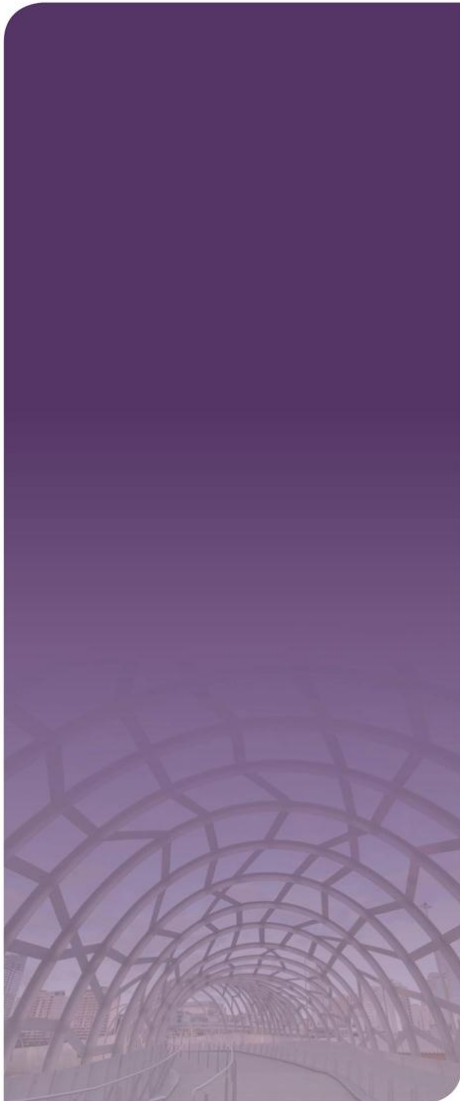


What Was and What Could Be

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March 2014



Forecasting caveat

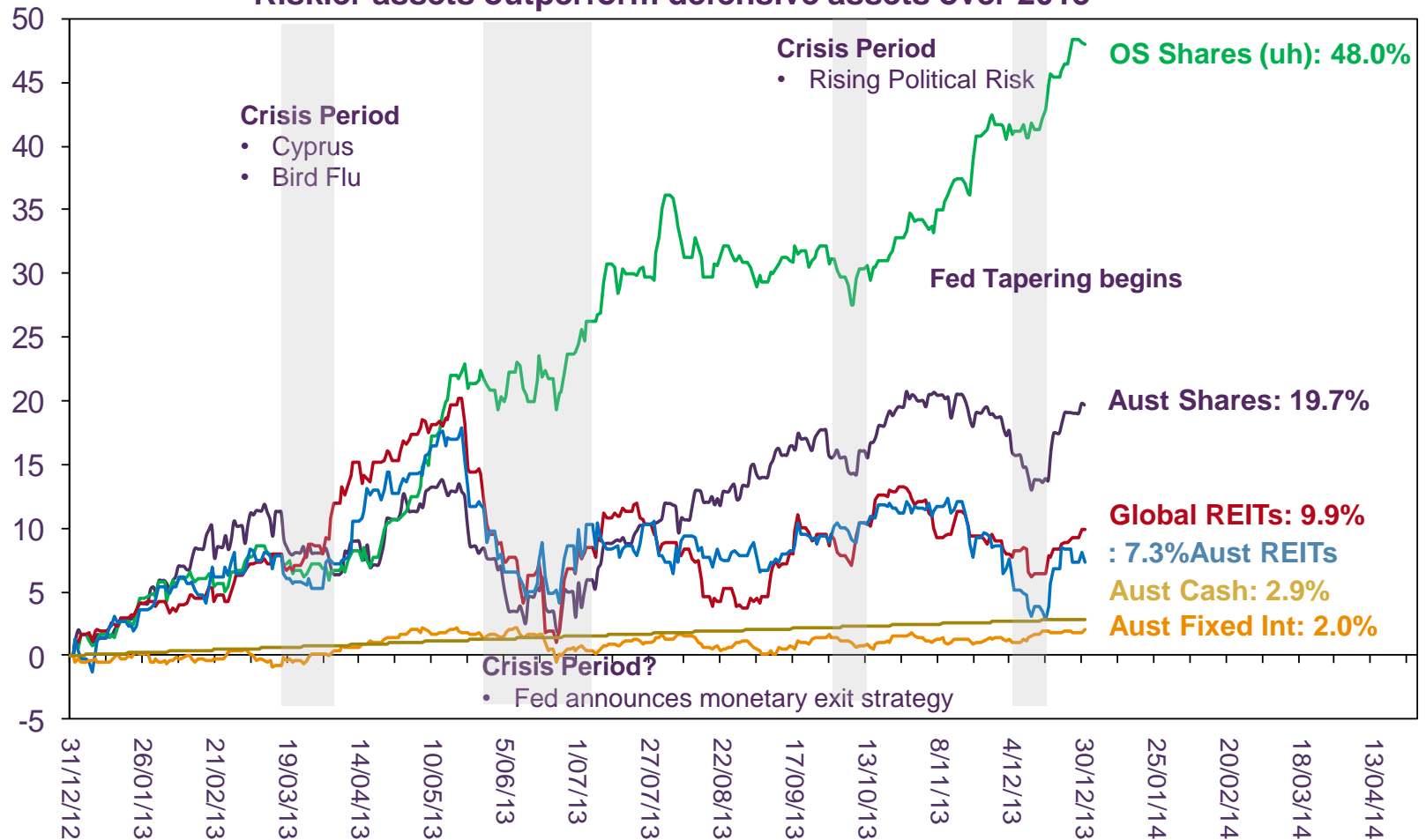


Agenda

- The year that was
- Economic outlook
 - Offshore
 - Australia
- Asset class outlook

The year that was

Riskier assets outperform defensive assets over 2013

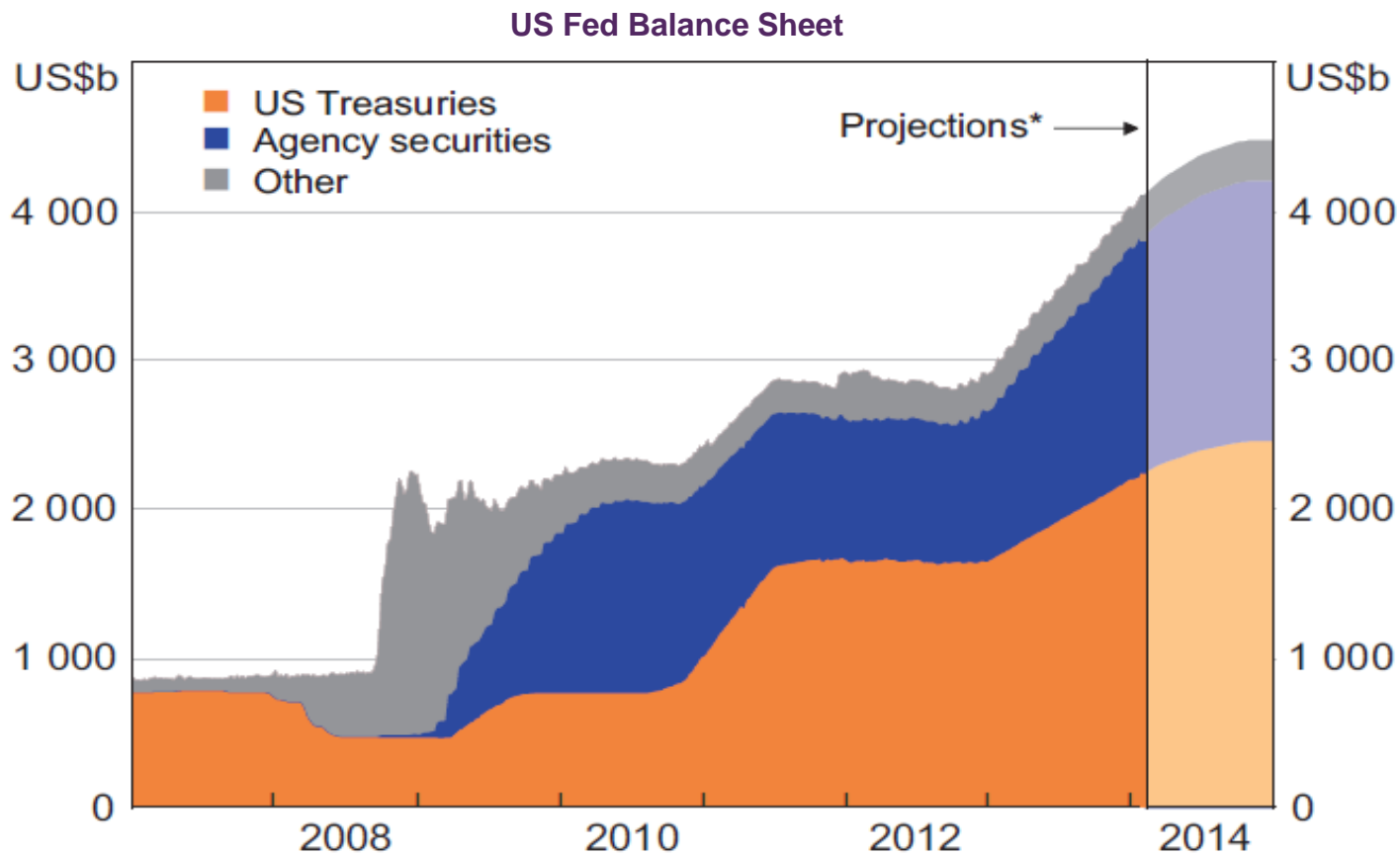


Source: Bloomberg. Daily cumulative returns to 31 Dec 2013. Aust shares = S&P/ASX 300 Accum Index; OS shares = MSCI World (ex Aust) Accum Index – unhedged; Global REITs = FTSE EPRA/NAREIT Global Real Estate Total Return Index (Hedged to \$A); Aust REITs = S&P/ASX 300 Property Accum Index; Aust Fixed Interest = UBS Composite Bond Index (All Maturities); Aust Cash = UBS Bank Bill Index

Global outlook

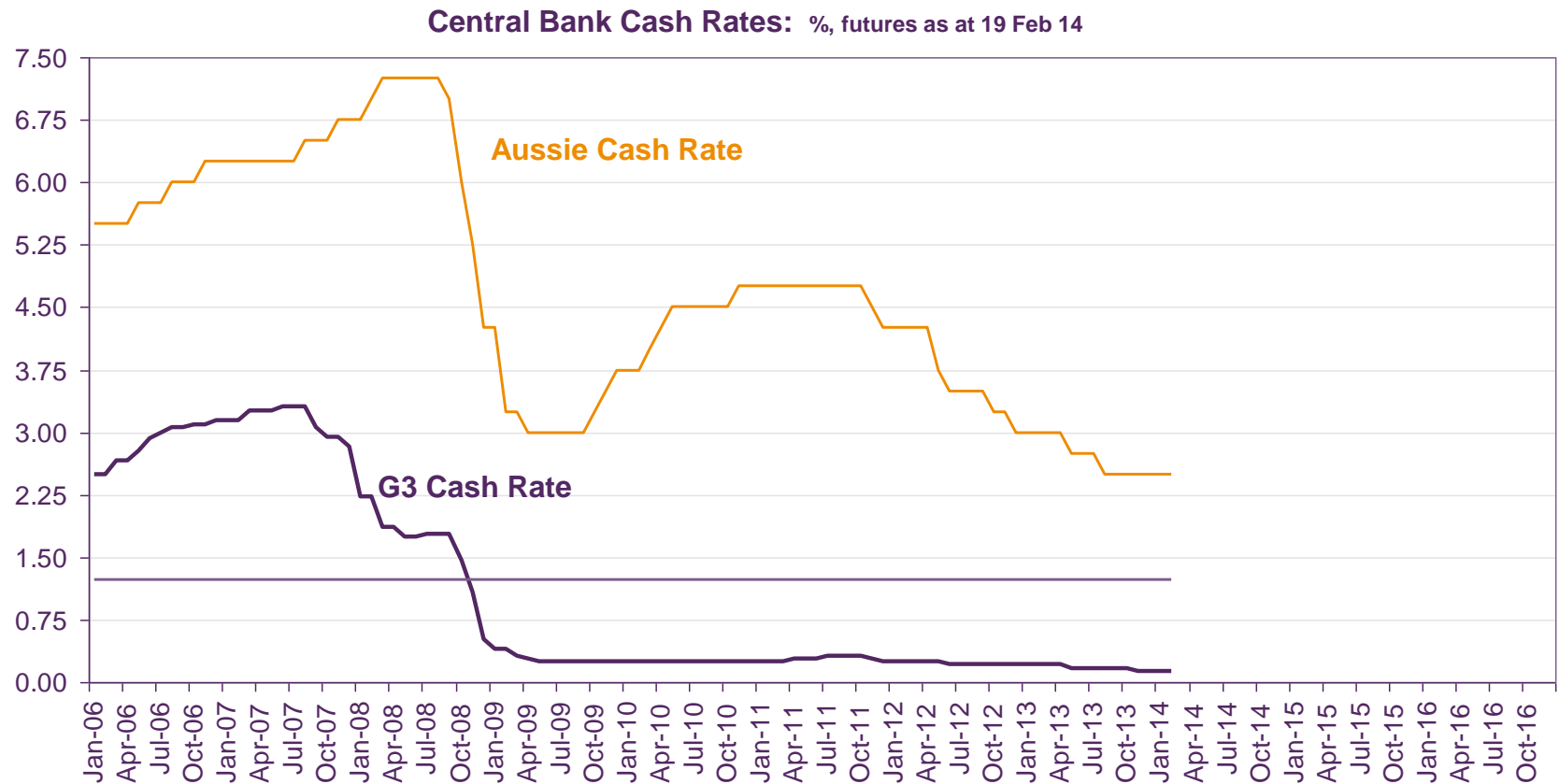


Unconventional policy support aided healing

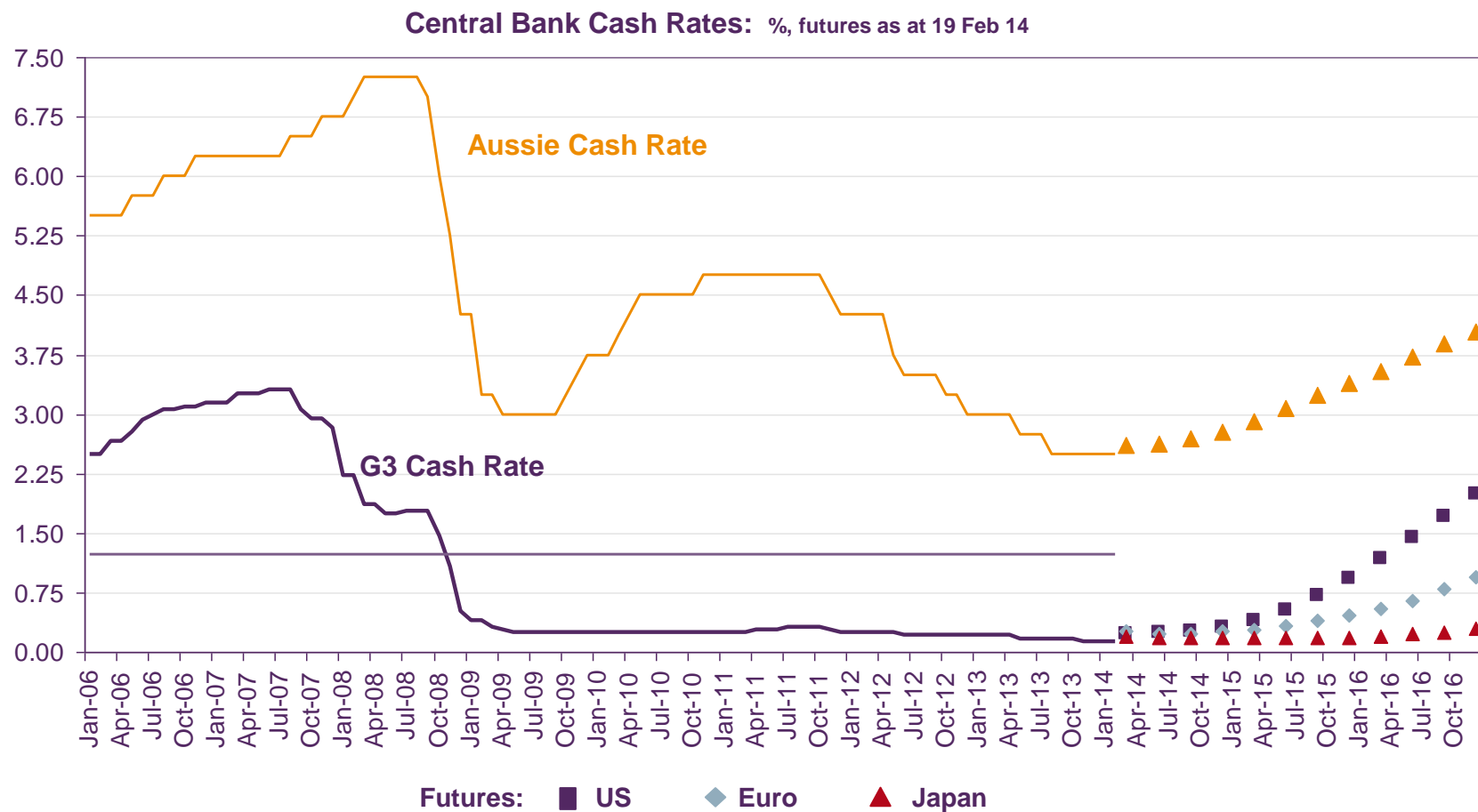


- **Source:** Perennial, Bloomberg, RBA Feb 14 MPS. Projections assume purchases decline by US\$10 billion per meeting, evenly split between Treasuries and agency MBS, and finish Oct 2014

Central banks: conventional support

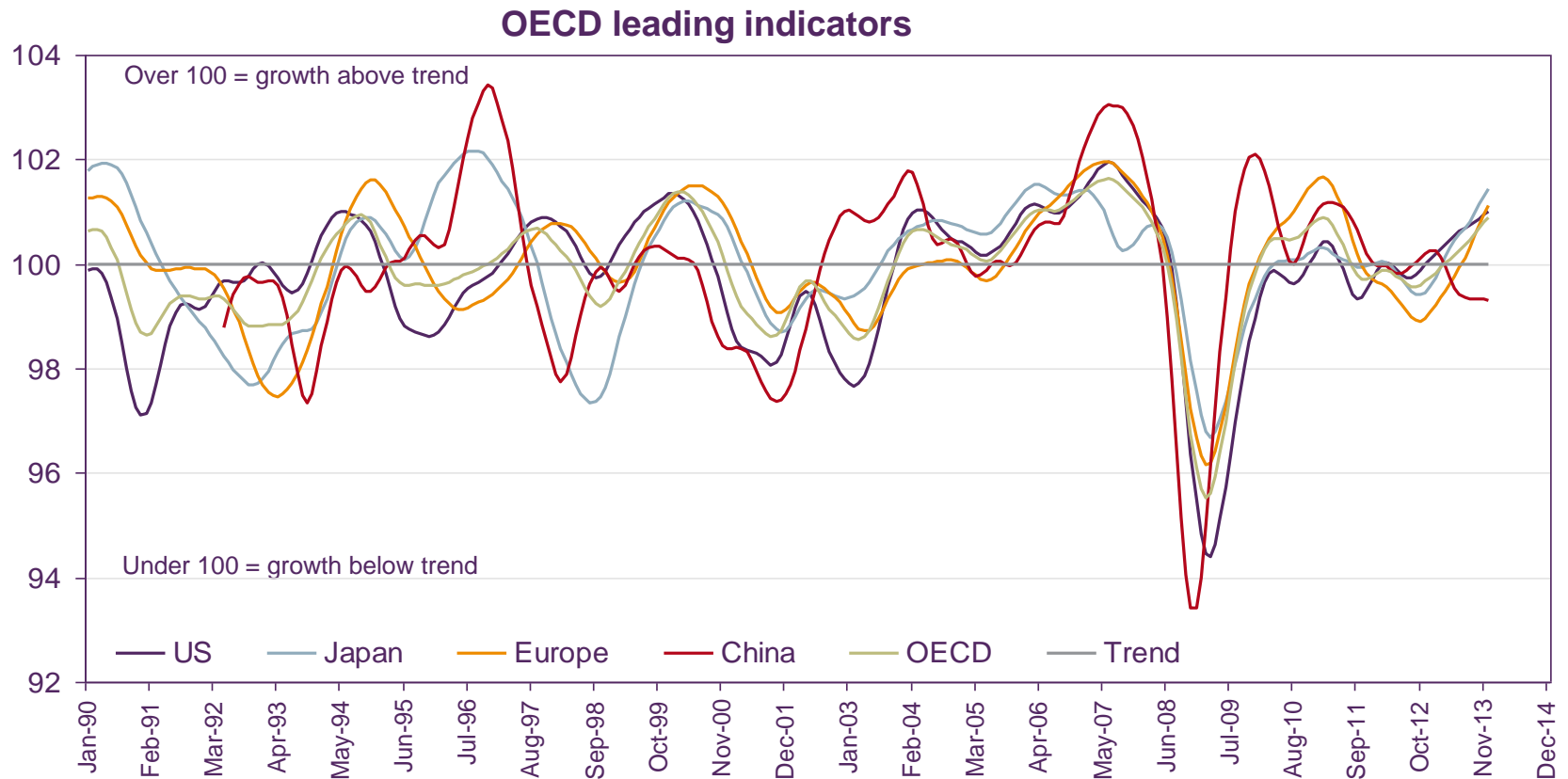


Central banks: but nothing lasts forever



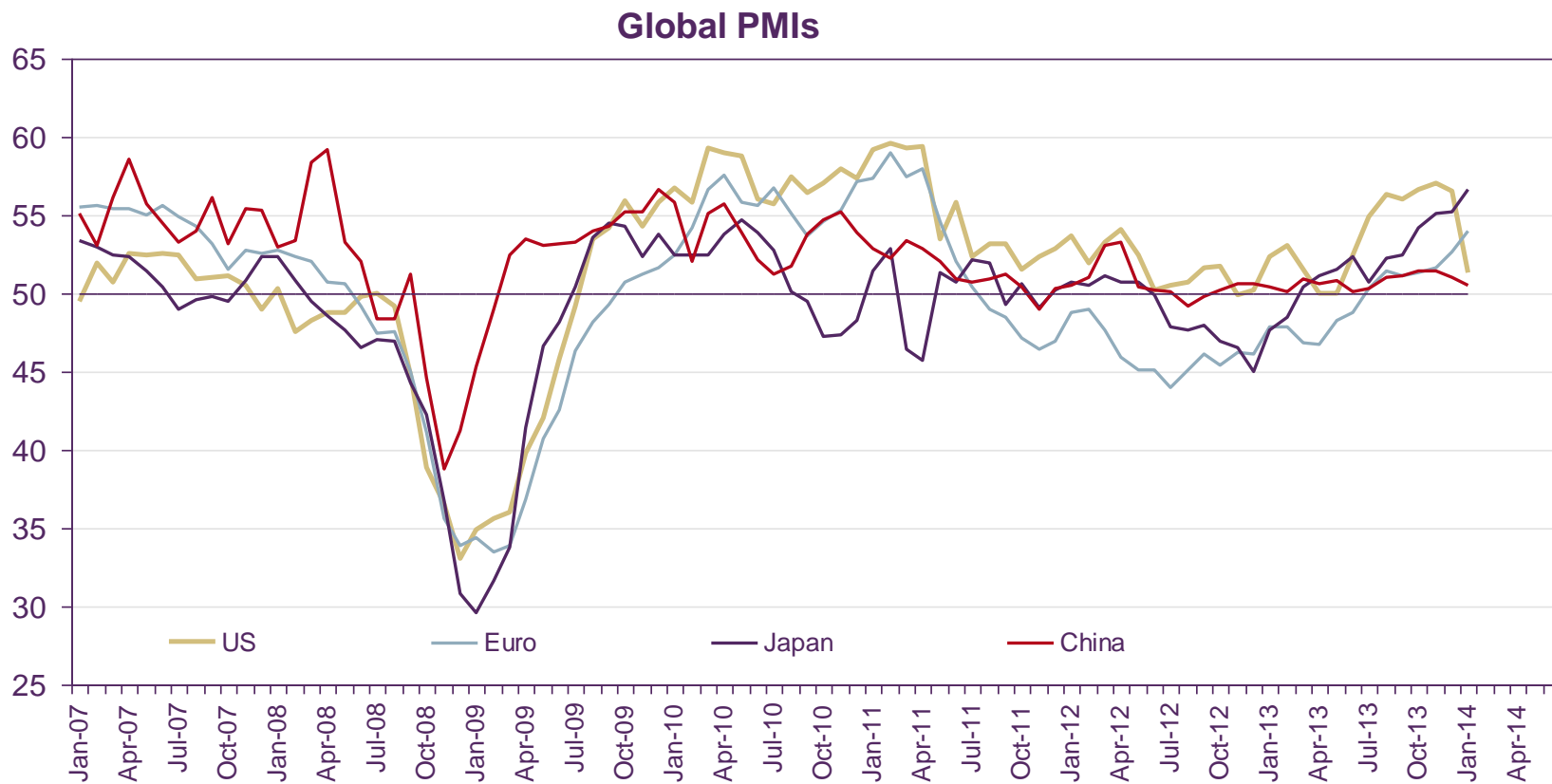
• Source: Bloomberg, Perennial

What do leading indicators suggest?



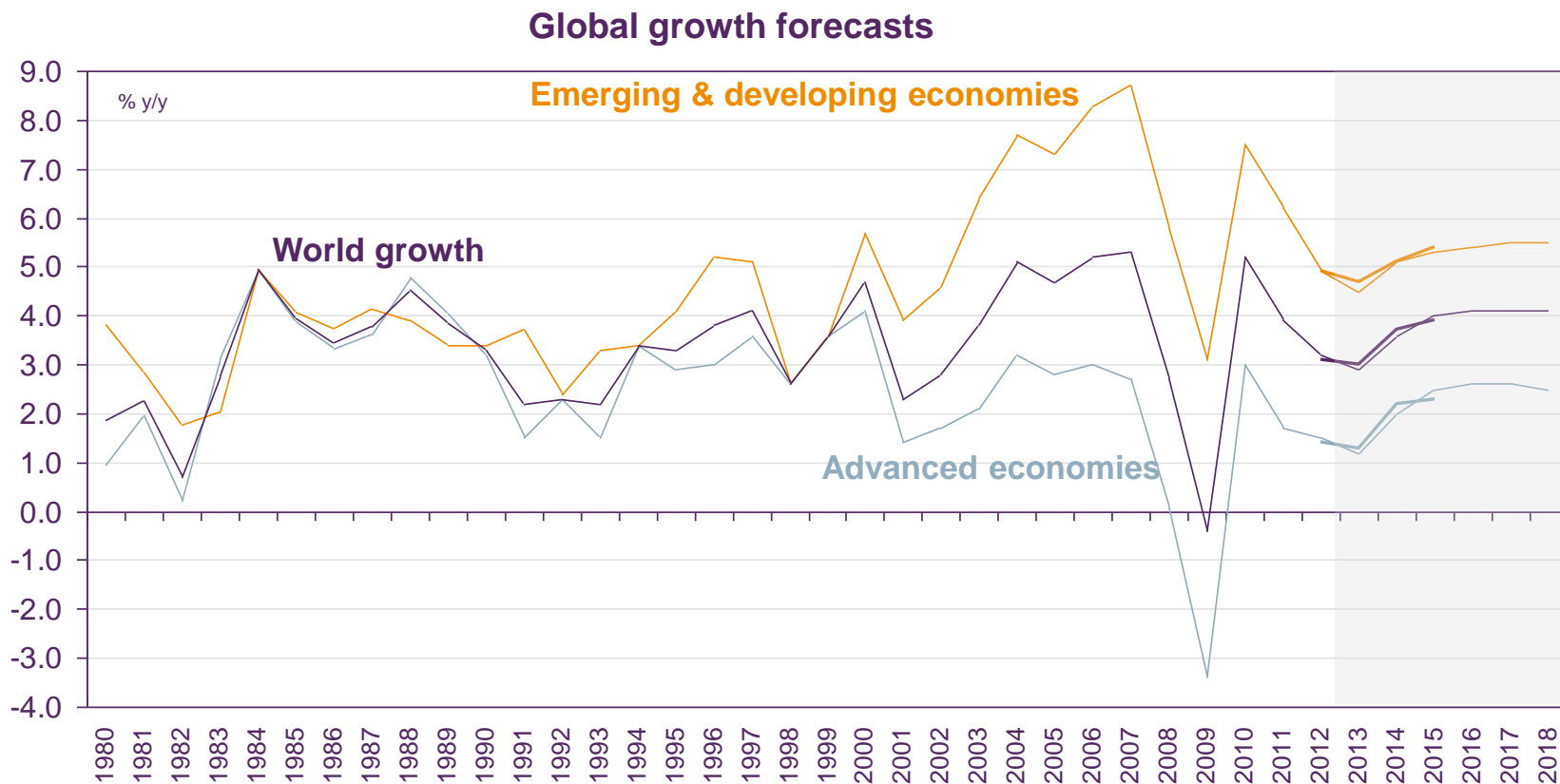
- Pro-cyclical policy settings are being reflected in an ongoing improvement in leading indicators.

Pity about the weather!



- Weather and lunar new year effects are creating near term noise in the data.

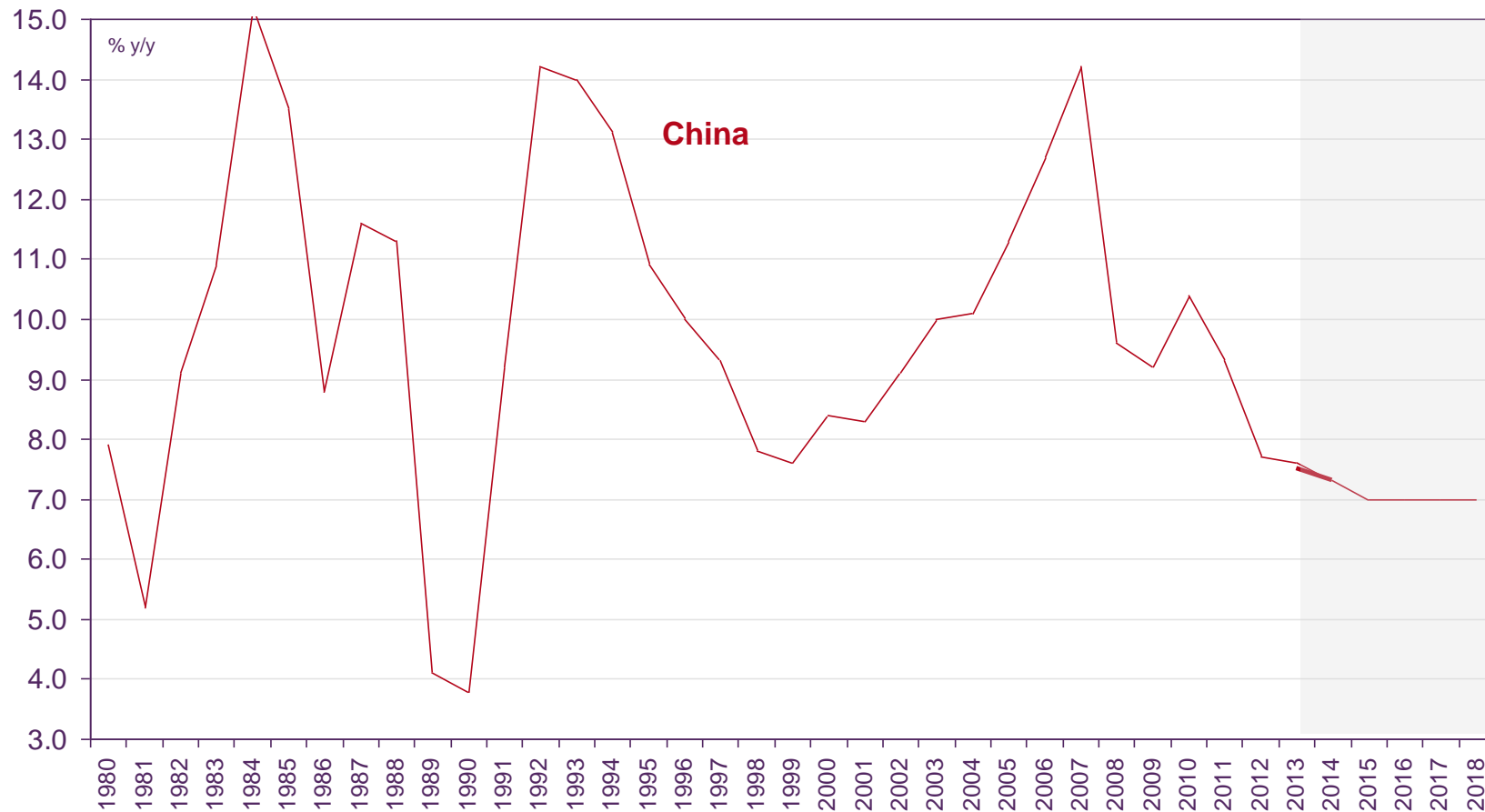
IMF: Modest recovery, shifting sources of growth



- The IMF profile for world growth remains for a lift once the austerity peak passes this year.
- Advanced economies set to help enhance the recovery over 2014.

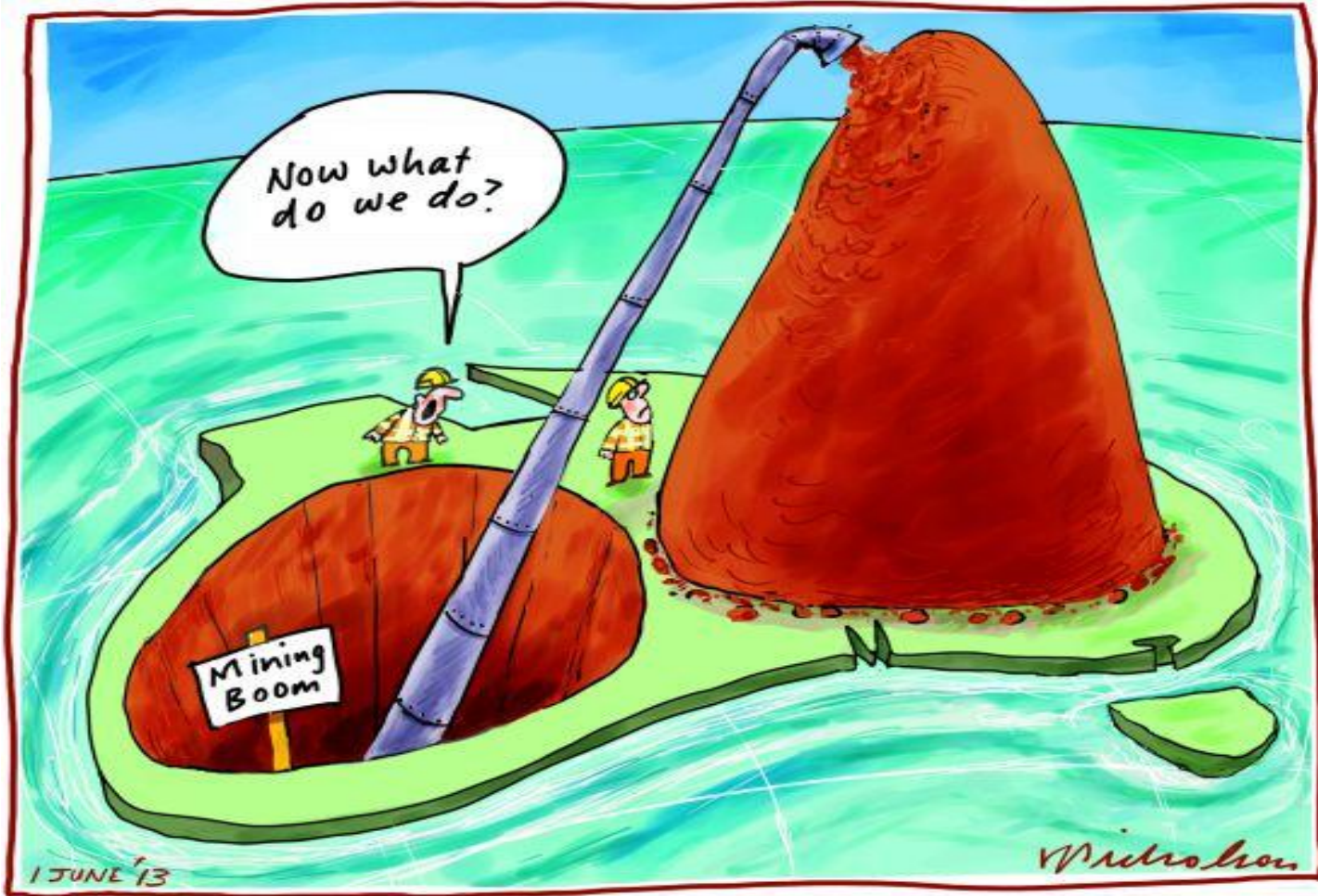
Lower but more balanced growth

Global growth forecasts: China

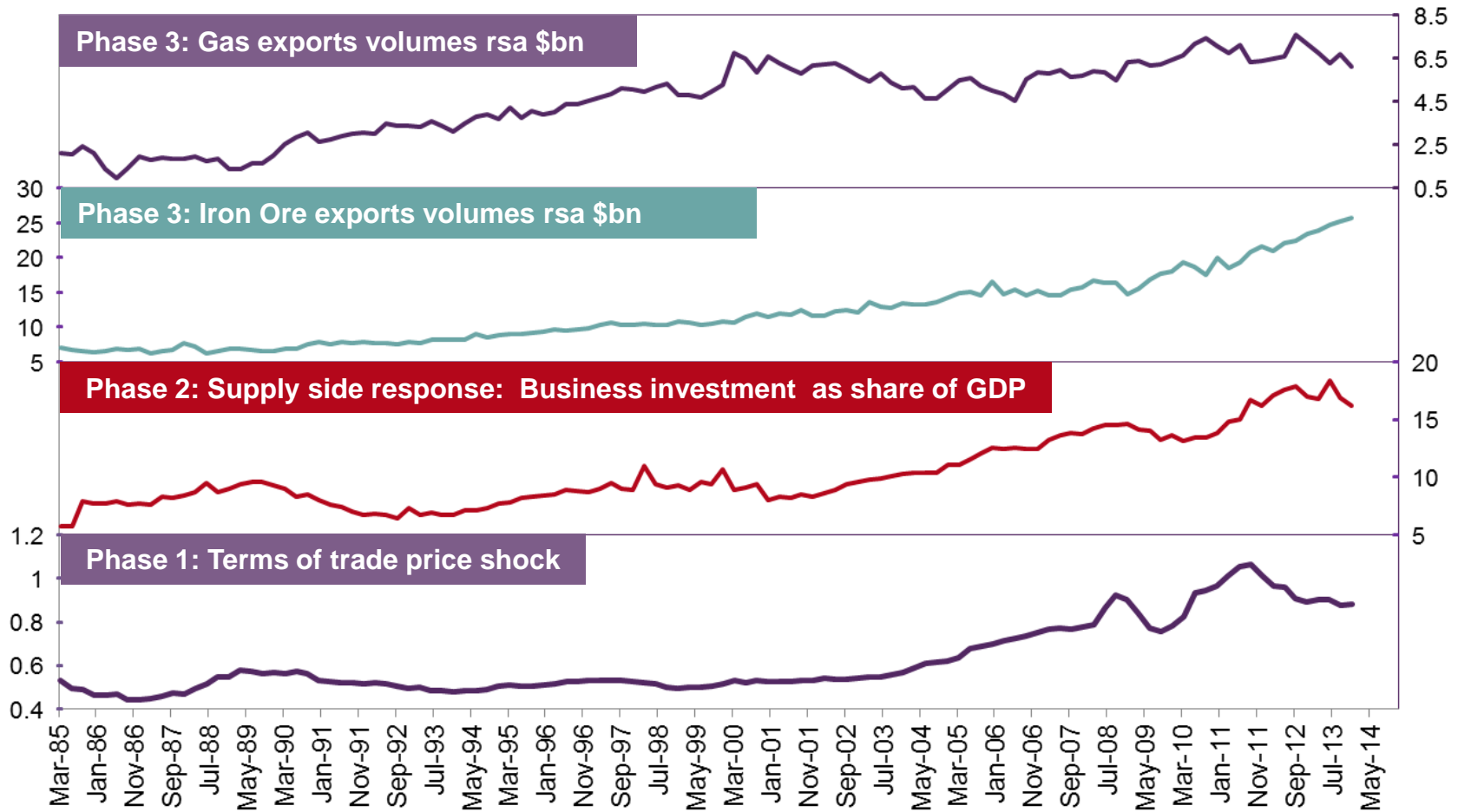


- Authorities keen to see growth in the 7 to 8% range.

Australian outlook

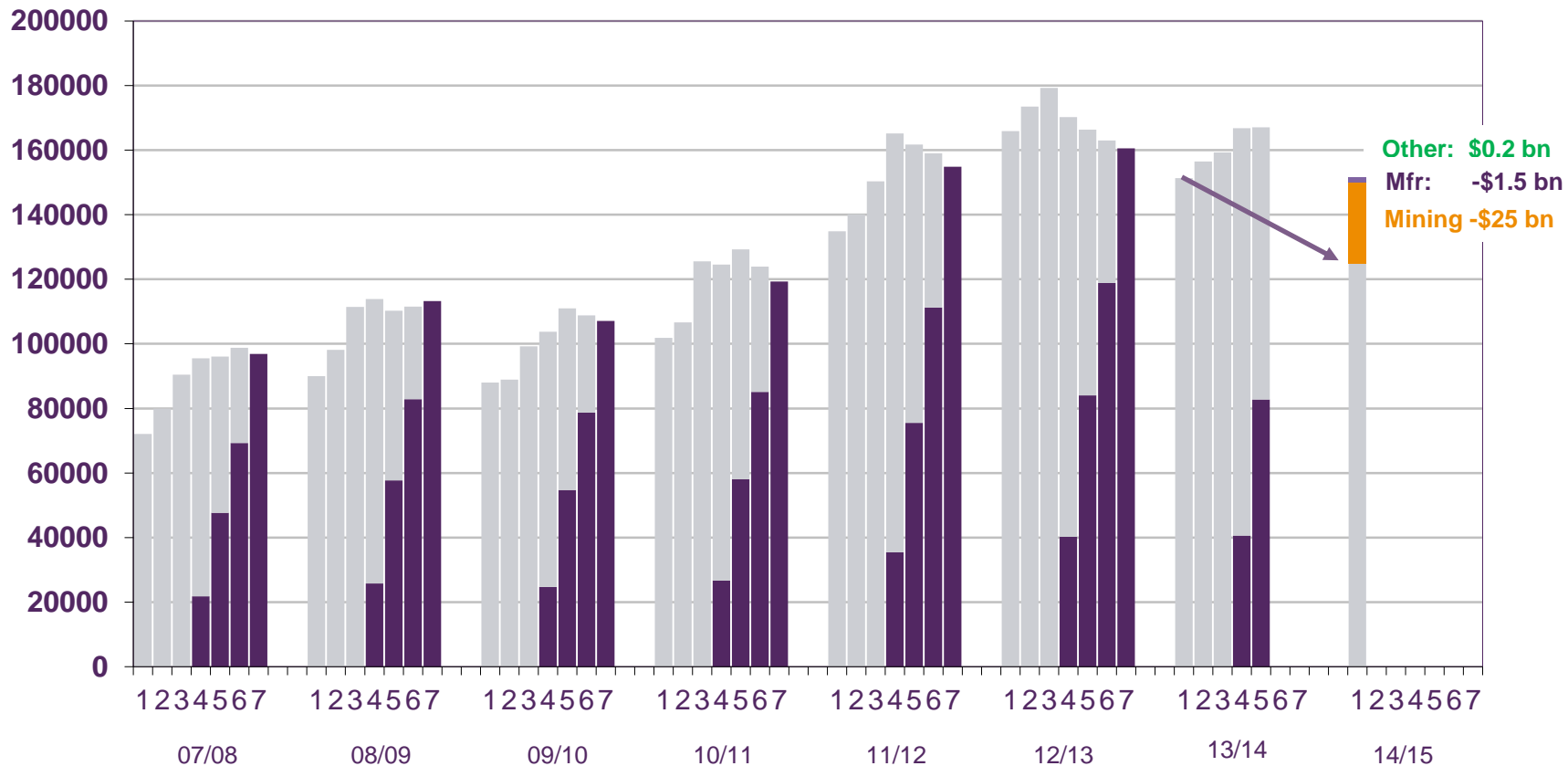


Phases of the mining boom



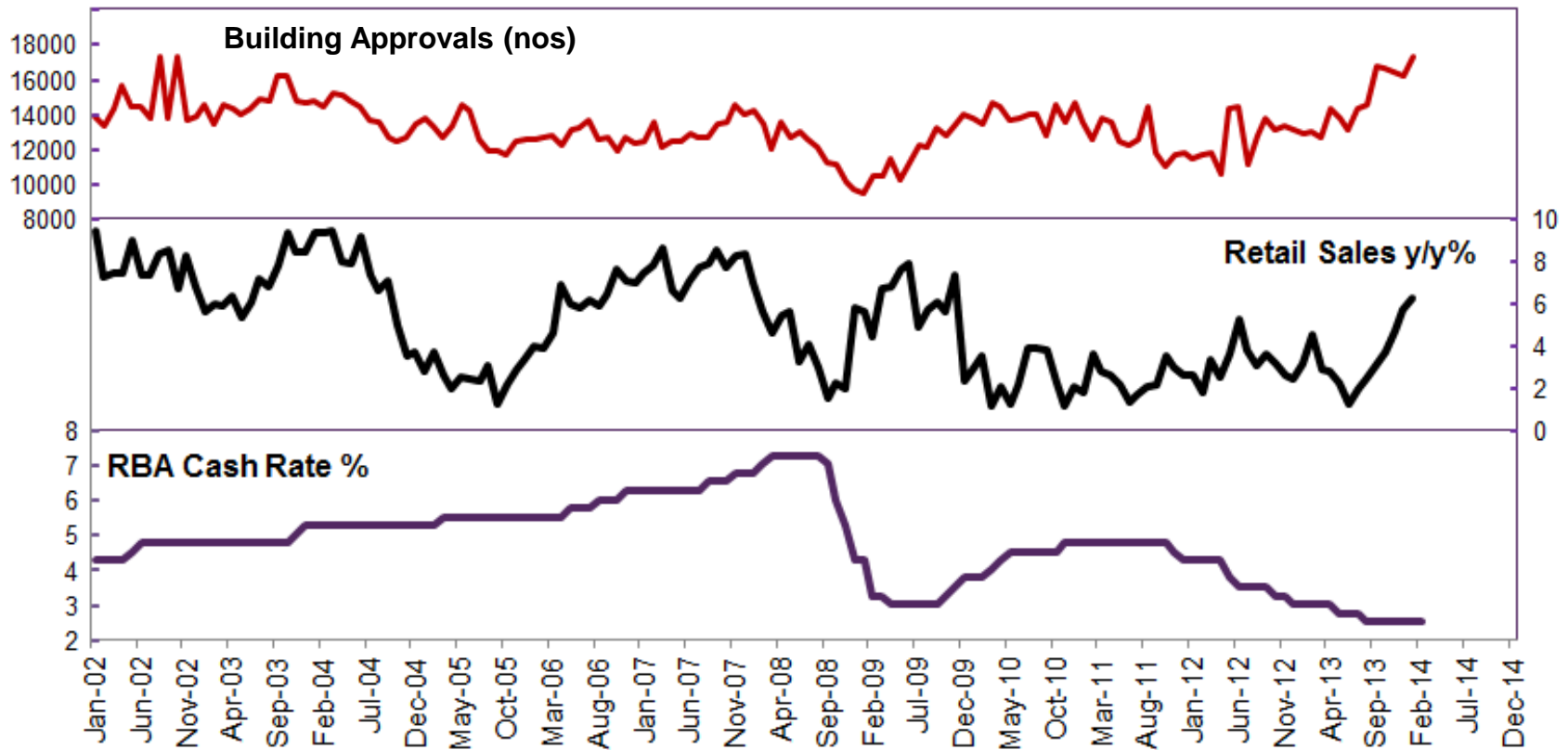
- Gas exports are set to lift from under 1% of GDP to around 2.5% to 3% of GDP by 2016!

The opening gap



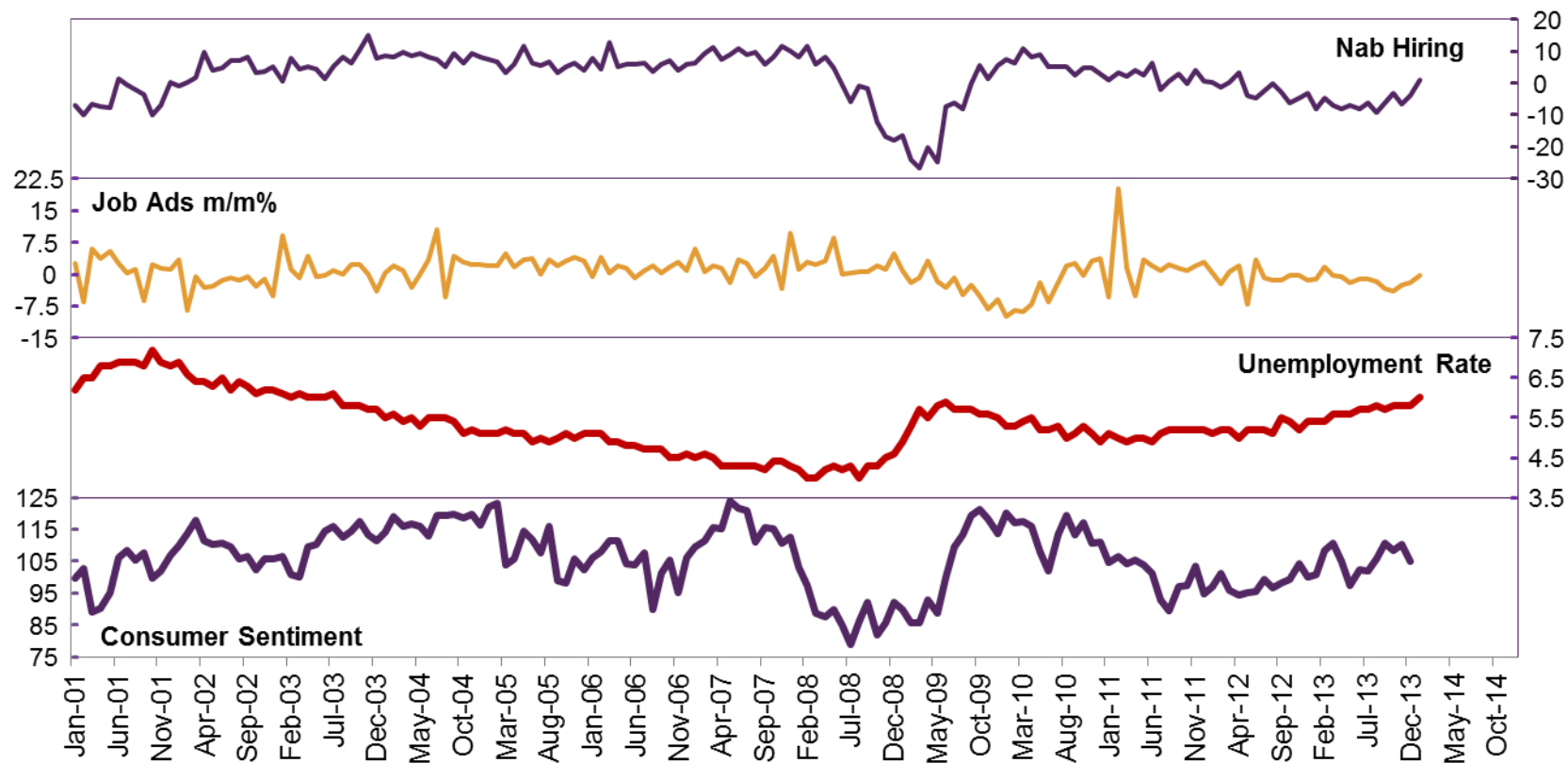
- The first look at 2014/15 suggests a fall of around \$26.4bn from the same estimate a year earlier.

The mining gap needs to be filled

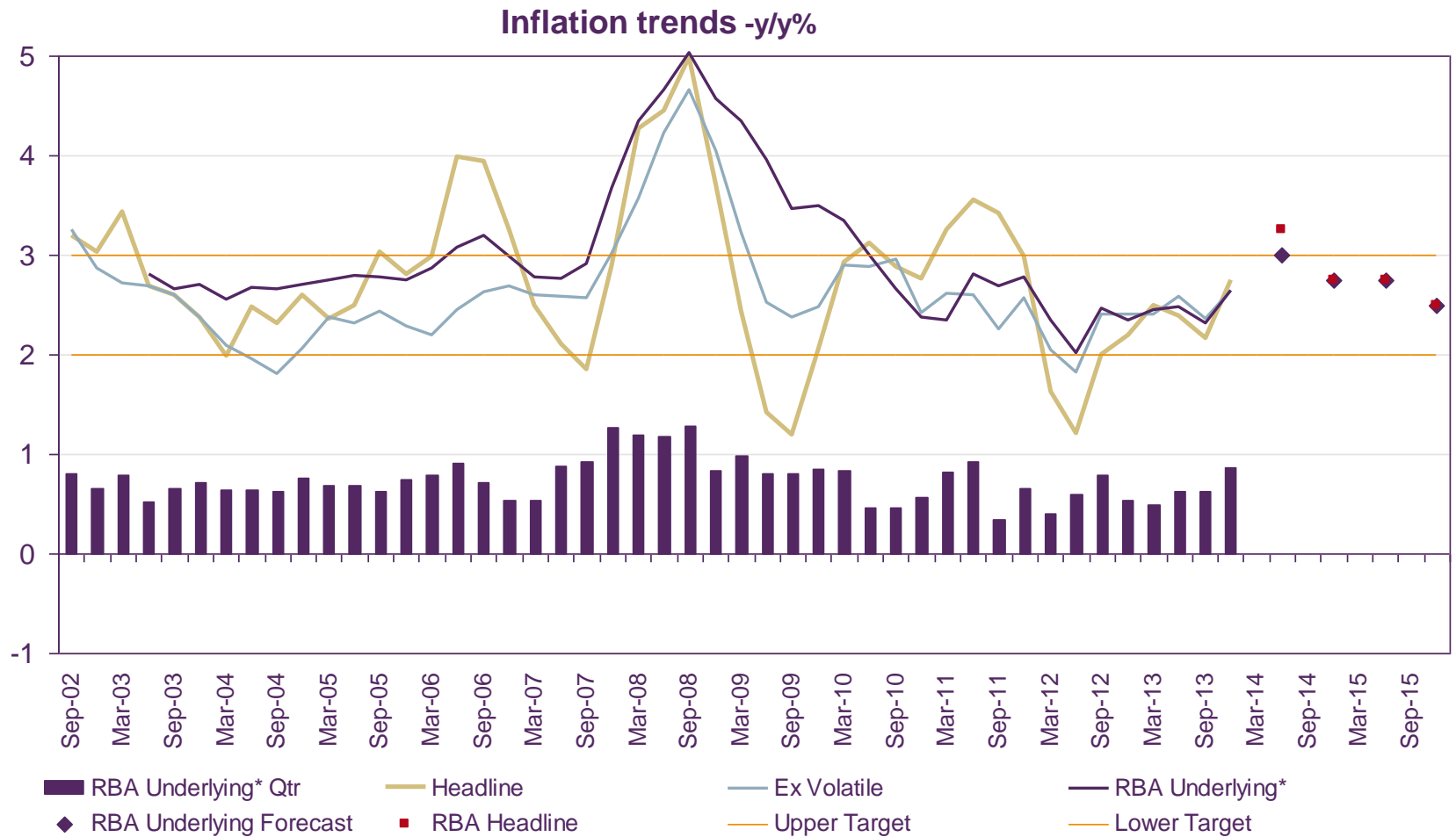


- There seems to be a timely lift in the interest rate sectors of the economy.

But the labour market remains a concern



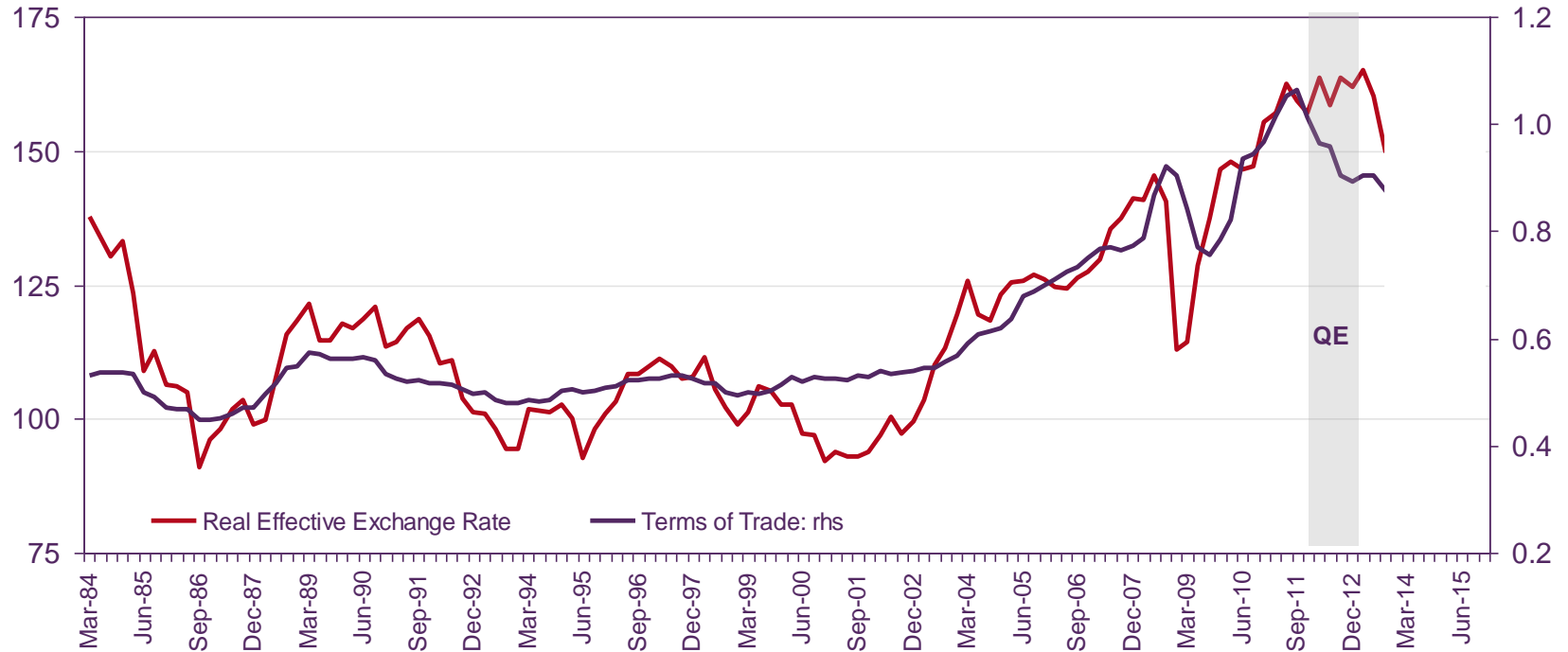
Puzzling price pressures



• Source: *RBA Underlying = Av statistical measures, ABS, Perennial, RBA Feb 14 MPS

Exchange rate finally adjusting

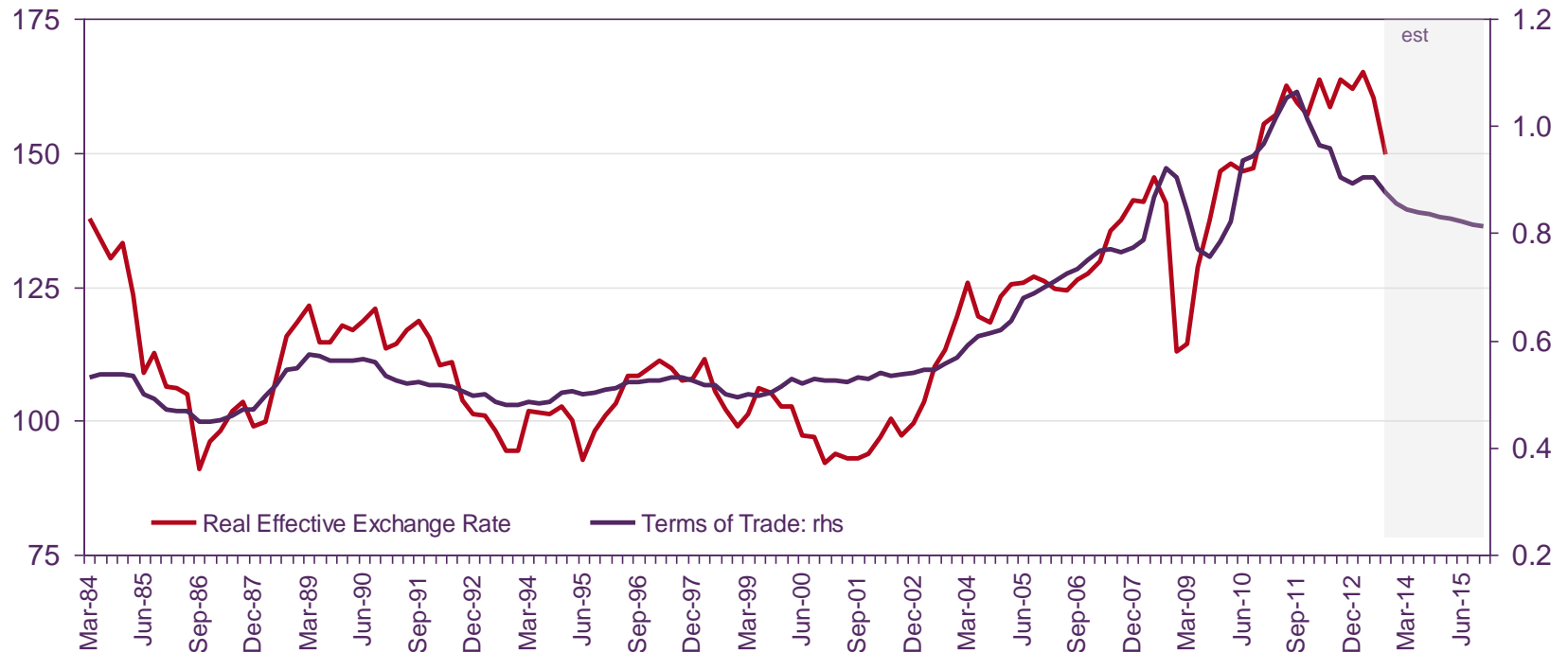
Terms of trade & the real effective exchange rate



- A temporary QE equilibrium for Australia?
 - Higher exchange rate than normal
 - Lower term structure than normal

Exchange rate finally adjusting

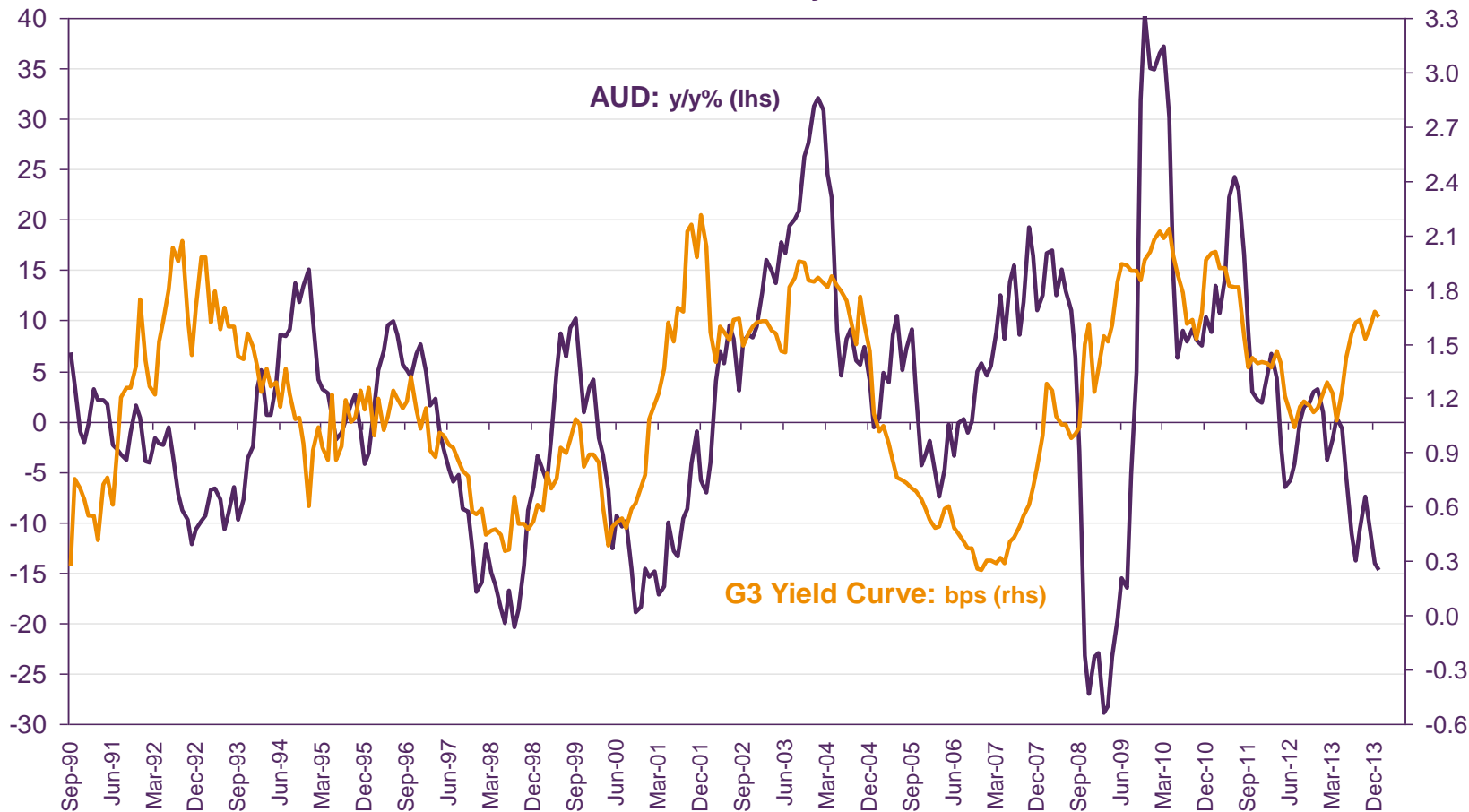
Terms of trade & the real effective exchange rate



- Exchange rate impact on the Australian economy:
 - 10% depreciation boosts **GDP** growth by 0.5% to 1% over 2 years.
 - 10% depreciation boosts **inflation** by 0.25% to 0.5% over each of the following 2 years.

A cyclical twist?

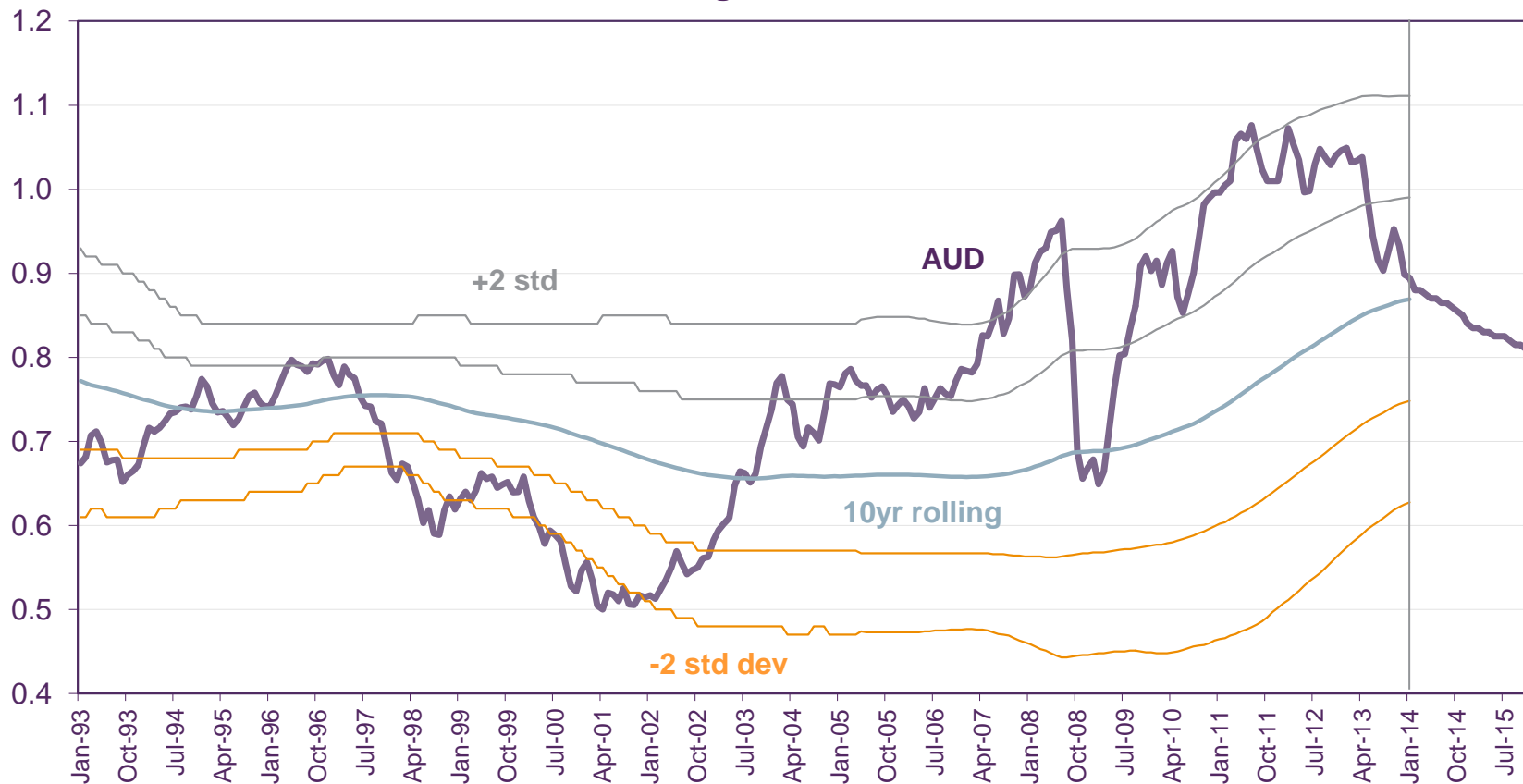
Aussie dollar & G-3 yields curve



• Source: Bloomberg, Perennial, monthly end Jan 2014

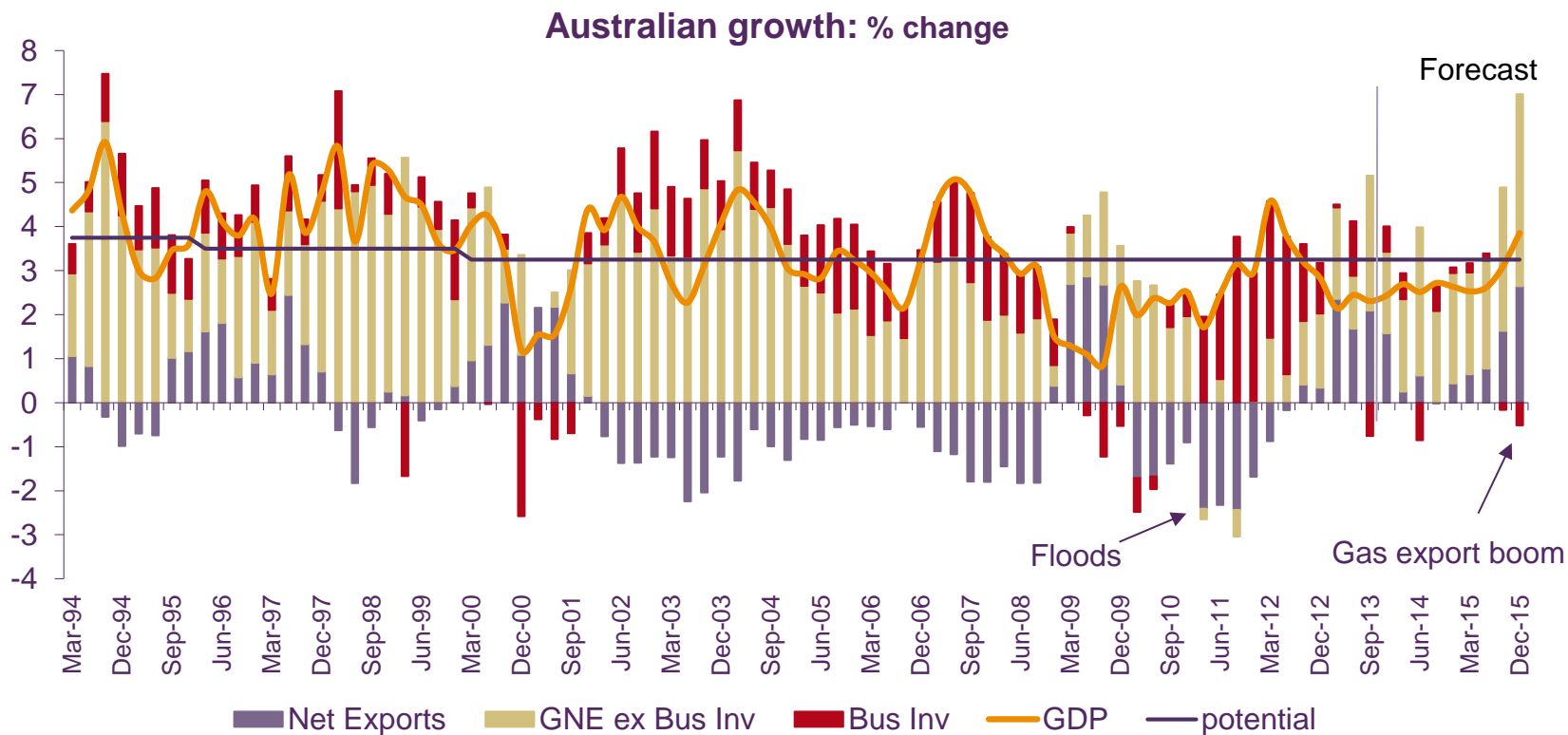
Structural decline to dominate cyclical factors

Exchange rate trends



- End 2014 target is 0.84 and for 0.80 for end 2015.

Shifting sources of growth



GDP Forecast Round Up

	2012/13	2013/14	2014/15	2015/16
• Treasury (yr av basis %)	2.60	2.50	2.5	
• RBA (yr av basis %)	2.60	2.50	2.25 to 3.25	3.0 to 4.0
• Perennial (yr av basis%)	2.60	2.50	2.5 to 3.0	3.0 to 4.0

Asset Class Outlook 2014

	2013	2014	
Cash	2.8	2.5 - 2.75	<ul style="list-style-type: none"> RBA on hold for 2014 Modest tightening cycle starts in 2015
Aust Fixed Interest	2.0	3 - 5	<ul style="list-style-type: none"> Fairly valued TAA bias to move underweight on rallies
Aust Reits	7.3	8 -10	<ul style="list-style-type: none"> Fundamentals in tact
Global Reits uh	20.3	10 -12	<ul style="list-style-type: none"> Global growth to drive occupancy and rents Falling Australian currency a positive
Aust Equities	19.7	9 -11	<ul style="list-style-type: none"> Fully valued TAA bias to move overweight on pullbacks
Global Equities uh	48.0	16 -18	<ul style="list-style-type: none"> Global recovery to drive earnings growth Falling Australian currency a positive

Source: Perennial. Aust shares = S&P/ASX 300 Accum Index; OS shares = MSCI World (ex Aust) Accum Index – unhedged; Global REITs = FTSE EPRA/NAREIT Global Real Estate Total Return Index unhedged; Aust REITs = S&P/ASX 300 Property Accum Index; Aust Fixed Interest = UBS Composite Bond Index (All Maturities); Aust Cash = UBS Bank Bill Index

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