

Australia: Global Commodity Play



The Australian benchmark index climbed 10% in the three months ended June 30, the first increase in seven quarters, on optimism of a recovery. On the economic front, retail sales increased 1% in May, twice as much as economists estimated, buoyed by spending at department stores and restaurants. Consumer spending rose 0.6% in the first quarter, accounting for three-quarters of the Australian economy's growth in the period. Retailers David Jones Ltd. and JB Hi-Fi Ltd. have both raised their profit forecasts in recent weeks because of a pickup in sales, according to Bloomberg. The Australian government has distributed A\$12 billion in cash handouts to households this year. In addition, the Treasurer allocated A\$22 billion in his May budget to upgrade roads, railways, ports and hospitals over four years. With stimulus measures, Australia was one of few major economies including China and India to grow in the

first quarter as government cash handouts and record interest-rate cuts stoked consumer spending. Comparatively speaking, GDP expanded 0.4% from the previous three months, in contrast to a 3.8% decline in Japan and a 1.4 percent contraction in the US. On the other hand, the services industry expanded for the first time in 15 months in June, according to an index released last week from Commonwealth Bank of Australia and the Australian Industry Group. Nevertheless, Australia's economy still faced challenge after reports showed exports dropped to a 14-month low, bank lending fell and home-building approvals declined by the most since 2002. A July 1 report that showed approvals to build or renovate houses and apartments fell 12.5% in May from April, the biggest drop since November 2002. The decline was led by

apartments, which tumbled 43.6%. Lending by financial institutions also slipped 0.1% in May, led by a 0.7% decline in borrowing by companies. Sales of newly built homes slumped 5.7% from April, the first drop this year, according to the Housing Industry Association reported on June 30. As a result, all 20 economists surveyed by Bloomberg News prior to this week's economic reports forecast Stevens would leave the overnight cash rate target unchanged at 3% on July 7. The central bank reduced the benchmark by 4.25 percentage points between September and April to a 49-year low. Consequently, low borrowing cost bodes well for economic growth. In addition, mining businesses in Australia are certainly taking advantage of the global resources purchases amid global infrastructural boom. **E**

Microscope

Based on the latest statistics, Australia's per-capita GDP is slightly higher than that of the UK, Germany, and France in terms of purchasing power parity. The country was ranked fourth in the United Nations 2008 Human Development Index and sixth in The Economist worldwide quality-of-life index 2005. Australia has emphasized on exporting commodities rather than manufactures since the start of the century. In the past decade, one of the most significant sectoral trends experienced by the economy has been the growth (in relative terms) of the mining sector (including petroleum). In terms of contribution to GDP, this sector grew from around 4.5% in 1993-94, to almost 8% in 2006-07. Growth in the services sector has also grown considerably, with property and business services in particular growing from 10% to 14.5% of GDP over the same period, making it the largest single component of GDP. Current areas of concern are focused on the large current account deficit. The deficit for the 2007-2008 financial year was up 4% to \$19.49 billion. Therefore, interest rate will eventually rise again. **E**

MARKET BRIEFING

YTD % (local curr)

US DJ	8,280 (-5.6%)
Nasdaq	1,796 (13.9%)
Euro Stoxx 50	2,376 (-3.1%)
HSI	18,203 (26.5%)
Japan NK225	9,816 (10.8%)
China Shanghai Composite	3,088 (69.6%)
Singapore	2,299 (30.6%)
India BSE30	14,913 (54.6%)
Brazil BOVESPA	50,934 (35.6%)
Aus All Ord	3,826 (4.6%)
US-10yr Bond	Yield 3.50%

As at 03/07/09

Insight: "Insurance Planning"

Take it simple, insurance is the cover for the risks that we run during our lives. It enables us to live our lives to the fullest, without worrying about the financial impact of events that could hamper it. In other words, insurance protects us from the contingencies that could affect us. In fact, insurance planning is concerned with ensuring adequate coverage against insurable risks, like the possible replacement of the incomes that we contribute to the running of the household when there is premature death, the risks of medical contingencies as these will deplete our wealth considerably and risks to assets or property. On the other hand,

there may be myth about that only the breadwinner in the family needs life insurance. It is also estimated a non-working spouse contributes at least, but usually more, the equivalent of a full time job. For this reason, it is important to buy life insurance for everyone in the household if the absence of their income would cause a financial hardship. On the other hand, calculating the right level of risk cover is a necessary process, requiring considerable expertise. Proper insurance planning can help us look at the possibility of getting a wider coverage for the same amount of premium or the same level of coverage for the same amount of premium or the same level of coverage for a reduced premium. Insurance planning takes into account the risks, like personal, property and even liability risks that surround us and required plans are made. **E**

A-Z Financial Tools

Accelerated death benefit (ADB) in life insurance means that the insured may qualify to use a portion of the death benefit to pay for certain healthcare expenses, such as the costs of a terminal illness, while he/she is still alive. Using the ADB, he/she takes cash advances from the policy, reducing the death benefit by up to a fixed percentage. **E**



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