GIBSON KILLER PTY LTD MONTHLY MARKET UPDATE

August 2013

ECONOMIC NEWS

The economic data keeps coming and for Australia the picture continued to get worse in July leading to a couple of interesting announcements. Firstly the new Federal Treasurer tells us that the figures Wayne Swan told us in May were wrong and that the deficits were going to be at least $30 billion worse “over the forward estimates”. Then we had RBA Governor Glenn Stevens come out five days ahead of the RBA meeting and all but guarantee that a rate cut would happen. This was extraordinary and in giving that speech he was very negative on the short term outlook for the Australian economy. As we now know the RBA did cut rates on 6 August to 2.50%.

Unemployment rose to 5.7% last month and expectations are now that this will reach 6% maybe by years end! Official forecasts are for 6.25% in coming years.

Retail Sales figures continue to be bleak. The stop start nature of building approvals, building starts and finance approval figures continues to paint an uncertain economy. On one hand with low interest rates people want to act, however the confidence to actually do it is missing.

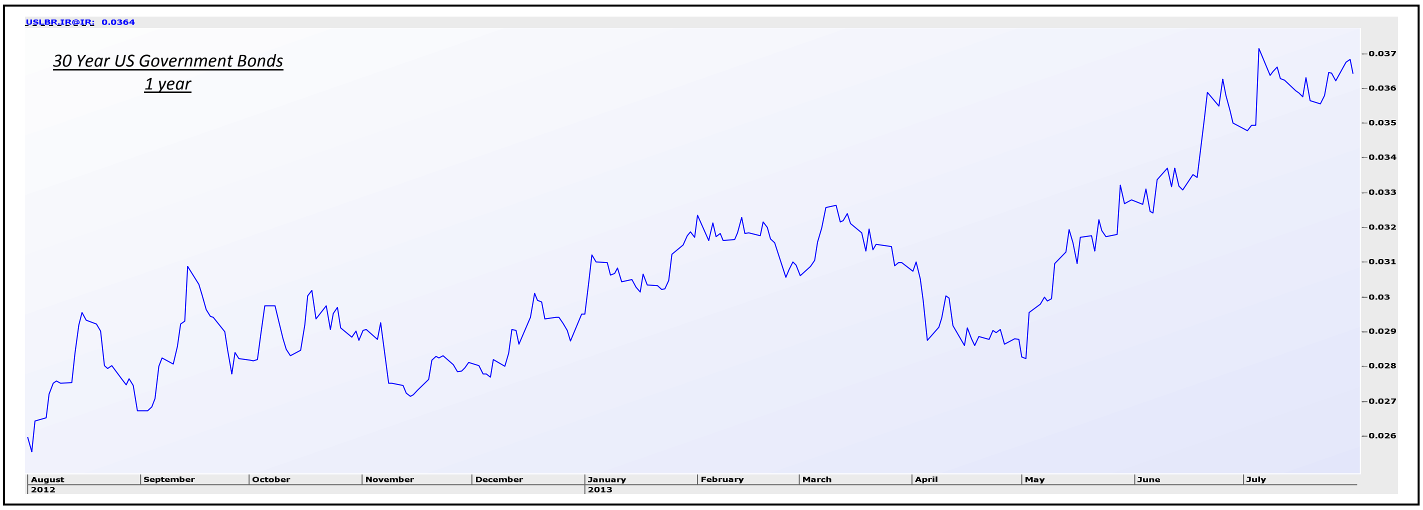
I see this lack of confidence as our major stumbling block in Australia and as regular readers of my updates will know, I have said it for years. If we can get that confidence to invest (take a risk) then the outlook for our economy is fine.

With the Federal election called for 7 September we may get the first step in this direction, but it needs to be a clear cut win. Unfortunately given the position we now find ourselves in, it will take whoever is in power a couple of years to turn the economy around. If they want the private sector (non-government) to participate, they will need to spell out what the rules are and commit not to change them.

The falling Australian dollar (below) will help, but that will be a gradual stimulus to the local economy. Given the comments above we may see the Australian dollar fall a bit more yet.

Overseas we continue to see improvements in the USA and Europe with manufacturing index numbers better than expected. US employment continues to pick-up but the overall unemployment rate remains around 7.6%. The housing index data remains positive, however recent retail sales numbers were weaker than expected.

The next step by the US in tapering back on its US$85 billion per month bond buying program is still the wildcard! Remember the recent dip in markets through May/June was related to the announcement by the US Federal Reserve that they would soon begin the reduction in this stimulus. I remain of the view that "when it happens" we could see a similar, if not worse, reaction in currency, bond and sharemarkets. The longer dated bond market has already decided that US interest rates are going to go up and this is shown in the following graph of the 30 year US Government Bond rates. Notice the movement from May?



INTEREST RATES

The widely expected move by the Reserve Bank Board to cut official interest rates in the first week of August was a direct result of the worsening economic position of our economy. That was made crystal clear by Bank Governor General Glenn Stevens prior to the actual meeting.

Whilst this is no doubt very welcome by all those people with mortgages, investors that hold cash investments continue to see their interest income fall.

I would normally say that this should be a stimulus to the local economy, however I am not so sure anymore, because one extra or even two extra interest rate cuts don't make the actual attraction of "taking an investment risk" that much better when rates are already so low. For example if you were thinking about going to the bank to borrow a few hundred thousand to buy a house, did this latest cut make you do it? NO is the answer I keep hearing. Why – lack of confidence to take the risk.

Instead what I see happening is those with mortgages continue to repay (the same amounts) to the bank (we have told everyone for years to do this), therefore the cut did not actually put more money in their pockets to spend. At the same time though, the lower term deposit rates etc mean two things for the economy : 1/. is less money in investors pockets to spend and 2/. less income for the Government to tax. Both of these are negative.

For investors with cash investments here in Australia we are being presented with a choice that many around the world had to make some five years ago. Keep your money safe and get less interest or take a risk and look to get higher returns. The RBA view is that they want investors to take the risk as that investment activity into property and business is expected to increase economic activity.

At the end of 2012 I said we would watch the Reserve Bank cash figures for Australian Bank Deposits as we expected to see this reduce as more and more people made the jump from cash to shares and property. So let's recap how much is sitting in Term Deposits and At Call Accounts :

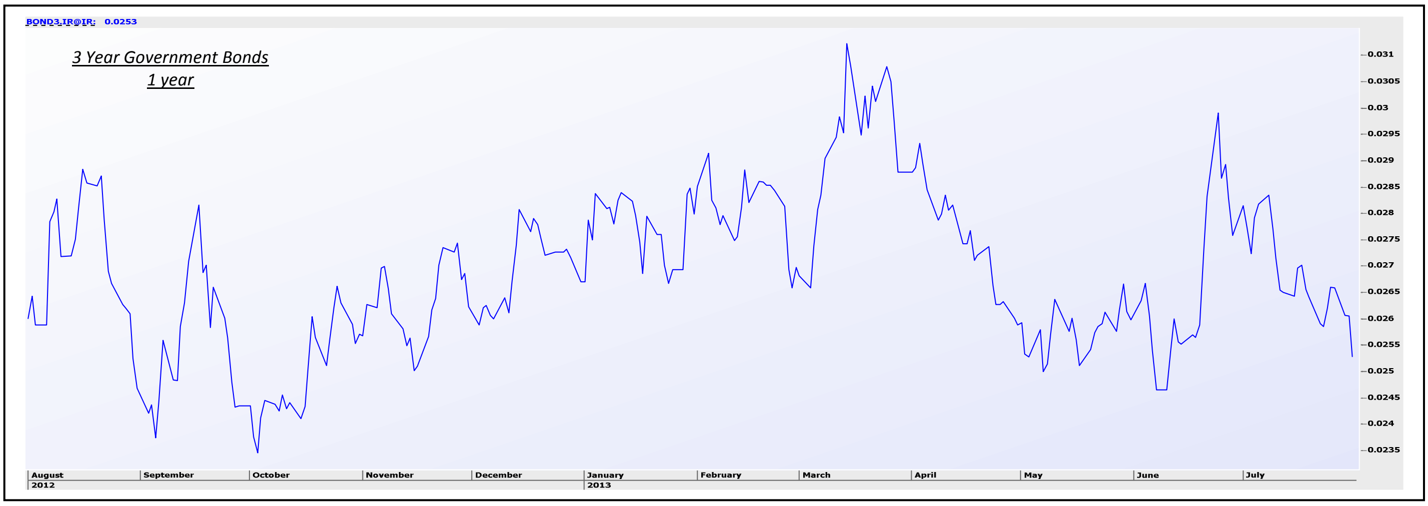
December 2007	$ 541 billion
December 2008	$ 712 billion
December 2009	$ 774 billion
December 2010	$ 878 billion
December 2011	$ 975 billion
December 2012	$1,075 billion
March 2013	$1,098 billion
June 2013	$1,107 billion

The cash continues to build not fall!

I expect the term deposit rates in August/September to push down towards 3.50% as the banks not only cut them by the 0.25%, but look to continue reducing the margin over the wholesale rates that they have been paying for the last six years.

As at 31 July 2013 the rates were :

90 day Bank Bills	2.64%
180 day Bank Bills	2.60%
3 year Government Bonds	2.53%
5 year Government Bonds	2.90%
10 year Government Bonds	3.72%



LISTED PROPERTY

The Listed Property Trust had its third straight monthly fall in July as the realisation hits home that property values and property trust values have caught up after the discounts we saw the sector trade at in the GFC period.

As it stands today, the sector is fairly valued and any increase in value from here on needs to be justified by either higher property values and/or higher rent payments. I can't see rental rates going up in the office or retail space in the short term, however I can see that actual property values could move up slightly in 2014 on lower capitalisation rates.

The yields across the sector will remain in the 6-7% pa range going forward, but the key will be to buy Office and Retail trusts/groups that have good quality lease profiles.

As I have said previously, lower interest rates are a positive for the property sector as it lowers the cost of servicing debt, however this is currently offset by the fact that a weakening economy dampens the demand for space in buildings by business.

The graph below shows the fact that values got a bit ahead of the curve in April/May, but this has corrected and the road ahead should be slightly positive for this sector. The sector to watch may be the residential property market as low interest rates will eventually lead to a lift in demand and values. We could see companies like Stockland and Mirvac bring more land releases to market.

For the record the S&P/ASX 200 A-REIT Index fell 0.81% for the month of July.

SHAREMARKETS

The Australian sharemarket enjoyed a good month in July as the market rebounded from the May/June sell off. The rebound was very much driven by investors looking to buy the quality end of the market, both for yield and growth.

Whilst the banks led by the Commonwealth Bank (up 7.3%) were solid, the biggest moves were from the Materials sector led by BHP Billiton (up 10.4%) and Rio Tinto (up 9.8%). I would suggest mum's and dad's were buying the banks, whilst the institutional money seems to be targeting the value in those leading miners. With a falling Australian dollar and a rising iron ore price they have real upside in future earnings.

Overall the S&P/ASX200 Index was up nearly 5.2% for the month of July.

August is reporting season and as I have stated in previous months, the overall profit season is not expected to be great, with a good number of companies providing negative guidance in recent months.

The numbers from the major companies should however be solid and given the Balance Sheet strength, we can expect some dividend increases. Commonwealth Bank, Suncorp and a few others could also provide special dividends.

The outlook statements in August through to the AGM season in October/November could have 1 of 2 themes. If the business is domestic in nature I think they will be non-committal, however those with Foreign earnings should be more positive due to the falling Australian dollar.

Election bounce? Yes I think we could see a short lived bounce on the back of the election, however at the end of the day, activity needs to pickup for companies to earn more money and pay higher taxes and dividends. That is on the 2014 calendar wishlist.

INTERNATIONAL SHARES

After spooking markets in May/June with his bond buying tapering message, in July we saw Federal Reserve Chaiman Ben Benanke be a little more conservative in saying that it's not a done deal, it still depends upon the economy. This eased market concerns "for now", but it will be back on the agenda every time we see good US economic figures.

Therefore for July we saw the MSCI World Index rise 5.2% in US dollar terms, but a very nice 7% in Australian dollars.

The major index movements were :

S&P500 (US)	+4.9%
Dow Jones (US)	+3.9%
FTSE.100 (UK)	+6.5%
DAX (Germany)	+4.0%
CAC (France)	+6.8%
Nikkei (Japan)	-0.1%
Hang Seng (Hong Kong)	+5.2%

August could be an interesting month as we could see some profit taking later in the month. This is because we have two key events in early/mid-September that could make international markets a little wary. They are the German elections (the key to Europe) and the next USA Federal Reserve Meeting that could announce a cut in stimuli.