

First of all, globally, we see the economic union is actually now progressively getting stronger and the fears that existed about the breakdown in the banking system in Europe have now dissipated considerably. Other parts of the continent are doing very well, India reports GDPs now over the last few years of 8.4% and we've seen India actively buying assets within Australia – in particular the Link Energy Coal Seam assets with the biggest offer of \$500 million dollar buyout.

The Australian cash rate with the reserve bank has been left at 4.5% and the modelling suggests that the rate should stay at current levels within a quarter percent or so, depending on bank funding costs, pretty much for the next 6 to 12 months

However, in the second half of 2011 we do expect to see the interest rates on the rise and particularly in 2012 and 2013 we'd expect to see mortgage rates up around the 9 to 9.5% and commercial loans, including farm loans, up around the 11.5 to 12% mark. However at present they're stable.

The yield curve is very flat with the 90 day bank bill trading currently at 4.72% and the 10 year bond at 5.14%, which is just .42 cents, less than ½ a percent differential. That is the figure that should be applicable to fixing interest rates over a 5 year period. The standard variable on home loans is generally around the 6.8% to 6.9% meaning fixed 5 year rates shouldn't be much more than 7.2% to 7.3%.

Now while the banks have pulled their rates back quite a bit, they're not quite back to target yet – however **now and over the next coming weeks is probably a very opportune time to fix interest rates, ideally for 5 years.** However, if the differential between the premium for fixing it for 3 years and fixing it for 5 years is considerable, 3 years could work in as far as we would expect the 3 years to be the middle of 2013, at which stage we would expect to see rates at or approaching their peak. Shortly after that point we would expect to see the reserve bank pulling interest rates back as we go into an economic slow down, albeit a much lesser one than the one we've recently experienced.

So the probability is that fixing for 3 years means that at worst we might be on the higher rates for 3 to 6 months before the rates come down, which would then allow us to fix our interest rates again for a longer period of time. While 5 years is preferable, if the premium is too great then 3 years could be acceptable.

In terms of the yield curve, the three year bond is trading at 4.6% which is 12 basis points below the short end of the yield curve. So the yield curve in the short term, in the 3 year term, is actually very slightly negative, however it is moving towards a more positive yield curve. The overall yield curve, the differential between the short term interest rates (or the 90 day bank bills) and the 10 year bond, again as we mentioned, is only less than ½ a percent (.42c) so the yield curve now is very flat and that is a condition that is conducive to fixing interest rates with a low premium.



The yield curve has moved flatter from an excessively high or positive yield curve. We really do not expect it to decrease too much further, perhaps another 5 basis points at most. But from that point onwards we would expect to see the 10 year bond increasing in value which will send the yield curve positive which will increase the premiums for fixing interest rates, but it will also signal the next period of economic growth.

The consumer confidence is actually quite high, but it is decreasing. In fact, it's close to levels where historically it reverses and loses 30 or 40% of its gain. The data from Westpac Institute in relation to consumer confidence has been proven to be very accurate and a very useful indicator in the past. The business confidence on the other hand from the National Australia Bank series shows that business confidence is quite low and still declining somewhat. So the business confidence is suggesting that unemployment is going to be a little bit soft in the coming 6 to 9 months or so. And we do anticipate the unemployment cycle hasn't quite run its course yet, but we do expect unemployment to reach its base in around about 6 to 9 months time and from that point onwards we would expect to see economic improvements now taking up some of the slack in unemployment.

The US Dollar has moved down, pushing the AU Dollar up, but the US Dollar has pretty much completed its downturn and all the analysis on the AU Dollar – currently trading at 91.8 – is that it will come down quite significantly in the coming weeks. It really can not stay up where it is now and the best technical indications and the fundamental indications are for a weakening of the AU Dollar.

We also see the All Ordinaries Index, currently just below the 4600 mark, having the ability to go to 4626, but from there we see it coming back to at least 4120 and a probability of it to coming back to 3820 – that's going to open up a really magnificent window again to add additional shares to portfolios with more of the very high yields that are available. From that point onwards we would expect to see the All Ordinaries progressively work its way through to the end of 2013 - early 2014 – to something better than 8000 points, in other words, something pretty close to 100% gain.

Overall the Economic conditions are improving although there's still a lot of apprehension following the declines following 2007. And consequently even small amounts of bad news tend to have a rather frightening effect on people. But overall the Economic Cycles are beginning their wind up in exactly the same way they have for over the last 200 years or so and the predictability of what we'll achieve over the next 8 to 10 years is more economic growth. Fears are quite unnecessary in relation to the economy – we'll have a few ups and downs. We've been through the down side, we're moving into the up side – we'll still have a few retracements back, but we've made our lows both from the point of view of the share market and from the point of view of economies generally. The growth might be a little slower than we'd like, but it is going to be a very positive economic cycle.

Thank you,.