AUSTRALIA: EXPECT FURTHER RATE CUTS AND A LOWER DOLLAR

The basic story in Australia right now is that the mining boom is now winding down. National income has taken a hit as the demand for our main exports – particularly iron ore and coal – have fallen. This been augmented by a collapse in energy prices. All of these things are weighing on the economy.

Australia's central bank has done its part to stimulate growth

The Reserves Bank of Australia (RBA) has been attuned to the issues of growth in Australia; that we need to get the non-mining part of the economy going again like housing, tourism and retailing. It's done its part by cutting interest rates, which has led to a pick-up in the housing sector and stronger flows into retailing. As such, we have not gone into recession, but the economy is still lagging (growing at a pace of around 2-2.5% which is well below its long-term potential). In response, the RBA has indicated that it has an easing bias and may consider cutting rates further in the months ahead.

DR SHANE OLIVER
Head of Strategy and Economics and Chief Economist

Expect a lower Australian dollar

We believe that the Australian dollar remains overvalued and whilst there may be some short-term bounces along the way, the dollar is likely to head towards $US0.70 and possibly lower in the period ahead.

> "We believe that the Australian dollar remains overvalued."

Final thoughts

With the mining boom winding down, it's understandable why the economy is going through a slower patch. Just bear in mind, it's not collapsing, but it still needs some stimulus. Ultimately, we believe that the Australian economy is likely to pick up as we go through into 2016.

INVESTING FOR RETIREMENT

JEFF ROGERS
Chief Investment Officer,
ipac Investment Management

In the past, the age pension was the primary source of money to ensure a secure retirement. Today, governments are encouraging people to save for their own retirement. This is because as a growing number of baby boomers reach retirement, the number of working people to support them is not keeping pace. So increasingly, Australians are being asked to invest on their own to create a source of income to supplement their support from social security. That's why, goal-setting and retirement planning have become so critical in recent years.

A closer look at retirement goals

Typically, a retiree will work with an adviser to scope, and prioritise their life goals. This process will inform how much financial resource to allocate to accounts supporting each life goal as well as the investment strategies to support the achievement of the goals. While the goals associated with retirement can be diverse, most goals belong to one of three broad categories or 'buckets'. These are essential needs (for food and housing), lifestyle wants (holidays and hobbies), and legacy aspirations (bequest for future generations).

> "Understand what success and failure looks like for the client."

Matching investment strategies to client goals

The key to knowing which investment products are most appropriate for clients in or approaching retirement is to understand what success and failure looks like for the client. That is, what does a client want at this particular point in life and how might that evolve over time? What constitutes a 'must have'; what is 'nice to have' and what is 'aspirational'? These are important questions whose answers

enable investment strategies to be better matched to a client's various goals. Advisers and clients who work together to clearly identify what truly constitutes success and failure are more likely to enjoy a successful long-term relationship.

To find out more about the tools and resources available, please see ampcapital.com.au/goals.

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CHINA SETS 7% GROWTH TARGET

CALLUM THOMAS
Investment Strategist,
Multi-Asset Group

China has set its growth target at around 7% for 2015. The target is lower than the 7.5% pace set last year, which was narrowly missed. The new target is in line with China's plan to guide the economy towards slower and more sustainable growth.

> **"China's plan (is) to guide the economy towards slower and more sustainable growth."**

In March, the annual National People's Congress (NPC) took place in Beijing and the much anticipated economic targets were announced by the Central Economic Work Conference (CEWC). There weren't any real surprises in the targets, but there are a few items worth noting:

- Fixed asset investment growth target of 15% seems somewhat ambitious given structural headwinds in the form of overcapacity and overbuilding; while the retail sales growth target of 13% may also be hard to hit.
- The inflation ceiling of 3% looks manageable, particularly given deep and persistent producer price deflation. In that respect, there is plenty of scope for monetary policy accommodation to support growth.
- It was encouraging to hear out of the NPC that the authorities would look to support stable housing demand. This is important because the property sector is presently in a cyclical and structural downturn, so if the authorities can stabilise the property market it will go some way towards addressing some of the downside risks.
- China needs to maintain a baseline of growth while undertaking the difficult and bold reforms that are necessary to ensure more sustainable growth and foster the progression and transformation of its economy.

Final thoughts

The data in China has been particularly weak so far this year; supporting the case for further stimulus in the form of monetary easing and government spending. The Chinese property market merits close watching due to its importance for the outlook in China and commodities.

WHAT WILL IT TAKE FOR BOND YIELDS TO MOVE HIGHER?

SIMON WARNER
Head of Global Fixed Income

The European Central Bank (ECB) and Bank of Japan (BoJ) are lowering cash rates or easing monetary policy at a time when the US Federal Reserve is gradually edging towards raising rates.

The outlook for 2015 will be determined by the extent to which easing monetary conditions bring about a coordinated period of stronger global growth.

- **US:** Towards the end of 2014, as the labour market gained strength, The Federal Open Market Committee (FOMC) ended its program of steadily purchasing US Government bond. It is now expected to raise interest rates, possibly towards the second half of the year.
- **Europe:** The ECB stepped up its easing efforts in 2014 with interest rate cuts, including the introduction of a negative deposit rate. More recently, it announced plans to make purchases of 60 billion euros per month until at least September 2016. It will be expecting the expansion of the monetary base, lower yields and greater liquidity support for asset prices to all contribute to stronger credit and GDP growth.

> **"Sluggish growth... has led to a period of extremely low interest rates globally."**

- **Japan:** The BoJ has committed to purchasing more short-term and long-term government bonds. It has also been supplying loan funds to stimulate commercial banks' lending to the private sector. Recently, the BoJ voted to continue implementing money market operations so that the monetary base (supply of money) will increase at an annual pace of ¥80 trillion. The decision, which was in line with market expectations, is aimed at meeting the BoJ's inflation target of 2.0%.

A pick-up in growth will likely see bond yields rise

Collapsing oil prices and sluggish growth are helping keep inflation low and stoking deflation fears. This has led to a period of extremely low interest rates globally. In the short-term, we expect government bond markets (and hence base yields) to remain somewhat supported due to central bank activity and the absence of a pick-up in inflation. This will see spreads for corporate bonds compress in this continued 'search for yield' environment. In the medium to longer-term, we continue to believe that a growth rebound in major developed economies will lead to a gradual move higher in bond yields, which means that prices are expected to fall.

Economic indicators

Gross domestic product (annual rate %)*	Latest	Current	Previous	1 year ago
World (IMF/OECD)	31/12/2013	2.90	3.10	3.10
Australia	31/12/2014	2.50	2.70	2.20
China	31/12/2014	7.30	7.30	7.60
European Union	31/12/2014	0.90	0.80	0.40
United States	31/12/2014	2.40	2.70	3.10
Inflation (annual rate %)*	**Latest**	**Current**	**Previous**	**1 year ago**
Australia	31/12/2014	1.70	2.30	2.70
China	31/01/2015	1.40	1.60	2.00
European Union	28/02/2015	-0.10	-0.20	0.50
United States	31/01/2015	0.00	1.70	1.10
Official cash rates (%)*	**Latest**	**Current**	**Previous**	**1 year ago**
Australia	28/02/2015	2.25	2.50	2.50
China	28/02/2015	3.18	3.53	2.80
European Union	28/02/2015	0.05	0.05	0.25
United States	28/02/2015	0.25	0.25	0.25
Bond yields (%)	**Latest**	**Current**	**Previous**	**1 year ago**
Australia 3Y	28/02/2015	1.70	2.13	2.99
Australia 10Y	28/02/2015	2.32	2.74	4.08
United States 2Y	28/02/2015	0.56	0.66	0.42
United States 10Y	28/02/2015	1.92	2.17	2.72

Exchange rates

Official exchange rate (%)**	Latest	Current	Previous	1 year ago
Australian Dollar / Chinese Renmimbi	31/03/2015	4.7362	5.0770	5.7628
Australian Dollar / Euro	31/03/2015	0.7113	0.6763	0.6724
Australian Dollar / Great Brish Pound	31/03/2015	0.5146	0.5248	0.5559
Australian Dollar / Japanese Yen	31/03/2015	91.6167	98.1161	95.4511
Australian Dollar / United States Dollar	31/03/2015	0.7640	0.8184	0.9268

Share market analysis

Sharemarkets (in local currency)	5yrs (%pa)	3yrs (%pa)	1yr (%)	3 months (%)	1 month (%)
Australia: S&P/ASX300 Accumulation	8.3%	15.3%	13.9%	10.3%	-0.1%
Germany: DAX Accumulation	14.2%	19.9%	25.2%	22.0%	5.0%
Global emerging markets: MSCI Accumulation (AUD)	5.6%	11.0%	21.9%	9.5%	1.0%
United Kingdom: FTSE 100 Accumulation	7.3%	9.4%	6.3%	4.2%	-2.0%
United States: S&P 500 Accumulation	14.5%	16.1%	12.7%	1.0%	-1.6%

* Data is most current available

** Rates are expressed as 1 Australian Dollar (IMF/OECD) purchasing power-parady