# The Year That Was: 2012
# The Year Ahead: 2013

Craig James,
Chief Economist, CommSec
@CommSec

Savanth Sebastian,
Economist, CommSec
@CommSec

CommSec

# Important Information

This presentation has been prepared without taking account of the objectives, financial situation or needs of any particular individual. Before acting on the information in this seminar, you should consider its appropriateness to your circumstances and, if necessary, seek appropriate professional advice.

Commonwealth Securities Limited ABN 60 067 254 399
AFSL 238814 (CommSec) is a wholly owned but non-guaranteed subsidiary of Commonwealth Bank of Australia ABN 48 123 123 124 and a Participant of the ASX Group.

Examples used in this presentation are for illustrative purposes only.

# Year in review

- The European debt crisis continued to dominate attention.
- US President Barack Obama was re-elected for another term.
- The US "fiscal cliff" was the major focal point over November & December.
- Chinese leaders successfully achieved a "soft landing" of the economy.
- The Reserve Bank cut the cash rate from 4.25% to 3.00%.
- The ASX 200 rose 9.4% from January to May and then lost all gains in 17 days.
- The ASX 200 then rallied to end 2012 near 18-month highs, up by over 14%.
- The Aussie dollar traded over a US12 cent range, gaining 2% over 2012.
- Australian 3yr bond yields hit record lows; 10yr yields hit 60 year lows.
- Australia's underlying inflation rate fell to 12-year lows.

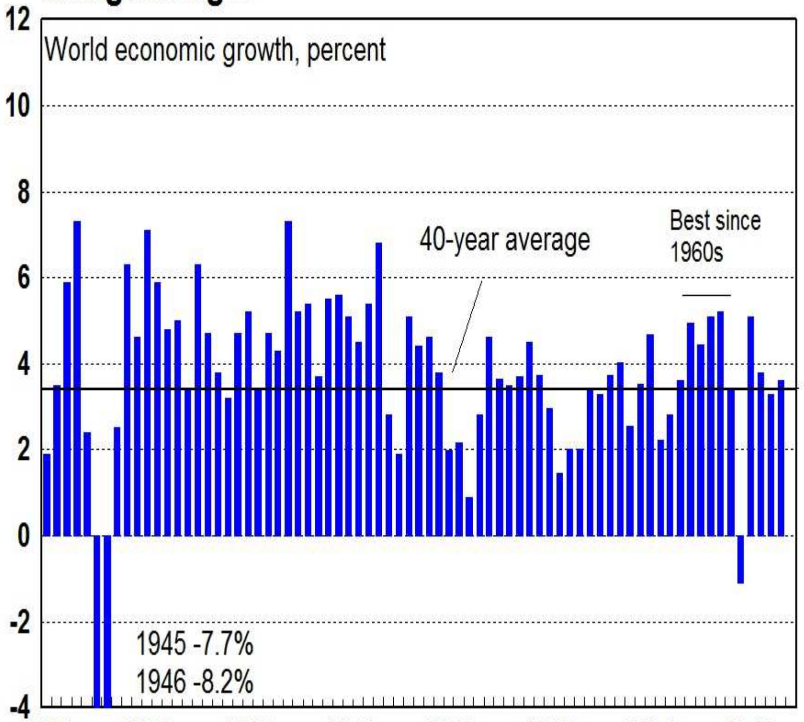
# Year in review

## Key financial indicators 2012

| | *Dec 30 2011* | *High* | *Low* | *Dec 31 2012* | *% change* |
|---|---|---|---|---|---|
| ASX 200 | 4,056.6 | 4,648.0 | 3,985.0 | 4,649.0 | *+14.6%* |
| US Dow Jones | 12,217.6 | 13,610.2 | 12,101.5 | 13,104.1 | *+7.3%* |
| AUD/USD, *US cents* | 101.56 | 108.56 | 95.79 | 103.84 | *+2.2%* |
| 90 day bank bills | 4.48% | 4.54% | 3.07% | 3.07% | - |
| 10 year bond yields | 3.80% | 4.34% | 2.72% | 3.28% | - |
| Oil, *US$ per barrel* | 98.83 | 109.77 | 77.69 | 91.82 | *-7.1%* |
| Gold, *US$ per ounce* | 1566.80 | 1536.60 | 1796.50 | 1675.80 | *+7.0%* |

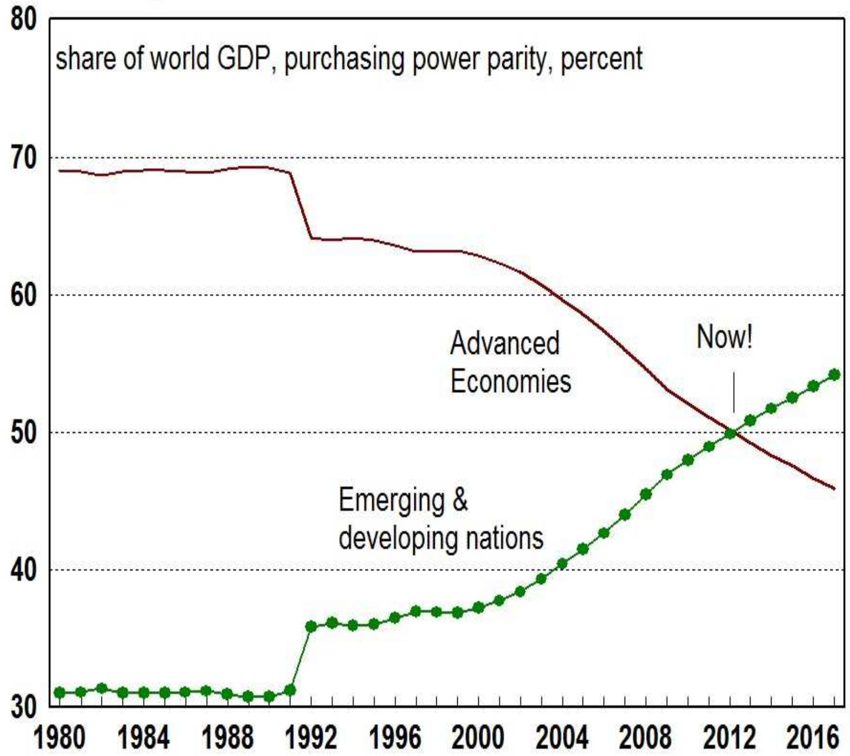
# Global economy

Still growing...




Source: Groningen, IMF, CommSec

Baton pass

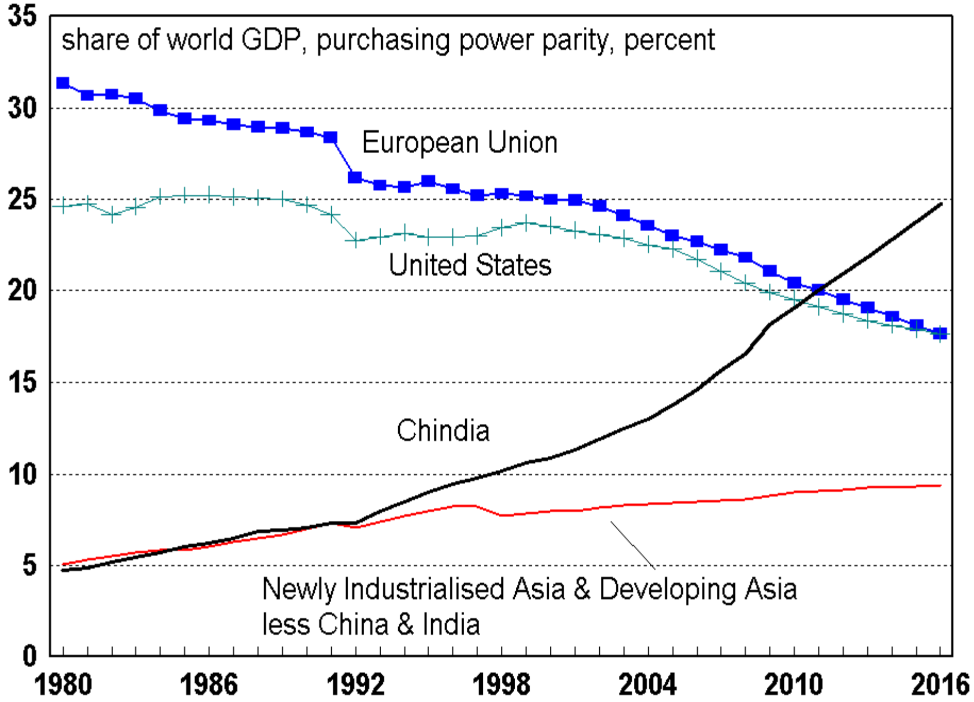



Source: IMF, CommSec

CommSec

# Global perspective

### Importance of China & India




Source: IMF, CommSec

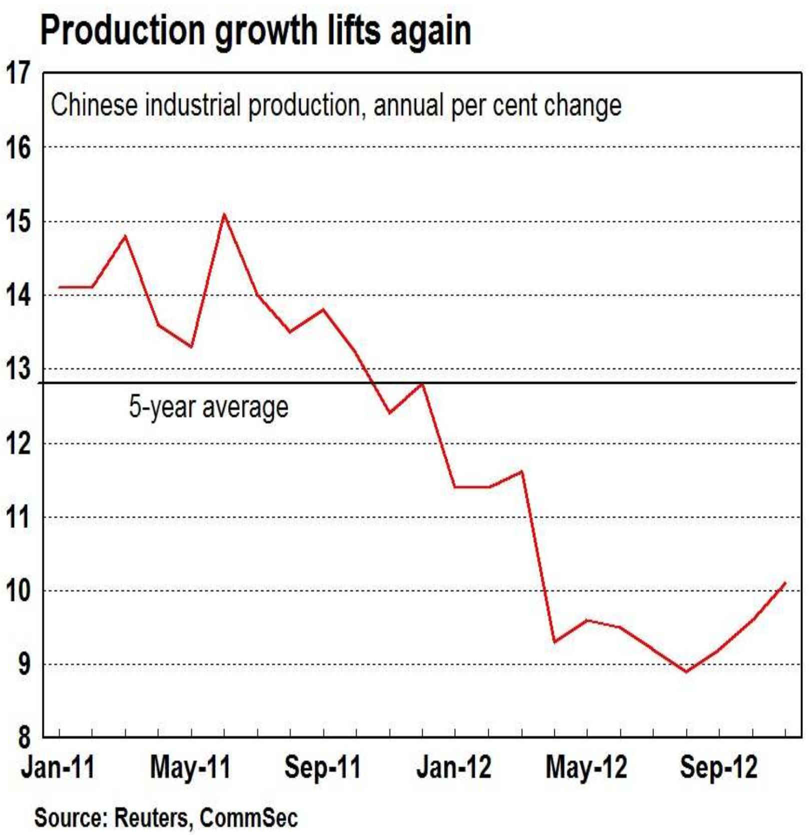
## Drivers of world economy - Contribution to growth 2012

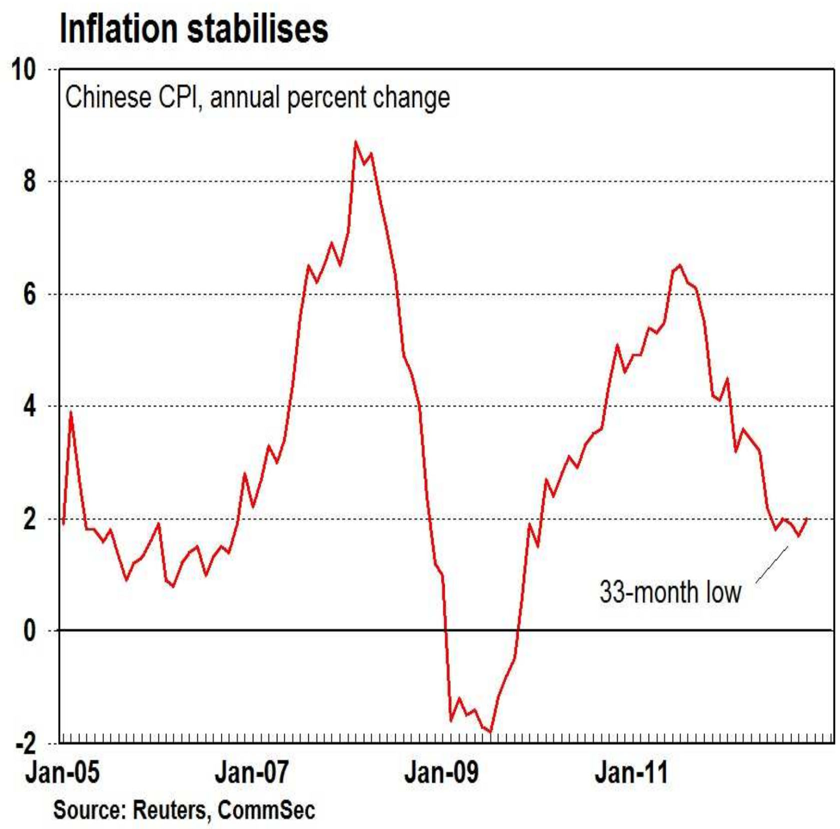
| | |
|---|---|
| China | 0.87% |
| United States | 0.48% |
| Japan | 0.18% |
| ASEAN 5 # | 0.15% |
| India | 0.12% |
| Russia | 0.10% |
| Australia | 0.07% |
| Newly Industrialised Asia* | 0.06% |
| Mexico | 0.06% |
| South Korea | 0.06% |
| Brazil | 0.05% |
| Canada | 0.05% |
| Other countries | 1.05% |
| **World** | **3.30%** |

*Source: IMF & CommSec*
** Newly industrialised Asia – Hong Kong, Taiwan, Singapore and South Korea*
*# ASEAN 5 – Indonesia, Malaysia, Thailand, Philippines and Vietnam*

CommSec

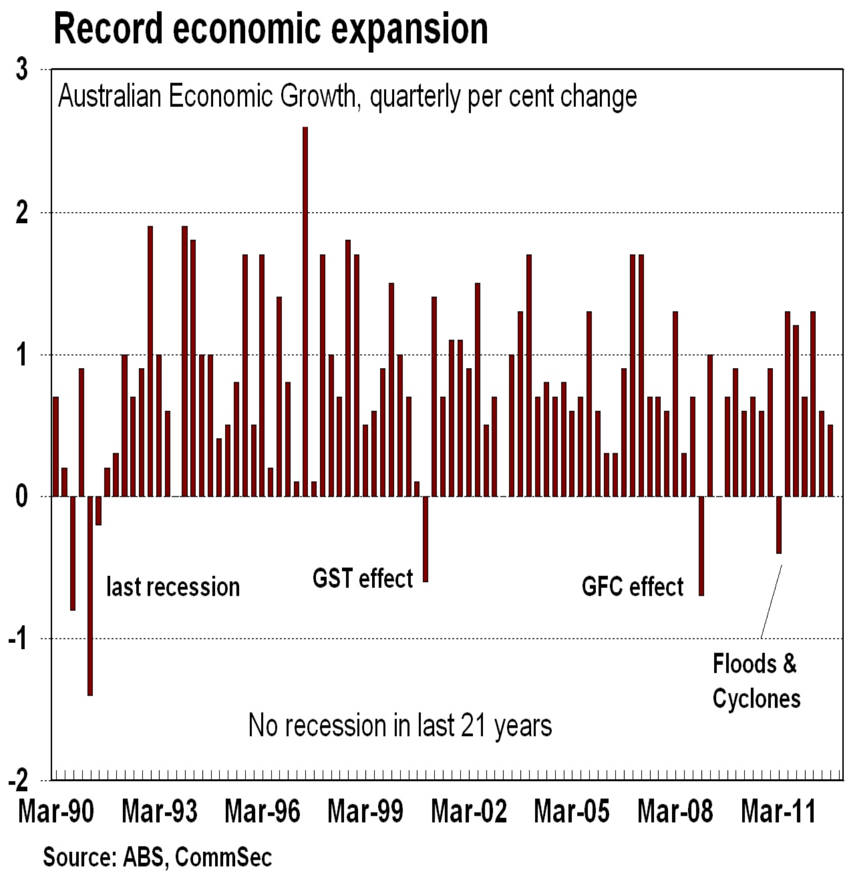
# Chinese "soft landing"

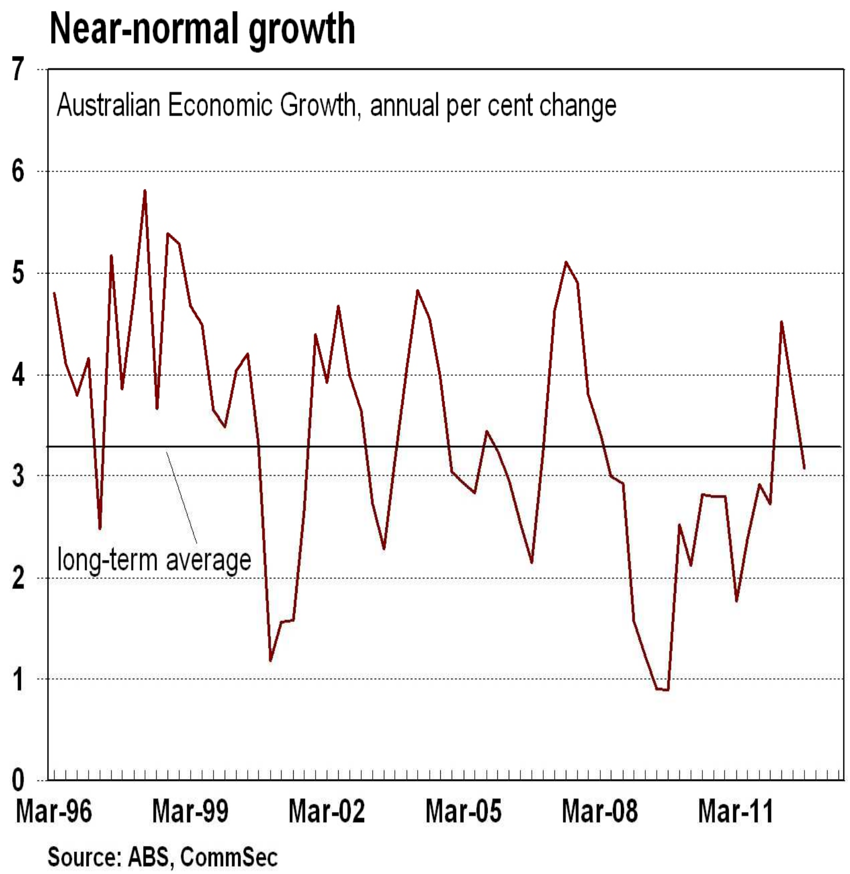



CommSec

# Australia

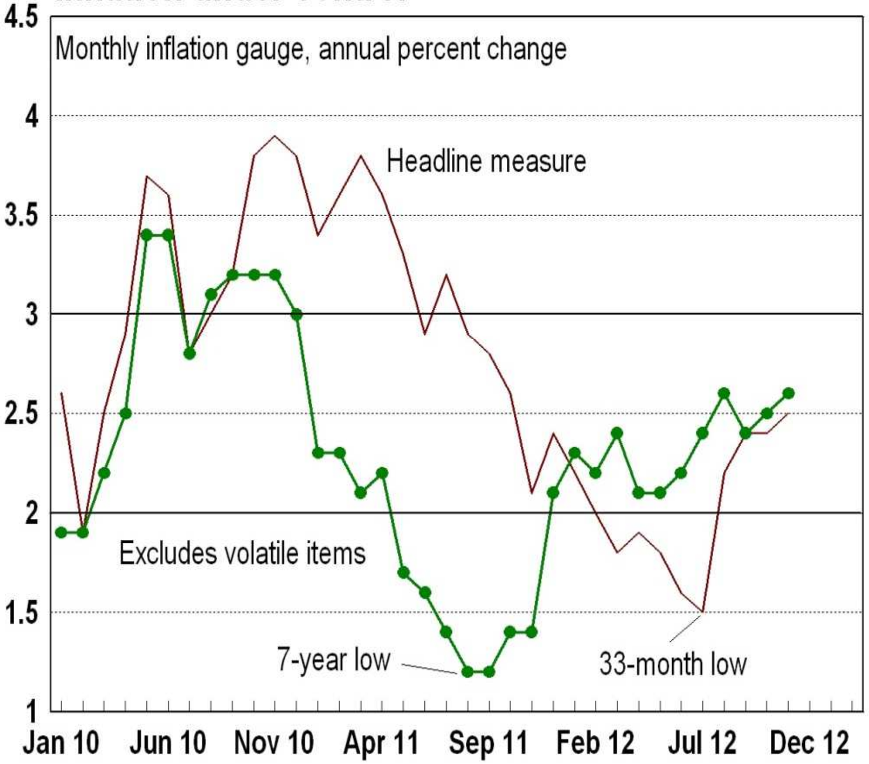



CommSec

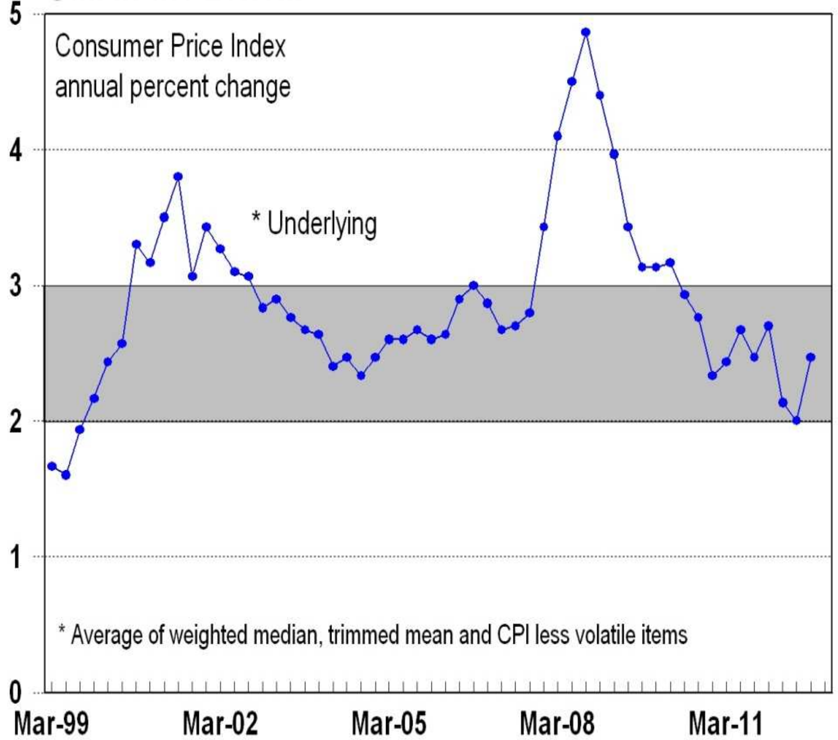
# Inflation

Inflation under control




Source: TD Securities/ Melb.Institute, CommSec

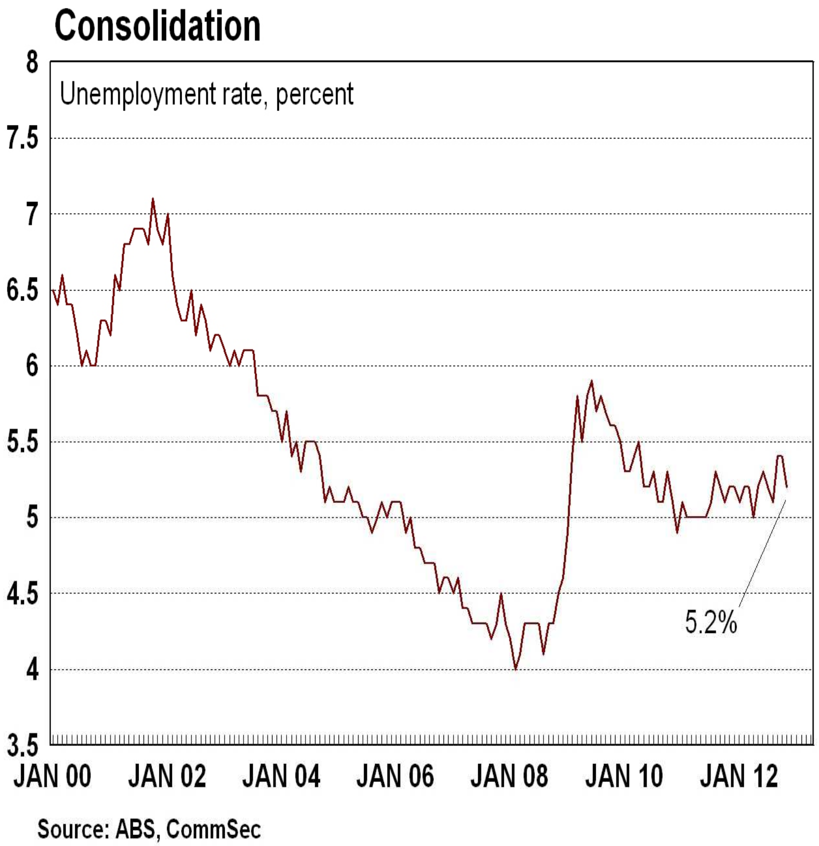
Still in the zone...

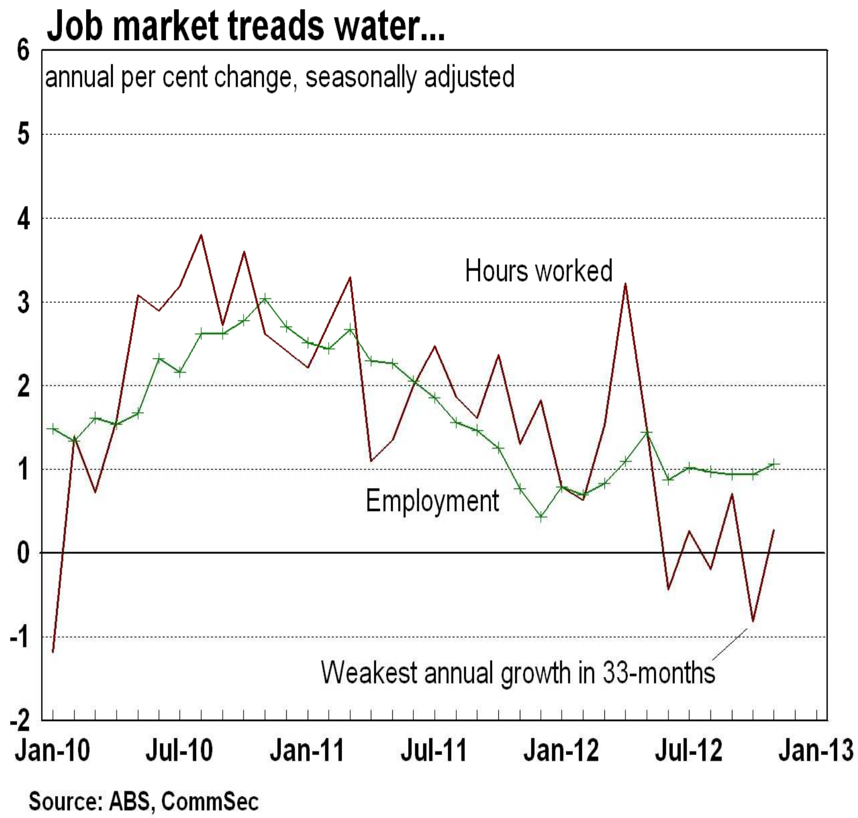



Source: ABS, CommSec

CommSec

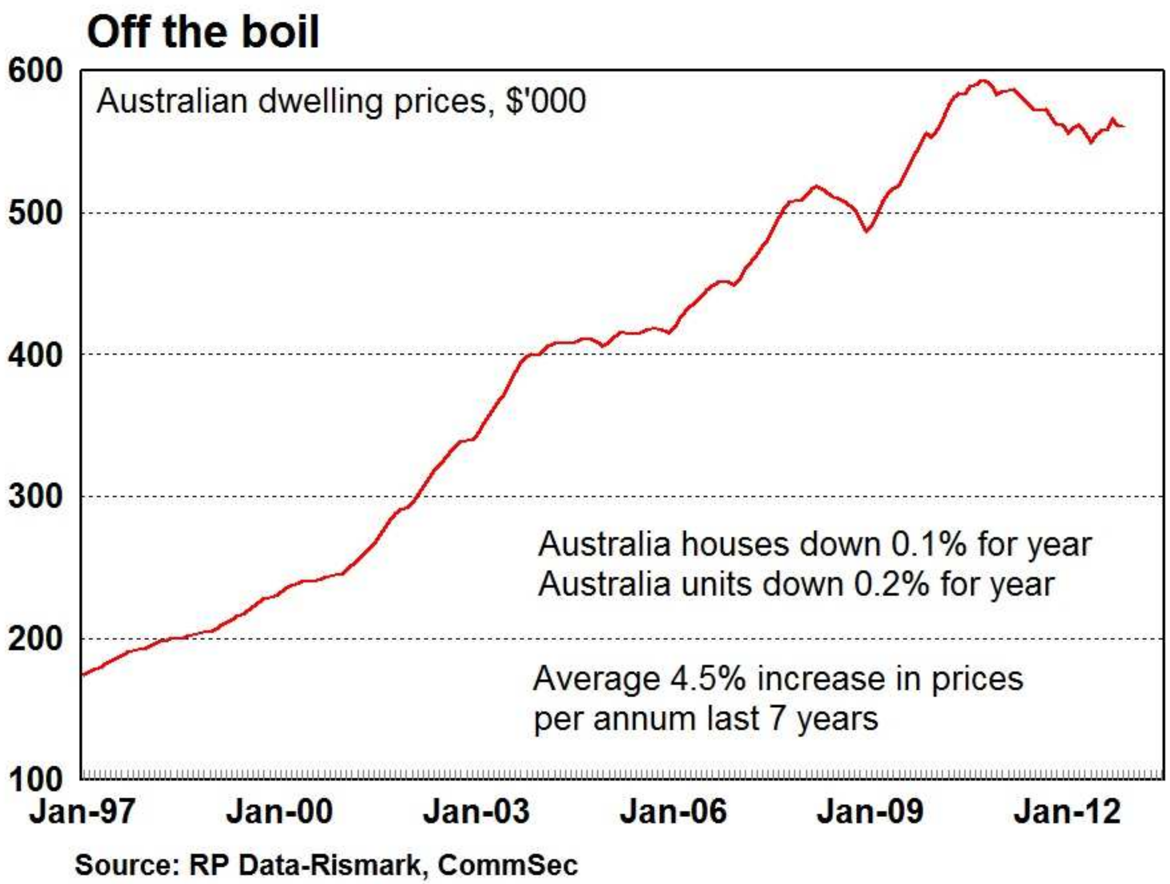
# Job market




CommSec

# Home prices



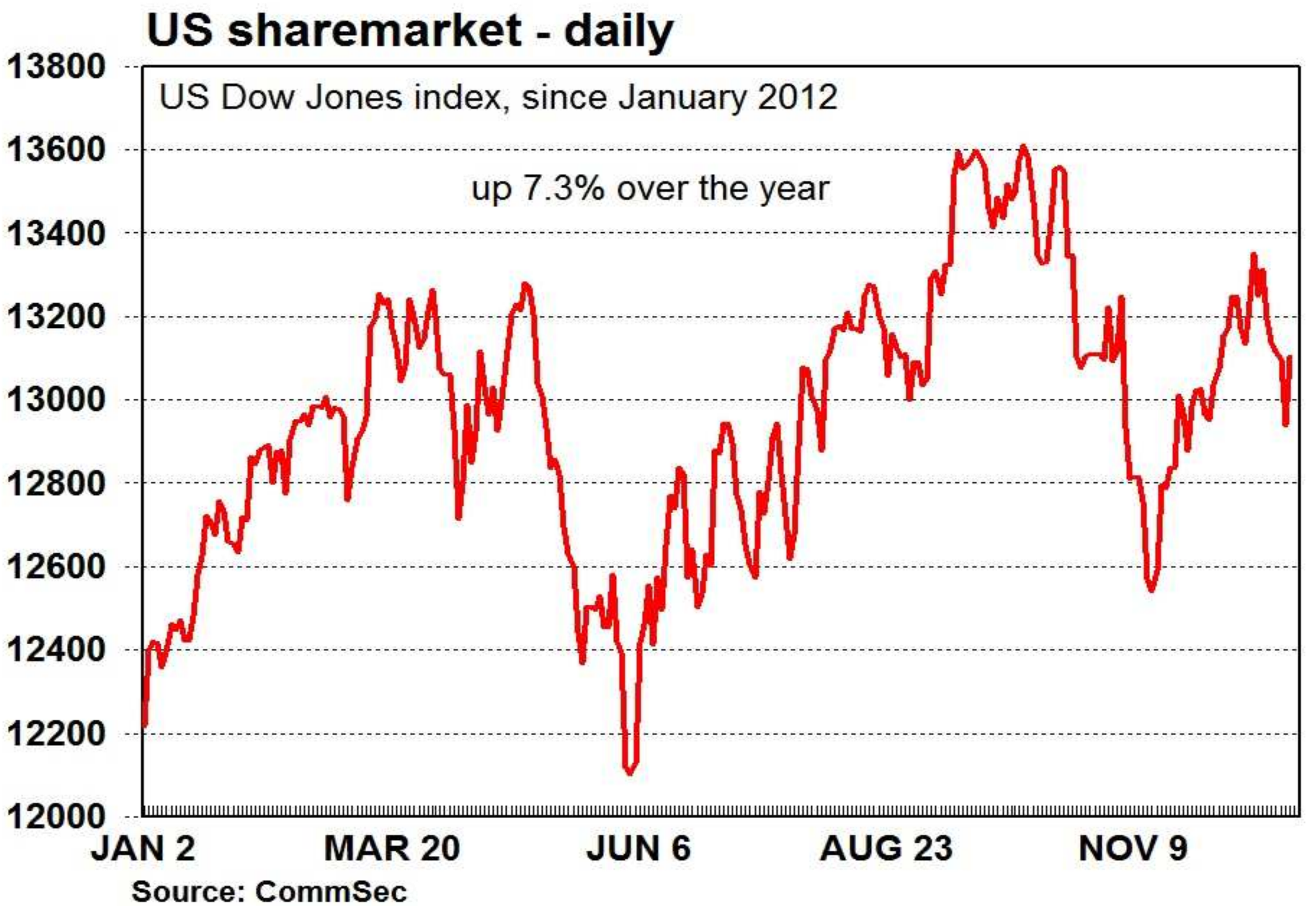
Off the boil
600
500
400
300
200
100
Australian dwelling prices, $'000
Australia houses down 0.1% for year
Australia units down 0.2% for year
Average 4.5% increase in prices
per annum last 7 years
Jan-97
Jan-00
Jan-03
Jan-06
Jan-09
Jan-12
Source: RP Data-Rismark, CommSec

# Global sharemarkets

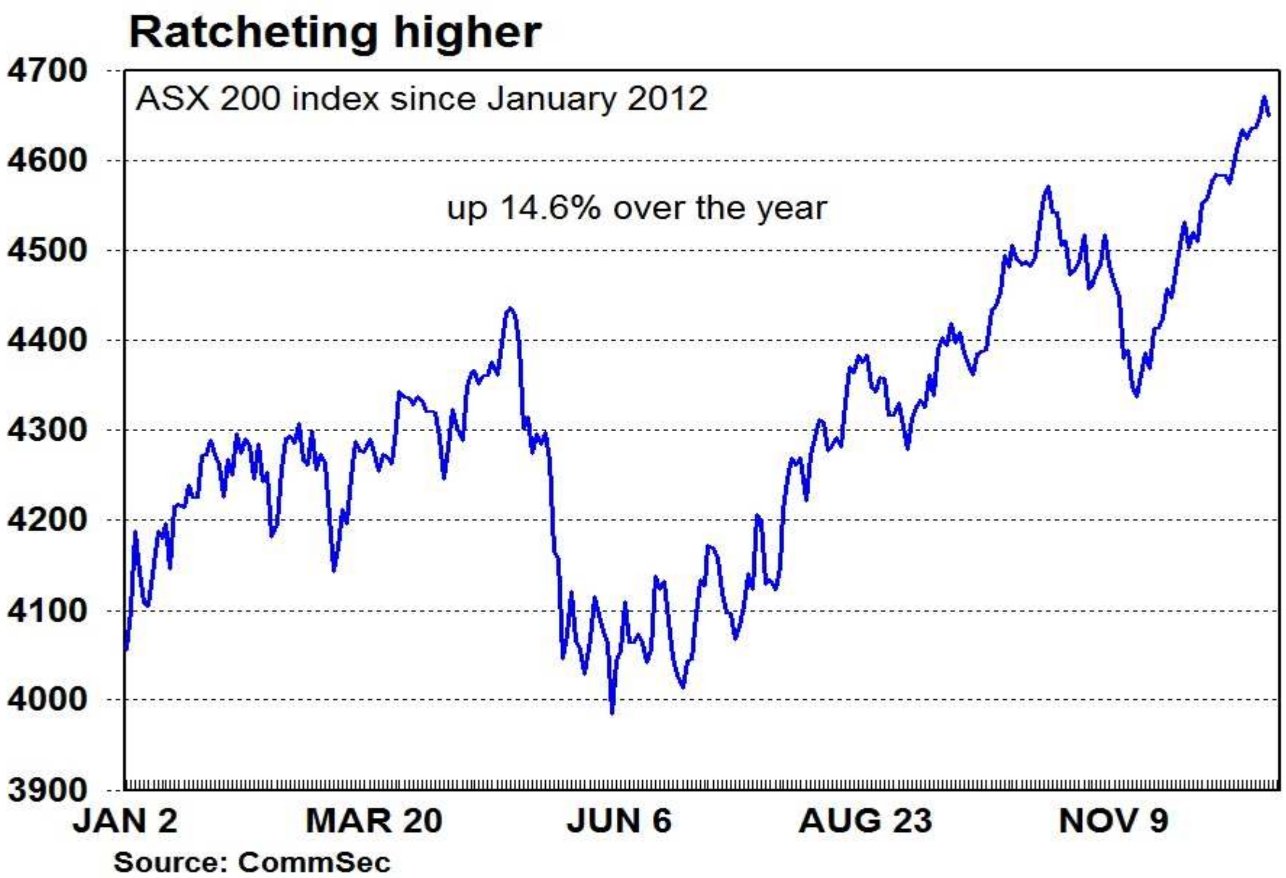
| Top markets 2012 | |
|---|---|
| | *% change* |
| Venezuela | 302.8 |
| Turkey | 52.6 |
| Egypt | 50.8 |
| Pakistan | 49.0 |
| Estonia | 38.2 |

| Bottom markets 2012 | |
|---|---|
| | *% change* |
| Cyprus | -57.6 |
| Ukraine | -38.5 |
| Morocco | -15.1 |
| Slovakia | -10.8 |
| Mauritius | -8.3 |

# US sharemarket

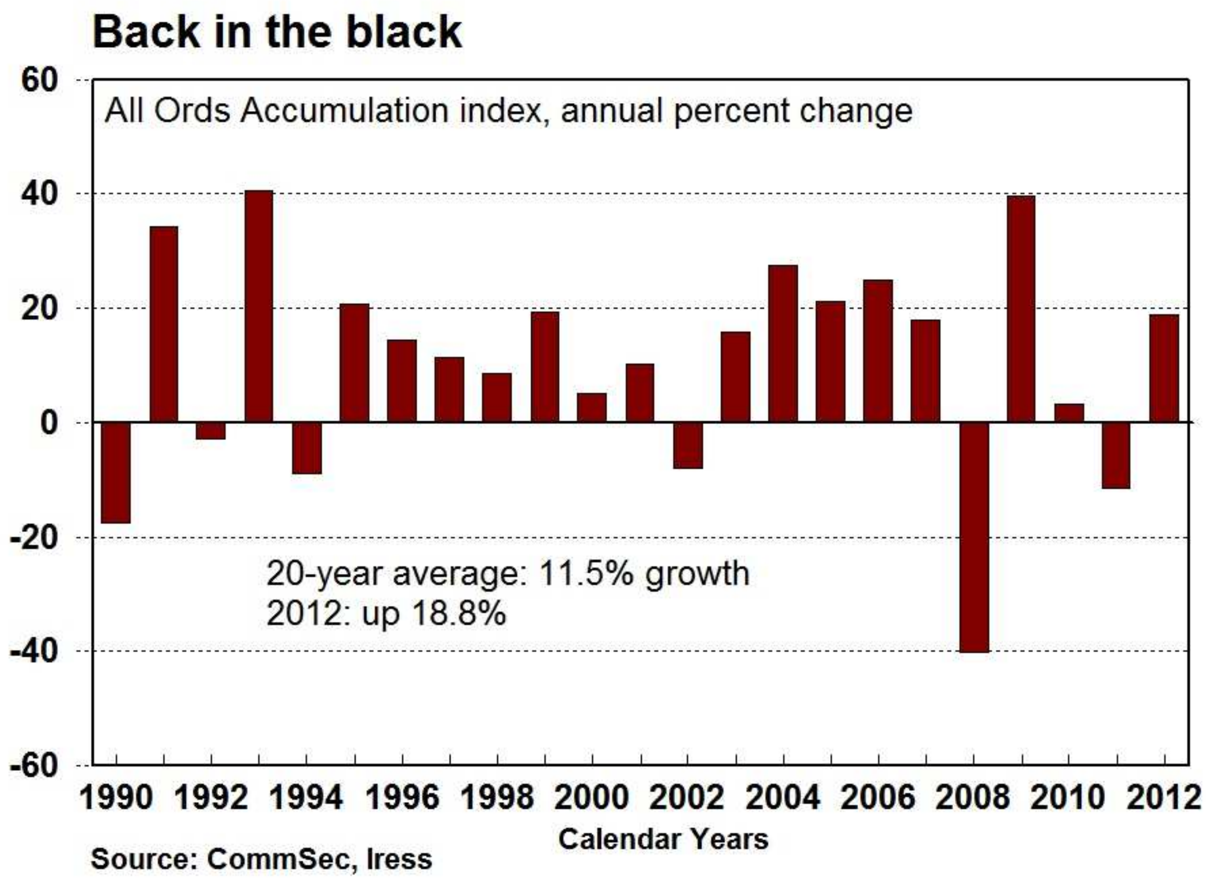


# Australian sharemarket




CommSec

# Australian share returns



# Australian industry sectors

## AUSTRALIAN INDUSTRY GROUPS

*percent change 2012*

| | | | |
|---|---|---|---|
| Pharmaceuticals & biotech | 61.2 | ***S&P/ASX 200*** | ***14.6*** |
| Telecommunication services | 31.7 | Retailing | 13.3 |
| Diversified financials | 29.2 | Insurance | 12.9 |
| Food beverage & tobacco | 28.8 | Transportation | 12.7 |
| Health Care | 28.5 | Commercial & profess. services | 7.0 |
| Real Estate | 25.0 | Media | 5.6 |
| Consumer services | 24.4 | Materials | 1.0 |
| Banks | 21.9 | Energy | -2.6 |
| Food & drug retailing | 19.8 | Consumer durables & apparel | -5.2 |
| Software & services | 19.7 | Capital goods | -6.8 |
| Utilities | 15.7 | | |

*Source: Iress, CommSec*

# Australian industry sectors

**WINNERS AND LOSERS**

Total returns, since 1986

| | *Best return* | *Worst return* |
|---|---|---|
| 1986 | Media | Consumer services |
| 1987 | Transport | Diversified financials |
| 1988 | Retailing | Insurance |
| 1989 | Retailing | Transport |
| 1990 | Utilities | Retailing |
| 1991 | Media | Insurance |
| 1992 | Media | Transport |
| 1993 | Transport | Commercial services |
| 1994 | Retailing | Media |
| 1995 | Banks | Transport |
| 1996 | Commercial services | Retailing |
| 1997 | Food & staples | Consumer services |
| 1998 | Telecommunications | Energy |
| 1999 | Technology hardware | Insurance |
| 2000 | Utilities | Software services |
| 2001 | Capital goods | Technology hardware |
| 2002 | Utilities | Technology hardware |
| 2003 | Software services | Insurance |
| 2004 | Consumer services | Technology hardware |
| 2005 | Energy | Telecommunications |
| 2006 | Pharmaceuticals & biotech | Health care equipment |
| 2007 | Pharmaceuticals & biotech | Consumer durables & apparel |
| 2008 | Pharmaceuticals & biotech | Diversified financials |
| 2009 | Retailing | Pharmaceuticals & biotech |
| 2010 | Automobiles & Components | Consumer durables & apparel |
| 2011 | Telecommunications | Consumer durables & apparel |
| 2012 | Pharmaceuticals & biotech | Capital goods |

Source: CommSec

# Australian stocks

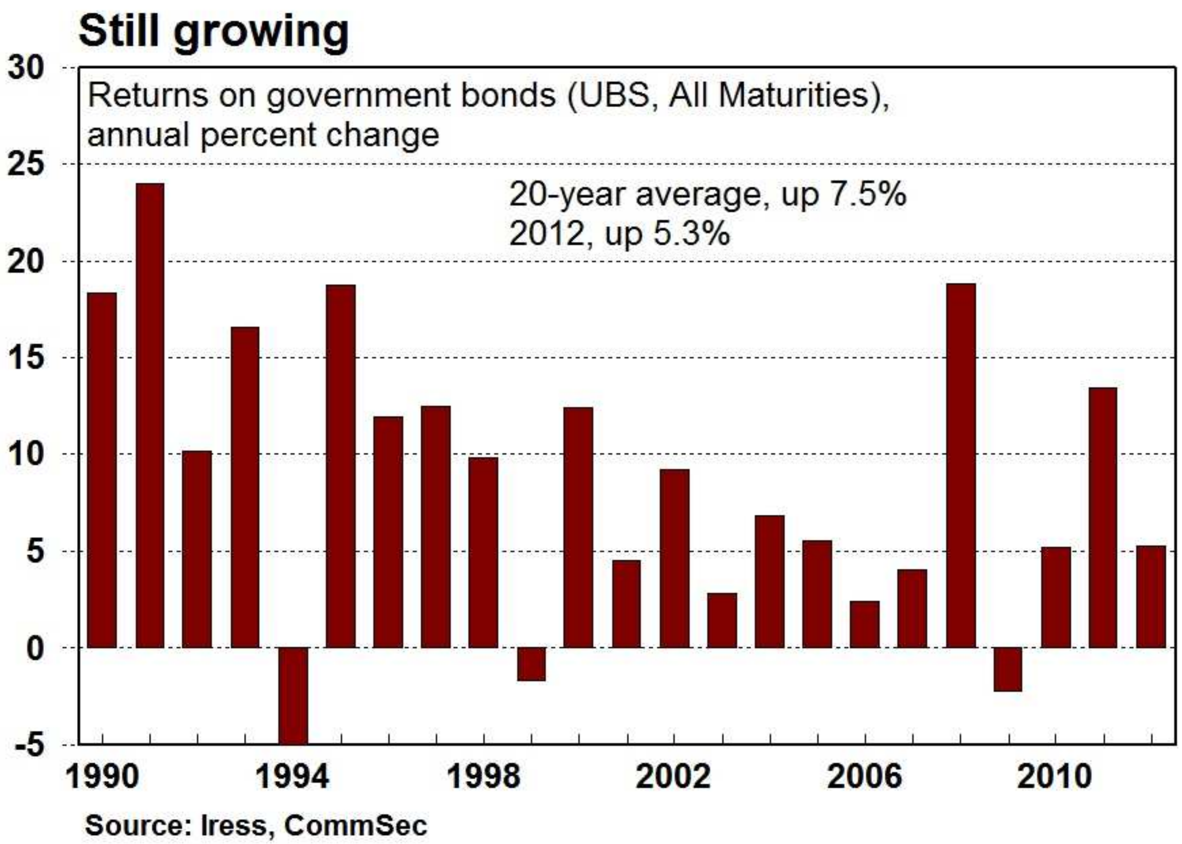
**Best & Worst Sharemarket Returns**
**ASX 200, 2012, per cent**

| | |
|---|---|
| *Best* | |
| Maverick Drilling | 229.55 |
| Sirtex Medical | 194.20 |
| Breville Group | 145.05 |
| Flexigroup | 100.00 |
| TPG Telecom | 94.74 |
| Buru Energy | 94.29 |
| Drillsearch | 91.66 |
| Super Retail Group | 87.52 |
| Perpetual Ltd | 69.70 |
| CSL Ltd | 67.97 |
| *Worst* | |
| FKP Property | -56.96 |
| Aquila Res Ltd | -56.24 |
| Ten Network | -55.92 |
| Gryphon Minerals | -54.82 |
| Miabela Nickel | -54.66 |
| Coalspur Mines | -52.94 |
| Alacer Gold | -52.29 |
| Gindalbie Metals | -51.43 |
| Saracen Mining | -48.67 |
| Energy World Corp | -46.72 |

*Source: Bloomberg, CommSec*

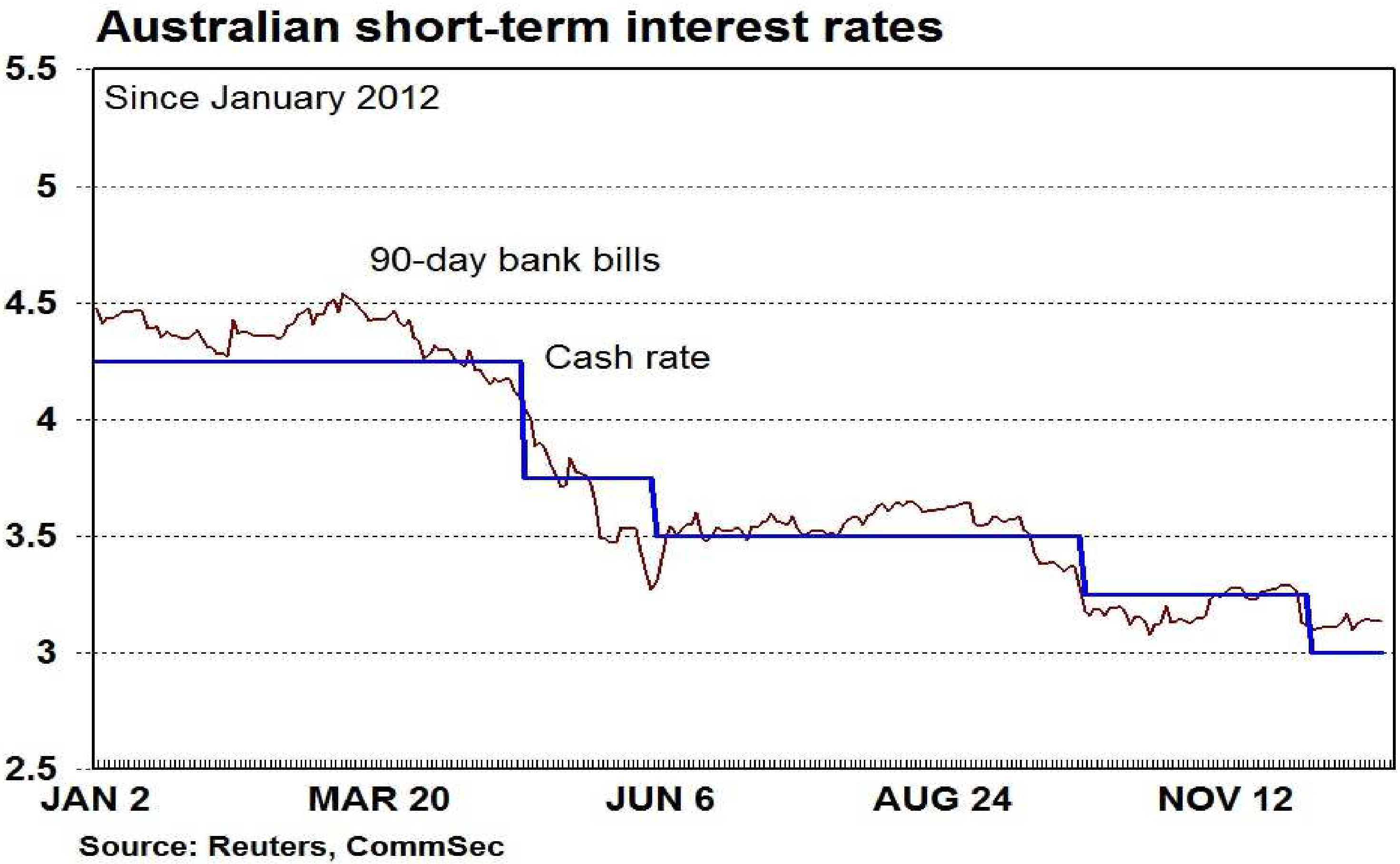
CommSec

# Australian bond market returns



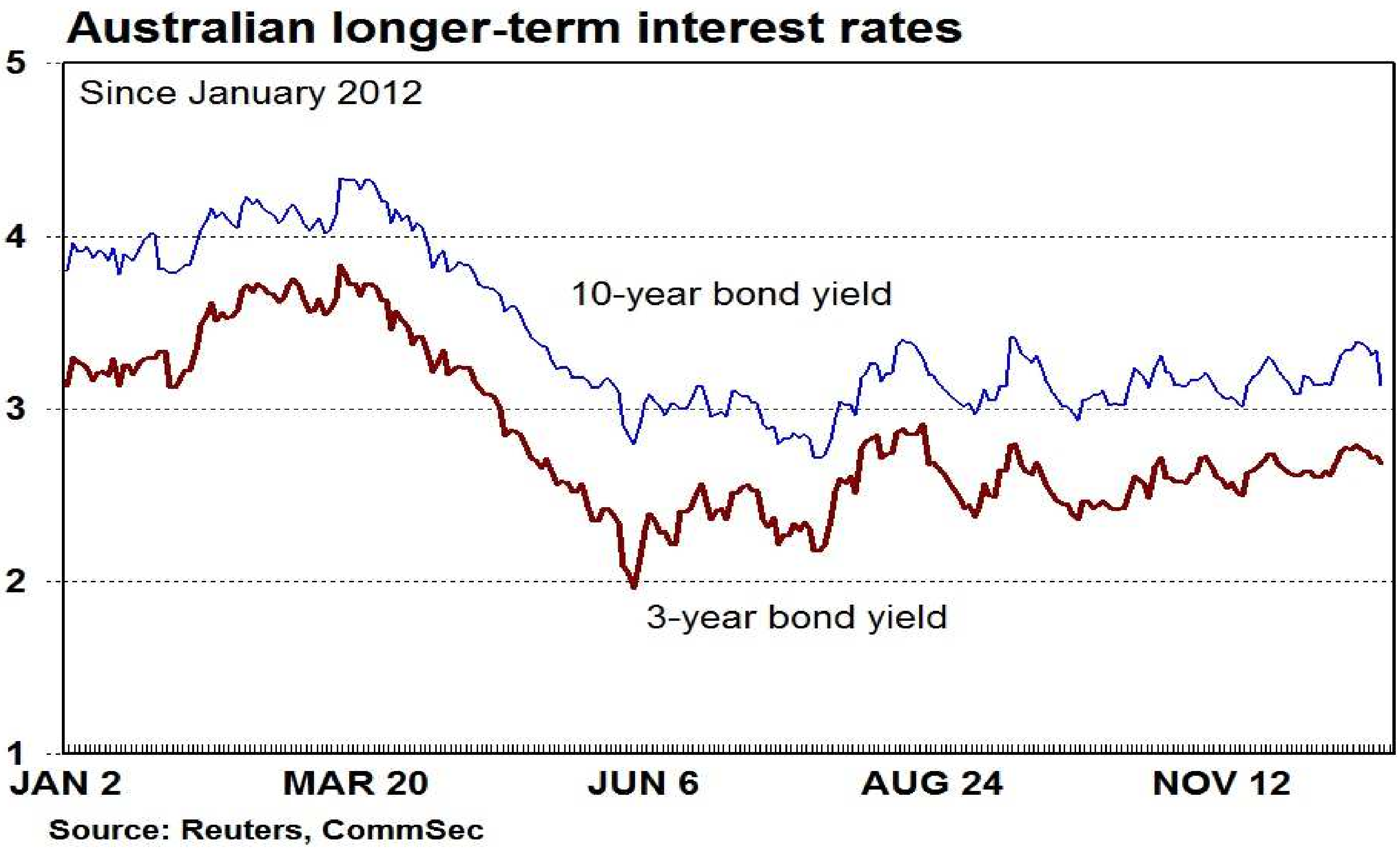

CommSec

# Australian short-term interest rates



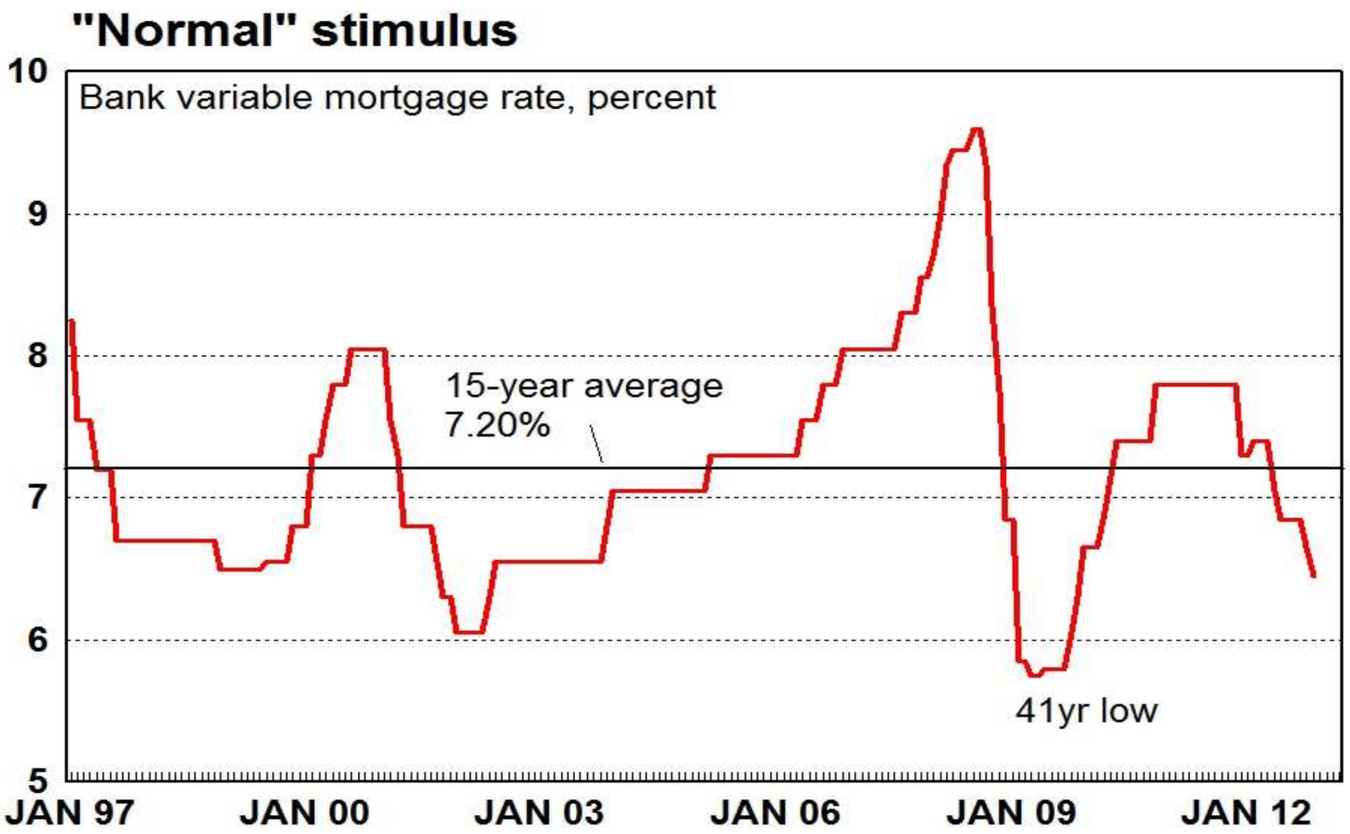

CommSec

# Australian longer-term rates




CommSec

# Interest rates: Housing



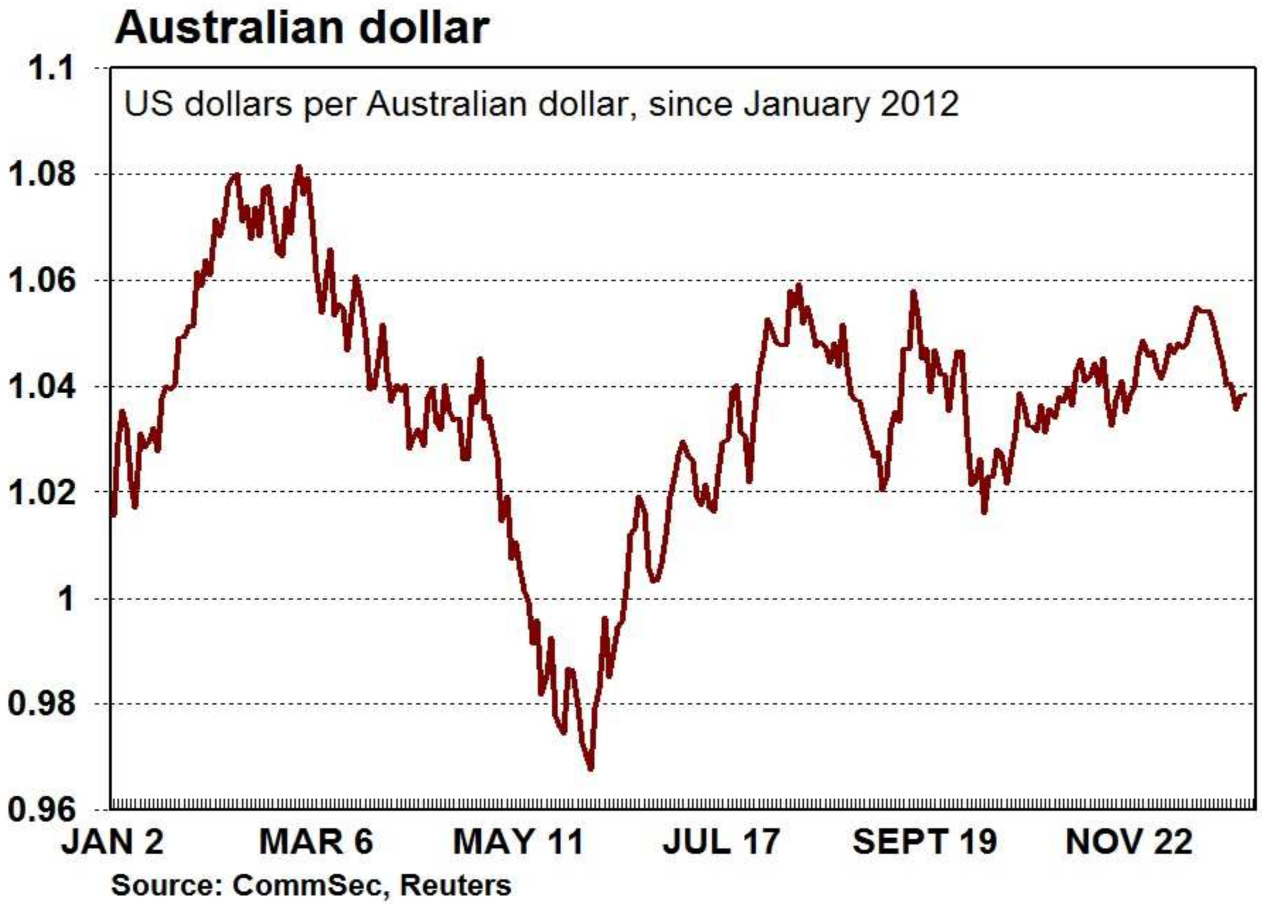

Source: Reserve Bank, CommSec

# Currency markets

| Weakest currencies against USD 2012 | |
|---|---|
| | *% change* |
| Malawi kwacha | -98.1 |
| Syria pound | -31.2 |
| Afghanistan afghani | -17.6 |
| Ghana cedi | -16.2 |
| Argentina peso | -14.2 |

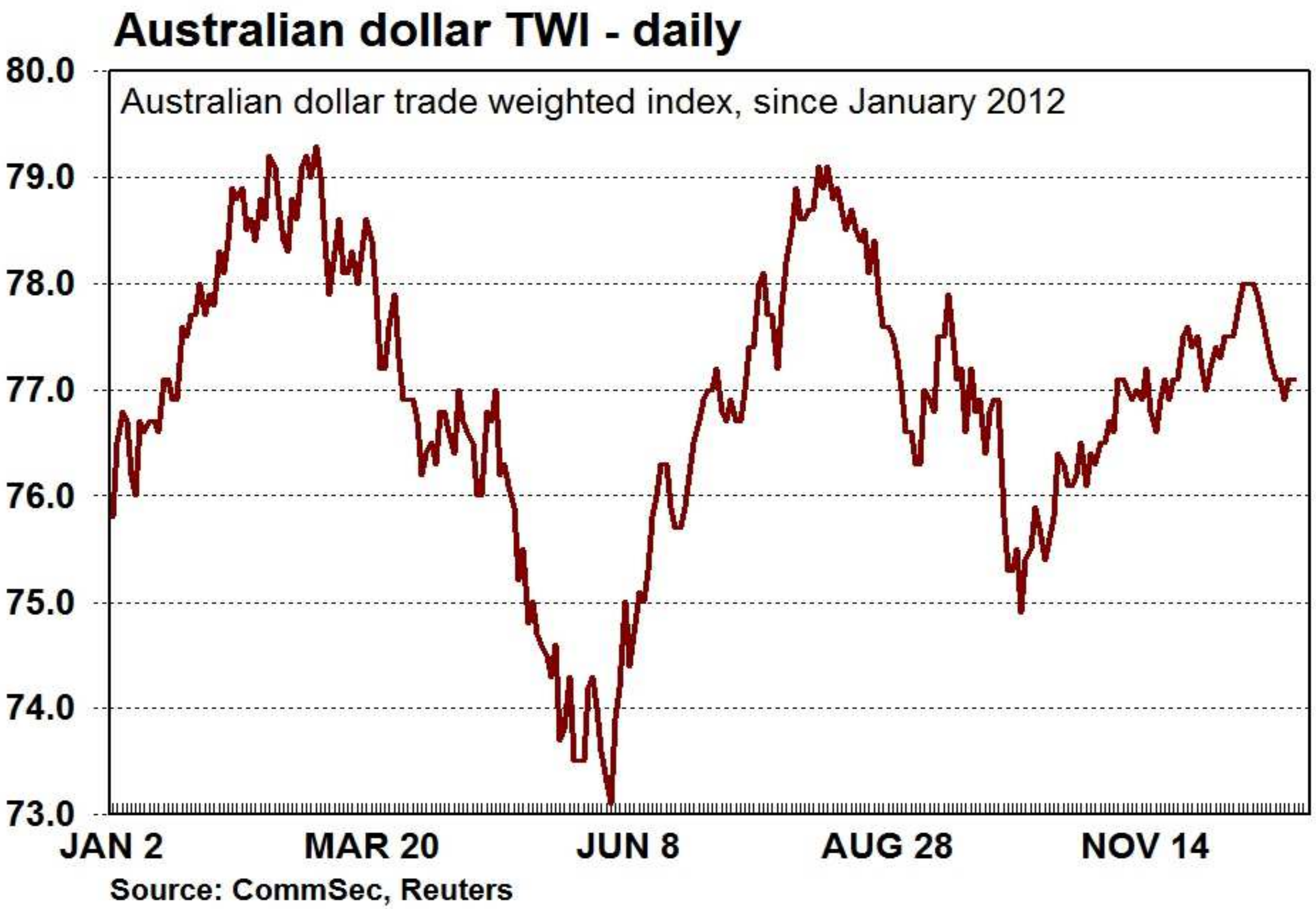
| Strongest currencies against USD 2012 | |
|---|---|
| | *% change* |
| Poland zloty | 10.3 |
| Hungary forint | 9.5 |
| Colombia peso | 8.8 |
| South Korea won | 8.2 |
| Chile peso | 7.9 |

# Australian dollar, versus USD



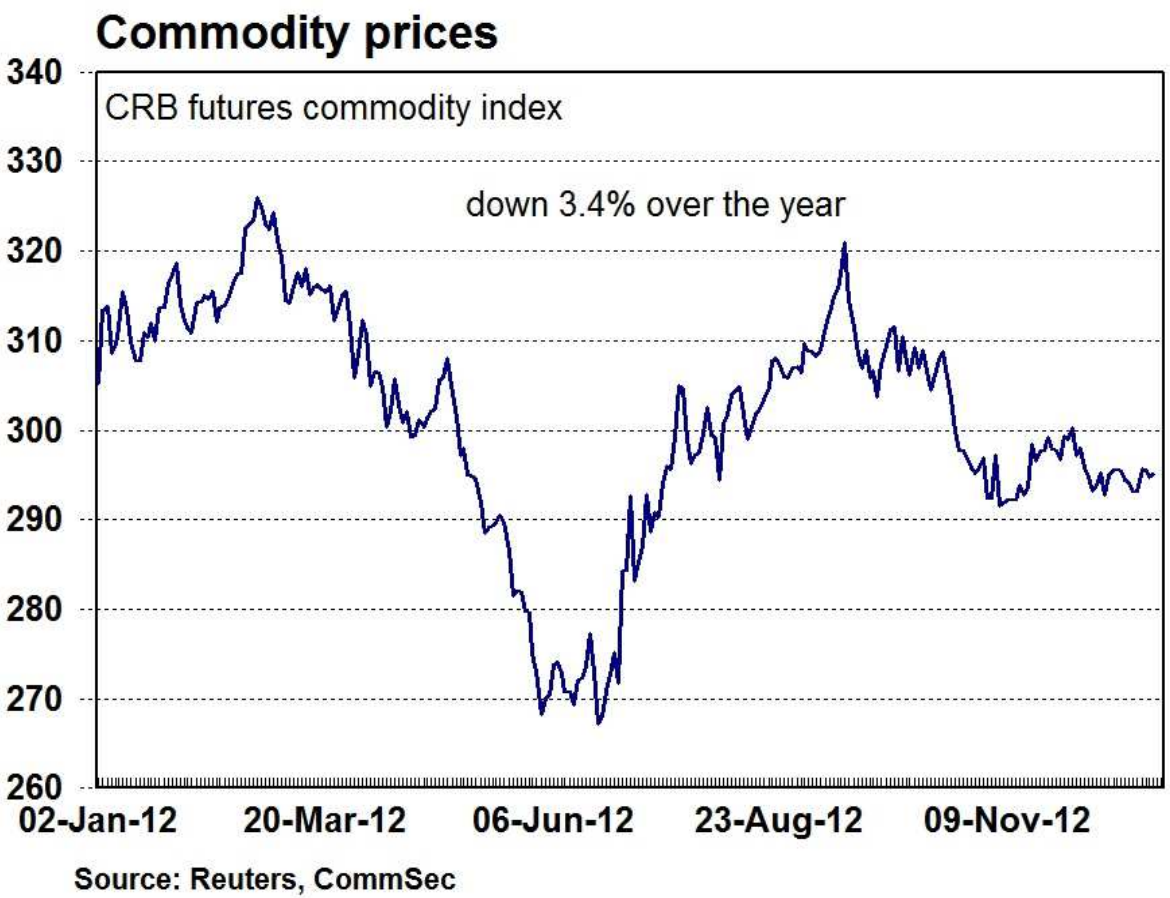

CommSec

# Australian dollar, trade weighted



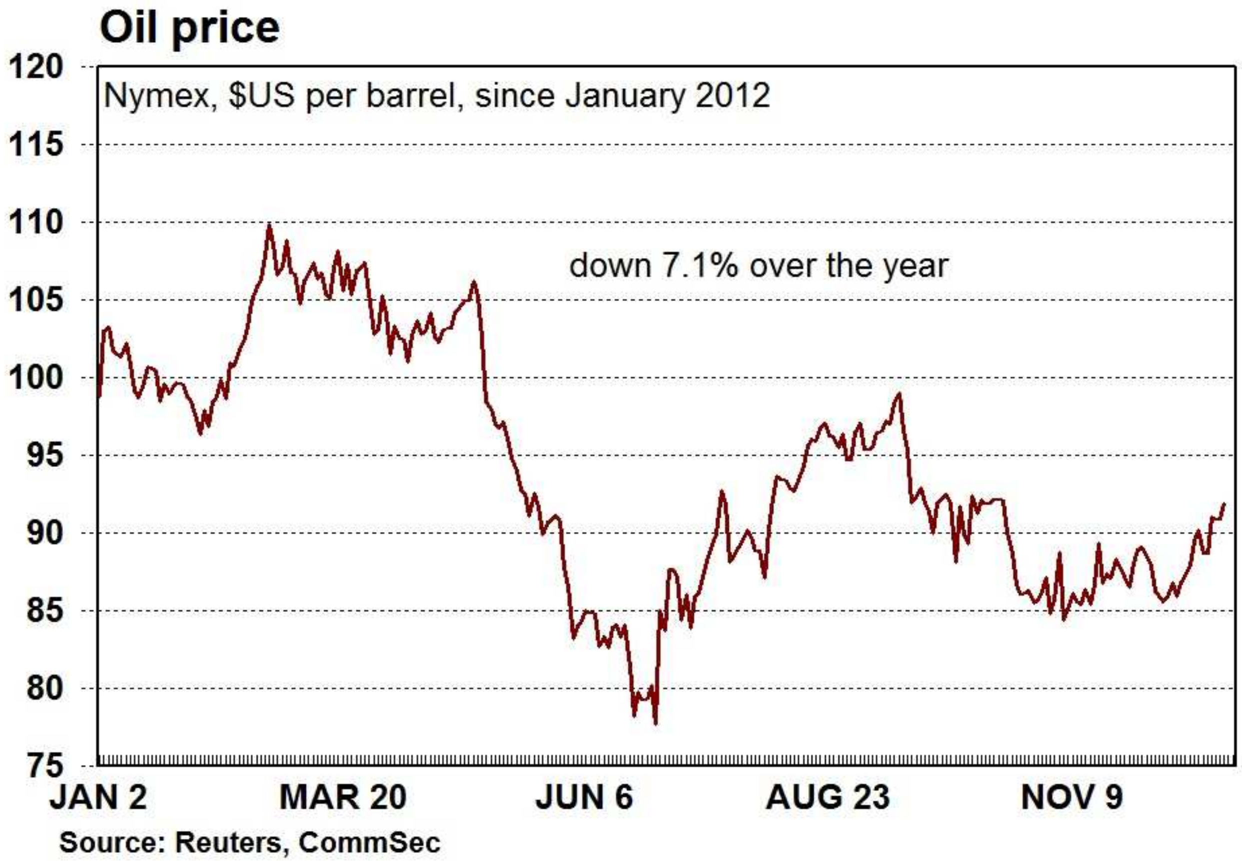

CommSec

# Commodity prices



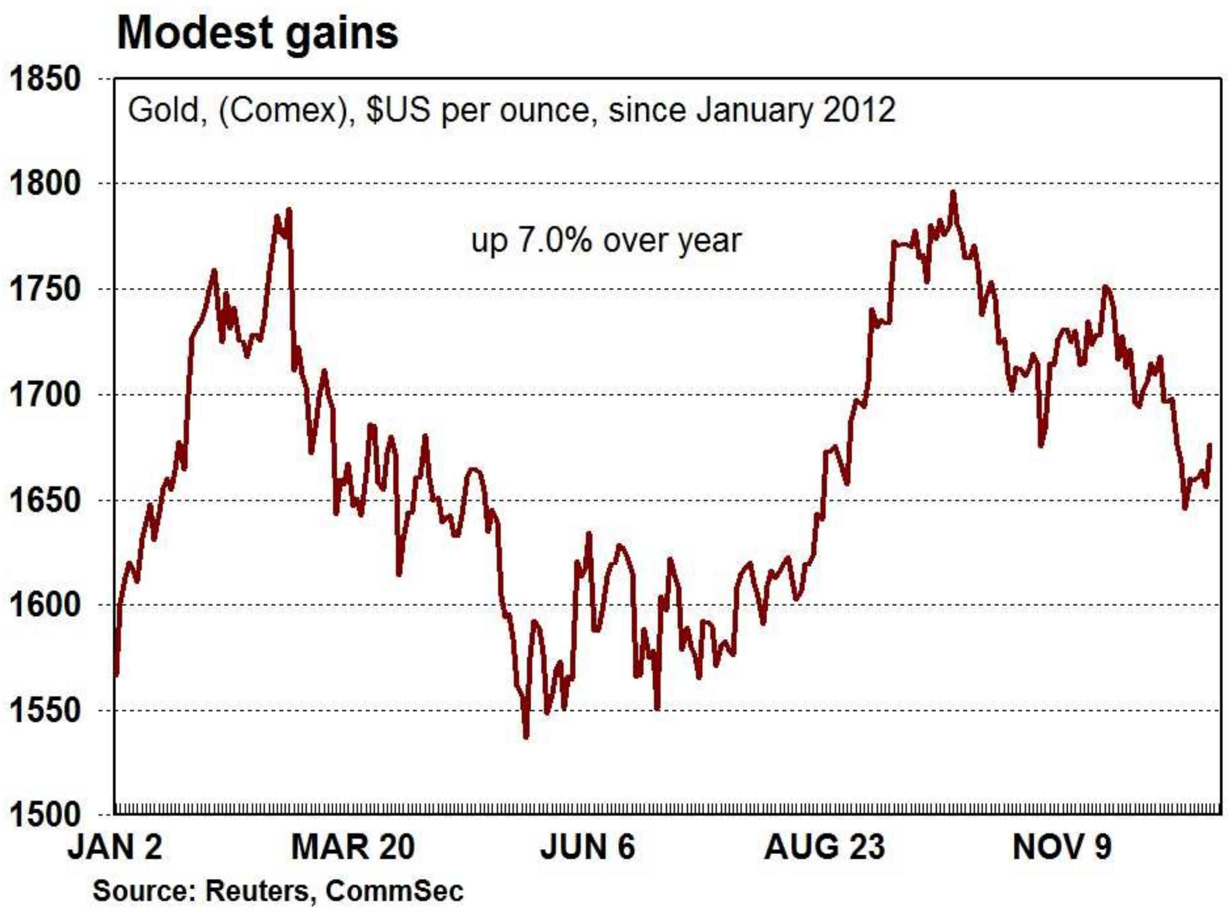

CommSec

# Oil price



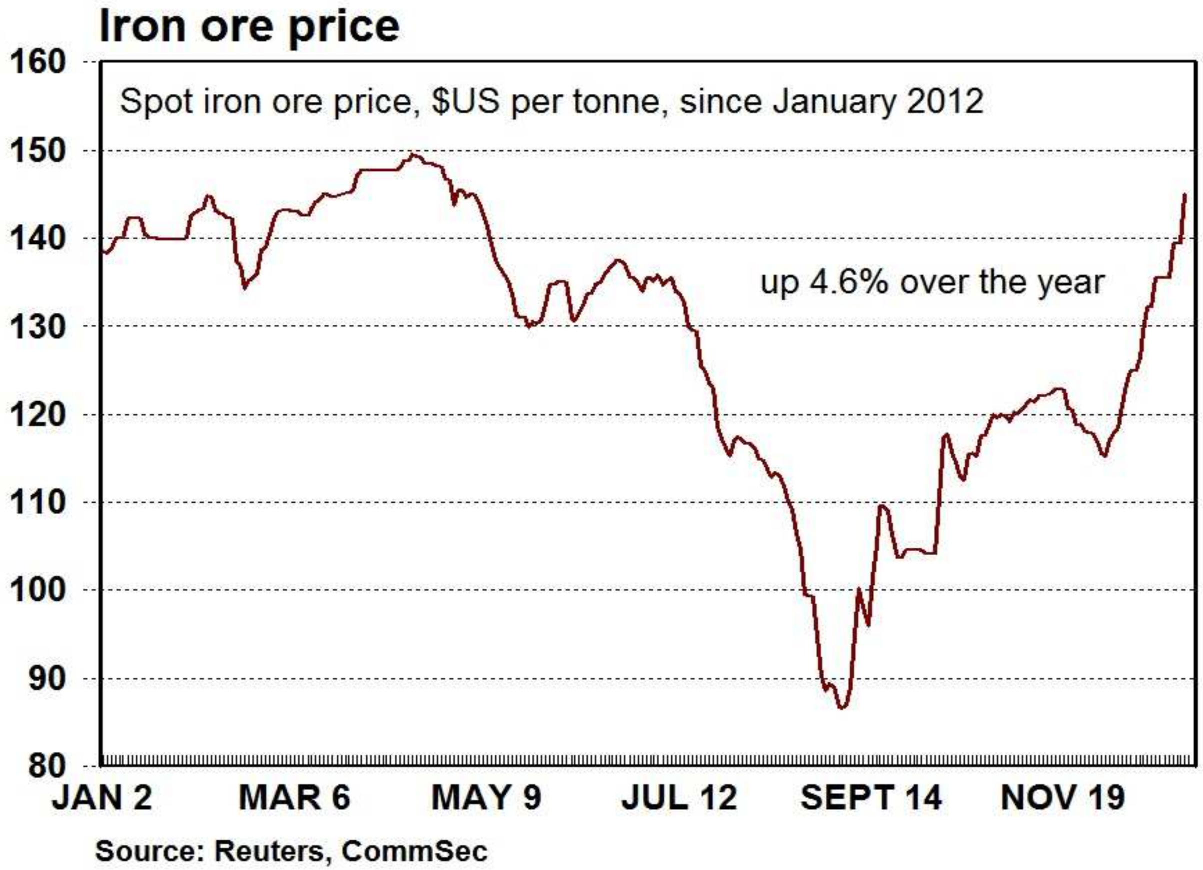

CommSec

# Gold price




CommSec

# Iron ore price



# Outlook for 2013

- Global Economy: Over the past 30 years, world economic growth has averaged 3.3%. Growth in 2012 was estimated at 3.3%. The IMF expects 3.6% growth in 2013. We believe there are upside risks to that forecast. Emerging & developing nations are the new engines of growth.
- United States: The export and housing sectors are driving economic recovery. If Congress fundamentally deals with fiscal issues, confidence will be boosted and economic recovery will continue. Employment is expected to lift over the year as recovery consolidates.
- China: A "soft landing" has been achieved. We expect solid, sustainable growth of 8.0-9.0% in 2013. The biggest industrialisation in world history is still in its infancy, presenting wonderful opportunities for Australia in coming years.
- Europe: Leaders have embraced a "do what it takes" approach. There are numerous risks but we are hopeful of continued slow progress on debt, banking and budget deficit issues in 2013.

# Outlook for 2013

- <u>Australia:</u> We expect economic growth in a 2.5-3.5% range in 2013, suggesting "normal" economic growth. Inflation should hold between 2.0-3.0%. Unemployment should hold between 4.75-5.75%, trending lower over the second half of the year.
- <u>Australian dollar:</u> Over the past 20yrs, the Aussie dollar has, on average, tracked in a US14.5 cent range. The smallest range was US6.3 cents. Over 2013, a range of US100-112c could be assumed. In the first half of 2013 we can envisage a scenario where European issues recede; US economic recovery consolidates; and Chinese growth lifts. If the good news eventuates then the Aussie dollar could push to the high end of the range. Overall, businesses must work on the premise that the Aussie generally holds above parity in 2013.
- <u>Interest rates:</u> Confidence is a key issue. If global risks recede then consumers and businesses will become more confident to invest, employ and spend. But it will take a few months for the Reserve Bank to be confident enough that this is occurring. In the first half of the 2013 the RBA may want to 'top up' the

# Outlook for 2013

- stimulus – especially with inflation contained and borrowing weak. But if the global and domestic economies become more settled and growth rates lift, then attention will turn to lifting rates late in 2013. A likely range for cash rates in 2013 is 2.75-3.50 per cent.
- Sharemarket: Investors are becoming more confident and looking for higher returns outside cash. If the improvement in confidence continues with stabilisation of the global economy then shares and property will be favoured by investors. Possible range for the ASX 200 in 2013 is 4,300-5,300 points. At present we tip 4,750 points by mid year and 4,900 by end year. Total return on shares has averaged 9-13% over the past 30 years: we tip growth near 10% in 2013.
- Housing: Despite a recent trend to greater utilisation of existing property, population growth is firm near 1.5%, rental markets are generally tight and home building has been soft. We tip firmer home building and sales over 2013 with Australian home prices to lift around 3%.