Quarterly Newsletter – December 2012

Launch of our new website

We are pleased to announce that our new website is now live for client use. In celebration of the website going live we have organised Charter Towers branded mouse pads and coasters, please contact us on 03 8825 5500 if you would like us to send some out to you.

From now on, newsletters and technical updates will be available for clients to access online, as well as a wealth of specialised technical resources via our new knowledge centre. We will be providing regular updates to this material as well as interesting or topical articles in the financial space for your information.

In an effort to reduce our environmental impact, we will be contacting clients by email over the coming weeks to offer you the opportunity to subscribe to our newsletters and updates in electronic format. We will also be conducting a short survey for some client feedback on the site and to have your input on the type of information you would like us to provide to you in the future. We would appreciate it if you could please take the time to complete this survey. In the meantime, we invite you to have a browse and take advantage of our up to date articles, tips and bulletins covering what's what in the world of finance, the available information is found at www.chartertowers.com.au.

Looking ahead at 2013

Domestically 2012 has seen some steady growth. The RBA has anticipated Australia will record a real GDP growth of 3.25% for 2012, faster than any major advanced economy. Australia's ongoing strong performance has kept itself in the dwindling list of AAA rated countries. The RBA however expect a slower 2013 cutting the forecast GDP growth from 3.75% to 3%.

CPI inflation is expected to hit 3.25% after a higher than expected September quarter and as such we won't expect the RBA to cut rates as freely in 2013 as they have in the previous 12 months (cutting the rate by 1.5% since November 2011).

On the commodity front, weaker commodity prices and a higher exchange rate have dealt a double blow to the Australian mining sector. Cancellation and delays to BHP's Olympic damn and RIO's Pilbara project are direct results of increasing costs and as such 2013 will see the resource sector place greater emphasis on profit.

Globally all eyes will be on Japan with Japanese government debt currently 230% of GDP and rising at a rate of 10% a year, radical policy changes will be required to avoid a government default.

China will enter 2013 under the new leadership of Xi Jinping who has emphasised his intent on putting an end to the seven quarter long cyclical downturn in China's growth.

Similar to China the US will enter 2013 with mounting concerns over growth. The Federal Reserve has downgraded anticipated growth to a rate of 1.6%. A main contributor to this will be the 'fiscal cliff' that will be addressed early 2013 likely to bring on tax hikes and budgetary cuts in an attempt to address Americas federal deficit and debt problems.

The Australian dollar and Hedged V Unhedged

In July of 2011 the Australian dollar rose to its highest point against the US since the currency was freely floated in 1983, and has remained over $1US for much of the time since.

Our dollar is curiously strong given the recent slide in commodity prices. It is feared that the current Australian exchange rate has increased purely due to international demand and not because of the underlying fundamentals of the Australian economy. With interest rates in most parts of Europe, America and parts of Asia at 0% - 1%, Australia's higher rate of 3.25% appears very attractive for international investors.

With early signs of QE3 stimulating the American housing sector and the ECB's plan to buy government debt easing European bond markets, the international market is slowly showing signs of stability. On the back of a recovering international market one would suggest that the demand for the Australian dollar may fall and as such more closely represent our levels of trade.
The hopes of a sliding Australian dollar however may be put on hold with news the IMF are considering classifying the Australian dollar as an official reserve currency which will be likely to lift demand for the Australian dollar

International unhedged investments can take advantage of a sliding Australian dollar, potentially providing additional upside on returns. An eroding Australian dollar will increase returns when investor's funds are converted into local currency. Putting this into practice should the Australian dollar fall 10% the value of the unhedged offshore investment increases 10%. This is in addition to regular performance. A rising Australian dollar has the opposite effect.

Christmas Office Closure
Please note our offices will be closed over the Christmas/New Year period from Friday 21st December and reopening Monday 7th January.

We wish you a safe and pleasant holiday season

Sincerely,

Alan D. Blackwell C.A., BEc.
Certified Financial Planner
Authorised Representative No. 260210
Lonsdale Financial Group Limited