5% at its 3 September 2013 Board meeting.

- Economic data released in September was mixed.
- Employment fell by 10,800 in August, pushing the unemployment rate up to 5.8%, its highest level since June 2009.
- The NAB business survey showed that business confidence rose sharply in August (to +6pts from -3pts in July) to the highest level since May 2011. While the survey was conducted prior to the federal election, the strongest gains occurred in the manufacturing and mining sectors, both of which are likely to benefit from the abolition of the Carbon Price and Minerals Resource Rent Tax under a Coalition government.

Australian business conditions and confidence evolving



Source: NAB. Data to August 2013.



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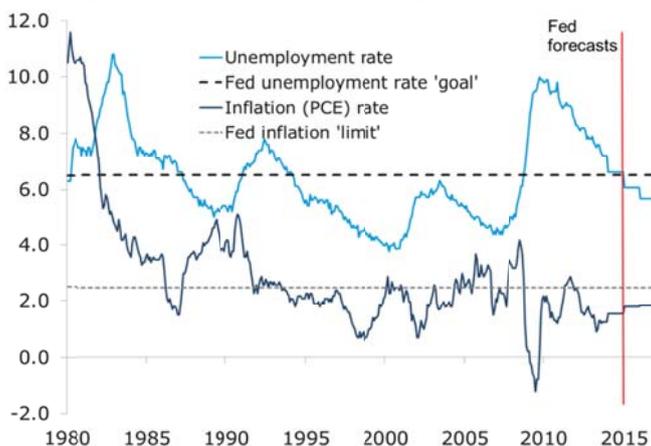


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United States

- In a surprise move, the US Federal Reserve (the Fed) decided to maintain its current bond purchase program (QE3) at \$US85 billion per month. This decision came despite widespread expectations of a 'tapering' in the QE3 program. A small reduction in monthly bond purchases, between \$US10 billion and \$US15 billion, was widely expected.

QE tapering and monetary policy



Source: Bloomberg. Unemployment rate to August 2013. PCE data to August 2013. Fed forecasts as at 18 September 2013 to 2016.

- US economic data was mixed over the month. The August US employment report was weaker-than-expected. Non-farm payrolls rose by just 169,000, below consensus estimates for 180,000. However, the unemployment rate fell to 7.3% from 7.4% due to a fall in the participation rate.
- The headline Consumer Price Index (CPI) rose by 0.1% in August to 1.5% per year – a fourth consecutive monthly increase.
- Retail sales increased by 0.2% per month in August, slowing from a revised 0.4% in the previous month.

Europe

- Chancellor Angela Merkel won the 2013 German federal election, held 22 September 2013, with her CDU/CSU centre-right coalition parties winning around 42% of the popular vote. The CDU will now negotiate with the centre-left SPD on forming a grand coalition government.

United Kingdom

- The Bank of England made no change to its monetary policy settings at its 5 September 2013 meeting. There was no attempt by the Monetary Policy Committee to 'jawbone' money market interest rates lower, as had been expected by many commentators.

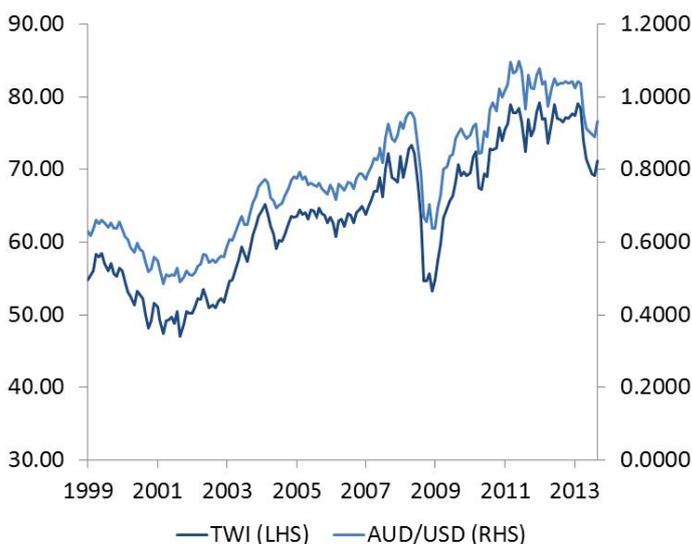
Japan

- Japanese June quarter 2013 real GDP was revised up to 0.9% from 0.6% in the previous quarter, reflecting adjustments to private capital expenditure and public investment. Japan's annual growth of 3.8% puts it atop the G7 economies for the June quarter.

The Australian dollar and commodities

- The Australian dollar (AUD) appreciated by 4.9% per month in September to \$US0.9337 against the US dollar (USD).
- The AUD was supported by positive Chinese and domestic economic data releases, the RBA's decision to keep rates on hold and the US Fed's tapering postponement, which propelled the currency to \$US0.9520 in mid-month.

Australian dollar rebounds this month but still down 10% in 2013



Source: Bloomberg as at 30 September 2013.

- Commodity prices were weaker in September. Oil (-5.0%) retreated after tensions in Syria eased and hopes for improved Iranian-US

relations increased. Gold (-4.8%) also fell as Middle East tensions receded, despite the Fed's no-taper announcement and rising US fiscal concerns. Iron ore (-4.6%) declined after two strong months, despite the release of positive Chinese economic data.

Australian shares

- Sentiment towards Australian shares continued to be driven by overseas events.
- Risk assets, such as Australian shares, responded positively to the US Federal Reserve's decision to postpone the tapering of QE3.
- The federal election held on 7 September 2013 did not have any discernible influence on the market, although there were notable improvements in business and consumer confidence.
- Recent monetary policy easing appears to be having the desired influence on sentiment, albeit not yet on spending. Both consumers and businesses remain relatively frugal with their discretionary spending.
- Investors continued to favour cyclical exposures with leverage to the economy. Stocks in the industrials (+5.8%) and consumer discretionary (+3.0%) sectors outperformed, for example, while defensives such as health care (-1.7%) and consumer staples (+0.3%) performed less well.

Property

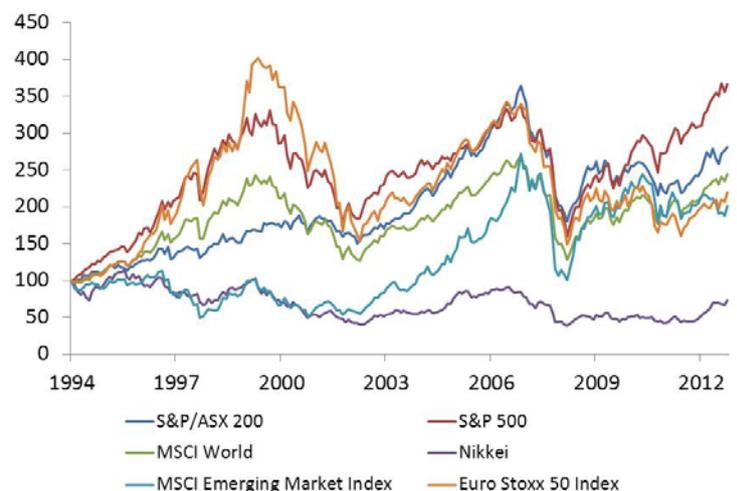
- Australian listed property securities rose by 1.0% in September, underperforming the broader market by 1.2%. Diversified REITs performed well, helped by their exposure to the improving Australian residential property market. The Office and Retail sectors underperformed.
- Listed property markets offshore also rose during September, boosted by the US Federal Reserve's decision to postpone the tapering of QE3. Overall, the UBS Global Property Investors index (local currency) rose by 4.3%. Japan (+16.1%) was the strongest-performing region, followed by Singapore (+5.1%). Australia (+1.0) and the US and

Canada (+3.3%) underperformed, despite generating positive returns.

Global shares

- Global equity markets rallied in September, reacting well to news that the Fed would not begin winding back its economic stimulus program. Sentiment was also boosted by the release of improving manufacturing data in the US, China and Europe.

Equity markets like the Fed taper delay



Source: Bloomberg as at 30 September 2013.

- The MSCI World Developed Markets Index increased by 4.8% in USD terms and was flat in AUD terms during September.
- In the US, the S&P500 Index rose by 3.0% in mid-September, reaching an all-time record high of 1,725.5 on the same day after the Federal Reserve announced the deferral of its tapering program. However, the index endured its worst run this year in the final week of the month as concerns over a possible US government shutdown (which subsequently did occur) weighed on the market.
- The German DAX Index rose by 6.1%, boosted by the decisive election win by Chancellor Angela Merkel.
- In Japan, the Nikkei 225 and Topix Indices both surged by 8.0% in September.

Global emerging markets

- The MSCI World Emerging Markets (EM) Index rebounded in September, increasing by 6.2% in USD terms and 1.3% in AUD terms.
- The improving sentiment towards EM saw portfolio flows turn positive during September after 17 consecutive months of outflows. EM equity fund inflows totalled more than \$US1.2billion during the month.
- The MSCI EM Asia Index rose by 5.0% in USD terms and 0.1% in AUD terms.
- India (+9.8%) was the best performing market in Asia during September. Sentiment was supported by measures announced by the new Reserve Bank of India Governor Raghuram Rajan to defend the Indian Rupee (+5% vs. USD) and liberalise the banking sector.
- Turkey (+12.8%) was a stand-out performer, propelled higher by Industrials stocks.

Need more information?

Please speak with your financial adviser or visit our website at colonialfirststate.com.au. Alternatively, you can call us on 13 13 36.

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