GIBSON KILLER PTY LTD MONTHLY MARKET UPDATE

June 2013

ECONOMIC COMMENT

The month of May saw a change in investor sentiment on a number of fronts, however from an economic point of view – it was more of the same.

In the USA, GDP growth for the past quarter was at 2.4%pa, April employment numbers were better than expected and house prices continue to rise. On the negative side we saw a dip in the number of housing starts.

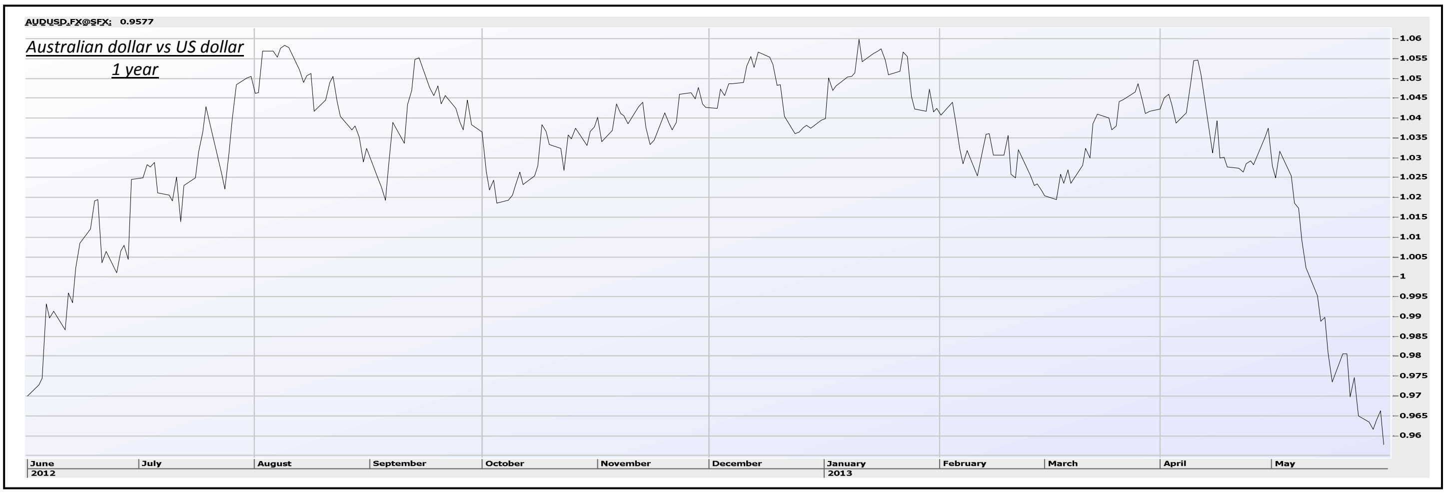
In Japan, GDP growth was 0.9% for the quarter, giving them a 3.5% yearly number. This is good to see given the stimulus provided late last year. Expectations are this quarter will be even better.

Numbers from China and Europe continue to provide a mixed bag, but you can summarise that Europe remains in trouble and China continues to lower its growth rate. The European Central Bank lowered its rate to 0.5%, an all time low!

Here in Australia we had two "events" in May that will have an impact in the year ahead. Firstly the Reserve Bank cut official interest rates to 2.75% in early May and then the Federal Treasurer revealed his promised budget surplus was in fact going to be a $19.4 billion deficit.

I'm not going to comment on the Budget, but the Reserve Bank rate cut was interesting as it appears they were worried about the Budget and wanted to try and influence the strong Australian dollar. The response from the market has been quite brutal if you are a currency investor, however I think it has been generally good for Australia. This is probably the best economic news we could ask for.

You can see from the following graphs, the Australian dollar was sold off. Against the US it was down 7.7% for the month and against the Trade Weighted Index, a fall of nearly 5.4%. This may continue for a few months as foreign investors re-assess whether investment in Australian assets remains attractive.



MARKET COMMENTS

I cover each of the asset classes later in this document, however investors need to understand that a "sustained fall" in the currency could have some short term consequences in the price of local assets. This is because foreign investors will start to lose money (in their currency) if they retain the investments here in Australia.

We have seen this happen in May as investors liquidate both Australian Government Bond and share holdings in particular. As the dollar falls, they may be forced to sell more.

In the medium term this effect will reduce and may in fact open up a good buying opportunity as investment values return to reasonable buy levels again. The fundamentals for us here in Australia have not changed, but a lower Australian dollar is good news going forward.

INTEREST RATES

We already know that the Reserve Bank cut official rates to 2.75%, a 53 year low.

The response to this at the shorter end of the market (Bank Bills) has been that rates eased slightly in May. At the longer end of the market (Bonds) we saw rates actually go up.

I think this is normal. This is because the market is now wondering if and when the Reserve Bank may cut again (short term negative) whilst on a longer term view, it means more stimulus in the market will lead to economic growth, inflation and eventually higher interest rates.

I said last month that the Reserve Bank needed to get a currency drop as a result of the May 7 cut. Well so far they have – which ultimately means that they may not need to follow up with another cut "pre-election".

The change in market rates for the month of May are shown below :

	30/04	31/05
90 day Bank Bills	2.90%	2.78%
180 day Bank Bills	2.86%	2.76%
3 year Government Bonds	2.58%	2.60%
5 year Government Bonds	2.73%	2.80%
10 year Government Bonds	3.09%	3.35%

Term deposit rates will remain low, however investors need to remember why you hold these investments – Safety!

LISTED PROPERTY

After a great month in April the listed property trust/group sector was brought back to earth with a fall of 3.81% on the S&P/ASX200 A-REIT index for May.

As per my comments recently, I hold the view that property trust/group prices are fully priced when compared with actual property valuations (evidence).

I am not a seller at this stage however, as I expect that physical property prices could rise in the years ahead due to the very low interest rate environment and expected economic growth that can eventuate.

The rental distributions should remain stable, if not grow in the short term, so there is no pressure to exit this sector, despite prices being fully priced.

I remain of the view that increased levels of corporate action should eventuate as property investors of all sizes start to gear up conservative portfolio's and take advantage of lower loan costs.

SHAREMARKETS

What a difference a month makes! With the obvious foreign selling in Australian shares and increased speculation about when the US Federal Reserve will start turning off the stimulus tap, we saw a sell off in the industrial sector of the Australian market in May. No doubt some profit taking was also happening.

When you look at the S&P/ASX200 index it accounted for a 5.1% drop. If you break this down further (as we have in recent months) the Resources Index actually went up 2.97%, whereas the previous powerhouse performer, Industrial, went down 7.06%.

In recent months I have highlighted the view that the Industrial sector had moved to an overvalued position, but the dividends remain attractive going forward. This remains my view, however if the sell off continues in June/July as we head for the Federal Election, we may have some good buying opportunities.

With interest rates on term deposits heading below 4%pa – many investors would happily snap up Telstra, Commonwealth, Westpac, ANZ and National Australia Bank shares at 6 – 7% fully franked – an effective gross income of 9 – 10% pa. I expect to see evidence of this in the RBA bank Term Deposit figures in July.

The graph below of the S&P/ASX 200 Index from 1 January 2008 (GFC period) shows the recent surge in prices along with the downturn last month.

OVERSEAS

The negative results we saw here in Australia were not repeated in May. In fact, because of the fall in the Australian dollar, international investments did well!

Overall the MSCI World Index fell by 0.3% in US Dollar terms but rose 8.3% in Australian dollars. The S&P500 index in the US reached a new record high in late May before finishing the month up 2.1%, whilst the more talked about Dow Jones index rose 1.9% for the month.

The Europeans had a good month on the back of weak data and a cut in interest rates by the European Central Bank. This saw Germany up 5.5%, Italy up 2.7% and France up 2.4%. The UK FTSE Index was also up nearly 2.4%. Spain was the odd one out, falling 1.2% as talk resurfaced about Spanish Banks.

In Asia, the Japanese market finally took a breather, falling 2.5% for the month, after being up nearly 11% in the first three weeks of May. The fall was on concerns that the Bank of Japan may reduce its stimulus program.

With the reaction by investors in Japan and elsewhere around the world to "speculation" that Federal Government stimulus may be withdrawn, it's a timely reminder to investors that when this does happen (yes it will) in the months and years ahead, we will see increased volatility in market prices here in Australia and abroad.